

FINANCIAL STATEMENTS

For the year ended 31 December 2018

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STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

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 2018, 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 the 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 the 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 2018 were authorised for issue on 28 February 2019 by management of the Company.

On behalf of the Company's management:



Peter Foster
President



Ibrahim Canliel
Chief Financial Officer



Azamat Ospanov
VP Financial Accounts,
Chief Accountant



28 February 2019
Almaty
Republic of Kazakhstan

INDEPENDENT AUDITORS' REPORT

To the Shareholders and Board of Directors of JSC Air Astana



Opinion

We have audited the financial statements of JSC Air Astana (the 'Company'), which comprise the statement of financial position as at 31 December 2018, the statements of profit or loss, other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2018, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in the Republic of Kazakhstan, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and those charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, 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.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditors' responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.

INDEPENDENT AUDITORS' REPORT CONTINUED

To the Shareholders and Board of Directors of JSC Air Astana

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

The engagement partner on the audit resulting in this independent auditors' report is:



Sergey Dementyev

Certified Auditor of the Republic of Kazakhstan,
Auditor's Qualification Certificate
No МФ0000086 of 27 August 2012



KPMG Audit LLC

State Licence to conduct audit # 0000021 dated 6 December 2006 issued by the Ministry of Finance of the Republic of Kazakhstan



Sergey Dementyev

General Director of KPMG Audit LLC
acting on the basis of the Charter
28 February 2019



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KPMG Audit LLC, a company incorporated under the Laws of the Republic of Kazakhstan, a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative («KPMG International»), a Swiss entity.

STATEMENT OF PROFIT OR LOSS

for the year ended 31 December 2018

(in thousands of USD)

	Notes	2018	2017 ¹
Revenue and other income			
Passenger revenue	5	810,353	718,178
Cargo and mail revenue	5	20,703	19,666
Other revenue	5	9,805	21,215
Gain from sale and leaseback transaction		–	8,478
Total revenue		840,861	767,537
Operating expenses			
Fuel and oil costs		(231,316)	(183,518)
Handling, landing fees and route charges	6	(112,251)	(103,164)
Passenger service	6	(91,016)	(86,635)
Engineering and maintenance	6	(86,278)	(69,173)
Employee costs	6	(80,014)	(71,103)
Aircraft operating lease costs	6	(71,413)	(61,413)
Selling costs	6	(40,742)	(40,461)
Aircraft crew costs	6	(35,209)	(30,250)
Depreciation and amortisation	11	(25,634)	(27,009)
Property lease cost		(5,596)	(5,029)
Insurance	6	(4,201)	(3,870)
IT and communication costs		(3,646)	(3,633)
Consultancy, legal and professional services		(3,172)	(4,197)
Taxes		(2,519)	(2,403)
Impairment loss on trade receivables		(563)	–
Other operating costs		(10,785)	(12,424)
Total operating costs		(804,355)	(704,282)
Operating Profit		36,506	63,255
Finance income	7	2,934	7,293
Finance costs	7	(10,547)	(11,118)
Foreign exchange gain/loss, net		(16,885)	(10,370)
Profit before tax		12,008	49,060
Income tax expense	8	(6,656)	(9,742)
Profit for the year		5,352	39,318
Basic and diluted earnings per share (in USD)	18	315	2,313

¹ The Company has initially applied IFRS 15 and IFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See note 2.

On behalf of the Company's management:



Peter Foster
President
28 February 2019
Almaty
Republic of Kazakhstan



Ibrahim Canliel
Chief Financial Officer
28 February 2019
Almaty
Republic of Kazakhstan



Azamat Ospanov
VP Financial Accounts, Chief Accountant
28 February 2019
Almaty
Republic of Kazakhstan

The notes on pages 73-114 form an integral part of these financial statements. The independent auditors' report on the financial statements is on pages 65-66.

STATEMENT OF OTHER COMPREHENSIVE INCOME

for the year ended 31 December 2018

(in thousands of USD)

	Notes	2018	2017 ¹
Net profit for the period		5,352	39,318
Foreign currency translation loss which will never be reclassified to profit or loss in subsequent periods		–	(809)
Other comprehensive loss to be reclassified into profit or loss in subsequent periods:			
Result from cash flow hedging instruments		–	1,179
Income tax related to result from cash flow hedging instruments		–	(236)
Realised net gain from cash flow hedging instruments	23	10,869	10,292
Corporate income tax related to gain from cash flow hedging instruments	23	(2,174)	(2,058)
Other comprehensive income		8,695	8,368
Total comprehensive income for the year		14,047	47,686

¹ The Company has initially applied IFRS 15 and IFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See note 2.

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STATEMENT OF FINANCIAL POSITION

for the year ended 31 December 2018

(in thousands of USD)

	Notes	31 December 2018	31 December 2017 ¹
ASSETS			
Non-current assets			
Property, plant and equipment	9	255,007	261,754
Intangible assets	10	2,164	2,939
Prepayments	14	14,622	8,086
Guarantee deposits	12	19,170	19,636
Trade and other receivables	15	4,059	3,924
		295,022	296,339
Current assets			
Inventories	13	44,965	38,613
Prepayments	14	25,166	29,390
Income tax prepaid		1,336	738
Trade and other receivables	15	26,633	25,517
Other taxes prepaid	16	22,665	18,086
Guarantee deposits	12	31,839	34,874
Bank deposits		–	5
Cash and bank balances	17	132,826	148,181
Other financial assets		118	–
		285,548	295,404
Total assets		580,570	591,743
EQUITY AND LIABILITIES			
Equity			
Share capital		17,000	17,000
Functional currency transition reserve		(9,324)	(9,324)
Reserve on hedging instruments, net of tax		(62,770)	(71,465)
Retained earnings		143,746	150,552
Total equity	18	88,652	86,763
Non-current liabilities			
Loans	22	7,751	10,519
Finance lease liabilities	23	241,033	280,797
Deferred tax liabilities	8	16,455	11,021
Provision for aircraft maintenance	20	38,623	60,510
		303,862	362,847
Current liabilities			
Loans	22	1,405	1,630
Finance lease liabilities	23	40,494	39,926
Deferred revenue	19	52,731	48,434
Provision for aircraft maintenance	20	48,613	13,260
Trade and other payables	21	44,813	38,883
		188,056	142,133
Total liabilities		491,918	504,980
Total equity and liabilities		580,570	591,743

¹ The Company has initially applied IFRS 15 and IFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See note 2.

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STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2018

(in thousands of USD)

	Notes	Share capital	Functional currency transition reserve	Foreign currency translation reserve	Reserve on hedging instruments, net of tax	Retained earnings	Total equity
At 1 January 2017		17,000	-	(182,680)	(105,868)	310,625	39,077
Profit for the year		-	-	-	-	39,318	39,318
Other comprehensive income for the period							
Cash flow hedging instruments, net of tax		-	-	-	943	-	943
Realised loss on cash flow hedging instruments, net of tax		-	-	-	8,234	-	8,234
Translation difference		-	-	(3,476)	2,667	-	(809)
Effect of change in functional currency		-	(9,324)	186,156	22,559	(199,391)	-
Total other comprehensive income		-	(9,324)	182,680	34,403	(199,391)	8,368
Total comprehensive income		-	(9,324)	182,680	34,403	(160,073)	47,686
At 31 December 2017		17,000	(9,324)	-	(71,465)	150,552	86,763
At 1 January 2018							
(as previously reported)		17,000	(9,324)	-	(71,465)	150,552	86,763
Adjustments on initial application of IFRS 9 and IFRS 15		-	-	-	-	(482)	(482)
Balance at 1 January 2018 (adjusted)		17,000	(9,324)	-	(71,465)	150,070	86,281
Profit for the year		-	-	-	-	5,352	5,352
Other comprehensive income for the period							
Realised loss on cash flow hedged instruments, net of tax		-	-	-	8,695	-	8,695
Total other comprehensive income for the period		-	-	-	8,695	5,352	14,047
Dividends declared	18	-	-	-	-	(11,676)	(11,676)
At 31 December 2018		17,000	(9,324)	-	(62,770)	143,746	88,652

¹ The Company has initially applied IFRS 15 and IFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See note 2.

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STATEMENT OF CASH FLOWS

for the year ended 31 December 2018

(in thousands of USD)

	Notes	2018	2017 ¹
OPERATING ACTIVITIES:			
Profit before tax		12,008	49,060
Adjustments for:			
Depreciation and amortisation of property, plant and equipment and intangible assets	11	25,634	27,009
Gain on disposal of property, plant and equipment	5	(782)	(9,074)
Accrual/(reversal) of impairment allowance for prepayments and trade and other receivables		326	(4,804)
Write-down of obsolete and slow-moving inventories	13	1,138	13
Accrual for employee unused vacation		(1,131)	216
Accrual of provision for aircraft maintenance	6	22,745	19,671
Accrual of loyalty provision		2,314	3,642
Foreign exchange loss, net		16,885	10,370
Finance income, excluding impairment		(2,578)	(2,547)
Finance costs, excluding impairment	7	10,427	11,118
Operating cash flow before movements in working capital		86,986	104,674
Change in trade and other receivables		(2,181)	3,748
Change in prepaid expenses		(1,458)	(8,183)
Change in inventories		(7,407)	2,836
Change in trade and other payables and other current liabilities		(5,993)	(7,062)
Change in deferred revenue		1,798	6,646
Change in other financial assets		(451)	-
Cash generated from operations		71,294	102,659
Income tax paid		(5,137)	(7,540)
Interest received		2,487	3,167
Net cash generated from operating activities		68,644	98,286
INVESTING ACTIVITIES:			
Purchase of property, plant and equipment		(25,020)	(27,836)
Proceeds from disposal of property, plant and equipment		3,246	7,050
Purchase of intangible assets		(163)	(681)
Bank and Guarantee deposits placed		(53,096)	(20,662)
Bank and Guarantee deposits withdrawn		56,038	113,802
Net cash (used in)/from investing activities		(18,996)	71,673

¹ The Company has initially applied IFRS 15 and IFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See note 2.

Continued on the next page

STATEMENT OF CASH FLOWS CONTINUED

for the year ended 31 December 2018

(in thousands of USD)

	Notes	2018	2017 ¹
FINANCING ACTIVITIES			
Repayment of finance lease	23	(39,003)	(40,103)
Interest paid	23	(10,526)	(12,507)
Repayment of borrowings	23	(1,486)	(1,589)
Dividends paid		(10,643)	–
Net cash used in financing activities		(61,659)	(54,199)
NET (DECREASE)/INCREASE IN CASH AND BANK BALANCES		(12,011)	115,760
Effect of exchange rate changes on cash and bank balances held in foreign currencies		(3,346)	4,634
Effects of movements in ECL on cash and bank balances		1	–
CASH AND BANK BALANCES, at the beginning of the year	17	148,181	29,987
Foreign currency difference due to translation to presentation currency		–	(2,200)
CASH AND BANK BALANCES, at the end of the year	17	132,826	148,181

¹ The Company has initially applied IFRS 15 and IFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See note 2.

The notes on pages 73-114 form an integral part of these financial statements. The independent auditors' report on the financial statements is on pages 65-66.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2018

(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 2018 the Company operated 34 turbojet aircraft, comprising 10 short-haul, 21 mid-haul and 3 long-haul aircraft, of which 10 aircraft are acquired under finance lease and 24 aircraft leased under operating lease (2017: 32 turbojet aircraft, comprising 9 short-haul and 23 mid-haul aircraft, of which 10 aircraft are acquired under finance lease and 22 aircraft 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 initially applied IFRS 15 (see (A)) and IFRS 9 (see (B)) from 1 January 2018. A number of other new standards are also effective from 1 January 2018 but they do not have a material effect on the Company's financial statements.

Due to the transition methods chosen by the Company in applying these standards, comparative information throughout these financial statements has not been restated to reflect the requirements of the new standards.

The effect of initially applying these standards is mainly attributed to the following:

- later recognition of revenue from ticket breakage;
- later recognition of revenue from change fees; and
- an increase in impairment losses recognised on financial assets.

A. IFRS 15 Revenue from Contracts with Customers

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaced IAS 18 *Revenue*, IAS 11 *Construction Contracts* and related interpretations. Under IFRS 15, revenue is recognised when a customer obtains control of the goods or services. Determining the timing of the transfer of control – at a point in time or over time – requires judgement.

The Company has adopted IFRS 15 using the cumulative effect method (without practical expedients), with the effect of initially applying this standard recognised at the date of initial application (in other words 1 January 2018). Accordingly, the information presented for 2017 has not been restated – in other words it is presented, as previously reported, under IAS 18, IAS 11, IFRIC 13 and related interpretations. Additionally, the disclosure requirements in IFRS 15 have not generally been applied to comparative information.

The Company has determined that its accounting policies for revenue recognition applied under the previous standards do not differ significantly from those introduced by IFRS 15.

The following table summarises the impact, net of tax, of transition to IFRS 15 on retained earnings:

	Note	Impact of IFRS 15 adopting at 1 January 2018
Retained earnings		
Ticket breakage	(a)	(121)
Change fees	(b)	(64)
		(185)

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2018

(in thousands of USD)

2. Application of new and revised International Financial Reporting Standards continued

There was no material impact of adopting IFRS 15 on the Company's statement of financial position as at 31 December 2018 and its statements of profit or loss, other comprehensive income and cash flows for the year ended 31 December 2018.

The details of the new significant accounting policies and the nature of the changes to previous accounting policies in relation to the Company's various services are set out below:

Nature of adjustment	Nature, timing of satisfaction of performance obligations	Nature of change in accounting policy
a. Ticket breakage	<p>Under IFRS 15, the timing of revenue recognition for ticket breakage depends on whether the entity expects to be entitled to a breakage amount – in other words if it is highly probable that recognising breakage will not result in a significant reversal of the cumulative revenue recognised.</p> <p>An entity considers the variable consideration guidance to determine whether – and to what extent – it recognises breakage. It determines the amount of breakage to which it is entitled as the amount for which it is considered highly probable that a significant reversal will not occur in the future. This amount is recognised as revenue in proportion to the pattern of rights exercised by the customer when the entity expects to be entitled to breakage.</p> <p>Otherwise, the entity recognises breakage when the likelihood of the customer exercising its remaining rights becomes remote.</p>	<p>Under IAS 18, a certain estimated portion of revenue for ticket breakage was recognised at ticket sale date based on the Company's breakage statistics.</p> <p>Under IFRS 15 no breakage can be recognised before the scheduled flight date (in other words the actual performance of obligation – transportation services). Since the Company possesses reliable historical statistics on ticket breakage, starting from 1 January 2018 ticket breakage is recognised at the flight date at the amount for which the likelihood of customers exercising its rights is considered remote.</p>
b. Change fees	<p>Under the performance obligation concept a change fee charge should be accounted and posted to revenue once travel happens. Thus, this service is now combined with passenger transportation, as it cannot be distinct from original performance – which is the flight (in other words a customer cannot benefit from the service without taking a flight).</p> <p>Although the change service is provided in advance of the flight, the benefit from it is not provided until a customer takes the flight.</p>	<p>Under IAS 18, change fees were recognised as revenue when a passenger requested a change and paid for the respective fee.</p> <p>Under IFRS 15, apart from the difference in timing of revenue recognition mentioned above, the change in approach leads to a reclassification of this revenue stream from Other revenue to Passenger revenue caption in the Company's statement of profit or loss.</p>

B. IFRS 9 Financial Instruments

IFRS 9 sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 *Financial Instruments: Recognition and Measurement*.

The impact of adopting IFRS 9 on the opening balance due to recognition of expected credit losses is USD 297 thousand.

Classification and measurement of financial assets and financial liabilities

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, Fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. IFRS 9 eliminates the previous IAS 39 categories of held to maturity, loans and receivables and available for sale.

IFRS 9 largely retains the existing requirements in IAS 39 for the classification and measurement of financial liabilities.

The adoption of IFRS 9 has not had a significant effect on the Company's accounting policies related to classification and measurement.

All financial assets of the Company were classified as loans and receivables under IAS 39 and are measured at amortised cost in accordance with IFRS 9 as at 1 January 2018. The differences between IFRS 9 and IAS 39 carrying values amounts of financial assets at 1 January 2018 relate solely to the new impairment requirements, as described further below:

Financial Assets	Original classification under IAS 39	New classification under IFRS 9	Original carrying amount under IAS 39	New carrying amount under IFRS 9
Guarantee deposits	Loans and Receivables	Amortised cost	54,510	54,286
Trade and other receivables	Loans and Receivables	Amortised cost	29,441	29,371
Bank deposits	Loans and Receivables	Amortised cost	5	5
Cash and bank balances	Loans and Receivables	Amortised cost	148,181	148,178
Total financial assets			232,137	231,840

Impairment – Financial assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' (ECL) model. The new impairment model applies to financial assets measured at amortised cost, contract assets and debt investments at FVOCI, but not to investments in equity instruments. Under IFRS 9, credit losses are recognised earlier than under IAS 39.

For assets in the scope of the IFRS 9 impairment model, impairment losses are generally expected to increase and become more volatile. The Company has determined that the application of IFRS 9's impairment requirements at 1 January 2018 results in an additional impairment allowance as follows:

Additional impairment recognised at 1 January 2018	
Guarantee deposits	224
Trade and other receivables	70
Cash and cash equivalents	3
Gross additional impairment losses	297

Trade and other receivables

The estimated ECLs were calculated based on actual credit loss experience over the past two-six years, depending on the portfolio. The Company performed the calculation of ECL rates separately for corporates and individuals. Exposures within each group were segmented based on common credit risk characteristics such as industry – for corporates.

Given the short-term nature of the accounts receivable, actual credit loss experience was not adjusted to reflect differences between economic conditions during the period over which the historical data was collected and current conditions and the Company's view of economic conditions over the expected lives of the trade receivables.

The Company estimated that the application of IFRS 9's impairment requirements at 1 January 2018 results in an increase of USD 70 thousand over the impairment recognised under IAS 39.

Guarantee deposits

The majority of the guarantee deposits are represented by long-term guarantee deposits placed with the lessors of the Company to secure several months of lease payments and/or to cover costs of last shop visit, should the Company declare default. Even though the Company views the default of lessors as a highly unlikely event, the bad debt reserve is still calculated on these amounts in accordance with the requirements of IFRS 9.

Many lessors are rated AA – BB, based on Standard and Poor's ratings as at 31 December 2017. The Company calculated the expected credit loss (ECL) based on the Standard and Poor's default matrixes.

The Company estimated that application of IFRS 9's impairment requirements at 1 January 2018 results in an increase of approximately USD 224 thousand over the impairment recognised under IAS 39.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2018

(in thousands of USD)

2. Application of new and revised International Financial Reporting Standards continued

Cash and cash equivalents

Cash and cash equivalents are held with bank and financial institution counterparties, which are rated AA to B, based on Standard and Poor's ratings as at 31 December 2017.

The estimated impairment on cash and cash equivalents was calculated based on the 12-month expected loss basis and reflects the short maturities of the exposures. The Company considers that its cash and cash equivalents have low credit risk based on the external credit ratings of the counterparties.

The Company uses a similar approach for assessment of ECLs for cash and cash equivalents to those used for guarantee deposits.

The Company estimated that the application of IFRS 9's impairment requirements at 1 January 2018 results in an increase of USD 3 thousand over the impairment recognised under IAS 39.

Transition

Changes in accounting policies resulting from the adoption of IFRS 9 have been applied retrospectively, except as described below.

- The Company has used an exemption not to restate comparative information for prior periods with respect to classification and measurement (including impairment) requirements. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognised in retained earnings and reserves as at 1 January 2018.
- The Company has made the assessments on the basis of the facts and circumstances that existed at the date of initial application to determine the business model within which a financial asset is held.

New standards and interpretations not yet adopted

IFRS 16 is effective for annual periods beginning after 1 January 2019 and earlier application is permitted; however, the Company has not early adopted the new or amended standards in preparing these financial statements.

IFRS 16 is expected to have a material impact on the Company's financial statements in the period of initial application.

The Company has assessed the estimated impact that initial application of IFRS 16 will have on its financial statements, as described below. The actual impacts of adopting the standard on 1 January 2019 may change because the new accounting policies are subject to change until the Company presents its first financial statements that include the date of initial application.

IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases and leases of low-value items. Lessor accounting remains similar to the current standard – in other words lessors continue to classify leases as finance or operating leases.

IFRS 16 replaces existing leases guidance, including IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases – Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

(i) Leases in which the Company is a lessee

The Company will recognise new assets and liabilities for its operating leases of aircraft, hangar facilities and other non-production assets. The nature of expenses related to those leases will now change because the Company will recognise a depreciation charge for right-of-use assets and interest expense on lease liabilities.

Previously, the Company recognised operating lease expense on a straight-line basis over the term of the lease, and recognised assets and liabilities only to the extent that there was a timing difference between actual lease payments and the expense recognised.

The Company is planning to adopt the modified retrospective approach, under which the Company recognises lease liabilities at the date of initial application for leases previously classified as operating leases applying the legacy standard. The lease liabilities are measured at the present value of the remaining lease payments, discounted using the Company's incremental borrowing rate at the initial application date. The Company measures right-of-use assets using either of two methods:

- (i) For production assets the right-of-use assets are measured as if the standard had always been applied;
- (ii) For other assets the right-of-use assets are equal to the amount of related lease liabilities.

The main changes involved by IFRS 16 are the following:

The Company will capitalise aircraft operating lease and operating lease of hangar facilities and other assets contracts based on the new leasing model defined by IFRS 16. The lease term corresponds to the non-cancellable period of each contract, as the Company does not have any extension options of operating lease contracts. The discount rate used to value the lease debt corresponds, for each aircraft, to the Company's incremental borrowing rate, which for the purpose of the standard was based on banks' indicative offers.

The Company applies the practical expedient offered by IFRS 16 that exempts lessees from applying the on-balance sheet lease accounting model to leases for which the lease term ends within 12 months of the date of initial application. In addition, the Company intends to apply another practical expedient to be exempt from recording on the balance its short-term leases.

The estimated effect from adoption of IFRS 16 is as follows:

	31 December 2018	IFRS 16 impact	Adjusted balance 1 January 2019
Property, plant and equipment	255,007	165,000	420,007
Lease liabilities (including the currently recognised finance lease liabilities)	281,527	195,000	476,527
Retained earnings	143,746	(23,000)	120,746
Deferred tax liabilities	16,455	(7,000)	9,455

The adjusted balance of right of use assets at 1 January 2019 would comprise USD 364,000 thousand including the currently recognised aircraft under finance lease of USD 199,000 thousand.

The Company is still assessing the impact from IFRS 16 on the contractual obligations to perform aircraft repair included into some of its aircraft lease agreements.

3. Significant accounting policies

Statement of compliance

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

This is the first set of the Company's annual financial statements in which IFRS 15 Revenue from Contracts with Customers and IFRS 9 Financial Instruments have been applied. Changes to significant accounting policies are described in Note 2.

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 on the date of acquisition.

The Company discloses other comprehensive income separately from its statement of profit or loss.

The principal accounting policies set out below have been applied consistently to all periods presented in these financial statements.

Functional and presentation currency

The national currency of Kazakhstan is the Kazakhstani tenge ('tenge'), which until 31 December 2017 was the Company's functional currency, because it reflected the economic substance of the underlying events and circumstances of the Company, and was the functional currency of the primary environment economic environment in which the Company operated.

During 2017, management reassessed the indicators of the Company's functional currency, with particular focus on the Company's increasing international flight operations, and noted that an increasing part of the Company's operations are influenced by currencies other than tenge; predominantly the US Dollar. As a result, management concluded that with effect from 31 December 2017 (the transition date, for the purpose of the financial reporting under International Financial Reporting Standards), that the Company's functional currency is the US Dollar.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2018

(in thousands of USD)

3. Significant accounting policies continued

Functional and presentation currency continued

The US Dollar is used to a significant extent in, or has a significant impact on, the operations of the Company, its revenues and operating expenditures including aircraft leasing. Also there is recognition in the statement of financial position of the purchase of aircraft in US Dollars with the related US Dollar funding liabilities. The above reflect the economic substance of the underlying events and circumstances relevant to the Company. Therefore, the Company started, from the transition date, using the US Dollar prospectively, as its functional currency, under which all currencies other than the functional currency will be treated as foreign currencies.

Since before 31 December 2017 the Company's functional currency was the tenge, the financial results and financial position of the Company were translated to the new functional currency using the following procedures:

- assets and liabilities were translated at the closing rate as at 31 December 2017;
- income and expenses for the reporting period were translated at the average exchange rate during the year ended 31 December 2017;
- movements in the reserve on hedging instruments were translated at the average exchange rate during the year ended 31 December 2017;
- all resulting exchange differences were recognised as foreign currency translation reserve within other comprehensive income up to 31 December 2017;
- on transition to the US Dollar functional currency on 31 December 2017, the outstanding balance of the foreign currency translation reserve of USD 185,156 thousand was then fully transferred to retained earnings on 31 December 2017;
- share capital continued to be translated at the historical rate as at the date of issuance of shares, the difference between the historical rate and the closing rate as at 31 December 2017 was recognised as functional currency transition reserve on share capital within equity;
- other equity items were translated at the closing rate as at 31 December 2017, all resulting exchange differences were transferred to retained earnings on 31 December 2017;

As requested by Shareholders, the Company prepares two sets of financial statements with presentation currency US Dollar ('USD') and Kazakhstani tenge as Shareholders believe that both currencies are useful for the users of the Company's financial statements. These financial statements have been presented in USD for the year ended 31 December 2018, and also reflect changes to a USD functional currency, which took place on 31 December 2017. All financial information presented in USD has been rounded to the nearest thousand.

Revenue

Passenger revenue

The Company satisfies the performance obligations related to ticket sold and reports the sales as revenue when the transportation service performance obligation 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 satisfies the performance obligation by completing the transportation service or when the passenger requests a refund. Based on historical data of previous years, the Company recognises passenger revenue in proportion to the pattern of rights exercised by the customer in respect of a percentage of tickets sold that are expected not to be used or refunded.

The Company conducts sales through agents that act as intermediaries distributing tickets among customers. In average, accounts receivables are collected within a month from origination. The Company's sales do not contain significant finance components due to the short-term nature of airline tickets.

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, since the Company acts as an agent in these agreements. The revenue from other airlines' sale of code-share seats on the Company's flights is recorded in passenger revenue in profit or loss.

Revenue related to airport charges, such as fees and taxes, are presented gross of the related costs. This is due to the fact that the Company is exposed to changes in the actual costs, and these costs are assessed by Company based on the volume of its operations, such that the Company acts as a principal in the transactions, not as an agent.

Cargo revenue

Cargo transport services are recognised as revenue when the Company satisfies the performance obligation by providing the air transportation. Cargo sales for which performance obligation to provide transportation service has not yet been discharged are shown as deferred (unearned) transportation.

Customer loyalty program

Sales of tickets that result in award credits for customers, under the Company's Nomad Program, are accounted for as two separate performance obligations embedded into one contract, the ticket. The transaction price is allocated between the transportation service and the award provided based on their stand-alone selling prices. The transaction price of credit award 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 performance obligations have been fulfilled.

Travel agents' commissions

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

Reservation commissions

Reservation commissions are recognised as an expense when incurred since the amortisation period of the asset that the Company otherwise would have recognised is less than a year.

Segment reporting

The Company is managed as one operating segment, being its route network, based on how financial information is produced internally for the purposes of making operating decisions. The operating segment is reported in a manner consistent with the internal reporting provided to the chief operating decision maker, being the executive management board. Resource allocation decisions across the network as a whole are made to optimise the Company's financial results.

Revenue is allocated to geographic segments based on flight destination.

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 costs 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. Some of operating lease payments (subject to certain conditions) are replaced by Letter of Credit as security for Lessors to cover any unfulfilled maintenance liabilities on the return of the aircraft. 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.

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 2.25% per annum (2017: 2.25%). At initial recognition the Company recognises a discount and a deferred asset (additional lease payment) simultaneously. The discount is amortised over the lease term using the effective interest method, and the deferred asset is amortised by equal amounts over the deposit term.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2018

(in thousands of USD)

3. Significant accounting policies continued

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 following table summarises US Dollar exchange rates at 31 December 2018 and 31 December 2017 and for the years then ended:

	Average rate		Reporting date spot-rate	
	2018	2017	31 December 2018	31 December 2017
1,000 Tenge (KZT)	2.90	3.06	2.60	3.00
1 Euro (EUR)	1.18	1.12	1.14	1.19
1 British Pound (GBP)	1.33	1.28	1.27	1.35

The following table summarises KZT exchange rates at 31 December 2018:

	Average rate		Reporting date spot-rate	
	2018	2017	31 December 2018	31 December 2017
1 US Dollar (USD)	344.71	326.00	384.20	332.33
1 Euro (EUR)	406.66	368.52	439.37	398.23
1 British Pound (GBP)	459.49	420.12	488.13	448.61

Finance income and costs

Finance income comprises interest income on bank deposits and gain on financial instruments through profit and loss.

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 carrying value 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 costs comprise interest expense, bank commissions, losses on financial instruments through profit and loss 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 those 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.

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 profit or loss 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 temporary 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 realised. 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 taxes 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 taxes 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 pre-delivery payments made on account of aircraft and other significant assets under construction is capitalised 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 capitalised (for example maintenance on airframes and engines).

Aircraft

The purchase price of aircraft is denominated in US dollar.

Aircraft are depreciated using a straight-line method over their average estimated useful life of 25 years, assuming no residual value. During the operating cycle, the Company reviews whether the depreciable base or the useful life should be adjusted and, if necessary, determines whether a residual value should be recognised.

Repairs for major airframes and engines of all aircraft are treated as a separate asset component with the cost capitalised 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 profit or loss upon consumption or as incurred, respectively.

Rotable spare parts

Rotable spare parts are carried in 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.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2018

(in thousands of USD)

3. Significant accounting policies continued

Property, plant and equipment continued

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.

Depreciation

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 (excluding separate asset components)	25 years
› Rotable spare parts	3-10 years
› Office equipment and furniture	4-7 years
› Vehicles	7-9 years
› Other	5-10 years.

Depreciation is recognised so as to write off the cost of assets (other than freehold land, properties under construction and separate asset component of the aircraft) less their residual values over their useful lives, using the straight-line method. Separate asset component of an aircraft is amortised over the average expected life between major overhauls which is based on flight hours or cycles.

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.

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.

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.

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 and de-icing liquid, which are determined on the weighted average cost basis. Fuel and de-icing liquid are written off upon actual consumption. 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.

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, D-check and redelivery preparation program) and engines. The C-check is heavy maintenance with approved performance interval. It takes place the earliest to every 6,000 – 7,500 flight hours, 3,000 – 5,000 flight cycles and 18-24 months according to aircraft type.

The D-check (4C, 6YR, 12YR) is heavy maintenance connected with deep aircraft disassembly, structure inspection and anticorrosion prevention program. It takes place with an interval of not more than 72 months. Engine overhaul occurs after specified flight hours or cycles occur. Some of 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. In the case of other operating lease agreements variable lease payments are replaced (subject to certain conditions) by Letters of Credit as security for Lessors to cover any unfulfilled maintenance liabilities on the return of the aircraft, and amounts corresponding to the applicable variable lease amounts are included in provisions. 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. The Company's aircraft maintenance liabilities are due in US Dollars.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2018

(in thousands of USD)

3. Significant accounting policies continued

Financial Instruments

Recognition and initial measurement

Trade receivables are initially recognised when they are originated. All other financial assets and financial liabilities are initially recognised when the Company becomes a party to the contractual provisions of the instrument.

A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

Classification and subsequent measurement

Financial assets – Policy applicable from 1 January 2018

On initial recognition, a financial asset is classified as measured at: amortised cost; FVOCI – debt investment; FVOCI – equity investment; or FVTPL.

Financial assets are not reclassified subsequent to their initial recognition unless the Company changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt investment is measured at FVOCI if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Company may irrevocably elect to present subsequent changes in the investment's fair value in OCI. This election is made on an investment-by-investment basis.

All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL. This includes all derivative financial assets. On initial recognition, the Company may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Financial assets – Business model assessment: Policy applicable from 1 January 2018

The Company makes an assessment of the objective of the business model in which a financial asset is held at a portfolio level, because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. These include whether management's strategy focuses on earning contractual interest income, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of any related liabilities or expected cash outflows or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Company's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated – for example whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales of financial assets in prior periods, the reasons for such sales and expectations about future sales activity.

Transfers of financial assets to third parties in transactions that do not qualify for derecognition are not considered sales for this purpose, consistent with the Company's continuing recognition of the assets.

Financial assets that are held for trading or are managed and whose performance is evaluated on a fair value basis are measured at FVTPL.

Financial assets – Assessment whether contractual cash flows are solely payments of principal and interest:

Policy applicable from 1 January 2018

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (for example liquidity risk and administrative costs), as well as a profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Company considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making this assessment, the Company considers:

- contingent events that would change the amount or timing of cash flows;
- terms that may adjust the contractual coupon rate, including variable-rate features;
- prepayment and extension features; and
- terms that limit the Company's claim to cash flows from specified assets (for example non-recourse features).

A prepayment feature is consistent with the solely payments of principal and interest criterion if the prepayment amount substantially represents unpaid amounts of principal and interest on the principal amount outstanding, which may include reasonable additional compensation for early termination of the contract. Additionally, for a financial asset acquired at a discount or premium to its contractual par amount, a feature that permits or requires prepayment at an amount that substantially represents the contractual par amount plus accrued (but unpaid) contractual interest (which may also include reasonable additional compensation for early termination) is treated as consistent with this criterion if the fair value of the prepayment feature is insignificant at initial recognition.

Financial assets – Subsequent measurement and gains and losses: Policy applicable from 1 January 2018

Financial assets at FVTPL	These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in profit or loss.
Financial assets at amortised cost	These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.
Debt investments at FVOCI	These assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognised in profit or loss. Other net gains and losses are recognised in OCI. On derecognition, gains and losses accumulated in OCI are reclassified to profit or loss.
Equity investments at FVOCI	These assets are subsequently measured at fair value. Dividends are recognised as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognised in OCI and are never reclassified to profit or loss.

Financial assets – Policy applicable before 1 January 2018

The Company classified its financial assets into one of the following categories:

- accounts receivables;
- guarantee deposits;
- cash and cash equivalents;
- deposits in banks.

All the categories above were measured at amortised cost.

Financial liabilities – Classification, subsequent measurement and gains and losses

Financial liabilities are classified as measured at amortised cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognised in profit or loss. Other financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognised in profit or loss. Any gain or loss on derecognition is also recognised in profit or loss.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2018

(in thousands of USD)

3. Significant accounting policies continued

Modification of financial assets and financial liabilities

Financial assets

If the terms of a financial asset are modified, the Company evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different (referred to as 'substantial modification'), then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised and a new financial asset is recognised at fair value.

The Company performs a quantitative and qualitative evaluation of whether the modification is substantial, in other words whether the cash flows of the original financial asset and the modified or replaced financial asset are substantially different. The Company assesses whether the modification is substantial based on quantitative and qualitative factors in the following order: qualitative factors, quantitative factors, combined effect of qualitative and quantitative factors. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In making this evaluation the Company analogises to the guidance on the derecognition of financial liabilities.

The Company concludes that the modification is substantial as a result of the following qualitative factors:

- change the currency of the financial asset;
- change in collateral or other credit enhancement;

If the cash flows of the modified asset carried at amortised cost are not substantially different, then the modification does not result in derecognition of the financial asset. In this case, the Company recalculates the gross carrying amount of the financial asset and recognises the amount arising from adjusting the gross carrying amount as a modification gain or loss in profit or loss. The gross carrying amount of the financial asset is recalculated as the present value of the renegotiated or modified contractual cash flows that are discounted at the financial asset's original effective interest rate. Any costs or fees incurred adjust the carrying amount of the modified financial asset and are amortised over the remaining term of the modified financial asset.

Financial liabilities

The Company derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability extinguished and the new financial liability with modified terms is recognised in profit or loss.

If a modification (or exchange) does not result in the derecognition of the financial liability the Company applies accounting policy consistent with the requirements for adjusting the gross carrying amount of a financial asset when a modification does not result in the derecognition of the financial asset, in other words the Company recognises any adjustment to the amortised cost of the financial liability arising from such a modification (or exchange) in profit or loss at the date of the modification (or exchange).

Changes in cash flows on existing financial liabilities are not considered as modification, if they result from existing contractual terms, for example changes in fixed interest rates initiated by banks due to changes in the LIBOR, NBRK and other key rates. The Company treats the modification of an interest rate to a current market rate using the guidance on variable-rate financial instruments. This means that the effective interest rate is adjusted prospectively.

The Company performs a quantitative and qualitative evaluation of whether the modification is substantial considering qualitative factors, quantitative factors and combined effect of qualitative and quantitative factors. The Company concludes that the modification is substantial as a result of the following qualitative factors:

- change the currency of the financial liability;
- change in collateral or other credit enhancement;
- inclusion of conversion option;
- change in the subordination of the financial liability.

For the quantitative assessment the terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10% different from the discounted present value of the remaining cash flows of the original financial liability. If an exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment. If the exchange or modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the liability and are amortised over the remaining term of the modified liability.

Derecognition

Financial assets

The Company derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Company neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

The Company enters into transactions whereby it transfers assets recognised in its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets. In these cases, the transferred assets are not derecognised.

Financial liabilities

The Company derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire. The Company also derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognised at fair value.

On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognised in profit or loss.

Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

Dividends

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

Impairment of financial assets

Policy applicable from 1 January 2018

The Company recognises loss allowances for ECLs on:

- financial assets measured at amortised cost;
- debt investments measured at FVOCI.

The Company measures loss allowances at an amount equal to lifetime ECLs, except for the following, which are measured at 12-month ECLs:

- guarantee deposits and bank balances that are determined to have low credit risk at the reporting date; and
- other guarantee deposits and bank balances for which credit risk (in other words the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition.

Loss allowances for trade receivables and contract assets are always measured at an amount equal to lifetime ECLs.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Company's historical experience and informed credit assessment and including forward-looking information.

The Company assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due or if the external credit rating assigned to a financial asset by an international rating agency falls by six notches according to Standard and Poor's, Moody's or Fitch credit rating agencies.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2018

(in thousands of USD)

3. Significant accounting policies continued

Impairment of financial assets continued

The Company considers a financial asset to be in default when:

- › the borrower is unlikely to pay its credit obligations to the Company in full, without recourse by the Company to actions such as realising security (if any is held);
- › or the financial asset is more than 90 days past due.

The Company considers a debt security to have low credit risk when its credit risk rating is equivalent to the globally understood definition of 'investment grade'. The Company considers this to be Baa3 or higher per Moody's or BBB- or higher per Standard and Poor's.

Lifetime ECLs are the ECLs that result from all possible default events over the contractual life of a financial instrument.

12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months).

The maximum period considered when estimating ECLs is the maximum contractual period over which the Company is exposed to credit risk.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (in other words the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Company expects to receive).

ECLs are discounted at the effective interest rate of the financial asset.

Credit-impaired financial assets

At each reporting date, the Company assesses whether financial assets carried at amortised cost and debt securities at FVOCI are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- › significant financial difficulty of the borrower or issuer;
- › a breach of contract such as a default or being more than 90 days past due;
- › the restructuring of a loan or advance by the Company on terms that the Company would not consider otherwise;
- › it is probable that the borrower will enter bankruptcy or other financial reorganisation; or
- › the disappearance of an active market for a security because of financial difficulties.

Presentation of allowance for ECL in the statement of financial position

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets.

For debt securities at FVOCI, the loss allowance is charged to profit or loss and is recognised in OCI.

Write-off

The gross carrying amount of a financial asset is written off when the Company has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. The Company makes an assessment with respect to the timing and amount of write-off based on whether there is a reasonable expectation of recovery. The Company expects no significant recovery from the amount written off.

Non-derivative financial assets

Financial assets not classified as at FVTPL were assessed at each reporting date to determine whether there was objective evidence of impairment.

Objective evidence that financial assets were impaired included:

- › default or delinquency by a debtor;
- › restructuring of an amount due to the Company on terms that the Company would not consider otherwise;
- › indications that a debtor or issuer would enter bankruptcy;

- adverse changes in the payment status of borrowers or issuers;
- the disappearance of an active market for a security because of financial difficulties; or
- observable data indicating that there was a measurable decrease in the expected cash flows from a group of financial assets.

The Company considered evidence of impairment for these assets at both an individual asset and a collective level. All individually significant assets were individually assessed for impairment.

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.

An impairment loss was calculated as the difference between an asset's carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses were recognised in profit or loss and reflected in an allowance account. When the Company considered that there were no realistic prospects of recovery of the asset, the relevant amounts were written off. If the amount of impairment loss subsequently decreased and the decrease was related objectively to an event occurring after the impairment was recognised, then the previously recognised impairment loss was reversed through profit or loss.

4. Critical accounting judgments and key sources of estimation uncertainty

The preparation of financial statements in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from those 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.

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 mainly consist of provision for aircraft maintenance (Note 20).

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 applied to the cost of maintenance services and 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 programme agreed with the Kazakhstan Civil Aviation Committee ("CAC").

Recoverability of variable lease payments related to future maintenance

In case of a return of the aircraft after the scheduled maintenance event, but before the return condition specified in the lease agreement is triggered, the amounts of unapplied 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 2018 contributions of variable lease payments of USD 89,391 thousand (2017: USD 87,421 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. Unanticipated maintenance costs are expensed in profit or loss as incurred.

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.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2018

(in thousands of USD)

4. Critical accounting judgments and key sources of estimation uncertainty continued

Determination of the functional currency

As disclosed in Note 3, the functional currency of the Company is USD which, in management's view, reflects the economic substance of the underlying events and circumstances of the Company at the reporting date. At each reporting date management of the Company reassesses factors that may affect the determination of the functional currency based on circumstances at reporting date. A significant judgment is required from management to make analysis of primary economic environment including the pricing policy, structure of revenues from international and domestic routes, costs structure as well as continued development in strategy of the Company for further development of international routes. Future circumstances, therefore, may be different and may result in different conclusion.

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.

Allowances

The Company accrues allowances for impairment of accounts receivable. The Company calculated the probability of default of accounts receivables based on the lifetime approach. Changes in the economy and specific customer conditions may require adjustments of the probability of default and loss given default coefficient derived based on the historical information and thus adjustment of the allowances for doubtful accounts recorded in the financial statements. As at 31 December 2018 and 2017, allowances for doubtful accounts were equal to USD 1,772 thousand and USD 1,504 thousand, respectively (Notes 14, 15).

Other financial assets are mainly credit rated by one or more international credit rating agencies: Moody's, Fitch, and Standard and Poor's. The estimated credit loss is calculated for the entire useful life for those assets whose credit risk has increased significantly comparing to its level at the initial recognition date. Once the instrument is impaired the Company calculates allowances for doubtful accounts based on the expected future cash flows discounted at the original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account. When the Company considers that there are no realistic prospects of recovery of the asset, the relevant amounts are written off. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When credit risks significantly decreases for those assets which previously have been classified in Stage 2, the Company performs analysis to determine whether the current financial position of the borrower is stable enough to reclassify such assets back to Stage 1. As at 31 December 2018 impairment allowances were equal to USD 47,203 thousand as disclosed in Note 15 (31 December 2017: USD 49,036 thousand).

The Company annually estimates the necessity of write-down for obsolete and slow-moving inventories based on annual stock count data conducted at the reporting date. As at 31 December 2018, the Company recognised a write-down for obsolete and slow-moving inventories in the amount of USD 1,693 thousand (2017: USD 555 thousand) (Note 13).

Customer program

The Company's Nomad Club Loyalty programme is an incentive programme under which passengers are granted points for each flight. Once a passenger accumulates a certain number of points he or she can convert the points into a ticket. While calculating the customer loyalty programme provision the Company uses critical judgements and estimates in regard to the value per point by Nomad club members. The Company uses estimated ticket values to calculate the program's point value. Outstanding unutilised points as of each reporting dates are treated as deferred revenue. Points value are considered as from standalone selling price based on weighted average of redeemed air travels by route and class. Based on the historical statistics the Company determines the amount of breakage with regards to those points whose usage is not probable.

5. Revenue and other income

The effect of initially applying IFRS 15 on the Company's revenue from contracts with customers is described in Note 2. Due to the transition method chosen in applying IFRS 15, comparative information has not been restated to reflect the new requirements.

Passenger revenue	2018	2017
Passenger transport	657,812	598,265
Fuel surcharge	102,571	74,942
Airport services	44,600	40,315
Excess baggage	5,370	4,656
	810,353	718,178

Cargo and mail revenue	2018	2017
Cargo	18,781	17,964
Mail	1,922	1,702
Cargo and mail revenue	20,703	19,666

Other revenue	2018	2017
Incidental revenue	6,129	1,826
Income from ground services	919	1,120
Advertising revenue	790	2,012
Gain on disposal of property, plant and equipment and other assets	782	789
Penalties on agency contracts	477	8,492
Sales of fuel	354	4,545
Warranty returns	33	1,164
Other	321	1,267
	9,805	21,215

Penalties on change fees and revenue from chargeable seats according to IFRS 15 have been reclassified from other revenue to passenger revenue from 1 January 2018.

At 31 December 2018 passenger, cargo and mail revenue, representing total revenue from contracts with customers, were generated from the following destinations:

	2018	2017
Domestic	222,626	206,071
CIS	214,585	157,679
Asia	208,842	212,708
Europe	185,003	161,386
Total revenue from passenger and cargo	831,056	737,844

There was no revenue from transactions with a single customer amounting to 10% or more of the total revenue during the year ended 31 December 2018 (2017: nil).

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2018

(in thousands of USD)

6. Operating expenses

Handling, landing fees and route charges	2018	2017
Aero navigation	47,027	43,550
Handling charge	39,548	34,030
Landing fees	23,886	23,914
Meteorological services	228	162
Other	1,562	1,508
	112,251	103,164

Passenger service	2018	2017
Airport charges	46,105	41,676
Catering	26,069	27,709
In-flight entertainment	5,348	5,127
Security	4,348	3,950
Other	9,146	8,173
	91,016	86,635

Engineering and maintenance	2018	2017
Maintenance – variable lease payments	31,757	30,952
Maintenance – provisions (Note 20)	22,745	19,671
Maintenance – components	17,771	5,489
Spare parts	11,547	11,011
Technical inspection	2,458	2,050
	86,278	69,173

Employee costs	2018	2017
Wages and salaries of operations personnel	51,337	45,038
Wages and salaries of administrative personnel	12,946	10,956
Social tax	7,686	7,268
Wages and salaries of sales personnel	4,297	3,849
Other	3,748	3,992
	80,014	71,103

	2018	2017
The average number of employees	5,202	4,934

Aircraft operating lease costs	2018	2017
Fixed lease charges of aircraft and engine	66,478	59,862
Leased engine on wing costs	2,199	–
Operating lease return costs	1,487	346
Ad-hoc lease of engines and rotatable spare parts	1,249	1,205
	71,413	61,413

Selling costs	2018	2017
Reservation costs	21,086	19,965
Commissions	11,455	10,917
Advertising	7,289	8,617
Interline commissions	500	520
Other	412	442
	40,742	40,461

Aircraft crew costs	2018	2017
Accommodation and allowances	15,078	14,419
Contract crew	13,558	9,530
Training	6,573	6,301
	35,209	30,250

Insurance	2018	2017
Hull insurance	1,650	1,514
Legal liability insurance	1,598	1,373
Medical insurance	704	699
Other	249	284
	4,201	3,870

7. Finance income and costs

Finance income	2018	2017
Interest income on bank deposits	2,516	1,587
Reversal of impairment allowance on financial assets	356	4,746
Unwinding of discount on Ab-initio pilot trainees receivables	29	144
Other	33	745
	2,934	7,293

Finance costs	2018	2017
Interest expense on finance lease	9,139	11,118
Interest expense on bank loans	955	–
Financial assets and liabilities held at fair value through profit or loss	333	–
Impairment allowance on financial assets	120	–
	10,547	11,118

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2018

(in thousands of USD)

8. Income tax expense

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

	2018	2017
Income tax	3,397	7,589
Deferred income tax expense	3,259	2,153
	6,656	9,742

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 2018 and 2017 is presented in the table below:

Deferred tax assets	2018	2017
Provision for aircraft maintenance	17,273	14,754
Trade and other payables	3,473	2,520
Carried forward corporate income tax losses	–	1,058
Total deferred tax assets	20,746	18,332
Deferred tax liabilities		
Difference in depreciable value of property, plant and equipment	(35,450)	(29,213)
Inventories	(1,106)	–
Prepaid expenses	(465)	(13)
Intangible assets	(180)	(127)
Total	(37,201)	(29,353)
Net deferred tax liabilities	(16,455)	(11,021)

In accordance with the local tax legislation both hedged and unhedged foreign currency losses are treated as deductible expenses for the purpose of corporate income tax calculations. If such deductible expenses cannot be fully utilised in the year of origination the tax code permits an entity to carry forward the accumulated tax losses for the next 9 years.

Movements in deferred tax assets and liabilities presented above were recorded in profit or loss accounts, except for USD 2,174 thousand related to carried forward corporate income tax losses, which were recognised in equity relating to realised portion of deferred tax on cash flows hedge. (2017: USD 2,294 thousand).

The income tax rate in the Republic of Kazakhstan, where the Company is located, in 2018 and 2017 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% (2017: 20%) to the actual income tax expense recorded in the Company's statement of profit or loss and other comprehensive income:

	2018	2017
Profit before tax	12,008	49,060
CIT %	20%	20%
Income tax at statutory rate	2,402	9,812
USD forex effect	3,393	–
Tax effect of non-deductible income	(280)	(949)
Tax effect of non-deductible expenses	1,141	879
	6,656	9,742

9. Property, plant and equipment

	Rotable spare parts	Office equipment and furniture	Building, premises and land	Vehicles	Aircraft under finance lease	Equipment in transit and construction in progress	Total
Cost							
At 31 December 2016	42,303	5,679	3,241	2,424	296,915	17,656	368,218
Additions	11,117	951	302	1,364	12,429	4,189	30,352
Disposals	(3,804)	(286)	(117)	(247)	(21,041)	(1,213)	(26,708)
Foreign currency translation difference	4	4	6	(14)	1,021	(7)	1,014
Transfers to inventory	(1,041)	–	–	–	–	–	(1,041)
At 31 December 2017	48,579	6,348	3,432	3,527	289,324	20,625	371,835
Additions	8,290	820	1,357	373	8,983	673	20,496
Disposals	(2,627)	(160)	(170)	(129)	(6,323)	–	(9,409)
Transfers to inventory	(83)	–	–	–	–	–	(83)
Transfers	507	5	19,065	(707)	398	(19,268)	–
At 31 December 2018	54,666	7,013	23,684	3,064	292,382	2,030	382,839
Accumulated depreciation							
At 31 December 2016	17,346	4,092	1,199	1,221	73,140	–	96,998
Charge for the year	6,113	600	375	331	18,686	–	26,105
Disposals	(3,272)	(272)	(112)	(230)	(9,168)	–	(13,054)
Foreign currency translation difference	(4)	5	–	1	30	–	32
At 31 December 2017	20,183	4,425	1,462	1,323	82,688	–	110,081
Charge for the year	6,193	693	553	257	17,000	–	24,696
Disposals	(470)	(151)	(170)	(113)	(6,041)	–	(6,945)
At 31 December 2018	25,906	4,967	1,845	1,467	93,647	–	127,832
Net book value							
At 31 December 2017	28,396	1,923	1,970	2,204	206,636	20,625	261,754
At 31 December 2018	28,760	2,046	21,839	1,597	198,735	2,030	255,007

In determining the Company's geographical information, assets, which consist principally of aircraft (including 24 held under operating leases) and ground equipment are mainly registered/located in the Republic of Kazakhstan. Accordingly, there is no reasonable basis for allocating the assets to geographical segments.

Rotable spare parts include aircraft modification costs.

The Company's obligations under finance leases are secured by the lessors's title to the leased assets which have carrying amount of USD 198,735 thousand (2017: USD 206,636 thousand) (Note 23).

The Company's obligations under the bank loan are secured by property with a carrying amount of USD 19,999 thousand (Note 22).

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2018

(in thousands of USD)

9. Property, plant and equipment continued

For the year ended 31 December 2018 USD 224 thousand of interest relating to the EBRD loan was capitalised into property, plant and equipment (2017: USD 2,525 thousand) (Note 23).

Having reviewed its operational plans and taken into account airline industry practice with respect to aircraft service lives, the Company decided to revise its estimate of the useful economic life of aircraft from 20 to 25 years, with effect from 1 October 2016. This change leads to decrease in annual depreciation of USD 2,809 in 2017 and going forward.

In 2018, the Company reconsidered useful lives of two deferred maintenance components: engine performance restoration and limited life part overhauls. As a result of the useful lives extension the depreciation expense for 2018 decreased by USD 972 thousand.

10. Intangible assets

Cost	6,648
At 1 January 2017	6,648
Additions	681
Foreign currency translation difference	7
At 31 December 2017	7,336
Additions	163
At 31 December 2018	7,499
Accumulated amortisation	
At 1 January 2017	3,501
Charge for the year	904
Foreign currency translation difference	(8)
At 31 December 2017	4,397
Charge for the year	938
At 31 December 2018	5,335
Net book value	
At 31 December 2017	2,939
At 31 December 2018	2,164

11. Depreciation and amortisation

	2018	2017
Depreciation of property, plant and equipment (Note 9)	24,696	26,105
Amortisation of intangible assets (Note 10)	938	904
	25,634	27,009

12. Guarantee deposits

	31 December 2018	31 December 2017
Non-current assets		
Guarantee deposits for leased aircraft	17,267	17,922
Other guarantee deposits	2,209	1,714
Impairment allowances	(306)	–
	19,170	19,636
Current assets		
Guarantee deposits to secure Letters of Credit for maintenance liabilities	28,564	32,871
Guarantee deposits for leased aircraft	1,854	757
Other guarantee deposits	1,460	1,246
Impairment allowances	(39)	–
	31,839	34,874
	51,009	54,510

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.

The Company assesses credit risk for such deposits as low mainly because almost all lessors are rated from AA to BBB in accordance with Standard and Poor's credit quality grades. For those lessors who are not credited rating by the international rating agencies, the Company calculates the expected credit loss based on the assumption that the lessors are rated at CCC by S&P.

Guarantee deposits for leased aircraft and maintenance liabilities are receivable as follows:

	31 December 2018	31 December 2017
Within one year	30,418	33,629
After one year but not more than five years	2,112	7,275
More than five years	15,184	10,703
	47,714	51,607
Fair value adjustment	(29)	(57)
	47,685	51,550

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2018

(in thousands of USD)

13. Inventories

	31 December 2018	31 December 2017
Spare parts	28,150	23,547
Fuel	7,563	5,499
Crockery	3,388	2,414
Goods in transit	2,001	3,007
Promotional materials	1,484	1,544
Uniforms	1,237	1,151
De-icing liquid	509	494
Blank forms	199	229
Other	2,127	1,283
	46,658	39,168
Less: cumulative write-down for obsolete and slow-moving inventories	(1,693)	(555)
	44,965	38,613

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

	2018	2017
Cumulative write-down for obsolete and slow-moving inventories at the beginning of the year	(555)	(540)
Write-down for the year	(1,166)	(54)
Reversal of previous write-down for the year	28	41
Foreign currency translation	–	(2)
Cumulative write-down for obsolete and slow-moving inventories at the end of the year	(1,693)	(555)

14. Prepayments

	31 December 2018	31 December 2017
Non-current		
Prepayments for long-term assets	8,242	1,572
Advances for services	6,412	6,514
	14,654	8,086
Impairment allowances	(32)	–
	14,622	8,086
Current		
Advances for services	13,084	14,591
Prepayments for finance lease	5,361	5,483
Prepayments of operating leases	3,794	2,856
Advances for goods	3,304	6,871
	25,543	29,801
Impairment allowances	(377)	(411)
	25,166	29,390

As at 31 December 2018 prepayments for long-term assets include prepayments to Boeing as pre-delivery payment for three aircraft (Note 26).

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

	2018	2017
At the beginning of the year	(411)	(417)
Reversed during the year	–	8
Written-off against previously created allowance	2	–
Allowance for doubtful debt at the end of the year	(409)	(411)

15. Trade and other receivables

	31 December 2018	31 December 2017
Non-current		
Due from employees and Ab-initio pilot trainees	2,224	2,040
Other financial assets	49,038	50,920
	51,262	52,960
Impairment allowances	(47,203)	(49,036)
	4,059	3,924
Current		
Trade receivables	24,431	17,571
Receivable from lessors – variable lease reimbursement	2,908	8,116
Due from employees and Ab-initio pilot trainees	848	923
	28,187	26,610
Impairment allowances	(1,554)	(1,093)
	26,633	25,517

In 2016, due to the significant credit quality deterioration of KazInvestBank JSC and Delta Bank JSC followed by the revocation of the banking licenses, management reclassified the deposits held with these banks in the amounts USD 14,234 thousand and USD 44,785 thousand, accordingly, from the bank deposit line item to non-current trade and other receivables and assessed them for impairment. Based on the assessment, management recognised an impairment allowance of approximately 90% for KazInvestBank JSC and Delta Bank JSC as at 31 December 2016.

In June 2017 the temporary administration of KazInvestBank JSC transferred a portion of its assets and liabilities to SB Alfa Bank JSC (Alfa Bank) which acts as an intermediary, collecting funds from the borrowers under the transferred corporate loans and distributing the proceeds among depositors. The Company has agreed to transfer part of its deposit claims to KazInvestBank JSC into Alfa-Bank JSC.

In July-November 2017 the Company collected USD 4,376 thousand in cash through enforcement proceedings against Delta Bank JSC.

On 24 January 2018 the court's decision on the forced liquidation of KazInvestBank JSC came into effect. The liquidation commission transferred USD 180 thousand to the Company in lieu of partial repayment of the eighth line creditors' claim which corresponds to 1.48% of the Company's claim to Kazinvestbank JSC. The compensation of the remaining claim will depend on the actions of the liquidation commission.

On 13 February 2018 the court decided on the forced liquidation of Delta Bank JSC, the decision became effective on 25 April 2018. The liquidation commission recognised the Company's claims in the amount of KZT 1,059,940,954 and USD 27,718 thousand and included it in the eighth queue of the register of creditors' claims. The compensation of the claim will depend on the actions of the liquidation commission.

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

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2018

(in thousands of USD)

15. Trade and other receivables continued

In general, 50% of the cost of training new pilots related to the Ab-initio pilot are borne by the pilot trainees but are funded by the Company through the provision of interest free loans to participants of the program. The remaining costs are classified by the Company as a prepayment of its expenses and are amortised over a period of seven years, during which the Company has a right to oblige these expenses to become payable by the pilot trainees should such pilot trainee terminate his/her employment.

However, in December 2015, within the employee incentive scheme, the management offered a new repayment option to Ab-initio pilot programme trainees. Under this option, the obligations to repay training costs have been cancelled with the total amount only becoming due if they leave the Company. Amounts due from those cadets who selected the option were reclassified to deferred expenses and are amortised using the straight line method over the remaining amortisation term.

At 31 December 2018, eight debtors including IATA Bank Settlement Plans (BSPs) as collecting agencies from the worldwide travel agencies comprised 51% of the Company's trade and other receivables (at 31 December 2017: eight debtors comprised 45%).

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

	2018	2017
Tenge	15,247	12,754
US Dollar	6,652	8,391
Euro	2,291	2,444
Russian Rouble	1,004	1,209
Other	5,498	4,643
	30,692	29,441

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

	2018	2017
At the beginning of the year	(50,129)	(54,818)
Opening balance adjustments due to application of IFRS 9	(70)	-
Allowance for doubtful debts at the beginning of the year	(50,199)	(54,818)
Reversed during the year	587	4,785
Accrued during the year	(1,097)	(405)
Unwinding of discount	261	416
Written-off against previously created allowance	123	-
Foreign currency difference	1,568	-
Foreign currency translation differences	-	(107)
At the end of the year	(48,757)	(50,129)

16. Other taxes prepaid

	31 December 2018	31 December 2017
Value added tax recoverable	22,000	17,411
Prepayment for environment tax	1	1
Other taxes prepaid	664	674
	22,665	18,086

Value added tax recoverable is recognised within current assets as the Company annually plans to recover these amounts within the next year.

17. Cash and bank balances

	31 December 2018	31 December 2017
Current accounts with foreign banks	84,724	85,806
Term deposits with local banks with an initial maturity of less than 3 months	38,067	20,046
Current accounts with local banks	9,879	42,204
Cash in hand	107	103
Accrued interest	51	22
	132,828	148,181
Impairment allowances	(2)	–
	132,826	148,181

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

	2018	2017
US Dollar	127,869	141,649
Indian Rupee	1,319	3,208
Euro	906	571
Russian Rouble	708	283
Chinese Yuan	424	69
Tenge	310	1,438
British Pound	280	122
Uzbek Som	83	125
Other	927	716
	132,826	148,181

18. Equity

As at 31 December 2018 and 2017, share capital was comprised of 17,000 authorised, issued and fully paid ordinary shares with a par value of 147,150 tenge per share (equivalent to USD 1,000 per share at the time of purchase).

The holders of ordinary shares are entitled to receive dividends as declared from time to time, and are entitled to one vote per share at meetings of the Company.

In accordance with Kazakhstan legislation the Company's distributable reserves are limited to the balance of retained earnings as recorded in the Company's statutory financial statements prepared in accordance with IFRS. A distribution cannot be made when equity is negative or if distribution would result in negative equity or the Company's insolvency.

As at 31 December 2018 the Company had retained earnings, including the profit for the current year, of USD 143,746 thousand (2017: USD 150,552 thousand).

In May 2018, based on the decision of the Annual General Meeting of Shareholders, the Company declared a dividend payment equivalent to 30% of the net profit of the Company for 2017. The total amount of the dividend was 3,845,505 thousand tenge (USD 11,676 thousand equivalent as of announcement date), which was distributed and paid in accordance with their shareholdings.

Dividends per share in 2017 were 226 thousand tenge or USD 0.69 thousand equivalent as of announcement date (2016: nil).

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2018

(in thousands of USD)

18. Equity continued

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 (2017: 17,000 shares). The Company has no instruments with potential dilutive effect.

Profit	2018	2017
Profit after tax	5,352	39,318
Number of ordinary shares	17,000	17,000
Earnings per share – basic and diluted (USD)	315	2,313

19. Deferred revenue

	31 December 2018	31 December 2017
Unearned transportation revenue	45,173	43,190
Customer loyalty program	7,558	5,244
	52,731	48,434

Unearned transportation revenue represents the value of sold but unused passenger tickets the validity period of which has not expired, excluding recognised passenger revenue in respect of the percentage of tickets sold that are expected not to be used or refunded (Note 3).

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

Due to the short-term nature of Company's performance obligations, opening balance of unearned transportation revenue was recognised as revenue in 2018.

20. Provision for aircraft maintenance

	31 December 2018	31 December 2017
Engines	68,946	59,113
D-Check	9,374	6,298
C-Check	2,677	2,766
Provision for redelivery of aircraft	2,409	2,152
Auxiliary Power unit	2,300	1,739
Landing gear	1,530	1,702
	87,236	73,770

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

	2018	2017
At 1 January	73,770	58,798
Accrued during the year (Note 6)	28,118	21,743
Reversed during the year (Note 6)	(5,373)	(2,072)
Used during the year	(9,279)	(4,582)
Foreign currency translation difference	–	(117)
At 31 December	87,236	73,770

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 calculating the provisions are stated in US Dollars.

The planned utilisation of these provisions is as follows:

	31 December 2018	31 December 2017
Within one year	48,613	13,260
During the second year	24,502	45,645
During the third year	7,269	8,539
After the third year	6,852	6,326
Total provision for aircraft maintenance	87,236	73,770
Less: current portion	48,613	13,260
Non-current portion	38,623	60,510

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.

21. Trade and other payables

	31 December 2018	31 December 2017
Trade payables	32,982	29,450
Deposits received from agents	3,879	2,210
Due to employees	2,547	2,340
Advances received	2,372	674
Taxes payable	936	618
Pension contribution	815	513
Operating lease payables	771	1,510
Dividends payable	–	–
Accrued bonuses	–	–
Vacation accrual	374	1,505
Other	137	63
	44,813	38,883

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

	2018	2017
US Dollar	18,741	16,738
Tenge	12,159	10,735
Euro	6,403	5,660
Russian Rouble	877	988
British Pound	874	711
Other	5,759	4,051
	44,813	38,883

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2018

(in thousands of USD)

22. Loans

	31 December 2018	31 December 2017
Current		
Current portion of bank loan	1,348	1,558
Interest payable	57	72
	1,405	1,630
Non-current		
Bank loan	7,751	10,519
	7,751	10,519

On 3 December 2015 the Company concluded a loan agreement of USD 14,000 thousand (in Kazakhstani tenge equivalent) with the European Bank for Reconstruction and Development (EBRD) for 10 years for the purpose of construction of a Technical Center (Hangar) in Astana, which is also pledged to the EBRD under this loan. The interest rate is variable and defined, based on a margin of 3.75% per annum plus EBRD's All-in Cost in Kazakhstani tenge. The All-in Cost is determined on a quarterly basis in conjunction with the National Bank of Kazakhstan base rate. In April 2016 the Company obtained the funds from EBRD in the amount of 4,661,033 thousand tenge (USD 14,000 thousand equivalent as of receipt dates). As at 31 December 2018 the Company obtained necessary waivers with regards to the EBRD loan agreement covenants and was thus in compliance with them.

23. Finance lease liabilities

For the years from 2012 to 2014 the Company acquired eleven aircraft under fixed interest finance lease agreements. The lease term for each aircraft is twelve years. The Company has an option to purchase each aircraft for a nominal amount at the end of the lease. Loans provided by financial institutions to the lessors in respect of six new Airbus aircraft which were delivered during 2012 and 2013 were guaranteed by European Export Credit Agencies while three Boeing 767 aircraft which were delivered in 2013 and 2014 were guaranteed by the US Export Import Bank. Two Embraer aircraft delivered in 2012 and 2013 were guaranteed by the Brazilian Development Bank. The Company's obligations under finance leases are secured by the lessors' title to the leased assets. These assets have a carrying value of USD 198,735 thousand (2017: USD 206,636 thousand) (Note 9). The Company conducted a sale and leaseback transaction in December 2017 by selling one Embraer E190 which had been originally acquired under a finance lease to a third party. The amount of USD 8,478 thousand, which had been outstanding under the original finance lease, was transferred by the third party purchaser directly to the finance lessor.

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 2018 and 2017.

	Minimum lease payments		Present value of minimum lease payments	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017
Not later than one year	47,823	49,162	40,494	39,926
Later than one year and not later than five years	186,099	188,187	166,068	163,213
Later than five years	77,442	123,178	74,965	117,584
	311,364	360,527	281,527	320,723
Less: future finance charges	(29,837)	(39,804)	–	–
Present value of minimum lease payments	281,527	320,723	281,527	320,723
Included in the financial statement as:				
– current portion of finance lease obligations			40,494	39,926
– non-current portion of finance lease obligations			241,033	280,797
			281,527	320,723

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

On 1 July 2015 the Company designated a portion of its US Dollar finance lease obligations as hedges of highly probable future US Dollar revenue streams. The Company applied the cash flow hedge accounting model to this hedging transaction, in accordance with IAS 39.

In connection with the transition of the functional currency to US Dollar, this hedge ceased to be economically effective from 31 December 2017. At 31 December 2018, a foreign currency loss of USD 78,463 thousand (2017: USD 89,331 thousand), before deferred income tax of USD 15,693 thousand (2017: USD 17,866 thousand) on the finance lease liabilities, representing an effective portion of the hedge, is deferred in the hedging reserve in equity. As a result of the change, the hedge relationship has been discontinued so that starting from 1 January 2018 no further foreign currency translation gains or losses are transferred from profit or loss to the hedge reserve, and the hedge reserve recognised in equity as at 31 December 2017 shall remain in equity until the forecasted revenue cash flows are received. During 2018 the amount reclassified from the hedging reserve to foreign exchange loss in the statement of profit or loss from inception of the hedge was USD 10,869 thousand (before deferred income tax of USD 2,174 thousand) (2017: USD 10,292 thousand, before deferred income tax of USD 2,058 thousand).

Reconciliation of movements of loans and finance lease liabilities to cash flows arising from financing activities

	Loans	Finance lease liabilities	Total
Balance as at 1 January 2018	12,149	320,723	332,872
Changes from cash flows			
Repayment of borrowings	(1,486)	–	(1,486)
Repayment of finance lease liabilities	–	(39,003)	(39,003)
Interest paid	(1,194)	(9,332)	(10,526)
Total changes from financing cash flows	(2,680)	(48,335)	(51,015)
Effect of changes in foreign exchange rates	(1,492)	–	(1,492)
Other changes			
Capitalised borrowing costs	224	–	224
Interest expense	955	9,139	10,094
Total other changes	1,179	9,139	10,318
Balance as at 31 December 2018	9,156	281,527	290,683

24. 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 a 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 2017.

The capital structure of the Company consists of net debt (comprising loans and finance lease obligations in Note 22 and 23) and equity of the Company (comprising issued capital, additional paid-in capital, reserve on hedging instruments and retained earnings as detailed in Note 18).

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

The Company reviews the capital structure on a semiannual basis. As part of this review, the Company considers the cost of capital and the risks associated with each class of capital.

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, guarantee deposits and accounts receivable, is calculated based 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.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

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(in thousands of USD)

24. Financial instruments continued

Credit risk continued

As at 31 December 2018 there was no significant concentration of credit risk in respect of 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.

As a result of the increased credit risks on some of the banks, management reconsidered its cash management policy and reviewed the credit ratings of the major banks in Kazakhstan and placed its main amounts due from banks in banks with ratings of 'BB' or higher, except for KazInvestBank and Delta Bank, which are disclosed in Note 15.

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's receivables from customers.

The carrying amounts of financial assets represent the maximum credit exposure. Impairment losses on financial assets recognised in profit or loss were as follows:

	2018	2017
Impairment loss on trade and other receivables	(249)	4,796
Impairment loss on guarantee deposits	121	–
Impairment loss on cash and cash equivalents	(1)	–
	(129)	4,796

Trade and other receivables

	2018	2017
Default banks	49,038	50,920
Trade receivables	24,431	17,571
Receivable from lessors	2,908	8,116
Amounts due from employees	3,072	2,963
Total gross carrying amount	79,449	79,570
Impairment allowance	(48,757)	(50,129)
Total net carrying amount	30,692	29,441

Trade receivables

The sales of tickets is the main revenue source of the Company. The Company uses agents who sell tickets on behalf of the Company to corporations and general public for a certain commission that varies depending on the geographical location and market conditions. As a result agents amass significant amount of funds for tickets sold which are recorded as trade receivables by airlines. The International Air Transport Association (hereinafter referred to as 'IATA') conducts monitoring of agents by establishing IATA accreditation procedures designed to ensure the credit quality of agents. The IATA also set Local Financial Criteria for each market in accordance to which agents have to obtain a credit enhancement such as bank Guarantee or insurance from a financial institution of certain credit rating before they can be accredited by the IATA.

On a regular basis, the IATA notifies the airlines about the amount of debt from each agent in excess of its guarantee or insurance protected amount. In addition, the IATA also informs about sharp and unusual increase in sales which might signal increase in risk. The Company then decides whether to stop dealing with such agents until the negative factors are resolved.

The Company works only with IATA accredited agents.

The Company does not have trade receivables and contract assets for which no loss allowance is recognised because of collateral.

At 31 December 2018, eight debtors including IATA Bank Settlement Plans (BSPs) as collecting agencies from the worldwide travel agencies comprised 51% of the Company's trade and other receivables excluding banks in default (at 31 December 2017: eight debtors comprised 45%).

Receivables from lessors

Receivable from lessors represents the amount of variable lease reimbursement claimed by the Company as a result of maintenance performed that occurred prior to the reporting date. Most of the lessors are rated by the international credit rating agencies. Since all lessors have excellent credit history and the Company has been conducting operations with many of them for many years, the management considers their credit risk to be insignificant even for those lessors that do not hold any credit rating.

The table below presents the credit quality of receivables from lessors and others:

Credit rating	2018
BBB – to AAA	2,616
Without ratings	292
Gross carrying amounts (2018 amortised cost before impairment)	2,908
Impairment allowance	(1)
Total net carrying amount	2,907

Amounts due from employees

In general, certain part of the Ab-initio pilot training costs is borne by the pilot trainees but are funded by the Company through the provision of interest free loans to participants of the program. The Company withholds the amounts due from pilots' salary on a monthly basis. Those pilots or cadets who leave the Company are fully provided with respect of the credit losses.

Movements in the allowance for impairment in respect of trade and other receivables

	2018	2017
Balance at 1 January under IAS 39	50,129	54,818
Adjustment on initial application of IFRS 9	70	–
Balance at 1 January under IFRS 9	50,199	54,818
Amounts written off	(123)	–
Foreign currency difference	(1,568)	107
Net remeasurment of loss allowance	249	(4,796)
Balance at 31 December	48,757	50,129

Guarantee deposits

The main counterparties of the Company have a credit rating of at least from BBB- S&P Rating Agency.

To determine whether published ratings remain up-to-date and to assess whether there has been a significant increase in credit risk at the reporting date that has not been reflected in published ratings the Company monitors changes in credit risk by tracking their financial stability.

12-month and lifetime probabilities of default are based on historical data supplied by S&P Rating Agency for each credit rating. Loss given default (LGD) parameters generally reflect an assumed recovery rate of 30% except when a security is credit-impaired, in which case the estimate of loss is based on the instrument's current market price and original effective interest rate.

The following table presents credit ratings of guarantee deposits each of which were classified in stage 1:

Credit rating	2018	2017
BBB- to AAA	44,286	50,729
C to CCC+	1,612	1,063
Without ratings	5,456	2,718
Gross carrying amounts (2018 amortised cost before impairment)	51,354	54,510
Impairment allowance	(345)	–
Total net carrying amount	51,009	54,510

The Company did not have any guarantee deposits that were either past due or impaired.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

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(in thousands of USD)

24. Financial instruments continued

The movement in the impairment allowance during the year was as follows. Comparative amounts for 2017 represent the allowance account for impairment losses under IAS 39.

	2018	2017
Balance at 1 January under IAS 39	-	-
Adjustment on initial application of IFRS 9	(224)	-
Balance at 1 January under IFRS 9	(224)	-
Net remeasurment of loss allowance	(121)	-
Balance at 31 December	(345)	-

Cash and cash equivalents

The Company held cash and cash equivalents of USD 132,826 at 31 December 2018 (2017: USD 148,181). The cash and cash equivalents are held with bank and financial institution counterparties, which are rated AAA to B, based on S&P ratings.

Impairment on cash and cash equivalents has been measured on a 12-month expected loss basis and reflects the short maturities of the exposures. The Company considers that its cash and cash equivalents have low credit risk based on the external credit ratings of the counterparties.

The Company uses a similar approach for assessment of ECLs for cash and cash equivalents to those used for bank and guarantee deposits.

On initial application of IFRS 9, the Company recognised an impairment allowance as at 1 January 2018 in the amount of USD 3 thousand. The amount of the allowance decreased during 2018.

The following table presents an analysis of the credit quality of cash and cash equivalents measured at amortised cost:

	2018			2017		
Credit rating	Gross carrying amount	12 month ECL	Carrying amount	Gross carrying amount	Impairment	Carrying amount
BBB – to AAA	125,578	-	125,578	135,116	-	135,116
BB – to BB+	7,250	(2)	7,248	13,065	-	13,065
	132,828	(2)	132,826	148,181	-	148,181

Interest rate risk

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

In April 2016 the Company's EBRD loan had variable interest rates with a fixed margin (Note 23). If the variable part of the interest rate on the EBRD loan in 2018 would have been 20% higher or lower than the actual for the period, change in interest rate would not have a material impact.

Foreign currency risk

The Company is exposed to foreign currency risk on sales and purchases that are denominated in currencies other than the US Dollar. The currencies giving rise to this risk are primarily tenge and Euro. For amounts of assets and liabilities denominated in foreign currency refer to Notes 15, 17, 18, 22 and 23. Management believes that it has taken appropriate measures to support the sustainability of the Company business under the current circumstances.

Foreign currency sensitivity analysis

The Company is mainly exposed to the risk of change of exchange rates of the US dollar against tenge and euro.

The carrying 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.

	Notes	31 December 2018		31 December 2017	
		KZT	EUR	KZT	EUR
Assets					
Other taxes prepaid	16	22,364	147	18,086	–
Trade and other receivables	15	15,247	2,291	12,754	2,444
Income tax prepaid		1,336	–	738	–
Cash and bank balances	17	310	906	1,438	571
Guarantee deposits	12	29	246	40	138
Total		39,286	3,590	33,056	3,153
Liabilities					
Trade and other payables	21	12,159	6,403	10,735	5,660
Loans	22	9,156	–	12,149	–
Total		21,315	6,403	22,884	5,660
Net position		17,971	(2,813)	10,172	(2,507)

In 2018 the following table details the Company's sensitivity of weakening and strengthening of US Dollar against tenge by 11% and euro by 7%.

In 2017 the following table details the Company's sensitivity of weakening and strengthening of US Dollar against tenge by 13% and euro by 5%.

The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for above mentioned sensitivity ratios.

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 or Loss and positive number would be an opposite impact on the Profit or Loss:

	Weakening of US Dollar		Strengthening of US Dollar	
	Tenge	Euro	Tenge	Euro
31 December 2018	11%	7%	11%	7%
Profit/(loss)	1,581	(158)	(1,581)	158
31 December 2017	13%	5%	13%	5%
Profit/(loss)	1,058	(100)	(1,058)	100

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 and loans and finance lease liabilities are denominated.

Liquidity risk management

Liquidity risk is the risk that a company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

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.

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for the year ended 31 December 2018

(in thousands of USD)

24. Financial instruments continued

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.

31 December 2018	Up to 3 months	3 months to 1 year	1-5 years	Over 5 years	Total
Financial assets					
Trade and other receivables	26,177	456	2,899	1,160	30,692
Guarantee deposits	38	31,801	3,589	15,581	51,009
Cash and bank balances	132,826	–	–	–	132,826
Financial liabilities					
Non interest bearing					
Trade and other payables	42,139	676	–	–	42,815
Variable rate					
Loans (tenge denominated)	525	1,691	7,641	2,612	12,469
Fixed rate					
Finance lease liabilities	11,790	36,033	186,099	77,442	311,364

31 December 2017	Weighted average effective interest rate %	Up to 3 months	3 months to 1 year	1-5 years	Over 5 years	Total
Financial assets						
Non interesting bearing						
Trade and other receivables	–	24,914	603	3,341	583	29,441
Guarantee deposits	–	20,541	14,273	8,994	10,702	54,510
Cash and bank balances	–	148,181	–	–	–	148,181
Fixed rate						
Bank deposits	4,55	5	–	–	–	5
Non interesting bearing						
Trade and other payables	–	36,038	666	–	–	36,704
Variable rate						
Loans (tenge denominated)	–	714	2,077	9,505	4,975	17,271
Fixed rate						
Finance lease liabilities	–	12,120	37,042	188,187	123,178	360,527

Fair values

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.

Financial instruments at fair value through profit or loss

Valuation of financial instruments recognised at fair value through profit or loss is based on inputs for which not all significant inputs are observable, either directly or indirectly and valuations are based on one or more non-observable inputs. Such valuations represent Level 3 of the fair value hierarchy.

Guarantee Deposits

Guarantee Deposits are recognised at amortised cost. Management believes that their carrying amounts approximate their fair value.

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. Ab-initio receivables are recorded at fair value at initial recognition and subsequently measured at amortised cost.

Loans

Loans are recognised at amortised cost. Management believes that their carrying amounts approximate their fair values.

Finance lease liabilities

Finance lease liabilities are initially recognised at the lower of the fair value of assets received under finance lease and the present value of minimum lease payments. Management believes that their carrying amounts approximate 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.

25. Measurement of fair values

A number of the Company's accounting policies and disclosures require the measurement of fair values for financial assets and liabilities.

The Company has an established control framework with respect to the measurement of fair values. This includes a finance department that has overall responsibility for overseeing all significant fair value measurements, including Level 3 fair values.

The finance department regularly reviews significant unobservable inputs and valuation adjustments. If third party information, such as broker quotes or pricing services, is used to measure fair values, then the valuation team assesses the evidence obtained from the third parties to support the conclusion that such valuations meet the requirements of IFRS, including the level in the fair value hierarchy in which such valuations should be classified.

When measuring the fair value of an asset or a liability, the Company uses market observable data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (in other words, as prices) or indirectly (in other words, derived from prices).

Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or a liability might be categorised in different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Company recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

As at 31 December 2018 and 2017 all Company's assets were measured at amortised cost.

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for the year ended 31 December 2018

(in thousands of USD)

26. Commitments and contingencies

Capital commitments

In 2011 the Company finalised an agreement with Boeing to purchase three Boeing-787 aircraft under finance lease agreements. The Company is committed to pre-delivery payments in accordance with the agreed payment schedule. Delivery of the Boeing 787 is now deferred to 2023 with the last pre-delivery payments deferred.

The terms of the Company's contract 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 parties agree to renew the leases. The Company does not have an option to purchase the leased aircraft at the expiry of the lease period.

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

Non-cancellable commitments for leases of aircraft currently in operation:

	31 December 2018	31 December 2017
Within one year	70,968	65,113
After one year but not more than five years	117,710	115,088
More than five years	41,761	22,031
	230,439	202,232

Non-cancellable commitments for leases of aircraft to be delivered from 2019 to 2021:

	31 December 2018	31 December 2017
Within one year	35,386	16,831
After one year but not more than five years	169,931	175,707
More than five years	122,378	180,844
	327,695	373,382

In 2015-2017 the Company signed operating lease agreements for seventeen Airbus A320neo and Airbus A321LR aircraft to replace some current leases on expiry and for future expansion. Four A320neo were delivered in 2016-2018, with the remaining thirteen aircraft being delivered in 2019 and 2020.

In the second half of 2017, the Company signed operating lease agreements for five aircraft of the Embraer E190-E2 family to replace some of the current lease agreements due to their expiration and expansion. One Embraer E190-E2 was delivered in November 2018 and the remaining four are expected in 2019.

Stand-by Letters of Credit as at 31 December 2018 were USD 46,064 thousand (2017: USD 42,371 thousand), of which USD 28,564 thousand (2017: 32,871 thousand) were secured by deposits (Note 12) and USD 17,500 thousand (2017: 9,500 thousand) were unsecured. These Letters of Credit were obtained as security for Lessors to cover any unfulfilled maintenance liabilities on the return of four Embraer E190 and seven Airbus aircraft to Lessors.

Non-cancellable operating lease commitments for engines and buildings are payable as follows:

	31 December 2018	31 December 2017
Within one year	2,898	1,730
After one year but not more than five years	5,135	2,440
	8,033	4,170

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 (for example Lloyd's) with a high rating of financial stability through the services of an 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 purchases 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 labour (service) duties;
- › Commercial general liability insurance (Public Liability);
- › Civil liability insurance to customs authorities;
- › Pilot's loss of license insurance;
- › Insurance of goods at warehouse.

Taxation contingencies

The taxation system in Kazakhstan is relatively new and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are often unclear, contradictory and subject to varying interpretation by different tax authorities, including opinions with respect to IFRS treatment of revenues, expenses and other items in the financial statements. Taxes are subject to review and investigation by various levels of authorities, which have the authority to impose severe fines and interest charges. A tax year generally remains open for review by the tax authorities for 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.

The functional currency of the Company is US Dollar, as it best reflects the economic substance of the underlying events and circumstances of the Company. The Tax Code of the Republic of Kazakhstan does not contain provisions which would regulate questions arising from the application of functional currency in accounting books different from tenge. However, the Tax Code requires all taxpayers in Kazakhstan to maintain their tax records and to settle tax liabilities in tenge. Therefore the Company also maintains records and conducts calculations in tenge for the purpose of taxation and settlement of tax liabilities and makes certain estimates in this respect. Management believes that such approach is the most appropriate under the current legislation.

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.

The significant devaluation of the Kazakhstani tenge in 2015 and reductions in the global price of oil have increased the level of uncertainty in the business environment.

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27. 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.

Management remuneration

Key management that have authority and responsibility regarding management, control and planning of the Company's activity received the following remuneration during the year, which is included in employee costs (Note 6):

	2018	2017
Salary and bonuses	4,058	3,637
Social tax	402	417
	4,460	4,054

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.

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:

Services received	2018		2017	
	Transaction value	Outstanding balance	Transaction value	Outstanding balance
State-owned companies	28,239	(2,467)	31,445	(431)
Shareholders and their subsidiaries	5,153	(178)	4,762	84
	33,392	(2,645)	36,207	(347)

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

Services provided by the Company	2018		2017	
	Transaction value	Outstanding balance	Transaction value	Outstanding balance
Shareholders and their subsidiaries	1,490	218	1,637	483
	1,490	218	1,637	483

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.

28. Approval of the financial statements

The financial statements were approved by management of the Company and authorised for issue on 28 February 2019.