JOINT STOCK COMPANY
AIR ASTANA

Financial Statements
For the year ended 31 December 2010

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 2010

Management is responsible for the preparation of the financial statements that present fairly the financial position of JSC Air Astana (the "Company") as of 31 December 2010, 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 IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions;
- on the Company's financial position and financial performance; and
- making an assessment of the Company's ability to continue as a going concern.

Management is also responsible for:

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

The financial statements for the year ended 31 December 2010 were authorised for issue on 28 March 2011 by the management of the Company.

On behalf of the management of the Company:

АО «ЭЙР АСТАНА»

Peter Foster	**Alima Zamanbekova**
President	**Chief Accountant**
28 March 2011	28 March 2011
Almaty, Republic of Kazakhstan	Almaty, Republic of Kazakhstan

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of JSC Air Astana (the "Company"), which comprise the statement of financial position as at 31 December 2010, and the 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 information.

Management's responsibility for the financial statements

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

Auditors' responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of JSC Air Astana as at 31 December 2010, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

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

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

Deloitte, LLP

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

Nurlan Bekenov
General Director
Deloitte, LLP

28 March 2011
Almaty, Republic of Kazakhstan

JOINT STOCK COMPANY AIR ASTANA

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2010
(in thousands of USD)

	Notes	2010	2009
Revenue			
Passenger	5	626,069	533,261
Cargo and mail	5	18,561	15,332
Other	5	16,854	10,676
Total revenue		661,484	559,269
Operating expenses			
Fuel		(105,760)	(92,304)
Engineering and maintenance	6	(85,394)	(72,746)
Aircraft operating lease costs	6	(73,268)	(71,982)
Handling, landing fees and route charges	6	(69,989)	(66,240)
Employee costs	6	(69,089)	(61,753)
Passenger service	6	(52,453)	(45,317)
Selling costs	6	(48,855)	(44,143)
Aircraft crew costs	6	(32,861)	(28,495)
Depreciation and amortisation	11	(5,480)	(6,792)
Taxes		(4,638)	(4,363)
Insurance	6	(5,306)	(4,247)
Property lease cost		(5,252)	(4,084)
Information technology		(2,328)	(2,369)
Consultancy, legal and professional services		(1,656)	(1,158)
Other		(7,780)	(3,460)
Total operating expenses		(570,109)	(509,453)
Operating profit		91,375	49,816
Finance income	7	7,455	4,328
Finance costs	7	(954)	(650)
Foreign exchange (loss)/gain, net		(756)	7,527
Profit before tax		97,120	61,021
Income tax expense	8	(20,004)	(13,036)
Net profit for the year		77,116	47,985
Other comprehensive income/(loss):			
Foreign currency translation gain/(loss)		864	(22,824)
Total comprehensive income for the year		77,980	25,161
Basic and diluted earnings per share (in USD)	20	4,587	2,823

On behalf of the Company's management:

Peter Foster
President

28 March 2011
Almaty, Republic of Kazakhstan

Alima Zamanbekova
Chief Accountant

28 March 2011
Almaty, Republic of Kazakhstan

The notes on pages 9 to 40 form an integral part of these financial statements. The independent auditor's report on the financial statements is on pages 2 and 3.

JOINT STOCK COMPANY AIR ASTANA

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2010
(in thousands of USD)

	Notes	2010	2009
ASSETS			
Non-current assets			
Property, plant and equipment	9	31,537	27,047
Intangible assets	10	3,096	2,262
Prepayments for long-term assets	14	16,418	8,868
Guarantee deposits	12	15,038	14,967
Deferred tax assets	8	5,763	3,112
Bank deposits	18	113,435	49,720
		185,287	105,976
Current assets			
Inventories	13	20,730	20,921
Prepayments	14	21,059	11,581
Income tax prepaid		3,694	4,081
Trade and other receivables	15	49,958	35,291
Other taxes prepaid	17	2,774	8,554
Guarantee deposits	12	1,177	2,327
Bank deposits	18	6,018	19,728
Cash and bank balances	19	41,545	22,008
Financial assets at fair value through profit or loss	16	1,096	1,361
		148,051	125,852
Total assets		333,338	231,828
EQUITY AND LIABILITIES			
Equity	20		
Share capital		17,000	17,000
Foreign currency translation reserve		(13,628)	(14,492)
Retained earnings		200,542	140,216
Total equity		203,914	142,724
Non-current liabilities			
Provision for aircraft maintenance	22	13,836	6,124
		13,836	6,124
Current liabilities			
Finance lease liabilities		-	311
Deferred revenue	21	61,471	43,923
Provision for aircraft maintenance	22	10,896	10,351
Trade and other payables	23	43,102	28,059
Financial liabilities at fair value through profit or loss	16	119	336
		115,588	82,980
Total liabilities		129,424	89,104
Total equity and liabilities		333,338	231,828

On behalf of the Company's management:

АО «ЭЙР АСТАНА»

Peter Foster
President

28 March 2011
Almaty, Republic of Kazakhstan

Alima Zamanbekova
Chief Accountant

28 March 2011
Almaty, Republic of Kazakhstan

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JOINT STOCK COMPANY AIR ASTANA

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2010
(in thousands of USD)

	Notes	Share capital	Foreign currency translation reserve	Retained earnings	Total equity
At 1 January 2009		17,000	8,332	95,638	120,970
Net profit for the year		-	-	47,985	47,985
Other comprehensive income for the year		-	(22,824)	-	(22,824)
Total comprehensive income for the year		-	(22,824)	47,985	25,161
Dividends declared	20	-	-	(3,407)	(3,407)
At 31 December 2009		17,000	(14,492)	140,216	142,724
Net profit for the year		-	-	77,116	77,116
Other comprehensive income for the year		-	864	-	864
Total comprehensive income for the year		-	864	77,116	77,980
Dividends declared	20	-	-	(16,790)	(16,790)
At 31 December 2010		17,000	(13,628)	200,542	203,914

On behalf of the Company's management:

Peter Foster
President

28 March 2011
Almaty, Republic of Kazakhstan

Alima Zamanbekova
Chief Accountant

28 March 2011
Almaty, Republic of Kazakhstan

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JOINT STOCK COMPANY AIR ASTANA

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2010
(in thousands of USD)

	Notes	2010	2009
OPERATING ACTIVITIES:			
Profit before tax		97,120	61,021
Adjustments for:			
Depreciation and amortisation of property, plant and equipment and intangible assets	11	5,480	6,792
(Gain)/loss on disposal of property, plant and equipment		(1,027)	1,778
Change in allowance for doubtful debts	14, 15	2,898	1,535
Change in allowance for obsolete and slow-moving inventories	13	-	330
Foreign exchange loss/(gain)		755	(7,527)
Finance income	7	(7,455)	(4,328)
Interest expense on finance lease	7	1	41
Net unrealised loss on financial assets and liabilities at fair value through profit or loss	7	386	138
Operating cash flow before movements in working capital		98,158	59,780
Increase in accounts receivable		(14,205)	(3,228)
(Increase)/decrease in other receivables and prepaid expenses		(4,883)	3,555
Increase in inventories		(410)	(3,872)
Decrease in guarantee deposits		-	602
Increase in accounts payable, accrued expenses and other current liabilities		22,768	6,307
Increase in deferred revenue		17,050	13,295
Cash generated from operations		118,478	76,439
Income tax paid		(22,027)	(16,306)
Interest paid		(11)	(30)
Net cash generated from operating activities		96,440	60,103
INVESTING ACTIVITIES:			
Pre-delivery payments		(8,913)	(3,429)
Purchase of property, plant and equipment	9	(19,023)	(8,149)
Proceeds from disposal of property, plant and equipment		11,700	-
Purchase of intangible assets	10	(1,526)	(825)
Bank term deposits made		(87,772)	(78,487)
Maturities of bank term deposits		40,964	26,156
Interest received		3,753	2,327
Net cash used in investing activities		(60,817)	(62,407)

(in thousands of USD)

	Notes	2010	2009
FINANCING ACTIVITIES:			
Dividends paid	20	(16,812)	(3,482)
Principal payments on finance lease		(303)	(933)
Net cash used in financing activities		(17,115)	(4,415)
NET INCREASE/(DECREASE) IN CASH AND BANK BALANCES		18,508	(6,719)
Effect of exchange rate changes on cash and bank balances held in foreign currencies		1,029	(5,975)
CASH AND BANK BALANCES, at the beginning of the year	19	22,008	34,702
CASH AND BANK BALANCES, at the end of the year	19	41,545	22,008

On behalf of the Company's management:

АО «ЭЙР АСТАНА»

Peter Foster
President

28 March 2011
Almaty, Republic of Kazakhstan

Alima Zamanbekova
Chief Accountant

28 March 2011
Almaty, Republic of Kazakhstan

The notes on pages 9 to 40 form an integral part of these financial statements. The independent auditor's report on the financial statements is on pages 2 and 3.

1. NATURE OF ACTIVITIES

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

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

The Company operated its maiden flight on 15 May 2002, a Boeing 737 service from Almaty to Kazakhstan's national capital, Astana. As at 31 December 2010, the Company operated 22 aircraft comprising 6 short-haul turboprop aircraft and 16 long-haul aircraft (2009: 5 short-haul turboprop aircraft and 16 long-haul aircraft).

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

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

2. 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:

- Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards - relating to oil and gas assets and determining whether an arrangement contains a lease;
- Amendments to IFRS 2 Share-based Payment - relating to group cash-settled share-based payment transactions;
- Amendments to IFRS 5 Non-current Assets Held for Sale and Discontinued Operations - resulting from April 2009 Annual Improvements to IFRSs;
- Amendments to IFRS 8 Operating Segments - resulting from April 2009 Annual Improvements to IFRSs;
- Amendments to IAS 1 Presentation of Financial Statements – IAS 1 (2007) - resulting from April 2009 Annual Improvements to IFRSs;
- Amendments to IAS 7 Statement of Cash Flows - resulting from April 2009 Annual Improvements to IFRSs;
- Amendments to IAS 17 Leases - resulting from April 2009 Annual Improvements to IFRSs;
- Amendments to IAS 36 Impairment of Assets - resulting from April 2009 Annual Improvements to IFRSs;
- Amendments to IAS 39 Financial Instruments: Recognition and Measurement - resulting from April 2009 Annual Improvements to IFRSs.

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 First-time Adoption of International Financial Reporting Standards - Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters (effective for annual periods beginning on or after 1 July 2010);
- Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards - resulting from May 2010 Annual Improvements to IFRSs (effective for annual periods beginning on or after 1 January 2011);
- IFRS 1 First-time Adoption of International Financial Reporting Standards - Replacement of 'fixed dates' for certain exceptions with 'the date of transition to IFRSs (effective for annual periods beginning on or after 1 July 2011);
- IFRS 1 First-time Adoption of International Financial Reporting Standards - Additional exemption for entities ceasing to suffer from severe hyperinflation (effective for annual periods beginning on or after 1 July 2011);
- Amendments to IFRS 3 Business Combinations - resulting from May 2010 Annual Improvements to IFRSs (effective for annual periods beginning on or after 1 July 2010);
- Amendments to IFRS 7 Financial Instruments: Disclosures - resulting from May 2010 Annual Improvements to IFRSs (effective for annual periods beginning on or after 1 January 2011);
- Amendments to IFRS 7 Financial Instruments: Disclosures —enhancing disclosures about transfers of financial assets (effective for annual periods beginning on or after 1 July 2011);
- IFRS 9 Financial Instruments — Classification and Measurement (effective for annual periods beginning on or after 1 January 2013);
- Amendments to IAS 1 Presentation of Financial Statements —resulting from May 2010 Annual Improvements to IFRSs (effective for annual periods beginning on or after 1 January 2011);
- IAS 12 Income Taxes — Limited scope amendment (recovery of underlying assets) (effective for annual periods beginning on or after 1 January 2012);
- IAS 24 Related Party Disclosures - Revised definition of related parties (effective for annual periods beginning on or after 1 January 2011);
- Amendments to IAS 27 Consolidated and Separate Financial Statements - resulting from May 2010 Annual Improvements to IFRSs (effective for annual periods beginning on or after 1 July 2010);
- Amendments to IAS 32 Financial Instruments: Presentation - relating to classification of rights issues (effective for annual periods beginning on or after 1 February 2010);
- Amendments to IAS 34 Interim Financial Reporting - resulting from May 2010 Annual Improvements to IFRSs (effective for annual periods beginning on or after 1 January 2011);
- 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 annual periods beginning on or after 1 January 2011);
- Amendments IFRIC 13 Customer Loyalty Programmes - resulting from May 2010 Annual Improvements to IFRSs (effective for annual periods beginning on or after 1 January 2011);
- IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments (effective for annual periods beginning on or after 1 July 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 2011 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. SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

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

Basis of preparation

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

Functional and presentation currency

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

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

Revenue

Passenger revenue

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

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

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

Customer loyalty program

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

Travel agents’ commissions

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

Leasing

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

The Company as lessee

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

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

Lease guarantee deposits

Guarantee deposits represent amounts paid to the lessors of aircraft, which are held as security deposits by the lessors in accordance with the provisions of 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 8.2% (2009: 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 the reporting period (i.e., including comparatives) are translated at average exchange rates during the year; and
c) all resulting exchange differences are recognised as foreign currency translation reserve within other comprehensive income.

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

	Average rate		**Reporting date spot rate**	
	2010	**2009**	**2010**	**2009**
US dollar (USD)	147.35	147.50	147.40	148.36
Euro (EUR)	195.67	205.67	195.23	212.84
British Pound (GBP)	227.86	231.01	228.46	235.58

Finance income and expenses

Finance income comprises interest income on funds invested.

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

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

Short-term employee benefits

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

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

Taxation

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

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, 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 in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively.

Property, plant and equipment

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

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

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.

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

Intangible assets

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

Impairment of tangible and intangible assets

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

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

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

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

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

Inventories

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

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

Provisions

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

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

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

Provision for aircraft maintenance

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

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 from the contract.

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 instruments

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

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

Financial assets

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

Effective interest method

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

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

Financial assets are classified as at FVTPL when the financial asset is either held for trading or it is designated as at FVTPL. Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial asset and is included in finance income line item in the statement of comprehensive income. Fair value is determined in the manner described in Note 24.

Receivables

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

Impairment of financial assets

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

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

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

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

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

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

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

When an AFS financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period.

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

Derecognition of financial assets

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

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

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

Financial liabilities and equity instruments issued by the Company

Classification as debt or equity

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

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

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

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

Financial liabilities at FVTPL are stated at fair value, with any resultant gain or loss recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability and is included in the 'finance costs' line item in the statement of comprehensive income. Fair value is determined in the manner described in Note 24.

Other financial liabilities

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

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

Derivative financial instruments

The Company enters into derivative financial instruments to manage its exposure to aviation fuel price in the normal course of its business operations. Further details of derivative financial instruments are disclosed in Notes 16 and 24.

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

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

Dividends

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

Derecognition of financial liabilities

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

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

Critical judgments in applying accounting policies and estimates

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

Provisions

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

Recoverability of variable lease payments related to future maintenance

Under the operating lease agreements for its aircraft, the Company makes variable lease payments to lessors which are based upon the flight hours of engines, limited life parts of engines 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 lease payments made to the lessors are not reimbursable and are retained by the lessors as a deposit transferrable to the next lessees of the aircraft. Management of the Company believes that as at 31 December 2010 contributions of variable lease payments of USD 68,709 thousand (2009: USD 71,492 thousand) are subject to reimbursement by the aircraft lessors upon actual maintenance events. Management regularly assesses the recoverability of variable lease payments made by the Company.

Compliance with tax legislation

As discussed in Note 25, compliance with tax legislation is subject to significant degree of interpretation and can be routinely challenged by the tax authorities. 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

Following the implementation of a new revenue accounting system effective from 1 January 2010, the value of tickets sold but unused is recognised in profit and loss immediately as their validity expires. The maximum expiry date of transportation tickets is 12 months after purchase date.

Until 31 December 2009, management made 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.

Where required, adjustments were made during 2010 to adjust estimated amounts of outdated tickets recognised in 2009.

Fair value of financial instruments

As described in Note 24, 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 24.

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 2010 and 2009, allowances for doubtful accounts have been created of USD 4,012 thousand and USD 2,392 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 2010, the Company accrued an allowance for obsolete and slow-moving inventories in the amount of USD 338 thousand (2009: USD 336 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	2010	2009
Passenger transport	552,271	466,063
Fuel surcharge	45,263	38,814
Airport services	23,334	23,474
Excess baggage	5,201	4,910
	626,069	533,261

Cargo and mail revenue	2010	2009
Cargo	18,007	14,886
Mail	554	446
	18,561	15,332

Other revenue	2010	2009
Penalties on agency contracts	5,978	3,043
Government subsidies	4,604	4,059
Advertising revenue	1,184	734
Gain on disposal of spare parts	1,164	98
Income from ground services	833	411
Spare parts received free of charge	-	92
Other	3,091	2,239
	16,854	10,676

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, Pavlodar and Zhezkazgan.

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

	2010	2009
Domestic	263,515	218,070
Europe	252,068	223,018
Asia	129,047	107,505
Total passenger and cargo revenue	644,630	548,593

6. OPERATING EXPENSES

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

Engineering and maintenance	2010	2009
Maintenance – variable lease payments	41,569	39,002
Maintenance – provisions (Note 22)	18,495	8,087
Maintenance – components	12,154	16,082
Spare parts	11,168	7,858
Technical inspection	2,008	1,717
	85,394	72,746

Aircraft operating lease costs	2010	2009
Fixed lease charges	70,097	69,165
Leased Engine on Wing Costs	1,596	1,601
Lease of engines and rotable spare parts	1,575	1,188
Wet lease charges	-	28
	73,268	71,982

Handling, landing fees and route charges	2010	2009
Handling charge	22,938	21,935
Landing fees	22,737	21,534
Aero navigation	22,372	20,744
Meteorological services	1,354	1,255
Other	588	772
	69,989	66,240

Employee costs	**2010**	**2009**
Wages and salaries of operations staff	46,263	40,552
Wages and salaries of administrative staff	10,902	10,173
Social tax	4,784	4,439
Wages and salaries of sales staff	4,407	4,102
Other	2,733	2,487
	69,089	61,753

The average number of employees during 2010 was 3,032 (2009: 2,907).

Passenger service	**2010**	**2009**
Catering	23,750	21,814
Airport charges	20,951	17,206
In-flight entertainment	1,725	1,507
Security	1,643	1,399
Other	4,384	3,391
	52,453	45,317

Selling costs	**2010**	**2009**
Commissions	27,561	24,622
Reservation costs	15,148	13,878
Advertising	4,213	3,988
Interline commissions	1,081	811
Other	852	844
	48,855	44,143

Aircraft crew costs	**2010**	**2009**
Accommodation and allowances	12,089	11,683
Contract crew	10,947	10,813
Training	9,825	5,999
	32,861	28,495

Insurance	**2010**	**2009**
Hull insurance	2,496	2,281
Legal liability insurance	2,131	1,429
Medical insurance	531	391
Other	148	146
	5,306	4,247

7. FINANCE INCOME AND COSTS

Finance income	**2010**	**2009**
Interest received/receivable on bank deposits	7,239	4,204
Other	216	124
	7,455	4,328

Finance costs	**2010**	**2009**
Bank commissions	567	450
Net unrealised loss on financial assets and liabilities at fair value through profit or loss (Note 16)	386	138
Interest expense on finance lease	1	41
Other	-	21
	954	650

8. INCOME TAX EXPENSE

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

	2010	2009
Current income tax expense	22,655	14,990
Deferred income tax benefit	(2,651)	(1,954)
	20,004	13,036

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 2010 and 2009 is presented below:

	2010	2009
Deferred tax assets		
Provision for aircraft maintenance	4,945	3,294
Remuneration payable	1,427	1,026
Trade and other receivables	938	371
Trade and other payables	516	428
Intangible assets	14	13
Total	7,840	5,132
Deferred tax liabilities		
Difference in depreciable value of property, plant and equipment	(1,471)	(1,689)
Prepaid expenses	(604)	(320)
Trade and other payables	(2)	(11)
Total	(2,077)	(2,020)
Net deferred tax assets	5,763	3,112

The income tax rate in the Republic of Kazakhstan, where the Company is located, in 2010 and 2009 was 20%. The taxation charge for the year is different from that which would be obtained by applying the statutory income tax rate to profit before income tax. Below is a reconciliation of theoretical income tax at 20% (2009: 20%) to the actual income tax expense recorded in the Company's statement of comprehensive income:

	2010	2009
Profit before tax	97,120	61,021
Income tax at statutory rate	19,424	12,204
Tax effect of non-deductible expenses	599	476
Reduction of deferred tax asset due to change of tax rate	-	356
Foreign currency translation difference	(19)	-
Income tax expense	20,004	13,036

9. PROPERTY, PLANT AND EQUIPMENT

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

	Rotable spare parts	Office equipment and furniture	Building, premises and land	Vehicles	Other assets	Equipment to be installed	Total
Cost							
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 to inventory	-	-	-	-	-	5	5
Transfers from inventory	4,600	(37)	(2)	293	69	(4,923)	-
Transfers	(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
Additions	309	1,013	-	284	-	17,417	19,023
Disposals	(12,041)	(104)	-	(200)	-	-	(12,345)
Transfers from intangible assets (Note 10)	-	-	-	-	-	193	193
Transfers to inventory	-	-	-	-	-	(941)	(941)
Transfers from inventory	-	-	-	-	-	1,678	1,678
Transfers	18,193	2,010	-	97	(3,675)	(16,625)	-
Foreign currency translation difference	158	28	35	17	25	(1)	262
At 31 December 2010	30,922	7,356	5,494	2,874	-	1,866	48,512
Accumulated depreciation							
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
Charge for the year (Note 11)	3,304	1,102	199	360	-	-	4,965
Disposals	(1,411)	(87)	-	(174)	-	-	(1,672)
Transfers from intangible assets (Note 10)	1	-	-	-	-	-	1
Transfers	1,727	(394)	-	(1)	(1,333)	-	(1)
Foreign currency translation difference	53	16	4	5	9	-	87
At 31 December 2010	11,987	3,122	728	1,138	-	-	16,975
Net book value							
At 31 December 2010	18,935	4,234	4,766	1,736	-	1,866	31,537
At 31 December 2009	15,990	1,924	4,934	1,728	2,326	145	27,047

As at 31 December 2010, the net book value of fully depreciated property, plant and equipment that is still in use was USD 1,303 thousand (2009: USD 1,025 thousand).

10. INTANGIBLE ASSETS

	Software
Cost	
At 1 January 2009	3,658
Additions	825
Transfer to property, plant and equipment (Note 9)	(70)
Foreign currency translation difference	(685)
At 31 December 2009	3,728
Additions	1,526
Disposals	(58)
Transfer to property, plant and equipment (Note 9)	(193)
Foreign currency translation difference	24
At 31 December 2010	5,027
Accumulated amortisation	
At 1 January 2009	1,170
Charge for the year (Note 11)	516
Foreign currency translation difference	(220)
At 31 December 2009	1,466
Charge for the year (Note 11)	515
Disposals	(58)
Transfer to property, plant and equipment (Note 9)	(1)
Foreign currency translation difference	9
At 31 December 2010	1,931
Net book value	
At 31 December 2010	3,096
At 31 December 2009	2,262

11. DEPRECIATION AND AMORTISATION

	2010	2009
Depreciation of property, plant and equipment (Note 9)	4,965	6,276
Amortisation of intangible assets (Note 10)	515	516
Total	5,480	6,792

12. GUARANTEE DEPOSITS

	2010	2009
Non-current		
Guarantee deposits for leased aircraft	14,056	13,901
Other	982	1,066
	15,038	14,967
Current		
Guarantee deposits for leased aircraft	200	1,376
Other	977	951
	1,177	2,327
	16,215	17,294

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

Guarantee deposits are receivable as follows:

	2010	**2009**
Within one year	200	1,376
After one year but not more than five years	13,580	13,505
More than five years	800	800
	14,580	15,681
Fair value adjustment	(324)	(404)
	14,256	15,277

13. INVENTORIES

	2010	**2009**
Spare parts	12,541	10,566
Fuel	2,868	4,073
Promotional materials	1,368	985
Crockery	1,101	1,549
Blank forms	988	190
De-icing liquid	859	655
Goods in transit	783	3,008
Uniforms	190	65
Other	370	166
	21,068	21,257
Less: allowance for obsolete and slow-moving inventories	(338)	(336)
	20,730	20,921

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

	2010	**2009**
Allowance for obsolete and slow-moving inventories at the beginning of the year	(336)	(10)
Accrued for the year	-	(330)
Foreign currency translation difference	(2)	4
Allowance for obsolete and slow-moving inventories at the end of the year	(338)	(336)

14. PREPAYMENTS

	2010	**2009**
Non-current		
Prepayments for long-term assets	16,418	8,614
Advances for services	1,547	508
	17,965	9,122
Less: allowance for non-recovery	(1,547)	(254)
	16,418	8,868
Current		
Advances for services	11,319	6,034
Advances for goods	9,162	5,151
Prepayments of operating leases	2,381	2,278
	22,862	13,463
Less: allowance for non-recovery	(1,803)	(1,882)
	21,059	11,581

Prepayments for long-term assets were made to Airbus as pre-delivery payments for the purchase of six new aircrafts with delivery commencing in 2012.

At 31 December 2010, five suppliers comprised 51% of the Company's prepayments (2009: five suppliers comprised 56%).

As at 31 December prepayments were denominated in the following currencies:

	2010	**2009**
Tenge	11,325	5,919
US Dollar	7,165	5,449
Other	2,569	213
	21,059	11,581

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

	2010	**2009**
At the beginning of the year	(2,136)	(807)
Reversed during the year	-	-
Accrued during the year	(2,433)	(1,487)
Written-off against previously created allowance	1,232	-
Foreign currency translation difference	(13)	158
At the end of the year	(3,350)	(2,136)

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

15. TRADE AND OTHER RECEIVABLES

	2010	**2009**
Trade receivables	36,631	22,672
Receivable from lessors - variable lease reimbursement	12,003	12,491
Due from employees	1,731	132
Subsidies receivable (Note 26)	255	252
	50,620	35,547
Less: allowance for doubtful debts	(662)	(256)
	49,958	35,291

At 31 December 2010, eight debtors including IATA Bank Settlement Plans (BSPs) as collecting agencies from the worldwide travel agencies comprised 73% of the Company's trade and other receivables (2009: eight debtors comprised 76%).

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

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

	2010	**2009**
US Dollar	22,962	12,613
Tenge	18,339	15,332
Euro	5,057	3,362
Russian Rouble	869	490
Other	3,393	3,750
	50,620	35,547

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

	2010	2009
At the beginning of the year	(256)	(255)
Accrued during the year	(465)	(48)
Written-off against previously created allowance	61	-
Foreign currency translation difference	(2)	47
At the end of the year	(662)	(256)

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

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

	Call option	Put option	Net
At 1 January 2009	-	-	-
First-time valuation of options	1,590	(403)	1,187
Foreign currency translation (loss)/gain	(32)	8	(24)
Net unrealised (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
First-time valuation of options	211	-	211
Gain on hedging of aviation fuel	127	-	127
Foreign currency translation (loss)/gain	2	(2)	-
Net unrealised (loss)/gain on financial assets and liabilities at fair value through profit or loss (Note 7)	(605)	219	(386)
At 31 December 2010	1,096	(119)	977

The terms of the options are described in Note 24.

17. OTHER TAXES PREPAID

	2010	2009
Value added tax recoverable	2,458	7,468
Prepayment for personal income tax for non-residents	19	146
Other taxes prepaid	297	940
	2,774	8,554

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

18. BANK DEPOSITS

	2010	2009
Current		
Guarantee deposits	21	25
Term deposits with local banks with original maturity more than 3 months	-	17,304
Interest receivable	5,997	2,399
	6,018	19,728
Non-current		
Term deposits with local banks with original maturity more than 1 year	113,435	49,720
	119,453	69,448

Term deposits with local banks (with an original maturity of more than three months and more than one year) earn interest in the range from 5% to 8.7% per annum (2009: 6.8% to 8.7%).

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 (2009: 4.5%).

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

	2010	2009
US Dollar	116,562	64,800
Euro	2,817	4,564
Tenge	74	84
	119,453	69,448

19. CASH AND BANK BALANCES

	2010	2009
Term deposits with local banks with original maturity less than 3 months	20,352	16,490
Current accounts with local banks	17,165	2,528
Current accounts with foreign banks	3,967	2,943
Cash on hand	61	47
	41,545	22,008

At 31 December 2010, current accounts with banks earn interest in the range of 0.2% to 2% (2009: 0.5%-4%). Short-term deposits (over-night) with banks earn interest of 0.75%-3.35% per annum (2009: 4%).

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

	2010	2009
Tenge	20,933	17,042
US Dollar	13,230	609
Euro	3,312	1,163
GBP	1,408	1,102
Chinese Yuan	775	1,070
Russian Rouble	586	640
Indian Rupee	490	179
Other	811	203
	41,545	22,008

20. EQUITY

As at 31 December 2010 and 2009, share capital comprised of 17,000 authorised, 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 2010. Dividends payable on ordinary shares are determined by the shareholders at the annual meeting.

In 2010, the shareholders declared a dividend payment equivalent to 25% of the 2009 net profit. The total amount of the dividend was USD 16,790 thousand, which was distributed and paid to each shareholder in accordance with their shareholdings (2009: USD 3,407 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 (2009: 17,000). The Company has no dilutive potential ordinary shares.

21. DEFERRED REVENUE

Deferred revenue consisted of the following as at 31 December:

	2010	**2009**
Unearned transportation revenue	51,287	37,158
Customer loyalty program	10,184	6,765
	61,471	43,923

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

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

22. PROVISION FOR AIRCRAFT MAINTENANCE

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

	2010	**2009**
Engines	22,081	10,597
C-Check	2,651	5,878
	24,732	16,475

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

	2010	**2009**
At 1 January	16,475	16,935
Accrued during the year (Note 6)	18,495	8,764
Reversed during the year (Note 6)	-	(677)
Used during the year	(10,343)	(5,381)
Foreign currency translation difference	105	(3,166)
At 31 December	24,732	16,475

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

The planned utilisation of these provisions is as follows:

	2010	**2009**
Within one year	10,896	10,351
During the second year	8,553	2,651
During the third year	4,047	3,042
After the third year	1,236	431
Total provision for aircraft maintenance	24,732	16,475
Less: current portion	(10,896)	(10,351)
Non-current portion	13,836	6,124

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.

23. TRADE AND OTHER PAYABLES

	2010	**2009**
Trade payables	24,213	16,167
Employee unused vacation and remuneration payable	9,389	6,604
Operating lease payables	3,177	695
Wages and salaries payable to employees	2,328	2,147
Advances received	1,424	1,025
Taxes payable	808	109
Other	1,763	1,312
	43,102	28,059

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

	2010	**2009**
Tenge	20,827	14,632
US dollar	12,848	7,306
Euro	7,151	4,932
Russian roubles	854	320
GBP	550	465
Other	872	404
	43,102	28,059

24. 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 2010 there was no significant concentration of credit risk in respect of prepayments (Note 14) and trade accounts receivable (Note 15).

Interest rate risk

The Company does not have significant exposure to interest rate risks.

Foreign currency risk

The Company is exposed to foreign currency risk on sales and purchases that are denominated in currencies other than 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 14, 15, 18, 19 and 23.

Commodity price risk

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

The following table summarises the impact of reasonably possible changes in aviation fuel price on the Company's 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 the upper price ("Cap") and below the lower price ("Floor"), respectively. The sensitivity analysis assumes designation and effectiveness testing results as at 31 December 2010 remain unchanged. This analysis also assumes that all other variables, including foreign currency exchange rates and option volatilities, remain constant.

	2010		**2009**	
	Net Profit	**Equity**	**Net Profit**	**Equity**
Market price is 10% higher than the Cap	3,458	3,458	6,071	6,071
Market price is 10% lower than the Floor	(1,102)	(1,102)	(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	
	Notes	**2010**	**2009**	**2010**	**2009**
Assets					
Trade and other receivables	15	22,962	12,613	5,057	3,362
Bank deposits	18	116,562	64,800	2,817	4,564
Cash and bank balances	19	13,230	609	3,312	1,163
Total		152,754	78,022	11,186	9,089
Liabilities					
Finance lease liabilities	21	-	311	-	-
Trade and other payables	23	12,848	7,306	7,151	4,932
Total		12,848	7,617	7,151	4,932
Net position		139,906	70,405	4,035	4,157

The following table details the Company's sensitivity to a 10% increase in the tenge against the relevant foreign currencies in 2010 and 20% in 2009. 10% 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 10% increase is a realistic movement in the tenge exchange rates against foreign currencies.

The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 10% change in foreign currency rates as at 31 December 2010 and 20% as at 31 December 2009. The sensitivity analysis includes trade and other receivables, cash and bank balances, bank term deposits, financial lease liabilities and trade account payable.

A negative number below indicates a decrease in profit and other equity where the tenge strengthens by 10% (2009: 20%) against the relevant currency. For a 10% weakening of the tenge against the relevant currency in 2010 and 20% in 2009, there would be an equal and opposite impact on the profit and other equity, and the balances below would be positive.

	Currency USD impact		Currency Euro impact	
	2010	**2009**	**2010**	**2009**
Profit or (loss)	(13,991)	(14,081)	(404)	(831)

The Company limits the currency risk by monitoring changes in exchange rates of foreign currencies in which cash and bank balances, 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
2010					
Financial liabilities					
Interest free					
Trade and other payables	-	-	31,481	-	31,481
Financial liabilities at fair value through profit or loss	-	-	119	-	119
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%	-	311	-	311

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
2010					
Financial assets					
Interest free					
Trade and other receivables	-	-	49,958	-	49,958
Financial assets at fair value through profit or loss	-	-	1,096	-	1,096
Cash and bank balances	-	41,545	-	-	41,545
Fixed rate					
Bank deposits	6.22%	91	7,830	121,306	129,227
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

Fair values

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

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

Cash and bank balances

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

Trade and other receivables and payables

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

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

	2010 (% per year)	**2009 (% per year)**
Tenge		
For 1 to 5 years	12.4% - 15.0%	12.9% - 15.7%
Foreign currency		
For 1 to 5 years	4.0% - 14.6%	11.6% - 16.3%

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

	2010		**2009**	
	Carrying amount	**Fair value**	**Carrying amount**	**Fair value**
Financial assets				
Trade and other receivables	49,958	49,958	35,291	35,291
Financial assets at fair value through profit or loss	1,096	1,096	1,361	1,361
Bank deposits	119,453	119,453	69,448	69,448
Cash and bank balances	41,545	41,545	22,008	22,008
Financial liabilities				
Finance lease liabilities	-	-	311	311
Financial liabilities at fair value through profit or loss	119	119	336	336
Trade and other payables	31,481	31,481	20,321	20,321

Financial instruments at fair value through profit or loss

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

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.

25. COMMITMENTS AND CONTINGENCIES

Operating lease commitments

Aircraft

Aircraft operating leases are for terms of between 5 to 8 years. All operating lease contracts contain market review clauses in the event that the Company exercises its option to renew. The Company does not have an option to purchase the leased aircraft at the expiry of the lease period.

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

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

Non-cancellable operating lease commitments are payable as follows:

	2010	**2009**
Within one year	111,932	113,639
After one year but not more than five years	229,157	282,927
More than five years	44,462	-
	385,551	396,566

Engine

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

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

Non-cancellable operating lease commitments are payable as follows:

	2010
Within one year	1,522
After one year but not more than five years	6,642
More than five years	4,149
	12,313

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 aircrafts. 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

Emerging markets such as Kazakhstan are subject to different risks than more developed markets, including economic, political and social, and legal and legislative risks. As has happened in the past, actual or perceived financial problems or an increase in the perceived risks associated with investing in emerging economies could adversely affect the investment climate in Kazakhstan and the Kazakhstan’s economy in general.

Laws and regulations affecting businesses in Kazakhstan continue to change rapidly. Tax, currency and customs legislation within Kazakhstan are 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 economic, fiscal and monetary measures undertaken by the government, together with legal, regulatory, and political developments.

The global financial turmoil that has negatively affected Kazakhstan’s financial and capital markets in 2008 and 2009 has receded and Kazakhstan’s economy returned to growth in 2010. However significant economic uncertainties remain. Adverse changes arising from systemic risks in global financial systems, including any tightening of the credit environment or from change in the oil and gas prices could slow or disrupt the Kazakhstan’s 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.

Kazakhstan is facing a relatively high level of inflation (according to the government’s statistical data consumer price inflation for the years ended 31 December 2010 and 2009 was 7.8% and 6.2%, 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 2010 and 2009.

26. RELATED PARTY TRANSACTIONS

Control relationships

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

In 2007 the shareholders appointed two independent directors; one is from JSC "National Welfare Fund "Samruk-Kazyna", and another from BAE System Kazakhstan Limited. An agreement with the independent directors was signed in 2007 and the total remuneration paid in 2010 to independent directors was USD 73 thousand (2009: USD 74 thousand).

Management remuneration

Key management (2010: 19 persons, 2009: 19 persons) received the following remuneration during the year, which is included in personnel costs (see Note 6):

	2010	2009
Salaries and bonuses	2,945	2,478
Termination benefits	60	-
	3,005	2,478

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 2010 amounted to USD 4,604 thousand (2009: USD 4,059 thousand) (Note 5). As at 31 December 2010 the outstanding amount due to the Company for subsidies was USD 255 thousand (2009: USD 252 thousand) (Note 15).

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

	2010		2009	
Services received	**Transaction value**	**Outstanding balance**	**Transaction value**	**Outstanding balance**
JSC International Airport Astana	13,878	(930)	11,345	(531)
JSC Kazaeronavigation	7,675	(349)	7,519	(602)
JSC International Airport Atyrau	5,499	(170)	4,669	(160)
JSC National Company KazMunaiGas	2,512	2	-	-
JSC International Airport Aktobe	1,632	(52)	1,465	(69)
JSC Kazaviaservice	1,434	(67)	1,341	(57)
Flight Safety Assurance Centre	1,036	1,547	511	511
JSC Pavlodar Airport	751	(27)	756	(22)
JSC National Company Kazakhstan Temir Zholy	335	49	465	29
JSC Kazakhtelecom	305	(34)	311	(18)
JSC BTA Bank	76	-	-	-
Samruk - Kazyna Contract LLP	7	-	3	-
	35,140	(31)	28,385	(919)

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

Services provided by the Company	2010 Transaction value	2010 Outstanding balance	2009 Transaction Value	2009 Outstanding balance
JSC Kazpost	465	102	411	82
JSC National Company KazMunaiGas	297	29	-	-
JCS Alliance Bank	7	-	-	-
JSC BTA Bank	5	-	-	-
JSC National Company Kazatomprom	1	-	-	-
	775	131	411	82

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.

27. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved by management and authorised for issue on 28 March 2011.