

# 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**