Annual report • 2013

air astana

from the heart of eurasia

IN THIS REPORT

AIR ASTANA AT A GLANCE

Air Astana is a fast-growing international airline and the flag carrier of Kazakhstan with a world-class track record of safety and technical expertise. A joint-stock company, we are a joint venture between the Samruk-Kazyna National Welfare Fund of Kazakhstan (51 %) and the UK's BAE Systems (49 %). We are a full member of the International Air Transport Association (IATA) and the first Kazakhstan carrier to have Part 145 certification to perform aircraft maintenance from the European Aviation Safety Agency (EASA). We are an IATA IOSA accredited airline. Air Astana is one of 35 airlines in the world with a 4 star Skytrax rating for 2 consecutive years and the only 4 star carrier in Eastern Europe and CIS, we were also awarded the Best Airline in Central Asia and India in 2012 and 2013.

KEY FINANCIAL INDICATORS

REVENUES

US$ 966.9 million,
up **10 %** year-on-year

Revenues reached US$ 966.9 million in 2013, up from US$ 875.1 million in 2012 and a new record

OPERATING PROFIT

US$ 72.2 million,
down 5 % year-on-year

Operating profit decreased down to US$ 72.2 million in 2013 from US$ 76.2 million in 2012

OPERATING EXPENSES

US$ 894.7 million,
up 12 % year-on-year

Operating expenses stood at US$ 894.7 million in 2013, compared with US$ 798.9 million in 2012, rising faster revenues, due to depreciation of newly owned aircraft, as well as fuel, handling and passenger service charges (airport charges, security and catering costs)

NET PROFIT

US$ 51.4 million

Net profit at US$ 51.4 million in 2013, declined 16 % from US$ 61.1 million in 2012. The decline was higher than the decline in operating profit due to increased interest costs for financing additional newly owned aircraft and foreign currency losses due to Kazakhstan tenge and Russian rouble weakness

OPERATIONAL RESULTS

PASSENGERS CARRIED

3.68 million,
up 13 % year-on-year

Last year, we carried 3.68 million passengers, 13 % higher than the 3.24 million in 2012 and a new record. International passengers grew 24 % to 1.56 million, while domestic passengers grew by 7 %. This translated into total RPK growing by 16 %, with International RPK growing by 21 %

PASSENGER LOAD FACTOR

65.4 %

Passenger load factor declined in 2013, down 2.2 percentage point from 67.6 % in 2012, following the introduction of numerous new international routes

CAPACITY

11.4 billion available seat kilometres,
up 20 % year-on-year

In 2013, available seat kilometres rose by 20 % to 11.4 million, compared with 9.5 million in 2012. Domestic ASK grew by 8 % and International ASK growing by 27 %. The number of segments flown rose by 12 %

CARGO

23,810 tonnes

We increased cargo, baggage and post carriage by 8 % to 23,810 tonnes in 2013, up from 22,076 tonnes in 2012

2013 was an important year financially for our owned and leased fleet, with the purchase of 3 new Airbus 320 and two new Boeing 767. We took delivery of 7 new aircraft and redelivered to their owners 5 leased aircraft.

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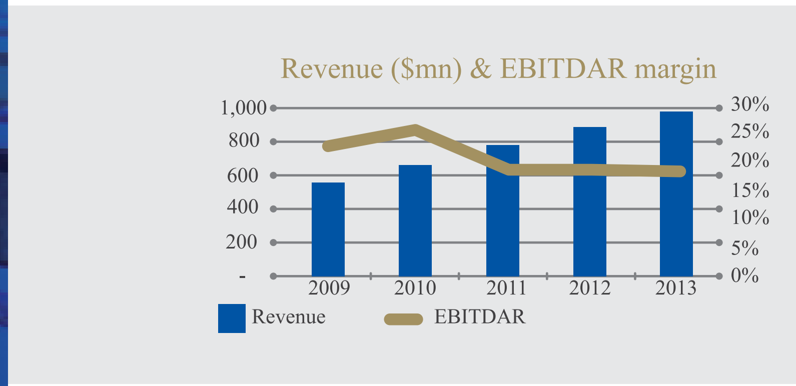
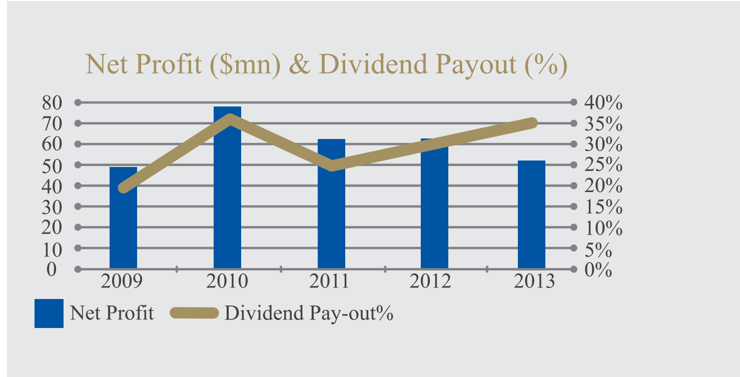
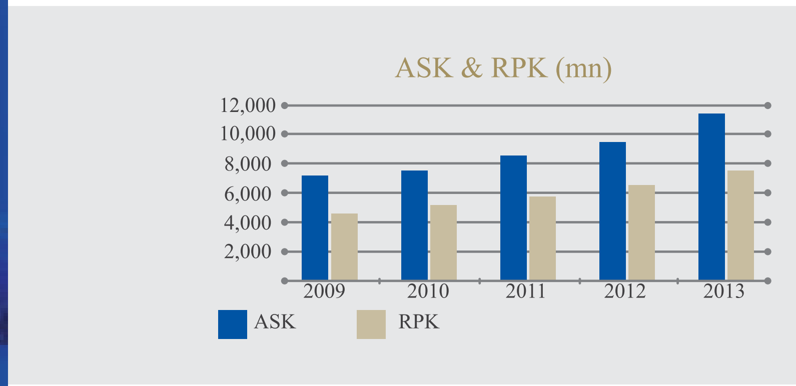
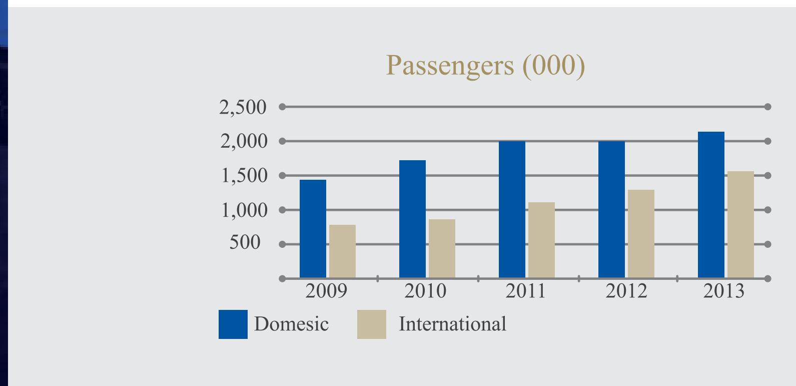
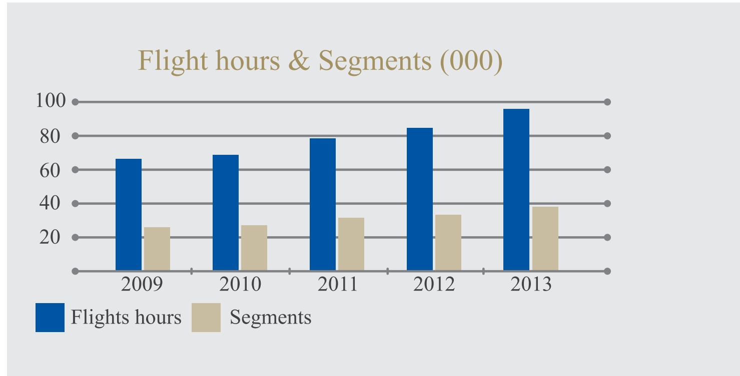
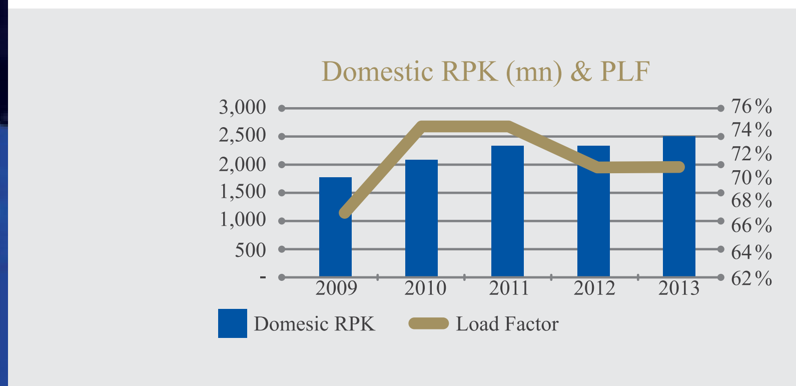


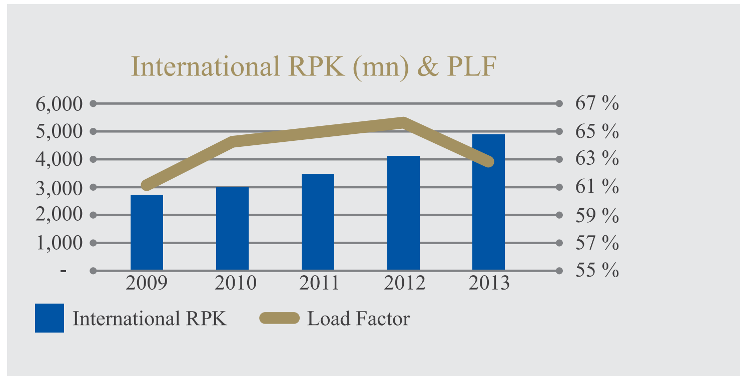












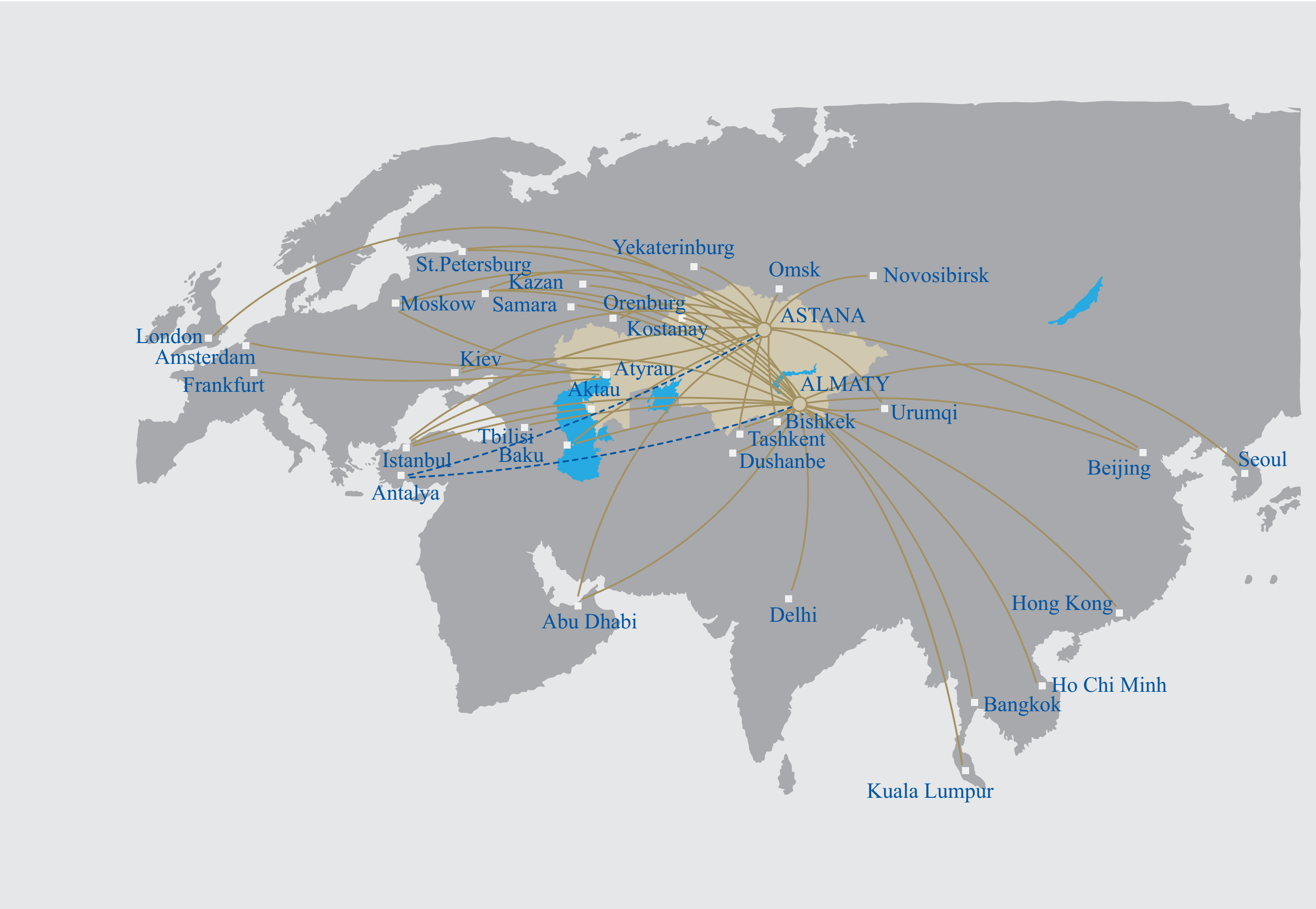
5-YEAR FINANCIAL AND OPERATIONAL SUMMARY

PROFIT & LOSS (US$, 000)	2009	2010	2011	2012	2013
Total revenue	**559,269**	**661,484**	**772,883**	**875,075**	**966,904**
- Domestic	218,070	263,515	298,511	332,746	346,137
- International	330,523	381,115	459,520	527,075	600,356
- Other	10,676	16,854	14,852	15,254	20,411
Fuel	(92,304)	(105,760)	(178,569)	(246,820)	(280,007)
Employee & Crew	(90,248)	(101,950)	(126,840)	(131,578)	(138,566)
Other Operating Costs	(326,901)	(362,399)	(398,192)	(420,515)	(476,117)
Operating Profit	**49,816**	**91,375**	**69,282**	**76,162**	**72,214**
Profit before Tax	61,021	97,120	77,444	79,221	64,925
Income Tax Expense	(13,036)	(20,004)	(16,184)	(18,145)	(13,561)
Effective Tax rate %	21%	21%	21%	23%	21%
Net Profit	**47,985**	**77,116**	**61,260**	**61,076**	**51,364**
EBITDAR	125,773	166,952	146,857	160,273	173,657
Dividend (paid)	**3,407**	**16,790**	**19,398**	**18,204**	**21,120**
Pay-out % prev. year Net Income	20%	35%	25%	30%	35%
Balance Sheet (US$, 000)	**2009**	**2010**	**2011**	**2012**	**2013**
Cash & equivalents	41,736	47,563	32,137	123,527	128,097
Inventories	20,921	20,730	29,151	42,760	55,247
Prepayments	11,581	21,059	31,776	21,256	49,214
Guarantee deposits	2,327	1,177	1,410	1,585	5,146
Trade receivables	35,291	49,958	35,119	46,322	32,706
Other	13,996	7,564	8,356	5,969	13,609
Total Current Assets	**125,852**	**148,051**	**137,949**	**241,419**	**284,019**
Property, Plant &Equipment	27,047	31,537	34,101	229,897	562,856
Intangible assets	2,262	3,096	3,152	2,593	2,139
Prepayments for long-term assets	8,868	16,418	68,666	95,053	23,798
Guarantee deposits	14,967	15,038	17,302	17,601	12,799
Bank deposits	49,720	113,435	117,523	0	0
Other non-current assets	3,112	5,763	7,984	0	5,448
Total Non-current assets	**105,976**	**185,287**	**248,728**	**345,144**	**607,040**
Loans and financial leases	311	0	0	28,274	45,752
Provision for maintenance	10,351	10,896	16,220	16,712	16,049
Trade Payables	28,059	43,102	52,576	53,040	50,129
Deferred Revenue	43,923	61,471	61,075	57,440	63,240
Other	336	119	793	280	266
Total Current Liabilities	**82,980**	**115,588**	**130,664**	**155,746**	**175,436**
Loans and financial leases	0	0	0	140,489	382,887
Provision for maintenance	6,124	13,836	12,086	4,132	7,098
Deferred Tax Liability	0	0	0	3,515	18,120
Total Non-Current Liabilities	**6,124**	**13,836**	**12,086**	**148,136**	**408,105**
Total equity	**142,724**	**203,914**	**243,927**	**282,681**	**307,518**
Working Capital (WC)	42,872	32,463	7,285	85,673	108,583
Net Debt/(Net Cash)	(91,145)	(160,998)	(149,660)	45,236	300,542
Invested Capital (IC)	140,372	172,340	237,017	463,036	762,962
Capital expenditures	8,224	20,894	13,323	205,326	369,457

Ratios	2009	2010	2011	2012	2013
Operating costs % of total					
- Fuel	18%	19%	25%	31%	31%
- Employee & Crew	18%	18%	18%	16%	15%
- Engineering	14%	15%	12%	9%	9%
- Handling	13%	12%	12%	12%	13%
- Passenger service	9%	9%	10%	10%	10%
- Selling	9%	9%	8%	6%	5%
- Lease and Depreciation	15%	14%	11%	11%	12%
- Other	4%	5%	4%	4%	3%
Operating Margin	8.9%	13.8%	9.0%	8.7%	7.5%
EBITDAR % of Revenues	22.5%	25.2%	19.0%	18.3%	18.0%
WC % of Revenue	7.7%	4.9%	0.9%	9.8%	11.2%
Net Debt/(equity)	(64%)	(79%)	(61%)	16%	98%
RoE	36.4%	44.5%	27.4%	23.2%	17.4%
RoIC	34.2%	58.4%	33.8%	21.8%	11.8%
Operating data	**2009**	**2010**	**2011**	**2012**	**2013**
Passengers (000)	2,201	2,568	3,057	3,245	3,675
% Growth	(4.3%)	16.7%	19.0%	6.1%	13.3%
- Domestic	1,439	1,713	1,959	1,986	2,118
- International	762	855	1,098	1,259	1,557
- of which Transit	-	10	57	88	185
Cargo, mail & Excess Bag (tonnes)	14169	16392	19692	22076	23,810
Segments	26,253	27,787	32,221	34,634	38,692
Passengers per Segment	84	92	95	94	95
Flight Hours	66,512	69,294	79,006	84,501	96,344
Avg. Sector length (km)	2,056	1,979	1,907	1,972	2,027
Fleet (avg. number of aircraft)	21.0	21.8	23.6	25.3	26.6
Fleet average age (years)	10.1	11.4	11.2	8.2	6.4
ASK (000)	7,158,022	7,456,531	8,507,991	9,467,058	11,395,698
% Growth	(3.6%)	4.2%	14.1%	11.3%	20.4%
- Domestic	2,656,227	2,786,304	3,086,211	3,279,190	3,548,688
- International	4,501,796	4,670,227	5,421,781	6,187,868	7,847,010
RPK (000)	4,525,238	5,081,698	5,828,398	6,397,846	7,452,866
% Growth	(5.6%)	12.3%	14.7%	9.8%	16.5%
- Domestic	1,768,948	2,076,130	2,302,900	2,333,928	2,519,159
- International	2,756,290	3,005,568	3,525,498	4,063,918	4,933,706
Load factor	63%	68%	69%	68%	65%
- Domestic	67%	75%	75%	71%	71%
- International	61%	64%	65%	66%	63%
RTK (000)	454,649	513,552	587,978	651,580	752,922
Revenue per Passenger (US$)	254	258	253	270	263
Net profit per passenger (US$)	22	30	20	19	14
ASK Yield (US ¢)	7.8	8.9	9.1	9.2	8.5
Operating costs per ASK (US ¢)	7.1	7.6	8.3	8.4	7.9
RPK Yield (US ¢)	12.4	13.0	13.3	13.7	13.0
Employees (average)	2907	3,032	3,358	3,750	4,069

OUR NETWORK

In 2013 we served 20 domestic and 43 international destinations, including two seasonal one. In addition, we have code-sharing agreements with Austrian Airlines, Asiana Airlines, Etihad Airways, KLM, GTK Rossiya Airlines and Turkish Airlines, as well as interline partnership agreements with more than 100 other carriers, allowing passergers to choose over almost 400 destinations worldwide.



OUR FLEET

We operate a modern fleet of **30** Western-made aircraft and plan to expand this to more than 37 by 2020. Air Astana has a proven track record of safety and expertise. We are IOSA registered airline and also belong to the IATA Fuel Quality Pool (IFQP), a group of airlines that actively share fuel inspection reports and workload at locations worldwide.

AIRBUS A319

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

Operates on short haul international and domestic routes

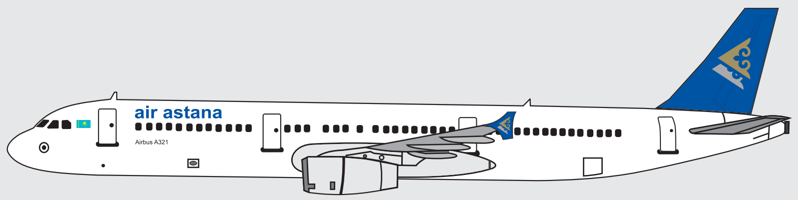
AIRBUS A320

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

Operates on short and medium haul international and domestic routes

AIRBUS A321

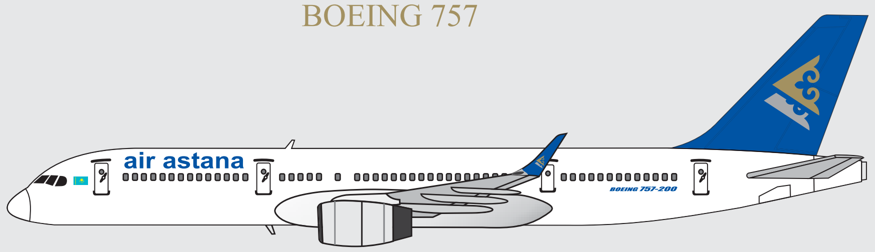
Quantity
4
Cruise speed
870 (km/h)
Max. take off weight
89,000 (kg)
Economy class
147/151 (seats)
Business class
28 (seats)
Range
5,950 (km)
Crew
2 (pilot)



Operates on short and medium haul international and domestic routes

BOEING 757

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



Operates on long haul international and domestic routes

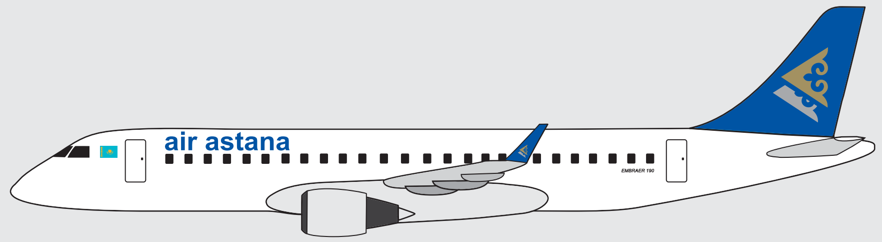
BOEING 767

Quantity
4
Cruise speed
850 (km/h)
Max. take off weight
184,612 (kg)
Economy class
190/193 (seats)
Business class
30 (seats)
Range
11,070 (km)
Crew
2 (pilot)

Operates on long haul international and domestic routes

EMBRAER 190

Quantity
8
Cruise speed
890 (km/h)
Max. take off weight
50,300 (kg)
Economy class
88 (seats)
Business class
9 (seats)
Range
4,500 (km)
Crew
2 (pilot)



Operates on short and medium haul international and domestic routes

LETTER FROM THE CHAIRMAN OF THE BOARD OF DIRECTORS

2013 was an important year for Air Astana, as we welcomed 7 new aircraft into the fleet, flew 12% more flights, grew our passenger volumes by 13%, and more than doubled our international transfer passengers.

We now have one of the youngest fleets in the CIS, with a fleet age that is only 40% of the average age for airlines in the CIS. This young fleet translates into efficiency, low fuel consumption, lower environmental impact, and higher reliability. Over the 2011–2014 period we will have welcomed 21 brand new aircraft in line with the Strategy 2010–2020 into the fleet, and are also looking forward to adding Boeing 787 from towards the end of the decade. At the end of 2013 we owned 10 of our aircraft, or about 34% of our fleet.

Safety is an absolute core value for us, and we work to have our company and employees certified by international standards with all the relevant authorities and organisations. We do not stop at certification, but ensure that safety becomes part of the DNA that guides every action of our employees. In 2013 we continued focusing on reducing the risk of incidents during landing by avoiding landing from unstable approaches, and were able to reduce the incidence well below industry average levels.

The EU ban on Kazakhstan airlines other than Air Astana also limited our ability to expand operations to the EU, as we had a cap on the number of flights we could operate. The remaining restrictions on Air Astana were removed on April 10 2014 by the European Air Safety Agency, based on the airline's safety performance and ability to adapt to changes with a safety system allowing for safe flight (see EU Journal 368/2014 par 45). The restrictions imposed on other carriers, due to ICAO's significant safety concerns related to safety oversight remain, and Air Astana continues to work closely with the Kazakhstan Civil Aviation Committee.

The ICAO produced a plan of action for Kazakhstan in October 2013, which lays out cooperation between ICAO, the CAC and the Government to address the concerns that emerged in the 2009 audit and provides a team of specialists from ICAO's Technical Cooperation Bureau.

The airline industry, while not a significant contributor to global warming, is at the centre of discussions and regulatory actions. The airline industry contributes about 2% of green-house gases. Through IATA, the sector's industry organisation, the airline sector has made a pledge to improve fuel efficiency by 1.5% per year until 2020, to have carbon neutral growth thereafter, and to have 2050 industry emission levels at 50% of 2005 levels. Much of this improvement will come through the new generations of aircraft and engines that are entering the industry's fleet, as well as technologies such as winglets. Air Astana, with a fleet that is only 6.4 years old, is contributing to this improvement, and is constantly looking for further improvements. High fuel prices do make the airline industry's interests aligned with environmental targets.

We delivered another good year of dividends to our shareholders in 2013, paying out 35% of 2012 earnings. The growth of our fleet and the increased ownership of aircraft are increasing our balance sheet commitments. In light of this, we will be looking to balance our wish to keep on providing shareholders with substantial cash returns, with prudent management of our balance sheet.

The first quarter of 2014 has brought a series of events that do add uncertainty to our business. In February the Kazakhstan tenge was devalued by the National Bank by 19% against the US dollar. We have reacted by reducing our capacity and are looking carefully at our cost structure, as we cannot assume that potential passengers are insensitive to price increases. Recent economic and political turmoil in the CIS are also adding uncertainty. The CIS has been a very good market for us in the past two years and a big source of our transfer passenger business. Our management team is prepared for events such as these, and has the Board's full support to take the required actions to protect the business and the shareholders' investment.

On behalf of the Board of Directors and the shareholders, I would like to thank the entire Air Astana team for their good work and progress in 2013.

Yours faithfully,

Nurzhan Baidauletov

LETTER FROM THE PRESIDENT

The headline numbers for 2013 offer a mixed review of the year's performance. Capacity growth of 20% exceeded revenue growth of 10%, and whilst unit cost was reduced to USC 7.9 per Available Seat Kilometre (more of that later), net margin slipped from 7% in 2012 to 5.3% in 2013, resulting in a reduction in net profit of 16% over 2012, to $ 51.4 million. The headline figure was affected by 3 unplanned engine events but is nonetheless the airline's 11^{th} straight year of profitability and 4^{th} highest since operations started in 2002. The fact that it was achieved at a time of transformational growth underlines the financial resilience of the company, since many of the actions taken in 2013 were firmly with the long term in mind.

The transformational growth to which I refer consisted on the one hand of a significant expansion of the network and capacity, and on the other of major changes to the fleet and the way in which we finance aircraft. Both of these are expected to position Air Astana as the clear leader in the region's aviation markets for the long term. I stress the word "markets", because whilst Kazakhstan is both our home and principal source of revenue, it is our "extended home market" strategy, to rapidly develop routes to major cities in neighbouring countries, which has continued to drive capacity growth. In 2013 therefore we opened new routes from both Almaty and Astana to Kiev and from Astana to Bishkek, and grew capacity on all of our existing regional routes. We also increased capacity to Hong Kong, Delhi, Bangkok and Ho Chi Minh City. Capacity development in this way is enabling us to increasingly shift to a network model using our Astana and Almaty hubs as transit points, rather than retaining the simple point to point model with which we initially developed the airline. This reorientation is borne out by the numbers. Point to point business grew by just 11% whilst transit business grew by 118%. Whilst the potential is clear, we need to be careful not to overgrow what the industry calls "6^{th} freedom" business, since its per kilometre yields are generally lower, however it makes sense to diversify market and currency risk away from a single market, now that we are a much larger business with a consequently higher fixed cost in aggregate if not in percentage terms. A key requirement for the continued development of 6^{th} freedom business will be larger hub airports with expanded and improved transit facilities. In this regard we welcomed the establishment of a government-owned Airports Management Group, with the participation of Zurich Airports AG, and its recent announcement of plans to double the size of Astana International Airport. Since at the time of writing Almaty Airport is yet to announce a clear growth and development strategy, it is inevitable that the bulk of our future growth will be at Astana.

As stated earlier, in 2013 there were considerable changes to the fleet. We introduced 3 Airbus 320 aircraft, two Embraer 190s and two of 3 Boeing 767-300ERs, all brand new and purchased by Air Astana through a combination of cash and export credit respectively from the European, Brazilian and US export credit agencies. The fact that we were able to obtain export credit at advantageous rates of interest with no government or shareholder financial guarantees demonstrates the strength of our balance sheet and depth of trust in the robustness of the business plan and our ability to implement it. Several older aircraft were retired including the last of our Fokker 50 turboprops. The F50 was not a glamorous aircraft but it did a very solid job for Air Astana for 10 years, flying smaller but essential routes to some very difficult airports. I would like to thank its operations and maintenance teams and am pleased to report that almost all of its dedicated staff members have been absorbed into the other fleets. At the end of 2013 the average fleet age was just over 7 years, one of the youngest in the industry.

We continued to invest in the delivery of high quality service to passengers. The KCTV personal entertainment system was extended across the entire fleet for flights longer than 3 hours, and plans were finalized for entire cabin refits in 2014 of the Boeing 757s. At the end of the year the "Shanyrak" business lounge was near completion for the use of Business Class passengers and Nomad Club gold card holders departing on international flights from Astana. In December we introduced the first new Boeing 767-300ER at a ceremony in Astana, and the aircraft has rightly been hailed for ushering in an entirely new level of service on long-haul flights. Fully flat beds in Business Class, higher capacity cabin storage lockers, stylish new designs throughout the aircraft, "mood" lighting, and a brand new personal entertainment system in both Business and Economy Class have been extremely well received by passengers and provide an excellent working environment for the crews. All of the above resulted in the Skytrax award of Best Airline Central Asia and India for the second year running, to which we added the award for Best Staff Service for the same region.

Our total commitment to air safety continues to be the primary management focus. Our pilots and engineers continue to receive both ab initio and recurrent training at top rated European and US training organizations, and we welcomed another 35 pilot cadets onto the line. We successfully completed our third IATA Operational Safety Audit (IOSA) renewal, and renewed our EASA (European) 145 maintenance license for the eleventh time. Our Safety Audit of Foreign Aircraft (SAFA) performance continued to demonstrate a consistently low level of findings, and at year's end we were hopeful of a review of the frequency restrictions imposed by the EU's Air Safety Committee, notwithstanding the fact that the Kazakhstan Civil Aviation Committee (CAC) continued to register the significant safety concerns recorded by ICAO during its audit of 2009.

Much time and energy was devoted to ensuring that Government was made fully aware of the opportunities and threats presented by the "Single Sky" policy proposed by the commission of the Eurasian Economic Council. Whilst Air Astana in broad terms fully supports the EEC and sees huge growth opportunities in civil aviation from the unified markets, we have stressed that other jurisdictions which have adopted a similar policy, most recently the EU in the mid-1990s, established pre-conditions in advance which successfully created a level playing field, notably in terms of equality of subsidy and government support for airlines. This was essential in preventing big government-supported airlines from knocking profit-oriented unsubsidized carriers out of the market and establishing large monopolies, and we firmly believe that the EEC needs to adopt the same approach. I am confident that our arguments are now being clearly understood, and I would like to thank our legal and commercial teams and their government interlocutors for enabling the debate to focus on this key issue.

As will have been understood from earlier remarks the Kazakhstan travel market was sluggish in 2013, growing at just 3.5% according to IATA. The fact that we were still able to record a profit margin well in excess of the industry average was the result of a drop in unit cost, for the third consecutive year, to USC 7.9 per Available Seat Kilometre. This is one of the lowest in the world for a full service airline and is lower than many established low cost carriers, and enables us to break even at a low seat occupancy rate of 61%. This is a huge competitive advantage, achieved by the ongoing work of the cost reduction committee to which I referred in this letter last year, to improve operational efficiency and lower overhead as a percentage of total cost. I stress that these have been achieved without any compromise of safety and service standards. When growth accelerates, as it certainly will, Air Astana will be very well positioned to take full advantage.

I would like to conclude as usual by thanking our customers, my 4100 colleagues, our shareholders Samruk-Kazyna and BAE Systems, and all of our other stakeholders for their consistent support in 2013.

Yours faithfully,

Peter Foster

WHAT MAKES AN AIRLINE

It has often been said that to become a millionaire you should start as a billionaire and then buy an airline. While the historic performance of the industry as a whole makes this idea close to the truth, Air Astana is one of the airlines that has been able to grow successfully and with superior financial results, all while operating in a difficult environment. We believe that the company that has been built up has the basis for long-term success.

The airline industry, as a whole, is capital intensive (aircraft), and with a high component of fuel and labour costs that cannot be adjusted to revenues – they can only be adjusted with capacity changes. In addition, we depend on a sector, the airports, that has very high fixed costs with little ability to adjust its costs base in the short and medium term. After fuel, airport charges are the highest component of our external cash costs.

Air Astana was created 12 years ago on a vision of bringing an international partner and expertise to create an airline that would be different from the average airline at the time in the CIS. A look at the company now can show the results of this effort, and put into perspective the challenges that the airline faces every day.

MARKET

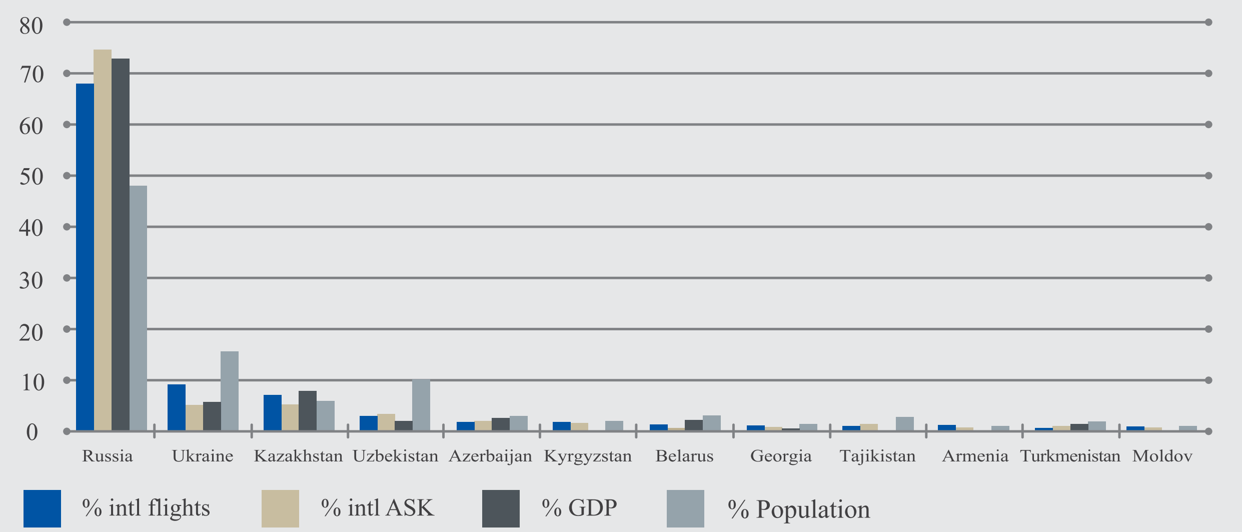
The aviation market is cyclical and dependent on the economy of the country and regions in which it operates. For example, the recent worldwide economic downturn that was the result of the financial crisis in 2008 led to a downturn of worldwide passenger levels in 2009 of 2.4%, a downturn of cargo volumes of 8.8%, and a revenue decline of 16.5% as airlines reduced prices to try to maintain volumes to cover fixed costs. And this came on the back of a difficult 2008, when fuel prices rose by 41%.

Air Astana faced the same challenges as the industry during that period. In 2008 we managed to remain profitable and saw 8% passenger growth, though it was hardly a stellar year in terms of financial results, and our passenger load factor declined by 4.2 percentage points to 64.6%. 2009 we then felt the effects of the crisis with passenger volumes declining by 4.3% and the load factor falling further to 63.2% our all-time low on this metric.

We also faced a 20% devaluation of the local currency. Fortunately, due to cost cutting efforts, network alignment and having fuel prices in Kazakhstan fixed in tenge, we were able to have significantly better results than the previous year. Perhaps, proving that cost components like fuel are far more important to our profitability than changes in volumes.

We are in a region (the CIS) that has seen growth of over 5% in domestic traffic (RPKs) and almost 13% of international traffic over the past five years. Going forward, there are industry forecasts of 4.5–5.9% traffic growth. Airline traffic is significantly correlated to GDP (and its growth) and population of the country. One reason that the CIS does not have traffic growth forecasts at the same level of some Asian economies is that the population is actually rather limited, and the population density is even lower. That said, forecasted growth is still above that of mature markets.

CIS COUNTRIES % OF REGION INTERNATIONAL FLIGHTS, ASK, GDP AND Pop (2013)

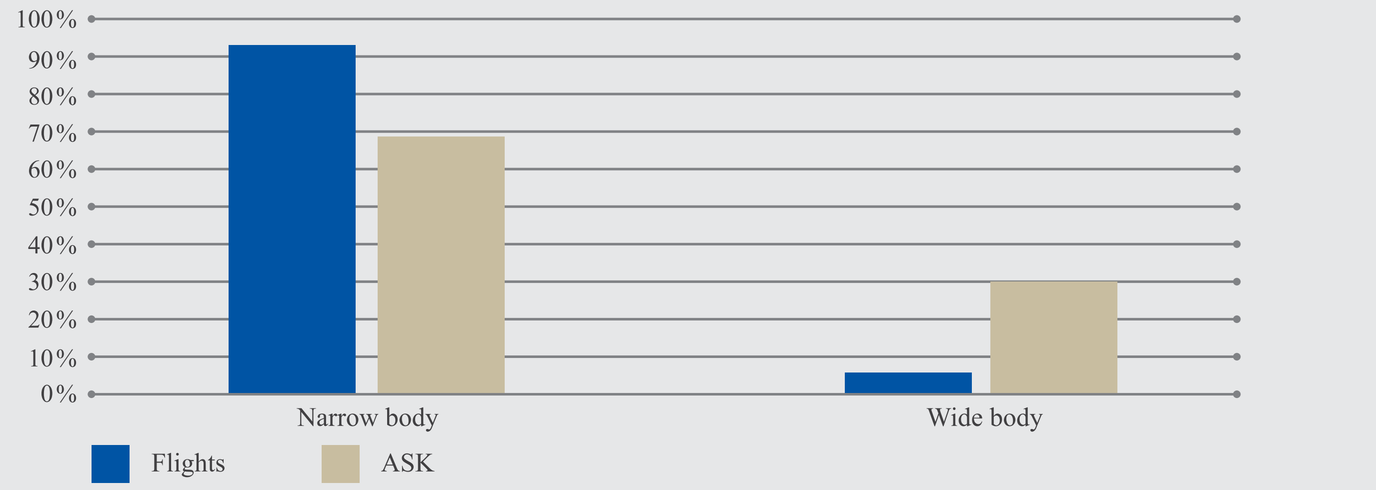


Source: Innovata, Flightglobal, IMF

FLEET

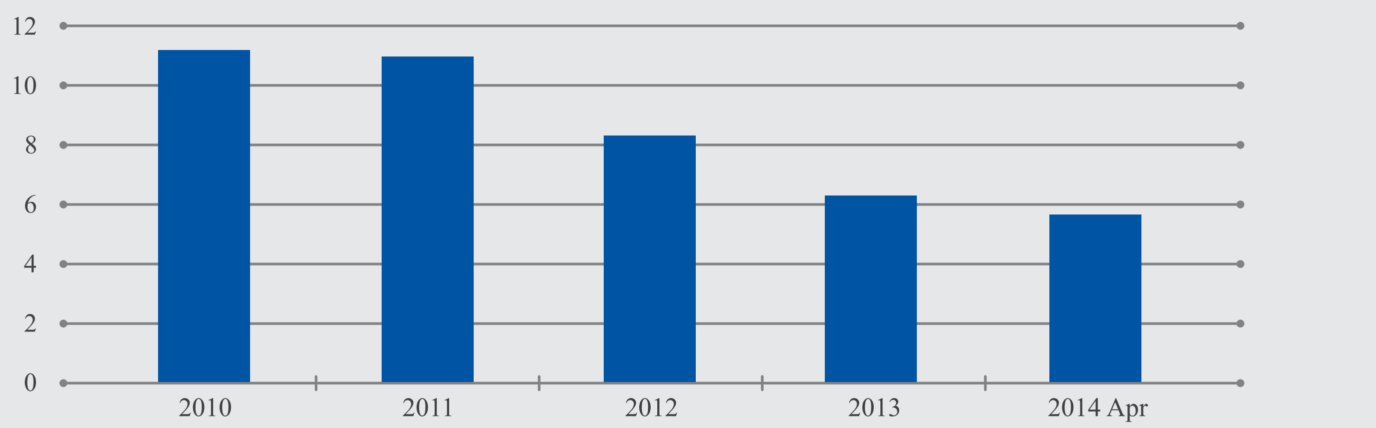
Today, Air Astana is an airline with a fleet of 30 jet aircraft, one of the youngest fleets in the industry. This fleet includes four different aircraft types. We cannot run with a low-cost airline model of a single aircraft type, as it does not suit our route network and passenger volumes. Our fleet gives us aircraft with capacity between 97 and 223 seats. In airline terminology, we have a lot of long skinny routes, so we need aircraft that can go long distances but are not large aircraft. To put it into perspective, domestic flights can be as long as 3.5 hours, or in other terms, during a flight to London from Almaty, about half of the journey is over Kazakhstan. All our routes are impacted by the low population density factor, dictating a need for aligning the capacity by aircraft type on each route to deliver profitability. We currently only operate seven long-haul aircraft, of which two are wide-body aircraft. This focus on narrow body aircraft is common in the CIS.

PERCENTAGE OF FLIGHTS AND ASK IN CIS FOR NARROW BODY AND WIDE BODY AIRCRAFT (2013)



Source: Innovata, Flightglobal

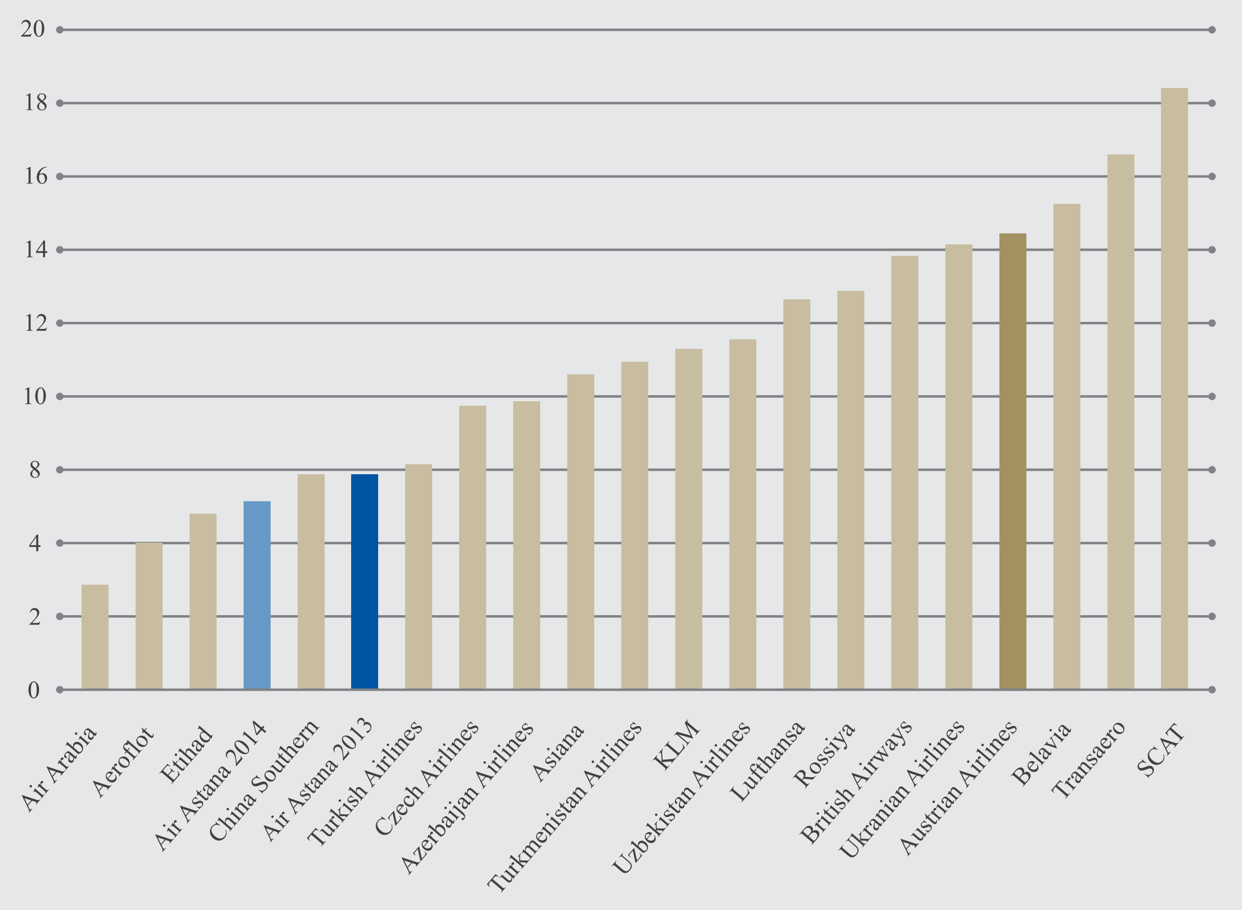
AIR ASTANA FLEET AGE EVOLUTION 2010–2014 Apr



Source: Air Astana

TECHNICAL CAPABILITY

2013 AIRLINE FLEET AGE COMPARISON



Source: Airfleet.com, Flightglobal, Air Astana

We currently have four basic aircraft types: Boeing 757, Boeing 767, Airbus 320 family (319, 320, 321), and Embraer 190. The Boeing 757 and 767 have a common flight deck, so in terms of flight crew we are training for three basic types of aircraft. We expect deliveries of Boeing 787 towards the end of the decade.

Our fleet is extremely young – the average age at the end of 2013 was 6.4 years, and it will fall to 5.6 years by the end of 2014. This fleet age is due to the fact that starting in 2011, when the fleet age was 11.2 years, there has been a significant fleet renewal, with 3 new aircraft in 2011, 6 in 2012, 7 in 2013, and 5 in 2014, for a total of 21 new aircraft in this period. As the charts above show, this compares very favourably with airlines globally and those that fly in the region. In particular, it compares well with the CIS average of 15.8 years.

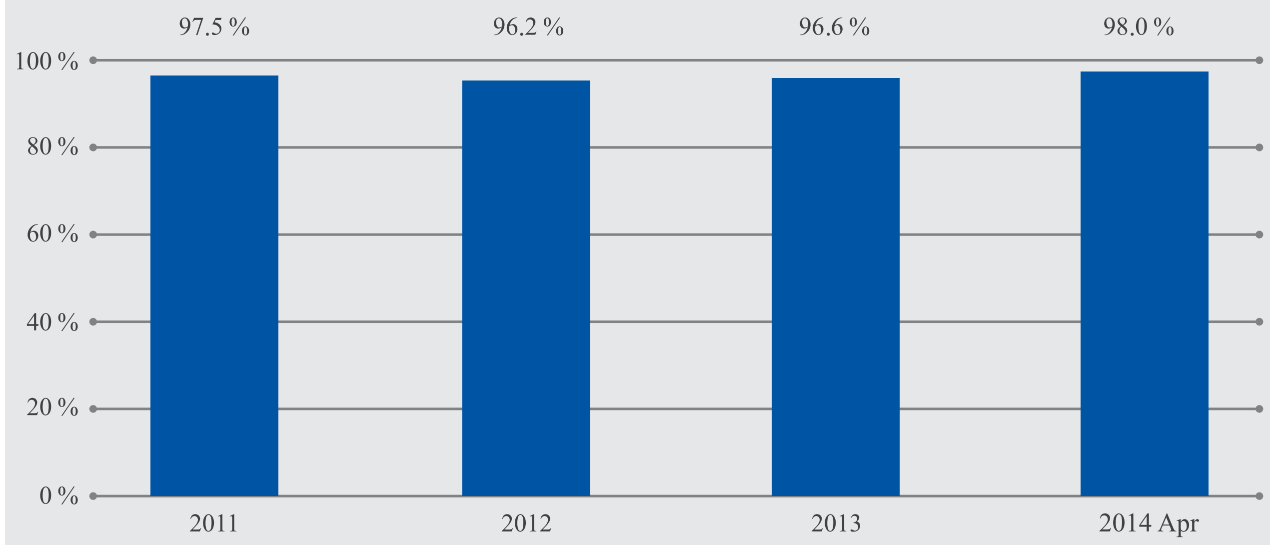
This young fleet translates into lower operating costs, lower environmental footprint, and greater passenger comfort.

With the new aircraft programme in line with the 10 year strategy until 2020, we have increased the proportion of aircraft we own, as historically we operated aircraft that were under operating leases. This change has allowed us to standardise a lot of equipment across the fleet, making maintenance of the varied fleet easier.

Operating in a country where our average flight segments is over 2,000 km, and where we fly to a number of remote destinations that have little infrastructure means that our engineering department has to think out of the box to ensure flight continuity and safety. We have arrangements to share spares with some airlines, we have spares of our own located at some of our destinations, and for some flights carry critical spares on board, all to ensure that if there is required maintenance, we have the spares on location. We have increased our workshop capabilities in Almaty, and are now building a new facility in Astana to enable us to also perform maintenance all year in well-equipped facilities. We are operating in a country where all airlines except for Air Astana are blacklisted by the EU due the ICAO 2009 determination of non-compliance of the local aviation authority (CAC). We have avoided being blacklisted, in part through our dedication to having all our pilots, maintenance engineers and maintenance facilities internationally certified (EASA part 145), and ensuring that our processes and standards are second to none. This capability also means that for international airlines that require maintenance on the ground in Kazakhstan, we are a trusted partner that provides this service.

With a fleet of 30 aircraft, operating almost 39 thousand segments per year, it is not unusual to have non-scheduled maintenance requirements, and on occasion to have maintenance that causes flight delays while it is being completed. This is apart from scheduled maintenance, which is an ever-present activity in our industry. As the chart below shows, in 2013 96.6% of our flights were released by Maintenance and Engineering for flights with no delay. This is a product of our young fleet and strong maintenance culture. There are strict rules about what must be fixed before a flight can depart, and what may be delayed if it does not compromise safety.

TECHNICAL DISPATCH RELIABILITY



Source: Air Astana, data for 2014 is through April 2014

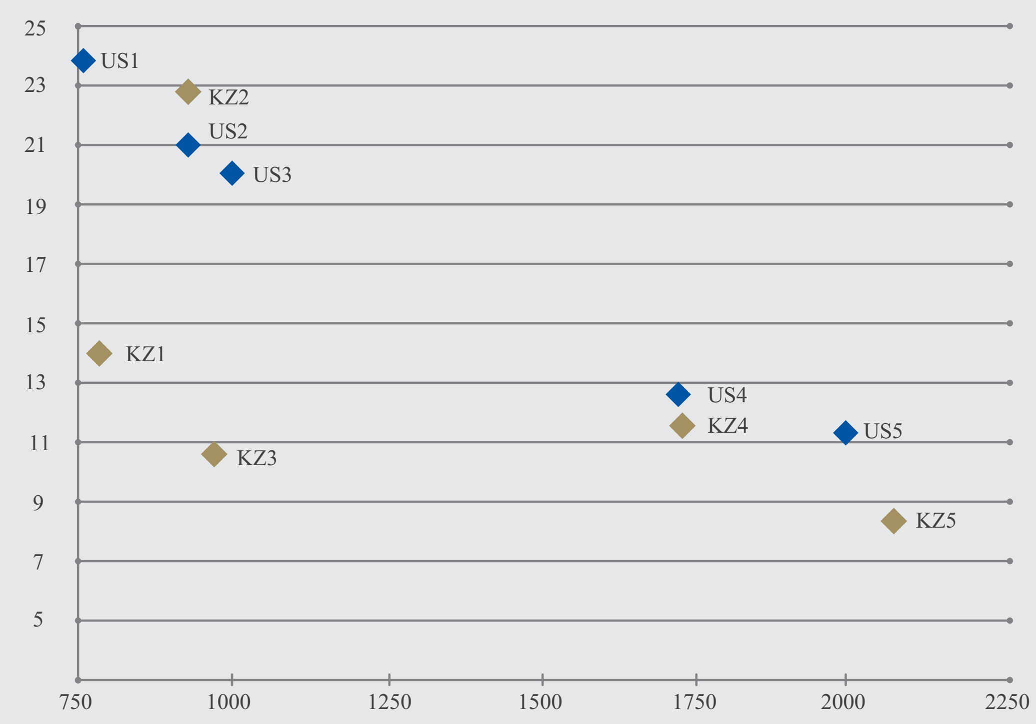
We do a lot of analysis into the cause of defects and any delay that they cause. Of course, not all defects cause delays. We have changed how we manage the logistics of spares. We are often flying to remote airports that do not have maintenance facilities or available spares. We have been sharing spares with other airlines, locating spares at some of the airports we serve, and for certain routes we are carrying on board some spares whose absence have caused significant delays in the past. While there is a cost to this practice (extra inventory and extra fuel cost from higher payloads), it is much cheaper than having an aircraft and possibly passengers stranded for a number of days.

PRODUCT & FARES

From the start, Air Astana has had a mission to offer a high quality product at a reasonable cost. On the quality side, our fleet, employee training, and approach to the client has delivered in terms of industry recognition (Skytrax awards, Best Airline in Central Asia and India for two consecutive years, and 4 star since 2011). Our fleet renewal has given us an opportunity to have high quality cabins and amenities in both business and economy classes. We have always focused on the service levels of our flight crews, and now we are putting the same focus on our ground staff and ground facilities, to ensure that the service is at the same high level from door-to-door. We do offer up to date mobility based facilities to our customers, including web check-in, smartphone apps for ticket purchase, check-in and information, and self-check-in kiosks. We are still constrained by local regulations from offering clients fully electronic boarding passes (for use with smartphones), though it is an issue we are addressing.

We are an airline delivering good value to our customers. On international routes there is competition that ensures that prices are fair, while domestically in addition to the competition we have price-controlled fares. Apart from government control of fares, our domestic fares stand up to scrutiny when compared to other markets. Compared to the USA, a market that also has large distances, and if anything is a more competitive market, we see that by segment length (comparing similar flight lengths) our pricing is cheaper than the US market, even before the devaluation. In fact, our busiest route, the Almaty-Astana route, has pricing in economy that is 49 % below the level of similar distance flights in the US market.

AIR ASTANA DOMESTIC AIRFARES COMPARED TO US AVERAGES FOR SIMILAR DISTANCES (USc/km)

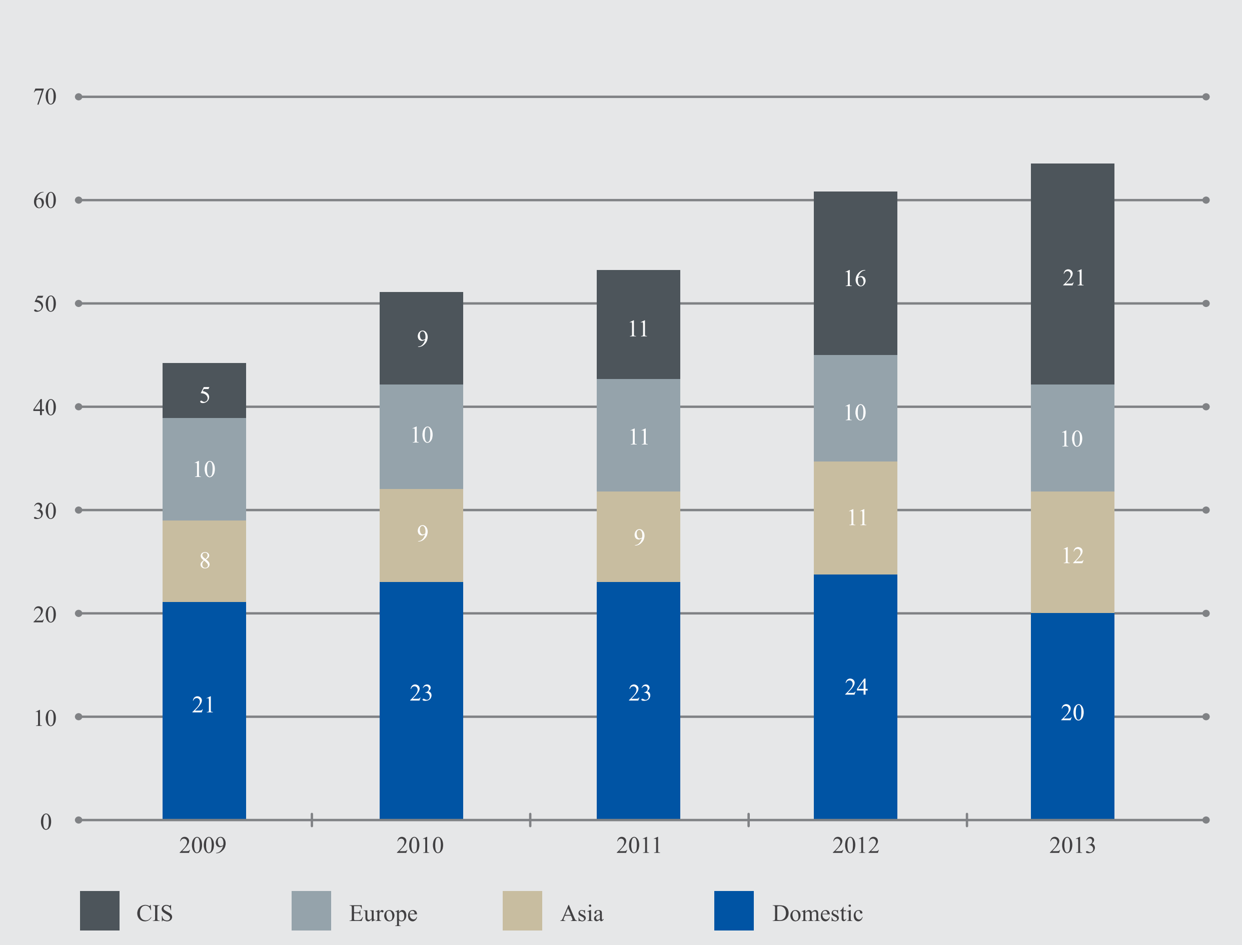


Source: Air Astana, US DOT

NETWORK

We operate in a resource based economy that is located midway between Europe and the Far East. This has given us an opportunity that is now yielding strong results: the network we built up to serve our domestic and international client base has now become a strong source of transfer passenger volumes, as a connection through Kazakhstan is often the most efficient way for many CIS based passengers to get to the Far East and to other CIS countries. International transfer passengers in 2013 grew by 110 % and accounted for 5 % of total passengers.

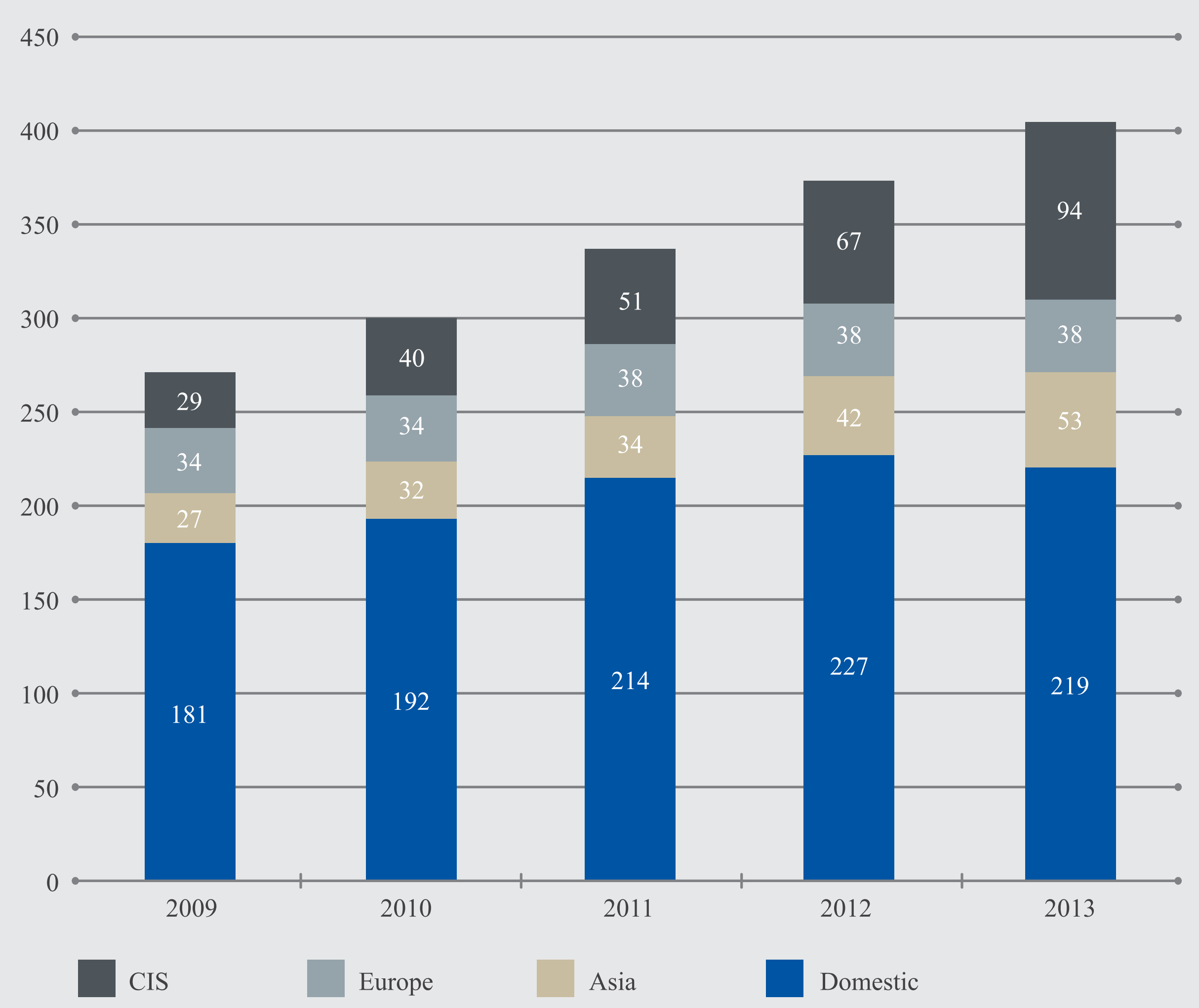
NUMBER OF ROUTES SERVED 2009–2013



Source: Air Astana

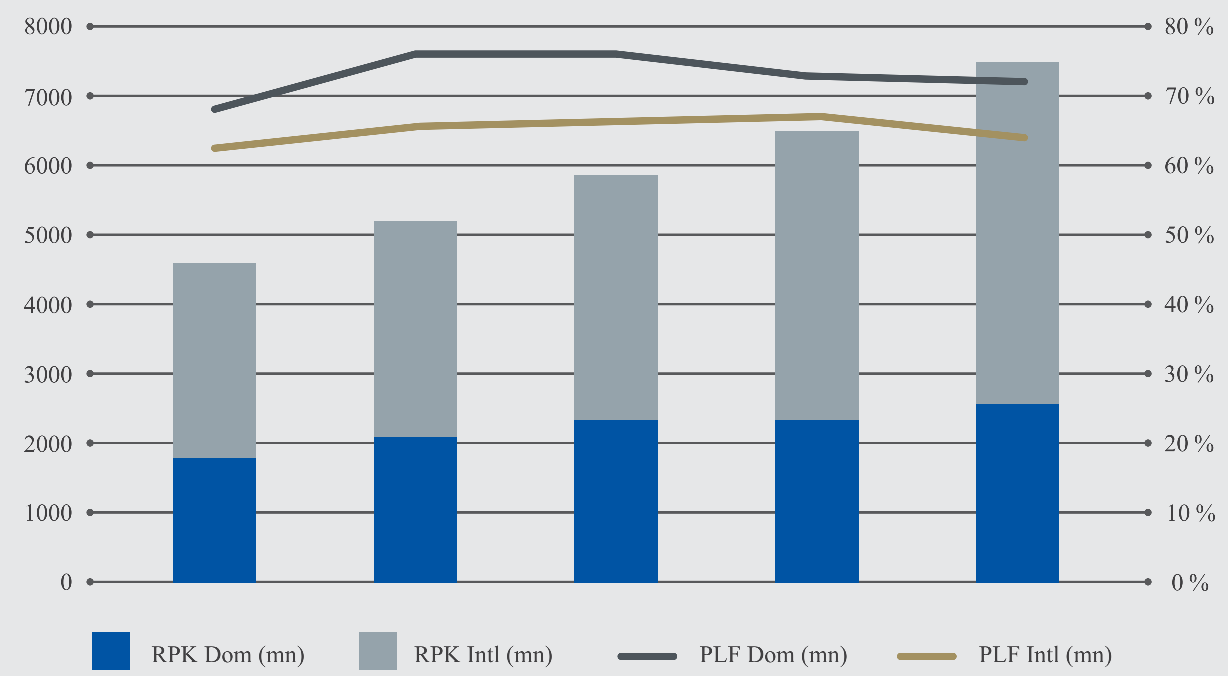
As of the end of 2013 we served 63 destinations with a total of 404 frequencies per week (round-trips, or 808 flights). This is a 43 % increase in destinations and a 49 % increase in frequencies since 2009. The highest growth has been to CIS and Asian destinations. European growth has been constrained by regulatory factors. In the domestic market our network has shrunk by 20 % during 2013, this due to the phase-out of our old fleet of 50-seat turboprop Fokker-50 aircraft that suited smaller destinations with airport infrastructure that is less suited to jet aircraft.

WEEKLY FREQUENCIES 2009–2013



Source: Air Astana

2009–2013 RPK AND PLF, DOMESTIC AND INTERNATIONAL

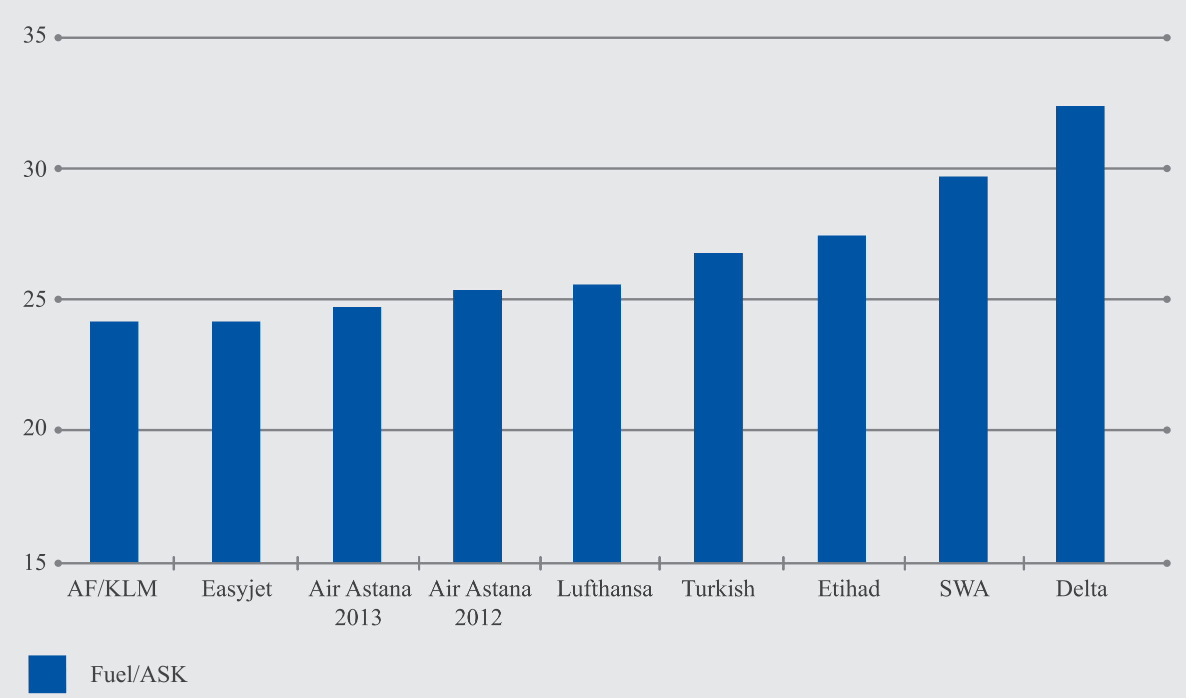


Source: Air Astana

The airline business sell a product with no shelf life, or a specific day one puts a certain amount of capacity on the market, ahead of time one can adjust pricing dynamically to fill the seats, but once the flight is in the air, the commodity is perished and you can never make up for the empty seats. Costs are either fixed (aircraft, overheads, etc.), variable based on load factor (passenger and cargo volumes), or variable based on service levels (number of flights and distance flown). Service level based variable costs are harder to adjust and represent about 70 % of variable costs.

Air Astana with revenue of around 8.5 US cents per ASK (2013) is very comparable to its peer group. Because Air Astana has lower load factors (PLF) than its peers revenue per RPK is above the peer group average. The industry in 2013 had load factor of 79.5 % worldwide, with slightly higher load factor on domestic flights (79.9 %). There are low cost airlines with load factors closer to 89 %. Air Astana has consistently had a load factor in the 63–69 % level, and it was 65 % in 2013. In 2013 the domestic load factor was 71 % and the international load factor was 63 %. Our load factor has been at levels at which other peers would be losing money, but we have been able to deliver operating margins in the 7–13 % range in the past 5 years, against the industry average of -0.2–5.0 % during the same time period. We have a low break-even point due to our efficient cost structure, which comes from fuel efficient aircraft and lean labour costs and a successful revenue management. This low break-even point can be seen by comparing our ASK yield to our operating cost per ASK, which was 7.9 US cents in 2013. Essentially, based on our current RPK yield, we cover our operating costs at 61 % PLF.

FUEL EFFICIENCY OF AIR ASTANA AND PEERS (g/ASK)



Source: Air Astana, Company reports and presentations

2014, with the recent devaluation could change some of these metrics for us. Revenue per RPK could decline, as domestic air fares are regulated and have not been revised after the devaluation (circa 40% of revenues), and we have increased tenge based prices by less than the devaluation for a number of international destinations, as we do not want to reduce the affordability of air travel for our passengers who are principally based in Kazakhstan. Our cost structure is predominantly dollar based, so margins may be under pressure this year.

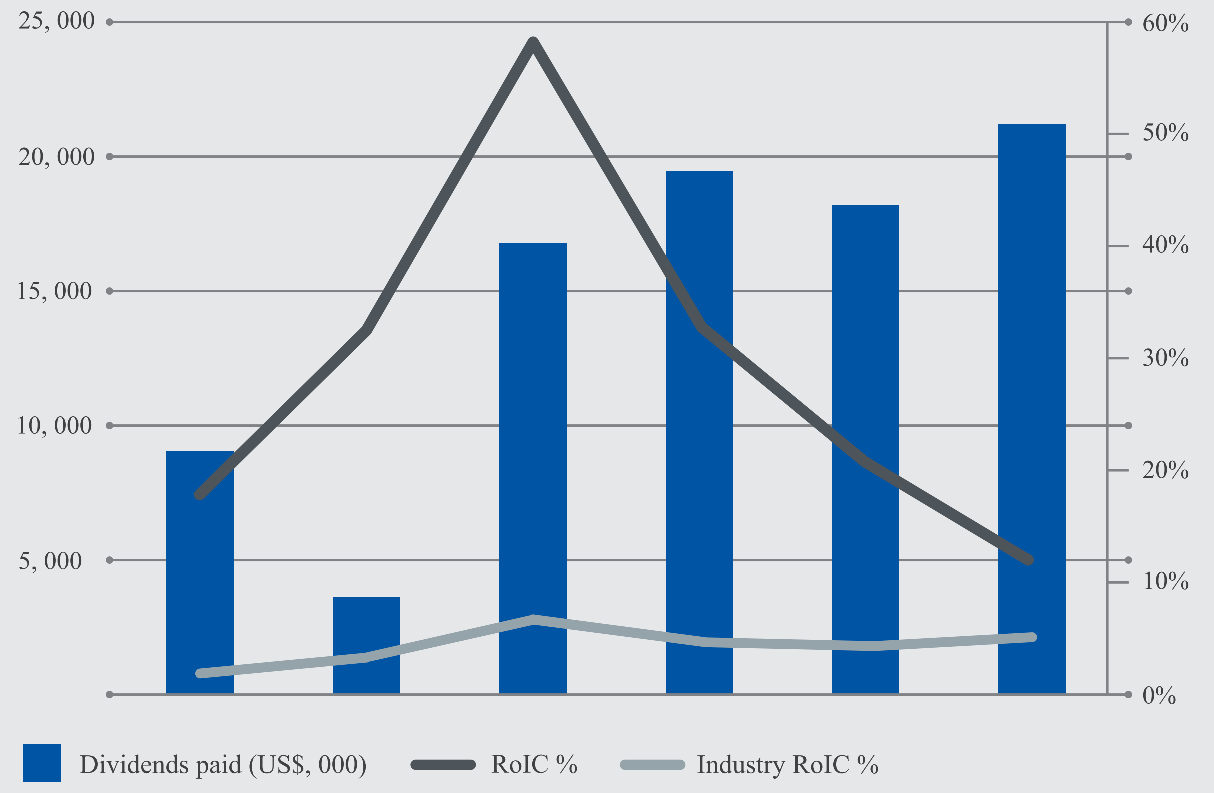
To cope with the impact of the devaluation, we have been reducing our variable costs through capacity reductions. We cannot adjust our fleet size, but can reduce how much it flies. We are also looking to charter out some of this spare capacity. Reducing flights helps us save on a significant portion of our cost structure, as we eliminate about 60% of the related costs of flying.

In essence, we have been a cost-efficient airline through the years, but the current environment created by the devaluation is compelling us to address one opportunity: our low load factors. It is important because as load factors increase, incremental revenues rise three times faster than incremental costs, at constant pricing. In essence, we have to manage our pricing and load factor together, to ensure that actions we make lead to higher revenues. The rapid increase of transit traffic (15 times over 3 years) is expected to become a stronger factor in the growth of international traffic revenues.

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

Our efficiency has led to superior financial results. After an initial capital infusion by our shareholders of US$ 17 mn, we have since then returned US$ 96 mn to them in dividends, and have total equity of US$ 307 mn. If we look at the efficiency in terms of Returns on Invested Capital (RoIC, see definition in the What Does it Mean? section), we have excelled by any standard, but particularly compared to our airline peer group. Air Astana, in part due to its historical reliance on aircraft under Operating Leases, has had a RoIC averaging 29.7% since 2008. This compares to an industry that has had an average after tax RoIC of 3.7% during the same period, and that has not earned its cost of capital. Air Astana's after tax RoIC is still far superior at 22.9% over the same period. With the entry into the fleet of owned aircraft starting in 2011, RoIC in the future will tend to be lower than historical levels. The Government of Kazakhstan, through its ownership of our majority shareholder, has also had the benefit of tax revenues from a growing and profitable enterprise, US$ 316 mn since we started to operate in 2002.

2008–2013 DIVIDENDS (US$ 000) AND RoIC (%)



Source: Air Astana, IATA

WHAT'S OUR HEADING?

OUR MISSION

Air Astana was founded in 2001 and operated its maiden flight in May 2002. Our mission is to provide profitable domestic and international air services to the highest standards of air safety and customer service, to serve and complement the needs of Kazakhstan. We are also committed to being a leader in terms of transparency and promoting international best practices in corporate governance.

OUR GOALS AND VALUES

- To achieve the highest international standards of operational safety
- To be the leading airline in our region in terms of service delivery and operational reliability
- To profitably develop our fleet, route network, product and business processes while taking into account the interests of the Company and our clients
- To always demonstrate the highest standards of integrity and business ethics in our dealings with business partners, customers and colleagues
- To recruit, appraise, reward and promote staff based on merit, professional qualifications, individual achievement and collective contribution to the Air Astana team
- To provide all members of our team with a sustained programme of training and development to enable them to achieve their full potential and our airline to fulfil its mission
- To strive to be one of Kazakhstan's most respected companies by fulfilling our mission and contributing to the nation's social and cultural development and preserving its environment

OUR STRATEGY

- The Strategy of Air Astana for 2011–20 was approved by the Shareholders in January 2011, and the Company continues to implement it.
- We 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 new 767 – and plans to introduce the Boeing 787 Dreamliner. These aircraft will represent the most modern fleet in the region.
- We forecast total passenger traffic to grow to over 5.8 million passengers in 2020, 6.7% annual growth from current levels.
- Air Astana has become the benchmark airline in the region, with a cutting-edge distribution and revenue management systems, web site, and corporate application and management information systems.
- We will develop a heavy maintenance engineering capability with extensive workshop facilities. This will enable us to carry out major aircraft maintenance in-house, provide a base for a centre of excellence in the region, and allow us to maintain similar types of aircraft for other airlines.
- The Ab-Initio pilot training programme will create 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 the workforce generally as being a first-class employer that applies modern international-standard management principles. An ongoing training programme will continue the development and education of its workforce.
- Air Astana is recognised as having a corporate governance structure that meets international best practices.
- The airline has an excellent corporate safety structure and record, and it will continue to develop this in all areas of operations.

air astana

KEY 2013 STRATEGIC ACHIEVEMENTS

MAINTAINED THE EU FLIGHT BAN EXEMPTION

Air Astana remains exempt from the EU's flight ban on Kazakhstan carriers operating on its territory. We remain in dialogue with the Kazakhstan authorities to address the shortcomings in the civil aviation system and facilitate the steps needed to address areas of non-compliance identified by the International Civil Aviation Organization. In April 2014 we received the good news that EASA, the EU aviation regulator, was lifting the restriction on the frequencies that Air Astana can operate into EU destinations. This is truly validation of our constant efforts to date in this area.

RENEWAL OF IATA OPERATIONAL SAFETY AND AUDIT PROGRAM (IOSA) ACCREDITATION

Air Astana was audited by ICF SH&E for its 4^{th} IOSA audit during the month of April 2013. There were no significant findings and Air Astana was recertified through September 2015.

E-IOSA

We are improving in-house expertise in order to facilitate continued safety compliance through participation in the latest industry best practices. Four members of staff commenced IOSA auditor training in 2012. Currently, two staff members have qualified as IOSA auditors, and the remaining two are completing their on the job training.

CONTINUED FLEET UPGRADE AND EXPANSION

The expansion of our aircraft fleet remains a key component in our strategy. In 2013, we took delivery of three Airbus 320s, two Boeing 767s and two Embraer E190. We are also working on upgrading the cabins of our existing long haul aircraft, and the team was preparing for this in 2013.

OBTAINED AIRCRAFT FINANCING FOR NEW PURCHASES

In 2013 Air Astana took delivery of six new aircraft directly from manufacturers under purchase agreements guaranteed by export credit agencies in the country of manufacture. We obtained financing backed by the Export Credit Agency (EU), the Export-Import Bank (US) and BNDES (Brazil).

FURTHER NETWORK EXPANSION

In 2013, we added six new routes, and increased our weekly frequencies by 8% to 404 weekly frequencies (round-trips, or 808 flights) to our destinations. Our international destinations frequencies grew by more than the total growth, as we had to reduce our domestic destinations by four (and the related frequencies) due to our switch to an all jet fleet in 2013 and the safety concerns for jet flights at two domestic airports. In terms of total capacity, we added 8% to domestic ASK and 27% to International ASK.

DEVELOP OUR MAINTENANCE BASE

Our Engineering and Maintenance department added some key new capabilities in 2013 that give us greater flexibility and lower costs for maintenance operations. We acquired the land for a new Engineering facility in Astana, to add to our Almaty based workshops. We worked on preparing for this new facility, and expect to open the first phase, of a three phase project, in 2015.

MAINTAIN AND IMPROVE SERVICE QUALITY

In 2013, Skytrax awarded us its prestigious 4-Star service rating and named us "Best Airline in Central Asia and India". We have been a 4-Star rated airline since 2011, one of 35 airlines in the world with this rating. 2013 was the second year in a row that we won the "Best Airline in Central Asia and India" award. In 2013 we have been working with ground service and cabin crew to ensure that we give passengers seamless service throughout their trip. The new aircraft that joined the fleet are improving comfort and entertainment facilities on our flights. We have also been working on the menus for our onboard meals and snacks.

KEY TASKS FOR 2014

MANAGING UNCERTAINTY CREATED BY DEVALUATION AND UKRAINIAN TROUBLES

The February devaluation of the tenge by 19% against the dollar presents some challenges for our company. We have significant exposure to US dollar denominated costs, and we do not have complete flexibility on revenues, as domestic fares are price-controlled and we have to manage travel affordability issues for passengers post devaluation. Management has already implemented measures to manage capacity, fares, revenues and costs. There will be a financial impact from this devaluation, but our challenge is to come through the year with sound financial capability and with a network that can continue to provide growth and good results in the future. The Ukrainian troubles add a layer to the issues created by the devaluation, especially as it has been a very good source of transfer passengers over the past year. We will need to be vigilant on any potential impact on our flights to the Ukraine and to other CIS destinations.

MAINTAINED THE EU FLIGHT BAN EXEMPTION

The EU ban on Kazakhstan airlines other than Air Astana also limited our ability to expand operations to the EU. These restrictions were removed on April 10 2014 by the Air Safety Committee based on the airline's safety performance and ability to adapt to changes with a safety system allowing for safe flight (see EU Journal 368/2014 par 45). The ICAO significant safety concerns related to safety oversight that led to the restrictions imposed on other carriers however remains and the airline continues to work closely with the Kazakhstan Civil Aviation Committee including seconding specialists.

ICAO produced a plan of action for Kazakhstan in October 2013, which lays out cooperation between ICAO, the CAC and the Government to address the concerns that emerged in the 2009 audit by providing a team of specialists from ICAO's Technical Cooperation Bureau.

CONTINUED FLEET UPGRADE AND EXPANSION

2014 is the last year with significant arrival of new aircraft, before the Boeing 787 arrive towards the end of the decade. We are expecting four new aircraft to join the fleet in 2014, and we will be returning four aircraft to their owners. In addition, we are working on the retrofit of the cabins for our older Boeing 757, and well as mood lighting for our Boeing 767 aircraft.

DEVELOP OUR MAINTENANCE BASE

We plan to open the first phase of our new Astana Maintenance facility in 2015. To achieve this we need to keep the project on schedule during the current year. The first phase includes a hangar, which is very important for winter-time maintenance in Astana.

MAINTAIN AND IMPROVE SERVICE QUALITY

Our reputation for good service and our high Skytrax (4-Star) rating are key for the Air Astana brand. We continue to work with all our client facing teams to ensure that they understand customer needs and deliver consistent good service to all our passengers. The new aircraft that have been entering the fleet make it easier to deliver a good client experience, and we are working on all aspects of the customer experience to ensure that customer perception continues to improve. The Air Astana business (and Nomad Gold members) lounge in Astana was opened in 2014, named Shanyrak, which should give a boost to the travel experience of our Astana based premium passengers.

A REPORT FROM OUR MANAGERS

PLANNING AND COMMERCIAL

ALMA ALIGUZHINOVA

Senior Vice President Planning and Commercial

The airline's 10-year strategy through 2020 was developed and approved by the shareholders in 2011 based on three economic scenarios – high, medium and low growth. The core directions of the strategy are to enhance our position as the regional leader in Central Asia and CIS by aiming for excellence in safety and service, network development with the focus on short and medium range markets as well as niche long haul routes, sound investment and fleet decisions, investing in technology, maintenance capabilities and development of human capital. The transparent corporate governance structure, based on the best international practices, is the foundation of our strategic decisions and daily activities.

In line with the strategy, the five year business planning cycle is run on an annual basis to give our stakeholders clear and up to date view on the level of planned activities, financial projections and capital investments. Prior to the devaluation of Tenge in early 2014, the airline had been growing in line with the high growth strategy at an average annual rate of passenger growth of 13 % for the past three years. As with the last devaluation in 2009, we expect the market growth to slow down in 2014 and are implementing number of measures to mitigate the effect on the airline, including reduction of the planned near term network and capacity growth.

Alongside with the Strategy and Business Planning activities the key functions of the Strategic and Commercial Planning Department include Fleet Planning and Aircraft Portfolio Management, Network and Schedule Panning, Revenue Management and Corporate Development. In 2013 we have seen the results of several years of work by the airline in implementing some of the key strategic decisions made by the shareholders with regards to the aircraft acquisition and financing.

FLEET PORTFOLIO

Out of 30 aircraft in the fleet, 21 have been delivered between April 2011 and July 2014, brand new and straight from the production line of the world's leading aircraft manufacturers. This includes the full replacement of aging F50 turboprop fleet with the modern Embraer E190 aircraft, delivery of A321/A320 aircraft ordered from Airbus and B767–300ER aircraft from Boeing. The new B767s have been configured with the improved cabin interior and seats in both business and economy sections. In addition to the modern business class seats fully reclinable to a sleeping position, our wide-bodied aircraft have now been equipped with the individual IFE in both business and economy cabins. Similar enhancements are planned during 2014 for the B757 fleet that also operates on our longer routes.

Aircraft additions have been achieved in conjunction with the carefully planned returns of some of the aircraft under expiring operating leases, which is a significant task managed by the Airline's Commercial Engineering.

In terms of aircraft financing, in line with our strategy providing for the mixed fleet of operating and finance leases, as the airline matures we have been placing orders direct with the aircraft manufacturers and have also continued taking some aircraft on operating leases. The aircraft orders have been financed under the export credit arrangements supported by the US, European and Brazilian export credit agencies.

NETWORK

With the growing network of 60 domestic and international routes we have seen 20 % growth of capacity measured in ASK in 2013 building on 11 % growth in the previous year and the 14 % growth in 2011. Air Astana continues servicing the demand for air transportation within Kazakhstan and internationally, with the passengers transiting through Kazakhstan recently growing at a triple-digit rate – although from a relatively low basis in the past. Favourably located in one of the most economically successful CIS countries bordering with Russia, China and at close proximity with other Central Asian and Caucasus states, our focus since 2011 has been on implementing the expanded home market strategy. Our strong position in the regions as the best airline in Central Asia and Indian subcontinent according to Skytrax allows the airline to expand naturally into the relatively underserved niche markets.

Since 2011 we have opened eight new international routes from Astana to Beijing, Tashkent, Baku, Saint Petersburg, Omsk, Kiev, Bishkek and London, six new routes from Almaty to Hong Kong, Ho Chi Minh, Kiev, Kazan, Samara and Tbilisi and from Aktau to Istanbul. The number of domestic frequencies has increased by 16 % since 2011.

The network highlights for 2013 include the launch of flights from Almaty to Vietnam (Ho Chi Minh) and from Astana to London, increasing frequencies to Bangkok and Delhi to daily services, opening of flights to Kiev from both Almaty and Astana and Bishkek from Astana as well as increasing frequencies to Urumqi, Saint Petersburg, Tashkent, Tbilisi and Hong Kong. The CIS remained the focus of expansion with the weekly services within the CIS growing 53 % from 65 to 92 per week.

REVENUE MANAGEMENT

With the implementation of PROS Revenue management system since 2009 the airline has adopted the structured approach to managing the revenue streams by using the scientific based, data driven forecasting model aiming at maximising the revenue and realising the additional revenue opportunities, such as cabin sizing, upgrades, fare mix and capacity optimisation. The Revenue Management team structured around the regions of operations – Europe, CIS, Far East, Middle East and Kazakhstan, analyses the large amounts of historical and current bookings information, the system generated forecasts of passenger demand and manages the seat allocation for each booking class to maximise the revenue.

CORPORATE DEVELOPMENT

The Corporate Development function provides the support to the Corporate Secretary in working with our Board of Directors and Shareholders on a regular basis and at the company-wide level to drive the compliance and continuous improvement of the corporate governance structure and processes in line with the best international practices. Our key values in terms of corporate governance are transparency, legality, ethical behaviour, and responsibility to our stakeholders, including our personnel, partners and society.

SAFETY

GERHARD COETZEE

SENIOR VICE PRESIDENT CORPORATE SAFETY AND QUALITY ASSURANCE

As an airline, the safety of our operations is a core value and our single overriding priority. We demonstrate this by adhering to the highest international standards and best practices supported by a Safety Management System (SMS) with structured and comprehensive processes of risk identification, analysis and mitigation.

Responsibility for aviation safety rests with Operations departments, from senior management to staff at the sharp end working safely under acceptable conditions. To allow them to work effectively and efficiently relies on the support of all Air Astana employees including an independent Corporate Safety and Quality Assurance Department (CSQA). The department monitors compliance and coordinates SMS implementation across the airline including promotion of an appropriate safety culture throughout.

Air Astana compliance with regulatory standards is monitored by Regulatory Authorities including Aruba DCA where our aircraft are registered, European Aviation Safety Agency (EASA) for line maintenance (EASA Part-145) and the Kazakhstan Civil Aviation Committee as country of operator.

Air Astana safety performance is also evaluated by IATA Operational Safety Audit (IOSA). IOSA is an internationally recognised and accepted evaluation system designed to assess the operational management and control systems of an airline. It evaluates all facets of operations, including: organisation and management, flight operations, flight dispatch and operations control, aircraft maintenance and engineering, cabin operations, ground handling, cargo handling and operational security. During the last (fourth) IOSA renewal audit in April 2013, Air Astana once again demonstrated compliance with global safety standards by successfully passing the audit without any findings or (adverse) observations related to SMS. Air Astana remains the only air carrier in Kazakhstan to maintain IOSA certification.

ICAO AUDIT AND IMPACT ON OPERATIONS

An International Civil Aviation Organisation (ICAO) audit of Kazakhstan safety oversight resulted in 2 significant safety concerns. One of the consequences of the adverse audit result was that the European Commission (EC) banned all Kazakhstan operators except Air Astana. The exemption is minuted in the EU Journal by the Air Safety Committee (ASC) as based on; oversight by the Department of Civil Aviation of Aruba (where our aircraft are registered) makes the one ICAO significant safety concern not relevant to the airline. Secondly the Air Astana's safety programme and performance offsets the ICAO second safety concern regarding oversight of operations.

The EU also monitors (safety) performance of all operators to/in the EU through the Safety Audit of Foreign Aircraft (SAFA) programme. Approximately 26 inspections a year is carried out, by specialists in the countries we fly to. The 2013 results of these inspections continue the positive trend set in previous year complimented by several authorities.

In 2013 Air Astana continued to assist the Kazakhstan regulator in the implementation of ICAO required safety enhancement initiatives such as a National Birds Strike Prevention program and Runway safety teams at major Kazakhstan airports, as well as assigning expertise regarding engineer licensing administration process.

In 2013 Air Astana participated in several meetings between the Kazakhstan Ministry of Transport and the EC Directorate of Transport. The airline, with agreement of the ASC, introduced a third weekly frequency to London and assigned new aircraft to the EU route network.

COMPLIANCE TO STANDARDS

Air Astana quality assurance process monitors safe operations of airworthy aircraft in compliance with Air Astana standards, as Kazakhstan Regulations complimented by International best practices. The internal audit plan for the year also evaluates compliance with all IOSA standards and recommended practices. To strengthen the airline's compliance and preparedness for continuous improvement the first of four staff members qualified as auditors in the highly respected IOSA programme in 2013. Being closely involved with IOSA will allow continued improvement in implementation of best practices and transition to Enhanced IOSA, assessed in 2013 as compliant within Air Astana that is expected to deliver a next level of risk minimisation.

The internal compliance-monitoring programmes are complimented by membership and active participation in IATA safety and quality audit programmes; Safety Audit for Ground Operations (ISAGO), Fuel (IFQP), water (IDQP) as well as De/Anti-Icing (DAQCP) quality pools.

The Air Astana ISAGO team (IATA Safety Audit for Ground Operations) conducted 11 audits in Europe, Turkey, Russia, Malaysia, Azerbaijan and Korea in 2013 and is looking forward to supporting Kazakhstan's intended adoption of ISAGO standards in 2015. Air Astana Fuel Quality auditors conducted 14 audits of fuel installations ranging as far as Seoul and included assisting with more challenging audits like Tashkent. We have taken an active lead in seeking improvements in fuel quality throughout Central Asia following the decision to stop fuel upload at an International airport.

With the move to an all jet aircraft fleet in 2012 we ceased flights to two domestic destinations (namely Semey and Uralsk) where the conditions of the runways were deemed unsafe for jet aircraft by our team (or contracted specialists). We work with domestic airports to promote infrastructure, equipment and safety related services that meet our standards. Many challenges remain and the airline, e.g., continues to advocate a scientific and analytical approach be it for the increase in ramp damage or habitat management solution to counter a large increase in bird strikes.

Compliance monitoring was extended by QA together with the Aviation Security department through development of a security monitoring process whereby station managers most familiar with security at a station assess security measures.

ACCIDENT PREVENTION PROGRAMME

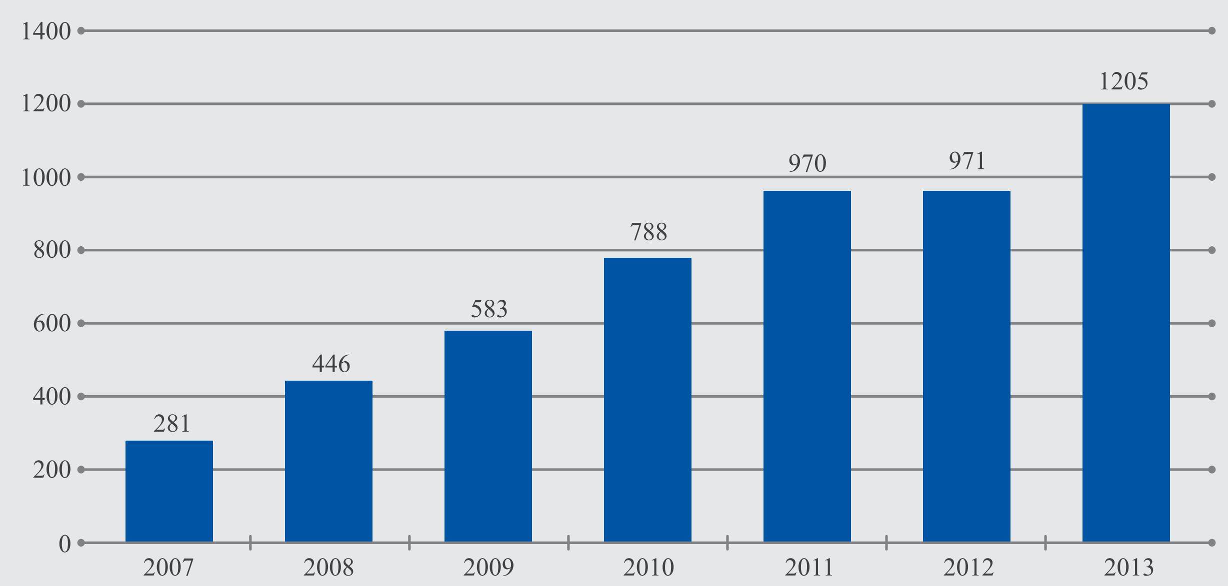
While compliance to (appropriate) standards is the foundation for any safe operation the airline accident prevention programme aims to detect and mitigate operational risks that can cause an accident. The Flight Data of more than 97% of all flights are monitored in order to identify, quantify, assess and address potential operational risks. The airline encourages a reporting culture as a vital part of its safety culture and it is pleasing that safety reports increased by 20% in 2013. The increase is mostly from Cabin as well as Ground Services. The airline conducted 23 and participated in another 13 ICAO Annex 13 incident prevention investigations. The four departmental safety action groups conducted monthly review of hazards, as did the Flight Data Review Group and Fatigue Risk meetings while the Aviation Safety

Review Board, chaired by the accountable manager and attended by operations department heads met 10 times to review operations safety risks.

The Safety Performance Indicators' (SPI) quarterly review is now an established process in all operations departments. Work continues to refine the indicators particularly levels of acceptable risk, accurate reporting of events, benchmarks to compare performance and more effective action plans to mitigate unacceptable risks. The appointment of the Safety Risk Manager, responsible for developing the SPI process, as chairman of the Flight Data workgroup of the Eastern Europe ICAO Runway Excursion Safety Team initiative will support Kazakhstan, regional and Air Astana safety.

The airline fully acknowledges that lessons learnt from accidents that befell others and research conducted by reputable agencies needs to be heeded. In this regard the airline increased its integration with the international community by contributing and utilising international safety databases like STEADES, GDDB and FDX. Furthermore staff delivered presentations at seven international safety seminars inside and outside Kazakhstan.

SAFETY REPORTS 2007–2013



SAFETY EDUCATION

Investment in training continuous as demonstrated by more than 25 staff members having been exposed to formal auditing, investigations or safety management training in 2013.

Corporate Safety and Quality Assurance Department continued to implement internal SMS education for all staff. In 2013 a specialized training for supervisors was introduced and line management staff from every operational department has participated. The educational programme focused on increasing awareness of SMS as practised in Air Astana, clarifying specific and common safety responsibilities, and promoting a positive safety culture among employees.

The airline is committed to safe operations by acknowledging that the dynamic aviation environment demands pro-active detection and mitigation of operations risks through managed collaboration and transparency that can only be achieved by fostering a safety culture appropriate for our environment.

ANTHONY REGAN

Senior Vice President Operations

Flight operations are responsible for safe, reliable and punctual flights. To do this we have to ensure that we have sufficient pilots, that are trained and certified to high international standards, supported by good technology, and that work as a team with our cabin crew to deliver Air Astana service.

2013 was busy and productive for flight operations. We appointed a new Director of Training, as well as the Director of the newly created Flight Operations Standards Department. This was part of a revision of the organisation to ensure we have the right structures in place to support our continued expansion and new aircraft deliveries to the end of the current decade.

We continued the developments in new technology, and are rolling out the EFB to our fleet over the current year. As part of the Electronic Flight Bag (EFB) effort, we continue to revise all our documentation, to ensure clarity in respect to operational policy, making it easier for front line personnel.

One major initiative that we are currently implementing is to reduce our fuel consumption per flight. Our target is to reach a 3.5–4.0% reduction. This is an achievable target that depends on managing the amount of fuel we carry, and other parameters such as cruising speed, altitude, flight plans, and flight paths on take-off and landing. This initiative is based on similar programmes at major international airlines. Jet fuel represented 31% of our operating expenses in 2013.

Over the past year we continued our focus on reducing the risk of incidents during landing by avoiding landing from unstable approaches. Our corporate Safety and Quality Assurance (CSQC) department analyses flight data for almost all our flights. Unstable approaches have been identified by international safety experts as the leading causes of accidents on landing. By increasing pilot awareness and monitoring performance, we have reduced unstable approaches from 3% of total to less than 0.5%. The current performance is impressive by international metrics as were able to reduce the incidence well below industry average levels. CSQC has also been assisting us in evaluating and managing crew fatigue and rest management.

TRAINING

A new director of Training joined us in September 2013 and he is focused on ensuring that our training structures are developed to support our growing airline.

By the middle of 2014 we will have moved to a fleet of 31 aircraft with additional Boeing, Airbus and Embraer aircraft joining the fleet.

In 2013 we trained 59 new pilots including 35 cadets from Kazakhstan and 18 Kazakhstan pilots recruited from other airlines. This involved initial cadet, simulator conversion and line training. We expect the ab-initio training to deliver 54 new pilots in 2014, and a further 20 in 2015. We are sending new cadets to be trained this year to be ready in 2016. Ensuring that we have qualified pilots to help us maintain our growth is fundamental, and ensuring that we increasingly rely on Kazakh pilots is key to our long term success.

Our ab-initio pilot training programme is a long-term project to create a pool of highly skilled pilots from Kazakhstan. The programme is designed to take candidates (with no flying experience) and train them to be pilots to the highest international standards. The training is provided by three schools, AeroSim, one of the world's leading aviation training centres, based in Miami (Florida), 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, but worthwhile investment in time and resources to create a new generation of highly skilled pilots who will drive the future growth of Kazakhstan aviation.

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

STANDARDS

During 2013 Air Astana implemented a Flight Standards Department. As the airline grows it is important to maintain the highest operational and training standards. A new director was appointed and is currently developing the Standards organisation.

EXTENDED OPERATIONS

In 2013 we brought Lufthansa Consulting in to review our readiness for ETOPS operations (Extended-range Twin-engine Operations or EDTO). This process concluded positively, and we intend to make an application for ETOPS approval during the first half of 2014. This will allow Air Astana to operate flights over extended ranges from its bases. The ETOPS certification has rigorous requirements. Air Astana's entire fleet is composed of twin engine aircraft, and ETOPS certification will improve regularity, reduce disruption and costs and enables us to extend our network further.

ELECTRONIC FLIGHT BAG

Weighing 18 kilogrammes or more, the traditional pilot's flight bag includes manuals, checklists, navigation charts and more. Apart from the extra weight, the production and timely full proof distribution of up to date paper documentation takes time, effort and resources. Digital technology reduces the weight and makes the management of operational documentation more efficient and thorough.

During 2013 work was completed finalising software specifications and hardware. Some of our aircraft are already fitted with hardware. We are starting to introduce the Electronic Flight Bag (EFB) in our Airbus, and expect introduction into the entire fleet by the end of 2014.

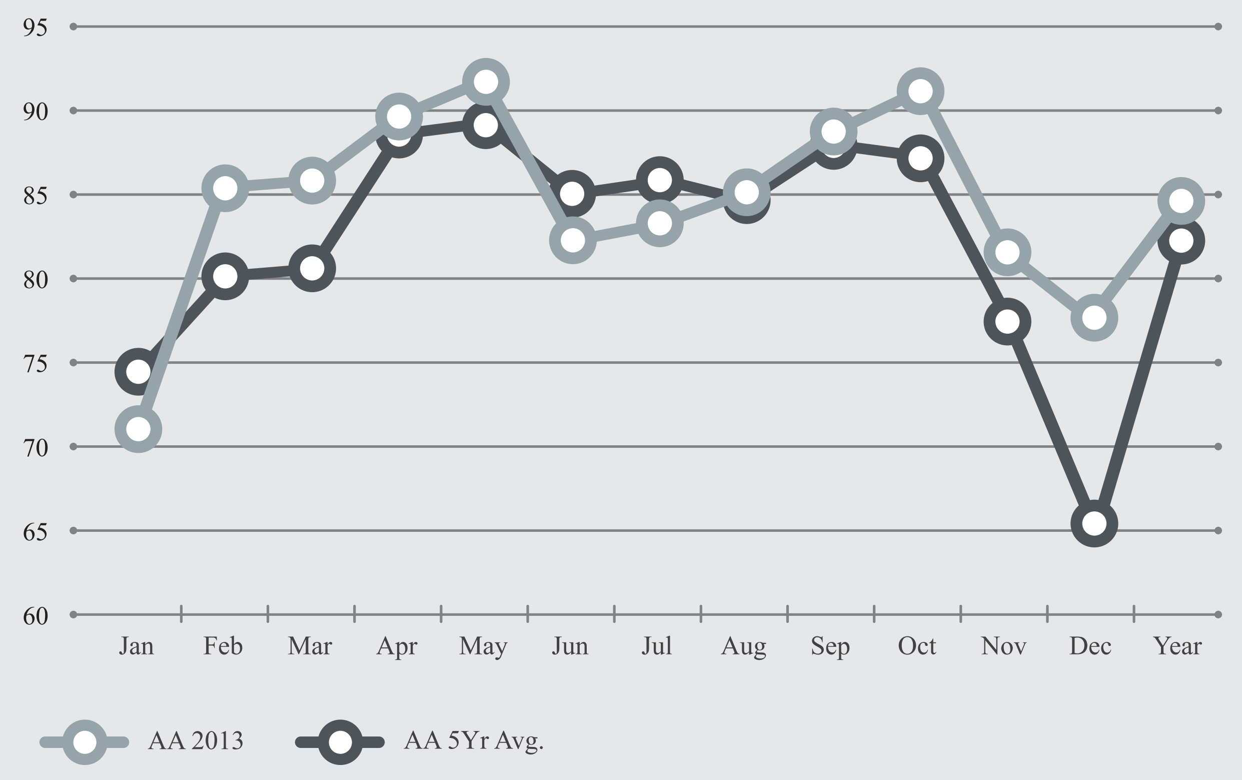
Once we start to introduce the EFB into the fleet, we need to receive operational approval from the Civil Aviation Committee. We are developing our process in line with EASA (European Aviation Safety Agency) standards and will make our applications based on these standards.

This innovation will place us at the forefront of operational support technology. The EFB project is an important part of our preparations for the introduction of the Boeing 787, a next-generation aircraft, later in the decade.

ON-TIME PERFORMANCE

In 2013, we continued our excellent on-time performance (OTP). As a benchmark, Air Astana uses European and US on-time performance standards, and our results compare very favourably with them, despite the harsh winter conditions for operations in the region. 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 how important this is for our customers. In 2013 our OTP rose by over two percentage points to 84.6%, with much improved winter-time performance.

AIR ASTANA MONTHLY AND FULL YEAR OTP FOR 2013 AND 5-YEAR AVERAGE



Source: Air Astana

ENGINEERING AND MAINTENANCE

JOHN WAINWRIGHT

Senior Vice President Engineering Group

The priority of Air Astana's Engineering and Maintenance Department is to ensure the highest standards of flight safety, as well as to optimise aircraft maintenance costs. We plan to be a leader in regional aviation engineering, by establishing an extensive maintenance, repair and operational facility in Astana to complement that already established in Almaty. To optimise efficiency and reduce costs we continue to develop independent engineering and technical services, increasing our maintenance capability and reducing the need for outsourcing.

We maintain our aircraft in accordance with the requirements of the European Aviation Safety Agency (EASA Part 145), the Aruba Department of Civil Aviation (state of registry) 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. In September 2013, Air Astana successfully renewed its IATA Operational Safety and Audit Program (IOSA) accreditation. After a detailed audit of all operational departments, Engineering and Maintenance passed the audit with zero findings or observations.

Engineering and Maintenance specialists worked closely with the Civil Aviation Committee to assist in establishing National Aviation Standards; in addition we assisted in establishing a process for the renewal of engineers' Maintenance Licences.

In 2013 we started a project to review and assess all our maintenance processes, to save costs and improve efficiency. As part of this, Lufthansa Consulting were engaged to assist with the specifics of Material Management and Logistics.

Our department continued with staff development by expanding our 'Working Towards a Common Goal' in house training project for managers. A three-day training seminar was held in February that all managers attended.

Aircraft maintenance in Astana has always presented problems, particularly in the winter, because we have no hangar facilities. We took a major step forward to resolving this in 2013, by acquiring land and initiating a project in three phases to establish a large maintenance and support facility at the airport. Our Project Management Department continues to coordinate this complex and extensive task, and Phase 1, the establishment of a hangar and support buildings is planned for completion in 2015.

MAINTENANCE ACTIVITIES IN 2013

Our maintenance activities included sixteen major maintenance checks at various third party Maintenance and Repair Organisations (MROs) in Europe, China and the Middle East. In Kazakhstan we accomplished five engine changes, three on the Airbus fleet and two on the Embraer fleet, a comprehensive inspection and modification of the fuel system on our Boeing 757 aircraft as a result of an Airworthiness Directive, as well as routine 'A' checks and defect rectification.

In addition to supporting our own fleet of aircraft, we also provided line maintenance for other international operators, including KLM, Turkish Airlines, Cargolux, UPS, Austrian Airlines, Air Arabia, Etihad and British Airways. We also supported local and regional airlines by providing workshop capability for batteries, wheels and other workshop services.

SUPPORT DEPARTMENTS

2013 was an extremely busy year for our Commercial Engineering Department, continuing from 2012, it accepted and delivered seven new aircraft, and returned five aircraft to their respective owners. In addition, it controlled and managed fitting the complete cabin interior and installation of winglets on two new Boeing 767s in certified MROs. This was in addition to routine work of managing lease contracts and providing technical expertise to the Planning and Commercial Department.

We established a new department, Engineering Finance, in 2013. We determined that Engineering and Maintenance required greater visibility of costs than was routinely available. A comprehensive restructuring of cost centres established greater visibility of managers' individual financial responsibilities and allowed for better departmental budget management. Other functions of Engineering Finance include warranty claims, cost analysis, invoicing and avoidance of late payment fees.

A dedicated Engineering IT Manager was appointed to work closely with Engineering Finance and Project Management. While still reporting to the IT Department, she works exclusively for Engineering and Maintenance supplying IT solutions for the Department. Automation of the renewal of engineers' licences and maintenance approvals, and establishing an automated tool control system are two projects completed in 2013.

Our Training Department provided mandatory and type specific training throughout the year and developed in house training for Human Factors awareness.

Air Astana is committed to supporting the training of aircraft engineers in Kazakhstan, as this serves to promote the highest safety standards and develop the domestic aviation industry.

Together with the Civil Aviation Academy of Kazakhstan, Air Astana developed intensive training courses to improve students' theoretical and practical expertise and ensure that their skills match our needs. After successfully completing all courses, suitable candidates have been used to fill available positions in our department.

In cooperation with the Civil Aviation Academy, Air Astana pursued a project to establish a European-standard training centre in Almaty. This will address the current shortage of qualified civil aviation staff in Kazakhstan.

Engineering and Maintenance also established a training programme to allow engineers to obtain EASA Part 66 aircraft maintenance licences by distance learning and attending seminars in Europe.

Our workshops continued to support our operation by increasing capability to include new equipment fitted to our aircraft, notably equipment associated with the introduction of new B767s into our fleet.

In 2013 Engineering and Maintenance established an oxygen charging station in the workshops. This new capability reduces the amount of safety equipment that requires shipment outside Kazakhstan, reducing costs and improving turnaround time.

Finally, a project to make our fleet of aircraft Extended Twin Operations (ETOPS) compliant was initiated. This will allow our aircraft to fly shorter routes and provide significant operational savings. Most of the work, including extensive training, implementation of procedures and aircraft compliance inspections, was completed in 2013 and the plan is for Air Astana to be ETOPS compliant by July 2014.

MARGARET PHELAN
Director In-Flight Service Delivery

Air Astana is renowned for the highest international standards of in-flight service. In 2012, based on passenger surveys, we became the first airline in Eastern Europe and the CIS to receive the coveted Skytrax 4-Star rating for passenger service, placing us among the world's leading airlines. In 2013 we maintained this rating. We see this rating as a challenge to achieve even more in 2014 and beyond, and to make our mark as a leading global airline in terms of passenger service.

COMFORT AND CONVENIENCE

2013 saw the arrival of seven new aircraft, and there are four more aircraft coming in 2014. These new aircraft have given us the opportunity to introduce full flat beds in business class for our long haul routes (on the Boeing 767), as well as personal in-flight entertainment screens in both business and economy classes. We are taking the opportunity to retrofit a number of our older aircraft, to ensure, where possible, that we have a consistent product across our fleet.

In-flight services is directly involved in the cabin design of new and retrofitted aircraft, and we are already working on the design for the Boeing 787 that will be introduced towards the end of the decade, as well as on the retrofit of our Boeing 757 cabins and Boeing 767 moodlighting.

In March 2014 we opened our first Air Astana business class lounge at Astana airport. This lounge includes a servery area with a number of meal choices per day, a fully stocked and manned bar, reading area, wifi access, and international TV channels. In Almaty we share a business lounge in the international departures zone and our business class passengers continue to be able to use our partner lounges in a number of our international airport destinations.

In 2012 we introduced iPad based entertainment systems to our business class passengers. In 2013 we improved the functionality of the system and implemented noise reducing headsets for improved comfort. The iPad systems now have a selection of books, as well as our in-flight magazine Tengri, numerous musical albums, classic and new release movies, documentaries and children's programmes.

At the end of 2013 we introduced new children gift kits that are age specific, featuring a backpack for 3–6 year olds filled with a junior passport, inflatable Air Astana airplane, puzzles and pilot & flight attendant finger puppets. The 7–11 year olds kit is an iPad case which includes an eye mask, airplane ear phones, chess set and stickers.

Mid 2014 will see the introduction of our new business class amenity kits for long and medium haul flights.

In 2013 our catering department started to revise both domestic and international menus. They introduced a canapés service in Business class and individual water bottles in economy class on our longer routes. In 2014 the menu revision is continuing for different international destinations. New business class menu cards were introduced in the first quarter of 2014, and we are also currently working on developing signature dishes with the head chef of a star hotel. New tableware for all cabin classes is planned for 2014 also.

SKYTRAX 4-STAR AWARD

Air Astana has once again achieved a Skytrax 4-Star rating, and was named as the Best Airline in Central Asia and India at the 2013 World Airline Awards ceremony at the 50th Paris Airshow in June. This rating is based on the "total" passenger experience in both Business and Economy classes. Both awards were previously given to Air Astana at the 2012 event in the UK, whereby Air Astana became the first carrier based in Russia, CIS and Eastern Europe to be awarded these prestigious awards. In 2013 Air Astana was also presented with the Best Staff Service in Central Asia and India as well. Out of a total of 190 rated airlines, we are one of 35 airlines worldwide with a 4-Star rating, and there are only seven airlines with the highest 5-Star rating.

We continue to focus on providing an improved experience for our passengers by focusing on the quality of our aircraft cabins, our catering and amenities, and most of all on the consistency and quality of service provided by our staff – on the ground and in the air.

CABIN CREW TRAINING AND DEVELOPMENT

We completed the implementation of our new on-board structure for the cabin crew in early 2013, as well as the necessary training for the new roles. The past and expected growth of the airline makes it essential that we provide well trained and motivated cabin crew at all times. The new structure has a clearly defined professional development track, in which high achievers can move into roles of taking care of our premiu.m passengers, and then on to management roles on-board in a particular cabin (pursers), and the aircraft as a whole (in flight supervisors). A lot of work is being done by our Cabin Crew Management and Training & Standards teams to ensure that we effectively develop and support our crews to enable them to deliver the highest and consistent standards that are expected by our passengers for safety and service and, which are being recognised by entities such as Skytrax.

Leadership forums were conducted by our performance team for Inflight Supervisors and Pursers in the latter part of 2013 and first quarter of 2014 in order to heighten the importance of good leadership on board, ensure they lead by example in terms of high levels of standards and have a full understanding of their roles.

Our first "Recognition Awards Ceremony" was held on December 6th 2013. Outstanding cabin crews were recognized for their achievements throughout 2013 during this glamorous and entertaining evening. It is our intention to hold this motivating ceremony on an annual basis from now on.

The Quality & Standards Department is a brand new area that has a separate focus on the quality & standard of monitoring and coaching our crew on-board and how we deliver our service and products. This division, which was launched in May 2013, is accountable for the development and improvement of our service plans, routines and standards as we continually change and develop our on-board facilities, products and catering.

GROUND SERVICES

PAOLO RICCIOTTI
Director Ground Services

The goal of the ground services team is to make our passengers' journey as comfortable as possible by ensuring a hassle-free airport experience. We perform this task in 60 different airports.

2013 was a year of change in Ground Services, with the appointment of a new Director in February. This was followed by a review of our mode of operations and of the level of span and control of the organisation.

The main focus of the year was on the throughput capacity increase of our airport in Kazakhstan. The lack of capacity, if not addressed, may hinder our future growth, our ability to offer a sustainable level of customer experience, and to develop our main hubs as the main transfer points in Central Asia. We initiated a series of cooperation initiatives with the relevant authorities to ensure that the required attention was dedicated to the Kazakhstan Airport capacity issue. In certain cases we have been able to assist in expanding capacity without significant effort or investment. The recent nationalisation of 11 airports in Kazakhstan under NC Kazakhstan Temir Zholy JSC, which until recently were under regional, local or private control, is expected to ensure that initiatives are implemented consistently and that priorities are set at the national level. This included the Astana airport.

To improve our performance during the winter months, we have focused on our de-icing service. We brought it in-house at our main hubs, and our IOSA certified teams are ensuring timely and cost efficient service.

PASSENGER EXPERIENCE

Our goal to provide a hassle-free airport experience for our passenger was the main driver of the activities of the year. The "Wing" project was launched to find new ways to supplement with our service style and capabilities, and to compensate for the infrastructural deficiencies of our main operation base. This project led to the development of a new organisational structure and to a revised service proposition and guidelines for our staff. Forward planning and anticipating customer's needs was at the centre of the new service proposition and all staff will undergo a revised training module in the course of 2014.

We continue to work with the Kazakhstan Immigration and Custom Authorities to facilitate our passenger processing and to provide an enhanced level of service while ensuring that the statutory checks are correctly performed. To this end, we started cooperation with different countries in providing Advanced Passenger Information in electronic form, prior to actual arrival of the passengers at destinations.

GROUND HANDLING

During the course of the year we introduced our new Departure Control System (ALTEA), and we were able to switch over all stations, realising one of the fastest and successful system implementations for the type. The new system will allow us to serve our customer more quickly and efficiently, and to keep track of the different passengers' preferences and requirements. With the new ALTEA platform, we will also be able to offer self-check-in kiosk position at airports, with Almaty Domestic departures and Astana being targeted for early 2014. This service will be in addition to the ongoing web check-in capability which is becoming ever more popular for our customers. Other initiatives, like the electronic boarding card, are being evaluated to enhance further our customer experience, though some aspects of these initiatives will require changes in regulations in Kazakhstan (current regulations require that each boarding pass be stamped by authorities prior to departure).

During the course of this year we continue our pursuit in securing the best partners for Ground Handing Services at different airports, for both passengers and cargo handling, by either reconfirming current providers or selecting new ones that can provide us the service quality and value proposition that we require.

We are introducing more marked branding of Air Astana presence at different airports, where conditions permit.

SALES AND MARKETING

IBRAHIM CANLIEL

Senior Vice President Marketing and Sales

The uncertain global economic situation is leading to continued muted growth for the sector. Worldwide, passenger (RPK) growth was 5.2%, and cargo demand grew by 1.8%, after contracting the previous year. In this context, Air Astana's traffic growth remained strong in 2013. The first half of the year was challenging, with stronger momentum in the second half of the year, particularly for passenger demand. Nevertheless, passenger turnover was up 10% and cargo turnover was up 12% from 2012. Domestic passenger growth was slow for the entire market during the first full year of liberalization of traffic rights on routes between cities in Kazakhstan. The relatively lower growth of 7% was also negatively impacted by the involuntary cessation of the Astana–Uralsk, Astana–Semey and Astana–Petropavlovsk routes due to poor runway conditions and other safety concerns at the end of 2012. International traffic growth was strong, with a growth of 24% over 2012 levels, particularly with a significant contribution from the strong growth of international transit traffic through the Almaty and Astana hubs. The number of transit passenger sectors grew by 110%, with increasing momentum in the second half of the year when the combined impact of the schedule changes and network expansion took full force. The share of transit passengers grew from 7% of international passengers in 2012 to 12% in 2013, reaching a high of 17% in the last quarter of the year. Offline sales continued to contribute to the traffic performance with a 33% growth, building solidly over the 22% growth in 2012.

DIRECT SALES

Air Astana provides its services across 18 offices in Kazakhstan as well as representations in the CIS and across Asia, Europe and the Middle East. The offices provide core services such as reservations and ticketing, information services, as well as ancillary activities such as sale of branded products and stopovers.

Air Astana introduced its transparent ticketing fee structure in 2012 on international routes in its home market and 2013 was the first full financial year of the new fee structure. This action, together with the increase of e-commerce sales, resulted in a substantial and permanent contribution to the profitability of the company.

In order to make the direct purchase of tickets from Air Astana more convenient for our customers, we have built on the alternative payment options working with banks and payment kiosk networks that combined provide close to 4,000 touch points to pay for Air Astana tickets. The sales via these alternative channels grew 250% compared to 2012.

We implemented a number of initiatives to automate a number of routine services provided by the Call Centre, which in return allow us to allocate more resources to sales oriented activities and to improvement of customer service levels. The implementation of the new SMS distribution software has given us the capability for an enhanced schedule change notification to customers with a more efficient and rapid process. The new call centre software has allowed for a more effective performance and resource management and has reduced the number of missed calls by 66%.

The online sales trend continued strongly in 2013, up 67%, on top of 58% growth in 2012. Services such as online check-in, Frequent Flyer Programme (FFP) ticket redemption and points correction, online flight status (particularly valuable to customers during the winter months), online consultancy (chat function) and the Customer Satisfaction Survey are some of the functions providing additional convenience to our customers and resulting in increased frequency of visits to www.airastana.com. The internet booking engine was enhanced in order to increase sales functionality, car rental and hotel booking tools were introduced, both contributing to the ancillary revenues of the website. The search engine optimization (SOE) is a continuous process that aims for higher relevance of Air Astana's website, resulting in higher ranking when customers search relevant services through search engines. In 2013, the number of visits to our website during weekdays was in excess of 24,000, 60% higher than other leading e-commerce websites in Kazakhstan. The value of sales through airastana.com accounts for 36% of Kazakhstan's total domestic e-commerce revenues. The launch of the second generation Apple iOS and Android Apps at the end of the year with enhanced functionality including ticket purchase was welcomed by customers, contributing to the growing habit of using the website for both service and sales.

AIRLINE PARTNERSHIPS

Air Astana started the year with codeshare agreements in place with Asiana Airlines, Austrian Airlines, Etihad, KLM and GTK Rossiya Airlines.

During the June 2013 IATA AGM in Johannesburg, the Presidents of Air Astana and Turkish Airlines signed the codeshare instantly doubled the choice of flights for customers, giving increased travel flexibility and provides for increased distribution across the network of the two airlines. We will see the full year benefit of this new code share agreement in 2014, though we have already seen a noticeable contribution on the network.

Air Astana cooperates with over 100 airlines, and has special prorate agreements in place with over 40, providing an extended network of close to 400 destinations worldwide. The network revenue contribution of partner airlines grew by 25% in 2013.

Air Astana is in discussions with a number of other European and Asian airlines to further expand network coverage and distribution through dynamic codeshare arrangements.

AIR ASTANA – ALMATY AND ASTANA STOPOVERS

On the back of strong transit passenger volume growth, we aim to make our transit product more appealing by offering a stopover programme launched in 2013. It is available for sale through Air Astana offices worldwide, through our website and through all approved BSP agents worldwide. The programme provides Air Astana passengers, who are booking a trip with a stopover in Almaty or Astana, a simple offering that includes accommodation, transfer and a range of discounts and benefits with local partners.

CUSTOMER RELATIONS

The Customer Relations Department is a key source of feedback, for all departments that interact with our customers, through the Customer Satisfaction Surveys and other feedback received from customers. Input received from customers is transmitted to the relevant departments through monthly meetings, and become a key driver for continuous improvement of the product and services offered by Air Astana. The introduction of the online and inflight versions of the questionnaires launched in 2013, and a range of actions to promote customer feedback, led to a doubling in 2013 of questionnaire responses received.

FREQUENT FLYER PROGRAMME – NOMAD CLUB

Air Astana's frequent flyer programme *Nomad Club* was launched in 2007, and has grown to 145,000 members, up 16% from the end of 2012. Gold and Silver members numbers grew a lot more, 83% and 57%, respectively, demonstrating an increased interest and loyalty by frequent travellers in the benefits of the programme.

The increased online functionality including enhancements with the new app launched at the end of 2013, and the e-commerce partners, selected from popular brands that rank high in the number of transactions, have contributed not only to the Nomad Club but to the cross marketing of e-commerce through the website as well.

In addition to the non-airline partners that award points to Nomad Club members, the HSBC-Nomad Club cobranded credit card allows members to earn points with all purchases made with their credit card. Air Astana is in talks with a number of hospitality loyalty programmes, with a view of linking up with them in 2014.

Our new lounge in the Astana airport, the Shanyrak, provides a new appealing element for our Nomad Club Gold members.

MARKETING AND BRAND DEVELOPMENT

With the growth of the network and the increasing importance of the transit traffic in all markets, 2013 has been a year with intensive marketing activities across the network. The increasing revenue contribution of the away markets (non-domestic) is also driving a change in brand awareness activities.

The share of online advertising and social media to promote new services, products and awareness increased in 2013. The major highlights of the tactical advertising campaigns were the introduction of new services, increased connectivity, and related pricing actions for each market for transit and point to point traffic, as well as Air Astana's second consecutive award for "Best Airline of Central Asia and India" – remaining the only 4 star airline in Eastern Europe and the CIS, aircraft deliveries and promotion of online services and sales.

Along with the on-going tactical campaigns in each market, there were two more prominent campaigns with a wider audience. The first was the international campaign in June with focus on European and Asian markets coinciding with the Skytrax Awards during the Paris Air Show, highlighting our high standards. The second campaign was at the end of the year, marking the upgrade of the long haul product with the arrival of the new Boeing 767s.

Air Astana communicates with its target customers through traditional media, through its website, through social media, and through targeted campaigns using its FFP database.

Air Astana participates in a number of exhibitions addressing its target segments, direct customers as well as trade partners, raising awareness of both Air Astana and Kazakhstan as a destination.

We are developing extensive marketing and brand development campaigns in international markets to continue building awareness of Air Astana, as the airline of choice offering world class service to and through Eurasia. This supported the growth of capacity on most of our routes that occurred throughout 2013. We will maintain our efforts in the strong home market, though there will be an increasing amount of resources allocated to making our campaigns specific to markets and to increase the intensity of advertising.

IT AND E-BUSINESS

CHAMINDRA LENAWA
Vice President IT and e-Business

In 2013 Air Astana continued its focus on achieving competitive advantages, improved customer service, cost reduction and operational efficiency through our IT and e-Business initiatives.

In addition to improving and expanding our technological capabilities, reviewing existing IT contracts was also a key priority, and significant costs savings have been achieved in 2013. In-house developments played a key role in providing tailor-made solutions in support of the growth of Air Astana. Some of these initiatives have even been instrumental in boosting the capabilities of the IT industry in Kazakhstan. In 2013 Air Astana spearheaded and successfully completed the project for acquiring locally the credit card transactions generated by IATA BSP (Billing and Settlement Plan) travel agents across the globe. This was done in partnership with a local bank and it was the first project of its kind in Kazakhstan, and leads to lower credit card fees for the company.

CORPORATE SYSTEMS

The development of the Air Astana Fares Management System was focussed on bringing value to the commercial processes. The competitor fares analysis in the PROS revenue management system has been a catalyst to commercial decision-making.

In an effort to improve customer service, Air Astana implemented automated refunding capability for its ticket offices, and this is expected to be expanded to the online channel in early 2014. The implementation of the ticketing functionality to automatically collect the service fees was aimed at improving operational efficiency. The enhancements made to the automation capabilities in reservations also have improved operational efficiency. In 2013 Air Astana completed its migration to the new check-in platform, which is rich in functionality and geared towards providing improved customer service and operational efficiency. A system for automated handling of special service requests from passengers was also developed in-house for providing better customer service.

There have been several key initiatives for facilitating internal processes. The integration between Samruk-Kazyna Sourcing System and ERP platform of Air Astana was completed successfully. Implementation of new aircraft fuel inventory control process in the ERP

system was also a major step forward. Design of a new In-flight stock control procedure in the ERP system has also been initiated. The implementation of automated SMS notification system for pilots occurred in 2013. Automation improvements have been made to the process of transferring flight data from aircraft to the central operational systems. The implementation of AIMS to SAFETY-FAST conversion program improves the efficiency of the process of controlling crew fatigue. The export module of technical supplies logistics management application was also completed.

In 2013 Air Astana continued to make cost effective enhancements to its IT infrastructure platform as well. Adoption of latest technologies of server virtualisation was a key achievement. Enhancements were made to the data centre facilities to improve business continuity. Several improvements were made to the telephony system as well. In addition to improvements to the infrastructure, enhancements were made to business applications including AIMS (flight operations), TRAX (engineering), CRIS (frequent flyer), iCargo (cargo), iFly (staff travel), PROS (revenue management), Sales Management System, Altea inventory and ERP systems.

CLIENT FACING

The Air Astana corporate website has been one of the major lines of communication with our customers and a major channel for direct sales. It offers a wide range of services, including online bookings and check-in, information about flight arrivals and departures, verification of reservation details and many more.

In 2013, Air Astana released its latest version of mobile application with an impressive look and feel and booking capability. The Air Astana mobile application is virtually a pocket travel assistant with features such as: ticket purchase, check-in for Air Astana flights, Air Astana ticket office locator, arrivals and departures status, live chat for reservations, Nomad Club activity details, claiming of missing Nomad Club points and redemption of Nomad Club points to buy tickets. It also provides information on fares and fare rules, dangerous goods restrictions, baggage allowance details, excess baggage rates, passenger behaviour rules and travel restrictions for expectant mothers.

The online live chat facility for call centre which was implemented in 2013 has been received by Air Astana customers with great pleasure as it makes their web experience more interactive and allows them to have their questions answered and complete their reservations in a single session. The online car rental booking facility was another addition made to the online service portfolio. The latest solution for In-Flight Entertainment (IFE) guide was also launched.

The usage of online web check-in increased by 22 %, from 790,458 passengers in 2012 to 963,411 in 2013, and the service is available for all airports in Air Astana network.

Online sales have continued to grow and in 2013 the online channel contributed to 10 % of passenger revenue. The number of visits to Air Astana corporate website increased by 34 % in 2013. The number of unique visitors increased by 56 % which indicates the growing popularity of the website.

For 2014 we have an ambitious list of project for upgrades and new implementations of both internal and client facing systems. The focus remains to improve our efficiency, provide better and more timely information to management, and provide an easier and more complete experience for our customers.

RISK MANAGEMENT

AIZHAN OMAR

Vice President Management Accounts and Risk Management

Air Astana, like other airlines, is exposed to a range of operational, business, legal and financial risks that could impact its activities, financial performance and reputation. To identify, monitor and mitigate these threats, Air Astana has implemented a risk management system, which is continually optimised in accordance with global best practices. This approach helps to ensure that the Company identify and mitigate risks at an early stage, wherever possible.

RISK MANAGEMENT SYSTEM

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

The first is the Board of Directors, which sets out the strategy and principles of risk management, as well as addresses factors that could threaten the Company's strategic objectives.

The second level is the President and the Risk Committee, which take responsibility for implementing an effective up to date risk management system and ensuring compliance with corporate policies. The Committee ensures that airline's risks are permanently identified and evaluated across all functions and processes. The committee is chaired by the President and includes all members of the senior executive management. The Vice President of Internal Audit is a permanent member without voting rights.

The 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.

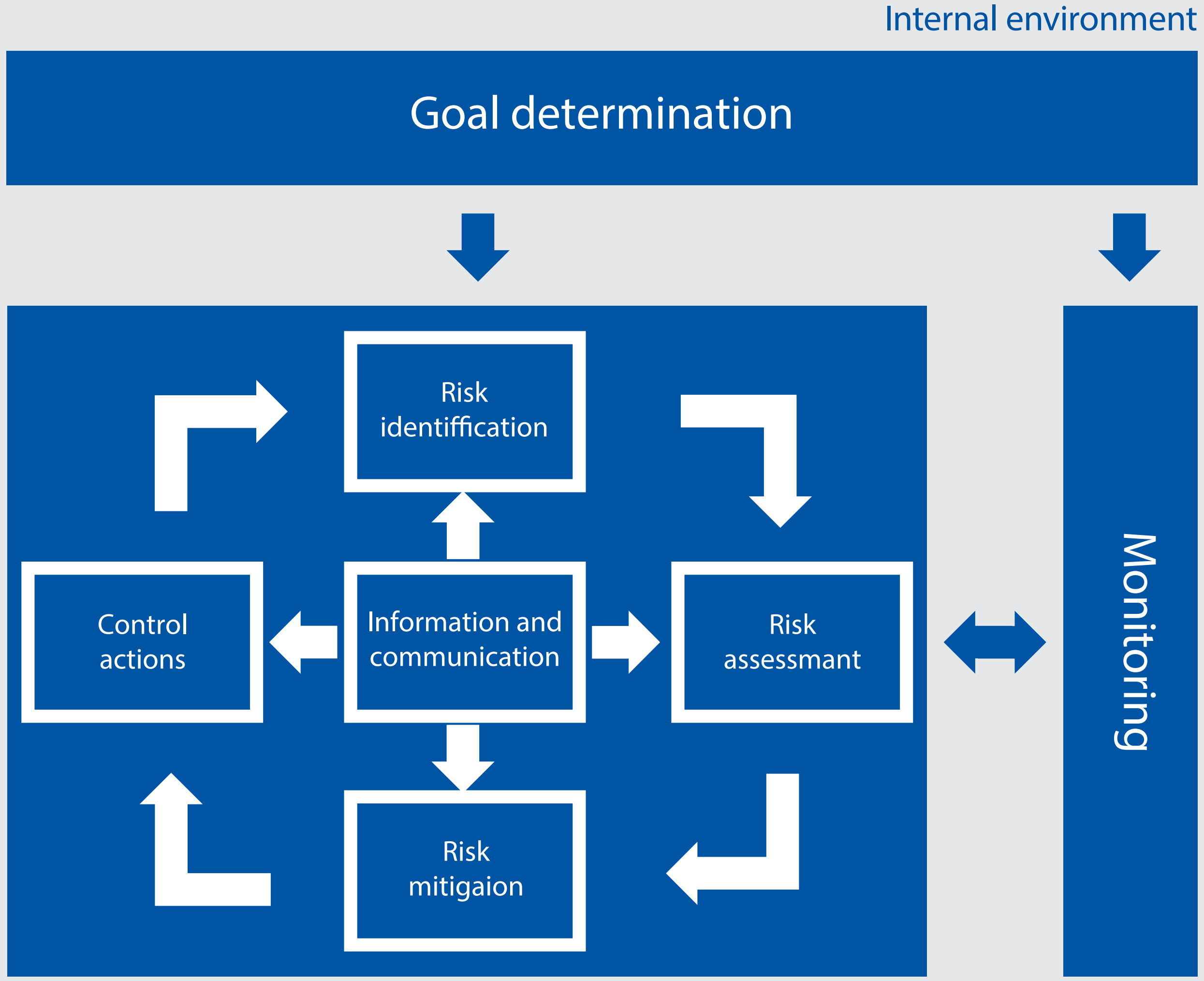
Alongside these specific structures, all members of the Air Astana team practice risk awareness on a daily basis and understand the importance of their role in the risk management system. It is the responsibility of every employee, as well as the "risk owners" in each department,

to manage threats and understand the potential impact on his or her department and 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. It allows estimating the relative weight of each risk and highlighting those that require priority responses. The register is aligned with the risk management system as a whole, and is updated on regular basis. Management teams discuss and take ownership of the risks on the register, as well as review of probability, potential impact and mitigation measures. The risk management unit reports on key risks to the Audit Committee and Board of Directors twice a year.

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

RISK MANAGEMENT SYSTEM



RISKS RELATED TO THE COMPANY

Below is a list of risks that the management has identified as the primary ones to Air Astana's business. It is not exhaustive, and future unforeseen events and/or factors could negatively affect performance. Still many remain outside the Company's control such as government regulation, terrorism, adverse weather and natural events (earthquakes, volcanic eruptions, floods, etc.), pandemics and availability of funding from the financial markets.

Name	Description	Mitigation
Risk of aircraft loss and aviation accident	Air Astana is exposed to high impact losses that may be incurred in the event of aircraft damage or aviation accident. The resulting effects from such events would have an adverse impact on our financial and operational performance due to product damage, personnel and customers death/injury, third party liability, loss of confidence by the customers, widespread media attention effecting reputation, court fines and material financial cost such as increase in insurance premium and security costs.	Air Astana maintains an integrated safety, security and quality management system, including regular safety forums and training sessions as well as audits of policies, procedures and processes designed to maximise the safety of passengers and staff. The management judges that the Company is in compliance with European and international safety regulations and have appropriate safety resources and procedures in place. Also Air Astana maintains comprehensive insurance coverage, which includes aircraft insurance, passenger liability insurance, compulsory insurance of employees and other aviation risks related insurance according to best practice and industry standards. In the event of an incident, emergency response centre was established to manage swift actions and coordinate with any external authorities.
Risk of fuel price increase	Air Astana is exposed to high volatility of fuel price and related costs. Higher fuel price will result in the increased overall expenses and consequently, increase the probability of adverse impact on the Company's profitability. This could be reflected in the increased ticket price and loss of customers. Air Astana uses around 2.45 million barrels of jet fuel annually. Fuel is a major cost item, making up over 30% of operating expenses. Hence, volatility in the fuel prices can have a material impact on its results.	For fuel sourced locally, the airline negotiates prices on a competitive basis with Kazakhstani suppliers by concluding stable contracts. 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 uses standard market instruments for fuel hedging and only for insurance means. The main purpose of fuel hedging is to reduce cost volatility and provide protection against higher fuel prices. We also apply a fuel surcharge on domestic routes and on international routes where we do not face restrictions as additional tool of risk reduction. We regulate the surcharge depending on fuel prices and market conditions. To reduce overall consumption of fuel the Company implements new technologies such as winglets on aircraft and conducts training for pilots on effective fuel consumption.

Name	Description	Mitigation
Currency risk	Air Astana reports in Kazakhstani tenge (KZT), meaning that earnings and net assets are affected by any volatility in the currency. The company receives 68% of its revenues in KZT, while almost 41% of operating costs (excluding depreciation) plus interest and capital payments on aircraft are denominated in foreign currencies. Also the Company has cash, aircraft assets and debt liabilities that are denominated in foreign currency on its balance sheet. In addition to these items the Company has a number of cross currency risks as a result of the jurisdictions of the operating business including non-KZT revenues, fuel costs, certain maintenance costs and insurance costs. A weakening in the value of the KZT primarily against US Dollar and Euro could negatively impact the financial results of the Company.	Air Astana works consistently to increase the share of revenues in foreign currencies and reduce the proportion of imports in overall purchases. The Company seeks to match the following parameters: notional amount, type of currency, and the maturity date of assets and liabilities. As an example, if the Company has certain long-term liabilities in U.S. Dollars (either on or off balance sheet in nature) with maturities 18 months out, its risk management policies would require management to put free cash on deposit with the same notional amount, currency type and maturity date assuming the usual pattern of higher inflows of KZT and outflows of U.S. Dollars.
Counterparty/credit risk	In its operations, Air Astana has counterparties – such as ticket sales agents, suppliers of goods and services, banks and financial institutions – in several countries. Should any of these parties experience any business issues to meet their financial obligations, or cease to operate, it could have an adverse effect on the company's financial and operational performance.	To minimise the exposure of the risk, Air Astana has taken preventive measures which have been developed by the Company based on the credit risk management methods, including: • Calculating and setting limits on deposits with commercial banks where free funds are stored; • Establishing bank guarantees with ticket sales agents; • Increasing the volume of internet and direct sales to reduce exposure to agents and intermediaries; • Diversifying supply channels; • Improving control over suppliers and assessment of their credibility. Air Astana constantly monitors the financial situation of counterparties in order to be ensured on the efficiency of management of the risk.
Risk of insufficient number of qualified pilots	Air Astana's operational performance and flight planning depends on many factors, one of which is sufficient number of qualified pilots. Loss/shortage of pilots can lead either to employing more expensive expat pilots to fulfil the gaps in the scheduler or to flight delays and cancellations due to absence of pilots. Competition for qualified personnel is intense, and the loss of pilots without adequate replacement or the inability to attract new pilots will result in decrease of the Company's revenue and shortfall of budget.	In order to mitigate the risk, the Company improves motivation programmes for local pilots (changes in salary scheme, state/Company pension project, etc.), introduced Ab-initio programme in 2008 on training of own pilots and recruits pilots from domestic and international labour markets. Highly qualified staff is the decisive factor success in competition and provision of safety and high quality service. Air Astana makes good use of its methods in personnel marketing and staff development to meet its qualitative and quantitative human resources targets.

Name	Description	Mitigation
Risk of non-provision of high quality in-flight services and reduction of Skytrax rating	Product and service consistency and maintenance of quality are the keys to ensure customer satisfaction and expectations. Non-provision of the high quality in-flight services might lead to the damage of reputation and loss of customers and also can bring to the reduction of the Skytrax rating. Erosion of the quality level, through either a single event or series of events, may adversely impact the Company's position with customers on the market and could ultimately affect future revenue and profitability.	Air Astana has extensive training programs which help to support the level of cabin crew skills. Along with the training the in-flight department has been restructured in the way that brings more mechanisms of control over the work of cabin crew. Quality & standards division regularly monitors customer satisfaction through proper procedures (e.g. feedback from passengers via on-board coaches) and issues standards for the cabin crew for maintaining high quality services. Performance division is constantly working with the cabin crew to ensure they all are motivated. Operations division supports the operational integrity, handling day-to-day issues, which allows cabin crew to concentrate on their main duties – provision of high level on-board service.
Business system applications failure	Business processes of Air Astana are supported in all areas by IT systems. The use of IT is inseparable from risks to the availability and stability of business processes and the confidentiality of data. Reputation and financial losses may be incurred in the event of long outages or failure of critical business applications which may cause significant disruption to operations. This will be due to the dependency of operations on those critical applications.	Measures are in place to mitigate this risk through the adaptation of technology solutions with high availability. For the business critical applications hosted in-house, a standby data centre is in place. In addition to that a data centre is available in Astana as a fall back option in extreme calamities. Air Astana deployed substantial resources aimed to incorporate the best business continuity measures in a cost effective way. Risks associated with the outsourced business critical applications are mitigated through contractual terms as well as manual procedures.
Risk of deterioration in economic conditions and loss of revenue	Air Astana's revenue streams are highly sensitive to the economic conditions of the local, regional and international markets in which it operates. In particular, any deterioration in the global and/or the Kazakhstani economy may cause a drop in demand for our services, such like tourism and business travel, instability on the financial markets and on the commodities markets, which can cause devaluation of domestic currency and may drive the price of fuel up. During such periods, it may also prove difficult to obtain acceptable financing terms for new aircraft.	Air Astana management regularly reviews revenue forecasts and takes appropriate steps, including optimisation of the route network, monthly monitoring of network results, implementing innovations, strong cost controls and on-going cost reduction initiatives. At the same time, the Company focuses attention on investment in the fleet expansion and its modernisation, improvement of in-flight services to the high standards and establishment of an effective business processes.

INSURANCE

As one of the main methods of response within the risk management system, insurance enables Air Astana to transfer parts of risks to other counterparties by paying an advance premium. The Company applies consistently high standards regarding the quality and transparency of insurance companies when arranging our policies. The types of insurance coverage that are maintained divided between aviation and non-aviation risks:

1) Aviation insurance

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

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

2) Non-aviation insurance

Apart from aviation insurance coverage, Air Astana regularly purchases non-aviation insurance policies to reduce the financial risk of damage to property, interruption to business and general liability, as well as to cover employees for accidents and medical expenses. The types of policies with different levels of cover are as follows:

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

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

OUR PEOPLE AND COMMUNITY

HUMAN RESOURCES

YEVGENIYA NEE

Vice President HR and Administration

Air Astana is a high growth company in a very international, service and safety intensive industry. The Human Resources team needs to recruit, train, and motivate a significant number of new employees every year. Our average headcount has grown by 40% since 2009, or an average of 9% per year. To be successful in our mission, we need to work very closely with every department, and we need to work closely with line managers and top management. We are constantly looking at our processes and our partners, to ensure that we are adapting rapidly to the requirements of the business.

Staff turnover is low by Kazakhstan corporate standards. We aim to keep staff turnover low, and are pleased with the low turnover in the more technical areas. We work hard at retaining our employees, and conduct employee satisfaction surveys that give us insight into departments or job aspect that need to be addressed. In general we have high employee satisfaction, with a high percentage of them who would recommend others to work at the company. The highest satisfaction levels are currently among pilots, office workers, representatives, and, surprisingly based on global trends, our call centre employees.

OCCUPATIONAL HEALTH AND SAFETY

In 2013 Air Astana successfully completed our OHSAS 18001:2007 management system audit, a certification we have had since 2009. This external audit by the British Standards Institute verifies our processes and procedures in regards to occupational health and safety, and passing the audit is a key objective for the company and the Human Resources team. This certification is only external validation of the efforts we put in place internally to ensure that all employees share the safety culture, and are aware and accountable, not only for personal safety in the workplace, but also for safe and healthy working conditions of the whole team. Having a systematic approach allows us to efficiently manage risks in the workplace and work to prevent accidents that threaten the health, safety and productivity of our employees.

As part of our plan, the following occupational safety and health activities were conducted: monitoring of operating facilities, assessment of working conditions in our facilities, certified health and safety training sessions for department heads, first-aid courses, medical checks,

testing for unauthorized substances, and implementation of new occupational health and safety policies.

In 2014 we aim to develop and implement a system of incident and injury notification, as well as improving the health and safety culture of employees.

RECRUITMENT

In 2013 the recruitment department was actively involved in the changes associated with the restructuring of four major departments in the company. As part of the assignment of new positions in these restructurings, SHL tools were used for personnel assessment.

The cooperation with Civil Aviation Academy in preparing the fourth year students for an engineering degree in aviation mechanics continues. Currently 10 students are being trained in base maintenance unit of Engineering and Maintenance department on practical skills based on Western technology.

In 2013 in cooperation with the Almaty municipal Department of Social Employment Programs "Employment Center of Almaty" Air Astana hired 12 unemployed people under the "Social jobs 2020" program.

In order to promote aviation professions and attract young professionals, the recruiting team held introductory meetings for fourth year students of leading universities in Kazakhstan. The object was to provide basic information about the company, to highlight career opportunities, and on the process for applying for positions with the company. We also launched an Aviation Professions PR programme together with the Public Relations Department.

Cooperation with universities continued successfully. In 2013 98 students had on-the-job training in Air Astana. As a result of which, 20 graduates were offered employment.

Air Astana has agreements for on-the-job training for students with the following ten universities:

- Kazakhstan Institute of Management, Economics and Strategic Research
- JSC "T. Ryskulov Kazakh Economic University"
- JSC "Kazakh Ablai Khan University of International Relations and World Languages"
- JSC "Academy of Civil Aviation"
- Gumilev Eurasian National University
- Almaty Institute of Power Engineering and Telecommunications
- Suleyman Demirel University
- International University of Information Technology
- Autonomous organization of education "Nazarbayev University"
- LEU "International Academy of Business"
- LLP "University of International Business"

Starting from 2013 we started to post job vacancies on social media and recruitment web sites, which led to a significant increase in responses.

CORPORATE TRAINING AND DEVELOPMENT

2013 was crucial in the development of corporate training in the company. On a selective basis we brought in employees from different departments, who together with a team of corporate trainers, helped to create new training formats that reflect the business needs of the company. Employee involvement in this process increases the buy-in to these programmes, and they become our natural in-house trainers (through a train-the-trainer process) which make future training sessions more economical and more interactive.

Within the development of internal communications and to strengthen the involvement of line managers in the company's goals, we organised the fifth Corporate Management Conference. It was devoted to business re-engineering; strengthen interdepartmental cooperation and efficiency of business processes. The Conference brought together two hundred of participants from all regions of Kazakhstan and abroad.

Air Astana assists employees to increase their potential by providing training courses and programs aimed at improving the skills and qualifications. Air Astana pays particular attention to employees' language literacy development, in particular in Kazakh and English. In addition to organizing language courses, the company actively encourages and motivates employees to proactively learn the state language (Kazakh). In 2013 we held a competition on the best knowledge of the state language among non-Kazakh employees – the "Memlekettik til – Menin tilim" and also for native speakers – the "Til Kyrany". Winners of the first, second and third places received monetary awards. Employees who won the Grand Prix, became holders of permits to take part in an innovative project to study the state language, customs and traditions of the Kazakh people, and went to the cultural and linguistic camp "Ulytau".

CORPORATE ARCHIVE

In 2014, in accordance with the request of JSC "Samruk-Kazyna", our 51 % shareholder, we are making a gradual transition to an electronic document system.

EMPLOYEE RELATIONS

Air Astana has good relations and works closely with employees and the organisations that represent them. We are a growing organisation that has created space for professional advancement for many employees, and we are very active in providing professional development paths for employees. A Collective Agreement was extended on September 20, 2013 without modification. The Department of Human Resources and Administration is actively involved in regular communication meetings with Union representatives.

SPORTS AND FITNESS

Air Astana provides employees with the opportunity to attend fitness clubs and participate in sports competitions. In 2013, contracts were extended with *Fitnation* and *Rakhat Fitness*, and we added a new club *Grand Pool*.

Employees participated in an annual football championship hosted by Czech Airlines in Prague, and also in the Cup Bolashak football tournament in Almaty.

SOCIAL BENEFITS AND BONUSES

Employee benefits include performance bonuses, annual profit share participation, private health and dental insurance, loss of license insurance for pilots, discounted airfares on Air Astana and partner airlines, access to fitness clubs and sports facilities, emergency financial aid, access to low interest bank loans, shuttle buses for commuting to work, in addition to social activities for employees and their families.

SOCIAL RESPONSIBILITY

BELLA TORMYSHEVA
VICE PRESIDENT PUBLIC RELATIONS

Since Air Astana was founded in 2002, it has been supporting charitable causes as part of its broader Corporate Social Responsibility (CSR) commitment. The airline's charitable programmes are built on the principles of consistency and effectiveness, with significant employee involvement and provision of resources in both funds and services. Air Astana is sensitive to public expectations and the needs of diverse social groups, with the consistent delivery of support every year. Equally, we are committed to achieving results and lasting change in priority areas including children's health, veteran care, and culture.

SUPPORT FOR CHILDREN AND VETERANS

As Kazakhstan's leading airline, Air Astana has been providing free travel abroad for children needing medical treatment, as well as the proud wartime veterans of Kazakhstan.

Air Astana helps with the transportation for children suffering from cardiovascular diseases and cancer, who are seeking treatment outside Kazakhstan. In 2013, the airline provided a charity with 100 tickets for seriously ill children and their parents to travel for treatment in Istanbul, Moscow and Seoul.

In 2013, the airline provided almost 900 complimentary air tickets to veterans for travel in Kazakhstan and other CIS countries. Every year, we also help veterans of the Great Patriotic War (World War II) celebrate Victory Day on 9th May.

Together with the Ayala charity, we launched a campaign in 2010 to collect donations at Air Astana ticket offices in Almaty, Astana and Atyrau. This campaign had collected more than seven million tenge by the end of 2013. The funds collected were used for the purchase of equipment for the Syzganov National Research Centre of Surgery (NNTSH), and the regional perinatal centres in Aktobe, Kyzylorda, Taldykorgan and Kostanay. Almost 600,000 tenge has been allocated to the Ayala charity project "Breath Life" for the purchase of modern medical equipment for the intensive care unit of children's hospitals in Kazakhstan.

Air Astana has also held charity events for Kazakh schools in co-operation with the Ayala charity. We provided sports, games and playground equipment and landscaping worth almost seven million tenge to specialized child care institutions including the Almaty City Orphanage № 2, the regional special boarding school for deaf children in Taldykorgan, the S. Kazybaev regional boarding school № 1 for orphans in Atyrau and boarding school № 1 for deaf children in Shymkent.

In October 2013, senior managers and staff of Air Astana joined and children and teachers from the Kovcheg orphanage in planting trees & shrubs, as part of the national association "Plant a Tree" campaign.

Air Astana also flew-in specialist doctors from the world famous Great Ormond Street Hospital for Children in London to Kazakhstan late last year. During their five day stay at the National Research Centre of Motherhood and Childhood in Astana, they performed complex operations on children with a variety of congenital malformations, as well as giving workshops for locally based physicians. In a second trip to this prestigious medical facility, Air Astana flew-in the famous child urologist, Imran Mushtaq, also from the Great Ormond Street Hospital. As part of the master class for local medical specialists, he performed the rare operation of urinary tract reconstruction for five children with bladder exstrophy. He also consulted on treatment for many more children from all over Kazakhstan.

Last, but not least, Air Astana helped the children of the "Kovcheg" orphanage in Talgar celebrate the springtime Nowruz holiday.

SUPPORT FOR CULTURE

During 2013, Air Astana supported various cultural events including the International Dance Festival "Alors on dance," International Ballet, Jazz group from UK, and the Festival of Choral Art in Almaty.

On the science and media side, the airline sponsored the iMix'2013 Professional Internet Conference, the National Internet Prize Award.kz 2013, and the sixth National Media Kurultaj Conference.

OUR WORLD

We are acutely aware of our responsibility towards society and future generations and our duty to take care of the environment. We work across our business to reduce carbon emissions and waste generation, the main components of our environmental footprint.

REDUCING CARBON EMISSIONS

According to IATA, the airline industry is estimated to produce less than 2% of manmade CO_2 emissions at the global level. Even though the industry is not a major contributor to carbon emissions, it has set itself some ambitious goals for the years ahead: to improve fuel efficiency by 1.5% per year until 2020, to have carbon neutral growth after 2020, and by 2050 to lower emission levels to 50% of 2005 levels.

While these goals are ambitious, new generation airplanes and engines together with improved flight management by airlines, air traffic control and airports, should all make this goal achievable. All of these elements also should help to reduce another externality of aviation, noise pollution near airports.

WHERE DOES THE 2% COME FROM?

If we look at the USA, which is not only a large energy consumer, it is not necessarily seen as an efficient one, and it has a very large airline industry, we can see the following analysis from the EPA (Environmental Protection Agency): In 2011 27% of Greenhouse gases were produced by transportation, of which 8% came from aviation, and of this, 77% was from commercial aviation (the rest being from military and general aviation). Multiplying the percentages together, you get 1.7%. To halve emissions from 2005 levels by 2050 in the USA, you would have to reduce fuel consumption by 1.4% per year from 2011 levels. While in the USA there has been an 11% decline in the number of flights and 8% decline in flight hours from 2005 to 2013, this is not the situation in the rest of the world, as total worldwide flights have increased by 31% during the same period. The EU, in implementing its Emission Trading Scheme for the aviation industry is concerned about the growth of aviation emissions, which in the EU the estimate at 3% of greenhouse gas emissions.

AIR ASTANA'S SITUATION

Air Astana estimates that 99% of its carbon emissions come from the combustion of aviation fuel, and the rest from secondary sources like motor vehicles and ground support equipment and facilities. While IATA has calculated that the airline industry is a minimal contributor to global environmental pollution, we are committed to reducing our carbon footprint.

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

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

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

Air Astana is prepared for EU Emissions Trading Scheme (ETS) and its emissions monitoring plan was approved by the German Emissions Trading Authority. Verification covered the following:

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

The EU ETS included aviation from 2012, but suspended the enforcement on flights to and from non-EU countries in April 2013. The suspension is in expectation of a global level agreement of aviation emissions by ICAO. A market based mechanism is expected to be developed and approved by ICAO by 2016, and implementation by 2020. The EU has prolonged its suspension of applicability to non-EU flights until 2016.

One of the most important ways in which Air Astana reduces its environmental impact is by maintaining a young and fuel-efficient fleet. In the 2011-2014 period, we are seeing 14 older aircraft leaving the fleet, and 19 new ones joining the fleet.

New generation aircraft are significantly more efficient than previous generations, and even within the same generation of aircraft, there can be a 3%, or so, lower fuel consumption by brand new engines. In addition, Air Astana has been installing sharklets (curved fittings on the wingtips) on new and some of the older aircraft, and we estimate that these can reduce fuel consumption on these aircraft by 3–5%.

Air Astana is also trying to lower unit fuel consumption by 3.5–4.0 % through flight crew decisions on flight planning, flight speed, take-off and landing trajectories, and weight of fuel on board. Pilot decisions are supported by advanced systems to ensure safety is the overriding factor when decisions are made. We also constantly evaluate the weight of all items on board, so that we can reduce the weight of the aircraft, and therefore the fuel consumption.

Air Astana fuel consumption has increased 17 % in 2013, on the back of a 20 % increase in ASK. While we do expect our international traffic to keep growing rapidly in the medium term, domestic growth has already started to moderate to single digit growth. We expect to see full year impact in 2014 of the seven aircraft that joined the fleet during 2013, and we also see some scope for improvement from our capacity management focus during the current year. Total fuel consumption in 2013 amounted to just under 281 thousand tonnes of jet fuel, which is equivalent to about 884 thousand tonnes of CO_2 emissions. This represents just 0.127 % of the estimated total CO_2 emissions of the airline industry. Even though Air Astana's CO_2 emissions are insignificant in comparison to the entire industry we are committed to ensure that we will operate as efficiently as possible to exceed industry standards.

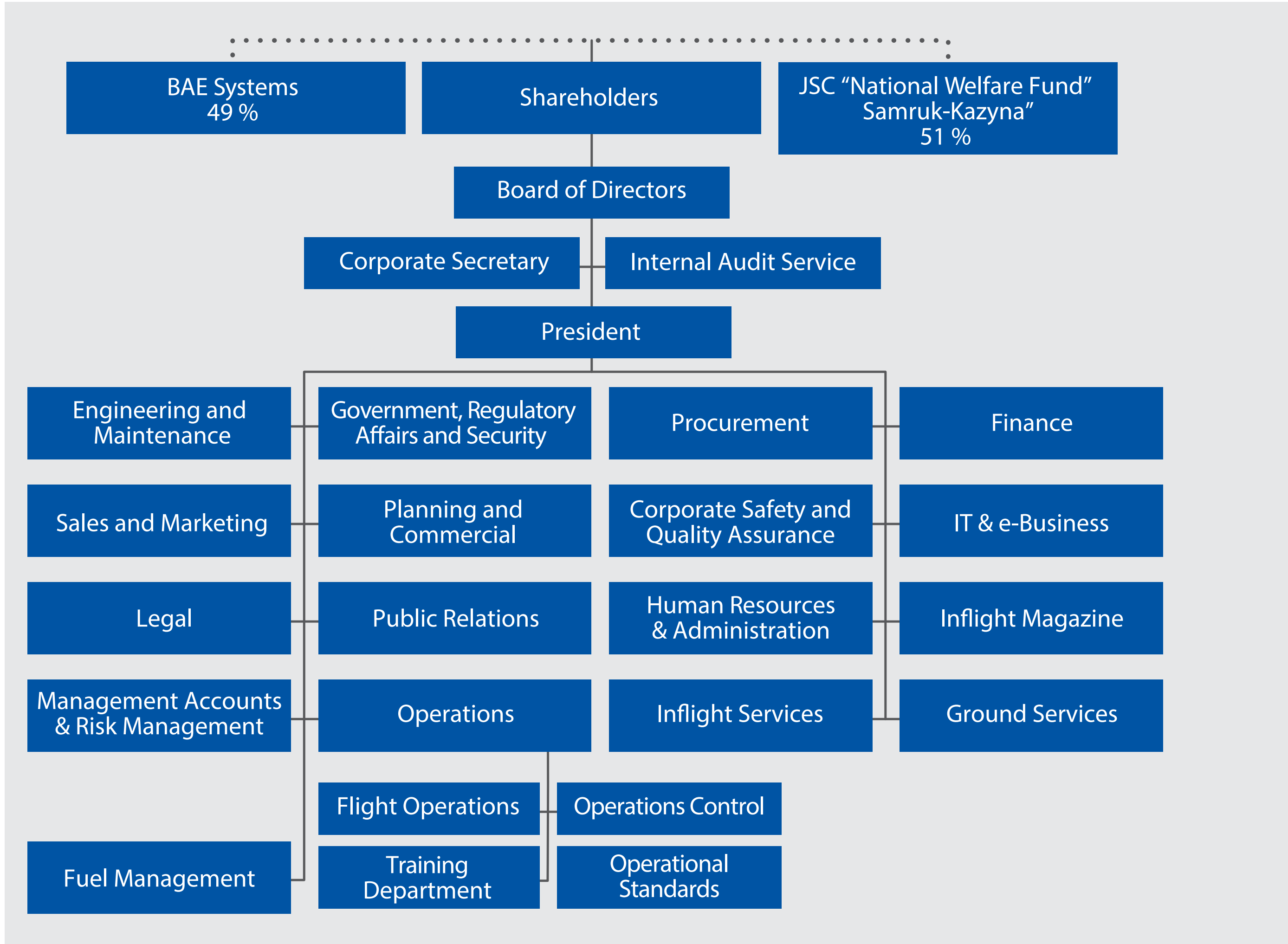
Aircraft anti-icing has a significant impact on the environment. Our employees and subcontractors who work with chemical products at airports take mandatory annual training on environmental protection. On an on-going basis, Air Astana runs the "Clean Wing" programme to maintain high standards of wing cleaning and anti-icing, including the effective use of de-icing fluid. The ultimate aim is to ensure the complete safety control and assurance in anti-icing operations. All of our de-icing and anti-icing procedures meet international aviation regulations and requirements, such as EU OPS-1, as well as the standards and recommended practices published by IATA, ICAO, EASA, FAA, Transport Canada, AEA and SAE.

REDUCING WASTE GENERATION

While reducing CO_2 emissions is a critical part of Air Astana's environmental policy, another priority across all areas of our business is reducing waste generation.

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

OUR ORGANISATION



air astana

MANAGEMENT TEAM

PETER FOSTER

President

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

ALMA ALIGUZHINOVA

Senior Vice President, Planning and Commercial

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

YERBOL OSPANOV

Senior Vice President, Government, Regulatory Affairs and Security

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

IBRAHIM CANLIEL
Senior Vice President, Marketing and Sales

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

GERHARD COETZEE
Senior Vice President, Corporate Safety and Quality Assurance

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

ANTHONY REGAN
Senior Vice President Operations

Anthony has over 36 years' experience in aviation. He was Head of Flight Operations and OPS post holder at Air France/KLM subsidiary Cityjet from 2001 to 2012 where he was responsible for all aspects of Flight and Cabin operations. Prior to that he was a Director at Parc Aviation. His early career was as a pilot with the Irish Air Corps where he held a number of operational appointments including Chief Flying Instructor retiring with the rank of Commandant. He holds a current JAA and FAA Air Transport Pilot Licence. He is a graduate of University College Dublin in Mathematics and Mathematical Physics.

JOHN WAINWRIGHT
Senior Vice President, Engineering

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

ALIMA ZAMANBEKOVA
Chief Accountant

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

MICHAEL MC DONAGH
Senior Financial Adviser

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

YEVGENIYA NEE
Vice President, HR and Administration

Yevgeniya Nee is a graduate of Karaganda State University named after E. A. Buketov and holds diplomas in foreign languages and law. She joined Air Astana in October 2002, as Executive Assistant to the President. Since September 2005, she has been the head of the HR Department, which also oversees the Health and Safety, Administration and Transport divisions. Under her leadership, a transparent system of recruitment and corporate training has been created and a performance evaluation and reward system introduced. Yevgeniya regularly participates in professional conferences and congresses as an expert, moderator and speaker. She has numerous diplomas and certificates in management and personnel management.

GALINA UMAROVA
Vice President, Fuel Management

Galina has experience in the airline industry and prior to joining Air Astana was Director of Finance at Astana International Airport JSC. Galina graduated from Aktobe State University after K. Zhubanov and she holds a Master Degree in Public Administration from KIMEP, Almaty.

AIDAR KASHKARBAYEV
Vice President, Legal Affairs

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

CHAMINDRA LENAWA
Vice President, IT and e-Business

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

BELLA TORMYSHEVA
Vice President, Public Relations

Bella has over 15 years of experience in Public Relations, Information and Culture areas. Before joining Air Astana, she worked for the Delegation of the European Commission covering the Republic of Kazakhstan, the Kyrgyz Republic and the Republic of Tajikistan. She holds a Master's Degree in International Relations. Bella has attended numerous trainings abroad.

DILYARA KUNKHOZHAYEVA
Vice President Procurement

Dilyara joined the airline in early 2006 as Financial Analyst. She holds a Bachelor and a Master degree in Business Administration and Accounting from KIMEP (Almaty) with major in management and finance. After graduation she worked at Ernst & Young and KIMEP in Almaty. Since 2008 Dilyara has held a position of Head of Management Accounts. She was appointed as Director Procurement of Air Astana in June 2012 and since 2013 she holds the position of Vice President Procurement.

MERGALI ALZHANOV

Vice President Flight Operations

Mergali has extensive experience in the aviation industry. Educated in Aktobe top civil aviation flight school in 1980, Mergali began his career as a co-pilot on the Yak-40 in the Kokchetav aviation squadron, and in 1991 transferred to the Almaty squadron. After working at several airlines, Mergali joined Air Astana in 2004 as captain on the Boeing 757 aircraft.

AIMAN TILEUBAYEVA

Vice President Network and Revenue Management

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

AIZHAN OMAR

Vice President Management Accounts and Risk Management

Aizhan is a graduate of Taraz State University named after M. Kh. Dulaty and holds Diploma in International Economic Relations, also she holds 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. Since January 2014 she holds the position of the Vice President Management Accounts and Risk Management.

RUSSEL ELLIS

Vice President Operations Control

Russel has more than 30 years of aviation experience and has held several senior management positions in airlines in South Africa and the Middle East before joining Air Astana in 2007. His early experience was in the military where he qualified as a Navigator and Instructor. He holds a Master's Degree in Business Administration from the University of Liverpool, UK. 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 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. 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 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. Richard relocated to Almaty in February 2009 assuming the position of Director Sales Worldwide; and was promoted to Vice President Worldwide Sales in January 2014.

GRIGORIY ZYRYANOV

Director Commercial Engineering

Grigoriy entered the airline industry immediately after graduating from Civil Aviation Academy of the Republic of Kazakhstan in 2001, as a Senior Engineer-Technologist in Aircraft Repair Plant #405. He subsequently served as Deputy Chief of Production Planning and Control Department of Air Kazakhstan prior to his appointment as Maintenance Program Engineer in Maintenance Planning Department of Air Astana in 2004. Further, he was promoted to Maintenance Planning Manager. In 2010, Grigoriy was responsible for launching Base Maintenance Team in Air Astana and getting certifications of workshops by EASA, which was achieved in April 2011. He was appointed Director Commercial Engineering in April 2012 moving to Commercial Engineering Department to deal with technical aspects of fleet management.

AZAMAT OSPANOV

Director Engineering Finance

Azamat obtained his educational background in economy, accounting and audit in Suleyman Demirel University. He started his professional career with Ernst and Young and has become an experienced audit manager with KPMG. Azamat joined Air Astana in April 2009 as finance manager specialising in areas of accounting and finance processes. Being senior manager finance he was head of airline specific revenue accounting and was responsible for banking and treasury functions. In January 2013 he was appointed as Director to finance department within Engineering and Maintenance group.

TIMUR YAKUPOV

Director National Development

Timur is an aeronautical engineer with more than 20 years of experience. Having a classic aviation education in former Soviet Union, Timur began his career as a mechanic for aerobatic aircraft. He served in the army as an infantry weapons specialist in Military Transport Aviation. He continued his career in Kazakhstan in the role of a technician on TU-154, and further mastered the maintenance of the main types of passenger and cargo aircraft of the former Soviet Union. Timur works at Air Astana from the very first day, and started as a Shift Supervisor. Timur is a holder of an engineering license and can serve more than 11 types of aircraft and their modifications.

PAOLO RICCIOTTI

Director Ground Services

Paolo has well in excess of 35 years of experience in the aviation industry from both the perspectives of Airlines and Airports. He was General Manager Airports when he left Cathay Pacific Airways in August 2000 to join SEA Milan Airports to manage both Linate and Malpensa airports first, and later the Commercial Activities of SEA Handling. At Cathay Pacific Airways he held several management and senior management positions in Europe, Asia and Hong Kong, to include, System Reservation Manager, Manager On Time Performance, Manager Kai Tak Airport (the glorious old Hong Kong Airport). Relevant experience in Cargo Services was also acquired over the years. Paolo holds a Diploma of V. Engineer in telecommunications and underwent business management training in both INSEAD and Ashridge Business Schools.

MARGARET PHELAN

Director In-Flight Service Delivery

Margaret has over 17 years' experience in the aviation industry. Educated in the College of Commerce Ireland, Margaret held the positions of Head of Cabin Crew Training & Standards and Head of Cabin Services whilst at the Air France/KLM subsidiary CityJet from 1995–2012. Margaret has also completed a number of EU OPS, management and instructor training courses.

MARAT SEKERBEKOV

Director Flight Operations Support

Marat has been in aviation industry for more than 30 years with various Kazakhstan and international airlines. His aviation career started after graduating from Kirovograd Flight Academy of National Aviation University of Ukraine. Marat started his career with Aeroflot, in the then USSR. In 1994 he came to the Kazakhstan airline industry. In 2005, Marat joined Air Astana as a co-pilot of Fokker 50 fleet and passed all levels of flight operations management team from co-pilot to chief pilot. In 2013 Marat was appointed to the Director Flight Operations Support position.

ADRIAAN JAN MEIJER

Director of Standards

Adriaan commenced his career as a pilot in KLM Cityhopper in 1978, initially as a First Officer on the DC-9 and later as a Captain on the Fokker 50. Subsequently he became a training Captain and standardization officer and then progressed to Chief Pilot. He moved to the Boeing Fleet with KLM and flew the Boeing 767 as a Training Captain. On retiring from KLM he joined Dutchbird, which operated B757 and A320 aircraft, as Director of Operations, where he implemented ETOPS and CATIIIB operations in addition to acting as the JAR EU Operations postholder for operations. Apart from his wide ranging training, operational and standards experience he also worked with IATA as Deputy Director Flight Operations and Head of Safety and was a member of the ICAO panel who implemented the ICAO fuel SARP and Extended Diversion Time Operations (EDTO). Adriaan is also a medical doctor.

FILIPPOS SIAKKAS

Director of Operational Training

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

AIGUL OMURZAKOVA

Director Business Planning and Fleet Portfolio

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

RAFAEL TAIZHANOV

Director Commercial Planning

Rafael is one of the first employees to join Air Astana at its early stage of the development. A career in aviation began with the schedule department of Air Kazakhstan in 1998. Rafael graduated with distinction from the Physics Department of the Kazakh State University. He holds SMART MBA Diploma of the corporate university "Samruk-Kazyna" and IATA Diploma on Sales and Marketing. He was appointed as Director Commercial Planning of Air Astana in 2014.

IGOR SEGEDIN

Chief Pilot

Igor has an extensive experience in aviation. On graduation from Aktobe high civil aviation school in 1991 with honors, he was assigned as a First officer of Tupolev 134 in Almaty flight division. He joined Air Astana in 2002 initially as a First officer, then he flew as a Captain and a flight instructor of Boeing 737NG. In 2006 after successful type rating training on Airbus he was assigned as a chief instructor of Airbus 320 fleet where he has been closely involved in the development and establishment of this aircraft into the company fleet. After 11 years with Air Astana, Igor passed the way from a First officer to position of a senior manager of flight training. In 2013 he was appointed to the position of Chief Pilot.

CORPORATE GOVERNANCE

At Air Astana, we view best practices in corporate governance as playing a crucial role in running our company efficiently, reducing the cost of raising capital, and contributing to the strong reputation and trust enjoyed among all of our stakeholders. We are committed to meeting the highest corporate governance standards through the continual improvement of our corporate governance system, for which we have established the following fundamental principles:

CORPORATE GOVERNANCE PRINCIPLES

SHAREHOLDERS' RIGHTS AND INTERESTS MUST BE PROTECTED

We pledge to protect and respect the rights and interests of all shareholders as stipulated by law. We are committed to efficient management, asset growth, financial stability and profitability.

THE BOARD OF DIRECTORS MUST MANAGE EFFECTIVELY

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

THE EXECUTIVE BODY MUST FULFIL ITS ROLE EFFECTIVELY

Responsible for the day-to-day management of the Company, the Executive Body is tasked with implementing strategy while always adhering to the highest ethical standards.

THE COMPANY MUST CONDUCT ITS ACTIVITIES INDEPENDENTLY

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

INFORMATION ABOUT ACTIVITIES MUST BE DISCLOSED IN A TRANSPARENT AND OBJECTIVE MANNER

Air Astana is committed to providing shareholders with the necessary information to make informed decisions. It undertakes to distribute information about its activities to interested parties and ensure timely disclosure to shareholders and interested parties of reliable information about the Company. This includes information about our financial situation, results of activities, ownership and management structure.

THE COMPANY AND ITS EMPLOYEES MUST BEHAVE LEGALLY AND ETHICALLY

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

AIR ASTANA MUST MAINTAIN AN EFFECTIVE DIVIDEND POLICY

Regarding dividends, we follow the rules set forth in legislation and our internal regulations. We seek to ensure a simple and transparent mechanism for setting the amount of dividends and terms of their payment. Our dividend policy will be sufficiently transparent and available to shareholders, potential investors and the general public of Kazakhstan.

THE COMPANY MUST MAINTAIN EFFECTIVE HUMAN RESOURCES POLICIES

We are committed to protecting the rights of our employees as stipulated by legislation and engaging with them to solve social issues and manage working conditions.

AIR ASTANA IS COMMITTED TO PROTECTING THE ENVIRONMENT

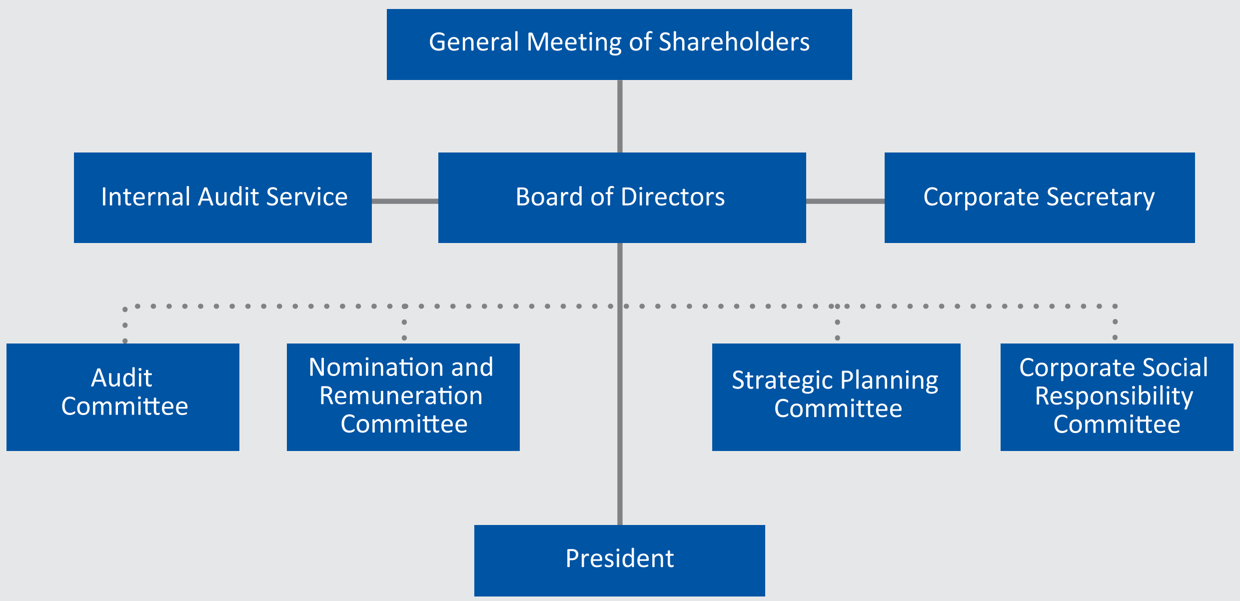
In our day-to-day operations and long-term strategy, we are committed to environmentally sustainable growth. We follow the principles of maximum environmental friendliness and a rational attitude to the environment, as prescribed by legislation and generally accepted business standards.

POLICY FOR SETTLING CORPORATE CONFLICTS AND CONFLICTS OF INTEREST

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

PRINCIPLE OF RESPONSIBILITY

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



SAMRUK-KAZYNA NATIONAL WELFARE FUND JSC OWNS 51% OF AIR ASTANA.

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

Registered address:

23 Kabanbai Batyr Avenue
Astana 010000
Kazakhstan

BAE SYSTEMS (KAZAKHSTAN) LIMITED OWNS 49% OF AIR ASTANA.

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

Registered address:

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

GENERAL MEETING OF SHAREHOLDERS

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

RESPONSIBILITIES OF THE GENERAL MEETING OF SHAREHOLDERS

The exclusive competence of the General Meeting of Shareholders includes, without limitation, the following:

- 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. Major transactions are defined as transactions for more than US$5 million, or representing more than 10% of the company's equity
- Purchase or financial lease of any aircraft.

ISSUES CONSIDERED AT THE GENERAL MEETING OF SHAREHOLDERS IN 2013

In 2013, 10 General Meetings of Shareholders were held, and the following issues were considered:

STRATEGIC DEVELOPMENT

- Approval of the Business Plan (Development Plan) of the Company for 2013-2017.

GOVERNANCE AND REMUNERATION

- Election of the members of the Board of Directors of the Company
- Approval of the amount and terms of remuneration and compensation to the Independent Directors of the Company
- Early termination of the authorities of the member of the Board of Directors of the Company. Election of a new member of the Board of Directors of the Company and determination of his term of office
- Approval of the amount and terms of remuneration and compensations to the President of the Company
- Determination of the term of office and electing the Senior Vice President Operations of the Company and Vice President Flight Operations 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 2012
- 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 2013
- Approval of the Annual Report of the Company for 2012
- Approval of the annual financial statements of the Company for 2012
- Approval of the procedure for distribution of net profit of the Company for the year 2012, deciding on payment of dividends on common stocks and approval of the amount of the dividend for the year 2012 per one common stock of the Company
- Extension of the operating lease of one Airbus A320-232 aircraft
- Approval of the decisions on entering by the Company into a major transaction with Boeing on the supply, lease and repair of spare parts and the provision of technical support in respect of Boeing B757-200/767-300 type aircraft. Deciding on increasing the Company's liabilities by an amount of more than 5,000,000 US Dollars in connection with entering by the Company into the major transaction
- Approval of the decisions on entering by the Company into a major transaction with Airbus on the supply, lease and repair of spare parts and the provision of technical support in respect of Airbus A319/320/321 type aircraft. Deciding on increasing the Company's liabilities by an amount of more than 5,000,000 US Dollars in connection with entering by the Company into the major transaction
- Approval of the decisions on entering by the Company into a major transaction with International Lease Finance Corporation (ILFC) on operating lease extension of one Boeing B757-200 aircraft. Deciding on increasing the Company's liabilities by an amount of more than 5,000,000 US Dollars in connection with entering by the Company into the major transaction
- Approval of the decisions on entering by the Company into a major transaction with Caspian Catering Service LLP on the provision of on-board catering service for crew and passengers in Atyrau Airport. Deciding on increasing the Company's liabilities by an amount of more than 5,000,000 US Dollars in connection with entering by the Company into the major transaction
- Approval of the decisions on entering by the Company into a major transaction with Almaty Catering Services LLP on the provision of on-board catering services for crew and passengers at Almaty Airport. Deciding on increasing the Company's liabilities by an amount of more than 5,000,000 US Dollars in connection with entering by the Company into the major transaction
- Approval of the decisions on entering by the Company into a major transaction with Astana International Airport JSC on the provision of on-board catering services for crew and passengers at Astana Airport. Deciding on increasing the Company's liabilities by an amount of more than 5,000,000 US Dollars in connection with entering by the Company into the major transaction
- Approval of the decisions on entering by the Company into major transactions with Petrosun Ltd. and KazMunayGaz-Refinery and Marketing JSC on the procurement of jet fuel. 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 5,000,000 US Dollars in connection with entering by the Company into the major transactions
- Approval of the decisions on entering by the Company into major transactions on procurement of jet fuel for ramp refueling with Kuwait Petroleum International Aviation Co Ltd. (Amsterdam Airport, the Netherlands), Kuwait Petroleum International Aviation Co Ltd. (Frankfurt-on-the Main Airport, Germany), ADNOC Distribution (Abu-Dhabi Airport, U.A.E.), Chevron Products Company (Bangkok Airport, Thailand), Petrol Ofisi A.S. (Istanbul Airport, the Republic of Turkey), China National Aviation Fuel Supply Co. Ltd (Beijing Airport, China), CJSC TZK Sheremetyevo (Moscow Airport, the Russian Federation). Deciding on increasing the Company's liabilities by an amount of more than 5,000,000 US Dollars in connection with entering by the Company into the major transactions
- Approval of the decision on entering by the Company into a major transaction with Atlantic Flight Training Academy Ltd. on the purchase of services in respect

of Ab-Initio pilot training for 2013–2016. Deciding on increasing the Company's liabilities by an amount of more than 5,000,000 US Dollars in connection with entering by the Company into the major transaction

- Approval of the decision on entering by the Company into related major transactions with Halyk Bank JSC on provision of the Company with a credit facility for the amount of more than 1,000,000 US Dollars. Deciding on a money pledge for the amount of more than 1,000,000 US Dollars. Deciding on increasing the Company's liabilities by an amount constituting 10% or more of the equity capital of the Company in connection with entering by the Company into the related major transactions

- Approval of the decision on entering by the Company into a major transaction with CIT Leasing Corporation, or its affiliate or nominee, on operating lease of one new Airbus A320-200 aircraft. Deciding on increasing the Company's liabilities by an amount constituting 10% or more of the equity capital of the Company in connection with entering by the Company into the major transaction

- Approval of the decisions on entering by the Company into major transactions with Triumph 2003 Ltd., Astana Petroleum Oil Ltd. and K Company Ltd. on the procurement of jet fuel. Deciding on increasing the Company's liabilities by an amount of more than 5,000,000 US Dollars in connection with entering by the Company into the major transactions

- Approval of the decision on entering by the Company into a major transaction with BOC Aviation Pte. Ltd., or its affiliate or nominee, on the operating lease of two Airbus A320-200 aircraft. Deciding on increasing the Company's liabilities by an amount constituting 10% or more of the equity capital of the Company in connection with entering by the Company into the major transaction

- Approval of the decision on entering by the Company into a major transaction with HSBC (and other parties arranged by HSBC) and, where applicable, PEFCO and US Ex-Im Bank and other parties related to the transactions for financing of the purchase of three new Boeing B767 aircraft. Deciding on increasing the Company's liabilities by an amount constituting 10% or more of the equity capital of the Company in connection with entering by the Company into the major transaction

- Approval of the decision on entering by the Company into a major transaction with Lufthansa Technik Aero Alzey GmbH for repair and overhaul services of CF34-10E series engines for Embraer ERJ190-100 LR aircraft. Deciding on increasing the Company's liabilities by an amount constituting 10% or more of the equity capital of the Company in connection with entering by the Company into the major transaction

- Approval of the decisions on entering by the Company into major transactions with Triumph 2003 Ltd. and Astana Petroleum Oil Ltd. on the procurement of jet fuel. Deciding on increasing the Company's liabilities by an amount of more than 5,000,000 US Dollars in connection with entering by the Company into the major transactions

- Approval of banking facility for receiving by the Company a borrowing in an amount of more than 1,000,000 US Dollars and approval of the decision on entering by the Company into a major transaction with HSBC on financing of the purchase of one new Airbus A320 aircraft. Deciding on increasing the Company's liabilities by an amount constituting 10% or more of the equity capital of the Company in connection with entering by the Company into the major transaction

- Approval of a banking facility for receiving by the Company a borrowing in an amount of more than 1,000,000 US Dollars and approval of the decision on entering by the Company into a major transaction with HSBC on financing of the purchase of two new Airbus A320 aircraft. Deciding on increasing the Company's liabilities by an amount constituting 10% or more of the equity capital of the Company in connection with entering by the Company into the major transaction

- Approval of entering by the Company into a transaction with RBS (Kazakhstan) SB JSC for issue of unsecured Standby Letters of Credit for the total amount of more than 1,000,000 US Dollars

- Amending the decision of the General Meeting of Shareholders of the Company dated 20 January 2012 in respect of the major transaction of the Company with Boeing on the purchase of three Boeing 767-300ER aircraft with delivery positions in 2013/2014.

BOARD OF DIRECTORS

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

COMPOSITION OF THE BOARD OF DIRECTORS AS OF 31 DECEMBER 2013

CHAIRMAN OF THE BOARD OF DIRECTORS

NURZHAN BAIDAULETOV

Nurzhan Baidauletov has been the Chairman of the Board of Directors at Air Astana since 2008. He is a member of the Nomination and Remuneration, Strategic Planning and Corporate Social Responsibility Committees. Since 2008, he has been a Managing Director of the Samruk-Kazyna National Welfare Fund, since 2012, the Chairman of the Board of Directors at NC Kazakhstan Temir Zholy JSC, and since May 2012, the Chairman of the Board of Directors of Kazakhtelecom JSC. His distinguished career in the Kazakhstan transportation industry spans more than two decades. Mr Baidauletov is a recipient of the Kurmet Medal.

Professional experience:

Since 2008 – Managing Director of Samruk-Kazyna National Welfare Fund JSC

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

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

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

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

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

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

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

1990–1996 – Head of Pavlodar Station

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

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

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

MEMBERS OF THE BOARD OF DIRECTORS

AZAT BEKTUROV

Azat Bekturov has been a member of the Board of Directors since August 2011. At present, he is the Vice Minister of Transport and Communications of the Republic of Kazakhstan. Mr Bekturov has a PhD in Economics and Management Theory.

Professional experience:

Since 2006 – Vice Minister of Transport and Communications of the Republic of Kazakhstan

2004–2006 – Vice President of Air Astana, Almaty

2002–2004 – Director, Deputy Director, Head of Administration, Chief Manager of Corporate Development Department of KazTransGas, Astana

2001–2002 – Electronic Business Projects Analyst, Chevron, San Ramon, California, US

NIGEL BRADLEY

Nigel Bradley has been a member of the Board of Directors since 2001. He is a member of the Nomination and Remuneration and the Strategic Planning Committees.

Mr Bradley is Commercial and Procurement Director, Programmes and Support (BAE Systems) and Chairman of the Commercial and Procurement Functional Councils (BAE Systems). Previously, he held various senior posts at BAE Systems companies, as well as in outside legal practice.

Professional experience:

2007–2009 – Commercial Director, UK and Rest of the World, BAE Systems

2002–2007 – Group Commercial Director Customer Solutions and Support, BAE Systems

2000–2002 – Commercial Director of International Programmes, BAE Systems

1995–2000 – Legal Department Director, British Aerospace Military Aircraft

1990–1995 – Legal Adviser, British Aerospace Military Aircraft

1989–1990 – Senior Legal Adviser, Kellogg's

1987–1989 – Commercial Lawyer, Costain Group

1981–1987 – private legal practice

DAVID COLE

David has worked for BAE Systems for over 27 years. He is a qualified accountant (ACMA) and is Finance Director of BAE Systems International Operating Group. He has held a number of senior finance posts across BAE Systems UK businesses, eg in the Land, Maritime and Air sectors. David is a Board member of the BAE Systems Main Pension Scheme and MBDA (European Missile Company).

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

Professional experience:

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

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

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

2000–2003 – Finance Director, BAE Systems Maritime Operations

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

1995–1997 – Finance Director, GEC Marconi Asute Class Ltd

DMITRIY LARIONOV

Independent Director

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

Professional experience and certification:

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

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

2008 to present – Independent Director of Kazakhtelecom, Chairman of the Audit Committee, member of the Remuneration and Nomination and the Strategic Planning Committees

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

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

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

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

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

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

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

LORD THOMAS ALEXANDER HESKETH

Independent Director

Lord Thomas Alexander Hesketh has been an Independent Director since 2007. He is the Chairman of the Corporate Social Responsibility Committee and a member of the Audit Committee. Lord Hesketh has had a long and distinguished career in public service and international business. In 1997, he was invested as a Knight Commander of the British Empire.

Professional experience:

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

1994–2007 – Chairman, British Mediterranean Airways

2004–2005 – Treasurer, the Conservative Party

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

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

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

RESPONSIBILITIES OF THE BOARD OF DIRECTORS

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

- Determine Air Astana's development priorities, preliminarily approve and propose the long-term development strategy for approval by the General Meeting of Shareholders
- Provide preliminary approval of the annual financial statements
- Submit matters for consideration and resolution by the General Meeting of Shareholders pursuant to the law and/or the Charter
- Approve internal regulatory documents, including procedures for the sale and/or subscription of securities, except where this is under the purview of the President for the purposes of running the business
- Decide on entering into major transactions in the manner prescribed by legislation and the Charter
- Elect and decide on the termination of an agreement with the Company's registrar
- Define procedures for the work of the Internal Audit Service (IAS), determine the remuneration of IAS staff based on recommendations by the President, award bonuses to IAS staff based on recommendations by the Audit Committee and the President, and approve the qualification requirements for IAS employees
- Provide preliminary approval and submit the short-term and medium-term business plans (the development plan and annual budget) for final approval by the General Meeting of Shareholders, as well as any amendments to it, including capital expenditure not provided for in previously approved business plans

ISSUES CONSIDERED BY THE BOARD OF DIRECTORS IN 2013

The Board of Directors held 12 meetings during 2013, four in presentia, and considered the following issues:

STRATEGIC DEVELOPMENT

- Report on implementation of the strategy and major investment projects of the Company
- Preliminary approval of the Business Plan (Development Plan) of the Company for 2014–2018.

FINANCIAL AND OPERATIONAL ACTIVITY

- Report of the President of the Company on the status of the implementation of the decisions of the Board of Directors of the Company
- Report of the President of the Company on the preliminary results of financial and operational activities of the Company for 2012
- Annual report of the President of the Company on the results of financial and operational activities of the Company for 2012
- Report of the President of the Company on the current results of financial and operational activity (implementation of the budget and development plan) of the Company
- Report of the President of the Company on the results of financial and operational activities (implementation of the budget and development plan) of the Company for 8 months 2013
- Report on the results of financial and operational activity (implementation of the budget and development plan) of the Company for 10 months of 2013
- Reports on implementation of the major investment projects of the Company and the issue of financing of the new aircraft purchase
- Operational Safety Review of the Company for the recent 12 months (as of 31 December 2012). Update on regulatory situation with regards to the ICAO and EU Aviation Safety Committee
- Operational Safety Review of the Company for the recent 12 months (as of 31 March 2013). Update on regulatory situation with regards to the ICAO and EU Aviation Safety Committee
- Operational Safety Review of the Company for the recent 12 months (as of 31 August 2013). Update on regulatory situation with regards to the ICAO and EU Aviation Safety Committee
- Operational Safety Review of the Company for the recent 12 months (as of 31 October 2013). Update on regulatory situation with regards to the ICAO and EU Aviation Safety Committee
- Consideration of Almaty Airport issues
- Consideration of the issue of construction of the Company's own technical centre in Astana
- Approval of Orenburg (the Russian Federation) as the Company's new flight destination outside Kazakhstan
- Formation of the Representative Office of the Company in Almaty, the Republic of Kazakhstan
- Deciding on formation of the Representative Offices of the Company in St. Petersburg, Samara, Kazan, Omsk, Novosibirsk and Yekaterinburg (the Russian Federation)
- Approval of the Regulations of the Representative Office of the Company in the Republic of Tajikistan
- Approval of the Regulations of the Representative Office of the Company in Kiev (Ukraine)
- Approval of the Regulations of the Representative Office of the Company in Almaty, the Republic of Kazakhstan
- Preliminary approval of the annual financial statements of the Company for 2012
- Proposals to the Annual General Meeting of Shareholders of the Company on the procedure for distribution of the net income of the Company for 2012 and the amount of the dividend for 2012 per one common stock of the Company
- Approval of the Temporary Surplus Cash Management Policy of the Company
- Approval of the Accounting Policy of the Company
- Approval of the Budget of the Internal Audit Service of the Company for 2014
- Preliminary approval of the Annual Budget of the Company for 2014
- Annual approval of the procedure for and terms of compensation of expenses to the Company's employees travelling on business, the standards of eligibility to the Company cars and standard areas to accommodate the administrative personnel of the Company, the limits of reimbursable expenses at the Company's expense when granting to employees the right to use mobile communication and the limits of representation expenditures
- Deciding on entering by the Company into major transaction with Caspian Catering Service LLP on the provision of on-board catering service for crew and passengers in Atyrau Airport. Preliminary deciding on increasing the Company's liabilities by an amount of more than 5,000,000 US Dollars in connection with entering by the Company into the major transaction
- Deciding on entering by the Company into major transaction with SiT on the purchase of the In-flight Entertainment System for five Boeing 757 aircraft. Preliminary deciding on increasing the Company's liabilities by an amount of more than 5,000,000 US Dollars in connection with entering by the Company into the major transaction
- Deciding on entering by the Company into major transaction with Almaty Catering Services LLP on the provision of on-board catering services for crew and passengers at Almaty Airport. Preliminary deciding on increasing the Company's liabilities by an amount of more than 5,000,000 US Dollars in connection with entering by the Company into the major transaction
- Deciding on entering by the Company into major transaction with Astana International Airport JSC on the provision of on-board catering services for crew and passengers at Astana Airport. Preliminary deciding on increasing the Company's liabilities by an amount of more than 5,000,000 US Dollars in connection with entering by the Company into the major transaction

- Deciding on entering by the Company into major transactions with Petrosun Ltd. and KazMunayGaz-Refinery and Marketing JSC on the procurement of jet fuel. 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 5,000,000 US Dollars in connection with entering by the Company into the major transactions

- Deciding on entering by the Company into major transactions on procurement of jet fuel for ramp refueling with Kuwait Petroleum International Aviation Co Ltd. (Amsterdam Airport, the Netherlands), Kuwait Petroleum International Aviation Co Ltd. (Frankfurt-on-the Main Airport, Germany), ADNOC Distribution (Abu-Dhabi Airport, U.A.E.), Chevron Products Company (Bangkok Airport, Thailand), Petrol Ofisi A.S. (Istanbul Airport, the Republic of Turkey), China National Aviation Fuel Supply Co. Ltd (Beijing Airport, China), CJSC TZK Sheremetyevo (Moscow Airport, the Russian Federation). Preliminary deciding on increasing the Company's liabilities by an amount of more than 5,000,000 US Dollars in connection with entering by the Company into the major transactions

- Preliminary approval of and deciding on entering by the Company into related major transactions with Halyk Bank JSC on provision of the Company with a credit facility for the amount of more than 1,000,000 US Dollars. Preliminary deciding on increasing the Company's liabilities by an amount constituting 10% or more of the equity capital of the Company in connection with entering by the Company into the related major transactions

- Deciding on entering by the Company into a major transaction with Atlantic Flight Training Academy Ltd. on the purchase of services in respect of Ab-Initio pilot training for 2013-2016. Preliminary deciding on increasing the Company's liabilities by an amount of more than 5,000,000 US Dollars in connection with entering by the Company into the major transaction

- Deciding on entering by the Company into a major transaction CIT Leasing Corporation, or its affiliate or nominee, on operating lease of one new Airbus 320-200 aircraft. Preliminary deciding on increasing the Company's liabilities by an amount constituting 10% or more of the equity capital of the Company in connection with entering by the Company into the major transaction

- Deciding on entering by the Company into major transactions with Triumph 2003 Ltd., Astana Petroleum Oil Ltd. and K Company Ltd. on the procurement of jet fuel. Preliminary deciding on increasing the Company's liabilities by an amount of more than 5,000,000 US Dollars in connection with entering by the Company into the major transactions

- Proposal of the President of the Company for selecting a bank to arrange ECA backed financing with respect to new Airbus A320 family aircraft to be delivered in 2013. Preliminary approval of receiving by the Company the borrowing in an amount of more than 1,000,000 US Dollars and deciding on entering by the Company into a major transaction with HSBC on financing of the purchase of one new Airbus A320 aircraft. Preliminary deciding on increasing the Company's liabilities by an amount constituting 10% or more of the equity capital of the Company in connection with entering by the Company into the major transaction

- Deciding on entering by the Company into a major transaction with BOC Aviation Pte. Ltd., or its affiliate or nominee, on the operating lease of two (2) Airbus A320-200 aircraft. Preliminary deciding on increasing the Company's liabilities by an amount constituting 10% or more of the equity capital of the Company in connection with entering by the Company into the major transaction

- Deciding on entering by the Company into a major transaction with Lufthansa Technik Aero Alzey GmbH for repair and overhaul services of CF34-10E series engines for Embraer ERJ190-100 LR aircraft. Preliminary deciding on increasing the Company's liabilities by an amount constituting 10% or more of the equity capital of the Company in connection with entering by the Company into the major transaction

- Deciding on entering by the Company into major transactions with Triumph 2003 Ltd. and Astana Petroleum Oil Ltd. on the procurement of jet fuel. Preliminary deciding on increasing the Company's liabilities by an amount of more than 5,000,000 US Dollars in connection with entering by the Company into the major transactions

- Proposal of the President of the Company for selecting a bank to arrange ECA backed financing with respect to new Airbus A320 family aircraft to be delivered in 2013. Preliminary approval of receiving by the Company the borrowing in an amount of more than 1,000,000 US Dollars and deciding on entering by the Company into a major transaction with HSBC on financing of the purchase of two new Airbus A320 aircraft. Preliminary deciding on increasing the Company's liabilities by an amount constituting 10% or more of the equity capital of the Company in connection with entering by the Company into the major transaction

- Amending the decision of the Board of Directors of the Company dated 08 December 2011 in respect of the major transaction of the Company with Boeing on the purchase of three Boeing 767-300ER aircraft with delivery positions in 2013/2014

- Information of the President of the Company on the issue of selecting a bank to arrange the US Export-Import Bank financing with respect to the purchase of new Boeing B767 aircraft. Deciding on entering by the Company into a major transaction with HSBC (and other parties arranged by HSBC) and, where applicable, PEFCO and US Ex-Im Bank and other parties related to the transactions for financing of the purchase of three new Boeing B767 aircraft. Preliminary deciding on increasing the Company's liabilities by an amount constituting 10% or more of the equity capital of the Company in connection with entering by the Company into the major transaction

- Deciding on entering by the Company into a major transaction with HSBC Bank Kazakhstan SB JSC on prolongation of the credit facility for issue of unsecured Letters of Credit and guarantees by and preliminary deciding on increasing the Company's liabilities by an amount of more than 5,000,000 US Dollars in connection with entering by the Company into the major transaction

- Preliminary approval of entering by the Company into a transaction with RBS (Kazakhstan) SB JSC for issue of unsecured Standby Letters of Credit for the total amount of more than 1,000,000 US Dollars

- Preliminary approval of entering by the Company into transactions with RBS (Kazakhstan) SB JSC for issue of Standby Letters of Credit for the total amount of more than 1,000,000 US Dollars. Preliminary approval of entering by the Company into a transaction on money pledge for the amount of more than 1,000,000 US Dollars.

INTERNAL CONTROL AND AUDIT

- Annual report of the Head of the Internal Audit Service of the Company on the activity of the Internal Audit Service of the Company for 2012

- Performance evaluation of the Internal Audit Service of the Company for the 4th quarter of 2012

- Report of the Head of the Internal Audit Service of the Company on the status of execution of the Action Plan for Implementation of the Strategic Plan of the Internal Audit Service of the Company for the 1st quarter of 2013

- Report of the Head of the Internal Audit Service of the Company on the activity of the Internal Audit Service of the Company for the 1st quarter of 2013.

- Performance evaluation of the Internal Audit Service of the Company for the 1st quarter of 2013

- Report of the Head of the Internal Audit Service of the Company on the activity of the Internal Audit Service of the Company for 2nd quarter of 2013

- Report of the Head of the Internal Audit Service of the Company on the status of execution of the Action Plan for Implementation of the Strategic Plan of the Internal Audit Service of the Company for the 1st half of 2013

- Performance evaluation of the Internal Audit Service of the Company for the 2nd quarter of 2013

- Report of the Head of the Internal Audit Service of the Company on the status of execution of the Action Plan for Implementation of the Strategic Plan of the Internal Audit Service of the Company for the 3rd quarter of 2013

- Report of the Head of the Internal Audit Service of the Company on the activity of the Internal Audit Service of the Company for the 3rd quarter of 2013

- Performance evaluation of the Internal Audit Service of the Company for the 3rd quarter of 2013

- Amending the Annual Audit Plan of the Internal Audit Service of the Company for Y2013 approved by the Board of Directors of the Company on 06 December 2012
- Amending the Annual Audit Plan of the Internal Audit Service of the Company for Y2013 approved by the Board of Directors of the Company on 06 December 2012 (with amendments approved by the Board of Directors of the Company on 09 August 2013)
- Staff changes in the Internal Audit Service of the Company
- Approval of the Annual Audit Plan of the Internal Audit Service of the Company for 2014
- Consideration of the issue of determining the period of the review of the corporate governance system of the Company by the Internal Audit Service of the Company
- Report on improvement of the corporate governance system for 2013 and the results of the review of the corporate governance system by the Internal Audit Service of the Company
- Approval of the Policy of the Company in respect of procurement of services of audit organizations
- Approval of the Procedure of the Company for selection of the supplier of external audit services.

RISK MANAGEMENT

- Approval of the updated Key Risk Register of the Company as of June 2013
- Approval of the updated Key Risk Register of the Company as of November 2013
- Approval of the amended Jet Fuel Prices Hedging Policy of the Company
- Consideration of the issues of aviation insurance and liability insurance of Directors and Officials of the Company and approving the amended Rules on arrangement of insurance coverage of the Company

GOVERNANCE AND REMUNERATION

- Approval of the updated plan of work and the schedule of the meetings of the Board of Directors of the Company for 2013
- Approval of the plan of work and the schedule of the meetings of the Board of Directors of the Company for 2014
- Information of the Nomination and Remuneration Committee of the Board of Directors of the Company with regard to the proposals to the General Meeting of Shareholders of the Company on the issues of appointment of the Senior Vice President Operations of the Company and Vice President Flight Operations of the Company
- Report on the activity of the Audit and Nomination and Remuneration Committees of the Board of Directors of the Company for 2012
- Determination of the amount of the 2012 Profit Share Bonus payment to the employees of the Company whose remuneration shall be determined by the Board of the Directors of the Company
- Recommendations to the General Shareholders' 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 2012
- Information of the Nomination and Remuneration Committee of the Board of Directors of the Company with respect to changing the amount and terms of remuneration and compensation to the President of the Company
- Changing the limits of reimbursable expenses at the Company's expense when granting to the President of the Company the right to use mobile communication
- Proposals for changing the amount and terms of remuneration and compensations to the President of the Company
- Annual approval of the remuneration system and provision of incentives and the scheme of labour remuneration of the Company's employees
- Determination of the amount of the 2013 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 2014 salary of the employees of the Company whose remuneration shall be determined by the Board of Directors of the Company.

SELECTION CRITERIA FOR THE BOARD OF DIRECTORS

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

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

The members of the Board of Directors should not:

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

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

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

REMUNERATION OF MEMBERS OF THE BOARD OF DIRECTORS AND THE EXECUTIVE BODY

The directors representing the shareholders receive no compensation from the Company. Only the independent directors receive any remuneration. In 2013 the remuneration for the Executive Body and the Independent Directors amounted to KZT 125,291 thousand, including taxes.

COMMITTEES OF THE BOARD OF DIRECTORS

The Board of Directors has four committees with the responsibility of oversight over specific areas of the company, and to present proposals to the full Board of Directors for approval. The 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 develop recommendations to the board regarding issues of strategic development. The committee was created in October 2012.

Composition of the Strategic Planning Committee:
- Chairman: Dmitriy Larionov (independent director)
- Members: Nurzhan Baidauletov, Nigel Bradley

Responsibilities of the Strategic Planning Committee

The responsibilities of the Strategic Planning Committee include:

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

Issues considered by the Strategic Planning Committee in 2013

In 2013 the Strategic Planning Committee considered the following issues:
- Approval of the annual plan of work of the Strategic Planning Committee for 2013
- Consideration of the report of the management of the Company on implementation of the long-term strategy of the development and the medium-term business plan (development plan)
- Consideration of the reports of the management of the Company on the current results of financial and operational activity (implementation of the budget and development plan) of the Company
- Consideration of the reports of the management of the Company on implementation of the major investment projects of the Company and the issue of financing of the purchase of new aircraft
- Consideration of the proposals of the management of the Company on the procedure for distribution of the net profit of the Company for 2012 and the amount of the dividend for 2012 per one common stock of the Company
- Consideration of the report on the results of the review of the corporate governance system by the Internal Audit Service of the Company
- Consideration of the Annual Budget of the Company for 2014
- Consideration of the Business Plan (Development Plan) of the Company for 2014–2018
- Approval of the annual plan of work of the Strategic Planning Committee for 2014.

NOMINATION AND REMUNERATION COMMITTEE

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

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

Composition of the Nomination and Remuneration Committee:
- Chairman: Dmitriy Larionov (independent director)
- Members: Nurzhan Baidauletov, Nigel Bradley

Responsibilities of the Nomination and Remuneration Committee

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

Issues considered by the Nomination and Remuneration Committee in 2013

In 2013 the Nomination and Remuneration Committee considered the following issues:

Remuneration

- Recommendations with regards to the 2012 Profit Share Bonus payment to the employees of the Company whose remuneration shall be determined by the Board of the Directors of the Company
- Recommendations with regards to the annual bonus payment to the President of the Company following the results of work for the year 2012
- Recommendations with regards to changing the amount and terms of remuneration and compensation to the President of the Company
- Recommendations with regards to changing the limits of reimbursable expenses at the Company's expense when granting to the President of the Company the right to use mobile communication
- Recommendations with regards to the 2013 Year End Bonus payment to the employees of the Company whose remuneration shall be determined by the Board of the Directors of the Company
- Proposals with regard to review of the remuneration and determination of 2014 salaries of the employees of the Company whose remuneration shall be determined by the Board of Directors of the Company
- Preliminary approval of the Regulations of the Labour Remuneration System of the Company
- Recommendations with regards to the amount and terms of remuneration and compensation to the Independent Directors of the Company

Nomination

- Recommendations with regard to the appointment of the Senior Vice President Operations of the Company and Vice President Flight Operations of the Company
- Recommendations with regards to the candidates to the Board of Directors of the Company

Other issues

- Consideration of the issue of establishment of KPIs for the senior executive staff of the Company and evaluation of the performance of the senior executive staff of the Company based on the achievement of KPIs
- Approval of the annual plan of work of the Nomination and Remuneration Committee for 2014

AUDIT COMMITTEE

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

Composition of the Audit Committee:

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

Responsibilities of the Audit Committee

The following falls within the competence of the Audit Committee:

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

Issues considered by the Audit Committee in 2013

In 2013 the Audit Committee considered the following issues:

Financial statements

- External auditor's report on the results of the audit of the annual financial statements of the Company for 2012
- Consideration of the Management Letter following the results of the audit of the annual financial statements of the Company for 2012
- Recommendations to the Board of Directors of the Company with regards to the preliminary approval of the annual financial statements of the Company for 2012

Internal Audit

- Hearing of the annual report of the Head of the Internal Audit Service of the Company on the activity of the Internal Audit Service of the Company for 2012.
- Performance evaluation of the Internal Audit Service of the Company for the 4th quarter of 2012.
- Hearing of the Head of the Internal Audit Service of the Company on the status of execution of the Action Plan for Implementation of the Strategic Plan of the Internal Audit Service of the Company for the 1st quarter of 2013
- Hearing of the Report of the Head of the Internal Audit Service of the Company on the activity of the Internal Audit Service of the Company for the 1st quarter of 2013
- Performance evaluation of the Internal Audit Service of the Company for the 1st quarter of 2013
- Preliminary approval of the amount of the 2012 Profit Share bonus to the Head and employees of the Internal Audit Service of the Company
- Preliminary approval of the amendments to the Annual Audit Plan of the Internal Audit Service of the Company for 2013 approved by the Board of Directors of the Company on 06 December 2012
- Determination of the scope and approach for review of corporate governance system in accordance with the Annual Audit Plan of the Internal Audit Service of the Company for 2013
- Hearing of the Report of the Head of the Internal Audit Service of the Company on the activity of the Internal Audit Service of the Company for the 2nd quarter of 2013.
- Hearing of the Head of the Internal Audit Service of the Company on the status of execution of the Action Plan for Implementation of the Strategic Plan of the Internal Audit Service of the Company for the 1st half of 2013
- Performance evaluation of the Internal Audit Service of the Company for the 2nd quarter of 2013
- Preliminary approval of the Budget of the Internal Audit Service of the Company for 2014
- Preliminary approval of the amendment to the Annual Audit Plan of the Internal Audit Service of the Company for 2013 approved by the Board of Directors of the Company on 06 December 2012 (with amendments approved by the Board of Directors of the Company on 09 August 2013)
- Hearing the report of the Head of the Internal Audit Service of the Company on the status of execution of the Action Plan for Implementation of the Strategic Plan of the Internal Audit Service of the Company for the 3rd quarter of 2013
- Hearing the report of the Head of the Internal Audit Service of the Company on the activity of the Internal Audit Service of the Company for the 3rd quarter of 2013.
- Performance evaluation of the Internal Audit Service of the Company for the 3rd quarter of 2013.
- Proposals of the Head of the Internal Audit Service of the Company on the staff changes in the Internal Audit Service of the Company
- Preliminary approval of the Annual Audit Plan of the Internal Audit Service of the Company for 2014
- Preliminary approval of the amount of the 2013 Year End Bonus to the Head and employees of the Internal Audit Service of the Company
- Preliminary approval of the amount of the 2014 salaries of the Head and employees of the Internal Audit Service of the Company

External Audit

- The Company's External Auditor's update on the results of the 2013 half-year review of the Interim Financial Statements of the Company for 6 months 2013
- Recommendations to the Board of Directors of the Company with regards to the approval of the Policy of the Company in respect of procurement of services of audit organizations
- Recommendations in respect of approval of the Procedure of the Company for selection of the supplier of external audit services
- Recommendations with regard to determining the auditing organization to perform an audit of the Company for 2014–2016 and the fee to be paid for its services

Internal Control and Risk Management

- Preliminary approval of the updated Key Risk Register of the Company as of June 2013
- Preliminary approval of the updated Key Risk Register of the Company as of November 2013
- Preliminary approval of the updated Jet Fuel Prices Hedging Policy of the Company
- Recommendations with regard to the issue of aviation insurance and liability insurance of Directors and Officials of the Company and approving the amended rules on arrangement of insurance coverage of the Company

Other issues

- Recommendations to the Board of Directors of the Company with regards to the approval of the Accounting Policy of the Company
- Hearing of the report on the status of implementation of instructions issued following the results of the inspections by the state bodies
- Hearing of the report on the status of litigations and results of state inspections and audits of the Company
- Preliminary approval of the use of related services rendered by the External Auditor of the Company.
- Recommendations to the Board of Directors of the Company with regards to the approval of the Cash Liquidity Policy of the Company
- Information on the status of the Company's deposits placed as at 01 September 2013
- Recommendations in respect of approval of the main parameters of the Treasury Portfolio of the Company
- Approval of the Annual Plan of the Audit Committee for 2014

CORPORATE SOCIAL RESPONSIBILITY COMMITTEE

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

Composition of the Corporate Social Responsibility Committee:

- Chairman: Lord Thomas Alexander Hesketh (independent director)
- Members: Dmitriy Larionov (independent director), Nurzhan Baidauletov

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

INTERNAL AUDIT SERVICE

The Internal Audit Service (Service) was created on 6 December 2007 by a resolution of the Board of Directors. Reporting directly to the Board of Directors, it conducts the internal audit and constantly monitors the internal control system. The board-level Audit Committee oversees the Service's work. In accordance with the Charter, Service's employees are not eligible to serve on the Board of Directors or as President.

Responsibilities

The Main goal of the Service is to provide the Board of Directors with independent and objective assurance and consulting activity designed to add value and improve the effectiveness of risk management, control and governance processes and include following functions:

- evaluation of adequacy and effectiveness of internal controls in corporate governance, operational (production and financial) activity of the Company and its information systems;
- evaluation of adequacy and effectiveness of the Company's internal control system;
- evaluation of the Company's corporate governance system;
- evaluation of fraud risk and effectiveness of fraud risk management in the Company;
- evaluation of completeness of implementation and efficiency of the risk management methodologies and risk management procedures in the Company;
- evaluation of corporate governance system including implementation and compliance of accepted corporate governance principles with ethical standards and values of 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 implementation of instructions of authorized bodies, resolutions of the Company's bodies and evaluation of systems developed to follow these requirements;
- evaluation of adequacy of the measures applied by the Company's structural divisions to ensure achievement of the Performance objectives within the framework of the strategic objectives of the Company;
- development of internal documents governing the Service activity in accordance with the Standards and decisions/recommendations of the General Meeting of Shareholders;
- provision of consulting services to the Board of Directors, Executive body, structural bodies of the Company regarding improvement of the internal control, risk management, corporate governance and organization of internal audit function;
- conduct of unplanned audit engagement;
- monitoring over implementation of external auditor's recommendations;
- post control over implementation of recommendations issued by the Service;
- exchange of information and coordination of activity with other internal and external parties of the Company that provide assurance and consulting services.

HEAD OF THE SERVICE

VALENTINA KHEGAY

Prior to joining Air Astana in 2006, Valentina Khegay worked at auditing firm KPMG. She has extensive experience in audit, finance and accounting and began her career in audit in 1996. Her previous positions include Chief Accountant and Chief Financial Officer at several companies. Valentina has a doctorate in Economic Science and is a Certified Auditor and Professional Accountant (CAP, CIPA, and Professional Accountant certificates).

Ms. Valentina Khegay, Vice President Internal Audit, was appointed as Head of the Internal Audit Service based on the decision of the General Meeting of Shareholders of Air Astana JSC held on 07 December 2007.

CORPORATE SECRETARY

The position of Corporate Secretary was established through a resolution of the Board of Directors on 6 December 2007. The Corporate Secretary is responsible for facilitating coordination between the Company's different governing bodies and ensuring their adherence to legal, regulatory and internal company bylaws. The Corporate Secretary ensures that the rights of all shareholders are observed, shareholder communications are given due consideration by the relevant body, and any dispute involving shareholders' rights are resolved.

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

YELENA KONDACHKOVA

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

FOR OUR SHAREHOLDERS

DIVIDEND POLICY

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

According to the policy, Air Astana allocates 25% of tenge 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 is unchanged in all the years presented below.

	2007	2008	2009	2010	2011	2012	2013
KZT per share (paid)	59,369	63,708	30,208	145,722	167,064	158,504	187,496
US$ per share (paid)	486.65	532.41	200.41	987.65	1,141.06	1,070.82	1,242.35
Total amount paid (US$ 000)	8,273	9,051	3,407	16,790	19,398	18,204	21,120
Previous Year Net Profit (US$ 000)	32,023	35,350	17,075	47,985	77,116	61,260	61,076
Dividend pay-out ratio	**25%**	**25%**	**20%**	**35%**	**25%**	**30%**	**35%**

2014 FINANCIAL CALENDAR

Report of the Head of the Internal Audit Service (IAS) of Air Astana JSC on the IAS' activity for 2013	13 February 2014
Issue of independent auditor's report on financial statements for 2013	March 2014
Annual report of the President of Air Astana JSC on the results of financial and operational activities of the Company for 2013	24 April 2014
Report of the Head of the Internal Audit Service (IAS) of the Company on the IAS' activity for the 1st quarter of 2014	24 April 2014
Preliminary approval of financial statements for 2013 by the Board of Directors	24 April 2014
Proposals of the Board of Directors to the Annual General Meeting of Shareholders on the procedure for distribution of the net profit of Air Astana JSC for 2013 and the amount of the dividend for 2013 per one common share of the Company	24 April 2014
Annual General Meeting of Shareholders	30 May 2014
Approval of financial statements for 2013 by the Annual General Meeting of Shareholders	30 May 2014
Annual Report of Air Astana JSC for 2013	30 May 2014
Deciding on payment of dividends and approval of the amount of the dividend for 2013 per one common share of the Company by the Annual General Meeting of Shareholders	30 May 2014
Publication of financial statements for 2013 on the Company's website	June 2014
Announcement of dividends for 2013	June 2014
Publication of financial statements for the 1st half of 2014 on the Company's website	August 2014
Report of the Head of the Internal Audit Service (IAS) of the Company on the IAS' activity for the 2nd quarter of 2014	15 October 2014
Report of the Head of the Internal Audit Service (IAS) of the Company on the IAS' activity for the 3rd quarter of 2014	04 December 2014
Approval of the plan of work of the Board of Directors for 2015	04 December 2014
Approval of the Annual Audit Plan of the Internal Audit Service for 2015	04 December 2014
Preliminary approval of a five year business plan of the Company for 2015–2019	04 December 2014
Preliminary approval of the budget of the Company for 2015	04 December 2014

EXTERNAL AUDITOR

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

Deloitte LLP was re-appointed for the 2011–13 period to audit the annual financial statements and review the interim financial statements. This appointment was based on a tender carried out in July 2011.

Since Air Astana's creation, the following companies have acted as our external auditor: Ernst and Young Kazakhstan LLP (2002-03), KPMG Janat LLP (2004-06), Deloitte LLP (2007-Present).

Contact information of Deloitte LLP:

Building B, 36 Al-Farabi Ave.,
Almaty, 050059, Kazakhstan
Tel: +7 (727) 258 13 40
Fax: +7 (727) 258 13 41
almaty@deloitte.kz
www.deloitte.kz

INDEPENDENT REGISTRAR

The shareholders' register of Air Astana is kept by the Integrated Securities Registrar.

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

Contact information of the Integrated Securities Registrar:

141 Abylai Khan Ave.,
Almaty, 050000, Kazakhstan
Tel: +7 (727) 272 47 60
www.tisr.kz

JOINT STOCK COMPANY AIR ASTANA

Financial Statements
For the year ended 31 December 2013

TABLE OF CONTENTS

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

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 2013, the results of its operations, cash flows and changes in equity for the year then ended, in compliance with International Financial Reporting Standards ("IFRS").

In preparing the financial statements, management is responsible for:

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

Management is also responsible for:

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

The financial statements for the year ended 31 December 2013 were authorised for issue on 14 March 2014 by management of the Company.

On behalf of management of the Company:

Peter Foster	**Alima Zamanbekova**
President	**Chief Accountant**
14 March 2014	14 March 2014
Almaty, Republic of Kazakhstan	Almaty, Republic of Kazakhstan

АО «ЭЙР АСТАНА»

Deloitte.

Deloitte, LLP
36 Al Farabi Ave.,
Almaty, 050059,
Republic of Kazakhstan

Tel: +7 (727) 258 13 40
Fax: +7 (727) 258 13 41
almaty@deloitte.kz
www.deloitte.kz

INDEPENDENT AUDITORS' REPORT

To the Shareholders and Board of Directors of JSC Air Astana:

We have audited the accompanying financial statements of JSC Air Astana (the "Company"), which comprise the statement of financial position as at 31 December 2013, and the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes comprising a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

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

Auditors' responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of JSC Air Astana as at 31 December 2013, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Andrew Weekes
Engagement Partner
Chartered Accountant
Certificate of Public Practice
78586, Australia

Karina Muldasheva
Certified auditor
Qualification certificate #MF-0000091
dated 27 August 2012,
Republic of Kazakhstan

Deloitte, LLP
Audit license for Republic of Kazakhstan
#0000015, type MFU - 2, issued by the Ministry of
Finance of the Republic of Kazakhstan
dated 13 September 2006

Nurlan Bekenov
General Director
Deloitte, LLP

14 March 2014
Almaty, Republic of Kazakhstan

JOINT STOCK COMPANY AIR ASTANA

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2013

(in thousands of USD)

	Notes	2013	2012
Revenue			
Passenger revenue	5	917,070	833,508
Cargo and mail	5	29,423	26,313
Other	5	20,411	15,254
Total revenue		966,904	875,075
Operating expenses			
Fuel		(280,007)	(246,820)
Handling, landing fees and route charges	6	(118,037)	(99,581)
Employee costs	6	(99,080)	(92,207)
Passenger service	6	(92,692)	(77,622)
Engineering and maintenance	6	(79,944)	(74,079)
Aircraft operating lease costs	6	(78,243)	(79,732)
Selling costs	6	(48,211)	(50,428)
Aircraft crew costs	6	(39,486)	(39,371)
Depreciation and amortisation	11	(29,282)	(7,285)
Taxes		(7,138)	(7,200)
Insurance	6	(5,949)	(5,681)
Property lease cost		(5,752)	(5,045)
Information technology		(3,073)	(3,175)
Consultancy, legal and professional services		(1,728)	(2,195)
Other		(6,068)	(8,492)
Total operating expenses		(894,690)	(798,913)
Operating profit		72,214	76,162
Finance income	7	1,688	3,949
Finance expenses	7	(7,651)	(2,320)
Foreign exchange (loss)/gain, net		(1,326)	1,430
Profit before tax		64,925	79,221
Income tax expense	8	(13,561)	(18,145)
Profit for the year		51,364	61,076
Other comprehensive loss, net of income tax:			
Items that will not be subsequently reclassified to profit or loss:			
Foreign currency translation loss		(5,615)	(4,118)
Income tax		208	-
Other comprehensive loss for the year, net of income tax		(5,407)	(4,118)
Profit and total comprehensive income for the year		45,957	56,958
Basic and diluted earnings per share (in USD)	20	3,021	3,593

On behalf of the Company's management:

Peter Foster
President

14 March 2014
Almaty, Republic of Kazakhstan

Alima Zamanbekova
Chief Accountant

14 March 2014
Almaty, Republic of Kazakhstan

The notes on pages 9 to 49 form an integral part of these financial statements. The independent auditor's report on the financial statements is on pages 2 and 3.

JOINT STOCK COMPANY AIR ASTANA
STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2013
(in thousands of USD)

	Notes	31 December 2013	31 December 2012
ASSETS			
Non-current assets			
Property, plant and equipment	9	562,856	229,897
Intangible assets	10	2,139	2,593
Prepayments for long-term assets	14	23,798	95,053
Guarantee deposits	12	12,799	17,601
Trade and other receivables	15	5,448	-
		607,040	345,144
Current assets			
Inventories	13	55,247	42,760
Prepayments	14	49,214	21,256
Income tax prepaid		5,510	1,512
Trade and other receivables	15	32,706	46,322
Other taxes prepaid	17	7,768	4,096
Guarantee deposits	12	5,146	1,585
Bank deposits	18	114,372	80,476
Cash and bank balances	19	13,725	43,051
Financial assets at fair value through profit or loss	16	331	361
		284,019	241,419
Total assets		891,059	586,563
EQUITY AND LIABILITIES			
Equity			
Share capital	20	17,000	17,000
Foreign currency translation reserve		(25,002)	(19,595)
Retained earnings		315,520	285,276
Total equity		307,518	282,681
Non-current liabilities			
Loans	24	-	6,456
Finance lease liabilities	25	382,887	134,033
Deferred tax liability	8	18,120	3,515
Provision for aircraft maintenance	22	7,098	4,132
		408,105	148,136
Current liabilities			
Loans	24	9,282	18,227
Finance lease liabilities	25	36,470	10,047
Deferred revenue	21	63,240	57,440
Provision for aircraft maintenance	22	16,049	16,712
Trade and other payables	23	50,129	53,040
Financial liabilities at fair value through profit or loss	16	266	280
		175,436	155,746
Total liabilities		583,541	303,882
Total equity and liabilities		891,059	586,563

On behalf of the Company's management:

Peter Foster
President

14 March 2014
Almaty, Republic of Kazakhstan

Alima Zamanbekova
Chief Accountant

14 March 2014
Almaty, Republic of Kazakhstan

АО «ЭЙР АСТАНА»

JOINT STOCK COMPANY AIR ASTANA
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2013
(in thousands of USD)

	Notes	Share capital	Foreign currency translation reserve	Retained earnings	Total equity
At 1 January 2012		17,000	(15,477)	242,404	243,927
Net profit for the year		-	-	61,076	61,076
Other comprehensive loss for the year		-	(4,118)	-	(4,118)
Total comprehensive income for the year		-	(4,118)	61,076	56,958
Dividends declared	20	-	-	(18,204)	(18,204)
At 31 December 2012		17,000	(19,595)	285,276	282,681
Net profit for the year		-	-	51,364	51,364
Other comprehensive loss for the year		-	(5,407)	-	(5,407)
Total comprehensive income for the year		-	(5,407)	51,364	45,957
Dividends declared	20	-	-	(21,120)	(21,120)
At 31 December 2013		17,000	(25,002)	315,520	307,518

On behalf of the Company's management:

Peter Foster
President

14 March 2014
Almaty, Republic of Kazakhstan

Alima Zamanbekova
Chief Accountant

14 March 2014
Almaty, Republic of Kazakhstan

АО «ЭЙР АСТАНА»

The notes on pages 9 to 49 form an integral part of these financial statements. The independent auditor's report on the financial statements is on pages 2 and 3.

JOINT STOCK COMPANY AIR ASTANA

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2013
(in thousands of USD)

	Notes	2013	2012
OPERATING ACTIVITIES:			
Profit before tax		64,925	79,221
Adjustments for:			
Depreciation and amortisation of property, plant and equipment and intangible assets	11	29,282	7,285
Gain on disposal of property, plant and equipment		(580)	(176)
Change in allowance for doubtful debts	14, 15	907	2,628
Change in allowance for obsolete and slow-moving inventories	13	(302)	221
Foreign exchange loss/(gain)		1,326	(1,430)
Finance income	7	(1,688)	(3,949)
Interest expense on finance lease	7	6,544	411
Interest expense on bank loans	7	-	879
Net unrealised loss on financial assets and liabilities at fair value through profit or loss	7	13	4
Operating cash flow before movements in working capital		100,427	85,094
Change in accounts receivable		4,748	(10,636)
Change in other receivables and prepaid expenses		(32,962)	3,373
Change in inventories		(12,799)	(14,335)
Change in accounts payable, accrued expenses and other current liabilities		(2,582)	(4,817)
Change in deferred revenue		6,941	(2,716)
Cash generated from operations		63,773	55,963
Income tax paid		(2,446)	(6,209)
Interest paid		(7,334)	(1,197)
Net cash generated by operating activities		53,993	48,557
INVESTING ACTIVITIES:			
Pre-delivery payments		(11,233)	(70,078)
Refund of pre-delivery payments		22,376	-
Purchase of property, plant and equipment		(9,818)	(17,883)
Proceeds from disposal of property, plant and equipment		862	508
Purchase of intangible assets	10	(547)	(347)
Deposits placed		(192,097)	(41,246)
Deposits withdrawn		155,243	86,473
Interest received		5,613	7,591
Net cash used in investing activities		(29,601)	(34,982)

JOINT STOCK COMPANY AIR ASTANA

STATEMENT OF CASH FLOWS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2013
(in thousands of USD)

	Notes	2013	2012
FINANCING ACTIVITIES:			
Dividends paid	20	(21,120)	(18,204)
Proceeds from borrowings		2,735	69,537
Repayment of borrowings		(18,300)	(45,000)
Repayment of finance lease		(16,470)	(241)
Net cash (used in)/ generated from financing activities		(53,155)	6,092
NET (DECREASE)/INCREASE IN CASH AND BANK BALANCES		(28,763)	19,667
Effect of exchange rate changes on cash and bank balances held in foreign currencies		(563)	(611)
CASH AND BANK BALANCES, at the beginning of the year	19	43,051	23,995
CASH AND BANK BALANCES, at the end of the year	19	13,725	43,051

On behalf of the Company's management:

АО «ЭЙР АСТАНА»

Peter Foster
President

14 March 2014
Almaty, Republic of Kazakhstan

Alima Zhumanbekova
Chief Accountant

14 March 2014
Almaty, Republic of Kazakhstan

The notes on pages 9 to 49 form an integral part of these financial statements. The independent auditor's report on the financial statements is on pages 2 and 3.

JOINT STOCK COMPANY AIR ASTANA

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013
(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 2013 the Company operated 29 turbojet aircraft, of which 8 short-haul and 21 long-haul aircraft representing 10 aircraft acquired under finance lease and 19 aircraft leased under operating lease (2012: 27 aircraft comprising 2 turboprop and 25 turbojet aircraft, of which 8 short-haul turboprop aircraft and 19 long-haul aircraft representing 4 aircraft acquired under finance lease and 23 aircraft leased under operating lease).

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

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

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

The Company has applied a number of new and revised IFRSs issued by the International Accounting Standards Board (IASB) that are mandatorily effective for an accounting period that begins on or after 1 January 2013:

Amendments to IFRS 7 Disclosures – Offsetting Financial Assets and Financial Liabilities

The Company has applied the amendments to IFRS 7 Disclosures – Offsetting Financial Assets and Financial Liabilities for the first time in the current year. The amendments to IFRS 7 require entities to disclose information about rights of offset and related arrangements (such as collateral posting requirements) for financial instruments under an enforceable master netting agreement or similar arrangement.

The amendments should have been applied retrospectively. As the Company does not have any offsetting arrangements in place, the application of the amendments has had no material impact on the disclosures or on the amounts recognised in the financial statements.

New and revised Standards on consolidation, joint arrangements, associates and disclosures

In May 2011, a package of five standards on consolidation, joint arrangements, associates and disclosures ("a package of five standards") was issued comprising

IFRS 10 Consolidated Financial Statements,
IFRS 11 Joint Arrangements,
IFRS 12 Disclosure of Interests in Other Entities,
IAS 27 (as revised in 2011) Separate Financial Statements and
IAS 28 (as revised in 2011) Investments in Associates and Joint Ventures.

Subsequent to the issue of these standards, amendments to IFRS 10, IFRS 11 and IFRS 12 were issued to clarify certain transitional guidance on the first-time application of the standards.

In the current year, the Company has not applied these standards together with the amendments due to inapplicability except IAS 27 (as revised in 2011) as it is deals with separate financial statements, its application has had no material impact on the disclosures or on the amounts recognised in the financial statements.

IFRS 10 Consolidated Financial Statements

IFRS 10 replaces the parts of IAS 27 Consolidated and Separate Financial Statements that deal with consolidated financial statements and SIC-12 Consolidation – Special Purpose Entities. IFRS 10 changes the definition of control such that an investor has control over an investee when a) it has power over the investee, b) it is exposed, or has rights, to variable returns from its involvement with the investee and c) has the ability to use its power to affect its returns. All three of these criteria must be met for an investor to have control over an investee. Previously, control was defined as the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Additional guidance has been included in IFRS 10 to explain when an investor has control over an investee. Adoption of new standard did not affect the definition of control for the Company. No additionally controlled entities were identified by management through analysis performed.

IFRS 11 Joint Arrangements

IFRS 11 replaces IAS 31 Interests in Joint Ventures, and the guidance contained in a related interpretation, SIC-13 Jointly Controlled Entities – Non-Monetary Contributions by Ventures, has been incorporated in IAS 28 (as revised in 2011). IFRS 11 deals with how a joint arrangement of which two or more parties have joint control should be classified and accounted for. Under IFRS 11, there are only two types of joint arrangements – joint operations and joint ventures. The classification of joint arrangements under IFRS 11 is determined based on the rights and obligations of parties to the joint arrangements by considering the structure, the legal form of the arrangements, the contractual terms agreed by the parties to the arrangement, and, when relevant, other facts and circumstances. A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement (i.e. joint operators) have rights to the assets, and obligations for the liabilities, relating to the arrangement. A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement (i.e. joint ventures) have rights to the net assets of the arrangement. Previously, IAS 31 contemplated three types of joint arrangements – jointly controlled entities, jointly controlled operations and jointly controlled assets. The classification of joint arrangements under IAS 31 was primarily determined based on the legal form of the arrangement (e.g. a joint arrangement that was established through a separate entity was accounted for as a jointly controlled entity).

IFRS 12 Disclosure of Interests in Other Entities

IFRS 12 is a new disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities.

Adoption of the package of five standards had no impact on the Company's financial statements.

IFRS 13 Fair Value Measurement

The Company has applied IFRS 13 for the first time in the current year. IFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The scope of IFRS 13 is broad; the fair value measurement requirements of IFRS 13 apply to both financial instrument items and non-financial instrument items for which other IFRSs require or permit fair value measurements and disclosures about fair value measurements, except for share-based payment transactions that are within the scope of IFRS 2 Share-based Payment, leasing transactions that are within the scope of IAS 17 Leases, and measurements that have some similarities to fair value but are not fair value (e.g. net realisable value for the purposes of measuring inventories or value in use for impairment assessment purposes).

The standard defines fair value and sets general approach for its measurement and disclosure. IFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions. Fair value under IFRS 13 is an exit price regardless of whether that price is directly observable or estimated using another valuation technique. Also, IFRS 13 includes extensive disclosure requirements.

IFRS 13 requires prospective application from January 1, 2013. In addition, specific transitional provisions were given to entities such that they need not apply the disclosure requirements set out in the Standard in comparative information provided for periods before the initial application of the Standard. The application of IFRS 13 has not had any material impact on the amounts recognised in the financial statements or disclosures (see Note 26).

Amendments to IAS 1 *Presentation of Items of Other Comprehensive Income*

The Company has applied the amendments to IAS 1 Presentation of Items of Other Comprehensive Income for the first time in the current year. The amendments introduce new terminology, whose use is not mandatory, for the statement of comprehensive income and income statement. Under the amendments to IAS 1, the “statement of comprehensive income” is renamed as the “statement of profit or loss and other comprehensive income” and the “income statement” is renamed as the “statement of profit or loss”. The amendments to IAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. The Company has no recognised gains or losses other than the gains and losses shown in the statement of profit or loss and therefore no separate statement of comprehensive income has been presented. The amendments have been applied retrospectively, and hence the presentation of items of profit or loss has been modified to reflect the changes. Other than the above mentioned presentation changes, the application of the amendments to IAS 1 does not result in any impact on profit or loss.

The changes related to improvements of IFRS for 2009-2011 and to IAS 19 Employee Benefits (as revised in 2011) did not have effect on the financial statements of the Company.

New and revised IFRSs in issue but not yet effective

The Company has not applied the following new and revised IFRSs that have been issued but are not yet effective:

- IFRS 9 Financial Instruments[2]
- Amendments to IFRS 9 and IFRS 7 Mandatory Effective Date of IFRS 9 and Transition Disclosures[2]
- Amendments to IFRS 10, IFRS 12 and IAS 27 Investment Entities[1]
- Amendments to IAS 32 Offsetting Financial Assets and Financial Liabilities[1]
- IFRIC 21 Levies[1]

[1] Effective for annual periods beginning on or after 1 January 2014, with earlier application permitted.
[2] Effective for annual periods beginning on or after 1 January 2015, with earlier application permitted.

IFRS 9 Financial Instruments

IFRS 9, issued in November 2009, introduced new requirements for the classification and measurement of financial assets. IFRS 9 was amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition.

Key requirements of IFRS 9:

- all recognised financial assets that are within the scope of IAS 39 Financial Instruments: Recognition and Measurement are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.
- with regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss is presented in profit or loss.

The directors of the Company anticipate that the application of IFRS 9 in the future can have an impact on amounts reported in respect of the Company’s financial assets and financial liabilities the effect to be assessed further.

Amendments to IAS 32 Offsetting Financial Assets and Financial Liabilities

The amendments to IAS 32 clarify the requirements relating to the offset of financial assets and financial liabilities. Specifically, the amendments clarify the meaning of ‘currently has a legally enforceable right of set-off’ and ‘simultaneous realisation and settlement’.

The directors of the Company do not anticipate that the application of these amendments to IAS 32 will have a significant impact on the Company's financial statements as the Company does not have any financial assets and financial liabilities that qualify for offset.

3. SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”).

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.

The principal accounting policies are set out below.

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. US Dollar ("USD") is the presentation currency for these financial statements since management believes that this currency is more useful for the users of these financial statements. All financial information presented in USD has been rounded to the nearest thousand.

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

Revenue

Passenger revenue

Ticket sales are reported as revenue when the transportation service has been provided. The value of tickets sold and still valid but not used by the reporting date is reported as deferred (unearned) transportation revenue. This item is reduced either when the Company completes the transportation service or when the passenger requests a refund. The value of tickets that have been issued, but which will never be used, are recognised as passenger transport revenue at the date of their expiry. The maximum validity period of the tickets is one year.

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

Cargo revenue

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

Government grants

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Company with no future related costs are recognised in profit or loss in the period in which they become receivable.

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.

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

	Average rate		Reporting date spot-rate	
	2013	2012	2013	2012
US dollar (USD)	152.13	149.11	153.61	150.74
Euro (EUR)	202.09	191.69	211.17	199.22
British Pound (GBP)	237.96	236.25	253.29	243.72

Finance income and expenses

Finance income comprises interest income on bank deposits.

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 principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Finance expenses comprise interest expense, bank commissions and other. Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

Short-term 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 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 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 recognised. 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 tax 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 tax 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 capitalized 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 capitalized (e.g. maintenance on airframes and engines, excluding parts with limited useful lives).

Flight Equipment

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

Aircraft are depreciated using the straight-line method over their average estimated useful life of 20 years, assuming no residual value. During the operating cycle, the Company reviews whether the amortizable base or the useful life should be adjusted and, if necessary, determines whether a residual value should be recognized.

Major airframes and engines of all aircraft (excluding parts with limited useful lives) are treated as a separate asset component with the cost capitalized 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.

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.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Major spare parts and stand-by equipment are classified as property, plant and equipment when the Company expects to use them during more than one period. Similarly, if the spare parts and servicing equipment can be used only in connection with an item of property, plant and equipment, they are accounted for as 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.

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
- Flight equipment 10-20 years
- Rotable spare parts 5-10 years
- Office equipment and furniture 3-7 years
- Vehicles 7 years
- Other 5-10 years

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets.

Depreciation is recognised so as to write off the cost of assets (other than freehold land and properties under construction) less their residual values over their useful lives, using the straight-line method. 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.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually, and whenever there is an indication that the asset may be impaired.

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

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

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

Inventories

Inventories are stated at the lower of cost and net realisable value. Costs of inventories are determined on a first-in-first-out basis, except for fuel, which is determined on weighted average cost basis. Fuel is written off upon actual consumption. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

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

Provisions

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

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

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 program) and engines. The C-check program takes place every 18 months or 5,000 to 6,000 flying hours according to aircraft type. Engine overhaul occurs after specified flight hours or cycles occur. 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. 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. Unanticipated maintenance costs are expensed in profit or loss as incurred.

Financial instruments

Financial assets and financial liabilities are recognised when the Company becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

Financial assets are classified into the following specified categories: financial assets "at fair value through profit or loss" (FVTPL), "held-to-maturity" investments, "available-for-sale" (AFS) financial assets and "loans and receivables". The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Income is recognised on an effective interest basis for debt instruments other than those financial assets designated as at FVTPL.

Financial assets are classified as at FVTPL when the financial asset is either held for trading or it is designated as at FVTPL. Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial asset and is included in finance income line item in profit or loss. Fair value is determined in the manner described in Note 26.

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.

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 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 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. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Derecognition of financial assets

The Company derecognises a financial asset only when the contractual rights to the cash flows from the asset expire; or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Company neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Company recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Company retains substantially all the risks and rewards of ownership of a transferred financial asset, the Company continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

On derecognition of a financial asset other than in its entirety (e.g. when the Company retains an option to repurchase part of a transferred asset or retains a residual interest that does not result in the retention of substantially all the risks and rewards of ownership and the Company retains control), the Company allocates the previous carrying amount of the financial asset between the part it continues to recognise under continuing involvement, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain or loss allocated to it that had been recognised in other comprehensive income is recognised in profit or loss. A cumulative gain or loss that had been recognised in profit or loss is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts.

Financial liabilities and equity instruments issued by the Company

Classification as debt or equity

Debt and equity instruments issued by the Company are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Financial liabilities

Financial liabilities are classified as either financial liabilities 'at FVTPL' or 'other financial liabilities'.

Financial liabilities are classified as at FVTPL where the financial liability is either held for trading or it is designated as at FVTPL.

A financial liability is classified as held for trading if:

- it has been incurred principally for the purpose of repurchasing in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Company manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial liability other than a financial liability held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Company's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IAS 39 Financial Instruments: Recognition and Measurement permits the entire combined contract (asset or liability) to be designated as at FVTPL.

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 expenses' line item in profit or loss. Fair value is determined in the manner described in Note 26.

Other financial liabilities

Other financial liabilities are initially measured at fair value, net of transaction costs and subsequently measured at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

Derivative financial instruments

The Company enters into derivative financial instruments to manage its exposure to aviation fuel price in the normal course of its business operations. Further details of derivative financial instruments are disclosed in Notes 16 and 26.

Derivatives are initially recognised at fair value at the date the derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. The fair values are estimated based on quoted market prices or pricing models that take into account the current market and contracted prices of the underlying instruments and other factors. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition of profit or loss depends on the nature of the hedge relationship.

A derivative with a positive fair value is recognised as a financial asset; a derivative with a negative fair value is recognised as a financial liability. A derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than 12 months and it is not expected to be realised or settled within 12 months. Other derivatives are presented as current assets or current liabilities.

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.

Critical judgments in applying accounting policies and estimates

The following are the critical judgments and estimates that management have made in the process of applying the Company's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

Provisions

Provisions are made when any probable and quantifiable risk of loss attributable to disputes exist. Provisions mainly consist of provision for aircraft maintenance (Note 22).

Recoverability of variable lease payments related to future maintenance

Under the operating lease agreements for its aircraft, the Company makes variable lease payments to lessors which are based upon the flight hours of engines, limited life parts of engines, auxiliary power units and major airframe checks. Such amounts are reimbursable by lessors upon occurrence of the maintenance event (APU and engine overhaul, replacement of the limited life parts and major airframe checks). The reimbursement is made only for scheduled repairs and replacements in accordance with the Company's maintenance program agreed with the Kazakhstan Civil Aviation Committee ("CAC").

In case of 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 2013 contributions of variable lease payments of USD 109,274 thousand (2012: USD 115,452 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.

Compliance with tax legislation

Tax, currency and customs legislation of Kazakhstan are subject to frequent changes and varying interpretations. Management's interpretation of such legislation in applying it to business transactions of the Company may be challenged by the relevant regional authorities enabled by law to impose fines and penalties. It is possible that the tax treatment of transactions that have not been challenged in the past may be challenged. Fiscal periods remain open to review by the tax authorities in respect of taxes for the five calendar years preceding the year of tax review. Under certain circumstances reviews may cover longer periods. While the Company believes it has provided adequately for all tax liabilities based on its understanding of the tax legislation, the above facts may create additional financial risks for the Company.

Useful lives of property, plant and equipment

In reporting intangible assets and tangible assets, an assessment is made of the useful economic life and an assessment is made at least once a year to determine whether impairment exists.

Fair value of financial instruments

As described in Note 26, the Company uses valuation techniques that include inputs that are not based on observable market data to estimate the fair value of certain types of financial instruments. Note 26 provides detailed information about the key assumptions used in the determination of the fair value of financial instruments, as well as the detailed sensitivity analysis for these assumptions.

Management believes that the chosen valuation techniques and assumptions used are appropriate in determining the fair value of financial instruments.

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 2013 and 2012, allowances for doubtful accounts were equal to USD 6,776 thousand and USD 6,023 thousand, respectively (Notes 14, 15).

The Company annually estimates the necessity of accrual of allowances for obsolete and slow-moving inventories based on annual stock count data conducted at the reporting date. As at 31 December 2013, the Company accrued an allowance for obsolete and slow-moving inventories in the amount of USD 366 thousand (2012: USD 677 thousand) (Note 13).

Contingent liabilities and contingent assets

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

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

5. REVENUE

Passenger revenue	**2013**	**2012**
Passenger transport	720,819	674,815
Fuel surcharge	141,158	113,496
Airport services	46,193	35,419
Excess baggage	8,900	9,778
	917,070	833,508

Cargo and mail revenue	**2013**	**2012**
Cargo	27,300	24,485
Mail	2,123	1,828
	29,423	26,313

Other revenue	**2013**	**2012**
Penalties on agency contracts	8,764	7,817
Advertising revenue	2,078	1,849
Income from ground services	905	710
Gain on disposal of spare parts and other assets	763	345
Spare parts received free of charge	346	10
Government subsidies	305	2,371
Other	7,250	2,152
	20,411	15,254

In accordance with Kazakhstan legislation the Government provides subsidies to companies rendering air passenger services on unprofitable domestic routes from Astana.

During 2012, the subsidies were provided for the routes from Astana to Zhezkazgan, Pavlodar and Semey. In December 2012, the flights from Astana to Semey were closed.

During 2013, the subsidies were provided for the routes from Astana to Zhezkazgan and Pavlodar.

During the years ended 31 December, passenger, cargo and mail revenue were generated from the following destinations:

	2013	**2012**
Europe	391,367	345,376
Domestic	346,137	332,746
Asia	208,989	181,699
Total passenger, cargo and mail revenue	946,493	859,821

6. OPERATING EXPENSES

Handling, landing fees and route charges	**2013**	**2012**
Aero navigation	43,568	34,122
Handling charge	35,689	32,115
Landing fees	35,282	30,416
Meteorological services	2,129	1,895
Other	1,369	1,033
	118,037	99,581

Employee costs	2013	2012
Wages and salaries of operational personnel	64,667	62,603
Wages and salaries of administrative personnel	14,427	12,511
Social tax	8,706	6,586
Wages and salaries of sales personnel	6,220	5,757
Other	5,060	4,750
	99,080	92,207

The average number of employees during 2013 was 4,069 (2012: 3,750).

Passenger service	2013	2012
Airport charges	41,324	34,442
Catering	37,507	31,681
Security	3,293	2,561
In-flight entertainment	2,448	2,307
Other	8,120	6,631
	92,692	77,622

Engineering and maintenance	2013	2012
Maintenance – variable lease payments	44,487	48,644
Maintenance – provisions (Note 22)	11,273	191
Spare parts	12,470	5,845
Maintenance – components	9,194	16,461
Technical inspection	2,520	2,938
	79,944	74,079

Aircraft operating lease costs	2013	2012
Fixed lease charges	72,161	76,826
Operating lease return costs	4,881	1,788
Lease of engines and rotable spare parts	1,201	1,118
	78,243	79,732

Selling costs	2013	2012
Commissions	25,190	28,714
Reservation costs	15,145	13,335
Advertising	6,054	5,920
Interline commissions	1,179	1,116
Other	643	1,343
	48,211	50,428

Aircraft crew costs	2013	2012
Accommodation and allowances	16,802	13,597
Contract crew	12,878	15,240
Training	9,806	10,534
	39,486	39,371

Insurance	2013	2012
Legal liability insurance	2,372	2,360
Hull insurance	2,352	2,222
Medical insurance	939	853
Other	286	246
	5,949	5,681

7. FINANCE INCOME AND EXPENSES

Finance income	2013	2012
Interest income on bank deposits	1,396	3,857
Other	292	92
	1,688	3,949

Finance expenses	2013	2012
Interest expense on finance lease	6,544	411
Bank commissions	987	958
Net unrealised loss on financial assets and liabilities at fair value through profit or loss (Note 16)	13	4
Interest expense on bank loans	-	879
Other	107	68
	7,651	2,320

8. INCOME TAX EXPENSE

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

	2013	2012
Current income tax expense	-	6,646
Adjustment for income tax related to prior year	(1,252)	-
Deferred income tax expense	14,813	11,499
	13,561	18,145

The Company's income tax recognized in other comprehensive income for the year ended 31 December was as follows:

	2013	2012
Current income tax	-	-
Deferred income tax	(208)	-
	(208)	-

The movements in deferred tax balances were as follows for the years ended 31 December:

	2013	2012
Deferred income tax (liabilities)/assets at 1 January	(3,515)	7,984
Recognised in profit or loss	(14,813)	(11,499)
Recognised in other comprehensive income	208	-
Deferred tax liabilities at 31 December	(18,120)	(3,515)

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 2013 and 2012 is presented below:

	2013	2012
Deferred tax assets		
Provision for aircraft maintenance	4,629	4,169
Carried forward CIT losses	3,410	-
Trade and other payables	3,139	1,473
Trade and other receivables	1,355	1,205
Finance lease obligations	201	-
Intangible assets	163	111
Remuneration payable	-	628
Total	12,897	7,586
Deferred tax liabilities		
Difference in depreciable value of property, plant and equipment	(30,951)	(11,034)
Prepaid expenses	(66)	(67)
Total	(31,017)	(11,101)
Net deferred tax liabilities	(18,120)	(3,515)

The income tax rate in the Republic of Kazakhstan, where the Company is located, in 2013 and 2012 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% (2012: 20%) to the actual income tax expense recorded in the Company's statement of profit or loss and other comprehensive income:

	201	2012
Profit before tax	64,925	79,221
Income tax at statutory rate	12,985	15,844
Tax effect of non-deductible expenses	576	2,301
Income tax expense	13,561	18,145

9. PROPERTY, PLANT AND EQUIPMENT

	Rotable spare parts	Office equipment and furniture	Building, premises and land	Vehicles	Flight equipment under finance lease	Equipment to be installed	Total
Cost							
At 1 January 2012	33,105	8,359	5,457	3,128	-	3,674	53,723
Additions	3,985	-	-	-	-	163,525	167,510
Disposals	(496)	(144)		(82)	-	-	(722)
Transfers from prepayments	-	-	-	-	37,816	-	37,816
Transfers to inventory	-	-	-	-	-	(101)	(101)
Transfers	11,287	1,810	431	370	146,642	(160,540)	-
Foreign currency translation difference	(675)	(148)	(88)	(52)	(1,994)	(88)	(3,045)
At 31 December 2012	47,206	9,877	5,800	3,364	182,464	6,470	255,181
Additions	-	-	-	-	-	310,445	310,445
Disposals	(1,010)	(510)	-	(81)	-	-	(1,601)
Transfers from prepayments		-	-	-	59,012	-	59,012
Transfers to inventory	(314)	-	-	-	-	-	(314)
Transfers	7,592	1,800	3	423	295,861	(305,679)	-
Foreign currency translation difference	(942)	(197)	(109)	(67)	(6,829)	(166)	(8,310)
At 31 December 2013	52,532	10,970	5,694	3,639	530,508	11,070	614,413
Accumulated depreciation							
At 1 January 2012	12,963	4,325	908	1,426	-	-	19,622
Charge for the year (Note 11)	3,624	1,446	184	449	720	-	6,423
Disposals	(204)	(122)	-	(64)	-	-	(390)
Foreign currency translation difference	(237)	(82)	(17)	(27)	(8)	-	(371)
At 31 December 2012	16,146	5,567	1,075	1,784	712	-	25,284
Charge for the year (Note 11)	5,886	1,675	180	456	20,128	-	28,325
Disposals	(741)	(497)	-	(81)	-	-	(1,319)
Transfers	118	(1)	-	(117)	-	-	-
Foreign currency translation difference	(353)	(115)	(21)	(35)	(209)	-	(733)
At 31 December 2013	21,056	6,629	1,234	2,007	20,631	-	51,557
Net book value							
At 31 December 2013	31,476	4,341	4,460	1,632	509,877	11,070	562,856
At 31 December 2012	31,060	4,310	4,725	1,580	181,752	6,470	229,897

As at 31 December 2013, the book value of fully depreciated property, plant and equipment that is still in use was USD 4,627 thousand (2012: USD 3,174 thousand).

The Company's obligations under finance leases are secured by the lessors' title to the leased assets, which have a carrying amount of USD 509,877 thousand (2012: USD 181,752 thousand) (Note 25).

Rotable spare parts include aircraft modifications.

For the year ended 2013 interest of the loan in the amount of USD 674 thousand was capitalized into property, plant and equipment (2012: USD 246 thousand) (Note 24).

10. INTANGIBLE ASSETS

	Software
Cost	
At 1 January 2012	5,866
Additions	347
Foreign currency translation difference	(95)
At 31 December 2012	6,118
Additions	547
Foreign currency translation difference	(119)
At 31 December 2013	6,546
Accumulated amortisation	
At 1 January 2012	2,714
Charge for the year (Note 11)	862
Foreign currency translation difference	(51)
At 31 December 2012	3,525
Charge for the year (Note 11)	957
Foreign currency translation difference	(75)
At 31 December 2013	4,407
Net book value	
At 31 December 2013	2,139
At 31 December 2012	2,593

11. DEPRECIATION AND AMORTISATION

	2013	2012
Depreciation of property, plant and equipment (Note 9)	28,325	6,423
Amortisation of intangible assets (Note 10)	957	862
Total	29,282	7,285

12. GUARANTEE DEPOSITS

	31 December 2013	31 December 2012
Non-current		
Guarantee deposits for leased aircraft	12,147	17,020
Other guarantee deposits	652	581
	12,799	17,601
Current		
Guarantee deposits for leased aircraft	4,394	391
Other guarantee deposits	752	1,194
	5,146	1,585
	17,945	19,186

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 are receivable as follows:

	31 December 2013	31 December 2012
Within one year	4,394	391
After one year but not more than five years	5,957	15,046
More than five years	6,251	2,231
	16,602	17,668
Fair value adjustment	(61)	(257)
	16,541	17,411

13. INVENTORIES

	31 December 2013	31 December 2012
Spare parts	34,723	23,088
Fuel	7,660	8,908
Goods in transit	6,028	5,138
Crockery	2,026	2,197
De-icing liquid	1,490	581
Promotional materials	983	1,140
Uniforms	806	1,279
Blank forms	585	593
Other	1,312	513
	55,613	43,437
Less: allowance for obsolete and slow-moving inventories	(366)	(677)
	55,247	42,760

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

	2013	2012
Allowance for obsolete and slow-moving inventories at the beginning of the year	(677)	(466)
Accrued for the year	(369)	(221)
Reversed for the year	671	-
Foreign currency translation difference	9	10
Allowance for obsolete and slow-moving inventories at the end of the year	(366)	(677)

14. PREPAYMENTS

	31 December 2013	31 December 2012
Non-current		
Prepayments for non-current assets	22,908	94,114
Advances paid for services	890	939
	23,798	95,053
Current		
Advances paid for services	32,191	15,854
Advances paid for goods	14,348	5,843
Prepayments for operating lease	4,246	5,069
Prepayments for finance lease	3,982	-
	54,767	26,766
Less: allowance for non-recovery	(5,553)	(5,510)
	49,214	21,256

Prepayments for non-current assets were made to Boeing as pre-delivery payment for the remaining four aircraft (Note 27).

The movements in the allowance for non-recovery for the years ended 31 December were:

	2013	2012
At the beginning of the year	(5,510)	(3,250)
Accrued during the year	(289)	(4,440)
Reversed during the year	109	2,071
Written-off against previously created allowance	33	33
Foreign currency translation difference	104	76
At the end of the year	(5,553)	(5,510)

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 2013	31 December 2012
Non current		
Due from employees, non-current portion	5,448	-
	5,448	-
Current		
Trade receivables	26,884	29,070
Receivable from lessors – variable lease reimbursement	4,437	11,376
Due from employees	2,364	5,888
Subsidies receivable (Note 28)	244	242
Other	-	259
	33,929	46,835
Less: allowance for doubtful debts	(1,223)	(513)
	32,706	46,322

At 31 December 2013, eight debtors including IATA Bank Settlement Plans (BSPs) as collecting agencies from the worldwide travel agencies comprised 33% of the Company's trade and other receivables (2012: eight debtors comprised 39%).

Receivable from lessors represents the amount of variable lease reimbursement applied for by the Company as a result of maintenance events that occurred prior to reporting date.

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

	31 December 2013	31 December 2012
Tenge	18,817	19,939
US Dollar	10,447	16,039
Euro	2,880	5,083
Russian Rouble	1,697	1,535
Other	5,536	4,239
	39,377	46,835

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

	2013	2012
At the beginning of the year	(513)	(497)
Accrued during the year	(730)	(259)
Reversed during the year	3	-
Written-off against previously created allowance	-	235
Foreign currency translation difference	17	8
At the end of the year	(1,223)	(513)

16. FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

Financial assets and liabilities at fair value through profit or loss arise from the Company's aviation fuel price hedging activities which commenced in 2009. The Company signed agreements and entered into transactions with various financial institutions to manage the risk of significant changes in aviation fuel prices. These assets and liabilities are recognised at fair value through profit or loss as the derivatives were not designated into a hedge accounting relationship.

	Call option	Put option	Net
At 1 January 2012	891	(793)	98
First-time valuation of options	(502)	461	(41)
Foreign currency translation gain	8	21	29
Net unrealised (loss)/gain on financial assets and liabilities at fair value through profit or loss (Note 7)	(28)	24	(4)
Foreign currency translation difference	(8)	7	(1)
At 31 December 2012	361	(280)	81
Foreign currency translation gain/(loss)	6	(6)	-
Net unrealised (loss)/gain on financial assets and liabilities at fair value through profit or loss (Note 7)	(28)	15	(13)
Foreign currency translation difference	(8)	5	(3)
At 31 December 2013	331	(266)	65

The terms of the options are described in Note 26.

17. OTHER TAXES PREPAID

	31 December 2013	31 December 2012
Value added tax recoverable	7,227	3,736
Prepayment for personal income tax for non-residents	66	-
Other taxes prepaid	475	360
	7,768	4,096

Value added tax receivable is recognised within current assets as the Company annually applies for reimbursement of these amounts, which is usually successful.

18. BANK DEPOSITS

	31 December 2013	31 December 2012
Current		
Term deposits with local banks	114,186	76,049
Guarantee deposits	23	19
Interest receivable	163	4,408
	114,372	80,476

Term deposits with local banks (with an original maturity of more than three months and less than one year) earn interest in the range from 0.5% to 1.5% per annum (2012: 0.4% to 7.5%). 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 (2012: 4.5%).

Bank deposits are denominated in the following currencies as at 31 December:

	2013	2012
US Dollar	108,140	78,871
Euro	6,186	1,570
Tenge	46	35
	114,372	80,476

19. CASH AND BANK BALANCES

	31 December 2013	31 December 2012
Current accounts with local banks	9,385	30,929
Current accounts with foreign banks	4,201	7,060
Term deposits with local banks with original maturity less than 3 months	-	4,975
Cash on hand	139	87
	13,725	43,051

At 31 December 2013, current accounts with banks earn interest in the range of 0.5% to 2.5% (2012: 0.2% to 2%). At 31 December 2012, short-term deposits (over-night) with banks earn interest of up to 1% per annum.

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

	2013	2012
US Dollar	6,717	6,261
Euro	2,537	5,341
Russian Rouble	1,302	1,362
Tenge	1,100	24,751
Indian Rupee	566	1,025
Chinese Yuan	433	980
Uzbek Soms	267	735
GBP	106	1,433
Other	697	1,163
	13,725	43,051

20. EQUITY

As at 31 December 2013 and 2012, share capital comprised of 17,000 authorised, issued and fully paid ordinary shares with a par value of USD 1,000 per share.

In May 2013, the shareholders declared a dividend payment equivalent to 35% of profit for 2012. The total amount of the dividend was USD 21,120 thousand, which was distributed and paid to each shareholder in accordance with their shareholdings.

In May 2012, the shareholders declared a dividend payment equivalent to 30% of profit for 2011. The total amount of the dividend of USD 18,204 thousand, which was distributed and paid to each shareholder in accordance with their shareholdings.

The calculation of basic earnings per share is based on profit for the year and the weighted average number of ordinary shares outstanding during the year of 17,000 shares (2012: 17,000). The Company has no instruments with potential dilutive effect.

	2013	2012
Profit:		
Profit for the year	51,364	61,076
Number of ordinary shares	17,000	17,000
Earnings per share – basic and diluted (USD)	3,021	3,593

21. DEFERRED REVENUE

	31 December 2013	31 December 2012
Unearned transportation revenue	55,988	50,146
Customer loyalty program	7,252	7,294
	63,240	57,440

Unearned transportation revenue represents the value of sold but unused passenger tickets, the validity period of which has not expired.

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

22. PROVISION FOR AIRCRAFT MAINTENANCE

	31 December 2013	31 December 2012
Engines	17,976	16,673
Provision for redelivery of aircraft	2,904	-
C-Check	2,267	3,529
Fokker-50 redelivery provisions	-	642
	23,147	20,844

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

	2013	2012
At 1 January	20,844	28,306
Accrued during the year (Note 6)	15,423	10,207
Reversed during the year (Note 6)	(4,150)	(10,016)
Used during the year	(8,554)	(7,290)
Foreign currency translation difference	(416)	(363)
At 31 December	23,147	20,844

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 provisions are in US Dollars.

The planned utilisation of these provisions is as follows:

	31 December 2013	31 December 2012
Within one year	16,049	16,712
During the second year	2,000	2,248
During the third year	1,084	726
After the third year	4,014	1,158
Total provision for aircraft maintenance	23,147	20,844
Less: current portion	(16,049)	(16,712)
Non-current portion	7,098	4,132

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

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

23. TRADE AND OTHER PAYABLES

	31 December 2013	31 December 2012
Trade payables	38,280	36,426
Employee unused vacation and remuneration payable	3,019	5,512
Taxes payable	2,960	1,015
Operating lease payables	2,921	3,147
Advances received	2,019	1,952
Wages and salaries payable to employees	713	3,828
Other	217	1,160
	50,129	53,040

The Company's trade payables are denominated in the following currencies:

	31 December 2013	31 December 2012
Tenge	32,220	23,177
US dollar	10,819	19,585
Euro	3,623	5,900
Russian roubles	1,514	893
GBP	401	1,312
Other	1,552	2,173
	50,129	53,040

24. LOANS

	31 December 2013	31 December 2012
Non-current		
Non-secured non-bank loans	-	6,456
	-	6,456
Current		
Current portion of non-secured non-bank loans	9,223	18,081
Interest payable	59	146
	9,282	18,227
	9,282	24,683

On 16 March 2012, the Company entered into a renewable credit line agreement with JSC Halyk Bank for the amount of USD 45,000 thousand for the purpose of replenishment of working capital in order to meet current liabilities and not to incur interest penalties on early termination of bank deposits. Interest rate was fixed depending on loan terms from 4.5% to 7.25% per annum. The loan was secured by cash kept on the Company's current accounts and was fully repaid during August 2012. The extension period has not been used and the availability period has been renewed till 30 June 2014 with a new fixed interest rate from 4% to 6% per annum depending on loan terms.

On 21 August 2012, the Company concluded a loan agreement for financing of pre-delivery payments for Boeing B767-300ER for up to USD 35,000 thousand. Maturity date is 31 December 2014 or delivery date of the aircraft if delivery occurs before maturity date. The loan is denominated in USD. As the Company did not confirm purchase of the fourth Boeing-767 and will be taking delivery of only three Boeing-767 the amount of the original loan reduced respectively to USD 27,304 thousand. The amount outstanding on this loan will be repaid on delivery of the third Boeing – 767 planned in June 2014.

25. OBLIGATIONS UNDER FINANCE LEASE

Under fixed interest finance lease agreements in 2012 and 2013, the Company acquired four and six aircraft, respectively. The lease term for each aircraft is twelve years. The Company has an option to purchase each aircraft for a nominal amount at the end of the lease (Note 27). Loans provided by financial institutions to the lessors in respect of six new Airbus are guaranteed by European Export Credit Agencies while two Boeing 767 aircraft which were delivered in September and October 2013 were guaranteed by US Export Import Bank. Two Embraer aircraft were delivered in November 2012 and December 2013 under fixed interest rate finance lease agreements. 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 509,877 thousand (2012: USD 181,752 thousand) (Note 9).

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 2013.

	Minimum lease payments		Present value of minimum lease payments	
	31 December 2013	31 December 2012	31 December 2013	31 December 2012
Not later than one year	46,198	14,210	36,470	10,047
Later than one year and not later than five years	176,453	57,500	143,321	43,579
Later than five years	277,380	100,846	239,566	90,454
	500,031	172,556	419,357	144,080
Less: future finance charges	(80,674)	(28,476)	-	-
Present value of minimum lease payments	419,357	144,080	419,357	144,080
Included in the financial statements as:				
- current portion of finance lease obligations			36,470	10,047
- non-current portion of finance lease obligations			382,887	134,033
			419,357	144,080

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

26. FINANCIAL INSTRUMENTS

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

Capital management

The Company manages its capital to ensure the Company will be able to continue as going concern while maximising the return to the shareholders through the optimisation of the debt and equity balance. The Company's overall strategy remains unchanged from 2012.

The capital structure of the Company consists of net debt (comprising loans and finance lease obligations in Note 24 and 25) and equity of the Company (comprising issued capital, foreign currency translation reserve and retained earnings as detailed in Note 20).

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

The Company reviews the capital structure on a semi-annual basis. As part of this review, the Company considers the cost of capital and the risks associated with each class of capital. The Company does not have a target gearing ratio.

Gearing ratio

The gearing ratio at end of the reporting period was as follows.

	31 December 2013	31 December 2012
Loans and finance lease liabilities (Note 24, 25)	428,639	168,763
Cash and bank balances, bank deposits (Note 18, 19)	(128,097)	(123,527)
Net debt	300,542	45,236
Equity	307,518	282,681
Net debt to equity ratio	97.73%	16.00%

Credit risk

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

The maximum exposure to credit risk related to financial instruments, such as cash and accounts receivable, is calculated basing on their book value.

Trade receivables consist of a large number of customers, spread across diverse industries and geographical areas. Ongoing credit evaluation is performed on the financial condition of accounts receivable and, where appropriate, credit guarantee insurance cover is purchased.

As at 31 December 2013, there was no significant concentration of credit risk in respect of trade accounts receivable (Note 15).

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

Interest rate risk

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

Commodity price risk

The Company uses options to economically hedge the risk of jet fuel price movement. The Company uses standard market instruments for fuel hedging purposes, such as "call option" (where the premium is paid in advance by the Company to cover the risk of increases of commodity price above the predetermined level) and zero cost collar (where the premium is equal to zero, and where the Company simultaneously buys the "call option" and sells the "put option"). Since there is no possibility to hedge the risk of changes in jet fuel prices purchased from local suppliers, the Company hedges only the amount of fuel purchased outside the Republic of Kazakhstan signing the general agreement with several international banks on the conclusion of derivative transactions. The management of the Company determines the volume of jet fuel that will be hedged before executing the deal. Hedging is carried out according to the Fuel hedging policy approved by the directors and shareholders of the Company.

The following table summarises the impact of reasonably possible changes in aviation fuel price on the Company's profit and equity. For the purpose of this disclosure, the sensitivity analysis assumes a 10 per cent increase and decrease in the price of aviation fuel above upper price (Cap) and below lower price (Floor), respectively. The sensitivity analysis assumes designation and effectiveness testing results as at 31 December 2013 remain unchanged. This analysis also assumes that all other variables, including foreign currency exchange rates and option volatilities, remain constant.

	2013		2012	
	Profit	Equity	Profit	Equity
Market price is 10% higher than Cap	3,938	3,938	3,745	3,745
Market price is 10% lower than Floor	(1,936)	(1,936)	(2,247)	(2,247)

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 12, 15, 18, 19, 23, 24 and 25.

Foreign currency sensitivity analysis

The Company is mainly exposed to the risk of change of exchange rates of tenge against USD and Euro.

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

		US dollar		Euro	
	Notes	31 December 2013	31 December 2012	31 December 2013	31 December 2012
Assets					
Guarantee deposits		17,631	18,913	107	83
Trade and other receivables	15	10,447	16,039	2,880	5,083
Bank deposits	18	108,140	78,871	6,186	1,570
Cash and bank balances	19	6,717	6,261	2,537	5,341
Total		142,935	120,084	11,710	12,077
Liabilities					
Loans	24	9,282	24,683	-	-
Finance lease liabilities	25	500,031	172,556	-	-
Trade and other payables	23	10,819	19,585	3,623	5,900
Total		520,132	216,824	3,623	5,900
Net position		(377,197)	(96,740)	8,087	6,177

The following table details the Company's sensitivity to 20% weakening of the tenge against US Dollar and Euro in 2013 and 10.72% and 10.77% in 2012. 20% is the sensitivity rates used when reporting foreign currency risk internally to key management personnel and represents management's assessment driven by devaluation of tenge on 11 February 2014 (Note 29). Management of the Company believes that given the current economic conditions in Kazakhstan that weakening by 20% is a realistic movement in the tenge exchange rates against foreign currencies.

The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 20% change in rates of US dollar and Euro, as at 31 December 2013 and 10.72 and 10.77% as at 31 December 2012. The sensitivity analysis includes trade and other receivables, cash and bank balances, bank deposits, guarantee deposits, trade and other payables, loans and finance lease liabilities.

A negative number below indicates a decrease in profit and equity where the tenge weakens by 20% against US Dollar, and, in the case of Euro the net position is positive (2012: 10.72 and 10.77%). For a 20% strengthening of the tenge against US Dollar and Euro in 2013 and 10.72 and 10.77% in 2012, there would be an equal and opposite impact on the profit and other equity, and the balances below would be positive.

	Currency US Dollar impact		Currency Euro impact	
	2013	2012	2013	2012
	20%	10.72%	20%	10.77%
Profit or (loss)	(60,352)	(8,296)	1,294	532

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

Liquidity risk management

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

Liquidity and interest risk tables

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

	Weighted average effective interest rate %	Up to 3 months	3 months to 1 year	1-5 years	Over 5 years	Total
2013						
Financial liabilities						
Interest free						
Trade and other payables	-	-	41,418	-	-	41,418
Financial liabilities at fair value through profit or loss	-	-	266	-	-	266
Fixed rate						
Non-secured non-bank loans		59	9,362	-	-	9,421
Finance lease liabilities		11,270	34,928	176,453	277,380	500,031
2012						
Financial liabilities						
Interest free						
Trade and other payables	-	-	46,322	-	-	46,322
Financial liabilities at fair value through profit or loss	-	-	280	-	-	280
Fixed rate						
Non-secured non-bank loans		-	18,587	6,824	-	25,411
Finance lease liabilities		2,207	12,003	57,500	100,846	172,556

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
2013						
Financial assets						
Interest free						
Trade and other receivables	-	5,448	32,706	-	-	38,154
Financial assets at fair value through profit or loss	-	-	331	-	-	331
Guarantee deposits	-	401	4,745	6,595	6,204	17,945
Cash and bank balances	-	13,725	-	-	-	13,725
Fixed rate						
Bank deposits	0.79%	27,204	87,466	-	-	114,670
2012						
Financial assets						
Interest free						
Trade and other receivables	-	-	46,322	-	-	46,322
Financial assets at fair value through profit or loss	-	-	361	-	-	361
Guarantee deposits	-	-	1,585	15,431	2,170	19,186
Cash and bank balances	-	43,051	-	-	-	43,051
Fixed rate						
Bank deposits	3.26%	40,335	40,992	-	-	81,327

Fair values

The fair values of financial assets and financial liabilities of the Company are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments.

Level 2 fair values for financial assets and liabilities at fair value through profit or loss have been generally derived using the fair value valuation reports provided by the banks which participate in hedging transactions. The most significant input into this valuation approach are time left to maturity of the deal, forward and spot prices of crude oil.

The Company has no other financial and non-financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 of fair value hierarchy.

The following methods and assumptions are used by the Company to estimate the fair value of these financial instruments:

Cash and bank balances

The carrying value of cash and bank balances approximates their fair value as they either have short-term maturity or are interest-bearing and hence are not discounted.

Financial instruments at fair value through profit or loss

Valuation of financial instruments recognised at fair value through profit or loss (Note 16) is based on inputs for which all significant inputs are observable, either directly or indirectly and valuations are based on one or more observable quoted prices for orderly transactions in markets that are not considered active and represent Level 2 of the fair value hierarchy.

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.

Loans

Loans are recognized at amortized cost and accordingly it approximates their fair values.

Finance lease liabilities

Finance lease liabilities are recognized at lower of fair value of assets received under finance lease and present value of minimum lease payments and accordingly it approximates their fair values.

Provisions

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

27. COMMITMENTS AND CONTINGENCIES

Capital commitments

During 2008 the Company signed an agreement with Airbus to purchase six Airbus narrow-body aircraft. The Company was committed to pre-delivery payments in accordance with an agreed payment schedule. Payments commenced in 2008 and the last payment was made in 2013. During 2012 and 2013, the Company entered into fixed interest finance lease agreements for three Airbus and for the remaining three Airbus aircraft, respectively. These leases are denominated in US dollars, with a repayment term of twelve years. Loans provided by financial institutions to the lessor are guaranteed by European Export Credit Agencies.

During 2011 the Company signed an agreement with Embraer to purchase two Embraer-190 narrow - body aircraft. The Company was committed to pre-delivery payments from 2011 in accordance with an agreed payment schedule, with first aircraft delivered in November 2012 and the second in December 2013, both on a fixed interest US dollar finance lease, with a repayment term of twelve years.

During 2012, the Company finalised an agreement with Boeing to purchase three Boeing-767s and three Boeing-787s aircraft. The Company is committed to pre-delivery payments in accordance with the agreed payment schedule. In respect of the Boeing 767 aircraft, 50% of pre-delivery payments were paid from own resources and 50% were financed by the borrowings (Note 24). The amounts borrowed in respect of the first two Boeing 767 were repaid by the Company on delivery of each aircraft in 2013. Final pre-delivery payments for the third B767 aircraft were made in 2013. One Boeing 767 was delivered in September and another in October 2013 and the third one is expected in mid 2014. Delivery of Boeing 787s are planned in 2017 and 2019 with last pre-delivery payments expected in 2018.

In June 2013, the Company signed a term sheet with a US financing corporation to finance purchase of up to three Boeing-767 aircraft for the amount guaranteed by US Export-Import Bank. This facility has been used to finance both Boeing-767 delivered in September and in October 2013, respectively, while the third one is expected in mid-2014.

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

Operating lease commitments

Aircraft

Aircraft operating leases are for terms of between 5 to 10 years. All operating lease contracts contain market review clauses in the event that the Company exercises its option to renew. The Company does not have an option to purchase the leased aircraft at the expiry of the lease period.

Operating lease commitments include fixed lease payments and variable lease payments which vary according to flying hours and cycles.

The fixed and variable lease payments are denominated and settled in US dollars. This currency is routinely used in international commerce for aircraft operating leases.

Non-cancellable operating lease commitments are payable as follows:

	31 December 2013	31 December 2012
Within one year	94,727	104,919
After one year but not more than five years	336,345	247,685
More than five years	25,764	95,550
	456,836	448,154

Unsecured stand-by Letters of Credit facility were obtained in March and September 2013 for the total amount of USD 5,000 thousand. These Letters of Credit were obtained as security for Lessors to cover any unfulfilled maintenance liabilities on the return of two Embraer E190 to Lessor, with further annual reissuance.

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 another four engines will expire by the end of March 2014.

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 2013	31 December 2012
Within one year	2,464	1,394
After one year but not more than five years	5,671	5,994
More than five years	940	1,945
	9,075	9,333

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. LIoyd's) having high rating of financial stability through a service of international reputable broker. Types of insurance coverage are stated below:

- Aviation Hull, Total Loss Only and Spares All risks and Airline Liability including Passenger Liability;
- Aircraft Hull and Spare Engine Deductible;
- Aviation Hull and Spares "War and Allied Perils";
- Aviation War, Hi-Jacking and Other Perils Excess Liability;

Non – Aviation Insurance

Apart from aviation insurance coverage the airline constantly purchase non-aviation insurance policies to reduce the financial risk of damage to property and general liability, as well as covering employees from accidents and medical expenses, as follows:

- Medical insurance of employees;
- Directors, Officers and Corporate liability insurance;
- Property insurance;
- Comprehensive vehicle insurance;
- Compulsory insurance of employee from accidents during execution of labor (service) duties;
- Commercial general liability insurance (Public Liability);
- Civil liability insurance to customs authorities;
- Pilot's loss of license insurance
- Insurance of goods at warehouse.

Taxation contingencies

The taxation system in Kazakhstan is relatively new and is characterised by numerous taxes and frequent changes in legislation, official pronouncements and court decisions. Taxes are subject to review and investigation by a number of authorities, which have the authority to impose severe fines, penalties and interest charges. A tax year remains open for review by the tax authorities during five subsequent calendar years; however, under certain circumstances a tax year may remain open longer.

Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on these financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

In 2012, Tax authorities performed tax audit for five-year period from 2006 to 2010 inclusive. During 2013 based on their final assessment, a total amount of USD 2,885 thousand was accrued including taxes, interest and penalties which were fully paid in 2013 including the appealed amount mentioned below. In January 2013 the Company appealed to Tax Authorities for the amount of USD 1,827 thousand. The Tax Authorities rejected the appeal of the Company and the Company appealed to the Ministry of Finance. Ministry of Finance left the decision of tax authorities without changes. Further in January 2014 the Company continued to appeal to Interregional Court of Almaty. As at the date of approval of these financial statements the Company has not received any response on the appeal.

Operating Environment

Emerging markets such as Kazakhstan are subject to different risks than more developed markets, including economic, political and social, and legal and legislative risks. Laws and regulations affecting businesses in Kazakhstan continue to change rapidly, tax and regulatory frameworks are subject to varying interpretations. The future economic direction of Kazakhstan is heavily influenced by the fiscal and monetary policies adopted by the government, together with developments in the legal, regulatory, and political environment.

As Kazakhstan produces and exports large volumes of oil and gas, its economy is particularly sensitive to the price of oil and gas on the world market.

28. RELATED PARTY TRANSACTIONS

Control relationships

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

In 2007 the shareholders appointed two independent directors; one is from JSC "National Welfare Fund "Samruk-Kazyna", and another from BAE System Kazakhstan Limited. An agreement with the independent directors was signed in 2007 and the total remuneration paid in 2013 to independent directors was 55 USD thousand (2012: USD 76 thousand).

Management remuneration

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

	2013	2012
Salaries and bonuses	4,244	4,178
Termination benefits	1	1
	4,245	4,179

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.

The Government subsidies for 2013 amounted to USD 305 thousand (2012: USD 2,371 thousand) (Note 5). As at 31 December 2013 the outstanding amount due to the Company for subsidies was USD 244 thousand (2012: USD 242 thousand) (Note 15).

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:

	2013		2012	
Services received	**Transaction value**	**Outstanding balance**	**Transaction value**	**Outstanding balance**
State-owned companies	49,200	(4,226)	23,901	(363)
Shareholders and their subsidiaries	14,914	(484)	42,600	(5,583)
	64,114	(4,710)	66,501	(5,946)

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

	2013		2012	
Services provided by the Company	**Transaction value**	**Outstanding balance**	**Transaction value**	**Outstanding balance**
Shareholders and their subsidiaries	1,252	304	1,251	132
	1,252	304	1,251	132

All outstanding balances with related parties are to be settled in cash within six months of the reporting date. None of the balances are secured.

29. SUBSEQUENT EVENTS

On 11 February 2014, the National Bank of the Republic of Kazakhstan took the decision to temporarily reduce its intervention in setting the KZT exchange rate. As a result, the official exchange rate of KZT to US dollar fell to KZT 184.55 per US dollar as at 12 February 2014, i.e. by approximately 19%. To prevent the destabilisation of the financial market and economy as a whole, the National Bank plans to set an exchange corridor for the KZT against the US dollar at KZT 182-188 per US dollar. As of 14 March 2014, the KZT to US dollar official exchange rate is 182.10 KZT per US dollar.

The Company management believes that it has taken appropriate measures to support the sustainability of the Company business under the current circumstances.

In February 2014 the Company received one Embraer-190 and one Airbus under operating leases.

Unsecured stand-by Letter of Credit facility for the amount of USD 2,500 thousand relating to Embraer 190 was reissued in February 2014 with further annual reissuance (Note 27).

Additional two unsecured stand-by Letters of Credit were obtained in February 2014 for the amount of USD 1,500 thousand and USD 2,500 thousand. These were obtained as security for Lessors to cover any unfulfilled maintenance liabilities on the return of one Airbus A320 and one Embraer E190 to Lessor, respectively, with further annual reissuance.

30. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved by management of the Company and authorised for issue on 14 March 2014.

WHAT DOES IT MEAN?

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, 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 vs. economy travellers on a flight, which can vary by route, or even with seasonality. However imperfect, it is a widely available metric and allows for comparisons through time and with peers.

ASK Yield – The ASK yield is a revenue metric based on available capacity that takes revenue divided by ASK. It is usually measured in US cents per kilometre for comparability. If it is being compared to costs per ASK, total revenues may be used. Different components of revenue may be excluded (fuel surcharges, cargo and mail revenues, excess baggage fees, and other ancillary revenues) when comparing specific routes between airlines, or when analysing the composition of revenues.

Billing and settlement plan (BSP) – System of mutual settlements designed to simplify ticketing, sales reporting and mutual settlements among sales agents and airlines. The IATA created the first BSP in Japan in 1971. As of today, the system is unique and has been implemented in more than 160 countries.

Block hours – This is the amount of time that the aircraft is operating, including all times from when it leaves the gate (or parking location), to when it reaches its gate at destination (or parking location).

Capital Expenditures – This is the investment in Property Plant and Equipment (PP&E). In the 5-Year Financial And Operating Summary, we have included the additions to PP&E and the transfers to PP&E from note 9 of the Audited Financial Statements, so it is a gross number that does not net out disposals or currency translation differences.

Code-share agreement – Aviation business arrangement whereby two or more airlines share the same flights. One is an operator that sells tickets for its own operating flights, while the other(s) is a marketing partner that sells seats on the flights of operator.

Cost per ASK – The cost per ASK is the operating cost per ASK, expressed as US cents per ASK. Internally, airline management also looks at different components of operating costs to analyse route profitability.

EASA (Part 66) – The EASA's standard requirements for certifying aircraft crew

EASA (Part 145) – The EASA's standard requirements for airlines that maintain aircraft and components.

EASA (Part 147) – The EASA's standard requirements for a company that provides theoretical and practical training for operating staff

EBITDAR – Earnings Before Interest, Tax, Depreciation, Amortisation and Rental costs. This is essentially the cash margin before costs of ownership or rental of aircraft. This is a margin that can be used to compare airlines that have different proportions of owned aircraft relative to aircraft under operational leases. It can also be used to compare performance of a single airline where the proportion of owned aircraft is changing, such as Air Astana. We calculate it by taking Operating Profit and adding back Depreciation and Amortisation and Fixed Operating Lease Charges. This last 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.

Extended Operations (ETOPS; Extended-range Twin-engine Operational Performance Standards) – The certification for aircraft to fly long-distance routes that were previously off-limits due to a certain minimum time and distance from the nearest base or airport. Such certification with the domestic regulator allows airlines to fly more direct and efficient routes and extend their flight networks.

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.

Global Distribution System (GDS) – A generic name for one of the worldwide computerised reservation networks used by the airline industry and travel agents.

IATA Operational Safety Audit (IOSA) – IOSA covers the following functional areas of an airline: company management, flight operations, flight control and monitoring, aircraft maintenance, on-board operations, aircraft ground operations, cargo transportation, and flight safety.

International Air Transport Association (IATA) – The IATA was formed in 1945 to develop cooperation between airlines and provide safe, secure and efficient flights to passengers.

International Civil Aviation Organisation (ICAO) – The ICAO was founded in 1944 under the Chicago Convention on International Civil Aviation. A specialised agency of the United Nations, it is responsible for setting international standards, recommended practices and rules in technical, economic and legal areas of international civil aviation.

Invested Capital – The Invested Capital can be calculated by looking at the working capital and fixed assets required for the business net of the cash and cash equivalents, or by looking at the net debt and equity of the company. For Air Astana we have calculated Invested Capital through the assets and net working capital net of cash.

Joint Aviation Authorities (JAA) – The JAA unites the civil aviation regulatory authorities of numerous European states that develop and implement common safety regulatory standards and procedures.

Kazakhstan Civil Aviation Committee (CAC) – The CAC is the official regulator of the civil aviation sector in Kazakhstan. It is under the authority of the Ministry of Transport and Communications of the Republic of Kazakhstan.

Net Debt or Net Cash – This is the long and short-term financial liabilities of the company (debt and financial leases), less cash and cash equivalents. Net Cash is when the Cash and cash equivalents exceed the financial liabilities.

Net Debt/Equity ratio – This is the ratio of net debt to shareholder equity. It is sometimes taken as a metric of the risk of a company's balance sheet structure, and clearly companies with higher Net Debt/Equity ratios can have higher, but more volatile returns to shareholders. The metric is a little difficult to interpret for airlines, as Operating Leases are not included, but often represent long-term commitments by the airline.

Operating lease – An operating lease is essentially a rental agreement. Normally the lease payments over the term of the lease are less than the value of the aircraft, and there is no option to buy the aircraft at the end of the lease period. Historically, Air Astana's fleet comprised only of aircraft under operational leases until the end of 2011.

PLF – Passenger Load Factor. It is the percentage of seats filled on a per kilometre flown basis. It is calculated by taking the Revenue Passenger Kilometres (RPK) divided by the Available Seat Kilometres (ASK). Airlines measure things on an RPK and ASK basis to be able to compare efficiency of flights with different distance travelled and seating capacity. One can then analyse revenues and costs on this same basis.

RPK – Revenue Passenger Kilometres. This is a measure of paying passenger utilisation of the ASK. So it takes the number of passengers multiplied by the distance travelled in kilometres. Like ASK, it can be measured for an airline, for the industry, for specific aircraft types, for specific routes, or regions served.

RPK Yield – This is a similar measure to ASK Yield. It is a revenue metric based on RPK and measures revenues in terms of utilised capacity.

RTK – Revenue Tonne Kilometres. This is a measure of weight capacity utilisation. It takes the tonnes carried multiplied by the distance travelled in kilometres. This is a useful measure when comparing airlines with significant cargo volumes, and is sometimes the metric used for fuel consumption.

RoE – Return on Equity is a percentage-based measure of shareholder returns. It takes the net profit for a specific year, divided by the average shareholder equity during that year. It is sometimes called RoAE, to be clear of the use of Average Equity as the nominator. It is known as a geared ratio, as it does not take into consideration the capital structure of a company, only the equity.

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.

Wet lease – A wet lease is a lease of an aircraft that is fully staffed, maintained, fuelled and insured by the lessor. This is different from the usual Operating Lease, in which the airline is only renting the aircraft itself. Airlines on occasion use wet leases to cover short-term capacity gaps, or during start up phases of new airlines. Air Astana has not had any wet leases since 2009.

Working Capital – This is a measure of the short-term assets and liabilities that are necessary to operate the business. The key elements that management can influence are usually Trade Receivables, Trade Payables and Inventories. In airlines Deferred Revenues is also an important element, as it mostly represents tickets sold, and paid for, that have not been used. We have used the standard metric, which is to take Current Assets and subtract Current Liabilities.

air astana

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