

PRESIDENT AND CEO'S STATEMENT

We are looking to convert Air Astana's deserved reputation for high quality service into a better share of business-class and less price-sensitive travel, and to develop a significant share of low yield price-sensitive business through FlyArystan. This latter task also presents us with an opportunity to grow domestic and regional air travel from a low base.



Maintaining our strong reputation for excellence

In 2018, we preserved profitability despite unprecedented industry headwinds. Air Astana's net profit fell by 86% to USD 5.35 million. Total revenue grew by 10% to USD 840.86 million against capacity growth of 5%, whilst total cost grew by 14%. The airline carried 4.32 million passengers, an increase of 3%.

That 2018 was a difficult year mainly as a result of increased jet fuel cost, which was 26% higher than 2017 despite modest capacity growth. There is little that airlines can do in the face of oil and fuel price rises since fuel represents approximately 30% of expenditure, by far the largest cost element. Fuel price hedging, as the industry has frequently experienced in recent years, is an inherently risky exercise and in any event in our case, 70% of fuel is purchased for use in Kazakhstan where there is no formula linking fuel to the price of oil, therefore hedging is not an option. Non-fuel expenditure continued to be effectively controlled resulting in a highly competitive overall unit cost of 5.6 US cents per Available Seat Kilometre, among the lowest in the industry. The other major difficulty in 2018 was the continued problems with Pratt & Whitney's Geared Turbo Fan engines, which power the Airbus neo fleet. Engine replacements and in-flight shutdowns far in excess of acceptable norms inconvenienced

customers, disrupted the schedule and caused us to lose revenue because of further delivery delays of new aircraft.

Traditionally Air Astana has derived some benefit from a higher oil price because its effect on the local economy, to a large extent dependent on oil revenues, has been to boost spending and investment. This held true for the first 8 months of year in which revenue grew by 14%. However, sales fell away badly from September in our largest markets of Kazakhstan and Russia, and flattened in China. Kazakhstan and Russia suffered from lower consumer spending due to further currency weakness and a shift to lower cost travel options for those continuing to travel. This was a key factor in our decision to launch a low cost airline, about which more to follow. Key market weakness was partially offset by continued sales growth in India, Turkey, Uzbekistan and Hong Kong. Transit business – so-called 6th freedom traffic – grew strongly for the sixth successive year, by 48%, to approximately 722,769 passengers. This segment now accounts for one third of international business, from close to zero in 2012. The flip side to 6th freedom traffic is that it is generally low yield and exposed to far greater competition, as most of the world's full service airlines compete fiercely in the major long-haul international markets

of East Asia, Europe, Russia, India and North America. However, with our robust cost structure and regional knowledge, we believe we have a significant opportunity to leverage such business in the under-served Central Asian market in the medium to long term.

For the first time in the airline's 16-year history the number of passengers carried on domestic routes within Kazakhstan fell. Although the total domestic market grew slightly, Air Astana's market share fell to 45%. This is a reflection of the low fares on offer from three domestic competitors, which incidentally makes Kazakhstan one of world's most competitive air transport markets given its relatively small population. Therefore, in late 2018 we decided to launch a separate low cost subsidiary, FlyArystan, which will initially be a division of Air Astana until early 2020 at the latest, when it will become a separate (though wholly-owned) entity for both safety and commercial reasons. FlyArystan is expected to commence operations on domestic routes in May 2019 with a fleet of Airbus A320 aircraft, initially taken from Air Astana and configured to 180 economy class seats. It will replicate the classic low cost airline model which has been so successful in most of the world's travel markets over the past 15 years.

The airline continued to prioritise operational reliability and high quality customer service. We were awarded Skytrax' Best Airline, Central Asia and India for the seventh successive year, and were awarded a Regional Asia Airline Winner's medal by Trip Advisor, in addition to several other awards in Russia and Central Asia. Our punctuality record of 86% was slightly higher than 2017 and again placed us at the upper end of the global league table.

As we look ahead to 2019, the key challenge is to grow revenue in weak domestic and regional markets and with clear signs that global air travel growth is beginning to slow, despite more bullish long-term traffic projections. Therefore we look, on the one hand, to convert Air Astana's deserved reputation for high quality service into a better share of business-class and less-price sensitive travel, and on the other, to develop a significant share of low yield price-sensitive business through FlyArystan. This latter task also presents us with an opportunity to grow domestic and regional air travel from a low base relative to countries and regions of similar size and income levels.

I would like as ever to take this opportunity to thank our Shareholders Samruk Kazyna and BAE Systems, my dedicated and hardworking colleagues, and our loyal customers for their continued support in a challenging year.

Yours sincerely,

Peter Foster
President and CEO

Vision 2026

Our 10-year journey is well under way and good progress was made in 2018 to accelerate expansion and leverage both our low-cost structure and the position of our hub at the centre of major growth markets.

Key achievements

Scheduled launch of FlyArystan, to capitalise on demand for a low-cost airline in the region

48% increase in transit traffic as Air Astana's hubs grow in prominence

Structurally, the fleet continues to expand, our Ab-initio pilot training programme is gaining momentum and our Technical Centre is minimising down-time

2018 ➔ 2026

Strategic priorities

Our objective is to deliver profitable growth by increasing frequencies and tapping into new markets and networks. International air traffic continues to grow rapidly, with some of the markets that immediately surround Kazakhstan poised to emerge as the largest markets in the world.

Our three key priorities centre around:

- Growth
- Efficiency
- Excellence

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