

# CHAIRMAN'S STATEMENT ON CORPORATE GOVERNANCE

"Our corporate governance policies follow a key set of principles that encompass fairness, honesty, responsibility, transparency, expertise and professional competence."

## Dear Stakeholder,

By establishing strong corporate governance policies, we are ensuring that the principles used to manage Air Astana align with the interests of all stakeholders. By adopting and implementing elements of the UK Corporate Governance Code for the first time, we will be making significant progress towards achieving international best practice reporting in this area.

The Board of Directors plays a fundamental stewardship role in ensuring that the Company directs its activities in a manner that enables all stakeholders to thrive. We help provide a backdrop for success, in which employees flourish and passengers travel safely and in comfort, while ensuring that the business is run sustainably, generating long-term Shareholder value.

We have established a robust framework that facilitates optimal decision making to accomplish these priorities. Within this framework, our corporate governance policies follow a key set of principles that encompass fairness, honesty, responsibility, transparency, expertise and professional competence.

The Board allocates responsibilities among its members across key priority areas. The structure facilitates a good level of interaction between Air Astana's management bodies and the Board around the following areas of focus:

- Shareholder rights and interests;
- effective stewardship of the Company and its management team;
- fair disclosure and transparency;
- legality and ethics;
- dividend policy;
- personnel policies;
- environmental protection;
- corporate conflicts and conflicts of interest; and
- corporate responsibility.

We are constantly looking to evolve our corporate governance policies as we strive to meet international best practice. We are deploying practices that align ourselves with principles set by the OECD and the UK Corporate Governance Code to ensure the responsibility, accountability, effectiveness, transparency and due disclosure of information, particularly with regards to risk management and internal controls.

I am pleased to report that our main goals set in 2017 to enhance our governance practices were executed in 2018.

Firstly, an amendment was made to the Company's Charter, and approved by a General Meeting of Shareholders, which introduces the possibility of increasing the number of Independent Directors on the Board and to sanction the election of the President/CEO of the Company to the Board.

Secondly, preparations to adopt a new Corporate Governance Code, based on UK standards are complete and will be subject to approval by the Board of Directors and Shareholders in 2019. The measures seek to improve the Board's efficiency and to develop a new set of procedures and policies to enhance our anti-corruption and sustainability practices.

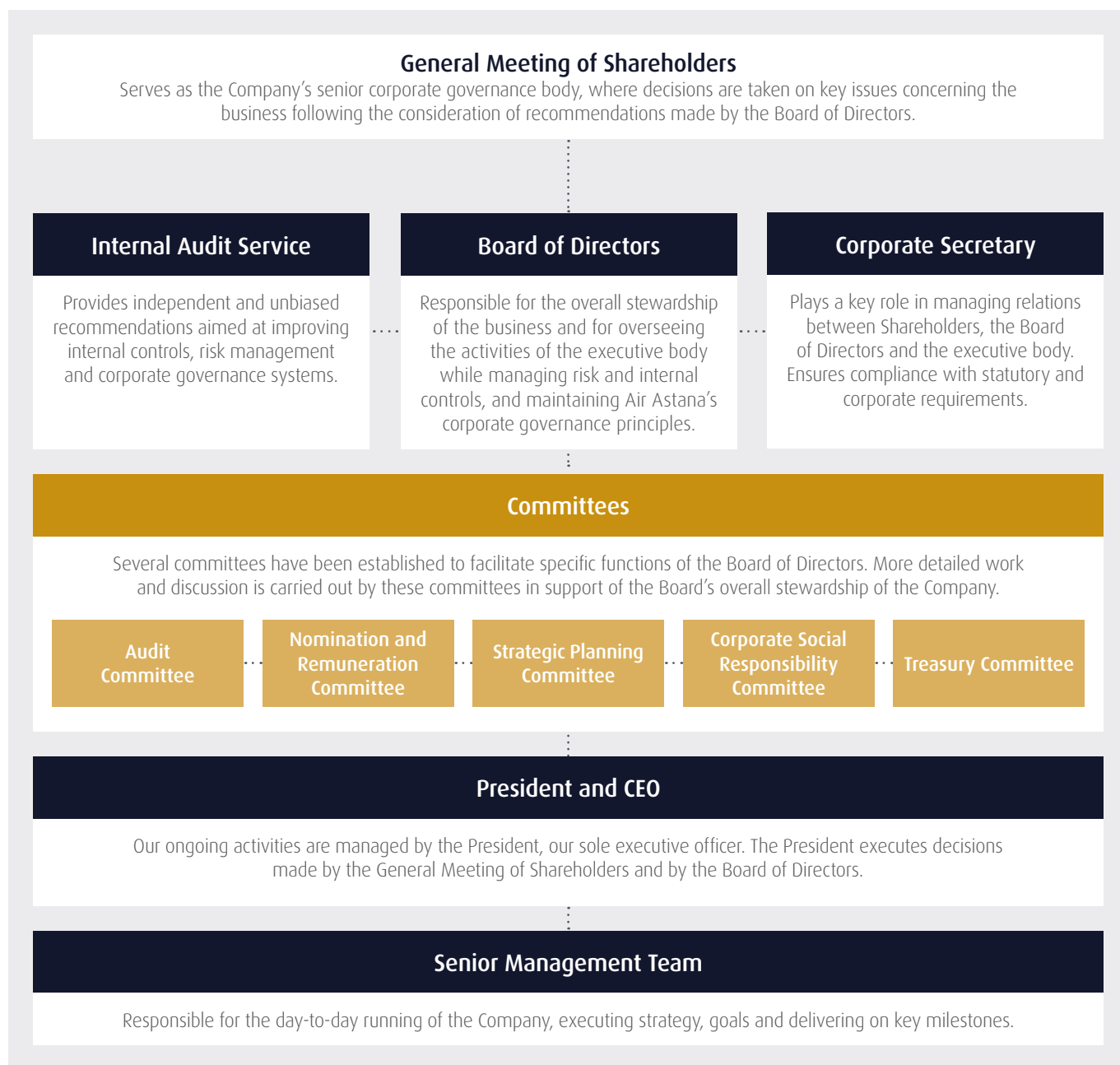
In reviewing our corporate governance practices, we seek to meet international benchmarks. We look forward to complying with the main principles of the provisions set out in the UK Corporate Governance Code (the 'Governance Code') issued by the Financial Reporting Council (FRC). We believe the Code is appropriate and practicable in the Company's context and will help us provide a strong governance framework and safeguard Shareholders' interests, creating and preserving their value.

Thirdly, new automated technologies have been adopted to facilitate better use of Board materials and maximise the use of the Board's time during Board meetings.

The following pages summarise our approach to corporate governance. They set out the makeup of the Board of Directors, its role, responsibilities and processes, as well as the activities conducted by each Board Committee during the course of 2018.

**Nurzhan Baidautov**  
Chairman of the Board of Directors

# CORPORATE GOVERNANCE FRAMEWORK



## Shareholders

Responsibility for material decisions that impact the Company's stewardship are delegated to the General Meeting of Shareholders, which takes place on an annual basis and which may also be called to meet when Shareholder consent is required for decisions recommended by the Board of Directors.

51% of Air Astana is owned by the Samruk-Kazyna Sovereign Wealth Fund. The Company was created on 3 November 2008 by a presidential decree of the Republic of Kazakhstan (of 13 October 2008) and a government decree of the Republic of Kazakhstan (of 17 October 2008) in an effort to improve the competitiveness and stability of the national economy and to mitigate external risks to domestic economic growth.

BAE Systems (Kazakhstan) Limited owns 49% of Air Astana, and is a subsidiary of the British corporation BAE Systems PLC, which is engaged in the development, delivery and support of advanced defence, security and aerospace systems on land, at sea, in the air and in space.

In 2018, five Shareholder meetings were held, including the Annual General Meeting (AGM) on 31 May 2018.

# BOARD OF DIRECTORS

## AN EXPERIENCED AND INTERNATIONAL BOARD

### Nurzhan Baidautov

Chairman of the Board of Directors

Non-Executive Director

**Appointed:**  
December 2008

**Qualifications and experience:**  
Nurzhan Baidautov graduated from the Moscow State University of Railway Engineering and Transportation Management in June 1986. He has built a distinguished career in Kazakhstan’s transportation industry over a period of almost 30 years.

Prior to joining the Samruk-Kazyna Sovereign Welfare Fund in 2008 as the Chief Director for Asset Management and later as the Managing Director, he held the posts of Deputy Minister of Transport and Communications and Chairman of the Communication Lines Committee of the Ministry of Transport and Communications of the Republic of Kazakhstan. In addition, from 2012 to 2016, he served as Chairman of the Board at Kazpost JSC and National Company Kazakhstan TemirZholy JSC.

**Other appointments:**  
Since 2012, Chairman of the Board of Directors of Kazakhtelecom JSC; since 2017, Chairman of the Board of Directors of Qazaq Air JSC.

#### Committee membership:

N S T

Does not hold any shares in Air Astana.

### Gani Bitenov

Non-Executive Director

**Appointed:**  
January 2017

**Qualifications and experience:**  
Gani Bitenov is a Doctor of Civil Law, McGill University (Montreal, Canada); Master of Law (LLM), University of Aberdeen (Aberdeen, UK); Master of Economics (MA) and KIMEP (Almaty, Kazakhstan).

Gani has held key positions with international (Bracewell & Giuliani) and Kazakh law firms. In 2012, he headed the Department for Protection of Property Rights of the Government under the auspices of the Ministry of Justice of the Republic of Kazakhstan; starting in 2013, he worked as the Deputy Director of Bolashak Consulting Group, LLP; since 2016, he has been the Managing Director for Legal, Governance, Risk and Compliance and a member of the Management Board of SWF Samruk-Kazyna JSC.

**Other appointments:**  
Arbitrator at the Shanghai International Arbitration Center; member of the Kazakhstan Petroleum Lawyers Association.

#### Committee membership:

C T

Does not hold any shares in Air Astana.

### Myles Westcott

Non-Executive Director

**Appointed:**  
March 2018

**Qualifications and experience:**  
Myles Westcott is a graduate of Bristol University. His career has been divided between accountancy roles and financial management across a variety of sectors, including consultancy, retail and hospitality.

Myles is a Fellow of the Institute of Chartered Accountants in England & Wales and the Chairman of the Trustee Board of the Royal Ordnance Pension Scheme. In 2001 Myles joined BAE Systems and has since held a number of senior finance positions within the company, across both the land and air sectors, most recently as Finance Director for the Military Air business. During this period, his responsibilities have included the financial leadership of long-term, complex defence contracts, cost reduction programmes, systems implementations, business integrations and UK & international customer engagement.

**Other appointments:**  
Group Financial Controller for BAE Systems since January 2018, also responsible for M&A.

#### Committee membership:

N T

Does not hold any shares in Air Astana.

#### Key to Committee membership

- A Audit Committee
- N Nomination and Remuneration Committee
- S Strategy Planning Committee
- C Corporate Social Responsibility Committee
- T Treasury Committee
- Committee Chair
- Alternate Member

## Alan Fraser

### Non-Executive Director

**Appointed:**  
January 2015

#### Qualifications and experience:

Alan Fraser is a graduate of the University of Strathclyde, holding a Bachelor's Degree in accounting and economics, and is a member of the Institute of Charter Accountants of Scotland. In 1989, he became Financial Director of British Aerospace Regional Aircraft, and from 1995 to 1998 was Financial Director and latterly Strategy Director of Royal Ordnance PLC, a British Aerospace subsidiary. In 1998, he served as Managing Director of Heckler and Koch GmbH, also a British Aerospace subsidiary. From 1999 to 2014, as part of BAE Systems (formerly British Aerospace), he held positions of Financial Director Mergers and Acquisitions, Director Strategy and Business Development Regional Aircraft and Managing Director Regional Aircraft.

#### Other appointments:

Non-Executive Director of Trig Avionics Limited, an avionics design, development and manufacturing business serving the general aviation market based in Edinburgh, Scotland.

#### Committee membership:

S C T

Does not hold any shares in Air Astana.

## Dmitriy Larionov

### Independent Non-Executive Director

**Appointed:**  
April 2008

#### Qualifications and experience:

Dmitriy Larionov is a leading expert in accounting and financial reporting, and he has a number of qualifications, including a Certified Director qualification from the Institute of Directors of Great Britain and a Certified Director for Corporate Governance qualification from the Kazakhstan Independent Directors Association. From 2003 to 2010 he was Deputy Chairman and a Board member of the Chamber of Professional Accountants of the Republic of Kazakhstan; from 2008 to 2010, he was a Member of the Developing Nations Committee of the International Federation of Accountants; and from 2008 to 2015, he was an Independent Director at Kazakhtelecom, JSC.

#### Other appointments:

Member of the Advisory Body on Accounting and Audit of the Ministry of Finance of the Republic of Kazakhstan. Independent Director at JSC National Company Astana EXPO-2017, JSC NC Kazakhstan Engineering; consultant at the Centre for Financial Reporting Reform of the World Bank; international partner on telecommunication at JSC BDO Kazakhstan Audit.

#### Committee membership:

A N S C T

Does not hold any shares in Air Astana.

## Lord Thomas Alexander Hesketh

### Independent Non-Executive Director

**Appointed:**  
November 2007

#### Qualifications and experience:

Lord Hesketh has had a long and successful career in public service and international business. Since 1990, Minister of State at the Department of Trade and Industry of Great Britain. From 1991 to 1993, Captain of the Honourable Corps of Gentlemen-at-Arms, Government Chief Whip in the House of Lords, and a member of the Privy Council of the United Kingdom. He has also served as the Chairman of British Mediterranean Airways (until 2007) and was the non-executive Deputy Chairman of Babcock International (up to 2010). In 2004-2005, he was the Treasurer of the Conservative Party of Great Britain.

#### Other appointments:

None

#### Committee membership:

A N C

Does not hold any shares in Air Astana.

# SENIOR MANAGEMENT TEAM



**Peter Foster**  
President and CEO

Peter Foster entered the airline industry immediately after graduating from Cambridge University in 1982, as a management trainee of John Swire and Sons (HK) Ltd, the owners of Cathay Pacific Airways Ltd. From 1982-1999 he served in a variety of management and senior management positions with CPA in Hong Kong, Asia, Australia and Europe, and underwent business management training at INSEAD, France. Mr. Foster left Cathay Pacific Airways in 1999 to head up the rehabilitation team of Philippine Airlines Inc. He subsequently served as Chief Executive Officer of Royal Brunei Airlines from 2002 to 2005 prior to his appointment as President of Air Astana. In the 2015 UK New Year's Honours List Peter Foster was awarded Officer of the Order of the British Empire (OBE) for his services to British aviation in Kazakhstan.



**Alma Aliguzhinova**  
Chief Planning Officer

Alma Aliguzhinova was among the first employees to join Air Astana at its early stage of formation in 2001 before the commencement of commercial operations.

Alma initially joined the company as Corporate Development Manager and has been progressively promoted to Corporate Development Director, Vice President Planning, Senior Vice President Corporate Planning and now Chief Planning Officer. Alma is a Bolashak Alumni and graduated with an MBA degree from East Caroline University, USA. She also has an Aerospace MBA from the Toulouse Business School in France.



**Ibrahim Canliel**  
Chief Financial Officer

Ibrahim Canliel has been with the Company since its early stages in 2003 and he has served the Company in a range of areas. He started his career in the travel industry 25 years ago and has 20 years of aviation experience. Prior to joining Air Astana, he worked for KLM, briefly in the Middle East and thereafter Almaty in charge of the organisation in Kazakhstan and in neighbouring countries. He is a Board member at EUROBAK serving his third term. Ibrahim received his MBA degree from Boğaziçi University, Istanbul and his undergraduate in Economics from Marmara University.



**Anthony Regan**  
Chief Operating Officer

Anthony has over 35 years of experience in aviation. Prior to joining Air Astana in 2012 he was General Manager Operations and OPS post holder at Air France/KLM subsidiary Cityjet from 2001 where he was responsible for all operations functions. Prior to that he was a Director at CAE Parc Aviation. His early career was as a pilot with the Irish Air Corps where he held a number of operational appointments including Chief Flying Instructor retiring with the rank of Commandant. He holds an EASA and FAA Air Transport Pilot Licence. He is a graduate of University College Dublin in mathematics and mathematical physics.



**Gerhard Coetzee**  
Senior Vice President  
Corporate Safety Compliance

Gerhard started his career as an Air Force navigator and is a qualified Accident Investigator with qualifications in Aviation Safety Programme management, Crew Resource Management and Flight Procedure Design. He holds a Bachelor's degree in commerce and an Honours degree in transport economics from University of South Africa. He has been actively involved in aviation safety management for the past 25 years including as Managing Consultant with BAE Systems.

Responsible for the successful planning and execution of the objectives and strategies agreed by the Board and ultimately responsible for the day-to-day running of the Company and delivering on key milestones.



### **Yevgeniya Ni** Vice President, HR and Administration

Yevgeniya graduated from Karagandy State University with a degree in foreign languages and a degree in law. She holds a number of diplomas and certificates in the field of management and HR. Since 2002, she has worked as the Executive Assistant to the President of Air Astana, and is currently the head of the Human Resources Department, which is in charge of the Occupational Health and Safety Department, the Administrative Service Office and day-to-day logistics for the Company. Under her leadership, the Company introduced a transparent system of recruitment and corporate training, as well as an employee performance assessment and remuneration system. Yevgeniya regularly takes part in professional conferences and congresses as an expert, moderator and speaker.



### **Chamindra Lenawa** Vice President, IT and E-business

Chamindra joined Air Astana in January 2009. He is a professional in the airline business and IT, with management experience in three national carriers. Before joining the airline industry, Chamindra was employed in university research in electronics and telecommunications.

Chamindra holds a Master's Degree in Business Administration (University of Colombo), a Bachelor of Law Degree (University of London) and a Bachelor of Science Degree in Electronic and Telecommunication Engineering (University of Moratuwa). Further, he is a certified Project Management Professional (PMP, PMI – USA) and a Chartered Information Technology Professional (CITP) of the British Computer Society. Chamindra holds certifications in different IT domains and is a professional in airline reservations, ticketing, departure control systems and business operations.



### **Bella Tormysheva** Vice President, Corporate Communications

Bella has a Master's Degree in International Relations. She has over 20 years experience in the field of public relations and information and culture. She has also taken part in numerous training courses outside of Kazakhstan. Before joining Air Astana, she worked in the Representative Office of the European Commission accredited in the Republic of Kazakhstan, the Kyrgyz Republic and the Republic of Tajikistan.



### **Yerdaulet Shamshiyev** Vice President, Strategy and Development

Yerdaulet is one of the first employees of Air Astana and has over 20 years of experience in aviation. He joined the airline as Chief Representative in the Beijing office in 2002. In 2009 he was appointed Regional General Manager China and Mongolia of Air Astana. He currently holds the position of Vice President, Strategy and Development. Prior to joining Air Astana, Yerdaulet worked at the Almaty International Airport and Air Kazakhstan airline. He graduated from the Beijing Language University and Academy of Civil Aviation, Almaty.

This section includes members of the Senior Management Team to Vice President level. The full list of the Senior Management Team and their biographies are available on the Company's website: <https://airastana.com/global/en-us/About-Us/Corporate-Profile/Management-Team>

# BOARD ACTIVITY IN 2018

In 2018, the Board of Directors focused on the following major topics:

Strategic development	Internal control and audit	Governance and remuneration
<ul style="list-style-type: none"> <li>› Consideration of a report on the implementation of major investment projects by the Company.</li> <li>› Consideration of a report on the implementation of the Company's development strategy.</li> <li>› Consideration of the Company's participation in major investment projects relating to: <ul style="list-style-type: none"> <li>• Air cargo transportation.</li> <li>• Low-cost airline project.</li> </ul> </li> <li>› Preliminary approval of the Company's Business Plan for 2019-2023 and budget for 2019.</li> <li>› Consideration of a proposal regarding an operating lease for five E190-E2s and three Airbus A321neo FBs.</li> <li>› Consideration of a proposal regarding a sale and leaseback transaction for one Embraer 190.</li> <li>› Review of the extension of an operating lease agreement in respect of one Boeing B757-200 aircraft.</li> <li>› Deciding on the increase of the Company's obligations relating to the deferral of a delivery of one Boeing 787 aircraft.</li> </ul>	<ul style="list-style-type: none"> <li>› Consideration of a report on the effectiveness of the Company's internal control system.</li> <li>› Approval of the 2017 Annual Report and 2018 quarterly reports on the Internal Audit Service's activities.</li> <li>› Quarterly performance evaluation of the Internal Audit Service.</li> <li>› Approval of the Internal Audit Service's annual audit plan for 2019.</li> <li>› Appointment of Internal Audit Service employees.</li> <li>› Approval of the Company's assurance map.</li> </ul>	<ul style="list-style-type: none"> <li>› Consideration of the results of a report provided by an independent external consultant on the effectiveness of the Company's corporate governance practice.</li> <li>› The early termination and election of members of the Treasury Committee of the Board of Directors.</li> <li>› Approval of the annual bonus plan for senior executives of the Company.</li> <li>› Annual review of remuneration and proposals for the 2019 salaries of the Company's employees whose remuneration shall be determined by the Board of Directors.</li> <li>› Approval of the amended procedure for performance evaluation of the Company's Internal Audit Service.</li> </ul>
Committee Report on page 59		
Risk management	Financial and operational activities	
<ul style="list-style-type: none"> <li>› Approval of the Company's amended Risk Management Policy.</li> <li>› Consideration of the Company's safety reports.</li> <li>› Review report on the Company's realised risks.</li> <li>› Approval of an updated Company risk register, key risks register and risk map for H1 and H2 2018.</li> <li>› Approval of the Company's risk appetite.</li> </ul>	<ul style="list-style-type: none"> <li>› Consideration of regular reports on the results of financial and operational activity.</li> <li>› Approval of changes and suggested amendments to the Company's Accounting Policies.</li> <li>› Discussion of recommendations regarding changing the Company's functional currency.</li> <li>› Consideration of the Company's quarterly treasury report on placed deposits and bank exposure.</li> <li>› Recommendations to the Nomination and Remuneration Committee regarding the appointment of a new Vice President, Engineering and Maintenance.</li> <li>› Issues surrounding the formation of the Representative Office in Saint Petersburg.</li> <li>› Decisions surrounding the conclusion of material transactions and credit facilities.</li> <li>› Proposals relating to the distribution of Air Astana's net income for 2017 and the scale of dividend payment for 2017 per one common stock.</li> <li>› Consideration of the Health, Safety and Environmental Protection report.</li> <li>› Approval of the Corporate Social Responsibility report.</li> </ul>	



# LEADERSHIP

## Role of the Board

The Board of Directors plays a fundamental stewardship role in ensuring that the Company operates safely, successfully and sustainably while generating long-term Shareholder value.

Air Astana has adopted a robust corporate governance framework that facilitates optimal decision-making to accomplish these priorities. The Board of Directors sits at the heart of this framework. The Board's duties include, but are not limited to:

- the determination of the Company's development priorities, preliminary approval of our long-term development strategy and submitting the strategy for Shareholder approval at the General Meeting of Shareholders;
- preliminary approval of the Company's short-term and medium-term business plans (development plan and annual budget) and submitting said plans for final Shareholder approval at the Annual General Meeting of Shareholders, as well as any amendments thereto, including capital expenditures not provided for in previously approved business plans;
- preliminary approval of the Company's annual financial statements;
- deciding on entering into major transactions (25% or more of the total amount of the book value of the assets); and on the increase of the Company's obligations by an amount equal to 10% or more of its own capital;
- submitting matters for consideration and resolution by the General Meeting of Shareholders pursuant to the law and/or the Company's Charter;
- election and dismissal of the Company's Registrar; and
- specifying procedures for the work of the Internal Audit Service (IAS), determining the remuneration of IAS staff, awarding bonuses to IAS staff based on the recommendations of the Audit Committee and approving the qualification requirements for IAS employees.

## Division of responsibilities

The roles of Chairman and Chief Executive are separate and clearly defined in the Charter and the Corporate Governance Code that have been approved by Shareholders.

The Chairman is responsible for the leadership of the Board and for ensuring its effectiveness in all aspects of its role. The Chairman's role is supported by the Independent Directors.

The Chief Executive is responsible for the successful planning and execution of the objectives and strategies agreed by the Board and Shareholders and ultimately responsible for the day-to-day running of the Company.

The Chief Executive's strategic capacity is strengthened by the Senior Management Team.

## Board and Committee meetings and attendance in 2018

	Board	Audit Committee	Nomination and Remuneration Committee	Strategic Planning Committee	Corporate Social Responsibility Committee	Treasury Committee
Total number of meetings	12	9	11	5	3	6
Nurzhana Baidaulatova	100%	–	100%	100%	–	–
Gani Bitenov	100%	–	–	–	100%	100%
David Cole (departed the Board on 31 March 2018)	100%	–	100%	–	–	100%
Myles Westcott (joined the Board on 31 March 2018)	100%	–	100%	–	–	100%
Alan Fraser	100%	–	–	100%	100%	–
Dmitriy Larionov	100%	100%	100%	100%	100%	100%
Lord Thomas Alexander Hesketh	100%	100%	100%	–	100%	–



# LEADERSHIP CONTINUED

## The Chairman

The Chairman of the Board of Directors is elected by the General Meeting of Shareholders from among the members of the Board of Directors nominated by the Samruk-Kazyna Sovereign Welfare Fund. The Chairman of the Board of Directors manages the work of the Board of Directors, ensures the Board's effective performance in all areas of its responsibility, and ensures effective communication with Shareholders. The Chairman ensures that all Directors make an effective contribution to the Board's activities, including in terms of the Board's interaction with the Company's CEO. The Chairman ensures, together with the Corporate Secretary, the timely provision of reliable and accurate information to all Directors and determines the agenda for Board meetings.

## Corporate Secretary

The Corporate Secretary plays a key role in facilitating open dialogue among the Company's different governing bodies and ensuring their adherence to legislative and Company requirements. The Corporate Secretary ensures that the rights of all Shareholders are observed, Shareholder communications are given due consideration by the relevant body and that any disputes involving Shareholders' rights are resolved.

Both the appointment and removal of the Corporate secretary is a matter for the Board to approve.

## Yelena Kondachkova

Yelena Kondachkova was appointed as a Corporate Secretary of Air Astana in 2007. She joined Air Astana in 2002 and has since held a number of positions within the Strategic Planning and Finance Departments. Before joining Air Astana, Yelena worked in various aviation companies, including Astana International Airport and a number of Kazakhstan airlines.

Yelena is a graduate of the State University of Civil Aviation in St. Petersburg (Russia, 2007) and the Eurasian University by the name of L. Gumilyov (Kazakhstan, 1998). She also studied at the Academy of International Relations and Diplomacy (Moldova) from 2001 to 2002.

In 2011, she was one of the first graduates to complete a certification programme for corporate secretaries of companies within the Samruk-Kazyna holding.

Yelena is currently a student of the Institute of Chartered Secretaries and Administrators (London, UK).

## President and CEO

Our ongoing activities are managed by the President. The President, our sole executive body, must abide by the resolutions of the General Meeting of Shareholders and the Board of Directors.

In accordance with the relevant laws and our Charter, the President is authorised to carry out the following activities on behalf of the Company:

- The implementation of the business plan and the resolutions of the Board of Directors, as well as the preparation, of proposed business plans, annual financial statements, and annual management reports, and their submission for further consideration.
- The conclusion and signing of agreements and contracts; acting on behalf of the Company in the conclusion of deals with other entities, organisations, companies and institutions, including government agencies.
- Issuing and approving documents governing internal activities for the purpose of workflow management, including orders and instructions related to production, engineering and technical maintenance; procurement of goods, works and services; accounting; commercial policies; labour and employment issues; and making amendments and/or additions to such documents and other functions.

# EFFECTIVENESS

## Composition of the Board

As of 31 December 2018, the Board of Directors consisted of six members, with two members nominated by the Samruk-Kazyna Sovereign Wealth Fund, two members nominated by BAE Systems and two Independent Directors. The Board is elected by cumulative voting at the General Meeting of Shareholders.

According to our own internal assessment, the composition of the Board is fairly balanced and optimal for our current stage of corporate governance in terms of both the competencies and age of Board members, and the representation of Shareholders' interests.

## Appointments to the Board

David Cole left the Board on 31 March 2018, with Myles Westcott being appointed in his place from 31 March 2018.

## Commitment

The Board is satisfied that each member of the Board of Directors is able to allocate sufficient time to discharge his or her duties to Air Astana's Board effectively.

## Development

We have developed a special orientation programme to ensure the most effective onboarding of new Directors. The programme's main function is to quickly acquaint new Directors with Air Astana and its key assets, representatives of its management bodies, existing practices and standards of corporate governance, specific features of the Company and the industry, and other information necessary to perform their duties as members of the Board of Directors.

In 2018, Myles Westcott became a member of the Board of Directors in accordance with the orientation procedure.

The Board of Directors shall arrange for relevant training of the elected Directors, under our present Programme of Induction and within the first six months of their appointment, for their full assumption of office, with regular improvement in the Director's knowledge and skills for their work on the Board of Directors.

## Information and support

The Board of Directors is supplied with appropriate, clear and accurate information in a timely manner. The Chairman of the Board of Directors is responsible for the timely receipt by the Directors of accurate and clear information and ensures that the elected Directors are provided with all relevant information needed to enable them to perform their duties. The Executive Body and Internal Audit Service are obliged to provide such information and the Directors may request to provide clarifications and explanations where necessary.

The Board of Directors and its Committees are entitled to use the services of external experts and consultants, in the established procedure, using funds allocated by the Company's budget for the relevant year, and they can also make use of additional resources to enable them to carry out their duties in full.

The Corporate Secretary facilitates the information flow within the Board of Directors, its Committees, and between the Executive Body and the Board of Directors. All Directors have access to the advice and services of the Corporate Secretary, who is responsible to the Board on matters of corporate governance and compliance with Board procedures.

The Corporate Secretary plays a key role in preparing and overseeing Board of Directors' meetings and the General Meeting of Shareholders.

The Corporate Secretary ensures that the disclosure and dissemination of information is done in compliance with the rights and interests afforded to shareholders. The Corporate Secretary also facilitates the smooth coordination between the Company's bodies, according to the provisions of the Charter and other internal documents, while ensuring that the Company's officials are kept informed about the latest developments in corporate governance practices.

## Re-election

The effectiveness and commitment of each of the members of the Board of Directors is reviewed annually in order to ensure fair and objective representation of the Shareholders' interests. Persons elected to the Board of Directors shall be re-elected on an annual basis with the term of office of one year. The Committee has satisfied itself as to the individual skills, relevant experience, contributions and time commitment of all the Non-Executive Directors, taking into account their other offices and interests held.

# ACCOUNTABILITY

## Financial and business reporting

Through its activities, the Board focuses on maintaining the integrity and quality of our financial and business reporting, considering the significant accounting judgements made by management and the findings of the external Auditor. In doing so, the Company conducts financial and business reporting based on the following principles: transparency and accountability; completeness and reliability; impartiality and independence; professionalism and competence.

Please refer to:

- page 64 for the Management's statement on the Annual Report and Accounts being fair, balanced and understandable;
- page 65 for the Independent Auditor's report including disclosures about the audit scope and responsibilities of the Auditor; and
- the Strategic Report on pages 1-43 for an explanation of the Company's business model and the strategy for delivering the objectives.

## Risk management and internal control

The overall responsibility for Air Astana's systems of risk management and internal control and for reviewing their effectiveness rests with the Board. The Board conducts an annual review of the effectiveness of the systems of internal control during the year under the auspices of the Audit Committee. The Board of Directors regularly reviews and evaluates the overall risk management systems and environment in the Company. In 2018 we carried out an assessment of our principal risks and how those risks affect the prospects and the Company's performance.

In 2018 we also revised and updated the Company's Risk Management Policy to reflect the changes introduced by 'COSO Enterprise risk management framework – Integrating with Strategy and Performance' to ensure the implementation of best international practices in risk management within the Company's Corporate Risk Management System (CRMS). Further information on the CRMS is available on pages 38-40 of this report.

The updated Risk Management Policy highlights the importance of considering risks in both strategy-setting and in driving performance across all departments and functions, while focusing on the integration of risk management into the processes throughout the organisation.

Further information on the key risks and uncertainties and mitigation measures is available on pages 41-43 of this report.

## Audit Committee and Auditors

The Audit Committee report is set out on pages 56-57 and provides further information on the Company's compliance with the Code relating to the Audit Committee and its Auditors. This includes details of the activities of the Committee and its relationship with the internal audit team and the external Auditor.

## Remuneration

Procedures relating to remuneration and compensation payments to the members of the Board of Directors is determined by the Policy of Remuneration of the Board of Directors, developed in accordance with the current laws of the Republic of Kazakhstan and our Charter and Corporate Governance Code.

Remuneration is not paid to the members of the Board of Directors nominated on behalf of Shareholders. Independent Directors are remunerated, and the amount of remuneration is determined at the General Meeting of Shareholders, based on the recommendations of the Board of Directors and the Nomination and Remuneration Committee.

The amount to be paid to the executive body is also determined at the General Meeting of Shareholders, based on the recommendations of the Nomination and Remuneration Committee.

Independent Directors are paid as follows:

- An annual fixed remuneration, for participation in sessions of the Board of Directors.
- Additional remuneration for participation in sessions of the Committees of the Board of Directors may be paid.
- Compensation of expenses associated with the performance of duties.

The amounts of annual fixed and additional remuneration, as well as compensation, are determined in accordance with the contract agreed with each Independent Director on the basis of a decision of the General Meeting of Shareholders.

In 2018, the total remuneration paid to Independent Directors was USD 71,255 including taxes.

# RELATIONS WITH SHAREHOLDERS

## Dialogue with Shareholders

The Company actively engages with Shareholders and seeks their feedback. The Chairman of the Board of Directors manages the work of the Board of Directors, ensures the Board's effective performance in all areas of its responsibility, and ensures effective communication with Shareholders to achieve a balanced understanding of their issues and concerns.

Independent Directors facilitate the formulation of opinions and decisions independent of their relations with Shareholders or executive bodies, and decision-making with due account of the interests of different groups of Shareholders.

## Constructive use of the General Meeting of Shareholders

The General Meeting of Shareholders is the highest governing body of Air Astana and has the authority to make decisions on all issues concerning the activities of the Company. Its functions and activities are defined by the legislation of the Republic of Kazakhstan, as well as the provisions of the Company's Charter and internal documents.

Additional materials such as annual and interim reports, presentations and other announcements are available via the Air Astana website at [airastana.com/uk/en-us/About-Us/Corporate-Governance](http://airastana.com/uk/en-us/About-Us/Corporate-Governance).

# BOARD COMMITTEES

## THE AUDIT COMMITTEE

The Audit Committee supports the Board of Directors in supervising our financial and economic activities, the reliability and efficiency of the internal control and risk management system, the implementation of corporate governance standards, the independence of the external and internal audit process and compliance with the laws and regulations of the Republic of Kazakhstan. The Audit Committee was created in March 2008.

### Composition:

**Dmitry Larionov**  
Chairman of the Committee

**Lord Thomas Alexander Hesketh**  
Member of the Committee

In 2018, the Audit Committee held nine in-presentia meetings. Committee member participation information can be found on page 51.

### Role and responsibility

The following issues fall within the remit of the Audit Committee:

- › developing recommendations for the Board of Directors on the appointment or change of the external Auditor, determining the amount paid to the external Auditor, evaluating the quality of services rendered by the external Auditor and obtaining related services from the external Auditor;
- › developing recommendations for the Board of Directors on the appointment and dismissal of the Head and employees of the Internal Audit Service;
- › holding meetings with external and internal Auditors without the presence of members of Company management; and
- › investigating any other issues that fall within the Committee's remit.

### Activities in 2018

Key matters discussed include:

#### Internal Audit Service

- › annual and quarterly reports and the annual audit plan for 2019;
- › implementation of the Strategic plan of the Internal Audit Service;
- › quarterly performance evaluation;
- › amendments to the performance evaluation procedure;
- › amendments to job descriptions, proposed staff changes and training budgets;
- › 2018-2019 Internal Audit Service remuneration and compensation packages.

#### External Audit

- › External Audit reports on the status of annual financial statements, the annual financial statements and Management Report, condensed interim financial statements for the six-month period ending 30 June;
- › recommendations made by an independent external consultant regarding the efficiency of corporate governance;
- › report on litigation, state inspections and audits.

#### Risk management and internal control

- › changes to the Risk Management Policy and Methodology on evaluation of the effectiveness of the risk management system;
- › risk register and risk map for 2018, as well as the reports on realised risks;
- › change of the Company's functional currency;
- › amended Methodology on evaluation of the effectiveness of the internal control system;
- › assurance map.

#### Internal processes

- › changes to the Accounting Policy;
- › new Code of Conduct.

### Priorities for 2019

Key matters for discussion will include:

- › annual financial statements;
- › critical accounting policies and regulatory and accounting initiatives;

- › performance of the external Auditor;
- › internal and independent audit reports on governance, internal control and risk management systems, approval of the related policies and procedures;
- › annual Audit Plan, policies, regulations and work procedures, structure and budget, IAS staffing and qualification requirements, remuneration and bonuses;
- › internal policies and procedures around the Company's legal compliance;
- › effectiveness of anti-corruption policy and speak-up policy;
- › revision of the Audit Committee regulations.

### Risk management and internal control

The Audit Committee acts in the interests of Shareholders and provides oversight support to the Board of Directors concerning the reliability and efficiency of the risk management system through the following responsibilities:

- › review of reports on changes to the Company's risk map on a semiannual basis;
- › review of changes to the risk register;
- › review of reports on key risks;
- › annual review of the risk appetite and semiannual review of reports on realised risks; and
- › review of reports on compliance with regulatory requirements and any significant deviations from the standard risk management process.

### Internal audit

#### Mission and functions

Air Astana's Internal Audit Service (IAS) was created in December 2007 by a decision of the Board of Directors.

The IAS organises and carries out internal audits and reports directly to the Board of Directors. Supervision of the IAS is carried out by the Audit Committee in accordance with internal documents governing its activities.

The appointment and dismissal of the Head of the IAS falls within the remit of the General Meeting of Shareholders. The appointment and dismissal of IAS employees is within the remit of the Board of Directors.

The IAS's mission is to provide assistance to the Board of Directors and the Company President in performing their duties to achieve the Company's strategic goals through the provision of independent and objective assurance and consulting activities designed to add value and improve the effectiveness of the following areas:

- › risk management system;
- › internal control system; and
- › corporate governance system.

The IAS performs the following functions:

- › evaluation of the adequacy and performance of internal controls within the Company's corporate governance framework, operational (production and financial) activities and its information systems with regard to:
  - achievement of the Company's strategic objectives, efficiency of its activities and adopted programmes;
  - reliability and completeness of information on the Company's activities;
  - rational and efficient use of the Company's resources and methods of safeguarding the Company's assets;
  - compliance of established control systems with the requirements of legislation, normative documents, internal documents and resolutions of authorised bodies and Company bodies (compliance control).
- › evaluation of the Company's corporate governance system and principles, and their compliance with the Company's ethical standards and values;
- › evaluation of fraud risk and the effectiveness of fraud risk management;
- › evaluation of the implementation and efficiency of risk management methodologies and procedures;
- › audit of the Company's information systems;

- › verification of compliance with the legislation of the Republic of Kazakhstan, international agreements, internal documentation and the implementation of instructions from authorised bodies, resolutions of the Company's bodies and the evaluation of systems developed to follow these requirements;
- › consulting the Board of Directors, the executive body and the Company's structural bodies on further improvement of internal control, risk management, corporate governance and the internal audit function;
- › conducting unplanned audits;
- › monitoring the implementation of the external Auditor's recommendations;
- › follow-up oversight over the implementation of IAS recommendations; and
- › other functions assigned to the IAS within the limits of its remit.

Based on its evaluations and audits, the IAS issues recommendations (including those directed at the improvement of internal control systems, risk management systems, processes and principles of operations) and comments on any issues within its remit.

#### Audit process

The IAS operates in accordance with the Audit Plan approved by the Board of Directors. Its activities include assessments of the performance of the internal control system, risk management and corporate governance.

During its work, the IAS is guided by regulations on the IAS and methodological guidelines for the organisation of internal audits, as well as International Standards for the Professional Practice of Internal Auditing.

The IAS processes requests from various Company departments and publishes information on the Company's intranet. Requests can include the provision of consultations or advice on issues related to internal control systems, risk management, accounting, et cetera.

#### Compliance with standards

IAS activities conform with International Standards for the Professional Practice of Internal Auditing, which were confirmed by KPMG Tax and Advisory LLP, a qualified independent external consultant in April 2016.

External assessments of IAS activities are performed in two areas of the standards (quality standards and performance standards) and best international practice.

According to the most recent report, IAS activities fully comply with 48 international professional standards for internal audit.

In the framework of the most recent assessment, the maturity level of IAS activities in regard to international practice was characterised as 'progressive', the highest level of maturity according to KPMG's methodology.

#### External audit

The external Auditor adheres to International Standards on Auditing and the International Financial Reporting Standards for rendering audit services.

The current practice of selecting an external Auditor for Air Astana involves a set of procedures for selecting an Auditor that precede the signing of an agreement for rendering audit services, in accordance with Air Astana Procurement Regulations approved by the Board of Directors. This procedure was developed in accordance with the laws of the Republic of Kazakhstan, as well as the Company's Charter, Procurement Regulations and other internal documents.

The Auditor is selected for a period not exceeding three years. The Auditor must develop a succession plan for achieving this result and submit the plan to the Audit Committee for consideration no later than one year before a new external Auditor is selected.

Air Astana's external Auditor for the period of 2017-2019 is KPMG Audit LLP, an independent audit organisation.

# BOARD COMMITTEES CONTINUED

## THE NOMINATION AND REMUNERATION COMMITTEE

The Nomination and Remuneration Committee develops recommendations for the Board of Directors regarding the recruitment and selection of members of the Board of Directors, the executive body, the head of the IAS, the Corporate Secretary and other employees whose appointment requires the approval of the Board of Directors or Shareholders. The Committee also makes recommendations regarding the remuneration of these employees and executive officers. The Committee was formed in October 2012 through the merger of the previously separate Nomination and Remuneration Committees.

### Composition:

**Dmitriy Larionov**  
Chairman of the Committee

**Lord Thomas Alexander Hesketh**  
Member of the Committee

**Nurzhan Baidauletov**  
Member of the Committee

**Myles Westcott**  
Member of the Committee

In 2018, the Nomination and Remuneration Committee held 11 in-presentia meetings. Committee member participation information can be found on page 51.

### Role and responsibility

The following issues fall within the remit of the Nomination and Remuneration Committee:

- › development of requirements for candidate qualifications and recommendations on election or nomination for the roles of Independent Directors, the executive body, the Corporate Secretary and the Head of the IAS;
  - › development of the succession planning policy for members of the Board of Directors and its Committees, the executive body, the Corporate Secretary and the head of the IAS;
  - › recommendations on the policy and structure of remuneration, as well as annual individual remuneration for members of the Board of Directors, the executive body, the Head of the IAS, the Corporate Secretary and other employees whose remuneration falls within the remit of the Board of Directors or Shareholders;
  - › considering the payment of year-end remuneration to employees whose remuneration must be agreed by the Board of Directors or Shareholders;
  - › conducting comparative analyses of remuneration levels and the remuneration policy for members of the Board of Directors, the executive body, the Head of the IAS, the Corporate Secretary and other employees whose remuneration falls within the remit of the Board of Directors or Shareholders.
- › recommendations on approval of Annual Bonus Plan for senior executives and maximum annual bonus to be paid to those employees whose remuneration shall be determined by the Board of Directors;
  - › early termination of the authorities of a member of the Board of Directors, election of a new member of the Board of Directors;
  - › changes to the composition of the Board of Directors;
  - › amendments to the President's Labour Contract;
  - › updated Senior Management Succession Plan;
  - › election of the President/Chief Executive Officer of the Company as a member of the Board of Directors;
  - › amount and terms of remuneration and compensation to the Independent Non-Executive Directors of the Company;
  - › termination of the authorities of the Senior Vice President Engineering Group of the Company and election of the Vice President Engineering and Maintenance of the Company.

### Priorities for 2019

In addition to the Committee's regular activities surrounding nominations and remuneration as carried out in 2018, the Committee also intends to discuss:

- › succession planning for senior executives and members of the Board of Directors;
- › full remuneration and compensation packages paid to the President/CEO;
- › revision of the annual bonus plan for senior executives, including terms of payment;
- › nomination of potential candidates to the Board of Directors;
- › remuneration and compensation of independent non-executive directors;
- › other issues that fall within the remit of the Nomination and Remuneration Committee.

### Activities in 2018

Key matters discussed include:

- › search for Independent Non-Executive Directors: consideration of candidates and appointment recommendations (to replace an existing Independent Director and to find a third one);
- › amendments to the Labour Remuneration policy and internal regulations on expense limits;
- › recommendations on remuneration, including salaries and Profit Share Bonuses for 2017 and annual bonus for 2018 to employees whose remuneration falls within the remit of the Board of Directors or Shareholders;



## THE STRATEGIC PLANNING COMMITTEE

The Strategic Planning Committee was created to assist with the effective performance of the Board of Directors and to develop recommendations for the Board on issues related to strategic development.

### Composition:

**Dmitry Larionov**  
Chairman of the Committee

**Nurzhan Baidauletov**  
Member of the Committee

**Alan Fraser**  
Member of the Committee

In 2018, the Strategic Planning Committee held five in-presentia meetings. Committee member participation information can be found on page 51.

### Role and responsibility

The responsibilities of the Strategic Planning Committee include review of management reports on the implementation of the Company's long- and medium-term development strategy and budget, delivery of strategic KPIs, and recommendations to the Board of Directors on:

- Air Astana's priority areas of business activity and development;
- preliminary approval of, and potential amendments to, the Company's long-term development strategy;
- corporate governance issues;
- Air Astana's strategy in view of changes in the economic, political, social and competitive environment;
- improvement of the Company's long-term performance and competitiveness in the aviation transportation market.

### Activities in 2018

Key matters discussed in 2018:

- implementation of the Strategic Plan and major investment projects;
- draft amendments to the Charter of the Company;
- agreement between the Company and Consortium of STS Genpodriad LLC and OK Sapa LLP on the purchase of additional construction and installation works for the Air Astana Technical Centre at Astana International Airport due to scope increase;

- Company's 2017 annual report, reports on the Company's financial and operational results;
- 2017 net income distribution and dividend;
- changes to the Investment Policy;
- development and review of corporate governance policies and procedures;
- Boeing 787 aircraft delivery deferral;
- sale and lease back of one Embraer E190 aircraft;
- low-cost airline project;
- Business Plan for 2019-2023 and the annual budget for 2019.

### Priorities for 2019

In addition to the Committee's regular activities surrounding budgeting and supporting investment plans, the Committee also intends to discuss:

- five-year business plan for Air Astana to cover 2020-2024;
- implementation of the Company's existing medium-term business plan;
- revision of the Strategic Planning Committee Regulations.

# BOARD COMMITTEES CONTINUED

## THE CORPORATE SOCIAL RESPONSIBILITY COMMITTEE

The Corporate Social Responsibility (CSR) Committee is a consulting and advisory body of the Board of Directors and was created to assist the effective performance of the functions of the Board.

### Composition:

**Lord Thomas Alexander Hesketh**  
Chairman of the Committee

**Dmitriy Larionov**  
Member of the Committee

**Gani Bitenov**  
Member of the Committee

**Alan Fraser**  
Member of the Committee

In 2018, the CSR committee held three in-presentia meetings. Committee member participation information can be found on page 51.

### Role and responsibility

The CSR Committee develops recommendations for the Board regarding issues of social responsibility, occupational safety, health, and environmental protection, including on:

- Air Astana's CSR strategy and evaluation of its implementation;
- policies and action in the areas of occupational health and safety, social responsibility and environmental protection, and social and charitable projects and policies;
- significant risks related to corporate social responsibility and appropriate mitigation plans;
- approval of the Social Responsibility Report.

The CSR Committee also considers major CSR risks and plans for mitigating their impact and monitors the Company's compliance with legislation and regulations in the areas of occupational health and safety, social responsibility and environmental protection.

### Activities in 2018

Key matters discussed include:

- the Company's annual corporate social responsibility report for 2017;
- implementation of the Defined Contribution Corporate Pension Scheme;
- employee engagement survey;
- activities around safety at work, labour, health and environment protection.

### Priorities for 2019

In addition to the Committee's regular activities surrounding corporate and social responsibility, the Committee also intends to:

- provide recommendations on strategies, policies and reporting structures related to CSR issues and sustainability;
- provide recommendations on other issues within the CSR competence;
- revise the CSR Committee Regulations.

## THE TREASURY COMMITTEE

Established in October 2017, the Treasury Committee assists the Board of Directors in monitoring and improving the effectiveness of Risk Management related to the Company's treasury functions.

### Composition:

**Dmitriy Larionov**  
Chairman of the Committee

**Gani Bitenov**  
Member of the Committee  
(or, in his absence – Mr. Nurzhan Baidauletov, as an alternate member of the Committee)

**Myles Westcott**  
Member of the Committee  
(or, in his absence – Mr. Alan Fraser, as an alternate member of the Committee)

In 2018, the Treasury Committee held six meetings, including five in-presentia meetings. Committee member participation information can be found on page 51.

The Committee's activities are aimed at assisting the Board of Directors in the following areas:

- › verification of control mechanisms for the Company's treasury activities and ensuring the effectiveness and improvement of policies and procedures in the treasury area;
- › monitoring treasury activities and notifying the Board of Directors of risks and opportunities associated with them in all matters related to the treasury in accordance with regulations and at the request of the Board of Directors.

### Role and responsibility

- › Consideration of monthly reports on compliance with treasury policies.
- › Regular review (minimum semiannually) of risks and opportunities associated with treasury activities and Air Astana's plans concerning treasury management (jointly with the Company's management).
- › Regular reporting to the Board of Directors (minimum annually) on the Committee's performance and violations discovered, for further disclosure at the AGM.

### Activities in 2018

Key matters discussed include:

- › monthly treasury reports;
- › quarterly reports on deposits and bank exposure;
- › changes to the Cash Management, Bank Risk and the Company's Treasury Reporting Policy;

- › annual review of counterparty banks and their intended limits;
- › instruction on bank guarantee requirements;
- › updates to instructions for raising and servicing loans;
- › updates on currency risk exposure;
- › updates on defaulted and stressed banks;
- › discussions with potential credit line providers;
- › assessment of banking relationships and approval of accredited bank credit limits;
- › increase in and opening of credit facilities; recommendations on corresponding increase in obligations of amounts equal to 10% or more of the Company's own capital;
- › opening and closing of bank accounts.

### Priorities for 2019

In addition to the Committee's regular activities, the Committee also intends to discuss:

- › updates on currency risk exposure;
- › annual review of counterparty banks;
- › approval of the accredited banks credit limits;
- › revision of the Cash Management, Bank Risk and Treasury Reporting Policy;
- › revision of the Treasury Committee Regulations;
- › monthly and quarterly treasury reports;
- › other issues within the competence of the Treasury Committee.

# DIVIDEND POLICY

We have developed our dividend policy in accordance with the legislation of the Republic of Kazakhstan, our Charter and other internal documents. The policy specifies a transparent process for determining both the size of dividends and the conditions under which dividends are paid while aiming to achieve an appropriate balance between returning value to Shareholders and financing our continued growth.

Terms for payment of dividends to Shareholders are:

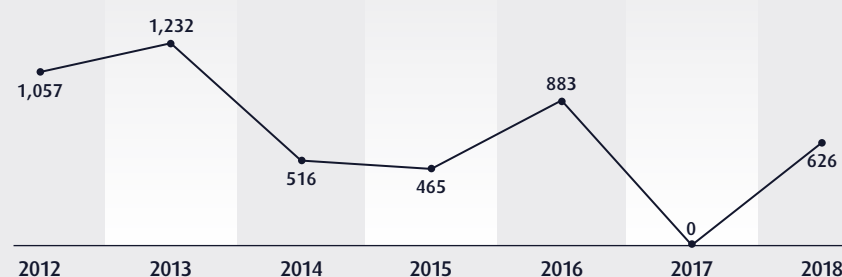
- the Company must have a net profit for the year;
- there must be no limitations on the payment of dividends;
- there has to be a recommendation from of the Board of Directors on the size of the dividends and
- there has to be a decision of the General Meeting of Shareholders.

In accordance with the Dividend Policy the Company allocates 30% of net income, as calculated in accordance with International Financial Reporting Standards, to a dividend, unless otherwise decided by the General Meeting of Shareholders.

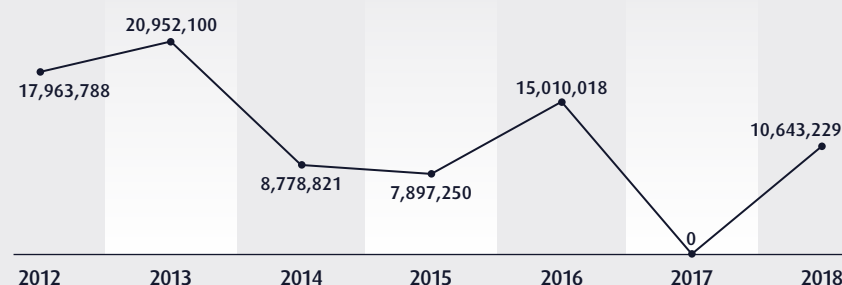
In accordance with a resolution of the Annual General Meeting of Shareholders of 31 May 2018, dividends of USD 10,643,229 or 30% of the net income of the Company was paid out as 2017 dividends to the stockholders on 29 August 2018.

The Company has placed 17,000 common shares, a number that has remained unchanged throughout the years, as presented below.

**Amount of accrued and paid dividends per share**  
(USD)



**The total amount of accrued and paid dividends**  
(USD)



	2012	2013	2014	2015	2016	2017	2018
Amount of accrued and paid dividends per share (USD)	1,057	1,232	516	465	883	0	626
Previous Year Net Profit (USD '000)	61,260	61,076	51,364	19,453	48,741	(39,865)	39,318
Dividend pay-out ratio	30%	35%	20%	50%	50%	-	30%

**Note:** Dividends paid in years stated are allocated for the previous year's performance.