

# PRINCIPAL RISKS AND UNCERTAINTIES

## Risk management framework

We acknowledge the importance of risk management as the key component of our corporate management system. Risk management in Air Astana is based on the principle that risk evaluation is an integral part of all business activities. In order to manage and mitigate risks effectively we continue to develop the risk management framework, employing best industry practices to assess risk.

Air Astana's Corporate Risk Management System (CRMS) is an integral part of the corporate management of Air Astana. The Company's CRMS ensures the integration of risk management with all other aspects of the business, including governance, performance management, and internal control practices. Air Astana's risk management practices also deliver improvements to the Company's sustainability practices, it assesses the airline's resilience and how agile it is in adapting to changing circumstances. One of the CRMS's main tasks is to assist the Board of Directors and management to optimise outcomes with the goal of enhancing capabilities to create, preserve, and ultimately realise value.

The Company's Risk Management Policy was revised and updated in 2018 to reflect changes introduced by the '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.

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

The Board of Directors, the Audit Committee, the Company's management and each employee have clearly defined roles and responsibilities within the CRMS to ensure adherence to the Company's desired standards of behaviour as well as its corporate culture.

Responsibilities are also laid to assist the Company with the development and implementation of efficient practices to manage risks.

The Board of Directors has the primary responsibility for risk oversight of the Company and it performs the following risk management functions:

- › setting the Company's short-term and long-term goals and objectives;
- › approving the Company's Risk Management Policy;
- › approving Company policies relating to managing specific risks;
- › analysing external auditor reports on the improvement of internal control and risk management;
- › reviewing and approving the Company's risk register and risk map on a semiannual basis;
- › approving the Company's risk appetite and tolerances to such risks;
- › reviewing reports provided by the head of the structural unit responsible for risk management as well as identifying and analysing the Company's key risks;
- › reviewing reports on the efficiency of the Company's risk management system;
- › monitoring activities with the help of the Board committees.

On the issue of risk management, 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, and has the following responsibilities in the framework of risk management:

- › review reports on changes to the risk map on a semiannual basis;
- › review changes to the risk register, and the information it contains;
- › review reports on key risks;
- › review risk appetite on an annual basis;
- › review reports with information on realised risks on a semiannual basis;
- › review reports with information on any significant deviations from the standard risk management process;
- › review reports with information on compliance with regulatory requirements regarding risk management where necessary.

## Our risk management system



The Risk Committee is an advisory-consultative body under the President of the Company, which provides preliminary reviews and makes recommendations to the President for decision-making on issues relating to the Company's management of risk. The Committee is responsible for maintaining an efficient corporate risk management system, and for the creation of a risk control structure to ensure performance and compliance with the corporate policies.

The Risk Committee ensures the integrity and the functionality of the risk management system by performing the following functions:

- › approving the CRMS annual Strategic plan;
- › implementing a Risk Management Policy;
- › arranging an efficient Risk Management system, which facilitates the identification and assessment of prospective risks;
- › ensuring that the Company's structural units comply with the provisions of the Policy;
- › conducting a semiannual review and preliminary approval of the Company's risk register and risk map;
- › completing the annual review and preliminary approval of the Company's risk appetite;
- › compiling quarterly review reports with information on realised risks;
- › reviewing and approving the KRI panel on an annual basis and assessing the status of Key Risk Indicators (KRIs) outlined by the KRI panel;
- › reviewing and approving key risk management action plans on both a semiannual and annual basis;
- › reviewing the Company's risk management reports, and ensuring adequate measures are undertaken within the framework of its competence;
- › approving methods of response to and the risk management actions taken to address risks;
- › improving internal procedures relating to risk management;

# PRINCIPAL RISKS AND UNCERTAINTIES CONTINUED

The operating structure of the Company incorporates the three lines of defence (lines of accountability) model that offers a balanced approach to managing risk:

**The first line of defence** consists of all structural units and each Company employee. The main functions of the Company's structural units when it comes to risk management are:

- identifying and assessing risks and determining risk response strategies, as well as developing and implementing risk management action plans for key risks, improving risk management systems within the scope of supervised and performed operations;
- implementing, monitoring and improving control procedures within the framework of entrusted business processes;
- ensuring compliance fits into risk appetite parameters within each unit's competence;
- providing reports on the implementation of risk management action plans on key risks to the risk management unit;
- maintaining a database on the realised risks and business incidents;
- providing timely and complete information on risks to interested parties, including, but not limited to, the risk management unit.

**The second line of defence** is the Management Accounts and Risk Management department, the structural unit responsible for risk management.

The risk management unit is responsible for ensuring and monitoring the implementation of effective risk management practices. The main functions of the risk management unit include, but are not limited to:

- coordinating corporate risk management systems;
- notifying the Risk Committee and the Company's Board of Directors of any substantial deflections in risk management processes;

- providing regular reports on risks to the Shareholders of the Company;
- maintaining a database of realised risks and tracing external factors capable of substantial influence on the risks;
- preparing a strategic plan for CRMS;
- controlling the semiannual update of the risk register, the risk map, and risk management action plans on key risks;
- controlling the assessment of identified risks/implementing risk assessments with support from the Company's experts;
- assessing and approving the Company's risk appetite with the Risk Committee;
- preparing consolidated reports on risks, and submitting them to the Risk Committee, Audit Committee, and the Board of Directors of the Company;
- developing, implementing, and updating (as appropriate) risk management practices, policies, rules, and risk monitoring procedures;
- ensuring the integration of risk management with other business processes, and developing a risk management culture within the Company;
- coordinating projects relating to the assessment of disclosure and analysis of information on risks;
- providing Air Astana's employees with methodological and consulting assistance with regards to risk management;
- cooperating with the Company's Internal Audit Department on the formation of the Company's internal audit plans, ensuring information exchange, helping to assess audit inspection results and transfer knowledge and methods;
- identifying any possible risks, actual or potential, or negative trends pointing to the realisation of some risks, analysing factors causing the risk, and assessing the potential scope for loss.

**The third line of defence** is the Internal Audit Department.

The Internal Audit Department performs the following main functions:

- auditing risk management procedures and risk assessment methods, and developing solutions that would increase the efficiency of risk management procedures;
- evaluating the efficiency of the corporate risk management system to the Company's Board of Directors;
- other functions in accordance with any approved regulations.

The Internal Audit Department performs regular inspections to analyse any gaps and drawbacks in the risk management system (including the involvement of independent external consultants).

## Significant risks

The Company prioritises its risks according to the severity of their potential to impact the fulfilment of the Company's strategy and business objectives.

Key risks are risks that, if realised, could have a significant negative impact on the achievement of strategic objectives, and to which the Company pays particularly close attention. Key risks are included in the risk table below.

 Low  Moderate  High

Risk	Description	Mitigation
<p><b>1</b></p> <p><b>The risk of an aviation accident</b></p> <p></p>	<p>Effective safety management is critical to minimise the potential for incidents or accidents. The resulting effects of such an event could have an adverse impact on the Company.</p>	<p>For the purpose of mitigating risks related to flight safety, the Company has established a safety management and compliance monitoring system, through which it conducts compliance and performance monitoring audits and sets and monitors safety performance indicators. The Company has an effective human factors training programme in place. There is a specific emphasis on procedural compliance. Specifically in the area of flight operations training, the Company has made significant investments in training instructors with a strong emphasis on standardisation.</p> <p>There are regular independent assessments by regulatory authorities, EASA, DCA Aruba, and CAC Kazakhstan as well as industry assessments (IOSA).</p>
<p><b>2</b></p> <p><b>The risk of an insufficient number of qualified pilots</b></p> <p></p>	<p>Air Astana's operational performance and flight planning depends on many factors, one being its ability to retain a sufficient number of qualified pilots.</p>	<p>To mitigate this risk, Air Astana has commenced an Ab-initio pilot training programme which has been operating since 2009, having already contributed over 210 pilots. In 2016 the first of these were promoted to Captain. This is a critical source of local pilots and is a cornerstone of our long-term strategic objective to deliver a steady flow of crew. Air Astana also recruits direct-entry pilots from the domestic market. The Ab-initio and local direct entry programmes are the primary sources of pilots for Air Astana and are augmented by the engagement of international contract pilots. The Company continually reviews terms and conditions to ensure we are competitive. In addition, the Company launched its Pilot Referral Programme in 2018, a recruitment tool whereby current employees are encouraged to refer their friends and/or relatives for open pilot positions.</p>
<p><b>3</b></p> <p><b>The risk of non-provision of high quality service in accordance with service standards</b></p> <p></p>	<p>Maintaining high levels of customer satisfaction is essential to the Company. Failure to provide high-quality services could lead to damage to the Company's reputation along with the loss of customers and a reduction in the airline's Skytrax rating, as well as an inability to retain its TripAdvisor award achieved in 2018.</p>	<p>Air Astana offers extensive training programmes to ensure that cabin crew maintain their skills at a high level. The In-Flight Services Department has a structure that infuses more control mechanisms into cabin crews' working routines. The Quality and Standards Division uses a variety of means to regularly monitor customer satisfaction (for example feedback from passengers to in-flight crew and issues standards for cabin crew in terms of maintaining high-quality service. The Performance Division is constantly working with cabin crew in order to sustain the required motivation and ensure that their performance meets established standards. The Operations and Crew Service Centre Divisions provide support in all administrative work flow and in handling day-to-day issues, allowing cabin crew to concentrate on their main duties, in other words, providing a high level of on-board services. The Product and Catering Division ensures the supply of on-board provisions that contribute to excellent service and the utmost comfort of passengers. To provide a more comfortable flying experience, In-flight Supervisors are equipped with CrewPads that contain all the essential information necessary for a flight, for example, detailed passenger information, food preferences, et cetera, all to personalise the service for both Business Class passengers and Nomad Club members, thereby increasing passenger loyalty.</p>

# PRINCIPAL RISKS AND UNCERTAINTIES CONTINUED

 Low

 Moderate

 High

Risk	Description	Mitigation
<p><b>3</b></p> <p><b>The risk of non-provision of high quality service in accordance with service standards</b> continued</p>		<p>The recruitment process has been established in a way that helps Air Astana to hire customer services orientated personnel for ground services. Employees undergo extensive training in accordance with the Company's standards. During the probation period newly hired employees are monitored by an experienced trainer who helps to assist and correct their work. Everyday work assessments are made by supervisors on duty, which help to monitor the level of staff qualifications (including the quality of services provided) and to address the weaknesses.</p>
<p><b>4</b></p> <p><b>The risk of cyber-attacks and system failures</b></p>	<p>The Company's IT infrastructure and systems are vital to its day-to-day operations. In growing the role of technology, companies are now more exposed to cyber-attacks and IT failures that could lead to significant reputational and financial losses.</p>	<p>In order to manage this risk Air Astana has robust cyber-security measures in place. The Company has developed processes to comply with the best industry practices and standards in information security. Training for employees on information security and familiarisation with the Information Security Policy is conducted on a constant basis to enhance employees' awareness of information security. IT infrastructure is fully geared to support business continuity within the best possible limits with redundancy and backup systems in place.</p>
<p><b>5</b></p> <p><b>The risk of increase of fuel expenses</b></p>	<p>In 2018, the crude oil price increased significantly, by more than 30% in comparison with the previous year. The airline industry was hit hard by this increase as fuel expense is the major cost item of any airline. Hence, as with the whole industry, Air Astana is exposed to risks related to the high volatility of fuel prices and related costs.</p>	<p>For locally sourced fuel, the Company negotiates prices on a competitive basis with Kazakhstani suppliers by concluding stable contracts. Moreover, Air Astana maintains ongoing negotiations with suppliers regarding price reductions. One important aspect is the constant monitoring of alternative suppliers in the market for domestic and international stations. Air Astana also applies a fuel surcharge on domestic and international routes where the Company does not face restrictions as an additional tool for reducing the risk. The amount of the surcharge depends on fuel prices and market conditions.</p> <p>To reduce its overall consumption of fuel, the Company has added new, more fuel-efficient aircraft to its fleet in recent years, including the Airbus A320neo and Airbus A321neo (with a new engine option). Additionally, several of Air Astana's pilot training programmes include skills for efficient fuel management.</p> <p>In 2018, the Company entered fuel hedging deals with a reputable 'A' rated international bank by purchase of call options to hedge its international consumption for 2019.</p>
<p><b>6</b></p> <p><b>The risk of an inability to develop a profitable route network plan</b></p>	<p>Air Astana's goal is to develop an international and domestic route network to provide a convenient schedule for passengers who travel directly and who connect frequently between international-to-international and domestic-to-international services. If the Company's network is not properly built, this will restrict the efficient expansion of its route network and make it impossible to achieve target revenues. Additionally, the Company is exposed to losses of, or reductions in, its current routes and the inability to implement new routes in accordance with its Route Network Plan.</p>	<p>In order to manage these risks, the Company submits slot applications in a timely manner, it negotiates with slot coordinators to get new slots, it works closely with the Kazakhstan Aviation Authority to ensure that traffic rights are granted, it regularly conducts analyses of route effectiveness, it generates route forecast analyses and it uses information from databases. If necessary, appropriate changes are made to the Route Network Plan from time to time.</p>

● Low    ● Moderate    ● High

Risk	Description	Mitigation
<p><b>7</b></p> <p><b>The risk of an insufficient number of key management staff</b></p> <p>●</p>	<p>The retention of key management staff is essential for the Company's continued successful operation and provides a solid backdrop for making important managerial decisions.</p>	<p>Air Astana has developed succession planning for key management positions to ensure the development of the best candidates. Moreover, the Company implemented the KC Talent Programme in 2010 to identify talent at junior levels.</p>

## Insurance

One of the risk management tools employed by Air Astana is insurance: by paying an advance premium, some risks are passed on to other counterparties.

The Company concludes insurance agreements with insurance companies that comply with the requirements outlined in regulations and the Company's policies to ensure the effective protection of the Company's interests. The Company ensures that insurance coverage is financially sound and purchased through a transparent process. All of the airline's insurance coverages are renewed on an annual basis.

### Aviation insurance

Air Astana's aviation risks are placed in the world's leading insurance markets through internationally reputable brokers. The Company covers its aviation risks through the following policies:

- Aviation Hull, Total Loss Only, Spares All Risks and Airline Liability Cover;
- Aircraft Repair and Operational Support (Hull deductible) Cover;
- Aviation Hull And Spares 'War And Allied Perils' Cover;
- Aviation War, Hi-jacking and Other Perils Excess Liability Cover.

### Non-aviation insurance

In addition to aviation insurance coverage, Air Astana regularly purchases non-aviation insurance policies to reduce the financial risk of damage to its property, interruptions to its business, and general liability, as well as to cover employees from accidents and medical expenses. The main types of non-aviation insurance policies purchased by the Company are as follows:

- medical insurance for employees;
- directors, officers and corporate liability insurance;
- property insurance;
- vehicle insurance (compulsory third-party liability and hull insurance);
- compulsory accident insurance for employees when performing labour (official) duties;
- commercial general liability insurance (public liability);
- insurance against the loss of pilot's licence.