JOINT STOCK COMPANY
AIR ASTANA

Financial Statements
For the year ended 31 December 2009

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 2009

The following statement, which should be read in conjunction with the independent auditors' responsibilities stated in the independent auditors' report set out on pages 2-3, is made with a view to distinguish the respective responsibilities of management and those of the independent auditors in relation to the financial statements of JSC Air Astana (the "Company").

Management of the Company is responsible for the preparation of the financial statements that present fairly the financial position of the Company as at 31 December 2009, 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;
- 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 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 2009 were authorised for issue on 31 March 2010 by the management of the Company.

On behalf of the management of the Company:

AO «ЭЙР АСТАНА»

Peter Foster
President

31 March 2010
Almaty, Republic of Kazakhstan

Alima Zamanbekova
Chief Accountant

31 March 2010
Almaty, Republic of Kazakhstan

Deloitte, LLP
Almaty Financial District
Building «B»
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Republic of Kazakhstan

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INDEPENDENT AUDITORS' REPORT

To the Shareholders 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 2009, and statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes (the "financial statements").

Management's responsibility for the preparation of the financial statements

Management of the Company is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

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 whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider 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 give a true and fair view of the financial position of the Company as at 31 December 2009, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Nikolay Demidov
Qualified auditor
Qualification certificate #0000573
dated 20 December 2004,
Republic of Kazakhstan

Russell F. Banham
Engagement Partner
Certified Public Accountant
Qualification Certificate # 24088
Australia

Deloitte LLP

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

Nurlan Bekenov
General Director
Deloitte, LLP

31 March 2010
Almaty, Republic of Kazakhstan

JOINT STOCK COMPANY AIR ASTANA

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2009
(in thousands of USD)

	Notes	2009	2008
Revenue			
Passenger	5	533,261	628,639
Cargo and mail	5	15,332	18,189
Other	5	10,676	12,362
Total revenue		559,269	659,190
Operating expenses			
Fuel		(92,304)	(180,677)
Engineering and maintenance	6	(72,746)	(67,499)
Aircraft operating lease costs	6	(71,982)	(65,010)
Handling, landing fees and route charges	6	(66,240)	(76,281)
Employee costs	6	(61,753)	(58,108)
Passenger service	6	(45,317)	(58,751)
Selling costs	6	(44,143)	(58,364)
Aircraft crew costs	6	(28,495)	(37,947)
Depreciation and amortization	11	(6,792)	(4,014)
Taxes		(4,363)	(5,693)
Insurance	6	(4,247)	(4,883)
Property lease cost		(4,084)	(3,670)
Information technology		(2,369)	(2,597)
Consultancy, legal and professional services		(1,158)	(3,177)
Other		(3,460)	(7,810)
Total operating expenses		(509,453)	(634,481)
Operating profit		49,816	24,709
Finance income	7	4,328	4,505
Finance costs	7	(650)	(936)
Foreign exchange gain/(loss), net		7,527	(1,295)
		11,205	2,274
Profit before tax		61,021	26,983
Income tax expense	8	(13,036)	(9,908)
Profit for the year		47,985	17,075
Other comprehensive loss:			
Foreign currency translation loss		(22,824)	(424)
Total comprehensive income for the year		25,161	16,651
Basic and diluted earnings per share (in USD)	20	2,823	1,004

On behalf of the Company's management:

АО «ЭЙР АСТАНА»

Peter Foster
President

31 March 2010
Almaty, Republic of Kazakhstan

Alima Zamanbekova
Chief Accountant

31 March 2010
Almaty, Republic of Kazakhstan

The notes on pages 9 to 42 form an integral part of these financial statements

JOINT STOCK COMPANY AIR ASTANA

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2009
(in thousands of USD)

	Notes	2009	2008
ASSETS			
Non-current assets			
Property, plant and equipment	9	27,047	33,018
Intangible assets	10	2,262	2,488
Prepayment for long-term assets	14	8,868	6,706
Guarantee deposits	12	14,967	15,557
Deferred tax assets	8	3,112	1,436
Bank deposits	18	49,720	-
		105,976	59,205
Current assets			
Inventories	13	20,921	21,381
Prepayments	14	11,581	18,129
Income tax prepaid		4,081	4,583
Trade and other receivables	15	35,291	34,331
Other taxes prepaid	17	8,554	12,484
Guarantee deposits	12	2,327	978
Bank deposits	18	19,728	18,583
Cash and bank balances	19	22,008	34,702
Financial assets at fair value through profit or loss	16	1,361	-
		125,852	145,171
Total assets		231,828	204,376
EQUITY AND LIABILITIES			
Equity			
Share capital		17,000	17,000
Foreign currency translation reserve		(14,492)	8,332
Retained earnings		140,216	95,638
Total equity	20	142,724	120,970
Non-current liabilities			
Finance lease liabilities	21	-	308
Provision for aircraft maintenance	23	6,124	9,581
		6,124	9,889
Current liabilities			
Finance lease liabilities	21	311	904
Deferred revenue	22	43,923	37,719
Provision for aircraft maintenance	23	10,351	7,354
Trade and other payables	24	28,059	27,540
Financial liabilities at fair value through profit or loss	16	336	-
		82,980	73,517
Total liabilities		89,104	83,406
Total equity and liabilities		231,828	204,376

On behalf of the Company's management:

АО «ЭЙР АСТАНА»

Peter Foster	**Alima Zamanbekova**
President	**Chief Accountant**
31 March 2010	31 March 2010
Almaty, Republic of Kazakhstan	Almaty, Republic of Kazakhstan

The notes on pages 9 to 42 form an integral part of these financial statements.

JOINT STOCK COMPANY AIR ASTANA

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2009
(in thousands of USD)

	Notes	Share capital	Foreign currency translation reserve	Retained earnings	Total equity
At 1 January 2008		17,000	8,756	87,614	113,370
Profit for the year		-	-	17,075	17,075
Foreign currency translation loss		-	(424)	-	(424)
Total comprehensive loss for the year		-	(424)	17,075	16,651
Dividends paid	20	-	-	(9,051)	(9,051)
At 1 January 2009		17,000	8,332	95,638	120,970
Profit for the year		-	-	47,985	47,985
Foreign currency translation loss		-	(22,824)	-	(22,824)
Total comprehensive income for the year		-	(22,824)	47,985	25,161
Dividends paid	20	-	-	(3,407)	(3,407)
At 31 December 2009		17,000	(14,492)	140,216	142,724

On behalf of the Company's management:

АО «ЭЙР АСТАНА»

Peter Foster
President

31 March 2010
Almaty, Republic of Kazakhstan

Alima Zamanbekova
Chief Accountant

31 March 2010
Almaty, Republic of Kazakhstan

The notes on pages 9 to 42 form an integral part of these financial statements.

JOINT STOCK COMPANY AIR ASTANA

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2009
(in thousands of USD)

	Notes	2009	2008
OPERATING ACTIVITIES:			
Profit before tax		61,021	26,983
Adjustments for:			
Depreciation and amortization of property, plant and equipment and intangible assets	11	6,792	4,014
Loss on disposal of property, plant and equipment	9	1,778	1,801
Change in allowance for doubtful debts	14, 15	1,535	924
Change in allowance for obsolete and slow-moving inventories	13	330	-
Foreign exchange (gain)/loss		(7,527)	1,295
Interest income	7	(4,328)	(4,505)
Interest expense on finance lease	7	41	96
Net unrealized loss on financial assets and liabilities at fair value through profit or loss	7	138	-
Operating cash flow before movements in working capital		59,780	30,608
Increase in accounts receivable		(3,228)	(15,171)
Decrease/(increase) in other receivables and prepaid expenses		3,555	(1,555)
Increase in inventories		(3,872)	(8,202)
Decrease/(increase) in guarantee deposits		602	(368)
Increase/(decrease) in accounts payable, accrued expenses and other current liabilities		6,307	(4,051)
Increase/(decrease) in deferred revenue		13,295	(797)
Cash generated from operations		76,439	464
Income tax paid		(16,306)	(2,251)
Interest paid		(30)	(117)
Net cash generated from/(used in) operating activities		60,103	(1,904)
INVESTING ACTIVITIES:			
Pre-delivery payment and purchase of property, plant and equipment		(11,578)	(16,969)
Purchase of intangible assets		(825)	(421)
Bank term deposits made		(78,487)	(256,532)
Maturities of bank term deposits		26,156	300,298
Interest received		2,327	6,658
Net cash (used in)/generated from investing activities		(62,407)	33,034

STATEMENT OF CASH FLOWS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2009
(in thousands of USD)

	Notes	2009	2008
FINANCING ACTIVITIES:			
Proceeds from bank overdraft		-	995
Repayment of bank overdraft		-	(995)
Dividends paid	20	(3,482)	(9,003)
Principal payments on finance lease		(933)	(1,440)
Net cash used in financing activities		(4,415)	(10,443)
NET (DECREASE)/INCREASE IN CASH AND BANK BALANCES		(6,719)	20,687
Effect of foreign exchange rate changes on cash and cash equivalents held in foreign currencies		(5,975)	(927)
CASH AND BANK BALANCES, at beginning of the year	19	34,702	14,942
CASH AND BANK BALANCES, at end of the year	19	22,008	34,702

On behalf of the Company's management:

АО «ЭЙР АСТАНА»

Peter Foster
President

31 March 2010
Almaty, Republic of Kazakhstan

Alima Zamanbekova
Chief Accountant

31 March 2010
Almaty, Republic of Kazakhstan

The notes on pages 9 to 42 form an integral part of these financial statements.

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 2009 the Company operates 21 aircraft comprising of 5 short-haul turboprop aircrafts and 16 long-haul aircrafts (2008: 5 short-haul turboprop aircrafts and 16 long-haul aircrafts).

The Company re-registered its office in 2009 from Astana, Kazakhstan to Zakarpatskaya street 4A, Almaty, Kazakhstan as the Company's main airport of operations is the Almaty International Airport.

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

2. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

Standards and interpretations effective in the current period

The following new and revised Standards and Interpretations where relevant have been adopted in the current period and have not had any significant impact on presentation and disclosure in these financial statements:

- IAS 1 (as revised in 2007) Presentation of Financial Statements – IAS 1 (2007) has introduced terminology changes (including revised titles for the financial statements) and changes in the format and content of the financial statements;
- Amendments to IFRS 7 Financial Instruments: Disclosures, improving Disclosures about Financial Instruments – the amendments to IFRS 7 expand the disclosures required in respect of fair value measurements and liquidity risk.

The following new and revised Standards and Interpretations where relevant have also been adopted in these financial statements. Their adoption has not had any significant impact on the amounts reported in these financial statements but may affect the accounting for future transactions or arrangements.

- IFRS 8 Operating Segments;
- Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards and IAS 27 Consolidated and Separate Financial Statements – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate;
- Amendments to IFRS 2 Share-based Payment - Vesting Conditions and Cancellations;
- IAS 23 (as revised in 2007) Borrowing Costs;

- Amendments to IAS 32 Financial Instruments: Presentation and IAS 1 Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation;
- Amendments to IAS 39 Financial Instruments: Recognition and Measurement and IFRS 7 Financial Instruments: Disclosures regarding reclassifications of financial assets;
- Amendments to IAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items;
- Embedded Derivatives (Amendments to IFRIC 9 and IAS 39);
- IFRIC 13 Customer Loyalty Programmes;
- IFRIC 15 Agreements for the Construction of Real Estate
- IFRIC 16 Hedges of a Net Investment in a Foreign Operation; and
- Improvements to IFRS (2008) – in May 2008, within an annual initiative aimed at the general improvement of the effective International Financial Reporting Standards, the IFRS Committee issued amendments to 20 existing standards. These amendments are related to certain expressions and issues regarding presentation of financial statements, issues of recognition and appraisal. The Improvements have led to a number of changes in the detail of the Company's accounting policies – some of which are changes in terminology only, and some of which are substantive, but have had no material effect on amounts reported. The majority of these amendments are effective from 1 January 2010.

Standards and Interpretations in issue not yet adopted

At the date of authorisation of these financial statements the following Interpretations and Standards were in issue but not yet effective:

- IFRS 1 (as revised in 2008) First-time Adoption of International Financial Reporting Standards (effective for reporting periods beginning on or after 1 July 2009);
- Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards additional exemptions for first-time adoption relating to oil and gas assets and arrangements containing leases (effective for reporting periods beginning on or after 1 January 2010);
- Amendments to IFRS 2 Share-based Payment relating to group cash-settled share-based payment transactions (effective for reporting periods beginning on or after 1 January 2010);
- IFRS 3 (as revised in 2008) Business Combinations (effective for reporting periods beginning on or after 1 July 2009);
- Amendments to IFRS 5 Non-current Assets Held for Sale and Discontinued Operations (effective for reporting periods beginning on or after 1 January 2010);
- IFRS 9 Financial Instruments (effective for reporting periods beginning on or after 1 January 2013);
- Amendments to IAS 7 Statement of Cash Flows (effective for reporting periods beginning on or after 1 January 2010);
- IAS 24 (revised) Related Party Disclosures (effective for reporting periods beginning on or after 1 January 2011);
- IAS 27 (as revised in 2008) Consolidated and Separate Financial Statements as a result of revision of IFRS 3 (effective for reporting periods beginning on or after 1 July 2009);
- IAS 28 (as revised in 2008) Investments in Associates as a result of revision of IFRS 3 (effective for reporting periods beginning on or after 1 July 2009);
- IAS 31 Interests in Joint Ventures as a result of revision of IFRS 3 (effective for reporting periods beginning on or after 1 July 2009);

- Amendment to IAS 32 Financial Instruments: Presentation relating to classification of rights issues (effective for reporting periods beginning on or after 1 February 2010);
- Amendments to IFRIC 14 IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction relating to voluntary prepaid contributions (effective for reporting periods beginning on or after 1 February 2011);
- IFRIC 17 Distributions of Non-cash Assets to Owners (effective for reporting periods beginning on or after 1 July 2009);
- IFRIC 18 Transfers of Assets from Customers (effective for reporting periods beginning on or after 1 July 2009);
- IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments (effective for reporting periods beginning on or after 1 July 2010); and
- Improvements to IFRS (April 2009) – in April 2009, within an annual initiative aimed at the general improvement of the effective International Financial Reporting Standards, the IFRS Committee issued amendments to 12 existing standards. These Improvements are intended to deal with non-urgent, minor amendments to Standards. The new version of the above standards and interpretations is effective for reporting periods starting on or after 1 July 2009 and 1 January 2010.

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

Management of the Company anticipates that all of the above Standards and Interpretations will be adopted where relevant in the Company's financial statements for the period commencing 1 January 2010 and that the adoption of those Standards and Interpretations will have no material impact on the financial statements of the Company in the period of initial application.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

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

Basis of preparation

The financial statements have been prepared on the historical cost basis except for the revaluation of certain financial instruments. The principal accounting policies are set out below.

Functional and presentation currency

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

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

Revenue

Passenger revenue

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

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

Cargo revenue

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

Government subsidies

Government subsidies are not recognised until there is reasonable assurance that the Company will comply with conditions attaching to them and that the grants will be received.

Other government subsidies are recognised as income over the periods necessary to match them with the costs for which they are intended to compensate, on a systematic basis. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Company with no future related costs are recognised in profit or loss in the period in which they become receivable.

Customer loyalty program

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

Travel agents' commissions

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

Leasing

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

The Company as lessee

Assets held under finance leases are initially recognised as assets of the Company at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to 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.

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

Lease guarantee deposits

Guarantee deposits represent amounts paid to the lessors of foreign aircraft, which are held as security deposits by lessors in accordance with the provisions of finance and 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 9% (2008: 9%).

Foreign currencies

Transactions in currencies other than the Company's functional currency (foreign currencies) are at the rates of exchange prevailing at the dates of the transactions. At each reporting date, monetary items denominated in foreign currencies are retranslated at the rates prevailing at the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

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

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

The following table summarises tenge exchange rates:

	Average rate		Reporting date spot rate	
	2009	**2008**	**2009**	**2008**
US dollar (USD)	147.50	120.29	148.36	120.77
Euro (EUR)	205.67	176.81	212.84	170.89
British Pound (GBP)	231.01	222.46	235.58	175.12

Finance income and expenses

Finance income comprises interest income on funds invested and foreign currency gains. Interest income is recognised as it is accrued, using the effective interest method.

Finance expenses comprise interest expense on borrowings, unwinding of the discount on provisions, foreign currency losses and impairment losses recognised on financial assets. All borrowing costs are recognised in profit or loss using the effective interest method.

Short-term employee benefits

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

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

Income tax

Income tax expense comprises current and deferred tax.

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

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

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

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

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

Current and deferred tax are recognised as an expense or income in profit or loss, except when they relate to items credited or debited directly to other comprehensive income, in which case the tax is also recognised directly in other comprehensive income.

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.

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

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

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

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

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

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

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

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease.

Depreciation methods, useful lives and residual values are reassessed at each reporting date, with the effect of any changes in estimate being accounted for on a prospective basis.

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

Impairment of tangible and intangible assets

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

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

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

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

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

Inventories

Inventories comprise consumable items and spare parts for aircraft that are expected to be used within 12 months of the reporting date. Such items are not held for trading purposes. Inventories are stated at cost. The cost of inventories is based on the FIFO cost method except for fuel, which is based on weighted average cost method, and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition.

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

Provisions

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

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

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

Provision for aircraft maintenance

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 the lessor in a satisfactory condition at the end of the lease term, which may require the performance of final return conditions. The Company's scheduled aircraft maintenance programs carried out through the lease periods are designed to reduce the incidence of final return costs. Major aircraft maintenance relates to airframes (referred to as the C-check program) and engines. The C-check program takes place every 18 months or 5,000 to 6,000 flying hours according to aircraft type. Engine overhaul occurs after specified flight hours or cycles occur. The operating lease agreements include a component of variable rent which is generally reimbursable to the Company by the lessor as a contribution to engine maintenance costs after they are incurred. The variable rent payments are recognized as an expense in profit or loss as incurred. 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 lessor. Unanticipated maintenance costs are expensed in profit and loss as incurred.

Onerous contracts

Present obligations arising under onerous contracts are recognised and measured as provisions. An onerous contract is considered to exist where the Company has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it.

Restructurings

A restructuring provision is recognised when the Company has developed a detailed formal plan for the restructuring and has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement the plan or announcing its main features to those affected by it. The measurement of a restructuring provision includes only the direct expenditures arising from the restructuring, which are those amounts that are both necessarily entailed by the restructuring and not associated with the ongoing activities of the entity.

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.

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.

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

Receivables

Trade receivables and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables.

Held-to-maturity investments

Bills of exchange and debentures with fixed or determinable payments and fixed maturity dates that the Company has the positive intent and ability to hold to maturity are classified as held-to-maturity investments. Held-to-maturity investments are recorded at amortised cost using the effective interest method less any impairment, with revenue recognised on an effective yield basis.

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 impacted.

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

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

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 60 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 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.

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.

With the exception of AFS equity instruments, 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.

Financial liabilities and equity instruments issued by the Company

Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

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 future; or
- it is a part of an identified portfolio of financial instruments that the Company manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

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

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

Financial liabilities at FVTPL are stated at fair value, with any resultant gain or loss recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability. Fair value is determined in the manner described in Note 25.

Other financial liabilities

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

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 through the expected life of the financial liability, or, where appropriate, a shorter period.

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 25.

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

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

Dividends

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

Derecognition of financial liabilities

The Company derecognises financial liabilities when, and only when, the Company's obligations are discharged, cancelled or they expire.

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, the management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

Critical judgments in applying accounting policies and estimates

The following are the critical judgments and estimates that the directors 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 is judged to exist. Provisions mainly consist of provision for aircraft maintenance (Note 23).

Recoverability of variable rent related to future maintenance

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

In case of return of the aircraft after the scheduled maintenance event, but before the return condition specified in the lease agreement is triggered, the amounts of variable rent contributions made to the lessors are not reimbursable and are retained by the lessor as a deposit transferrable to the next lessees of the aircraft. Management of the Company believes that as at 31 December 2009 contributions of variable rent of USD 71,029 thousand (2008: USD 66,287 thousand) are subject to reimbursement by the aircraft lessors upon actual maintenance events. Management regularly assesses the recoverability of variable rent contributions made by the Company.

Compliance with tax legislation

As discussed further in Note 26, compliance with tax legislation is subject to significant degree of interpretation and can be routinely challenged by the tax authorities. The management records a provision in respect of its best estimate of likely tax liabilities at reporting date.

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.

Outdated transportation tickets

Management makes estimates based on statistical analysis in order to calculate the value of tickets sold during the year which will be outdated and which remained unused as at reporting date. This amount is recognized in profit and loss. The maximum expiry date of transportation tickets is 12 months after purchase date.

Where required, adjustments are made in the current year to adjust estimated amounts recognised in the prior year.

Fair value of financial instruments

As described in Note 25, management uses their judgement in selecting an appropriate valuation technique for financial instruments not quoted in an active market. Valuation techniques commonly used by market practitioners are applied. Non-derivative financial instruments are valued using a discounted cash flow analysis based on assumptions supported, where possible, by observable market prices or rates. Details of the assumptions used and of the results of sensitivity analyses regarding these assumptions are provided in Note 25.

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 2009 and 2008, allowances for doubtful accounts have been created in the amount of USD 2,392 thousand and USD 1,062 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 2009, the Company accrued allowance for obsolete and slow-moving inventories in the amount of USD 336 thousand (2008: USD 10 thousand) (Note 13).

Contingent liabilities and contingent assets

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

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

5. REVENUE

During the years ended 31 December, revenue consisted of:

Passenger revenue	2009	2008
Passenger transport	466,063	564,760
Fuel surcharge	38,814	36,294
Airport services	23,474	22,291
Excess baggage	4,910	5,294
	533,261	628,639

Cargo and mail revenue	2009	2008
Cargo	14,886	17,680
Mail	446	509
	15,332	18,189

Other revenue	2009	2008
Government subsidies	4,059	4,862
Penalties on agency contracts	3,043	4,112
Advertising revenue	734	1,146
Income from ground services	411	591
Gain on disposal of spare parts	98	254
Spare parts received free of charge	92	52
Other	2,239	1,345
	10,676	12,362

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

	2009	2008
Domestic	218,070	257,110
Europe	223,018	271,703
Asia	107,505	118,015
Total passenger and cargo revenue	548,593	646,828

In accordance with Resolution #915 of the Government of the Republic of Kazakhstan dated 17 August 2002, the Government provides subsidies to companies rendering air passenger services on unprofitable routes from Astana to Semey, Petropavlosk, Pavlodar and Zhezkazgan. There is also a subsidy agreement with Uralsk for the route Astana-Uralsk, signed on 1 November 2008. Additionally a subsidy agreement was signed with Aktobe Akimat which became effective from 1 March 2009 for Airbus flights between Aktobe and Astana. Subsidies are based on the excess of flight costs over revenue earned.

6. OPERATING EXPENSES

During the years ended 31 December, operating expenses consisted of:

Engineering and maintenance	2009	2008
Maintenance – variable rent payments	39,002	38,109
Maintenance – components	16,082	8,429
Maintenance – provisions (Note 23)	8,087	10,293
Spare parts	7,858	9,222
Technical inspection	1,717	1,446
	72,746	67,499

Aircraft operating lease costs	2009	2008
Fixed lease charges	69,165	59,455
Leased Engine on Wing Costs	1,601	2,403
Wet lease charges	28	1,945
Lease of Engines and Rotable Spare parts	1,188	1,207
	71,982	65,010

Handling, landing fees and route charges	2009	2008
Landing fees	21,534	26,734
Handling charge	21,935	24,211
Aero navigation	20,744	23,067
Meteorological services	1,255	1,619
Other	772	650
	66,240	76,281

Employee costs	2009	2008
Wages and salaries of operations staff	40,552	41,554
Wages and salaries of administrative staff	10,173	7,440
Social tax	4,439	3,651
Wages and salaries of sales staff	4,102	2,338
Other	2,487	3,125
	61,753	58,108

The average number of employees during 2009 was 2,907 (2008: 2,874).

Passenger service	2009	2008
Catering	21,814	32,328
Airport charges	17,206	17,736
Inflight entertainment	1,507	1,672
Security	1,399	1,458
Other	3,391	5,557
	45,317	58,751

Selling costs	2009	2008
Commissions	24,622	38,700
Reservation cost	13,878	12,615
Advertising	3,988	4,346
Interline commissions	811	1,618
Other	844	1,085
	44,143	58,364

Aircraft crew costs	2009	2008
Accommodation and allowances	11,683	14,749
Contract crew	10,813	14,344
Training	5,999	8,854
	28,495	37,947

Insurance	2009	2008
Hull insurance	2,281	2,250
Legal liability insurance	1,429	2,060
Medical insurance	391	398
Other	146	175
	4,247	4,883

7. FINANCE INCOME AND COSTS

Finance income	2009	2008
Finance income on bank deposits	4,204	4,429
Other	124	76
	4,328	4,505

Finance costs	2009	2008
Bank commissions	450	460
Net unrealized loss on financial assets and liabilities at fair value through profit or loss (Note 16)	138	-
Interest expense on finance lease	41	96
Other	21	380
	650	936

8. INCOME TAX EXPENSE

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

	2009	2008
Current income tax expense	(14,990)	(9,363)
Deferred income tax benefit/(expense)	1,954	(545)
	(13,036)	(9,908)

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 2009 and 2008 is presented below:

	2009	2008
Deferred tax assets		
Provision for aircraft maintenance	3,294	3,156
Prepaid expenses	1,026	247
Trade and other payables	428	109
Trade and other receivables	371	81
Intangible assets	13	-
Total	5,132	3,593
Deferred tax liabilities		
Difference in depreciable value of property, plant and equipment	(1,689)	(2,147)
Prepaid expenses	(320)	-
Trade and other payables	(11)	-
Intangible assets	-	(10)
Total	(2,020)	(2,157)
Net deferred tax assets	3,112	1,436

In November 2008, the Tax Code of the Republic of Kazakhstan was amended providing for phased reduction of the corporate income tax rate from 30% to 20% in 2009, 17.5% in 2010 and 15% in 2011. Deferred tax as at 31 December 2008 was estimated using the above rates applicable to the period in which assets or liabilities were expected to be realized or settled.

On 17 November 2009, an amendment to the Tax Code was adopted providing for retaining of the corporate income tax rate at 20% up to 31 December 2012, with future reduction to 17.5% in 2013, and to 15% in 2014 and thereafter. Deferred tax is calculated using income tax rates substantially enacted at the date of the approval of these financial statements. The current corporate income tax rate is 20% and 30% of the expected annual taxable income for the years ended 31 December 2009 and 2008 respectively.

The taxation charge for the year is different from that which would be obtained by applying the statutory income tax rate to the profit before income tax. Below is a reconciliation of theoretical income tax at 20% (2008: 30%) to the actual expense recorded in the Company's statement of comprehensive income:

	2009	2008
Profit before income tax	61,021	26,983
Income tax at statutory rate	12,204	8,095
Tax effect of non-deductible expenses	476	1,004
Reduction of deferred tax asset due to change of tax rate	356	809
Income tax expense	13,036	9,908

9. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment as at 31 December, consisted of the following:

	Rotable spare parts (including leased engine)	Office equipment and furniture	Building, premises and land	Vehicles	Other assets	Equipment to be installed	Total
Cost							
At 1 January 2008	19,823	3,650	6,132	2,059	3,364	-	35,028
Additions	-	763	600	308	370	7,406	9,447
Disposals	-	(190)	-	(9)	(70)	(1,716)	(1,985)
Transfers from intangible assets (Note 10)	-	-	-	-	-	5	5
Transfers to inventory	-	-	-	-	-	(4)	(4)
Transfers	4,443	526	-	20	595	(5,584)	-
Foreign currency translation difference	(95)	(19)	(26)	(10)	(16)	1	(165)
At 1 January 2009	24,171	4,730	6,706	2,368	4,243	108	42,326
Additions	56	767	2	531	178	6,615	8,149
Disposals	(2)	(168)	-	(72)	(50)	(1,710)	(2,002)
Transfers from intangible assets (Note 10)	-	-	-	-	-	70	70
Transfers from inventory	-	-	-	-	-	5	5
Transfers	4,600	(37)	(2)	293	69	(4,923)	-
Foreign currency translation difference	(4,522)	(883)	(1,247)	(444)	(790)	(20)	(7,906)
At 31 December 2009	24,303	4,409	5,459	2,676	3,650	145	40,642
Accumulated depreciation							
At 1 January 2008	3,141	1,388	194	463	712	-	5,898
Charge for the year (Note 11)	2,023	744	170	294	399	-	3,630
Disposals	-	(131)	-	(5)	(48)	-	(184)
Foreign currency translation difference	(21)	(6)	(2)	(3)	(4)	-	(36)
At 1 January 2009	5,143	1,995	362	749	1,059	-	9,308
Charge for the year (Note 11)	4,149	1,041	232	387	467	-	6,276
Disposals	-	(145)	-	(48)	(31)	-	(224)
Transfers	-	(29)	-	-	29	-	-
Foreign currency translation difference	(979)	(377)	(69)	(140)	(200)	-	(1,765)
At 31 December 2009	8,313	2,485	525	948	1,324	-	13,595
Net book value							
At 31 December 2009	15,990	1,924	4,934	1,728	2,326	145	27,047
At 31 December 2008	19,028	2,735	6,344	1,619	3,184	108	33,018

Rotable spare parts include an aircraft engine which was acquired under a finance lease. Title for the leased engine will be transferred to the Company at the end of lease term. The net book value of the engine as at 31 December 2009 is USD 417 thousand (2008: USD 4,856 thousand). The leased engine secures the finance lease liabilities.

As at 31 December 2009, book value of fully depreciated property, plant and equipment that is still in use is USD 1,025 thousand (2008: USD 169 thousand).

10. INTANGIBLE ASSETS

	Software
Cost	
At 1 January 2008	2,466
Additions	1,211
Transfer to property, plant and equipment (Note 9)	(5)
Foreign currency translation difference	(14)
At 31 December 2008	3,658
Additions	825
Transfer to property, plant and equipment (Note 9)	(70)
Foreign currency translation difference	(685)
At 31 December 2009	3,728
Amortization and impairment losses	
At 1 January 2008	791
Charge for the year (Note 11)	384
Foreign currency translation difference	(5)
At 1 January 2009	1,170
Charge for the year (Note 11)	516
Foreign currency translation difference	(220)
At 31 December 2009	1,466
Net book value	
At 31 December 2009	2,262
At 31 December 2008	2,488

11. DEPRECIATION AND AMORTIZATION

	2009	2008
Depreciation of property, plant and equipment (Note 9)	6,276	3,630
Amortization of intangible assets (Note 10)	516	384
	6,792	4,014

12. GUARANTEE DEPOSITS

	2009	2008
Non- current		
Guarantee deposits for leased aircraft	13,901	13,293
Other	1,066	2,264
	14,967	15,557
Current		
Guarantee deposits for leased aircraft	1,376	-
Other	951	978
	2,327	978
	17,294	16,535

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

Guarantee deposits are receivable as follows:

	2009	2008
Within one year	1,376	-
After one year but not more than five years	13,505	13,023
More than five years	800	1,844
	15,681	14,867
Fair value adjustment	(404)	(1,574)
	15,277	13,293

Other guarantee deposits represent guarantee for third party services.

13. INVENTORIES

	2009	2008
Spare parts	10,566	8,665
Fuel	4,073	3,996
Goods in transit	3,008	4,296
Crockery	1,549	2,098
Promotional materials	985	1,269
De-icing liquid	655	345
Blank forms	190	318
Uniforms	65	107
Other	166	297
	21,257	21,391
Less: allowance for obsolete and slow-moving inventories	(336)	(10)
	20,921	21,381

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

	2009	2008
Allowance for obsolete and slow-moving inventories at the beginning of the year	(10)	(10)
Accrued for the year	(330)	-
Foreign currency translation difference	4	-
Allowance for obsolete and slow-moving inventories at the end of the year	(336)	(10)

14. PREPAYMENTS

	2009	2008
Non-current		
Prepayments for long-term assets	8,614	6,706
Advances for services	508	-
	9,122	6,706
Less: allowance for doubtful debts	(254)	-
	8,868	6,706
Current		
Advances for goods	5,151	9,552
Advances for services	6,034	7,282
Prepayments of operating leases	2,278	2,102
	13,463	18,936
Less: allowance for doubtful debts	(1,882)	(807)
	11,581	18,129

Prepayments for long-term assets are made to Airbus as part of pre-delivery payments for purchase of six new aircraft with delivery commencing in year 2012.

At 31 December 2009, five suppliers comprised 56% of the Company's prepayments (2008: five suppliers comprised 29%). The movements in allowance for doubtful debts for the years ended 31 December:

	2009	2008
Allowance for doubtful debts at the beginning of the year	(807)	(6)
Accrued during the year	(1,487)	(810)
Written-off against previously created allowance	-	6
Foreign currency translation	158	3
Allowance for doubtful debts at the end of the year	(2,136)	(807)

Provision for doubtful debts includes advance payment to a creditor which is currently subject to legal claim for recovery due to inability to complete the transaction.

As at 31 December 2009 and 2008, prepayments included amounts denominated primarily in tenge and US Dollars.

15. TRADE AND OTHER RECEIVABLES

	2009	2008
Trade receivables	22,672	26,048
Receivable from lessors - variable rent reimbursement	12,491	7,832
Subsidies receivable (Note 27)	252	426
Due from employees	132	280
	35,547	34,586
Less: allowance for doubtful debts	(256)	(255)
	35,291	34,331

At 31 December 2009, eight debtors including IATA Bank Settlement Plans (BSPs) as collecting agencies from the worldwide travel agencies comprised 76% of the Company's trade and other receivables (2008: eight customers comprised 74%).

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

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

	2009	2008
Tenge	15,332	15,465
US Dollar	12,613	9,808
Euro	3,362	3,280
Russian Rouble	490	769
Other	3,750	5,264
	35,547	34,586

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

	2009	2008
Allowance for doubtful debts at the beginning of the year	(255)	(257)
Accrued during the year	(48)	(114)
Written-off against previously created allowance	-	114
Foreign currency translation difference	47	2
Allowance for doubtful debts at the end of the year	(256)	(255)

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

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

	Call option	Put option	Net
At 1 January 2009	-	-	-
First-time valuation of options	1,590	(403)	1,187
Foreign currency translation effect	(32)	8	(24)
Net unrealized (loss)/gain on financial assets and liabilities at fair value through profit or loss (Note 7)	(197)	59	(138)
At 31 December 2009	1,361	(336)	1,025

17. OTHER TAXES PREPAID

	2009	2008
VAT recoverable	7,468	11,857
Prepayment for personal income tax for non-residents	146	342
Other taxes prepaid	940	285
	8,554	12,484

Prepayment for value added tax is recognised within current assets as the Company annually applies for reimbursement of these amounts from tax committee.

18. BANK DEPOSITS

	2009	2008
Current		
Term deposits with local banks with original maturity more than 3 months	17,304	17,796
Guarantee deposits	25	32
Accrued interest	2,399	755
	19,728	18,583
Non- current		
Term deposits with local banks with original maturity more than 1 year	49,720	-
	69,448	18,583

Term deposits comprise deposits with local banks (with an original maturity of more than three months and less than two years) earn interest in the range from 6.8% to 8.7% per annum (2008: 7%-12.5%).

Guarantee deposits made to meet the requirements of Kazakhstan legislation relating to foreign employees are denominated in tenge and earn interest in the range of 4.5% per annum (2008: 4.5%).

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

	2009	2008
US Dollar	64,800	12,000
Euro	4,564	-
Tenge	84	6,583
	69,448	18,583

19. CASH AND BANK BALANCES

	2009	2008
Term deposits with local banks with original maturity less than 3 months	16,490	30,637
Current accounts with foreign banks	2,943	2,853
Current accounts with local banks	2,528	1,189
Cash on hand	47	23
	22,008	34,702

At 31 December 2009, current accounts with banks earn interest in the range of 0.5% to 4% (2008: 0.5%-4%). Short-term deposits (over-night) with banks earn interest of 4% per annum (2008: 4%).

Cash and cash equivalents are denominated in the following currencies as at 31 December:

	2009	2008
Tenge	17,042	31,471
Euro	1,163	662
US Dollar	609	166
Chinese Yuan	1,070	992
Indian Rupee	179	545
Russian Rouble	640	347
GBP	1,102	50
Other	203	469
	22,008	34,702

20. EQUITY

As at 31 December 2009 and 2008, share capital comprised of 17,000 authorized, issued and fully paid ordinary shares with a par value of USD 1,000 per share.

The Company has not yet declared any dividends for the year ended 31 December 2009. Dividends payable on ordinary shares are determined by the shareholders at the annual meeting and are restricted to the amount of retained earnings of the Company.

As at 31 December 2009, the Company had retained earnings of USD 140,216 thousand (2008: USD 95,638 thousand).

In 2009, the shareholders declared a dividend payment equivalent to 25% of the 2008 net profit after tax. The total amount of the dividend was USD 3,407 thousand which was distributed and paid to each shareholder in accordance with their shareholdings (2008: USD 9,051 thousand).

The calculation of earnings per share is based on the profit for the year and the weighted average number of ordinary shares outstanding during the year of 17,000 shares (2008: 17,000). The Company has no dilutive potential ordinary shares.

21. FINANCE LEASE LIABILITIES

Finance lease liabilities have an effective interest rate of 6% (2008: 6%) per annum and are payable as follows:

	2009		2008	
	Minimum lease payments	Present value of minimum lease payments	Minimum lease payments	Present value of minimum lease payments
Finance lease liabilities payable:				
Within one year	312	311	942	904
In the second to fifth years inclusive	-	-	312	308
Less: Future finance charges	(1)	-	(42)	
Present value of minimum future lease payments	311	311	1,212	1,212
Long-term portion of finance lease liabilities (payable after 12 months)		-		308
Current portion of finance lease liabilities (payable within 12 months)		311		904
		311		1,212

Finance lease liabilities relate to a lease agreement entered into with RRPF Engine Leasing Limited on 1 April 2005 to lease a Rolls Royce engine for the Boeing 757-200 aircraft. The finance lease contract is for five years up to April 2010. The Company pays finance lease liabilities in fixed amounts on a quarterly basis and the last payment is due in January 2010.

Finance lease liabilities are denominated in US dollars.

22. DEFERRED REVENUE

Deferred revenue consisted of the following as at 31 December:

	2009	2008
Unearned transportation revenue	37,158	35,215
Customer loyalty program	6,765	2,504
	43,923	37,719

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

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

23. PROVISION FOR AIRCRAFT MAINTENANCE

Provision for aircraft maintenance consisted of the following at 31 December:

	2009	2008
Engines	10,597	12,908
C-Check	5,878	4,027
	16,475	16,935

The movements in the provision for aircraft maintenance were as follows for the years ended 31 December 2009 and 2008:

	2009	2008
At 1 January	16,935	13,193
Provisions accrued during the year (Note 6)	8,764	11,701
Provisions reversed during the year (Note 6)	(677)	(1,408)
Provisions used during the year	(5,381)	(6,485)
Foreign currency translation difference	(3,166)	(66)
At 31 December	16,475	16,935

Under the terms of its operating leases 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. Provisions are primarily denominated in US dollars.

The planned utilisation of these provisions is as follows:

	2009	2008
Within one year	10,351	7,354
During the second year	2,651	5,337
During the third year	3,042	4,244
After the third year	431	-
Total provision for aircraft maintenance	16,475	16,935
Less: current portion of provision for aircraft maintenance	(10,351)	(7,354)
Long-term portion of provision for aircraft maintenance	6,124	9,581

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;
- 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.

24. TRADE AND OTHER PAYABLES

	2009	2008
Trade payables	16,167	20,073
Provision for vacation and remuneration	6,604	542
Due to employees	2,147	2,712
Operating lease payables	695	1,252
Advances received	1,025	1,262
Taxes payable	109	441
Other	1,312	1,258
	28,059	27,540

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

	2009	2008
Tenge	14,632	10,649
US dollar	7,306	7,612
Euro	4,932	6,223
Russian roubles	320	1,014
GBP	465	235
Other	404	1,807
	28,059	27,540

25. 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.

Credit risk

The Company does not require collateral in respect of financial assets. Credit risk, or the risk of counterparties defaulting, is mitigated by the application of credit approvals, limits and monitoring procedures. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the statement of financial position.

At 31 December 2009, there was no significant concentration of credit risk in respect of prepayments (Note 14) and trade accounts receivable (Note 15).

Interest rate risk

Changes in interest rates impact primarily loans and borrowings by changing either their fair value (fixed rate debt) or their future cash flows (variable rate debt). The management does not consider that the Company is exposed to significant interest rate risks, due to the absence of financial instruments with floating rates.

Foreign currency risk

The Company is exposed to foreign currency risk on sales, purchases and borrowings that are denominated in currencies other than the tenge. The currencies giving rise to this risk are primarily the USD and Euro. For amounts of assets and liabilities denominated in foreign currency refer to Notes 15, 18, 19, 21 and 24.

Commodity price risk

The Company uses options to economically hedge the exposure to movements in the price of aviation fuel. There were three agreements signed with three financial institutions in 2009 (Note 16). In order to diversify risks, two types of financial instruments are acquired being call options (where a premium is paid upfront by the Company for covering the risk of increases of commodity price above a predetermined level) and a zero cost collar (where no premium is paid by the Company unless the price of the commodity decreases below a predetermined level). Since aviation fuel derivative financial instruments are not quoted or available in Kazakhstan, management signed economic hedge agreements with reference to changes in the crude oil price per barrel. The quantity of aviation fuel to be covered by such instruments is assessed on a quarterly basis by management as part of its risk management strategy. Economic hedging is conducted in accordance with the policy for hedge of fuel price changes approved by the Company's Directors and Shareholders in 2009.

The following table summarises the impact of reasonably possible changes in aviation fuel price on the Company's net profit and equity. For the purpose of this disclosure, the sensitivity analysis assumes a 10 per cent increase and decrease in the price of aviation fuel above upper price ("Cap") and below lower price ("Floor"), respectively. The sensitivity analysis assumes designation and effectiveness testing results as at 31 December 2009 remain unchanged. This analysis also assumes that all other variables, including foreign currency exchange rates and option volatilities remain constant.

	2009	
	Net Profit	**Equity**
Market price is 10% higher than Cap	6,071	6,071
Market price is 10% lower than Floor	(1,734)	(1,734)

Foreign currency sensitivity analysis

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

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

		US dollar		**Euro**	
		2009	**2008**	**2009**	**2008**
Assets					
Trade and other receivables	15	12,613	9,808	3,362	3,280
Bank deposits	18	64,800	12,000	4,564	-
Cash and bank balances	19	609	166	1,163	662
Total		78,022	21,974	9,089	3,942
Liabilities					
Finance lease liabilities	21	311	1,212	-	-
Trade and other payables	24	7,306	7,612	4,932	6,223
Total		7,617	8,824	4,932	6,223
Net position		70,405	13,150	4,157	(2,281)

The following table details the Company's sensitivity to a 20% decrease in the tenge against the relevant foreign currencies in 2009 and 25% in 2008. 20% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. Management of the Company believes that given the current economic conditions in Kazakhstan that a 20% decrease is a realistic movement in the tenge exchange rates against foreign currencies.

The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 20% change in foreign currency rates as at 31 December 2009 and 25% as at 31 December 2008. The sensitivity analysis includes trade and other receivables, cash and cash equivalents, bank term deposits, financial lease liabilities and trade account payable.

A positive number below indicates an increase in profit and other equity where the tenge strengthens by 20% (2008: 25%) against the relevant currency. For a 20% weakening of the tenge against the relevant currency in 2009 and 25% in 2008, there would be an equal and opposite impact on the profit and other equity, and the balances below would be negative.

	Currency USD Impact		Currency Euro Impact	
	2009	2008	2009	2008
Profit or (loss)	14,081	3,288	831	(569)

The Company limits the currency risk by monitoring changes in exchange rates of foreign currencies in which cash and cash equivalents, bank term deposits, accounts receivable and accounts payable 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 the management of the Company's short, medium and long-term funding and liquidity management requirements. The Company manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by 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. The table includes both interest and principal cash flows.

	Weighted average effective interest rate %	Up to 3 months	3 months to 1 year	1-5 years	Total
2009					
Financial liabilities					
Interest free					
Trade and other payables		-	20,321	-	20,321
Financial liabilities at fair value through profit or loss		-	336	-	336
Fixed rate					
Finance lease liability	6.0%	-	312	-	312
2008					
Financial liabilities					
Interest free					
Trade and other payables		-	25,295	-	25,295
Fixed rate					
Finance lease liability	6.0%	-	942	312	1,254

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 months	3 months to 1 year	1-5 years	Total
2009					
Financial assets					
Interest free					
Trade and other receivables		-	35,291	-	35,291
Financial assets at fair value through profit or loss		-	1,361	-	1,361
Cash and bank balances		22,008	-	-	22,008
Fixed rate					
Bank deposits	11.9%	-	20,017	55,097	75,114
2008					
Financial assets					
Interest free					
Trade and other receivables		-	34,331	-	34,331
Cash and bank balances		34,702	-	-	34,702
Fixed rate					
Bank deposits	6.3%	293	19,461	-	19,754

Fair values

The fair values of financial assets and financial liabilities are determined as follows:

- the fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets is determined with reference to quoted market prices;
- the fair value of other financial assets and financial liabilities (excluding derivative instruments) is determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments;

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

Cash and cash equivalents

The carrying value of cash and cash equivalents approximates their fair value due to the short-term maturity of these financial instruments.

Trade and other receivables and payables and originated loans

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

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

	2009 (% per year)	2008 (% per year)
Tenge		
For 1 to 5 years	12.9% - 15.7%	6.7% - 10.3%
Foreign currency		
For 1 to 5 years	11.6% - 16.3%	5.6% - 7.9%

Finance lease liabilities

The Company's finance lease agreements are provided by international lease institutions. As a result, the interest rates attributable to these borrowings although lower than those obtainable from private commercial institutions in Kazakhstan are considered to be the market interest rates for this category of lenders.

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

	2009		2008	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets				
Trade and other receivables	35,291	35,291	34,331	34,331
Financial assets at fair value through profit or loss	1,361	1,361	-	-
Bank deposits	69,448	69,448	18,583	18,583
Cash and bank balances	22,008	22,008	34,702	34,702
Financial liabilities				
Finance lease liabilities	311	311	1,212	1,212
Financial liabilities at fair value through profit or loss	336	336	-	-
Trade and other payables	20,321	20,321	25,295	25,295

Assumptions used in determining fair value of financial assets and liabilities

Financial instruments at fair value through profit or loss

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

Finance lease liabilities

Finance lease payments were discounted at 6%. This rate is not materially different from rates implicit in the lease agreements.

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.

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.

26. COMMITMENTS AND CONTINGENCIES

Operating lease commitments

Aircraft operating leases are for terms of between 5 to 6 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.

Non-cancellable operating lease commitments are payable as follows:

	2009	2008
Within one year	113,639	100,738
After one year but not more than five years	282,927	260,596
More than five years	-	47,903
	396,566	409,237

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

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

Insurance

The Company has the following insurance coverage provided and underwritten to international standards:

- aviation all risks hull, spares and equipment, and airline legal liability insurance, which includes passenger liabilities;
- aviation hull deductible insurance;
- aviation hull war risks (including spares) and allied perils insurance;
- aviation excess war, hi-jacking and other perils liability insurance;
- computer and communications equipment insurance;
- employer's legal liability for all employees of the company.

The Company has not yet obtained coverage for business interruption.

Capital commitments

During 2008 the Company signed an agreement with Airbus to purchase six Airbus narrow body aircraft. The Company is committed to pre-delivery payments in accordance with an agreed payment schedule. Payments commenced in 2008 and the last payment is due in 2013. The terms of the Company's contract precludes it from disclosing information on the purchase cost of the aircraft.

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.

Operating Environment

Although in recent years there has been a general improvement in economic conditions in Kazakhstan, Kazakhstan continues to display certain characteristics of an emerging market. These include, but are not limited to, currency controls and convertibility restrictions, relatively high level of inflation and continuing efforts by the government to implement structural reforms.

As a result, laws and regulations affecting businesses in Kazakhstan continue to change rapidly. Tax, currency and customs legislation within Kazakhstan is subject to varying interpretations, and other legal and fiscal impediments contribute to the challenges faced by entities currently operating in Kazakhstan. The future economic direction of Kazakhstan is largely dependent upon the effectiveness of economic, fiscal and monetary measures undertaken by the government, together with legal, regulatory, and political developments.

Ongoing Global Liquidity Crisis

The financial markets, both globally and in Kazakhstan, have faced significant volatility and liquidity constraints since the onset of the global financial crisis, which began to unfold in the autumn of 2007 and worsened since August 2008. A side effect of those events was an increased concern about the stability of the financial markets generally and the strength of counterparties, and many lenders and institutional investors have reduced funding to borrowers, which has significantly reduced the liquidity in the global financial system.

The global financial turmoil has significantly affected the Kazakhstan economy. It has resulted in a decrease of Kazakhstan's GDP, significant declines in debt and equity prices and a substantial outflow of capital. Kazakhstan is also facing a relatively high level of inflation (according to the government's statistical data consumer price inflation for the years ended 31 December 2009 and 2008 was 6.2% and 9.5%, respectively). Because Kazakhstan produces and exports large volumes of oil and gas, Kazakhstan's economy is particularly sensitive to the price of oil and gas on the world market that fluctuated significantly during 2008 and 2009. The Kazakhstan government initiated the adoption of a package of laws and regulations to restore investor confidence, provide liquidity and support medium-term growth of Kazakhstan's economy, however at this stage there is no clarity with respect to efficiency of these measures.

While many countries, including Kazakhstan, have recently reported improvement of the situation in the financial markets, a further downturn can still occur, and further state support measures might be required. Adverse changes arising from systemic risks in global financial systems, including any tightening of the credit environment or from decline in the oil and gas prices could slow or disrupt the Kazakhstan economy, adversely affect the Company's access to capital and cost of capital for the Company and, more generally, its business, results of operations, financial condition and prospects.

While the Kazakhstan government has introduced a range of stabilization measures aimed at providing liquidity to Kazakhstan banks and companies, there continues to be uncertainty regarding the access to capital and cost of capital for the Company and its counterparties, which could affect the Company's financial position, results of operations and business prospects.

Debtors of the Company may be affected by the lower liquidity situation which could in turn impact their ability to repay the amounts owed. Deteriorating operating conditions for debtors may also have an impact on management's cash flow forecasts and assessment of the impairment of financial and non-financial assets.

Management is unable to reliably estimate the effects on the Company's financial position of any further deterioration in the liquidity of the financial markets and the increased volatility in the currency and equity markets. Management believes it is taking all the necessary measures to support the sustainability and growth of the Company's business in the current circumstances.

27. RELATED PARTY TRANSACTIONS

Control relationships

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

In 2007 the shareholders appointed two independent directors; one is from JSC "Samruk", and another from BAE System Kazakhstan Ltd. An agreement with the independent directors was signed in 2007 and the total amount paid in 2009 to independent directors was USD 74 thousand (2008: USD 62 thousand).

Management remuneration

Key management (2009: 19 persons, 2008: 17 persons) received the following remuneration during the year, which is included in personnel costs (see Note 6):

	2009	2008
Salaries and bonuses	2,478	2,755
Termination benefits	-	10
	2,478	2,765

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.

In accordance with the resolution of the Government of the Republic of Kazakhstan # 915 dated 17 August 2002, the Government provides subsidies to companies rendering passenger and air cargo services on unprofitable routes. The Government subsidies for 2009 amounted to USD 4,059 thousand (2008: USD 4,862 thousand) (see Note 5). As at 31 December 2009, the outstanding amount due to the Company for subsidies was USD 252 thousand (2008: USD 426 thousand) (see Note 15).

Having considered the potential for transactions to be impacted by related party relationships, the Company'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:

	2009		2008	
Services received	**Transaction value**	**Outstanding balance**	**Transaction value**	**Outstanding balance**
JSC International Airport Astana	11,345	(531)	10,935	(649)
JSC International Airport Aktobe	1,465	(69)	1,249	(71)
JSC Pavlodar Airport	756	(22)	1,012	(29)
JSC International Airport Atyrau	4,669	(160)	5,613	(180)
JSC Kazaeronavigation	7,519	(602)	9,332	(415)
JSC Kazaviaservice	1,341	(57)	1,604	(79)
Flight Safety Assurance Center	511	254	-	-
JSC Kazakhtelecom	311	(18)	497	(46)
JSC National Company Kazakhstan Temir Zholy	465	29	151	52
	28,382	(1,176)	30,393	(1,417)

During 2009 JSC International Airport Atyrau became a subsidiary of JSC Samruk-Kazyna and therefore a related party to the Company.

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

	2009		2008	
Services, provided by the Company	**Transaction value**	**Outstanding balance**	**Transaction value**	**Outstanding balance**
JSC Kazpost	411	82	409	57

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

28. SUBSEQUENT EVENTS

At the end of 2009, Kazakhstan, Russia and Belarus signed a common customs union agreement with effect from 1 January 2010. The impact of this agreement on imported aircraft is yet to be clarified but management expects increase in expenses due to imposition of duties on imported aircraft and spares, items which were previously exempt.

In January 2010 there was a collective agreement signed between the Company and members of professional union of employees of the Company.

In February 2010, the Company signed an operating lease for three years in respect of a Fokker 50 aircraft.

The company has signed a contract for acquisition and implementation of an Enterprise Resource Planning (ERP) system during 2010.

29. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved by the management and authorised for issue on 31 March 2010.