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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 contributor 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 326¹. 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 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.

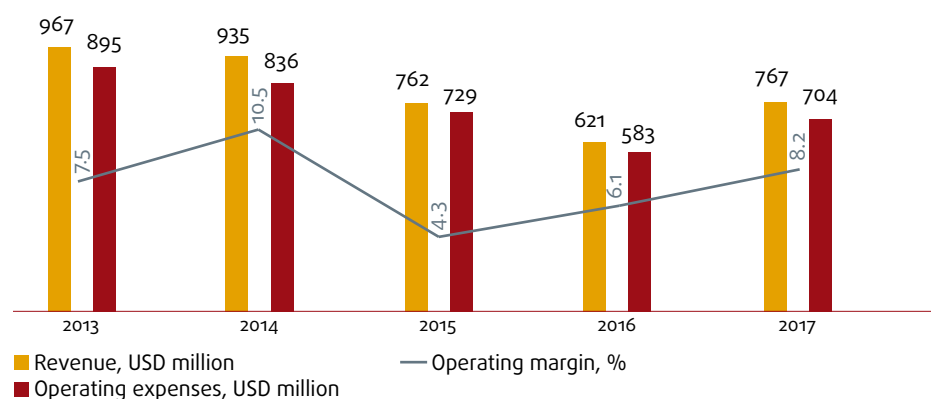
The highest revenue growth rate from passengers and cargo traffic was observed on CIS routes (up 23.1%, to USD 363.75 million). Revenue from passengers and cargo on Asia routes

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.

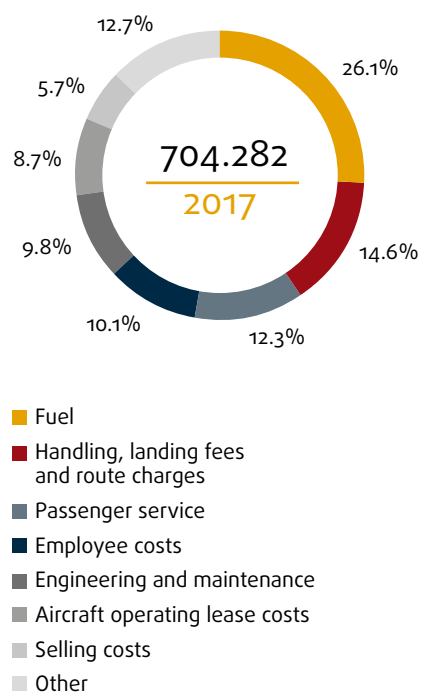
Revenue and operating expenses



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



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.