JOINT STOCK COMPANY
AIR ASTANA

Consolidated Financial Statements
for the year ended 31 December 2019

Management Statement

In light of COVID-19 outbreak, on 16 March 2020 the government of the Republic of Kazakhstan announced State of Emergency and closed borders for international travel and on 19 March 2020 imposed quarantine in two main cities: Nur-Sultan and Almaty. As a result, the Group has suspended all domestic flights from 22 March 2020 and serves only a limited number of international flights until the end of quarantine. Please refer to https://airastana.com/kaz/en-us/Information/Important-Notices/Coronavirus-update for updated information regarding the quarantine period. Management is in the process of assessment of the potential impact of this event of the Group's 2020 operations and concluded that despite the suspension of flights during the quarantine period, which may be expended further, this event will not result in a material uncertainty over ability of the Group to continue its operations on a going concern basis. However, the actual effects of this event and its effect on the Kazakhstan economy, including any resulting impact on the Group's financial results in 2020, are dependent upon future development of this event. Management is taking measures necessary to continue the Group's operations including but not limiting to updating the cash planning for the year, agreeing a grace period for payment of major fixed type costs and ensuring additional funding as required.

We bring your attention to the fact that the consolidated financial statements for the year ended 31 December 2019 were prepared in accordance with IFRS using the best available information and issued on 28 February 2020. Readers of the financial statements of the Group are advised to take into account the recent developments caused by the Coronavirus outbreak.

Peter Foster	**Ibrahim Canliel**	**Azamat Ospanov**
President	**Chief Financial Officer**	**Vice-president Finance Accounts, Chief Accountant**
Almaty, Republic of Kazakhstan	Almaty, Republic of Kazakhstan	Almaty, Republic of Kazakhstan

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Statement of management's responsibilities for the preparation and approval of the consolidated financial statements for the year ended 31 December 2019

Management is responsible for the preparation of the consolidated financial statements that present fairly the consolidated financial position of JSC Air Astana and its subsidiary (the "Group") as at 31 December 2019, the results of its consolidated operations, cash flows and changes in equity for the year then ended in compliance with International Financial Reporting Standards ("IFRS").

In preparing the consolidated 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 Group's financial position and financial performance; and
- making an assessment of the Group'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 Group;
- maintaining adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the consolidated financial position of the Group, and which enable them to ensure that the consolidated financial statements of the Group comply with IFRS;
- maintaining statutory accounting records in compliance with the legislation of Kazakhstan and IFRS;
- taking such steps as are reasonably available to them to safeguard the assets of the Group; and
- preventing and detecting fraud and other irregularities.

The financial statements for the year ended 31 December 2019 were authorised for issue on 28 February 2020 by management of the Group.

On behalf of management of the Group:

Peter Foster	**Ibrahim Canliel**	**Azamat Ospanov**
President	**Chief Financial Officer**	**Vice-president Finance Accounts, Chief Accountant**
28 February 2020 Almaty, Republic of Kazakhstan	28 February 2020 Almaty, Republic of Kazakhstan	28 February 2020 Almaty, Republic of Kazakhstan

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Independent Auditors' Report

To the Shareholders and Board of Directors of JSC Air Astana

Opinion

We have audited the consolidated financial statements of JSC Air Astana (the "Company") and its subsidiary (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2019, the consolidated statements of profit or loss, other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2019, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

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

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

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

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

— Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

— Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

— Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

— Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.

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

— Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

Sergey Dementyev
Certified Auditor
of the Republic of Kazakhstan,
Auditor's Qualification Certificate
No. MФ-0000086 of 27 August 2012

KPMG Audit LLC

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

Sergey Dementyev
General Director of KPMG Audit LLC
acting on the basis of the Charter

28 February 2020

'000 USD	Notes	2019	2018*
Revenue and other income			
Passenger revenue	5	824,952	810,353
Cargo and mail revenue	5	21,145	20,703
Other revenue	5	47,952	9,805
Gain from sale and leaseback transaction	5	4,680	-
Total revenue		**898,729**	**840,861**
Operating expenses			
Fuel and oil costs		(207,599)	(231,316)
Handling, landing fees and route charges	6	(109,402)	(112,251)
Employee costs	6	(103,139)	(80,014)
Engineering and maintenance	6	(94,407)	(86,278)
Passenger service	6	(91,527)	(91,016)
Depreciation and amortisation	11	(81,355)	(25,634)
Selling costs	6	(42,360)	(40,742)
Aircraft crew costs	6	(35,327)	(35,209)
Aircraft lease costs	6	(13,760)	(71,413)
Insurance		(9,104)	(4,201)
Consultancy, legal and professional services		(4,018)	(3,172)
IT and communication costs		(3,893)	(3,646)
Property lease cost		(2,485)	(5,596)
Taxes		(1,718)	(2,519)
Impairment loss on trade receivables		(738)	(563)
Other operating costs		(19,198)	(10,785)
Total operating expenses		**(820,030)**	**(804,355)**
Operating profit		**78,699**	**36,506**
Finance income	7	2,221	2,934
Finance costs	7	(26,376)	(10,547)
Foreign exchange loss, net		(12,749)	(16,885)
Profit before tax		**41,795**	**12,008**
Income tax expense	8	(11,763)	(6,656)
Profit for the year		**30,032**	**5,352**
Basic and diluted earnings per share (in USD)	18	**1,767**	**315**

*The Group has initially applied IFRS 16 at 1 January 2019, using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative effect of initially applying IFRS 16 is recognised in retained earnings at the date of initial application. Also the Group has recalculated the adjustment on IFRS 16 adoption as compared to the condensed interim financial statements for the six-month period ended 30 June 2019. See Note 2.

On behalf of the Group's management:

АО «ЭЙР АСТАНА»

Peter Foster	**Ibrahim Canliel**	**Azamat Ospanov**
President	**Chief Financial Officer**	**Vice-president Finance Accounts, Chief Accountant**
28 February 2020	28 February 2020	28 February 2020
Almaty, Republic of Kazakhstan	Almaty, Republic of Kazakhstan	Almaty, Republic of Kazakhstan

The consolidated statement of profit or loss and other comprehensive income is to be read in conjunction with the notes to, and forming part of, the financial consolidated financial statements set out on pages 11 to 53.

’000 USD	Notes	2019	2018*
Profit for the period		**30,032**	**5,352**
Other comprehensive income, net of tax, to be reclassified into profit or loss in subsequent periods:			
Realised net gain from cash flow hedging instruments	23	11,156	10,869
Corporate income tax related to gain from hedging instruments	23	(2,231)	(2,174)
Other comprehensive income		**8,925**	**8,695**
Total comprehensive income for the year		**38,957**	**14,047**

*The Group has initially applied IFRS 16 at 1 January 2019, using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative effect of initially applying IFRS 16 is recognised in retained earnings at the date of initial application. Also the Group has recalculated the adjustment on IFRS 16 adoption as compared to the condensed interim financial statements for the six-month period ended 30 June 2019. See Note 2.

The consolidated statement of other comprehensive income is to be read in conjunction with the notes to, and forming part of, the financial consolidated financial statements set out on pages 11 to 55.

'000 USD	Notes	31 December 2019	31 December 2018*
ASSETS			
Non-current assets			
Property, plant and equipment	9	617,193	255,007
Intangible assets	10	1,695	2,164
Prepayments	14	12,069	14,622
Guarantee deposits	12	16,732	19,170
Trade and other receivables	15	3,240	4,059
		650,929	**295,022**
Current assets			
Inventories	13	50,001	44,965
Prepayments	14	31,022	25,166
Income tax prepaid		895	1,336
Trade and other receivables	15	33,096	26,633
Other taxes prepaid	16	33,346	22,665
Guarantee deposits	12	16,629	31,839
Cash and bank balances	17	176,442	132,826
Other financial assets		234	118
		341,665	**285,548**
Total assets		**992,594**	**580,570**
EQUITY AND LIABILITIES			
Equity			
Share capital		17,000	17,000
Functional currency translation reserve		(9,324)	(9,324)
Reserve on hedging instruments, net of tax		(53,845)	(62,770)
Retained earnings		149,350	143,746
Total equity	18	**103,181**	**88,652**
Non-current liabilities			
Loans	22	6,430	7,751
Lease liabilities	23	495,286	241,033
Deferred tax liabilities	8	12,763	16,455
Provision for aircraft maintenance	20	53,849	38,623
Employee benefits		1,219	-
		569,547	**303,862**
Current liabilities			
Loans	22	10,395	1,405
Lease liabilities	23	111,216	40,494
Deferred revenue	19	67,918	52,731
Provision for aircraft maintenance	20	37,413	48,613
Trade and other payables	21	92,924	44,813
		319,866	**188,056**
Total liabilities		**889,413**	**491,918**
Total equity and liabilities		**992,594**	**580,570**

*The Group has initially applied IFRS 16 at 1 January 2019, using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative effect of initially applying IFRS 16 is recognised in retained earnings at the date of initial application. Also the Group has recalculated the adjustment on IFRS 16 adoption as compared to the condensed interim financial statements for the six-month period ended 30 June 2019. See Note 2.

The consolidated statement of financial position is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 11 to 55.

’000 USD	Share capital	Functional currency translation reserve	Reserve on hedging instruments	Retained earnings	Total equity
At 1 January 2018 (as previously reported)	17,000	(9,324)	(71,465)	150,552	86,763
Adjustments on initial application of IFRS 9 and IFRS 15	-	-	-	(482)	(482)
Balance at 1 January 2018	**17,000**	**(9,324)**	**(71,465)**	**150,070**	**86,281**
Profit for the year	-	-	-	5,352	5,352
Other comprehensive income: Realised loss on cash flow hedging instruments, net of tax	-	-	8,695	-	8,695
Total comprehensive loss for the period	-	-	**8,695**	**5,352**	**14,047**
Dividends declared	-	-	-	(11,676)	(11,676)
At 31 December 2018	**17,000**	**(9,324)**	**(62,770)**	**143,746**	**88,652**
At 1 January 2019 (as previously reported)	17,000	(9,324)	(62,770)	143,746	88,652
Adjustments on initial application of IFRS 16	-	-	-	(24,428)	(24,428)
Balance at 1 January 2019 (adjusted)*	**17,000**	**(9,324)**	**(62,770)**	**119,318**	**64,224**
Profit for the year	-	-	-	30,032	30,032
Other comprehensive income: Realised loss on cash flow hedging instruments, net of tax	-	-	8,925	-	8,925
Total comprehensive income for the period	-	-	**8,925**	**30,032**	**38,957**
At 31 December 2019	**17,000**	**(9,324)**	**(53,845)**	**143,950**	**103,181**

*The Company has initially applied IFRS 16 at 1 January 2019, using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative effect of initially applying IFRS 16 is recognised in retained earnings at the date of initial application. Also the Group has recalculated the adjustment on IFRS 16 adoption as compared to the condensed interim financial statements for the six-month period ended 30 June 2019. See Note 2.

The consolidated statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 11 to 55.

’000 USD	**Notes**	**2019**	**2018***
OPERATING ACTIVITIES:			
Profit before tax		**41,795**	**12,008**
Adjustments for:			
Depreciation and amortisation of property, plant and equipment and intangible assets	11	81,355	25,634
Gain on disposal of property, plant and equipment	5	(5,901)	(782)
Reversal of impairment allowance for prepayments and trade and other receivables		1,226	326
Write-down of obsolete and slow-moving inventories	13	427	1,138
Accrual for employee unused vacation		528	(1,131)
Accrual of provision for aircraft maintenance	6	28,467	22,745
Accrual of loyalty provision		1,223	2,314
Foreign exchange loss, net		12,749	16,885
Finance income, excluding impairment	7	(2,670)	(2,578)
Finance costs, excluding impairment	7	26,376	10,427
Gain on insurance case	5	(24,406)	
Operating cash flow before movements in working capital		**161,169**	**86,986**
Change in trade and other receivables		(4,762)	(2,181)
Change in prepaid expenses		(16,435)	(1,458)
Change in inventories		(5,069)	(7,407)
Change in trade and other payables and other current liabilities		16,163	(5,993)
Change in deferred revenue		13,964	1,798
Change in other financial assets		(1,639)	(451)
Cash generated from operations		**163,391**	**71,294**
Income tax paid		(12,120)	(5,137)
Interest received		2,651	2,487
Net cash generated from operating activities		**153,922**	**68,644**
INVESTING ACTIVITIES:			
Purchase of property, plant and equipment		(35,525)	(25,020)
Proceed from sale and leaseback transaction		8,694	-
Proceeds from insurance case	5	17,698	-
Proceeds from disposal of property, plant and equipment		3,276	3,246
Purchase of intangible assets		(429)	(163)
Bank and Guarantee deposits placed		(12,136)	(53,096)
Bank and Guarantee deposits withdrawn		29,729	56,038
Net cash generated from (used in) investing activities		**11,307**	**(18,996)**

The consolidated statement of cash flows is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 11 to 55.

’000 USD	**Notes**	**2019**	**2018***
FINANCING ACTIVITIES:			
Repayment of lease liabilities	23	(103,931)	(39,003)
Interest paid	23	(24,904)	(10,526)
Repayment of borrowings	23	(1,349)	(1,486)
Proceeds from borrowings	23	9,000	-
Dividends paid		-	(10,643)
Net cash used in financing activities		**(121,184)**	**(61,659)**
NET INCREASE/(DECREASE) IN CASH AND BANK BALANCES		**44,045**	**(12,011)**
Effect of exchange rate changes on cash and bank balances held in foreign currencies		(426)	(3,346)
Effects of movements in ECL on cash and bank balances		(3)	1
CASH AND BANK BALANCES, at the beginning of the year	17	132,826	148,181
Foreign currency difference due to translation to presentation currency		-	-
CASH AND BANK BALANCES, at the end of the year	17	**176,442**	**132,826**

*The Group has initially applied IFRS 16 at 1 January 2019, using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative effect of initially applying IFRS 16 is recognised in retained earnings at the date of initial application. Also the Group has recalculated the adjustment on IFRS 16 adoption as compared to the condensed interim financial statements for the six-month period ended 30 June 2019. See Note 2.

1. Nature of activities

JSC Air Astana is a joint stock company (the "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 Parent Company was re-registered as a joint stock Company on 27 May 2005.

The Company has a subsidiary JSC «Aviation Company «Air Kazakhstan» (hereinafter – the "Subsidiary") which was acquired in November 2019. Together they are referred as the "Group".

In November 2019 the Company obtained control of the Subsidiary by acquiring one hundred percent of the shares, which are 101,665 shares, and voting interests for KZT 2. At the time of the acquisition the Subsidiary had negative net assets of KZT 7 thousand. Taking control of the Subsidiary will enable the Company to establish a new low-cost airline operating under the FlyArystan brand. The Subsidiary did not operate during 2019.

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

The Group operated its maiden flight on 15 May 2002, a Boeing-737 service from Almaty to Kazakhstan's national capital, Nur-Sultan (Astana at the time). As at 31 December 2019, the Group operated 35 aircraft that are acquired under lease.

The Parent Company re-registered its office in 2010 from Nur-Sultan (Astana at the time), Kazakhstan to Zakarpatskaya Street 4A, Almaty, Kazakhstan as the Parent Company's main airport of operations is Almaty International Airport.

The shareholders of the Group 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 Group, respectively.

2. Application of new and revised international financial reporting standards

IFRS 16 Leases

The Group has initially adopted IFRS 16 *Leases* from 1 January 2019. IFRS 16 introduced a single, on-balance sheet accounting model for lessees. As a result, the Group, as a lessee, has recognised right-of-use assets representing its rights to use the underlying assets and lease liabilities representing its obligation to make lease payments. Lessor accounting remains similar to previous accounting policies.

The Group has applied IFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognised in retained earnings at 1 January 2019. Accordingly, the comparative information presented for 2018 has not been restated – i.e. it is presented, as previously reported, under IAS 17 and related interpretations. The Group recalculated the adjustment on IFRS 16 adoption as compared to condensed interim financial statements for the six-month period ended 30 June 2019. The details of the changes in accounting policies are disclosed below.

(a) Definition of a lease

Previously, the Group determined at contract inception whether an arrangement was or contained a lease under IFRIC 4 *Determining Whether an Arrangement contains a Lease*. The Group now assesses whether a contract is or contains a lease based on the new definition of a lease. Under IFRS 16, a contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration.

On transition to IFRS 16, the Group elected to apply the practical expedient to grandfather the assessment of which transactions are leases. It applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed. Therefore, the definition of a lease under IFRS 16 has been applied only to contracts entered into or changed on or after 1 January 2019.

(b) As a lessee

The Group leases many assets, including aircraft, engines, office premises, and buildings.

As a lessee, the Group previously classified leases as operating or finance leases based on its assessment of whether the lease transferred substantially all of the risks and rewards of ownership. Under IFRS 16, the Group recognises right-of-use assets and lease liabilities for most leases – i.e. these leases are on-balance sheet.

Also the Group has elected not to separate non-lease components and will instead account for the lease and non-lease components as a single lease component.

The Group presents right-of-use assets in 'property, plant and equipment', the same line item as it presents underlying assets of the same nature that it owns. The carrying amounts of right-of-use assets are as below.

	Property, plant and equipment			
'000 USD	**Building**	**Aircraft**	**Rotable spare parts**	**Total**
Balance at 1 January 2019	9,566	159,544	591	169,701
Balance at 31 December 2019	7,295	333,962	15,741	356,998

(i) Transition

Leases classified as operating leases under IAS 17

Previously, the Group classified property leases as operating leases under IAS 17. These include aircraft, engines, and other facilities. The leases typically run for a period of 3-10 years.

At transition, for leases classified as operating leases under IAS 17, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Group's incremental borrowing rate as at 1 January 2019. Right-of-use assets are measured at either:

- their carrying amount as if IFRS 16 had been applied since the commencement date, discounted using the lessee's incremental borrowing rate at the date of initial application – the Group applied this approach to its aircraft and engine leases; or
- an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments – the Group applied this approach to other facilities.

The Group has tested its right-of-use assets for impairment on the date of transition and has concluded that there is no indication that the right-of-use assets are impaired.

The Group used the following practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17:

- applied exemption to leases for which the underlying asset is of low value;
- applied a single discount rate to a portfolio of leases with reasonably similar characteristics (such as leases with a similar remaining lease term for a similar class of underlying asset in a similar, economic environment);

- excluded initial direct costs from the measurement of the right-of-use asset at the date of initial application;
- applied exemption to leases for which the lease term ends within 12 months of the date of initial application;
- used hindsight, such as in determining the lease term if the contract contains options to extend or terminate the lease.

(ii) Leases classified as finance leases under IAS 17

The Group leases a number of aircraft under finance lease term as classified under IAS 17. For these leases, the carrying amount of the right-of-use asset and the lease liability at 1 January 2019 were determined at the carrying amount of the lease asset and lease liability under IAS 17 immediately before that date.

(c) Impacts on financial statements

(i) Impacts on transition

On transition to IFRS 16, the Group recognised additional right-of-use assets and additional lease liabilities, recognising the difference in retained earnings. The impact on transition is summarised below.

'000 USD	**1 January 2019***
Right-of-use assets presented in property, plant and equipment	312,170
Accumulated depreciation	(142,469)
Deferred tax asset	6,105
Lease liabilities	(199,327)
Provision for aircraft maintenance	(907)
Retained earnings	24,428

*During the first half 2019 the Company applied a narrow interpretation of penalty, where the Company considered only contractual termination payments in determining the lease of term of the cancellable or renewable leases. After the publication of IFRIC in November 2019, the Company revised the interpretation of penalty and recognised additional right-of-use assets and lease liabilities in the amount of USD 4,481 thousand.

When measuring lease liabilities for leases that were classified as operating leases, the Group discounted lease payments using its incremental borrowing rate at 1 January 2019. The weighted-average rate applied is 5-12%.

Presented below is the reconciliation of the lease commitments as at 31 December 2018 with the accrual of lease liabilities presented as at 1 January 2019:

'000 USD	**1 January 2019**
Operating lease commitment at 31 December 2018 as disclosed in the Company's financial statements	238,472
Recognition exemption for leases with less than 12 months of lease term at transition	(4,560)
Effect on discounting	(34,585)
Lease liabilities recognised at 1 January 2019	**199,327**

(ii) Impacts for the period

As a result of initially applying IFRS 16, in relation to the leases that were previously classified as operating leases, the Group recognised USD 169,701 thousand of right-of-use assets and USD 199,327 thousand of lease liabilities as at 31 December 2019.

Also in relation to those leases under IFRS 16, the Group has recognised depreciation and interest costs, instead of operating lease expense. For the year ended 31 December 2019, the Group recognised USD 54,471 thousand of depreciation charges and USD 15,899 thousand of interest costs from these leases as compared with USD 81,151 thousand of lease payments which would have been recognised as lease expenses under IAS 17.

For the details of accounting policies under IFRS 16 and IAS 17, see Note 3.

Amendments to IAS 23 Borrowing Costs

The Group has adopted amendments to IAS 23 *Borrowing Costs* issued by the International Accounting Standards Board as part of Annual Improvements to IFRS Standards 2015–2017 Cycle from 1 January 2019 and apply them to borrowing costs incurred on or after that date. The amendments clarify that the general borrowings pool used to calculate eligible borrowing costs excludes only borrowings that specifically finance qualifying assets that are still under development or construction. Therefore, the Group treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete. Borrowings that were intended to specifically finance qualifying assets which are now ready for their intended use or sale – or any non-qualifying assets – the Group includes in its general pool. The amendments to IAS 23 *Borrowing Costs* do not have a material effect on the Group's financial statements.

A number of other new standards and amendments to the existing standards are effective from 1 January 2019 but they do not have a material effect on the Group's financial statements.

New standards and interpretations not yet adopted

A number of new standards are effective for annual periods beginning after 1 January 2019 and earlier application is permitted; however, the Group has not early adopted the new or amended standards in preparing these consolidated financial statements.

The following amended standards and interpretations are not expected to have a significant impact on the Group's consolidated financial statements:

- *Amendments to References to Conceptual Framework in IFRS Standards.*
- *Definition of a Business (Amendments to IFRS 3).*
- *Definition of Material (Amendments to IAS 1 and IAS 8).*
- *IFRS 17 Insurance Contracts.*

3. Significant accounting policies

Statement of compliance

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

This is the first set of the Group's annual consolidated financial statements in which IFRS 16 *Leases* has been applied. The related changes to significant accounting policies are described in Note 2.

Basis of consolidation

(i) Business combinations

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group.

(ii) Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group. Losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance.

Basis of preparation

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

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

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

Functional and presentation currency

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

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

As requested by shareholders, the Group prepares two sets of financial statements with presentation currency Kazakhstani tenge and US Dollar ("USD") as shareholders believe that both currencies are useful for the users of the Group's financial statements. These consolidated financial statements have been presented in USD for the year ended 31 December 2019. All financial information presented in USD has been rounded to the nearest thousand, so minor discrepancies may arise from addition of these amounts.

Revenue

Passenger revenue

The Group satisfies the performance obligations related to ticket sold and reports the sales as revenue when the transportation service performance obligation has been provided. The value of tickets sold and still valid but not used by the reporting date is reported as deferred (unearned) transportation revenue. This item is reduced either when the Group satisfies the performance obligation by completing the transportation service or when the passenger requests a refund. Based on historical data of previous years, the Group recognizes passenger revenue in proportion to the pattern of rights exercised by the customer in respect of a percentage of tickets sold that are expected not to be used or refunded.

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

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

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

Cargo revenue

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

Other income

Compensation for insurance recoveries, including the loss or impairment of property, plant and equipment, is recognised in profit or loss when receivable.

Customer loyalty program

Sales of tickets that result in award credits for customers, under the Company's Nomad Program, are accounted for as two separate performance obligations embedded into one contract, the ticket. The transaction price is allocated between the transportation service and the award provided based on their stand-alone selling prices. The transaction price of credit award is not recognised as revenue at the time of the initial sale transaction but is deferred and recognised as revenue when the award credits are redeemed and the Company's performance obligations have been fulfilled.

Travel agents' commissions

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

Reservation commissions

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

Segment reporting

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

Revenue is allocated to geographic segments based on flight destination.

Leasing

The Group has applied IFRS 16 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under IAS 17 and IFRIC 4. The details of accounting policies under IAS 17 and IFRIC 4 are disclosed separately.

Policy applicable from 1 January 2019

At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group uses the definition of a lease in IFRS 16.

This policy is applied to contracts entered into, on or after 1 January 2019.

(i) As a lessee

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Group by the end of the lease term or the cost of the right-of-use asset reflects that the Group will exercise a purchase option. In that case the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate.

The Group determines its incremental borrowing rate by obtaining interest rates from various external financing sources and makes certain adjustments to reflect the terms of the lease and type of the asset leased.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Group is reasonably certain to exercise, lease payments in an optional renewal period if the Group is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Group is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, if the Group changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Group presents right-of-use assets in 'property, plant and equipment' and lease liabilities separately in the statement of financial position.

The Group has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets and short-term leases, including IT equipment. The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

(ii) Sale and leaseback transactions

If the Group transfers an asset to another entity and leases that asset back from this entity, the Group accounts for the transfer contract and the lease according to IFRS 16 *Leases*.

The Group applies the requirements for determining when a performance obligation is satisfied in IFRS 15 to determine whether the transfer of an asset is accounted for as a sale of that asset.

If the transfer of an asset by the Group satisfies the requirements of IFRS 15 to be accounted for as a sale of the asset the Group measures the right-of-use asset arising from the leaseback at the proportion of the previous carrying amount of the asset that relates to the right of use retained by the Group. Accordingly, the Group recognises only the amount of any gain or loss that relates to the rights transferred to the buyer-lessor. If the fair value of the consideration for the sale of an asset does not equal the fair value of the asset, or if the payments for the lease are not at market rates, the Group makes the following adjustments to measure the sale proceeds at fair value:

(a) any below-market terms shall be accounted for as a prepayment of lease payments; and

(b) any above-market terms shall be accounted for as additional financing provided by the buyer- lessor to the seller-lessee.

Policy applicable before 1 January 2019

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 Group as lessee

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

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

Guarantee deposits

Guarantee deposits represent amounts paid to the lessors of aircraft, which are held as security deposits by the lessors in accordance with the provisions of lease agreements without transfer of title. These deposits are returned to the Group at the end of the lease period. Lease deposits relating to the lease agreements without transfer of title are presented as assets in the statement of financial position. These deposits are interest-free and are recorded at amortised cost using an average market yield of 2.25% per annum (2018: 2.25%). At initial recognition the Group recognises a discount and a deferred asset (additional lease payment) simultaneously. The discount is amortised over the lease term using the effective interest method, and the deferred asset is amortised by equal amounts over the deposit term.

Foreign currencies

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

The following table summarises US Dollar exchange rates at 31 December 2019 and 31 December 2018 and for the years then ended:

	Average rate		Reporting date spot-rate	
’000 USD	**2019**	**2018**	**31 December 2019**	**31 December 2018**
1,000 Tenge (KZT)	2.61	2.90	2.61	2.60
Euro (EUR)	1.12	1.18	1.11	1.14
British Pound (GBP)	1.28	1.33	1.31	1.27

The following table summarises KZT exchange rates at 31 December 2019 and 31 December 2018 and for the years then ended:

	Average rate		Reporting date spot-rate	
’000 USD	**2019**	**2018**	**31 December 2019**	**31 December 2018**
US Dollar (USD)	382.75	344.71	382.59	384.20
Euro (EUR)	428.51	406.66	426.85	439.37
British Pound (GBP)	488.46	459.49	499.99	488.13

Finance income and costs

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

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

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

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

Employee benefits

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

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

Taxation

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

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

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

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

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

Property, plant and equipment

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

The financial interest attributed to pre-delivery payments made on account of aircraft and other significant assets under construction is capitalised and added to the cost of the asset concerned.

Maintenance costs are recorded as expenses during the period when incurred, with the exception of programs that extend the useful life of the asset or increase its value, which are then capitalised (e.g. maintenance on airframes and engines).

Aircraft

The purchase price of aircraft is denominated in US dollar.

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

Repairs for major airframes and engines of all aircraft are treated as a separate asset component with the cost capitalised and depreciated over the period between the date of acquisition and the next major overhaul.

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

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

Rotable spare parts

Rotable spare parts are carried in property, plant and equipment.

The cost of replacing part of an item of property, plant and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group 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.

Other property, plant and equipment

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

Depreciation

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

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

• Aircraft (excluding separate asset components)	25 years
• Buildings and premises	14-50 years
• Rotable spare parts	3-10 years
• Office equipment and furniture	4-7 years
• Vehicles	7-9 years
• Other	5-10 years.

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

The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

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

Intangible assets

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

Impairment of tangible and intangible assets

At each reporting date, the Group 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 Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash- generating units for which a reasonable and consistent allocation basis can be identified.

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

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

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

Contingent liabilities and contingent assets

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

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

Inventories

Inventories are stated at the lower of cost and net realisable value. Costs of inventories are determined on a first-in-first-out basis, except for fuel and de-icing liquid, which are determined on the weighted average cost basis. Fuel and de-icing liquid are written off upon actual consumption. Net realizable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

Expenditures incurred in acquiring the inventories such as customs duties, freight and broker's services are accumulated into a separate inventory account and allocated depending on use of relevant inventory.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group 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 cashflows.

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 lease agreement without transfer of title

The Group is obligated to perform regular scheduled maintenance of aircraft under the terms of its lease agreements without transfer of title and regulatory requirements relating to air safety. The lease agreements also require the Group 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 Group's scheduled aircraft maintenance programs carried out through the lease periods are designed to reduce the incidence of final return costs. Major aircraft maintenance relates to airframes (referred to as the C- check, D-check and redelivery preparation program) and engines. The C-check is heavy maintenance with approved performance interval. It takes place the earliest to every 6,000 - 7,500 flight hours, 3,000 - 5,000 flight cycles and 18-24 months according to aircraft type.

The D-check (4C, 6YR, 12YR) is heavy maintenance connected with deep aircraft disassembly, structure inspection and anticorrosion prevention program. It takes place with an interval of not more than 72 months. Engine overhaul occurs after specified flight hours or cycles occur. Some of the lease agreements without transfer of title include a component of variable lease payments which is generally reimbursable to the Group by lessors as a contribution to engine maintenance costs after they are incurred.

The variable lease payments are recognised as an expense in profit or loss as incurred. In the case of other lease agreements without transfer of title variable lease payments are replaced (subject to certain conditions) by Letters of Credit as security for Lessors to cover any unfulfilled maintenance liabilities on the return of the aircraft, and amounts corresponding to the applicable variable lease amounts are included in provisions. For C-check maintenance, a provision is recorded on a progressive basis based upon the Group's estimate of future maintenance costs. For engine maintenance, a provision is recorded on a progressive basis based upon the Group's estimate of the excess of maintenance costs over the amount reimbursable by the lessors. The Group's aircraft maintenance liabilities are due in US Dollars.

Overhaul and restoration works (not depending on aircraft utilisation)

Costs resulting from restoration work required to be performed just before returning aircraft to the lessors, such as painting of the shell or aircraft overhaul are recognized as provisions as of the inception of the contract. The counterpart of these provisions is booked as a complement through the initial book value of the aircraft right-of-use assets. This complement to the right-of-use asset is depreciated over the lease term.

Financial Instruments

Recognition and initial measurement

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

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

Classification and subsequent measurement

Financial assets

On initial recognition, a financial asset is classified as measured at: amortised cost; fair value through other comprehensive income (FVOCI) – debt investment; FVOCI – equity investment; or FVTPL.

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

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

•it is held within a business model whose objective is to hold assets to collect contractual cash flows; and

•its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

•it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and

•its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

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

Financial assets – Business model assessment

The Group makes an assessment of the objective of the business model in which a financial asset is held at a portfolio level, because this best reflects the way the business is managed and information is provided to management. The information considered includes:the stated policies and objectives for the portfolio and the operation of those policies in practice. These include whether management's strategy focuses on earning contractual interest income, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of any related liabilities or expected cash outflows or realising cash flows through the sale of the assets;

- how the performance of the portfolio is evaluated and reported to the Group's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales of financial assets in prior periods, the reasons for such sales and expectations about future sales activity.

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

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

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

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

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

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

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

Financial assets – Subsequent measurement and gains and losses

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

Financial liabilities – Classification, subsequent measurement and gains and losses

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

Modification of financial assets and financial liabilities

Financial assets

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

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

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

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

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

Financial liabilities

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

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

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

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

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

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

Derecognition

Financial assets

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

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

Financial liabilities

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

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

Offsetting

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

Share Capital

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

Dividends

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

Impairment of financial assets

The Group recognises loss allowances for expected credit losses (ECLs) on:

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

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

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

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

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

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

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

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

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

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

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

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

Measurement of ECLs

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

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

Credit-impaired financial assets

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

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

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

Presentation of allowance for ECL in the statement of financial position

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

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

Write-off

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

4. Critical accounting judgments and key sources of estimation uncertainty

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

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

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

Provisions

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

Recoverability of variable lease payments related to future maintenance

Under the lease agreements without transfer of title for its aircraft, the Group makes variable lease payments to lessors which are based upon the flight hours of engines, limited life parts of engines, auxiliary power units and major airframe checks. Such amounts are applied to the cost of maintenance services and are reimbursable by lessors upon occurrence of the maintenance event (APU and engine overhaul, replacement of the limited life parts and major airframe checks). The reimbursement is made only for scheduled repairs and replacements in accordance with the Group's maintenance program agreed with the Kazakhstan Civil Aviation Committee ("CAC").

In case of a return of the aircraft after the scheduled maintenance event, but before the return condition specified in the lease agreement is triggered, the amounts of unapplied variable lease payments made to the lessors are not reimbursable and are retained by the lessors as a deposit transferrable to the next lessees of the aircraft. Management of the Group believes that as at 31 December 2019 contributions of variable lease payments of USD 57,595 thousand (2018: USD 89,391 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 Group. Unanticipated maintenance costs are expensed in profit or loss as incurred.

Compliance with tax legislation

Tax, currency and customs legislation of Kazakhstan are subject to frequent changes and varying interpretations. Management's interpretation of such legislation in applying it to business transactions of the Group 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 Group 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 Group.

Determination of the functional currency

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

Useful lives of property, plant and equipment

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

Allowances

The Group accrues allowances for impairment of accounts receivable. The Group calculated the probability of default of accounts receivable based on the lifetime approach. Changes in the economy and specific customer conditions may require adjustments of the probability of default and loss given default coefficient derived based on the historical information and thus adjustment of the allowances for doubtful accounts recorded in the financial statements. As at 31 December 2019 and 2018, allowances for doubtful accounts were equal to USD 2,676 thousand and USD 1,963 thousand, respectively (Notes 14, 15).

Other financial assets are mainly credit rated by one or more international credit rating agencies: Moody's, Fitch, and Standard and Poor's. The estimated credit loss is calculated for the entire useful life for those assets whose credit risk has increased significantly comparing to its level at the initial recognition date. Once the instrument is impaired the Group calculates allowances for doubtful accounts based on the expected future cash flows discounted at the original effective interest rate.

Losses are recognised in profit or loss and reflected in an allowance account. When the Group considers that there are no realistic prospects of recovery of the asset, the relevant amounts are written off. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When credit risks significantly decreases for those assets which previously have been classified in Stage 2, the Group performs an analysis to determine whether the current financial position of the borrower is stable enough to reclassify such assets back to Stage 1. As at 31 December 2019 impairment allowances were equal to USD 47,628 thousand as disclosed in Note 15 (31 December 2018: USD 47,203 thousand).

The Group annually estimates the necessity of write-down for obsolete and slow-moving inventories based on annual stock count data conducted at the reporting date. As at 31 December 2019, the Group recognised a write-down for obsolete and slow-moving inventories in the amount of USD 2,120 thousand (2018: USD 1,693 thousand) (Note 13).

Customer loyalty program

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

Lease term

Some property leases contain extension options exercisable by the Group up to one year before the end of the non-cancellable contract period. Where practicable, the Group seeks to include extension options in new leases to provide operational flexibility. The extension options held are exercisable only by the Group and not by the lessors. The Group assesses at lease commencement date whether it is reasonably certain to exercise the extension options. The Group reassesses whether it is reasonably certain to exercise the options if there is a significant event or significant changes in circumstances within its control.

The Group has applied judgement to determine the lease term for some lease contracts in which it is a lessee, based on the period for which the contract is enforceable. The Group considers that enforceability of the lease is established by a written contract (including broader interpretation of a penalty) in combination with applicable legislation governing the lease contract related to renewal or termination rights (specifically the lessee's preferential rights to renew or not to cancel the lease). The Group determined that its preferential right to renew or not to cancel would on its own be treated as substantive, when the Group has a preferential right to renew or not to cancel the lease through a negotiation mechanism under the Civil Code of Kazakhstan. Thus, considering broader economics of the contract, and not only the contractual termination payments, the lease term may go beyond the contract term.

5. Revenue and other income

’000 USD	2019	2018
Passenger revenue		
Passenger transport	663,646	657,812
Fuel surcharge	108,460	102,571
Airport services	47,158	44,600
Excess baggage	5,688	5,370
	824,952	**810,353**

’000 USD	2019	2018
Cargo and mail revenue		
Cargo	18,772	18,781
Mail	2,373	1,922
	21,145	**20,703**

’000 USD	2019	2018
Other revenue		
Other income	42,428	6,129
Penalties on agency contracts	1,645	477
Gain on disposal of property, plant and equipment and other assets	1,221	782
Income from ground services	996	919
Advertising revenue	787	790
Sales of fuel	321	354
Warranty returns	412	33
Other	142	321
	47,952	**9,805**

In December 2019 the Group purchased two spare engines which were immediately sold as part of a sale and leaseback transaction for the purpose of obtaining additional financing. The Group measured the right-of-use asset arising from the leaseback at the proportion of the previous carrying amount of the asset that relates to the right of use retained by the Group. Accordingly, the Group recognized a net gain of USD 4,680 thousand which represents the excess of the sales proceeds over lease liabilities and the changes in engines’ related assets. The Group has sold two spare engines for the total amount USD 30,395 thousand and recognised right-of-use assets of USD 10,019 thousand and lease liability of USD 14,033 thousand. Under the lease agreement the Group has leased back two spare engines for eight years with the monthly payments. In addition, the Group is obliged to pay the monthly variable lease payments which are accrued according to the total flight hours of the engines which have not been included in lease liabilities. The Group has recognised USD 8,694 thousand as the proceeds from sale and leaseback transaction in investing activities.

In December 2019 the Company recognized income from insurance proceeds included in other income in the amount of USD 35,100 thousand. The insurance claim was based on an incident with loss of control of the aircraft that happened in November 2018. After the incident the aircraft was not in use due to the investigation which should confirm the aircraft stability. Out of the total USD 35,100 thousand insurance award the Group received USD 17,698 thousand in December 2019 (USD 2,000 thousand to be received from the insurance company). USD 15,370 thousand was transferred in December 2019 by the security trustee to the lessor with assistance of the insurer and reinsurance broker to extinguish the outstanding lease liability (Note 23). USD 32 thousand was used to settle related legal and transaction fees and USD 10,694 thousand was recognised in other operating costs as disposal of the asset.

At 31 December 2019 passenger, cargo and mail revenue, representing total revenue from contracts with customers, were generated from the following destinations:

’000 USD	2019	2018
Domestic	233,123	222,626
Asia	218,180	208,842
CIS	212,321	214,585
Europe	182,473	185,003
Total revenue from passenger and cargo	**846,097**	**831,056**

There was no revenue from transactions with a single customer amounting to 10% or more of the total revenue during the year ended 31 December 2019 (2018: nil).

6. Operating expenses

’000 USD	2019	2018
Handling, landing fees and route charges		
Aero navigation	45,516	47,027
Handling charge	39,033	39,548
Landing fees	23,017	23,886
Meteorological services	214	228
Other	1,622	1,562
	109,402	**112,251**

’000 USD	2019	2018
Employee costs		
Wages and salaries of operational personnel	67,015	51,337
Wages and salaries of administrative personnel	16,839	12,946
Social tax	9,317	7,686
Wages and salaries of sales personnel	6,017	4,297
Other	3,951	3,748
	103,139	**80,014**

The average number of employees during 2019 were 5,312 (2018: 5,202)

’000 USD	2019	2018
Engineering and maintenance		
Maintenance – variable lease payments	28,154	31,757
Maintenance – provisions (Note 20)	28,467	22,745
Maintenance – components	21,418	17,771
Spare parts	13,875	11,547
Technical inspection	2,493	2,458
	94,407	**86,278**

’000 USD	2019	2018
Passenger service		
Airport charges	45,777	46,105
Catering	23,690	26,069
In-flight entertainment	5,307	5,348
Security	5,500	4,348
Other	11,253	9,146
	91,527	**91,016**

’000 USD	2019	2018
Selling costs		
Reservation costs	22,659	21,086
Commissions	11,581	11,455
Advertising	7,246	7,289
Interline commissions	421	500
Other	453	412
	42,360	**40,742**

’000 USD	2019	2018
Aircraft crew costs		
Accommodation and allowances	15,574	15,078
Contract crew	13,029	13,558
Training	6,724	6,573
	35,327	**35,209**

’000 USD	2019	2018
Aircraft lease costs		
Fixed lease charges of aircraft and engine	9,405	66,478
Leased engine on wing costs	1,746	2,199
Lease return costs	975	1,487
Ad- hoc lease of engines and rotable spare parts	1,541	1,249
Variable lease charges	93	-
	13,760	**71,413**

7. Finance income and costs

’000 USD	2019	2018
Finance income		
Interest income on bank deposits	2,636	2,516
Reversal/(accrual) of impairment allowance on financial assets	(449)	356
Unwinding of discount on Ab-initio pilot trainees receivables	18	29
Revaluation of discount on guarantee deposits	4	-
Other	12	33
	2,221	**2,934**

’000 USD	2019	2018
Finance costs		
Interest expense on lease liabilities	23,858	9,139
Financial assets and liabilities held at fair value through profit or loss	1,523	333
Interest expense on bank loans	931	955
Interest expense for aircraft repainting provision	61	-
Impairment allowance on financial assets	3	120
	26,376	**10,547**

8. Income tax expense

The Group’s income tax expense for the years ended 31 December was as follows:

’000 USD	2019	2018
Income tax	11,581	3,397
Deferred income tax (income) expense	182	3,259
	11,763	**6,656**

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 2019 and 2018 is presented in the table below:

'000 USD	**2019**	**2018**
Deferred tax assets		
Lease liabilities	76,007	-
Provision for aircraft maintenance	18,252	17,273
Remuneration payables	7,580	3,473
Other	451	-
Total deferred tax assets	**102,290**	**20,746**
Deferred tax liabilities		
Difference in depreciable value of property, plant and equipment and intangible asset	(42,715)	(35,450)
Inventories	(789)	(1,106)
Right-of-use assets	(71,467)	-
Other	(82)	(645)
Total	**(115,053)**	**(37,201)**
Net deferred tax liabilities	**(12,763)**	**(16,455)**

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

Movements in deferred tax assets and liabilities presented above were recorded in profit or loss accounts, except for USD 2,231 thousand related to carried forward corporate income tax losses, which were recognised in equity relating to the realised portion of deferred tax on cash flows hedge. (2018: USD 2,174 thousand).

The income tax rate in the Republic of Kazakhstan, where the Group is located, in 2019 and 2018 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% (2018: 20%) to the actual income tax expense recorded in the Group's statement of profit or loss and other comprehensive income:

'000 USD	**2019**	**2018**
Profit before tax	41,795	12,008
CIT %	20%	20%
Income tax at statutory rate	8,359	2,402
USD forex effect	2,238	3,393
Tax effect of non-deductible income	-	(280)
Tax effect of non-deductible expenses	1,166	1,141
Income tax expense	**11,763**	**6,656**

9. Property, plant and equipment

’000 USD	Rotable spare parts	Office equipment and furniture	Building, premises and land	Vehicles	Aircraft under lease	Equipment in transit and construction in progress	Total
Cost							
At 1 January 2018	**48,579**	**6,348**	**3,432**	**3,527**	**289,324**	**20,625**	**371,835**
Additions	8,290	820	1,357	373	8,983	673	20,496
Disposals	(2,627)	(160)	(170)	(129)	(6,323)	-	(9,409)
Transfers to inventory	(83)	-	-	-	-	-	(83)
Transfer	507	5	19,065	(707)	398	(19,268)	-
At 31 December 2018	**54,666**	**7,013**	**23,684**	**3,064**	**292,382**	**2,030**	**382,839**
Opening balance adjustment due to application of IFRS 16	3,083	-	9,566	-	299,521	-	312,170
At 1 January, adjusted	**57,749**	**7,013**	**33,250**	**3,064**	**591,903**	**2,030**	**695,009**
Additions	27,623	1,702	888	245	247,452	8,175	286,085
Disposals	(6,442)	(69)	-	(76)	(27,884)	-	(34,471)
Transfers to inventory	(133)	-	-	-	-	-	(133)
Transfers from inventory	960	-	-	-	-	-	960
Other transfers	333	-	-	(139)	(194)	-	-
At 31 December 2019	**80,090**	**8,646**	**34,138**	**3,094**	**811,277**	**10,205**	**947,450**
Accumulated depreciation							
At 1 January 2018	**20,183**	**4,425**	**1,462**	**1,323**	**82,688**	-	**110,081**
Charge for the year	6,193	693	553	257	17,000	-	24,696
Disposals	(470)	(151)	(170)	(113)	(6,041)	-	(6,945)
At 31 December 2018	**25,906**	**4,967**	**1,845**	**1,467**	**93,647**	-	**127,832**
Opening balance adjustment due to application of IFRS 16	2,492	-	-	-	139,977	**-**	142,469
At 1 January, adjusted	**28,398**	**4,967**	**1,845**	**1,467**	**233,624**	**-**	**270,301**
Charge for the year	8,323	748	3,063	234	68,089	**-**	80,457
Disposals	(3,534)	(60)	-	(70)	(16,837)	**-**	(20,501)
At 31 December 2019	**33,187**	**5,655**	**4,908**	**1,631**	**284,876**	**-**	**330,257**
Net book value							
At 31 December 2018	**28,760**	**2,046**	**21,839**	**1,597**	**198,735**	**2,030**	**255,007**
At 31 December 2019	**46,903**	**2,991**	**29,230**	**1,463**	**526,401**	**10,205**	**617,193**

In determining the Group's geographical information, assets, which consist principally of aircraft and ground equipment are mainly registered in the Republic of Kazakhstan. Accordingly, there is no reasonable basis for allocating the assets to geographical segments.

Rotable spare parts include aircraft modification costs.

Depreciation charge of rotable spare parts and building includes USD 2,227 thousand and USD 2,434 thousand which relates to right-of-use assets.

The Group's obligations under leases are secured by the lessor's title to the leased assets which have a carrying amount of USD 549,437 thousand (2018: USD 198,735 thousand) (Note 23).

The Group's obligations under the bank loan are secured by property with a carrying amount of USD 19,917 thousand (Note 22).

In December 2019 the Group has disposed of an Embraer aircraft with a carrying amount of USD 10,694 thousand (Note 5).

The amount of fully amortised items in 2019 is USD 3,447 thousand (2018: USD 5,591 thousand).

10. Intangible assets

'000 USD	**Software**
Cost	
At 1 January 2018	**7,336**
Additions	163
At 31 December 2018	**7,499**
Additions	430
Disposal	(6)
At 31 December 2019	**7,923**
Accumulated amortisation	
At 1 January 2018	**4,397**
Charge for the year	938
At 31 December 2018	**5,335**
Charge for the year	898
Disposal	(5)
At 31 December 2019	**6,228**
Net book value	
At 31 December 2018	**2,164**
At 31 December 2019	**1,695**

11. Depreciation and amortisation

'000 USD	**2019**	**2018**
Depreciation of property, plant and equipment (Note 9)	80,457	24,696
Amortisation of intangible assets (Note 10)	898	938
Total	**81,355**	**25,634**

12. Guarantee deposits

'000 USD	**31 December 2019**	**31 December 2018**
Non-current		
Guarantee deposits for leased aircraft	15,855	17,267
Other guarantee deposits	1,222	2,209
Impairment allowances	(345)	(306)
	16,732	**19,170**
Current		
Guarantee deposits to secure Letters of Credit for maintenance liabilities	9,514	28,564
Guarantee deposits for leased aircraft	5,741	1,854
Other guarantee deposits	1,430	1,460
Impairment allowances	(56)	(39)
	16,629	**31,839**
	33,361	**51,009**

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

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

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

'000 USD	**31 December 2019**	**31 December 2018**
Within one year	15,255	30,418
After one year but not more than five years	1,797	2,112
More than five years	14,085	15,184
	31,137	**47,714**
Fair value adjustment	(27)	(29)
	31,110	**47,685**

13. Inventories

'000 USD	**31 December 2019**	**31 December 2018**
Spare parts	29,755	28,150
Fuel	7,347	7,563
Crockery	4,997	3,388
Goods in transit	3,070	2,001
Promotional materials	1,701	1,484
Uniforms	1,175	1,237
De-icing liquid	2,011	509
Blank forms	432	199
Other	1,633	2,127
	52,121	**46,658**
Less: cumulative write-down for obsolete and slow-moving inventories	(2,120)	(1,693)
	50,001	**44,965**

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

’000 USD	**2019**	**2018**
Cumulative write-down for obsolete and slow-moving inventories at the beginning of the year	**(1,693)**	**(555)**
Write-down for the year	(615)	(1,166)
Reversal of previous write-down for the year	188	28
Cumulative write-down for obsolete and slow-moving inventories at the end of the year	**(2,120)**	**(1,693)**

14. Prepayments

’000 USD	**31 December 2019**	**31 December 2018**
Non-current		
Prepayments for long-term assets	5,675	8,242
Advances for services	6,394	6,412
	12,069	**14,654**
Impairment allowances	-	(32)
	12,069	**14,622**
Current		
Advances for services	18,565	13,084
Prepayments for leases with transfer of title	5,243	5,361
Prepayments for leases without transfer of title	3,515	3,794
Advances for goods	4,122	3,304
	31,445	**25,543**
Less: impairment allowance for prepayments	(423)	(377)
	31,022	**25,166**

As at 31 December 2019 prepayments for long-term assets include prepayments to Boeing as pre-delivery payment for three aircraft (Note 26).

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

’000 USD	**2019**	**2018**
At the beginning of the year	**(409)**	**(411)**
Accrued during the year	(46)	-
Written-off against previously created allowance	32	2
At the end of the year	**(423)**	**(409)**

The impairment allowance includes advance payments made by the Group 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

’000 USD	31 December 2019	31 December 2018
Non-current		
Due from employees and Ab-initio pilot trainees	2,411	2,224
Other financial assets	48,457	49,038
	50,868	**51,262**
Less: impairment allowance	(47,628)	(47,203)
	3,240	**4,059**
Current		
Trade receivables	27,314	24,431
Receivable from lessors – variable lease reimbursement	6,979	2,908
Due from employees and Ab-initio pilot trainees	1,056	848
	35,349	**28,187**
Less: impairment allowance	(2,253)	(1,554)
	33,096	**26,633**

In 2016, due to the significant credit quality deterioration of KazInvestBank JSC following the recall of its banking license, and Delta Bank JSC on 22 May 2017 following by the temporary suspension of its license for accepting new deposits and opening new accounts, management reclassified the deposits held with these banks in the amount USD 14,234 thousand and USD 44,785 thousand, respectively, from the bank deposit line item to non-current trade and other receivables and assessed them for impairment. Based on the assessment, management recognised an impairment allowance of approximately 90% for KazInvestBank JSC and Delta Bank JSC as at 31 December 2016.

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

On 24 January 2018 the court’s decision on the forced liquidation of KazInvestBank JSC came into effect. The compensation of the remaining claims of KazInvestBank JSC will depend on the actions of the liquidation commission.

In July-November 2017 the Company collected USD 4,376 thousand in cash through enforcement proceedings against Delta Bank JSC. On 2 November 2017, the National Bank decided to revoke the license of Delta Bank JSC. On 13 February 2018 the court decided on the forced liquidation of Delta Bank JSC.

In December 2019 management of the Company recognised an additional impairment allowance for KazInvestBank JSC, Alfa Bank and Delta Bank JSC. As at 31 December 2019 the allowance for those banks comprises 100% of the gross balances.

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

Amounts due from trainees of the Ab-initio pilot program in respect of 50% of their initial training costs are classified as interest free loans. The remaining costs are classified by the Company as a prepayment of its expenses and are amortised over a period of seven years, during which period the Company has a right to oblige these expenses also to become payable by the pilot trainees should such pilot trainee terminate his/her employment. The alumni of Ab-initio pilot program can either repay the remaining training cost by cash or defer for the future so that this amount becomes payable only if they leave the Company. Amounts due from those cadets who selected the option were reclassified to deferred expenses and are amortized using the straight line method over the remaining amortization term.

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

'000 USD	31 December 2019	31 December 2018
US Dollar	16,045	6,652
Tenge	11,496	15,247
Euro	2,338	2,291
Russian Rouble	864	1,004
Other	5,593	5,498
	36,336	**30,692**

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

'000 USD	2019	2018
At the beginning of the year	**(48,757)**	**(50,129)**
Opening balance adjustments due to application of IFRS 9	-	(70)
Allowance for doubtful debts at the beginning of the year	**(48,757)**	**(50,199)**
Reversed during the year	1,555	587
Accrued during the year	(2,642)	(1 097)
Unwinding of discount	-	261
Written-off against previously created allowance	5	123
Foreign currency difference	(42)	1,568
At the end of the year	**(49,881)**	**(48,757)**

16. Other taxes prepaid

'000 USD	31 December 2019	31 December 2018
Value added tax recoverable	32,390	22,000
Other taxes prepaid	956	665
	33,346	**22,665**

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

17. Cash and bank balances

'000 USD	31 December 2019	31December 2018
Current accounts with foreign banks	96,450	84,724
Term deposits with local banks with an initial maturity of less than 3 months	66,425	38,067
Current accounts with local banks	13,410	9,879
Cash in hand	113	107
Accrued interest	49	51
	176,447	**132,828**
Impairment allowances	(5)	(2)
	176,442	**132,826**

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

'000 USD	**2019**	**2018**
US Dollar	168,266	127,869
Indian Rupee	2,046	1,319
Euro	1,699	906
Russian Rouble	656	708
Chinese Yuan	992	424
Tenge	795	310
British Pound	502	280
Uzbek Som	401	83
Other	1,085	927
	176,442	**132,826**

18. Equity

As at 31 December 2019 and 2018, share capital was comprised of 17,000 authorised, issued and fully paid ordinary shares with a par value of 147,150 tenge per share (equivalent to USD 1,000 per share at the time of purchase).

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

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

As at 31 December 2019 the Group had retained earnings, including the profit for the current year, of USD 149,350 thousand (2018: USD 143,746 thousand).

Dividends per share in 2019 were nil (2018: 11,676 USD thousand).

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 (2018: 17,000 shares). The Group has no instruments with potential dilutive effect.

'000 USD	**2019**	**2018**
Profit:		
Profit for the year	30,032	5,352
Number of ordinary shares	17,000	17,000
Earnings per share – basic and diluted (US)	**1,767**	**315**

19. DEFERRED REVENUE

'000 USD	**31 December 2019**	**31 December 2018**
Unearned transportation revenue	59,137	45,173
Customer loyalty program provision	8,781	7,558
	67,918	**52,731**

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

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

Due to the short-term nature of the Group's performance obligations, the opening balance of unearned transportation revenue was recognised as revenue in 2019.

20. Provision for aircraft maintenance

’000 USD	**31 December 2019**	**31 December 2018**
Engines	68,106	68,946
D-Check	9,141	9,374
C-Check	6,454	2,677
Provision for redelivery of aircraft	3,688	2,409
Auxiliary Power unit	1,565	2,300
Landing gear	2,308	1,530
	91,262	**87,236**

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

’000 USD	**2019**	**2018**
At 1 January	**87,236**	**73,770**
Recognised in property, plant and equipment	2,011	-
Accrued during the year (Note 6)	33,539	28,118
Reversed during the year (Note 6)	(5,072)	(5,373)
Used during the year	(26,452)	(9,279)
At 31 December	**91,262**	**87,236**

Under the terms of its lease agreements without transfer of title for aircraft, the Group is obliged to carry out and pay for maintenance based on use of the aircraft and to return aircraft to the lessors in a satisfactory condition at the end of the lease term. The maintenance cost estimates used for calculating the provisions are stated in US Dollars.

The planned utilisation of these provisions is as follows:

’000 USD	**31 December 2019**	**31 December 2018**
Within one year	37,413	48,613
During the second year	35,024	24,502
During the third year	4,374	7,269
After the third year	14,451	6,852
Total provision for aircraft maintenance	**91,262**	**87,236**
Less: current portion	37,413	48,613
Non-current portion	**53,849**	**38,623**

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 leases without transfer of title as well as requirements for returnable condition when the lease term is concluded. The estimates are based on the following key assumptions:

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

21. Trade and other payables

'000 USD	31 December 2019	31 December 2018
Trade payables	62,103	32,982
Accrued bonuses	13,880	-
Advances received	5,480	2,372
Deposits received from agents	4,638	3,879
Due to employees	3,942	2,547
Taxes payable	959	936
Vacation accrual	902	374
Pension contribution	881	815
Lease payables	-	771
Other	139	137
	92,924	**44,813**

In 2019, the Company accrued performance bonus in the amount of USD 13,880 thousand including social tax due to reaching of certain financial and operating key performance indicators.

The Group's trade and other payables are denominated in the following currencies:

'000 USD	31 December 2019	31 December 2018
US Dollar	41,154	18,741
Tenge	30,604	12,159
Euro	6,673	6,403
Russian roubles	1,078	877
GBP	1,101	874
Other	12,314	5,759
	92,924	**44,813**

22. Loans

'000 USD	31 December 2019	31 December 2018
Non-current		
Bank loan	6,430	7,751
	6,430	**7,751**
Current		
Current portion of bank loan	10,354	1,348
Interest payable	41	57
	10,395	**1,405**

On 3 December 2015 the Group concluded a loan agreement of USD 14,000 thousand (in Kazakhstani tenge equivalent) with the European Bank for Reconstruction and Development (EBRD) for 10 years for the purpose of construction of a Technical Centre (Hangar) in Astana, which is also pledged to the EBRD under this loan. The interest rate is variable and defined, based on a margin of 3.75% per annum plus EBRD's All-in Cost in Kazakhstani tenge. The All-in Cost is determined on a quarterly basis in conjunction with the National Bank of Kazakhstan base rate. In April 2016 the Group obtained the funds from EBRD in the amount of 4,661,033 thousand tenge (USD 14,000 thousand equivalent as of receipt dates). This tenge loan is subject to certain financial covenants which have been met as at 31 December 2019.

The construction of the Hangar has finished in March 2019. The net book value of the Hangar as at 31 December 2019 is USD 19,917 thousand (Note 9).

On 31 December 2019 the Group concluded a loan agreement of USD 9,000 thousand with "Halyk Savings Bank of Kazakhstan" JSC (Halyk Bank) for 1 month for the repayment of outstanding amount of lease liability for the aircraft Airbus A321. The interest rate was 4% per annum. The full amount of loan was repaid to Halyk Bank on 5 January 2020.

23. Lease liabilities

For the years from 2012 to 2014 the Group acquired ten aircraft under fixed interest lease agreements with transfer of title. The lease term for each aircraft is twelve years. The Group has an option to purchase each aircraft for a nominal amount at the end of the lease.

Loans provided by financial institutions to the lessors in respect of six new Airbus aircraft which were delivered during 2012 and 2013 were guaranteed by European Export Credit Agencies while three Boeing 767 aircraft which were delivered in 2013 and 2014 were guaranteed by the US Export Import Bank. Two Embraer aircraft delivered in 2012 and 2013 were guaranteed by the Brazilian Development Bank. The Group's obligations under leases with transfer of title are secured by the lessors' title to the leased assets. These assets have a carrying value of USD 549,437 thousand (2018: USD 198,735 thousand) (Note 9).

The Group's leases with transfer of title 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 lease agreements with transfer of title include covenants as regards to change of ownership of the Group. These requirements have been met during 2019 and 2018.

'000 USD	**Minimum lease payments**		**Present value of minimum lease payments**	
	31 December 2019	**31 December 2018**	**31 December 2019**	**31 December 2018**
Not later than one year	135,596	47,823	111,216	40,494
Later than one year and not later than five years	441,291	186,099	386,257	166,068
Later than five years	114,215	77,442	109,029	74,965
	691,102	**311,364**	**606,502**	**281,527**
Less: future finance charges	(84,600)	(29,837)	-	-
Present value of minimum lease payments	**606,502**	**281,527**	**606,502**	**281,527**
Included in the financial statements as:				
- current portion of lease obligations			111,216	40,494
- non-current portion of lease obligations			495,286	241,033
			606,502	**281,527**

The Group's lease obligations are denominated in US Dollars.

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

In connection with the transition of the functional currency to US Dollar, this hedge ceased to be economically effective from 31 December 2017. At 31 December 2019 a foreign currency loss of USD 87,522 thousand (2018: USD 78,463 thousand), before deferred income tax of USD 17,504 thousand (2018: USD 15,693 thousand) on the lease liabilities with transfer of title, representing an effective portion of the hedge, is deferred in the hedging reserve in equity. As a result of the change, the hedge relationship has been discontinued so that starting from 1 January 2018 no further foreign currency translation gains or losses are transferred from profit or loss to the hedge reserve, and the hedge reserve recognised in equity as at 31 December 2017 shall remain in equity until the forecasted revenue cash flows are received.

During 2019 the amount reclassified from the hedging reserve to foreign exchange loss in the statement of profit or loss was USD 11,156 thousand (before deferred income tax of USD 2,231 thousand) (2018: USD 10,869 thousand, before deferred income tax of USD 2,174 thousand).

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

'000 USD	**Loans (Note 22)**	**Lease liabilities with transfer of ownership**	**Lease liabilities without transfer of ownership**	**Total**
Balance as at 1 January 2019	9,156	281,527		290,683
Adjustments on initial application of IFRS 16	-	-	199,327	199,327
Balance as at 1 January 2019	9,156	281,527	199,327	490,010
Repayment of borrowings	(1,349)	-	-	(1,349)
Repayment of lease liabilities	-	(39,764)	(64,167)	(103,931)
Interest paid	(946)	(8,059)	(15,899)	(24,904)
Receipt of borrowings	9,000	-	-	9,000
Total changes from financing cash flows	**6,705**	**(47,823)**	**(80,066)**	**(121,184)**
Effect of changes in foreign exchange rates	33	-	32	65
Other changes				
Additional adjustment - new leases	-	-	245,017	245,017
Interest expense (Note 7)	931	7,958	15,900	24,789
Non-cash settlement (Note 5)	-	(15,370)	-	(15,370)
Total other changes	**931**	**(7,412)**	**260,917**	**254,436**
Balance as at 31 December 2019	**16,825**	**226,291**	**380,210**	**623,327**

'000 USD	**Loans (Note 22)**	**Lease liabilities**	**Total**
Balance as at 1 January 2018	12,149	320,723	332,872
Repayment of borrowings	(1,486)	-	(1,486)
Repayment of lease liabilities	-	(39,003)	(39,003)
Interest paid	(1,194)	(9,332)	(10,526)
Total changes from financing cash flows	**(2,680)**	**(48,335)**	**(51,015)**
Effect of changes in foreign exchange rates	(1,492)	-	(1,492)
Other changes			
Capitalised borrowing costs	224	-	224
Interest expense (Note 7)	955	9,139	10,094
Total other changes	**1,179**	**9,139**	**10,318**
Balance as at 31 December 2018	**9,156**	**281,527**	**290,683**

24. Financial instruments

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

Capital management

The Group manages its capital to ensure the Group will be able to continue as a going concern while maximising the return to the shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from 2017.

The capital structure of the Group consists of net debt (comprising loans and lease obligations in Note 22 and 23) and equity of the Group (comprising issued capital, additional paid-in capital, reserve on hedging instruments and retained earnings as detailed in Note 18).The Group is not subject to any externally imposed capital requirements.

The Company does not have a target gearing ratio.

Credit risk

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

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

Trade receivables consist of a large number of customers, spread across diverse industries and geographical areas. Ongoing credit evaluation is performed on the financial condition of accounts receivable and, where appropriate, credit guarantee insurance cover is purchased.

As at 31 December 2019 there was no significant concentration of credit risk in respect of trade accounts receivable (Note 15).

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

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

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

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

’000 USD	**2019**	**2018**
Impairment loss on trade and other receivables	(1,087)	(249)
Impairment loss on guarantee deposits	(56)	121
Impairment loss on cash and cash equivalents	(3)	(1)
	(1,146)	**(129)**

Trade and other receivables

’000 USD	**2019**	**2018**
Default banks	48,457	49,038
Trade receivables	27,314	24,431
Receivable from lessors	6,979	2,908
Amounts due from employees	3,467	3,072
Total gross carrying amount	**86,217**	**79,449**
Impairment allowance	(49,881)	(48,757)
Total net carrying amount	**36,336**	**30,692**

Trade receivables

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

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

The Company works only with IATA accredited agents.

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

At 31 December 2019, eight debtors including IATA Billing Settlement Plans (BSPs) as collecting agencies from the worldwide travel agencies comprised 27% of the Company's trade and other receivables excluding banks in default (at 31 December 2018: eight debtors comprised 29%).

Receivables from lessors

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

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

Credit rating

'000 USD	**2019**	**2018**
BBB- to AAA	5,679	2,616
Without ratings	1,300	292
Gross carrying amounts	**6,979**	**2,908**
Impairment allowance	(17)	(1)
Balance at 31 December	**6,962**	**2,907**

Amounts due from employees

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

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

'000 USD	2019	2018
Balance at 1 January under IAS 39	48,757	50,129
Adjustment on initial application of IFRS 9	-	70
Balance at 1 January under IFRS 9	**48,757**	**50,199**
Amounts written off	(5)	(123)
Foreign currency difference	42	(1,568)
Net remeasurement of loss allowance	1,087	249
Balance at 31 December	**49,881**	**48,757**

Guarantee Deposits

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

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

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

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

	2019	2018
Credit rating		
BBB- to AAA	17,573	44,286
C to CCC+	2,642	1,612
Without ratings	4,062	5,456
Gross carrying amounts (2019 amortised cost before impairment)	**24,277**	**51,354**
Impairment allowance	(401)	(345)
Total net carrying amount	**23,876**	**51,009**

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

'000 USD	2019	2018
Balance at 1 January under IAS 39	**-**	**-**
Adjustment on initial application of IFRS 9	**-**	(224)
Balance at 1 January under IFRS 9	**(345)**	**(224)**
Net remeasurement of loss allowance	(56)	(121)
Balance at 31 December	**(401)**	**(345)**

Cash and cash equivalents

The Group held cash and cash equivalents of USD 176,442 thousand at 31 December 2019 (2018: USD 132,826 thousand). The cash and cash equivalents are held with bank and financial institution counterparties, which are rated AAA to B, based on S&P ratings.

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

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

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

'000 USD	**2019**			**2018**		
Credit rating	**Gross carrying amount**	**12 month ECL**	**Carrying amount**	**Gross carrying amount**	**12 month ECL**	**Carrying amount**
BBB- to AAA	166,500	(4)	166,496	125,578	-	125,578
BB- to BB+	9,947	(1)	9,946	7,250	(2)	7,248
	176,447	**(5)**	**176,442**	**132,828**	**(2)**	**132,826**

Interest rate risk

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

In April 2016 the Group had borrowed from EBRD funds afloat rate (reference to CPI + fixed margin) (Note 23). If the variable part of the interest rate on the EBRD loan in 2019 would have been 20% higher or lower than the actual for the period, change in interest rate would not have a material impact.

Foreign currency risk

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

Foreign currency sensitivity analysis

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

The carrying value of the Group'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 Group.

'000 USD		**31 December 2019**		**31 December 2018**	
	Notes	**Tenge**	**Euro**	**Tenge**	**Euro**
Assets					
Other taxes prepaid	16	32,994	165	22,364	147
Trade and other receivables	15	11,496	2,338	15,247	2,291
Income tax prepaid		1,031	**-**	1,336	-
Cash and bank balances	17	795	1,699	310	906
Guarantee deposits	12	44	500	29	246
Total		**46,360**	**4,702**	**39,286**	**3,590**
Liabilities					
Trade and other payables	22	30,604	6,673	12,159	6,403
Loans	22	10,395	-	9,156	-
Lease liabilities		3,476	-	-	-
Total		**44,475**	**6,673**	**21,315**	**6,403**
Net position		**1,885**	**(1,971)**	**17,971**	**(2,813)**

In 2019 the following table details the Group's sensitivity of weakening and strengthening of US Dollar against tenge by 11% and euro by 7%.

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

The sensitivity analysis includes trade and other receivables, cash and bank balances, bank deposits, guarantee deposits, trade and other payables, loans and lease liabilities.

A negative number below indicates a decrease in Profit or Loss and positive number would be an opposite impact on the Profit or Loss

'000 USD	**Weakening of US Dollar**		**Strengthening of US Dollar**	
	Tenge	**Euro**	**Tenge**	**Euro**
2019	**11%**	**7%**	**(11%)**	**(7%)**
Profit/(loss)	166	(110)	(166)	110

'000 USD	**Weakening of tenge**		**Strengthening of tenge**	
	Tenge	**Euro**	**Tenge**	**Euro**
2018	**13%**	**15%**	**(13%)**	**(15%)**
Profit/(loss)	1,581	(158)	1,581	(158)

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

Liquidity risk management

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

Ultimate responsibility for liquidity risk management rests with the board of directors, which has built an appropriate liquidity risk management framework for management of the Group's short, medium and long-term funding and liquidity management requirements. The Group 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 Group'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 Group can be required to pay.

'000 USD	**Up to 3 months**	**3 months to 1 year**	**1-5 years**	**Over 5 years**	**Total**
2019					
Financial assets					
Trade and other receivables	32,783	313	2,314	926	36,336
Guarantee deposits	2,580	14,049	2,440	14,321	33,390
Cash and bank balances	176,442	-	-	-	176,442
Financial liabilities					
Non interest bearing					
Trade and other payables	88,351	4,573	1,219	-	94,143
Variable rate					
Loans(tenge denominated)	517	1,509	6,850	1,062	9,938
Fixed rate					
Loans (USD denominated)	9,005	-	-	-	9,005
Lease liabilities	35,922	99,674	441,291	114,215	691,102

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

Fair values

Cash and bank balances

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

Financial instruments at fair value through profit or loss

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

Guarantee Deposits

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

Trade and other receivables and payables

For receivables and payables with a maturity of less than six months fair value is not materially different from the carrying amount because the effect of the time value of money is not material. Ab- initio receivables are recorded at fair value at initial recognition and subsequently measured at amortised cost. Management believes that their carrying amounts approximate their fair value.

Loans

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

Lease liabilities

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

Provisions

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

25. Measurement of fair values

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

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

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

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

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

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

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

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

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

As at 31 December 2019 and 2018 all Group's assets were measured at amortised cost.

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

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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

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

Further information about the assumptions made in measuring fair values is included in Note 24 – Financial instruments.

26. Commitments and contingencies

Capital commitments

In 2011 the Group finalized an agreement with Boeing to purchase three Boeing 787 aircraft under lease agreements with transfer of title. The Group is committed to pre-delivery payments in accordance with the agreed payment schedule. Delivery of the Boeing 787 is now deferred to 2023 with the last pre-delivery payments deferred to fourth quarter 2022.

The terms of the Group's contract with the above suppliers precludes it from disclosing information on the purchase cost of the aircraft.

Lease commitments

Aircraft

Aircraft leases are for terms of between 5 to 10 years. All lease contracts contain market review clauses in the event that the parties agree to renew the leases. The Group may not have an option to purchase the leased aircraft at the expiry of the lease period.

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

Non-cancellable commitments for leases of aircraft to be delivered from 2020 to 2022:

'000 USD	**31 December 2019**	**31 December 2018**
Within one year	24,037	35,386
After one year but not more than five years	190,421	169,931
More than five years	145,466	122,378
	359,924	**327,695**

In 2015-2017 the Group signed lease agreements without purchase option for seventeen Airbus A320neo and Airbus A321LR aircraft to replace some current leases on expiry and for future expansion. Eight A320neo were delivered in 2016-2019, with the remaining nine aircraft being delivered in 2020-2022.

In the second half of 2017, the Group signed lease agreements without purchase option for five aircraft of the Embraer E190-E2 family to replace some of the current lease agreements due to their expiration and expansion. One Embraer E190-E2 was delivered in November 2018 and four Embraer E190-E2 were delivered in 2019.

Stand-by Letters of Credit as at 31 December 2019 were USD 32,514 thousand (2018: USD 46,064 thousand), of which USD 9,514 thousand (2018: 28,564 thousand) were secured by deposits (Note 12) and USD 23,000 thousand (2018: USD 17,500 thousand) were unsecured. These Letters of Credit were obtained as security for Lessors to cover any unfulfilled maintenance liabilities on the return of four Embraer E190 and seven Airbus aircraft to Lessors.

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) with a high rating of financial stability through the services of an international reputable broker. Types of insurance coverage are stated below:

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

Non – Aviation Insurance

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

- Medical insurance of employees;
- Directors, Officers and Corporate liability insurance;
- Property insurance;
- Comprehensive vehicle insurance;
- Compulsory insurance of employee from accidents during execution of labour (service)duties;
- Commercial general liability insurance (Public Liability);
- Civil liability insurance to customs authorities;
- Pilot's loss of license insurance;
- Insurance of goods at warehouse.

Taxation contingencies

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

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

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

Operating Environment

Emerging markets such as Kazakhstan are subject to different risks than more developed markets, including economic, political and social, and legal and legislative risks. Laws and regulations affecting businesses in Kazakhstan continue to change rapidly, tax and regulatory frameworks are subject to varying interpretations. The future economic direction of Kazakhstan is heavily influenced by the fiscal and monetary policies adopted by the government, together with developments in the legal, regulatory, and political environment. As Kazakhstan produces and exports large volumes of oil and gas, its economy is particularly sensitive to the price of oil and gas on the world market.

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

27. Related party transactions

Control relationships

The shareholders of the Group 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 Group, respectively.

Management remuneration

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

'000 USD	**2019**	**2018**
Salaries and bonuses	4,513	4,058
Social tax	447	402
	4,960	**4,460**

Transactions with related parties

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

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

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

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

'000 USD	**2019**		**2018**	
Services received	**Transaction value**	**Outstanding balance**	**Transaction value**	**Outstanding balance**
State-owned companies	19,752	(4,435)	28,239	(2,467)
Shareholders and their subsidiaries	6,381	(834)	5,153	(178)
	26,133	**(5,269)**	**33,392**	**(2,645)**

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

'000 USD	**2019**		**2018**	
Services provided by the Group	**Transaction value**	**Outstanding balance**	**Transaction value**	**Outstanding balance**
Shareholders and their subsidiaries	1,484	366	1,490	218
State-owned companies	4	-	-	-
	1,488	**366**	**1,490**	**218**

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

28. Subsequent events

The Group conducted a sale and leaseback transaction in January 2020 by selling one Airbus A321-200 and leasing it back under the agreement without transfer of title. From this transaction the Group has received cash of USD 35,250 thousand, derecognized assets of USD 23,001 thousand and repaid outstanding lease liabilities of USD 18,637 thousand.

29. Approval of the financial statements

The consolidated financial statements were approved by management of the Group and authorised for issue on 28 February 2020.