

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

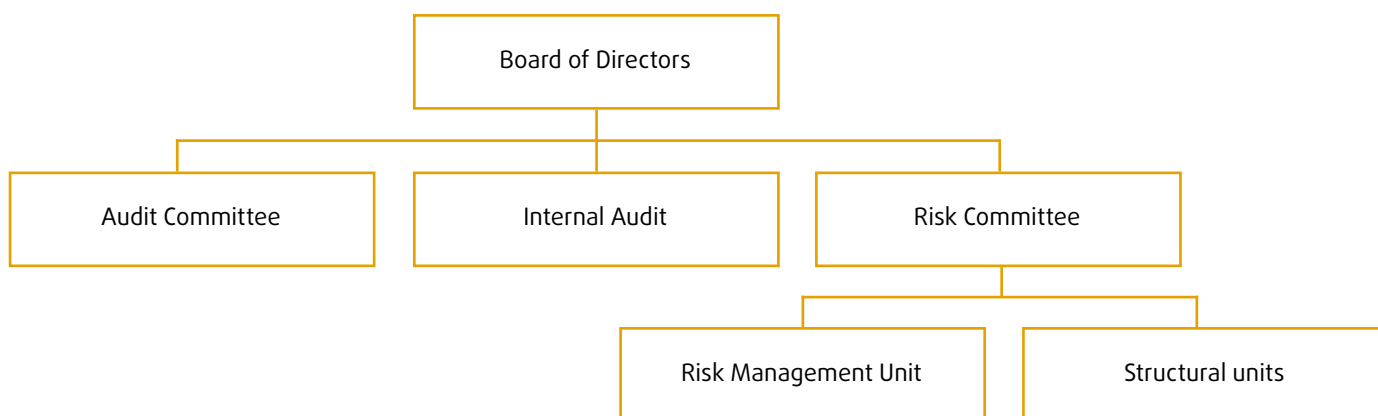
We acknowledge the importance of risk management as the key component of our corporate management system. The purpose of risk management is to identify risks that could have a potential negative impact on our value and reputation and to undertake actions to mitigate such risks.

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.

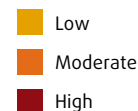
Non-aviation insurance

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.



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

Risk	Description	Mitigation
■ 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.
■ 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.
■ 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	<p>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.</p>	<p>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 CAC¹ 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.</p>
 Risk of an insufficient number of qualified pilots	<p>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.</p>	<p>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.</p>

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.