JOINT STOCK COMPANY AIR ASTANA

Financial Statements
For the year ended 31 December 2012

JOINT STOCK COMPANY AIR ASTANA

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

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

In preparing the financial statements, management is responsible for:

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

Management is also responsible for:

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

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

On behalf of management of the Company:

Peter Foster
President

13 March 2013
Almaty, Republic of Kazakhstan

Alima Zamanbekova
Chief Accountant

13 March 2013
Almaty, Republic of Kazakhstan

INDEPENDENT AUDITORS' REPORT

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

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

Management's responsibility for the financial statements

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

Auditors' responsibility

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

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

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

Opinion

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

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

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

Deloitte, LLP

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

Nurlan Bekenov
General Director
Deloitte, LLP

13 March 2013
Almaty, Republic of Kazakhstan

JOINT STOCK COMPANY AIR ASTANA

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2012

(in thousands of USD)

	Notes	2012	2011
Revenue			
Passenger revenue	5	833,508	736,337
Cargo and mail	5	26,313	21,694
Other	5	15,254	14,852
Total revenue		875,075	772,883
Operating expenses			
Fuel		(246,820)	(178,569)
Handling, landing fees and route charges	6	(99,581)	(84,848)
Employee costs	6	(92,207)	(85,500)
Aircraft operating lease costs	6	(79,732)	(72,987)
Passenger service	6	(77,622)	(68,578)
Engineering and maintenance	6	(74,079)	(84,695)
Selling costs	6	(50,428)	(54,351)
Aircraft crew costs	6	(39,371)	(41,340)
Depreciation and amortisation	11	(7,285)	(5,924)
Taxes		(7,200)	(6,633)
Insurance	6	(5,681)	(5,316)
Property lease cost		(5,045)	(4,972)
Information technology		(3,175)	(2,670)
Consultancy, legal and professional services		(2,195)	(2,651)
Other		(8,492)	(4,567)
Total operating expenses		(798,913)	(703,601)
Operating profit		76,162	69,282
Finance income	7	3,949	10,392
Finance expenses	7	(2,320)	(1,816)
Foreign exchange gain/(loss), net		1,430	(414)
Profit before tax		79,221	77,444
Income tax expense	8	(18,145)	(16,184)
Net profit for the year		61,076	61,260
Other comprehensive loss:			
Foreign currency translation loss		(4,118)	(1,783)
Income tax		-	(66)
Other comprehensive loss for the year		(4,118)	(1,849)
Total comprehensive income for the year		56,958	59,411
Basic and diluted earnings per share (in USD)	20	3,593	3,604

On behalf of the Company's management:

АО «ЭЙР АСТАНА»

Peter Foster
President

13 March 2013
Almaty, Republic of Kazakhstan

Alima Zamanbekova
Chief Accountant

13 March 2013
Almaty, Republic of Kazakhstan

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

JOINT STOCK COMPANY AIR ASTANA

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

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

On behalf of the Company's management:

АО ЭЙР АСТАНА

Peter Foster
President

Alima Zamanbekova
Chief Accountant

13 March 2013
Almaty, Republic of Kazakhstan

13 March 2013
Almaty, Republic of Kazakhstan

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JOINT STOCK COMPANY AIR ASTANA

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2012

(in thousands of USD)

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

On behalf of the Company's management:

АО «ЭЙР АСТАНА»

Peter Foster
President

13 March 2013
Almaty, Republic of Kazakhstan

Alima Zamanbekova
Chief Accountant

13 March 2013
Almaty, Republic of Kazakhstan

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JOINT STOCK COMPANY AIR ASTANA

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

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

JOINT STOCK COMPANY AIR ASTANA

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

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

On behalf of the Company's management:

АО «ЭЙР АСТАНА»

Peter Foster
President

Alima Zamanbekova
Chief Accountant

13 March 2013
Almaty, Republic of Kazakhstan

13 March 2013
Almaty, Republic of Kazakhstan

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1. NATURE OF ACTIVITIES

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

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

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

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

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

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

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

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

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

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

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

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

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

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

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

New and revised IFRSs in issue but not yet effective

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

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

Basis of preparation

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

The principal accounting policies are set out below.

Functional and presentation currency

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

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

Revenue

Passenger revenue

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

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

Cargo revenue

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

Government grants

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

Customer loyalty program

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

Travel agents' commissions

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

Leasing

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

The Company as lessee

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

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

Lease guarantee deposits

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

Foreign currencies

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

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

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

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

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

Finance income and expenses

Finance income comprises interest income on funds invested.

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

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

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

Short-term employee benefits

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

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

Taxation

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

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

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

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

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

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

Property, plant and equipment

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

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

Flight Equipment

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

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

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

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

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

Other property, plant and equipment

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

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

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

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

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

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

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

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

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

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

Intangible assets

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

Impairment of tangible and intangible assets

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

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

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

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

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

Inventories

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

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

Provisions

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

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

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

Provision for aircraft maintenance under operating lease

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

Financial instruments

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

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

Financial assets

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

Effective interest method

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

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

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

Receivables

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

Impairment of financial assets

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

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

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

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

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

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

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

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

Derecognition of financial assets

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

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

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

Financial liabilities and equity instruments issued by the Company

Classification as debt or equity

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

Financial liabilities

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

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

A financial liability is classified as held for trading if:

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

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

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

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

Other financial liabilities

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

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

Derivative financial instruments

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

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

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

Dividends

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

Derecognition of financial liabilities

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

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

Critical judgments in applying accounting policies and estimates

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

Provisions

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

Recoverability of variable lease payments related to future maintenance

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

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

Compliance with tax legislation

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

Useful lives of property, plant and equipment

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

Fair value of financial instruments

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

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

Allowances

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

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

Contingent liabilities and contingent assets

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

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

5. REVENUE

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

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

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

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

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

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

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

6. OPERATING EXPENSES

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

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

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

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

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

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

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

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

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

7. FINANCE INCOME AND EXPENSES

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

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

8. INCOME TAX EXPENSE

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

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

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

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

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

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

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

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

9. PROPERTY, PLANT AND EQUIPMENT

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

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

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

Rotable spare parts include aircraft modifications.

10. INTANGIBLE ASSETS

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

11. DEPRECIATION AND AMORTISATION

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

12. GUARANTEE DEPOSITS

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

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

Guarantee deposits are receivable as follows:

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

13. INVENTORIES

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

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

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

14. PREPAYMENTS

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

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

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

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

15. TRADE AND OTHER RECEIVABLES

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

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

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

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

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

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

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

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

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

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

The terms of the options are described in Note 26.

17. OTHER TAXES PREPAID

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

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

18. BANK DEPOSITS

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

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

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

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

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

19. CASH AND BANK BALANCES

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

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

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

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

20. EQUITY

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

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

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

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

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

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

21. DEFERRED REVENUE

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

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

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

22. PROVISION FOR AIRCRAFT MAINTENANCE

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

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

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

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

The planned utilisation of these provisions is as follows:

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

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

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

23. TRADE AND OTHER PAYABLES

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

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

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

24. LOANS

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

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

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

25. OBLIGATIONS UNDER FINANCE LEASE

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

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

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

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

26. FINANCIAL INSTRUMENTS

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

Capital management

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

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

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

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

Gearing ratio

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

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

Credit risk

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

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

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

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

Interest rate risk

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

Foreign currency risk

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

Commodity price risk

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

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

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

Foreign currency sensitivity analysis

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

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

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

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

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

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

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

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

Liquidity risk management

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

Liquidity and interest risk tables

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

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

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

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

Fair values

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

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

Cash and bank balances

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

Trade and other receivables and payables

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

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

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

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

Financial instruments at fair value through profit or loss

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

Trade and other receivables and payables

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

Loans

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

Finance lease liabilities

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

Provisions

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

27. COMMITMENTS AND CONTINGENCIES

Capital commitments

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

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

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

Operating lease commitments

Aircraft

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

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

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

Non-cancellable operating lease commitments are payable as follows:

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

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

Engine

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

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

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

Non-cancellable operating lease commitments are payable as follows:

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

Insurance

Aviation insurance

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

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

Non – Aviation Insurance

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

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

Taxation contingencies

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

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

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

Operating Environment

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

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

28. RELATED PARTY TRANSACTIONS

Control relationships

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

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

Management remuneration

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

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

Transactions with related parties

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

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

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

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

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

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

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

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

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

29. SUBSEQUENT EVENTS

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

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

30. APPROVAL OF THE FINANCIAL STATEMENTS

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