JOINT STOCK COMPANY
AIR ASTANA

Financial Statements
For the year ended 31 December 2016

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 2016

Management is responsible for the preparation of the financial statements that present fairly the financial position of JSC Air Astana (the "Company") as at 31 December 2016, the results of its operations, cash flows and changes in equity for the year then ended, in compliance with International Financial Reporting Standards ("IFRS").

In preparing the financial statements, management is responsible for:

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

Management is also responsible for:

- designing, implementing and maintaining an effective and sound system of internal controls throughout the Company;
- maintaining adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the 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 the 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 2016 were authorised for issue on 2 June 2017 by management of the Company.

On behalf of management of the Company:

АО «ЭЙР АСТАНА»

Peter Foster
President

2 June 2017
Almaty, Republic of Kazakhstan

Azamat Ospanov
Vice president Finance Accounts, Chief Accountant

2 June 2017
Almaty, Republic of Kazakhstan

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050051 Almaty, 180 Dostyk Avenue,
E-mail: company@kpmg.kz

Independent Auditors' Report

To the Shareholders and Board of Directors of JSC Air Astana

Opinion

We have audited the financial statements of JSC Air Astana (the "Company"), which comprise the statement of financial position as at 31 December 2016, the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2016, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, 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.

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements, continued

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

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

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

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

KPMG Audit LLC

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

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

2 June 2017

JOINT STOCK COMPANY AIR ASTANA

STATEMENT OF PROFIT OR LOSS
FOR THE YEAR ENDED 31 DECEMBER 2016
(in thousands of USD)

	Notes	2016	2015
Revenue			
Passenger revenue	5	589,926	726,800
Cargo and mail revenue	5	15,685	19,586
Other revenue	5	15,403	15,361
Total revenue		**621,014**	**761,747**
Operating expenses			
Fuel		(130,676)	(165,263)
Handling, landing fees and route charges	6	(89,909)	(105,039)
Passenger service	6	(69,809)	(80,171)
Employee costs	6	(64,736)	(84,009)
Engineering and maintenance	6	(60,658)	(97,321)
Aircraft operating lease costs	6	(58,407)	(59,307)
Selling costs	6	(30,238)	(36,839)
Depreciation and amortisation	11	(28,679)	(48,491)
Aircraft crew costs	6	(27,781)	(29,323)
Insurance	6	(4,391)	(4,708)
Property lease cost		(4,277)	(5,282)
Information technology		(3,283)	(3,210)
Consultancy, legal and professional services		(2,688)	(2,406)
Taxes, other than income tax		(94)	(1,288)
Other		(7,504)	(6,032)
Total operating expenses		**(583,130)**	**(728,689)**
Operating profit		**37,884**	**33,058**
Finance income	7	7,725	6,951
Finance costs	7	(66,073)	(22,367)
Foreign exchange (loss)/gain, net		(14,391)	44,652
(Loss)/profit before tax		**(34,855)**	**62,294**
Income tax expense	8	(5,010)	(13,553)
(Loss)/profit for the year		**(39,865)**	**48,741**
Basic and diluted (loss)/earnings per share (in USD)	19	**(2,345)**	**2,867**

On behalf of management of the Company:

Республика Казахстан город Алматы, Турксибский р-н Акционерное общество «Эйр Астана» Акционерлік қоғамы
АО «ЭЙР АСТАНА»

Peter Foster
President

2 June 2017
Almaty, Republic of Kazakhstan

Azamat Ospanov
Vice president Finance Accounts, Chief Accountant

2 June 2017
Almaty, Republic of Kazakhstan

The notes on pages 11 to 54 form an integral part of these financial statements. The independent auditors' report on the financial statements is on pages 2 to 4.

JOINT STOCK COMPANY AIR ASTANA

STATEMENT OF OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2016
(in thousands of USD)

	Notes	2016	2015
(Loss)/profit for the year		**(39,865)**	**48,741**
Foreign currency translation loss, which will never be reclassified to profit or loss in subsequent periods		1,121	(107,600)
Other comprehensive loss, net of tax, to be reclassified into profit or loss in subsequent periods:			
Result from cash flow hedging instruments		3,918	(152,144)
Income tax related to result from cash flow hedging instruments		(784)	30,429
Realised loss on cash flow hedging instruments	24	14,388	-
Income tax related to realised loss on hedging instruments	24	(2,878)	-
Unrealised portion of fuel hedging loss		-	(4,307)
Realised portion of fuel hedging loss		-	4,307
Income tax for unrealised portion of fuel hedging loss		-	861
Income tax for realised portion of fuel hedging loss		-	(861)
Other comprehensive income/(loss) for the year, net of income tax		**15,765**	**(229,315)**
Total comprehensive loss for the year		**(24,100)**	**(180,574)**

On behalf of management of the Company:

АО «ЭЙР АСТАНА»

Peter Foster
President

2 June 2017
Almaty, Republic of Kazakhstan

Azamat Ospanov
Vice president Finance Accounts,
Chief Accountant

2 June 2017
Almaty, Republic of Kazakhstan

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JOINT STOCK COMPANY AIR ASTANA

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2016
(in thousands of USD)

	Notes	31 December 2016	31 December 2015
ASSETS			
Non-current assets			
Property, plant and equipment	9	271,220	269,845
Intangible assets	10	3,147	693
Prepayments for non-current assets	14	9,114	10,351
Guarantee deposits	12	15,400	15,398
Deferred tax assets	8	-	2,072
Trade and other receivables	15	6,174	959
		305,055	**299,318**
Current assets			
Inventories	13	41,288	30,245
Prepayments	14	22,575	15,871
Income tax prepaid		783	757
Trade and other receivables	15	22,051	20,880
Other taxes prepaid	16	16,306	7,471
Guarantee deposits	12	34,944	28,398
Bank deposits	17	99,574	158,252
Cash and bank balances	18	29,987	52,471
Financial assets at fair value through profit or loss and hedge instruments		-	91
		267,508	**314,436**
Total assets		**572,563**	**613,754**
EQUITY AND LIABILITIES			
Equity			
Share capital	19	17,000	17,000
Foreign currency translation reserve		(182,680)	(181,459)
Reserve on hedging instruments, net of tax	24	(105,868)	(121,715)
Retained earnings		310,625	365,816
Total equity		**39,077**	**79,642**
Non-current liabilities			
Loans	23	12,043	-
Finance lease liabilities	24	335,499	375,789
Deferred tax liability	8	6,640	-
Provision for aircraft maintenance	21	38,555	31,379
		392,737	**407,168**
Current liabilities			
Loans	23	1,631	-
Finance lease liabilities	24	41,251	40,640
Deferred revenue	20	38,230	32,876
Provision for aircraft maintenance	21	20,243	16,496
Trade and other payables	22	39,394	36,752
Financial liabilities at fair value through profit or loss and hedge instruments		-	180
		140,749	**126,944**
Total liabilities		**533,486**	**534,112**
Total equity and liabilities		**572,563**	**613,754**

On behalf of management of the Company:

АО «ЭЙР АСТАНА»

Peter Foster
President

2 June 2017
Almaty, Republic of Kazakhstan

Azamat Ospanov
Vice president Finance Accounts, Chief Accountant

2 June 2017
Almaty, Republic of Kazakhstan

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JOINT STOCK COMPANY AIR ASTANA

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2016
(in thousands of USD)

	Notes	Share capital	Foreign currency translation reserve	Reserve on hedging instruments	Retained earnings	Total equity
At 1 January 2015		**17,000**	**(73,859)**	**-**	**326,456**	**269,597**
Profit for the year		-	-	-	48,741	48,741
Cash flow hedging instruments, net of tax		-	-	(123,820)	-	(123,820)
Realised loss on cash flow hedging instruments, net of tax	24	-	-	2,105	-	2,105
Fuel hedging instruments, net of tax		-	-	(3,446)	-	(3,446)
Realised loss on fuel hedging instruments, net of tax		-	-	3,446	-	3,446
Translation difference		-	(107,600)	-	-	(107,600)
Total comprehensive (loss)/income for the year		**-**	**(107,600)**	**(121,715)**	**48,741**	**(180,574)**
Dividends declared	19	-	-	-	(9,381)	(9,381)
At 31 December 2015		**17,000**	**(181,459)**	**(121,715)**	**365,816**	**79,642**
Loss for the year		-	-	-	(39,865)	(39,865)
Cash flow hedging instruments, net of tax		-	-	3,134	-	3,134
Realised loss on cash flow hedging instruments, net of tax	24	-	-	11,510	-	11,510
Translation difference		-	(1,221)	1,203	-	(18)
Total comprehensive (loss)/income for the year		**-**	**(1,221)**	**15,847**	**(39,865)**	**(25,239)**
Dividends declared	19	-	-	-	(15,326)	(15,326)
At 31 December 2016		**17,000**	**(182,680)**	**(105,868)**	**310,625**	**39,077**

On behalf of management of the Company:

Республика Казахстан город Алматы, Турксибский р-н Акционерное общество «Эйр Астана»
АО «ЭЙР АСТАНА»

Peter Foster
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2 June 2017
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2 June 2017
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JOINT STOCK COMPANY AIR ASTANA

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2016
(in thousands of USD)

	Notes	2016	2015
OPERATING ACTIVITIES:			
(Loss)/profit before tax		(34,855)	62,294
Adjustments for:			
Depreciation and amortisation of property, plant and equipment and intangible assets	11	28,679	48,491
Gain on disposal of property, plant and equipment		-	(662)
Change in allowance for doubtful debts	14, 15	52,404	567
Change in allowance for obsolete and slow-moving inventories	13	115	(837)
Change in vacation accrual		(359)	(784)
Change in provision for aircraft maintenance		17,695	63,862
Reversal of loyalty provision		241	(139)
Foreign exchange loss/(gain), net		14,391	(44,652)
Finance income	7	(7,638)	(3,597)
Interest expense on finance lease	7	12,321	13,195
Interest expense from revaluation of fair value of guarantee deposits	7	147	-
Net unrealised loss/(gain) on financial assets and liabilities at fair value through profit or loss	7	(87)	(3,354)
Net realised loss on financial assets and liabilities at fair value through profit or loss	7	375	8,262
Operating cash flow before movements in working capital		**83,429**	**142,646**
Change in trade and other receivables		(1,582)	102,485
Change in prepaid expenses		(13,336)	(60,051)
Change in inventories		(8,536)	(46,181)
Change in financial assets and liabilities at fair value through profit or loss and hedge instruments		(375)	(85,496)
Change in trade and other payables and other current liabilities		(4,412)	13,001
Change in deferred revenue		4,381	68,604
Cash generated from operations		**59,569**	**135,008**
Income tax paid		(12)	-
Interest received		5,902	1,859
Net cash generated from operating activities		**65,459**	**136,867**
INVESTING ACTIVITIES:			
Purchase of property, plant and equipment		(27,284)	(19,804)
Proceeds from disposal of property, plant and equipment		1,164	2,274
Purchase of intangible assets		(3,117)	(458)
Bank and Guarantee deposits placed		(352,696)	(273,517)
Bank and Guarantee deposits withdrawn		345,191	202,605
Net cash used in investing activities		**(36,742)**	**(88,900)**

Continued on the next page

(in thousands of USD)

	Notes	2016	2015
FINANCING ACTIVITIES:			
Correction of withholding tax on dividends		-	(701)
Dividends paid	19	(15,143)	(7,897)
Proceeds from borrowings		13,622	-
Repayment of borrowings		(378)	-
Repayment of finance lease		(39,261)	(38,906)
Interest paid		(12,447)	(13,687)
Net cash used in financing activitiés		**(53,607)**	**(61,191)**
NET DECREASE IN CASH AND BANK BALANCES		**(24,890)**	**(13,224)**
Effect of exchange rate changes on cash and bank balances held in foreign currencies		2,042	(5,171)
CASH AND BANK BALANCES, at the beginning of the year	18	52,471	70,866
Foreign currency loss due to translation to presentation currency		364	-
CASH AND BANK BALANCES, at the end of the year	**18**	**29,987**	**52,471**

On behalf of management of the Company:

АО «ЭЙР АСТАНА» Қазақстан Республикасы Алматы қ. Түрксіб ауд. «Эйр Астана» Акционерлік қоғамы Республика Казахстан город Алматы, Турксибский р-н Акционерное общество «Эйр Астана»

Peter Foster
President

2 June 2017
Almaty, Republic of Kazakhstan

Azamat Ospanov
Vice president Finance Accounts,
Chief Accountant

2 June 2017
Almaty, Republic of Kazakhstan

The notes on pages 11 to 54 form an integral part of these financial statements. The independent auditors' report on the financial statements is on pages 2 to 4.

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 2016 the Company operated 31 turbojet aircraft, of which 9 short-haul and 22 long-haul aircraft representing 11 aircraft acquired under finance lease and 20 aircraft leased under operating lease (2015: 30 turbojet aircraft, of which 9 short-haul and 21 long-haul aircraft representing 11 aircraft acquired under finance lease and 19 aircraft leased under operating lease).

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

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

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

New and revised IFRSs in issue but not yet effective

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

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

IFRS 9 Financial Instruments

IFRS 9, published in July 2014, replaces the existing guidance in IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets, and the new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39.
IFRS 9 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted.

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

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

IFRS 15 Revenue from Contracts with Customers

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

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

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

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

IFRS 16 Leases

IFRS 16 introduces a single, on-balance lease sheet accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are optional exemptions for short-term leases and leases of low value items. Lessor accounting remains similar to the current standard – i.e. lessors continue to classify leases as finance or operating leases.

IFRS 16 replaces existing leases guidance including IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases—Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

The standard is effective for annual periods beginning on or after 1 January 2019. Early adoption is permitted for entities that apply IFRS 15 Revenue from Contracts with Customers at or before the date of initial application of IFRS 16.

The Company has started an initial assessment of the potential impact on its financial statements. So far, the most significant impact identified is that the Company will recognise new assets and liabilities for its operating leases of aircraft. In addition, the nature of expenses related to those leases will now change as IFRS 16 replaces the straight-line operating lease expense with a depreciation charge for right-of-use assets and interest expense on lease liabilities. The Company has not yet decided whether it will use the optional exemptions.

No significant impact is expected for the Company’s finance leases.

Transition

As a lessee, the Company can either apply the standard using a:

– Retrospective approach; or

– Modified retrospective approach with optional practical expedients.

The lessee applies the election consistently to all of its leases. The Company currently plans to apply IFRS 16 initially on 1 January 2019. The Company has not yet determined which transition approach to apply.

The Company has not yet quantified the impact on its reported assets and liabilities of adoption of IFRS 16. The quantitative effect will depend on, inter alia, the transition method chosen, the extent to which the Company uses the practical expedients and recognition exemptions, and any additional leases that the Company enters into.

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

The Company expects to disclose its transition approach and quantitative information before adoption.

The Company expects that adoption of IFRS 16 will not impact its ability to comply with financial covenants described in the EBRD loan agreement (Note 23).

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

- Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to IAS 12)
- Disclosure Initiative (Amendments to IAS 7)
- Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2).
- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28).

3. SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

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

Basis of preparation

The financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair values, as explained in the accounting policies below. Historical cost is generally based on the fair value of the consideration given in exchange for assets on the date of acquisition.
The Company discloses other comprehensive income separately from its statement of profit or loss.

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

Change in Accounting Policy

In order to unify its accounting policy with the industry standard and enhance comparability with peer airlines, the Company decided to change its accounting policy by reclassifying interest paid of USD 12,447 thousand in 2016 and USD 13,687 thousand in 2015 from operating activities to financing activities and reclassifying interest received of USD 5,902 thousand in 2016 year and USD 1,859 thousand in 2015 from investing activities to operating activities in the Statement of Cash Flows. This change affects only the presentation in the Statement of Cash Flows.

Functional and presentation currency

The national currency of Kazakhstan is the Kazakhstani tenge ("tenge"), which is the Company's functional currency, because it reflects the economic substance of the underlying events and circumstances of the Company.

As requested by shareholders, the Company prepared two sets of financial statements with presentation currency US Dollar ("USD") and Kazakhstani tenge as shareholders believe that both currencies are useful for the users of these financial statements. These financial statements has been presented in USD. All financial information presented in USD has rounded to the nearest thousand.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Functional and presentation currency (continued)

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

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

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

a)assets and liabilities for each reporting date presented (i.e. including comparatives) are translated at the closing rate at the reporting date;

b)income and expenses for the reporting period (i.e. including comparatives) are translated at average exchange rates during the year; and

c)all resulting exchange differences are recognised as foreign currency translation reserve within other comprehensive loss/income.

Revenue

Passenger revenue

Ticket sales are reported as revenue when the transportation service has been provided. The value of tickets sold and still valid but not used by the reporting date is reported as deferred (unearned) transportation revenue. This item is reduced either when the Company completes the transportation service or when the passenger requests a refund. The value of tickets that have been issued, but which will never be used, are recognized as a passenger transport revenue at the date of their expiry. Based on historical data of previous years, the Company recognises passenger revenue in respect of a percentage of tickets sold that are expected not to be used or refunded starting from 2016.

Revenue (continued)

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

Cargo revenue

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 costs are recognised immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Company's general policy on borrowing costs. Contingent rentals are recognised as expenses in the periods in which they are incurred.

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

(in thousands of USD)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leasing (continued)

Guarantee deposits

Guarantee deposits represent amounts paid to the lessors of aircraft, which are held as security deposits by the lessors in accordance with the provisions of operating lease agreements. These deposits are returned to the Company at the end of the lease period. Lease deposits relating to the operating lease agreements are presented as assets in the statement of financial position. These deposits are interest-free and are recorded at amortised cost using an average market yield of 2.25% per annum (2015: 1.09%). At initial recognition the Company recognises a discount and a deferred asset simultaneously. The discount is amortised over the lease term using the effective interest method, and the deferred asset is amortised by equal amounts over the deposit term.

Foreign currencies

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

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

	Average rate	Rate range	Reporting date spot-rate	
	2016	2015	31 December 2016	31 December 2015
US Dollar (USD)	342.16	182.35-349.12	333.29	339.47
Euro (EUR)	378.63	195.32-379	352.42	371.31
British Pound (GBP)	464.39	270.88-520.26	409.78	

Finance income and costs

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Employee benefits

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

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

Taxation

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

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

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

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

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

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

Property, plant and equipment

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property, plant and equipment (continued)

Aircraft

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

Aircraft are depreciated using a straight-line method over their average estimated useful life of 25 years, assuming no residual value. During the operating cycle, the Company reviews whether the depreciable base or the useful life should be adjusted and, if necessary, determines whether a residual value should be recognised. Based on industry average, the Company decided to extend the useful life of aircraft from 20 to 25 years, with effect from 1 October 2016 (Note 9).

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

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

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

Rotable spare parts

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

The cost of replacing part of an item of property, plant and equipment is 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.

Other property, plant and equipment

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

Depreciation

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

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

- Buildings and premises14-50 years
- Aircraft (excluding separate asset components) 25 years (20 years before 1 October 2016)
- Rotable spare parts 3-10 years
- Office equipment and furniture 4-7 years
- Vehicles 7-9 years
- Other 5-10 years.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property, plant and equipment (continued)

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

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

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

Intangible assets

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

Impairment of tangible and intangible assets

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Inventories

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

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

Provisions

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

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

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

Provision for aircraft maintenance under operating lease

The Company is obligated to perform regular scheduled maintenance of aircraft under the terms of its operating lease agreements and regulatory requirements relating to air safety. The lease agreements also require the Company to return aircraft to lessors in a satisfactory condition at the end of the lease term, which may require the performance of final return conditions. The Company's scheduled aircraft maintenance programs carried out through the lease periods are designed to reduce the incidence of final return costs. Major aircraft maintenance relates to airframes (referred to as the C-check, D-check and redelivery preparation program) and engines. The C-check program takes place the earliest of every 18 months or 5,000 to 6,000 flying hours according to aircraft type.

The D-check program takes place the earliest of every 72 months or 12,000 flying cycles according to aircraft type. Engine overhaul occurs after specified flight hours or cycles occur. Some of the operating lease agreements include a component of variable lease payments which is generally reimbursable to the Company by lessors as a contribution to engine maintenance costs after they are incurred. The variable lease payments are recognised as an expense in profit or loss as incurred. In the case of other operating lease agreements variable lease payments are replaced (subject to certain conditions) by Letters of Credit as security for Lessors to cover any unfulfilled maintenance liabilities on the return of the aircraft, and amounts corresponding to the applicable variable lease amounts are included in provisions. For C-check maintenance, a provision is recorded on a progressive basis based upon the Company's estimate of future maintenance costs. For engine maintenance, a provision is recorded on a progressive basis based upon the Company's estimate of the excess of maintenance costs over the amount reimbursable by the lessors. The Company's aircraft maintenance liabilities are due in US Dollars. The arising foreign currency exchange rate differences are provided in maintenance expense accruals which are used to create these provisions.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments

A number of the Company's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. 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 and liabilities are offset and the net amount is reported in the statement of financial position when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle them on a net basis, or to realise the asset and settle the liability simultaneously. The right to set-off must not be contingent on a future event and must be legally enforceable in all of the following circumstances:

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

If these conditions are not met, then the related assets and liabilities are presented gross in the statement of financial position.

Financial assets

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

Effective interest method

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

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

Financial assets are classified as at FVTPL when the financial asset is either held for trading or it is designated as at FVTPL. Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial asset and is included in finance income line item in profit or loss. Fair value is determined in the manner described in Note 25.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial assets (continued)

Loans and Receivables

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

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

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

Impairment of financial assets

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

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

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

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

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

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset.

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial assets (continued)

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

Derecognition of financial assets

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

If the Company retains substantially all the risks and rewards of ownership of a transferred financial asset, the Company continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

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

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

Financial liabilities and equity instruments issued by the Company

Classification as debt or equity

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

Financial liabilities

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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 profit or loss. Fair value is determined in the manner described in Note 25.

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 Note 25.

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Derivative financial instruments (continued)

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

Cash flow hedge

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

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

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

Dividends

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

Derecognition of financial liabilities

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

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

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

4 CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

Provisions

Provisions are made when any probable and quantifiable risk of loss attributable to disputes exist. Provisions mainly consist of provision for aircraft maintenance (Note 21).

Recoverability of variable lease payments related to future maintenance

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

In case of a return of the aircraft after the scheduled maintenance event, but before the return condition specified in the lease agreement is triggered, the amounts of variable lease payments made to the lessors are not reimbursable and are retained by the lessors as a deposit transferrable to the next lessees of the aircraft. Management of the Company believes that as at 31 December 2016 contributions of variable lease payments of USD 79,099 thousand (2015: USD 66,916 thousand) are subject to reimbursement by the aircraft lessors upon actual maintenance events. Management regularly assesses the recoverability of variable lease payments made by the Company. Unanticipated maintenance costs are expensed in profit or loss as incurred.

Compliance with tax legislation

Tax, currency and customs legislation of Kazakhstan are subject to frequent changes and varying interpretations. Management's interpretation of such legislation in applying it to business transactions of the Company may be challenged by the relevant regional authorities enabled by law to impose fines and penalties. It is possible that the tax treatment of transactions that have not been challenged in the past may be challenged. Fiscal periods remain open to review by the tax authorities in respect of taxes for the five calendar years preceding the year of tax review.

Under certain circumstances reviews may cover longer periods. While the Company believes it has provided adequately for all tax liabilities based on its understanding of the tax legislation, the above facts may create additional financial risks for the Company.

Determination of the functional currency

As disclosed in Note 3, the functional currency of the Company is tenge which, in management's view, reflects the economic substance of the underlying events and circumstances of the Company at the reporting date. At each reporting date management of the Company reassesses factors that may affect the determination of the functional currency based on circumstances at each reporting date. A significant judgment is required from management to make analysis of primary economic environment including the pricing policy, structure of revenues from international and domestic routes, costs structure as well as continued development in strategy of the Company for further development of international routes. Future circumstances, therefore, may be different and may result in different conclusion.

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

Useful lives of property, plant and equipment

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

Fair value of financial instruments

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

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

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

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

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

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

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

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

- Note 25 – Financial instruments.

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

Allowances

The Company accrues allowances for doubtful accounts receivable. Judgment is used to estimate doubtful accounts, which includes consideration of historical and anticipated customer performance. Changes in the economy or specific customer conditions may require adjustments to the allowance for doubtful accounts recorded in these financial statements. As at 31 December 2016 and 2015, allowances for doubtful accounts were equal to USD 1,555 thousand and USD 1,433 thousand, respectively (Notes 14, 15).

For other financial assets, an impairment loss is calculated as the difference between an asset's carrying amount, and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account. When the Company considers that there are no realistic prospects of recovery of the asset, the relevant amounts are written off. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease and the decrease can be related objectively to an event occurring after the impairment was recognised, the decrease in impairment loss is reversed through profit or loss. As at 31 December 2016 the impairment allowances was equal to USD 53,680 thousand as disclosed in Note 15 (31 December 2015: nil).

The Company annually estimates the necessity of write-down for obsolete and slow-moving inventories based on annual stock count data conducted at the reporting date. As at 31 December 2016, the Company recognised a write-down for obsolete and slow-moving inventories in the amount of USD 540 thousand (2015: USD 414 thousand) (Note 13).

Customer loyalty program

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

Contingent liabilities and contingent assets

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

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

(in thousands of USD)

5. REVENUE

	2016	2015
Passenger revenue		
Passenger transport	488,443	577,329
Fuel surcharge	63,788	106,220
Airport services	34,079	38,315
Excess baggage	3,616	4,936
	589,926	**726,800**

Cargo and mail revenue	**2016**	**2015**
Cargo	14,479	17,721
Mail	1,206	1,865
	15,685	**19,586**

Other revenue	**2016**	**2015**
Penalties on agency contracts	7,526	8,707
Warranty returns	1,634	1,420
Aviation fuel sale	1,224	233
Income from ground services	1,088	1,129
Advertising revenue	860	1,411
Gain on disposal of spare parts and other assets	622	662
Other	2,449	1,799
	15,403	**15,361**

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

	2016	2015
Domestic	175,631	244,467
Europe	136,925	168,604
Asia	117,116	134,211
Russia	87,619	112,328
CIS Regional (excluding Russia)	49,197	47,415
Middle East	39,123	39,361
Total passenger, cargo and mail revenue	**605,611**	**746,386**

6. OPERATING EXPENSES

Handling, landing fees and route charges	**2016**	**2015**
Aero navigation	37,645	40,310
Handling charge	29,340	33,371
Landing fees	21,508	29,141
Meteorological services	129	848
Other	1,287	1,369
	89,909	**105,039**

Passenger service	**2016**	**2015**
Airport charges	32,839	37,273
Catering	22,912	28,529
In-flight entertainment	3,976	3,635
Security	3,177	3,250
Other	6,905	7,484
	69,809	**80,171**

(in thousands of USD)

6. OPERATING EXPENSES (CONTINUED)

Employee costs	2016	2015
Wages and salaries of operational personnel	41,409	54,654
Wages and salaries of administrative personnel	9,585	12,570
Social tax	6,564	8,349
Wages and salaries of sales personnel	3,782	4,494
Other	3,396	3,942
	64,736	**84,009**

The average number of employees during 2016 was 4,721 (2015: 4,583).

Engineering and maintenance	2016	2015
Maintenance – variable lease payments	26,359	25,293
Maintenance – provisions (Note 21)	17,695	51,755
Maintenance – components	7,389	7,573
Spare parts	7,207	10,583
Technical inspection	2,008	2,117
	60,658	**97,321**

Aircraft operating lease costs	2016	2015
Fixed lease charges of aircraft and engine	57,182	56,161
Ad-hoc lease of engines and rotable spare parts	1,056	1,572
Operating lease return costs	169	1,574
	58,407	**59,307**

Selling costs	2016	2015
Reservation costs	15,971	15,430
Commissions	7,888	13,717
Advertising	5,456	6,578
Interline commissions	481	620
Other	442	494
	30,238	**36,839**

Aircraft crew costs	2016	2015
Accommodation and allowances	14,031	14,433
Contract crew	7,674	8,550
Training	6,076	6,340
	27,781	**29,323**

Insurance	2016	2015
Hull insurance	2,049	2,055
Legal liability insurance	1,436	1,582
Medical insurance	627	760
Other	279	311
	4,391	**4,708**

(in thousands of USD)

7. FINANCE INCOME AND COSTS

Finance income	**2016**	**2015**
Interest income on bank deposits	7,169	3,190
Unwinding of discount on Ab-initio pilot trainees receivables	177	343
Net unrealised gain on financial assets and liabilities at fair value through profit or loss	87	3,354
Other	292	64
	7,725	**6,951**

Finance costs	**2016**	**2015**
Interest expense on finance lease	12,321	13,195
Impairment provision on financial assets (Note 15)	52,288	-
Net realised loss on financial assets and liabilities at fair value through profit or loss	375	8,262
Interest expense from revaluation of fair value of guarantee deposits	147	-
Other	942	910
	66,073	**22,367**

8. INCOME TAX EXPENSE

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

	2016	**2015**
Adjustment for income tax related to prior year	-	526
Deferred income tax expense	5,010	13,027
	5,010	**13,553**

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 2016 and 2015 is presented in the table below.

In accordance with the local tax legislation both hedged and unhedged foreign currency losses are treated as deductible expenses for the purpose of corporate income tax calculations. If such deductible expenses cannot be fully utilised in the year of origination the tax code permits an entity to carry forward the accumulated tax losses for the next 10 years. During 2015 the Company applied a foreign currency cash flow hedge policy that allowed it to hedge foreign currency losses arising on the hedging instruments. Movements in deferred tax assets and liabilities stated below were recognised in profit or loss, except for USD 2,925 thousand related to carried forward corporate income tax losses, which were recognised in equity.

(in thousands of USD)

8. INCOME TAX EXPENSE

	2016	2015
Deferred tax assets		
Provision for aircraft maintenance	11,760	9,575
Carried forward corporate income tax losses	6,671	13,840
Trade and other payables	1,680	3,176
Intangible assets	-	96
Total	**20,111**	**26,687**
Deferred tax liabilities		
Difference in depreciable value of property, plant and equipment	(26,679)	(24,592)
Intangible assets	(58)	-
Prepaid expenses	(14)	(23)
Total	**(26,751)**	**(24,615)**
Net deferred tax (liabilities)/assets	**(6,640)**	**2,072**

The income tax rate in the Republic of Kazakhstan, where the Company is located, in 2016 and 2015 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% (2015: 20%) to the actual income tax expense recorded in the Company's statement of profit or loss and other comprehensive income:

	2016	2015
(Loss)/profit before tax	(34,855)	62,294
Income tax at statutory rate	(6,971)	12,459
Tax effect of non-deductible expenses	11,981	1,094
Income tax expense	**5,010**	**13,553**

(in thousands of USD)

9. PROPERTY, PLANT AND EQUIPMENT

	Rotable spare parts	Office equipment and furniture	Building, premises and land	Vehicles	Aircraft under finance lease	Equipment in transit and construction in progress	Total
Cost							
At 1 January 2015	**55,549**	**9,573**	**5,406**	**3,185**	**538,950**	**7,842**	**620,505**
Additions	-	-	-	-	-	19,804	19,804
Disposals	(6,817)	(1,068)	-	(223)	(1,404)	-	(9,512)
Transfers	15,354	1,059	450	1,444	3,826	(22,133)	-
Foreign currency translation difference	(29,130)	(4,456)	(2,673)	(1,943)	(250,403)	(2,746)	(291,351)
At 31 December 2015	**34,956**	**5,108**	**3,183**	**2,463**	**290,969**	**2,767**	**339,446**
Additions	-	-	-	-	-	27,359	27,359
Disposals	(1,602)	(171)	(59)	(227)	(1,614)	-	(3,673)
Transfers to inventory	(1,790)	-	-	-	-	-	(1,790)
Transfers	9,918	635	58	145	2,151	(12,907)	-
Foreign currency translation difference	821	107	59	43	5,409	437	6,876
At 31 December 2016	**42,303**	**5,679**	**3,241**	**2,424**	**296,915**	**17,656**	**368,218**
Accumulated depreciation							
At 1 January 2015	**20,738**	**6,305**	**1,260**	**1,852**	**53,613**	**-**	**83,768**
Charge for the year (Note 11)	7,732	1,333	351	437	38,070	-	47,923
Disposals	(5,298)	(1,049)	-	(215)	(1,338)	-	(7,900)
Foreign currency translation difference	(10,672)	(3,055)	(716)	(948)	(38,799)	-	(54,190)
At 31 December 2015	**12,500**	**3,534**	**895**	**1,126**	**51,546**	**-**	**69,601**
Charge for the year (Note 11)	4,970	630	324	299	21,717	-	27,940
Disposals	(475)	(150)	(43)	(226)	(1,614)	-	(2,508)
Foreign currency translation difference	351	78	23	22	1,491	-	1,965
At 31 December 2016	**17,346**	**4,092**	**1,199**	**1,221**	**73,140**	**-**	**96,998**
Net book value							
At 31 December 2015	**22,456**	**1,574**	**2,288**	**1,337**	**239,423**	**2,767**	**269,845**
At 31 December 2016	**24,957**	**1,587**	**2,042**	**1,203**	**223,775**	**17,656**	**271,220**

(in thousands of USD)

9. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

The Company's obligations under finance leases are secured by the lessors' title to the leased assets, which have a carrying amount of USD 223,088 thousand (2015: USD 239,423 thousand) (Note 24).

Rotable spare parts include aircraft modification costs.

For the year ended 31 December 2016 USD 1,109 thousand interest of the EBRD loan was capitalised into property, plant and equipment (2015: nil) (Note 23).

Based on industry average, the Company decided to extend the useful life of aircraft from 20 to 25 years, with effect from 1 October 2016. This change will lead to decrease in annual depreciation of USD 2,677 thousands in 2017 and further in subsequent periods.

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

Balance Sheet of the Company is translated into the reporting currency at the closing foreign currency rate prevailing at the reporting date.

10. INTANGIBLE ASSETS

	Software
Cost	
At 1 January 2015	**5,945**
Additions	458
Foreign currency translation difference	(2,911)
At 31 December 2015	**3,492**
Additions	3,117
Disposals	(106)
Foreign currency translation difference	145
At 31 December 2016	**6,648**
Accumulated amortisation	
At 1 January 2015	**4,557**
Charge for the year (Note 11)	568
Foreign currency translation difference	(2,326)
At 31 December 2015	**2,799**
Charge for the year (Note 11)	739
Disposals	(106)
Foreign currency translation difference	69
At 31 December 2016	**3,501**
Net book value	
At 31 December 2015	**693**
At 31 December 2016	**3,147**

(in thousands of USD)

11. DEPRECIATION AND AMORTISATION

	2016	2015
Depreciation of property, plant and equipment (Note 9)	27,940	47,923
Amortisation of intangible assets (Note 10)	739	568
Total	**28,679**	**48,491**

12. GUARANTEE DEPOSITS

	31 December 2016	31 December 2015
Non-current		
Guarantee deposits for leased aircraft	14,251	14,779
Other guarantee deposits	1,149	619
	15,400	**15,398**
Current		
Guarantee deposits to secure Letters of Credit for maintenance liabilities (Note 26)	33,469	27,661
Guarantee deposits for leased aircraft	862	60
Other guarantee deposits	613	677
	34,944	**28,398**
	50,344	**43,796**

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

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

	31 December 2016	31 December 2015
Within one year	34,331	27,721
After one year but not more than five years	7,141	7,890
More than five years	7,307	6,956
	48,779	**42,567**
Fair value adjustment	(197)	(67)
	48,582	**42,500**

(in thousands of USD)

13. INVENTORIES

	31 December 2016	31 December 2015
Spare parts	21,489	15,999
Fuel	9,492	4,487
Goods in transit	3,923	4,730
Crockery	2,427	1,591
Promotional materials	1,379	1,734
Uniforms	1,335	855
Blank forms	300	239
De-icing liquid	268	275
Other	1,215	749
	41,828	**30,659**
Less: cumulative write-down for obsolete and slow-moving inventories	(540)	(414)
	41,288	**30,245**

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

	2016	2015
Cumulative write-down for obsolete and slow-moving inventories at the beginning of the year	**(414)**	**(1,757)**
Write-down for the year	(209)	(680)
Reversal of previous write-down for the year	94	1,517
Foreign currency translation difference	(11)	506
Cumulative write-down for obsolete and slow-moving inventories at the end of the year	**(540)**	**(414)**

14. PREPAYMENTS

	31 December 2016	31 December 2015
Non-current		
Advances paid for services	7,181	6,533
Prepayments for non-current assets	1,933	3,818
	9,114	**10,351**
Current		
Advances paid for services	8,254	5,615
Prepayments for finance lease	5,993	5,777
Advances paid for goods	5,977	2,205
Prepayments for operating leases	2,768	2,670
	22,992	**16,267**
Less: allowance for non-recoverable prepayments	(417)	(396)
	22,575	**15,871**

As at 31 December 2016 prepayments for non-current assets include prepayments to Boeing as pre-delivery payment for the remaining three aircraft (Note 26).

(in thousands of USD)

14. PREPAYMENTS (CONTINUED)

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

	2016	2015
At the beginning of the year	**(396)**	**(820)**
Accrued during the year	(14)	(50)
Reversed during the year	-	122
Foreign currency translation difference	(7)	352
At the end of the year	**(417)**	**(396)**

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

15. TRADE AND OTHER RECEIVABLES

	31 December 2016	31 December 2015
Non-current		
Other financial assets	59,019	-
Due from employees and Ab-initio pilot trainees	835	959
	59,854	**959**
Less: allowance for doubtful debts (Note 7)	(53,680)	**-**
	6,174	**959**
Current		
Trade receivables	21,803	16,898
Due from employees and Ab-initio pilot trainees	955	1,054
Receivable from lessors – variable lease reimbursement	431	3,965
	23,189	**21,917**
Less: allowance for doubtful debts	(1,138)	(1,037)
	22,051	**20,880**

In December 2016 according to the order of Management Board of the National Bank of the Republic of Kazakhstan ("National Bank"), the general banking licence of KazInvestBank JSC to conduct banking operations was recalled and a temporary administration was appointed. As a result the Company has reclassified its bank balances with KazInvestBank JSC of USD 14,234 thousand (denominated in USD) to other non-current assets and reassessed their recoverability. It is expected that at the end of June 2017 the temporary administration will transfer a portion of the KazInvestBank's assets and liabilities to SB Alfa Bank JSC (Alfa Bank) which acts as an intermediary collecting funds from the borrowers under the transferred corporate loans and distributing the proceeds among depositors. The recoverability of the remaining balances with KazInvestBank will depend on further actions taken by the temporary administration and the National Bank.

15. TRADE AND OTHER RECEIVABLES (CONTINUED)

As a result of the assessment of the impairment loss, the Company has recognised an allowance for impairment of 95% of the outstanding balances in the financial statements. These allowances represent its best estimate of the net present value of cash flows which will be obtained from these assets assuming 50% recovery from the assets accepted by Alfa Bank and zero from further liquidation procedures as management believes Alfa Bank conducted the due diligence of KazinvestBank's loan portfolio and selected the best available assets.

Changes to estimate of recovery of the assets accepted by Alfa Bank as well as further actions of the temporary administration and the National Bank could affect the amount of impairment allowance.

On 31 December 2016 the Company held deposits of 44,785 thousand US Dollars in Delta Bank JSC (Delta Bank) (KZT USD denominated). On 30 December 2016 the Standard & Poor's long-term/short-term counterparty credit rating was downgraded from "B/B" to "CCC+/C", then to "D/D" on 16 February 2017 following its default on the principal bond payment amount of 9.8 billion tenge. On 23 February 2017, Delta Bank repaid the overdue bonds and on 27 February 2017 announced that it has received 45.6 billion tenge in loans after which the bank has redeemed an additional 18.4 billion tenge on the second bond program which had a maturity date of 2023. On 22 May 2017 the National Bank temporary suspended Delta Bank's license on accepting deposits or opening current accounts until 15 June 2017. As a result the Company has reclassified its bank balances with Delta Bank of 44,785 thousand US Dollars to other non-current assets and reassessed their recoverability.

As at the date of these financial statements the Company has been able to remit 3,411 thousand US Dollars from the bank, however, has been unable to redeem the remaining balance of the deposits.

Following the discussions with the National Bank and with owners of Delta Bank, management concluded that in the most likely event of liquidation of Delta Bank proceeds will be insignificant. By discounting estimated expected cash flows from the potential liquidation and taking into account amounts repaid by Delta Bank from 31 December 2016 till the date of these financial statements, the management estimated recoverable amount of deposit in Delta Bank to be 4,586 thousand US Dollars leading to the impairment allowances of 40,199 thousand US Dollars .

Further actions of the National Bank and ability of owners of Delta Bank to support the bank or restructure its assets and liabilities could affect the amount of impairment allowance.

At 31 December 2016, eight debtors including IATA Bank Settlement Plans (BSPs) as collecting agencies from the worldwide travel agencies comprised 26% of the Company's trade and other receivables (2015: eight debtors comprised 33%).

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

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

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

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

(in thousands of USD)

15. TRADE AND OTHER RECEIVABLES (CONTINUED)

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

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

	31 December 2016	31 December 2015
US Dollar	58,537	9,395
Tenge	15,662	7,709
Euro	2,772	1,999
Russian Rouble	1,065	834
Other	5,007	2,939
	83,043	**22,876**

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

	2016	2015
At the beginning of the year	**(1,037)**	**(1,641)**
Accrued during the year	(52,607)	(797)
Reversed during the year	217	158
Written-off against previously created allowance	22	392
Foreign currency translation difference	(1,413)	851
At the end of the year	**(54,818)**	**(1,037)**

16. OTHER TAXES PREPAID

	31 December 2016	31 December 2015
Value added tax recoverable	11,338	6,007
Prepayment for income tax for non-residents	4,084	1,327
Other taxes prepaid	884	137
	16,306	**7,471**

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

(in thousands of USD)

17. BANK DEPOSITS

	31 December 2016	31 December 2015
Current		
Term deposits with local banks (Note 25)	97,217	156,985
Guarantee deposits	9	13
Interest receivable	2,348	1,254
	99,574	**158,252**

Short-term deposits with local banks (with an original maturity of more than three months and less than one year) earn interest in the range from 0% to 13% per annum (2015: from 0.5% to 5%). Bank deposits have no restrictions on early withdrawal.

Guarantee deposits made to meet the requirements of Kazakhstan legislation relating to foreign employees are denominated in tenge and earn interest from 0% to 4.5% per annum (2015: 0% to 4.5%).

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

	2016	2015
US Dollar	89,637	146,731
Tenge	9,937	16
Euro	-	11,505
	99,574	**158,252**

18. CASH AND BANK BALANCES

	31 December 2016	31 December 2015
Current accounts with local banks (Note 25)	20,139	22,612
Current accounts with foreign banks	9,750	5,211
Cash on hand	98	97
Term deposits with local banks with original maturity less than 3 months	-	24,551
	29,987	**52,471**

As at 31 December 2016 current accounts with banks earn interest in the range of 0.3% to 10% per annum (2015: 0.3% to 8%). As at 31 December 2016 short-term tenge deposits (over-night) with banks earn interest of up to 10.5% per annum.

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

	2016	2015
US Dollar	19,027	37,261
Tenge	5,454	5,107
Chinese Yuan	1,472	1,308
Euro	1,141	4,249
Russian Rouble	965	905
GBP	614	1,503
Indian Rupee	606	594
Uzbek Soms	311	879
Other	397	665
	29,987	**52,471**

(in thousands of USD)

19. EQUITY

As at 31 December 2016 and 2015, share capital was comprised of 17,000 authorised, issued and fully paid ordinary shares with a par value of KZT 147,150 thousand (equivalent to USD 1,000 per share at the time of purchase).

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

In accordance with Kazakhstan legislation the Company's distributable reserves are limited to the balance of retained earnings as recorded in the Company's statutory financial statements prepared in accordance with IFRS. A distribution cannot be made when equity is negative or if distribution would result in negative equity or the Company's insolvency. As at 31 December 2016 the Company had retained earnings, including the loss for the current year, of USD 310,625 thousand (2015: USD 365,816 thousand).

In June 2016, based on the decision of the Annual General Meeting of Shareholders, the Company declared a dividend payment equivalent to 30% of the net profit of the Company for 2015. The total amount of the dividend was 3,108,803 thousand tenge (USD 9,180 thousand equivalent as of announcement date), which was distributed and paid in accordance with their shareholdings.

Also at the Annual General Meeting of Shareholders of the Company held in June 2016 the decision was made to allocate an additional 20% of the net profit of the Company for 2015 in the amount of 2,072,536 thousand tenge (USD 6,120 thousand equivalent as of announcement date) to a Reserve Fund of the Company which was distributed and paid in accordance with their shareholdings based on a further decision of General Meeting of Shareholders of the Company in October 2016.

In May 2015, based on the decision of the Annual General Meeting of Shareholders, the Company declared a dividend payment equivalent to 50% of the net profit of the Company for 2014. The total amount of the dividend was 1,742,918 thousand tenge (USD 9,381 thousand equivalent as of announcement date), which was distributed and paid to each shareholder in accordance with their shareholdings. Dividends per share in 2016 were 304.8 thousand tenge or USD 1 thousand equivalent as of announcement date (2015: 102.5 thousand tenge or USD 0.5 thousand equivalent as of announcement date).

The calculation of basic (loss)/earnings per share is based on (loss)/profit for the year and the weighted average number of ordinary shares outstanding during the year of 17,000 shares (2015: 17,000). The Company has no instruments with potential dilutive effect.

	2016	2015
Profit:		
(Loss)/Profit for the year	(39,865)	48,741
Number of ordinary shares	17,000	17,000
(Loss)/Earnings per share – basic and diluted (USD)	**(2,345)**	**2,867**

(in thousands of USD)

20. DEFERRED REVENUE

	31 December 2016	31 December 2015
Unearned transportation revenue	36,565	31,484
Customer loyalty program	1,665	1,392
	38,230	**32,876**

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

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

21. PROVISION FOR AIRCRAFT MAINTENANCE

	31 December 2016	31 December 2015
Engines	44,904	37,414
D-Check	4,627	3,345
C-Check	4,603	3,344
Provision for redelivery of aircraft	1,846	1,641
Auxiliary Power unit	1,499	1,159
Landing gear	1,319	972
	58,798	**47,875**

During 2014 and 2015 the Company renegotiated certain operating lease agreements to replace the payments of variable lease by Letters of credit with further annual prolongation (Note 26). As a result a lessor signed an agreement to return variable lease payments which were fully received by the Company in 2016. The Company accepted the continuing obligations for aircraft maintenance and, therefore, increased provisions by the corresponding amounts in 2015 and continues to accrue provisions taking this into account in further years.

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

	2016	2015
At 1 January	**47,875**	**23,074**
Accrued during the year (Note 6)	18,939	52,344
Increase of provisions as a result of return of variable rent by a lessor (Note 26)	-	12,107
Reversed during the year (Note 6)	(1,244)	(589)
Used during the year	(7,920)	(10,961)
Foreign currency translation difference	1,148	(28,100)
At 31 December	**58,798**	**47,875**

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

(in thousands of USD)

21. PROVISION FOR AIRCRAFT MAINTENANCE (CONTINUED)

The planned utilisation of these provisions is as follows:

	31 December 2016	31 December 2015
Within one year	20,243	16,496
During the second year	12,719	6,879
During the third year	14,006	4,557
After the third year	11,830	19,943
Total provision for aircraft maintenance	**58,798**	**47,875**
Less: current portion	(20,243)	(16,496)
Non-current portion	**38,555**	**31,379**

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

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

22. TRADE AND OTHER PAYABLES

	31 December 2016	31 December 2015
Trade payables	29,889	27,608
Taxes payable	2,721	2,829
Wages and salaries payable to employees	2,304	2,210
Operating lease payables	1,548	1,220
Employee unused vacation	1,290	1,628
Deposits received	1,124	759
Advances received	435	415
Other	83	83
	39,394	**36,752**

(in thousands of USD)

22. TRADE AND OTHER PAYABLES (CONTINUED)

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

	31 December 2016	31 December 2015
US Dollar	16,107	15,668
Tenge	13,986	12,683
Euro	5,223	3,777
Russian roubles	730	1,658
GBP	655	716
Other	2,693	2,250
	39,394	**36,752**

23. LOANS

	31 December 2016	31 December 2015
Non-current		
Bank loan	12,043	-
	12,043	-
Current		
Current portion of bank loan	1,554	-
Interest payable (loans)	77	-
	1,631	-

On 16 March 2012, the Company entered into a renewable credit line agreement with JSC Halyk Bank for the amount of USD 45,000 thousand for the purpose of replenishment of working capital in order to meet current liabilities and not to incur interest penalties on early termination of bank deposits. Interest rate was fixed depending on loan terms from 4% to 6% per annum depending on loan terms. The credit line is available until 30 June 2017.

On 3 December 2015 the Company concluded a loan agreement of USD 14,000 thousand (in Kazakhstani tenge equivalent) with the European Bank for Reconstruction and Development (EBRD) for 10 years for the purpose of construction of a Technical Center (Hangar) in Astana, which will also be pledged to the EBRD under this loan. The interest rate is floating and defined, based on a margin of 3.75% per annum plus EBRD's All-in Cost in Kazakhstani tenge. The All-in Cost is determined on a quarterly basis in conjunction with the National Bank of Kazakhstan base rate. The interest rate for this loan has a cap. In April 2016 the Company obtained the funds from EBRD in the amount of 4,661,033 thousand tenge (USD 14,000 thousand equivalent as of receipt dates). This tenge loan is subject to certain financial covenants which have been met during 2016. Remedy by repayment of the outstanding loan is available to the Company in the event of breach of these covenants, which could be triggered by the worst case scenario described in Note 17.

24. FINANCE LEASE LIABILITIES

For the years from 2012 to 2014 the Company acquired eleven aircraft under the fixed interest finance lease agreement. The lease term for each aircraft is twelve years. The Company has an option to purchase each aircraft for a nominal amount at the end of the lease (Note 26). Loans provided by financial institutions to the lessors in respect of six new Airbus which were delivered during 2012 and 2013 were guaranteed by European Export Credit Agencies while three Boeing 767 aircraft which were delivered in 2013 and 2014 were guaranteed by the US Export Import Bank. Two Embraer aircraft were delivered in 2012 and 2013 were guaranteed by the Brazilian Development Bank. The Company's obligations under finance leases are secured by the lessors' title to the leased assets. These assets have a carrying value of USD 223,088 thousand (2015: USD 239,423 thousand) (Note 9).

(in thousands of USD)

24. FINANCE LEASE LIABILITIES (CONTINUED)

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

The Company's finance leases are subject to certain covenants. These covenants impose restrictions in respect of certain transactions, including, but not limited to restrictions in respect of indebtedness. Certain finance lease agreements include covenants as regards to change of ownership of the Company. These requirements have been met during 2016 and 2015.

	Minimum lease payments		**Present value of minimum lease payments**	
	31 December 2016	**31 December 2015**	**31 December 2016**	**31 December 2015**
Not later than one year	52,514	53,181	41,251	40,640
Later than one year and not later than five years	201,050	203,115	168,770	164,096
Later than five years	177,297	226,784	166,729	211,693
	430,861	**483,080**	**376,750**	**416,429**
Less: future finance charges	(54,111)	(66,651)	-	-
Present value of minimum lease payments	**376,750**	**416,429**	**376,750**	**416,429**
Included in the financial statements as:				
- current portion of finance lease obligations			41,251	40,640
- non-current portion of finance lease obligations			335,499	375,789
			376,750	**416,429**

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

On 1 July 2015 the Company designated a portion of its US Dollar finance lease obligations as hedges of highly probable future US Dollar revenue streams. The Company applies the cash flow hedge accounting model to this hedging transaction, in accordance with IAS 39. At 31 December 2016, finance lease liabilities in the amount of USD 227,253 thousand (2015: USD 250,736 thousand) denominated in US Dollars are designated as hedging instrument denominated in US Dollars of highly probable revenue forecasted for the period 2015 - 2025. The Company expects that this hedging relationship will be highly effective since the future cash outflows on the lease liabilities being hedged match the future cash inflows of the expected revenue. At 31 December 2016, a foreign currency loss of USD 132,335 thousand (before deferred income tax of USD 26,467 thousand) (2015: USD 152,144 thousand, before deferred income tax of USD 30,429 thousand) on the finance lease liabilities, representing an effective portion of the hedge, is deferred in the hedging reserve in equity.

During 2016 the amount reclassified from the hedging reserve to foreign exchange loss in the statement of profit or loss from inception of the hedge was USD 14,388 thousand (before deferred income tax of USD 2,878 thousand) (2015: USD 2,631 thousand, before deferred income tax of USD 526 thousand).

24. FINANCE LEASE LIABILITIES (CONTINUED)

At each reporting date the Company translates its monetary assets and monetary liabilities denominated in foreign currencies to the reporting currency, while translation gains or losses are recorded in profit or loss. As a result of the cash flow hedge policy, the remaining net monetary foreign currency assets generated a foreign currency exchange loss of USD 740 thousand in the statement of profit or loss (2015: USD 46,883 thousand). These net monetary foreign currency assets represent the excess of monetary foreign currency assets (including foreign currency cash) over the monetary foreign currency liabilities (including unhedged foreign currency loans).

25. FINANCIAL INSTRUMENTS

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

Capital management

The Company manages its capital to ensure the Company will be able to continue as a going concern while maximising the return to the shareholders through the optimisation of the debt and equity balance. The Company's overall strategy remains unchanged from 2015.

The capital structure of the Company consists of net debt (comprising loans and finance lease obligations in Note 23 and 24) and equity of the Company (comprising issued capital, additional paid-in capital, foreign currency translation reserve, reserve on hedging instruments and retained earnings as detailed in Note 19).

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

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

Credit risk

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

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

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

As at 31 December 2016, there was no significant concentration of credit risk in respect of trade accounts receivable (Note 15).

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

As a result of the increased credit risks on some of the banks, management is reconsidering its cash management policy and, as temporary measures, the Company has reviewed the credit ratings of the main banks in Kazakhstan and subsequent to the reporting date placed its main deposits to banks with ratings of “BB”, except for KazInvestBank and Delta Bank, which are disclosed in Note 15 and held current accounts with Kazakhstani banks with ratings of “BB” or higher (Note 18).

(in thousands of USD)

25. FINANCIAL INSTRUMENTS (CONTINUED)

Interest rate risk

Excluding the loan from the EBRD, the Company is not exposed to interest rate risk because the Company borrows funds at fixed interest rates.

In April 2016 the Company's EBRD loan had variable interest rates with a fixed margin (Note 23). If the variable part of interest rate on the EBRD loan in 2016 would have been 20% higher or lower than the actual for the period, the interest expense would not have changed significantly.

Foreign currency risk

The Company is exposed to foreign currency risk on sales and purchases that are denominated in currencies other than the tenge. The currencies giving rise to this risk are primarily the USD and Euro. For amounts of assets and liabilities denominated in foreign currency refer to Notes 15, 17, 18, 22, and 23.

In August 2015, the National Bank of the Republic of Kazakhstan implemented a floating exchange rate policy for the tenge. As a result, the tenge devalued immediately by some 30% against the USD. The exchange rate has continued to weaken and as of 31 December 2016, the KZT to US Dollar official exchange rate is 333.29.

The Company management believes that it has taken appropriate measures to support the sustainability of the Company business under the current circumstances. The Company applies a hedge policy to manage the currency risk (Note 24).

Foreign currency sensitivity analysis

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

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

		US Dollar		Euro	
	Notes	**31 December 2016**	**31 December 2015**	**31 December 2016**	**31 December 2015**
Assets					
Guarantee deposits	12	49,771	43,091	199	335
Trade and other receivables	15	11,000	9,395	2,772	1,999
Bank deposits	17	93,250	146,731	-	11,505
Cash and bank balances	18	19,027	37,261	1141	4,249
Financial assets at fair value through profit or loss		-	91	-	-
Total		**173,048**	**236,569**	**4,112**	**18,088**
Liabilities					
Finance lease liabilities	24	376,750	416,429	-	-
Trade and other payables	22	16,107	15,668	5223	3,777
Financial liabilities at fair value through profit or loss		-	180	-	-
Total		**392,857**	**432,277**	**5,223**	**3,777**
Net position		**(219,809)**	**(195,708)**	**(1,111)**	**14,311**

(in thousands of USD)

25. FINANCIAL INSTRUMENTS (CONTINUED)

Foreign currency sensitivity analysis (continued)

In 2016 the following table details the Company's sensitivity of weakening and strengthening of the tenge against the US Dollar by 13% and Euro by 15%. In 2015 the following table details the Company's sensitivity to a 60% weakening of the tenge against the US Dollar and to a 20% strengthening of the tenge against the Euro. Mentioned sensitivity rates were used when reporting foreign currency risk internally to key management personnel.

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

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

	Currency US Dollar impact		**Currency Euro impact**	
	2016	**2015**	**2016**	**2015**
	13%	**60%**	**15%**	**60%**
Profit /(loss)	774	(214,293)	(133)	6,869
Equity decrease	(23,634)	(120,353)	-	-

	Currency US Dollar impact		**Currency Euro impact**	
	2016	**2015**	**2016**	**2015**
	-13%	**-20%**	**-15%**	**-20%**
(Loss)/profit	(774)	(8,805)	133	(2,290)
Equity increase	23,634	40,118	-	-

The Company limits the currency risk by monitoring changes in exchange rates of foreign currencies in which trade and other receivables, cash and bank balances, bank deposits, guarantee deposits, trade and other payables, financial assets and liabilities at fair value through profit or loss and loans and finance lease liabilities are denominated.

Liquidity risk management

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

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

(in thousands of USD)

25. FINANCIAL INSTRUMENTS (CONTINUED)

Liquidity and interest risk tables

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

	Up to 3 months	3 months to 1 year	1-5 years	Over 5 years	Total
2016					
Financial liabilities					
Interest free					
Trade and other payables	37,097	572	-	-	**37,669**
Floating rate					
Loans (tenge denominated)	746	2,222	10,194	7,099	**20,261**
Fixed rate					
Finance lease liabilities	12,911	39,603	201,050	177,297	**430,861**
2015					
Financial liabilities					
Interest free					
Trade and other payables	34,164	545	-	-	**34,709**
Financial liabilities at fair value through profit or loss	-	180	-	-	**180**
Fixed rate					
Finance lease liabilities	13,076	40,105	203,115	226,784	**483,080**

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

	Weighted average effective interest rate %	Up to 3 month	3 months to 1 year	1-5 years	Over 5 years	Total
2016						
Financial assets						
Interest free						
Trade and other receivables	-	21,450	601	5,935	239	**28,225**
Guarantee deposits	-	15,674	19,270	8,091	7,309	**50,344**
Cash and bank balances	-	29,987	-	-	-	**29,987**
Fixed rate						
Bank deposits	4.55	99,574	-	-	-	**99,574**

(in thousands of USD)

25. FINANCIAL INSTRUMENTS (CONTINUED)

Liquidity and interest risk tables

2015						
Financial assets						
Interest free						
Trade and other receivables	-	19,983	312	1,103	441	**21,839**
Financial assets at fair value through profit or loss	-	-	91	-	-	**91**
Guarantee deposits	-	345	28,053	8,381	7,017	**43,796**
Cash and bank balances	-	52,471	-	-	-	**52,471**
Fixed rate						
Bank deposits	3.01	65,184	93,068	-	-	**158,252**

Fair values

During 2015 the Company used options to hedge the risk of jet fuel price movement. The Company uses standard market instruments for fuel hedging purposes, such as a “call option” (where the premium is paid in advance by the Company to cover the risk of increases of the commodity price above the predetermined level) and zero cost collar (where the premium is equal to zero, and where the Company simultaneously buys a “call option” and sells a “put option”). Since there is no possibility to hedge the risk of changes in jet fuel prices purchased from local suppliers, the Company hedges only the amount of fuel purchased outside the Republic of Kazakhstan signing the general agreement with several international banks on the conclusion of derivative transactions. The management of the Company determines the volume of jet fuel that will be hedged before executing the deal. Hedging is carried out according to the Fuel hedging policy approved by the directors and shareholders of the Company.

Cash and bank balances

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

Financial instruments at fair value through profit or loss

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

Guarantee Deposits

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

Trade and other receivables and payables

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

Loans

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

(in thousands of USD)

25. FINANCIAL INSTRUMENTS (CONTINUED)

Cash and bank balances (continued)

Finance lease liabilities

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

Provisions

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

26. COMMITMENTS AND CONTINGENCIES

Capital commitments

During 2012, the Company finalised an agreement with Boeing to purchase three Boeing-787s aircraft under finance lease agreements. The Company is committed to pre-delivery payments in accordance with the agreed payment schedule. Delivery of the Boeing 787s is now deferred to 2019 with the last pre-delivery payments deferred to 2019.

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

Operating lease commitments

Aircraft

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

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

Commitments for leases of aircraft currently in operation:

	31 December 2016	**31 December 2015**
Within one year	57,469	57,986
After one year but not more than five years	104,752	146,034
More than five years	4,365	9,505
	166,586	**213,525**

Commitments for leases of aircraft to be delivered from 2017 to 2019:

	31 December 2016	**31 December 2015**
Within one year	11,331	3,043
After one year but not more than five years	183,849	130,938
More than five years	266,632	336,504
	461,812	**470,485**

(in thousands of USD)

26. COMMITMENTS AND CONTINGENCIES (CONTINUED)

Operating lease commitments (continued)

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

In September 2015 the Company signed operating lease agreements for four Airbus A320neo family aircraft being delivered in 2017 and 2018 to replace some current leases on expiry and for future expansion.

Stand-by Letters of Credit as at 31 December 2016 were USD 43,055 thousand, of which USD 33,496 thousand were secured by deposits (Note 12) and USD 9,559 thousand were unsecured. These Letters of Credit were obtained as security for Lessors to cover any unfulfilled maintenance liabilities on the return of three Embraer E190 and five Airbus aircraft to Lessors.

Engine

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

Operating lease agreements for one other engine will expire by the end of 2017.

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

Non-cancellable operating lease commitments are payable as follows:

	31 December 2016	**31 December 2015**
Within one year	1,161	1,199
After one year but not more than five years	3,015	4,149
	4,176	**5,348**

Insurance

Aviation insurance

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

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

26. COMMITMENTS AND CONTINGENCIES (CONTINUED)

Insurance (continued)

Non – Aviation Insurance

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

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

Taxation contingencies

The taxation system in Kazakhstan is relatively new and is 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. Laws and regulations affecting businesses in Kazakhstan continue to change rapidly, tax and regulatory frameworks are subject to varying interpretations. The future economic direction of Kazakhstan is heavily influenced by the fiscal and monetary policies adopted by the government, together with developments in the legal, regulatory, and political environment. In addition, the significant devaluation of the Kazakhstani tenge, and reductions in the global price of oil have increased the level of uncertainty in the business environment.

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

27. 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. The total remuneration paid in 2016 to the independent directors was USD 75 thousand (2015: USD 92 thousand).

(in thousands of USD)

27. RELATED PARTY TRANSACTIONS (CONTINUED)

Management remuneration

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

	2016	2015
Salaries and bonuses	3,867	4,436
Social tax	415	525
	4,282	**4,961**

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.

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:

	2016		2015	
	Transaction value	**Outstanding balance**	**Transaction value**	**Outstanding balance**
Services received				
State-owned companies	20,702	(129)	38,996	(1,509)
Shareholders and their subsidiaries	4,743	-	8,034	(213)
	25,445	**(129)**	**47,030**	**(1,722)**

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

	2016		2015	
Services provided by the Company	**Transaction value**	**Outstanding balance**	**Transaction value**	**Outstanding balance**
Shareholders and their subsidiaries	947	153	1,289	111
	947	**153**	**1,289**	**111**

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

28. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved by management of the Company and authorised for issue on 2 June 2017.