FINANCIAL REVIEW

In 2018 the Company continued to build on and benefit from its competitive strengths despite a very challenging year for the entire industry due to high fuel prices.

Revenues grew both on international and domestic networks driven by traffic on the former and yield in the latter. The double digit growth in international traffic by 10.7% was largely driven by the continued strong growth of transit traffic, up 48%, thanks to the growing prominence of our hubs, through which traffic from our extended home markets in China, India, Ukraine and Central Asia continues to flow with increasing regularity. In 2018, 31% of traffic on international flights were transit passengers, up from 24% in 2017. This means that every third passenger on Air Astana international flights is a transit passenger.

This growth was achieved on the back of a 5% increase in ASK, resulting in a 2.9% growth in load factor on international routes.

Fuel expense caused a major headwind in 2018, with fuel costs increasing by USD 47.8 million, or 26% in comparison to ASK growth of 5%. To protect itself from spiralling fuel costs and to maintain profitability, the Company reduced domestic capacity by 5%. However, perhaps one of the most telling trends in our domestic network in 2018 was the 11% increase in Revenue per ASK (RASK), reflecting both the resilience and flexibility of our platform.

Had actions not been taken on cost and revenue management to mitigate such a substantial increase in fuel cost, the Company would have reported a loss in 2018. Notwithstanding the magnitude of the negative impact of fuel expense, the Company managed to achieve an operating profit of USD 36.5 million, down 42%, and profit after tax of USD 5.35 million, down by 86%.

2018 was the US Dollar's first full year as the Company's functional currency. Over the years, an increasing portion of Air Astana's revenues were denominated in currencies other than Tenge and this has now reached more than two thirds. As a result, the management team concluded that the dollar better reflects the nature of underlying transactions, events and conditions. The change protects the airline's net assets from KZT/USD currency fluctuations, which will increase overall financial profitability due to the elimination of negative effects from exchange differences from dollar denominated assets and liabilities.
In 2018, the average USD/KZT rate of

Financial performance summary

(USD thousands)

	2018	2017	Change
Total revenue	**840,861**	767,537	**9.6%**
Total operating expenses	**(804,355)**	(704,282)	**(14.2%)**
Operating profit	**36,506**	63,255	**(42.3%)**
Operating profit margin	**4.3%**	8.2%	**(3.9pp)**
Net financing expense	**(7,613)**	(3,825)	**(99.0%)**
Foreign exchange loss, net	**(16,885)**	(10,370)	**(62.8%)**
Profit before tax	**12,008**	49,060	**(75.5%)**
Income tax expense	**(6,656)**	(9,742)	**31.7%**
Profit for the year	**5,352**	39,318	**(86.4%)**

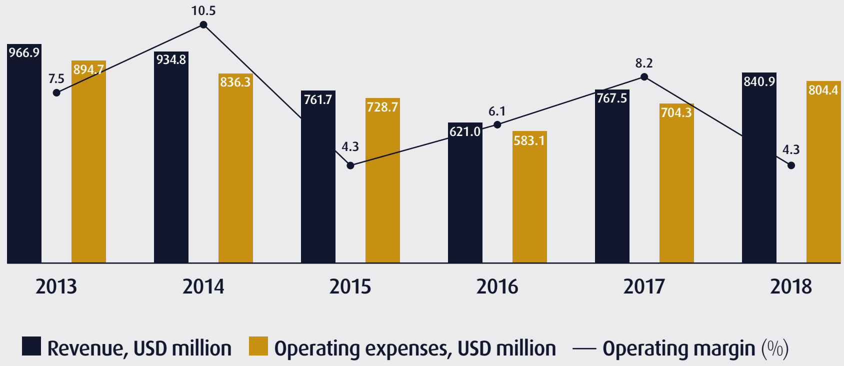
Revenue

(USD thousands)

	2018		2017		Change
	Total	% of total revenue	Total	% of total revenue	
Passenger revenue	**810,353**	**96.4%**	718,178	93.6%	**12.8%**
Cargo and mail revenue	**20,703**	**2.5%**	19,666	2.6%	**5.3%**
Other revenue	**9,805**	**1.1%**	21,215	2.7%	**(53.8%)**
Gain from sale and leaseback transaction	–	–	8,478	1.1%	**(100%)**
Total revenue and other income	**840,861**	**100%**	**767,537**	**100%**	**9.6%**

In 2018, passenger services accounted for 96.4% of total revenue and remained the Company's core activity. The remaining 3.6% consisted of revenue generated by cargo and mail services (2.5%) and other revenue (1.1%).

Revenue and operating expenses



Total revenue in 2018

(USD million)

840.9

Growth in ASK year-on-year

+5%

exchange grew by 5.7%, with the average Dollar converting to 344.71 KZT, compared to 326 KZT in 2017. The average exchange rate in December 2018, the last reporting month of the year was USD 1 = 371.82 KZT.

Operating expenses

The Company's operating expenses increased by 14.2% from USD 704.3 million in 2017 to USD 804.4 million in 2018, driven largely by the sharp increase of fuel costs. This resulted in a 9% increase in cost per available seat kilometre (CASK), from 5.2 to 5.6 cents in 2018.

Low-Cost Champions

Thanks largely to its cost efficient operations, Air Astana has an extremely competitive CASK, especially in comparison to other full service airlines. According to an annual industry overview from ACMG (IATA), covering 52 airlines all over the world including both full-service and low-cost carriers, it should be noted that Air Astana's CASK indicator is around half that of its European peers and 13% below a major European LCC (according to Airline Analyst report for 2017).

Efficiency remains a key part of the Company's three strategic pillars and the Company continues to strive for improvements. In 2018, the Finance Group launched a Low-Cost Champions campaign, with the objective of engaging those closest to the Company's operations to seek out opportunities to further maximise efficiency. Over 300 participants took part and shared ideas that are currently being discussed by senior management.

This is a strong reflection of a deep and integrated sense of engagement internally, and it reflects the extent to which a sustained culture of efficiency is embedded in and driven from all departments, not just centrally.

Finnovation: working on efficiency

'Finnovation: working on efficiency', a finance-driven business transformation programme was launched at the end of 2017. The programme's objective is to adopt an effective approach to any process the Company runs, take out any inefficiencies and unnecessary manual bureaucracy and replace it with effective controls, and use the resources released to initiate a new wave of cost efficiency across the Company.

Throughout 2018, the 'Finnovation: working on efficiency' programme has been responsible for rolling out a number of initiatives. The first results are very positive and immediate. These include the integration of the Company's Enterprise Resource Planning system directly with the banks that the Company operates with, automated invoice processing, electronic justification of payments replacing earlier paper versions, which require the physical movement of paper across the Company, strengthened controls and greater overall financial awareness in non-finance divisions.

These projects will be followed in 2019 by the automated calculation of accruals using operating data with system reconciliation to supplier invoices, leading to less manual work and reducing risks associated with human factors.

The resulting efficiencies enable members of the finance team to join other departments to help seek out further savings. During 2018, 36 well trained and competent team members joined the In-flight Services, Ground Services, Marketing and Sales teams replicating a proven efficiency drive that was earlier achieved through embedding finance backgrounded staff into Engineering and Maintenance.

The new structure is contributing to operational excellence at a departmental level. It permits operational departments to establish better controls at the start of processes, driven by close cooperation with members of both the financial and operational teams, which will translate into financial gains for the Company.

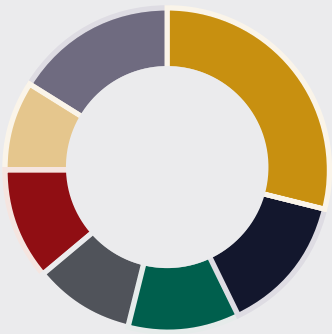
FINANCIAL REVIEW CONTINUED

Breakdown of operating expenses

(USD thousands)

	2018		2017		Change
	Total	% of total revenue	Total	% of total revenue	
Fuel	**231,316**	**28.8%**	183,518	26.1%	**26.0%**
Handling, landing fees and route charges	**112,251**	**14.0%**	103,164	14.6%	**8.8%**
Passenger service	**91,016**	**11.3%**	86,635	12.3%	**5.1%**
Engineering and maintenance	**86,278**	**10.7%**	69,173	9.8%	**24.7%**
Employee costs	**80,014**	**9.9%**	71,103	10.1%	**12.5%**
Aircraft operating lease costs	**71,413**	**8.9%**	61,413	8.7%	**16.3%**
Other	**132,067**	**16.4%**	129,276	18.4%	**2.2%**
Total operating expenses	**804,355**	**100%**	**704,282**	**100%**	**14.2%**

Breakdown of operating expenses, 2018 (%)



Fuel	29%
Handling, landing fees and route charges	14%
Passenger service	11%
Employee costs	10%
Engineering and maintenance	11%
Aircraft operating lease costs	9%
Other	16%

Fuel

Fuel represents the biggest operating expense for any airline. As a result, fuel price volatility has a direct and significant impact on an airlines' total profit.

Air Astana's fuel expenses grew by 26% from USD 183.5 million in 2017 to USD 231.3 million in 2018 following a sharp upward trend from the second half of 2017. ASK grew by 5% in the same period.

The percentage of fuel expense to total expenses increased from 26% in 2017 to 29% in 2018. This was a result of the increase in oil prices globally. The average monthly Brent crude price increased throughout 2018, reaching its peak in the second half of 2018 (USD 81.03 per barrel on average in October 2018). During the entire high season, Brent crude oil was in excess of USD 70 per barrel. As a result, average fuel prices for Air Astana in 2018 spiked by 29% compared to 2017. During the same period, total flight hours grew by 3%, to 118,331 hours in 2018 compared to 114,811 hours in 2017.

Other operating expenses

Other significant operating cost items include ground handling, landing fees, route charges, passenger services, engineering, maintenance, employee costs and aircraft operating lease costs.

These costs increased by 10% year-on-year in 2018 mainly due to an increase in operations, passengers numbers and increased rates for other service providers.

Engineering and maintenance costs increased by 24.7% due to the introduction of a new aircraft type and the servicing of an increased fleet and larger operations.

Handling, landing fees and route charges increased by 8.8% year-on-year due to increased operations throughout the year. Security charges for domestic and international routes at key airports in Kazakhstan were up with increases implemented at the end of 2017 and start of 2018.

Staff costs increased by 12.5% in 2017 due to the growth in the Company's workforce and a respective increase in salaries, wages and social taxes. The average number of employees grew by 5.4% to 5,202 in 2018.

Aircraft operating lease costs, expressed in USD, grew by 16.3% compared with the 2017 level. As of 31 December 2018 the Company operated 34 turbojet aircraft.

Operating profit

The rapid growth of global fuel prices and consequent rise of fuel cost by USD 47.8 million and modest growth in traffic during 2018 led to a reduction in operating profit of 42% to USD 36.51 million.

Urgent actions by senior management to optimise costs were effective and emergency measures helped the business maintain profitability in 2018 by generating a profit of USD 5.35 million. The operating profit margin fell by 3.9 points to 4.34%.

The Company's earnings before interest, taxes, depreciation, amortisation, and rental costs (EBITDAR) decreased by 12.83%, to USD 130.86 million. The EBITDAR/Revenue ratio decreased to 15.6% from 19.6% in 2017.

The Company has substantial finance lease liabilities, denominated in USD. At 31 December 2018, total finance lease liabilities amounted to USD 281.5 million (-12.2% year-on-year). The Company recognised USD 9.14 million as interest expense on finance lease in 2018.

Net financing expense

The Company's total net finance expense for 2018 was USD 7.61 million, compared with USD 3.83 million in 2017, mainly driven by a reversal of impairment allowance on financial assets in 2017, which equalled USD 4.75 million. In July-November 2017, the Company collected USD 4.376 million in cash through enforcement proceedings against Delta Bank JSC.

IFRS changes

Two major changes in IFRS reporting took effect from 1 January 2018, namely IFRS 9 and IFRS 15, and both were implemented successfully. IFRS 9 relates to Financial Instruments, and IFRS 15 reflects accounting changes to Revenue generated from Contracts with Customers. The Air Astana team took a leading role in the implementation of these standards, which helped develop a method that has become the basis of IFRS 9 implementation for a number of major companies in Kazakhstan.

IFRS 16 alters the way companies must calculate and report lease liabilities. The standard takes effect from 1 January 2019, and has a significant impact on the balance sheets of airlines. During 2018, the Company has participated in industry discussions and made its assessment of how it can best execute the new standard. The Finance Group presented its view of the execution of IFRS 16 to the SPC in July 2018, and to the Board of Directors in September 2018 and engaged with external auditors from an early stage in order to ensure that the Company is well prepared for IFRS 16 roll out from January 2019.

At 31 December 2018 and 2017, share capital comprised 17,000 authorised, issued and fully paid ordinary shares with a par value of 147,150 tenge per share (equivalent to USD 1,000 per share at the time of purchase).

Operating profit

(USD thousands)

	2018	2017	Change
Operating profit	36,506	63,255	(42.29%)
Net financing expense	(7,613)	(3,825)	(99.03%)
Foreign exchange loss, net	(16,885)	(10,370)	(62.83%)
Profit before tax	5,352	39,318	(86.39%)

Equity

(USD thousands)

	2018	2017	Change
Share capital	17,000	17,000	–
Functional currency transition reserve	(9,324)	(9,324)	–
Reserve on hedging instruments, net of tax	(62,770)	(71,465)	12.17%
Retained earnings	143,746	150,552	(4.52%)
Total equity	88,652	86,763	2.18%