AT THE HEART OF OPPORTUNITY

air astana

Annual Report 2018

CONNECTING KEY GROWTH MARKETS

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

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

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

Sustaining our market leading position

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

Read more on page 2

A culture of excellence

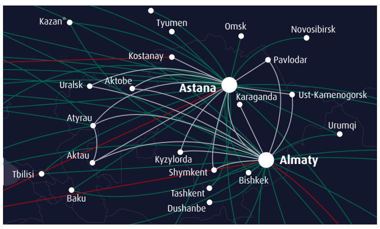
We have built a culture that links our success to the performance and engagement of our employees.

Read more on page 6

At the heart of opportunity

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

Read more on page 4



Focusing on achieving our vision

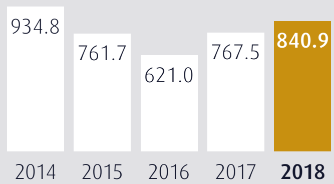
We are committed to building one of the finest and most respected airlines in the world.

Read more on page 11

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

Total revenue
(USD millions)

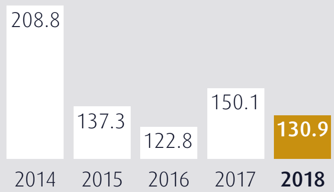
+9.6%



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

EBITDAR
(USD millions)

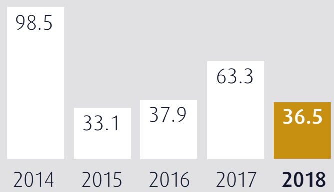
130.9



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

Operating income
(USD millions)

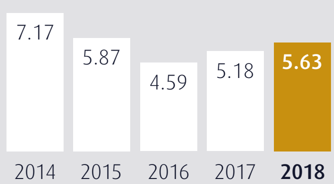
36.5



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

Cost per Available Seat Kilometres (CASK)
(US cents)

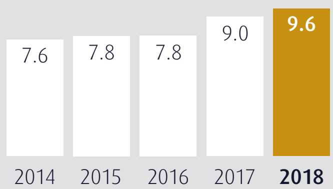
5.63



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

Revenue Passenger Kilometres (RPK)
(billion)

+6%

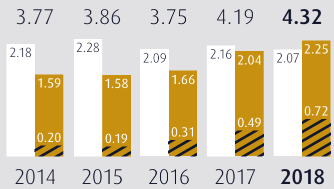


The increase in RPK reflects healthy ongoing demand for air travel and our ability to profitably capture this growth.

Number of passengers
(million)

Domestic
International
Transit

+3%



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

SUSTAINING OUR MARKET LEADING POSITION

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

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

In numbers

69
Air routes

21
Countries

5,210
Employees

8.3 years
Average fleet age

34
Aircraft in fleet

> Air Astana has a clear edge when it comes to serving Kazakhstan and capturing the high growth markets that surround it... we provide value for money, high levels of comfort and market leading levels of punctuality. We continue to be well recognised in the industry for these qualities.

Nurzhan Baidauletov
Chairman of the Board

What sets us apart

Quality

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

Efficiency

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

Safety

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

Awards and recognition

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

AT THE HEART OF OPPORTUNITY

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

Our growth potential

Global air passenger growth remains robust and, despite a lack of stimulation in its domestic market, air traffic in Kazakhstan has doubled over the past decade to 8 million[1] passengers, growing by 7% in 2018.

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

Potential

Kazakhstan remains a heavily underdeveloped market. With less than 10% of the population flying domestically[2], there is significant scope to stimulate the market.

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

Location

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

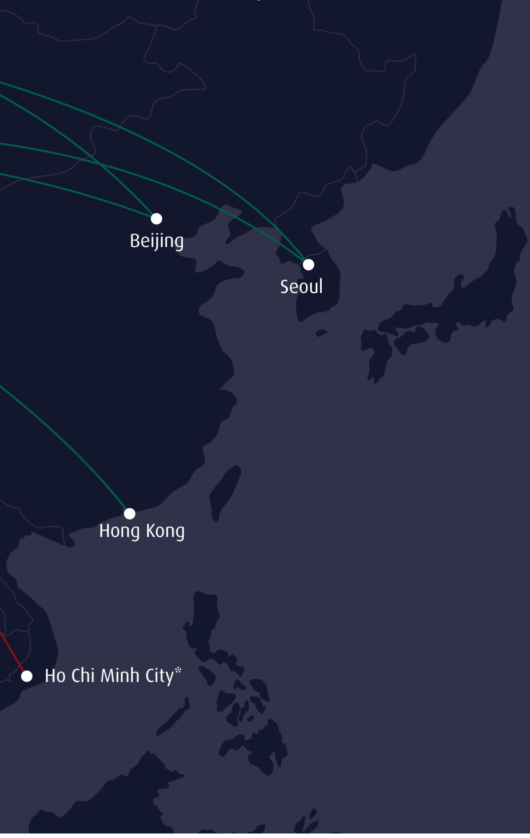
[3] Data provided by the Civil Aviation Committee for Kazakhstan.

Low cost

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

Key growth markets

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



Russia

143.9m

population

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

[4] According to the Transport Clearing House (TCH).

India

1.36bn

population

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

China

1.4bn

population

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

A CULTURE OF EXCELLENCE

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

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

Strong management team

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

Read more on page 48

Transparency

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

Read more on pages 22-25

Long-term employees

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

Read more on pages 34-37

Customer focus

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

CHAIRMAN'S STATEMENT

2018 was a year in which Air Astana showed its calibre and resilience, as well as its ability to evolve and expand.

Strengthening our position as the leading airline in Central Asia

2018 was a year in which Air Astana showed its calibre and resilience, as well as its ability to evolve and expand. Despite the tough trading conditions experienced across the airline sector, we remained profitable. This is testament to our efficient operating structure, the quality of our fleet and the careful management of our capacity and our route networks. At the same time, we took the opportunity to consider the future and take significant steps that will position us well for the next decade across the region.

The airline recorded a 3% increase in passenger traffic in 2018, to 4.32 million passengers, with international transit traffic contributing significantly with an increase of 48% year-on-year. Transit passengers accounted for 32% of our international traffic, which reflects the growing importance of Kazakhstan's location, right at the geographic heart of Eurasia and within close proximity to the burgeoning air transport markets of China, India and Russia.

Air Astana has a clear edge when it comes to serving Kazakhstan and capturing the high growth markets that surround it. We do so by carrying passengers in the latest, most modern, fuel efficient aircraft. We provide value for money, high levels of comfort and market leading levels of punctuality. We continue to be well recognised in the industry for these qualities. In 2018, we were named the Best Airline in Central Asia and India by Skytrax for the seventh consecutive year, we were winners at the TripAdvisor 2018 Travellers' Choice Awards and we received a Five-Star Airline rating at the 2018 APEX Awards. A particular highlight though has to be the position the airline now holds in the punctuality league tables, having been ranked as the 12th most punctual mainline airline globally, and 7th in the Asia Pacific region. This is a tremendous reflection of the dedication of our management and operational teams.

Such high levels of operational performance enable us to grow. They enable us to confidently expand into new routes and gain the trust of other key airline partners by completing important codesharing agreements. In 2018, we bolstered capacity by 5% as a result of the introduction of three new routes to Frankfurt, Kazan and Tyumen, with additional frequencies added from Astana to Moscow, London Heathrow, Omsk, Dubai, and Delhi; and from Almaty to Dushanbe, Hong Kong, Seoul and Bishkek. Additional services were also added to St. Petersburg, Bangkok, Tashkent and Kiev. In March, Cathay Pacific joined Air Astana as 11th key codeshare partner, offering passengers convenient connections when travelling on to Asia and Australia via Hong Kong.

Local traffic between these markets is expanding, though from a low base. Transit traffic remains our fastest-growing segment, as Kazakhstan is well placed to attract traffic between China, Europe and Russia. To meet this demand, we are growing our fleet, and in 2018 we welcomed the third new A321neo aircraft into our fleet as part of a total order for 17 aircraft. We also took delivery of an Embraer E190-E2, the first of its kind to be delivered to an airline in the CIS, with more scheduled for delivery in 2019. By 2026, we are planning to have grown our fleet to more than 60 aircraft, made up of the most fuel-efficient narrow body aircraft on the market and capable of reaching all of our destinations.

Our achievements in 2018 and ongoing aspirations do not stop there. During the second half of the year, the Board supported the Management Team's steps to update our existing strategy and fill the obvious gap for a low-cost carrier (LCC) in Central Asia. In November, we announced the launch of FlyArystan, an LCC that will operate alongside Air Astana's existing operations. The Kazakh domestic air travel market is growing, but with only approximately 10% of the existing population flying domestically according to our own data, there is significant scope to stimulate the market. We believe the LCC pricing model will be attractive to the large percentage of the region's population that have still not flown, which will drive considerable growth for us. Whilst its initial focus will be domestic, we would anticipate expanding its reach into neighbouring Central Asian markets which do not have local LCC services. Given that we have been able to run a full-service airline at LCC-equivalent costs for a number of years, we fully expect the venture to be a tremendous success.

It is clear therefore that we must scale operations up for a high level of growth. In early 2018, we commissioned our own Technical Centre at Astana Airport, the first of its kind in Central Asia, to enable us to maintain our own fleet and provide services for third party airlines flying to Kazakhstan. The facility has been further bolstered with the addition of a new School of Aviation Mechanics. This is a clear reflection of the significant level of investment Air Astana is making in selecting Kazakhstan's brightest graduates, providing them with world-class training and potential careers. As well as producing leading technicians, we also envisage a need to train approximately 200 new pilots to satisfy Air Astana's combined needs over the coming years, the majority of whom will be recruited from Kazakhstan and trained in international aviation schools. To meet this need, Air Astana has set-up an Ab-initio programme that allows recruits with no flying experience to become fully trained pilots according to international best practice. This will require a sustained campaign, improving the awareness of school leavers of this excellent opportunity.

We have 178 cadets that are already flying as Captains and First Officers on A320, B767 and E190 aircraft, and we have more trainees in the pipeline.

We are very proud of our contribution to the Kazakh economy and to our society as a whole. Our broader CSR efforts are covered on page 26 of this report and I would also like to point you to page 50, where I summarise in detail how we have enhanced our governance procedures during 2018, as we strive to meet international benchmarks for corporate governance.

Finally, I would like to extend my thanks to our close-knit management and operational teams. We had a successful 2018 thanks to good corporate planning and high levels of operating efficiency. Plans are now in motion for a successful period to 2026 and beyond and we look forward to sharing our success with you.

Yours faithfully,

Nurzhan Baidauletov
Chairman of the Board of Directors

Board priorities

By establishing strong corporate governance policies, we are ensuring that the principles used to manage Air Astana align with the interests of all stakeholders. By adopting and implementing elements of the UK Corporate Governance Code for the first time in 2018, we will be making significant progress towards achieving international best practice reporting in this area.

Strategic development

The Board played a key role in reviewing and approving key strategic decisions relating to Air Astana's next phase of growth.

Risk management

The Board approved amendments to risk policies to reflect the Company's pursuit of growth.

Internal control and audit

Internal control systems were reviewed thoroughly, procedures were reinforced and audit plans were approved.

Financial and operational activities

Key strategic decisions such as changing the Company's functional currency were supported.

Governance and remuneration

The Board evaluated recommendations provided by an independent external consultant on the effectiveness of corporate governance procedures.

Read more on page 50

PRESIDENT AND CEO'S STATEMENT

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

Maintaining our strong reputation for excellence

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

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

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

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

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

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

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

Yours sincerely,

Peter Foster
President and CEO

Vision 2026

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

Key achievements

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

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

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

2018 → 2026

Strategic priorities

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

Our three key priorities centre around:

- Growth
- Efficiency
- Excellence

Read more on page 14

DELIVERING GROWTH WITH A CLEAR VISION

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

2001

2001

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

2002

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

September
- First international flight – Almaty to Dubai to Almaty

2003

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

EASA
European Aviation Safety Agency

2007

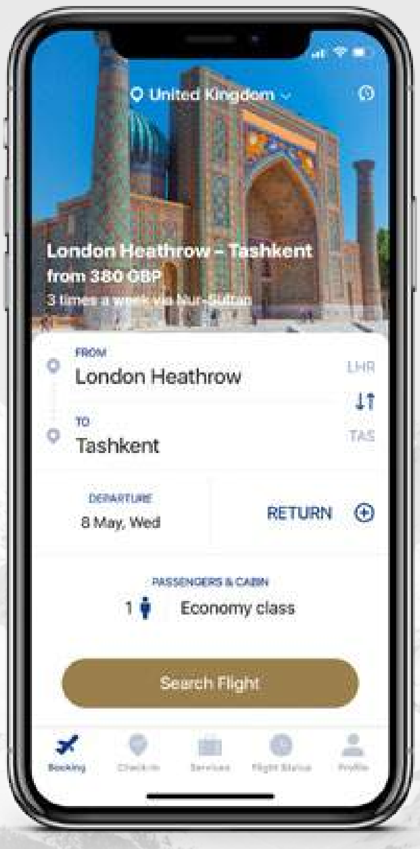
December
- Launch of Frequent Flyer Programme

nomad club
air astana

2008

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

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



2009 – 2012

June 2009
- Achievement of 3-star overall Skytrax rating

2010
- Start of development of own EASA certified maintenance capabilities

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

May 2012
- First in CIS 4-star rating in the Skytrax World Airline Awards and Best Airline in Central and South Asia

October 2012
- First own aircraft delivery

4.32 million
Total passengers in 2018

>2x
Target passenger growth by 2026

34 aircraft
Fleet size in 2018

>60 aircraft
Target fleet expansion by 2026

2018 | 2019 → 2026

2011 – 2013
- Launch of 20 new routes

2012 – 2014
- Aircraft delivered
  7x 320
  2x 321
  6x 190
  3x 767

2015
- Operating leases signed for 11x A320neo with delivery positions in 2016 – 2020

2016 – 2017
- Delivery of 4x A320neo
- Operating leases signed for 5x E190-E2, 3x A320neo and 3x Airbus 321neo FB with delivery positions in 2018 – 2020
- Launch of Part 66 technical training programme

2018
- Announcement of FlyArystan launch – the first low-cost carrier in the region
- Delivery of first E190-E2 aircraft
- Winner of Skytrax 'Best airline in Central Asia and India' award for the 7th year in a row
- Opening of Air Astana Technical Centre in Astana

2019
FlyArystan
Start of new low-cost operations with FlyArystan, which is expected to contribute to a significant increase in traffic, supported by an increase in landings and new routes

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

OUR STRATEGY FOR GROWTH

Strategic priorities	Performance in 2018
Growth Air Astana plans to almost double its fleet size to serve a more than twofold increase in passengers by 2026. Our objective is to deliver profitable growth by increasing frequencies, tapping into new markets and expanding our network of destinations. Demand for international air traffic is growing rapidly, with some of the markets that immediately surround Kazakhstan poised to emerge as the largest markets in the world. China and India are expected to become the largest and third largest markets globally by 2022. To meet our growth objective and maintain a culture of excellence, we will remain at the forefront of people development and training. We will continue to attract the best talent to help us on our journey and share in our success.	+11% **Growth in international traffic** +5% **Growth in capacity (ASK)** +10% **Growth in operating revenue**
Efficiency Despite being a full-service airline to date, Air Astana's cost per ASK of just over 5 US cents matches the cost efficiency of some of the world's most efficient low-cost carriers. We achieve this feat by maintaining extremely high levels of productivity and efficiency, by maintaining high levels of motivation and employee engagement and by deploying the latest technologies to become a modernising force in the Kazakh aviation market. Our competitive cost base has enabled us to unlock the resources required to realise our vision for FlyArystan. Air Astana already offers passengers comfort and low fares and maintaining such a compelling proposition requires extremely high levels of efficiency. By maintaining high levels of productivity across the board, both Air Astana and FlyArystan will be able to improve aircraft maintenance processes to increase utilisation rates and frequencies moving forward.	12th **Most punctual mainline airline in the world** (OAG Punctuality League 2019) › The 'Finnovation: working on efficiency' transformation launched to integrate finance personnel into operational departments to automate and manage costs at source › Enhanced systems introduced such as a new Baggage Reconciliation System that prevents baggage loss › Updates completed to systems following the migration of the Company's working currency to US Dollars › Steps such as refueling trucks with de-icing fluid by Air Astana's own staff reduced delays at Astana airport
Excellence The delivery of a world-class passenger experience is a core strategic goal and is reflected by our high levels of punctuality and service. The pursuit of such high levels of excellence has enabled us to become the leading airline in our region while driving best-in-class operational efficiency. The Company demands high standards at all levels. At a Board level, governance structures have been implemented to reflect the highest levels of international best practice and we deploy best in class technology and working practices to efficiently deliver the highest levels of passenger satisfaction from the ground up. To accomplish our anticipated levels of growth without compromising our culture of excellence, the airline remains at the forefront of people development. Our excellent people drive the business from its heart and they have made Air Astana a modernising force for our industry.	No 1 **Skytrax Best Airline in Central Asia and India** >320,000 **Nomad Club members** No 1 **2018 TripAdvisor Travellers' Choice Awards** 86% **On-time performance**[1] No 1 **Employer in Kazakhstan** (Universum report 2018)

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

Priorities for 2019	Associated risks
› Launch of FlyArystan, the first low-cost carrier in Central Asia, operating domestically › Delivery of new A321neos and E190-E2s aircraft and redelivery of expiring leases › Grow our workforce and expand the Ab-initio pilot training project › Building up maintenance capabilities at our Astana hangar › With mobile digital sales and mobile app usage increasing rapidly, ancillary services will be expanded to include excess baggage, lounge access and on-board internet	The risk of an aviation accident 1 The risk of an insufficient number of qualified pilots 2 The risk of cyber-attacks and system failures 4 The risk of inability to develop profitable route network plan 6 The risk of insufficient number of key management staff 7
Further focus on efficiency across the Company, including: › Continue expansion of our IT data centre and network infrastructure upgrades, including the expansion of air-to-ground communications infrastructure in Kazakhstan › Improve customer experience throughout the full customer cycle; from initial customer acquisition, purchase, after sales, inflight, and post flight processes › Formally obtain ISO27001 certification, in recognition of work carried out to bring information management up to international standards › On-going development of the Air Astana Training Academy and run a new supervisory programme, 'Leadership Essentials', to further drive efficiency	The risk of non-provision of high-quality service in accordance with service standards 3 The risk of cyber-attacks and system failures 4 The risk of increase of fuel expenses 5 The risk of insufficient number of key management staff 7
Further improvements of services and products, including: › Roll out of in-flight entertainment streaming systems on aircraft to complement the internet connectivity now available on all Air Astana's Boeing 767 fleet › Introduce an Application Programming Interface (API) so customers booking through aggregators can access ancillary services, branded fares and product descriptions › Further implementation of international standards and practices to airport services in Kazakhstan › Launch of Nomad Club Corporate Programme and Young Person Programme, and re-launch of Customer Experience team › The first cohort will complete the first stage of Apprentice Part 66 modular training in 2019 and will move on to the second stage	The risk of an aviation accident 1 The risk of cyber-attacks and system failures 4 The risk of insufficient number of key management staff 7

Read more about our significant risks on page 41

OUR BUSINESS MODEL

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

Our capital

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

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

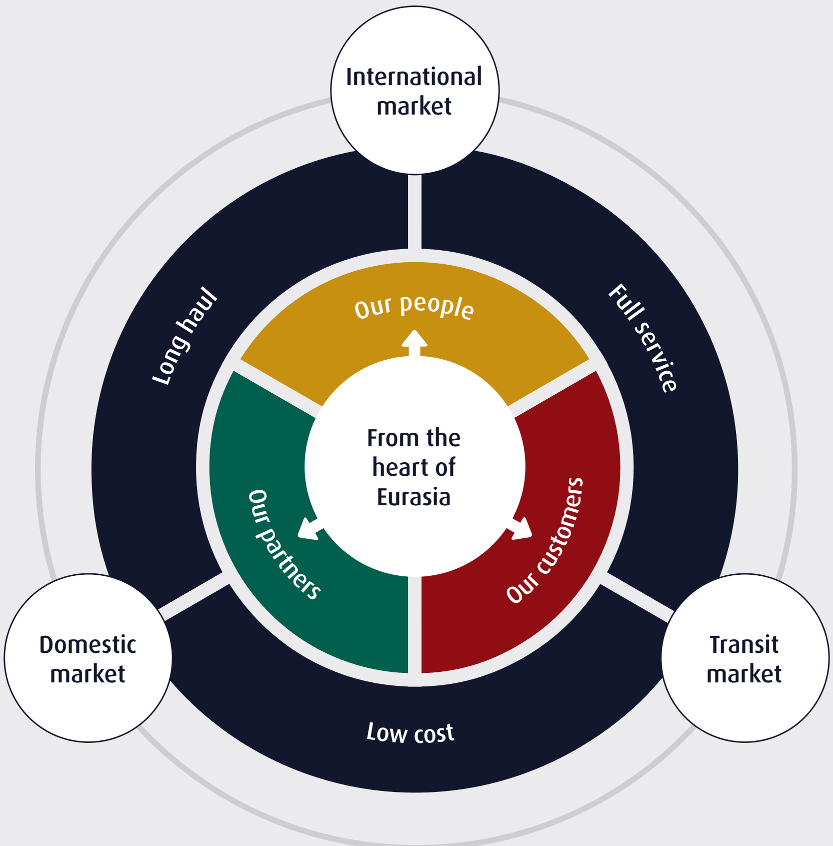
People
Air Astana has a workforce of 5,210 people. The Company takes training and engagement very seriously and an integrated Centre of Excellence at the Air Astana Academy trains pilots and staff at all stages of their careers.

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

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

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

Operating model



Long-term value creation

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

Differentiators

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

Value created

80%
Customer satisfaction in 2018

86%
On-time performance in 2018

5.6¢
CASK – reflecting efficiency

13%
Increase in Nomad Club members in 2018

BUSINESS HIGHLIGHTS

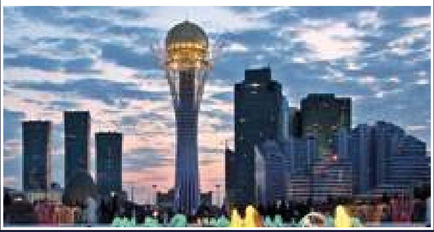
A year of laying solid foundations for our next phase of growth

Air Astana's high levels of operational efficiency and strong customer offer enabled it to maintain profitability and grow passenger numbers in 2018 despite multiple headwinds, including high fuel prices and capacity increases. Several operational developments saw Air Astana prepare for a new phase of growth.

Partnerships and network expansion

In 2018, Air Astana grew capacity by 5%, with new routes added including the introduction of flights from Astana to Kazan, and additional frequencies from Astana to London Heathrow, Omsk, Dubai and Delhi; and from Almaty to Dushanbe, Baku, Hong Kong, Seoul and Bishkek. Additional services were added to Beijing, Moscow, St. Petersburg and Kiev from both hubs. Furthermore, in March, the airline launched new Atyrau-Frankfurt-Atyrau services.

In March, Air Astana concluded a codeshare agreement with Cathay Pacific, its 11th codeshare partner, offering passengers convenient connections when travelling on to Asia and Australia via Hong Kong.



Deliveries

Air Astana celebrated the delivery of its first Embraer E190-E2 in December. The aircraft is the first of five ordered under a leasing agreement signed in 2017, with the remaining four aircraft scheduled for delivery in 2019. The new generation Embraer E190-E2 aircraft will replace older Embraer E190s in the fleet, which we have operated since 2011.

We also took delivery of our first A321neo in January, with a second arriving in June as part of an operating lease deal. The remaining 15 aircraft are to be delivered within the next two years enabling Air Astana to operate one of the youngest fleets in the world, while also benefitting from 15% lower fuel consumption than the previous model.

Opening of the Air Astana Technical Centre

Operations at our dedicated Technical Centre at Astana Airport got underway in spring 2018. The centre provides maintenance support to Air Astana's fleet and intends to provide services for third party airlines flying to Kazakhstan. The facility has been further bolstered with the addition of a new School of Aviation Mechanics, operating under EASA Part 66 Licence. This marks an important step for the airline as we seek to embrace the latest technologies to drive efficiency, while eliminating the airline's dependence on a local monopoly supplier.

In November 2018, Air Astana announced the 2019 launch of FlyArystan. The airline will be the first low-cost airline in Central Asia, which provides substantial growth opportunities, as well as an opportunity to encourage the ~90% Kazakh population that does not currently fly domestically.

FlyArystan

One airline two brands

Market leader
FlyArystan targets a market leading position by 2023

7/10
of the most profitable airlines globally are low-cost carriers

Source: Air Astana's analysis of weekly competitors' reports, April 2017 – March 2018

Market opportunity
There is a significant opportunity to stimulate the domestic market

[1] Company projections based on Nomad Club members data

Training pilots

Air Astana continues its Ab-initio pilot training programme designed to train complete beginner pilots. The programme takes cadets from zero flight time to the point of flying a commercial jet airliner, trained to international standards, which will meet the requirements of EASA. As Air Astana's fleet and route network grows, it will need to urgently increase the number of qualified pilots available. In 2018, 15 Ab-initio pilots graduated as airline pilots thanks to Air Astana's training programme. The Ab-initio pilot training programme will continue and be expanded by 2026.

Customer services

Substantial progress was made in further enhancing passenger experience through the launch of products such as MySEAT, MyUPGRADE and Last-minute upgrade, which immediately led to a 15% growth in sales. Air Astana also installed BRS (Baggage Reconciliation System) in Almaty and Astana airports to virtually eliminate any baggage loss.

According to the latest findings from Air Astana's independent passenger surveys, satisfaction levels increased by 2.2 percentage points to 80% year-on-year, mainly driven by an increase in product offerings, the airline's desire to consistently enhance its offering and maintain its world-class levels of hospitality and punctuality. The airline made full use of technology in 2018 to maximise satisfaction. This is reflected in the successful ramp up of digital mobile sales through the introduction of a new mobile application, which has helped grow digital sales contributions to 7% of total sales. This contribution is expected to double in size annually.

Maintaining efficiency

Air Astana maintains a low cost base throughout the Company as a strategic asset, which helps us to remain ahead of our competitors and mitigate high fuel prices. A number of efficiency drives were successfully undertaken in 2018, which mostly centre around making full use of our highly skilled workforce to, for example, roll out IFRS 9 and IFRS 15, and prepare for IFRS 16 without requiring vast consulting fees. We have also rolled out 'Finnovation: working on efficiency', a transformation project which sees members of the finance team transfer to operational departments to drive efficiency and automation and introduce more stringent cost management efforts at source.

MARKET OVERVIEW

Air Astana operates at the heart of the fastest-growing aviation markets in the world, which are driving continued momentum in an aviation industry that is doubling in size every 20 years.

Global airline market

Key industry developments

2018 was another strong year for the global aviation industry, with passenger traffic increasing in RPK terms by 6.5% year-on-year, according to IATA. International passenger traffic growth did however slow by 2.3% year-on-year. Over half of the world's 1.4 billion tourists who travelled across international borders last year were transported by air. Air transport now carries some 35% of world trade by value. Worldwide capacity increased by 6.1%, resulting in growth of overall passenger load factors by 0.6 percentage points, reaching a record high of 81.9%.

In 2018, all regions posted slower growth than in 2017, with the exception of an improvement in North America driven by a stronger US economy and the continued international expansion of Canadian carriers. Asia Pacific was the fastest growing market in 2018, with passenger traffic up by 7.3% year-on-year. The Middle East and Latin America were ranked second in terms of growth, with passenger turnover growing by 6.9% in both regions. The slowdown in the Middle East reflects the impact of geopolitical tensions and travel restrictions, while in Latin America, traffic was affected by the mid-year general strikes in Brazil and political and economic developments. The European international traffic market saw a 6.6% increase in 2018, down from 9.4% growth in 2017, with traffic dynamics partially affected by uncertainty over the economic backdrop and Brexit. All markets reported an increase in demand for domestic travel, led once again by double-digit gains in India and China.

Growth of low-cost carrier activity

In 2018, LCCs carried an estimated 1.3 billion passengers, and accounted for approximately 31% of the world's total scheduled passengers. LCC market share is the highest in Europe, representing 36% of total passengers carried in the region. This is closely followed by Latin America/Caribbean, North America, and Asia Pacific with 35%, 30% and 29%, respectively. Based on airline order books, LCCs are growing in prominence in Asian markets and almost half of the world's LCC orders originate from the region.

Fuel costs

Average jet fuel prices increased by approximately 31% in 2018 compared to 2017. Jet fuel prices are expected to decrease in 2019, by an average of USD 81.3/barrel, according to IATA. Despite the recent fall in jet fuel costs, it remains a key concern for the majority of airlines. The global airline industry's fuel bill is estimated to total USD 180 billion in 2018 and account for around 23.5% of operating expenses at USD 73.0/barrel Brent in 2018, having increased by 20.5% over 2017. In 2019 the fuel bill is forecast to be USD 200 billion, accounting for around 24.2% of operating expenses at USD 65/barrel Brent.

Economic environment

Despite the threat of trade barriers, debates on immigration, tariff disputes and efforts to replace multilateralism with bilateral arrangements, the demand for air connectivity continues to increase, with international transfer traffic remaining the key driver for growth. Despite its highly volatile financial track record, the industry demonstrated a consistently high net profit over the last year, however, IATA's pre-estimated net profit of commercial airlines worldwide decreased from USD 34.5 billion in 2017 to USD 32.3 billion in 2018. IATA expects that the global airline industry's profitability will rise to USD 35.5 billion in 2019 thanks to a sharp fall in oil prices and solid expectations of global GDP growth, which is forecast to be a key driver of bottom line performance by expanding in 2019 by 3.1%.

The Kazakh aviation market

Growth drivers

With half of Central Asia's commercial passenger aircraft fleet currently based in Kazakhstan, according to CAPA, Centre for Aviation, the local market accounts for over one third of total seat capacity. Last year Kazakh airlines saw their traffic grow by 6.8% to 7.9 million passengers, which is impressive due to the impact the Expo world fair had on passenger traffic as a one-off event in 2017.

According to the Civil Aviation Committee, Kazakhstan's airports handled 14 million passengers in 2018, with the number of transfer passengers growing by 40%. The propensity to fly among the Kazakh population remains low, with the country's airports continuing to see relatively low traffic. However, local demand is expected to grow significantly, driven by the new share of population who will be able to afford air travel at lower cost. Passenger traffic is expected to grow by 35% by 2020, with transit traffic increasing 2.5-fold and freight traffic doubling.

Significant potential can be realised as international transfer traffic continues to show unprecedented growth, according to the Civil Aviation Committee. In 2018 some 900,000 transfer passengers travelled through Kazakhstan, a number that is expected to reach 1.6 million in 2020. The increase in transfer numbers were also driven by three-day visa grace period for Chinese citizens travelling through Kazakhstan, which has been in force for a few years, and a visa-friendly regime for Indian citizens introduced last year.

Outlook

Local demand

The current market environment continues to provide an opportunity for Air Astana to build and strengthen its network and customer experience for the long term. With GDP growth forecast at 3.8%, Kazakhstan's domestic air travel market has potential to grow by 2023. With low costs and a strong financial position, we are confident in our ability to capitalise on this opportunity via FlyArystan in addition to existing Air Astana flag carrier operations.

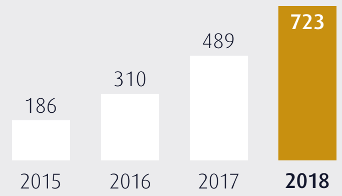
Transit traffic

Air Astana will remain focused on the international market, and we intend to almost double our fleet by 2026. Our annual passenger transit traffic grew by 48% in 2018, now accounting for 32% of our international traffic. We are looking to further expand the target base with transit traffic from surrounding markets that are substantially bigger than Kazakhstan, such as China, India and Russia. Connecting services is our fastest growing segment, as we operate at the heart of fast-growing Central Asian markets and are perfectly positioned to provide a crucial hub along the Silk Road.

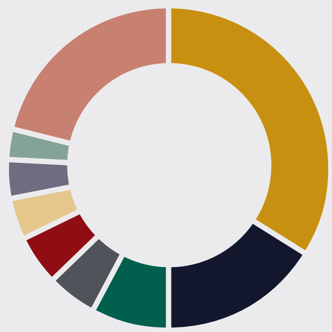
With the increasing economic ties and focus on tourism, we expect traffic from China to increase in the next 3-4 years. Significant sixth freedom traffic is also projected to grow to and from Urumqi thanks to its beneficial geographical location as a gateway to Central Asia and other Silk Road countries.

CIS traffic also remains a key area of focus, with Russia, Georgia and Ukraine contributing significantly to passenger flows. In 2018 we added new routes to Kazan and Tyumen, and are looking to accelerate network expansion in 2019, while increasing capacity to existing destinations.

Number of Air Astana's 6th freedom passengers (thousand)



Air Astana's market share in Kazakhstan international market



Source: Company's internal data

Air Astana	34%
Aeroflot	16%
SCAT	8%
S7	5%
Turkish Airlines	5%
Ukraine International Airlines	4%
FlyDubai	4%
Lufthansa	3%
Other	21%

FINANCIAL REVIEW

In 2018 the Company continued to build on and benefit from its competitive strengths despite a very challenging year for the entire industry due to high fuel prices.

Revenues grew both on international and domestic networks driven by traffic on the former and yield in the latter. The double digit growth in international traffic by 10.7% was largely driven by the continued strong growth of transit traffic, up 48%, thanks to the growing prominence of our hubs, through which traffic from our extended home markets in China, India, Ukraine and Central Asia continues to flow with increasing regularity. In 2018, 31% of traffic on international flights were transit passengers, up from 24% in 2017. This means that every third passenger on Air Astana international flights is a transit passenger.

This growth was achieved on the back of a 5% increase in ASK, resulting in a 2.9% growth in load factor on international routes.

Fuel expense caused a major headwind in 2018, with fuel costs increasing by USD 47.8 million, or 26% in comparison to ASK growth of 5%. To protect itself from spiralling fuel costs and to maintain profitability, the Company reduced domestic capacity by 5%. However, perhaps one of the most telling trends in our domestic network in 2018 was the 11% increase in Revenue per ASK (RASK), reflecting both the resilience and flexibility of our platform.

Had actions not been taken on cost and revenue management to mitigate such a substantial increase in fuel cost, the Company would have reported a loss in 2018. Notwithstanding the magnitude of the negative impact of fuel expense, the Company managed to achieve an operating profit of USD 36.5 million, down 42%, and profit after tax of USD 5.35 million, down by 86%.

2018 was the US Dollar's first full year as the Company's functional currency. Over the years, an increasing portion of Air Astana's revenues were denominated in currencies other than Tenge and this has now reached more than two thirds. As a result, the management team concluded that the dollar better reflects the nature of underlying transactions, events and conditions. The change protects the airline's net assets from KZT/USD currency fluctuations, which will increase overall financial profitability due to the elimination of negative effects from exchange differences from dollar denominated assets and liabilities.
In 2018, the average USD/KZT rate of

Financial performance summary

(USD thousands)

	2018	2017	**Change**
Total revenue	**840,861**	767,537	**9.6%**
Total operating expenses	**(804,355)**	(704,282)	**(14.2%)**
Operating profit	**36,506**	63,255	**(42.3%)**
Operating profit margin	**4.3%**	8.2%	**(3.9pp)**
Net financing expense	**(7,613)**	(3,825)	**(99.0%)**
Foreign exchange loss, net	**(16,885)**	(10,370)	**(62.8%)**
Profit before tax	**12,008**	49,060	**(75.5%)**
Income tax expense	**(6,656)**	(9,742)	**31.7%**
Profit for the year	**5,352**	39,318	**(86.4%)**

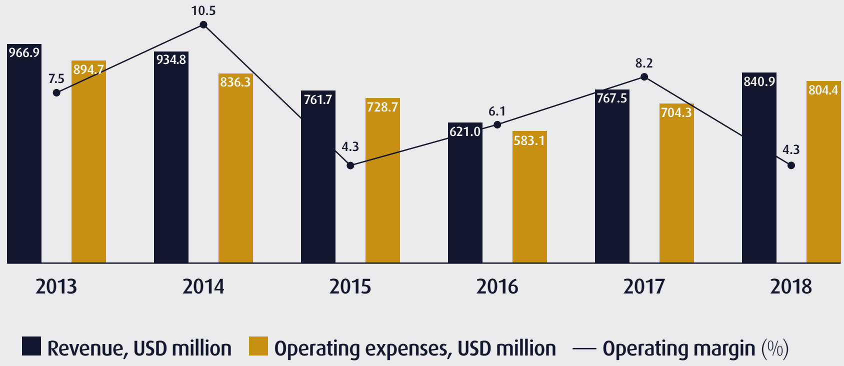
Revenue

(USD thousands)

	2018		2017		**Change**
	Total	**% of total revenue**	Total	% of total revenue	
Passenger revenue	**810,353**	**96.4%**	718,178	93.6%	**12.8%**
Cargo and mail revenue	**20,703**	**2.5%**	19,666	2.6%	**5.3%**
Other revenue	**9,805**	**1.1%**	21,215	2.7%	**(53.8%)**
Gain from sale and leaseback transaction	–	–	8,478	1.1%	**(100%)**
Total revenue and other income	**840,861**	**100%**	**767,537**	**100%**	**9.6%**

In 2018, passenger services accounted for 96.4% of total revenue and remained the Company's core activity. The remaining 3.6% consisted of revenue generated by cargo and mail services (2.5%) and other revenue (1.1%).

Revenue and operating expenses



Total revenue in 2018
(USD million)

840.9

Growth in ASK year-on-year

+5%

exchange grew by 5.7%, with the average Dollar converting to 344.71 KZT, compared to 326 KZT in 2017. The average exchange rate in December 2018, the last reporting month of the year was USD 1 = 371.82 KZT.

Operating expenses

The Company's operating expenses increased by 14.2% from USD 704.3 million in 2017 to USD 804.4 million in 2018, driven largely by the sharp increase of fuel costs. This resulted in a 9% increase in cost per available seat kilometre (CASK), from 5.2 to 5.6 cents in 2018.

Low-Cost Champions

Thanks largely to its cost efficient operations, Air Astana has an extremely competitive CASK, especially in comparison to other full service airlines. According to an annual industry overview from ACMG (IATA), covering 52 airlines all over the world including both full-service and low-cost carriers, it should be noted that Air Astana's CASK indicator is around half that of its European peers and 13% below a major European LCC (according to Airline Analyst report for 2017).

Efficiency remains a key part of the Company's three strategic pillars and the Company continues to strive for improvements. In 2018, the Finance Group launched a Low-Cost Champions campaign, with the objective of engaging those closest to the Company's operations to seek out opportunities to further maximise efficiency. Over 300 participants took part and shared ideas that are currently being discussed by senior management.

This is a strong reflection of a deep and integrated sense of engagement internally, and it reflects the extent to which a sustained culture of efficiency is embedded in and driven from all departments, not just centrally.

Finnovation: working on efficiency

'Finnovation: working on efficiency', a finance-driven business transformation programme was launched at the end of 2017. The programme's objective is to adopt an effective approach to any process the Company runs, take out any inefficiencies and unnecessary manual bureaucracy and replace it with effective controls, and use the resources released to initiate a new wave of cost efficiency across the Company.

Throughout 2018, the 'Finnovation: working on efficiency' programme has been responsible for rolling out a number of initiatives. The first results are very positive and immediate. These include the integration of the Company's Enterprise Resource Planning system directly with the banks that the Company operates with, automated invoice processing, electronic justification of payments replacing earlier paper versions, which require the physical movement of paper across the Company, strengthened controls and greater overall financial awareness in non-finance divisions.

These projects will be followed in 2019 by the automated calculation of accruals using operating data with system reconciliation to supplier invoices, leading to less manual work and reducing risks associated with human factors.

The resulting efficiencies enable members of the finance team to join other departments to help seek out further savings. During 2018, 36 well trained and competent team members joined the In-flight Services, Ground Services, Marketing and Sales teams replicating a proven efficiency drive that was earlier achieved through embedding finance backgrounded staff into Engineering and Maintenance.

The new structure is contributing to operational excellence at a departmental level. It permits operational departments to establish better controls at the start of processes, driven by close cooperation with members of both the financial and operational teams, which will translate into financial gains for the Company.

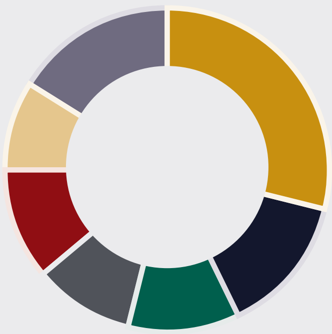
FINANCIAL REVIEW CONTINUED

Breakdown of operating expenses

(USD thousands)

	2018		2017		Change
	Total	% of total revenue	Total	% of total revenue	
Fuel	**231,316**	**28.8%**	183,518	26.1%	**26.0%**
Handling, landing fees and route charges	**112,251**	**14.0%**	103,164	14.6%	**8.8%**
Passenger service	**91,016**	**11.3%**	86,635	12.3%	**5.1%**
Engineering and maintenance	**86,278**	**10.7%**	69,173	9.8%	**24.7%**
Employee costs	**80,014**	**9.9%**	71,103	10.1%	**12.5%**
Aircraft operating lease costs	**71,413**	**8.9%**	61,413	8.7%	**16.3%**
Other	**132,067**	**16.4%**	129,276	18.4%	**2.2%**
Total operating expenses	**804,355**	**100%**	**704,282**	**100%**	**14.2%**

Breakdown of operating expenses, 2018 (%)



Fuel	29%
Handling, landing fees and route charges	14%
Passenger service	11%
Employee costs	10%
Engineering and maintenance	11%
Aircraft operating lease costs	9%
Other	16%

Fuel

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

Air Astana's fuel expenses grew by 26% from USD 183.5 million in 2017 to USD 231.3 million in 2018 following a sharp upward trend from the second half of 2017. ASK grew by 5% in the same period.

The percentage of fuel expense to total expenses increased from 26% in 2017 to 29% in 2018. This was a result of the increase in oil prices globally. The average monthly Brent crude price increased throughout 2018, reaching its peak in the second half of 2018 (USD 81.03 per barrel on average in October 2018). During the entire high season, Brent crude oil was in excess of USD 70 per barrel. As a result, average fuel prices for Air Astana in 2018 spiked by 29% compared to 2017. During the same period, total flight hours grew by 3%, to 118,331 hours in 2018 compared to 114,811 hours in 2017.

Other operating expenses

Other significant operating cost items include ground handling, landing fees, route charges, passenger services, engineering, maintenance, employee costs and aircraft operating lease costs.

These costs increased by 10% year-on-year in 2018 mainly due to an increase in operations, passengers numbers and increased rates for other service providers.

Engineering and maintenance costs increased by 24.7% due to the introduction of a new aircraft type and the servicing of an increased fleet and larger operations.

Handling, landing fees and route charges increased by 8.8% year-on-year due to increased operations throughout the year. Security charges for domestic and international routes at key airports in Kazakhstan were up with increases implemented at the end of 2017 and start of 2018.

Staff costs increased by 12.5% in 2017 due to the growth in the Company's workforce and a respective increase in salaries, wages and social taxes. The average number of employees grew by 5.4% to 5,202 in 2018.

Aircraft operating lease costs, expressed in USD, grew by 16.3% compared with the 2017 level. As of 31 December 2018 the Company operated 34 turbojet aircraft.

Operating profit

The rapid growth of global fuel prices and consequent rise of fuel cost by USD 47.8 million and modest growth in traffic during 2018 led to a reduction in operating profit of 42% to USD 36.51 million.

Urgent actions by senior management to optimise costs were effective and emergency measures helped the business maintain profitability in 2018 by generating a profit of USD 5.35 million. The operating profit margin fell by 3.9 points to 4.34%.

The Company's earnings before interest, taxes, depreciation, amortisation, and rental costs (EBITDAR) decreased by 12.83%, to USD 130.86 million. The EBITDAR/Revenue ratio decreased to 15.6% from 19.6% in 2017.

The Company has substantial finance lease liabilities, denominated in USD. At 31 December 2018, total finance lease liabilities amounted to USD 281.5 million (-12.2% year-on-year). The Company recognised USD 9.14 million as interest expense on finance lease in 2018.

Net financing expense

The Company's total net finance expense for 2018 was USD 7.61 million, compared with USD 3.83 million in 2017, mainly driven by a reversal of impairment allowance on financial assets in 2017, which equalled USD 4.75 million. In July-November 2017, the Company collected USD 4.376 million in cash through enforcement proceedings against Delta Bank JSC.

IFRS changes

Two major changes in IFRS reporting took effect from 1 January 2018, namely IFRS 9 and IFRS 15, and both were implemented successfully. IFRS 9 relates to Financial Instruments, and IFRS 15 reflects accounting changes to Revenue generated from Contracts with Customers. The Air Astana team took a leading role in the implementation of these standards, which helped develop a method that has become the basis of IFRS 9 implementation for a number of major companies in Kazakhstan.

IFRS 16 alters the way companies must calculate and report lease liabilities. The standard takes effect from 1 January 2019, and has a significant impact on the balance sheets of airlines. During 2018, the Company has participated in industry discussions and made its assessment of how it can best execute the new standard. The Finance Group presented its view of the execution of IFRS 16 to the SPC in July 2018, and to the Board of Directors in September 2018 and engaged with external auditors from an early stage in order to ensure that the Company is well prepared for IFRS 16 roll out from January 2019.

At 31 December 2018 and 2017, share capital comprised 17,000 authorised, issued and fully paid ordinary shares with a par value of 147,150 tenge per share (equivalent to USD 1,000 per share at the time of purchase).

Operating profit

(USD thousands)

	2018	2017	Change
Operating profit	36,506	63,255	(42.29%)
Net financing expense	(7,613)	(3,825)	(99.03%)
Foreign exchange loss, net	(16,885)	(10,370)	(62.83%)
Profit before tax	5,352	39,318	(86.39%)

Equity

(USD thousands)

	2018	2017	Change
Share capital	17,000	17,000	–
Functional currency transition reserve	(9,324)	(9,324)	–
Reserve on hedging instruments, net of tax	(62,770)	(71,465)	12.17%
Retained earnings	143,746	150,552	(4.52%)
Total equity	88,652	86,763	2.18%

OPERATING RESPONSIBLY

Our approach to corporate responsibility

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

Safety

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

Environment

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

Communities

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

Our people

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

OPERATING RESPONSIBLY
SAFETY

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

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

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

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

Compliance

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

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

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

Regulatory oversight

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

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

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

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

Safety programmes

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

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

OPERATING RESPONSIBLY CONTINUED
SAFETY

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

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

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

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

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

Outlook for 2019

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

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

ENVIRONMENT

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

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

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

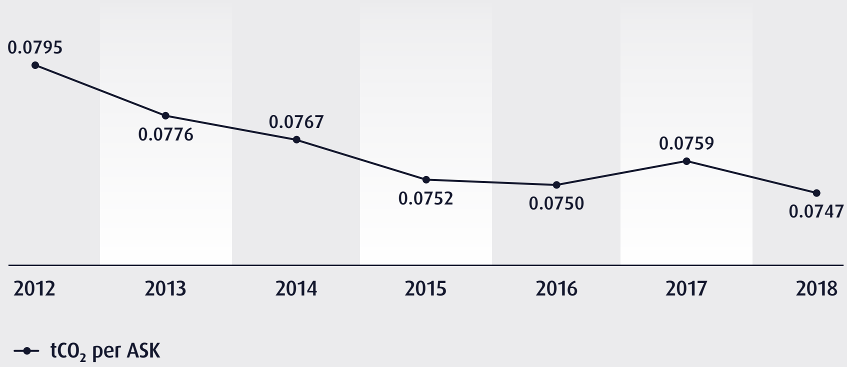
In 2018 we carried out environmental activities in accordance with the requirements set out by the legislation of the Republic of Kazakhstan.

Fuel usage and GHG emissions

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

To that end, we have been monitoring and adjusting our greenhouse gas CO_2 emissions since 2011 from the introduction of monitoring requirements by the European Union. We disclose our CO_2 use to the German Emissions Trading Authority (DEHSt) on an annual basis. Currently, we are working on a new Carbon Offsetting and Reduction Scheme (CORSIA) which will come into force early in 2019.

Total greenhouse gas emissons per Available Seat Kilometers (ASK)



Air Astana's programme to acquire new aircraft and simultaneously phase out older ones is part of a number of major factors that contribute to the reduction of overall CO_2.

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

Air Astana's first Airbus A320neo was delivered and put into service in November 2016. Air Astana also operates a number of Boeing 767-300ER and 757-200 aircraft, which feature innovative technologies enabling excellent fuel efficiency.

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

Thus, we were able to reduce the amount of CO_2 emissions by 6% as indicated in the chart above.

OPERATING RESPONSIBLY CONTINUED
ENVIRONMENT

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

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

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

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

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

Activities carried out under the plan included:

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

Noise

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

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

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

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

The amount of implemented environmental measures

Almaty	USD 176,069
Astana	USD 30,984

Amount of waste transferred for disposal

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

Waste

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

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

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

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

COMMUNITIES

Community investments and projects

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

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

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

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

Charity donations

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

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

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

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

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

OPERATING RESPONSIBLY CONTINUED

COMMUNITIES

The natural world

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

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

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

Projects implemented in 2018

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

OPERATING RESPONSIBLY CONTINUED

OUR PEOPLE

Letting talent thrive

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

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

Yevgeniya Ni, Vice President, HR and Administration

Attracting talent

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

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

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

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

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

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

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

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

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

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

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

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

Employer branding

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

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

Ab-initio pilot training programme

In 2018 we marked the 10th anniversary of the highly successful Ab-initio pilot training programme which we launched in 2008 to help alleviate a shortage of locally-qualified pilots, and provide an opportunity for young people to enter a well-paid profession with a prestigious airline. In 2018, the number of applications through the Ab-initio programme increased by 74% compared to 2017. The programme continues to deliver qualified pilots with 178 already flying as Captains or First Officers on our fleet of A320s, B767s and E190s. 26 cadets are currently being trained under the Ab-initio training programme, with new cadets expected to be enrolled in April-May 2019. The Company intends to train 35-40 new pilots every year over the next five years.

Internship Programmes

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

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

Diversity and equality

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

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

Attracting talent in numbers

32

job fairs and presentations in universities

10

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

5

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

>3,500

total number of participants in these events

Diversity and equality in numbers

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

OPERATING RESPONSIBLY CONTINUED

OUR PEOPLE

Engagement

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

Yevgeniya Ni, Vice President, HR and Administration

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

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

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

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

These initiatives were reflected positively in the consecutive employee engagement survey, carried out in cooperation with the US polling company Gallup. The 2018 survey, which involved 1,462 employees, revealed that employee engagement has a positive trend. This result testifies to the effectiveness of our Company's initiatives to foster an improved corporate culture.

Reward

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

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

We offer all of our employees the following benefits package:

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

Developing talent

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

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

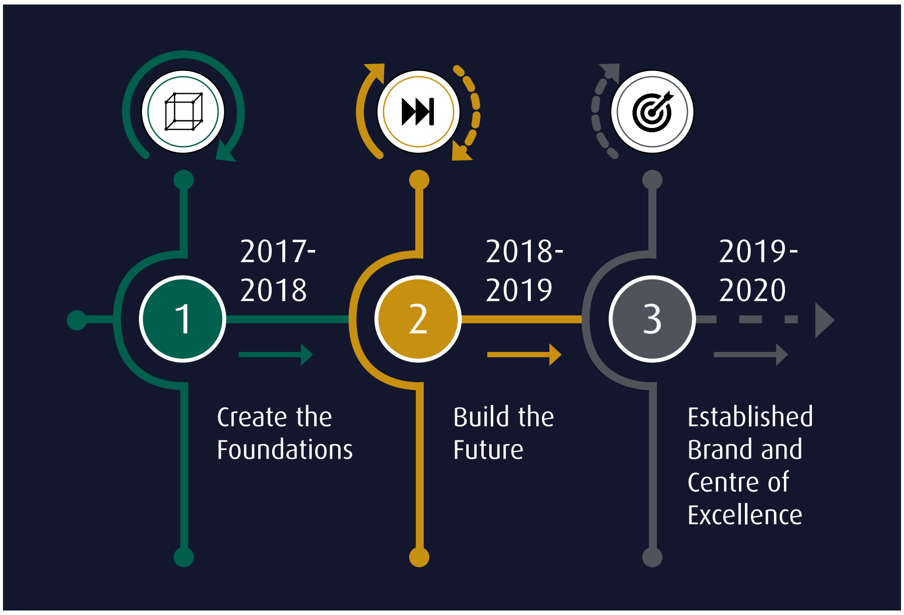
- to build a professional and innovative training centre;
- to cultivate a centralised and standardised training methodology;
- to develop our trainer talent.

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

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

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

Training Academy development timeline



Planning talent

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

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

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

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

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

Human rights

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

Anti-bribery and whistleblowing

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

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

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

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

Modern slavery

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

PRINCIPAL RISKS AND UNCERTAINTIES

Risk management framework

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

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

The Company's Risk Management Policy was revised and updated in 2018 to reflect changes introduced by the 'COSO Enterprise Risk Management framework – Integrating with Strategy and Performance' to ensure the implementation of best international practices in risk management within the Company's Corporate Risk Management System.

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

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

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

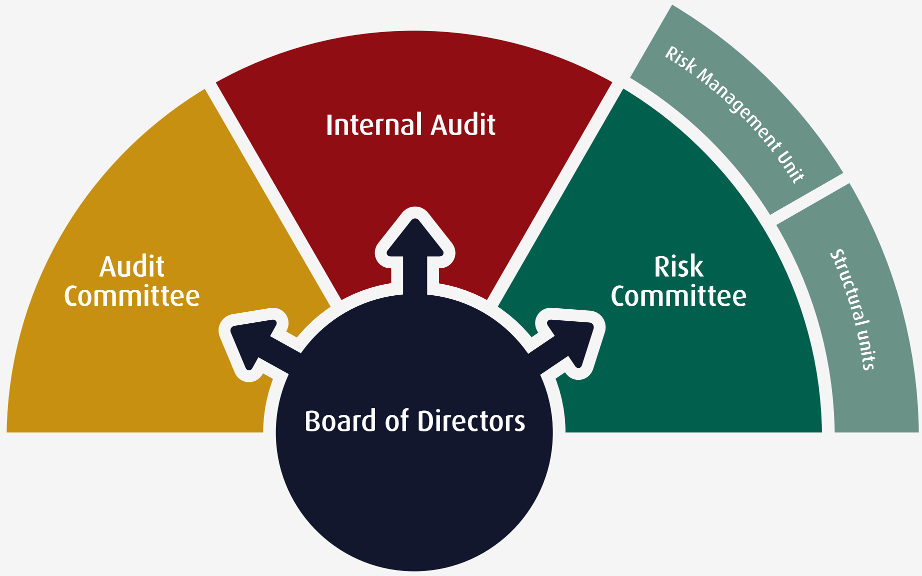
The Board of Directors has the primary responsibility for risk oversight of the Company and it performs the following risk management functions:

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

On the issue of risk management, the Audit Committee acts in the interests of Shareholders and provides oversight support to the Board of Directors concerning the reliability and efficiency of the risk management system, and has the following responsibilities in the framework of risk management:

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

Our risk management system



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

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

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

PRINCIPAL RISKS AND UNCERTAINTIES CONTINUED

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

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

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

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

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

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

The third line of defence is the Internal Audit Department.

The Internal Audit Department performs the following main functions:

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

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

Significant risks

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

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

Low Moderate High

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

PRINCIPAL RISKS AND UNCERTAINTIES CONTINUED

Low Moderate High

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

Low | Moderate | High

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

Insurance

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

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

Aviation insurance

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

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

Non-aviation insurance

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

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

CHAIRMAN'S STATEMENT ON CORPORATE GOVERNANCE

"Our corporate governance policies follow a key set of principles that encompass fairness, honesty, responsibility, transparency, expertise and professional competence."

Dear Stakeholder,

By establishing strong corporate governance policies, we are ensuring that the principles used to manage Air Astana align with the interests of all stakeholders. By adopting and implementing elements of the UK Corporate Governance Code for the first time, we will be making significant progress towards achieving international best practice reporting in this area.

The Board of Directors plays a fundamental stewardship role in ensuring that the Company directs its activities in a manner that enables all stakeholders to thrive. We help provide a backdrop for success, in which employees flourish and passengers travel safely and in comfort, while ensuring that the business is run sustainably, generating long-term Shareholder value.

We have established a robust framework that facilitates optimal decision making to accomplish these priorities. Within this framework, our corporate governance policies follow a key set of principles that encompass fairness, honesty, responsibility, transparency, expertise and professional competence.

The Board allocates responsibilities among its members across key priority areas. The structure facilitates a good level of interaction between Air Astana's management bodies and the Board around the following areas of focus:

- Shareholder rights and interests;
- effective stewardship of the Company and its management team;
- fair disclosure and transparency;
- legality and ethics;
- dividend policy;
- personnel policies;
- environmental protection;
- corporate conflicts and conflicts of interest; and
- corporate responsibility.

We are constantly looking to evolve our corporate governance policies as we strive to meet international best practice. We are deploying practices that align ourselves with principles set by the OECD and the UK Corporate Governance Code to ensure the responsibility, accountability, effectiveness, transparency and due disclosure of information, particularly with regards to risk management and internal controls.

I am pleased to report that our main goals set in 2017 to enhance our governance practices were executed in 2018.

Firstly, an amendment was made to the Company's Charter, and approved by a General Meeting of Shareholders, which introduces the possibility of increasing the number of Independent Directors on the Board and to sanction the election of the President/CEO of the Company to the Board.

Secondly, preparations to adopt a new Corporate Governance Code, based on UK standards are complete and will be subject to approval by the Board of Directors and Shareholders in 2019. The measures seek to improve the Board's efficiency and to develop a new set of procedures and policies to enhance our anti-corruption and sustainability practices.

In reviewing our corporate governance practices, we seek to meet international benchmarks. We look forward to complying with the main principles of the provisions set out in the UK Corporate Governance Code (the 'Governance Code') issued by the Financial Reporting Council (FRC). We believe the Code is appropriate and practicable in the Company's context and will help us provide a strong governance framework and safeguard Shareholders' interests, creating and preserving their value.

Thirdly, new automated technologies have been adopted to facilitate better use of Board materials and maximise the use of the Board's time during Board meetings.

The following pages summarise our approach to corporate governance. They set out the makeup of the Board of Directors, its role, responsibilities and processes, as well as the activities conducted by each Board Committee during the course of 2018.

Nurzhan Baidauletov
Chairman of the Board of Directors

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.

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
- Nomination and Remuneration Committee
- Strategic Planning Committee
- Corporate Social Responsibility Committee
- Treasury Committee

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.

Shareholders
Responsibility for material decisions that impact the Company's stewardship are delegated to the General Meeting of Shareholders, which takes place on an annual basis and which may also be called to meet when Shareholder consent is required for decisions recommended by the Board of Directors.

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 (of 13 October 2008) and a government decree of the Republic of Kazakhstan (of 17 October 2008) in an effort to improve 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.

In 2018, five Shareholder meetings were held, including the Annual General Meeting (AGM) on 31 May 2018.

BOARD OF DIRECTORS

AN EXPERIENCED AND INTERNATIONAL BOARD

Nurzhan Baidauletov

Chairman of the Board of Directors

Non-Executive Director

Appointed:
December 2008

Qualifications and experience:
Nurzhan Baidauletov graduated from the Moscow State University of Railway Engineering and Transportation Management in June 1986. He has built a distinguished career in Kazakhstan's transportation industry over a period of almost 30 years.

Prior to joining the Samruk-Kazyna Sovereign Welfare Fund in 2008 as the Chief Director for Asset Management and later as the Managing Director, he held the posts of Deputy Minister of Transport and Communications and Chairman of the Communication Lines Committee of the Ministry of Transport and Communications of the Republic of Kazakhstan. In addition, from 2012 to 2016, he served as Chairman of the Board at Kazpost JSC and National Company Kazakhstan TemirZholy JSC.

Other appointments:
Since 2012, Chairman of the Board of Directors of Kazakhtelecom JSC; since 2017, Chairman of the Board of Directors of Qazaq Air JSC.

Committee membership:

N S T

Does not hold any shares in Air Astana.

Gani Bitenov

Non-Executive Director

Appointed:
January 2017

Qualifications and experience:
Gani Bitenov is a Doctor of Civil Law, McGill University (Montreal, Canada); Master of Law (LLM), University of Aberdeen (Aberdeen, UK); Master of Economics (MA) and KIMEP (Almaty, Kazakhstan).

Gani has held key positions with international (Bracewell & Giuliani) and Kazakh law firms. In 2012, he headed the Department for Protection of Property Rights of the Government under the auspices of the Ministry of Justice of the Republic of Kazakhstan; starting in 2013, he worked as the Deputy Director of Bolashak Consulting Group, LLP; since 2016, he has been the Managing Director for Legal, Governance, Risk and Compliance and a member of the Management Board of SWF Samruk-Kazyna JSC.

Other appointments:
Arbitrator at the Shanghai International Arbitration Center; member of the Kazakhstan Petroleum Lawyers Association.

Committee membership:

C T

Does not hold any shares in Air Astana.

Myles Westcott

Non-Executive Director

Appointed:
March 2018

Qualifications and experience:
Myles Westcott is a graduate of Bristol University. His career has been divided between accountancy roles and financial management across a variety of sectors, including consultancy, retail and hospitality.

Myles is a Fellow of the Institute of Chartered Accountants in England & Wales and the Chairman of the Trustee Board of the Royal Ordnance Pension Scheme. In 2001 Myles joined BAE Systems and has since held a number of senior finance positions within the company, across both the 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 and UK & international customer engagement.

Other appointments:
Group Financial Controller for BAE Systems since January 2018, also responsible for M&A.

Committee membership:

N T

Does not hold any shares in Air Astana.

Key to Committee membership

A Audit Committee
N Nomination and Remuneration Committee
S Strategy Planning Committee
C Corporate Social Responsibility Committee
T Treasury Committee
Committee Chair
Alternate Member

Alan Fraser

Non-Executive Director

Appointed:
January 2015

Qualifications and experience:
Alan Fraser is a graduate of the University of Strathclyde, holding a Bachelor's Degree in accounting and economics, and is a member of the Institute of Charter Accountants of Scotland. In 1989, he became Financial Director of British Aerospace Regional Aircraft, and from 1995 to 1998 was Financial Director and latterly Strategy Director of Royal Ordnance PLC, a British Aerospace subsidiary. In 1998, he served as Managing Director of Heckler and Koch GmbH, also a British Aerospace subsidiary. From 1999 to 2014, as part of BAE Systems (formerly British Aerospace), he held positions of Financial Director Mergers and Acquisitions, Director Strategy and Business Development Regional Aircraft and Managing Director Regional Aircraft.

Other appointments:
Non-Executive Director of Trig Avionics Limited, an avionics design, development and manufacturing business serving the general aviation market based in Edinburgh, Scotland.

Committee membership:

S C T

Does not hold any shares in Air Astana.

Dmitriy Larionov

Independent Non-Executive Director

Appointed:
April 2008

Qualifications and experience:
Dmitriy Larionov is a leading expert in accounting and financial reporting, and he has a number of qualifications, including a Certified Director qualification from the Institute of Directors of Great Britain and a Certified Director for Corporate Governance qualification from the Kazakhstan Independent Directors Association. From 2003 to 2010 he was Deputy Chairman and a Board member of the Chamber of Professional Accountants of the Republic of Kazakhstan; from 2008 to 2010, he was a Member of the Developing Nations Committee of the International Federation of Accountants; and from 2008 to 2015, he was an Independent Director at Kazakhtelecom, JSC.

Other appointments:
Member of the Advisory Body on Accounting and Audit of the Ministry of Finance of the Republic of Kazakhstan. Independent Director at JSC National Company Astana EXPO-2017, JSC NC Kazakhstan Engineering; consultant at the Centre for Financial Reporting Reform of the World Bank; international partner on telecommunication at JSC BDO KazakhstanAudit.

Committee membership:

A N S C T

Does not hold any shares in Air Astana.

Lord Thomas Alexander Hesketh

Independent Non-Executive Director

Appointed:
November 2007

Qualifications and experience:
Lord Hesketh has had a long and successful career in public service and international business. Since 1990, Minister of State at the Department of Trade and Industry of Great Britain. From 1991 to 1993, Captain of the Honourable Corps of Gentlemen-at-Arms, Government Chief Whip in the House of Lords, and a member of the Privy Council of the United Kingdom. He has also served as the Chairman of British Mediterranean Airways (until 2007) and was the non-executive Deputy Chairman of Babcock International (up to 2010). In 2004-2005, he was the Treasurer of the Conservative Party of Great Britain.

Other appointments:
None

Committee membership:

A N C

Does not hold any shares in Air Astana.

SENIOR MANAGEMENT TEAM

Peter Foster
President and CEO

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 1982-1999 he served in a variety of management and senior management positions with CPA 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.

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. He started his career in the travel industry 25 years ago and has 20 years of aviation experience. Prior to joining Air Astana, he worked for KLM, briefly in the Middle East and thereafter Almaty in charge of the organisation in Kazakhstan and in neighbouring countries. He is a Board member at EUROBAK serving his third term. Ibrahim received his MBA degree from Boğaziçi University, Istanbul and his undergraduate in Economics from Marmara University.

Anthony Regan
Chief Operating Officer

Anthony has over 35 years of experience in aviation. Prior to joining Air Astana in 2012 he was General Manager Operations and OPS post holder at Air France/KLM subsidiary Cityjet from 2001 where he was responsible 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 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.

Responsible for the successful planning and execution of the objectives and strategies agreed by the Board and ultimately responsible for the day-to-day running of the Company and delivering on key milestones.

Yevgeniya Ni
Vice President, HR and Administration

Yevgeniya graduated from Karagandy State University with a degree in foreign languages and a degree in law. She holds a number of diplomas and certificates in the field of management and HR. Since 2002, she has worked as the Executive Assistant to the President of Air Astana, and is currently the head of the Human Resources Department, which is in charge of the Occupational Health and Safety Department, the Administrative Service Office and day-to-day logistics for the Company. Under her leadership, the Company introduced a transparent system of recruitment and corporate training, as well as an employee performance assessment and remuneration system. Yevgeniya regularly takes part in professional conferences and congresses as an expert, moderator 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 in 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). Further, he is 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 is one of the first employees of Air Astana and has over 20 years of 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.

This section includes members of the Senior Management Team to Vice President level. The full list of the Senior Management Team and their biographies are available on the Company's website: **https://airastana.com/global/en-us/About-Us/Corporate-Profile/Management-Team**

BOARD ACTIVITY IN 2018

In 2018, the Board of Directors focused on the following major topics:

Strategic development

- Consideration of a report on the implementation of major investment projects by the Company.
- Consideration of a report on the implementation of the Company's development strategy.
- Consideration of the Company's participation in major investment projects relating to:
  - Air cargo transportation.
  - Low-cost airline project.
- Preliminary approval of the Company's Business Plan for 2019-2023 and budget for 2019.
- Consideration of a proposal regarding an operating lease for five E190-E2s and three Airbus A321neo FBs.
- Consideration of a proposal regarding a sale and leaseback transaction for one Embraer 190.
- Review of the extension of an operating lease agreement in respect of one Boeing B757-200 aircraft.
- Deciding on the increase of the Company's obligations relating to the deferral of a delivery of one Boeing 787 aircraft.

Committee Report on page 59

Risk management

- Approval of the Company's amended Risk Management Policy.
- Consideration of the Company's safety reports.
- Review report on the Company's realised risks.
- Approval of an updated Company risk register, key risks register and risk map for H1 and H2 2018.
- Approval of the Company's risk appetite.

Internal control and audit

- Consideration of a report on the effectiveness of the Company's internal control system.
- Approval of the 2017 Annual Report and 2018 quarterly reports on the Internal Audit Service's activities.
- Quarterly performance evaluation of the Internal Audit Service.
- Approval of the Internal Audit Service's annual audit plan for 2019.
- Appointment of Internal Audit Service employees.
- Approval of the Company's assurance map.

Committee Report on page 56

Financial and operational activities

- Consideration of regular reports on the results of financial and operational activity.
- Approval of changes and suggested amendments to the Company's Accounting Policies.
- Discussion of recommendations regarding changing the Company's functional currency.
- Consideration of the Company's quarterly treasury report on placed deposits and bank exposure.
- Recommendations to the Nomination and Remuneration Committee regarding the appointment of a new Vice President, Engineering and Maintenance.
- Issues surrounding the formation of the Representative Office in Saint Petersburg.
- Decisions surrounding the conclusion of material transactions and credit facilities.
- Proposals relating to the distribution of Air Astana's net income for 2017 and the scale of dividend payment for 2017 per one common stock.
- Consideration of the Health, Safety and Environmental Protection report.
- Approval of the Corporate Social Responsibility report.

Governance and remuneration

- Consideration of the results of a report provided by an independent external consultant on the effectiveness of the Company's corporate governance practice.
- The early termination and election of members of the Treasury Committee of the Board of Directors.
- Approval of the annual bonus plan for senior executives of the Company.
- Annual review of remuneration and proposals for the 2019 salaries of the Company's employees whose remuneration shall be determined by the Board of Directors.
- Approval of the amended procedure for performance evaluation of the Company's Internal Audit Service.

LEADERSHIP

Role of the Board

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 at the Annual General Meeting of Shareholders, 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; 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.

Division of responsibilities

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

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 Chief Executive 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.

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

Board and Committee meetings and attendance in 2018

	Board	Audit Committee	Nomination and Remuneration Committee	Strategic Planning Committee	Corporate Social Responsibility Committee	Treasury Committee
Total number of meetings	12	9	11	5	3	6
Nurzhan Baidauletov	100%	–	100%	100%	–	–
Gani Bitenov	100%	–	–	–	100%	100%
David Cole (departed the Board on 31 March 2018)	100%	–	100%	–	–	100%
Myles Westcott (joined the Board on 31 March 2018)	100%	–	100%	–	–	100%
Alan Fraser	100%	–	–	100%	100%	–
Dmitriy Larionov	100%	100%	100%	100%	100%	100%
Lord Thomas Alexander Hesketh	100%	100%	100%	–	100%	–

LEADERSHIP CONTINUED

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 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.

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
Yelena Kondachkova was appointed as a Corporate Secretary of Air Astana in 2007. She 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 Eurasian University by the name of L. Gumilyov (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
Our ongoing activities are managed by the President. The President, our sole executive body, must abide by the resolutions of the General Meeting of Shareholders and the Board of Directors.

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.
- 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.

EFFECTIVENESS

Composition of the Board
As of 31 December 2018, the Board of Directors consisted of six members, with two members nominated by the Samruk-Kazyna Sovereign Wealth Fund, two members nominated by BAE Systems and two Independent Directors. The Board is elected by cumulative voting at the General Meeting of Shareholders.

According to our own internal assessment, the composition of the Board is fairly 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.

Appointments to the Board
David Cole left the Board on 31 March 2018, with Myles Westcott being appointed in his place from 31 March 2018.

Commitment
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.

Development
We have developed a special orientation programme to ensure the most effective onboarding of new Directors. 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 2018, Myles Westcott became a member of the Board of Directors in accordance with the orientation procedure.

The Board of Directors shall arrange for relevant training of the elected Directors, under our present Programme of Induction and within the first six months of their appointment, for their full assumption of office, with regular improvement in the Director's knowledge and skills for their work on the Board of 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 Executive Body 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 Committee has satisfied itself as to the individual skills, relevant experience, contributions and time commitment of all the Non-Executive Directors, taking into account their other offices and interests held.

ACCOUNTABILITY

Financial and business reporting

Through its activities, 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 64 for the Management's statement on the Annual Report and Accounts being fair, balanced and understandable;
- page 65 for the Independent Auditor's report including disclosures about the audit scope and responsibilities of the Auditor; and
- the Strategic Report on pages 1-43 for an explanation of the Company's business model and the strategy for delivering the objectives.

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. In 2018 we carried out an assessment of our principal risks and how those risks affect the prospects and the Company's performance.

In 2018 we also revised and updated the Company's Risk Management Policy to reflect the changes introduced by 'COSO Enterprise risk management framework – Integrating with Strategy and Performance' to ensure the implementation of best international practices in risk management within the Company's Corporate Risk Management System (CRMS). Further information on the CRMS is available on pages 38-40 of this report.

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

Further information on the key risks and uncertainties and mitigation measures is available on pages 41-43 of this report.

Audit Committee and Auditors

The Audit Committee report is set out on pages 56-57 and further information on the Company's compliance with the Code relating to the Audit Committee and its Auditors. This includes details of the activities of the Committee and its relationship with the internal audit team and the external Auditor.

Remuneration

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.
- Additional remuneration for participation in sessions of the Committees of the Board of Directors may be paid.
- Compensation of expenses associated with the performance of duties.

The amounts of annual fixed and additional remuneration, as well as 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.

In 2018, the total remuneration paid to Independent Directors was USD 71,255 including taxes.

RELATIONS WITH SHAREHOLDERS

Dialogue with Shareholders
The Company actively engages with Shareholders and seeks their feedback. 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.

Independent Directors facilitate the formulation of opinions and decisions independent of their relations with Shareholders or executive bodies, and decision-making with due account of the interests of different groups of Shareholders.

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 **airastana.com/uk/en-us/About-Us/Corporate-Governance**.

BOARD COMMITTEES
THE AUDIT COMMITTEE

The Audit Committee supports the Board of Directors in supervising our financial and economic activities, the reliability and efficiency of the 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.

Composition:

Dmitry Larionov
Chairman of the Committee

Lord Thomas Alexander Hesketh
Member of the Committee

In 2018, the Audit Committee held nine in-presentia meetings. Committee member participation information can be found on page 51.

Role and responsibility
The following issues fall within the remit of the Audit Committee:

- 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 external and internal Auditors without the presence of members of Company management; and
- investigating any other issues that fall within the Committee's remit.

Activities in 2018

Key matters discussed include:

Internal Audit Service

- annual and quarterly reports and the annual audit plan for 2019;
- implementation of the Strategic plan of the Internal Audit Service;
- quarterly performance evaluation;
- amendments to the performance evaluation procedure;
- amendments to job descriptions, proposed staff changes and training budgets;
- 2018-2019 Internal Audit Service remuneration and compensation packages.

External Audit

- External Audit reports on the status of annual financial statements, the annual financial statements and Management Report, condensed interim financial statements for the six-month period ending 30 June;
- recommendations made by an independent external consultant regarding the efficiency of corporate governance;
- report on litigation, state inspections and audits.

Risk management and internal control

- changes to the Risk Management Policy and Methodology on evaluation of the effectiveness of the risk management system;
- risk register and risk map for 2018, as well as the reports on realised risks;
- change of the Company's functional currency;
- amended Methodology on evaluation of the effectiveness of the internal control system;
- assurance map.

Internal processes

- changes to the Accounting Policy;
- new Code of Conduct.

Priorities for 2019

Key matters for discussion will include:

- annual financial statements;
- critical accounting policies and regulatory and accounting initiatives;
- performance of the external Auditor;
- internal and independent audit reports on governance, internal control and risk management systems, approval of the related policies and procedures;
- annual Audit Plan, policies, regulations and work procedures, structure and budget, IAS staffing and qualification requirements, remuneration and bonuses;
- internal policies and procedures around the Company's legal compliance;
- effectiveness of anti-corruption policy and speak-up policy;
- revision of the Audit Committee regulations.

Risk management and internal control

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 semiannual basis;
- review of changes to the risk register;
- review of reports on key risks;
- annual review of the risk appetite and semiannual 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; and
- 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 regard 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; and
- 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 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, et cetera.

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 2017-2019 is KPMG Audit LLP, an independent audit organisation.

BOARD COMMITTEES CONTINUED
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. The Committee also makes recommendations regarding the remuneration of these employees and executive officers. The Committee was formed in October 2012 through the merger of the previously separate Nomination and Remuneration Committees.

Composition:

Dmitriy Larionov
Chairman of the Committee

Lord Thomas Alexander Hesketh
Member of the Committee

Nurzhan Baidauletov
Member of the Committee

Myles Westcott
Member of the Committee

In 2018, the Nomination and Remuneration Committee held 11 in-presentia meetings. Committee member participation information can be found on page 51.

Role and responsibility

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

- development of requirements for candidate qualifications and recommendations on election or nomination for the roles of Independent Directors, the executive body, the Corporate Secretary and the Head of the IAS;
- development of the 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 2018

Key matters discussed include:

- search for Independent Non-Executive Directors: consideration of candidates and appointment recommendations (to replace an existing Independent Director and to find a third one);
- amendments to the Labour Remuneration policy and internal regulations on expense limits;
- recommendations on remuneration, including salaries and Profit Share Bonuses for 2017 and annual bonus for 2018 to employees whose remuneration falls within the remit of the Board of Directors or Shareholders;
- recommendations on approval of Annual Bonus Plan for senior executives and maximum annual bonus to be paid to those employees whose remuneration shall be determined by the Board of Directors;
- early termination of the authorities of a member of the Board of Directors, election of a new member of the Board of Directors;
- changes to the composition of the Board of Directors;
- amendments to the President's Labour Contract;
- updated Senior Management Succession Plan;
- election of the President/Chief Executive Officer of the Company as a member of the Board of Directors;
- amount and terms of remuneration and compensation to the Independent Non-Executive Directors of the Company;
- termination of the authorities of the Senior Vice President Engineering Group of the Company and election of the Vice President Engineering and Maintenance of the Company.

Priorities for 2019

In addition to the Committee's regular activities surrounding nominations and remuneration as carried out in 2018, the Committee also intends to discuss:

- succession planning for senior executives and members of the Board of Directors;
- full remuneration and compensation packages paid to the President/CEO;
- revision of the annual bonus plan for senior executives, Including terms of payment;
- nomination of potential candidates to the Board of Directors;
- remuneration and compensation of independent non-executive directors;
- other issues that fall within the remit of the Nomination and Remuneration Committee.

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.

Composition:

Dmitry Larionov
Chairman of the Committee

Nurzhan Baidauletov
Member of the Committee

Alan Fraser
Member of the Committee

In 2018, the Strategic Planning Committee held five in-presentia meetings. Committee member participation information can be found on page 51.

Role and responsibility

The responsibilities of the Strategic Planning Committee include review of 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 on:

- Air Astana's priority areas of business activity and development;
- preliminary approval of, and potential amendments to, the Company's long-term development strategy;
- corporate governance issues;
- Air Astana's strategy in view of changes in the economic, political, social and competitive environment;
- improvement of the Company's long-term performance and competitiveness in the aviation transportation market.

Activities in 2018

Key matters discussed in 2018:

- implementation of the Strategic Plan and major investment projects;
- draft amendments to the Charter of the Company;
- agreement between the Company and Consortium of STS Genpodriad LLC and OK Sapa LLP on the purchase of additional construction and installation works for the Air Astana Technical Centre at Astana International Airport due to scope increase;
- Company's 2017 annual report, reports on the Company's financial and operational results;
- 2017 net income distribution and dividend;
- changes to the Investment Policy;
- development and review of corporate governance policies and procedures;
- Boeing 787 aircraft delivery deferral;
- sale and lease back of one Embraer E190 aircraft;
- low-cost airline project;
- Business Plan for 2019-2023 and the annual budget for 2019.

Priorities for 2019

In addition to the Committee's regular activities surrounding budgeting and supporting investment plans, the Committee also intends to discuss:

- five-year business plan for Air Astana to cover 2020-2024;
- implementation of the Company's existing medium-term business plan;
- revision of the Strategic Planning Committee Regulations.

BOARD COMMITTEES CONTINUED

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.

Composition:

Lord Thomas Alexander Hesketh
Chairman of the Committee

Dmitriy Larionov
Member of the Committee

Gani Bitenov
Member of the Committee

Alan Fraser
Member of the Committee

In 2018, the CSR committee held three in-presentia meetings. Committee member participation information can be found on page 51.

Role and responsibility

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

- Air Astana's CSR strategy and evaluation of 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.

The CSR Committee also considers major CSR risks and plans for mitigating their impact and monitors the Company's compliance with legislation and regulations in the areas of occupational health and safety, social responsibility and environmental protection.

Activities in 2018

Key matters discussed include:

- the Company's annual corporate social responsibility report for 2017;
- implementation of the Defined Contribution Corporate Pension Scheme;
- employee engagement survey;
- activities around safety at work, labour, health and environment protection.

Priorities for 2019

In addition to the Committee's regular activities surrounding corporate and social responsibility, the Committee also intends to:

- provide recommendations on strategies, policies and reporting structures related to CSR issues and sustainability;
- provide recommendations on other issues within the CSR competence;
- revise the CSR Committee Regulations.

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.

Composition:

Dmitriy Larionov
Chairman of the Committee

Gani Bitenov
Member of the Committee
(or, in his absence – Mr. Nurzhan Baidauletov, as an alternate member of the Committee)

Myles Westcott
Member of the Committee
(or, in his absence – Mr. Alan Fraser, as an alternate member of the Committee)

In 2018, the Treasury Committee held six meetings, including five in-presentia meetings. Committee member participation information can be found on page 51.

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

- verification of control mechanisms for the Company's treasury activities and ensuring the effectiveness and improvement of policies and procedures in the treasury area;
- 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.

Role and responsibility

- Consideration of monthly reports on compliance with treasury policies.
- Regular review (minimum semiannually) of risks and opportunities associated with treasury activities and Air Astana's plans concerning treasury management (jointly with the Company's management).
- Regular reporting to the Board of Directors (minimum annually) on the Committee's performance and violations discovered, for further disclosure at the AGM.

Activities in 2018

Key matters discussed include:

- monthly treasury reports;
- quarterly reports on deposits and bank exposure;
- changes to the Cash Management, Bank Risk and the Company's Treasury Reporting Policy;
- annual review of counterparty banks and their intended limits;
- instruction on bank guarantee requirements;
- updates to instructions for raising and servicing loans;
- updates on currency risk exposure;
- updates on defaulted and stressed banks;
- discussions with potential credit line providers;
- assessment of banking relationships and approval of accredited bank credit limits;
- increase in and opening of credit facilities; recommendations on corresponding increase in obligations of amounts equal to 10% or more of the Company's own capital;
- opening and closing of bank accounts.

Priorities for 2019

In addition to the Committee's regular activities, the Committee also intends to discuss:

- updates on currency risk exposure;
- annual review of counterparty banks;
- approval of the accredited banks credit limits;
- revision of the Cash Management, Bank Risk and Treasury Reporting Policy;
- revision of the Treasury Committee Regulations;
- monthly and quarterly treasury reports;
- other issues within the competence of the Treasury Committee.

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 are:

- 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 and
- there has to be a decision of the General Meeting of Shareholders.

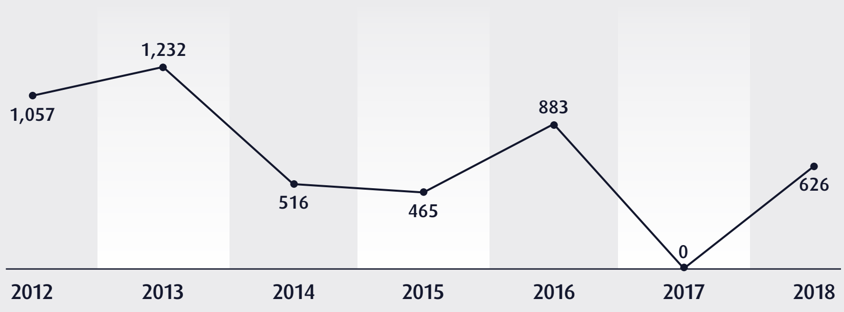
In accordance with the Dividend Policy the Company allocates 30% of net income, as calculated in accordance with International Financial Reporting Standards, to a dividend, unless otherwise decided by the General Meeting of Shareholders.

In accordance with a resolution of the Annual General Meeting of Shareholders of 31 May 2018, dividends of USD 10,643,229 or 30% of the net income of the Company was paid out as 2017 dividends to the stockholders on 29 August 2018.

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

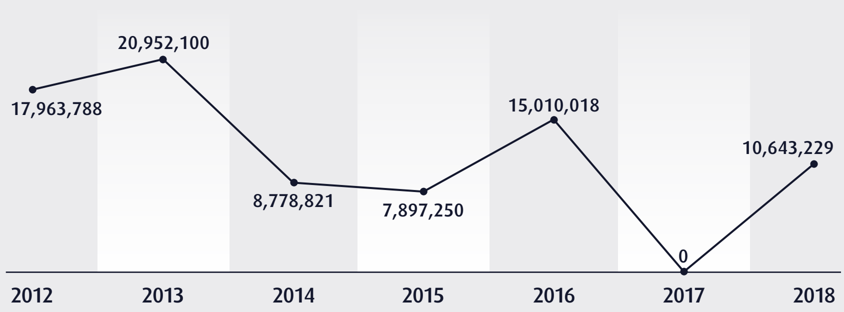
Amount of accrued and paid dividends per share

(USD)



The total amount of accrued and paid dividends

(USD)



	2012	2013	2014	2015	2016	2017	2018
Amount of accrued and paid dividends per share (USD)	1,057	1,232	516	465	883	0	**626**
Previous Year Net Profit (USD '000)	61,260	61,076	51,364	19,453	48,741	(39,865)	**39,318**
Dividend pay-out ratio	30%	35%	20%	50%	50%	–	**30%**

Note: Dividends paid in years stated are allocated for the previous year's performance.

FINANCIAL STATEMENTS

For the year ended 31 December 2018

Contents

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

For the year ended 31 December 2018

Management is responsible for the preparation of the financial statements that present fairly the financial position of JSC Air Astana (the 'Company') as at 31 December 2018, the results of its operations, cash flows and changes in equity for the year then ended in compliance with International Financial Reporting Standards ('IFRS').

In preparing the financial statements, management is responsible for:

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

Management is also responsible for:

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

The financial statements for the year ended 31 December 2018 were authorised for issue on 28 February 2019 by management of the Company.

On behalf of the Company's management:

Peter Foster
President

Ibrahim Canliel
Chief Financial Officer

Azamat Ospanov
VP Financial Accounts,
Chief Accountant

АО
«ЭЙР АСТАНА»

28 February 2019
Almaty
Republic of Kazakhstan

INDEPENDENT AUDITORS' REPORT

To the Shareholders and Board of Directors of JSC Air Astana

Opinion

We have audited the financial statements of JSC Air Astana (the 'Company'), which comprise the statement of financial position as at 31 December 2018, the 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 financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2018, and its financial performance and its 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 Financial Statements* section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code) together with the ethical requirements that are relevant to our audit of the 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 Financial Statements

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

In preparing the financial statements, management is responsible for assessing the Company'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 Company or to cease operations, or has no realistic alternative but to do so.

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

Auditors' responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the 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 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 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 Company'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 Company'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 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 Company to cease to continue as a going concern.

INDEPENDENT AUDITORS' REPORT CONTINUED

To the Shareholders and Board of Directors of JSC Air Astana

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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 МФ0000086 of 27 August 2012

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

Sergey Dementyev
General Director of KPMG Audit LLC
acting on tthe basis of the Charter
28 February 2019

STATEMENT OF PROFIT OR LOSS
for the year ended 31 December 2018
(in thousands of USD)

	Notes	2018	2017[1]
Revenue and other income			
Passenger revenue	5	810,353	718,178
Cargo and mail revenue	5	20,703	19,666
Other revenue	5	9,805	21,215
Gain from sale and leaseback transaction		–	8,478
Total revenue		**840,861**	**767,537**
Operating expenses			
Fuel and oil costs		(231,316)	(183,518)
Handling, landing fees and route charges	6	(112,251)	(103,164)
Passenger service	6	(91,016)	(86,635)
Engineering and maintenance	6	(86,278)	(69,173)
Employee costs	6	(80,014)	(71,103)
Aircraft operating lease costs	6	(71,413)	(61,413)
Selling costs	6	(40,742)	(40,461)
Aircraft crew costs	6	(35,209)	(30,250)
Depreciation and amortisation	11	(25,634)	(27,009)
Property lease cost		(5,596)	(5,029)
Insurance	6	(4,201)	(3,870)
IT and communication costs		(3,646)	(3,633)
Consultancy, legal and professional services		(3,172)	(4,197)
Taxes		(2,519)	(2,403)
Impairment loss on trade receivables		(563)	–
Other operating costs		(10,785)	(12,424)
Total operating costs		**(804,355)**	**(704,282)**
Operating Profit		36,506	**63,255**
Finance income	7	2,934	7,293
Finance costs	7	(10,547)	(11,118)
Foreign exchange gain/loss, net		(16,885)	(10,370)
Profit before tax		**12,008**	**49,060**
Income tax expense	8	(6,656)	(9,742)
Profit for the year		**5,352**	**39,318**
Basic and diluted earnings per share (in USD)	18	**315**	**2,313**

[1] The Company has initially applied IFRS 15 and IFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See note 2.

On behalf of the Company's management:

Peter Foster
President
28 February 2019
Almaty
Republic of Kazakhstan

Ibrahim Canliel
Chief Financial Officer
28 February 2019
Almaty
Republic of Kazakhstan

Azamat Ospanov
VP Financial Accounts, Chief Accountant
28 February 2019
Almaty
Republic of Kazakhstan

The notes on pages 73-114 form an integral part of these financial statements. The independent auditors' report on the financial statements is on pages 65-66.

STATEMENT OF OTHER COMPREHENSIVE INCOME

for the year ended 31 December 2018

(in thousands of USD)

	Notes	2018	2017[1]
Net profit for the period		5,352	**39,318**
Foreign currency translation loss which will never be reclassified to profit or loss in subsequent periods		–	(809)
Other comprehensive loss to be reclassified into profit or loss in subsequent periods:			
Result from cash flow hedging instruments		–	1,179
Income tax related to result from cash flow hedging instruments		–	(236)
Realised net gain from cash flow hedging instruments	23	**10,869**	10,292
Corporate income tax related to gain from cash flow hedging instruments	23	**(2,174)**	(2,058)
Other comprehensive income		8,695	8,368
Total comprehensive income for the year		**14,047**	**47,686**

[1] The Company has initially applied IFRS 15 and IFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See note 2.

The notes on pages 73-114 form an integral part of these financial statements. The independent auditors' report on the financial statements is on pages 65-66.

STATEMENT OF FINANCIAL POSITION

for the year ended 31 December 2018

(in thousands of USD)

	Notes	31 December 2018	31 December 2017[1]
ASSETS			
Non-current assets			
Property, plant and equipment	9	**255,007**	261,754
Intangible assets	10	**2,164**	2,939
Prepayments	14	**14,622**	8,086
Guarantee deposits	12	**19,170**	19,636
Trade and other receivables	15	**4,059**	3,924
		295,022	**296,339**
Current assets			
Inventories	13	**44,965**	38,613
Prepayments	14	**25,166**	29,390
Income tax prepaid		**1,336**	738
Trade and other receivables	15	**26,633**	25,517
Other taxes prepaid	16	**22,665**	18,086
Guarantee deposits	12	**31,839**	34,874
Bank deposits		**–**	5
Cash and bank balances	17	**132,826**	148,181
Other financial assets		**118**	–
		285,548	**295,404**
Total assets		**580,570**	**591,743**
EQUITY AND LIABILITIES			
Equity			
Share capital		**17,000**	17,000
Functional currency transition reserve		**(9,324)**	(9,324)
Reserve on hedging instruments, net of tax		**(62,770)**	(71,465)
Retained earnings		**143,746**	150,552
Total equity	18	**88,652**	**86,763**
Non-current liabilities			
Loans	22	**7,751**	10,519
Finance lease liabilities	23	**241,033**	280,797
Deferred tax liabilities	8	**16,455**	11,021
Provision for aircraft maintenance	20	**38,623**	60,510
		303,862	**362,847**
Current liabilities			
Loans	22	**1,405**	1,630
Finance lease liabilities	23	**40,494**	39,926
Deferred revenue	19	**52,731**	48,434
Provision for aircraft maintenance	20	**48,613**	13,260
Trade and other payables	21	**44,813**	38,883
		188,056	**142,133**
Total liabilities		**491,918**	**504,980**
Total equity and liabilities		**580,570**	**591,743**

[1] The Company has initially applied IFRS 15 and IFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See note 2.

The notes on pages 73-114 form an integral part of these financial statements. The independent auditors' report on the financial statements is on pages 65-66.

STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2018

(in thousands of USD)

	Notes	Share capital	Functional currency transition reserve	Foreign currency translation reserve	Reserve on hedging instruments, net of tax	Retained earnings	Total equity
At 1 January 2017		**17,000**	**–**	**(182,680)**	**(105,868)**	**310,625**	**39,077**
Profit for the year		–	–	–	–	39,318	39,318
Other comprehensive income for the period							
Cash flow hedging instruments, net of tax		–	–	–	943	–	943
Realised loss on cash flow hedging instruments, net of tax		–	–	–	8,234	–	8,234
Translation difference		–	–	(3,476)	2,667	–	(809)
Effect of change in functional currency		–	(9,324)	186,156	22,559	(199,391)	–
Total other comprehensive income		**–**	**(9,324)**	**182,680**	**34,403**	**(199,391)**	**8,368**
Total comprehensive income		**–**	**(9,324)**	**182,680**	**34,403**	**(160,073)**	**47,686**
At 31 December 2017		**17,000**	**(9,324)**	**–**	**(71,465)**	**150,552**	**86,763**
At 1 January 2018							
(as previously reported)		17,000	(9,324)	–	(71,465)	150,552	86,763
Adjustments on initial application of IFRS 9 and IFRS 15		–	–	–	–	(482)	(482)
Balance at 1 January 2018 (adjusted)		**17,000**	**(9,324)**	**–**	**(71,465)**	**150,070**	**86,281**
Profit for the year		–	–	–	–	5,352	5,352
Other comprehensive income for the period							
Realised loss on cash flow hedged instruments, net of tax		–	–	–	8,695	–	8,695
Total other comprehensive income for the period		**–**	**–**	**–**	**8,695**	**5,352**	**14,047**
Dividends declared	18	–	–	–	–	(11,676)	(11,676)
At 31 December 2018		**17,000**	**(9,324)**	**–**	**(62,770)**	**143,746**	**88,652**

[1] The Company has initially applied IFRS 15 and IFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See note 2.

The notes on pages 73-114 form an integral part of these financial statements. The independent auditors' report on the financial statements is on pages 65-66.

STATEMENT OF CASH FLOWS

for the year ended 31 December 2018

(in thousands of USD)

	Notes	2018	2017[1]
OPERATING ACTIVITIES:			
Profit before tax		**12,008**	**49,060**
Adjustments for:			
Depreciation and amortisation of property, plant and equipment and intangible assets	11	**25,634**	27,009
Gain on disposal of property, plant and equipment	5	**(782)**	(9,074)
Accrual/(reversal) of impairment allowance for prepayments and trade and other receivables		**326**	(4,804)
Write-down of obsolete and slow-moving inventories	13	**1,138**	13
Accrual for employee unused vacation		**(1,131)**	216
Accrual of provision for aircraft maintenance	6	**22,745**	19,671
Accrual of loyalty provision		**2,314**	3,642
Foreign exchange loss, net		**16,885**	10,370
Finance income, excluding impairment		**(2,578)**	(2,547)
Finance costs, excluding impairment	7	**10,427**	11,118
Operating cash flow before movements in working capital		**86,986**	**104,674**
Change in trade and other receivables		**(2,181)**	3,748
Change in prepaid expenses		**(1,458)**	(8,183)
Change in inventories		**(7,407)**	2,836
Change in trade and other payables and other current liabilities		**(5,993)**	(7,062)
Change in deferred revenue		**1,798**	6,646
Change in other financial assets		**(451)**	–
Cash generated from operations		**71,294**	**102,659**
Income tax paid		**(5,137)**	(7,540)
Interest received		**2,487**	3,167
Net cash generated from operating activities		**68,644**	**98,286**
INVESTING ACTIVITIES:			
Purchase of property, plant and equipment		**(25,020)**	(27,836)
Proceeds from disposal of property, plant and equipment		**3,246**	7,050
Purchase of intangible assets		**(163)**	(681)
Bank and Guarantee deposits placed		**(53,096)**	(20,662)
Bank and Guarantee deposits withdrawn		**56,038**	113,802
Net cash (used in)/from investing activities		**(18,996)**	**71,673**

[1] The Company has initially applied IFRS 15 and IFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See note 2.

Continued on the next page

STATEMENT OF CASH FLOWS CONTINUED

for the year ended 31 December 2018

(in thousands of USD)

	Notes	2018	2017[1]
FINANCING ACTIVITIES			
Repayment of finance lease	23	**(39,003)**	(40,103)
Interest paid	23	**(10,526)**	(12,507)
Repayment of borrowings	23	**(1,486)**	(1,589)
Dividends paid		**(10,643)**	–
Net cash used in financing activities		**(61,659)**	**(54,199)**
NET (DECREASE)/INCREASE IN CASH AND BANK BALANCES		**(12,011)**	**115,760**
Effect of exchange rate changes on cash and bank balances held in foreign currencies		**(3,346)**	4,634
Effects of movements in ECL on cash and bank balances		**1**	–
CASH AND BANK BALANCES, at the beginning of the year	17	**148,181**	29,987
Foreign currency difference due to translation to presentation currency		**–**	**(2,200)**
CASH AND BANK BALANCES, at the end of the year	17	**132,826**	**148,181**

[1] The Company has initially applied IFRS 15 and IFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See note 2.

The notes on pages 73-114 form an integral part of these financial statements. The independent auditors' report on the financial statements is on pages 65-66.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2018
(in thousands of USD)

1. Nature of activities

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

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

The Company operated its maiden flight on 15 May 2002, a Boeing-737 service from Almaty to Kazakhstan's national capital, Astana. As at 31 December 2018 the Company operated 34 turbojet aircraft, comprising 10 short-haul, 21 mid-haul and 3 long-haul aircraft, of which 10 aircraft are acquired under finance lease and 24 aircraft leased under operating lease (2017: 32 turbojet aircraft, comprising 9 short-haul and 23 mid-haul aircraft, of which 10 aircraft are acquired under finance lease and 22 aircraft leased under operating lease).

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

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

2. Application of new and revised International Financial Reporting Standards

The Company has initially applied IFRS 15 (see (A)) and IFRS 9 (see (B)) from 1 January 2018. A number of other new standards are also effective from 1 January 2018 but they do not have a material effect on the Company's financial statements.

Due to the transition methods chosen by the Company in applying these standards, comparative information throughout these financial statements has not been restated to reflect the requirements of the new standards.

The effect of initially applying these standards is mainly attributed to the following:
- later recognition of revenue from ticket breakage;
- later recognition of revenue from change fees; and
- an increase in impairment losses recognised on financial assets.

A. IFRS 15 Revenue from Contracts with Customers

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaced IAS 18 *Revenue*, IAS 11 *Construction Contracts* and related interpretations. Under IFRS 15, revenue is recognised when a customer obtains control of the goods or services. Determining the timing of the transfer of control – at a point in time or over time – requires judgement.

The Company has adopted IFRS 15 using the cumulative effect method (without practical expedients), with the effect of initially applying this standard recognised at the date of initial application (in other words 1 January 2018). Accordingly, the information presented for 2017 has not been restated – in other words it is presented, as previously reported, under IAS 18, IAS 11, IFRIC 13 and related interpretations. Additionally, the disclosure requirements in IFRS 15 have not generally been applied to comparative information.

The Company has determined that its accounting policies for revenue recognition applied under the previous standards do not differ significantly from those introduced by IFRS 15.

The following table summarises the impact, net of tax, of transition to IFRS 15 on retained earnings:

	Note	Impact of IFRS 15 adopting at 1 January 2018
Retained earnings		
Ticket breakage	(a)	(121)
Change fees	(b)	(64)
		(185)

(in thousands of USD)

2. Application of new and revised International Financial Reporting Standards continued

There was no material impact of adopting IFRS 15 on the Company's statement of financial position as at 31 December 2018 and its statements of profit or loss, other comprehensive income and cash flows for the year ended 31 December 2018.

The details of the new significant accounting policies and the nature of the changes to previous accounting policies in relation to the Company's various services are set out below:

Nature of adjustment	Nature, timing of satisfaction of performance obligations	Nature of change in accounting policy
a. Ticket breakage	Under IFRS 15, the timing of revenue recognition for ticket breakage depends on whether the entity expects to be entitled to a breakage amount – in other words if it is highly probable that recognising breakage will not result in a significant reversal of the cumulative revenue recognised. An entity considers the variable consideration guidance to determine whether – and to what extent – it recognises breakage. It determines the amount of breakage to which it is entitled as the amount for which it is considered highly probable that a significant reversal will not occur in the future. This amount is recognised as revenue in proportion to the pattern of rights exercised by the customer when the entity expects to be entitled to breakage. Otherwise, the entity recognises breakage when the likelihood of the customer exercising its remaining rights becomes remote.	Under IAS 18, a certain estimated portion of revenue for ticket breakage was recognised at ticket sale date based on the Company's breakage statistics. Under IFRS 15 no breakage can be recognised before the scheduled flight date (in other words the actual performance of obligation – transportation services). Since the Company possesses reliable historical statistics on ticket breakage, starting from 1 January 2018 ticket breakage is recognised at the flight date at the amount for which the likelihood of customers exercising its rights is considered remote.
b. Change fees	Under the performance obligation concept a change fee charge should be accounted and posted to revenue once travel happens. Thus, this service is now combined with passenger transportation, as it cannot be distinct from original performance – which is the flight (in other words a customer cannot benefit from the service without taking a flight). Although the change service is provided in advance of the flight, the benefit from it is not provided until a customer takes the flight.	Under IAS 18, change fees were recognised as revenue when a passenger requested a change and paid for the respective fee. Under IFRS 15, apart from the difference in timing of revenue recognition mentioned above, the change in approach leads to a reclassification of this revenue stream from Other revenue to Passenger revenue caption in the Company's statement of profit or loss.

B. IFRS 9 Financial Instruments

IFRS 9 sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 *Financial Instruments: Recognition and Measurement*.

The impact of adopting IFRS 9 on the opening balance due to recognition of expected credit losses is USD 297 thousand.

Classification and measurement of financial assets and financial liabilities

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, Fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. IFRS 9 eliminates the previous IAS 39 categories of held to maturity, loans and receivables and available for sale.

IFRS 9 largely retains the existing requirements in IAS 39 for the classification and measurement of financial liabilities.

The adoption of IFRS 9 has not had a significant effect on the Company's accounting policies related to classification and measurement.

All financial assets of the Company were classified as loans and receivables under IAS 39 and are measured at amortised cost in accordance with IFRS 9 as at 1 January 2018. The differences between IFRS 9 and IAS 39 carrying values amounts of financial assets at 1 January 2018 relate solely to the new impairment requirements, as described further below:

Financial Assets	Original classification under IAS 39	New classification under IFRS 9	Original carrying amount under IAS 39	New carrying amount under IFRS 9
Guarantee deposits	Loans and Receivables	Amortised cost	54,510	54,286
Trade and other receivables	Loans and Receivables	Amortised cost	29,441	29,371
Bank deposits	Loans and Receivables	Amortised cost	5	5
Cash and bank balances	Loans and Receivables	Amortised cost	148,181	148,178
Total financial assets			**232,137**	**231,840**

Impairment – Financial assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' (ECL) model. The new impairment model applies to financial assets measured at amortised cost, contract assets and debt investments at FVOCI, but not to investments in equity instruments. Under IFRS 9, credit losses are recognised earlier than under IAS 39.

For assets in the scope of the IFRS 9 impairment model, impairment losses are generally expected to increase and become more volatile. The Company has determined that the application of IFRS 9's impairment requirements at 1 January 2018 results in an additional impairment allowance as follows:

	Additional impairment recognised at 1 January 2018
Guarantee deposits	224
Trade and other receivables	70
Cash and cash equivalents	3
Gross additional impairment losses	**297**

Trade and other receivables

The estimated ECLs were calculated based on actual credit loss experience over the past two-six years, depending on the portfolio. The Company performed the calculation of ECL rates separately for corporates and individuals. Exposures within each group were segmented based on common credit risk characteristics such as industry – for corporates.

Given the short-term nature of the accounts receivable, actual credit loss experience was not adjusted to reflect differences between economic conditions during the period over which the historical data was collected and current conditions and the Company's view of economic conditions over the expected lives of the trade receivables.

The Company estimated that the application of IFRS 9's impairment requirements at 1 January 2018 results in an increase of USD 70 thousand over the impairment recognised under IAS 39.

Guarantee deposits

The majority of the guarantee deposits are represented by long-term guarantee deposits placed with the lessors of the Company to secure several months of lease payments and/or to cover costs of last shop visit, should the Company declare default. Even though the Company views the default of lessors as a highly unlikely event, the bad debt reserve is still calculated on these amounts in accordance with the requirements of IFRS 9.

Many lessors are rated AA – BB, based on Standard and Poor's ratings as at 31 December 2017. The Company calculated the expected credit loss (ECL) based on the Standard and Poor's default matrixes.

The Company estimated that application of IFRS 9's impairment requirements at 1 January 2018 results in an increase of approximately USD 224 thousand over the impairment recognised under IAS 39.

2. Application of new and revised International Financial Reporting Standards continued

Cash and cash equivalents
Cash and cash equivalents are held with bank and financial institution counterparties, which are rated AA to B, based on Standard and Poor's ratings as at 31 December 2017.

The estimated impairment on cash and cash equivalents was calculated based on the 12-month expected loss basis and reflects the short maturities of the exposures. The Company considers that its cash and cash equivalents have low credit risk based on the external credit ratings of the counterparties.

The Company uses a similar approach for assessment of ECLs for cash and cash equivalents to those used for guarantee deposits.

The Company estimated that the application of IFRS 9's impairment requirements at 1 January 2018 results in an increase of USD 3 thousand over the impairment recognised under IAS 39.

Transition
Changes in accounting policies resulting from the adoption of IFRS 9 have been applied retrospectively, except as described below.

- The Company has used an exemption not to restate comparative information for prior periods with respect to classification and measurement (including impairment) requirements. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognised in retained earnings and reserves as at 1 January 2018.
- The Company has made the assessments on the basis of the facts and circumstances that existed at the date of initial application to determine the business model within which a financial asset is held.

New standards and interpretations not yet adopted
IFRS 16 is effective for annual periods beginning after 1 January 2019 and earlier application is permitted; however, the Company has not early adopted the new or amended standards in preparing these financial statements.

IFRS 16 is expected to have a material impact on the Company's financial statements in the period of initial application.

The Company has assessed the estimated impact that initial application of IFRS 16 will have on its financial statements, as described below. The actual impacts of adopting the standard on 1 January 2019 may change because the new accounting policies are subject to change until the Company presents its first financial statements that include the date of initial application.

IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases and leases of low-value items. Lessor accounting remains similar to the current standard – in other words lessors continue to classify leases as finance or operating leases.

IFRS 16 replaces existing leases guidance, including IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases – Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

(i) Leases in which the Company is a lessee
The Company will recognise new assets and liabilities for its operating leases of aircraft, hangar facilities and other non-production assets. The nature of expenses related to those leases will now change because the Company will recognise a depreciation charge for right-of-use assets and interest expense on lease liabilities.

Previously, the Company recognised operating lease expense on a straight-line basis over the term of the lease, and recognised assets and liabilities only to the extent that there was a timing difference between actual lease payments and the expense recognised.

The Company is planning to adopt the modified retrospective approach, under which the Company recognises lease liabilities at the date of initial application for leases previously classified as operating leases applying the legacy standard. The lease liabilities are measured at the present value of the remaining lease payments, discounted using the Company's incremental borrowing rate at the initial application date. The Company measures right-of-use assets using either of two methods:

(i) For production assets the right-of-use assets are measured as if the standard had always been applied;
(ii) For other assets the right-of-use assets are equal to the amount of related lease liabilities.

The main changes involved by IFRS 16 are the following:

The Company will capitalise aircraft operating lease and operating lease of hangar facilities and other assets contracts based on the new leasing model defined by IFRS 16. The lease term corresponds to the non-cancellable period of each contract, as the Company does not have any extension options of operating lease contracts. The discount rate used to value the lease debt corresponds, for each aircraft, to the Company's incremental borrowing rate, which for the purpose of the standard was based on banks' indicative offers.

The Company applies the practical expedient offered by IFRS 16 that exempts lessees from applying the on-balance sheet lease accounting model to leases for which the lease term ends within 12 months of the date of initial application. In addition, the Company intends to apply another practical expedient to be exempt from recording on the balance its short-term leases.

The estimated effect from adoption of IFRS 16 is as follows:

	31 December 2018	IFRS 16 impact	Adjusted balance 1 January 2019
Property, plant and equipment	255,007	165,000	420,007
Lease liabilities (including the currently recognised finance lease liabilities)	281,527	195,000	476,527
Retained earnings	143,746	(23,000)	120,746
Deferred tax liabilities	16,455	(7,000)	9,455

The adjusted balance of right of use assets at 1 January 2019 would comprise USD 364,000 thousand including the currently recognised aircraft under finance lease of USD 199,000 thousand.

The Company is still assessing the impact from IFRS 16 on the contractual obligations to perform aircraft repair included into some of its aircraft lease agreements.

3. Significant accounting policies

Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRSs').

This is the first set of the Company's annual financial statements in which IFRS 15 Revenue from Contracts with Customers and IFRS 9 Financial Instruments have been applied. Changes to significant accounting policies are described in Note 2.

Basis of preparation

The financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair values, as explained in the accounting policies below. Historical cost is generally based on the fair value of the consideration given in exchange for assets on the date of acquisition.

The Company discloses other comprehensive income separately from its statement of profit or loss.

The principal accounting policies set out below have been applied consistently to all periods presented in these financial statements.

Functional and presentation currency

The national currency of Kazakhstan is the Kazakhstani tenge ('tenge'), which 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, and was the functional currency of the primary environment economic environment in which the Company operated.

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.

3. Significant accounting policies continued

Functional and presentation currency continued
The US Dollar is used to a significant extent in, or has a significant impact on, the operations of the Company, its revenues and operating expenditures including aircraft leasing. Also there is recognition in the statement of financial position of the purchase of aircraft in US Dollars with the related US Dollar funding liabilities. The above reflect the economic substance of the underlying events and circumstances relevant to the Company. Therefore, the Company started, from the transition date, using the US Dollar prospectively, as its functional currency, under which all currencies other than the functional currency will be treated as foreign currencies.

Since before 31 December 2017 the Company's functional currency was the tenge, the financial results and financial position of the Company were translated to the new functional currency using the following procedures:

a) assets and liabilities were translated at the closing rate as at 31 December 2017;
b) income and expenses for the reporting period were translated at the average exchange rate during the year ended 31 December 2017;
c) movements in the reserve on hedging instruments were translated at the average exchange rate during the year ended 31 December 2017;
d) all resulting exchange differences were recognised as foreign currency translation reserve within other comprehensive income up to 31 December 2017,
e) on transition to the US Dollar functional currency on 31 December 2017, the outstanding balance of the foreign currency translation reserve of USD 185,156 thousand was then fully transferred to retained earnings on 31 December 2017;
f) share capital continued to be translated at the historical rate as at the date of issuance of shares, the difference between the historical rate and the closing rate as at 31 December 2017 was recognised as functional currency transition reserve on share capital within equity;
g) other equity items were translated at the closing rate as at 31 December 2017, all resulting exchange differences were transferred to retained earnings on 31 December 2017;

As requested by Shareholders, the Company prepares two sets of financial statements with presentation currency US Dollar ('USD') and Kazakhstani tenge as Shareholders believe that both currencies are useful for the users of the Company's financial statements. These financial statements have been presented in USD for the year ended 31 December 2018, and also reflect changes to a USD functional currency, which took place on 31 December 2017. All financial information presented in USD has been rounded to the nearest thousand.

Revenue

Passenger revenue
The Company satisfies the performance obligations related to ticket sold and reports the sales as revenue when the transportation service performance obligation has been provided. The value of tickets sold and still valid but not used by the reporting date is reported as deferred (unearned) transportation revenue. This item is reduced either when the Company satisfies the performance obligation by completing the transportation service or when the passenger requests a refund. Based on historical data of previous years, the Company recognises 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 Company conducts sales through agents that act as intermediaries distributing tickets among customers. In average, accounts receivables are collected within a month from origination. The Company'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 Company sells seats on these airlines' flights and those other airlines sell seats on the Company's flights. Revenue from the sale of code-share seats on other airlines are recorded net in the Company's passenger revenue in profit or loss, since the Company acts as an agent in these agreements. The revenue from other airlines' sale of code-share seats on the Company'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 Company is exposed to changes in the actual costs, and these costs are assessed by Company based on the volume of its operations, such that the Company acts as a principal in the transactions, not as an agent.

Cargo revenue
Cargo transport services are recognised as revenue when the Company 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.

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 amortisation period of the asset that the Company otherwise would have recognised is less than a year.

Segment reporting
The Company is managed as one operating segment, being its route network, based on how financial information is produced internally for the purposes of making operating decisions. The operating segment is reported in a manner consistent with the internal reporting provided to the chief operating decision maker, being the executive management board. Resource allocation decisions across the network as a whole are made to optimise the Company's financial results.

Revenue is allocated to geographic segments based on flight destination.

Leasing
Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Company as lessee
Assets held under finance leases are initially recognised as assets of the Company at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance costs are recognised immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Company's general policy on borrowing costs. Contingent rentals are recognised as expenses in the periods in which they are incurred.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Operating leases for aircraft include both fixed and variable lease payments, of which the latter vary according to flying hours and cycles. Lease payments are recognised as expenses in the periods in which they are incurred. Some of operating lease payments (subject to certain conditions) are replaced by Letter of Credit as security for Lessors to cover any unfulfilled maintenance liabilities on the return of the aircraft. In the event that incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives received is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Guarantee deposits
Guarantee deposits represent amounts paid to the lessors of aircraft, which are held as security deposits by the lessors in accordance with the provisions of operating lease agreements. These deposits are returned to the Company at the end of the lease period. Lease deposits relating to the operating lease agreements are presented as assets in the statement of financial position. These deposits are interest-free and are recorded at amortised cost using an average market yield of 2.25% per annum (2017: 2.25%). At initial recognition the Company 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.

(in thousands of USD)

3. Significant accounting policies continued

Foreign currencies

In preparing the financial statements, transactions in currencies other than the Company's functional currency (foreign currencies) are recorded at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured at historical cost in a foreign currency are not retranslated.

The following table summarises US Dollar exchange rates at 31 December 2018 and 31 December 2017 and for the years then ended:

	Average rate		Reporting date spot-rate	
	2018	2017	31 December 2018	31 December 2017
1,000 Tenge (KZT)	**2.90**	3.06	**2.60**	3.00
1 Euro (EUR)	**1.18**	1.12	**1.14**	1.19
1 British Pound (GBP)	**1.33**	1.28	**1.27**	1.35

The following table summarises KZT exchange rates at 31 December 2018:

	Average rate		Reporting date spot-rate	
	2018	2017	31 December 2018	31 December 2017
1 US Dollar (USD)	**344.71**	326.00	**384.20**	332.33
1 Euro (EUR)	**406.66**	368.52	**439.37**	398.23
1 British Pound (GBP)	**459.49**	420.12	**488.13**	448.61

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 Company and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the carrying value and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Finance costs comprise interest expense, bank commissions, losses on financial instruments through profit and loss and other. Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until 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 Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax. The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the profit or loss because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the reporting date.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be realised. Such assets and liabilities are not recognised if the temporary difference arises in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset recognised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the reporting date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

Current and deferred taxes are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred taxes are also recognised in other comprehensive income or directly in equity, respectively.

Property, plant and equipment

Property, plant and equipment held for use in the supply of services, or for administrative purposes, are stated in the statement of financial position at cost less accumulated depreciation and impairment losses.

The financial interest attributed to pre-delivery payments made on account of aircraft and other significant assets under construction is capitalised and added to the cost of the asset concerned.

Maintenance costs are recorded as expenses during the period when incurred, with the exception of programs that extend the useful life of the asset or increase its value, which are then capitalised (for example 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 Company 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 recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Company and its cost can be measured reliably. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

3. Significant accounting policies continued

Property, plant and equipment continued

Other property, plant and equipment

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

Depreciation

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment.

The estimated useful lives for the current and comparative periods are as follows:

› Buildings and premises	14-50 years
› Aircraft (excluding separate asset components)	25 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 Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

Contingent liabilities and contingent assets

Contingent liabilities are not recognised in the financial statements. They are disclosed in the notes to the financial statements, unless the possibility of an outflow of resources embodying economic benefits is remote.

Contingent assets are not recognised in the financial statements. Where an inflow of economic benefits is probable, they are disclosed in the notes to the financial statements.

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 realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

Expenditures incurred in acquiring the inventories such as customs duties, freight and broker's services are accumulated into a separate inventory account and allocated depending on use of relevant inventory.

Provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that the Company will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Provision for aircraft maintenance under operating lease

The Company is obligated to perform regular scheduled maintenance of aircraft under the terms of its operating lease agreements and regulatory requirements relating to air safety. The lease agreements also require the Company to return aircraft to lessors in a satisfactory condition at the end of the lease term, which may require the performance of final return conditions. The Company's scheduled aircraft maintenance programs carried out through the lease periods are designed to reduce the incidence of final return costs. Major aircraft maintenance relates to airframes (referred to as the C-check, D-check and redelivery preparation program) and engines. The C-check is heavy maintenance with approved performance interval. It takes place the earliest to 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 operating lease agreements include a component of variable lease payments which is generally reimbursable to the Company by lessors as a contribution to engine maintenance costs after they are incurred.

The variable lease payments are recognised as an expense in profit or loss as incurred. In the case of other operating lease agreements variable lease payments are replaced (subject to certain conditions) by Letters of Credit as security for Lessors to cover any unfulfilled maintenance liabilities on the return of the aircraft, and amounts corresponding to the applicable variable lease amounts are included in provisions.
For C-check maintenance, a provision is recorded on a progressive basis based upon the Company's estimate of future maintenance costs.
For engine maintenance, a provision is recorded on a progressive basis based upon the Company's estimate of the excess of maintenance costs over the amount reimbursable by the lessors. The Company's aircraft maintenance liabilities are due in US Dollars.

3. Significant accounting policies continued

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 Company 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 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 – Policy applicable from 1 January 2018

On initial recognition, a financial asset is classified as measured at: amortised cost; FVOCI – debt investment; FVOCI – equity investment; or FVTPL.

Financial assets are not reclassified subsequent to their initial recognition unless the Company 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 Company 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 Company 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: Policy applicable from 1 January 2018

The Company 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 Company'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 – for example 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 Company'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.

Financial assets – Assessment whether contractual cash flows are solely payments of principal and interest: Policy applicable from 1 January 2018

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 (for example 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 Company 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 Company 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 Company's claim to cash flows from specified assets (for example 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: Policy applicable from 1 January 2018

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 assets – Policy applicable before 1 January 2018

The Company classified its financial assets into one of the following categories:

- accounts receivables;
- guarantee deposits;
- cash and cash equivalents;
- deposits in banks.

All the categories above were measured at amortised cost.

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.

3. Significant accounting policies continued

Modification of financial assets and financial liabilities

Financial assets

If the terms of a financial asset are modified, the Company 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 Company performs a quantitative and qualitative evaluation of whether the modification is substantial, in other words whether the cash flows of the original financial asset and the modified or replaced financial asset are substantially different. The Company 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 deemed to have expired. In making this evaluation the Company analogises to the guidance on the derecognition of financial liabilities.

The Company 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 Company 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 Company 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 Company applies 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, in other words the Company 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, for example changes in fixed interest rates initiated by banks due to changes in the LIBOR, NBRK and other key rates. The Company 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 Company 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 Company concludes that the modification is substantial as a result of the following qualitative factors:

- change 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% 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.

Derecognition

Financial assets

The Company 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 Company neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

The Company enters into transactions whereby it transfers assets recognised in its 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 Company derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire. The Company 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 statement of financial position when, and only when, the Company 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

Policy applicable from 1 January 2018

The Company recognises loss allowances for ECLs on:

- financial assets measured at amortised cost;
- debt investments measured at FVOCI.

The Company 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 (in other words 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 Company 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 Company's historical experience and informed credit assessment and including forward-looking information.

The Company 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.

3. Significant accounting policies continued

Impairment of financial assets continued

The Company considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Company in full, without recourse by the Company to actions such as realising security (if any is held);
- or the financial asset is more than 90 days past due.

The Company 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 Company 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 Company 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 (in other words the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Company expects to receive).

ECLs are discounted at the effective interest rate of the financial asset.

Credit-impaired financial assets

At each reporting date, the Company 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 Company on terms that the Company 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 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 Company has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. The Company makes an assessment with respect to the timing and amount of write-off based on whether there is a reasonable expectation of recovery. The Company expects no significant recovery from the amount written off.

Non-derivative financial assets

Financial assets not classified as at FVTPL were assessed at each reporting date to determine whether there was objective evidence of impairment.

Objective evidence that financial assets were impaired included:

- default or delinquency by a debtor;
- restructuring of an amount due to the Company on terms that the Company would not consider otherwise;
- indications that a debtor or issuer would enter bankruptcy;

- adverse changes in the payment status of borrowers or issuers;
- the disappearance of an active market for a security because of financial difficulties; or
- observable data indicating that there was a measurable decrease in the expected cash flows from a group of financial assets.

The Company considered evidence of impairment for these assets at both an individual asset and a collective level. All individually significant assets were individually assessed for impairment.

For certain categories of financial assets, such as trade receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Company's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 45 days, as well as observable changes in national economic conditions that correlate with default on receivables.

An impairment loss was calculated as the difference between an asset's carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses were recognised in profit or loss and reflected in an allowance account. When the Company considered that there were no realistic prospects of recovery of the asset, the relevant amounts were written off. If the amount of impairment loss subsequently decreased and the decrease was related objectively to an event occurring after the impairment was recognised, then the previously recognised impairment loss was reversed through profit or loss.

4. 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 Company'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 20).

Recoverability of variable lease payments related to future maintenance

Under the operating lease agreements for its aircraft, the Company makes variable lease payments to lessors which are based upon the flight hours of engines, limited life parts of engines, auxiliary power units and major airframe checks. Such amounts are 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 Company's maintenance programme agreed with the Kazakhstan Civil Aviation Committee ('CAC').

Recoverability of variable lease payments related to future maintenance

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 transferrable to the next lessees of the aircraft. Management of the Company believes that as at 31 December 2018 contributions of variable lease payments of USD 89,391 thousand (2017: USD 87,421 thousand) are subject to reimbursement by the aircraft lessors upon actual maintenance events. Management regularly assesses the recoverability of variable lease payments made by the Company. Unanticipated maintenance costs are expensed in profit or loss as incurred.

Compliance with tax legislation

Tax, currency and customs legislation of Kazakhstan are subject to frequent changes and varying interpretations. Management's interpretation of such legislation in applying it to business transactions of the Company may be challenged by the relevant regional authorities enabled by law to impose fines and penalties. It is possible that the tax treatment of transactions that have not been challenged in the past may be challenged. Fiscal periods remain open to review by the tax authorities in respect of taxes for the five calendar years preceding the year of tax review.

Under certain circumstances reviews may cover longer periods. While the Company believes it has provided adequately for all tax liabilities based on its understanding of the tax legislation, the above facts may create additional financial risks for the Company.

4. Critical accounting judgments and key sources of estimation uncertainty continued

Determination of the functional currency

As disclosed in Note 3, 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 Company at the reporting date. At each reporting date management of the Company reassesses factors that may affect the determination of the functional currency based on circumstances at reporting date. A significant judgment is required from management to make analysis of primary economic environment including the pricing policy, structure of revenues from international and domestic routes, costs structure as well as continued development in strategy of the Company for further development of international routes. Future circumstances, therefore, may be different and may result in different conclusion.

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 Company accrues allowances for impairment of accounts receivable. The Company calculated the probability of default of accounts receivables 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 2018 and 2017, allowances for doubtful accounts were equal to USD 1,772 thousand and USD 1,504 thousand, respectively (Notes 14, 15).

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 Company 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 Company considers 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 risks significantly decreases for those assets which previously have been classified in Stage 2, the Company performs 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 2018 impairment allowances were equal to USD 47,203 thousand as disclosed in Note 15 (31 December 2017: USD 49,036 thousand).

The Company 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 2018, the Company recognised a write-down for obsolete and slow-moving inventories in the amount of USD 1,693 thousand (2017: USD 555 thousand) (Note 13).

Customer program

The Company's Nomad Club Loyalty programme is an incentive programme 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 programme 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 value are considered as from standalone selling price based on weighted average of redeemed air travels 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.

5. Revenue and other income

The effect of initially applying IFRS 15 on the Company's revenue from contracts with customers is described in Note 2. Due to the transition method chosen in applying IFRS 15, comparative information has not been restated to reflect the new requirements.

Passenger revenue	2018	2017
Passenger transport	657,812	598,265
Fuel surcharge	102,571	74,942
Airport services	44,600	40,315
Excess baggage	5,370	4,656
	810,353	**718,178**

Cargo and mail revenue	2018	2017
Cargo	18,781	17,964
Mail	1,922	1,702
Cargo and mail revenue	**20,703**	**19,666**

Other revenue	2018	2017
Incidental revenue	6,129	1,826
Income from ground services	919	1,120
Advertising revenue	790	2,012
Gain on disposal of property, plant and equipment and other assets	782	789
Penalties on agency contracts	477	8,492
Sales of fuel	354	4,545
Warranty returns	33	1,164
Other	321	1,267
	9,805	**21,215**

Penalties on change fees and revenue from chargeable seats according to IFRS 15 have been reclassified from other revenue to passenger revenue from 1 January 2018.

At 31 December 2018 passenger, cargo and mail revenue, representing total revenue from contracts with customers, were generated from the following destinations:

	2018	2017
Domestic	222,626	206,071
CIS	214,585	157,679
Asia	208,842	212,708
Europe	185,003	161,386
Total revenue from passenger and cargo	**831,056**	**737,844**

There was no revenue from transactions with a single customer amounting to 10% or more of the total revenue during the year ended 31 December 2018 (2017: nil).

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2018

(in thousands of USD)

6. Operating expenses

Handling, landing fees and route charges	2018	2017
Aero navigation	47,027	43,550
Handling charge	39,548	34,030
Landing fees	23,886	23,914
Meteorological services	228	162
Other	1,562	1,508
	112,251	**103,164**

Passenger service	2018	2017
Airport charges	46,105	41,676
Catering	26,069	27,709
In-flight entertainment	5,348	5,127
Security	4,348	3,950
Other	9,146	8,173
	91,016	**86,635**

Engineering and maintenance	2018	2017
Maintenance – variable lease payments	31,757	30,952
Maintenance – provisions (Note 20)	22,745	19,671
Maintenance – components	17,771	5,489
Spare parts	11,547	11,011
Technical inspection	2,458	2,050
	86,278	**69,173**

Employee costs	2018	2017
Wages and salaries of operations personnel	51,337	45,038
Wages and salaries of administrative personnel	12,946	10,956
Social tax	7,686	7,268
Wages and salaries of sales personnel	4,297	3,849
Other	3,748	3,992
	80,014	**71,103**

	2018	2017
The average number of employees	**5,202**	**4,934**

Aircraft operating lease costs	2018	2017
Fixed lease charges of aircraft and engine	66,478	59,862
Leased engine on wing costs	2,199	–
Operating lease return costs	1,487	346
Ad-hoc lease of engines and rotable spare parts	1,249	1,205
	71,413	**61,413**

Selling costs	2018	2017
Reservation costs	21,086	19,965
Commissions	11,455	10,917
Advertising	7,289	8,617
Interline comissions	500	520
Other	412	442
	40,742	**40,461**

Aircraft crew costs	2018	2017
Accommodation and allowances	15,078	14,419
Contract crew	13,558	9,530
Training	6,573	6,301
	35,209	**30,250**

Insurance	2018	2017
Hull insurance	1,650	1,514
Legal liability insurance	1,598	1,373
Medical insurance	704	699
Other	249	284
	4,201	**3,870**

7. Finance income and costs

Finance income	2018	2017
Interest income on bank deposits	2,516	1,587
Reversal of impairment allowance on financial assets	356	4,746
Unwinding of discount on Ab-initio pilot trainees receivables	29	144
Other	33	745
	2,934	**7,293**

Finance costs	2018	2017
Interest expense on finance lease	9,139	11,118
Interest expense on bank loans	955	–
Financial assets and liabilities held at fair value through profit or loss	333	–
Impairment allowance on financial assets	120	–
	10,547	**11,118**

(in thousands of USD)

8. Income tax expense

The Company's income tax expense for the years ended 31 December was as follows:

	2018	2017
Income tax	3,397	7,589
Deferred income tax expense	3,259	2,153
	6,656	**9,742**

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The tax effect on the major temporary differences that give rise to the deferred income tax assets and liabilities as at 31 December 2018 and 2017 is presented in the table below:

Deferred tax assets	2018	2017
Provision for aircraft maintenance	17,273	14,754
Trade and other payables	3,473	2,520
Carried forward corporate income tax losses	–	1,058
Total deferred tax assets	**20,746**	**18,332**
Deferred tax liabilities		
Difference in depreciable value of property, plant and equipment	(35,450)	(29,213)
Inventories	(1,106)	–
Prepaid expenses	(465)	(13)
Intangible assets	(180)	(127)
Total	**(37,201)**	**(29,353)**
Net deferred tax liabilities	**(16,455)**	**(11,021)**

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 utilised in the year of origination the tax code permits an entity to carry forward the accumulated tax losses for the next 9 years.

Movements in deferred tax assets and liabilities presented above were recorded in profit or loss accounts, except for USD 2,174 thousand related to carried forward corporate income tax losses, which were recognised in equity relating to realised portion of deferred tax on cash flows hedge. (2017: USD 2,294 thousand).

The income tax rate in the Republic of Kazakhstan, where the Company is located, in 2018 and 2017 was 20%. The taxation charge for the year is different from that which would be obtained by applying the statutory income tax rate to profit before income tax. Below is a reconciliation of theoretical income tax at 20% (2017: 20%) to the actual income tax expense recorded in the Company's statement of profit or loss and other comprehensive income:

	2018	2017
Profit before tax	12,008	49,060
CIT %	20%	20%
Income tax at statutory rate	2,402	9,812
USD forex effect	3,393	–
Tax effect of non-deductible income	(280)	(949)
Tax effect of non-deductible expenses	1,141	879
	6,656	**9,742**

9. Property, plant and equipment

	Rotable spare parts	Office equipment and furniture	Building, premises and land	Vehicles	Aircraft under finance lease	Equipment in transit and construction in progress	Total
Cost							
At 31 December 2016	**42,303**	**5,679**	**3,241**	**2,424**	**296,915**	**17,656**	**368,218**
Additions	11,117	951	302	1,364	12,429	4,189	30,352
Disposals	(3,804)	(286)	(117)	(247)	(21,041)	(1,213)	(26,708)
Foreign currency translation difference	4	4	6	(14)	1,021	(7)	1,014
Transfers to inventory	(1,041)	–	–	–	–	–	(1,041)
At 31 December 2017	**48,579**	**6,348**	**3,432**	**3,527**	**289,324**	**20,625**	**371,835**
Additions	8,290	820	1,357	373	8,983	673	20,496
Disposals	(2,627)	(160)	(170)	(129)	(6,323)	–	(9,409)
Transfers to inventory	(83)	–	–	–	–	–	(83)
Transfers	507	5	19,065	(707)	398	(19,268)	–
At 31 December 2018	**54,666**	**7,013**	**23,684**	**3,064**	**292,382**	**2,030**	**382,839**
Accumulated depreciation							
At 31 December 2016	**17,346**	**4,092**	**1,199**	**1,221**	**73,140**	**–**	**96,998**
Charge for the year	6,113	600	375	331	18,686	–	26,105
Disposals	(3,272)	(272)	(112)	(230)	(9,168)	–	(13,054)
Foreign currency translation difference	(4)	5	–	1	30	–	32
At 31 December 2017	**20,183**	**4,425**	**1,462**	**1,323**	**82,688**	**–**	**110,081**
Charge for the year	6,193	693	553	257	17,000	–	24,696
Disposals	(470)	(151)	(170)	(113)	(6,041)	–	(6,945)
At 31 December 2018	**25,906**	**4,967**	**1,845**	**1,467**	**93,647**	**–**	**127,832**
Net book value							
At 31 December 2017	**28,396**	**1,923**	**1,970**	**2,204**	**206,636**	**20,625**	**261,754**
At 31 December 2018	**28,760**	**2,046**	**21,839**	**1,597**	**198,735**	**2,030**	**255,007**

In determining the Company's geographical information, assets, which consist principally of aircraft (including 24 held under operating leases) and ground equipment are mainly registered/located 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 Company's obligations under finance leases are secured by the lessors's title to the leased assets which have carrying amount of USD 198,735 thousand (2017: USD 206,636 thousand) (Note 23).

The Company's obligations under the bank loan are secured by property with a carrying amount of USD 19,999 thousand (Note 22).

(in thousands of USD)

9. Property, plant and equipment continued

For the year ended 31 December 2018 USD 224 thousand of interest relating to the EBRD loan was capitalised into property, plant and equipment (2017: USD 2,525 thousand) (Note 23).

Having reviewed its operational plans and taken into account airline industry practice with respect to aircraft service lives, the Company decided to revise its estimate of the useful economic life of aircraft from 20 to 25 years, with effect from 1 October 2016. This change leads to decrease in annual depreciation of USD 2,809 in 2017 and going forward.

In 2018, the Company reconsidered useful lives of two deferred maintenance components: engine performance restoration and limited life part overhauls. As a result of the useful lives extension the depreciation expense for 2018 decreased by USD 972 thousand.

10. Intangible assets

Cost	**6,648**
At 1 January 2017	**6,648**
Additions	681
Foreign currency translation difference	7
At 31 December 2017	**7,336**
Additions	163
At 31 December 2018	**7,499**
Accumulated amortisation	
At 1 January 2017	**3,501**
Charge for the year	904
Foreign currency translation difference	(8)
At 31 December 2017	**4,397**
Charge for the year	938
At 31 December 2018	**5,335**
Net book value	
At 31 December 2017	**2,939**
At 31 December 2018	**2,164**

11. Depreciation and amortisation

	2018	2017
Depreciation of property, plant and equipment (Note 9)	24,696	26,105
Amortisation of intangible assets (Note 10)	938	904
	25,634	**27,009**

12. Guarantee deposits

	31 December 2018	31 December 2017
Non-current assets		
Guarantee deposits for leased aircraft	17,267	17,922
Other guarantee deposits	2,209	1,714
Impairment allowances	(306)	–
	19,170	**19,636**
Current assets		
Guarantee deposits to secure Letters of Credit for maintenance liabilities	28,564	32,871
Guarantee deposits for leased aircraft	1,854	757
Other guarantee deposits	1,460	1,246
Impairment allowances	(39)	–
	31,839	**34,874**
	51,009	**54,510**

Guarantee deposits for leased aircraft comprise security deposits required by the lease agreements as security for future lease payments to be made by the Company. Guarantee deposits are denominated primarily in US Dollars.

The Company 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 credited rating by the international rating agencies, the Company calculates the expected credit loss based on the assumption that the lessors are rated at CCC by S&P.

Guarantee deposits for leased aircraft and maintenance liabilities are receivable as follows:

	31 December 2018	31 December 2017
Within one year	30,418	33,629
After one year but not more than five years	2,112	7,275
More than five years	15,184	10,703
	47,714	**51,607**
Fair value adjustment	(29)	(57)
	47,685	**51,550**

(in thousands of USD)

13. Inventories

	31 December 2018	31 December 2017
Spare parts	28,150	23,547
Fuel	7,563	5,499
Crockery	3,388	2,414
Goods in transit	2,001	3,007
Promotional materials	1,484	1,544
Uniforms	1,237	1,151
De-icing liquid	509	494
Blank forms	199	229
Other	2,127	1,283
	46,658	**39,168**
Less: cumulative write-down for obsolete and slow-moving inventories	(1,693)	(555)
	44,965	**38,613**

The movements in the cumulative write-down for obsolete and slow-moving inventories were as follows for the years ended 31 December:

	2018	2017
Cumulative write-down for obsolete and slow-moving inventories at the beginning of the year	**(555)**	**(540)**
Write-down for the year	(1,166)	(54)
Reversal of previous write-down for the year	28	41
Foreign currency translation	–	(2)
Cumulative write-down for obsolete and slow-moving inventories at the end of the year	**(1,693)**	**(555)**

14. Prepayments

	31 December 2018	31 December 2017
Non-current		
Prepayments for long-term assets	8,242	1,572
Advances for services	6,412	6,514
	14,654	**8,086**
Impairment allowances	(32)	–
	14,622	**8,086**
Current		
Advances for services	13,084	14,591
Prepayments for finance lease	5,361	5,483
Prepayments of operating leases	3,794	2,856
Advances for goods	3,304	6,871
	25,543	**29,801**
Impairment allowances	(377)	(411)
	25,166	**29,390**

As at 31 December 2018 prepayments for long-term assets include prepayments to Boeing as pre-delivery payment for three aircraft (Note 26).

The movements in the impairment allowance for the years ended 31 December were:

	2018	2017
At the beginning of the year	**(411)**	**(417)**
Reversed during the year	–	8
Written-off against previously created allowance	2	–
Allowance for doubtful debt at the end of the year	**(409)**	**(411)**

15. Trade and other receivables

	31 December 2018	31 December 2017
Non-current		
Due from employees and Ab-initio pilot trainees	2,224	2,040
Other financial assets	49,038	50,920
	51,262	**52,960**
Impairment allowances	(47,203)	(49,036)
	4,059	**3,924**
Current		
Trade receivables	24,431	17,571
Receivable from lessors – variable lease reimbursement	2,908	8,116
Due from employees and Ab-initio pilot trainees	848	923
	28,187	**26,610**
Impairment allowances	(1,554)	(1,093)
	26,633	**25,517**

In 2016, due to the significant credit quality deterioration of KazInvestBank JSC and Delta Bank JSC followed by the revocation of the banking licenses, management reclassified the deposits held with these banks in the amounts USD 14,234 thousand and USD 44,785 thousand, accordingly, 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.

In 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.

In July-November 2017 the Company collected USD 4,376 thousand in cash through enforcement proceedings against Delta Bank JSC.

On 24 January 2018 the court's decision on the forced liquidation of KazInvestBank JSC came into effect. The liquidation commission transferred USD 180 thousand to the Company in lieu of partial repayment of the eighth line creditors' claim which corresponds to 1.48% of the Company's claim to Kazinvestbank JSC. The compensation of the remaining claim will depend on the actions of the liquidation commission.

On 13 February 2018 the court decided on the forced liquidation of Delta Bank JSC, the decision became effective on 25 April 2018. The liquidation commission recognised the Company's claims in the amount of KZT 1,059,940,954 and USD 27,718 thousand and included it in the eighth queue of the register of creditors' claims. The compensation of the claim will depend on the actions of the liquidation commission.

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.

(in thousands of USD)

15. Trade and other receivables continued

In general, 50% of the cost of training new pilots related to the Ab-initio pilot are borne by the pilot trainees but are funded by the Company through the provision of interest free loans to participants of the program. 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 the Company has a right to oblige these expenses to become payable by the pilot trainees should such pilot trainee terminate his/her employment.

However, in December 2015, within the employee incentive scheme, the management offered a new repayment option to Ab-initio pilot programme trainees. Under this option, the obligations to repay training costs have been cancelled with the total amount only becoming due if they leave the Company. Amounts due from those cadets who selected the option were reclassified to deferred expenses and are amortised using the straight line method over the remaining amortisation term.

At 31 December 2018, eight debtors including IATA Bank Settlement Plans (BSPs) as collecting agencies from the worldwide travel agencies comprised 51% of the Company's trade and other receivables (at 31 December 2017: eight debtors comprised 45%).

The Company's net trade and other receivables are denominated in the following currencies as at 31 December:

	2018	2017
Tenge	15,247	12,754
US Dollar	6,652	8,391
Euro	2,291	2,444
Russian Rouble	1,004	1,209
Other	5,498	4,643
	30,692	**29,441**

The movements in impairment allowance for the years ended 31 December were:

	2018	2017
At the beginning of the year	**(50,129)**	**(54,818)**
Opening balance adjustments due to application of IFRS 9	(70)	–
Allowance for doubtful debts at the beginning of the year	**(50,199)**	**(54,818)**
Reversed during the year	587	4,785
Accrued during the year	(1,097)	(405)
Unwinding of discount	261	416
Written-off against previously created allowance	123	–
Foreign currency difference	1,568	–
Foreign currency translation differences	–	(107)
At the end of the year	**(48,757)**	**(50,129)**

16. Other taxes prepaid

	31 December 2018	31 December 2017
Value added tax recoverable	22,000	17,411
Prepayment for environment tax	1	1
Other taxes prepaid	664	674
	22,665	**18,086**

Value added tax recoverable is recognised within current assets as the Company annually plans to recover these amounts within the next year.

17. Cash and bank balances

	31 December 2018	31 December 2017
Current accounts with foreign banks	**84,724**	85,806
Term deposits with local banks with an initial maturity of less than 3 months	**38,067**	20,046
Current accounts with local banks	**9,879**	42,204
Cash in hand	**107**	103
Accrued interest	**51**	22
	132,828	**148,181**
Impairment allowances	**(2)**	–
	132,826	**148,181**

Cash and bank balances are denominated in the following currencies as at 31 December:

	2018	2017
US Dollar	**127,869**	141,649
Indian Rupee	**1,319**	3,208
Euro	**906**	571
Russian Rouble	**708**	283
Chinese Yuan	**424**	69
Tenge	**310**	1,438
British Pound	**280**	122
Uzbek Som	**83**	125
Other	**927**	716
	132,826	**148,181**

18. Equity

As at 31 December 2018 and 2017, 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 Company.

In accordance with Kazakhstan legislation the Company's distributable reserves are limited to the balance of retained earnings as recorded in the Company's statutory financial statements prepared in accordance with IFRS. A distribution cannot be made when equity is negative or if distribution would result in negative equity or the Company's insolvency.

As at 31 December 2018 the Company had retained earnings, including the profit for the current year, of USD 143,746 thousand (2017: USD 150,552 thousand).

In May 2018, based on the decision of the Annual General Meeting of Shareholders, the Company declared a dividend payment equivalent to 30% of the net profit of the Company for 2017. The total amount of the dividend was 3,845,505 thousand tenge (USD 11,676 thousand equivalent as of announcement date), which was distributed and paid in accordance with their shareholdings.

Dividends per share in 2017 were 226 thousand tenge or USD 0.69 thousand equivalent as of announcement date (2016: nil).

(in thousands of USD)

18. Equity continued

The calculation of basic earnings per share is based on profit for the year and the weighted average number of ordinary shares outstanding during the year of 17,000 shares (2017: 17,000 shares). The Company has no instruments with potential dilutive effect.

Profit	2018	2017
Profit after tax	5,352	39,318
Number of ordinary shares	17,000	17,000
Earnings per share – basic and diluted (USD)	**315**	**2,313**

19. Deferred revenue

	31 December 2018	31 December 2017
Unearned transportation revenue	45,173	43,190
Customer loyalty program	7,558	5,244
	52,731	**48,434**

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 3).

Deferred revenue attributable to the customer loyalty programme refers to the Company's Nomad Club programme.

Due to the short-term nature of Company's performance obligations, opening balance of unearned transportation revenue was recognised as revenue in 2018.

20. Provision for aircraft maintenance

	31 December 2018	31 December 2017
Engines	68,946	59,113
D-Check	9,374	6,298
C-Check	2,677	2,766
Provision for redelivery of aircraft	2,409	2,152
Auxiliary Power unit	2,300	1,739
Landing gear	1,530	1,702
	87,236	**73,770**

The movements in the provision for aircraft maintenance were as follows for the years ended 31 December:

	2018	2017
At 1 January	**73,770**	**58,798**
Accrued during the year (Note 6)	28,118	21,743
Reversed during the year (Note 6)	(5,373)	(2,072)
Used during the year	(9,279)	(4,582)
Foreign currency translation difference	–	(117)
At 31 December	**87,236**	**73,770**

Under the terms of its operating lease agreements for aircraft, the Company is obliged to carry out and pay for maintenance based on use of the aircraft and to return aircraft to the lessors in a satisfactory condition at the end of the lease term. The maintenance cost estimates used for calculating the provisions are stated in US Dollars.

The planned utilisation of these provitions is as follows:

	31 December 2018	31 December 2017
Within one year	48,613	13,260
During the second year	24,502	45,645
During the third year	7,269	8,539
After the third year	6,852	6,326
Total provision for aircraft maintenance	**87,236**	**73,770**
Less: current portion	48,613	13,260
Non-current portion	**38,623**	**60,510**

Significant judgment is involved in determining the provision for aircraft maintenance. Management has engaged an independent specialist to assist in estimating the timing and cost of expected engine maintenance activities. The estimate by the independent specialist is prepared based on the current condition of aircraft, historical flight hours and cycles, expected future utilisation of the aircraft over the remaining life of the operating leases as well as requirements for returnable condition when the lease term is concluded. The estimates are based on the following key assumptions:

- expected utilisation rate for flight hours and cycles is based on historical data and actual usage;
- market prices are used for services and parts;
- it is assumed that aircraft will be operated within standard norms and conditions; and
- no provisions have been made for unscheduled maintenance.

21. Trade and other payables

	31 December 2018	31 December 2017
Trade payables	32,982	29,450
Deposits received from agents	3,879	2,210
Due to employees	2,547	2,340
Advances received	2,372	674
Taxes payable	936	618
Pension contribution	815	513
Operating lease payables	771	1,510
Dividents payable	–	–
Accrued bonuses	–	–
Vacation accrual	374	1,505
Other	137	63
	44,813	**38,883**

The Company’s trade payables are denominated in the following currencies as at 31 December:

	2018	2017
US Dollar	18,741	16,738
Tenge	12,159	10,735
Euro	6,403	5,660
Russian Rouble	877	988
British Pound	874	711
Other	5,759	4,051
	44,813	**38,883**

(in thousands of USD)

22. Loans

	31 December 2018	31 December 2017
Current		
Current portion of bank loan	1,348	1,558
Interest payable	57	72
	1,405	**1,630**
Non-current		
Bank loan	7,751	10,519
	7,751	**10,519**

On 3 December 2015 the Company 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 Center (Hangar) in Astana, which is also pledged to the EBRD under this loan. The interest rate is 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 is determined on a quarterly basis in conjunction with the National Bank of Kazakhstan base rate. In April 2016 the Company obtained the funds from EBRD in the amount of 4,661,033 thousand tenge (USD 14,000 thousand equivalent as of receipt dates). As at 31 December 2018 the Company obtained necessary waivers with regards to the EBRD loan agreement covenants and was thus in compliance with them.

23. Finance lease liabilities

For the years from 2012 to 2014 the Company acquired eleven aircraft under fixed interest finance lease agreements. The lease term for each aircraft is twelve years. The Company has an option to purchase each aircraft for a nominal amount at the end of the lease. Loans provided by financial institutions to the lessors in respect of six 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. Two Embraer aircraft delivered in 2012 and 2013 were guaranteed by the Brazilian Development Bank. The Company's obligations under finance leases are secured by the lessors' title to the leased assets. These assets have a carrying value of USD 198,735 thousand (2017: USD 206,636 thousand) (Note 9). The Company conducted a sale and leaseback transaction in December 2017 by selling one Embraer E190 which had been originally acquired under a finance lease to a third party. The amount of USD 8,478 thousand, which had been outstanding under the original finance lease, was transferred by the third party purchaser directly to the finance lessor.

The Company's finance leases are subject to certain covenants. These covenants impose restrictions in respect of certain transactions, including, but not limited to restrictions in respect of indebtedness. Certain finance lease agreements include covenants as regards to change of ownership of the Company. These requirements have been met during 2018 and 2017.

	Minimum lease payments		Present value of minimum lease payments	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017
Not later than one year	47,823	49,162	40,494	39,926
Later than one year and not later than five years	186,099	188,187	166,068	163,213
Later than five years	77,442	123,178	74,965	117,584
	311,364	**360,527**	**281,527**	**320,723**
Less: future finance charges	(29,837)	(39,804)	–	–
Present value of minimum lease payments	**281,527**	**320,723**	**281,527**	**320,723**
Included in the financial statement as:				
– current portion of finance lease obligations			40,494	39,926
– non-current portion of finance lease obligations			241,033	280,797
			281,527	**320,723**

The Company's finance lease obligations are denominated in US Dollars.

On 1 July 2015 the Company designated a portion of its US Dollar finance lease obligations as hedges of highly probable future US Dollar revenue streams. The Company 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 2018, a foreign currency loss of USD 78,463 thousand (2017: USD 89,331 thousand), before deferred income tax of USD 15,693 thousand (2017: USD 17,866 thousand) on the finance lease liabilities, representing an effective portion of the hedge, is deferred in the hedging reserve in 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 2018 the amount reclassified from the hedging reserve to foreign exchange loss in the statement of profit or loss from inception of the hedge was USD 10,869 thousand (before deferred income tax of USD 2,174 thousand) (2017: USD 10,292 thousand, before deferred income tax of USD 2,058 thousand).

Reconciliation of movements of loans and finance lease liabilities to cash flows arising from financing activities

	Loans	Finance lease liabilities	Total
Balance as at 1 January 2018	**12,149**	**320,723**	**332,872**
Changes from cash flows			
Repayment of borrowings	(1,486)	–	(1,486)
Repayment of finance lease liabilities	–	(39,003)	(39,003)
Interest paid	(1,194)	(9,332)	(10,526)
Total changes from financing cash flows	**(2,680)**	**(48,335)**	**(51,015)**
Effect of changes in foreign exchange rates	(1,492)	–	(1,492)
Other changes			
Capitalised borrowing costs	224	–	224
Interest expense	955	9,139	10,094
Total other changes	**1,179**	**9,139**	**10,318**
Balance as at 31 December 2018	**9,156**	**281,527**	**290,683**

24. Financial instruments

Exposure to credit, interest rate, currency and commodity price risk arises in the normal course of the Company's business. The Company does not hedge its exposure to such risks, other than commodity price risk as discussed below.

Capital management

The Company manages its capital to ensure the Company will be able to continue as a going concern while maximising the return to the Shareholders through the optimisation of the debt and equity balance. The Company's overall strategy remains unchanged from 2017.

The capital structure of the Company consists of net debt (comprising loans and finance lease obligations in Note 22 and 23) and equity of the Company (comprising issued capital, additional paid-in capital, reserve on hedging instruments and retained earnings as detailed in Note 18).

The Company is not subject to any externally imposed capital requirements.

The Company reviews the capital structure on a semiannual basis. As part of this review, the Company considers the cost of capital and the risks associated with each class of capital.

Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Company. The Company has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults. Credit exposure is controlled by counterparty limits that are reviewed and approved by the risk management committee annually.

The maximum exposure to credit risk related to financial instruments, such as cash, 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.

(in thousands of USD)

24. Financial instruments continued

Credit risk continued

As at 31 December 2018 there was no significant concentration of credit risk in respect of trade accounts receivable (Note 15).

The Company uses reputable banks and has established a cash investment policy which would limit the credit risk related to bank accounts and deposits.

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 15.

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's receivables from customers.

The carrying amounts of financial assets represent the maximum credit exposure. Impairment losses on financial assets recognised in profit or loss were as follows:

	2018	2017
Impairment loss on trade and other receivables	(249)	4,796
Impairment loss on guarantee deposits	121	–
Impairment loss on cash and cash equivalents	(1)	–
	(129)	**4,796**

Trade and other receivables

	2018	2017
Default banks	49,038	50,920
Trade receivables	24,431	17,571
Receivable from lessors	2,908	8,116
Amounts due from employees	3,072	2,963
Total gross carrying amount	**79,449**	**79,570**
Impairment allowance	(48,757)	(50,129)
Total net carrying amount	**30,692**	**29,441**

Trade receivables

The sales 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 2018, eight debtors including IATA Bank Settlement Plans (BSPs) as collecting agencies from the worldwide travel agencies comprised 51% of the Company's trade and other receivables excluding banks in default (at 31 December 2017: eight debtors comprised 45%).

Receivables from lessors

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. Most of the lessors are rated by the international credit rating agencies. Since all lessors have excellent credit history and the Company 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:

Credit rating	2018
BBB – to AAA	2,616
Without ratings	292
Gross carrying amounts (2018 amortised cost before impairment)	**2,908**
Impairment allowance	(1)
Total net carrying amount	**2,907**

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 Company through the provision of interest free loans to participants of the program. The Company withholds the amounts due from pilots' salary on a monthly basis. Those pilots or cadets who leave the Company are fully provided with respect of the credit losses.

Movements in the allowance for impairment in respect of trade and other receivables

	2018	2017
Balance at 1 January under IAS 39	**50,129**	**54,818**
Adjustment on initial application of IFRS 9	70	–
Balance at 1 January under IFRS 9	**50,199**	**54,818**
Amounts written off	(123)	–
Foreign currency difference	(1,568)	107
Net remeasurment of loss allowance	249	(4,796)
Balance at 31 December	**48,757**	**50,129**

Guarantee deposits

The main counterparties of the Company 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 Company monitors changes in credit risk by tracking their financial stability.

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:

Credit rating	2018	2017
BBB- to AAA	44,286	50,729
C to CCC+	1,612	1,063
Without ratings	5,456	2,718
Gross carrying amounts (2018 amortised cost before impairment)	**51,354**	**54,510**
Impairment allowance	(345)	–
Total net carrying amount	**51,009**	**54,510**

The Company did not have any guarantee deposits that were either past due or impaired.

(in thousands of USD)

24. Financial instruments continued

The movement in the impairment allowance during the year was as follows. Comparative amounts for 2017 represent the allowance account for impairment losses under IAS 39.

	2018	2017
Balance at 1 January under IAS 39	–	**–**
Adjustment on initial application of IFRS 9	(224)	–
Balance at 1 January under IFRS 9	**(224)**	**–**
Net remeasurment of loss allowance	(121)	–
Balance at 31 December	**(345)**	**–**

Cash and cash equivalents

The Company held cash and cash equivalents of USD 132,826 at 31 December 2018 (2017: USD 148,181). The cash and cash equivalents are held with bank and financial institution counterparties, which are rated AAA to B, 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 Company considers that its cash and cash equivalents have low credit risk based on the external credit ratings of the counterparties.

The Company uses a similar approach for assessment of ECLs for cash and cash equivalents to those used for bank and guarantee deposits.

On initial application of IFRS 9, the Company recognised an impairment allowance as at 1 January 2018 in the amount of USD 3 thousand. The amount of the allowance decreased during 2018.

The following table presents an analysis of the credit quality of cash and cash equivalents measured at amortised cost:

	2018			2017		
Credit rating	Gross carrying amount	12 month ECL	Carrying amount	Gross carrying amount	Impairment	Carrying amount
BBB – to AAA	125,578	–	125,578	135,116	–	135,116
BB – to BB+	7,250	(2)	7,248	13,065	–	13,065
	132,828	**(2)**	**132,826**	**148,181**	**–**	**148,181**

Interest rate risk

The Company is not exposed to significant interest rate risk because the Company mainly borrows funds at fixed interest rates.

In April 2016 the Company's EBRD loan had variable interest rates with a fixed margin (Note 23). If the variable part of the interest rate on the EBRD loan in 2018 would have been 20% higher or lower than the actual for the period, change in interest rate would not have a material impact.

Foreign currency risk

The Company 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 15, 17, 18, 22 and 23. Management believes that it has taken appropriate measures to support the sustainability of the Company business under the current circumstances.

Foreign currency sensitivity analysis

The Company is mainly exposed to the risk of change of exchange rates of the US dollar against tenge and euro.

The carrying value of the Company's monetary assets and liabilities in foreign currency as at the reporting date has been provided below. This disclosure excludes assets and liabilities denominated in other currencies as they do not have significant effect on the financial statements of the Company.

	Notes	31 December 2018		31 December 2017	
		KZT	EUR	KZT	EUR
Assets					
Other taxes prepaid	16	**22,364**	**147**	18,086	–
Trade and other receivables	15	**15,247**	**2,291**	12,754	2,444
Income tax prepaid		**1,336**	**–**	738	–
Cash and bank balances	17	**310**	**906**	1,438	571
Guarantee deposits	12	**29**	**246**	40	138
Total		**39,286**	**3,590**	**33,056**	**3,153**
Liabilities					
Trade and other payables	21	**12,159**	**6,403**	10,735	5,660
Loans	22	**9,156**	**–**	12,149	–
Total		**21,315**	**6,403**	**22,884**	**5,660**
Net position		**17,971**	**(2,813)**	**10,172**	**(2,507)**

In 2018 the following table details the Company's sensitivity of weakening and strenghtening of US Dollar against tenge by 11% and euro by 7%.

In 2017 the following table details the Company's sensitivity of weakening and strenghtening of US Dollar against tenge by 13% and euro by 5%.

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 finance 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:

	Weakening of US Dollar		Strengthening of US Dollar	
	Tenge	Euro	Tenge	Euro
31 December 2018	**11%**	**7%**	**11%**	**7%**
Profit/(loss)	**1,581**	**(158)**	**(1,581)**	**158**
31 December 2017	**13%**	**5%**	**13%**	**5%**
Profit/(loss)	1,058	(100)	(1,058)	100

The Company limits the currency risk by monitoring changes in exchange rates of foreign currencies in which trade and other receivables, cash and bank balances, bank deposits, guarantee deposits, trade and other payables and loans and finance lease liabilities are denominated.

Liquidity risk management

Liquidity risk is the risk that a company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Company'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 Company's reputation.

Ultimate responsibility for liquidity risk management rests with the board of directors, which has built an appropriate liquidity risk management framework for management of the Company's short, medium and long-term funding and liquidity management requirements. The Company manages liquidity risk by maintaining adequate reserves, continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2018

(in thousands of USD)

24. Financial instruments continued

Liquidity and interest risk tables

The following tables detail the Company's remaining contractual maturity for its non-derivative financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Company can be required to pay.

31 December 2018	Up to 3 months	3 months to 1 year	1-5 years	Over 5 years	Total
Financial assets					
Trade and other receivables	26,177	456	2,899	1,160	30,692
Guarantee deposits	38	31,801	3,589	15,581	51,009
Cash and bank balances	132,826	–	–	–	132,826
Financial liabilities					
Non interest bearing					
Trade and other payables	42,139	676	–	–	42,815
Variable rate					
Loans (tenge denominated)	525	1,691	7,641	2,612	12,469
Fixed rate					
Finance lease liabilities	11,790	36,033	186,099	77,442	311,364

31 December 2017	Weighted average effective interest rate %	Up to 3 months	3 months to 1 year	1-5 years	Over 5 years	Total
Financial assets						
Non interesting bearing						
Trade and other receivables	–	24,914	603	3,341	583	29,441
Guarantee deposits	–	20,541	14,273	8,994	10,702	54,510
Cash and bank balances	–	148,181	–	–	–	148,181
Fixed rate						
Bank deposits	4,55	5	–	–	–	5
Non interesting bearing						
Trade and other payables	–	36,038	666	–	–	36,704
Variable rate						
Loans (tenge denominated)	–	714	2,077	9,505	4,975	17,271
Fixed rate						
Finance lease liabilities	–	12,120	37,042	188,187	123,178	360,527

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.

Loans
Loans are recognised at amortised cost. Management believes that their carrying amounts approximate their fair values.

Finance lease liabilities
Finance lease liabilities are initially recognised at the lower of the fair value of assets received under finance lease and the present value of minimum lease payments. Management believes that their carrying amounts approximate their fair values.

Provisions
For provisions which meet the definition of financial liabilities the fair value is not materially different from the carrying amount because the effect of the time value of money is not material.

25. Measurement of fair values
A number of the Company's accounting policies and disclosures require the measurement of fair values for financial assets and liabilities.

The Company has an established control framework with respect to the measurement of fair values. This includes a 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.

When measuring the fair value of an asset or a liability, the Company uses market observable data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (in other words, as prices) or indirectly (in other words, derived from prices).

Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or a liability might be categorised in different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Company recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

As at 31 December 2018 and 2017 all Company's assets were measured at amortised cost.

(in thousands of USD)

26. Commitments and contingencies

Capital commitments

In 2011 the Company finalised an agreement with Boeing to purchase three Boeing-787 aircraft under finance lease agreements. The Company 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.

The terms of the Company's contract with the above suppliers precludes it from disclosing information on the purchase cost of the aircraft.

Operating lease commitments

Aircraft

Aircraft operating leases are for terms of between 5 to 10 years. All operating lease contracts contain market review clauses in the event that the parties agree to renew the leases. The Company does 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 operating leases.

Non-cancellable commitments for leases of aircraft currently in operation:

	31 December 2018	31 December 2017
Within one year	70,968	65,113
After one year but not more than five years	117,710	115,088
More than five years	41,761	22,031
	230,439	**202,232**

Non-cancellable commitments for leases of aircraft to be delivered from 2019 to 2021:

	31 December 2018	31 December 2017
Within one year	35,386	16,831
After one year but not more than five years	169,931	175,707
More than five years	122,378	180,844
	327,695	**373,382**

In 2015-2017 the Company signed operating lease agreements for seventeen Airbus A320neo and Airbus A321LR aircraft to replace some current leases on expiry and for future expansion. Four A320neo were delivered in 2016-2018, with the remaining thirteen aircraft being delivered in 2019 and 2020.

In the second half of 2017, the Company signed operating lease agreements for five aircraft of the Embraer E190-E2 family to replace some of the current lease agreements due to their expiration and expansion. One Embraer E190-E2 was delivered in November 2018 and the remaining four are expected in 2019.

Stand-by Letters of Credit as at 31 December 2018 were USD 46,064 thousand (2017: USD 42,371 thousand), of which USD 28,564 thousand (2017: 32,871 thousand) were secured by deposits (Note 12) and USD 17,500 thousand (2017: 9,500 thousand) were unsecured. These Letters of Credit were obtained as security for Lessors to cover any unfulfilled maintenance liabilities on the return of four Embraer E190 and seven Airbus aircraft to Lessors.

Non-cancellable operating lease commitments for engines and buildings are payable as follows:

	31 December 2018	31 December 2017
Within one year	2,898	1,730
After one year but not more than five years	5,135	2,440
	8,033	**4,170**

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 (for example LIoyd'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 airline 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;
- Commercial general liability insurance (Public Liability);
- Civil liability insurance to customs authorities;
- Pilot's loss of license insurance;
- Insurance of goods at warehouse.

Taxation contingencies

The taxation system in Kazakhstan is relatively new and is characterised by 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 Company 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.

The significant devaluation of the Kazakhstani tenge in 2015 and reductions in the global price of oil have increased the level of uncertainty in the business environment.

(in thousands of USD)

27. Related party transactions

Control relationships

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

Management remuneration

Key management that have authority and responsibility regarding management, control and planning of the Company's activity received the following remuneration during the year, which is included in employee costs (Note 6):

	2018	2017
Salary and bonuses	**4,058**	3,637
Social tax	**402**	417
	4,460	**4,054**

Transactions with related parties

Related parties comprise the Shareholders of the Company and all other companies in which those Shareholders, either individually or together, have a controlling interest.

The Company provides air transportation services to Government departments, Government agencies and State-controlled enterprises. These transactions are conducted in the ordinary course of the Company's business on terms comparable to those with other entities that are not state-controlled.

The Company has established its buying, pricing strategy and approval process for purchases and sales of products and services. Such buying, pricing strategy and approval processes do not depend on whether the counterparties are state-controlled entities or not.

Having considered the potential for transactions to be impacted by related party relationships, the entity's pricing strategy, buying and approval processes, and what information would be necessary for an understanding of the potential effect of the relationship on the financial statements, management is of the opinion that the following transactions require disclosure as related party transactions:

	2018		2017	
Services received	**Transaction value**	**Outstanding balance**	Transaction value	Outstanding balance
State-owned companies	**28,239**	**(2,467)**	31,445	(431)
Shareholders and their subsidiaries	**5,153**	**(178)**	4,762	84
	33,392	**(2,645)**	**36,207**	**(347)**

Services from related parties are represented by airport, navigation and meteorological forecasting services.

	2018		2017	
Services provided by the Company	**Transaction value**	**Outstanding balance**	Transaction value	Outstanding balance
Shareholders and their subsidiaries	**1,490**	**218**	1,637	483
	1,490	**218**	**1,637**	**483**

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.

28. Approval of the financial statements

The financial statements were approved by management of the Company and authorised for issue on 28 February 2019.

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