

CHAIRMAN'S STATEMENT

2018 was a year in which Air Astana showed its calibre and resilience, as well as its ability to evolve and expand.



Strengthening our position as the leading airline in Central Asia

2018 was a year in which Air Astana showed its calibre and resilience, as well as its ability to evolve and expand. Despite the tough trading conditions experienced across the airline sector, we remained profitable. This is testament to our efficient operating structure, the quality of our fleet and the careful management of our capacity and our route networks. At the same time, we took the opportunity to consider the future and take significant steps that will position us well for the next decade across the region.

The airline recorded a 3% increase in passenger traffic in 2018, to 4.32 million passengers, with international transit traffic contributing significantly with an increase of 48% year-on-year. Transit passengers accounted for 32% of our international traffic, which reflects the growing importance of Kazakhstan's location, right at the geographic heart of Eurasia and within close proximity to the burgeoning air transport markets of China, India and Russia.

Air Astana has a clear edge when it comes to serving Kazakhstan and capturing the high growth markets that surround it. We do so by carrying passengers in the latest, most modern, fuel efficient aircraft. We provide value for money, high levels of comfort and market leading levels of punctuality. We continue to be well recognised in the industry for these qualities. In 2018, we were named the Best Airline in Central

Asia and India by Skytrax for the seventh consecutive year, we were winners at the TripAdvisor 2018 Travellers' Choice Awards and we received a Five-Star Airline rating at the 2018 APEX Awards. A particular highlight though has to be the position the airline now holds in the punctuality league tables, having been ranked as the 12th most punctual mainline airline globally, and 7th in the Asia Pacific region. This is a tremendous reflection of the dedication of our management and operational teams.

Such high levels of operational performance enable us to grow. They enable us to confidently expand into new routes and gain the trust of other key airline partners by completing important codesharing agreements. In 2018, we bolstered capacity by 5% as a result of the introduction of three new routes to Frankfurt, Kazan and Tyumen, with additional frequencies added from Astana to Moscow, London Heathrow, Omsk, Dubai, and Delhi; and from Almaty to Dushanbe, Hong Kong, Seoul and Bishkek. Additional services were also added to St. Petersburg, Bangkok, Tashkent and Kiev. In March, Cathay Pacific joined Air Astana as 11th key codeshare partner, offering passengers convenient connections when travelling on to Asia and Australia via Hong Kong.

Local traffic between these markets is expanding, though from a low base. Transit traffic remains our fastest-growing segment, as Kazakhstan is well placed to attract traffic between China, Europe and Russia. To meet this demand, we are growing our fleet, and in 2018 we welcomed the third new A321neo aircraft into our fleet as part of a total order for 17 aircraft. We also took delivery of an Embraer E190-E2, the first of its kind to be delivered to an airline in the CIS, with more scheduled for delivery in 2019. By 2026, we are planning to have grown our fleet to more than 60 aircraft, made up of the most fuel-efficient narrow body aircraft on the market and capable of reaching all of our destinations.

Our achievements in 2018 and ongoing aspirations do not stop there. During the second half of the year, the Board supported the Management Team's steps to update our existing strategy and fill the obvious gap for a low-cost carrier (LCC) in Central Asia. In November, we announced the launch of FlyArystan, an LCC that will operate alongside Air Astana's existing operations. The Kazakh domestic air travel market is growing, but with only approximately 10% of the existing population flying domestically according to our own data, there is significant scope to stimulate the market. We believe the LCC pricing model will be attractive to the large percentage of the

region's population that have still not flown, which will drive considerable growth for us. Whilst its initial focus will be domestic, we would anticipate expanding its reach into neighbouring Central Asian markets which do not have local LCC services. Given that we have been able to run a full-service airline at LCC-equivalent costs for a number of years, we fully expect the venture to be a tremendous success.

It is clear therefore that we must scale operations up for a high level of growth. In early 2018, we commissioned our own Technical Centre at Astana Airport, the first of its kind in Central Asia, to enable us to maintain our own fleet and 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. This is a clear reflection of the significant level of investment Air Astana is making in selecting Kazakhstan's brightest graduates, providing them with world-class training and potential careers. As well as producing leading technicians, we also envisage a need to train approximately 200 new pilots to satisfy Air Astana's combined needs over the coming years, the majority of whom will be recruited from Kazakhstan and trained in international aviation schools. To meet this need, Air Astana has set-up an Ab-initio programme that allows recruits with no flying experience to become fully trained pilots according to international best practice. This will require a sustained campaign, improving the awareness of school leavers of this excellent opportunity.

We have 178 cadets that are already flying as Captains and First Officers on A320, B767 and E190 aircraft, and we have more trainees in the pipeline.

We are very proud of our contribution to the Kazakh economy and to our society as a whole. Our broader CSR efforts are covered on page 26 of this report and I would also like to point you to page 50, where I summarise in detail how we have enhanced our governance procedures during 2018, as we strive to meet international benchmarks for corporate governance.

Finally, I would like to extend my thanks to our close-knit management and operational teams. We had a successful 2018 thanks to good corporate planning and high levels of operating efficiency. Plans are now in motion for a successful period to 2026 and beyond and we look forward to sharing our success with you.

Yours faithfully,

Nurzhan Baidautov
Chairman of the Board of Directors

Board priorities

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 in 2018, we will be making significant progress towards achieving international best practice reporting in this area.

Strategic development

The Board played a key role in reviewing and approving key strategic decisions relating to Air Astana's next phase of growth.

Risk management

The Board approved amendments to risk policies to reflect the Company's pursuit of growth.

Internal control and audit

Internal control systems were reviewed thoroughly, procedures were reinforced and audit plans were approved.

Financial and operational activities

Key strategic decisions such as changing the Company's functional currency were supported.

Governance and remuneration

The Board evaluated recommendations provided by an independent external consultant on the effectiveness of corporate governance procedures.

[Read more on page 50](#)