

JOINT STOCK COMPANY AIR ASTANA

Financial Statements

For the year ended 31 December 2017

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 2017**

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 2017, 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 2017 were authorised for issue on 30 March 2018 by management of the Company.

On behalf of management of the Company


Peter Foster
President

30 March 2018
Almaty, Republic of Kazakhstan




Azamat Ospanov
Vice president Finance Accounts,
Chief Accountant

30 March 2018
Almaty, Republic of Kazakhstan



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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 2017, the statements of profit or loss, 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 2017, 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) together with the ethical requirements that are relevant to our audit of the financial statements in the Republic of Kazakhstan, and we have fulfilled our other ethical responsibilities in accordance with these requirements and 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 scepticism 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.
- 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:



Ashley Clarke
Engagement Partner



Sergey Dementyev
Certified Auditor
of the Republic of Kazakhstan,
Auditor's Qualification Certificate
№ MΦ0000086 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



Asser Khalifova
General Director of KPMG Audit LLC
acting on the basis of the Charter

30 March 2018

JOINT STOCK COMPANY AIR ASTANA

STATEMENT OF PROFIT OR LOSS FOR THE YEAR ENDED 31 DECEMBER 2017 (in thousands of USD)

	Notes	2017	2016
Revenue and other income			
Passenger revenue	5	718,178	589,926
Cargo and mail revenue	5	19,666	15,685
Other revenue	5	21,215	15,403
Gain from sale and leaseback transaction	5	8,478	-
Total revenue and other income		767,537	621,014
Operating expenses			
Fuel		(183,518)	(130,676)
Handling, landing fees and route charges	6	(103,164)	(89,909)
Passenger service	6	(86,635)	(69,809)
Employee costs	6	(71,103)	(64,736)
Engineering and maintenance	6	(69,173)	(60,658)
Aircraft operating lease costs	6	(61,413)	(58,407)
Selling costs	6	(40,461)	(30,238)
Aircraft crew costs	6	(30,250)	(27,781)
Depreciation and amortisation	11	(27,009)	(28,679)
Property lease cost		(5,029)	(4,277)
Consultancy, legal and professional services		(4,197)	(2,688)
Insurance	6	(3,870)	(4,391)
Information technology		(3,633)	(3,283)
Taxes, other than income tax		(2,403)	(94)
Other		(12,424)	(7,504)
Total operating expenses		(704,282)	(583,130)
Operating profit		63,255	37,884
Finance income	7	7,293	7,725
Finance costs	7	(11,118)	(66,073)
Foreign exchange loss, net		(10,370)	(14,391)
Profit/(loss) before tax		49,060	(34,855)
Income tax expense	8	(9,742)	(5,010)
Profit/(loss) for the year		39,318	(39,865)
Basic and diluted earnings/(loss) per share (in USD)	19	2,313	(2,345)

On behalf of the Company's management



Peter Foster
President

30 March 2018
Almaty, Republic of Kazakhstan




Azamat Ospanov
Vice president Finance Accounts,
Chief Accountant

30 March 2018
Almaty, Republic of Kazakhstan

The notes on pages 11 to 56 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 2017 (in thousands of USD)

	Notes	2017	2016
Profit/(loss) for the year		39,318	(39,865)
Foreign currency translation loss, which will be never be reclassified to profit or loss in subsequent periods		(809)	(18)
Other comprehensive income, net of tax, to be reclassified into profit or loss in subsequent periods:			
Result from cash flow hedging instruments		1,179	3,918
Income tax related to result from cash flow hedging instruments		(236)	(784)
Realised loss on cash flow hedging instruments	24	10,292	14,388
Income tax related to realised loss on hedging instruments	24	(2,058)	(2,878)
Other comprehensive income for the year, net of income tax		8,368	14,626
Total comprehensive income/(loss) for the year		47,686	(25,239)

The notes on pages 11 to 56 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 FINANCIAL POSITION
AS AT 31 DECEMBER 2017
(in thousands of USD)

	Notes	31 December 2017	31 December 2016
ASSETS			
Non-current assets			
Property, plant and equipment	9	261,754	271,220
Intangible assets	10	2,939	3,147
Prepayments for non-current assets	14	8,086	9,114
Guarantee deposits	12	19,636	15,400
Trade and other receivables	15	3,924	6,174
		296,339	305,055
Current assets			
Inventories	13	38,613	41,288
Prepayments	14	29,390	22,575
Income tax prepaid		738	783
Trade and other receivables	15	25,517	22,051
Other taxes prepaid	16	18,086	16,306
Guarantee deposits	12	34,874	34,944
Bank deposits	17	5	99,574
Cash and bank balances	18	148,181	29,987
		295,404	267,508
Total assets		591,743	572,563
EQUITY AND LIABILITIES			
Equity			
Share capital	19	17,000	17,000
Functional currency transition reserve		(9,324)	-
Foreign currency translation reserve		-	(182,680)
Reserve on hedging instruments, net of tax		(71,465)	(105,868)
Retained earnings	24	150,552	310,625
Total equity		86,763	39,077
Non-current liabilities			
Loans	23	10,519	12,043
Finance lease liabilities	24	280,797	335,499
Deferred tax liabilities	8	11,021	6,640
Provision for aircraft maintenance	21	60,510	38,555
		362,847	392,737
Current liabilities			
Loans	23	1,630	1,631
Finance lease liabilities	24	39,926	41,251
Deferred revenue	20	48,434	38,230
Provision for aircraft maintenance	21	13,260	20,243
Trade and other payables	22	38,883	39,394
		142,133	140,749
Total liabilities		504,980	533,486
Total equity and liabilities		591,743	572,563

The notes on pages 11 to 56 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 CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2017

(in thousands of USD)

	Notes	Share capital	Functional currency transition reserve on share capital	Foreign currency translation reserve	Reserve on hedging instruments	Retained earnings	Total equity
At 1 January 2016		17,000	-	(181,459)	(121,715)	365,816	79,642
Loss for the year		-	-	-	-	(39,865)	(39,865)
Other comprehensive income							
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 other comprehensive income		-	-	(1,221)	15,847	-	14,626
Total comprehensive loss for the year		-	-	(1,221)	15,847	(39,865)	(25,239)
Transactions with owners of the Company							
Dividends declared	19	-	-	-	-	(15,326)	(15,326)
At 31 December 2016		17,000	-	(182,680)	(105,868)	310,625	39,077
Profit for the year		-	-	-	-	39,318	39,318
Other comprehensive income							
Cash flow hedging instruments, net of tax		-	-	-	943	-	943
Realised loss on cash flow hedging instruments, net of tax	24	-	-	-	8,234	-	8,234
Translation difference		-	-	(3,476)	2,667	-	(809)
Effect of change in functional currency		-	(9,324)	186,156	22,559	(199,391)	-
Total other comprehensive income		-	(9,324)	182,680	34,403	(199,391)	8,368
Total comprehensive income for the year		-	(9,324)	182,680	34,403	(160,073)	47,686
At 31 December 2017		17,000	(9,324)	-	(71,465)	150,552	86,763

The notes on pages 11 to 56 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 CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2017 (in thousands of USD)

	Notes	2017	2016
OPERATING ACTIVITIES:			
Profit/(loss) before tax		49,060	(34,855)
Adjustments for:			
Depreciation and amortisation of property, plant and equipment and intangible assets	11	27,009	28,679
Gain on disposal of property, plant and equipment		(9,074)	-
(Reversal)/accrual of impairment allowance for prepayments and trade and other receivables	14, 15	(4,804)	52,404
Write-down of obsolete and slow-moving inventories	13	13	115
Accrual for employee unused vacation		216	(359)
Accrual of provision for aircraft maintenance		19,671	17,695
Accrual of loyalty provision		3,642	241
Foreign exchange loss, net		10,370	14,391
Finance income, excluding impairment	7	(2,547)	(7,725)
Finance costs, excluding impairment	7	11,118	12,843
Operating cash flow before movements in working capital		104,673	83,429
Change in trade and other receivables		3,748	(1,582)
Change in prepaid expenses		(8,183)	(13,336)
Change in inventories		2,836	(8,536)
Change in financial assets and liabilities at fair value through profit or loss and hedge instruments		-	(375)
Change in trade and other payables and other current liabilities		(7,062)	(4,412)
Change in deferred revenue		6,646	4,381
Cash generated from operations		102,659	59,569
Income tax paid		(7,540)	(12)
Interest received		3,167	5,902
Net cash generated from operating activities		98,286	65,459
INVESTING ACTIVITIES:			
Purchase of property, plant and equipment		(27,836)	(27,284)
Proceeds from disposal of property, plant and equipment		7,050	1,164
Purchase of intangible assets		(681)	(3,117)
Bank and Guarantee deposits placed		(20,662)	(352,696)
Bank and Guarantee deposits withdrawn		113,802	345,191
Net cash from/(used in) investing activities		71,673	(36,742)

Continued on the next page

JOINT STOCK COMPANY AIR ASTANA

STATEMENT OF CASH FLOWS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2017 *(in thousands of USD)*

	Notes	2017	2016
FINANCING ACTIVITIES:			
Repayment of finance lease		(40,103)	(39,261)
Interest paid		(12,507)	(12,447)
Proceeds from borrowings		-	13,622
Repayment of borrowings		(1,589)	(378)
Dividends paid	19	-	(15,143)
Net cash used in financing activities		(54,199)	(53,607)
NET INCREASE/(DECREASE) IN CASH AND BANK BALANCES			
		115,760	(24,890)
Effect of exchange rate changes on cash and bank balances held in foreign currencies		4,634	2,042
CASH AND BANK BALANCES, at the beginning of the year	18	29,987	52,471
Foreign currency difference due to translation to presentation currency		(2,200)	364
CASH AND BANK BALANCES, at the end of the year	18	148,181	29,987

The notes on pages 11 to 56 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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (in thousands of USD)

1. NATURE OF ACTIVITIES

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

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

The Company operated its maiden flight on 15 May 2002, a Boeing-737 service from Almaty to Kazakhstan’s national capital, Astana. As at 31 December 2017 the Company operated 32 turbojet aircraft, comprising 9 short-haul and 23 long-haul aircraft, of which 10 aircraft are acquired under finance lease and 22 aircraft leased under operating lease (2016: 31 turbojet aircraft, comprising 9 short-haul and 22 long-haul aircraft, of which 11 aircraft are acquired under finance lease and 20 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

A number of new standards are effective for annual periods beginning after 1 January 2018 and earlier application is permitted; however, the Company has not early adopted the new or amended standards in preparing these financial statements.

The following standards are expected to have an impact on the Company’s financial statements in the period of initial application.

- 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*. IFRS 16 is effective for annual reporting 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.
- *Annual Improvements to IFRSs 2014-2016 Cycle – Amendments to IFRS 1 and IAS 28.*
- *IFRIC 22 Foreign Currency Transactions and Advance Consideration.*
- *IFRIC 23 Uncertainty over Income Tax Treatments.*

The Company expects that IFRS16 will have a material impact but other updates as explained above will not have a significant impact on the financial statements.

JOINT STOCK COMPANY AIR ASTANA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (in thousands of USD)

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

Estimated impact of the adoption of IFRS 9 and IFRS 15

The Company is required to adopt IFRS 9 “Financial Instruments” and IFRS 15 “Revenue from Contracts with Customers” from 1 January 2018. The Company has assessed the estimated impact that the initial application of IFRS 9 and IFRS 15 will have on its financial statements. The estimated impact of the adoption of these standards on the Company’s equity as at 1 January 2018 is based on assessments undertaken to date and is summarized below. The actual impacts of adopting the standards at 1 January 2018 may change because the new accounting policies are subject to change until the Company presents its first financial statements that include the date of initial application.

The total estimated adjustment (net of tax) to the opening balance of the Company’s equity at 1 January 2018 is approximately USD 510 thousand. The adjustment entry of the retained earning balance is due to recognition of impairment reserve in accordance with IFRS 9.

IFRS 9 Financial Instruments

IFRS 9 Financial Instruments sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 Financial Instruments: Recognition and Measurement.

i. Classification – Financial assets

IFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics. IFRS 9 contains three principal classification categories for financial assets: measured at amortized cost, FVOCI and FVTPL. The standard eliminates the existing IAS 39 categories of held to maturity, loans and receivables and available for sale.

Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never bifurcated. Instead, the hybrid financial instrument as a whole is assessed for classification.

Based on its assessment, the Company does not believe that the new classification requirements will have a material impact on its accounting for trade receivables, guarantee deposits and cash and cash equivalents.

ii. Impairment – Financial assets and contract assets

IFRS 9 replaces the ‘incurred loss’ model in IAS 39 with a forward-looking ‘expected credit loss’ (ECL) model. This will require considerable judgement about how changes in economic factors affect ECLs, which will be determined on a probability-weighted basis.

The new impairment model will apply to financial assets measured at amortized cost or FVOCI, except for investments in equity instruments, and to contract assets.

Under IFRS 9, loss allowances will be measured on either of the following bases:

- 12-month ECLs: these are ECLs that result from possible default events within the 12 months after the reporting date; and
- lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument.

JOINT STOCK COMPANY AIR ASTANA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (in thousands of USD)

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

IFRS 9 Financial Instruments (continued)

Lifetime ECL measurement applies if the credit risk of a financial asset at the reporting date has increased significantly since initial recognition and 12-month ECL measurement applies if it has not. An entity may determine that a financial asset's credit risk has not increased significantly if the asset has low credit risk at the reporting date. However, lifetime ECL measurement always applies for trade receivables and contract assets without a significant financing component.

Based on the impairment methodology described below, the Company has estimated that application of IFRS 9's impairment requirements at 1 January 2018 results in additional impairment losses as follows.

Estimated additional impairment recognized at 1 January 2018

'000 USD	
Guarantee Deposits	511
Trade and other receivables	87
Cash and cash equivalents	39
Gross additional impairment losses	637

Trade and other receivables

The estimated ECLs were calculated based on actual credit loss experience over the past two-six years, depending on the portfolio. The Company performed the calculation of ECL rates separately for corporates and individuals. Exposures within each group were segmented based on common credit risk characteristics such as industry – for corporates.

Given the short term nature of the accounts receivables, actual credit loss experience was not adjusted to reflect differences between economic conditions during the period over which the historical data was collected and current conditions and the Company's view of economic conditions over the expected lives of the trade receivables.

Guarantee deposits

The majority of the guarantee deposits are represented by long-term guarantee deposits placed with the lessors of the Company placed to secure several months of lease payments and or to cover costs of last shop visit, should the Company declare default. Even though, the Company views the default of lessors as a highly unlikely event, the bad debt reserve is still calculated on these amounts in accordance with the requirements of IFRS 9.

Many lessors are rated AA - BB, based on Standard and Poor's ratings as at 31 December 2017. The Company calculated exposure at default (EAD) based on the Standard and Poor's default matrixes using modified Vasicek model to incorporate forward looking information in the EAD and to reflect differences between economic conditions during the period over which the historical data was collected and current economic conditions.

The Company estimated that application of IFRS 9's impairment requirements at 1 January 2018 results in an increase of approximately USD 511 thousand tenge over the impairment recognised under IAS 39.

JOINT STOCK COMPANY AIR ASTANA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 *(in thousands of USD)*

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

Cash and cash equivalents

Cash and cash equivalents are held with bank and financial institution counterparties, which are rated AA to B, based on Standard and Poor's ratings as at 31 December 2017.

The estimated impairment on cash and cash equivalents was calculated based on the 12-month expected loss basis and reflects the short maturities of the exposures. The Company considers that its cash and cash equivalents have low credit risk based on the external credit ratings of the counterparties.

The Company used a similar approach for assessment of ECLs for cash and cash equivalents to those used for guarantee deposits.

The Company estimated that the application of IFRS 9's impairment requirements at 1 January 2018 results in an increase of approximately USD 39 thousand over the impairment recognized under IAS 39.

iii. Classification – Financial liabilities

IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities. However, under IAS 39 all fair value changes of liabilities designated as at FVTPL are recognised in profit or loss, whereas under IFRS 9 these fair value changes are generally presented as follows:

- the amount of change in the fair value that is attributable to changes in the credit risk of the liability is presented in OCI; and
- the remaining amount of change in the fair value is presented in profit or loss.

The Company has not designated any financial liabilities at FVTPL and it has no current intention to do so. The Company's assessment did not indicate any material impact regarding the classification of financial liabilities at 1 January 2018.

iv. Disclosures

IFRS 9 will require extensive new disclosures, in particular about hedge accounting, credit risk and ECLs. The Company's assessment included an analysis to identify data gaps against current processes and the Company is in the process of implementing the system and controls changes that it believes will be necessary to capture the required data.

v. Transition

Changes in accounting policies resulting from the adoption of IFRS 9 will generally be applied retrospectively, except as described below.

- The Company will take advantage of the exemption allowing it not to restate comparative information for prior periods with respect to classification and measurement (including impairment) changes. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 will generally be recognized in retained earnings and reserves as at 1 January 2018.
- The Company has to make the assessments on the basis of the facts and circumstances that exist at the date of initial application to determine the business model within which a financial asset is held.

JOINT STOCK COMPANY AIR ASTANA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (in thousands of USD)

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

IFRS 15 Revenue from Contracts with Customers

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

Effect

Based on the preliminary analysis of all IFRS 15 “Revenue from Contracts with Customers” revenue measurement and recognition requirements the Company has determined that policies for revenue accounting do not differ significantly from those introduced by IFRS 15. As a result, the estimated opening balance adjustment of the retained earnings balance as at 1 January 2018 is immaterial.

Transition

The Company plans to adopt IFRS 15 using the cumulative effect method, with the effect of initially applying this standard recognized at the date of initial application (i.e. 1 January 2018). As a result, the Company will not apply the requirements of IFRS 15 to the comparative period presented.

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 policies

The Company has adopted the following amendments to standards with a date of initial application of 1 January 2017:

- Disclosure Initiative (Amendments to IAS 7). IAS 7 Statement of Cash Flows has been amended as part of the IASB’s broader disclosure initiative to improve presentation and disclosure in financial statements. The amendment requires disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes. One way to meet this new disclosure requirement is to provide a reconciliation between the opening and closing balances for liabilities arising from financing activities (Note 24).

Functional and presentation currency

The national currency of Kazakhstan is the Kazakhstani tenge (“tenge”), which until 31 December 2017 was the Company’s functional currency, because it reflected the economic substance of the underlying events and circumstances of the Company, and was the functional currency of the primary environment economic environment in which the Company operated.

JOINT STOCK COMPANY AIR ASTANA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (in thousands of USD)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Functional and presentation currency (continued)

During 2017, management reassessed the indicators of the Company's functional currency, with particular focus on the Company's increasing international flight operations, and noted that an increasing part of the Company's operations are influenced by currencies other than tenge; predominantly the US Dollar. As a result, management concluded that with effect from 31 December 2017 (the transition date, for the purpose of the financial reporting under International Financial Reporting Standards), that the Company's functional currency is the US Dollar.

The US Dollar is used to a significant extent in, or has a significant impact on, the operations of the Company, its revenues and operating expenditures including aircraft leasing. Also there is recognition in the balance sheet of the purchase of aircraft in US Dollars with the related US Dollar funding liabilities. The above reflect the economic substance of the underlying events and circumstances relevant to the Company. Therefore, the Company starts, from the transition date, using the US Dollar prospectively, as its functional currency, under which all currencies other than the functional currency will be treated as foreign currencies.

Since before 31 December 2017 the Company's functional currency was tenge, the financial results and financial position of the Company were translated to the new functional currency using the following procedures:

- a) assets and liabilities were translated at the closing rate as at 31 December 2017;
- b) income and expenses for the reporting period were translated at average exchange rate during the year ended 31 December 2017;
- c) movements in the reserve on hedging instruments were translated at average exchange rate during the year ended 31 December 2017;
- d) all resulting exchange differences were recognized as foreign currency translation reserve within other comprehensive income up to 31 December 2017,
- e) on transition to the US Dollar functional currency on 31 December 2017, the outstanding balance of the foreign currency translation reserve of USD 185,156 thousand was then fully transferred to retained earnings on 31 December 2017;
- f) share capital continued to be translated at the historical rate as at the date of issuance of shares, the difference between the historical rate and the closing rate as at 31 December 2017 was recognized as functional currency transition reserve on share capital within equity;
- g) other equity items were translated at the closing rate as at 31 December 2017, all resulting exchange differences were transferred to retained earnings on 31 December 2017;
- h) comparative information remained the same as reported in the issued financial statements for the year ended 31 December 2016 with US Dollar presentation currency.

As requested by shareholders, the Company prepares 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 the Company's financial statements. These financial statements have been presented in USD for the year ended 31 December 2017, and also reflect changes to a USD functional currency, which took place on 31 December 2017. All financial information presented in USD has been rounded to the nearest thousand.

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. 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.

JOINT STOCK COMPANY AIR ASTANA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (in thousands of USD)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue (continued)

Passenger 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.

Revenue related to airport charges, such as fees and taxes, are presented gross of the related costs. This is due to the fact that the Company is exposed to changes in the actual costs, and these costs are assessed by Company based on the volume of its operations, such that the Company acts as a principal in the transactions, not as an agent.

Cargo revenue

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

Customer loyalty program

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

Travel agents' commissions

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

Segment reporting

Air Astana is managed as one operating segment, being its route network, based on how financial information is produced internally for the purposes of making operating decisions. The operating segment is reported in a manner consistent with the internal reporting provided to the chief operating decision maker, being the executive management board. Resource allocation decisions across the network as a whole are made to optimize the Company's financial results.

Revenue is allocated to geographic segments based on flight destination.

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.

JOINT STOCK COMPANY AIR ASTANA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (in thousands of USD)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leasing (continued)

The Company as lessee (continued)

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

Guarantee deposits

Guarantee deposits represent amounts paid to the lessors of aircraft, which are held as security deposits by the lessors in accordance with the provisions of operating lease agreements. These deposits are returned to the Company at the end of the lease period. Lease deposits relating to the operating lease agreements are presented as assets in the statement of financial position. These deposits are interest-free and are recorded at amortised cost using an average market yield of 2.25% per annum (2016: 2.25%). 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.

The following table summarises tenge exchange rates at 31 December 2017 and 31 December 2016 and for the years then ended:

	Average rate		Reporting date spot-rate	
	2017	2016	31 December 2017	31 December 2016
US Dollar (USD)	326.00	342.16	332.33	333.29
Euro (EUR)	368.52	378.63	398.23	352.42
British Pound (GBP)	420.12	464.39	448.61	409.78

The following table summarises US Dollar exchange rates at 31 December 2017:

	Reporting date spot-rate 31 December 2017
Tenge (KZT)	0.003
Euro (EUR)	1.198
British Pound (GBP)	1.350

JOINT STOCK COMPANY AIR ASTANA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (in thousands of USD)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

JOINT STOCK COMPANY AIR ASTANA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (in thousands of USD)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Taxation (continued)

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

Property, plant and equipment

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

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

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

Aircraft

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

Aircraft are depreciated using a straight-line method over their average estimated useful life of 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.

JOINT STOCK COMPANY AIR ASTANA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (in thousands of USD)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property, plant and equipment (continued)

Depreciation

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

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

• Buildings and premises	14-50 years
• Aircraft (excluding separate asset components)	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.

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.

JOINT STOCK COMPANY AIR ASTANA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 *(in thousands of USD)*

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of tangible and intangible assets (continued)

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.

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.

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 are 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.

JOINT STOCK COMPANY AIR ASTANA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (in thousands of USD)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Provisions (continued)

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 is heavy maintenance with approved performance interval. Takes place the earliest to every 6,000 - 7,500 flight hours, 3,000 - 5,000 flight cycles and 18-24 months according to aircraft type.

The D-check (4C, 6YR, 12YR) is heavy maintenance connected with deep aircraft disassembly, structure inspection and anticorrosion prevention program. It takes place with interval not more than 72 months. 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 were provided in maintenance expense accruals which are used to create these provisions.

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.

Offsetting of financial instruments

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

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

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

JOINT STOCK COMPANY AIR ASTANA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (in thousands of USD)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial assets

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

Effective interest method

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

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

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

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.

JOINT STOCK COMPANY AIR ASTANA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (in thousands of USD)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial assets (continued)

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

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

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

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

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

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

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

Derecognition of financial assets

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

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

JOINT STOCK COMPANY AIR ASTANA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (in thousands of USD)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial assets (continued)

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

Financial liabilities and equity instruments issued by the Company

Classification as debt or equity

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

Financial liabilities

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

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

A financial liability is classified as held for trading if:

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

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

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

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.

JOINT STOCK COMPANY AIR ASTANA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (in thousands of USD)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

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

Cash flow hedge

The effective portion of foreign currency exchange differences arising from translation of finance lease liabilities which are designated and 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.

JOINT STOCK COMPANY AIR ASTANA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 *(in thousands of USD)*

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

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

Provisions

Provisions 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 applied to the cost of maintenance services and 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 unapplied 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 2017 contributions of variable lease payments of USD 87,421 thousand (2016: USD 79,099 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.

JOINT STOCK COMPANY AIR ASTANA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (in thousands of USD)

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

Determination of the functional currency

As disclosed in Note 3, the functional currency of the Company is USD 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 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.

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.

Allowances

The Company accrues allowances for impairment of 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 2017 and 2016, allowances for doubtful accounts were equal to USD 1,504 thousand and USD 1,555 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 2017 impairment allowances were equal to USD 49,036 thousand as disclosed in Note 15 (31 December 2016: USD 53,680 thousand).

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 2017, the Company recognised a write-down for obsolete and slow-moving inventories in the amount of USD 554 thousand (2016: USD 540 thousand) (Note 13).

Customer loyalty program

While calculating customer loyalty program provision the Company uses critical judgements and estimates in regard to cost of value per point by Nomad club members. The Company's Nomad Club Loyalty program is an incentive program under which passengers are granted points for each flight. Once a passenger accumulates a certain number of points he or she can convert the points into a ticket. The Company uses estimated ticket values to calculate the program's point value. Outstanding unutilized points as of each reporting dates are treated as deferred revenue. Points value considered as fair value of standalone selling price based on weighted average of redeemed air travels by route and class. Based on the historical statistics the Company determines the amount of breakage with regards to those points whose usage is not probable.

JOINT STOCK COMPANY AIR ASTANA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (in thousands of USD)

5. REVENUE AND OTHER INCOME

	2017	2016
Passenger revenue		
Passenger transport	598,265	488,443
Fuel surcharge	74,942	63,788
Airport services	40,315	34,079
Excess baggage	4,656	3,616
	<u>718,178</u>	<u>589,926</u>
Cargo and mail revenue		
Cargo	17,964	14,479
Mail	1,702	1,206
	<u>19,666</u>	<u>15,685</u>
Other revenue		
Penalties on agency contracts	8,492	7,526
Aviation fuel sale	4,545	1,224
Advertising revenue	2,012	860
Warranty returns	1,164	1,634
Income from ground services	1,120	1,088
Gain on disposal of spare parts and other assets	789	622
Spare parts received from sponsors	55	
Other	3,038	2,449
	<u>21,215</u>	<u>15,403</u>

The Company conducted a sale and leaseback transaction in December 2017 by selling one Embraer E190 (which was on finance lease at the date of the transaction) and leasing it back under an operating lease. The Company recorded a net gain of USD 8,478 thousand from this transaction, which represents the excess of fair value of the aircraft over the carrying amount of the aircraft at date of sale.

The following table presents the Company's revenue by geographical location for the years ended 31 December 2017 and 2016, respectively:

	2017	2016
Asia	212,708	173,208
Europe	161,386	136,925
CIS	363,750	295,478
Total revenue from passenger and cargo	<u>737,844</u>	<u>605,611</u>

There was no revenue from transactions with a single customer amounting to 10% or more of the total revenue during the year ended 31 December 2017 (2016: nil).

JOINT STOCK COMPANY AIR ASTANA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (in thousands of USD)

6. OPERATING EXPENSES

	2017	2016
Handling, landing fees and route charges		
Aero navigation	43,550	37,645
Handling charge	34,030	29,340
Landing fees	23,914	21,508
Meteorological services	162	129
Other	1,508	1,287
	103,164	89,909
Passenger service	2017	2016
Airport charges	41,676	32,839
Catering	27,709	22,912
In-flight entertainment	5,127	3,976
Security	3,950	3,177
Other	8,173	6,905
	86,635	69,809
Employee costs	2017	2016
Wages and salaries of operational personnel	45,038	41,409
Wages and salaries of administrative personnel	10,956	9,585
Social tax	7,268	6,564
Wages and salaries of sales personnel	3,849	3,782
Other	3,992	3,396
	71,103	64,736
The average number of employees during 2017 was 4,934 (2016: 4,721).		
Engineering and maintenance	2017	2016
Maintenance – variable lease payments	30,952	26,359
Maintenance – provisions (Note 21)	19,671	17,695
Spare parts	11,011	7,207
Maintenance – components	5,489	7,389
Technical inspection	2,050	2,008
	69,173	60,658
Aircraft operating lease costs	2017	2016
Fixed lease charges of aircraft and engine	59,862	57,182
Ad-hoc lease of engines and rotatable spare parts	1,205	1,056
Operating lease return costs	346	169
	61,413	58,407
Selling costs	2017	2016
Reservation costs	19,965	15,971
Commissions	10,917	7,888
Advertising	8,617	5,456
Interline commissions	520	481
Other	442	442
	40,461	30,238

JOINT STOCK COMPANY AIR ASTANA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (in thousands of USD)

6. OPERATING EXPENSES (CONTINUED)

Aircraft crew costs	2017	2016
Accommodation and allowances	14,419	14,031
Contract crew	9,530	7,674
Training	6,301	6,076
	30,250	27,781

Insurance	2017	2016
Hull insurance	1,514	2,049
Legal liability insurance	1,373	1,436
Medical insurance	699	627
Other	284	279
	3,870	4,391

7. FINANCE INCOME AND COSTS

Finance income	2017	2016
Reversal of impairment allowance on financial assets	4,746	-
Interest income on bank deposits	1,587	7,169
Unwinding of discount on Ab-initio pilot trainees receivables	144	177
Net unrealised gain on financial assets and liabilities at fair value through profit or loss	71	87
Income from revaluation of fair value of guarantee deposits	-	-
Other	745	292
	7,293	7,725

Finance costs	2017	2016
Interest expense on finance lease	11,118	12,321
Impairment allowance on financial assets	-	52,288
Net realised loss on financial assets and liabilities at fair value through profit or loss	-	375
Interest expense from revaluation of fair value of guarantee deposits	-	147
Other	-	942
	11,118	66,073

8. INCOME TAX EXPENSE

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

	2017	2016
Income tax	7,589	-
Deferred income tax expense	2,153	5,010
	9,742	5,010

JOINT STOCK COMPANY AIR ASTANA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (in thousands of USD)

8. INCOME TAX EXPENSE (CONTINUED)

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 2017 and 2016 is presented in the table below.

	2017	2016
Deferred tax assets		
Provision for aircraft maintenance	14,754	11,760
Trade and other payables	2,520	1,680
Carried forward corporate income tax losses	1,058	6,671
Total	<u>18,332</u>	<u>20,111</u>
Deferred tax liabilities		
Difference in depreciable value of property, plant and equipment	(29,213)	(26,679)
Intangible assets	(127)	(58)
Prepaid expenses	(13)	(14)
Total	<u>(29,353)</u>	<u>(26,751)</u>
Net deferred tax liabilities	<u>(11,021)</u>	<u>(6,640)</u>

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 9 years.

Movements in deferred income tax assets and liabilities presented above were recorded in profit or loss accounts, except for USD 2,294 thousand related to carried forward corporate income tax losses, which were recognized in equity.

The income tax rate in the Republic of Kazakhstan, where the Company is located, in 2017 and 2016 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% (2016: 20%) to the actual income tax expense recorded in the Company's statement of profit or loss and other comprehensive income:

	2017	2016
Profit/(loss) before tax	<u>49,062</u>	<u>(34,855)</u>
Income (tax benefit)/tax at statutory rate	<u>9,812</u>	<u>(6,971)</u>
Tax effect of non-taxable income	(949)	-
Tax effect of non-deductible expenses	<u>879</u>	<u>11,981</u>
Income tax expense	<u>9,742</u>	<u>5,010</u>

JOINT STOCK COMPANY AIR ASTANA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

(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 2016	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)
Foreign currency translation difference	821	107	59	43	5,409	437	6,876
Transfers	9,918	635	58	145	2,151	(12,907)	-
At 31 December 2016	42,303	5,679	3,241	2,424	296,915	17,656	368,218
Additions	11,117	951	302	1,364	12,429	4,189	30,352
Disposals	(3,804)	(286)	(117)	(247)	(21,041)	(1,213)	(26,708)
Transfers to inventory	(1,041)	-	-	-	-	-	(1,041)
Foreign currency translation difference	4	4	6	(14)	1,021	(7)	1,014
At 31 December 2017	48,579	6,348	3,432	3,527	289,324	20,625	371,835
Accumulated depreciation							
At 1 January 2016	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
Charge for the year (Note 11)	6,113	600	375	331	18,686	-	26,105
Disposals	(3,272)	(272)	(112)	(230)	(9,168)	-	(13,054)
Foreign currency translation difference	(4)	5	-	1	30	-	32
At 31 December 2017	20,183	4,425	1,462	1,323	82,688	-	110,081
Net book value							
At 31 December 2016	24,957	1,587	2,042	1,203	223,775	17,656	271,220
At 31 December 2017	28,396	1,923	1,970	2,204	206,636	20,625	261,754

JOINT STOCK COMPANY AIR ASTANA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (in thousands of USD)

9. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Geographical information

In determining the Entity's geographical information, assets, which consist principally of aircraft (including 20 held under operating leases) and ground equipment are mainly registered/ located in the Republic of Kazakhstan. Accordingly, there is no reasonable basis for allocating the assets to geographical segments.

The Company's obligations under finance leases are secured by the lessors' title to the leased assets, which have a carrying amount of USD 206,636 thousand (2016: USD 223,088 thousand) (Note 24).

Rotable spare parts include aircraft modification costs.

For the year ended 31 December 2017 USD 2,525 of interest relating to the EBRD loan was capitalised into property, plant and equipment (2016: USD 1,082) (Note 23).

Having reviewed its operational plans and taken into account airline industry practice with respect to aircraft service lives, the Company decided to revise its estimate of the useful economic life of aircraft from 20 to 25 years, with effect from 1 October 2016. This change leads to decrease in annual depreciation of USD 2,809 in 2017.

10. INTANGIBLE ASSETS

	Software
<i>Cost</i>	
At 1 January 2016	3,492
Additions	3,117
Disposals	(106)
Foreign currency translation difference	145
	<hr/>
At 31 December 2016	6,648
	<hr/>
Additions	681
Foreign currency translation difference	7
	<hr/>
At 31 December 2017	7,336
	<hr/>
<i>Accumulated amortisation</i>	
At 1 January 2016	2,799
Charge for the year (Note 11)	739
Disposals	(106)
Foreign currency translation difference	69
	<hr/>
At 31 December 2016	3,501
	<hr/>
Charge for the year (Note 11)	904
Foreign currency translation difference	(8)
	<hr/>
At 31 December 2017	4,397
	<hr/>
<i>Net book value</i>	
At 31 December 2016	3,147
	<hr/>
At 31 December 2017	2,939
	<hr/>

JOINT STOCK COMPANY AIR ASTANA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (in thousands of USD)

11. DEPRECIATION AND AMORTISATION

	2017	2016
Depreciation of property, plant and equipment (Note 9)	26,105	27,940
Amortisation of intangible assets (Note 10)	904	739
	<u>27,009</u>	<u>28,679</u>
Total	<u>27,009</u>	<u>28,679</u>

12. GUARANTEE DEPOSITS

	31 December 2017	31 December 2016
<i>Non-current</i>		
Guarantee deposits for leased aircraft	17,922	14,251
Other guarantee deposits	1,714	1,149
	<u>19,636</u>	<u>15,400</u>
<i>Current</i>		
Guarantee deposits to secure Letters of Credit for maintenance liabilities (Note 26)	32,871	33,469
Guarantee deposits for leased aircraft	757	862
Other guarantee deposits	1,246	613
	<u>34,874</u>	<u>34,944</u>
	<u>54,510</u>	<u>50,344</u>

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.

The Company assesses credit risk for such deposits as low mainly because almost all lessors are rated from AA to B in accordance with Standard and Poor's credit quality grades.

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

	31 December 2017	31 December 2016
Within one year	33,629	34,331
After one year but not more than five years	7,275	7,141
More than five years	10,703	7,307
	<u>51,607</u>	<u>48,779</u>
Fair value adjustment	(57)	(197)
	<u>51,550</u>	<u>48,582</u>

JOINT STOCK COMPANY AIR ASTANA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (in thousands of USD)

13. INVENTORIES

	31 December 2017	31 December 2016
Spare parts	23,547	21,489
Fuel	5,499	9,492
Goods in transit	3,007	3,923
Crockery	2,414	2,427
Promotional materials	1,544	1,379
Uniforms	1,151	1,335
De-icing liquid	494	268
Blank forms	229	300
Other	1,283	1,215
	39,168	41,828
Less: cumulative write-down for obsolete and slow-moving inventories	(555)	(540)
	38,613	41,288

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

	2017	2016
Cumulative write-down for obsolete and slow-moving inventories at the beginning of the year	(540)	(414)
Write-down for the year	(54)	(209)
Reversal of previous write-down for the year	41	94
Foreign currency translation difference	(2)	(11)
Cumulative write-down for obsolete and slow-moving inventories at the end of the year	(555)	(540)

14. PREPAYMENTS

	31 December 2017	31 December 2016
<i>Non-current</i>		
Advances paid for services	6,514	7,181
Prepayments for non-current assets	1,572	1,933
	8,086	9,114
<i>Current</i>		
Advances paid for services	14,591	8,254
Prepayments for finance lease	5,483	5,993
Advances paid for goods	6,871	5,977
Prepayments for operating leases	2,856	2,768
	29,801	22,992
Less: impairment allowance for prepayments	(411)	(417)
	29,390	22,575

As at 31 December 2017 prepayments for non-current assets include prepayments to Boeing as pre-delivery payment for three aircraft (Note 25).

JOINT STOCK COMPANY AIR ASTANA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (in thousands of USD)

14. PREPAYMENTS (CONTINUED)

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

	2017	2016
At the beginning of the year	(417)	(396)
Accrued during the year	-	(14)
Reversed during the year	8	-
Foreign currency translation difference	(2)	(7)
	<u>(411)</u>	<u>(417)</u>

The impairment allowance 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 2017	31 December 2016
<i>Non-current</i>		
Due from employees and Ab-initio pilot trainees	2,040	835
Other financial assets	50,920	59,019
	<u>52,960</u>	<u>59,854</u>
Less: impairment allowance	<u>(49,036)</u>	<u>(53,680)</u>
	<u>3,924</u>	<u>6,174</u>
<i>Current</i>		
Trade receivables	17,571	21,803
Receivable from lessors – variable lease reimbursement	8,116	431
Due from employees and Ab-initio pilot trainees	923	955
	<u>26,610</u>	<u>23,189</u>
Less: impairment allowance	<u>(1,093)</u>	<u>(1,138)</u>
	<u>25,517</u>	<u>22,051</u>

In 2016, due to the significant credit quality deterioration of KazInvestBank JSC followed by the recall of the banking license, and Delta Bank JSC followed on 22 May 2017 by the temporary suspension of the license for accepting new deposits and opening new accounts, management reclassified the deposits held with these banks in the amount USD 14,234 thousand and USD 44,785 thousand, accordingly, from the bank deposit line item to non-current trade and other receivables and assessed them for impairment. Based on the assessment, management recognised an impairment allowance of approximately 90% for KazInvestBank JSC and Delta Bank JSC as at 31 December 2016.

At the end of June 2017 the temporary administration of KazInvestBank JSC transferred a portion of its 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 company has agreed to transfer part of its deposit claims to KazInvestBank JSC into Alfa-Bank JSC.

JOINT STOCK COMPANY AIR ASTANA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (in thousands of USD)

15. TRADE AND OTHER RECEIVABLES (CONTINUED)

On 24 January 2018 the court's decision on the forced liquidation of KazInvestBank JSC came into effect. The compensation of the remaining claims of KazInvestBank JSC will depend on the actions of the liquidation commission.

In July-November 2017, the Company collected USD 4,376 thousand in cash through enforcement proceedings against Delta Bank JSC. On 2 November 2017, the National Bank decided to revoke the license of Delta Bank JSC. On 13 February 2018 the court decided on the forced liquidation of Delta Bank JSC.

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.

In general, 50% of the cost of training new pilots related to the Ab-initio pilot are borne by the pilot trainees but are funded by the Company through the provision of interest free loans to participants of the program. 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 the Company has a right to oblige these expenses to become payable by the pilot trainees should such pilot trainee terminate his/her employment.

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 amortisation term.

At 31 December 2017, eight debtors including IATA Bank Settlement Plans (BSPs) as collecting agencies from the worldwide travel agencies comprised 45% of the Company's trade and other receivables (at 31 December 2016: eight debtors comprised 26%).

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

	31 December 2017	31 December 2016
US Dollar	8,391	7,051
Tenge	12,754	13,157
Euro	2,444	2,765
Russian Rouble	1,209	1,065
Other	4,643	4,187
	<u>29,441</u>	<u>28,225</u>

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

	2017	2016
At the beginning of the year	(54,818)	(1,037)
Accrued during the year	(405)	(52,607)
Reversed during the year	4,785	217
Unwinding of discount	416	-
Written-off against previously created allowance	-	22
Foreign currency translation differences	(107)	(1,413)
	<u>(50,129)</u>	<u>(54,818)</u>

JOINT STOCK COMPANY AIR ASTANA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (in thousands of USD)

16. OTHER TAXES PREPAID

	31 December 2017	31 December 2016
Value added tax recoverable	17,411	11,338
Prepayment for income tax for non-residents	-	4,084
Prepayment for environment tax	1	
Other taxes prepaid	674	884
	<u>18,086</u>	<u>16,306</u>

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

17. BANK DEPOSITS

	31 December 2017	31 December 2016
<i>Current</i>		
Term deposits with local banks (Note 25)	-	97,217
Guarantee deposits	5	9
Interest receivable	-	2,348
	<u>5</u>	<u>99,574</u>

In 2016 short-term deposits with foreign banks (with an original maturity of more than three months and less than one year) earned interest in the range from 0% to 13%. Bank deposits had no restrictions on early withdrawal.

As a result of increased credit risk on some of the banks, management is considering its cash management policy and, as temporary measures, the Company has reviewed the credit rating of the main banks in Kazakhstan and placed its main current accounts and deposits with a maximum 3 months tenor to banks with ratings of "BB".

Guarantee deposits made to meet the requirements of Kazakhstan legislation relating to foreign employees are denominated in tenge and earn interest 0% per annum (2016: 0% to 4.5%).

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

	2017	2016
US Dollar	5	89,637
Tenge	-	9,937
Euro	-	-
	<u>5</u>	<u>99,574</u>

JOINT STOCK COMPANY AIR ASTANA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (in thousands of USD)

18. CASH AND BANK BALANCES

	31 December 2017	31 December 2016
Current accounts with local banks (Note 25)	42,204	20,139
Current accounts with foreign banks	85,806	9,750
Term deposits with local banks with original maturity less than 3 months	103	98
Cash on hand	20,068	-
	<u>148,181</u>	<u>29,987</u>

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

	2017	2016
US Dollar	141,649	19,027
Indian Rupee	3,208	606
Tenge	1,438	5,454
Euro	571	1,141
Russian Rouble	283	965
Uzbek Soms	125	311
GBP	122	614
Chinese Yuan	69	1,472
Other	716	397
	<u>148,181</u>	<u>29,987</u>

19. EQUITY

As at 31 December 2017 and 2016, share capital was comprised of 17,000 authorised, issued and fully paid ordinary shares with a par value of 147,150 tenge per share (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 2017 the Company had retained earnings, including the profit for the current year, of USD 349,943 thousand (2016: USD 310,625 thousand).

Dividends per share as at 31 December 2017 were USD nil (2016: USD 0.5 thousand).

The calculation of basic earnings per share is based on profit for the year and the weighted average number of ordinary shares outstanding during the year of 17,000 shares (2016: 17,000 shares). The Company has no instruments with potential dilutive effect.

	2017	2016
Profit:		
Profit/(loss) for the year	39,318	(39,865)
Number of ordinary shares	<u>17,000</u>	<u>17,000</u>
Earnings/(loss)/ per share – basic and diluted (US)	<u>2,313</u>	<u>(2,345)</u>

JOINT STOCK COMPANY AIR ASTANA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (in thousands of USD)

20. DEFERRED REVENUE

	31 December 2017	31 December 2016
Unearned transportation revenue	43,190	36,565
Customer loyalty program provision	5,244	1,665
	<u>48,434</u>	<u>38,230</u>

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 2017	31 December 2016
Engines	59,113	44,904
D-Check	6,298	4,627
C-Check	2,766	4,603
Provision for redelivery of aircraft	2,152	1,846
Auxiliary Power unit	1,739	1,499
Landing gear	1,702	1,319
	<u>73,770</u>	<u>58,798</u>

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

	2017	2016
At 1 January	58,798	47,875
Accrued during the year (Note 6)	21,743	18,939
Reversed during the year (Note 6)	(2,072)	(1,244)
Used during the year	(4,582)	(7,920)
Foreign currency translation difference	(117)	1,148
	<u>73,770</u>	<u>58,798</u>
At 31 December	73,770	58,798

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.

JOINT STOCK COMPANY AIR ASTANA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (in thousands of USD)

21. PROVISION FOR AIRCRAFT MAINTENANCE (CONTINUED)

The planned utilisation of these provisions is as follows:

	31 December 2017	31 December 2016
Within one year	13,260	20,243
During the second year	45,645	12,719
During the third year	8,539	14,006
After the third year	6,326	11,830
Total provision for aircraft maintenance	73,770	58,798
Less: current portion	(13,260)	(20,243)
Non-current portion	60,510	38,555

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 2017	31 December 2016
Trade payables	29,450	29,889
Wages and salaries payable to employees	2,340	2,304
Deposits received	2,210	1,124
Operating lease payables	1,510	1,548
Employee unused vacation	1,505	1,290
Other taxes payable	618	2,721
Pension contribution	513	-
Advances received	674	435
Other	63	83
	38,883	39,394

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

	31 December 2017	31 December 2016
US Dollar	16,738	16,107
Tenge	10,735	13,986
Euro	5,660	5,223
Russian roubles	988	730
GBP	711	655
Other	4,051	2,693
	38,883	39,394

JOINT STOCK COMPANY AIR ASTANA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (in thousands of USD)

23. LOANS

	31 December 2017	31 December 2016
<i>Non-current</i>		
Bank loan	<u>10,519</u>	<u>12,043</u>
	<u>10,519</u>	<u>12,043</u>
<i>Current</i>		
Current portion of bank loan	1,558	1,554
Interest payable	<u>72</u>	<u>77</u>
	<u>1,630</u>	<u>1,631</u>

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 variable 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. 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 as at 31 December 2017.

24. FINANCE LEASE LIABILITIES

For the years from 2012 to 2014 the Company acquired eleven aircraft under fixed interest finance lease agreements. 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. Loans provided by financial institutions to the lessors in respect of six new Airbus aircraft 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 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 206,636 thousand (2016: USD 223,088 thousand) (Note 9).

JOINT STOCK COMPANY AIR ASTANA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (in thousands of USD)

24. FINANCE LEASE LIABILITIES (CONTINUED)

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 2017 and 2016.

	Minimum lease payments		Present value of minimum lease payments	
	31 December 2017	31 December 2016	31 December 2017	31 December 2016
Not later than one year	49,162	52,514	39,926	41,251
Later than one year and not later than five years	188,187	201,050	163,213	168,770
Later than five years	123,178	177,297	117,584	166,729
	360,527	430,861	320,723	376,750
Less: future finance charges	(39,804)	(54,111)	-	-
Present value of minimum lease payments	320,723	376,750	320,723	376,750
Included in the financial statements as:				
- current portion of finance lease obligations			39,926	41,251
- non-current portion of finance lease obligations			280,797	335,499
			320,723	376,750

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 applied the cash flow hedge accounting model to this hedging transaction, in accordance with IAS 39.

In connection with the transition of the functional currency to US Dollar, this hedge ceased to be economically effective from 31 December 2017. At 31 December 2017, a foreign currency loss of USD 89,331 thousand (2016: USD 132,335 thousand), before deferred income tax of USD 17,866 thousand (2016: USD 26,467 thousand) on the finance lease liabilities, representing an effective portion of the hedge, is deferred in the hedging reserve in equity. As a result of the change, the hedge relationship will be discontinued so that starting from 1 January 2018, no further foreign currency translation gains or losses will be transferred from profit or loss to the hedge reserve, and the hedge reserve recognized in equity as at 31 December 2017 shall remain in equity until the forecasted revenue cash flows are received.

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 10,292 thousand (before deferred income tax of USD 2,058 thousand) (2016: USD 14,388 thousand, before deferred income tax of USD 2,878 thousand).

The Company conducted a sale and leaseback transaction in December 2017 by selling one Embraer E190 which had been originally acquired under a finance lease to a third party. The amount of USD 15,829 thousand, which had been outstanding under the original finance lease, was transferred by the third party purchaser directly to the finance lessor.

JOINT STOCK COMPANY AIR ASTANA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (in thousands of USD)

24. FINANCE LEASE LIABILITIES (CONTINUED)

Reconciliation of movements of loans and finance lease liabilities to cash flows arising from financing activities

	Loans (Note 23)	Finance lease liabilities	Total
Balance at 1 January 2017	13,674	376,750	390,424
Changes from financing cash flows			
Repayment of borrowings	(1,589)	-	(1,589)
Payment of finance lease liabilities	-	(40,103)	(40,103)
Interest paid	(1,446)	(11,061)	(12,507)
Total changes from financing cash flows	(3,035)	(51,164)	(54,199)
The effect of changes in foreign exchange rates	70	(152)	(82)
Other changes			
Capitalised borrowing costs	1,440	-	1,440
Interest expense on finance lease	-	11,118	11,118
Settlement of finance lease liabilities by a third party in relation to sale of aircraft	-	(15,829)	(15,829)
Total other changes	1,440	(4,711)	(3,271)
Balance at 31 December 2017	12,149	320,723	332,802

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 2016.

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

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

JOINT STOCK COMPANY AIR ASTANA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 *(in thousands of USD)*

26. FINANCIAL INSTRUMENTS (CONTINUED)

Credit risk (continued)

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 2017 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 placed its main amounts due from banks in banks with ratings of "BB" or higher, except for KazInvestBank and Delta Bank, which are disclosed in Note 15.

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 the interest rate on the EBRD loan in 2017 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 US Dollar. The currencies giving rise to this risk are primarily tenge and Euro. For amounts of assets and liabilities denominated in foreign currency refer to Notes 15, 17, 18, 22 and 23.

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 US Dollar against tenge and Euro.

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

JOINT STOCK COMPANY AIR ASTANA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (in thousands of USD)

25. FINANCIAL INSTRUMENTS (CONTINUED)

	Notes	31 December 2017			31 December 2016		
		US Dollar	Tenge	Euro	US Dollar	Tenge	Euro
Assets							
Guarantee deposits	12	53,905	40	138	49,770	41	199
Trade and other receivables	15	8,391	12,754	2,444	7,051	13,157	2,772
Bank deposits	17	5	-	-	89,637	9,937	-
Cash and bank balances	18	141,649	1,438	571	19,027	5,454	1,141
Other taxes prepaid	16	-	18,086	-	-	16,306	-
Income tax prepaid		-	738	-	-	783	-
Total		203,950	33,056	3,153	165,485	45,678	4,112
Liabilities							
Finance lease liabilities	24	320,723	-	-	376,750	-	-
Trade and other payables	22	16,738	10,735	5,660	16,107	13,986	5,223
Loans	23	-	12,149	-	-	13,674	-
Total		337,461	22,884	5,660	392,857	27,660	5,223
Net position		(133,511)	10,172	(2,507)	(227,372)	18,018	(1,111)

In 2017 the following table details the Company's sensitivity of weakening and strengthening of US Dollar against tenge by 13% and Euro by 5%.

In 2016 the following table details the Company's sensitivity of weakening and strengthening of tenge (which was the Company's functional currency before 31 December 2017) against US Dollar by 13% and Euro by 15%. 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, loans and finance lease liabilities.

A negative number below indicates a decrease in Profit or Loss and positive number would be an opposite impact on the Profit or Loss.

	Weakening of US Dollar		Strengthening of US Dollar	
	Tenge 13%	Euro 5%	Tenge (13%)	Euro (5%)
2017				
Profit/(loss)	1,058	(100)	(1,058)	100
	Weakening of tenge		Strengthening of tenge	
	US Dollar 13%	Euro 15%	US Dollar (13%)	Euro 15%
2016				
Profit/(loss)	13	(133)	(13)	133
Equity	(23,634)	-	23,634	-

JOINT STOCK COMPANY AIR ASTANA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (in thousands of USD)

25. FINANCIAL INSTRUMENTS (CONTINUED)

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 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.

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
2017					
Financial liabilities					
Non interest bearing					
Trade and other payables	36,038	666	-	-	36,704
Variable rate					
Loans (tenge denominated)	714	2,077	9,505	4,975	17,272
Fixed rate					
Finance lease liabilities	12,120	37,042	188,187	123,178	360,527
2016					
Financial liabilities					
Non interest bearing					
Trade and other payables	37,097	572	-	-	37,669
Variable 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

JOINT STOCK COMPANY AIR ASTANA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (in thousands of USD)

25. FINANCIAL INSTRUMENTS (CONTINUED)

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

	Weighted average effective interest rate %	Up to 3 months	3 months to 1 year	1-5 years	Over 5 years	Total
2017						
Financial assets						
<i>Non interest bearing</i>						
Trade and other receivables	-	24,914	603	3,341	584	29,441
Guarantee deposits	-	20,541	14,273	8,994	10,702	54,510
Cash and bank balances	-	148,181	-	-	-	148,181
<i>Fixed rate</i>						
Bank deposits	4.55	5	-	-	-	5
2016						
Financial assets						
<i>Non interest bearing</i>						
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
<i>Fixed rate</i>						
Bank deposits	4.55	99,574	-	-	-	99,574

JOINT STOCK COMPANY AIR ASTANA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (in thousands of USD)

25. FINANCIAL INSTRUMENTS (CONTINUED)

Fair values

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.

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. MEASUREMENT OF FAIR VALUES

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 finance department that has overall responsibility for overseeing all significant fair value measurements, including Level 3 fair values.

The finance department 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.

JOINT STOCK COMPANY AIR ASTANA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (in thousands of USD)

26. MEASUREMENT OF FAIR VALUES (CONTINUED)

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 Note 25 – Financial instruments.

27. 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 2021 with the last pre-delivery payments deferred to 2020.

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.

Non-cancellable commitments for leases of aircraft currently in operation:

	31 December 2017	31 December 2016
Within one year	65,113	57,469
After one year but not more than five years	115,088	104,752
More than five years	22,031	4,365
	<u>202,232</u>	<u>166,586</u>

JOINT STOCK COMPANY AIR ASTANA

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27. COMMITMENTS AND CONTINGENCIES (CONTINUED)

Operating lease commitments (continued)

Non-cancellable commitments for leases of aircraft to be delivered from 2018 to 2019:

	31 December 2017	31 December 2016
Within one year	16,831	11,331
After one year but not more than five years	175,707	183,849
More than five years	180,844	266,632
	<u>373,382</u>	<u>461,812</u>

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. One A320neo was delivered in December 2017 with the remaining three aircraft being delivered in 2018 to replace some current leases on expiry and for future expansion.

Stand-by Letters of Credit as at 31 December 2017 were USD 42,364 thousand, of which USD 32,864 thousand were secured by deposits (Note 12) and USD 9,500 thousand were unsecured. These Letters of Credit were obtained as security for Lessors to cover any unfulfilled maintenance liabilities on the return of four Embraer E190 and six Airbus aircraft to Lessors.

Non-cancellable operating lease commitments for engines are payable as follows:

	31 December 2017	31 December 2016
Within one year	1,730	1,161
After one year but not more than five years	2,440	3,015
	<u>4,170</u>	<u>4,176</u>

Insurance

Aviation insurance

Air Astana puts substantial attention in conducting insurance coverage for its aircraft operations and hence places aviation risks in major international insurance markets (e.g. Lloyd's) 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.

JOINT STOCK COMPANY AIR ASTANA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (in thousands of USD)

27. COMMITMENTS AND CONTINGENCIES (CONTINUED)

Insurance (continued)

Non – Aviation Insurance

Apart from aviation insurance coverage the airline constantly purchases 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 frequent changes in legislation, official pronouncements and court decisions, which are often unclear, contradictory and subject to varying interpretation by different tax authorities, including opinions with respect to IFRS treatment of revenues, expenses and other items in the financial statements. Taxes are subject to review and investigation by various levels of authorities, which have the authority to impose severe fines and interest charges. A tax year generally remains open for review by the tax authorities for 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.

The functional currency of the Company is US Dollar, as it best reflects the economic substance of the underlying events and circumstances of the Company. The Tax Code of the Republic of Kazakhstan does not contain provisions which would regulate questions arising from the application of functional currency in accounting books different from tenge. However, the Tax Code requires all taxpayers in Kazakhstan to maintain their tax records and to settle tax liabilities in tenge. Therefore the Company also maintains records and conducts calculations in tenge for the purpose of taxation and settlement of tax liabilities and makes certain estimates in this respect. Management believes that such approach is the most appropriate under the current legislation.

Operating Environment

Emerging markets such as Kazakhstan are subject to different risks than more developed markets, including economic, political and social, and legal and legislative risks. Laws and regulations affecting businesses in Kazakhstan continue to change rapidly, tax and regulatory frameworks are subject to varying interpretations. The future economic direction of Kazakhstan is heavily influenced by the fiscal and monetary policies adopted by the government, together with developments in the legal, regulatory, and political environment. As Kazakhstan produces and exports large volumes of oil and gas, its economy is particularly sensitive to the price of oil and gas on the world market.

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.

JOINT STOCK COMPANY AIR ASTANA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (in thousands of USD)

28. RELATED PARTY TRANSACTIONS

Control relationships

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

In 2007 the shareholders appointed two independent directors; one is from JSC “National Welfare Fund “Samruk-Kazyna”, and another from BAE System Kazakhstan Limited. The total remuneration paid in 2017 to the independent directors was USD 94 thousand (2016: USD 75 thousand).

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):

	2017	2016
Salaries and bonuses	3,637	3,867
Social tax	417	415
	<u>4,054</u>	<u>4,282</u>

Transactions with related parties

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

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

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

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:

	2017		2016	
Services received	Transaction value	Outstanding balance	Transaction value	Outstanding balance
State-owned companies	31,445	(431)	20,702	(129)
Shareholders and their subsidiaries	4,762	84	4,743	-
	<u>36,207</u>	<u>(347)</u>	<u>25,445</u>	<u>(129)</u>

JOINT STOCK COMPANY AIR ASTANA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 *(in thousands of USD)*

28. RELATED PARTY TRANSACTIONS (CONTINUED)

Transactions with related parties (continued)

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

Services provided by the Company	2017		2016	
	Transaction value	Outstanding balance	Transaction value	Outstanding balance
Shareholders and their subsidiaries	<u>1,637</u>	<u>483</u>	<u>947</u>	<u>153</u>
	<u>1,637</u>	<u>483</u>	<u>947</u>	<u>153</u>

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

29. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved by management of the Company and authorised for issue on 30 March 2018.