

JOINT STOCK COMPANY AIR ASTANA

Financial Statements

For the year ended 31 December 2015

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 2015**

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 2015, 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:

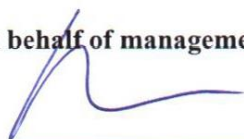
- properly selecting and applying accounting policies;
- presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- providing additional disclosures when compliance with the specific requirements in IFRS are insufficient 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 2015 were authorised for issue on 29 February 2016 by management of the Company.

On behalf of management of the Company:



Peter Foster
President

29 February 2016

Almaty, Republic of Kazakhstan



Alima Zamanbekova
Chief Accountant

29 February 2016

Almaty, Republic of Kazakhstan



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050051 Almaty, 180 Dostyk Avenue,
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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 2015, and the statements of profit or loss, 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 auditor's 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 the Company as at 31 December 2015, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.



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

KPMG Audit LLC

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



Assel Khairova
General Director of KPMG Audit LLC
acting on the basis of the Charter

29 February 2016

JOINT STOCK COMPANY AIR ASTANA

STATEMENT OF PROFIT OR LOSS FOR THE YEAR ENDED 31 DECEMBER 2015 (in thousands of USD)


	Notes	2015	2014
Revenue			
Passenger revenue	5	726,800	888,180
Cargo and mail revenue	5	19,586	26,443
Other revenue	5	15,361	20,157
Total revenue		761,747	934,780
Operating expenses			
Fuel		(165,263)	(252,108)
Handling, landing fees and route charges	6	(105,039)	(110,077)
Engineering and maintenance	6	(97,321)	(76,883)
Employee costs	6	(84,009)	(103,728)
Passenger service	6	(80,171)	(87,384)
Aircraft operating lease costs	6	(59,307)	(67,065)
Depreciation and amortisation	11	(48,491)	(45,891)
Selling costs	6	(36,839)	(39,736)
Aircraft crew costs	6	(29,323)	(26,642)
Property lease cost		(5,282)	(5,441)
Insurance	6	(4,708)	(5,543)
Information technology		(3,210)	(3,345)
Consultancy, legal and professional services		(2,406)	(2,488)
Taxes, other than income tax		(1,288)	(1,532)
Other		(6,032)	(8,426)
Total operating expenses		(728,689)	(836,289)
Operating profit		33,058	98,491
Finance income	7	6,951	1,762
Finance expenses	7	(22,367)	(24,980)
Foreign exchange gain/(loss), net	25	44,652	(47,840)
Profit before tax		62,294	27,433
Income tax expense	8	(13,553)	(7,980)
Profit for the year		48,741	19,453
Basic and diluted earnings per share (in USD)	20	2,867	1,144

On behalf of the Company's management:


Peter Foster
President



29 February 2016
 Almaty, Republic of Kazakhstan


Alima Zamanbekova
Chief Accountant

29 February 2016
 Almaty, Republic of Kazakhstan

The notes on pages 10 to 52 form an integral part of these financial statements. The independent auditors' report on the financial statements is on pages 2 and 3.

JOINT STOCK COMPANY AIR ASTANA

STATEMENT OF OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2015 (in thousands of USD)

		2015	2014
Net profit for the year	Notes	48,741	19,453
Foreign currency translation loss, which will never be reclassified to profit or loss in subsequent periods		(107,600)	(48,857)
Other comprehensive loss, net of tax, to be reclassified into profit or loss in subsequent periods:			
Net loss from cash flow hedging instruments, including realized portion	25	(152,144)	-
Deferred taxes related to losses from cash flow hedging instruments	25	30,429	-
Unrealised portion of fuel hedging loss	16	(4,307)	-
Realised portion of fuel hedging loss	16	4,307	-
Income tax for unrealised portion of fuel hedging loss	16	861	-
Income tax for realised portion of fuel hedging loss	16	(861)	-
Other comprehensive loss for the year, net of income tax		<u>(229,315)</u>	<u>(48,857)</u>
Total comprehensive (loss for the year)		<u>(180,574)</u>	<u>(29,404)</u>

On behalf of the Company's management:




Peter Foster
President

29 February 2016
Almaty, Republic of Kazakhstan



Alima Zamanbekova
Chief Accountant

29 February 2016
Almaty, Republic of Kazakhstan

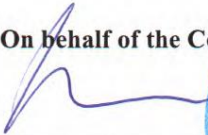
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JOINT STOCK COMPANY AIR ASTANA

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2015 (in thousands of USD)


	Notes	Share capital	Foreign currency translation reserve	Reserve on hedging instrument	Retained earnings	Total equity
At 1 January 2014		17,000	(25,002)	-	315,520	307,518
Profit for the year		-	-	-	19,453	19,453
Other comprehensive loss for the year		-	(48,857)	-	-	(48,857)
Total comprehensive (loss)/income for the year		-	(48,857)	-	19,453	(29,404)
Dividends declared	20	-	-	-	(8,517)	(8,517)
At 31 December 2014		17,000	(73,859)	-	326,456	269,597
Profit for the year		-	-	-	48,741	48,741
Cash flow hedged instruments, net of tax		-	-	(123,820)	-	(123,820)
Realised loss on derivative instruments subject to cash flow hedge accounting, net of tax	25	-	-	2,105	-	2,105
Fuel hedging instruments, net of tax	16	-	-	(3,446)	-	(3,446)
Realised loss on derivative instruments subject to fuel hedge accounting, net of tax	16	-	-	3,446	-	3,446
Translation difference		-	(107,600)	-	-	(107,600)
Total comprehensive (loss)/income for the year		-	(107,600)	(121,715)	48,741	(180,574)
Dividends declared	20	-	-	-	(9,381)	(9,381)
At 31 December 2015		17,000	(181,459)	(121,715)	365,816	79,642

On behalf of the Company's management:


Peter Foster
President

29 February 2016
Almaty, Republic of Kazakhstan




Alima Zamanbekova
Chief Accountant

29 February 2016
Almaty, Republic of Kazakhstan

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JOINT STOCK COMPANY AIR ASTANA

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2015 (in thousands of USD)

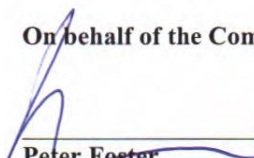
	Notes	2015	2014
OPERATING ACTIVITIES:			
Profit before tax		62,294	27,433
Adjustments for:			
Depreciation and amortisation of property, plant and equipment and intangible assets	11	48,491	45,891
Gain on disposal of property, plant and equipment		(662)	(237)
Change in allowance for doubtful debts	14, 15	567	820
Change in allowance for obsolete and slow-moving inventories	13	(837)	1,474
Change in vacation reserve		(784)	1,445
Change in provision for aircraft maintenance		63,862	17,448
Reversal of loyalty provision		(139)	(3,412)
Foreign exchange (gain)/loss		(44,652)	47,840
Finance income	7	(3,597)	(1,762)
Interest expense on finance lease	7	13,195	13,670
Interest expense from revaluation of fair value of guarantee deposits	7	-	8
Net unrealised loss/(income) on financial assets and liabilities at fair value through profit or loss	7	(3,354)	8,967
Net realised loss on financial assets and liabilities at fair value through profit or loss	7	8,262	1,255
Operating cash flow before movements in working capital		142,646	160,840
Change in trade and other accounts receivables		102,485	(16,255)
Change in prepaid expenses		(60,051)	3,964
Change in inventories		(46,181)	(3,867)
Change in financial assets and liabilities at fair value through profit or loss and hedge instruments		(85,496)	(5,427)
Change in trade and other payables and other current liabilities		13,001	5,491
Change in deferred revenue		68,604	1,931
Cash generated from operations		135,008	146,677
Interest paid		(13,687)	(14,302)
Net cash generated from operating activities		121,321	132,374
INVESTING ACTIVITIES:			
Refund of pre-delivery payments		-	11,808
Purchase of property, plant and equipment		(19,804)	(25,671)
Proceeds from disposal of property, plant and equipment		2,274	538
Purchase of intangible assets	10	(458)	(438)
Bank and Guarantee deposits placed		(273,517)	(202,454)
Bank and Guarantee deposits withdrawn		202,605	198,437
Interest received		1,859	761
Net cash used in investing activities		(87,041)	(17,019)

JOINT STOCK COMPANY AIR ASTANA

STATEMENT OF CASH FLOWS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2015 (in thousands of USD)


	Notes	2015	2014
FINANCING ACTIVITIES:			
Correction of withholding tax on dividends		(701)	-
Dividends paid	20	(7,897)	(8,517)
Repayment of borrowings		-	(9,498)
Repayment of finance lease		(38,906)	(37,012)
Net cash used in financing activities		(47,504)	(55,027)
NET (DECREASE)/INCREASE IN CASH AND BANK BALANCES			
Effect of exchange rate changes on cash and bank balances		(5,171)	225
CASH AND BANK BALANCES, at the beginning of the year	19	70,866	13,725
Foreign currency loss due to translation to presentation currency		-	(3,413)
CASH AND BANK BALANCES, at the end of the year	19	52,471	70,866

On behalf of the Company's management:


Peter Foster
President

29 February 2016
Almaty, Republic of Kazakhstan




Alima Zamanbekova
Chief Accountant

29 February 2016
Almaty, Republic of Kazakhstan

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JOINT STOCK COMPANY AIR ASTANA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015 *(in thousands of USD)*

1. NATURE OF ACTIVITIES

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

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

The Company operated its maiden flight on 15 May 2002, a Boeing-737 service from Almaty to Kazakhstan’s national capital, Astana. As at 31 December 2015 the Company operated 30 turbojet aircraft, of which 9 short-haul and 21 long-haul aircraft representing 11 aircraft acquired under finance lease and 19 aircraft leased under operating lease (2014: 30 turbojet aircraft, of which 9 short-haul and 21 long-haul aircraft representing 11 aircraft acquired under finance lease and 19 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

New and revised IFRSs in issue but not yet effective

As of the date of approval of this financial statement the Company has not applied the following new and revised IFRSs that have been issued but are not yet effective:

- IFRS 9 Financial Instruments
- IFRS 15 Revenue from Contracts with Customers
- IFRS 16 Leases

IFRS 9 Financial Instruments

IFRS 9, published in July 2014, replaces the existing guidance in IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets, and the new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39.

IFRS 9 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted.

The Company is assessing the potential impact on its financial statements resulting from the application of IFRS 9.

JOINT STOCK COMPANY AIR ASTANA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015 (in thousands of USD)

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (CONTINUED)

IFRS 15 Revenue from Contracts with Customers

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including IAS 18 Revenue, IAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programmes.

The core principle of the new standard is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The new standard results in enhanced disclosures about revenue, provides guidance for transactions that were not previously addressed comprehensively and improves guidance for multiple-element arrangements.

IFRS 15 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted.

The Company is assessing the potential impact on its financial statements resulting from the application of IFRS 15.

IFRS 16 Leases

IFRS 16 Leases replaces the current guidance for the lease accounting, including IAS 17 Leases, IFRIC 4 Determining Whether an Arrangement Contains a Lease, SIC-15 Operating Leases—Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The new standard cancels the currently used dual accounting model for a lessee. This model requires classification of a lease as either a finance lease recognised on the fact of a balance sheet or off-balance operating lease. It will be replaced by a single accounting model, which implies that a lease is recognised on the face of a balance sheet and is similar to the current accounting of a finance lease.

For lessors the currently used accounting rules will generally remain the same –lessors will continue to classify a lease as either a finance lease or an operating lease.

IFRS 16 is effective for annual reporting periods beginning on or after 1 January 2019, with early adoption permitted provided that IFRS 15 Revenue from Contracts with Customers is also applied.

The new standard is expected to have a significant effect on the financial statements. The Company has not analysed the impact of these changes yet.

The following new or amended standards are not expected to have a significant impact of the Company's financial statements.

- IFRS 14 Regulatory Deferral Accounts.
- Accounting for Acquisitions of Interests in Joint Operations (Amendments to IFRS 11).
- Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to IAS 16 and IAS 38).
- Annual Improvements to IFRSs 2012-2014 Cycle.
- Disclosure Initiative (Amendments to IAS 1).
- Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27).
- Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32).
- Recoverable Amount Disclosures for Non-Financial Assets (Amendments to IAS 36).
- Novation of Derivatives and Continuation of Hedge Accounting (Amendments to IAS 39)
- IFRIC 21 Levies.

JOINT STOCK COMPANY AIR ASTANA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015 *(in thousands of USD)*

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (CONTINUED)

New standards or amendments for 2015

There are lists of new standards, amendments to or interpretations of standards which are first effective for periods beginning on 1 January 2015 and therefore are considered when preparing IFRS financial statements for an annual period beginning on 1 January 2015.

- Defined Benefit Plans: Employee Contributions (Amendments to IAS 19).
- Annual Improvements to IFRSs 2010–2012 Cycle.
- Annual Improvements to IFRSs 2011–2013 Cycle.

The changes related to listed pronouncements did not have significant effect on disclosures and amounts in the financial statements of the Company.

3. SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

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

Basis of preparation

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

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

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

Functional and presentation currency

The national currency of Kazakhstan is the Kazakhstani Tenge (“tenge”), which is the Company’s functional currency, because it reflects the economic substance of the underlying events and circumstances of the Company. As requested by shareholders, the Company prepared two sets of financial statements with presentation currency US Dollar (“USD”) and Kazakhstan Tenge as shareholders believe that both currencies are useful for the users of these financial statements. These financial statements has been presented in USD. 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.

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.

JOINT STOCK COMPANY AIR ASTANA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015 (in thousands of USD)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Functional and presentation currency (continued)

Financial 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 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 loss/income.

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.

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.

JOINT STOCK COMPANY AIR ASTANA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015 (in thousands of USD)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leasing (continued)

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. Some of operating lease payments (subject to certain conditions) are replaced by Letter of Credit as security for Lessors to cover any unfulfilled maintenance liabilities on the return of the aircraft. In the event that incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives received is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Guarantee deposits

Guarantee deposits represent amounts paid to the lessors of aircraft, which are held as security deposits by the lessors in accordance with the provisions of operating lease agreements. These deposits are returned to the Company at the end of the lease period. Lease deposits relating to the operating lease agreements are presented as assets in the statement of financial position. These deposits are interest-free and are recorded at amortised cost using an average market yield of 1.09% per annum (2014: 0.84%). At initial recognition the Company recognises a discount and a deferred asset simultaneously. The discount is amortised over the lease term using the effective interest method, and deferred asset is amortised by equal amounts over the deposit term.

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. Foreign exchange differences on hedge instruments are recognised in a hedging reserve.

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

	Rate range		Reporting date spot-rate	
	2015	2014	2015	2014
US Dollar (USD)	182.35-349.12	154.06-184.95	339.47	182.35
Euro (EUR)	195.32-379	209.86-254.07	371.31	221.97
British Pound (GBP)	270.88-520.26	252.93-314.98	503.3	283.34

JOINT STOCK COMPANY AIR ASTANA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015 (in thousands of USD)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Finance income and expenses

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

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

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

Employee benefits

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

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

Taxation

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

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

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

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

JOINT STOCK COMPANY AIR ASTANA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015 (in thousands of USD)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Taxation (continued)

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

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

Property, plant and equipment

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

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

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

Aircraft

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

Aircraft are depreciated using a 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 depreciable base or the useful life should be adjusted and, if necessary, determines whether a residual value should be recognized.

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

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

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

Rotable spare parts

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

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

JOINT STOCK COMPANY AIR ASTANA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015 (in thousands of USD)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property, plant and equipment (continued)

Other property, plant and equipment

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

Depreciation

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

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

- | | |
|--|-------------|
| • Buildings and premises | 14-50 years |
| • Aircraft (excluding separate asset components) | 20 years |
| • Rotable spare parts | 10 years |
| • Office equipment and furniture | 4-7 years |
| • Vehicles | 7-9 years |
| • Other | 5-10 years. |

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

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

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

Intangible assets

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

JOINT STOCK COMPANY AIR ASTANA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015 (in thousands of USD)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of tangible and intangible assets

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

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

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

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

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.

JOINT STOCK COMPANY AIR ASTANA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015 (in thousands of USD)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Provisions (continued)

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

Provision for aircraft maintenance under operating lease

The Company is obligated to perform regular scheduled maintenance of aircraft under the terms of its operating lease agreements and regulatory requirements relating to air safety. The lease agreements also require the Company to return aircraft to lessors in a satisfactory condition at the end of the lease term, which may require the performance of final return conditions. The Company's scheduled aircraft maintenance programs carried out through the lease periods are designed to reduce the incidence of final return costs. Major aircraft maintenance relates to airframes (referred to as the C-check, D-check and redelivery preparation program) and engines. The C-check program takes place the earliest of every 18 months or 5,000 to 6,000 flying hours according to aircraft type. The D-check program takes place the earliest of every 72 months or 12,000 flying cycles according to aircraft type. Engine overhaul occurs after specified flight hours or cycles occur. Some of the operating lease agreements include a component of variable lease payments which is generally reimbursable to the Company by lessors as a contribution to engine maintenance costs after they are incurred. The variable lease payments are recognised as an expense in profit or loss as incurred. In the case of other operating lease agreements variable lease payments are replaced (subject to certain conditions) by

Letters of Credit as security for Lessors to cover any unfulfilled maintenance liabilities on the return of the aircraft, and amounts corresponding to the applicable variable lease amounts are included in provisions. For C-check maintenance, a provision is recorded on a progressive basis based upon the Company's estimate of future maintenance costs. For engine maintenance, a provision is recorded on a progressive basis based upon the Company's estimate of the excess of maintenance costs over the amount reimbursable by the lessors. The Company's aircraft maintenance liabilities are due in US dollars. The arising foreign currency exchange rate differences are provided in maintenance expense accruals which are used to create these provisions.

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.

Offsetting of financial instruments

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle them on a net basis, or to realise the asset and settle the liability simultaneously. The right to set-off must not be contingent on a future event and must be legally enforceable in all of the following circumstances:

- the normal course of business;
- the event of default; and
- the event of insolvency or bankruptcy of the entity and all of the counterparties.

These conditions are not met and the related assets and liabilities are presented gross in the statement of financial position.

JOINT STOCK COMPANY AIR ASTANA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015 (in thousands of USD)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

Loans and 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.

Amounts due from trainees of Ab-initio pilot program in respect of 50% of their initial training costs are classified as interest free loans. The remaining costs are classified by the Company as a prepayment of its expenses and are amortised over a period of seven years, during which period the Company has a right to oblige these expenses also to become payable by the pilot trainees should such pilot trainees terminate his/her employment.

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

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 negatively affected.

JOINT STOCK COMPANY AIR ASTANA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015 (in thousands of USD)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial assets (continued)

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 is 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.

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.

JOINT STOCK COMPANY AIR ASTANA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015 (in thousands of USD)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial assets (continued)

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.

JOINT STOCK COMPANY AIR ASTANA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015 (in thousands of USD)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial liabilities and equity instruments issued by the Company (continued)

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

Cash flow hedge

The effective portion of foreign currency exchange differences arising from translation of finance lease liabilities which are designated and qualifies as cash flow hedges of highly probable future foreign currency revenues is recognized in other comprehensive income. The loss exchange differences relating to an ineffective portion are recognized immediately within foreign exchange gain/loss in the profit or loss of the Company.

Amounts accumulated in equity are reclassified to profit or loss (to foreign exchange gain/loss) in the periods when the finance lease liabilities are repaid and foreign currency revenues are received.

When a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is transferred to profit or loss when the forecast transaction is ultimately recognized. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement of profit or loss within foreign exchange gain/loss.

JOINT STOCK COMPANY AIR ASTANA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015 (in thousands of USD)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial liabilities and equity instruments issued by the Company (continued)

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.

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 a return of the aircraft after the scheduled maintenance event, but before the return condition specified in the lease agreement is triggered, the amounts of 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 2015 contributions of variable lease payments of USD 66,916 thousand (2014: USD 81,726 thousand) are subject to reimbursement by the aircraft lessors upon actual maintenance events. Management regularly assesses the recoverability of variable lease payments made by the Company. Unanticipated maintenance costs are expensed in profit or loss as incurred.

JOINT STOCK COMPANY AIR ASTANA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015 (in thousands of USD)

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

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

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

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

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

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

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

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

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

Further information about the assumptions made in measuring fair values is included in the following notes:

- Note 16 – Financial assets and liabilities at fair value through profit or loss and hedge instruments.
- Note 26 – Financial instruments.

JOINT STOCK COMPANY AIR ASTANA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015 (in thousands of USD)

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

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 2015 and 2014, allowances for doubtful accounts were equal to USD 1,433 thousand and USD 2,461 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 2015, the Company accrued an allowance for obsolete and slow-moving inventories in the amount of USD 414 thousand (2014: USD 1,757 thousand) (Note 13).

Customer loyalty program

While calculating customer loyalty program the Company uses its own critical judgements and estimates in regard to cost of value per point by Nomad club members.

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	2015	2014
Passenger transport	577,329	710,221
Fuel surcharge	106,220	127,872
Airport services	38,315	43,525
Excess baggage	4,936	6,562
	726,800	888,180
Cargo and mail revenue	2015	2014
Cargo	17,721	24,400
Mail	1,865	2,043
	19,586	26,443
Other revenue	2015	2014
Penalties on agency contracts	8,707	9,369
Advertising revenue	1,411	2,062
Income from ground services	1,129	1,083
Gain on disposal of spare parts and other assets	662	584
Spare parts received free of charge	94	1,195
Income from government subsidies	-	1,351
Other	3,358	4,513
	15,361	20,157

JOINT STOCK COMPANY AIR ASTANA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015 (in thousands of USD)

5. REVENUE (CONTINUED)

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

During 2014 the subsidies were provided for the routes from Astana to Zhezkazgan and Pavlodar (in 2014 the flights to Pavlodar were subsidised for six months). No subsidies were provided in 2015.

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

	2015	2014
Europe	310,089	379,119
Domestic	244,466	317,132
Asia	191,831	218,372
Total passenger, cargo and mail revenue	746,386	914,623

6. OPERATING EXPENSES

Handling, landing fees and route charges	2015	2014
Aero navigation	40,310	39,630
Handling charge	33,371	34,790
Landing fees	29,141	31,972
Meteorological services	848	1,902
Other	1,369	1,783
	105,039	110,077

Engineering and maintenance	2015	2014
Maintenance – provisions (Note 22)	51,755	17,448
Maintenance – variable lease payments	25,293	28,468
Spare parts	10,583	9,057
Maintenance – components	7,573	18,946
Technical inspection	2,117	2,964
	97,321	76,883

Employee costs	2015	2014
Wages and salaries of operational personnel	54,654	67,414
Wages and salaries of administrative personnel	12,570	15,913
Social tax	8,349	10,109
Wages and salaries of sales personnel	4,494	5,757
Other	3,942	4,535
	84,009	103,728

The average number of employees during 2015 was 4,583 (2014: 4,356).

Passenger service	2015	2014
Airport charges	37,273	41,539
Catering	28,529	30,923
In-flight entertainment	3,635	3,121
Security	3,250	3,260
Other	7,484	8,541
	80,171	87,384

JOINT STOCK COMPANY AIR ASTANA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015 (in thousands of USD)

6. OPERATING EXPENSES (CONTINUED)

Aircraft operating lease costs	2015	2014
Fixed lease charges of aircraft and engine	56,161	62,481
Ad-hoc lease of engines and rotatable spare parts	1,572	4,161
Operating lease return costs	1,574	423
	59,307	67,065
Selling costs	2015	2014
Reservation costs	15,430	15,375
Commissions	13,717	17,335
Advertising	6,578	5,392
Interline commissions	620	986
Other	494	648
	36,839	39,736
Aircraft crew costs	2015	2014
Accommodation and allowances	14,433	15,170
Contract crew	8,550	10,594
Training	6,340	878
	29,323	26,642
Insurance	2015	2014
Hull insurance	2,055	2,380
Legal liability insurance	1,582	1,964
Medical insurance	760	863
Other	311	336
	4,708	5,543

7. FINANCE INCOME AND EXPENSES

Finance income	2015	2014
Net unrealised income on financial assets and liabilities at fair value through profit or loss (Note 16)	3,354	-
Interest income on bank deposits	3,190	1,231
Unwinding of discount on Ab-initio pilot trainees receivables	343	-
Other	64	531
	6,951	1,762
Finance expenses	2015	2014
Interest expense on finance lease	13,195	13,670
Net realised loss on financial assets and liabilities at fair value through profit or loss (Note 16)	8,262	1,255
Bank commissions	910	1,081
Net unrealised loss on financial assets and liabilities at fair value through profit or loss (Note 16)	-	8,966
Interest expense from revaluation of fair value of guarantee deposits	-	8
Other	-	-
	22,367	24,980

JOINT STOCK COMPANY AIR ASTANA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015 (in thousands of USD)

8. INCOME TAX EXPENSE

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

	2015	2014
Adjustment for income tax related to prior year	526	(546)
Deferred income tax expense	<u>13,027</u>	<u>8,526</u>
	<u>13,553</u>	<u>7,980</u>

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 2015 and 2014 is presented in table below.

In accordance with the local tax legislation both hedged and unhedged foreign currency losses are treated as deductible expenses for the purpose of corporate income tax calculations. If such deductible expenses cannot be fully utilized in the year of origination the tax code permits an entity to carry forward the accumulated tax losses for the next 10 years. During 2015 the Company applied foreign currency cash flow hedge policy that allowed it to hedge foreign currency losses arising on the hedging instruments. These hedged foreign currency losses were not utilised in 2015 and, therefore, the Company accrued additional deferred income tax asset.

	2015	2014
Deferred tax assets		
Carried forward corporate income tax losses	13,840	5,771
Provision for aircraft maintenance	9,575	4,615
Trade and other payables	3,176	6,224
Intangible assets	96	183
Trade and other receivables	-	328
Total	<u>26,687</u>	<u>17,121</u>
Deferred tax liabilities		
Difference in depreciable value of property, plant and equipment	(24,592)	(39,378)
Prepaid expenses	(23)	(55)
Deferred expenses	-	(792)
Total	<u>(24,615)</u>	<u>(40,225)</u>
Net deferred tax assets/(liabilities)	<u>2,072</u>	<u>(23,104)</u>

The income tax rate in the Republic of Kazakhstan, where the Company is located, in 2015 and 2014 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% (2014: 20%) to the actual income tax expense recorded in the Company's statement of profit or loss and other comprehensive income:

	2015	2014
Profit before tax	<u>62,294</u>	<u>27,433</u>
Income tax at statutory rate	<u>12,459</u>	<u>5,487</u>
Tax effect of non-deductible expenses	<u>1,094</u>	<u>2,493</u>
Income tax expense	<u>13,553</u>	<u>7,980</u>

JOINT STOCK COMPANY AIR ASTANA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

(in thousands of USD)

9. PROPERTY, PLANT AND EQUIPMENT

	Rotable spare parts	Office equipment and furniture	Building, premises and land	Vehicles	Aircraft under finance lease	In transit	Total
Cost							
At 1 January 2014	52,532	10,970	5,694	3,639	530,508	11,070	614,413
Additions	-	-	-	-	-	99,210	99,210
Disposals	(2,722)	(669)	-	(188)	(706)	-	(4,285)
Transfers from prepayments	-	-	-	-	9,820	-	9,820
Transfers	14,217	1,007	620	310	84,564	(100,718)	-
Foreign currency translation difference	(8,478)	(1,735)	(908)	(576)	(85,236)	(1,720)	(98,653)
At 31 December 2014	55,549	9,573	5,406	3,185	538,950	7,842	620,505
Additions	-	-	-	-	-	19,804	19,804
Disposals	(6,817)	(1,068)	-	(223)	(1,404)	-	(9,512)
Transfers	15,354	1,059	450	1,444	3,826	(22,133)	-
Foreign currency translation difference	(29,130)	(4,456)	(2,673)	(1,943)	(250,403)	(2,746)	(291,351)
At 31 December 2015	34,956	5,108	3,183	2,463	290,969	2,767	339,446
Accumulated depreciation							
At 1 January 2014	21,056	6,629	1,234	2,007	20,631	-	51,557
Charge for the year (Note 11)	5,763	1,373	225	347	37,324	-	45,032
Disposals	(2,711)	(639)	-	(183)	(452)	-	(3,985)
Foreign currency translation difference	(3,370)	(1,058)	(199)	(319)	(3,890)	-	(8,836)
At 31 December 2014	20,738	6,305	1,260	1,852	53,613	-	83,768
Charge for the year (Note 11)	7,732	1,333	351	437	38,070	-	47,923
Disposals	(5,298)	(1,049)	-	(215)	(1,338)	-	(7,900)
Foreign currency translation difference	(10,672)	(3,055)	(716)	-948	(38,799)	-	(54,190)
At 31 December 2015	12,500	3,534	895	1,126	51,546	-	69,601
Net book value							
At 31 December 2014	34,811	3,268	4,146	1,333	485,337	7,842	536,737
At 31 December 2015	22,456	1,574	2,288	1,337	239,423	2,767	269,845

JOINT STOCK COMPANY AIR ASTANA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015 (in thousands of USD)

9. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

The Company's obligations under finance leases are secured by the lessors' title to the leased assets, which have a carrying amount of USD 239,423 thousand (2014: USD 485,337 thousand) (Note 25).

Rotable spare parts include aircraft modification costs.

For the year ended 31 December 2015 nil interest of the loan was capitalised into property, plant and equipment (2014: USD 331 thousand) (Note 24).

The decrease in the equivalent US dollar book cost is the reflection of IFRS translation method when converting the functional Tenge currency to the reporting US dollar currency.

Balance Sheet of the Company is translated into the reporting currency at the closing foreign currency rate prevailing at the reporting date. As a result of the devaluation of Kazakhstan Tenge to US dollar, the foreign currency exchange rate used for translating balances as at 31 December 2015 was higher than the respective rate used for translation of balances as at 31 December 2014, leading to decrease in the corresponding US dollar book values in 2015.

10. INTANGIBLE ASSETS

	Software
<i>Cost</i>	
At 1 January 2014	6,546
Additions	438
Foreign currency translation difference	(1,039)
	<hr/>
At 31 December 2014	5,945
Additions	458
Foreign currency translation difference	(2,911)
	<hr/>
At 31 December 2015	3,492
	<hr/>
<i>Accumulated amortisation</i>	
At 1 January 2014	4,407
Charge for the year (Note 11)	859
Foreign currency translation difference	(709)
	<hr/>
At 31 December 2014	4,557
Charge for the year (Note 11)	568
Foreign currency translation difference	(2,326)
	<hr/>
At 31 December 2015	2,799
	<hr/>
<i>Net book value</i>	
At 31 December 2014	1,388
	<hr/>
At 31 December 2015	693
	<hr/>

JOINT STOCK COMPANY AIR ASTANA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015 (in thousands of USD)

11. DEPRECIATION AND AMORTISATION

	2015	2014
Depreciation of property, plant and equipment (Note 9)	47,923	45,032
Amortisation of intangible assets (Note 10)	568	859
Total	48,491	45,891

12. GUARANTEE DEPOSITS

	31 December 2015	31 December 2014
<i>Non-current</i>		
Guarantee deposits for leased aircraft	14,779	10,555
Other guarantee deposits	619	306
	15,398	10,861
<i>Current</i>		
Guarantee deposits for maintenance liabilities	27,661	-
Guarantee deposits for leased aircraft	60	351
Other guarantee deposits	677	683
	28,398	1,034
	43,796	11,895

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 and maintenance liabilities are receivable as follows:

	31 December 2015	31 December 2014
Within one year	27,721	351
After one year but not more than five years	7,890	6,940
More than five years	6,956	3,683
	42,567	10,974
Fair value adjustment	(67)	(68)
	42,500	10,906

JOINT STOCK COMPANY AIR ASTANA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015 (in thousands of USD)

13. INVENTORIES

	31 December 2015	31 December 2014
Spare parts	15,999	31,065
Goods in transit	4,730	6,776
Fuel	4,487	6,592
Promotional materials	1,734	1,442
Crockery	1,591	1,880
Uniforms	855	441
De-icing liquid	275	878
Blank forms	239	380
Other	749	1,193
	30,659	50,647
Less: allowance for obsolete and slow-moving inventories	(414)	(1,757)
	30,245	48,890

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

	2015	2014
Allowance for obsolete and slow-moving inventories at the beginning of the year	(1,757)	(366)
Accrued for the year	(680)	(1,474)
Reversed for the year	1,517	-
Foreign currency translation difference	506	83
Allowance for obsolete and slow-moving inventories at the end of the year	(414)	(1,757)

14. PREPAYMENTS

	31 December 2015	31 December 2014
<i>Non-current</i>		
Prepayments for non-current assets	3,818	2,911
Advances paid for services	6,533	8,490
	10,351	11,401
<i>Current</i>		
Advances paid for services	5,615	10,790
Prepayments for finance lease	5,777	5,874
Prepayments for operating leases	2,670	4,174
Advances paid for goods	2,205	6,236
	16,267	27,074
Less: allowance for non-recovery	(396)	(820)
	15,871	26,254

As at 31 December 2015 prepayments for non-current assets were made to Boeing as pre-delivery payment for the remaining three aircraft (Note 27).

JOINT STOCK COMPANY AIR ASTANA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015 (in thousands of USD)

14. PREPAYMENTS (CONTINUED)

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

	2015	2014
At the beginning of the year	(820)	(5,553)
Accrued during the year	(50)	(9)
Reversed during the year	122	103
Written-off against previously created allowance	-	3,832
Foreign currency translation difference	352	807
	<u>324</u>	<u>3,148</u>
At the end of the year	(396)	(820)

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 2015	31 December 2014
<i>Non current</i>		
Due from employees and Ab-initio pilot trainees	959	3,270
	<u>959</u>	<u>3,270</u>
<i>Current</i>		
Trade receivables	16,898	24,251
Receivable from lessors – variable lease reimbursement	3,965	16,541
Due from employees and Ab-initio pilot trainees	1,054	2,809
Subsidies receivable (Note 28)	-	85
	<u>21,917</u>	<u>43,686</u>
Less: allowance for doubtful debts	(1,037)	(1,641)
	<u>20,880</u>	<u>42,045</u>

At 31 December 2015, 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 (2014: eight debtors comprised 25%).

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

Amounts due from trainees of Ab-initio pilot program in respect of 50% of their initial training costs are classified as interest free loans. The remaining costs are classified by the Company as a prepayment of its expenses and are amortised over a period of seven years, during which period the Company has a right to oblige these expenses also to become payable by the pilot trainees should such pilot trainees terminate his/her employment.

JOINT STOCK COMPANY AIR ASTANA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015 (in thousands of USD)

15. TRADE AND OTHER RECEIVABLES (CONTINUED)

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

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

	31 December 2015	31 December 2014
US Dollar	9,395	23,599
Tenge	7,709	15,955
Euro	1,999	2,038
Russian Rouble	834	1,093
Other	2,939	4,271
	<u>22,876</u>	<u>46,956</u>

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

	2015	2014
At the beginning of the year	(1,641)	(1,223)
Accrued during the year	(797)	(951)
Reversed during the year	158	37
Written-off against previously created allowance	392	292
Foreign currency translation difference	851	204
	<u>(1,037)</u>	<u>(1,641)</u>

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

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. In accordance with the terms, financial institutions agreed to compensate the Company the excess between the actual price of crude oil and the ceiling price specified in the agreements, whilst the Company has agreed to compensate the financial institutions the shortfall between the actual prices and the floor price specified in the agreements. Starting from 1 January 2015 the Company has implemented hedge policy designating the options as hedging instruments and the highly probable future purchase of jet fuel as hedging items. The financial instruments have been assessed as being an effective hedge for IAS 39 purposes. The contracts are accounted as hedges only when the market quotes for crude oil breaches the maximum or minimum strike prices. Otherwise, the value of the derivatives is accounted through profit and loss. As at 31 December 2015 the fair value of the derivative instruments resulted in a loss of USD 4,307 thousand (before income tax of USD 861 thousand), which has been recorded in other comprehensive income. The realized portion of hedge reserve in the amount of USD 4,307 thousand (before income tax of USD 861 thousand), was reclassified from other comprehensive income to profit or loss. The fair value has been determined using a valuation model with market observable parameters.

JOINT STOCK COMPANY AIR ASTANA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015 (in thousands of USD)

16. FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS AND HEDGE INSTRUMENTS (CONTINUED)

	Call option (purchase)	Put option (sale)	Put option (purchase)	Net
At 1 January 2014	331	(266)	-	65
Acquisition	281	-	3,756	4,037
Foreign currency translation gain/(loss)	32	(92)	13	(47)
Net unrealised (loss)/gain on financial assets and liabilities at fair value through profit or loss (Note 7)	(359)	(10,161)	1,554	(8,966)
Net realised (loss)/gain on financial assets and liabilities at fair value through profit or loss (Note 7)	-	(1,255)	-	(1,255)
Payments on exercised contracts	-	1,255	-	1,255
Foreign currency translation difference	(50)	219	(93)	76
At 31 December 2014	235	(10,300)	5,230	(4,835)
Acquisition	1,213	-	-	1,213
Foreign currency translation gain/(loss)	516	(1,692)	115	(1,061)
Net unrealised (loss)/gain on financial assets and liabilities at fair value through profit or loss (Note 7)	(1,739)	9,175	(4,082)	3,354
Unrealised portion of fuel hedging	-	5,193	(886)	4,307
Realised portion of fuel hedging	-	(5,193)	886	(4,307)
Net realised (loss)/gain on financial assets and liabilities at fair value through profit or loss (Note 7)	-	(12,524)	4,262	(8,262)
Payments on exercised contracts	-	12,524	(4,262)	8,262
Foreign currency translation difference	(134)	2,637	(1,263)	1,240
At 31 December 2015	91	(180)	-	(89)

The terms of the options are described in Note 26.

17. OTHER TAXES PREPAID

	31 December 2015	31 December 2014
Value added tax recoverable	6,007	9,346
Prepayment for income tax for non-residents	1,327	250
Prepayment for environment tax	-	2,526
Other taxes prepaid	137	418
	7,471	12,540

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

JOINT STOCK COMPANY AIR ASTANA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015 (in thousands of USD)

18. BANK DEPOSITS

	31 December 2015	31 December 2014
<i>Current</i>		
Term deposits with local banks	156,985	114,130
Guarantee deposits	13	19
Interest receivable	1,254	598
	<u>158,252</u>	<u>114,747</u>

Short-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 5% per annum (2014: 0.15% to 4.5%). 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 (2014: 0% to 4.5%).

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

	2015	2014
US dollar	146,731	105,573
Euro	11,505	9,157
Tenge	16	17
	<u>158,252</u>	<u>114,747</u>

19. CASH AND BANK BALANCES

	31 December 2015	31 December 2014
Term deposits with local banks with original maturity less than 3 months	24,551	46,269
Current accounts with local banks	22,612	20,868
Current accounts with foreign banks	5,211	3,596
Cash on hand	97	133
	<u>52,471</u>	<u>70,866</u>

As at 31 December 2015 current accounts with banks earn interest in the range of 0.3% to 8% per annum (2014: 0.1% to 2.5%). As at 31 December 2015 short-term deposits (over-night) with banks earn interest of up to 42% per annum.

JOINT STOCK COMPANY AIR ASTANA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015 (in thousands of USD)

19. CASH AND BANK BALANCES (CONTINUED)

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

	2015	2014
US dollar	37,261	53,695
Tenge	5,107	9,235
Euro	4,249	4,799
GBP	1,503	74
Chinese Yuan	1,308	461
Russian Rouble	905	750
Uzbek Soms	879	985
Indian Rupee	594	349
Other	665	518
	<u>52,471</u>	<u>70,866</u>

20. EQUITY

As at 31 December 2015 and 2014, share capital was comprised of 17,000 authorised, issued and fully paid ordinary shares with a par value of KZT 147,150 thousand (equivalent to USD 1,000 per share at the time of purchase).

In accordance with Kazakhstan legislation the Company's distributable reserves are limited to the balance of retained earnings as recorded in the Company's statutory financial statements prepared in accordance with IFRS. A distribution cannot be made when equity is negative or if distribution would result in negative equity or the Company's insolvency. As at 31 December 2015 the Company had retained earnings, including the profit for the current year, of USD 365,816 thousand (2014: USD 326,456 thousand).

In May 2015, the shareholders declared a dividend payment equivalent to 50% of profit for 2014. The total amount of the dividend was 1,742,918 thousand tenge (USD 9,381 thousand equivalent as of announcement date), which was distributed and paid to each shareholder in accordance with their shareholdings. In May 2014, the shareholders declared a dividend payment equivalent to 20% of profit for 2013. The total amount of the dividend was 1,562,806 thousand tenge (USD 8,517 thousand equivalent as of announcement date), which was also distributed and paid to each shareholder in accordance with their shareholdings. Dividends per share in 2015 were 102.5 thousand tenge or USD 0,5 thousand equivalent as of announcement date (2014: 91.9 thousand tenge or USD 0,5 thousand equivalent as of announcement date).

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 (2014: 17,000). The Company has no instruments with potential dilutive effect.

	2015	2014
Profit:		
Profit for the year	48,741	19,453
Number of ordinary shares	17,000	17,000
Earnings per share – basic and diluted (USD)	<u>2,867</u>	<u>1,144</u>

JOINT STOCK COMPANY AIR ASTANA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015 (in thousands of USD)

21. DEFERRED REVENUE

	31 December 2015	31 December 2014
Unearned transportation revenue	31,484	49,062
Customer loyalty program	<u>1,392</u>	<u>2,756</u>
	<u>32,876</u>	<u>51,818</u>

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.

The decrease in deferred revenue reflects the translation to US Dollar at devalued 2015 rate of exchange.

22. PROVISION FOR AIRCRAFT MAINTENANCE

	31 December 2015	31 December 2014
Engines	37,414	17,951
D-Check	3,345	836
C-Check	3,344	2,177
Provision for redelivery of aircraft	1,641	1,329
Auxiliary Power unit	1,159	500
Landing gear	<u>972</u>	<u>281</u>
	<u>47,875</u>	<u>23,074</u>

During 2015 and 2014 the Company renegotiated certain operating lease agreements to replace the payments of variable lease by Letters of credit (Note 27). As a result a lessor signed an agreement to return variable lease payments which were partially unclaimed by the Company. The Company accepted the continuing obligations for aircraft maintenance and, therefore, increased provisions by the corresponding amounts.

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

	2015	2014
At 1 January	23,074	23,147
Accrued during the year (Note 6)	52,344	20,343
Increase of provisions as a result of return of variable rent by a lessor (Note 27)	12,107	-
Reversed during the year (Note 6)	(589)	(2,895)
Used during the year	(10,961)	(13,810)
Foreign currency translation difference	<u>(28,100)</u>	<u>(3,711)</u>
At 31 December	<u>47,875</u>	<u>23,074</u>

JOINT STOCK COMPANY AIR ASTANA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015 (in thousands of USD)

22. PROVISION FOR AIRCRAFT MAINTENANCE (CONTINUED)

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

The planned utilisation of these provisions is as follows:

	31 December 2015	31 December 2014
Within one year	16,496	6,092
During the second year	6,879	2,363
During the third year	4,557	3,051
After the third year	19,943	11,568
Total provision for aircraft maintenance	47,875	23,074
Less: current portion	(16,496)	(6,092)
Non-current portion	31,379	16,982

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 2015	31 December 2014
Trade payables	27,608	35,576
Taxes payable	2,829	2,661
Wages and salaries payable to employees	2,210	9,749
Employee unused vacation	1,628	3,963
Operating lease payables	1,220	1,948
Deposits received	759	712
Advances received	415	1,404
Other	83	189
	36,752	56,202

JOINT STOCK COMPANY AIR ASTANA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015 (in thousands of USD)

23. TRADE AND OTHER PAYABLES (CONTINUED)

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

	31 December 2015	31 December 2014
US Dollar	15,668	21,215
Tenge	12,683	22,010
Euro	3,777	7,273
Russian roubles	1,658	1,116
GBP	716	1,138
Other	2,250	3,450
	<u>36,752</u>	<u>56,202</u>

24. LOANS

On 21 August 2012 the Company concluded a loan agreement of USD 27,304 thousand for financing of pre-delivery payments for three Boeing B767-300ER which have been delivered during 2013 and 2014. The outstanding amount on this loan was fully repaid in June 2014.

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. Approvals have been agreed to extend this credit line for a further 3-year period.

On 3 December 2015 the Company concluded a loan agreement of USD 14,000 thousand (equivalent in Kazakhstan Tenge) with the European Bank for Reconstruction and Development (EBRD) for 10 years for the purpose of construction of a Technical Center (Hangar) in Astana, which will also be pledged to EBRD under this loan. Interest rate is floating and defined, based on a margin of 3.75% per annum plus EBRD's All-in Cost in Kazakhstan Tenge. The All-in Cost will be determined on a quarterly basis in conjunction with the National Bank of Kazakhstan and/or the market. As of the date of the approval of these financial statements the Company had not obtained the funds from EBRD, however the documentation for the release of this funding is being finalised.

25. FINANCE LEASE LIABILITIES

For the years from 2012 to 2014 the Company acquired eleven aircraft under the fixed interest finance lease agreement. 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 which were delivered during 2012 and 2013 were guaranteed by European Export Credit Agencies while three Boeing 767 aircraft which were delivered in 2013 and 2014 were guaranteed by US Export Import Bank. Two Embraer aircraft were delivered in 2012 and 2013 were guaranteed by Brazilian Development Bank. The Company's obligations under finance leases are secured by the lessors' title to the leased assets. These assets have a carrying value of USD 239,423 thousand (2014: USD 485,337 thousand) (Note 9).

The decrease in the equivalent US dollar book cost is the reflection of IFRS translation method when converting the functional Tenge currency to the reporting US dollar currency (please see Note 9 for additional information).

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 2015.

JOINT STOCK COMPANY AIR ASTANA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015 (in thousands of USD)

25 FINANCE LEASE LIABILITIES (CONTINUED)

	Minimum lease payments		Present value of minimum lease payments	
	31 December 2015	31 December 2014	31 December 2015	31 December 2014
Not later than one year	53,181	53,756	40,640	40,069
Later than one year and not later than five years	203,115	205,212	164,096	162,318
Later than five years	226,784	276,797	211,693	253,040
	483,080	535,765	416,429	455,427
Less: future finance charges	(66,651)	(80,338)	-	-
Present value of minimum lease payments	416,429	455,427	416,429	455,427
Included in the financial statements as:				
- current portion of finance lease obligations			40,640	40,069
- non-current portion of finance lease obligations			375,789	415,358
			416,429	455,427

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

On 1 July 2015 the Company designated a portion of its US dollar finance lease obligations as hedges of highly probable future US Dollar revenue streams. The Company applies cash flow hedge accounting model to this hedging transaction, in accordance with IAS 39. At 31 December 2015, finance lease liabilities in the amount of USD 250,736 thousand are designated as hedging instrument denominated in US dollars of highly probable revenue forecasted for the period 2015 - 2025. The Company expects that this hedging relationship will be highly effective since the future cash outflows on the lease liabilities being hedged match the future cash inflows of the expected revenue. At 31 December 2015, a foreign currency loss of USD 152,144 thousand (before deferred income tax of USD 30,429 thousand) on the finance lease liabilities, representing an effective portion of the hedge, is deferred in the hedging reserve in other comprehensive income. The amount reclassified from the hedging reserve to foreign exchange loss in profit or loss statement from inception of the hedge was USD 2,631 thousand (before income tax of USD 526 thousand).

At each reporting date the Company translates its monetary assets and monetary liabilities denominated in foreign currencies to the reporting currency, while translation gains or losses are recorded in profit or loss. As a result of the cash flow hedge policy, the remaining net monetary foreign currency assets generated a currency gain of USD 44,652 thousand in the profit or loss. These net monetary foreign currency assets represent the excess of monetary foreign currency assets (including foreign currency cash) over the monetary foreign currency liabilities (including unhedged foreign currency loans).

JOINT STOCK COMPANY AIR ASTANA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015 (in thousands of USD)

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 2015.

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.

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 2015, 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 following summarises sensitivity analysis of changes in the valuation of the derivative instruments and resultant effect on profit before tax. For the purpose of this disclosure, the sensitivity analysis assumes a 10 % increase and 10% decrease in the future price of Brent oil. This analysis also assumes that all other variables remain constant. A negative number below indicates a decrease in profit before tax and positive numbers have opposite effect.

	2015		2014	
	Brent +10%	Brent -10%	Brent +20%	Brent -10%
Purchased fuel call option	102	(60)	441	(74)
Written fuel put option (included in zero cost collars)	134	(272)	5,001	(3,146)
Purchased fuel put option (to protect some floors in zero cost collars)	-	-	(2,500)	1,439

JOINT STOCK COMPANY AIR ASTANA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015 (in thousands of USD)

26. FINANCIAL INSTRUMENTS (CONTINUED)

Foreign currency risk

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%. The exchange rate was continuing to fall in 2015 and as of 31 December 2015, the KZT to US Dollar official exchange rate is 339.47.

The Company management believes that it has taken appropriate measures to support the sustainability of the Company business under the current circumstances. The Company applies hedge policy to manage the currency risk (Note 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.

	Notes	US dollar		Euro	
		31 December 2015	31 December 2014	31 December 2015	31 December 2014
Assets					
Guarantee deposits	12	43,091	11,426	335	75
Trade and other receivables	15	9,395	23,599	1,999	2,038
Bank deposits	18	146,731	105,573	11,505	9,157
Cash and bank balances	19	37,261	53,695	4,249	4,799
Financial assets at fair value through profit or loss	16	91	5,465	-	-
Total		236,569	199,758	18,088	16,069
Liabilities					
Finance lease liabilities	25	416,429	455,427	-	-
Trade and other payables	23	15,668	21,215	3,777	7,273
Financial liabilities at fair value through profit or loss	16	180	10,300	-	-
Total		432,277	486,942	3,777	7,273
Net position		(195,708)	(287,184)	14,311	8,796

In 2015 the following table details the Company's sensitivity to 60% weakening of tenge against US Dollar and Euro and to 20% strengthening of tenge against US Dollar and Euro. In 2014 the following table details the Company's sensitivity to 17.37% weakening and strengthening of tenge against US Dollar and to 18.36% strengthening of the tenge against Euro. Mentioned sensitivity rates used when reporting foreign currency risk internally to key management personnel.

The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for abovementioned sensitivity ratios. The sensitivity analysis includes trade and other receivables, cash and bank balances, bank deposits, guarantee deposits, trade and other payables, loans and finance lease liabilities.

A negative number below indicates a decrease in Profit or Loss and Other Comprehensive Income and positive number would be an opposite impact on the Profit or Loss and Other Comprehensive Income taking into account cash flow hedge policy (Note 2).

JOINT STOCK COMPANY AIR ASTANA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015 (in thousands of USD)

26. FINANCIAL INSTRUMENTS (CONTINUED)

	Currency US Dollar impact		Currency Euro impact	
	2015	2014	2015	2014
(Loss)/profit	60%	17.37%	60%	18.36%
Equity decrease	(214,293)	(39,907)	6,869	1,292
	(120,353)	-	-	-

	Currency US Dollar impact		Currency Euro impact	
	2015	2014	2015	2014
Profit/(loss)	-20%	-17.37%	-20%	-18.36%
Equity increase	(8,805)	39,907	(2,290)	(1,292)
	40,118	-	-	-

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.

	Up to 3 months	3 months to 1 year	1-5 years	Over 5 years	Total
2015					
Financial liabilities					
<i>Interest free</i>					
Trade and other payables	34,164	545	-	-	34,709
Financial liabilities at fair value through profit or loss	-	180	-	-	180
<i>Fixed rate</i>					
Finance lease liabilities	13,076	40,105	203,115	226,784	483,080
2014					
Financial liabilities					
<i>Interest free</i>					
Trade and other payables	44,216	1,097	-	-	45,313
Financial liabilities at fair value through profit or loss	-	10,300	-	-	10,300
<i>Fixed rate</i>					
Finance lease liabilities	13,167	40,589	205,212	276,797	535,765

JOINT STOCK COMPANY AIR ASTANA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015 (in thousands of USD)

26. FINANCIAL INSTRUMENTS (CONTINUED)

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
2015						
Financial assets						
<i>Interest free</i>						
Trade and other receivables	-	19,983	312	1,103	441	21,839
Financial assets at fair value through profit or loss	-	-	91	-	-	91
Guarantee deposits	-	345	28,053	8,381	7,017	43,796
Cash and bank balances	-	52,471	-	-	-	52,471
<i>Fixed rate</i>						
Bank deposits	3.01	65,184	93,068	-	-	158,252
2014						
Financial assets						
<i>Interest free</i>						
Trade and other receivables	-	39,919	2,125	2,336	937	45,317
Financial assets at fair value through profit or loss	-	-	5,465	-	-	5,465
Guarantee deposits	-	306	728	6,947	3,914	11,895
Cash and bank balances	-	70,866	-	-	-	70,866
<i>Fixed rate</i>						
Bank deposits	1.32	21	114,726	-	-	114,747
Fair values						

The Company uses options to 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 fair values (FV) 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.

JOINT STOCK COMPANY AIR ASTANA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015 (in thousands of USD)

26. FINANCIAL INSTRUMENTS (CONTINUED)

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.

During the year ended 31 December 2015 and 2014 the Company did not make any transfer between levels.

The following table shows the quantitative information about significant unobservable inputs used in the fair value measurement categorized within Level 3 of the fair value hierarchy:

Derivative financial assets/liabilities	Carrying amount	Valuation techniques	Unobservable input	Range (weighted average)
Purchased fuel call option	91	Black Sholes Merton Formula	Historical volatility of fuel prices	Volatility changes from 10% to -10% would lead to increase in the FV by USD 73 thousand and decrease by USD 48 thousand Volatility changes from 10% to -10% would lead to increase in the FV by USD 21 thousand and decrease by USD 19 thousand
Written fuel put option (included in zero cost collars)	180	Black Sholes Merton Formula	Historical volatility of fuel prices	

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 not all significant inputs are observable, either directly or indirectly and valuations are based on one or more non-observable inputs. Such valuations represent Level 3 of the fair value hierarchy.

Guarantee Deposits

Guarantee Deposits are recognised at amortised cost and accordingly it approximates their fair value.

Trade and other receivables and payables

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

JOINT STOCK COMPANY AIR ASTANA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015 (in thousands of USD)

26. FINANCIAL INSTRUMENTS (CONTINUED)

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 these six Airbus aircraft. These leases are denominated in US dollars, with a repayment term of twelve years. Loans provided by financial institutions to the lessor are guaranteed by European Export Credit Agencies.

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 2012 and the second in 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 three Boeing 767s were repaid by the Company on delivery of each aircraft in 2013 and 2014 years. Final pre-delivery payments for the third B767 aircraft were made in 2013. Two Boeing 767s were delivered in 2013 and the third one was delivered in mid 2014. Delivery of Boeing 787s is now deferred to 2019 with last pre-delivery payments deferred to 2019.

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 for all Boeing-767 delivered in 2013 and 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.

During 2015 management has revised its estimations of operating lease commitments, which include only non-cancellable fixed lease payments and fixed part of variable lease payments.

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

JOINT STOCK COMPANY AIR ASTANA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015 (in thousands of USD)

27. COMMITMENTS AND CONTINGENCIES (CONTINUED)

Commitments for leases of aircraft currently in operation:

	31 December 2015	31 December 2014
Within one year	57,986	59,179
After one year but not more than five years	146,034	189,648
More than five years	9,505	22,457
	<u>213,525</u>	<u>271,284</u>

Commitments for leases of aircraft to be delivered from 2016 to 2019:

	31 December 2015
Within one year	3,043
After one year but not more than five years	130,938
More than five years	336,504
	<u>470,485</u>

In September 2015 the Company signed operating lease agreements for four Airbus A320neo family aircraft being delivered in 2017 and 2019

In June 2015 the Company signed operating lease agreements for seven Airbus A320neo family aircraft to replace some current leases on expiry and for future expansion. One A320neo is scheduled for delivery in mid 2016, with the remaining six aircraft being delivered in 2018 and 2019.

Stand-by Letters of Credit as of 31 December 2015 were USD 32,055 thousand. These Letters of Credit were obtained as security for Lessors to cover any unfulfilled maintenance liabilities on the return of three Embraer E190 and five Airbus aircraft to Lessors.

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.

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 2015	31 December 2014
Within one year	1,199	1,571
After one year but not more than five years	4,149	5,348
	<u>5,348</u>	<u>6,919</u>

JOINT STOCK COMPANY AIR ASTANA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015 (in thousands of USD)

27. COMMITMENTS AND CONTINGENCIES (CONTINUED)

Insurance

Aviation insurance

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

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

Non – Aviation Insurance

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

- Medical insurance of employees;
- Directors, Officers and Corporate liability insurance;
- Property insurance;
- Comprehensive vehicle insurance;
- Compulsory insurance of employee from accidents during execution of labor (service) duties;
- Commercial general liability insurance (Public Liability);
- Civil liability insurance to customs authorities;
- 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 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, then to Almaty city court, where decision was also left without changes. Appeal was sent to the Supreme Court in November 2014 and the decision was also left without changes. Therefore a decision was made to appeal to the Prosecutor's office and this was filed in December 2014. The Company has passed all instances of appeal and a final refusal (which closed the case) was the decision of the General Prosecutor's Office of the Republic of Kazakhstan in April 2015.

JOINT STOCK COMPANY AIR ASTANA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015 (in thousands of USD)

27. COMMITMENTS AND CONTINGENCIES (CONTINUED)

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. In addition, the recent significant depreciation of the Kazakhstan tenge, and the reduction in the global price of oil, have increased the level of uncertainty in the business 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 2015 to independent directors was USD 92 thousand (2014: USD 89 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):

	2015	2014
Salaries and bonuses	4,436	4,526
Social tax	525	481
	<u>4,961</u>	<u>5,007</u>

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.

There were no Government subsidies for 2015 (2014: USD 1,351 thousand) (Note 5). As at 31 December 2015 there was no outstanding amount due to the Company for subsidies (2014: USD 85 thousand) (Note 15).

JOINT STOCK COMPANY AIR ASTANA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015 (in thousands of USD)

28. RELATED PARTY TRANSACTIONS (CONTINUED)

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:

	2015		2014	
	Transaction value	Outstanding balance	Transaction value	Outstanding balance
Services received				
State-owned companies	38,996	(1,509)	42,946	(3,362)
Shareholders and their subsidiaries	<u>8,034</u>	<u>(213)</u>	<u>8,428</u>	<u>(282)</u>
	<u>47,031</u>	<u>(1,722)</u>	<u>51,374</u>	<u>(3,644)</u>

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

	2015		2014	
	Transaction value	Outstanding balance	Transaction value	Outstanding balance
Services provided by the Company				
Shareholders and their subsidiaries	<u>1,289</u>	<u>111</u>	<u>1,263</u>	<u>160</u>
	<u>1,289</u>	<u>111</u>	<u>1,263</u>	<u>160</u>

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. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved by management of the Company and authorised for issue on 29 February 2016.