



FROM THE HEART OF EURASIA

# ANNUAL REPORT 2015



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# AIR ASTANA AT A GLANCE



## ABOUT AIR ASTANA

*Air Astana, the flagship carrier of Kazakhstan, is a fast-growing international airline with a world-class track record of safety and technical expertise. We are a joint venture between the Sovereign Wealth Fund "Samruk-Kazyna" (51%) and the UK's BAE Systems (49%). We are a full member of the International Air Transport Association (IATA) and the first Kazakhstani carrier to have Part 145 certification to perform aircraft maintenance from the European Aviation Safety Agency (EASA). We are an IATA Operational Safety Audit (IOSA) accredited airline. Air Astana has achieved a 4-star Skytrax rating for four consecutive years and we were the first carrier in Eastern Europe and the CIS to achieve this rating. In 2015, we were named the Airline Market Leader of the Year at the 41st annual Air Transport World Awards.*

## OUR MISSION

From the Heart of Eurasia we are building one of the finest airlines in the world.

## OUR GOALS

- We implement the highest safety standards.
- We are and must be the most reliable airline in the region with the highest standards of customer service.
- We profitably grow and improve our fleet, route network and product.
- We work to the highest standards of integrity and business ethics.
- We recruit, appraise and reward staff based on merit and enable them to develop to their maximum potential.
- We are a socially responsible organisation.
- We are a global ambassador for Kazakhstan.

## OUR VALUES

### Hospitable

We treat every person with whom we come into contact, customer or colleague, as a guest. We are warm, friendly and tactful, always willing to help.

### Efficient

We are professional people who produce high quality results with knowledge and style. We maximise our skills and use our time efficiently.

### Active

We anticipate and respond to the needs of customers and colleagues. We do things to the very best of our ability and are always looking for ways to improve.

### Reliable

We produce reliable and consistent quality in all of our activities. We always keep our promises.

### Trustworthy

We are honest people who never compromise our integrity. Customers and colleagues can trust us.





# HIGHLIGHTS OF 2015

## FINANCIAL HIGHLIGHTS

### REVENUES

**US\$761.7 million, down 19% year-on-year**

Revenues stood at US\$761.7 million, down from US\$934.8 million in 2014, primarily as a result of the devaluation of the tenge and broader macroeconomic conditions

### OPERATING PROFIT

**US\$33.1 million, down 66% year-on-year**

Operating profit fell to US\$33.1 million, down from US\$98.5 million in 2014

### OPERATING EXPENSES

**US\$728.7 million, down 13% year-on-year**

Operating expenses fell to US\$728.7 million, compared with US\$836.3 million in 2014, the result of strong cost controls and reduced local currency costs due to tenge devaluation

### NET PROFIT

**US\$48.7 million, up 151% year-on-year**

Net profit jumped to US\$48.7 million, compared to US\$19.5 million in 2014, due to a focus on costs, successful hedging of currency exposure and increased finance income

## OPERATIONAL HIGHLIGHTS

### PASSENGERS CARRIED

**3.86 million, up 2% year-on-year**

We set yet another record, carrying 3.86 million passengers in 2015, 2% higher than the 3.77 million carried in 2014, despite challenging market conditions

### PASSENGER LOAD FACTOR

**63%, down 2% year-on-year**

Passenger load capacity stood at 63% in 2015, compared to 65% in 2014

### CAPACITY

**12.4 billion available seat kilometres, up 6% year-on-year**

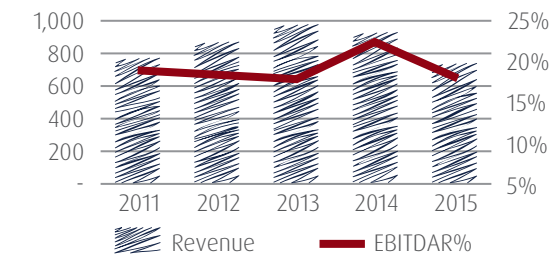
In 2015, available seat kilometres rose by 6% to 12.4 billion, compared with 11.7 billion in 2014

### CARGO

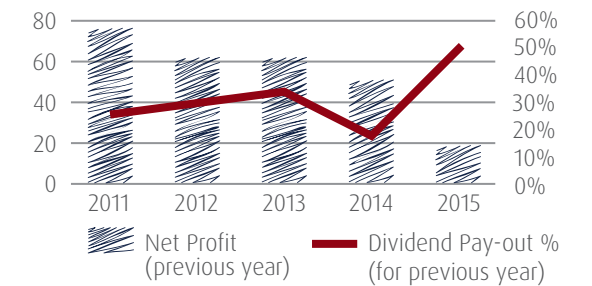
**16,639 tonnes**

Cargo, baggage and post carriage decreased by 12% to 16,639 tonnes in 2015, down from 18,960 tonnes in 2014

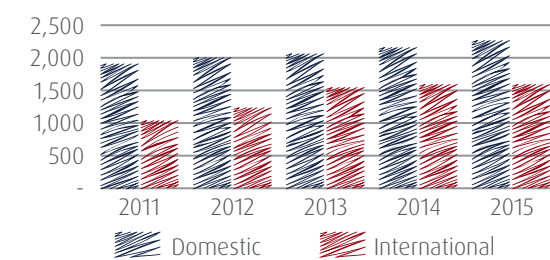
### REVENUE (\$MN) & EBITDAR (%)



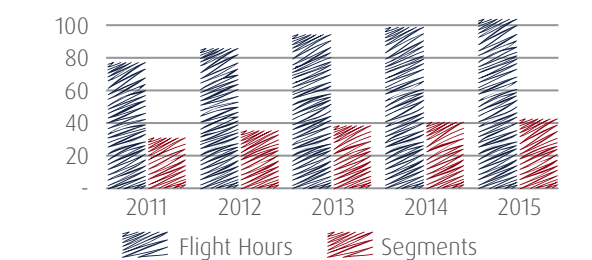
### NET PROFIT (\$MN) & DIVIDEND PAYOUT



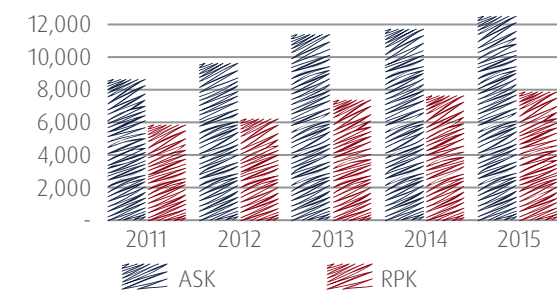
### PASSENGERS ('000)



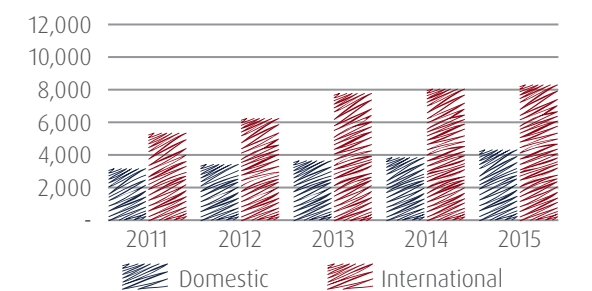
### FLIGHT HOURS & SEGMENTS ('000)



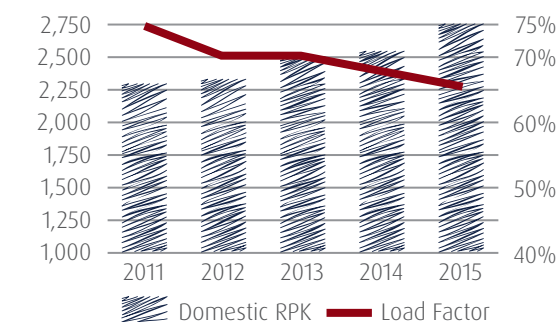
### ASK & RPK (MN)



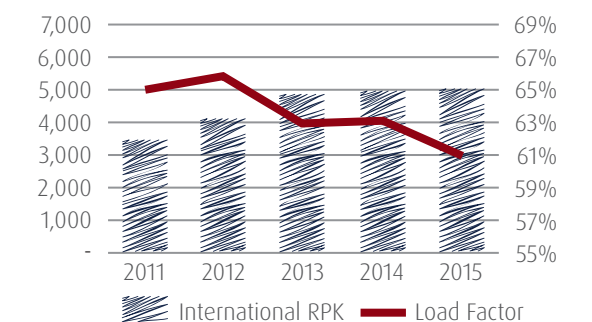
### ASK DOMESTIC & INTERNATIONAL (MN)



### DOMESTIC RPK (MN) & PLF



### INTERNATIONAL RPK (MN) & PLF





## 5-YEAR FINANCIAL &amp; OPERATIONAL HIGHLIGHTS

Profit & Loss ('000)	2011	2012	2013	2014	2015
<b>Total revenue</b>	<b>772,883</b>	<b>875,075</b>	<b>966,904</b>	<b>934,780</b>	<b>761,747</b>
Domestic	298,511	332,746	346,137	317,132	244,466
International	459,520	527,075	600,356	597,491	501,920
Other	14,852	15,254	20,411	20,157	15,361
Fuel	(178,569)	(246,820)	(280,007)	(252,108)	(165,263)
Employee & crew	(126,840)	(131,578)	(138,566)	(130,370)	(113,332)
Other operating costs	(398,192)	(420,515)	(476,117)	(453,811)	(450,094)
<b>Operating Profit</b>	<b>69,282</b>	<b>76,162</b>	<b>72,214</b>	<b>98,491</b>	<b>33,058</b>
<b>Profit before tax</b>	<b>77,444</b>	<b>79,221</b>	<b>64,925</b>	<b>27,433</b>	<b>62,294</b>
<b>Income tax expense</b>	<b>(16,184)</b>	<b>(18,145)</b>	<b>(13,561)</b>	<b>(7,980)</b>	<b>(13,553)</b>
<b>Effective tax rate (%)</b>	<b>21%</b>	<b>23%</b>	<b>21%</b>	<b>29%</b>	<b>22%</b>
<b>Net Profit</b>	<b>61,260</b>	<b>61,076</b>	<b>51,364</b>	<b>19,453</b>	<b>48,741</b>
<b>EBITDAR</b>	<b>146,857</b>	<b>160,273</b>	<b>173,657</b>	<b>206,863</b>	<b>137,710</b>
<b>Dividends paid</b>	<b>19,398</b>	<b>18,204</b>	<b>21,120</b>	<b>8,517</b>	<b>7,897</b>
<b>Pay-out as % previous year Net Income</b>	<b>25%</b>	<b>30%</b>	<b>35%</b>	<b>20%</b>	<b>50%</b>
<b>Balance Sheet ('000)</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>
Cash & equivalents	32,137	123,527	128,097	185,613	210,723
Inventories	29,151	42,760	55,247	48,890	30,245
Prepayments	31,776	21,256	49,214	26,254	15,871
Guarantee deposits	1,410	1,585	5,146	1,034	28,398
Trade receivables	35,119	46,322	32,706	42,045	20,880
Other	8,356	5,969	13,609	22,029	8,319
<b>Total Current Assets</b>	<b>137,949</b>	<b>241,419</b>	<b>284,019</b>	<b>325,865</b>	<b>314,436</b>
Property, plant & equipment	34,101	229,897	562,856	536,737	269,845
Intangible assets	3,152	2,593	2,139	1,388	693
Prepayments for long-term assets	68,666	95,053	23,798	11,401	10,351
Guarantee deposits	17,302	17,601	12,799	10,861	15,398
Bank deposits	117,523	-	-	-	-
Other non-current assets	7,984	-	5,448	3,270	3,031
<b>Total Non-Current Assets</b>	<b>248,728</b>	<b>345,144</b>	<b>607,040</b>	<b>563,657</b>	<b>299,318</b>
Loans & financial leases	-	28,274	45,752	40,069	40,640
Provision for maintenance	16,220	16,712	16,049	6,092	16,496
Trade payables	52,576	53,040	50,129	56,202	36,752
Deferred revenue	61,075	57,440	63,240	51,818	32,876
Other	793	280	266	10,300	180
<b>Total Current Liabilities</b>	<b>130,664</b>	<b>155,746</b>	<b>175,436</b>	<b>164,481</b>	<b>126,944</b>
Loans & financial leases	-	140,489	382,887	415,358	375,789
Provision for maintenance	12,086	4,132	7,098	16,982	31,379
Deferred tax liability	-	3,515	18,120	23,104	-
<b>Total Non-current Liabilities</b>	<b>12,086</b>	<b>148,136</b>	<b>408,105</b>	<b>455,444</b>	<b>407,168</b>
<b>Total Equity</b>	<b>243,927</b>	<b>282,681</b>	<b>307,518</b>	<b>269,597</b>	<b>79,642</b>
Working capital (WC)	7,285	85,673	108,583	161,384	187,492
Net debt/(net cash)	(149,660)	45,236	300,542	269,814	205,706
Invested capital	237,017	463,036	762,962	703,909	403,031
Capital expenditure	13,323	205,326	369,457	109,030	19,804

Operating costs % of total	2011	2012	2013	2014	2015
Fuel	25%	31%	31%	30%	23%
Employees & crew	18%	16%	15%	16%	16%
Engineering	12%	9%	9%	9%	13%
Handling	12%	12%	13%	13%	14%
Passenger service	10%	10%	10%	10%	11%
Selling	8%	6%	5%	5%	5%
Lease & depreciation	11%	11%	12%	14%	15%
Other	4%	4%	3%	3%	3%
Operating margin	9%	9%	7%	11%	4%
EBITDAR % of revenues	19.0%	18.3%	18.0%	22.1%	18.1%
WC % of revenues	0.9%	9.8%	11.2%	17.3%	24.60%
Net debt/(equity)	(61%)	16%	98%	100%	258%
RoE	27%	23%	17%	7%	28%
RoIC	34%	22%	12%	13%	6%
<b>Operating data</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>
Passengers ('000)	3,057	3,245	3,675	3,770	3,862
% growth	19%	6%	13%	3%	2%
Domestic	1,959	1,986	2,118	2,184	2,281
International	1,099	1,259	1,557	1,586	1,581
Transit	57	88	185	202	186
Cargo, mail & excess baggage (tonnes)	19,692	22,076	23,810	18,960	16,639
Segments	32,221	34,634	38,891	40,218	42,408
Passengers per segment	95	94	94	94	91
Flight hours	79,006	84,501	96,344	98,982	104,509
Avg sector length (km)	1,906	1,972	2,028	1,906	1,919
Fleet (avg. number of aircraft)	23.6	25.3	26.6	30.4	30.0
Fleet average age (years)	11.2	8.2	6.4	5.5	6.8
ASK ('000)	8,507,991	9,467,058	11,395,698	11,668,440	12,417,309
% growth	14.1%	11.3%	20.4%	2.4%	6.4%
Domestic	3,086,211	3,279,190	3,548,688	3,709,008	4,172,806
International	5,421,781	6,187,868	7,847,010	7,959,432	8,244,503
RPK ('000)	5,828,398	6,397,846	7,452,866	7,549,907	7,779,756
% growth	14.7%	9.8%	16.5%	1.3%	3.0%
Domestic	2,302,900	2,333,928	2,519,159	2,574,602	2,774,454
International	3,525,498	4,063,918	4,933,706	4,975,306	5,005,302
Load factor	69%	68%	65%	65%	63%
Domestic	75%	71%	71%	69%	66%
International	65%	66%	63%	63%	61%
RTK ('000)	587,978	651,580	752,922	747,719	761,891
Revenue per Passenger (US\$)	253	270	263	248	197
Net profit per passenger (US\$)	20	19	14	5	13
ASK Yield (US¢)	9.1	9.2	8.5	8.0	6.1
Operating costs per ASK (US¢)	8.3	8.4	7.9	7.2	5.9
RPK Yield (US ¢)	13.3	13.7	13.0	12.4	9.8
Employees (average)	3,358	3,750	4,069	4,356	4,583

Note: statistical data exclude charter flights



## KEY EVENTS OF 2015

### January

The airline becomes the first Kazakhstan airline to install check-in kiosks, with the first terminals installed in Shymkent.

### February

Air Astana launches its innovative lie-flat Economy Sleeper Class product on Boeing 757 services to Europe.

We are named Airline Market Leader of the Year at the 41st Annual Air Transport World Awards, making us the youngest airline to ever win such prestigious recognition.

### March

Air Astana receives the CIS Business Leader Award at International Economic Forum of CIS Member States held in Moscow.

We launch our three-times weekly service from Astana to Paris, expanding our Western European network.

### May

Air Astana opened a training centre for engineers in Almaty, with certification to EASA P147 standards by both the Kazakhstani and European aviation authorities, and training in 26 disciplines.

### June

Air Astana named best airline in Central Asia and India and has 4-Star rating re-affirmed in the annual Skytrax World Airline Awards.

### August

We announce a new codeshare agreement with Bangkok Airways, linking Air Astana's passengers with Thailand most renowned beach destinations.

Air Astana became the official airline of Astana EXPO-2017, a major international event covering the theme of Future Energy and expected to attract more than 2 million visitors to the nation's capital.

### September

Air Astana launches its innovative MyUpgrade tool, allowing economy class passengers to bid for business class seats on eligible flights, enhancing their travel experience and creating a new source of revenue for the airline.

### October

We re-launched four-times weekly service from Astana to Dubai.

### December

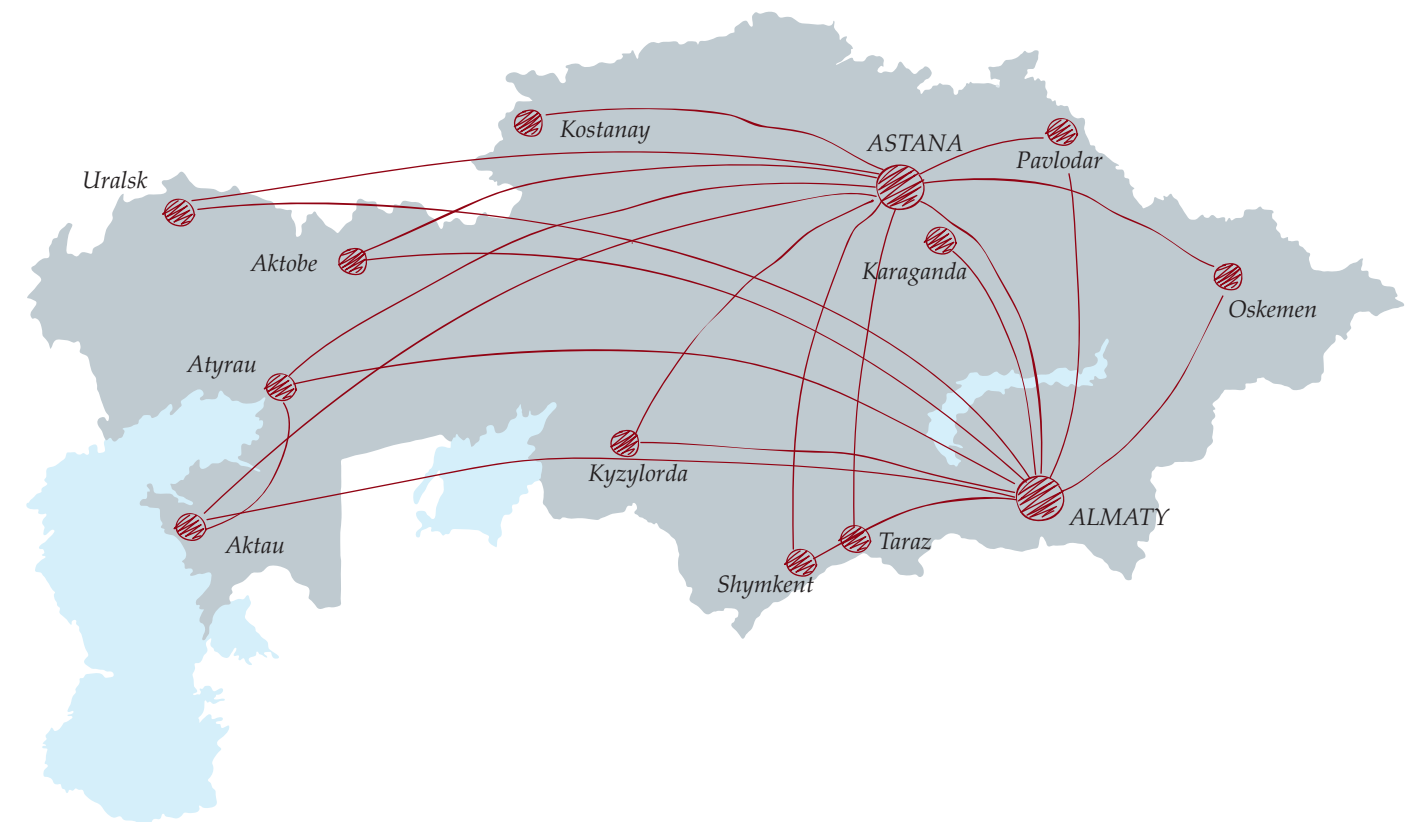
The European Commission removes Air Astana from a list of airlines limited from operating in the European Union, allowing the airline to expand its European flight network moving forward.



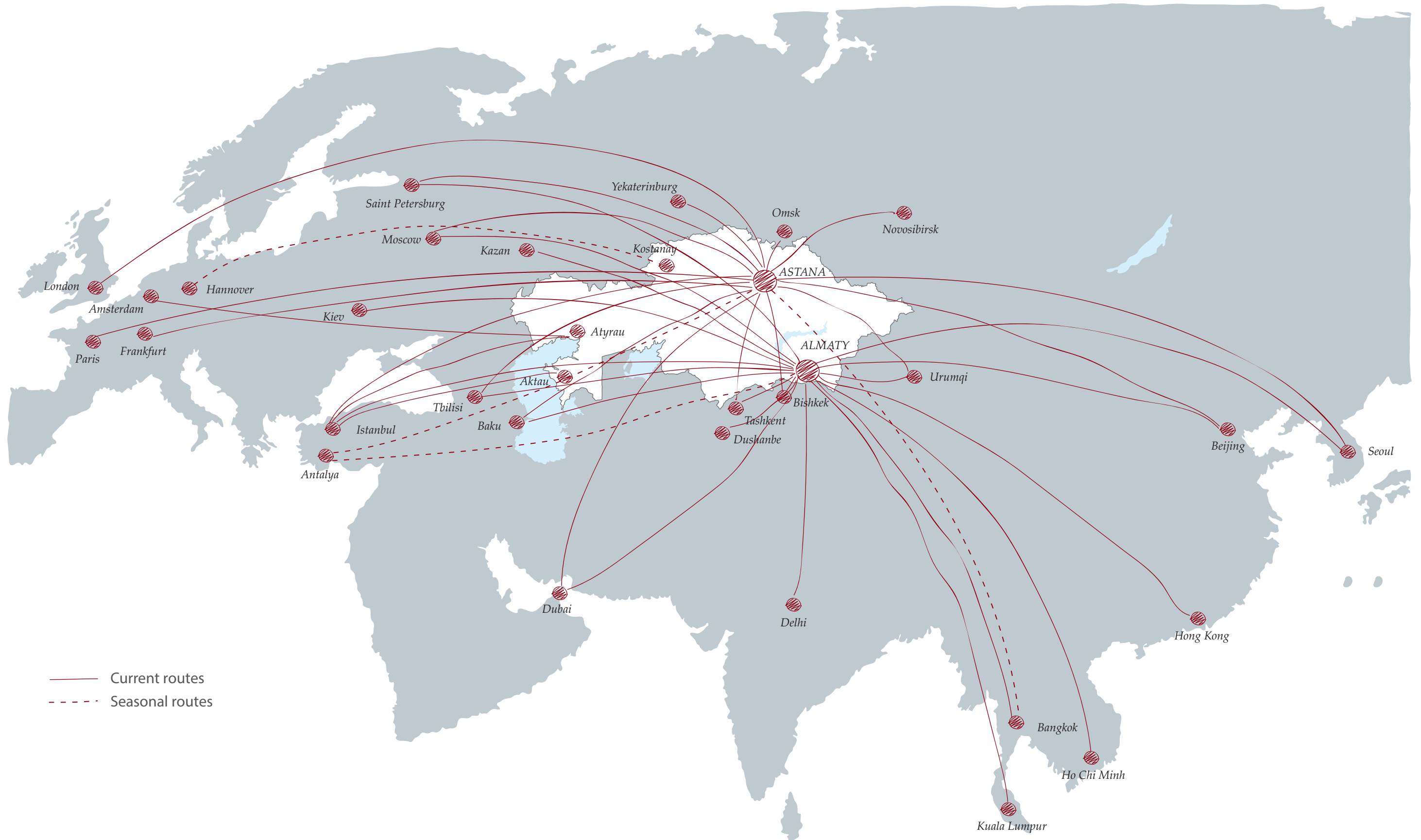
## OUR NETWORK



*In 2015, we served 21 domestic and 43 international routes, including four seasonal ones. In addition, we have code-sharing agreements with Air India, Asiana Airlines, Austrian Airlines, Bangkok Airways, Etihad, KLM and Turkish Airlines, as well as interline partnership agreements with more than 100 other carriers, allowing passengers to choose from over almost 400 destinations worldwide. Following the reporting period, in early 2016 we announced code-sharing agreements with Air France and Hong Kong Airlines.*







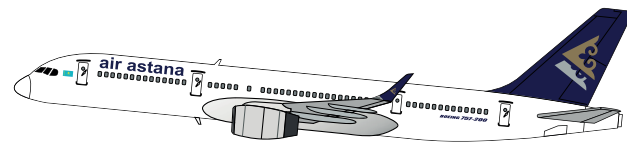
## OUR FLEET








Air Astana operates a modern fleet of 30 Western-manufactured aircraft and plans to expand this to more than 35 by 2020. Air Astana has a proven track record of safety and expertise. We are an IOSA

registered airline and also belong to the IATA Fuel Quality Pool (IFQP), a group of airlines that actively share fuel inspection reports and workloads at locations worldwide.

### BOEING 757

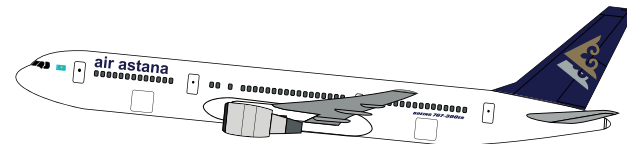
Operates on long haul international and domestic routes










-  Quantity **5**
-  Cruise speed **870 (km/h)**
-  Max. take off weight **115,666 (kg)**
-  Range **7,222 (km)**
-  Economy class **150 (seats)**
-  Business class **16 (seats)**
-  Crew **2 (pilot)**

### BOEING 767

Operates on long haul international and domestic routes










-  Quantity **3**
-  Cruise speed **850 (km/h)**
-  Max. take off weight **184,612 (kg)**
-  Range **11,070 (km)**
-  Economy class **190/193 (seats)**
-  Business class **30 (seats)**
-  Crew **2 (pilot)**

### EMBRAER 190

Operates on short and medium haul international and domestic routes










-  Quantity **9**
-  Cruise speed **890 (km/h)**
-  Max. take off weight **50,300 (kg)**
-  Range **4,500 (km)**
-  Economy class **88 (seats)**
-  Business class **9 (seats)**
-  Crew **2 (pilot)**

### AIRBUS A319

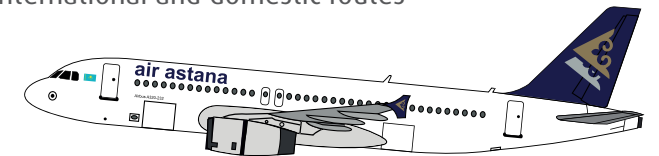
Operates on short haul international and domestic routes










-  Quantity **1**
-  Cruise speed **900 (km/h)**
-  Max. take off weight **64,000 (kg)**
-  Range **6,850 (km)**
-  Economy class **114 (seats)**
-  Business class **12 (seats)**
-  Crew **2 (pilot)**

### AIRBUS A320

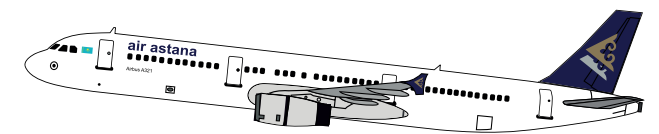
Operates on short and medium haul international and domestic routes










-  Quantity **8**
-  Cruise speed **870 (km/h)**
-  Max. take off weight **77,000 (kg)**
-  Range **6,150 (km)**
-  Economy class **132/151 (seats)**
-  Business class **16/28 (seats)**
-  Crew **2 (pilot)**

### AIRBUS A321

Operates on short and medium haul international and domestic routes



-  Quantity **4**
-  Cruise speed **870 (km/h)**
-  Max. take off weight **89,000 (kg)**
-  Range **5,950 (km)**
-  Economy class **147/151 (seats)**
-  Business class **28 (seats)**
-  Crew **2 (pilot)**







CHARYN CANYON







*Welcome to Kazakhstan!*

Kazakhstan is located in the heart of Eurasia. The first acquaintance with our homeland starts on board Air Astana's aircraft. The country's image begins with us.

WELCOME ON BOARD AIR ASTANA!



# STRATEGIC ACHIEVEMENTS AND OUTLOOK

## OUR STRATEGY

- The Strategy of Air Astana for 2011-20 was approved by the Shareholders in January 2011 and remains our development roadmap with the five-year business plan updated annually.
- We seek to continue to grow profitably, enhancing our position as the regional leader in Central Asia.
- Air Astana operates modern aircraft – notably the Embraer E190, the A320 family, the B757 and the new B767 – and plans to introduce the Boeing 787 Dreamliner. These aircraft provide us with the most modern fleet in the region.
- We forecast total passenger traffic to grow to over 5.8 million passengers in 2020.
- Air Astana has become the benchmark airline in the region, with cutting-edge distribution and revenue management systems, web site, and corporate application and management information systems and we are committed to maintaining this status.
- We are developing a heavy maintenance engineering capability with extensive workshop facilities, enabling us to carry out major aircraft maintenance in-house, provide a centre of excellence in the region, and allow us to maintain similar types of aircraft for other airlines.
- The Ab-Initio pilot training programme is creating a pool of a highly qualified and experienced Kazakhstani pilots comparable with that of any major international operator.
- Air Astana is at the forefront of human resources and personnel development. The Company is recognised throughout Kazakhstan and by its own employees as being a first-class employer that applies best international practices in management and invests in continual training to develop the potential of all of its employees.
- Air Astana is recognised as having a corporate governance system that meets international best practices and seeks to maintain and enhance this system.
- The airline has an excellent safety system and record, and it will continue to develop this in all parts of our business operations.

# STRATEGIC ACHIEVEMENTS IN 2015

## Air Astana Freed from all Restrictions on Flying to the EU

Air Astana saw all restrictions on flying in the European Union lifted and we continued to demonstrate that the airline has safety systems and procedures fully consistent with international standards, allowing us to expand our network in Western Europe.

## Made a Decision on Replacing the Boeing 757 Fleet

Last year we entered into an agreement to acquire 11 Airbus A320 NEO aircraft, for delivery beginning in 2016 and through 2019. This purchase will, in part, replace our ageing Boeing 757 fleet, aircraft we use principally on international routes. The introduction of the A320 NEO will make our already young fleet younger, more reliable and fuel-efficient.

## Development of Maintenance Capacity

During 2015, we maintained a technical dispatch reliability rate of 98%. To ensure continued leadership we began construction of a new, state-of-the-art Maintenance Centre in Astana allowing us to enhance significantly our in-house maintenance capabilities. Last year we also obtained EASA Part 145 Base Maintenance approval.

## Maintained Our Skytrax 4-Star Rating

A key indicator of our world-class service delivery, Air Astana was the first carrier in Eastern Europe and the CIS to receive this award in 2012. We won the 4-Star rating at the Skytrax World Airline Awards for a fourth straight year 2015, with the rating based on passenger experience across business and economy classes. Air Astana was also named Best Airline, Central Asia and India, and Best Airline Staff Service, Central Asia and India for the third year running. We also won Air Transport World airline of the year, underlining our ability to compete on a global level.

## Continued Technological Leadership

We obtained approval for our Electronic Flight Bag system on Boeing and expect to deploy on Boeing and Embraer in 2016, enhancing information flow and reducing waste. Air Astana's website remained the number one e-commerce site in Kazakhstan again in 2015 and we launched a new, more intuitive booking engine to enhance customer experience and deliver more travel and fare options. We also launched check-in kiosks at several Kazakhstani airports using our own, in-house technology.

## Developed In-house Training

Last year, we also completed our project to establish a world-class technical training school in Almaty. We obtained EASA Part 147 certification and Civil Aviation Committee training approval for the school. In the meantime, our Ab-Initio programme prepared its first graduates to receive captain's stripes in 2016.

## STRATEGIC GOALS FOR 2016

### Manage the Challenging Macroeconomic Environment

Air Astana has taken a number of measures to manage the devaluation of the tenge and other challenges posed by the macroeconomic situation in domestic and CIS markets. Hedging policies represent one immediate measure. We have also focused on growing our international transit traffic, successfully growing non-CIS traffic and plan to launch new routes to Tehran and Ulan Bator that will drive both direct and transit traffic. We have developed products such as Air Astana holidays to grow US-dollar traffic.

### Maintain EU Flight Ban Exemption

We will continue to work with European regulators to ensure our exemption from the ban on Kazakhstani carriers is maintained. We will also maintain our work with local regulators to achieve, over the longer term, to improve the compliance of all Kazakhstani carriers so that all of the country's airlines will be removed from the black list over the longer term.

### Develop our Maintenance Base

The continued development of our in-house maintenance capacity, through both investment in facilities and training, makes us both safer and more cost efficient by reducing the need to send aircraft abroad for servicing. We plan to complete construction of our new Astana Maintenance facility hangar in 2016.

### Continue Fleet Development

In 2016, we expect to take delivery of the first Airbus A320 series NEO aircraft. We are also preparing to take delivery of our first Boeing 787 aircraft by the end of the decade.

### Maintain and Improve Service Quality

We are committed to keeping and improving our Skytrax 4-Star rating for a fifth year running in 2016. We rely on continuous training of our front-line personnel and continued investment in our cabins, inflight entertainment systems, menus and other details that make the difference for our customers.





# LETTER FROM THE CHAIRMAN OF THE BOARD OF DIRECTORS



In 2015, Air Astana delivered another strong financial and operational performance despite considerable external challenges. The Company boosted profitability while maintaining an exemplary safety record. More broadly, Air Astana remained one of Kazakhstan's leading, innovation driven companies, strengthening the local economy through tax contributions, enabling commerce as well as the transfer of technology and best practices.

Since the airline's founding, Air Astana has helped drive a revolution in the Kazakhstani aviation market. Crucially, we have led this revolution without reliance on subsidies and have financed the purchase of 11 new aircraft without recourse to additional state or shareholders' funds or guarantees. In recent years, we have introduced a new generation of modern aircraft to domestic and international routes and have built an all-jet fleet of 30 aircraft and have plans to take additional aircraft deliveries through 2020 to expand our range and number of routes.

In addition to advanced Airbus, Boeing and Embraer jet aircraft, we have introduced state-of-the-art technology solutions such as the Electronic Flight Bag for flight crew and Crew Pads for cabin crew to eliminate waste and ensure more accurate and safe operations. Last year, we also began construction of a state-of-the-art maintenance base in Astana, backed by a loan from the European Bank for Reconstruction and Development, allowing us to service our own and third-party aircraft year round. It is also worth noting that our website, re-launched last year, is Kazakhstan's single largest e-commerce site.

Beyond technology, we are also investing in people. Our Ab-Initio initiative, a major training programme for local pilots, is due to graduate its first pilots in 2016. More than 80% of our flight crew are from Kazakhstan and we have developed a generation of talented and highly qualified flight and ground crew. Our cabin crew training is also world-class and allows us to deliver passenger experience that is second-to-none, in three or more languages.

Aided by these investments in equipment and people, Air Astana has turned Kazakhstan into an aviation hub for Eurasia, with growing transit traffic

linking Western Europe, Central Asia and East Asia. The decision last year by EASA to end restrictions on flights to the European Union represented a major step forward, and reflection of our sterling safety record, which, along with the launch of our Astana-Paris route, expands our ability to develop European direct and transit routes.

Similarly, the increase in frequencies to China, as well as destinations, allows us to further develop the enormous potential of this market. Just one example of the market's scale, the city of Urumqi and Xinjiang province have a population of approximately 22 million people.

But our success is about more than our success in opening and maintaining routes, it is the result of a relentless focus on safety and passenger experience. As flag carrier, we have insisted on a consistent world-class level of customer service on board, on the phone and in our ticket offices, earning the airline an unprecedented 4-Star Skytrax rating for four straight years.

We have also proven to be global innovators, catching international attention with the launch of our unique lie-flat Economy Sleeper product launched in 2015. It has proved to be a hit with passengers and gained the attention of the global aviation industry focused on a fast-growing carrier from Central Asia.

Our commitment to safety and efficiency also helped us deliver an 89.9% on-time rating, an impressive result given the challenging winter months. Notably, this high level of service, reliability and safety is accompanied by some of the lowest unit costs of any airline in the world, allowing us to keep our fares competitive, even in challenging economic times, and

maximising the profitability and sustainability of our business over the long term.

I believe we have a major role to play in helping to fulfil one of President Nursultan Nazarbayev's 100 Steps Towards a New Nation announced in spring 2015. These steps acknowledge that, in the face of strong macroeconomic headwinds and multi-year low market prices for oil and gas, the country's future prosperity require the acceleration of modernisation. It is fitting that one of these steps includes the upgrading of the country's civil aviation infrastructure and regulation.

In line with Kazakhstan's commitment to modernisation and economic diversification, Air Astana became a sponsor and the official airline of EXPO-2017 in Astana. The theme of the exposition is Future Energy and its role in developing a diversified and sustainable economy. I believe our participation reflects our commitment to reducing our own impact on the environment through new technology, as well as playing our part in building a more diverse economy.

The year 2016 promises to be a challenging one due to the macroeconomic situation in our domestic market and the broader CIS. I believe we can once again rise up and overcome these challenges because of the strength of our organisation and our lean operational model. More broadly, I also see that Kazakhstan's liberalised economy and position at the heart of Eurasia will help ensure her long-term prosperity.

On behalf of the Board of Directors and the shareholders, I would like to thank the entire Air Astana team for their hard work and the progress achieved in 2015.

**Yours faithfully,  
Nurzhan Baidautov**



## LETTER FROM THE PRESIDENT & CEO



Bottom line figures of a profit after tax of US\$48.7 million and net margin of 6% reveal a substantial recovery from 2014, for which the corresponding figures were US\$19.5 million, and 2% respectively. Notwithstanding a mid-year change in currency hedging policy, the performance reflects the fact that the airline was able to rise to some significant

challenges this year, which I shall discuss in detail below.

Total airline revenue fell by 19% from US\$934.8 million in 2014 to US\$761.7 million. The main reason for this was, of course, the decision in August by the Kazakhstan Central Bank to allow the Kazakh tenge to free float, as opposed to its previous policy of maintaining a fixed exchange rate to the US dollar, through direct intervention in currency markets where necessary. Whilst there is no question that this was the correct decision, in light of oil price and neighbouring country currency weakness (in particular that of the Russian ruble), the fact that it happened so late in the recessionary cycle probably exaggerated the downside effect on the tenge, which at one point more than halved in value. Air Astana generates more than 60% of its sales in tenge and therefore dollar-denominated revenue unavoidably suffered an immediate and steep fall. This was exacerbated by a fall in demand, caused by market uncertainty and reduced relative spending power of Kazakhstan residents travelling overseas.

Revenue loss was largely mitigated by a drop in unit cost, principally a result of lower tenge costs, approximately 30% of the total, and reduced jet fuel bills. Fuel for all airlines represents the single greatest expense, typically between 25% and 40% depending on the prevailing price, and is considered a US dollar cost given the pricing currency of its source commodity. In most countries to which Air Astana flies, fuel and oil prices are directly linked through a fixed formula, however this is not the case in Kazakhstan and much of the CIS. Although Kazakhstan represents 70% of our fuel uplift, because there is no formal oil price/fuel price linkage, contracts have to be individually

negotiated with refineries on a monthly basis, including transport to, and storage at, local airports. In the past airport monopoly suppliers dictated fuel prices to all airlines, often at comparatively highly inflated levels, and this remains the case for foreign airlines operating to Kazakhstan, however in 2009, Air Astana persuaded the government to allow direct negotiations with refineries. Our fuel management team has taken full advantage of this to negotiate very competitive prices from both Kazakhstan and regional refineries, and our success in 2015 owes much to their excellent work.

In terms of both operations and service levels, 2015 was another successful year. Punctuality improved to 89.9%, our highest ever. Having joined the Association of Asia Pacific Airlines (AAPA) in late 2014, it was interesting to record our first full-year punctuality comparison with many of the finest airlines in the world, and I am pleased to say that Air Astana ranked third, just behind Singapore Airlines and Japan Airlines. At the Skytrax Global Airline Service Awards at the Paris Air Show in June, we were awarded “Best Airline, Central Asia and India” and “Best Staff Service, Central Asia and India” for the fourth and third consecutive years respectively. We successfully launched new flights between Astana and Paris, Seoul, Bangkok and Tbilisi, and increased frequencies on many domestic and regional routes. At the Paris Air Show we announced the acquisition of 11 Airbus NEO aircraft for delivery between 2016 and 2020, including a fleet A321 Long Range NEOs, which will replace the Boeing 757s in 2019. The first A320 NEO will be delivered in September 2016 and will be powered by PW1100G geared turbofan engines, which we expect will save up to 12% of CO<sub>2</sub> emissions in comparison with the present A320 Classics.

I referred earlier to unit cost savings. Our unit cost for the year was US\$ 5.9 per Available Seat Kilometre (ASK). This makes easily us one of the most cost-efficient full service airlines in the world, with unit costs lower even than some well-known Low Cost Airlines, notwithstanding the greater complexity and structural cost of operating a multi-class multi-fleet airline. However, cost savings alone cannot drive long-term success in an industry where cost increases, be they airport, navigation, staff, fuel, aircraft or capital, are inevitable. Regional economic weakness is a fact of life and likely to remain so for some time, therefore it is essential that we develop what we call our “extended home market” to generate more transit business through our Astana and Almaty hubs. If we are able to leverage our low cost base to profitably generate more network business, our relative dependence on regional markets will be reduced. Redesign and redevelopment of the route and fleet structure are therefore orders of the day for 2016 and if we get these right, whilst maintaining our core strengths of high operational and service standards, our future will be bright indeed.

I would like to conclude as ever by thanking customers, shareholders, partners in government, and of course my colleagues, for their usual dependable support. In October, I marked ten years in this job, though I am far from being the longest-serving member of the management team, let alone of the wider airline. It is this rock-solid stability that is the absolute foundation of Air Astana’s success.

**Yours faithfully,  
Peter Foster**







KAYINDY LAKE







*Kazakhstan is a country of unique natural phenomena that surprise the traveler with their beauty and incredible combinations. These are mountain peaks covered with ice, at the foot of which apple gardens lie; these are the clear, smooth waters of mountain lakes framed by spiny rocks; these are vast deserts with hot burning sun in the afternoon and a cold chilled air at night.*

Air Astana hopes you enjoy every moment of the flight with our hospitable service.

AIR ASTANA HAS THE BEST AIRLINE  
STAFF SERVICE IN CENTRAL ASIA AND INDIA



# OUR COMPETITIVE ADVANTAGES

*In 2015, we delivered another year of growth in passenger numbers despite economic headwinds, while significantly enhancing profitability and investing in the future of our business. We delivered solid results despite powerful macroeconomic headwinds in the Kazakhstani and broader CIS markets thanks to our competitive advantages.*

*Our key competitive advantages remain our highly efficient operations, including a young fleet and growing technical base, as well as the ability to tap the huge potential of our Extended Home Market to develop new passenger flows. We believe we have only just begun to develop the potential of geographic position at the heart of Central Asia.*

## Efficient Cost Structure

For an airline, costs are either fixed (i.e. aircraft, overheads), variable based on load factor (passenger and cargo volumes), or variable based on utilisation (number of flights and distance flown). Service-level based variable costs are harder to adjust and represent about 78% of total variable costs. A relentless focus on cost efficiency, without sacrificing service quality, has allowed us to maintain and enhance profitability in a challenging macroeconomic environment.

In 2015, Air Astana recorded operating costs per available seat kilometre (ASK) of US\$5.9, down from US\$7.2 in 2014. Revenue per revenue passenger kilometre (RPK) yield stood at US\$9.8, down from US\$12.4 a year earlier.

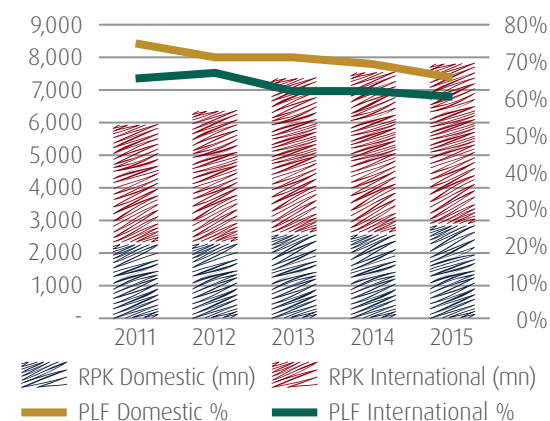
The airline's passenger load factor (PLF), which has remained relatively steady over the past five years, was 63% (66% on domestic routes and 61% on international routes) compared to IATA's estimate of 80.6% for the worldwide industry in 2015. Our effective cost controls translate to a much lower break-even load factor, a level at which many of our international peers could not sustain their profitability.

Air Astana uses the PROS Revenue Management System, which allows us to dynamically adjust pricing and capacity based on demand and the fares offered by competitors. This data and analytics driven tool helps ensure that we maximise revenues, and not just load factors.

## Our Marketplace

We operate in a global marketplace. This global market is cyclical but nonetheless demonstrates

## 5-YEAR RPK & PLF - INTERNATIONAL & DOMESTIC



Source: Company

long-term growth potential. In the short to medium term, the aviation market tracks the economic growth rate of countries and regions in which an airline operates. According to IATA, worldwide spending on aviation stood at US\$742 billion in 2015, equal to 0.97% of global GDP. Passenger departures grew 6.5% and revenue passenger kilometres (RPKs) grew by 6.7%.

Over the longer term, the market is expected to deliver growth, with Airbus predicting an average annual growth rate in global passenger numbers of 4.6% through 2034 and growth in RPKs in emerging markets of 5.8% over the same period.

In the short term, our major challenge is slower growth in our domestic market and the largest

CIS markets, including Russia and Ukraine. Slow growth in Russia, for instance, has hit transit traffic from Kyrgyzstan, Tajikistan and Uzbekistan as there are fewer expatriate workers going to Russia from these countries.

Nonetheless, over the longer term, the CIS retains enormous growth potential, with Airbus forecasting 4.9% average annual RPK growth over the next two decades in the CIS. In the meantime, China and the broader Asia-Pacific region are key drivers of the global aviation market. Airbus forecasts 5.7% average annual RPK growth in the Asia-Pacific region through 2034. Europe, another key market for us, is forecast to deliver 3.6% growth.

## Our Extended Home Market

Reflecting the enormous growth potential of our region, our Extended Home Market strategy, launched in 2011, has focused on targeting the underserved and fast-growing markets of Central Asia, southern Russia, the Caucasus and Northwest China, a region encompassing around 75 million people. The strategy is built on the ideal geographic location of Kazakhstan in the heart of Central Asia, providing both direct flights and a growing transit traffic business.

For instance, Urumqi and surrounding Xinjiang a relatively small province in Western China has a population of around 20 million, with Astana providing an ideal transit hub to destinations in the CIS and Western Europe. Last year we strengthened our Chinese business with an agreement with the

Chinese authorities allowing us to increase traffic rights and points.

Our geographical location allows for connecting flows between Asia and Europe using our narrow body fleet at both ends while any Asian or European carrier would need to operate the same route on wide-bodied aircraft. This provides Air Astana with a structural and unbeatable competitive cost advantage.

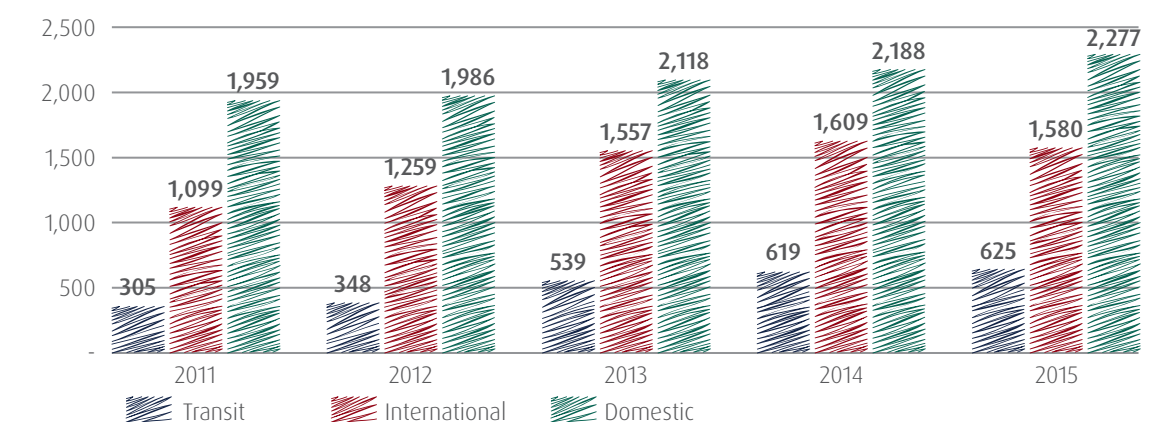
In 2015, we saw an overall decline in international transit traffic numbers, the result of external factors, namely the slowdown in the Russian and other CIS economies. However, if we exclude CIS traffic, we saw international transit traffic grow year-on-year, driven by new traffic flows in the second half of the year. In particular, transit traffic to China grew 11% year-on-year. Total transit traffic grew 1% year-on-year, a resilient result in challenging conditions.

## Our People and Service Offering

Despite our low unit costs, we are an international leader in customer service delivery. We have continued to grow our headcount as an organisation in the face of tough macroeconomic conditions, because we continue to grow as a Company, serving record passenger numbers and expanding internationally. We had more than 4,600 employees at the end of 2015.

Since day 1, we have invested in our people to deliver a world-class level of service on the ground and in the air. In 2015, following an audit, we retained our 4-Star Skytrax rating, underlining

## 5-YEAR GROWTH IN DOMESTIC, INTERNATIONAL & TRANSIT PASSENGERS ('000)



Source: Company; Transit includes domestic-to-international and international-to-international passengers utilising Almaty and Astana airports

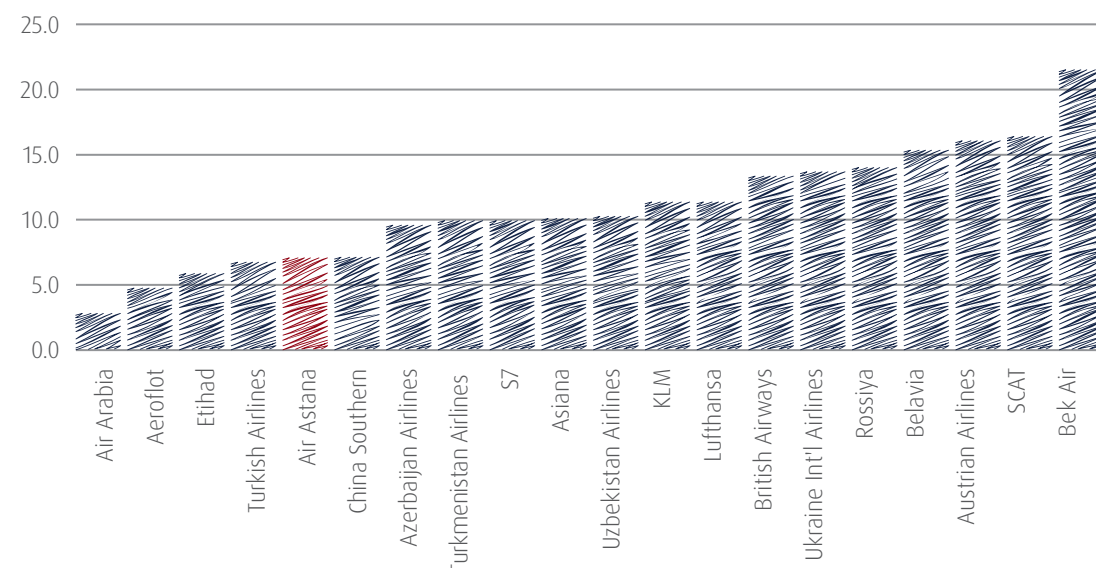
our reputation as an airline delivering service to the highest international standards. In addition, Air Astana has pioneered the HEART programme, a unique project that clearly outlines clearly understood values that should govern the actions of every employee and be reflected daily in their interactions with customers and colleagues, creating one of the best airlines in the world.

We have been pioneers in training a new generation of Kazakhstani pilots, through our Ab-initio training programme, which is due to graduate its first captains in 2016. We have also invested consistently in training technical personnel, hand-in-hand with investment in new technical facilities. These investments mean we have world-class technical crew to look after our aircraft, helping us reduce delays and the need to send aircraft abroad for servicing.

### Our Young and Efficient Fleet

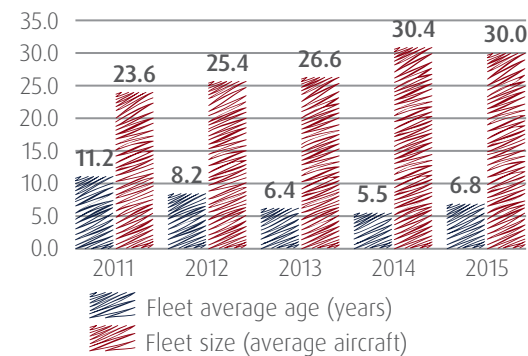
Air Astana has a fleet of 30 jet aircraft and, thanks to continued investment, one of the youngest and greenest fleets in the industry. Our fleet includes four different aircraft types suited to our route network and passenger volumes, with capacity ranging between 97 and 223 seats and suited for the unique aspects of each of our markets.

### AVERAGE FLEET AGE COMPARISON



Source: Airfleets.net; Company. Latest available data.

### AIR ASTANA AVERAGE FLEET SIZE & AVERAGE AGE (2011-15)



Source: Company

The sheer geographic scale of our domestic market and low population density – Kazakhstan has 17 million people but is roughly the size of Western Europe – requires aircraft that are not large but have sufficient range. In order to operate profitably we need to carefully align capacity by aircraft type on every route.

We currently have four basic aircraft types: Boeing 757, Boeing 767, Airbus A320 family (319, 320, 321), and Embraer 190. The Boeing 757 and 767 have a common flight deck, so in terms of

flight crew we are training for three basic types of aircraft. Air Astana's Boeing 787 order will see its first delivery towards the end of this decade. In 2015, we entered into an agreement to acquire 11 Airbus A320 NEO aircraft, for delivery beginning in 2016 and through 2019. This purchase will, in part, replace our Boeing 757 aircraft – the oldest in our fleet with an average age of around 17 years.

Our fleet age compares favourably with airlines globally and with those that fly in the CIS and our extended home market. In particular, it is almost half the average fleet age of major CIS operators, which averages 12.0 years, and low below the average for airlines operating in our international and domestic markets, which averages 10.8 years\*. A young fleet, which uses fuel more efficiently, contributes to our reduced carbon footprint and lower operating and maintenance costs.

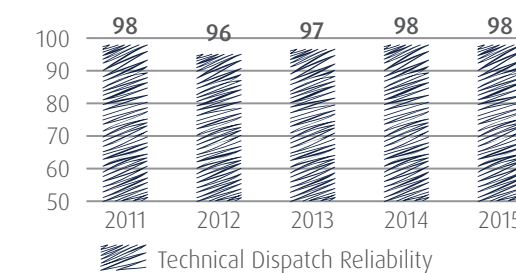
### Our Technical Base

We operate in a country where all airlines, except for Air Astana, are banned from flying in the EU due to deficiencies in the national safety oversight system. In 2015, the European Commission removed us from a list of airlines restricted from operating in the EU. At all times, Air Astana is committed to demonstrating the highest standards of safety, while developing a world-class domestic infrastructure for aircraft maintenance.

Our 98% Technical Dispatch Reliability rate in 2015, in line with our result in 2014, demonstrates the efficiency of our Engineering and Maintenance and Ground Services, as well as the reliability of our young fleet. In addition, last year, Airbus rated Air Astana as the leader on Operational Reliability for the Airbus Fleet, with a rating 99.67%. The

\*Source: Airfleets.com

### TECHNICAL DISPATCH RELIABILITY



Source: Company

European Top 30 airline rating stood at 99.39%, the World Fleet reached 99.37%.

As we operate flight segments of more than 2,000 kilometres, a central challenge is to ensure access to maintenance facilities and spare parts at distant airports. As demonstrated by our Technical Dispatch Reliability ratings over the past five years, we have consistently lived up to this challenge.

We have made significant investments in both facilities and training to strengthen our local maintenance capabilities. This reduces the need to send aircraft abroad for repairs and maintenance. In 2015, we began construction of a maintenance hangar in Astana. Due for completion in 2016, the hangar will provide us with year-round maintenance capability, especially important given the harsh winters in the region. In addition, last year we obtained EASA Part 147 certification and Kazakhstan Civil Aviation Committee approval for a new, world-class technical training school, allowing us to develop a new generation of skilled engineers certified to work on our aircraft.

### Return on Investment

While the global airline industry has seen many examples of highly subsidised and unprofitable airlines, Air Astana's competitive advantages have helped it grow rapidly and deliver consistent long-term returns on investment for shareholders and contributions to the state budget.

Importantly, we have been able to finance our aircraft leases and purchases without recourse to state support. The latest example is our Astana maintenance facility, which we are financing in part through a loan from the European Bank for Research and Development, a respected multilateral institution, as well as our own funds.

Air Astana has proved profitable for its shareholders, paying out more than US\$110 million to shareholders in dividends, including 50% of 2014 profits, while still retaining sufficient funds to finance future growth. In 2015, we delivered a 6% return on invested capital (ROIC), compared to the industry average of 8.3%, according to IATA.

The Government of Kazakhstan, while owning our majority shareholder, has had the additional benefit of tax revenues from our consistently profitable company. We contributed approximately US\$345 million to the budget since we started to operate in 2002.





ASSY-TURGEN







*Only with a bird's eye view one can appreciate the natural wealth of our country. During the flight over Kazakhstan, the incredible glorious views amazing in their diversity will be brought to your attention!*

Air Astana is the official air carrier of Astana EXPO-2017

AIR ASTANA: THE OFFICIAL CARRIER OF EXPO-2017

# MANAGEMENT REPORT

## STRATEGIC AND COMMERCIAL PLANNING

### Overview

Air Astana's corporate governance structure, based on the best international practices, serves as the foundation of our strategic decision-making and daily activities. The airline's 10-year strategy through 2020 was developed and approved in 2011. The core areas outlined in the strategy are: to enhance our position as the regional leader in Central Asia and the CIS by striving for excellence in safety and service; network development with the focus on short- and medium-range markets, as well as developing niche long-haul routes; sound investment and fleet decisions, investing in technology, maintenance capabilities and development of human capital.

By 2015, many strategic objectives have been reached including fleet upgrades and financing, network development, engineering and maintenance workshops, starting the construction of our own maintenance facility in Astana and implementing the Ab-initio training programme for pilots. Three of the most critical issues identified in the strategy have now been resolved – first, all restrictions on operating flights over the territory of EU have been lifted; second, our fares, including for domestic flights have been deregulated; and third, the waiver from the customs duties for the aircraft importation has been extended. Overall, the strategy's medium growth scenario has been realised during the last five years.

In the time since we developed our strategy, we have reviewed our mission and objectives, and have implemented the HEART values communication programme across the Company. We are now more mature and are ready to take on new challenges for our future development. In the course of 2016, we are planning to update the long-term strategy of the airline, in view of the current market developments and opportunities.

In line with the Company's strategy, the five-year business planning cycle is run on an annual basis to give our stakeholders a clear and up-to-date view on the level of planned activities, financial projections and capital investments.

Alongside with the Strategy and Business Planning activities the key functions of the Strategic and Commercial Planning Department include Fleet Planning and Aircraft Portfolio Management, Network and Schedule Planning, Revenue Management and Corporate Development.

### Network Development

The lifting of all restrictions on EU flights in December 2015 was a major long-term development for the airline and opens further development of European routes.

On the local front, we saw the emergence of a new local airline operating turboprop aircraft and the growth of domestic operations by the other two carriers. We welcome additional competition in the domestic market and we expect to compete successfully on the basis of superior service and competitive fares matching our product.

Our network has grown rapidly in the past five years. The number of international departures from Astana has grown from 20 to 65 over this time. Last year was another growth year, despite difficult market conditions. In 2015, we implemented Network Planning software to help us better plan to reach attractive new markets and plan connections as our network becomes larger and more complex.

During the year we opened several key routes, including: Astana-Paris, Astana-Seoul, Astana-Tbilisi and Astana-Dubai (replacing the Astana-Abu Dhabi route), Astana-Taraz, Astana-Uralsk and Almaty - Uralsk.

We increased frequencies on several routes: Astana-Beijing, Astana-Omsk, Astana-Bishkek, Almaty-Baku, Astana-St Petersburg, Astana-Antalya and Astana-Urumqi.

### Fleet Portfolio

We have built one of the youngest fleets in the industry in recent years. Out of the 30 aircraft in the fleet, 21 were delivered brand new between April 2011 and July 2014. Some 11 are owned via finance lease and 19 on operating leases. In 2015, in line with our existing aircraft acquisition schedule, no additional aircraft were delivered, which proved to be the right decision given the market slow down following the devaluation of our local currency and low oil prices affecting the Kazakhstani economy.

However, we have used this break in adding capacity to plan for the future. During the year, we signed a contract for the delivery of 11 Airbus 320 NEO aircraft, for delivery beginning in 2016 and through 2019. These aircraft are primarily replacing our existing fleet, including part of our Boeing 757, in line with our long-term growth strategy.

We are currently developing plans for the replacement of our Boeing 757 fleet, based on the market forecast to 2030.

As we continue to develop our fleet, we welcome the decision by the Eurasian Economic Union extending the period for waiving customs duties for the importation of aircraft for another eight years.

### Business Planning

We review our business plan on an annual basis in line with the 10-year strategy approved by the Shareholders. Our latest five-year business plan for the period 2016-2020 was developed to provide an up-to-date reference point for moving the airline into the future.

The current plan takes into account the developing economic conditions and the market slowdown that followed the devaluation in February 2014 and free-float of the national currency in August 2015. In connection with these economic developments, we have had to review our plans regarding the future fleet.

We will continue discussions with the lessors and aircraft manufacturers on new aircraft deliveries, with the goal of securing the best deals for the airline.

### Revenue Management

As a rule, there is a strong correlation between Air Astana's passenger growth and Kazakhstan's GDP, which grew by 1.2% in 2015\*. Air Astana experienced 2% passenger growth in 2015, similar to 3% in 2014, slower than rates of 13% in 2013 and 9% in 2012.

Our ability to continue to thrive in objectively difficult market conditions is a low cost base comparable to many of the most efficient low-cost carriers. Again in 2015, one of the key factors affecting the airline was the macroeconomic situation, namely the slowdown in Kazakhstan's economic growth and the government's decision to permit the free-float of the tenge, which has increased exchange-rate volatility. Similarly, slowdowns in China and Russia, both key trading partners, also affected Air Astana's Extended Home Market.

Despite this objectively difficult macroeconomic situation, however, we were able to increase total passenger numbers and maximise capacity utilisation. Along with the above-mentioned growth in passenger numbers, due primarily to the increased contribution of international passengers, passenger load remained virtually unchanged at 63%. Revenue passenger kilometres (RPK) yields

\*Source: Agency of Statistics of the Republic of Kazakhstan.

fell, while domestic and international RPK rose slightly year-on-year in absolute terms.

As part of the strategy to profitably grow the transit traffic on our network, in 2015 we signed an agreement for upgrading the PROS revenue management system to the next Origin and Destination level. Thus, we are investing in the new Network Planning tool, as well as the Origin and Destination based revenue management system to maximise our opportunities for future growth.

### Corporate Development

The Corporate Development function provides support to the Corporate Secretary in working regularly with our Board of Directors and shareholders, as well as the Company more widely, to improve the compliance process and enhance corporate governance in line with international best practices.

Our key values in terms of corporate governance are transparency, legality, ethical behaviour, and responsibility to our stakeholders, including our employees, partners, customers and society.

### Outlook for 2016

Key plans and outlook for the Strategic and Commercial Planning department include:

- Manage the impact of tenge volatility and economic slowdown.
- Expansion in 2016: opening of Tehran and Ulan Bator routes represents the opening of two significant economies for both direct and international transit traffic.
- We foresee a continued focus on increasing both frequencies and number of destinations in China as an important priority.
- We expect continued single-digit passenger growth, with emphasis on international and transit traffic and increasing yield.
- We plan to take delivery of our first Airbus A320 NEO aircraft.
- We will implement two major projects for upgrading the network planning and revenue management systems.
- We plan to review our long-term strategy for the next 10 years and develop strategic recommendations for our future growth.



## SAFETY

### Overview

Compliance with good safety standards remains the foundation of safe operations within Air Astana, as reaffirmed by the Corporate Safety Compliance department. Compliance as a minimum non-negotiable requirement is supported and monitored by an integrated Safety Management System (SMS) that has designed and implemented comprehensive processes to identify, analyse and mitigate hazards.

During the fifth and most recent IATA Operational Safety Audit (IOSA) renewal audit in May 2015, Air Astana once again demonstrated compliance with global safety standards (IOSA Standards Manual Rev. 8) by successfully passing the audit without any negative findings or adverse observations related to SMS. The next IOSA renewal audit will be conducted in May 2017.

Air Astana was the first airline to undergo a European Union Third Country Operator (TCO) certification audit by EASA (October 2015). The audit was completed without any negative findings and certification was issued on 11 December 2015. The airline also expanded its European Aviation Safety Agency (EASA) EASA Part-145 Maintenance Organisation approval held since 2002 by receiving EASA Part-147 Maintenance Training Organisation authorisation in 2015.

The European Commission (EC) imposed restrictions on our operations in 2009 due to the ICAO report having found safety oversight by the Kazakhstan regulatory agency to be inadequate. The restrictions were lifted in 2015 with substantiation provided in the "Official Journal of the EU" dated 10 December 2015, including the following points:

- Air Astana's AOC was renewed in April 2015 and IOSA re-certification issued one month after.
- The airline provides regular updates on operations, training and maintenance activities.
- The EASA audit Part TCO was passed without any negative findings and Air Astana "was found to be well-staffed and effectively managed by a competent international management team, paired with local personnel. The organisation developed a strong and credible safety culture."
- At the Air Safety Committee of 24 November 2015 "Air Astana provided evidence that it has established a stable and effective safety

management process to address safety hazards, perform root cause analysis and promote a safety culture within its organisation. The air carrier has demonstrated ability to manage changes in the scope and the volume of its activities in a safe and efficient manner. Moreover, Air Astana has ensured that the oversight of its fleet is performed in accordance with the applicable international safety standards".

While we nurture safety performance and take pride in our staff that oversaw 3.86 million passengers fly safely in 2015, Air Astana is acutely aware that a historically positive safety record does not provide immunity from possible accidents. We consider complacency to be a threat to efficient, safe operations and believe continuous improvement is vital to meeting the safety standards and effectively managing risks.

### Regulatory Oversight

Air Astana's compliance with appropriate standards of safety and security is first of all monitored by the Department of Civil Aviation (DCA) of Aruba, which is the responsible government oversight authority, along with the Kazakhstan Civil Aviation Committee. Other regulatory authorities provide specific authorisations for operations approvals or line maintenance of aircraft provided by Air Astana as listed in the registry of that country.

In the past year, Air Astana has also undergone 107 random ramp inspections by regulators at destinations outside Kazakhstan. Forty-three of the inspections were conducted by European Civil Aviation Conference states under the SAFA programme, boasting a 72% reduction in negative findings per inspection since 2010.

**Regulatory Reform:** In May 2015, the President of Kazakhstan announced a 100-step programme for institutional reform in Kazakhstan. Step 68 outlines the intent to "Improve the effectiveness of the state air transport management to increase attractiveness of air transit through Kazakhstan. Activities of the Civil Aviation Committee will be focused on the model of the UK civil aviation authority and the European aviation safety agency." In support of that ambitious programme, a memorandum of understanding between Kazakhstan and the UK was signed with a view to assisting in the effective implementation of relevant safety standards in Kazakhstan. Air Astana

continues to support these important safety improvement initiatives.

### Compliance (to Standards) Monitoring

Our compliance monitoring evaluates implementation of Air Astana's documented standards for airworthiness and for flight, ground, cabin and maintenance operations as well as aviation security with the intent of promoting safe and compliant operations. Air Astana standards combine applicable regulatory requirements and best international practices.

The internal compliance-monitoring programmes are complimented by membership and active participation in IATA safety and quality audit programmes, reflecting our commitment to perform to the highest standards. These include: (IATA) Safety Audit for Ground Operations (ISAGO), Fuel (IFQP) and De/Anti-Icing (DAQCP) quality pools as well as three IOSA auditors. In 2015, two Air Astana employees qualified as auditors for ISAGO, one as a lead-auditor, and another as a DAQCP auditor. Air Astana's fuel quality auditors managed the acceptable resolution of IFQP findings at a regional airport, enabling the resumption of fuel uplift at that location.

Consistent compliance to acceptable standards for airport services including rescue fire fighting, bird strike prevention, dangerous goods control, foreign object debris and ramp damage, along with security, remains challenging due to regulatory oversight, airports resource allocations priorities, as well as process management (including training). Air Astana follows 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 was compelled to terminate operations at one airport in May 2015 due to the unacceptable state of rescue and fire fighting capabilities. While the Airport Operating Certificate was renewed, the airline assessed the risk assessment and took the decision not to continue operations there. Air Astana resumed operations to Uralsk airport in January 2015 after runway deficiencies that had caused termination of operations in 2011, were resolved.

Security monitoring procedures in cooperation with station managers continue to operate as before and was expanded in January 2015 though the introduction of on-going monitoring of passenger screening procedures by selected staff. The compliance audit, which was implemented in concert with the local AVSEC department led to an embargo on cargo from an airport for most of 2015; after the

appropriate screening equipment was subsequently installed, regular cargo operations resumed.

### Accident Prevention Programme

The airline accident prevention programme aims to detect and mitigate operational risks that still occur occasionally despite our effective, consistent compliance with good standards and is increasingly striving to improve resilience to dangers that could lead to accidents.

Effective risk mitigation requires a safety culture alignment between the airline industry, the state and the airline's own culture which is achieved via the Human Factors programmes in all operations departments. Furthermore, in order to improve safety, the airline's first Line Operational Safety Audit (LOSA) was launched in cooperation with Flight Operations in late December 2015. LOSA is a process of observations of scheduled flights by trained (Air Astana) line pilots under supervision of contracted specialists in order to collect and utilise safety data on environmental conditions, operational complexity and flight crew performance. The report, expected in May 2016, will aim to identify threats to operational safety, pinpoint and minimise risks and potential causes of such threats, as well as to implement measures in managing the human error aspects of residual risk.

Our established hazard identification processes include safety reporting, Flight Data Monitoring (FDM), auditing, data analysis and implementation of findings from international research. The FDM programme monitored 98.6% of all flights in 2015, identifying, quantifying, assessing and mitigating potential operational risks.

As a result of FDM and in line with the international experience, considerable attention is paid to flight path management, while landing from unstable approaches is closely monitored despite having been reduced in the interim to what is considered a reasonably practicable low level. The number of registered safety reports in 2015 is comparable with those in 2014 and the freedom to report errors and mistakes without fear of sanctions remain a challenge.

The difficulty of frankly accepting and correcting mistakes that could endanger life remains pronounced in regulatory and associated organisations. A continued (and unusually) positive factor has proved to be the emergent ability of those enforcing legal oversight to differentiate the significance of safety threats more competently, including officially recommending the appropriate risk management measures of rescue fire fighting services, and, at the same time also reducing inappropriate pressure on

airline safety performance by, for instance, advising the regulator not to sanction or support inappropriate police questioning of the crew.

In 2015, the airline conducted 51 safety investigations: 29 were internal and the remaining 22 were related to ICAO Annex 13 incident prevention investigations on behalf of the National Investigation agency. The four departmental safety action groups met monthly, as did the Flight Data Review Group and Fatigue Risk meetings. The Aviation Safety Review Board, chaired by the responsible manager and attended by operations department heads, met eleven times to review operational safety risks. Safety Performance Indicators (SPIs) and action plans continue to be reviewed quarterly. The intended introduction of leading as well as positive indicators did not materialise in 2015 and will remain a challenge to implement in 2016.

To stay abreast of international developments, the airline continues its contribution to international forums. Examples thereof include:

- Participation in international safety databases like STEADES, GDDDB and FDX;
- Departmental staff presentations at 7 international safety seminars;
- Taking part in ICAO-EU regional experts safety team (IE-REST) activities for flight data analysis and SMS workgroup (FDG);
- IATA Quality Pools participation as discussed earlier;
- Membership in ISASI and the Flight Safety Foundation;
- Membership in the Association of Asia Pacific Airlines (AAPA) workgroups.

### Safety Education

Our investment in training continues: more than 22 staff members undertook formal auditing, investigations or safety management training in 2015. The Corporate Safety Compliance Department reviewed and amended internal safety education and promotion programmes in compliance with international standards and best practices. SMS awareness training for new hires as well as on-going staff training has been mandated to selected departments.

On 28-29 October 2015 in Almaty, Air Astana hosted a regional seminar "Proactive Safety: from Theory to

Practice" with support of AIRBUS and IATA. The aim was to share knowledge and experience related to accidents and incidents, SMS implementation and risk management. Kazakh airlines (Air Astana, Qazaq Air, Prime Aviation) were joined by representatives from Russia, Ukraine, France, Spain, Kyrgyzstan, Bulgaria, Italy and Aruba with speakers from DGAC (France), UK (ISASI and ex BA), UAE (Gulf Air) and Spain (IATA).

### Outlook for 2016

The outlook and key plans for the Corporate Safety Compliance department in 2016 include:

- Safety: Maintaining our record of zero accidents.
- Auditing: Establishing performance auditing and training necessary auditors. Implementing LOSA results effectively in conjunction with flight path management.
- Database: Improving safety and compliance database and data analysis.
- Establishing an in-house safety programme and auditing training.
- Improving departmental human factors such as fatigue and risk management.
- Supporting CAC in establishing EASA standards and strengthening safety oversight.
- Investigations: Qualifying Corporate Safety Compliance auditors as safety investigators.
- Collaborating with selected airports to improve safety services provision.

Risk mitigation remains our priority for 2016. The risks, as observed within the industry on the international level, include anything from flight path management to reinforcing security of flights and airspace, as well as airport services that affect safety and security. Regulatory oversight by the state where operations are conducted would require a significant improvement to support the airline's expansion plans into the U.S. and Japan (subject to finalisation due to provision of required resources). The airline has received significant recognition in the past year for, inter alia, its safety of operations performance. We recognise the importance of protecting the still foundation, still "fresh", laid in our efforts in striving for excellence by refusing to allow complacency threaten the safety of our operations.

## FLIGHT OPERATIONS

### Overview

Last year was a busy and successful one for Flight Operations. We made major strides in implementing the Electronic Flight Bag (EFB) project across our fleet and related automated document processes designed to deliver an integrated and automated inflight and ground-based document control system.

We believe the result will improve efficiency and reduce cost in our operations, as well as enhancing safety by streamlining reporting. Notably, as the result of our broader efficiency drive, we enhanced pilot productivity in terms of flying hours by 31% between 2012-2015.

In the meantime, we invested in training systems designed to deliver the next generation of pilots who will help the airline grow through the end of the decade and beyond. We are looking forward to upgrading the first pilots from our Ab-Initio training programme in 2016.

### Automation

During 2015, Flight Operations continued to implement new technology to automate operations. After launching the Electronic Flight Bag project in 2014, and achieving regulatory approval for trials, last year we were able to achieve paperless operations on Airbus aircraft and move to final stages of paperless operations on Boeing and Embraer.

In addition, we introduced a new documentation control process that links to the EFB system. The new system allows us to integrate our ground-based document system with airborne systems. This makes documentation automatically accessible and will help us improve our reporting processes.

These gains in automation go hand-in-hand with a continuing drive to simplify our documentation system. The objective of this measure is to support our front-line operations personnel by providing them with clear policies and procedures. Our goal is to have in place electronic processes that enable all required operational documentation from briefing to post-flight reporting to work through a single, combined interface.

We see the development of integrated, paperless documentation systems as a way to ensure regulatory compliance, improve efficiency and facilitate the flow of information around the Company. We see this project as an important

component of our preparations for the delivery of Boeing 787 aircraft in 2019.

### Organisational change

In 2015, we continued to implement adjustments in the organisation of the Flight Operations department to maximise efficiency. Last year, we focused on Training as well as consolidating the Standards department. The goal of these changes is to ensure we can continue to deliver first-rate training for all of our crewmembers as well as enhance standardisation through clear policies and procedures.

Last year, we also continued to reshape the Operations Organisation. Our priority here is to ensure we have the right structures in place to effectively manage our continued expansion, including new aircraft deliveries through the end of the current decade.

### Training

With a fleet of 30 aircraft, which is planned to increase in the coming years, continuous development in the training system is critical to support our continued expansion. Last year, we trained 55 new pilots, including 30 cadets, 23 expatriates and two local pilots. Pilot training involved initial cadet, simulator conversion and line training.

Last year, we continued to work with international aviation partners on basic and simulator training. We continued to develop our programmes to reflect best practices and developments in the global aviation industry, while also focusing on unique features of Air Astana operations.

We continued our Ab-Initio pilot training programme, a long-term project to create a pool of highly skilled pilots from Kazakhstan. The programme is designed to train pilots to international standards and more than 200 candidates have already passed through the system. Two flight schools provide training under the programme: Atlantic Flight Training in Cork, Ireland; and Flight Training Europe in Jerez, Spain. Upon graduation, cadets earn an EASA Licence.

We seek to continually improve the Ab-Initio programme. Last year, our Training department and Human Resources department reviewed our cadet selection processes. We also engaged the European



Pilot Selection and Training (EPST) organisation, an international leader in Ab-Initio training, to aid us in the selection process.

The Ab-Initio programme represents a significant investment for the airline, but one we believe is worthwhile. The investment in time and resources is creating a new generation of highly skilled Kazakhstani pilots who can support our long-term growth.

### Standards

Last year, we continued to develop our Standards Department. We see standardisation as a key component of safety and efficiency.

We carried out a project to set out common standards for Type Rated Inspectors (TRIs) and Type Rated Examiners (TREs). This involved identifying the specific competencies and skills required of our pilots and implementing a new performance measuring process. We also provided additional training for our TRIs and TREs as well as the launch of a new database. A primary goal of the project is to provide a continuing feedback mechanism allowing us to identify trends and ensure appropriate responses in the training process.

### Regulatory developments

In 2015, Flight Operations participated in the IOSA audit process for the fifth time. We also hosted representatives from EASA in October, who completed an EASA Third Country Operators (TCO) audit. The airline completed both audits successfully, and Air Astana renewed its IOSA approval.

## ENGINEERING AND MAINTENANCE

### Overview

Air Astana's Engineering and Maintenance Department is committed to ensuring the highest standard of flight safety as well as increasing the efficiency of aircraft maintenance. Looking back, 2015 was a challenging year, primarily due to the macroeconomic environment, but also a breakthrough year on several fronts for the department.

### On-time Performance

The airline delivered another excellent on-time performance in 2015, despite challenging weather conditions during the winter months. The airline uses European and US on-time performance standards as a benchmark, as well as fellow members of the Association of Asian Pacific Airlines.

Last year, our 89.9% on-time performance compared favourably to our benchmark peers. This excellent result was a team effort, with our colleagues in Engineering and Maintenance, Inflight and the Ground Operations department.

This is an area that requires continuous focus and is central to providing a high quality service to our customers. To that end we carry out weekly reviews of performance with a root-cause analysis of delays. This allows us to address the underlying issues and minimise or eliminate delays.

### Outlook for 2016

The outlook and key plans for the Flight Operations department in 2016 include:

- Continue to safely improve our operational performance and deliver a consistent and reliable product.
- Continue to develop our paperless operations and introduce electronic reporting.
- Continued market-leading on-time performance.
- First promotions to captain from cadets who joined the first Ab-Initio training programme in 2008.

We made major progress on several long-term projects, including a new maintenance hangar in Astana, representing the largest single investment in facilities by the airline, as well as obtaining key certifications that improve our ability to maintain our aircraft and train our people, while also passing several important audits.

We believe it is a reflection of our relentless work that Airbus published data in 2015 showing Air Astana as the world fleet leader for Airbus

operational reliability, with a rating of 99.67%. The European top-30 airline rating stood at 99.39% and the world fleet reached 99.37%.

### Major projects

In 2015, following several months of preparation, we launched construction of our maintenance hangar in Astana, with completion due in 2016. The hangar is designed with an interior area of 5663m<sup>2</sup> on a 13.5-hectare site, with warehouse and garage units.

When completed, the hangar will provide us with year-round maintenance capability in Astana, especially important as the capital city has harsh winters. We expect that having our own maintenance hangar in Astana will deliver significant cost savings and boost operational efficiency.

We believe the financial backing of the project by the European Bank for Reconstruction and Development, a multilateral financial institution, underlines the importance of the hangar project, not just for Air Astana, but for the country's aviation sector as a whole. Among other long-term benefits for the capital, we expect the hangar to foster new engineering talent based in Astana.

Last year, we also completed our project to establish a world-class technical training school in Almaty by obtaining EASA Part 147 certification and Civil Aviation Committee training approval, after the completion of an extensive audit process. In September, some 12 students successfully completed the first six-week training course on the Airbus A320. The students received internationally recognised EASA certificates.

### Audits and certification

We maintain our aircraft in accordance with the requirements of EASA Part 145 regulations, as well as those of the Aruban Department of Civil Aviation (DCA) and the local Civil Aviation Committee (CAC), all of whom routinely perform detailed audits of our processes and procedures. In addition, in 2015, we successfully completed the IATA Operations and Safety Audit (IOSA) and the Third Country Operators (TCO) audit.

In 2015, we achieved a technical dispatch reliability rate of over 98% and continued to expand our maintenance capabilities in the workshop to include overhaul of brake units, cargo nets and oxygen charging. In a major expansion of our maintenance capabilities, we obtained an extension of our EASA

Part 145 maintenance approval to include Base Maintenance. This allows us to carry out many larger and more complicated non-routine tasks in house. Our major maintenance checks continue to be outsourced in Europe and China with 14 C-Checks being accomplished this year.

### Other key developments

We appointed a new, dedicated Cabin Interior Manager to look after the cosmetic appearance of our aircraft interiors and exterior livery, which are key elements of our brand identity. We also appointed a Power Plant manager to bring in-house outsourced engine maintenance.

Our Line Engineering Department in Astana along with Technical Stores were relocated to new and greatly improved facilities.

The Engineering Sales Department, in conjunction with the IT department, launched our new sales website, highlighting our continued commitment to increasing ancillary revenue by providing services for third party customers.

Finally, a major effort to improve our operational efficiency was achieved when we completed a four-year Process Approach project. Each departmental process was evaluated, assessed, improved and formalised in the form of standard flow charts. These are now available electronically to all staff by the means of an interactive programme.

### Outlook for 2016

The outlook and key plans for the Engineering and Maintenance Department in 2016 include:

- Completion of the Astana hangar.
- Development of web-based data and documentation process system.
- Training certifying staff for introduction of the Airbus A320 NEO.
- In-house technical training introduction for the Airbus A320 NEO.
- Launch of Engineering Ab initio programme.
- Continuing Part 66 licence training scheme.

## IN-FLIGHT SERVICES

### Overview

At Air Astana, we believe that delivering world-class in-flight service is crucial to our mission of building one of the finest airlines in the world. Last year we again overcame the challenging macroeconomic environment to deliver consistent improvements for our passengers. Our efforts were recognised last year as we received 4-star Skytrax rating for the fourth year in a row, ranking us among the world's top airlines.

In 2015, we continued to dedicate significant resources in training our on-board staff to deliver the consistently high level service that is the hallmark of the Air Astana passenger experience. Last year, we held more than 135 training courses, with more than 1,000 attendees among in-flight staff. In addition, we continued to invest in our aircraft cabins, in-flight entertainment systems, catering and on-board product to enhance the inflight experience.

### Skytrax Award

Preparing for the Skytrax audit was an important part of our work last year. Air Astana was the first airline in Eastern Europe and the CIS to receive this award back in 2012 and maintaining and enhancing our score each year is important for both our internal benchmarks and our overall brand as it places us alongside leading global airlines.

To prepare for our Skytrax Audit, the In-flight Services department launched the Skytrax Project. We analysed the previous report and went department by department to see where we could improve. In particular, each of our 1,150-cabin crew attended a Skytrax training forum to prepare each and every one for the audit.

We retained our 4-Star overall rating and improved scores in many areas. The additional training for our staff not only helped ensure we retained our score but also provided an opportunity to strengthen our overall service offering through further training and attention to detail. We are proud of our continued progress in the ratings each year despite a very tough cost environment.

### On-board Experience

In 2015, we continued to enhance the on-board experience for both business and economy

passengers. The launch of the sleeper economy product on selected routes was a genuine innovation and a big hit among passengers, allowing passengers to buy a lie-flat sleeping experience in economy class on long-haul flights. In addition, an iPad 2, business class amenity kit and specially developed sleeper economy meal are provided.

In addition, we upgraded our in-flight entertainment (IFE) iPad Air 2 units, allowing us to double our entertainment offering for business-class passengers. We were pleased to invite prominent Kazakhstani film critic Oleg Boretskiy to help select films and write articles for our IFE product. In line with our mission as Kazakhstan's flag carrier, we also enhanced our Kazakh language film and audio content in cooperation with the WikiBilim foundation.

Other product enhancements included the introduction of new adult amenity kits for long-haul and medium-haul flights, and new children's kits for 3-6 year-olds and 7-11 year-olds. We also started distributing comfort neck pillows to all our business class passengers on our A320 fleet on night flights to ensure additional comfort. Fresh flowers in our business class lavatories are also a new touch along with soothing take-off and landing music.

During the year, we continued to improve our menu offering, including training staff on presentation. Among other measures we introduced a comprehensive catering check program including plating appraisal, tasting and caterer feedback to look at where refinements and cost savings can be made. Along with a revision of our menu offering in Shanyrak, our Astana Business class lounge, we also revised the majority of our on-board menu. We concentrated on a mix of local, regional and international cuisines with a wider variety of colours and textures for visual appeal. We also enhanced our canapé offering by introducing a choice on our long haul routes. New wines and meal garnishes were also rolled out throughout the year.

### Cabin Crew Performance, Training and Development

With the launch of our CrewPads, cabin crew reporting is now completed using our Integrated Quality and Safety Management System. The new crewpads are also compatible with Amadeus, which gives our crew access to important passenger data. This enables them to deal with on-board issues more effectively and crews

are able to introduce themselves to business class passengers by name and see their Nomad frequent flyer status, etc.

While our cabin crew were instrumental in delivering another Skytrax 4-Star rating in 2015, we understand this requires continuous work to maintain and enhance our service offering.

We have continued to develop our coaching programme to provide cabin crew with assistance and training in real time on-board. We restructured the coaching programme in 2015 to make it more targeted and efficient and all our inflight coaches underwent specifically tailored training this year to redefine and enhance their roles. We also published our Cabin Crew Service manual, which incorporates all aspects of on-board service. This is crucial when it comes to consistently delivering a high standard of service.

In addition, we developed a 'Back to Basics' campaign in the latter part of 2015, to be launched in 2016. The programme represents a major overhaul of our initial and recurrent customer service training for cabin crew and is designed to re-focus our crew on the basic tools when building a rapport with our

passengers and to empower each team member to make the right decision on the spot.

### Outlook for 2016

Other plans and outlook for the In-flight Services department include:

- Launch of Back to Basics Programme.
- Continued audit of catering with focus on creativity and refinement in both presentation and taste.
- JC and YC tableware replacement.
- New innovative on-board safety video.
- Implementation of both IFE streaming and On-board Connectivity projects.
- Arrival of our first A320 NEO.

## GROUND SERVICES

### Overview

The goal of the Ground Services team is to deliver a continuous improvement of services make our passengers' journey as comfortable as possible by ensuring an efficient and hassle-free airport experience on departure, arrival and transit. We perform this task in dozens of airports worldwide.

Last year, the successful IATA Operational Safety Audit in May reflected the quality and safety focus of our ground operations. Similarly, the re-affirmation of our Skytrax 4-Star rating demonstrated the strength of our customer service provision. We are also proud of role in helping to deliver a record on-time performance of 89.9% in 2015, the best result in Air Astana's history.

### Innovation

The airline successfully deployed a major new system, Station Hub Control, in Almaty and Astana. The system allows us to monitor the flow of passengers and baggage in real time. Transfer

passenger and baggage tracking is also a feature of the system and it produces specific reports for every single flight. The system allows ramp agents to provide the system with real-time updates and managers to take appropriate and timely actions to resolve any issues that arise. The system was developed in-house and was recognised as 'Best IT Business Product' by Samruk-Kazyna.

In February 2015, Air Astana became the first airline in Kazakhstan to install self check-in kiosks. The hardware and software for the kiosks was developed in-house. Some seven kiosks were installed in Astana, Almaty and Shymkent. The kiosks proved an instant success and more than 500 passengers use them each day.

During the year we completed development of mobile check-in systems, allowing passengers to check-in online using a smartphone or other internet-enabled device. The system will send the passenger a virtual boarding pass with a bar code that can be scanned during security and boarding procedures, eliminating the need for a paper boarding pass. The system was successfully tested in Almaty and we are technically ready to implement the system. We



are currently in discussions with regulators to amend rules currently requiring a physical boarding pass.

Also last year, the Ground Services department developed a new procedure for priority boarding of business class passengers and gold and silver Nomad cardholders at Almaty, Astana and Atyrau. The new procedure enables high-margin passengers to board the aircraft without queuing.

In October 2015, we launched the 'KConnect' product for transit passengers. It provides passengers with easy to understand transit information for Almaty and Astana. In addition, we also implemented a new design for boarding passes in November 2015. The new boarding pass matches the global trends and has the same design for both classes of travel.

### Equipment

At the end of 2015, we took delivery of two new, state-of-the-art de-icing machines at Astana and Almaty. The machines use 'Force Air System' equipment. This system is more efficient, reducing de-icing, and uses less fluid, delivering significant cost savings. In addition, we are currently building a new de-icing station in Astana, the first of its kind in Kazakhstan. We believe this investment will significantly improve turnaround time and reduce costs.

### Our People

In an important move to raise productivity within our current headcount, we overhauled work schedules for Ground Services employees and implemented the new system in Almaty and

Astana. The new schedule optimises staff numbers based on the workload and the number of flights at any given time, rather than spreading workers over shifts with varying workloads. We have also sought to implement an 8-hour schedule for the majority of employees working with the passengers to improve both performance and staff morale.

As part of the preparations for the Skytrax audit in September, all Ground Services employees completed additional training on standards, services and passenger handling during the period from July to September.

### Outlook for 2016

Key plans and outlook for the Ground Services department include:

- Launch of the mobile check-in project.
- Continued construction of the de-icing station in Astana.
- Implementing the second phase of centralised load-control procedures to simplify procedures and calculate revenue load in advance.
- Deploy additional check-in kiosks in Astana.
- Enact a single standard code for excess baggage and invitation coupon to business lounges.
- The mobile boarding product will be implemented for regional airports and this unique product will not depend on the communications networks of the airport.

## MARKETING AND SALES

### Overview

In 2015, we overcame many external challenges to deliver strong underlying traffic transit growth, as well as launch innovative new products, such as the Economy Sleeper and MyUpgrade that enhance passenger experience and attract incremental revenue. Collaborating closely with the IT Department, we re-launched the corporate website with a vastly more intuitive user interface.

We were particularly effective in counteracting a decline in transit traffic caused by falling traffic between CIS destinations. We believe the increase in frequencies in Western Europe and China in particular resulting in increased connectivity will continue to have a positive impact on our business in 2016 and beyond. The innovative use of Air Astana Holidays and other packages have provided a way to support revenue amid deep external challenges.

### New products

In February, Air Astana launched the new Economy Sleeper product, an in-house innovation. It was designed to monetise the unrealised potential of empty seats in Economy class on B757-200 operated international routes by turning three seats into a single, premium lie-flat sleeper seat, with ample space, an IFE iPad and specially presented meal.

The Marketing and Sales department drove the marketing campaign, which included print, radio, outdoor, online and social campaigns in Europe, Asia and Kazakhstan. The launch of the product was timed with the launch of the Paris launch campaign.

The product proved immediately commercially successful and, importantly, generated considerable buzz in the international media, building awareness of the Air Astana brand in Europe and Asia and enhancing our image as an innovative company.

In September, we launched MyUpgrade, a system allowing existing economy class passengers to bid for a business-class upgrade. Passengers receive a pre-travel email encouraging them to go to the online platform bid. The system is designed to generate incremental revenue from existing passengers as well as expand our presence in the affluent leisure traveller segment.

### New routes

The launch of the Paris-Astana route was a major development marking a milestone. The new European route coincides with the lifting of restrictions on new routes by the EU and we now have 13 weekly flights between the Western EU and Astana. We supported the new route with the launch of a new French-language website.

We also see strong potential for Paris driving international transit traffic. For instance, Chinese tour operators can send travellers from Urumqi in Western China to Paris via Astana.

### Transit traffic

Air Astana continues to look actively to develop international transit traffic. Total international transit passenger numbers dropped 7.9% year-on-year. However, this drop was almost exclusively accounted for by a sharp decline in CIS transit traffic. Excluding this external factor, international transit traffic grew 21% year-on-year, thanks largely to new traffic flows in the second half of the year.

A reflection of our success in developing new transit traffic, Air Astana sold over 600 different origin and destinations last year. China is important driver in this traffic and we were able to negotiate a substantial increase in traffic rights to accommodate our future growth rate over the medium term, and number of points from two to five. Frequencies also increased from Astana to London, also driving traffic.

Air Astana Holidays provides ground content, such as hotels and transfers, to facilitate network sales where no flight connection is available. In 2015, Air Astana Holidays sold over 1,000 room nights, which would not have occurred without the program. Last year, this was targeted at Asian markets, while in 2016 we are aiming at other overseas markets that have more significant outbound demand.

In addition, the implementation of a Stopover Hotel Paid by Carrier (STHPC) programme is designed to encourage group traffic to flow via Kazakhstan. The devaluation of the tenge has made this programme viable, as the underlying fare is

sold in dollars and local costs are denominated in the local currency.

### Sales trends

Ticket sales commission for international flights was withdrawn in 2011 and replaced with the transaction fee model of agency distribution. In 2015, this was extended to ticket sales for domestic flights. This initiative was implemented for ticket sales from the beginning of 2016 and we expect to see lower prices for the consumer, with projected savings of US\$5 million.

Notably, sales in the US are now a significant contributor, being the fifth largest point of sale despite the fact that Air Astana does not operate to the US. However, online agents issuing tickets within the US billing system has stimulated this market. We expect this market to develop in 2016 with greater online activity.

China followed by India, Ukraine and future new routes remain the key sources for international traffic. This is of particular importance when the market in Kazakhstan is expected to remain challenging over the short to medium term.

### Customer service

In 2015, the implementation of the HEART programme at our call centre and ticketing offices was a key development. We carried out regular review and coaching of our call centre staff in line with HEART values to deliver on behalf of our customers. Along with improved software, this means greeting our Nomad Club members by name and having a record of customer interactions instantly at hand.

In addition, we have implemented a new, online questionnaire targeted to our Nomad Club members in place of paper forms. As a result, the response rate has increased dramatically, as well as the quality of feedback from our customers.

The feedback from passengers assessed by the Customer Relations team was a key driver to seek opportunities for the company to improve identifying what counts for the Customer throughout the Air Astana experience.

Last year, responding to member feedback, we launched the introduction of “the Wave of Change” to enhance benefits for Nomad Club members. These include online awards and upgrades and validity extension for accumulated points. Next year, we plan launch new Diamond Nomad Club status for our most frequent flyers, with exclusive benefits as a guaranteed seat on any flight.

The efforts in the Call Centre are focused around an improving service, recognition of Nomad Club members (through an in-house developed software identifying the customer calling) and driving customer loyalty.

### Website

Growing internet sales helped counteract the impact of devaluation. Last year’s launch of the new website, also incorporating HEART values, provided a truly intuitive user interface that vastly improves the usability of the site and the ease of buying tickets through the re-engineered booking engine. The site provides opportunities for the passenger to choose among a range of fares, encouraging passengers to upsell to the next fare level.

The improvement in web interface usability includes intuitive form filling for registered Nomad Club members and use of cookies to recall preferences. Despite difficult macroeconomic conditions, we saw an increase year-on-year on revenue in tenge terms from website bookings and expect the new booking engine will have a significant impact in 2016.

### Outlook for 2016

Other plans and outlook for the Marketing and Sales department include:

- Continue to identify what the customer values, improve customer service and experience to build loyalty.
- Grow total passenger numbers and fare volumes, with focus on key markets in the revised Extended Home Market with focus on China, the Indian subcontinent and Ukraine.

- Maintain market share on domestic flights within Kazakhstan.

- Focus on increase of market share above fair share on point to point flows.

- Reduce the reliance on sales in Kazakhstan and continue to develop sales overseas through increase of market share and growth of transit traffic.

- Launch new routes between Almaty – Tehran and Astana – Ulan Bator, highly potential market and an underserved market respectively.

- Intensify marketing activities, social media and website around the markets identified as focus markets for O&D growth.

- Unlock the potential from Urumqi across the network by getting morning slots to connect with the EU wave from Astana.

- Develop codeshare cooperation with key EU carriers.

- Renegotiate expiring GDS contracts for special conditions.

- Groom management trainees.

- In view of declining markets, intensify efforts to avoid growth of carriers distorting competitive market practices through predatory pricing financed through subsidies.



## IT AND E-BUSINESS

### Overview

In 2015, Air Astana continued implementing its strategies in providing a competitive advantage to the business, improving customer service, reducing costs and enhancing operational efficiency through our IT and e-Business initiatives, in line with the five-year plan for its business. The airline maintains a talented team of around 50, including developers and support staff.

Again last year, in-house developments played a major role and our ability to build custom solutions is one of our major competitive advantages. The Hub Control system is a major project carried out in 2015. The system allows us to monitor and control the ground handling services of Air Astana flights in real time at every stage and delivers significant efficiency gains. No other airline in the CIS region is currently using such a system.

Another example of a successful in-house solution in 2012 is the Crew Pad solution. The application is an important automation breakthrough, offering near real-time information on passengers, seating and passenger requests, and many functions such as submitting reports, conducting crew performance reviews and providing operational guidelines. Few airlines in the world are yet using this technical solution and most use more costly off-the-shelf products.

A new staff travel system was also developed internally. The system simplifies the booking process and is adaptive to any mobile device. Enhancements were made to the sales management system, the technical supplies management system, the emergency response system and the station control system.

Several new business systems were also implemented in 2015. A business system tool was introduced to support strategic decision-making in network planning. A new electronic documentation archive was implemented for the Engineering department. A real time flight tracking system also went online last year. The Hyperion budgeting and planning system was upgraded to a new version. Several enhancements were made to the Enterprise Resource Planning (ERP) system.

### Website and e-Commerce

The Air Astana corporate website has been one of the major lines of communication with our customers and a main channel for direct sales, making us Kazakhstan's largest single e-commerce platform.

It offers a wide range of services, including online bookings and check-in, information about flight arrivals and departures, verification of reservation details and much more. Air Astana initiated an online system that allows bidding for upgrading to business class, and this proved to be very attractive to the passengers.

In addition, an online system has been developed in-house for the Nomad Club members, allowing them to use their points and upgrade to business class. In 2015, Air Astana released the latest version of online booking engine with an attractive design and a significantly improved user-friendly interface. For those who purchase tickets from the call centre, the non-card alternative online payment channels have been increased from one to three.

The number of new visits to Air Astana corporate website grew by 31% in 2015. The number of unique visitors soared by 42% (from 1,901,255 to 2,709,720) which indicates the growing popularity of the website. The online web check-in tool is available for all airports in the Air Astana network. The Air Astana mobile application is virtually a pocket travel assistant with features such as ticket purchase, check-in for Air Astana flights, Air Astana ticket office locator, arrivals and departures status, live chat for reservations, Nomad Club activity details and claims/redemption of Nomad Club points for ticket purchases. It also features information on fares and fare rules, dangerous goods restrictions, baggage allowance details, excess baggage rates, passenger code of conduct and travel restrictions for expectant mothers.

### IT Infrastructure

Good IT infrastructure facilities are needed in order to support any successful business. Significant improvements were achieved within the data communication channels without incurring any additional costs. The software platform that handles user requests, remote user support, change management and asset management was also enhanced. Several updates of the departure control system were also made in 2015. Self-service kiosks, designed and assembled in-house, using our hardware and software, were deployed in Almaty, Astana and Shymkent.

### Outlook for 2016

The most important project and largest investment for 2016 for the department is

the implementation of an upgraded, origin/destination-based revenue management system, involving major changes to the revenue management, inventory, and global distribution systems. The goal of this major project is improving the revenue from connecting traffic, allowing us to offer more competitive fares for transit passengers and, consequently, delivering improved revenue for the airline.

In addition, the outlook and key plans for the IT and e-Business department in 2016 include:

- Another major project is the implementation of a new crew management system, which is expected to result in significant reduction of the operational costs.
- We are deploying an employee appraisal system after the successful pilot development in 2015.
- The management of the Frequent Flyer system is scheduled to undergo an upgrade and/or a migration to the new platform.
- A new system was implemented to provide Call Centre agents with real-time data on passenger history, frequent-flyer status and other data to better serve passengers.
- The Enterprise Resource Planning system is due for upgrading.

▪ New and cost effective systems for learning management and recruitment management will replace the existing out-dated systems.

▪ A new document management system will be implemented across the whole organisation, and a catering management system developed in-house is to be deployed on-site as well.

▪ In order to improve ground-handling operations, handheld devices will be provided for boarding and a Microsoft Windows 10 application will be developed covering all the applications that are currently available on Android and Apple platforms.

▪ New releases will be deployed for the in-house developed Emergency Response System, Sales Management System, Station Control System and Crew Appraisal System.

▪ Data warehouse infrastructure capabilities will be improved, along with Wi-Fi facilities, disaster recovery capabilities, network infrastructure and telephony.

▪ The IT department also plans to be heavily involved in the project implementation of Internet and Wi-Fi streaming on board.

▪ Air Astana also plans to expand the air to ground communications network jointly with Rockwell Collins.





KATON-KARAGAY







*Air Astana is the official carrier of the professional cycling team ASTANA PRO TEAM, which has become a subject of national pride in Kazakhstan.*

Free as wild horses, fast and easy as the wind of the steppes, they gain victories for our country!

AIR ASTANA IS THE OFFICIAL CARRIER  
OF ASTANA PRO TEAM CYCLING TEAM

# RISK MANAGEMENT

Air Astana operates in a highly regulated and commercially competitive environment and, similar to other airlines, is exposed to a wide range of operational, strategic, compliance and financial risks which are mitigated via the established corporate risk management system.

Air Astana is committed to maintaining its efficient corporate risk management system, having established the risk management function at the Company's management level and continuously integrating the leading risk management practices in the industry. Risk appetite statements are communicated to Company management for the

purpose of effective allocation of resources and organisation of internal processes in order to develop necessary levels of infrastructure for operative monitoring of risks and responses to them.

Air Astana focuses on proactive decision making, utilising key risk indicators, which are based on external and internal information used by the Company in course of its operations.

Below is a list of some primary risks to Air Astana's operations that have been identified by management. This list is in no way exhaustive, as any future unforeseen events and/or factors that might arise could negatively affect the Company's performance.

Name	Description	Mitigation
Risk of aircraft loss and aviation accident	Air Astana is exposed to high impact losses that may be incurred in the event of aircraft damage or aviation accident. The resulting effects from such events would have an adverse impact on financial and operational performance due to product damage, personnel and customer death/injury, third party liability, loss of confidence by the customers, unwanted media attention affecting the Company's reputation, and court fines and material financial costs, such as increases in insurance premiums and security costs.	Air Astana maintains an integrated safety, security and quality management system, including regular safety forums and training sessions as well as audits of policies, procedures and processes designed to maximise the safety of passengers and staff. The processes complement the functional training and quality control procedures established in all departments. Regular independent assessments from Regulatory authorities including EASA, DCA Aruba and CAC Kazakhstan as well as industry assessments (IOSA) gauge Air Astana's compliance with international safety standards through appropriate safety resources and effective management. Additionally, Air Astana maintains comprehensive insurance coverage, which includes aircraft insurance, passenger liability insurance, compulsory insurance of employees and other aviation risks-related insurance according to the best practice and industry standards. In the event of aviation accident (or incident), an emergency response centre is established in order to ensure swift actions and to coordinate with any external authorities.

Name	Description	Mitigation
Risk of fuel price increase	Air Astana is exposed to the high volatility of fuel prices and related costs. Higher fuel prices will result in higher overall expenses and, consequently, increase the probability of an adverse impact on the company's profitability. This could be reflected in the increased ticket price and loss of customers. Air Astana uses around 295 thousand tonnes of jet fuel annually. Fuel is a major cost item, making up over 23% of operating expenses. Hence, volatility in the fuel prices can have a material impact on its bottom line.	For fuel sourced locally, the airline negotiates prices on a competitive basis with Kazakhstani suppliers via conclusion of stable contracts. Moreover, Air Astana maintains on-going negotiations with suppliers regarding price reductions. One important aspect is the constant monitoring of alternative suppliers in the market for domestic and international stations. Furthermore, Air Astana maintains an on-going cooperation with government and legal authorities (CRNM, Antimonopoly agency, etc.) regarding price control. For fuel bought outside Kazakhstan, the price risk is partly hedged using financial derivatives in the oil and petroleum market under the guidance of the Fuel Hedging Policy. Air Astana's standard market instruments for fuel hedging are being used only for insurance means. The main purpose of fuel hedging is to reduce cost volatility and provide protection against higher fuel prices. Air Astana also applies a fuel surcharge on domestic and international routes where the Company doesn't face restrictions as additional tool of risk reduction. Regulation of the surcharge depends on fuel prices and market conditions. To reduce overall consumption of fuel the Company implements new technologies such as winglets on aircraft and conducts pilot training specifically dedicated to effective fuel consumption.
Currency risk	Air Astana's reporting currency is Kazakhstani tenge (KZT), meaning that earnings and net assets are affected by any foreign exchange volatility. The economic condition and situation around national currency creates considerable difficulties for Air Astana in achieving positive financial goals, as the Company receives 74% of its revenues in KZT, while 64% of its expenses are denominated in foreign currency. In addition, the Company has debt liabilities denominated in foreign currency, as well as a number of cross currency risks due to the jurisdictions of the operating business including non-KZT revenues, fuel costs, spare parts, maintenance and aviation insurance costs.	Air Astana takes a number of measures to reduce the impact of currency risk, for instance the placement of free funds on deposit in foreign currency, as well as consistently trying to increase the share of revenues in foreign currencies and reduce the proportion of imports in overall purchases. In order to eliminate an accounting mismatch and smooth out the devaluation effect on the P&L, Air Astana applies the cash flow hedge of foreign currency risk. The effect of the hedge policy is to show unrealised gains/losses on hedging instruments in other comprehensive income whereas only the realised portion of the gain/loss would be reclassified from equity reserve to P&L.
Counterparty/credit risk	As part of its operations, Air Astana has counterparties – such as ticket sales agents, suppliers of goods and services, banks and financial institutions – in several countries. Should any of these parties experience any business issues affecting their ability to meet financial obligations, or cease to operate altogether, an adverse effect on the company's financial and operational performance could be sustained.	To minimise the risk exposure, Air Astana has taken preventive measures which have been developed by the Company based on the credit risk management methods, including: <ul style="list-style-type: none"> <li>Calculating and setting limits on deposits with commercial banks where free funds are stored;</li> <li>Establishing bank guarantees with ticket sales agents;</li> <li>Increasing the volume of internet and direct sales in order to reduce exposure to agents and intermediaries;</li> <li>Diversifying supply channels;</li> <li>Improving control over suppliers and assessment of their credibility.</li> <li>Air Astana continuously monitors the financial situation of counterparties and sets financial limits in order to ensure the efficiency of the risk management.</li> </ul>





Name	Description	Mitigation
Risk of insufficient number of qualified pilots	Air Astana's operational performance and flight planning depends on many factors – one being the ability to retain a sufficient number of qualified pilots. Loss/shortage of pilots can lead either to employing more expensive expat pilots to fill the gaps in the schedule or may result in sub optimal schedule performance. Competition for qualified personnel is intense, and the loss of pilots without adequate replacement or the inability to attract new pilots could affect Company's performance.	In order to mitigate the risk, Air Astana continually reviews salary and working conditions for local pilots (changes in salary scheme, state/Company pension project, etc.), and introduced the Ab-initio programme in 2008, which has proved successful. This provides a depth of resources to meet the Company's continuing needs. Air Astana also recruits direct entry pilots from the domestic market and contractors from the international labour markets. Engaging highly qualified staff is central to providing safe, reliable and high quality service. Air Astana is focused on conducting regular reviews of job conditions, high quality training and staff development to meet its qualitative and quantitative human resources targets.
Risk of non-provision of high quality in-flight services and reduction of Skytrax rating	Product and service consistency and maintenance of quality are the keys to ensuring customer satisfaction and meeting their expectations. Failure to provide high quality in-flight services might lead to the damage of reputation along with the loss of customers and also can bring about the reduction of the Skytrax rating. A decline in the level of quality, whether through a single event or a series of events, may adversely impact the Company's customer relationship and its market position, and may ultimately adversely impact profitability.	Air Astana offers extensive training programmes aimed at maintaining a high level of cabin crew skills. Along with training, the in-flight department has been restructured in the way that infuses more control mechanisms into the cabin crew's working routines. The Quality & Standards division regularly monitors customer satisfaction through various procedures (e.g., feedback from passengers via on-board coaches) and issues standards for the cabin crew for maintaining high quality services. The Performance division is constantly working with the cabin crew in order to sustain the required motivation and performance according to the set standards. The Operations division supports handling of the day-to-day issues, allowing cabin crew to concentrate on their main duties – provision of high level of on-board services. The Product and Catering division ensures the supply of provisions on board. In order to provide a more comfortable flying experience, IFSS are equipped with the crewpads containing all essential information necessary for the flight, e.g., detailed passenger information, food preferences, etc. – all in order to personalise the service both for the J-class passengers and Nomad Club Members, thereby increasing passenger loyalty.
Risk of deterioration in economic conditions and loss of revenue	Air Astana's revenue streams are highly sensitive to the economic conditions of the local, regional and international markets in which the airline operates. In particular, any deterioration in the global and/or the Kazakhstani economy may cause a drop in demand for the services, affecting tourism and business travel. The volatility of the financial and commodities markets can cause devaluation of domestic currency and may drive up the price of fuel. During such periods, it may also prove difficult to obtain acceptable financing terms for new aircraft.	Air Astana's management regularly reviews revenue forecasts and takes appropriate steps, including optimisation of the route network, monthly monitoring of network results, implementing innovations, strong cost controls and on-going cost reduction initiatives. At the same time, the Company focuses on investment in fleet expansion and modernisation, improvement of in-flight services to meet high standards and the establishment of effective business processes.

## INSURANCE

Insurance is one of the main response tools within the risk management system, enabling Air Astana to transfer parts of risk(s) to other counterparties by paying an advance premium. The Company applies consistently high standards to ensure the quality and transparency of insurance companies when arranging the coverage. The types of maintained insurance coverage distinguish between the aviation and non-aviation risks:

### Aviation insurance

Air Astana commits substantial resources to maintaining insurance coverage for its flight operations, thus placing aviation risks in the world's leading insurance markets through internationally reputable brokers. The types of policies it obtains, involving different levels of coverage, are:

1. Aviation Hull, Total Loss Only and Spares All Risks and Airline Liability including Passenger Liability
2. Aircraft Hull and Spare Engine Deductible
3. Aviation Hull and Spares "War and Allied Perils"
4. Aviation War, Hijacking and Other Perils Excess Liability

### Non-aviation insurance

Apart from the aviation insurance coverage, Air Astana regularly purchases non-aviation insurance

policies to reduce the financial risk of damage to property, interruption to business and general liability, as well as to cover employees for accidents and medical expenses. The types of policies with different levels of coverage are:

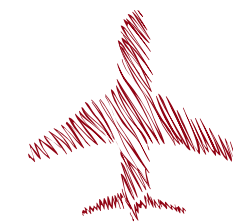
- Medical insurance for employees
- Directors, officers and corporate liability insurance
- Property insurance
- Comprehensive vehicle insurance
- Compulsory insurance for employees covering accidents on the job
- Commercial general liability insurance (public liability)
- Insurance of civil liability to customs authorities
- Loss of Pilot's license insurance

Not all risks can be insured or transferred to third parties. Given that the risks are by nature divided to internal and external ones, the monitoring and effective control over internal uninsured risks is the responsibility of the risk owners. The external risks are beyond the Company's control and represent the greatest challenge; therefore, management focuses on their identification and treats them with great caution.









*Children are the flowers of our life! Only happy kids, bold and bright as the poppies on the spring steppe will make a happy future for our country.*

Air Astana cherishes children and creates favourable conditions of flight to any destination and for any duration, turning it into an amazing adventure.

AIR ASTANA – WITH CARE FOR CHILDREN

# SUSTAINABILITY REPORT

## OUR PEOPLE

### Overview

One of Air Astana's strategic goals is to attract, evaluate and compensate employees according to merit and provide each member of our team with the ability to reach their full potential. Last year, we continued to develop the HEART (Hospitable, Efficient, Active, Reliable and Trustworthy) programme to meet this strategic goal as well as provide practical value for every employee.

While macroeconomic conditions remained difficult last year, Air Astana must recruit and retain a range of highly skilled employees and, as a result, continues to closely monitor and invest in employee branding. We also maintained a continued focus on automation of business processes to achieve better outcomes, as well as a firm focus on occupational health and safety, where continued improvements are no excuse for complacency.

### New Competencies Model

Last year, we centralised our efforts on HEART and developed a new model of competencies in line with our HEART Values that serve as the foundation for employee appraisals, the HEART Awards and training programmes. To ensure objective understanding of the requirements, we developed indicators for each competency, outlining employee conduct that is independent of their seniority or place in the reporting chain.

H - HOSPITALITY	E - EFFICIENCY	A - ACTION	R - RELIABILITY	T - TRUST
Attitude toward clients and colleagues	Business processes and continual improvement	Anticipation of changes and ability to adapt to change	Consistency in achieving results	Adherence to work and the Company
Interpersonal relationships	Work management (one's own and of subordinates)	Problem solving and decision-making	Meeting deadlines	Code of Business Ethics and culture of fairness (impartiality)
External appearance and self-presentation	Ability to clearly express one's thoughts in writing and speaking	Innovation and creativity	Punctuality and attendance	

### Updating Appraisals

Our existing employee appraisal system dated back nearly a decade, a very long time in a young company such as ours. So we were pleased to launch the new system, developed in 2014, and based on HEART values that we believe is more relevant for the Company and each employee, giving them a clear set of shared competencies that transcend any particular set of skills, which, of course remain vitally important.

### Heart Awards

In 2015, we held the first annual Heart Awards to recognise the Company's outstanding employees. The 20 winners were selected on the basis of 360-degree feedback forms filled out by all of our employees and selecting from a shortlist of 120 nominations. The voting used a methodology developed by international consultancy firm SHL based on the HEART values model. This rigorous methodology demonstrates to all employees, winners and voters alike, that the award is truly fair and objective.

The conduct of the 20 winners best reflected HEART values both in and out of the workplace. All 120 nominees received recognition in the form of pins in the shape of a heart, while the 20 winners won trips with their families to Antalya at the Company's expense. We are pleased to say that we very much plan to make the awards a tradition.

### Training and Development

In 2015, we reviewed our management training programmes in line with HEART values and focused on communication as a fundamental skill for managers critical for the success of any team. As a result, we developed and launched two new training programmes, "Communicating for Results" and "Building High Performance Teams", developed in conjunction with Wendy Shanken Cavendish. These courses are amongst the first ones of the revised Management Training curriculum based on HEART values and new competency model.

### Recruitment

In 2015, despite difficult macroeconomic conditions, the Company created 21 net new jobs. Including replacements for turnover and maternity, a total of 595 new people joined Air Astana. For the year, total employee turnover stood at 9%. Indeed, we continue to seek talented pilots, air and ground crew.

Therefore reviewed the process for recruiting cabin crew and pilots as part of the Ab-initio programme to ensure prompt training for new recruits. As part of our goal to recruit people with the right skills to become great pilots, we held open-door days in April and October for our Ab Initio pilot training programme in seven cities in Kazakhstan: Almaty, Astana, Karaganda, Aktobe, Pavlodar, Ust-Kamenogorsk and Shymkent. Some 600 people took part in the events.

We also continued our successful programme of internships with our ground services staff in Almaty and Astana. Some 33 trainees were selected to take part and 11 were subsequently hired.

### Employer Branding

To attract and retain top talent, Air Astana seeks to be an employer of choice in Kazakhstan. In 2015, we were identified as one of the most attractive employers in Kazakhstan, the survey was carried out by international company Universum in cooperation with HeadHunter Kazakhstan portal. Universum surveys annually over 1 million students in 55 countries worldwide. More than 10,000 Kazakhstani students and professionals were polled, based on a unique methodology based on around 40 attributes. Air Astana achieved the top seven positions in all eight categories. In particular, we won first place among Humanity students and professionals; second place among Business

students, third - among Business professionals. In addition, we ranked fourth - among Engineering/Science students, fifth - among Engineering/Science professionals; sixth - among IT students; and seventh - among IT professionals.

During the year, we published advertisements or earned articles in leading Kazakhstani newspapers, magazines and websites about career opportunities at Air Astana. We also dedicated a new section to our corporate website, "History of Success," which talks about recruitment, growth opportunities and shares some of our many success stories of people reaching their full potential at the Company. Finally, we also brought in school children from Nazarbayev Intellectual School with a maths and physics bent to the Company to show them how their future could look and plant a seed of interest in an aviation career.

### HR Business Partnership

We developed a new structure last year for three departmental business partners who are able to work closely with their department. For HR, this structure allows us to carry out internal communications more effectively, help spread best practices through departments and involve line managers in executing change. We have been able to transform these partners into consultants, who can give advice, regardless of their specialty, in career advances, workplace norms and regulations, managerial development and performance management.

### Automating processes

Last year was one of optimisation and automation of internal processes. New reporting and functions were added to the existing ERP system and we expanded to module for employee self-service. Creating applications for changing the staffing allows you to track the history of a particular post, the formation of an output sheet saves time and allows automatic differentiation according to post.

In addition, the Company transitioned to the automated development of the organisational structure in the Ingentis system, the main advantage of which is speed building the organisational structure, its precision and ability to build it according to grades. We also began work on introducing electronic document flow, with the transition planned for 2016-2017. This work has already had a positive impact on the HR function as they reduce various risks, as well as help us with our Company's environmental goals.



## Strengthening the Heart. Annual Management Conference

A key event last year was the annual management conference, this year themed “Strengthening the Heart”. Speeches at the conference were focused on the Company’s internal goals, linked to such factors as the macroeconomic situation in the country and wider region. Importantly, however, the priority was placed on cutting costs, which Air Astana has already effectively done, making it one of the lowest cost unit carriers. Rather, the focus was on new opportunities and strategic directions.

The interactive part of the conference was a case study focused on studying a situation that had taken place at one of the world’s largest automakers in 2015 and received widespread coverage. Participants were asked to develop an action plan for rehabilitating the brand and to share it with the others. As result of the case study, conference participants concurred that organisational culture requires constant attention, requiring the participation of all players, as well as transparency in both internal and external communications.

## Occupational Health and Safety

Our commitment to world-class safety in the air means a commitment to occupational wealth. We continued our work to maintain world-class health and safety certification for our workplaces. In March, we held an in-house tender among our employees to conduct the internal audit according to OHSAS 18001:2007 ahead of a planned third-party audit. We selected 19 out of 60 candidates, and they undertook certification training for the standard. In April, OHSAS auditors surveyed nearly 70 facilities, including four subcontractor organisations.

As result of this work, Air Astana passed the OHSAS 18001:2007 in June, carried out by third party BSI. The auditor had no negative comments. Notably, in addition to Almaty, the audit was carried out in Astana, Atyrau and Aktau. We remain vigilant on the issue and since the beginning of 2015 have had a regularly meeting OHSAS working group covering workplace safety issues, reviewing incidents and monitoring conditions on the ground.

Despite the excellent results, we are never complacent on this issue, and carried further, planned monitoring of workplace safety in 43 facilities during the second half of the year. We also continue develop our system for notification of workplace incidents and injuries and continued to held one-day workshops for employees to learn first aid (95 people took part) and further training for managers (70 took part).

## Employee compensation and benefits

We are proud to say that, despite the objective macroeconomic situation in our home market and many others in our region, we did not reduce the salary or package of benefits offered to employees last year. In December, all our employees received an annual Year End bonus. In addition, we expanded our contracts with health clubs to provide gym memberships.

In addition, the Company has done a lot of preparatory work this year to get approval of the Board of Directors for the implementation of the Corporate Pension Plan for all employees based in Kazakhstan to supplement the existing government scheme. This is a major benefit, which is being implemented in Kazakhstan for the first time. The benefit is planned for implementation in 2016.

## Outlook for 2016

The outlook and key plans for the HR department in 2016 include:

- Continued work on HEART Values to make them more effective and relevant and integrated into our training.
- Our document flow system is expected to go live in 2016.
- We will continue to perfect our appraisal system, introducing changes to align the annual appraisal with staff, such as aircrew, who are appraised on a daily basis.
- We will complete a technical and financial feasibility assessment for the Air Astana Academy – an exciting project to leverage our brand through a stand-alone institution.
- Our enhanced OSHAS monitoring and training programme is to expand to all remain Kazakhstan stations (Uralsk, Pavlodar, Ust-Kamenogorsk, Karaganda, Shymkent, Taraz, Aktobe, Kyzylorda and Kostanai).
- We have received board approval to launch our Corporate Pension Plan, an important mechanism for retaining talent.
- We plan to improve our package of voluntary supplementary medical insurance benefits for our flight crew in 2016.

## OUR COMMUNITIES

At Air Astana, we are committed to the principles of good corporate citizenship. We are committed to giving back to the communities where we live and work. As Kazakhstan’s flag carrier, we feel a particular duty to lead by example. Since 2001, we have focused in particular on children’s health, supporting our veterans and fostering Kazakhstani and international culture both at home and abroad.

Our approach to philanthropy mirrors our approach to our commercial business and is governed by our Community Investment policy that sets out standards for efficiency and transparency for all of our work in this area. We initiate and support programmes that are proven to be effective and deliver the maximum impact. The airline’s employees at all levels are also engaged with our communities, and volunteer work provides yet another source of job satisfaction.

## Supporting Our Veterans

Every year since our founding, on the eve of Victory Day (9 May), we have honoured Kazakhstani veterans of World War II. In addition, throughout the reporting period, Air Astana has provided veterans with free transportation to visit old comrades or family in Kazakhstan and throughout the CIS. Some 2,100 free tickets were issued.

Air Astana also celebrated our veterans with a special concert to mark the 70th anniversary of the end of World War II at the Kasteyev Kazakh State Museum of arts. Our employees performed some of the famous songs and dances of the 1940s. We all presented gifts to thank our heroes.

Also last year we undertook the renovation of the apartment of Colonel Vassily Zhovty, a famed fighter pilot and war veteran who marked his 94th birthday last year.

## Working with Children

Last year we continued our long-standing relationship with the Mercy Fund Miloserdiye, which helps ill children locate and take advantage specialist medical care abroad. Last year, we provided 130 children and their parents with complimentary air tickets allowing them to travel to receive treatment at medical facilities outside of Kazakhstan.

We were also proud to work with the Mercy Fund to transport child cancer survivors to participate in the Game of Winners Universal Children’s Games. Kazakhstani kids took five medals at the games.

Last year we also continued to support the Ayala Charity Foundation in its “Breathe Life” project. Under the project, the foundation uses funds to provide infectious disease clinics with resuscitation equipment for children. We placed collection boxes for the foundation at Air Astana ticket offices in Almaty, Astana and Atyrau and gathered donations totalling more than KZT 1.7 million.

Also last year, Air Astana organised a trip and provided free round-trip tickets to Astana for hearing impaired children from the Meirim School in Taraz. The students were able to enjoy a two-day visit in the capital and take part in a cooking competition organised by the airline and the Ayala Charity Foundation.

Among other efforts, we worked with a Medical Fund to provide wheelchairs to disable children. Also, to celebrate the Day of Knowledge, Air Astana and the Shugyla Fund donated 50 stationery sets to children from low-income families. In another initiative volunteers distributed strollers, books, toys and clothing from the forgotten luggage warehouse to needy families.

## Support for Culture

A major sponsorship project in 2015 and continuing in 2016 is our cooperation with EXPO-2017 in Astana. We are a partner and the exclusive Official Air Carrier of this major international exhibition. As part of our partnership, we plan to connect our online reservation system to the official website of EXPO-2017 ([www.expo2017astana.com](http://www.expo2017astana.com)).

We are also running joint publicity efforts for the exhibition and last year one of our Embraer 190 jets became the first of 30 aircraft in our fleet to carry the Astana EXPO-2017 logo on its fuselage. In addition, all arriving and transit passengers at Astana airport will be given free vouchers that can be exchanged for tickets to the exhibition.

Among other cultural initiatives, the airline sponsored a multimedia exhibition of French expressionists. We also sponsored a media summit.

## OUR ENVIRONMENT

At Air Astana, we are acutely aware of our responsibility towards society and future generations and our duty to take care of the environment. We continue to work across our business to reduce carbon emissions and waste generation, the main components of our environmental footprint. Our actions in these areas are guided by domestic legislation, industry standards and global best practices.

### Progress in 2015

In 2015, in line with Kazakhstani legislation, we developed a series of plans and programmes for addressing our impact on the local environment, including:

- Project for establishing limits for pollutants in Almaty and Astana
- Programme for waste management
- Programme for environmental oversight
- Action plan for protecting the environment

In 2015, Air Astana spent nearly KZT40 million on environmental measures, in addition to broader investments in modern equipment and aircraft that are more efficient and less polluting. Key environmental measures include:

- Improved technical servicing of fuel equipment to reduce emissions from this source
- Care for land adjacent to our facilities
- Separate collection and processing of hazardous waste
- Regular measurement of pollutants

The airline maintains contracts with specialised companies that remove and process industrial waste. All potentially harmful waste is sorted and stored separately.

### Our Carbon Footprint

According to IATA, the global airline industry is estimated to produce less than 2% of worldwide manmade CO<sub>2</sub> emissions. While the industry is not a major contributor to carbon emissions, it has set ambitious goals for the years ahead, such as improving fuel efficiency by 1.5% per year until 2020, achieving carbon neutral growth after 2020 and lowering lower emission levels to 50% of 2005 levels by 2050.

In addition, in October 2013, the ICAO Assembly agreed a deadline for introducing a global market-based mechanism addressing international aviation emissions by 2016 and applying it by 2020.

While these goals appear ambitious, new generation airplanes and engines together with improved flight management by airlines, air traffic control and airports, combine to make these goals fully achievable. Moreover, these steps should also help reduce air and noise pollution near airports, two additional externalities of the aviation business.

We estimate that 99% of Air Astana's carbon emissions come from the combustion of aviation fuel, and the rest from secondary sources such as motor vehicles and ground fleet and facilities. While the International Air Transport Association (IATA) has calculated that the airline industry is a minimal contributor to global environmental pollution, we are committed to reducing our carbon footprint.

Like other airlines, Air Astana seeks to reduce emissions through three main methods:

- Operating more fuel-efficient aircraft
- Modifying the current fleet
- Flying more efficiently

A fourth method is seeking alternative or more carbon-efficient fuels while recognising that such alternatives are not available or commercially viable at present.

Air Astana also participates in the EU Emissions Trading System (EU-ETS) and its emissions monitoring plan was approved by the German Emissions Trading Authority. Verification covered the following:

- Completeness of flight and emissions data and compliance with data from Air Traffic Control (ATC), compiled by the European Organisation for the Safety of Air Navigation (EUROCONTROL)
- Consistency between reported data and documented volumes
- Consistency between aggregated fuel consumption and purchase records

The EU-ETS included flights to and from non-European Economic Area (EEA) countries from 2012, but suspended the enforcement on flights to and from non-EU countries in April 2013. Until the ICAO global mechanism is introduced in 2016, under interim law this legislation has also been amended so that only emissions from flights within the EEA apply under the EU-ETS.

One of the most important ways in which Air Astana reduces its environmental impact is by maintaining a young and fuel-efficient fleet. In 2015, the average operating age of our 30-plane fleet was 6.8 years. Of these, 21 aircraft were supplied to the airline between April 2011 and June 2014 from leading global aircraft manufacturers.

Our fleet renewal process has included the complete replacement of our Fokker-50 turboprop fleet with Embraer-190 jet aircraft, as well as the introduction of new Airbus A320/A321 and Boeing 767-300ER obtained directly from the manufacturer.

We also have an on-going programme to reduce weight on our aircraft to reduce fuel consumption and emissions. Examples include using lighter facilities for on-board services and moving to paperless documentation through systems such as the Electronic Flight Bag for pilots and Crew Pad for cabin crew.

As a result of these measures, we have achieved a steady reduction in recent years in emissions as measured by tCO<sub>2</sub> per average seat kilometre (ASK).

In line with local legislation, the airline's pollutant emissions in Almaty in 2015 amounted to around 17.6 tonnes, compared to an established limit of 32.1 tonnes. Emissions in Astana amounted to 8.9 tonnes, compared to a limit of 16 tonnes.

### Efficient Routing

Air Astana is also trying to lower unit fuel consumption through "green" flight crew decisions on flight planning, flight speed, take-off and landing trajectories and weight of fuel on board. Pilot decisions are supported by advanced systems to ensure safety is the overriding factor when decisions are made.

In addition to upgrading and improving the aerodynamics of its aircraft, Air Astana is also reducing emissions by flying the shortest routes. We have improved our flight planning system, which optimises flights and hence cuts fuel use.

### De-icing

Aircraft de-icing and anti-icing have a significant impact on the environment. Our employees and

subcontractors who work with chemical products at airports take mandatory annual training on environmental protection. Air Astana uses Clariant fluid for de-icing, which is recognised worldwide for being safe for people and the environment. All of our de-icing and anti-icing procedures meet international aviation regulations and requirements, such as EU OPS-1, as well as the standards and recommended practices published by IATA, ICAO, EASA, FAA, Transport Canada, AEA and SAE. In 2015, we acquired two new de-icing vehicles using highly efficient technology that substantially reduces the consumption of de-icing fluid.

### Reducing waste generation

While reducing CO<sub>2</sub> emissions is a critical part of Air Astana's environmental policy, another priority across all areas of our business is reducing waste generation and promoting recycling where possible.

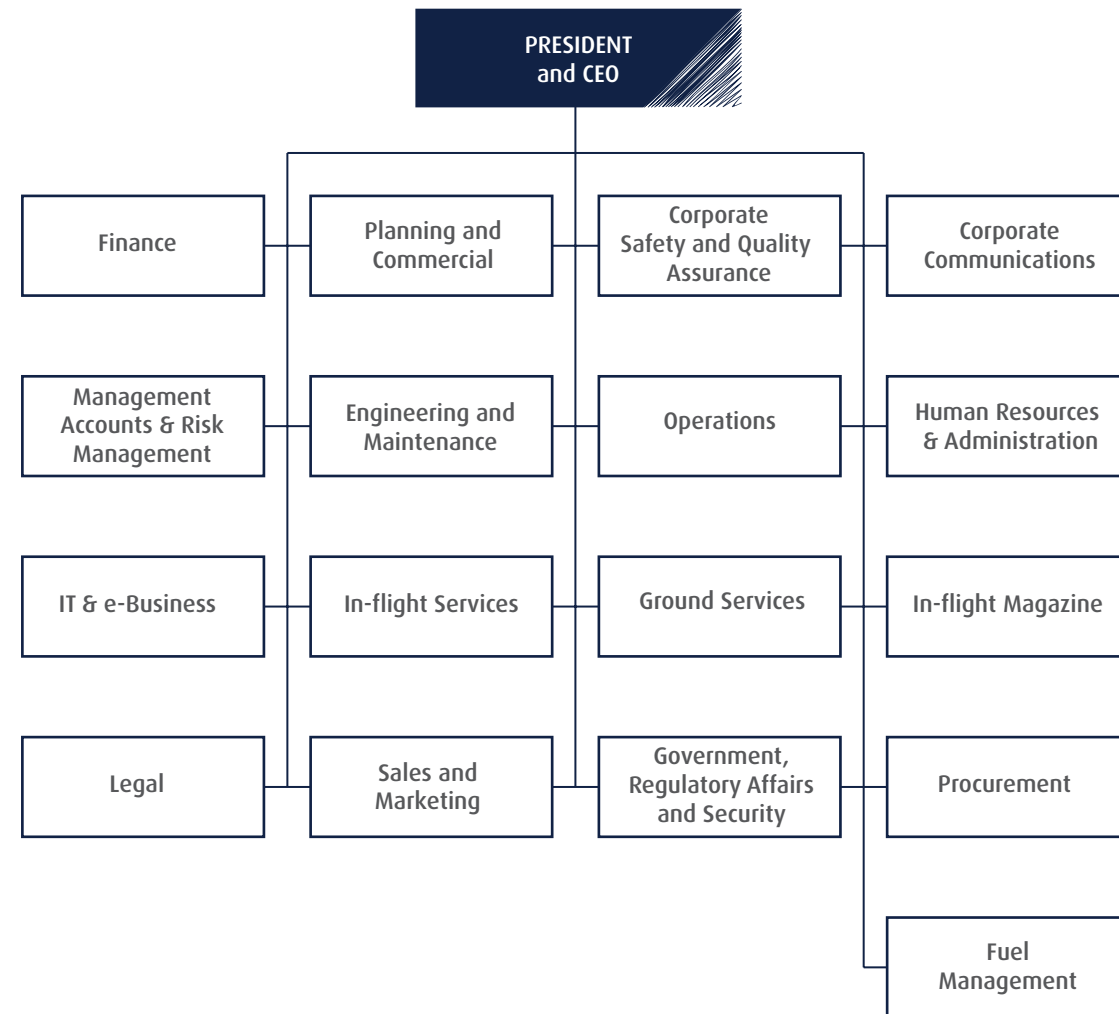
One example is the use of e-tickets and online registration, which reduces the amount of paper tickets. We are also looking to introduce our mobile boarding product in 2016. In addition, we continue to reduce the overall volume of printed material, and current IT initiatives are designed to create paper-free systems throughout the business. Looking ahead, we are considering procurement policies that will introduce sustainability criteria for products and services.

Last year, we launched a programme to collect and recycle waste paper and household batteries. Between April and the end of December, we collected more than 20 tonnes of waste paper and five tonnes of batteries. We see this initiative as a way to increase consciousness of recycling among our employees and Kazakhstani society more widely.

In addition, each month our station managers collect information about the amount of loaded food and the number of transported passengers. The analysis of this information allows more effective planning for catering and minimises waste. We take a similar approach to provision flights with equipment and other supplies.



# CORPORATE STRUCTURE



# MANAGEMENT TEAM

## Peter Foster President & CEO

Peter entered the airline industry immediately after graduating from Cambridge University in 1982, as a management trainee of John Swire and Sons (HK), the owner of Cathay Pacific Airways (CPA). From 1982–99, he served in various management and senior management positions with CPA in Hong Kong, Asia, Australia and Europe, and participated in business management training at INSEAD, France. In 1999, he left CPA to head the rehabilitation team of Philippine Airlines. From 2002 to 2005, he served as Chief Executive Officer of Royal Brunei Airlines, before becoming President of Air Astana.

## Alma Aliguzhinova Senior Vice President, Strategic and Commercial Planning

Alma was among the first employees to join Air Astana before the start of commercial operations at its initial stage of development in 2001. She began as Corporate Development Manager before progressing to the position of Corporate Development Director, Vice President, Planning, and her current position, Senior Vice President, Strategic and Commercial Planning. Alma is a Bolashak alumnus and holds an MBA from East Carolina University, US.

## Yerbol Ospanov Senior Vice President, Government, Regulatory Affairs and Security

Yerbol brings with him over 35 years of unique experience and education in the aviation industry. In 1985, he earned an aviation business management qualification, following graduation from the Officers Training faculty of the Civil Aviation Academy in Leningrad, Russia. In 2002, he obtained a Bachelor of Law degree from the law school of Kazakh National University. Since 1992, he has served as Chief Pilot for the fleet of the President of the Republic of Kazakhstan. Yerbol joined Air Astana in 2005 and is currently a Senior Vice President as well as a pilot-instructor on Boeing 757/767s. He holds FAA ATPL and Transport Canada ATPL certificates following flight training at the Sheffield School of Aeronautics (Florida, US) and Canadian Airlines (Vancouver, Canada).

## Ibrahim Canliel Senior Vice President, Marketing and Sales

Ibrahim started his career in tourism, where he was active in several roles over nine years, ending as a manager of a major tour operator in Turkey. In 1998, he joined KLM, and after a brief appointment in the Middle East, he took a regional management role for Central Asia and the Caucasus. In 2003, he joined Air Astana, working in the Commercial Planning, Marketing and Sales departments. Ibrahim holds a bachelor's degree in Economics from Marmara University and an MBA from Bosphorus University, and speaks five languages. During his employment with Air Astana, he served as a board member of the European Business Association of Kazakhstan between 2005 and 2008.

## Gerhard Coetzee Senior Vice President, Corporate Safety Compliance

Gerhard started his career as an Air Force navigator and is a qualified Accident Investigator with qualifications in (Aviation) Safety Programme management from various institutions including University of Southern California. He holds a Bachelor's degree in Commerce and an Honours degree in Transport Economics from University of South Africa. He has been actively involved in flight safety for the past 25 years including as Staff Officer Flight Safety in the South African Air Force and Managing Consultant with BAE Systems.

## Anthony Regan Senior Vice President, Operations

Anthony has over 35 years of experience in aviation. He was Head of Flight Operations and OPS post holder at Air France/KLM subsidiary Cityjet from 2001 to 2012, where he was responsible for all aspects of Flight and Cabin operations. Prior to that, he was a Director at Parc Aviation. His early career was as a pilot with the Irish Air Corps where he held a number of operational appointments, including Chief Flying Instructor retiring with the rank of Commandant. He holds a current JAA and FAA Air Transport Pilot Licence. He is a graduate of University College Dublin in Mathematics and Mathematical Physics.

### **John Wainwright** Senior Vice President, Engineering Group

John has over 35 years of aircraft maintenance experience, both in Base and Line maintenance. He was educated in the United Kingdom and trained at the Royal Aircraft Establishment, Bedford. After spending almost 20 years working for Britannia Airways, he moved to South East Asia, working for Royal Brunei Airlines in Brunei, Vietnam and Nepal. When he left Brunei to immigrate to Australia, he held the position of Head of Maintenance. John joined Air Astana in 2006 as the Maintenance Manager. He is a holder of an EASA B1 and C category Maintenance Engineers License.

### **Alima Zamanbekova** Chief Accountant

Alima joined the airline in mid-2003 as Chief Accountant. Prior to joining Air Astana, she held Chief Accountant positions in the oil industry. Alima graduated from the Institute of Foreign Languages (English faculty) and from Kazakh State Academy of Management, specialising in Accounting and Audit. She is a Certified Accountant and a member of the Chamber of Professional Accountants.

### **Michael McDonagh** Senior Financial Adviser

Michael has over 40 years of aviation experience, having started his career at Aer Lingus where he held various financial management positions including secondment on overseas airline management contracts, mainly in Africa. He left Aer Lingus in 1994 and, before joining Air Astana, he participated in various airline financial management and consultancy projects in Africa, Canada, the Caribbean, South America and Eastern Europe. He is a graduate of University College Dublin with a Bachelor of Commerce Degree. He is a member of the Chartered Institute of Logistics and Transport.

### **Yevgeniya Ni** Vice President, HR and Administration

Yevgeniya is a graduate of Karaganda State University named after E. A. Buketov and holds diplomas in foreign languages and law. She joined Air Astana in October 2002, as Executive Assistant to the President. Since September 2005, she has been the head of the HR Department, which also oversees the Health and Safety, Administration

and Transport divisions. Under her leadership, a transparent system of recruitment and corporate training was created and a performance evaluation and reward system was introduced. Yevgeniya regularly participates in professional conferences and congresses as an expert, moderator and speaker. She has numerous diplomas and certificates in management and personnel management.

### **Galina Umarova** Vice President, Fuel Management

Galina has extensive experience in the airline industry. Before joining Air Astana, she was Director of Finance at Astana International Airport JSC. Galina graduated from Aktobe State University named after K. Zhubanov and holds a master's degree in Public Administration from KIMEP in Almaty.

### **Aidar Kashkarbayev** Vice President, Legal Affairs

Aidar has over 15 years of experience in jurisprudence. He started practicing law at the Ministry of Foreign Affairs of the Republic of Kazakhstan in 1993. Prior to joining Air Astana, Aidar worked for Denton Wilde Sapte law firm and KPMG. He also worked as a manager of the legal department at Karachaganak Petroleum Operating B.V. based in Karachaganak oilfield, Western Kazakhstan. Aidar graduated from Kazakh National University and completed a study placement at Southern Illinois University, US, under the visiting scholar programme.

### **Chamindra Lenawa** Vice President, IT and e-Business

Chamindra is an IT professional with management experience at three national carriers and initially joined Air Astana as Manager, IT Business Systems. He then held the position of Director of IT and e-Business. Chamindra holds a Master's Degree in Business Administration and a Bachelor of Science Degree in Electronics and Telecommunication Engineering. Further, he is a certified PMP (Project Management Professional, PMI – US) and a Chartered Information Technology Professional of British Computer Society. Chamindra holds certifications in different IT domains and is a professional in airline reservations, ticketing, departure control systems and business operations.

### **Bella Tormysheva** Vice President, Corporate Communications

Bella has over 15 years of experience in public relations, information and cultural activity. Before

joining Air Astana, she worked as part of the delegation of the European Commission covering Kazakhstan, Kyrgyzstan and Tajikistan. She holds a master's degree in International Relations. Bella has attended numerous training activities abroad.

### **Dilyara Kunkhozhayeva** Vice President, Procurement

Dilyara joined Air Astana in early 2006 as Financial Analyst. She holds a Bachelor's and a Master's degree in Business Administration and Accounting from KIMEP (Almaty), where she majored in management and finance. After graduating, she worked at Ernst and Young and KIMEP in Almaty. After becoming Head of Management Accounts in 2008, Dilyara was appointed Director of Procurement in June 2012 and became Vice President, Procurement, in 2013.

### **Mergali Alzhanov** Vice President, Flight Operations

Mergali has extensive experience in the aviation industry. Educated at Aktobe Civil Aviation Flight School in 1980, he began his career as a co-pilot on the Yak-40 in the Kokchetav aviation squadron, and in 1991, he transferred to the Almaty squadron. After working for several airlines, Mergali joined Air Astana in 2004 as a captain on Boeing 757s.

### **Aiman Tileubayeva** Vice President, Network and Revenue Management

Aiman joined Air Astana in November 2003 as Commercial Planning Manager, responsible for schedule and network planning. Before that, she worked at Air Kazakhstan for five years. Aiman graduated from the Kazakh National University and has a PhD in Applied Mathematics. She was appointed Director, Network and Revenue Management, at Air Astana in February 2009, and became Vice President Network and Revenue Management in January 2013.

### **Aizhan Omar** Vice President, Management Accounts and Risk Management

Aizhan is a graduate of Taraz State University named after M. Kh. Dulaty and holds Diploma in International Economic Relations, also she holds an MBA from KIMEP (Almaty) with major in management and finance. She joined Air Astana in August 2006 as

Financial Analyst. From June 2012 to January 2014 she was a Head of Management Accounts. Since January 2014, she has held the position of the Vice President Management Accounts and Risk Management.

### **Russel Ellis** Vice President, Operations Control

Russel has nearly three decades of aviation experience, and he held several senior management positions in airlines in South Africa and the Middle East before joining Air Astana in 2007. His early experience was in the military, where he qualified as a navigator and instructor. He holds an MBA from the University of Liverpool, UK. He is responsible for the day-to-day operational control of the airline and emergency response readiness.

### **Richard Ledger** Vice President, Worldwide Sales

Richard joined Air Astana in March 2006 as Regional General Manager for the EU, US and Canada. Based in London, he was primarily responsible for the creation of a sales network throughout the region. Before joining Air Astana, he worked in corporate sales for Singapore Airlines in London for five years, before becoming Sales and Marketing Manager, UK, at Royal Brunei Airlines in January 2005. Richard started his travel industry career in 1993, after graduating from Lancaster University with a MA in Travel and Tourism, and from the University of London (UCL) with a BA in Geography. Richard relocated to Almaty in February 2009, assuming the position of Director Sales Worldwide and in January 2014 was promoted to Vice President, Worldwide Sales.

### **Margaret Phelan** Vice President, In-Flight Service Delivery

Margaret has nearly two decades of experience in the aviation industry. Educated at the College of Commerce Ireland, Margaret held the positions of Head of Cabin Crew Training and Standards and Head of Cabin Services while at the Air France/KLM subsidiary CityJet from 1995-2012. Margaret has also completed a number of EU OPS, management and instructor training courses.

### **Grigoriy Zyryanov** Director, Commercial Engineering

Grigoriy entered the airline industry immediately after graduating from the Civil Aviation Academy of Kazakhstan in 2001, as a Senior Engineer and Technologist at Aircraft Repair Plant 405. He then



served as Deputy Chief of Production Planning and Control Department at Air Kazakhstan, before becoming Maintenance Programme Engineer in the Maintenance Planning department of Air Astana in 2004. Later, he was promoted to Maintenance Planning Manager. In 2010, Grigoriy was responsible for launching Air Astana's Base Maintenance team, as well as obtaining EASA certification for its workshops in April 2011. He was appointed Director of Commercial Engineering in April 2012 to oversee the technical aspects of fleet management.

### **Azamat Ospanov** Director, Engineering Finance and Materials Management

Azamat studied economy, accounting and audit at Suleyman Demirel University. He started his professional career with Ernst and Young and became an experienced audit manager with KPMG. Azamat joined Air Astana in April 2009 as a finance manager specialising in accounting and finance processes. As a senior finance manager, he was the head of airline-specific revenue accounting and was responsible for the banking and treasury functions. In January 2013, Azamat was appointed Director of the Finance department within the Engineering and Maintenance group.

### **Timur Yakupov** Director, National Development

Timur is an aeronautical engineer with more than 20 years of experience. After receiving a classic aviation education in the former Soviet Union, he began his career as a mechanic for aerobatic aircraft. He served in the army as an infantry weapons specialist in military transport aviation. He continued his career in Kazakhstan as a technician for the Tu-154, and further mastered the maintenance of the main types of passenger and cargo aircraft in the former Soviet Union. Timur has worked in Air Astana since its creation, having started as a shift supervisor. He holds an engineering licence and can service more than 11 types of aircraft and their modifications.

### **Marat Sekerbekov** Director, Flight Operations Support

Marat has worked in the aviation industry for more than 30 years with various Kazakhstani and international airlines. After graduating from Kirovograd Flight Academy of the National Aviation University of Ukraine, he began his career with the USSR's Aeroflot. In 1994, he entered the Kazakhstani airline industry. In 2005, Marat joined Air Astana as

a co-pilot in the Fokker 50 fleet and progressed in the flight operations management team from co-pilot to chief pilot. In 2013 Marat was appointed as Director, Flight Operations Support.

### **Adriaan Jan Meijer** Director, Standards

Adriaan commenced his career as a pilot at KLM Cityhopper in 1978, initially as a first officer on the DC-9 and later as a captain on the Fokker 50, later becoming a training captain and standardisation officer, before progressing to the rank of Chief Pilot. He moved to the Boeing fleet with KLM and flew the Boeing 767 as a training captain. On retiring from KLM he became Director of Operations at Dutchbird, who were operating B757 and A320 aircraft, where he implemented ETOPS and CATIIB operations in addition to acting as the JAR-EU Operations Postholder for operations. Apart from his wide-ranging training, operational and standards experience, he has worked with IATA as Deputy Director Flight Operations and Head of Safety and was a Member of the ICAO panel who implemented the ICAO fuel SARP and Extended Diversion Time Operations (EDTO). Adriaan is also a medical doctor.

### **Filippos Siakkas** Director, Operational Training

Prior to joining Air Astana, Filippos was a Training Postholder at Olympic Air, responsible for managing all activities related to crew initial and recurrent training and for the integration of cadet pilots into the company. He has also held a number of management positions in the area of Flight Operations Support including the Director of Flight Standards. Filippos started his career in 1989, joining Olympic Airways as a first officer. During his career as a pilot, he has flown B737, A300 B4, A300-600 as a First Officer and B737, A320 as a Captain before progressing to Pilot Instructor and Examiner.

### **Aigul Omurzakova** Director, Business Planning and Fleet Portfolio

Aigul joined Air Astana in 2004 as Junior Revenue Accountant. From 2005, Aigul held the position of Deputy Head of Revenue Accounts. She holds a Bachelor's degree in Business Administration and Accounting from KIMEP (Almaty) with major in accounting and management. She was appointed as Director, Business Planning and Fleet Portfolio in January 2014.

### **Rafael Taizhanov** Director, Commercial Planning

Rafael was among the first employees to join Air Astana at its initial stage of development. His career in aviation began in 1998 in the scheduling department of Air Kazakhstan. Rafael graduated with distinction from the Physics Department of the Kazakh State University. He holds a SMART MBA Diploma from the Samruk-Kazyna Corporate University and IATA diploma in Sales and Marketing. He was appointed as Director, Commercial Planning at Air Astana in 2014.

### **Serik Rys-uly** Director, Sales CIS

Serik has worked at Air Astana since 2009 when he joined the Sales Department team in Kazakhstan. After the opening of the Almaty-Tashkent route in 2010, he became the head of Air Astana's representative office in Uzbekistan. From 2013 to 2014, Serik was the head of the sales department in the Russian Federation. Before Serik joined Air Astana, he worked at Talgo Kazakhstan and Prime Aviation airlines. He graduated from Kazakh State Academy of Management with a specialisation in International Economic Relations.

### **Zhanar Zhailauova** Director, Sales Asia

Zhanar began her career in the airline in May 2006 as a sales specialist for the EU, US and Canada. As a certified English translator with a degree from the Eurasian National University, she continued her education from 2004 to 2005 and took special tourism courses at the London Academy of Professional Training. From 2006 to 2014, she held various management positions in the company's representative offices in the UK and UAE, including sales manager for Kazakhstan and Central Asia, Regional General Manager for the Middle East and India, and Director of the booking and sales department. In 2015, she was appointed Sales Director for Asia. Zhanar has an IATA diploma in revenue management.

### **Keith Wardle** Director, Engineering

Keith has 30 years of aviation engineering experience. He studied at Kingston University, London, UK and gained an honour's degree in Aircraft Engineering and a master's degree in Professional Engineering. He began his aviation

career as an aircraft engineering apprentice in the Royal Air Force, followed by several years supporting military fast jet aircraft. Later, Keith became a licensed aircraft engineer and gained a vast experience of commercial aircraft. He has taken assignments all over the world, including Chile, Alaska, Belgium, Saudi Arabia, China and New Zealand. Previously, as a member of the DHL management team, he supported their aircraft fleet and helped to launch two new airlines based in the UK and Germany. Keith joined Air Astana in November 2013 as Engineering Manager.

### **Alexandr Neboga** Director, Ground Services

Alexandr graduated from Eurasian National University with a degree in International Relations and started his career at Air Astana in 2005 working as a ground handling agent in the Ground Services department. Alexandr has held various positions with high levels of responsibility throughout his career at the airline and he has held management positions from 2010. Alexandr has managed the airline's branch at the Almaty airport since 2013. He also completed a Management Training Program at Cranfield University, United Kingdom. He was appointed as Director Ground Services in January 2016.

### **Zhanar Bimendina** Director, Human Resources

Zhanar joined Air Astana as a Procurement Specialist in 2003 with previous experience in HR of Intercontinental Hotel. In 2005 she moved to HR department as Senior HR Adviser. She holds Diplomas in English, Finance and Legal. In 2012, she obtained an IATA Diploma in Human Capital Management.

### **Igor Segedin** Chief Pilot

Igor has extensive experience in aviation. After graduating with honours from Aktobe High Civil Aviation School in 1991, he was assigned as a First Officer of Tupolev 134s at Almaty flight division. He joined Air Astana in 2002, initially as first officer, then he flew as a captain and a flight instructor of Boeing 737NG. In 2006, after successful type rating training on Airbus, he was assigned as a Chief Instructor of Airbus 320 fleet where he was closely involved in the development and establishment of this new fleet for the airline. After 11 years with Air Astana, Igor rose from First Officer to Senior Manager of Flight Training. In 2013, he was appointed Chief Pilot.





TABAN-KARAGAY







AIR ASTANA IS A DYNAMICALLY  
DEVELOPING KAZAKHSTANI COMPANY



*Kazakhstan is a dynamically developing  
country with a unique pattern of  
economic development.*

Air Astana is the hallmark of Kazakhstan and the Company's  
success is of special importance for the country.

# CORPORATE GOVERNANCE REPORT

## INTRODUCTION AND KEY PRINCIPLES

### Introduction

At Air Astana, we view best practices in corporate governance as playing a crucial role in running our company efficiently. Such an approach reduces the cost of raising capital, and contributes to the strong reputation and trust enjoyed among all of our stakeholders. In addition, as Kazakhstan's flagship carrier, we believe we are a standard bearer for world-class corporate governance in our home country. We are committed to meeting the highest corporate governance standards through the continual improvement of our corporate governance system, for which we have established fundamental principles outlined in this report.

### Our Key Principles of Corporate Governance

**Shareholders' rights and interests must be protected:** We pledge to protect and respect the rights and interests of all shareholders as stipulated by law. We are committed to efficient management, asset growth, financial stability and profitability.

**The Board of Directors must manage effectively:** In exercising its duties, the Board of Directors undertakes to ensure that the interests of all shareholders are fully observed, its own deliberations and actions are carried out openly, and it takes responsibility for the Company's actions.

**The Executive Body must fulfil its role effectively:** Responsible for the day-to-day management of the Company, the Executive Body is tasked with implementing strategy while always adhering to integrity, honesty, rationality, prudence and regularity.

**The Company must conduct its activities independently:** Air Astana will conduct its activities in the best interests of its shareholders and in accordance with the provisions of the Corporate Governance Code, provided that it is in compliance with the Charter. At all times, the Company will conduct its activities independently.

**Information about activities must be disclosed in a transparent and objective manner:** Air Astana is committed to providing shareholders with the necessary information required to make informed

decisions. It undertakes to distribute information about its activities to interested parties and ensure timely disclosure to shareholders and interested parties of reliable information about the Company. This includes information about our financial situation, results of activities, ownership and management structure.

**The Company and its employees must behave legally and ethically:** Air Astana and all of its employees adhere to the legislation of the Republic of Kazakhstan. Relations among the shareholders and members of the Board of Directors and Executive Body will be based on mutual trust, respect, accountability and control.

**Air Astana must maintain an effective dividend policy:** With respect to dividends, we follow the rules set forth in legislation and our internal regulations. We seek to ensure a simple and transparent mechanism for setting the amount of dividends and terms of their payment. Our dividend policy will be sufficiently transparent and available to shareholders, potential investors and the general public of Kazakhstan.

**The Company must maintain effective human resources policies:** We are committed to protecting the rights of our employees as stipulated by legislation and engaging with them to solve social issues and manage working conditions.

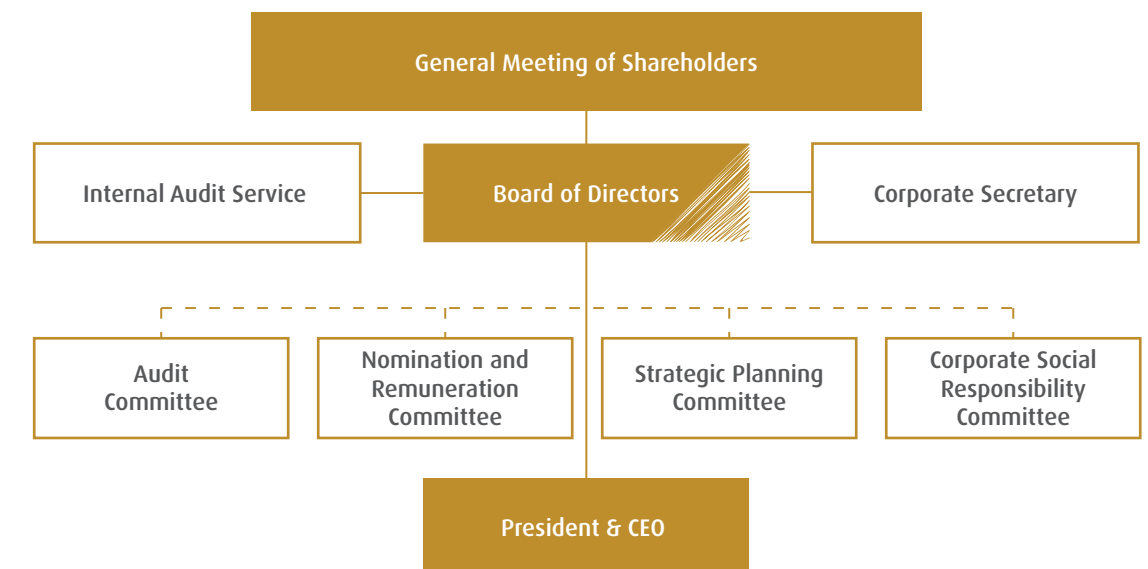
**Air Astana is committed to protecting the environment:** In our day-to-day operations and long-term strategy, we are committed to environmentally sustainable growth. We follow the principles of maximum environmental friendliness and a rational attitude to the environment, as prescribed by legislation and according to generally accepted business standards.

**Policy for settling corporate conflicts and conflicts of interest:** All employees will behave in a way that prevents conflicts of interest involving either themselves (or related parties) or others. If corporate conflicts arise, those involved will find a way to settle them amicably to ensure the effective protection of both shareholders' rights and the reputation of Air Astana.

**Principle of responsibility:** The Company will recognise and respect the rights of all interested parties and strive to cooperate with them to further development and ensure financial sustainability.

## GOVERNANCE BODIES AND SHAREHOLDERS

### GOVERNANCE BODIES



### Shareholders

Sovereign Wealth Fund "Samruk-Kazyna" JSC owns 51% of Air Astana.

Samruk-Kazyna was created on 3 November 2008 through a presidential decree of the Republic of Kazakhstan (dated 13 October 2008) and a government decree of the Republic of Kazakhstan (dated 17 October 2008) to improve the competitiveness of the national economy and mitigate external risks to domestic economic growth.

Registered address:  
Block B, 8 Kunayev street  
010000, Astana  
Kazakhstan

BAE Systems (Kazakhstan) Limited owns 49% of Air Astana.

BAE Systems (Kazakhstan) Limited, a subsidiary of British corporation BAE Systems plc, is engaged in the development, delivery and support of advanced defence, security and aerospace systems on land, at sea, in the air, and in space.

Registered address:  
PO Box 87  
Warwick House  
Farnborough Aerospace Centre  
Farnborough  
Hampshire  
GU14 6YU  
United Kingdom



## GENERAL MEETING OF SHAREHOLDERS

*Air Astana's senior corporate governance body is the General Meeting of Shareholders. It makes decisions on all key issues concerning the Company's business. The legislation of the Republic of Kazakhstan, Air Astana's Charter and other internal documents define the functions and regulate the activities of the General Meeting of Shareholders.*

### Responsibilities

The General Meeting of Shareholders has exclusive responsibility, without limitation, for the following matters:

- Election of members of the Board of Directors, as well as determination of the number of directors and their terms in office
- Election, determination of the term in office and dismissal of the President, Vice President for Flight Operations and Vice President for Engineering and Maintenance
- Approval of the long-term development strategy
- Approval of the short-term and medium-term business plans (development plan and annual budget)
- Approval of the annual financial reports
- Approval of major and interested-party transactions, as well as other transactions requiring the approval of the General Meeting of Shareholders in accordance with the law
- Purchase or financial lease of any aircraft

### Issues considered at the General Meetings of Shareholders in 2015

In 2015, 10 General Meetings of Shareholders were held, and the following issues were considered:

#### Governance and Remuneration

- Deciding on the determination of the composition and terms of office of the Nomination and Remuneration, Strategic Planning, Audit and Corporate Social Responsibility Committees of the Board of Directors of the Company

- Election of the members of the Board of Directors of the Company
- Approval of the amount and terms of remuneration and compensations to the Independent Directors of the Company
- Approval of the amount and terms of remuneration and compensations to the President of the Company
- Approval of the amount of the annual bonus payment to the President of the Company following the results of work for the year 2014
- Approval of the amendments to the Regulations of the Nomination and Remuneration, Strategic Planning, Audit and Corporate Social Responsibility Committees of the Board of Directors of the Company
- Approval of the amendment to the Dividend Policy Regulations of the Company
- Consideration of claims of the Shareholders against the actions of the Company and its officers for 2014

#### Financial and Operational Activity

- Approval of the annual report of the Company for 2014
- Approval of the annual financial statements of the Company for 2014
- Approval of the procedure for distribution of the net income of the Company for the year 2014, deciding on payment of dividends on common stocks and approval of the amount of the dividend for the year 2014 per one common stock of the Company
- Entering into an operating lease for one Airbus A319 type aircraft

- Approval of the decision on entering by the Company into a major transaction on extension of the operating lease agreement for one Airbus A319 type aircraft. Deciding on increasing the Company's liabilities by an amount of more than \$5,000,000 in connection with entering by the Company into a major transaction on extension of the operating lease agreement for one Airbus A319 type aircraft

- Approval of decisions on entering by the Company into Lease Novation and Amendment Agreements in relation of one Embraer 190-100LR aircraft and one Airbus A320-200 aircraft

- Approval of the decisions on entering by the Company into major transactions with JSC Citibank Kazakhstan and JSC AB Bank of China Kazakhstan for the issue of Letters of Credit on an unsecured basis. Deciding on increasing the Company's liabilities by an amount constituting 10% or more of the equity capital of the Company or an amount of more than US\$5,000,000 in connection with entering by the Company into major transactions

- Amending the decision of the General Meeting of Stockholders of the Company dated 30 January 2015 in relation to entering into the Amendment Agreement with JSC Citibank Kazakhstan for the increase of the facility

- Approval of the decisions on entering by the Company into major transactions on the procurement of jet fuel for ramp refuelling with CJSC TZK Sheremetyevo (Moscow Airport, the Russian Federation), Air BP Limited (Frankfurt-on-the-Main Airport, Germany), Chevron Products Company, a division of Chevron U.S.A. Inc. (Bangkok Airport, Thailand), Petrol Ofisi A.S. (Istanbul Airport, the Republic of Turkey) and Petronas Dagangan Berhad BHD (Kuala Lumpur Airport, Malaysia). Deciding on increasing the Company's liabilities by an amount of more than US\$5,000,000 in connection with entering by the Company into major transactions

- Approval of the decisions on entering by the Company into major transactions with the group of banks Deutsche Bank AG, Natixis and The Royal Bank of Scotland Plc for the issue of Letters of Credit, as well as with Lukoil OJSC and Gazpromneft-Aero CJSC for the procurement of jet fuel. Deciding on increasing the Company's liabilities by an amount of more than US\$5,000,000 in connection with entering by the Company into major transactions

- Amending the decision of the General Meeting of Stockholders of the Company dated 19 December 2014 in relation to the major transaction with Halyk

Bank of Kazakhstan JSC for the issue of Letters of Credit on an unsecured basis

- Approval of the decision on entering by the Company into a major transaction with Natixis for the issue of the Letters of Credit on secured (cash collateral) basis. Deciding on increasing the Company's liabilities by an amount of more than US\$5,000,000 in connection with entering by the Company into a major transaction for the issue of Letters of Credit on a secured (cash collateral) basis

- Deciding on increasing the Company's liabilities by an amount of more than US\$5,000,000 in connection with entering by the Company into a transaction with Citibank Kazakhstan JSC on the issue of Letters of Credit and bank guarantees

- Approval of the decisions on entering by the Company into major transactions with Air Lease Corporation and AerCap Holdings N.V. on operating lease of Airbus A320 NEO/A320-200 NEO/A321-200 NEO/A321 NEO-LR type aircraft. Deciding on increasing the Company's liabilities by an amount constituting 10% or more of the equity capital of the Company in connection with entering by the Company into major transactions on operating lease of aircraft

- Amending the decisions of the General Meeting of Stockholders of the Company dated 15 June 2015 in relation to the major transactions with Air Lease Corporation on operating lease of Airbus A320 NEO and Airbus A321 NEO-LR or A320 NEO types aircraft.

- Approval of the decisions on entering by the Company into major transactions with Consortium of STS Genpodriad LLC and Migalit LLP represented by the branch office of STS Genpodriad LLC in Astana for the purchase of works on construction of the Aviation Technical Centre of the Company at Astana International Airport, with the European Bank of Reconstruction and Development for the financing of the construction of the Aviation Technical Centre of the Company at Astana International Airport and Embraer Aviation International SAS-EAI for the purchase of components and spare parts lease services and access to the spare parts pool with regard to the Embraer EJET family Embraer 190 type aircraft. Deciding on increasing the Company's liabilities by an amount of more than US\$5,000,000 or an amount constituting 10% or more of the equity capital of the Company in connection with entering by the Company into major transactions

- Approval of the decisions on entering by the Company into major transactions with Citi



International Limited for the issue of Stand-By Letters of Credit on secured (cash collateral) basis and Gazpromneft-Aero CJSC and Petrosun LLP on the procurement of jet fuel. Deciding on increasing the Company's liabilities by an amount of more than US\$5,000,000 or an amount constituting 10% (or more of the equity capital of the Company in connection with entering by the Company into major transactions for the issue of Stand-By Letters

of Credit on secured (cash collateral) basis and procurement of jet fuel

- Approval of the decision on entering by the Company into the Lease Novation and Amendment Agreement in relation to one Boeing 757-200 Aircraft between the Company (as the Lessee), Pegasus Aviation V, LLC (as the Original Lessor) and Aircraft Solutions 700 LLC (as the New Lessor)

## BOARD OF DIRECTORS

*The Board of Directors is the governing body of Air Astana responsible for developing the Company's strategy, general management of its activities and overseeing the activity of the Executive Body. The Board of Directors performs its functions in accordance with the Charter, the Corporate Governance Code and other internal Company documents.*

*The Board of Directors consists of six members elected by the General Meeting of Shareholders, with two members nominated by the Sovereign Wealth Fund "Samruk-Kazyna", two members nominated by BAE Systems and two independent directors.*

### Composition of the Board of Directors as at 31 December 2015

#### Chairman of the Board of Directors Nurzhan Baidautov

Nurzhan Baidautov has been the Chairman of the Board of Directors of Air Astana since 2008. He is a member of the Nomination and Remuneration Committee. He is currently Chief Director for Asset Management of the Sovereign Wealth Fund "Samruk-Kazyna". Since 2012, he has been the Chairman of the Board of Directors at National Company Kazakhstan Temir Zholy JSC, and since May 2012, the Chairman of the Board of Directors of Kazakhtelecom JSC. His distinguished career in the Kazakhstan transportation industry spans about three decades. Mr Baidautov is a recipient of the Kurmet Medal.

#### Professional experience:

2014 to present – Chief Director for Asset Management of the Sovereign Wealth Fund "Samruk-Kazyna"

2008-2014 – Managing Director of the Sovereign Wealth Fund "Samruk-Kazyna"

2006-2008 – Director of Transport Asset Management of Samruk Holding JSC

2004-2006 – Chairman of the Rail Communications Committee of the Ministry of Transport and Communications of the Republic of Kazakhstan

2003-2004 – Deputy Minister of Transport and Communications of the Republic of Kazakhstan

1998-2003 – Head of the Rail Transport Department of the Ministry of Transport and Communications of the Republic of Kazakhstan

1997-1998 – Head of Akmolinskaya Railways, Kazakhstan Temir Zholy

1997 – Deputy Head of Akmolinskaya Railways, Head of Pavlodar Branch of Railways

1996-1997 – First Deputy Head of the Pavlodar Branch of Tselinnaya Railways

1990-1996 – Head of Pavlodar Station

1989-1990 – Deputy Head of the Transportation Department of the Pavlodar Branch of Tselinnaya Railways

1988-1989 – Chief Engineer of Pavlodar-North Station, Pavlodar

1986-1988 – Processing Engineer of Ekibastuz Station, Duty Officer at Ekibastuz Station (Tselinnaya Railways)

#### Members of the Board of Directors Marat Urazbekov

Marat Urazbekov joined the Board of Directors of Air Astana in January 2014. He is a member of Strategic Planning and Corporate Social Responsibility Committees. He has a distinguished career spanning about 30 years of experience in the Kazakhstani transportation industry. He is currently Deputy Chief Director for Asset Management of the Sovereign Wealth Fund "Samruk-Kazyna", a post he has held since 2014. Prior to this, he was Director of the Transport Asset Management Department of the Samruk-Kazyna National Fund from 2008 to 2014. Prior to this, he worked for 14 years in the Ministry of Transport of the Republic of Kazakhstan in a variety of senior roles. He began his professional career in the railway sector.

#### Professional experience:

2014 to present – Deputy Head of the Asset Management Department of the Sovereign Wealth Fund "Samruk-Kazyna"

2008 to 2014 – Director of the Transport Asset Management Department of the Sovereign Wealth Fund "Samruk-Kazyna"

2006 to 2008 – Chairman of the Railway Committee of the Ministry of Transport and Communications

2005 to 2006 – Deputy Chairman of the Railway Committee of the Ministry of Transport and Communications

2004 to 2005 – Director of Railway Transportation Department of the Ministry of Transport

1997 to 2003 – Deputy Director of Railway Transportation Department of the Ministry of Transport

1994 to 1997 – Division Head, Railway Transportation Department of the Ministry of Transport

1991 to 1994 – Chief Engineer, Arys Locomotive Depot of Almaty Railways

1989 to 1991 – Senior Adviser, Arys City Committee of People's Deputies

1986 to 1989 – Master, Senior Master, Chief Technologist, Arys Locomotive Depot of Almaty Railways

#### David Cole

David Cole has been a member of the Board of Directors since March 2013. He is a member of Nomination and Remuneration Committee.

David has worked for BAE Systems for more than 25 years. He is a qualified accountant (ACMA) and is Finance Director of BAE Systems International Operating Group. He has held a number of senior finance posts across BAE Systems UK businesses, including in the Land, Maritime and Air sectors. David is a Board Member of the BAE Systems Main Pension Scheme and MBDA (European Missile Company).

David completed his professional CIMA qualifications at Southampton Solent University in 1987 and started his accounting career as a trainee accountant with Plessey Naval Systems in Addlestone, Surrey.

#### Professional experience:

2012-2014 – Finance Director, BAE Systems International Operating Group

2008-2011 – Finance Director, BAE Systems Military Air and Information

2004-2007 – Finance and Commercial Director, BAE Systems Submarines

2000-2003 – Finance Director, BAE Systems Maritime Operations

1998-1999 – Finance Director, Vickers Shipbuilding and Engineering Ltd

1995-1997 – Finance Director, GEC Marconi AsuteClass Ltd

#### Alan Fraser

Alan Fraser joined the Board of Directors of Air Astana in January 2015. He is a member of the Strategic Planning and Corporate Social Responsibility Committees. A veteran financial and operational executive, he has worked for many years in BAE Systems companies, heading up the Regional Aircraft division for more than a decade.

#### Professional experience:

2002-2014 – Managing Director, BAE Systems Regional Aircraft

1999-2002 – Strategy & Business Development Director, BAE Systems Regional Aircraft

1999-1999 – Director, Merger Finance, BAE Systems

1998-1999 – Managing Director, Heckler and Koch GmbH

1995-1997 – Financial Director and Strategy Director, Royal Ordnance Plc

1989-1995 – Financial Director, British Aerospace Civil Aircraft Division

1984-1989 – Financial Accountant, British Aerospace Civil Aircraft Division



## Independent Director Dmitriy Larionov

Dmitriy Larionov has been an Independent Director since 2008. He is Chairman of the Audit, Nomination and Remuneration, and Strategic Planning Committees and a member of the Corporate Social Responsibility Committee. He is a leading expert on accountancy and financial reporting.

### Professional experience:

2015 to present – Consultant, Centre for Financial Reporting Reform, World Bank

2015 to present – Independent Director of National Company Kazakhstan Engineering

2013 to present – Independent Director of the National Company Astana EXPO-2017

2009 to present – member of the Consultative Board on Accounting and Auditing under the Ministry of Finance of the Republic of Kazakhstan

2008 to 2015 – Independent Director of Kazakhtelecom

2008-2010 – member of the Developing Nations Committee, International Federation of Accountants

2005 to 2015 – Partner, BDO Kazakhstan Audit

2005 and 2012 – Consultant to the World Bank

2003-2010 – Deputy Chair, member of the Board, Chamber of Professional Accountants of the Republic of Kazakhstan

2004-2005 – Local Accounting Expert, Regional Financial Sector Development Project, Asian Development Bank

2001-2004 – Consultant in Accounting, Accounting Reform Department, USAID Enterprise Development Project, Pragma Corporation

1999-2001 – Lecturer in Accounting, Kazakhstan Institute of Management, Economics and Strategic Research (KIMEP)

2013 – Harvard Business School, Executive Education Coursework in Corporate Governance

2015 – Diploma in Company Direction (Dip IOD), the Institute of Directors, UK

2013 – Certificate in Company Direction (Cert IOD), the Institute of Directors, UK

2013 – Certified Corporate Governance Director (CCGD), the Kazakhstan Independent Directors Association

## Independent Director Lord Thomas Alexander Hesketh

Lord Thomas Alexander Hesketh has been an Independent Director since 2007. He is the Chairman

of the Corporate Social Responsibility Committee and a member of the Audit and the Nomination and Remuneration Committees. Lord Hesketh has had a long and distinguished career in public service and international business. In 1997, he was invested as a Knight Commander of the British Empire.

### Professional experience:

1993-2010 – Non-Executive Deputy Chairman, Babcock International

1994-2007 – Chairman, British Mediterranean Airways

2004-2005 – Treasurer, the Conservative Party

1991-1993 – Government Chief Whip in the House of Lords, Privy Councillor

1991-1993 – Captain of the Honourable Corps, Gentlemen at Arms

1990-1991 – Minister of Industry, Department of Trade and Industry

### Responsibilities of the Board of Directors

The competence of the Board of Directors includes, without limitation, the following actions:

- Determine Air Astana's development priorities, preliminarily approve and propose the long-term development strategy for approval by the General Meeting of Shareholders

- Provide preliminary approval of the annual financial statements

- Submit matters for consideration and resolution by the General Meeting of Shareholders pursuant to the law and/or the Charter

- Approve internal regulatory documents, including procedures for the sale and/or subscription of securities, except where this is under the purview of the President for the purposes of running the business

- Decide on entering into major transactions in the manner prescribed by legislation and the Charter

- Elect and decide on the termination of an agreement with the Company's registrar

- Define procedures for the work of the Internal Audit Service (IAS), determine the remuneration of IAS staff based on recommendations by the President, award bonuses to IAS staff based on recommendations by the Audit Committee and the President, and approve the qualification requirements for IAS employees

- Provide preliminary approval and submit the short-term and medium-term business plans (the development plan and annual budget) for final approval by the General Meeting of Shareholders, as well as any amendments to it, including capital expenditure not provided for in previously approved business plans

- Approval of Teheran, Iran, as the Company's new flight destination outside Kazakhstan.

### Financial and Operational Activity

- Preliminary approval of the annual financial statements of the Company for 2014

- Consideration of the report on the preliminary results of financial and operational activity (implementation of the budget and development plan) of the Company for 12 months of 2014

## Participation of the members of the Board of Directors in meetings in presentia in 2015

In 2015, the Board of Directors held 15 meetings, including four meetings in presentia.

Name	Participation in meeting by presence in person	Participation in meetings by voting in absentia	Participation in meetings via conference call	Participation in decision-making, %
Nurzhana Baidaulatova	4			100%
Marat Urazbekov	2	2		100%
David Cole	3	1		100%
Alan Fraser	4			100%
Dmitriy Larionov	4			100%
Lord Thomas Alexander Hesketh	4			100%

## Issues considered by the Board of Directors in 2015

In 2015 the Board of Directors considered the following issues:

### Strategic Development

- Consideration of the report on implementation of the strategy and major investment projects of the Company

- Consideration of the report of the President of the Company on implementation of the major investment projects of the Company. Approval of the project of construction of the Aviation Technical Centre of the Company at Astana International Airport

- Preliminary approval of the Business Plan (Development Plan) of the Company for 2016-2020

- Consideration of the issue of continued development of Extended Home Market Strategy of the Company

- Consideration of the annual report of the President of the Company on the results of financial and operational activities of the Company for 2014

- Proposals to the Annual General Meeting of Stockholders of the Company on the procedure for distribution of the net income of the Company for 2014 and the amount of the dividend for 2014 per one common stock of the Company

- Consideration of the report on the status of the Company's deposits placed as at 31 December 2014

- Approval of the Cash Management Policy of the Company

- Consideration of the report of the President of the Company on the results of financial and operational activity (implementation of the budget and development plan) of the Company for three months of 2015

- Consideration of the report of the President of the Company on the results of financial and operational activities of the Company for seven months of 2015

- Consideration of the report on the results of financial and operational activity (implementation of the budget and development plan) of the Company for 10 months of 2015
- Approval of the decisions of the President of the Company on opening of bank accounts (corporate and deposit) in JSC Capital Bank Kazakhstan, JSC RBK Bank and JSC Qazaq Banki
- Approval of the decisions of the President of the Company to open bank accounts at banking group Deutsche Bank AG, Natixis and Tsesnabank
- Consideration of the quarterly report on the status of the Company's deposits placed as at 31 March 2015. Consideration of the issue of placement of surplus and operating cash of the Company in second-tier banks
- Consideration of the quarterly report on the status of the Company's deposits placed as at 30 June 2015
- Consideration of the quarterly report on the status of the Company's deposits placed as at 30 September 2015
- Preliminary approval of the Annual Budget of the Company for 2016
- Amending the decision of the Board of Directors of the Company dated 19 November 2014 in relation to the major transaction with Halyk Bank of Kazakhstan JSC for the issue of the Letters of Credit on an unsecured basis
- Deciding on entering by the Company into major transactions with JSC Citibank Kazakhstan and JSC AB Bank of China Kazakhstan for the issue of the Letters of Credit on an unsecured basis. Preliminary deciding on increasing the Company's liabilities by an amount constituting 10% or more of the equity capital of the Company or an amount of more than US\$5,000,000 in connection with entering by the Company into major transactions
- Amending the decision of the Board of Directors of the Company dated 9 January 2015 in relation to entering into the Amendment Agreement with JSC Citibank Kazakhstan JSC to increase the facility
- Deciding on entering by the Company into major transactions on the procurement of jet fuel for ramp refuelling with CJSC TZK Sheremetyevo (Moscow Airport, the Russian Federation), Air BP Limited (Frankfurt-on-the Main Airport, Germany), Chevron Products Company, a division of Chevron U.S.A. Inc. (Bangkok Airport, Thailand), Petrol Ofisi A.S. (Istanbul Airport,

the Republic of Turkey) and Petronas Dagangan Berhad BHD (Kuala Lumpur Airport, Malaysia). Preliminary deciding on increasing the Company's liabilities by an amount of more than US\$5,000,000 in connection with entering by the Company into major transactions

- Deciding on entering by the Company into major transactions with the group of banks Deutsche Bank AG, Natixis and The Royal Bank of Scotland Plc for the issue of Letters of Credit, as well as with Lukoil OJSC and Gazpromneft-Aero CJSC for the procurement of jet fuel. Preliminary deciding on increasing the Company's liabilities by an amount of more than US\$5,000,000 in connection with entering by the Company into major transactions
- Deciding on entering by the Company into a major transaction with Natixis for the issue of the Letters of Credit on a secured (cash collateral) basis. Preliminary deciding on increasing the Company's liabilities by an amount of more than US\$5,000,000 in connection with entering by the Company into a major transaction
- Preliminary deciding on increasing the Company's liabilities by an amount of more than US\$5,000,000 in connection with entering by the Company into a transaction with JSC Citibank Kazakhstan on the issue of Letters of Credit and bank guarantees
- Transfer of the roles of Lender, National agent, ECA Facility Agent from Royal Bank of Scotland to the third parties in ECA guaranteed transaction in respect of two Airbus A321 aircraft and one Airbus A320 aircraft
- Deciding on entering by the Company into major transactions with Air Lease Corporation and AerCap Holdings N.V. on operating lease of Airbus A320 NEO/ A320-200 NEO/A321-200 NEO/ A321 NEO-LR type aircraft. Preliminary deciding on increasing the Company's liabilities by an amount constituting 10% or more of the equity capital of the Company in connection with entering by the Company into major transactions on operating lease of aircraft
- Amending the decisions of the Board of Directors of the Company dated 15 May 2015 in relation to the major transactions with Air Lease Corporation on operating lease of Airbus A320 NEO and Airbus A321 NEO-LR or A320 NEO types aircraft
- Deciding on entering by the Company into major transaction with Embraer Aviation International SAS-EAI on the purchase of components and spare parts lease services and access to the spare parts pool with regard to Embraer EJET family Embraer 190 type aircraft. Preliminary deciding on increasing the

Company's liabilities by an amount of more than US\$5,000,000 in connection with entering by the Company into major transaction

- Proposal of the President of the Company for selecting a bank to arrange financing of the construction of the Aviation Technical Centre of the Company at Astana International Airport
- Deciding on entering by the Company into major transactions with Consortium of STS Genpodriat LLC and Migalit LLP represented by the branch office of STS Genpodriat LLC in Astana for the purchase of works on construction of the Aviation Technical Centre of the Company at Astana International Airport and the European Bank of Reconstruction and Development for financing of the construction of the Aviation Technical Centre of the Company at Astana International Airport. Preliminary deciding on increasing the Company's liabilities by an amount of more than US\$5,000,000 or an amount constituting 10% or more of the equity capital of the Company in connection with entering by the Company into major transactions
- Deciding on entering by the Company into major transactions with Citi International Limited for the issue of Stand-By Letters of Credit on secured (cash collateral) basis and Gazpromneft-Aero CJSC and Petrosun LLP for the procurement of jet fuel. Preliminary deciding on increasing the Company's liabilities by an amount of more than US\$5,000,000 or an amount constituting 10% or more of the equity capital of the Company in connection with entering by the Company into major transactions
- Deciding on entering by the Company into the Lease Novation and Amendment Agreement in relation to one Boeing 757-200 Aircraft
- Approval of the Cash Management Policy of the Company

#### Internal Control and Audit

- Consideration of the report on the status of execution of the Action Plan for Implementation of the Strategic Plan of the Internal Audit Service of the Company for the second half of 2014
- Consideration of the annual report on the activity of the Internal Audit Service of the Company for 2014
- Performance evaluation of the Internal Audit Service of the Company for the fourth quarter of 2014

- Approval of the amendments to the Annual Audit Plan of the Internal Audit Service of the Company for 2015
- Approval of the Annual Audit Plan of the Internal Audit Service of the Company for 2016
- Consideration of the report of the Head of the Internal Audit Service of the Company on the activity of the Internal Audit Service of the Company for the first quarter of 2015
- Performance evaluation of the Internal Audit Service of the Company for the first quarter of 2015
- Consideration of the report on the status of execution of the Action Plan for Implementation of the Strategic Plan of the Internal Audit Service of the Company for the first half of 2015
- Consideration of the report on the activity of the Internal Audit Service of the Company for the second quarter of 2015
- Performance evaluation of the Internal Audit Service of the Company for the second quarter of 2015
- Consideration of the report on the activity of the Internal Audit Service of the Company for the third quarter of 2015
- Performance evaluation of the Internal Audit Service of the Company for the third quarter of 2015
- Consideration of the issue of conducting an external assessment of the activity of the Internal Audit Service of the Company in 2016
- Approval of the Budget of the Internal Audit Service of the Company for 2016
- Consideration of the report of the Head of the Internal Audit Service of the Company on the evaluation of the effectiveness of the internal control system of the Company
- Approval of the Quality Assurance and Improvement Program of Internal Audit in the Company
- Approval of the Audit Map of the Internal Audit Service of the Company
- Approval of the amended Methodology on evaluation of effectiveness of the internal control system of the Company





- Approval of the Methodological guidelines for organization of internal audit in the Company

#### Risk Management

- Approval of the updated Risk Register, Key Risk Register and Risk Map of the Company for the first half of 2015. Consideration of the report on realised risks of the Company
- Approval of the updated Risk Register, Key Risk Register and Risk Map of the Company for the second half of 2015. Approval of the Risk Appetite of the Company. Consideration of the report on realized risks of the Company.
- Consideration of the operational safety review of the Company for the previous 12 months (as at 31 December 2014) and update on regulatory situation with regards to the ICAO and EU Aviation Safety Committee
- Consideration of the Operational Safety Review of the Company for the previous 12 months (as at 31 March 2015). Update on regulatory situation with regards to the ICAO and EU Aviation Safety Committee
- Consideration of the Operational Safety Review of the Company for the previous 12 months (as at 31 July 2015). Update on regulatory situation with regards to the ICAO and EU Aviation Safety Committee
- Consideration of the operational safety review of the Company for the previous 12 months (as at 31 October 2015) and update on regulatory situation with regards to the ICAO and EU Aviation Safety Committee

#### Governance and Remuneration

- Consideration of the Succession Plan for the Senior Management of the Company
- Consideration of the report on the activities of the Board of Directors of the Company and the Committees of the Board of Directors of the Company for 2014
- Recommendations to the General Stockholders' Meeting of the Company with respect to the annual bonus payment to the President of the Company following the results of work for the year 2014
- Consideration of the proposals on amending the Dividend Policy of the Company
- Preliminary determination of the composition and terms of office of the Nomination and Remuneration,

Strategic Planning, Audit and Corporate Social Responsibility Committees of the Board of Directors of the Company

- Consideration of the report of the corporate social responsibility of the Company for 2014
- Approval of the amended plan of work and the schedule of the meetings of the Board of Directors of the Company for 2015
- Review of the amount and terms of remuneration and compensation for the President of the Company
- Preliminary approval of the amendments to the Regulations of the Nomination and Remuneration, Strategic Planning, Audit and Corporate Social Responsibility Committees of the Board of Directors of the Company
- Deciding on the 2014 Special Bonus payment to the employees of the Company. Determination of the amount of the 2014 Special Bonus payment to the employees of the Company whose remuneration shall be determined by the Board of the Directors of the Company
- Determination of the amount of the 2015 Year End Bonus payment to the employees of the Company whose remuneration shall be determined by the Board of the Directors of the Company
- Annual review of remuneration and proposals for the 2016 salaries of the employees of the Company whose remuneration shall be determined by the Board of Directors of the Company
- Annual approval of the remuneration system and provision of incentives and the scheme of labour remuneration of the Company's employees
- Annual approval of the procedure for and terms of compensation of expenses to the Company's employees travelling on business, the standards of eligibility to the Company cars and standard areas to accommodate the administrative personnel of the Company, the limits of reimbursable expenses at the Company's expense when granting to employees the right to use mobile communication and the limits of representation expenditures
- Approval of the Defined Contribution Corporate Pension Scheme of the Company
- Consideration of the report on corporate social responsibility of the Company for 2015

- Approval of the Policy in the field of occupational health and safety and environmental protection management system of the Company
- Approval of the plan of work and the schedule of the meetings of the Board of Directors of the Company for 2016
- Consideration of the report on the status of the implementation of the decisions of the Board of Directors of the Company for the period December 2014 - August 2015
- Consideration of the issue of performing "Gap-Analysis" against the new Corporate Governance Code of Sovereign Wealth Fund "Samruk-Kazyna" Assessment of transparency and effectiveness of the processes of disclosure of information on the Company's activities
- Approval of the Community Investment Policy of the Company. Approval of the Community Investment Manual of the Company
- Approval of an amendment to the Regulations of the Representative Office of the Company in the Russian Federation

#### Selection criteria for the Board of Directors

Air Astana has established the following criteria for nominees and members of the Board of Directors:

- Nominees and members of the Board of Directors may be of any citizenship and nationality
- Candidates for election as directors should have the appropriate work experience, knowledge, qualifications, track record of achievements and an impeccable reputation in both the industry and broader business world, required for the performance of their duties and contribution to the effective work of the Board of Directors in the interests of Air Astana and its shareholders

The members of the Board of Directors should not:

- Have any current convictions under the law
- Be a person who previously served as Chairman of the Board of Directors, Chief Executive Officer

(Chairman of the Management Board), Deputy Chief Executive Officer, or Chief Accountant of another legal entity for no more than one year before its forced liquidation or forced redemption of shares, or of another legal entity recognised as bankrupt and put into temporary closure; this requirement is applied for a five-year period following the date of forced liquidation, forced redemption of shares, or a legal entity being recognised as bankrupt and put into temporary closure

Qualification requirements for independent members of the Board of Directors include:

- Compliance with the definition of independent director as set out by the Law of the Republic of Kazakhstan "On Joint-Stock Companies": an independent director is a member of the Board of Directors who is not affiliated with the company and has not been affiliated with it for three years preceding his or her election (except as an independent director); is not affiliated with any affiliates; is not subordinated to any officers of the company or its affiliates; is not a civil servant; is not an auditor of the company; and was not its auditor for three years preceding election
- Advanced educational qualifications, preferably in a field directly related to Air Astana's primary business activities
- At least five years of leadership experience, preferably in a field directly related to Air Astana's primary business activities

#### Remuneration of members of the Board of Directors and the Executive Body

Directors who represent the shareholders do not receive remuneration for their work. Independent directors are remunerated, and the General Meeting of Shareholders determines the amount based on the recommendations of the Board of Directors and the Nomination and Remuneration Committee. The General Meeting of Shareholders also determines the amount paid to the Executive Body, based on the recommendations of the Nomination and Remuneration Committee.

In 2015, the total remuneration paid to independent directors and the Executive Body stood at KZT 52,135 thousand, including taxes.

## COMMITTEES OF THE BOARD OF DIRECTORS

*The Board of Directors has established Committees that have the responsibility for oversight over specific issues relevant to the company in order to analyse them and to present proposals to the full Board of Directors for approval. In 2015, the four Committees were: the Strategic Planning Committee, the Nomination and Remuneration Committee, the Audit Committee and the Corporate Social Responsibility Committee.*

### STRATEGIC PLANNING COMMITTEE

The Strategic Planning Committee has been created to assist the effective performance of the Board of Directors and develop recommendations to the Board regarding issues of strategic development. The committee was created in October 2012.

Composition of the Strategic Planning Committee:

- Chairman: Dmitriy Larionov (independent director)
- Members: Marat Urazbekov (member of the Board of Directors)  
Alan Fraser (member of the Board of Directors)

#### Responsibilities of the Strategic Planning Committee

The responsibilities of the Strategic Planning Committee include:

- Developing recommendations for the Board of Directors for determining priority areas of business activity and development for Air Astana
- Developing recommendations for the Board of Directors regarding the preliminary approval and potential amendments to the Company's long-term development strategy
- Reviewing the management report on the implementation of the long-term development strategy and the medium-term business plan (development plan), as well as the achievements of strategic key performance indicator targets
- Developing recommendations for the Board of Directors on corporate governance issues
- Developing recommendations for the Board of Directors for reviewing the Company's strategy in

view of changes in the economic, political, social and competitive environment

- Developing recommendations for the Board of Directors to improve the effectiveness of the Company's long-term performance and competitiveness in the aviation transportation market

#### Issues considered by the Strategic Planning Committee in 2015

In 2015, the Strategic Planning Committee considered and made decisions on the following issues:

- Consideration of the report of the management of the Company on the preliminary results of financial and operational activity (implementation of the budget and development plan) of the Company for 12 months of 2014
- Consideration of the annual report of the President of the Company on the results of financial and operational activities of the Company for 2014
- Consideration of the report of the management of the Company on implementation of the strategy and major investment projects of the Company
- Recommendations with regard to the procedure for distribution of the net income of the Company for 2014 and the amount of the dividend for 2014 per one common stock of the Company
- Consideration of the amended plan of work and the schedule of the meetings of the Board of Directors of the Company for 2015
- Consideration of the report of the President of the Company on the results of financial and operational activity (implementation of the budget and development plan) of the Company for three months of 2015

- Consideration of the report of the President of the Company on the results of financial and operational activities of the Company for seven months of 2015
- Consideration of the report on the results of financial and operational activity (implementation of the budget and development plan) of the Company for 10 months of 2015
- Consideration of the plan of work and the schedule of the meetings of the Board of Directors of the Company for 2016
- Approval of the plan of work of the Strategic Planning Committee for 2016
- Consideration of the Annual Budget of the Company for 2016
- Consideration of the report of the President of the Company on implementation of the major investment projects of the Company
- Recommendations with regard to amending the Dividend Policy Regulations of the Company

- Consideration of the issue of conducting a "Gap-Analysis" against the new Corporate Governance Code of Sovereign Wealth Fund "Samruk-Kazyna"
- Recommendations with regard to the update on the position of the Company on the issue of performing a gap-analysis of compliance of the current practice with the Corporate Governance Code (the new Code) of Sovereign Wealth Fund "Samruk-Kazyna"
- Consideration of the report on transparency and the processes of disclosure of information on the Company's activities
- Consideration of the issue of continued development of Extended Home Market Strategy of the Company
- Recommendations to the Stockholders of the Company with regards to approval of the Business Plan (Development Plan) of the Company for 2015-2019
- Consideration of the Business Plan (Development Plan) of the Company for 2016-2020

#### Participation of the members of the Strategic Planning Committee in meetings in presentia in 2015

In 2015, the Strategic Planning Committee held five meetings in presentia.

Name	Participation in meetings and decision-making, %
Dmitriy Larionov	100%
Marat Urazbekov	100%
Alan Fraser	100%





## NOMINATION AND REMUNERATION COMMITTEE

The Nomination and Remuneration Committee develops recommendations for the Board of Directors regarding the recruitment and selection of members of the Board of Directors, Executive Body, head of the IAS, Corporate Secretary and other employees whose appointment requires the approval of the Board of Directors or shareholders. The Committee also makes recommendations regarding the remuneration of those employees.

The Committee was formed in October 2012 through the merger of the previously separate Nomination and Remuneration Committees.

Composition of the Nomination and Remuneration Committee:

- Chairman: Dmitriy Larionov (independent director)
- Members: Lord Thomas Alexander Hesketh (independent director)  
Nurzhan Baidauletov (Chairman of the Board of Directors)  
David Cole (member of the Board of Directors)

### Responsibilities of the Nomination and Remuneration Committee

The following issues fall within the competence of the Nomination and Remuneration Committee:

- Developing qualification requirements for candidates for independent directors, the Executive Body, the Corporate Secretary, and the head and employees of the IAS
- Making recommendations for electing or nominating candidates for independent directors, the Executive Body, the Corporate Secretary, and the head and employees of the IAS
- Developing the succession planning policy for members of the Board of Directors and its Committees, the Executive Body, the Corporate Secretary and the head and employees of the IAS
- Providing recommendations on the policy and structure for remunerating members of the Board of Directors, the Executive Body, the head of the IAS, the Corporate Secretary and other employees whose remuneration shall be agreed by the Board of Directors or shareholders

- Making recommendations regarding the annual individual remuneration of members of the Board of Directors, the Executive Body, the head of the IAS, the Corporate Secretary and other employees whose remuneration shall be agreed by the Board of Directors or shareholders

- Making proposals to the Board of Directors regarding changing the remuneration of members of the Board of Directors, the Executive Body, the head of the IAS, the Corporate Secretary and other employees whose remuneration shall be agreed by the Board of Directors or shareholders

- Considering payment of remuneration following the results of the year to employees whose remuneration shall be agreed by the Board of Directors or shareholders

- Conducting comparative analysis of salary levels and remuneration policies for members of the Board of Directors, the Executive Body, the head of the IAS, the Corporate Secretary and other employees whose remuneration shall be agreed by the Board of Directors or shareholders

### Issues considered by the Nomination and Remuneration Committee in 2015

In 2015, the Nomination and Remuneration Committee considered and made decisions on the following issues:

- Recommendations in respect of changing the amount and terms of remuneration and compensation to the President of the Company
- Recommendations with regards to the issue of the 2014 Special Bonus to the Company's employees
- Recommendations with regards to determination of the amount of the annual bonus payment to the President of the Company following the results of work for the year 2014
- Recommendations with regards to approval of the operational plan for continuity of the Company
- Preliminary approval of the Regulations of the Labour Remuneration System of the Company
- Preliminary approval of the Defined Contribution Corporate Pension Scheme of the Company
- Consideration of the Succession Plan for Senior Managers of the Company

- Recommendations with regards to the payment of the 2015 Year End Bonus to the employees of the Company whose remuneration shall be determined by the Board of Directors of the Company

- Proposals with regard to review of the remuneration and determination of the 2016 salaries of the employees of the Company whose remuneration shall be determined by the Board of Directors of the Company

### Participation of the members of the Nomination and Remuneration Committee in meetings in presentia in 2015

In 2015, the Nomination and Remuneration Committee held four meetings, including three meetings in presentia.

Name	Participation in meetings and decision-making, %
Dmitriy Larionov	100%
Lord Thomas Alexander Hesketh	100%
Nurzhan Baidauletov	100%
David Cole	100%

## AUDIT COMMITTEE

The Audit Committee reports to the Board of Directors, which grants the committee certain authorities. It helps to support the Board of Directors in supervising the Company's financial and economic activities; the reliability and efficiency of the internal control and risk management system; the implementation of corporate governance documents; the independence of the external and internal audit process; and compliance with the laws and regulations of the Republic of Kazakhstan. The Audit Committee was created in March 2008.

Composition of the Audit Committee:

- Chairman: Dmitriy Larionov (independent director)
- Member: Lord Thomas Alexander Hesketh (independent director)

### Responsibilities of the Audit Committee

The following issues fall within the competence of the Audit Committee:

- Developing recommendations for the Board of Directors on the appointment and change of the external auditor; determining the amount paid to the external auditor; evaluating the quality of services rendered by the external auditor; and obtaining related services from the external auditor
- Developing recommendations for the Board of Directors on the appointment and dismissal of the head of the Internal Audit Service (IAS)
- Holding meetings with external and internal auditors without the presence of members of Air Astana's management
- Investigating any issues under the supervision of the Committee

### Issues considered by the Audit Committee in 2015:

In 2015, the Audit Committee considered and made decisions on the following issues:

#### Financial statements

- Recommendations to the Board of Directors of the Company with regards to the preliminary

approval of the annual financial statements of the Company for 2014

- Consideration of the Management Letter following the results of the audit of the annual financial statements of the Company for 2014

- The External Auditor's update on the results of the review of the interim condensed financial information of the Company for the six-month ended 30 June 2015

- The External Auditor's update on the status of the audit of the annual financial statements of the Company for 2015

#### Internal Audit

- Consideration of the report of the Head of the Internal Audit Service of the Company on the status of execution of the Action Plan for Implementation of the Strategic Plan of the Internal Audit Service of the Company for the second half of 2014

- Consideration of the annual report of the Head of the Internal Audit Service of the Company on the activity of the Internal Audit Service of the Company for 2014

- Performance evaluation of the Internal Audit Service of the Company for the fourth quarter of 2014

- Preliminary approval of the amount of the 2014 Special Bonus to the Head and employees of the Internal Audit Service of the Company

- Preliminary approval of the amendments to the Annual Audit Plan of the Internal Audit Service of the Company for 2015

- Hearing of the report of the Head of the Internal Audit Service of the Company on the activity of the Internal Audit Service of the Company for the first quarter of 2015

- Performance evaluation of the Internal Audit Service of the Company for the first quarter of 2015

- Update on the activities of the Internal Audit Service of the Company in the second quarter of 2015

- Hearing of the report of the Head of the Internal Audit Service of the Company on the activity of

the Internal Audit Service of the Company for the second quarter of 2015

- Hearing of the report of the Head of the Internal Audit Service of the Company on the status of execution of the Action Plan for Implementation of the Strategic Plan of the Internal Audit Service of the Company for the first half of 2015

- Performance evaluation of the Internal Audit Service of the Company for the second quarter of 2015

- Hearing of the report on the activity of the Internal Audit Service of the Company for the third quarter of 2015

- Performance evaluation of the Internal Audit Service of the Company for the third quarter of 2015

- Preliminary approval of the issue of conducting an external performance assessment of the Internal Audit Service of the Company in 2016

- Preliminary approval of the Budget of the Internal Audit Service of the Company for 2016

- Preliminary approval of the Annual Audit Plan of the Internal Audit Service of the Company for 2016

- Approval of the annual plan of work of the Audit Committee for 2016

- Proposal of the Head of the Internal Audit Service of the Company on staff changes

- Hearing of the report of the Head of the Internal Audit Service of the Company on the evaluation of the effectiveness of the internal control system of the Company

- Preliminary approval of the Methodological guidelines for organisation of internal audit in the Company

- Preliminary approval of the Audit Map of the Internal Audit Service of the Company

- Preliminary approval of the amended Methodology on evaluation of effectiveness of the internal control system of the Company

- Preliminary approval of the Quality Assurance and Improvement Program of Internal Audit in the Company

- Preliminary approval of the amount of the 2015 Year End Bonus to the Head and employees of the Internal Audit Service of the Company

- Preliminary approval of the amount of the 2016 salaries of the Head and Employees of the Internal Audit Service of the Company

#### Risk Management

- Preliminary approval of the updated Risk Register, Key Risk Register and Risk Map of the Company for the first half of 2015. Consideration of the report on realized risks of the Company

- Preliminary approval of the updated Risk Register, Key Risk Register and Risk Map of the Company for the second half of 2015. Preliminary approval of the Risk Appetite of the Company. Consideration of the report on realized risks of the Company

- Update on the foreign exchange/fuel hedging issues and current situation with fuel purchases

#### Other issues

- Consideration of the report on the status of the Company's deposits placed as at 31 December 2014

- Consideration of the quarterly report on the status of the Company's deposits placed as at 31 March 2015. Consideration of the issue of placement of surplus and operating cash of the Company in second-tier banks

- Consideration of the quarterly report on the status of the Company's deposits placed as at 30 June 2015

- Consideration of the quarterly report on the status of the Company's deposits placed as at 30 September 2015

- Recommendations on approval of the Cash Management Policy of the Company and preliminary approval of the Cash Management Policy of the Company

- Hearing of the report on the status of litigations and results of state inspections and audits

- Consideration of the issue of conducting a "Gap-Analysis" against the new Corporate Governance Code of JSC Samruk-Kazyna



- Consideration of the issue of assessment of performance of the Chief Accountant of the Company conducted by JSC Samruk-Kazyna
- Preliminary approval of the use of related services rendered by the External Auditor of the Company
- Consideration of the issue of implementation of the target model of treasury function proposed by JSC Samruk-Kazyna
- Consideration of the issue of conducting a complex analysis of the activity of the Company for the years 2012-2014 by JSC Samruk-Kazyna with engagement of consulting services

#### Participation of the members of the Audit Committee in meetings in presentia in 2015

In 2015, the Audit Committee held six meetings in presentia.

Name	Participation in meetings and decision-making, %
Dmitriy Larionov	100%
Lord Thomas Alexander Hesketh	100%

#### CORPORATE SOCIAL RESPONSIBILITY COMMITTEE

The Corporate Social Responsibility Committee was established to assist the effective performance of the Board of Directors and to develop recommendations to the board regarding issues of social responsibility, including occupational safety, health and environmental protection. The Committee was created in October 2012.

Composition of the Corporate Social Responsibility Committee:

- Chairman: Lord Thomas Alexander Hesketh (independent director)
- Members: Dmitriy Larionov (independent director)  
Marat Urazbekov (member of the Board of Directors)  
Alan Fraser (member of the Board of Directors)

#### Responsibilities of the Corporate Social Responsibility Committee

The responsibilities of the Corporate Social Responsibility Committee include:

- Developing recommendations for the Board of Directors regarding the Company's corporate social responsibility strategy and analysing the effectiveness of its implementation
- Developing policies and taking action in the areas of occupational health and safety, social responsibility and environmental protection
- Monitoring the Company's performance in the areas of occupational health and safety, social responsibility and environmental protection in line with relevant legislation and regulations

#### Participation of the members of the Corporate Social Responsibility Committee in meetings in presentia in 2015

In 2015, the Corporate Social Responsibility Committee held three meetings in presentia.

Name	Participation in meetings and decision-making, %
Lord Thomas Alexander Hesketh	100%
Dmitriy Larionov	100%
Marat Urazbekov	100%
Alan Fraser	100%

- Making recommendations to the Board of Directors regarding the approval of internal documentation covering social and charitable policies

- Consideration of major CSR risks and plans for mitigating their impact

- Making recommendations to the Board of Directors regarding the approval of Company social responsibility and sustainability report

#### Issue considered by the Corporate Social Responsibility Committee in 2015

In 2015, the Corporate Social Responsibility Committee considered and made decisions on the following issues:

- Consideration of the report on the Corporate Social Responsibility of the Company for 2014
- Approval of the annual plan of work of the Corporate Social Responsibility Committee for 2015
- Consideration of the report on the Corporate Social Responsibility of the Company for 2015
- Approval of the plan of work of the Corporate Social Responsibility Committee for 2016
- Consideration of the Community Investment Policy of the Company. Consideration of the Community Investment Manual of the Company
- Consideration of the Policy for the Occupational Health and Safety and Environmental Protection management system of the Company
- Consideration of the Defined Contribution Corporate Pension Scheme of the Company



## INTERNAL AUDIT SERVICE

The mission of the Internal Audit Service is to provide assistance to the Board of Directors and the President in performing their duties to achieve the strategic goals of the Company through the provision of independent and objective assurance and consulting activity designed to add value and improve the effectiveness of the following areas:

- Risk management
- Internal control
- Corporate governance processes

The Service is a Corporate Body that provides the organisation and implementation of internal audit in the Company and reporting directly to the Board of Directors. The Audit Committee carries out the supervision of the Service's functions.

The present head of the Service is Valentina Khegay. She was appointed by a resolution passed at a General Meeting of Shareholders on 7 December 2007.

### Objectives and functions

The Service according to the objectives imposed on it performs the following functions in a prescribed manner:

1) Evaluation of the adequacy and effectiveness of internal controls in corporate governance, operational (production and financial) activity of the Company and its information systems with regards to:

- Achievement of the Company's strategic objectives
- Reliability and completeness of information on the Company's activity
- Efficiency and effectiveness of the Company's activity and adopted programmes
- Rationality and efficiency of use of the Company's resources and methods (means) of safeguarding the Company's assets
- Compliance of established control systems with the requirements of legislation, normative documents, internal documents and resolutions of authorised bodies and bodies of the Company (compliance control)

2) Evaluation of adequacy and effectiveness of the Company's internal control system

3) Evaluation of the Company's corporate governance system

4) Evaluation of fraud risk and effectiveness of fraud risk management in the Company\*

5) Evaluation of completeness of implementation and efficiency of the risk management methodologies and risk management procedures in the Company

6) Evaluation of corporate governance system including implementation and compliance of accepted corporate governance principles with ethical standards and values of the Company

7) Audit of the Company's information systems (this includes an assessment of whether the information technology governance of the Company supports its strategies and objectives)

8) Evaluation of the design, implementation and effectiveness of the organisation's ethics-related objectives, programmes, and activities

9) Verification of compliance with the legislation of the Republic of Kazakhstan, international agreements, the Company's internal documents and implementation of instructions of authorized bodies, resolutions of the Company's bodies and evaluation of systems developed to follow these requirements

10) Evaluation of adequacy of the measures applied by the Company's structural divisions to ensure achievement of the Performance objectives within the framework of the strategic objectives of the Company

11) Development of internal documents governing the Service activity in accordance with the Standards and decisions/recommendations of the General Meeting of Stockholders

12) Provision of consulting services to the Board of Directors, Executive body, structural bodies of the Company regarding improvement of the internal

\*Identification and investigation of fraud cases are not a primary function of the Service. Service staff may be brought into the investigation of fraud cases as consultants or observers and do not bear responsibility for management decisions made as a result of the investigation.

control, risk management, corporate governance and organisation of internal audit function

13) Conducting unplanned audit engagement

14) Monitoring over implementation of the external auditor's recommendations

15) Follow-up oversight over implementation of recommendations issued by the Service

16) Exchange of information and coordination of activity with other internal and external parties of

the Company that provide assurance and consulting services

17) Other functions assigned to the Service within the limits of its competence

As a result of the evaluations and audits it conducts, the Service issues appropriate recommendations (including those directed to improvement of internal control system, risk management system, processes and principles of activity) and comments on any issues within the limits of its competence.

## HEAD OF THE SERVICE

### Valentina Khegay

Valentina joined Air Astana in 2006 having more than 20 years of experience in audit and accounting. Valentina graduated from the Institute of National Economy in Almaty and holds a PhD degree in Economics. After graduating, she worked

in accounting field as Chief Accountant and Chief Financial Officer. In 1996 she started practicing audit. Prior to Air Astana she worked at KPMG. Since 2002 Valentina has been a certified auditor and a full member of Chamber of auditors of the Republic of Kazakhstan. She also holds professional accountant and professional internal auditor certificates.



## CORPORATE SECRETARY

The position of Corporate Secretary was established through a resolution of the Board of Directors on 6 December 2007. The Corporate Secretary plays a key role in facilitating an open dialog among the Company's different governing bodies and ensuring their adherence to legislative and company requirements.

The Corporate Secretary ensures that the rights of all shareholders are observed, shareholder communications are given due consideration by the relevant body and any dispute involving shareholders' rights are resolved.

The Corporate Secretary's duties also include ensuring a proper flow of information among the Board of Directors and its Committees and the Executive Body, as well as facilitating the orientation process for new Directors. The Board of Directors is responsible for the appointment and dismissal of the Corporate Secretary.

### Yelena Kondachkova

The current Corporate Secretary, Yelena Kondachkova, has been with Air Astana since its early days and has worked as a specialist and manager in the Strategic Planning Department. In 2011, she was one of the first graduates to complete a certification programme for corporate secretaries of companies within the Samruk-Kazyna holding.

## DIVIDEND POLICY

At Air Astana, we have developed our dividend policy in accordance with the legislation of Kazakhstan, our Charter and our internal documents. It defines a transparent process for determining both the size of the dividend and the conditions under which it is paid, while seeking to achieve the appropriate balance between returning value to shareholders and financing Air Astana's continued growth. In our view, this helps to ensure both short-term and long-term returns on investment for shareholders.

According to the policy, Air Astana allocates 30% of net income, as calculated in accordance with International Financial Reporting Standards (IFRS), unless otherwise decided by the General Meeting of Shareholders. There are 17,000 common shares, a number that has remained unchanged throughout the years, as presented below.

	2011	2012	2013	2014	2015	2016
KZT per share*	167,064	158,504	187,496	91,930	102,525	182,871
Previous Year Net Profit (KZT '000)	11,360,369	8,981,894	9,106,980	7,814,029	3,485,835	10,362,678
Previous Year Net Profit (US\$ '000)	77,116	61,260	61,076	51,364	19,453	48,741
Dividend pay-out ratio	25%	30%	35%	20%	50%	30%**

\*Dividend amount is calculated on the basis of and paid out of the profits of the previous year.

\*\*The Annual General Shareholders' Meeting held on 3 June 2016 decided to allocate an additional 20% of the net income of the Company for 2015 (KZT 2 billion) for further distribution to shareholders, subject to a decision of a General Meeting of the Shareholders of the Company.



## FINANCIAL CALENDAR FOR 2016

Event	Date
Report from the President & CEO on implementation of the Company's strategy	11 February
Report of the Head of the Internal Audit Service (IAS) of the Company on its activity for 2015	11 February
Status of execution of the Action Plan for implementation of the Strategic Plan of the IAS for 2H15	11 February
Performance evaluation of the IAS for 4Q15, based on KPIs (key performance indicators)	11 February
Hearing the report on the operational safety of the Company	11 February
Issue of independent auditor's report on financial statements for 2015	29 February
Publication of financial statements for 2015 on the Company's website	March
Annual report from the President & CEO on the Company's financial and operational results for 2015	12 May
Preliminary approval of financial statements for 2015 by the Board of Directors	12 May
Report of the Head of the IAS on its activity in 1Q16	12 May
Report "Review of effectiveness of internal control system of the Company"	12 May
Performance evaluation of the IAS for 1Q16, based on KPIs (key performance indicators)	12 May
Proposals of the Board of Directors to the Annual General Meeting of Shareholders on the procedure for distribution of the net profit of Air Astana JSC for 2015 and the amount of the dividend for 2015 per one common share of the Company	12 May
Hearing the report on the operational safety of the Company	12 May
Annual General Meeting of Shareholders	30 May
Approval of financial statements for 2015 by the Annual General Meeting of Shareholders	30 May
Annual Report of Air Astana JSC for 2015	30 May
Decision on payment and approval of the amount of the dividend per common share for 2015 by the Annual General Meeting of Shareholders	30 May
Announcement of dividends for 2015	June
Publication of the financial statements for 1H16 on the Company's website	August
Approval of the Company's Risk Register, Key Risk Register and Risk Map for 1H16	22 September
Consideration of the report on the Company's realised risks for 1H16	22 September
Report of the Head of the IAS on its activity in 2Q16	22 September
Status of execution of the Action Plan for implementation of the Strategic Plan of the IAS for 1H16	22 September
Performance evaluation of the IAS for 2Q16, based on KPIs (key performance indicators)	22 September
Approval of the IAS' budget for 2017	22 September
Hearing the report on the operational safety of the Company	22 September
Approval of the Company's Risk Register, Key Risk Register and Risk Map for 2H16	08 December
Consideration of the report on the Company's realised risks for 2H16	08 December
Approval of the Company's risk appetite	08 December
Report of the Head of the IAS on its activity in 3Q16	08 December
Performance evaluation of the IAS for 3Q16, based on KPIs (key performance indicators)	08 December
Hearing the report on the operational safety of the Company	08 December
Approval of the Board of Directors' work plan for 2017	08 December
Approval of the IAS Annual Audit Plan for 2017	08 December
Preliminary approval of the Company's five-year business plan for 2017-21	08 December
Preliminary approval of the Company's budget for 2017	08 December

## EXTERNAL AUDITOR

Air Astana engages an external auditor to ensure that its accounting practices are in line with international financial reporting standards, are transparent and are independently verified.

As a result of an open tender held on 3 December 2013 for the services of auditing the annual financial statements and reviewing the interim financial statements for the years 2014-2016, Air Astana signed a contract with KPMG Audit LLP for the purchase of the services of auditing financial statements for the years concluding 31 December 2014, 2015 and 2016, prepared in accordance with IFRS; and auditing the interim financial statements for the six months concluding 30 June 2014, 2015 and 2016, prepared in accordance with IAS 34.

Since its creation, the audit of Air Astana's financial statements has been provided by the following audit firms: Ernst & Young Kazakhstan LLP (2002-2003), KPMG Janat LLP (2004-2006) and Deloitte LLP (2007-2013).

The cost of services provided by the external auditors is available on the website at [www.procurement.airastana.com](http://www.procurement.airastana.com)

### Contact information:

KPMG Audit LLP  
Dostyk Avenue 180,  
Almaty, 050051, Kazakhstan  
Tel: +7 (727) 298 0898  
Fax: +7 (727) 298 0708  
[www.kpmg.com](http://www.kpmg.com)

## INDEPENDENT REGISTRAR

Integrated Securities Registrar maintains the shareholders' register of Air Astana. The Integrated Securities Registrar was established on 1 December 2011 by the National Bank of the Republic of Kazakhstan (its sole founder) and registered on 11 January 2012 by the Ministry of Justice of Almaty. Its main activity is providing shareholder registry services.

### Contact information:

Integrated Securities Registrar  
141 Abylai Khan Ave.,  
Almaty, 050000, Kazakhstan  
Tel: +7 (727) 272 47 60  
[www.tisr.kz](http://www.tisr.kz)



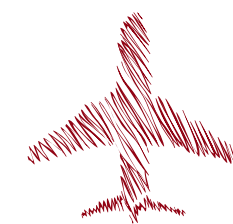




KARATAU







*The night sky of the boundless steppes of Kazakhstan is an oriental tale told at night. Incredible sunsets that can be seen on board an airplane will be the perfect addition to your trip.*

Air Astana offers a new exclusive service, Economy Sleeper, which allows you to make your long flight more comfortable with the possibility of saving your budget.

AIR ASTANA – INCREASED COMFORT OF LONG-HAUL FLIGHTS  
WITH ECONOMY SLEEPER CLASS



# FINANCIAL REPORTING



## JOINT STOCK COMPANY AIR ASTANA

**Financial Statements**  
For the year ended 31 December 2015



## JOINT STOCK COMPANY AIR ASTANA

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**STATEMENT OF MANAGEMENT'S RESPONSIBILITIES  
FOR THE PREPARATION AND APPROVAL OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2015**

Management is responsible for the preparation of the financial statements that present fairly the financial position of JSC Air Astana (the "Company") as at 31 December 2015, the results of its operations, cash flows and changes in equity for the year then ended, in compliance with International Financial Reporting Standards ("IFRS").

In preparing the financial statements, management is responsible for:


- properly selecting and applying accounting policies;
- presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- providing additional disclosures when compliance with the specific requirements in IFRS are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Company's financial position and financial performance; and
- making an assessment of the Company's ability to continue as a going concern.

Management is also responsible for:

- designing, implementing and maintaining an effective and sound system of internal controls throughout the Company;
- maintaining adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time financial position of the Company, and which enable them to ensure that the financial statements of the Company comply with IFRS;
- maintaining statutory accounting records in compliance with legislation of Kazakhstan and IFRS;
- taking such steps as are reasonably available to them to safeguard the assets of the Company; and
- preventing and detecting fraud and other irregularities.


The financial statements for the year ended 31 December 2015 were authorised for issue on 29 February 2016 by management of the Company.

On behalf of management of the Company:

  
Peter Foster  
President

29 February 2016  
Almaty, Republic of Kazakhstan



  
Alima Zamanbekova  
Chief Accountant

29 February 2016  
Almaty, Republic of Kazakhstan







«КПМГ Аудит» жауапкершілігі  
шектеулі серіктестігі  
050051 Алматы, Достық д-лы 180,  
Тел./факс 8 (727) 298-08-98, 298-07-08

KPMG Audit LLC  
050051 Almaty, 180 Dostyk Avenue,  
E-mail: company@kpmg.kz

## Independent Auditors' Report

To the Shareholders and Board of Directors of JSC Air Astana

We have audited the accompanying financial statements of JSC Air Astana (the "Company"), which comprise the statement of financial position as at 31 December 2015, and the statements of profit or loss, other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

«КПМГ Аудит» ЖШС, Қазақстанда тіркелген; Швейцария заңнамасы бойынша тіркелген KPMG International Cooperative ("KPMG International") қауымдастығына кіретін KPMG тәуелсіз фирмалар желісінің мүшесі.

KPMG Audit LLC, a company incorporated under the Laws of the Republic of Kazakhstan, a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.



Independent Auditors' Report  
Page 2

### Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2015, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.



Sergey Dementyev  
Certified Auditor  
of the Republic of Kazakhstan,  
Auditor's Qualification Certificate  
№ МФ0000086 of 27 August 2012

### KPMG Audit LLC

State Licence to conduct audit # 0000021 dated 6 December 2006 issued by the Ministry of Finance of the Republic of Kazakhstan

Assel Khairova  
General Director of KPMG Audit LLC  
acting on the basis of the Charter

29 February 2016

## JOINT STOCK COMPANY AIR ASTANA

**STATEMENT OF PROFIT OR LOSS  
FOR THE YEAR ENDED 31 DECEMBER 2015**  
(in thousands of USD)

	Notes	2015	2014
<b>Revenue</b>			
Passenger revenue	5	726,800	888,180
Cargo and mail revenue	5	19,586	26,443
Other revenue	5	15,361	20,157
<b>Total revenue</b>		<b>761,747</b>	<b>934,780</b>
<b>Operating expenses</b>			
Fuel		(165,263)	(252,108)
Handling, landing fees and route charges	6	(105,039)	(110,077)
Engineering and maintenance	6	(97,321)	(76,883)
Employee costs	6	(84,009)	(103,728)
Passenger service	6	(80,171)	(87,384)
Aircraft operating lease costs	6	(59,307)	(67,065)
Depreciation and amortisation	11	(48,491)	(45,891)
Selling costs	6	(36,839)	(39,736)
Aircraft crew costs	6	(29,323)	(26,642)
Property lease cost		(5,282)	(5,441)
Insurance	6	(4,708)	(5,543)
Information technology		(3,210)	(3,345)
Consultancy, legal and professional services		(2,406)	(2,488)
Taxes, other than income tax		(1,288)	(1,532)
Other		(6,032)	(8,426)
<b>Total operating expenses</b>		<b>(728,689)</b>	<b>(836,289)</b>
<b>Operating profit</b>		<b>33,058</b>	<b>98,491</b>
Finance income	7	6,951	1,762
Finance expenses	7	(22,367)	(24,980)
Foreign exchange gain/(loss), net	25	44,652	(47,840)
<b>Profit before tax</b>		<b>62,294</b>	<b>27,433</b>
Income tax expense	8	(13,553)	(7,980)
<b>Profit for the year</b>		<b>48,741</b>	<b>19,453</b>
<b>Basic and diluted earnings per share (in USD)</b>	20	<b>2,867</b>	<b>1,144</b>


On behalf of the Company's management:




**Peter Foster**  
President

 29 February 2016  
Almaty, Republic of Kazakhstan

The notes on pages 10 to 52 form an integral part of these financial statements. The independent auditors' report on the financial statements is on pages 2 and 3.



**Alima Zamanbekova**  
Chief Accountant

 29 February 2016  
Almaty, Republic of Kazakhstan

## JOINT STOCK COMPANY AIR ASTANA

**STATEMENT OF OTHER COMPREHENSIVE INCOME  
FOR THE YEAR ENDED 31 DECEMBER 2015**  
(in thousands of USD)

	Notes	2015	2014
<b>Net profit for the year</b>		<b>48,741</b>	<b>19,453</b>
Foreign currency translation loss, which will never be reclassified to profit or loss in subsequent periods		(107,600)	(48,857)
Other comprehensive loss, net of tax, to be reclassified into profit or loss in subsequent periods:			
Net loss from cash flow hedging instruments, including realized portion	25	(152,144)	-
Deferred taxes related to losses from cash flow hedging instruments	25	30,429	-
Unrealised portion of fuel hedging loss	16	(4,307)	-
Realised portion of fuel hedging loss	16	4,307	-
Income tax for unrealised portion of fuel hedging loss	16	861	-
Income tax for realised portion of fuel hedging loss	16	(861)	-
<b>Other comprehensive loss for the year, net of income tax</b>		<b>(229,315)</b>	<b>(48,857)</b>
<b>Total comprehensive (loss for the year)</b>		<b>(180,574)</b>	<b>(29,404)</b>

On behalf of the Company's management:




**Peter Foster**  
President

 29 February 2016  
Almaty, Republic of Kazakhstan

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**Alima Zamanbekova**  
Chief Accountant

 29 February 2016  
Almaty, Republic of Kazakhstan

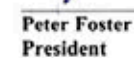



## JOINT STOCK COMPANY AIR ASTANA

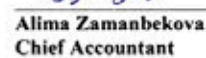
**STATEMENT OF FINANCIAL POSITION**  
**AS AT 31 DECEMBER 2015**  
*(in thousands of USD)*

	Notes	31 December 2015	31 December 2014
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	9	269,845	536,737
Intangible assets	10	693	1,388
Prepayments for non-current assets	14	10,351	11,401
Guarantee deposits	12	15,398	10,861
Deferred tax assets	8	2,072	-
Trade and other receivables	15	959	3,270
		<u>299,318</u>	<u>563,657</u>
<b>Current assets</b>			
Inventories	13	30,245	48,890
Prepayments	14	15,871	26,254
Income tax prepaid		757	4,024
Trade and other receivables	15	20,880	42,045
Other taxes prepaid	17	7,471	12,540
Guarantee deposits	12	28,398	1,034
Bank deposits	18	158,252	114,747
Cash and bank balances	19	52,471	70,866
Financial assets at fair value through profit or loss and hedge instruments	16	91	5,465
		<u>314,436</u>	<u>325,865</u>
<b>Total assets</b>		<u><b>613,754</b></u>	<u><b>889,522</b></u>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Share capital	20	17,000	17,000
Foreign currency translation reserve		(181,459)	(73,859)
Reserve on hedging instruments, net of tax	25	(121,715)	-
Retained earnings		365,816	326,456
<b>Total equity</b>		<u><b>79,642</b></u>	<u><b>269,597</b></u>
<b>Non-current liabilities</b>			
Finance lease liabilities	25	375,789	415,358
Deferred tax liability	8	-	23,104
Provision for aircraft maintenance	22	31,379	16,982
		<u>407,168</u>	<u>455,444</u>
<b>Current liabilities</b>			
Finance lease liabilities	25	40,640	40,069
Deferred revenue	21	32,876	51,818
Provision for aircraft maintenance	22	16,496	6,092
Trade and other payables	23	36,752	56,202
Financial liabilities at fair value through profit or loss and hedge instruments	16	180	10,300
		<u>126,944</u>	<u>164,481</u>
<b>Total liabilities</b>		<u><b>534,112</b></u>	<u><b>619,925</b></u>
<b>Total equity and liabilities</b>		<u><b>613,754</b></u>	<u><b>889,522</b></u>

On behalf of the Company's management:

  
**Peter Foster**  
 President

 29 February 2016  
 Almaty, Republic of Kazakhstan

  
**Alima Zamanbekova**  
 Chief Accountant

 29 February 2016  
 Almaty, Republic of Kazakhstan

The notes on pages 10 to 52 form an integral part of these financial statements. The independent auditors' report on the financial statements is on pages 2 and 3.

## JOINT STOCK COMPANY AIR ASTANA


**STATEMENT OF CHANGES IN EQUITY**  
**FOR THE YEAR ENDED 31 DECEMBER 2015**  
*(in thousands of USD)*

	Notes	Share capital	Foreign currency translation reserve	Reserve on hedging instrument	Retained earnings	Total equity
<b>At 1 January 2014</b>						
		17,000	(25,002)	-	315,520	307,518
Profit for the year		-	-	-	19,453	19,453
Other comprehensive loss for the year		-	(48,857)	-	-	(48,857)
<b>Total comprehensive (loss)/income for the year</b>		-	(48,857)	-	19,453	(29,404)
Dividends declared	20	-	-	-	(8,517)	(8,517)
<b>At 31 December 2014</b>						
		17,000	(73,859)	-	326,456	269,597
Profit for the year		-	-	-	48,741	48,741
Cash flow hedged instruments, net of tax		-	-	(123,820)	-	(123,820)
Realised loss on derivative instruments subject to cash flow hedge accounting, net of tax	25	-	-	2,105	-	2,105
Fuel hedging instruments, net of tax	16	-	-	(3,446)	-	(3,446)
Realised loss on derivative instruments subject to fuel hedge accounting, net of tax	16	-	-	3,446	-	3,446
Translation difference		-	(107,600)	-	-	(107,600)
<b>Total comprehensive (loss)/income for the year</b>		-	(107,600)	(121,715)	48,741	(180,574)
Dividends declared	20	-	-	-	(9,381)	(9,381)
<b>At 31 December 2015</b>						
		17,000	(181,459)	(121,715)	365,816	79,642

On behalf of the Company's management:

  
**Peter Foster**  
 President

 29 February 2016  
 Almaty, Republic of Kazakhstan

  
**Alima Zamanbekova**  
 Chief Accountant

 29 February 2016  
 Almaty, Republic of Kazakhstan

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## JOINT STOCK COMPANY AIR ASTANA

**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED 31 DECEMBER 2015**  
*(in thousands of USD)*


	Notes	2015	2014
<b>OPERATING ACTIVITIES:</b>			
Profit before tax		62,294	27,433
Adjustments for:			
Depreciation and amortisation of property, plant and equipment and intangible assets	11	48,491	45,891
Gain on disposal of property, plant and equipment		(662)	(237)
Change in allowance for doubtful debts	14, 15	567	820
Change in allowance for obsolete and slow-moving inventories	13	(837)	1,474
Change in vacation reserve		(784)	1,445
Change in provision for aircraft maintenance		63,862	17,448
Reversal of loyalty provision		(139)	(3,412)
Foreign exchange (gain)/loss		(44,652)	47,840
Finance income	7	(3,597)	(1,762)
Interest expense on finance lease	7	13,195	13,670
Interest expense from revaluation of fair value of guarantee deposits	7	-	8
Net unrealised loss/(income) on financial assets and liabilities at fair value through profit or loss	7	(3,354)	8,967
Net realised loss on financial assets and liabilities at fair value through profit or loss	7	8,262	1,255
<b>Operating cash flow before movements in working capital</b>		<b>142,646</b>	<b>160,840</b>
Change in trade and other accounts receivables		102,485	(16,255)
Change in prepaid expenses		(60,051)	3,964
Change in inventories		(46,181)	(3,867)
Change in financial assets and liabilities at fair value through profit or loss and hedge instruments		(85,496)	(5,427)
Change in trade and other payables and other current liabilities		13,001	5,491
Change in deferred revenue		68,604	1,931
<b>Cash generated from operations</b>		<b>135,008</b>	<b>146,677</b>
Interest paid		(13,687)	(14,302)
<b>Net cash generated from operating activities</b>		<b>121,321</b>	<b>132,374</b>
<b>INVESTING ACTIVITIES:</b>			
Refund of pre-delivery payments		-	11,808
Purchase of property, plant and equipment		(19,804)	(25,671)
Proceeds from disposal of property, plant and equipment		2,274	538
Purchase of intangible assets	10	(458)	(438)
Bank and Guarantee deposits placed		(273,517)	(202,454)
Bank and Guarantee deposits withdrawn		202,605	198,437
Interest received		1,859	761
<b>Net cash used in investing activities</b>		<b>(87,041)</b>	<b>(17,019)</b>

## JOINT STOCK COMPANY AIR ASTANA


**STATEMENT OF CASH FLOWS (CONTINUED)**  
**FOR THE YEAR ENDED 31 DECEMBER 2015**  
*(in thousands of USD)*

	Notes	2015	2014
<b>FINANCING ACTIVITIES:</b>			
Correction of withholding tax on dividends		(701)	-
Dividends paid	20	(7,897)	(8,517)
Repayment of borrowings		-	(9,498)
Repayment of finance lease		(38,906)	(37,012)
<b>Net cash used in financing activities</b>		<b>(47,504)</b>	<b>(55,027)</b>
<b>NET (DECREASE)/INCREASE IN CASH AND BANK BALANCES</b>		<b>(13,224)</b>	<b>60,329</b>
Effect of exchange rate changes on cash and bank balances		(5,171)	225
CASH AND BANK BALANCES, at the beginning of the year	19	70,866	13,725
<b>Foreign currency loss due to translation to presentation currency</b>		<b>-</b>	<b>(3,413)</b>
<b>CASH AND BANK BALANCES, at the end of the year</b>	<b>19</b>	<b>52,471</b>	<b>70,866</b>

On behalf of the Company's management:

  
**Peter Foster**  
 President

 29 February 2016  
 Almaty, Republic of Kazakhstan

  
**Alima Zamanbekova**  
 Chief Accountant

 29 February 2016  
 Almaty, Republic of Kazakhstan

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## JOINT STOCK COMPANY AIR ASTANA

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015 (in thousands of USD)

#### 1. NATURE OF ACTIVITIES

JSC Air Astana (the “Company”) is a joint stock company as defined in the Civil Code of the Republic of Kazakhstan. The Company was established as a closed joint stock company on 14 September 2001 by Resolution of the Government of the Republic of Kazakhstan # 1118 dated 29 August 2001. Due to a change in legislation introduced in 2003, the Company was re-registered as a joint stock company on 27 May 2005.

The Company’s principal activity is the provision of scheduled domestic and international air services for passengers. Other business activities include freight and mail transportation.

The Company operated its maiden flight on 15 May 2002, a Boeing-737 service from Almaty to Kazakhstan’s national capital, Astana. As at 31 December 2015 the Company operated 30 turbojet aircraft, of which 9 short-haul and 21 long-haul aircraft representing 11 aircraft acquired under finance lease and 19 aircraft leased under operating lease (2014: 30 turbojet aircraft, of which 9 short-haul and 21 long-haul aircraft representing 11 aircraft acquired under finance lease and 19 aircraft leased under operating lease).

The Company re-registered its office in 2010 from Astana, Kazakhstan to Zakarpatskaya street 4A, Almaty, Kazakhstan as the Company’s main airport of operations is Almaty International Airport.

The shareholders of the Company are JSC “National Welfare Fund “Samruk-Kazyna” (which holds the investment on behalf of the Government of the Republic of Kazakhstan) and BAE Systems Kazakhstan Limited, which own 51% and 49% of the shares of the Company, respectively.

#### 2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

##### New and revised IFRSs in issue but not yet effective

As of the date of approval of this financial statement the Company has not applied the following new and revised IFRSs that have been issued but are not yet effective:

- IFRS 9 Financial Instruments
- IFRS 15 Revenue from Contracts with Customers
- IFRS 16 Leases

##### IFRS 9 Financial Instruments

IFRS 9, published in July 2014, replaces the existing guidance in IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets, and the new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39.

IFRS 9 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted.

The Company is assessing the potential impact on its financial statements resulting from the application of IFRS 9.

## JOINT STOCK COMPANY AIR ASTANA

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015 (in thousands of USD)

#### 2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (CONTINUED)

##### IFRS 15 Revenue from Contracts with Customers

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including IAS 18 Revenue, IAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programmes.

The core principle of the new standard is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The new standard results in enhanced disclosures about revenue, provides guidance for transactions that were not previously addressed comprehensively and improves guidance for multiple-element arrangements.

IFRS 15 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted.

The Company is assessing the potential impact on its financial statements resulting from the application of IFRS 15.

##### IFRS 16 Leases

IFRS 16 Leases replaces the current guidance for the lease accounting, including IAS 17 Leases, IFRIC 4 Determining Whether an Arrangement Contains a Lease, SIC-15 Operating Leases—Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The new standard cancels the currently used dual accounting model for a lessee. This model requires classification of a lease as either a finance lease recognised on the fact of a balance sheet or off-balance operating lease. It will be replaced by a single accounting model, which implies that a lease is recognised on the face of a balance sheet and is similar to the current accounting of a finance lease.

For lessors the currently used accounting rules will generally remain the same –lessors will continue to classify a lease as either a finance lease or an operating lease.

IFRS 16 is effective for annual reporting periods beginning on or after 1 January 2019, with early adoption permitted provided that IFRS 15 Revenue from Contracts with Customers is also applied.

The new standard is expected to have a significant effect on the financial statements. The Company has not analysed the impact of these changes yet.

The following new or amended standards are not expected to have a significant impact of the Company’s financial statements.

- IFRS 14 Regulatory Deferral Accounts.
- Accounting for Acquisitions of Interests in Joint Operations (Amendments to IFRS 11).
- Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to IAS 16 and IAS 38).
- Annual Improvements to IFRSs 2012-2014 Cycle.
- Disclosure Initiative (Amendments to IAS 1).
- Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27).
- Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32).
- Recoverable Amount Disclosures for Non-Financial Assets (Amendments to IAS 36).
- Novation of Derivatives and Continuation of Hedge Accounting (Amendments to IAS 39)
- IFRIC 21 Levies.





## JOINT STOCK COMPANY AIR ASTANA

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2015  
(in thousands of USD)

## 2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (CONTINUED)

## New standards or amendments for 2015

There are lists of new standards, amendments to or interpretations of standards which are first effective for periods beginning on 1 January 2015 and therefore are considered when preparing IFRS financial statements for an annual period beginning on 1 January 2015.

- Defined Benefit Plans: Employee Contributions (Amendments to IAS 19).
- Annual Improvements to IFRSs 2010–2012 Cycle.
- Annual Improvements to IFRSs 2011–2013 Cycle.

The changes related to listed pronouncements did not have significant effect on disclosures and amounts in the financial statements of the Company.

## 3. SIGNIFICANT ACCOUNTING POLICIES

## Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs").

## Basis of preparation

The financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair values, as explained in the accounting policies below. Historical cost is generally based on the fair value of the consideration given in exchange for assets on the date of acquisition.

The Company discloses other comprehensive income separately from profit or loss statement.

The principal accounting policies set out below have been applied consistently to all periods presented in these financial statements.

## Functional and presentation currency

The national currency of Kazakhstan is the Kazakhstani Tenge ("tenge"), which is the Company's functional currency, because it reflects the economic substance of the underlying events and circumstances of the Company. As requested by shareholders, the Company prepared two sets of financial statements with presentation currency US Dollar ("USD") and Kazakhstan Tenge as shareholders believe that both currencies are useful for the users of these financial statements. These financial statements has been presented in USD. All financial information presented in USD has been rounded to the nearest thousand.

The tenge is not a readily convertible currency outside Kazakhstan and, accordingly, any conversion of tenge to USD should not be construed as a representation that the tenge amounts have been, could be, or will be in the future, convertible into USD at the exchange rate disclosed, or at any other exchange rate.

In preparing the financial statements, transactions in currencies other than the Company's functional currency (foreign currencies) are recorded at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured at historical cost in a foreign currency are not retranslated.

## JOINT STOCK COMPANY AIR ASTANA

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2015  
(in thousands of USD)

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

## Functional and presentation currency (continued)

Financial results and financial position of the Company are translated into the presentation currency using the following procedures:

- assets and liabilities for each reporting date presented (i.e. including comparatives) are translated at the closing rate at the reporting date;
- income and expenses for the reporting period (i.e., including comparatives) are translated at average exchange rates during the year; and
- all resulting exchange differences are recognised as foreign currency translation reserve within other comprehensive loss/income.

## Revenue

## Passenger revenue

Ticket sales are reported as revenue when the transportation service has been provided. The value of tickets sold and still valid but not used by the reporting date is reported as deferred (unearned) transportation revenue. This item is reduced either when the Company completes the transportation service or when the passenger requests a refund. The value of tickets that have been issued, but which will never be used, are recognised as passenger transport revenue at the date of their expiry. The maximum validity period of the tickets is one year.

Passenger revenue includes revenue from code-share agreements with other airlines. Under these agreements, the Company sells seats on these airlines' flights and those other airlines sell seats on the Company's flights. Revenue from the sale of code-share seats on other airlines are recorded net in the Company's passenger revenue in profit or loss. The revenue from other airlines' sale of code-share seats on the Company's flights is recorded in passenger revenue in profit or loss.

## Cargo revenue

Cargo transport services are recognised as revenue when the air transportation is provided. Cargo sales for which transportation service has not yet been provided are shown as deferred (unearned) transportation revenue.

## Customer loyalty program

Sales of tickets that result in award credits for customers, under the Company's Nomad Program, are accounted for as multiple element revenue transactions and the fair value of the consideration received or receivable is allocated between the services provided and the award credits granted. The consideration allocated to the award credits is measured by reference to their fair value being the amount for which the award credits could be sold separately. Such consideration is not recognised as revenue at the time of the initial sale transaction but is deferred and recognised as revenue when the award credits are redeemed and the Company's obligations have been fulfilled.

## Travel agents' commissions

Travel agents' commissions are recognised as an expense when the transportation service is provided.

## Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.



## JOINT STOCK COMPANY AIR ASTANA

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2015  
(in thousands of USD)

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

## Leasing (continued)

*The Company as lessee*

Assets held under finance leases are initially recognised as assets of the Company at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Company's general policy on borrowing costs. Contingent rentals are recognised as expenses in the periods in which they are incurred.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Operating leases for aircraft include both fixed and variable lease payments, of which the latter vary according to flying hours and cycles. Lease payments are recognised as expenses in the periods in which they are incurred. Some of operating lease payments (subject to certain conditions) are replaced by Letter of Credit as security for Lessors to cover any unfulfilled maintenance liabilities on the return of the aircraft. In the event that incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives received is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

*Guarantee deposits*

Guarantee deposits represent amounts paid to the lessors of aircraft, which are held as security deposits by the lessors in accordance with the provisions of operating lease agreements. These deposits are returned to the Company at the end of the lease period. Lease deposits relating to the operating lease agreements are presented as assets in the statement of financial position. These deposits are interest-free and are recorded at amortised cost using an average market yield of 1.09% per annum (2014: 0.84%). At initial recognition the Company recognises a discount and a deferred asset simultaneously. The discount is amortised over the lease term using the effective interest method, and deferred asset is amortised by equal amounts over the deposit term.

## Foreign currencies

In preparing the financial statements, transactions in currencies other than the Company's functional currency (foreign currencies) are recorded at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured at historical cost in a foreign currency are not retranslated. Foreign exchange differences on hedge instruments are recognised in a hedging reserve.

The following table summarises tenge exchange rates at 31 December and for the years then ended:

	Rate range		Reporting date spot-rate	
	2015	2014	2015	2014
US Dollar (USD)	182.35-349.12	154.06-184.95	339.47	182.35
Euro (EUR)	195.32-379	209.86-254.07	371.31	221.97
British Pound (GBP)	270.88-520.26	252.93-314.98	503.3	283.34

## JOINT STOCK COMPANY AIR ASTANA

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2015  
(in thousands of USD)

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

## Finance income and expenses

Finance income comprises interest income on bank deposits and gain on financial instruments through profit and loss.

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Company and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the carrying value and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Finance expenses comprise interest expense, bank commissions, losses on financial instruments through profit and loss and other. Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

## Employee benefits

Short-term employee benefit obligations are recognised as an expense in profit or loss as the related service is provided.

A provision is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

## Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax. The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the profit or loss because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the reporting date.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be realised. Such assets and liabilities are not recognised if the temporary difference arises in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset recognised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the reporting date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.



## JOINT STOCK COMPANY AIR ASTANA

NOTES TO THE FINANCIAL STATEMENTS  
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## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Taxation (continued)**

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

Current and deferred taxes are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred taxes are also recognised in other comprehensive income or directly in equity, respectively.

**Property, plant and equipment**

Property, plant and equipment held for use in the supply of services, or for administrative purposes, are stated in the statement of financial position at cost less accumulated depreciation and impairment losses.

The financial interest attributed to pre-delivery payments made on account of aircraft and other significant assets under construction is capitalised and added to the cost of the asset concerned.

Maintenance costs are recorded as expenses during the period when incurred, with the exception of programs that extend the useful life of the asset or increase its value, which are then capitalised (e.g. maintenance on airframes and engines).

*Aircraft*

The purchase price of aircraft is denominated in foreign currencies. It is recognised at the exchange rate prevailing at the date of the transaction. Manufacturers' discounts, if any, are deducted from the value of the related asset.

Aircraft are depreciated using a straight-line method over their average estimated useful life of 20 years, assuming no residual value. During the operating cycle, the Company reviews whether the depreciable base or the useful life should be adjusted and, if necessary, determines whether a residual value should be recognized.

Repairs for major airframes and engines of all aircraft are treated as a separate asset component with the cost capitalised and depreciated over the period between the date of acquisition and the next major overhaul.

Major overhaul expenditure, including replacement spares and labour costs, are capitalised and amortised over the average expected life between major overhauls based on flight hours and cycles.

All other replacement spares and other costs relating to maintenance of an aircraft are charged to the profit or loss upon consumption or as incurred, respectively.

*Rotable spare parts*

Rotable spare parts are carried in property, plant and equipment.

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Company and its cost can be measured reliably. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

## JOINT STOCK COMPANY AIR ASTANA

NOTES TO THE FINANCIAL STATEMENTS  
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## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Property, plant and equipment (continued)***Other property, plant and equipment*

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

*Depreciation*

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment.

The estimated useful lives for the current and comparative periods are as follows:

• Buildings and premises	14-50 years
• Aircraft (excluding separate asset components)	20 years
• Rotable spare parts	10 years
• Office equipment and furniture	4-7 years
• Vehicles	7-9 years
• Other	5-10 years

Depreciation is recognised so as to write off the cost of assets (other than freehold land, properties under construction and separate asset component of the aircraft) less their residual values over their useful lives, using the straight-line method. Separate asset component of an aircraft is amortised over the average expected life between major overhauls which is based on flight hours or cycles.

The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

**Intangible assets**

Intangible assets acquired separately are reported at cost less accumulated amortisation and impairment losses. Amortisation is charged on a straight-line basis over the estimated useful lives of the assets. The estimated useful lives are reviewed at the end of each annual reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. The estimated useful economic life of software for the current and comparative periods is from 7 to 10 years.





## JOINT STOCK COMPANY AIR ASTANA

NOTES TO THE FINANCIAL STATEMENTS  
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## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Impairment of tangible and intangible assets**

At each reporting date, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

**Inventories**

Inventories are stated at the lower of cost and net realisable value. Costs of inventories are determined on a first-in-first-out basis, except for fuel, which is determined on weighted average cost basis. Fuel is written off upon actual consumption. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

Expenditures incurred in acquiring the inventories such as customs duties, freight and broker's services are accumulated into a separate inventory account and allocated depending on use of relevant inventory.

**Provisions**

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that the Company will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

## JOINT STOCK COMPANY AIR ASTANA

NOTES TO THE FINANCIAL STATEMENTS  
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## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Provisions (continued)**

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

*Provision for aircraft maintenance under operating lease*

The Company is obligated to perform regular scheduled maintenance of aircraft under the terms of its operating lease agreements and regulatory requirements relating to air safety. The lease agreements also require the Company to return aircraft to lessors in a satisfactory condition at the end of the lease term, which may require the performance of final return conditions. The Company's scheduled aircraft maintenance programs carried out through the lease periods are designed to reduce the incidence of final return costs. Major aircraft maintenance relates to airframes (referred to as the C-check, D-check and redelivery preparation program) and engines. The C-check program takes place the earliest of every 18 months or 5,000 to 6,000 flying hours according to aircraft type. The D-check program takes place the earliest of every 72 months or 12,000 flying cycles according to aircraft type. Engine overhaul occurs after specified flight hours or cycles occur. Some of the operating lease agreements include a component of variable lease payments which is generally reimbursable to the Company by lessors as a contribution to engine maintenance costs after they are incurred. The variable lease payments are recognised as an expense in profit or loss as incurred. In the case of other operating lease agreements variable lease payments are replaced (subject to certain conditions) by

Letters of Credit as security for Lessors to cover any unfulfilled maintenance liabilities on the return of the aircraft, and amounts corresponding to the applicable variable lease amounts are included in provisions. For C-check maintenance, a provision is recorded on a progressive basis based upon the Company's estimate of future maintenance costs. For engine maintenance, a provision is recorded on a progressive basis based upon the Company's estimate of the excess of maintenance costs over the amount reimbursable by the lessors. The Company's aircraft maintenance liabilities are due in US dollars. The arising foreign currency exchange rate differences are provided in maintenance expense accruals which are used to create these provisions.

**Financial instruments**

Financial assets and financial liabilities are recognised when the Company becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

*Offsetting of financial instruments*

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle them on a net basis, or to realise the asset and settle the liability simultaneously. The right to set-off must not be contingent on a future event and must be legally enforceable in all of the following circumstances:

- the normal course of business;
- the event of default; and
- the event of insolvency or bankruptcy of the entity and all of the counterparties.

These conditions are not met and the related assets and liabilities are presented gross in the statement of financial position.





## JOINT STOCK COMPANY AIR ASTANA

NOTES TO THE FINANCIAL STATEMENTS  
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## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

## Financial assets

Financial assets are classified into the following specified categories: financial assets “at fair value through profit or loss” (FVTPL), “held-to-maturity” investments, “available-for-sale” (AFS) financial assets and “loans and receivables”. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

*Effective interest method*

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Income is recognised on an effective interest basis for debt instruments other than those financial assets designated as at FVTPL.

Financial assets are classified as at FVTPL when the financial asset is either held for trading or it is designated as at FVTPL. Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial asset and is included in finance income line item in profit or loss. Fair value is determined in the manner described in Note 26.

*Loans and Receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment.

Amounts due from trainees of Ab-initio pilot program in respect of 50% of their initial training costs are classified as interest free loans. The remaining costs are classified by the Company as a prepayment of its expenses and are amortised over a period of seven years, during which period the Company has a right to oblige these expenses also to become payable by the pilot trainees should such pilot trainees terminate his/her employment.

However, in December 2015 within employee incentive scheme the management offered a new repayment option to Ab-initio pilot program trainees. Under this option, the obligations to repay training costs have been cancelled with the total amount only becoming due if they leave the Company. Amounts due from those cadets who selected the option were reclassified to deferred expenses and will be amortized using the straight line method over the remaining amortization term.

*Impairment of financial assets*

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at each reporting date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been negatively affected.

## JOINT STOCK COMPANY AIR ASTANA

NOTES TO THE FINANCIAL STATEMENTS  
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## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

## Financial assets (continued)

For all other financial assets objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as a default or delinquency in interest or principal payments; or
- it is becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial assets, such as trade receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Company's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 45 days, as well as observable changes in national economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

*Derecognition of financial assets*

The Company derecognises a financial asset only when the contractual rights to the cash flows from the asset expire; or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Company neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Company recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Company retains substantially all the risks and rewards of ownership of a transferred financial asset, the Company continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.



## JOINT STOCK COMPANY AIR ASTANA

NOTES TO THE FINANCIAL STATEMENTS  
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## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

## Financial assets (continued)

On derecognition of a financial asset other than in its entirety (e.g. when the Company retains an option to repurchase part of a transferred asset or retains a residual interest that does not result in the retention of substantially all the risks and rewards of ownership and the Company retains control), the Company allocates the previous carrying amount of the financial asset between the part it continues to recognise under continuing involvement, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain or loss allocated to it that had been recognised in other comprehensive income is recognised in profit or loss. A cumulative gain or loss that had been recognised in profit or loss is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts.

## Financial liabilities and equity instruments issued by the Company

## Classification as debt or equity

Debt and equity instruments issued by the Company are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

## Financial liabilities

Financial liabilities are classified as either financial liabilities 'at FVTPL' or 'other financial liabilities'.

Financial liabilities are classified as at FVTPL where the financial liability is either held for trading or it is designated as at FVTPL.

A financial liability is classified as held for trading if:

- it has been incurred principally for the purpose of repurchasing in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Company manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial liability other than a financial liability held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Company's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IAS 39 Financial Instruments: Recognition and Measurement permits the entire combined contract (asset or liability) to be designated as at FVTPL.

## JOINT STOCK COMPANY AIR ASTANA

NOTES TO THE FINANCIAL STATEMENTS  
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## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

## Financial liabilities and equity instruments issued by the Company (continued)

Financial liabilities at FVTPL are stated at fair value, with any resultant gain or loss recognised in the profit or loss. The net gain or loss recognised in the profit or loss incorporates any interest paid on the financial liability and is included in the 'finance expenses' line item in the profit or loss. Fair value is determined in the manner described in Note 26.

## Other financial liabilities

Other financial liabilities are initially measured at fair value, net of transaction costs and subsequently measured at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

## Derivative financial instruments

The Company enters into derivative financial instruments to manage its exposure to aviation fuel price in the normal course of its business operations. Further details of derivative financial instruments are disclosed in Notes 16 and 26.

Derivatives are initially recognised at fair value at the date the derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. The fair values are estimated based on quoted market prices or pricing models that take into account the current market and contracted prices of the underlying instruments and other factors. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition of profit or loss depends on the nature of the hedge relationship.

A derivative with a positive fair value is recognised as a financial asset; a derivative with a negative fair value is recognised as a financial liability. A derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than 12 months and it is not expected to be realised or settled within 12 months. Other derivatives are presented as current assets or current liabilities.

## Cash flow hedge

The effective portion of foreign currency exchange differences arising from translation of finance lease liabilities which are designated and qualifies as cash flow hedges of highly probable future foreign currency revenues is recognized in other comprehensive income. The loss exchange differences relating to an ineffective portion are recognized immediately within foreign exchange gain/loss in the profit or loss of the Company.

Amounts accumulated in equity are reclassified to profit or loss (to foreign exchange gain/loss) in the periods when the finance lease liabilities are repaid and foreign currency revenues are received.

When a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is transferred to profit or loss when the forecast transaction is ultimately recognized. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement of profit or loss within foreign exchange gain/loss.





## JOINT STOCK COMPANY AIR ASTANA

NOTES TO THE FINANCIAL STATEMENTS  
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## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

## Financial liabilities and equity instruments issued by the Company (continued)

*Dividends*

Dividends are recognised as a liability in the period in which they are declared.

*Derecognition of financial liabilities*

The Company derecognises financial liabilities when, and only when, the Company's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

## 4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Company's accounting policies, which are described in Note 3, management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the critical judgments and estimates that management have made in the process of applying the Company's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

**Provisions**

Provisions are made when any probable and quantifiable risk of loss attributable to disputes exist. Provisions mainly consist of provision for aircraft maintenance (Note 22).

**Recoverability of variable lease payments related to future maintenance**

Under the operating lease agreements for its aircraft, the Company makes variable lease payments to lessors which are based upon the flight hours of engines, limited life parts of engines, auxiliary power units and major airframe checks. Such amounts are reimbursable by lessors upon occurrence of the maintenance event (APU and engine overhaul, replacement of the limited life parts and major airframe checks). The reimbursement is made only for scheduled repairs and replacements in accordance with the Company's maintenance program agreed with the Kazakhstan Civil Aviation Committee ("CAC").

In case of a return of the aircraft after the scheduled maintenance event, but before the return condition specified in the lease agreement is triggered, the amounts of variable lease payments made to the lessors are not reimbursable and are retained by the lessors as a deposit transferrable to the next lessees of the aircraft. Management of the Company believes that as at 31 December 2015 contributions of variable lease payments of USD 66,916 thousand (2014: USD 81,726 thousand) are subject to reimbursement by the aircraft lessors upon actual maintenance events. Management regularly assesses the recoverability of variable lease payments made by the Company. Unanticipated maintenance costs are expensed in profit or loss as incurred.

## JOINT STOCK COMPANY AIR ASTANA

NOTES TO THE FINANCIAL STATEMENTS  
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## 4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

**Compliance with tax legislation**

Tax, currency and customs legislation of Kazakhstan are subject to frequent changes and varying interpretations. Management's interpretation of such legislation in applying it to business transactions of the Company may be challenged by the relevant regional authorities enabled by law to impose fines and penalties. It is possible that the tax treatment of transactions that have not been challenged in the past may be challenged. Fiscal periods remain open to review by the tax authorities in respect of taxes for the five calendar years preceding the year of tax review. Under certain circumstances reviews may cover longer periods. While the Company believes it has provided adequately for all tax liabilities based on its understanding of the tax legislation, the above facts may create additional financial risks for the Company.

**Useful lives of property, plant and equipment**

In reporting intangible assets and tangible assets, an assessment is made of the useful economic life and an assessment is made at least once a year to determine whether impairment exists.

**Fair value of financial instruments**

A number of the Company's accounting policies and disclosures require the measurement of fair values for financial assets and liabilities.

The Company has an established control framework with respect to the measurement of fair values. This includes a valuation team that has overall responsibility for overseeing all significant fair value measurements, including Level 3 fair values.

The valuation team regularly reviews significant unobservable inputs and valuation adjustments. If third party information, such as broker quotes or pricing services, is used to measure fair values, then the valuation team assesses the evidence obtained from the third parties to support the conclusion that such valuations meet the requirements of IFRS, including the level in the fair value hierarchy in which such valuations should be classified.

When measuring the fair value of an asset or a liability, the Company uses market observable data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows.

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or a liability might be categorised in different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Company recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

Further information about the assumptions made in measuring fair values is included in the following notes:

- Note 16 – Financial assets and liabilities at fair value through profit or loss and hedge instruments.
- Note 26 – Financial instruments.





## JOINT STOCK COMPANY AIR ASTANA

**NOTES TO THE FINANCIAL STATEMENTS  
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**4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION  
UNCERTAINTY (CONTINUED)**
**Allowances**

The Company accrues allowances for doubtful accounts receivable. Judgment is used to estimate doubtful accounts, which includes consideration of historical and anticipated customer performance. Changes in the economy or specific customer conditions may require adjustments to the allowance for doubtful accounts recorded in these financial statements. As at 31 December 2015 and 2014, allowances for doubtful accounts were equal to USD 1,433 thousand and USD 2,461 thousand, respectively (Notes 14, 15).

The Company annually estimates the necessity of accrual of allowances for obsolete and slow-moving inventories based on annual stock count data conducted at the reporting date. As at 31 December 2015, the Company accrued an allowance for obsolete and slow-moving inventories in the amount of USD 414 thousand (2014: USD 1,757 thousand) (Note 13).

**Customer loyalty program**

While calculating customer loyalty program the Company uses its own critical judgements and estimates in regard to cost of value per point by Nomad club members.

**Contingent liabilities and contingent assets**

Contingent liabilities are not recognised in the financial statements. They are disclosed in the notes to the financial statements, unless the possibility of an outflow of resources embodying economic benefits is remote.

Contingent assets are not recognised in the financial statements. Where an inflow of economic benefits is probable, they are disclosed in the notes to the financial statements.

**5. REVENUE**

	2015	2014
<b>Passenger revenue</b>		
Passenger transport	577,329	710,221
Fuel surcharge	106,220	127,872
Airport services	38,315	43,525
Excess baggage	4,936	6,562
	<b>726,800</b>	<b>888,180</b>
<b>Cargo and mail revenue</b>		
Cargo	17,721	24,400
Mail	1,865	2,043
	<b>19,586</b>	<b>26,443</b>
<b>Other revenue</b>		
Penalties on agency contracts	8,707	9,369
Advertising revenue	1,411	2,062
Income from ground services	1,129	1,083
Gain on disposal of spare parts and other assets	662	584
Spare parts received free of charge	94	1,195
Income from government subsidies	-	1,351
Other	3,358	4,513
	<b>15,361</b>	<b>20,157</b>

## JOINT STOCK COMPANY AIR ASTANA

**NOTES TO THE FINANCIAL STATEMENTS  
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(in thousands of USD)
**5. REVENUE (CONTINUED)**

In accordance with Kazakhstan legislation the Government provides subsidies to companies rendering air passenger services on unprofitable domestic routes from Astana.

During 2014 the subsidies were provided for the routes from Astana to Zhezkazgan and Pavlodar (in 2014 the flights to Pavlodar were subsidised for six months). No subsidies were provided in 2015.

During the years ended 31 December, passenger, cargo and mail revenue were generated from the following destinations:

	2015	2014
Europe	310,089	379,119
Domestic	244,466	317,132
Asia	191,831	218,372
<b>Total passenger, cargo and mail revenue</b>	<b>746,386</b>	<b>914,623</b>

**6. OPERATING EXPENSES**

	2015	2014
<b>Handling, landing fees and route charges</b>		
Aero navigation	40,310	39,630
Handling charge	33,371	34,790
Landing fees	29,141	31,972
Meteorological services	848	1,902
Other	1,369	1,783
	<b>105,039</b>	<b>110,077</b>
<b>Engineering and maintenance</b>		
Maintenance – provisions (Note 22)	51,755	17,448
Maintenance – variable lease payments	25,293	28,468
Spare parts	10,583	9,057
Maintenance – components	7,573	18,946
Technical inspection	2,117	2,964
	<b>97,321</b>	<b>76,883</b>
<b>Employee costs</b>		
Wages and salaries of operational personnel	54,654	67,414
Wages and salaries of administrative personnel	12,570	15,913
Social tax	8,349	10,109
Wages and salaries of sales personnel	4,494	5,757
Other	3,942	4,535
	<b>84,009</b>	<b>103,728</b>

The average number of employees during 2015 was 4,583 (2014: 4,356).

	2015	2014
<b>Passenger service</b>		
Airport charges	37,273	41,539
Catering	28,529	30,923
In-flight entertainment	3,635	3,121
Security	3,250	3,260
Other	7,484	8,541
	<b>80,171</b>	<b>87,384</b>



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## 6. OPERATING EXPENSES (CONTINUED)

	2015	2014
<b>Aircraft operating lease costs</b>		
Fixed lease charges of aircraft and engine	56,161	62,481
Ad-hoc lease of engines and rotatable spare parts	1,572	4,161
Operating lease return costs	1,574	423
	<b>59,307</b>	<b>67,065</b>
<b>Selling costs</b>		
Reservation costs	15,430	15,375
Commissions	13,717	17,335
Advertising	6,578	5,392
Interline commissions	620	986
Other	494	648
	<b>36,839</b>	<b>39,736</b>
<b>Aircraft crew costs</b>		
Accommodation and allowances	14,433	15,170
Contract crew	8,550	10,594
Training	6,340	878
	<b>29,323</b>	<b>26,642</b>
<b>Insurance</b>		
Hull insurance	2,055	2,380
Legal liability insurance	1,582	1,964
Medical insurance	760	863
Other	311	336
	<b>4,708</b>	<b>5,543</b>

## 7. FINANCE INCOME AND EXPENSES

	2015	2014
<b>Finance income</b>		
Net unrealised income on financial assets and liabilities at fair value through profit or loss (Note 16)	3,354	-
Interest income on bank deposits	3,190	1,231
Unwinding of discount on Ab-initio pilot trainees receivables	343	-
Other	64	531
	<b>6,951</b>	<b>1,762</b>
<b>Finance expenses</b>		
Interest expense on finance lease	13,195	13,670
Net realised loss on financial assets and liabilities at fair value through profit or loss (Note 16)	8,262	1,255
Bank commissions	910	1,081
Net unrealised loss on financial assets and liabilities at fair value through profit or loss (Note 16)	-	8,966
Interest expense from revaluation of fair value of guarantee deposits	-	8
Other	-	-
	<b>22,367</b>	<b>24,980</b>

## JOINT STOCK COMPANY AIR ASTANA

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## 8. INCOME TAX EXPENSE

The Company's income tax expense for the years ended 31 December was as follows:

	2015	2014
Adjustment for income tax related to prior year	526	(546)
Deferred income tax expense	13,027	8,526
	<b>13,553</b>	<b>7,980</b>

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The tax effect on the major temporary differences that give rise to the deferred income tax assets and liabilities as at 31 December 2015 and 2014 is presented in table below.

In accordance with the local tax legislation both hedged and unhedged foreign currency losses are treated as deductible expenses for the purpose of corporate income tax calculations. If such deductible expenses cannot be fully utilized in the year of origination the tax code permits an entity to carry forward the accumulated tax losses for the next 10 years. During 2015 the Company applied foreign currency cash flow hedge policy that allowed it to hedge foreign currency losses arising on the hedging instruments. These hedged foreign currency losses were not utilised in 2015 and, therefore, the Company accrued additional deferred income tax asset.

	2015	2014
<b>Deferred tax assets</b>		
Carried forward corporate income tax losses	13,840	5,771
Provision for aircraft maintenance	9,575	4,615
Trade and other payables	3,176	6,224
Intangible assets	96	183
Trade and other receivables	-	328
<b>Total</b>	<b>26,687</b>	<b>17,121</b>
<b>Deferred tax liabilities</b>		
Difference in depreciable value of property, plant and equipment	(24,592)	(39,378)
Prepaid expenses	(23)	(55)
Deferred expenses	-	(792)
<b>Total</b>	<b>(24,615)</b>	<b>(40,225)</b>
<b>Net deferred tax assets/(liabilities)</b>	<b>2,072</b>	<b>(23,104)</b>

The income tax rate in the Republic of Kazakhstan, where the Company is located, in 2015 and 2014 was 20%. The taxation charge for the year is different from that which would be obtained by applying the statutory income tax rate to profit before income tax. Below is a reconciliation of theoretical income tax at 20% (2014: 20%) to the actual income tax expense recorded in the Company's statement of profit or loss and other comprehensive income:

	2015	2014
Profit before tax	62,294	27,433
Income tax at statutory rate	12,459	5,487
Tax effect of non-deductible expenses	1,094	2,493
<b>Income tax expense</b>	<b>13,553</b>	<b>7,980</b>





## JOINT STOCK COMPANY AIR ASTANA

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## 9. PROPERTY, PLANT AND EQUIPMENT

Cost	Rotable spare parts	Office equipment and furniture	Building, premises and land	Vehicles	Aircraft under finance lease	In transit	Total
<b>At 1 January 2014</b>	<b>52,532</b>	<b>10,970</b>	<b>5,694</b>	<b>3,639</b>	<b>530,508</b>	<b>11,070</b>	<b>614,413</b>
Additions	-	-	-	-	-	99,210	99,210
Disposals	(2,722)	(669)	-	(188)	(706)	-	(4,285)
Transfers from prepayments	-	-	-	-	9,820	-	9,820
Transfers	14,217	1,007	620	310	84,564	(100,718)	-
Foreign currency translation difference	(8,478)	(1,735)	(908)	(576)	(85,236)	(1,720)	(98,653)
<b>At 31 December 2014</b>	<b>55,549</b>	<b>9,573</b>	<b>5,406</b>	<b>3,185</b>	<b>538,950</b>	<b>7,842</b>	<b>620,505</b>
Additions	-	-	-	-	-	19,804	19,804
Disposals	(6,817)	(1,068)	-	(223)	(1,404)	-	(9,512)
Transfers	15,354	1,059	450	1,444	3,826	(22,133)	-
Foreign currency translation difference	(29,130)	(4,456)	(2,673)	(1,943)	(250,403)	(2,746)	(291,351)
<b>At 31 December 2015</b>	<b>34,956</b>	<b>5,108</b>	<b>3,183</b>	<b>2,463</b>	<b>290,969</b>	<b>2,767</b>	<b>339,446</b>
<b>Accumulated depreciation</b>							
<b>At 1 January 2014</b>	<b>21,056</b>	<b>6,629</b>	<b>1,234</b>	<b>2,007</b>	<b>20,631</b>	-	<b>51,557</b>
Charge for the year (Note 11)	5,763	1,373	225	347	37,324	-	45,032
Disposals	(2,711)	(639)	-	(183)	(452)	-	(3,985)
Foreign currency translation difference	(3,370)	(1,058)	(199)	(319)	(3,890)	-	(8,836)
<b>At 31 December 2014</b>	<b>20,738</b>	<b>6,305</b>	<b>1,260</b>	<b>1,852</b>	<b>53,613</b>	-	<b>83,768</b>
Charge for the year (Note 11)	7,732	1,333	351	437	38,070	-	47,923
Disposals	(5,298)	(1,049)	-	(215)	(1,338)	-	(7,900)
Foreign currency translation difference	(10,672)	(3,055)	(716)	-948	(38,799)	-	(54,190)
<b>At 31 December 2015</b>	<b>12,500</b>	<b>3,534</b>	<b>895</b>	<b>1,126</b>	<b>51,546</b>	-	<b>69,601</b>
<b>Net book value</b>							
<b>At 31 December 2014</b>	<b>34,811</b>	<b>3,268</b>	<b>4,146</b>	<b>1,333</b>	<b>485,337</b>	<b>7,842</b>	<b>536,737</b>
<b>At 31 December 2015</b>	<b>22,456</b>	<b>1,574</b>	<b>2,288</b>	<b>1,337</b>	<b>239,423</b>	<b>2,767</b>	<b>269,845</b>

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## 9. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

The Company's obligations under finance leases are secured by the lessors' title to the leased assets, which have a carrying amount of USD 239,423 thousand (2014: USD 485,337 thousand) (Note 25).

Rotable spare parts include aircraft modification costs.

For the year ended 31 December 2015 nil interest of the loan was capitalised into property, plant and equipment (2014: USD 331 thousand) (Note 24).

The decrease in the equivalent US dollar book cost is the reflection of IFRS translation method when converting the functional Tenge currency to the reporting US dollar currency.

Balance Sheet of the Company is translated into the reporting currency at the closing foreign currency rate prevailing at the reporting date. As a result of the devaluation of Kazakhstan Tenge to US dollar, the foreign currency exchange rate used for translating balances as at 31 December 2015 was higher than the respective rate used for translation of balances as at 31 December 2014, leading to decrease in the corresponding US dollar book values in 2015.

## 10. INTANGIBLE ASSETS

	Software
<b>Cost</b>	
<b>At 1 January 2014</b>	<b>6,546</b>
Additions	438
Foreign currency translation difference	(1,039)
<b>At 31 December 2014</b>	<b>5,945</b>
Additions	458
Foreign currency translation difference	(2,911)
<b>At 31 December 2015</b>	<b>3,492</b>
<b>Accumulated amortisation</b>	
<b>At 1 January 2014</b>	<b>4,407</b>
Charge for the year (Note 11)	859
Foreign currency translation difference	(709)
<b>At 31 December 2014</b>	<b>4,557</b>
Charge for the year (Note 11)	568
Foreign currency translation difference	(2,326)
<b>At 31 December 2015</b>	<b>2,799</b>
<b>Net book value</b>	
<b>At 31 December 2014</b>	<b>1,388</b>
<b>At 31 December 2015</b>	<b>693</b>



## JOINT STOCK COMPANY AIR ASTANA

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## 11. DEPRECIATION AND AMORTISATION

	2015	2014
Depreciation of property, plant and equipment (Note 9)	47,923	45,032
Amortisation of intangible assets (Note 10)	568	859
<b>Total</b>	<b>48,491</b>	<b>45,891</b>

## 12. GUARANTEE DEPOSITS

	31 December 2015	31 December 2014
<i>Non-current</i>		
Guarantee deposits for leased aircraft	14,779	10,555
Other guarantee deposits	619	306
	<b>15,398</b>	<b>10,861</b>
<i>Current</i>		
Guarantee deposits for maintenance liabilities	27,661	-
Guarantee deposits for leased aircraft	60	351
Other guarantee deposits	677	683
	<b>28,398</b>	<b>1,034</b>
	<b>43,796</b>	<b>11,895</b>

Guarantee deposits for leased aircraft comprise security deposits required by the lease agreements as security for future lease payments to be made by the Company. Guarantee deposits are denominated primarily in US dollars.

Guarantee deposits for leased aircraft and maintenance liabilities are receivable as follows:

	31 December 2015	31 December 2014
Within one year	27,721	351
After one year but not more than five years	7,890	6,940
More than five years	6,956	3,683
	<b>42,567</b>	<b>10,974</b>
Fair value adjustment	(67)	(68)
	<b>42,500</b>	<b>10,906</b>

## JOINT STOCK COMPANY AIR ASTANA

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## 13. INVENTORIES

	31 December 2015	31 December 2014
Spare parts	15,999	31,065
Goods in transit	4,730	6,776
Fuel	4,487	6,592
Promotional materials	1,734	1,442
Crockery	1,591	1,880
Uniforms	855	441
De-icing liquid	275	878
Blank forms	239	380
Other	749	1,193
	<b>30,659</b>	<b>50,647</b>
Less: allowance for obsolete and slow-moving inventories	(414)	(1,757)
	<b>30,245</b>	<b>48,890</b>

The movements in the allowance for obsolete and slow-moving inventories were as follows for the years ended 31 December:

	2015	2014
Allowance for obsolete and slow-moving inventories at the beginning of the year	(1,757)	(366)
Accrued for the year	(680)	(1,474)
Reversed for the year	1,517	-
Foreign currency translation difference	506	83
Allowance for obsolete and slow-moving inventories at the end of the year	<b>(414)</b>	<b>(1,757)</b>

## 14. PREPAYMENTS

	31 December 2015	31 December 2014
<i>Non-current</i>		
Prepayments for non-current assets	3,818	2,911
Advances paid for services	6,533	8,490
	<b>10,351</b>	<b>11,401</b>
<i>Current</i>		
Advances paid for services	5,615	10,790
Prepayments for finance lease	5,777	5,874
Prepayments for operating leases	2,670	4,174
Advances paid for goods	2,205	6,236
	<b>16,267</b>	<b>27,074</b>
Less: allowance for non-recovery	(396)	(820)
	<b>15,871</b>	<b>26,254</b>

As at 31 December 2015 prepayments for non-current assets were made to Boeing as pre-delivery payment for the remaining three aircraft (Note 27).





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## 14. PREPAYMENTS (CONTINUED)

The movements in the allowance for non-recovery for the years ended 31 December were:

	2015	2014
<b>At the beginning of the year</b>	<b>(820)</b>	<b>(5,553)</b>
Accrued during the year	(50)	(9)
Reversed during the year	122	103
Written-off against previously created allowance	-	3,832
Foreign currency translation difference	352	807
<b>At the end of the year</b>	<b>(396)</b>	<b>(820)</b>

The allowance for non-recovery includes advance payments made by the Company to suppliers which are currently subject to legal claims for recovery due to the suppliers' inability to complete the transactions.

## 15. TRADE AND OTHER RECEIVABLES

	31 December 2015	31 December 2014
<i>Non current</i>		
Due from employees and Ab-initio pilot trainees	959	3,270
	<b>959</b>	<b>3,270</b>
<i>Current</i>		
Trade receivables	16,898	24,251
Receivable from lessors – variable lease reimbursement	3,965	16,541
Due from employees and Ab-initio pilot trainees	1,054	2,809
Subsidies receivable (Note 28)	-	85
	<b>21,917</b>	<b>43,686</b>
Less: allowance for doubtful debts	(1,037)	(1,641)
	<b>20,880</b>	<b>42,045</b>

At 31 December 2015, eight debtors including IATA Bank Settlement Plans (BSPs) as collecting agencies from the worldwide travel agencies comprised 33% of the Company's trade and other receivables (2014: eight debtors comprised 25%).

Receivable from lessors represents the amount of variable lease reimbursement claimed for by the Company as a result of maintenance performed that occurred prior to reporting date.

Amounts due from trainees of Ab-initio pilot program in respect of 50% of their initial training costs are classified as interest free loans. The remaining costs are classified by the Company as a prepayment of its expenses and are amortised over a period of seven years, during which period the Company has a right to oblige these expenses also to become payable by the pilot trainees should such pilot trainees terminate his/her employment.

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## 15. TRADE AND OTHER RECEIVABLES (CONTINUED)

However, in December 2015 within employee incentive scheme the management offered a new repayment option to Ab-initio pilot program trainees. Under this option, the obligations to repay training costs have been cancelled with the total amount only becoming due if they leave the Company. Amounts due from those cadets who selected the option were reclassified to deferred expenses and will be amortized using the straight line method over the remaining amortization term.

The Company's trade and other receivables are denominated in the following currencies as at 31 December:

	31 December 2015	31 December 2014
US Dollar	9,395	23,599
Tenge	7,709	15,955
Euro	1,999	2,038
Russian Rouble	834	1,093
Other	2,939	4,271
	<b>22,876</b>	<b>46,956</b>

The movements in allowance for doubtful debts for the years ended 31 December were:

	2015	2014
<b>At the beginning of the year</b>	<b>(1,641)</b>	<b>(1,223)</b>
Accrued during the year	(797)	(951)
Reversed during the year	158	37
Written-off against previously created allowance	392	292
Foreign currency translation difference	851	204
<b>At the end of the year</b>	<b>(1,037)</b>	<b>(1,641)</b>

## 16. FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS AND HEDGE INSTRUMENTS

Financial assets and liabilities at fair value through profit or loss arise from the Company's aviation fuel price hedging activities which commenced in 2009. The Company signed agreements and entered into transactions with various financial institutions to manage the risk of significant changes in aviation fuel prices. In accordance with the terms, financial institutions agreed to compensate the Company the excess between the actual price of crude oil and the ceiling price specified in the agreements, whilst the Company has agreed to compensate the financial institutions the shortfall between the actual prices and the floor price specified in the agreements. Starting from 1 January 2015 the Company has implemented hedge policy designating the options as hedging instruments and the highly probable future purchase of jet fuel as hedging items. The financial instruments have been assessed as being an effective hedge for IAS 39 purposes. The contracts are accounted as hedges only when the market quotes for crude oil breaches the maximum or minimum strike prices. Otherwise, the value of the derivatives is accounted through profit and loss. As at 31 December 2015 the fair value of the derivative instruments resulted in a loss of USD 4,307 thousand (before income tax of USD 861 thousand), which has been recorded in other comprehensive income. The realized portion of hedge reserve in the amount of USD 4,307 thousand (before income tax of USD 861 thousand), was reclassified from other comprehensive income to profit or loss. The fair value has been determined using a valuation model with market observable parameters.

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**16. FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS AND HEDGE INSTRUMENTS (CONTINUED)**

	Call option (purchase)	Put option (sale)	Put option (purchase)	Net
<b>At 1 January 2014</b>	<b>331</b>	<b>(266)</b>	<b>-</b>	<b>65</b>
Acquisition	281	-	3,756	4,037
Foreign currency translation gain/(loss)	32	(92)	13	(47)
Net unrealised (loss)/gain on financial assets and liabilities at fair value through profit or loss (Note 7)	(359)	(10,161)	1,554	(8,966)
Net realised (loss)/gain on financial assets and liabilities at fair value through profit or loss (Note 7)	-	(1,255)	-	(1,255)
Payments on exercised contracts	-	1,255	-	1,255
Foreign currency translation difference	(50)	219	(93)	76
<b>At 31 December 2014</b>	<b>235</b>	<b>(10,300)</b>	<b>5,230</b>	<b>(4,835)</b>
Acquisition	1,213	-	-	1,213
Foreign currency translation gain/(loss)	516	(1,692)	115	(1,061)
Net unrealised (loss)/gain on financial assets and liabilities at fair value through profit or loss (Note 7)	(1,739)	9,175	(4,082)	3,354
Unrealised portion of fuel hedging	-	5,193	(886)	4,307
Realised portion of fuel hedging	-	(5,193)	886	(4,307)
Net realised (loss)/gain on financial assets and liabilities at fair value through profit or loss (Note 7)	-	(12,524)	4,262	(8,262)
Payments on exercised contracts	-	12,524	(4,262)	8,262
Foreign currency translation difference	(134)	2,637	(1,263)	1,240
<b>At 31 December 2015</b>	<b>91</b>	<b>(180)</b>	<b>-</b>	<b>(89)</b>

The terms of the options are described in Note 26.

**17. OTHER TAXES PREPAID**

	31 December 2015	31 December 2014
Value added tax recoverable	6,007	9,346
Prepayment for income tax for non-residents	1,327	250
Prepayment for environment tax	-	2,526
Other taxes prepaid	137	418
	<b>7,471</b>	<b>12,540</b>

Value added tax receivable is recognised within current assets as the Company annually applies for reimbursement of these amounts, which is usually successful.

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**18. BANK DEPOSITS**

	31 December 2015	31 December 2014
<i>Current</i>		
Term deposits with local banks	156,985	114,130
Guarantee deposits	13	19
Interest receivable	1,254	598
	<b>158,252</b>	<b>114,747</b>

Short-term deposits with local banks (with an original maturity of more than three months and less than one year) earn interest in the range from 0.5% to 5% per annum (2014: 0.15% to 4.5%). Bank deposits have no restrictions on early withdrawal.

Guarantee deposits made to meet the requirements of Kazakhstan legislation relating to foreign employees are denominated in tenge and earn interest from 0% to 4.5% per annum (2014: 0% to 4.5%).

Bank deposits are denominated in the following currencies as at 31 December:

	2015	2014
US dollar	146,731	105,573
Euro	11,505	9,157
Tenge	16	17
	<b>158,252</b>	<b>114,747</b>

**19. CASH AND BANK BALANCES**

	31 December 2015	31 December 2014
Term deposits with local banks with original maturity less than 3 months	24,551	46,269
Current accounts with local banks	22,612	20,868
Current accounts with foreign banks	5,211	3,596
Cash on hand	97	133
	<b>52,471</b>	<b>70,866</b>

As at 31 December 2015 current accounts with banks earn interest in the range of 0.3% to 8% per annum (2014: 0.1% to 2.5%). As at 31 December 2015 short-term deposits (over-night) with banks earn interest of up to 42% per annum.





## JOINT STOCK COMPANY AIR ASTANA

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## 19. CASH AND BANK BALANCES (CONTINUED)

Cash and bank balances are denominated in the following currencies as at 31 December:

	2015	2014
US dollar	37,261	53,695
Tenge	5,107	9,235
Euro	4,249	4,799
GBP	1,503	74
Chinese Yuan	1,308	461
Russian Rouble	905	750
Uzbek Soms	879	985
Indian Rupee	594	349
Other	665	518
	<b>52,471</b>	<b>70,866</b>

## 20. EQUITY

As at 31 December 2015 and 2014, share capital was comprised of 17,000 authorised, issued and fully paid ordinary shares with a par value of KZT 147,150 thousand (equivalent to USD 1,000 per share at the time of purchase).

In accordance with Kazakhstan legislation the Company's distributable reserves are limited to the balance of retained earnings as recorded in the Company's statutory financial statements prepared in accordance with IFRS. A distribution cannot be made when equity is negative or if distribution would result in negative equity or the Company's insolvency. As at 31 December 2015 the Company had retained earnings, including the profit for the current year, of USD 365,816 thousand (2014: USD 326,456 thousand).

In May 2015, the shareholders declared a dividend payment equivalent to 50% of profit for 2014. The total amount of the dividend was 1,742,918 thousand tenge (USD 9,381 thousand equivalent as of announcement date), which was distributed and paid to each shareholder in accordance with their shareholdings. In May 2014, the shareholders declared a dividend payment equivalent to 20% of profit for 2013. The total amount of the dividend was 1,562,806 thousand tenge (USD 8,517 thousand equivalent as of announcement date), which was also distributed and paid to each shareholder in accordance with their shareholdings. Dividends per share in 2015 were 102.5 thousand tenge or USD 0,5 thousand equivalent as of announcement date (2014: 91.9 thousand tenge or USD 0,5 thousand equivalent as of announcement date).

The calculation of basic earnings per share is based on profit for the year and the weighted average number of ordinary shares outstanding during the year of 17,000 shares (2014: 17,000). The Company has no instruments with potential dilutive effect.

	2015	2014
<b>Profit:</b>		
Profit for the year	48,741	19,453
Number of ordinary shares	17,000	17,000
<b>Earnings per share – basic and diluted (USD)</b>	<b>2,867</b>	<b>1,144</b>

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## 21. DEFERRED REVENUE

	31 December 2015	31 December 2014
Unearned transportation revenue	31,484	49,062
Customer loyalty program	1,392	2,756
	<b>32,876</b>	<b>51,818</b>

Unearned transportation revenue represents the value of sold but unused passenger tickets the validity period of which has not expired.

Deferred revenue attributable to the customer loyalty program refers to the Company's Nomad Club program.

The decrease in deferred revenue reflects the translation to US Dollar at devalued 2015 rate of exchange.

## 22. PROVISION FOR AIRCRAFT MAINTENANCE

	31 December 2015	31 December 2014
Engines	37,414	17,951
D-Check	3,345	836
C-Check	3,344	2,177
Provision for redelivery of aircraft	1,641	1,329
Auxiliary Power unit	1,159	500
Landing gear	972	281
	<b>47,875</b>	<b>23,074</b>

During 2015 and 2014 the Company renegotiated certain operating lease agreements to replace the payments of variable lease by Letters of credit (Note 27). As a result a lessor signed an agreement to return variable lease payments which were partially unclaimed by the Company. The Company accepted the continuing obligations for aircraft maintenance and, therefore, increased provisions by the corresponding amounts.

The movements in the provision for aircraft maintenance were as follows for the years ended 31 December:

	2015	2014
<b>At 1 January</b>	<b>23,074</b>	<b>23,147</b>
Accrued during the year (Note 6)	52,344	20,343
Increase of provisions as a result of return of variable rent by a lessor (Note 27)	12,107	-
Reversed during the year (Note 6)	(589)	(2,895)
Used during the year	(10,961)	(13,810)
Foreign currency translation difference	(28,100)	(3,711)
<b>At 31 December</b>	<b>47,875</b>	<b>23,074</b>

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## 22. PROVISION FOR AIRCRAFT MAINTENANCE (CONTINUED)

Under the terms of its operating lease agreements for aircraft, the Company is obliged to carry out and pay for maintenance based on use of the aircraft and to return aircraft to the lessors in a satisfactory condition at the end of the lease term. The maintenance cost estimates used for calculating the provisions are stated in US dollars.

The planned utilisation of these provisions is as follows:

	31 December 2015	31 December 2014
Within one year	16,496	6,092
During the second year	6,879	2,363
During the third year	4,557	3,051
After the third year	19,943	11,568
<b>Total provision for aircraft maintenance</b>	<b>47,875</b>	<b>23,074</b>
<b>Less: current portion</b>	<b>(16,496)</b>	<b>(6,092)</b>
<b>Non-current portion</b>	<b>31,379</b>	<b>16,982</b>

Significant judgment is involved in determining the provision for aircraft maintenance. Management has engaged an independent specialist to assist in estimating the timing and cost of expected engine maintenance activities. The estimate by the independent specialist is prepared based on the current condition of aircraft, historical flight hours and cycles, expected future utilisation of the aircraft over the remaining life of the operating leases as well as requirements for returnable condition when the lease term is concluded. The estimates are based on the following key assumptions:

- expected utilisation rate for flight hours and cycles is based on historical data and actual usage;
- market prices are used for services and parts;
- it is assumed that aircraft will be operated within standard norms and conditions; and
- no provisions have been made for unscheduled maintenance.

## 23. TRADE AND OTHER PAYABLES

	31 December 2015	31 December 2014
Trade payables	27,608	35,576
Taxes payable	2,829	2,661
Wages and salaries payable to employees	2,210	9,749
Employee unused vacation	1,628	3,963
Operating lease payables	1,220	1,948
Deposits received	759	712
Advances received	415	1,404
Other	83	189
	<b>36,752</b>	<b>56,202</b>

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## 23. TRADE AND OTHER PAYABLES (CONTINUED)

The Company's trade payables are denominated in the following currencies:

	31 December 2015	31 December 2014
US Dollar	15,668	21,215
Tenge	12,683	22,010
Euro	3,777	7,273
Russian roubles	1,658	1,116
GBP	716	1,138
Other	2,250	3,450
	<b>36,752</b>	<b>56,202</b>

## 24. LOANS

On 21 August 2012 the Company concluded a loan agreement of USD 27,304 thousand for financing of pre-delivery payments for three Boeing B767-300ER which have been delivered during 2013 and 2014. The outstanding amount on this loan was fully repaid in June 2014.

On 16 March 2012, the Company entered into a renewable credit line agreement with JSC Halyk Bank for the amount of USD 45,000 thousand for the purpose of replenishment of working capital in order to meet current liabilities and not to incur interest penalties on early termination of bank deposits. Interest rate was fixed depending on loan terms from 4.5% to 7.25% per annum. The loan was secured by cash kept on the Company's current accounts and was fully repaid during August 2012. The extension period has not been used and the availability period has been renewed till 30 June 2014 with a new fixed interest rate from 4% to 6% per annum depending on loan terms. Approvals have been agreed to extend this credit line for a further 3-year period.

On 3 December 2015 the Company concluded a loan agreement of USD 14,000 thousand (equivalent in Kazakhstan Tenge) with the European Bank for Reconstruction and Development (EBRD) for 10 years for the purpose of construction of a Technical Center (Hangar) in Astana, which will also be pledged to EBRD under this loan. Interest rate is floating and defined, based on a margin of 3.75% per annum plus EBRD's All-in Cost in Kazakhstan Tenge. The All-in Cost will be determined on a quarterly basis in conjunction with the National Bank of Kazakhstan and/or the market. As of the date of the approval of these financial statements the Company had not obtained the funds from EBRD, however the documentation for the release of this funding is being finalised.

## 25. FINANCE LEASE LIABILITIES

For the years from 2012 to 2014 the Company acquired eleven aircraft under the fixed interest finance lease agreement. The lease term for each aircraft is twelve years. The Company has an option to purchase each aircraft for a nominal amount at the end of the lease (Note 27). Loans provided by financial institutions to the lessors in respect of six new Airbus which were delivered during 2012 and 2013 were guaranteed by European Export Credit Agencies while three Boeing 767 aircraft which were delivered in 2013 and 2014 were guaranteed by US Export Import Bank. Two Embraer aircraft were delivered in 2012 and 2013 were guaranteed by Brazilian Development Bank. The Company's obligations under finance leases are secured by the lessors' title to the leased assets. These assets have a carrying value of USD 239,423 thousand (2014: USD 485,337 thousand) (Note 9).

The decrease in the equivalent US dollar book cost is the reflection of IFRS translation method when converting the functional Tenge currency to the reporting US dollar currency (please see Note 9 for additional information).

The Company's finance leases are subject to certain covenants. These covenants impose restrictions in respect of certain transactions, including, but not limited to restrictions in respect of indebtedness. Certain finance lease agreements include covenants as regards to change of ownership of the Company. These requirements have been met during 2015.





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## 25 FINANCE LEASE LIABILITIES (CONTINUED)

	Minimum lease payments		Present value of minimum lease payments	
	31 December 2015	31 December 2014	31 December 2015	31 December 2014
Not later than one year	53,181	53,756	40,640	40,069
Later than one year and not later than five years	203,115	205,212	164,096	162,318
Later than five years	226,784	276,797	211,693	253,040
	<b>483,080</b>	<b>535,765</b>	<b>416,429</b>	<b>455,427</b>
Less: future finance charges	(66,651)	(80,338)	-	-
<b>Present value of minimum lease payments</b>	<b>416,429</b>	<b>455,427</b>	<b>416,429</b>	<b>455,427</b>
Included in the financial statements as:				
- current portion of finance lease obligations			40,640	40,069
- non-current portion of finance lease obligations			375,789	415,358
			<b>416,429</b>	<b>455,427</b>

The Company's finance lease obligations are denominated in US Dollars.

On 1 July 2015 the Company designated a portion of its US dollar finance lease obligations as hedges of highly probable future US Dollar revenue streams. The Company applies cash flow hedge accounting model to this hedging transaction, in accordance with IAS 39. At 31 December 2015, finance lease liabilities in the amount of USD 250,736 thousand are designated as hedging instrument denominated in US dollars of highly probable revenue forecasted for the period 2015 - 2025. The Company expects that this hedging relationship will be highly effective since the future cash outflows on the lease liabilities being hedged match the future cash inflows of the expected revenue. At 31 December 2015, a foreign currency loss of USD 152,144 thousand (before deferred income tax of USD 30,429 thousand) on the finance lease liabilities, representing an effective portion of the hedge, is deferred in the hedging reserve in other comprehensive income. The amount reclassified from the hedging reserve to foreign exchange loss in profit or loss statement from inception of the hedge was USD 2,631 thousand (before income tax of USD 526 thousand).

At each reporting date the Company translates its monetary assets and monetary liabilities denominated in foreign currencies to the reporting currency, while translation gains or losses are recorded in profit or loss. As a result of the cash flow hedge policy, the remaining net monetary foreign currency assets generated a currency gain of USD 44,652 thousand in the profit or loss. These net monetary foreign currency assets represent the excess of monetary foreign currency assets (including foreign currency cash) over the monetary foreign currency liabilities (including unhedged foreign currency loans).

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## 26. FINANCIAL INSTRUMENTS

Exposure to credit, interest rate, currency and commodity price risk arises in the normal course of the Company's business. The Company does not hedge its exposure to such risks, other than commodity price risk as discussed below.

**Capital management**

The Company manages its capital to ensure the Company will be able to continue as going concern while maximising the return to the shareholders through the optimisation of the debt and equity balance. The Company's overall strategy remains unchanged from 2015.

The capital structure of the Company consists of net debt (comprising loans and finance lease obligations in Note 24 and 25) and equity of the Company (comprising issued capital, foreign currency translation reserve and retained earnings as detailed in Note 20).

The Company is not subject to any externally imposed capital requirements.

The Company reviews the capital structure on a semi-annual basis. As part of this review, the Company considers the cost of capital and the risks associated with each class of capital. The Company does not have a target gearing ratio.

**Credit risk**

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Company. The Company has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults. Credit exposure is controlled by counterparty limits that are reviewed and approved by the risk management committee annually.

The maximum exposure to credit risk related to financial instruments, such as cash and accounts receivable, is calculated basing on their book value.

Trade receivables consist of a large number of customers, spread across diverse industries and geographical areas. Ongoing credit evaluation is performed on the financial condition of accounts receivable and, where appropriate, credit guarantee insurance cover is purchased.

As at 31 December 2015, there was no significant concentration of credit risk in respect of trade accounts receivable (Note 15).

The Company uses reputable banks and has established a cash investment policy which would limit the credit risk related to bank accounts and deposits.

**Interest rate risk**

The Company is not exposed to interest rate risk because the Company borrows funds at fixed interest rates.

**Commodity price risk**

The following summarises sensitivity analysis of changes in the valuation of the derivative instruments and resultant effect on profit before tax. For the purpose of this disclosure, the sensitivity analysis assumes a 10 % increase and 10% decrease in the future price of Brent oil. This analysis also assumes that all other variables remain constant. A negative number below indicates a decrease in profit before tax and positive numbers have opposite effect.

	2015		2014	
	Brent +10%	Brent -10%	Brent +20%	Brent -10%
Purchased fuel call option	102	(60)	441	(74)
Written fuel put option (included in zero cost collars)	134	(272)	5,001	(3,146)
Purchased fuel put option (to protect some floors in zero cost collars)	-	-	(2,500)	1,439



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## 26. FINANCIAL INSTRUMENTS (CONTINUED)

## Foreign currency risk

On 11 February 2014, the National Bank of the Republic of Kazakhstan took the decision to temporarily reduce its intervention in setting the KZT exchange rate. As a result, the official exchange rate of KZT to US Dollar fell to KZT 184.55 per US Dollar as at 12 February 2014, i.e. by approximately 19%. The exchange rate was continuing to fall in 2015 and as of 31 December 2015, the KZT to US Dollar official exchange rate is 339.47.

The Company management believes that it has taken appropriate measures to support the sustainability of the Company business under the current circumstances. The Company applies hedge policy to manage the currency risk (Note 25).

## Foreign currency sensitivity analysis

The Company is mainly exposed to the risk of change of exchange rates of tenge against USD and Euro.

The carrying value of the Company's monetary assets and liabilities in foreign currency as at the reporting date has been provided below. This disclosure excludes assets and liabilities denominated in other currencies as they do not have significant effect on the financial statements of the Company.

	Notes	US dollar		Euro	
		31 December 2015	31 December 2014	31 December 2015	31 December 2014
<b>Assets</b>					
Guarantee deposits	12	43,091	11,426	335	75
Trade and other receivables	15	9,395	23,599	1,999	2,038
Bank deposits	18	146,731	105,573	11,505	9,157
Cash and bank balances	19	37,261	53,695	4,249	4,799
Financial assets at fair value through profit or loss	16	91	5,465	-	-
<b>Total</b>		<b>236,569</b>	<b>199,758</b>	<b>18,088</b>	<b>16,069</b>
<b>Liabilities</b>					
Finance lease liabilities	25	416,429	455,427	-	-
Trade and other payables	23	15,668	21,215	3,777	7,273
Financial liabilities at fair value through profit or loss	16	180	10,300	-	-
<b>Total</b>		<b>432,277</b>	<b>486,942</b>	<b>3,777</b>	<b>7,273</b>
<b>Net position</b>		<b>(195,708)</b>	<b>(287,184)</b>	<b>14,311</b>	<b>8,796</b>

In 2015 the following table details the Company's sensitivity to 60% weakening of tenge against US Dollar and Euro and to 20% strengthening of tenge against US Dollar and Euro. In 2014 the following table details the Company's sensitivity to 17.37% weakening and strengthening of tenge against US Dollar and to 18.36% strengthening of the tenge against Euro. Mentioned sensitivity rates used when reporting foreign currency risk internally to key management personnel.

The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for abovementioned sensitivity ratios. The sensitivity analysis includes trade and other receivables, cash and bank balances, bank deposits, guarantee deposits, trade and other payables, loans and finance lease liabilities.

A negative number below indicates a decrease in Profit or Loss and Other Comprehensive Income and positive number would be an opposite impact on the Profit or Loss and Other Comprehensive Income taking into account cash flow hedge policy (Note 2).

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## 26. FINANCIAL INSTRUMENTS (CONTINUED)

	Currency US Dollar impact		Currency Euro impact	
	2015 60%	2014 17.37%	2015 60%	2014 18.36%
(Loss)/profit	(214,293)	(39,907)	6,869	1,292
Equity decrease	(120,353)	-	-	-

	Currency US Dollar impact		Currency Euro impact	
	2015 -20%	2014 -17.37%	2015 -20%	2014 -18.36%
Profit/(loss)	(8,805)	39,907	(2,290)	(1,292)
Equity increase	40,118	-	-	-

The Company limits the currency risk by monitoring changes in exchange rates of foreign currencies in which trade and other receivables, cash and bank balances, bank deposits, guarantee deposits, trade and other payables, loans and finance lease liabilities are denominated.

## Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the board of directors, which has built an appropriate liquidity risk management framework for management of the Company's short, medium and long-term funding and liquidity management requirements. The Company manages liquidity risk by maintaining adequate reserves, continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

## Liquidity and interest risk tables

The following tables detail the Company's remaining contractual maturity for its non-derivative financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Company can be required to pay.

	Up to 3 months	3 months to 1 year	1-5 years	Over 5 years	Total
<b>2015</b>					
<b>Financial liabilities</b>					
<b>Interest free</b>					
Trade and other payables	34,164	545	-	-	34,709
Financial liabilities at fair value through profit or loss	-	180	-	-	180
<b>Fixed rate</b>					
Finance lease liabilities	13,076	40,105	203,115	226,784	483,080
<b>2014</b>					
<b>Financial liabilities</b>					
<b>Interest free</b>					
Trade and other payables	44,216	1,097	-	-	45,313
Financial liabilities at fair value through profit or loss	-	10,300	-	-	10,300
<b>Fixed rate</b>					
Finance lease liabilities	13,167	40,589	205,212	276,797	535,765



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## 26. FINANCIAL INSTRUMENTS (CONTINUED)

The following table details the Company's expected maturity for its non-derivative financial assets. The tables below have been drawn up based on the undiscounted contractual maturities of the financial assets including interest that will be earned on those assets except where the Company anticipates that the cash flow will occur in a different period.

	Weighted average effective interest rate %	Up to 3 month	3 months to 1 year	1-5 years	Over 5 years	Total
<b>2015</b>						
<b>Financial assets</b>						
<b>Interest free</b>						
Trade and other receivables	-	19,983	312	1,103	441	21,839
Financial assets at fair value through profit or loss	-	-	91	-	-	91
Guarantee deposits	-	345	28,053	8,381	7,017	43,796
Cash and bank balances	-	52,471	-	-	-	52,471
<b>Fixed rate</b>						
Bank deposits	3.01	65,184	93,068	-	-	158,252
<b>2014</b>						
<b>Financial assets</b>						
<b>Interest free</b>						
Trade and other receivables	-	39,919	2,125	2,336	937	45,317
Financial assets at fair value through profit or loss	-	-	5,465	-	-	5,465
Guarantee deposits	-	306	728	6,947	3,914	11,895
Cash and bank balances	-	70,866	-	-	-	70,866
<b>Fixed rate</b>						
Bank deposits	1.32	21	114,726	-	-	114,747

**Fair values**

The Company uses options to hedge the risk of jet fuel price movement. The Company uses standard market instruments for fuel hedging purposes, such as "call option" (where the premium is paid in advance by the Company to cover the risk of increases of commodity price above the predetermined level) and zero cost collar (where the premium is equal to zero, and where the Company simultaneously buys the "call option" and sells the "put option"). Since there is no possibility to hedge the risk of changes in jet fuel prices purchased from local suppliers, the Company hedges only the amount of fuel purchased outside the Republic of Kazakhstan signing the general agreement with several international banks on the conclusion of derivative transactions. The management of the Company determines the volume of jet fuel that will be hedged before executing the deal. Hedging is carried out according to the Fuel hedging policy approved by the directors and shareholders of the Company.

The fair values (FV) of financial assets and financial liabilities of the Company are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments.

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## 26. FINANCIAL INSTRUMENTS (CONTINUED)

Level 2 fair values for financial assets and liabilities at fair value through profit or loss have been generally derived using the fair value valuation reports provided by the banks which participate in hedging transactions. The most significant input into this valuation approach are time left to maturity of the deal, forward and spot prices of crude oil.

The Company has no other financial and non-financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 of fair value hierarchy.

During the year ended 31 December 2015 and 2014 the Company did not make any transfer between levels.

The following table shows the quantitative information about significant unobservable inputs used in the fair value measurement categorized within Level 3 of the fair value hierarchy:

Derivative financial assets/liabilities	Carrying amount	Valuation techniques	Unobservable input	Range (weighted average)
Purchased fuel call option	91	Black Sholes Merton Formula	Historical volatility of fuel prices	Volatility changes from 10% to -10% would lead to increase in the FV by USD 73 thousand and decrease by USD 48 thousand Volatility changes from 10% to -10% would lead to increase in the FV by USD 21thousand and decrease by USD 19 thousand
Written fuel put option (included in zero cost collars)	180	Black Sholes Merton Formula	Historical volatility of fuel prices	

The following methods and assumptions are used by the Company to estimate the fair value of these financial instruments:

*Cash and bank balances*

The carrying value of cash and bank balances approximates their fair value as they either have short-term maturity or are interest-bearing and hence are not discounted.

*Financial instruments at fair value through profit or loss*

Valuation of financial instruments recognised at fair value through profit or loss (Note 16) is based on inputs for which not all significant inputs are observable, either directly or indirectly and valuations are based on one or more non-observable inputs. Such valuations represent Level 3 of the fair value hierarchy.

*Guarantee Deposits*

Guarantee Deposits are recognised at amortised cost and accordingly it approximates their fair value.

*Trade and other receivables and payables*

For receivables and payables with a maturity of less than six months fair value is not materially different from the carrying amount because the effect of the time value of money is not material. Ab-initio receivables recorded at fair value at initial recognition and subsequently measured at amortised cost.

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## 26. FINANCIAL INSTRUMENTS (CONTINUED)

*Finance lease liabilities*

Finance lease liabilities are recognized at lower of fair value of assets received under finance lease and present value of minimum lease payments and accordingly it approximates their fair values.

*Provisions*

For provisions which meet the definition of financial liabilities the fair value is not materially different from the carrying amount because the effect of the time value of money is not material.

## 27. COMMITMENTS AND CONTINGENCIES

**Capital commitments**

During 2008 the Company signed an agreement with Airbus to purchase six Airbus narrow-body aircraft. The Company was committed to pre-delivery payments in accordance with an agreed payment schedule. Payments commenced in 2008 and the last payment was made in 2013. During 2012 and 2013, the Company entered into fixed interest finance lease agreements for these six Airbus aircraft. These leases are denominated in US dollars, with a repayment term of twelve years. Loans provided by financial institutions to the lessor are guaranteed by European Export Credit Agencies.

During 2011 the Company signed an agreement with Embraer to purchase two Embraer-190 narrow - body aircraft. The Company was committed to pre-delivery payments from 2011 in accordance with an agreed payment schedule, with first aircraft delivered in 2012 and the second in 2013, both on a fixed interest US dollar finance lease, with a repayment term of twelve years.

During 2012, the Company finalised an agreement with Boeing to purchase three Boeing-767s and three Boeing-787s aircraft. The Company is committed to pre-delivery payments in accordance with the agreed payment schedule. In respect of the Boeing 767 aircraft, 50% of pre-delivery payments were paid from own resources and 50% were financed by the borrowings (Note 24). The amounts borrowed in respect of the three Boeing 767s were repaid by the Company on delivery of each aircraft in 2013 and 2014 years. Final pre-delivery payments for the third B767 aircraft were made in 2013. Two Boeing 767s were delivered in 2013 and the third one was delivered in mid 2014. Delivery of Boeing 787s is now deferred to 2019 with last pre-delivery payments deferred to 2019.

In June 2013 the Company signed a term sheet with a US financing corporation to finance purchase of up to three Boeing-767 aircraft for the amount guaranteed by US Export-Import Bank. This facility has been used for all Boeing-767 delivered in 2013 and 2014.

The terms of the Company's contracts with the above suppliers precludes it from disclosing information on the purchase cost of the aircraft.

**Operating lease commitments***Aircraft*

Aircraft operating leases are for terms of between 5 to 10 years. All operating lease contracts contain market review clauses in the event that the Company exercises its option to renew. The Company does not have an option to purchase the leased aircraft at the expiry of the lease period.

During 2015 management has revised its estimations of operating lease commitments, which include only non-cancellable fixed lease payments and fixed part of variable lease payments.

The fixed and fixed part of variable lease payments are denominated and settled in US dollars. This currency is routinely used in international commerce for aircraft operating leases.

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## 27. COMMITMENTS AND CONTINGENCIES (CONTINUED)

Commitments for leases of aircraft currently in operation:

	31 December 2015	31 December 2014
Within one year	57,986	59,179
After one year but not more than five years	146,034	189,648
More than five years	9,505	22,457
	<u>213,525</u>	<u>271,284</u>

Commitments for leases of aircraft to be delivered from 2016 to 2019:

	31 December 2015
Within one year	3,043
After one year but not more than five years	130,938
More than five years	336,504
	<u>470,485</u>

In September 2015 the Company signed operating lease agreements for four Airbus A320neo family aircraft being delivered in 2017 and 2019

In June 2015 the Company signed operating lease agreements for seven Airbus A320neo family aircraft to replace some current leases on expiry and for future expansion. One A320neo is scheduled for delivery in mid 2016, with the remaining six aircraft being delivered in 2018 and 2019.

Stand-by Letters of Credit as of 31 December 2015 were USD 32,055 thousand. These Letters of Credit were obtained as security for Lessors to cover any unfulfilled maintenance liabilities on the return of three Embraer E190 and five Airbus aircraft to Lessors.

*Engine*

During 2010 the Company purchased a spare engine and subsequently entered into a sale and leaseback transaction for the engine. The lease term is 10 years with an extension period of 5 years at the agreement of the lease agreement parties.

The fixed and variable lease payments are denominated and settled in US dollars. This currency is routinely used in international commerce for engine operating leases.

Non-cancellable operating lease commitments are payable as follows:

	31 December 2015	31 December 2014
Within one year	1,199	1,571
After one year but not more than five years	4,149	5,348
	<u>5,348</u>	<u>6,919</u>



## JOINT STOCK COMPANY AIR ASTANA

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2015  
(in thousands of USD)

## 27. COMMITMENTS AND CONTINGENCIES (CONTINUED)

## Insurance

## Aviation insurance

Air Astana puts substantial attention in conducting insurance coverage for its aircraft operations and hence places aviation risks in major international insurance markets (e.g. Lloyd's) having high rating of financial stability through a service of international reputable broker. Types of insurance coverage are stated below:

- Aviation Hull, Total Loss Only and Spares All risks and Airline Liability including Passenger Liability;
- Aircraft Hull and Spare Engine Deductible;
- Aviation Hull and Spares "War and Allied Perils";
- Aviation War, Hi-Jacking and Other Perils Excess Liability;

## Non – Aviation Insurance

Apart from aviation insurance coverage the airline constantly purchase non-aviation insurance policies to reduce the financial risk of damage to property and general liability, as well as covering employees from accidents and medical expenses, as follows:

- Medical insurance of employees;
- Directors, Officers and Corporate liability insurance;
- Property insurance;
- Comprehensive vehicle insurance;
- Compulsory insurance of employee from accidents during execution of labor (service) duties;
- Commercial general liability insurance (Public Liability);
- Civil liability insurance to customs authorities;
- Pilot's loss of license insurance
- Insurance of goods at warehouse.

## Taxation contingencies

The taxation system in Kazakhstan is relatively new and is characterised by numerous taxes and frequent changes in legislation, official pronouncements and court decisions. Taxes are subject to review and investigation by a number of authorities, which have the authority to impose severe fines, penalties and interest charges. A tax year remains open for review by the tax authorities during five subsequent calendar years; however, under certain circumstances a tax year may remain open longer.

Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on these financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

In 2012, Tax authorities performed tax audit for five-year period from 2006 to 2010 inclusive. During 2013 based on their final assessment, a total amount of USD 2,885 thousand was accrued including taxes, interest and penalties which were fully paid in 2013 including the appealed amount mentioned below. In January 2013 the Company appealed to Tax Authorities for USD 1,827 thousand. The Tax Authorities rejected the appeal of the Company and the Company appealed to the Ministry of Finance. Ministry of Finance left the decision of tax authorities without changes. Further in January 2014 the Company continued to appeal to Interregional Court of Almaty, then to Almaty city court, where decision was also left without changes. Appeal was sent to the Supreme Court in November 2014 and the decision was also left without changes. Therefore a decision was made to appeal to the Prosecutor's office and this was filed in December 2014. The Company has passed all instances of appeal and a final refusal (which closed the case) was the decision of the General Prosecutor's Office of the Republic of Kazakhstan in April 2015.

## JOINT STOCK COMPANY AIR ASTANA

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2015  
(in thousands of USD)

## 27. COMMITMENTS AND CONTINGENCIES (CONTINUED)

## Operating Environment

Emerging markets such as Kazakhstan are subject to different risks than more developed markets, including economic, political and social, and legal and legislative risks. Laws and regulations affecting businesses in Kazakhstan continue to change rapidly, tax and regulatory frameworks are subject to varying interpretations. The future economic direction of Kazakhstan is heavily influenced by the fiscal and monetary policies adopted by the government, together with developments in the legal, regulatory, and political environment. In addition, the recent significant depreciation of the Kazakhstan tenge, and the reduction in the global price of oil, have increased the level of uncertainty in the business environment.

As Kazakhstan produces and exports large volumes of oil and gas, its economy is particularly sensitive to the price of oil and gas on the world market.

## 28. RELATED PARTY TRANSACTIONS

## Control relationships

The shareholders of the Company are JSC "National Welfare Fund "Samruk-Kazyna" (which holds the investment on behalf of the Government of the Republic of Kazakhstan) and BAE Systems Kazakhstan Limited, which own 51% and 49% of the shares of the Company, respectively.

In 2007 the shareholders appointed two independent directors; one is from JSC "National Welfare Fund "Samruk-Kazyna", and another from BAE System Kazakhstan Limited. An agreement with the independent directors was signed in 2007 and the total remuneration paid in 2015 to independent directors was USD 92 thousand (2014: USD 89 thousand).

## Management remuneration

Key management that have authority and responsibility regarding management, control and planning of Company's activity received the following remuneration during the year, which is included in personnel costs (Note 6):

	2015	2014
Salaries and bonuses	4,436	4,526
Social tax	525	481
	<u>4,961</u>	<u>5,007</u>

## Transactions with related parties

Related parties comprise the shareholders of the Company and all other companies in which those shareholders, either individually or together, have a controlling interest.

The Company provides air transportation services to Government departments, Government agencies and State-controlled enterprises. These transactions are conducted in the ordinary course of the Company's business on terms comparable to those with other entities that are not state-controlled.

The Company has established its buying, pricing strategy and approval process for purchases and sales of products and services. Such buying, pricing strategy and approval processes do not depend on whether the counterparties are state-controlled entities or not.

There were no Government subsidies for 2015 (2014: USD 1,351 thousand) (Note 5). As at 31 December 2015 there was no outstanding amount due to the Company for subsidies (2014: USD 85 thousand) (Note 15).

## JOINT STOCK COMPANY AIR ASTANA

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2015**  
(in thousands of USD)
**28. RELATED PARTY TRANSACTIONS (CONTINUED)**

Having considered the potential for transactions to be impacted by related party relationships, the entity's pricing strategy, buying and approval processes, and what information would be necessary for an understanding of the potential effect of the relationship on the financial statements, management is of the opinion that the following transactions require disclosure as related party transactions:

	2015		2014	
	Transaction value	Outstanding balance	Transaction value	Outstanding balance
<b>Services received</b>				
State-owned companies	38,996	(1,509)	42,946	(3,362)
Shareholders and their subsidiaries	8,034	(213)	8,428	(282)
	<u>47,031</u>	<u>(1,722)</u>	<u>51,374</u>	<u>(3,644)</u>

Services from related parties are represented by airport, navigation and meteorological forecasting services.

	2015		2014	
	Transaction value	Outstanding balance	Transaction value	Outstanding balance
<b>Services provided by the Company</b>				
Shareholders and their subsidiaries	1,289	111	1,263	160
	<u>1,289</u>	<u>111</u>	<u>1,263</u>	<u>160</u>

All outstanding balances with related parties are to be settled in cash within six months of the reporting date. None of the balances are secured.

**29. APPROVAL OF THE FINANCIAL STATEMENTS**

The financial statements were approved by management of the Company and authorised for issue on 29 February 2016.

# GLOSSARY

**ASK** – Available Seat Kilometres. This is a measure of available capacity, and it takes into consideration aircraft passenger capacity and distance travelled. It can be used to measure total capacity of an airline, or can be used for the industry, specific aircraft, routes and regions served. It is not a perfect metric, as longer distance flights tend to have lower revenues and costs per unit, as there are costs that are incurred once per flight, however long the flight (landing fees, handling fees, etc.). Revenues can be skewed by the amount of business compared to economy travellers on a flight, which can vary by route, or even with seasonality. However imperfect, it is a widely available metric and allows for comparisons through time and with peers.

**ASK Yield** – The ASK yield is a revenue metric based on available capacity that takes revenue divided by ASK. It is usually measured in US cents per kilometre for comparability. If it is being compared to costs per ASK, total revenues may be used. Different components of revenue may be excluded (fuel surcharges, cargo and mail revenues, excess baggage fees, and other ancillary revenues) when comparing specific routes between airlines, or when analysing the composition of revenues.

**Block hours** – This is the amount of time that the aircraft is operating, including all times from when it leaves the gate (or parking location), to when it reaches its gate at destination (or parking location).

**Capital expenditures** – This is the investment in Property Plant and Equipment (PP&E). In the 5-Year Financial & Operational Highlights table, we have included the additions to PP&E and the transfers to PP&E from note 9 of the Audited Financial Statements, so it is a gross number that does not net out disposals or currency translation differences.

**Code-share agreement** – Aviation business arrangement, whereby two or more airlines share the same flights. One is an operator that sells tickets for its own operating flights, while the other(s) is a marketing partner that sells seats on the flights of operator.

**Cost per ASK** – The cost per ASK is the operating cost per ASK, expressed as US cents per ASK. Internally, airline management also looks

at different components of operating costs to analyse route profitability.

**EASA (Part 66)** – The EASA's standard requirements for certifying aircraft crew.

**EASA (Part 145)** – The EASA's standard requirements for airlines that maintain aircraft and components.

**EASA (Part 147)** – The EASA's standard requirements for a company that provides theoretical and practical training for operating staff

**EBITDAR** – Earnings Before Interest, Tax, Depreciation, Amortisation and Rental costs. This is essentially the cash margin before costs of ownership or rental of aircraft. This is a margin that can be used to compare airlines that have different proportions of owned aircraft relative to aircraft under operational leases. It can also be used to compare performance of a single airline where the proportion of owned aircraft is changing, such as Air Astana. We calculate it by taking Operating Profit and adding back Depreciation and Amortisation and Fixed Operating Lease Charges. This latest number is found in the notes to the financial statements. In 2014, EBITDAR was revised due to reclassification of "Ad-hoc lease of engines and rotatable spare parts" and the effect of years prior to 2014 is not material. Fixed Operating Lease Charges now only includes "Fixed lease charges of aircraft and engine".

**EDTO (Extended Diversion Time Operation)** – Any operation by an aeroplane with two or more turbine engines where the diversion time to an en-route alternate aerodrome is greater than the threshold time established by the State of the Operator.

**European Aviation Safety Agency (EASA)** – The agency is responsible for developing all flight safety regulations for independent confirmation or submission to the European Commission (or Parliament/Council) and performing inspections to determine compliance with them.

**FAA (Federal Aviation Administration)** – The Federal Aviation Administration is the national aviation authority of the United States of America. An agency of the United States Department of





Transportation, it has authority to regulate and oversee all aspects of civil aviation in the U.S.

**Financial lease** – A financial lease is a form of long-term debt that finances the acquisition of an asset. At the end of a financial lease there is usually an option to buy the aircraft for a nominal value, as the lease payments amount to more than the value of the aircraft. Air Astana started to buy aircraft of its own in 2012, and these have been financed with financial leases.

**Flight hours** – This is the amount of time that aircraft actually spend in the air.

**IATA Operational Safety Audit (IOSA)** – IOSA covers the following functional areas of an airline: company management, flight operations, flight control and monitoring, aircraft maintenance, on-board operations, aircraft ground operations, cargo transportation, and flight safety.

**International Air Transport Association (IATA)** – The IATA was formed in 1945 to develop cooperation between airlines and provide safe, secure and efficient flights to passengers.

**International Civil Aviation Organisation (ICAO)** – The ICAO was founded in 1944 under the Chicago Convention on International Civil Aviation. A specialised agency of the United Nations, it is responsible for setting international standards, recommended practices and rules in technical, economic and legal areas of international civil aviation.

**Invested Capital** – The Invested Capital can be calculated by looking at the working capital and fixed assets required for the business net of the cash and cash equivalents, or by looking at the net debt and equity of the company. For Air Astana we have calculated Invested Capital through the assets and net working capital net of cash.

**Joint Aviation Authorities (JAA)** – The JAA unites the civil aviation regulatory authorities of numerous European states that develop and implement common safety regulatory standards and procedures.

**Kazakhstan Civil Aviation Committee (CAC)** – The CAC is the official regulator of the civil aviation sector in Kazakhstan. It is under the authority of the Ministry of Investment and Development of the Republic of Kazakhstan.

**Net Debt or Net Cash** – This is the long and short-term financial liabilities of the company

(debt and financial leases), less cash and cash equivalents. Net Cash is when the Cash and cash equivalents exceed the financial liabilities.

**Net Debt/Equity ratio** – This is the ratio of net debt to shareholder equity. It is sometimes taken as a metric of the risk of a company's balance sheet structure, and clearly companies with higher Net Debt/Equity ratios can have higher, but more volatile returns to shareholders. The metric can be more challenging to interpret for airlines, as Operating Leases are not included, but often represent long-term commitments by the airline.

**Operating lease** – An operating lease is essentially a rental agreement. Normally the lease payments over the term of the lease are less than the value of the aircraft, and there is no option to buy the aircraft at the end of the lease period. Historically, Air Astana's fleet comprised only of aircraft under operational leases until the end of 2011.

**PLF** – Passenger Load Factor. It is the percentage of seats filled on a per kilometre flown basis. It is calculated by taking the Revenue Passenger Kilometres (RPK) divided by the Available Seat Kilometres (ASK). Airlines measure things on an RPK and ASK basis to be able to compare efficiency of flights with different distance travelled and seating capacity. One can then analyse revenues and costs on this same basis.

**RPK** – Revenue Passenger Kilometres. This is a measure of paying passenger utilisation of the ASK. So it takes the number of passengers multiplied by the distance travelled in kilometres. Like ASK, it can be measured for an airline, for the industry, for specific aircraft types, for specific routes, or regions served.

**RPK Yield** – This is a similar measure to ASK Yield. It is a revenue metric based on RPK and measures revenues in terms of utilised capacity.

**RTK** – Revenue Tonne Kilometres. This is a measure of weight capacity utilisation. It takes the tonnes carried multiplied by the distance travelled in kilometres. This is a useful measure when comparing airlines with significant cargo volumes, and is sometimes the metric used for fuel consumption.

**RoE** – Return on Equity is a percentage-based measure of shareholder returns. It takes the net profit for a specific year, divided by the average shareholder equity during that year. It is sometimes

called RoAE, to be clear about the use of Average Equity as the nominator. It is known as a geared ratio, as it does not take into consideration the capital structure of a company, only the equity.

**RoIC** – Return on Invested Capital. This is a measure of returns on the whole capital structure of the company that is needed for the business. It divides the Operating Profit by the Average Invested Capital during the year. By using Operating Profit as the numerator, it makes it an operational efficiency metric that is agnostic on the funding of the operational invested capital – debt or equity. It is sometimes calculated on a post tax basis, by applying the company effective tax rate to the Operating Profit. We have presented the standard pre-tax measure. Airlines do not account Operating Leases as part of their liabilities under IFRS accounting, or in their Invested Capital. Some airlines present RoIC adjusted for an estimate of the implicit liability of the operating leases, this is not based on current IFRS standards.

**Segments** – This is a technical name for flights, though if a passenger has a flight that stops at an intermediate point, this counts as more than one segment.

**Skytrax** – Skytrax is an internationally recognised consulting company that specialises in analysing services provided by airlines and airports. It was formed in 1989 and provides independent information on more than 210 airlines and 65 airports based on various passenger surveys.

**Working Capital** – This is a measure of the short-term assets and liabilities that are necessary to operate the business. The key elements that management can influence are usually Trade Receivables, Trade Payables and Inventories. At airlines, Deferred Revenues is also an important element, as it mostly represents tickets sold, and paid for or that have not been used. We have used the standard metric, which is to take Current Assets and subtract Current Liabilities.



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