JOINT STOCK COMPANY
AIR ASTANA

Financial Statements
For the year ended 31 December 2013

JOINT STOCK COMPANY AIR ASTANA

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STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

Management is responsible for the preparation of the financial statements that present fairly the financial position of JSC Air Astana (the "Company") as at 31 December 2013, the results of its operations, cash flows and changes in equity for the year then ended, in compliance with International Financial Reporting Standards ("IFRS").

In preparing the financial statements, management is responsible for:

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

Management is also responsible for:

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

The financial statements for the year ended 31 December 2013 were authorised for issue on 14 March 2014 by management of the Company.

On behalf of management of the Company:

AO «ЭЙР АСТАНА»

Peter Foster	**Alima Zamanbekova**
President	**Chief Accountant**
14 March 2014	14 March 2014
Almaty, Republic of Kazakhstan	Almaty, Republic of Kazakhstan

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of JSC Air Astana (the "Company"), which comprise the statement of financial position as at 31 December 2013, and the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes comprising a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

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

Auditors' responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of JSC Air Astana as at 31 December 2013, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Andrew Weekes Engagement Partner Chartered Accountant Certificate of Public Practice # 78586, Australia	Karina Muldasheva Certified auditor Qualification certificate #MF -0000091 dated 27 August 2012, Republic of Kazakhstan

Мулдашева Карина Егеньевна * Қазақстан Республикасының Аудиторы * № МФ-0000091

Deloitte, LLP

«Делойт» Жауапкершілігі шектеулі серіктестігі Deloitte, LLP Deloitte. Қазақстан Республикасы, Алматы қ. Republic of Kazakhstan, Almaty

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Finance of the Republic of Kazakhstan
dated 13 September 2006

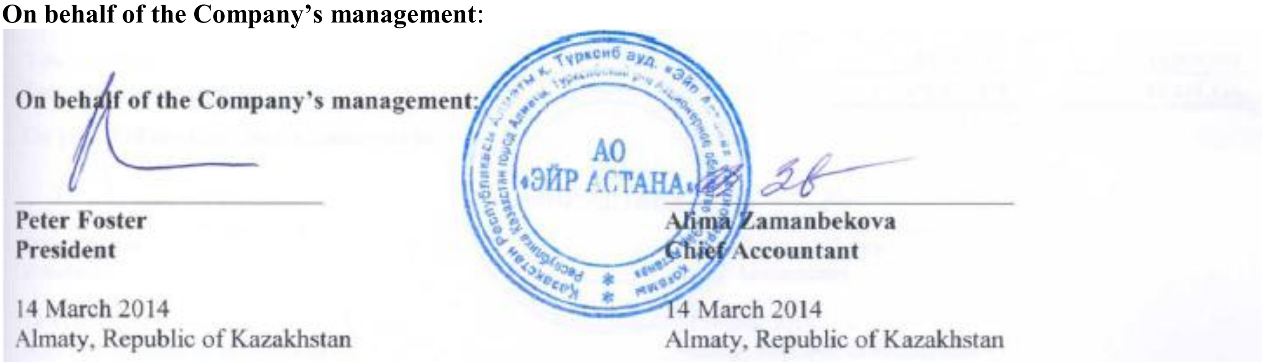
Nurlan Bekenov
General Director
Deloitte, LLP

14 March 2014
Almaty, Republic of Kazakhstan

JOINT STOCK COMPANY AIR ASTANA
STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2013
(in thousands of USD)

	Notes	2013	2012
Revenue			
Passenger revenue	5	917,070	833,508
Cargo and mail	5	29,423	26,313
Other	5	20,411	15,254
Total revenue		966,904	875,075
Operating expenses			
Fuel		(280,007)	(246,820)
Handling, landing fees and route charges	6	(118,037)	(99,581)
Employee costs	6	(99,080)	(92,207)
Passenger service	6	(92,692)	(77,622)
Engineering and maintenance	6	(79,944)	(74,079)
Aircraft operating lease costs	6	(78,243)	(79,732)
Selling costs	6	(48,211)	(50,428)
Aircraft crew costs	6	(39,486)	(39,371)
Depreciation and amortisation	11	(29,282)	(7,285)
Taxes		(7,138)	(7,200)
Insurance	6	(5,949)	(5,681)
Property lease cost		(5,752)	(5,045)
Information technology		(3,073)	(3,175)
Consultancy, legal and professional services		(1,728)	(2,195)
Other		(6,068)	(8,492)
Total operating expenses		(894,690)	(798,913)
Operating profit		72,214	76,162
Finance income	7	1,688	3,949
Finance expenses	7	(7,651)	(2,320)
Foreign exchange (loss)/gain, net		(1,326)	1,430
Profit before tax		64,925	79,221
Income tax expense	8	(13,561)	(18,145)
Profit for the year		51,364	61,076
Other comprehensive loss, net of income tax:			
Items that will not be subsequently reclassified to profit or loss:			
Foreign currency translation loss		(5,615)	(4,118)
Income tax		208	-
Other comprehensive loss for the year, net of income tax		(5,407)	(4,118)
Profit and total comprehensive income for the year		45,957	56,958
Basic and diluted earnings per share (in USD)	20	3,021	3,593

On behalf of the Company's management:


On behalf of the Company's management:

Peter Foster
President

14 March 2014
Almaty, Republic of Kazakhstan

Alima Zamanbekova
Chief Accountant

14 March 2014
Almaty, Republic of Kazakhstan

The notes on pages 9 to 49 form an integral part of these financial statements. The independent auditor's report on the financial statements is on pages 2 and 3.

JOINT STOCK COMPANY AIR ASTANA
STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2013
(in thousands of USD)

	Notes	31 December 2013	31 December 2012
ASSETS			
Non-current assets			
Property, plant and equipment	9	562,856	229,897
Intangible assets	10	2,139	2,593
Prepayments for long-term assets	14	23,798	95,053
Guarantee deposits	12	12,799	17,601
Trade and other receivables	15	5,448	-
		607,040	345,144
Current assets			
Inventories	13	55,247	42,760
Prepayments	14	49,214	21,256
Income tax prepaid		5,510	1,512
Trade and other receivables	15	32,706	46,322
Other taxes prepaid	17	7,768	4,096
Guarantee deposits	12	5,146	1,585
Bank deposits	18	114,372	80,476
Cash and bank balances	19	13,725	43,051
Financial assets at fair value through profit or loss	16	331	361
		284,019	241,419
Total assets		891,059	586,563
EQUITY AND LIABILITIES			
Equity			
Share capital	20	17,000	17,000
Foreign currency translation reserve		(25,002)	(19,595)
Retained earnings		315,520	285,276
Total equity		307,518	282,681
Non-current liabilities			
Loans	24	-	6,456
Finance lease liabilities	25	382,887	134,033
Deferred tax liability	8	18,120	3,515
Provision for aircraft maintenance	22	7,098	4,132
		408,105	148,136
Current liabilities			
Loans	24	9,282	18,227
Finance lease liabilities	25	36,470	10,047
Deferred revenue	21	63,240	57,440
Provision for aircraft maintenance	22	16,049	16,712
Trade and other payables	23	50,129	53,040
Financial liabilities at fair value through profit or loss	16	266	280
		175,436	155,746
Total liabilities		583,541	303,882
Total equity and liabilities		891,059	586,563

On behalf of the Company's management:

АО «ЭЙР АСТАНА»

Peter Foster
President

14 March 2014
Almaty, Republic of Kazakhstan

Alima Zamanbekova
Chief Accountant

14 March 2014
Almaty, Republic of Kazakhstan

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JOINT STOCK COMPANY AIR ASTANA

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2013
(in thousands of USD)

	Notes	Share capital	Foreign currency translation reserve	Retained earnings	Total equity
At 1 January 2012		17,000	(15,477)	242,404	243,927
Net profit for the year		-	-	61,076	61,076
Other comprehensive loss for the year		-	(4,118)	-	(4,118)
Total comprehensive income for the year		-	(4,118)	61,076	56,958
Dividends declared	20	-	-	(18,204)	(18,204)
At 31 December 2012		17,000	(19,595)	285,276	282,681
Net profit for the year		-	-	51,364	51,364
Other comprehensive loss for the year		-	(5,407)	-	(5,407)
Total comprehensive income for the year		-	(5,407)	51,364	45,957
Dividends declared	20	-	-	(21,120)	(21,120)
At 31 December 2013		17,000	(25,002)	315,520	307,518

On behalf of the Company's management:

АО «ЭЙР АСТАНА»

Peter Foster
President

14 March 2014
Almaty, Republic of Kazakhstan

Alima Zamanbekova
Chief Accountant

14 March 2014
Almaty, Republic of Kazakhstan

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JOINT STOCK COMPANY AIR ASTANA

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2013
(in thousands of USD)

	Notes	2013	2012
OPERATING ACTIVITIES:			
Profit before tax		64,925	79,221
Adjustments for:			
Depreciation and amortisation of property, plant and equipment and intangible assets	11	29,282	7,285
Gain on disposal of property, plant and equipment		(580)	(176)
Change in allowance for doubtful debts	14, 15	907	2,628
Change in allowance for obsolete and slow-moving inventories	13	(302)	221
Foreign exchange loss/(gain)		1,326	(1,430)
Finance income	7	(1,688)	(3,949)
Interest expense on finance lease	7	6,544	411
Interest expense on bank loans	7	-	879
Net unrealised loss on financial assets and liabilities at fair value through profit or loss	7	13	4
Operating cash flow before movements in working capital		100,427	85,094
Change in accounts receivable		4,748	(10,636)
Change in other receivables and prepaid expenses		(32,962)	3,373
Change in inventories		(12,799)	(14,335)
Change in accounts payable, accrued expenses and other current liabilities		(2,582)	(4,817)
Change in deferred revenue		6,941	(2,716)
Cash generated from operations		63,773	55,963
Income tax paid		(2,446)	(6,209)
Interest paid		(7,334)	(1,197)
Net cash generated by operating activities		53,993	48,557
INVESTING ACTIVITIES:			
Pre-delivery payments		(11,233)	(70,078)
Refund of pre-delivery payments		22,376	-
Purchase of property, plant and equipment		(9,818)	(17,883)
Proceeds from disposal of property, plant and equipment		862	508
Purchase of intangible assets	10	(547)	(347)
Deposits placed		(192,097)	(41,246)
Deposits withdrawn		155,243	86,473
Interest received		5,613	7,591
Net cash used in investing activities		(29,601)	(34,982)

JOINT STOCK COMPANY AIR ASTANA

STATEMENT OF CASH FLOWS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2013
(in thousands of USD)

	Notes	2013	2012
FINANCING ACTIVITIES:			
Dividends paid	20	(21,120)	(18,204)
Proceeds from borrowings		2,735	69,537
Repayment of borrowings		(18,300)	(45,000)
Repayment of finance lease		(16,470)	(241)
Net cash (used in)/ generated from financing activities		(53,155)	6,092
NET (DECREASE)/INCREASE IN CASH AND BANK BALANCES		(28,763)	19,667
Effect of exchange rate changes on cash and bank balances held in foreign currencies		(563)	(611)
CASH AND BANK BALANCES, at the beginning of the year	19	43,051	23,995
CASH AND BANK BALANCES, at the end of the year	19	13,725	43,051

On behalf of the Company's management:

АО «ЭЙР АСТАНА»

Peter Foster
President

14 March 2014
Almaty, Republic of Kazakhstan

Alima Zamanbekova
Chief Accountant

14 March 2014
Almaty, Republic of Kazakhstan

The notes on pages 9 to 49 form an integral part of these financial statements. The independent auditor's report on the financial statements is on pages 2 and 3.

1. NATURE OF ACTIVITIES

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

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

The Company operated its maiden flight on 15 May 2002, a Boeing-737 service from Almaty to Kazakhstan's national capital, Astana. As at 31 December 2013 the Company operated 29 turbojet aircraft, of which 8 short-haul and 21 long-haul aircraft representing 10 aircraft acquired under finance lease and 19 aircraft leased under operating lease (2012: 27 aircraft comprising 2 turboprop and 25 turbojet aircraft, of which 8 short-haul turboprop aircraft and 19 long-haul aircraft representing 4 aircraft acquired under finance lease and 23 aircraft leased under operating lease).

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

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

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

The Company has applied a number of new and revised IFRSs issued by the International Accounting Standards Board (IASB) that are mandatorily effective for an accounting period that begins on or after 1 January 2013:

Amendments to IFRS 7 Disclosures – Offsetting Financial Assets and Financial Liabilities

The Company has applied the amendments to IFRS 7 Disclosures – Offsetting Financial Assets and Financial Liabilities for the first time in the current year. The amendments to IFRS 7 require entities to disclose information about rights of offset and related arrangements (such as collateral posting requirements) for financial instruments under an enforceable master netting agreement or similar arrangement.

The amendments should have been applied retrospectively. As the Company does not have any offsetting arrangements in place, the application of the amendments has had no material impact on the disclosures or on the amounts recognised in the financial statements.

New and revised Standards on consolidation, joint arrangements, associates and disclosures

In May 2011, a package of five standards on consolidation, joint arrangements, associates and disclosures (“a package of five standards”) was issued comprising

IFRS 10 Consolidated Financial Statements,
IFRS 11 Joint Arrangements,
IFRS 12 Disclosure of Interests in Other Entities,
IAS 27 (as revised in 2011) Separate Financial Statements and
IAS 28 (as revised in 2011) Investments in Associates and Joint Ventures.

Subsequent to the issue of these standards, amendments to IFRS 10, IFRS 11 and IFRS 12 were issued to clarify certain transitional guidance on the first-time application of the standards.

In the current year, the Company has not applied these standards together with the amendments due to inapplicability except IAS 27 (as revised in 2011) as it is deals with separate financial statements, its application has had no material impact on the disclosures or on the amounts recognised in the financial statements.

IFRS 10 Consolidated Financial Statements

IFRS 10 replaces the parts of IAS 27 Consolidated and Separate Financial Statements that deal with consolidated financial statements and SIC-12 Consolidation – Special Purpose Entities. IFRS 10 changes the definition of control such that an investor has control over an investee when a) it has power over the investee, b) it is exposed, or has rights, to variable returns from its involvement with the investee and c) has the ability to use its power to affect its returns. All three of these criteria must be met for an investor to have control over an investee. Previously, control was defined as the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Additional guidance has been included in IFRS 10 to explain when an investor has control over an investee. Adoption of new standard did not affect the definition of control for the Company. No additionally controlled entities were identified by management through analysis performed.

IFRS 11 Joint Arrangements

IFRS 11 replaces IAS 31 Interests in Joint Ventures, and the guidance contained in a related interpretation, SIC-13 Jointly Controlled Entities – Non-Monetary Contributions by Ventures, has been incorporated in IAS 28 (as revised in 2011). IFRS 11 deals with how a joint arrangement of which two or more parties have joint control should be classified and accounted for. Under IFRS 11, there are only two types of joint arrangements – joint operations and joint ventures. The classification of joint arrangements under IFRS 11 is determined based on the rights and obligations of parties to the joint arrangements by considering the structure, the legal form of the arrangements, the contractual terms agreed by the parties to the arrangement, and, when relevant, other facts and circumstances. A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement (i.e. joint operators) have rights to the assets, and obligations for the liabilities, relating to the arrangement. A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement (i.e. joint ventures) have rights to the net assets of the arrangement. Previously, IAS 31 contemplated three types of joint arrangements – jointly controlled entities, jointly controlled operations and jointly controlled assets. The classification of joint arrangements under IAS 31 was primarily determined based on the legal form of the arrangement (e.g. a joint arrangement that was established through a separate entity was accounted for as a jointly controlled entity).

IFRS 12 Disclosure of Interests in Other Entities

IFRS 12 is a new disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities.

Adoption of the package of five standards had no impact on the Company’s financial statements.

IFRS 13 Fair Value Measurement

The Company has applied IFRS 13 for the first time in the current year. IFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The scope of IFRS 13 is broad; the fair value measurement requirements of IFRS 13 apply to both financial instrument items and non-financial instrument items for which other IFRSs require or permit fair value measurements and disclosures about fair value measurements, except for share-based payment transactions that are within the scope of IFRS 2 Share-based Payment, leasing transactions that are within the scope of IAS 17 Leases, and measurements that have some similarities to fair value but are not fair value (e.g. net realisable value for the purposes of measuring inventories or value in use for impairment assessment purposes).

The standard defines fair value and sets general approach for its measurement and disclosure. IFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions. Fair value under IFRS 13 is an exit price regardless of whether that price is directly observable or estimated using another valuation technique. Also, IFRS 13 includes extensive disclosure requirements.

IFRS 13 requires prospective application from January 1, 2013. In addition, specific transitional provisions were given to entities such that they need not apply the disclosure requirements set out in the Standard in comparative information provided for periods before the initial application of the Standard. The application of IFRS 13 has not had any material impact on the amounts recognised in the financial statements or disclosures (see Note 26).

Amendments to IAS 1 *Presentation of Items of Other Comprehensive Income*

The Company has applied the amendments to IAS 1 Presentation of Items of Other Comprehensive Income for the first time in the current year. The amendments introduce new terminology, whose use is not mandatory, for the statement of comprehensive income and income statement. Under the amendments to IAS 1, the “statement of comprehensive income” is renamed as the “statement of profit or loss and other comprehensive income” and the “income statement” is renamed as the “statement of profit or loss”. The amendments to IAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. The Company has no recognised gains or losses other than the gains and losses shown in the statement of profit or loss and therefore no separate statement of comprehensive income has been presented. The amendments have been applied retrospectively, and hence the presentation of items of profit or loss has been modified to reflect the changes. Other than the above mentioned presentation changes, the application of the amendments to IAS 1 does not result in any impact on profit or loss.

The changes related to improvements of IFRS for 2009-2011 and to IAS 19 Employee Benefits (as revised in 2011) did not have effect on the financial statements of the Company.

New and revised IFRSs in issue but not yet effective

The Company has not applied the following new and revised IFRSs that have been issued but are not yet effective:

- IFRS 9 Financial Instruments[2]
- Amendments to IFRS 9 and IFRS 7 Mandatory Effective Date of IFRS 9 and Transition Disclosures[2]
- Amendments to IFRS 10, IFRS 12 and IAS 27 Investment Entities[1]
- Amendments to IAS 32 Offsetting Financial Assets and Financial Liabilities[1]
- IFRIC 21 Levies[1]

[1] Effective for annual periods beginning on or after 1 January 2014, with earlier application permitted.
[2] Effective for annual periods beginning on or after 1 January 2015, with earlier application permitted.

IFRS 9 Financial Instruments

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

Key requirements of IFRS 9:

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

The directors of the Company anticipate that the application of IFRS 9 in the future can have an impact on amounts reported in respect of the Company’s financial assets and financial liabilities the effect to be assessed further.

Amendments to IAS 32 Offsetting Financial Assets and Financial Liabilities

The amendments to IAS 32 clarify the requirements relating to the offset of financial assets and financial liabilities. Specifically, the amendments clarify the meaning of ‘currently has a legally enforceable right of set-off’ and ‘simultaneous realisation and settlement’.

The directors of the Company do not anticipate that the application of these amendments to IAS 32 will have a significant impact on the Company's financial statements as the Company does not have any financial assets and financial liabilities that qualify for offset.

3. SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

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

Basis of preparation

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

The principal accounting policies are set out below.

Functional and presentation currency

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

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

Revenue

Passenger revenue

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

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

Cargo revenue

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

Government grants

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

Customer loyalty program

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

Travel agents' commissions

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

Leasing

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

The Company as lessee

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

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

Lease guarantee deposits

Guarantee deposits represent amounts paid to the lessors of aircraft, which are held as security deposits by the lessors in accordance with the provisions of operating lease agreements; these deposits are returned to the Company at the end of the lease period. Lease deposits relating to the operating lease agreements are presented as assets in the statement of financial position. These deposits are interest-free and are recorded at amortised cost using an average market yield of 4.5% (2012: 8.2%)

Foreign currencies

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

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

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

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

	Average rate		Reporting date spot-rate	
	2013	**2012**	**2013**	**2012**
US dollar (USD)	152.13	149.11	153.61	150.74
Euro (EUR)	202.09	191.69	211.17	199.22
British Pound (GBP)	237.96	236.25	253.29	243.72

Finance income and expenses

Finance income comprises interest income on bank deposits.

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

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

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

Short-term employee benefits

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

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

Taxation

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

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

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

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

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

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

Property, plant and equipment

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

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

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

Flight Equipment

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

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

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

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

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

Other property, plant and equipment

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

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

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

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

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

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

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

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

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

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

Intangible assets

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

Impairment of tangible and intangible assets

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

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

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

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

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

Inventories

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

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

Provisions

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

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

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

Provision for aircraft maintenance under operating lease

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

Financial instruments

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

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

Financial assets

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

Effective interest method

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

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

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

Receivables

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

Impairment of financial assets

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

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

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

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

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

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

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

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

Derecognition of financial assets

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

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

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

Financial liabilities and equity instruments issued by the Company

Classification as debt or equity

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

Financial liabilities

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

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

A financial liability is classified as held for trading if:

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

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

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

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

Other financial liabilities

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

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

Derivative financial instruments

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

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

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

Dividends

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

Derecognition of financial liabilities

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

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

Critical judgments in applying accounting policies and estimates

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

Provisions

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

Recoverability of variable lease payments related to future maintenance

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

In case of return of the aircraft after the scheduled maintenance event, but before the return condition specified in the lease agreement is triggered, the amounts of variable lease payments made to the lessors are not reimbursable and are retained by the lessors as a deposit transferrable to the next lessees of the aircraft. Management of the Company believes that as at 31 December 2013 contributions of variable lease payments of USD 109,274 thousand (2012: USD 115,452 thousand) are subject to reimbursement by the aircraft lessors upon actual maintenance events. Management regularly assesses the recoverability of variable lease payments made by the Company.

Compliance with tax legislation

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

Useful lives of property, plant and equipment

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

Fair value of financial instruments

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

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

Allowances

The Company accrues allowances for doubtful accounts receivable. Judgment is used to estimate doubtful accounts, which includes consideration of historical and anticipated customer performance. Changes in the economy or specific customer conditions may require adjustments to the allowance for doubtful accounts recorded in these financial statements. As at 31 December 2013 and 2012, allowances for doubtful accounts were equal to USD 6,776 thousand and USD 6,023 thousand, respectively (Notes 14, 15).

The Company annually estimates the necessity of accrual of allowances for obsolete and slow-moving inventories based on annual stock count data conducted at the reporting date. As at 31 December 2013, the Company accrued an allowance for obsolete and slow-moving inventories in the amount of USD 366 thousand (2012: USD 677 thousand) (Note 13).

Contingent liabilities and contingent assets

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

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

5. REVENUE

Passenger revenue	2013	2012
Passenger transport	720,819	674,815
Fuel surcharge	141,158	113,496
Airport services	46,193	35,419
Excess baggage	8,900	9,778
	917,070	833,508

Cargo and mail revenue	2013	2012
Cargo	27,300	24,485
Mail	2,123	1,828
	29,423	26,313

Other revenue	2013	2012
Penalties on agency contracts	8,764	7,817
Advertising revenue	2,078	1,849
Income from ground services	905	710
Gain on disposal of spare parts and other assets	763	345
Spare parts received free of charge	346	10
Government subsidies	305	2,371
Other	7,250	2,152
	20,411	15,254

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

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

During 2013, the subsidies were provided for the routes from Astana to Zhezkazgan and Pavlodar.

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

	2013	2012
Europe	391,367	345,376
Domestic	346,137	332,746
Asia	208,989	181,699
Total passenger, cargo and mail revenue	946,493	859,821

6. OPERATING EXPENSES

Handling, landing fees and route charges	2013	2012
Aero navigation	43,568	34,122
Handling charge	35,689	32,115
Landing fees	35,282	30,416
Meteorological services	2,129	1,895
Other	1,369	1,033
	118,037	99,581

Employee costs	**2013**	**2012**
Wages and salaries of operational personnel	64,667	62,603
Wages and salaries of administrative personnel	14,427	12,511
Social tax	8,706	6,586
Wages and salaries of sales personnel	6,220	5,757
Other	5,060	4,750
	99,080	92,207

The average number of employees during 2013 was 4,069 (2012: 3,750).

Passenger service	**2013**	**2012**
Airport charges	41,324	34,442
Catering	37,507	31,681
Security	3,293	2,561
In-flight entertainment	2,448	2,307
Other	8,120	6,631
	92,692	77,622

Engineering and maintenance	**2013**	**2012**
Maintenance – variable lease payments	44,487	48,644
Maintenance – provisions (Note 22)	11,273	191
Spare parts	12,470	5,845
Maintenance – components	9,194	16,461
Technical inspection	2,520	2,938
	79,944	74,079

Aircraft operating lease costs	**2013**	**2012**
Fixed lease charges	72,161	76,826
Operating lease return costs	4,881	1,788
Lease of engines and rotable spare parts	1,201	1,118
	78,243	79,732

Selling costs	**2013**	**2012**
Commissions	25,190	28,714
Reservation costs	15,145	13,335
Advertising	6,054	5,920
Interline commissions	1,179	1,116
Other	643	1,343
	48,211	50,428

Aircraft crew costs	**2013**	**2012**
Accommodation and allowances	16,802	13,597
Contract crew	12,878	15,240
Training	9,806	10,534
	39,486	39,371

Insurance	2013	2012
Legal liability insurance	2,372	2,360
Hull insurance	2,352	2,222
Medical insurance	939	853
Other	286	246
	5,949	5,681

7. FINANCE INCOME AND EXPENSES

Finance income	2013	2012
Interest income on bank deposits	1,396	3,857
Other	292	92
	1,688	3,949

Finance expenses	2013	2012
Interest expense on finance lease	6,544	411
Bank commissions	987	958
Net unrealised loss on financial assets and liabilities at fair value through profit or loss (Note 16)	13	4
Interest expense on bank loans	-	879
Other	107	68
	7,651	2,320

8. INCOME TAX EXPENSE

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

	2013	2012
Current income tax expense	-	6,646
Adjustment for income tax related to prior year	(1,252)	-
Deferred income tax expense	14,813	11,499
	13,561	18,145

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

	2013	2012
Current income tax	-	-
Deferred income tax	(208)	-
	(208)	-

The movements in deferred tax balances were as follows for the years ended 31 December:

	2013	2012
Deferred income tax (liabilities)/assets at 1 January	(3,515)	7,984
Recognised in profit or loss	(14,813)	(11,499)
Recognised in other comprehensive income	208	-
Deferred tax liabilities at 31 December	(18,120)	(3,515)

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 2013 and 2012 is presented below:

	2013	2012
Deferred tax assets		
Provision for aircraft maintenance	4,629	4,169
Carried forward CIT losses	3,410	-
Trade and other payables	3,139	1,473
Trade and other receivables	1,355	1,205
Finance lease obligations	201	-
Intangible assets	163	111
Remuneration payable	-	628
Total	12,897	7,586
Deferred tax liabilities		
Difference in depreciable value of property, plant and equipment	(30,951)	(11,034)
Prepaid expenses	(66)	(67)
Total	(31,017)	(11,101)
Net deferred tax liabilities	(18,120)	(3,515)

The income tax rate in the Republic of Kazakhstan, where the Company is located, in 2013 and 2012 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% (2012: 20%) to the actual income tax expense recorded in the Company's statement of profit or loss and other comprehensive income:

	201	2012
Profit before tax	64,925	79,221
Income tax at statutory rate	12,985	15,844
Tax effect of non-deductible expenses	576	2,301
Income tax expense	13,561	18,145

9. PROPERTY, PLANT AND EQUIPMENT

	Rotable spare parts	Office equipment and furniture	Building, premises and land	Vehicles	Flight equipment under finance lease	Equipment to be installed	Total
Cost							
At 1 January 2012	33,105	8,359	5,457	3,128	-	3,674	53,723
Additions	3,985	-	-	-	-	163,525	167,510
Disposals	(496)	(144)		(82)	-	-	(722)
Transfers from prepayments	-	-	-	-	37,816	-	37,816
Transfers to inventory	-	-	-	-	-	(101)	(101)
Transfers	11,287	1,810	431	370	146,642	(160,540)	-
Foreign currency translation difference	(675)	(148)	(88)	(52)	(1,994)	(88)	(3,045)
At 31 December 2012	47,206	9,877	5,800	3,364	182,464	6,470	255,181
Additions	-	-	-	-	-	310,445	310,445
Disposals	(1,010)	(510)	-	(81)	-	-	(1,601)
Transfers from prepayments		-	-	-	59,012	-	59,012
Transfers to inventory	(314)	-	-	-	-	-	(314)
Transfers	7,592	1,800	3	423	295,861	(305,679)	-
Foreign currency translation difference	(942)	(197)	(109)	(67)	(6,829)	(166)	(8,310)
At 31 December 2013	52,532	10,970	5,694	3,639	530,508	11,070	614,413
Accumulated depreciation							
At 1 January 2012	12,963	4,325	908	1,426	-	-	19,622
Charge for the year (Note 11)	3,624	1,446	184	449	720	-	6,423
Disposals	(204)	(122)	-	(64)	-	-	(390)
Foreign currency translation difference	(237)	(82)	(17)	(27)	(8)	-	(371)
At 31 December 2012	16,146	5,567	1,075	1,784	712	-	25,284
Charge for the year (Note 11)	5,886	1,675	180	456	20,128	-	28,325
Disposals	(741)	(497)	-	(81)	-	-	(1,319)
Transfers	118	(1)	-	(117)	-	-	-
Foreign currency translation difference	(353)	(115)	(21)	(35)	(209)	-	(733)
At 31 December 2013	21,056	6,629	1,234	2,007	20,631	-	51,557
Net book value							
At 31 December 2013	31,476	4,341	4,460	1,632	509,877	11,070	562,856
At 31 December 2012	31,060	4,310	4,725	1,580	181,752	6,470	229,897

As at 31 December 2013, the book value of fully depreciated property, plant and equipment that is still in use was USD 4,627 thousand (2012: USD 3,174 thousand).

The Company's obligations under finance leases are secured by the lessors' title to the leased assets, which have a carrying amount of USD 509,877 thousand (2012: USD 181,752 thousand) (Note 25).

Rotable spare parts include aircraft modifications.

For the year ended 2013 interest of the loan in the amount of USD 674 thousand was capitalized into property, plant and equipment (2012: USD 246 thousand) (Note 24).

10. INTANGIBLE ASSETS

	Software
Cost	
At 1 January 2012	5,866
Additions	347
Foreign currency translation difference	(95)
At 31 December 2012	6,118
Additions	547
Foreign currency translation difference	(119)
At 31 December 2013	6,546
Accumulated amortisation	
At 1 January 2012	2,714
Charge for the year (Note 11)	862
Foreign currency translation difference	(51)
At 31 December 2012	3,525
Charge for the year (Note 11)	957
Foreign currency translation difference	(75)
At 31 December 2013	4,407
Net book value	
At 31 December 2013	2,139
At 31 December 2012	2,593

11. DEPRECIATION AND AMORTISATION

	2013	**2012**
Depreciation of property, plant and equipment (Note 9)	28,325	6,423
Amortisation of intangible assets (Note 10)	957	862
Total	29,282	7,285

12. GUARANTEE DEPOSITS

	31 December 2013	31 December 2012
Non-current		
Guarantee deposits for leased aircraft	12,147	17,020
Other guarantee deposits	652	581
	12,799	17,601
Current		
Guarantee deposits for leased aircraft	4,394	391
Other guarantee deposits	752	1,194
	5,146	1,585
	17,945	19,186

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

Guarantee deposits for leased aircraft are receivable as follows:

	31 December 2013	31 December 2012
Within one year	4,394	391
After one year but not more than five years	5,957	15,046
More than five years	6,251	2,231
	16,602	17,668
Fair value adjustment	(61)	(257)
	16,541	17,411

13. INVENTORIES

	31 December 2013	31 December 2012
Spare parts	34,723	23,088
Fuel	7,660	8,908
Goods in transit	6,028	5,138
Crockery	2,026	2,197
De-icing liquid	1,490	581
Promotional materials	983	1,140
Uniforms	806	1,279
Blank forms	585	593
Other	1,312	513
	55,613	43,437
Less: allowance for obsolete and slow-moving inventories	(366)	(677)
	55,247	42,760

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

	2013	2012
Allowance for obsolete and slow-moving inventories at the beginning of the year	(677)	(466)
Accrued for the year	(369)	(221)
Reversed for the year	671	-
Foreign currency translation difference	9	10
Allowance for obsolete and slow-moving inventories at the end of the year	(366)	(677)

14. PREPAYMENTS

	31 December 2013	31 December 2012
Non-current		
Prepayments for non-current assets	22,908	94,114
Advances paid for services	890	939
	23,798	95,053
Current		
Advances paid for services	32,191	15,854
Advances paid for goods	14,348	5,843
Prepayments for operating lease	4,246	5,069
Prepayments for finance lease	3,982	-
	54,767	26,766
Less: allowance for non-recovery	(5,553)	(5,510)
	49,214	21,256

Prepayments for non-current assets were made to Boeing as pre-delivery payment for the remaining four aircraft (Note 27).

The movements in the allowance for non-recovery for the years ended 31 December were:

	2013	2012
At the beginning of the year	(5,510)	(3,250)
Accrued during the year	(289)	(4,440)
Reversed during the year	109	2,071
Written-off against previously created allowance	33	33
Foreign currency translation difference	104	76
At the end of the year	(5,553)	(5,510)

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

15. TRADE AND OTHER RECEIVABLES

	31 December 2013	31 December 2012
Non current		
Due from employees, non-current portion	5,448	-
	5,448	-
Current		
Trade receivables	26,884	29,070
Receivable from lessors – variable lease reimbursement	4,437	11,376
Due from employees	2,364	5,888
Subsidies receivable (Note 28)	244	242
Other	-	259
	33,929	46,835
Less: allowance for doubtful debts	(1,223)	(513)
	32,706	46,322

At 31 December 2013, eight debtors including IATA Bank Settlement Plans (BSPs) as collecting agencies from the worldwide travel agencies comprised 33% of the Company's trade and other receivables (2012: eight debtors comprised 39%).

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

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

	31 December 2013	31 December 2012
Tenge	18,817	19,939
US Dollar	10,447	16,039
Euro	2,880	5,083
Russian Rouble	1,697	1,535
Other	5,536	4,239
	39,377	46,835

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

	2013	2012
At the beginning of the year	(513)	(497)
Accrued during the year	(730)	(259)
Reversed during the year	3	-
Written-off against previously created allowance	-	235
Foreign currency translation difference	17	8
At the end of the year	(1,223)	(513)

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

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

	Call option	**Put option**	**Net**
At 1 January 2012	891	(793)	98
First-time valuation of options	(502)	461	(41)
Foreign currency translation gain	8	21	29
Net unrealised (loss)/gain on financial assets and liabilities at fair value through profit or loss (Note 7)	(28)	24	(4)
Foreign currency translation difference	(8)	7	(1)
At 31 December 2012	361	(280)	81
Foreign currency translation gain/(loss)	6	(6)	-
Net unrealised (loss)/gain on financial assets and liabilities at fair value through profit or loss (Note 7)	(28)	15	(13)
Foreign currency translation difference	(8)	5	(3)
At 31 December 2013	331	(266)	65

The terms of the options are described in Note 26.

17. OTHER TAXES PREPAID

	31 December 2013	**31 December 2012**
Value added tax recoverable	7,227	3,736
Prepayment for personal income tax for non-residents	66	-
Other taxes prepaid	475	360
	7,768	4,096

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

18. BANK DEPOSITS

	31 December 2013	**31 December 2012**
Current		
Term deposits with local banks	114,186	76,049
Guarantee deposits	23	19
Interest receivable	163	4,408
	114,372	80,476

Term deposits with local banks (with an original maturity of more than three months and less than one year) earn interest in the range from 0.5% to 1.5% per annum (2012: 0.4% to 7.5%). Bank deposits have no restrictions on early withdrawal.

Guarantee deposits made to meet the requirements of Kazakhstan legislation relating to foreign employees are denominated in tenge and earn interest from 0% to 4.5% per annum (2012: 4.5%).

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

	2013	2012
US Dollar	108,140	78,871
Euro	6,186	1,570
Tenge	46	35
	114,372	80,476

19. CASH AND BANK BALANCES

	31 December 2013	31 December 2012
Current accounts with local banks	9,385	30,929
Current accounts with foreign banks	4,201	7,060
Term deposits with local banks with original maturity less than 3 months	-	4,975
Cash on hand	139	87
	13,725	43,051

At 31 December 2013, current accounts with banks earn interest in the range of 0.5% to 2.5% (2012: 0.2% to 2%). At 31 December 2012, short-term deposits (over-night) with banks earn interest of up to 1% per annum.

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

	2013	2012
US Dollar	6,717	6,261
Euro	2,537	5,341
Russian Rouble	1,302	1,362
Tenge	1,100	24,751
Indian Rupee	566	1,025
Chinese Yuan	433	980
Uzbek Soms	267	735
GBP	106	1,433
Other	697	1,163
	13,725	43,051

20. EQUITY

As at 31 December 2013 and 2012, share capital comprised of 17,000 authorised, issued and fully paid ordinary shares with a par value of USD 1,000 per share.

In May 2013, the shareholders declared a dividend payment equivalent to 35% of profit for 2012. The total amount of the dividend was USD 21,120 thousand, which was distributed and paid to each shareholder in accordance with their shareholdings.

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

The 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 (2012: 17,000). The Company has no instruments with potential dilutive effect.

	2013	2012
Profit:		
Profit for the year	51,364	61,076
Number of ordinary shares	17,000	17,000
Earnings per share – basic and diluted (USD)	3,021	3,593

21. DEFERRED REVENUE

	31 December 2013	31 December 2012
Unearned transportation revenue	55,988	50,146
Customer loyalty program	7,252	7,294
	63,240	57,440

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

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

22. PROVISION FOR AIRCRAFT MAINTENANCE

	31 December 2013	31 December 2012
Engines	17,976	16,673
Provision for redelivery of aircraft	2,904	-
C-Check	2,267	3,529
Fokker-50 redelivery provisions	-	642
	23,147	20,844

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

	2013	2012
At 1 January	20,844	28,306
Accrued during the year (Note 6)	15,423	10,207
Reversed during the year (Note 6)	(4,150)	(10,016)
Used during the year	(8,554)	(7,290)
Foreign currency translation difference	(416)	(363)
At 31 December	23,147	20,844

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

The planned utilisation of these provisions is as follows:

	31 December 2013	**31 December 2012**
Within one year	16,049	16,712
During the second year	2,000	2,248
During the third year	1,084	726
After the third year	4,014	1,158
Total provision for aircraft maintenance	23,147	20,844
Less: current portion	(16,049)	(16,712)
Non-current portion	7,098	4,132

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

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

23. TRADE AND OTHER PAYABLES

	31 December 2013	**31 December 2012**
Trade payables	38,280	36,426
Employee unused vacation and remuneration payable	3,019	5,512
Taxes payable	2,960	1,015
Operating lease payables	2,921	3,147
Advances received	2,019	1,952
Wages and salaries payable to employees	713	3,828
Other	217	1,160
	50,129	53,040

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

	31 December 2013	31 December 2012
Tenge	32,220	23,177
US dollar	10,819	19,585
Euro	3,623	5,900
Russian roubles	1,514	893
GBP	401	1,312
Other	1,552	2,173
	50,129	53,040

24. LOANS

	31 December 2013	31 December 2012
Non-current		
Non-secured non-bank loans	-	6,456
	-	6,456
Current		
Current portion of non-secured non-bank loans	9,223	18,081
Interest payable	59	146
	9,282	18,227
	9,282	24,683

On 16 March 2012, the Company entered into a renewable credit line agreement with JSC Halyk Bank for the amount of USD 45,000 thousand for the purpose of replenishment of working capital in order to meet current liabilities and not to incur interest penalties on early termination of bank deposits. Interest rate was fixed depending on loan terms from 4.5% to 7.25% per annum. The loan was secured by cash kept on the Company's current accounts and was fully repaid during August 2012. The extension period has not been used and the availability period has been renewed till 30 June 2014 with a new fixed interest rate from 4% to 6% per annum depending on loan terms.

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

25. OBLIGATIONS UNDER FINANCE LEASE

Under fixed interest finance lease agreements in 2012 and 2013, the Company acquired four and six aircraft, respectively. The lease term for each aircraft is twelve years. The Company has an option to purchase each aircraft for a nominal amount at the end of the lease (Note 27). Loans provided by financial institutions to the lessors in respect of six new Airbus are guaranteed by European Export Credit Agencies while two Boeing 767 aircraft which were delivered in September and October 2013 were guaranteed by US Export Import Bank. Two Embraer aircraft were delivered in November 2012 and December 2013 under fixed interest rate finance lease agreements. The Company's obligations under finance leases are secured by the lessors' title to the leased assets. These assets have a carrying value of USD 509,877 thousand (2012: USD 181,752 thousand) (Note 9).

The Company's finance leases are subject to certain covenants. These covenants impose restrictions in respect of certain transactions, including, but not limited to restrictions in respect of indebtedness. Certain finance lease agreements include covenants as regards to change of ownership of the Company. These requirements have been met during 2013.

	Minimum lease payments		Present value of minimum lease payments	
	31 December 2013	**31 December 2012**	**31 December 2013**	**31 December 2012**
Not later than one year	46,198	14,210	36,470	10,047
Later than one year and not later than five years	176,453	57,500	143,321	43,579
Later than five years	277,380	100,846	239,566	90,454
	500,031	172,556	419,357	144,080
Less: future finance charges	(80,674)	(28,476)	-	-
Present value of minimum lease payments	419,357	144,080	419,357	144,080
Included in the financial statements as:				
- current portion of finance lease obligations			36,470	10,047
- non-current portion of finance lease obligations			382,887	134,033
			419,357	144,080

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

26. FINANCIAL INSTRUMENTS

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

Capital management

The Company manages its capital to ensure the Company will be able to continue as going concern while maximising the return to the shareholders through the optimisation of the debt and equity balance. The Company's overall strategy remains unchanged from 2012.

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

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

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

Gearing ratio

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

	31 December 2013	31 December 2012
Loans and finance lease liabilities (Note 24, 25)	428,639	168,763
Cash and bank balances, bank deposits (Note 18, 19)	(128,097)	(123,527)
Net debt	300,542	45,236
Equity	307,518	282,681
Net debt to equity ratio	97.73%	16.00%

Credit risk

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

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

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

As at 31 December 2013, there was no significant concentration of credit risk in respect of trade accounts receivable (Note 15).

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

Interest rate risk

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

Commodity price risk

The Company uses options to economically hedge the risk of jet fuel price movement. The Company uses standard market instruments for fuel hedging purposes, such as “call option” (where the premium is paid in advance by the Company to cover the risk of increases of commodity price above the predetermined level) and zero cost collar (where the premium is equal to zero, and where the Company simultaneously buys the “call option” and sells the “put option”). Since there is no possibility to hedge the risk of changes in jet fuel prices purchased from local suppliers, the Company hedges only the amount of fuel purchased outside the Republic of Kazakhstan signing the general agreement with several international banks on the conclusion of derivative transactions. The management of the Company determines the volume of jet fuel that will be hedged before executing the deal. Hedging is carried out according to the Fuel hedging policy approved by the directors and shareholders of the Company.

The following table summarises the impact of reasonably possible changes in aviation fuel price on the Company's profit and equity. For the purpose of this disclosure, the sensitivity analysis assumes a 10 per cent increase and decrease in the price of aviation fuel above upper price (Cap) and below lower price (Floor), respectively. The sensitivity analysis assumes designation and effectiveness testing results as at 31 December 2013 remain unchanged. This analysis also assumes that all other variables, including foreign currency exchange rates and option volatilities, remain constant.

	2013		**2012**	
	Profit	**Equity**	**Profit**	**Equity**
Market price is 10% higher than Cap	3,938	3,938	3,745	3,745
Market price is 10% lower than Floor	(1,936)	(1,936)	(2,247)	(2,247)

Foreign currency risk

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

Foreign currency sensitivity analysis

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

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

		US dollar		**Euro**	
	Notes	**31 December 2013**	**31 December 2012**	**31 December 2013**	**31 December 2012**
Assets					
Guarantee deposits		17,631	18,913	107	83
Trade and other receivables	15	10,447	16,039	2,880	5,083
Bank deposits	18	108,140	78,871	6,186	1,570
Cash and bank balances	19	6,717	6,261	2,537	5,341
Total		142,935	120,084	11,710	12,077
Liabilities					
Loans	24	9,282	24,683	-	-
Finance lease liabilities	25	500,031	172,556	-	-
Trade and other payables	23	10,819	19,585	3,623	5,900
Total		520,132	216,824	3,623	5,900
Net position		(377,197)	(96,740)	8,087	6,177

The following table details the Company's sensitivity to 20% weakening of the tenge against US Dollar and Euro in 2013 and 10.72% and 10.77% in 2012. 20% is the sensitivity rates used when reporting foreign currency risk internally to key management personnel and represents management's assessment driven by devaluation of tenge on 11 February 2014 (Note 29). Management of the Company believes that given the current economic conditions in Kazakhstan that weakening by 20% is a realistic movement in the tenge exchange rates against foreign currencies.

The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 20% change in rates of US dollar and Euro, as at 31 December 2013 and 10.72 and 10.77% as at 31 December 2012. The sensitivity analysis includes trade and other receivables, cash and bank balances, bank deposits, guarantee deposits, trade and other payables, loans and finance lease liabilities.

A negative number below indicates a decrease in profit and equity where the tenge weakens by 20% against US Dollar, and, in the case of Euro the net position is positive (2012: 10.72 and 10.77%). For a 20% strengthening of the tenge against US Dollar and Euro in 2013 and 10.72 and 10.77% in 2012, there would be an equal and opposite impact on the profit and other equity, and the balances below would be positive.

	Currency US Dollar impact		**Currency Euro impact**	
	2013	**2012**	**2013**	**2012**
	20%	**10.72%**	**20%**	**10.77%**
Profit or (loss)	(60,352)	(8,296)	1,294	532

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

Liquidity risk management

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

Liquidity and interest risk tables

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

	Weighted average effective interest rate %	**Up to 3 months**	**3 months to 1 year**	**1-5 years**	**Over 5 years**	**Total**
2013						
Financial liabilities						
Interest free						
Trade and other payables	-	-	41,418	-	-	41,418
Financial liabilities at fair value through profit or loss	-	-	266	-	-	266
Fixed rate						
Non-secured non-bank loans		59	9,362	-	-	9,421
Finance lease liabilities		11,270	34,928	176,453	277,380	500,031
2012						
Financial liabilities						
Interest free						
Trade and other payables	-	-	46,322	-	-	46,322
Financial liabilities at fair value through profit or loss	-	-	280	-	-	280
Fixed rate						
Non-secured non-bank loans		-	18,587	6,824	-	25,411
Finance lease liabilities		2,207	12,003	57,500	100,846	172,556

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

	Weighted average effective interest rate %	Up to 3 month	3 months to 1 year	1-5 years	Over 5 years	Total
2013						
Financial assets						
Interest free						
Trade and other receivables	-	5,448	32,706	-	-	38,154
Financial assets at fair value through profit or loss	-	-	331	-	-	331
Guarantee deposits	-	401	4,745	6,595	6,204	17,945
Cash and bank balances	-	13,725	-	-	-	13,725
Fixed rate						
Bank deposits	0.79%	27,204	87,466	-	-	114,670
2012						
Financial assets						
Interest free						
Trade and other receivables	-	-	46,322	-	-	46,322
Financial assets at fair value through profit or loss	-	-	361	-	-	361
Guarantee deposits	-	-	1,585	15,431	2,170	19,186
Cash and bank balances	-	43,051	-	-	-	43,051
Fixed rate						
Bank deposits	3.26%	40,335	40,992	-	-	81,327

Fair values

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

Level 2 fair values for financial assets and liabilities at fair value through profit or loss have been generally derived using the fair value valuation reports provided by the banks which participate in hedging transactions. The most significant input into this valuation approach are time left to maturity of the deal, forward and spot prices of crude oil.

The Company has no other financial and non-financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 of fair value hierarchy.

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

Cash and bank balances

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

Financial instruments at fair value through profit or loss

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

Trade and other receivables and payables

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

Loans

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

Finance lease liabilities

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

Provisions

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

27. COMMITMENTS AND CONTINGENCIES

Capital commitments

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

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

During 2012, the Company finalised an agreement with Boeing to purchase three Boeing-767s and three Boeing-787s aircraft. The Company is committed to pre-delivery payments in accordance with the agreed payment schedule. In respect of the Boeing 767 aircraft, 50% of pre-delivery payments were paid from own resources and 50% were financed by the borrowings (Note 24). The amounts borrowed in respect of the first two Boeing 767 were repaid by the Company on delivery of each aircraft in 2013. Final pre-delivery payments for the third B767 aircraft were made in 2013. One Boeing 767 was delivered in September and another in October 2013 and the third one is expected in mid 2014. Delivery of Boeing 787s are planned in 2017 and 2019 with last pre-delivery payments expected in 2018.

In June 2013, the Company signed a term sheet with a US financing corporation to finance purchase of up to three Boeing-767 aircraft for the amount guaranteed by US Export-Import Bank. This facility has been used to finance both Boeing-767 delivered in September and in October 2013, respectively, while the third one is expected in mid-2014.

The terms of the Company’s contracts with the above suppliers precludes it from disclosing information on the purchase cost of the aircraft.

Operating lease commitments

Aircraft

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

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

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

Non-cancellable operating lease commitments are payable as follows:

	31 December 2013	**31 December 2012**
Within one year	94,727	104,919
After one year but not more than five years	336,345	247,685
More than five years	25,764	95,550
	456,836	448,154

Unsecured stand-by Letters of Credit facility were obtained in March and September 2013 for the total amount of USD 5,000 thousand. These Letters of Credit were obtained as security for Lessors to cover any unfulfilled maintenance liabilities on the return of two Embraer E190 to Lessor, with further annual reissuance.

Engine

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

Operating lease agreements for another four engines will expire by the end of March 2014.

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

Non-cancellable operating lease commitments are payable as follows:

	31 December 2013	31 December 2012
Within one year	2,464	1,394
After one year but not more than five years	5,671	5,994
More than five years	940	1,945
	9,075	9,333

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. LIoyd's) having high rating of financial stability through a service of international reputable broker. Types of insurance coverage are stated below:

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

Non – Aviation Insurance

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

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

Taxation contingencies

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

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

In 2012, Tax authorities performed tax audit for five-year period from 2006 to 2010 inclusive. During 2013 based on their final assessment, a total amount of USD 2,885 thousand was accrued including taxes, interest and penalties which were fully paid in 2013 including the appealed amount mentioned below. In January 2013 the Company appealed to Tax Authorities for the amount of USD 1,827 thousand. The Tax Authorities rejected the appeal of the Company and the Company appealed to the Ministry of Finance. Ministry of Finance left the decision of tax authorities without changes. Further in January 2014 the Company continued to appeal to Interregional Court of Almaty. As at the date of approval of these financial statements the Company has not received any response on the appeal.

Operating Environment

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

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

28. RELATED PARTY TRANSACTIONS

Control relationships

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

In 2007 the shareholders appointed two independent directors; one is from JSC "National Welfare Fund "Samruk-Kazyna", and another from BAE System Kazakhstan Limited. An agreement with the independent directors was signed in 2007 and the total remuneration paid in 2013 to independent directors was 55 USD thousand (2012: USD 76 thousand).

Management remuneration

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

	2013	**2012**
Salaries and bonuses	4,244	4,178
Termination benefits	1	1
	4,245	4,179

Transactions with related parties

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

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

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

The Government subsidies for 2013 amounted to USD 305 thousand (2012: USD 2,371 thousand) (Note 5). As at 31 December 2013 the outstanding amount due to the Company for subsidies was USD 244 thousand (2012: USD 242 thousand) (Note 15).

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

	2013		**2012**	
Services received	**Transaction value**	**Outstanding balance**	**Transaction value**	**Outstanding balance**
State-owned companies	49,200	(4,226)	23,901	(363)
Shareholders and their subsidiaries	14,914	(484)	42,600	(5,583)
	64,114	(4,710)	66,501	(5,946)

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

	2013		**2012**	
Services provided by the Company	**Transaction value**	**Outstanding balance**	**Transaction value**	**Outstanding balance**
Shareholders and their subsidiaries	1,252	304	1,251	132
	1,252	304	1,251	132

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

29. SUBSEQUENT EVENTS

On 11 February 2014, the National Bank of the Republic of Kazakhstan took the decision to temporarily reduce its intervention in setting the KZT exchange rate. As a result, the official exchange rate of KZT to US dollar fell to KZT 184.55 per US dollar as at 12 February 2014, i.e. by approximately 19%. To prevent the destabilisation of the financial market and economy as a whole, the National Bank plans to set an exchange corridor for the KZT against the US dollar at KZT 182-188 per US dollar. As of 14 March 2014, the KZT to US dollar official exchange rate is 182.10 KZT per US dollar.

The Company management believes that it has taken appropriate measures to support the sustainability of the Company business under the current circumstances.

In February 2014 the Company received one Embraer-190 and one Airbus under operating leases.

Unsecured stand-by Letter of Credit facility for the amount of USD 2,500 thousand relating to Embraer 190 was reissued in February 2014 with further annual reissuance (Note 27).

Additional two unsecured stand-by Letters of Credit were obtained in February 2014 for the amount of USD 1,500 thousand and USD 2,500 thousand. These were obtained as security for Lessors to cover any unfulfilled maintenance liabilities on the return of one Airbus A320 and one Embraer E190 to Lessor, respectively, with further annual reissuance.

30. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved by management of the Company and authorised for issue on 14 March 2014.