

2011

2012

2013

2014

2015

2016



# CLEANER FLYING



Annual Report

**15** YEARS  
OF CLEANER FLYING

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# COMPANY PROFILE



# COMPANY PROFILE

## 2016 highlights

### Financial highlights

#### REVENUE

US\$ 621 million, down by 18% compared to 2015\*

#### OPERATING PROFIT

US\$ 37.9 million, growth of 15% compared to 2015

#### OPERATING EXPENSES

US\$ 583.1 million, down by 20% compared to 2015

#### NET PROFIT / (LOSS)

US\$ (39.9) million, down by 182% compared to 2015

For more information, see «Financial Performance» on page 54

### Operational highlights

#### PASSENGERS CARRIED

3.7 million, down by 3% compared to 2015

#### CAPACITY

12.7 billion available seat kilometers (ASK), growth of 2% compared to 2015

#### PASSENGER LOAD FACTOR

61%, down by 2 % compared to 2015

#### CARGO, MAIL, EBAG (Excess baggage)

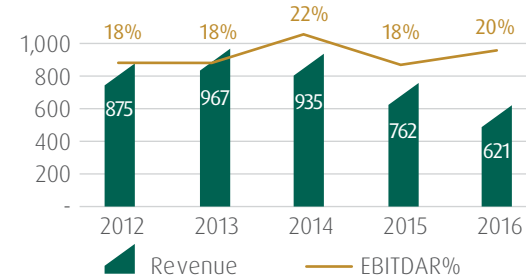
16.6 thousand tonnes, small growth compared to 2015

For more information, see «Operating Performance» on page 27

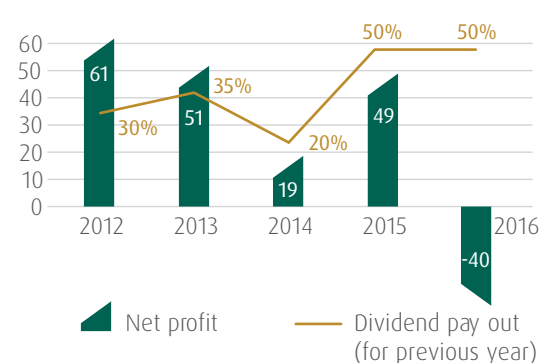
## 5-year key financial & operational indicators

### Financial indicators

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



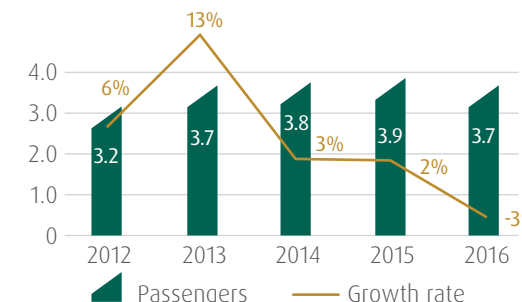
#### NET PROFIT (\$MN) & DIVIDEND PAYOUT



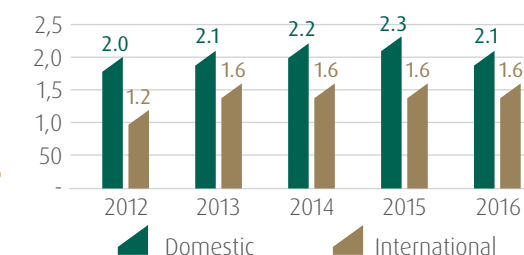
\* due to the full year currency devaluation effect

### Operational results

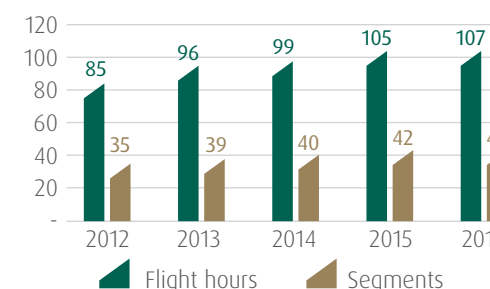
#### PASSENGERS (MN)



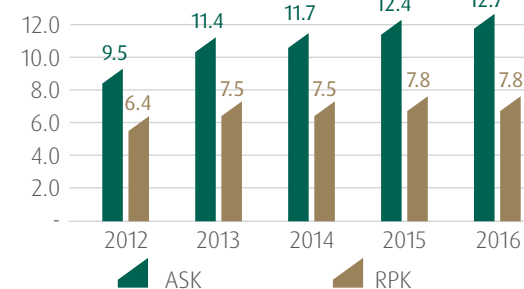
#### DOMESTIC & INTERNATIONAL PASSENGERS (MN)



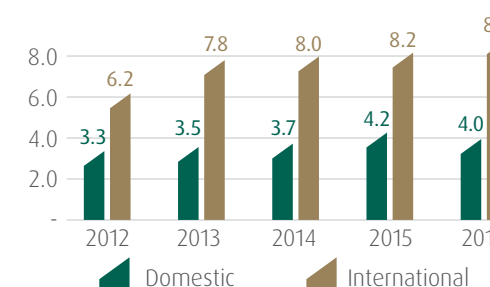
#### FLIGHT HOURS & SEGMENTS ('000)



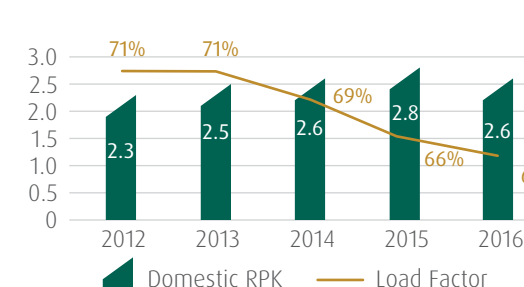
#### ASK & RPK (BN)



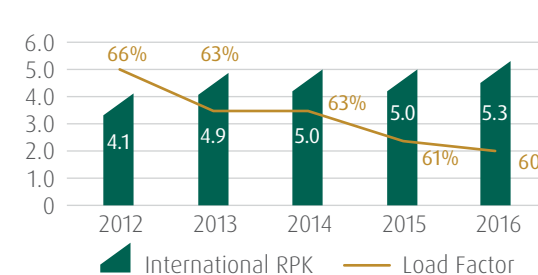
#### ASK DOMESTIC & INTERNATIONAL (BN)



#### DOMESTIC RPK (BN) & LOAD FACTOR
















#### INTERNATIONAL RPK (BN) & LOAD FACTOR





# KEY MILESTONES

## Key milestones of Air Astana

<p>2001</p>  <ul style="list-style-type: none"> <li>• Foundation of Air Astana as a joint venture between the Government of the Republic of Kazakhstan and BAE Systems</li> </ul> <p>2001</p>	<p>2002</p> <ul style="list-style-type: none"> <li>• Delivery of three Boeing 737 NG aircraft</li> <li>• First Almaty-Astana flight completed on 15 May</li> <li>• First international flight from Almaty to Dubai</li> </ul>   <p>2002</p>	<p>2003</p> <ul style="list-style-type: none"> <li>• Start of Boeing 757 aircraft operations</li> <li>• Full membership in IATA (IATA code: KC)</li> <li>• First JAR/EASA 145 certification for Engineering and Maintenance</li> </ul> <p>2003</p>	<p>2004</p> <ul style="list-style-type: none"> <li>• Over 1 million passengers carried since the first flight operation</li> </ul>  <p>2004</p>	<p>2005</p> <ul style="list-style-type: none"> <li>• Peter Foster, an airline executive with more than 30 years of management experience, was appointed as the airlines President. The current long-term development plans and management structures were established</li> </ul>  <p>2005</p>	<p>2006</p>  <ul style="list-style-type: none"> <li>• First operation of Airbus 320 aircraft, which fully replaced the Boeing 737 NG</li> <li>• Air Astana became the first CIS airline to implement full electronic BSP</li> </ul> <p>2006</p>	<p>2007</p> <ul style="list-style-type: none"> <li>• First airline in the CIS to successfully pass the IOSA operational flight safety audit</li> <li>• Launch of the Nomad Club, Air Astana's Frequent Flyer Programme</li> </ul>  <ul style="list-style-type: none"> <li>• Delivery of first in fleet Boeing 767 widebody aircraft</li> </ul> <p>2007</p>	<p>2008</p> <ul style="list-style-type: none"> <li>• Opening of 24/7 call centre, city and airport ticketing offices and start of online sales</li> <li>• Launch of the Ab-initio pilot training programme</li> <li>• Achievement of IATA 100% e-ticketing target (first in the CIS and second in the world)</li> <li>• Official registration by IATA as an IOSA-compliant carrier</li> </ul> <p>2008</p>	<p>2009</p> <ul style="list-style-type: none"> <li>• Achievement of 3-star overall Skytrax rating, with a 4-star rating in the domestic Business Class</li> <li>• Exemption of Air Astana as the only airline exempted from full EU ban of Kazakhstan carriers</li> <li>• First airline in the Central Asian region to implement Web Check-in</li> </ul>  <p>2009</p>	<p>2010</p> <ul style="list-style-type: none"> <li>• Launch of development of in-house engineering and maintenance capabilities with opening of the airline's workshop for aircraft maintenance and component repair</li> <li>• Adoption of the Extended Home Market development strategy</li> </ul> <p>2010</p>	<p>2011</p> <ul style="list-style-type: none"> <li>• Introduction of new Embraer 190 aircraft into the fleet, to start replacement of Fokker 50s</li> </ul>  <p>2011</p>	<p>2012</p> <ul style="list-style-type: none"> <li>• Delivery of the first Airbus 320 aircraft on order from the Airbus</li> <li>• First airline in the CIS and Eastern Europe to be awarded a 4-star rating in the Skytrax World Airline Awards</li> <li>• Full retirement of Fokker 50 fleet and replacement with Embraer 190 regional jets</li> </ul>  <p>2012</p>	<p>2013</p> <ul style="list-style-type: none"> <li>• Skytrax awards for 'Best Airline in Central Asia and India' and 'Best Staff Service'</li> <li>• Delivery of first of three Boeing 767 aircraft ordered from Boeing</li> <li>• Launch of 'Almaty &amp; Astana Stopover Holidays'</li> </ul> <p>2013</p>	<p>2014</p> <ul style="list-style-type: none"> <li>• Opening of the first independently operated business lounge, 'The Shanyrak', in Astana</li> <li>• Full membership in the Association of Asia Pacific Airlines (AAPA)</li> <li>• Cabin upgrades on the Boeing 757 fleet to achieve world-class standards</li> </ul>   <p>2014</p>	<p>2015</p> <ul style="list-style-type: none"> <li>• Launch of construction of hangar to host the regional technical centre for aircraft maintenance</li> <li>• Launch of the 'Heart Awards' programme to recognise the best employees</li> <li>• Recognition as 'Most Attractive Employer' by Universum</li> <li>• The Airline Market Leadership Award from Air Transport World</li> </ul> <p>2015</p>	<p>2016</p> <ul style="list-style-type: none"> <li>• Delivery of first A320 neo aircraft</li> <li>• Achievement of Skytrax 4-Star Airline Rating for fifth consecutive year</li> <li>• Mobile check-in service launched</li> </ul>  <p>2016</p>
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# About us

Air Astana, the flagship carrier of Kazakhstan, is a fast-growing international airline with a world-class track record of safety and technical expertise. The Company operates in the transport sector of the economy and its main activity is the transportation of passengers and cargoes by civil aviation aircraft. We are a joint venture between the Sovereign Wealth Fund 'Samruk-Kazyna' (51%) and the UK's BAE Systems (49%).

We are a full member of the International Air Transport Association (IATA) and the first Kazakhstani carrier to have Part 145 certification to perform aircraft maintenance from the European Aviation Safety Agency (EASA). We are an IATA Operational Safety Audit (IOSA) accredited airline. Air Astana has achieved a 4-star Skytrax rating for five consecutive years and we were the first carrier in Eastern Europe and the CIS to achieve this rating. In 2015, we were named the Airline Market Leader of the Year at the 41st annual Air Transport World Awards.

## Our mission

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

## Our goals

1. We implement the highest safety standards
2. We are, and must continue to be the most reliable airline in the region with the highest standards of customer service
3. We will profitably grow and improve our fleet, route network and product

4. We work to the highest standards of integrity and business ethics

5. We recruit, appraise and reward staff based on merit and enable them to develop to their maximum potential

6. We are a socially responsible organisation

7. We are a global ambassador for Kazakhstan

## Our values

### HOSPITABLE

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

### EFFICIENT

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

### ACTIVE

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

### RELIABLE

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

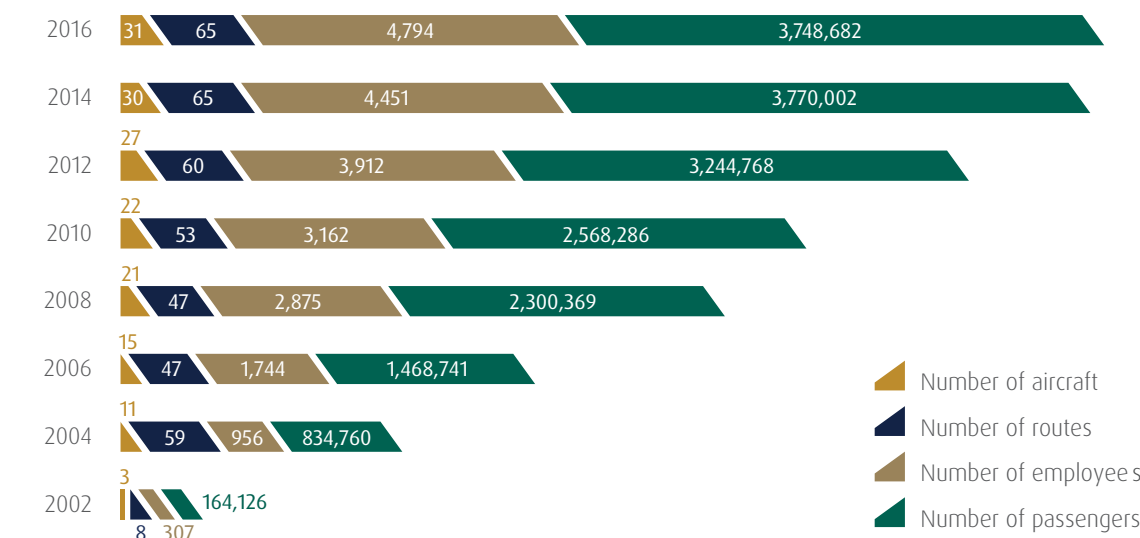
### TRUSTWORTHY

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



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

## Air Astana in numbers



## Awards

- First 4-Star airline in Eastern Europe and the CIS according to Skytrax Research
- Rated 'Best Airline in Central Asia and India' for five consecutive years by Skytrax World Airline Awards
- 2015 Airline Market Leadership award by Air Transport World
- A leading employee in the Kazakhstan rating of World's 100 Most Attractive Employers by Universum research corporation
- 'Most Dynamically Developing Carrier in the CIS Countries' in the LED Together competition by Pulkovo airport (Russia)
- 'Best Foreign Airline - Passengers' Choice' by Sheremetyevo Airport (Russia)

## Memberships

- Member of International Air Transport Association (IATA)
- Member of Association of Asia Pacific Airlines (AAPA)
- Member of IATA Clearing House
- Member of Flight Safety Foundation (FSF)
- Member of the International Society of Air Safety Investigators

## Certificates

- Certified by IATA Operational Safety Audit (IOSA)
- Certified by European Aviation Safety Agency (EASA)
  - EASA Part 145: Maintenance Organisation Approval Certificate
  - EASA Part 147
- Certified for Line Maintenance on following aircraft types:
  - Airbus A319-321 series
  - Airbus A320-321 neo
  - Airbus A330 series
  - Boeing 737-700 series
  - Boeing 737-800 series
  - Boeing 747-400 series
  - Boeing 747-8 series
  - Boeing 757-200 series
  - Boeing 767-300 series
  - Embraer 190 series
- Certificate by the Committee of Civil Aviation of the Republic of Kazakhstan - Maintenance Organisation Approval Certificate



# ACHIEVEMENTS

## Key events of 2016

### Our fleet and network

The first new Airbus A320 neo series aircraft in the CIS was delivered in November 2016. It is expected that the improved cost-effectiveness of the new aircraft will help the Company become more active in the Chinese and Southeast Asian markets.

In June 2016, Air Astana launched the new Almaty-Tehran route with a frequency of three flights per week. The new route will drive both the development of tourism between Kazakhstan and Iran and the growth of the airline's transit traffic by offering convenient connections to China. As part of the strategy for the development of codeshare cooperation with key EU carriers, codeshare agreements were signed during the year with Air France, Hong Kong Airlines and Lufthansa.

### Awards

Air Astana confirmed its status as a 4-star airline for the fifth time, as rated by Skytrax. In addition, Air Astana retains its title as the Best Airline in Central Asia and India.

In 2016, Air Astana was named 'The Most Dynamically Developing Carrier of the CIS Countries' in the 'LED Together competition' by Pulkovo airport, and was given the Passengers' Choice award as the Best Foreign Airline by Sheremetyevo Airport in Russia.

Air Astana is one of the top three Best Employers of Kazakhstan and is the leader in several categories within Kazakhstan in the rating of World's 100 Most Attractive Employers, conducted by the Universum research corporation.

### Technology leadership

For yet another year, Air Astana's website remained the number one e-commerce site in Kazakhstan. As a result of new capabilities offered on the website,

the number of passengers purchasing tickets through the website increased to 9.3%. In 2016, Air Astana launched websites in Korean and Chinese to better engage and interact with speakers of these languages around the world.

A mobile check-in system was launched for all domestic flights from Almaty and Astana, allowing passengers to register for their flights online using a smartphone or other device connected to the Internet.

### Safety

In 2016, Air Astana passed several external audits by regulators, and in August the Company passed the annual EASA Part 145 and Part 147 audits. As a holder of the EASA Part 145 certificate, Air Astana performs complete maintenance of its own fleet and provides line maintenance services for other air carriers as well.

Jointly with Airbus, Air Astana held the 2nd Regional Safety Seminar 'Proactive Safety - Managing the Risks'. The seminar was aimed at exchanging knowledge and experience in the implementation of elements of the Safety Management System, especially in the areas of risk management in practice and in the investigation of aviation incidents.

### Engineering and maintenance

Air Astana launched an Apprentice Training Programme for aircraft engineers and mechanics on the basis of EASA standards. The programme will contribute to addressing the shortage of local qualified and competent young engineers. Throughout 2016, Air Astana devoted much attention to the implementation of a major project for construction of the Maintenance Centre in Astana, which is due for completion in 2017.

## Major goals for 2017

### Fleet modernisation and route network development

In 2017, we expect to receive two new Airbus A321 neo series aircraft. We plan to launch new Astana-Kiev and Astana-Ulaanbaatar routes in 2017. The Astana-Ulaanbaatar route will require obtaining permits from the aviation authorities of Mongolia and Russia.

### Delivery of a high standard of service to passengers

Air Astana is committed to maintaining and improving our Skytrax 4-Star rating for the sixth consecutive year in 2017. Among other projects, the airline plans to implement mobile check-in for international routes with a passenger tracking system, implement Wi-Fi aboard three Boeing 767s and introduce ticket sales with an option for seat selection and excess baggage payment via all sales channels to ensure that each customer is able to choose the maximum level of comfort in advance.

### Completion of the new maintenance centre

In the coming year, as initially planned, we expect to complete the new maintenance centre in Astana. The new aviation maintenance centre of this size will be a first in Kazakhstan and Central Asia. This new technical centre will provide services for aircraft maintenance both for Air Astana and for other airlines in Kazakhstan.

### Launch of business lounge at Nursultan Nazarbayev International airport

We plan to open a business lounge spanning 455 square meters in the newly constructed terminal at Nursultan Nazarbayev International airport. The new business lounge will meet the highest global standards and will contribute to future transit passenger growth. A streamlined rostering system will be implemented in the new terminal, making it possible to calculate the required staffing level for any particular time in order to accommodate growing international passenger traffic.

### Fulfilment of EXPO-2017 sponsorship

Air Astana has been given the exclusive status of the official carrier of EXPO 2017. The airline will also participate in a joint PR campaign to promote this exposition. All airline passengers arriving in Astana will be granted a preferential right to visit the event. It is estimated that 2 million visitors from 100 countries will attend EXPO 2017, which will have a positive effect on the airline's revenue.

GOALS



# STRATEGIC REPORT







## Letter from the Chairman of the Board of Directors

In 2016, in complicated macroeconomic conditions, we have proceeded with the Company's innovative development programme, adjusting our strategy to the global economic situation.

Air Astana is proud of its status as the Official Airline for the 28-th Winter Universiade in 2016 and to be the official carrier for EXPO 2017. The Company earned this trust due to its persistent efforts in striving towards air purity and reducing our carbon footprint. In line with the EXPO theme, Future Energy, the airline will adopt state-of-the-art technology solutions that allow aircraft emissions in the atmosphere to be reduced and to decrease their harmful environmental impact.

Air Astana has undertaken the planned modernisation of the all-jet fleet, the creation of its own staff training and aircraft technical maintenance base. The route network has been extended and important projects have been implemented to improve customer service. Commendably, the Company has managed to achieve such impressive results without reliance on state subsidies.

The planned expansion of the fleet for both domestic and international routes remains unchanged. In November our fleet, the most modern in Central Asia and one of the youngest in the world, was supplemented by the first of eleven Airbus A320 neo aircraft. These state-of-the-art aircraft, equipped with the latest engines and wingtips, consume considerably less fuel compared to other aircraft in the Airbus A320 family. The fleet will be further expanded within the coming years. Detailed market research has resulted in the successful launch of the new direct flight from Almaty to Tehran, the

capital of Iran. Direct air travel will stimulate both tourism and economic activity between the two countries and the growth of the Company's transit traffic. Kazakhstan's ideal location at the heart of Eurasia remains one of the advantages allowing us to extend our network.

The diligent work performed to ensure flight safety and customer comfort, as well as an adept management team, has made it possible to achieve impressive results in the transportation of transit passengers. International passenger traffic has risen as a result of the strategy to extend regional coverage and connectivity.

In accordance with international standards, Air Astana continues to invest in creating optimal conditions for the flawless operation of equipment. The Company is further developing its facilities for high-quality engineering and technical services and is building its own maintenance centre in Astana. The first stage of the maintenance centre is due to be launched in the summer of 2017.

As in previous years, the Company continues to invest in its employees. The opening of a training centre for engineers in Almaty, certified to EASA P147 standards, continues to be an undoubted success, raising Air Astana's quality to an even higher level. The only centre of its type in Central Asia and one of only five in the CIS, it allows the airline to train engineers to international standards in Kazakhstan.

President Nursultan Nazarbayev, in his address to the nation titled 'The Third Modernisation of Kazakhstan:

CHAIRMAN

'Global Competitiveness', cited the accelerated technological modernisation of the economy with digital innovations as the first priority. I believe Air Astana is the leader in this domain in Kazakhstan, dedicated to improving its business processes based on new technology.

Due to the improved and updated website, primarily a more intuitive interface, passenger numbers who bought air tickets online have risen. The Air Astana website is now available in Korean and Chinese languages to improve the customer experience for our Korean and Chinese users. For the passengers' convenience, an online check-in system for domestic flights has been launched.

The absolute priority of the Company has been and always will be the safety and comfort of passengers. The highest level of safety and skilful management is evidenced by the fact that, for several years the punctuality of Air Astana flights was 89.6%, which corresponds to the best world standards. Once again, the 4-star Skytrax rating received by Air Astana confirms the impeccable level of customer service provided both on board and with our ground services.

Air Astana is rapidly moving forward, ensuring its focus remains on safety and quality customer service. People are the Company's greatest asset and the driving force of the Company. We are investing in training and creating the conditions necessary to enable career progression, to maintain and improve employee motivation and engagement in a commitment to our mutual success.

I am proud of the results achieved within the Company's 15 year history and I am confident that Air Astana will continue enhancing the economic prosperity of the Republic of Kazakhstan through our programme of intensive development.

2017 will require significant efforts to achieve profit growth and to successfully implement our plans in a continually challenging market. We have a great deal to do on our journey as the leading regional network carrier in the CIS.

On behalf of the Board of Directors and the shareholders, I would like to thank the entire Air Astana team for their commitment, loyalty and continued hard work in 2016.

**Yours faithfully,  
Nurzhan Baidautov**



## Letter from the President & CEO

The bottom line figure of a loss of US\$39.87 million, the first full-year loss in the Company's 15 year history, is obviously very disappointing. However had there not been a provision of US\$52 million for possible loss of term cash deposits in KazInvest Bank and Delta Bank, the former of which had its banking license revoked in December and the latter of which remains in serious financial difficulty, the Company would have recorded a net profit of US\$12.4 million. Operating profit, of US\$37.88 million, was 15% higher than that of 2015.

Since late 2015 the Company has sought to minimize risk from potential deposit loss in local banks by increasing the number of banks with which it deposits surplus cash, thereby reducing the amounts held in any one bank. Cash management policy has required that no bank with an international (Standard&Poor's, Moody's) rating lower than 'B' be used for deposits, and information available in the public domain of the asset quality and loan portfolio performance of local banks is constantly monitored. Unfortunately, in the case of both KazInvest Bank and Delta Bank, these criteria, whilst observed by the Company, have proved inadequate. Deposits respectively of US\$14 million in KazInvest Bank, and US\$45 million in Delta Bank, have not been recovered at this time in full and therefore it has been considered prudent to make provision for the loss of 91% of total deposits with them. The Company continues to work with the National Bank of Kazakhstan to recover some or all of the blocked funds, and has changed its cash management policy to require a higher threshold rating. The Company's cash position remains strong and sustainable despite the present unavailability, and possible loss, of the deposits in KazInvest Bank and Delta Bank.

Total airline revenue fell from by 18% from US\$761.75 million in 2015 to US\$621.01 million. The principle reason for this was the full year effect of the devaluation of the Kazakh tenge against the US dollar, following the decision by the National Bank to free float the tenge in late August 2015. Since Air Astana earns approximately two thirds of its revenue in tenge, revenue as denominated in dollars has continued to suffer, as has market demand, as local travellers (who earn in tenge) found their purchasing power reduced when overseas. Notwithstanding such a steep revenue fall, operating profit, as stated above, was 15% higher than that of 2015 because unit cost fell by 22%, from 5.9 to 4.6 US cents per Available Seat Kilometre. Cost reduction was driven by lower fuel prices, devaluation-led lower local costs and continued efficiency improvements, and has led to the airline having one of the lowest unit costs of the global aviation industry, including those of traditional Low Cost Airlines. This is a very healthy platform on which to build future growth, as we believe that it allows us to claim that the airline is now low-cost, long-haul, full service, an almost unique proposition.

Despite the pressures on revenue we continued to enhance our product, resulting in the Skytrax Award of 'Best Airline Central Asia, and 'Best Airline Staff in Central Asia and India', for the fifth and fourth consecutive years respectively. We achieved 89,6% punctuality within 15 minutes of scheduled departure time, one of the highest in the world. We introduced the first of what is expected to be a fleet of 25 Pratt&Whitney Geared Turbo Fan-powered Airbus 320 NEO family aircraft by the end of 2021. We expect the well-documented problems with the GTF engines to be resolved by early 2018, by which time

PRESIDENT

we look forward to taking full advantage of the 15% fuel savings the NEO is achieving against the A320 classic. Most encouragingly, we saw a huge upswing in network business via Kazakhstan, so-called sixth freedom traffic using Kazakhstan as a transit point. Sixth freedom sales grew by 67% and are now 10% of all passengers, driven by an attractive product and aggressive pricing activity by our global sales and revenue management teams, made possible by the airline's exceptionally low unit cost to which I referred earlier.

As we look forward to 2017 we have reason for the first time for several years to be optimistic. The Kazakhstan economy has recovered somewhat following modest oil and commodity price rises, and is expected to grow at 2% this year according to the Economist Intelligence Unit. The tenge has recovered some ground and continues to trade at between 15% and 20% higher than its lows in 2015 and 2016. Again,

and most encouragingly, sixth freedom business continues to grow at an extremely rapid pace, driven by market recovery and the airline's strengthening positioning in Russia, China, Korea, India, Hong Kong, Thailand, Georgia, Ukraine, and other parts of Central Asia. Code shares with Air France/KLM on Astana and Paris and Amsterdam routes, and Lufthansa on the Astana and Frankfurt route, have strengthened our market position in Europe. Astana EXPO 2017, of which Air Astana is the official carrier, is expected to generate huge domestic and international interest in and travel to Astana, facilitated by a brand new, 8.5 million passenger capacity, high quality international terminal at Nursultan Nazarbayev International Airport.

I would like to take this opportunity, as ever, to thank my colleagues for their dedication, our customers for their loyalty, and our shareholders Samruk-Kazyna and BAE Systems PLC, as well as government and business partners, for their continued support.

Yours faithfully,  
Peter Foster



# MARKET

## Market overview

- Passenger traffic has grown by 6.3% in 2016 as a result of the expansion in the world air traffic market
- The International Air Transport Association (IATA) forecasts a twofold increase in the global demand for passenger services over the next twenty years
- Over the last ten years, the size of air traffic market in Kazakhstan has doubled and in 2016 stands at six million passengers (2007: 2.7 million passengers)
- In respect to the total transportation market within Kazakhstan, air transportation now contributes a larger proportion of passenger movements than 5 years ago

In 2016, the world aviation market has continued to grow driven by a reduction in jet fuel prices and the rise in the global purchasing managers' index (which rebounded from 50.9 to 52.7 in 2016). According to IATA the annual growth in industry-wide revenue passenger kilometres (RPKs) increased 6.3% in 2016. This was slightly down (0.4% reduction) on the growth rates seen in 2015 but still represented a strong performance being well ahead of the 10-year average growth rate of 5.5%.

The upward trend in passenger traffic was tempered in the first six months of the year by high-profile terrorist attacks, political instability and a subdued economic activity. However, during the second half of the year growth picked up with RPKs growing at an annualised rate of nearly 9%. Despite international economic uncertainty and economic challenges the global purchasing managers' index (Global Manufacturing PMI) reached a new 34-month high in December 2016 and the industry-wide passenger load factor posted a record high of 80.5% in 2016.

As a result of relatively low jet fuel prices, a number of airlines re-assessed their pricing policies

and reduced airfares. This has also helped to boost global demand. According to IATA, improving global economic conditions will play a key role in determining the pace of passenger traffic growth worldwide. Given that jet fuel is a major component in the structure of airlines' direct operating costs, the fluctuation of crude oil prices directly impacts on airfares. In 2016, having reached a 12-year low, jet fuel prices started to increase, which suggests that in the medium term further reductions in airfares is unlikely.

### International air transportation

2016 saw robust growth in passenger traffic on international routes (particularly Asia-Pacific, and the Middle East), but wide variation in domestic performance.

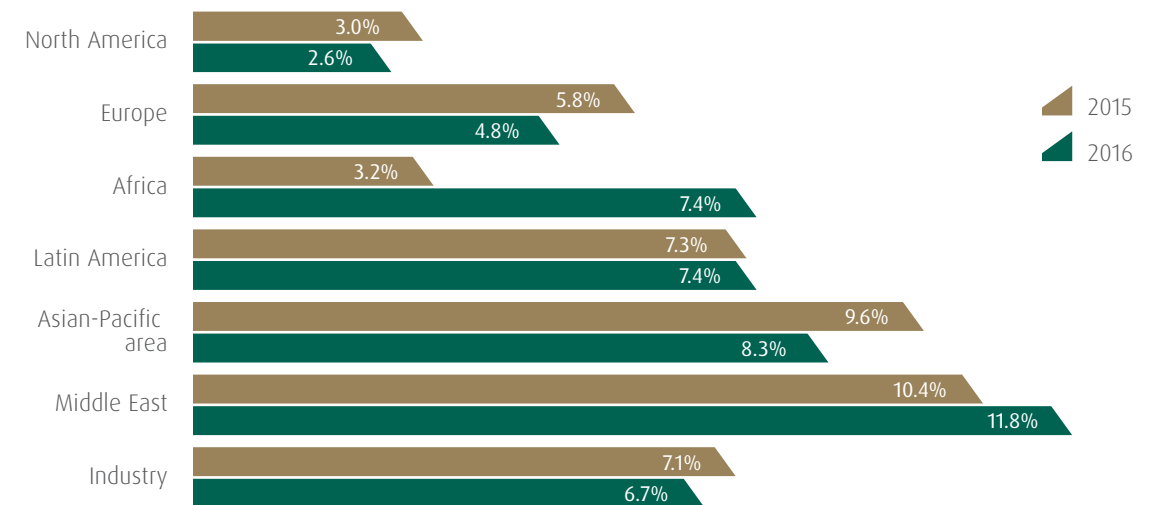
The strongest overall growth in international travel in 2016 was recorded by carriers in the Middle East, with an 11.8% increase in revenue passenger kilometres (RPKs) compared to 2015.

Asia-Pacific airlines posted the second fastest overgrowth (8.3%), followed by African and Latin American airlines, which recorded identical international passenger growth figures of 7.4%.

Annual growth in international RPKs flown by European carriers climbed 4.8%, falling by 1% during 2016 in comparison to 2015. Growth in the North American market remained at approximately the level of 2015 at 2.6%.

Air traffic growth in developed world economies has significantly decreased with European and North American companies increasingly acting as donors in the secondary aircraft market.

International passenger traffic growth by carrier region of registration (in 2016 and 2015)



Source: IATA Monthly Statistics

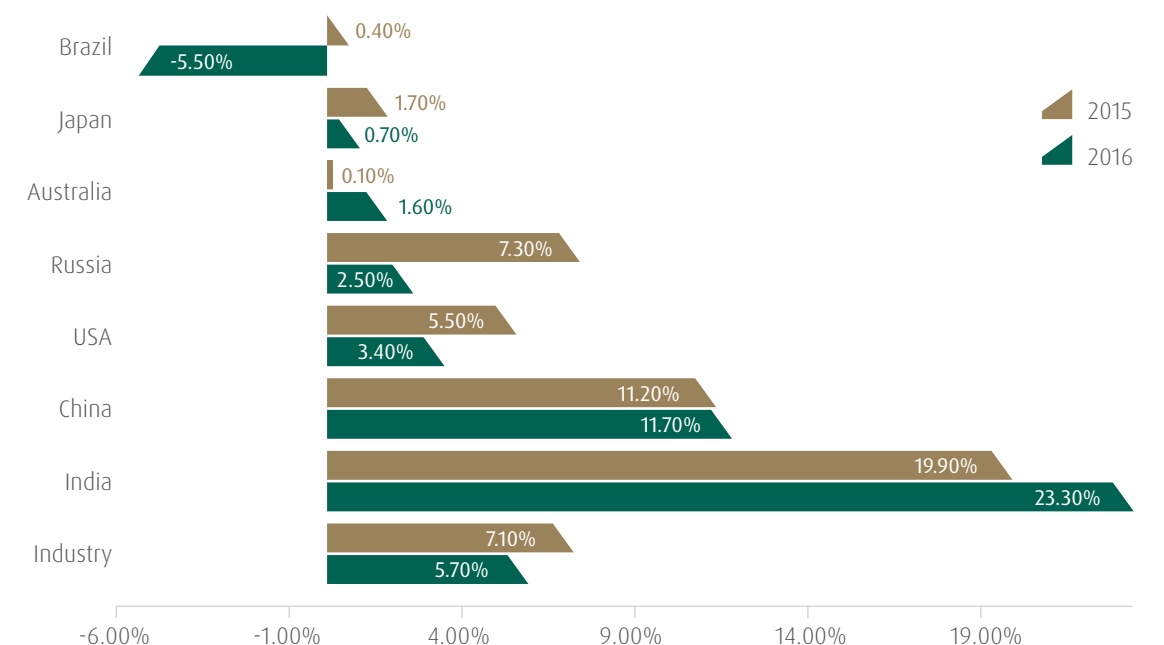
### Domestic air transportation

Annual growth in industry-wide domestic RPKs amounted to 5.7% in 2016 as compared to 7.1% in 2015. As in 2015, the growth leaders in domestic air transportation were India and China. The growth rates in RPKs in these rapidly expanding countries were 23.3% and 11.7%, respectively. The major airlines based in these countries have announced plans to increase the frequency of domestic flights in 2017.

The bankruptcy of Russia's biggest private airline, Transaero, in November 2015 had a negative impact on the air traffic market in Russia. Passenger traffic growth on domestic routes reduced significantly, at 2.5% compared with 7.3% in 2015. In Russia, the recovery of domestic air traffic is closely aligned with the improving economic climate.

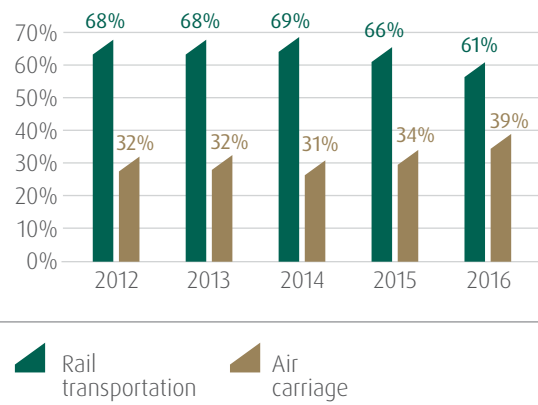
Domestic air traffic in the United States, Japan and Australia shows limited growth, annual domestic transportation in Brazil has decreased by 5.5% year-on-year

Domestic RPK growth by market (in 2016 and 2015)



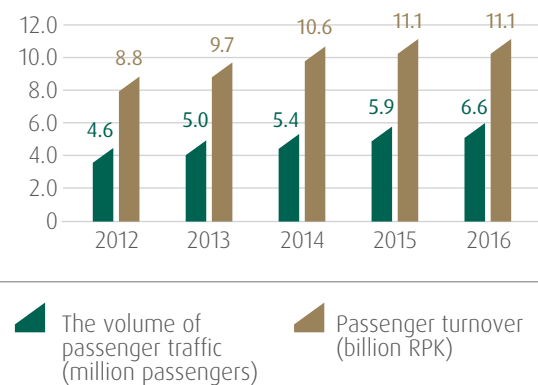
Source: IATA Monthly Statistics

**Dynamics of the Passenger Transport Structure on the Kazakhstani Market (for the period from 2012 to 2016)\***



Source: The Statistics Committee of the Ministry of National Economy of Kazakhstan

**The Dynamics of the Air Passenger Traffic and Passenger Flow in Kazakhstan in 2012 – 2016**



Source: The Statistics Committee of the Ministry of National Economy of Kazakhstan

**Air transportation market in Kazakhstan**

Analysis of passenger traffic in the country shows a rising trend for the share of passenger air traffic. Over the last five years, there has been an increase in the share of air transportation in Kazakhstan, and in the relative contribution of passenger traffic, from 32% to 39%. Conversely, the share of railway traffic in the country for the same period has decreased from 68% to 61%.

Air transportation in Kazakhstan has shown a steady growth in passenger traffic over the last five years with an average growth rate of 7%. It should, however, be noted that the rate of passenger traffic growth slowed in 2016.

Across 2016 passenger traffic totalled 6 million passengers, 1% (or 81,000 passengers) higher than in 2015. By comparison, over the period between 2012 and 2015 passenger traffic grew on average by 455,000 passengers per annum. The temporary slowdown in the pace of growth in the volume of passenger traffic is largely due to the fall in consumer purchasing power brought about by the devaluation of the national currency in 2014–2015.

For four years, from 2012 to 2015, the number of passengers carried domestically by Kazakhstan airlines increased by 36%, the equivalent growth of passengers on international flights was 23%.

**Competition environment in Kazakhstan**

Air Astana has a major share of the Kazakhstan air traffic market and remains the benchmark against which other market players measure themselves. In 2016, the Company's share of passenger traffic reached 62%. The remaining 38% was divided between three principal airlines: SCAT, QAZAQ AIR and BEK AIR.

Air Astana is differentiated from its competitors in the domestic market based on its highly developed route network, flight frequencies, high level of service and standards and its relatively new aircraft fleet.

\*For the purpose of analysis, transportation by road (bus, tramway, trolleybus and taxi) was excluded, as it is mainly characterized as public transport.

**Impact of macroeconomic factors on the activity of airlines of Kazakhstan**

The devaluation of the national currency in 2015 significantly affected the operations of the airline and the dynamics of the air traffic market. The main expenses such as purchasing or leasing of aircraft, spare parts, aviation fuel, insurance, maintenance and other expenditures, are all incurred in foreign currency, therefore, making the running of an airline business significantly more expensive.

**Air traffic market forecasts**

The IATA predicts that by 2035 the number of travellers in the world will reach 7.2 billion passengers, almost twice the 3.8 billion passengers we saw in 2016. This forecast is based on a 3.7% annual average growth rate. Asia Pacific, Africa, South America and the Middle East are the regions where expansion is likely to be most significant.

The Kazakhstan air transportation market has significant growth potential both for international and domestic flights. The underlying factor that makes the growth of international traffic likely is the country's favourable geographical position for transit traffic. The latent potential for air transport in Kazakhstan relative to more developed markets suggests inherent high growth for domestic air transportation. In recent years, there has been an increase in the share of passenger traffic by air, while the share of railway traffic segment has decreased.

Despite the fall in real incomes in the country, the air traffic market has seen stable growth over the last five years, in terms of both passenger traffic and the income of airlines denominated in the national currency. Economic growth in the country, the development of domestic tourism, the stability of the national currency, together with changes in market prices for energy resources, will determine the growth dynamics of this industry in Kazakhstan.

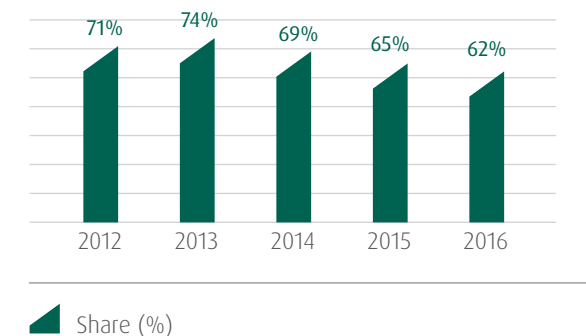
\*\*No passenger traffic by modes of transport for 2016 has been published by official statistics sources of Kazakhstan as of the date of the Annual Report

**Passenger Traffic by Modes of Transport for 2012 – 2015\*\* (in thousands of passengers)**



Source: The Statistics Committee of the Ministry of National Economy of Kazakhstan

**The Share of Air Astana in the Air Transport Market (International and Domestic)**



Source: The Statistics Committee of the Ministry of National Economy of Kazakhstan



# STRATEGY

## Our strategy

Fleet expansion, introduction of new domestic and international routes, enhancement of the maintenance centre, adding to its complement of highly qualified and experienced pilots and improvement of corporate governance were set as Air Astana's major priorities, according to the Company's strategy for 2011-2020, approved by the Shareholders in January 2011. Looking back to the beginning of 2010, when the Company's development strategy was adopted for the period 2011-2020, it is clear that its main targets have been achieved.

The strategy provides for the following main aspects of the Company's development:

- We seek to continue to grow profitably, enhancing our position as the regional leader in Central Asia
- Air Astana operates modern aircraft – notably the Embraer E190, the A320 family, the B757 and the new B767. In late 2016, the airline delivered its first A320 neo aircraft and plans to introduce A321 neo long haul. These aircraft provide us with the one of the most modern fleet in the region
- Air Astana has become the benchmark airline in the region, with cutting-edge distribution and revenue management systems, website, and corporate application and management information systems. We are committed to maintaining this status
- We are developing a heavy maintenance engineering capability with extensive workshop facilities, enabling us to carry out major aircraft maintenance in-house, provide a centre of excellence in the region, and allow us to maintain similar types of aircraft for other airlines
- The airline has an excellent safety system and record, and we will continue to develop this in all areas of business operations
- We forecast total passenger traffic to grow to over 6.6 million passengers by 2021

- The airline plans to introduce up to 14 new routes domestically and up to 31 new routes internationally
- We plan to develop Astana and Almaty airports as regional hubs for Central Asia. Development of our two main hubs provides access to the large and growing markets of China and CIS. This adds new engines of growth to our business
- The Ab-Initio pilot training programme is creating a pool of a highly qualified and experienced Kazakh pilots comparable with that of any major international operator
- Air Astana is at the forefront of human resources and personnel development. The Company is recognised throughout Kazakhstan and by its own employees as being a first-class employer that applies best international practices in management and constantly invests in training to develop the potential of all of its employees
- Air Astana is recognised as having a corporate governance system that meets international best practices and seeks to maintain and enhance this system

### A changing operating environment – new challenges for the Company

The airline business is cyclical by nature and heavily influenced by external factors. Strategic planning is a continual process for airlines. Plans must take into account the challenging and ever-changing competitive environment as well as how passengers define 'value'. In addition, the delivery time of new aircraft takes years, which means that airlines must plan their business on a long-term basis. This includes planning future routes and networks, type of aircraft required, as well as compliance with international standards.

It is very difficult to predict how the market will behave during the period between planning to and then buying an aircraft. Given that such features of the business yield low profitability and the need for high capital investment, it is extremely important for air carriers to optimise all aspects of business activity to achieve success. Equally important is the construction of a system that is flexible and resistant to external influences.

Today, Air Astana is facing new challenges; various economic, political, and technological megatrends have been affecting our business. At the moment, we are working on developing a strategy for the next ten years. We still seek to continue to grow profitably, investing in our competitiveness and enhancing our position as the regional leader in Central Asia. The primary focus of this strategic plan is the development of the international route network to provide frequency and connectivity between international to international and domestic to international services in order to stimulate 6th freedom transit traffic.

Another challenge for the Company is the planned access to the public market in the coming years. Here the most important success factors are corporate governance and business ethics, the Company's culture, its values and mission.

### Strategic strength and growth opportunities of Air Astana

- Favourable geographic location

We have a perfect geographical location – between two large markets – the CIS and China, which gives us a permanent competitive advantage. The expanded airport terminal in Astana, which will open 2017, is designed in such a way as to connect the airlines' domestic and international traffic and to make the airport experience more convenient for passengers. Considering the comparably small size of the domestic market, we are focusing on the international market in order to make Astana and Almaty airports the active hubs for international traffic.

- Young fleet

Today, Air Astana's fleet also remains one of the youngest, with the average age of our aircraft just seven years old, which is up to two times less than the average fleet age of major CIS and European

airlines. By operating a young fleet, the airline benefits from lower fuel consumption and reduced carbon emissions. The Company plans to double the number of its fleet over the next decade.

- High-class service

Air Astana has been nominated for the Skytrax 4-star airline status of 'The best airline in Central Asia and India' for the fifth year in row, boasting the best on board service. Air Astana is the first 4-star airline in Eastern Europe and the CIS for quality of service, as rated by Skytrax.

- Leading position in the domestic market

Air Astana occupies a major share in the Kazakh air traffic market; it is the benchmark by which other market participants measure themselves.

- Development of auxiliary income

Nowadays, Air Astana has a solid basis for generating additional income. Air Astana's maintenances, training and technical staff and crew and other services, rendered to other airlines, have become sources of additional revenue for Air Astana. The Company has established a Business Development Unit tasked with identifying revenue opportunities that will leverage Air Astana's infrastructure, resources and expertise through ancillary businesses.

- High safety standards

In 2015, Air Astana successfully passed the EU 'Third Country Operator' audit with zero audit findings and successfully renewed IOSA registration for the 5th time with zero findings, which is a consequence of adherence to all safety requirements. The Air Astana operational corporate safety strategy is aligned with the IATA framework, which is designed to identify and mitigate organizational and operational safety and compliance risks.

- IT leadership

Air Astana will maintain IT leadership in the region with the best e-commerce in Kazakhstan, through its website, distribution and corporate information management systems.

- Cost efficiency

In 2016, our unit costs have reduced to the level comparable with the most efficient low-cost carriers in the world, despite Air Astana offering the full service.

# MANAGEMENT REPORT







# MANAGEMENT REPORT

## Operating performance

Since the first Almaty – Astana flight in 2002, Air Astana has continuously strived to become the best airline in Kazakhstan and the CIS. The impressive results achieved over the past 15 years have shown we have managed to create a reliable airline with high standards of safety and impeccable customer service through the continuous pursuit of excellence.

	2012	2013	2014	2015	2016
<b>Passengers carried, million</b>	3.25	3.68	3.77	3.86	3.75
Domestic	1.99	2.12	2.18	2.28	2.09
International	1.26	1.56	1.59	1.58	1.66
Transit	0.09	0.19	0.20	0.19	0.31
<b>Revenue passenger-kilometres (RPK), billion</b>	6.40	7.45	7.55	7.78	7.81
Domestic	2.33	2.52	2.57	2.77	2.55
International	4.06	4.93	4.98	5.01	5.26
<b>Available seat-kilometres (ASK), billion</b>	9.47	11.40	11.67	12.41	12.72
Domestic	3.28	3.55	3.71	4.17	3.95
International	6.19	7.85	7.96	8.24	8.76
<b>Load factor, %</b>	68%	65%	65%	63%	61%
Domestic	71%	71%	69%	66%	65%
International	66%	63%	63%	61%	60%
<b>Cargo, mail &amp; excess baggage, thousand tonnes</b>	22.1	23.8	19.0	16.6	16.6
<b>Revenue tonne-kilometres, million</b>	652	753	748	762	767



Throughout the recent global economic difficulties, Kazakhstan's national currency has been devalued several times, the last of which occurred in the middle of 2015. For the second consecutive year, this factor has continued to have an impact on the air travel market. The decline in the purchasing power of the population, as a result of the depreciations of the tenge, has lessened demand for air travel.

During 2016, the Company carried 3.7 million passengers, which is more than 10,000 a day on average. This slight decrease of 3% when compared year-on-year to 2015, is mainly a result of an 8% decrease in passenger traffic for domestic flights. This fall in passenger numbers was due to several major factors, including a 5% reduction in the available seat kilometres (ASK) on domestic flights compared to 2015 and the development of the Kazakh air travel market. In recent years, there has been an increase in the domestic competition from local airlines, such as Qazaq Air, Bek Air and Scat, resulting in Air Astana's domestic market, but still remaining the largest among many Kazakh carriers.



Remaining the undisputed leader in the Kazakh market, and also setting the benchmark for its competitors, our strategic objective is to focus on the development of the international air travel market, which has enormous potential due to the catchment area we find ourselves in, to become the key transit point in Eurasia.

The success of the Company's strategy and the hard work of all involved have also positively affected the results of international air travel, e.g. passenger traffic increased by 5%, which amounted to 1.7 million in 2016. Two key factors to mention are, firstly, the 67% growth of transit traffic, and secondly, the 6% increase in available seat kilometres (ASKs) on international routes, including the opening of a new Almaty - Tehran route.



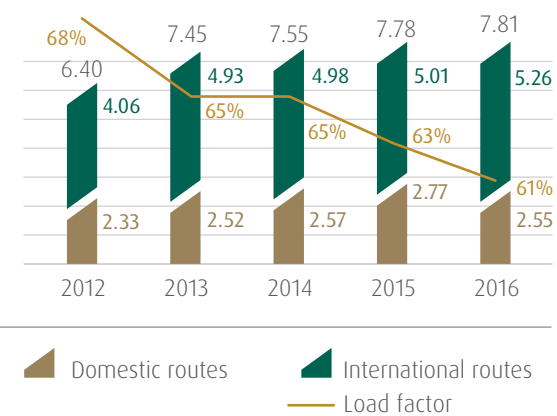
The Company's focus on providing passengers with convenient times for connections, continuous improvement in the level of our service, and the provision of competitive tariffs and attractive products for passengers, such as Stopover Holidays, have contributed significantly to the growth in transit passenger numbers through Almaty and Astana international airports. In 2016, the number of transit passengers increased by 67%, from 186,000 to 310,000. Geopolitical tensions in the Middle East and Eastern Europe and the depreciation of the tenge have made travel to Kazakhstan more attractive

to foreign travellers and positively contributed to the development of transit passenger traffic of the Company.

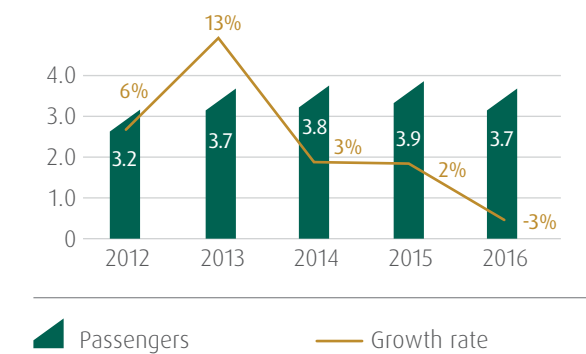
Further development of the route network led to an increase in the capacity of the airline in the regional market, measured in ASK, of 2.4% up to 12.7 billion ASK. In addition, ASK growth resulted in a decrease in the passenger seat occupancy rate of 2% to leave ASK at 61% in 2016. The passenger seat occupancy rates of the Company give us the considerable potential to generate and increase demand for our services by focusing on the needs of our customers. In 2016, the Company's passenger traffic increased by 0.5% and reached 7.81 billion revenue passenger kilometres (RPK).

All in all, despite the significant external challenges faced in 2016, Air Astana was able to maintain its position in key operating indicators at last year's level. In the coming years, our plans to develop the route network, expand capacity, modernise the aircraft fleet and provide attractive conditions for our customers along with a stringent policy toward high safety and quality standards, will only help increase the operating performance and value proposition for our customers. This success will also be aided by our competitive advantage in having a perfect geographical location - between two significant markets - the CIS and China, which offer great potential for the growth of transit passenger traffic.

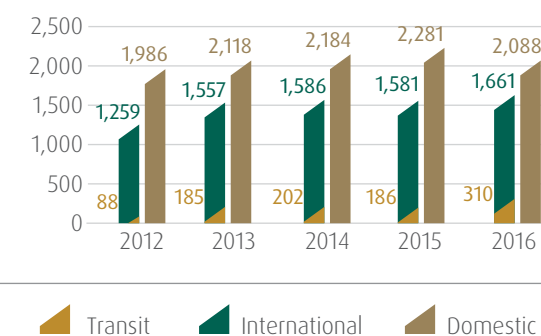
RPK, billion and Load Factor, %



Passenger Traffic, million



5-Year Domestic, International and Transit Passenger Traffic (in thousands)





# OUR NETWORK

## MAP Our network

Air Astana commenced regular flight operations in May 2002 and currently has a network of 44 international and 21 domestic routes operated from hubs in Astana and Almaty.

Our Company has codeshare agreements with Air India, Asiana Airlines, Austrian Airlines, Bangkok Airways, Etihad, KLM and Turkish Airlines, as well as special prorate agreements (SPA) with more than 40 other carriers, allowing passengers to choose from over seven hundred destinations worldwide. In 2016, we signed codeshare agreements with Air France, Hong Kong Airlines and Lufthansa.

A new direct Almaty-Tehran route was launched in the middle of 2016, with the frequency of three flights per week. During the year the Company increased the flight frequencies to the most popular domestic and international destinations.

Next year, the Company plans to introduce new routes from Astana to Kiev and Ulaanbaatar and increase frequencies on regional and international routes. Air Astana continues to review the growth opportunities for its existing network and new markets.



— Current routes  
- - - Seasonal routes

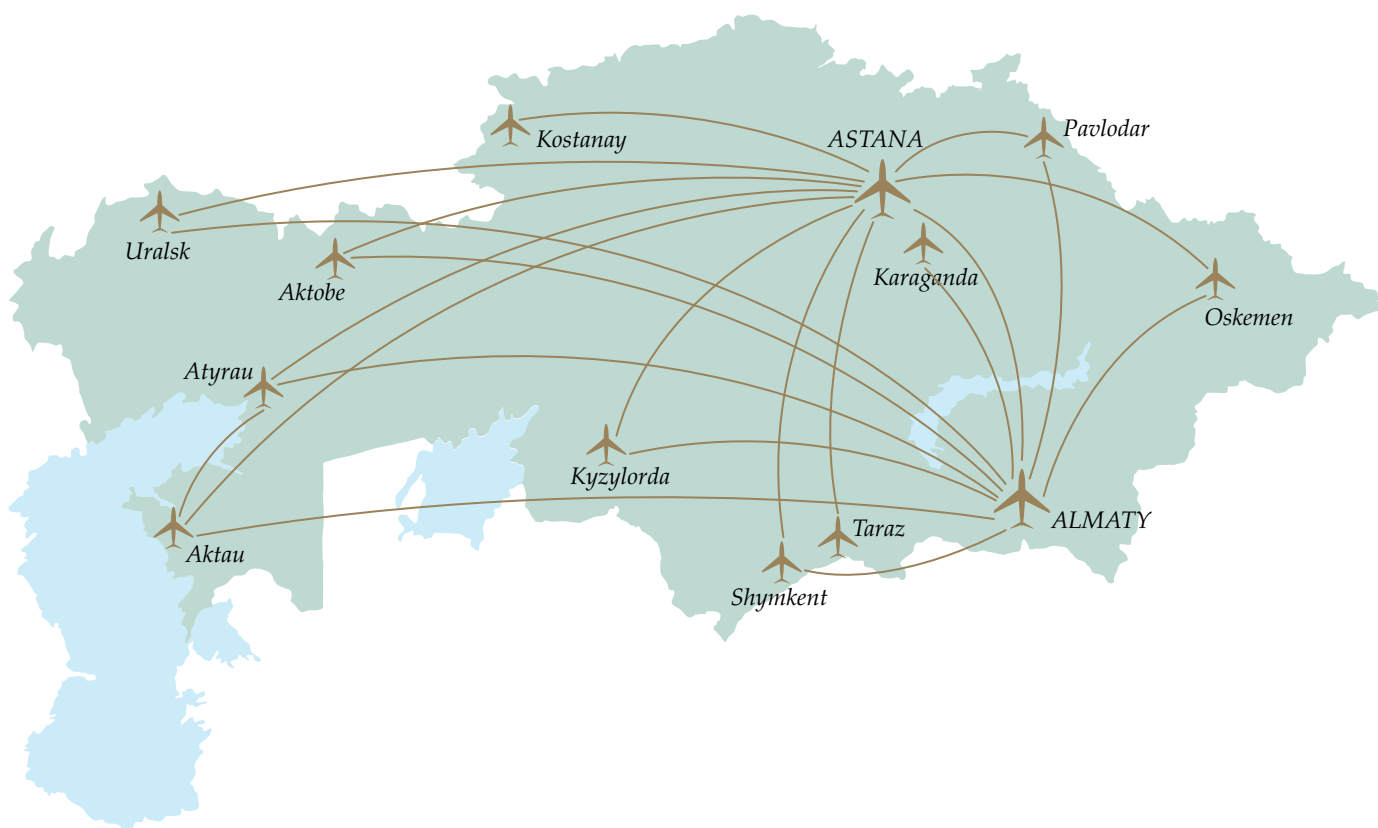


# Our fleet



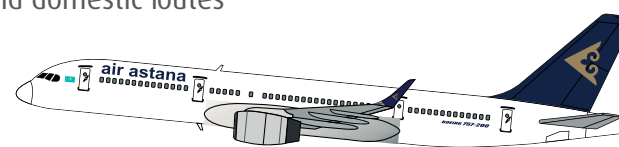
Air Astana operates a modern fleet of 31 Western-built aircraft and plans to double its fleet the next decade. Air Astana has a proven track record in safety and expertise. We are an IOSA registered

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



## BOEING 757

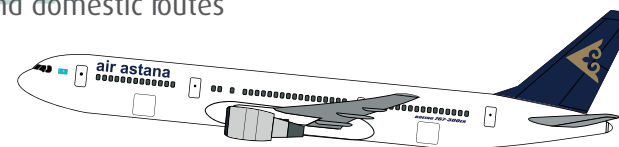
Operates on long-haul international and domestic routes



- Quantity 5
- Cruise speed 850 km/h
- Max. take-off weight 113,398 kg
- Range 7,250 km
- Economy class 150 seats
- Business class 16 seats

## BOEING 767

Operates on long-haul international and domestic routes



- Quantity 3
- Cruise speed 850 km/h
- Max. take-off weight 176,447 kg
- Range 11,000 km
- Economy class 193 seats
- Business class 30 seats

## EMBRAER 190

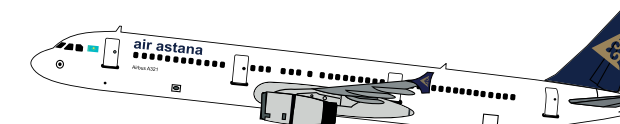
Operates on short and medium haul international and domestic routes



- Quantity 9
- Cruise speed 800 km/h
- Max. take-off weight 49,990 kg
- Range 4,500 km
- Economy class 88 seats
- Business class 9 seats

## AIRBUS A321

Operates on short and medium haul international and domestic routes



- Quantity 4
- Cruise speed 825 km/h
- Max. take-off weight 89,000 kg
- Range 5,950 km
- Economy class 147/151 seats
- Business class 28 seats

## AIRBUS A320

Operates on short and medium haul international and domestic routes



- Quantity 8
- Cruise speed 850 km/h
- Max. take-off weight 77,000 kg
- Range 6,100 km
- Economy class 132 seats
- Business class 16 seats

## AIRBUS A320 NEO

Operates on short and medium haul international and domestic routes



- Quantity 1
- Cruise speed 828 km/h
- Max. take-off weight 77,000 kg
- Range 6,850 km
- Economy class 132 seats
- Business class 16 seats

## AIRBUS A319

Operates on short-haul international and domestic routes



- Quantity 1
- Cruise speed 825 km/h
- Max. take-off weight 75,500 kg
- Range 6,850 km
- Economy class 114 seats
- Business class 12 seats

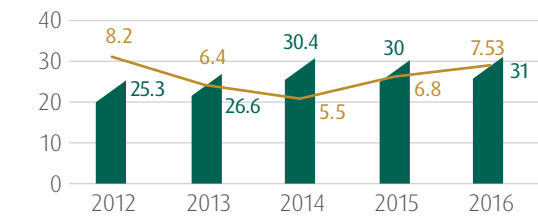
## Upgrading our fleet

Air Astana has one of the youngest fleets in the industry. Our fleet includes Boeing 767-300ER, Boeing 757-200, Embraer-190, Airbus A320 family and Airbus A320 neo. The Company started a major upgrade of aircraft in 2011, and by the end of 2016 the fleet was replenished with 22 new aircraft.

On the 7th of November 2016, Air Astana became the first airline in the CIS to start operating the new, re-engineered narrow-bodied Airbus A320 neo. It is expected that its improved economic efficiency will contribute to a more active entry of the Company into the Chinese and Southeast Asian markets.

The Airbus A320 neo family is a re-engine development of its A320 family of narrow-body airliners. The A320 neo is equipped with up-to-date engines and winglets, named 'Sharklets' by Airbus. According to Airbus, the aircraft will deliver fuel savings of up to 15% as compared to the original A320. Moreover, the A320 neo is an aircraft with the lowest level of engine noise in its class, with 50% reduction in noise footprint compared to A320 ceo.

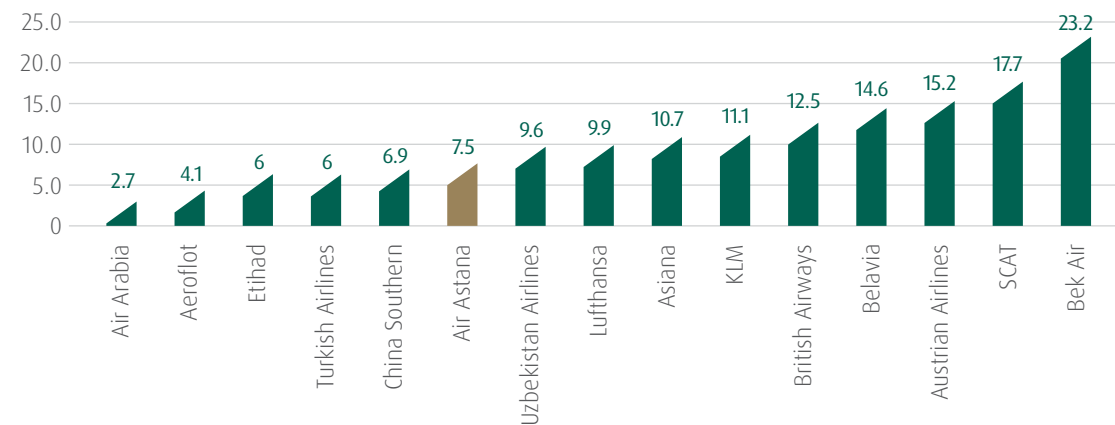
**AIR ASTANA FLEET SIZE AND AVERAGE FLEET AGE EVOLUTION**



Number of aircraft — Average fleet age

Our fleet age compares favourably with airlines globally and with those that fly in the CIS and our extended home market. In particular, it is almost half the average fleet age of major CIS operators. A young fleet, which uses fuel more efficiently, contributes to our reduced carbon footprint.

**AVERAGE FLEET AGE COMPARISON**



Source: Air Astana JSC, Airfleets net; the Company's latest available data.

19 out of 31 ac, or 61% of our fleet, are narrow-body aircraft operated on medium-haul routes; 9 regional aircraft are used for domestic and regional operations, and 3 wide-body aircraft are mostly operated on long-haul routes. At the end of 2016, the Company had 20 aircraft under operating lease, and 11 aircraft under financial lease.

## AIR ASTANA FLEET

Aircraft	Type	Operating lease	Financial lease	Fleet size, as of Dec 31, 2016
Embraer 190	Narrow-body	7	2	9
Boeing 757	Narrow-body	5	-	5
Airbus 319	Narrow-body	1	-	1
Airbus 320	Narrow-body	4	4	8
Airbus 321	Narrow-body	2	2	4
Airbus A320 neo	Narrow-body	1	-	1
Boeing 767	Wide-body	-	3	3
<b>Total</b>		<b>20</b>	<b>11</b>	<b>31</b>





# Safety SAFETY

Safety is our core value and overriding operational priority. The Company adheres to the highest international standards and best practices by means of implementing and maintaining structured and comprehensive processes of hazards identification and risk mitigation as part of its Safety Management System (SMS).

Air Astana is the first air carrier certified as the Third Country Operator in accordance with the European Aviation Safety Agency (EASA) standards.

In May 2015, the Company successfully passed the fifth IATA Operational Safety Audit (IOSA) conducted once every two years and in November 2016 it was invited to take part in the IOSA Working Group to contribute to the development and improvement of IOSA standards.

In March 2015, Air Astana joined the prestigious IATA Accident Classification Task Force (ACTF).

In August 2016, the Company successfully passed the annual EASA Part-145 audit (Aircraft Line Maintenance) and Part-147 audit (Maintenance Training Organization). As a holder of the EASA Part-145 certificate, the Company performs full maintenance of its own fleet and provides line maintenance services for other air carriers as well.

Also, last year the Company continued its activities under the two IATA safety and quality audit programs, the IATA De-Icing/Anti-Icing Quality Control Pool (DAQCP) and IATA Fuel Quality Pool (IFQP).

Air Astana satisfactorily completed LOSA (Line Operations Safety Audit) Quality Assurance Process. The voluntary international standard process allows airlines to identify and mitigate errors and threats present in their flight operations.

In December 2016, the European Commission excluded all Kazakhstan airlines from the list of banned airlines. Air Astana was the exception from this list, never having been banned, due to the good safety performance.

The Company continuously strives for improvement to reach the level of safety that is in line with local and international aviation safety standards and demonstrates the highest level of responsibility when it comes to audits. Continuous monitoring and analysis assure risk level transparency in all areas to enable prompt response in case of any indications of changing safety levels.

## Regulatory oversight

Operational safety is monitored by the following key authorities: the Department of Civil Aviation of Aruba (the State of Registry); Kazakhstan's Civil Aviation Committee (the State of Operations); and other regulatory authorities having specific powers in the field of operations or aircraft maintenance approval.

In 2016, Air Astana successfully completed several external regulatory inspections, namely:

- 3 unscheduled inspections, 8 line inspections and 1 ramp inspection conducted by the Civil Aviation Committee
- the annual EASA Part-145 audit (Aircraft Line Maintenance) and Part-147 audit (Maintenance Training Organization)
- an annual audit of Air Astana Operations departments conducted by the Department of Civil Aviation of Aruba
- 31 Aircraft Certificates of Airworthiness renewed by DCA Aruba without significant findings
- 4 inspections held by operators and other CAAs
- 86 SAFA (Ramp) inspections on aircraft operated by Air Astana

We believe that an objective monitoring of our operations, ongoing development as well as an open dialogue with the authorities governing Air Astana operations guarantee safe and high-quality airline operations.





## Regulatory compliance monitoring

Standards adopted by the Company in various areas, such as airworthiness, flight operations, passenger services, ground handling, maintenance and aviation security, are based on the requirements set forth by supervisory authorities and international best practice.

To ensure compliance with the requirements, the Company needs to assess adherence to such standards on an ongoing basis.

The internal Compliance Monitoring Programs are supported by the Company's membership and active participation in such IATA safety and quality audit programs as the IATA Safety Audit for Ground Operations (ISAGO), IATA Fuel Quality Pool (IFQP) and IATA De-Icing/Anti-Icing Quality Control Pool (DAQCP). Moreover, the Company has four in-house

IOSA auditors showing its intention to demonstrate compliance with the highest standards.

Compliance audits conducted by Air Astana internal departments in 2016 demonstrated an acceptable level of compliance with both the Company's standards and regulatory requirements based on IOSA regulations and included: 25 audits of the Airfield Services Department, 38 audits of the Ground Services Department, 12 audits of the Aviation Security Department, 4 audits of the In-Flight Services Department, 123 audits of the Engineering and Maintenance Department.

## Accident prevention program

Identification and mitigation of operational risks is one of the key tasks aimed at accident prevention. To ensure prompt risk identification the Company initiates external and internal safety audits.

As of the end of 2015, an agreement for a Line Operations Safety Audit was signed with the LOSA Collaborative. The LOSA project involves the collection of data by trained observers during routine flights to determine how flight crews detect and manage threats and errors.

In January 2016, Air Astana performed 203 observations of regularly scheduled flights in the framework of the LOSA. In June 2016, Texas University, which analysed the data from the observations, stated in its final report that 'Air Astana satisfactorily completed all five steps of the LOSA Quality Assurance Process' and that 'Air Astana is a very healthy airline with disciplined, safety-minded pilots'.

The threats and errors identified during the LOSA will be addressed for continued improvement while being careful not to undermine the present high level of safety performance.

In March 2016, Air Astana joined the prestigious IATA Accident Classification Task Force (ACTF) responsible for preparing annual guidance for risk mitigation based on civil aviation accident analysis. The main benefits of Air Astana ACTF membership are the opportunity to run an active safety data exchange with other airlines, manufacturers, ICAO and other safety organisations and identify new and emerging hazards/threats to airline safety.

In 2016, the Company conducted 80 safety investigations, of which 34 were ordered by the Ministry for Investment and Development of the Republic of Kazakhstan and 46 were initiated internally within the internal risk management process.

In 2016, the Company's Flight Data Monitoring experts analysed 98.2% of flights with the aim to identify, measure and assess existing operational risks and take relevant mitigation measures with an emphasis on trends and route causes.

474 random alcohol tests were performed by the Company in 2016 with 228 pilots and cabin crew members also tested for illicit drugs.

Participation in international safety organisations provides an opportunity to use the expertise of the best professionals from different organisations, task forces and associations to improve our safety.

## Safety promotion

Maintenance of a high safety level is an ongoing process that requires continuous improvement and training in the field. One of the priority tasks for Air Astana is human resource development and staff training.

In October 2016, the 2nd Regional Safety Seminar 'Proactive Safety - Managing the Risks' was held by Air Astana jointly with Airbus. The seminar was aimed to share knowledge and experience in the implementation of elements of the Safety Management System, especially in the areas of risk management in practice and in the investigation of aviation events. Among the speakers at the seminar were experts with unique expertise and qualification representing IATA, ICAO, Emirates, Austrian Airlines, CAA of China, Airbus and Embraer. The event was attended by 110 participants (airlines, CAAs and manufacturers) from the CIS. Air Astana also shared its own experience in Flight Data Management, Wildlife Management and Human Factors in Maintenance at the seminar. Presentations and discussions included the changes and opportunities in aviation safety, an update on global and regional developments, available hazard identification tools, etc.

## Outlook for 2017

The key 2017 plans and tasks set by the Company in the field of corporate safety compliance are as follows:

- Development of more Safety Performance Indicators (SPIs) for better management of operational risks and more effective monitoring of preventive actions
- Renewal of safety certificates (IOSA, AOC)
- Further integration of corporate safety and compliance monitoring functions and enhancement of the risk management efficiency
- Better understanding of the human factor and route causation for risk mitigation purposes
- Better integration of standards and training in risk assessment
- Extension of risk analysis methodology to support safety data analysis
- Quality improvement of audits, investigations and safety data analysis to support proactive risk identification and mitigation





# OPERATIONS

## Flight operations

The year in review was a highly productive one for the Flight Operations Department that ensures safe, reliable and punctual flights. As one of the fastest-growing airlines in Central Asia, with over 4000 staff, Air Astana is continually seeking to complement its flying crew with appropriately qualified pilots. Thus, our Training Department continues to develop and enhance our programmes to reflect developments in the industry and to integrate unique features of Air Astana operations into our training syllabus.

We continued our drive to simplify our documentation. During the last year, paperless operations across all fleets were achieved due to the Electronic Flight Bag (EFB) project, which was commenced two years ago. A new documentation control process system, introduced in 2015, significantly reduced paperwork during the year by automating our documentation and reporting processes and contributing to the integration of the documentation system with airborne systems.

Air Astana continued to enhance standardisation through clear policies and procedures and to work towards excellent, on-time performance.

### Training

Training is one of the core functions of the Flight Operations Department. Our priority is to ensure we have the right structures in place, including up-to-date training programmes, to effectively manage our continued expansion, including new aircraft deliveries up to the end of the current decade.

During the past year, we trained 20 new expatriate pilots and 20 Kazakhstani cadets including three Patria graduates. The training involved initial cadet, simulator conversion and line training.

2016 was a special year for some graduates of the Ab-initio programme. We saw the first promotions of six Captains from candidates of the first Ab-initio programme who commenced their training in 2008. This underlines the importance of the Ab-initio programme; a long-term project to create a pool of highly skilled pilots from Kazakhstan.

The Ab-initio programme is designed to train pilots to the highest international standards. The training is provided by two schools, Atlantic Flight Training, in Cork (Ireland) and Flight Training Europe in Jerez, Spain. After graduating, the cadets are awarded an EASA Licence. We consider Ab-initio a major and worthwhile investment in time and resources to create a new generation of highly skilled pilots who will drive the future growth of Kazakh aviation.

Air Astana is continuing to work with well-established aviation partners in both basic and simulator training. Our objective is to continue our efforts to maintain the highest training standards.

Furthermore, a new electronic database is being developed and is planned for full implementation in the second quarter of 2017. It will provide fleet-wide training data, which will enable the training organisation to analyse performance and identify trends where further training emphasis is required. Over time, this will support the introduction of Evidence Based Training (EBT), which is under consideration.

### Standards

Last year, we continued to develop our Standards Department. The project, which commenced in 2015, to enhance standardisation with Type Rated Inspectors (TRIs) and Type Rated Examiners (TRES) was also continued. This took the form of identifying precisely the particular competencies and skills required for Air Astana pilots and establishing a new performance measuring process.

In 2016, instructors undertook practical training and assessments to ensure a convergence towards a defined standard. Particular emphasis was placed on briefings, debriefings and marking.

During the last year in review, Air Astana completed a Line Operations Safety Audit (LOSA). The programme has been endorsed by the International Civil Aviation Organisation (ICAO) as a tool for monitoring normal flight operations and developing countermeasures against human error. The LOSA project involves the

collection of data by trained observers during routine flights to determine how crew members detect and manage threats and errors.

This provided a useful observation of standards across the fleet. The active participation of our crew played a significant role in ensuring the success of this audit, which led to a successful outcome and complimentary comments from the audit team. The threats and errors identified during LOSA will be addressed for continued improvement while being careful not to undermine the present high level of safety performance.

### Operational projects

In 2016, Air Astana achieved paperless operations across all fleets, taking steps towards finalising paperless operations as a part of the Electronic Flight Bag (EFB) programme.

The EFB programme commenced in 2014, with trials being approved by the regulator and the Civil Aviation Committee and is based on the EASA standards for EFB.

Our medium-term objective is to develop electronic processes, which will enable all required operational documentation from briefing to post flight reporting to be presented to operational personnel through a combined interface. This will ensure regulatory compliance, improve efficiency and facilitate the flow of information around the business.

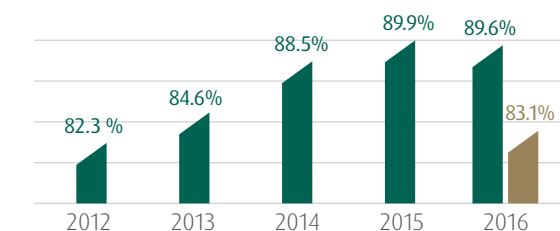
### On-time performance

In the past five years, Air Astana's on-time performance has grown by 7.3 percentage points from 82.3% in 2012 to 89.6% in 2016. Despite harsh weather conditions in areas where we operate, Air Astana received a high on-time performance result in 2016 (89.6%), which compares favourably with world leaders, exceeding KLM (88.5%), Lufthansa (83.8%), Qatar Airlines (86.3%) and others.

As a benchmark, Air Astana uses European and US on-time performance standards. We also benchmark against our colleagues in the Association of Asia Pacific Airlines (AAPA).

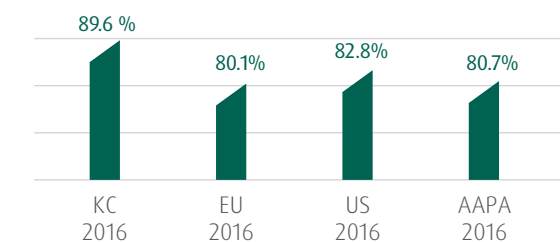
On a weekly basis, we review the root causes of any delays and work, wherever possible, to address these issues to minimise or eliminate delays in the future. We continuously strive to maximise our performance in this area as we understand its importance to our customers. Great teamwork with our colleagues in Engineering and Maintenance, In-Flight and Ground Operations made it possible to achieve high results last year as well.

#### 5-YEAR ON-TIME PERFORMANCE OF AIR ASTANA



■ On-time performance ■ Industry average

#### COMPARISON OF ON-TIME PERFORMANCE



### Outlook for 2017

The outlook and key plans for the Flight Operations department in 2017 include:

- Continue to safely improve our operational performance and deliver a consistent and reliable product
- Maintain the Ab-initio programme
- Conduct a crew training programme from Boeing to Airbus, to facilitate the arrival of the A321 neo
- Develop electronic processes which will enable all required operational documentation to be presented to operational personnel through a combined interface
- Continuously strive to maximise our on-time performance

# SUPPORT

## Engineering and maintenance

Air Astana's Engineering and Maintenance Department is committed to ensuring the highest standards of flight safety as well as increasing the efficiency of aircraft maintenance. We seek to be a regional leader in terms of engineering capabilities, with leading maintenance, repair and operational facilities in Kazakhstan. We provide technical training and carry out engineering and maintenance of aircraft and associated components in accordance with the requirements of the European Aviation Safety Agency (EASA) as well as the local Civil Aviation Committee.

This year was a busy and successful one for Engineering and Maintenance despite a challenging economic environment. Highlights of the year include delivery of our first Airbus A320 neo, running our first 'in-house' technical training course in our own EASA approved facility, completing the structural work on our own Main Maintenance Centre in Astana and expanding our workshop capabilities to support our own and our customer's needs.

### Engineering and maintenance

We maintain our aircraft in accordance with the requirements of EASA, the Aruban Department of Civil Aviation (DCA) and the local Civil Aviation Committee (CAC), all of whom routinely perform detailed audits of our processes and procedures, ensuring that all maintenance is compliant with the regulations in force.

For several years in a row, we have managed to achieve a 98% technical dispatch reliability rate, a reflection of our continued investment in equipment, systems and training. In addition, we easily achieved our target of one minute thirty seconds for an average time of technical delays.

Our maintenance activities included 17 major maintenance checks at various third party Maintenance

and Repair Organisations (MROs) in China and Europe. In Kazakhstan, we accomplished routine engine changes, landing gear changes, 'A' Checks and a comprehensive array of structural repairs as a result of Bird Strikes and Ramp Damage.

Furthermore, several major cabin improvement initiatives were started in 2016, including retrofitting mood lighting into some of our Airbus fleet and providing streaming entertainment to our customers via their own devices. During the summer all our ground equipment and de-icing equipment was serviced and overhauled ready for the start of the winter season.

During the year in review, we extended our EASA Part 145 approval to include Base Maintenance, allowing much greater flexibility to conduct major maintenance functions and obtained EASA Part 147 and CAC training approval for our training school.

After several years of work, we completed our Engineering Process project, where every working process was analysed and recorded on flow charts and made available online to all staff.

Throughout 2016, we devoted much attention to the realisation of our major project related to the construction of the Maintenance Centre in Astana, which progressed with the erection of and a large single-span hangar, offices, stores, training rooms and a large aircraft parking apron with underground electrical power access. As initially planned, the project is due for completion in 2017.

### Support departments

The Engineering Sales divisional unit continues to market successfully our services providing additional revenue from Line, Base, Training and Workshop services.

Today the engineering sales department coordinates requests from third-party airlines for technical

maintenance, logistics and customs clearance services and services in handling and storage of materials. They also co-ordinate with our school to provide aviation training. As a result the Company earned additional revenue of two million USD in 2016.

The Commercial Engineering Department played a key role in managing our lease contracts and supporting Air Astana's Commercial Department, as well as providing representatives to support our C-Checks. The in-flight entertainment streaming project was also handled with implementation during C-Checks.

The Engineering Finance department was successful in compiling and managing our budget, looking after warranties and supporting the main Finance Department. The Engineering and Maintenance Department has traditionally been the second most expensive department within the Company. Constant attention to efficiencies and careful management of the budget saw for the first time our department fall to third place.

### Training

In 2016, we continued to invest in training and facilities, expanding our in-house capabilities, raising standards and reducing costs for third party services.

Air Astana has opened a type training centre for engineers in Almaty, with certification by both the Kazakh and European aviation authorities. The training programme offers 26 specialities in various engineering disciplines, together with a full maintenance course on the Airbus A320.

The new training centre eliminates the need for Air Astana to send engineers overseas for training and welcomes candidates from other carriers, from both Kazakhstan and the CIS. The centre is one of only five in the CIS to be certified by European aviation authorities.

### Outlook for 2017

The outlook and key plans for the Engineering and Maintenance Department in 2017 include:

- Completion of Main Maintenance Centre Project Construction in June 2017



- Incorporation of the A320 neo into our fleet, the first of which was delivered in November 2016

- Development of a heavy maintenance engineering capability with extensive workshop facilities that will enable the airline to carry out major aircraft maintenance in-house, and provide the base for a centre of excellence in the region, and the ability to maintain aircraft for other airlines

- Improvement of the quality of our passenger services by adding innovative new products to our fleet (mood lighting in the cabins on the Boeing and Airbus fleet, introduction of high-speed internet connectivity on the board of the long haul fleet)

- Accomplishment of the 50th C-Check by our partners HAECO in Xiamen China, as well as the continuing E190 C-Check programme in an Embraer-supported facility in Portugal

- Establishment of the Engineering Ab-initio training scheme. The scheme will be a joint venture between a European training school and our own EASA Part 147 school and all training will be accomplished 'in-house', with the ultimate aim to produce EASA Part 66 qualified staff for the future needs of Air Astana

- Fulfilment of challenging targets to generate ancillary revenue by providing maintenance and training services to the region and further afield

All this, as well as our usual commitment to ensuring a Technical Dispatch Reliability of 98% or better, will ensure 2017 is another very challenging year for us all.



# ON-BOARD COMFORT

## In-flight services

Having been founded at the dawn of the new millennium, Air Astana has continued developing and evolving, eager to stay at the forefront of innovations. We embrace technological change while delivering on our commitments to ensure safety on board and world-class customer experience.

Today, we live in a tightly connected world where innovative products and services in one industry raise the bar for all. This means that we have to adopt a holistic perspective when designing the passenger experience, should we want to succeed. From 'internationalising' our catering to empowering our on-board staff, this year saw a lot of positive developments in all aspects of our business.

We cannot underestimate the superb work and engagement of our team in achieving significant results along the three areas: Cabin crew, Catering and In-Flight Product.

### Skytrax award

We continue to be recognised for service excellence, with 2016 Skytrax World Airlines Awards event seeing a 4-Star rating and India 'The Best Airline in Central Asia and India' award being achieved for the fifth consecutive year and India 'The Best Airline Staff Service in Central Asia/India' for the fourth time. The prestigious awards ceremony took place at the Farnborough International Airshow in the United Kingdom.

The world of aviation knows the Skytrax World Airline Awards as a valued benchmarking tool that measures passenger satisfaction among business and leisure travellers, across all cabins (First Class, Business Class, Premium Economy Class and Economy Class). These ratings challenge the Company to achieve even better results in the coming years and we continuously strive for improvement.

### On-board experience: comfort and convenience

We continue to invest heavily in our in-flight product, seeing it as an integral part of the pleasant travel experience. This includes the installation of IFE streaming commenced for 22 aircraft with 7 being completed, an enhancement very well received by our passengers.

We were happy to introduce new e-magazines on board, children boxes filled with exciting toys offered to our 3-6 years olds and our onboard library with encyclopaedias and fairy tales in three languages for children of 7-11 years of age.

Striving to keep our youngest passengers well entertained during the flights, we successfully signed a contract for a supply of new children's kits licensed under brands such as The Little Prince and National Geographic Kids.

As for grown-ups, in August 2016 there was a launch of new Economy Class kits, which now vary in 5 different brand colours, distributed randomly on the flights. This allows the passenger collect a different colour kit every time they fly.

During the festive season, we equipped our aircraft with New Year headrests (both in Business and Economy Classes) and a special decoration in Business Class toilets. We also began retro-fitting our Airbus fleet with mood lighting.

Passengers of Air Astana will soon be among the first in the world to have access to uninterrupted high-speed connectivity worldwide – powered by Global Xpress (GX), the world's first global Ka-band satellite network for onboard WiFi. Passengers will be able to connect from their personal computers, tablets and smartphones. This offering will enhance Air Astana services by providing passengers with a brand-new opportunity.

All the measures taken will eventually help improve the service quality and strengthen our passengers' loyalty.

### On-board experience: catering

The passengers' perception of the airline is hugely influenced by the catering on board, so we never stop improving it.

In 2016, we introduced a number of changes to enhance the catering quality and expand the assortment of the products and meals. Among other things, we introduced snack boxes on domestic and short international flights so that our passengers can take them away for their convenience. This innovation enjoyed very positive feedback.

In order to provide meals specific to each region within the Company's route network, we work in partnership with catering companies at more than 30 international and domestic stations.

Not only do we now provide menus in both classes on most sectors, but we also continue improving them along with our wine cards, making a strong statement about the quality of the airline and the service levels provided. Our efforts in this area were recognised with our 'Cellars in the Sky' 2015 Bronze Medal and a title of 'Business Class Red Wine Winner'.

Within the next two years, the Company expects delivery of new aircraft equipped with convection galley ovens with an added steam feature to allow improvement in the quality, texture and flavour of the food.

### Cabin crew performance, training and development

Behind every one of our achievements are the efforts of our cabin crew members and the entire In-Flight Services overall Air Astana experience.

Keeping that in mind, we put a lot of energy into the development of our human resources. 2016 was no exception.

We conducted 163 training courses for over 1,000 cabin crew members to enhance our service standards, maintain safety on board and improve coordination between flight and cabin crew members.

We launched an updated appraisal system and were delighted with the notable 7% improvement in cabin crew performance based on passenger feedback compared to the previous year. We also undertook our

own studies to identify air service market trends and passenger preferences.

We also evaluated our crew language abilities to reallocate resources where they are needed most. For example, Chinese-speaking crew members are rostered specifically on our flights that see a growing number of Chinese passengers. These crew members have a small language pin on their uniform which makes them instantly recognisable. Our intention is to expand this initiative by offering in-house language training.

Finally, we extended our CRM platform with the introduction of the joint pilot and senior crew EVPT training in the simulator, hoping to reinforce our efforts in 2017 and initiate joint pilot and cabin crew pre-flight briefings for both domestic and international flights.

### Outlook for 2017

Our In-Flight Services Department has the following plans and objectives for the coming year:

- Unification of the service standards across the fleet with the focus on key regional aspects
- Introduction of a refined line of tableware
- Launch of new children's kits licensed under National Geographic and The Little Prince brands
- Implementation of Wi-Fi connectivity on board for all three B767 aircraft
- Completion of IFE streaming on all assigned aircraft
- New on-board safety video
- New Business Class washroom amenities by Christian Lacroix
- New Business Class amenity kits by Furla and Christian Lacroix (with expansion to other brands later in 2018-2019)
- Introduction of new Economy Class kits with 2 different concepts for inbound and outbound flights
- Further improvement of the crew performance
- New tableware
- New design soft items such as duvets, pillows and blankets
- New catering offering for domestic sectors to replace hot sandwich concept

# FLIGHT COMFORT

## Ground services

The goal of the Ground Services team is to ensure the most comfortable, convenient and safe stay for our passengers at dozens of airports around the world upon departure, arrival and in transit. The daily operations of the Ground Services Department include two main areas of activities, such as passenger and baggage handling and aircraft servicing, which include on-time uplift of fuel and catering, provision of aircraft weight and balance information, cargo handling and de-icing of aircraft.

2016 was another successful year for our Ground Services team. To cope with the rapid growth of transit passenger traffic, we have achieved significant progress in improving customer service at our airports across Kazakhstan. Furthermore, to increase efficiency of our ground handling staff, we have taken measures to improve their operational conditions. The efficiency of our ground handling operations and well-orchestrated processes was confirmed by our on-time performance results in 2016, with 89.6% of Air Astana flights being on time.

### Mobile check-in system

In 2016, Air Astana introduced a mobile check-in system on domestic routes. The Company was the first airline in Kazakhstan and the post-Soviet area to launch a mobile check-in system that allows passengers to register for their flights online using a smartphone or other devices connected to the Internet.

The system allows passengers to receive a bar-coded boarding pass electronically on their mobile devices, which will then be scanned by security officers at checkpoints and at the boarding gate, eliminating the need for a paper boarding pass. The new paperless boarding passes are consistent with the global industry trends and have the same design for both classes of passengers. According to the

statistics, mobile check-in is becoming the preferred choice for passengers, with over 5,000 passengers using it on a monthly basis.

### Passenger comfort

To provide more comfort for our passengers, in 2016 the Company obtained permission to change the terminals used for passenger servicing at Paris and Dubai airports. For example, by transferring all operations from Terminal 1 to Terminal 2A at Paris Charles de Gaulle Airport, the Company provided more comfort to its passengers due to the availability of a more efficient baggage sorting system at the new terminal, whereas in Dubai, transferring to a new terminal enhanced passenger experience due to new passenger facilities and provided for the opportunity to visit the adjacent luxurious duty-free shopping area.

### Business-class passengers

In 2016, we signed an agreement with Gate Gourmet, the leading independent provider of airline catering and other ground handling services. Currently, Gate Gourmet offers its unique selection of hot dishes to our guests at the Shanyrak business lounge at Astana International Airport.

Within a year, we have provided our Business class passengers and holders of Golden Nomad cards with new comfortable lounges in Frankfurt, Paris and Kuala Lumpur airports.

### Flight safety

In 2016, the Company started to operate two brand-new modern de-icing vehicles featuring enhanced capacity storage tanks, spray nozzles of a new type and advanced system for the de-icing of aircraft with

engines running. The use of these vehicles means shorter turnaround times and increased efficiency of de-icing operations. As the clean aircraft concept is an important element of flight safety, the Ground Services Department makes every effort to ensure that the de-icing procedures use cutting-edge technologies for higher efficiency.

Furthermore, in 2016, we continued to update and improve the Centralised Load Control Procedure (CLCP) and introduced an improved version of this system, which proved its reliability and efficiency, as well as cost-effectiveness in terms of time and fuel savings.

### Staff training and development

As part of our on-going commitment to improved passenger services, in 2016, the Company continued its efforts in the area of personnel training and development. We launched a new service a dedicated 6-week forum that was held in Almaty for all ground staff across the regions of Kazakhstan, main stations in the CIS and key departments. Also, in 2016, we conducted the first training course in developing social skills for our ATMA partners' employees at Atyrau and Astana airports to provide improved passenger services. As a result of our efforts, we received a positive feedback from our customers.

Last September, our team, together with the Corporate Security Department, hosted a Safety Compliance Forum for our emergency service employees. This Forum helped our colleagues develop a more profound understanding of security issues.

The 7th Annual Forum of Ground Services took place in Astana. Attended by 140 employees from all our stations, this Forum became the largest event ever hosted by our Company. The Forum is an excellent platform for discussing topical issues within the department, sharing experiences and insights between different units that provide services for our passengers all over the world, a place where our regional divisions receive recognition and awards, and where members of our large team have the opportunity to network face-to-face. This annual

forum enables us to improve the quality of our operations and build a close team of committed and loyal employees. Moreover, the 7th Annual Forum provided an excellent opportunity for the Company's employees to visit the new terminal in Astana.

In addition, last November we launched our One Day on Earth project, to provide bloggers and journalists with the ability to familiarise themselves with the day-to-day activities of our ground handling service, through participation in all key ground handling operations.

### On-going assessment of service quality

In order to improve our customer services and to ensure timely feedback, for both Company's management and staff, we introduced a daily ground staff performance assessment based on HEART values.

### Outlook for 2017

In 2017, we will continue our efforts to improve the quality of ground handling services for passengers and aircraft, using best industry practices and world-class standards. Our ambitious objectives for the next year include, in particular:

- Launch of a new business lounge in a new terminal at Astana International Airport that will meet the highest global standards of service
- Implementation of a streamlined rostering system for the new terminal at Astana International Airport, enabling the calculation of the required staffing level for any particular time
- Implementation of a baggage reconciliation system at Almaty International Airport for improved baggage tracking and tracing
- Implementation of IGOM Audit (IATA Ground Operations Manual) and IOSA (IATA Operational Safety Audit)
- Launch of a Mobile Check-In project for international routes with a passenger tracking system



# GENERATING REVENUE

## Commercial activities

Despite several factors that adversely affected the Company's performance, we managed to achieve substantial results in 2016 focusing on new opportunities and prospects. Throughout the year, the Company boosted its international transit traffic, opened new international routes, signed codeshare agreements with global airlines providing expanded network coverage and increased online sales.

Moreover, in 2016 the Company was awarded the status of The Official Air Carrier for the 28th World Winter Universiade sporting event and The Official Air Carrier for EXPO 2017.

### Transit potential

Due to high potential of international markets relative to limited domestic demand in 2016, Air Astana centred its efforts on developing its transit passenger traffic. Key initiatives were implemented to improve network connectivity and attract international travellers to route via Kazakhstan and develop the so-called Sixth Freedom traffic flows.

Following a slight decrease in 2015, the Company's international transit traffic grew significantly in 2016 by 68% from 186,000 to 310,000 transit passengers. Therefore, during the reporting year, almost one-fifth of international passengers were transit passengers travelling via Kazakhstan, which had become their transit point in Eurasia. Development of transit traffic is strategically important not only for the Company as a revenue source but for the economy of Kazakhstan as well.

Today, Air Astana provides over 350 different route combinations by connecting passengers across its international route network. Major transit passenger flows served via Kazakhstan are captured on the routes from China to Turkey and Europe, from Ukraine to Uzbekistan and from Kyrgyzstan to South Korea.

With its highly qualified personnel, the Company always has the most up-to-date analytical information on the air transport market. In 2016 Air Astana, therefore, focused on increasing the network capacity and improving the connectivity for China-Russia flows due to the visa-free regime that fueled traffic to all cities of Russia in particular, Moscow and St. Petersburg. Strong performance from Russia to Asia, and especially to the South East, contributed to the success in 2016 and lead to further network capacity increase planned for 2017.

Another favourable factor was the recovery of the Ukrainian market with an 89% RPK and 81% ASK growth, stimulated by the increase of frequency between Almaty - Kiev. This high growth index is fueled by the strong transit contribution in both directions, but in particular, from Ukraine.

International passengers are attracted by convenient connectivity, high level of service, competitive prices, effective distribution and appealing products, such as Air Astana Stopover Holidays. The routes that we fly ensure significant reduction of travel time, which can give Air Astana a competitive edge against other air carriers.

The combination of a substantially eased visa procedure with visa-free entry for 45 countries and the devaluation of the national currency (KZT) in August 2015 made a positive impact on the number of overseas passengers choosing to visit or route via Kazakhstan due to the more competitive cost of ground arrangements.

### Revenue management

Aligned the with strong emphasis across the Company to boost transit traffic as a source for its international growth, the Revenue Management processes and systems have been updated. The introduction of an enhanced version of PROS revenue management system, providing availability on an origin and destination (O&D)

basis provides the platform to maximize network revenue. The structure and processes of the department have been amended accordingly in 2016 contributing to the strong growth of transit traffic and optimization of revenues across the network, as well as direct traffic.

### Schedule planning

Over the past five years, the Commercial Planning mission has been to provide a competitive product on the point-to-point market but at the same time maximize network connectivity through optimal scheduling. The banks have been adjusted accordingly to provide the optimal connectivity for key target flows. The same principle has been maintained while growing frequencies e.g. on Kiev, St Petersburg, Urumchi and others providing the platform for the Sales organization to offer and distribute a good product in the market place. Towards the end of the year, the change of the Istanbul schedule on particular days to connect to Asia is yet another example. Slot availability has become a growing restriction on growth of traffic and connectivity, yet still overcome with successes at very constrained airports such as London Heathrow, Urumchi, Istanbul, Beijing and Seoul.

### Stopover Holidays

The Stopover Holidays Programme offering overnight accommodation and day tours around the two major cities, Almaty and Astana, has already gained popularity among our transit passengers. The product was developed as an instrument to encourage passengers to choose Kazakhstan for a transit stopover.

Successful implementation of the programme generated 4.5% of total transit sales and a revenue of 1.9 million USD in 2016. Popular Stopover Holidays routes include Kuala Lumpur - Almaty - Istanbul, Kuala Lumpur - Almaty - Moscow / St. Petersburg.

### New routes

After the lifting of sanctions against Iran, the Company successfully launched a new direct flight from Almaty to Tehran, the capital of the Islamic Republic of Iran, in June 2016. Flights are operated three times a week by Embraer 190 aircraft. A new Almaty - Tehran flight will drive both the development of between the two countries and the growth of the Company's transit traffic due to the convenient connections offered to Beijing and other points in Asia.

The route between Almaty - Tehran, that has become successful since its launch, offers the most competitive travel time (less than 4 hours) as compared to existing non-direct flights and on its key transit flow from Tehran to Beijing, is only 50 minutes longer than the fastest non-stop flight.

### Airline partnership

We have codeshare agreements with Air India, Asiana Airlines, Austrian Airlines, Bangkok Airways, Etihad, KLM and Turkish Airlines, as well as interline partnership agreements with more than 100 other carriers, allowing passengers to choose from almost over 700 destinations worldwide.

Codeshare agreements benefit both the airlines and their customers. Customers are able to book with the same airline for the complete journey, even if the operating carrier is different. This provides single pricing for the entire trip, including competitive pricing visibility of the total cost, and assurance that passengers will be re-accommodated in the case of any irregularity, which is not the case for separate tickets. Also, through check-in is implemented at the same time. It also provides additional travel schedule flexibility for the customers. The benefit of codeshare agreements for Air Astana is additional distribution leverage in the territories where its partner carriers have a stronger market penetration.

In 2016, as a non-aligned airline, Air Astana has worked to strengthen its bilateral partnerships and seriously expanded the possibilities of transportation

to Europe. In February 2016, the Company signed codeshare agreements with Air France and KLM covering the Company's Paris route and KLM's Amsterdam – Astana/Almaty route.

In December 2016, a new codeshare agreement was signed with Lufthansa for the routes flown between Kazakhstan and Germany. Now, both carriers can mutually expand their networks, while their passengers benefit from the through fares with a possibility to buy a single ticket and check-in through to a final destination, though switching between the two air carriers. Moreover, Business Class passengers and participants of the Nomad Club loyalty program can now have access to Lufthansa's business lounges.

On top of that, 2016 saw the launch of several codeshare flights with Hong Kong Airlines between Almaty – Hong Kong, as well as an extension of the codeshare agreement with Bangkok Airways with regard to services offered between Bangkok and Chiang Mai (Thailand).

At present, Air Astana can fly to 700 destinations through special prorate agreements (SPAs) and codeshare agreements. To date, we have over 100 interline agreements, 41 special pro-rate agreements and 9 codeshare agreements.

## Nomad club frequent flyer programme

Nomad club Frequent Flyer Programme was launched in December 2007 and reached 235,774 members (to include 7,411 Elite members) in 2016. The Company introduced a new level of status recognition – Nomad Club Diamond – for loyal and frequent flyers, which offers exclusive benefits, including a guaranteed seat on any Air Astana flight. Additional revenue generated by the Nomad Club for the last 5 years grew almost 8 times reaching 1.4 million USD in 2016.

In 2016, the Company issued the Nomad Club co-branded card with Bank Center Credit, JSC and SB Sberbank, JSC (Kazakhstan). The number of co-branded credit cards grew to 23,000 by the end of 2016, the partners' revenue doubled in 2016 compared to 2015. Similar growth is expected by the Company in 2017.

## The official air carrier for EXPO 2017

In 2016, Air Astana, the largest airline in the country, was awarded the status of The Official Air Carrier for the 28th World Winter Universiade sporting event and The Official Air Carrier for EXPO 2017. Each international passenger arriving in Astana with Air Astana will be given an entry ticket to the EXPO 2017 exhibition. This step will contribute to the attraction of visitors to the exhibition, which is important for our country. The flow of tourists coming to EXPO 2017 will, in its turn, have a positive effect on the Company's revenue. Additionally the airline will have its own exhibition stand in the EXPO 2017 Corporate Pavilion to demonstrate its developed brand concept and technologies applied by the Company under the '15 Years of Cleaner Flying' concept.

## Sales development and marketing campaigns

In 2016, the Company focused on the further development of its online sales channel, achieving the growth of passengers who buy tickets through the website to 9.3% (as compared to 8.8% in 2015). Behind such a result were several new capabilities offered on the website, such as more intuitive interface which helps reduce the number of steps required for flight reservation and a simpler module for the selection of one-way flights. The Company's website is compliant with all applicable international accessibility standards and intuitively adapts to the screen size depending on the type of device used by a user. For the convenience of our foreign customers, we added websites in the Chinese and Korean languages and started social media marketing through channels like Baidu and WeChat.

MyUpgrade, launched in 2015, was fine-tuned and generated additional revenue for the Company serving over 4,600 passengers. The system allows economy class passengers to bid for an upgrade of service class within a certain time prior to the flight and enjoy a range of benefits available to premium class passengers.

To boost its sales, starting the 1st of December, the Company offered its passengers the most flexible fare with a 25 percent discount (Freedom Fare) applicable to all routes within Kazakhstan.

In the reporting year, the Company signed long-term agreements with Amadeus, Travelport and Sabre platforms to secure discounts on published GDS costs and generate ancillary revenue through the GDS channels. In particular, sales with an option of seat selection will be the key project for 2017.

Travel Agency Incentive Schemes (TAIS) were implemented in Kazakhstan, Russia, Great Britain, Germany, Turkey, Thailand and France to provide incentives based on revenue growth and market share. Drop Nett incentive schemes for our agents were introduced in India, Russia and Ukraine. In addition, in 2016 the Company arranged official presentations to agencies in Almaty and Astana and exhibited at major trade fairs, such as KIFT in Almaty and ITB in Berlin.

Additional products offered by Air Astana bring substantial results. In the reporting year, ancillary revenue amounted to over 500,000 USD from media sales, charter sales, sales of corporate marketing products and gift certificates launched in 2016. In addition to the revenue generated by gift certificates, the initiative acts as a useful way to expand the airline's customer base.

## Outlook for 2017

The Marketing & Sales Department has planned a number of important projects and tasks for 2017 with a focus on maximising the Company's revenue, enhancing the efficiency of business process management and meeting the growing customers' requirements and needs. Kazakhstan's geographic location, as well as a high level of customer service, offer huge potential for increasing Air Astana transit traffic. Naturally, we will take actions to achieve this objective by developing new products and keeping up with the consumer demand. The following projects are marked as key to 2017:

- The introduction of ticket sales with the option of preferred seat selection and excess baggage pre-payment via all sales channels will ensure that customers are able to choose the maximum level of comfort in advance. This project will yield additional ancillary revenue

- The competitive advantage of the Nomad Club and the rewards that it delivers to customers is to be reviewed and adjusted to ensure that it remains a relevant tool to drive customer loyalty, specifically in the domestic market

- The upgrade of the Nomad Club management system to better respond to specific needs of the growing number of participants and increase the efficiency of data management and financial planning under the project. Further, the airline will implement a process of Nomad Club point redemption at time of departure for passengers wishing to upgrade to Business class

- The development of sales targets for overseas stations using an O&D model. With growing international transit traffic, Air Astana needs to plan revenue generation by each O&D market for each specific station

- The provision of sponsor support at international EXPO 2017 as well as brand positioning by exhibiting at the event

- Improvement of revenue per available seat kilometre (RASK) by increasing load factor and providing reliable connectivity to develop transit service

- Sales implementation of a new WiFi solution for business and economy class passengers on all Boeing 767 aircraft

- Implementation of passenger insurance sales through the airlines website, and the implementation of Customer Relationship Management (CRM) software to better manage travel agency sales by way of daily reporting of revenue generated by travel agents



# INNOVATIONS

## IT and e-business

In 2016, Air Astana continued implementing its strategies to provide a competitive advantage to the business, improve customer service, reduce costs and enhancing operational efficiency through IT and e-Business initiatives, in line with the five-year plan for its business. The IT and e-Business Department has a talented team of around 55 staff, fully supporting end users, IT infrastructure, airline business applications, Enterprise Resource planning systems, e-Commerce operations and performing in-house developments.

One of the main projects completed in 2016 was the migration of the passenger inventory system (Amadeus) and the revenue management system (PROS) to an Origin-Destination based model. This initiative was undertaken as part of the commercial strategy of Air Astana to grow further as a competitive global network carrier. In addition to the two systems involved, Air Astana upgraded the links with the Global Distribution Systems in order to get the maximum benefit from the new Origin-Destination based revenue management.

Year 2016 marked another milestone for the commercial systems as the contract for the Passenger Service System (PSS) was renewed for another 5 years. The PSS platform used by Air Astana is Amadeus, which provides reservations, inventory, ticketing and ground handling functionality. Air Astana uses the Amadeus online booking engine as well.

The proprietary software developments of our IT team frequently played a key role in providing non-standard solutions for the business. In 2016, several key in-house developments were implemented. An appraisal system was developed in-house replacing the ERP module. The new system has unmatched rich features and saved the ongoing cost of the ERP module.

Another example of a successful in-house software development in 2016 was the mobile application KC app, which has improved communication for employees within the Company. This application allows employees to check the balance of their holiday days, gives them easy access to their contacts and provides other benefits as well.

A new system was developed for managing catering operations. Now catering inventory stock control is much more transparent and can provide

realistic online data to managers and catering specialists, which has had a positive impact on staff performance and reduced costs associated with catering operations. The system was provided to third party catering providers as well.

### Website and e-commerce

The Air Astana corporate website has been one of the major lines of communication with our customers and the main channel for direct sales, making us Kazakhstan's largest single e-commerce platform. It offers a wide range of services, including online bookings and check-in, information about flight arrivals and departures, verification of reservation details and much more.

The number of new visits and unique visitors of Air Astana corporate website has, almost doubled and this reflects the growing popularity of the website. Online check-in for the flight is available for all airports in the Air Astana network. The Air Astana mobile application is virtual pocket travel assistant with features such as ticket purchase, check-in for Air Astana flights, Air Astana ticket office locator, arrivals and departures status, live chat for reservations, Nomad Club activity details and claims/redemption of Nomad Club points for ticket purchases. It also features information on fares and fare rules, dangerous goods restrictions, baggage allowance details, excess baggage rates, passenger code of conduct and travel restrictions for expectant mothers.

In 2016, Air Astana launched Korean and Chinese language websites to better engage and interact with Korean and Chinese-speaking customers around the world. The websites have been developed to enable Korean and Chinese-speaking customers to closer engage with Air Astana's online services and provide extensive product information in their own language anywhere, at any time, on any device. The website offers customers the opportunity to learn about the Company, purchase a ticket, check-in online, register and use a Nomad Club frequent flyer account among a wide range of other e-Services. Apart from the Chinese language, the website now accepts payments from customers using a card issued under the China Union Pay International payment scheme.

Owing to a beneficial geographical position in the heart of Eurasia, last year the Air Astana management updated its transit traffic strategy so that in 2016 the airline achieved impressive results in transit passenger traffic. The IT department also contributed to this progress by the implementation of online booking for the stopover package. A facility to book a stopover package online was made available for travellers to enjoy Astana, 'the Jewel of the Steppes' and Almaty, 'the City of Apples', with Stopover Holidays starting from \$1\* a night. Now passengers can pay online at airastana.com and receive an instant confirmation for their Stopover Holidays package.

Further, in 2016, an online function was made available to top up Nomad Club bonus points and redeem an award of the passengers' choice. Passengers can easily buy additional bonus points and get an award ticket or upgrade to Business Class. They can also surprise their loved ones by giving bonus points as a unique gift.

### IT infrastructure

A strong IT infrastructure is required to support any successful business. Significant improvements have been introduced through the expansion of the aircraft VHF communication network in Kazakhstan in partnership with ARINC. Further, as Air Astana's initiative expands to enhance aircraft position tracking in Kazakhstan, ADS-B antennas were installed in several locations. The benefits of those initiatives are available for other carriers also. Besides that, there was a lot of activity in IT networking and telephony due to the major expansions, including the newly-built hangar and a new terminal in Astana.

### Outlook for 2017

We are well aware of the importance of using advanced technologies to accelerate the pace of innovation in the Company, which will allow us to sustain our competitive advantages and value proposition. The outlook for the Department of Information Technologies and E-Business for 2017 include the following:

- In 2017, the cargo operations system CargoSpot will be integrated with Kazpost, the national postal service, which will serve the nation using the synergies of the two organisations. Further, the implementation of the new enterprise document management system is also expected to be finished by mid-2017. The system is far beyond a document management platform and

will cover processes initially related to HR, Finance and Procurement. The system will use electronic digital signature

- A new corporate level learning management system will also be implemented in 2017, which will replace the current ERP module. Many new advanced features can be used by any department to track learning activities and provide online training and testing, and the system also provides mobile and tablet applications for employees

- The aircraft VHF communication network in Kazakhstan will be further expanded in partnership with ARINC/Rockwell Collins. The Onboard Internet connectivity partnership with ARINC/Rockwell Collins initiated by IT & eBusiness Department as part of the strategy on airline communications will be fully materialised in 2017. The project is managed by In-Flight Services Department and Engineering & Maintenance Department with the support of IT & eBusiness and Sales & Marketing Departments

- In 2017, a new system will be developed for the management of an entire fleet of vehicles used for staff transport. This is expected to optimise the use of the vehicles and also to provide accurate and timely information in a systematic manner. A major release of ground service station control software is expected to be released in 2017 which will include major enhancements for Altea DCS data integration. A new system will be launched for managing group bookings

- Replacement of the current recruitment system with a new product is also planned for 2017. This System will replace the current ERP module and provide many new features for recruiters and managers. Also, a new career website is part of this project

- In 2017, the aim is to improve the conversion rate by offering flexibility on payments for customers. For this, an intermediate payment platform is being developed. Apart from traditional online bookings, customers will be able to book offline or via live chat and pay online at airastana.com. Further, an option to make the payment in a currency of the passenger's choice will also be implemented

Other initiatives planned for 2017 include the development of a website where customers can buy branded souvenirs, and online travel insurance, and the development of an Investor Relations website, revamping the mobile app and more online tools for better engagement with customers.



# FINANCIAL PERFORMANCE





# FINANCIAL REVIEW

## Financial performance

The operating performance of the Company has been significantly impacted by recent changes in the national economy of Kazakhstan. The demand for air transport services is driven by a number of economic factors and remains one of the leading indicators of the prevailing economic conditions. The decision of the government in the second half of 2015 to transition to a freely floating exchange rate resulted in a sharp devaluation of Kazakhstan's national currency (the tenge or KZT).

Between 1 July 2015 and 31 December 2015, the value of the tenge decreased by 82%, from 1 USD = 186.2 KZT to 1 USD = 339.42 KZT. The significant shift in the USD exchange rate had several key impacts on the performance of Air Astana.

Firstly, with 65% of the Company's purchases being denominated in a foreign currency the impact of the devaluation was an immediate increase in operating expenses. Secondly, the devaluation had a direct impact on the purchasing power of Kazakhstani consumers and therefore reduced the number of outbound tourists. Both of these factors decreased affected demand for Air Astana's services.

Conversely, the devaluation had a positive impact on international demand, increasing the appeal of Kazakhstan as a destination for tourists and a provider of services to foreign consumers.

### Financial performance summary

in millions of USD	2016	2015	%
<b>Total revenue</b>	<b>621.0</b>	<b>761.7</b>	-18%
Total operating expenses	583.1	728.6	-20%
<b>Operating profit</b>	<b>37.9</b>	<b>33.1</b>	<b>-15%</b>
<b>Operating profit margin</b>	<b>6%</b>	<b>4%</b>	
Net financing (expense)/income	(58.30)	(15.40)	-279%
Foreing exchange gain/(loss), net	(14.40)	44.7	-132%
<b>Profit before tax</b>	<b>(34.90)</b>	<b>62.3</b>	<b>-156%</b>
income tax expense	(5.00)	13.6	-137%
<b>(Loss)/Profit for the year</b>	<b>(39.90)</b>	<b>48.7</b>	<b>-182%</b>

### REVENUE

	2016		2015		Change
	Total (\$ million)	Percentage of total revenue	Total (\$ million)	Percentage of total revenue	
Passenger revenue	589.9	95%	726.8	95%	-19%
Cargo and mail revenue	15.7	3%	19.6	3%	-20%
Other revenue	15.4	2%	15.4	2%	0%
<b>Total revenue</b>	<b>621.0</b>	<b>100%</b>	<b>761.7</b>	<b>100%</b>	<b>-18%</b>

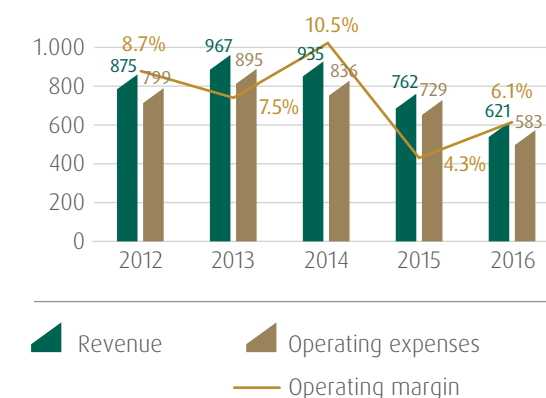
Over the last five years, the profile of the Company's income has not significantly changed. Passenger services account for 95% of total revenue and remain the Company's core activity. The remaining 5% is made up of cargo and mail services (3%) and ancillary services (3%).

Despite the challenging economic environment, the core operating results of the Company for 2016 remained at a consistent level with the prior year. Passenger traffic decreased slightly by 3%, from 3.86 to 3.75 million passengers, while RPKs and ASKs grew by 0.4%, from 7.78 to 7.81 billion, and by 2.4%, from 12.41 to 12.72 billion, respectively. In 2016, passenger revenue in USD decreased by 18%, to 621 million USD, and RASK decreased by 20%, to 4.88 cents compared to 6.14 cents in the prior year. The reduction in revenue is primarily attributable to the currency devaluation.

In line with the strategy of regional expansion, the Company is actively pursuing international markets through new codeshare partnerships, attractive ancillary customer products and services and other marketing campaigns. In 2016, international traffic increased by 5% compared to 2015, mainly due to 67% growth of transit traffic and 6% increase in available seat kilometres (ASKs) on international routes, including the opening of a new Almaty – Tehran route. The relative attractiveness of the national currency following devaluation increased the attractiveness of Kazakhstan along with transit demand from foreign passengers.

In contrast, domestic traffic fell by 8% compared to the prior year and ASKs reduced by 5%. The key contributing factors to this decrease were increasing competition in the domestic market and reduced purchasing power.

### REVENUE AND OPERATING EXPENSES



Changes in other revenue sources had a limited impact on the Company's overall results. Nevertheless, other revenue was also impacted by the currency devaluation.

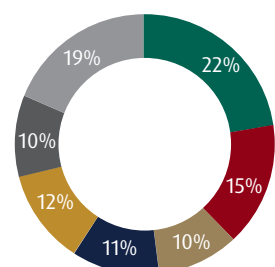
### Operating expenses

The Company's operating expenses reduced by 20% from 728.7 million USD in 2015 to 583.1 million USD in 2016. The reduction reflects both the currency devaluation and the impact of prolonged global economic uncertainty. This has resulted in a 22% decrease in cost per available seat kilometre (CASK) from 5.87 to 4.59 cents in 2016 making Air Astana the most efficient full service airlines in the world with unit cost comparable to the low cost carriers.

## BREAKDOWN OF OPERATING EXPENSES

	2016		2015		Percentage change
	Total (\$ million)	Percentage of total operating expenses	Total (\$ million)	Percentage of total operating expenses	
Fuel	130.7	22%	165.3	23%	-21%
Handling, landing fees and route charges	89.9	15%	105.0	14%	-14%
Engineering and maintenance	60.7	10%	97.3	13%	-38%
Employee costs	64.7	11%	84.0	12%	-23%
Passenger service	69.8	12%	80.2	11%	-13%
Aircraft operating lease costs	58.4	10%	59.3	8%	-2%
Other	108.9	19%	137.5	19%	-21%
<b>Total operating expenses</b>	<b>583.1</b>	<b>100%</b>	<b>728.6</b>	<b>100%</b>	<b>-20%</b>

### BREAKDOWN OF THE COMPANY'S OPERATING EXPENSES FOR 2016, IN %



## Fuel

Fuel represents one of the key operating expenses for any airline and as a result, fuel price volatility has a direct and significant impact on an airline's total profit. Over the last two years, average annual fuel prices fell by more than 50% due to a constant increase in the supply of global oil production.

Air Astana cut fuel prices by 21% from 165.3 million USD in 2015 to 130.7 million USD in 2016. This was a result of the decrease in oil prices, as well as a streamlined and efficient fuel procurement process implemented by the Company. The relative percentage of fuel expense to total expenses, which reached 30% in 2014, decreased to 22% in 2016.

## Other operating expenses

Other significant items in the Company's operating expenses include handling, landing fees, route charges, passenger services, engineering, maintenance, employee costs and aircraft operating lease costs. These costs decreased by 18% on average in 2016 compared to 2015, largely due to the devaluation of

the KZT. In 2016, costs such as the implementation of projects for enhancement of business processes and Company expansion increased as a result of the currency devaluation. The Company's commitment to high standards and values, such as health and safety assurance, the provision of high-quality client service and professional expertise requires on-going investment in areas such as innovation and development.

Aircraft operating lease costs, expressed in USD, remained consistent with the 2015 level (a decrease of 2%). Denominated in KZT, these costs grew by 52% due to the strengthening USD and the increased number of aircraft under operating leases, including the acquisition of a new A320 neo airbus.

Other expenses account for 19% of total operating expenses and include depreciation and amortisation costs, sales costs, aircraft crew costs, property lease costs, insurance costs, taxes and IT and consulting services costs. The movement in other expenses had a limited impact on the Company's performance, the overall reduction was the result of an increase in the average annual USD-to-KZT exchange rate.

## Operating profit

Despite the prolonged global economic challenges and a significant reduction in revenue, the Company's operating profit grew by 15%, from 33.1 million USD in 2015 to 37.9 million USD in 2016. The growth led to an increase in the operating margin from 4% to 6%. The increase in profitability relates to the reduction in operating costs over and above the reduction in revenue experienced as a result of the devaluation.

Despite a reduction in net profit, the Company's earnings before interest, taxes, depreciation, and amortisation, and rental costs (EBITDAR) increased from 18% to 20% compared to 2015.

Given the Company's substantial finance lease liabilities denominated in USD, deposits and other cash assets are accumulated in foreign currency to mitigate and manage currency risks. In 2016, this risk mitigation approach resulted in a 10% growth of

finance income, consisting primarily of the Company's interest income from bank deposits.

In December 2016, the general banking license of KazInvestBank JSC to conduct banking operations was recalled by National Bank of the Republic of Kazakhstan and a temporary administration was appointed. As a result of the assessment of the impairment loss, the Company has recognised an allowance for impairment of 95% of the outstanding balances in the financial statements for year 2016.

On 31 December 2016 the Company held deposits of 44,785 thousand US Dollars in Delta Bank JSC. Credit rating of Delta Bank JSC was downgraded by Standard&Poor's from 'B/B' to 'CCC+/C' on 30 December 2016 and then to 'D/D' on 16 February 2017 following its default on the principal bond payment. On 22 June 2017 the National Bank of the Republic of Kazakhstan temporary suspended Delta Bank JSC license with regard to accepting deposits, opening individual and corporate bank accounts until August 2017. Based on best estimate, the Company recognised impairment allowance of 40.1 million USD. The impairment allowances are included in the Net financing expense.

In 2016, Air Astana recognised a foreign exchange loss of 14.4 million USD compared to exchange gains of 44.7 million USD in 2015.

## ROIC

In 2016, the Company achieved an unadjusted ROIC of 9%, compared to 6% in 2015. The projected industry average for 2016 was 9.4%.

Unlike the majority of its competitors, Air Astana finances its aircraft leases and purchases without government support. Furthermore, Air Astana borrowed an amount equivalent to 14 million USD from the EBRD in 2016 related to the construction of the Company's Technical Centre (hangar) in Astana. The construction is also being financed in part by the Company's own funds.

## FINANCE INCOME AND EXPENSES

in millions of USD	2016	2015	Percentage change
<b>Operating profit</b>	<b>37.9</b>	<b>33.1</b>	<b>15%</b>
Net financing (expense)/income	(58.30)	(15.40)	279
Foreign exchange gain/(loss), net	(14.40)	44.70	(132)
<b>(Loss) /Profit before tax</b>	<b>(34.90)</b>	<b>62.30</b>	<b>(156)</b>



# SUSTAINABILITY REPORT







Our corporate values and the HEART principles (Hospitable, Efficient, Active, Reliable and Trustworthy) are the core of all employee-related processes implemented by the Company

# SUSTAINABILITY REPORT

## Our people



Air Astana is continuously maximising its brand appeal to prospective candidates by pursuing a sustainable human resources policy based on a key principle - our people are our core asset.

Transparent, competitive selection and recruitment processes, fair performance appraisal and social responsibility continued to be our focus areas in 2016. We remain committed to creating new opportunities for our team's professional development and training and improving occupational health and the culture of safety on a Company-wide basis. Our corporate values and the HEART (Hospitable, Efficient, Active, Reliable and Trustworthy) principles are at the core of all employee-related processes implemented by the Company.

2016 was a milestone year for improving our business processes and introducing new solutions in human resource management. We have been pleased to see that all these changes aiming to bring our performance quality and efficiency to a new level have been readily accepted by our people, who have joined us on this journey 'From the HARD Way to the HEART Way'.

### Employer branding

We are proud to be targeted by career-seekers, which is a demonstration that the steps we have taken to strengthen our Employer Brand have been successful. Our brand appeal is really strong, as has been demonstrated by global and national rankings.

For the second consecutive year, Air Astana has been ranked among the most attractive employers by Universum, a global leader in employer branding, meeting the preferences and expectations of thousands of students and professionals from around Kazakhstan. In 2016, the Company achieved improvements in 7 out of 8 ranking categories.

At the Kazakhstan 2016 HR Brand Award, an annual ceremony held by the HeadHunter Kazakhstan portal, Air Astana won the Bronze Award for its Ab-initio Pilot Training Initiative in the Kazakhstan category. This result is yet further proof that the Air Astana brand is highly attractive to those considering a future in commercial aviation.



## Career path: new opportunities

At Air Astana, we are committed to attracting young talent and providing numerous career opportunities as part of our strategy to become an employer of choice. One of the ways we achieve this is to hold open days for prospective candidates throughout Kazakhstan. In 2016, this initiative was implemented by our Ground Services and In-Flight Services Departments in Astana, Almaty and Karaganda to attract talent interested in following a career in associated fields. As part of our open days, we encourage candidates to take part in a comprehensive selection process for a vacant position and offer employment to the most capable applicants.

Another important milestone in our recruitment system development will be the implementation of a new career web portal, which is nearing completion. An advanced easy-to-use platform designed for candidate interaction will be based on cutting-edge information technology and provide intuitive use which helps candidates to easily navigate the web portal, gives them the ability to get the 'feel' for a particular job, provides a straightforward way to apply for a vacant position and complete questionnaires and tests. We hope that all these capabilities complemented by other technical functions will be well received by career-seekers and allow for closer ties between the Company and our potential employees.

## Employee engagement: promoting Air Astana as the employer of choice

We are convinced that a Company's success in external markets starts with internal achievements. One of our objectives in this respect is to promote Air Astana as the employer of choice.

With this in mind we approached Gallup, an independent research-based consulting Company, to conduct a unique poll aimed at measuring the level of employee engagement within the airline. In response to the poll results, all managers across all Company levels initiated discussions with the employees to address issues related to the workplace, working conditions, motivation, recognition, tasks and targets

as well as other aspects of employment. It is critical that we listen to our people and involve every team member in the ongoing changes.

The poll results, benchmarked against other leading companies across a variety of industries, show that our workforce is highly engaged. Despite this, several areas for improvement have been identified and plans are in hand to remedy this in conjunction with our team.

## Corporate training and development

In line with our development priorities, we focus on continuous staff training and development. In 2016, Air Astana updated and conducted the Air Astanology workshop for its employees to enhance their understanding of the corporate strategy and primary focus areas necessary to achieve the targets set.

Additionally, in 2016 we developed and launched our own in-house programme, 'HEART Manager or Basic Human Resource Management', to familiarise employees with the basic principles of human resource management and demonstrate how productivity and engagement can be improved through their appropriate implementation.

Employees who have completed their probation period and have the requisite work experience with the Company (4 months to 1 year) are offered our dedicated interactive orientation seminar 'Onboarding talks 2.0'. The seminar is centred on the adaptation of behavioural practices compliant with Air Astana's corporate standards and values.

To support employee professional development, we opened the new maintenance training centre in Almaty. The centre has been certified by the European Union and Kazakhstan civil aviation authorities and is the only educational institution in Central Asia to be awarded such certification. The new Air Astana training centre is ready to commence the enrollment of future aviation engineers from Kazakhstan and other CIS countries.

Given the growing importance of business ethics on IT and Social Media platforms, we developed a corporate code of ethics for IT and Social Media and have released video containing recommendations on the use of social media by Air Astana employees.

## AB-initio pilot training programme: investing in the Company's future, contributing to success of the country

We are proud to say that five graduates of our Ab-initio pilot training programme have been promoted to the rank of Captain. This is the best evidence that the programme, launched back in 2009, is highly efficient in producing commercial airline pilots with superior qualifications for Kazakhstan's air transport industry.

Since the programme launch, 183 students successfully graduated and were recruited by Air Astana.

These future pilots receive our state-of-the-art training designed to help them acquire essential flying skills under the supervision of our leading experts, including specialists from world renowned aircraft manufacturers. Candidates are able to develop and master specific practical skills through FSTD training, this is then followed by an on-aircraft training phase, in clear sky conditions in Florida. Further training takes place in the changeable to adverse weather conditions that are typical of Ireland.

## Performance appraisal: the HEART model or the Company's values in action

In 2015, we revised our performance appraisal system to align it with the HEART values and associated competencies. Now every employee, from manager to senior executive, is appraised using one and the same competencies and criteria with ever increasing demands on the employee depending on their grade.

In an attempt to make our appraisal process more efficient for both employees and their line managers, we introduced a new appraisal platform for our people in 2017. User-friendly, simple and functional, the system allows our management team to focus on the key aspect of appraisal, which is the provision of high-quality feedback to employees whilst reducing the manpower needed for data entry and the completion of other administrative tasks.

## HR digitalization as a way to industry leadership

As a Company focused on cutting-edge IT solutions, last year we continued our course towards the optimisation and automation of our internal processes, working on the implementation of the electronic document system. As a result, each employee is now able to sign his or her employment agreement, additional agreements and other documents using an electronic signature. This makes us a unique Company in Kazakhstan, insofar as we have implemented this initiative on such a broad scale. The newly introduced electronic document system will obviously boost labour efficiency and quality, while at the same time eliminating several human factor-related risks.

In December 2016, a new Company-designed mobile application, the KC App, became available to Air Astana employees. The target of the project is to improve internal communication as well as raising employee engagement in corporate activities. The application is constantly upgraded and fine-tuned, and the current capabilities have already been highly rated by our employees, who can access a variety of options, including viewing Company news, posting comments and giving feedback, as well as several self-service capabilities, the global employee directory, and a number of other useful functions.

Air Astana is one of Kazakhstan's leaders in terms of business process automation.

## Social support programmes

As a socially responsible Company, we care about our employees, offering them a unique and diverse benefits package. In addition to providing air travel and healthcare benefits, we strongly promote employee sports and other creative activities and often provide the necessary financial aid. We believe that such initiatives allow our people to maintain a good work-life balance, which in turn leads to higher workplace engagement.

Air Astana was the first in Kazakhstan to offer a unique and to some extent an innovative benefit for its employees, the Corporate Pension Plan with voluntary participation. The Pension Plan, which complements the state pension scheme, is one of the ways in which we express our gratitude to our people. Those engaging in a long-term and successful partnership with the Company are rewarded by being given the opportunity to adopt a responsible approach towards his or her financial well-being in the future.

# COMMUNITY

## Our communities



Since its inception, Air Astana has been proactive in the social sector, sustaining stable support for charity and social projects. Last year we continued to implement social support programmes in a number of priority areas, including social transportation programmes, partner programmes, and one-time support for individuals and organisations by providing free or preferential transportation.

### Supporting our veterans

In 2016, we provided veterans of Great Patriotic War with free transportation to visit their elderly comrades in Kazakhstan and throughout the CIS. During the year 2,395 tickets were provided free of charge and further, on the eve of Victory Day, 20 food sets were handed in to veterans.

### Working with children

In 2016, we continued our long-standing relationship with the Mercy Fund Miloserdiye, which helps ill children who have cardiological and oncological diseases, by providing them and their parents with complimentary air tickets, thus allowing them to receive treatment at medical facilities outside Kazakhstan. During the year, under this social project, 209 passengers were carried, for the amount of over 200,000 USD.

Over 5,500 USD was collected in donation boxes at Air Astana ticket offices in Almaty, Astana and Atyrau. All the funds raised were directed to the implementation of a joint project called 'Breathe Life' with the Ayala Charity Foundation in 2016. Raised funds were used to provide resuscitation equipment for pediatric clinics for infectious diseases.

Under the charity project, together with the Dara Foundation, Grossa simulators for cerebral palsy treatment were acquired for clinics in the cities of Karaganda, Kokshetau, and Aktobe. At the moment, about 250 children in each of these cities have the opportunity to use the simulator on a monthly basis. The simulator helps disabled children to learn and practice controlling their body movements.

Air Astana participated in a number of local projects, including a career choice assistance project for the SOS children's village alumni in Astana. In addition, the Aksai hospital's children's room was furnished by our staff.

### Support for culture

A documentary film about Kazakh women in aviation called 'On the Wings of a Dream' was released in 2016, sponsored by our Company. The major roles were played by the female pilots: Tamara Pavlenko, Commander of the IL-18, Gulzhamal Eltsova, a Flight Instructor, Elvira Nurmukhambetova, alumni of the Ab-initio pilot training programme and co-pilot of the Embraer 190, and Natalya Linchenko, co-pilot of the Airbus A320. All of them shared their experiences and discussed current developments and trends in aviation. A celebratory dinner in honour of all Kazakh women in aviation was organised by the Company on International Women's Day.

Last year, Air Astana sponsored 17 projects, which included the following events: the Opera Ball in Almaty, the Festival of Contemporary Ethnic Music 'The Spirit of Tengri', the International Film Festival 'Eurasia', and the Children's project 'Children Paint the World' under the auspices of UNESCO.



# ENVIRONMENT

## Our environment

Air Astana is acutely aware of its responsibility towards society and future generations and its duty to take care of the environment. We continue to work across our business to reduce carbon and CO2 emissions and waste generation, the main components of our environmental footprint. Our actions in these areas are guided by local laws, industry standards and global best practices.

### Reducing our carbon footprint

Although modern aviation, as an industry, makes a minimum contribution to global environmental pollution, Air Astana, like other major airlines, makes a serious effort to contribute to the protection of the ecology. On February 8th 2016, the Committee on Aviation Environmental Protection (CAEP) of the International Civil Aviation Organisation (ICAO) approved the international standard of CO2 emissions of passenger aircraft. This standard, according to the recommendations of the Committee, will be applied to new aircraft models from 2020 and to older aircraft models from 2023. Starting 2028, it is proposed to completely stop the production of aircraft models not meeting the new standard. The introduction of the standard will help to reduce greenhouse gas emissions by more than 650 million tonnes between 2020 and 2040, the equivalent emissions of 140 million cars throughout the year.

While these goals appear ambitious, new-generation airplanes and engines together with improved flight management by airlines, air traffic control and airports, combine to make these goals fully achievable. Moreover, these measures should also help to reduce air and noise pollution near airports.

We estimate that 99% of Air Astana's carbon emissions come from the combustion of aviation fuel, and the rest from secondary sources such as motor vehicles and ground equipment and facilities.

The main methods used by Air Astana to reduce its carbon emissions are:

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

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

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

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

As before, Air Astana continues to reduce CO2 emissions by updating the fleet with modern, more efficient aircraft, by modification of existing aircraft, and by rational flight planning.

In accordance with the airline's objectives, in 2015, at the Paris Air Show, a contract was signed for the delivery of seven Airbus A320 neo aircraft, consisting of two Airbus A320 neo, one A321 neo and four A321 neo LRs (Long-Range). The new aircraft will be leased from the Air Lease Corporation, Los Angeles, USA. The first A320 neo was delivered and commissioned in November 2016. The aircraft is equipped with an innovative Pratt & Whitney engine, which provides a

15% reduction in emissions. It is remarkable to note that Air Astana is the first airline in the former Soviet Union and Central Asia to introduce the A320 neo to commercial service. The new A320 neo will be operated on domestic flights, as well as on international flights to China, Turkey, India, Russia and the UAE.

Furthermore, Air Astana ordered another four A320 neo aircraft through operational leasing from AerCap Holdings N.V. The next two A321 neo aircraft are planned to be delivered in 2017, and the remaining eight aircraft in 2018 and 2019. With the acquisition of the A321 neo LR aircraft, the airline will gradually replace the Boeing 757-200 fleet, which will allow the Company to retain its number one position as the youngest fleet in Central Asia and one of the youngest fleets in the world.

The replenishment of the fleet with new aircraft took place simultaneously with the return of some aircraft after the expiration of their operating lease agreements. Effective planning is the key factor for the successful implementation of the activities to update and maintain a high standard of the airline's fleet and to reduce the harmful impacts on the environment.

The above activities enabled the Company to reduce the amount of emissions per flight hour, by almost 7% compared to 2012. Further, the amount of CO2 emissions per passenger/kilometre decreased by almost 6% compared to 2012.

### Efficient routing

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

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

### Aircraft de-icing

Aircraft de-icing and anti-icing operations seriously impact the environment. Our employees and subcontractors who work with chemical products at airports undergo mandatory annual training on environmental protection. Air Astana uses Clariant fluid for de-icing, which is recognised worldwide as being safe for people and the environment. All of our de-icing and anti-icing procedures meet international aviation regulations and requirements, such as EU OPS-1, as well as the standards and recommended practices published by IATA, ICAO, EASA, FAA, Transport Canada, the Engineers' Association (AEA, UK) and Society of Automotive Engineers (SAE).

### Reducing waste generation

While reducing CO2 emissions is a critical part of Air Astana's environmental policy, another priority across all areas of our business is reducing waste generation and promoting recycling where possible. One example is the use of e-tickets and online registration and mobile boarding pass in Astana and Almaty, which reduces the amount of paper tickets. Moreover, we continue to reduce the overall volume of printed material, and current IT initiatives are designed to create paper-free systems throughout the business.

In 2014, we launched a programme to collect and recycle waste paper and household batteries. During the entire existence of the programme, we collected more than 25 tonnes of waste paper and 30 tonnes of batteries. We see this initiative as a way to increase consciousness of recycling among our employees and Kazakh society more widely. The Company's initiative to replace all incandescent light bulbs with LED bulbs has led to further significant energy savings.

In addition, Air Astana flights require a lot of consumables each year: food for passengers, plastic dishes, hygiene products and much more. In order to reduce waste, the Company continually conducts a thorough analysis of the consumed resources, and, based on the results, aims to optimise the corresponding supplies to the aircraft.

# CORPORATE GOVERNANCE







At Air Astana, we view best practices in corporate governance as playing a crucial role in running our company efficiently, increasing its value, and contributing to the strong reputation and trust enjoyed among all of our stakeholders

# CORPORATE GOVERNANCE

## Introduction and key principles of corporate governance

Air Astana considers that Corporate Governance is a tool to upgrade the Company's efficiency, for a reduction in expenses for capital formation, for strengthening its reputation and reliance on behalf of all stakeholders.

The Corporate Governance of Air Astana is built on the principles such as fairness, honesty, responsibility, transparency, professionalism and competence.

An efficient Corporate Governance structure assumes respect for the rights and interests of all bodies involved in the Company's activity and contributes to efficient Company activity including its value growth, financial stability and profitability.

The Company is committed to high standards of Corporate Governance and is constantly improving and developing its Corporate Governance System, which is based on the following basic principles:

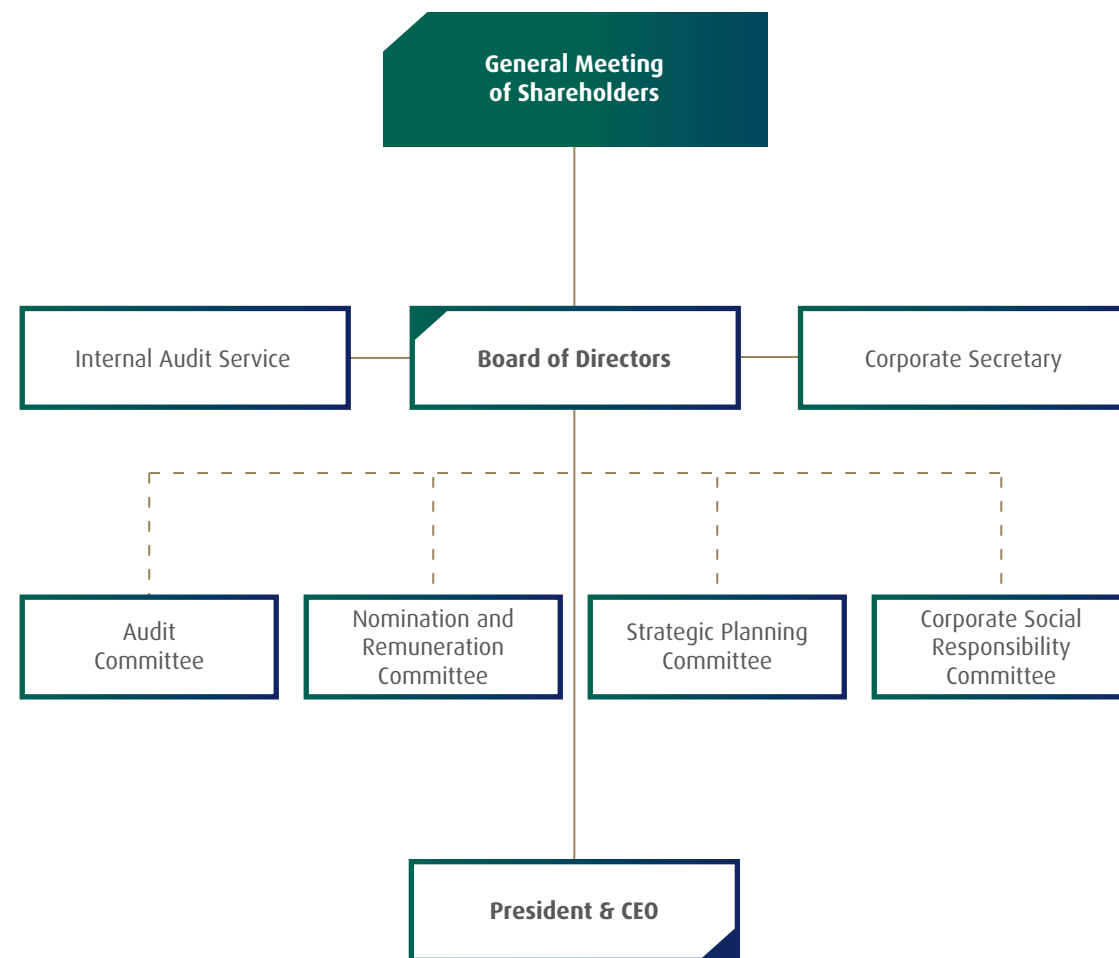
- the principle of protection of the Stockholders' rights and interests

- the principle of the effective management of the Company by the Board of Directors and the Executive Body
- the principle of the Company's independent activities
- the principles of transparency and objective disclosure of information about the Company's activities
- the principles of legality and ethics
- the principle of effective dividend policy
- the principle of effective personnel policies
- the principle of environmental protection
- corporate conflicts and conflict of interests settlement policies
- the principle of responsibility

GOVERNANCE



## Governance bodies and shareholders



## Shareholders

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

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

Registered address:  
Kabanbay Batyr av., 23  
010000, Astana  
Kazakhstan

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

BAE Systems (Kazakhstan) Limited 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.

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

## General meeting of shareholders

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

## Responsibility

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

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

In 2016, ten General Meetings of Shareholders were held, and the following issues were considered:

## Governance and remuneration

- Election of the members of the Board
- Deciding on early termination of the term of office and election of the members of the Strategic Planning Committee of the Board
- Deciding on the determination of composition and terms of office of the Nomination and Remuneration, Strategic Planning, Audit and Corporate Social Responsibility Committees of the Board
- Consideration of claims of the Shareholders against the actions of the Company and its officers for 2015



- Approval of the procedure for the distribution of net income of the Company for the year 2015, deciding on payment of dividends on common stocks and approval of the amount of the dividend for the year 2015 per one common stock of the Company
- Approval of the amount and terms of remuneration and compensation to the Independent Directors and President of the Company
- Approval of the amount of the annual bonus payment to the President of the Company following the results of work for the year 2015
- Approval of the issue of inclusion of the President into the Defined Contribution Approval of the Corporate Pension Scheme of the Company approved by the Board on 10 February 2016
- Approval of the amendments to the Regulations of the Internal Audit Service of the Company

## Financial and operational activity

- Approval of the Annual Budget of the Company for 2016
- Approval of the Business Plan (Development Plan) of the Company for 2016 - 2020
- Approval of the Annual Report of the Company for 2015
- Approval of the annual financial statements of the Company for 2015
- Approval of the decision on entering by the Company into:
  - the Lease Novation and Amendment Agreement in relation to one Airbus A320-200 Aircraft (MSN 6029)
  - the Assignment, Assumption and Amendment Agreement in relation to two Embraer ERJ 190-100 LR Aircraft (MSN 19000487 and MSN 19000537)
- Approval of the decisions on entering by the Company into major transactions and increase the Company's liabilities by an amount constituting 10% (ten percent) or more of the equity capital of the Company or an amount of more than 5,000,000 (five million) US Dollars in connection with the Company entering into major transactions for:
  - the issue of unsecured Standby Letters of Credit with 'Altyn Bank' JSC

- procurement of jet fuel for ramp refuelling with CJSC TZK Sheremetyevo, Petrol Ofisi A.S. and Air Total International SA CJSC
- procurement of jet fuel with Lukoil PJSC, Petrosun LLP and Gazpromneft-Aero CJSC
- the issue of Letters of Credit (including standby Letters of Credit) and bank guarantees with Citibank Kazakhstan JSC
- extension of the agreement with Amadeus IT Group, S.A. on the procurement of services of the provision of a passenger service system for 2016-2020
- extension of the operating lease agreement International Lease Finance Corporation for one Boeing B757-200 aircraft
- extension of the operating lease agreement with Harrison Leasing Corporation for one Boeing B757-200
- provision of onboard catering services for crew and passengers in Almaty with Almaty Catering Services LLP

- Operating lease of one Airbus A321-200 type aircraft (MSN 1042) and one Boeing B757-200 type aircraft (MSN 28333)

## DIVIDENDS

At Air Astana, we have developed our dividend policy in accordance with the legislation of the Republic of Kazakhstan, Our Charter and our internal documents. It defines a transparent process for determining both the size of the dividend and the conditions under which it is paid while seeking to achieve the appropriate balance between returning value to shareholders and financing Air Astana's continued growth.

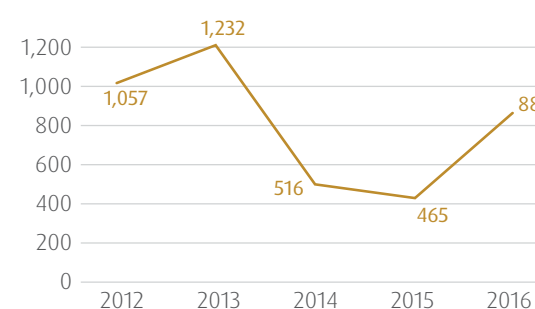
- Terms for payment of dividends to Shareholders are:
- the presence of Company's net profit for the year
  - the absence of limitations to pay dividends
  - recommendations of the Board of Directors on the dividends' size
  - a decision of the General Meeting of Shareholders

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

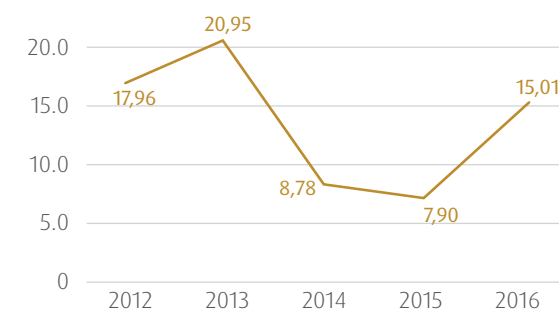
	2012	2013	2014	2015	2016
Amount of accrued and paid dividends per share (USD)*	1,057	1,232	516	465	883
Previous Year Net Profit (KZT '000)	8,981,894	9,106,980	7,814,029	3,485,835	10,362,678
Previous Year Net Profit (US\$ '000)	61,260	61,076	51,364	19,453	48,741
Dividend pay-out ratio	30%	35%	20%	50%	50%

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

Amount of accrued and paid dividends per share (usd)



The total amount of accrued and paid dividends (usd'000)



# BOARD OF DIRECTORS

## The Board of Directors

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

In 2016, the composition of the Company's Board of Directors was not changed. As at 31 December 2016, the Board of Directors consisted of six members, with two members nominated by the Sovereign Wealth Fund 'Samruk-Kazyna', two members nominated by BAE Systems and two independent directors. The Board of Directors of Air Astana is elected at the General Meeting of Shareholders by cumulative voting.

### Composition of the Board of Directors as at 31 december 2016

#### NURZHAN BAIDAULETOV

##### CHAIRMAN OF THE BOARD OF DIRECTORS

Year of Birth: 1960

First appointment to the Board: December 2008

##### Qualifications and experience:

Mr Baidauletov has built a distinguished career in the Kazakhstan transportation industry, which covers a period of almost thirty years.

Before joining Sovereign Wealth Fund 'Samruk-Kazyna' in 2008, Mr Baidauletov held various positions with a high level of responsibility including director of Transport Asset Management of Samruk Holding JSC, head of the Rail Transport Department, Deputy Minister and Chairman of Rail Communications Committee of the Ministry of Transport and Communications of the Republic of Kazakhstan etc. He held senior management positions as a Chief Director for Asset Management and Managing Director of the Sovereign Wealth Fund 'Samruk-Kazyna' between 2008 and 2016.

In addition, during the period from 2012 to 2016 he served as Chairman of the Board at Kazpost JSC and National Company Kazakhstan TemirZholy JSC.

##### Other appointments:

From 2012 to present he is the Chairman of the Board of Directors of Kazakhtelecom JSC.

##### Membership in committees:

Member of the Strategic Planning Committee since December 2016

Air Astana shares owned: None

#### MARAT URAZBEKOV

##### MEMBER OF THE BOARD OF DIRECTORS

Year of Birth: 1960

First appointment to the Board: January 2014

##### Qualifications and experience:

Mr Urazbekov has a distinguished career spanning over 30 years in the Kazakhstan transportation industry.

He started his professional career in 1991 in the railway industry as Chief Engineer at Arys Locomotive Depot of Almaty Railways. Since 1994 until 2008 Mr Urazbekov served in various management and senior management positions including Division Head, Head of Administration, Deputy Director, Director of Railway Transportation Department, Deputy Chairman, Chairman of the Railway Committee of the Ministry of Transport and Communications of the Republic of Kazakhstan. From 2008 to 2014 he was the Head of the Transport Asset Management Department of the Sovereign Wealth Fund 'Samruk-Kazyna'.

##### Other appointments:

Since 2014 till 2016 he served as Deputy Head of the Asset Management Department of the Sovereign Wealth Fund 'Samruk-Kazyna'. During the period from 2012 to 2016 he served as Chairman of the Board of the International Airport of Aktobe JSC and International Airport of Atyrau JSC. From 2015 to present he has been Chairman of the Board of Directors of Qazaq Air JSC.

##### Membership in committees:

Member of Strategic Planning Committee till December 2016 and Corporate Social Responsibility Committee

Air Astana shares owned: None

#### DAVID COLE

##### MEMBER OF THE BOARD OF DIRECTORS

Year of Birth: 1964

First appointment to the Board: March 2013

##### Qualifications and experience:

Mr Cole graduated from the Southampton Solent University specialising in accounting. He started his accounting career as a trainee accountant with Plessey Naval Systems in Addlestone, Surrey. He is a qualified accountant (ACMA) and holds CIMA qualification.

He has held a number of senior finance posts across BAE Systems UK businesses, including in the Land, Maritime and Air sectors. David is a Board Member of the BAE Systems Main Pension Scheme and MBDA (European Missile Company). At present, he is a Finance Director at BAE Systems International Operating Group.

##### Other appointments:

Since 2012 he is a Finance Director at BAE Systems International Operating Group. He is also a Board Member of the BAE Systems Main Pension Scheme and MBDA (European Missile Company).

##### Membership in committees:

Member of the Nomination and Remuneration Committee

Air Astana shares owned: None

#### ALAN FRASER

##### MEMBER OF THE BOARD OF DIRECTORS

Year of Birth: 1956

First appointment to the Board: January 2015

##### Qualifications and experience:

Mr Fraser is a graduate of Strathclyde University with the Bachelor's degree in Accounting and Economics. He is a certified accountant (Glasgow).

In 1984, he joined the civil aviation division of British Aerospace Plc as a financial accountant and in 1989

he was promoted to Finance Director. During the period from 1995 to 1998, he served as Financial Director and Strategy Director at Royal Ordnance Plc, Subsidiary of British Aerospace. In 1998, he was appointed as a Managing Director of Heckler and Koch GmbH.

In early 1999, Alan Fraser began his career at the head office of BAE Systems Plc as Director of Merger Finance. At the end of 1999, Alan returned to BAE's activities related to commercial aviation aircraft as Strategy and Business Development Director of the Regional Aircraft Division of BAE Systems. In 2002, he became Managing Business Director and held this position before leaving BAE Systems in late 2014.

During his time at BAE Systems, Alan has been extensively involved in various activities, being a member of the Council of Aerospace Defense and Security of Scotland, a member of the Globalscot network, a former member of the Council for the CBI of Scotland (two terms) and a former trustee of the royal artillery pension fund.

Other appointments: None

##### Membership in committees:

Member of the Strategic Planning Committee, the Corporate Social Responsibility Committee and the Nomination and Remuneration Committee

Air Astana shares owned: None

#### DMITRIY LARIONOV

##### INDEPENDENT DIRECTOR

Year of Birth: 1973

First appointment to the Board: April 2008

##### Qualifications and experience:

He is a leading expert in accountancy and financial reporting and has an extensive work experience.

From 1999 to 2001 he worked as a lecturer in Accounting at the Kazakhstan Institute of Management, Economics and Strategic Research (KIMEP). In 2001, he was appointed as Consultant in Accounting for the Accounting Reform Department, USAID Enterprise Development Project, Pragma Corporation. He worked as the Local Accounting Expert of Regional Financial Sector Development Project at Asian Development Bank from 2004 to 2005, as Deputy Chairman, Board Member of the Chamber of Professional Accountants of the Republic of Kazakhstan from 2003 to 2010, member of the Developing Nations Committee of



the International Federation of Accountants from 2008 to 2010. During the period from 2008 to 2015, he served as the Independent Director, Chairman of Audit Committee, Member of Nomination, Remuneration and Strategic Planning Committees of Kazakhtelecom JSC.

Mr Larionov has a number of qualifications including a Certificate in Company Direction (Cert IoD), the Institute of Directors, UK; Certified Corporate Governance Director (CCGD) and the Kazakhstani Independent Directors Association.

#### Other appointments:

Since 2009 he has been a member of the Consultative Board on Accounting and Audit under the Ministry of Finance of the Republic of Kazakhstan; Independent Director of the National Company Astana EXPO-2017, from 2013 to present; Independent Director of National Company Kazakhstan Engineering, from 2015 to present; Consultant, Centre for Financial Reporting Reform, World Bank, from 2015 to present; International Telecommunications Partner of BDO Kazakhstan Audit JSC, from 2005 to present.

#### Membership in committees:

Chairman of the Audit Committee, the Nomination and Remuneration Committee, the Strategic Planning Committee and a member of the Corporate Social Responsibility Committee.

Air Astana shares owned: None

### LORD THOMAS ALEXANDER HESKETH

#### INDEPENDENT DIRECTOR

Year of Birth: 1950

First appointment to the Board: October 2007

#### Qualifications and experience:

Mr Hesketh has had a long and distinguished career in public service and international business.

In 1990, he was appointed as the Minister of Industry at the (UK) Department of Trade and Industry. During the period from 1991 to 1993, he served as the Captain of the Honourable Corps of Gentlemen at Arms and Government Chief Whip in the House of Lords and a Privy Counsellor. He was the Chairman at British Mediterranean Airways from 1994 to 2007 and Non-Executive Deputy Chairman at Babcock International from 1993 to 2010. From 2004 to 2005 he also worked as a Treasurer of the Conservative Party.

Other appointments: None

#### Membership in committees:

Chairman of the Corporate Social Responsibility Committee, member of the Audit Committee and the Nomination and Remuneration Committee

Air Astana shares owned: None

## Responsibilities of the Board of Directors

The duties of the Board of Directors include, without limitation, the following actions:

- Determine Air Astana's development priorities, preliminarily approve and propose the long-term development strategy for approval by the General Meeting of Shareholders
- Provide preliminary approval and submit the short-term and medium-term business plans (the development plan and annual budget) for final approval by the General Meeting of Shareholders, as well as any amendments to it, including capital expenditure not provided for in previously approved business plans
- Provide preliminary approval of the annual financial statements
- Submit matters for consideration and resolution by the General Meeting of Shareholders pursuant to the law and/or the Charter
- Elect and decide on the termination of an agreement with the Company's registrar
- Define procedures for the work of the Internal Audit Service (IAS), determine the remuneration of IAS staff based on recommendations by the President, award bonuses to IAS staff based on recommendations by the Audit Committee and the President, and approve the qualification requirements for IAS employees

## Selection criteria for the Board of Directors

The selection of new Directors is performed in the manner stipulated by the Laws of the Republic of Kazakhstan and the Charter of Air Astana in accordance with an official, strict and transparent procedure.

The Company has established the following criteria for nominees and members of the Board of Directors:

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

The members of the Board of Directors should not:

- Have any current convictions under the law of the Republic of Kazakhstan
- Be a person who has previously served as Chairman of the Board of Directors, Chief Executive Officer (Chairman of the Management Board), Deputy Chief Executive Officer, or Chief Accountant of another legal entity for no more than one year before its forced liquidation or forced redemption of shares, or of another legal entity recognised as bankrupt and put into temporary closure; this requirement is applied for a five-year period following the date of forced liquidation, forced redemption of shares, or a legal entity being recognised as bankrupt and put into temporary closure

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

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

## Remuneration of members of the Board of Directors

The procedure for remuneration and compensation payment to the members of the Board of Directors of Air Astana is defined by the Policy of remuneration of the Board of Directors of Air Astana, developed in accordance with the current Laws of the Republic of Kazakhstan, and the Charter and Corporate Governance Code of Air Astana.

- Remuneration is not paid to the members of the Board of Directors of Air Astana 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:

- 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 compensations, are fixed under the contract with Company's independent director, on the basis of a corresponding decision of the General Meeting of Shareholders.

In 2016, the total remuneration paid to independent directors stood at 75,505 USD including taxes.

## PARTICIPATION OF THE MEMBERS OF THE BOARD OF DIRECTORS IN MEETINGS IN PRESENTIA IN 2016

In 2016, the Board of Directors held 12 meetings, including four meetings in presentia.

Name	Meeting in presentia			Participation in decision-making, %
	In person	By voting in absentia	Via conference call	
Nurzhan Baidautov	4	-	-	100%
Marat Urazbekov	4	-	-	100%
David Cole	3	-	1	100%
Alan Fraser	4	-	-	100%
Dmitriy Larionov	4	-	-	100%
Lord Hesketh	2	1	1	100%

## Issues considered by the Board of Directors in 2016

In 2016, the Board of Directors considered the following issues:

### STRATEGIC DEVELOPMENT

- Consideration of the report on the implementation of the strategy and major investment projects of the Company
- Consideration of the update on the Company's strategic plan 2017-2026 and the Business Plan for 2017-2021

### RISK MANAGEMENT

- Consideration of the Safety Review of the Company for the recent 12 months (to 31 December 2015, 31 March, 31 July, 31 October 2016)
- Consideration of issue of aviation insurance placement of the Company and the Corporate Reinsurance Program of Samruk-Kazyna JSC
- Approval of the updated Risk Register, Key Risk Register and Risk Map of the Company for the 1st

and 2nd half of 2016. Consideration of the report on realised risks of the Company. Approval of the Risk Appetite of the Company

### INTERNAL CONTROL AND AUDIT

- Consideration of the reports on the activity of the Internal Audit Service for 2015, 1st, 2nd and 3rd quarter of 2016
- Consideration of the reports on the status of execution of the Action Plan for Implementation of the Strategic Plan of the Internal Audit Service for the 2nd half of 2015, 1st half of 2016
- Consideration of the reports on a review of the evaluation of the effectiveness of the internal control system
- Consideration of the results of the independent international external assessment of the activity of the Internal Audit Service of the Company against standards and best international practice conducted by KPMG Tax and Advisory LLP
- Approval of the amended Quality Assurance and Improvement Program of Internal Audit
- Approval of the amended Methodological guidelines for organisation of Internal Audit

- Approval of the amended Methodology on evaluation of the effectiveness of the internal control system
- Approval of the Budget and Annual Audit Plan of the Internal Audit Service for 2017.
- Approval of the preliminary approval of the amendments to the Regulations of the Internal Audit Service
- Selection of the supplier of the services of an external assessment of the activity of the Internal Audit Service and the following consideration of the results of the assessment
- Performance evaluation of the Internal Audit Service for the 1st, 2nd and 3rd quarter of 2016
- Issues of the Internal Audit Service of the Company

### FINANCIAL AND OPERATIONAL ACTIVITY

- Consideration of the report on the results of financial and operational activity (implementation of the budget and development plan) of the Company for 2015, for three, eight, ten months of 2016
- Consideration of the report on the placement of temporarily available funds of the Company. Consideration of the quarterly report on the status of the Company's deposits placed as at 31 December 2015, 31 March, 30 September 2016, 20 September 2016
- Deciding on entering by the Company into major transactions and preliminary deciding on increasing the Company's liabilities by an amount constituting 10% or more of the equity capital of the Company or an amount of more than 5 million US Dollars in connection with entering by the Company into major transactions for:
  - the issue of unsecured Standby Letters of Credit with 'Altyn Bank' JSC
  - procurement of jet fuel for ramp refuelling with CJSC TZK Sheremetyevo, Petrol Ofisi A.S. and Air Total International SA CJSC
  - procurement of jet fuel with Lukoil PJSC, Petrosun LLP and Gazpromneft-Aero CJSC
  - the issue of Letters of Credit (including standby Letters of Credit) and bank guarantees with Citibank Kazakhstan JSC

- extension of the agreement with Amadeus IT Group, S.A. on the procurement of services of the provision of a passenger service system for 2016-2020
- extension of the operating lease agreement with International Lease Finance Corporation for one Boeing B757-200 aircraft
- extension of the operating lease agreement with Harrison Leasing Corporation for one Boeing B757-200
- provision of onboard catering services for crew and passengers in Almaty with Almaty Catering Services LLP
- Preliminary approval of the financial statements of the Company for 2015
- Preliminary approval of Annual Budget of the Company for 2017
- Approval of the changes and amendments to the Procurement Rules of the Company

- Approval of the amended Guidelines on the procedure for the Company's single-source procurement of goods, works and services required for maintaining aircraft fleet, as well as goods, works and services supplied, consumed and used in a foreign state
- Approval of the decisions of the President of the Company on opening by the Company of bank accounts
- Approval of the IPO roadmap of the Company. Consideration of the update on the status of implementation of IPO roadmap of the Company
- Approval of the amended Jet Fuel Prices Hedging Policy of the Company
- Approval of the Procedure of the Company for selection of the audit organisation and determination of the fee to be paid
- Deciding on entering by the Company into the Lease Novation and Amendment Agreement in the relation of one Airbus A320-200 Aircraft (MSN 6029)
- Deciding on the proposal of the management of the Company on the extension of the operating lease agreements for one Airbus A321-200 type aircraft (MSN 1042) and one Boeing B757-200 type aircraft (MSN 28333)



**GOVERNANCE AND REMUNERATION**

- Consideration of the amended Defined Contribution Corporate Pension Scheme of the Company
- Consideration of the issue of inclusion of the employees of the Company whose remuneration shall be determined by the Board of the Directors/Shareholders of the Company into the Defined Contribution Corporate Pension Scheme of the Company.
- Consideration of the report on the activities of the Company in the field of safety at work, labour, health and environment protection for 2015
- Consideration of the report on the results of monitoring of health and safety at work management system and compliance of the Company's activity with the requirements of the legislative requirements of the Republic of Kazakhstan for the 2nd half of 2015
- Consideration of the report on the activities of the Board and its Committees for 2015
- Consideration of the report on the status of the implementation of the decisions of the Board for the period September 2015 - April 2016 and May - November 2016.
- Consideration of the claims of the Stockholders against the actions of the Company and its officers for 2015
- Consideration of the interim report on corporate social responsibility of the Company as of September 2016
- Approval of the limits of reimbursable expenses at the Company's expense when granting to the employees of the Company the right to use mobile communication.
- Approval of the remuneration system and provision of incentives and the scheme of labour remuneration of the Company's employees
- Approval of the long-term incentive plan for the Company's senior management, as submitted for consideration of the Nomination and Remuneration Committee of the Board
- Approval of the procedure for and terms of compensation of expenses to the Company's employees travelling on business, the standards of eligibility for the Company cars and standard areas to accommodate the administrative personnel of the

Company, the limits of reimbursable expenses at the Company's expense when granting to employees the right to use mobile communication and the limits of representation expenditures

- Preliminary deciding on the determination of composition and terms of office of all four Committees of the Board
  - Proposals to the Annual General Meeting of Stockholders of the Company on the procedure for distribution of the net income of the Company for 2015 and the amount of the dividend for 2015 per one common stock of the Company
  - Recommendations to the General Stockholders' Meeting of the Company with respect to the annual bonus payment to the President of the Company following the results of work for the year 2015
  - Deciding on the 2015 Profit Share Bonus payment to the employees of the Company. Determination of the amount of the 2015 Profit Share Bonus payment to the employees of the Company whose remuneration shall be determined by the Board of the Directors of the Company
  - Determination of the amount of the 2016 Year End Bonus payment to the employees of the Company whose remuneration shall be determined by the Board of the Directors of the Company
  - Annual review of remuneration and proposals for the 2017 salaries of the employees of the Company whose remuneration shall be determined by the Board of Directors of the Company
  - Proposals in respect of the amount and terms of compensations to the President of the Company
  - Issues of formation of the Representative Office of the Company in the Kyrgyz Republic
  - Approval of an amendment to the Regulations of the Company's Representative Office in the Republic of Turkey
- Approval of the plan of work and the schedule of the meetings of the Board of Directors of the Company for 2017
- Preliminary deciding on early termination of the term of office and election of the members of the Strategic Planning Committee of the Board of Directors of the Company

# COMMITTEES

## Committees of the Board of Directors

The Board of Directors has established four Committees, which are set up to contribute to the effective performance of the functions of the Board of Directors of the Company and in-depth study of issues within the competence of the Board. The four Committees are: the Strategic Planning Committee, the Nomination and Remuneration Committee, the Audit Committee and the Corporate Social Responsibility Committee.

### Strategic planning committee

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

#### RESPONSIBILITIES OF THE STRATEGIC PLANNING COMMITTEE

The responsibilities of the Strategic Planning Committee include:

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

### COMPOSITION OF THE STRATEGIC PLANNING COMMITTEE AND PARTICIPATION OF THE MEMBERS IN MEETINGS IN PRESENTIA IN 2016

In 2016, the Strategic Planning Committee held four meetings in presentia.

Full name	Position	Participation in meetings and decision-making, %
Dmitriy Larionov	Chairman	100%
Alan Fraser	Member	100%
Marat Urazbekov	Member till December 2016	100%
Nurzhan Baidautetov	Member from December 2016	100%

### ISSUES CONSIDERED BY THE STRATEGIC PLANNING COMMITTEE IN 2016

- Consideration of the report on results of financial and economic activities (implementation of the budget and development plan) of the Company for 2015, for the 3, 8 and 10 months of 2016
- Consideration of the report on the implementation of the strategy and major investment projects of the Company
- Consideration of the report on the activities of the Strategic Planning Committee for 2015
- Consideration of the report on the Company's strategy update plan
- Consideration of the IPO roadmap of the Company, and update on the status of its implementation
- Consideration of the report on the implementation of the major investment projects of the Company
- Consideration of the update on the status of development of the Company's strategic plan for 2017-2026 and the Business-Plan of the Company for 2017-2021
- Consideration of the plan of work and the schedule of the meetings of the Board for 2016
- Recommendations with regard to the procedure for distribution of the net income of the Company for 2015, and the amount of the dividend for 2015 per one common stock of the Company
- Preliminary approval of the Annual Budget of the Company for 2017

### 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 those employees.

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

### RESPONSIBILITIES OF THE NOMINATION AND REMUNERATION COMMITTEE

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

- Developing qualification requirements for candidates for independent directors, the Executive Body, the Corporate Secretary, and the head and employees of the IAS
- Making recommendations for electing or nominating candidates for independent directors, the Executive Body, the Corporate Secretary, and the head and employees of the IAS
- Developing the succession planning policy for members of the Board of Directors and its Committees, the Executive Body, the Corporate Secretary and the head and employees of the IAS
- Providing recommendations on the policy and structure for remunerating members of the Board of Directors, the Executive Body, the head of the IAS, the Corporate Secretary and other employees whose remuneration shall be agreed by the Board of Directors or shareholders
- Making recommendations regarding the annual individual remuneration of members of the Board of Directors, the Executive Body, the head of the IAS, the Corporate Secretary and other employees whose remuneration shall be agreed by the Board of Directors or shareholders
- Making proposals to the Board of Directors regarding changing the remuneration of members of the Board of Directors, the Executive Body, the head of the IAS, the Corporate Secretary and other employees whose remuneration shall be agreed by the Board of Directors or shareholders
- Considering payment of remuneration following the results of the year to employees whose remuneration shall be agreed by the Board of Directors or shareholders
- Conducting comparative analyses of salary levels and remuneration policies for members of the Board of Directors, the Executive Body, the head of the IAS, the Corporate Secretary and other employees whose remuneration shall be agreed by the Board of Directors or shareholders

### COMPOSITION OF THE NOMINATION AND REMUNERATION COMMITTEE AND PARTICIPATION OF THE MEMBERS IN MEETINGS IN PRESENTIA IN 2016

In 2016, the Nomination and Remuneration Committee held four meetings in presentia.

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

### ISSUES CONSIDERED BY THE NOMINATION AND REMUNERATION COMMITTEE IN 2016

- Recommendations with regards to the inclusion of the employees of the Company whose remuneration shall be determined by the Board, into the Defined Contribution Corporate Pension Scheme of the Company
- Recommendations with regards to determination of the amount of the annual bonus payment to the President of the Company, following the results of work for the year 2015
- Recommendations with regards to the issue of the 2015 Profit Share Bonus payment to the employees of the Company, and determination of the amount of the 2015 Profit Share Bonus payment to the employees of the Company, whose remuneration shall be determined by the Board
- Recommendations with regards to the change of position, and review of the amount of remuneration of the employees of the Internal Audit Service of the Company
- Recommendations with regards to termination of authorities of the Internal Auditor of the Internal Audit Service of the Company
- Recommendations with regards to the limits of reimbursable expenses at the Company's expense, when granting to the employees of the Company the right to use mobile communication
- Recommendations with regards to the terms and amount of compensations to the President of the Company
- Recommendations with regards to the change of the position of the Assistant Manager of the Internal Audit Service of the Company
- Recommendations with regards to approval of the Regulations of the Labour Remuneration System of the Company
- Recommendations with regards to principle approval of the long-term incentive plan of the Company
- Recommendations with regards to the payment of the 2016 Year End Bonus to the employees of the Company, whose remuneration shall be determined by the Board
- Recommendations with regards to the candidates to the members of the Board, and the amount and terms of remuneration, and compensations to the Independent Directors of the Company
- Consideration of the report on the activities of the Nomination and Remuneration Committee for 2015
- Consideration of the report on the implementation of the Defined Contribution Corporate Pension Scheme of the Company
- Proposals with regard to the review of the remunerations, and determination of the 2017 salaries of the employees of the Company, whose remuneration shall be determined by the Board of Directors of the Company
- Approval of the plan of work of the Nomination and Remuneration Committee for 2017



## Audit committee

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

### RESPONSIBILITIES OF THE AUDIT COMMITTEE

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

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

## COMPOSITION OF THE AUDIT COMMITTEE AND PARTICIPATION OF THE MEMBERS IN MEETINGS IN PRESENTIA IN 2016

In 2016, the Audit Committee held nine meetings in presentia.

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

### ISSUES CONSIDERED BY THE AUDIT COMMITTEE IN 2016:

In 2016, the Audit Committee considered and made decisions on the following issues:

#### FINANCIAL STATEMENTS

- Recommendations to the Board with regards to the preliminary approval of the annual financial statements of the Company for 2015
- Consideration of the Management Letter, following the results of the audit of the annual financial statements for 2015
- The External Auditor's update on the results of the review of the interim condensed financial statements, for 6 months ending 30 June 2016

▪ The External Auditor's interim report on the audit of the financial statements for the year ending 31 December 2016

▪ Preliminary approval of the important terms of the draft agreement (contract) on auditing the annual financial statements for 2017-2019

#### INTERNAL AUDIT

- Hearing of the report on the status of execution of the action plan, for implementation of the strategic plan of the IAS for the 2nd half of 2015 and the 1st half of 2016
- Hearing of the report on the activity of the IAS for 2015, and for the 1st, 2nd and 3rd quarter of 2016

▪ Performance evaluation of the IAS for the 4th quarter of 2015, and for the 1st, 2nd and 3rd quarter of 2016

▪ Recommendations with regard to the issue of inclusion of the head and employees of the IAS into the Defined Contribution Corporate Pension Scheme of the Company

▪ Recommendations with regard to preliminary approval of the amendments to the regulations of the IAS

▪ Recommendations with regard to approval of the annual audit plan of the IAS for 2017

▪ Recommendations with regard to approval of the job descriptions of the Head and employees of the IAS

▪ Recommendations with regard to approval of the amount of the 2016 year end bonus to the Head and employees of the IAS

▪ Recommendations with regard to approval of the amount of the 2017 salaries of the Head and employees of the IAS

▪ Consideration of the information on the results of the open tender, on the selection of the supplier of the services, of an external assessment of the activity of the IAS

▪ Consideration of the results of independent international external assessments of the activities of the IAS against standards and best international practice conducted by KPMG Tax and Advisory LLP

▪ Preliminary approval of the amended Quality Assurance and Improvement Programme of Internal Audit in the Company

▪ Preliminary approval of the amended Methodological guidelines for organisation of internal audits in the Company

▪ Preliminary approval of the amount of the 2015 Profit Share Bonus payment to the Head and employees of the IAS

▪ Preliminary approval of the budget of the IAS for 2017

▪ Proposal of the Head of the IAS on the staff changes in the IAS

#### RISK MANAGEMENT

▪ Recommendations with regard to approval of the updated Risk Register, Key Risk Register, and Risk Map of the Company for the 1st and 2nd half of 2016

▪ Recommendations with regard to approval of the Risk Appetite of the Company

▪ Recommendations with regard to approval of the amended Jet Fuel Prices Hedging Policy of the Company

▪ Consideration of the Policy of the Company on prevention and settlement of conflicts of interest

▪ Consideration of the report on realised risks of the Company

#### OTHER ISSUES

▪ Consideration of the additional information with regard to the issue of the aviation insurance placement of the Company and the Corporate Reinsurance Program of Samruk-Kazyna JSC

▪ Consideration of information on the Kazkommerzbank credit rating downgrade

▪ Consideration of the report on the placement of temporarily available funds of the Company

▪ Consideration of the report on the activities of the Audit Committee for 2015

▪ Consideration of information on aviation insurance placement

▪ Consideration of quarterly report on the status of the Company's deposits placed as at 31 March, 30 June, 30 September, and 31 December 2016

▪ Consideration of the operational safety review of the Company for the recent 12 months (to 31 October 2016)

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

▪ Hearing of the report on review of the evaluation of the effectiveness of the internal control system of the Company

▪ Recommendations with regard to the issue of opening by the Company, bank accounts

▪ Recommendations with regard to approval of the amended Accounting Policy of the Company

▪ Recommendations with regard to approval of the Procedure of the Company for selection of the audit organisation

▪ Recommendations with regard to determining the auditing organisation to perform an audit of the Company for 2017-2019 and the fee to be paid for its services

- Recommendations with regard to the issue of aviation insurance placement of the Company and the Corporate Reinsurance Program of Samruk-Kazyna JSC
- Approval of the annual plan of work of the Audit Committee for 2017
- Preliminary approval of the amended Methodology on evaluation of the effectiveness of the internal control system of the Company

## Corporate social responsibility committee

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

### RESPONSIBILITIES OF THE CORPORATE SOCIAL RESPONSIBILITY COMMITTEE

The responsibilities of the Corporate Social Responsibility Committee include:

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

## COMPOSITION OF THE CORPORATE SOCIAL RESPONSIBILITY COMMITTEE AND PARTICIPATION OF THE MEMBERS IN MEETINGS IN PRESENTIA IN 2016

In 2016, the Corporate Social Responsibility Committee held three meetings in presentia.

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

- Making recommendations to the Board of Directors regarding the approval of internal documentation covering social and charitable policies
- Consideration of major CSR risks and plans for mitigating their impact
- Making recommendations to the Board of Directors regarding the approval of the Company's social responsibility and sustainability report

### ISSUES CONSIDERED BY THE CORPORATE SOCIAL RESPONSIBILITY COMMITTEE IN 2016

In 2016, the Corporate Social Responsibility Committee considered and made decisions on the following issues:

- Consideration of the report on the activities of the CSR Committee for 2015
- Consideration of the report on the activities of the Company in the field of safety at work, labour, health, and environment protection for 2015 and 2016
- Consideration of the report on the results of the monitoring of the health and safety at work management system, and compliance of the Company's activity with the requirements of the legislative requirements of the Republic of Kazakhstan for the 2nd half of 2015
- Consideration of the statement of the research results on the social stability rating of the Company
- Consideration of the interim report on the CSR of the Company as of September 2016
- Consideration of the report on the implementation of the Defined Contribution Corporate Pension Scheme of the Company
- Information on the results of the Company's employees' engagement survey
- Approval of the plan of work of the CSR Committee for 2017

# INTERNAL AUDIT

## Internal audit service

### Mission and functions

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

The IAS is a Corporate Body that provides the organisation and implementation of the internal audit in the Company and reports directly to the Board of Directors. Supervision of the IAS' function is carried out by the Audit Committee in accordance with internal documents governing its activity.

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

- Risk management
- Internal control
- Corporate governance processes

The IAS performs the following functions:

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

-achievement of the Company's strategic objectives

-reliability and completeness of information on the Company's activity

-efficiency and effectiveness of the Company's activity and adopted programs

-rationality and efficiency of use, of the Company's resources and methods (means) of safeguarding the Company's assets

-compliance of established control systems with the requirements of legislation, normative documents, internal documents and resolutions of authorised bodies and bodies of the Company (compliance control)

- Evaluation of corporate governance systems including the implementation and compliance of accepted corporate governance principles with the ethical standards and values of the Company

- Evaluation of fraud risk and effectiveness of fraud risk management in the Company

- Evaluation of the completeness of implementation and efficiency of the risk management methodologies, and risk management procedures in the Company

- Audit of the Company's information systems

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

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



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

- Conducting unplanned audit engagements
- Monitoring of the implementation of the external auditor's recommendations
- Follow-up oversight of the implementation of recommendations issued by the Service
- Other functions assigned to the Service within the limits of its competence

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

## Audit process

The activity of the IAS is performed in accordance with the Audit Plan approved by the Board of Directors and includes the assessment of the effectiveness of the internal control system, risk management and corporate governance.

During its work, the IAS is guided by the approved Regulations of the IAS and Methodological guidelines for the organisation of Internal Audits, as well as International Standards for the Professional Practice of Internal Auditing.

In order to increase the efficiency and productivity of the entire internal audit process an audit management software system named 'TeamMate' was implemented. It is primarily used for planning, execution and storage of audit engagements, as well as the tracking of audit issues and recommendations.

The IAS has a practice of processing requests from various departments of the Company. Appropriate

information is published on the Company's intranet. Requests can include the provision of consultations/ advice on issues related to internal control systems, risk management, accounting, etc.

## Conformance with the standards\*

The IAS activity conforms to the International Standards for Professional Practice of Internal Auditing that was confirmed by KPMG Tax and Advisory LLP, a qualified independent external consultant in April 2016.

External assessment of the IAS activity was performed against two areas of the Standards (Quality characteristics standards and Performance standards) and best international practice.

According to the issued report, the IAS activities fully comply with 48 international professional standards for the internal audit.

In the framework of assessment, the maturity level of the IAS activities in regard to international practice was characterised as 'Progressive', the maximum level of maturity according to the KPMG methodology.

## Head of the internal audit service

Valentina Kheday as Head of the Internal Audit Service was appointed by decision of the General Meeting of Shareholders of Air Astana, on 7 December 2007.

Valentina is a Certified Internal Auditor (CIA), Certified Auditor of RK, PhD in Economic sciences, DipPIA of ICFM and a Professional Accountant (certificates CIPA and professional accountant).

\*International Standards for Professional Practice of Internal Auditing

# Corporate secretary

The position of Corporate Secretary was established through a resolution of the Board of Directors on 6 December 2007. The Corporate Secretary plays a key role in facilitating an open 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 any disputes involving shareholders' rights are resolved.

The Corporate Secretary's duties also include ensuring a proper flow of information among the

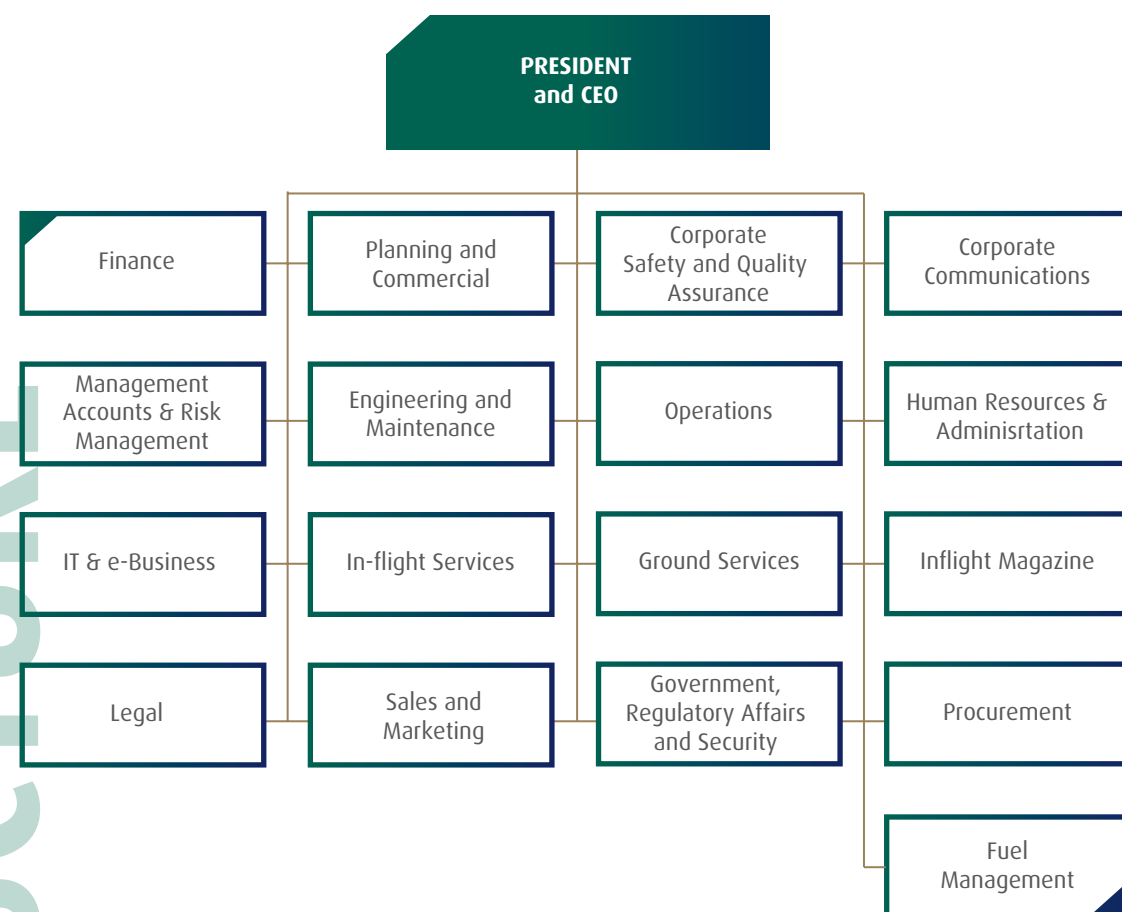
Board of Directors and its Committees and the Executive Body, as well as facilitating the orientation process for new Directors. The Board of Directors is responsible for the appointment and dismissal of the Corporate Secretary.

## YELENA KONDACHKOVA

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



# Corporate structure



STRUCTURE

# Management team

HEART

**PETER FOSTER**  
PRESIDENT AND CEO

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

he graduated from the Officers Training Faculty of the Civil Aviation Academy in Leningrad, Russia, where he received his managerial qualification as a Pilot-Engineer. In 2002, he graduated with a Bachelor of Law degree from the Law School of the Al-Farabi Kazakh National University.

Yerbol has over 45 years of experience in aviation and holds a US FAA ATPL license with Type Rating of Boeing 767/757 and a Transport Canada APTL license with Type Rating of Boeing 767/757 following flight training at the Sheffield School of Aeronautics (Florida, US) and Canadian Airlines (Vancouver, Canada).

From 1992 he served as the Chief Pilot and Captain of Tu154, Boeing 747/757/767 for the fleet of the President of the Republic of Kazakhstan. In 2005, he joined Air Astana and is currently a Senior Vice President for Government, Regulatory Affairs and Security, as well as a pilot-instructor on Boeing 757/767s.

**ALMA ALIGUZHINOVA**  
SENIOR VICE PRESIDENT, STRATEGIC AND COMMERCIAL PLANNING

Alma 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 progressively has been promoted to Corporate Development Director, then Vice President, Planning. Alma is currently the Senior Vice President Corporate Planning.

**IBRAHIM CANLIEL**  
SENIOR VICE PRESIDENT, MARKETING AND SALES

Ibrahim holds a Bachelor's Degree in Economics from Marmara University and an MBA from the Bosphorus University (Istanbul). He is fluent in five languages. Ibrahim has worked in the tourism industry for 9 years, ending that stage of his career as a manager in a major tour operator in Turkey.

Alma is a Bolashak Alumnus and holds an MBA degree from East Caroline University and a USA and Aerospace MBA degree from Toulouse Business School, France.

From 1998 to 2003, he worked for KLM as the Regional Manager for the Middle East and was the Regional Manager responsible for the organisation of commercial activity in Central Asia and the Caucasus. In 2003, he joined Air Astana and has worked in the Commercial Planning, Marketing and Sales Departments. From 2005 to 2008, he was a Board Member of the European Business Association of Kazakhstan.

**YERBOL OSPANOV**  
SENIOR VICE PRESIDENT, GOVERNMENT, REGULATORY AFFAIRS AND SECURITY

Yerbol started his career as a pilot as a Cadet Officer at Krasnokut Flight School in Russia in 1972. In 1985,



**GERHARD COETZEE****SENIOR VICE PRESIDENT, CORPORATE SAFETY COMPLIANCE**

Gerhard holds a Bachelor's degree in Commerce and an Honours degree in Transport Economics from the University of South Africa. He is a qualified Accident Investigator with qualifications in (Aviation) Safety Programme management from various institutions including the University of Southern California.

Gerhard started his career as an Air Force navigator, and for the past 25 years has been actively involved in flight safety. He has served as a Staff Flight Safety Officer in the South African Air Force and as a Managing Consultant in BAE Systems.

**ANTHONY REGAN****SENIOR VICE PRESIDENT, OPERATIONS**

Anthony is a graduate of University College Dublin with a degree in Mathematics and Mathematical Physics. He holds a JAA and FAA Air Transport Pilot License and has over 30 years of experience in 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. He retired with the rank of Commandant. He has been a Director of CAE Parc Aviation (an organisation providing aviation personnel and support services to airlines). From 2001 to 2012, he was a Head of Flight Operations and OPS Post Holder at the Air France/KLM subsidiary Cityjet.

**JOHN WAINWRIGHT****SENIOR VICE PRESIDENT, ENGINEERING GROUP**

John was educated in the United Kingdom and trained at the Royal Aircraft Establishment, Bedford. He has over 40 years of aircraft maintenance experience, both in Base and Line maintenance.

After spending almost 20 years working for Britannia Airways, he moved to South East Asia, working for Royal Brunei Airlines in Brunei, Vietnam and Nepal. When he left Brunei to immigrate to Australia, he held the position of Head of Maintenance. John joined Air Astana in 2006. He is a holder of an EASA B1 and C category Maintenance Engineers License.

**YEVGENIYA NI****VICE PRESIDENT, HR AND ADMINISTRATION**

Yevgeniya is a graduate of the Karaganda State University named after Y. A. Buketov and she holds diplomas in foreign languages and Law. She has numerous diplomas and certificates in management and personnel management.

From 2002 to the present, she has progressed within the Company to be the Assistant to the President of Air Astana. She is currently Head of the HR Department, which also oversees the Health and Safety, Administration and Transport divisions.

Under her leadership, a transparent system of recruitment and corporate training was created and a performance evaluation and reward system was introduced. Yevgeniya regularly participates in professional conferences and congresses, as an expert, moderator and speaker.

**GALINA UMAROVA****VICE PRESIDENT, FUEL MANAGEMENT**

Galina graduated from Aktobe State University after K. Zhubanov and she holds a Master Degree in Public Administration from KIMEP, Almaty. Galina earned the right to use the Chartered Financial Analyst (CFA®) designation granted internationally by the CFA Institute. She holds Financial Risk Manager (FRM®) designation certified by the Global Association of Risk Professionals (GARP).

She has over 15 years of experience in the airline industry and prior to joining Air Astana was Director of Finance at Astana International Airport JSC.

**AIDAR KASHKARBAYEV****VICE PRESIDENT, LEGAL AFFAIRS**

Aidar graduated from the Kazakh National University and has completed a study placement at the Southern Illinois University, USA, under the visiting scholar programme. He has over 15 years of experience in jurisprudence.

Aidar started practising law at the Ministry of Foreign Affairs of the Republic of Kazakhstan in 1993. Prior to

joining Air Astana, Aidar worked for the Denton Wilde Sapte law firm and KPMG. He also worked as a manager in the legal department at the Karachaganak Petroleum Operating B.V. based in Western Kazakhstan. In 2015, he started the Cranfield Advanced Development Programme at the Cranfield management school, which he should complete in June 2017.

**CHAMINDRA LENAWA****VICE PRESIDENT, IT AND E-BUSINESS**

Chamindra holds a Master's Degree in Business Administration, a Bachelor of Laws Degree and a Bachelor of Science Degree in Electronics and Telecommunication Engineering.

He holds certificates in several IT domains and is a specialist in airline reservations, ticketing, departure control systems, and business operations. He is a certified PMP (Project Management Professional), PMI (USA) and a Chartered Information Technology Professional with the British Computer Society.

Chamindra is an IT expert with management experience and gained his experience at three national carriers. He initially joined Air Astana as a Manager of IT Business Systems, and then he became a Director of IT and e-Business.

**BELLA TORMYSHEVA****VICE PRESIDENT, CORPORATE COMMUNICATIONS**

Bella holds a master's degree in International Relations. She has over 15 years of experience in public relations, information and cultural activity. She has also taken part in numerous training activities outside of Kazakhstan.

Before joining Air Astana, she worked as a member of the delegation of the European Commission covering Kazakhstan, Kyrgyzstan and Tajikistan.

**DILYARA KUNKHOZHAYEVA****VICE PRESIDENT, PROCUREMENT**

Dilyara holds a Bachelor's and Master's degree in Business Administration and Accounting from KIMEP in Almaty, where she majored in management and finance.

After graduating, she worked at Ernst and Young and KIMEP. From 2006 to the present, she has held positions as a Financial Analyst, a Head of Management Accounts, a Director of Procurement, and is currently the Vice President for Procurement of Air Astana.

**MERGALI ALZHANOV****VICE PRESIDENT, FLIGHT OPERATIONS**

Mergali graduated from the Aktobe Civil Aviation Flight School in 1980.

From 1980 to 1991, he was a co-pilot on Yak-40s in the Kokchetav aviation squadron. In 1991, he was transferred to the Almaty United Squadron. In 2004, after working for several airlines, Mergali joined Air Astana as a captain on Boeing 757s.

**AIMAN TILEUBAYEVA****VICE-PRESIDENT, NETWORK AND REVENUE MANAGEMENT**

Aiman graduated from the Kazakh National University. In 2016, she started the Cranfield Directors Programme at the Cranfield management school, which she should complete in 2017.

From 1998 to 2003, she worked for Air Kazakhstan. From 2003 to the present, she has worked as a Commercial Planning Manager, Director of Commercial Planning and Revenue Management and is currently the Vice President of Network and Revenue Management of Air Astana.

**AIZHAN OMAR****VICE PRESIDENT, MANagements ACCOUNTS AND RISK MANAGEMENT**

Aizhan is a graduate of Taraz State University named after M. Kh. Dulaty and holds Diploma in International Economic Relations, also she holds a Master degree in Business Administration from KIMEP (Almaty) with major in management and finance.

She joined Air Astana in August 2006 as Financial Analyst. From June 2012 to January 2014 she was a Head of Management Accounts. Currently, she is Vice President Management Accounts and Risk Management of Air Astana.

**RUSSEL ELLIS**

**VICE PRESIDENT, OPERATIONS CONTROL**

Russel holds a Master Degree in Business Administration from the University of Liverpool, UK.

He has over 29 years of aviation experience and held several senior management positions in airlines in South Africa and the Middle East before joining Air Astana in 2007. His early experience was in the military where he qualified as a Navigator and Instructor. He is responsible for the day-to-day operational control of the airline and the emergency response readiness.

**RICHARD LEDGER**

**VICE PRESIDENT, WORLDWIDE SALES**

Richard started his travel industry career in 1993 after graduating from Lancaster University with a Master of Arts (MA) in Travel and Tourism, and from the University of London (UCL) with a Bachelor of Arts (BA) in Geography.

Prior to joining Air Astana, Richard worked in corporate sales for Singapore Airlines in London for five years before becoming Sales & Marketing Manager UK at Royal Brunei Airlines in January 2005. Richard joined Air Astana in March 2006 as the Regional General Manager EU, USA & Canada, based in London, where he was primarily responsible for the creation of a sales network throughout the region. Richard relocated to Almaty in February 2009 taking the position of Director Sales Worldwide. Richard was promoted to Vice President Worldwide Sales in January 2014.

**MARGARET PHELAN**

**VICE-PRESIDENT, IN-FLIGHT SERVICES**

Margaret was educated at the College of Commerce in Ireland. She has over 20 years of experience in the aviation industry. She has completed a number of EU OPS, management and instructor training courses.

From 1995 to 2012, she was the Head of Cabin Crew Training and Standards and Head of Cabin Services at the Air France/KLM subsidiary CityJet. She joined Air Astana as Director Inflight Services in June 2013 and was then promoted to Vice President In-flight Services in January 2016.

**ALEXANDR NEBOGA**

**DIRECTOR, GROUND SERVICES**

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

RISK MANAGEMENT

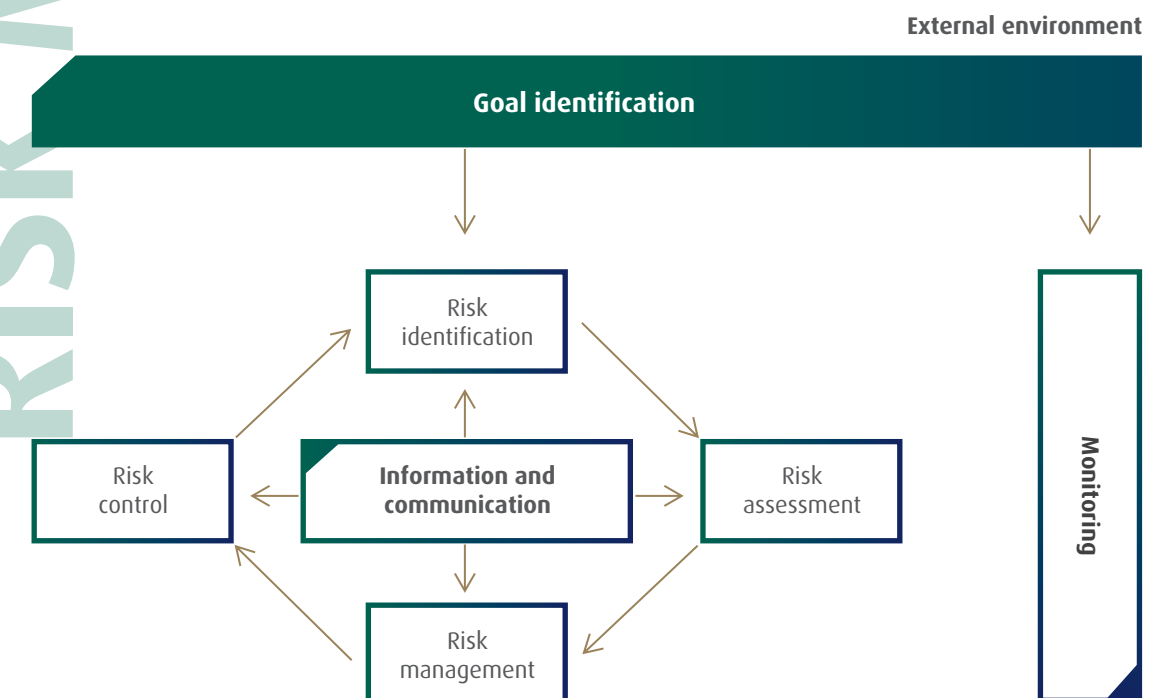
# Risk management

Air Astana operates in a highly regulated and commercially competitive environment and, similar to other airlines, is exposed to a wide range of operational, business, legal and financial risks that could impact its activities, financial performance, and reputation. Air Astana acknowledges the importance of risk management as the Company's corporate management system's key component. The risk management strategy is aimed at the timely identification of risks that could potentially affect the Company's value and reputation in a negative way and consequently undertakes actions to mitigate these risks.

## Corporate risk management system

Air Astana has implemented a corporate risk management system, which is continually optimised in accordance with global best practices. The corporate risk management system is a set of interrelated elements, united within a single process, involving the Board of Directors, the management, and employees. Each element is responsible for its own level, in the detection of any events that could potentially affect the Company's activities, as well as in the control of such events within the level of risk acceptable to the shareholders. This approach helps to ensure that the Company identifies and mitigates risks at an early stage wherever possible.

## Risk management structure





Air Astana's risk management structure operates on three levels.

The first level is the Board of Directors, which sets out the strategy and principles of the corporate risk management system, as well as addressing risk appetite, risk tolerance levels, and any factors that could threaten the Company's strategic objectives. Risk appetite determines the upper limit of key risks. It also influences the distribution of resources, the arrangement of processes, and the creation of the organisational infrastructure necessary for the efficient monitoring and response to risks. Activities performed within the boundaries set by the tolerance levels to the risks make the management more confident that the Company will not exceed the level of risk appetite, and will help secure the Company's goals.

The second level is the Risk Committee, which takes responsibility for implementing an effective and up-to-date risk management system, and for ensuring compliance with corporate policies. The Committee ensures that the airline's risks are continuously and correctly identified and evaluated, across all functions and processes. It is chaired by the President & CEO and includes all members of the senior executive management.

A third level is a special unit responsible for coordinating the risk management process and identifying, evaluating and monitoring threats in accordance with the policies, practices, and procedures established by the Board of Directors. Alongside these specific structures, all members of the Air Astana team practice risk awareness on a daily basis, and understand the importance of their role in the risk management system. It is the responsibility of every employee, as well as the 'risk owners' in each department, to manage threats and understand the potential impact on his or her department, and on the airline as a whole.

As part of the risk management process, Air Astana has created a risk register listing all of the potential threats to the business, using an impact and probability scale. This allows the estimation of the relative weight of each risk and highlights those that require priority responses. The register is aligned with the risk management system as a whole and is updated on a regular basis. Management teams discuss and take ownership of the risks, as well as the review of probability, potential impact, and mitigation measures. The risk management unit reports on corporate risks to the Audit Committee and the Board of Directors twice a year.

Since mitigation is an essential element in the overall process of risk management, Air Astana applies methods such as risk reduction and control, retention, financing and avoidance.

### Risks related to the Company

According to the Airline's Risk Management Policy, the risks are grouped and classified as:

- Strategic
- Operational
- Financial
- Legal

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

#### STRATEGIC RISKS

Strategic risks are mostly incurred by modifications or errors (failures) in the course of setting, and implementing the strategy for the Company's activities and development, by political, environment, or regional situation changes, by trade recession, or by other systemic external factors.

- Infliction of damage to business reputation

The Company's aim is to maintain its reputation. Due to its prominence, it is subject to publications of inaccurate/negative information on mass media (social networks, newspapers, TV) by external media organisations and individuals. The following risk management actions are outlined such as, but not limited to, verification of information before publication, as well as monitoring of the published information.

#### OPERATIONAL RISKS

Operational risks are in nature considerable and mostly result from breakdowns in internal procedures, people and systems, or external factors such as natural disasters, fire, and terrorism. The impact of operational risks, such as aviation accident or serious incident, personnel accident, and loss of, or damage to property, are mitigated by having insurance

contracts in place. The Company applies consistently high standards to ensure the quality and transparency of insurance companies when arranging the coverage. Air Astana commits substantial resources to maintaining insurance coverage for its flight operations, thus placing aviation risks in the world's leading insurance markets through internationally reputable brokers.

- IT risks

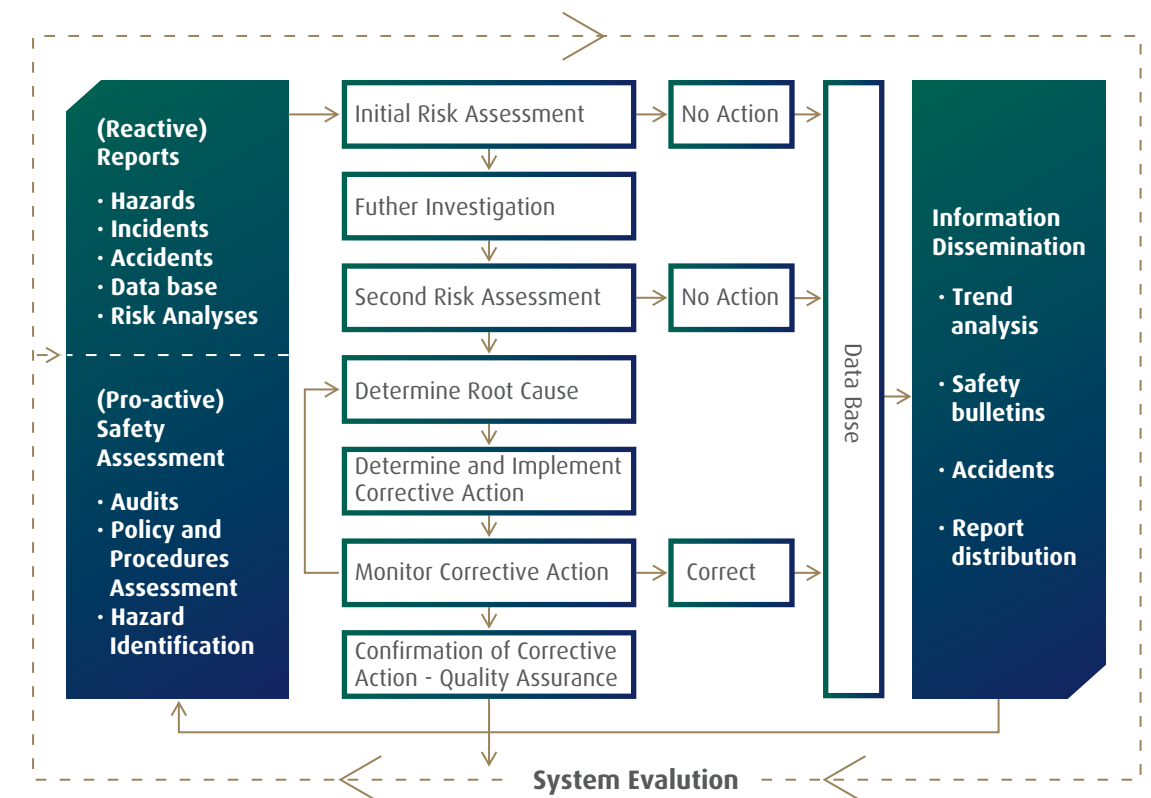
As with most other airline companies, Air Astana is exposed to various IT risks while achieving its goals in the provision of IT infrastructure and security services, as well as online services, e-ticket sales, and finally ensuring the continuity of its business systems.

The risk of loss of internal or external communication for KC staff, or for Passengers, is mitigated by providing redundancy in communication channels used by passengers. In addition, it is planned to install permanent redundancy in communication channels between all the Almaty Centers, as well as redundancy links between the Almaty-Astana datacenters and finally to setup additional channels for the call centre (omni-channels).

IT security risks are mitigated by, apart from traditional means, increasing IT security awareness among all employees through consistent and ongoing training.

The risk of disruption to the continuous work of online services and e-ticket sales is mitigated by ensuring the smooth operation of the website and the Amadeus e-retail platform. The IT Department constantly improves the website infrastructure, technologies, and the protection of the corporate website, according to the world's best practices and the use of the leading cloud platform Microsoft Azure. This allows the Company to easily scale resources and implement new technologies quickly.

The risk of failure of critical business applications can affect Company operations and is mitigated by the use of various protection measures. Air Astana regularly backs up applications, saves backups on tapes, and restores them in disaster recovery environments. In addition, the Company has server replication for virtual servers, and critical systems have standbys for databases. Finally, to support contracts with vendors for every critical system, the Company also uses test environments to test new releases, patches, updates, and new features,



before implementing them in the production environment.

- Safety risks

For the purpose of mitigating risks related to safety, the Company has established a safety management and compliance monitoring system, within which it conducts compliance and performance monitoring audits, the monitoring of safety performance indicators, etc. Most importantly, the Company gives considerable attention to the Human Factor program. All operational departments involved in supporting and organisation of operations are responsible for preventive mitigation actions, with high attention given to safety issues within the scope of their processes. Policies and manuals are regularly updated in accordance with best practices and controls are put in place for the proper execution of procedures. Employees are trained and are regularly updated with all changes in procedures.

- Risk of insufficient number of qualified pilots

Air Astana's operational performance and flight planning depend on many factors – one being the ability to retain a sufficient number of qualified pilots. Loss/shortage of pilots can lead either to employing more expensive expat pilots to fill gaps in the schedule or may result in sub-optimal schedule performance. Competition for qualified personnel is intense, and the loss of pilots without adequate replacements, or the inability to attract new pilots, could affect the Company's performance.

In order to mitigate the risk, Air Astana continually reviews the salaries and working conditions for local pilots (changes in the salary scheme, state/ Company pension project, etc.), and has introduced the Ab-initio programme in 2008, which has proven successful. These actions provide the depth of resources required to meet the Company's continuing needs. Air Astana also recruits direct entry pilots from the domestic market and contractors from the international labour market.

Engaging highly qualified staff is central to providing a safe, reliable and high-quality service. Air Astana is also focused on conducting regular reviews of job conditions, providing high-quality training and staff development in order to meet its qualitative and quantitative human resources targets.

- Risk of non-provision of high-quality in-flight services and reduction of Skytrax rating

Product and service consistency and the maintenance of quality, are the core contributors in ensuring customer satisfaction and in meeting their expectations. Failure to provide high-quality in-flight services may lead to the damage of our reputation along with the loss of customers. It can also bring about a reduction of the Skytrax rating. A decline in the level of quality, whether through a single event or a series of events, may adversely affect the Company's customer relationship and its market position, which may ultimately adversely impact profitability.

Air Astana offers extensive training programmes aimed at maintaining a high level of cabin crew skills. Along with training, the in-flight department has been restructured in a way that infuses more control mechanisms into the cabin crew's working routines. The Quality & Standards division regularly monitors customer satisfaction through various procedures (e.g., feedback from passengers via on-board coaches) and sets standards to the cabin crew for maintaining high-quality services. The Performance division is constantly working with the cabin crews in order to sustain the required levels of motivation and performance according to the standards set by the Company. The Operations division supports the handling of the day-to-day issues, allowing cabin crews to concentrate on their main duties, which are the provision of a high level of on-board services. The Product Division has a team of dedicated specialists, responsible for the development and provision of a high-quality product, which satisfies the needs and wishes of the passengers. It also controls timely replenishment of the stocks required to support the seamless provision of high-quality in-flight products on board the aircraft. Constant development of the on-board product, benchmarking with market key players, and looking at the world trends, complement the provision of high-quality in-flight services.

#### FINANCIAL RISKS

Financial markets are volatile and naturally unpredictable. Similar to any other Company Air Astana is exposed to inherent risks such as market risk, credit risk, and liquidity risk. The major market risks are the risk of a significant depreciation of the local currency and the risk of an increase in fuel price. The risk of an increase in interest rates when it comes to capital expenditure such as existing aircraft financing is eliminated by using fixed rates.

- Currency risks

At each reporting date, the Company translates its monetary assets and monetary liabilities as denominated in foreign currencies, to the reporting currency. This leads to the translation of gains or losses in the profit or loss account. Due to significant material amounts of financial leasing liabilities, denominated in the US dollar, the Company's exposure to foreign currency is high. In order to mitigate the foreign currency risk exposure, the Company accumulates deposits, and other monetary assets denominated in foreign currency. This strategy allows the Company to deal with foreign exchange rate volatility, by partially offsetting exchange losses from foreign currency monetary liability, with exchange gains from foreign currency monetary assets, in the case of a Tenge devaluation.

In addition, the Company has adopted a cash flow hedge accounting policy, to further mitigate foreign currency risks. The effect of the hedge policy is to show unrealised gains/losses on hedging instruments in other comprehensive income whereas only the realised portion of the gain/loss would be reclassified from equity reserve to profit and loss.

- Liquidity risks

The Company maintains the availability of sufficient funds, necessary to enable it to carry out normal day-to-day operations, in the Company's current accounts in commercial banks. These banks are established, and are performing banking activities, in accordance with the legislation of the Republic of Kazakhstan, The Company also uses foreign banks performing banking activities either within or outside the Republic of Kazakhstan.

The Company ensures that the distribution of its cash position, between current account bank balances, and funds placed on deposit or in related financial instruments, are undertaken in such a way as to minimise liquidity risks.

The management of the Company's cash balances on the Company's Bank accounts complies with the principle of the optimisation of the interest income on these balances and related expenses. Cash management is based on the Company's cash flow forecast for different time horizons (day, week, month, quarter, half year, and whole year).

Total liabilities of any one bank are monitored for compliance with the limits approved in the Cash Management Policy. However, in the case of a bank failure, the proposed cash flow becomes not

relevant thus making the Company's gaps between its cash inflows and outflows wider.

- Credit risks

The major credit risk arises from holding cash positions in banks. The risk of loss of cash held on deposits, and/or in current accounts, is mitigated by the monitoring of banks' rating changes, performance etc. according to the Cash Management Policy.

The risk of failure to collect the receivables in full amount, and on time, is mitigated by obtaining Bank Guarantees from sales agents, and by monitoring the level of deposits, versus potential sales, (stock control) as well as the sales agents' volume vs. bank guarantee amount. Terms, in regards to fines and penalties for payment delay, are placed in contracts with sales agents. The Company is exposed to the overall Kazakhstan banking sector risks.

- Fuel price risks

Air Astana is exposed to the high volatility of fuel prices and related costs. Higher fuel prices will result in higher overall expenses and, consequently, increase the probability of an adverse impact on the Company's profitability. This could be reflected in an increased ticket price and loss of customers. Fuel is a major cost item, making up over 22% of operating expenses. Hence, volatility in fuel prices can have a material impact on the Company's bottom line.

For fuel sourced locally, the airline negotiates prices on a competitive basis with Kazakhstani suppliers via the conclusion of 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 marketplace for domestic and international stations.

For fuel bought outside Kazakhstan, the price risk is partly hedged using financial derivatives in the oil and petroleum market, under the guidance of the Fuel Hedging Policy. Air Astana's standard market instruments for fuel hedging are being used only for insurance means. The main purpose of fuel hedging is to reduce cost volatility and provide protection against higher fuel prices.

Air Astana also applies a fuel surcharge on domestic and international routes, where the Company does not face restrictions, as an additional tool for risk reduction. Regulation of the surcharge depends on fuel prices and market conditions.



# FINANCIAL REPORTING





## JOINT STOCK COMPANY AIR ASTANA

**Financial Statements**  
For the year ended 31 December 2016

## JOINT STOCK COMPANY AIR ASTANA

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**STATEMENT OF MANAGEMENT'S RESPONSIBILITIES  
FOR THE PREPARATION AND APPROVAL OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2016**

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 2016, 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 2016 were authorised for issue on 2 June 2017 by management of the Company.

On behalf of management of the Company

Peter Foster  
President

2 June 2017  
Almaty, Republic of Kazakhstan



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

2 June 2017  
Almaty, Republic of Kazakhstan



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

**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 2016, the statements of profit or loss and 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 2016, 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"), and we have fulfilled our other ethical responsibilities in accordance with 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 skepticism 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.



**Auditors' Responsibilities for the Audit of the Financial Statements, continued**

- 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  
№ M0000000 of 27 August 2012

**KPMG Audit LLC**

State Licence to conduct audit # 0000021 dated 6 December 2008 issued by the Ministry of Finance of the Republic of Kazakhstan

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

2 June 2017



## JOINT STOCK COMPANY AIR ASTANA

STATEMENT OF PROFIT OR LOSS  
FOR THE YEAR ENDED 31 DECEMBER 2016  
(in thousands of USD)

	Notes	2016	2015
<b>Revenue</b>			
Passenger revenue	5	589,926	726,800
Cargo and mail revenue	5	15,685	19,586
Other revenue	5	15,403	15,361
<b>Total revenue</b>		<b>621,014</b>	<b>761,747</b>
<b>Operating expenses</b>			
Fuel		(130,676)	(165,263)
Handling, landing fees and route charges	6	(89,909)	(105,039)
Passenger service	6	(69,809)	(80,171)
Employee costs	6	(64,756)	(84,009)
Engineering and maintenance	6	(60,658)	(97,321)
Aircraft operating lease costs	6	(58,407)	(59,307)
Selling costs	6	(30,238)	(36,839)
Depreciation and amortisation	11	(28,679)	(48,491)
Aircraft crew costs	6	(27,781)	(29,323)
Insurance	6	(4,391)	(4,708)
Property lease cost		(4,277)	(5,282)
Information technology		(3,283)	(3,210)
Consultancy, legal and professional services		(2,688)	(2,406)
Taxes, other than income tax		(94)	(1,288)
Other		(7,504)	(6,032)
<b>Total operating expenses</b>		<b>(583,130)</b>	<b>(728,689)</b>
<b>Operating profit</b>		<b>37,884</b>	<b>33,058</b>
Finance income	7	7,725	6,951
Finance costs	7	(66,073)	(22,367)
Foreign exchange (loss)/gain, net		(14,391)	44,652
<b>(Loss)/profit before tax</b>		<b>(34,855)</b>	<b>62,294</b>
Income tax expense	8	(5,010)	(13,553)
<b>(Loss)/profit for the year</b>		<b>(39,865)</b>	<b>48,741</b>
<b>Basic and diluted (loss)/earnings per share (in USD)</b>	19	<b>(2,345)</b>	<b>2,867</b>

On behalf of management of the Company:



Peter Foster  
President

2 June 2017  
Almaty, Republic of Kazakhstan


Azamat Ospanov  
Vice president Finance Accounts,  
Chief Accountant

2 June 2017  
Almaty, Republic of Kazakhstan

The notes on pages 11 to 54 form an integral part of these financial statements. The independent auditors' report on the financial statements is on pages 2 to 4.

## JOINT STOCK COMPANY AIR ASTANA

STATEMENT OF OTHER COMPREHENSIVE INCOME  
FOR THE YEAR ENDED 31 DECEMBER 2016  
(in thousands of USD)

	Notes	2016	2015
<b>(Loss)/profit for the year</b>		<b>(39,865)</b>	<b>48,741</b>
Foreign currency translation loss, which will never be reclassified to profit or loss in subsequent periods		1,121	(107,600)
Other comprehensive loss, net of tax, to be reclassified into profit or loss in subsequent periods:			
Result from cash flow hedging instruments		3,918	(152,144)
Income tax related to result from cash flow hedging instruments		(784)	30,629
Realised loss on cash flow hedging instruments	24	14,388	-
Income tax related to realised loss on hedging instruments	24	(2,878)	-
Unrealised portion of fuel hedging loss		-	(4,307)
Realised portion of fuel hedging loss		-	4,307
Income tax for unrealised portion of fuel hedging loss		-	661
Income tax for realised portion of fuel hedging loss		-	(861)
<b>Other comprehensive income/(loss) for the year, net of income tax</b>		<b>15,765</b>	<b>(229,315)</b>
<b>Total comprehensive loss for the year</b>		<b>(24,100)</b>	<b>(180,574)</b>

On behalf of management of the Company:



Peter Foster  
President

2 June 2017  
Almaty, Republic of Kazakhstan


Azamat Ospanov  
Vice president Finance Accounts,  
Chief Accountant

2 June 2017  
Almaty, Republic of Kazakhstan

The notes on pages 11 to 54 form an integral part of these financial statements. The independent auditors' report on the financial statements is on pages 2 to 4.

**JOINT STOCK COMPANY AIR ASTANA**

**STATEMENT OF FINANCIAL POSITION  
AS AT 31 DECEMBER 2016  
(in thousands of USD)**

	Notes	31 December 2016	31 December 2015
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	9	271,220	269,845
Intangible assets	10	3,147	693
Prepayments for non-current assets	14	9,114	10,351
Guarantee deposits	12	13,600	15,398
Deferred tax assets	8	-	2,072
Trade and other receivables	15	5,174	959
		<b>305,055</b>	<b>299,318</b>
<b>Current assets</b>			
Inventories	13	41,288	30,243
Prepayments	14	22,575	15,871
Income tax prepaid		783	757
Trade and other receivables	15	22,051	30,890
Other taxes prepaid	16	16,306	7,471
Guarantee deposits	12	34,944	28,398
Bank deposits	17	99,574	158,252
Cash and bank balances	18	29,987	52,471
Financial assets at fair value through profit or loss and hedge instruments		-	91
		<b>267,508</b>	<b>314,436</b>
<b>Total assets</b>		<b>572,563</b>	<b>613,754</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Share capital	19	17,000	17,000
Foreign currency translation reserve		(182,680)	(181,459)
Reserve on hedging instruments, net of tax	24	(105,868)	(121,715)
Retained earnings		310,625	365,816
<b>Total equity</b>		<b>39,077</b>	<b>79,642</b>
<b>Non-current liabilities</b>			
Loans	23	12,043	-
Finance lease liabilities	24	335,499	175,789
Deferred tax liability	8	6,640	-
Provision for aircraft maintenance	21	38,555	31,376
		<b>392,737</b>	<b>407,168</b>
<b>Current liabilities</b>			
Loans	23	1,631	-
Finance lease liabilities	24	41,251	40,640
Deferred revenue	20	38,230	32,876
Provision for aircraft maintenance	21	20,243	16,496
Trade and other payables	22	39,394	36,752
Financial liabilities at fair value through profit or loss and hedge instruments		-	180
		<b>140,749</b>	<b>126,944</b>
<b>Total liabilities</b>		<b>533,486</b>	<b>534,112</b>
<b>Total equity and liabilities</b>		<b>572,563</b>	<b>613,754</b>

On behalf of management of the Company:

Peter Foster  
President

2 June 2017  
Almaty, Republic of Kazakhstan



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

2 June 2017  
Almaty, Republic of Kazakhstan

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**JOINT STOCK COMPANY AIR ASTANA**

**STATEMENT OF CHANGES IN EQUITY  
FOR THE YEAR ENDED 31 DECEMBER 2016  
(in thousands of USD)**

	Notes	Share capital	Foreign currency translation reserve	Reserve on hedging instruments	Retained earnings	Total equity
<b>At 1 January 2015</b>						
		17,000	(73,859)	-	326,456	269,597
<b>Profit for the year</b>						
Profit for the year		-	-	-	48,741	48,741
<b>Cash flow hedging instruments, net of tax</b>						
Cash flow hedging instruments, net of tax		-	-	(123,820)	-	(123,820)
<b>Realised loss on cash flow hedging instruments, net of tax</b>						
Realised loss on cash flow hedging instruments, net of tax	24	-	-	2,105	-	2,105
<b>Fuel hedging instruments, net of tax</b>						
Fuel hedging instruments, net of tax		-	-	(3,446)	-	(3,446)
<b>Realised loss on fuel hedging instruments, net of tax</b>						
Realised loss on fuel hedging instruments, net of tax		-	-	3,446	-	3,446
<b>Translation difference</b>						
Translation difference		-	(107,600)	-	-	(107,600)
<b>Total comprehensive (loss)/income for the year</b>		-	(107,600)	(121,715)	48,741	(180,574)
Dividends declared	19	-	-	-	(9,581)	(9,581)
<b>At 31 December 2015</b>		<b>17,000</b>	<b>(181,459)</b>	<b>(121,715)</b>	<b>365,816</b>	<b>79,642</b>
<b>Loss for the year</b>						
Loss for the year		-	-	-	(39,865)	(39,865)
<b>Cash flow hedging instruments, net of tax</b>						
Cash flow hedging instruments, net of tax		-	-	3,134	-	3,134
<b>Realised loss on cash flow hedging instruments, net of tax</b>						
Realised loss on cash flow hedging instruments, net of tax	24	-	-	11,510	-	11,510
<b>Translation difference</b>						
Translation difference		-	(1,221)	1,203	-	(18)
<b>Total comprehensive (loss)/income for the year</b>		-	(1,221)	15,847	(39,865)	(25,239)
Dividends declared	19	-	-	-	(15,326)	(15,326)
<b>At 31 December 2016</b>		<b>17,000</b>	<b>(182,680)</b>	<b>(105,868)</b>	<b>310,625</b>	<b>39,077</b>

On behalf of management of the Company:

Peter Foster  
President

2 June 2017  
Almaty, Republic of Kazakhstan



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

2 June 2017  
Almaty, Republic of Kazakhstan

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## JOINT STOCK COMPANY AIR ASTANA

STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED 31 DECEMBER 2016  
(in thousands of USD)

	Notes	2016	2015
<b>OPERATING ACTIVITIES:</b>			
(Loss)/profit before tax		(34,855)	62,294
Adjustments for:			
Depreciation and amortisation of property, plant and equipment and intangible assets	11	28,679	48,491
Gain on disposal of property, plant and equipment		-	(662)
Change in allowance for doubtful debts	14, 15	52,404	567
Change in allowance for obsolete and slow-moving inventories	13	115	(837)
Change in vacation accrual		(359)	(784)
Change in provision for aircraft maintenance		17,695	63,862
Reversal of loyalty provision		241	(139)
Foreign exchange loss/(gain), net		14,391	(44,652)
Finance income	7	(7,638)	(3,597)
Interest expense on finance lease	7	12,321	13,195
Interest expense from revaluation of fair value of guarantee deposits	7	147	-
Net unrealised loss/(gain) on financial assets and liabilities at fair value through profit or loss	7	(87)	(3,354)
Net realised loss on financial assets and liabilities at fair value through profit or loss	7	375	8,262
<b>Operating cash flow before movements in working capital</b>		<b>83,429</b>	<b>142,646</b>
Change in trade and other receivables		(1,582)	102,485
Change in prepaid expenses		(13,336)	(60,051)
Change in inventories		(8,536)	(46,181)
Change in financial assets and liabilities at fair value through profit or loss and hedge instruments		(375)	(85,496)
Change in trade and other payables and other current liabilities		(4,412)	13,001
Change in deferred revenue		4,381	68,604
<b>Cash generated from operations</b>		<b>59,569</b>	<b>135,008</b>
Income tax paid		(12)	-
Interest received		5,902	1,859
<b>Net cash generated from operating activities</b>		<b>65,459</b>	<b>136,867</b>
<b>INVESTING ACTIVITIES:</b>			
Purchase of property, plant and equipment		(27,284)	(19,804)
Proceeds from disposal of property, plant and equipment		1,164	2,274
Purchase of intangible assets		(3,117)	(458)
Bank and Guarantee deposits placed		(352,696)	(273,517)
Bank and Guarantee deposits withdrawn		345,191	202,605
<b>Net cash used in investing activities</b>		<b>(36,742)</b>	<b>(88,900)</b>

Continued on the next page

## JOINT STOCK COMPANY AIR ASTANA

STATEMENT OF CASH FLOWS (CONTINUED)  
FOR THE YEAR ENDED 31 DECEMBER 2016  
(in thousands of USD)

	Notes	2016	2015
<b>FINANCING ACTIVITIES:</b>			
Correction of withholding tax on dividends		-	(701)
Dividends paid	19	(15,143)	(7,097)
Proceeds from borrowings		13,622	-
Repayment of borrowings		(378)	-
Repayment of finance lease		(39,261)	(18,906)
Interest paid		(12,447)	(13,687)
<b>Net cash used in financing activities</b>		<b>(53,607)</b>	<b>(161,191)</b>
<b>NET DECREASE IN CASH AND BANK BALANCES</b>		<b>(24,890)</b>	<b>(13,224)</b>
Effect of exchange rate changes on cash and bank balances held in foreign currencies		2,042	(5,171)
<b>CASH AND BANK BALANCES, at the beginning of the year</b>	18	<b>52,471</b>	<b>70,866</b>
<b>Foreign currency loss due to translation in presentation currency</b>		<b>164</b>	<b>-</b>
<b>CASH AND BANK BALANCES, at the end of the year</b>	18	<b>29,987</b>	<b>52,471</b>

On behalf of management of the Company


  
Peter Foster  
President
2 June 2017  
Almaty, Republic of Kazakhstan

  
Azamat Ospanov  
Vice president Finance Accounts,  
Chief Accountant
2 June 2017  
Almaty, Republic of Kazakhstan

The notes on pages 11 to 54 form an integral part of these financial statements. The independent auditors' report on the financial statements is on pages 2 to 4.

## JOINT STOCK COMPANY AIR ASTANA

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 (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 2016 the Company operated 31 turbojet aircraft, of which 9 short-haul and 22 long-haul aircraft representing 11 aircraft acquired under finance lease and 20 aircraft leased under operating lease (2015: 30 turbojet aircraft, of which 9 short-haul and 21 long-haul aircraft representing 11 aircraft acquired under finance lease and 19 aircraft leased under operating lease).

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

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

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

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

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

- IFRS 9 Financial Instruments
- IFRS 15 Revenue from Contracts with Customers
- IFRS 16 Leases

##### IFRS 9 Financial Instruments

IFRS 9, published in July 2014, replaces the existing guidance in IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets, and the new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39.

IFRS 9 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted.

The Company is assessing the potential impact on its financial statements resulting from the application of IFRS 9.

## JOINT STOCK COMPANY AIR ASTANA

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 (in thousands of USD)

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

##### IFRS 15 Revenue from Contracts with Customers

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including IAS 18 Revenue, IAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programmes.

The core principle of the new standard is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The new standard results in enhanced disclosures about revenue, provides guidance for transactions that were not previously addressed comprehensively and improves guidance for multiple-element arrangements.

IFRS 15 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted.

The Company is assessing the potential impact on its financial statements resulting from the application of IFRS 15.

##### IFRS 16 Leases

IFRS 16 introduces a single, on-balance lease sheet 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 optional exemptions for short-term leases and leases of low value items. Lessor accounting remains similar to the current standard – i.e. 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.

The standard is effective for annual periods beginning on or after 1 January 2019. Early adoption is permitted for entities that apply IFRS 15 Revenue from Contracts with Customers at or before the date of initial application of IFRS 16.

The Company has started an initial assessment of the potential impact on its financial statements. So far, the most significant impact identified is that the Company will recognise new assets and liabilities for its operating leases of aircraft. In addition, the nature of expenses related to those leases will now change as IFRS 16 replaces the straight-line operating lease expense with a depreciation charge for right-of-use assets and interest expense on lease liabilities. The Company has not yet decided whether it will use the optional exemptions.

No significant impact is expected for the Company’s finance leases.

##### Transition

As a lessee, the Company can either apply the standard using a:

- Retrospective approach; or
- Modified retrospective approach with optional practical expedients.

The lessee applies the election consistently to all of its leases. The Company currently plans to apply IFRS 16 initially on 1 January 2019. The Company has not yet determined which transition approach to apply.

The Company has not yet quantified the impact on its reported assets and liabilities of adoption of IFRS 16. The quantitative effect will depend on, inter alia, the transition method chosen, the extent to which the Company uses the practical expedients and recognition exemptions, and any additional leases that the Company enters into.



## JOINT STOCK COMPANY AIR ASTANA

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 (in thousands of USD)

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

The Company expects to disclose its transition approach and quantitative information before adoption.

The Company expects that adoption of IFRS 16 will not impact its ability to comply with financial covenants described in the EBRD loan agreement (Note 23).

The following new or amended standards are not expected to have a significant impact of the Company's financial statements.

- Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to IAS 12)
- Disclosure Initiative (Amendments to IAS 7)
- Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2).
- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28).

#### 3. SIGNIFICANT ACCOUNTING POLICIES

##### Statement of compliance

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

##### Basis of preparation

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

The Company discloses other comprehensive income separately from 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.

##### Change in Accounting Policy

In order to unify its accounting policy with the industry standard and enhance comparability with peer airlines, the Company decided to change its accounting policy by reclassifying interest paid of USD 12,447 thousand in 2016 and USD 13,687 thousand in 2015 from operating activities to financing activities and reclassifying interest received of USD 5,902 thousand in 2016 year and USD 1,859 thousand in 2015 from investing activities to operating activities in the Statement of Cash Flows. This change affects only the presentation in the Statement of Cash Flows.

##### Functional and presentation currency

The national currency of Kazakhstan is the Kazakhstani tenge ("tenge"), which is the Company's functional currency, because it reflects the economic substance of the underlying events and circumstances of the Company.

As requested by shareholders, the Company prepared two sets of financial statements with presentation currency US Dollar ("USD") and Kazakhstani tenge as shareholders believe that both currencies are useful for the users of these financial statements. These financial statements has been presented in USD. All financial information presented in USD has rounded to the nearest thousand.

## JOINT STOCK COMPANY AIR ASTANA

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 (in thousands of USD)

#### 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

##### Functional and presentation currency (continued)

The tenge is not a readily convertible currency outside Kazakhstan and, accordingly, any conversion of tenge to USD should not be construed as a representation that the tenge amounts have been, could be, or will be in the future, convertible into USD at the exchange rate disclosed, or at any other exchange rate.

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

Financial results and financial position of the Company are translated into the presentation currency using the following procedures:

- assets and liabilities for each reporting date presented (i.e. including comparatives) are translated at the closing rate at the reporting date;
- income and expenses for the reporting period (i.e. including comparatives) are translated at average exchange rates during the year; and
- all resulting exchange differences are recognised as foreign currency translation reserve within other comprehensive loss/income.

##### Revenue

###### Passenger revenue

Ticket sales are reported as revenue when the transportation service has been provided. The value of tickets sold and still valid but not used by the reporting date is reported as deferred (unearned) transportation revenue. This item is reduced either when the Company completes the transportation service or when the passenger requests a refund. The value of tickets that have been issued, but which will never be used, are recognized as a passenger transport revenue at the date of their expiry. Based on historical data of previous years, the Company recognises passenger revenue in respect of a percentage of tickets sold that are expected not to be used or refunded starting from 2016.

###### Revenue (continued)

Passenger revenue includes revenue from code-share agreements with other airlines. Under these agreements, the Company sells seats on these airlines' flights and those other airlines sell seats on the Company's flights. Revenue from the sale of code-share seats on other airlines are recorded net in the Company's passenger revenue in profit or loss. The revenue from other airlines' sale of code-share seats on the Company's flights is recorded in passenger revenue in profit or loss.

###### Cargo revenue

Cargo transport services are recognised as revenue when the air transportation is provided. Cargo sales for which transportation service has not yet been provided are shown as deferred (unearned) transportation revenue.

## JOINT STOCK COMPANY AIR ASTANA

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2016**  
(in thousands of USD)

**3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****Customer loyalty program**

Sales of tickets that result in award credits for customers, under the Company's Nomad Program, are accounted for as multiple element revenue transactions and the fair value of the consideration received or receivable is allocated between the services provided and the award credits granted. The consideration allocated to the award credits is measured by reference to their fair value being the amount for which the award credits could be sold separately. Such consideration is not recognised as revenue at the time of the initial sale transaction but is deferred and recognised as revenue when the award credits are redeemed and the Company's obligations have been fulfilled.

**Travel agents' commissions**

Travel agents' commissions are recognised as an expense when the transportation service is provided.

**Leasing**

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

*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.

## JOINT STOCK COMPANY AIR ASTANA

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2016**  
(in thousands of USD)

**3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****Leasing (continued)***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 (2015: 1.09%). At initial recognition the Company recognises a discount and a deferred asset simultaneously. The discount is amortised over the lease term using the effective interest method, and the deferred asset is amortised by equal amounts over the deposit term.

**Foreign currencies**

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

The following table summarises tenge exchange rates at 31 December and for the years then ended:

	Average rate 2016	Rate range 2015	Reporting date spot-rate 31 December 2016	31 December 2015
US Dollar (USD)	342.16	182.35-349.12	333.29	339.47
Euro (EUR)	378.63	195.32-379	352.42	371.31
British Pound (GBP)	464.39	270.88-520.26	409.78	

**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.



**JOINT STOCK COMPANY AIR ASTANA****NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2016**  
*(in thousands of USD)***3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****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 (e.g. maintenance on airframes and engines).

**JOINT STOCK COMPANY AIR ASTANA****NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2016**  
*(in thousands of USD)***3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****Property, plant and equipment (continued)***Aircraft*

The purchase price of aircraft is denominated in foreign currencies. It is recognised at the exchange rate prevailing at the date of the transaction. Manufacturers' discounts, if any, are deducted from the value of the related asset.

Aircraft are depreciated using a straight-line method over their average estimated useful life of 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. Based on industry average, the Company decided to extend the useful life of aircraft from 20 to 25 years, with effect from 1 October 2016 (Note 9).

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.

*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 (20 years before 1 October 2016)
- Rotable spare parts 3-10 years
- Office equipment and furniture 4-7 years
- Vehicles 7-9 years
- Other 5-10 years.

**JOINT STOCK COMPANY AIR ASTANA****NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2016  
(in thousands of USD)****3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****Property, plant and equipment (continued)**

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.

**JOINT STOCK COMPANY AIR ASTANA****NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2016  
(in thousands of USD)****3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****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 is 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 program takes place the earliest of every 18 months or 5,000 to 6,000 flying hours according to aircraft type.

The D-check program takes place the earliest of every 72 months or 12,000 flying cycles according to aircraft type. Engine overhaul occurs after specified flight hours or cycles occur. Some of the operating lease agreements include a component of variable lease payments which is generally reimbursable to the Company by lessors as a contribution to engine maintenance costs after they are incurred. The variable lease payments are recognised as an expense in profit or loss as incurred. In the case of other operating lease agreements variable lease payments are replaced (subject to certain conditions) by Letters of Credit as security for Lessors to cover any unfulfilled maintenance liabilities on the return of the aircraft, and amounts corresponding to the applicable variable lease amounts are included in provisions. For C-check maintenance, a provision is recorded on a progressive basis based upon the Company's estimate of future maintenance costs. For engine maintenance, a provision is recorded on a progressive basis based upon the Company's estimate of the excess of maintenance costs over the amount reimbursable by the lessors. The Company's aircraft maintenance liabilities are due in US Dollars. The arising foreign currency exchange rate differences are provided in maintenance expense accruals which are used to create these provisions.



## JOINT STOCK COMPANY AIR ASTANA

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 (in thousands of USD)

#### 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

##### Financial instruments

A number of the Company's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Financial assets and financial liabilities are recognised when the Company becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle them on a net basis, or to realise the asset and settle the liability simultaneously. The right to set-off must not be contingent on a future event and must be legally enforceable in all of the following circumstances:

- the normal course of business;
- the event of default; and
- the event of insolvency or bankruptcy of the entity and all of the counterparties.

If these conditions are not met, then the related assets and liabilities are presented gross in the statement of financial position.

##### Financial assets

Financial assets are classified into the following specified categories: financial assets "at fair value through profit or loss" (FVTPL), "held-to-maturity" investments, "available-for-sale" (AFS) financial assets and "loans and receivables". The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

##### Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Income is recognised on an effective interest basis for debt instruments other than those financial assets designated as at FVTPL.

Financial assets are classified as at FVTPL when the financial asset is either held for trading or it is designated as at FVTPL. Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial asset and is included in finance income line item in profit or loss. Fair value is determined in the manner described in Note 25.

## JOINT STOCK COMPANY AIR ASTANA

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 (in thousands of USD)

#### 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

##### Financial assets (continued)

##### Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment.

Amounts due from Ab-initio pilot program trainees in respect of 50% of their initial training costs are classified as interest free loans. The remaining costs are classified by the Company as a prepayment of its expenses and are amortised over a period of seven years, during which period the Company has a right to oblige these expenses also to become payable by the pilot trainees should such pilot trainees terminate his/her employment.

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

##### Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at each reporting date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been negatively affected.

For all other financial assets objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as a default or delinquency in interest or principal payments; or
- it is becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- disappearance of an active market for that financial asset because of financial difficulties.

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

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

## JOINT STOCK COMPANY AIR ASTANA

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2016**  
(in thousands of USD)

**3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****Financial assets (continued)**

For financial assets measured at amortised cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

*Derecognition of financial assets*

The Company derecognises a financial asset only when the contractual rights to the cash flows from the asset expire; or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Company neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Company recognises its retained interest in the asset and an associated liability for amounts it may have to pay.

If the Company retains substantially all the risks and rewards of ownership of a transferred financial asset, the Company continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

On derecognition of a financial asset other than in its entirety (e.g. when the Company retains an option to repurchase part of a transferred asset or retains a residual interest that does not result in the retention of substantially all the risks and rewards of ownership and the Company retains control), the Company allocates the previous carrying amount of the financial asset between the part it continues to recognise under continuing involvement, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain or loss allocated to it that had been recognised in other comprehensive income is recognised in profit or loss. A cumulative gain or loss that had been recognised in profit or loss is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts.

**Financial liabilities and equity instruments issued by the Company***Classification as debt or equity*

Debt and equity instruments issued by the Company are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

*Financial liabilities*

Financial liabilities are classified as either financial liabilities 'at FVTPL' or 'other financial liabilities'.

Financial liabilities are classified as at FVTPL where the financial liability is either held for trading or it is designated as at FVTPL.

## JOINT STOCK COMPANY AIR ASTANA

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2016**  
(in thousands of USD)

**3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****Financial liabilities and equity instruments issued by the Company (continued)**

A financial liability is classified as held for trading if:

- it has been incurred principally for the purpose of repurchasing in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Company manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial liability other than a financial liability held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Company's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IAS 39 Financial Instruments: Recognition and Measurement permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial liabilities at FVTPL are stated at fair value, with any resultant gain or loss recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability and is included in the 'finance costs' line item in profit or loss. Fair value is determined in the manner described in Note 25.

*Other financial liabilities*

Other financial liabilities are initially measured at fair value, net of transaction costs and subsequently measured at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

*Derivative financial instruments*

The Company enters into derivative financial instruments to manage its exposure to aviation fuel price in the normal course of its business operations. Further details of derivative financial instruments are disclosed in Note 25.

Derivatives are initially recognised at fair value at the date the derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. The fair values are estimated based on quoted market prices or pricing models that take into account the current market and contracted prices of the underlying instruments and other factors. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition of profit or loss depends on the nature of the hedge relationship.



## JOINT STOCK COMPANY AIR ASTANA

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 (in thousands of USD)

#### 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

##### Financial liabilities and equity instruments issued by the Company (continued)

###### *Derivative financial instruments (continued)*

A derivative with a positive fair value is recognised as a financial asset; a derivative with a negative fair value is recognised as a financial liability. A derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than 12 months and it is not expected to be realised or settled within 12 months. Other derivatives are presented as current assets or current liabilities.

###### *Cash flow hedge*

The effective portion of foreign currency exchange differences arising from translation of finance lease liabilities which are designated and qualify as cash flow hedges of highly probable future foreign currency revenues is recognised in other comprehensive income. The loss exchange differences relating to an ineffective portion are recognised immediately within foreign exchange gain/loss in the profit or loss of the Company.

Amounts accumulated in equity are reclassified to profit or loss (to foreign exchange gain/loss) in the periods when the finance lease liabilities are repaid and foreign currency revenues are received.

When a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is transferred to profit or loss when the forecast transaction is ultimately recognised. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement of profit or loss within foreign exchange gain/loss.

###### *Dividends*

Dividends are recognised as a liability in the period in which they are declared.

###### *Derecognition of financial liabilities*

The Company derecognises financial liabilities when, and only when, the Company's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

#### 4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Company's accounting policies, which are described in Note 3, management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the critical judgments and estimates that management have made in the process of applying the Company's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

## JOINT STOCK COMPANY AIR ASTANA

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 (in thousands of USD)

#### 4 CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

##### Provisions

Provisions are made when any probable and quantifiable risk of loss attributable to disputes exist. Provisions mainly consist of provision for aircraft maintenance (Note 21).

##### Recoverability of variable lease payments related to future maintenance

Under the operating lease agreements for its aircraft, the Company makes variable lease payments to lessors which are based upon the flight hours of engines, limited life parts of engines, auxiliary power units and major airframe checks. Such amounts are reimbursable by lessors upon occurrence of the maintenance event (APU and engine overhaul, replacement of the limited life parts and major airframe checks). The reimbursement is made only for scheduled repairs and replacements in accordance with the Company's maintenance program agreed with the Kazakhstan Civil Aviation Committee ("CAC").

In case of a return of the aircraft after the scheduled maintenance event, but before the return condition specified in the lease agreement is triggered, the amounts of variable lease payments made to the lessors are not reimbursable and are retained by the lessors as a deposit transferrable to the next lessees of the aircraft. Management of the Company believes that as at 31 December 2016 contributions of variable lease payments of USD 79,099 thousand (2015: USD 66,916 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.

##### Determination of the functional currency

As disclosed in Note 3, the functional currency of the Company is tenge 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 each 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.

## JOINT STOCK COMPANY AIR ASTANA

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 (in thousands of USD)

#### 4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

##### Useful lives of property, plant and equipment

In reporting intangible assets and tangible assets, an assessment is made of the useful economic life and an assessment is made at least once a year to determine whether impairment exists.

##### Fair value of financial instruments

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

The Company has an established control framework with respect to the measurement of fair values. This includes a valuation team that has overall responsibility for overseeing all significant fair value measurements, including Level 3 fair values.

The valuation team regularly reviews significant unobservable inputs and valuation adjustments. If third party information, such as broker quotes or pricing services, is used to measure fair values, then the valuation team assesses the evidence obtained from the third parties to support the conclusion that such valuations meet the requirements of IFRS, including the level in the fair value hierarchy in which such valuations should be classified.

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

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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

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

Further information about the assumptions made in measuring fair values is included in the following notes:

- Note 25 – Financial instruments.

## JOINT STOCK COMPANY AIR ASTANA

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 (in thousands of USD)

#### 4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

##### Allowances

The Company accrues allowances for doubtful accounts receivable. Judgment is used to estimate doubtful accounts, which includes consideration of historical and anticipated customer performance. Changes in the economy or specific customer conditions may require adjustments to the allowance for doubtful accounts recorded in these financial statements. As at 31 December 2016 and 2015, allowances for doubtful accounts were equal to USD 1,555 thousand and USD 1,433 thousand, respectively (Notes 14, 15).

For other financial assets, an impairment loss is 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 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 a subsequent event causes the amount of impairment loss to decrease and the decrease can be related objectively to an event occurring after the impairment was recognised, the decrease in impairment loss is reversed through profit or loss. As at 31 December 2016 the impairment allowances was equal to USD 53,680 thousand as disclosed in Note 15 (31 December 2015: nil).

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 2016, the Company recognised a write-down for obsolete and slow-moving inventories in the amount of USD 540 thousand (2015: USD 414 thousand) (Note 13).

##### Customer loyalty program

While calculating customer loyalty program the Company uses its own critical judgements and estimates in regard to cost of value per point by Nomad club members.

##### Contingent liabilities and contingent assets

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

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



## JOINT STOCK COMPANY AIR ASTANA

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2016  
(in thousands of USD)

## 5. REVENUE

	2016	2015
<b>Passenger revenue</b>		
Passenger transport	488,443	577,329
Fuel surcharge	63,788	106,220
Airport services	34,079	38,315
Excess baggage	3,616	4,936
	<u>589,926</u>	<u>726,800</u>
<b>Cargo and mail revenue</b>		
Cargo	14,479	17,721
Mail	1,206	1,865
	<u>15,685</u>	<u>19,586</u>
<b>Other revenue</b>		
Penalties on agency contracts	7,526	8,707
Warranty returns	1,634	1,420
Aviation fuel sale	1,224	233
Income from ground services	1,088	1,129
Advertising revenue	860	1,411
Gain on disposal of spare parts and other assets	622	662
Other	2,449	1,799
	<u>15,403</u>	<u>15,361</u>

During the years ended 31 December, passenger, cargo and mail revenue were generated from the following destinations:

	2016	2015
Domestic	175,631	244,467
Europe	136,925	168,604
Asia	117,116	134,211
Russia	87,619	112,328
CIS Regional (excluding Russia)	49,197	47,415
Middle East	39,123	39,361
	<u>605,611</u>	<u>746,386</u>

## 6. OPERATING EXPENSES

	2016	2015
<b>Handling, landing fees and route charges</b>		
Aero navigation	37,645	40,310
Handling charge	29,340	33,371
Landing fees	21,508	29,141
Meteorological services	129	848
Other	1,287	1,369
	<u>89,909</u>	<u>105,039</u>
<b>Passenger service</b>		
Airport charges	32,839	37,273
Catering	22,912	28,529
In-flight entertainment	3,976	3,635
Security	3,177	3,250
Other	6,905	7,484
	<u>69,809</u>	<u>80,171</u>

## JOINT STOCK COMPANY AIR ASTANA

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## 6. OPERATING EXPENSES (CONTINUED)

	2016	2015
<b>Employee costs</b>		
Wages and salaries of operational personnel	41,409	54,654
Wages and salaries of administrative personnel	9,585	12,570
Social tax	6,564	8,349
Wages and salaries of sales personnel	3,782	4,494
Other	3,396	3,942
	<u>64,736</u>	<u>84,009</u>

The average number of employees during 2016 was 4,721 (2015: 4,583).

	2016	2015
<b>Engineering and maintenance</b>		
Maintenance – variable lease payments	26,359	25,293
Maintenance – provisions (Note 21)	17,695	51,755
Maintenance – components	7,389	7,573
Spare parts	7,207	10,583
Technical inspection	2,008	2,117
	<u>60,658</u>	<u>97,321</u>

	2016	2015
<b>Aircraft operating lease costs</b>		
Fixed lease charges of aircraft and engine	57,182	56,161
Ad-hoc lease of engines and rotatable spare parts	1,056	1,572
Operating lease return costs	169	1,574
	<u>58,407</u>	<u>59,307</u>

	2016	2015
<b>Selling costs</b>		
Reservation costs	15,971	15,430
Commissions	7,888	13,717
Advertising	5,456	6,578
Interline commissions	481	620
Other	442	494
	<u>30,238</u>	<u>36,839</u>

	2016	2015
<b>Aircraft crew costs</b>		
Accommodation and allowances	14,031	14,433
Contract crew	7,674	8,550
Training	6,076	6,340
	<u>27,781</u>	<u>29,323</u>

	2016	2015
<b>Insurance</b>		
Hull insurance	2,049	2,055
Legal liability insurance	1,436	1,582
Medical insurance	627	760
Other	279	311
	<u>4,391</u>	<u>4,708</u>

## JOINT STOCK COMPANY AIR ASTANA

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## 7. FINANCE INCOME AND COSTS

	2016	2015
<b>Finance income</b>		
Interest income on bank deposits	7,169	3,190
Unwinding of discount on Ab-initio pilot trainees receivables	177	343
Net unrealised gain on financial assets and liabilities at fair value through profit or loss	87	3,354
Other	292	64
	<u>7,725</u>	<u>6,951</u>
<b>Finance costs</b>		
Interest expense on finance lease	12,321	13,195
Impairment provision on financial assets (Note 15)	52,288	-
Net realised loss on financial assets and liabilities at fair value through profit or loss	375	8,262
Interest expense from revaluation of fair value of guarantee deposits	147	-
Other	942	910
	<u>66,073</u>	<u>22,367</u>

## 8. INCOME TAX EXPENSE

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

	2016	2015
Adjustment for income tax related to prior year	-	526
Deferred income tax expense	5,010	13,027
	<u>5,010</u>	<u>13,553</u>

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 2016 and 2015 is presented in the table below.

In accordance with the local tax legislation both hedged and unhedged foreign currency losses are treated as deductible expenses for the purpose of corporate income tax calculations. If such deductible expenses cannot be fully utilised in the year of origination the tax code permits an entity to carry forward the accumulated tax losses for the next 10 years. During 2015 the Company applied a foreign currency cash flow hedge policy that allowed it to hedge foreign currency losses arising on the hedging instruments. Movements in deferred tax assets and liabilities stated below were recognised in profit or loss, except for USD 2,925 thousand related to carried forward corporate income tax losses, which were recognised in equity.

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## 8. INCOME TAX EXPENSE

	2016	2015
<b>Deferred tax assets</b>		
Provision for aircraft maintenance	11,760	9,575
Carried forward corporate income tax losses	6,671	13,840
Trade and other payables	1,680	3,176
Intangible assets	-	96
<b>Total</b>	<u>20,111</u>	<u>26,687</u>
<b>Deferred tax liabilities</b>		
Difference in depreciable value of property, plant and equipment	(26,679)	(24,592)
Intangible assets	(58)	-
Prepaid expenses	(14)	(23)
<b>Total</b>	<u>(26,751)</u>	<u>(24,615)</u>
<b>Net deferred tax (liabilities)/assets</b>	<u>(6,640)</u>	<u>2,072</u>

The income tax rate in the Republic of Kazakhstan, where the Company is located, in 2016 and 2015 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% (2015: 20%) to the actual income tax expense recorded in the Company's statement of profit or loss and other comprehensive income:

	2016	2015
(Loss)/profit before tax	(34,855)	62,294
Income tax at statutory rate	(6,971)	12,459
Tax effect of non-deductible expenses	11,981	1,094
<b>Income tax expense</b>	<u>5,010</u>	<u>13,553</u>



## JOINT STOCK COMPANY AIR ASTANA

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## 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
<b>Cost</b>							
At 1 January 2015	55,549	9,573	5,406	3,185	538,950	7,842	620,505
Additions	-	-	-	-	-	19,804	19,804
Disposals	(6,817)	(1,068)	-	(223)	(1,404)	-	(9,512)
Transfers	15,354	1,059	450	1,444	3,826	(22,133)	-
Foreign currency translation difference	(29,130)	(4,456)	(2,673)	(1,943)	(250,403)	(2,746)	(291,351)
<b>At 31 December 2015</b>	<b>34,956</b>	<b>5,108</b>	<b>3,183</b>	<b>2,463</b>	<b>290,969</b>	<b>2,767</b>	<b>339,446</b>
Additions	-	-	-	-	-	27,359	27,359
Disposals	(1,602)	(171)	(59)	(227)	(1,614)	-	(3,673)
Transfers to inventory	(1,790)	-	-	-	-	-	(1,790)
Transfers	9,918	635	58	145	2,151	(12,907)	-
Foreign currency translation difference	821	107	59	43	5,409	437	6,876
<b>At 31 December 2016</b>	<b>42,303</b>	<b>5,679</b>	<b>3,241</b>	<b>2,424</b>	<b>296,915</b>	<b>17,656</b>	<b>368,218</b>
<b>Accumulated depreciation</b>							
At 1 January 2015	20,738	6,305	1,260	1,852	53,613	-	83,768
Charge for the year (Note 11)	7,732	1,333	351	437	38,070	-	47,923
Disposals	(5,298)	(1,049)	-	(215)	(1,338)	-	(7,900)
Foreign currency translation difference	(10,672)	(3,055)	(716)	(948)	(38,799)	-	(54,190)
<b>At 31 December 2015</b>	<b>12,500</b>	<b>3,534</b>	<b>895</b>	<b>1,126</b>	<b>51,546</b>	<b>-</b>	<b>69,601</b>
Charge for the year (Note 11)	4,970	630	324	299	21,717	-	27,940
Disposals	(475)	(150)	(43)	(226)	(1,614)	-	(2,508)
Foreign currency translation difference	351	78	23	22	1,491	-	1,965
<b>At 31 December 2016</b>	<b>17,346</b>	<b>4,092</b>	<b>1,199</b>	<b>1,221</b>	<b>73,140</b>	<b>-</b>	<b>96,998</b>
<b>Net book value</b>							
At 31 December 2015	22,456	1,574	2,288	1,337	239,423	2,767	269,845
At 31 December 2016	24,957	1,587	2,042	1,203	223,775	17,656	271,220

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## 9. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

The Company's obligations under finance leases are secured by the lessors' title to the leased assets, which have a carrying amount of USD 223,088 thousand (2015: USD 239,423 thousand) (Note 24).

Rotable spare parts include aircraft modification costs.

For the year ended 31 December 2016 USD 1,109 thousand interest of the EBRD loan was capitalised into property, plant and equipment (2015: nil) (Note 23).

Based on industry average, the Company decided to extend the useful life of aircraft from 20 to 25 years, with effect from 1 October 2016. This change will lead to decrease in annual depreciation of USD 2,677 thousands in 2017 and further in subsequent periods.

The decrease in the equivalent US Dollar book cost is the reflection of IFRS translation method when converting the functional Tenge currency to the reporting US Dollar currency.

Balance Sheet of the Company is translated into the reporting currency at the closing foreign currency rate prevailing at the reporting date.

## 10. INTANGIBLE ASSETS

	Software
<b>Cost</b>	
At 1 January 2015	5,945
Additions	458
Foreign currency translation difference	(2,911)
<b>At 31 December 2015</b>	<b>3,492</b>
Additions	3,117
Disposals	(106)
Foreign currency translation difference	145
<b>At 31 December 2016</b>	<b>6,648</b>
<b>Accumulated amortisation</b>	
At 1 January 2015	4,557
Charge for the year (Note 11)	568
Foreign currency translation difference	(2,326)
<b>At 31 December 2015</b>	<b>2,799</b>
Charge for the year (Note 11)	739
Disposals	(106)
Foreign currency translation difference	69
<b>At 31 December 2016</b>	<b>3,501</b>
<b>Net book value</b>	
At 31 December 2015	693
At 31 December 2016	3,147

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## 11. DEPRECIATION AND AMORTISATION

	2016	2015
Depreciation of property, plant and equipment (Note 9)	27,940	47,923
Amortisation of intangible assets (Note 10)	739	568
<b>Total</b>	<b>28,679</b>	<b>48,491</b>

## 12. GUARANTEE DEPOSITS

	31 December 2016	31 December 2015
<i>Non-current</i>		
Guarantee deposits for leased aircraft	14,251	14,779
Other guarantee deposits	1,149	619
	<b>15,400</b>	<b>15,398</b>
<i>Current</i>		
Guarantee deposits to secure Letters of Credit for maintenance liabilities (Note 26)	33,469	27,661
Guarantee deposits for leased aircraft	862	60
Other guarantee deposits	613	677
	<b>34,944</b>	<b>28,398</b>
	<b>50,344</b>	<b>43,796</b>

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

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

	31 December 2016	31 December 2015
Within one year	34,331	27,721
After one year but not more than five years	7,141	7,890
More than five years	7,307	6,956
	<b>48,779</b>	<b>42,567</b>
Fair value adjustment	(197)	(67)
	<b>48,582</b>	<b>42,500</b>

## JOINT STOCK COMPANY AIR ASTANA

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## 13. INVENTORIES

	31 December 2016	31 December 2015
Spare parts	21,489	15,999
Fuel	9,492	4,487
Goods in transit	3,923	4,730
Crockery	2,427	1,591
Promotional materials	1,379	1,734
Uniforms	1,335	855
Blank forms	300	239
De-icing liquid	268	275
Other	1,215	749
	<b>41,828</b>	<b>30,659</b>
Less: cumulative write-down for obsolete and slow-moving inventories	(540)	(414)
	<b>41,288</b>	<b>30,245</b>

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

	2016	2015
<b>Cumulative write-down for obsolete and slow-moving inventories at the beginning of the year</b>	<b>(414)</b>	<b>(1,757)</b>
Write-down for the year	(209)	(680)
Reversal of previous write-down for the year	94	1,517
Foreign currency translation difference	(11)	506
<b>Cumulative write-down for obsolete and slow-moving inventories at the end of the year</b>	<b>(540)</b>	<b>(414)</b>

## 14. PREPAYMENTS

	31 December 2016	31 December 2015
<i>Non-current</i>		
Advances paid for services	7,181	6,533
Prepayments for non-current assets	1,933	3,818
	<b>9,114</b>	<b>10,351</b>
<i>Current</i>		
Advances paid for services	8,254	5,615
Prepayments for finance lease	5,993	5,777
Advances paid for goods	5,977	2,205
Prepayments for operating leases	2,768	2,670
	<b>22,992</b>	<b>16,267</b>
Less: allowance for non-recoverable prepayments	(417)	(396)
	<b>22,575</b>	<b>15,871</b>

As at 31 December 2016 prepayments for non-current assets include prepayments to Boeing as pre-delivery payment for the remaining three aircraft (Note 26).



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## 14. PREPAYMENTS (CONTINUED)

The movements in the allowance for non-recovery for the years ended 31 December were:

	2016	2015
<b>At the beginning of the year</b>	<b>(396)</b>	<b>(820)</b>
Accrued during the year	(14)	(50)
Reversed during the year	-	122
Foreign currency translation difference	(7)	352
<b>At the end of the year</b>	<b>(417)</b>	<b>(396)</b>

The allowance for non-recovery includes advance payments made by the Company to suppliers which are currently subject to legal claims for recovery due to the suppliers' inability to complete the transactions.

## 15. TRADE AND OTHER RECEIVABLES

	31 December 2016	31 December 2015
<i>Non-current</i>		
Other financial assets	59,019	-
Due from employees and Ab-initio pilot trainees	835	959
	<b>59,854</b>	<b>959</b>
Less: allowance for doubtful debts (Note 7)	(53,680)	-
	<b>6,174</b>	<b>959</b>
<i>Current</i>		
Trade receivables	21,803	16,898
Due from employees and Ab-initio pilot trainees	955	1,054
Receivable from lessors – variable lease reimbursement	431	3,965
	<b>23,189</b>	<b>21,917</b>
Less: allowance for doubtful debts	(1,138)	(1,037)
	<b>22,051</b>	<b>20,880</b>

In December 2016 according to the order of Management Board of the National Bank of the Republic of Kazakhstan ("National Bank"), the general banking licence of KazInvestBank JSC to conduct banking operations was recalled and a temporary administration was appointed. As a result the Company has reclassified its bank balances with KazInvestBank JSC of USD 14,234 thousand (denominated in USD) to other non-current assets and reassessed their recoverability. It is expected that at the end of June 2017 the temporary administration will transfer a portion of the KazInvestBank's 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 recoverability of the remaining balances with KazInvestBank will depend on further actions taken by the temporary administration and the National Bank.

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## 15. TRADE AND OTHER RECEIVABLES (CONTINUED)

As a result of the assessment of the impairment loss, the Company has recognised an allowance for impairment of 95% of the outstanding balances in the financial statements. These allowances represent its best estimate of the net present value of cash flows which will be obtained from these assets assuming 50% recovery from the assets accepted by Alfa Bank and zero from further liquidation procedures as management believes Alfa Bank conducted the due diligence of KazinvestBank's loan portfolio and selected the best available assets.

Changes to estimate of recovery of the assets accepted by Alfa Bank as well as further actions of the temporary administration and the National Bank could affect the amount of impairment allowance.

On 31 December 2016 the Company held deposits of 44,785 thousand US Dollars in Delta Bank JSC (Delta Bank) (KZT USD denominated). On 30 December 2016 the Standard & Poor's long-term/short-term counterparty credit rating was downgraded from "B/B" to "CCC+/C", then to "D/D" on 16 February 2017 following its default on the principal bond payment amount of 9.8 billion tenge. On 23 February 2017, Delta Bank repaid the overdue bonds and on 27 February 2017 announced that it has received 45.6 billion tenge in loans after which the bank has redeemed an additional 18.4 billion tenge on the second bond program which had a maturity date of 2023. On 22 May 2017 the National Bank temporary suspended Delta Bank's license on accepting deposits or opening current accounts until 15 June 2017. As a result the Company has reclassified its bank balances with Delta Bank of 44,785 thousand US Dollars to other non-current assets and reassessed their recoverability.

As at the date of these financial statements the Company has been able to remit 3,411 thousand US Dollars from the bank, however, has been unable to redeem the remaining balance of the deposits.

Following the discussions with the National Bank and with owners of Delta Bank, management concluded that in the most likely event of liquidation of Delta Bank proceeds will be insignificant. By discounting estimated expected cash flows from the potential liquidation and taking into account amounts repaid by Delta Bank from 31 December 2016 till the date of these financial statements, the management estimated recoverable amount of deposit in Delta Bank to be 4,586 thousand US Dollars leading to the impairment allowances of 40,199 thousand US Dollars.

Further actions of the National Bank and ability of owners of Delta Bank to support the bank or restructure its assets and liabilities could affect the amount of impairment allowance.

At 31 December 2016, eight debtors including IATA Bank Settlement Plans (BSPs) as collecting agencies from the worldwide travel agencies comprised 26% of the Company's trade and other receivables (2015: eight debtors comprised 33%).

Receivable from lessors represents the amount of variable lease reimbursement claimed by the Company as a result of maintenance performed that occurred prior to the reporting date.

Amounts due from trainees of Ab-initio pilot program in respect of 50% of their initial training costs are classified as interest free loans. The remaining costs are classified by the Company as a prepayment of its expenses and are amortised over a period of seven years, during which period the Company has a right to oblige these expenses also to become payable by the pilot trainees should such pilot trainee terminate his/her employment.

Receivable from lessors represents the amount of variable lease reimbursement claimed by the Company as a result of maintenance performed that occurred prior to the reporting date.

Amounts due from trainees of Ab-initio pilot program in respect of 50% of their initial training costs are classified as interest free loans. The remaining costs are classified by the Company as a prepayment of its expenses and are amortised over a period of seven years, during which period the Company has a right to oblige these expenses also to become payable by the pilot trainees should such pilot trainee terminate his/her employment.

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## 15. TRADE AND OTHER RECEIVABLES (CONTINUED)

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

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

	31 December 2016	31 December 2015
US Dollar	58,537	9,395
Tenge	15,662	7,709
Euro	2,772	1,999
Russian Rouble	1,065	834
Other	5,007	2,939
	<u>83,043</u>	<u>22,876</u>

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

	2016	2015
<b>At the beginning of the year</b>	<b>(1,037)</b>	<b>(1,641)</b>
Accrued during the year	(52,607)	(797)
Reversed during the year	217	158
Written-off against previously created allowance	22	392
Foreign currency translation difference	(1,413)	851
<b>At the end of the year</b>	<b>(54,818)</b>	<b>(1,037)</b>

## 16. OTHER TAXES PREPAID

	31 December 2016	31 December 2015
Value added tax recoverable	11,338	6,007
Prepayment for income tax for non-residents	4,084	1,327
Other taxes prepaid	884	137
	<u>16,306</u>	<u>7,471</u>

Value added tax receivable is recognised within current assets as the Company annually applies for reimbursement of these amounts, which is usually successful.

## JOINT STOCK COMPANY AIR ASTANA

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## 17. BANK DEPOSITS

	31 December 2016	31 December 2015
<i>Current</i>		
Term deposits with local banks (Note 25)	97,217	156,985
Guarantee deposits	9	13
Interest receivable	2,348	1,254
	<u>99,574</u>	<u>158,252</u>

Short-term deposits with local banks (with an original maturity of more than three months and less than one year) earn interest in the range from 0% to 13% per annum (2015: from 0.5% to 5%). Bank deposits have no restrictions on early withdrawal.

Guarantee deposits made to meet the requirements of Kazakhstan legislation relating to foreign employees are denominated in tenge and earn interest from 0% to 4.5% per annum (2015: 0% to 4.5%).

Bank deposits are denominated in the following currencies as at 31 December:

	2016	2015
US Dollar	89,637	146,731
Tenge	9,937	16
Euro	-	11,505
	<u>99,574</u>	<u>158,252</u>

## 18. CASH AND BANK BALANCES

	31 December 2016	31 December 2015
Current accounts with local banks (Note 25)	20,139	22,612
Current accounts with foreign banks	9,750	5,211
Cash on hand	98	97
Term deposits with local banks with original maturity less than 3 months	-	24,551
	<u>29,987</u>	<u>52,471</u>

As at 31 December 2016 current accounts with banks earn interest in the range of 0.3% to 10% per annum (2015: 0.3% to 8%). As at 31 December 2016 short-term tenge deposits (over-night) with banks earn interest of up to 10.5% per annum.

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

	2016	2015
US Dollar	19,027	37,261
Tenge	5,454	5,107
Chinese Yuan	1,472	1,308
Euro	1,141	4,249
Russian Rouble	965	905
GBP	614	1,503
Indian Rupee	606	594
Uzbek Soms	311	879
Other	397	665
	<u>29,987</u>	<u>52,471</u>



## JOINT STOCK COMPANY AIR ASTANA

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 (in thousands of USD)

#### 19. EQUITY

As at 31 December 2016 and 2015, share capital was comprised of 17,000 authorised, issued and fully paid ordinary shares with a par value of KZT 147,150 thousand (equivalent to USD 1,000 per share at the time of purchase).

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 2016 the Company had retained earnings, including the loss for the current year, of USD 310,625 thousand (2015: USD 365,816 thousand).

In June 2016, 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 2015. The total amount of the dividend was 3,108,803 thousand tenge (USD 9,180 thousand equivalent as of announcement date), which was distributed and paid in accordance with their shareholdings.

Also at the Annual General Meeting of Shareholders of the Company held in June 2016 the decision was made to allocate an additional 20% of the net profit of the Company for 2015 in the amount of 2,072,536 thousand tenge (USD 6,120 thousand equivalent as of announcement date) to a Reserve Fund of the Company which was distributed and paid in accordance with their shareholdings based on a further decision of General Meeting of Shareholders of the Company in October 2016.

In May 2015, based on the decision of the Annual General Meeting of Shareholders, the Company declared a dividend payment equivalent to 50% of the net profit of the Company for 2014. The total amount of the dividend was 1,742,918 thousand tenge (USD 9,381 thousand equivalent as of announcement date), which was distributed and paid to each shareholder in accordance with their shareholdings. Dividends per share in 2016 were 304.8 thousand tenge or USD 1 thousand equivalent as of announcement date (2015: 102.5 thousand tenge or USD 0.5 thousand equivalent as of announcement date).

The calculation of basic (loss)/earnings per share is based on (loss)/profit for the year and the weighted average number of ordinary shares outstanding during the year of 17,000 shares (2015: 17,000). The Company has no instruments with potential dilutive effect.

	2016	2015
<b>Profit:</b>		
(Loss)/Profit for the year	(39,865)	48,741
Number of ordinary shares	17,000	17,000
<b>(Loss)/Earnings per share – basic and diluted (USD)</b>	<b>(2,345)</b>	<b>2,867</b>

## JOINT STOCK COMPANY AIR ASTANA

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 (in thousands of USD)

#### 20. DEFERRED REVENUE

	31 December 2016	31 December 2015
Unearned transportation revenue	36,565	31,484
Customer loyalty program	1,665	1,392
	<b>38,230</b>	<b>32,876</b>

Unearned transportation revenue represents the value of sold but unused passenger tickets the validity period of which has not expired excluding recognized 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 program refers to the Company's Nomad Club program.

#### 21. PROVISION FOR AIRCRAFT MAINTENANCE

	31 December 2016	31 December 2015
Engines	44,904	37,414
D-Check	4,627	3,345
C-Check	4,603	3,344
Provision for redelivery of aircraft	1,846	1,641
Auxiliary Power unit	1,499	1,159
Landing gear	1,319	972
	<b>58,798</b>	<b>47,875</b>

During 2014 and 2015 the Company renegotiated certain operating lease agreements to replace the payments of variable lease by Letters of credit with further annual prolongation (Note 26). As a result a lessor signed an agreement to return variable lease payments which were fully received by the Company in 2016. The Company accepted the continuing obligations for aircraft maintenance and, therefore, increased provisions by the corresponding amounts in 2015 and continues to accrue provisions taking this into account in further years.

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

	2016	2015
<b>At 1 January</b>	<b>47,875</b>	<b>23,074</b>
Accrued during the year (Note 6)	18,939	52,344
Increase of provisions as a result of return of variable rent by a lessor (Note 26)	-	12,107
Reversed during the year (Note 6)	(1,244)	(589)
Used during the year	(7,920)	(10,961)
Foreign currency translation difference	1,148	(28,100)
<b>At 31 December</b>	<b>58,798</b>	<b>47,875</b>

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.

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## 21. PROVISION FOR AIRCRAFT MAINTENANCE (CONTINUED)

The planned utilisation of these provisions is as follows:

	31 December 2016	31 December 2015
Within one year	20,243	16,496
During the second year	12,719	6,879
During the third year	14,006	4,557
After the third year	11,830	19,943
<b>Total provision for aircraft maintenance</b>	<b>58,798</b>	<b>47,875</b>
Less: current portion	(20,243)	(16,496)
<b>Non-current portion</b>	<b>38,555</b>	<b>31,379</b>

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

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

## 22. TRADE AND OTHER PAYABLES

	31 December 2016	31 December 2015
Trade payables	29,889	27,608
Taxes payable	2,721	2,829
Wages and salaries payable to employees	2,304	2,210
Operating lease payables	1,548	1,220
Employee unused vacation	1,290	1,628
Deposits received	1,124	759
Advances received	435	415
Other	83	83
	<b>39,394</b>	<b>36,752</b>

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## 22. TRADE AND OTHER PAYABLES (CONTINUED)

The Company's trade payables are denominated in the following currencies:

	31 December 2016	31 December 2015
US Dollar	16,107	15,668
Tenge	13,986	12,683
Euro	5,223	3,777
Russian roubles	730	1,658
GBP	655	716
Other	2,693	2,250
	<b>39,394</b>	<b>36,752</b>

## 23. LOANS

	31 December 2016	31 December 2015
<i>Non-current</i>		
Bank loan	12,043	-
	<b>12,043</b>	<b>-</b>
<i>Current</i>		
Current portion of bank loan	1,554	-
Interest payable (loans)	77	-
	<b>1,631</b>	<b>-</b>

On 16 March 2012, the Company entered into a renewable credit line agreement with JSC Halyk Bank for the amount of USD 45,000 thousand for the purpose of replenishment of working capital in order to meet current liabilities and not to incur interest penalties on early termination of bank deposits. Interest rate was fixed depending on loan terms from 4% to 6% per annum depending on loan terms. The credit line is available until 30 June 2017.

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 will also be pledged to the EBRD under this loan. The interest rate is floating 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. The interest rate for this loan has a cap. 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). This tenge loan is subject to certain financial covenants which have been met during 2016. Remedy by repayment of the outstanding loan is available to the Company in the event of breach of these covenants, which could be triggered by the worst case scenario described in Note 17.

## 24. FINANCE LEASE LIABILITIES

For the years from 2012 to 2014 the Company acquired eleven aircraft under the fixed interest finance lease agreement. The lease term for each aircraft is twelve years. The Company has an option to purchase each aircraft for a nominal amount at the end of the lease (Note 26). Loans provided by financial institutions to the lessors in respect of six new Airbus which were delivered during 2012 and 2013 were guaranteed by European Export Credit Agencies while three Boeing 767 aircraft which were delivered in 2013 and 2014 were guaranteed by the US Export Import Bank. Two Embraer aircraft were 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 223,088 thousand (2015: USD 239,423 thousand) (Note 9).



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## 24. FINANCE LEASE LIABILITIES (CONTINUED)

The decrease in the equivalent US Dollar book cost is the reflection of IFRS translation method when converting the functional Tenge currency to the reporting US Dollar currency (please see Note 9 for additional information).

The Company's finance leases are subject to certain covenants. These covenants impose restrictions in respect of certain transactions, including, but not limited to restrictions in respect of indebtedness. Certain finance lease agreements include covenants as regards to change of ownership of the Company. These requirements have been met during 2016 and 2015.

	Minimum lease payments		Present value of minimum lease payments	
	31 December 2016	31 December 2015	31 December 2016	31 December 2015
Not later than one year	52,514	53,181	41,251	40,640
Later than one year and not later than five years	201,050	203,115	168,770	164,096
Later than five years	177,297	226,784	166,729	211,693
	<b>430,861</b>	<b>483,080</b>	<b>376,750</b>	<b>416,429</b>
Less: future finance charges	(54,111)	(66,651)	-	-
<b>Present value of minimum lease payments</b>	<b>376,750</b>	<b>416,429</b>	<b>376,750</b>	<b>416,429</b>
Included in the financial statements as:				
- current portion of finance lease obligations			41,251	40,640
- non-current portion of finance lease obligations			335,499	375,789
			<b>376,750</b>	<b>416,429</b>

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

On 1 July 2015 the Company designated a portion of its US Dollar finance lease obligations as hedges of highly probable future US Dollar revenue streams. The Company applies the cash flow hedge accounting model to this hedging transaction, in accordance with IAS 39. At 31 December 2016, finance lease liabilities in the amount of USD 227,253 thousand (2015: USD 250,736 thousand) denominated in US Dollars are designated as hedging instrument denominated in US Dollars of highly probable revenue forecasted for the period 2015 - 2025. The Company expects that this hedging relationship will be highly effective since the future cash outflows on the lease liabilities being hedged match the future cash inflows of the expected revenue. At 31 December 2016, a foreign currency loss of USD 132,335 thousand (before deferred income tax of USD 26,467 thousand) (2015: USD 152,144 thousand, before deferred income tax of USD 30,429 thousand) on the finance lease liabilities, representing an effective portion of the hedge, is deferred in the hedging reserve in equity.

During 2016 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 14,388 thousand (before deferred income tax of USD 2,878 thousand) (2015: USD 2,631 thousand, before deferred income tax of USD 526 thousand).

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## 24. FINANCE LEASE LIABILITIES (CONTINUED)

At each reporting date the Company translates its monetary assets and monetary liabilities denominated in foreign currencies to the reporting currency, while translation gains or losses are recorded in profit or loss. As a result of the cash flow hedge policy, the remaining net monetary foreign currency assets generated a foreign currency exchange loss of USD 740 thousand in the statement of profit or loss (2015: USD 46,883 thousand). These net monetary foreign currency assets represent the excess of monetary foreign currency assets (including foreign currency cash) over the monetary foreign currency liabilities (including unhedged foreign currency loans).

## 25. 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 2015.

The capital structure of the Company consists of net debt (comprising loans and finance lease obligations in Note 23 and 24) and equity of the Company (comprising issued capital, additional paid-in capital, foreign currency translation reserve, reserve on hedging instruments and retained earnings as detailed in Note 19).

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

The Company reviews the capital structure on a semi-annual basis. As part of this review, the Company considers the cost of capital and the risks associated with each class of capital. The Company does not have a target gearing ratio.

**Credit risk**

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

The maximum exposure to credit risk related to financial instruments, such as cash and accounts receivable, is calculated basing on their book value.

Trade receivables consist of a large number of customers, spread across diverse industries and geographical areas. Ongoing credit evaluation is performed on the financial condition of accounts receivable and, where appropriate, credit guarantee insurance cover is purchased.

As at 31 December 2016, 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 is reconsidering its cash management policy and, as temporary measures, the Company has reviewed the credit ratings of the main banks in Kazakhstan and subsequent to the reporting date placed its main deposits to banks with ratings of "BB", except for KazInvestBank and Delta Bank, which are disclosed in Note 15 and held current accounts with Kazakhstani banks with ratings of "BB" or higher (Note 18).

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## 25. FINANCIAL INSTRUMENTS (CONTINUED)

## Interest rate risk

Excluding the loan from the EBRD, the Company is not exposed to interest rate risk because the Company 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 interest rate on the EBRD loan in 2016 would have been 20% higher or lower than the actual for the period, the interest expense would not have changed significantly.

## Foreign currency risk

The Company is exposed to foreign currency risk on sales and purchases that are denominated in currencies other than the tenge. The currencies giving rise to this risk are primarily the USD and Euro. For amounts of assets and liabilities denominated in foreign currency refer to Notes 15, 17, 18, 22, and 23.

In August 2015, the National Bank of the Republic of Kazakhstan implemented a floating exchange rate policy for the tenge. As a result, the tenge devalued immediately by some 30% against the USD. The exchange rate has continued to weaken and as of 31 December 2016, the KZT to US Dollar official exchange rate is 333.29.

The Company management believes that it has taken appropriate measures to support the sustainability of the Company business under the current circumstances. The Company applies a hedge policy to manage the currency risk (Note 24).

## Foreign currency sensitivity analysis

The Company is mainly exposed to the risk of change of exchange rates of the tenge against the USD and the Euro.

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

	Notes	US Dollar		Euro	
		31 December 2016	31 December 2015	31 December 2016	31 December 2015
<b>Assets</b>					
Guarantee deposits	12	49,771	43,091	199	335
Trade and other receivables	15	11,000	9,395	2,772	1,999
Bank deposits	17	93,250	146,731	-	11,505
Cash and bank balances	18	19,027	37,261	1141	4,249
Financial assets at fair value through profit or loss		-	91	-	-
<b>Total</b>		<b>173,048</b>	<b>236,569</b>	<b>4,112</b>	<b>18,088</b>
<b>Liabilities</b>					
Finance lease liabilities	24	376,750	416,429	-	-
Trade and other payables	22	16,107	15,668	5223	3,777
Financial liabilities at fair value through profit or loss		-	180	-	-
<b>Total</b>		<b>392,857</b>	<b>432,277</b>	<b>5,223</b>	<b>3,777</b>
<b>Net position</b>		<b>(219,809)</b>	<b>(195,708)</b>	<b>(1,111)</b>	<b>14,311</b>

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## 25. FINANCIAL INSTRUMENTS (CONTINUED)

## Foreign currency sensitivity analysis (continued)

In 2016 the following table details the Company's sensitivity of weakening and strengthening of the tenge against the US Dollar by 13% and Euro by 15%. In 2015 the following table details the Company's sensitivity to a 60% weakening of the tenge against the US Dollar and to a 20% strengthening of the tenge against the Euro. Mentioned sensitivity rates were used when reporting foreign currency risk internally to key management personnel.

The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for abovementioned sensitivity ratios. The sensitivity analysis includes trade and other receivables, cash and bank balances, bank deposits, guarantee deposits, trade and other payables, financial assets and liabilities at fair value through profit or loss, loans and finance lease liabilities.

A negative number below indicates a decrease in Profit or Loss and Other Comprehensive Income and positive number would be an opposite impact on the Profit or Loss and Other Comprehensive Income taking into account the cash flow hedge policy (Note 2).

	Currency US Dollar impact		Currency Euro impact	
	2016 13%	2015 60%	2016 15%	2015 60%
Profit/(loss)	774	(214,293)	(133)	6,869
Equity decrease	(23,634)	(120,353)	-	-
	Currency US Dollar impact		Currency Euro impact	
	2016 -13%	2015 -20%	2016 -15%	2015 -20%
(Loss)/profit	(774)	(8,805)	133	(2,290)
Equity increase	23,634	40,118	-	-

The Company limits the currency risk by monitoring changes in exchange rates of foreign currencies in which trade and other receivables, cash and bank balances, bank deposits, guarantee deposits, trade and other payables, financial assets and liabilities at fair value through profit or loss 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.



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## 25. 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.

	Up to 3 months	3 months to 1 year	1-5 years	Over 5 years	Total
<b>2016</b>					
<b>Financial liabilities</b>					
<i>Interest free</i>					
Trade and other payables	37,097	572	-	-	37,669
<i>Floating rate</i>					
Loans (tenge denominated)	746	2,222	10,194	7,099	20,261
<i>Fixed rate</i>					
Finance lease liabilities	12,911	39,603	201,050	177,297	430,861
<b>2015</b>					
<b>Financial liabilities</b>					
<i>Interest free</i>					
Trade and other payables	34,164	545	-	-	34,709
Financial liabilities at fair value through profit or loss	-	180	-	-	180
<i>Fixed rate</i>					
Finance lease liabilities	13,076	40,105	203,115	226,784	483,080

The following table details the Company's expected maturity for its non-derivative financial assets. The tables below have been drawn up based on the undiscounted contractual maturities of the financial assets including interest that will be earned on those assets except where the Company anticipates that the cash flow will occur in a different period.

	Weighted average effective interest rate %	Up to 3 month	3 months to 1 year	1-5 years	Over 5 years	Total
<b>2016</b>						
<b>Financial assets</b>						
<i>Interest free</i>						
Trade and other receivables	-	21,450	601	5,935	239	28,225
Guarantee deposits	-	15,674	19,270	8,091	7,309	50,344
Cash and bank balances	-	29,987	-	-	-	29,987
<i>Fixed rate</i>						
Bank deposits	4.55	99,574	-	-	-	99,574

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## 25. FINANCIAL INSTRUMENTS (CONTINUED)

## Liquidity and interest risk tables

<b>2015</b>						
<b>Financial assets</b>						
<i>Interest free</i>						
Trade and other receivables	-	19,983	312	1,103	441	21,839
Financial assets at fair value through profit or loss	-	-	91	-	-	91
Guarantee deposits	-	345	28,053	8,381	7,017	43,796
Cash and bank balances	-	52,471	-	-	-	52,471
<i>Fixed rate</i>						
Bank deposits	3.01	65,184	93,068	-	-	158,252

## Fair values

During 2015 the Company used options to hedge the risk of jet fuel price movement. The Company uses standard market instruments for fuel hedging purposes, such as a "call option" (where the premium is paid in advance by the Company to cover the risk of increases of the commodity price above the predetermined level) and zero cost collar (where the premium is equal to zero, and where the Company simultaneously buys a "call option" and sells a "put option"). Since there is no possibility to hedge the risk of changes in jet fuel prices purchased from local suppliers, the Company hedges only the amount of fuel purchased outside the Republic of Kazakhstan signing the general agreement with several international banks on the conclusion of derivative transactions. The management of the Company determines the volume of jet fuel that will be hedged before executing the deal. Hedging is carried out according to the Fuel hedging policy approved by the directors and shareholders of the Company.

## 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.

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## 25. FINANCIAL INSTRUMENTS (CONTINUED)

## Cash and bank balances (continued)

## 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.

## 26. COMMITMENTS AND CONTINGENCIES

## Capital commitments

During 2012, the Company finalised an agreement with Boeing to purchase three Boeing-787s aircraft under finance lease agreements. The Company is committed to pre-delivery payments in accordance with the agreed payment schedule. Delivery of the Boeing 787s is now deferred to 2019 with the last pre-delivery payments deferred to 2019.

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 Company exercises its option to renew. The Company does not have an option to purchase the leased aircraft at the expiry of the lease period.

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.

Commitments for leases of aircraft currently in operation:

	31 December 2016	31 December 2015
Within one year	57,469	57,986
After one year but not more than five years	104,752	146,034
More than five years	4,365	9,505
	<u>166,586</u>	<u>213,525</u>

Commitments for leases of aircraft to be delivered from 2017 to 2019:

	31 December 2016	31 December 2015
Within one year	11,331	3,043
After one year but not more than five years	183,849	130,938
More than five years	266,632	336,504
	<u>461,812</u>	<u>470,485</u>

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## 26. COMMITMENTS AND CONTINGENCIES (CONTINUED)

## Operating lease commitments (continued)

In June 2015 the Company signed operating lease agreements for seven Airbus A320neo family aircraft to replace some current leases on expiry and for future expansion. One A320neo was delivered in the second half of 2016, with the remaining six aircraft being delivered in 2018 and 2019.

In September 2015 the Company signed operating lease agreements for four Airbus A320neo family aircraft being delivered in 2017 and 2018 to replace some current leases on expiry and for future expansion.

Stand-by Letters of Credit as at 31 December 2016 were USD 43,055 thousand, of which USD 33,496 thousand were secured by deposits (Note 12) and USD 9,559 thousand were unsecured. These Letters of Credit were obtained as security for Lessors to cover any unfulfilled maintenance liabilities on the return of three Embraer E190 and five Airbus aircraft to Lessors.

## Engine

During 2010 the Company purchased a spare engine and subsequently entered into a sale and leaseback transaction for the engine. The lease term is 10 years with an extension period of 5 years at the agreement of the lease agreement parties.

Operating lease agreements for one other engine will expire by the end of 2017.

The fixed and variable lease payments are denominated and settled in US Dollars. This currency is routinely used in international commerce for engine operating leases.

Non-cancellable operating lease commitments are payable as follows:

	31 December 2016	31 December 2015
Within one year	1,161	1,199
After one year but not more than five years	3,015	4,149
	<u>4,176</u>	<u>5,348</u>

## Insurance

## Aviation insurance

Air Astana puts substantial attention in conducting insurance coverage for its aircraft operations and hence places aviation risks in major international insurance markets (e.g. Lloyd's) with a high rating of financial stability through the services of an international reputable broker. Types of insurance coverage are stated below:

- Aviation Hull, Total Loss Only and Spares All risks and Airline Liability including Passenger Liability;
- Aircraft Hull and Spare Engine Deductible;
- Aviation Hull and Spares "War and Allied Perils";
- Aviation War, Hi-Jacking and Other Perils Excess Liability.



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Apart from aviation insurance coverage the airline constantly purchase non-aviation insurance policies to reduce the financial risk of damage to property and general liability, as well as covering employees from accidents and medical expenses, as follows:

- Medical insurance of employees;
- Directors, Officers and Corporate liability insurance;
- Property insurance;
- Comprehensive vehicle insurance;
- Compulsory insurance of employee from accidents during execution of 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 numerous taxes and frequent changes in legislation, official pronouncements and court decisions. Taxes are subject to review and investigation by a number of authorities, which have the authority to impose severe fines, penalties and interest charges. A tax year remains open for review by the tax authorities during five subsequent calendar years; however, under certain circumstances a tax year may remain open longer.

Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on these financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

**Operating Environment**

Emerging markets such as Kazakhstan are subject to different risks than more developed markets, including economic, political and social, and legal and legislative risks. Laws and regulations affecting businesses in Kazakhstan continue to change rapidly, tax and regulatory frameworks are subject to varying interpretations. The future economic direction of Kazakhstan is heavily influenced by the fiscal and monetary policies adopted by the government, together with developments in the legal, regulatory, and political environment. In addition, the significant devaluation of the Kazakhstani tenge, and reductions in the global price of oil have increased the level of uncertainty in the business environment.

As Kazakhstan produces and exports large volumes of oil and gas, its economy is particularly sensitive to the price of oil and gas on the world market.

**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.

In 2007 the shareholders appointed two independent directors; one is from JSC "National Welfare Fund "Samruk-Kazyna", and another from BAE System Kazakhstan Limited. The total remuneration paid in 2016 to the independent directors was USD 75 thousand (2015: USD 92 thousand).

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FOR THE YEAR ENDED 31 DECEMBER 2016**  
*(in thousands of USD)***27. RELATED PARTY TRANSACTIONS (CONTINUED)****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 personnel costs (Note 6):

	2016	2015
Salaries and bonuses	3,867	4,436
Social tax	415	525
	<u>4,282</u>	<u>4,961</u>

**Transactions with related parties**

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

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

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

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:

	2016		2015	
	Transaction value	Outstanding balance	Transaction value	Outstanding balance
<b>Services received</b>				
State-owned companies	20,702	(129)	38,996	(1,509)
Shareholders and their subsidiaries	4,743	-	8,034	(213)
	<u>25,445</u>	<u>(129)</u>	<u>47,030</u>	<u>(1,722)</u>

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

	2016		2015	
	Transaction value	Outstanding balance	Transaction value	Outstanding balance
<b>Services provided by the Company</b>				
Shareholders and their subsidiaries	947	153	1,289	111
	<u>947</u>	<u>153</u>	<u>1,289</u>	<u>111</u>

All outstanding balances with related parties are to be settled in cash within six months of the reporting date. None of the balances are secured.

**28. APPROVAL OF THE FINANCIAL STATEMENTS**

The financial statements were approved by management of the Company and authorised for issue on 2 June 2017.

# Glossary

## A-Z

**ASK** – Available Seat Kilometres. This is a measure of available capacity, and it takes into consideration aircraft passenger capacity and distance travelled. It can be used to measure total capacity of an airline or can be used for the industry, specific aircraft, routes and regions served. It is not a perfect metric, as longer distance flights tend to have lower revenues and costs per unit, as there are costs that are incurred once per flight, however long the flight (landing fees, handling fees, etc). Revenues can be skewed by the amount of business compared to economy travellers on a flight, which can vary by route, or even with seasonality. However imperfect, it is a widely available metric and allows for comparisons through time and with peers.

**Cash ratio** - The cash ratio is the ratio of a Company's total cash and cash equivalents to its current liabilities. The cash ratio is generally a more conservative look at a Company's ability to cover its liabilities than many other liquidity ratios because other assets, including accounts receivable, are left out of the equation. The cash ratio is most commonly used as a measure of Company's liquidity.

**Code-share agreement** - Aviation business arrangement, whereby two or more airlines share the same flights. One is an operator that sells tickets for its own operating flights, while the other(s) is a marketing partner that sells seats on the flights of operator.

**Committee on Aviation Environmental Protection (CAEP)** is a technical committee of the ICAO Council. CAEP assists the Council in formulating new policies and adopting new Standards and Recommended Practices related to aircraft noise and emissions, and more generally to aviation environmental impact.

**Cost per ASK** - The cost per ASK is the operating cost per ASK, expressed as US cents per ASK. Internally, airline management also looks at different components of operating costs to analyse route profitability.

**Current ratio** - The current ratio is a liquidity ratio that measures a Company's ability to pay short-term and long-term obligations. To gauge this ability, the current ratio considers the current total assets of a Company relative to that Company's current total liabilities. The higher the current ratio, the more capable the Company is of paying its obligations, as it has a larger proportion of asset value relative to the value of its liabilities.

**EASA (Part 66)** - The EASA's standard requirements for certifying aircraft crew.

**EASA (Part 145)** - The EASA's standard requirements for airlines that maintain aircraft and components.

**EASA (Part 147)** - The EASA's standard requirements for a Company that provides theoretical and practical training for operating staff.

**EBITDAR** - Earnings Before Interest, Tax, Depreciation, Amortisation and Rental costs. This is essentially the cash margin before costs of ownership or rental of aircraft. This is a margin that can be used to compare airlines that have different proportions of owned aircraft relative to aircraft under operational leases. It can also be used to compare performance of a single airline where the proportion of owned aircraft is changing, such as Air Astana. We calculate it by taking Operating Profit and adding back Depreciation and Amortisation and Fixed Operating Lease Charges. This latest number is found in the notes to the financial statements.

**European Aviation Safety Agency (EASA)** - The agency is responsible for developing all flight safety regulations for independent confirmation or submission to the European Commission (or Parliament/Council) and performing inspections to determine compliance with them.

**FAA (Federal Aviation Administration)** - The Federal Aviation Administration is the national aviation

authority of the United States of America. An agency of the United States Department of Transportation, it has authority to regulate and oversee all aspects of civil aviation in the U. S.

**Financial lease** - A financial lease is a form of long-term debt that finances the acquisition of an asset. At the end of a financial lease there is usually an option to buy the aircraft for a nominal value, as the lease payments amount to more than the value of the aircraft. Air Astana started to buy aircraft of its own in 2012, and these have been financed with financial leases.

**Flight hours** - This is the amount of time that aircraft actually spend in the air.

**IATA Operational Safety Audit (IOSA)** - IOSA covers the following functional areas of an airline: Company management, flight operations, flight control and monitoring, aircraft maintenance, on-board operations, aircraft ground operations, cargo transportation, and flight safety.

**International Air Transport Association (IATA)** - The IATA was formed in 1945 to develop cooperation between airlines and provide safe, secure and efficient flights to passengers.

**International Civil Aviation Organisation (ICAO)** - The ICAO was founded in 1944 under the Chicago Convention on International Civil Aviation. A specialised agency of the United Nations, it is responsible for setting international standards, recommended practices and rules in technical, economic and legal areas of international civil aviation.

**Kazakhstan Civil Aviation Committee (CAC)** - The CAC is the official regulator of the civil aviation sector in Kazakhstan. It is under the authority of the Ministry of Investment and Development of the Republic of Kazakhstan.

**MRO** - Short for maintenance, repair and overhaul of aircraft.

**Operating lease** - An operating lease is essentially a rental agreement. Normally the lease payments over the term of the lease are less than the value of the aircraft, and there is no option to buy the aircraft at the end of the lease period. Historically, Air Astana's fleet comprised only of aircraft under operational leases until the end of 2011.

**PLF** - Passenger Load Factor. It is the percentage of seats filled on a per kilometre flown basis. It is calculated by taking the Revenue Passenger Kilometres (RPK) divided by the Available Seat Kilometres (ASK). Airlines measure things on an RPK and ASK basis to be able to compare efficiency of flights with different distance travelled and seating capacity. One can then analyse revenues and costs on this same basis.

**RPK** - Revenue Passenger Kilometres. This is a measure of paying passenger utilisation of the ASK. So it takes the number of passengers multiplied by the distance travelled in kilometres. Like ASK, it can be measured for an airline, for the industry, for specific aircraft types, for specific routes, or regions served.

**ROIC** - Return on Invested Capital. This is a measure of returns on the whole capital structure of the Company that is needed for the business. It divides the Operating Profit by the Average Invested Capital during the year. By using Operating Profit as the numerator, it makes it an operational efficiency metric that is agnostic on the funding of the operational invested capital - debt or equity. It is sometimes calculated on a post-tax basis, by applying the Company effective tax rate to the Operating Profit. We have presented the standard pre-tax measure. Airlines do not account Operating Leases as part of their liabilities under IFRS accounting or in their Invested Capital. Some airlines present ROIC adjusted for an estimate of the implicit liability of the operating leases, this is not based on current IFRS standards.

**Segments** - This is a technical name for flights, though if a passenger has a flight that stops at an intermediate point, this counts as more than one segment.

**Skytrax** - Skytrax is an internationally recognised consulting Company that specialises in analysing services provided by airlines and airports. It was formed in 1989 and provides independent information on more than 210 airlines and 65 airports based on various passenger surveys.

**Society of Automotive Engineers (SAE)** - globally active professional association and standards developing organisation for engineering professionals in various industries.

**Special prorate agreements (SPA)** - an agreement between airlines to give each other a fixed price for interlining.

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# FEEDBACK

## Contacts

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