# Annual Report and Accounts 2020

air astana

FlyArystan

## OUR MISSION

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

## STRONG FUNDAMENTALS

- Strong market leadership
- Award-winning customer service
- Focus on safety culture and best international technical standards
- Unique position between mega markets of Russia, India and China
- Untapped potential in a regional and largely underserved domestic market
- A low-cost structure (rigorous focus on efficiency)
- World-class team
- Strong cash position and financial discipline
- Simplified and adjusted fleet
- Strong corporate culture

## WHO WE ARE

Air Astana is the leading airline in Central Asia. We sit at the crossroads of Eurasia and offer full-service and low-cost carrier (LCC) options with one of the lowest cost structures globally. Through our culture of excellence, we have developed an award-winning level of service from an extremely efficient platform.

Air Astana and FlyArystan carry out complementary roles within our family structure.

**air astana**

Air Astana provides an expanding network of route connections in fast-growing markets to tap into increasing levels of mobility in large neighbouring countries. Differentiated by its high reliability, cabin experience and competitive product, our full-service carrier operates a fleet of comfortable, young aircraft. Our dedicated crew provide the high level of hospitality that is deeply embedded within the Kazakh culture, helping to generate high levels of passenger loyalty and satisfaction. Even with the pandemic limitations, we managed to find existing and new markets to serve.

**FlyArystan**

Our high-quality, low-cost carrier was launched in May 2019 to stimulate a heavily underdeveloped market: more than half of the population has never flown domestically. FlyArystan is bringing air travel to a new, cost-conscious audience. Despite the slowdown of air traffic globally and in almost all domestic markets worldwide, FlyArystan's domestic traffic continued to deliver standout growth with the numbers of passengers increasing 57% in May-December 2020, compared with the same period of 2019. The milestone of 1.5 million passengers carried by Kazakhstan's only LCC was achieved in 10 months of flying due to the 2 months of flight suspension because of the COVID-19 pandemic. The airline is seen as a crucial enabler to the domestic economy and has significant growth potential.

## AWARDS

- Recognised for 4-Star service excellence, retaining the accolade of "Best Airline in Central Asia and India" in the Skytrax World Airline Awards 2019 for the eighth consecutive year
- Five Star Major Airline Award from APEX for the third time
- Tripadvisor Travellers' Choice Award in category "Regional Airlines in Asia" for the third time
- Winner of the MRO Russia & CIS Award for "Aircraft Maintenance achievements in Central Asia"

# FINANCIAL AND NON-FINANCIAL HIGHLIGHTS[1]

2019 was a strong year for Air Astana, putting us in a strong and stable financial position going into the pandemic. Our results of 2020 have been impacted by COVID-19.

**Total revenue**
$400.3m
**2019:**
$898.7m

**Net profit/(loss)**
($93.93m)
**2019:**
$30.03m

**Operating profit/(loss)**
($69.3m)
**2019:**
$78.7m

**CASK[2]**
5.73¢
**2019:**
5.46¢

**RPK[3]**
5.8bn
**2019:**
10.4bn

**Load factor**
73%
**2019:**
71%

**$CO_2$ emissions $tCO_2$ per ASK[4]**
0.0683
**2019:**
0.0653

**Passenger numbers**
3.70m
**Domestic: 3.04m**
**International: 0.66m**
**2019:**
5.12m
**Domestic: 2.81m**
**International: 2.30m**

1. Combined Air Astana and FlyArystan data.
2. Cost per Available Seat Kilometre.
3. Revenue Passenger Kilometres.
4. Available Seat Kilometres.

# CONTENTS

# OUR PEOPLE: OUR STRENGTH

Air Astana is the leading airline in Central Asia offering full-service and low-cost carrier options with one of the lowest cost structures globally.

We connect underserved routes across Central Asia, Russia, India and China as well as some European and South-East European destinations and are generating growth in an untapped domestic market in Kazakhstan.

2020 was a challenging year for the airline industry; despite this, we are striving to maintain our position of strength and improve the quality of the services we offer our customers. None of this can be achieved without expertly trained, well-motivated people, Air Astana employees.



**Strong leadership**

## Reacting to change

Our flexible and pro-active approach, and teamwork, helped us remain motivated and agile during 2020.

More information
p04

**Agile and responsible**

## Maintaining safe operations

Taking decisive action to realign our operations, reducing cash burn and delivering on the newly shaped network.

More information
p10

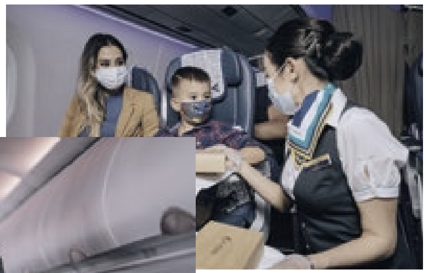
### Creating opportunity

## Leveraging our strengths

Focusing on domestic and regional market alongside point-to-point and leisure routes is now key for the business.

More information

p26



### Financial discipline

## Resilient and strong

Starting 2020 in good financial shape, we put in place initiatives to secure our cash position.

More information

p34

### Sustainable corporate culture

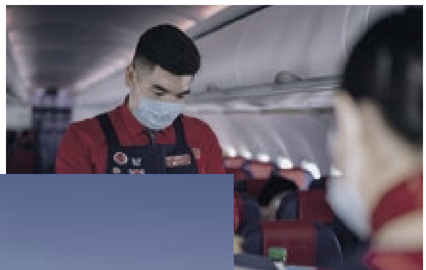
## Being a responsible business

Our employees remain our biggest asset and their wellbeing has been our biggest concern during the crisis.

Our passengers are also vital to our business and, during the crisis, we offered full flexibility to enable free-of-charge date changes, re-routing and refunds.

More information

p46



## Strong leadership

> "We have enhanced our reputation as a safe, reliable and high quality airline, business partner, and employer."

**Peter Foster**
President and Chief Executive Officer

I am grateful to each of my 5,500 colleagues, who have performed outstandingly in the most demanding of circumstances.

More information
p08-09

### How we responded

- Activated Crisis Management Group and Recovery Group
- Conducted daily reviews of route profitability to minimise loss-making flights and operating costs
- Provided clear objectives for the Management Team




ystan
Fly ystan.
Түркістанға
ұшайық

# CHAIRMAN'S STATEMENT

"

There is no question that we are in challenging times, but there are reasons to be positive. Decisions taken by the Management team have not only helped the airline navigate the pandemic, but also position Air Astana well for the long term.

"

**Beibit Karymsakov**
Chairman of the Board of Directors

2020 is a year that we will not forget. With borders mostly shut across the globe, we have all had to get used to a new way of living and working. The entire industry has had to adapt to a new reality, with every aspect of airline operations impacted. This continues to be the case in the early months of 2021. For many airlines, the wholesale grounding of aircraft has caused existential problems and the industry has been forced to dramatically cut operations.

Since my recent appointment as Air Astana's Chairman, I have been overwhelmed by the team spirit that I have witnessed, the compassion I have seen among colleagues and the strong will and the endeavours of all who have been working in new and difficult conditions.

There is no question that we are in challenging times, but there are reasons to be positive. Strong leadership is a hallmark of Air Astana. Decisions taken by the Management team have not only helped the airline navigate the pandemic, but also position Air Astana well for the long term. Employees at all levels of the business have had to demonstrate resourcefulness over the past few months, and this has left the Company in a strong position. Not only has the airline preserved its independence, it has also maintained liquidity without needing to call for additional support from either the State or its Shareholders.

Despite the pressures that it faced to respond quickly to the developing crisis, the Company did not compromise on its HEART (Hospitable, Efficient, Active, Reliable and Trustworthy) values. Nor did we at any point compromise on good governance and oversight in our dealing with the pandemic and the rapidly changing situation. As a Board, we have been consulted on and contributed to discussions of the most important issues throughout the crisis. To that end, together with our Shareholders, we have approved a new Business Plan for 2021-2025, which reflects a new economic and operational reality following the dramatic collapse of the industry and the ongoing measures required on board aircraft to limit the spread of the virus.

Shorter-term measures taken by Management, with the full support of the Board, include the implementation and monitoring of a Crisis Management and Recovery Plan. Central to this was the decision to focus on preserving cash and liquidity, and to sharpen our focus on risk management. To that end, the Board has been updating the Risk Register each quarter.

Adjustments have also been made to Air Astana's fleet, including the early return of some leased aircraft and order deferrals. The retirement of our Boeing 757 and Embraer E190 first generation fleet in 2020 also leaves us with much simplified fleet, which is more tailored to our short-term needs. Future deliveries will enable us to grow from a stronger platform. Management also took the decision to transfer some aircraft to FlyArystan, our low-cost airline, whose performance continues to be remarkable. During 2020, FlyArystan, operating with seven aircraft, doubled the number of passengers carried to 1.5 million as it capitalised on its ability to service domestic routes that had reopened. Since its operations began in May 2019, our LCC brand has carried nearly 2.2 million passengers and expects to carry over 3 million passengers in 2021.

Also notable was the accelerated transition to using aircraft for cargo, which has reaped substantial benefits. This meant that we were able to participate in the fight against COVID-19 by transporting essential medicines and equipment. In total, we transported 1,200 tons of medicines, 1,500 oxygen concentrators and ventilators and 170 tons of face masks and other supplies and 68,000 computers for school children. Indeed, with passenger traffic at near-zero levels and state borders closed in Spring 2020, we made decision to remove the passenger seats and convert one of our Boeing 767s to a dedicated semi-freighter, thus deploying our young fleet and talented personnel to serve the cargo market, where surface transport had stalled. By the end of November 2020, the contribution of our cargo business to total profit of the Company had tripled to 6%.

We were also busy strengthening the composition of Board in 2020. We have increased the number of Independent Directors from three to four and we are also considering establishing and appointing a Senior Independent Director. The appointments of Keith Gaebel and Eldar Abdrazakov have significantly strengthened the Board's capabilities around financial reporting, audit and treasury functions, and now boasts a full complement of the relevant skills and experience to help Air Astana fulfil its potential. I would also like to thank my predecessor, Kanat Alpysbayev, for his contribution as a previous Chairman of the Board.

Despite the challenges thrown our way in 2020, I would also like to stress that the development of our sustainability strategy has not been affected. Air Astana has been reporting on and collating data on its emissions for a number of years, and our purpose-led strategy, allied with a stakeholder engagement programme and a set of goals that match our stakeholders' ambitions, is still on track. This is a business-critical activity that will help Air Astana preserve its social and regulatory licence to operate in the long term. Our plans to report on our activities in 2019 in a form of a detailed Sustainability Report were thwarted by the pandemic. We have, however, covered some of the core aspects of our activities within this Annual Report.

Before signing off, I would once more like to highlight the efforts the Management Team has undertaken to preserve Air Astana's world class business model. The Executive has faced an unprecedented crisis, but has successfully balanced the need to protect cash and safeguard the business without compromising on the Company's concerns for its people, passengers and the brand.

We have had to make great sacrifices to ensure we are in a condition whereby operations can recommence, but we must remain patient, steadfast and positive until the skies open up in full.

My condolences go out to team members that have lost family members and friends to the pandemic. Tragically, we have also lost colleagues during this time, and our thoughts are very much with them and their families. I thank all employees and stakeholders for your strength and perseverance. Better days are ahead.

**Beibit Karymsakov**
Chairman of the Board of Directors

# A culture of excellence

## Our purpose

Our purpose is to provide maximum returns for our shareholders through a strategic approach that is based on growth, efficiency and excellence. Achieving our long-term sustainable development, including our licence to operate and our ability to create economic and social value, runs in parallel with satisfying the needs and expectations of all our stakeholders.

## Our values

Our core values, HEART (Hospitable, Efficient, Active, Reliable and Trustworthy), are embedded into all our business processes. We are committed to operating our business responsibly and work hard to build constructive relationships and maintain good communications through open and transparent dialogue and collaboration.

## Our corporate culture

The reputation of Air Astana is built on an award-winning level of service. While providing the highest international standards of safety and customer service, we never lose sight of the fact that this is entirely due to the dedication and skills of our employees: a valuable asset that we nurture and safeguard.

# PRESIDENT AND CEO'S STATEMENT

"

Our actions have protected the financial viability and operational, commercial and managerial independence of the airline, at a time when virtually all our peers have required substantial government and/or shareholder financial support in order to survive.

"

**Peter Foster**
President and Chief Executive Officer

The headline numbers for the year are a net loss of USD 93.9 million, on revenues of USD 400.3 million, passenger numbers of 3.7 million, and freight tons of 13.9 thousand. Revenue and passenger numbers declined by 55.5% and 28% respectively, and total capacity fell by 47%. EBITDAR declined from USD 171.3 million in 2019 to USD 33.1 million.

None of the above will surprise, and there is little point in my adding to the chorus of universal lament from the global airline industry following the events of the last year.

Instead, I shall list what I believe went right for us as we confronted the challenge of maintaining our pre-pandemic structure and financial stability. As will become clear, whilst some of our success was down to good judgment we had our fair share of luck, an essential ingredient when faced with an extreme set of circumstances for which no amount of contingency planning can ever be sufficient.

1. We arrived at the declaration of the pandemic in March with higher than budgeted cash balances, due to strong trading conditions in 2019 and the first two months of the year, supplemented by a pair of cash-generating aircraft finance transactions in January and February.

2. China is (or was) a key market for us, therefore when the virus became known in mid January and our Chinese routes were suspended, we sought to reverse the negative liquidity effect by rapidly securing fresh lines of credit from our local banking partner, with whom we have a deep and long-standing relationship.

3. When the pandemic struck some weeks later, we sought and received agreement from US Exim Bank and the European Credit Agencies to the deferral of interest and principal payments on our finance-leased Boeing 767 and Airbus 320 fleets. We were able to obtain aircraft rent reductions and/or deferrals from our operating lessors, most of whom have been business partners throughout the life of the airline, with only one dissenting exception.

4. The airline has a relatively low non-operational overhead at 11% of total cost. Therefore in the no-fly period from mid-March to mid-May, initial substantial cash burn caused by operating cost lag from outstanding payables was rapidly stemmed. This was helped by a substantial reduction of staff cost, enabled by placing staff at all levels onto

Kazakhstan's permitted downtime scheme at 50% of salary, and by the various government furlough schemes in many countries for foreign-based staff. Therefore we have, to date, been able to avoid mass lay-offs with almost all staff members retained, other than foreign contract pilots whose short-term contracts had to be terminated. Towards the end of the year, some contract pilots were rehired as the pace of flight resumptions accelerated.

5. When domestic flights resumed in mid May, suppressed demand resulted in immediate and substantial recovery, in part driven by travellers' reluctance to take long train journeys due to a perceived higher risk of infection. FlyArystan in particular, with its low cost base and competitive fares relative to rail tariffs, produced strong growth, although Air Astana also performed well on domestic routes. Therefore In spite of the headline figures reported above, total domestic year-on-year passenger numbers grew by 8% to 3 million, and FlyArystan alone grew by 109%. The group's domestic market share ended the year at 70%, up from 45% before the launch of FlyArystan in May 2019.

6. International passenger numbers and revenues fell by 72% and 65%. The network was severely restricted as the Government of Kazakhstan sought to reduce the number of imported cases of the virus by restricting all airlines' international flights, and by eliminating flights to high-risk countries. The result has been high demand, and therefore higher yield and load factors, on the smaller number of routes we operated, including new leisure or "lifestyle" routes to the Maldives, Sri Lanka, and Hurghada on the Red Sea. The same phenomenon was experienced on regional routes, much restricted even on high demand services such as Kazakhstan/Moscow, the overall result being that despite capacity reduction, higher per flight profitability on operated international routes resulted in a stronger than expected final quarter, a trend which has continued into 2021.

7. Demand for air cargo increased as cargo capacity on passenger aircraft was removed from international markets. In May, we converted a Boeing 767 into a "semi-freighter" configuration which operated a total of 111 charters for the year, mostly on a China/Kazakhstan/India/Russia axis, resulting in overall cargo revenue growth of 26%.

8. The fleet has been substantially reshaped following successful negotiation with lessors for the early return of all Embraer 190 and Boeing 757 aircraft. The latter has been replaced by the Airbus 321neo Long Range. The 'LR' is delivering roughly 40% fuel savings versus the Boeing 757 and offers a substantially improved customer experience, the delivery of which has continued to be a key business objective despite the pandemic. We retained our TripAdvisor "Travellers' Choice" award in 2020, and TA customer reviews from the restart in May have been outstanding. Ground and onboard service staff have implemented health and safety protocols firmly and sympathetically, and we have met ticket refund obligations to all customers in full, and in cash when requested.

These actions have protected the financial viability and operational, commercial and managerial independence of the airline, at a time when virtually all our peers have required substantial government and/or shareholder financial support in order to survive. At the same time we have, I believe, enhanced our reputation as a safe, reliable and high quality airline, business partner, and employer. I cannot sufficiently express my admiration for and gratitude to each of my 5,500 colleagues, who have performed outstandingly in the most demanding of circumstances. It is with great sadness that I have to report that the virus has taken the lives of four of our colleagues. I am also grateful to our business partners, many of whom have been extremely helpful, to the Government of Kazakhstan for its pragmatic approach to the management of domestic and international air travel, to my fellow board members, and to our shareholders, Samruk-Kazyna and BAE Systems, for their steadfast support.

Predictions of what lies ahead are likely to prove hostage to fortune as has been the case for more than a year. The pandemic is far from over and immense challenges remain. The industry continues to look for solutions through, inter alia, the introduction of vaccine passports, discussions in which we are playing a full part through our memberships of IATA and the Association of Asia Pacific Airlines (AAPA), of which we are an Executive Committee member. What I can promise is that whilst the industry is set to undergo substantial long-term change, our commitment to delivering a high quality airline to all our stakeholders remains unwavering.

Yours sincerely,

**Peter Foster**
President and Chief Executive Officer

## Agile and responsible

# "The rapid change required an even greater focus on maintaining safe operations and standards."

**Anthony Regan**
Chief Operating Officer

The impact of the COVID-19 pandemic has proven to be prolonged and acute. Despite this, Air Astana has been able to take advantage of our domestic market and pivot our international operations to new leisure destinations, which are in high demand.

The onset of the pandemic necessitated decisive action to realign our operations, reducing cash burn and delivering on the newly shaped network. Initially this required a radical reduction in activity, followed by an accelerated growth plan for our low fares airline, FlyArystan, and the introduction of cabin cargo operations. This flexibility enabled us to adjust and seize opportunities to meet increasing domestic and leisure demands, supporting the development of a substantial new market.

More information
p28-33

**How we responded**

- Emphasis on the primacy of safe operations, vigilance and focus in this changed and challenging work environment
- Managing training delivery to ensure operational and customer-experience standards were maintained
- Reduction of overall crewing levels to deal with the initial sharp reduction in operations and flexing back up to meet the new developing markets
- Opening new bases and expanding outside Almaty and Nur Sultan to support the denser domestic network, particularly in Western Kazakhstan
- Supporting fleet simplification through the redelivery of some older operating lease aircraft to improve overall efficiency
- Ensuring our operational personnel were supported with the correct protection, enabling them to deliver and our passengers to fly with confidence


BOSCH
A25
DELL

STRONG FUNDAMENTALS

# Cargo takes flight

Grounding fleet during the pandemic removed a substantial cargo capacity from all routes. At the same time, however, there was a vast increase in the need to transport medical equipment and supplies across Kazakhstan, Central Asia and Europe.

13,884
tons of cargo transported in 2020

In 2020, the Company converted one of its Boeing 767 passenger planes to a semi-freighter, approved by European Union Aviation Safety Agency (EASA), to help meet the demand and has since created a Cargo Division to take advantage of this gap in the market. This also adds another revenue stream, particularly given the ongoing difficulties with passenger flights, and Air Astana is exploring more options for cargo-only flights.

By the end of the year, the Cargo Division had completed 137 cargo flights and generated over USD 22 million in revenue. The success of these flights has shown how successful Kazakhstan could be as a cargo and logistics hub.

More information
p30

# Proven potential

Establishing FlyArystan in order to tap into the domestic passenger market has already proved to be a positive strategic decision and one that offers attractive long-term growth.

+8%
Increase in the number of domestic passengers carried by Air Astana and FlyArystan in 2020

Although Kazakhstan is the world's largest land-locked country, more than half of the population has never flown domestically before and so it presents huge potential for the Company.

With domestic passengers increasingly price sensitive, Air Astana's operating model enables it to operate efficiently and profitably in both Kazakhstan and the broader Central Asia region. Air Astana and FlyArystan offer complementary services to flyers based on value, comfort, punctuality and safety.

More information
p29

# Cost-effective structure

A rigorous focus on efficiency drives our success and helps us maintain a low-cost base as a key strategic advantage to deliver growth, efficiency and excellence. Air Astana is tremendously resilient, with a proven ability to preserve profitability and mitigate risks.

5.73¢

CASK

Employees across the business are enabled to use their skills and expertise in order to explore the ways in which the Company can increase efficiency and, in turn, remain agile and maintain its unique position. Air Astana operates as a meritocracy and its values are reflected in its role in society where the airline is seen as a great enabler and driver of economic growth.

More information

p36-39

# A world-class team

Air Astana possesses a best-in-class management team with a strong international track record. Until 2020, the Management Team had driven consistent growth through good times and turbulence.

7.06 years

Average employment tenure

Under its expertise and stewardship, the airline's expansion plans have been funded entirely through internally generated funds and efficient borrowings, without any financial support from the State. Its ability to rise to the challenges caused by COVID-19 is a demonstration of its tenacity under unprecedented pressures.

Our people differentiate Air Astana. For five years in succession, we have been recognised as the top employer in Kazakhstan by Universum, the employer branding specialist. With staff engagement levels continuing to increase, the Company continues to both attract and retain top talent.

More information

p56-59

# AT THE HEART OF OPPORTUNITY

The demand within our domestic market continues to grow exponentially and we have switched our international focus to flights to popular leisure and tourism destinations.

As 2020 started, we already knew that plans to expand our business would be negatively impacted. But, even at that stage, we could not have envisaged the devastating affect the pandemic would have on our overall operations as borders began to close, followed by the complete shutdown of airline networks in Kazakhstan and beyond.

As the year progressed, we were able to take advantage of the opening up of the domestic market by accelerating the growth of our low-cost carrier, FlyArystan. Only in its second year of operation, it has nevertheless proved the propensity of the Kazakh people to switch from other modes of transport to flying in order to criss-cross our vast country. And, while the appetite for international business travel has been massively dented, that for leisure travel has certainly not. This has created new opportunities for the Company and we have secured long-term contracts to popular tourist destinations with key Kazakhstan tour operators.

## Domestic routes

During 2020, FlyArystan increased its share of the domestic market to 31%, second only to Air Astana with the largest share at 39%, giving the Company a dominant 70% share in total. As of the end of 2020 the Company operated on 30 domestic routes, 4 of which had never been flown by any airline in Kazakhstan, but had to suspend flights on 21 routes. Our plans are to increase our coverage to 36 routes in 2021 across Kazakhstan.

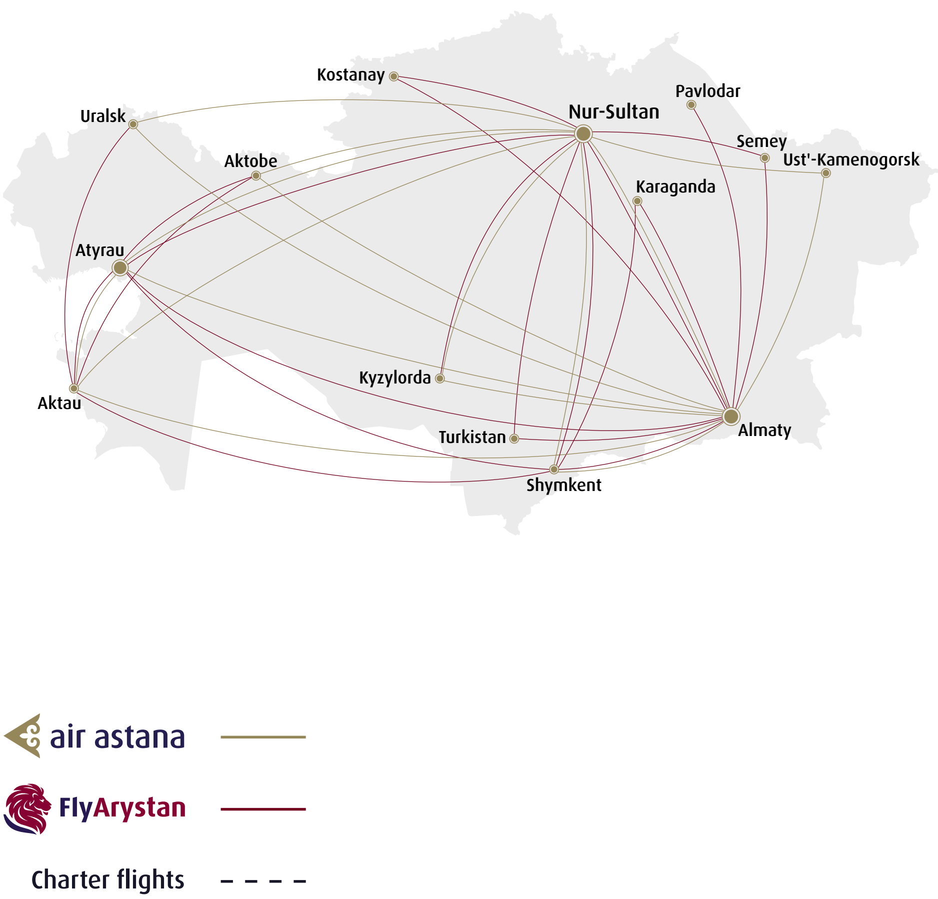
Full details about our domestic and future activities can be found on page 29 of the Operating review.

**30**[1]
Domestic routes operated by the Company as at the end of 2020

**21**
Domestic routes operated by FlyArystan

**16**
Domestic routes operated by Air Astana

1. Routes operated by both Air Astana and FlyArystan were counted as 1 route.



# International routes

The pandemic caused major disruption with all scheduled international flights shutdown during spring 2020 and a 72% reduction in international passenger numbers during the whole year, compared with 2019 levels. With business travel decimated when borders cautiously re-opened, we turned our focus to popular tourist destinations including Dubai, Antalya, Sharm El Sheikh and the Maldives. There were also several ad-hoc passenger charter flights to destinations, such as Spain, Montenegro, Albania, Israel, Qatar, China and India.

Full details about our international and future activities can be found on page 28 of the Operating review.

44

International routes operated in 2020 (including regular charter flights)

25

Temporarily suspended because of the pandemic with plans to re-start operations in due course

18

International routes re-started after lockdown

1

Permanently suspended

# MARKET OVERVIEW

## Welcome home

Kazakh airlines and their employees went beyond the call of duty during 2020, helping to evacuate Kazakh citizens from other countries.

Few, if any, could have predicted the devastation that the COVID-19 pandemic would wrought on the aviation industry as news of outbreaks of the virus filtered through at the start of 2020.

The closing of international borders to stem the flow of the disease and grounding of entire airline fleets globally might have sounded like the scenario for a disaster movie but, all too soon, it became the reality. It was also a financial catastrophe: worldwide, lockdown restrictions were enforced with border controls and any travel, whether for business or leisure, was almost universally banned.

In 2020, COVID-19 was the only news story for airlines: IATA reported a global net loss of USD 118 billion and the worst financial year in the history of the airline industry. Passenger numbers plummeted by 66%, the sharpest decline in the industry's history. Passenger revenue has fallen by 69.7% year-on-year, measured in Revenue Passenger Kilometres (RPK). Passenger load factor, which reached a record high of 82.6% in 2019, also took a dive to 64.8%, a level last seen in 1993.

International passenger markets were hit hardest with a 75.6% fall in demand in terms of RPKs. On the domestic front, there was some let up – boosted by a recovery in China and Russia – but the global market finished the year 48.8% below 2019 levels. Cargo performed better, with air cargo volumes improving significantly during the course of the year. While the demand at the start of 2020 was low, in December, global cargo tonne-kilometres (CTKs) were only down 0.5% year-on-year. However, annual CTKs fell by 10.6% year-on-year, the largest decline since 1990.

### International

The lockdown announced by many countries, along with the closure of borders and introduction of total or partial quarantine regimes, froze almost all air travel around the world for the majority of 2020, with international flights bearing the brunt. RPK, which had started to see some signs of recovery as the summer brought a loosening of restrictions in some countries, dropped dramatically again towards the end of the year as another surge in COVID-19 cases worldwide brought the shutters down again.

There has been unprecedented government support for airlines in some regions through loans, equity and other forms of cash injections as well as wage subsidies and deferred taxes. As of November, IATA reported that this had already exceeded USD 173 billion. The geographic distribution of such aid varied enormously with North America, Europe and Asia-Pacific receiving the most support. For airlines in emerging markets (with few exceptions), aid has been very limited or even non-existent and subsidies equivalent to only 0.01-1% of airline ticket revenues in 2019, compared with 30% for those in the US and parts of Europe.

### Region by region

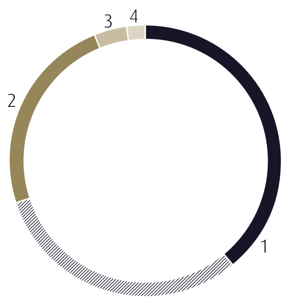
Since COVID-19 is a global pandemic, this has been a global crisis for the airline industry as a whole. It is true, however, that those airlines that have large domestic markets or large cargo operations have fared better in 2020. The likelihood is that these will also suffer less significant losses than any of their counterparts as the pandemic continues to impact business outcomes in 2021.

#### Europe

The international passenger market is the major source of revenue for European airlines and RPK plummeted by 82.3% year-on-year. With a second wave of COVID-19 and a number of variants spreading across the continent towards the end of 2020, forward bookings were depressed and likely to remain so until later in 2021 when large-scale vaccination programmes should have been completed.

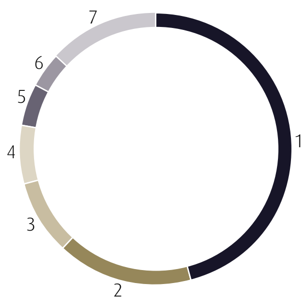
**Air Astana's market share in Kazakhstan (%)**

**Domestic**




| | |
|---|---|
| 1. Air Astana[1] | 70% |
| 2. SCAT | 24% |
| 3. Qazaq Air | 4% |
| 4. Southern Sky | 2% |

**International**




| | |
|---|---|
| 1. Air Astana | 46% |
| 2. SCAT | 16% |
| 3. Aeroflot | 9% |
| 4. Turkish Airlines | 7% |
| 5. flydubai | 5% |
| 6. Belavia | 4% |
| 7. Other | 13% |

1. Combined Air Astana and FlyArystan data. FlyArystan market share in Kazakhstan is 31% (shown in cross-hatching). Source: IATA Direct Data Solutions

> "Last year was a catastrophe. There is no other way to describe it."
>
> **Alexandre de Juniac**
> IATA's Director General and CEO

### China

Stringent virus control across the region proved successful in containing the spread and helped to deliver a strong economic recovery. Supported by the large Chinese domestic market, it was one of the best global performers last year with RPK only 30.8% lower than in 2019. The scale of its cargo operations also helped Chinese airlines deliver better financial results than many other regions.

### Middle East

With long-haul air travel virtually non-existent in 2020 and predicted to be slow to return, airlines – which previously benefited from the region's role as the major connecting hub for international flights – have seen their revenue tumble by 83% RPK year-on-year. While air cargo businesses have thrived, this has not been enough to offset the shortfall.

### Russia

Despite a decline in passenger numbers towards the end of the year, Russia became one of the most resilient key domestic market in 2020 with RPK down 23.5%, compared with 2019. This recovery was largely due to booming domestic tourism during the summer and falling fares. The country's passenger load factor in December was at 2019 levels (77.1%), indicating that propensity to travel is still strong.

## Kazakh aviation market

The spread of the coronavirus pandemic and the subsequent suspension of flights led to a decline in all key indicators for the Kazakh air industry. In March 2020, all aircraft were grounded for almost 2 months with the exception of repatriation and humanitarian flights.

Kazakh airlines and their employees went beyond the call of duty during 2020, helping to evacuate citizens from other countries, including China, Russia and Georgia, undertaking over 70 repatriation flights and carrying some 11,000 passengers. The civil aviation forces also worked to bring home Kazakh compatriots – from students based in other European countries and Kazakh tourists to citizens who found themselves caught in transit in foreign countries. Airlines also carried out 55 humanitarian flights (regular and charter) transporting more than 555 tons of cargo such as ventilators, protective masks, suits, express tests and necessary medicines.

During the remaining 10 months of the year, the total number of passengers carried by domestic airlines was 4.4 million, 38% down on the same period in 2019 (7.1 million). The number of passengers served at airports and number of transit passengers also decreased with global passenger traffic down by 66%.

IATA estimates that passenger traffic volumes will not fully recover to 2019 levels before 2023 and calculates that global revenues dropped by half-a-trillion dollars in 2020 – down by 60.9% compared with the previous year. According to the Civil Aviation Committee of the Rupublic of Kazakhstan the losses incurred by Kazakh civil aviation companies are in the region of 356.7 billion tenge (approximately USD 863 million).

# MARKET OVERVIEW continued

In order to reduce further losses and prevent the bankruptcy of domestic airlines and airports, the Kazakh Government introduced a package of State support, including establishing a zero-correction factor on certain tax rates, social payments, VAT exemption on imported aircraft parts and exemption from payment for the use of land and land taxes. It will continue to provide assistance to airlines during 2021 in order to minimise the impact of COVID-19.

After the total lockdown was lifted in May 2020, consistent measures were being taken to restore air traffic, while taking account of the coronavirus situation in the country and around the world. At the time of reporting, domestic scheduled flights have now fully resumed along with international flights to 12 countries (Turkey, Korea, UAE, Belarus, Ukraine, Germany, Netherlands, Uzbekistan, Kyrgyzstan, Egypt, Russia and the Maldives). These are currently reduced to a frequency of 52 flights per week, 12% of the pre-coronavirus total. Additional flights will be resumed as the situation improves.

During 2020, work also continued on the modernisation of airport infrastructure and the launch of a new airport in Turkestan was a significant milestone. Turkestan International Airport received its first certificate of airfield airworthiness on 30 November and regular FlyArystan flights between the cities of Turkestan and Nur-Sultan started on 1 December. This major regional project was completed within the framework of a public-private partnership.

### Cargo

The COVID-19 crisis has highlighted the vital role of air cargo in keeping global supply chains functioning, particularly for time-sensitive materials. It has also been a life line for transporting much-needed supplies of medicines and medical equipment, including personal protective equipment (PPE).

Through their dedicated cargo freighter operation, airlines sought to meet this demand. However, overall cargo capacity worldwide had also been slashed as a consequence of the grounding of passenger flights, which normally carry a considerable amount of cargo.

A move to carry cargo in passenger cabins was supported by EASA, before it also then allowed the removal of passenger seats to increase cargo-carrying capacity. EASA provided technical guidance on the design changes required for converting passenger aircraft to semi-freighters, with companies

## IATA

IATA – Airlines transport over 52 million tonnes of goods a year, which represents more than 35% of global trade by value but less than 1% of world trade by volume. That is equivalent to USD 6.8 trillion worth of goods annually, or USD 18.6 billion worth of goods every day.

also needing to apply for a time-limited certification of airworthiness.

While the impetus to increase cargo capacity was driven by necessity, for airline operators this also presented a new business opportunity with which to plug the huge gap in their revenue with many looking to expand their cargo services in the longer-term. Given the vastly reduced number of passenger flights during 2020, global capacity, measured in available cargo tonne-kilometres (ACTKs), shrank by 23.3% in 2020 compared with 2019. Due to the lack of available capacity, cargo load factors rose by 7.7% during the year. This contributed to increased yields and revenues, providing support to airlines and some long-haul passenger services in the face of collapsed passenger revenues.

With passenger flights likely to be impacted well into 2021, the future for cargo is looking more promising. Airlines investing in cargo infrastructure will not only benefit from the continuing need to transport medical supplies, plus vaccines, but look set to also reap the rewards when the world and business returns to something that equates to normality.

Sources
IATA website: iata.org
IATA Air Passenger Market Analysis, December 2020
IATA Air Cargo Market Analysis, December 2020
Civil Aviation Committee of the Rupublic of Kazakhstan

### Globally in 2021

In November 2020, IATA was cautiously optimistic about an upturn in the financial fortunes of airlines in 2021, assuming some opening-up of borders by mid-year. But, by the end of the year, hopes that widespread vaccination programmes would quickly make a positive impact were dashed as yet more outbreaks and mutations of COVID-19 occurred around the world. This prompted further travel restrictions and more border closures than those that were in place at the start of 2020.

IATA's current forecast is that traffic will return to 50% of 2019 levels during 2021. However, the proliferation of restrictions on travel that have been seen since the beginning of the year could make even that modest outlook very challenging.

Continued financial support from governments, improved testing protocols and the success of vaccination programmes worldwide will all be determinants in how soon the airline and wider travel industry begins to find its feet again. IATA has created a mobile app – IATA Travel Pass – which will enable passengers to generate a "digital passport" to receive COVID-19 test results and so verify travel eligibility. This was being trialled by airlines in the Middle East at the start of 2021 and is part of a wider campaign by IATA to persuade governments to use proof of testing and vaccination, instead of closed borders and/or quarantine, to open up the world to air travel once again.

Propensity to travel is still much lower than prior to COVID-19. But, if anything has shown that passenger confidence in flying itself has not been dinted, it is the complete sell-out of the Qantas "Flight to Nowhere" within 10 minutes of its launch. The October flight, low over such landmarks as the Great Barrier Reef, departed from and returned to Sydney 7 hours later. A more extensive programme of flights over Antarctica is planned for 2021 and all flights will be carbon offset. The desire to fly remains strong with even small measures to loosen quarantine restrictions resulting in travel rebounding.

### COVID-19

COVID-19 has been detrimental to the airline industry but we recognise that the measures taken to contain the spread of the virus are necessary in order to save lives. As a Company, we have done and continue to do everything humanly possible to protect our employees and customers. We continue to use our fleet in the humanitarian push to ensure that medicines, medical equipment and vaccines are distributed efficiently and as widely as possible. Of course, we look forward to our business returning to better times but the safety of people, as always, remains our priority.

# OUR BUSINESS MODEL

## Delivering on our strategy

**Our purpose**

We provide scheduled and chartered domestic and international passenger flights as well as freight and mail transportation. We have an absolute commitment to safety and service delivery, applying the highest standards to all aspects of our operations while growing our fleet and route network, and improving products.

**Our inputs**

### Financial

Air Astana operates with one of the lowest cost structures in the industry. This and its strict financial discipline have enabled the Company to preserve cash and liquidity during unprecedented global economic uncertainties without applying for any Government assistance during the crisis.

**CASK**

5.73¢

(2019: 5.46¢)

### Aircraft

We are making progress with introducing the most modern and fuel-efficient aircraft available into our fleet. We accelerated returns of older Boeing 757s and Embraer E190-E1s to lessors during the crisis. This marked the final phasing out of those aircraft and we now operate a simplified fleet of Boeing 767s and Airbus A320-family aircraft. As a result of these adjustments, the average fleet age was reduced to 5.1 years. The expected deliveries of aircraft in 2021 will further reduce the average age, making Air Astana's fleet one of the youngest in the world.

This year, we also launched a new Cargo Division and took advantage of cargo opportunities by converting one of our passenger Boeing 767 into a semi-freighter aircraft.

**Aircraft in the fleet**

34

(2019: 35 aircraft)

**Average fleet age**

5.1 years

(2019: 6.5 years)

### People

Our people are one of our core assets and strengths; our long-term sustainable success depends on their expertise, skills and motivation. We maintain the highest working environment standards for employees and have been named "Best Employer of Kazakhstan" for the last five years (2016-2020) by Universum, the global leader in employer branding.

**Employees**

5,385

(2019: 5,532)

### Partnerships

Continued code-sharing agreements with other international airlines, predominately on trunk routes and selected 3rd-country routes. This gives us access to a wider network, improving efficiency and providing greater choice for passengers.

**Code-sharing agreements**

12

### Technology and data

We are focused on achieving competitive advantage, improved customer service, cost reductions and operational efficiency through our investments in IT and e-Business initiatives. Our plans for 2021 – enhancing existing systems and developing new technologies – will build on what has been achieved to date and take Air Astana and FlyArystan to the next level in digital commerce.

**Investments in IT and e-Business initiatives**

$1.2m

(2019: $1.6m)

### Social

Air Astana is an economic and social enabler across Kazakh society as well as a global ambassador for the country. Our international flights facilitate both leisure and business travel, while domestic traffic, which has grown significantly with the introduction of FlyArystan, is helping to stimulate local enterprises, communities and infrastructure.

FlyArystan has made air travel within Kazakhstan more affordable and more accessible for local people, who would otherwise have required many hours to reach their destination by other means of transport – or opted to stay at home. The plans for 2021 include the further development of domestic and international route networks.

**Domestic routes served by Air Astana and FlyArystan**

30

(2019: 24)

## Operating model

We are uniquely set up to capture significant growth and to offer Air Astana passengers high quality from a low-cost base, while servicing more price-sensitive domestic passengers through FlyArystan, the first truly low-cost carrier in Central Asia.

# One airline Two brands.

air astana

FlyArystan

### OUR PRODUCT LINES

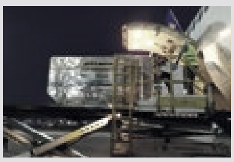
**International long-haul routes**

**Regional routes**

**Air Astana Domestic**

**Air Astana Charter**

**Air Astana Cargo**



**FlyArystan**

### OUR DIFFERENTIATORS

Low Cost + Full Service and LCC + Modern Fleet

## Delivering value to our key stakeholders

### Shareholders

We allocate a fixed percentage of net income to our Shareholders, as defined in our Dividend Policy, unless decided otherwise at the General Meeting of Shareholders. In total, Air Astana has paid more than USD 140 million in dividends since its inception. Initial capital invested in the Company by both Shareholders amounted to USD 17 million, with no additional capital injection. The Company has continued to grow solely through internally generated cash and efficient debt financing.

**>$140m** in dividends to both Shareholders

### Employees

We provide competitive remuneration packages and equal opportunities for all employees in terms of professional training, opportunities to improve performance and develop careers.

**$35.5m** invested in training world class pilots through the Ab-initio programme since inception

### Passengers

Our passengers are the foundation of our business. We value each passenger and our teams work hard to provide safe and comfortable travel, which helps us achieve high levels of customer satisfaction.

**82%** Customer satisfaction score

### Suppliers and partners

We maintain long-term positive relationships with our suppliers and business partners on fair and mutually advantageous terms.

**36%** Percentage of procurement budget spent on local suppliers (21% in 2019)

### Government, regulators and local authorities

We contribute to the national wealth and are also a significant tax payer in our region of operation. We play an increasingly active role in the development of local economies and social projects.

**>$482m** total taxes paid since inception

More information p22-23

# STAKEHOLDER ENGAGEMENT

**Specific stakeholder engagement channels used in 2020 are described in the table below.**

## Employees

Our people are one of our core assets and strengths; our long-term sustainable success depends on their expertise, skills and motivation.

In return, we provide competitive remuneration packages and equal opportunities for men and women of different ages and nationalities in terms of trainings and opportunities to improve performance and develop careers. Moreover, we create a safe and healthy environment with an emphasis on business ethics and corporate values.

**How we engage**

- Employee pulse surveys (to measure emotional concerns and identify worries)
- Regular (weekly/monthly) communication from the CEO and President
- Employee Social Stability Index surveys, conducted by the Centre for Social Co-operation and Communication, which measure labour relations, wellbeing and workplace satisfaction
- Management conference with YouTube broadcast for non-managers
- Face-to-face communication with Management
- Feedback platform for mutual recognition among employees
- HEART Employee Recognition Programme (HEART Awards)
- Mobile application for sharing ideas and communicating news and initiatives
- Corporate magazine
- Performance reviews
- Whistleblowing line for reporting violations of legislation and the Code of Conduct (fraud, corruption, discrimination, unethical behaviour, etc.)

**Key issues discussed in 2020**

- Health and safety
- Internal communication
- Training and education
- Salaries and social benefit packages
- Human rights
- Performance and career development
- Business ethics and corporate values
- Workforce diversity and equal opportunities.

## Shareholders

Shareholders benefit from a consistently sustainable performance and potential dividends over the lifetime of our operations.

**How we engage**

- Shareholders meeting(s)
- Presentations, reports, publications
- Conference calls
- Site visits
- Direct communication

**Key issues discussed in 2020**

- Strategy
- Financial and operational performance
- Dividends
- Compliance with ESG[1] standards and best practice
- Health and safety
- Reputation

1. Environmental, social and governance

## Passengers

Our passengers are the foundation of our business. We value each passenger and their experience is the highest priority for us.

Our teams work hard to provide our passengers with safe and comfortable travel.

**How we engage**
- Call centre
- Customer Experience Service
- Online customer service evaluation survey
- Nomad Club Loyalty Programme
- Codeshare and interline partnerships
- Safety and regulatory audits
- Inflight safety instructions and videos
- "Tengri" inflight magazine
- Expanding FlyArystan operations within Kazakhstan;
- Website
- Social media
- Whistleblowing line for reporting violations of legislation and the Code of Conduct (fraud, corruption, discrimination, unethical behaviour, etc.)

**Key issues discussed in 2020**
- Customer satisfaction and service quality
- Corporate safety
- Flight security
- Affordable air travel
- On-time performance
- Diversified route network
- Innovative products and services

## Suppliers and business partners

The success of our business relies on both the prompt delivery and quality of goods and services.

We maintain long-term, positive relationships with our suppliers and business partners on the basis of mutually advantageous terms.

**How we engage**
- Code of Conduct
- Direct correspondence
- Social media
- Website
- Whistleblowing line for reporting violations of legislation and the Code of Conduct (fraud, corruption, discrimination, unethical behaviour, etc.)

**Key issues discussed in 2020**
- Prompt payments
- Compliance with contractual obligations
- Business ethics
- Long-term, positive partnerships
- Short-term/medium-term strategy

## Government, regulators and local authorities

Good relationships with the Government, regulators and local authorities enable us to maintain our licence to operate.

We follow regulatory requirements, create jobs and contribute to social and economic development.

**How we engage**
- Face-to-face communication
- Working groups
- Direct correspondence
- Industry conferences and forums
- Audits
- Reports

**Key issues discussed in 2020**
- Compliance with regulatory requirements
- Taxes
- Labour issues
- Health and safety
- Environmental responsibility
- Local employment
- Social and economic development

## OUR STRATEGY

# Our mission:

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

Our strategy is to deliver profitable growth as one of the leading carriers in Central Asia, using our experience and connectivity to extend our coverage in the international market and further develop our cargo capabilities, while boosting our regional operations and those in Kazakhstan's underserved domestic market.

**COVID-19**

The COVID-19 pandemic has had – and continues to have – a profound impact on our ability to operate our business at the performance levels that both we and our Shareholders have come to expect. We have reviewed and revised our 5-year Business Plan 2021-2025 in light of the global travel restrictions, which have affected the Company commercially and operationally. We have reduced our costs, optimised flight operations within restrictions imposed by the states, reviewed flight profitability and sustainability by route and minimised loss-making flights and operating costs. Fortunately, the Company started the year in a strong financial position and, to date, we have not required any direct financial support from the Government.

**Our strategy consists of delivering progress around three key pillars:**

### *Growth*

3.7m passengers
Down 28% from 5.1m in 2019

+109% passengers
FlyArystan domestic flights

7 aircraft
Fleet for FlyArystan increased from 4

137 cargo flights
Across Kazakhstan, Central Asia and Europe

($93.9m) net loss
Down from USD 30.03m profit in 2019

>$22m in revenue
Generated by the new Cargo Division

### *Efficiency*

5.1 years
Average age of aircraft in fleet

5.73¢
Cost per ASK

70% of passengers
Used self-service check-ins

73% load factor
Up from 71% in 2019

### *Excellence*

Best Airline in Central Asia and India
8 years in a row by Skytrax World Airline Awards

5 Star Major Airline
Awarded by APEX[1] for 3rd year running

2016-2020 Most attractive employer in Kazakhstan
Ranked by Universum

82% customer satisfaction score
Up by 4% year-on-year

9% average employee turnover rate
2019: 13%

91% FlyArystan on-time performance

1. Airline Passenger Experience Association

# Growth

### Key objectives

- Grow combined fleet to 52 aircraft by 2025.
- Increase passenger numbers for the Company to 12.6 million by 2025.
- Maintain diversity of growth opportunities across domestic, regional and international routes.
- Capitalise on cargo and charter opportunities.
- Support FlyArystan's growth trajectory.

### Performance in 2020

- Internationally, sales efforts were refocused on leisure routes with a strong rebound in flights to UAE and Turkey. Flights to Antalya were extended into the winter season for the first time.
- The launch of tourist charter flights to Egypt and the Maldives.
- Domestic traffic increased by 8% year-on-year, despite a countrywide total lockdown in March-April and restrictive measures thereafter.
- Number of ad-hoc charter flights to destinations, such as Spain, Israel, Qatar, China, India, Belorussia.
- Expansion of FlyArystan fleet from 4 to 7 aircraft.
- New Cargo Division established with a view to Kazakhstan becoming a cargo and logistics hub.
- Increased cargo operations, including cargo charter flights on converted Boeing 767 semi-freight aircraft.

### Our aims for 2021

- Further development of international flights in close co-ordination with the Intergovernmental Commission.
- Increase of direct flights to serve the leisure market.
- Continued operation of cargo flights.
- Further rapid expansion of FlyArystan; increase fleet to 10 aircraft and bases from 3 to 5.
- FlyArystan to launch new international routes.

**Link to relevant principal risks**
p42-45

# Efficiency

### Key objectives

- Operate the most modern and fuel-efficient aircraft.
- Maintain highly competitive CASK levels.
- Drive substantial improvement in productivity and operational efficiency through developing new technologies and engaging employees at all levels.

### Performance in 2020

- Set up Crisis Management Group and Recovery Group to monitor flight operations under uncertain circumstances in order to adjust operations immediately or proactively.
- We have further advanced with our policy of creating a fleet of the most modern and fuel-efficient aircraft available; we now have one of the youngest fleets in the world with an average age of 5.1 years across the Company.
- Adjusted and simplified fleet by completely retiring Boeing 757 and Embraer E190-E1 aircraft (total of 9 aircraft returned, including advance returns).
- Reinforced strong financial position by agreeing and deferring lease payments and aircraft deliveries as well as increasing access to liquidity through bank loans.
- Competitive CASK level of 5.73 US cents – one of the lowest compared with other peer legacy and network carriers.
- Major IT initiatives with enhancement of current and implementation of new systems, further development of Digital Commerce and support for all business units.
- Introduced Airline Performance Excellence Programme (APEX) in June. The programme aims to raise efficiency through re-engineered business processes, customised automated controls and a culture driven by corporate goals.
- To help reduce the spread of COVID-19, Air Astana promoted web and mobile check-ins across media platforms.

### Our aims for 2021

- Continued cost control and cash management.
- Airline Performance Excellence Programme implementation.
- Purchase of Airbus A320 flight simulator to train pilots in-house for time and cost efficiency.
- IT initiatives, including a solution for advanced ancillary merchandising, upgrade of Enterprise Resource Planning system, further enhancement of passenger Mobile App, certain major enhancements to the HR system.

**Link to relevant principal risks**
p42-45

# Excellence

### Key objectives

- Continued focus on improving customer experience.
- Attract the best talent from across Kazakhstan to help grow the business.
- Capitalise on the capabilities of our world-class training centre to maintain the highest standards possible.

### Performance in 2020

- The Skytrax awards were cancelled in 2020 but Air Astana was named the Best Airline in Central Asia and India in 2019 for the 8th consecutive year.
- For the 3rd time, Air Astana received a prestigious Five Star Major Airline award from the Airline Passenger Experience Association (APEX).
- Air Astana was recognised as one of the Asia's leading airlines in the Tripadvisor Travellers' Choice Awards for the 3rd consecutive year. The airline was recognised as the "Travellers' Choice for Regional Airlines in Asia".
- Universum, the global leader in employer branding, named Air Astana as the most attractive employer in Kazakhstan for the fifth time.
- Opening of a brand new Training Academy building, bringing together all training departments and teams in one location. More than 300 participants can be trained daily in the Academy building.

### Our aims for 2021

- Clear focus on operational reliability and service excellence.
- Continuous employee engagement – retention of highly qualified personnel.
- Review and modernisation of ground handling products and services.
- Improved web and app user-experience for our customers.

**Link to relevant principal risks**
p42-45

## Creating opportunity

"The crisis made us create new opportunities."

**Alma Aliguzhinova**
Chief Planning Officer

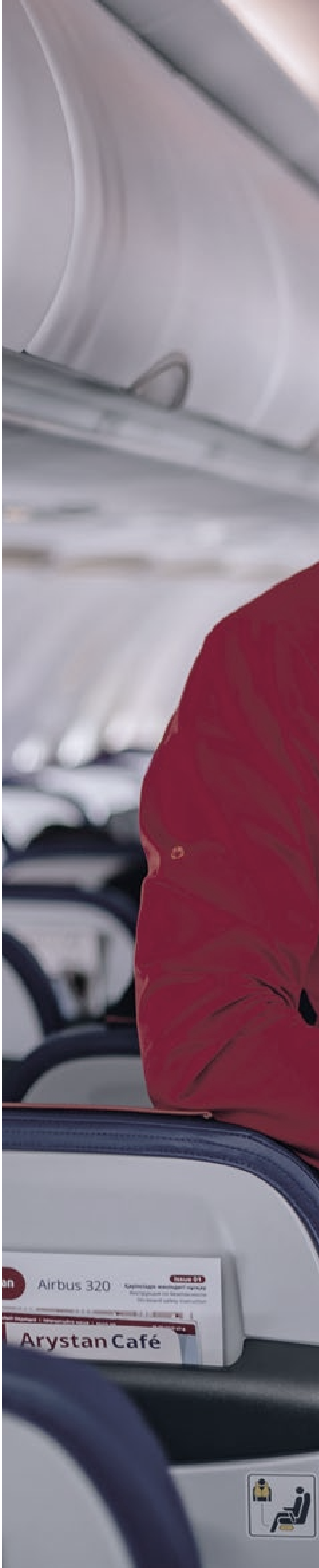
As the global pandemic continues to impose changes on the airline market, Air Astana has refocused its business, placing more emphasis on the strength of domestic and regional markets, as well as increasing point-to-point and leisure routes.

FlyArystan presents substantial growth opportunities in the largely untapped domestic market. With impressive results in its first year of operation, it has proved that there is both a demand and a desire among the Kazakh population to use air transportation as a way of travelling around this vast country.

More information
p28-33

### How we responded

- Targeting existing and new leisure destinations, including the Maldives, Egypt and Sri-Lanka, where COVID-19 has been less rife
- Adding capacity to the domestic market by expanding FlyArystan's fleet
- Meeting the increased demand for freight transport by establishing a freight division, Air Astana Cargo, using one of our Boeing 767 passenger aircraft, which has been modified to semi-freighter
- Restructuring and streamlining the Company's fleet
- Increased focus on improving customer experience



# OPERATING REVIEW

During 2020, COVID-19 had a detrimental impact on the global airline industry as governments closed borders in an attempt to halt the spread of the virus. The Government of the Republic of Kazakhstan moved rapidly to ban all flights from mainland China and Hong Kong in February with domestic and international operations ceasing by the end of March.

With some exceptions, all Air Astana aircraft were grounded from March to May, when domestic flights gradually resumed. While scheduled international flights recommenced in June, a sharp increase in COVID-19 and pneumonia cases prompted further restrictions in July. The allowed frequency of flights was greatly reduced and this situation has continued into 2021, also impacted by local restrictions at flight destinations.

From late June to early July, when there was a sharp increase in the number of confirmed cases of COVID-19 and pneumonia, Kazakhstan received humanitarian medical assistance from neighbouring countries. Air Astana also operated flights to Moscow and Delhi to deliver medicines. A further lockdown was introduced and restrictions again imposed on international flights.

At the outset of the pandemic, the Company set up its Crisis Management Group (CMG) in March 2020, which is comprised of the Senior Management team and representatives from departments across the business. Aside from actions to reduce employment and business expenses – including down-time, use of annual leave, reduced marketing expenditure and deferred payments – the Company has been highly effective in optimising its flight operations.

On a daily basis, the CMG has reviewed flight profitability and sustainability by route, managing capacity accordingly to minimise on loss-making flights and reduce operating costs; an attention to detail that is not so evident in many competitor airlines but has proved very successful.

From mid-March to mid-May, a total of 834 flights were made by the Company with the participation of 5,065 flight attendants, all of whom were required to undertake a mandatory 14-day quarantine. Additionally, 344 repatriation flights were made involving 2,147 flight attendants. COVID-19 had a significant impact on the ability of the Company to conduct its business throughout the whole of 2020. Flight landings for the year were down to 30,955 in total, a substantial reduction on 47,505 flights in 2019.

**International operations**

Due to COVID-19 restrictions detailed above, during 2020, we made only 30% of international landings compared with 2019 levels. In 2020, flights to Beijing, Urumqi and Hong Kong ceased on 20 February with all international flights suspended from 30 March. While we continued to undertake charter and repatriation flights (repatriating some 40,000 Kazakhstan citizens in March alone), by 20 April Amsterdam and Frankfurt were the only regular routes in operation, largely for corporate clients requiring access to the oilfields in Western Kazakhstan and with a requirement for additional permits and measures to prevent the spread of the infection.

Acknowledging that international business travel may remain more depressed than the international leisure market, at the end of 2020, the Company began strategically targeting new leisure and charter opportunities to destinations such as the Maldives and Sri-Lanka where COVID-19 seems to have been less prevalent and there is a greater reliance on the local and point-to-point market.

With the shutdown of all scheduled routes in spring 2020, the marketing and sales team refocused its sales effort on non-scheduled operations and has secured long-term contracts with key Kazakhstan tour operators for popular tourist destinations, including Dubai, Antalya, Sharm El Sheikh and the Maldives. Increased demand led to a first-time extension into the winter season for flights to Antalya in Turkey and flights to Male in the Maldives launched in December 2020. In addition, there were a number of passenger charter flights to Spain, Montenegro, Albania, Israel, Qatar, China and India.

Projections are that the codeshare partnerships with key airlines operating from Air Astana's overseas hubs will continue to deliver strong benefits, providing additional traffic on Air Astana operated services and further sales opportunities for partner airlines through our marketing efforts. The partnership with Lufthansa and the development of Frankfurt as a dominant European hub is central to the post COVID-19 strategy. The Company's strategic intention is to use codeshare widely, specifically on routes where Air Astana can benefit from a partner airline's network and distribution capabilities.

With the decimation of the international route network during 2020, 6th-freedom traffic will be significantly reduced while the Company works on rebuilding international frequencies and the connectivity that this creates. In particular, we will concentrate on re-establishing connections where we already know that incumbent, latent and region-specific demand exists in markets such as China, India, Russia, Uzbekistan and Turkey.

**Domestic operations**

In 2020 the Company had the largest share of the domestic market at 67% in total, with Air Astana and FlyArystan being the two largest carriers in Kazakhstan.[1]

FlyArystan's performance in 2020 helped to underpin the Company's financial position during a volatile situation. As budgets have become tighter for individuals, our low-cost offer has become even more relevant in the market.

We operated on 21 routes (13 in 2019), 14 unique routes and by the end of 2020 due to suspension FlyArystan had 4 unique routes. Our FlyArystan fleet grew from 4 to 7 aircraft and we increased our number of bases from 2 to 3. The number of customers carried almost doubled to 1,462,322 (700,000 in 2019[2]) and we sold 1,627,117 tickets (up from 750,000 in 2019[2]). Despite the increase in capacity and given the volatile environment, we kept our load factor at 84% (94% in 2019).

In keeping with the Company's ethos, we were able to deliver excellent service to our passengers in 2020. FlyArystan's on-time performance (OTP) improved to 91% from 90% in 2019, once again above the global benchmark for airlines of 85%. We have started reporting our OTP figures each month in order to provide customers with greater knowledge about reliability when making travel decisions. (Reported delays of 0.87% were related to social distancing issues.) Our Net Promoter Score for 2020 varied between 55% and 65%, while the industry average is 39%.

> "2020 was a year of acting upon situations that were changing every week. Uncertainty took us out of our comfort zone, which in a way sharpened us and prepared us to respond to future challenges faster and with more flexibility."
>
> **Janar Jailauova**
> Commercial Director

FlyArystan has embarked on a significant ancillary revenue push and is targeting 25% of revenue from ancillary sources in 2021 – in line with leading LCCs globally. Initiatives include revised baggage and seat charges, enforcement of hand-luggage rules and introduction of MyMail (a mail service for shipments of medicine and personal belongings up to 5kg) on FlyArystan flights.

With the roll-out of a worldwide vaccination programme in 2021, we are able to look forward to the future with more confidence. We believe strongly that our low-cost carrier model can and will stimulate new traffic. When FlyArystan began operations in 2019, our surveys showed that the propensity to travel by air in Kazakhstan was 22%; this increased to 29% in 2019 and the domestic passenger market grew by 23%.

Predictions are that leisure travel will rebound faster than business travel. Our passenger profile has a greater focus on families and, with propensity to travel in 2021 forecast as 37%[3], our projections are that the domestic travel market will rise to 7 million during the year, and we are planning to carry 55% of that.

FlyArystan will take delivery of 3 more aircraft in April and May 2021; increasing the total fleet of Airbus A320s to 10. The airline will add two more operational bases to its network and will have 5 bases in Almaty, Nur-Sultan, Shymkent, Atyrau and Aktau. Due to the variability of travel demand, which can change based on COVID levels and restrictions, the airline is focused on being nimble and responding to demands. We had initial plans to fly to 36 destinations across Kazakhstan in 2021 and also 13 international routes, including Moscow, Antalya, Istanbul, Sharm El Sheikh, Kutaisi and Baku. Due to uncertainly on border opening and the revised market dynamics, the airline is focused on identifying and responding to evolving market demands which results in an increased level of variation in planning. While the airline cannot commit to launching specific routes once borders re-open, it remains confident of doubling its passenger numbers in 2021.

1. Source: IATA Direct Data Solutions.
2. FlyArystan operations launched in May 2019.
3. Company data.

# OPERATING REVIEW
continued


137

**cargo flights completed in 2020**

## Our response to the new challenges

In 2020 we carried over 1,200 tons of pharmaceutical supplies, around 1,500 oxygen concentrators and ventilators and over 170 tons of face masks and other critical-care items.

### Cargo Division

As the COVID-19 pandemic took its hold, there was a significant demand for the transportation of medical equipment and supplies to destinations across Kazakhstan, Central Asia and Europe. However, the collapse of passenger flights simultaneously removed a huge amount of cargo capacity from every route. A Boeing 777 passenger aircraft, for example, with a full load of passengers on board can additionally carry 21 tons of cargo, more than can be carried by a Boeing 737 dedicated freighter.

In response, the European Union Aviation Safety Agency (EASA) agreed to allow airlines to carry cargo in passenger cabins before then allowing the removal of passenger seats to increase carrying capacity. Initial plans to convert our last three Boeing 757s, which were grounded and due to be returned to the lessor, was too problematic. But, as time and time again throughout the pandemic, our teams' ingenuity and ability to adapt proved their worth when they came up with the perfect solution: converting a Boeing 767, a plane that we owned and one of our largest, to provide greater capacity.

In the event, we converted our Boeing 767 passenger plane to approved semi-freight cargo plane, which gave us the substantial capacity needed to serve this growing market. And, on the back of this, the Company has now established a new Cargo Division. Whilst this is in part due to the pandemic, there has also been a relaxing of the legislative barriers for transporting cargo and simplification of some customs requirements that make this a more attractive proposition. Because of this, cargo flights from Almaty to Moscow have proved very popular, particularly for shipments from China. This means that, once the network is reinstated, the Company will be able to participate more fully in the Asia/Europe cargo business. Air Astana successfully joined CASS (Cargo Account Settlement Systems) in Russia in 2019 with an uplift in revenue and has plans to join CASS in Korea and India. The transparency of the system motivates cargo handlers to sell at the highest rates.

A great deal of effort has been put into finding potential partners for charter cargo flights. There was an early surge of interest from customers wishing to transport goods to a number of destinations in China. The challenges of competitive pricing and acquiring new permits initially seemed to be a stumbling block for this new venture. However, by utilising existing permits for Beijing and Urumqi, the entire cargo charter programme for China was organised from these two locations. With this flexible approach, we acquired new customers and were able to provide not only air transportation but also logistical services, including truck delivery, customs clearance, terminal handling and cargo insurance.

During the COVID-19 pandemic, several charter flights were operated as pure freighter flights. Some were operated using Airbus A321s and some by Boeing 767s with freight loaded on seats in the main cabin. However, the majority of the cargo business during 2020 was undertaken using the converted Boeing 767.

The conversion of the aircraft cost the Company USD 68 thousand and the semi-freighter began operation in May. By the end of the year, the newly created Cargo Division had generated over USD 22 million in revenue. The EASA COVID-19 exemption permitted modified passenger aircraft to carry cargo until the end of 2020. The Company has applied for permission to use the semi-freighters in January 2021.

By the end of the year, the Cargo Division had completed 137 cargo flights, carrying over 1,200 tons of pharmaceutical supplies, around 1,500 oxygen concentrators and ventilators and over 170 tons of face masks and other critical-care items. We also transported 68,000 laptops from China to Kazakhstan to assist with the Government's policy of children studying at home.

The success of these flights has shown how successful Kazakhstan could be as a cargo and logistics hub. FlyArystan's cargo capacity is efficiently used for cargo and mail without effect on the on-time performance. In July 2020, Air Astana and FlyArystan's proportion of the domestic cargo market was 75% and 25% respectively. The Company is exploring other ways in which cargo-only flights can be increased within its portfolio.

### Sustainable fleet for new challenges

At the start of 2020, our fleet comprised 35 aircraft (9 owned and 26 leased) and consisted of the following aircraft: Boeing 767 (3) and 757 (4), Airbus A320/321 series (18) and Embraer E190-E1/E2 (10).

The grounding of the fleet in March and the ongoing travel restrictions prompted us to make a number of decisions about the fleet and our requirements. Much of this has necessitated skilful negotiations and persistence to achieve workable solutions for the Company. We have managed to agree payment deferrals for our owned aircraft. For our fleet, our early intervention assisted in our succeeding to both defer 2020-2021 payments and improve the terms of an existing contract. International practice predicates that leased aircraft can only be returned to the lessor at the end of the lease term without substantial financial consequences. However, the grounding of our Embraer E1 aircraft forced our hand and after determined negotiations on our part, we reached an agreement on the early return of our 4 Embraer E1 aircraft at the end of 2020.

We have made good progress with our policy of creating a fleet of the most modern and fuel-efficient aircraft available. At the end of December 2020, the Company had 34 aircraft in total – Boeing 767 (3), Boeing 757 (2), Airbus A320/A321 series (24), Embraer E190-E2 (5) – all of which will serve to make our operations more efficient. We have now retired our 4 Boeing 757s, returning 2 to the lessor during 2020 and the final 2 (included in the fleet listing above) in January 2021. We operate one of the youngest fleets in the world with an average age of 5.1 years (2019: 6.5 years).

### Aircraft maintenance and repair

2020 was one of the busiest ever for Engineering and Maintenance (E&M). At the end of March, the whole fleet was parked, with most aircraft put into storage. However, aircraft need high levels of maintenance even when not operating in order to prevent deterioration of aircraft systems and fuel tanks, and to limit corrosion. At the same time, it quickly became apparent that a certain level of flying was still required, mostly for repatriation flights and often at short notice.

E&M rapidly adjusted its approach, staff numbers and shift rosters. It undertook unfamiliar maintenance procedures and, to save costs, carried out base maintenance in-house, including aircraft modifications, service bulletins and major repairs, saving additional labour costs at contracted maintenance, repair and operation suppliers. But the combined engineering and maintenance teams really showed their mettle when called upon to convert a Boeing 767 passenger aircraft into a cargo carrier. Formal permission has been granted to convert our Boeing 767 type aircraft; one has already undergone semi-conversion to carry air cargo.

The decision to retire early, in parallel, the ageing Boeing 757 fleet and the older Embraer E190-100s (a total of 8 aircraft) was a major undertaking for E&M, which generally handles one aircraft redelivery at a time. But through good management of available resources and co-operation with the lessors, all 8 aircraft were successfully delivered by the end of 2020. This now reduces the number of aircraft types at Air Astana, greatly reducing complexity, and will have benefits for future efficiency and cost effectiveness.

Going forward into 2021, we will need to adjust the resources to manage a smaller number of aircraft types, but an increasing number of aircraft. E&M capabilities will be developed with the plan to conduct more C-checks in-house and there will be a focus on enhancing aircraft maintenance standards, with more emphasis on self-monitoring and training to develop the skills of our highly professional E&M team.

### Digitalisation for efficient operations

Air Astana is focused on and investing in the development of IT and e-Business initiatives that will help it achieve competitive advantages, improve customer service, reduce costs and increase operational efficiency – all of which will also boost revenues.

## Reuniting passengers with their luggage

In the Lost & Found team, I don't think any of us could have imagined the new challenges we would face due to COVID-19. An acute shortage of ground handling personnel in European airports meant an unusually high volume of passengers' luggage was stuck in transit. And, because of lockdown, we suddenly found ourselves all working from home but urgently needing to access our baggage tracing technology. We managed to sort that and also all used WhatsApp to stay in touch in the search for missing baggage.

It was a completely different situation when the repatriation of Kazakh citizens began. Passengers were taken into quarantine directly from the airport while luggage had to be sanitised and follow later. Locating passengers in hospitals across the city and matching them with their luggage was a real headache. Hospital staff even sorted misplaced luggage themselves, sending us photos of baggage labels via WhatsApp to help us in our search.

But despite all the obstacles, we coped really well and have received a huge number of thanks directly from passengers. And some have even posted on Trip Advisor, recommending us as the best.

**Oxana Yutman,**
Manager, Lost & Found team

## OPERATING REVIEW continued

"As 2021 begins, it is clear that the impact of COVID-19 will be felt by the global aviation industry for some time to come."

During 2020, enhancements were made to the KCPay platform and, as part of the Airline Performance Improvement Programme, a new Budgeting and Planning System was launched and an Accrual Management System developed. A Station Control System, a development of the "Trip information" application, is nearing completion and will improve communication between pilots and the centralised load control and planning unit responsible for aircraft alignment. Last summer, we also launched a mobile application for FlyArystan which is now ranked among the top 3 apps in Kazakhstan with over 232,000 unique users. We will continue to improve the user experience for this channel, which is driving new traffic and new customers to the business.

Our Internet Booking Engine (IBE) – www.airastana.com – remains the leading e-commerce source in Kazakhstan, offering passengers a variety of payment and check-in options with lower booking costs than global online agents. Mobile digital sales currently make up about 10% of all direct digital sales and this is expected to double in 2021, following the implementation of a new mobile app and extensive use of the digital marketing platform. Affiliate programmes with portals such as SkyScanner and Avia.ru, and extensive search engine advertising (Google and Yandex) will also contribute to this growth.

The online design and functionality of the Nomad Club has been improved to include online redemption upgrades, an online redemption calculator, flight segment purchase and a single sign-in to improve the user experience. An upgraded management system also provides greater customer insight. Nomad Club is planning to introduce a new programme in 2021 aimed specifically at encouraging young flyers.

In 2020, major developments were planned under the Airline Performance Improvement Programme, including an upgrade of the Enterprise Resource Planning system, further enhancement of the passenger mobile app and certain major enhancements to the HR system. Several new initiatives have also been budgeted for digital commerce: KC Wallet, a new corporate website and mobile app. There are also plans for the new IBE to be further enhanced and a new corporate booking application to be developed. A solution for advanced ancillary merchandising is also budgeted for 2021. Together, these initiatives will take Air Astana and FlyArystan to the next phase in digital commerce.

**Supporting our customers**

Safeguarding our passengers and our employees has been our number one priority for those flying with us during the pandemic.

We comply with strict safety measures wherever we fly. Our aircraft are disinfected after every flight and have effective ventilation systems. All crew undergo pre-flight thermometry and are provided with personal protective equipment (PPE) along with hand sanitisers and face masks for passengers. We have implemented a new IT programme of PCR test check-in and profiling to avoid passengers incurring any penalties at destination airports within the CIS.

Close and direct communication with customers remains key, and has facilitated increased use and further implementation of app push notifications, SMS and WhatsApp messaging. As a part of direct actions to reduce the spread of COVID-19, the Company started a programme to promote web and mobile check-ins using mass media and social networks as well as allowing 36 hours for registration, rather than the previous 24 hours. At the start of 2020, prior to the pandemic, 60% of passengers used the online check-in service for domestic flights but this increased to nearly 80% during the year.

Given that amendments to travel plans were largely beyond the control of passengers, the Company provided full flexibility, enabling free-of-charge date changes, re-routing and refunds until March 2021. For members of the Nomad Club, Air Astana extended the validity of points and the qualifying period for elite status. A new system is being introduced in 2021, which will enable the airline to issue electronic compensation vouchers, that can be used via the corporate website, and which will drastically reduce processing time and improve customer satisfaction.

Since the fallout from COVID-19 looks set to shape global air travel into 2021, how the Company manages ongoing issues around flight interruptions is vitally important. Increasing the focus on improving the customer experience is key. The Customer Experience team has developed new quantitative and qualitative metrics to measure customer satisfaction including industry-adopted indicators such as Net Promoter Score (NPS), Customer Satisfaction Rating (CSAT) and Customer Effort Score (CES). Data is collected onboard and online, then monitored and with any necessary actions reported to the relevant business units. The team has also re-established "Talking Heads"; this time inviting Nomad Club members to virtual meetings in order to gain to their feedback.

An example of the type of feedback and action taken, was the dissatisfaction that many passengers had with the business class cabin on the Embraer E2 aircraft. As a result this cabin was re-classified and re-branded as an Premium Economy Cabin which was launched in November 2020, managing customer expectations and providing better value to our customers.

### Forecast and challenges 2021+

As 2021 begins, it is clear that the impact of COVID-19 will be felt by the global aviation industry for some time to come. While vaccination programmes will start to stem the spread of the virus, travel restrictions will remain in place for the foreseeable future, reducing the number of potential destinations and the frequency of flights. 6th-freedom traffic – connecting international flights through Kazakhstan – is not expected to recover in the near-to-medium term, and the recovery for international long-haul operations is forecast to be even slower.

This is, in part, due to regulations but passenger confidence is also a major factor to be overcome, while the expectations for business travel are poor. The events of the last year have completely changed working practices as more and more companies have adapted to distance working and online meetings, and realised the advantages to be gained from the new status quo.

But it is not all doom and gloom. Domestic and regional traffic is expected to perform better. FlyArystan has already shown the value of the untapped Kazakh market and we plan to invest in new aircraft and new routes to take advantage of this revenue stream. Our charter flights to holiday destinations where COVID-19 has not been so virulent are already proving popular and we hope to increase this aspect of our business over the coming year. And what began as aid assistance for transporting medical supplies has burgeoned into a new Cargo Division with significant potential. As the networks begin to re-open, we will be exploring the options for cargo distribution between Asia and Europe.

## Supporting our customers

Since the fallout from COVID-19 looks set to shape global air travel into 2021, close and direct communication with customers remains key.

## Financial discipline

"The timely pre-COVID-19 focus on the balance sheet enabled a strong liquidity position throughout the crisis."

**Ibrahim Canliel**
Chief Financial Officer

Aviation has been one of the industries most impacted by COVID-19 and airlines bore the brunt throughout 2020. The Company had already taken actions that resulted in a healthy cash position at the end of 2019, which meant that we went into the crisis in good financial health.

We bolstered this by implementing a wide range of initiatives to reduce cash burn and preserve our cash position. As a result, the Company reduced cash burn by half in Q2, halved it again in Q3 and became cash neutral in Q4. Air Astana has coped throughout the pandemic without requiring direct financial support from the Government – a rare example in the industry. From a liquidity perspective, Air Astana is now one of the top-ranking airlines globally.

More information
p36-39

**How we responded**

- Flexibility of cost allowed the rapid review and reduction of fixed and variable costs
- Deferral of major capital expenditures
- Deferral of planned aircraft deliveries and early return of some operating lease aircraft
- Extensive discussions with aircraft lessors and financiers in order to defer payments
- Successful negotiations of the domestic fuel price
- Timely expansion of credit facilities when the industry was hoping and planning for a V-shaped recovery
- "Not wasting the crisis" by using the opportunity for Company-wide process due diligence and redesign




MAX SPEED
5 MPH

# FINANCIAL REVIEW

"During the extreme turbulence experienced in 2020, Air Astana's resilience and its ability to adapt to an entirely new operating environment not only rescued the airline but also enabled it to pivot to new growth markets."

The Aviation market has had to withstand micro-economic shocks before, but COVID-19 is the single biggest shock to have hit the aviation industry since the Second World War. Revenues in the aviation sector fell by 66%, equivalent to more than USD 610 billion, while losses incurred by airlines around the world wiped out 4 years of profitability.

Globally, airlines received USD 173 billion of state support and the catastrophe has so far seen more than 40 airlines file for bankruptcy. Measures taken by Air Astana at the end of 2019 meant that we entered the pandemic in a strong position, and we have not needed to call on any direct financial Government support at all during the COVID-19 outbreak.

We started the year with tremendous optimism. We were in a very strong financial position, our RPK was more than 40% higher than the previous year. The successful launch of FlyArystan had stimulated the domestic market to the extent that domestic traffic was projected to more than double during the year. 2020 was set to be a record year for the Company.

We ended the year with Air Astana revenue down by 55% to USD 400.3 million and despite a collective effort and sacrifice from all to further reduce costs, which led to a 43% decrease in operating costs to USD 469.6 million, we ended up with a net loss of USD 93.9 million, the biggest loss since the inception of Air Astana. Despite the inevitability of such a result due to the wholesale grounding of fleet experienced from March, Air Astana did not stand still.

The airline took a number of measures to ensure its survival. Some of these were short term in nature, while others led to lasting changes that improved business processes and increased efficiency, further bolstering the Company's position as one of the most cost-effective airlines in the world. These activities led to CASK of US 5.73 cents in 2020, with scope for more improvement as the skies begin to open up once more.

## Emergency measures

When the Crisis Management Group and Recovery Group were established very early on in the crisis to help steer the airline through the pandemic, the Company established the following priorities to ensure the airline's future:

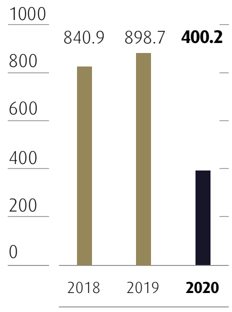
- The top priority was to preserve cash to provide as big a safety net as possible;
- A review and reduction of fixed costs was undertaken to preserve our position of confidence and to enable us to be more agile than our peers by reducing costs quickly and promptly deferring cash outflows, including:
  - deferral of major capital expenditures;
  - deferral of planned aircraft deliveries and early return of some operating lease aircraft;
  - extensive discussions with aircraft lessors and financiers to defer payments;
  - successful negotiations for domestic fuel price; and
  - timely expansion of credit facilities when the industry was hoping and planning for a V-shaped recovery.
- The Company capitalised on its strong relationships with its banks to secure additional liquidity, including the largest single loan since the business was established, and to provide maximum flexibility.
- The APEX Programme (Airline Performance Excellence Programme) was established to improve business processes. Launched in June, the programme aims to boost efficiency by re-engineering business processes, customising automated controls and reinforce a culture driven by corporate goals. As part of this programme, a new budgeting and resource planning system was launched to provide data on critical processes.

Total revenue

$400.3m

2019:

$898.7m

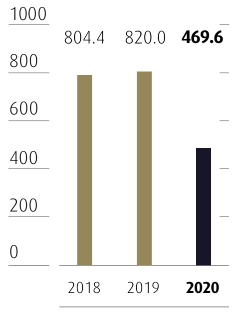



Total operating expenses

$469.6m

2019:

$820.0m




### Financial highlights

| (USD '000) | 2020 | 2019 | Change |
|---|---|---|---|
| Total revenue | **400,264** | 898,729 | (55.5%) |
| Total operating expenses | **(469,578)** | (820,030) | 42.7% |
| Operating (loss)/profit | **(69,314)** | 78,699 | (188.1%) |
| Operating profit margin | **(17.3%)** | 8.8% | (26.1p.p.) |
| Net financing expense | **(34,649)** | (24,155) | (43.4%) |
| Foreign exchange loss, net | **(12,673)** | (12,749) | 0.6% |
| (Loss)/profit before tax | **(116,636)** | 41,795 | (379.1%) |
| Income tax benefit/(expense) | **22,703** | (11,763) | 293% |
| **(Loss)/profit for the year** | **(93,933)** | 30,032 | (412.8%) |

### Revenue

| | 2020 | | 2019 | | Change |
|---|---|---|---|---|---|
| (USD '000) | Total | % of total revenue | Total | % of total revenue | |
| Passenger revenue | **358,413** | **89.5%** | 824,952 | 91.8% | (2.3p.p.) |
| Cargo and mail revenue | **24,561** | **6.1%** | 21,145 | 2.4% | 3.7p.p. |
| Other revenue | **11,033** | **2.8%** | 47,952 | 5.3% | (2.5p.p.) |
| Gain from sale and leaseback transaction | **6,257** | **1.6%** | 4,680 | 0.5% | 1.1p.p. |
| **Total revenue and other income** | **400,264** | **100%** | 898,729 | 100% | – |

- The Company also needed to reposition its offer in order to keep as many aircraft in-use as possible and provide the best possible opportunities to emerge from the crisis by utilising the most in demand routes. As a result, greater resource was dedicated to cargo and point-to-point travel in the rapidly growing domestic market as well as existing and new international leisure destinations – with routes such as UAE, Turkey, Egypt, Maldives and Sri Lanka in demand.
- The Company subsequently experienced strong trading in 4th quarter as certain routes opened up and as a result the Company's cash position also increased.

### Currency

With more than two-thirds of our revenues denominated in currencies other than the Tenge, the US Dollar serves as Air Astana's functional currency as it better reflects the nature of underlying transactions, events and conditions. This protects the airline's net assets from KZT/USD currency fluctuations, which will increase overall financial profitability due to the elimination of negative effects from exchange differences from Dollar-denominated assets and liabilities. The average exchange rate for January to December 2020 was 412.95 KZT/USD, 7.89% higher than the exchange rate of 382.75 KZT/USD during 2019.

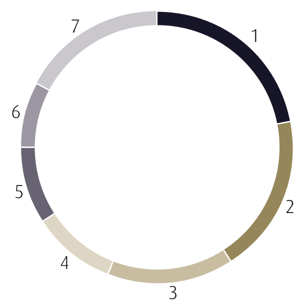
# FINANCIAL REVIEW continued

### Driving low-cost option via CASK

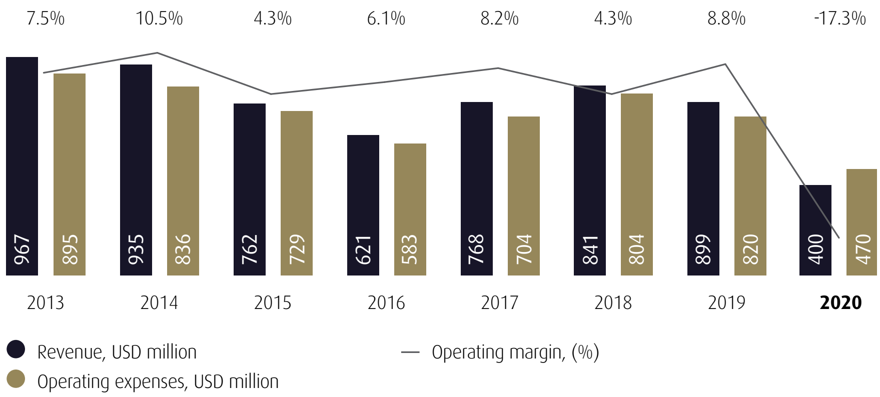
Air Astana prides itself on providing high quality passenger experience at tremendous value. The airline remains uniquely positioned to do so by maintaining one of the lowest-cost bases in the industry with a CASK of US 5.73 cents. Maintaining such a low CASK provides Air Astana with critical strategic advantages, including the flexibility to adapt its offer, whether that is to strengthen its domestic routes moving forward or dedicate more resource to international destinations at either low cost or full service without harming margins.

Efficiency therefore remains a key part of the Company's strategy and it continues to strive for improvements, whether that is through the Finance team's Finnovation initiative or through its on-going Low-Cost Champions campaign. This ethos remains a strong reflection of a deep and integrated sense of engagement internally, and also reflects the strong culture of efficiency that is embedded across all of Air Astana's departments.

### Breakdown of operating expenses, 2020 (%)




1. Depreciation and amortisation 22%
2. Fuel 19%
3. Employee costs 15%
4. Handling, landing fees and route charges 10%
5. Engineering and maintenance 9%
6. Passenger service 8%
7. Other 17%




### Fuel

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

Crude oil prices significantly decreased in 2020 (averaging 30% year-on-year) due to the lower demand worldwide caused by the global pandemic and related travel restrictions. In addition, due to the suspension of operations, Air Astana's fuel expenses decreased dramatically by some 57%.

For locally sourced fuel, the Company negotiates prices on a competitive basis with Kazakhstani suppliers by agreeing stable contracts. Air Astana also maintains ongoing negotiations with suppliers regarding price reductions and monitors alternative suppliers for domestic and international stations.

Air Astana's high levels of operational efficiency mean that we are able to extract maximum benefit when prices decrease, much in the same way that we have evidenced great resilience to fuel-related headwinds in the past, thanks to the flexibility offered by our platform and our route network.

### Other operating expenses

Other significant operating cost items include ground handling, landing fees and route charges. These expenses decreased by 57% to USD 47.2 million, mainly as a result of the reduction in operations due to the grounding of our fleet during the pandemic, while passenger services costs decreased by 60% to USD 36.5 million.

Employee costs decreased by 30% to USD 72.7 million, mainly as a result of reduced staffing following the grounding of our fleet and employees being on a downtime through the peak of the pandemic. Due to the grounding of large parts of fleet, engineering and maintenance costs also decreased by 54.2% to USD 43.2 million.

### Operating loss

The Company suffered an operating loss of USD 69.3 million in 2020, compared with a USD 78.7 million operating profit in 2019. This was purely driven by the effects of the COVID-19 pandemic on the business during the year.

The Company has substantial finance lease liabilities, denominated in US Dollars. At 31 December 2020, total lease liabilities amounted to USD 704.7 million (+16% year-on-year). The Company recognised USD 28.6 million as interest expense on lease in 2020.

### Operating loss

| (USD '000) | 2020 | 2019 | Change |
|---|---|---|---|
| Operating (loss)/profit | **(69,314)** | 78,699 | (118.1%) |
| Net financing expense | **(34,649)** | (24,155) | (43.4%) |
| Foreign exchange loss, net | **(12,673)** | (12,749) | 0.6% |
| **(Loss)/profit before tax** | **(116,636)** | 41,795 | (379.1%) |

### Net financing expense

The Company's total net finance expense for 2020 increased to USD 34.6 million, compared with USD 24.2 million in 2019, mainly driven by an increase on bank loans and interest expense for aircraft in operating lease in accordance with IFRS 16.

### Equity

| (USD '000) | 2020 | 2019 | Change |
|---|---|---|---|
| Share capital | **17,000** | 17,000 | – |
| Functional currency transition reserve | **(9,324)** | (9,324) | – |
| Reserve on hedging instruments, net of tax | **(44,686)** | (53,845) | 17.0% |
| Retained earnings | **55,417** | 149,350 | (62.9%) |
| **Total equity** | **18,407** | 103,181 | (82.2%) |

## Defending Air Astana's interests

At the start of the pandemic, when flights to China started being cancelled, we approached our lessors with a request to defer lease payments and delay deliveries of new aircraft. Many lessors noted that Air Astana was among the first to recognise the scale of the pandemic and initiate recovery measures. We managed to achieve significant lease deferrals and also successfully negotiated the early return of our grounded Embraer E190-E1 and Boeing 757 aircraft. We are particularly grateful to our business partners since none of this could have been realised without their co-operation.

Along with deferrals, improved contract terms and aircraft redeliveries enabled us to make significant savings, alongside an additional cash injection from pipeline projects. Much of this was due to the assistance of our colleagues and I particularly want to thank everyone involved across the Management Accounts, Finance and Engineering teams for their professionalism and continuous support.

**Aigul Omurzakova**
Director Business Planning & Fleet Portfolio

# RISK MANAGEMENT

### Our approach

## Corporate Risk Management System (CRMS) is an integral part of corporate management of Air Astana.

The Company's CRMS ensures integration of risk management with all other aspects of the business, including governance, performance management and internal control practices; and improvement of Company's sustainability, resilience and agility to adapt to changing circumstances. One of the main tasks of CRMS is to assist the Board of Directors and the Management in optimisation of outcomes with the goal of enhancing capabilities to create, preserve, and ultimately realise value.

The Risk Management Policy of the Company is in line with "COSO Enterprise Risk Management framework – Integrating with Strategy and Performance" to ensure the implementation of best international practices in risk management within Corporate Risk Management System (CRMS) of the Company.

### Risk responsibilities

The Company's structure enables it to optimise its risk management capability. Risk prevention and management is part of Company's culture and responsibility is shared by managers throughout the organisation.

The assumption of risk is made within a calculated and controlled framework that assigns clear risk roles and responsibilities, represented by "three lines of defence":

- Primary responsibility for risk management lies with the risk owners. Structural units are the first line of defence and it is crucial that each employee of Air Astana manages risk appropriately.
- The Risk Management Unit forms the second line of defence and assesses all corporate risks.
- The Internal Audit, as the third line, provides independent and objective risk-based assurance on the compliance with, and effectiveness of, Air Astana's financial and risk management framework.

1st line of defence

**Structural Units and each employee**

2nd line of defence

**Risk Management Unit**

3rd line of defence

**Internal Audit**

### Risk appetite

Risk appetite is the degree of risk that a company is prepared to accept in pursuit of its strategic objectives and business plan. Air Astana's detailed Risk Appetite Statement is approved by the Board of Directors.

## Risk management framework

### Board of Directors

- Sets short-term and long-term goals/objectives for the Company
- Approves the Company's Risk Management Policy and other policies for managing specific risks
- Approves the quarterly Risk Register, risk map, tolerance levels
- Annually approves the Company's risk appetite
- Reviews the Company's risk management and internal control systems
- Assesses the effectiveness of these systems through its Audit and Risk Committees

### Audit Committee

- Reviews quarterly changes to the Risk Register, risk map, tolerance levels
- Reviews the quarterly report on realised risks
- Annually reviews the Company's risk appetite
- Reviews reports with information on any significant deviations from the standard risk management process
- Reviews reports with information on compliance with regulatory requirements regarding risk management, if necessary

### Risk Committee

- Arranges efficient risk management system
- Reviews and provides preliminary approval of the quarterly Risk Register, risk map, tolerance levels
- Reviews the quarterly report on realised risks
- Annually reviews and provides preliminary approval of the Company's risk appetite
- Annually reviews and approves the Key Risk Indicator panel and its status, risk management action plans
- Annually reviews and approves risks deemed "Very high" and "High"

### Internal Audit

- Performs regular inspection to analyse any gaps and drawbacks in the risk management system (including involvement of external independent consultants)
- Performs audit of risk management procedures and risk assessment methods
- Submits reports on the evaluation of efficiency of the corporate risk management system to the Company's Board of Directors

### Risk Management Unit

- Ensures and monitors the implementation of effective risk management practices
- Co-ordinates the implementation of the corporate risk management system within the Company
- Provides regular reports on risk to the shareholders of the Company, to the Board of Directors and to the Risk and Audit Committees
- Maintains a database of realised risks, traces external factors capable of substantial influence on risks

### Structural Unit

- Identifies and assesses risks, determines a risk response strategy
- Implements, monitors and approves control procedures
- Complies with the risk appetite
- Provides timely and complete information on risks and risk reports

## SIGNIFICANT RISKS

Air Astana prioritises its risks according to their severity in order to achieve the Company's strategy and business objectives. Significant risks are risks that, if realised, could have a significant negative impact on the achievement of strategic objectives, to which the Company pays particularly close attention.

Also it is worth noting that our Company is always seeking to apply Precautionary principle in the operational activity including development and introduction of new products.

**Operational risk**

### Failure/severe degradation of mission critical IT infrastructure

**Risk dashboard**

**Impact**
● Moderate

**Change from last year**
No change

**Link to strategy**
○●○
Efficiency

**Description**
The core processes of the Company are dependent on IT services and infrastructure. Effective and resilient IT management is essential to the Company.

**Mitigation**
To mitigate this risk, Air Astana uses a variety of required systems and equipment. Regular updates of operational systems and firewall software are conducted. All critical data is stored appropriately; online and offline backups are created and monitored. In order to decrease the risk of virus and/or hacker attacks, the Company uses antivirus systems, firewalls, limits access to local and internet resources and regularly updates its security systems and applications. Regular external audits increase the Company's resilience to internal and external risk factors. IT infrastructure is fully geared to support business continuity within the best possible limits with redundancy and back-up systems in place.

**Operational risk**

### Lockdowns and suspension/decrease in operations

**Risk dashboard**

**Impact**
● Moderate

**Change from last year**
Increasing

**Link to strategy**
●○○
Growth
○●○
Efficiency

**Excess fleet size, degradation of professional qualification and loss of certificate(s) by pilots.**

**Description**
As the COVID-19 situation turned into a global pandemic, governments around the world declared emergencies and implemented lockdowns with the suspension of all non-essential travel. Airlines were forced to suspend flights and ground their fleets. The Company faced new risks such as grounding the fleet, in its entirety and then in part. In addition, there was a risk of degradation of pilots' qualifications due to lack of flight hours.

**Mitigation**
To manage the risks related to its fleet, Air Astana made a decision to permanently ground its Boeing 757s and Embraer 190s, the oldest and least efficient aircraft in the fleet. The Company had negotiations with lessors on the early returns of both aircraft and also negotiated a delay in deliveries for new aircraft.

To maintain pilots' qualifications, roster planning is done to ensure sufficient flight hours. The Company's Training Department provided additional training to maintain pilots' skills.

In addition, conversion aircraft type training was provided when possible.

**Operational risk**

### Cyber and Information security

**Risk dashboard**

**Impact**
● Moderate

**Change from last year**
No change

**Link to strategy**
○●○
Efficiency
○○●
Excellence

**Description**
Cyber risks are a top priority in the airline sector as the use of technology becomes increasingly integrated into business processes. With this increased reliance on technology, companies are now more exposed to cyber-attacks that could lead to data leakage and significant reputational and financial losses.

**Mitigation**
In order to manage these risks, Air Astana has robust cyber security measures in place. The Company has developed processes to comply with the best industry practices and standards in information security. Training for employees on information security and familiarisation with the Information Security Policy is conducted continually to enhance employees' awareness of information security. With extensive remote working during the global pandemic, the security of connection is ensured by the use of VPNs and multi-factor authentication. In addition, the Company purchases cyber insurance to cover the exposure from possible losses in case of cyber event.

**Impact key**
Very High · High · Moderate · Low

**Operational risk**

## Service quality

**Risk dashboard**

**Impact**
Low

**Change from last year**
No change

**Link to strategy**
Growth
Excellence

**Description**
A high level of service standards is at the core of Air Astana activities. Failure to provide high-quality services could lead to damage to the Company's reputation along with the loss of customers and a reduction in the airline's Skytrax rating as well as the inability to retain its TripAdvisor award.

**Mitigation**
Air Astana offers extensive training programmes to ensure that all the employees who are communicating and interacting with the clients are trained and maintain their skills at a high level. Any new available technologies to improve service levels are constantly reviewed. Company's manuals on the provision of services are regularly reviewed and improved if needed.

The recruitment process focuses on hiring customer-services orientated persons for roles where employees interact with clients. Employees undergo extensive training in accordance with the Company's standards. During the probation period, newly hired employees are monitored by an experienced trainer. Everyday work assessment is made by the supervisor on duty, which helps to monitor the level of staff qualification (including the quality of services provided) and to address any weaknesses.

**Strategic risk**

## Safety[1]

**Risk dashboard**

**Impact**
Moderate

**Change from last year**
No change

**Link to strategy**
Growth
Excellence

**Description**
Effective safety management is critical to minimise the potential for incidents or accidents. The resulting effects of such event could have a significant adverse impact on the Company.

**Mitigation**
For the purpose of mitigating risks related to flight safety, the Company has established a safety management and compliance monitoring system, through which it conducts compliance and performance monitoring audits, sets and monitors safety performance indicators. The Company has an effective human factors training programme in place. There is a specific emphasis on procedural compliance. Specifically in the area of flight operations training, the Company has made a significant investment in training instructors with a strong emphasis on standardisation.

There are regular independent assessments by regulatory authorities, EASA, DCA Aruba, and CAC Kazakhstan as well as industry assessments (IOSA).

**Strategic risk**

## Commercial[1]

**Risk dashboard**

**Impact**
Very High

**Change from last year**
Increasing

**Link to strategy**
Growth

**Description**
COVID-related consequences such national lockdowns and travel restrictions led to full suspension of Air Astana's operations from March until May and restricted operations on international routes thereafter. This risk was moved to the dark-red zone as one of the most significant risks for the Company in 2020. In addition, other factors such as intensive market competition, government intervention into market conditions, overcapacity and geopolitical changes can create risks for the Company.

**Mitigation**
In order to mitigate the risk of passenger travel restrictions, the Company has launched Air Astana Cargo Division, converting one of its Boeing 767-300 into a semi-freighter.

Air Astana has a complex risk response and closely monitors the market and worldwide situation. The Company applies the following measures: optimisation of network, frequency adjustment, fleet optimisation, operation of cargo flights, operation of charter flights and repatriation flights.

**Strategic risk**

## Human Resources[1]

**Risk dashboard**

**Impact**
Moderate

**Change from last year**
No change

**Link to strategy**
Growth
Efficiency
Excellence

**Description**
Air Astana believes that it is essential to develop a workforce that meets the Company's objectives and shares its values; hence, identifying its employees as a main asset of the Company. There is a risk of a decrease in employee commitment and loyalty in light of COVID-19 and surrounding uncertainty.

**Mitigation**
Despite to the global pandemic and the significant decrease and, at times, total suspension of its operations, Air Astana is one of the few airlines that has not laid-off or furloughed its employees. Management ensures that the news on the current state of the Company, as well as plans for further development are constantly communicated to employees. The Company encourages remote work when possible and if absences are all used, due to decrease of operations, employees are downtimed.

1. Sustainability-related risks

## SIGNIFICANT RISKS continued

**Strategic risk**

### HSE[1]

**Description**
The HSE risk was increased due to COVID-19. There's a risk of employees becoming infected at the work place or while performing flights.

**Risk dashboard**

**Impact**
Moderate

**Change from last year**
Increasing

**Link to strategy**
Efficiency

**Mitigation**
Company has in place all the procedures to provide a high level of occupational safety. Employees are aware of all the procedures and regularly updated in line with the Government's guidelines. Those employees, whose duties require it, are provided with PPE.

**Compliance risk**

### Compliance[1]

**Description**
The Company has compliance risks arising from legal and regulatory requirements as well as issues related to corruption, fraud and unethical behaviour.

**Risk dashboard**

**Impact**
Moderate

**Change from last year**
No change

**Link to strategy**
Efficiency

**Mitigation**
These risks are thoroughly managed through the Compliance Management System that is in place throughout the Company. The Company continuously monitors all the changes in relevant legislation. Air Astana updates and, if needed, develops new measures to ensure its compliance with regulatory requirements. In addition, the Company has in place internal and external channels (e.g. hotlines) for reporting potential and actual cases of corruption, fraud, unethical behaviour, etc. Employees are kept informed about corporate standards on fraud, corruption, conflicts of interest, unethical behaviour, discrimination, etc.

**Strategic risk**

### Aviation security[1]

**Description**
Consequences of aviation security risk could adversely affect any airline's performance and reputation. Therefore effective aviation security risk management is essential to the Company.

**Risk dashboard**

**Impact**
Moderate

**Change from last year**
No change

**Link to strategy**
Growth

Excellence

**Mitigation**
Air Astana has all the required aviation security management policies and procedures in place. Aviation Security Division reviews these policies on a regular basis. The Company provides training on aviation security to all required employees and for those whose duties require access to the secured airport area. Airport audits for compliance with safety standards in terms of passenger and baggage checks and availability of relevant equipment are performed on a regular basis.

**Financial risk**

### Liquidity

**Description**
The pandemic and governments' measures had a significant negative on the airline industry with a substantial decrease in demand and an increase of refunds due to suspension of operations all potentially impacting on the liquidity of the business.

**Risk dashboard**

**Impact**
Very High

**Change from last year**
Increasing

**Link to strategy**
Growth

**Mitigation**
Air Astana closely monitors its liquidity position and continually seeks opportunities to obtain banking and other available products with the most favourable conditions. This enabled Company to enter the global COVID-19 crisis in a relatively strong position, in terms of liquidity, and as an airline with the best cash position in the world.

Additionally, the Company maintained its strong cash position through ongoing discussions and negotiations with banks, lessors and other major creditors and suppliers. Air Astana obtained an additional credit facility from the local bank with improved terms. The Company has implemented other measures to reduce its cash burn, enabling the maintenance of a strong cash balance throughout 2020, which is projected to be sufficient in the coming periods should the worldwide situation not improve as quickly as anticipated.

1. Sustainability-related risks

**Impact key**

● Very High ● High ● Moderate ● Low

Financial risk

## Credit

### Description

The Company is exposed to credit risk through from its counterparties. The default of a bank-counterparty may adversely affect the Company's financial performance and stability.

**Risk dashboard**

**Impact**

● High

**Change from last year**

Increasing

**Link to strategy**

●○○

Growth

### Mitigation

The Cash Management Policy of the Company sets the limits and criteria for counterparty banks. The Policy also sets out standard procedures, such as monitoring of banks limit utilisation, actual or forecasted exposure to accredited banks and reporting to the Chief Accountant, Chief Financial Officer, Treasury Committee and the Board of Directors as applicable. The new limits for each bank are reviewed by the Treasury Committee prior to approval by the Board of Directors. The Policy is reviewed annually to ensure that it is fit for purpose. To manage credit risks from other counterparties, Air Astana has policies and stringent procedures in place, which are regularly implemented and updated when necessary.

Financial risk

## Jet fuel

### Description

Fuel expenses are one of the major costs for the Company. Like the whole industry, Air Astana is exposed to risks related to the high volatility of fuel prices and related costs.

Crude oil prices had significantly decreased in 2020 (averaging 30% year-on-year) due to the lower worldwide demand caused by the global pandemic and related travel restrictions. In addition, due to the suspension of operations, Air Astana's fuel expenses dramatically decreased by around 57%. Therefore, the risk itself was moved down on the Company's Risk Map.

**Risk dashboard**

**Impact**

● Moderate

**Change from last year**

Decreasing

**Link to strategy**

●○○

Growth

○●○

Efficiency

### Mitigation

For locally sourced fuel, Company negotiates prices on a competitive basis with Kazakhstani suppliers by concluding stable contracts. Moreover, Air Astana maintains ongoing negotiations with suppliers regarding price reductions. One important aspect is the constant monitoring of alternative suppliers in the market for domestic and international stations. Air Astana also applies a fuel surcharge on domestic and international routes where the Company does not face restrictions as an additional tool for reducing the risk. The amount of the surcharge depends on fuel prices and market conditions.

To reduce its overall consumption of fuel, the Company has added new, more fuel-efficient aircraft to its fleet in recent years, including Airbus A320neo, Airbus A321neo, Airbus A321LR (with a new engine option). Additionally, several of its Company's pilot training programmes include skills for efficient fuel management.

The international fuel uplift for 2020 was fully hedged by purchase of call options from the reputable "A" rated international banks.

## Insurance

One of the risk management tools implemented by Air Astana is insurance: by paying an advance premium, some risks are transferred to other counterparties. The Company concludes insurance agreements with insurance companies that comply with the requirements outlined in regulations and Company's policies so as to ensure the effective protection of the Company's interests. Company ensures that insurance coverage is financially sound and purchased through a transparent process. All of the airline's insurance coverages are renewed on annual basis.

### Aviation insurance

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

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

### Non-aviation insurance

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

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

## Sustainable corporate culture

"Communication and agility, teamwork and trust were all part of the Air Astana DNA in 2020. We were entrepreneurial, multi-tasked and learnt to respond quickly to change."

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

Our people are one of our core assets and strengths: our long-term sustainable success depends on their expertise, skills and motivation.

During the pandemic, one of the biggest challenges we faced was keeping the team focused and motivated, despite the circumstances and uncertainty. It has been crucial to maintain open and transparent communication with our employees to help retain confidence in the Company's future.

More information
p48-64

### How we responded

- Where possible, employees worked remotely from home to minimise the risk of infection through direct contact with each other. However, in order to ensure the continuity of operating processes, operational employees – engineers, call centre, ticketing office and IT teams – continued to work on site. Sanitisers and masks were supplied for offices and onboard. COVID-19 HSE protocols were communicated and followed by all employees.
- After negotiations with the Government, the Company introduced employee tax exemptions for 3 months, with savings of almost USD 3 million for employees and USD 2 million for the Company.
- Employees were asked to take annual leave for 2020 with the option of also taking leave in advance from their 2021 entitlement. This meant that, during the emergency period, some 90% of people were on leave or paid downtime. This measure helped us to reduce payroll costs, which saved the Company almost USD 23 million.
- Employee engagement was particularly vital during this period. We carried out 2 pulse surveys to measure their wellbeing. President and CEO, Peter Foster, communicated regularly with all employees to address their concerns.


# OPERATING RESPONSIBLY

"Despite the difficulties we faced due to the pandemic, the Company successfully retained its commitment to sustainability and grew more resilient."

2020 has been the most challenging and brutal year for the aviation history. With planes all over the world grounded for many months because of COVID-19, airlines were forced to adapt to a new reality, which included providing and wearing masks, lockdowns, travel restrictions, sanitising and PCR tests.

We took this all in our stride while still maintaining our focus on sustainability, due to our strong Management Team, our flexible and innovative approach and, of course, our people. In order to assure our operational continuity, operating staff – engineers, call centre, ticket office and IT staff – continued to work on site. Our flight, cabin and ground service crew remained committed to their professional duties and high standards of customer service, despite the risk of infection. At the same time, our administrative staff provided the maximum possible support. This resulting spirit of unity and the consolidated efforts of all employees allowed the Company to achieve more in 2020 than had initially been forecasted and to look forward with positivity.

**Yuliya Lim**
Senior Compliance and Sustainability Officer

**Air Astana's approach to sustainability**
Our approach to sustainability is based on our commitment to operate our business responsibly, transparently and in a manner that takes into consideration the needs and expectations of all our stakeholders. Our core values, HEART (Hospitable, Efficient, Active, Reliable and Trustworthy), are embedded into all our business processes.

We are in the process of developing our sustainability strategy, based on the principles of best practice and international standards and encompassing all the environmental, social and governance (ESG) aspects of our business. This will form an integral part of our overall corporate strategy.

**Sustainability governance structure**
The Board of Directors has responsibility for all sustainability issues, delegated to the Corporate Social Responsibility (CSR) Committee with the active participation of our President and CEO. Details about the terms of reference and activities of the CSR Committee are on page 81 of this Annual Report.

Our management team ensures the implementation of our sustainable development principles of openness, accountability, transparency, ethical behaviour, the interests of stakeholders, justice, human rights and zero tolerance of corruption. These principles are integrated into our key processes, including risk management, planning, human resources management, investment activities, reporting and operational activities, as well as into the Company's development strategy and decision-making processes. Our Management Team develops action plans that include both interaction with stakeholders and implementation of initiatives.

Reporting to the CSR Committee, our Compliance and Sustainability Department was established in May 2019 to oversee the ongoing development of our sustainability strategy and support the implementation our sustainability activities. Divisional heads have the responsibility for the roll-out of sustainable development and action plans within their business areas, incorporating internal and external analysis.

**Sustainability risks**
Minimising the risks that could negatively impact upon the Company's sustainability, resilience and agility to adapt to changing circumstances is integral to Air Astana's Corporate Risk Management System (CRMS). This ensures that risk management is integrated within all aspects of the business, including governance, performance management and internal control procedures. The Company's Risk Management Policy is in line with "COSO Enterprise Risk Management framework – Integrating with Strategy and Performance" to ensure the implementation of the best international practices in risk management within its CRMS. Full details of Air Astana's risk management approach and how it pertains to our sustainability strategy can be found in the Risk management section on pages 40 to 45.

**Stakeholder engagement**
Within our business activities, we interact with a wide range of stakeholders at local and international levels. These include stakeholders who are significantly affected by our activities as well as those who have an impact on the achievement of our strategic goals and objectives.

We strongly believe that achieving our long-term sustainable success, including our licence to operate and our ability to create economic and social value, runs in parallel with satisfying the needs and expectations of all our stakeholders. For that reason, we work hard to build constructive relationships and maintain good communications with our stakeholders through open and transparent dialogue and collaboration.

Specific stakeholder engagement channels used in 2020 are described in the table on pages 22 and 23.

## Materiality

Air Astana's sustainability reporting is based on an assessment of the most material topics. To ensure we disclose relevant data about our sustainability performance, we align our reporting with relevant disclosure standards. Our primary reference point is the Global Reporting Initiative (GRI).

The most recent materiality assessment was performed in 2020. Our approach was based on a comprehensive analysis of external and internal resources. The results of this analysis served as filters to define the topics that influence our stakeholders' decision-making processes and, at the same time, have significant economic, environmental and social impacts for the Company. Based on the results, the materiality matrix has identified 58 potential topics. In addition to those identified as economic, environmental and social topics, others have been categorised as relating to governance and aviation to fully reflect the expectations of our stakeholders. The topics were then divided into 4 quadrants depending on the level of importance of each topic and the influence on stakeholders' decision-making (low materiality, medium to high materiality, very high materiality).

These topics have been further prioritised and ranked using internal and external information sources.

### Internal information sources

- Online survey of internal stakeholders
- Interview with the top management.

### External information sources

- Online survey of external stakeholders
- Review of reports of peer companies
- Review of media publications
- Analysis of global trends (so-called "megatrends")

Based on the overall analysis, we have identified 20 material topics: those key areas that are the most important both to Air Astana and our stakeholders.

### Our material topics

#### Governance

- Strategy
- Ethics and compliance
- Corporate governance
- Stakeholder engagement

More information
p50-51

#### Economic

- Economic performance
- Innovation and digitalisation
- Procurement practices

More information
p52-53

#### Environmental

- Energy
- Emissions
- Effluents and waste
- Environmental compliance

More information
p54-55

#### Social

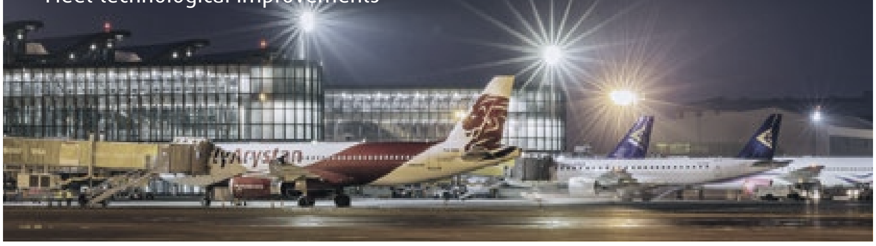
- Employment
- Occupational health and safety
- Training and education

More information
p56-59

#### Aviation-specific

- Service quality
- Passenger turnover
- Customer privacy
- On-time flight performance
- Flight safety management system
- Fleet technological improvements

More information
p60-63



OPERATING RESPONSIBLY
continued

# Governance

## XII annual conference

The Annual Management Conference is a way in which the Company shares its results, future plans and priorities.

### Strategy
Our purpose is to provide maximum returns for our Shareholders through a strategic approach that is based on three key pillars: growth, efficiency and excellence. Our strategy is to deliver profitable growth as one of the leading carriers in Central Asia, building on our experience and connections to increase our coverage in the international leisure market and develop further our cargo capabilities, while strengthening and boosting our operations in Kazakhstan's underserved domestic market.

Our key objectives for growth are to maintain the diversity of growth opportunities across international and domestic routes, while extending FlyArystan's successful trajectory. We are also keen to capitalise on opportunities for cargo and charter flights as additional revenue streams for the business. This will be helped by the improved efficiencies of a larger combined fleet of both more modern and fuel-efficient aircraft. Alongside this, we are also developing new technologies to drive productivity and operational efficiency. We are proud of being able to attract the best talent from across Kazakhstan and, through the excellence of our world-class training centre, to maintain the highest possible standards.

### Ethics and compliance
We are committed to operating our business with honesty and integrity, and have an established reputation as a trustworthy business partner. A culture of ethical behaviour and compliance is actively promoted throughout Air Astana.

In 2020, we continued to follow our core HEART values, alongside the policies that constitute the Ethics and Compliance Framework of our Company:

- Code of Conduct
- Speak-Up Policy
- Corporate Fraud Prevention Policy
- Anti-Corruption Policy
- Policy for Prevention and Resolution of Conflicts of Interest

Information pertaining to these policies is supplied by the Compliance and Sustainability Department on a quarterly basis for review by the Board of Directors and the Audit Committee. During the year, we initiated the development of on-line training and other supporting materials in relation to the Code of Conduct. Further training aimed at improving the compliance culture is planned for development during 2021.

### Our whistleblowing line (hotline)
In November 2019, we launched a whistleblowing facility (Hotline) to enable the prompt identification and prevention of legislative and/or Code of Conduct violations, including cases of fraud, corruption, discrimination, unethical behaviour and other violations related to Air Astana activities. We established four communication channels to facilitate reporting via telephone, email, intranet portal and telegram bot (automated).

The Hotline can be used by our employees and also by third parties who interact with our Company (customers, business partners and other stakeholders). To ensure confidentiality and anonymity, all messages are processed by an external independent operator, who compiles consolidated daily reports for the Compliance and Sustainability Department.

From 2,201 Hotline messages received in 2020, only 14 were deemed relevant for investigation. The high percentage of immaterial messages can be explained by passenger concerns about numerous flights cancellations (due to COVID-19 travel restrictions) but also a general lack of understanding about the purpose for which the Hotline was created.

Of the 14 investigations undertaken, just 2 messages were substantiated. All the investigations were conducted in accordance with approved procedures and followed up with the development of appropriate actions to mitigate further compliance risk.

In 2020 a variety of communication channels – including articles available through the Company's mobile app and in

ON Air (our internal magazine) – were used to maintain and strengthen the compliance culture within the Company and the minds of employees.

An internal analysis of corruption risks was carried out in order to identify and study the causes and conditions that contribute to the occurrence of corruption offenses in business processes most inherent to such risks: namely procurement, recruitment, appraisal, promotion and dismissal of employees, and finance. As a part of analysis, risk factors, probability, potential damage in the event of a risk realization, existing internal controls (risk management measures) as well as an assessment of effectiveness of measures for each identified risk were evaluated. Based on the results of this analysis, a corruption risks map was compiled.

New employees are now required to familiarise themselves with the Code of Conduct and to declare any conflicts of interest.

We also purchased access to a service for checking the reliability of counterparties.

An action plan for broadening the scope of compliance areas for 2021 was developed, which included the implementation of the latest requirements under the Anti-corruptions Law of RK.

### Targets for 2021

- Compliance principles to be embedded into induction training.
- The development of Code of Conduct training for all employees to be completed.
- The requirements of the Government's Anti-corruption Law to be implemented as part of the approved action plan.
- Additional policies and procedures to be developed that will enhance the ethics and compliance culture within the Company, including Gift and Representative Expenses Policy and procedures for background checks on the third parties.
- Compliance training to be conducted in operational units in order to indicate which business processes are the most exposed to corruption risks.
- A "compliance culture" will be promoted throughout the Company via, for example, the publication of articles on internal information resources and the development of a section about compliance issues on both the corporate website and intranet.

## Corporate governance

We are committed to maintaining high standards of corporate governance. Our Corporate Governance Code (the Code) was developed in accordance with Kazakhstan law, the rules of the Astana International Financial Centre Market and the Company's own Charter. It is also aligned with best international practice, including the principles of the OECD and elements of the UK Corporate Governance Code, and has been approved by our Shareholders.

Air Astana's Board of Directors plays a fundamental stewardship role in ensuring that the Company operates safely, successfully and sustainably while generating long-term Shareholder value. We have adopted a robust corporate governance framework that facilitates optimal decision-making to accomplish these priorities.

As part of our mission to become one of the finest airlines in the world and a real domestic enabler, we are developing a corporate culture where excellence lies at the centre of all we do and our HEART core values (Hospitable, Efficient, Active, Reliable, Trustworthy) are rooted in all our processes. We encourage and promote a flexible, family-oriented and ethical workplace in an environment that is rewarding and with equal opportunity for all.

You can read more about our achievements and plans for the future in the Governance section on pages 65 to 89.

## Stakeholder engagement

Building constructive relationships with groups of various stakeholders (employees, Shareholders, passengers, suppliers, business partners, Government, regulators and local authorities) is vital to our ability to build a long-term and sustainable business. In order to do this, we have developed various engagement methods that enable us to have open and transparent dialogue with our stakeholders. This, in turn, gives us a better understanding of their perspectives and needs, and allows us to factor the potential impact of our strategic decisions on each stakeholder group.

A detailed analysis of our stakeholder engagement programme is set out in the Stakeholder Engagement section on pages 22 and 23 with more information in our Governance section on page 78.

# OPERATING RESPONSIBLY
continued

## Economic

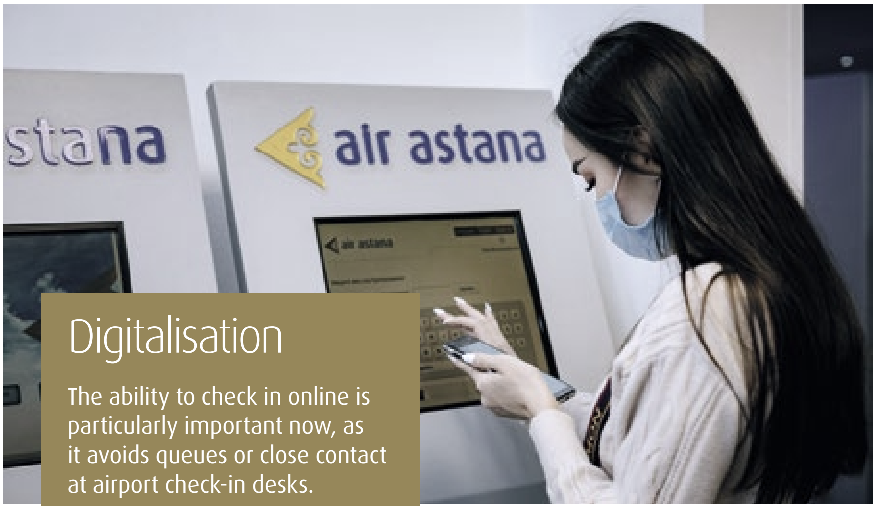
### Our approach
Our business benefits from initiatives taken to reinforce our competitive strengths, which in turn support our economic stability. Our focus on our cash position also provides us with greater resilience against financial crisis, demand or cost shock. And this has been the case during the COVID-19 pandemic, since we started 2020 in a strong financial position and have been able to optimise and protect our assets.

### Economic performance
Air Astana recognises the importance of both operating a responsible, efficient and profitable business and in its participation in sustainable development wherever it operates. The Company contributes to the economy through its core activities and socio-economic investments.

Air Astana supports local and national economies as well as local communities in a number of ways:

- through direct business activity and focus on improving efficiency and productivity;
- payment of taxes;
- creating direct and indirect employment opportunities;
- developing of supply chains and procurement from local suppliers.

Full details of Air Astana's economic performance are included in the audited Financial statements of the Company on pages 94 to 147 of this Annual Report.




## Digitalisation

The ability to check in online is particularly important now, as it avoids queues or close contact at airport check-in desks.

The extract below encapsulates the economic value generated by the business and how it is distributed to stakeholders.

### Innovation and digitalisation
IT and e-Business initiatives are key drivers to boosting revenue, whether through gaining competitive advantage, improving customer services, reducing costs or increasing operational efficiency. Air Astana is committed to investing in and developing upgrades to its systems and new technologies that fully support of this and in line with the key pillars of its business strategy: growth, excellence and efficiency. Projects undertaken in 2020 and those planned for 2021 will move Air Astana and FlyArystan into the next phase of digital commerce.

Our main priority is our passengers and the high levels of service that we provide. Air Astana has pioneered the introduction of many online services in Kazakhstan; for many years passengers have been able to buy tickets and check in online or with a mobile app and use electronic boarding passes. This is particularly important now, as it avoids queues or close contact at airport check-in desks.

Responding to passengers, our latest innovation has been to digitalise responses to passenger enquiries concerning flights, delays and cancellations on our website, airastana.com, reducing the need to visit airline offices. To make communicating with the call centre easier, passengers can also chat with an operator via our website or through a mobile app. We are currently developing a chat bot that will be able to help customers with enquiries.

With the restrictions imposed by the COVID-19 quarantine, these sorts of services are more important than ever. The IT and e-Business department has a range of innovative projects in the pipeline, but the coronavirus pandemic has meant that many have had to be put on hold.

### Making remote working possible
At the start of the COVID-imposed quarantines, our IT and e-Business department responded rapidly to the need for the technologies required for remote working. We have already begun developing the tools necessary for this situation, since many of our employees spend much of their working day away from the office, such as those involved in

### Economic value generated and distributed

| (USD '000) | 2020 | 2019 |
|---|---|---|
| **Direct economic value generated** | **401,691** | 900,950 |
| Revenues | **401,691** | 900,950 |
| **Economic value distributed** | | |
| Operating cash costs | **392,770** | 695,173 |
| Employee wages and benefits | **72,650** | 103,139 |
| Payments to providers of capital | **34,744** | 24,789 |
| Taxes paid | **4,158** | 13,299 |
| Community investments | **2,624** | 20,000 |
| **Economic value retained** | **(105,255)** | 44,550 |

flying, engineering and ground services. Because of this, they already had access to a virtual private network (VPN), remote desktops, major internal systems and the use of a digital signature from anywhere in the world, so many of the requirements for remote working were already in place before the pandemic.

During quarantine, the demand for these technologies increased dramatically; in particular, for video conferencing, a service that was rarely used before the pandemic. It was very swiftly made available throughout the Company and it is now almost impossible to work without it.

We ensured that all our employees were provided with everything that they needed to be able to work effectively at a distance. It was also vital that the shift to remote working did not affect the quality of the service we offer our passengers and this was successfully achieved.

Air Astana was an early adopter digital signatures, which was a boon given its many offices and representatives around the world. Systems were digitalised wherever possible and everyone was given a digital signature. This proved a great help during quarantine as all internal documents, orders, payments, memos and other communications were digitalised and signed online. The use of an up-to-date system for business process management (BPM) also allowed the Company to launch any new processes required during quarantine within a few days.

### Procurement practices

In order to meet the Company's operational requirements, we have introduced best practice and developed a transparent and effective procurement process. Our supply chain consists of a broad base of suppliers from start-ups and small businesses to large multinational companies. We have built and work hard to maintain long-term relationships with many of our suppliers, who provide quality goods and services.

A procurement process regulating framework is in place, which includes procurement procedures, management standards and rules. Procurement procedures are conducted in strict compliance via an electronic procurement portal. All suppliers are given equal access to the selection criteria at the registration stage.

We adhere to the following principles in all our purchasing activities: openness, transparency and the provision of equal opportunities to all potential suppliers. Anti-corruption clauses are already implemented in some contracts with suppliers. Compliance with ethical principles by suppliers and their reliability are also of great importance and will be implemented within our procurement processes in 2021. For more information, see the Ethics and compliance section on page 50.

We are keen to increase the participation of local suppliers in our procurement process in order to support and stimulate national and regional economies and supply chains. As part of this, since 2019, we have actively participated in the Government's programme "Economics of simple things", which aimed at creating a competitive set of local suppliers to substitute the importing of socially significant goods and services. While we are strongly committed to this approach, it is not always possible to find the required goods and services on the domestic market. For example the technical maintenance of our aircraft is mostly provided by foreign suppliers. The percentage of our procurement budget spent on local suppliers in 2020 increased to 36%.

The COVID-19 pandemic has had a significant impact on the aviation industry as a whole and on our work and processes as well. Procurement did its best to ensure that all required goods and services were purchased on time and of sufficient quality and quantity. Even when there was a severe shortage of PPE (masks, gloves and sanitisers), we managed to purchase enough supplies to enable operational units to undertake flights in accordance with the new health and safety requirements.

A significant amount of work went into renegotiating contracts on more favourable terms for the Company:

- keeping prices on the same level but with much lower purchasing volume;
- postponing delivery dates on non-critical items;
- renegotiating payment terms;
- minimising fixed expenses by getting certain discounts or suspending for several months.

We increased the level of local content in purchased goods, actively supporting the Government's programme "Economics of simple things". Goods were delivered on time, despite the cancellation of international passenger flights and little capacity on international cargo flights.

We continued to enhance our procurement processes. In 2020, procurement participated in the airline performance excellence programme (APEX) and launched the budget planning system for those working from home. Other two procurement processes were also digitalised: act of compliance of technical specifications and contract justification process.

### Targets for 2021

- Plans are in place to further enhance our procurement processes.
- We will be developing an automated technical procurement process.

### Information on purchases from local suppliers

| | 2020 | 2019 | 2018 |
|---|---|---|---|
| Total number of procurement contracts with local suppliers[1] | **1,905** | 1,917 | 1,619 |
| Total value of procurement contracts with local suppliers (USD '000) | **275,500** | 225,007 | 192,306 |
| Percentage of the procurement budget used for significant locations of operation[2] that is spent on suppliers local to operations (percentage of products and services purchased locally) | **36** | 21 | 38 |

1. Domestic suppliers of goods and services that have an ST-KZ certificate indicating the percentage of local content share
2. The territory of the Republic of Kazakhstan

# OPERATING RESPONSIBLY
continued

# Environment

### Our approach
Air Astana's environmental management approach and investment in our environmental protection management system focus on the principle of ensuring that we reduce the impact that we have on the environment and develop initiatives to avoid or reduce manmade climate change. And, in doing so, we also seek to provide a safe and healthy environment for our employees, customers and contractors. As well as promoting the efficient use of resources within our business practices, we control and monitor the ecological effect of the Company's activities. One of our key priorities is to formulate environmental protection plans in line with local and international standards.

We apply fuel-efficiency practices to optimise jet fuel usage and minimise greenhouse gas (GHG) emissions. We have efficient waste management procedures in place across our operations, both office and in-flight. We encourage the efficient use of resources and, as part of this, have developed an electronic document management system to reduce paper consumption. We also place great emphasis on raising the level of environmental awareness among our employees by involving them in green initiatives.

We believe that educating the young is also important and involve the children of our employees in ecological issues through an annual drawing contest. Onboard educational materials about the environment have also been developed for children.

**Energy consumption**

| | 2020 | 2019[1] | 2018 |
|---|---|---|---|
| Electricity (GJ) | **6,463** | 9,869 | 8 ,278 |
| Heating (Gcal) | **335** | 292 | 303 |
| **Total** | **6,798** | **10,161** | **8,581** |

Only buildings owned by the Company are included in these figures.
1. The launch of the Nur-Sultan Aviation Technical Centre accounts for the 42% in electricity consumption in 2019.

### Energy consumption
Reducing our energy consumption is another key area within our developing sustainability strategy. Electricity and heat are the two main forms of energy we use across the business and we are always looking for initiatives to optimise consumption.

Under COVID-19 quarantine measures, our offices were closed and employees worked remotely from home for mid-March to mid-May during 2020. This accounts for the overall decrease in electricity consumption of 35%. The rise in heating Gcals is due to thermal power increases in an administration building following complaints from employees about the temperature in the building. Because of the unpredictable situation caused by the pandemic, planned projects aimed at reducing energy consumption were postponed. None were undertaken during 2020.

The Company does not use renewable energy sources.

### Emissions
Air travel contributes to the acceleration of climate change through the release of greenhouse gases (GHGs). At Air Astana, we are fully committed to reducing our carbon footprint through reducing our GHG emissions. Alongside our investment in a modern, fuel-efficient fleet of aircraft that emit less carbon, our pilots also receive training in fuel-efficient flying.

With aircraft grounded, flight cancellations and reduced frequency impacting our operations throughout the year, $CO_2$ emissions fell by 56.4%. Since seat kilometres were also down by nearly 50% because of this and our larger Boeing aircraft carried cargo only for the greater part of 2020, our GHG emissions intensity increased slightly.

In 2019, the International Civil Aviation Organisation (ICAO) published a set of emissions unit criteria by which emissions units would qualify for use in the Carbon Offsetting and Reduction Scheme for International Aviation (CORSIA). During 2020, Air Astana introduced project CORSIA as a pilot phase within the reporting system, where previously reporting was only under the requirements of the EU Emissions Trading System (EU-ETS). Both systems have now been successfully audited and will be fully integrated into the data flow management, analytical procedure and monitoring process.

### Effluents and waste
Managing waste is a global environmental concern; one which we share and are addressing. Our waste management practices are centred around reduction, recycling and disposal, using third parties as necessary. We have also taken steps to raise awareness and involve both our employees and customers in

**Greenhouse gas emissions**

| | 2020 | 2019 | 2018 |
|---|---|---|---|
| **GHG emissions intensity (tonnes $CO_2$ per ASK)** | **0.06885293105** | 0.065302074 | 0.074705212 |
| $CO_2$ emissions (tonnes of $CO_2$) | **544,235.6** | 965,289.9 | 1,065,823 |
| Company specific metric (seat kilometres) | **7,904,320** | 14,781,918 | 14,267,050 |

waste reduction and recycling initiatives. We are particularly pleased that employees take responsibility for raising issues about waste management, both onboard our aircraft and in our offices.

### Infight waste

In 2020, we continued with our plans to transfer our inflight products to biodegradable materials: switching from plastic to wood for our drink stirrers and toothpicks; substituting onboard plastic cups with recyclable plastic ones. We have also changed the packaging of our amenity kits to bamboo and craft paper, and are gradually replacing the items in the kits with more eco-friendly products.

### Other waste

In 2020, we again collected PET bottles, used batteries and wastepaper for recycling. Due to the introduction of our electronic document management and signing systems, the volume of wastepaper sent for recycling has decreased three times over the past four years. Limiting the print volumes of our inflight and corporate magazines has also contributed to this. Used tyres, filters, wastewater (from washing wheels and brakes), paint containers, oiled rags and used petroleum products are sent to specialist organisations for recycling.

In 2020, we transferred the initiative for collecting PET bottles, used batteries and waste paper to our offices located in Nur-Sultan. In August 2020, we signed a contract for the recycling of waste paper in Nur-Sultan city and so far we have exported 279 kg of waste paper.

We are also developing initiatives to enable better sorting and recycling of inflight waste, replacement of catering items with eco-friendly ones, as well raising awareness so that employees and passengers only take what is needed. Each year, we run an environmental drawing competition for the children of our employees. In 2020, the best drawings were used to create a desk calendar printed on recycled paper and funded from some of the income from recycling and transferring wastepaper.

### Recycling wastepaper and PET bottles

| Amount of recycled waste in Almaty (kg) | 2020 | 2019 | 2018 |
|---|---|---|---|
| Wastepaper | **28,675** | 49,990 | 58,851 |
| PET bottles | **282** | 192 | 80 |

### Income from recycling wastepaper and PET bottles

| Waste type/base (Tenge) | 2020 | 2019 | 2018 |
|---|---|---|---|
| Wastepaper, Almaty | **439,890** | 749,850 | 882,765 |
| Wastepaper, Nur-Sultan | **13,790** | – | – |
| PET bottles, Almaty | **14,100** | 9,600 | Free of charge |

## Environmental compliance

We aim to conduct our business in compliance with all applicable environmental laws and regulations and have in place the appropriate measures in order to reduce our environmental impact.

In 2020, Air Astana complied with all requirements of the Ecological Code of the Republic of Kazakhstan 2007. A new Ecological Code comes into force from July 2021. We are in the process of incorporating the new requirements into our environmental protection management system. Our business practices will be revised and implemented by July 2021.

During 2020, no significant fines and penalties were identified for non-compliance with the environmental laws and regulations.

### Targets for 2021

- Purchasing recyclable goods to be included as a requirement within our purchasing procedures.
- Waste separation protocols are to be instigated on all our aircraft.
- The scope of waste products for recycling in offices to be increased (glass, cans).
- Our hazardous waste certification to be revised to take account of the new Ecological Code.
- Instructions about the use, storage and disposal of all Company waste to be simplified and combined.
- Environmental webinars and master classes to be developed and introduced through the Training Academy.

### Waste disposal

| Tonnes | Disposal method | 2020 | 2019 | 2018 |
|---|---|---|---|---|
| Hazardous waste | Third-party disposal | **5.05** | 9.55 | 11.24 |
| Non-hazardous waste | Recycling | **35.65** | 50.18 | 58.85 |
| Solid household waste | Waste dumping | **2,220.97** | 2,735.90 | 2,764.80 |

# OPERATING RESPONSIBLY
continued

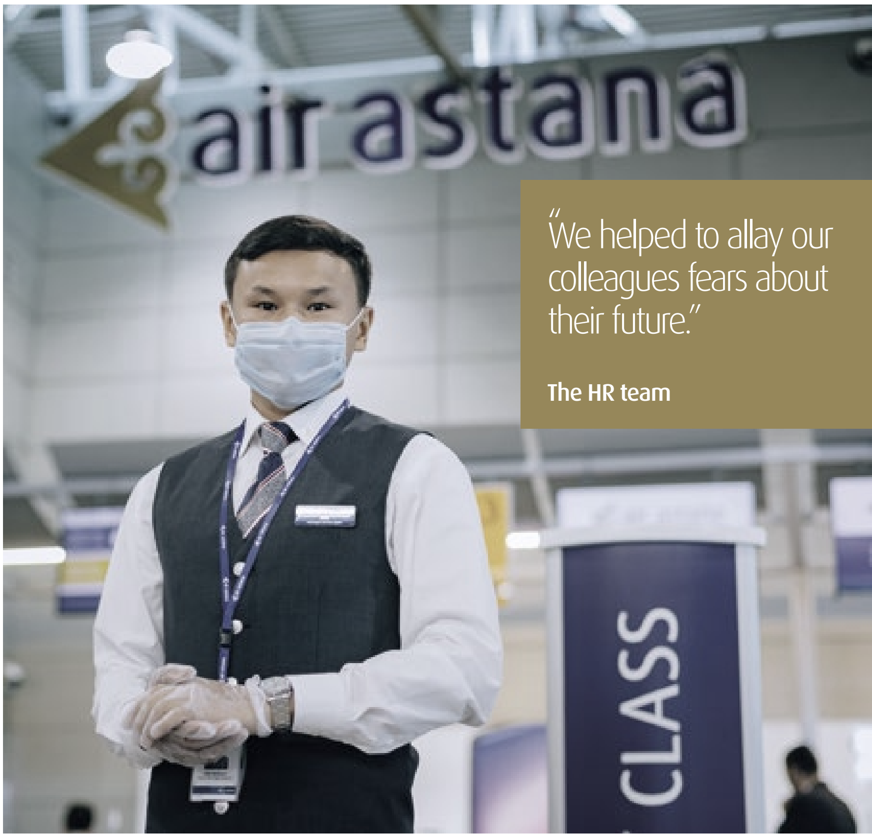
## Social

### Our approach
The reputation of Air Astana is built on an award-winning level of service and a high level of safety standards, which is entirely due to the dedication and skills of our employees. It is, therefore, key that we nurture and safeguard this valuable asset as well as recruiting the best candidates for the business. We have created a positive workplace environment; we offer competitive salaries and benefits; we believe in equal opportunities for all; we follow the highest international standards of health and safety; we invest in training and career development. Our employee engagement programme and the promotion of a culture of recognition also contribute to ensuring that we attract new talents and retain our people.

We also recognise our role as a responsible corporate citizen and the importance of building and maintaining strong relationships with the communities where we operate. We co-operate with charitable funds and encourage our employees to get involved through fundraising and volunteering. We also provide targeted support to those in particular need, including sick children and veterans.

### Employment
Our people are one of our core assets and strengths. The long-term sustainable success of our business depends on their expertise, skills and motivation. Alongside providing the highest international standards of safety and customer service, we also maintain the best possible working environment for our employees.

By pursuing our corporate HEART values, we have created a very positive environment for our people to work in. We continue to develop a culture of recognition, a focus on training and development, and we provide equal opportunities to ensure that we retain our people and attract new talents.




"We helped to allay our colleagues fears about their future."

**The HR team**

### Coping with and learning from COVID-19
The focus and priorities over the past year have been on protecting the health and safety of our employees. The rapid response and implementation of strict measures made it possible to limit COVID-19 within the Company ahead of the spread of the pandemic in Kazakhstan as a whole.

2020 was a year full of uncertainty and constantly changing conditions but also one in which we witnessed the strength and potential within our teams at the Company. A combination of in-depth understanding and extensive experience in aviation among our colleagues and the professionalism and effective approach to work enabled us to make the right decisions during the pandemic emergency and is now allowing us to formulate plans for the future of the Company operations.

### Competitive salaries and benefits
In order to attract and retain a highly skilled and motivated workforce, Air Astana provides fixed and variable pay as well as short-term and long-term benefits that are competitive and performance-led. It is not our practice to take on temporary staff but certain services are provided by third-parties under civil contracts; their staff are not entitled to Air Astana benefits. We also operate a corporate pension plan for our employees based in Kazakhstan. This helps to retain key employees but also to instill a responsible attitude towards personal financial security.

Our employee benefits package consists of:
- health and medical insurance;
- loss-of-licence insurance for pilots;
- discounts on flights with Air Astana or partner airlines;
- access to a corporate bus for commuting to and from work;
- coverage of communications costs;
- discounts for gym membership and in restaurants, bars and hotels.

In 2020, the Company employed 5,385 people (2019: 5,532). Retention is high with the average length of service at 7.06 years (2019: 6.3 years) and the average rate of employee turnover is now 9% (2019: 13%), although COVID-19 may be a factor in this. During 2020, a total of 499 employees left the Company: 69.6% were women and 40.5% men. The biggest turnover was at Almaty International Airport, where 312 people left our employment; at Nursultan Nazarbayev International Airport, this was 136 while 42 and 9 employees left from Air Astana regions and overseas stations, respectively.

Given our relatively young age profile, 82% of those leaving the Company were aged 18-40 with only 18% aged 41 or over.

International agency, Randstad Employer Brand Research, named Air Astana as one of the most attractive employers in Kazakhstan in the field of transport and logistics in 2020. Universum also rated our airline the most attractive employer in Kazakhstan for the 5th time.

### Diversity and equal opportunities

We have created a truly diverse workforce through the employment of highly skilled people across many countries and continents with diverse ethnic backgrounds, faiths and beliefs. We are proud to provide equal opportunities for men and women regardless of their nationality and age. This includes entitlement to parental leave regardless of gender, although in practice more women than men exercise their right to parental leave. During 2020, 49 men and 886 women took parental leave (this included 345 women on maternity leave).

All these factors contribute to a stimulating and fair working environment for each employee. We also ensure that gender and diversity are not barriers to career progression within the Company, while also continuing to address any traditional imbalances. We currently have 1 female member on a Board of 9 members; our Senior Management Team, from 9 nationalities, comprises 22 members of which 8 are female.

### Recruitment

External recruitment had to be suspended due to COVID-19 restrictions and this is reflected in our average rate for hiring new employees, which was down to 6% (2019: 19%). From a total of 338 new employees, 58.6% were women and 41.4% men. The majority (193) were deployed at Almaty International Airport, with 82 at Nursultan Nazarbayev International Airport, 59 at Air Astana regions and 3 at overseas stations. The age profile for the Company is relatively young, which is also reflected in the age range of the 2020 employee intake: 87.3% were aged 21-40 and 4.7% aged 18-20 with only 8% aged 41 or over.

# KC heroes

During the pandemic, we literally lived at work, self-isolating in the hotel below the call centre so that we were able to help our customers 24/7.

**Queries from customers to our call centre were up**

+137%

Because of the Government's restrictions on flights, customers were obviously very frustrated and wanted refunds, which we were able to handle quickly and efficiently, even when some people didn't believe it could be so serious.

The work load for everyone was tremendous but we got enormous support from the Ground Service department and there was a great team spirit. And we were really pleased to be recognised as TR Stars by the Company for keeping the HEART ethos alive during difficult situations.

"Colleagues from related departments helped to process incoming requests and messages from passengers."

**Yuliya Fyodorova**
Senior Manager Ticketing and Reservation


# OPERATING RESPONSIBLY

continued

However, the operational need for additional personnel persisted so, in view of this, we refocused our recruitment drive internally with all selection processes carried out online. The development of FlyArystan and the opening of new bases across the regions of Kazakhstan created a large number of vacancies. Many aviation professionals had been trained and grown their skills within Air Astana, so we were able to draw on a pool of experienced employees, who were ready to apply for FlyArystan jobs. The tasks of optimising the fleet and automating many business processes during the pandemic also highlighted the need for candidates in IT and engineering areas.

### Talent management

Our focus is both on attracting external talent as well as nurturing our own internal talent and we have successfully implemented the Air Astana Talents Programme since 2010. 2020 was no exception: employees with high potential were selected on a competitive basis to become part of a further development programme, which is central to the Company's succession planning. The aim is to develop pool of talented people, each one of whom is ready to take key managerial roles in the future within the Company.

This year we also supported "Zhas Orken" project, which aims to attract and prepare the best and most-talented graduates from all over Kazakhstan for subsequent employment in companies within the Samruk-Kazyna Sovereign Welfare Fund. Heads from various Air Astana departments have also been mentors for participants in the programme.

### Employee engagement

As a part of our overall stakeholder engagement programme, each year our employees take part in the Gallup engagement survey. In 2020, however, given the continuing uncertainties caused by the COVID-19 pandemic, we conducted 2 pulse surveys in April and October to measure the emotional state of our colleagues. These also highlighted their concerns about loss of income and wanting to know more about how the Company was faring. We addressed this through regular communications from the President and CEO, which provided employees with a wider understanding of the situation within the business and confidence in the future.

Managing teams at a distance during the pandemic presented managers with new challenges. They needed to adapt to a distance working format, maintain employee engagement while only interacting online and, at the same time, ensure that business still operated efficiently. Feedback from a line managers' support programme was extremely positive and showed that managers sharing more experience and knowledge had resulted in more personal and emotional support and trust within teams.

### Internal communications

The development of an internal communications programme, begun in 2019, proved particularly relevant in 2020. There was an acute need to keep employees informed about the actions being taken by the Company and its future plans. The President and CEO, Peter Foster communicated with all employees by sending weekly and monthly emails, which were also distributed via the corporate mobile application.

The Annual Management Conference is another way in which the Company shares its results, future plans and priorities. This was held online for the first time in 2020 via YouTube and Zoom.

### Recognition culture

Mutual recognition between employees is an important element of our Company culture and this was even more pertinent during 2020. Despite the reduction of operations and over half of employees being on downtime, the number of thanks sent to the KC Recognition online platform for 2020 was 8,754 (2019: 10,318).

An integral part of our recognition programme, the HEART Awards are given to 120 employees who best demonstrate the HEART values in their work. The annual awards ceremony for 2020, which is very much part of the celebrations, has been postponed until 2021.

## Training and education

### Training Academy

We established the Air Astana Training Academy in 2017 in order to both improve training and development within the Company and to attract external customers. By 2019 we had simplified and standardised all our training; however, the training teams still remained in different locations.

This changed in early 2020, when we acquired a brand-new Academy building, enabling us to amalgamate all our training departments under one roof with the capacity to train over 300 participants every day. The five-storey building is equipped with spacious and well-lit training rooms with the flexibility to create training spaces specific to needs.

The average number of training hours per person in 2020 was 16 hours per working employee. Fewer personal development and behavioural skills programmes were run, as detailed below. However, the level of mandatory and professional skills development training remained the same.

### Blended learning

Full use of our new Training Academy building was obviously hampered by COVID-19, which prevented any classroom training during most of 2020. We therefore switched our focus to computer-based training (CBT and, in particular, developing webinars). During 2019, the Academy team had already begun the move to e-learning with more interactive sessions using different approaches and techniques. This continued and increased in 2020 with more than 25,705 attending sessions on our learning management system (LMS).

In all, some 1,200 employees participated in over 300 webinars covering both operational, customer service and corporate programmes. This has ensured that our employees not only received mandatory, regulatory courses but were also able to maintain individual skills development. Plus, the feedback about this approach from our participants has been really positive. Moving to blended learning, using e-learning, webinars and classroom (when permitted), had already been part of our medium-term planning to enhance our

### Reported accidents

| Year | 2020 | 2019 | 2018 |
|---|---|---|---|
| Number of accidents | **18** | 27 | 28 |
| Number of employees | **5,385** | 5,532 | 5,210 |
| TAR[1] | **3.34** | 4.88 | 5.37 |
| LTIFR[2] | **94.46** | 54.05 | 99.33 |
| FIFR[3] | **0** | 0 | 0 |

1. TAR – Total accident rate per 1,000 employees
2. LTIFR – Lost time injury frequency rate per 1 million hours worked
3. FIFR – Fatal injury frequency Rate

### OHS reported incidents


approach and build in efficiencies and cost savings. The Academy teams prompt and proactive response to the situation in 2020 has clearly proved successful.

#### Pilot training

After running a "test programme" in 2019, as part of the "Learning/Career Pathway" for the pilot community, a course for captains called "Leading for Command" was launched in January 2020. The core elements focus on team leadership, communication style and service from the flight deck. Some 200 Air Astana captains attended classroom training for Module 1 in 2020 before restrictions were imposed, Module 2, which will be webinar or classroom based, has been delayed until 2021.

During 2020, as part of the Company's efficiency programme, all Boeing 757s and Embraer 190 aircraft were returned and the Airbus fleet further expanded. Thirty pilots have now undergone Airbus operational training. This optimisation of the fleet will also simplify all our safety-related training in the future.

Fourteen cadets successfully completed the Ab-Initio pilots training programme in 2020 and are ready for type-rating training. A further 21 cadets are currently in the programme. Eleven cadets of Part 66 aircraft mechanics training programme continued their study in 2020 and will join the Company as EASA certified specialists in 2021.

### Occupational health and safety

The health and safety of our employees is fundamental to our business and how we manage our operations. The development of our occupational health and safety (OHS) systems enables us to follow best practice and meet all the required international standards necessary to operate in a sustainable manner.

Our OHS practices are in compliance with Labour Code of the Republic of Kazakhstan and other legislative documents. We are also certified in accordance with OHSAS 18001:2007 standards and, in 2019, started to implement ISO 45001 requirements.

OHS-related matters are discussed at monthly meetings of operational department managers, including accidents, injuries, the results of internal/external audits, etc. In 2020, HSE Division received 92 OHS incident reports, and were contacted about hazardous work conditions and with suggestions on improving working conditions. Compared with 2019, the number of reported incidents is down 47% at 92, as a result of a significant part of the workforce being on downtime or working remotely.

Our employees regularly undertake OHS training. During 2020: 190 employees took part in certified online training on health and safety; 207 employees were trained on industrial safety in hazardous conditions; 128 employees were trained to minimum fire technical standards.

We continued to raise awareness among employees about reporting occupational incidents and injuries. In 2020, 18 work-related accidents were investigated; one of them has been classified as serious. No fatalities were registered in 2020 and there were no cases of non-compliance with OHS laws and regulations that would have a significant impact on our Company.

OPERATING RESPONSIBLY
continued

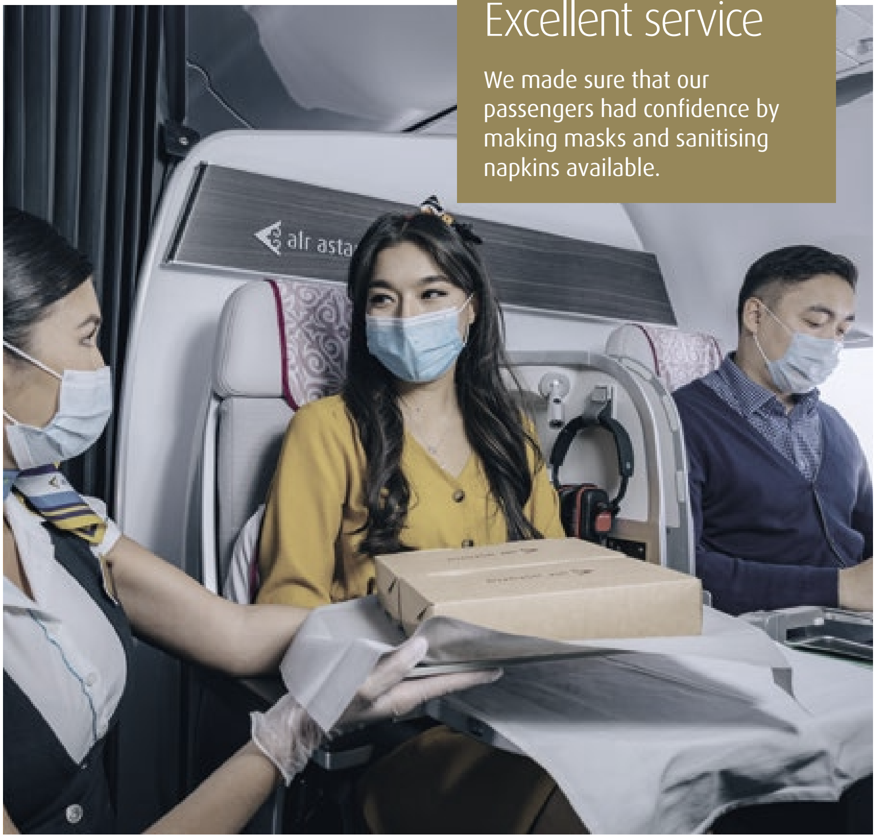
# Aviation-specific

### Service quality
Together with the IT department, we have implemented the digitalisation of service quality. Since this is a main focus for the business, a new Quality KPI has been included in the employee incentive programme. Regardless of the channel through which a customer came to us (call, letter, chat, office), the level of service provided by all our agents should be of the highest standard. We plan to further improve the quality of service, for example including a 360° service assessment with feedback from passengers and independent experts as well as the analytical team.

In addition to the material included below, more information can be found in the Operating review (Digitisation for efficient operations and Supporting our customers) on pages 31 and 32.

### Sales
The cancellation of flights during the pandemic had a major impact on every aspect of the business but the most immediate was borne by the sales teams. Customers contacting the call centre were up 137% year-on-year and, to cope with the increased volume, the flow of customers was partially redirected from the sales office to online communication and we established a group to support the 24/7 Live chat service. The share of sales through these channels increased by 148%. Cancellations and refunds added to the workload too.

With team members needing to self-isolate because of COVID-19, extra staff had to be trained and the sales team moved into the hotel accommodation below their office for the duration. With the current situation, the call centre now occupies 5 offices instead of 1 location so that specialists can work at a sufficiently remote distance from one another.




## Excellent service

We made sure that our passengers had confidence by making masks and sanitising napkins available.

Personalisation has been further expanded with options to purchase standalone ancillaries, such as preferential seats (MySeat), additional baggage (MyBaggage) or upgrade services (MyUpgrade). More optional services are being developed and include MyMeet, which allows customers to book our meet-and-assist service in advance for a smoother and seamless pre-travel experience. This will be launching in 2021.

Managing and resolving customer flight interruptions effectively and efficiently was a major differentiator during the COVID-19 pandemic and will continue to be so for the foreseeable future. An internally developed system, planned for implementation in Q2 2021, will enable the airline to issue electronic compensation vouchers for use via the corporate website. This will drastically reduce processing time and improve customer satisfaction.

### Inflight services
During 2020, we did our utmost to create a safe and comfortable environment for our passengers, while adhering to the measures required by EASA, IATA and AAK aviation authorities, as well as following Kazakhstani rules. Sanitising of all equipment and aircraft between flights, wearing PPE, changing to eco-friendly disposable food packaging – these all became the norm but did not compromise our service standards and we continued to meet our passengers' high expectations.

For data on the Company's flights and performance in 2020, see pages 28 to 33.

### Customer privacy
Due to the nature of our operations, we handle the personal information of our customers. We collect and use it solely for the purpose of delivering the service and enhancing the quality by offering the right product at the right time via the right channel. We respect the confidentiality of each customer and take the responsibility for the protection of received personal data very seriously. Our Privacy Policy is based on the requirements of the Personal Data Protection Law of the Republic of Kazakhstan (#94-V as of 21 May 2013; changed and amended as of 28 December 2017) and European Union and UK data protection law (General Data Protection Regulation 2016/679).
General terms and conditions related to protection of customer privacy disclosed in web site:
https://airastana.com/kaz/en-us/Information/Terms-and-Conditions/Privacy-Policy

During 2020 there were no complaints concerning breaches of customer privacy and losses of customer data.

### Flight safety management system

Implementation and maintenance of the highest safety standards is one of the top corporate goals of our Company. Our management approach goes well beyond simple compliance with safety requirements; we are cultivating a safety culture in our employees' mind and in all our internal processes. We look to continuously improve and stay ahead of global standards.

Our Safety Management System (SMS) covers all activities carried out to identify potential hazards in relation to flight operations and mitigating actions in line with the highest international standards and best practices. The existing SMS covers all organisational tiers, operational environment and interactions. Specific safety programmes have been compiled for the operating activities of flight operations, cabin crew, engineering and maintenance, and ground services. These take a long-term predictive approach to handling potential hazards to ensure systematic sustainability.

Since 2002 we have operated 559,934 sectors and 1,399,661 hours of accident-free passenger operations.

### Compliance with the highest safety standards and regulatory

In May 2019, the Company successfully passed the seventh IATA Operational Safety Audit (IOSA), which is conducted once every two years. The next IOSA renewal audit will be in 2021. We continue to be an active participant of IOSA Working Groups in order to contribute to the improvement of IOSA Standards and facilitate the creation of the IATA Best Practice Guide.

Due to imposed COVID-19 restrictions, the annual EASA Part 145 Aircraft Line Maintenance audits were not carried out in 2020. From August 2020, EASA Part 145 oversight was transferred from UK CAA to EASA. As a holder of an EASA Part 145 certificate, we continue to perform full maintenance services of our aircraft and we also provide line maintenance services to 22 other air carriers.

# top class

We did not compromise our high service standards and met passenger expectations, despite the uncertain and often worrying times.

**Mandatory quarantine for crews**

14 days

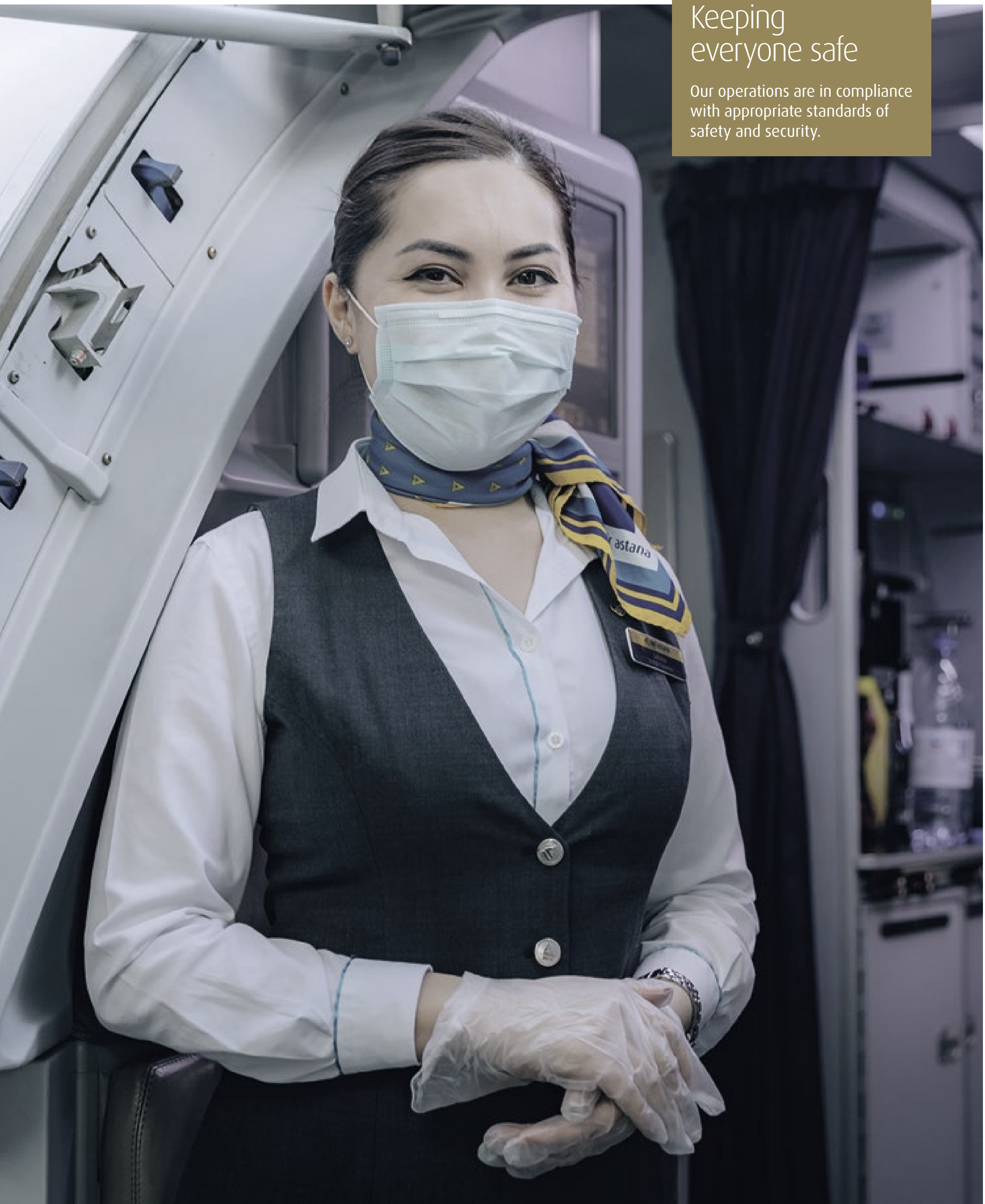
When the pandemic started, we didn't really have a great deal of information about the full extent of the virus. But the Company took every precaution to ensure our safety with strict sanitising of aircraft between flights and PPE kit for all onboard crew members.

We made sure that our passengers had confidence too, making masks and sanitising napkins available. Our giveaways were individually packaged for safety and our catering department worked hard to source eco-friendly disposable meal boxes and paper cups.

"We focused on creating a safe and comfortable environment."

**Yelena Obukhova**
Director in-flight services

# OPERATING RESPONSIBLY
continued




## Keeping everyone safe

Our operations are in compliance with appropriate standards of safety and security.

"We actively participate in international industry developments and continue to contribute to international safety organisation forums."

We were the first operator to be audited by EASA Third Country Operations in December 2015, and successfully renewed for the third time in March 2019. The next EASA renewal audit will take place in 2021.

Our operations are in compliance with appropriate standards of safety and security regulated by the Department of Civil Aviation (DCA) of Aruba that is responsible for airworthiness, and the Kazakhstan Civil Aviation Committee, through the newly established Aviation Authority Kazakhstan, as well as relevant international regulatory authorities.

In 2020, Air Astana underwent the following external regulatory inspections or renewals:

- Certificate of Airworthiness renewals issued by Department of Civil Aviation (DCA) Aruba for all aircraft, done through a remote adapted system;
- AMO acceptance renewal by DCA Aruba in June 2020;
- AMO approval renewal by Korean MOLIT July 2020;
- UAE General Civil Aviation Authority & Turkish Directorate General of Civil Aviation Maintenance Organisation documentation update;
- Air Astana operations and aircraft underwent 10 ECAC (European Civil Aviation Conference) SAFA (Safety Assessment of Foreign Aircraft) and 11 ramp (non-ECAC) inspections. Airline SAFA weighted average in 2020 is ranged 0.23.

We actively participate in international industry developments and continue to contribute to international safety organisation forums. The Company is a permanent member of the IATA Accident Classification Technical Group, which determines trends and areas of concern related to operational safety and to the development of preventative strategies.

Within the internal compliance monitoring programme, nearly 128 compliance audits were conducted by Air Astana based on IOSA SARPS and national regulations.

Compliance monitoring is also supported by the Company's membership and active participation in IATA safety and quality audit programmes, the IATA Fuel Quality Pool (IFQP) and the IATA De-Icing/Anti-Icing Quality Control Pool (DAQCP). We follow a collaborative approach with the intent of fostering positive working relationships and developing best practices that are beneficial for all involved.

### Safety programmes

In 2020, the Company's flight data monitoring process analysed 98.5% of flights with the purpose of identifying, measuring and assessing existing operational risks and taking relevant mitigation measures with an emphasis on trends and root causes.

The Company continues to encourage the reporting of hazards and errors by operational staff as an important element of its safety culture. Despite the disruptive year, the safety reporting rate in 2020 is remarkably stable compared with 2019.

Air Astana's unauthorised substances testing programme was enhanced and a narcotics professional was appointed to assist the process. Internal training has been developed for Corporate Safety Compliance department and HR staff involved in drug and alcohol testing. In April and May 2020, the unauthorised substances testing programme was suspended due to the COVID-19 pandemic, but was resumed in June 2020. The number of unauthorised substances tests was the same frequency as in 2019, with a monthly average of 306 alcohol and 56 drug tests carried out.

A substantial amount of risk management work was carried out for new charter flights. Due to the impact of COVID-19, many charter flights were operated on new routes. The Company established a process and efficient communication between departments on new route risk assessments. Risks associated with flights to Sharm El Sheikh were minimised in 2020 by implementing additional pre-flight passenger profiling through a contracted external supplier.

During the year, cargo operations were launched by converted a Boeing 767 passenger aircraft to a semi-freighter. Corporate Safety Compliance department actively participated in this successful project.

To stay abreast of international developments, through our membership of the IATA Global Aviation Data Management programme, we continue to contribute to international safety organisation forums such as Incident Data Exchange and Flight Data Exchange, which produce information used to improve safety performance and operational efficiency. Additionally, we are an active member of the Association of Asia Pacific Airlines (AAPA) and participate in the AAPA's Flight Operations and Safety Working Groups.

In order to raise levels of awareness on safety issues, we hold internal continuous improvement training sessions in compliance with international regulations. Each year, within the Safety Promotion Programme, operational staff undertake SMS training focused on their responsibility to report safety issues.

Within the Safety Promotion Programme, safety issues are regularly highlighted in the Company's ON AIR corporate magazine. A Safety Notice and Air Safety Information System is in place to keep the staff informed of the reported hazards and investigation, as well as maintaining risk awareness.

The Air Astana application was used to publish special safety information for re-start operations and delivered to all operational staff and management regarding: safety hazards affecting operations due to the pandemic, safety culture, and reporting.

Details about fleet technological improvement can be found in the Operating review on pages 30 and 31.

# OPERATING RESPONSIBLY
continued

## Community

**Approach**
As a responsible corporate citizen, we believe that it is important to maintain strong relationships not only with our passengers and business partners, but also with the communities where we operate.

We select charities and funding projects on the basis of identifying those that will provide value to their communities and are also aligned with the Company's activities and values. These fall into three categories:

- co-operation with local and national charitable organisations and other not-for-profit organisations;
- individual charity – provision of targeted support to population groups most in need of assistance, including sick children and veterans of the Great Patriotic War;
- employee involvement in charitable activities through fundraising and volunteering opportunities.

**Projects implemented in 2020**

| Project focus | Description | Results |
|---|---|---|
| **Veterans** | Provision of flight tickets for veterans of the Great Patriotic War | We provided 1,251 flight tickets for veterans of the Great Patriotic War, valid for travel Kazakhstan and to the CIS. Since 2015, we have provided 16,954 flight tickets in total. |
| **Donations** | #BizBirgemiz campaign | We took an active part at #BizBirgemiz campaign, organised by the city authorities and supported by the Company. During the first and the hardest 5 weeks of the lockdown in KZ, Air Astana allocated USD 8,544 (KZT3,600,000) to provide essential food baskets for 222 families in Almaty and Nur-Sultan |
| | | 600 children from large families received Air Astana's travel kits for kids. The Company also donated 100 medical masks for Talgar orphanage. |
| **Medical** | Provision of flight tickets for severely ill children and their accompanying parents | We contributed USD 2,572 (KZT1,083,655) for 24 tickets for severely ill children and their parents. |
| | Provision of modern equipment for children's intensive care units at hospitals in Kazakhstan | We raised USD 2,135 (KZT900,000) through donation boxes at ticket offices in Almaty, Astana and Atyrau as part of a charity project run by the Ayala Foundation. The purpose of the project is to purchase modern equipment for children's intensive-care units at infectious-disease hospitals in Kazakhstan. |
| | Support for the hospitals | We donated 2,000 amenity kits to the medical staff of 2 hospitals in Almaty to make their shifts a bit more comfortable during the pandemic. |
| **Employees volunteering in charity projects** | Celebration of Victory Day | As part of our employee involvement programme, we initiated a charity campaign to celebrate Victory Day and congratulate WWII Veterans and also crowd funding for humanitarian aid for our fellow citizens in the Turkestan blast and those suffered in the floods in Southern Kazakhstan. |
| | Charity campaign for Teen Challenge Kazakhstan – Celebration of International Women's Day | We continued our annual charity campaign congratulating women on International Women's Day. In Almaty we decided to support 27 women and 28 children living at Teen Challenge Kazakhstan shelter. Part of the Women's Rehabilitation Programme, the shelter is for women with or without children, who suffered from domestic abuse and helps them to find jobs and become independent. Many of our employees have signed up for the Year of Volunteers campaign. Employees across the Company also collected more than 30 boxes of clothes, shoes and other accessories needed by homes for single mothers in Aktau, Kyzylorda, Pavlodar and Ust-Kamenogorsk. |
| **Other projects** | "Letter to Santa Claus" New Year joint initiative | As a part of our New Year initiatives, we provided presents of sweets for 250 children from the Turksib Society for the Disabled and 52 children from the city rehabilitation centre for children with disabilities. Also, in partnership with AYALA Foundation, we have continued to support "A letter to Santa Claus" project, where our colleagues and customers created a Christmas miracle for 25 children the dialysis department of Almaty City Hospital or #1 Orphanage. |

# CHAIRMAN'S STATEMENT ON CORPORATE GOVERNANCE

**Dear Shareholders,**

I am delighted to be taking responsibility for overseeing the governance of Air Astana in my role as Chairman. I am also pleased to confirm that despite the challenges faced during the unprecedented COVID-19 crisis, neither the Company nor the Board has compromised on the high standards of corporate governance set by the Company in recent years.

The management team had to rapidly plot a new course during 2020 against a backdrop that was changing daily. Because of COVID-19 restrictions, fewer meetings of the Board and its Committees were held during the year, however, our engagement with the management team did become more regular as we closely monitored the implementation of the COVID-19 Crisis Management and Recovery Plan. We received regular updates from Management on decisions taken to safeguard the future of the business, its employees and its passengers. We also increased our focus on the Group's cash and liquidity as well as on risk management with more frequent reviews of the Risk Register.

### Board appointments

I would like to thank my predecessor Kanat Alpysbayev for his contribution as Chairman and also to Independent Director Dmitriy Larionov for his dedicated work.

We are delighted to welcome two new Independent Directors to the Board, Keith Gaebel and Eldar Abdrazakov. Mr. Gaebel is a leading expert in financial reporting and corporate governance gained during his 25 years' experience with large international chartered accounting firms. Mr. Abdrazakov has held senior roles in commercial and investment banking for over 25 years. He has taken over as Chairman of the Corporate Social Responsibility Committee and his membership of the Nomination and Remuneration Committee and Audit Committee is a welcome addition. Both appointments provide additional depth of expertise to the Board.

### Governance

To mitigate any concerns regarding the Board's independence, and in line with best governance practice, the number of Independent Directors on the Board has now been increased from 3 to 4. The Company is also considering establishing and appointing a Senior Independent Director as an additional mitigating measure.

All the Board Committees carry out an annual review of their activities, measured against their terms of reference and key objectives, and whether they have fulfilled priorities agreed for the year. In each case, this evaluation is then fed back to the whole Board in an annual report. A planned external evaluation of Board performance in 2020 had to be postponed due the COVID-19 situation and we expect that this will be rearranged during next few years.

### Strengthening corporate governance

Keeping abreast of the changing standards and policies is vital to good corporate governance. During 2020, the Board reviewed and approved amendments to a number of existing Air Astana policies, including Risk Management, Cash Management, Bank Risk & Treasury Reporting as well as Insurance Coverage. We also agreed the amended Regulations of the Labour Remuneration System and the Company's Business Trip Rules. In addition, we monitored the effectiveness of the Company's Whistleblowing Policy.

### Focus on sustainability

The Group is currently developing its sustainability strategy, based on the principles of best practice and international standards and encompassing all environmental, social and economic aspects of its operations. In order to achieve long-term sustainable success, including our licence to operate and our ability to create economic and social value, we need to be mindful of the needs and expectations of all our stakeholders. We have, therefore, instigated a programme to engage with each group of stakeholders through open and transparent dialogue and collaboration.

With that in mind, we have increased the coverage dedicated in to sustainability in this Annual Report, which we are committing to further strengthening over the coming years. For full details of our activities in 2020, see pages 48 to 64.

**Beibit Karymsakov**
Chairman of the Board of Directors

# COMPLIANCE WITH THE COMPANY'S CORPORATE GOVERNANCE CODE

## Statement of compliance with the Company's Corporate Governance Code

The Board of Directors is committed to maintaining high standards of corporate governance. Air Astana's Corporate Governance Code (the Code) was developed in accordance with Kazakhstan law, the rules of the Astana International Financial Centre Market and the Company's own Charter. It is also aligned with best international practice, including the principles of the OECD and elements of the UK Corporate Governance Code. It was approved by the Company's Shareholders in May 2019 and is available on the Company's corporate website at www.airastana.com. The Company is required to comply with the Code – or, where the provisions of the Code have not been complied with, to provide appropriate explanations. During 2020, the Company was largely in compliance with all principles set out in the Code and, where these have not been complied with, appropriate explanations can be found on page 76. In line with the Code, terms of reference for the Board and its Audit, Treasury, Nomination and Remuneration, Strategic Planning and Corporate Social Responsibility Committees can be found in the Corporate Governance section on the Company's website: www.airastana.com. The schedule of matters reserved to the Board and its Committees is reviewed annually.

# CORPORATE GOVERNANCE FRAMEWORK

### General Meeting of Shareholders

Serves as the Company's senior corporate governance body, where decisions are taken on key issues concerning the business following the consideration of recommendations made by the Board of Directors.

### Internal Audit Service

Provides independent and unbiased recommendations aimed at improving internal controls, risk management and corporate governance systems.

### Board of Directors

Responsible for the overall stewardship of the business and for overseeing the activities of the executive body while managing risk and internal controls and maintaining Air Astana's corporate governance principles.

### Corporate Secretary

Plays a key role in managing relations between Shareholders, the Board of Directors and the Executive body. Ensures compliance with statutory and corporate requirements.

### Board Committees

Several Committees have been established to facilitate specific functions of the Board of Directors. More detailed work and discussion is carried out by these Committees in support of the Board's overall stewardship of the Company.

#### Audit Committee

Supervises financial and economic activities, the reliability and efficiency of internal controls, risk management and the implementation of governance standards.

#### Nomination and Remuneration Committee

Leads the recruitment process of members of the Board of Directors, management, the Head of the IAS and the Corporate Secretary.

#### Strategic Planning Committee

Assists with the effective performance of the Board and develops recommendations for the Board on issues related to strategic development.

#### Corporate Social Responsibility Committee

Consulting and advisory body of the Board of Directors, created to assist the effective performance of Board functions related to environmental, social and governance issues.

#### Treasury Committee

Helps monitor and improve the effectiveness of Risk Management related to Air Astana's treasury functions.

### President and CEO

Our ongoing activities are managed by the President, our sole executive officer. The President executes decisions made by the General Meeting of Shareholders and by the Board of Directors.

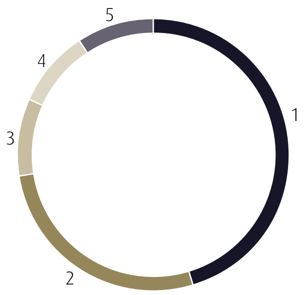
### Senior Management Team

Responsible for the day-to-day running of the Company, executing strategy, goals and delivering on key milestones.

## BOARD OF DIRECTORS

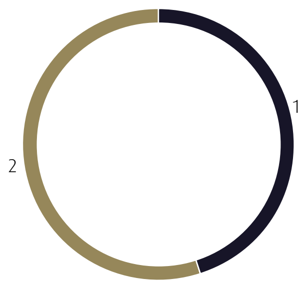
# A diverse and internationally experienced Board

### Board nationality




1. Republic of Kazakhstan 5
2. UK 3
3. US 1
4. Canada 1
5. Australia 1

### Board independence




1. Independant 45%
2. Non-independant 55%

9

**The Board met nine times during the year ended December 2020**

### Board and Committee meetings and attendance in 2020

The following table shows the Directors' attendance at Board and Committee meetings during the period between 1 January and 31 December 2020.

| | Board | Strategic Planning Committee | Audit Committee | Nomination and Remuneration Committee | Corporate Social Responsibility Committee | Treasury Committee |
|---|---|---|---|---|---|---|
| **Total number of meetings** | 9 | 5 | 7 | 3 | 1 | 7 |
| Kanat Alpysbayev[1] | 100% | 100% | – | 100% | – | – |
| Beibit Karymsakov[2] | 100% | 100% | – | – | – | 100% |
| Andrey Kravchenko[1] | 100% | – | – | 100% | 100% | 100% |
| Myles Westcott | 100% | 100% | – | 100% | – | – |
| Simon Wood | 100% | – | – | – | 100% | 100% |
| Peter Foster | 100% | – | – | – | – | – |
| Dmitriy Larionov[3] | 100% | – | 100% | 100% | 100% | 100% |
| Garry Kingshott | 100% | 100% | 100% | 100% | – | – |
| Janet Heckman | 100% | 100% | 100% | 100% | 100% | – |
| Keith Gaebel[4] | 100% | – | 100% | – | – | 100% |
| Eldar Abdrazakov[4] | 100% | – | 100% | 100% | 100% | – |

1. Director until 30 October 2020
2. Director from 31 October 2020
3. Director until 30 March 2020
4. Director from 31 March 2020

### Key to Committee membership

- Committee Chair
- (A) Audit Committee
- (C) Corporate Social Responsibility Committee
- (N) Nomination and Remuneration Committee
- (S) Strategic Planning Committee
- (T) Treasury Committee

S T

**Beibit Karymsakov**
**Chairman of the Board of Directors**

**Appointed**
October 2020

**Qualifications and experience**
Beibit Karymsakov has over 35 years' experience in financial management, accounting and taxation issues. He also held senior positions in the Centre for Forensic Science. From 1996 to 2014, Mr. Karymsakov held various roles in the Tax Department of Almaty, starting from the position of a senior inspector. From 2008 to 2009, he was Head of the Tax Department in the Almaty region and, from 2009 to 2014, Head of the Tax Department in Almaty. From 2014 to 2015, he was Head of the Administration of the Akim of Almaty. From 2015 to 2018, he was Managing Director and a member of the Board for JSC NC Astana EXPO-2017. Since 30 January 2018, he has been Managing Director for Economy and Finance and a member of the Management Board at Samruk-Kazyna JSC.

Mr. Karymsakov graduated from the Almaty Institute of National Economy with a degree Engineer-Economist and later attained a law degree from Dulati Taraz State University.

**Other appointments**
Managing Director for Economy and Finance, Member of the Management Board at Samruk-Kazyna JSC; Chairman of the Board of Directors at Kazpost JSC; Chairman of the Board of Directors at Samruk-Energo JSC; Member of the Board of Directors at HAK Kazatomprom JS; Deputy Chairman of the Board of Directors at Sekerbank, Istanbul, Turkey.

Does not hold any shares in Air Astana.

**Peter Foster**
**President and Chief Executive Officer**

**Appointed**
August 2019

**Qualifications and experience**
Peter Foster entered the airline industry immediately after graduating from Cambridge University in 1982, as a management trainee of John Swire and Sons (HK) Ltd, the owners of Cathay Pacific Airways Ltd. From 1982 to1999 he served in a variety of management and senior management positions with Cathay Pacific Airways in Hong Kong, Asia, Australia and Europe, and underwent business management training at INSEAD, France. Mr. Foster left Cathay Pacific Airways in 1999 to head up the rehabilitation team of Philippine Airlines Inc. He subsequently served as Chief Executive Officer of Royal Brunei Airlines from 2002 to 2005 prior to his appointment as President of Air Astana. In the 2015 UK New Year's Honours List, Peter Foster was awarded Officer of the Order of the British Empire (OBE) for his services to British aviation in Kazakhstan.

**Other appointments**
None.

Does not hold any shares in Air Astana.

N A C

**Eldar Abdrazakov**
**Independent Director**

**Appointed**
March 2020

**Qualifications and experience**
Eldar Abdrazakov holds a BA and MSc in Economics from the Akhmet Yassawi International Kazakh-Turkish University, Almaty and has also completed the General Management Programme 8 at Harvard Business School, Boston, USA.
Mr. Abdrazakov has held senior roles in commercial and investment banking for over 25 years. He was Managing Director from 1995 to 2003 at Kazkommertsbank (KAZKOM); CEO from 2002 to 2004 at Kazkommerts Securities; and founder and CEO from 2004 at Centras Group.

**Other appointments**
Chairman of the Boards at Centras Securities, Centras Insurance and Kommesk-Omir; member of the Board of Directors of KASE and Forte Bank; member of the National Chamber of Entrepreneurs of the Republic of Kazakhstan "Atameken".

Does not hold any shares in Air Astana.

# BOARD OF DIRECTORS continued

S N A C

## Janet Heckman
**Independent Director**

### Appointed
January 2019

### Qualifications and experience
Janet Heckman holds a Master of Science in Foreign Service from Georgetown University in Washington, D.C. Between 1980 and 2012 she held various positions at Citi with a focus on corporate banking; she was the Managing Director for Citi's corporate and investment banking activities in Algeria from 2008 to 2012. Ms. Heckman joined EBRD in 2012 as a Country Director for Kazakhstan. She was a Managing Director for Southern and Eastern Mediterranean (SEMED) for EBRD from January 2017 to December 2019.

### Other appointments
AIX Board Member.

Does not hold any shares in Air Astana.

A T

## Keith Gaebel
**Independent Director**

### Appointed
March 2020

### Qualifications and experience
Keith Gaebel is a leading expert in financial reporting and corporate governance. During his 25 years' experience with large international chartered accounting firms, Mr. Gaebel held various positions including the Head of the Financial Reporting Group (FRG) for the Commonwealth of Independent States (PricewaterhouseCoopers – 2000 to 2004; Ernst & Young – 2004 to 2008) and was a Global Authority on various International Financial Reporting Standards. As Head of the FRG, he supported clients' public offerings by reviewing for compliance with financial reporting and corporate governance. Mr. Gaebel was the Ernst & Young Managing Partner for Central Asia and Caucasus from 2008 to 2013.

### Other appointments
None.

Does not hold any shares in Air Astana.

A N S

## Garry Kingshott
**Independent Director**

### Appointed
August 2019

### Qualifications and experience:
After a successful early career in various FMCG businesses from 1974 to 1990, Mr. Kingshott transitioned into Aviation joining Ansett Airlines (Australia) in 1990. He now has 30 years combined experience in the Aviation, Travel and Tourism and Airline industries, spanning three continents. Most recently Mr. Kingshott served Cebu Air Inc. as Chief Executive from 2008 to 2016, overseeing a successful IPO in 2010, and continues as a member of the Advisory Board at Cebu Air Inc.

A Member of the Australian Institute of Company Directors (MAICD), Mr. Kingshott has served as a Company Director/Chairman for a variety of businesses including Airlines, Travel Agencies, National Tourism and Financial Services.

### Other appointments
Member of the Advisory Board at Cebu Air Inc, Director. Treasurer of Puerto Galera Yacht Club.

Does not hold any shares in Air Astana.

N C T

## Andrey Kravchenko
**Non-Executive Director**

### Appointed
January 2019

### Qualifications and experience
Andrey Kravchenko graduated from the Kazakh State University named after S. Kirov with a degree in law. He also holds an MBA degree from Moscow Business School. Mr. Kravchenko has more than 30 years of corporate experience. He began his career in 1983 with the judicial authorities and has worked in the tax service authorities since 1991. In 1994, Mr. Kravchenko joined the prosecution service. Between 2002 to 2011, he was Head of the Supervision of Legality Department in the Socio-Economic Sphere of the General Prosecutor's Office of the Republic of Kazakhstan. He took direct part in the establishment of institutions that support and protect small and medium-sized businesses and financial monitoring. Between 2011 and 2017, he was Deputy Prosecutor General of the Republic of Kazakhstan. He was awarded the title "Honorary Lawyer" and "Honorary worker of the Prosecutor's office" of the Republic of Kazakhstan.

### Other appointments
Managing Director for Legal Support and Risks of Sovereign Wealth Fund Samruk-Kazyna JSC, member of the Management Board at Samruk-Kazyna JSC, member of the Board of Directors at JSC "Kazakhstan Temir Zholy"

Does not hold any shares in Air Astana.

S N

## Myles Westcott
**Non-Executive Director**

### Appointed
March 2018

### Qualifications and experience
Myles Westcott is a Fellow of the Institute of Chartered Accountants in England & Wales, and a graduate of Bristol University.

In 2001, Mr. Westcott joined BAE Systems and has since held a number of senior finance positions within the company, across both land and air sectors, most recently as Finance Director for the Military Air business. During this period, his responsibilities have included the financial leadership of long-term, complex defence contracts, cost reduction programmes, systems implementations, business integrations, UK and international customer engagement.

His early career was divided between accountancy roles and financial management across a variety of sectors, including consultancy, retail and hospitality.

### Other appointments
Group Financial Controller for BAE Systems since January 2018.

Does not hold any shares in Air Astana.

C T

## Simon Wood
**Non-Executive Director**

### Appointed
January 2019

### Qualifications and experience:
Simon Wood joined BAE Systems in 1996 and has held a number of senior finance positions within the company across a number of sectors, including Military Aircraft, Maritime, Land and Commercial Aircraft. In addition to his functional role, Mr. Wood has also had responsibility for Strategy and Planning, Transformation and Business Improvement, Systems Implementation, Customer Relationship Management and Operational Business Delivery.

### Other appointments
Finance Director of European and International Markets for BAE Systems since January 2018. Member of the Chartered Institute of Management Accountants.

Does not hold any shares in Air Astana.

# SENIOR MANAGEMENT TEAM

The Senior Management Team is responsible for the successful implementation of the Company's strategy and for the operational performance. It reviews the effectiveness of our governance, financial and risk management processes.

**Peter Foster**
**President and CEO**

Read more on page 69

**Alma Aliguzhinova**
**Chief Planning Officer**

Alma Aliguzhinova was among the first employees to join Air Astana at its early stage of formation in 2001 before the commencement of commercial operations. Alma initially joined the Company as Corporate Development Manager and has been progressively promoted to Corporate Development Director, Vice President Planning, Senior Vice President Corporate Planning and now Chief Planning Officer. Alma is a Bolashak Alumni and graduated with an MBA degree from East Caroline University, USA. She also has an Aerospace MBA from the Toulouse Business School in France.

**Ibrahim Canliel**
**Chief Financial Officer**

Ibrahim Canliel has been with the Company since its early stages in 2003 and he has served the Company in a range of areas including the Commercial Group, Marketing & Sales, Commercial Planning and Commercial. He started his career in the travel industry over 30 years ago and has 23 years of aviation management experience. Prior to joining Air Astana, he worked for KLM/Northwest/Alitalia, briefly in the Middle East and thereafter based in Almaty in charge of the regional organisation of Central Asia and Caucasus. He is serving his fifth term as a Board member at EUROBAK. Ibrahim received his undergraduate degree in Economics from the Marmara University, MBA degree from Boğaziçi University, Istanbul and completed the Cranfield Directors Programme in 2017.

**Anthony Regan**
**Chief Operating Officer**

Anthony has over 35 years' experience in aviation. Prior to joining Air Astana in 2012, he was General Manager Operations and OPS post holder at Cityjet (Air France/KLM subsidiary) from 2001 with responsibility for all Operations functions. Prior to that he was a Director at CAE 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 an EASA and FAA Air Transport Pilot Licence. He is a graduate of University College Dublin in Mathematics and Mathematical Physics.

**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, Crew Resource Management and Flight Procedure Design. He holds a Bachelor's degree in commerce and an Honours degree in transport economics from the University of South Africa. He has been actively involved in aviation safety management for the past 25 years including as Managing Consultant with BAE Systems.

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

Yevgeniya graduated from Karaganda State University with a degree in foreign languages and a degree in law. She started her career at Air Astana as an Executive Assistant to the President in 2002, and currently heads Human Resources Department, responsible for overall HR function and services including Recruitment, Training, HSE, Facilities Management. Under her leadership, the Company introduced a transparent system of recruitment and corporate training, as well as an employee performance appraisal and remuneration system. The Company holds numerous awards for its recent projects on digitalisation of HR processes, development of internal communications, learning and development – WOW HR 2018-2019, Best HR brand in Central Asia in 2017-2019, Best HR Director 2018-2019 (Growth Forum Kazakhstan), Best Employer 2016-2020 by Universum.

Yevgeniya Ni is a certified Senior Professional in Human Resources – International, member of APDC (Airline People Directors Council) and regularly takes part in professional conferences as an expert and speaker.

### Chamindra Lenawa
**Vice President, IT and E-business**

Chamindra joined Air Astana in January 2009. He is a professional in the airline business and IT, with management experience with three national carriers. Before joining the airline industry, Chamindra was employed in university research in electronics and telecommunications. Chamindra holds a Master's degree in Business Administration (University of Colombo), a Bachelor of Law Degree (University of London) and a Bachelor of Science Degree in Electronic and Telecommunication Engineering (University of Moratuwa). He is also a certified Project Management Professional (PMP, PMI – USA) and a Chartered Information Technology Professional (CITP) of the 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 a Master's degree in International Relations. She has over 20 years' experience in the field of public relations and information and culture. She has also taken part in numerous training courses outside of Kazakhstan. Before joining Air Astana, she worked in the Representative Office of the European Commission accredited in the Republic of Kazakhstan, the Kyrgyz Republic and the Republic of Tajikistan.

### Yerdaulet Shamshiyev
**Vice President, Strategy and Development**

Yerdaulet was one of Air Astana's first employees and has over 20 years' experience in aviation. He joined the airline as Chief Representative in the Beijing office in 2002. In 2009 he was appointed Regional General Manager China and Mongolia of Air Astana. He currently holds the position of Vice President, Strategy and Development. Prior to joining Air Astana, Yerdaulet worked at the Almaty International Airport and Air Kazakhstan airline. He graduated from the Beijing Language University and Academy of Civil Aviation, Almaty.

# BOARD LEADERSHIP AND COMPANY PURPOSE

### Our purpose, values and culture

Air Astana is a major economic and social enabler. In addition to helping to connect Kazakhstan with its powerful neighbours, in 2019, we also stimulated mobility and growth in the world's largest landlocked country – where previously fewer than 50% of the local population had flown domestically – with the launch of FlyArystan. Due to COVID-19 restrictions, passenger traffic across the country decreased by 36%[1] during 2020. Nevertheless, the social benefits and economic stimulation resulting from this emerging business are vast and capable of providing significant opportunities for employment, growth of small businesses, development of infrastructure and, more importantly, help people move around the country and interact.

To achieve our mission of becoming one of the finest airlines in the world and a real domestic enabler, we are developing a corporate culture which reflects our values and ambitions. Excellence lies at the centre of all we do and, by embedding it into our culture, we build a happy, engaged and satisfied workforce that is fully invested in our core values.

Our HEART values (Hospitable, Efficient, Active, Reliable, Trustworthy) are rooted in all of our processes. We encourage and promote a flexible, family-oriented and ethical workplace in an environment that is rewarding and with equal opportunity for all.

Senior management lead campaigns and engagement sessions throughout the year to highlight our strategy, values and beliefs. Various indicators are used to provide insight into our culture, including employee engagement surveys, health, safety and wellbeing measures and diversity indicators. As a Board, we regularly assess the state of our culture, through activities such as regular compliance reviews and engagement survey results. We also monitor levels of engagement with our internal pension programme, which was the first of its kind in Kazakhstan, designed to retain talent and improve engagement.

### The role of the Board and Committees

The Board of Directors plays a fundamental stewardship role in ensuring that the Company operates safely, successfully and sustainably while generating long-term Shareholder value.

Air Astana has adopted a robust corporate governance framework that facilitates optimal decision-making to accomplish these priorities. The Board of Directors sits at the heart of this framework. The Board's duties include, but are not limited to:

- the determination of the Company's development priorities, preliminary approval of our long-term development strategy and submitting the strategy for Shareholder approval at the General Meeting of Shareholders;
- preliminary approval of the Company's short-term and medium-term business plans (development plan and annual budget) and submitting said plans for final Shareholder approval, as well as any amendments thereto, including capital expenditures not provided for in previously approved business plans;
- preliminary approval of the Company's annual financial statements;
- deciding on entering into major transactions (25% or more of the total amount of the book value of the assets); and on the increase of the Company's obligations by an amount equal to 10% or more of its own capital;
- submitting matters for consideration and resolution by the General Meeting of Shareholders pursuant to the law and/or the Company's Charter;
- election and dismissal of the Company's Registrar;
- approving and overseeing Company policies relating to risk management and internal control systems, as well as compliance and sustainability; and
- specifying procedures for the work of the Internal Audit Service (IAS), determining the remuneration of IAS staff, awarding bonuses to IAS staff based on the recommendations of the Audit Committee and approving the qualification requirements for IAS employees.

1. Source: Agency for Strategic planning and reforms of the Republic of Kazakhstan Bureau of National statistics

# DIVISION OF RESPONSIBILITIES

The roles of Chairman and President are separate and clearly defined in the Charter and the Corporate Governance Code that have been approved by Shareholders.

## The Chairman

The Chairman of the Board of Directors is elected by the General Meeting of Shareholders from among the members of the Board of Directors nominated by the Samruk-Kazyna Sovereign Welfare Fund. The Chairman is responsible for the leadership of the Board and for ensuring its effectiveness in all aspects of its role. The Chairman's role is supported by the Independent Directors. The Chairman of the Board of Directors manages the work of the Board of Directors, ensures the Board's effective performance in all areas of its responsibility, and ensures effective communication with Shareholders. The Chairman ensures that all Directors make an effective contribution to the Board's activities, including in terms of the Board's interaction with the Company's CEO. The Chairman ensures, together with the Corporate Secretary, the timely provision of reliable and accurate information to all Directors and determines the agenda for Board meetings.

## Non-Executive Directors

Our Non-Executive Directors bring wide and varied financial and operational experience to the Board and Committees. With their diverse range of expertise Non-Executive Directors bring an external perspective and objectivity to the Board's decision making. They constructively challenge performance of the Management and assist with development, approval and review of strategy.

## Corporate Secretary

The Corporate Secretary plays a key role in facilitating open dialogue 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 that any disputes involving Shareholders' rights are resolved.

Both the appointment and removal of the Corporate Secretary is a matter for the Board to approve. Yelena Kondachkova was appointed as a Corporate Secretary of Air Astana in 2007.

### Yelena Kondachkova

Yelena joined Air Astana in 2002 and has since held a number of positions within the Strategic Planning and Finance Departments. Before joining Air Astana, Yelena worked in various aviation companies, including Astana International Airport and a number of Kazakhstan airlines.

Yelena is a graduate of the State University of Civil Aviation in St. Petersburg (Russia, 2007) and the L. Gumilyov Eurasian University (Kazakhstan, 1998). She also studied at the Academy of International Relations and Diplomacy (Moldova) from 2001 to 2002.

In 2011, she was one of the first graduates to complete a certification programme for corporate secretaries of companies within the Samruk-Kazyna holding. Yelena is currently a student of the Institute of Chartered Secretaries and Administrators (London, UK).

## President and CEO

The President is responsible for the successful planning and execution of the objectives and strategies agreed by the Board and Shareholders and ultimately responsible for the day-to-day running of the Company.

In accordance with the relevant laws and our Charter, the President is authorised to carry out the following activities on behalf of the Company:

- the implementation of the business plan and the resolutions of the Board of Directors, as well as the preparation, of proposed business plans, annual financial statements, and annual management reports, and their submission for further consideration;
- the conclusion and signing of agreements and contracts; acting on behalf of the Company in the conclusion of deals with other entities, organisations, companies and institutions, including government agencies; and
- issuing and approving documents governing internal activities for the purpose of workflow management, including orders and instructions related to production, engineering and technical maintenance; procurement of goods, works and services; accounting; commercial policies; labour and employment issues; and making amendments and/or additions to such documents and other functions.

The President's strategic capacity is strengthened by the Senior Management Team.

# COMPOSITION, SUCCESSION AND EVALUATION

### Composition and independence of the Board

As of 31 December 2020, the Board of Directors consisted of 9 members, with 2 members nominated by the Samruk-Kazyna Sovereign Wealth Fund, 2 members nominated by BAE Systems, 4 Independent Directors and 1 member representing the Senior Management team. The Board is elected by cumulative voting at the General Meeting of Shareholders.

Mr. Karymsakov, Chairman of the Board in 2020, is Managing Director for Economy and Finance at Samruk-Kazyna JSC and to mitigate against any concerns about independence, we have increased the number of Independent Directors on the Board from 3 to 4. As an additional mitigating measure, the Company is considering establishing and appointing a Senior Independent Director.

According to our own internal assessment, the composition of the Board continues to improve and is well balanced and optimal for our current stage of corporate governance in terms of both the competencies and age of Board members, and the representation of Shareholders' interests.

The Board is satisfied that each member of the Board of Directors is able to allocate sufficient time to discharge his or her duties to Air Astana's Board effectively.

### Evaluation

Each year, the individual Board Committees take time to review and evaluate activities undertaken during the year. These are measured against a number of criteria: firstly, the terms of reference and key objectives attributed to each Committee and secondly, whether they have fulfilled the priorities agreed for the year. The outcomes of this process are fed back to the Board in an annual report.

A planned external evaluation of Board performance in 2020 had to be postponed due the COVID-19 situation. Self-assessment will be undertaken during first quarter of 2021.

### Board induction and training

We have developed a special orientation programme to ensure the most effective onboarding of new Directors within the first six months following their appointment. The programme's main function is to quickly acquaint new Directors with Air Astana and its key assets, representatives of its management bodies, existing practices and standards of corporate governance, specific features of the Company and the industry, and other information necessary to perform their duties as members of the Board of Directors.

In 2020, Beibit Karymsakov became Chairman of the Board and Keith Gaebel and Eldar Abdrazakov both joined the Board as Independent Directors.

### Information and support

The Board of Directors is supplied with appropriate, clear and accurate information in a timely manner. The Chairman of the Board of Directors is responsible for the timely receipt by the Directors of accurate and clear information and ensures that the elected Directors are provided with all relevant information needed to enable them to perform their duties. The Executive Body and Internal Audit Service are obliged to provide such information and the Directors may request to provide clarifications and explanations where necessary.

The Board of Directors and its Committees are entitled to use the services of external experts and consultants, in the established procedure, using funds allocated by the Company's budget for the relevant year, and they can also make use of additional resources to enable them to carry out their duties in full.

The Corporate Secretary facilitates the information flow within the Board of Directors, its Committees, and between the Senior Management team and the Board of Directors. All Directors have access to the advice and services of the Corporate Secretary, who is responsible to the Board on matters of corporate governance and compliance with Board procedures.

The Corporate Secretary plays a key role in preparing and overseeing Board of Directors' meetings and the General Meeting of Shareholders.

The Corporate Secretary ensures that the disclosure and dissemination of information is done in compliance with the rights and interests afforded to shareholders. The Corporate Secretary also facilitates the smooth coordination between the Company's bodies, according to the provisions of the Charter and other internal documents, while ensuring that the Company's officials are kept informed about the latest developments in corporate governance practices.

### Re-election

The effectiveness and commitment of each of the members of the Board of Directors is reviewed annually in order to ensure fair and objective representation of the Shareholders' interests. Persons elected to the Board of Directors shall be re-elected on an annual basis with the term of office of one year. The Board has satisfied itself as to the individual skills, relevant experience, contributions and time commitment of all the Independent Directors, taking into account their other offices and interests held.

# BOARD ACTIVITIES IN 2020

## Risk management and internal control

**Activities in 2020**

- Considered COVID-19 Crisis Management and Recovery Plan.
- Reviewed regular updates on the Company's cash position.
- Reviewed and approved the quarterly updates of the Risk Register and Risk Map; the quarterly reports on realised risks; and the Company's Risk Appetite profile.
- Approved amendments to the Risk Management Policy.
- Approved amendments to the Cash Management, Bank Risk & Treasury Reporting Policy.
- Approved the amended Policy on the Organisation of Insurance Coverage.
- Reviewed the operational safety reports.
- Reviewed the annual report for 2019 and the quarterly reports on Internal Audit Service's activities for 2020.
- Reviewed the Internal Audit Service report on the status of execution of the Action Plan for Implementation of the Strategic Plan.
- Reviewed compliance issues (hot line and conflict of interest reports).
- Approved the staff changes in the Internal Audit Service.
- Approved the amended Methodology for Audit of Information Technologies (IT).
- Approved the Methodology on Evaluation of the Compliance Management System.
- Approved the Internal Audit Service training budget.
- Approved the Internal Audit Service's Annual Audit Plan.

## Financial and operational activities

**Activities in 2020**

- Reviewed the annual report of the Company on the financial and operational activity for 2019.
- Preliminarily approved the annual consolidated financial statements for 2019.
- Proposed a procedure for distribution of net income for 2019 and the dividend for 2019.
- Regularly reviewed the Company performance against the budget and five-year business plan.
- Considered the annual banks review and approved the Company's accredited banks credit limits.
- Reviewed the quarterly treasury reports on placed deposits and bank exposure.
- Approved the President's decision to open a current bank account.
- Approved the procedure for determining market prices for goods, works and services of Air Astana JSC and of organisations with 50% or more of voting shares (equity stakes) directly or indirectly owned by Air Astana JSC by right of ownership or trust management.
- Approved amendments to a number of transactions previously agreed by the Board.
- Approved the Company's new flight destinations outside Kazakhstan.
- Made decisions relating to the competence of the General Meeting of Stockholders of a legal entity in which the Company owns stocks of 10% or more.
- Made decisions on the extension of existing and new transactions for aircraft operating leases.

## Governance and remuneration

**Activities in 2020**

- Reviewed the annual reports on the activities of the Board of Directors and its Committees for 2019.
- Reviewed the plan for improving corporate governance practice for 2020.
- Reviewed the recommendations of the Nomination and Remuneration Committee.
- Preliminary decided on the determination of composition and term of office of the Board Committees and submitting these for approval by the Stockholders.
- Reviewed claims (absence of claims) made by the Shareholders against the Company and its officers for 2019 and the results thereof.
- Approval of the amended Regulations of the Labour Remuneration System and the Business Trip Rules of the Company.
- Consideration of the proposals on the payment and determination of the Company's Performance Bonus for 2019 for employees whose remuneration shall be determined by the Board of the Directors/Shareholders.
- Approved the plan of work and schedule of meetings of the Board of Directors for 2021.

## Strategic development

**Activities in 2020**

- Reviewed the implementation report on the Company's strategic development plan.
- Reviewed the Company's fleet update.
- Preliminarily approved the Company's Budget for 2021 and the Business Plan for 2021-2025 and submitting these for approval by the Stockholders.

## COVID-19 response

**Activities in 2020**

- Monitoring the implementation of the COVID-19 Crisis Management and Recovery Plan.
- Regular and direct communication with the Senior Management Team.
- Increased focus on cash and liquidity.
- Increased focus on risk management with reviews of the Risk Register each quarter (previously half-yearly).

## ENGAGING WITH OUR STAKEHOLDERS

# How we engaged with key stakeholder groups during the year

The Board is ultimately responsible for the direction, management, performance and long-term sustainable success of the Company. It sets the Company's strategy and objectives, taking into account the interests of all its stakeholders. A clear understanding of our stakeholders enables us to better understand their perspectives, and to factor the potential impact of strategic decisions on each stakeholder group into Boardroom discussions.

### Shareholders

We have a positive and long-term relationship with our Shareholders, to whom we continue to deliver strong returns. Our investors are involved in key strategic decisions through representation at Board level and they are kept closely appraised of material developments in the business. The Chairman of the Board of Directors manages the work of the Board of Directors, ensures the Board's effective performance in all areas of its responsibility, and ensures effective communication with Shareholders to achieve a balanced understanding of their issues and concerns.

#### Share ownership

51% of Air Astana is owned by the Samruk-Kazyna Sovereign Wealth Fund. The Company was created on 3 November 2008, by 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, with the intention of improving the competitiveness and stability of the national economy and to mitigate external risks to domestic economic growth.

BAE Systems (Kazakhstan) Limited owns 49% of Air Astana, and is a subsidiary of the British corporation BAE Systems PLC, which 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.

#### Dialogue with Shareholders

The Company actively engages with Shareholders and seeks their feedback. Independent Directors facilitate the formulation of opinions and decisions independent of their relations with Shareholders or executive bodies, and inform decision-making with due account of the interests of different Shareholder groups.

#### Constructive use of the General Meeting of Shareholders

The General Meeting of Shareholders is the highest governing body of Air Astana and has the authority to make decisions on all issues concerning the activities of the Company. Its functions and activities are defined by the legislation of the Republic of Kazakhstan, as well as the provisions of the Company's Charter and internal documents.

Additional materials such as annual and interim reports, presentations and other announcements are available via the Air Astana website at www.airastana.com/uk/enus/About-Us/Corporate-Governance.

### Employees

The success of our business depends upon the dedication and skill of our people. We employ 5,385 people across our operations. Air Astana is recognised as the leading employer in Kazakhstan, offering a broad range of employment opportunities with high levels of training and the potential to develop careers. We focus on maximising engagement, increasing diversity, maintaining low levels of staff turnover and facilitating training and career development.

We also work hard to provide a safe working environment, competitive remuneration and social packages. Every year, we invite all employees to participate in our online Engagement Survey. The results of each survey are carefully considered and discussed with senior management and line managers so that employees' concerns and aspirations are highlighted and addressed. As a result, a number of new initiatives have been developed and implemented.

The Company places its HEART values (Hospitable, Efficient, Active, Reliable, Trustworthy) at the core of its activities. Our commitment to integrity and compliance is set out in the Code of Conduct and through the Company's policies and standards, including Whistleblowing, Anti-Bribery and Corruption, and Conflict of Interest Policies.

### Suppliers and business partners

We build stable, long-term relationships with our suppliers and business partners, enabling us to achieve fair and mutually beneficial contractual relationships and uninterrupted service. We collaborate closely with all our contractors to ensure integrity and compliance with ethics, anti-corruption, environmental and safety standards. Our supply chain consists of a broad base of suppliers from start-ups and small businesses to large multinational companies.

In order to meet the Company's operational requirements, we have developed a transparent and effective procurement process, which is conducted in strict compliance via an electronic procurement portal. Anti-corruption clauses are already implemented in some supplier contracts. Compliance with ethical principles by suppliers and their reliability are also of great importance and will be implemented within our procurement processes in 2021.

We are strongly committed to the Government's "Economics of simple things" programme, aimed at promoting the use of local suppliers for socially significant goods and services. The percentage of our procurement budget spent on local suppliers increased to 36% in 2020. However, some goods and services, such as the technical maintenance of our aircraft, have to be sourced outside the domestic market.

### Government, regulators and local authorities

As the National Flag Carrier of the Republic of Kazakhstan, we work very closely with the government, regulators and authorities to help set the framework within which the Company operates. Air Astana contributes to the national wealth, is a significant taxpayer in its regions of operation and plays an increasing role in the development of local economies and the development of social projects.

### Passengers

We exist to serve our passengers and strive to meet and exceed their expectations. Our award-winning level of customer satisfaction is driven by excellence. We provide a world-class cabin experience, we are among the most punctual airlines in the world and our passengers are treated as special guests. We engage with customers across multiple touch points to listen to their needs. To read more about how we engage with our customers, please refer to the section Operating responsibly on page 60.

# STRATEGIC PLANNING COMMITTEE

**Garry Kingshott**
Chairman of the Strategic Planning Committee

The Strategic Planning Committee was created to assist with the effective performance of the Board of Directors and to develop recommendations for the Board on issues related to strategic development.

5

Committee meetings during the year ended December 2020.

**Committee members**

| |
|---|
| Garry Kingshott – Chairman |
| Janet Heckman |
| Myles Westcott |
| Kanat Alpysbayev[1] |
| Beibit Karymsakov[2] |

1. Member 1 January – 30 October 2020
2. Member 31 October – 31 December 2020

The responsibilities of the Strategic Planning Committee include reviewing management reports on the implementation of the Company's long- and medium-term development strategy and budget, delivery of strategic KPIs, and recommendations to the Board of Directors, including:

- Air Astana's priority areas of business activity and development;
- recommending potential amendments to, the Company's long-term development strategy;
- review of Company's performance against budget, business plan and 10-year Strategy
- corporate governance issues;
- Air Astana's strategy in view of changes in the economic, political, social and competitive environment; and
- suggested improvements to the Company's long-term performance and competitiveness in the aviation transportation market.

**Activities in 2020**

Key matters discussed in 2020:

- annual Strategic Planning Committee report for 2019;
- development of the Company's strategic plan and fleet updates;
- reports on financial and operational activity (implementation of the budget and development plan);
- COVID-19 crisis management and operational update;
- cash forecasts and management;
- the Company's business outlook for 2020 and 2021;
- Annual Budget for 2021;
- Business Plan (Development Plan) for 2021-2025;
- review of the strategic development of FlyArystan from 2021;
- approval of the 2021 plan of work for the Strategic Planning Committee.

**Priorities for 2021**

In addition to the Committee's regular activities in relation to strategic planning, the priorities for 2021 include:

- annual Strategic Planning Committee report for 2020;
- review the Management's reports on the implementation of a long-term development strategy, the medium-term business plan (development plan), annual budget and major investment projects;
- reports on the Company's cash position;
- reports on the results of FlyArystan;
- review the Management's proposals for the distribution of net profit for 2020 and the dividend amount per one common stock for 2020;
- review the Company's draft Budget for 2022;
- review the draft five-year business plan (development plan) for 2022-2026;
- plan of work for the Strategic Planning Committee for 2021.

# CORPORATE SOCIAL RESPONSIBILITY COMMITTEE

**Eldar Abdrazakov**
Chairman of the Corporate Social Responsibility Committee

The Corporate Social Responsibility (CSR) Committee is a consulting and advisory body of the Board of Directors and was created to assist the effective performance of the functions of the Board.

1

Committee meeting during the year ended December 2020.

**Committee members**

| |
|---|
| Eldar Abdrazakov – Chairman[1] |
| Janet Heckman[2] |
| Dmitriy Larionov[3] |
| Andrey Kravchenko |
| Simon Wood |

1. Chairman 31 March – 31 December 2020
2. Chairman 1 January – 30 March 2020; Member 31 March – 31 December 2020
3. Member 1 January – 30 March 2020

The CSR Committee develops recommendations for the Board regarding issues of social responsibility, occupational safety, health and environmental protection, including:

- Air Astana's CSR strategy and its implementation;
- policies and action in the areas of occupational health and safety, social responsibility and environmental protection, and social and charitable projects and policies;
- significant risks related to corporate social responsibility and appropriate mitigation plans;
- approval of the Social Responsibility Report.

**Activities in 2020**

Due to COVID-19 restrictions, the Committee met on only one occasion in March 2020. Key matters discussed included:

- the annual report on activities undertaken by the Corporate Social Responsibility Committee during 2019;
- the current status of preparation for the Company's 2019 annual Sustainability Report.

**Priorities for 2021**

In addition to the Committee's regular activities relating to corporate social responsibility, the priorities for 2021 include:

- annual report of activities undertaken by the Corporate Social Responsibility Committee during 2020;
- review the report on the Company's activities in the field of safety at work, labour, health and environment protection during 2020;
- review the Company's annual Corporate Social Responsibility report for 2020;
- review the update on the Company's employees' engagement index and social stability rating;
- formalise the Committee's plan of work for 2022.

# TREASURY COMMITTEE

**Keith Gaebel**
Chairman of the Treasury Committee

Established in October 2017, the Treasury Committee assists the Board of Directors in monitoring and improving the effectiveness of risk management related to the Company's treasury functions.

7

Committee meetings during the year ended December 2020.

**Committee members**

| |
|---|
| Keith Gaebel – Chairman[1] |
| Dmitriy Larionov[2] |
| Andrey Kravchenko[3] |
| Simon Wood |
| Beibit Karymsakov[4] |

1. Chairman 31 March – 31 December 2020
2. Chairman from 1 January – 30 March 2020
3. Member 1 January – 30 October 2020
4. Member 31 October – 31 December 2020

## The Committee's activities are aimed at assisting the Board of Directors in:

- verifying control mechanisms for the Company's treasury activities and ensuring the effectiveness and improvement of policies and procedures in the treasury function;
- monitoring treasury activities and notifying the Board of Directors of risks and opportunities associated with them, in all matters related to the treasury, in accordance with regulations and at the request of the Board of Directors.

### Activities in 2020

Key matters discussed included:

- annual report on Treasury Committee activities during 2019;
- quarterly reports on placed deposits and bank exposure;
- monthly treasury reports;
- cash forecasts and management;
- recommendations re increasing revolving short-term credit facilities by an amount equal to 10% or more of the Company's capital;
- new credit facilities;
- annual banks' review and recommendations re approval of accredited banks credit limits;
- amendments to the Cash Management, Bank Risk & Treasury Reporting Policy;
- approval of the 2021 plan of work for the Treasury Committee.

### Priorities for 2021

In addition to the Committee's regular activities in relation to treasury matters, the priorities for 2021 include:

- monthly and quarterly Treasury Reports;
- quarterly updates on placed deposits and banking risks;
- Treasury Committee's annual report for 2020;
- 2022 plan of work for the Treasury Committee;
- annual review of counterparty banks;
- approval of accredited banks credit limits
- revision of the Cash Management, Bank Risk & Treasury Reporting Policy;
- revision of Treasury Committee Regulations.

# NOMINATION AND REMUNERATION COMMITTEE

**Janet Heckman**
Chairman of the 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, the Executive body, the Head of the IAS, the Corporate Secretary and other employees whose appointment requires the approval of the Board of Directors or Shareholders.

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

3

Committee meetings during the year ended December 2020.

**Committee members**

| |
|---|
| Janet Heckman – Chairman |
| Dmitriy Larionov[1] |
| Garry Kingshott |
| Myles Westcott |
| Kanat Alpysbayev[2] |
| Eldar Abdrazakov[3] |
| Andrey Kravchenko[4] |

1. Member 1 January – 30 March 2020
2. Member 1 January – 30 October 2020
3. Member 31 March – 31 December 2020
4. Member 31 October – 31 December 2020

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

- the development of requirements for candidate qualifications and recommendations on election or nomination for the roles of Independent Directors, the President and CEO, the Corporate Secretary and the Head of the IAS;
- the development of a succession planning policy for members of the Board of Directors and its Committees, the executive body, the Corporate Secretary and the Head of the IAS;
- recommendations on the policy and structure of remuneration, as well as annual individual remuneration for members of the Board of Directors, the executive body, the Head of the IAS, the Corporate Secretary and other employees whose remuneration falls within the remit of the Board of Directors or Shareholders;
- considering the payment of year-end remuneration to employees whose remuneration must be agreed by the Board of Directors or Shareholders;
- conducting comparative analyses of remuneration levels and the remuneration policy for members of the Board of Directors, the executive body, the Head of the IAS, the Corporate Secretary and other employees whose remuneration falls within the remit of the Board of Directors or Shareholders.

### Activities in 2020

Key matters for discussion included:

– Nomination and Remuneration Committee's annual report on activities during 2019;

– recommendations re the 2020 salaries of employees and the Annual Bonus of the Company's President;

– reviewed the Rules of the Company's Incentive Plans;

– recommendations re the candidacy for the role of Independent Director;

– recommendations re the composition and terms of office of the Audit, Nomination and Remuneration, Strategic Planning, Treasury and Corporate Social Responsibility Committees;

– amended Regulations of the Labour Remuneration System and Business Trips Rules;

– recommendations re additional staff benefits and eligible reimbursable expenses;

– recommendations of terms of remuneration of the Company's President;

– approval of the 2021 plan of work of the Nomination and Remuneration Committee.

### Priorities for 2021

In addition to the Committee's regular work relating to nominations and remuneration, in 2021 the Committee also intends to discuss:

– the annual Nomination and Remuneration Committee report for 2020;

– development of procedures for Board performance evaluation/review of the results of the Board performance evaluation process;

– recommendations to Shareholders re the nomination of potential candidates for the Board of Directors;

– review of amounts and terms of remuneration and compensations for Independent Non-Executive Directors;

– proposals re changing the remuneration of the Company's officials and employees;

– plan of work for the Nomination and Remuneration Committee for 2022.

– Recommendations with regards to the terms of the remuneration payment (Company Performance Bonus) for 2021 to the employees of the Company whose remuneration shall be determined by the Board of the Directors/Shareholders of the Company.

# NOMINATION AND REMUNERATION COMMITTEE continued

An external agency is appointed to undertake the search and selection of for suitable candidates, based on the required profile: skills and experience; work experience including leadership; succession plan; diversity (local/international/gender); independence; sufficient time. The Nomination and Remuneration Committee assesses potential candidates against this profile and the selection results are presented to the Board of Directors. A recommendation/proposal is then put by the Board to the Shareholders.

The Committee also makes recommendations regarding the remuneration of these employees and executive officers.

**Remuneration policy**
Procedures relating to remuneration and compensation payments to the members of the Board of Directors is determined by the Policy of Remuneration of the Board of Directors, developed in accordance with the current laws of the Republic of Kazakhstan and our Charter and Corporate Governance Code.

Remuneration is not paid to the members of the Board of Directors nominated on behalf of Shareholders. Independent Directors are remunerated, and the amount of remuneration is determined at the General Meeting of Shareholders, based on the recommendations of the Board of Directors and the Nomination and Remuneration Committee.

The amount to be paid to the executive body is also determined at the General Meeting of Shareholders, based on the recommendations of the Nomination and Remuneration Committee.

Independent Directors are paid as follows:

- an annual fixed remuneration, for participation in sessions of the Board of Directors;
- compensation of expenses associated with the performance of duties;
- travel benefits.

The amounts of annual fixed remuneration and compensation are determined in accordance with the contract agreed with each Independent Director on the basis of a decision of the General Meeting of Shareholders.

**Remuneration in 2020**
In 2020, the total remuneration paid to Independent Directors was USD 200,039.43 including taxes.

# AUDIT COMMITTEE

**Keith Gaebel**
Chairman of the Audit Committee

The Audit Committee supports the Board of Directors in supervising our financial and economic activities, the reliability and efficiency of internal control and risk management system, the implementation of corporate governance standards, 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.

7

Committee meetings during the year ended December 2020.

### Committee members

Keith Gaebel – Chairman[1]
Dmitriy Larionov[2]
Janet Heckman
Garry Kingshott[3]
Eldar Abdrazakov[4]

1. Chairman 31 March – 31 December 2020
2. Chairman 1 January – 30 March 2020
3. Member 1 January – 30 March 2020
4. Member 31 March – 31 December 2020

## The following issues fall within the remit of the Audit Committee:

- review and control the effectiveness of internal controls, compliance and risk management systems;
- control of independence of internal and external audits;
- developing recommendations for the Board of Directors on the appointment or 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 and employees of the Internal Audit Service;
- holding meetings with internal and external Auditors without the presence of members of the Company management;
- investigating any other issues that fall within the Committee's remit.

### Activities in 2020

Key matters of discussion during 2020 included:

- annual report on the Audit Committee's activities during 2019;
- Internal Audit Service's report on activities during 2019, status reports on the Action Plan for Implementation of the Strategic Plan and Audit Plans during the year.
- performance evaluations of the Internal Audit Service;
- quarterly reports concerning the Company's whistleblowing hotline and employees' conflicts of interest.
- amendments to the Methodology for the Audit of Information Technologies.
- plan for improvement of the Company's corporate governance practice for 2020.
- reports of the External Auditors pertaining to the annual, interim consolidated financial statements and the audit plan and scope for 2020.
- Company's Risk Appetite, quarterly and half-yearly Risk Register and Risk Map updates; quarterly reports on realised risks; amendments to the Risk Management Policy of the Company.
- amended policy on the organisation of the Company's insurance coverage.
- plan of work for the Audit Committee in 2021.

### Priorities for 2021

Key matters for discussion will include:

- annual financial statements;
- critical accounting policies and alternative treatments of financial information;
- independent Auditor relationship;
- internal controls and risk management;
- monitoring and approval of all aspects of the Internal Audit Service, including the annual Audit Plan, structure, staff numbers, salaries and budgets;
- effectiveness of internal procedures on legal compliance;
- review of reports on latest compliance regulations from external bodies and management;
- effectiveness of the Company's Whistleblowing Policy.

# AUDIT COMMITTEE continued

### Integrity of financial statements

Through its activities, under the auspices of the Audit Committee, the Board focuses on maintaining the integrity and quality of our financial and business reporting, considering the significant accounting judgements made by management and the findings of the external Auditor. In doing so, the Company conducts financial and business reporting based on the following principles: transparency and accountability; completeness and reliability; impartiality and independence; professionalism and competence.

Please refer to:

- page 91 for the Management's statement on the Annual Report and Accounts being fair, balanced and understandable;
- page 92 for the Independent Auditor's report including disclosures about the audit scope and responsibilities of the Auditor; and
- the Strategic Report on pages 20 and 21 for an explanation of the Company's business model and on pages 24 and 26 for the strategy for delivering the objectives.

### Long-term viability statement

The Board of Directors evaluates the Company's viability based on an assessment of the impact of significant risks on the Company's operational and financial performance, forecast on a consistent basis. The Business Plan and the Strategy are regularly reviewed by the Management of the Company, the Strategic Planning Committee and the Board of Directors, and stressed against severe but plausible downside scenarios, which may occur during 1-5- and 1-10-year periods. Each scenario considers the impact of international oil markets, fuel price shocks, demand elasticity, devaluation of local currency, the ability to raise additional capital and access to credit facilities, epidemic diseases and other significant risks on the Company's performance. This analysis enables the Company to maintain and develop robust and resilient mitigating actions, designed to support the Company's viability and sustainability. The Company's Corporate Risk Management System enables the Board of Directors and the Management to ensure the detection of any events potentially affecting the Company's activities, as well as the control of such events within an acceptable level (detailed on pages 40 to 45). Responding to the COVID-19 global pandemic the Company has implemented complex measures to ensure the protection of its passengers and employees, and to maintain and support its financial viability under unprecedented conditions that saw many of its peers going bankrupt or bailed out by their governments. Based on the above, the Board of Directors has reasonable assurance in the Company's sustainability and ability to meet its obligations.

### Risk management and internal control

The overall responsibility for Air Astana's systems of risk management and internal control and for reviewing their effectiveness rests with the Board. The Board conducts an annual review of the effectiveness of the systems of internal control during the year under the auspices of the Audit Committee.

The Board of Directors regularly reviews and evaluates the overall risk management systems and environment in the Company. Inevitably, many of the deliberations during 2020 were focused on the impact of the global pandemic on our overall risk profile. The COVID-related suspension of the vast majority of Air Astana's flights throughout the year, for example, made our commercial risk factor one of the most significant risks for the Company.

We have reviewed and fully support the COVID-19 Crisis Management and Recovery Plan, formulated and being effectively implemented by the Senior Management Team, with its actions mitigating against increased risk during continuing uncertain times.

Further information on the key risks and uncertainties and mitigation measures is available on pages 42 to 45 of this report.

The Audit Committee acts in the interests of Shareholders and provides oversight support to the Board of Directors concerning the reliability and efficiency of the risk management system through the following responsibilities:

- review of reports on changes to the Company's risk map on a quarterly basis;
- review of changes to the Risk Register;
- review of reports on key risks;
- annual review of the risk appetite and semi-annual review of reports on realised risks; and
- review of reports on compliance with regulatory requirements and any significant deviations from the standard risk management process.

## Internal audit

### Mission and functions

Air Astana's Internal Audit Service (IAS) was created in December 2007 by a decision of the Board of Directors.

The IAS organises and carries out internal audits and reports directly to the Board of Directors. Supervision of the IAS is carried out by the Audit Committee in accordance with internal documents governing its activities.

The appointment and dismissal of the Head of the IAS falls within the remit of the General Meeting of Shareholders. The appointment and dismissal of IAS employees is within the remit of the Board of Directors.

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

- risk management system;
- internal control system;
- corporate governance system.

The IAS performs the following functions:

- evaluation of the adequacy and performance of internal controls within the Company's corporate governance framework, operational (production and financial) activities and its information systems with regards to:
  - achievement of the Company's strategic objectives, efficiency of its activities and adopted programmes
  - reliability and completeness of information on the Company's activities
  - rational and efficient use of the Company's resources and methods 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 Company bodies (compliance control);
- evaluation of the Company's corporate governance system and principles, and their compliance with the Company's ethical standards and values;
- evaluation of fraud risk and the effectiveness of fraud risk management;
- evaluation of the implementation and efficiency of risk management methodologies and procedures;
- audit of the Company's information systems;
- verification of compliance with the legislation of the Republic of Kazakhstan, international agreements, internal documentation and the implementation of instructions from authorised bodies, resolutions of the Company's bodies and the evaluation of systems developed to follow these requirements;
- consulting the Board of Directors, the executive body and the Company's structural bodies on further improvement of internal control, risk management, corporate governance and the internal audit function;
- conducting unplanned audits;
- monitoring the implementation of the external Auditor's recommendations;
- follow-up oversight over the implementation of IAS recommendations;
- other functions assigned to the IAS within the limits of its remit.

Based on its evaluations and audits, the IAS issues recommendations (including those directed at the improvement of internal control systems, risk management systems, processes and principles of operations) and comments on any issues within its remit.

# AUDIT COMMITTEE continued

### Audit process

The IAS operates in accordance with the Audit Plan approved by the Board of Directors. Its activities include assessments of the performance of the internal control system, risk management and corporate governance.

During its work, the IAS is guided by regulations on the IAS and methodological guidelines for the organisation of internal audits, as well as International Standards for the Professional Practice of Internal Auditing.

The IAS processes requests from various Company departments and publishes information on the Company's intranet. Requests can include the provision of consultations or advice on issues related to internal control systems, risk management, accounting, etc.

### Compliance with standards

IAS activities conform with International Standards for the Professional Practice of Internal Auditing, which were confirmed by KPMG Tax and Advisory LLP, a qualified independent external consultant, in April 2016.

External assessments of IAS activities are performed in two areas of the standards (quality standards and performance standards) and best international practice. According to the most recent report, IAS activities fully comply with 48 international professional standards for internal audit.

In the framework of the most recent assessment, the maturity level of IAS activities in regard to international practice was characterised as "progressive", the highest level of maturity according to KPMG's methodology.

## External audit

The external Auditor adheres to International Standards on Auditing and the International Financial Reporting Standards for rendering audit services.

The current practice of selecting an external Auditor for Air Astana involves a set of procedures for selecting an Auditor that precede the signing of an agreement for rendering audit services, in accordance with Air Astana Procurement Regulations approved by the Board of Directors. This procedure was developed in accordance with the laws of the Republic of Kazakhstan, as well as the Company's Charter, Procurement Regulations and other internal documents.

The Auditor is selected for a period not exceeding three years. The Auditor must develop a succession plan for achieving this result and submit the plan to the Audit Committee for consideration no later than one year before a new external Auditor is selected.

Air Astana's external Auditor for the period of 2020 – 2022 is KPMG Audit LLP, an independent audit organisation.

# DIVIDEND POLICY

We have developed our Dividend Policy in accordance with the legislation of the Republic of Kazakhstan, our Charter and other internal documents. The Policy specifies a transparent process for determining both the size of dividends and the conditions under which dividends are paid while aiming to achieve an appropriate balance between returning value to Shareholders and financing our continued growth.

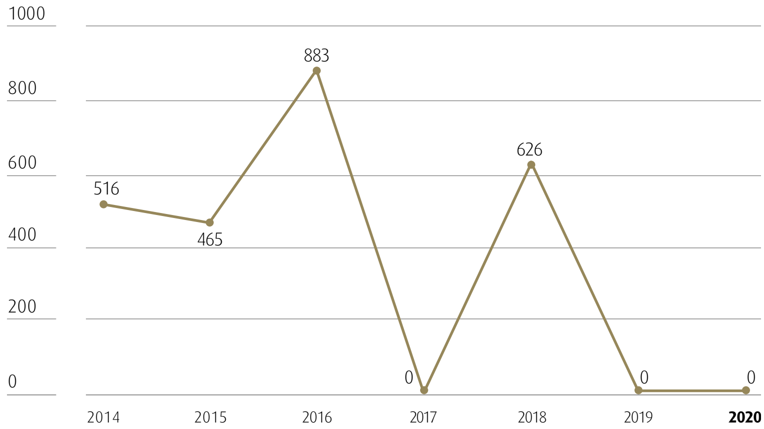
Terms for payment of dividends to Shareholders:

- the Company must have a net profit for the year;
- there must be no limitations on the payment of dividends;
- there has to be a recommendation from of the Board of Directors on the size of the dividends;
- there has to be a decision of the General Meeting of Shareholders.

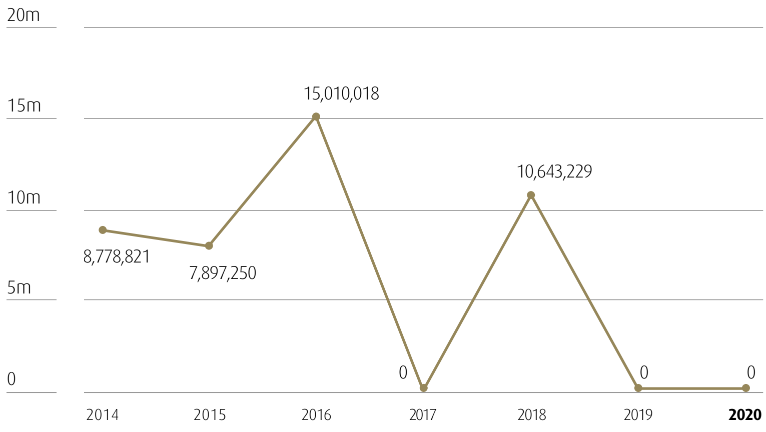
In accordance with the Dividend Policy the Company allocates 30% of net income, as calculated in accordance with International Financial Reporting Standards, to a dividend, unless otherwise decided by the General Meeting of Shareholders.

The Company has placed 17,000 common shares, a number that has remained unchanged throughout the years, as presented above.

**Amount of paid dividends per share (USD)**




**The total amount of paid dividends (USD)**




| | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 |
|---|---|---|---|---|---|---|---|
| Amount of accrued and paid dividends per share (USD) | 516 | 465 | 883 | 0 | 626 | 0 | 0 |
| Previous year net profit (USD '000) | 51,364 | 19,453 | 48,741 | (39,865) | 39,318 | 5,352 | 30,032 |
| Dividend pay-out ratio | 20% | 50% | 50% | – | 30% | – | – |

# CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2020

# STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2020

Management is responsible for the preparation of the consolidated financial statements that present fairly the consolidated financial position of JSC Air Astana and its subsidiary (the "Group") as at 31 December 2020, the results of its consolidated operations, cash flows and changes in equity for the year then ended in compliance with International Financial Reporting Standards ("IFRS").

In preparing the consolidated 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 Group's financial position and financial performance; and
- making an assessment of the Group'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 Group;
- maintaining adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the consolidated financial position of the Group, and which enable them to ensure that the consolidated financial statements of the Group comply with IFRS;
- maintaining statutory accounting records in compliance with the legislation of Kazakhstan and IFRS;
- taking such steps as are reasonably available to them to safeguard the assets of the Group; and
- preventing and detecting fraud and other irregularities.

The financial statements for the year ended 31 December 2020 were authorised for issue on 3 March 2021 by management of the Group.

**On behalf of management of the Group:**

**Peter Foster**
President

**Ibrahim Canliel**
Chief Financial Officer

**Azamat Ospanov**
Vice-president Finance Accounts,
Chief Accountant


3 March 2021
Almaty, Republic of Kazakhstan

# INDEPENDENT AUDITORS' REPORT

To the Shareholders and Board of Directors of JSC Air Astana

**Opinion**
We have audited the consolidated financial statements of JSC Air Astana (the "Company") and its subsidiary (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2020, the consolidated statements of profit or loss, other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2020, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

**Basis for Opinion**
We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants International Code of Ethics for Professional Accountants (including International Independence Standards) *(IESBA Code)* together with the ethical requirements that are relevant to our audit of the consolidated financial statements in the Republic of Kazakhstan, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements**
Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

**Auditors' Responsibilities for the Audit of the Consolidated Financial Statements**
Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

The engagement partner on the audit resulting in this independent auditors' report is:

**Sergey Dementyev**
Certified Auditor of the
Republic of Kazakhstan,
Auditor's Qualification Certificate
No. МФ-0000086 of 27 August 2012

**KPMG Audit LLC**
State License to conduct audit # 0000021 dated 6 December 2006 issued by the Ministry of Finance of the Republic of Kazakhstan

**Sergey Dementyev**
General Director of KPMG Audit LLC
acting on the basis of the Charter

5 March 2021

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS
for the year ended 31 December 2020

| '000 USD | Notes | 2020 | 2019 |
|---|---|---|---|
| **Revenue and other income** | | | |
| Passenger revenue | 6 | **358,413** | 824,952 |
| Cargo and mail revenue | 6 | **24,561** | 21,145 |
| Other income | 6 | **11,033** | 47,952 |
| Gain from sale and leaseback transaction | 6 | **6,257** | 4,680 |
| **Total revenue** | | **400,264** | **898,729** |
| | | | |
| **Operating expenses** | | | |
| Depreciation and amortisation | 12 | **(101,035)** | (81,355) |
| Fuel and oil costs | | **(89,212)** | (207,599) |
| Employee costs | 7 | **(72,650)** | (103,139) |
| Handling, landing fees and route charges | 7 | **(47,225)** | (109,402) |
| Engineering and maintenance | 7 | **(43,198)** | (94,407) |
| Passenger service | 7 | **(36,565)** | (91,527) |
| Selling costs | 7 | **(17,093)** | (42,360) |
| Aircraft crew costs | 7 | **(14,872)** | (35,327) |
| Insurance | | **(5,784)** | (9,104) |
| IT and communication costs | | **(4,223)** | (3,893) |
| Taxes | | **(4,158)** | (1,718) |
| Aircraft lease costs | 7 | **(3,401)** | (13,760) |
| Consultancy, legal and professional services | | **(3,254)** | (4,018) |
| Property lease cost | | **(2,425)** | (2,485) |
| Impairment loss on trade receivables | | **(117)** | (738) |
| Other operating costs | | **(24,366)** | (19,198) |
| **Total operating expenses** | | **(469,578)** | **(820,030)** |
| | | | |
| **Operating (loss)/profit** | | **(69,314)** | **78,699** |
| Finance income | 8 | **1,427** | 2,221 |
| Finance costs | 8 | **(36,076)** | (26,376) |
| Foreign exchange gain/loss, net | | **(12,673)** | (12,749) |
| **(Loss)/profit before tax** | | **(116,636)** | **41,795** |
| Income tax benefit/(expense) | 9 | **22,703** | (11,763) |
| **(Loss)/profit for the year** | | **(93,933)** | **30,032** |
| **Basic and diluted earnings per share (in USD)** | 19 | **(5,525)** | **1,767** |

**On behalf of the Group's management:**


**Peter Foster**
President

**Ibrahim Canliel**
Chief Financial Officer

**Azamat Ospanov**
Vice-president Finance
Accounts, Chief Accountant

3 March 2021
Almaty, Republic of Kazakhstan

The consolidated statement of profit or loss and other comprehensive income is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 100 to 147.

# CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

for the year ended 31 December 2020

| '000 USD | Notes | 2020 | 2019 |
|---|---|---|---|
| **Net (loss)/income for the period** | | **(93,933)** | **30,032** |
| **Other comprehensive income to be reclassified into profit or loss in subsequent periods:** | | | |
| Realised net loss from cash flow hedging instruments | 24 | **11,449** | 11,156 |
| Corporate income tax related to loss from hedging instruments | 24 | **(2,290)** | (2,231) |
| **Other comprehensive income for the period, net of income tax** | | **9,159** | **8,925** |
| **Total comprehensive (loss)/income for the period** | | **(84,774)** | **38,957** |

The consolidated statement of other comprehensive income is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 100 to 147.

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION
## as at 31 December 2020

| '000 USD | Notes | 31 December 2020 | 31 December 2019 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 10 | **705,112** | 617,193 |
| Intangible assets | 11 | **1,646** | 1,695 |
| Prepayments | 15 | **12,353** | 12,069 |
| Guarantee deposits | 13 | **20,410** | 16,732 |
| Deferred tax assets | 9 | **8,771** | – |
| Trade and other receivables | 16 | **3,285** | 3,240 |
| | | **751,577** | **650,929** |
| **Current assets** | | | |
| Inventories | 14 | **46,371** | 50,001 |
| Prepayments | 15 | **15,386** | 31,022 |
| Income tax prepaid | | **3,266** | 895 |
| Trade and other receivables | 16 | **10,220** | 33,096 |
| Other taxes prepaid | 17 | **15,166** | 33,346 |
| Guarantee deposits | 13 | **5,814** | 16,629 |
| Cash and bank balances | 18 | **201,354** | 176,442 |
| Other financial assets | | **–** | 234 |
| | | **297,577** | **341,665** |
| **Total assets** | | **1,049,154** | **992,594** |
| **EQUITY AND LIABILITIES** | | | |
| **Equity** | 19 | | |
| Share capital | | **17,000** | 17,000 |
| Functional currency transition reserve | | **(9,324)** | (9,324) |
| Reserve on hedging instruments, net of tax | | **(44,686)** | (53,845) |
| Retained earnings | | **55,417** | 149,350 |
| **Total equity** | | **18,407** | **103,181** |
| **Non-current liabilities** | | | |
| Loans | 23 | **53,004** | 6,430 |
| Lease liabilities | 24 | **572,322** | 495,286 |
| Deferred tax liabilities | 9 | **–** | 12,763 |
| Provision for aircraft maintenance | 21 | **45,537** | 53,849 |
| Employee benefits | | **1,559** | 1,219 |
| | | **672,422** | **569,547** |
| **Current liabilities** | | | |
| Loans | 23 | **111,009** | 10,395 |
| Lease liabilities | 24 | **132,340** | 111,216 |
| Deferred revenue | 20 | **38,112** | 67,918 |
| Provision for aircraft maintenance | 21 | **37,533** | 37,413 |
| Trade and other payables | 22 | **39,331** | 92,924 |
| | | **358,325** | **319,866** |
| **Total liabilities** | | **1,030,747** | **889,413** |
| **Total equity and liabilities** | | **1,049,154** | **992,594** |

The consolidated statement of financial position is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 100 to 147.

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2020

| '000 USD | Share capital | Functional currency translation reserve | Reserve on hedging instruments | Retained earnings | Total equity |
|---|---|---|---|---|---|
| **Balance at 1 January 2019** | **17,000** | **(9,324)** | **(62,770)** | **119,318** | **64,224** |
| Profit for the year | – | – | – | 30,032 | 30,032 |
| Other comprehensive income: Realised loss on cash flow hedging instruments, net of tax | – | – | 8,925 | – | 8,925 |
| **Total comprehensive income for the year** | – | – | 8,925 | 30,032 | 38,957 |
| **At 31 December 2019** | **17,000** | **(9,324)** | **(53,845)** | **149,350** | **103,181** |
| **At 1 January 2020** | **17,000** | **(9,324)** | **(53,845)** | **149,350** | **103,181** |
| Loss for the year | – | – | – | (93,933) | (93,933) |
| Other comprehensive income: Realised loss on cash flow hedging instruments, net of tax | – | – | 9,159 | – | 9,159 |
| **Total comprehensive (loss)/income for the year** | – | – | 9,159 | (93,933) | (84,774) |
| **At 31 December 2020** | **17,000** | **(9,324)** | **(44,686)** | **55,417** | **18,407** |

The consolidated statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 100 to 147.

# CONSOLIDATED STATEMENT OF CASH FLOWS
## for the year ended 31 December 2020

| '000 USD | Notes | 2020 | 2019 |
|---|---|---|---|
| **OPERATING ACTIVITIES:** | | | |
| **(Loss)/Profit before tax** | | **(116,636)** | **41,795** |
| Adjustments for: | | | |
| Depreciation and amortisation of property, plant and equipment and intangible assets | 12 | **101,035** | 81,355 |
| Gain on disposal of property and equipment | | **(6,257)** | (5,901) |
| Change in impairment allowance for trade receivables, guarantee deposits and cash and bank balances | 25 | **(464)** | 1,226 |
| Change in write-down of obsolete and slow-moving inventories | 14 | **(413)** | 427 |
| Change in vacation accrual | | **(570)** | 528 |
| Change in provision for aircraft maintenance | 7 | **20,344** | 28,467 |
| Change in customer loyalty program provision | 20 | **826** | 1,223 |
| Foreign exchange loss, net | | **12,673** | 12,749 |
| Finance income, excluding impairment | 8 | **(1,183)** | (2,670) |
| Finance costs, excluding impairment | 8 | **35,370** | 26,376 |
| Effect of COVID-19 related rent concessions | 24 | **(1,986)** | – |
| Gain from early return of aircraft | 24 | **(2,844)** | – |
| Impairment of property, plant and equipment | 10 | **14,722** | – |
| Gain on insurance case | 6 | **–** | (24,406) |
| **Operating cash flow before movements in working capital** | | **54,617** | **161,169** |
| Change in trade and other receivables | | **23,486** | (4,762) |
| Change in prepaid expenses | | **30,099** | (16,435) |
| Change in inventories | | **4,043** | (5,069) |
| Change in trade and other payables and provision for aircraft maintenance | | **(76,397)** | 16,163 |
| Change in deferred revenue | | **(30,632)** | 13,964 |
| Change in other financial assets | | **(308)** | (1,639) |
| **Cash generated from operations** | | **4,908** | **163,391** |
| Income tax paid | | **(3,517)** | (12,120) |
| Interest received | | **1,170** | 2,651 |
| **Net cash generated from operating activities** | | **2,561** | 153,922 |
| **INVESTING ACTIVITIES:** | | | |
| Purchase of property, plant and equipment | | **(30,287)** | (35,525) |
| Proceed from sale and leaseback transaction | | **33,410** | 8,694 |
| Proceeds from insurance case | 6 | **–** | 17,698 |
| Proceeds from disposal of property, plant and equipment | | **2,967** | 3,276 |
| Purchase of intangible assets | | **(828)** | (429) |
| Bank and Guarantee deposits placed | | **(3,578)** | (12,136) |
| Bank and Guarantee deposits withdrawn | | **6,788** | 29,729 |
| **Net cash generated from investing activities** | | **8,472** | **11,307** |

Continued on the next page

| ’000 USD | Notes | 2020 | 2019 |
|---|---|---|---|
| **FINANCING ACTIVITIES:** | | | |
| Repayment of lease liabilities | 24 | **(100,020)** | (103,931) |
| Interest paid | 24 | **(29,587)** | (24,904) |
| Repayment of borrowings and additional financing from sale and leaseback | 24 | **(66,290)** | (1,349) |
| Proceeds from borrowings and additional financing from sale and leaseback | 24 | **210,958** | 9,000 |
| **Net cash generated from/(used) in financing activities** | | **15,061** | **(121,184)** |
| **NET INCREASE IN CASH AND BANK BALANCES** | | **26,094** | **44,045** |
| Effect of exchange rate changes on cash and bank balances held in foreign currencies | | **(1,180)** | (426) |
| Effects of movements in ECL on cash and bank balances | | **(2)** | (3) |
| CASH AND BANK BALANCES, at the beginning of the year | | **176,442** | 132,826 |
| **CASH AND BANK BALANCES, at the end of the year** | 18 | **201,354** | **176,442** |

The consolidated statement of cash flows is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 100 to 147.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2020

## 1. Nature of activities

JSC Air Astana is a joint stock company (the "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 Parent Company was re-registered as a joint stock company on 27 May 2005.

The Company has a subsidiary JSC «Aviation Company «Air Kazakhstan» (hereinafter – the "Subsidiary") which was acquired in November 2019. Together they are referred to as the "Group".

In November 2019 the Company obtained control of the Subsidiary by acquiring one hundred percent of the shares, which are 101,665 shares, and voting interests for KZT 2. At the time of the acquisition the Subsidiary had negative net assets of KZT 7 thousand. Taking control of the Subsidiary will enable the Company to separate its division a new low-cost airline operating under the FlyArystan brand as a low cost airline in the future. The Subsidiary had only limited operations during 2020.

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

The Group operated its maiden flight on 15 May 2002, a Boeing 737 service from Almaty to Kazakhstan's national capital, Nur-Sultan (Astana at the time). As at 31 December 2020, the Group operated 34 aircraft that are acquired under lease.

The Parent Company re-registered its office in 2010 from Nur-Sultan (Astana at the time), Kazakhstan to Zakarpatskaya Street 4A, Almaty, Kazakhstan as the Parent Company's main airport of operations is Almaty International Airport.

The shareholders of the Group 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 Group, respectively.

## 2. Basis of accounting

**Statement of compliance**
These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs").

**Functional and presentation currency**
The national currency of Kazakhstan is the Kazakhstani tenge ("tenge"), which until 31 December 2017 was the Company's functional currency, because it reflected the economic substance of the underlying events and circumstances of the Company.

During 2017, management reassessed the indicators of the Company's functional currency, with particular focus on the Company's increasing international flight operations, and noted that an increasing part of the Company's operations are influenced by currencies other than tenge; predominantly the US Dollar. As a result, management concluded that with effect from 31 December 2017 (the transition date, for the purpose of the financial reporting under International Financial Reporting Standards), that the Company's functional currency is the US Dollar.

As requested by shareholders, the Group prepares two sets of financial statements with presentation currency Kazakhstani tenge and US Dollar ("USD") as shareholders believe that both currencies are useful for the users of the Group's consolidated financial statements. These consolidated financial statements have been presented in USD for the year ended 31 December 2020. All financial information presented in USD has been rounded to the nearest thousand, so minor discrepancies may arise from addition of these amounts.

**Impact of COVID-19**

In December 2019, a new strain of coronavirus ("COVID-19") was reported in Wuhan, China. At the initial stages, the impact manifested itself as regional, resulting in the cancellation of flights to China and South Korea.

Within the next three months the virus spread globally and the World Health Organization subsequently declared COVID-19 a pandemic. The Government of the Republic of Kazakhstan (hereinafter referred to as "Government") declared a state-of-emergency on 15 March 2020 that continued with extensions until 10 May 2020. The Government introduced a wide range of measures to control the spread of COVID-19 including social distancing, working from distance, banning public events and gatherings, closure of shopping malls and restaurants as well as a mobility restriction. Domestic flights were suspended under the State of Emergency from 22 March until 1 May 2020 and the vast majority of the international flights were suspended by the end of March 2020. While the Company had to park the majority of its fleet, it continued activity with scheduled flights from West Kazakhstan to Europe serving oil rotation workers, repatriation flights, domestic and international charter flights that helped keep vital industries operating. The Group also operated cargo charters on passenger aircraft and semi-freighter aircraft serving the transportation of critical medicine and medical equipment to Kazakhstan and served other CIS and European countries in the same manner.

Whilst during the first two months of 2020 the Group had 14% growth in passenger traffic compared to the same period of 2019, in March 2020 it began experiencing a significant decline of international and domestic traffic related to COVID-19. The decline in demand caused a material deterioration of revenue in 2020. The trend changed substantially towards the end of the third quarter of 2020. International flights restarted gradually and continued with additions through the year. Besides existing destinations such as Frankfurt, Amsterdam, Dubai, Istanbul, Tashkent and Moscow, the Company noted an increased demand on direct routes to leisure destinations. Antalya flights were extended through the winter for the first time, Sharm-el Sheikh flights were restarted and direct flights were introduced to the Maldives. In respect of domestic demand, IATA predicts early recovery for Russia and China. The domestic performance of the Air Astana Group exceeded the index of both markets, closing the year with an 8% growth over pre-COVID-19 2019 passenger numbers.

In response to the pandemic, the Group prioritized safety of its customers and employees across all touchpoints of its operations and concentrated on financial liquidity to ensure that it is well positioned for recovery. Actions under these priorities include:

- Protecting the health and safety of employees and customers.
- Adoption of new cleaning procedures on all flights, including disinfectant electrostatic spraying on aircraft and sanitizing high-touch areas before each flight.
- Taking steps to help employees and customers practice social distancing and stay safe, including requiring employees and customers to wear masks.
- Strict office regulations including monitoring of each person, obligatory use of masks, social distancing, reporting of any health matters and immediate distancing, random testing. This was widely communicated to all staff using multiple communication channels including email and corporate mobile application. These measures are in addition to the distance working that reduced the risk of contracting COVID-19 significantly.
- Giving customers flexibility to plan, re-book and travel including extending expiration of Nomad Club loyalty points through March 2021. As at 31 December 2020 the Group also recognised trade payables related to ticket refunds of USD 843 thousand.

**Liquidity**

At the same time, the Group took extensive measures to reduce the cash outflow by imposing rigorous cost control measures, deferral of all non-essential investment and negotiating deferral of payments with major creditors.

During 2020 the Group carried 28% less passengers in comparison to 2019. The Group plans to continue proactively evaluating and optimising capacity on a rolling basis until it sees the signs of demand recovery. The Group expects demand to remain suppressed until a widely accepted treatment and/or vaccine for COVID-19 is widely available. In addition, the Group does not expect the recovery from COVID-19 to follow a linear path.

At the same time, past and current experiences suggest that domestic travel will recover quicker than international and that low cost carriers perform particularly well after crises.

In the days that it became more evident that the impact of COVID-19 was not going to be "V-shaped", priority for all airlines was set at securing cash and access to credit facilities. While some airlines with better outlook secured such credit facilities with banks, a range of airlines had no option but to accept bailouts of their Governments or accept financial aid or State guarantees with certain conditions attached.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued
for the year ended 31 December 2020

## 2. Basis of accounting continued

**Liquidity** continued
The Company managed to expand its credit facility from USD 40 million in two stages to USD 115 million. This was further updated in September 2020, expanding the amount to USD 160 million with ability to extend the maturity of the current loan to 2023 and the Revolving Credit Agreement until 10 September 2025.

In addition, the Company accomplished the following mitigation actions against liquidity risk:

- Reducing expenditures throughout 2020 by rigorous cost control, reduction of subcontracted labour, extended leave and downtime.
- Deferral of all non-essential capital expenditures.
- Review of heavy maintenance events and deferrals in accordance with utilization limits recommended by the manufacturers.
- VAT Refund: Two tranches of USD 11,000 thousand and USD 3,500 thousand were expedited contributing to the cash position of the Company.
- Aggressively managing costs through lower capacity, reducing fuel expense and other cost initiatives including reduced work schedules and voluntary employee leaves of absence and eliminating nearly all discretionary spending.
- In 2020 the Company completed transfer of standby letter of credit from Natixis bank, and as a result cash-collateral in the amount of USD 5 million was returned by Natixis bank to the Company's account. The remaining amount of cash collateral (USD 4.4 million) is expected to be returned by Natixis bank in June 2021.
- Subsequent to the balance sheet date the Group managed to negotiate the deferral of a substantial amount of lease liabilities which would otherwise be due in 2021.

**Going Concern**
As part of the Group's consideration of the appropriateness of adopting the going concern basis in preparing the year-end financial statements, a range of different scenarios has been reviewed. The assumptions modelled are based on the estimated potential impact of COVID-19 restrictions, along with the Group's proposed responses over the course of the next 12 months. These include a range of estimated impacts primarily based on the length of time various levels of restrictions are in place and the severity of the consequent impact of those restrictions on the demand for the Group's services. Management has sensitised the revenue, profit and cash flow impact of reduced trading activity and a negative impact of changes. The scenarios are most sensitive to the assumptions made for the recovery period . A key judgement applied is the likely time period of restrictions on movement of people and social distancing. The conservative scenarios include an assumption that recovery might happen later than the second quarter of 2021 with mostly domestic flights operating and a small proportion of international flights re-opening during this time. Under each scenario, mitigating actions are all within management control, can be initiated as they relate to discretionary spend, and do not impact the ability to meet demand. These actions include cost cutting and stopping all non-essential and non-committed capital expenditures in the next 6-12 months. Management assumed no significant structural changes to the business will be needed in any of the scenarios modelled.

As at 31 December 2020, the liquidity position of the Group remains strong. The Company has prolonged a USD 95,000 thousand bank facility with a maturity in 2022, with a partial repayment of USD 46,000 thousand in December 2021. In September 2020 the Group has increased the credit line amount up to USD 160,000 thousand. The credit line allows taking borrowing both in KZT and USD. Under both the base scenario and the more conservative scenario modelled, after taking mitigating actions as needed, management's forecasts did not indicate a liquidity gap during 12 months from the reporting date.

The assumptions applied under the base scenario to the time period from February 2021 till February 2022 are as follows:

- Air Astana:
  - The growth of passengers number for domestic routes is assumed at 20.4%, according to IATA report for Kazakhstan, demand for the domestic routes (for 2021) is expected to grow at 25%.
  - Demand for international routes is assumed to increase by 54.4%, according to IATA the growth (for 2021) is expected at 70.5%.
  - On average, load factor is assumed at 76%, which is in line with market data.

- FlyArystan:
  - The demand for domestic routes is assumed to increase by 129.2%. The start of new international routes is assumed from July 2021. The increase is driven by higher growth potential for low-cost carriers in Kazakhstan, introduction of new routes and increase in fleet, which in combination is eventually expected to lead to an increase of the market share.
  - Load factor is assumed at 90%, which is in line with historical and market data.
- Operating revenue for the Group is expected to increase by 77% mainly due to the gradual recovery of the market and growth potential of FlyArystan branch.

In order to model the more conservative scenario, the Group adjusted its cash flows originally constructed under the base scenario inputting additional uncertainty related to the pandemic and forecasted market recovery. Since management believes that the market recovery might not be smooth and gradual during the upcoming 12-month period, the model incorporates the following assumptions for the time period from March 2021 till 31 December 2021 compared to the base scenario:

- 30% decrease in fares on the domestic routes of Air Astana for 2021 and 15% for 2022;
- 30% decrease in passengers of the FlyArystan division on domestic routes in 2021 and 15% in 2022.

The assumptions applied to the time period from January 2022 till February 2022 are as follows, compared to the base scenario:

- 15% decrease in the revenue of both Air Astana and FlyArystan;

Under this more conservative scenario no adjustments are made to the cost side which reflects higher cost attributable to the base scenario operations.

In accordance with the more conservative scenario the expected cash balance as of 31 December 2021 is USD 51,868 thousand. Accordingly, management considers it is appropriate for the going concern basis to be adopted in preparing the consolidated financial statements.

## 3. Significant accounting policies

### Basis of preparation

The consolidated 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 Group discloses other comprehensive income separately from its statement of profit or loss. The principal accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements.

### Basis of consolidation

#### (i) Business combinations

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group.

#### (ii) Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group. Losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued
for the year ended 31 December 2020

## 3. Significant accounting policies continued

### Revenue

#### Passenger revenue

The Group satisfies the performance obligations related to tickets sold and reports the sales as revenue when the transportation service performance obligation has been satisfied. 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 Group satisfies the performance obligation by completing the transportation service or when the passenger requests a refund. Based on historical data of previous years, the Group recognizes passenger revenue in proportion to the pattern of rights exercised by the customer in respect of a percentage of tickets sold that are expected not to be used or refunded.

The Group conducts sales through agents that act as intermediaries distributing tickets among customers. On average, accounts receivable are collected within a month from origination. The Group's sales do not contain significant finance components due to the short-term nature of airline tickets.

Passenger revenue includes revenue from code-share agreements with other airlines. Under these agreements, the Group sells seats on these airlines' flights and those other airlines sell seats on the Group's flights. Revenue from the sale of code-share seats on other airlines are recorded net in the Group's passenger revenue in profit or loss, since the Group acts as an agent in these agreements. The revenue from other airlines' sale of code-share seats on the Group's flights is recorded in passenger revenue in profit or loss.

Revenue related to airport charges, such as fees and taxes, are presented gross of the related costs. This is due to the fact that the Group is exposed to changes in the actual costs, and these costs are assessed by the Group based on the volume of its operations, such that the Group acts as a principal in the transactions, not as an agent.

#### Cargo revenue

Cargo transport services are recognised as revenue when the Group satisfies the performance obligation by providing the air transportation. Cargo sales for which performance obligation to provide transportation service has not yet been discharged are shown as deferred (unearned) transportation revenue.

#### Other income

Compensation for insurance recoveries, including the loss or impairment of property, plant and equipment, is recognised in profit or loss when receivable.

### Customer loyalty program

Sales of tickets that result in award credits for customers, under the Company's Nomad Program, are accounted for as two separate performance obligations embedded into one contract, the ticket. The transaction price is allocated between the transportation service and the award provided based on their stand-alone selling prices. The transaction price of credit award 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 performance obligations have been fulfilled.

### Travel agents' commissions

Travel agents' commissions are recognised as an expense when the transportation service is provided.

### Reservation commissions

Reservation commissions are recognised as an expense when incurred since the amortization period of the asset that the Group otherwise would have recognised is less than a year.

### Leasing

At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for a consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group uses the definition of a lease in IFRS 16.

#### (i) As a lessee

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Group by the end of the lease term or the cost of the right-of-use asset reflects that the Group will exercise a purchase option. In that case the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group’s incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate.

The Group determines its incremental borrowing rate by obtaining interest rates from various external financing sources and makes certain adjustments to reflect the terms of the lease and type of the asset leased.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Group is reasonably certain to exercise, lease payments in an optional renewal period if the Group is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Group is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group’s estimate of the amount expected to be payable under a residual value guarantee, if the Group changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Group presents right-of-use assets in “property, plant and equipment” and lease liabilities separately in the statement of financial position.

The Group has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets and short-term leases. The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued
for the year ended 31 December 2020

## 3. Significant accounting policies continued

**Leasing** continued

**(ii) Sale and leaseback transactions**

If the Group transfers an asset to another entity and leases that asset back from this entity, the Group accounts for the transfer contract and the lease according to IFRS 16 *Leases*.

The Group applies the requirements for determining when a performance obligation is satisfied in IFRS 15 *Revenue from contracts with customers* to determine whether the transfer of an asset is accounted for as a sale of that asset.

If the transfer of an asset by the Group satisfies the requirements of IFRS 15 to be accounted for as a sale of the asset the Group measures the right-of-use asset arising from the leaseback at the proportion of the previous carrying amount of the asset that relates to the right of use retained by the Group. Accordingly, the Group recognises only the amount of any gain or loss that relates to the rights transferred to the buyer-lessor. If the fair value of the consideration for the sale of an asset does not equal the fair value of the asset, or if the payments for the lease are not at market rates, the Group makes the following adjustments to measure the sale proceeds at fair value:

(a) any below-market terms shall be accounted for as a prepayment of lease payments; and
(b) any above-market terms shall be accounted for as additional financing provided by the buyer- lessor to the seller-lessee.

**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 lease agreements without transfer of title. These deposits are returned to the Group at the end of the lease period. Lease deposits relating to the lease agreements without transfer of title are presented as assets in the consolidated statement of financial position. These deposits are interest-free and are recorded at amortised cost using an average market yield of 2.25% per annum (2019: 2.25%). At initial recognition the Group recognises a discount and a deferred asset (additional lease payment) simultaneously. The discount is amortised over the lease term using the effective interest method, and the deferred asset is amortised by equal amounts over the deposit term.

**Foreign currencies**

In preparing the consolidated financial statements, transactions in currencies other than the Group'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 that are measured at historical cost in a foreign currency are not retranslated.

The following table summarises US Dollar exchange rates at 31 December 2020 and 31 December 2019 and for the years then ended:

| | Average rate | | Reporting date spot-rate | |
|---|---|---|---|---|
| | **2020** | 2019 | **31 December 2020** | 31 December 2019 |
| 1,000 Tenge (KZT) | **2.42** | 2.61 | **2.38** | 2.61 |
| Euro (EUR) | **1.14** | 1.12 | **1.23** | 1.11 |
| British Pound (GBP) | **1.28** | 1.28 | **1.37** | 1.31 |

The following table summarises KZT exchange rates at 31 December 2020 and 31 December 2019 and for the years then ended:

| | Average rate | | Reporting date spot-rate | |
|---|---|---|---|---|
| | **2020** | 2019 | **31 December 2020** | 31 December 2019 |
| US Dollar (USD) | **412.95** | 382.75 | **420.91** | 382.59 |
| Euro (EUR) | **471.44** | 428.51 | **516.79** | 426.85 |
| British Pound (GBP) | **529.91** | 488.46 | **574.88** | 499.99 |

### Finance income and costs

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 Group 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 costs comprise interest expense, bank commissions, losses on financial instruments through profit and loss and other costs. 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 those 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 Group 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 Group'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 Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

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 Group 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued
for the year ended 31 December 2020

## 3. Significant accounting policies continued

### 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 US dollar.

Aircraft are depreciated using a straight-line method over their average estimated useful life of 25 years, assuming no residual value. During the operating cycle, the Group reviews whether the depreciable base or the useful life should be adjusted and, if necessary, determines whether a residual value should be recognised.

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 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 recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group 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.

### 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:

| | |
|---|---|
| Aircraft (excluding separate asset components) | 25 years |
| Buildings and premises | 14-50 years |
| Rotable spare parts | 3-10 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.

**Impairment of tangible and intangible assets**

At each reporting date, the Group 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 Group 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. The Group identifies the recoverable amount as value in use of a CGU.

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.

**Contingent liabilities and contingent assets**

Contingent liabilities are not recognised in the consolidated financial statements. They are disclosed in the notes to the consolidated financial statements, unless the possibility of an outflow of resources embodying economic benefits is remote.

Contingent assets are not recognised in the consolidated financial statements. Where an inflow of economic benefits is probable, they are disclosed in the notes to the consolidated financial statements.

**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 and de-icing liquid, which are determined on the weighted average cost basis. Fuel and de-icing liquid are written off upon actual consumption. Net realizable 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

for the year ended 31 December 2020

## 3. Significant accounting policies continued

### Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group 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 cashflows.

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 lease agreement without transfer of title

The Group is obligated to perform regular scheduled maintenance of aircraft under the terms of its lease agreements without transfer of title and regulatory requirements relating to air safety. The lease agreements also require the Group 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 Group'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 is heavy maintenance with approved performance intervals. It takes place the earliest of every 6,000-7,500 flight hours, 3,000-5,000 flight cycles and 18-24 months according to aircraft type.

The D-check (4C, 6YR, 12YR) is heavy maintenance connected with deep aircraft disassembly, structure inspection and anticorrosion prevention program. It takes place with an interval of not more than 72 months. Engine overhaul occurs after specified flight hours or cycles occur. Some of the lease agreements without transfer of title include a component of variable lease payments which is generally reimbursable to the Group 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 lease agreements without transfer of title 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 Group's estimate of future maintenance costs. For engine maintenance, a provision is recorded on a progressive basis based upon the Group's estimate of the excess of maintenance costs over the amount reimbursable by the lessors. The Group's aircraft maintenance liabilities are due in US Dollars.

#### Overhaul and restoration works (not depending on aircraft utilisation)

Costs resulting from restoration work required to be performed just before returning aircraft to the lessors, such as painting of the shell or aircraft overhaul are recognized as provisions as of the inception of the contract. The counterpart of these provisions is booked as a complement through the initial book value of the aircraft right-of-use assets. This complement to the right-of-use asset is depreciated over the lease term.

### Financial Instruments

#### Recognition and initial measurement

Trade receivables are initially recognised when they are originated. All other financial assets and financial liabilities are initially recognised when the Group becomes a party to the contractual provisions of the instrument.

A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at fair value through profit or loss (FVTPL), transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

### Classification and subsequent measurement

Financial assets

On initial recognition, a financial asset is classified as measured at: amortised cost; fair value through other comprehensive income (FVOCI) – debt investment; FVOCI – equity investment; or FVTPL.

Financial assets are not reclassified subsequent to their initial recognition unless the Group changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt investment is measured at FVOCI if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in the investment's fair value in OCI. This election is made on an investment-by-investment basis.

All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL. This includes all derivative financial assets. On initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Financial assets – Business model assessment

The Group makes an assessment of the objective of the business model in which a financial asset is held at a portfolio level, because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. These include whether management's strategy focuses on earning contractual interest income, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of any related liabilities or expected cash outflows or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Group's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales of financial assets in prior periods, the reasons for such sales and expectations about future sales activity.

Transfers of financial assets to third parties in transactions that do not qualify for derecognition are not considered sales for this purpose, consistent with the Group's continuing recognition of the assets.

Financial assets that are held for trading or are managed and whose performance is evaluated on a fair value basis are measured at FVTPL.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued
for the year ended 31 December 2020

## 3. Significant accounting policies continued

Financial assets – Assessment whether contractual cash flows are solely payments of principal and interest
For the purposes of this assessment, "principal" is defined as the fair value of the financial asset on initial recognition. "Interest" is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Group considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making this assessment, the Group considers:

- contingent events that would change the amount or timing of cash flows;
- terms that may adjust the contractual coupon rate, including variable-rate features;
- prepayment and extension features; and
- terms that limit the Group's claim to cash flows from specified assets (e.g. non-recourse features).

A prepayment feature is consistent with the solely payments of principal and interest criterion if the prepayment amount substantially represents unpaid amounts of principal and interest on the principal amount outstanding, which may include reasonable additional compensation for early termination of the contract. Additionally, for a financial asset acquired at a discount or premium to its contractual par amount, a feature that permits or requires prepayment at an amount that substantially represents the contractual par amount plus accrued (but unpaid) contractual interest (which may also include reasonable additional compensation for early termination) is treated as consistent with this criterion if the fair value of the prepayment feature is insignificant at initial recognition.

| **Financial assets – Subsequent measurement and gains and losses** | |
|---|---|
| **Financial assets at FVTPL** | These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in profit or loss. |
| **Financial assets at amortised cost** | These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss. |
| **Debt investments at FVOCI** | These assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognised in profit or loss. Other net gains and losses are recognised in OCI. On derecognition, gains and losses accumulated in OCI are reclassified to profit or loss. |
| **Equity investments at FVOCI** | These assets are subsequently measured at fair value. Dividends are recognised as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognised in OCI and are never reclassified to profit or loss. |

Financial liabilities – Classification, subsequent measurement and gains and losses
Financial liabilities are classified as measured at amortised cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognised in profit or loss. Other financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognised in profit or loss. Any gain or loss on derecognition is also recognised in profit or loss.

### Modification of financial assets and financial liabilities

#### Financial assets

If the terms of a financial asset are modified, the Group evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different (referred to as "substantial modification"), then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised and a new financial asset is recognised at fair value.

The Group performs a quantitative and qualitative evaluation of whether the modification is substantial, i.e. whether the cash flows of the original financial asset and the modified or replaced financial asset are substantially different. The Group assesses whether the modification is substantial based on quantitative and qualitative factors in the following order: qualitative factors, quantitative factors, combined effect of qualitative and quantitative factors. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset is deemed to have expired. In making this evaluation the Group analogizes to the guidance on the derecognition of financial liabilities.

The Group concludes that the modification is substantial as a result of the following qualitative factors:

- change the currency of the financial asset;
- change in collateral or other credit enhancement.

If the cash flows of the modified asset carried at amortised cost are not substantially different, then the modification does not result in derecognition of the financial asset. In this case, the Group recalculates the gross carrying amount of the financial asset and recognises the amount arising from adjusting the gross carrying amount as a modification gain or loss in profit or loss. The gross carrying amount of the financial asset is recalculated as the present value of the renegotiated or modified contractual cash flows that are discounted at the financial asset's original effective interest rate. Any costs or fees incurred adjust the carrying amount of the modified financial asset and are amortised over the remaining term of the modified financial asset.

### Financial liabilities

The Group derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability extinguished and the new financial liability with modified terms is recognised in profit or loss.

If a modification (or exchange) does not result in the derecognition of the financial liability the Group applies an accounting policy consistent with the requirements for adjusting the gross carrying amount of a financial asset when a modification does not result in the derecognition of the financial asset, i.e. the Group recognises any adjustment to the amortised cost of the financial liability arising from such a modification (or exchange) in profit or loss at the date of the modification (or exchange).

Changes in cash flows on existing financial liabilities are not considered as modification, if they result from existing contractual terms, e.g. changes in fixed interest rates initiated by banks due to changes in the LIBOR, NBRK and other key rates. The Group treats the modification of an interest rate to a current market rate using the guidance on variable-rate financial instruments. This means that the effective interest rate is adjusted prospectively.

The Group performs a quantitative and qualitative evaluation of whether the modification is substantial considering qualitative factors, quantitative factors and combined effect of qualitative and quantitative factors. The Group concludes that the modification is substantial as a result of the following qualitative factors:

- change in the currency of the financial liability;
- change in collateral or other credit enhancement;
- inclusion of conversion option;
- change in the subordination of the financial liability.

For the quantitative assessment the terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial liability. If an exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment. If the exchange or modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the liability and are amortised over the remaining term of the modified liability.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued
for the year ended 31 December 2020

## 3. Significant accounting policies continued

### Derecognition

#### Financial assets

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

The Group enters into transactions whereby it transfers assets recognised in its consolidated statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets. In these cases, the transferred assets are not derecognised.

#### Financial liabilities

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire. The Group also derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognised at fair value.

On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognised in profit or loss.

### Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the consolidated statement of financial position when, and only when, the Group currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

### Share Capital

Ordinary shares are classified as equity. Incremental costs directly attributable to issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

### Dividends

Dividends are recognised as a liability in the period in which they are declared.

### Impairment of financial assets

The Group recognises loss allowances for expected credit losses (ECLs) on:

- financial assets measured at amortised cost;
- debt investments measured at FVOCI.

The Group measures loss allowances at an amount equal to lifetime ECLs, except for the following, which are measured at 12-month ECLs:

- guarantee deposits and bank balances that are determined to have low credit risk at the reporting date; and
- other guarantee deposits and bank balances for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition.

Loss allowances for trade receivables and contract assets are always measured at an amount equal to lifetime ECLs.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort.

This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment and including forward-looking information.

The Group assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due or if the external credit rating assigned to a financial asset by an international rating agency falls by six notches according to Standard and Poor's, Moody's or Fitch credit rating agencies.

The Group considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or
- the financial asset is more than 90 days past due.

The Group considers a debt security to have low credit risk when its credit risk rating is equivalent to the globally understood definition of "investment grade". The Group considers this to be Baa3 or higher per Moody's or BBB- or higher per Standard and Poor's.

Lifetime ECLs are the ECLs that result from all possible default events over the contractual life of a financial instrument.

12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months).

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

### Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive).

ECLs are discounted at the effective interest rate of the financial asset.

### Credit-impaired financial assets

At each reporting date, the Group assesses whether financial assets carried at amortised cost and debt securities at FVOCI are credit-impaired. A financial asset is "credit-impaired" when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or being more than 90 days past due;
- the restructuring of a loan or advance by the Group on terms that the Group would not consider otherwise;
- it is probable that the borrower will enter bankruptcy or other financial reorganisation;
- or the disappearance of an active market for a security because of financial difficulties.

### Presentation of allowance for ECL in the consolidated statement of financial position

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets.

For debt securities at FVOCI, the loss allowance is charged to profit or loss and is recognised in OCI.

### Write-off

The gross carrying amount of a financial asset is written off when the Group has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. The Group makes an assessment with respect to the timing and amount of write-off based on whether there is a reasonable expectation of recovery. The Group expects no significant recovery from the amount written off.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued
for the year ended 31 December 2020

## 4. Application of new and revised international financial reporting standards

**Amendments to IFRS 16 *Leases***
During period ended 31 December 2020, the Group early adopted COVID-19 Related Rent Concession and elected to apply the practical expedient stipulated by IFRS 16 amendments issued in 2020. These amendments introduce a practical expedient for lessees – i.e. the Group is not required to assess whether eligible rent concessions that are a direct consequence of the COVID-19 pandemic are lease modifications. Instead, the Group recognized the time value effect from deferral of its lease payments in the amount of USD 1,986 thousand as a gain in profit or loss.

**New standards and interpretations not yet adopted**
The following new and amended standards are not expected to have a significant impact on the Group's consolidated financial statements.

- Reference to Conceptual Framework (Amendments to IFRS 3).
- Classification of Liabilities as Current or Non-current (Amendments to IAS 1).
- IFRS 17 *Insurance Contracts and amendments* to IFRS 17 *Insurance Contracts*.

## 5. Critical accounting judgments and key sources of estimation uncertainty

The preparation of financial statements in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from those 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 Group's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

**Provisions**
Provisions mainly consist of provision for aircraft maintenance (Note 21).

**Recoverability of variable lease payments related to future maintenance**
Under the lease agreements without transfer of title for its aircraft, the Group 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 applied to the cost of maintenance services and 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 Group'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 unapplied variable lease payments made to the lessors are not reimbursable and are retained by the lessors as a deposit transferable to the next lessees of the aircraft. Management regularly assesses the recoverability of variable lease payments made by the Group. Unanticipated maintenance costs are expensed in profit or loss as incurred.

**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 Group 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 Group 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 Group.

### Determination of the functional currency

The functional currency of the Company is USD which, in management's view, reflects the economic substance of the underlying events and circumstances of the Group at the reporting date. At each reporting date management of the Group reassesses factors that may affect the determination of the functional currency based on circumstances at the reporting date. Significant judgment is required from management when analysing indicators of the primary economic environment including the pricing policy, structure of revenues from international and domestic routes, costs structure as well as continued development in the strategy of the Group for further development of international routes. Future circumstances, therefore, may be different and may result in a different conclusion.

Due to the COVID-19 pandemic the revenue from the Company's international routes fell more than the domestic routes revenue. As a result, the share of dollar denominated sales in 2020 decreased significantly. However, the management believes that the decline in dollar denominated sales is a temporary event and that the international demand will recover once the pandemic is over. Therefore, the functional currency of the Group is still the US dollar.

### 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.

### Allowances

The Group accrues allowances for impairment of accounts receivable. The Group calculated the probability of default of accounts receivable based on the lifetime approach. Changes in the economy and specific customer conditions may require adjustments of the probability of default and loss given default coefficient derived based on the historical information and thus adjustment of the allowances for doubtful accounts recorded in the financial statements. As at 31 December 2020 and 2019, allowances for doubtful accounts were equal to USD 2,096 thousand and USD 2,253 thousand, respectively (Note 16).

Other financial assets are mainly credit rated by one or more international credit rating agencies: Moody's, Fitch, and Standard and Poor's. The estimated credit loss is calculated for the entire useful life for those assets whose credit risk has increased significantly comparing to its level at the initial recognition date. Once the instrument is impaired the Group calculates allowances for doubtful accounts based on the expected future cash flows discounted at the original effective interest rate.

Losses are recognised in profit or loss and reflected in an allowance account. When the Group believes that there are no realistic prospects of recovery of the asset, the relevant amounts are written off. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When credit risk significantly decreases for those assets which previously have been classified in Stage 2, the Group performs an analysis to determine whether the current financial position of the borrower is stable enough to reclassify such assets back to Stage 1. As at 31 December 2020 impairment allowances were equal to USD 47,538 thousand as disclosed in Note 16 (31 December 2019: USD 47,628 thousand).

The Group annually estimates the necessity of write-down for obsolete and slow-moving inventories based on annual stock count data conducted at the reporting date. As at 31 December 2020, the Group recognised a write-down for obsolete and slow-moving inventories in the amount of USD 1,707 thousand (2019: USD 2,120 thousand) (Note 14).

### Customer loyalty program

The Company's Nomad Club Loyalty program is an incentive program under which passengers are granted points for each flight. Once a passenger accumulates a certain number of points he or she can convert the points into a ticket. While calculating the customer loyalty program provision the Company uses critical judgements and estimates in regard to the value per point by Nomad club members.

The Company uses estimated ticket values to calculate the program's point value. Outstanding unutilised points as of each reporting dates are treated as deferred revenue. Points are valued based on the weighted average standalone prices of tickets redeemed by route and class. Based on the historical statistics the Company determines the amount of breakage with regards to those points whose usage is not probable.

### Lease term

Some property leases contain extension options exercisable by the Group up to one year before the end of the non-cancellable contract period. Where practicable, the Group seeks to include extension options in new leases to provide operational flexibility. The extension options held are exercisable only by the Group and not by the lessors. The Group assesses at lease commencement date whether it is reasonably certain to exercise the extension options. The Group reassesses whether it is reasonably certain to exercise the options if there is a significant event or significant changes in circumstances within its control.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued
for the year ended 31 December 2020

## 5. Critical accounting judgments and key sources of estimation uncertainty continued

**Lease term** continued
The Group has applied judgment to determine the lease term for some lease contracts in which it is a lessee, based on the period for which the contract is enforceable. The Group considers that enforceability of the lease is established by a written contract (including broader interpretation of a penalty) in combination with applicable legislation governing the lease contract related to renewal or termination rights (specifically the lessee's preferential rights to renew or not to cancel the lease). The Group determined that its preferential right to renew or not to cancel would on its own be treated as substantive, when the Group has a preferential right to renew or not to cancel the lease through a negotiation mechanism under the Civil Code of Kazakhstan. Thus, considering the broader economics of the contract, and not only the contractual termination payments, the lease term may go beyond the contract term.

**Deferred tax asset recoverability**
Significant management judgement is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and the level of future taxable profits, together with future tax planning strategies. The tax code permits an entity to carry forward the accumulated tax losses for the next ten years. Management concluded that sufficient taxable income to utilize the deferred tax asset is probable by comparing the profit before tax forecasted in the 5-year business plan with the tax loss carried forward as of 31 December 2020.

## 6. Revenue and other income

| '000 USD | 2020 | 2019 |
|---|---|---|
| **Passenger revenue** | | |
| Passenger transport | **298,713** | 663,646 |
| Fuel surcharge | **39,406** | 108,460 |
| Airport services | **16,845** | 47,158 |
| Excess baggage | **3,449** | 5,688 |
| | **358,413** | **824,952** |

Passenger revenue decreased by USD 466,539 thousand during 2020 as compared to 2019 primarily due to the decrease in demand for air travel as a result of the worldwide spread of COVID-19 and the associated shelter-in-place directives and travel restrictions.

Passenger revenue of the Group includes USD 55,902 thousand related to the FlyArystan division.

| '000 USD | 2020 | 2019 |
|---|---|---|
| **Cargo and mail revenue** | | |
| Cargo – Charter | **13,511** | – |
| Cargo – Regular | **9,754** | 18,772 |
| Mail | **1,296** | 2,373 |
| | **24,561** | **21,145** |

| '000 USD | 2020 | 2019 |
|---|---|---|
| **Other income** | | |
| Other income | **6,496** | 42,428 |
| Gain on disposal of property, plant and equipment and other assets | **1,458** | 1,221 |
| Income from ground services | **1,140** | 996 |
| Penalties on agency contracts | **717** | 1,645 |
| Advertising revenue | **500** | 787 |
| Sales of fuel | **–** | 321 |
| Warranty returns | **–** | 412 |
| Other | **722** | 142 |
| | **11,033** | **47,952** |

In January 2020 the Group conducted a sale and leaseback transaction by selling one Airbus A321. The Group measured the right-of-use asset arising from the leaseback at the proportion of the previous carrying amount of the asset that relates to the right of use retained by the Group. Accordingly, the Group recognized a net gain of USD 6,257 thousand which represents the excess of the sales proceeds over lease liabilities and the changes in aircraft related asset.

During 2020 the Group recognized in other income a net gain of USD 2,844 thousand from early return of four Boeing 757-200 and four Embraer E190.

In December 2019 the Group purchased two spare engines which were immediately sold as part of a sale and leaseback transaction for the purpose of obtaining additional financing. The Group measured the right-of-use asset arising from the leaseback at the proportion of the previous carrying amount of the asset that relates to the right of use retained by the Group. Accordingly, the Group recognized a net gain of USD 4,680 thousand which represents the excess of the sales proceeds over lease liabilities and the changes in engines' related assets. The Group has sold two spare engines for the total amount USD 30,395 thousand and recognised right of use assets of USD 10,019 thousand and lease liabilities of USD 14,033 thousand. Under the lease agreement the Group has leased back two spare engines for eight years with monthly payments. In addition, the Group is obliged to pay the monthly variable lease payments which are accrued according to the total flight hours of the engines which have not been included in lease liabilities. The Group has recognised USD 8,694 thousand as the proceeds from sale and leaseback transaction in investing activities in the statement of cash flows.

In December 2019 the Company recognized income from insurance proceeds included in other income in the amount of USD 35,100 thousand. The insurance claim was based on an incident with loss of control of the aircraft that happened in November 2018. After the incident the aircraft was not in use due to the investigation which should confirm the aircraft stability. Out of the total USD 35,100 thousand insurance award the Group received USD 17,698 thousand in December 2019 (USD 2,000 thousand to be received from the insurance company). USD 15,370 thousand was transferred in December 2019 by the security trustee to the lessor with assistance of the insurer and reinsurance broker to extinguish the outstanding lease liability. USD 32 thousand was used to settle related legal and transaction fees and USD 10,694 thousand was recognised in other operating costs as disposal of the asset.

During 2020 passenger, cargo and mail revenue, representing total revenue from contracts with customers, were generated from the following destinations:

| **'000 USD** | **2020** | **2019** |
|---|---|---|
| Domestic | **173,063** | 233,123 |
| Asia | **84,440** | 218,180 |
| CIS | **48,536** | 212,321 |
| Europe | **76,935** | 182,473 |
| **Total revenue from passenger and cargo** | **382,974** | **846,097** |

Domestic passenger revenue of the Group consists of USD 54,534 thousand (2019: USD 27,068 thousand) related to FlyArystan division.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued
for the year ended 31 December 2020

## 7. Operating expenses

| '000 USD | 2020 | 2019 |
|---|---|---|
| **Employee costs** | | |
| Wages and salaries of operational personnel | **49,846** | 67,015 |
| Wages and salaries of administrative personnel | **10,835** | 16,839 |
| Social tax | **4,904** | 9,317 |
| Wages and salaries of sales personnel | **3,853** | 6,017 |
| Other | **3,212** | 3,951 |
| | **72,650** | **103,139** |

The average number of employees during 2020 were 5,035 (2019: 5,312).

| '000 USD | 2020 | 2019 |
|---|---|---|
| **Handling, landing fees and route charges** | | |
| Handling charge | **18,489** | 39,033 |
| Aero navigation | **16,608** | 45,516 |
| Landing fees | **10,792** | 23,017 |
| Meteorological services | **49** | 214 |
| Other | **1,287** | 1,622 |
| | **47,225** | **109,402** |

| '000 USD | 2020 | 2019 |
|---|---|---|
| **Engineering and maintenance** | | |
| Maintenance – variable lease payments | **5,988** | 28,154 |
| Maintenance – provisions (Note 21) | **20,344** | 28,467 |
| Maintenance – components | **5,749** | 21,418 |
| Spare parts | **9,023** | 13,875 |
| Technical inspection | **2,094** | 2,493 |
| | **43,198** | **94,407** |

| '000 USD | 2020 | 2019 |
|---|---|---|
| **Passenger service** | | |
| Airport charges | **15,329** | 45,777 |
| Catering | **10,252** | 23,690 |
| In-flight entertainment | **3,482** | 5,307 |
| Security | **1,685** | 5,500 |
| Other | **5,817** | 11,253 |
| | **36,565** | **91,527** |

| '000 USD | 2020 | 2019 |
|---|---|---|
| **Selling costs** | | |
| Reservation costs | **11,142** | 22,659 |
| Advertising | **2,648** | 7,246 |
| Commissions | **2,089** | 11,581 |
| Interline commissions | **93** | 421 |
| Other | **1,121** | 453 |
| | **17,093** | **42,360** |

| '000 USD | 2020 | 2019 |
|---|---|---|
| **Aircraft crew costs** | | |
| Accommodation and allowances | **6,349** | 15,574 |
| Training | **4,828** | 6,724 |
| Contract crew | **3,695** | 13,029 |
| | **14,872** | **35,327** |

| '000 USD | 2020 | 2019 |
|---|---|---|
| **Aircraft lease costs** | | |
| Fixed lease charges of aircraft and engine | **2,184** | 9,405 |
| Lease of engines and rotable spare parts | **1,413** | 1,541 |
| Leased engine on wing costs | **994** | 1,746 |
| Lease return costs | **663** | 975 |
| Variable lease charges | **133** | 93 |
| Effect of COVID-19 related rent concessions | **(1,986)** | – |
| | **3,401** | **13,760** |

Due to the COVID-19 lockdown the Group operations and related expenditures plunged in 2020 as compared with the expenditure level in 2019.

## 8. Finance income and costs

| '000 USD | 2020 | 2019 |
|---|---|---|
| **Finance income** | | |
| Interest income on bank deposits | **1,157** | 2,636 |
| Reversal of impairment allowance on financial assets – guarantee deposits | **244** | – |
| Accrual of impairment allowance on financial assets | **–** | (449) |
| Other | **26** | 34 |
| | **1,427** | **2,221** |

| '000 USD | 2020 | 2019 |
|---|---|---|
| **Finance costs** | | |
| Interest expense on lease liabilities | **28,640** | 23,858 |
| Interest expense on bank loans | **6,104** | 931 |
| Accrual of impairment allowance on financial assets – trade receivables | **706** | – |
| Financial assets and liabilities held at fair value through profit or loss | **542** | 1,523 |
| Other | **84** | 64 |
| | **36,076** | **26,376** |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued
for the year ended 31 December 2020

## 9. Income tax (benefit)/expense

The Group's income tax (benefit)/expense for the years ended 31 December was as follows:

| '000 USD | 2020 | 2019 |
|---|---|---|
| Adjustments recognised in the current year in relation to the current tax of prior years | **1,123** | – |
| Current year income tax | **–** | 11,581 |
| | **1,123** | **11,581** |
| Origination/reversal of temporary differences | **(23,826)** | 182 |
| | **(22,703)** | **11,763** |

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. In addition, as the Group has functional currency that is different from the currency of the country in which it is domiciled, it recognises temporary difference on changes in exchange rates which lead to changes in the tax basis rather than the book basis.

The tax effect on the major temporary differences that give rise to the deferred income tax assets and liabilities as at 31 December 2020 and 2019 is presented in the table below:

| '000 USD | 2020 | 2019 |
|---|---|---|
| **Deferred tax assets** | | |
| Lease liabilities | **102,052** | 76,007 |
| Provision for aircraft maintenance | **16,614** | 18,252 |
| Tax loss carried forward | **21,561** | – |
| Trade receivables | **1,562** | – |
| Trade and other payables | **2,030** | – |
| Remuneration payables | **–** | 7,580 |
| Other | **–** | 451 |
| **Total deferred tax assets** | **143,819** | **102,290** |
| **Deferred tax liabilities** | | |
| Difference in depreciable value of property, plant and equipment and intangible assets | **(37,300)** | (42,715) |
| Inventories | **(2,031)** | (789) |
| Right of use assets | **(94,146)** | (71,467) |
| Prepaid expenses | **(1,451)** | – |
| Other | **(120)** | (82) |
| **Total deferred tax liabilities** | **(135,048)** | **(115,053)** |
| **Net deferred tax assets/(liabilities)** | **8,771** | **(12,763)** |

As at 31 December 2020 the Group concluded that it is probable that future taxable profits will be available against which the deferred tax asset will be utilised.

The Group expects that deferred tax asset will be fully recovered within the next 6 years.

Movements in deferred tax assets and liabilities presented above were recorded in profit or loss accounts, except for USD 2,290 thousand related to carried forward corporate income tax losses, which were recognised in equity relating to the realised portion of deferred tax on cash flows hedge. (2019: USD 2,231 thousand).

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 ten years. Total amount of tax loss carried forwards as at 31 December 2020 is USD 107,805 thousand.

The income tax rate in the Republic of Kazakhstan, where the Group is located, in 2020 and 2019 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 or loss before income tax.

Below is a reconciliation of theoretical income tax at 20% (2019: 20%) to the actual income tax (benefit)/expense recorded in the Group's statement of profit or loss:

| '000 USD | 2020 | 2019 |
|---|---|---|
| (Loss)/profit before tax | **(116,636)** | **41,795** |
| CIT % | **20%** | 20% |
| Income tax at statutory rate | **(23,327)** | 8,359 |
| USD forex effect | **(2,550)** | 2,238 |
| Tax effect of non-deductible expenses | **3,174** | 1,166 |
| **Income tax (benefit)/expense** | **(22,703)** | **11,763** |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued
for the year ended 31 December 2020

## 10. Property, plant and equipment

| '000 USD | Rotable spare parts | Office equipment and furniture | Building, premises and land | Vehicles | Aircraft under lease | Equipment in transit and construction in progress | Total |
|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | |
| **At 1 January 2019** | **57,749** | **7,013** | **33,250** | **3,064** | **591,903** | **2,030** | **695,009** |
| Additions | 27,623 | 1,702 | 888 | 245 | 247,452 | 8,175 | 286,085 |
| Disposals | (6,442) | (69) | – | (76) | (27,884) | – | (34,471) |
| Transfers to inventory | (133) | – | – | – | – | – | (133) |
| Transfers from inventory | 960 | – | – | – | – | – | 960 |
| Other transfers | 333 | – | – | (139) | (194) | – | – |
| **At 31 December 2019** | **80,090** | **8,646** | **34,138** | **3,094** | **811,277** | **10,205** | **947,450** |
| Additions | 4,678 | 572 | 558 | 211 | 220,401 | 2,347 | 228,767 |
| Disposals | (10,498) | (226) | (946) | (365) | (64,210) | – | (76,245) |
| Transfers to inventory | (252) | – | – | – | – | – | (252) |
| Transfers from inventory | 90 | – | – | – | – | – | 90 |
| Other transfers | 3,428 | 19 | 50 | – | 8,673 | (12,170) | – |
| **At 31 December 2020** | **77,536** | **9,011** | **33,800** | **2,940** | **976,141** | **382** | **1,099,810** |
| **Accumulated depreciation** | | | | | | | |
| **At 1 January 2019** | **28,398** | **4,967** | **1,845** | **1,467** | **233,624** | – | **270,301** |
| Charge for the year | 8,323 | 748 | 3,063 | 234 | 68,089 | – | 80,457 |
| Disposals | (3,534) | (60) | – | (70) | (16,837) | – | (20,501) |
| **At 31 December 2019** | **33,187** | **5,655** | **4,908** | **1,631** | **284,876** | – | **330,257** |
| Charge for the year | 9,970 | 881 | 3,102 | 231 | 85,974 | – | 100,158 |
| Disposals | (6,845) | (190) | (509) | (349) | (42,546) | – | (50,439) |
| Impairment | – | – | – | – | 14,722 | – | 14,722 |
| **At 31 December 2020** | **36,312** | **6,346** | **7,501** | **1,513** | **343,026** | **–** | **394,698** |
| **Net book value** | | | | | | | |
| **At 31 December 2019** | **46,903** | **2,991** | **29,230** | **1,463** | **526,401** | **10,205** | **617,193** |
| **At 31 December 2020** | **41,224** | **2,665** | **26,299** | **1,427** | **633,115** | **382** | **705,112** |

In determining the Group's geographical information, assets, which consist principally of aircraft and ground equipment are mainly registered in the Republic of Kazakhstan. Accordingly, there is no reasonable basis for allocating the assets to geographical segments.

Rotable spare parts include aircraft modification costs.

The Group's obligations under leases are secured by the lessor's title to the leased assets which have a carrying amount of USD 633,115 thousand (2019: USD 526,401 thousand) (Note 24). The total amount of Aircraft Under lease as at 31 December 2020 includes seven Airbus related to FlyArystan division with net book value of USD 91,254 thousand (2019: four Airbus with net book value of USD 65,315 thousand).

As at 31 December 2019 the Technical Centre (Hangar) in Nur-Sultan was pledged to the EBRD. In order to release it from the pledge and respond to collateral requirement of Halyk Bank, in 2020 the Company repaid the EBRD loan bank using credit sources from Halyk Bank. As per the agreement with Halyk Bank the Company should pledge the Technical Centre (Hangar) in Nur-Sultan to Halyk Bank by April 2021. As at 31 December 2020 the Technical Centre (Hangar) has not been pledged. The net book value of the Hangar as at 31 December 2020 is USD 19,668 thousand (2019: USD 19,997 thousand).

The cost of fully amortised items as at 31 December 2020 is USD 4,993 thousand (2019: USD 3,447 thousand).

**Impairment**

The COVID-19 outbreak has developed rapidly in early 2020. Since many countries have required businesses to limit or suspend operations and implemented travel restrictions and quarantine measures, the management concludes that there are indications that the assets might be impaired. One of the responses to the crisis is positioning the Group to be a more efficient airline over the next several years by using the most efficient aircraft in its fleet to serve the airline's network which resulted in the retirement of four Boeing 757-200 and four Embraer E190 aircraft. The Group recognized individual impairment losses of USD 14,722 thousand related to the right-of-use assets on these aircraft, since the aircraft will no longer be in use until the end of existing leases terms. The impairment losses for these aircraft have been recognized in other operating expenses. For the remaining property, plant and equipment and intangible assets the recoverable value has been determined by reference to the value in use, representing the discounted cash flows resulting from the planned operating activities. To determine whether impairment exists, the recoverable amount was compared to the carrying amount of assets engaged in generating related cash flows. To forecast cash flows, the Group used its five-year business plan adjusted to reflect the latest information available as of 31 December 2020. The following key assumptions were used:

- The discount rate used was the weighted average cost of capital, based on the market capital structure, which is 11.3% for the entire forecasting period.
- Five-year business plan included existing and committed fleet.
- For the existing aircraft which lease term finishes before the five-year forecasted period, the lease term was extended until the end of 2026.
- Recovery to the level of 2019 for domestic flights (2022 year) and international flights (2024 year) were assumed in line with the expectations of IATA for Kazakhstan for Air Astana.
- The domestic and international flights for the FlyArystan division of the Group increase in 2021-2022 due to higher growth potential for low-cost carriers and introduction of new routes which in combination will lead eventually to an increase of market share.

The estimated discounted future cash flows exceed the carrying amount of corresponding property, plant and equipment and intangible assets.

To address uncertainty related to the market recovery the Group prepared a more conservative scenario by adjusting the basic scenario on the following assumptions:

- 30% decrease in fares on the domestic routes of Air Astana for 2021 and 15% for 2022;
- 30% decrease in passengers of FlyArystan division on domestic routes in 2021 and 15% in 2022.

Under the more conservative scenario, the discounted cash flows exceed the net book value of the Group's assets.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued
for the year ended 31 December 2020

## 11. Intangible assets

| '000 USD | Software |
|---|---|
| **Cost** | |
| **At 1 January 2019** | **7,499** |
| Additions | 430 |
| Disposal | (6) |
| **At 31 December 2019** | **7,923** |
| Additions | 828 |
| Disposal | (20) |
| **At 31 December 2020** | **8,731** |
| **Accumulated amortisation** | |
| **At 1 January 2019** | **5,335** |
| Charge for the year | 898 |
| Disposal | (5) |
| **At 31 December 2019** | **6,228** |
| Charge for the year | 877 |
| Disposal | (20) |
| **At 31 December 2020** | **7,085** |
| **Net book value** | |
| **At 31 December 2019** | **1,695** |
| **At 31 December 2020** | **1,646** |

## 12. Depreciation and amortisation

| '000 USD | 2020 | 2019 |
|---|---|---|
| Depreciation of property, plant and equipment (Note 10) | **100,158** | 80,457 |
| Amortisation of intangible assets (Note 11) | **877** | 898 |
| **Total** | **101,035** | **81,355** |

## 13. Guarantee deposits

| '000 USD | 31 December 2020 | 31 December 2019 |
|---|---|---|
| **Non-current** | | |
| Guarantee deposits for leased aircraft | **19,064** | 15,855 |
| Other guarantee deposits | **1,491** | 1,222 |
| Impairment allowances | **(145)** | (345) |
| | **20,410** | **16,732** |
| **Current** | | |
| Guarantee deposits to secure Letters of Credit for maintenance liabilities | **4,425** | 9,514 |
| Other guarantee deposits | **1,277** | 1,430 |
| Guarantee deposits for leased aircraft | **124** | 5,741 |
| Impairment allowances | **(12)** | (56) |
| | **5,814** | **16,629** |
| | **26,224** | **33,361** |

Guarantee deposits for leased aircraft comprise security deposits required by the lease agreements as security for future lease payments to be made by the Group. Guarantee deposits are denominated primarily in US Dollars. The Group assesses credit risk for such deposits as low mainly because almost all lessors are rated from AA to BBB in accordance with Standard and Poor's credit quality grades. For those lessors who are not credit rated by the international rating agencies, the management has assessed and concluded that the uncertainty related to the non-rated counterparties is mitigated by the relatively high probability of defaults of similar CCC rated financial instruments and therefore calculates the expected credit loss based on the assumption that such lessors are rated at CCC by S&P.

In 2020 the Company completed transfer of standby letter of credit from Natixis bank, and as a result cash collateral in the amount of USD 5 million was returned by Natixis bank to the Company's account. The remaining amount of cash collateral (USD 4.4 million) is expected to be returned by Natixis bank in June 2021.

Guarantee deposits for leased aircraft and maintenance liabilities are receivable as follows:

| '000 USD | 31 December 2020 | 31 December 2019 |
|---|---|---|
| Within one year | **4,549** | 15,255 |
| After one year but not more than five years | **5,925** | 1,797 |
| More than five years | **13,212** | 14,085 |
| | **23,686** | **31,137** |
| Fair value adjustment | **(73)** | (27) |
| | **23,613** | **31,110** |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued
for the year ended 31 December 2020

## 14. Inventories

| ’000 USD | 31 December 2020 | 31 December 2019 |
|---|---|---|
| Spare parts | **32,193** | 29,755 |
| Fuel | **4,687** | 7,347 |
| Crockery | **4,553** | 4,997 |
| Promotional materials | **2,042** | 1,701 |
| Uniforms | **1,284** | 1,175 |
| De-icing liquid | **853** | 2,011 |
| Goods in transit | **715** | 3,070 |
| Blank forms | **413** | 432 |
| Other | **1,338** | 1,633 |
| | **48,078** | **52,121** |
| Less: cumulative write-down for obsolete and slow-moving inventories | **(1,707)** | (2,120) |
| | **46,371** | **50,001** |

The movements in the cumulative write-down for obsolete and slow-moving inventories were as follows for the years ended 31 December:

| ’000 USD | 2020 | 2019 |
|---|---|---|
| **Cumulative write-down for obsolete and slow-moving inventories at the beginning of the year** | **(2,120)** | **(1,693)** |
| Write-down for the year | **(573)** | (615) |
| Reversal of previous write-down for the year | **986** | 188 |
| **Cumulative write-down for obsolete and slow-moving inventories at the end of the year** | **(1,707)** | **(2,120)** |

## 15. Prepayments

| ’000 USD | 31 December 2020 | 31 December 2019 |
|---|---|---|
| **Non-current** | | |
| Prepayments for long-term assets | **7,760** | 5,675 |
| Advances for services | **4,593** | 6,394 |
| | **12,353** | **12,069** |
| **Current** | | |
| Advances for services | **13,435** | 18,565 |
| Advances for goods | **1,467** | 4,122 |
| Prepayments of leases without transfer of legal title | **982** | 3,515 |
| Prepayments for leases with transfer of legal title | **–** | 5,243 |
| | **15,884** | **31,445** |
| Less: impairment allowance for prepayments | **(498)** | (423) |
| | **15,386** | **31,022** |

As at 31 December 2020 prepayments for long-term assets include prepayments to Boeing as pre-delivery payment for three aircraft (Note 27).

The movements in the impairment allowance for the years ended 31 December 2020 and 31 December 2019 were:

| ’000 USD | 2020 | 2019 |
|---|---|---|
| **At the beginning of the year** | **(423)** | **(409)** |
| Accrued during the year | **(100)** | (46) |
| Reversed during the year | **25** | 32 |
| **Allowance for doubtful debt at the end of the year** | **(498)** | **(423)** |

The impairment allowance includes advance payments made by the Group to suppliers which are currently subject to legal claims for recovery due to the suppliers’ inability to complete the transactions.

## 16. Trade and other receivables

| ’000 USD | 31 December 2020 | 31 December 2019 |
|---|---|---|
| **Non-current** | | |
| Due from employees and Ab-initio pilot trainees | **3,285** | 2,411 |
| Other financial assets | **47,538** | 48,457 |
| | **50,823** | **50,868** |
| Less: impairment allowance | **(47,538)** | (47,628) |
| | **3,285** | **3,240** |
| **Current** | | |
| Trade receivables | **10,897** | 27,314 |
| Due from employees and Ab-initio pilot trainees | **1,419** | 1,056 |
| Receivable from lessors – variable lease reimbursement | **–** | 6,979 |
| | **12,316** | **35,349** |
| Less: impairment allowance | **(2,096)** | (2,253) |
| | **10,220** | **33,096** |

In 2016, due to the significant credit quality deterioration of KazInvestBank JSC following the recall of its banking license, and Delta Bank JSC on 22 May 2017 followed by the temporary suspension of its license for accepting new deposits and opening new accounts, management reclassified the deposits held with these banks in the amount USD 14,234 thousand and USD 44,785 thousand, respectively, from the bank deposit line item to non-current trade and other receivables and assessed them for impairment. Based on the assessment, management recognised an impairment allowance of approximately 90% for KazInvestBank JSC and Delta Bank JSC as at 31 December 2016.

At the end of June 2017 the temporary administration of KazInvestBank JSC transferred a portion of its assets and liabilities to SB Alfa Bank JSC (Alfa Bank) which acts as an intermediary, collecting funds from the borrowers under the transferred corporate loans and distributing the proceeds among depositors. The company has agreed to transfer part of its deposit claims to KazInvestBank JSC into Alfa-Bank JSC.

On 24 January 2018 the court’s decision on the forced liquidation of KazInvestBank JSC came into effect. The compensation of the remaining claims of KazInvestBank JSC will depend on the actions of the liquidation commission.

In July-November 2017 the Company collected USD 4,376 thousand in cash through enforcement proceedings against Delta Bank JSC. On 2 November 2017, the National Bank decided to revoke the license of Delta Bank JSC. On 13 February 2018 the court decided on the forced liquidation of Delta Bank JSC.

In December 2019 management of the Company recognised an additional impairment allowance for KazInvestBank JSC, Alfa Bank and Delta Bank JSC. As at 31 December 2020 the allowance for those banks comprises 100% of the gross balances.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued
for the year ended 31 December 2020

## 16. Trade and other receivables continued

Receivable from lessors represents the amount of variable lease reimbursement claimed by the Company as a result of maintenance performed that occurred prior to the reporting date.

Amounts due from trainees of the 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 trainee terminate his/her employment. The alumni of Ab-initio pilot program can either repay the remaining training cost by cash or defer for the future so that this amount becomes payable only if they leave the Company. Amounts due from those cadets who selected the option were reclassified to deferred expenses and are amortized using the straight line method over the remaining amortization term.

The Group's net trade and other receivables are denominated in the following currencies as at 31 December:

| '000 USD | 31 December 2020 | 31 December 2019 |
|---|---|---|
| Tenge | **8,364** | 11,496 |
| US Dollar | **2,359** | 16,045 |
| Euro | **1,330** | 2,338 |
| Russian Rouble | **214** | 864 |
| Other | **1,238** | 5,593 |
| | **13,505** | **36,336** |

The movements in impairment allowance for the year ended 31 December 2020 were:

| '000 USD | 2020 | 2019 |
|---|---|---|
| **At the beginning of the year** | **(49,881)** | **(48,757)** |
| Accrued during the year | **(2,623)** | (2,642) |
| Reversed during the year | **1,917** | 1,555 |
| Written-off against previously created allowance | **–** | 5 |
| Foreign currency difference | **953** | (42) |
| **At the end of the year** | **(49,634)** | **(49,881)** |

## 17. Other taxes prepaid

| '000 USD | 31 December 2020 | 31 December 2019 |
|---|---|---|
| Value added tax recoverable | **14,896** | 32,390 |
| Other taxes prepaid | **270** | 956 |
| | **15,166** | **33,346** |

Value added tax recoverable is recognised within current assets as the Group annually applies for reimbursement of these amounts.

## 18. Cash and bank balances

| '000 USD | 31 December 2020 | 31 December 2019 |
|---|---|---|
| Current accounts with foreign banks | **85,451** | 96,450 |
| Term deposits with local banks with an initial maturity of less than 3 months | **62,705** | 66,425 |
| Current accounts with local banks | **53,074** | 13,410 |
| Cash in hand | **122** | 113 |
| Accrued interest | **9** | 49 |
| | **201,361** | **176,447** |
| Impairment allowances | **(7)** | (5) |
| | **201,354** | **176,442** |

Cash and bank balances are denominated in the following currencies as at 31 December:

| '000 USD | 2020 | 2019 |
|---|---|---|
| US Dollar | **177,753** | 168,266 |
| Tenge | **18,187** | 795 |
| Chinese Yuan | **2,493** | 992 |
| Euro | **752** | 1,699 |
| Indian Rupee | **635** | 2,046 |
| Russian Rouble | **582** | 656 |
| British Pound | **284** | 502 |
| Uzbek Som | **61** | 401 |
| Other | **607** | 1,085 |
| | **201,354** | **176,442** |

## 19. Equity

As at 31 December 2020 and 2019, share capital was comprised of 17,000 authorised, issued and fully paid ordinary shares with a par value of 147,150 tenge per share (equivalent to USD 1,000 per share at the time of purchase).

The holders of ordinary shares are entitled to receive dividends as declared from time to time, and are entitled to one vote per share at meetings of the Group.

In accordance with Kazakhstan legislation the Group's distributable reserves are limited to the balance of retained earnings as recorded in the Group'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 Group's insolvency.

As at 31 December 2020 the Group had retained earnings, including the loss for the current year, of USD 55,417 thousand (2019: USD 149,350 thousand).

No dividends were declared during 2020 (2019: none).

The calculation of basic earnings per share is based on profit or loss for the year and the weighted average number of ordinary shares outstanding during the year of 17,000 shares (2019: 17,000 shares). The Group has no instruments with potential dilutive effect.

| '000 USD | 2020 | 2019 |
|---|---|---|
| (Loss)/Profit for the year | **(93,933)** | 30,032 |
| Number of ordinary shares | **17,000** | 17,000 |
| **Earnings per share – basic and diluted (USD)** | **(5,525)** | **1,767** |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued
for the year ended 31 December 2020

## 20. Deferred revenue

| '000 USD | 31 December 2020 | 31 December 2019 |
|---|---|---|
| Unearned transportation revenue | **28,505** | 59,137 |
| Customer loyalty program provision | **9,607** | 8,781 |
| | **38,112** | **67,918** |

Unearned transportation revenue represents the value of sold but unused passenger tickets the validity period of which has not expired, excluding recognised passenger revenue in respect of the percentage of tickets sold that are expected not to be used or refunded (Note 5).

Deferred revenue attributable to the customer loyalty program refers to the Group's Nomad Club program.

Due to the short-term nature of the Group's performance obligations, the opening balance of unearned transportation revenue was recognised as revenue in 2020.

## 21. Provision for aircraft maintenance

| '000 USD | 31 December 2020 | 31 December 2019 |
|---|---|---|
| Engines | **62,906** | 68,106 |
| D-Check | **6,807** | 9,141 |
| C-Check | **4,314** | 6,454 |
| Provision for redelivery of aircraft | **3,701** | 3,688 |
| Auxiliary Power unit | **2,301** | 1,565 |
| Landing gear | **3,041** | 2,308 |
| | **83,070** | **91,262** |

The movements in the provision for aircraft maintenance were as follows for the years ended 31 December:

| '000 USD | 2020 | 2019 |
|---|---|---|
| **At 1 January** | **91,262** | **87,236** |
| Recognised in property, plant and equipment | **5,334** | 2,011 |
| Accrued during the year (Note 7) | **34,718** | 33,539 |
| Reversed during the year (Note 7) | **(14,374)** | (5,072) |
| Used during the year | **(33,870)** | (26,452) |
| **At 31 December** | **83,070** | **91,262** |

Under the terms of its lease agreements without transfer of title for aircraft, the Group 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 significant reversal of provision was due to the different rates used in calculation of estimated cost of the end of lease payments to aircraft which were returned in 2020 in comparison with actual payment made according to termination contract. After technical overview, the Company negotiated with the lessors to use the lower rates for payment of return compensation.

The planned utilisation of these provisions is as follows:

| '000 USD | 31 December 2020 | 31 December 2019 |
|---|---|---|
| Within one year | **37,533** | 37,413 |
| During the second year | **16,428** | 35,024 |
| During the third year | **7,921** | 4,374 |
| After the third year | **21,188** | 14,451 |
| **Total provision for aircraft maintenance** | **83,070** | **91,262** |
| Less: current portion | **37,533** | 37,413 |
| **Non-current portion** | **45,537** | **53,849** |

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 leases without transfer of title 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.

## 22. Trade and other payables

| '000 USD | 31 December 2020 | 31 December 2019 |
|---|---|---|
| Trade payables | **21,847** | 62,103 |
| Due to employees | **5,892** | 3,942 |
| Advances received | **5,869** | 5,480 |
| Deposits received from agents | **2,010** | 4,638 |
| Taxes payable | **1,109** | 959 |
| Vacation accrual | **1,079** | 902 |
| Deferred revenue refund | **843** | – |
| Pension contribution | **424** | 881 |
| Accrued bonuses | **139** | 13,880 |
| Other | **119** | 139 |
| | **39,331** | **92,924** |

As at 31 December 2020 the Company recognised trade payables related to ticket refund of USD 843 thousand.

The Group's trade and other payables are denominated in the following currencies:

| '000 USD | 31 December 2020 | 31 December 2019 |
|---|---|---|
| Tenge | **21,745** | 30,604 |
| US Dollar | **11,240** | 41,154 |
| Euro | **3,111** | 6,673 |
| Russian roubles | **150** | 1,078 |
| GBP | **147** | 1,101 |
| Other | **2,938** | 12,314 |
| | **39,331** | **92,924** |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued
for the year ended 31 December 2020

## 23. Loans

| ’000 USD | 31 December 2020 | 31 December 2019 |
|---|---|---|
| **Non-current** | | |
| Bank loan | **53,004** | 6,430 |
| | **53,004** | **6,430** |
| **Current** | | |
| Current portion of bank loan | **105,968** | 10,354 |
| Interest payable | **5,041** | 41 |
| | **111,009** | **10,395** |

On 3 December 2015 the Group concluded a loan agreement of USD 14,000 thousand (in Kazakhstani tenge equivalent) with the European Bank for Reconstruction and Development (EBRD) for 10 years for the purpose of construction of a Technical Centre (Hangar) in Nur-Sultan, which was also pledged to the EBRD under this loan. The interest rate was variable and defined, based on a margin of 3.75% per annum plus EBRD’s All-in Cost in Kazakhstani tenge. The All-in Cost was determined on a quarterly basis in conjunction with the National Bank of Kazakhstan base rate. In April 2016 the Group obtained the funds from EBRD in the amount of 4,661,033 thousand tenge (USD 14,000 thousand equivalent as of receipt dates).

In order to release the Technical Centre (Hangar) in Nur-Sultan from the pledge and respond to collateral requirement of Halyk Bank, in 2020 the Company repaid EBRD loan bank using credit sources from Halyk Bank. As per the agreement with Halyk Bank the Company should pledge the Technical Centre (Hangar) in Nur-Sultan to Halyk Bank until April 2021 (Note 10).

On 12 August 2019 the Group opened a Credit Line in JSC Halyk Bank for USD 40,000 thousand for 3 years, for the purpose of working capital financing. On 20 March 2020 the Group signed an addendum to the Loan Agreement and increased the loan amount up to USD 65,000 thousand. On 21 April 2020 another addendum was signed between parties further increasing the loan amount to USD 115,000 thousand.

On 15 September 2020 the Group signed an addendum to the Loan agreement with Halyk Bank bringing the credit line to USD 160,000 thousand (from USD 115,000 thousand) and extending its tenor to 10 September 2025, mirroring the previous tenor of the EBRD loan, (until September 2025). The loan at EBRD was fully refinanced with Halyk Bank’s credit facilities on 20 September 2020. The credit line allows to take borrowing both in KZT and USD. The average interest rate for borrowings in USD is 3.5% per annum and 11.3% per annum for loans in KZT.

The Group’s loans are denominated in the following currencies:

| ’000 USD | 31 December 2020 | 31 December 2019 |
|---|---|---|
| Tenge | **115,865** | 10,395 |
| US Dollar | **48,148** | 6,430 |
| | **164,013** | **16,825** |

## 24. Lease liabilities

During the years from 2012 to 2014 the Group acquired ten aircraft under fixed interest lease agreements with transfer of title. The lease term for each aircraft is twelve years. The Group has an option to purchase each aircraft for a nominal amount at the end of the lease. The majority of aircraft lease contracts are concluded for eight years without repurchase options at the end of the lease terms.

Loans provided by financial institutions to the lessors in respect of five new Airbus aircraft 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 the US Export Import Bank.

The Group's obligations under leases are secured by the lessors' title to the leased assets. These assets have a carrying value of USD 633,115 thousand (2019: USD 526,401 thousand) (Note 10).

The Group's leases with transfer of title 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 lease agreements with transfer of title include covenants as regards to change of ownership of the Group. These requirements have been met during 2020 and 2019.

| | Minimum lease payments | | Present value of minimum lease payments | |
|---|---|---|---|---|
| **'000 USD** | **31 December 2020** | 31 December 2019 | **31 December 2020** | 31 December 2019 |
| Not later than one year | **161,337** | 135,596 | **132,340** | 111,216 |
| Later than one year and not later than five years | **525,764** | 441,291 | **463,503** | 386,257 |
| Later than five years | **114,849** | 114,215 | **108,819** | 109,029 |
| | **801,950** | **691,102** | **704,662** | **606,502** |
| Less: future finance charges | **(97,288)** | (84,600) | **–** | – |
| **Present value of minimum lease payments** | **704,662** | **606,502** | **704,662** | **606,502** |
| Included in the financial statements as: | | | | |
| – current portion of lease obligations | | | **132,340** | 111,216 |
| – non-current portion of lease obligations | | | **572,322** | 495,286 |
| | | | **704,662** | **606,502** |

The Group's lease obligations are denominated in US Dollars.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued
for the year ended 31 December 2020

## 24. Lease liabilities continued

**Reconciliation of movements of loans and lease liabilities to cash flows arising from financing activities**

| '000 USD | Loans (Note 23) | Lease liabilities | Total |
|---|---|---|---|
| **Balance as at 1 January 2020** | **16,825** | **606,502** | **623,327** |
| Repayment of borrowings | (65,969) | – | (65,969) |
| Proceed from borrowings | 209,118 | – | 209,118 |
| Repayment of lease liabilities | – | (100,020) | (100,020) |
| Additional financing from sale and leaseback | 1,840 | – | 1,840 |
| Repayment of additional financing | (321) | – | (321) |
| Interest paid | (1,125) | (28,462) | (29,587) |
| **Total changes from financing cash flows** | **143,543** | **(128,482)** | **15,061** |
| Effect of changes in foreign exchange rates | (2,459) | (317) | (2,776) |
| Other changes | | | |
| Additional adjustment – new leases | – | 207,342 | 207,342 |
| Interest expense (Note 8) | 6,104 | 28,640 | 34,744 |
| Non-cash settlement due to netting with guarantee deposits | – | (4,193) | (4,193) |
| Effect of COVID-19 related rent concessions | – | (1,986) | (1,986) |
| Gain from early return of aircraft (Note 6) | – | (2,844) | (2,844) |
| **Total other changes** | **6,104** | **226,959** | **233,063** |
| **Balance as at 31 December 2020** | **164,013** | **704,662** | **868,675** |

| '000 USD | Loans (Note 22) | Lease liabilities | Total |
|---|---|---|---|
| **Balance as at 1 January 2019** | 9,156 | 281,527 | 290,683 |
| **Adjustments on initial application of IFRS 16** | – | 199,327 | 199,327 |
| **Balance as at 1 January 2019** | **9,156** | **480,854** | **490,010** |
| Repayment of borrowings | (1,349) | | (1,349) |
| Repayment of lease liabilities | – | (103,931) | (103,931) |
| Receipt of borrowings | 9,000 | | 9,000 |
| Interest paid | (946) | (23,958) | (24,904) |
| **Total changes from financing cash flows** | **6,705** | **(127,889)** | **(121,184)** |
| Effect of changes in foreign exchange rates | 33 | 32 | 65 |
| **Other changes** | | | |
| Additional adjustment – new leases | – | 245,017 | 245,017 |
| Interest expense (Note 7) | 931 | 23,858 | 24,789 |
| Non-cash settlement (Note 5) | – | (15,370) | (15,370) |
| **Total other changes** | **931** | **253,505** | **254,436** |
| **Balance as at 31 December 2019** | **16,825** | **606,502** | **623,327** |

On 1 July 2015 the Group designated a portion of its US Dollar lease obligations with transfer of title as hedges of highly probable future US Dollar revenue streams. The Group applied the cash flow hedge accounting model to this hedging transaction in accordance with IAS 39.

In connection with the transition of the functional currency to US Dollar, this hedge ceased to be economically effective from 31 December 2017. At 31 December 2020 a foreign currency loss of USD 55,857 thousand (2019: USD 67,307 thousand), before deferred income tax of USD 11,171 thousand (2019: USD 13,462 thousand) on the lease liabilities with transfer of title, representing an effective portion of the hedge, is deferred in the hedging reserve within equity. As a result of the change, the hedge relationship has been discontinued so that starting from 1 January 2018 no further foreign currency translation gains or losses are transferred from profit or loss to the hedge reserve, and the hedge reserve recognised in equity as at 31 December 2017 shall remain in equity until the forecasted revenue cash flows are received.

During 2020 the amount reclassified from the hedging reserve to foreign exchange loss in the statement of profit or loss was USD 11,449 thousand (before deferred income tax of USD 2,290 thousand) (2019: USD 11,156 thousand, before deferred income tax of USD 2,231 thousand).

## 25. Financial instruments

Exposure to credit, interest rate, currency and commodity price risk arises in the normal course of the Group's business. The Group does not hedge its exposure to such risks, other than commodity price risk as discussed below.

### Capital management

The Group manages its capital to ensure the Group will be able to continue as a going concern while maximising the return to the shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from 2017.

The capital structure of the Group consists of net debt (comprising loans and lease obligations in Note 23 and 24) and equity of the Group (comprising issued capital, additional paid-in capital, reserve on hedging instruments and retained earnings as detailed in Note 19).

The Group is not subject to any externally imposed capital requirements.

The Company does not have a target gearing ratio.

### Credit risk

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group 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, guarantee deposits and accounts receivable, is calculated based 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 2020 there was no significant concentration of credit risk in respect of trade accounts receivable (Note 16).

The Group uses reputable banks and has established a cash investment policy which would limit the credit risk related to bank accounts and deposits.

As a result of the increased credit risks on some of the banks, management reconsidered its cash management policy and reviewed the credit ratings of the major banks in Kazakhstan and placed its main amounts due from banks in banks with ratings of "BB" or higher, except for KazInvestBank and Delta Bank, which are disclosed in Note 16.

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued
for the year ended 31 December 2020

## 25. Financial instruments continued

The carrying amounts of financial assets represent the maximum credit exposure. Impairment losses on financial assets recognised in profit or loss were as follows:

| ’000 USD | Note | 2020 | 2019 |
|---|---|---|---|
| Impairment loss on trade and other receivables | 16 | **(706)** | (1,087) |
| Reversal of impairment loss on guarantee deposits | 13 | **244** | (56) |
| Impairment loss on cash and cash equivalents | 18 | **(2)** | (3) |
| | | **(464)** | **(1,146)** |

### Trade and other receivables

| ’000 USD | 2020 | 2019 |
|---|---|---|
| Default banks | **47,538** | 48,457 |
| Trade receivables | **10,897** | 27,314 |
| Amounts due from employees | **4,704** | 3,467 |
| Receivable from lessors | **–** | 6,979 |
| **Total gross carrying amount** | **63,139** | **86,217** |
| Impairment allowance | **(49,634)** | (49,881) |
| **Total net carrying amount** | **13,505** | **36,336** |

### Trade receivables

The sale of tickets is the main revenue source of the Company. The Company uses agents who sell tickets on behalf of the Company to corporations and general public for a certain commission that varies depending on the geographical location and market conditions. As a result agents amass significant amount of funds for tickets sold which are recorded as trade receivables by airlines. The International Air Transport Association (hereinafter referred to as “IATA”) conducts monitoring of agents by establishing IATA accreditation procedures designed to ensure the credit quality of agents. The IATA also set Local Financial Criteria for each market in accordance to which agents have to obtain a credit enhancement such as bank Guarantee or insurance from a financial institution of certain credit rating before they can be accredited by the IATA.

On a regular basis, the IATA notifies the airlines about the amount of debt from each agent in excess of its guarantee or insurance protected amount. In addition, the IATA also informs about sharp and unusual increase in sales which might signal increase in risk. The Company then decides whether to stop dealing with such agents until the negative factors are resolved.

The Company works only with IATA accredited agents.

The Company does not have trade receivables and contract assets for which no loss allowance is recognised because of collateral.

At 31 December 2020, eight debtors including IATA Billing Settlement Plans (BSPs) as collecting agencies from the worldwide travel agencies comprised 58% of the Company’s trade and other receivables excluding banks in default (at 31 December 2019: eight debtors comprised 27%).

### Receivables from lessors

Receivable from lessors represents the amount of variable lease reimbursement claimed by the Group as a result of maintenance performed that occurred prior to the reporting date. Most of the lessors are rated by the international credit rating agencies. Since all lessors have excellent credit history and the Group has been conducting operations with many of them for many years, the management considers their credit risk to be insignificant even for those lessors that do not hold any credit rating.

The table below presents the credit quality of receivables from lessors and others:

| '000 USD | 2020 | 2019 |
|---|---|---|
| **Credit rating** | | |
| BBB- to AAA | – | 5,679 |
| Without ratings | – | 1,300 |
| **Gross carrying amounts** | – | **6,979** |
| Impairment allowance | – | (17) |
| **Balance at 31 December** | – | **6,962** |

### Amounts due from employees

In general, certain part of the Ab-initio pilot training costs is borne by the pilot trainees but are funded by the Group through the provision of interest free loans to participants of the program. The Group withholds the amounts due from pilots' salary on a monthly basis. Those pilots or cadets who leave the Group are fully provided with respect of the credit losses.

### Movements in the allowance for impairment in respect of trade and other receivables

| '000 USD | 2020 | 2019 |
|---|---|---|
| **Balance at 1 January** | **49,881** | **48,757** |
| Accrual of impairment allowance | **2,623** | 1,087 |
| Foreign currency difference | **(953)** | 42 |
| Reversal of impairment allowance | **(1,917)** | (5) |
| **Balance at 31 December** | **49,634** | **49,881** |

### Guarantee Deposits

The main counterparties of the Group have a credit rating of at least from BBB- S&P Rating Agency.

To determine whether published ratings remain up-to-date and to assess whether there has been a significant increase in credit risk at the reporting date that has not been reflected in published ratings the Group monitors changes in credit risk by tracking their financial stability.

| | 2020 | 2019 |
|---|---|---|
| **Credit rating** | | |
| BBB- to AAA | **18,311** | 17,573 |
| C to CCC+ | **826** | 2,642 |
| Without ratings | **2,819** | 4,062 |
| **Gross carrying amounts (2020 amortised cost before impairment)** | **21,956** | **24,277** |
| Impairment allowance | **(157)** | (401) |
| **Total net carrying amount** | **21,799** | **23,876** |

12-month and lifetime probabilities of default are based on historical data supplied by S&P Rating Agency for each credit rating. Loss given default (LGD) parameters generally reflect an assumed recovery rate of 30% except when a security is credit-impaired, in which case the estimate of loss is based on the instrument's current market price and original effective interest rate.

The following table presents credit ratings of guarantee deposits each of which were classified in stage 1:

The Group did not have any guarantee deposits that were either past due or impaired.

| '000 USD | 2020 | 2019 |
|---|---|---|
| **Balance at 1 January** | **(401)** | **(345)** |
| Net remeasurement of loss allowance | **244** | (56) |
| **Balance at 31 December** | **(157)** | **(401)** |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued
for the year ended 31 December 2020

## 25. Financial instruments continued

### Cash and cash equivalents
The Group held cash and cash equivalents of USD 201,354 thousand at 31 December 2020 (2019: USD 176,442 thousand). The cash and cash equivalents are held with bank and financial institution counterparties, which are rated B+ to A+, based on S&P ratings.

Impairment on cash and cash equivalents has been measured on a 12-month expected loss basis and reflects the short maturities of the exposures. The Group considers that its cash and cash equivalents have low credit risk based on the external credit ratings of the counterparties.

The Group uses a similar approach for assessment of ECLs for cash and cash equivalents to those used for bank and guarantee deposits.

The following table presents an analysis of the credit quality of cash and cash equivalents measured at amortised cost:

| '000 USD | 2020 | | | 2019 | | |
|---|---|---|---|---|---|---|
| Credit rating | Gross carrying amount | 12 month ECL | Carrying amount | Gross carrying amount | 12 month ECL | Carrying amount |
| BBB- to A+ | **152,381** | **(3)** | **152,378** | 166,268 | (4) | 166,264 |
| B+ to BB+ | **48,816** | **(4)** | **48,812** | 9,947 | (1) | 9,946 |
| | **201,197** | **(7)** | **201,190** | **176,215** | **(5)** | **176,210** |

### Interest rate risk
The Group is not exposed to significant interest rate risk because the Group mainly borrows funds at fixed interest rates.

### Foreign currency risk
The Group is exposed to foreign currency risk on sales and purchases that are denominated in currencies other than the US Dollar. The currencies giving rise to this risk are primarily tenge and Euro. For amounts of assets and liabilities denominated in foreign currency refer to Notes 16, 18, 22 and 23. Management believes that it has taken appropriate measures to support the sustainability of the Group business under the current circumstances.

### Foreign currency sensitivity analysis
The Group is mainly exposed to the risk of change of exchange rates of the US dollar against tenge and euro.

The carrying value of the Group'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 Group.

| | | 31 December 2020 | | 31 December 2019 | |
|---|---|---|---|---|---|
| '000 USD | Notes | Tenge | Euro | Tenge | Euro |
| **Assets** | | | | | |
| Other taxes prepaid | 17 | **15,166** | **–** | 32,994 | 165 |
| Trade and other receivables | 16 | **8,364** | **1,330** | 11,496 | 2,338 |
| Income tax prepaid | | **3,266** | **–** | 895 | – |
| Cash and bank balances | 18 | **18,187** | **752** | 795 | 1,699 |
| Guarantee deposits | | **59** | **504** | 44 | 500 |
| **Total** | | **45,042** | **2,586** | **46,224** | **4,702** |
| | | | | | |
| **Liabilities** | | | | | |
| Trade and other payables | 22 | **21,745** | **3,111** | 30,604 | 6,673 |
| Loans | 23 | **115,865** | **–** | 10,395 | – |
| Lease liabilities | | **2,099** | **–** | 3,476 | – |
| **Total** | | **139,709** | **3,111** | **44,475** | **6,673** |
| **Net position** | | **(94,667)** | **(525)** | **1,749** | **(1,971)** |

In 2020 the following table details the Group's sensitivity of weakening and strengthening of US Dollar against tenge by 11% and euro by 7%.

The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for above mentioned sensitivity ratios.

The sensitivity analysis includes trade and other receivables, cash and bank balances, bank deposits, guarantee deposits, trade and other payables, loans and lease liabilities.

A negative number below indicates a decrease in Profit or Loss and positive number would be an opposite impact on the Profit or Loss:

| '000 USD | Weakening of US Dollar | | Strengthening of US Dollar | |
|---|---|---|---|---|
| | Tenge | Euro | Tenge | Euro |
| **2020** | **11%** | **7%** | **(11%)** | **(7%)** |
| Profit/(loss) | (8,331) | (29) | 8,331 | 29 |

| '000 USD | Weakening of US Dollar | | Strengthening of US Dollar | |
|---|---|---|---|---|
| | Tenge | Euro | Tenge | Euro |
| **2019** | **11%** | **7%** | **(11%)** | **(7%)** |
| Profit/(loss) | 154 | (110) | (154) | 110 |

The Group 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 and loans and lease liabilities are denominated.

### Liquidity risk management

Liquidity risk is the risk that a Group will encounter difficulty in meeting the obligations associated with its liabilities that are settled by delivering cash or another financial asset. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

Ultimate responsibility for liquidity risk management rests with the Group's Management. The Group manages liquidity risk by maintaining adequate reserves, continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued
for the year ended 31 December 2020

## 25. Financial instruments continued

### Liquidity and interest risk tables

The following tables detail the Group'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 Group can be required to pay.

| '000 USD | Up to 3 months | 3 months to 1 year | 1-5 years | Over 5 years | Total |
|---|---|---|---|---|---|
| **2020** | | | | | |
| **Financial assets** | | | | | |
| Trade and other receivables | 8,616 | 1,604 | 2,345 | 940 | 13,505 |
| Guarantee deposits | 1,276 | 4,538 | 6,364 | 14,119 | 26,297 |
| Cash and bank balances | 201,354 | – | – | – | 201,354 |
| **Financial liabilities** | | | | | |
| **Non-interest bearing** | | | | | |
| Trade and other payables (including employee benefits) | 37,374 | 1,957 | 1,559 | – | 40,890 |
| **Fixed rate** | | | | | |
| Loans | 8,020 | 116,511 | 58,092 | – | 182,623 |
| Lease liabilities | 38,045 | 123,292 | 525,764 | 114,849 | 801,950 |

| '000 USD | Up to 3 months | 3 months to 1 year | 1-5 years | Over 5 years | Total |
|---|---|---|---|---|---|
| **2019** | | | | | |
| **Financial assets** | | | | | |
| Trade and other receivables | 32,783 | 313 | 2,314 | 926 | 36,336 |
| Guarantee deposits | 2,580 | 14,049 | 2,440 | 14,321 | 33,390 |
| Cash and bank balances | 176,442 | – | – | – | 176,442 |
| **Financial liabilities** | | | | | |
| **Non-interest bearing** | | | | | |
| Trade and other payables | 88,351 | 4,573 | 1,219 | – | 94,143 |
| **Variable rate** | | | | | |
| Loans (tenge denominated) | 517 | 1,509 | 6,850 | 1,062 | 9,938 |
| **Fixed rate** | | | | | |
| Loans (USD denominated) | 9,005 | – | – | – | 9,005 |
| Lease liabilities | 35,922 | 99,674 | 441,291 | 114,215 | 691,102 |

### Fair values

#### 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 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. Management believes that their carrying amounts approximate 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 are recorded at fair value at initial recognition and subsequently measured at amortised cost. Management believes that their carrying amounts approximate their fair value.

### Loans

Loans are recognised at amortised cost. Management believes that their carrying amounts approximate their fair values.

### Lease liabilities

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate. Management believes that fair value is lower than carrying amounts by approximately 1%.

### 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.

## 26. Measurement of fair values

A number of the Group's accounting policies and disclosures require the measurement of fair values for financial assets and liabilities.

The Group has an established control framework with respect to the measurement of fair values. This includes a finance department that has overall responsibility for overseeing all significant fair value measurements, including Level 3 fair values.

The finance department 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.

If the inputs used to measure the fair value of an asset or a liability might be categorized in different levels of the fair value hierarchy, then the fair value measurement is categorized 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 Group recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

As at 31 December 2020 and 2019 all Group's assets were measured at amortised cost.

When measuring the fair value of an asset or a liability, the Group 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).

Further information about the assumptions made in measuring fair values is included in Note 25.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued
for the year ended 31 December 2020

## 27. Commitments and contingencies

**Capital commitments**

In 2011 the Group finalized an agreement with Boeing to purchase three Boeing 787 aircraft under lease agreements with transfer of title. The Group is committed to pre-delivery payments in accordance with the agreed payment schedule. Delivery of the Boeing 787 is now deferred to 2023 with the last pre-delivery payments deferred to the fourth quarter of 2022.

The terms of the Group's contract with the above suppliers precludes it from disclosing information on the purchase cost of the aircraft.

**Lease commitments**

**Aircraft**

Aircraft leases are for terms of between 5 to 10 years. All lease contracts contain market review clauses in the event that the parties agree to renew the leases. The Group may not have an option to purchase the leased aircraft at the expiry of the lease period.

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 leases.

Non-cancellable commitments for leases of aircraft to be delivered from 2021 to 2023:

| '000 USD | 31 December 2020 | 31 December 2019 |
|---|---|---|
| Within one year | **8,958** | 24,037 |
| After one year but not more than five years | **131,245** | 190,421 |
| More than five years | **129,689** | 145,466 |
| | **269,892** | **359,924** |

In 2017 the Group signed operating lease agreements for six Airbus A320neo family aircraft to replace some current leases on expiry and for future expansion. Three A320neo aircraft were delivered in 2020, with the three A321LR aircraft to be delivered in 2021.

In 2020 The Group signed operating lease agreements for three A321LR with expected delivery dates in 2022-2023 and for one A320CEO with expected delivery in 2021 for future expansion.

Stand-by Letters of Credit as at 31 December 2020 were USD 19,924 thousand (2019: USD 32,514 thousand), of which USD 4,424 thousand (2019: USD 9,514 thousand) were secured by deposits (Note 12) and USD 15,500 thousand (2019: USD 23,000 thousand) were unsecured.

**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) with a high rating of financial stability through the services of an 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 Group constantly purchases 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 labour (service) duties;
- Pilot's loss of license insurance;
- Insurance of goods at warehouse.

### Taxation contingencies

The taxation system in Kazakhstan is relatively new and is characterized by frequent changes in legislation, official pronouncements and court decisions, which are often unclear, contradictory and subject to varying interpretation by different tax authorities, including opinions with respect to IFRS treatment of revenues, expenses and other items in the financial statements. Taxes are subject to review and investigation by various levels of authorities, which have the authority to impose severe fines and interest charges. A tax year generally remains open for review by the tax authorities for 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.

The functional currency of the Company is US Dollar, as it best reflects the economic substance of the underlying events and circumstances of the Company. The Tax Code of the Republic of Kazakhstan does not contain provisions which would regulate questions arising from the application of functional currency in accounting books different from tenge. However, the Tax Code requires all taxpayers in Kazakhstan to maintain their tax records and to settle tax liabilities in tenge. Therefore, the Group also maintains records and conducts calculations in tenge for the purpose of taxation and settlement of tax liabilities and makes certain estimates in this respect. Management believes that such approach is the most appropriate under the current legislation.

### 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. 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.

Depreciation of the Kazakhstan Tenge, volatility in the global price of oil and the COVID-19 coronavirus pandemic have also increased the level of uncertainty in the business environment. The consolidated financial statements reflect management's assessment of the impact of the Kazakhstan business environment on the operations and the financial position of the Group. The future business environment may differ from management's assessment.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued
for the year ended 31 December 2020

## 28. Related party transactions

### Control relationships
The shareholders of the Group 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 Group, respectively.

### Management remuneration
Key management that have authority and responsibility regarding management, control and planning of the Group's activity received the following remuneration during the year, which is included in employee costs (Note 7):

| '000 USD | 2020 | 2019 |
|---|---|---|
| Salaries and bonuses | **5,149** | 4,513 |
| Social tax | **448** | 447 |
| | **5,597** | **4,960** |

Key management remuneration for 2020 includes bonuses in the amount of USD 1,101 thousand which were paid for the results of the year 2019.

### Transactions with related parties
Related parties comprise the shareholders of the Group and all other companies in which those shareholders, either individually or together, have a controlling interest.

The Group provides air transportation services to Government departments, Government agencies and State-controlled enterprises. These transactions are conducted in the ordinary course of the Group's business on terms comparable to those with other entities that are not state-controlled.

The Group 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.

Management is of the opinion that the following transactions require disclosure as related party transactions:

| '000 USD | 2020 | | 2019 | |
|---|---|---|---|---|
| **Services received** | **Transaction value** | **Outstanding balance** | Transaction value | Outstanding balance |
| State-owned companies | **15,205** | **(3,952)** | 19,752 | (4,435) |
| Shareholders and their subsidiaries | **1,610** | **(26)** | 6,381 | (834) |
| | **16,815** | **(3,978)** | **26,133** | **(5,269)** |

Services from related parties are represented by airport, navigation and meteorological forecasting services.

| '000 USD | 2020 | | 2019 | |
|---|---|---|---|---|
| **Services provided by the Group** | **Transaction value** | **Outstanding balance** | **Transaction value** | **Outstanding balance** |
| Shareholders and their subsidiaries | **1,031** | **177** | 1,484 | 366 |
| State-owned companies | **–** | **8** | 4 | – |
| | **1,031** | **185** | **1,488** | **366** |

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.

### Transactions with government-related entities

The Company transacts with a number of entities that are controlled by the Government of Kazakhstan. The Company applies the exemption in IAS 24 *Related Party Disclosures* that allows to present reduced related party disclosures regarding transactions with government-related entities.

The Company transacts with a number of entities that are related to the Government of Kazakhstan. These transactions are conducted in the ordinary course of the Company's business on terms comparable to those with other entities that are not government-related.

## 29. Subsequent events

In January-February 2021 the Group agreed additional deferral of some lease payments due in 2021.

In January 2021 the Group signed a new addendum with Halyk Bank to decrease the interest rate for one year Tenge denominated loans from 11.2% to 10.7%.

## 30. Approval of the financial statements

The consolidated financial statements were approved by management of the Group and authorised for issue on 3 March 2021.

# GRI CONTENT INDEX

| GRI standard | Disclosure | Relevant section(s) | References and data |
|---|---|---|---|
| **GRI 101: Foundation 2016** | | | |
| **GRI 102: General disclosures 2016** | | | |
| **Organisational profile** | 102-1 Name of the organization | Who we are | – |
| | 102-2 Activities, brands, products, and services | Who we are<br>Operating model | –<br>p. 21 |
| | 102-3 Location of headquarters | Consolidated financial statements | p. 100 |
| | 102-4 Location of operations | At the heart of opportunity | p. 14-15 |
| | 102-5 Ownership and legal form | Consolidated financial statements | p. 100 |
| | 102-6 Markets served | Our business model | p. 21 |
| | 102-7 Scale of the organisation | Consolidated financial statements | pp. 90-147 |
| | 102-8 Information on employees and other workers | Operating responsibly (Employment) | p. 56 |
| | 102-9 Supply chain | Operating responsibly (Procurement practices) | p. 53 |
| | 102-10 Significant changes to the organisation and its supply chain | – | Not applicable – no such changes in the reporting period |
| | 102-11 Precautionary Principle or approach | Significant risks | p. 42 |
| | 102-12 External initiatives | Operating responsibly:<br>Procurement practices,<br>Emissions,<br>Flight safety management system,<br>Employment | <br>p. 53<br>p. 54<br>p. 61<br>p. 56 |
| | 102-13 Membership of associations | Corporate website | – |
| **Strategy** | 102-14 Statement from senior decision-maker | Chairman's statement<br>President and CEO's statement | pp. 6-7<br>pp. 8-9 |
| | 102-15 Key impacts, risks, and opportunities | Significant risks | pp. 42-45 |
| **Ethics and integrity** | 102-16 Values, principles, standards, and norms of behavior | Chairman's statement (Our values)<br>Operating responsibly<br>Board leadership and company purpose | p. 7<br>p. 48<br>p. 74 |
| | 102-17 Mechanisms for advice and concerns about ethics | Operating responsibly (Ethics and compliance) | pp. 50-51 |
| **Governance** | 102-18 Governance structure | Operating responsibly<br>Corporate governance framework | p. 48<br>p. 67 |
| | 102-19 Delegating authority | Operating responsibly | p. 48 |
| | 102-20 Executive-level responsibility for economic, environmental, and social topics | Operating responsibly | p. 48 |
| | 102-21 Consulting stakeholders on economic, environmental, and social topics | Stakeholder engagement | pp. 22-23 |
| | 102-22 Composition of the highest governance body and its committees | Operating responsibly<br>Corporate governance framework | p. 48<br>p. 67 |

| GRI standard | Disclosure | Relevant section(s) | References and data |
|---|---|---|---|
| Governance continued | 102-23 Chair of the highest governance body | Corporate governance framework | pp. 67, 69 |
| | 102-24 Nominating and selecting the highest governance body | Operating responsibly<br>Corporate governance framework | p. 48<br>p. 67 |
| | 102-25 Conflicts of interest | Operating responsibly (Ethics and compliance) | pp. 50-51 |
| | 102-26 Role of highest governance body in setting purpose, values, and strategy | Operating responsibly<br>Board leadership and company purpose | p. 48<br>p. 74 |
| | 102-27 Collective knowledge of highest governance body | Board of directors | p. 68-71 |
| | 102-28 Evaluating the highest governance body's performance | Board of directors | p. 68-71 |
| | 102-29 Identifying and managing economic, environmental, and social impacts | Board activities in 2020 | p. 77-79 |
| | 102-30 Effectiveness of risk management processes | Risk management | pp. 40-45 |
| | 102-31 Review of economic, environmental, and social topics | Board activities in 2020 | p. 77 |
| | 102-32 Highest governance body's role in sustainability reporting | Board activities in 2020<br>Corporate social responsibility committee | p. 77<br>p. 81 |
| | 102-33 Communicating critical concerns | Board leadership and company purpose | pp. 74-76 |
| | 102-34 Nature and total number of critical concerns | Board activities in 2020 | p. 77 |
| | 102-35 Remuneration policies | Board activities in 2020 | p. 77 |
| | 102-36 Process for determining remuneration | Board activities in 2020<br>Nomination and remuneration committee | p. 77<br>pp. 83-84 |
| | 102-37 Stakeholders' involvement in remuneration | Stakeholder engagement<br>Engaging with our stakeholders | pp. 22-23<br>pp. 78-79 |
| | 102-38 Annual total compensation ratio | Consolidated financial statements | pp. 120, 146 |
| | 102-39 Percentage increase in annual total compensation ratio | Consolidated financial statements | pp. 120, 146 |
| Stakeholder engagement | 102-40 List of stakeholder groups | Stakeholder engagement<br>Engaging with our stakeholders | pp. 22-23<br>pp. 78-79 |
| | 102-42 Identifying and selecting stakeholders | Stakeholder engagement<br>Engaging with our stakeholders | pp. 22-23<br>pp. 78-79 |
| | 102-43 Approach to stakeholder engagement | Stakeholder engagement<br>Engaging with our stakeholders | pp. 22-23<br>pp. 78-79 |
| | 102-44 Key topics and concerns raised | Stakeholder engagement<br>Engaging with our stakeholders | pp. 22-23<br>pp. 78-79 |

# GRI CONTENT INDEX continued

| GRI standard | Disclosure | Relevant section(s) | References and data |
|---|---|---|---|
| **GRI 102: General disclosures 2016 continued** | | | |
| **Reporting practice** | 102-45 Entities included in the consolidated financial statements | Consolidated financial statements | p. 100 |
| | 102-46 Defining report content and topic Boundaries | Operating responsibly | p. 49 |
| | 102-47 List of material topics | Operating responsibly (Materiality) | p. 49 |
| | 102-48 Restatements of information | – | Not applicable – there were no restatements during the reporting period |
| | 102-49 Changes in reporting | – | Not applicable – there were no changes during the reporting period |
| | 102-50 Reporting period | Title page | – |
| | 102-51 Date of most recent report | Annual report 2019 | – |
| | 102-52 Reporting cycle | Corporate website (annual reports) | – |
| | 102-53 Contact point for questions regarding the report | – | Inside back cover |
| | 102-55 GRI content index | GRI content index | p. 148 |
| **GRI 200: Economic disclosures 2016** | | | |
| **Economic performance** | GRI 103-1 – 103-3 Management Approach 2016 | Operating responsibly (Economic) | p. 52 |
| | 201-1 Direct economic value generated and distributed | Operating responsibly (Economic) | pp. 52-53 |
| | 201-4 Financial assistance received from government | – | Not applicable – no financial assistance has been received from government since our launch |
| **Procurement practices** | GRI 103-1 – 103-3 Management Approach 2016 | Operating responsibly (Procurement practices) | p. 53 |
| | 204-1 Proportion of spending on local suppliers | Operating responsibly (Procurement practices) | p. 53 |
| **Anti-corruption** | GRI 103-1 – 103-3 Management Approach 2016 | Operating responsibly (Governance) | p. 50 |
| | 205-1 Operations assessed for risks related to corruption | Operating responsibly (Ethics and compliance) | pp. 50-51 |
| | 205-2 Communication and training about anti-corruption policies and procedures | Operating responsibly (Ethics and compliance) | pp. 50-51 |
| | 205-3 Confirmed incidents of corruption and actions taken | Operating responsibly (Ethics and compliance) | pp. 50-51 |

| GRI standard | Disclosure | Relevant section(s) | References and data |
|---|---|---|---|
| **GRI 300: Environmental disclosures 2016** | | | |
| **Energy** | GRI 103-1 – 103-3 Management Approach 2016 | Operating responsibly (Energy consumption) | p. 54 |
| | 302-1 Energy consumption within the organization | Operating responsibly (Energy consumption) | p. 54 |
| | 302-4 Reduction of energy consumption | Operating responsibly (Energy consumption) | p. 54 |
| **Emissions** | GRI 103-1 – 103-3 Management Approach 2016 | Operating responsibly (Emissions) | p. 54 |
| | 305-1 Direct (Scope 1) GHG emissions | Operating responsibly (Emissions) | p. 54 |
| | 305-4 GHG emissions intensity | Operating responsibly (Emissions) | p. 54 |
| | 305-5 Reduction of GHG emissions | Operating responsibly (Emissions) | p. 54 |
| **Effluents and waste** | GRI 103-1 – 103-3 Management Approach 2016 | Operating responsibly (Effluents and waste) | pp. 54-55 |
| | 306-2 Waste by type and disposal method | Operating responsibly (Effluents and waste) | pp. 54-55 |
| **Environmental compliance** | GRI 103-1 – 103-3 Management Approach 2016 | Operating responsibly (Environmental compliance) | p.55 |
| | 307-1 Non-compliance with environmental laws and regulations | Operating responsibly (Environmental compliance) | p.55 |
| **GRI 400: Social disclosures 2016** | | | |
| **Employment** | GRI 103-1 – 103-3 Management Approach 2016 | Operating responsibly (Social) | p.56 |
| | 401-1 New employee hires and employee turnover | Operating responsibly (Employment) | pp. 57-58 |
| | 401-2 Benefits provided to full-time employees that are not provided to temporary or part-time employees | Operating responsibly (Employment) | pp. 56-58 |
| | 401-3 Parental leave | Operating responsibly (Employment) | p. 57 |
| **Occupational health and safety (2018)** | GRI 103-1 – 103-3 Management Approach 2016 | Operating responsibly (Occupational health and safety) | p. 59 |
| | 403-1 Occupational health and safety management system | Operating responsibly (Occupational health and safety) | p. 59 |
| | 403-2 Hazard identification, risk assessment, and incident investigation | Operating responsibly (Occupational health and safety) | p. 59 |
| | 403-3 Occupational health services | Operating responsibly (Occupational health and safety) | p. 59 |
| | 403-4 Worker participation, consultation, and communication on occupational health and safety | Operating responsibly (Occupational health and safety) | p. 59 |
| | 403-5 Worker training on occupational health and safety | Operating responsibly (Occupational health and safety) | p. 59 |

# GRI CONTENT INDEX continued

| GRI standard | Disclosure | Relevant section(s) | References and data |
|---|---|---|---|
| **GRI 400: Social disclosures 2016 continued** | | | |
| | 403-6 Promotion of worker health | Operating responsibly (Occupational health and safety) | p. 59 |
| | 403-9 Work-related injuries | Operating responsibly (Occupational health and safety) | p. 59 |
| **Training and education** | GRI 103-1 – 103-3 Management Approach 2016 | | p. 58 |
| | 404-1 Average hours of training per year per employee | Operating responsibly (Training and education) | pp. 58-59 |
| | 404-2 Programs for upgrading employee skills and transition assistance programs | Operating responsibly (Training and education) | pp. 58-59 |
| **Diversity and equal opportunity** | GRI 103-1 – 103-3 Management Approach 2016 | Operating responsibly (Employment) | p. 57 |
| | 405-1 Diversity of governance bodies and employees | Operating responsibly (Employment) | p. 57 |
| **Customer privacy** | GRI 103-1 – 103-3 Management Approach 2016 | Operating responsibly (Customer privacy) | p. 60 |
| | 418-1 Substantiated complaints concerning breaches of customer privacy and losses of customer data | Operating responsibly (Customer privacy) | p. 60 |
| **Specific aspects for aviation** | | | |
| **non-GRI** | Service quality | Operating responsibly (Service Quality) | p. 60 |
| | Passenger traffic, cargo services, movements | Financial and non-financial highlights<br>Strong fundamentals | p. 1<br>p. 12 |
| | Flight safety management | Operating responsibly (Flight safety management) | p. 61 |
| | Fleet technological improvement | Operating review | pp. 30-31 |
| | Fleet management | Operating review | pp. 30-31 |
| | Innovation and digitalisation | Operating responsibly (Economic) | p. 52 |

**For more information**
You can read more at **www.airastana.com**

If you would like further information or to provide any feedback, please do get in touch:
**corporate.governance@airastana.com**
**sustainability.issues@airastana.com**

We look forward to hearing from you.

Designed and produced by Instinctif Partners
**www.creative.instinctif.com**