

CONNECTING KEY GROWTH MARKETS

We are the leading airline in Central Asia. We have a vibrant team culture that centres on excellence and operates with a great sense of pride and a strong sense of determination to maintain the high standards that our brand is built on. Nothing less will do.



We have a unique opportunity. Kazakhstan sits at the crossroads of Eurasia, straddling burgeoning markets such as China, India and Russia. Air Astana's purpose is to connect these markets, and nobody is better placed to take advantage of our unique hub location.

Air Astana is planning to capture substantial growth in these markets using our hubs in Astana and Almaty to transfer millions of passengers across multiple destinations of great strategic importance. By tapping into our strong culture, we can deliver an award-winning level of service in the latest, most efficient and advanced aircraft, yet operate from a low cost base thanks to a highly efficient operating structure and a dedicated team of professionals whose sole focus is to deliver excellence.

Sustaining our market leading position

We combine comfort and punctuality with value for money, while offering an expanding network of route connections in fast-growing markets.

[Read more on page 2](#)



A culture of excellence

We have built a culture that links our success to the performance and engagement of our employees.

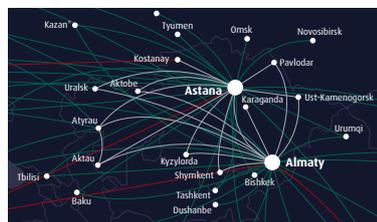
[Read more on page 6](#)



At the heart of opportunity

Perfectly positioned at the heart of fast-growing Central Asian markets and providing a crucial hub along the Silk Road.

[Read more on page 4](#)



Focusing on achieving our vision

We are committed to building one of the finest and most respected airlines in the world.

[Read more on page 11](#)



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Our performance reinforces our status as the leading airline in Central Asia

Total revenue

(USD millions)

+9.6%

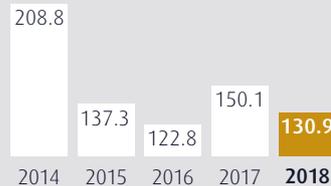


Increases in both domestic and international traffic supported revenue growth with a 48% increase in international transit traffic driving performance.

EBITDAR

(USD millions)

130.9

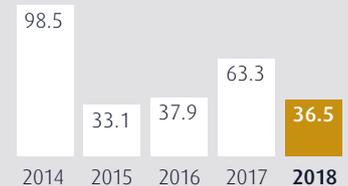


Profitability was preserved despite a 26% spike in fuel costs, thanks to high levels of operational efficiency.

Operating income

(USD millions)

36.5

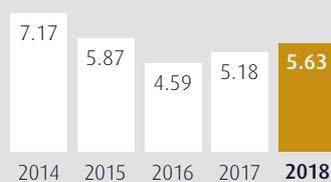


Prudent financial and operational management led to a profitable year despite macro-economic headwinds.

Cost per Available Seat Kilometres (CASK)

(US cents)

5.63

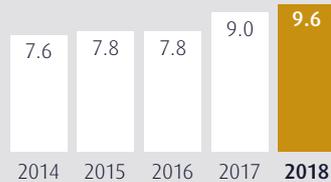


Our CASK remains one of the lowest in the industry, substantially lower than full service carriers internationally and even some major European low-cost carriers.

Revenue Passenger Kilometres (RPK)

(billion)

+6%



The increase in RPK reflects healthy ongoing demand for air travel and our ability to profitably capture this growth.

Number of passengers

(million)

+3%



The number of passengers grew despite the late delivery of aircraft and significant increases in fuel prices. International traffic grew by 11%.

SUSTAINING OUR MARKET LEADING POSITION

We are proud to have developed our position as the leading airline in our market. We are widely recognised for living our values and providing a clearly differentiated service, retaining and growing our customer base and winning prestigious awards.

Our mission is to build one of the finest airlines in the world

In numbers

69

Air routes

21

Countries

5,210

Employees

8.3 years

Average fleet age

34

Aircraft in fleet





Air Astana has a clear edge when it comes to serving Kazakhstan and capturing the high growth markets that surround it... 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.

Nurzhan Baidauletov
Chairman of the Board



What sets us apart



Quality

Passenger expectations are formed as much by comfort and service standards as they are by punctuality and reliability. We strive to provide the best quality customer experience from the moment a ticket is purchased to when a customer leaves the aircraft.



Efficiency

Our rigorous focus on efficiency drives our success and helps us maintain a low cost base as a key strategic advantage. This helps mitigate risks such as high fuel prices and provides scope to explore new opportunities.



Safety

We have an impeccable safety record. The implementation of the highest safety standards is engrained into our daily practices and we are fully compliant with the highest international technical and operational safety standards.

Awards and recognition

- Best Airline in Central Asia and India at the Skytrax World Airline Awards for the seventh year running in 2018
- Winner at the 2018 TripAdvisor Travellers' Choice Awards
- 5-Star Airline Rating at the 2018 APEX Awards
- OAG Punctuality League 2019 ranked Air Astana as the 12th most punctual mainline airline globally, and 7th in the Asia-Pacific region
- Gold Award for Business and Economy class (Europe/Africa) in TravelPlus Amenity Bag Awards
- Business Traveller Award for best business class on medium-haul flights
- Visa Inc Award 2018 for driving e-com development
- The most attractive employer in Kazakhstan in 2018 according to Universum, the global leader in employer branding

AT THE HEART OF OPPORTUNITY



The aviation market in Kazakhstan provides access to two major sources of growth. Domestic passenger growth is largely untapped and there is significant transit passenger growth potential thanks to increasing demand for a convenient point of connection between Russia, China and India.

Our growth potential



Global air passenger growth remains robust and, despite a lack of stimulation in its domestic market, air traffic in Kazakhstan has doubled over the past decade to 8 million¹ passengers, growing by 7% in 2018.

¹ Data provided by the Republic of Kazakhstan's Ministry of National Economy Statistics Committee.

Potential

Kazakhstan remains a heavily underdeveloped market. With less than 10% of the population flying domestically², there is significant scope to stimulate the market.

² Based on a large sample of Air Astana's loyalty programme members.



Location

In 2018, transit traffic grew by 40%³ in Kazakhstan, reflecting enormous potential to tap into increasing levels of mobility in large neighbouring countries.

³ Data provided by the Civil Aviation Committee for Kazakhstan.



Low cost

We maintain market leading levels of operating efficiency and cost control, enabling us to operate an award-winning full-service carrier with a low-cost carrier structure.



Key growth markets

Our route network comprises 69 international and domestic services from hubs in Almaty and Astana and is set to expand further.



Russia

143.9m
population

In 2018, growth in air passenger traffic in Russia reached 10%, while international traffic grew by 20%⁴. Growth is supported by the burgeoning development of regional air services in Russia, providing greater opportunities for Russians to fly to new domestic and regional destinations.

⁴ According to the Transport Clearing House (TCH).

India

1.36bn
population

In 2018, India's domestic air passenger traffic registered a healthy 18.6% growth to 1.7 billion passengers. Air passenger traffic in India is expected to grow further in 2019 through increased airport capacity and the growing impact of a 72-hour visa free regime extended to Indian passengers in Kazakhstan.

China

1.4bn
population

Growth in domestic and international traffic remains resilient despite the economic slowdown, and China is expected to be the world's largest air travel market by as early as 2022. Additional flight capacity has been approved to account for substantial additional demand. Chinese passengers also benefit from a 72-hour visa free arrangement in Kazakhstan to encourage transfer activity.

A CULTURE OF EXCELLENCE

To achieve our mission of becoming one of the world's finest airlines, we are developing a corporate culture which reflects our values and ambitions.

Our culture is a key factor in enabling us to achieve our long-term goals



Strong management team

Under the stewardship of an experienced and multinational management team, we have become the leading airline in Central Asia. Much of the team's involvement with the airline dates back to our early years, and the strong blend of native Kazakh professionals possessing world-class qualifications alongside international airline experts creates a compelling mix.

Read more on page 48



Transparency

We provide high levels of transparency in our day-to-day activities, we strive to meet the highest levels of disclosure on operational and financial performance and we ensure that employees understand decisions that are taken to drive the business forward.

Read more on pages 22-25



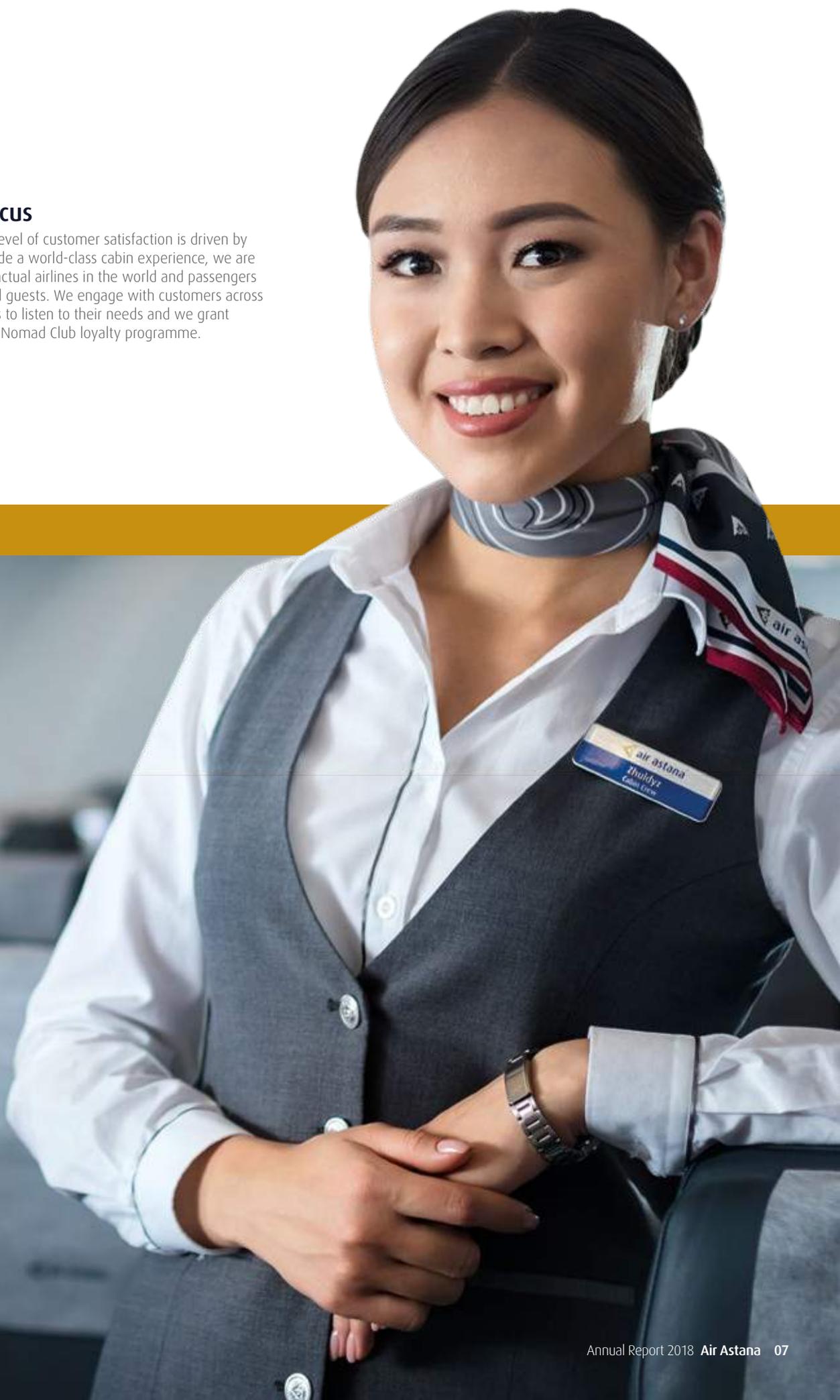
Long-term employees

Our people differentiate Air Astana. We have been recognised for three years in succession as the top employer in Kazakhstan by Universum and this is reflected in the quality of employees we attract. We help provide a backdrop for success by providing employees with excellent training and opportunities to flourish within the business. As a result, our employees have an average tenure of 6.4 years.

Read more on pages 34-37

Customer focus

Our award-winning level of customer satisfaction is driven by excellence. We provide a world-class cabin experience, we are among the most punctual airlines in the world and passengers are treated as special guests. We engage with customers across multiple touch points to listen to their needs and we grant rewards through our Nomad Club loyalty programme.



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](#)

PRESIDENT AND CEO'S STATEMENT

We are looking to convert Air Astana's deserved reputation for high quality service into a better share of business-class and less price-sensitive travel, and to develop a significant share of low yield price-sensitive business through FlyArystan. This latter task also presents us with an opportunity to grow domestic and regional air travel from a low base.



Maintaining our strong reputation for excellence

In 2018, we preserved profitability despite unprecedented industry headwinds. Air Astana's net profit fell by 86% to USD 5.35 million. Total revenue grew by 10% to USD 840.86 million against capacity growth of 5%, whilst total cost grew by 14%. The airline carried 4.32 million passengers, an increase of 3%.

That 2018 was a difficult year mainly as a result of increased jet fuel cost, which was 26% higher than 2017 despite modest capacity growth. There is little that airlines can do in the face of oil and fuel price rises since fuel represents approximately 30% of expenditure, by far the largest cost element. Fuel price hedging, as the industry has frequently experienced in recent years, is an inherently risky exercise and in any event in our case, 70% of fuel is purchased for use in Kazakhstan where there is no formula linking fuel to the price of oil, therefore hedging is not an option. Non-fuel expenditure continued to be effectively controlled resulting in a highly competitive overall unit cost of 5.6 US cents per Available Seat Kilometre, among the lowest in the industry. The other major difficulty in 2018 was the continued problems with Pratt & Whitney's Geared Turbo Fan engines, which power the Airbus neo fleet. Engine replacements and in-flight shutdowns far in excess of acceptable norms inconvenienced

customers, disrupted the schedule and caused us to lose revenue because of further delivery delays of new aircraft.

Traditionally Air Astana has derived some benefit from a higher oil price because its effect on the local economy, to a large extent dependent on oil revenues, has been to boost spending and investment. This held true for the first 8 months of year in which revenue grew by 14%. However, sales fell away badly from September in our largest markets of Kazakhstan and Russia, and flattened in China. Kazakhstan and Russia suffered from lower consumer spending due to further currency weakness and a shift to lower cost travel options for those continuing to travel. This was a key factor in our decision to launch a low cost airline, about which more to follow. Key market weakness was partially offset by continued sales growth in India, Turkey, Uzbekistan and Hong Kong. Transit business – so-called 6th freedom traffic – grew strongly for the sixth successive year, by 48%, to approximately 722,769 passengers. This segment now accounts for one third of international business, from close to zero in 2012. The flip side to 6th freedom traffic is that it is generally low yield and exposed to far greater competition, as most of the world's full service airlines compete fiercely in the major long-haul international markets

of East Asia, Europe, Russia, India and North America. However, with our robust cost structure and regional knowledge, we believe we have a significant opportunity to leverage such business in the under-served Central Asian market in the medium to long term.

For the first time in the airline's 16-year history the number of passengers carried on domestic routes within Kazakhstan fell. Although the total domestic market grew slightly, Air Astana's market share fell to 45%. This is a reflection of the low fares on offer from three domestic competitors, which incidentally makes Kazakhstan one of world's most competitive air transport markets given its relatively small population. Therefore, in late 2018 we decided to launch a separate low cost subsidiary, FlyArystan, which will initially be a division of Air Astana until early 2020 at the latest, when it will become a separate (though wholly-owned) entity for both safety and commercial reasons. FlyArystan is expected to commence operations on domestic routes in May 2019 with a fleet of Airbus A320 aircraft, initially taken from Air Astana and configured to 180 economy class seats. It will replicate the classic low cost airline model which has been so successful in most of the world's travel markets over the past 15 years.

The airline continued to prioritise operational reliability and high quality customer service. We were awarded Skytrax' Best Airline, Central Asia and India for the seventh successive year, and were awarded a Regional Asia Airline Winner's medal by Trip Advisor, in addition to several other awards in Russia and Central Asia. Our punctuality record of 86% was slightly higher than 2017 and again placed us at the upper end of the global league table.

As we look ahead to 2019, the key challenge is to grow revenue in weak domestic and regional markets and with clear signs that global air travel growth is beginning to slow, despite more bullish long-term traffic projections. Therefore we look, on the one hand, to convert Air Astana's deserved reputation for high quality service into a better share of business-class and less-price sensitive travel, and on the other, to develop a significant share of low yield price-sensitive business through FlyArystan. This latter task also presents us with an opportunity to grow domestic and regional air travel from a low base relative to countries and regions of similar size and income levels.

I would like as ever to take this opportunity to thank our Shareholders Samruk Kazyna and BAE Systems, my dedicated and hardworking colleagues, and our loyal customers for their continued support in a challenging year.

Yours sincerely,

Peter Foster
President and CEO

Vision 2026

Our 10-year journey is well under way and good progress was made in 2018 to accelerate expansion and leverage both our low-cost structure and the position of our hub at the centre of major growth markets.

Key achievements

Scheduled launch of FlyArystan, to capitalise on demand for a low-cost airline in the region

48% increase in transit traffic as Air Astana's hubs grow in prominence

Structurally, the fleet continues to expand, our Ab-initio pilot training programme is gaining momentum and our Technical Centre is minimising down-time

2018> 2026

Strategic priorities

Our objective is to deliver profitable growth by increasing frequencies and tapping into new markets and networks. International air traffic continues to grow rapidly, with some of the markets that immediately surround Kazakhstan poised to emerge as the largest markets in the world.

Our three key priorities centre around:

- > Growth
- > Efficiency
- > Excellence

Read more on page 14

DELIVERING GROWTH WITH A CLEAR VISION

A 10-year strategy taking Air Astana to 2026 is well underway and will deliver a new phase of growth by accelerating expansion while leveraging our low-cost structure and strong position as a hub connecting Europe and Asia.



2001

2001

May

- › Foundation of Air Astana as a joint venture between the Republic of Kazakhstan government and BAE Systems

2002

May

- › Air Astana first flight – Almaty to Astana to Almaty

September

- › First international flight – Almaty to Dubai to Almaty

2003

August

- › First JAR/EASA 145 certification for Engineering and Maintenance



2007

December

- › Launch of Frequent Flyer Programme



2008

June

- › Achievement of IATA 100% e-ticketing target (first in CIS)

December

- › Launch of the Ab-initio pilot training programme
- › Official registration by IATA as an IOSA-compliant carrier

2009 – 2012

June 2009

- › Achievement of 3-star overall Skytrax rating

2010

- › Start of development of own EASA certified maintenance capabilities

June 2011

- › 2nd place in Best Airline East Europe category at the 2011 World Airline Awards

May 2012

- › First in CIS 4-star rating in the Skytrax World Airline Awards and Best Airline in Central and South Asia

October 2012

- › First own aircraft delivery





4.32 million
Total passengers in 2018

>2x
Target passenger growth by 2026

34 aircraft
Fleet size in 2018

>60 aircraft
Target fleet expansion by 2026



2011 – 2013

- › Launch of 20 new routes

2012 – 2014

- › Aircraft delivered
 - 7x 320
 - 2x 321
 - 6x 190
 - 3x 767

2015

- › Operating leases signed for 11x A320neo with delivery positions in 2016 – 2020

2016 – 2017

- › Delivery of 4x A320neo
- › Operating leases signed for 5x E190-E2, 3x A320neo and 3x Airbus 321neo FB with delivery positions in 2018 – 2020
- › Launch of Part 66 technical training programme

2018

- › Announcement of FlyArystan launch – the first low-cost carrier in the region
- › Delivery of first E190-E2 aircraft
- › Winner of Skytrax ‘Best airline in Central Asia and India’ award for the 7th year in a row
- › Opening of Air Astana Technical Centre in Astana

2019

FlyArystan
Start of new low-cost operations with FlyArystan, which is expected to contribute to a significant increase in traffic, supported by an increase in landings and new routes



2026

Deliver on goals
Nearly doubling fleet size by 2026 and coverage of 25 new international routes to capture anticipated growth in domestic and transit traffic



OUR STRATEGY FOR GROWTH

Strategic priorities



Air Astana plans to almost double its fleet size to serve a more than twofold increase in passengers by 2026.

Our objective is to deliver profitable growth by increasing frequencies, tapping into new markets and expanding our network of destinations. Demand for international air traffic

is growing rapidly, with some of the markets that immediately surround Kazakhstan poised to emerge as the largest markets in the world. China and India are expected to become the largest and third largest markets globally by 2022. To meet our growth objective and maintain a culture of excellence, we will remain at the forefront of people development and training. We will continue to attract the best talent to help us on our journey and share in our success.



Despite being a full-service airline to date, Air Astana's cost per ASK of just over 5 US cents matches the cost efficiency of some of the world's most efficient low-cost carriers. We achieve this feat by maintaining extremely high levels of productivity and efficiency, by maintaining high levels of motivation

and employee engagement and by deploying the latest technologies to become a modernising force in the Kazakh aviation market.

Our competitive cost base has enabled us to unlock the resources required to realise our vision for FlyArystan. Air Astana already offers passengers comfort and low fares and maintaining such a compelling proposition requires extremely high levels of efficiency. By maintaining high levels of productivity across the board, both Air Astana and FlyArystan will be able to improve aircraft maintenance processes to increase utilisation rates and frequencies moving forward.



The delivery of a world-class passenger experience is a core strategic goal and is reflected by our high levels of punctuality and service. The pursuit of such high levels of excellence has enabled us to become the leading airline in our region while driving best-in-class operational efficiency.

The Company demands high standards at all levels. At a Board level, governance structures have been implemented to reflect the highest levels of international best practice and we deploy best in class technology and working practices to efficiently deliver the highest levels of passenger satisfaction from the ground up. To accomplish our anticipated levels of growth without compromising our culture of excellence, the airline remains at the forefront of people development. Our excellent people drive the business from its heart and they have made Air Astana a modernising force for our industry.

Performance in 2018

+11% Growth in international traffic

+5% Growth in capacity (ASK)

+10% Growth in operating revenue

12th Most punctual mainline airline in the world (OAG Punctuality League 2019)

- › The 'Finnovation: working on efficiency' transformation launched to integrate finance personnel into operational departments to automate and manage costs at source
- › Enhanced systems introduced such as a new Baggage Reconciliation System that prevents baggage loss
- › Updates completed to systems following the migration of the Company's working currency to US Dollars
- › Steps such as refueling trucks with de-icing fluid by Air Astana's own staff reduced delays at Astana airport

No 1 Skytrax Best Airline in Central Asia and India

>320,000 Nomad Club members

No 1 2018 TripAdvisor Travellers' Choice Awards

86% On-time performance¹

No 1 Employer in Kazakhstan (Universum report 2018)

Unlocking growth opportunities by developing network frequency and connectivity to become the leading Central Asian carrier. As well as delivering on substantial transit traffic opportunities, we are also aiming to stimulate growth in an underserved domestic market.

Priorities for 2019

- › Launch of FlyArystan, the first low-cost carrier in Central Asia, operating domestically
- › Delivery of new A321neos and E190-E2s aircraft and redelivery of expiring leases
- › Grow our workforce and expand the Ab-initio pilot training project
- › Building up maintenance capabilities at our Astana hangar
- › With mobile digital sales and mobile app usage increasing rapidly, ancillary services will be expanded to include excess baggage, lounge access and on-board internet

Associated risks

- The risk of an aviation accident **1**
- The risk of an insufficient number of qualified pilots **2**
- The risk of cyber-attacks and system failures **4**
- The risk of inability to develop profitable route network plan **6**
- The risk of insufficient number of key management staff **7**

Further focus on efficiency across the Company, including:

- › Continue expansion of our IT data centre and network infrastructure upgrades, including the expansion of air-to-ground communications infrastructure in Kazakhstan
- › Improve customer experience throughout the full customer cycle; from initial customer acquisition, purchase, after sales, inflight, and post flight processes
- › Formally obtain ISO27001 certification, in recognition of work carried out to bring information management up to international standards
- › On-going development of the Air Astana Training Academy and run a new supervisory programme, 'Leadership Essentials', to further drive efficiency

- The risk of non-provision of high-quality service in accordance with service standards **3**
- The risk of cyber-attacks and system failures **4**
- The risk of increase of fuel expenses **5**
- The risk of insufficient number of key management staff **7**

Further improvements of services and products, including:

- › Roll out of in-flight entertainment streaming systems on aircraft to complement the internet connectivity now available on all Air Astana's Boeing 767 fleet
- › Introduce an Application Programming Interface (API) so customers booking through aggregators can access ancillary services, branded fares and product descriptions
- › Further implementation of international standards and practices to airport services in Kazakhstan
- › Launch of Nomad Club Corporate Programme and Young Person Programme, and re-launch of Customer Experience team
- › The first cohort will complete the first stage of Apprentice Part 66 modular training in 2019 and will move on to the second stage

- The risk of an aviation accident **1**
- The risk of cyber-attacks and system failures **4**
- The risk of insufficient number of key management staff **7**

[Read more about our significant risks on page 41](#)

OUR BUSINESS MODEL

Our operating structure captures the unique growth opportunities presented by Kazakhstan's favourable location at the heart of Central Asia. Our highly efficient model and low cost base enables us to connect some of the fastest growing economies in the world in full service comfort very economically. Growth is also being driven in a vastly under-stimulated domestic market through the launch of FlyArystan, the first truly low-cost carrier in Central Asia.

Our capital

Financial

The Company allocates sufficient capital for growth and has a net profit of USD 5.35 million at 31 December 2018.

Aircraft

We operate a fleet of 34 aircraft, including the most modern fuel-efficient aircraft. The fleet consists of Boeing 767/757, Airbus A320 Family aircraft including A320neo/A321neo and Embraer E190/E190-E2 aircraft. A third of the fleet is owned with the remainder leased.

People

Air Astana has a workforce of 5,210 people. The Company takes training and engagement very seriously and an integrated Centre of Excellence at the Air Astana Academy trains pilots and staff at all stages of their careers.

Technology and data

Not only is customer loyalty driven by access to the latest in-flight entertainment and Wi-Fi systems, rapid growth in loyalty programme subscriptions and increasing digital engagement via the Air Astana mobile app is unlocking significant revenue and customer touchpoints.

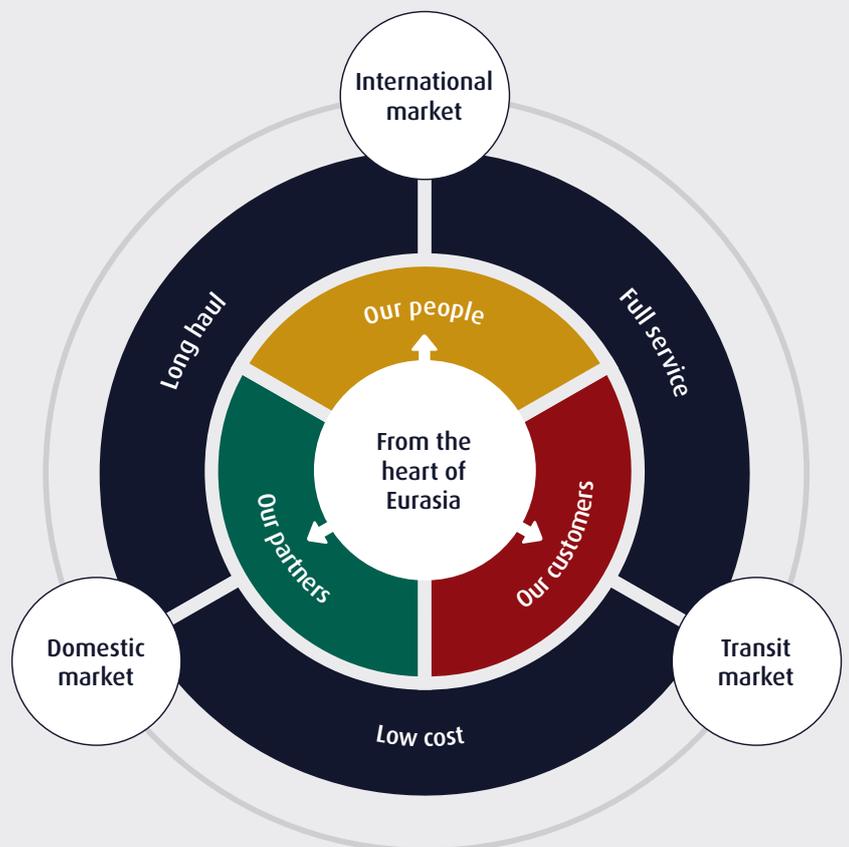
Partnerships

Transit traffic connecting rapidly growing markets in China, India and Russia through our hubs in Astana and Almaty is a major growth driver for Air Astana and our growing codesharing network with major international airlines is a key enabler.

Social

Through our operations and community investments, Air Astana contributes significantly to the development of Kazakhstan. Projects being implemented by us invigorate local enterprises, local communities and infrastructure, and they help increase regional investment attractiveness.

Operating model



Long-term value creation

Air Astana has established a long-term track record for maximising returns to Shareholders by investing in profitable growth opportunities while returning capital. Costs are kept low and earnings potential high thanks to cutting edge technology that drives efficiency and automation while offering attractive digital ancillary revenue opportunities.

Differentiators

- The leading airline in Central Asia, known for its strong brand and its passenger comfort
- Full-service airline with the cost structure of a low-cost carrier
- Unique location over two hubs connecting growth markets in Asia, Europe and the CIS
- Fleet made up of the most modern and fuel-efficient aircraft in production
- Highly qualified and experienced management team with strong local and international track record
- Flexible approach to market with ability to move quickly to capitalise on opportunities for growth
- Advanced revenue management systems and ancillary services to further optimise revenue streams

Value created

80%

Customer satisfaction in 2018

86%

On-time performance in 2018

5.6¢

CASK – reflecting efficiency

13%

Increase in Nomad Club members in 2018

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.

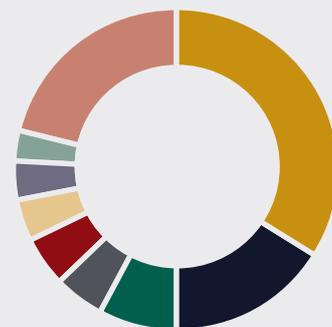
With the increasing economic ties and focus on tourism, we expect traffic from China to increase in the next 3-4 years. Significant sixth freedom traffic is also projected to grow to and from Urumqi thanks to its beneficial geographical location as a gateway to Central Asia and other Silk Road countries.

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%

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%

OPERATING RESPONSIBLY

Our approach to corporate responsibility

We are responsible corporate citizens and we meet our strategic goals by creating a culture of excellence and efficiency with sustainability and safety at its core. Our highly engaged employees work closely with our local communities to ensure that we deliver on the needs of all our stakeholders while maximising value for all.



Safety

We have an exemplary safety record which reflects our full adherence to the latest safety standards.



Environment

Reducing our Company's environmental impact is a fundamental part of our sustainable development.



Communities

We support local community projects whether they are designed to further our communities' developmental goals or to promote Kazakhstan's rich heritage.



Our people

We have a diverse workforce and high levels of engagement. Our culture of excellence and emphasis on wellbeing helps us attract talent which is nurtured to reach maximum potential.

OPERATING RESPONSIBLY

SAFETY

Air Astana seeks to maximise safety performance as a matter of priority. Our goal is to continually improve our levels of safety and culture for the benefit of our customers and employees.

We adhere to the highest international standards and best practices by implementing and maintaining comprehensive processes of identifying hazards and mitigating risks as part of our Safety Management System (SMS).

Our commitment to safety ensures that the integrity of our modern aircraft is preserved, from the design, production, testing and certification to the continued checks and maintenance once in service.

Since 2002, when Air Astana started operating with three aircraft, we have operated 482,860 sectors and 1,218,745 hours accident free. In this time we grew operations from eight to 69 destinations, despite closing four routes due to unresolved safety findings at destination airports.

Compliance

In May 2017, the Company passed the sixth IATA Operational Safety Audit (IOSA) conducted once every two years. The next IOSA renewal audit will be held at the airline in May 2019. Air Astana continues to be a member of IATA Cabin Safety, Flight Ops and Dispatch Task Force working groups, contributing to the improvement of IOSA standards and creation of IATA Best Practices Guides.

In 2018, Air Astana successfully passed three annual (in Almaty, Astana and Atyrau) EASA Part 145 audits (Aircraft Line Maintenance) by the UK Civil Aviation Authority and the EASA Part 147 audit (Maintenance Training Organisation) by the Irish CAA. As a holder of an EASA Part 145 certificate, the Company performs full maintenance of its own fleet and also provides line maintenance services for another 20 air carriers. The Korean Ministry of Land, Infrastructure and Transport (MOLIT) also carried out a renewal approval audit as well.

We were the first operator to be audited by EASA Third Country Operations in December 2015, and renewed the Third Country Operator Certificate in 2017. The next EASA renewal audit will be held in 2019.



Regulatory oversight

Air Astana's compliance with appropriate standards of safety and security is monitored by the Department of Civil Aviation (DCA) of Aruba that is responsible for Airworthiness, and the Kazakhstan Civil Aviation Committee, as well as other relevant international regulatory authorities.

In 2018, Air Astana underwent the following external regulatory inspections:

- two planned Air Operator Certificate (AOC) inspections, one ramp and three en route inspections conducted by the Civil Aviation Committee of Kazakhstan;
- an annual audit of Air Astana's operations departments conducted by the Department of Civil Aviation of Aruba;
- 31 aircraft airworthiness certificates renewed by DCA Aruba as well as three initial Certificates of Airworthiness (CoA) and one Export CoA;
- five inspections conducted by operators.

The Company's aircraft were subjected to 38 ECAC (European Civil Aviation Conference) SAFA (Safety Assessment of Foreign Aircraft) and 113 ramp (non-ECAC) inspections.

Safety programmes

In 2018, the Company's Flight Data Monitoring experts analysed 98.2% of flights with the aim of identifying, measuring and assessing existing operational risks and taking relevant mitigation measures with an emphasis on trends and root causes.

Within the internal compliance monitoring programme, nearly 164 compliance audits were conducted by Air Astana based on IOSA regulations. Compliance monitoring is also supported by the Company's membership and active participation in IATA safety and quality audit programmes, the IATA Fuel Quality Pool (IFQP) and the IATA De-Icing/Anti-Icing Quality Control Pool (DAQCP). We follow a collaborative approach with the intent of fostering positive working relationships and developing best practices that are beneficial for all involved. Unfortunately, the goodwill expressed has not always been mutual, and Air Astana has decided that one destination is a no-go station due to the unacceptable state of de-icing/anti-icing services provided.

OPERATING RESPONSIBLY CONTINUED

SAFETY

The Company shows a general increase in risk awareness by operational staff, showing a good trust relationship and safety culture, resulted in a 19% increase in safety reporting in 2018.

Air Astana enhanced its unauthorised substances testing programme by implementing improved methods of drug testing of staff performing safety sensitive aviation activity (SSAA) and by incorporating air crew members' alcohol testing at layovers. In 2018, the total number of unauthorised substance tests of SSAA staff doubled compared to the previous year.

As a safety promotion initiative, the Company hosted the fourth regional 'SMS Excellence: Practice, Challenges and Opportunities' safety seminar, attended by 123 participants, including leading specialists from Air Astana operations departments and station managers, as well as representatives from nine other regional airlines, aircraft manufacturers, representatives of ICAO and IATA, aviation authorities of Kazakhstan and Europe, et cetera.

To stay abreast of international developments, we continue to contribute to international safety organisation forums. The Company is a permanent member of the IATA Accident Classification Technical Group, which determines trends and areas of concern related to operational safety and to the development of preventative strategies. Air Astana is also a member of the IATA Safety Incident Taxonomy Working Group aimed at developing a new IATA Incident Reporting Taxonomy. The Company is also an active member of the Association of Asia Pacific Airlines (AAPA) and participates in the AAPA's Flight Operations and Safety Working Groups.

Coaching and mentoring sessions are carried out to review Air Astana investigations processes. In-house 'initial accident investigator training' and continuation training for investigation process enhancement was provided to Air Astana and Aviation Safety Investigators by an instructor from Flight Safety Consulting with a background as a Transportation Safety Board inspector.

Outlook for 2019

Key plans for 2019 set by the Company in the field of corporate safety compliance are as follows:

- › improved internal expertise on internationally recognised high-priority areas, such as procedural compliance and flight-path management;
- › renewal of safety certificates (IATA Operational Safety Audit (IOSA), Air Operator Certificate (AOC), Third Country Operators (TCO)) as well as renewal of AMO (Approved Maintenance Organisation) and Aviation Training Organisation;
- › extension of risk analysis methodology to support safety data analysis;
- › quality improvement of audits, investigations and flight safety data analysis to support proactive risk identification and mitigation;
- › improved monitoring of safety performance indicators to ensure a more effective response to operational risks and more active monitoring of preventive measures.



ENVIRONMENT

Reducing our Company’s environmental impact is a fundamental part of our sustainable development. With that in mind, our environmental protection programme includes the following key priorities:

- resource management, including the development and implementation of technologies to ensure efficient use of natural resources;
- taking steps to avoid contributing to man-made climate change and paying suitable compensation for any environmental damage caused;
- monitoring the environmental impact of our business operations;
- ensuring environmental protection in line with international standards.

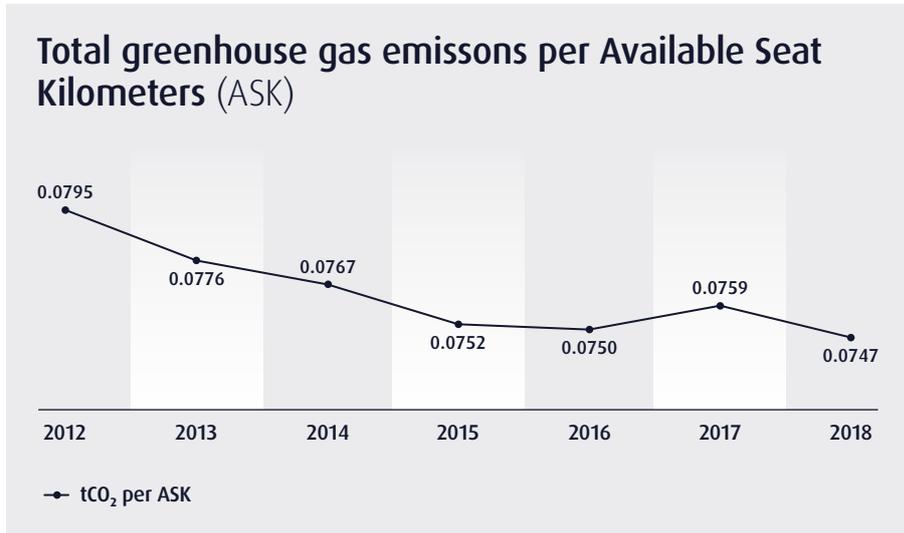
As part of our overall Policy on Health and Safety Management, we conduct regular audits to ensure stringent compliance with international standards on atmospheric emissions. We are able to keep our emissions at the lowest levels possible by operating a young and efficient fleet, and we are also taking steps to modify older aircraft that do not meet emissions standards.

In 2018 we carried out environmental activities in accordance with the requirements set out by the legislation of the Republic of Kazakhstan.

Fuel usage and GHG emissions

We recognise that carbon emissions from air travel contribute to climate change and that we are responsible for trying to minimise the impact of our operations. We are constantly seeking to reduce carbon emissions produced for each kilometre travelled by our customers, relying on cost advantage and safe ways to reduce fuel use, including prioritising the use of efficient aircraft and emissions-saving measures.

To that end, we have been monitoring and adjusting our greenhouse gas CO₂ emissions since 2011 from the introduction of monitoring requirements by the European Union. We disclose our CO₂ use to the German Emissions Trading Authority (DEHSt) on an annual basis. Currently, we are working on a new Carbon Offsetting and Reduction Scheme (CORSIA) which will come into force early in 2019.



Air Astana’s programme to acquire new aircraft and simultaneously phase out older ones is part of a number of major factors that contribute to the reduction of overall CO₂.

We are the only airline in Kazakhstan to operate aircraft from the Airbus A320/A321 family. These aircraft are the most fuel-efficient aircraft on the market, ensuring the best fuel economy and lowest levels of emissions in their class. The Airbus A320neo features innovative Pratt & Whitney engines that are 15% more fuel efficient than their predecessors.

Air Astana’s first Airbus A320neo was delivered and put into service in November

2016. Air Astana also operates a number of Boeing 767-300ER and 757-200 aircraft, which feature innovative technologies enabling excellent fuel efficiency.

On existing aircraft, we have modified wings through the addition of winglets (Boeing) or sharklets (Airbus), which provide two benefits: first, they enable greater fuel efficiency; and, second, by improving aerodynamics, they make more rational flight routing possible.

Thus, we were able to reduce the amount of CO₂ emissions by 6% as indicated in the chart above.

OPERATING RESPONSIBLY CONTINUED

ENVIRONMENT

In line with the Environmental Code of the Republic of Kazakhstan, we also confirm that the volume of harmful substances from stationary sources released into the atmosphere did not exceed the established standards for maximum permissible emissions.

The Company is constantly seeking out ways to reduce the production of harmful substances from stationary sources, and is emitting substances at levels that fall well within its maximum permissible emissions of pollutants in both Almaty and Astana. Emissions volumes are listed in the table opposite.

Permission has been obtained on the basis of maximum permissible emissions standards based on Environmental Code of the Republic of Kazakhstan:

1. Almaty No 0003871 from 12.01.2015;
2. Astana No KZ33VDD00083495 from 12.12.2017.

The table opposite (The amount of implemented environmental measures) shows investments made to monitor industrial emissions and to develop an environmental action plan.

Activities carried out under the plan included:

- maintenance of fuel equipment and automotive equipment, which reduces emissions of pollutants into the atmosphere;
- organisation of and separate collection of waste;
- utilisation of instruments to carry out measurements of atmospheric air;
- training and education.

Noise

We seek to reduce the impact of aircraft noise on residents who live near airports or under flight paths. In doing so, we have chosen aircraft from the Airbus A320/A321 family and a number of Boeing 767-300ER, 757-200 aircraft, which feature innovative technologies ensuring the lowest levels of noise.

We work closely with our airports, to ensure the highest levels of compliance with noise reduction while always maintaining high safety standards.

The volume of harmful substances from stationary sources released into the atmosphere in 2018

Established standard, Almaty	Actual emissions, Almaty	Established standard, Astana	Actual emissions, Astana
33.1391 tons/year	14.7209 tons/year	71.61492 tons/year	10.5691 tons/year

The amount of implemented environmental measures

Almaty	USD 176,069
Astana	USD 30,984

Amount of waste transferred for disposal

Waste name	Almaty	Astana
Used tyres	1,060 kg	400 kg
Used filter	480 kg	85.4 kg
Used rechargeable batteries	274.21 kg	-
Oily rags	470 kg	70 kg
Paint and varnish tins	1,205.6 kg	-
Used oil products (used oil, Skydrol, other aggressive liquids)	-	1,270 kg
Waste water (from washing wheels and brakes)	166 m3	
Used fluorescent lamps	1,500 pcs	

Waste

Our environmental protection efforts focus on recycling. For example, we separate all of our waste paper and recycle PET bottles and used batteries. In 2017, we also began recycling two other types of waste: metal shavings and waste water used to wash wheels and brakes. Last year, some 130,000 litres of waste water were removed from our authorised contractor, PromTehnoResurs.

Industrial waste is exported and disposed as it accumulates according to contracts with specialised organisations. All hazardous waste is sorted and stored separately. Within the framework of the contract on the export of hazardous waste, the volumes transferred for disposal in 2018 are listed in the table above.

We also continue to collect waste paper. In 2018 we launched a project among the staff aimed at encouraging the collection and transfer of PET waste for further disposal. Employees collected 80 kg of PET waste which was sent away for recycling.

As part of our efforts to reduce paper usage, we launched a new ELMA system for more efficient business process management. The platform automated and digitised our workflow, which allowed us to reduce costs on paper and printing. Moreover, it also allowed for a more efficient use of our employees' time, as they now have an opportunity to work remotely. By improving our business processes, we decreased the volume of paper usage and its recycling by 22,023 kg in 2018 year-on-year.

COMMUNITIES



Community investments and projects

Air Astana cares a great deal for the local communities that support its operations and have welcomed them like family. We like to ensure that our communities benefit from Air Astana's growth and that they grow with us. We provide assistance to a broad range of projects and activities that will have a direct impact on our communities as we help them fulfil their potential both economically and socially. We also support projects that seek to protect Kazakhstan's unique heritage, by investing time and money in projects that showcase to a growing number of visitors the value of Kazakhstan's social and cultural contribution to Central Asia and beyond.

It goes without saying that we are unable to support every project that we would like to, so as a responsible corporate citizen, we set high standards when it comes to engaging with potential benefactors and prioritising need. We do however ensure that any support given (financial or in-kind contribution) is applied consistently across all our operations. This includes sponsorship, donations or employee fundraising and employee volunteering.

We are very proud to be Kazakhstan's official flag carrier and we play an important role in helping the country to thrive, be connected and increase its investment attractiveness. We make a significant contribution by supporting projects that invigorate local enterprises, communities, personnel, and infrastructure. Our community investment activities include:

- employee involvement in charitable activities through fundraising and volunteering opportunities;
- providing donations and sponsorships to local and national charitable organisations and other not-for-profit organisations;
- sponsorship of non-philanthropic customer-focused and stakeholder events and activities where a clear, positive impact to the community can be demonstrated;
- individual charity – provision of targeted (direct) support to population groups most in need of assistance, including sick children from low income backgrounds, those with incurable diseases in the Republic of Kazakhstan (RoK); and RoK Civil Aviation veterans who are in need of treatment abroad.

Charity donations

Our Community Investment Committee plays an integral role in overseeing Air Astana's charitable projects. The Committee aims to bring Air Astana's involvement in local communities to life by identifying and selecting charities and funding projects that bring value to communities and that are aligned with the Company's activities and values. The Committee includes four representatives of the Corporate Communications and Sales and Marketing teams.

As a business and a national flag carrier, we feel a great sense of duty to represent Kazakhstan and we are delighted that we are fulfilling a key goal by becoming a recognised partner that contributes to the sustainable economic and social development of our communities.

As the table on page 33 summarises, the airline has for many years provided free flights for sick children and their families who need to travel for medical purposes.

In 2018, we contributed USD 44,594 in tickets for severely ill children and their parents. Together with the Ayala Foundation, we also organised Christmas celebrations to raise funds for special (correctional) boarding schools and orphanages, and we supported home-schooling for children with disabilities. We also helped to purchase modern equipment for children's intensive-care units at infectious-disease hospitals throughout Kazakhstan.

In 2018, we continued to cooperate with charity funds, we sponsored social initiatives and we encouraged volunteering among our employees. As part of our employee involvement programme, we initiated a charity campaign to sort, pack and transfer lost and found possessions to the charity fund 'Teen Challenge Kazakhstan', to support their rehab programmes which aim to help women in difficult life situations, single mothers with no fixed abode, and women and children who have suffered from physical and emotional abuse. In 2018 we continued to carry out various charitable events to raise funds for orphans, this includes activities by Air Astana ground staff to raise funds for an orphanage in Talgar.

OPERATING RESPONSIBLY CONTINUED

COMMUNITIES

The natural world

Our contribution to important causes can be as impactful symbolically as it is felt financially. The snow leopard is not only a fellow national symbol of Kazakhstan, it is also one of its rarest mammals, and with numbers dwindling rapidly, due to poaching and habitat loss in southern Kazakhstan, action is needed. Support was therefore given to Kazakhstan's 'Wildlife Without Borders Fund', through a USD 10,000 donation.

Furthermore, to help restore the snow leopard's status as a symbol of national pride and an icon of Kazakhstan's mountains, support needed to be more symbolic. Air Astana therefore took the innovative step of decorating its first Embraer E190-E2 in snow leopard livery at its unveiling at a special ceremony in December to draw attention to the rapidly decreasing wild population.

The exercise was timely as it came shortly after the International Union for Conservation of Nature's (IUCN) controversial decision to remove the snow leopard from its list of 'endangered' species after 45 years. The IUCN reclassified the cat as 'vulnerable', meaning the animal's risk of extinction is less urgent than experts had believed. The plight of the snow leopard needs to be better understood as some researchers say the IUCN has dramatically overstated both the cat's numbers and its rate of decline.



Projects implemented in 2018

Project focus	Description	Results
Veterans	Provision of flight tickets to the veterans of the Great Patriotic War	We provided 3,840 flight tickets to the veterans of the Great Patriotic War to travel around Kazakhstan and to the CIS.
Medicine	Provision of flight tickets to severely ill children and their accompanying parents	124 flight tickets were provided to severely ill children and their accompanying parents.
	Provision of modern equipment to children's intensive care units at hospitals in Kazakhstan	<p>USD 3,317 was raised through donation boxes installed in ticket offices in Almaty, Astana and Atyrau to support the Ayala Foundation's charity work.</p> <p>Kostanay Oblast Children's Hospital received medical equipment worth USD 3,128.</p>
Sponsorship	International Festival under the auspices of UNESCO The Planet of ART 2018	<p>The festival is dedicated to the celebration of the 20th anniversary of the capital of Kazakhstan – Astana.</p> <p>18 tickets were provided.</p> <p>The main aim of this project is to support and develop talented youth, promote intercultural dialogue, and to strengthen and enlarge ties between young generations of the region.</p>
Donations	The Wildlife Without Borders Fund for snow leopard preservation project in Kazakhstan	We donated over USD 10,000 to the Fund in order to support the project.
Employees volunteering in charity projects	Lost and Found	<p>In October, the Ground Service Department initiated a charity campaign to sort, pack and transfer items from Lost and Found. Unclaimed items were stored and moved to the charity fund 'Teen Challenge Kazakhstan – women rehab programme'.</p> <p>The Fund provides support for social rehabilitation for women in difficulty; single mothers with no fixed abode; women and children who have suffered from physical and emotional abuse and people who started life in orphanages.</p>
	'Kindness relay race'	The idea was first born at the Ticketing and Reservations office in Almaty airport and responsibility is transferred from one department to another. In 2018, the ground service department held the torch. Colleagues have organised fundraising fair to support an orphanage in Talgar.
	'Letter to Santa Claus' New Year joint initiative with the Ayala Charity Fund	<p>Pupils at special (correctional) boarding schools and orphanages, as well as children that are home-schooled or with disabilities write letters to Santa Claus. Ayala Foundation decorates Christmas trees with those letters. Anybody can choose an envelope, read a letter and put in money for a gift to a child or purchase a gift on their own.</p> <p>Christmas Trees were installed in Almaty at Centers 1-4 and the airport office with letters from 54 children.</p>

OPERATING RESPONSIBLY CONTINUED

OUR PEOPLE

Letting talent thrive

Our people play a critical role in enabling us to execute our strategy. In a business as dynamic as Air Astana, it is critical that we deploy a talent management strategy that attracts and maintains a talented and engaged workforce. We are committed to hiring and developing the highest quality talent and we maintain high levels of engagement by promoting our HEART values (Hospitable, Efficient, Active, Reliable, Trustworthy) which are rooted in all processes related to people: recruitment, learning and development, performance appraisal and recognition. We encourage and promote a flexible, family-friendly and ethical workplace in an environment that is rewarding, with equal opportunity available for all.



“We recruit, appraise and reward staff based on merit. All our people are talents and our job as People Managers is to develop their talents to the maximum potential”

Yevgeniya Ni, Vice President, HR and Administration

Attracting talent

Our aim is to be a great place to work, providing interesting and challenging opportunities, excellent career progression, and a collaborative, inclusive and values-based culture for our people. The most significant areas we are focusing on when attracting talent, are:

- maximise employer branding;
- retaining talent through development, engagement and wellbeing;
- ensuring gender diversity, anti-corruption and anti-bribery.

We have achieved success in these areas by developing policies and processes and monitoring our management and control strategies through regular reviews with senior management. We recruit and promote people based on meritocracy and we provide equal rights for all candidates, internal and external, if they meet job requirements and have sufficient competencies and attributes.

We are continuously striving to increase manpower to deliver on our long-term growth objectives by supporting an expanded fleet of aircraft that are carrying more passengers.

We have adopted a combination of recruitment channels all with a new common creative theme and messaging, to underscore the new central careers site employer brand message: ‘Try on a Dream’. Employer branding is aligned to the Company’s growth strategy.

2018 saw the fruitful continuation of the ‘Try on a Dream’ recruiting campaign, which was launched in 2017 and is aimed at the selection, employment, and training of candidates from all over Kazakhstan, and building even more open relationships with the younger generation.

Every year there is growing interest among aviation professions in young people and our main goal is to open new opportunities to build a professional career in aviation.

We launched a Career Day project, where Company ambassadors share their success stories with the audience and we also continued our cooperation with youth organisations, including ‘100 professions’, ‘Find your way’ and ‘LeadershipKZ’. As part of these projects, high school and undergraduate students are invited to take a tour, where there is an opportunity to fly in an air simulator, experience different conditions and situations that pilots may encounter during

the flight, and listen to the success stories of the pilot, engineer and flight attendant.

For the second year in a row, we participated in the Republican Championship of Robotics, where we hold workshops and presentations on the engineering profession for school children. We also participated as jurors in the Republican contest for the best project in the field of transport for school kids, organised by Cranfield University and the Republican State Enterprise ‘National Institute of Intellectual Property’ under the Ministry of Justice of the Republic of Kazakhstan.

The competition was held with the aim of increasing interest in the transport industry and deepening knowledge among students, who were later sent to Cranfield University for an introductory programme.

Following best international practice, we also launched a referral programme in order to attract qualified pilots through employees’ recommendations. The programme delivered very good results, whereby seven qualified pilots were hired through employees’ recommendations over a six month period and we are aiming for more.

In order to enhance the recruitment processes, we launched a new career website job.airastana.com, which was one of the most important priorities for us in terms of improving candidates' experience. We simplified the process of submitting applications for candidates, and they are able to receive immediate feedback from recruiters.

Employer branding

Recruiting and retaining the best people from the widest possible talent pool is a key priority for Air Astana. In 2018 we further strengthened our employer brand and delivered five key achievements that helped us stand out as Employer Brand both within and outside of Kazakhstan:

- › for three consecutive years we have been named the Most Attractive Employer in Kazakhstan in a report produced by Universum, the global leader in employer branding;
- › the HeadHunter's HR Brand Awards Central Asia 2018 recognised Air Astana with its highest award for our KC Recognition initiative;
- › our 'Digital Transformation of HR' project won the WOW!HR KZ Awards in the 'Digital Solutions' category which has been conducted in Kazakhstan for the first time, for which Air Astana has been also recognised by the Ministry of Labour;
- › we have become the first company in Kazakhstan to implement an electronic contract and paperless system for HR processes which can be integrated into governmental digital tool on line with Digitalisation Road Map of Kazakhstan;
- › together with our partners 'Words and Pictures' we became a finalist in the 2018 FEIEA Grand Prix for the entry CLASS 2 – Best Change Communication Strategy with the project, 'Imagine if...' related to the communication of new organisational strategy to employees.

Ab-initio pilot training programme

In 2018 we marked the 10th anniversary of the highly successful Ab-initio pilot training programme which we launched in 2008 to help alleviate a shortage of locally-qualified pilots, and provide an opportunity for young people to enter a well-paid profession with

a prestigious airline. In 2018, the number of applications through the Ab-initio programme increased by 74% compared to 2017. The programme continues to deliver qualified pilots with 178 already flying as Captains or First Officers on our fleet of A320s, B767s and E190s. 26 cadets are currently being trained under the Ab-initio training programme, with new cadets expected to be enrolled in April-May 2019. The Company intends to train 35-40 new pilots every year over the next five years.

Internship Programmes

In order to support governmental initiatives such as Zhas Orken and Digital Summer, which provides gifted local graduates with the opportunity to develop careers at Samruk Kazyna invested companies, Air Astana has successfully taken students from these programmes through its internship initiative to help them further their career prospects.

Since 2014 we have successfully run an Internship Programme within the Company. Following the programme's success in the Ground Services department, we continue to implement our Internship Programme across Finance, IT and e-Business, and Operations Control divisions. Overall, between 2014-2018, 360 interns have had the opportunity to work at Air Astana and 153 of them have been successfully employed.

Diversity and equality

Air Astana recognises the value of a truly diverse workforce and is proud to provide equal opportunities for men and women of different ages and nationalities. We encourage cultural and professional exchange and consider our foreign colleagues to be a powerful asset for our Company. We value them for their unique international experience and contribution to the organisational culture, and to a diversity of cultures and opinions. In 2019 we plan to focus on three key areas:

- › further encourage diversity and support equality within the Company;
- › ensure that necessary tools and processes are in place to support a diverse and inclusive culture;
- › encourage and promote internal and external partnerships.

Attracting talent in numbers

32

job fairs and presentations in universities

10

events with school children and their parents dedicated to professional orientation (Cranfield, Robotics competition, Find your way, lessons.kz, et cetera.)

5

sessions on Enhanced Virtual Procedure Trainer (EVPT) with school children and students

>3,500

total number of participants in these events

Diversity and equality in numbers

- › more than 60% of our employees are women
- › 41% of all our top managers are women
- › more than 33% of all our employees are from diverse ethnic backgrounds



OPERATING RESPONSIBLY CONTINUED

OUR PEOPLE

Engagement

“Creating an engaging culture where we live our values, leading by example, caring for our colleagues and looking after their development, is key to maintaining our excellent employer brand and our management commitment to make Air Astana a great place to work.”

Yevgeniya Ni, Vice President, HR and Administration

We believe that employee experience and employee engagement are closely linked, and like other industry leaders we keep focusing on three key elements: Physical, Technological and Cultural Environment. We recognise that in order to build a sustainable and engaging culture we need to support and encourage dialogue between people to ensure we have a highly engaged team.

We realise that global trends such as workforce shifting, demographic changes, diversification of workforce, digitalisation et cetera, are already impacting on our business and we are ready to take these challenges and turn them into opportunities.

To improve our ability to understand employees, in 2018 we introduced our colleagues to a new engagement platform ‘KC Recognition’ that helps to personalise recognition and make it timely and transparent. This tool became popular among the Air Astana team and we consider it as a contribution to creating a culture of recognition within the Company and even outside of it.

We also continued developing KC App – a mobile application that improves communication, helps employees share ideas and stay informed of the Company’s latest news and initiatives.

These initiatives were reflected positively in the consecutive employee engagement survey, carried out in cooperation with the US polling company Gallup. The 2018 survey, which involved 1,462 employees, revealed that

employee engagement has a positive trend. This result testifies to the effectiveness of our Company’s initiatives to foster an improved corporate culture.

Reward

Air Astana aims to provide fixed and variable pay, and short and long-term benefits (including insured benefits) that are affordable, competitive in the marketplace, performance-led and flexible.

Since 2016 we operate a corporate pension plan for all employees based in Kazakhstan. The purpose of the initiative is to retain key employees and to instill a responsible attitude among employees towards their personal financial security. Under the plan, every employee contributes 5% of their income on a monthly basis, which we match over the first 10 consecutive years of their service. After 10 years of service, our contribution increases. In certain circumstances an employee may withdraw the entire amount of their pension benefits, comprising all contributions paid by the employee and the Company plus accrued investment income.

We offer all of our employees the following benefits package:

- › health and medical insurance;
- › loss-of-licence insurance for pilots;
- › 50-90% discounts on flights with Air Astana or partner airlines;
- › access to a corporate bus for commuting to and from work;
- › coverage of communications costs;
- › gym discounts;
- › discounts in restaurants, bars and hotels.

Developing talent

Air Astana focuses on the development of business leaders and, in collaboration with the Cranfield School of Management, continued to provide training programmes for top managers. We believe that a strong management team is a one of the key factors of organisational success.

In 2018 we made good progress in developing the Air Astana Training Academy in line with our three-year plan to establish a strong brand and Centre of Excellence within our Company, and for the broader aviation industry. Our core objectives are:

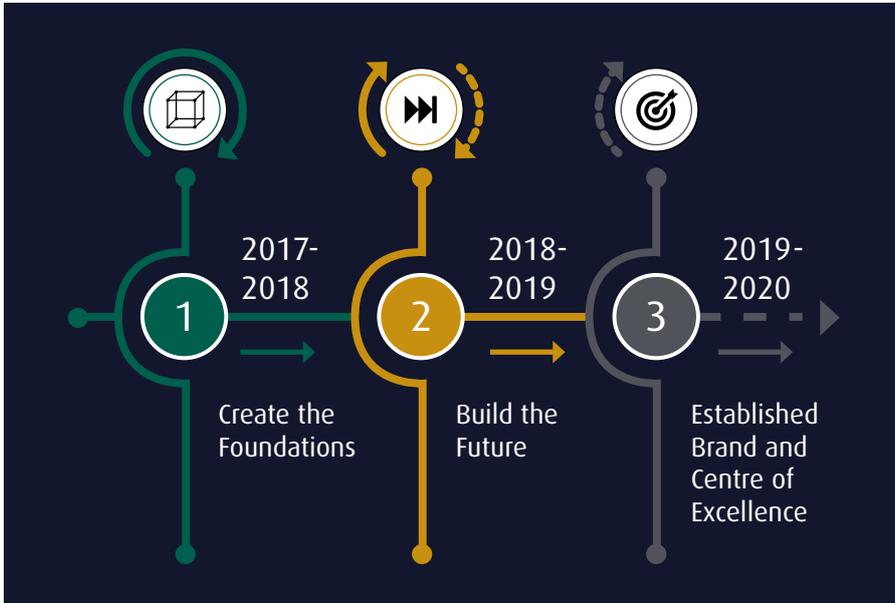
- › to build a professional and innovative training centre;
- › to cultivate a centralised and standardised training methodology;
- › to develop our trainer talent.

Established in 2015, the Academy consolidates all corporate operational training under one umbrella and now trains aviation professionals across the board, including pilots, flight attendants, engineers and other civil aviation professionals at a level compliant with EASA standards.

During 2018 all of our training departments were consolidated under the Academy. We continued to focus on developing our strategy to turn our Training Academy into a centre of excellence for learning and development. Our vision is to build a professional and innovative training centre that takes Air Astana to the next level by focusing on four core pillars: commercial and financial growth, standardisation and simplification, product innovation and trainer development. The goal is for the Academy to apply a standardised training methodology throughout every one of our Company’s various departments.

In line with our policy to develop the skills and knowledge of our employees, in 2018 we continued to deliver training and successfully launched some new corporate, recruitment and trainer programmes to further promote and motivate leadership and increase productivity. This included a number of departmental projects In-flight Operations, In-flight Service, Sales and Marketing, Ground Services and Finance. E-learning and systems development is a core element of the Training Academy strategy in both 2018 and 2019. By focusing on e-learning Training Academy focuses on simplification, customisation, self-learning and employee engagement in learning.

Training Academy development timeline



Planning talent

The industry is growing and changing at a rapid pace. Great emphasis is put on identifying leadership talent in advance, so that selection becomes a key member of a management team in due course. Together with operational and financial effectiveness, we need to ensure leadership sustainability. The importance of succession planning is crucial and we realised it in 2006, when ‘planning for staff development and succession at all levels’ was implemented.

This year, we formalised this process into a separate stream of activities – as is best practice. We have only started working on this at the top level and we are planning to cascade it down shortly to all management and critical roles in the organisation in order to establish a sustainable succession planning culture.

We are running the Air Astana Talents programme which aims to identify and develop future leaders among non-management staff. This is an opportunity for our colleagues to try themselves and fulfil their potential.

The results of the previous two programmes are excellent, as we retained and promoted 70% of participants.

Our workforce planning process and talent sourcing processes, along with education and training programmes, assist us in attracting diverse talent and ensuring that we are able to identify and develop those individuals with the motivation and capability to transition into more senior roles. Our leadership takes responsibility for the achievement of our diversity strategy and acts as role models in promoting a workplace culture that values diversity and inclusivity.

Human rights

Air Astana is committed to protecting human rights. This includes observance of the principles set out by the International Labour Organisation Declaration on Fundamental Principles and Rights at Work. The Company has a Business Ethics Code and also follows the Labor Code of the Republic of Kazakhstan. It also has in place other policies which support recognised human rights principles, including on non-discrimination, health and safety, whistleblowing and prevention of bribery and corruption.

Anti-bribery and whistleblowing

Air Astana is committed to conducting its business with honesty and integrity, qualities it expects of all employees.

We have developed a new Whistleblowing Policy and in addition to existing reporting channels arranged for employees, an independent third-party operator will provide a telephone, e-mail and web-based reporting capability during 2019 to ensure the anonymity of whistleblowers.

Employees are encouraged to raise genuine concerns under the new policy and any concerns raised are investigated carefully and thoroughly to assess what action, if any, should be taken.

In 2019 we have also developed our new Anti-corruption Policy to ensure that compliance with both national and international regulation is achieved. Any breach of the policy will be regarded as serious misconduct, potentially justifying immediate dismissal.

Modern slavery

We recognise all human rights as defined in the Universal Declaration of Human Rights and are committed to ensuring that working practices in our operations and supply chain do not infringe on these rights. As an international airline, we believe that organisations operating in the transportation sector should not be complacent about the risk that some form of modern slavery could exist in some part of their supply chains or business. We have policies and procedures in place aimed at preventing modern slavery and we encourage employees and contractors to report any instances or suspected occurrences of modern slavery or human trafficking.

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>1</p> <p>The risk of an aviation accident</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>2</p> <p>The risk of an insufficient number of qualified pilots</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>3</p> <p>The risk of non-provision of high quality service in accordance with service standards</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>3</p> <p>The risk of non-provision of high quality service in accordance with service standards 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>4</p> <p>The risk of cyber-attacks and system failures</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>5</p> <p>The risk of increase of fuel expenses</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>6</p> <p>The risk of an inability to develop a profitable route network plan</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>7</p> <p>The risk of an insufficient number of key management staff</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.