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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

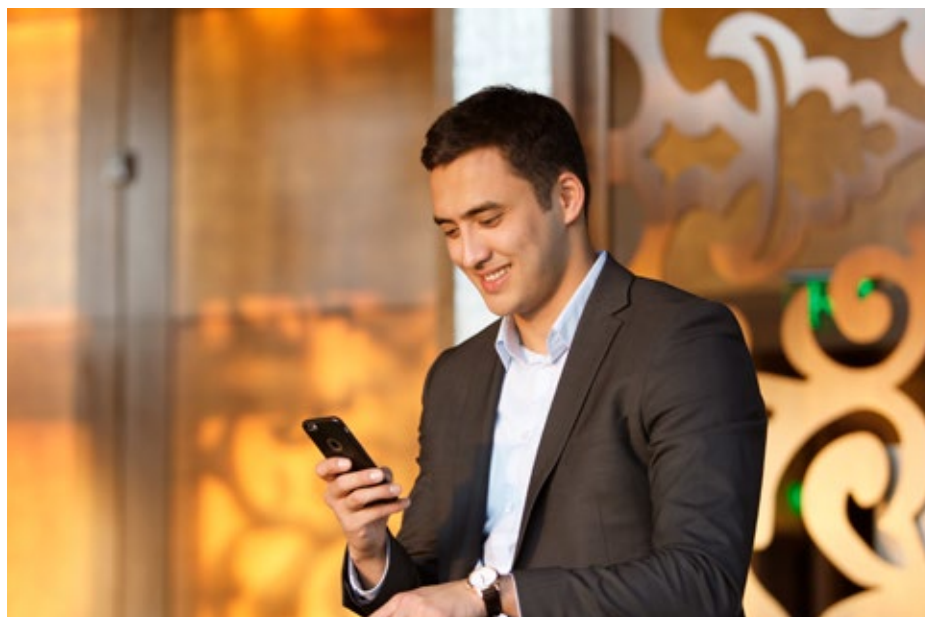
Direct sales

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.