air astana
from the heart of eurasia

ANNUAL REPORT
2012

CONTENTS

AIR ASTANA AT A GLANCE

WHO WE ARE

Air Astana is a fast-growing international airline and the flag carrier of Kazakhstan with a world-class track record of safety and technical expertise. A joint-stock company, we are a joint venture between the Samruk-Kazyna National Welfare Fund of Kazakhstan (51%) and the UK's BAE Systems (49%). We are a full member of the International Air Transport Association (IATA) and the first Kazakhstani carrier to have Part 145 certification to perform aircraft maintenance from the European Aviation Safety Agency (EASA).


Air Astana's maiden flight!

2012 HIGHLIGHTS

- In the year of its 10th anniversary, Air Astana awarded 4-Star and Best Airline in Central Asia and India ratings by Skytrax.

- EASA-145 certification extended to container, hydraulic brake, composite component and structural repairs.
- Delivery taken of three owned Airbus 320 family aircraft and one owned Embraer aircraft, with two additional Embraer aircraft taken under operating lease.
- Order made for three Boeing 767-300ERs and three Boeing 787-8 Dreamliners with numerous purchase rights.
- Retirement of Fokker 50 fleet and their replacement with Embraer 190 regional jets.
- New routes opened: from Astana to Baku (Azerbaijan), Tashkent (Uzbekistan), St Petersburg (Russia), Omsk (Russia) and Beijing (China), and from Almaty to Kazan (Russia), Hong Kong (China) and Ho Chi Minh City (Vietnam).
- Introduction of new uniform for cabin and ground staff and an iPad-based entertainment system in business class.

KEY FINANCIAL INDICATORS

Revenues

US$ 875.1 million,
up **13%** year-on-year

Revenues reached US$875.1 million in 2012, up from US$772.9 million in 2011 and a new record

Operating profit

US$ 76.2 million,
up **10%** year-on-year

Operating profit rose to US$76.2 million in 2012, up from US$69.3 million in 2011

Operating expenses

US$ 798.9 million,
up **14%** year-on-year

Operating expenses stood at US$798.9 million in 2012, compared with US$703.6 million in 2011, rising in line with revenues, despite the rise in fuel prices, thanks to cost-cutting initiatives

Net profit

US$ 61.1 million

Despite the challenging conditions, we maintained net profit at US$61.1 million in 2012, virtually unchanged from US$61.3 million in 2011

OPERATIONAL RESULTS

Passengers carried

3.24 million,
up **6%** year-on-year

Last year, we carried 3.24 million passengers, 6% higher than the 3.06 million in 2011 and a new record

Passenger load factor

68%

Passenger load factor held steady in 2012, down 1 percentage point from 69% in 2011, following the introduction of numerous new routes

Capacity

9.467 million available seat kilometres,
up **11%** year-on-year

In 2012, available seat kilometres rose by 11% to 9.467 million, compared with 8.508 million in 2011

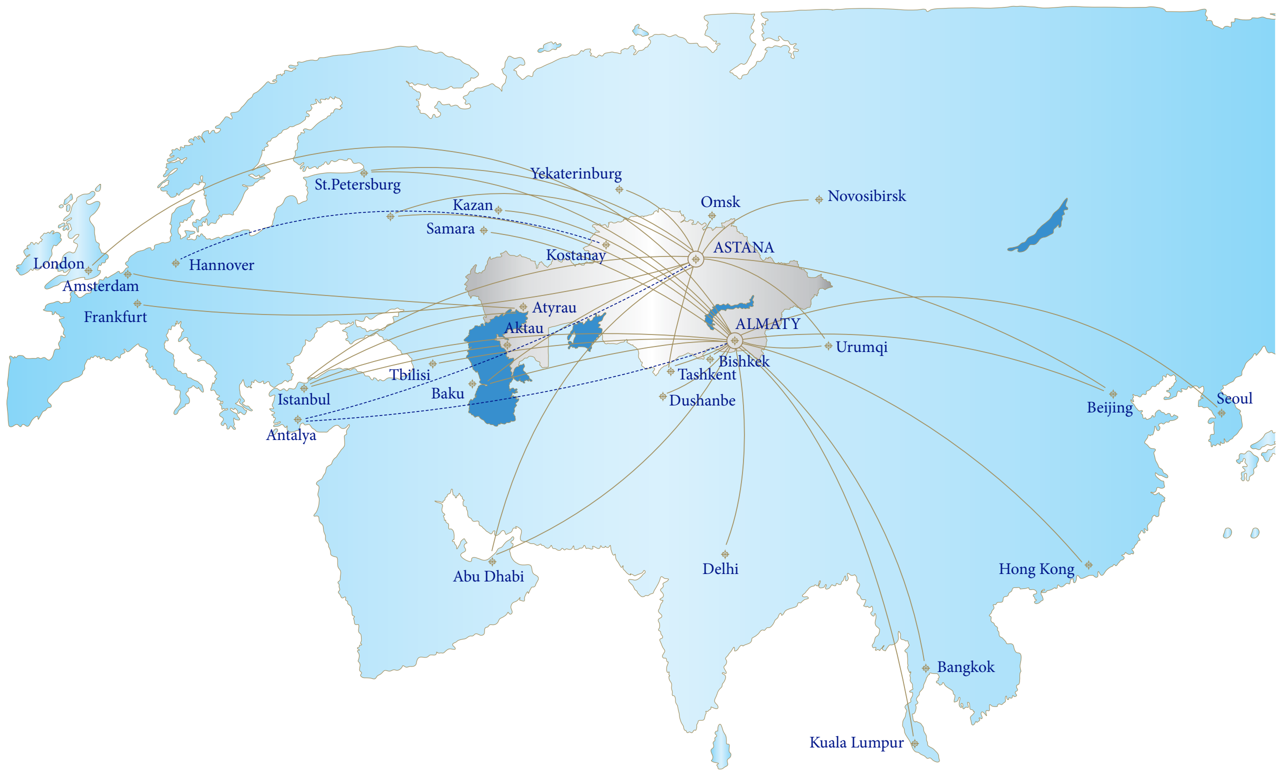
Cargo

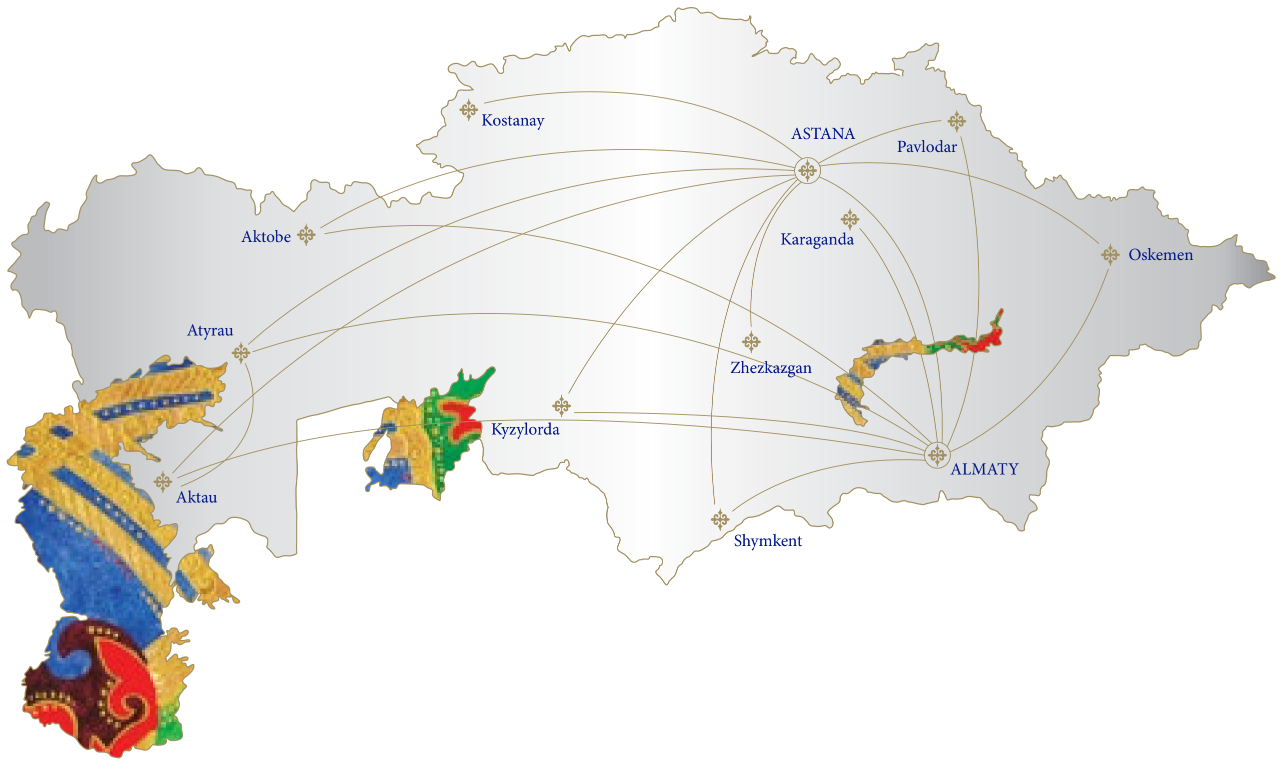
22,076 tonnes

We increased cargo, baggage and post carriage by 12% to 22,076 tonnes in 2012, up from 19,692 tonnes in 2011

OUR NETWORK

We currently serve **19** domestic and **38** international destinations, including three seasonal ones. In addition, we have code-sharing agreements with Austrian Airlines, Asiana Airlines, Etihad Airways, KLM and Rossiya Airlines, as well as interline partnership agreements with more than **100** other carriers, allowing passengers to choose over **300** destinations worldwide.





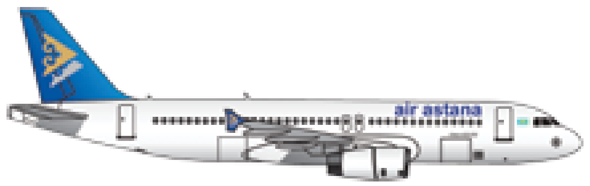
OUR FLEET

We operate a modern fleet of 26 Western-made aircraft and plan to expand this to more than 37 by 2020. Air Astana has a proven track record of safety and expertise. We are IOSA registered airline and also belong to the IATA Fuel Quality Pool (IFQP), a group of airlines that actively share fuel inspection reports and workload at locations worldwide.

AIRBUS A319

Operates on short haul international
and domestic routes

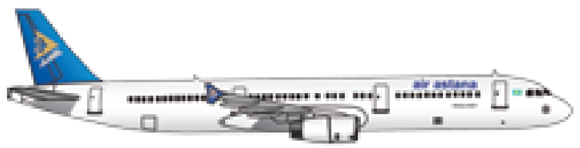
Quantity 1
Cruise speed 900 (km/h)
Max. take off weight 64,000 (kg)
Economy class 114 (seats)
Business class 12 (seats)
Range 6,850 (km)
Crew 2 (pilots)



AIRBUS A320

Operates on short and medium haul
international and domestic routes

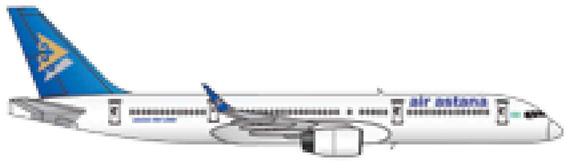
Quantity 7
Cruise speed 870 (km/h)
Max. take off weight 77,000 (kg)
Economy class 132 (seats)
Business class 16 (seats)
Range 6,150 (km)
Crew 2 (pilots)



AIRBUS A321

Operates on short and medium haul
international and domestic routes

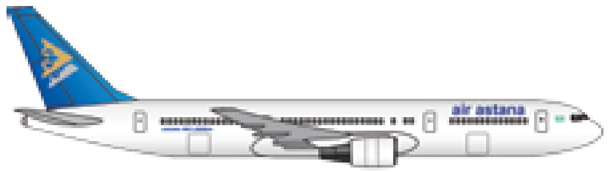
Quantity 4
Cruise speed 870 (km/h)
Max. take off weight 89,000 (kg)
Economy class 147 (seats)
Business class 28 (seats)
Range 5,950 (km)
Crew 2 (pilots)



BOEING 757

Operates on long haul international
and domestic routes

Quantity 5
Cruise speed 870 (km/h)
Max. take off weight 115,666 (kg)
Economy class 150 (seats)
Business class 16 (seats)
Range 7,222 (km)
Crew 2 (pilots)



BOEING 767

Operates on long haul international
and domestic routes

Quantity 2
Cruise speed 850 (km/h)
Max. take off weight 184,612 (kg)
Economy class 190 (seats)
Business class 30 (seats)
Range 11,070 (km)
Crew 2 (pilots)

EMBRAER 190

Operates on short and medium haul international
and domestic routes

Quantity 6
Cruise speed 890 (km/h)
Max. take off weight 50,300 (kg)
Economy class 88 (seats)
Business class 9 (seats)
Range 4,500 (km)
Crew 2 (pilots)

FOKKER 50

Operates on short haul international
and domestic routes

Quantity 1
Cruise speed 450 (km/h)
Max. take off weight 20,820 (kg)
Economy class 50 (seats)
Business class 0 (seats)
Range 2,800 (km)
Crew 2 (pilots)

LETTER FROM THE CHAIRMAN OF THE BOARD OF DIRECTORS

In 2012, Air Astana made a jubilant start to its second decade as the flag carrier of Kazakhstan. I believe that the airline represents a prime example of how to develop sustainable, service and technology-driven business in our country. Kazakhstan's aviation market retains enormous long-term potential, thanks to the country's rapid economic expansion and unique geographical position.

Air Astana is ideally placed to benefit from this, and for more reasons than just location. We have the right strategy in place, strong corporate governance institutions, and a comprehensive policy for sustainable social investments. In addition, we have shown consistent dedication to ensuring maximum possible transparency in dealings with all stakeholders, including shareholders, passengers and employees.

Last year, Air Astana displayed a robust financial and operational performance, marking a 10-year track record of profitability, a significant achievement in the global airline industry today. Our solid reputation for profitable growth and transparency, both as a local business and in international capital markets, reinforces our ability to finance aircraft purchases. It will also help when securing any debt and equity funding in the future.

In 2012, we continued to implement our long-term development strategy for 2011-20. We made significant progress in each priority area, including expanding our network by opening new routes and introducing extra aircraft; enhancing our maintenance capacity; building our team of skilled pilots and ground crew; and strengthening our corporate governance procedures.

Our record US$1.3 billion Boeing aircraft order, approved by the Board of Directors in 2011 and announced in early 2012, was a major step forward in terms of fulfilling our strategy, as well as a landmark for Kazakhstan's civil aviation sector. The three new 767-300ERs will enter our fleet in 2013-14 to expand our long-haul service. Meanwhile, the delivery of the 787-8 Dreamliners in 2017 and 2019 promises to be transformational, giving us an aircraft with a global reach, unmatched customer experience, high fuel efficiency and a reduced environmental footprint.

In November and December 2012, we took delivery of our first owned Airbus 320/321s, part of an order for six aircraft made in 2008 and worth US$500 million at list prices. The deliveries coincided with First President's Day and Kazakhstan's Independence Day, underlining the significance of Air Astana building its own modern fleet. We have financed both the Boeing and Airbus orders without recourse to state subsidies or other support, a reflection of our strong financial position and creditworthiness.

I am proud to note that we have recognised famous Kazakhstani women by naming our first owned aircraft after female heroes from the past century. In May, we celebrated the 67th anniversary of victory in the Great Patriotic War (World War II) by naming our first owned aircraft, an Embraer 190, after Kazakhstan's first female combat pilot, Hiuaz Dospanova, who served bravely in many missions during the war. We are also naming our newly delivered Airbus 320/321s after pioneering women, including opera singer Kulyash Baiseitova and war heroes Aliya Moldagulova and Manshuk Mametova.

Safety remains an absolute priority, both strategically and operationally. Following our last successful IOSA certification process in May 2011, we worked hard to prepare for the next audit in spring 2013. In November 2012, we presented our safety performance update at a European Commission (EC) Air Safety Committee hearing. Based on this, the EC has allowed us, within the current level of operations, to use our newly acquired aircraft to fly into Europe. We remain the only airline in Kazakhstan that is allowed to fly into the EU.

In 2012, we continued to work closely with the civil aviation authorities in Kazakhstan to make long-term, structural changes to the oversight of our civil aviation sector. In addition, our programmes to train a new generation of skilled pilots and young maintenance engineers will help to produce the required standard of talent for the future.

Our greatest contribution to the people of Kazakhstan is providing world-class passenger and cargo services and facilitating business, while we also contribute to the state budget through our tax payments and dividends to the Samruk-Kazyna National Welfare Fund. Alongside this, we remain committed to social investments and charity, and we have implemented nearly 100 projects in this area since 2008, including 15 in 2012. We also invest in our people and provide them with the skills and training needed to realise their full potential, as well as benefits that contribute to their future.

I am proud of our achievements in 2012 and the 10 years since our maiden flight in May 2002. At the same time, I am conscious that our hard work has only begun. We must ensure that Air Astana continues to grow in a transparent and sustainable manner, while overcoming the strategic challenges posed by the global aviation market. We must continue to develop corporate governance institutions to manage our growing airline effectively and ensure that its work benefits all stakeholders. We should also ensure that our philanthropic work continues to reach the people who need it most and delivers real change in their lives. The tasks ahead are clear, and we look forward to tackling them in 2013 and beyond.

On behalf of the Board of Directors, I would like to thank the entire Air Astana team for their hard work in 2012.

Yours faithfully,

Nurzhan Baidauletov

LETTER FROM THE PRESIDENT

To misquote an old sporting cliché, 2012 was a year of two halves. The first half was seriously affected by sluggish demand and high fuel prices, causing year on year profit for the period to drop by 80%, in contrast to the second half which was our best on record, driven by demand recovery, non-fuel savings and greater efficiency of aircraft and crew utilisation. The full year net profit of $61.1 million was identical to that of 2011, marginally ahead of budget and in our view a good result given the pressures on the industry from high fuel prices and weak demand in Europe. Routes to and from the European Union make up 18% of the airline's international capacity. Total airline revenues grew 13% to $875.1 million on capacity growth of 11%. We carried 3.2 million passengers, an increase of 6%. Whilst net margin slipped from 8 to 7%, it is likely that we will continue to place amongst the world's 20 most profitable airlines, as we have for both 2010 and 2011. In summary we remain in our 10th full year a high growth, full service, consistently profitable airline, a rare combination in recent times.

It is important to stress the value of the work of the cost reduction committee in achieving this result. The CRC met weekly from early February and was able to identify and implement savings in fuel management and consumption, IT services, operating lease charges and recoveries, travel agency commissions and other areas of operational and fixed cost. Therefore in spite of fuel expenses exceeding budget by $45 million, all but $14 million of that over-expenditure was saved in other areas.

One area in which no attempt was made to save cost was that of service to customers. Lie-flat seats in the business class of the second of our 2 Boeing 767s were retrofitted resulting in a consistent business class product across the entire Boeing 757/767 fleet. The KCTV personal entertainment system was upgraded from Bluebox to Ipad 3 with greater programme capacity and better video and audio quality. Higher quality wines, spirits and fruit juices were introduced across all routes together with new menus and a more flexible meal service on long-haul night flights. Stylish new uniforms for cabin and ground staff were introduced late in the year and work started on the airline's own Business Class lounge at Astana Airport. The results were recognized by Skytrax, who upgraded us to 4 star status and whose respondents awarded us "Best Airline, Central Asia and India". Air Astana is to date the only airline in the CIS and Eastern Europe to have achieved 4 stars. Hardware is only part of the story and I would like to acknowledge our flight, ground and support crews, cabin engineers and cleaners and many others, for their hard work and attention to the detail of high quality service delivery.

As mentioned earlier we remain in stock-market parlance a growth story. Although the actual number of aircraft in the fleet grew by just one to 26, an important shift in short haul capacity took place with the retirement of the Fokker 50 turboprops and their replacement by Embraer 190 regional jets. At year end the E190 fleet stood at 6 aircraft and in early 2013 a 7th was delivered. Its range, capacity and passenger comfort has enabled us to further develop our "extended home market" strategy by starting new routes from Astana to Baku, Omsk, St Petersburg and Tashkent and from Almaty to Kazan, and to increase capacity on existing domestic and international routes. Route growth was not limited to the region as we introduced flights from Astana to Beijing and Almaty to Hong Kong and to Ho Chi Minh City, via an expanded service to Bangkok. Against this backdrop of growth it is disappointing to report that we have had to drop all flights to the cities of Uralsk, Semey and Petropavlovsk because of defective runways at their airports.

A major shift in aircraft portfolio strategy took place in 2012. For the first time we took delivery of owned as opposed to operating leased aircraft, with the first of 2 E190s and the first 2 of 6 Airbus 320 family aircraft purchased via a combination of cash and export credit guaranteed finance. We placed an order with Boeing for 3 767-300ER and 3 787-8 aircraft for delivery from late 2013 through 2019. In sum the total aircraft order is well in excess of $1 billion, the largest civil aircraft order in Kazakhstan's history. All the new aircraft will be funded through cash and aircraft finance markets without any state or shareholder funds or guarantees. The new aircraft are rapidly propelling us up fleet age rankings. The average aircraft age is now 7.4 years and set to further improve, reducing carbon emissions and increasing reliability.

We continue to innovate in both front and back offices. An airline's website is now its shop window and we have continued to improve access, content and functionality. In addition to an increasing number of direct ticket sales most customer needs, from check-in to flight information, hotel and car rental bookings and the purchase of travel insurance can now be done online in several languages. Behind the scenes we have continued to introduce or improve a variety of systems covering fuel management and flight plan optimisation, aircraft parts management and an electronic flight bag and digital library, transforming on-board documentation and the way we communicate with pilots in the air.

Operational safety continues to be our first priority. The airline's Safety Audit of Foreign Aircraft (SAFA) performance continued to trend at a low level of findings at all foreign airports to which we operate. This was a major factor in the EU Air Safety Committee's decision in November to amend and improve the terms of our operation to Europe under Annex B, imposed after the Kazakhstan CAC failed its ICAO audit in 2009. We renewed our EASA (EU) 145 maintenance licence for the 10th consecutive year after the annual inspection by the UK's Civil Aviation Authority and added to the number of EASA-certified workshops at our Almaty Centre 5 base. Our pilots continue to receive the highest standard of recurrent training at EASA-accredited facilities and our cadet pilot throughput increased at the Florida Institute of Technology, the Aerosim Academy (USA) and the Atlantic Flight Training Academy (Ireland). Our quality assurance and corporate safety staff continue to contribute not just to Air Astana's safety but also to that of the industry in general, through their Flight Safety Foundation and IATA accreditations. We are now an approved auditor for IATA's Safety Audit of Ground Operations, and our ISAGO-qualified auditors are regularly assigned by IATA to audit airports both in and outside Kazakhstan.

In conclusion 2012, the year in which we celebrated our 10th birthday, was another busy and successful one. I would like to thank all of my 3900 colleagues, our shareholders Samruk-Kazyna and BAE Systems, our stakeholders in government and elsewhere and of course our customers, for their continued and steadfast support and loyalty. For all of the uncertainties facing the airline industry, Kazakhstan remains a great place to do business and an exciting place in which to live and work, and we all look forward to meeting and overcoming the challenges of our second decade.

Yours faithfully,

Peter Foster

OUR MISSION, GOALS AND VALUES, AND STRATEGY

OUR MISSION

Air Astana was founded in 2001 and made its maiden flight in May 2002. Our mission is to provide profitable domestic and international air services to the highest standards of air safety and customer service, to serve and complement the needs of Kazakhstan. We are also committed to being a leader in terms of transparency and promoting international best practices in corporate governance.

OUR GOALS & VALUES

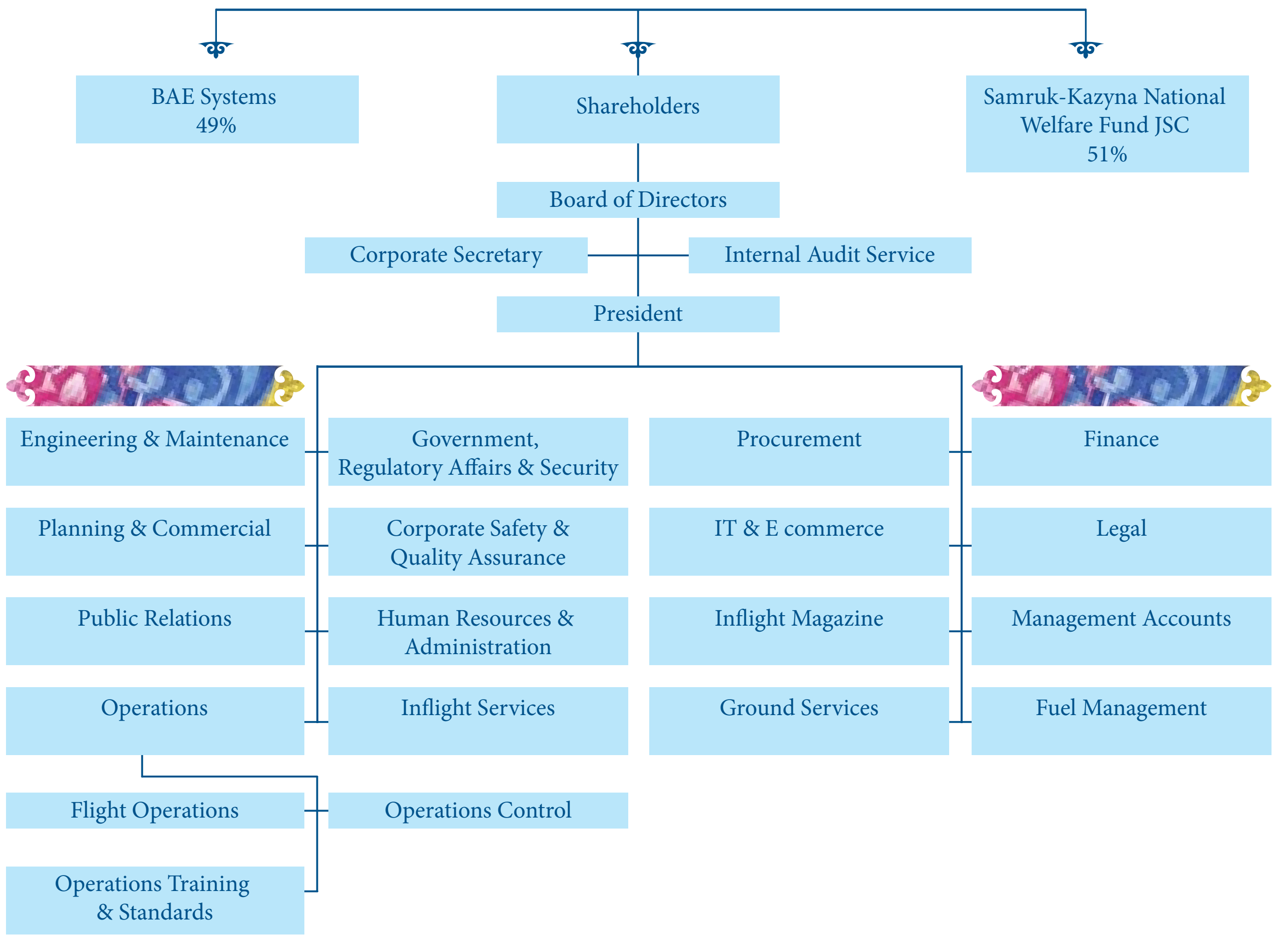
- To achieve the highest international standards of operational safety
- To be the leading airline in our region in terms of service delivery and operational reliability
- To continually develop our fleet, route network, product and business processes while taking into account the interests of the Company and our clients
- To always demonstrate the highest standards of integrity and business ethics in our dealings with business partners, customers and colleagues
- To recruit, appraise, reward and promote staff based on merit, professional qualifications, individual achievement and collective contribution to the Air Astana team
- To provide all members of our team with a sustained programme of training and development to enable them to achieve their full potential and our airline to fulfil its mission
- To strive to be one of Kazakhstan's most respected companies by fulfilling our mission and contributing to the nation's social and cultural development and preserving its environment

Kazakhstan - While celebrating its 10th anniversary, Air Astana named new aircraft after prominent women of its home country

OUR STRATEGY

- The Strategy of Air Astana for 2011-20 was approved by the Shareholders in January 2011, and the Company continues to implement it.
- We continue to grow profitably, enhancing our position as the regional leader in Central Asia.
- Air Astana operates modern aircraft – notably the Embraer E190, the A320 family and the B757 in the interim, and new 767 – and plans to introduce the Boeing 787 Dreamliner. These aircraft will represent the most modern fleet in the region.
- We aim to increase the fleet to 37 aircraft by 2020.
- Our total passenger traffic is forecast to grow to over 5.8 million people in 2020.
- Air Astana has become the leading high-tech airline in the region, with a cutting-edge web site, distribution and revenue management systems, and corporate application and management information systems.
- We will develop a heavy maintenance engineering capability with extensive workshop facilities. This will enable us to carry out major aircraft maintenance in-house, provide a base for a centre of excellence in the region, and allow us to maintain similar types of aircraft for other airlines.
- The Ab-Initio pilot training programme will create a pool of a highly qualified and experienced Kazakhstani pilots comparable with that of any major international operator.
- Air Astana is at the forefront of human resources and personnel development. The Company is recognised throughout Kazakhstan and by the workforce generally as being a first-class employer that applies modern international-standard management principles. An ongoing training programme will continue the development and education of its workforce.
- Air Astana is recognised as having a corporate governance structure that meets international best practices.
- The airline has an excellent corporate safety structure and record, and it will continue to develop this in all areas of operations.

OUR CORPORATE STRUCTURE



MANAGEMENT TEAM

PETER FOSTER
President

Peter Foster entered the airline industry immediately after graduating from Cambridge University in 1982, as a management trainee of John Swire and Sons (HK), the owner of Cathay Pacific Airways (CPA). From 1982-99, he served in various management and senior management positions with CPA in Hong Kong, Asia, Australia and Europe, and underwent business management training at INSEAD, France. In 1999, he left CPA to head the rehabilitation team of Philippine Airlines. From 2002 to 2005, he served as Chief Executive Officer of Royal Brunei Airlines, before becoming President of Air Astana.

ALMA ALIGUZHINOVA
Senior Vice President
Planning and Commercial

Alma Aliguzhinova was among the first employees to join Air Astana at its initial stage of development in 2001, before the start of commercial operations. She began as Corporate Development Manager, before progressing to the position of Corporate Development Director, Vice President, Planning, and now Senior Vice President, Planning and Commercial. Alma is a Bolashak alumnus and holds an MBA from East Carolina University, US.

YERBOL OSPANOV
Senior Vice President
Government, Regulatory Affairs and Security

Yerbol Ospanov brings with him over 35 years of unique experience and education in the aviation industry. In 1985, he earned an aviation business management qualification, following graduation from the Officers' Training faculty of the Civil Aviation Academy in Leningrad, Russia. In 2002, he obtained a Bachelor of Law degree from the law school of Kazakh National University. Since 1992, he has served as Chief Pilot for the fleet of the President of the Republic of Kazakhstan. Yerbol joined Air Astana in 2005 and is currently a Senior Vice President, as well as a pilot-instructor on Boeing 757/767s. He holds FAA ATPL and Transport Canada ATPL certificates following flight training at the Sheffield School of Aeronautics (Florida, US) and Canadian Airlines (Vancouver, Canada).

GERHARD COETZEE
Senior Vice President
Corporate Safety and Quality Assurance

Gerhard Coetzee started his career as an Air Force navigator and is a qualified accident investigator, CRM facilitator and flight procedure designer, with qualifications in (aviation) safety programme management from various institutions, including the University of Southern California. He holds a bachelor's degree in Commerce and an honours degree in Transport Economics from the University of South Africa. Gerhard has been actively involved in flight safety management for the past 20 years, including as a Staff Officer for Flight Safety in the South African Air Force and Managing Consultant with BAE Systems.

JOHN WAINWRIGHT
Senior Vice President
Engineering

John Wainwright has over 36 years of aircraft maintenance experience, in both base and line maintenance. He was educated in the UK and trained at the Royal Aircraft Establishment, Bedford. After spending almost 20 years working for Britannia Airways, he moved to South East Asia, working for Royal Brunei Airlines in Brunei, Vietnam and Nepal. When he left Brunei to immigrate to Australia, he became Head of Maintenance. In 2006, John joined Air Astana as Maintenance Manager, before becoming Vice President, Engineering and Maintenance, and then Senior Vice President, Engineering. He holds EASA B1 and C-category maintenance engineer's licences.

ANTHONY REGAN
Senior Vice President
Operations

Anthony has over 36 years experience in aviation. He was Head of Flight Operations and OPS post holder at Air France/KLM subsidiary Cityjet from 2001 to 2012 where he was responsible for all aspects of Flight and Cabin operations. Prior to that he was a Director at Parc Aviation. His early career was as a pilot with the Irish Air Corps where he held a number of operational appointments including Chief Flying Instructor retiring with the rank of Commandant. He holds a current JAA and FAA Air Transport Pilot Licence. He is a graduate of University College Dublin in Mathematics and Mathematical Physics.

IBRAHIM CANLIEL
Senior Vice President
Marketing and Sales

Ibrahim Canliel started his career in tourism, where he had several roles over nine years, ending as a manager of a major tour operator in Turkey. In 1998, he joined KLM, and after a brief appointment in the Middle East, he took a regional management role for Central Asia and the Caucasus. In 2003, he joined Air Astana, working in the Commercial Planning, Marketing and Sales departments. Ibrahim holds a bachelor's degree in Economics from Marmara University and an MBA from Bosphorus University, and speaks five languages. During his employment with Air Astana, he served as a board member of the European Business Association of Kazakhstan between 2005 and 2008.

MERGALI ALZHANOV
Vice President
Flight Operations

Mergali Alzhanov has extensive experience in the aviation industry. Educated in Aktobe Civil Aviation Flight School in 1980, he began his career as a co-pilot on the Yak-40 in the Kokchetav aviation squadron, and in 1991, he transferred to the Almaty squadron. After working for several airlines, Mergali joined Air Astana in 2004 as a captain on Boeing 757s. He became Vice President after having served as the Director of the Department.

BELLA TORMYSHEVA
Vice President
Public Relations

Bella Tormysheva has over 10 years' experience in public relations, information and cultural activity. Before joining Air Astana, she worked in the delegation of the European Commission covering Kazakhstan, Kyrgyzstan and Tajikistan. She holds a master's degree in International Relations and is currently completing a PhD in Political Sciences. Bella has attended numerous training activities abroad and enjoys working in a multinational and international environment.

YEVGENIYA NEE
Vice President
HR and Administration

Yevgeniya Nee is a graduate of Karaganda State University named after E. A. Buketov and holds diplomas in foreign languages and law. She joined Air Astana in October 2002, as Executive Assistant to the President. Since September 2005, she has been the head of the HR Department, which also oversees the Health and Safety, Administration and Transport divisions. Under her leadership, a transparent system of recruitment and corporate training has been created and a performance evaluation and reward system introduced. Yevgeniya regularly participates in professional conferences and congresses as an expert, moderator and speaker. She has numerous diplomas and certificates in management and personnel management.

AIDAR KASHKARBAYEV
Vice President
Legal Affairs

Aidar Kashkarbayev has over 15 years' experience in jurisprudence. He began practising law in the Ministry of Foreign Affairs of the Republic of Kazakhstan in 1993. Before joining Air Astana, he worked at Denton Wilde Sapte and KPMG, and as a manager in the legal department for Karachaganak Petroleum Operating B.V. in the Karachaganak oilfield, Western Kazakhstan. Aidar graduated from the School of Law at Al-Farabi Kazakh National University and has also completed a study placement at Southern Illinois University, US, under the Visiting Scholar programme.

CHAMINDRA LENAWA
Vice President
IT and e-Commerce

Chamindra Lenawa initially joined Air Astana as Manager, IT Business Systems, and then became Director, IT and e-Commerce. An IT professional, he has management experience with three national carriers. He holds a master's degree in Business Administration and a BSc in Electronics and Telecommunication Engineering. Chamindra holds certificates for different IT domains and is a professional in airline reservations, inventory, ticketing, departure control systems and business operations. He is a certified PMP (Project Management Professional; PMI, US) and a Chartered Information Technology Professional of the British Computer Society.

GALINA UMAROVA
Vice President
Fuel Management

Galina Umarova has over 10 years of experience in the airline industry. Before joining Air Astana, she was Director of Finance at Astana International Airport JSC. Galina graduated from Aktobe State University named after K. Zhubanov and holds a master's degree in Public Administration (KIMEP). She became Vice President of Fuel Management in June 2012.

ALIMA ZAMANBEKOVA
Chief Accountant

Alima Zamanbekova joined Air Astana in mid 2003 as Chief Accountant. Before that, she was Chief Accountant at various companies in the oil industry. Alima is a graduate of the Institute of Foreign Languages (English faculty) and from the Kazakh Academy of State Management, where she specialised in accountancy and auditing. She is a Certified Accountant and a member of the Chamber of Professional Accountants of Kazakhstan.

AIMAN TILEUBAYEVA
Director
Network and Revenue Management

Aiman Tileubayeva joined Air Astana in November 2003 as Commercial Planning Manager, responsible for schedule and network planning. Before that, she worked at Air Kazakhstan for five years. Aiman graduated from the Kazakh National University and has a PhD in Applied Mathematics. She was appointed Director, Network and Revenue Management, at Air Astana in February 2009.

DILYARA KUNKHOZHAYEVA
Director
Procurement

Dilyara Kunkhozhayeva joined Air Astana in early 2006 as Financial Analyst. She holds a bachelor's and a master's degree in Business Administration and Accounting from KIMEP (Almaty), where she majored in management and finance. After graduating, she worked at Ernst and Young and at KIMEP in Almaty. After becoming Head of Management Accounts in 2008, Dilyara was appointed Director of Procurement in June 2012.

RICHARD LEDGER
Director
Sales Worldwide

Richard Ledger joined Air Astana in June 2006 as Regional General Manager for the EU, US and Canada. Based in London, he was primarily responsible for the creation of a sales network throughout the region. Before that, he worked in corporate sales for Singapore Airlines in London for five years, before becoming Sales and Marketing Manager, UK, at Royal Brunei Airlines in January 2005. Richard started his travel industry career in 1993, after graduating from Lancaster University with a MA in Travel and Tourism, and from the University of London (UCL) with a BA (honours) in Geography. His first position in the travel industry was Tour Operations Manager for a tour operator specialising in packages to Thailand and India, after which he progressed to Wexas International as a "Round-the-World" specialist. Richard was appointed Director, Sales Worldwide, at Air Astana in February 2009.

PAOLO RICCIOTTI
Director
Ground Services

Paolo has well in excess of 35 years of experience in the aviation industry from both the perspectives of Airlines and Airports. He was General Manager Airports when he left Cathay Pacific Airways in August 2000 to join SEA Milan Airports to manage both Linate and Malpensa airports first and the Commercial Activities of SEA Handling later. At Cathay Pacific Airways he held several management and senior management positions in Europe, Asia and Hong Kong, to include, System Reservation Manager, Manager On Time Performance, Manager Kai Tak Airport (the glorious old Hong Kong Airport). Relevant experience in Cargo Services was also acquired over the years. Paolo holds a Diploma of V. Engineer in telecommunications and underwent business management training in both INSEAD and Ashridge Business Schools.

GRIGORIY ZYRYANOV
Director
Commercial Engineering

Grigoriy Zyryanov entered the airline industry immediately after graduating from the Civil Aviation Academy of Kazakhstan in 2001, as a Senior Engineer-Technologist at Aircraft Repair Plant 405. He then served as Deputy Chief of Production Planning and Control Department at Air Kazakhstan, before becoming Maintenance Programme Engineer in the Maintenance Planning Department of Air Astana in 2004. Later, he was promoted to Maintenance Planning Manager. In 2010, Grigoriy was responsible for launching Air Astana's Base Maintenance team, as well as obtaining EASA certification for its workshops in April 2011. He was appointed Director, Commercial Engineering, in April 2012 to deal with the technical aspects of fleet management.

TIMUR YAKUPOV
Director
National Development

Timur Yakupov is an aeronautical engineer with more than 20 years of experience. After receiving a classical aviation education in the former Soviet Union, he began his career as a mechanic for aerobatic aircraft. He served in the army as an infantry weapons specialist in military transport aviation. He continued his career in Kazakhstan as a technician for the Tu-154, and further mastered the maintenance of the main types of passenger and cargo aircraft in the FSU. Timur has worked at Air Astana since its creation, having started as a shift supervisor. He holds an engineering licence and can service more than 11 types of aircraft and their modifications.

RUSSEL ELLIS
Director
Operations Control

Russel Ellis has more than 27 years of aviation experience, and he held several senior management positions in airlines in South Africa and the Middle East before joining Air Astana in 2007. His early experience was in the military, where he qualified as a navigator and instructor. He is responsible for the day-to-day operational control of the airline and emergency response readiness.

SANDRA CULLEN
Director
In-Flight Services

Sandra was accountable for in-flight service delivery performance and standards, and the recruitment, training and development of the cabin crew. She has extensive experience in operations, human resources and learning and development at airlines and has worked with several major carriers in the UK, Europe, the US and the Far and Middle East before joining Air Astana in 2011.

BUSINESS YEAR 2012

KEY INDICATORS

KEY FINANCIAL RESULTS

(US$ '000)

Item	2012	2011	Change
Revenues	875,075	772,883	13.2%
Operating expenses	798,913	703,601	13.5%
Operating profit	76,162	69,282	9.9%
Income before profit tax	79,221	77,444	2.3%
Net profit	61,076	61,260	-0.3%
Non-current assets (excluding bank deposits)	345,144	131,205	163.1%
Current assets, including:	241,419	255,472	-5.5%
Cash and equivalents (including bank deposits)	123,527	149,660	-17.5%
Shareholders' equity	282,681	243,927	15.9%
Non-current liabilities	148,136	12,086	1125.7%
Current liabilities	155,746	130,664	19.2%

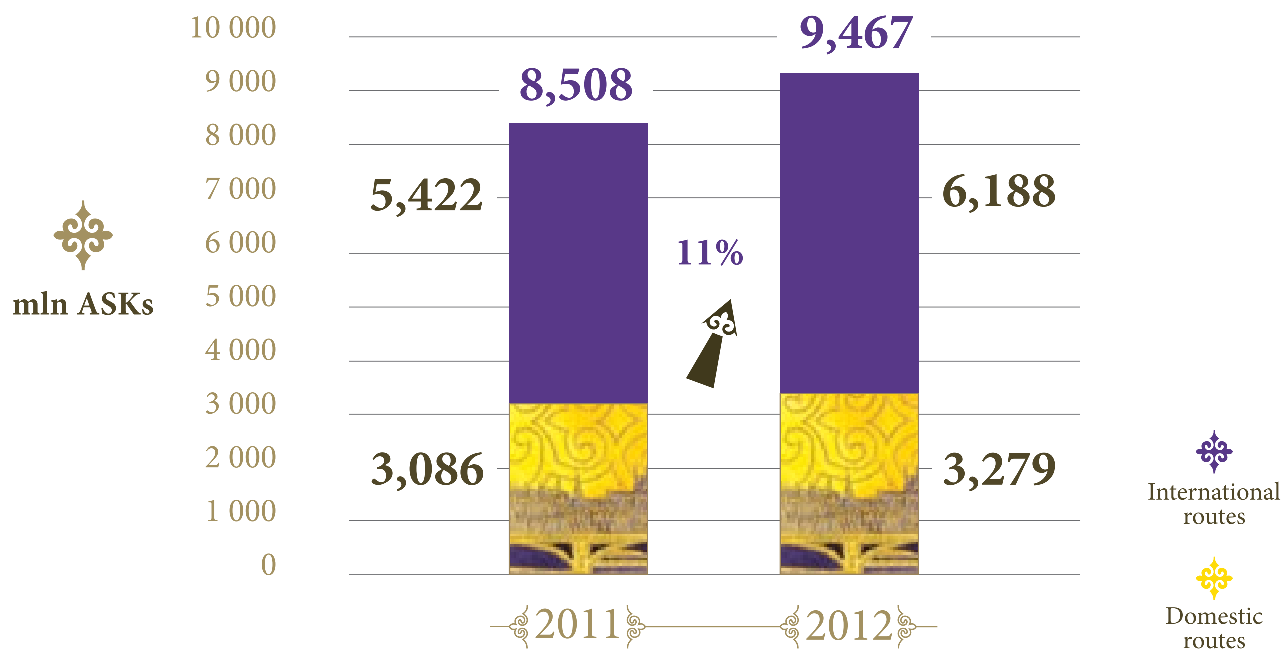
KEY OPERATIONAL RESULTS

Item	2012	2011	Change
Aircraft flight time (hours)	84,501	79,006	7.0%
Aircraft landings (numbers)	34,634	32,221	7.5%
Passengers carried ('000s)	3,245	3,057	6.1%
• on domestic routes ('000s)	1,986	1,959	1.4%
• on international routes ('000s)	1,259	1,098	14.7%
Cargo, baggage and mail (tonnes)	22,076	19,692	12.1%
Revenue passenger kilometres ('mln RPKs)	6,398	5,828	9.8%
Available seat kilometres ('mln ASKs)	9,467	8,508	11.3%
Passenger load factor (percent)	68%	69%	-1 pps

Note: pps = percentage points

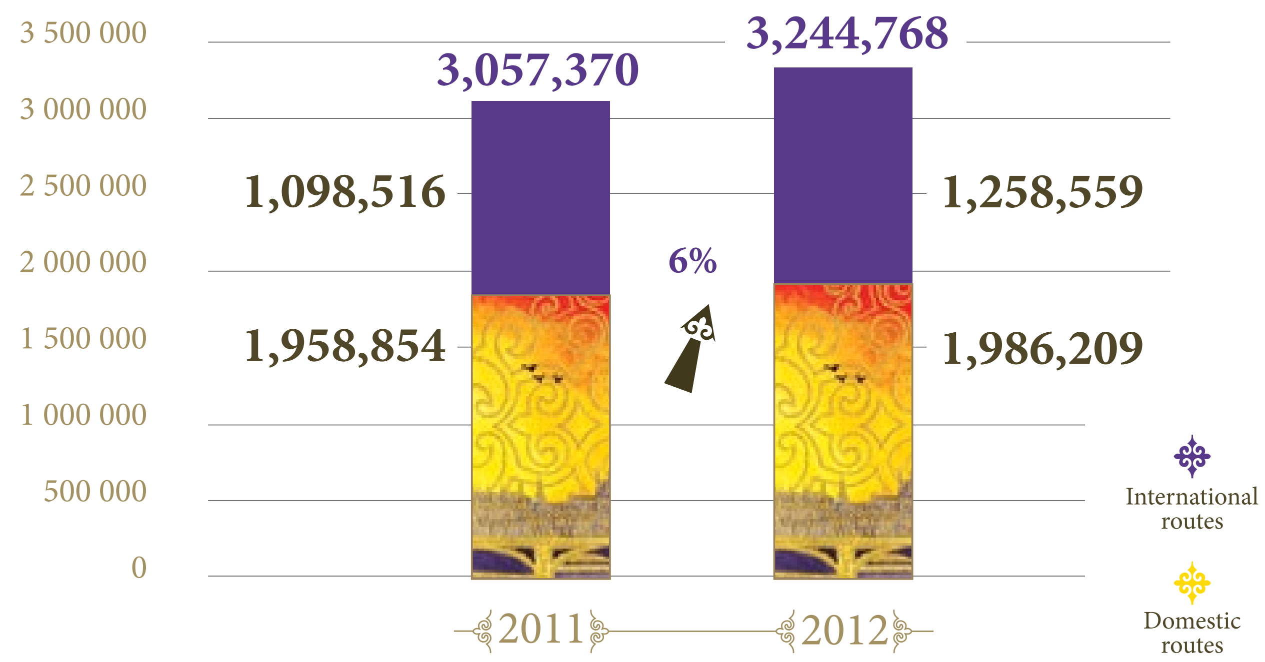
CAPACITY

AVAILABLE SEAT KILOMETRES

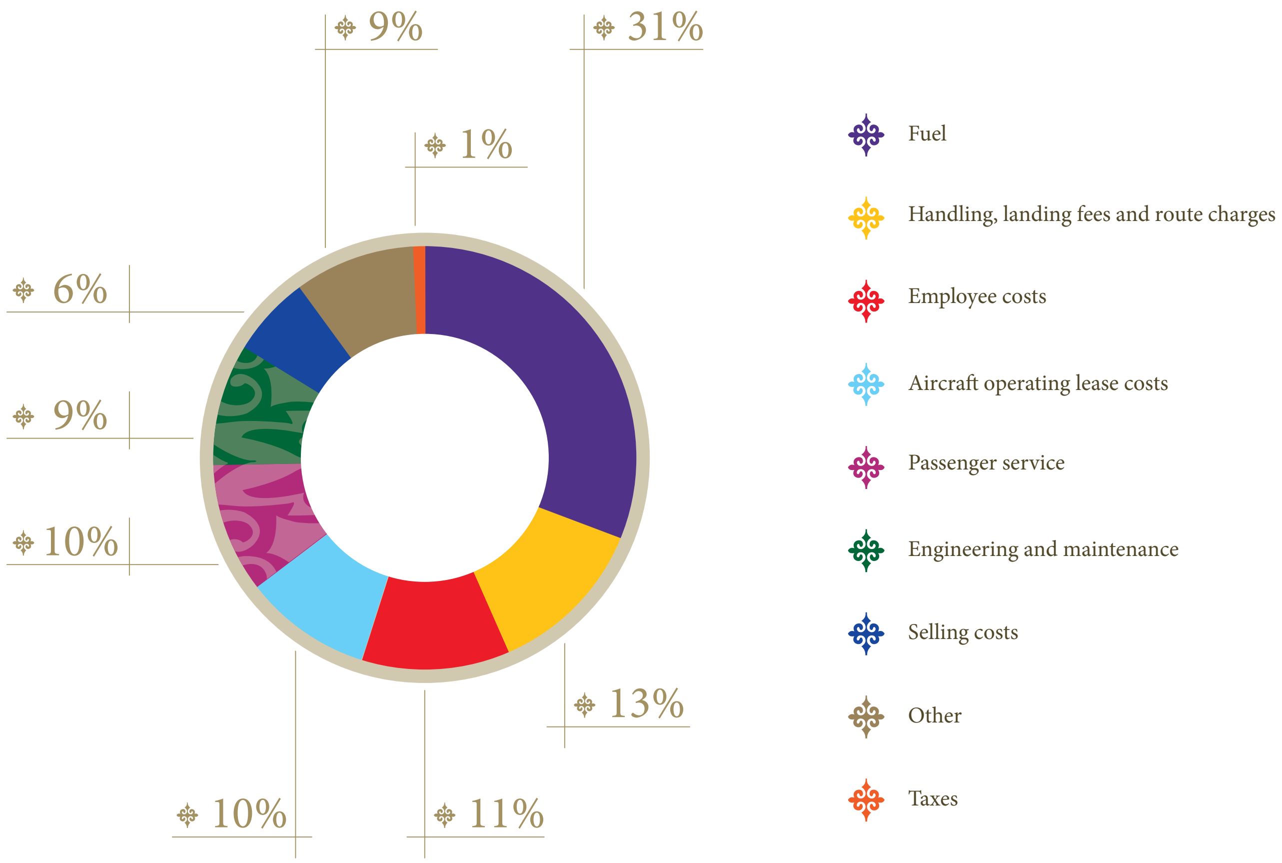


TRAFFIC

PASSENGERS CARRIED



BREAKDOWN OF COSTS



OPERATING EXPENSES

(US$ million)

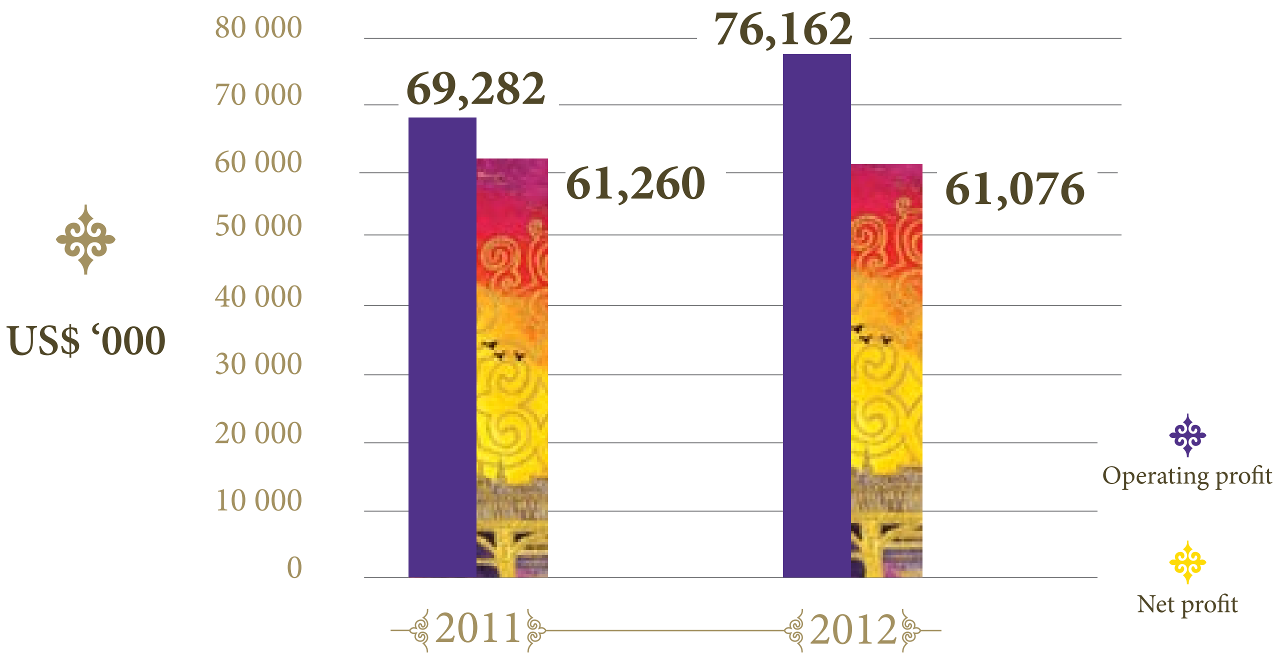
	2012	2011
Fuel	247	179
Handling, landing fees and route charges	100	85
Employee costs	92	85
Aircraft operating lease costs	80	73
Passenger service	78	69
Engineering and maintenance	74	85
Selling costs	50	54
Other	71	67
Taxes	7	7
Total	**799**	**704**

REVENUES

TOTAL REVENUES

FINANCIAL RESULTS

PROFIT



KEY STRATEGIC ACHIEVEMENTS

Maintaining the EU flight ban exemption

Undoubtedly one of our most important ongoing priorities is to remain exempt from the EU's ban on Kazakhstani carriers operating in its territory, and we achieved this again in 2012. Moreover, we obtained permission to use our newly acquired aircraft to fly into Europe, at the current level of operations. Air Astana's exemption is based on several factors, including SAFA performance. We remain in an ongoing dialogue with the Kazakhstani Civil Aviation Authority to address the shortcomings in the civil aviation system and having local airlines removed from the EU "black list".

Upgrading the fleet

We fulfilled our fleet upgrade plans in full in 2012. In November and December, we took delivery of three Airbus A320 family aircraft, timing their arrival to coincide with public holidays. We also added three new Embraer 190 aircraft to our fleet and phased out the remaining Fokker 50 turboprops, the final flight taking place on 28 November 2012. In addition, we revealed plans to continue keeping our fleet as young and modern as possible, announcing a record US$1.3 billion order for new Boeing aircraft in early 2012.

Aircraft financing

As planned, four of the aircraft delivered in 2012 came directly from manufacturers under purchase agreements financed with guarantees by export credit agencies.

Developing the route network

We expanded our network considerably last year, both launching new services and adding flights to existing routes. They included Astana to Baku (Azerbaijan), Tashkent (Uzbekistan), St Petersburg (Russia), Omsk (Russia) and Beijing (China), and Almaty to Kazan (Russia), Hong Kong (China) and Ho Chi Minh City (Vietnam).

Developing the maintenance centre

We made significant progress in our drive to establish ourselves as a regional leader in aircraft engineering and maintenance last year. Notably, in Almaty, we began installing a tail docking system for Airbuses and Embraers, the only one of its kind in the CIS, and created a standalone Base Maintenance Department, with over 30 engineers and technicians. In addition, we received EASA 145 certification to conduct container, hydraulic brake, composite component and structural repairs, while we now maintain kitchen equipment independently, which considerably reduces the cost of repairs abroad. We also expanded our operational capacity at Astana.

Improving in-flight and ground services

Our continuous efforts to improve the quality of our service were recognised in 2012, when Skytrax named us Best Airline in Central Asia and India and awarded us its prestigious 4-Star award for passenger service. Among the individual improvements over the year, we introduced an iPad-based system in business class, prepared for the retrofit of our Boeing 757s and arrival of the new Boeing 767s, and introduced a new safety video.

KEY EVENTS

JANUARY

- Air Astana introduced a fifth Boeing 757-200 to its operations on domestic trunk routes and international services to Asia, Europe and the Persian Gulf.

FEBRUARY

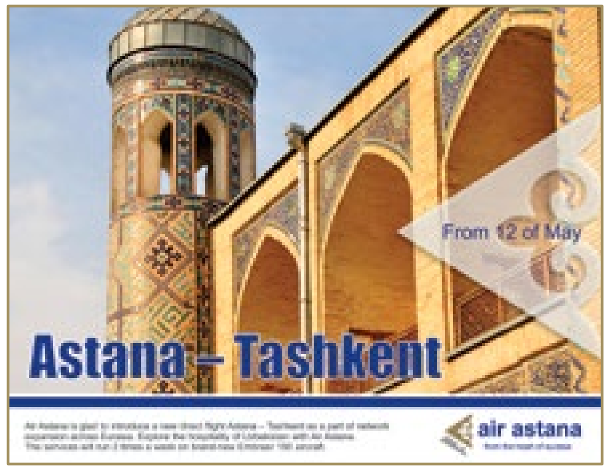
- Air Astana announces an agreement to purchase three 767-300ER aircraft and three 787-8 Dreamliners from Boeing in an order worth US$1.3 billion at list prices, the largest ever in Kazakhstan's civil aviation history
- New luxury travel kits from Chopard for business-class passengers are introduced on flights over four hours, the latest innovation in a service that has won Air Astana a gold award for its business-class male amenity kit and a silver award for its business-class female amenity kit from Travelplus.

MAY

- Air Astana marks the celebration of Victory Day and the end of the Great Patriotic War (World War II) by naming its first owned aircraft, an Embraer 190, after Kazakhstan's legendary first female pilot, Hiuaz Dospanova, who fought with the 588th night bomber squadron in many missions throughout the war.

- On May 15, Air Astana marks the 10th anniversary of its first flight, when a Boeing 737 bearing the new flag carrier's logo completed its debut journey from Almaty to Astana. Since then, we have carried 20.5 million passengers on nearly 230,000 flights.

- Air Astana announces a major international network expansion, with new services launched from Astana to Baku (Azerbaijan) and Tashkent (Uzbekistan) in May, St Petersburg (Russia) in June, Omsk (Russia) in July and Beijing (China) in August, and Almaty to Kazan (Russia) in June and Hong Kong (China) in August.



JUNE

- Skytrax, the world's leading auditor of passenger service quality, awards Air Astana its coveted 4-Star rating, making Kazakhstan's flag carrier the first airline in Eastern Europe and the CIS to receive such a high ranking, and placing it in the top tier of global airlines.
- Air Astana presents awards to the first graduates of Almaty's Civil Aviation Academy to pass an aircraft engineering and maintenance course under a joint programme launched in 2011 to promote world-class skills and excellence in aircraft maintenance.

JULY

- Air Astana is named Best Airline in Central Asia and India at the 2012 World Airline Awards, based on passenger surveys and held at Farnborough Air Show in the UK.

AUGUST

- Air Astana unveils its new online booking tool for worldwide hotel reservations developed in partnership with and powered by Booking.com, giving passengers access to more than 235,000 hotels, apartments, B&Bs, hostels, farms, castles and even igloos in 178 countries.

SEPTEMBER

- Air Astana celebrates its 10th anniversary of flying to Russia. Today, we operate 42 flights a week between Kazakhstan and Russia and are still growing.

NOVEMBER

- Air Astana announces the retirement of its Fokker 50 turboprop fleet. The last two aircraft will return to their lessor in 2013, and we will complete the transition to new-generation Embraer E-190s, which are renowned for their quiet operation and fuel efficiency.

DECEMBER

- Air Astana celebrates the delivery of its first two owned Airbus A321 aircraft and one Airbus A320, part of an order for six planes made in 2008 and worth US$500 million at list prices. The deliveries mark two important holidays in Kazakhstan: First President's Day on December 1 and Independence Day on December 16.

Annual Report 2012

OPERATIONAL ACTIVITY

SAFETY

As an airline, the safety of our operations is our single overriding priority, and we adhere to the highest international standards and best practices in this area. Air Astana's safety programme is based on a Safety Management System (SMS), which is designed to complement our existing safety systems and integrate aviation safety at all levels through structured and comprehensive processes of risk identification, analysis and mitigation.

Responsibility for aviation safety rests with operational departments. They are supported by an independent Corporate Safety and Quality Assurance Department, which ensures SMS implementation across the airline, conducts training, and promotes a safety-based culture throughout our business.

The International Air Transport Association (IATA) and European Aviation Safety Agency (EASA) attest to our compliance with international standards of safety and security. The IATA Operational Safety Audit (IOSA) is an internationally recognised and accepted evaluation system designed to assess the operational management and control systems of an airline. It evaluates all facets of operations, including: organisation and management, flight operations, flight dispatch and operations control, aircraft maintenance and engineering, cabin operations, ground handling, cargo handling and operational security.

Air Astana passed its most recent IOSA process in May 2011, when the audit was completed without any adverse findings, confirming our commitment to meeting the highest standards of safety across our operations. In 2013, we plan to undergo our fourth IOSA audit and obtain certification for our own IOSA auditors.

EU operations

Air Astana continued flying to the EU throughout 2012. All other Kazakhstani carriers remain banned by European Commission (EC) due to safety monitoring deficiencies in Kazakhstan's civil aviation oversight system.

The EU authorities have exempted us due to several factors: oversight by the Department of Civil Aviation of Aruba (where our aircraft are registered) and the UK Civil Aviation Authority (our compliance with EASA Part 145 maintenance standards); and commitment to continued improvement, as reflected in our safety programme performance and ramp inspection results. We continue to play a leading role in supporting the development of the civil aviation oversight system in Kazakhstan, including the secondment of Air Astana experts to the regulatory agency.

In 2012, we helped the regulator to establish the first National Birdstrike Prevention Committee meeting and push to introduce more active reduction measures at all airports, building on the work started with the German Birdstrike Prevention Organisation in 2011. The initiative is synchronised with ISAGO. Our goal in 2013 is to continue supporting regulatory reform.

In November, Air Astana presented a safety performance update at an EC Air Safety Committee hearing. Based on this, the EC allowed us, within the current level of operations, to use our new aircraft for flights to Europe.

Standards

In July 2012, an IATA Safety Audit for Ground Operations (ISAGO) team of IATA-accredited Air Astana quality assurance auditors conducted an ISAGO audit of Karaganda airport's ground services. This was the first such audit in Kazakhstan, although the Air Astana ISAGO team has conducted around 20 audits in Europe, Turkey, Russia, China and Korea. The Air Astana ISAGO team is committed to supporting Kazakhstan's adoption of ISAGO standards. In 2013, we plan to carry out ISAGO audits of five ground service providers at domestic airports.

ISAGO is the first global safety audit programme for ground service providers. It aims to improve operational safety, while reducing the number of audits that need conducting by adopting common standards and sharing results among members. Based on internationally recognised standards, it serves as an effective model for operational risk and safety management for ground operations. Our membership of the ISAGO audit pool is further recognition of our high levels of training and expertise and also provides us with an additional competitive edge.

As of 1 December 2012, following several Air Astana quality assurance audits and unsuccessful attempts to remedy the issues, we decided to stop services to Semey and Uralsk due to hazardous runway conditions posing an unacceptable risk to jet aircraft operations.

Last year, the airline expanded its EASA Part 145 certification for workshops to include maintenance of brakes, galley equipment and air-conditioning units. In 2013, our goal is to obtain EASA Part 147 certification for maintenance training organisation.

Training

We make major investments in training and maintain a Safety and Quality Assurance Department to ensure that safety, compliance with international standards and industry best practice remain priorities across our operations. In 2012, as part of our SMS, the Corporate Safety and Quality Assurance Department continued to implement a safety performance monitoring programme by setting safety performance targets for identified risks. While compliance auditing is well established within the airline, we have increased pro-active auditing.

The department also continued to raise awareness of the safety promotion programme, including SMS awareness training for operations staff. In particular, we focused on increasing awareness of the SMS, clarifying specific and common safety responsibilities, and promoting a positive, safety-based culture among employees.

Last year, four safety officers passed an intensive six-week accident investigation course at the Cranfield University (UK) Safety and Accident Investigation Centre, a world leader in air accident investigation training and research. In early 2013, another three staff were undergoing training at Cranfield.

FLIGHT OPERATIONS

Last year was extremely busy and productive for flight operations, as we phased out the Fokker 50 fleet and continued to re-train pilots of that aircraft, as well as a new intake of 60 pilots, including those who have completed the Ab-Initio programme sponsored by Air Astana. We also saw ongoing benefits from investments in new technology, including the start of the electronic flight bag project and digitisation of operations documents.

Our consistent adherence to the most robust standards has allowed us to begin the process of receiving Extended Operations and Category IIIB certification, and the latter will enable us to extend our networks and improve reliability.

Extended operations

IIn May 2012, Air Astana initiated the Extended Operations (ETOPS) application process, allowing it to operate flights over extended ranges from its bases and alternative airports. While the ETOPS certification has rigorous requirements, we expect to apply for approval to the Kazakhstan Civil Aviation Committee in 2013 and introduce the standard later in the year. ETOPS has many benefits: it reduces time and costs and enables us to extend our network further.

In another major milestone, we introduced Category IIIB (Cat 3B) operations, which permit safe landing in conditions of reduced visibility, in this case visibility of under 75 metres. We expect this to contribute significantly to on-time performance and reduce diversions due to poor weather, not only lowering costs but also improving customer experience.

Electronic flight bag

Weighing 18 kilogrammes or more, the traditional pilot's flight bag includes manuals, checklists, navigation charts and more. Alongside the bag being heavy, the production and distribution of paper documentation takes time, effort and resources. Digital technology lightens the load and makes the management of operational documentation more efficient and thorough.

With this in mind, in January 2012, we launched the electronic flight bag (EFB) project, under which an electronic document management device for flight crew will replace the traditional paper-based manuals. This innovation will place us at the forefront of operational support technology. The EFB project is an important part of our preparations for the introduction of the Boeing 787, a next-generation aircraft, later in the decade.

By December 2012, we had completed the conversion to a digital library. Documentation control personnel and Flight Operations management now send and receive messages from flight crew exclusively in electronic format, while all documentation is stored and distributed electronically, including manuals and checklists.

Training

Training is at the core of our Operations Department, and 2012 was busy by any standards. We recruited and trained 60 new pilots last year, including 27 cadets. This involved initial cadet, simulator conversion and line training.

United Kingdom - Air Astana brings Kazakhstan's close trading partner even closer, with two direct services to London a week

As mentioned, we also added three new Embraer 190 aircraft to our fleet and phased out the remaining Fokker 50 turboprops, the final flight taking place on 28 November 2012. Six new destinations were added to our Embraer operations: Kazan, Samara, St Petersburg, Delhi, Omsk and Tashkent. Most of the Fokker 50 pilots switched to Embraer 190s and A-320s. Overall, 28 Fokker pilots completed conversion courses to Embraers and Airbuses in 2012, on top of the 30 pilots who retrained in 2011.

Meanwhile, we continued our Ab-Initio pilot training programme, a long-term project to create a pool of highly skilled pilots from Kazakhstan. The programme is designed to train experienced pilots to the highest international standards. The training is provided by AeroSim, one of the world's leading aviation training centres, based in Miami (Florida, US), and Atlantic Flight Training, in Waterford (Ireland). After graduating, the cadets are awarded a Joint Aviation Authorities (JAA) qualification and receive JAA flying certificates. We consider Ab-Initio a major but worthwhile investment in time and resources to create a new generation of highly skilled pilots who will drive the future growth of Kazakhstani aviation.

To improve the quality of training, we purchase fixed-base trainers, and last year, we took delivery of one for Embraers. The trainers allow us to improve our instruction process yet further and enhance overall safety standards.

On-time performance

In 2012, we maintained our excellent on-time performance (OTP). From January to November, we reached a record OTP of 85%, but in December, the overall OTP was affected due to severe winter weather at Almaty airport. As a benchmark, Air Astana uses European and US OTP standards, despite the harsh winter conditions for operations in the region. On a weekly basis, we review the root causes of any delays and work, wherever possible, to address these issues to minimise or eliminate delays in the future. We continuously strive to maximise our performance in this area, as we appreciate its importance for our customers.

IN-FLIGHT SERVICES

Air Astana is renowned for the highest international standards of in-flight service. In 2012, based on passenger surveys, we became the first airline in Eastern Europe and the CIS to receive the coveted Skytrax 4-Star rating for passenger service, placing us among the world's leading airlines. We see this rating as a challenge to achieve even more in 2013 and beyond, and to make our mark as a leading global airline in terms of passenger service.

Comfort and convenience

Air Astana's strategy regarding in-flight service is to position itself as a top global carrier at the cutting edge of technology and service. We will accomplish this through our commitment to delivering excellent service on every flight, as well as ensuring innovative in-flight product design and the highest standards of catering.

Last year saw a major upgrade in in-flight entertainment (IFE) technology. In December, we introduced an iPad-based system in business class, and we will continue to do so across the entire fleet in 2013. The iPad will offer a much wider choice of entertainment, delivered digitally, for our business-class customers, while reducing costs and energy use.

Looking ahead, following the retrofit of the 757 fleet in late 2013, we will offer "in-seat" video in economy class and continue with the iPad in business class. With the arrival of the first of our new 767s in September 2013, we will be able to offer "in-seat" video for both business and economy classes on the aircraft, in line with international IFE standards. In addition, the first 767s will have new interiors, mood lighting and a fully flat bed in business class. In 2012, we also installed espresso coffee makers on our existing 757 and 767 aircraft, enabling our business-class customers to enjoy espresso, latte and cappuccino coffee on board. They will also be installed on our new Airbus fleet.

In March 2012, in line with leading international airlines and best practice, Air Astana launched a new safety video throughout the fleet. It covers all aspects of mandatory safety procedures on board and is in Russian, Kazakh and English.

During the year, we also made several improvements for customers in both business and economy class. We introduced new, larger pillows and a new style of blanket, as well as new Chopard travel kits in business class. We expanded our choice of alcoholic spirits to include more internationally recognised brands like Jack Daniels, Johnny Walker and Hennessy, as well as Becker beer. We also made several improvements to the business-class menus on specific routes, introducing regional themes like "A Flavour of Asia" and "A Taste of Britain". We intend to continue doing this in 2013.

In economy class, we now provide menu cards and hot towels on all long-haul international services. In addition, we offer a new, upgraded travel amenity kit on flights of four hours or more, as well as route-specific menu choices. We have also upgraded our selection of magazines and newspapers, while "Shusha", the children's magazine introduced in 2011, remains a success among our younger travellers.

Skytrax 4-Star award

Our continuous focus on customer service was recognised in 2012: in the annual Skytrax survey for both on-board and ground services, our rating increased from 3-Star to 4-Star. This places us among the world's top airlines and makes us the first carrier in Eastern Europe and the CIS to achieve the prestigious rank. It also sets a high standard that we will strive to meet consistently.

In July 2012, we were delighted when Air Astana was named Best Airline in Central Asia and India at the 2012 World Airline Awards, again based on passenger surveys, at Farnborough Air Show in the UK. Our president, Peter Foster, accepted the award on behalf of the team.

Cabin crew training and development

One of the most significant developments of 2012 was the launch of a new on-board structure for our cabin crew. This move was part of the drive to maintain the standards that resulted in the Skytrax 4-Star and Best Airline in Central Asia and India awards.

The new structure gives greater supervisory responsibility to our pursers on board: they will be deputies of the in-flight supervisors (IFSs) and oversee service levels, crew performance and safety standards in economy class. The role of the IFS remains unchanged: they will remain the overall leader on board, be accountable for the safety and service of the entire flight, while being able to focus even more on business class.

The new structure also includes a role for "J-class" (business-class) qualified flight attendants, who will operate the J-class galley and work with the IFS in the business cabin. Any crew applying for this role will have to attend an interview, and successful applicants will undergo a training course on business-class service delivery.

Thanks to the new structure, crew have a clearer path for development in their careers and will have more thorough training for each cabin, resulting in enhanced service for our customers. Pursers will attend a leadership programme to help them hone both procedural and leadership skills. In 2013, IFSs will attend Air Astana's leadership forums as part of their career development.

Last year, we also introduced updated criteria for hiring cabin crew. The selection process follows best practice guidelines and comprehensively tests motivation and potential for success.

Finally, we introduced cabin crew line recruiters and trainers. The teams underwent a careful selection process, and successful applicants attended both skills training and "Train the Trainer" courses. The roles provide crew with fantastic opportunities to enhance their skills and makes them more involved in selecting and training future colleagues.

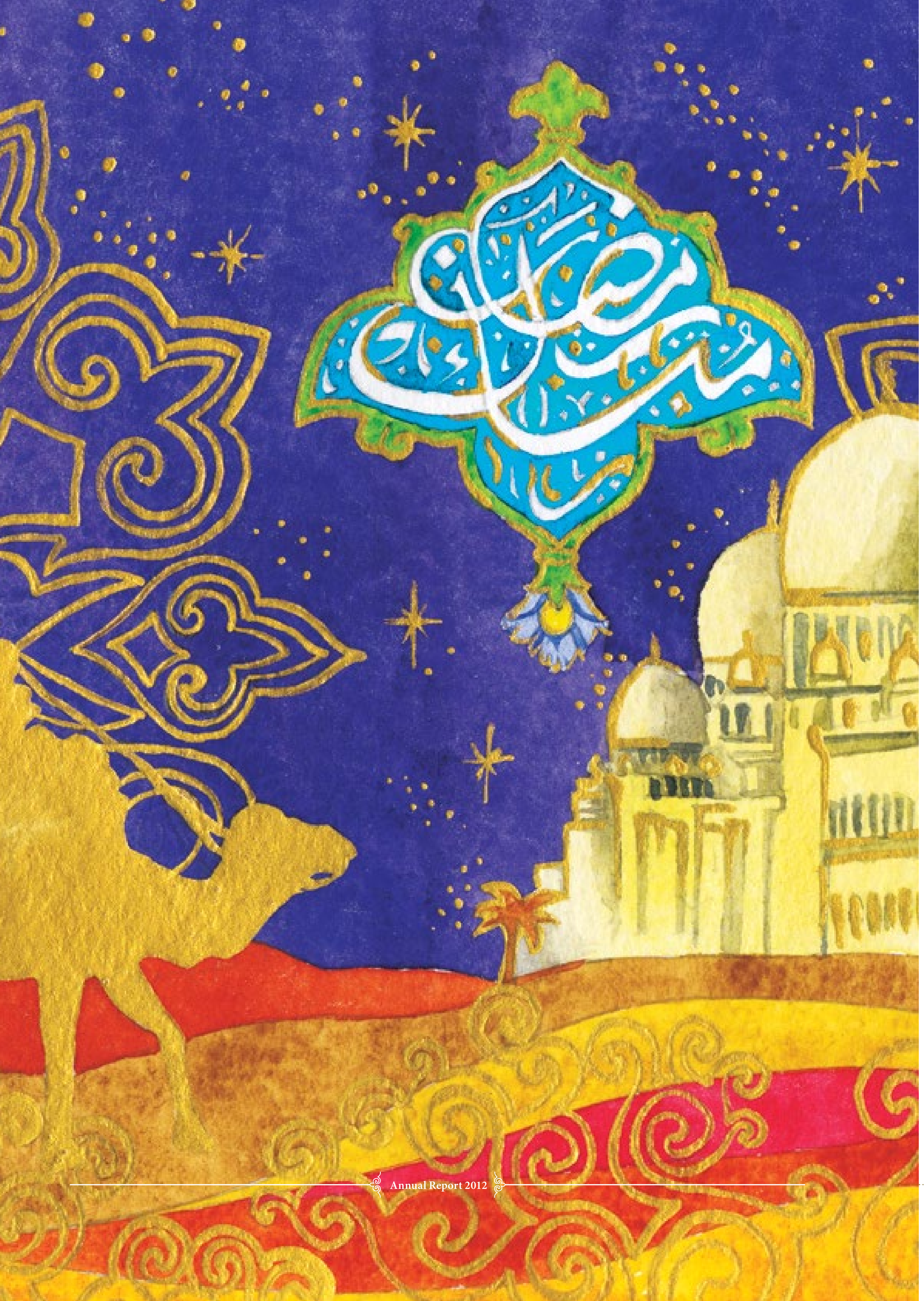
In 2013, as part of the new structure, we are introducing the new role of On-board Performance Coach. Working alongside IFSs and purser teams, these supervisors will be responsible for coaching and mentoring on board to ensure that our service style and product are delivered to the required standard and our customers receive a consistently high level of service.

New uniforms

As Air Astana prepared to mark the 10th anniversary of its first flight in May, a working group was busy developing a new uniform for all crew and ground, ticketing and reservations staff. After considering several submissions from different providers, we chose a striking, modern design that also incorporates the traditional motifs of Kazakhstan seen in our logo and aircraft livery.

The new uniform was unveiled internally as part of the 10-year anniversary celebrations in May 2012. All crew, ground staff and reservations staff began wearing the uniform in January 2013.

India - As trade between South Asia and Kazakhstan accelerates, Air Astana has increased the number of weekly flights to Delhi from three to five



GROUND SERVICES

The goal of our ground services team is to make our passengers' journey as comfortable as possible. Last year, we continued to concentrate on improving service delivery and providing a pleasant and hassle-free airport experience. Key areas of focus were maintaining on-time performance, improving processes and optimising costs, while ensuring a safe environment for passengers and staff.

Passenger experience

We constantly seek to enhance the airport experience for our customers by introducing faster and more convenient services at international destinations capable of delivering them.

In early 2012, in addition to online check-in capabilities, we launched a new mobile check-in service for our customers at Almaty International Airport to accelerate the process. At busy times, we can now deploy staff with tablet computers to process passengers without checked baggage. To this end, our IT Department installed a wireless internet network at the airport.

In June, we implemented a new fast-track immigration service in Astana for international passengers. We continue to work with the Kazakhstani immigration and customs services to ensure more efficient entry procedures for our customers in airports across the country.

Delivering a superior service for our business-class passengers is a priority. In November, we implemented a new priority boarding service for business-class and Nomad Gold and Silver members at all international and domestic airports with the necessary infrastructure.

Ground handling

In 2012, we continued to prepare our ground crew and equipment for the end of Fokker 50 operations and the transition to flying jets only. Among other things, this involved training our ground handling staff in serving the new aircraft, opening cargo doors, placing chocks, and parking. In addition, provided instruction on ground handling for Embraers at airports handling the aircraft for the first time. Where required, we provided airports with Embraer tow-bars and explained the process of pushback and parking.

We also made some changes on the ground and at airports where capacity has spiked. We reviewed parking position and ground time to optimise our schedule and service, and we changed some minor processes in Embraer ground handling to improve performance. At some airports, we reviewed immigration procedures to avoid mixing passengers from international and domestic flights.

As part of introducing additional routes, we opened new ground stations at Omsk, Hong Kong and Ho Chi Minh City. We also stopped operations in Uralsk and Semey due to the suspension of flights there.

Behind the scenes, we continued working to reduce costs and improve efficiency, including conducting additional training, improving IT infrastructure and lowering third-party costs. For example, we reviewed ground-handling contracts with providers at numerous airports and hotels. During the year, we reviewed all handling and crew hotel contracts and set benchmarks for the best rates. Where the rates were not optimal, we re-tendered contracts, resulting in savings of around 10-20% and, in some exceptional cases, 50%. In addition, thanks to additional training, experienced staff and the launch of a new de-icing open-basket truck, we reduced the consumption of de-icing fluid for each aircraft type.

Meanwhile, we implemented the Ground Service Talent Pool programme. Under the scheme, we identify employees with significant potential and send them for further training both within the Company and with outside providers, sometimes internationally. We selected 10 staff to take part in the programme and look forward to benefiting from their newfound skills, insight and experience.

In December, we introduced new uniforms for ground staff, in line with the rollout across the airline.

United Arab Emirates - In codeshare with Etihad Airways, a key partner, Air Astana now operates 11 direct flights to the UAE, one of the world's main transit hubs

ENGINEERING AND MAINTENANCE

The priority of Air Astana's Engineering and Maintenance Department is to ensure the highest standard of flight safety, as well as optimise aircraft maintenance costs. We plan to be a leader in regional aviation engineering capabilities, with a large maintenance, repair and operations (MRO) facility in Kazakhstan.

We carry out engineering and maintenance of aircraft in accordance with the requirements of the European Aviation Safety Agency (EASA). To optimise costs and efficiency, we continue to develop independent engineering and technical services, increasing the scope of maintenance work that we perform and significantly reducing outsourcing. One key thrust in this area is the ongoing project to increase the type of independent maintenance that we can conduct on Airbus and Embraer aircraft.

In March-April 2012, as part of this drive, Air Astana installed a tail docking system for Airbuses and Embraers, the only one of its kind in the CIS. Once the entire system is in place, expected in mid to late 2013, we will be able to conduct heavy maintenance on these aircraft efficiently and to the required standard. In March, we also created a standalone Base Maintenance Department, which consists of over 30 engineers and technicians.

In June-July, as part of the ongoing project to develop its MRO capabilities in Almaty, Air Astana opened additional component repair workshops. As a result, we can now maintain kitchen equipment independently, which considerably reduces the cost of repairs abroad. In addition, as part of the Airbus and Embraer maintenance endeavour, we received EASA 145 certification to conduct container, hydraulic brake, composite component and structural repairs.

Expansion of workshops for repairing aircraft components is just one part of our drive. Last year, we continued to implement a project to establish a technical centre in Astana. The aim is to enable us to undertake complex aircraft servicing that is not currently performed in Kazakhstan. When completed, we will carry out all such maintenance in Kazakhstan. Moreover, in the future, we will be able to provide repair services to other airlines operating in the region.

As our maintenance capabilities expand, the need to manage them efficiently increases. In April, the department launched a "process approach" project aimed at identifying its goals and procedures and streamlining its execution.

Hangars and warehouses

Air Astana performs aircraft maintenance in Almaty in a hangar leased on a long-term basis. We have upgraded and additionally equipped the hangar, which has increased efficiency substantially. In addition, we have maintenance bases at Astana and Atyrau, which significantly reduces the time needed to repair aircraft at those key airports. In 2012, we expanded our operational capacity at Astana, where there are three Embraers and two Airbuses based at present.

Air Astana has a vast stock of components, all of which are bought directly from the manufacturers or approved suppliers. In addition, we have access to the component reserves of A J Walters and Embraer.

Equipment

Air Astana is constantly expanding the list of equipment required for effective and efficient maintenance of aircraft at all bases. We own passenger steps, a motorised lift truck for cleaning aircraft, two small tow trucks for towing ground equipment, aircraft heaters, stands and step ladders. In addition, the Almaty base has a large tow tug, which can save considerable time when an aircraft needs moving to the hangar for maintenance. All of our drivers and operators of equipment have undergone special manufacturer training courses.

Russia - In the 10 years of its operations, Air Astana has expanded the number of weekly services to Russia from 10 to 49

Maintenance of aircraft for other carriers

As a part of the programme to develop third-party maintenance services, Air Astana engineers have successfully completed training courses and are certified to conduct maintenance on other operators' aircraft, including new types like the Boeing 747-800 and Airbus A330. We provide such services to 11 foreign companies, including Turkish Airlines (Turkey), KLM (Netherlands), Cargolux (Luxembourg), UPS (US), Austrian Airlines (Austria), Air Arabia and Etihad Airways (UAE). In addition, we work closely with local carriers, repairing aircraft components, providing equipment and materials, and procuring hangar space for them.

In 2012, revenues from providing engineering and maintenance services to third parties were up 60% year-on-year.

Training of the engineering and maintenance team

Air Astana has established a training programme to allow all engineers to obtain EASA Part 66 aircraft maintenance licences by distance learning and attending seminars in Europe. Some of those who have completed the training are already working in the department.

In 2012, three more engineers attended training, and all are expected to have completed the course and be EASA-qualified by early to mid 2013. Three more engineers are due to start the course in 2013. We expect to continue the continuous education of our engineers by investing in similar training programmes in the future.

Future development of aviation engineers

Air Astana is committed to supporting the training of aircraft engineers in Kazakhstan, as this serves to promote the highest safety standards and develop the domestic aviation industry.

Together with the Civil Aviation Academy (CAA) of Kazakhstan, Air Astana has developed intensive training courses to improve students' theoretical and practical expertise and ensure that their skills match our needs. After successfully completing all courses, suitable candidates will be offered available positions in our Engineering and Maintenance Department.

Between October 2011 and May 2012, 12 students underwent intensive engineering training that focused on aircraft maintenance and English skills. As part of this, experienced engineers supervised practical exercises at our MRO facility, helping to develop skills for working on modern Western aircraft. In June 2012, Air Astana presented awards to the first CAA graduates who passed the aircraft engineering and maintenance course, launched under our joint programme in 2011.

Also in cooperation with the CAA, Air Astana is pursuing a project to establish a European-standard training centre in Almaty. This will address the current shortage of qualified civil aviation staff in Kazakhstan.

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SALES AND MARKETING

Despite the volatile economic conditions worldwide, Air Astana's ticket sales remained strong in 2012, passenger turnover amounting to US$776 million, up 14% year-on-year. While the first half of the year was more challenging than expected, ongoing growth in CIS and Asian markets and the success of our new services to China and Hong Kong drove sales in the second half. A further contributory factor was offline sales, which rose by 22% in 2012, building solidly on the 15% increase in the previous year.

Sales channels

Air Astana tickets can be booked and bought in the Company's sales offices, via the call centres, on the website and in travel agencies worldwide. We continue to broaden and diversify our sales channels, enabling customers to access services through over 45,000 touch points around the globe.

Direct sales

Air Astana has direct sales offices virtually throughout Kazakhstan, in the CIS, and in Europe, Asia and the Middle East. They provide a wide range of services, including ticket booking and sales, branded product sales, and information about services. In 2012, we expanded our domestic sales network further, opening an additional ticketing office in Astana.

To develop direct sales, Air Astana has signed contracts with banks and point-of-sale suppliers. Our customers can pay for tickets purchased directly from us at around 3,600 touch points.

Our call centres, located in Almaty and Astana, operate around the clock as part of a programme to encourage direct sales and improve customer service. In 2012, they handled around 3,100 calls a day, up 11% year-on-year. Direct office sales account for almost 13% of our sales revenues in our home market, while in 2012, sales through our website increased by 58% and accounted for 5% of passenger revenues worldwide and 7% of revenues from Kazakhstan. The second half of 2012 was particularly strong for e-commerce, with growth of 78% compared with the same period of 2011. Last year, we were once again the leading generator of e-commerce sales in Kazakhstan by far.

Meanwhile, we broadened the services available through the website by adding functions that allow passengers to redeem frequent-flyer award tickets, change and refund tickets online, book accommodation at more competitive rates, and others. At the end of 2012, we launched an Android application, adding to the objective of attracting more customers to our website.

Distribution

Air Astana's participation in the IATA Billing and Settlement Plan (BSP) makes interacting with foreign travel agents more efficient. BSP is a system of mutual settlement established to simplify the issuance of air tickets, preparation of sales reports, and payments between agents and airlines for services provided. As part of BSP Kazakhstan, we chair the Agency Programme Joint Council (APJC).

The major change for distribution in 2012 was the move from commission-based agency remuneration to a more transparent transaction fee. This practice brought the key markets of Kazakhstan and Russia (as well as other smaller markets) into line with an industry best practice.

Code-sharing and airline partnerships

As part of the programme to expand its global route network, Air Astana has code-sharing agreements with numerous major carriers, including Austrian Airlines, Asiana Airlines, Etihad Airways, KLM and Rossiya Airlines.

The code-sharing agreement with Etihad Airways remained the most significant, as it gives our passengers access to a global leader's vast route network across Asia, the Middle East, Africa and India. As of today, we jointly offer passengers regular flights between numerous cities in Kazakhstan and Abu Dhabi (UAE), as well as convenient connections to more than 100 destinations worldwide.

In addition, Air Astana has interline agreements with more than 100 airlines and special pro-rate agreements (SPAs) with over 50. As a result, our customers have access to more than 300 destinations worldwide.

We have initiated discussions with various carriers identified for mutual network expansion and will focus on implementing more code-share agreements in 2013.

Nomad Club frequent flyer programme

Our frequent flyer programme, Nomad Club, was launched

in December 2007 and now has 125,000 members, up 24% in 2012. This strong growth reflects greater interest in the benefits given to our loyal passengers.

The Nomad Club has three tiers of membership: Blue, Silver and Gold. By accumulating points, members move to subsequent tiers and receive increasing benefits and bonus points that can be used for free tickets and upgrades.

Depending on the membership tier and number of points accumulated, members can enjoy a wide range of benefits, such as priority check-in, extra baggage allowance, access to business-class lounges, additional bonus points and others. We work constantly to increase the number and variety of additional benefits, in recognition of the loyalty of our frequent travellers.

To simplify processes, we have introduced a system for correcting points and redeeming bonus tickets online.

Besides Air Astana flights, Nomad Club members are able to accumulate points through goods and services bought from partners, including hotels, restaurants and shops.

HSBC Nomad Club co-branded credit card

The HSBC Nomad Club credit card, a co-branded product launched by Air Astana and the bank, continued to expand its customer base significantly in 2012. Besides points for flights and purchases from partners, the card gives members points for every transaction made in Kazakhstan and abroad. Alongside increasing the incentives for passenger loyalty, the card creates an auxiliary revenue stream for Air Astana.
In 2012, we issued another 1,000 HSBC Nomad Club cards, up 45% year-on-year, bringing the total to 3,200.

Expansion of the route network

Encouraged by ongoing growth and the increasing loyalty of passengers, Air Astana continued to launch new routes and increase the frequency of flights on existing ones last year. As of today, we offer services to almost 60 international and domestic routes.

In May, as part of the celebrations of our 10th anniversary, we announced a major network expansion, and we were quick to begin implementing it. In June, we launched new services from Almaty to Kazan in Tatarstan, and from Astana to St Petersburg, as well as increased the frequency of our flights to Tbilisi to four a week.

Our focus on connections to Russia continued in July, when we began flying to Omsk, while we also increased the frequency of our service to Urumqi in China. Then, in August, we added flights on the Almaty-Delhi route and launched a new service between Astana and Beijing, creating a key link between the two capitals. We also worked hard to prepare for the launch of a service to Ho Chi Minh City, which began just after the year-end, in early January.

Within the domestic network, Air Astana added direct services from Astana to Shymkent and Aktau, both of which began to experience strong passenger traffic soon after their inauguration.

We undertook a wide range of measures to stimulate demand. Besides our international campaigns to advertise new routes, one major development was the initiation of a visa-free regime between Kazakhstan and Hong Kong. As a result of it, the new service proved popular from the start, and plans to increase frequency in 2013 were approved within three months of the inauguration.

Vietnam - After marking the New Year by opening a new route to Ho Chi Minh, Air Astana began flights there in January

Cargo service

Alongside transporting passengers, Air Astana provides various rapid and reliable cargo services through a network of sales offices in some 70 airports.

Notwithstanding a global decline in demand for cargo services, our cargo revenues continued to increase in 2012, up 12% year-on-year, building on the 17% rise in 2011.

Brand and awareness

Air Astana takes part in various events and exhibition at home and abroad to increase awareness of the airline, as well as Kazakhstan as a destination. They are further supported by national and international marketing campaigns and trade events.

In May, as part of the Victory Day celebrations, Air Astana decided to name one of its aircraft after Hiuaz Dospanova, the first female Kazakhstani pilot, who fought for a night bomber squadron in the Great Patriotic War. We hope that this will serve as a tribute to her and all those who served in the war, as well as raise the profile of Kazakhstan.

That same month, we celebrated our 10th anniversary, for which we undertook a major media campaign. Throughout last year, we also worked hard to communicate the message that Kazakhstan's flag carrier is financially stable, making it one of the true success stories in the industry today, and transparent. These campaigns were run both domestically and internationally using high-profile media outlets that cover our target segments.

In June, Air Astana presented awards to the first graduates of the aircraft maintenance and engineering course, launched jointly with the Civil Aviation Academy in 2011. The programme demonstrates our commitment to raising standards in the domestic aviation industry and developing qualified talent for the future.

In August, Air Astana officially congratulated Kazakhstan's winners of medals at the Olympic Games in London. Their efforts helped to increase national prestige, and in recognition of this, we presented them with gold and silver-level membership of our frequent flyer programme, Nomad Club, for life.

Among the many exhibitions that Air Astana attended in 2012 were the ITB in Berlin, WTM in London, Arab Travel Market (ATM Dubai), TTAA Bangkok, and NATAS Holidays Singapore. We also participated in a range of trade exhibitions among numerous other key exhibitions in Asia, Russia and the CIS, as well as organised workshops to encourage contact between tour operators from Kazakhstan and their foreign counterparties to stimulate inbound and outbound tourism.

During the Farnborough Air Show in the UK, Peter Foster collected the Skytrax award for Best Airline in Central Asia and India, just a few weeks after Skytrax named Air Astana the only 4-Star carrier in Eastern Europe, Russia and the CIS.

Our plans for 2013 include raising awareness among journalists in Kazakhstan's regions about Air Astana, developing our usage of social media, and continuing to promote the airline's profile internationally.

IT AND E-COMMERCE

Our investments in our IT and e-commerce platforms have given us significant competitive advantages, allowing us to offer our passengers more convenient services, reduce costs and increase efficiency overall. In 2012, we launched several major new projects and undertook other endeavours to accommodate our rapidly growing network and maintain our existing infrastructure. Other key focus areas have been revising strategic technological contracts and continuous development.

Information technology

In July 2012, in view of our long-term strategy, we revised our IT services agreement for inventory, ticketing, departure control and e-commerce systems. This substantial undertaking led us to launch several major new projects, many of which continued in 2013, including the migration of the departure control system to a new platform, and the implementation of several new innovative solutions in reservation and ticketing.

Other highlights of 2012 included the development of a new customer relationship management (CRM) system, a process handled in-house. The system was installed and integrated with our frequent-flyer system, strengthening our passenger insight. The new solution provides an evolving platform for the current and future business needs of the airline. In 2013, we plan to upgrade our frequent-flyer system to extract more business value from the solution.

Last year, we implemented a data warehouse for passenger bookings, enhancing our corporate management information systems capabilities. We also made in-house developments to our enterprise resource planning (ERP) system, particularly in the areas of finance and procurement, and they have brought even greater value from the platform. In August, we completed the integration between the Samruk-Kazyna ERP system and our own, as well as added functionality to the technical supply logistics management application. In 2013, we plan to upgrade our ERP system to a newer version.

Elsewhere, Air Astana was successful in establishing a new, mandated International Air Transportation Association (IATA) interline settlement system ahead of schedule. We also integrated our cargo reservations system with our new flight planning system, allowing us to optimise the flight planning process.

We also continued to expand and improve IT infrastructure in 2012. The departure control system was implemented for several new stations, supporting the expansion of our route network. In addition, we implemented the pilot phase of a new PABX and call centre solution.

The IT function played a major role in other innovations across the airline in 2012 and entering 2013. These include the start of a project to implement the electronic flight bag (EFB) for flight crew and digitisation of flight documentation, a major breakthrough that will change how flight and ground crew communicate and exchange information.

E-Commerce

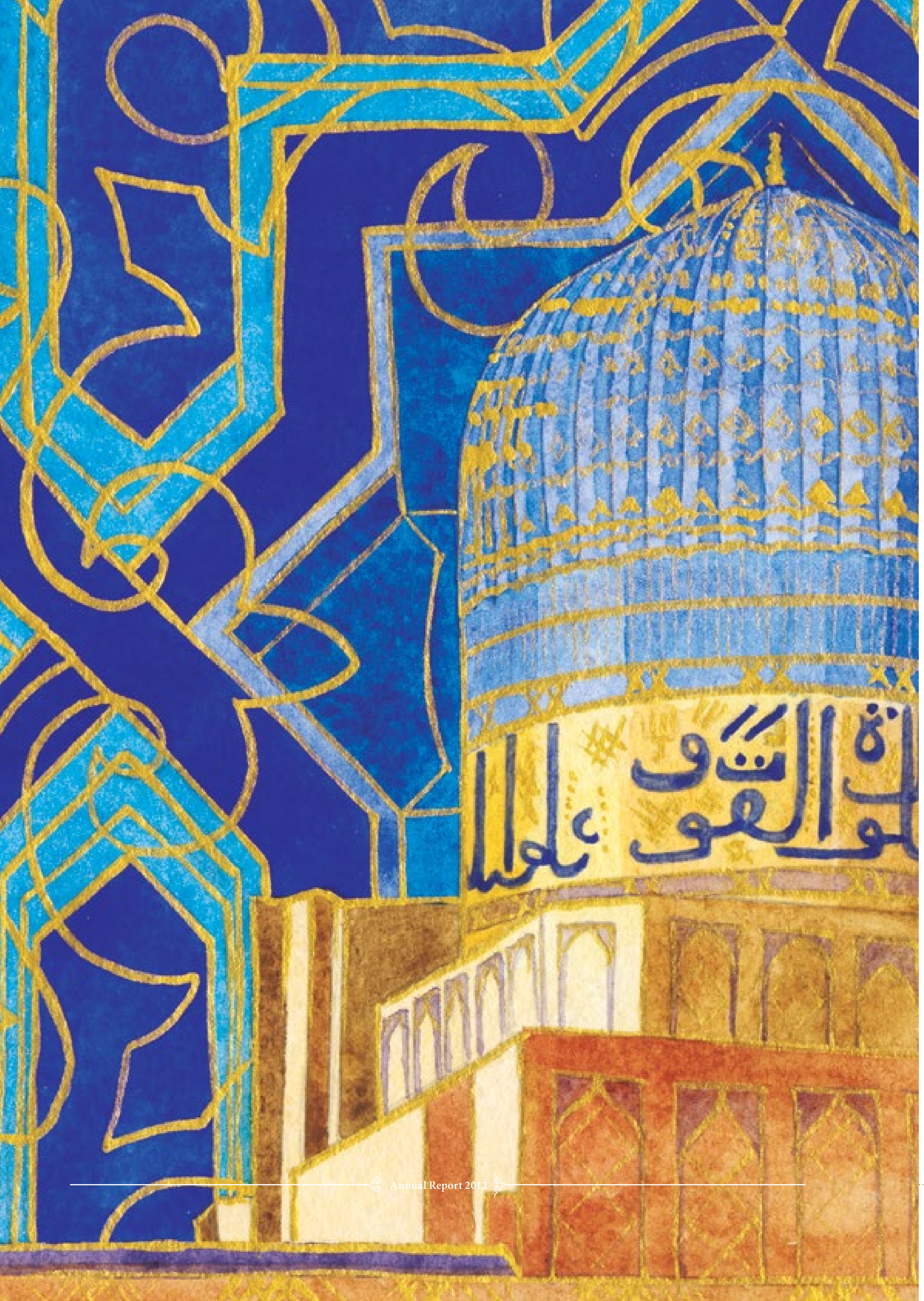
The Air Astana website has become one of the major lines of communication with our customers and a major channel for direct sales. It offers a wide range of services, including online bookings and check-in, information about flight arrivals and departures, verification of reservation details and many more. In addition, passengers can now book destinations with our interline partner airlines and hotel rooms worldwide.

In 2012, we launched a new automatic ticket changer function, allowing our passengers to make changes in travel dates without having to contact a call centre or visit a ticket office. Our next step is to implement a system for making online refunds for cancelled reservations, due in 2013. Additional measures include setting up alternate payment systems with more banks to allow more customers to buy tickets via the website, and introducing multi-city flight planning functionality.

Thanks to our partnership with Booking.com, a global leader in online accommodation booking, passengers can now make reservations via our website in more than 235,000 hotels, guest houses and other accommodation in 178 countries worldwide. Our website's booking engine, powered by our partner, also gives our passengers exclusive special offers and deals.

In January 2012, we launched new, regional sites to meet the needs of our expanding network and international passenger base, and our site operates in five languages. We also introduced a new, in-flight entertainment guide, an online virtual tour of the Boeing 757, and an online passenger survey.

As a result of our innovations, online sales have continued rising, and visits to our website increased by 30% year-on-year in 2012. Every day, around 15,000 users from around the world visited the website. Usage of online web check-in soared by 45%, from 544,752 passengers in 2011 to 790,458 in 2012, and the service is available for all airports in our network.



RISK MANAGEMENT

RISK MANAGEMENT SYSTEM

Air Astana, like other airlines, is exposed to a range of political, operational and financial risks that could impact its activities, financial performance and reputation. To identify, monitor and mitigate these threats, we have implemented a risk management system, which we continually optimise in accordance with global best practices. This approach helps us to ensure that we identify and mitigate risks at an early stage, wherever possible.

RISK MANAGEMENT SYSTEM

Air Astana's risk management structure operates on three levels. The first is the Board of Directors, which sets out the strategy and principles of risk management, as well as addresses factors that could threaten the Company's strategic objectives.

The second level is the president and the Risk Committee, which take responsibility for implementing an effective risk management system and ensuring compliance with corporate policies. The committee is chaired by the president and includes all members of the senior executive management.

The third level is a special unit responsible for coordinating the risk management process and identifying, evaluating and monitoring threats in accordance with the polices, practices and procedures established by the Board of Directors.

Alongside these specific structures, all members of the Air Astana team practice risk awareness on a daily basis and understand the importance of their role in the risk management system. It is the responsibility of every employee, as well as the "risk owners" in each department, to manage threats and understand the potential impact on his or her department and the airline as a whole.

As part of the risk management process, Air Astana has created a risk register listing all of the potential threats to the business. It allows us to estimate the relative weight of each threat and highlight those that require priority responses. The register is aligned with the risk management system as a whole, and we update it on regular basis. Management teams discuss and take ownership of the risks on the register, as well as review probability, potential impact and mitigation measures. Twice a year, the risk management unit makes presentations on key threats to the Audit Committee of the Board of Directors.

Since mitigation is an essential element of the overall process of risk management, Air Astana applies methods like risk reduction and control, retention, financing and avoidance. All of these take into account our tolerance and appetite for risk.

Uzbekistan - Despite entering Uzbekistan only recently, Air Astana has rapidly become one of the leading international-standard carriers on the market

RISK MANAGEMENT METHODS

Below is a list of risks that the management has identified as the primary ones to Air Astana's business. It is not exhaustive, and future unforeseen events and/or factors could negatively affect performance.

NAME	DESCRIPTION	MITIGATION
Risk of a safety or security incident	The safety and security of all customers and employees are Air Astana's paramount concern. Any failure to prevent or respond adequately to a major incident would have an adverse impact on our financial and operational performance due to a fall in demand for our services and a resulting increase in insurance and security costs.	Air Astana maintains an integrated safety, security and quality management system, including regular safety forums and training sessions as well as audits of policies, procedures and processes designed to maximise the safety of passengers and staff. We judge that we are in compliance with European and international safety regulations. In the event of an incident, we maintain an emergency response centre to manage our actions and coordinate with any external authorities.
Risk of deterioration in economic conditions	Air Astana's revenue streams are highly sensitive to the economic conditions of the local, regional and international markets in which it operates. In particular, any deterioration in the global and/or the Kazakhstani economy may cause a drop in demand for our services, in particular tourism and business travel. During such periods, it may also prove difficult to obtain acceptable financing terms for new aircraft.	Our management regularly reviews revenue forecasts and takes appropriate steps, including optimisation of the route network, monthly monitoring of network results, innovation, strong cost controls and ongoing cost reduction initiatives.
Risk of a sudden drop in passenger traffic	The markets of Central Asia, Air Astana's home region, and many others that it operates in and depends on for passenger traffic, are classified as emerging markets. As such, the political and economic uncertainty in them is greater than in developed markets. Any political or economic turbulence at our destinations, or the outbreak of an epidemic or other unforeseen events, could adversely affect our financial and operational performance.	We strive to continuously improve our service provision and offer a customer-oriented product. We closely monitor passenger traffic compared with previous years and seasonality, adjusting our services if any structural change is noticed. Moreover, Central Asia offers a major opportunity for us to expand our "extended home market" in the drive for continued growth.
Risk of an extension of the ban on Kazakhstani carriers flying to and from the EU	In July 2009, the European Aviation Safety Agency (EASA) imposed a ban on flights over its territory for all Kazakhstani airlines due to shortfalls in domestic civil aviation regulation identified by the International Civil Aviation Organisation (ICAO). Air Astana received an exemption from the ban, because it was able to demonstrate that it has taken and continues to take all of the necessary measures to comply with international flight safety standards.	Air Astana remains in an ongoing dialogue with the Kazakhstani Civil Aviation Authority to address the shortcomings in the civil aviation system. In May 2011, the Association of Kazakhstan Airlines, a non-profit organisation that includes Air Astana, Prime Aviation and Burundaiavia, was established to support the ongoing regulatory reform aimed at resolving the ICAO USOAP findings in Kazakhstan and lifting the EU ban. Moreover, the Department of Civil Aviation of Aruba (as the state of aircraft registration) and the UK Civil Aviation Authority (which audits the company's EASA Part 145 compliance) oversee the airline.
Counterparty risk	In its operations, Air Astana has counterparties – such as ticket sales agents, suppliers of goods and services, banks and financial institutions – in several countries. Should any of these parties experience any business issues, or cease to operate, this could have an adverse effect on the company's financial and operational performance.	To minimise this risk, we have taken numerous measures, including: • Setting limits on deposits with commercial banks where free funds are stored • Establishing bank guarantees with ticket sales agents • Increasing the volume of internet and direct sales to reduce exposure to agents and intermediaries • Diversifying supply channels • Improving control over suppliers and assessment of their credibility

NAME	DESCRIPTION	MITIGATION
Risk of volatility in aviation fuel prices	Air Astana faces financial risk through potential fuel price changes. Uncertainty about fuel prices enhances this risk. Air Astana uses around 273,000 tonnes of jet fuel annually. Fuel is a major cost item, making up over 30% of operating expenses. Hence, volatility in the fuel prices can have a material impact on its results.	For fuel sourced locally, the airline negotiates prices on a competitive basis with Kazakhstani suppliers. For fuel bought outside Kazakhstan, the price risk is partly hedged using financial derivatives in the oil and petroleum market under the guidance of the implemented Fuel Hedging Policy. Air Astana uses standard market instruments for fuel hedging and only for insurance means. The main purpose of fuel hedging is to reduce cost volatility and provide protection against higher fuel prices. We also apply a fuel surcharge on domestic routes and on international routes where we do not face restrictions. We regulate the surcharge depending on fuel prices and market conditions.
Currency risk	Air Astana faces risks relating to the cost and availability of funds to meet its business needs and foreign currency exchange rates related to aircraft leases and purchases of fuel and spare parts. In particular, its businesses report in Kazakhstani tenge (KZT), meaning that earnings and net assets are affected by any volatility in the currency. The company receives 77% of its revenues in KZT, while more than 46% of costs are denominated in foreign currencies.	To mitigate this effect, Air Astana works consistently to increase the share of revenues in foreign currencies and reduce the proportion of imports in overall purchases.

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INSURANCE

As one of the main methods of response within the risk management system, insurance enables Air Astana to transfer parts of risks to other counterparties by paying an advance premium. We apply consistently high standards regarding the quality and transparency of insurance companies when arranging our policies. The types of insurance coverage that we maintain are as follows:

1. Aviation insurance

Air Astana commits substantial resources to maintaining insurance coverage for its flight operations, thus placing aviation risks in the world's leading insurance markets through internationally reputable brokers. The types of policies that it obtains, involving different levels of coverage, are:

1) Aviation Hull, Total Loss Only and Spares All Risks and Airline Liability including Passenger Liability
2) Aircraft Hull and Spare Engine Deductible
3) Aviation Hull and Spares "War and Allied Perils"
4) Aviation War, Hijacking and Other Perils Excess Liability

2. Non-aviation insurance

Apart from aviation insurance coverage, Air Astana regularly purchases non-aviation insurance policies to reduce the financial risk of damage to property, interruption to business and general liability, as well as to cover employees for accidents and medical expenses. The types of policies are as follows:

- Medical insurance for employees
- Directors, officers and corporate liability insurance
- Property insurance, including coverage for business interruptions
- Comprehensive vehicle insurance
- Compulsory insurance for employees covering accidents on the job
- Commercial general liability insurance (public liability)
- Insurance of civil liability to customs authorities

CORPORATE SOCIAL RESPONSIBILITY

HUMAN RESOURCES

Air Astana is proud to be the flag carrier of Kazakhstan and wants to safeguard its most important resource: its team of skilled professionals. In 2012, reflecting the central role of human resources in the management of our business, we approved a personnel policy, developed in accordance with our long-term strategy, mission, goals and values. We believe that it will help us to create a strong corporate culture and implement a personnel management system in line with best international practices.

Workplace safety

In 2012, in accordance with the Labour Code of the Republic of Kazakhstan (paragraph 10, article 317), Air Astana conducted mandatory certification of working conditions at all facilities, as well as attestation of newly built and reconstructed facilities.

In August, in line with our objective of constantly improving performance indicators related to health and safety, we passed the certification audit for compliance with the BS OHSAS 18001:2007 Occupational Health and Safety Management System of the British Standards Institution.

Recruitment

We conduct both internal and external searches to fill vacant positions. Potential employees can search for positions on Facebook, LinkedIn and our website, www.airastana.com. We have also created on-the-job student training programmes with leading local universities. In 2012, more than 100 students underwent training at Air Astana, and 20 graduates were offered full-time employment in various departments.

Our university partners are: the Kazakhstan Institute of Management, Economics and Strategic Research (KIMEP); Ryskulov Kazakh Economic University; Kazakh Ablai Khan University of International Relations and World Languages; Civil Aviation Academy (CAA) of Kazakhstan; Gumilyov Eurasian National University; Almaty Institute of Power Engineering and Telecommunications; Suleyman Demirel University; and International University of Information Technology.

In 2011 in addition to the pilot Ab-Initio programme conducted in the internationally certified centres, Air Astana partnered with the Civil Aviation Academy of Kazakhstan to launch a pilot project to train students in aviation mechanics. Fourth-year students from its engineering department take part in the programme, which aims to improve the quality of instruction in their field and identify promising young engineers to work at Air Astana. In June 2012, the first 12 students graduated, and we presented awards to the top students. At present, 10 students are undergoing training in basic maintenance to help them to acquire practical skills while using the latest technology.

Air Astana also works with local communities to create work opportunities. In 2012, we partnered with the Employment Centre of Almaty, a municipal government institution, to recruit around 20 people as part of the "Social Jobs 2020" programme.

Corporate training and staff development

Our goal is to realise our employees' full potential by providing training courses and programmes to improve their skills and qualifications. In 2012, we focused on developing our internal training function and in-house trainers to reduce costs and establish programmes that are most relevant to our business. For instance, we have designed several training modules for our line managers, a key target for corporate training.

China - As the powerhouse of Southeast Asia continues to boom, Air Astana increased its weekly flights to China from 10 to 18 last year

As part of our focus on developing our line managers, we held our Fourth Annual Line Managers Corporate Forum in November 2012, attracting around 150 participants. This time, the theme was our milestone 4-Star rating in the Skytrax World Airline Awards for passenger service. We discussed the importance of having 5-star leaders to run a 4-star airline and the qualities needed by our managers. Along with a panel discussion, the forum featured games and an award ceremony.

Our Training Department continues to work with leading local and international training companies. All new employees attend an orientation course to learn about our mission, goals, and values, as well as our history, achievements, structure, internal policies and procedures. The course provides training in communication and teamwork skills, as well as mandatory briefings about health and fire-safety awareness.

Air Astana has also developed a course called "Mastering Performance" for all employees, which evaluates performance to identify key skill areas for continued improvement. In 2012, the sessions covered 15 topics and reflected our drive to ensure that our training programmes address the specific needs of departments.

We continue to place an emphasis on learning languages, particularly English and Kazakh. In 2012, we introduced an English-language distance-learning course that has proved effective and is being continued in 2013. Kazakh, as the state language, remains a priority. We run full-time courses tailored to meet employees' needs, including general, business and conversational language. Each year, we award prizes to personnel who demonstrate the best knowledge of Kazakh.

Our Talents programme, introduced in 2009, identifies employees with great potential to grow into leaders. It continued last year, and 10 participants are currently attending the world-renowned Cranfield School of Management in the UK.

Work with labour unions

Air Astana is committed to working with employees and within the collective bargaining process. Since the signing of a collective agreement on 20 September 2010, the Human Resources and Administration Department has been closely involved with the commission established for implementing the agreement.

Social work

In 2012, Air Astana continued to develop the online employee satisfaction survey launched in 2011. Designed to identify areas for further development and improvement, the survey is conducted separately for certain categories of employees, giving a more detailed picture of their sentiments and allowing us to respond to their needs. Based on the survey results, we held a management meeting and developed an action plan to address areas that fell short of the desired requirement.

Air Astana's benefits package includes the following:

• Health insurance, including medical services, medicine coverage and dental care
• An annual year-end bonus and a profit-share bonus
• Airline tickets at special rates on routes operated by the Company and its partners
• Financial support for employees in case of illness or the death of a close relative
• Bank loans at preferential interest rates
• Christmas events and gifts for employees' children

We seek to promote a healthy lifestyle among employees. In 2012, we extended our contract for preferential membership with the Fitnation (Almaty, Astana) and Rakhat Fitness (Almaty) clubs. We also extended our lease of a football field.

Yet again last year, our employees stood out for the range of local and international sporting competitions in which they participated, including:
• The eighth annual Eurobak Soccer World Monitor championship
• The seventh annual football tournament for the Embraer Cup in Paris
• A football tournament in honour of Transport and Communications Day
• A football friendly with tourism industry employees in Hong Kong
• A football tournament as part of the Bolashak Cup in Almaty
• Annual Kazakhstan Rafting Federation competition
• The 5K World Airline Road Race in Qingdao, in which Elena Dilmuhamedova, from Air Astana's Internal Aircraft Cleaning Department, won first prize in her age group.

In August 2012, as part of its 10th anniversary celebrations, we held a festive breakfast dedicated to employees who have been with us for 10 years. Those celebrating received gifts and a letter of thanks from the president of Air Astana. The event will now be held each year.

As part of a tradition, in honour of Children's Day at Air Astana, we held a children's drawing contest again this year. Winners and other participants received gifts to mark the event.

Other key events

In 2012, we launched a Travel Department to reduce our travel expenses, centralise trip planning and processing, and streamline business travel procedures. The department manages letters of invitation, visas, registration, insurance coverage, employee tickets, hotel bookings, contracts and the transportation of personal belongings for new and retiring employees.

Working with the IT and E-Commerce Department in 2012, we developed our own system for managing internal documents, which enables us to exchange documents with the Samruk Kazyna National Welfare Fund. Entering 2013, we were in the process of implementing this system.

SOCIAL RESPONSIBILITY

Since our founding, we have been committed to philanthropy, which we see as an important part of our corporate citizenship. Air Astana's charitable programmes are built on the principles of consistency and effectiveness. We are sensitive to public expectations and the needs of diverse social groups, and we deliver consistent help every year. Equally, we are committed to achieving results and lasting change in areas that we see as priorities: sport, culture, science and education.

Support for vulnerable groups

Each spring since 2002, on the eve of Victory Day, we honour Kazakhstani veterans of the Great Patriotic War (World War II). We also provide them with free tickets for flights within Kazakhstan and to other CIS countries. People with disabilities who participated in the war receive free tickets for scheduled flights within Kazakhstan, and this special offer is extended to the end of the year. People who accompany war veterans and those with war-related disabilities receive airline tickets at special rates on routes operated by the Company and its partners. In 2012, 928 veterans and accompanying people took part in the programme.

One of our other important and enduring endeavours is providing assistance to children who need medical treatment abroad. We work with the Miloserdiye (Mercy) charity to help seriously ill young people find treatment and provide free tickets to carry children suffering from cancer and serious cardiovascular diseases from Kazakhstan to places in Russia, Europe and Asia for treatment. In 2012, Air Astana provided 80 tickets to seriously ill children and their parents.

We also support orphanages and boarding schools and sponsor fundraising events for underprivileged children in different regions across Kazakhstan. In 2012, Air Astana's "On the Wings of a Dream" project benefited needy children in three cities in the country. The charitable event began with an aviation-themed craft competition at the Pioneer orphanage in Karaganda Region. All participants were awarded prizes, and the creators of the 18 best craft projects were sent on a guided tour to Almaty.

The next stop of the "On the Wings of a Dream" tour was Ust-Kamenogorsk. On 1 September 2012, Air Astana donated to the Krupskaya boarding school a playground featuring modern equipment and held a festival for the school's children. After that, the project went to Semey and donated a jungle gym to a boarding school. The cost of the playground equipment was over KZT6 million.

We also take great pride in our support of the Ayala Charity Foundation, founded in 2007 to help seriously ill and underprivileged children in Kazakhstan. Among other things, the foundation provides vital medical equipment to children's

Georgia - Following the introduction of direct flights to Tbilisi, more passengers began travelling on the route, so Air Astana has increased its services to four a week hospitals and regional perinatal centres. It also provides support to orphanages and boarding schools across the country.

Since August 2010, we have had donation boxes in Air Astana ticketing offices, and between late 2010 and the end of 2012, we raised more than KZT4 million. Around a quarter of that has been used to buy medical equipment for the Syzganov National Scientific Surgery Centre, while over KZT2 million went on buying medical equipment for the regional perinatal centre in Aktobe. The remaining funds are earmarked for equipment for the regional perinatal centre in Kyzylorda.

Other important initiatives last year included an event to raise money for equipment for blind children in September and participation in the Altyn Zhurek charity award, which recognises people and organisations whose philanthropic efforts have made a real difference. We also supported the Spring Bazaar Charity Fair in May, as well as the Fresh Air Almaty and Beatles Party that same month, to raise money for great causes.

Support for science and culture

Last year, we were proud to make Air Astana the official carrier of the National Hero Award. It recognises people who have made invaluable contributions to the public and social life of Kazakhstan and the development of the nation's spiritual and moral values. Award winners are people from ordinary walks of life who have acted heroically, often in extraordinary circumstances, setting an example for us all.

In May 2012, Air Astana supported an international conference, "Charity in Kazakhstan". Held in a large concert hall of the Kazakh National Conservatory, the conference was established to help participants to understand better the key issues involved in charitable fundraising in the country. It also serves as a forum where leading charities, local and international experts, and scholars in social policy and philanthropy can share knowledge and experience.

Last year, Air Astana also supported the following projects:

- Dutch Week in Astana (May)
- The International PR Forum (May)
- HSBC Football Cup 2012 (May)
- I-MIX 2012, an internet conference (May)
- The World Championship for Airplane Modelling (June)
- An air balloon competition (June)
- The Weekender Festival (July)
- The Almaty Circus Festival (September)
- Expert 100 Kazakhstan, an economic forum (November)
- Award.kz-2012, a national internet conference (November)

ENVIRONMENTAL RESPONSIBILITY

We are acutely aware of our responsibility towards society and future generations and our duty to take care of the environment. We work across our business to reduce carbon emissions and waste generation, the main components of our environmental footprint.

Reducing carbon emissions

Air Astana estimates that 99% of its carbon emissions come from the combustion of aviation fuel, and the rest from secondary sources like motor vehicles and ground fleet and facilities. While the International Air Transport Association (IATA) has calculated that the airline industry is a minimal contributor to global environmental pollution, we are committed to reducing our carbon footprint.

Like other airlines, Air Astana seeks to reduce emissions through three main methods:

- Operating more fuel-efficient aircraft
- Modifying the current fleet
- Flying more efficiently

The fourth method is seeking an alternative or more carbon-efficient fuel, while recognising that such alternatives are not available or commercially viable at present.

Air Astana also participates in the EU Emissions Trading Scheme (ETS) and its emissions monitoring plan was approved by the German Emissions Trading Authority. Verification covered the following:

- Completeness of flight and emissions data and compliance with data from Air Traffic Control (ATC), compiled by the European Organisation for the Safety of Air Navigation (EUROCONTROL)
- Consistency between reported data and documented volumes
- Consistency between aggregated fuel consumption and purchase records

One of the most important ways in which Air Astana reduces its environmental impact is by maintaining a young and fuel-efficient fleet. In 2011, we acquired modern Embraer 190 aircraft; and in 2012, we phased out Fokker 50 turboprops in favour of them. The Embraer 190 has lower fuel consumption and carbon emissions, as well as quieter CF34-10 engines, which mean less noise pollution and greater passenger comfort and operational flexibility. The aircraft is also well within requirements for smoke and emissions established by the US Federal Aviation Administration, the US Environmental Protection Agency (EPA) and the International Civil Aircraft Organisation (ICAO).

In 2012, Air Astana acquired state-of-the-art Airbus 320/321s, which have lower fuel consumption and carbon emissions, partly due to the installation of lighter weight equipment. In addition, we are installing sharklets – curved fittings on the wingtips – which we estimate could reduce fuel consumption by another 3-5%.

To lower jet fuel consumption further, we launched a weight reduction programme on our aircraft last year. Practical examples include using lighter facilities for on-board services and smaller reserves of potable water on each flight.

In addition to upgrading and improving the aerodynamics of its aircraft, Air Astana is also reducing emissions by flying the shortest routes. We have improved our flight planning system, which optimises flights and hence cuts fuel use. The new navigation system also enhances landing effectiveness and reduces the number of flights cancelled due to weather conditions.

Meanwhile, the continuous descent approach (CDA) system reduces noise and carbon dioxide emissions during landing. All Air Astana pilots are required to use the optimised profile descent (OPD) system, except when weather conditions, security and instructions of the airport controller require the landing approach to be changed.

Aircraft anti-icing has a significant impact on the environment. Our employees and subcontractors who work with chemical products at airports take mandatory annual training on environmental protection. On an ongoing basis, Air Astana runs the "Clean Wing" programme to maintain high standards of wing cleaning and anti-icing, including the effective use of de-icing fluid. The ultimate aim is to ensure the complete safety control and assurance in anti-icing operations. All of our de-icing and anti-icing procedures meet international aviation regulations and requirements, such as EU OPS-1, as well as the standards and recommended practices published by IATA, ICAO, EASA, FAA, Transport Canada, AEA and SAE.

Reducing waste generation

While reducing CO2 emissions is a critical part of Air Astana's environmental policy, another priority across all areas of our business is reducing waste generation.

One example is the use of e-tickets and online registration, which reduces the amount of paper tickets. In addition, we continue to reduce the overall volume of printed material, and current IT initiatives are designed to create paper-free systems throughout the business. Looking ahead, we are considering procurement policies that will introduce sustainability criteria for products and services.

CORPORATE GOVERNANCE

CORPORATE GOVERNANCE PRINCIPLES

At Air Astana, we view best practices in corporate governance as playing a crucial role in running our company efficiently, reducing the cost of raising capital, and contributing to the strong reputation and trust enjoyed among all of our stakeholders. We are committed to meeting the highest corporate governance standards through the continual improvement of our corporate governance system, for which we have established the following fundamental principles:

Shareholders' rights and interests must be protected

We pledge to protect and respect the rights and interests of all shareholders as stipulated by law. We are committed to efficient management, asset growth, financial stability and profitability.

The Board of Directors must manage effectively

In doing its duties, the Board of Directors undertakes to ensure that the interests of all shareholders are fully observed, its own deliberations and actions are carried out openly, and it takes responsibility for the Company's actions.

The Executive Body must fulfil its role effectively

Responsible for the day-to-day management of the Company, the Executive Body is tasked with implementing strategy while always adhering to the highest ethical standards.

The Company must conduct its activities independently

Air Astana will conduct its activities in the best interests of its shareholders and in accordance with the provisions of the Corporate Governance Code, provided that it is in compliance with the Charter. At all times, the Company will conduct its activities independently.

Information about activities must be disclosed in a transparent and objective manner

Air Astana is committed to providing shareholders with the necessary information to make informed decisions. It undertakes to distribute information about its activities to interested parties and ensure timely disclosure to shareholders and interested parties of reliable information about the Company. This includes information about our financial situation, results of activities, ownership and management structure.

The Company and its employees must behave legally and ethically

Air Astana and all of its employees adhere to the legislation of the Republic of Kazakhstan. Relations among the shareholders and members of the Board of Directors and Executive Body will be based on mutual trust, respect, accountability and control.

Thailand - Thailand remains an ever-popular haven for tourists, and Air Astana has adapted to cater to this, increasing its flights to five last year and switching to a daily service in early 2013

Air Astana must maintain an effective dividend policy

Regarding dividends, we follow the rules set forth in legislation and our internal regulations. We seek to ensure a simple and transparent mechanism for setting the amount of dividends and terms of their payment. Our dividend policy will be sufficiently transparent and available to shareholders, potential investors and the general public of Kazakhstan.

The Company must maintain effective human resources policies

We are committed to protecting the rights of our employees as stipulated by legislation and engaging with them to solve social issues and manage working conditions.

Air Astana is committed to protecting the environment

In our day-to-day operations and long-term strategy, we are committed to environmentally sustainable growth. We follow the principles of maximum environmental friendliness and a rational attitude to the environment, as prescribed by legislation and generally accepted business standards.

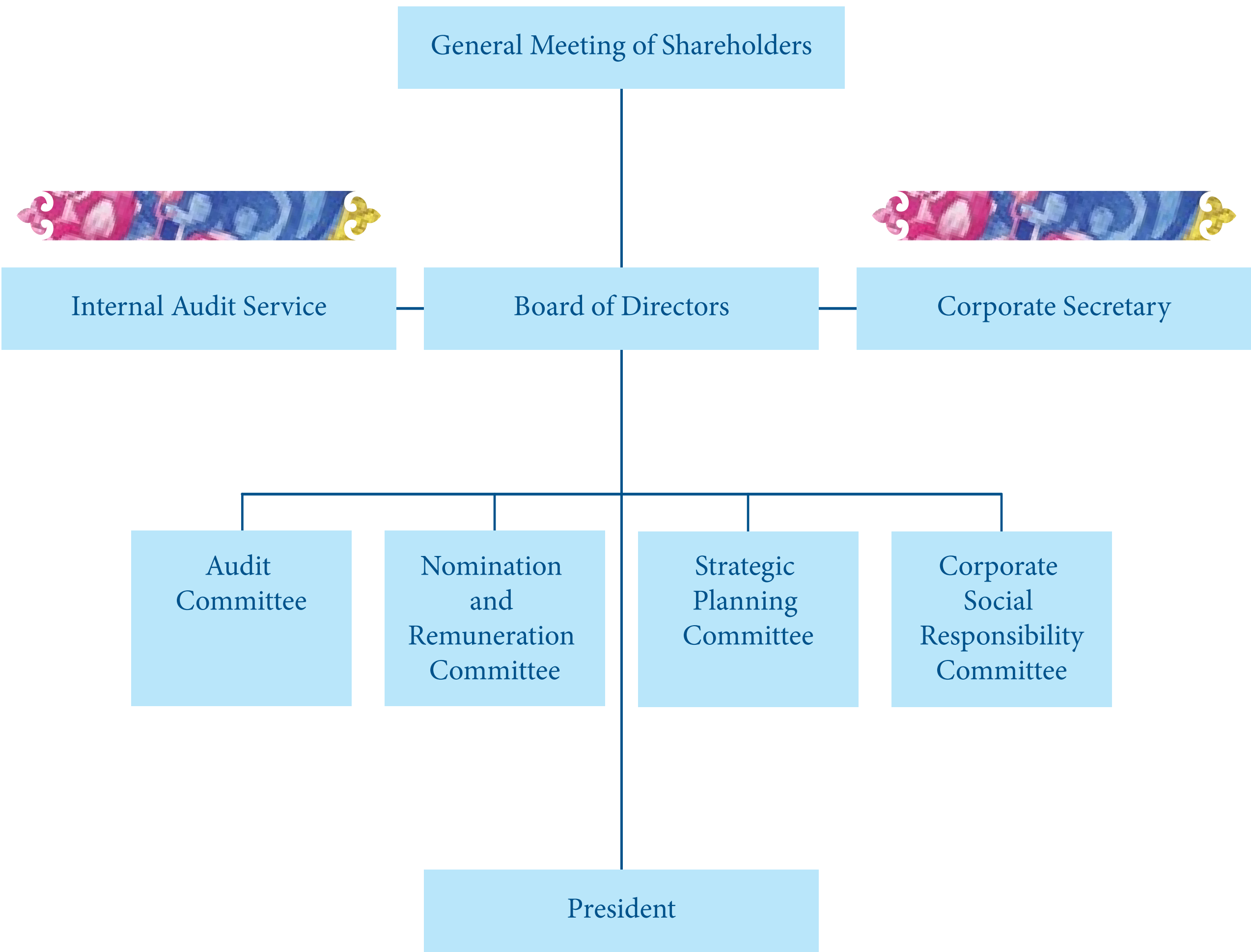
Policy for settling corporate conflicts and conflicts of interest

All employees will behave in a way that prevents conflicts of interest involving either themselves (or related parties) or others. If corporate conflicts arise, those involved will find a way to settle them amicably to ensure the effective protection of both shareholders' rights and the reputation of Air Astana.

Principle of responsibility

The Company will recognise and respect the rights of all interested parties and strive to cooperate with them to further development and ensure financial sustainability.

CORPORATE GOVERNANCE BODIES



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SHAREHOLDERS

Samruk-Kazyna National Welfare Fund JSC owns 51% of Air Astana.

Samruk-Kazyna was created on 3 November 2008 through a presidential decree of the Republic of Kazakhstan (dated 13 October 2008) and a government decree of the Republic of Kazakhstan (dated 17 October 2008) to improve the competitiveness of the national economy and mitigate external risks to domestic economic growth.

Registered address:

23 Kabanbai Batyr Avenue
Astana 010000
Kazakhstan

BAE Systems (Kazakhstan) Limited owns 49% of Air Astana.

BAE Systems (Kazakhstan) Limited, a subsidiary of British corporation BAE Systems plc, is engaged in the development, delivery and support of advanced defence, security and aerospace systems on land, at sea, in the air, and in space.

Registered address:

PO Box 87
Warwick House
Farnborough Aerospace Centre
Farnborough
Hampshire
GU14 6YU
United Kingdom

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GENERAL MEETING OF SHAREHOLDERS

Air Astana's senior corporate governance body is the General Meeting of Shareholders. It makes decisions on all key issues concerning the Company's business. The legislation of the Republic of Kazakhstan, Air Astana's Charter and other internal documents define the functions and regulate the activities of the General Meeting of Shareholders.

Responsibilities of the General Meeting of Shareholders

The exclusive competence of the General Meeting of Shareholders includes, without limitation, the following:

- Election of members of the Board of Directors, as well as determination of the number of directors and their terms in office
- Election, determination of the term in office and dismissal of the President, Vice President for Flight Operations, and Vice President for Engineering and Maintenance
- Approval of the long-term development strategy
- Approval of the short-term and medium-term business plans (development plan and annual budget)
- Approval of the annual financial reports
- Approval of major and interested-party transactions, as well as other transactions requiring the approval of the General Meeting of Shareholders in accordance with the law
- Purchase or financial lease of any aircraft

Issues considered at the General Meeting of Shareholders in 2012

In 2012, 10 General Meetings of Shareholders were held, all in presentia, and the following issues were considered:

Strategic development

- Approval of the business plan (development plan) for 2012-16

Governance and remuneration

- Election of the members of the Board of Directors
- Approval of the decisions to elect the chairmen and members of the Audit, Nomination and Remuneration Committees of the Board of Directors
- Decision to abolish the Nomination and Remuneration Committees of the Board of Directors; decisions to create and determine the composition of the Nomination and Remuneration, Strategic Planning, and Corporate Social Responsibility Committees of the Board of Directors; and approval of the election of the chairmen and members of the Nomination and Remuneration, Strategic Planning, and Corporate Social Responsibility Committees of the Board of Directors
- Approval of the regulations of the Nomination and Remuneration, Strategic Planning, and Corporate Social Responsibility Committees of the Board of Directors
- Approval of the President's annual bonus for his performance in 2011
- Approval of the amount and terms of remuneration and compensation to the Independent Directors
- Approval of the procedure for distributing the net profit for 2011, the decision to pay dividends on common stock, and the dividend per common share

Financial and operational activities

- Approval of the 2011 annual report
- Approval of the annual financial statements for 2011
- Approval of the annual budget for 2012
- Short-term extension of the operating lease of one Fokker 50
- Approval of decisions to enter into major transactions with Brazilian Development Bank (BNDES) to finance the purchase of new Embraer E190 aircraft; with RBS to finance the purchase of new Airbus A320 family aircraft; with UT Finance Corporation to finance pre-delivery payments for new Boeing B767-300ER aircraft; and with SiT for the supply of in-flight entertainment systems for the new Boeing B767-300ER aircraft
- Approval of the decision to enter into a major transaction with Halyk Bank Kazakhstan for a renewable credit facility of more than US$1,000,000 to replenish working capital
- Approval of the decision to enter into major transactions with PetroSun and Litasco CA for the supply of fuel
- Approval of the decision to enter into a major transaction with BOC Aviation to extend the operating lease of three Embraer ERJ190-100 LR aircraft
- Approval of the decision to enter into a major transaction with Air Lease Corporation to extend the operating lease of an Airbus A320-232
- Approval of the decision to enter into major transactions with United Technologies International Corporation to purchase Pratt & Whitney engines; and Thompson Aeroseat to buy business-class seats for new Boeing B767-300ER aircraft
- Approval of the decision to enter into a major transaction with SB Royal Bank of Scotland (Kazakhstan) for a committed banking facility to issue cash-backed letters of credit
- Approval of the decision to secure financing facilities
- Approval of the decision to enter into major transactions with Aerosim Academy Inc, Florida Institute of Technology Inc, and Atlantic Flight Training Academy Ltd to purchase services related to the Ab-Initio pilot training programme
- Approval of the decision to enter into a major transaction with SB HSBC Bank Kazakhstan for unsecured letters of credit, standby letters of credit and guarantees
- Approval of the decision to enter into major transactions with Pegasus Aviation Inc to extend the operating lease for three Boeing 757-200-type aircraft
- Approval of the decision to enter into major transactions with Eurasia Munai Impex Ltd, OFION, Astana Petroleum Oil and the branch office of Litasco CA for the supply of aviation fuel
- Approval of the decision to enter into major transactions with Boeing: to buy three Boeing 767-300ER aircraft, for delivery in 2013-14; three wide-body Boeing 787-8 aircraft, two for delivery in 2017 and one in 2019; and three purchase rights and nine rolling purchase rights
- Approval of the decision to enter into major transactions with APB Winglets Company, LLC d.b.a. Aviation Partners Boeing to purchase winglets for the new Boeing 767-300ER aircraft purchased
- Approval of the decision to enter into major transactions with ALS USA Leasing Inc: to extend the lease of two Airbus A321-200s

BOARD OF DIRECTORS

The Board of Directors consists of six members elected by the General Meeting of Shareholders, with two members nominated by the Samruk-Kazyna National Welfare Fund, two members nominated by BAE Systems, and two independent directors.

Chairman of the Board of Directors

NURZHAN BAIDAULETOV

Nurzhan Baidauletov has been the Chairman of the Board of Directors at Air Astana since 2008. He is a member of the Nomination and Remuneration, Strategic Planning and Corporate Social Responsibility Committees. Since 2008, he has been a Managing Director of the Samruk-Kazyna National Welfare Fund and, since 2006, a member of the Board of Directors at NC Kazakhstan Temir Zholy JSC. His distinguished career in the Kazakhstani transportation industry spans more than two decades. Mr Baidauletov is a recipient of the Kurmet Medal.

Professional experience:

Since 2008 – Managing Director of Samruk-Kazyna National Welfare Fund JSC
2006-2008 – Director of Transport Asset Management of Samruk Holding JSC
2004-2006 – Chairman of the Rail Communications Committee of the Ministry of Transport and Communications of the Republic of Kazakhstan
2003-2004 – Deputy Minister of Transport and Communications of the Republic of Kazakhstan
1998-2003 – Head of the Rail Transport Department of the Ministry of Transport and Communications of the Republic of Kazakhstan
1997-1998 – Head of Akmolinskaya Railways, Kazakhstan Temir Zholy
1997 – Deputy Head of Akmolinskaya Railways, Head of Pavlodar Branch of Railways
1996-1997 – First Deputy Head of the Pavlodar Branch of Tselinnaya Railways
1990-1996 – Head of Pavlodar Station
1989-1990 – Deputy Head of the Transportation Department of the Pavlodar Branch of Tselinnaya Railways
1988-1989 – Chief Engineer of Pavlodar-North Station, Pavlodar
1986-1988 – Processing Engineer of Ekibastuz Station, Duty Officer at Ekibastuz Station (Tselinnaya Railways)

Members of the Board of Directors

AZAT BEKTUROV

Azat Bekturov has been a member of the Board of Directors since August 2011. At present, he is the Deputy Minister of Transport and Communications of the Republic of Kazakhstan. Mr Bekturov has a PhD in Economics and Management Theory.

Professional experience:

Since 2006 – Deputy Minister of Transport and Communications of the Republic of Kazakhstan
2004-2006 – Vice President of Air Astana, Almaty
2002-2004 – Director, Deputy Director, Head of Administration, Chief Manager of Corporate Development Department of KazTransGas, Astana
2001-2002 – Electronic Business Projects Analyst, Chevron, San Ramon, California, US

NIGEL BRADLEY

Nigel Bradley has been a member of the Board of Directors since 2001. He is a member of the Nomination and Remuneration and the Strategic Planning Committees.

Mr Bradley is Commercial and Procurement Director, Programmes and Support and International (BAE Systems); a member of the Board of Directors for the UK and Rest of the World (BAE Systems); and Chairman of the Commercial Functional Council (BAE Systems). Previously, he held various senior posts at BAE Systems companies, as well as in outside legal practice.

Professional experience:

2007-2009 – Commercial Director, UK and Rest of the World, BAE Systems
2002-2007 – Group Commercial Director Customer Solutions and Support, BAE Systems
2000-2002 – Commercial Director of International Programmes, BAE Systems
1995-2000 – Legal Department Director, British Aerospace Military Aircraft
1990-1995 – Legal Adviser, British Aerospace Military Aircraft
1989-1990 – Senior Legal Adviser, Kellogg's
1987-1989 – Commercial Lawyer, Costain Group
1981-1987 – private legal practice

DAVID BRENT

David Brent has been a member of the Board of Directors since 2008. He has been Group Treasurer at BAE Systems since 1995. He has more than 30 years of experience in senior financial roles at BAE Systems companies.
Mr Brent is a Fellow of the Institute of Chartered Accountants in England and Wales (having qualified in 1975) and a member of the Association of Corporate Treasurers.

Professional experience:

1992-1995 – Treasurer, Corporate Finance, British Aerospace
1990-1992 – Director of Accounting and Control, Ballast Nedam BV

1988 – Assistant Treasurer, British Aerospace
1987 – Chief Internal Auditor, British Aerospace
1982 – Assistant Treasurer, British Aerospace
1979 – Foreign Currency Manager, British Aerospace
1979 – Financial Accountant, British Aircraft Corporation

DMITRIY LARIONOV
Independent Director

Dmitriy Larionov has been an Independent Director since 2008. He is Chairman of the Audit, Nomination and Remuneration, and Strategic Planning Committees, and a member of the Corporate Social Responsibility Committee. Mr Larionov is International Liaison Partner at BDO Kazakhstanaudit. He is a leading expert on accountancy and financial reporting.

Professional experience:

Since 2009 – member of the Consultative Board on Accounting and Auditing under the Ministry of Finance of the Republic of Kazakhstan
2008 to present – Independent Director of Kazakhtelecom, Chairman of the Audit Committee, member of the Remuneration and Nomination and the Strategic Planning Committees
2008-2010 – member of the Developing Nations Committee, International Federation of Accountants
2003-2010 – Deputy Chair, member of the Board, Chamber of Professional Accountants of the Republic of Kazakhstan
2004-2005 – Local Accounting Expert, Regional Financial Sector Development Project, Asian Development Bank
2001-2004 – Consultant in Accounting, Accounting Reform Department, USAID Enterprise Development Project, Pragma Corporation
1999-2001 – Lecturer in Accounting, Kazakhstan Institute of Management, Economics and Strategic Research (KIMEP)

LORD THOMAS ALEXANDER HESKETH
Independent Director

Lord Thomas Alexander Hesketh has been an Independent Director since 2007. He is the Chairman of the Corporate Social Responsibility Committee and a member of the Audit Committee. Lord Hesketh has had a long and distinguished career in public service and international business. In 1997, he was invested as a Knight Commander of the British Empire.

Professional experience:

1993-2010 – Non-Executive Deputy Chairman, Babcock International
1994-2007 – Chairman, British Mediterranean Airways
2004-2005 – Treasurer, the Conservative Party
1991-1993 – Government Chief Whip in the House of Lords, Privy Councillor
1991-1993 – Captain of the Honourable Corps, Gentlemen at Arms
1990-1991 – Minister of Industry, Department of Trade and Industry

Responsibilities of the Board of Directors

The competence of the Board of Directors includes, without limitation, the following actions:

- Determine Air Astana's development priorities, preliminarily approve and propose the long-term development strategy for approval by the General Meeting of Shareholders
- Provide preliminary approval of the annual financial statements
- Submit matters for consideration and resolution by the General Meeting of Shareholders pursuant to the law and/or the Charter
- Approve internal regulatory documents, including procedures for the sale and/or subscription of securities, except where this is under the purview of the President for the purposes of running the business
- Decide on entering into major transactions in the manner prescribed by legislation and the Charter
- Elect and decide on the termination of an agreement with the Company's registrar
- Define procedures for the work of the Internal Audit Service (IAS), determine the remuneration of IAS staff based on recommendations by the President, award bonuses to IAS staff based on recommendations by the Audit Committee and the President, and approve the qualification requirements for IAS employees
- Provide preliminary approval and submit the short-term and medium-term business plans (the development plan and annual budget) for final approval by the General Meeting of Shareholders, as well as any amendments to it, including capital expenditure not provided for in previously approved business plans

Issues considered by meetings of the Board of Directors in 2012

In 2012, the Board of Directors held 15 meetings, four in presentia, and considered the following issues:

Strategic development

- Report on implementation of the strategy and major investment projects
- Preliminary approval of the business plan (development plan) for 2013-17
- Consideration of Samruk-Kazyna National Welfare Fund JSC's development strategy for 2012-22

Governance and remuneration

- Approval of the working plan and schedule of the meetings of the Board of Directors for 2013
- Approval of the list of issues to be considered at in-presentia meetings of the Board of Directors
- Election of the chairmen and members of the Audit, Nomination and Remuneration Committees of the Board of Directors
- Preliminary decision to abolish the Nomination and Remuneration Committee of the Board of Directors; preliminary decisions to create and determine the composition of the Nomination and Remuneration, Strategic Planning, and Corporate Social Responsibility Committees
- Preliminary approval of the regulations of the Nomination and Remuneration, Strategic Planning and Corporate Social Responsibility Committees
- Election of the chairmen and members of the Nomination and Remuneration, Strategic Planning, and Corporate Social Responsibility Committees of the Board of Directors
- Recommendations to the General Meeting of Shareholders regarding the annual bonus payment to the President for 2011
- Determination of the salary and remuneration conditions for the Corporate Secretary
- Determination of the amount of the profit share bonus payments for 2011 for employees whose remuneration is set by the Board of the Directors
- Determination of the amount of the 2012 year-end bonus payment to employees whose remuneration is set by the Board of the Directors
- Annual review of remuneration and proposals for the 2013 salary of employees whose remuneration is set by the Board of the Directors/ shareholders
- Annual approval of the remuneration system, provision of incentives and scheme of labour remuneration for employees

Internal control and audit

- Approval of the methodology for evaluating the effectiveness of the internal control system
- Approval of the procedure for formulating the strategic plan of the IAS
- Approval of the methodology for auditing information technologies (IT audit)
- Approval of the procedure for forming the IAS' budget
- Approval of the procedure for evaluating the IAS' performance, including of the IAS' head
- Approval of the map of key performance indicators of the IAS and its head
- Approval of the strategic plan of IAS

- Approval of the action plan for implementing the strategic plan of IAS over 2012-14
- Report of the head of the IAS on its activities in 2011
- Half-yearly reports by the head of the IAS on the status of the action plan for implementing the strategic plan of the IAS
- Quarterly reporting by the head of the IAS on its activities
- Quarterly performance evaluation of the IAS
- Approval of amendments to the annual audit plan of the IAS for 2012, approved by the Board of Directors on 8 December 2011 (with amendments approved on 23 February 2012, 26 April 2012 and 6 September 2012)
- Approval of the annual audit plan of the IAS for 2013
- Preliminary approval of the amendments to the regulations of the IAS
- Changes in staffing of the IAS

Risk management

- Approval of the procedure for evaluating the effectiveness of the corporate risk management system
- Consideration of the updated risk map as at May 2012 and key risk register as at November 2012
- Approval of the regulations for record keeping and analysis of realised risks
- Consideration of changes to procedures for insurance coverage and approval of rules covering the arrangement of insurance coverage

Financial and operational activities

- Preliminary approval of the annual financial statements for 2011
- Proposals to the Annual General Meeting of Shareholders on the procedure for distributing the net profit for 2011 and the dividend amount per common share for 2011
- Annual report of the President on the financial and operational results over 2011
- Report of the President on the Company's current financial and operational activities and aircraft financing
- Report of the President on the status of the implementation of Board decisions
- Operational safety review, including an update on the regulatory situation involving the International Civil Aviation Organisation (ICAO) and the EU Aviation Safety Committee
- Approval of an amendment to the action plan for implementing the management reporting system
- Preliminary approval of the annual budget for 2013
- Approval of the budget of the IAS for 2013
- Annual approval of the procedure and terms of compensation of expenses to the Company's employees travelling on business, the standards of eligibilaty of the Company cars and standart areas to accomodate the administrative personnel of the Company, the limits of reinbursable expenses at the Company's expense when granting to employees the right to use mobile communication and the limits of representation expenditures
- Approval of the decision by the President to open a settlement account in the People's Bank of Turkey JSC
- Approval of the decision of the President to open settlement accounts in UzKDB Bank CJSC, Asia Alliance Bank Private Open Joint-Stock Commercial Bank and Uzbek Industrial-Building Bank Open Joint-Stock Commercial Bank (Uzbekistan)
- Approval of changes and amendments to the Company's procurement manual
- Decision to close the representative office in Almaty
- Approval of Air Astana's new flight destinations outside Kazakhstan
- Decision to create representative offices in Kyiv (Ukraine), Ashgabat (Turkmenistan) and Islamabad (Pakistan)
- Approval of the regulations for the representative office in Hong Kong (People's Republic of China)
- Approval of the regulations for the representative office in Dushanbe (Tajikistan)
- Update on the transaction with Boeing to buy the new Boeing 767-300ER aircraft
- Proposal by the President to extend for the short term the operating lease of one Fokker 50
- Decision to enter into a major transaction with SB RBS (Kazakhstan) JSC for a banking facility for the issuance of cash-backed letters of credit
- Preliminary approval of the decision to enter into a major transaction with Halyk Bank Kazakhstan JSC for a renewable credit facility
- Decision to enter into major transactions with ALS USA Leasing Inc to extend the lease of two Airbus A321-200s
- Decision to enter into major transactions with PetroSun Ltd and Litasco CA Ltd for the supply of fuel
- Proposal by the President to sign an operating lease for three Embraer 190 aircraft and enter into a major transaction with BOC Aviation for the operating lease of three Embraer ERJ190-100 LR aircraft
- Decision to enter into a major transaction with Air Lease Corporation to extend the operating lease of Airbus A320-232 aircraft
- Proposal by the President to select an engine type for the new Boeing 767 aircraft and enter into a major transaction with United Technologies International Corporation for the purchase of Pratt and Whitney engines
- Proposal by the President to arrange financing to purchase new Embraer 190 aircraft and enter into a major transaction with the Brazilian Development Bank (BNDES) to finance the purchase of new Embraer E190 aircraft
- Preliminary approval of a banking facility and enter into a major transaction with Royal Bank of Scotland (RBS) for financing the purchase of new Airbus A320 family aircraft
- Update on pre-delivery payments (PDPs) for financing new Boeing 767 aircraft and enter into a major transaction with UT Finance Corporation to finance PDPs for the new Boeing B767-300ER aircraft
- Proposal by the President to select a supplier of business-class seats for the new Boeing B767-300ER aircraft and decision to enter into a major transaction with Thompson Aeroseat to supply the seats
- Proposal by the President to select a supplier of in-flight entertainment systems for the new Boeing B767-300ER aircraft and decision to enter into a major transaction with SiT to supply in-flight entertainment systems for the new Boeing B767-300ERs
- Decision to enter into major transactions with APB Winglets Company LLC, d.b.a. Aviation Partners Boeing to purchase winglets for the new Boeing 767-300ER aircraft
- Decision to enter into major transactions with Aerosim Academy Inc, Florida Institute of Technology Inc and Atlantic Flight Training Academy Ltd to purchase services related to the Ab-Initio pilot training programme
- Preliminary approval of the decision to enter into a major transaction with SB HSBC Bank Kazakhstan JSC to issue unsecured letters of credit, standby letters of credit and guarantees
- Decision to enter into major transactions with Pegasus Aviation Inc to extend the operating lease of three Boeing 757-200-type aircraft
- Decision to enter into major transactions with Eurasia Munai Impex Ltd, OFION LLP, Astana Petroleum Oil LLP, and the branch office of Litasco CA for the supply of aviation fuel
- Proposal by the President to to enter into major transactions with Aviation Capital Group to extend the operating lease of one Airbus A320-232
- Decision to enter into major transactions with Boeing and Airbus for the supply, lease and repair of spare parts and the provision of technical support for Boeing B757-200/767-300 and A319/320/321 type aircraft
- Decision to enter into a major transaction with International Lease Finance Corporation (ILFC) to extend the operating lease for one Boeing B757-200
- Decision to enter into major transactions to place temporarily free cash in deposit bank accounts
- Election of a new registrar and decision to terminate the agreement with the former registrar

Selection criteria for the Board of Directors

Air Astana has established the following criteria for nominees and members of the Board of Directors:

- Nominees and members of the Board of Directors may be of any citizenship and nationality;
- Candidates for election as directors should have the appropriate work experience, knowledge, qualifications, track record of achievements and an impeccable reputation in both the industry and broader business world, required for the performance of their duties and contribution to the effective work of the Board of Directors in the interests of Air Astana and its shareholders.

The members of the Board of Directors should not:
- Have any current convictions under the law;
- Be a person who previously served as Chairman of the Board of Directors, Chief Executive Officer (Chairman of the Management Board), Deputy Chief Executive Officer, or Chief Accountant of another legal entity for no more than one year before its forced liquidation or forced redemption of shares, or of another legal entity recognised as bankrupt and put into temporary closure; this requirement is applied for a five-year period following the date of forced liquidation, forced redemption of shares, or a legal entity being recognised as bankrupt and put into temporary closure.

Qualification requirements for independent members of the Board of Directors include:

- Compliance with the definition of independent director as set out by the Law of the Republic of Kazakhstan "On Joint-Stock Companies": an independent director is a member of the Board of Directors who is not affiliated with the company and has not been affiliated with it for three years preceding his or her election (except as an independent director); is not affiliated with any affiliates; is not subordinated to any officers of the company or its affiliates; is not a civil servant; is not an auditor of the company; and was not its auditor for three years preceding election;
- Advanced educational qualifications, preferably in a field directly related to Air Astana's primary business activities;
- At least five years of leadership experience, preferably in a field directly related to Air Astana's primary business activities.

Remuneration of members of the Board of Directors and the Executive Body

Directors who represent the shareholders do not receive remuneration for their work. Independent directors are remunerated, and the General Meeting of Shareholders determines the amount based on the recommendations of the Board of Directors and the Nomination and Remuneration Committee. The General Meeting of Shareholders also determines the amount paid to the Executive Body, based on the recommendations of the Nomination and Remuneration Committee.

In 2012, the total remuneration paid to independent directors and the Executive Body stood at KZT40,351,145, including taxes.

COMMITTEES OF THE BOARD OF DIRECTORS

As at the end of 2012, the Board of Directors maintained four committees created to assist its effective performance and analyse the issues that fall within its competence: the Audit, Nomination and Remuneration, Strategic Planning, and Corporate Social Responsibility Committees.

Previously, until October 2012, Air Astana had three committees: the Audit, Nomination, and Remuneration Committees.

AUDIT COMMITTEE

The Audit Committee reports to the Board of Directors and acts within the authorities granted by it. It helps to support the Board of Directors in supervising the Company's financial and economic activities; the reliability and efficiency of the internal control and risk management system; the implementation of corporate governance documents; the independence of the external and internal audit process; and compliance with the laws and regulations of the Republic of Kazakhstan. The Audit Committee was created in March 2008.

Composition of the Audit Committee:

- Chairman: Dmitriy Larionov (independent director)
- Member: Lord Thomas Alexander Hesketh (independent director)

Responsibilities of the Audit Committee

The following falls within the competence of the Audit Committee:

- Developing recommendations for the Board of Directors on the appointment and change of the external auditor; determining the amount paid to the external auditor; evaluating the quality of services rendered by the external auditor; and obtaining related services from the external auditor
- Developing recommendations for the Board of Directors on the appointment and dismissal of the head of the Internal Audit Service (IAS)
- Holding meetings with external and internal auditors without the presence of members of Air Astana's management
- Investigating any issues under the supervision of the committee

Issues considered by the Audit Committee in 2012

Last year, the Audit Committee considered the following issues:

Financial statements

- External auditor's report on the audit of the annual financial statements for 2011
- Consideration of the management letter following the audit of the annual financial statements for 2011
- Recommendations to the Board of Directors regarding the preliminary approval of the annual financial statements for 2011

Internal audit

- Quarterly reports by the head of the IAS on the IAS' activity in 2012
- Quarterly performance evaluations of the IAS
- Preliminary approval of the IAS' budget for 2013
- Preliminary approval of the IAS' annual audit plan for 2013
- Preliminary approval of amendments to the IAS' annual audit plan for 2012, approved by the Board of Directors on 8 December 2011 (with amendments approved on 23 February 2012, 26 April 2012 and 6 September 2012)
- Hearing of the report by the IAS' head on an evaluation of the internal control system
- Proposal by the IAS' head regarding changes in staff
- Preliminary approval of the amount of the profit share bonus for 2011 for the IAS' head and employees
- Preliminary approval of the amount of 2012 year-end bonus payments for the IAS' head and employees
- Preliminary approval of the salaries of the IAS' head and employees for 2013
- Preliminary approval of the procedure for evaluating the performance of the IAS and its head
- Preliminary approval of the map of key performance indicators of the IAS and its head
- Preliminary approval of the procedure for developing the IAS' strategic plan
- Preliminary approval of the IAS' strategic plan
- Preliminary approval of the action plan for implementing the IAS' strategic plan for 2012-14
- Preliminary approval of the procedure for developing the IAS' budget
- Update by the IAS' head on the status of the IAS' action plan for implementing the IAS' strategic plan
- Preliminary approval of amendments to the regulations of the IAS

External audit

- Meeting with the independent external auditor: planning the half-year review of the interim financial statements for 2012
- Update by the external auditor on the results of the half-year review of the condensed interim financial statements for the six months ended 30 June 2012

Internal control and risk management

- Consideration of the updated risk map as at May 2012
- Preliminary approval of the procedure for evaluating the effectiveness of the risk management system
- Preliminary approval of the methodology for evaluating the effectiveness of the internal control system
- Preliminary approval of the updated key risk register as at November 2012
- Preliminary approval of the regulations for record keeping and analysis of realised risks

Other issues

- Approval of the Audit Committee's annual plan for 2012
- Approval of the Audit Committee's annual plan for 2013
- Preliminary approval of the methodology for auditing information technologies (IT audit)
- Consideration of changes to procedures for insurance coverage and approval of the rules covering the arrangement of insurance coverage

NOMINATION AND REMUNERATION COMMITTEE

The Nomination and Remuneration Committee develops recommendations for the Board of Directors regarding the recruitment and selection of members of the Board of Directors, Executive Body, head of the IAS, Corporate Secretary and other employees whose appointment requires the approval of the Board of Directors or shareholders. The committee also makes recommendations regarding the remuneration of those employees.

The committee was formed in October 2012 through the merger of the previously separate Nomination and Remuneration Committees.

Composition of the Nomination Committee (until 16 October 2012):

- Chairman: Dmitriy Larionov (independent director)
- Members: Nurzhan Baidauletov, Nigel Bradley

Composition of the Remuneration Committee (until 16 October 2012):

- Chairman: Lord Thomas Alexander Hesketh (independent director)
- Member: Dmitriy Larionov (independent director)

Composition of the Nomination and Remuneration Committee (from 16 October 2012):

- Chairman: Dmitriy Larionov (independent director)
- Members: Nurzhan Baidauletov, Nigel Bradley

Responsibilities of the Nomination and Remuneration Committee

The following falls within the competence of the Nomination and Remuneration Committee:

- Developing qualification requirements for candidates for independent directors, the Executive Body, the Corporate Secretary, and the head and employees of the IAS
- Making recommendations for electing or nominating

candidates for independent directors, the Executive Body, the Corporate Secretary, and the head and employees of the IAS
- Developing the succession planning policy for members of the Board of Directors and its Committees, the Executive Body, the Corporate Secretary and the head and employees of the IAS
- Providing recommendations on the policy and structure for remunerating members of the Board of Directors, the Executive Body, the head of the IAS, the Corporate Secretary and other employees whose remuneration shall be agreed by the Board of Directors or shareholders
- Making recommendations regarding the annual individual remuneration of members of the Board of Directors, the Executive Body, the head of the IAS, the Corporate Secretary and other employees whose remuneration shall be agreed by the Board of Directors or shareholders
- Making proposals to the Board of Directors regarding changing the remuneration of members of the Board of Directors, the Executive Body, the head of the IAS, the Corporate Secretary and other employees whose remuneration shall be agreed by the Board of Directors or shareholders
- Considering payment of remuneration following the results of the year to employees of whose remuneration shall be agreed by the Board of Directors or shareholders
- Conducting comparative analysis of salary levels and remuneration policies for members of the Board of Directors, the Executive Body, the head of the IAS, the Corporate Secretary and other employees whose remuneration shall be agreed by the Board of Directors or shareholders

Issues considered by the Nomination and Remuneration Committee in 2012

Last year, the Nomination and Remuneration Committee considered the following issues:

Remuneration

- Recommendations regarding the 2011 profit share bonus payment to the Chief Accountant, and the head and employees of the IAS
- Recommendations for the annual bonus payment to the President for 2011
- Preliminary approval of the Regulations of the Labour Remuneration System
- Recommendations regarding the 2012 year-end bonus payment to employees whose remuneration shall be determined by the Board of Directors
- Proposals regarding reviewing the remuneration and determining salaries for 2013 of employees whose remuneration shall be determined by the Board of Directors and shareholders

Other issues

- Approval of the Committee's annual plan for 2012
- Approval of the Committee's annual plan for 2013

STRATEGIC PLANNING COMMITTEE

The Strategic Planning Committee has been created to assist the effective performance of the Board of Directors and develop recommendations to the board regarding issues of strategic development. The committee was created in October 2012.

Composition of the Strategic Planning Committee:

- Chairman: Dmitriy Larionov (independent director)
- Members: Nurzhan Baidauletov, Nigel Bradley

Responsibilities of the Strategic Planning Committee

The responsibilities of the Strategic Planning Committee include:

- Developing recommendations for the Board of Directors for determining priority areas of business activity and development for Air Astana
- Developing recommendations for the Board of Directors regarding the preliminary approval and potential amendments to the Company's long-term development strategy
- Reviewing the management report on the implementation of the long-term development strategy and the medium-term business plan (development plan), as well as the achievements of strategic key performance indicator targets
- Developing recommendations for the Board of Directors on corporate governance issues
- Developing recommendations for the Board of Directors for reviewing the Company's strategy in view of changes in the economic, political, social and competitive environment
- Developing recommendations for the Board of Directors to improve the effectiveness of the Company's long-term performance and competitiveness in the aviation transportation market

CORPORATE SOCIAL RESPONSIBILITY COMMITTEE

The Corporate Social Responsibility Committee was established to assist the effective performance of the Board of Directors and to develop recommendations to the board regarding issues of social responsibility, including occupational safety, health and environmental protection. The committee was created in October 2012.

Composition of the Corporate Social Responsibility Committee:

- Chairman: Lord Thomas Alexander Hesketh (independent director)
- Members: Dmitriy Larionov (independent director), Nurzhan Baidauletov

Responsibilities of the Corporate Social Responsibility Committee

The responsibilities of the Corporate Social Responsibility Committee include:

- Developing recommendations for the Board of Directors regarding the Company's corporate social responsibility strategy and analysing the effectiveness of its implementation
- Developing policies and taking action in the areas of occupational health and safety, social responsibility and environmental protection
- Monitoring the Company's performance in the areas of occupational health and safety, social responsibility and environmental protection in line with relevant legislation and regulations
- Making recommendations to the Board of Directors regarding the approval of internal documentation covering social and charitable policies
- Consideration of major CSR risks and plans for mitigating the impact of them
- Making recommendations to the Board of Directors regarding the approval of Company social responsibility and sustainability report

INTERNAL AUDIT SERVICE

The Internal Audit Service (IAS) was created on 6 December 2007 by a resolution of the Board of Directors. Reporting directly to the Board of Directors, it conducts the internal audit and constantly monitors the internal control system. The board-level Audit Committee oversees the IAS' work. In accordance with the Charter, IAS employees are not eligible to serve on the Board of Directors or as President.
The head of the IAS is Valentina Khegay. She was appointed by a resolution passed at a General Meeting of Shareholders on 7 December 2007.

Responsibilities

The IAS' responsibilities include:

- Evaluating the reliability and effectiveness of the internal control system
- Evaluating the reliability and effectiveness of the risk management system
- Ensuring the effectiveness of the corporate governance system
- Evaluating the reliability, comprehensiveness and objectivity of the accounting system and financial reporting
- Evaluating compliance with the law and regulations of the Republic of Kazakhstan
- Verifying the adequacy of systems and procedures designed to ensure compliance with the law and regulations of the Republic of Kazakhstan
- Evaluating compliance with international standards and the Company's internal regulations, and implementing instructions from relevant regulatory bodies
- Determining whether the Company's resources are used rationally and efficiently and ensuring safeguards for its assets

VALENTINA KHEGAY
Head of the IAS

Prior to joining Air Astana in 2006, Valentina Khegay worked at auditing firm KPMG. She has extensive experience in audit, finance and accounting and began her career in audit in 1996. Her previous positions include Chief Accountant and Chief Financial Officer at several manufacturing companies. Valentina has a doctorate in Economic Science and is a Certified Public Accountant and Professional Accountant (CAP, CIPA, and Professional Accountant certificates).

CORPORATE SECRETARY

The position of Corporate Secretary was established through a resolution of the Board of Directors on 6 December 2007. The Corporate Secretary is responsible for facilitating coordination between the Company's different governing bodies and ensuring their adherence to legal, regulatory and internal company bylaws. The Corporate Secretary ensures that the rights of all shareholders are observed, shareholder communications are given due consideration by the relevant body, and any dispute involving shareholders' rights are resolved.

The Corporate Secretary's duties also include ensuring a normal flow of information among the Board of Directors and its committees and the Executive Body, as well as facilitating the orientation process for new directors. The Board of Directors is responsible for the appointment and dismissal of the Corporate Secretary.

YELENA KONDACHKOVA
Corporate Secretary

The current Corporate Secretary, Yelena Kondachkova, has been with Air Astana since its early days and has worked as a specialist and manager in the Strategic Planning Department. In 2011, she was one of the first graduates to complete a certification programme for corporate secretaries of companies within the Samruk-Kazyna holding.

TO SHAREHOLDERS AND INVESTORS

DIVIDEND POLICY

We have developed our dividend policy in accordance with the legislation of Kazakhstan, our Charter and our internal documents. It defines a transparent process for determining both the size of the dividend and the conditions under which it is paid, while seeking to achieve the appropriate balance between returning value to shareholders and financing Air Astana's continued growth. In our view, this helps to ensure both short-term and long-term returns on investment for shareholders.

According to the policy, Air Astana allocates 25% of net income, as calculated in accordance with International Financial Reporting Standards (IFRS), unless otherwise decided by the General Meeting of Shareholders.

	2006	2007	2008	2009	2010	2011	2012
Accrued dividends per common share (KZT)	59,369	63,708	30,208	145,722	167,064	158,504	187,496

Annual Report 2012

2013 FINANCIAL CALENDAR

DATE	EVENT
FEBRUARY 14	Report from the Head of the IAS on its activity in 2012
MARCH	Independent auditor's report on financial statements for 2012
APRIL	Publication of financial statements for 2012 on the Air Astana website
APRIL 25	Annual report from the President on the Company's financial and operational results for 2012
APRIL 25	Report from the Head of the IAS on its activity in 1Q13
APRIL 25	Preliminary approval by the Board of Directors of the financial statements for 2012
APRIL 25	Proposals of the Board of Directors to the Annual General Meeting of Shareholders on the procedure for distributing the net profit and setting the dividend per common share for 2012

MAY	Publication of the financial statements for 1Q13 on the Air Astana website
MAY 30	Annual General Meeting of Shareholders
MAY 30	Approval of the financial statements for 2012 by the Annual General Meeting of Shareholders
MAY 30	Annual report for 2012
MAY 30	Decision on payment and approval of the amount of the dividend per common share for 2012 by the Annual General Meeting of Shareholders
JUNE	Publication of the 2012 financial statements in the mass media
JUNE 7	Announcement of the dividend for 2012
AUGUST 1	Payment of the dividend for 2012

AUGUST	Publication of the financial statements for 2Q13 on the Air Astana website
OCTOBER 3	Report of the Head of the IAS on its activity in 2Q13
NOVEMBER	Publication of the financial statements for 9M13 on the Air Astana website
DECEMBER 12	Report of the Head of the IAS on its activity in 3Q13
DECEMBER 12	Approval of the Board of Directors' work plan for 2014
DECEMBER 12	Approval of the IAS' annual audit plan for 2014
DECEMBER 12	Preliminary approval of the five-year business plan for 2014-18
DECEMBER 12	Preliminary approval of the budget for 2014

EXTERNAL AUDITOR

Air Astana hires an external auditor to ensure that its accounting practices are in line with international financial reporting standards, transparent and independently verified.

On 15 July 2011, Air Astana held an open tender to select a service provider to audit the annual financial statements and review the interim financial statements for 2011-13. Based on the results, available on **www.procurement.airastana.com**, Deloitte LLP was appointed.

Since Air Astana's creation, the following companies have acted as external auditor: Ernst and Young Kazakhstan LLP (2002-03), KPMG Janat LLP (2004-06), Deloitte LLP (2007-10).

Contact information
of Deloitte LLP:

Building B, 36 Al-Farabi Ave.,
Almaty, 050059, Kazakhstan
Tel: +7 (727) 258 13 40
Fax: +7 (727) 258 13 41
almaty@deloitte.kz
www.deloitte.kz

INDEPENDENT REGISTRAR

The shareholders' register of Air Astana until September 2012 was rendered by Fondovyi Center JSC, then the service agreement was signed with the Integrated Securities Registrar.

The Integrated Securities Registrar was established on 1 December 2011 by the National Bank of the Republic of Kazakhstan (the sole founder) and registered on 11 January 2012 by the Ministry of Justice of Almaty. Its main activity is providing shareholder registry services.

Contact information of the Integrated
Securities Registrar:

141 Abylai Khan Ave.,
Almaty 050000 , Kazakhstan
Tel: +7 (727) 272 47 60
www.tisr.kz

Netherlands - Amsterdam is one of Europe's key transit hubs, and Air Astana offers six flights a week there

JOINT STOCK COMPANY AIR ASTANA

Financial Statements
For the year ended 31 December 2012

JOINT STOCK COMPANY AIR ASTANA

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STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

Management is responsible for the preparation of the financial statements that present fairly the financial position of JSC Air Astana (the "Company") as at 31 December 2012, the results of its operations, cash flows and changes in equity for the year then ended, in compliance with International Financial Reporting Standards ("IFRS").

In preparing the financial statements, management is responsible for:

- properly selecting and applying accounting policies;
- presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- providing additional disclosures when compliance with the specific requirements in IFRS are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Company's financial position and financial performance; and
- making an assessment of the Company's ability to continue as a going concern.

Management is also responsible for:

- designing, implementing and maintaining an effective and sound system of internal controls throughout the Company;
- maintaining adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time financial position of the Company, and which enable them to ensure that the financial statements of the Company comply with IFRS;
- maintaining statutory accounting records in compliance with legislation of Kazakhstan and IFRS;
- taking such steps as are reasonably available to them to safeguard the assets of the Company; and
- preventing and detecting fraud and other irregularities.

The financial statements for the year ended 31 December 2012 were authorised for issue on 13 March 2013 by management of the Company.

On behalf of management of the Company:

АО «ЭЙР АСТАНА»

Peter Foster
President

13 March 2013
Almaty, Republic of Kazakhstan

Alima Zhamanbekova
Chief Accountant

13 March 2013
Almaty, Republic of Kazakhstan

Deloitte.

Deloitte, LLP
36 Al Farabi Ave.,
Almaty, 050059,
Republic of Kazakhstan

Tel: +7 (727) 258 13 40
Fax: +7 (727) 258 13 41
almaty@deloitte.kz
www.deloitte.kz

INDEPENDENT AUDITORS' REPORT

To the Shareholders and Board of Directors of JSC Air Astana:

We have audited the accompanying financial statements of JSC Air Astana (the "Company"), which comprise the statement of financial position as at 31 December 2012, and the statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of JSC Air Astana as at 31 December 2012, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Andrew Weekes
Engagement Partner
Chartered Accountant
Certificate of Public Practice
78586, Australia

Karina Muldasheva
Certified auditor
Qualification certificate #MF-0000091
dated 27 August 2012,
Republic of Kazakhstan

Deloitte, LLP

Deloitte, LLP
Audit license for Republic of Kazakhstan
#0000015, type MFU - 2, issued by the Ministry of
Finance of the Republic of Kazakhstan
dated 13 September 2006

Nurlan Bekenov
General Director
Deloitte, LLP

13 March 2013
Almaty, Republic of Kazakhstan

JOINT STOCK COMPANY AIR ASTANA

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2012
(in thousands of USD)

	Notes	2012	2011
Revenue			
Passenger revenue	5	833,508	736,337
Cargo and mail	5	26,313	21,694
Other	5	15,254	14,852
Total revenue		875,075	772,883
Operating expenses			
Fuel		(246,820)	(178,569)
Handling, landing fees and route charges	6	(99,581)	(84,848)
Employee costs	6	(92,207)	(85,500)
Aircraft operating lease costs	6	(79,732)	(72,987)
Passenger service	6	(77,622)	(68,578)
Engineering and maintenance	6	(74,079)	(84,695)
Selling costs	6	(50,428)	(54,351)
Aircraft crew costs	6	(39,371)	(41,340)
Depreciation and amortisation	11	(7,285)	(5,924)
Taxes		(7,200)	(6,633)
Insurance	6	(5,681)	(5,316)
Property lease cost		(5,045)	(4,972)
Information technology		(3,175)	(2,670)
Consultancy, legal and professional services		(2,195)	(2,651)
Other		(8,492)	(4,567)
Total operating expenses		(798,913)	(703,601)
Operating profit		76,162	69,282
Finance income	7	3,949	10,392
Finance expenses	7	(2,320)	(1,816)
Foreign exchange gain/(loss), net		1,430	(414)
Profit before tax		79,221	77,444
Income tax expense	8	(18,145)	(16,184)
Net profit for the year		61,076	61,260
Other comprehensive loss:			
Foreign currency translation loss		(4,118)	(1,783)
Income tax		-	(66)
Other comprehensive loss for the year		(4,118)	(1,849)
Total comprehensive income for the year		56,958	59,411
Basic and diluted earnings per share (in USD)		3,593	3,604

On behalf of the Company's management:

Peter Foster
President

Alima Zamanbekova
Chief Accountant

13 March 2013
Almaty, Republic of Kazakhstan

13 March 2013
Almaty, Republic of Kazakhstan

The notes on pages 9 to 50 form an integral part of these financial statements. The independent auditor's report on the financial statements is on pages 2 and 3.

JOINT STOCK COMPANY AIR ASTANA

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2012
(in thousands of USD)

	Notes	31 December 2012	31 December 2011
ASSETS			
Non-current assets			
Property, plant and equipment	9	229,897	34,101
Intangible assets	10	2,593	3,152
Prepayments for long-term assets	14	95,053	68,666
Guarantee deposits	12	17,601	17,302
Deferred tax assets	8	-	7,984
Bank deposits	18	-	117,523
		345,144	248,728
Current assets			
Inventories	13	42,760	29,151
Prepayments	14	21,256	31,776
Income tax prepaid		1,512	3,197
Trade and other receivables	15	46,322	35,119
Other taxes prepaid	17	4,096	4,268
Guarantee deposits	12	1,585	1,410
Bank deposits	18	80,476	8,142
Cash and bank balances	19	43,051	23,995
Financial assets at fair value through profit or loss	16	361	891
		241,419	137,949
Total assets		586,563	386,677
EQUITY AND LIABILITIES			
Equity			
Share capital	20	17,000	17,000
Foreign currency translation reserve		(19,595)	(15,477)
Retained earnings		285,276	242,404
Total equity		282,681	243,927
Non-current liabilities			
Loans	24	6,456	-
Finance lease liabilities	25	134,033	-
Deferred tax liability	8	3,515	-
Provision for aircraft maintenance	22	4,132	12,086
		148,136	12,086
Current liabilities			
Loans	24	18,227	-
Finance lease liabilities	25	10,047	-
Deferred revenue	21	57,440	61,075
Provision for aircraft maintenance	22	16,712	16,220
Trade and other payables	23	53,040	52,576
Financial liabilities at fair value through profit or loss	16	280	793
		155,746	130,664
Total liabilities		303,882	142,750
Total equity and liabilities		586,563	386,677

On behalf of the Company's management:

AO «ЭЙР АСТАНА»

Peter Foster
President

13 March 2013
Almaty, Republic of Kazakhstan

Alima Zamanbekova
Chief Accountant

13 March 2013
Almaty, Republic of Kazakhstan

The notes on pages 9 to 50 form an integral part of these financial statements. The independent auditor's report on the financial statements is on pages 2 and 3.

JOINT STOCK COMPANY AIR ASTANA

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2012
(in thousands of USD)

	Notes	Share capital	Foreign currency translation reserve	Retained earnings	Total equity
At 1 January 2011		17,000	(13,628)	200,542	203,914
Net profit for the year		-	-	61,260	61,260
Other comprehensive loss for the year		-	(1,849)	-	(1,849)
Total comprehensive (loss)/income for the year		-	(1,849)	61,260	59,411
Dividends declared	20	-	-	(19,398)	(19,398)
At 31 December 2011		17,000	(15,477)	242,404	243,927
Net profit for the year		-	-	61,076	61,076
Other comprehensive (loss)/income for the year		-	(4,118)	-	(4,118)
Total comprehensive (loss)/income for the year		-	(4,118)	61,076	56,958
Dividends declared	20	-	-	(18,204)	(18,204)
At 31 December 2012		17,000	(19,595)	285,276	282,681

On behalf of the Company's management:

AO «ЭЙР АСТАНА»

Peter Foster
President

13 March 2013
Almaty, Republic of Kazakhstan

Alima Zamanbekova
Chief Accountant

13 March 2013
Almaty, Republic of Kazakhstan

The notes on pages 9 to 50 form an integral part of these financial statements. The independent auditor's report on the financial statements is on pages 2 and 3.

JOINT STOCK COMPANY AIR ASTANA

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2012
(in thousands of USD)

	Notes	2012	2011
OPERATING ACTIVITIES:			
Profit before tax		79,221	77,444
Adjustments for:			
Depreciation and amortisation of property, plant and equipment and intangible assets	11	7,285	5,924
Gain on disposal of property, plant and equipment		(176)	(129)
Change in allowance for doubtful debts	14, 15	2,628	48
Change in allowance for obsolete and slow-moving inventories	13	221	132
Foreign exchange (gain)/loss		(1,430)	414
Finance income	7	(3,949)	(8,359)
Interest expense on finance lease	7	411	-
Interest expense on bank loans	7	879	-
Net unrealised loss on financial assets and liabilities at fair value through profit or loss	7	4	1,284
Operating cash flow before movements in working capital		85,094	76,758
Change in accounts receivable		(10,636)	14,726
Change in other receivables and prepaid expenses		3,373	(13,441)
Change in inventories		(14,335)	(13,793)
Change in accounts payable, accrued expenses and other current liabilities		(4,817)	13,109
Change in deferred revenue		(2,716)	(40)
Cash generated from operations		55,963	77,319
Income tax paid		(6,209)	(17,823)
Interest paid		(1,197)	-
Net cash generated by operating activities		48,557	59,496
INVESTING ACTIVITIES:			
Pre-delivery payments		(70,078)	(53,495)
Purchase of property, plant and equipment		(17,883)	(6,749)
Proceeds from disposal of property, plant and equipment		508	3,063
Purchase of intangible assets	10	(347)	-
Deposits placed		(41,246)	(132,788)
Deposits withdrawn		86,473	126,164
Interest received		7,591	6,111
Net cash used in investing activities		(34,982)	(57,694)

JOINT STOCK COMPANY AIR ASTANA

STATEMENT OF CASH FLOWS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2012
(in thousands of USD)

	Notes	2012	2011
FINANCING ACTIVITIES:			
Dividends paid	20	(18,204)	(19,398)
Proceeds from borrowings		69,537	-
Repayment of borrowings		(45,000)	-
Repayment of finance lease		(241)	-
Net cash generated from/(used in) financing activities		6,092	(19,398)
NET INCREASE/(DECREASE) IN CASH AND BANK BALANCES		19,667	(17,596)
Effect of exchange rate changes on cash and bank balances held in foreign currencies		(611)	46
CASH AND BANK BALANCES, at the beginning of the year	19	23,995	41,545
CASH AND BANK BALANCES, at the end of the year	19	43,051	23,995

On behalf of the Company's management:

Peter Foster	**Alima Zamanbekova**
President	**Chief Accountant**
13 March 2013	13 March 2013
Almaty, Republic of Kazakhstan	Almaty, Republic of Kazakhstan

The notes on pages 9 to 50 form an integral part of these financial statements. The independent auditor's report on the financial statements is on pages 2 and 3.

JOINT STOCK COMPANY AIR ASTANA

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012
(in thousands of USD)

1. NATURE OF ACTIVITIES

JSC Air Astana (the Company) is a joint stock company as defined in the Civil Code of the Republic of Kazakhstan. The Company was established as a closed joint stock company on 14 September 2001 by Resolution of the Government of the Republic of Kazakhstan # 1118 dated 29 August 2001. Due to a change in legislation introduced in 2003, the Company was re-registered as a joint stock company on 27 May 2005.

The Company's principal activity is the provision of scheduled domestic and international air services for passengers. Other business activities include freight and mail transportation.

The Company operated its maiden flight on 15 May 2002, a Boeing 737 service from Almaty to Kazakhstan's national capital, Astana. As at 31 December 2012 the Company operated 27 aircraft comprising 2 turboprop and 25 turbojet aircraft, of which 8 short-haul and 19 long-haul aircraft representing 4 aircraft acquired under finance lease and 23 aircraft leased under operating lease (2011: 6 short-haul turboprop aircraft, 3 short-haul and 17 long-haul aircraft – all leased under operating lease).

The Company re-registered its office in 2010 from Astana, Kazakhstan to Zakarpatskaya street 4A, Almaty, Kazakhstan as the Company's main airport of operations is Almaty International Airport.

The shareholders of the Company are JSC "National Welfare Fund "Samruk-Kazyna" (which holds the investment on behalf of the Government of the Republic of Kazakhstan) and BAE Systems Kazakhstan Limited, which own 51% and 49% of the shares of the Company, respectively.

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

The Company has adopted the following new and revised standards and interpretations issued by International Accounting Standards Board and the International Financial Reporting Interpretations Committee (the IFRIC) which became effective for the Company's annual financial statements for the year ended 31 December 2012:

- Amendments to IFRS 7 Disclosures - Transfers of Financial Assets (effective for annual periods beginning on or after 1 July 2011). The amendments increase the disclosure requirements for transactions involving the transfer of financial assets in order to provide greater transparency around risk exposures when financial assets are transferred but the transferor retains some level of continuing exposure in the asset.

  The revised standard has been retrospectively applied in compliance with IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors" with the exception that in the first year of application, the Company need not provide comparative information for the disclosures required by the amendments for periods beginning before 1 July 2011. The adoption of the revised standard did not have any effect on the financial position or performance of the Company since in 2012 the Company does not have such material transactions.

- Amendments to IAS 12 Deferred Tax: Recovery of Underlying Assets (effective for annual periods beginning on or after 1 January 2012)

- The amendments to IAS 12 provide an exception to the general principle set out in IAS 12 Income Taxes that the measurement of deferred tax should reflect the manner in which an entity expects to recover the carrying amount of an asset. Specifically, the amendments establish a rebuttable presumption that the carrying amount of an investment property measured using the fair value model in IAS 40 Investment Property will be recovered entirely through sale. The amendments were issued in response to concern that application of IAS 12's general approach can be difficult or subjective for investment property measured at fair value because it may be that the entity intends to hold the asset for an indefinite or indeterminate period of time, during which it anticipates both rental income and capital appreciation.

Under the amendments, unless the presumption is rebutted, the measurement of the deferred tax liability or deferred tax asset is required to reflect the tax consequences of recovering the carrying amount of the investment property entirely through sale. The 'sale' presumption is rebutted if the investment property is depreciable and the investment property is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale.

Following the application of the amendments, entities holding investment property accounted for using the fair value model in accordance with IAS 40 in jurisdictions where tax is not imposed on sale of the investment property will no longer recognise deferred tax on any temporary differences arising from fair value gains or losses (unless the presumption is rebutted). This is because there would be no tax consequences expected to arise from recovering the carrying amount entirely through sale, regardless of whether the entity intends to use the property to generate rental income for a period of time prior to sale.

For depreciable investment property, the application of the amendments will result in a change in accounting policy. When the deferred tax associated with an investment property was previously determined based on expectations that the property would be recovered through use, the measurement basis will need to be changed unless the 'sale' presumption is rebutted. When the amendments result in a change to the basis of measurement and the effect is material, prior year amounts are required to be restated as the amendments require full retrospective application.

The revised standard has been retrospectively applied in compliance with IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors". The adoption of the revised standard did not have any effect on the financial position or performance of the Company, since the Company does not have investment properties.

New and revised IFRSs in issue but not yet effective

At the date of authorization of these financial statements, the following new standards and interpretations were in issue, but not yet effective, and which the Company has not early adopted:

- IFRS 9 "Financial Instruments" (as revised in 2010) [5];
- IFRS 10 "Consolidated Financial Statements" [2];
- IFRS 11 "Joint Arrangements" [2];
- IFRS 12 "Disclosure of Interest in Other Entities" [2];
- IFRS 13 "Fair Value Measurement" [1];
- Amendments to IFRS 7 "Financial Instruments: Disclosures" and IAS 32 "Financial Instruments: Presentation" – Offsetting Financial Assets and Financial Liabilities [4];
- Amendments to IFRS 9 "Financial Instruments" and IFRS 7 "Financial Instruments: Disclosures" - Mandatory Effective Date of IFRS 9 and Transition Disclosures[5];
- Amendments to IFRS 10, IFRS 11, IFRS 12: Transition Guidance[2];
- Amendments to IAS 1 "Presentation of Financial Statements" — amendments to revise the way other comprehensive income is presented[3];
- IAS 19 "Employee Benefits" (as revised in 2011) — improvements to the accounting for post-employment benefits[1];
- IAS 27 "Separate Financial Statements" (as revised in 2011) [2];
- IAS 28 "Investments in Associates and Joint Ventures" (as revised in 2011) [2];
- Amendments to IFRSs: Annual Improvements to IFRSs 2009-2011 Cycle[1];

[1] Effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.
[2] Each of the five standards becomes effective for annual periods beginning on or after 1 January 2013, with earlier application permitted if IFRS 10, IFRS 11, IFRS 12, IAS 27 (2011) and IAS 28 (2011) are early applied at the same time (except for IFRS 12 that can be applied earlier on its own).
[3] Effective for annual periods beginning on or after 1 July 2012, with early adoption permitted.
[4] The amendments to IFRS 7 are required for annual periods beginning on or after 1 January 2013 and interim periods within those annual periods. The disclosures should be provided retrospectively for all comparative periods. The amendments to IAS 32 are effective for annual periods beginning on or after 1 January 2014, with retrospective application required.
[5] Effective for annual periods beginning on or after 1 January 2015, with earlier application permitted.

The Company will adopt relevant new, revised and amended Standards and new Interpretations from their effective date. Retrospective application is required in accordance with IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors", unless otherwise noted below.

IFRS 9 "Financial Instruments" - IFRS 9, issued in November 2009, introduced new requirements for the classification and measurement of financial assets. IFRS 9 was amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition. Key requirements of IFRS 9:

- all recognised financial assets that are within the scope of IAS 39 Financial Instruments: Recognition and Measurement to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.
- with regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of the financial liability, that is attributable to changes in the credit risk of that liability, is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under IAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss was presented in profit or loss.

The Company expects that the application of IFRS 9 in the future may have an impact on amounts reported in respect of the Company's financial assets and financial liabilities.

Amendments to IFRS 9 "Financial Instruments" and IFRS 7 "Financial Instruments: Disclosures" - Mandatory Effective Date of IFRS 9 and Transition Disclosures. In December 2011, the IASB issued Amendments to IFRS 9 and IFRS 7. The amendments defer the mandatory effective date of IFRS 9 from 1 January 2013 to 1 January 2015, with early application permitted. The amendments also modify the transitional requirements from IAS 39 to IFRS 9.

In May 2011, a package of five Standards on consolidation, joint arrangements, associates and disclosures was issued, including IFRS 10, IFRS 11, IFRS 12, IAS 27 (as revised in 2011) and IAS 28 (as revised in 2011). Key requirements of these five Standards are described below.

IFRS 10 "Consolidated Financial Statements" replaces the parts of IAS 27 Consolidated and Separate Financial Statements that deal with consolidated financial statements. SIC-12 Consolidation - Special Purpose Entities will be withdrawn upon the effective date of IFRS 10. Under IFRS 10, there is only one basis for consolidation, that is, control. In addition, IFRS 10 includes a new definition of control that contains three elements: (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) the ability to use its power over the investee to affect the amount of the investor's return Extensive guidance has been added in IFRS 10 to deal with complex scenarios.

IFRS 11 "Joint Arrangements" replaces IAS 31 Interests in Joint Ventures. IFRS 11 deals with how a joint arrangement of which two or more parties have joint control should be classified. SIC-13 Jointly Controlled Entities - Non-monetary Contributions by Ventures will be withdrawn upon the effective date of IFRS 11. Under IFRS 11, joint arrangements are classified as joint operations or joint ventures, depending on the rights and obligations of the parties to the arrangements. In contrast, under IAS 31, there are three types of joint arrangements: jointly controlled entities, jointly controlled assets and jointly controlled operations. In addition, joint ventures under IFRS 11 are required to be accounted for using the equity method of accounting, whereas jointly controlled entities under IAS 31 can be accounted for using the equity method of accounting or proportional consolidation.

IFRS 12 "Disclosure of Interest in Other Entities" is a disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. In general, the disclosure requirements in IFRS 12 are more extensive than those in the current standards.

Amendments to IFRS 10, IFRS 11 and IFRS 12 were issued in June 2012 to clarify certain transitional guidance on the application of these IFRSs for the first time.

IAS 27 "Separate Financial Statements" (2011) – includes the provisions on separate financial statements that are left almost unchanged after the control provisions of IAS 27 have been replaced with the new IFRS 10.

IAS 28 "Investments in Associates and Joint Ventures" (2011) – now includes the requirements for joint ventures, as well as associates, to be equity accounted following the issue of IFRS 11.

These five standards together with the amendments regarding the transition guidance are effective for annual periods beginning on or after 1 January 2013, with earlier application permitted provided all of these standards are applied at the same time.

The Company's management believes that the application of these five standards will have no effect on its financial statements in the period of its initial application.

IFRS 13 "Fair Value Measurement" establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The Standard defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. The scope of IFRS 13 is broad; it applies to both financial instrument items and non-financial instrument items for which other IFRSs require or permit fair value measurements and disclosures about fair value measurements, except in specified circumstances. In general, the disclosure requirements in IFRS 13 are more extensive than those required in the current standards. For example, quantitative and qualitative disclosures based on the three-level fair value hierarchy currently required for financial instruments only under IFRS 7 Financial Instruments: Disclosures will be extended by IFRS 13 to cover all assets and liabilities within its scope.

IFRS 13 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted. IFRS 13 should be applied prospectively as of the beginning of the annual period in which it is initially applied. The disclosure requirements of IFRS 13 need not be applied in comparative information provided for periods before initial application of the Standard.

The Company expects that the application of the new Standard result in more extensive disclosures in the financial statements.

Amendments to IFRS 7 and IAS 32 - Offsetting Financial Assets and Financial Liabilities and the related disclosures. The amendments to IAS 32 clarify existing application issues relating to the offset of financial assets and financial liabilities requirements. Specifically, the amendments clarify the meaning of 'currently has a legally enforceable right of set-off' and 'simultaneous realisation and settlement'.

The amendments to IFRS 7 require entities to disclose information about rights of offset and related arrangements (such as collateral posting requirements) for financial instruments under an enforceable master netting agreement or similar arrangement.

The amendments to IFRS 7 are effective for annual periods beginning on or after 1 January 2013 and interim periods within those annual periods. The disclosures should be provided retrospectively for all comparative periods. However, the amendments to IAS 32 are not effective until annual periods beginning on or after 1 January 2014, with retrospective application required.

The Company's management anticipates that the application of these amendments to IAS 32 and IFRS 7 may result in more extensive disclosures being made with regard to offsetting financial assets and financial liabilities in the future.

Amendment to IAS 19 "Employee Benefits" - The amendments to IAS 19 change the accounting for defined benefit plans and termination benefits. The most significant change relates to the accounting for changes in defined benefit obligations and plan assets. The amendments require the recognition of changes in defined benefit obligations and in fair value of plan assets when they occur, and hence eliminate the 'corridor approach' permitted under the previous version of IAS 19 and accelerate the recognition of past service costs. The amendments require all actuarial gains and losses to be recognised immediately through other comprehensive income in order for the net pension asset or liability recognised in the consolidated statement of financial position to reflect the full value of the plan deficit or surplus. Furthermore, the interest cost and expected return on plan assets used in the previous version of IAS 19 are replaced with a 'net-interest' amount, which is calculated by applying the discount rate to the net defined benefit liability or asset.

The Company's management does not anticipate that the amendments to IAS 19 will have a significant effect on the Company's financial statements.

Amendments to IAS 1 "Presentation of Items of Other Comprehensive Income". The amendments introduce new terminology for the statement of comprehensive income and income statement. Under the amendments to IAS 1, the 'statement of comprehensive income' is renamed the 'statement of profit or loss and other comprehensive income' and the 'income statement' is renamed the 'statement of profit or loss'. The amendments to IAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to IAS 1 require items of other comprehensive income to be grouped into two categories in the other comprehensive income section: (a) items that will not be reclassified subsequently to profit or loss and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis - the amendments do not change the option to present items of other comprehensive income either before tax or net of tax.

The Company does not expect this amendment to have a material effect on its financial position or results of operations.

Annual Improvements to IFRSs 2009 - 2011 Cycle issued in May 2012 include a number of amendments to various IFRSs. The amendments are effective for annual periods beginning on or after 1 January 2013. Retrospective application is required in accordance with IAS 8. Amendments to IFRSs include:

- amendments to IAS 16 Property, Plant and Equipment;
- amendments to IAS 32 Financial Instruments: Presentation;
- amendments to IAS 1 Presentation of Financial Statements;
- amendments to IAS 34 Interim Financial Reporting.

Amendments to IAS 16 clarify that spare parts, stand-by equipment and servicing equipment should be classified as property, plant and equipment when they meet the definition of property, plant and equipment in IAS 16 and as inventory otherwise. The Company anticipates that the amendments to IAS 16 will have effect on the Company's financial statements.

Amendments to IAS 32 clarify that income tax relating to distributions to holders of an equity instrument and to transaction costs of an equity transaction should be accounted for in accordance with IAS 12 Income Taxes. The Company does not anticipate that the amendments to IAS 32 will have a significant effect on the Company's financial statements.

Amendments to IAS 1 requires an entity that changes accounting policies retrospectively, or makes a retrospective restatement or reclassification to present a statement of financial position as at the beginning of the preceding period (third statement of financial position). The amendments to IAS 1 clarify that an entity is required to present a third statement of financial position only when the retrospective application, restatement or reclassification has a material effect on the information in the third statement of financial position and that related notes are not required to accompany the third statement of financial position. The Company does not expect this amendment to have a material effect on its financial position or results of operations. The Company expects that the application of this amendment result in more extensive disclosures in the financial statements, if the Company changes accounting policies retrospectively, or makes a retrospective restatement or reclassification.

Amendments to IAS 34 clarify that the total assets and total liabilities for a particular reportable segment would be separately disclosed in interim financial reporting only when the amounts are regularly provided to the chief operating decision maker and there has been a material change from the amounts disclosed in the last annual financial statements for that reportable segment. The Company anticipates that the amendments to IAS 34 will have effect on the Company's financial statements, and management is analysing the effect of this amendment.

The Company will adopt relevant new, revised and amended Standards and new Interpretations from their effective date. The Company's management anticipates that the adoption of these Standards and Interpretations in future periods will have no material financial impact on the Company's financial position and statements of operations and cash flows.

3. SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

Basis of preparation

The financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair values, as explained in the accounting policies below. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

The principal accounting policies are set out below.

Functional and presentation currency

The national currency of Kazakhstan is the Kazakhstani tenge ("tenge"), which is the Company's functional currency, because it reflects the economic substance of the underlying events and circumstances of the Company. US Dollar ("USD") is the presentation currency for these financial statements since management believes that this currency is more useful for the users of these financial statements. All financial information presented in USD has been rounded to the nearest thousand.

The tenge is not a readily convertible currency outside Kazakhstan and, accordingly, any conversion of tenge to USD should not be construed as a representation that the tenge amounts have been, could be, or will be in the future, convertible into USD at the exchange rate disclosed, or at any other exchange rate.

Revenue

Passenger revenue

Ticket sales are reported as revenue when the transportation service has been provided. The value of tickets sold and still valid but not used by the reporting date is reported as deferred (unearned) transportation revenue. This item is reduced either when the Company completes the transportation service or when the passenger requests a refund. The value of tickets that have been issued, but which will never be used, are recognised as passenger transport revenue at the date of their expiry. The maximum validity period of the tickets is one year.

Passenger revenue includes revenue from code-share agreements with other airlines. Under these agreements, the Company sells seats on these airlines' flights and those other airlines sell seats on the Company's flights. Revenue from the sale of code-share seats on other airlines are recorded net in the Company's passenger revenue in profit or loss. The revenue from other airlines' sale of code-share seats on the Company's flights is recorded in passenger revenue in profit or loss.

Cargo revenue

Cargo transport services are recognised as revenue when the air transportation is provided. Cargo sales for which transportation service has not yet been provided are shown as deferred (unearned) transportation revenue.

Government grants

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Company with no future related costs are recognised in profit or loss in the period in which they become receivable.

Customer loyalty program

Sales of tickets that result in award credits for customers, under the Company's Nomad Program, are accounted for as multiple element revenue transactions and the fair value of the consideration received or receivable is allocated between the services provided and the award credits granted. The consideration allocated to the award credits is measured by reference to their fair value being the amount for which the award credits could be sold separately. Such consideration is not recognised as revenue at the time of the initial sale transaction but is deferred and recognised as revenue when the award credits are redeemed and the Company's obligations have been fulfilled.

Travel agents' commissions

Travel agents' commissions are recognised as an expense when the transportation service is provided.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Company as lessee

Assets held under finance leases are initially recognised as assets of the Company at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Company's general policy on borrowing costs. Contingent rentals are recognised as expenses in the periods in which they are incurred.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Operating leases for aircraft include both fixed and variable lease payments, of which the latter vary according to flying hours and cycles. Lease payments are recognised as expenses in the periods in which they are incurred. In the event that incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives received is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Lease guarantee deposits

Guarantee deposits represent amounts paid to the lessors of aircraft, which are held as security deposits by the lessors in accordance with the provisions of operating lease agreements; these deposits are returned to the Company at the end of the lease period. Lease deposits relating to the operating lease agreements are presented as assets in the statement of financial position. These deposits are interest-free and are recorded at amortised cost using an average market yield of 8.2% (2011: 8.2%).

Foreign currencies

In preparing the financial statements, transactions in currencies other than the Company's functional currency (foreign currencies) are recorded at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured at historical cost in a foreign currency are not retranslated.

The results and financial position of the Company are translated into the presentation currency using the following procedures:

a) assets and liabilities for each reporting date presented (i.e. including comparatives) are translated at the closing rate at the date of that reporting date;
b) income and expenses for the reporting period (i.e., including comparatives) are translated at average exchange rates during the year; and
c) all resulting exchange differences are recognised as foreign currency translation reserve within other comprehensive income.

The following table summarises tenge exchange rates at 31 December and for the years then ended:

	Average rate		Reporting date spot-rate	
	2012	2011	2012	2011
US dollar (USD)	149.11	146.62	150.74	148.40
Euro (EUR)	191.69	204.11	199.22	191.72
British Pound (GBP)	236.25	235.10	243.72	228.80

Finance income and expenses

Finance income comprises interest income on funds invested.

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Company and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Finance expenses comprise interest expense, bank commissions and other. Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

Short-term employee benefits

Short-term employee benefit obligations are recognised as an expense in profit or loss as the related service is provided.

A provision is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax. The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the reporting date.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be recognised. Such assets and liabilities are not recognised if the temporary difference arises in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset recognised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the reporting date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity, respectively.

Property, plant and equipment

Property, plant and equipment held for use in the supply of services, or for administrative purposes, are stated in the statement of financial position at cost less accumulated depreciation and impairment losses.

The financial interest attributed to progress payments made on account of aircraft and other significant assets under construction is capitalized and added to the cost of the asset concerned. Maintenance costs are recorded as expenses during the period when incurred, with the exception of programs that extend the useful life of the asset or increase its value, which are then capitalized (e.g. maintenance on airframes and engines, excluding parts with limited useful lives).

Flight Equipment

The purchase price of aircraft equipment is denominated in foreign currencies. It is translated at the exchange rate at the date of the transaction. Manufacturers' discounts, if any, are deducted from the value of the related asset.

Aircraft are depreciated using the straight-line method over their average estimated useful life of 20 years, assuming no residual value. During the operating cycle, the Company reviews whether the amortizable base or the useful life should be adjusted and, if necessary, determines whether a residual value should be recognized.

Major airframes and engines of all aircraft (excluding parts with limited useful lives) are treated as a separate asset component with the cost capitalized and depreciated over the period between the date of acquisition and the next major overhaul.

Major overhaul expenditure, including replacement spares and labour costs, are capitalised and amortised over the average expected life between major overhauls based on flight hours and cycles.

All other replacement spares and other costs relating to maintenance of an aircraft are charged to the profit or loss upon consumption or as incurred respectively.

Other property, plant and equipment

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Major spare parts and stand-by equipment are classified as property, plant and equipment when the Company expects to use them during more than one period. Similarly, if the spare parts and servicing equipment can be used only in connection with an item of property, plant and equipment, they are accounted for as property, plant and equipment.

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Company and its cost can be measured reliably. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment.

The estimated useful lives for the current and comparative periods are as follows:

• Buildings and premises	14-50 years
• Aircraft	20 years
• Rotable spare parts	5-10 years
• Office equipment and furniture	3-7 years
• Vehicles	7 years
• Other	5-10 years

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets.

Depreciation is recognised so as to write off the cost of assets (other than freehold land and properties under construction) less their residual values over their useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Intangible assets

Intangible assets acquired separately are reported at cost less accumulated amortisation and impairment losses. Amortisation is charged on a straight-line basis over the estimated useful lives of the assets. The estimated useful lives are reviewed at the end of each annual reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. The estimated useful economic life of software for the current and comparative periods is from 7 to 10 years.

Impairment of tangible and intangible assets

At each reporting date, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

Inventories

Inventories are stated at the lower of cost and net realisable value. Costs of inventories are determined on a first-in-first-out basis, except for fuel, which is determined on weighted average cost basis. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

Expenditures incurred in acquiring the inventories such as customs duties, freight and broker's services are accumulated into a separate inventory account and allocated depending on use of relevant inventory. Delivery overheads do not include fuel and de-icing (Note 13).

Provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that the Company will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Provision for aircraft maintenance under operating lease

The Company is obligated to perform regular scheduled maintenance of aircraft under the terms of its operating lease agreements and regulatory requirements relating to air safety. The lease agreements also require the Company to return aircraft to lessors in a satisfactory condition at the end of the lease term, which may require the performance of final return conditions. The Company's scheduled aircraft maintenance programs carried out through the lease periods are designed to reduce the incidence of final return costs. Major aircraft maintenance relates to airframes (referred to as the C-check program) and engines. The C-check program takes place every 18 months or 5,000 to 6,000 flying hours according to aircraft type. Engine overhaul occurs after specified flight hours or cycles occur. The operating lease agreements include a component of variable lease payments which is generally reimbursable to the Company by lessors as a contribution to engine maintenance costs after they are incurred. The variable lease payments are recognised as an expense in profit or loss as incurred. For C-check maintenance, a provision is recorded on a progressive basis based upon the Company's estimate of future maintenance costs. For engine maintenance, a provision is recorded on a progressive basis based upon the Company's estimate of the excess of maintenance costs over the amount reimbursable by the lessors. Unanticipated maintenance costs are expensed in profit and loss as incurred.

Financial instruments

Financial assets and financial liabilities are recognised when the Company becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

Financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss' (FVTPL), 'held-to-maturity' investments, 'available-for-sale' (AFS) financial assets and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Income is recognised on an effective interest basis for debt instruments other than those financial assets designated as at FVTPL.

Financial assets are classified as at FVTPL when the financial asset is either held for trading or it is designated as at FVTPL. Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial asset and is included in finance income line item in statement of comprehensive income. Fair value is determined in the manner described in Note 26.

Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment.

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at each reporting date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For all other financial assets objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as a default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial assets, such as trade receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Company's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 45 days, as well as observable changes in national economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Derecognition of financial assets

The Company derecognises a financial asset only when the contractual rights to the cash flows from the asset expire; or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Company neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Company recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Company retains substantially all the risks and rewards of ownership of a transferred financial asset, the Company continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

On derecognition of a financial asset other than in its entirety (e.g. when the Company retains an option to repurchase part of a transferred asset or retains a residual interest that does not result in the retention of substantially all the risks and rewards of ownership and the Company retains control), the Company allocates the previous carrying amount of the financial asset between the part it continues to recognise under continuing involvement, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain or loss allocated to it that had been recognised in other comprehensive income is recognised in profit or loss. A cumulative gain or loss that had been recognised in other comprehensive income is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts.

Financial liabilities and equity instruments issued by the Company

Classification as debt or equity

Debt and equity instruments issued by the Company are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Financial liabilities

Financial liabilities are classified as either financial liabilities 'at FVTPL' or 'other financial liabilities'.

Financial liabilities are classified as at FVTPL where the financial liability is either held for trading or it is designated as at FVTPL.

A financial liability is classified as held for trading if:

- it has been incurred principally for the purpose of repurchasing in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Company manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial liability other than a financial liability held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Company's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IAS 39 Financial Instruments: Recognition and Measurement permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial liabilities at FVTPL are stated at fair value, with any resultant gain or loss recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability and is included in the 'finance expenses' line item in the statement of comprehensive income. Fair value is determined in the manner described in Note 26.

Other financial liabilities

Other financial liabilities are initially measured at fair value, net of transaction costs and subsequently measured at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

Derivative financial instruments

The Company enters into derivative financial instruments to manage its exposure to aviation fuel price in the normal course of its business operations. Further details of derivative financial instruments are disclosed in Notes 16 and 26.

Derivatives are initially recognised at fair value at the date the derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. The fair values are estimated based on quoted market prices or pricing models that take into account the current market and contracted prices of the underlying instruments and other factors. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

A derivative with a positive fair value is recognised as a financial asset; a derivative with a negative fair value is recognised as a financial liability. A derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than 12 months and it is not expected to be realised or settled within 12 months. Other derivatives are presented as current assets or current liabilities.

Dividends

Dividends are recognised as a liability in the period in which they are declared.

Derecognition of financial liabilities

The Company derecognises financial liabilities when, and only when, the Company's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Company's accounting policies, which are described in Note 3, management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Critical judgments in applying accounting policies and estimates

The following are the critical judgments and estimates that management have made in the process of applying the Company's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

Provisions

Provisions are made when any probable and quantifiable risk of loss attributable to disputes exist. Provisions mainly consist of provision for aircraft maintenance (Note 22).

Recoverability of variable lease payments related to future maintenance

Under the operating lease agreements for its aircraft, the Company makes variable lease payments to lessors which are based upon the flight hours of engines, limited life parts of engines, auxiliary power units and major airframe checks. Such amounts are reimbursable by lessors upon occurrence of the maintenance event (APU and engine overhaul, replacement of the limited life parts and major airframe checks). The reimbursement is made only for scheduled repairs and replacements in accordance with the Company's maintenance program agreed with the Kazakhstan Civil Aviation Committee ("CAC").

In case of return of the aircraft after the scheduled maintenance event, but before the return condition specified in the lease agreement is triggered, the amounts of variable lease payments made to the lessors are not reimbursable and are retained by the lessors as a deposit transferrable to the next lessees of the aircraft. Management of the Company believes that as at 31 December 2012 contributions of variable lease payments of USD 115,452 thousand (2011: USD 117,028 thousand) are subject to reimbursement by the aircraft lessors upon actual maintenance events. Management regularly assesses the recoverability of variable lease payments made by the Company.

Compliance with tax legislation

Tax, currency and customs legislation of Kazakhstan are subject to frequent changes and varying interpretations. Management's interpretation of such legislation in applying it to business transactions of the Company may be challenged by the relevant regional authorities enabled by law to impose fines and penalties. It is possible that the tax treatment of transactions that have not been challenged in the past may be challenged. Fiscal periods remain open to review by the tax authorities in respect of taxes for the five calendar years preceding the year of tax review. Under certain circumstances reviews may cover longer periods. While the Company believes it has provided adequately for all tax liabilities based on its understanding of the tax legislation, the above facts may create additional financial risks for the Company.

Useful lives of property, plant and equipment

In reporting intangible assets and tangible assets, an assessment is made of the useful economic life and an assessment is made at least once a year to determine whether impairment exists.

Fair value of financial instruments

As described in Note 26, the Company uses valuation techniques that include inputs that are not based on observable market data to estimate the fair value of certain types of financial instruments. Note 26 provides detailed information about the key assumptions used in the determination of the fair value of financial instruments, as well as the detailed sensitivity analysis for these assumptions.

Management believes that the chosen valuation techniques and assumptions used are appropriate in determining the fair value of financial instruments.

Allowances

The Company accrues allowances for doubtful accounts receivable. Judgment is used to estimate doubtful accounts, which includes consideration of historical and anticipated customer performance. Changes in the economy or specific customer conditions may require adjustments to the allowance for doubtful accounts recorded in these financial statements. As at 31 December 2012 and 2011, allowances for doubtful accounts have been created of USD 6,023 thousand and USD 3,747 thousand, respectively (Notes 14, 15).

The Company annually estimates the necessity of accrual of allowances for obsolete and slow-moving inventories based on annual stock count data conducted at the reporting date. As at 31 December 2012, the Company accrued an allowance for obsolete and slow-moving inventories in the amount of USD 677 thousand (2011: USD 466 thousand) (Note 13).

Contingent liabilities and contingent assets

Contingent liabilities are not recognised in the financial statements. They are disclosed in the notes to the financial statements, unless the possibility of an outflow of resources embodying economic benefits is remote.

Contingent assets are not recognised in the financial statements. Where an inflow of economic benefits is probable, they are disclosed in the notes to the financial statements.

5. REVENUE

Passenger revenue	2012	2011
Passenger transport	674,815	643,241
Fuel surcharge	113,496	53,473
Airport services	35,419	33,556
Excess baggage	9,778	6,067
	833,508	736,337

Cargo and mail revenue	2012	2011
Cargo	24,485	21,065
Mail	1,828	629
	26,313	21,694

Other revenue	2012	2011
Penalties on agency contracts	7,817	6,767
Government subsidies	2,371	2,568
Advertising revenue	1,849	1,472
Income from ground services	710	809
Gain on disposal of spare parts and other assets	345	227
Spare parts received free of charge	10	21
Other	2,152	2,988
	15,254	14,852

In accordance with Kazakhstan legislation the Government provides subsidies to companies rendering air passenger services on unprofitable domestic routes from Astana.

During 2011 and 2012, the subsidies were provided for the routes from Astana to Semey, Zhezkazgan and Pavlodar. In December 2012, the flights from Astana to Semey were closed.

During the years ended 31 December, passenger, cargo and mail revenue were generated from the following destinations:

	2012	2011
Europe	345,376	306,011
Domestic	332,746	298,511
Asia	181,699	153,509
Total passenger, cargo and mail revenue	859,821	758,031

6. OPERATING EXPENSES

Handling, landing fees and route charges	2012	2011
Aero navigation	34,122	27,431
Handling charge	32,115	28,131
Landing fees	30,416	26,701
Meteorological services	1,895	1,764
Other	1,033	821
	99,581	84,848

Employee costs	2012	2011
Wages and salaries of operational personnel	62,603	57,825
Wages and salaries of administrative personnel	12,511	12,616
Social tax	6,586	6,032
Wages and salaries of sales personnel	5,757	4,962
Other	4,750	4,065
	92,207	85,500

The average number of employees during 2012 was 3,750 (2011: 3,358).

Aircraft operating lease costs	2012	2011
Fixed lease charges	76,826	71,651
Operating lease return costs	1,788	-
Lease of engines and rotable spare parts	1,118	1,336
	79,732	72,987

Passenger service	2012	2011
Airport charges	34,442	30,182
Catering	31,681	27,976
Security	2,561	2,147
In-flight entertainment	2,307	2,168
Other	6,631	6,105
	77,622	68,578

Engineering and maintenance	2012	2011
Maintenance – variable lease payments	48,644	46,208
Maintenance – components	16,461	17,401
Spare parts	5,845	11,149
Technical inspection	2,938	2,047
Maintenance – provisions (Note 22)	191	7,890
	74,079	84,695

Selling costs	2012	2011
Commissions	28,714	33,457
Reservation costs	13,335	12,749
Advertising	5,920	5,187
Interline commissions	1,116	887
Other	1,343	2,071
	50,428	54,351

Aircraft crew costs	2012	2011
Contract crew	15,240	15,918
Accommodation and allowances	13,597	13,244
Training	10,534	12,178
	39,371	41,340

Insurance	2012	2011
Legal liability insurance	2,360	2,030
Hull insurance	2,222	2,201
Medical insurance	853	844
Other	246	241
	5,681	5,316

7. FINANCE INCOME AND EXPENSES

Finance income	2012	2011
Interest income on bank deposits	3,857	8,230
Realised gain on financial assets and liabilities held at fair value through profit or loss (Note 16).	-	2,032
Other	92	130
	3,949	10,392

Finance expenses	2012	2011
Bank commissions	958	532
Interest expense on bank loans	879	-
Interest expense on finance lease	411	-
Net unrealised loss on financial assets and liabilities at fair value through profit or loss (Note 16)	4	1,284
Other	68	-
	2,320	1,816

8. INCOME TAX EXPENSE

The Company's income tax expense for the years ended 31 December was as follows:

	2012	2011
Current income tax expense	6,646	18,471
Deferred income tax expense/(benefit)	11,499	(2,287)
	18,145	16,184

The Company's income tax recognized in other comprehensive income for the year ended 31 December was as follows:

	2012	2011
Current income tax	-	-
Deferred income tax	-	66
	-	66

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The tax effect on the major temporary differences that give rise to the deferred income tax assets and liabilities as at 31 December 2012 and 2011 is presented below:

	2012	2011
Deferred tax assets		
Provision for aircraft maintenance	4,169	5,662
Trade and other payables	1,473	2,147
Trade and other receivables	1,205	640
Remuneration payable	628	1,071
Intangible assets	111	53
Total	7,586	9,573
Deferred tax liabilities		
Difference in depreciable value of property, plant and equipment	(11,034)	(1,242)
Prepaid expenses	(67)	(347)
Total	(11,101)	(1,589)
Net deferred tax (liabilities)/assets	(3,515)	7,984

The income tax rate in the Republic of Kazakhstan, where the Company is located, in 2012 and 2011 was 20%. The taxation charge for the year is different from that which would be obtained by applying the statutory income tax rate to profit before income tax. Below is a reconciliation of theoretical income tax at 20% (2011: 20%) to the actual income tax expense recorded in the Company's statement of comprehensive income:

	2012	2011
Profit before tax	79,221	77,444
Income tax at statutory rate	15,844	15,489
Tax effect of non-deductible expenses	2,301	695
Income tax expense	18,145	16,184

9. PROPERTY, PLANT AND EQUIPMENT

	Rotable spare parts	Office equipment and furniture	Building, premises and land	Vehicles	Flight equipment under finance lease	Equipment to be installed	Total
Cost							
At 1 January 2011	30,922	7,356	5,494	2,874	-	1,866	48,512
Additions	-	-	-	-	-	6,749	6,749
Disposals	(4,896)	(175)	-	(188)	-	-	(5,259)
Transfers to intangible assets (Note10)	-	-	-	-	-	(883)	(883)
Transfers to inventory	(1)	(4)	-	-	-	(1,572)	(1,577)
Transfers from inventory	1	4	-	-	-	6,569	6,574
Transfers	7,317	1,239	-	465	-	(9,021)	-
Foreign currency translation difference	(238)	(61)	(37)	(23)	-	(34)	(393)
At 31 December 2011	33,105	8,359	5,457	3,128	-	3,674	53,723
Additions	3,985	-	-	-	-	163,525	167,510
Disposals	(496)	(144)		(82)	-	-	(722)
Transfers from prepayments	-	-	-	-	37,816	-	37,816
Transfers to inventory	-	-	-	-	-	(101)	(101)
Transfers	11,287	1,810	431	370	146,642	(160,540)	-
Foreign currency translation difference	(675)	(148)	(88)	(52)	(1,994)	(88)	(3,045)
At 31 December 2012	47,206	9,877	5,800	3,364	182,464	6,470	255,181
Accumulated depreciation							
At 1 January 2011	11,987	3,122	728	1,138	-	-	16,975
Charge for the year (Note 11)	3,087	1,394	187	451	-	-	5,119
Disposals	(2,017)	(155)	-	(153)	-	-	(2,325)
Foreign currency translation difference	(94)	(36)	(7)	(10)	-	-	(147)
At 31 December 2011	12,963	4,325	908	1,426	-	-	19,622
Charge for the year (Note 11)	3,624	1,446	184	449	720	-	6,423
Disposals	(204)	(122)	-	(64)	-	-	(390)
Foreign currency translation difference	(237)	(82)	(17)	(27)	(8)	-	(371)
At 31 December 2012	16,146	5,567	1,075	1,784	712	-	25,284
Net book value							
At 31 December 2012	31,060	4,310	4,725	1,580	181,752	6,470	229,897
At 31 December 2011	20,142	4,034	4,549	1,702	-	3,674	34,101

As at 31 December 2012, the book value of fully depreciated property, plant and equipment that is still in use was USD 3,174 thousand (2011: USD 1,360 thousand).

The Company's obligations under finance leases are secured by the lessors' title to the leased assets, which have a carrying amount of USD 181,752 thousand (2011: nil) (Note 25).

Rotable spare parts include aircraft modifications.

10. INTANGIBLE ASSETS

	Software
Cost	
At 1 January 2011	5,027
Transfer to property, plant and equipment (Note 9)	883
Foreign currency translation difference	(44)
At 31 December 2011	5,866
Additions	347
Foreign currency translation difference	(95)
At 31 December 2012	6,118
Accumulated amortisation	
At 1 January 2011	1,931
Charge for the year (Note 11)	805
Foreign currency translation difference	(22)
At 31 December 2011	2,714
Charge for the year (Note 11)	862
Foreign currency translation difference	(51)
At 31 December 2012	3,525
Net book value	
At 31 December 2012	2,593
At 31 December 2011	3,152

11. DEPRECIATION AND AMORTISATION

	2012	2011
Depreciation of property, plant and equipment (Note 9)	6,423	5,119
Amortisation of intangible assets (Note 10)	862	805
Total	7,285	5,924

12. GUARANTEE DEPOSITS

	31 December 2012	31 December 2011
Non-current		
Guarantee deposits for leased aircraft	17,020	16,780
Other guarantee deposits	581	522
	17,601	17,302
Current		
Guarantee deposits for leased aircraft	391	550
Other guarantee deposits	1,194	860
	1,585	1,410
	19,186	18,712

Guarantee deposits for leased aircraft comprise security deposits required by the lease agreements as security for future lease payments to be made by the Company. Guarantee deposits are denominated primarily in US dollars.

Guarantee deposits are receivable as follows:

	31 December 2012	31 December 2011
Within one year	391	550
After one year but not more than five years	15,046	14,311
More than five years	2,231	2,757
	17,668	17,618
Fair value adjustment	(257)	(288)
	17,411	17,330

13. INVENTORIES

	31 December 2012	31 December 2011
Spare parts	23,088	17,144
Fuel	8,908	5,676
Goods in transit	5,138	2,001
Crockery	2,197	1,684
Uniforms	1,279	296
Promotional materials	1,140	954
Blank forms	593	567
De-icing liquid	581	699
Other	513	596
	43,437	29,617
Less: allowance for obsolete and slow-moving inventories	(677)	(466)
	42,760	29,151

The movements in the allowance for obsolete and slow-moving inventories were as follows for the years ended 31 December:

	2012	2011
Allowance for obsolete and slow-moving inventories at the beginning of the year	(466)	(338)
Accrued for the year	(221)	(132)
Foreign currency translation difference	10	4
Allowance for obsolete and slow-moving inventories at the end of the year	(677)	(466)

14. PREPAYMENTS

	31 December 2012	31 December 2011
Non-current		
Prepayments for non-current assets	94,114	68,666
Advances paid for services	939	1,537
	95,053	70,203
Less: allowance for non-recovery	-	(1,537)
	95,053	68,666
Current		
Advances paid for services	15,854	15,313
Advances paid for goods	5,843	11,308
Prepayments for operating leases	5,069	6,868
	26,766	33,489
Less: allowance for non-recovery	(5,510)	(1,713)
	21,256	31,776

Prepayments for non-current assets were made to Airbus as pre-delivery payments for the purchase of remaining three new aircraft, to Embraer as pre-delivery payment for the purchase of remaining one aircraft, and Boeing as pre-delivery payment for the purchase of six aircraft (Note 27).
The movements in the allowance for non-recovery for the years ended 31 December were:

	2012	2011
At the beginning of the year	(3,250)	(3,350)
Accrued during the year	(4,440)	(35)
Reversed during the year	2,071	-
Written-off against previously created allowance	33	113
Foreign currency translation difference	76	22
At the end of the year	(5,510)	(3,250)

The allowance for non-recovery includes advance payments made by the Company to suppliers which are currently subject to legal claims for recovery due to the suppliers' inability to complete the transactions.

15. TRADE AND OTHER RECEIVABLES

	31 December 2012	31 December 2011
Trade receivables	29,070	18,966
Receivable from lessors – variable lease reimbursement	11,376	12,687
Due from employees	5,888	3,335
Subsidies receivable (Note 28)	242	443
Other	259	185
	46,835	35,616
Less: allowance for doubtful debts	(513)	(497)
	46,322	35,119

At 31 December 2012, eight debtors including IATA Bank Settlement Plans (BSPs) as collecting agencies from the worldwide travel agencies comprised 39% of the Company's trade and other receivables (2011: eight debtors comprised 29%).

Receivable from lessors represents the amount of variable lease reimbursement applied for by the Company as a result of maintenance events that occurred prior to reporting date.

The Company's trade and other receivables are denominated in the following currencies as at 31 December:

	31 December 2012	31 December 2011
Tenge	19,939	6,622
US Dollar	16,039	18,633
Euro	5,083	4,751
Russian Rouble	1,535	1,036
Other	4,239	4,574
	46,835	35,616

The movements in allowance for doubtful debts for the years ended 31 December were:

	2012	2011
At the beginning of the year	(497)	(662)
Accrued during the year	(259)	(13)
Written-off against previously created allowance	235	176
Foreign currency translation difference	8	2
At the end of the year	(513)	(497)

16. FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

Financial assets and liabilities at fair value through profit or loss arise from the Company's aviation fuel price hedging activities which commenced in 2009. The Company signed agreements and entered into transactions with various financial institutions to manage the risk of significant changes in aviation fuel prices. These assets and liabilities are recognised at fair value through profit or loss as the derivatives were not designated into a hedge accounting relationship.

	Call option	Put option	Net
At 1 January 2011	1,096	(119)	977
First-time valuation of options	(1,651)	19	(1,632)
Gain on hedging of aviation fuel	2,032	-	2,032
Foreign currency translation difference	(2)	7	5
Net unrealised loss on financial assets and liabilities at fair value through profit or loss (Note 7)	(584)	(700)	(1,284)
At 31 December 2011	891	(793)	98
First-time valuation of options	(502)	461	(41)
Foreign currency translation gain	8	21	29
Net unrealised (loss)/gain on financial assets and liabilities at fair value through profit or loss (Note 7)	(28)	24	(4)
Foreign currency translation difference	(8)	7	(1)
At 31 December 2012	361	(280)	81

The terms of the options are described in Note 26.

17. OTHER TAXES PREPAID

	31 December 2012	31 December 2011
Value added tax recoverable	3,736	3,965
Other taxes prepaid	360	303
	4,096	4,268

Value added tax receivable is recognised within current assets as the Company annually applies for reimbursement of these amounts.

18. BANK DEPOSITS

	31 December 2012	31 December 2011
Current		
Term deposits with local banks	76,049	-
Guarantee deposits	19	26
Interest receivable	4,408	8,116
	80,476	8,142
Non-current		
Term deposits with local banks with original maturity more than 1 year	-	117,523
	80,476	125,665

Term deposits with local banks (with an original maturity of more than three months and more than one year) earn interest in the range from 0.4% to 7.5% per annum (2011: 3.5% to 8.2%). Bank deposits have no restrictions on early withdrawal.

Guarantee deposits made to meet the requirements of Kazakhstan legislation relating to foreign employees are denominated in tenge and earn interest of 4.5% per annum (2011: 4.5%).

Bank deposits are denominated in the following currencies as at 31 December:

	2012	2011
US Dollar	78,871	118,627
Euro	1,570	7,011
Tenge	35	27
	80,476	125,665

19. CASH AND BANK BALANCES

	31 December 2012	31 December 2011
Current accounts with local banks	30,929	9,074
Current accounts with foreign banks	7,060	6,867
Term deposits with local banks with original maturity less than 3 months	4,975	7,969
Cash on hand	87	85
	43,051	23,995

At 31 December 2012, current accounts with banks earn interest in the range of 0.2% to 2% (2011: 0.2% to 2%). Short-term deposits (over-night) with banks earn interest of 1% per annum (2011: 0.08%-2.5%).

Cash and bank balances are denominated in the following currencies as at 31 December:

	2012	2011
Tenge	24,751	7,138
US Dollar	6,261	5,679
Euro	5,341	2,954
GBP	1,433	1,227
Russian Rouble	1,362	1,059
Indian Rupee	1,025	339
Chinese Yuan	980	521
Uzbek Soms	735	4,822
Other	1,163	256
	43,051	23,995

20. EQUITY

As at 31 December 2012 and 2011, share capital comprised of 17,000 authorised, issued and fully paid ordinary shares with a par value of USD 1,000 per share.

In 2011, the shareholders declared a dividend payment equivalent to 25% of profit for 2010. The total amount of the dividend of USD 19,398 thousand, which was distributed and paid to each shareholder in accordance with their shareholdings.

In 2012, the shareholders declared a dividend payment equivalent to 30% of profit for 2011. The total amount of the dividend of USD 18,204 thousand, which was distributed and paid to each shareholder in accordance with their shareholdings.

The Company has not yet declared any dividends for the year ended 31 December 2012. Dividends payable on ordinary shares are determined by the shareholders at the annual meeting.

The calculation of basic earnings per share is based on profit for the year and the weighted average number of ordinary shares outstanding during the year of 17,000 shares (2011: 17,000). The Company has no dilutive potential ordinary shares.

	2012	2011
Profit:		
Profit for the year	61,076	61,260
Number of ordinary shares	17,000	17,000
Earnings per share – basic and diluted (USD)	3,593	3,604

21. DEFERRED REVENUE

	31 December 2012	31 December 2011
Unearned transportation revenue	50,146	47,704
Customer loyalty program	7,294	13,371
	57,440	61,075

Unearned transportation revenue represents the value of sold but unused passenger tickets, the validity period of which has not expired.

Deferred revenue attributable to the customer loyalty program refers to the Company's Nomad program.

22. PROVISION FOR AIRCRAFT MAINTENANCE

	31 December 2012	31 December 2011
Engines	16,673	23,645
C-Check	3,529	2,670
Fokker-50 redelivery provisions	642	1,991
	20,844	28,306

The movements in the provision for aircraft maintenance were as follows for the years ended 31 December:

	2012	2011
At 1 January	28,306	24,732
Accrued during the year (Note 6)	10,207	14,507
Reversed during the year (Note 6)	(10,016)	(6,617)
Used during the year	(7,290)	(211)
Foreign currency translation difference	(363)	(4,105)
At 31 December	20,844	28,306

Under the terms of its operating lease agreements for aircraft, the Company is obliged to carry out and pay for maintenance based on use of the aircraft and to return aircraft to the lessors in a satisfactory condition at the end of the lease term. The maintenance cost estimates used for provisions are in US Dollars.

The planned utilisation of these provisions is as follows:

	31 December 2012	31 December 2011
Within one year	16,712	16,220
During the second year	2,248	7,349
During the third year	726	2,466
After the third year	1,158	2,271
Total provision for aircraft maintenance	20,844	28,306
Less: current portion	(16,712)	(16,220)
Non-current portion	4,132	12,086

Significant judgment is involved in determining the provision for aircraft maintenance. Management has engaged an independent specialist to assist in estimating the timing and cost of expected engine maintenance activities. The estimate by the independent specialist is prepared based on the current condition of aircraft, historical flight hours and cycles, expected future utilisation of the aircraft over the remaining life of the operating leases as well as requirements for returnable condition when the lease term is concluded. The estimates are based on the following key assumptions:

- expected utilisation rate for flight hours and cycles is based on historical data and actual usage;
- market prices are used for services and parts;
- it is assumed that aircraft will be operated within standard norms and conditions; and
- no provisions have been made for unscheduled maintenance.

23. TRADE AND OTHER PAYABLES

	31 December 2012	31 December 2011
Trade payables	36,426	31,666
Employee unused vacation and remuneration payable	5,512	8,558
Wages and salaries payable to employees	3,828	3,320
Operating lease payables	3,147	4,417
Advances received	1,952	1,817
Taxes payable	1,015	639
Other	1,160	2,159
	53,040	52,576

The Company's trade payables are denominated in the following currencies:

	31 December 2012	31 December 2011
Tenge	23,177	23,418
US dollar	19,585	17,971
Euro	5,900	7,201
GBP	1,312	1,547
Russian roubles	893	664
Other	2,173	1,775
	53,040	52,576

24. LOANS

	31 December 2012	31 December 2011
Non-current		
Non-secured non-bank loans	6,456	-
	6,456	-
Current		
Current portion of non-secured non-bank loans	18,081	-
Interest payable	146	-
	18,227	-
	24,683	-

On 16 March 2012 the Company entered into a renewable credit line agreement with JSC Halyk Bank for the amount of USD 45,000 thousand for the purpose of replenishment of working capital in order to meet current liabilities and not to incur interest penalties on early termination of bank deposits. Interest rate was fixed depending on loan terms from 4.5% to 7.25% per annum. The loan was secured by cash kept on the Company's current accounts. The loan was denominated in USD. The loan was fully repaid during August 2012.

In 21 August 2012 the Company concluded a loan agreement for financing of pre-delivery payments for Boeing B767-300ER for up to USD 35,000 thousand. Maturity date is 31 December 2014 or delivery date of the aircraft if delivery occurs before maturity date. The loan is denominated in USD. As the Company did not confirm purchase of the fourth Boeing-767 and will be taking delivery of only three Boeing-767 the amount of the loan reduced respectively to USD 27,304 thousand.

25. OBLIGATIONS UNDER FINANCE LEASE

In 2012 the Company acquired four aircraft under fixed interest finance lease agreements. The lease term for each aircraft is twelve years. The Company has the option to purchase each aircraft for a nominal amount at the end of the lease (Note 27). Loans provided by financial institutions to the lessor in respect of the three new Airbus are guaranteed by European Export Credit Agencies. The Company's obligations under finance leases are secured by the lessors' title to the leased assets, which have a carrying value of USD 181,752 thousand (2011: nil) (Note 9).

The Company's finance leases are subject to certain covenants. These covenants impose restrictions in respect of certain transactions, including, but not limited to restrictions in respect of indebtedness. Certain finance lease agreements include covenants as regards to change of ownership of the Company. These requirements have been met during 2012.

	Minimum lease payments		Present value of minimum lease payments	
	31 December 2012	31 December 2011	31 December 2012	31 December 2011
Not later than one year	14,210	-	10,047	-
Later than one year and not later than five years	57,500	-	43,579	-
Later than five years	100,846	-	90,454	-
	172,556		144,080	
Less: future finance charges	(28,476)	-	-	-
Present value of minimum lease payments	144,080	-	144,080	-
Included in the financial statements as:				-
- current portion of finance lease obligations			10,047	-
- non-current portion of finance lease obligations			134,033	-
			144,080	-

The Company's finance lease obligations are denominated in US Dollars.

26. FINANCIAL INSTRUMENTS

Exposure to credit, interest rate, currency and commodity price risk arises in the normal course of the Company's business. The Company does not hedge its exposure to such risks, other than commodity price risk as discussed below.

Capital management

The Company manages its capital to ensure the Company will be able to continue as going concern while maximising the return to the shareholders through the optimisation of the debt and equity balance. The Company's overall strategy remains unchanged from 2011.

The capital structure of the Company consists of net debt (comprising loans and finance lease obligations in Note 24 and 25) and equity of the Company (comprising issued capital, foreign currency translation reserve and retained earnings as detailed in Note 20).

The Company is not subject to any externally imposed capital requirements.

The Company reviews the capital structure on a semi-annual basis. As part of this review, the Company considers the cost of capital and the risks associated with each class of capital. The Company does not have a target gearing ratio.

Gearing ratio

The gearing ratio at end of the reporting period was as follows.

	31 December 2012
Loans and finance lease liabilities (Note 24, 25)	168,763
Cash and bank balances, bank deposits (Note 18, 19)	(123,527)
Net debt	45,236
Equity	282,681
Net debt to equity ratio	16.00%

Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Company. The Company has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults. Credit exposure is controlled by counterparty limits that are reviewed and approved by the risk management committee annually.

The maximum exposure to credit risk related to financial instruments, such as cash and accounts receivable, is calculated basing on their book value.

Trade receivables consist of a large number of customers, spread across diverse industries and geographical areas. Ongoing credit evaluation is performed on the financial condition of accounts receivable and, where appropriate, credit guarantee insurance cover is purchased.
As at 31 December, 2012 there was no significant concentration of credit risk in respect of prepayments (Note 14) and trade accounts receivable (Note 15).

The Company uses reputable banks and has established a cash investment policy which would limit the credit risk related to bank accounts and deposits.

Interest rate risk

The Company is not exposed to interest rate risk because the Company borrows funds at fixed interest rates.

Foreign currency risk

The Company is exposed to foreign currency risk on sales and purchases that are denominated in currencies other than the tenge. The currencies giving rise to this risk are primarily the USD and Euro. For amounts of assets and liabilities denominated in foreign currency refer to Notes 12, 15, 18, 19, 23, 24 and 25.

Commodity price risk

The Company uses options to economically hedge the exposure to movements in the price of aviation fuel. Financial instruments are acquired being call options (where a premium is paid upfront by the Company for covering the risk of increases of commodity price above a predetermined level) and a zero cost collar (where no premium is paid by the Company unless the price of the commodity decreases below a predetermined level). Since aviation fuel derivative financial instruments are not quoted or available in Kazakhstan, management signed economic hedge agreements with reference to changes in the crude oil price per barrel. The quantity of aviation fuel to be covered by such instruments is assessed on a quarterly basis by management as part of its risk management strategy. Economic hedging is conducted in accordance with the policy for hedge of fuel price changes approved by the Company's directors and shareholders.

The following table summarises the impact of reasonably possible changes in aviation fuel price on the Company's profit and equity. For the purpose of this disclosure, the sensitivity analysis assumes a 10 per cent increase and decrease in the price of aviation fuel above upper price (Cap) and below lower price (Floor), respectively. The sensitivity analysis assumes designation and effectiveness testing results as at 31 December 2012 remain unchanged. This analysis also assumes that all other variables, including foreign currency exchange rates and option volatilities, remain constant.

	2012		2011	
	Profit	Equity	Profit	Equity
Market price is 10% higher than Cap	3,745	3,745	9,917	9,917
Market price is 10% lower than Floor	(2,247)	(2,247)	(4,964)	(4,964)

Foreign currency sensitivity analysis

The Company is mainly exposed to the risk of change of exchange rates of tenge against USD and Euro.

The book value of the Company's monetary assets and liabilities in foreign currency as at the reporting date has been provided below. This disclosure excludes assets and liabilities denominated in other currencies as they do not have significant effect on the financial statements of the Company.

		US dollar		Euro	
	Notes	31 December 2012	31 December 2011	31 December 2012	31 December 2011
Assets					
Guarantee deposits		18,913	18,459	83	120
Trade and other receivables	15	16,039	18,633	5,083	4,751
Bank deposits	18	78,871	118,627	1,570	7,011
Cash and bank balances	19	6,261	5,679	5,341	2,954
Total		120,084	161,398	12,077	14,836
Liabilities					
Loans	24	24,683	-	-	-
Finance lease liabilities	25	172,556	-	-	-
Trade and other payables	23	19,585	17,971	5,900	7,201
Total		216,824	17,971	5,900	7,201
Net position		(96,740)	143,427	6,177	7,635

The following table details the Company's sensitivity to 10.72% and 10.77% strengthening of the tenge against USD and EUR respectively in 2012 and 10.72% and 16.33% in 2011. 10.72% and 10.77% are the sensitivity rates used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. Management of the Company believes that given the current economic conditions in Kazakhstan that the 10.72% and 10.77% increase is a realistic movement in the tenge exchange rates against foreign currencies.

The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 10.72% and 10.77% change in rates of USD and EUR respectively, as at 31 December 2012 and 10.72 and 16.33% as at 31 December 2011. The sensitivity analysis includes trade and other receivables, cash and bank balances, bank deposits, guarantee deposits,trade and other payables, loans and finance lease liabilities.

A negative number below indicates a decrease in profit and equity where the tenge strengthens by 10.72% and 10.77% against USD and EUR, respectively (2011: 10.72 and 16.33%). For a 10.72% and 10.77% weakening of the tenge against USD and EUR in 2012 and 10.72 and 16.33% in 2011, there would be an equal and opposite impact on the profit and other equity, and the balances below would be positive.

	Currency USD impact		Currency Euro impact	
	2012	2011	2012	2011
	10.72%	10.72%	10.77%	16.33%
Profit or (loss)	8,296	(12,300)	(532)	(997)

The Company limits the currency risk by monitoring changes in exchange rates of foreign currencies in which trade and other receivables, cash and bank balances, bank deposits, guarantee deposits,trade and other payables, loans and finance lease liabilities are denominated.

Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the board of directors, which has built an appropriate liquidity risk management framework for management of the Company's short, medium and long-term funding and liquidity management requirements. The Company manages liquidity risk by maintaining adequate reserves, continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

Liquidity and interest risk tables

The following tables detail the Company's remaining contractual maturity for its non-derivative financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Company can be required to pay.

	Weighted average effective interest rate %	Up to 3 months	3 months to 1 year	1-5 years	Over 5 years	Total
2012						
Financial liabilities						
Interest free						
Trade and other payables	-	-	47,528	-	-	47,528
Financial liabilities at fair value through profit or loss	-	-	280	-	-	280
Fixed rate						
Non-secured non-bank loans	-	-	18,587	6,824	-	25,411
Finance lease liabilities	-	2,207	12,003	57,500	100,846	172,556
2011						
Financial liabilities						
Interest free						
Trade and other payables	-	-	41,562	-	-	41,562
Financial liabilities at fair value through profit or loss	-	-	793	-	-	793

The following table details the Company's expected maturity for its non-derivative financial assets. The tables below have been drawn up based on the undiscounted contractual maturities of the financial assets including interest that will be earned on those assets except where the Company anticipates that the cash flow will occur in a different period.

	Weighted average effective interest rate %	Up to 3 month	3 months to 1 year	1-5 years	Over 5 years	Total
2012						
Financial assets						
Interest free						
Trade and other receivables	-	-	46,322	-	-	46,322
Financial assets at fair value through profit or loss	-	-	361	-	-	361
Guarantee deposits	-	-	1,585	15,431	2,170	19,186
Cash and bank balances	-	43,051	-	-	-	43,051
Fixed rate						
Bank deposits	3.26%	40,335	40,992	-	-	81,327
2011						
Financial assets						
Interest free						
Trade and other receivables	-	-	35,119	-	-	35,119
Financial assets at fair value through profit or loss	-	-	891	-	-	891
Cash and bank balances	-	23,995	-	-	-	23,995
Fixed rate						
Bank deposits	5.68%	112	10,681	120,483	--	131,276

Fair values

The fair values of financial assets and financial liabilities of the Company are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments.

The following methods and assumptions are used by the Company to estimate the fair value of these financial instruments:

Cash and bank balances

The carrying value of cash and bank balances approximates their fair value as they either have short-term maturity or are interest-bearing and hence are not discounted.

Trade and other receivables and payables

For assets and liabilities maturing within twelve months, the carrying value approximates fair value due to the relatively short-term maturity of these financial instruments.

For financial assets and liabilities maturing in over twelve months, the fair value represents the present value of estimated future cash flows discounted at year-end market rates. Average year-end market borrowing rates were as follows as at 31 December:

	2012 (% per year)	2011 (% per year)
Tenge		
For 1 to 5 years	13.1% - 11.5%	11.4%-12.4%
Foreign currency		
For 1 to 5 years	8.5% - 10.1%	6.8%-11.6%

Management considers that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the financial statements approximate their fair values.

Financial instruments at fair value through profit or loss

Valuation of financial instruments recognised at fair value through profit or loss (Note 16) is based on inputs for which all significant inputs are observable, either directly or indirectly and valuations are based on one or more observable quoted prices for orderly transactions in markets that are not considered active and represent Level 2 of the fair value hierarchy.

Trade and other receivables and payables

For receivables and payables with a maturity of less than six months fair value is not materially different from the carrying amount because the effect of the time value of money is not material.

Loans

Loans are recognized at amortized cost and accordingly it approximates their fair values.

Finance lease liabilities

Finance lease liabilities are recognized at lower of fair value of assets received under finance lease and present value of minimum lease payments and accordingly it approximates their fair values.

Provisions

For provisions which meet the definition of financial liabilities the fair value is not materially different from the carrying amount because the effect of the time value of money is not material.

27. COMMITMENTS AND CONTINGENCIES

Capital commitments

During 2008 the Company signed an agreement with Airbus to purchase six Airbus narrow-body aircraft. The Company is committed to pre-delivery payments in accordance with an agreed payment schedule. Payments commenced in 2008 and the last payment is due in 2013. During 2012 the Company entered into fixed interest finance lease agreements on delivery of three of these Airbus aircraft. These leases are denominated in US dollars, with a repayment term of twelve years. Loans provided by financial institutions to the lessor are guaranteed by European Export Credit Agencies. Delivery of the remaining three aircraft is scheduled for 2013.

During 2011 the Company signed an agreement with Embraer to purchase two Embraer-190 narrow - body aircraft. The Company is committed to pre-delivery payments from 2011 in accordance with an agreed payment schedule, with first aircraft delivered in November 2012 on a fixed interest US dollar finance lease, with a repayment term of twelve years. Delivery of second aircraft is scheduled for December 2013.

During 2012, the Company finalised an agreement with Boeing to purchase three Boeing-787 and three Boeing-767 aircraft. The Company is committed to pre-delivery payments in accordance with the agreed payment schedule. In respect of the Boeing 767, 50% of pre-delivery payments are paid from own resources and 50% is financed by the borrowings (Note 24). Last pre-delivery payments are expected in 2013 and 2018 for Boeing 767 and Boeing 787 respectively. Delivery of Boeing-767 are expected in September 2013, October 2013 and mid 2014; delivery of Boeing-787 in 2017 and 2019. The terms of the Company's contracts with the above suppliers precludes it from disclosing information on the purchase cost of the aircraft.

Operating lease commitments

Aircraft

Aircraft operating leases are for terms of between 5 to 10 years. All operating lease contracts contain market review clauses in the event that the Company exercises its option to renew. The Company does not have an option to purchase the leased aircraft at the expiry of the lease period.

Operating lease commitments include fixed lease payments and variable lease payments which vary according to flying hours and cycles.

The fixed and variable lease payments are denominated and settled in US dollars. This currency is routinely used in international commerce for aircraft operating leases.

Non-cancellable operating lease commitments are payable as follows:

	31 December 2012	31 December 2011
Within one year	104,919	111,239
After one year but not more than five years	247,685	165,075
More than five years	95,550	75,732
	448,154	352,046

An unsecured stand-by Letter of Credit facility was obtained for the amount of USD 5,000 thousand, of which USD 2,500 thousand has been utilized. This Letter of Credit was obtained as a security for Lessor to cover any unfulfilled maintenance liabilities on the return of Embraer E190 to Lessor till September 2014.

Engine

During 2010, the Company purchased a spare engine and subsequently entered into a sale and leaseback transaction for the engine. The lease term is 10 years with an extension period of 5 years at the agreement of the lease agreement parties.

Operating lease agreement for another engine expires on 31 May 2013.

The fixed and variable lease payments are denominated and settled in US dollars. This currency is routinely used in international commerce for engine operating leases.

Non-cancellable operating lease commitments are payable as follows:

	31 December 2012	31 December 2011
Within one year	1,394	1,457
After one year but not more than five years	5,994	6,319
More than five years	1,945	3,015
	9,333	10,791

Insurance

Aviation insurance

Air Astana puts substantial attention in conducting insurance coverage for its aircraft operations and hence places aviation risks in major international insurance markets (e.g. Lloyd's) having high rating of financial stability through a service of international reputable broker. Types of insurance coverage are stated below:

- Aviation Hull, Total Loss Only and Spares All risks and Airline Liability including Passenger Liability;
- Aircraft Hull and Spare Engine Deductible;
- Aviation Hull and Spares "War and Allied Perils";
- Aviation War, Hi-Jacking and Other Perils Excess Liability;

Non – Aviation Insurance

Apart from aviation insurance coverage the airline constantly purchase non-aviation insurance policies to reduce the financial risk of damage to property and general liability, as well as covering employees from accidents and medical expenses, as follows:

- Medical insurance of employees;
- Directors, Officers and Corporate liability insurance;
- Property insurance;
- Comprehensive vehicle insurance;
- Compulsory insurance of employee from accidents during execution of labor (service) duties;
- Commercial general liability insurance (Public Liability);
- Civil liability insurance to customs authorities;

Taxation contingencies

The taxation system in Kazakhstan is relatively new and is characterised by numerous taxes and frequent changes in legislation, official pronouncements and court decisions. Taxes are subject to review and investigation by a number of authorities, which have the authority to impose severe fines, penalties and interest charges. A tax year remains open for review by the tax authorities during five subsequent calendar years; however, under certain circumstances a tax year may remain open longer.

Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on these financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

In 2012, Tax authorities performed tax audit for five year period from 2006 to 2010 inclusive. Based on their final assessment, a total amount of USD 2,885 thousand was accrued including taxes, interest and penalties. The Company appealed to Tax Authorities in January 2013 for the amount of USD 1,827 thousand. As at the date of approval of these financial statements the Company has not received any response on the appeal.

Operating Environment

Emerging markets such as Kazakhstan are subject to different risks than more developed markets, including economic, political and social, and legal and legislative risks. Laws and regulations affecting businesses in Kazakhstan continue to change rapidly, tax and regulatory frameworks are subject to varying interpretations. The future economic direction of Kazakhstan is heavily influenced by the fiscal and monetary policies adopted by the government, together with developments in the legal, regulatory, and political environment.

As Kazakhstan produces and exports large volumes of oil and gas, its economy is particularly sensitive to the price of oil and gas on the world market.

28. RELATED PARTY TRANSACTIONS

Control relationships

The shareholders of the Company are JSC "National Welfare Fund "Samruk-Kazyna" (which holds the investment on behalf of the Government of the Republic of Kazakhstan) and BAE Systems Kazakhstan Limited, which own 51% and 49% of the shares of the Company, respectively.

In 2007 the shareholders appointed two independent directors; one is from JSC "National Welfare Fund "Samruk-Kazyna", and another from BAE System Kazakhstan Limited and reappointment is considered each year. Last agreement with the independent directors was signed in 2012 and the total remuneration paid in 2012 to independent directors was USD 76 thousand (2011: USD 85 thousand).

Management remuneration

Key management (2012: 23 persons, 2011: 22 persons) received the following remuneration during the year, which is included in personnel costs (see Note 6):

	2012	2011
Salaries and bonuses	4,178	3,544
Termination benefits	1	1
	4,179	3,545

Transactions with related parties

Related parties comprise the shareholders of the Company and all other companies in which those shareholders, either individually or together, have a controlling interest.

The Company provides air transportation services to Government departments, Government agencies and State-controlled enterprises. These transactions are conducted in the ordinary course of the Company's business on terms comparable to those with other entities that are not state-controlled.

The Company has established its buying, pricing strategy and approval process for purchases and sales of products and services. Such buying, pricing strategy and approval processes do not depend on whether the counterparties are state-controlled entities or not.

The Government subsidies for 2012 amounted to USD 2,371 thousand (2011: USD 2,568 thousand) (Note 5). As at 31 December 2012 the outstanding amount due to the Company for subsidies was USD 242 thousand (2011: USD 443 thousand) (Note 15).

Having considered the potential for transactions to be impacted by related party relationships, the entity's pricing strategy, buying and approval processes, and what information would be necessary for an understanding of the potential effect of the relationship on the financial statements, management is of the opinion that the following transactions require disclosure as related party transactions:

	2012		2011	
Services received	**Transaction value**	**Outstanding balance**	**Transaction value**	**Outstanding balance**
State-owned companies	23,901	(363)	29,357	(477)
Shareholders and their subsidiaries	42,600	(5,583)	10,057	(430)
	66,501	(5,946)	39,414	(907)

Services from related parties are represented by airport, navigation and meteorological forecasting services.

	2012		2011	
Services provided by the Company	**Transaction value**	**Outstanding balance**	**Transaction value**	**Outstanding balance**
Shareholders and their subsidiaries	1,251	132	1,604	112
	1,251	132	1,604	112

All outstanding balances with related parties are to be settled in cash within six months of the reporting date. None of the balances are secured.

29. SUBSEQUENT EVENTS

In February 2013 the Company confirmed the extension of the renewable credit line agreement with JSC Halyk Bank for the amount of USD 45,000 thousand till June 2014.

During January and February 2013 the remaining two Fokker 50 and one Airbus aircraft were returned upon expiration of the lease agreements.

30. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved by management of the Company and authorised for issue on 13 March 2013.

KEY TASKS FOR 2013

Maintain the EU flight ban exemption

Ensuring that Air Astana remains exempt from the EU's flight ban on Kazakhstani carriers operating on its territory remains a crucial task for as long as national airlines remain on the EU's so-called "black list". In 2012, we obtained permission to use our newly acquired aircraft to fly into Europe, at the current level of operations. We remain in dialogue with the Kazakhstani authorities to address the shortcomings in the civil aviation system and facilitate the steps needed to address areas of non-compliance identified by the International Civil Aviation Organisation.

Continued fleet upgrade and expansion

The expansion of our aircraft fleet remains a key component in our strategy. In 2013, we plan to take delivery of three Airbus 320s, two Boeing 767s and one Embraer E190. Preparing our flight and ground crew for these deliveries is a critical ongoing task. In addition, following our major purchase of Boeing 767 and Boeing 787 Dreamliner aircraft in 2013 and in 2017 respectively, we will need to prepare for further deliveries over the next few years.

Obtain aircraft financing for new purchases

In 2013, Air Astana plans to take delivery of six new aircraft directly from manufacturers under purchase agreements guaranteed by export credit agencies in the country of manufacture. In these cases, we plan to obtain financing backed by the Export Credit Agency (EU), the Export-Import Bank (US) and BNDES (Brazil). We view our continued strong financial performance as the key to securing the best possible terms for aircraft financing.

Further network expansion

We will continue to expand our network in 2013, taking advantage of forecast strong growth in demand for passenger and cargo transportation services to and from Kazakhstan. We plan to expand both domestically and internationally, including by opening new routes and increasing the frequency of flights to existing destinations. New aircraft deliveries in 2013 will give us additional flexibility and options for network expansion.

Develop our maintenance base

The growth of our maintenance facilities, as well as our additional certification in this area, allows us to reduce both the cost and the time required to send aircraft abroad for servicing and repairs, as well as earn additional revenues from performing third-party maintenance in Kazakhstan. Our plans include the construction of a new hangar in Astana.

Maintain and improve service quality

In 2012, Skytrax both awarded us its prestigious 4-Star service rating and named us "Best Airline in Central Asia and India". Following this, one goal in 2013 and beyond is to deliver continued improvements in service quality to maintain this reputation at a minimum. The introduction of new business seating and in-flight entertainment systems, improved recruitment and training of in-flight service crew are all measures being implemented to deliver a superior passenger experience.

Turkey - Air Astana operates two daily flights to Turkey, another key partner in terms of trade and history

APPENDICES

GLOSSARY

Code-share agreement

Aviation business arrangement whereby two or more airlines share the same flights. One is an operator that sells tickets for its own operating flights, while the other(s) is a marketing partner that sells seats on the flights of operator.

Billing and settlement plan (BSP)

System of mutual settlements designed to simplify ticketing, sales reporting and mutual settlements among sales agents and airlines. The IATA created the first BSP in Japan in 1971. As of today, the system is unique and has been implemented in more than 160 countries.

European Aviation Safety Agency (EASA)

The agency is responsible for developing all flight safety regulations for independent confirmation or submission to the European Commission (or Parliament/Council) and performing inspections to determine compliance with them.

EASA (Part 66)

The EASA's standard requirements for certifying aircraft crew.

EASA (Part 145)

The EASA's standard requirements for airlines that maintain aircraft and components

EASA (Part 147)

The EASA's standard requirements for a company that provides theoretical and practical training for operating staff

Extended Operations (ETOPS; Extended-range Twin-engine Operational Performance Standards)

The certification for aircraft to fly long-distance routes that were previously off-limits due to a certain minimum time and distance from the nearest base or airport. Such certification with the domestic regulator allows airlines to fly more direct and efficient routes and extend their flight networks.

FAA (Federal Aviation Administration)

The Federal Aviation Administration is the national aviational authority of the United States of America. An agency of the United States Department of Transportation, it has authority to regulate and oversee all aspects of civil aviation of the US.

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Global Distribution System (GDS)

A generic name for one of the worldwide computerised reservation networks used by the airline industry and travel agents.

International Air Transport Association (IATA)

The IATA was formed in 1945 to develop cooperation between airlines and provide safe, secure and efficient flights to passengers.

International Civil Aviation Organisation (ICAO)

The ICAO was founded in 1944 under the Chicago Convention on International Civil Aviation. A specialised agency of the United Nations, it is responsible for setting international standards, recommended practices and rules in technical, economic and legal areas of international civil aviation.

IATA Operational Safety Audit (IOSA)

IOSA covers the following functional areas of an airline: company management, flight operations, flight control and monitoring, aircraft maintenance, on-board operations, aircraft ground operations, cargo transportation, and flight safety.

Joint Aviation Authorities (JAA)

The JAA unites the civil aviation regulatory authorities of numerous European states that develop and implement common safety regulatory standards and procedures.

Kazakhstan Civil Aviation Committee (CAC)

The CAC is the official regulator of the civil aviation sector in Kazakhstan. It is under the authority of the Ministry of Transport and Communications of the Republic of Kazakhstan.

Skytrax

Skytrax is an internationally recognised consulting company that specialises in analysing services provided by airlines and airports. It was formed in 1989 and provides information on more than 210 airlines and 65 airports based on various passenger surveys.

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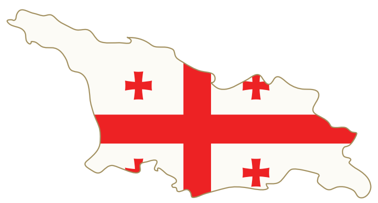

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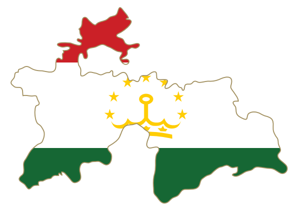

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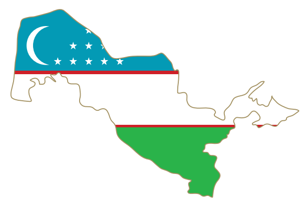

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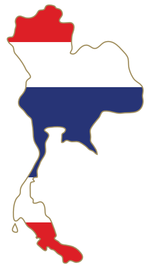

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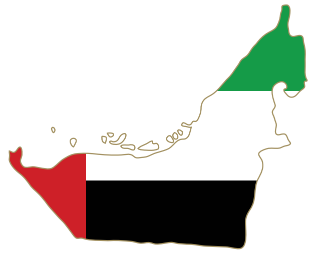

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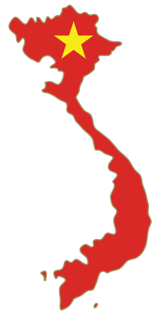

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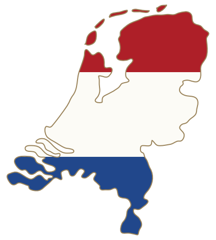

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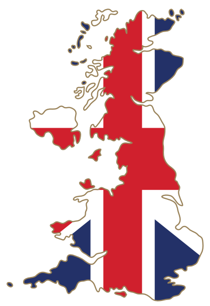

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