air astana

Annual Report 2017

HIGH VALUE

Our ability to deliver full service with
a low cost base makes us very competitive,
and we are committed to remain so.

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air astana

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About This Report

This report was prepared by Air Astana JSC (the "Company") and covers the period from 1 January 2017 to 31 December 2017.

The report uses internally audited data from operational reports.

In December 2017 the Company changed its functional currency from Tenge to US Dollar, as the latter currency better represents the underlying economic environment.

The consolidated financial data presented in the report are as per the Company's audited IFRS financial statements.

Peter Foster
President, Air Astana JSC

Azamat Ospanov
Vice President Finance Accounts, Air Astana JSC

About Air Astana

Air Astana JSC was established in 2001 by Resolution of the Government of the Republic of Kazakhstan No. 1118 of 29 August 2001. The Company's shareholders are JSC National Welfare Fund Samruk-Kazyna (on behalf of the Government of the Republic of Kazakhstan) and BAE Systems (Kazakhstan) Limited, which own 51% and 49% of the Company's shares, respectively. The Company's head office is located in Almaty, Kazakhstan. The Company's main airports of operations are Almaty International Airport and Nursultan Nazarbayev International Airport in Astana.

The Company's principal activity is the provision of domestic and international passenger air services. Other business activities include freight and mail transportation. Technical centre provides services for aircraft maintenance both for Air Astana and for other airlines in Kazakhstan.

The Company operates a fleet of 32 turbojet aircraft, including 3 aircraft of Boeing family, 9 aircraft of Embraers and 20 aircraft of Airbus family.

Legal Disclaimer

In addition to factual data, this Annual Report also contains opinions, assumptions and forecasts by the Company's management based on currently available information. Changes in external factors such as fluctuating demand for air transportation, adoption of new technologies, regulatory changes, foreign exchange rate fluctuations etc. may cause the Company's actual performance and results in future periods to differ from those projected in this Annual Report.

This Annual Report is also available online as an interactive document at

http://ar2017.airastana.com/en/

Pocket Travel Assistant

Our corporate website is one of the major lines of communication with our customers, making us Kazakhstan's largest single e-commerce platform. It offers a wide range of services, including online bookings and check-in, information about flight arrivals and departures, verification of reservation details and much more. Our mobile application is virtually a pocket travel assistant with many rich features.

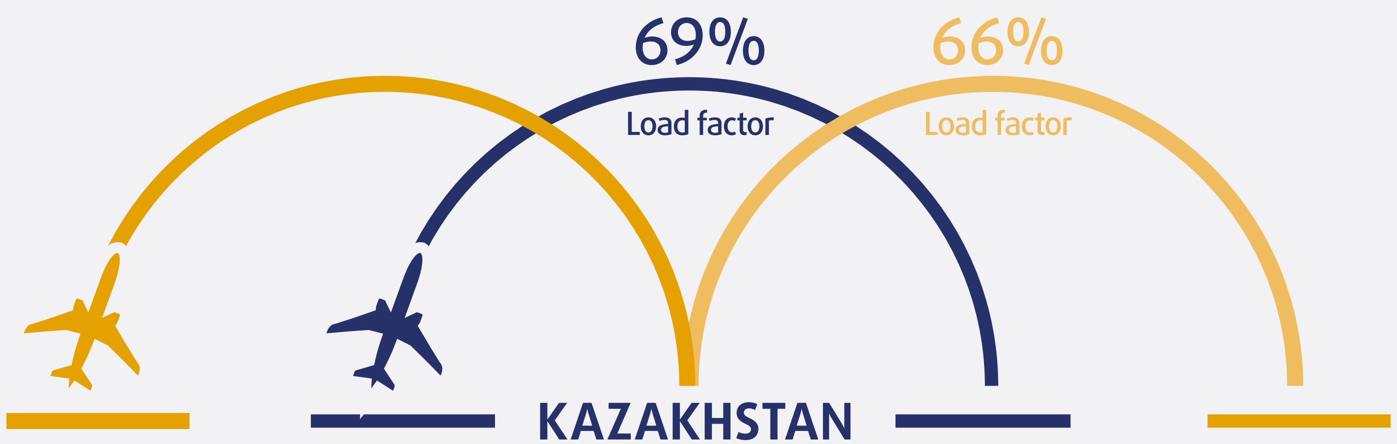
BUSINESS MODEL

Air routes	Employees	Passenger turnover in year	Average age fleet	Aircraft fleet
66	5.1 thousand ↗5.9%	4.2 million ↗12%	8.2 years	32

High quality of service

- "The best airline in Central Asia and India" Skytrax
- "The best airline Staff Service in Central Asia and India" Skytrax
- Mobile and online registration and sales
- International certification IOSA/EASA

Focus on Kazakhstan as a transit corridor



TRANSIT

(Sixth freedom passengers)*

0.5 ↗58% million passenger turnover in year (24% share in the international)

DOMESTIC

2.2 ↗3% million passenger turnover in year

2.6 billion RPKs

51%
Domestic market share

INTERNATIONAL

2.0 ↗23% million passenger turnover in year

6.4 billion RPKs

49%
international market share

* is the right of airline to carry passengers or cargo from a second country to a third country by stopping in one's own country

Cargo, mail and excess baggage carried
20.0 ↗20% thousand tonnes

International
516,866 million USD
+24%
See more at page 70-73

Domestic
201,312 million USD
+17%
See more at page 70-73

Other revenue, including Gain from sale and leaseback transaction
29,693 million USD
+93%
See more at page 70-73

Cargo and Mail
19.666 million USD
+26%
See more at page 70-73

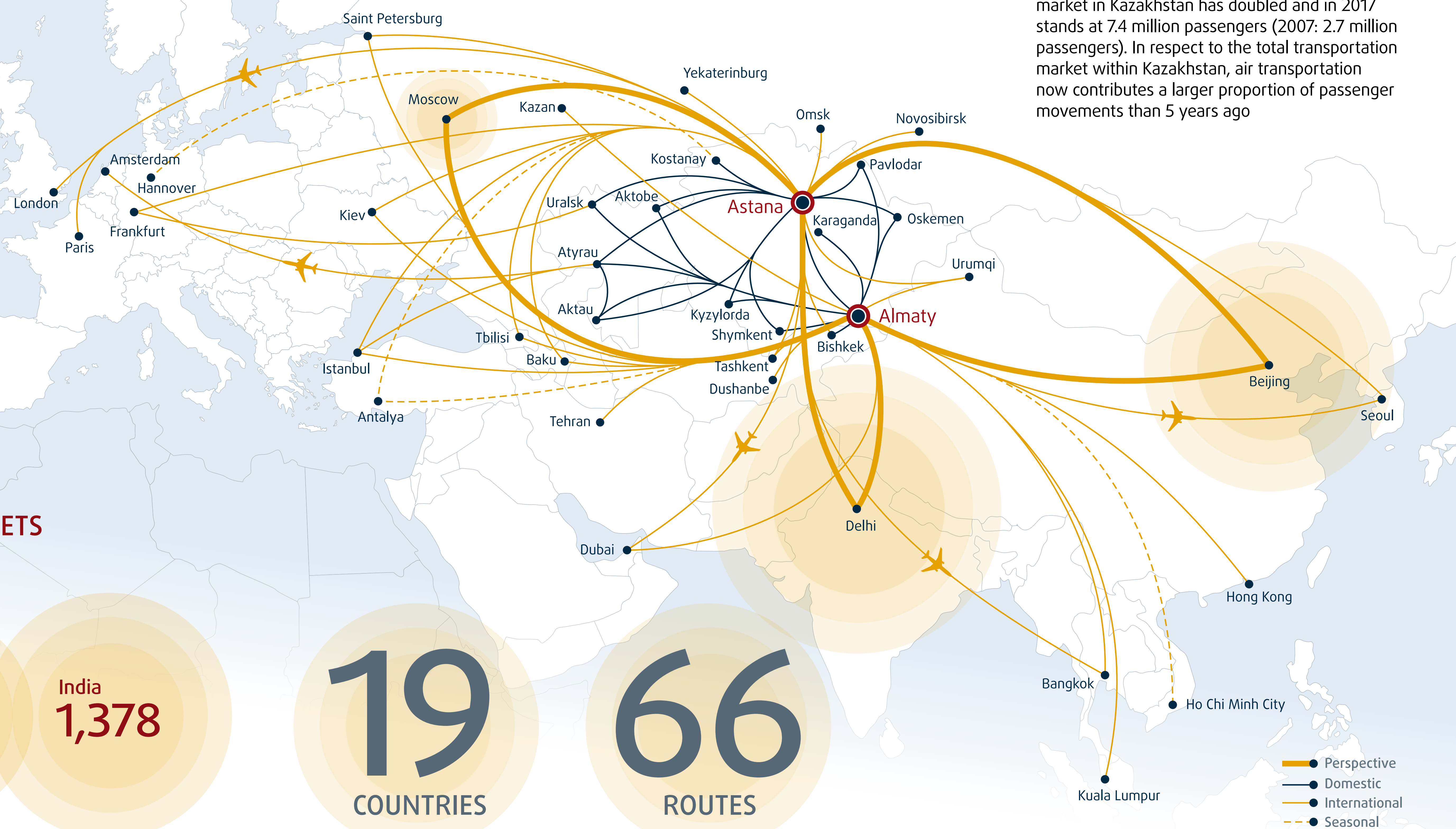
Gain from sale and leaseback transaction
8.478 million USD

The healthy net profit of USD
39.32 ↗198.6%

DEVELOPMENT OF THE ROUTE NETWORK

Over the last ten years, the size of air traffic market in Kazakhstan has doubled and in 2017 stands at 7.4 million passengers (2007: 2.7 million passengers). In respect to the total transportation market within Kazakhstan, air transportation now contributes a larger proportion of passenger movements than 5 years ago

The International Air Transport Association ('IATA') forecasts a twofold increase in the global demand for passenger services over the next twenty years



PERSPECTIVE MARKETS

(population million people 2017)

Russia 146

China 1,300

India 1,378

19 COUNTRIES

66 ROUTES

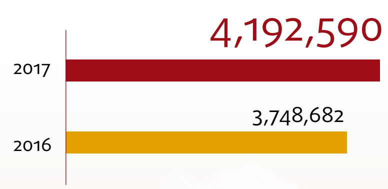
OUR AIRCRAFT FLEET

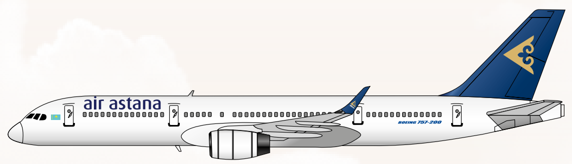
WE ARE ALWAYS STRIVING TO GET BETTER

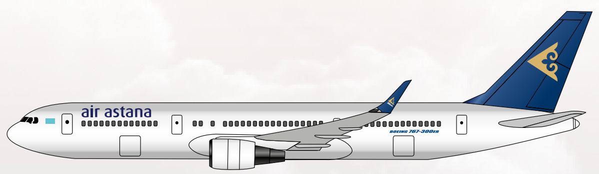
Number of aircraft

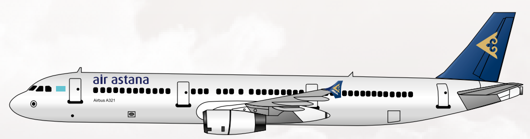
Number of routes

Number of passengers carried







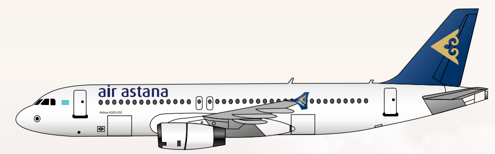


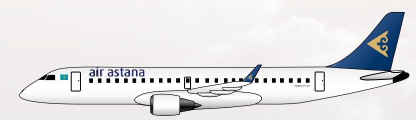
Embraer E190-E2s

The E2 will be a logical replacement for the E190, which we have been operating since 2011. The E190 enabled us to open up smaller markets in southern Russia, the Caucasus and Central Asia and smaller domestic routes. As domestic and regional competition grows, we estimate that the E2 will deliver up to 15% seat cost savings, which will enable us to increase capacity and market share on these routes and maintain our position as the region's leading airline.

A320 NEO Family[2]

The delivery of the new generation of A320 NEO Family aircraft will allow for an overall increase in capacity by up to 40 per cent over the next three years. The A320 NEO and A321 NEO will operate on domestic and medium-haul destinations, while the A321 NEO LR has the ability to operate long-haul services from Almaty and Astana to destinations in Asia and Europe. In addition to increasing frequencies on existing routes, the aircraft will also be deployed on new services to CIS countries and South Asia.





Boeing 767-300ER

Wide-body, extended-range

Payload, kg .... 37,500 kg

Passenger cabin:
Economy class, seats 193
Business class, seats 30

Range, km 11,000
Age, years 3.99

CO_2 equivalent emissions
Limit 63.3
Average 55.51

Noise level (EPNdB) [1]

Lateral 96.1
Approach 97.3
Flyover 88.0

Boeing 757-200

Narrow-body, medium-haul

Payload, kg .... 23,000 kg

Passenger cabin:
Economy class, seats 150
Business class, seats 16

Range, km 7,250
Age, years 20

CO_2 equivalent emissions
Limit 32.6
Average 28.6

Noise level (EPNdB) [1]

Lateral 93.4
Approach 95.0
Flyover 82.9

Airbus A321

Narrow-body, stretched fuselage, short- to medium-haul

Payload, kg .... 23,000 kg

Passenger cabin:
Economy class, seats 151
Business class, seats 28

Range, km 5,950
Age, years 11.58

CO_2 equivalent emissions
Limit 20.7
Average 18.2

Noise level (EPNdB) [1]

Lateral 95.0
Approach 86.6
Flyover 95.6

Airbus A320

Narrow-body, short- to medium-haul

Payload, kg .... 16,400 kg

Passenger cabin:
Economy class, seats 132
Business class, seats 16

Range, km 6,100
Age, years 5.49

CO_2 equivalent emissions
Limit 30.6
Average 24.9

Noise level (EPNdB) [1]

Lateral 91.3
Approach 84.6
Flyover 94.4

Embraer 190

Narrow-body, medium-haul

Payload, kg .... 11,500 kg

Passenger cabin:
Economy class, seats 88
Business class, seats 9

Range, km 4,500
Age, years 5.49

CO_2 equivalent emissions
Limit 107.9
Average 87.89

Noise level (EPNdB) [1]

Lateral 91.8
Approach 85.5
Flyover 92.4

Airbus 320/321 NEO

Narrow-body, short- to medium-haul

Payload, kg 18,400/20,500

Passenger cabin:
Economy class, seats 132/151
Business class, seats 16/28

Range, km 6,850/6,500
Age, years 1,14/0,24

CO_2 equivalent emissions
Limit 35.1
Average 32.43

Noise level (EPNdB) [1]

Lateral 86.9
Approach 85.0
Flyover 92.4

[1] ICAO Noise Standards Chapter 14 - min (MTOM 1 tonnes) – 245 EPNdB

[2] 15% improved fuel efficiency, 8% lower operating costs, at least 10% lower emissions, and lower noise footprint

CUSTOMER SERVICE

WE TREAT EVERYONE AS A GUEST

- In 2017, once again we confirmed our status as a four-star airline and received a Skytrax award for the sixth year in a row.
- Our Company retained its status as the Best Airline in Central Asia and India for the sixth consecutive year and was chosen as the airline with the Best Airline Staff Service in Central Asia/India for the fifth year in a row.
- We received an award from the Airline Passenger Experience Association as a Five Star Major Regional Airline.
- Our Company received two 2017 Travel Plus Airline Amenity Bag Awards: Gold Awards for its Children's Goody Bag for Little Prince and Nat Geo Kids.
- A soft inventory with a new design was introduced in September 2017.
- In 2017, 16 aircraft were equipped with IFE streaming modifications, and three 767s were equipped with Internet onboard.

CUSTOMER POSITIONED AT THE HEART OF THE DECISION-MAKING PROCESS

GROUND SERVICES

Easy Access

- Nomad Club bonus programme
- Online planning, booking and tracking
- Electronic registration

Aircraft Ground Handling

- Fast turnaround from aircraft to ensure on-time performance indicators
- Handling of priority baggage and speedy transfer of baggage
- De-icing with engines running

Passenger and Baggage Handling

- Baggage control system (BRS system)
- Roomy transit zone
- Services for self-registration of passengers and baggage
- Biometric technologies
- Transfer desk check-in counters
- Frequent flyer check-in
- Baggage drop-off counters
- Self-check-in procedures
- Fast track and special assistance for restricted mobility
- Tracking process to locate lost baggage

ON-BOARD SERVICE

Entertainment

- Wi-Fi offered on board
- Integrated RAVE IFE systems (movies, books, music in different languages)
- New safety video for our passengers
- Redesigned blankets, headrest covers and pillow cases that incorporate a traditional Kazakh design but with a modern look
- Amenity kits in business class, economy class and for little guests

Catering

- Business Class welcome drinks
- Express meal service for frequent flyer route
- Hot meal on international routes

Cabin Crew

- Recruitment and training

KEY EVENTS

Fulfillment of EXPO 2017

EXPO 2017 "Future Energy" was a great success for the country. As an official carrier of EXPO 2017 Astana, our Company helped increase the number of visitors to the exhibition by providing over 10,000 passes to our international passengers. Much of our passenger growth in 2017 was the result of international transit traffic via Kazakhstan and passenger demand to Astana for the EXPO during summer.

EXPO 2017 ASTANA FUTURE ENERGY

New terminal at the Nursultan Nazarbayev International Airport

In July of 2017, we transferred all international flights from Astana to a new terminal at Nursultan Nazarbayev International Airport. The new terminal meets all international standards and will allow us to develop a business that directly depends on network traffic, i.e. the transit potential of our hubs. The new terminal is equipped with innovations in terms of its baggage control system and passenger check-in system, while also providing sufficient terminal capacity for the future growth. The throughput capacity of the new terminal is about 1,800 passengers per hour and 1,220 baggage units per hour. The expansion of the airport helped relieve the terminal of domestic flights and increase the frequency of flights.

Network expansion

We started operating daily flights to Novosibirsk and Yekaterinburg, Russia, in 2017. The decision to introduce daily flights was part of our strategy to improve connectivity across our network and to reap the benefits afforded by our strategic location to drive transit traffic. We also added more frequent flights to St Petersburg, London, Urumqi and Tehran. Two new routes were added in 2017. The first was between Astana and Delhi the second was between Uralsk and Frankfurt. The total number of passengers increased by 12% year-on-year in 2017, or by close to half a million passengers, exceeding 4 million annual passengers for the first time.

Aviation Technical Centre in Astana completed

We completed the construction of our Aviation and Technical Centre in Astana. The Centre will be one of the largest aircraft repair centres in Central Asia and a leading centre of its kind in the region. The fully modern facility will offer an extensive range of aircraft repairs and maintenance. We plan to set up workshops to repair aircraft components, perform composite repairs and conduct non-destructive testing on-site. The Centre will also be the largest spare-parts warehouse in Kazakhstan.
In addition, it will create 190 jobs and will provide on-the-job training for future aircraft mechanics.

Skytrax recognition for the sixth consecutive year

In 2017, our Company was once again recognised for its four-star service excellence, retaining the accolade of "Best Airline in Central Asia and India" at the Skytrax World Airline Awards for the sixth consecutive year. We also took home the prize for "Best Airline Staff Service in Central Asia/India" for the fifth time.

We are becoming one of the largest Airbus A320 NEO-family operators in Central Asia and the CIS

Our Company is becoming one of the largest operators of A320 NEO-family aircraft in Central Asia and the CIS. We became the first operator of this type of aircraft in the region in 2016, and our fleet will expand to 17 aircraft by 2020. We will then be operating six A320 NEOs, seven A321 NEOs and four A321 NEO LRs.

KEY EVENTS

CONTINUED

Five E190-E2s leased

We have signed a lease agreement for five Embraer E190-E2s. Deliveries will commence in late 2018 or early 2019.

The E2 offers greater range and operational efficiency, which will support our growing network and open up new market opportunities.

National recruitment drive launched as expansion continues

In 2017, we launched our Try on a Dream recruitment campaign in order to attract future pilots, engineers, flight attendants and ground services staff from all over the country. We currently operate 32 aircraft, but with the fleet expected to increase to 64 aircraft by 2026, there will be a need to expand our workforce.

Code-share agreement signed with Lufthansa

We solidified our cooperation with Lufthansa with the signing of a code-share agreement that gives customers of both airlines greater choice in terms of travel. Passengers will now be able to choose from a combined total of 14 flights a week instead of the seven weekly flights between Kazakhstan and Germany operated by each carrier. In order to make it easier for our passengers to connect on flights with Lufthansa and other partner airlines, we have moved to Terminal 1 at Frankfurt Airport.

In-flight broadband introduced on select routes

Passengers flying with us are now able to enjoy high-speed broadband Internet on board certain routes. This service will be available to Business and Economy Class passengers on all three of our Boeing 767s. Our Company is the first airline in the world to install GX Aviation on wide-body aircraft, reinforcing our focus on technological innovation and excellence in passenger service.

MySeat service launched

Our new MySeat service enables passengers to reserve seats in the front rows of selected cabins. Passengers can still book seats in other parts of the aircraft free of charge.

Compliance with the best international technical and operational standards

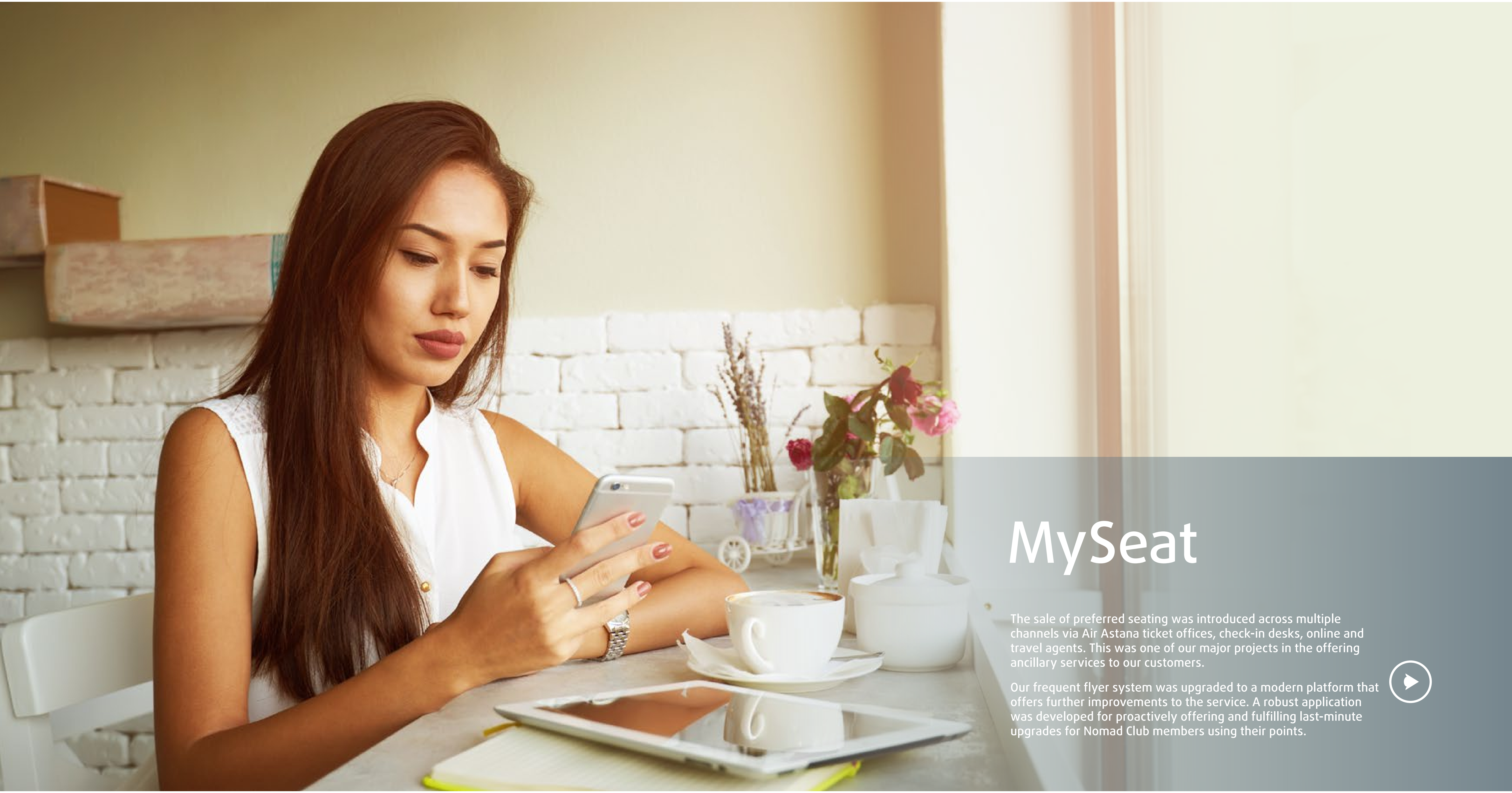
In 2017, we continued to demonstrate our adherence to the highest international standards and best practices. Thus, we successfully passed the IATA Operational Safety Audit (conducted once every two years) for the sixth time in 2017.

We also renewed our certificates from the European Aviation Safety Agency (EASA) for conducting aircraft maintenance in accordance with the requirements of EASA Part 145 regulations.

We also successfully passed our annual EASA Part-145 audit (Aircraft Line Maintenance) by the UK Civil Aviation Authority and an EASA Part-147 audit (Maintenance Training Organization) by the Irish CAA.

Functional currency changed to the US dollar

Following a careful analysis, management concluded that the US dollar would become our functional currency, as it best represents the economic impact of our transactions and other events and conditions that affect our Company. The change from the tenge to the US dollar took effect in 2017.



MySeat

The sale of preferred seating was introduced across multiple channels via Air Astana ticket offices, check-in desks, online and travel agents. This was one of our major projects in the offering ancillary services to our customers.

Our frequent flyer system was upgraded to a modern platform that offers further improvements to the service. A robust application was developed for proactively offering and fulfilling last-minute upgrades for Nomad Club members using their points.

2.1 CHAIRMAN'S STATEMENT

LEADING THE MARKET IN CENTRAL ASIA

In 2017, we continued our track record of operational growth, achieving our targets across all strategic areas.

Taking advantage of the growth opportunities that opened up following improvements in the macroeconomic environment, we increased both passenger and cargo traffic (up 12% and 20%, respectively), including a significant surge in transit traffic (up 58% year-on-year).

We were the official carrier for major international forums such as EXPO 2017 and the Winter Universiade 2017, which were attended by representatives of more than a hundred countries. Apart from boosting passenger traffic, these events also boosted the profile of our brand as a reliable air carrier – we continue to be one of the top airlines in Central Asia in terms of service excellence.

We focused on upgrading and expanding our fleet in 2017, having received the second of 11 advanced A320/321 NEO eco-aircraft on order from international lessors. We also signed agreements in 2017 for three more Airbus A320 NEOs, three Airbus A321 NEOs, and five Embraer E190-E2s as part of our fleet expansion and upgrade strategy.

We have been expanding our route network in recent years, which currently comprises over 60 international and domestic services from hubs in Almaty and Astana. In 2007, we launched flights between Astana and Delhi, Astana and Kiev and Uralsk and Frankfurt, while also increasing flight frequencies for over 20 international routes to build up a presence in our target markets of Europe and Asia. Our international traffic rose 23% year-on-year.

Among the more important decisions we made in 2017, I would like to highlight the approval of our new strategy for the coming decade. The strategy focuses on strengthening our position as a leading airline in the Eurasian market. To this end, we are putting in place an ambitious programme for fleet expansion by adding the latest Airbus, Embraer and Boeing aircraft. We will also continue to support the expansion of our key hubs. In 2017, we completed the construction of our new maintenance centre in Astana, which is going to be one of the largest aircraft maintenance centres in Central Asia.

We are also making significant investments in selecting, training, and providing career planning advice for bright individuals from Kazakhstan. Driven by our urgent need to attract more talented young people to our workforce, we launched a large-scale recruitment initiative in 2017 called Try on a Dream. While addressing our own recruitment needs, we are also acting in a socially responsible way by training young Kazakh men and women for attractive careers. In addition, we continue recruiting and training our future pilots through an Ab Initio programme at two major European schools, both of which meet the highest international standards. All these steps will help us successfully implement our strategy, which focuses on expanding our network with a particular focus on transit traffic, which already accounts for 24% of our international passengers.

As a commercial company, our high degree of efficiency is driven by our customer focus, operating reliability, safety and ability to effectively manage costs. With every employee focusing on delivering an excellent customer experience, we are proactive in identifying our customers' needs. In 2017, we were named the best airline in Central Asia and India for the sixth year in a row. We also retained our leading position in the Onboard Product and Staff Service category across Central Asia and India in the rating by Skytrax, a UK advisory whose awards are referred to as the "Oscars of the aviation industry". Its service quality scores are informed by surveys of millions of air passengers using about 50 different service-level metrics. We appreciate the enormous support from our customers, and we will only keep improving our in-flight service offering.

This recognition is the result of the collective effort of our entire close-knit team. I am confident that together we will be able to achieve the even more inspiring and ambitious goals that we have set for ourselves.

Yours faithfully,

Nurzhan Baidauletov

2.2 PRESIDENT AND CEO'S STATEMENT

In 2017, Air Astana turned round its performance. Net profit of USD 39.32 million reversed the company's first-ever loss of the previous year. Total airline revenue grew by 24% to USD 767.54 million. Operating profit grew by 67% to USD 63.26 million, and net margin was 5.1%.

Airline revenue performance defined this year's result, and brought to an end three consecutive years of falling sales which followed successive devaluations of the Kazakh tenge in 2014 and 2015. The tenge continues to trade at less than half its pre-2014 value against the US dollar; however, several positive structural changes have since been implemented resulting in a reversal of negative revenue trend. Airfares sold in Kazakhstan onto international routes are now calculated in US dollars and adjusted daily to account for exchange rate fluctuations. Only domestic routes are priced in underlying tenge, and therefore the devaluation effect is limited to approximately 30% of the company's revenue. The local market has to some extent adapted to a cheaper tenge, maximising exports and releasing greater liquidity and purchasing power into the general economy. The company has been able to significantly grow its network, or sixth freedom business, such that this segment, which grew by 58% in 2017, now accounts for 25% of revenue on international routes. Our Russia, China, Hong Kong, Ukraine, Uzbekistan and EU sales territories all produced significant sixth freedom growth, made possible by low airfares because of the company's competitive cost base. It is worth dwelling on this point, since it continues to be the key reason why we are able to produce consistently positive financial results, despite being a modest-sized full-service carrier based in a country with a relatively small home market of 18 million people. In the 2016 report, I wrote that our unit cost of 4.6 US cents per available seat kilometre (ASK) gave us "one of the lowest unit costs in the industry, including those of low cost airlines". In 2017, unit cost increased by 13% to 5.2 US cents per ASK as a result largely, though not exclusively, of higher jet fuel prices. Fuel is a common industry denominator and therefore does not affect relative competitiveness; however it will, if steep enough, affect overall market demand as airfares and fuel surcharges rise. Costs have also come under pressure in other areas of the business. Skilled aviation personnel, particularly flight crews, are in high demand in Asia in particular, and Air Astana's well trained and internationally qualified pilots have been aggressively targeted by recruiters, requiring us to make significant salary adjustments. Airports, aircraft handlers and air navigation services, aircraft maintenance organisations and other service providers, are mostly operating at maximum or near maximum capacity and prices have risen accordingly.

In spite of cost pressure we have continued to invest heavily in service improvements and staff training. A number of service and sales enhancements have been introduced, including on-board Wi-Fi on Boeing 767 aircraft, in-flight entertainment streaming on aircraft without seat-back televisions, premium advance seat selection, and the MyUpgrade Business Class bidding facility. We were again recognised by Skytrax, which reaffirmed our Four Star status and whose respondents voted us "Best Airline Central Asia and India" and "Best Staff Service Central Asia and India" for the sixth and fifth consecutive years respectively. We received positive exposure and a welcome traffic boost from Astana's successful and enjoyable EXPO 2017, themed "Future Energy", which far surpassed its target of 2 million visitors and of which we were a principal sponsor. We continued to train young Kazakhstan nationals to become airline pilots and engineers through our Ab Initio programmes, so that to date, 209 men and women are either in the programme or in line operations with us. At the end of the year we opened an all weather-proof double aircraft bay hangar at Nursultan Nazarbayev Airport in Astana, in which we expect to perform light and heavy aircraft checks in the years to come. We successfully completed the IATA Operational Safety Audit (IOSA) for the fifth consecutive two year period.

Cost pressure, in particular the rapidly escalating jet fuel price to which I referred earlier, remains the single biggest challenge in 2018. Revenue growth will be affected by late aircraft deliveries caused by ongoing engine and delivery management issues at Airbus and Pratt and Whitney of the Airbus NEO, a significant number of which we have on order for our expansion plan. Nonetheless, most markets remain strong, and we can expect significant revenue growth from China and India in particular, following the Government of Kazakhstan's helpful decision to eliminate the requirement for a visa for customers from these countries wishing to transit through Kazakhstan for a period of up to 72 hours. In conclusion, present trading conditions can best be described as a mixed set of dynamics, which we will continue to manage in order to achieve the best possible outcome for shareholders, customers, staff, and other stakeholders, all of whom I would like to thank for their continued support.

Yours truly,
Peter Foster

2.3
MARKET OVERVIEW

Global air transportation market

According to the International Air Transport Association (IATA), global passenger traffic grew by 7.6% in 2017, well above the 10-year compound annual growth rate (CAGR) of 5.5%. Full-year 2017 capacity rose 6.3%, and load factor increased 0.9 percentage points to a record high of 81.4%.

Global international passenger markets

In 2017, global international passenger traffic increased by 7.9% compared to the previous year. Capacity rose 6.4%, and load factor grew to 80.6%.

All regions recorded year-on-year increases in demand, led by the Asia-Pacific and other regions.

Asia-Pacific carriers posted annual demand growth of 9.4% compared to 2016, driven by robust regional economic expansion and an increase in route options for travelers. Capacity rose 7.9%, and load factor climbed 1.1 percentage points to 79.6%.

European carriers' international traffic climbed 8.2% in 2017 compared to the previous year, underpinned by buoyant economic conditions in the region. Capacity rose 6.1% and load factor surged 1.6 percentage points to 84.4%, which was the highest for any region.

The Middle East was the only region to see a slowdown in its full-year international RPK growth rate in 2017 (to 6.6%, down from 11.5% in 2016). Airlines based in the region faced a challenging first half of the year, although it is worth noting that the Saudi Arabia trend in international RPKs recovered somewhat during the second half.

Kazakhstan's economy

According to Kazakhstan's Ministry of National Economy, the country's GDP grew by 4% in 2017. Kazakhstan's growing investment appeal is a major driver of sustainable economic growth: in 2017, growth in capital investment increased nearly threefold, funded primarily by companies' own cash flows, which increased by 20.5%. Investment activity was also boosted by the implementation of innovation-driven industrial projects and infrastructure initiatives under government-sponsored programmes, such as Nyrly Zhol (The Bright Road), Nyrly Zher (housing construction) and Industrialisation, as well as the national Agribusiness–2020 Programme.

The annualised inflation rate decreased to 7.3% from 8.5% in 2016, staying within the 6%–8% range targeted by the National Bank. Kazakhstan's foreign trade volume increased by 25.1%, with exports increasing by 31.6% and imports by 15.8%.

EXPO 2017, which was hosted in Astana, gave a strong boost to export-oriented industries, which expanded their supply.

Kazakhstan's air transportation market

The transport sector accounts for more than 8% of the country's GDP. Kazakhstan's economy grew by 4% in 2017, with the transport industry driving much of this growth by posting a 4.8% annual growth rate.

Kazakhstan's aviation market grew rapidly for several years until 2014, when challenging economic conditions stunted growth. Historically, the aviation market has consisted predominantly of local passengers – both domestic and outbound international. Kazakhstan's market would have contracted in 2016 if it had not been for rapid growth in transit traffic mostly contributed by our Company. The inbound market has grown in recent years – from a very low base – as Kazakhstan has started to emerge as a tourist destination.

Kazakhstan's total traffic increased by 23% in 2017, the highest growth rate over the past 25 years. The inbound segment grew again in 2017, boosted during the summer by the EXPO, which Astana hosted from June to September.

Passenger traffic at Astana Airport increased by more than 20% in 2017 to over 4 million passengers. While the EXPO impacted traffic through Astana during the summer months, more of the airport's growth in 2017 was the result of transit traffic because of our Company, which grew by 30%, with freight traffic up 24%. Passenger traffic is expected to grow by 35% by 2020, with transit traffic increasing 2.5-fold and freight traffic doubling.

Evolution of the competitive environment

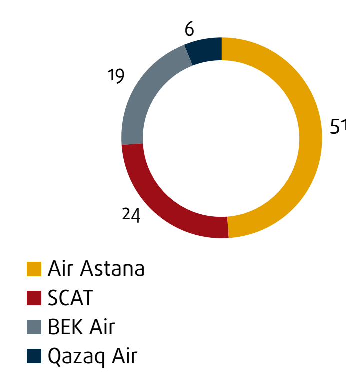
We are by far the largest carrier in Kazakhstan, having served 4.2 million passengers in 2017.

SCAT reportedly carried 1.7 million passengers in 2017 compared to 1.3 million in 2016. According to IATA, privately owned Bek Air is the third-largest airline in Kazakhstan, having carried slightly fewer than 1 million passengers in 2017, and Qazaq Air is the fourth-largest, with slightly more than 250,000 passengers.

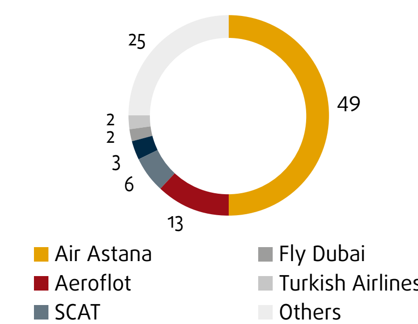
Kazakhstan is pursuing a liberal policy in the aviation market, which has enabled foreign airlines to expand. This policy also poses no barriers to new entrants to Kazakhstan's aviation market.

In 2017, Kazakhstan's market was served by 27 foreign airlines, including Aeroflot, Fly Dubai, Turkish Airlines and others. New entrants to the market in 2017 included Air China, Finnair, LOT, and Wizz Air (OAG).

Domestic market share, %



International market share, %

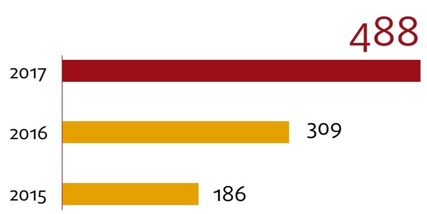


Our strong growth

The domestic market still accounts for approximately half of our total traffic. We are also planning to continue our focus on the international market as we double our fleet by 2026.

With low costs and a strong financial position, we are able to compete effectively.

International Transit passengers, Air Astana ('000)



We have posted double-digit annual growth in passenger transit traffic since 2014.Transit traffic grew by over 50% year-on-year in 2017, contributing to our overall passenger traffic growth of 12% and now accounting for 24% of our international traffic.

Our revenues were up 24% in 2017 to USD 767.5 million. Transit passengers accounted for a majority of this growth, with an increase in inbound international traffic accounting for the remainder.

Connecting services are the fastest-growing segment, given Kazakhstan's beneficial geography as a hub attracting traffic between China and Europe, including Russia and reflecting our efforts to build a global network.

Focus on Kazakhstan as a transit corridor

In 2017, the Kazakhstan-China market potential grew to a record high, with Air China opening new routes and our Company launching additional flights. We plan to increase capacity in Hong Kong and add new destinations to China in the near future. Regional traffic between Kazakhstan and China is growing due to a low base in tourism and stronger business ties. According to CAPA (Centre for Aviation), there were 40 weekly one-way frequencies in October 2017 and more than 6,000 weekly one-way seats from Kazakhstan to mainland China. We are the market leader, operating 24 of the frequencies across five routes and accounting for more than a 60% share of total seat capacity.

Urumqi, in China's far west, less than 500 km from the Kazakhstan border, has particularly strong ethnic traffic, as it has a large Central Asian community. Urumqi is less than 1,000 km from Almaty, but the journey by bus or train takes approximately 24 hours.

We also carry significant sixth freedom traffic to and from Urumqi. Connections to other Central Asian countries are popular, given ethnic ties, although there is intense competition with China Southern, which uses Urumqi as it is hub.

In Beijing, we also rely on sixth freedom traffic, but the focus is more on connections to Europe and Russia. China and Kazakhstan have committed to increasing economic ties, which should boost local business traffic, and an increased focus on tourism should lead to an increase in visitor numbers in both directions.

The biggest opportunity for further growth will be in sixth freedom traffic: we offer a much faster connection from China to Europe than Gulf airlines, and we have a very low cost base, enabling us to price competitively and attract one-stop traffic.

Over the past four years, we have developed Astana Airport into a transit hub. In recent years, we have focused almost all of our expansion in the capital city.

Infrastructure constraints have impeded growth on the part of our Company and other airlines in Almaty. Almaty Airport is still larger, handling over 5 million passengers in 2017, but traffic growth has been modest the past few years. Almaty Airport is privately owned, whereas Astana Airport is government-owned and has benefited from significant government investment, including the building of a new terminal that opened just prior to EXPO 2017.

Georgia, Russia and Ukraine were our main growth markets in 2017, contributing sixth freedom traffic on our routes to India, China, Hong Kong and South-east Asia. We expect Georgia, Russia and Ukraine to again be growth markets in 2018, along with Uzbekistan.

We plan to focus mainly on increasing capacity to existing destinations in 2018 and accelerating network expansion in 2019.

Russia is our largest foreign market, accounting for 26% of our total international seat capacity. Russia is also by far the largest international market from Kazakhstan, accounting for nearly 30% of total international seat capacity. Our capacity in the Kazakhstan-Russia market is up nearly 50% over the past year, according to CAPA and OAG data. Aeroflot, S7 and SCAT are the only other airlines operating year-round services in the Kazakhstan-Russia market.

Industry outlook

In 2017, Kazakhstan successfully passed an aviation Security audit by the International Civil Aviation Organisation (ICAO) and confirmed its high degree of compliance with international airport security standards.

As instructed by the President of Kazakhstan, transition to the UK model of government regulation of the industry is planned under the 100 Concrete Steps National Plan.

For 2018, Kazakhstan's airlines plan to launch flights from Astana to such new destinations as Tyumen, Krasnodar, Vilnius, Tomsk, Chelyabinsk, Sochi, Batumi and Dushanbe. Foreign airlines (AirBaltic, Emirates, FlyDubai and Aeroflot) have plans to launch new routes, including between Riga and Almaty, Dubai and Almaty, Dubai and Aktau, Krasnoyarsk and Almaty and Moscow and Kyzylorda.

2.4 STRATEGY REVIEW

IN 2017, OUR BOARD OF DIRECTORS APPROVED A 10-YEAR STRATEGIC PLAN IN LINE WITH OUR STRATEGIC PRIORITIES. OUR STRATEGY DEFINES OUR MISSION, VISION, STRATEGIC GOAL AND STRATEGIC DIRECTIONS FOR DEVELOPMENT, WHICH CORRESPOND TO THE CURRENT STATE AND PROSPECTS OF THE AVIATION INDUSTRY.

Our new 10-year strategy (2017-2026) is aimed at ushering in a new phase of growth by accelerating expansion while leveraging our low-cost structure and strong position as a hub between Europe and Asia. In an effort to become the leading regional network carrier in Central Asia, we aim to double the size of our fleet over the next decade.

In the long term, the further development of the Company will be accomplished in the context of the following strategic directions:

1 **Growth**

2 **Ground support capabilities**

3 **Customer focus**

4 **Personnel development**

5 **Innovation and technology**

Outlook

Kazakhstan's economy showed encouraging signs of recovery in 2017, driven mainly by better-than-expected performance in the oil sector and supported by a recovery in global oil prices. This, in turn, had a positive impact on the local currency, the tenge, which has been increasing in value since the crisis.

Against this encouraging macroeconomic backdrop, passenger traffic increased by 12% year-on-year in 2017 . We made considerable progress in all our strategic priorities during the year and we began a number of initiatives aimed at reducing costs and increasing operational efficiency across all areas. While growth is expected to continue in 2018, costs, including fuel, airport and other user charges and staff costs, are under pressure. We anticipate that our key challenge in the near future will be controlling costs while simultaneously maintaining quality standards.

In 2017, we continued implementation of a variety of projects aimed at improving the Company's business processes and cost optimisation.

Growth

Strategic initiatives

Increasing the size of our fleet from 32 to 64 aircraft, thus significantly expanding capacity

In 2017, we received our first A321 NEO.

We signed an operating lease for six A320 NEO family aircraft with deliveries in 2019-2020.

Confirming an order for five next-generation Embraer E2 regional jets (operating lease), with deliveries commencing in 2018.

Increase in passenger traffic, including transit traffic (sixth freedom traffic)

Total passenger numbers increased by 12%, or close to half a million passengers, exceeding 4,000,000 annual passengers for the first time.

Our measured in available seat-kilometres (ASKs) grew by 6.9% to 13.59 billion ASKs, mainly due to an increase in international take-offs.

Sixth freedom traffic increased by 58% year-on-year.

The Novosibirsk and Yekaterinburg routes are now served by daily flights.

We increased frequencies on flights to Bangkok, Beijing, Dubai, Istanbul, London, Moscow, Omsk, Seoul, St Petersburg, Tashkent, Tbilisi and Urumqi.

Network expansion

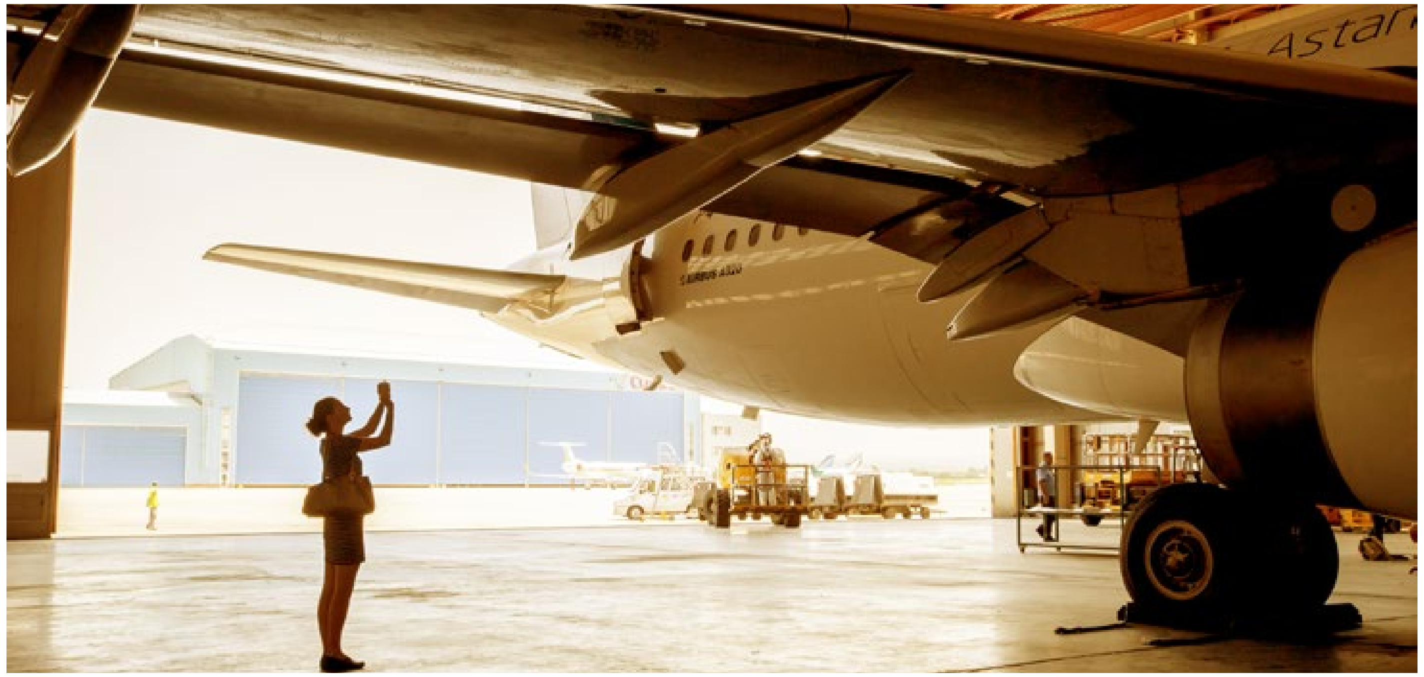
In 2017, we opened three new routes (Astana-Delhi, Astana-Kiev, Oral-Frankfurt), two of which are operated from Astana Airport.

Frequencies have been increased on 25 routes, with the majority from Astana, by 27% in total.

We promoted two major international events—EXPO 2017 and Universiade—that provided the airline with a golden opportunity to stamp its brand not only to on enthusiastic domestic market, but also on a wider, international visiting audience.

Ground support capabilities

Strategic initiatives



Continue the development of our two major hubs in Astana and Almaty, with the majority of growth taking place in Astana

Astana Airport opened a new terminal in 2017, making it the biggest airport in Central Asia with a capacity of up to 8.2 million passengers a year and an area of 47,000 square metres.

Since October 2017, the Shanyrak business lounge has been open to passengers travelling on domestic flights.

Development of our engineering capacity and our technical centre in Astana

We completed construction of our own technical centre at Astana Airport in 2017, and operations are expected to get under way in Q1 2018.

Customer focus

Strategic initiatives

On-board service

Sixteen aircraft have been fitted with RAVE IFE systems (streaming capability), providing both domestic and international passengers with access to a wide variety of in-flight entertainment.

Launch of Internet connectivity on three Boeing 767s

Redesigned blankets, headrest covers and pillow cases that incorporate a traditional Kazakh design

Personnel development

Strategic initiatives

The creation of an attractive brand to recruit talented young professionals

We launched our Try on a Dream campaign in 2017 to find, recruit and train applicants from across the country.

Improvement of staff appraisals in order to evaluate and develop employees' skills

Eight more pilots who started their training during the first Ab Initio programme in 2008 were promoted to captain.

Improvement of corporate culture and the introduction of high professional standards

In line with our policy to develop the skills and knowledge of our employees, we continued to deliver corporate training programmes such as Induction and Orientation and management seminars.

We determined the exact competencies and skills that would be required of Air Astana pilots to match the best international standards.

A new performance assessment process has been established.

We established our corporate Training Academy, which now trains aviation professionals across the board, including pilots, flight attendants, engineers and other civil aviation professionals at a level compliant with EASA standards.

Innovation and technology

Strategic initiatives

Evolution as the best airline in the region in terms of information technology

We installed Rockwell Collins/Inmarsat GX Aviation systems on our Boeing 767 fleet, designed for in-flight broadband, offering unprecedented speed, reliability and consistency.

IFE streaming modifications for 16 aircraft in 2017, which now makes up to 22 aircraft in total

Digitalisation of HR processes (including KCApp, a new learning management system, a new electronic database, a performance appraisal system and others)

A mobile boarding pass service was made available for all flights (including international) from our Astana and Almaty hubs.

Development of our distribution technology

In 2017, digital sales grew by 29% compared to 2016 and now account for 12% of total passenger sales network-wide. This increase was the result of a combination of improvements in site usability, advertising, affiliated programmes and customers' spending habits.

Enhancements were made on many modules of our corporate website, including the Nomad Club.

The sale of preferred seating (MySeat) was implemented across multiple channels, via our ticket offices, check-in desks, online and travel agents.

The frequent flyer system was upgraded to a modern platform offering further improvements to the service.

In-flight entertainment

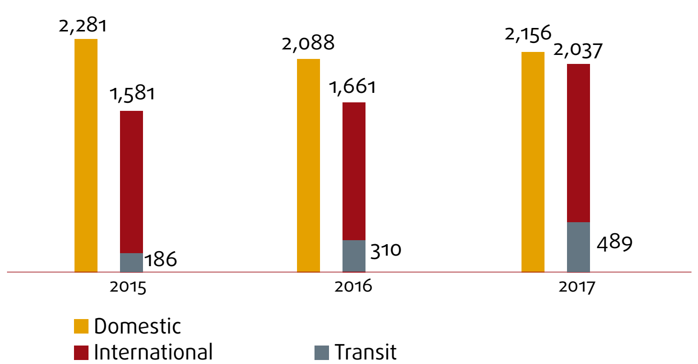
We have equipped our aircraft with an innovative streaming capability. We are delighted to announce that to date we have outfitted 16 aircraft with this option, providing both our domestic and international passengers access to a wide variety of in-flight entertainment so even the shortest of trips need not be boring. Libraries of films, electronic books and music are available to our passengers.

All new releases currently come in English with Russian dubbing and we have just added Korean, and from March onwards they will also be available with Chinese dubbing. This, along with the addition of Chinese, Korean and Indian music.

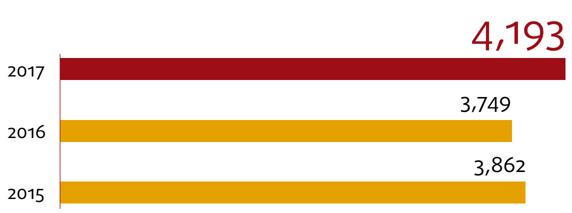
3.1 OPERATING RESULTS

Our upgraded service quality standards and proactive marketing strategy helped us improve our load factor to 67% in 2017 while also welcoming a record 4.2 million passengers on board, up 12% year-on-year (3.7 million in 2016). This kind of explosive growth was last seen four years earlier, when we were expanding our market presence by building up our fleet. Our strong performance in 2017 suggests that improvements in service quality represent a significant growth opportunity for our Company. Our wealth of experience, development strategy and effective decision-making enabled us to make great strides while maintaining a stable fleet size in an environment of low economic growth and increased domestic competition. Our strong growth in passenger traffic was mainly due to increased demand from international passengers, which can be seen as an additional stability factor in the mid-term.

Domestic, international and transit passenger traffic ('000)



Passengers carried ('000)

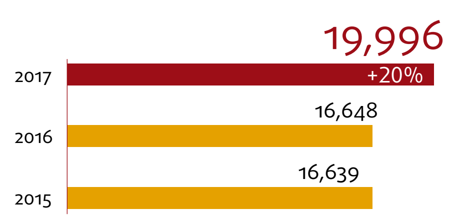


We started operating daily flights to Novosibirsk and Yekaterinburg, Russia. Moreover, we added more frequent flights to St Petersburg, London, Urumqi and Tehran. Two new routes were added in 2017. The first was between Astana and Delhi; complementing the existing services between Almaty and Delhi, the second was between Uralsk and Frankfurt, reopening direct air links between north-western Kazakhstan and the heart of Europe.

Traffic growth was driven by our strong performance on international routes, where traffic increased by a healthy 23% in 2017.

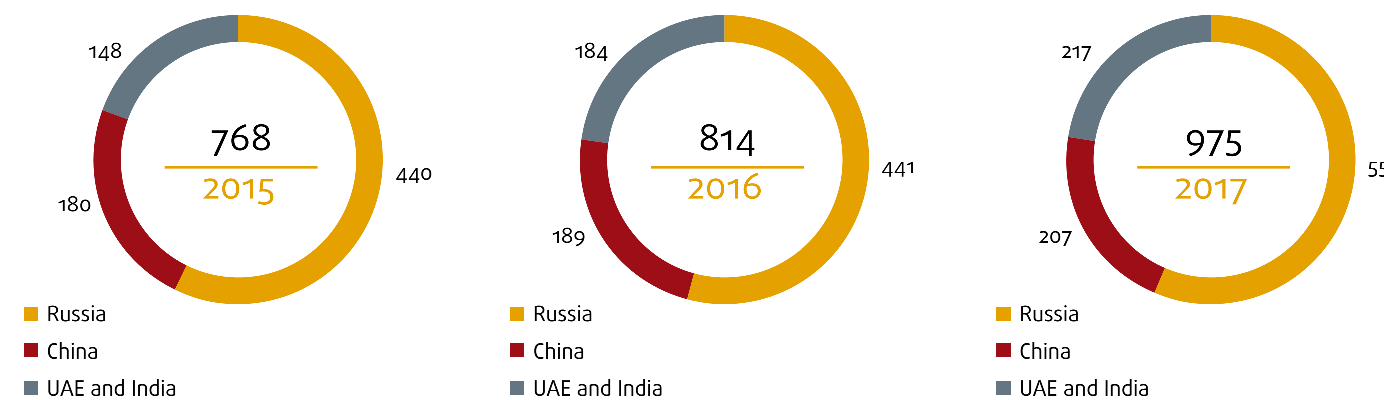
Much of our passenger growth in 2017 was the result of international transit traffic via Kazakhstan and passenger demand to Astana for Expo 2017. Our total number of transit passengers increased by 58% year-on-year in 2017. The main contributor to this growth was our international transit business coming from our extended home markets in China, India, Ukraine, Central Asia and other countries.

Cargo, mail and excess baggage carried (tonnes)

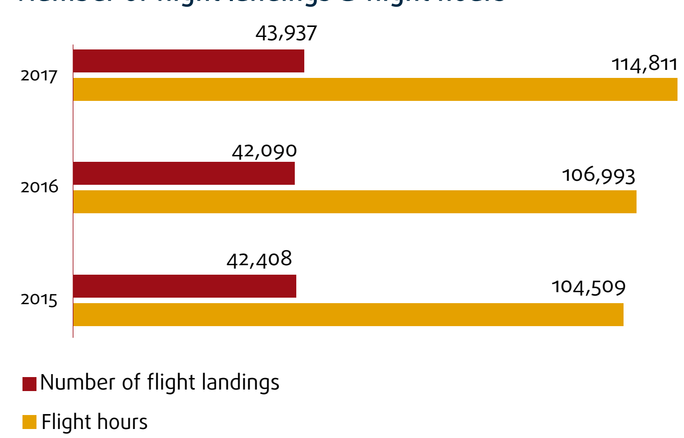


We saw a 20% increase in cargo, mail and excess baggage sales in 2017. The source of this growth was the simplification of transit procedures from overseas to points within Kazakhstan.

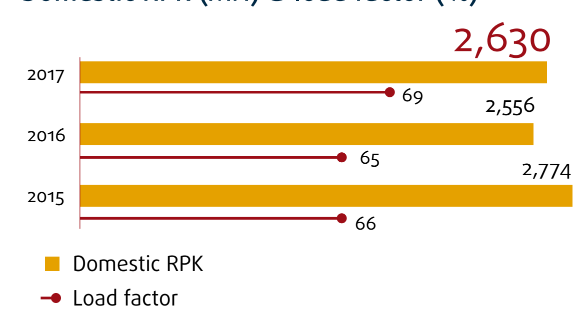
Passengers on flights ('000)



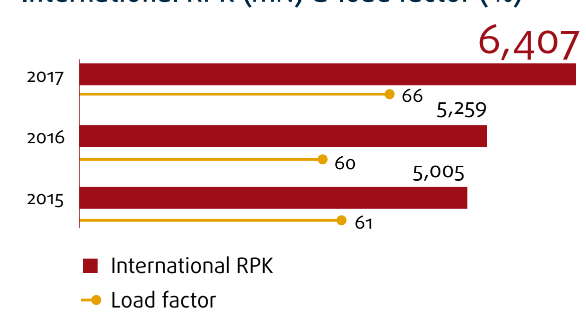
Number of flight landings & flight hours



Domestic RPK (MN) & load factor (%)



International RPK (MN) & load factor (%)



3.2 CUSTOMER SERVICE

"THE PLATFORM FOR OUR MARKETING STRATEGY IS TO OFFER THE RIGHT PRODUCT, TO THE RIGHT CUSTOMER, VIA THE CHANNEL THAT THEY ARE MOST LIKELY TO ENGAGE WITH, AND AT A TIME WHEN THEY ARE MOST LIKELY TO BUY IT, WHILST HARMONIZING SERVICES ACROSS ALL TOUCH POINTS.

Richard Ledger, Vice President, Marketing & Sales

Sales & marketing

Throughout the year, we used commercial opportunities to develop our network, passenger revenue and market positioning. Universiade 2017 (student winter games) provided our Company with an opportunity to advertise our brand in every venue used for the games in Almaty, not only to the domestic market but also to a wider, international audience. Brand-awareness activities encompassed print, radio, outdoor and online channels.

Revenue shares from each channel have remained relatively consistent over the last two years. For both international and domestic routes, distribution is dominated by trade (travel agents via BSP), representing 81% (international) and 78% (domestic) of flight revenue, respectively, in 2016. In 2017, the share of revenue from domestic routes sold via trade fell, but only marginally, by 1 percentage point to 77%. The share sold via our corporate website increased by 1 percentage point to 9%.

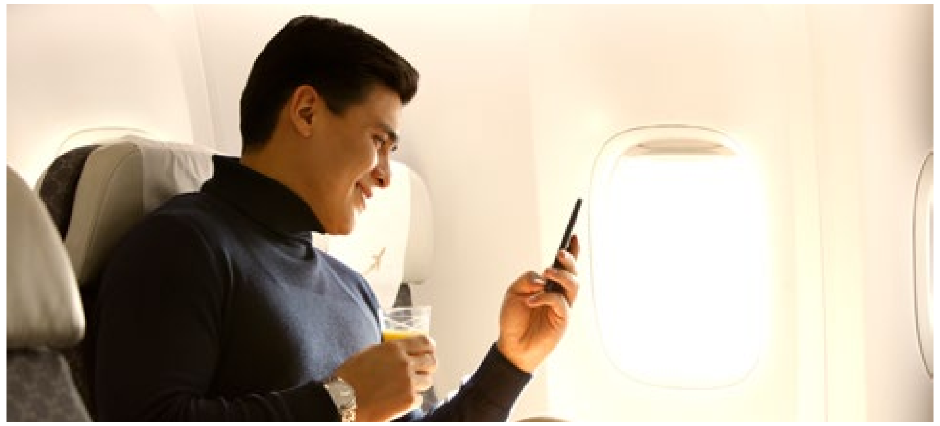
For international flights, the share of revenue generated by trade grew (by 1%), driven by strong network (sixth freedom) sales made from outside Kazakhstan.

The revenue share of direct sales via our ticket offices fell between 2016 and 2017, from 8% to 7% for international flights, and from 14% to 13% for domestic flights.

Given our Company's reliance on overseas markets to increase revenues in 2018 (and thereafter), fuelled by the need to develop International transit traffic, expectations are that sales via the trade of international flights will remain at the same level. Nevertheless, one of our goals is to increase brand awareness and use of the corporate website.

For domestic flights, the expectation is that web sales will grow in future years, with sales from our ticket offices and travel agencies falling. Online growth will be stimulated by the launch of a new and improved app to facilitate stronger mobile sales, and the extensive use of a personalised digital marketing platform.

Airline partnerships will increasingly play a part in the distribution mix, with partner airlines generating more revenue, particularly on international routes. The revenue share generated by code-share and interline sales is currently under 2%.



EXPO 2017 Astana, organised during the summer, provided an even greater stage for us to promote our Company to the global market. By leveraging the worldwide sales network of our representative offices, travel agents and tour operators, as well as our corporate website, we promoted the event through both online and traditional channels.
As an official partner of EXPO 2017 Astana, we helped increase the number of visitors to the exhibition by providing over 10,000 passes to our international passengers. At the exhibition site itself, our pavilion provided information about our "15 Years of Greener Flying" credentials. Visitors had an opportunity to watch two promotional films at the stand's 5D immersive cinema and to learn how international transit traffic via Kazakhstan could reduce travel times and the associated environmental impact.

Much of our passenger growth in 2017 was the result of international transit traffic via Kazakhstan and passenger demand to Astana for the EXPO itself. Our total number of passengers increased by 12% year-on-year in 2017, or by close to half a million passengers, exceeding 4 million annual passengers for the first time. Total passenger revenue increased by 24%, or by more than USD 100 million compared to the same period the previous year. It should be noted that the number of network passengers travelling from overseas via Kazakhstan to a third country grew by 58% compared to 2016, thus representing a genuine future growth opportunity for our Company. The entire network contributed to this result, though the recovery of the Russian market had the greatest impact.

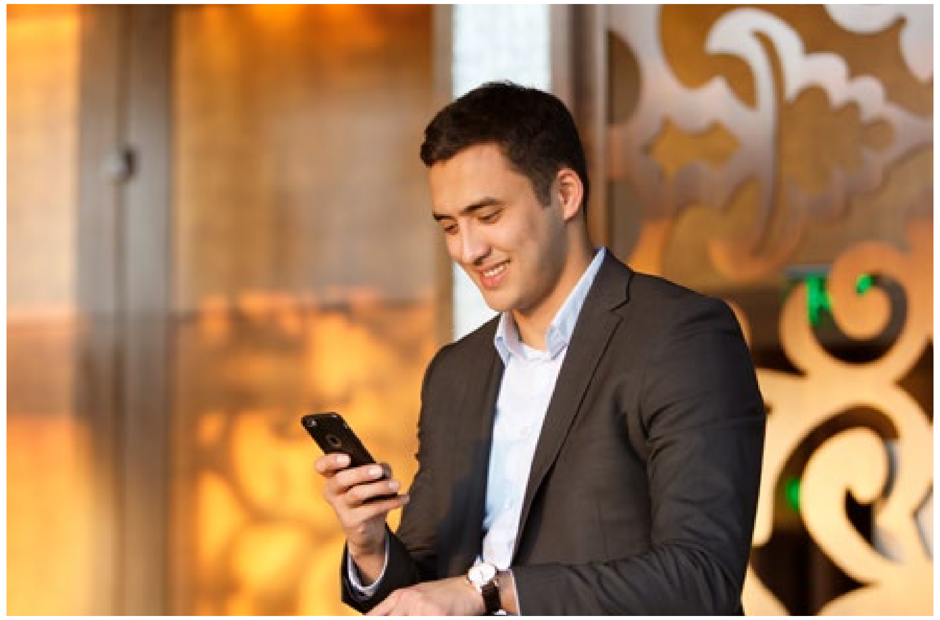
Strategic partnership

While commercial partnerships continued to be important in 2017, our new code-share agreement with Lufthansa is worth noting in particular. Launched at the start of the summer travel period, this agreement enabled passengers from across Lufthansa's global network to connect to our services from Frankfurt to Astana, greatly easing travel for many visitors to the EXPO. Later in the year, we signed a code-share agreement with the Hong Kong-based carrier Cathay Pacific. When implemented in Q1 2018, the agreement will enable our passengers to buy individual tickets to destinations like Singapore as well as the Australian cities of Sydney, Melbourne and Perth.

Development of sales channels

Direct sales

In 2017, direct sales and direct communication with customers remained important to us. We maintained and improved our city-centre ticket office locations in Almaty, Astana, Atyrau and Aktau, as well as our airport ticket offices across Kazakhstan. Technological advancements were implemented at our two key call centres in Almaty and Astana, including the introduction of SMART appraisal systems and live-chat functionality for customers. Online transactions aside, our ticket offices generated 18% of all passenger revenues in Kazakhstan in 2017.



Online sales

There was a significant increase in our digital sales in 2017, both via the corporate website's online booking engine and via our app. Digital sales grew by 29% in 2017 year-on-year and now account for 12% of total passenger sales network-wide. This growth was the result of a combination of improvements in site usability, paid search and advertising activity, affiliate programmes and the customers' spending habits. The website remains central to our distribution strategy, as the market is increasingly adopting online purchasing.

The online environment does, however, present risks to our Company, as meta-search and online price comparison sites aim to commodify aviation, presenting travel solutions to customers based solely on flight duration and price. While we cannot completely avoid this global industry trend, we took considerable steps in 2017 to counter this through the development of a programme that recognises the fact that not all passengers have the same requirements and that not all passengers want the cheapest travel option. For example, the MyUpgrade programme enables Economy Class passengers, prior to departure, to bid on an upgrade to Business Class using the online bidding tool. Passengers now also have the option to pre-purchase preferred seating that provides greater legroom or seats in the front section of each cabin. Further ancillary revenue products are planned to be launched in 2018.

Cargo sales

In 2017, cargo sales grew by 20% compared to 2016. The source of this growth was the simplification of transit procedures from overseas to points within Kazakhstan. Further growth is expected in 2018.

Improved connectivity across the network

We started operating daily flights to Novosibirsk and Yekaterinburg, Russia, in 2017. The decision to introduce daily flights was part of our strategy to improve connectivity across our network and to reap the benefits afforded by our strategic location to drive transit traffic. We also added more frequent flights to St Petersburg, London, Urumqi and Tehran. Two new routes were added in 2017. The first was between Astana and Delhi, complementing the existing services between Almaty and Delhi, and providing much-needed capacity to link what will be the world's third-largest aviation market by 2026 with our Russian, Ukrainian and CIS network. The second was between Uralsk and Frankfurt, reopening direct air links between north-western Kazakhstan and the heart of Europe in support of the hydrocarbons industry and the greater region. Most of our sales continue to be made through travel agencies, and so mechanisms such as travel agent incentive schemes and group- and reduced-fare agreements with volume-producing agents were used throughout the year to maintain and increase market share.

Passengers from around the globe

In addition to marketing our own services, we also act as an ambassador for Kazakhstan as a global destination. Our Air Astana Holidays programme and specifically our "USD 1 Stopover Promotion" encourage passengers from all over the globe to enjoy a stopover in Almaty or Astana. Sponsored by our Company alone, this campaign generated 10,000 room nights in Kazakhstan's hotels in 2017 for passengers who might not have opted to travel via Kazakhstan without it. The benefits of the programme can be felt throughout the hospitality chain.

With close to 300,000 members and over 8,000 elite card holders, our Nomad Club frequent-flyer programme celebrated its 10th anniversary in 2017. During the year, another bank was added to the co-branded credit card programme, and the partnership programme was expanded to include a number of key brands in Kazakhstan. One notable improvement that was introduced in 2017 is that members can now use their points for upgrades upon departure, something that was not possible in previous years. During the first quarter of 2018, the Nomad Club will introduce an improved accrual system to further drive loyalty and engagement with the programme.

Branded fares

We are also going to introduce branded fares in Q1 2018. This means that passengers will be able to purchase tickets based on their particular requirements, such as baggage, flexibility, lounge access or preferred seating. Since not all passengers have the same requirements, we position our Company as a better retailer by offering greater choice. This initiative is expected to make us more competitive while serving the full needs of our customers. With a new digital marketing platform closely tied with the new app release in 2018, we will be able to communicate specific offers in a personalised, product-relevant and time-appropriate manner.

Differentiated product offer

The initial part of this project involved the launch of an ancillary revenues module and the implementation of preferred seat selection. Branded as MySeat, passengers can now pre-purchase seats that provide extra legroom or are located at the front of the aircraft. MySeat products can be purchased through a variety of channels, including our airport and city ticket offices and our call centre, our corporate website, through travel agents and at check-in itself. This product will also be made available via the new mobile app and during the web check-in process in 2018. During the coming year, other ancillary products like excess baggage, on-board Wi-Fi and travel insurance will be made available via pre-purchase channels.

Ground services

Mobile check-in

In 2017, our mobile boarding pass service was made available for all flights (including international) from our Astana and Almaty hubs. The service was also made available at Atyrau regional airport for domestic flights. With improvements in security, our Company was able to introduce an electronic system for passenger registration during airport screenings. This made it possible to introduce a paperless check-in procedure while simultaneously reducing the likelihood of human error. In October, the registration of passengers at airport screenings was enshrined in law, and we plan to expand this system to cover more areas. In addition, there are plans to transition to biometric technologies in the future.

Business Class lounge

In October 2017, the Shanyrak lounge reopened for passengers departing on domestic flights at the Nursultan Nazarbayev International Airport. Along with its freshly renovated interior, the business lounge is also offering passengers a new menu. For Business Class passengers departing on international flights, our Company offers a VIP hall in the new terminal, which will be replaced by a private lounge next year.

Business Class check-in counters

Ground Services redesigned the Business Class check-in counters in 2017. Among other upgrades, the belt barriers were replaced with premium class barriers featuring a red rope, the red Business Class carpet was extended, an ottoman was installed near the counter area for hand baggage, and Business Class welcome signs were installed to identify the desk. These upgrades were assessed as part of the SkyTrax audit last year. During the coming year, we also plan to upgrade the Economy Class check-in counters.

New terminal at Nursultan Nazarbayev International Airport

In July 2017, our Company transferred all international flights from Astana to the new terminal at Nursultan Nazarbayev International Airport. The new terminal meets all international standards and allows us to develop a business that depends directly on network traffic, i.e. the transit potential of our hubs. The new terminal is equipped with a number of innovations that our Company is using, including the baggage control system, the baggage sorting system and the passenger registration system, among others. Equally important, the new terminal makes it possible to process around 1,800 passengers and 1,220 baggage units per hour. The expansion of the airport has helped increase the frequency of flights and relieve the terminal for domestic flights. We are currently working with the airport to increase transit capacity.

Almaty – baggage control system

In August 2017, a system for the gradual monitoring of the loading and unloading of luggage (BRS) was introduced at Almaty International Airport in cooperation with our Company. The introduction of the system has improved the efficiency of baggage control. The new BRS system tracks luggage during the entire time it is at the airport: from check-in until it is loaded on the plane. Passengers are able to retrieve their luggage more efficiently, and, thanks to the new technology, all luggage is transported quickly from aircraft to aircraft during transit flights.

Almaty – expansion of the transit zone

In September 2017, the area for transit/transfer passengers was expanded to 50 sq. m. In the area of the exit, the transit zone was expanded by 400 sq. m. at the expense of the VIP lounge. The expanded transit zone makes it easier for those passengers who need to catch a connecting flight to separate themselves from those who are entering the city. Furthermore, the new transit zone provides additional space for security lines and for the airport's second Rapiscan security system. All of these factors contribute to reducing passengers' waiting time.

Plans for the next 3-5 years

In the coming years, our Ground Services Department is planning to continue providing improved services, introducing new products, implementing several major projects and creating a complete ground handling system in Kazakhstan. In particular, the Department will continue to work on self-service for flights at major hubs (Astana and Almaty), as well as on services for other airlines. One area of focus will be the development of services for self-check-in of passengers and baggage, the simplification of various procedures, including the implementation of the Fast Travel concept and the introduction of new technologies, including biometrics.

Our Ground Services' strategic objective is to provide ground self-handling operations across our entire Kazakhstan network and to become a regional leader by expanding its services to other countries in Central Asia, the Caucasus and the CIS. Among Air Astana's advantages is that we are the only airline licensed to operate its own de-icing equipment at selected airports in Kazakhstan, and we also provide ground operations training in accordance with internationally accepted standards and practices.

The expansion of existing innovative technologies will require the implementation of cutting-edge services and products. The following are among key areas of development:

» Passenger and baggage handling. providing dedicated transfer check-in counters, frequent-flyer check-in, dedicated baggage drop-off counters, further development of self-check-in procedures, improved customer service in Business Class lounges, and fast-track and special assistance for passengers with restricted mobility

» Aircraft ground handling. Fast turnaround of aircraft to meet on-time performance targets, handling of priority baggage and fast offloading and onloading of transit baggage

» Aircraft de-Icing. De-icing with aircraft while its engines are running, setting up laboratory facilities for testing de-icing fluid, the construction of centralised facilities in Almaty and Astana

» Lost baggage. Increased capacity to track and locate lost baggage, to provide excellent service in handling passengers' lost baggage

» Working with departure control system (DCS) suppliers and the International Air Transport Association (IATA) in introducing biometric passports and embedding advance passenger information (API) into passenger check-in facilities and in our own database of immigration requirements to avoid fines from immigration authorities

» Adopting the IATA's Fast Travel concept aimed at increased penetration of self-check-in services and optimised queue management.

The key drivers of the Fast Travel programme are the self-service options that offer passengers speed and convenience, while improving customer service and simultaneously reducing labour costs and queueing times. As self-service expands, mobile devices will be increasingly used for:

» passenger check-in, scanning tags, bar codes and identity documents

» ground handling with an optimised interface with other operational departments

» tracking and status-checking devices to improve monitoring of the movement of staff and equipment

» user-friendly display screens with accurate and up-to-date information.

On-board service

> EXPECTATIONS OF AIRLINE PASSENGERS ARE NOT ONLY SHAPED BY HOW WELL AN AIRLINE PERFORMS VERSUS ITS DIRECT COMPETITORS, BUT THEY ARE ALSO FUELLED BY STANDARDS SET BY EXPERIENCES THAT CONSUMERS HAVE IN OTHER INDUSTRIES, AS INNOVATIVE PRODUCTS AND SERVICES IN ONE INDUSTRY RAISE THE BAR FOR ALL INDUSTRIES. WE CAN'T STAND STILL; IT IS A WORLD OF CONTINUAL CHANGE. HENCE, OUR CONTINUED COMMITMENT TO FULLER SERVICE.
>
> Margaret Phelan, Vice President, In-Flight Services

We want every one of our passengers to have a positive experience on board, and the key to achieving this is undoubtedly our on-board service. The challenge for us is to reduce costs while maintaining a level of on-board service that exceeds that of our competitors, thus ensuring passenger satisfaction and maintaining our image as a full-service, high-quality airline.

The quality of our on-board products and services should not be in doubt, as we have received a four-star rating from the prestigious Skytrax system, which analyses cabin products and customer service standards both on board flights and in terms of the airport experience.

In-flight entertainment

We excel in providing high-quality in-flight entertainment, which has long been an integral part of the air travel experience. For example, we have equipped 16 aircraft with RAVE IFE streaming systems, which now make 22 aircraft in total, providing both domestic and international passengers with a wide array of content delivered on personal devices, thus making long flights a more enjoyable experience. Our Boeing 757 and 767 aircraft are equipped with RAVE individual in-flight entertainment systems. On other aircraft, we offer hand-held personal entertainment systems in Business Class on all flights longer than three hours. When it comes to selecting in-flight entertainment, we aim to ensure passenger satisfaction. Keeping the nationalities and age groups of passengers on each route in mind, we make a careful selection of feature and documentary films, television series and music to suit passenger tastes. We also expanded our content in 2017 with the addition of a new release movie, bringing the total number of films available on each flight to nine. We also added three boxsets to bring them from two to five (three Hollywood and two Russian box sets). Another factor that sets us apart from our competitors is that we pay close attention to offering multicultural and multilingual entertainment options, with a library of films available in Arabic, Cantonese, English, French, German, Hindi, Kazakh, Korean, Mandarin, Russian and Turkish. All new releases are currently available in English with Russian and Korean dubbing, and beginning in March 2018, new releases will also be available with both Mandarin and Cantonese dubbing.

In 2017, we became the first airline in the world to install Inmarsat's GX Aviation technology on our Boeing 767, thus reinforcing our focus on technological innovation and excellence in passenger service. This is currently the only technology available that was designed specifically for in-flight broadband, offering unprecedented speed, reliability and consistency.

While some passengers like to focus on entertainment while on board, others prefer to keep up to date on the news and current affairs. With this in mind, we offer passengers access to a wide variety of press in various languages.

On-board comfort

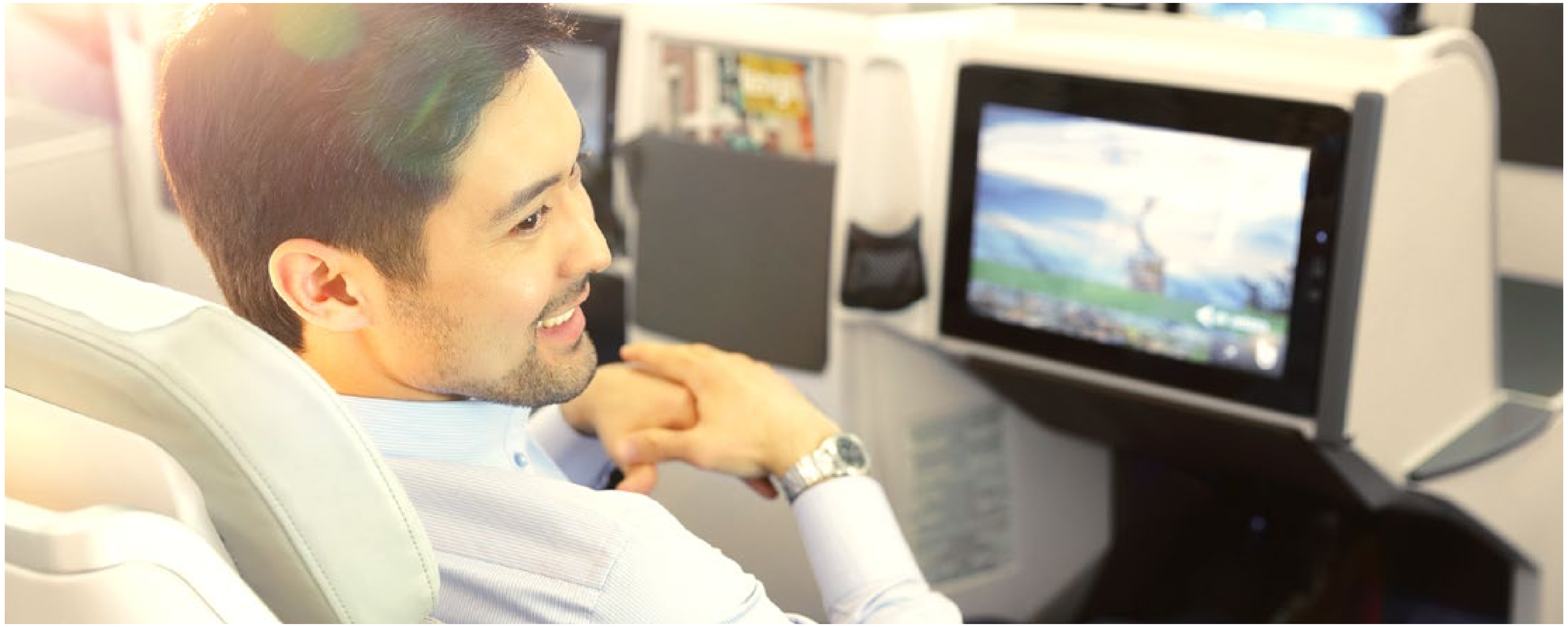
On international flights, Business Class passengers can rest under a luxury duvet that is available on our long-haul night flights. Whether travelling for business or leisure, passengers can enjoy our stylish new Business Class amenity kits on board our medium- and long-haul flights.

Featuring designs by Christian Lacroix and Furla, the amenity kits for both men and women have the stamp of style and luxury. Providing high quality and functionality, as well as refinement and comfort, our designer kits are filled with Christian Lacroix and La Mer cosmetics in addition to numerous travel essentials, thus ensuring that our guests look and feel their best throughout their Air Astana experience.

We offer an Economy Sleeper Class on flights between Astana and London Heathrow, Frankfurt and Paris. Economy Sleeper passengers enjoy more personal space and privacy in a dedicated and partitioned section at the front of the Economy Class cabin. With a guaranteed row of three Economy Class seats for every guest, passengers are able to relax with greater comfort, all for just a little bit more than a full Economy Class fare.

Passengers travelling with infants (under one year of age) can use our baby bassinets to make their journey safer and more comfortable. This service is available on board the following aircraft: Airbus A321 (Economy and Business Class), Boeing 767 (Economy and Business Class), Embraer E190 (Economy and Business Class) and Airbus A319 and A320 (Business Class).

Keeping our youngest guests in mind, we also offer Little Prince and National Geographic bags, a dedicated children's section of in-flight entertainment, healthy children's meals, an on-board library, a Kid's box, which includes a variety of toys, drawing books, puzzles and other small things to entertain a child during the flight and recently introduced headphones designed especially for the comfort of children.



On-board catering

Our catering product continued to evolve throughout 2017, and we have introduced various changes that will have definitely contributed towards a Fuller Service.

A good example of this is our new range of Business Class welcome drinks. On all outbound and inbound international flights, we now provide passengers with a choice of freshly prepared raspberry and lemonade. A definite improvement on the prepackaged juices and positively commented upon by the Skytrax auditors.

Economy Class passengers have also received attention and much appreciated improvements. As an example, on the Astana-Almaty frequent flyer route, and by popular demand, we have introduced an express hot meal service, replacing the long-established hot sandwich offering.

During the seasonal celebrations periods, we provided gifts to all of our Business and Economy Class passengers. These chocolate gift boxes were locally manufactured and were specially designed to match the colour coordination and seasonal designs of the cabin interior product. They were well appreciated by all; and very many positive passenger comments were communicated to our Cabin Crew.

Much work has gone into the design of a completely new range of tableware for both our Business and Economy Class cabins. This new range of equipment has an elegant and contemporary design feel and with the new colour scheme, is very appealing to the eye. Planned introduction will be in early 2018 and the intention is that this new equipment range will see us well into the next decade. Needless to say, all of the Catering and In-flight Service team are looking forward to this introduction, which will surely mark a new chapter in our service standards and be much appreciated by our valued customers.

Cabin Crew Performance, Training and Development

Having a fleet with an average age of 5, the latest technology or an outstanding onboard offering without any doubt is very important, but it also is very important to have frontline staff i.e. Cabin Crew that can deliver on passenger expectations and a full service.

Behind every one of our achievements are the efforts of our cabin crew members and the entire In-flight services team. It is their contribution that is instrumental to the overall Air Astana experience.

Keeping that in mind, we put a lot of energy into the development of our human resources. 2017 was no exception.

We conducted over 260 training courses for cabin crew members to enhance our service standards, maintain safety on board and improve coordination between flight and cabin crew members.

Moreover, the Quality & Standards division regularly monitors customer satisfaction and is constantly working with the cabin crew to sustain the required motivation and performance according to our high standards.

Apart from our ever-increasing focus that is placed on recruitment and training for cabin crew in terms of full service, we strongly believe that if you treat your employees like they make a difference, then they will.

We spent much time and effort on the work flow, light and design of our new crew check-in area, management offices, crew briefing rooms and, best of all, the crew rest/chill-out area. These areas are where the crew start and finish their duties, so the tone of their working day is set there. Recognition of the work, hours and environment in which our crew operate is essential to good performance. Good performance equals better service.

Throughout the year, we focused on encouraging a more dynamic and cohesive team unit among the operating crew with the introduction of a joint pre-flight briefing. This in turn will contribute to an efficient, safe, productive and high standard of service for our airline.

We are certified with a four-star airline rating for the quality of our on-board product and service. This rating is determined through the Skytrax audit system, which analyses cabin product and customer service standards on board our flights and also across the Air Astana airport experience.

Our third audit was completed in September and October over a period of three weeks. In anticipation of this, we had spent much of the year studying all previous audit reports, ensuring that the recommended adjustments had been integrated where possible.

We hope to retain the accolades of "Best Airline in Central Asia & India" for the seventh consecutive year and of "Best Airline Staff Service in Central Asia & India" for the fifth year in a row in 2018.

3.3 IT AND E-BUSINESS

"AIR ASTANA IS THE LEADING AIRLINE IN THE REGION TRYING TO ACHIEVE A COMPETITIVE EDGE THROUGH INNOVATION. IN SUPPORTING THE STRATEGIC BUSINESS GOALS OF THE COMPANY, IT & EBUSINESS DEPARTMENT IS A BUSINESS ENABLER THAN A BUSINESS SUPPORTER. USING APPROPRIATE IT SOLUTIONS WITH THE BEST FIT FOR AIR ASTANA AND ACHIEVING A COST EFFECTIVE AND EFFICIENT IT OPERATION WITH A HIGH SERVICE QUALITY ARE KEY OBJECTIVES.

Chamindra Lenawa, Vice President, IT and E-business

Commercial operations

In 2017, several initiatives were undertaken to support our efforts in sales and marketing. For example, our frequent-flyer system was upgraded to a modern platform offering further improvements to the service. A robust application was developed for proactively offering and fulfilling last-minute upgrades for Nomad Club members, many of whom have expressed their appreciation for the initiative. As the number of group bookings continued to increase, a new system for handling such bookings was developed in-house. This will be further enhanced in 2018. The sales management system, an in-house product, underwent a major upgrade with a new release. The sale of preferred seats (MySeat) was implemented across multiple channels via our ticket offices, check-in desks, online and travel agents. This was one of the major projects in the introduction of ancillary services for our customers.

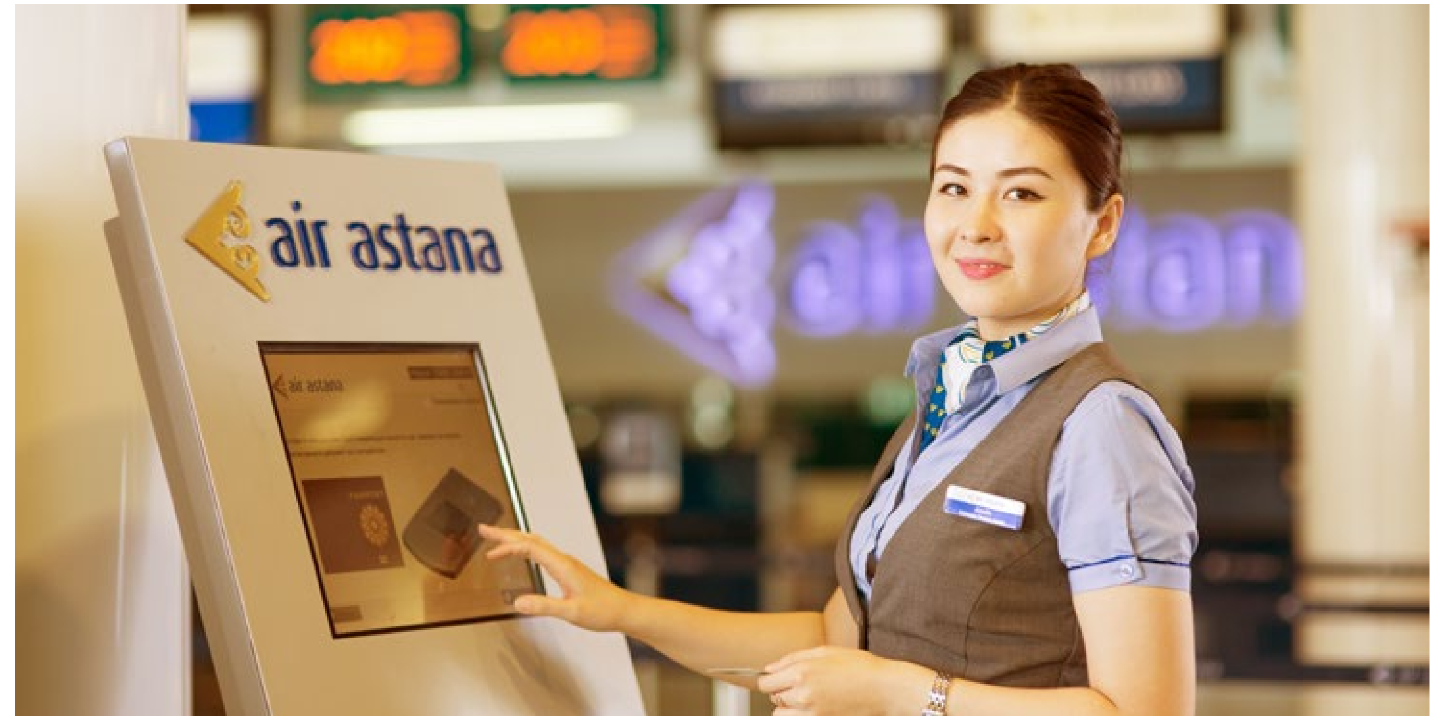
E-commerce

Our corporate website is one of the major means of communication with our customers and a main channel for direct sales, making us Kazakhstan's largest single e-commerce platform. It offers a wide range of services, including online bookings and check-in, information about flight arrivals and departures, verification of reservation details and much more. Our mobile application is virtually a pocket travel assistant with many rich features.

In 2017, online statistics continued to improve in an impressive way. New visitors to the website increased by 17% compared to the previous year, and page views were also up by 24%. The number of online purchases increased by 29%, and online sales of preferred seats (MySeat) were extremely successful.

Many parts of the website were improved, including the section on the Nomad Club. A new payment page was developed in 2017 to offer better purchasing capabilities not only in terms of selection of payment provider but also to expand the products and services that can be purchased online. After its launch in 2018, the next upgrade will allow passengers to select the payment currency of their choice. An online game was made available to passengers in 2017 that gave players an opportunity to win tickets. The number of online promotions also increased compared to 2016. For example, our passengers who attended EXPO 2017 in Astana were offered online EXPO tickets. And finally, as a step to better serve passengers from India, a dedicated customised regional site was implemented for the country.

The launch of a new mobile app in 2018 in conjunction with our new e-marketing platform is expected to boost e-commerce activities through mobile channels. Online insurance will also be launched in 2018. A new online service will be made available for passengers to download inflight e-magazines after check-in. There are also plans to launch an Air Astana blog next year.



Human resources

The roadmap for HR digital achieved a number of milestones in 2017. For example, a mobile application for employees (KCApp) was launched with a number of features, making it one of the best mobile apps for corporate employees. The staff bus tracker was another service launched together with the KCApp. A new training management system launched in 2017 replaced the old ERP-based system. The new platform offers rich features and is extremely effective in managing staff training and development. To support major recruitment campaigns, a new recruitment website was launched last year, which will be further improved in 2018 as part of the implementation of a new HR system. As part of the regular updates of the staff travel application, KCFly, a new release was launched in 2017. A new release of the performance appraisal system was also introduced that incorporates innovative features aimed at enhancing staff engagement.

In 2018, a state-of-the-art solution will be introduced for recognising staff for their work during the entire year, not just during appraisals.

Functional processes

In 2017, new releases were developed for both the Hub Control System and the Incident Management System. A new platform was introduced for corporate document management with the application of electronic signatures. This document management system will be expanded to streamline more of our business processes in 2018. A system was developed to manage the operations of hangars. The migration of our functional currency from KZT to USD was a major undertaking that was successfully handled within a very tight time frame. The main IT infrastructure project completed in 2017 involved setting up IT infrastructure for the new hangar and office complex in Astana. Other IT infrastructure projects undertaken in 2017 included a new firewall project, network expansion projects and a self-service portal for password management. In 2018, a system will be implemented for corporate risk management. We are also planning to obtain ISO27001 certification on information security in 2018, which would be the culmination of a major undertaking.

Award for Driving Secure e-Commerce Transactions

While increasing the sales via internet, airline has managed to reduce the fraud level to zero. Air Astana was nominated for Visa Kazakhstan's "Award for Driving Secure e-Commerce Transactions". The recognition took place mainly due to bringing the fraud level down to absolute nothing, meaning that the airline had no chargebacks to pay for online transactions made in 2017 while keeping and improving the growth of online sales.

3.4 ENGINEERING AND MAINTENANCE

OUR COMPANY IS COMMITTED TO ENSURING THE HIGHEST STANDARDS OF FLIGHT SAFETY, AS WELL AS IMPROVING THE EFFICIENCY OF AIRCRAFT MAINTENANCE. OUR GOAL IS TO BE A REGIONAL LEADER IN TERMS OF ENGINEERING CAPABILITIES, WITH LEADING MAINTENANCE, REPAIR AND OPERATIONAL FACILITIES IN ASTANA, ALMATY AND ATYRAU. TECHNICAL TRAINING AND AIRCRAFT MAINTENANCE ARE PROVIDED IN ACCORDANCE WITH THE REQUIREMENTS OF THE EUROPEAN AVIATION SAFETY AGENCY (EASA) AND THE DOMESTIC CIVIL AVIATION COMMITTEE (CAC).

Despite the challenging economic environment, 2017 was a successful year for our Company, highlighted by the following:

» the opening of a new state-of-the-art maintenance and support facility in Astana;
» obtaining EASA approval to conduct Boeing 767 training at our own training school;
» completing and launching Tech Pubs, a system developed in-house that provides access to all required documents, manuals and processes in one place;
» renewing the lease on a hangar in Almaty for an additional five years.

Engineering and maintenance activities

We maintain our aircraft in accordance with the requirements of the EASA, the Aruban Department of Civil Aviation (DCA) and the domestic Civil Aviation Committee, all of which routinely perform detailed audits of processes and procedures. In addition, after detailed audits of our operations in Almaty, Astana and Atyrau, the EASA Part 145 and IATA Operational Safety Audit approvals were renewed in 2017.

Our maintenance activities in 2017 included 24 major maintenance checks at various third-party maintenance and repair organisations in China and Europe. In Kazakhstan, routine engine changes, landing gear changes, A-checks and a comprehensive array of structural repairs as a result of bird strikes and ramp damage were carried out.

From August, the Maintenance Control Centre started the real-time monitoring of defects in our Embraer fleet using its Ahead-Pro system.

Furthermore, several major cabin improvement initiatives continued in 2017, including the installation of streaming IFE entertainment systems on 16 aircraft and the provision of Internet connectivity on our Boeing 767 fleet. During the summer, our Company's own Ground Support Equipment Department serviced all ground and de-icing equipment to get it ready for the winter season.

Our Company's workshops continued to develop, with the establishment of a welding station for repairing luggage containers, an IFE headphone repair station (which has to date repaired 4,700 pairs of headphones that previously would have been scrapped) and a shop for replacing the batteries in emergency location transmitters.

We were again named the Best Airline in Asia and India by Skytrax, and the Cabin Cleaning Department was singled out with the following comment: "Cabin cleanliness standards are achieving 4.5- to 5-star-quality levels; this is a high-performing area for Air Astana."

Engineering Sales

The Engineering Sales Unit continued to successfully market our maintenance services in 2017, providing additional revenue from training and workshops. With the opening of our maintenance facility in Astana, there are numerous additional third-party opportunities that are being actively explored. The unit co-ordinates requests from third-party airlines for technical assistance, logistics and customs clearance services and services related to the handling and storage of materials. It also co-ordinates aviation training at our school.

Apprentice Training Programme

A substantial in-house project was undertaken to address the shortage of skilled maintenance staff in Kazakhstan. As a result of the project, it became clear that it would be highly beneficial for our Company to address this shortage by introducing an apprentice training programme. Once introduced, the programme will train current students in conjunction with a partner from Europe. Upon completion, they will be EASA-qualified and will provide a source of new mechanics to support our expansion.

Outlook for 2018

Our outlook and key plans in 2018 include:

» commencing maintenance operations in Astana to support the Boeing 767 fleet and all Astana-based aircraft
» commencing the apprentice training programme
» working to introduce new Airbus 321 NEO aircraft into the fleet
» preparing for 2019 lease returns and aircraft deliveries
» continuing to develop third-party customer services, particularly in Astana
» continuing to develop workshop capabilities
» developing new revenue streams by providing maintenance services

3.5 SAFETY

Passenger and employee safety

The safety of passengers and employees is one of our core values, and the implementation of the highest safety standards is the top corporate goal. Our Company implements structured and comprehensive processes for hazard identification and analysis and risk mitigation as part of our safety management system. Company management is committed to proactive and effective risk management, and staff are continuously reminded of their safety responsibilities and duties at all levels.

Compliance

In 2017, we continued to demonstrate adherence to the highest international standards and best practices. Thus, our Company passed, for the sixth time, the IATA Operational Safety Audit (IOSA), which is conducted once every two years. Moreover, we continue to be part of the IOSA Working Group to contribute to the improvement of IOSA standards.

In 2017, we successfully passed our annual EASA Part 145 audit (Aircraft Line Maintenance) by the UK Civil Aviation Authority and an EASA Part 147 audit (Maintenance Training Organisation) by the Irish CAA. As a holder of an EASA Part 145 certificate, we also perform full maintenance of our own fleet and provide line maintenance services for other air carriers.

We also renewed our EASA Third Country Operator Certificate, which allows flights to European countries.

Regulatory oversight

Our operational safety is monitored by the following key authorities: the Department of Civil Aviation of Aruba (the responsible national supervisory authority); the Civil Aviation Committee of Kazakhstan; and other regulatory authorities with specific authority in the field of operations or aircraft maintenance approval.

In 2017, we successfully completed several external regulatory inspections:

» AOC (Air operator's certificate) renewal, AMO (Approved Maintenance Organization) renewal, Aviation Training Organisation, one ramp and four en route inspections conducted by the Civil Aviation Committee of Kazakhstan
» an annual audit of our operations departments conducted by the Department of Civil Aviation of Aruba
» 32 aircraft airworthiness certificates renewed by DCA Aruba without significant findings
» six inspections conducted by operators and other CAAs

Our Company's aircraft were subjected to 47 ECAC (European Civil Aviation Conference) SAFA (Safety Assessment of Foreign Aircraft) and 112 ramp (non-ECAC) inspections.

Safety and compliance programmes

In 2017, as part of our risk management programme, our flight data monitoring experts analysed 98.7% of our flights with the aim of identifying, measuring and assessing existing risks and taking measures to mitigate those risks, with an emphasis on trends and root causes.

We continue to encourage the reporting of hazards and errors by operational staff as an important element of our safety culture, resulting in a 25% increase in safety reporting in 2017.

Last year, we enhanced our unauthorised-substances testing programme by implementing drug testing of staff who perform a safety-sensitive aviation activity (SSAA). In 2017, the number of unauthorised-substance tests of SSAA staff doubled compared to the previous year.

Within the internal compliance monitoring programme, nearly 190 compliance audits were conducted by our Company based on IOSA regulations. Compliance monitoring is also supported by our membership and active participation in IATA safety and quality audit programmes, the IATA Fuel Quality Pool (IFQP) and the IATA De-Icing/Anti-Icing Quality Control Pool (DAQCP). Moreover, we have four in-house IOSA auditors, an indication of our intention to comply with the highest standards.

As a safety promotion initiative, we hosted the third regional "Risk Management with Quality" safety seminar, where speakers from the ICAO, IATA, Airbus, Emirates, Austrian Airlines and others made presentations on current topics in the field of aviation safety, including the implementation of a safety management system, risk management and safety investigations.

We pay a great deal of attention to the integration of safety improvement initiatives by participating in international safety organisation forums. In 2017, we became a permanent member of the IATA Accident Classification Technical Group, which determines trends and areas of concern related to operational safety and to the development of preventative strategies. We also joined the IATA Safety Incident Taxonomy Working Group, which is aimed at developing a new IATA Incident Reporting Taxonomy. We are also an active member of the Association of Asia Pacific Airlines (AAPA), and we participate in the AAPA's Flight Operations and Safety Working Groups.

Outlook for 2018

Our Company's key plans and objectives for 2018 in the field of corporate safety compliance are as follows:

» improved monitoring of safety performance indicators to ensure a more effective response to operational risks and more active monitoring of preventive measures
» further structuring risk controls for major hazards by implementing the bowtie risk analysis methodology
» further improvement of safety officers' qualifications and knowledge through development of internal initial and continued training and coaching
» improved quality in terms of audits, investigations and flight safety data analysis to support proactive risk identification and mitigation

Safety training for cabin crew and flight crew

New alternative safety training provider (British Airways Training Centre)

In December 2016, a fire occurred at the Condor Training Centre, which had been used for almost 10 years to train flight attendants. This was a critical situation for our Company: in order to issue valid certificates for flight attendants to fly or perform safety functions, all flight attendants have to complete training on designated dates.

In response, we found a new provider, the British Airways Training Centre, which offers simulators for the types of aircraft operated by our Company, including the Boeing 757 (very few simulators are available for this type of aircraft) so that we can continue our non-stop training process for flight attendants. As a result, our Company is currently using two training centres: Condor and BA.

Joint SEP (student exchange programme) practical training

The number of safety training sessions involving pilots and cabin crew increased last year. The purpose of this change is to facilitate an understanding of the tasks performed in both the cockpit and the cabin.

Institute of Cabin Crew Examiners

In 2016, work began on the training of personnel whose main task is to verify flight safety, the procedures applied in the cabin of the aircraft and the knowledge of flight attendants. This was the initiative of the ICAO and the Civil Aviation Committee of the Republic of Kazakhstan.

3.6 ADDITIONAL COMMERCIAL ACTIVITIES

WE USE A WIDE RANGE OF TECHNOLOGIES FOR EMPLOYEE TRAINING, EQUIPMENT REPAIR AND SERVICING, SALES MANAGEMENT AND INFORMATION SYSTEMS, WHICH WORK TOGETHER AS A COORDINATED ENTITY, ENSURING THAT OUR BUSINESS REMAINS HIGHLY EFFICIENT.

With unique competencies in the training of technical specialists, service providers and managerial staff at our disposal, we are able to develop additional business areas. In addition to specialised educational programmes, there is also demand in external markets for our aircraft repair and maintenance services. Based on the positive trends in Kazakhstan's economy, we believe that developing additional commercial services is a promising area for business development.

We are certified to service the following types of aircraft:

Airbus

» A319/320/321 (IAE V2500)/(CFM56)
» A320/321 NEO (PW1100G)
» A330 (CF6-80/PW4000/RR Trent 700)

Boeing

» B737-700/800 (CFM56)
» B747 400/400ERF (CF6-80/RR RB211/PW4000)
» B747-8 (GE GEnX)
» B757-200/300 (RR RB211)
» B767-300 (CF6-80/PW4000)

Embraer

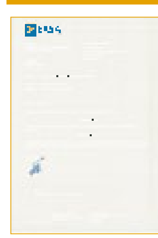
» ERJ-190 (GE CF34)

Servicing aircraft

We use in-house services to keep our fleet of aircraft in flightworthy condition. Our technicians' high level of expertise and the availability of certified production facilities in Almaty, Astana and Atyrau enable our Engineering and Maintenance Department to provide additional technical services for local and international airlines, as well as training for technicians.

Certificates

IATA Operational Safety Audit (IOSA)	European Aviation Safety Agency (EASA): • EASA Part 145 • EASA Part 147	Certificate from the Committee of Civil Aviation of the Republic of Kazakhstan

Selected (Skytrax four-star and above) international airlines benefiting from Air Astana's technical services:

Domestic clients include Kazairjet, Qazar Air, Bek Air, Scat, Prime Aviation and Flyjet.

Other international clients include Yakutiya, Czech Airlines, Comlux, CHC Helicopter, Rossiya air, Vim Airlines, Kam Air, FlyDubai, TAG, Pobeda, S7, Cargolux and Air Arabia.

Service training

We provided training for more than 1,200 train attendants in classrooms and completed 60 coaching trips on board for the Kazakhstan Temir Zholy rail service. We also trained Berkut crew on service techniques, teamwork, managing challenging situations and leadership and produced a full service manual for them.

Aircraft ground handling

In addition to operating our own fleet of aircraft, we are actively expanding into de-icing/anti-icing services for third-party aircraft. We operate our own fleet of de-icing machines to perform de-icing/anti-icing treatment on aircraft at the airports in Aktau and Pavlodar. These services are provided by small dedicated teams of certified specialists.

To maintain our high safety and service standards, we regularly conduct external and internal audits of de-icing/anti-icing services. In 2017, Aeroflot conducted a de-icing/anti-icing audit on our service in Aktau (by Austrian Airlines in Almaty) while an audit was carried out in Pavlodar by the De-Icing/Anti-Icing Quality Control Pool (DAQCP). Both audits were passed with no non-conformities found.

Our technical capabilities allow us to follow the guidelines for the de-icing/anti-icing procedures for over 20 types of aircraft. In 2017, our ground handling services were used by a number of airlines, including Scat, Bek Air, Aeroflot, Qazaq Air, S7 and charter operators.

Outlook for the business segment

We anticipate that the Rules on Ground Handling Services at Kazakhstan's Airports[1] will be amended in 2018 to permit airlines to perform in-house ground handling. Additionally, formal requirements will be established for the provision of ground handling services by third-party vendors (ground handlers) at airports. These amendments will introduce modern operating mechanisms for ground handling operators, significantly changing the environment in the market for ground handling services at airports. As a key player in the ground handling market, we are uniquely suited to offer these services to third-party operators and are therefore well placed to benefit from the new environment.

[1] Joint Order of the Acting Minister for Investment and Development of the Republic of Kazakhstan No 516 of 31 July 2017 and of the Minister of National Economy of the Republic of Kazakhstan No 311 of 24 August 2017 on the Approval of Rules on Ground Handling Services at Airports.

3.7 SUPPLY CHAIN

Most of our work in 2017 was of the standard variety, aimed at achieving cost savings and concluding timely contracts. In addition, however, we held an Open Day in an effort to explain to all interested suppliers how to do business with our Company, including details about the procurement process and prequalification of suppliers. We also invited NWF Samruk Kazyna and the European Bank for Reconstruction and Development to explain the new horizons of procurement and to provide an overview of joint projects. The event was very well received by suppliers and participants.

In terms of strategic development, we are constantly updating our procurement manual to reflect changes in procedures that have a positive impact on our procurement processes. We achieved savings of 15-30% from open tenders during the last five years.

Training of procurement staff includes CIPS (Chartered Institute of Procurement and Supply) qualifications and other relevant courses.

Our supply chain system operates on the basis of:

- Air Astana's Procurement Rules;
- Laws of the Republic of Kazakhstan and other methodological materials and guidelines of the Republic of Kazakhstan regulating procurement procedures;
- Our Company's orders, instructions, rules, manuals, guides and technical requirements.

The HACCP methodology is used at all stages of the production chain, from receipt of products in warehouses to delivery of food to the aircraft.

HACCP means hazard analysis and critical control points, a concept that provides for the systematic identification, assessment and management of hazardous factors that significantly affect product safety (for the food industry). This is a highly effective management methodology that makes it possible to focus our Company's resources and efforts in critical areas of production, while at the same time reducing the risk of the release and sale of a hazardous product.

Achieved key performance indicators (KPIs)

- Development of Samruk Kazyna's rules in favour of the Company or best practices
- Developing a PRD (Performance Review and Development) performance management system that includes vendor and employee performance management
- Monitoring and controlling cost savings, quality of product or services
- Reducing overall risk and continuity of supply

3.8 ENVIRONMENTAL POLICY

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

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

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

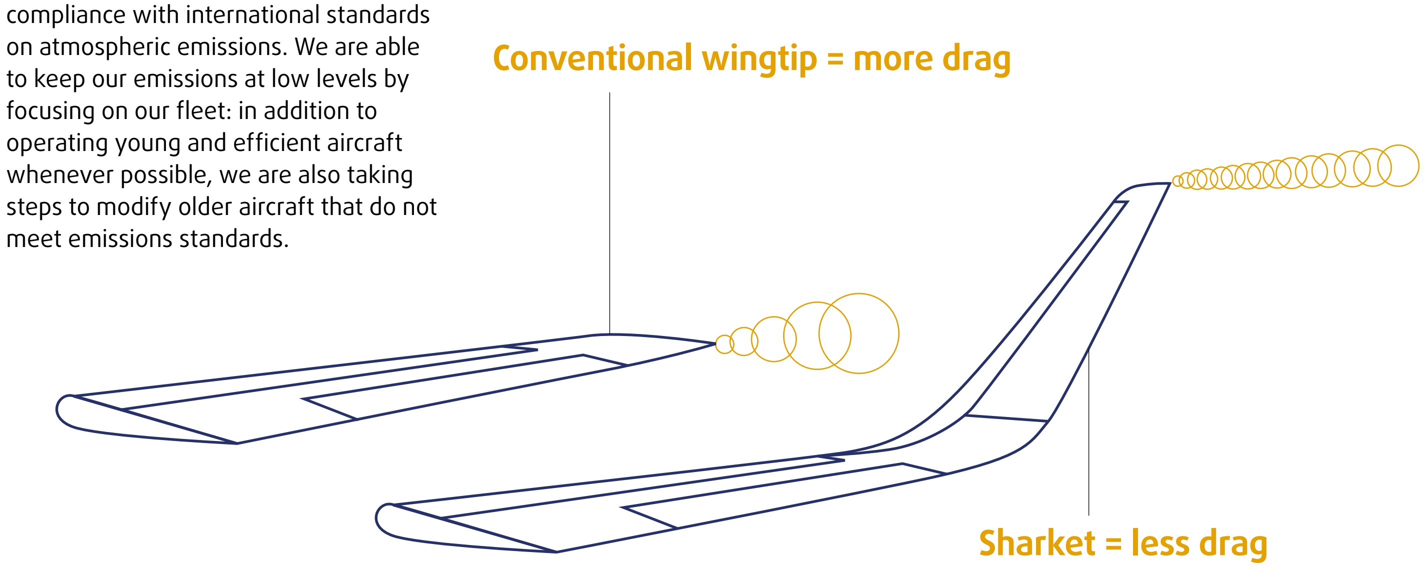
A young fleet

Our Company is the only airline in Kazakhstan operating aircraft from the Airbus A319/320/321 family. In addition to offering passengers a high level of comfort, all of these aircraft are also very environmentally friendly, ensuring the best fuel economy and lowest levels of emissions and noise footprint in their class. The Airbus A320 NEO features innovative Pratt & Whitney engines that are 15% more fuel-efficient than their predecessors. Air Astana's first Airbus A320 NEO was delivered and put into service in November 2016. The A320 NEO will operate on domestic flights, as well as international flights to China, India, Russia, Turkey and the United Arab Emirates.

Our Company also operates a number of Boeing 757–200 aircraft, which feature innovative technologies enabling excellent fuel efficiency, low noise levels, a high level of comfort and excellent operating performance.

Aircraft modifications

Modifying aircraft through the addition of winglets (Boeing) or sharklets (Airbus), provides two benefits: first, they enable greater fuel efficiency; and, second, by improving aerodynamics, they make more rational flight routing possible.



Reducing greenhouse-gas emissions

Our Health and Safety Department monitors compliance with applicable environmental regulations and ensures the timely maintenance of all liquid-fuelled equipment—aircraft, diesel power plants, special-purpose vehicles and automobiles—an important step towards lowering emissions of greenhouse gases.

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

By improving our collection and transfer procedures, we increased the volume of our recycled waste paper by 13 tonnes in 2017 year-on-year.

Water consumption by source

9.4 million litres

Total waste by type

Total solid waste by hazard grade	2015	2016	2017
Grade 1 (Amber List of waste)	Astana: 2.191 tonnes Almaty: 6.465 tonnes	Astana: 2.577 tonnes Almaty: 6.708 tonnes	Astana: 3.205 tonnes Almaty: 7.969 tonnes
Grade 2 (Green List of waste)	Astana: 24.182 tonnes Almaty: 1.020 tonnes (excluding solid waste)	Astana: 55.025 tonnes Almaty: 2,913 tonnes	Astana: 81.657 tonnes Almaty: 2,905 tonnes

Solid waste utilisation, burial and recycling in 2017

	Tonnes
Reuse (waste paper)	80.87
Other (disposed of by an authorised contractor)	Hazardous waste Astana: 3.340 tonnes Almaty: 9.059 tonnes Solid waste Astana: 81.522 tonnes Almaty: 2,904 tonnes

Solid waste utilisation

99,9%

Total costs and investment in environmental protection

	2015	2016	2017
Modernisation (monitoring systems in Astana and Almaty, schedules, containers, maximum permitted emissions, KIOSH	USD 5,485	USD 3,296	USD 4,819
Grade 2 (Green List of waste)	Astana: USD 433 Almaty: USD 91,672	Astana: USD 1,185 Almaty: USD 57,411	Astana: USD 1,914 Almaty: USD 61,706
Emissions treatment	Astana: USD 388 Almaty: USD 2,066	Astana: USD 332 Almaty: USD 1,366	Astana: USD 372 Almaty: USD 1,555
Total	**USD 100,044**	**USD 63,589**	**USD 70,367**

Total costs and investment in environmental protection

	2015	2016	2017
Costs of measures to reduce environmental impact and for the environmental management system	USD 96,661	USD 63,589	USD 53,190
Staff for education and training	USD 681	USD 1,032	USD 531
External services for the environmental management system	USD 5,485	USD 3,296	USD 4,820
Research and development	USD 4,804	USD 951	USD 2,090
Additional costs for the implementation of clean technologies(containers for batteries)		USD 280	USD 756
Other costs related to environmental management	USD 85,690	USD 58,030	USD 44,994
Total	**USD 96,661**	**USD 63,589**	**USD 53,189**

Emissions

Greenhouse-gas emissions

	2015	2016	2017	Reason for significant changes in emissions that triggered a recalculation of base-year emissions
Greenhouse-gas emissions, in metric tonnes of CO_2 or equivalent	Almaty: 678.319 Astana: 730.611	Almaty: 671.468 Astana: 700.175	Almaty: 700.2149 Astana: 697.088	Diesel power plants in Almaty are operated more intensively compared to Astana

Energy consumption by energy type

Total energy consumption	Total energy consumption		
	2015	2016	2017
Electricity (kW)	2,572,598	2,272,981	2,680,210
Heat (Gcal)	620	600	640

Educational projects

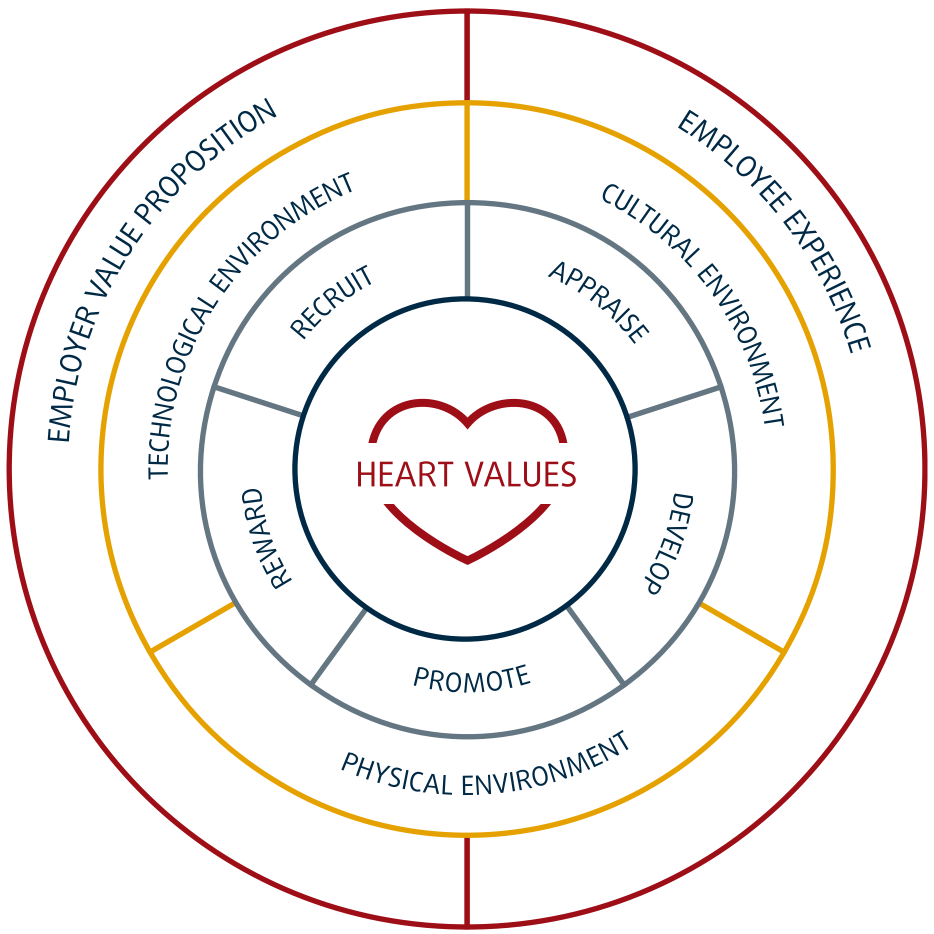
Given the importance of environmental issues for our business, we hold environmental competitions to promote environmental awareness, organise events to celebrate World Environment Day and run internal campaigns to educate staff on environmental protection. In 2017, we held a drawing competition for employees' children called "The Environment: The World through Children's Eyes". The winning drawings were printed in our 2018 corporate desk calendars.

3.9 HUMAN RESOURCES

> IT'S GOOD TO REALISE THAT WE ARE DOING A LOT IN RELATION TO CULTURE. WE STARTED THE HEART PROGRAMME IN 2014, AND WE ARE DEVELOPING OUR CULTURE TOGETHER EVERY DAY BY LIVING THE COMPANY'S VALUES.

Yevgeniya Ni, Vice President, HR and Administration

Key elements of the People Strategy



We were named the best employer in Kazakhstan in 2016-2017 by Universum Agency, and we also finished in third place in the "World" category at HeadHunter's HR Brand Awards Central Asia 2017.

Our Company is an industry leader in Kazakhstan in terms of human resources policy and people development activities. Our people strategy is built around continuous enhancement of an employee experience that rests on three key pillars, the cultural, technological and physical environment, which we see as a major driver for our employees to achieve their maximum potential and leading to greater levels of employee engagement.

Cultural environment

In pursuit to achieve our mission to become one of the world's finest airlines, we are developing a corporate culture built around our HEART values. Adopted in 2014, our HEART programme has two main aspects: first, it links our Company's success to the performance of its employees; second, it outlines a number of simple and clear values that guide employees in their daily interactions with customers and with one another.

In building our cultural environment based on our corporate values we are aiming to provide our people with positive touch points at all stages of the employee life cycle, including recruitment, learning and development, appraisal, reward, and promotion.

MISSION

FROM THE HEART OF EURASIA, WE ARE BUILDING ONE OF THE FINEST AIRLINES IN THE WORLD

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

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

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

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

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

Attracting talent

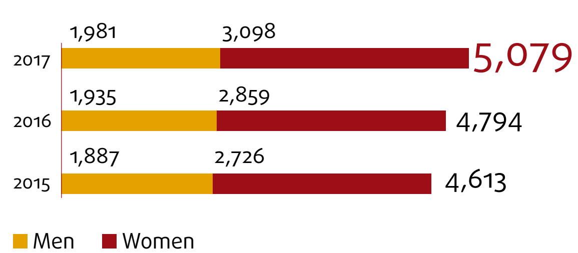
> TO DRIVE SUSTAINABLE GROWTH, WE NEED TO SUPPORT OUR COMPANY'S DEVELOPMENT AGENDA WITHIN A SHORT TIME FRAME WITH A PIPELINE OF SKILLED PROFESSIONALS. WE ARE ALREADY TRAINING PILOTS THROUGH AN AB INITIO PROGRAMME IN SPAIN AND IN IRELAND, WHILE ALSO TRAINING FLIGHT ATTENDANTS IN GERMANY, THE UNITED KINGDOM AND AT OUR OWN TRAINING ACADEMY IN KAZAKHSTAN. IN 2018, WE WILL LAUNCH AIRCRAFT TECHNICIAN COURSES AT OUR ENGINEERING AND MAINTENANCE CENTRE IN ASTANA. OUR LARGE-SCALE RECRUITMENT CAMPAIGN 'TRY ON A DREAM' ALSO PROMISES TO YIELD GOOD RESULTS. WHILE ADDRESSING OUR OWN RECRUITMENT NEEDS, IT IS IMPORTANT THAT WE NOT ONLY FILL OUR TALENT GAP BUT ALSO GIVE EQUAL OPPORTUNITY TO ALL YOUNG KAZAKH WOMEN AND MEN FOR ATTRACTIVE CAREERS."

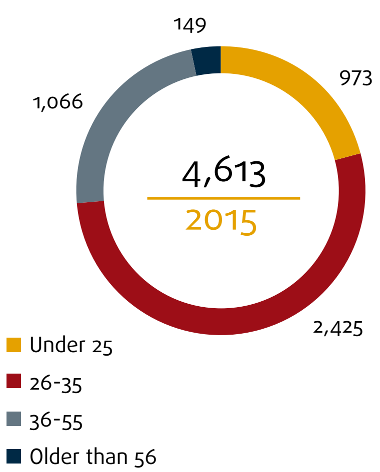
Peter Foster, President, Air Astana

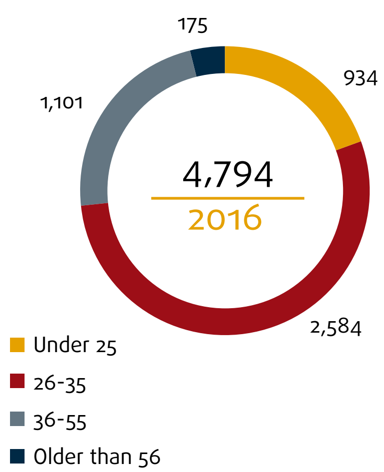
In recent years, we have been steadily building up competencies and expanding our operating workforce in line with our business plan to expand flight geography, increase flight frequency and boost passenger and cargo traffic.

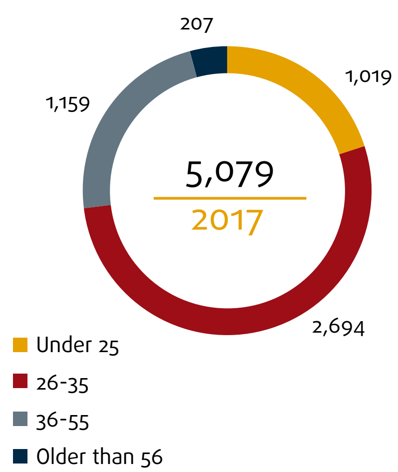
More than half of our employees are under 35 years of age, and the percentage of employees in this age category is steadily growing. The labour market is getting younger, and this trend is expected to continue in the coming years. Currently, the average age of first-year employees is 26.

Headcount[1]





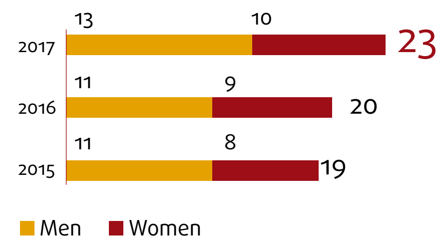




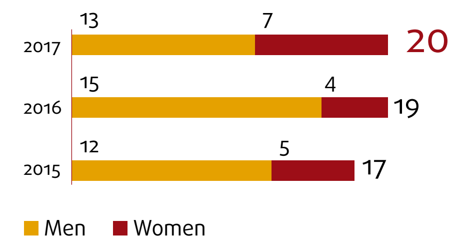
[1] Including those who are on maternity leave.

Composition of governing bodies and main employee categories[2]

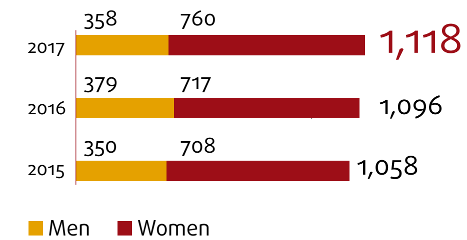
Top managers



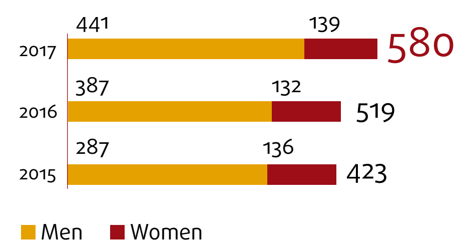
Functional unit heads



Specialists



Service personnel



	2015	2016	2017
Flight crew	345	347	336
On-board service	1,342	1,449	1,569
Airport service	794	684	734
Aircraft maintenance	287	319	331
Sales managers	276	292	314
IT	52	49	54

Gender balance

men 39%

women 61%

Our Company is committed to equal opportunity for men and women. Overall, women account for 61% of our Company's headcount, including 43% of the top management. All appointments to leadership positions are merit-based. The following factors have an impact on the overall gender balance across our Company and in top management positions. First, appointments are made on the basis of our Company's competency assessment and development system. Second, once they are employed, employees are provided with rigorous corporate training, mentoring and coaching that enables them to excel in their position, while also making them available for promotions.

Average monthly salary, USD

	2015	2016	2017
For Company employees (internal data)	1175	831	822
Nominal wage in the Republic of Kazakhstan (Ministry of National Economy of the Republic of Kazakhstan)	556	417	450
Percentage by which the average monthly salary at our Company exceeds the national nominal wage, %	111	99	83

[2] Employees by category (number of employees, including those who are on maternity leave).

Try on a Dream campaign

We currently employ a total of more than 5,000 employees to support the operation of 32 aircraft on a network of over 60 international and domestic routes. With our fleet expected to increase to 64 aircraft by 2026, however, we will need to significantly increase staff numbers. In the near term, we will need more skilled pilots, engineers, mechanics, flight attendants and passenger services agents. In an effort to attract high-potential, success-driven individuals who share the airline's corporate values, we launched our Try on a Dream campaign in 2017 to find, recruit and train applicants from across the country. While Kazakhstan is home to a large number of gifted and hard-working young people, students from smaller towns and villages are often sceptical about their chances of being hired by a successful international company. The airline wants to change this. The purpose of the awareness-raising initiative is to entice students to consider a career in aviation.

People development

Air Astana Training Academy

We have established our own corporate Training Academy, which consolidates all corporate operational training under one umbrella and now trains aviation professionals across the board, including pilots, flight attendants, engineers and other civil aviation professionals at a level compliant with EASA standards.

In line with our Company's policy to develop the skills and knowledge of our employees, we continued in 2017 to deliver corporate training programmes such as Induction and Orientation and management seminars. The curriculum for all of these programmes will be updated for 2018 in accordance with our new strategic business plan.

In 2017, our Company focused on developing a three-year strategy to turn our Training Academy into a centre of excellence for learning and development. Our vision is to build a professional and innovative training centre that takes Air Astana to the next level by focusing on four core pillars: commercial and financial growth, standardisation and simplification, product innovation and trainer development. The goal is for the Academy to apply a standardised training methodology throughout every one of our Company's various departments.

Leadership development

Our Company makes every effort to ensure that our executives are equipped to face our growing business challenges. In 2017, 12 members of our management team took part in a project on assessing and developing leadership potential that had three main goals:

1. To provide managers with self-evaluation tools that they can use to identify their core strengths and areas where they need further development, while also receiving expert feedback;

2. To compare managers against an international benchmark, i.e. top-20 executives in similar positions;

3. To work with an expert to determine priorities for personal development on an individual basis.

In addition, our Company and the Cranfield School of Management have been cooperating since 2012, and most members of our senior management team have completed either Advanced Management or Directors programmes there.

Pilot training

In 2017, we trained 38 new foreign pilots (including six non-type-rated pilots) and 19 Kazakh cadets, including 10 graduates from the Civil Aviation Academy who completed flight training at the Patria flight school in, Finland. This involved initial cadet, simulator, conversion and line training.

Eight pilots who commenced their training during the first Ab Initio programme in 2008 were promoted to the rank of captain in 2017.

Designed to train pilots to the highest international standards, the Ab Initio training programme is carried out at two schools: Atlantic Flight Training in Cork, Ireland; and Flight Training Europe in Jerez, Spain. After graduating, cadets are awarded an EASA licence. Since 2008, the programme has graduated 189 pilots, who now fly as captains and first officers. In 2018, we plan to increase the number of cadets trained through the programme every year from 24 to 40.

Flight attendants training

While we already employ 1,120 flight attendants, this profession is very much in demand. Candidates must speak three languages. Once selected, they undergo a rigorous training programme that covers on-board safety and aviation security, crew optimisation and first aid, as well as aircraft-specific training and passenger services.

Their training is divided into two parts: theoretical aspects are covered in Almaty and Astana, while the practical part is conducted at the Condor centre in Frankfurt or at the British Airways training centre in London. As part of their practical training, future flight attendants complete exercises on aircraft simulators; in bunkers, where they have to extinguish real fires; and in a pool, where they practise survival skills on water.

Engineering training

We offer on-the-job training for mechanics and EU-level licensing for aircraft engineers. In 2018, we launched a unique Part-66 technical training programme that will provide the opportunity for young people with no prior experience to become an internationally qualified aviation mechanic with a PART-66 engineering licence. This training programme is aimed at preparing engineers to replace retirement-age professionals.

Performance management

Our annual performance appraisal system is aligned with our HEART values and associated competencies. Every employee, from manager to senior executive, is appraised using one and the same competencies and criteria with ever-increasing demands on the employee depending on their grade.

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

Recognition

Every year, we select the top 120 employees who demonstrate the corporate HEART values in their daily work. These employees are invited to our HEART Awards ceremony, where they are given a merit award and have a chance to be named as one of our Company's top 20 employees and win a special prize. The top 20 team members are selected based on a 360-degree assessment that is conducted by nine people.

In addition to annual recognition, we introduced a daily employee recognition programme in 2017. The new programme is aimed at fostering a culture of daily recognition across our Company to make recognition timely and specific.

Employee engagement

We believe that employee experience and employee engagement are inseparably linked, and like other industry leaders we keep focusing on employee engagement. For the second consecutive year, our Company conducted an employee engagement survey in cooperation with the US polling company Gallup. We understand that measuring employee engagement isn't the same as improving it. In response to the 2016 results, all managers across all levels initiated discussions with the employees to address issues related to the workplace, working conditions, motivation, recognition, tasks and targets as well as other aspects of employment. The 2017 survey, which involved 1,500 employees, revealed that employee engagement had increased by 9%. This result testifies to the effectiveness of our Company's initiatives to foster an improved corporate culture.

Technological environment

In building a unique employee experience, we continue to digitise HR functions through the creation of social, mobile, and consumer-like employee experiences. In recent years, we have launched a number of tools and systems aimed at simplifying work: hub control, crew pads, an electronic on-board documentation system, e-signatures. Understanding the need to continue working on innovation in order to streamline work processes, we plan to introduce chatbots and artificial intelligence in the future.

KC App

We are always trying to find new and better ways to facilitate communication, collect and share feedback. In December 2016, a new mobile application, KC App, was made available to Air Astana employees. The purpose of the app is to improve internal communication, as well as improve employee engagement in corporate activities. The application is constantly being upgraded and fine-tuned, and the current capabilities have already been highly rated by employees, who can access a variety of options, including viewing Company news, posting comments and giving feedback. In addition, the app offers several self-service capabilities and provides access to the global employee directory.

Electronic Docflow

With 57 HR processes to be automated, we plan to move to a paperless system, as this will increase efficiency two to three times. The first step in this direction was the introduction of Electronic Docflow, an integrated tool that allows all Company employees to manage electronic documents in a paperless office environment, making our Company unique in Kazakhstan insofar as this initiative has been implemented on such a broad scale. The system is expected to boost labour efficiency and quality, while also eliminating the risk of human error.

Crew pads

Designed for senior flight attendants, crew pads improve customers' in-flight experience and automate the generation of flight and staff reports.

Prior to the introduction of this system, all reporting was paper-based. With this new system in place, reports now can be prepared electronically and then automatically sent to the administration, taking a significant burden off both the administration and flight attendants. With the new system, flight attendants now have access to detailed in-flight information on passengers and crew members, and a performance assessment tool has also been introduced for them.

Station control system

The station control system is an integrated ground operations system that is used by the Ground Services staff and ramp agents. Data is entered into a tablet and then tracked by the Control Centre team, so they can promptly respond to flight delays. The system simplifies the monitoring of ground services, thus freeing up ramp agents for more urgent tasks.

By operating in real time, staff have access to all the information they need to respond to situations that arise without losing time on phone calls.

In addition, ground handling reports are no longer paper-based. Instead, all flight information is stored in a dedicated database, and any document can be retrieved on demand at any time. The system also allows ramp agents to confirm the completion of baggage and cargo handling procedures using their tablet instead of making a phone call while standing on the airside.

Electronic On-Board Documentation System (EFB)

We are planning to install an EFB system on every aircraft in our fleet. So far, agreements have been signed to install the latest generation of EFB systems on all new Airbus aircraft. In addition, we are retrofitting our current fleet with similar systems. In 2018, the EFB system will be upgraded with new modules to allow electronic pilot briefings and reporting, an important step in optimising operational reporting. Once implemented, the EFB system will enable completely paperless operations by the end of 2018.

Physical environment

In an extremely competitive industry, offering young professionals a comfortable and creative environment can give our Company an advantage in our efforts to recruit and retain employees. Housing numerous elements of our operations in one location stimulates teamwork and cooperation. Principles of open doors and open space create a culture of trust and respect between employees.

In 2017, Operations Control, Ground Operations and Cabin Services began working at one large and comfortable facility in Almaty. In early 2018, they will be joined by Flight Operations. In Astana, Flight Operations and Cabin Services will join Engineering and Maintenance in a facility that is part of our new hangar complex that opened at the end of 2017.

Social support

Corporate pension plan

In 2016, we unveiled a new corporate pension plan for all employees based in Kazakhstan. The purpose of the initiative is to retain key employees and to instil a responsible attitude among employees towards their personal financial security.

Under the plan, every employee contributes 5% of their income on a monthly basis, which we match over the first 10 consecutive years of their service. After 10 years of service, our contribution increases. An employee may withdraw the entire amount of their pension benefits, comprising all contributions paid by the employee and our Company plus accrued investment income if the employee:

» has 20 consecutive years of service at our Company; or
» has contributed to the corporate pension plan for 20 years; or
» is of retirement age under the laws of Kazakhstan.

Employee benefits

We offer all of our employees the following benefits package:

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

Trade union

In 2017, our Company and three of its trade unions (the Local Labour Union of Aviation Workers of Kazakhstan, the Local Labour Union of Air Astana's Flight Personnel, and Aviator) negotiated a new collective agreement to improve the handling of employee relations and to provide social safeguards for our employees. The agreement was signed in 2018 and subsequently approved by the Labour Inspectorate.

	2015	2016	2017
Local Labour Union of Aviation Workers of Kazakhstan	973	1025	985
Local Labour Union of Air Astana's Flight Personnel	170	148	100
Aviator[1]			29

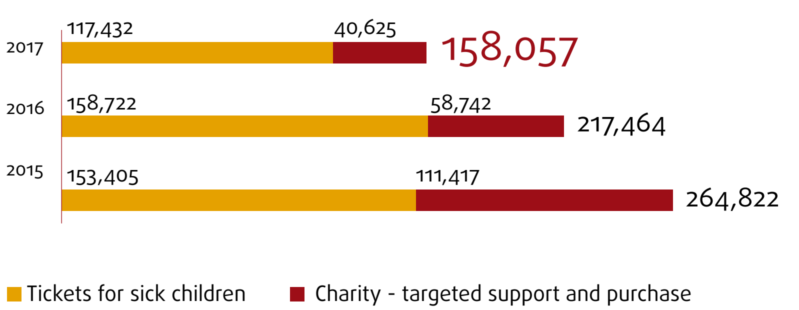
[1] Aviator was established on 31 May 2017 at the general meeting of pilots on the basis of Air Astana.

3.10
CHARITY

OUR COMPANY PLAYS AN ACTIVE ROLE IN THE COMMUNITIES WHERE WE OPERATE, AND WE HAVE ESTABLISHED A COMMUNITY INVESTMENT COMMITTEE TO OVERSEE ALL OUR CHARITABLE PROJECTS. THE COMMITTEE, WHICH INCLUDES FOUR REPRESENTATIVES OF THE CORPORATE COMMUNICATIONS AND SALES AND MARKETING TEAMS, IDENTIFIES AND SELECTS CHARITIES AND FUNDING PROJECTS THAT BRING VALUE TO COMMUNITIES AND THAT ARE ALIGNED WITH OUR ACTIVITIES AND VALUES.

One area where we have been active for many years is in providing free flights for sick children and their families travelling for medical purposes. In 2017, we contributed USD 117,432 for 124 tickets for severely ill children and their parents. In addition, we raised USD 3,600 through donation boxes at our ticket offices in Almaty, Astana and Atyrau as part of a charity project run by the Ayala Foundation. The purpose of the project is to purchase modern equipment for children's intensive-care units at infectious-disease hospitals in Kazakhstan. In total, USD 41,401 has been raised since the campaign began in 2010.

Community investments, USD[1]



Our Company has established the following charity-related priorities for 2018:

- cooperation with charity funds;
- social sponsorship;
- volunteering on the part of employees in charity projects.

Projects implemented in 2017

Project target	Project name	Description
Veterans	Provision of flight tickets for veterans of the Great Patriotic War	In 2017, we provided 3,914 flight tickets to veterans of the Great Patriotic War for travel in Kazakhstan and to the CIS.
Medicine	Provision of flight tickets for severely ill children and their accompanying parents	In 2017, 124 flight tickets were provided to severely ill children and their accompanying parents.
	Provision of modern equipment for children's intensive-care units at infectious-disease hospitals in Kazakhstan	In 2017, USD 41,401 was raised through donation boxes installed at ticket offices in Almaty, Astana and Atyrau as part of a charity project by the Ayala Foundation aimed at providing modern equipment for children's intensive-care units at infectious-disease hospitals in Kazakhstan.
	Purchase of equipment for the Republican Children's Clinical Hospital in Aksai	In 2017, we also purchased equipment for the Republican Children's Clinical Hospital in Aksai in the amount of nearly USD 2,760.
Education	Support for the Press Service of Kindness contest	Our Company and the Interfax news agency joined forces to provide support for a contest organised among local journalists, with the intention of contributing to the Ayala Foundation.
	Arranged a tour to EXPO 2017 for children living at SOS village	The children visited our stand, they met pilot Konstantin Sklyarov. They also watched a film about our Company and visited various exhibitions.
	Visit by Kazakhstan students and teachers to Cranfield University	The winners were selected from all 16 regions of Kazakhstan during a three-day try-out. In the United Kingdom, the Kazakhstan delegation took part in a number of activities associated with the study of aerospace technologies.

[1] Calculated by the weighted average rate of the tenge to the US dollar

Support for the Press Service of Kindness charity contest

TO MARK ITS TENTH ANNIVERSARY, THE AYALA FOUNDATION, A LONG-STANDING PARTNER OF AIR ASTANA, HELD A UNIQUE CONTEST, THE PRESS SERVICE OF KINDNESS.

Purpose

The purpose of the contest run by the charitable foundation was to recognise Kazakhstani journalists who write stories about the altruistic acts of individuals driven by selfless motives. We provided some amazing prizes for the winners: tickets for flights to Tbilisi, St Petersburg, Hong Kong, and Paris.

Implementation

Over 70 members of the media from across the country took part in the contest. The judges included Svetlana Romanova from the Interfax news agency; Tlek Abdrakhimov, Corporate Communications Manager with Air Astana; and Zhangeldy Sarsenov, the Ayala Foundation's Vice President for Public Relations. They were faced with a difficult task: they had to select a short list of just five entrants, although each of the bidders was worthy of a prize.

"It was a challenge to judge the entries – all the stories that were submitted dealt with some very important subjects, telling readers about selfless Kazakhstani citizens who did good things driven by their heart rather than by the desire to get hype or popularity", said Tlek Abdrakhimov.

Outcome

Third place was taken by Tatiana Aladiina, a journalist with the Express K newspaper. Her prize will be a trip to Georgia. Aisha Kireyeva from Uralsk finished in second place and won an air ticket to St Petersburg. The first prize, a ticket on a flight to Hong Kong, went to Daria Zhumadilova, an Ekibastuz-based reporter. The Grand Prix was awarded to Astana-based Renat Tahkinbayev, who will soon fly to Paris.

EXPO-2017 for the children living at SOS village

THE AYALA FOUNDATION ORGANISED A SERIES OF TOURS TO BRING CHILDREN FROM ORPHANAGES AND FOSTER HOMES FROM ACROSS KAZAKHSTAN TO EXPO 2017 WITH SEVEN CHILDREN ON AVERAGE TAKING A TOUR EVERY WEEK. THE FOUNDATION'S PARTNERS, INCLUDING OUR COMPANY, COVERED THE EXPENSES FOR RELATED TRAVEL, ACCOMMODATION AND MEALS.

Purpose

The foundation and management of major companies that supported the initiative believe that such trips can prove more valuable than a truck-load of food or clothes because the EXPO is above all about saying that people can achieve anything they want. All the wind turbines and solar panels, electric vehicles, smart homes and other products showcased at the EXPO were once also just someone's dream. The EXPO needs to inspire those who will live and develop the nation and our planet in the coming decades.

Implementation

It took five hours for children who came from an Esil-based orphanage to take a tour of the EXPO, including a tour of Kazakhstan's Nur Alem sphere, a visit to the Arts Centre, and a quest in one of the EXPO's pavilions.

The children learned many new and exciting things in physics, chemistry, and geometry. They can learn all they want about kinetic energy, but a single ride on a bicycle fitted with LED lamps that provide light as long as they keep pedalling can tell them a lot more. Game-based learning is still a concept not readily available to schools in Kazakhstan, because its adoption requires huge investment. Still, it was widely showcased at EXPO 2017, including robots that teach the basics of painting.

The children visited our stand, where they met pilot Konstantin Sklyarov. He told the young visitors about interesting cases that happened in the sky and the peculiarities of job of being a pilot. After that, the children watched a film about our Company and visited various exhibitions.

Outcome

The children had a go at developing computer mini-games, moulding mock-ups, inventing alternative energy sources, or just making drawings to present their vision of our planet's future. With volunteers at the EXPO showing great care for these little creators, every child developed a strong faith in the whole world of unlimited opportunities.

Visit by students and teachers from Kazakhstan to Cranfield University

OUR COMPANY AND THE MINISTRY OF JUSTICE, THE SAMRUK-KAZYNA TRUST SOCIAL DEVELOPMENT FOUNDATION, AND NAZARBAYEV UNIVERSITY INITIATED A VISIT BY STUDENTS AND TEACHERS FROM KAZAKHSTAN TO CRANFIELD UNIVERSITY TO ATTEND A SEVEN-DAY AEROSPACE TECHNOLOGY SEMINAR. THE SEMINAR, WHICH WAS ATTENDED BY 36 STUDENTS AND SIX TEACHERS, WAS HELD 6-13 AUGUST IN THE UNITED KINGDOM.

Purpose

The purpose of the visit was to provide networking opportunities for talented young people in the aerospace industry and a sustainable platform for academic research and cultural exchanges within the industry related to our Company's business.

Implementation

The winning students were selected from all 16 regions of Kazakhstan during a three-day try-out that was held in June. Before their departure, the students visited our EXPO stand, which was showcasing the technologies used by our Company to improve efficiency and reduce fuel burn. In the United Kingdom, Kazakhstan's delegation took part in a number of activities associated with the study of aerospace technologies. The course programme included lectures by Guy Gratton, Head of Airborne Science and Technology at the National Centre for Atmospheric Science in the United Kingdom; and Nick Lawson, Professor of Aerodynamics and Airborne Measurement at Cranfield University, as well as lectures by numerous other internationally recognised lecturers and professionals in the aviation industry.

In October 2017, our Company and the British Council in Kazakhstan arranged a meeting in London between Isaak Mustopulo, a 15-year-old student with cerebral palsy, and theoretical physicist Professor Stephen Hawking.

Isaak had won a special prize in the national STEM Innovation Competition for people with disabilities held by the British Council and the National Agency for Technological Development. For the competition, Isaak submitted a video describing the process of power generation for spacecraft, in which he also talked about his dream of meeting his role model, Professor Hawking. The idea of making his dream a reality was the initiative of Asset Sekeshev, the Akim of Astana, and Peter Foster, President of Air Astana.

Outcome

Promising students were selected. They showed high potential for academic research and creative activities within the industry related to our Company's business. Personal contacts were established between leading professors based at Cranfield University and these promising young specialists.

3.11

FINANCIAL PERFORMANCE

2017 WAS A YEAR OF STRONG RECOVERY FOR THE COMPANY. THE HEALTHY NET PROFIT OF USD 39.32 MILLION AS OPPOSED TO THE USD 39.87 MILLION LOSS IN 2016 SHOWS A CLEAR RECOVERY FROM THE UNFAVOURABLE ECONOMIC CONDITIONS THAT FOLLOWED THE DEVALUATION IN THE THIRD QUARTER OF 2015.

Revenues grew by 23.6% in 2017 to USD 767.5 million on the back of strong growth with a combination of contributing factors. Traffic growth was driven by the strong performance on international routes, where traffic boosted by a healthy 23% in 2017. The main contributor to this growth was the international transit business coming from the extended home markets in China, India, Ukraine, Central Asia and others countries, where the Company saw its passenger numbers grow by 58%. As a result of that, every fourth passenger on the Company's international network was a transit passenger. Traffic growth on the domestic network has been lower, at 3%; however accompanied with a healthy recovery of revenue per ASK.

The strong growth of revenues by 24% on a modest ASK growth of 6.9%, resulted in an impressive growth of revenue per ASK (RASK) by 15.7%, a key contributior to the turnaround of the results.

In contrast to the volatile trend at the back end of 2015 and 2016 when it lost 82% of its value, the average tenge exchange rate in 2017 was relatively stable, with the tenge gaining 4.7 percent, from KZT 342.16 to the US dollar to KZT 326[1]. This stability contributed to the Company's ability to improve its financial results, reducing the foreign exchange loss by 27.9% to USD 10.37 million compared to USD 14.39 million in 2016.

Financial performance summary

In millions of USD	2017	2016	%
Total revenue	767.537	621.014	+23.6%
Total operating expenses	(704.282)	(583.130)	–20.8%
Operating profit	63.255	37.884	+67.0%
Operating profit margin	8.2%	6.1%	+2.1 pp
Net financing income/(expense)	(3.825)	(58.348)	+93.4%
Foreign exchange gain/(loss), net	(10.370)	(14.391)	+27.9%
Profit (loss) before tax	49.060	(34.855)	+240.8%
Income tax expense	(9.742)	(5.010)	–94.5%
Profit/(Loss) for the year	39.318	(39.865)	+198.6%

[1] According to tenge exchange rates in the Company's financial statements for the year ended 31 December 2017.

Revenue

In millions of USD	2017		2016		Change
	Total	% of total revenue	Total	% of total revenue	
Passenger revenue	718.178	93.6%	589.926	95.0%	+21.7%
Cargo and mail revenue	19.666	2.5%	15.685	2.5%	+25.4%
Other revenue	21.215	2.8%	15.403	2.5%	+37.7%
Gain from sale and leaseback transaction	8.478	1.1%	–	–	100%
Total revenue and other income	**767.537**	**100%**	**621.014**	**100.0%**	**+23.6%**

Over the last seven years, the traffic mix of the Company has changed substantially. With the restructuring of its network and schedule, the airline has moved from being a point-to-point-dependent airline, driven solely by its home market, towards a rapidly growing network carrier. Since 2010, international transit traffic has grown by more than 48 times and domestic-international traffic by 4.9 times. The total transit traffic carried on the domestic and international network now accounts for 27% of the total traffic. This has allowed the airline to tap into new, high-volume growth and underserved markets and at the same time mitigate the earlier overdependence on the single home market. The Company's ability to go through this transition ahead of the 2015 crisis was key to its ability to turn around the results in 2017.

Air Astana's passenger traffic increased by 11.8% in 2017 to record 4.19 million passengers. The traffic growth was largely driven by its international routes, which increased by 22.6% to 2.04 million passengers, while domestic routes grew by modest a 3.3%, to 2.15 million passengers. Total passenger revenue increased by 21.7% to USD 718.18 million.

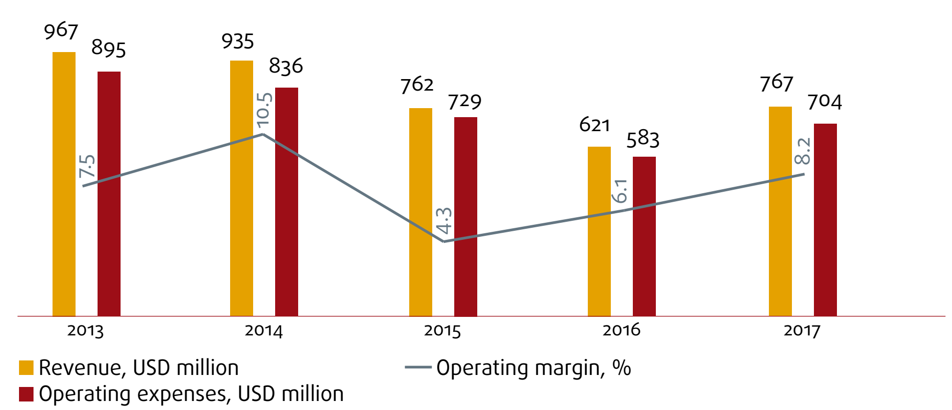
The Company's capacity measured in available seat-kilometres (ASKs) grew by 6.9% to 13.59 billion ASKs, mainly due to the growth of international take-offs. These results were in line with the strategy of regional expansion the Company had been pursuing for several years.

The highest revenue growth rate from passengers and cargo traffic was observed on CIS routes (up 23.1%, to USD 363.75 million). Revenue from passengers and cargo on Asia routes grew with an equally impressive 22.8% (USD 212.71 million), and European routes also showed strong performance, with double-digit growth (up 17.9% to USD 161.39 million).

As result of traffic growth on international routes and yield improvement on domestic routes, revenue per available seat-kilometer (RASK) increased by 15.7% from 4.9 cents in 2016 to 5.6 cents in 2017.

In December 2017, the Company conducted a sale and leaseback transaction for one Embraer E190 (which was on a finance lease on the date of the transaction). The Company recorded a net gain of USD 8.478 million from the transaction, which represents the excess of fair value of the aircraft over the carrying amount of the aircraft on the sale date.

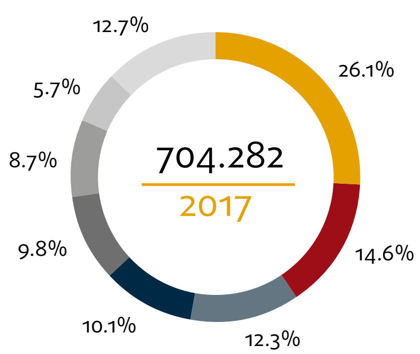
Revenue and operating expenses



Operating expenses

The Company's operating expenses increased by 20.8% from USD 583.1 million in 2016 to USD 704.3 million in 2017. Nevertheless, the airline's CASK remains one of the lowest in the industry positioned around 20-50% less than peer full service carriers in Europe and the Middle East and lower than some major European low-cost carriers. Despite the rise of global fuel prices impacting the entire industry and the growth of cost per ASK from 4.59 to 5.18 cents in 2017 Air Astana's low-cost base remains a strategic competitive advantage.

Operating expenses for 2017



- Fuel
- Handling, landing fees and route charges
- Passenger service
- Employee costs
- Engineering and maintenance
- Aircraft operating lease costs
- Selling costs
- Other

Breakdown of operating expenses

In millions of USD	2017		2016		Change
	Total	% of operating expenses	Total	% of operating expenses	
Fuel	183.518	26.1	130.676	22.4	+40.4
Handling, landing fees and route charges	103.164	14.6	89.909	15.4	+14.7
Passenger service	86.635	12.3	69.809	12.0	+24.1
Employee costs	71.103	10.1	64.736	11.1	+9.8
Engineering and maintenance	69.173	9.8	60.658	10.4	+14.0
Aircraft operating lease costs	61.413	8.7	58.407	10.0	+5.1
Other	129.276	18.4	108.935	18.7	+18.7
Total operating expenses	**704.282**	**100%**	**583.130**	**100%**	**+20.8%**

Fuel

Fuel is the key operating expense for any airline. As a result, fuel price volatility has a direct and significant impact on the profitability of all airlines across the globe. The Air Astana fuel expenses grew by 40% from USD 130.7 million in 2016 to USD 183.5 million in 2017.

The relative percentage of fuel expense to total expenses, which was less than 23% in 2016, increased to 26% in 2017 as a result of the increase in oil prices globally. The average monthly Brent crude price grew by 15% in 2017 from USD 55.51 per barrel in January to USD 64.09 per barrel in December.

Besides the sharp increase in fuel prices, the fuel expense grew by the network growth as well with total flight hours growing by 7.3%, to 114,811 hours from 106,993 hours in 2016.

Other operating expenses

Other significant items in the Company's operating expenses include ground handling, landing fees, navigation charges, passenger service, engineering and maintenance, employee costs, aircraft operating lease costs and aircraft crew costs. These costs increased by 13.6% in 2017 compared to 2016, largely due to the increase in both flight frequency and passenger numbers.

Aircraft operating lease costs, expressed in USD, grew by a modest 5.1% compared with the 2016 level, well below ASK and revenue growth. At 31 December 2017 the Company operated 32 turbojet aircraft, comprising 9 short-haul and 23 long-haul aircraft (10 aircraft were acquired under a finance lease and 22 aircraft leased under an operating lease). One new long-haul aircraft was acquired in 2017.

Albeit well below the growth of traffic, employee costs increased by 9.8% in 2017 due to the growth of the Company's workforce and respective increase in salaries, wages and social taxes.

Selling costs including sales commission and reservation costs contribute to 5.6% out of passenger revenue meanwhile driving increase in passenger revenue of 22% versus 2016 level.

Other expenses accounted for 8.3% of total operating expenses and included depreciation and amortisation costs, property lease costs, insurance costs, taxes and IT and costs for other services. Strong cost discipline across all departments, contributed directly to the strong financial performance in 2017.

Operating profit

With a strong performance, RASK performance and strict control over manageable costs in 2017, the Company's operating profit surged by 67% to USD 63.26 million. This growth led to a 2.1 percentage point increase in operating profit margin, almost double the global average of 4.3% among all IATA member airlines.

RASK recovery was the driver of the Company's net profit reaching USD 39.3 million, which was an impressive result compared to the previous year's loss of USD 39.9 million.

The Company's EBITDAR improved by 21.3%, to USD 150.13 million. EBITDAR/ Revenue margin (19.6%) stayed almost at the same level as in 2016 (19.9%).

The Company's finance lease liabilities denominated in USD dropped during 2017 by the reduced amount of remaining liabilities of the contracts and the sale and lease back and indirectly contributed by the delayed aircraft deliveries. As of 31 December 2017, total finance lease liabilities constituted USD 320.723 million (down 14.9% year-on-year). The Company recognised USD 11.12 million as interest expense on finance lease in 2017.

Equity

In millions of USD	2017	2016	%
Share capital	17.000	17.000	0%
Functional currency transition reserve	(9.324)	–	–
Foreign currency translation reserve	–	(182.680)	–
Reserve on hedging instruments, net of tax	(71.465)	(105.868)	+32.5%
Retained earnings	150.552	310.625	–51.5%
Total equity	**86.763**	**39.077**	**+122%**

The national currency of Kazakhstan is the Kazakhstani tenge, which until 31 December 2017 was the Company's functional currency, because it reflected the economic substance of the underlying events and circumstances of the Company, and was the functional currency of the primary economic environment in which the Company operated.

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

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

a) assets and liabilities were translated at the closing USD/KZT rate as of 31 December 2017;
b) income and expenses for the reporting period were translated at the average USD/KZT exchange rate during the year ended 31 December 2017;
c) movements in the reserve on hedging instruments were translated at the average exchange rate during the year ended 31 December 2017;
d) all resulting exchange differences were recognised as foreign currency translation reserves within other comprehensive income up to 31 December 2017;
e) upon transition to the US dollar as the functional currency on 31 December 2017, the outstanding balance of the foreign currency translation reserve of USD 185 million was then fully transferred to retained earnings on 31 December 2017;
f) share capital continued to be translated at the historical rate as of the date of the issuance of shares; the difference between the historical rate and the closing rate as of 31 December 2017 was recognised as the functional currency transition reserve on share capital within equity;
g) other equity items were translated at the closing rate as of 31 December 2017; all resulting exchange differences were transferred to retained earnings on 31 December 2017;
h) comparative information remained the same as reported in the issued financial statements for the year ended 31 December 2016 with the US dollar as the presentation currency.

Our little guests

We offer fantastic Little Price and National Geographic bags, a dedicated children's section of in-flight entertainment, healthy children's meals, an on-board library and toy box. We also offer special children's headphones with a funky design, recognising that earbuds and Business Class headphones aren't comfortable for kids.

4.1

CORPORATE GOVERNANCE SYSTEM

Fundamental values of corporate governance

Our corporate governance is based on a number of principles, including fairness, honesty, responsibility, transparency, expertise and professional competence.

An effective corporate governance structure implies respect for the rights and interests of all parts of our Company while, at the same time, contributing to our performance, asset growth and maintenance of our financial stability and profitability in general.

Running our Company requires a high level of professionalism on the part of directors and management, along with an effective system of corporate governance and oversight.

Currently, our corporate governance structure ensures a good level of interaction between our management bodies and delineates responsibilities based on the following core principles:

- protection of Shareholders' rights and interests
- effective management of the Company by the Board of Directors and the executive body
- the Company's independence
- transparency and objective disclosure of information about the Company's activities
- legality and ethics
- an effective dividend policy
- effective personnel policies
- environmental protection
- policies for resolving corporate conflicts and conflicts of interest
- corporate responsibility

In an unceasing effort to adhere to high standards of corporate governance, we are constantly improving and developing our corporate governance system to ensure sustainable long-term growth in our value.

Development of corporate governance

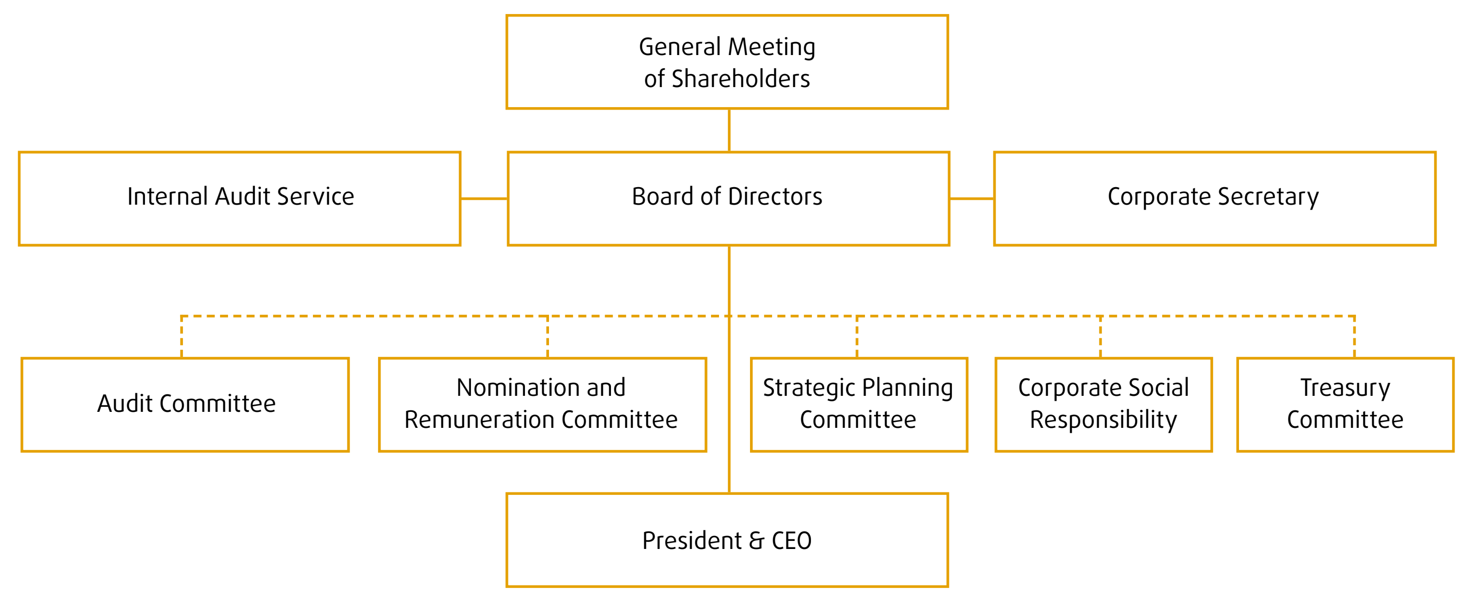
Progress in 2017	Plans for 2018
» In 2017, we drafted the following policies in the area of compliance: an anti-corruption policy, a conflict-of-interest policy and a whistleblowing policy. » We established a Treasury Committee in October 2017 to supervise our treasury functions and to improve the effectiveness of risk management associated with such functions.	» Implementation of a compliance function and the development of policies throughout the year » Changes to the composition of the Board in terms of the independent directors » Gradual transition to a completely automated procedure for holding meetings of the Board of Directors.

Corporate governance assessment

We introduced the practice of assessing our corporate governance system in 2008. Until 2011, annual assessments were carried out with the help of S&P, which placed our Company among the top businesses in Kazakhstan in terms of corporate governance.

From 2013 to 2015, our corporate governance system was reviewed to check its compliance with international practices on the basis of a methodology developed by the Samruk-Kazyna Sovereign Wealth Fund for all of the group companies. According to the assessments that were carried out, we were assigned the highest ratings among all fund companies. No assessments were carried out in 2016-2017 due to a review of the fund's methodology for its compliance with the new Corporate Governance Code approved by the Government of Kazakhstan.

Corporate governance structure



GENERAL MEETING OF SHAREHOLDERS

The Company's senior corporate governance body is the General Meeting of Shareholders, which makes decisions on all key issues concerning our business. The functions and activities of the General Meeting of Shareholders are governed by the laws of the Republic of Kazakhstan, our Charter and other internal documents .

INTERNAL AUDIT SERVICE

The Internal Audit Service assists the Board of Directors and the President in the exercise of their functions in order to achieve our strategic objectives by providing independent and unbiased guarantees and consultations aimed at improved performance of the internal control, risk management and corporate governance systems.

BOARD OF DIRECTORS

Our Board of Directors is responsible to Shareholders for determining our strategic development, achieving its targets, protecting Shareholders' assets, overseeing the activities of the executive body, identifying and managing risk and ensuring the effectiveness of the internal control system, while maintaining our corporate governance principles, values and corporate culture.

CORPORATE SECRETARY

Our Corporate Secretary plays a key role in relations between and among Shareholders, the Board of Directors and the executive body; provides for seamless interaction among our various bodies; and ensures compliance with statutory and corporate requirements by our governing bodies.

COMMITTEES

Several committees have been established to facilitate the effective performance of the functions of the Board of Directors. Issues on the agenda of every Board meeting are reviewed in advance by the relevant committees to ensure a more detailed discussion and elaboration of voting recommendations for the Board of Directors.

PRESIDENT AND CEO

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

4.2

GENERAL MEETING OF SHAREHOLDERS[1]

The Samruk-Kazyna Sovereign Wealth Fund owns 51% of Air Astana. The Company was created on 3 November 2008 by a presidential decree of the Republic of Kazakhstan (of 13 October 2008) and a government decree of the Republic of Kazakhstan (of 17 October 2008) in an effort to improve the competitiveness and stability of the national economy and mitigate external risks to domestic economic growth.

BAE Systems (Kazakhstan) Limited, which owns the other 49% of Air Astana, is a subsidiary of the British corporation BAE Systems plc, which is engaged in the development, delivery and support of advanced defence, security and aerospace systems on land, at sea, in the air and in space. In 2017, 12 shareholder meetings were held, including the Annual General Meeting (AGM) on 24 July 2017.

Responsibility	Principal resolutions made at the General Meetings of Shareholders
Electing the members of the Board of Directors, as well as determining the number of directors and their terms in office	Election of the Board of Directors for 2017
Deciding on the creation and determination of the composition of the committees of the Board of Directors, and approving regulations thereof	Deciding upon the membership and terms of office for members of the committees of the Board of Directors for 2017 and establishing a new Treasury Committee
Approving the Company's long-term development strategy	Approval of the Company's strategic development plan for 2017-2026
Approving the Company's short-term and medium-term business plans (development plan and annual budget)	Approval of the Company's business plan (development plan) for 2017–2021
Approving the Company's annual financial reports	Approval of the Company's annual report for 2016
	Approval of the Company's annual financial statements for 2016
Approving major and interested-party transactions, as well as other transactions requiring the approval of the General Meeting of Shareholders in accordance with the law	Decisions on entering into major transactions and a corresponding increase in Company obligations
Purchasing or leasing any aircraft	Leasing five Embraer E190-E2s, three Airbus A320 NEO FBs, and three A321 NEO aircraft

[1] A complete list of decisions on major transactions approved by the General Meeting of Shareholders is available on our website at www.airastana.com.

4.3 BOARD OF DIRECTORS

Balanced composition of the Board of Directors

As of 31 December 2017, the Board of Directors consisted of six members, with two members nominated by the Samruk-Kazyna Sovereign Wealth Fund, two members nominated by BAE Systems and two independent directors. The Board is elected by cumulative voting at the AGM.

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

No	Board member	Date of first election to the Board of Directors	Status	Key competence
1	Nurzhan Baidauletov	December 2008	Nominated by Samruk-Kazyna Sovereign Welfare Fund JSC	Airline business, transport industry, corporate governance
2	Gani Bitenov	January 2017		Jurisprudence, corporate governance, risk management
3	David Cole	March 2013	Nominated by BAE Systems	Finance, financial reporting and audit
4	Alan Fraser	January 2015		Finance
5	Dmitriy Larionov	April 2008	Independent Director	Financial reporting and audit, corporate governance
6	Lord Thomas Alexander Hesketh	November 2007	Independent Director	Airline business

None of the members of the Board of Directors held any shares in our Company during the reporting year, nor were they involved in any transactions with Company shares.

Changes in the membership of the Board of Directors in 2017

Marat Urazbekov – stepped down from the Board of Directors as of 30 January 2017 by resolution of the General Meeting of Shareholders.

Gani Bitenov – elected to the Board of Directors as of 30 January 2017 by resolution of the General Meeting of Shareholders.

Responsibilities of the Board of Directors

The duties of the Board of Directors include, but are not limited to, the following:

» Determination of the Company's development priorities, preliminary approval of our long-term development strategy and submitting the strategy for approval by the General Meeting of Shareholders
» Preliminary approval of the Company's short-term and medium-term business plans (development plan and annual budget) and submitting said plans for final approval by the General Meeting of Shareholders, as well as any amendments thereto, including capital expenditures not provided for in previously approved business plans
» Preliminary approval of the Company's annual financial statements
» Submitting matters for consideration and resolution by the General Meeting of Shareholders pursuant to the law and/or the Company's Charter
» Election and dismissal of the Company's registrar
» Specifying procedures for the work of the Internal Audit Service (IAS), determining the remuneration of IAS staff, awarding bonuses to IAS staff based on the recommendations of the Audit Committee and approving the qualification requirements for IAS employees.

Chairman of the Board of Directors and his role

The Chairman of the Board of Directors is elected by the General Meeting of Shareholders from among the members of the Board of Directors nominated by the Samruk-Kazyna Sovereign Welfare Fund.

The Chairman of the Board of Directors manages the work of the Board of Directors, ensures the Board's effective performance in all areas of its responsibility, and ensures effective communication with shareholders. The Chairman ensures that all directors make an effective contribution to the Board's activities, including in terms of the Board's interaction with the Company's CEO. The Chaiman ensures, together with the corporate secretary, the timely provision of reliable and accurate information to all directors and determines the agenda for Board meetings.

Independent Directors and their role

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

Since the involvement of Independent Directors improves corporate governance within our Company, we place a great deal of emphasis on strengthening their role. Thus, all five existing Board committees are chaired by Independent Directors.

Every year, we assess the independence of all Board members. In 2017, the Board of Directors concluded that both Independent Directors fully met the criteria for independence and that they held independent and balanced views and opinions aimed at protecting the interests of our key stakeholders.

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

» Compliance with the definition of an Independent Director as set out by the Law of the Republic of Kazakhstan on Joint-Stock Companies
» Advanced educational qualifications, preferably in a field directly related to the Company's primary business activities
» At least five years of leadership experience, preferably in a field directly related to the Company's primary business activities

Orientation and development

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

In 2017, Gani Bitenov became a member of the Board of Directors in accordance with the orientation procedure.

In 2017, the Chairman of the Board of Directors, Nurzhan Baidauletov, completed advanced training courses from the European Business Union on strategic negotiations and conflict resolution, and he is currently taking part in the International Certification Programme for Directors at the Institute of Directors of Great Britain.

Our Company offers members of the Board of Directors ample opportunities to obtain all the information they need to fulfil their duties and to develop their professional skills and qualifications.

Technology implementation

In 2017, we decided to gradually introduce an IT solution to improve the effectiveness of the procedure for holding meetings of the Board of Directors. The first stage will be the in-house development of an IT solution that includes a convenient virtual room that will, in turn, ensure effective and secure data exchange between the members of the Board of Directors, while also providing users with access to a common database to facilitate prompt and effective decisions.

Membership of the Board of Directors as of 31 December 2017

Nurzhan Baidauletov

Chairman of the Board of Directors

Date of first election to the Board of Directors: December 2008

Qualifications and experience:

Nurzhan graduated from the Moscow State University of Railway Engineering and Transportation Management in June 1986. He has built a distinguished career in Kazakhstan's transportation industry over a period of almost 30 years. Prior to joining the Samruk-Kazyna Sovereign Welfare Fund in 2008 as the Chief Director for Asset Management and later as the Managing Director, he held the posts of Deputy Minister of Transport and Communications and Chairman of the Communication Lines Committee of the Ministry of Transport and Communications of the Republic of Kazakhstan. In addition, from 2012 to 2016, he served as Chairman of the Board at Kazpost JSC and National Company Kazakhstan TemirZholy JSC.

Other appointments:

since 2012, Chairman of the Board of Directors of Kazakhtelecom JSC; since 2016,a representative of Samruk-Kazyna JSC; since 2017, Chairman of the Board of Directors of Qazaq Air JSC.

Committee membership:

Member of the Strategic Planning Committee since December 2016, member of the Nomination and Remuneration Committee since October 2012, alternate member of the Treasury Committee since 31 November 2017.

Does not hold any shares in Air Astana.

Gani Bitenov

Member of the Board of Directors

Date of first election to the Board of Directors: January 2017

Qualifications and experience:

Doctor of Civil Law, McGill University (Montreal, Canada); Master of Law (LLM), University of Aberdeen (Aberdeen, UK); Master of Economics (MA); KIMEP (Almaty, Kazakhstan).

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

Other appointments:

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

Committee membership:

member of the Treasury Committee since October 2017, member of the Corporate Social Responsibility Committee since February 2017.

Does not hold any shares in Air Astana.

David Cole

Member of the Board of Directors

Date of first election to the Board of Directors: March 2013.

Qualifications and experience:

David graduated from Southampton Solent University with a specialisation in accounting.

He started his accounting career as a trainee accountant with Plessey Naval Systems in Addlestone, Surrey. He is both a qualified and chartered accountant with the relevant CIMA qualifications. He has held a number of senior positions in the field of finance for the international operating group at BAE Systems (UK); member of the Board of Directors of Air Astana since 2012; Finance Director at BAE Systems.

Other appointments:

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

Committee membership:

member of the Nomination and Remuneration Committee since March 2015, member of the Treasury Committee since October 2017.

Does not hold any shares in Air Astana.

Alan Fraser

Member of the Board of Directors

Date of first election to the Board of Directors: January 2015

Qualifications and experience:

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

Other appointments:

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

Committee membership:

member of the Strategic Planning Committee and member of the Corporate Social Responsibility Committee since March 2015.

Does not hold any shares in Air Astana.

Dmitriy Larionov

Independent Director

Date of first election to the Board of Directors: April 2008

Qualifications and experience:

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

Other appointments:

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

Committee membership:

Chairman of the Nomination and Remuneration Committee, the Strategic Planning Committee, the Audit Committee and the Treasury Committee since the date of creation the Committees and member of the Corporate Social Responsibility Committee .

Does not hold any shares in Air Astana.

Lord Thomas Alexander Hesketh

Independent Director

Date of first election to the Board of Directors: October 2007

Qualifications and experience:

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

Other appointments:

None

Committee membership:

Chairman of the Corporate Social Responsibility, member of the Audit Committee and member of the Nomination and Remuneration Committee since the date of creation the Committees.

Does not hold any shares in Air Astana.

Report of the Board of Directors

During its operations in 2017, the Board of Directors consistently carried out the main tasks within its priority areas of activity:

» strategic development;
» improving the Company's investment appeal;
» financial and operational activities;
» improving the effectiveness and transparency of the Company's governance mechanisms;
» improving the oversight and reporting system of the Company's management bodies.

In 2017, the Board of Directors considered 119 issues, including 74 issues previously recommended for review by Board committees.

Structure of the issues reviewed, by key areas, %

Type of issue	2017
Strategic development	38
Risk management	17
Internal control and audit	13
Financial and operational activity	21
Governance and remuneration	12
Total	100

Remuneration of members of the Board of Directors

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

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

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

Independent Directors are paid:

» An annual fixed remuneration, for participation in sessions of the Board of Directors
» Additional remuneration for participation in sessions of the Committees of the Board of Directors may be paid
» Compensation of expenses associated with the performance of duties.

The amounts of annual fixed and additional remuneration, as well as compensation, are determined in accordance with the contract agreed with each independent director on the basis of a decision of the General Meeting of Shareholders.

In 2017, the total remuneration paid to independent directors was USD 88,359 including taxes.

In 2017, the Board of Directors considered the following major issues:

Strategic development

» Consideration of a report on the implementation of major investment projects by the Company
» Consideration of a report on the implementation of the Company's development strategy
» Consideration of an update to the status of development of the Company's strategic plan for 2017-2026 and the Company's business plan for 2017-2021
» Preliminary approval of the Company's strategic plan for 2017-2026
» Preliminary approval of the business plan for 2017-2021 and budget for 2018
» Consideration of the issue of the Company's participation in major investment projects (air cargo transportation)
» Proposal of an operating lease for five E190-E2s, three Airbus A321 NEO FBs;
» Proposal of a sale and leaseback transaction for one Embraer 190

Risk management

» Consideration of our Company's safety reports
» Review of a report on the Company's realised risks
» Approval of an updated Company risk register, key risks register and risk map for H1 and H2 2017
» Approval of the Company's risk appetite

Internal control and audit

» Consideration of a report on the assessment of the effectiveness of our internal control system
» Approval of an action plan for implementation of the Internal Audit Service's strategic plan for 2018-2020
» Consideration of the annual report for 2016 and 2017 quarterly reports on the activities of the Internal Audit Service
» Quarterly evaluations of the performance of the Internal Audit Service
» Approval of the Internal Audit Service's annual audit plan for 2018

Financial and operational activities

» Consideration of reports on the results of the Company's financial and operational activities (implementation of the budget and development plan)
» Review of the annual report of the President on financial and operational activities for 2016
» Reports on corporate social responsibility
» Proposals to the Company's Annual General Meeting of Shareholders on the Company's net income distribution for 2016 and the dividend amount per ordinary share for 2016
» Review of the issue of adopting a different functional currency
» Decisions on the conclusion of material transactions
» Making a decision on the establishment of a branch office in Poland
» Consideration of the Health, Safety and Environmental Protection report
» Reports on the placement of temporarily free funds and quarterly reports on the status of deposits

Governance and remuneration

» Consideration of reports on the activities of the Board of Directors and of Board committees in 2016
» Determination of the annual remuneration (annual bonus) for the Corporate Secretary, Chief Accountant, Head and employees of the Intenal Audit Service based on 2016 results
» Approval of our Labour Remuneration Regulations;
» Approval of the annual bonus plan for our top management starting from 2018
» Determination of the job description and remuneration for our Chief Accountant
» Consideration of a proposal on the terms of remuneration for the Company President
» Preliminary decisions on the establishment of the Treasury Committee and preliminary approval of the Regulations on the Treasury Committee
» Making preliminary decisions on the composition and terms of office of the Board's Nomination and Remuneration Committee, Strategic Planning Committee, Audit Committee, Treasury Committee and Corporate Social Responsibility Committee
» Consideration of the issue of changes in the composition of the Board of Directors and the introduction of relevant amendments to the Charter

Committees of the Board of Directors

THE BOARD OF DIRECTORS HAS ESTABLISHED FIVE COMMITTEES TO CONTRIBUTE TO THE EFFECTIVE PERFORMANCE OF THE FUNCTIONS OF THE BOARD OF DIRECTORS AND TO ALLOW IN-DEPTH STUDY OF ISSUES THAT FALL WITHIN THE BOARD'S REMIT:

The activities of all Board Committees are governed by internal documents—approved by the General Meeting of Shareholders following the preliminary approval of the Board of Directors—that contain provisions on the composition, remit, election procedures, activities, and the rights and responsibilities of Committee members.

The Board of Directors and its Committees draw up an annual work plan and hold meetings on a regular basis. The minutes of Committee meetings are submitted to the Board. A separate section of the annual report of the Board of Directors is devoted to the work of its Committees.

Audit Committee

The Audit Committee supports the Board of Directors in supervising our financial and economic activities, the reliability and efficiency of the internal control and risk management system, the implementation of corporate governance standards, the independence of the external and internal audit process and compliance with the laws and regulations of the Republic of Kazakhstan. The Audit Committee was created in March 2008.

In 2017, the Audit Committee held 12 in-presentia meetings.

Composition of the Audit Committee and participation of committee members in-presentia meetings in 2017

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

Role and responsibilities

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

- » Developing recommendations for the Board of Directors on the appointment or change of the external auditor, determining the amount paid to the external auditor, evaluating the quality of services rendered by the external auditor and obtaining related services from the external auditor
- » Developing recommendations for the Board of Directors on the appointment and dismissal of the head and employees of the Internal Audit Service
- » Holding meetings with external and internal auditors without the presence of members of Company management
- » Investigating any other issues that fall within the committee's remit.

Activities in 2017

Internal audit

- » Review of a report on the effectiveness of the Company's internal control system
- » Review of quarterly reports on the activities of the Company's Internal Audit Service
- » Preliminary approval of amendments to the Internal Audit Service's annual audit plan for 2017 and preliminary approval of its annual audit plan for 2018
- » Preliminary approval of the Internal Audit Service's budget for 2018
- » Evaluation of the performance of the Internal Audit Service
- » Review of updates to the action plan for implementation of the Internal Audit Service's strategic plan
- » Review of information from the Head of the Internal Audit Service on staff changes
- » Recommendations on the amount of the annual bonus for 2017 for the Head and employees of the Internal Audit Service, as well as recommendations on the amount of remuneration for the Head and employees of the Internal Audit Service for 2018

Internal control and risk management issues

- » Consideration of reports on temporarily free cash and of quarterly reports on the status of deposits
- » Review of the Company's updated risk register and of a report on the Company's realised risks
- » Preliminary approval of the updated risk register, key risk register and risk map
- » Review of the current situation in the financial sector in Kazakhstan
- » Consideration of the issue of changing the Company's functional currency
- » Recommendations with respect to the President's decisions on opening bank accounts
- » Recommendations with respect to the establishment and composition of the Treasury Committee.
- » Recommendations with respect to the approval of the Regulations of the Treasury Committee

Financial statements

- » Review of information from the external auditor on the status of the audit of the Company's annual financial statements for the year ended 31 December 2016
- » Recommendations to the Board of Directors with respect to preliminary approval of the Company's annual financial statements for the year ended 31 December 2016.
- » Review of a letter from the external auditor on the results of the audit of the Company's annual financial statements.
- » Report from the external auditor on the review of the Company's condensed interim financial information for H1 2017.
- » Other issues that fall within the remit of the Audit Committee

Strategic Planning Committee

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

In 2017, the Strategic Planning Committee held eight in-presentia meetings.

Composition of the Strategic Planning Committee and participation of committee members in-presentia meetings in 2017

Name	Position	Participation in meetings and decision-making, %
Dmitriy Larionov	Chairman	100%
Nurzhan Baidauletov	Member	100%
Alan Fraser	Member	100%

Role and responsibilities

The responsibilities of the Strategic Planning Committee include:

- Developing recommendations for the Board of Directors for the determination of Air Astana's priority areas of business activity and development
- Developing recommendations for the Board of Directors regarding the preliminary approval of, and potential amendments to, the Company's long-term development strategy
- Reviewing management reports on the implementation of the Company's long-term development strategy and medium-term business plan (development plan), as well as the achievements of strategic key performance indicators
- Developing recommendations for the Board of Directors on corporate governance issues
- Developing recommendations for the Board of Directors concerning 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.

Activities in 2017

- Review of a report on the status of the Company's plan for strategic development for 2017–2026 and the Company's business plan for 2017-2021
- Review of a report on the Company's preliminary financial and operating results (implementation of the budget and development plan) for 2016
- Review of a report on implementation of major investment projects on the part of the Company
- Review of a report on implementation of the Company's strategy
- Review of annual report of the Company's President on the Company's financial and operational activities in 2016
- Recommendations on the distribution of the Company's net income for 2016 and the dividend amount per ordinary share for 2016
- Review of reports of the Company President on the Company's financial and operational activities (budget and development plan implementation)
- Review of the annual report on the activities of the Strategic Planning Committee for 2016
- Review of updated information regarding the Company's participation in an investment project
- Review of updated information regarding the delivery of Boeing B787 aircraft
- Review of the issue of the sale and leaseback of one Embraer E190 aircraft
- Review of amendments and supplements to the Company's Charter
- Approval of the Strategic Planning Committee's work plan for 2018
- Other issues that fall within the remit of the Strategic Planning Committee

Nomination and Remuneration Committee

The Nomination and Remuneration Committee develops recommendations for the Board of Directors regarding the recruitment and selection of members of the Board of Directors, the executive body, the head of the IAS, the Corporate Secretary and other employees whose appointment requires the approval of the Board of Directors or Shareholders. The Committee also makes recommendations regarding the remuneration of these employees and executive officers.

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

In 2017, the Nomination and Remuneration Committee held six in-presentia meetings.

Composition of the Nomination and Remuneration Committee and participation of committee members in-presentia meetings in 2017

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

Role and responsibilities

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

- Developing requirements concerning the qualifications of 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 a 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 of remuneration for the members of the Board of Directors, the executive body, the head of the IAS, the Corporate Secretary and other employees whose remuneration falls within the remit of the Board of Directors or Shareholders
- Making recommendations regarding the annual individual remuneration for members of the Board of Directors, the executive body, the head of the IAS, the Corporate Secretary and other employees whose remuneration falls within the remit of the Board of Directors or Shareholders;
- Making proposals to the Board of Directors regarding amending 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 falls within the remit of the Board of Directors or Shareholders
- Considering the payment of year-end remuneration to employees whose remuneration must be agreed by the Board of Directors or Shareholders
- Conducting comparative analyses of remuneration levels and the remuneration policy for members of the Board of Directors, the executive body, the Head of the IAS, the Corporate Secretary and other employees whose remuneration falls within the remit of the Board of Directors or Shareholders.

Activities in 2017

- Review of the annual report on the activities of the Nomination and Remuneration Committee for 2016
- Recommendations on the appointment of our Chief Accountant
- Recommendations on remuneration and compensation for our Chief Accountant
- Recommendations on changes in the composition of our Board of Directors
- Recommendations on the amount and terms of payment of compensation to the President
- Review of a report on the status of implementation of our Corporate Pension Plan
- Recommendations on remuneration for 2018 for employees whose remuneration must be determined by the Board of Directors
- Other issues that fall within the remit of the Nomination and Remuneration Committee

Corporate Social Responsibility Committee

The Corporate Social Responsibility Committee assists with the effective performance of the Board of Directors and develops recommendations for the Board regarding issues of social responsibility, including occupational safety, health, and environmental protection.

In 2017, the Corporate Social Responsibility Committee held four in-presentia meetings.

Composition of the Corporate Social Responsibility Committee and participation of Committee members in-presentia meetings in 2017

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

Role and responsibilities

» Developing recommendations for the Board of Directors regarding the Company's corporate social responsibility (CSR) strategy and evaluation 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 compliance with legislation and regulations in the areas of occupational health and safety, social responsibility and environmental protection
» Making recommendations to the Board of Directors regarding the approval of internal documentation covering social and charitable policies
» Consideration of major CSR risks and plans for mitigating their impact
» Making recommendations to the Board of Directors regarding the approval of the Company's social responsibility and sustainability report.

Activities in 2017

In 2017, the Committee:

» reviewed a report on the Company's corporate social responsibility for 2016
» reviewed a report on the Company's activities in the field of occupational health and safety and environmental protection for the first 10 months of 2017
» received an update on the implementation of the Company's Defined Contribution Corporate Pension Scheme
» reviewed the results of the Company's employee engagement survey
» approved the Corporate Social Responsibility Committee's work plan for 2018.

Treasury Committee

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

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

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

In 2017, the Treasury Committee held two in-presentia meetings.

Composition of the Treasury Committee and participation of Committee members in-presentia meetings in 2017

Name	Position	Participation in meetings and decision-making, %
Dmitriy Larionov	Chairman	100%
Gani Bitenov	Member	50%
David Cole	Member	100%

At one of two meetings in 2017, Gani Bitenov was replaced by an alternate member, Nurzhan Baidauletov.

Roles and responsibilities

» with regard to treasury control and risk management issues, analysing monthly reports on the state of compliance with treasury policies and holding regular meetings with Company management at least once every six months to review the risks and opportunities associated with treasury activities and respective Company plans concerning treasury management
» reporting on a regular basis, and at least once a year, to the Board of Directors on reporting activities, preparing information on the Committee's performance for its further disclosure at the AGM, and reporting to the Board of Directors on any and all violations of the policies specified in the Committee Regulations within a reasonable time following the discovery of such violations by the Committee
» performing other duties that fall within the remit of the Committee at the instruction of the Board of Directors.

Activities in 2017

» Review of the quarterly report on the status of Company deposits as of 30 September 2017
» Recommendations regarding the Company's conclusion of an agreement with Altyn Bank JSC on the issuance of unsecured standby letters of credit and bank guarantees
» Recommendations regarding the Company's conclusion of an agreement with Natixis bank on the issuance of secured standby letters of credit (with money as security), and an agreement with BNP Paribas bank on the issuance of unsecured standby letters of credit and secured letters of credit (with money as security)
» Recommendations on approval of the Company's Cash Management, Bank Risk, and Treasury Reporting Policy
» Recommendations on the decision by the President on opening a bank account with OJSC VTB Bank in Baku, Azerbaijan.

Corporate Secretary

The Corporate Secretary plays a key role in facilitating open dialogue among our Company's different governing bodies and ensuring their adherence to legislative and Company requirements. The Corporate Secretary ensures that the rights of all shareholders are observed, shareholder communications are given due consideration by the relevant body and that any disputes involving shareholders' rights are resolved. The Corporate Secretary's duties also include ensuring a proper flow of information among the Board of Directors and its Committees and the executive body, as well as facilitating the orientation process for new Directors. The Board of Directors is responsible for the appointment and dismissal of the Corporate Secretary.

Yelena Kondachkova

The current Corporate Secretary, Yelena Kondachkova, has been with our Company since its early days, when she 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.

4.4 CONTROL

Internal audit

Mission and functions

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

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

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

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

» Risk management system;
» Internal control system; and
» Corporate governance system.

The IAS performs the following functions:

» Evaluation of the adequacy and performance of internal controls in the Company's corporate governance and operational (production and financial) activities and its information systems with regard to:
 – achievement of the Company's strategic objectives, as well as the reliability and completeness of information on the Company's activities;

 – efficiency and effectiveness of the Company's activities and adopted programmes;

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

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

» Evaluation of the Company's corporate governance system, including the implementation and compliance of accepted corporate governance principles with the Company's ethical standards and values;
» Evaluation of fraud risk and the effectiveness of fraud risk management within the Company;
» Evaluation of the implementation and efficiency of the Company's risk management methodologies and procedures;
» Audit of the Company's information systems;
» Verification of compliance with the legislation of the Republic of Kazakhstan, international agreements, the Company's internal documents and the implementation of instructions from authorised bodies, resolutions of Company bodies and the evaluation of systems developed to follow these requirements;
» Provision of consulting services to the Board of Directors, the executive body and the Company's structural bodies regarding improvement of internal control, risk management, corporate governance and the organisation of the internal audit function;
» Conducting unplanned audits;
» Monitoring the implementation of the external auditor's recommendations;
» Follow-up oversight over the implementation of IAS recommendations; and
» Other functions assigned to the IAS within the limits of its remit.

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

Audit process

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

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

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

Compliance with standards[1]

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

External assessments of IAS activities are performed in two areas of the standards (quality standards and performance standards) and best international practice.

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

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

Valentina Khegay

Head of the Internal Audit Service

Valentina began working for Air Astana in 2006, having already gained considerable experience in the field of audit, finance and accounting. She started her audit activities in 1996. Prior to that, she worked as a chief accountant, a financial director and an external auditor for local and international companies. She has a PhD in Economics, is a Certified Internal Auditor (CIA and DipPIA from the ICFM), a licensed auditor of the Republic of Kazakhstan and a professional accountant. Valentina was appointed as the Head of the Internal Audit Service by a resolution of the General Meeting of Shareholders on 7 December 2007.

External audit

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

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

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

Air Astana's external auditor for the period of 2017-2019 is KPMG Audit LLP, an independent audit organisation.

Ethical standards

Every year, all Company employees must take and pass a mandatory online course to confirm their knowledge of our Code of Business Ethics. We have begun updating the Code to comply with our HEART values. The amended Code will serve as a general guide for employees in situations that may arise in their day-to-day activities.

Management of conflicts of interest

With respect to conflicts of interest, we are guided by our Charter, Corporate Governance Code and Code of Business Ethics.

Every year, all directors must submit a letter confirming that they do not have any conflicts of interest. In case of a potential conflict of interests, the Directors involved must inform the Board and management immediately. No conflict of interest was registered in 2017.

Compliance policy

In 2017, we started designing a new compliance function. So far, drafts of the following policies have been developed: Anti-corruption Policy, Conflicts of Interest Policy and a Whistleblowing Policy, which are planned to be approved and implemented in 2018. In addition to existing reporting channels arranged for employees, we are planning to establish an independent third-party operator to provide a telephone, e-mail and web-based reporting capability that would ensure the anonymity of whistle-blowers.

[1] International Standards for the Professional Practice of Internal Auditing.

Corporate liability insurance

Since 2011, we have been purchasing Directors, officers and corporate liability insurance, which covers the obligations of our Company and its Directors and officers in accordance with applicable legislation to compensate for losses incurred by third parties as a result of wrongful acts committed during the performance of their official duties. Expenses incurred as a result of any claim brought against the Company and its Directors or officers in connection with the performance of their official duties are also covered.

According to the policy, a local insurance company covers 5% of the risk and reinsures 95% in a reputable international market through a reinsurance company with a rating of at least an A in accordance with Standard & Poor's system or an equivalent rating on the part of other rating agencies. The insurance period is one year.

Risk Management

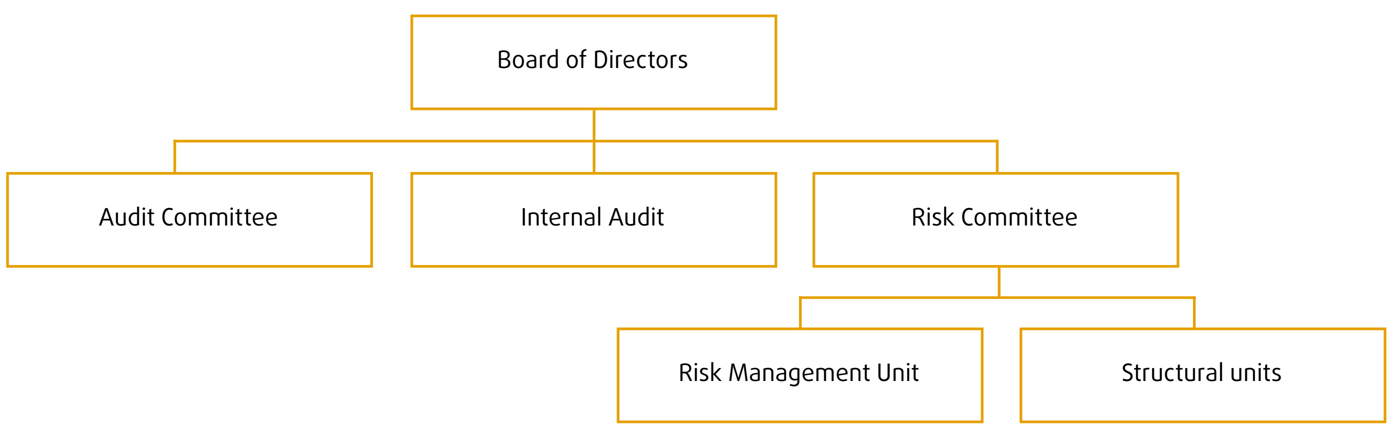
We acknowledge the importance of risk management as the key component of our corporate management system. The purpose of risk management is to identify risks that could have a potential negative impact on our value and reputation and to undertake actions to mitigate such risks.

The Company's Risk Management Policy ensures the maintenance of its Corporate Risk Management System (CRMS), which provides the Company several benefits. First, the CRMS enables the Company to operate effectively. Second, it helps the Company determine how to best distribute resources so as to ensure that its level of risk is acceptable. Third, by making it possible to identify, evaluate, manage and monitor risks, the CRMS enables the Company to receive the greatest-possible return on its investments.

Company documents that are used in the CRMS framework are based on best practices in risk management, regulatory requirements and globally acknowledged standards on risk management.

The CRMS is a unified process made up of a set of interrelated elements involving the Board of Directors, senior executives and all Company employees. The purpose of the CRMS process is twofold: to detect any events that could potentially have an impact on our operations and to maintain an acceptable level of risk for shareholders in response to the occurrence of any such events.

Our risk management system



Board of Directors

The first level of the risk management process is represented by the Board of Directors. The Board plays a key oversight role in relation to the CRMS and also performs the following specific functions:

- setting the Company's short- and long-term goals
- approving the Company's policies on risk management
- approving the various levels of responsibility within the Company's monitoring and risk management system
- reviewing and approving the Company's risk register and risk map on a semi-annual basis
- reviewing the Company's risk appetite and risk tolerance
- reviewing descriptive and analytical reports on the Company's key risks from the head of the structural unit responsible for risk management
- reviewing reports on the efficiency of risk management system
- monitoring operations with the help of the Board of Directors' Committees.

Audit Committee

On the issue of risk management, the Audit Committee acts in the interests of shareholders and provides oversight support to the Board of Directors concerning the reliability and efficiency of the risk management system, as well as the implementation of corporate governance policies.

The Audit Committee performs the following functions in the risk management framework:

- analysing reports from both internal and external auditors on the status of the risk management system
- analysing the efficiency of the tools that make up the Company's risk management system and making proposals regarding this and related issues
- monitoring compliance with recommendations from both internal and external auditors regarding the risk management system
- providing preliminary approval for policies and procedures in the area of risk management
- analysing the results and quality of measures (remedial steps) taken by the Company to improve the risk management system
- holding meetings with Company executives on a regular basis to review significant risks and control problems, as well as the Company's plans for risk management.

Internal Audit Department

In the area of risk management, the Company's Internal Audit Department performs the following main functions:

- auditing risk management procedures and risk assessment methods, and making suggestions aimed at improving the efficiency of risk management procedures; and
- preparing reports on the efficiency of the corporate risk management system for the Company's Board of Directors.

Risk Committee

The second level of the risk management process is assigned to the Risk Committee, which is responsible for the organisation of an efficient corporate risk management system and for the creation of a risk control structure to ensure performance and compliance with corporate policies. The Risk Committee is responsible for encouraging a risk-awareness culture that reflects the Company's risk management policy and philosophy. It is chaired by the President and CEO and includes all senior executives.

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

- implementing the Risk Management Policy
- arranging an efficient risk management system that makes it possible to identify and assess potential risks
- providing the Board of Directors with reports according to approved regulations
- ensuring that the Company's structural units comply with the provisions of the Risk Management Policy
- reviewing and providing preliminary approval of the Company's risk register and risk map on a semi-annual basis
- reviewing and approving the Company's risk appetite
- reviewing and approving the Company's risk tolerance
- reviewing the Company's risk management reports and adopting adequate measures within its remit
- approving the actions taken in response to risks within the framework of the regulations approved by the Board of Directors
- holding regular meetings, on at least a semi-annual basis, with an established agenda that covers new and existing risks, financial losses, internal/external audit reports and management issues.

Risk Management Unit

The third level is the Risk Management Unit in the Management Accounts and Risk Management Department, which is 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. The following are among the Risk Management Unit's main functions:

- arranging and coordinating CRMS activities and processes
- notifying the Risk Committee and the Board of Directors of any substantial defects in risk management processes
- providing risk reports to Company's shareholders on a regular basis
- developing an annual CRMS action plan
- making a proposal regarding the Company's risk appetite for the preliminary approval of the Risk Committee
- preparing consolidated risk reports for the Risk Committee, the Audit Committee and the Board of Directors
- developing, implementing and updating (as necessary) the Company's methodology, policies and rules related to risk management, as well as the procedures for monitoring risk
- ensuring that risk management is integrated into other business processes and developing a risk management culture within the Company
- assisting Company employees with methodological and other issues related to risk management.

Structural units

The Company's various structural units are among the most important elements of the risk management system. These structural units are staffed by employees who are constantly managing risks and monitoring their potential impact. In terms of risk management, the main functions of the Company's structural units are as follows:

- identifying and assessing risks on a regular basis
- suggesting actions to be taken as part of risk management, and also developing risk management action plans on key risks
- implementing approved actions aimed at responding to and managing risks, and submitting regular reports on the fulfilment of risk management actions
- submitting information on realised risks.

Insurance

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

Aviation insurance

Our aviation risks are placed in the world's leading insurance markets through internationally reputable brokers. We cover our aviation risks through the following policies:

- Aviation hull, total loss only and spares all risks, as well as airline liability including passenger liability
- Aircraft hull and spare engine deductible
- Aviation hull and spares "war and allied perils"
- Aviation war, hijacking and other perils excess liability.

Non-aviation insurance

In addition to aviation insurance coverage, we regularly purchase non-aviation insurance policies to reduce the financial risk of damage to our property, interruptions to our business and general liability, as well as to cover employees for accidents and medical expenses. We purchase the following types of non-aviation insurance policies:

- Medical insurance for employees
- Directors, officers and corporate liability insurance
- Property insurance
- Vehicle insurance (compulsory third-party liability and hull insurance)
- Compulsory accident insurance for employees when performing labour (official) duties
- Commercial general liability insurance (public liability)
- Insurance against the loss of pilot's licence.

Significant risks

Key risks are risks that the Company pays particular attention to. When a key risk arises, it requires immediate action in order for it to be properly managed.

Low
Moderate
High

The Company's significant risks in 2017 (risks are presented in order of priority)

Level	Risk	Description	Mitigation
High	Violation of business ethics and standards of business communication	The Company's activities are based on fundamental corporate values, such as the honesty, reliability and professionalism of employees; their efficiency; and their respect for one another, interested parties and the Company as a whole. Unethical behaviour on the part of employees could lead to significant reputational or financial damage.	Air Astana manages the risk of a violation of the business ethics or standards of business communication by ensuring that all employees are familiar with the Code of Ethics. This is done through specific training and the use of internal communication tools. Ethical leadership is promoted throughout the Company, as each department head is a role model for other team members, and ethical behaviour is demonstrated from the top down. Was included among key risks in 2017.
High	Currency risk	In 2017, the Company's exposure to foreign currency volatility remained high due to material amounts of leasing liabilities denominated in US dollars.	To manage this risk, the Company accumulates deposits and other monetary assets denominated in foreign currency and implements a cash-flow hedge accounting policy. Since 31 December 2017, the airline has been implementing a change in its functional currency from KZT to USD to reduce the Company's exposure to foreign currency volatility, thus reducing the impact of currency risk.
High	Risk of an increase in fuel expenses	Since fuel is a major cost item for Air Astana, the Company is exposed to risks related to the high volatility of fuel prices and related costs. Higher fuel prices result in greater overall expenditures and, consequently, increase the probability of an adverse impact on the Company's profitability.	For locally sourced fuel, the airline negotiates prices on a competitive basis with Kazakhstani suppliers by concluding stable contracts. Moreover, Air Astana maintains ongoing negotiations with suppliers regarding price reductions. One important aspect is the constant monitoring of alternative suppliers in the market for domestic and international stations. Air Astana also applies a fuel surcharge on domestic and international routes where the Company does not face restrictions as an additional tool for reducing risk. The amount of the surcharge depends on fuel prices and market conditions. To reduce its overall consumption of fuel, the Company has added new, more fuel-efficient aircraft to its fleet in recent years, including the Airbus A320 NEO and the A321 NEO (with a new engine option) in 2016 and 2017, respectively. Additionally, the Company is implementing new technologies such as winglets on aircraft, and several of its pilot training programmes include skills for efficient fuel management.

Risk	Description	Mitigation
Risks related to the Company's Route Network Plan	Air Astana's goal is to develop an international route network to provide frequent connectivity between international-to-international and domestic-to-international services. If the Company's network is not properly diversified, this will prevent efficient expansion of its route network and make it impossible to achieve target revenues. Additionally, the Company is exposed to losses of, or reductions in, its current routes and inability to implement new routes in accordance with its Route Network Plan.	In order to manage these risks, the Company submits slot applications in a timely manner, negotiates with slot coordinators to get new slots, works closely with the CAC[1] to ensure that traffic rights are granted, regularly conducts analyses of route effectiveness, generates route forecast analyses and uses information from databases. If necessary, appropriate changes are made to the Route Network Plan.
Risk of an insufficient number of qualified pilots	Air Astana's operational performance and flight planning depends on many factors, one being its ability to retain a sufficient number of qualified pilots. Any shortage of pilots could lead either to the need to employ more-expensive international pilots to fill gaps in the schedule or could result in suboptimal implementation of the flight schedule performance. Competition for qualified personnel is intense, and the loss of pilots without adequate replacements or the inability to attract new pilots could affect the Company's performance.	To mitigate this risk, Air Astana constantly reviews the salaries and working conditions for local pilots (changes in the salary scheme, state and Company pension plans, etc.), one result of which was the introduction of the airline's Ab Initio programme in 2008, which has proved successful. The programme ensures that the Company has sufficient resources to meet its ongoing needs. Air Astana also recruits direct-entry pilots from the domestic market and international contractors. Since the engagement of highly qualified staff is central to providing safe, reliable and high-quality service, Air Astana conducts regular reviews of working conditions, high-quality training and staff development to meet its qualitative and quantitative human resources targets. Additionally, the Company launched its Try on a dream recruitment campaign in 2017 to attract potential candidates to join aviation professions.

[1] CAC - Civil Aviation Committee

[2] IFS - flight attendant supervisor

[3] EASA – European Aviation Safety Agency

[4] DCA Aruba – Department of Civil Aviation Aruba

[5] CAC KZ – Civil Aviation Committee

[6] IOSA – International Air Transport Association (IATA) operational safety audit

Risk	Description	Mitigation
Risk of the non-provision of high-quality in-flight services and a reduction in the airline's Skytrax rating	Failure to provide high-quality in-flight services could lead to damage to the Company's reputation along with the loss of customers and a reduction in the airline's Skytrax rating.	Air Astana offers extensive training programmes to ensure that cabin crew maintain their skills at a high level. The In-Flight Services Department has a structure that infuses more control mechanisms into the cabin crew's working routines. The Quality & Standards Division uses a variety of means to regularly monitor customer satisfaction (e.g. feedback from passengers via on-board coaches) and issues standards for cabin crew in terms of maintaining high-quality service. The Performance Division is constantly working with the cabin crew in order to sustain the required motivation and ensure that their performance meets established standards. The Operations Division supports the handling of day-to-day issues, allowing cabin crew to concentrate on their main duties, i.e. providing a high level of on-board services. The Product and Catering Division ensures the supply of provisions on board. In order to provide a more comfortable flying experience, IFSs[2] are equipped with CrewPads that contain all the essential information necessary for a flight, e.g., detailed passenger information, food preferences, etc., all in order to personalise the service for both J-class passengers and Nomad Club members, thereby increasing passenger loyalty.
Aviation accidents or serious incidents	Air Astana is exposed to high-impact losses that could be incurred in the event of damage to an aircraft or an aviation accident. The resulting effects of such an event would have an adverse impact on the Company's financial and operational performance.	For the purpose of mitigating risks related to flight safety, the Company has established a safety management and compliance monitoring system, through which it conducts compliance and performance monitoring audits, monitors safety performance indicators, etc. Most importantly, the Company pays considerable attention to its Human Factor programme. All operational departments that are involved in organising and supporting flight operations are responsible for preventive actions, paying particular attention to safety issues within the scope of their processes. Policies and manuals—these are regularly updated in accordance with best practices—and controls are in place to ensure the proper execution of procedures. Employees are trained and informed on a regular basis of any changes in procedures. Regular independent assessments by regulatory authorities, including EASA[3], DCA Aruba[4] and CAC Kazakhstan[5] as well as industry assessments (IOSA[6]), gauge Air Astana's compliance with international safety standards. Air Astana also maintains comprehensive insurance coverage, which includes aircraft insurance, passenger liability insurance, compulsory insurance for employees and other aviation-risks-related insurance in accordance with best practices and industry standards. In the event of an aviation accident (or incident), an emergency response centre is established in order to ensure a swift response and to coordinate with any external authorities.
Shortage of jet fuel	The Company is exposed to the possibility of insufficient jet fuel production in Kazakhstan and restrictions on jet fuel supplies from the Russian Federation.	Air Astana conducts negotiations with oil companies for the provision of fuel supplies based on formula pricing.

4.5 MANAGEMENT TEAM

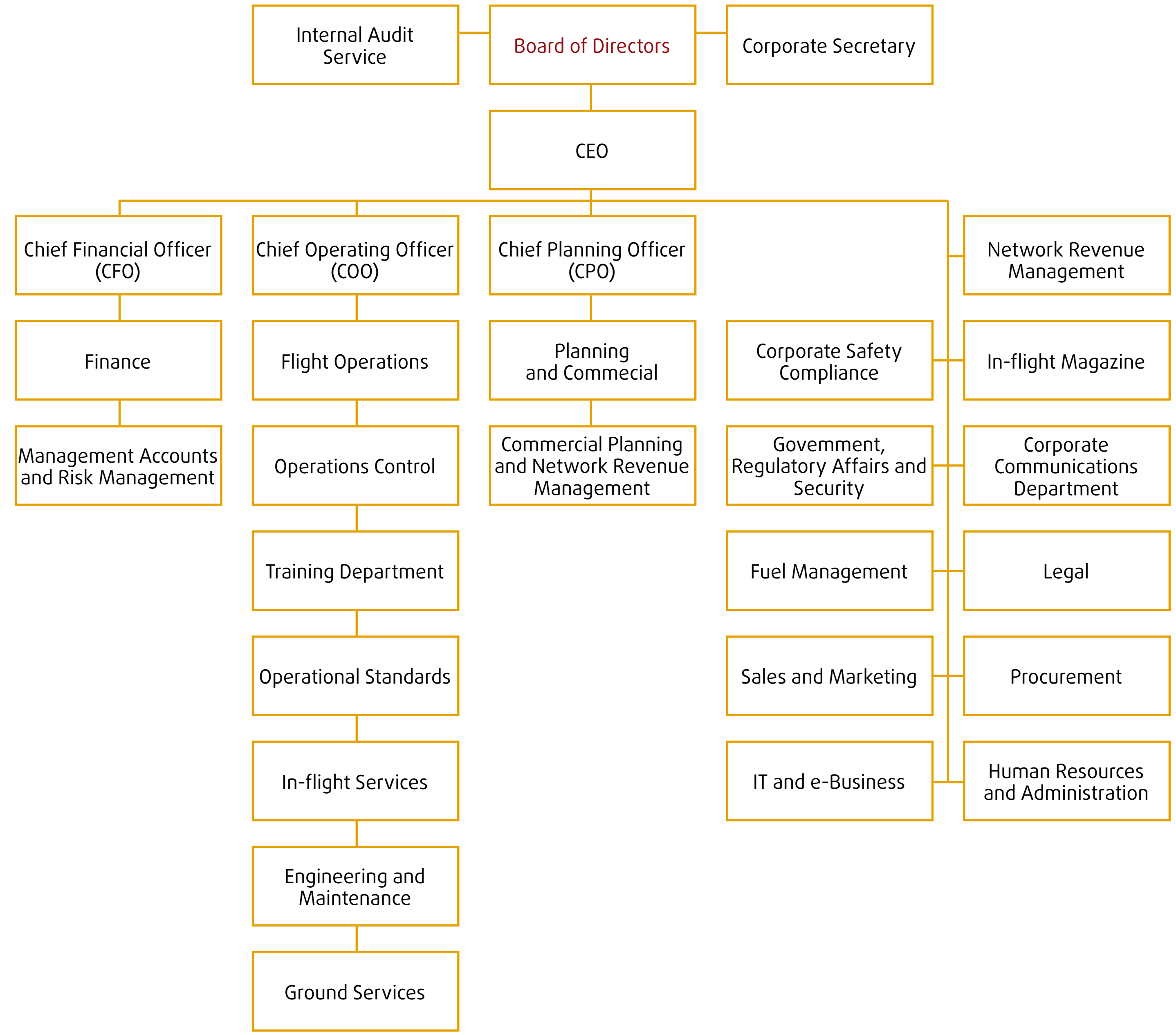
President and CEO

Our ongoing activities are managed by the President. The President, our sole executive body, must abide by the resolutions of the General Meeting of Shareholders and the Board of Directors.

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

» implementation of the business plan and the resolutions of the Board of Directors, as well as the preparation, jointly with the Company's Chief Accountant, of proposed business plans, annual financial statements, and annual management reports, and their submission for further consideration
» conclusion and signing of agreements and contracts; acting on behalf of our Company in the conclusion of deals with other entities, organisations, companies and institutions, including government agencies
» procurement of loans and approval of bank accommodations allowing our Company to obtain credit worth up to USD 1 million
» approval and conclusion of a single transaction or a set of related transactions to establish or alter pledges, mortgages, liens, charges or other encumbrances with respect to our assets worth a total amount of up to USD 1 million (or the equivalent amount in KZT)
» issuing and approving documents governing our internal activities for the purpose of workflow management, including orders and instructions related to production, engineering and technical maintenance; procurement of goods, works and services; accounting; commercial policies; labour and employment issues; and making amendments and/or additions to such documents
» and other functions.

Corporate structure



Biographies

PETER FOSTER
President AND CEO

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

Does not hold any shares in Air Astana.

ALMA ALIGUZHINOVA
Chief Planning Officer

Alma was one of the first employees to begin working at Air Astana in 2001, even before the airline's first flight. Alma started her career as a corporate development manager and worked her way up to the position of Corporate Development Director and later Vice President of Planning, Senior Vice President Corporate Planning. She currently holds the position of Chief Planning Officer. She graduated with an MBA from East Carolina University (USA), having received a Bolashak International Scholarship, and she also has an Aerospace MBA from the Toulouse Business School in France.

IBRAHIM CANLIEL
Chief Financial Officer

Ibrahim Canliel works for Air Astana as Chief Financial Officer and has been with the Company since its early stages in 2003. He started his career initially in tourism in Turkey during the 90s and he joined the aviation world with KLM Royal Dutch Airlines in 1998; briefly in the Gulf and consequently in Kazakhstan for Central Asia. For the past 15 years, Ibrahim managed different business units in commercial and finance. Ibrahim was a EUROBAK board member during the earlier days from 2005 to 2007, and this year he continued his membership. He holds a bachelor degree in Economics from the Marmara University and an MBA at Bosphorus University. Ibrahim is married and has two daughters.

JOHN WAINWRIGHT
Senior Vice President, Engineering Group

John was educated in the UK and trained at the Royal Aircraft Establishment, Bedford. He has more than 40 years of experience in technical aircraft maintenance, including both Base and Line Maintenance. After completing his training he worked for Britannia Airways for about 20 years, he then moved to South-East Asia working as 'Head of Maintenance' for Royal Brunei Airlines in Brunei, Nepal and Vietnam.

He moved from Brunei to Australia in 2005 and started working for Air Astana in 2006. He is an European Aviation Safety Agency Licenced Engineer holding Categories B1 & C.

AZAMAT OSPANOV
Vice President, Finance Accounts, Chief Accountant

Azamat received his education at Suleiman Demirel University in the field of accounting, audit and economics. He started his career in 2003 as an auditor at Ernst and Young, then continued at KPMG and gained extensive audit experience in the field of aviation. He became an audit manager in 2007, and he joined Air Astana as Senior Manager for Finance in April 2009. In January 2013, he was appointed Director of Engineering Finance and Materials Management in the Engineering and Technical Support Department. Azamat has gained extensive experience in aviation industry financial issues, and was appointed Vice President Finance Accounts Chief Accountant of Air Astana in April 2017. In 2017, he completed the Programme for Advanced Development of Managers at the Cranfield School of Management.

YEVGENIYA NI
Vice President, HR and Administration

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

ANTHONY REGAN
Chief Operating Officer

Anthony has over 35 years of experience in aviation. Prior to joining Air Astana in 2012 he was General Manager Operations and OPS post holder at Air France/KLM subsidiary Cityjet from 2001 where he was responsible for all Operations functions. Prior to that he was a Director at CAE Parc Aviation. His early career was as a pilot with the Irish Air Corps where he held a number of Operational appointments including Chief Flying Instructor retiring with the rank of Commandant. He holds an EASA and FAA Air Transport Pilot License. He is a graduate of University College Dublin in Mathematics and Mathematical Physics.

GERHARD COETZEE
Senior Vice President, Corporate Safety Compliance

Gerhard holds a Bachelor's Degree in Commerce and graduated with honours in transport economics from the University of South Africa. He is a qualified accident investigator, with qualifications in (aviation) safety programme management from several institutions, including the University of Southern California.

Gerhard began his career as an air force navigator, and he has been engaged in the field of flight safety for over 30 years. He has also served as a staff officer responsible for flight security in the South African Air Force and as a managing advisor to BAE Systems.

YERBOL OSPANOV
Senior Vice President, Government, Regulatory Affairs and Security

Yerbol started his pilot's career as Cadet Officer of Krasnokut Flight School in 1972, Russia. In 1985, he graduated from the Officers Training Faculty of the Civil Aviation Academy in Leningrad, Russia, where he received his managerial qualification as Pilot- Engineer. In 2002, he achieved his Bachelor of Law degree from the Law School of the Al-Farabi Kazakh National University

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

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

GALINA UMAROVA
Vice President, Fuel Management

Galina earned MPA (Master of Public Administration) degree from KIMEP University. She is a CFA charterholder (Chartered Financial Analyst) and certified FRM (Financial Risk Manager) with more than 15 years of experience in civil aviation.

AIDAR KASHKARBAYEV
Vice President, Legal Affairs

Aidar graduated from the Faculty of Law at Al-Farabi Kazakh National University, and he was also a visiting scholar at Southern Illinois University in the USA. He has more than 25 years of experience in the field of law.

He started his legal practice in 1993 with the Ministry of Foreign Affairs of the Republic of Kazakhstan. Prior to joining Air Astana, he worked for Denton Wilde Sapte, a KPMG consulting company, and was the Law Department Manager at Karachaganak Petroleum Operating B.V., an oil company in western Kazakhstan. In 2017, he completed the Programme for Advanced Development of Managers at the Cranfield School of Management.

CHAMINDRA LENAWA

Vice President, IT and E-business

Chamindra joined Air Astana in January 2009. He is a professional in airline business and IT, with management experience in three National Carriers. Before joining the airline industry, Chamindra was employed in university research in Electronics and Telecommunications. Chamindra holds a Master's Degree in Business Administration (University of Colombo), a Bachelor of Laws Degree (University of London) and a Bachelor of Science Degree in Electronic and Telecommunication Engineering (University of Moratuwa). Further, he is a certified Project Management Professional (PMP, PMI - USA) and a Chartered Information Technology Professional (CITP) of British Computer Society. Chamindra holds certifications in different IT domains and is a professional in airline reservations, ticketing, departure control systems and business operations.

BELLA TORMYSHEVA

Vice President, Corporate Communications

Bella has a Master's Degree in International Relations. She has over 20 years of experience in the field of public relations and information and culture. She has also taken part in numerous training courses outside of Kazakhstan.

Before joining Air Astana, she worked in the Representative Office of the European Commission accredited in the Republic of Kazakhstan, the Kyrgyz Republic and the Republic of Tajikistan.

DILYARA KUNKHOZHAYEVA

Vice President, Procurement

Dilyara graduated from KIMEP Business Administration and Accounting Faculty with a Bachelor's and a Master's Degree in Business Administration, with a major in Management and Finance.

After graduation, she worked at Ernst & Young and KIMEP. She joined Air Astana in 2006 as a Financial Analyst and then became the head of Management Accounts, Director of the Procurement Department, and now the Vice President for Procurement.

AIMAN TILEUBAYEVA

Vice President, Commercial Planning

Aiman graduated from Kazakh National University. In 2016, she began taking a course for directors at the Cranfield School of Management, which she completed in 2017. From 1998 to 2003, she worked for Air Kazakhstan. In 2003, she started working at Air Astana as a Commercial Planning manager and worked her way up to Commercial Planning and Revenue Management Director, and she was appointed Vice President for Network Planning and Revenue Management in January 2013. Since 2018, she has been Vice President for Commercial Planning.

AIZHAN OMAR

Vice President, Management Accounts and Risk Management

Aizhan graduated from Taraz State University and holds a diploma in international economic relations, as well as an MBA from the KIMEP Business Administration and Accounting Faculty, with a specialisation in management and finance.

She started working for Air Astana in August 2006 as a financial analyst. From June 2012 to January 2014, she was the Head of the Management Accounting Department. Today, she is the Vice President for Management Accounting and Risk Management.

RUSSEL ELLIS

Vice President, Operations Control

Russel holds a Master's Degree in Business Administration from the University of Liverpool in the United Kingdom. He has more than 30 years of experience in aviation. He held several senior positions in various airlines in South Africa and the Middle East before joining Air Astana in 2007. His initial experience stems back to the military industry, where he was a qualified navigator and instructor. Russel is responsible for day-to-day operational control of the airline to ensure that the commercial schedule is operated as efficiently as possible without compromising safety.

RICHARD LEDGER

Vice President, Marketing and Sales

Richard began his career in the aviation industry in 1993 after graduating from Lancaster University with a Master's Degree in Travel and Tourism and from the University of London with a Bachelor's Degree in Geography.

Prior to joining Air Astana, he spent five years in corporate sales for Singapore Airlines before becoming Sales and Marketing Manager at Royal Brunei Airlines in January 2005. Richard joined Air Astana in March 2006 as the Regional General Manager for the EU, USA and Canada, and was responsible for the creation of a sales network in those regions. Richard relocated to Almaty in February 2009, assuming the position of Director of Worldwide Sales. In January 2014, he was promoted to Vice President for Sales and subsequently to Vice President for Marketing and Sales in January 2017.

MARGARET PHELAN

Vice President, In-Flight Services

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

From 1995 to 2012, Margaret held the positions of Head of Cabin Crew Training and Standards and Head of Cabin Services at CityJet, a subsidiary of Air France–KLM. She joined Air Astana in 2013 as Director In-Flight Services, and in January 2016 was appointed Vice President In-Flight Services.

ALEXANDR NEBOGA

Vice President, Ground Services

Alexandr graduated from the Faculty of International Relations of the Eurasian National University and started his career at Air Astana in 2005 in the Ground Services Department as a ground handling agent. During his career at the Company, Alexandr has held various positions with a high degree of responsibility, including a number of management positions since 2010. He has been heading up the Company's representative office at the airport in Almaty since 2013. In 2013, he completed the Management Training Programme at Cranfield University in Great Britain. In January 2016, he was appointed Director of Ground Services, and in January 2017, he was promoted to Vice President of Ground Services.

MERGALI ALZHANOV

Vice President, Flight Operations

Mergali has more than 30 years of experience in the aviation industry. His career in aviation began at the Institute of Civil Aviation Engineers in Riga. He then graduated from the Aktyubinsk Higher Flight School of Civil Aviation, before working as a Yak-40 pilot in Kokshetau and then transferring to the Almaty squadron. He has been a pilot-in-command and a flight instructor on the Tu-154 and A-310. He began his career with Air Astana in 2004 as a Boeing 757 pilot-in-command.

4.6

DIVIDEND POLICY

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

Terms for payment of dividends to shareholders are:

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

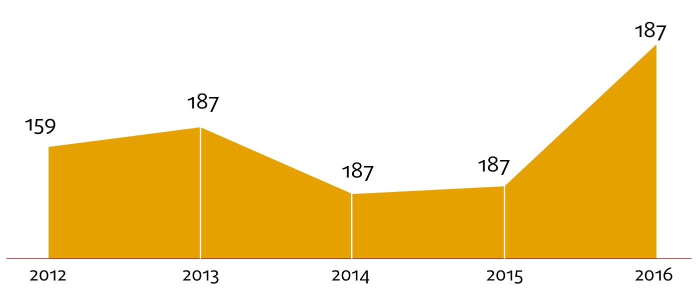
According to the policy, Air Astana allocates 30% of net income, as calculated in accordance with International Financial Reporting Standards, unless otherwise decided by the General Meeting of Shareholders.

In accordance with a resolution of the Annual General Meeting of Shareholders of 27 July 2017, dividends were not paid to shareholders for 2016 due to a net loss after tax, according to the Company's audited financial statements for the fiscal year 2016.

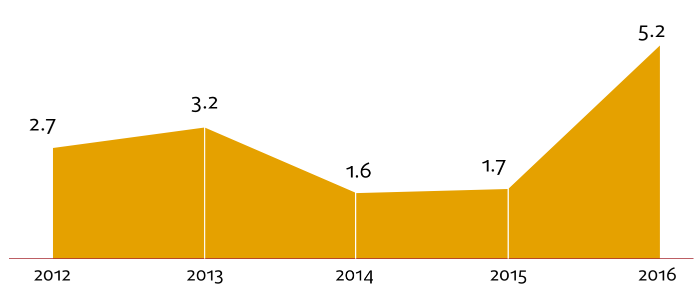
The Company has placed 17,000 common shares, a number that has remained unchanged throughout the years, as presented below.

	2012	2013	2014	2015	2016
Amount of accrued and paid dividends per share (USD)	1,057	1,232	516	465	883
Previous year's net profit (USD '000)	61,260	61,076	51,364	19,453	48,741
Dividend payout ratio	30%	35%	20%	50%	50%

Amount of accrued and paid dividends per share (USD)



Total amount of accrued and paid dividends (USD '000)



4.7

STAKEHOLDER AWARENESS AND DISCLOSURE

OUR MAIN PRINCIPLES CONCERNING STAKEHOLDER AWARENESS AND DISCLOSURE INCLUDE REGULAR AND PROMPT PROVISION OF RELEVANT INFORMATION, THE AVAILABILITY OF SUCH INFORMATION TO SHAREHOLDERS AND OTHER STAKEHOLDERS, ITS RELIABILITY AND COMPLETENESS, AND A REASONABLE BALANCE BETWEEN TRANSPARENCY AND SAFEGUARDING OUR INTERESTS.

When disclosing information, we comply with the laws of the Republic of Kazakhstan. We aim to improve the level of information transparency by publishing additional information beyond the requirements of the legislation on our corporate website at www.airastana.com. Given the nature of our activities and the composition of shareholders, the information that is disclosed both due to regulations and on a voluntary basis is provided in three languages: English, Kazakh and Russian.

In addition to our annual report and financial statements, we also publish a Corporate Social Responsibility report, press releases, notifications of material facts, presentations and other materials covering our performance.

Financial Statements

for the year ended 31 December 2017

Statement of Management's Responsibilities for the Preparation and Approval of the financial statements for the year ended 31 December 2017

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 2017, the results of its operations, cash flows and changes in equity for the year then ended in compliance with International Financial Reporting Standards ("IFRS").

In preparing the financial statements, management is responsible for:

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

Management is also responsible for:

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

The financial statements for the year ended 31 December 2017 were authorised for issue on 30 March 2018 by management of the Company.

On behalf of management of the Company:

АО «ЭЙР АСТАНА»

Peter Foster
President

Azamat Ospanov
Vice president Finance Accounts, Chief Accountant

30 March 2018
Almaty, Republic of Kazakhstan

Independent Auditors' Report

To the Shareholders and Board of Directors of JSC Air Astana

Opinion

We have audited the financial statements of JSC Air Astana (the "Company"), which comprise the statement of financial position as at 31 December 2017, the statements of profit or loss, other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2017, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

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

Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

Ashley Clarke
Engagement Partner

Sergey Dementyev
Certified Auditor of the Republic of Kazakhstan
Auditor's Qualification Certificate № МФ0000086 of 27 August 2012

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

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

30 March 2018

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

Statement of profit or loss for the year ended 31 December 2017

(in thousands of USD)

	Notes	2017	2016
Revenue and other income			
Passenger revenue	5	718,178	589,926
Cargo and mail revenue	5	19,666	15,685
Other revenue	5	21,215	15,403
Gain from sale and leaseback transaction	5	8,478	-
Total revenue and other income		**767,537**	**621,014**
Operating expenses			
Fuel		(183,518)	(130,676)
Handling, landing fees and route charges	6	(103,164)	(89,909)
Passenger service	6	(86,635)	(69,809)
Employee costs	6	(71,103)	(64,736)
Engineering and maintenance	6	(69,173)	(60,658)
Aircraft operating lease costs	6	(61,413)	(58,407)
Selling costs	6	(40,461)	(30,238)
Aircraft crew costs	6	(30,250)	(27,781)
Depreciation and amortisation	11	(27,009)	(28,679)
Property lease cost		(5,029)	(4,277)
Consultancy, legal and professional services		(4,197)	(2,688)
Insurance	6	(3,870)	(4,391)
Information technology		(3,633)	(3,283)
Taxes, other than income tax		(2,403)	(94)
Other		(12,424)	(7,504)
Total operating expenses		**(704,282)**	**(583,130)**
Operating profit		**63,255**	**37,884**
Finance income	7	7,293	7,725
Finance costs	7	(11,118)	(66,073)
Foreign exchange loss, net		(10,370)	(14,391)
Profit/(loss) before tax		**49,060**	**(34,855)**
Income tax expense	8	(9,742)	(5,010)
Profit/(loss) for the year		**39,318**	**(39,865)**
Basic and diluted earnings/(loss) per share (in usd)	19	**2,313**	**(2,345)**

On behalf of the Company's management:

Peter Foster
President
30 March 2018
Almaty, Republic of Kazakhstan

Azamat Ospanov
Vice president Finance Accounts, Chief Accountant

The notes on pages 118 to 150 form an integral part of these financial statements. The independent auditors' report on the financial statements is on pages 110 to 111.

Statement of other comprehensive income for the year ended 31 December 2017

(in thousands of USD)

	Notes	2017	2016
Profit/(loss) for the year		**39,318**	**(39,865)**
Foreign currency translation loss, which will be never be reclassified to profit or loss in subsequent periods		(809)	(18)
Other comprehensive income, net of tax, to be reclassified into profit or loss in subsequent periods:			
Result from cash flow hedging instruments		1,179	3,918
Income tax related to result from cash flow hedging instruments		(236)	(784)
Realised loss on cash flow hedging instruments	24	10,292	14,388
Income tax related to realised loss on hedging instruments	24	(2,058)	(2,878)
Other comprehensive income for the year, net of income tax		**8,368**	**14,626**
Total comprehensive income/(loss) for the year		**47,686**	**(25,239)**

The notes on pages 118 to 150 form an integral part of these financial statements. The independent auditors' report on the financial statements is on pages 110 to 111.

Statement of financial position as at 31 December 2017

(in thousands of USD)

	Notes	31 December 2017	31 December 2016
Assets			
Non-current assets			
Property, plant and equipment	9	261,754	271,220
Intangible assets	10	2,939	3,147
Prepayments for non-current assets	14	8,086	9,114
Guarantee deposits	12	19,636	15,400
Trade and other receivables	15	3,924	6,174
		296,339	**305,055**
Current assets			
Inventories	13	38,613	41,288
Prepayments	14	29,390	22,575
Income tax prepaid		738	783
Trade and other receivables	15	25,517	22,051
Other taxes prepaid	16	18,086	16,306
Guarantee deposits	12	34,874	34,944
Bank deposits	17	5	99,574
Cash and bank balances	18	148,181	29,987
		295,404	**267,508**
Total assets		**591,743**	**572,563**
Equity and liabilities			
Equity			
Share capital	19	17,000	17,000
Functional currency transition reserve		(9,324)	-
Foreign currency translation reserve		-	(182,680)
Reserve on hedging instruments, net of tax		(71,465)	(105,868)
Retained earnings	24	150,552	310,625
Total equity		**86,763**	**39,077**
Non-current liabilities			
Loans	23	10,519	12,043
Finance lease liabilities	24	280,797	335,499
Deferred tax liabilities	8	11,021	6,640
Provision for aircraft maintenance	21	60,510	38,555
		362,847	**392,737**
Current liabilities			
Loans	23	1,630	1,631
Finance lease liabilities	24	39,926	41,251
Deferred revenue	20	48,434	38,230
Provision for aircraft maintenance	21	13,260	20,243
Trade and other payables	22	38,883	39,394
		142,133	**140,749**
Total liabilities		504,980	533,486
Total equity and liabilities		**591,743**	**572,563**

The notes on pages 118 to 150 form an integral part of these financial statements. The independent auditors' report on the financial statements is on pages 110 to 111.

Statement of changes in equity for the year ended 31 December 2017

(in thousands of USD)

	Notes	Share capital	Functional currency transition reserve on share capital	Foreign currency translation reserve	Reserve on hedging instruments	Retained earnings	Total equity
At 1 January 2016		**17,000**	**-**	**(181,459)**	**(121,715)**	**365,816**	**79,642**
Loss for the year		-	-	-	-	(39,865)	(39,865)
Other comprehensive income							
Cash flow hedging instruments, net of tax		-	-	-	3,134	-	3,134
Realised loss on cash flow hedging instruments, net of tax	24	-	-	-	11,510	-	11,510
Translation difference		-		(1,221)	1,203	-	(18)
Total other comprehensive income		-	-	**(1,221)**	**15,847**	-	**14,626**
Total comprehensive loss for the year				**(1,221)**	**15,847**	**(39,865)**	**(25,239)**
Transactions with owners of the Company							
Dividends declared	19	-	-			(15,326)	(15,326)
At 31 December 2016		**17,000**	**-**	**(182,680)**	**(105,868)**	**310,625**	**39,077**
Profit for the year		-	-	-		39,318	39,318
Other comprehensive income							
Cash flow hedging instruments, net of tax		-	-	-	943		943
Realised loss on cash flow hedging instruments, net of tax	24	-	-	-	8,234		8,234
Translation difference		-	-	(3,476)	2,667		(809)
Effect of change in functional currency		-	(9,324)	186,156	22,559	(199,391)	-
Total other comprehensive income		-	(9,324)	182,680	34,403	(199,391)	8,368
Total comprehensive income for the year			**(9,324)**	**182,680**	**34,403**	**(160,073)**	**47,686**
At 31 December 2017		**17,000**	**(9,324)**		**(71,465)**	**150,552**	**86,763**

The notes on pages 118 to 150 form an integral part of these financial statements. The independent auditors' report on the financial statements is on pages 110 to 111.

Statement of cash flows for the year ended 31 December 2017

(in thousands of USD)

	Notes	2017	2016
Operating activities:			
Profit/(loss) before tax		49,060	(34,855)
Adjustments for:			
Depreciation and amortisation of property, plant and equipment and intangible assets	11	27,009	28,679
Gain on disposal of property, plant and equipment		(9,074)	-
(Reversal)/accrual of impairment allowance for prepayments and trade and other receivables	14, 15	(4,804)	52,404
Write-down of obsolete and slow-moving inventories	13	13	115
Accrual for employee unused vacation		216	(359)
Accrual of provision for aircraft maintenance		19,671	17,695
Accrual of loyalty provision		3,642	241
Foreign exchange loss, net		10,370	14,391
Finance income, excluding impairment	7	(2,547)	(7,725)
Finance costs, excluding impairment	7	11,118	12,843
Operating cash flow before movements in working capital		**104,673**	**83,429**
Change in trade and other receivables		3,748	(1,582)
Change in prepaid expenses		(8,183)	(13,336)
Change in inventories		2,836	(8,536)
Change in financial assets and liabilities at fair value through profit or loss and hedge instruments			(375)
Change in trade and other payables and other current liabilities		(7,062)	(4,412)
Change in deferred revenue		6,646	4,381
Cash generated from operations		**102,659**	**59,569**
Income tax paid		(7,540)	(12)
Interest received		3,167	5,902
Net cash generated from operating activities		**98,286**	**65,459**
Investing activities:			
Purchase of property, plant and equipment		(27,836)	(27,284)
Proceeds from disposal of property, plant and equipment		7,050	1,164
Purchase of intangible assets		(681)	(3,117)
Bank and Guarantee deposits placed		(20,662)	(352,696)
Bank and Guarantee deposits withdrawn		113,802	345,191
Net cash from/(used in) investing activities		**71,673**	**(36,742)**

The notes on pages 118 to 150 form an integral part of these financial statements. The independent auditors' report on the financial statements is on pages 110 to 111.

Statement of cash flows (continued) for the year ended 31 December 2017

(in thousands of USD)

	Notes	2017	2016
Financing activities:			
Repayment of finance lease		(40,103)	(39,261)
Interest paid		(12,507)	(12,447)
Proceeds from borrowings			13,622
Repayment of borrowings		(1,589)	(378)
Dividends paid	19		(15,143)
Net cash used in financing activities		**(54,199)**	**(53,607)**
Net increase/(decrease) in cash and bank balances		**115,760**	**(24,890)**
Effect of exchange rate changes on cash and bank balances held in foreign currencies		4,634	2,042
Cash and bank balances, at the beginning of the year	18	29,987	52,471
Foreign currency difference due to translation to presentation currency		**(2,200)**	**364**
Cash and bank balances, at the end of the year	18	**148,181**	**29,987**

The notes on pages 118 to 150 form an integral part of these financial statements. The independent auditors' report on the financial statements is on pages 110 to 111.

Notes to the financial statements for the year ended 31 december 2017

(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 2017 the Company operated 32 turbojet aircraft, comprising 9 short-haul and 23 long-haul aircraft, of which 10 aircraft are acquired under finance lease and 22 aircraft leased under operating lease (2016: 31 turbojet aircraft, comprising 9 short-haul and 22 long-haul aircraft, of which 11 aircraft are acquired under finance lease and 20 aircraft leased under operating lease).

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

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

2. Application of new and revised international financial reporting standards

New and revised IFRSs in issue but not yet effective

A number of new standards are effective for annual periods beginning after 1 January 2018 and earlier application is permitted; however, the Company has not early adopted the new or amended standards in preparing these financial statements.

The following standards are expected to have an impact on the Company's financial statements in the period of initial application.

- IFRS 16 introduces a single, on-balance lease sheet accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are optional exemptions for short-term leases and leases of low value items. Lessor accounting remains similar to the current standard – i.e. lessors continue to classify leases as finance or operating leases. IFRS 16 replaces existing leases guidance including IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases - Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. IFRS 16 is effective for annual reporting periods beginning on or after 1 January 2019. Early adoption is permitted for entities that apply IFRS 15 Revenue from Contracts with Customers at or before the date of initial application of IFRS 16.
- Annual Improvements to IFRSs 2014-2016 Cycle – Amendments to IFRS 1 and IAS 28.
- IFRIC 22 Foreign Currency Transactions and Advance Consideration.
- IFRIC 23 Uncertainty over Income Tax Treatments.

The Company expects that IFRS16 will have a material impact but other updates as explained above will not have a significant impact on the financial statements.

Estimated impact of the adoption of IFRS 9 and IFRS 15

The Company is required to adopt IFRS 9 "Financial Instruments" and IFRS 15 "Revenue from Contracts with Customers" from 1 January 2018. The Company has assessed the estimated impact that the initial application of IFRS 9 and IFRS 15 will have on its financial statements. The estimated impact of the adoption of these standards on the Company's equity as at 1 January 2018 is based on assessments undertaken to date and is summarized below. The actual impacts of adopting the standards at 1 January 2018 may change because the new accounting policies are subject to change until the Company presents its first financial statements that include the date of initial application.

The total estimated adjustment (net of tax) to the opening balance of the Company's equity at 1 January 2018 is approximately USD 510 thousand. The adjustment entry of the retained earning balance is due to recognition of impairment reserve in accordance with IFRS 9.

IFRS 9 Financial Instruments

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

i. Classification – Financial assets

IFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics. IFRS 9 contains three principal classification categories for financial assets: measured at amortized cost, FVOCI and FVTPL. The standard eliminates the existing IAS 39 categories of held to maturity, loans and receivables and available for sale.

Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never bifurcated. Instead, the hybrid financial instrument as a whole is assessed for classification.

Based on its assessment, the Company does not believe that the new classification requirements will have a material impact on its accounting for trade receivables, guarantee deposits and cash and cash equivalents.

ii. Impairment – Financial assets and contract assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with a forward-looking 'expected credit loss' (ECL) model. This will require considerable judgement about how changes in economic factors affect ECLs, which will be determined on a probability-weighted basis.

The new impairment model will apply to financial assets measured at amortized cost or FVOCI, except for investments in equity instruments, and to contract assets.

Under IFRS 9, loss allowances will be measured on either of the following bases:

- 12-month ECLs: these are ECLs that result from possible default events within the 12 months after the reporting date; and
- lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument.

Lifetime ECL measurement applies if the credit risk of a financial asset at the reporting date has increased significantly since initial recognition and 12-month ECL measurement applies if it has not. An entity may determine that a financial asset's credit risk has not increased significantly if the asset has low credit risk at the reporting date. However, lifetime ECL measurement always applies for trade receivables and contract assets without a significant financing component.

Based on the impairment methodology described below, the Company has estimated that application of IFRS 9's impairment requirements at 1 January 2018 results in additional impairment losses as follows.

Estimated additional impairment recognized at 1 January 2018

'ooo USD	
Guarantee Deposits	511
Trade and other receivables	87
Cash and cash equivalents	39
Gross additional impairment losses	**637**

Trade and other receivables

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

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

Guarantee deposits

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

Many lessors are rated AA - BB, based on Standard and Poor's ratings as at 31 December 2017. The Company calculated exposure at default (EAD) based on the Standard and Poor's default matrixes using modified Vasicek model to incorporate forward looking information in the EAD and to reflect differences between economic conditions during the period over which the historical data was collected and current economic conditions.

The Company estimated that application of IFRS 9's impairment requirements at 1 January 2018 results in an increase of approximately USD 511 thousand tenge over the impairment recognised under IAS 39.

Cash and cash equivalents

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

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

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

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

iii. Classification – Financial liabilities

IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities. However, under IAS 39 all fair value changes of liabilities designated as at FVTPL are recognised in profit or loss, whereas under IFRS 9 these fair value changes are generally presented as follows:

» the amount of change in the fair value that is attributable to changes in the credit risk of the liability is presented in OCI; and
» the remaining amount of change in the fair value is presented in profit or loss.

The Company has not designated any financial liabilities at FVTPL and it has no current intention to do so. The Company's assessment did not indicate any material impact regarding the classification of financial liabilities at 1 January 2018.

iv. Disclosures

IFRS 9 will require extensive new disclosures, in particular about hedge accounting, credit risk and ECLs. The Company's assessment included an analysis to identify data gaps against current processes and the Company is in the process of implementing the system and controls changes that it believes will be necessary to capture the required data.

v. Transition

Changes in accounting policies resulting from the adoption of IFRS 9 will generally be applied retrospectively, except as described below.

» The Company will take advantage of the exemption allowing it not to restate comparative information for prior periods with respect to classification and measurement (including impairment) changes. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 will generally be recognized in retained earnings and reserves as at 1 January 2018.
» The Company has to make the assessments on the basis of the facts and circumstances that exist at the date of initial application to determine the business model within which a financial asset is held.

IFRS 15 Revenue from Contracts with Customers

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

Effect

Based on the preliminary analysis of all IFRS 15 "Revenue from Contracts with Customers" revenue measurement and recognition requirements the Company has determined that policies for revenue accounting do not differ significantly from those introduced by IFRS 15. As a result, the estimated opening balance adjustment of the retained earnings balance as at 1 January 2018 is immaterial.

Transition

The Company plans to adopt IFRS 15 using the cumulative effect method, with the effect of initially applying this standard recognized at the date of initial application (i.e. 1 January 2018). As a result, the Company will not apply the requirements of IFRS 15 to the comparative period presented.

3. Significant accounting policies

Statement of compliance

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

Basis of preparation

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

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

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

Change in accounting policies

The Company has adopted the following amendments to standards with a date of initial application of 1 January 2017:

» Disclosure Initiative (Amendments to IAS 7). IAS 7 Statement of Cash Flows has been amended as part of the IASB's broader disclosure initiative to improve presentation and disclosure in financial statements. The amendment requires disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes. One way to meet this new disclosure requirement is to provide a reconciliation between the opening and closing balances for liabilities arising from financing activities (Note 24).

Functional and presentation currency

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

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

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

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

a) assets and liabilities were translated at the closing rate as at 31 December 2017;

b) income and expenses for the reporting period were translated at average exchange rate during the year ended 31 December 2017;

c) movements in the reserve on hedging instruments were translated at average exchange rate during the year ended 31 December 2017;

d) all resulting exchange differences were recognized as foreign currency translation reserve within other comprehensive income up to 31 December 2017,

e) on transition to the US Dollar functional currency on 31 December 2017, the outstanding balance of the foreign currency translation reserve of USD 185,156 thousand was then fully transferred to retained earnings on 31 December 2017;

f) share capital continued to be translated at the historical rate as at the date of issuance of shares, the difference between the historical rate and the closing rate as at 31 December 2017 was recognized as functional currency transition reserve on share capital within equity;

g) other equity items were translated at the closing rate as at 31 December 2017, all resulting exchange differences were transferred to retained earnings on 31 December 2017;

h) comparative information remained the same as reported in the issued financial statements for the year ended 31 December 2016 with US Dollar presentation currency.

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

Revenue

Passenger revenue

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. Based on historical data of previous years, the Company recognises passenger revenue in respect of a percentage of tickets sold that are expected not to be used or refunded.

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.

Revenue related to airport charges, such as fees and taxes, are presented gross of the related costs. This is due to the fact that that the Company is exposed to changes in the actual costs, and these costs are assessed by Company based on the volume of its operations, such that the Company acts as a principal in the transactions, not as an agent.

Cargo revenue

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

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.

Segment reporting

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

Revenue is allocated to geographic segments based on flight destination.

Leasing

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

The Company as lessee

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

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

Guarantee deposits

Guarantee deposits represent amounts paid to the lessors of aircraft, which are held as security deposits by the lessors in accordance with the provisions of operating lease agreements. These deposits are returned to the Company at the end of the lease period. Lease deposits relating to the operating lease agreements are presented as assets in the statement of financial position. These deposits are interest-free and are recorded at amortised cost using an average market yield of 2.25% per annum (2016: 2.25%). At initial recognition the Company recognises a discount and a deferred asset simultaneously. The discount is amortised over the lease term using the effective interest method, and the deferred asset is amortised by equal amounts over the deposit term.

Foreign currencies

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

The following table summarises tenge exchange rates at 31 December 2017 and 31 December 2016 and for the years then ended:

	Average rate		Reporting date spot-rate	
	2017	2016	31 December 2017	31 December 2016
US Dollar (USD)	326.00	342.16	332.33	333.29
Euro (EUR)	368.52	378.63	398.23	352.42
British Pound (GBP)	420.12	464.39	448.61	409.78

The following table summarises US Dollar exchange rates at 31 December 2017:

	Reporting date spot-rate 31 December 2017
Tenge (KZT)	0.003
Euro (EUR)	1.198
British Pound (GBP)	1.350

Finance income and costs

Finance income comprises interest income on bank deposits and gain on financial instruments through profit and loss.

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

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

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

Employee benefits

Short-term employee benefit obligations are recognised as an expense in profit or loss as the related service is provided.

A provision is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

Taxation

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

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

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

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

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

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

Property, plant and equipment

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

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

Maintenance costs are recorded as expenses during the period when incurred, with the exception of programs that extend the useful life of the asset or increase its value, which are then capitalised (e.g. maintenance on airframes and engines).

Aircraft

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

Aircraft are depreciated using a straight-line method over their average estimated useful life of 25 years, assuming no residual value. During the operating cycle, the Company reviews whether the depreciable base or the useful life should be adjusted and, if necessary, determines whether a residual value should be recognised. Based on industry average, the Company decided to extend the useful life of aircraft from 20 to 25 years, with effect from 1 October 2016 (Note 9).

Repairs for major airframes and engines of all aircraft are treated as a separate asset component with the cost capitalised and depreciated over the period between the date of acquisition and the next major overhaul.

Major overhaul expenditure, including replacement spares and labour costs, are capitalised and amortised over the average expected life between major overhauls based on flight hours and cycles.

All other replacement spares and other costs relating to maintenance of an aircraft are charged to profit or loss upon consumption or as incurred, respectively.

Rotable spare parts

Rotable spare parts are carried in property, plant and equipment.

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Company and its cost can be measured reliably. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

Other property, plant and equipment

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

Depreciation

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

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

• Buildings and premises	14-50 years
• Aircraft (excluding separate asset components)	25 years (20 years before 1 October 2016)
• Rotable spare parts	3-10 years
• Office equipment and furniture	4-7 years
• Vehicles	7-9 years
• Other	5-10 years.

Depreciation is recognised so as to write off the cost of assets (other than freehold land, properties under construction and separate asset component of the aircraft) less their residual values over their useful lives, using the straight-line method. Separate asset component of an aircraft is amortised over the average expected life between major overhauls which is based on flight hours or cycles.

The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Intangible assets

Intangible assets acquired separately are reported at cost less accumulated amortisation and impairment losses. Amortisation is charged on a straight-line basis over the estimated useful lives of the assets. The estimated useful lives are reviewed at the end of each annual reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. The estimated useful economic life of software for the current and comparative periods is from 7 to 10 years.

Impairment of tangible and intangible assets

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

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

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

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

Contingent liabilities and contingent assets

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

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

Inventories

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

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

Provisions

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

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

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

Provision for aircraft maintenance under operating lease

The Company is obligated to perform regular scheduled maintenance of aircraft under the terms of its operating lease agreements and regulatory requirements relating to air safety. The lease agreements also require the Company to return aircraft to lessors in a satisfactory condition at the end of the lease term, which may require the performance of final return conditions. The Company's scheduled aircraft maintenance programs carried out through the lease periods are designed to reduce the incidence of final return costs. Major aircraft maintenance relates to airframes (referred to as the C- check, D-check and redelivery preparation program) and engines. The C-check is heavy maintenance with approved performance interval. Takes place the earliest to every 6,000 - 7,500 flight hours, 3,000 - 5,000 flight cycles and 18-24 months according to aircraft type.

The D-check (4C, 6YR, 12YR) is heavy maintenance connected with deep aircraft disassembly, structure inspection and anticorrosion prevention program. It takes place with interval not more than 72 months. Engine overhaul occurs after specified flight hours or cycles occur. Some of the operating lease agreements include a component of variable lease payments which is generally reimbursable to the Company by lessors as a contribution to engine maintenance costs after they are incurred. The variable lease payments are recognised as an expense in profit or loss as incurred. In the case of other operating lease agreements variable lease payments are replaced (subject to certain conditions) by Letters of Credit as security for Lessors to cover any unfulfilled maintenance liabilities on the return of the aircraft, and amounts corresponding to the applicable variable lease amounts are included in provisions. For C-check maintenance, a provision is recorded on a progressive basis based upon the Company's estimate of future maintenance costs. For engine maintenance, a provision is recorded on a progressive basis based upon the Company's estimate of the excess of maintenance costs over the amount reimbursable by the lessors. The Company's aircraft maintenance liabilities are due in US Dollars. The arising foreign currency exchange rate differences were provided in maintenance expense accruals which are used to create these provisions.

Financial instruments

A number of the Company's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Financial assets and financial liabilities are recognised when the Company becomes a party to the contractual provisions of the instrument.

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

Offsetting of financial instruments

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle them on a net basis, or to realise the asset and settle the liability simultaneously. The right to set-off must not be contingent on a future event and must be legally enforceable in all of the following circumstances:

- the normal course of business;
- the event of default; and
- the event of insolvency or bankruptcy of the entity and all of the counterparties.

If these conditions are not met, then the related assets and liabilities are presented gross in the statement of financial position.

Financial assets

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

Effective interest method

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

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

Financial assets are classified as at FVTPL when the financial asset is either held for trading or it is designated as at FVTPL. Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial asset and is included in the finance income line item in profit or loss. Fair value is determined in the manner described in Note 25.

Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment.

Amounts due from Ab-initio pilot program trainees in respect of 50% of their initial training costs are classified as interest free loans. The remaining costs are classified by the Company as a prepayment of its expenses and are amortised over a period of seven years, during which period the Company has a right to oblige these expenses also to become payable by the pilot trainees should such pilot trainees terminate his/her employment.

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

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at each reporting date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been negatively affected.

For all other financial assets objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as a default or delinquency in interest or principal payments; or
- it is becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- disappearance of an active market for that financial asset because of financial difficulties.

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

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset.

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

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 costs' line item in profit or loss. Fair value is determined in the manner described in Note 25.

Other financial liabilities

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

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

Derivative financial instruments

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.

Cash flow hedge

The effective portion of foreign currency exchange differences arising from translation of finance lease liabilities which are designated and qualify as cash flow hedges of highly probable future foreign currency revenues is recognised in other comprehensive income. The loss exchange differences relating to an ineffective portion are recognised immediately within foreign exchange gain/loss in the profit or loss of the Company.

Amounts accumulated in equity are reclassified to profit or loss (to foreign exchange gain/loss) in the periods when the finance lease liabilities are repaid and foreign currency revenues are received.

When a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is transferred to profit or loss when the forecast transaction is ultimately recognised. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement of profit or loss within foreign exchange gain/loss.

Dividends

Dividends are recognised as a liability in the period in which they are declared.

Derecognition of financial liabilities

The Company derecognises financial liabilities when, and only when, the Company's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

4. Critical accounting judgments and key sources of estimation uncertainty

In the application of the Company's accounting policies, which are described in Note 3, management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

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

Provisions

Provisions mainly consist of provision for aircraft maintenance (Note 21).

Recoverability of variable lease payments related to future maintenance

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

In case of a return of the aircraft after the scheduled maintenance event, but before the return condition specified in the lease agreement is triggered, the amounts of unapplied variable lease payments made to the lessors are not reimbursable and are retained by the lessors as a deposit transferrable to the next lessees of the aircraft. Management of the Company believes that as at 31 December 2017 contributions of variable lease payments of USD 87,421 thousand (2016: USD 79,099 thousand) are subject to reimbursement by the aircraft lessors upon actual maintenance events. Management regularly assesses the recoverability of variable lease payments made by the Company. Unanticipated maintenance costs are expensed in profit or loss as incurred.

Compliance with tax legislation

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

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

Determination of the functional currency

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

Useful lives of property, plant and equipment

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

Allowances

The Company accrues allowances for impairment of accounts receivable. 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 2017 and 2016, allowances for doubtful accounts were equal to USD 1,504 thousand and USD 1,555 thousand, respectively (Notes 14, 15).

For other financial assets, an impairment loss is calculated as the difference between an asset's carrying amount, and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account. When the Company considers that there are no realistic prospects of recovery of the asset, the relevant amounts are written off. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease and the decrease can be related objectively to an event occurring after the impairment was recognised, the decrease in impairment loss is reversed through profit or loss. As at 31 December 2017 impairment allowances were equal to USD 49,036 thousand as disclosed in Note 15 (31 December 2016: USD 53,680 thousand).

The Company annually estimates the necessity of write-down for obsolete and slow-moving inventories based on annual stock count data conducted at the reporting date. As at 31 December 2017, the Company recognised a write-down for obsolete and slow-moving inventories in the amount of USD 554 thousand (2016: USD 540 thousand) (Note 13).

Customer loyalty program

While calculating customer loyalty program provision the Company uses critical judgements and estimates in regard to cost of value per point by Nomad club members. The Company's Nomad Club Loyalty program is an incentive program under which passengers are granted points for each flight. Once a passenger accumulates a certain number of points he or she can convert the points into a ticket. The Company uses estimated ticket values to calculate the program's point value. Outstanding unutilized points as of each reporting dates are treated as deferred revenue. Points value considered as fair value of standalone selling price based on weighted average of redeemed air travels by route and class. Based on the historical statistics the Company determines the amount of breakage with regards to those points whose usage is not probable.

5. Revenue and other income

	2017	2016
Passenger revenue		
Passenger transport	598,265	488,443
Fuel surcharge	74,942	63,788
Airport services	40,315	34,079
Excess baggage	4,656	3,616
	718,178	**589,926**
Cargo and mail revenue		
Cargo	17,964	14,479
Mail	1,702	1,206
	19,666	**15,685**
Other revenue		
Penalties on agency contracts	8,492	7,526
Aviation fuel sale	4,545	1,224
Advertising revenue	2,012	860
Warranty returns	1,164	1,634
Income from ground services	1,120	1,088
Gain on disposal of spare parts and other assets	789	622
Spare parts received from sponsors	55	
Other	3,038	2,449
	21,215	**15,403**

The Company conducted a sale and leaseback transaction in December 2017 by selling one Embraer E190 (which was on finance lease at the date of the transaction) and leasing it back under an operating lease. The Company recorded a net gain of USD 8,478 thousand from this transaction, which represents the excess of fair value of the aircraft over the carrying amount of the aircraft at date of sale.

The following table presents the Company's revenue by geographical location for the years ended 31 December 2017 and 2016, respectively:

	2017	2016
Asia	212,708	173,208
Europe	161,386	136,925
CIS	363,750	295,478
Total revenue from passenger and cargo	**737,844**	**605,611**

There was no revenue from transactions with a single customer amounting to 10% or more of the total revenue during the year ended 31 December 2017 (2016: nil).

6. Operating expenses

	2017	2016
Handling, landing fees and route charges		
Aero navigation	43,550	37,645
Handling charge	34,030	29,340
Landing fees	23,914	21,508
Meteorological services	162	129
Other	1,508	1,287
	103,164	**89,909**
Passenger service		
Airport charges	41,676	32,839
Catering	27,709	22,912
In-flight entertainment	5,127	3,976
Security	3,950	3,177
Other	8,173	6,905
	86,635	**69,809**
Employee costs		
Wages and salaries of operational personnel	45,038	41,409
Wages and salaries of administrative personnel	10,956	9,585
Social tax	7,268	6,564
Wages and salaries of sales personnel	3,849	3,782
Other	3,992	3,396
	71,103	**64,736**

The average number of employees during 2017 was 4,934 (2016: 4,721).

	2017	2016
Engineering and maintenance		
Maintenance – variable lease payments	30,952	26,359
Maintenance – provisions (Note 21)	19,671	17,695
Spare parts	11,011	7,207
Maintenance – components	5,489	7,389
Technical inspection	2,050	2,008
	69,173	**60,658**
Aircraft operating lease costs		
Fixed lease charges of aircraft and engine	59,862	57,182
Ad-hoc lease of engines and rotable spare parts	1,205	1,056
Operating lease return costs	346	169
	61,413	**58,407**
Selling costs		
Reservation costs	19,965	15,971
Commissions	10,917	7,888
Advertising	8,617	5,456
Interline commissions	520	481
Other	442	442
	40,461	**30,238**

	2017	2016
Aircraft crew costs		
Accommodation and allowances	14,419	14,031
Contract crew	9,530	7,674
Training	6,301	6,076
	30,250	**27,781**
Insurance		
Hull insurance	1,514	2,049
Legal liability insurance	1,373	1,436
Medical insurance	699	627
Other	284	279
	3,870	**4,391**

7. Finance income and costs

	2017	2016
Finance income		
Reversal of impairment allowance on financial assets	4,746	-
Interest income on bank deposits	1,587	7,169
Unwinding of discount on Ab-initio pilot trainees receivables	144	177
Net unrealised gain on financial assets and liabilities at fair value through profit or loss	71	87
Income from revaluation of fair value of guarantee deposits		
Other	745	292
	7,293	**7,725**
Finance costs		
Interest expense on finance lease	11,118	12,321
Impairment allowance on financial assets		52,288
Net realised loss on financial assets and liabilities at fair value through profit or loss		375
Interest expense from revaluation of fair value of guarantee deposits	-	147
Other	-	942
	11,118	**66,073**

8. Income tax expense

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

	2017	2016
Income tax	7,589	-
Deferred income tax expense	2,153	5,010
	9,742	**5,010**

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 2017 and 2016 is presented in the table below.

	2017	2016
Deferred tax assets		
Provision for aircraft maintenance	14,754	11,760
Trade and other payables	2,520	1,680
Carried forward corporate income tax losses	1,058	6,671
Total	**18,332**	**20,111**
Deferred tax liabilities		
Difference in depreciable value of property, plant and equipment	(29,213)	(26,679)
Intangible assets	(127)	(58)
Prepaid expenses	(13)	(14)
Total	**(29,353)**	**(26,751)**
Net deferred tax liabilities	**(11,021)**	**(6,640)**

In accordance with the local tax legislation both hedged and unhedged foreign currency losses are treated as deductible expenses for the purpose of corporate income tax calculations. If such deductible expenses cannot be fully utilised in the year of origination the tax code permits an entity to carry forward the accumulated tax losses for the next 9 years.

Movements in deferred income tax assets and liabilities presented above were recorded in profit or loss accounts, except for USD 2,294 thousand related to carried forward corporate income tax losses, which were recognized in equity.

The income tax rate in the Republic of Kazakhstan, where the Company is located, in 2017 and 2016 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% (2016: 20%) to the actual income tax expense recorded in the Company's statement of profit or loss and other comprehensive income:

	2017	2016
Profit/(loss) before tax	49,062	(34,855)
Income (tax benefit)/tax at statutory rate	9,812	(6,971)
Tax effect of non-taxable income	(949)	-
Tax effect of non-deductible expenses	879	11,981
Income tax expense	**9,742**	**5,010**

9. Property, plant and equipment

	Rotable spare parts	Office equipment and furniture	Building, premises and land	Vehicles	Aircraft under finance lease	Equipment intransit and-construction inprogress	Total
Cost							
At 1 January 2016	**34,956**	**5,108**	**3,183**	**2,463**	**290,969**	**2,767**	**339,446**
Additions						27,359	27,359
Disposals	(1,602)	(171)	(59)	(227)	(1,614)		(3,673)
Transfers to inventory	(1,790)						(1,790)
Foreign currency translation difference	821	107	59	43	5,409	437	6,876
Transfers	9,918	635	58	145	2,151	(12,907)	
At 31 December 2016	**42,303**	**5,679**	**3,241**	**2,424**	**296,915**	**17,656**	**368,218**
Additions	11,117	951	302	1,364	12,429	4,189	30,352
Disposals	(3,804)	(286)	(117)	(247)	(21,041)	(1,213)	(26,708)
Transfers to inventory	(1,041)						(1,041)
Foreign currency translation difference	4	4	6	(14)	1,021	(7)	1,014
At 31 December 2017	**48,579**	**6,348**	**3,432**	**3,527**	**289,324**	**20,625**	**371,835**
Accumulated depreciation							
At 1 January 2016	**12,500**	**3,534**	**895**	**1,126**	**51,546**		**69,601**
Charge for the year (Note 11)	4,970	630	324	299	21,717		27,940
Disposals	(475)	(150)	(43)	(226)	(1,614)		(2,508)
Foreign currency translation difference	351	78	23	22	1,491		1,965
At 31 December 2016	**17,346**	**4,092**	**1,199**	**1,221**	**73,140**		**96,998**
Charge for the year (Note 11)	6,113	600	375	331	18,686		26,105
Disposals	(3,272)	(272)	(112)	(230)	(9,168)		(13,054)
Foreign currency translation difference	(4)	5		1	30		32
At 31 December 2017	**20,183**	**4,425**	**1,462**	**1,323**	**82,688**		**110,081**
Net book value							
At 31 December 2016	**24,957**	**1,587**	**2,042**	**1,203**	**223,775**	**17,656**	**271,220**
At 31 December 2017	**28,396**	**1,923**	**1,970**	**2,204**	**206,636**	**20,625**	**261,754**

Geographical information

In determining the Entity's geographical information, assets, which consist principally of aircraft (including 20 held under operating leases) and ground equipment are mainly registered/ located in the Republic of Kazakhstan. Accordingly, there is no reasonable basis for allocating the assets to geographical segments.

The Company's obligations under finance leases are secured by the lessors' title to the leased assets, which have a carrying amount of USD 206,636 thousand (2016: USD 223,088 thousand) (Note 24).

Rotable spare parts include aircraft modification costs.

For the year ended 31 December 2017 USD 2,525 of interest relating to the EBRD loan was capitalised into property, plant and equipment (2016: USD 1,082) (Note 23).

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

10. Intangible assets

	Software
Cost	
At 1 January 2016	**3,492**
Additions	3,117
Disposals	(106)
Foreign currency translation difference	145
At 31 December 2016	**6,648**
Additions	681
Foreign currency translation difference	7
At 31 December 2017	**7,336**
Accumulated amortisation	
At 1 January 2016	**2,799**
Charge for the year (Note 11)	739
Disposals	(106)
Foreign currency translation difference	69
At 31 December 2016	**3,501**
Charge for the year (Note 11)	904
Foreign currency translation difference	(8)
At 31 December 2017	**4,397**
Net book value	
At 31 December 2016	**3,147**
At 31 December 2017	**2,939**

11. Depreciation and amortisation

	2017	2016
Depreciation of property, plant and equipment (Note 9)	26,105	27,940
Amortisation of intangible assets (Note 10)	904	739
Total	**27,009**	**28,679**

12. Guarantee deposits

	31 December 2017	31 December 2016
Non-current		
Guarantee deposits for leased aircraft	17,922	14,251
Other guarantee deposits	1,714	1,149
	19,636	**15,400**
Current		
Guarantee deposits to secure Letters of Credit for maintenance liabilities (Note 26)	32,871	33,469
Guarantee deposits for leased aircraft	757	862
Other guarantee deposits	1,246	613
	34,874	**34,944**
	54,510	**50,344**

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

The Company assesses credit risk for such deposits as low mainly because almost all lessors are rated from AA to B in accordance with Standard and Poor's credit quality grades.

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

	31 December 2017	31 December 2016
Within one year	33,629	34,331
After one year but not more than five years	7,275	7,141
More than five years	10,703	7,307
	51,607	**48,779**
Fair value adjustment	(57)	(197)
	51,550	**48,582**

13. Inventories

	31 December 2017	31 December 2016
Spare parts	23,547	21,489
Fuel	5,499	9,492
Goods in transit	3,007	3,923
Crockery	2,414	2,427
Promotional materials	1,544	1,379
Uniforms	1,151	1,335
De-icing liquid	494	268
Blank forms	229	300
Other	1,283	1,215
	39,168	**41,828**
Less: cumulative write-down for obsolete and slow-moving inventories	(555)	(540)
	38,613	**41,288**

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

	2017	2016
Cumulative write-down for obsolete and slow-moving inventories at the beginning of the year	**(540)**	**(414)**
Write-down for the year	(54)	(209)
Reversal of previous write-down for the year	41	94
Foreign currency translation difference	(2)	(11)
Cumulative write-down for obsolete and slow-moving inventories at the end of the year	**(555)**	**(540)**

14. Prepayments

	31 December 2017	31 December 2016
Non-current		
Advances paid for services	6,514	7,181
Prepayments for non-current assets	1,572	1,933
	8,086	**9,114**
Current		
Advances paid for services	14,591	8,254
Prepayments for finance lease	5,483	5,993
Advances paid for goods	6,871	5,977
Prepayments for operating leases	2,856	2,768
	29,801	**22,992**
Less: impairment allowance for prepayments	(411)	(417)
	29,390	**22,575**

As at 31 December 2017 prepayments for non-current assets include prepayments to Boeing as pre-delivery payment for three aircraft (Note 25).

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

	2017	2016
At the beginning of the year	**(417)**	**(396)**
Accrued during the year		(14)
Reversed during the year	8	
Foreign currency translation difference	(2)	(7)
At the end of the year	**(411)**	**(417)**

The impairment allowance 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 2017	31 December 2016
Non-current		
Due from employees and Ab-initio pilot trainees	2,040	835
Other financial assets	50,920	59,019
	52,960	59,854
Less: impairment allowance	(49,036)	(53,680)
	3,924	6,174
Current		
Trade receivables	17,571	21,803
Receivable from lessors – variable lease reimbursement	8,116	431
Due from employees and Ab-initio pilot trainees	923	955
	26,610	23,189
Less: impairment allowance	(1,093)	(1,138)
	25,517	22,051

In 2016, due to the significant credit quality deterioration of KazInvestBank JSC followed by the recall of the banking license, and Delta Bank JSC followed on 22 May 2017 by the temporary suspension of the license for accepting new deposits and opening new accounts, management reclassified the deposits held with these banks in the amount USD 14,234 thousand and USD 44,785 thousand, accordingly, from the bank deposit line item to non-current trade and other receivables and assessed them for impairment. Based on the assessment, management recognised an impairment allowance of approximately 90% for KazInvestBank JSC and Delta Bank JSC as at 31 December 2016.

At the end of June 2017 the temporary administration of KazInvestBank JSC transferred a portion of its assets and liabilities to SB Alfa Bank JSC (Alfa Bank) which acts as an intermediary, collecting funds from the borrowers under the transferred corporate loans and distributing the proceeds among depositors. The company has agreed to transfer part of its deposit claims to KazInvestBank JSC into Alfa-Bank JSC.

On 24 January 2018 the court's decision on the forced liquidation of KazInvestBank JSC came into effect. The compensation of the remaining claims of KazInvestBank JSC will depend on the actions of the liquidation commission.

In July-November 2017, the Company collected USD 4,376 thousand in cash through enforcement proceedings against Delta Bank JSC. On 2 November 2017, the National Bank decided to revoke the license of Delta Bank JSC. On 13 February 2018 the court decided on the forced liquidation of Delta Bank JSC.

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

In general, 50% of the cost of training new pilots related to the Ab-initio pilot are borne by the pilot trainees but are funded by the Company through the provision of interest free loans to participants of the program. The remaining costs are classified by the Company as a prepayment of its expenses and are amortised over a period of seven years, during which the Company has a right to oblige these expenses to become payable by the pilot trainees should such pilot trainee terminate his/her employment.

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

At 31 December 2017, eight debtors including IATA Bank Settlement Plans (BSPs) as collecting agencies from the worldwide travel agencies comprised 45% of the Company's trade and other receivables (at 31 December 2016: eight debtors comprised 26%).

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

	31 December 2017	31 December 2016
US Dollar	8,391	7,051
Tenge	12,754	13,157
Euro	2,444	2,765
Russian Rouble	1,209	1,065
Other	4,643	4,187
	29,441	28,225

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

	2017	2016
At the beginning of the year	**(54,818)**	**(1,037)**
Accrued during the year	(405)	(52,607)
Reversed during the year	4,785	217
Unwinding of discount	416	
Written-off against previously created allowance		22
Foreign currency translation differences	(107)	(1,413)
At the end of the year	**(50,129)**	**(54,818)**

16. Other taxes prepaid

	31 December 2017	31 December 2016
Value added tax recoverable	17,411	11,338
Prepayment for income tax for non-residents		4,084
Prepayment for environment tax	1	
Other taxes prepaid	674	884
	18,086	16,306

Value added tax recoverable is recognised within current assets as the Company annually applies for reimbursement of these amounts.

17. Bank deposits

	31 December 2017	31 December 2016
Current		
Term deposits with local banks (Note 25)		97,217
Guarantee deposits	5	9
Interest receivable		2,348
	5	99,574

In 2016 short-term deposits with foreign banks (with an original maturity of more than three months and less than one year) earned interest in the range from 0% to 13%. Bank deposits had no restrictions on early withdrawal.

As a result of increased credit risk on some of the banks, management is considering its cash management policy and, as temporary measures, the Company has reviewed the credit rating of the main banks in Kazakhstan and placed its main current accounts and deposits with a maximum 3 months tenor to banks with ratings of "BB".

Guarantee deposits made to meet the requirements of Kazakhstan legislation relating to foreign employees are denominated in tenge and earn interest 0% per annum (2016: 0% to 4.5%).

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

	2017	2016
US Dollar	5	89,637
Tenge		9,937
Euro		
	5	99,574

18. Cash and bank balances

	31 December 2017	31 December 2016
Current accounts with local banks (Note 25)	42,204	20,139
Current accounts with foreign banks	85,806	9,750
Term deposits with local banks with original maturity less than 3 months	103	98
Cash on hand	20,068	-
	148,181	**29,987**

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

	2017	2016
US Dollar	141,649	19,027
Indian Rupee	3,208	606
Tenge	1,438	5,454
Euro	571	1,141
Russian Rouble	283	965
Uzbek Soms	125	311
GBP	122	614
Chinese Yuan	69	1,472
Other	716	397
	148,181	**29,987**

19. Equity

As at 31 December 2017 and 2016, share capital was comprised of 17,000 authorised, issued and fully paid ordinary shares with a par value of 147,150 tenge per share (equivalent to USD 1,000 per share at the time of purchase).

The holders of ordinary shares are entitled to receive dividends as declared from time to time, and are entitled to one vote per share at meetings of the Company.

In accordance with Kazakhstan legislation the Company's distributable reserves are limited to the balance of retained earnings as recorded in the Company's statutory financial statements prepared in accordance with IFRS. A distribution cannot be made when equity is negative or if distribution would result in negative equity or the Company's insolvency. As at 31 December 2017 the Company had retained earnings, including the profit for the current year, of USD 349,943 thousand (2016: USD 310,625 thousand).

Dividends per share as at 31 December 2017 were USD nil (2016: USD 0.5 thousand).

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 (2016: 17,000 shares). The Company has no instruments with potential dilutive effect.

	2017	2016
Profit:		
Profit/(loss) for the year	39,318	(39,865)
Number of ordinary shares	17,000	17,000
Earnings/(loss)/ per share – basic and diluted (US)	**2,313**	**(2,345)**

20. Deferred revenue

	31 December 2017	31 December 2016
Unearned transportation revenue	43,190	36,565
Customer loyalty program provision	5,244	1,665
	48,434	**38,230**

Unearned transportation revenue represents the value of sold but unused passenger tickets the validity period of which has not expired, excluding recognized passenger revenue in respect of the percentage of tickets sold that are expected not to be used or refunded (Note 3).

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

21. Provision for aircraft maintenance

	31 December 2017	31 December 2016
Engines	59,113	44,904
D-Check	6,298	4,627
C-Check	2,766	4,603
Provision for redelivery of aircraft	2,152	1,846
Auxiliary Power unit	1,739	1,499
Landing gear	1,702	1,319
	73,770	**58,798**

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

	2017	2016
At 1 January	**58,798**	**47,875**
Accrued during the year (Note 6)	21,743	18,939
Reversed during the year (Note 6)	(2,072)	(1,244)
Used during the year	(4,582)	(7,920)
Foreign currency translation difference	(117)	1,148
At 31 December	**73,770**	**58,798**

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

The planned utilisation of these provisions is as follows:

	31 December 2017	31 December 2016
Within one year	13,260	20,243
During the second year	45,645	12,719
During the third year	8,539	14,006
After the third year	6,326	11,830
Total provision for aircraft maintenance	**73,770**	**58,798**
Less: current portion	(13,260)	(20,243)
Non-current portion	**60,510**	**38,555**

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

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

22. Trade and other payables

	31 December 2017	31 December 2016
Trade payables	29,450	29,889
Wages and salaries payable to employees	2,340	2,304
Deposits received	2,210	1,124
Operating lease payables	1,510	1,548
Employee unused vacation	1,505	1,290
Other taxes payable	618	2,721
Pension contribution	513	-
Advances received	674	435
Other	63	83
	38,883	**39,394**

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

	31 December 2017	31 December 2016
US Dollar	16,738	16,107
Tenge	10,735	13,986
Euro	5,660	5,223
Russian roubles	988	730
GBP	711	655
Other	4,051	2,693
	38,883	**39,394**

23. Loans

	31 December 2017	31 December 2016
Non-current		
Bank loan	10,519	12,043
	10,519	**12,043**
Current		
Current portion of bank loan	1,558	1,554
Interest payable	72	77
	1,630	**1,631**

On 3 December 2015 the Company concluded a loan agreement of USD 14,000 thousand (in Kazakhstani tenge equivalent) with the European Bank for Reconstruction and Development (EBRD) for 10 years for the purpose of construction of a Technical Center (Hangar) in Astana, which will also be pledged to the EBRD under this loan. The interest rate is variable and defined, based on a margin of 3.75% per annum plus EBRD's All-in Cost in Kazakhstani tenge. The All-in Cost is determined on a quarterly basis in conjunction with the National Bank of Kazakhstan base rate. In April 2016 the Company obtained the funds from EBRD in the amount of 4,661,033 thousand tenge (USD 14,000 thousand equivalent as of receipt dates). This tenge loan is subject to certain financial covenants which have been met as at 31 December 2017.

24. Finance lease liabilities

For the years from 2012 to 2014 the Company acquired eleven aircraft under fixed interest finance lease agreements. The lease term for each aircraft is twelve years. The Company has an option to purchase each aircraft for a nominal amount at the end of the lease. Loans provided by financial institutions to the lessors in respect of six new Airbus aircraft which were delivered during 2012 and 2013 were guaranteed by European Export Credit Agencies while three Boeing 767 aircraft which were delivered in 2013 and 2014 were guaranteed by the US Export Import Bank. Two Embraer aircraft delivered in 2012 and 2013 were guaranteed by the Brazilian Development Bank. The Company's obligations under finance leases are secured by the lessors' title to the leased assets. These assets have a carrying value of USD 206,636 thousand (2016: USD 223,088 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 2017 and 2016.

	Minimum lease payments		Present value of minimum lease payments	
	31 December 2017	31 December 2016	31 December 2017	31 December 2016
Not later than one year	49,162	52,514	39,926	41,251
Later than one year and not later than five years	188,187	201,050	163,213	168,770
Later than five years	123,178	177,297	117,584	166,729
	360,527	**430,861**	**320,723**	**376,750**
Less: future finance charges	(39,804)	(54,111)	-	-
Present value of minimum lease payments	**320,723**	**376,750**	**320,723**	**376,750**
Included in the financial statements as:				
• current portion of finance lease obligations			39,926	41,251
• non-current portion of finance lease obligations			280,797	335,499
			320,723	**376,750**

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

On 1 July 2015 the Company designated a portion of its US Dollar finance lease obligations as hedges of highly probable future US Dollar revenue streams. The Company applied the cash flow hedge accounting model to this hedging transaction, in accordance with IAS 39.

In connection with the transition of the functional currency to US Dollar, this hedge ceased to be economically effective from 31 December 2017. At 31 December 2017, a foreign currency loss of USD 89,331 thousand (2016: USD 132,335 thousand), before deferred income tax of USD 17,866 thousand (2016: USD 26,467 thousand) on the finance lease liabilities, representing an effective portion of the hedge, is deferred in the hedging reserve in equity. As a result of the change, the hedge relationship will be discontinued so that starting from 1 January 2018, no further foreign currency translation gains or losses will be transferred from profit or loss to the hedge reserve, and the hedge reserve recognized in equity as at 31 December 2017 shall remain in equity until the forecasted revenue cash flows are received.

During 2016 the amount reclassified from the hedging reserve to foreign exchange loss in the statement of profit or loss from inception of the hedge was USD 10,292 thousand (before deferred income tax of USD 2,058 thousand) (2016: USD 14,388 thousand, before deferred income tax of USD 2,878 thousand).

The Company conducted a sale and leaseback transaction in December 2017 by selling one Embraer E190 which had been originally acquired under a finance lease to a third party. The amount of USD 15,829 thousand, which had been outstanding under the original finance lease, was transferred by the third party purchaser directly to the finance lessor.

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

	Loans (Note 23)	Finance lease liabilities	Total
Balance at 1 january 2017	**13,674**	**376,750**	**390,424**
Changes from financing cash flows			
Repayment of borrowings	(1,589)		(1,589)
Payment of finance lease liabilities	-	(40,103)	(40,103)
Interest paid	(1,446)	(11,061)	(12,507)
Total changes from financing cash flows	**(3,035)**	**(51,164)**	**(54,199)**
The effect of changes in foreign exchange rates	70	(152)	(82)
Other changes			
Capitalised borrowing costs	1,440		1,440
Interest expense on finance lease		11,118	11,118
Settlement of finance lease liabilities by a third party in relation to sale of aircraft		(15,829)	(15,829)
Total other changes	**1,440**	**(4,711)**	**(3,271)**
Balance at 31 december 2017	**12,149**	**320,723**	**332,802**

25. Financial instruments

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

Capital management

The Company manages its capital to ensure the Company will be able to continue as a going concern while maximising the return to the shareholders through the optimisation of the debt and equity balance. The Company's overall strategy remains unchanged from 2016.

The capital structure of the Company consists of net debt (comprising loans and finance lease obligations in Note 23 and 24) and equity of the Company (comprising issued capital, additional paid-in capital, reserve on hedging instruments and retained earnings as detailed in Note 19).

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

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

The Company does not have a target gearing ratio.

Credit risk

Credit risk refers to the risk that 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 a base of 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 2017 there was no significant concentration of credit risk in respect of trade accounts receivable (Note 15).

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

As a result of the increased credit risks on some of the banks, management is reconsidering its cash management policy and, as temporary measures, the Company has reviewed the credit ratings of the main banks in Kazakhstan and placed its main amounts due from banks in banks with ratings of "BB" or higher, except for KazInvestBank and Delta Bank, which are disclosed in Note 15.

Interest rate risk

Excluding the loan from the EBRD, the Company is not exposed to interest rate risk because the Company borrows funds at fixed interest rates.

In April 2016 the Company's EBRD loan had variable interest rates with a fixed margin (Note 23).
If the variable part of the interest rate on the EBRD loan in 2017 would have been 20% higher or lower than the actual for the period, the interest expense would not have changed significantly.

Foreign currency risk

The Company is exposed to foreign currency risk on sales and purchases that are denominated in currencies other than the US Dollar. The currencies giving rise to this risk are primarily tenge and Euro. For amounts of assets and liabilities denominated in foreign currency refer to Notes 15, 17, 18, 22 and 23.

Management believes that it has taken appropriate measures to support the sustainability of the Company business under the current circumstances. The Company applies a hedge policy to manage the currency risk (Note 24).

Foreign currency sensitivity analysis

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

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

		31 December 2017			31 December 2016		
	Notes	US Dollar	Tenge	Euro	US Dollar	Tenge	Euro
Assets							
Guarantee deposits	12	53,905	40	138	49,770	41	199
Trade and other receivables	15	8,391	12,754	2,444	7,051	13,157	2,772
Bank deposits	17	5	-	-	89,637	9,937	-
Cash and bank balances	18	141,649	1,438	571	19,027	5,454	1,141
Other taxes prepaid	16	-	18,086	-	-	16,306	-
Income tax prepaid		-	738	-	-	783	-
Total		**203,950**	**33,056**	**3,153**	**165,485**	**45,678**	**4,112**
Liabilities							
Finance lease liabilities	24	320,723	-	-	376,750	-	-
Trade and other payables	22	16,738	10,735	5,660	16,107	13,986	5,223
Loans	23	-	12,149	-	-	13,674	-
Total		**337,461**	**22,884**	**5,660**	**392,857**	**27,660**	**5,223**
Net position		**(133,511)**	**10,172**	**(2,507)**	**(227,372)**	**18,018**	**(1,111)**

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

In 2016 the following table details the Company's sensitivity of weakening and strengthening of tenge (which was the Company's functional currency before 31 December 2017) against US Dollar by 13% and Euro by 15%. Mentioned sensitivity rates were used when reporting foreign currency risk internally to key management personnel.

The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for abovementioned sensitivity ratios. The sensitivity analysis includes trade and other receivables, cash and bank balances, bank deposits, guarantee deposits, trade and other payables, loans and finance lease liabilities.

A negative number below indicates a decrease in Profit or Loss and positive number would be an opposite impact on the Profit or Loss.

	Weakening of US Dollar		Strengthening of US Dollar	
	Tenge	Euro	Tenge	Euro
2017	**13%**	**5%**	**(13%)**	**(5%)**
Profit/(loss)	1,058	(100)	(1,058)	100

	Weakening of tenge		Strengthening of tenge	
	US Dollar	Euro	US Dollar	Euro
2016	**13%**	**15%**	**(13%)**	**15%**
Profit/(loss)	13	(133)	(13)	133
Equity	(23,634)		23,634	

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

Liquidity risk management

Liquidity risk is the risk that a company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

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

Liquidity and interest risk tables

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

	Up to 3 months	3 months to 1 year	1-5 years	Over 5 years	Total
2017					
Financial liabilities					
Non interest bearing					
Trade and other payables	36,038	666	-	-	36,704
Variable rate					
Loans (tenge denominated)	714	2,077	9,505	4,975	17,272
Fixed rate					
Finance lease liabilities	12,120	37,042	188,187	123,178	360,527
2016					
Financial liabilities					
Non interest bearing					
Trade and other payables	37,097	572	-	-	37,669
Variable rate					
Loans (tenge denominated)	746	2,222	10,194	7,099	20,261
Fixed rate					
Finance lease liabilities	12,911	39,603	201,050	177,297	430,861

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 months	3 months to 1 year	1-5 years	Over 5 years	Total
2017						
Financial assets						
Non interest bearing						
Trade and other receivables	-	24,914	603	3,341	584	29,441
Guarantee deposits	-	20,541	14,273	8,994	10,702	54,510
Cash and bank balances	-	148,181				148,181
Fixed rate						
Bank deposits	4.55	5	-	-	-	5
2016						
Financial assets						
Non interest bearing						
Trade and other receivables	-	21,450	601	5,935	239	28,225
Guarantee deposits	-	15,674	19,270	8,091	7,309	50,344
Cash and bank balances	-	29,987		-	-	29,987
Fixed rate						
Bank deposits	4.55	99,574	-	-	-	99,574

Fair values

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

Financial instruments at fair value through profit or loss
Valuation of financial instruments recognised at fair value through profit or loss is based on inputs for which not all significant inputs are observable, either directly or indirectly and valuations are based on one or more non-observable inputs. Such valuations represent Level 3 of the fair value hierarchy.

Guarantee Deposits
Guarantee Deposits are recognised at amortised cost. Management believes that their carrying amounts approximate their fair value.

Trade and other receivables and payables
For receivables and payables with a maturity of less than six months fair value is not materially different from the carrying amount because the effect of the time value of money is not material. Ab-initio receivables are recorded at fair value at initial recognition and subsequently measured at amortised cost.

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

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

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

26. Measurement of fair values

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

The Company has an established control framework with respect to the measurement of fair values. This includes a finance department that has overall responsibility for overseeing all significant fair value measurements, including Level 3 fair values.

The finance department regularly reviews significant unobservable inputs and valuation adjustments. If third party information, such as broker quotes or pricing services, is used to measure fair values, then the valuation team assesses the evidence obtained from the third parties to support the conclusion that such valuations meet the requirements of IFRS, including the level in the fair value hierarchy in which such valuations should be classified.

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

» Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
» Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
» Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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

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

Further information about the assumptions made in measuring fair values is included in Note 25 – Financial instruments.

27. Commitments and contingencies

Capital commitments

During 2012, the Company finalised an agreement with Boeing to purchase three Boeing-787s aircraft under finance lease agreements. The Company is committed to pre-delivery payments in accordance with the agreed payment schedule. Delivery of the Boeing 787s is now deferred to 2021 with the last pre-delivery payments deferred to 2020.

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

Operating lease commitments

Aircraft

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

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

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

	31 December 2017	31 December 2016
Within one year	65,113	57,469
After one year but not more than five years	115,088	104,752
More than five years	22,031	4,365
	202,232	**166,586**

Non-cancellable commitments for leases of aircraft to be delivered from 2018 to 2019:

	31 December 2017	31 December 2016
Within one year	16,831	11,331
After one year but not more than five years	175,707	183,849
More than five years	180,844	266,632
	373,382	**461,812**

In June 2015 the Company signed operating lease agreements for seven Airbus A320neo family aircraft to replace some current leases on expiry and for future expansion. One A320neo was delivered in the second half of 2016, with the remaining six aircraft being delivered in 2018 and 2019.

In September 2015 the Company signed operating lease agreements for four Airbus A320neo family aircraft. One A320neo was delivered in December 2017 with the remaining three aircraft being delivered in 2018 to replace some current leases on expiry and for future expansion.

Stand-by Letters of Credit as at 31 December 2017 were USD 42,364 thousand, of which USD 32,864 thousand were secured by deposits (Note 12) and USD 9,500 thousand were unsecured. These Letters of Credit were obtained as security for Lessors to cover any unfulfilled maintenance liabilities on the return of four Embraer E190 and six Airbus aircraft to Lessors.

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

	31 December 2017	31 December 2016
Within one year	1,730	1,161
After one year but not more than five years	2,440	3,015
	4,170	**4,176**

Insurance

Aviation insurance

Air Astana puts substantial attention in conducting insurance coverage for its aircraft operations and hence places aviation risks in major international insurance markets (e.g. Lloyd's) with a high rating of financial stability through the services of an international reputable broker. Types of insurance coverage are stated below:

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

Non – Aviation Insurance

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

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

Taxation contingencies

The taxation system in Kazakhstan is relatively new and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are often unclear, contradictory and subject to varying interpretation by different tax authorities, including opinions with respect to IFRS treatment of revenues, expenses and other items in the financial statements. Taxes are subject to review and investigation by various levels of authorities, which have the authority to impose severe fines and interest charges. A tax year generally remains open for review by the tax authorities for five subsequent calendar years; however, under certain circumstances a tax year may remain open longer.

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

The functional currency of the Company is US Dollar, as it best reflects the economic substance of the underlying events and circumstances of the Company. The Tax Code of the Republic of Kazakhstan does not contain provisions which would regulate questions arising from the application of functional currency in accounting books different from tenge. However, the Tax Code requires all taxpayers in Kazakhstan to maintain their tax records and to settle tax liabilities in tenge. Therefore the Company also maintains records and conducts calculations in tenge for the purpose of taxation and settlement of tax liabilities and makes certain estimates in this respect. Management believes that such approach is the most appropriate under the current legislation.

Operating Environment

Emerging markets such as Kazakhstan are subject to different risks than more developed markets, including economic, political and social, and legal and legislative risks. Laws and regulations affecting businesses in Kazakhstan continue to change rapidly, tax and regulatory frameworks are subject to varying interpretations. The future economic direction of Kazakhstan is heavily influenced by the fiscal and monetary policies adopted by the government, together with developments in the legal, regulatory, and political environment. As Kazakhstan produces and exports large volumes of oil and gas, its economy is particularly sensitive to the price of oil and gas on the world market.

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

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. The total remuneration paid in 2017 to the independent directors was USD 94 thousand (2016: USD 75 thousand).

Management remuneration

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

	2017	2016
Salaries and bonuses	3,637	3,867
Social tax	417	415
	4,054	**4,282**

Transactions with related parties

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

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

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

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

	2017		2016	
Services received	Transaction value	Outstanding balance	Transaction value	Outstanding balance
State-owned companies	31,445	(431)	20,702	(129)
Shareholders and their subsidiaries	4,762	84	4,743	
	36,207	**(347)**	**25,445**	**(129)**

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

	2017		2016	
Services provided by the Company	Transaction value	Outstanding balance	Transaction value	Outstanding balance
Shareholders and their subsidiaries	1,637	483	947	153
	1,637	**483**	**947**	**153**

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. Approval of the financial statements

The financial statements were approved by management of the Company and authorised for issue on 30 March 2018.

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