

BUSINESS HIGHLIGHTS

A year of laying solid foundations for our next phase of growth

Air Astana's high levels of operational efficiency and strong customer offer enabled it to maintain profitability and grow passenger numbers in 2018 despite multiple headwinds, including high fuel prices and capacity increases. Several operational developments saw Air Astana prepare for a new phase of growth.



Partnerships and network expansion

In 2018, Air Astana grew capacity by 5%, with new routes added including the introduction of flights from Astana to Kazan, and additional frequencies from Astana to London Heathrow, Omsk, Dubai and Delhi; and from Almaty to Dushanbe, Baku, Hong Kong, Seoul and Bishkek. Additional services were added to Beijing, Moscow, St. Petersburg and Kiev from both hubs. Furthermore, in March, the airline launched new Atyrau-Frankfurt-Atyrau services.

In March, Air Astana concluded a codeshare agreement with Cathay Pacific, its 11th codeshare partner, offering passengers convenient connections when travelling on to Asia and Australia via Hong Kong.

Deliveries

Air Astana celebrated the delivery of its first Embraer E190-E2 in December. The aircraft is the first of five ordered under a leasing agreement signed in 2017, with the remaining four aircraft scheduled for delivery in 2019. The new generation Embraer E190-E2 aircraft will replace older Embraer E190s in the fleet, which we have operated since 2011.

We also took delivery of our first A321neo in January, with a second arriving in June as part of an operating lease deal. The remaining 15 aircraft are to be delivered within the next two years enabling Air Astana to operate one of the youngest fleets in the world, while also benefitting from 15% lower fuel consumption than the previous model.

Opening of the Air Astana Technical Centre

Operations at our dedicated Technical Centre at Astana Airport got underway in spring 2018. The centre provides maintenance support to Air Astana's fleet and intends to provide services for third party airlines flying to Kazakhstan. The facility has been further bolstered with the addition of a new School of Aviation Mechanics, operating under EASA Part 66 Licence. This marks an important step for the airline as we seek to embrace the latest technologies to drive efficiency, while eliminating the airline's dependence on a local monopoly supplier.



In November 2018, Air Astana announced the 2019 launch of FlyArystan. The airline will be the first low-cost airline in Central Asia, which provides substantial growth opportunities, as well as an opportunity to encourage the ~90% Kazakh population that does not currently fly domestically.



One airline two brands

Market leader

FlyArystan targets a market leading position by 2023

7/10

of the most profitable airlines globally are low-cost carriers

Source: Air Astana's analysis of weekly competitors' reports, April 2017 – March 2018

Market opportunity

There is a significant opportunity to stimulate the domestic market

¹ Company projections based on Nomad Club members data

Training pilots

Air Astana continues its Ab-initio pilot training programme designed to train complete beginner pilots. The programme takes cadets from zero flight time to the point of flying a commercial jet airliner, trained to international standards, which will meet the requirements of EASA. As Air Astana's fleet and route network grows, it will need to urgently increase the number of qualified pilots available. In 2018, 15 Ab-initio pilots graduated as airline pilots thanks to Air Astana's training programme. The Ab-initio pilot training programme will continue and be expanded by 2026.



Customer services

Substantial progress was made in further enhancing passenger experience through the launch of products such as MySEAT, MyUPGRADE and Last-minute upgrade, which immediately led to a 15% growth in sales. Air Astana also installed BRS (Baggage Reconciliation System) in Almaty and Astana airports to virtually eliminate any baggage loss.

According to the latest findings from Air Astana's independent passenger surveys, satisfaction levels increased by 2.2 percentage points to 80% year-on-year, mainly driven by an increase in product offerings, the airline's desire to consistently enhance its offering and maintain its world-class levels of hospitality and punctuality. The airline made full use of technology in 2018 to maximise satisfaction. This is reflected in the successful ramp up of digital mobile sales through the introduction of a new mobile application, which has helped grow digital sales contributions to 7% of total sales. This contribution is expected to double in size annually.



Maintaining efficiency

Air Astana maintains a low cost base throughout the Company as a strategic asset, which helps us to remain ahead of our competitors and mitigate high fuel prices. A number of efficiency drives were successfully undertaken in 2018, which mostly centre around making full use of our highly skilled workforce to, for example, roll out IFRS 9 and IFRS 15, and prepare for IFRS 16 without requiring vast consulting fees. We have also rolled out 'Finnovation: working on efficiency', a transformation project which sees members of the finance team transfer to operational departments to drive efficiency and automation and introduce more stringent cost management efforts at source.



MARKET OVERVIEW

Air Astana operates at the heart of the fastest-growing aviation markets in the world, which are driving continued momentum in an aviation industry that is doubling in size every 20 years.

Global airline market

Key industry developments

2018 was another strong year for the global aviation industry, with passenger traffic increasing in RPK terms by 6.5% year-on-year, according to IATA. International passenger traffic growth did however slow by 2.3% year-on-year. Over half of the world's 1.4 billion tourists who travelled across international borders last year were transported by air. Air transport now carries some 35% of world trade by value. Worldwide capacity increased by 6.1%, resulting in growth of overall passenger load factors by 0.6 percentage points, reaching a record high of 81.9%.

In 2018, all regions posted slower growth than in 2017, with the exception of an improvement in North America driven by a stronger US economy and the continued international expansion of Canadian carriers. Asia Pacific was the fastest growing market in 2018, with passenger traffic up by 7.3% year-on-year. The Middle East and Latin America were ranked second in terms of growth, with passenger turnover growing by 6.9% in both regions. The slowdown in the Middle East reflects the impact of geopolitical tensions and travel restrictions, while in Latin America, traffic was affected by the mid-year general strikes in Brazil and political and economic developments. The European international traffic market saw a 6.6% increase in 2018, down from 9.4% growth in 2017, with traffic dynamics partially affected by uncertainty over the economic backdrop and Brexit. All markets reported an increase in demand for domestic travel, led once again by double-digit gains in India and China.

Growth of low-cost carrier activity

In 2018, LCCs carried an estimated 1.3 billion passengers, and accounted for approximately 31% of the world's total scheduled passengers. LCC market share is the highest in Europe, representing 36% of total passengers carried in the region. This is closely followed by Latin America/Caribbean, North America, and Asia Pacific with 35%, 30% and 29%, respectively. Based on airline order books, LCCs are growing in prominence in Asian markets and almost half of the world's LCC orders originate from the region.

Fuel costs

Average jet fuel prices increased by approximately 31% in 2018 compared to 2017. Jet fuel prices are expected to decrease in 2019, by an average of USD 81.3/barrel, according to IATA. Despite the recent fall in jet fuel costs, it remains a key concern for the majority of airlines. The global airline industry's fuel bill is estimated to total USD 180 billion in 2018 and account for around 23.5% of operating expenses at USD 73.0/barrel Brent in 2018, having increased by 20.5% over 2017. In 2019 the fuel bill is forecast to be USD 200 billion, accounting for around 24.2% of operating expenses at USD 65/barrel Brent.

Economic environment

Despite the threat of trade barriers, debates on immigration, tariff disputes and efforts to replace multilateralism with bilateral arrangements, the demand for air connectivity continues to increase, with international transfer traffic remaining the key driver for growth. Despite its highly volatile financial track record, the industry demonstrated a consistently high net profit over the last year, however, IATA's pre-estimated net profit of commercial airlines worldwide decreased from USD 34.5 billion in 2017 to USD 32.3 billion in 2018. IATA expects that the global airline industry's profitability will rise to USD 35.5 billion in 2019 thanks to a sharp fall in oil prices and solid expectations of global GDP growth, which is forecast to be a key driver of bottom line performance by expanding in 2019 by 3.1%.



The Kazakh aviation market

Growth drivers

With half of Central Asia’s commercial passenger aircraft fleet currently based in Kazakhstan, according to CAPA, Centre for Aviation, the local market accounts for over one third of total seat capacity. Last year Kazakh airlines saw their traffic grow by 6.8% to 7.9 million passengers, which is impressive due to the impact the Expo world fair had on passenger traffic as a one-off event in 2017.

According to the Civil Aviation Committee, Kazakhstan’s airports handled 14 million passengers in 2018, with the number of transfer passengers growing by 40%. The propensity to fly among the Kazakh population remains low, with the country’s airports continuing to see relatively low traffic. However, local demand is expected to grow significantly, driven by the new share of population who will be able to afford air travel at lower cost. Passenger traffic is expected to grow by 35% by 2020, with transit traffic increasing 2.5-fold and freight traffic doubling.

Significant potential can be realised as international transfer traffic continues to show unprecedented growth, according to the Civil Aviation Committee. In 2018 some 900,000 transfer passengers travelled through Kazakhstan, a number that is expected to reach 1.6 million in 2020. The increase in transfer numbers were also driven by three-day visa grace period for Chinese citizens travelling through Kazakhstan, which has been in force for a few years, and a visa-friendly regime for Indian citizens introduced last year.

Outlook

Local demand

The current market environment continues to provide an opportunity for Air Astana to build and strengthen its network and customer experience for the long term. With GDP growth forecast at 3.8%, Kazakhstan’s domestic air travel market has potential to grow by 2023. With low costs and a strong financial position, we are confident in our ability to capitalise on this opportunity via FlyArystan in addition to existing Air Astana flag carrier operations.

Transit traffic

Air Astana will remain focused on the international market, and we intend to almost double our fleet by 2026. Our annual passenger transit traffic grew by 48% in 2018, now accounting for 32% of our international traffic. We are looking to further expand the target base with transit traffic from surrounding markets that are substantially bigger than Kazakhstan, such as China, India and Russia. Connecting services is our fastest growing segment, as we operate at the heart of fast-growing Central Asian markets and are perfectly positioned to provide a crucial hub along the Silk Road.

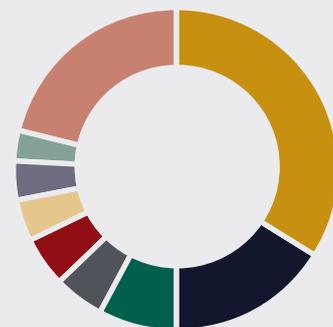
With the increasing economic ties and focus on tourism, we expect traffic from China to increase in the next 3-4 years. Significant sixth freedom traffic is also projected to grow to and from Urumqi thanks to its beneficial geographical location as a gateway to Central Asia and other Silk Road countries.

CIS traffic also remains a key area of focus, with Russia, Georgia and Ukraine contributing significantly to passenger flows. In 2018 we added new routes to Kazan and Tyumen, and are looking to accelerate network expansion in 2019, while increasing capacity to existing destinations.

Number of Air Astana’s 6th freedom passengers (thousand)



Air Astana’s market share in Kazakhstan international market



Source: Company’s internal data

Air Astana	34%
Aeroflot	16%
SCAT	8%
S7	5%
Turkish Airlines	5%
Ukraine International Airlines	4%
FlyDubai	4%
Lufthansa	3%
Other	21%