Air Astana

CONFERENCE CALL ON AIR ASTANA'S RESULTS FOR THE 1H OF 2024

Operator:
Ladies and gentlemen, thank you for standing by, and I would like to welcome you to Air Astana's first half 2024 results conference call. At this time, all participant lines are on listen-only mode. The format of the call today will be a presentation by the management team followed by a question and answer session. I would now like to pass the line to Mrs. Irina Martinez, the Head of Investor Relations at Air Astana. Please go ahead, ma'am.

Irina Martinez:
Thank you, operator. Good afternoon, ladies and gentlemen. Welcome to Air Astana Group's first half 2024 presentation. Thank you for joining us today. I'm joined today by our CEO, Peter Foster, and our CFO, Ibrahim Canliel. They will take us through the company's performance during the first six months of the year. After the presentation, we will conduct a question and answer session. We hope to get through as much as possible today, but if you have any follow-up questions or clarifications, please email Investor Relations team. The presentation and all earnings release and other materials are available on our website. With that, I will hand over to Peter. Peter, please go ahead.

Peter Foster:
Thank you, Irina, and thank you, Michael, and a very good morning, afternoon to all of you who are joining this presentation. I'd like to deliver a short statement before we go on to the presentation itself, as follows. I'm pleased to announce that our team delivered a robust performance in the first half of 2024 against a backdrop of inflationary cost pressures across the airline sector. Total revenue, excluding non-recurring items, increased 12.9% year-on-year in the first half of 2024 and 12.6% in the second quarter. Adjusted EBITDAR, excluding non-recurring items, was up 9.8% year-on-year in the first half, with a margin of 23.7%, accelerating to 11.5% growth in the second quarter with a 27.6% margin. We proactively managed capacity in the first half to increase revenue per ASK by 1% year-on-year, accelerating in the second quarter to 3.4% year-on-year and helping to offset a 2.5% first half rise in cost per ASK. The group's dual brand model has enabled us to be flexible in allocating resources to higher revenue per ASK routes, thereby balancing passenger growth with a continued focus on operational cost efficiency. Our fleet development plan is progressing ahead of schedule and we expect to expand the total fleet by three more than originally planned to 59 aircraft by the end of 2024. This increased capacity is one of several actions to mitigate off-wing time from Pratt & Whitney engines and enable us to meet rising demand for air travel across Kazakhstan and Central Asia. We also continue to expand the network and strategically allocate capacity to important growth regions such as China and South Korea. I would like to congratulate my colleagues for their continued commitment to excellence and the highest levels of customer service. This was recognized at the recent Skytrax World Airline Awards as Aristana and Fly Aristana were once again named Best Airline and Best Low-Cost Airline respectively in Central Asia and the CIS.

We'd now like to go on to the presentation. We can go forward to the slide beyond. Here we go. So I'd like to give just an overview which I think we've talked about in the statement but I'd just like to draw your attention to the final to the final bullet point on the slide which is the booking curve, that's to say the advanced booking profile for the third quarter is positive and we are well positioned to meet our medium-term targets. If we can go on to the highlights, total revenue as I've mentioned up by 12.9% year-on-year excluding non-recurring items, that's to say the extraordinary market event to which we have referred before, the costs of the IPO which of course took place and happened in the middle of February and in addition to that the costs associated with a charitable donation and the carriage of both material and people to and from the areas in Western Kazakhstan affected by the severe floods in spring of this year. EBITDAR of £138.7 million is up by 9.8% year-on-year, again adjusted with an EBITDAR margin of 23.7%. Revenue per ASK increased by 1% year-on-year and again as we have mentioned earlier that increase accelerated in the second quarter, i.e. at the end of the half that we are reporting today. We are in a high inflationary environment and therefore costs per ASK increased by 2.5% year-on-year and our balance sheet remains extraordinarily strong with a very strong cash position and a cash to sales ratio of 33.9% which is in contrast with the same figure of the previous year of 26.1%. So the leverage ratio of 1.4 times net debt to EBITDAR which again is a measure of extreme financial stability. If we go on specifically to quarter 2, we mentioned already that quarter 2 was significantly better than quarter 1 and therefore we have seen the performance and growth accelerate as the year has progressed. Quarter 2 revenue up by 12.6% with a much lower adjustment for the extraordinary market event. EBITDAR again adjusted up by 11.5% to £88.7 million and an EBITDAR margin of 27.6%. Revenue per ASK again accelerated and is up by 3.4% year-on-year. However, we obviously need to point out that the industry remains in an inflation environment and costs per ASK did increase by 4.5% in the second half to 6.12 cents per ASK. If we go forward, the airline continues of course to optimise its fleet. The Embraer E190-E2 fleet departure in order to render the fleet more efficient has actually accelerated. It is ahead of schedule and by the beginning of next year, the Embraer E2 will have all left the fleet. We have continued of course to take new A320 family NEO aircraft and, as I have mentioned, we have taken three older CEO aircraft specifically in order to compensate for the problems associated with Pratt & Whitney 1100 engines caused by the powder metal problem with which we are all familiar but which we will talk about in more detail later on in this presentation. We are more than on track to meet the growth profile as we go forward and I think you will have all noticed or remarked on the fact that we just placed an order for seven new A320 long-range aircraft with deliveries starting in 2026 in order to meet the growth targets that we have set out before and remain 80 aircraft by the end of 2028. Just to briefly touch upon the Pratt & Whitney engine situation, as we mentioned when we reported on the first quarter, the engine time off wing had already increased by that time as we reported from 12 months to 18 months. That continues to be the case. I think, again, you are familiar with our strategy here. We operate an engine resting programme whereby we ground the aircraft at the off-peak slow times of the year in order to have as many aircraft as possible available to fly during peak seasons as is the case at the moment. Notwithstanding that, we do have five aircraft grounded at the moment by virtue of this programme. Just in terms of what we are doing about it, we have, of course, reported this after Q1. We have signed a compensation agreement with Pratt & Whitney to cover the cost of the loss of these aircraft. That specifically refers to the extra engines that we have to acquire. We have purchased seven engines from Pratt & Whitney. We have leased three. That is a total of 10 spare engines that we have for this fleet. It is quite possible that we will take an 11th before the end of the year. As we mentioned before, we will take up to five additional A320CEOs, of which three have already been delivered. These are the Airbus A320 family aircraft with all the engines that are unaffected by the Pratt & Whitney powder metal problem. With that, I will hand over the presentation to my colleague Ibrahim Canliel, the CFO. Ibrahim, over to you.

Ibrahim Canliel:
Thank you, Peter. Good afternoon, good morning to all. In the first part of the presentation, Peter has discussed the robust performance of the first half and underlined the fact that the second quarter has been particularly successful for the Air Astana Group. In this slide, we will be illustrating further on those facts and the positive impact of the flexibility of the dual grant model of the Air Astana Group. During the first half of the year, ASKs have grown by 12%. And while growing capacity, we also managed to improve the revenue per ASK by another 1%, resulting in a 13% revenue growth during the first half of the year. Not immune from global pressures on airline costs as a result of cost discipline and operational efficiency initiatives, our cost per ASK has grown by a modest 2.5%, remaining highly competitive at 6.21 cents per ASK at the group level. As a result, we closed the first half of the year with a 10% EBITDAR growth and a particular strong recovery in the second quarter. Despite challenges in the first half, our 23.7% EBITDAR margin remains one of the highest in the industry. In Q1, with 15% growth in capacity, our EBITDAR grew by 7%. And in the second quarter, with a further 9% growth of the capacity, the group EBITDAR accelerated with a 12% growth during that same quarter. While the group passenger load factor remained almost aligned on 2023 in Q2 at 83%, I'd like to draw attention to the turnaround in our revenue per ASK quarter on quarter. We continued the RASK growth trend, reversing it from a contraction of 1.6% in Q1, to a growth of 3.4% in the second quarter. And the EBITDAR gap with the previous year, narrowing from 1.1 points in the first quarter to 0.3 points in the second. We touched upon the global inflationary pressures that impacted the cost per ASK and we also have an impact on the weighted average cost by the relative growth between the two brands. You may recall that in the first quarter, the respective growth of the two brands was 35% for FlyArystan, 8% for Air Astana, with a gap of 27 points. And that was narrowed to 4 points in view of the higher margin that the group targeted. During the second quarter, more growth capacity was allocated to Air Astana and this contributed to stronger revenue per ASK performance. However, as we will see in the following slides, both brands individually had strong capacity as well as unit revenue performance as a result of the healthy internal competition. The narrowing gap between revenue per ASK and cost per ASK from 1.9 percentage points in Q1 to 1.1 is again a positive that contributed to the EBITDAR growth of the group and almost aligned margin while growing capacity at the same time. Turning to the breakdown by brand, Air Astana please. Turning to the breakdown by brand, during the first half of the year for the Air Astana brand, capacity was up by 8% with a load factor improvement of half a percent and remainder by improvement of yield. The RASK was up by a total of 2.1% and revenues as a result of that by a 10% growth for the first half of the year. With a narrow gap of growth between the RASK and the CASK of 0.3, the EBITDAR was up by 11% compared to the first half of the previous year and a strong margin of 27.8% up by 0.1 points

compared to the same period. As it is for the group, Air Astana's second quarter has also been the stronger one. With 8% capacity growth and 4% growth in the fleet, Air Astana brand RPKs were up by 9% on 8% of ASK growth resulting in a 1.1 percentage point of the load factor during the second quarter and the revenue per ASK was up by 2.5% for the Air Astana brand in Q2 as a result of 1.1 percentage point load factor improvement and yield by 1.5% during the same period. With the growth gap of RASK and CASK reversing from a 1% negative to a 0.3 positive in Q2, the EBITDAR of the Air Astana brand was up 13% year-on-year excluding inter-group revenues and broadly maintaining the margin despite growth with a 10% growth of the EBITDAR. And if you move on to FlyArystan, we mentioned earlier that with the capacity constraints in the group that we make our brands and routes compete for available capacity and during the second quarter that this resulted in an allocation of capacity more favorable to the Air Astana brand. Yet still the capacity measured in available 6 kilometers for the FlyArystan brand grew by 22% during the first half and still at double digits and impressive 12% for the second quarter. The [17 min 25 sec] was at 84.8% and sold by the way 89%. While I would like to draw your attention to the revenue per ASK performance of FlyArystan, 3.2% growth, sorry 4.2% growth in the first quarter, 3.5% in the second quarter and for the first half 3.2% up compared to the same period of last year. The cost in the second quarter was impacted by the relatively lower growth in favor of Air Astana, however I would like to draw attention for both brands particularly to the RASK and the cost performance. During the first quarter FlyArystan EBITDAR was up by 21% with a 35% capacity growth. While in the second quarter with a 12% ASK growth the EBITDAR grew by 18% during the same period contributing to the 19% growth of the EBITDAR for the first half of the year. If you can move on to the capacity, thank you Irina. Peter touched upon the execution of the fleet plan expansion in the first half of the year. That drives the 11.8% ASK growth for the first half of 2024. We delivered six new aircraft in the first half that joined the fleet. The first E2 departed during the second quarter and the second one departed straight after the closure of the first half. As a result, the fleet has grown from 49 aircraft by the end of last year to 54 aircraft by the end of the first half of 2024 and we targeted to add five more aircraft ending the year with two more aircraft than planned originally in the business plan. In terms of ASK, the strong growth continues across the group with double-digit growth. Domestic grew particularly strong with 9.7% growth during the first half and FlyArystan continued to stimulate domestic traffic with an exceptional 33.5% capacity growth in the first half. As Peter mentioned at the very start, that capacity allocation in favor of the higher margin routes has resulted in a revenue for ASK growth for the first half that accelerated in the second half – in the second quarter. We maintained consistently high load factors. The load factor of 82% is broadly consistent with the same period of 2023, albeit with a higher unit revenue compared to the same period. Moving on to the unit revenue in the next slide, we are aware of the cost pressures and therefore sustaining a revenue per ASK performance for growth is a challenge for many in the industry. We touched upon the dynamic capacity management several times before and the fact that this has accelerated in the second quarter. We are pleased that during the first half of the year, we have been able to deliver continued growth of the revenue per ASK – 1% for the half and 3.4% for the second quarter. Also, individually, both Air Astana and FlyArystan brands have rushed up by 2.1% and 3.2% respectively for the first half and both accelerated in the second quarter with 2.5% and 3.5% revenue – unit revenue growth respectively. Since the – compared to pre-COVID-19, Air Astana's revenues are now up by 32% or the group revenues are up by 57% and the Air Astana brand's unit revenue are now 47% ahead of 2019 and FlyArystan's 66%. Moving on to the cost, as a result of the operational cost efficiencies, the group's cost has been and remains a competitive advantage for the Air Astana group and we remain one of the most cost-efficient airlines in the industry. We are conscious of the cost pressures globally and therefore, there is a clear focus of sustaining the operational efficiencies across the group. There are a wide range of measures we undertake to ensure to maintain the cost competitiveness. The efficient use of assets, crew and all operational staff efficiencies, scrutiny for non-operational staff efficiency as well as contract negotiations with our key suppliers including compensation are just a few of these. In addition to that, we continue to invest into efficiencies like the aircraft technical center that Peter touched upon earlier, the in-house training capabilities for pilots as well as for cabin crew and software to optimize flight plans and crew utilization are just a few that again contribute to the structural efficiency of the group. During the first half, notwithstanding the cost pressures, the cost growth has been modest at 2.5% and at the same time, the proactive capacity management has delivered an accelerating risk mitigating the moderate cost impact. The year-on-year growth differential for the group has been successfully reduced from 1.9 to 1.1 points in the second quarter. Having a look at the cost excluding fuel that has grown by 2.3% during the first half of the year and that includes the escalation impacted by key suppliers including airports as well as continued investment into the customer experience. It's also important to note that the pilot pay pressure some airlines are starting to see the burden of in 2024 was already addressed by the group in May 23 and the full year effect has now been fully reflected in the second quarter of 2024 and will have a neutral effect going forward. The D&A costs per ASK are up by 6.4% during the first half of the year which was partly offset by the engineering and maintenance cost reduction by 3%. The E&M cost reduction is further supported by the efficiencies gained through the enhanced in-house capabilities and further investment into that. The fuel cost is up by 3.2% during the first half and for the remainder of the year the international fuel uplift is now fully hedged at 80 to 85 dollars and those are all at call options without any downside risk going forward. Moving on to the balance sheets the group net adjusted debt to EBITDAR has declined from an already comfortable level of one and a half by the end of 2023 to 1.4 in the first half of 2024. That is comfortably within guidance. The company does not have any corporate loans and the entire debt that we see on the balance sheet consists of finance lease liabilities and operating lease liabilities reflected under IFRS 16. As of the end of the first half total lease liabilities were at 825.5 million up from 669.9 by the first half of last year. Entirely driven by the 10 aircraft that have been acquired in the last 12 months left the voluntary early repayment the company performed in the amount of 18.1 million dollars in May of last year. As for the liquidity ratio the company is again in a very comfortable zone of 33.9% well ahead of the 25% target that we guided for and that is prior to taking into account the facilities available to the company amounting to 13.2% of sales with which the liquidity ratio reaches 47.1% of annual sales of the company. On all terms again a robust balance sheet and on all metrics comfortably ahead of the guidance that we had provided. With that I will hand back to Peter to take us through the operational update.

Peter Foster:

Thank you Ibrahim. Thank you. Fine so if we can go on to the next slide Irina if you wouldn't mind please. Right so we I think most people are aware that the new international terminal has opened at Almaty airport. We started moving our international flights across to this new terminal beginning in June and by mid-June we had transferred all flights to the new terminal. Often this can be a challenging exercise. There were indeed one or two [27 min 28 sec] problems which is always the case with new terminals but we managed this in such a way that we put flights into the terminal when the terminal was ready to accept them and the terminal is now operating pretty smoothly and of course obviously the long term it's an enormous development for us. Not only does it increase the total capacity of the airport it has also notwithstanding the increase to international flights that this enables us to do and the potential for the future it has also freed up the space in what was the international and domestic terminal prior to the opening. That terminal has now become purely a domestic terminal. Domestic growth is growing at 16% as we will show in a later slide. Therefore this is a very strong market and a very strong growth market and therefore the benefit not only to international flights but also to domestic flights has become immediately apparent with the opening of the new terminal. If we go on to the next slide Irina please. As we can see here is a breakdown of the market growth profiles by our key markets. Now I'd like to draw your attention to the fact that as everybody would have seen in these last two weeks there have been a lot of announcement by various airlines. Not exclusively but primarily in Europe and the US and a lot of these announcements, there have been one or two exceptions of course, but the majority of these announcements have highlighted some disappointing performances driven by two things. Firstly, very high unit cost increases and perhaps more dramatic. We've known of course for two or three years that we're in a high inflation environment but I think that's more dramatically where the post-Covid rush from 2022 showed a significant increase in revenue per ASK. Most European and US carriers have reported that that growth has either decelerated or in many instances completely stalled. We referred to that of course a little bit earlier that our revenue per ASK has increased but in fact if you look at these regional figures here in terms of traffic in terms of traffic [30 min 30 sec] you will see that exact phenomenon that against the backdrop of high growth in the first half Europe is the one area where we have had some significant negative growth of eight percent. The good news of course for Air Astana is that we are not at all dependent on the European markets and indeed this pivot to Asia has been happening now for several years and has accelerated this year. So the drop in European traffic carrying has been far more than compensated by strong growth in the Middle East, Southeast Asia and Thailand, India, the return of the Chinese market facilitated by the visa-free regime for passport holders of both countries introduced earlier this year and as I've mentioned by a strong domestic market growth. So that if you like just demonstrates as we have said now during these presentations over the course of last year that the split of the airline's market profile between North Asia, China, Southeast Asia, the Gulf of Middle East, CIS and domestic, Turkey and Southern Europe and Western Europe is such that when a market like Western Europe in this particular case runs into difficulties in the case of Air Astana that it's balanced out by the strong growth and robust market presence in other key growth areas of the airline, of the industry. Let me get the next slide in terms of we've continued as we have presented before to you after the first half and indeed during the presentation last year we have continued to follow through with the essential infrastructure improvements, enhancements and expansions in terms of the advanced technical centre. We continue to perform more in-house heavy checks, sea checks. We are in the process as well of proceeding with the plans for new technical centres or new hangars both at Almaty Airport and at Astana Airport. In terms of the simulator, the first simulator is now operating effectively at full capacity. That's with our own pilots and we have recently signed an agreement, a firm purchase agreement to acquire a second simulator in the bay that was already constructed for this purpose and that will be installed as we move towards the year. And we continue to work on operational efficiencies including the fuel tankering programme and of course the carbon emissions reduction programme. We continue to pursue carbon emissions reductions through the joint plan that we're working on together with KazMunayGas, that's the Kazakhstan National Oil and Gas Company and the EBRD. We continue to train our own people, both engineers and pilots. Since the ab-initio pilot cadet programme started in 2008, we now have 322 of our cadets on the line flying for Astana and 18 new cadets planned to be introduced this year. In terms of customer experience, this is a key driver of high-yielding traffic. Of course, as we know, it's a key selling point for the airline, always has been, and we continue to invest in this. And therefore, the Shanyrac lounges, the Shanyraq in the domestic terminal at Astana airport has just completed its renovation. That was about a six-month process. That has now been renovated and expanded and is open for business. The Almaty Shanyraq at the new international terminal is presently under construction. That's a facility of in excess of 600 square metres, that's more than three times the size of the lounge that we have in Astana, and we expect that to open in autumn of this year. We have launched a new corporate website and a new app will follow shortly, and we are in the midst of revamping the Nomad Club frequent flyer programme. FlyArystan continues to innovate in removing the numbers of people from the check-in halls at the airport by the self-service kiosks, and now we are just about to have the automatic baggage self-check-in facilities also at Almaty airport. Of course, this is facilitated by the extra space that we now have in the terminal, in what is now the domestic terminal, as I mentioned earlier, by virtue of the fact that international flights have migrated to the international terminal. We're pleased to say and to note that the continued improvements that we're making have been recognised by various international bodies. Skytrax in particular, we have won for the 13th time, we've won Best Airline, Air Astana has won Best Airline, Central Asia and India, but the recent Skytrax awards held in London and FlyArystan for the second year in succession have been voted Best Low-Cost Airline, Central Asia and CIS. We've also been recognised by the American Chamber of Commerce for our investment in training and development by people. If you'll forgive the immodesty, I and Ibrahim have been given industry awards, which I stress we have accepted on behalf of all of our 6,000 colleagues. These awards are not individual achievements, but they are reflective of the overall collective corporate performance by our 6,000 colleagues. In terms of ESG, as I mentioned, we continue to work on the SAF, Sustainable Aviation Fuel Project, together with KazMunayGas, and the EBRD. It's extraordinarily important, of course, that we work in this direction. As we have mentioned before, we have already made significant improvements to our CO2 emissions per passenger. That's by virtue of the fact that since 2020, we have had a continuous programme to replace older generation, less fuel-efficient and more environmentally harmful aircraft with newer generation aircraft. That programme obviously continues, notwithstanding the fact that there are some delays, of course, to new aircraft deliveries, of which everybody is aware. The programme continues, and of course, every time we receive a new generation aircraft, the emissions per passenger decreases. Sustainable aviation fuel, of course, as I mentioned, is something that the entire industry is working towards introducing as part of the fuel supply chain. We are working with our partners here in Kazakhstan on that, as I mentioned. We're also working with our overseas partners. It's a fundamental requirement to be able to continue to do business in this industry, and it is something that is a global initiative to which we are fully committed and in which we are fully invested. I mentioned before that the results have been partially adjusted to reflect the work that we did in and around the humanitarian work that we did in and around the terrible floods that gripped north-western Kazakhstan earlier this year in spring. Hopefully, our contribution has helped to mitigate the terrible effects that they have on the infrastructure and the lives of many residents of western Kazakhstan. We continue, of course, to support young people's talent programmes, as well as providing charitable assistance to children suffering from illnesses from backgrounds where the resources are limited to meet medical certain necessities. In terms of governance, there has been a massive change. Richard Ledger came in as the CEO of FlyArystan upon the departure of Adrian Hamilton-Manns earlier this year. The results of FlyArystan have been very positive towards the end of the first half, and the booking curve of FlyArystan for the summer season has remained very strong. In terms of governance, there has been one change to the board. BAE Systems, which previously had two board members, has retired one of their board members. They retained one board member, and the retiring BAE Systems board member has been replaced by Diyas Assanov, an independent non-executive director, which means that we now have five independent non-executive directors on the board, out of a total of nine people. I think both myself and Ibrahim have referred to this already, so I will not go through bullet point by bullet point on this slide. Suffice to say that we continue to be committed to the expansion of our fleet and route network. We continue to be absolutely focused on maintaining costs that are competitive with the industry, and we expect that these two key focus points will continue to deliver strong profitability, whilst not—for one second, of course—remembering that our primary goal is to deliver operational excellence and safety. So, if we go on to the final slide of the presentation, we are on track to meet our robust growth target. As we mentioned before, we showed the slide there with the trajectory of the fleet development, as we mentioned, slightly ahead of the original plan, but again driven largely by the [42 min 18 sec] in the short term. In terms of the long term, we are absolutely on target to meet our target of 80 aircraft by 2028. In terms of sustainable profitability, we are also on target to meet our mid-term range of an EBITDAR margin of mid to high 20%. So, that concludes our presentation. Thank you very much for listening, and now I think I will pass it back to Irina. Thank you.

Irina Martinez:
Thank you, Peter. Thank you, Ibrahim, for the presentation. We will now open the floor for the questions.

Operator:
Thank you very much for the presentation. We will now be moving to the Q&A part of the call. If you have a question, please press star 2 on your keypad. That's star 2 on your keypad for a voice question. You may also ask a voice or a text question if you are dialed in via the web. We'll wait a moment or so for any questions to come in. Thank you. We'll take the first question

from Mr. Satish Sivakumar from Citi. Please go ahead, sir. Your line is open. Mr. Satish Sivakumar, in case your line is muted, please note you are live. Please go ahead.

Satish Sivakumar:
Can you hear me now?

Operator:
Yes. Please go ahead.

Satish Sivakumar:
Yes. Again, thanks for the presentation. Thanks, Peter, and thanks, Ibrahim. I got two questions, maybe just to get the fuel hedging out of the way. Can you help us understand where we are on the fuel hedging, especially for your international leg, how much it is hedged and what level it is, and any color on 2025 if you actually thought about edging the next year? And second is Almaty, is there any like one-off cost in terms of moving operations from old terminal to the new terminal for your international operations? And also, what is the current utilization in the international terminal for your network? Yes. Thank you. Those are my first two questions.

Peter Foster:
Yes. Satish, thanks. We'll sort of tackle them in the reverse order that you asked them. Ibrahim will talk about fuel hedging in a second. In terms of the international terminal, there hasn't really been much one-off cost at all, with the exception, of course, of a sort of voluntary cost, which is the cost of the investment in the new lounge. So, you know, that's something that we chose. And evidently, that's what we chose to incur that cost. As I think most people will know, because of the sort of idiosyncrasies of the ownership structure of the retail space in the old terminal, we were never able to have a lounge either at the international or domestic departure areas. This was a huge disadvantage for us. I mean, we came under constant criticism of the fact that, you know, we're running a world-class airline in every way, but we did not have a dedicated lounge at our home airport. We've chosen, I think entirely predictably, we've chosen to address that by setting up the 600-square-metre-plus lounge at the new terminal. And, of course, yes, there is a cost to that, but it's a budgeted cost and, you know, we expect it to be on budget. And, of course, we expect the effects in terms of attracting high-yield business to way outweigh the cost of that. You know, the payback will be pretty quick. In terms of your second question, in terms of the utilisation of the capacity at the new airport, I mean, I can't answer, I can't give you an exact answer as to what percentage of the new terminal is being used at the moment. I'm not sure whether you have those figures. It's too early to have those figures. Suffice to say that there is plenty of spare capacity, because the entire airport, of course, is being well over-doubled in terms of capacity by virtue of the new terminal. In fact, about three times that. So, whilst I'm unable to tell you exactly what the present utilisation rate is as a percentage of its capacity, you know, there is at least six or seven years' worth of expansion capability in that new terminal. And, of course, as I mentioned before, the same applies to what is now the domestic terminal, which is an enormous factor, because there's 16% growth on domestic, and particularly with FlyArystan growing so fast, the constraints on domestic growth was becoming a real blockage to us. And that, of course, has now been addressed. Ibrahim, do you want to just answer

Satish's question on fuel hedging?

Ibrahim Canliel:
Sure, sure. On the hedging of the international portion of the fuel subdivision, we have fully hedged the remainder of the year. We hold positions between $80 and $85. And all of those are co-options, meaning that if the price were to go up, we would have the entire benefit. But if the price were to go down, that we equally would be able to benefit from any oil price reduction in full without any liability for the company. Now, regarding 2025, we haven't taken positions at this point of time, and we are looking in the market actively for those positions for the next year.

Peter Foster:
It's going to be interesting, isn't it? It's going to be interesting as to what happens. We were talking about this earlier, Satish. Obviously, I doubt that it would be very easy to get positions. I mean, at the moment, I think the oil price when we last looked at was about $76. It could go any way in the context of today's sort of market turmoil. I doubt that it will be easy to get positions. We all know, don't we, it was the same in COVID, that at a time of sort of market turmoil, for whatever reasons, it's very hard to get positions that reflect what appears to be a significant drop in the price at the moment. So we'll have to wait for the dust to settle. But for sure, we'll be taking 2025 positions when we can.

Satish Sivakumar:
Maybe another third question, if I can. On the RASK your RASK performance has been quite good, actually, in H1. Q1 and Q2 have broadly been stable as well. So do you think this is kind of the trend for this year, or do you see an upside to your RASK performance as you're going to the peak quarter, Q3?

Peter Foster:
Yeah, you know, we can't really make, you know, we're not purposely, as you know, to make too much specific comment on Q3 and Q4 too early, of course. All we would say is, as we I think may have mentioned before, is that the advanced booking profile, what we call the booking curve, in terms of both load factor or in terms of both demand and price, towards the end of H1, i.e. at the end of June, which clearly reflects the likely performance of Q3, was strong and stronger than last year.

Satish Sivakumar:
Okay, got it. Thanks. Thanks. That's quite helpful.

Operator:
Okay, thank you very much. Our next question comes from Jaina Mistry from Jefferies. Please go ahead, ma'am, your line is open.

Jaina Mistry:
Hi, it's Jaina Mistry. Can you hear me?

Operator:
Yes, please go ahead.

Jaina Mistry:
Brilliant. A few quick technical questions, if I may. The first one is around EBITDAR. It was adjusted down for last year. Can I ask what the right base of EBITDAR is for the full year 2023 that we should be working off? The second question, any kind of visibility you can give us on CASK ex-fuel and then fuel per ASK in H2 would be very helpful. Then my third question is around guidance. You're talking about flat load factors for the full year. H1 was down 70 bits. What gives you confidence that H2 can recover in load factors? Thank you.

Ibrahim Canliel:
Thanks, Jaina. As for your first question for the base EBITDAR for 2023, we actually had already provided for the EBITDAR excluding the EME for the full year of 2023. We'll be in touch with you and your team to go through the details of that, but that's already in the public domain. In terms of the CASK excluding the fuel, with the fuel growing at 3%, actually the CASK excluding fuel is growing slower into the 2s. With regard to the outlook for the load factor and the RASK that you've been asking, I'll be talking as specific as I can, Jaina. However, we talked about the stronger performance within the first half of the second quarter where you will see that the load factor gap has actually narrowed to 0.2% at this point. It's almost in line with the previous year. Peter mentioned that we are looking at a stronger booking curve as of the end of June of 2024 for the third quarter. So with that, yes, we maintain that we will be broadly in line with the load factor expectations for 2024 to 2023. But what I'd like to say before we close that is, again, the reminder of the revenue per ASK performance. So we are broadly in line with the load factor with a gap of 0.7 for the first half. However, the revenue per ASK is 1% of the last year. Jaina?

Jaina Mistry
Okay, thank you very much. Thank you.

Ibrahim Canliel:
Thank you.

Operator:
Okay, thank you very much. Our next question comes from Jakub Caithaml from Wood. Please go ahead, sir.

Jakub Caithaml:
Hey guys, this is Jakub. Thanks for the presentation. Can you hear me?

Operator:
Yes, please go ahead, Jakub.

Jakub Caithaml:

Excellent, thanks. Two questions also from my side. Could you talk about the rates that you are getting and overall the availability of aircraft on the leasing market and connected to that? Could you maybe give us some guidance on the net debt trajectory that we should expect maybe up until the end of the year and in 2025, which I think is also linked to the duration of the leases, the type of leases that you are now agreeing with your counterparties? Also, a broader update on how are you thinking now about operating versus finance lease and duration would be very helpful. Thank you.

Peter Foster:
Yeah, thanks, Jakub. I'll do the first bit on leases and Ibrahim can make a bit of a comment on the debt and the net debt and the effect that has. I mean, we've done extremely well. We've always had a policy of working with a relatively small number of the biggest leasing companies in the biggest global leasing companies. And this is always sort of in good stead. We've had these very long-term relationships with people like ALC and Aircap and Bank of China and lastly, Avalon and so on and so forth. So, we've always had these very strong relationships. And as we all know, leases is not just about the rate, it's about the reliability of the customer. And obviously, even during COVID, we have always proved to be one of the most reliable airline customers that any of the leasing companies have had. And of course, this is reflecting the fact that everybody wants to do business with us these days. So, obviously, the lease rates are up because there is a terrible shortage of capacity. We all know that. Or there has been a terrible shortage of capacity. Now, one wonders, of course, whether these announcements that have been made by many carriers in the last couple of weeks have subverted the fact that, in fact, maybe we're getting into a non-undercapacity situation, whether this is being slightly overcooked. But certainly, up to the point that we've been signing all of our leases in this last couple of years, there has been undercapacity driven by obviously the 737 MAX problems on the narrow-bodied side, supply chain problems, the legality of aircraft, Pratt & Whitney, etc., etc., etc. When we were at IATA in June, it became very clear that these delays and these problems as well with OEMs has also gone over into the wide-bodied side as well. So, there's a huge shortage of wide-bodied capacity too. Now, that's the sort of backdrop. That said, we have been able to get extremely good rates for new aircraft. So, for example, we announced last week seven 320LRs for delivery from ALC for delivery from 2026. I mean, obviously, I'm not going to give you a number there for our lease deals. But all I can tell you is that we are extremely satisfied with the number that we got from ALC for those seven LRs. We've had to take, as we talked about, we've had to take these CEOs or we've had to extend existing CEO leases by virtue of the power to method problem. Yes, the lease rates are all up for CEOs. The leasing companies have taken advantage of the fact that every airline is desperately trying to get capacity in and to sort of, if you like, mitigate the [56 min 48 sec]. So, the lease rates have gone up. But again, we have been able to leverage our strong relationships to get what we believe are extremely reasonable rates for these operating leases. And we continue to be absolutely committed to operating leases. Firstly, because obviously, you know, we just like to keep cash for things like hangers and simulators and ground hanging equipment and all the rest of it rather than PDPs. But secondly, because of these supply chain problems and these terrible delays that the OEMs are having, it's impossible now to purchase new aircraft from Boeing or Airbus and get any delivery positions before about 2029. Whereas, of course, obviously, the

leasing companies do have capacity, and they are willing to give it to us because we're a reliable customer. So, that's the sort of broad backdrop, if you like, to where we are on leases and our continued operating lease strategy. Obviously, the leasing companies are looking to get longer term leases and longer, you know, leases that instead of being six, seven-year terms are up sort of eight, nine-year terms. And obviously, that has an effect on the balance on net debt. But Ibrahim, you can go into some detail on that.

Ibrahim Canliel:
Thanks, Peter. I'll go straight to the question that you asked, Jakub. So, we are at $825.5 million of the lease liabilities by the end of June of this year. That will continue to get depreciated till the end of the year for the existing 54 aircraft. We are planning to take five more aircraft in the remainder of the year. Four of these are Neos. So, you can guess the terms and conditions of those. While one of them is a classic with a shorter term and a lower interest rate. So, you can consider like roughly half of the lease cost and roughly half of the term that you typically would have for the Neos a guidance towards the expected lease liabilities by the end of this year. In terms of the cash outlook, we are going in accordance with the plan that we had when we started IPO.

Jakub Caithaml:
Perfect. Thank you very much, Peter. Thank you, Ibrahim.

Ibrahim Canliel:
Thank you. Thank you, Jakub.

Operator:
Okay. Thank you very much. We will now turn to the text questions that we have received. The first text question is about competition. It is known that VietJet is entering the Kazakhstan market and plans to operate both domestic and international routes. I assume that some of your routes will overlap with VietJet, which could affect your load factor and margins. Do you have a mitigation plan for this? Do you anticipate experiencing negative margins by the end of this year due to this competition?

Peter Foster:
No, it's a good question. We understand, and we have not had this confirmed yet, that VietJet intends to bring two A320s to the local market at a point in autumn. We understand that they intend to bring maybe a couple more in 2025. We take all competition seriously, of course, but we do not think that the introduction of a number of aircraft of that order of magnitude is going to have a significant effect. The domestic market, if that is indeed where the capacity is deployed, as we have mentioned, is very strong in any event. It is not easy to start up an airline. It is not just a question of bringing aircraft. You have to source crews, you have to source engineers, you have to get a maintenance programme set up. There is a lot of work that goes into it. The demand for personnel in this country is high. Many of the best people in the industry have been employed by ourselves already. It is not so easy to start up an airline. Whilst we are not in any way complacent, and we accept the fact that VietJet has a track record of operating effectively

in South-East Asia, we are used to this market. We know this market. We believe that we are quite capable of handling competition. Whether that is domestic competition or more international competition from more foreign carriers flying into Kazakhstan, we can handle competition.

Operator:
Perfect. Thank you very much for that. We received two questions about dividends. The first question is, what is the reason for dividends not being paid? The second question is, from what year on can we expect a dividend payment plan?

Peter Foster:
Well, I think we just – sorry, I am late. Just the reason why dividends are not being paid. We made it very clear in the prospectus. When we produced the prospectus, which everybody had access to prior to the IPO, we made it very clear that there was little or no likelihood of a dividend in the IPO year, which effectively was 2023. So, we made that absolutely clear that there was not going to be a dividend in 2023. As far as 2024 is concerned – Thanks.

Ibrahim Canliel:
Just to add on that, no dividend payment for 2023 in 2024? In 2024, correct. That was exactly the guidance that we provided. For the midterm guidance, we stated that we would be looking at a payment up to 20% for the years going forward. So, with that, I would just like to repeat again that both of those are within the originally provided guidance, not to pay in 2024 for 2023 and to start paying up to 20% starting from 2025 for profits starting from 2024.

Operator:
Great. Thank you very much. Next question is, when do you plan to receive the new wide-body aircraft? Which new long-range destination will they allow to serve?

Peter Foster:
Yes. Thanks. Good question. So, again, this is related to – this is a Boeing 787 Dreamliner to which you're referring. The first one was supposed to arrive in March of next year. It's now been delayed until December of next year, the earliest. Again, this has been caught up in the Boeing supply chain problems, which are very well known throughout the industry. And it's likely that the second aircraft will arrive at a point in 2026, and we're being told by Boeing now that the third aircraft may be delayed even to the end of 2026 or even into 2027. So, it's very disappointing, of course. But we'd just like to point out that we have three relatively new Boeing 767s, which will stay in the fleet now. And they are – you know, these aircraft are only 10 years old. They're configured to a very high specification. They're extremely good aircraft. And in light of these delays to the 787, they will stay in the fleet. Obviously, there's been a lot of talk about New York. We continue to look at New York as a long-term aspiration for a new destination with the 787s. But we're also looking at other new destinations not necessarily related to the 787. We're looking at routes in Vietnam. We're looking at Malaysia, Singapore and Japan for introduction in the course of the next 12 to 18 months.

Operator:
Okay. Thank you very much. We have two questions related to the airport expansion. So, the first question is – I'll read both of them out. The first one is, with a new airport increasing capacity, what drove the 7% increase in landing fees? That's the first question. The second question is, what was the effect of the Almaty airport expansion on the Q2 results? Was it limited? Or do you see a spike in June particularly prominent?

Peter Foster:
Yeah, the second part of that question is that, no, I mean, there was really no appreciable effect at all because we didn't really move – we put one or two international flights into the new terminal at the beginning of June, but we didn't shift the bulk of international flights over until mid to late June. And, of course, that was in accordance in any event with the operating plan. It wasn't the new terminal that drove that expansion. So, no, there hasn't been any appreciable effect on the Q2 result. The new terminal is a long-term opportunity – let's understand that quite clearly. It's a long-term opportunity and it will be seen in the years to come. It is not something that provides an immediate benefit.

Ibrahim Canliel:
I'll take the rest of the question. Actually, the increase of the handling, landing fees, and route charges is not related at all to the Almaty terminal. It's a general increase that we've seen across the network and also with the growing international network. Peter referred to the high growth in places like India, China, Seoul, and obviously the international handling charges are higher. And there has been to an extent an impact of the stronger tenure during the majority of the first half that has reversed and towards the end of the second quarter of H1. So, to come back to the first part of this question, actually it is not related to the Almaty airport at all. It's more of a general nature where we have seen increases along with other airlines.

Operator:
Okay, thank you very much. Final few text questions. Is a transition to SAF expected in the medium term? Can you also disclose fuel hedging data for the current year and the first half of 2025?

Peter Foster:
I think just on the second part of that question, we've already answered that question. I think Ibrahim gave a pretty comprehensive answer to that question. We are hedged now for all of our international fuel uplift up to and through the rest of this year. And we'll continue to keep an eye on it so that when opportunities come for 2025, we'll take those too. As far as SAF is concerned, yeah, as we've mentioned that too, I think. We are involved in this initiative with KazMunayGas and the EBRD for the production of sustainable aviation fuel SAF in Kazakhstan. And of course, we'll be working with our foreign fuel providers to ensure that SAF is available to us at foreign airports so that we can meet our targets.

Operator:
Okay, thank you very much. Next question, the ASK increased by 11.8% year-on-year and the

RASK grew by 1% year-on-year. What strategies are being employed to ensure the RASK growth continues to outpace CASK in the future?

Peter Foster:
Well, it really just comes down to an effective deployment of capacity on the right routes. The routes with the strongest growth and to ensure that we're running our revenue management effectively in both FlyArystan and Air Astana. We're doing that now, I think, very well. I think we've had some challenges in FlyArystan. It's a startup airline. And therefore, you know, startups always come with their own challenges. But we're getting a very good handle now on both capacity deployment and revenue management applications in FlyArystan. Of course, in Air Astana, this is a very mature process, works very effectively, and we can see the results in Q2.

Operator:
Okay, thank you very much. Next question, are you planning to open a route to Hong Kong?

Peter Foster:
At this particular point, probably no. We are looking at more routes in China. I can't go into too many specifics on that. In fact, as you know, I'm not allowed to talk too much about the future in any event. But we are looking at other points in China, possibly in southern China. We did fly to Hong Kong, as you know, prior to COVID. At this particular point, we have no plans.

Operator:
Okay, thank you very much. Next question. Earlier, the first Deputy Prime Minister, Minister Roman Skylar said that the airline's flight delays were due to shortage of aircraft. At the same time, the Civil Aviation Committee stated that this was the case. Can you comment on the contradictions?

Peter Foster:
No, we don't sort of comment on things made by politicians. We have a plan, and we're sticking to that plan. We're actually slightly ahead of that plan, as you know, by two aircraft. We have a plan, which all of our key stakeholders are well aware of.

Operator:
Okay, thank you very much. Next question. What is the share of the transit passengers now? And do you plan to increase it?

Peter Foster:
It's about 15%. And yes, it will increase. But you know, it's a very specific type of transit traffic that we look for. We look for traffic very specifically connecting from the region over the hubs to the rest of the network, and vice versa. I think we mentioned this during the presentations that we made prior to the IPO. We're not looking at the big sort of east-west movements, you know, the big movements from sort of, you know, Asia to Europe or that type of thing, that we leave to the super hub carriers. We are very much concentrating on our extended home market strategy,

which means carrying people from the region to the wider network and vice versa.

Operator:
Perfect. Thank you very much. I will now pass the line back to the management team for the concluding remarks.

Peter Foster
Fine. Well, thank you very much. I'm sorry for those questions that we haven't been able to answer by virtue of time pressure. We do apologise for that, but we will answer them offline. So every single question that's been asked today, even if we haven't answered it now, will get answered. So I just want to thank my colleagues for assisting with and participating in this presentation, and most importantly, I'd like to thank all of you for listening to us and for all of the constructive questions. Thank you very much.

Thank you, and bye-bye.

Operator:
Thank you very much. This concludes our call today. We'll now be closing all the lines. Thank you.

Air Astana:
Thank you, Michael. Thank you. Bye-bye.
Thank you. All the best. Bye-bye.