JOINT STOCK COMPANY
AIR ASTANA

Condensed Interim Financial Information
for the six-month period
ended 30 June 2018 (unaudited)

JOINT STOCK COMPANY AIR ASTANA

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STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATIONAND APPROVAL OF THE CONDENSED INTERIM FINANCIAL INFORMATION FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2018

Management is responsible for the preparation of the condensed interim financial information that present fairly the financial position of JSC Air Astana (the "Company") as at 30 June 2018, the results of its operations, cash flows and changes in equity for the six-month period then ended, in compliance with International Accounting Standard 34"Interim Financial Reporting" (IAS 34).

In preparing the condensed interim financial information, management is responsible for:

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

Management is also responsible for:

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

The condensed interim financial information for the six-month period ended 30 June 2018 were authorised for issue on 7 August 2018 by management of the Company.

On behalf of the Company's management:

Peter Foster
President

Azamat Ospanov
Vice president Finance Accounts, Chief Accountant

7 August 2018
Almaty, Republic of Kazakhstan

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Independent Auditors' Report on Review of Condensed Interim Financial Information

To the Shareholders and Board of Directors of JSC Air Astana

Introduction

We have reviewed the accompanying condensed interim statement of financial position of JSC Air Astana (the "Company") as at 30 June 2018, and the related condensed interim statements of profit or loss, other comprehensive income, changes in equity and cash flows for the six-month period then ended, and notes to the condensed interim financial information (the "condensed interim financial information"). Management is responsible for the preparation and presentation of this condensed interim financial information in accordance with IAS 34 *Interim Financial Reporting*. Our responsibility is to express a conclusion on this condensed interim financial information based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*. A review of condensed interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed interim financial information as at 30 June 2018 and for the six-month period then ended is not prepared, in all material respects, in accordance with IAS 34 *Interim Financial Reporting*.

Ashley Clarke
Engagement Partner

KPMG Audit LLC

Almaty, Republic of Kazakhstan

7 August 2018

JOINT STOCK COMPANY AIR ASTANA
CONDENSED INTERIM STATEMENT OF PROFIT OR LOSS
FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2018 (UNAUDITED)

(in thousands of USD)

	Notes	Six-month period ended 30 June 2018 (unaudited)	Six-month period ended 30 June 2017 (unaudited)
Revenue			
Passenger revenue	5	373,578	314,379
Cargo and mail	5	9,599	8,708
Other	5	3,377	12,645
Total revenue		**386,554**	**335,732**
Operating expenses			
Fuel		(115,616)	(82,372)
Handling, landing fees and route charges	6	(55,581)	(48,760)
Passenger service	6	(45,483)	(39,456)
Engineering and maintenance	6	(40,522)	(38,089)
Employee costs	6	(40,421)	(32,907)
Aircraft operating lease costs	6	(33,859)	(31,241)
Selling costs	6	(21,347)	(18,885)
Aircraft crew costs	6	(18,366)	(13,605)
Depreciation and amortisation	10	(12,466)	(13,303)
Property lease cost		(2,179)	(2,522)
Insurance	6	(1,984)	(2,013)
Information technology		(1,840)	(1,647)
Consultancy, legal and professional services		(1,665)	(2,353)
Taxes, other than income tax		(1,401)	(850)
Other		(5,708)	(7,264)
Total operating expenses		**(398,438)**	**(335,267)**
Operating (loss)/profit		**(11,884)**	**465**
Finance income	7	1,320	5,792
Finance costs	7	(5,209)	(5,714)
Foreign exchange loss, net		(6,665)	(6,060)
Loss before tax		**(22,438)**	**(5,517)**
Income tax benefit	8	4,152	1,552
Net loss for the period		**(18,286)**	**(3,965)**
Basic and diluted loss per share (in USD)	17	**(1,076)**	**(233)**

On behalf of the Company's management:

АО «ЭЙР АСТАНА»

Peter Foster
President

7 August 2018
Almaty, Republic of Kazakhstan

Azamat Ospanov
Vice president Finance Accounts, Chief Accountant

7 August 2018
Almaty, Republic of Kazakhstan

The notes on pages 9-43 form an integral part of this condensed interim financial information. The independent auditors' report on review of condensed interim financial information is on page 2.

JOINT STOCK COMPANY AIR ASTANA

CONDENSED INTERIM STATEMENT OF OTHER COMPREHENSIVE INCOME FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2018 (UNAUDITED)

(in thousands of USD)

	Notes	Six-month period ended 30 June 2018 (unaudited)	Six-month period ended 30 June 2017 (unaudited)
Net loss for the period		**(18,286)**	**(3,965)**
Foreign currency translation gain which will never be reclassified to profit or loss in subsequent periods		-	1,264
Other comprehensive income to be reclassified into profit or loss in subsequent periods:			
Result from cash flow hedging instruments		-	8,004
Income tax related to result from cash flow hedging instruments		-	(1,601)
Realized net gain from cash flow hedging instruments	22	5,405	4,974
Corporate income tax related to gain from cash flow hedging instruments	22	(1,081)	(995)
Other comprehensive income for the period, net of income tax		**4,324**	**11,646**
Total comprehensive (loss)/income for the period		**(13,962)**	**7,681**

The notes on pages 9-42 form an integral part of this condensed interim financial information. The independent auditors' report on review of condensed interim financial information is on page 2.

JOINT STOCK COMPANY AIR ASTANA

CONDENSED INTERIM STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2018 (UNAUDITED)
(in thousands of USD)

	Notes	30 June 2018 (unaudited)	31 December 2017*
ASSETS			
Non-current assets			
Property and equipment	9	254,764	261,754
Intangible assets		2,555	2,939
Prepayments for non-current assets	13	15,219	8,086
Guarantee deposits	11	19,395	19,636
Trade and other receivables	14	3,707	3,924
		295,640	**296,339**
Current assets			
Inventories	12	47,379	38,613
Prepayments	13	27,511	29,390
Income tax prepaid		1,733	738
Trade and other receivables	14	38,693	25,517
Other taxes prepaid	15	28,874	18,086
Guarantee deposits	11	38,041	34,874
Bank deposits		4	5
Cash and bank balances	16	127,477	148,181
		309,712	**295,404**
Total assets		**605,352**	**591,743**
EQUITY AND LIABILITIES			
Equity			
Share capital		17,000	17,000
Functional currency transition reserve		(9,324)	(9,324)
Reserve on hedging instruments, net of tax		(67,141)	(71,465)
Retained earnings		120,108	150,552
Total equity	17	**60,643**	**86,763**
Non-current liabilities			
Loans	21	-	10,519
Finance lease liabilities	22	260,985	280,797
Deferred tax liabilities	8	7,950	11,021
Provision for aircraft maintenance	19	47,388	60,510
		316,323	**362,847**
Current liabilities			
Loans	21	11,070	1,630
Finance lease liabilities	22	40,195	39,926
Deferred revenue	18	83,161	48,434
Provision for aircraft maintenance	19	25,875	13,260
Trade and other payables	20	68,085	38,883
		228,386	**142,133**
Total liabilities		**544,709**	**504,980**
Total equity and liabilities		**605,352**	**591,743**

* The Company has initially applied IFRS 15 and IFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See Note 3.

The notes on pages 9-42 form an integral part of this condensed interim financial information. The independent auditors' report on review of condensed interim financial information is on page 2.

CONDENSED INTERIM STATEMENT OF CHANGES IN EQUITY FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2018 (UNAUDITED)

(in thousands of USD)

	Notes	Share capital	Functional currency translation reserve	Foreign currency translation reserve	Reserve on hedging instruments	Retained earnings	Total equity
At 1 January 2017		**17,000**	**-**	**(182,680)**	**(105,868)**	**310,625**	**39,077**
Loss for the period (unaudited)		-	-	-	-	(3,965)	(3,965)
Cash flow hedging instruments, net of tax (unaudited)		-	-	-	6,403	-	6,403
Realised loss on cash flow hedging instruments, net of tax (unaudited)		-	-	-	3,979	-	3,979
Transfer		-	-	(1,040)	1,040	-	-
Translation difference(unaudited)		-	-	1,264	-	-	1,264
Total comprehensive income for the period (unaudited)		**-**	**-**	**224**	**11,422**	**(3,965)**	**7,681**
At 30 June 2017 (unaudited)		**17,000**	**-**	**(182,456)**	**(94,446)**	**306,660**	**46,758**
At 1 January 2018 (as previously reported)*		**17,000**	**(9,324)**	**-**	**(71,465)**	**150,552**	**86,763**
Adjustments on initial application of IFRS 9 and IFRS 15		-	-	-	-	(482)	(482)
Adjusted balance at January 2018		**17,000**	**(9,324)**	**-**	**(71,465)**	**150,070**	**86,281**
Loss for the period (unaudited)		-	-	-	-	(18,286)	(18,286)
Realised loss on cash flow hedging instruments, net of tax (unaudited)		-	-	-	4,324	-	4,324
Total other comprehensive loss for the period (unaudited)		**-**	**-**	**-**	**4,324**	**(18,286)**	**(13,962)**
Dividends declared (unaudited)		-	-	-	-	(11,676)	(11,676)
At 30 June 2018 (unaudited)		**17,000**	**(9,324)**	**-**	**(67,141)**	**120,108**	**60,643**

* The Company has initially applied IFRS 15 and IFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See Note 3.

JOINT STOCK COMPANY AIR ASTANA

CONDENSED INTERIM STATEMENT OF CASH FLOWS
FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2018(UNAUDITED)
(in thousands of USD)

	Notes	Six-month period ended 30 June 2018 (unaudited)	Six-month period ended 30 June 2017 (unaudited)
OPERATING ACTIVITIES:			
Loss before tax		(22,438)	(5,517)
Adjustments for:			
Depreciation and amortisation of property and equipment and intangible assets	10	12,466	13,303
Gain on disposal of property, plant and equipment		(444)	(305)
Change in impairment allowance for prepayments and trade receivables		(129)	(4,367)
Change in write-down of obsolete and slow-moving inventories		64	22
Change in vacation accrual		(418)	221
Change in provision for aircraft maintenance		7,819	12,440
Reversal of loyalty provision		1,218	2,658
Foreign exchange loss, net		6,665	6,060
Finance income	7	(1,320)	(1,495)
Finance costs	7	5,209	5,714
Operating cash flow before movements in working capital		**8,692**	**28,734**
Change in trade and other accounts receivables		(12,611)	(8,439)
Change in prepaid expenses		(12,277)	6,680
Change in inventories		(8,830)	3,854
Change in trade and other payables and other current liabilities		8,324	(327)
Change in deferred revenue		33,357	34,067
Cash generated from operations		**16,655**	**64,569**
Income tax paid		(1,548)	-
Interest received		-	2,832
Net cash generated from operating activities		**15,107**	**67,401**
INVESTING ACTIVITIES:			
Purchase of property and equipment		(9,927)	(13,327)
Proceeds from disposal of property, plant and equipment		3,328	821
Purchase of intangible assets		(85)	(293)
Bank and Guarantee deposits placed		(15,504)	(13,144)
Bank and Guarantee deposits withdrawn		12,226	115,228
Net cash (used in) / generated from investing activities		**(9,962)**	**89,285**

Continued on the next page

The notes on pages 9-42 form an integral part of this condensed interim financial information. The independent auditors' report on review of condensed interim financial information is on page 2.

CONDENSED INTERIM STATEMENT OF CASH FLOWS
FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2018 (CONTINUED) (UNAUDITED)
(in thousands of USD)

	Notes	Six-month period ended 30 June 2018 (unaudited)	Six-month period ended 30 June 2017 (unaudited)
FINANCING ACTIVITIES:			
Repayment of finance lease		(19,484)	(20,275)
Interest paid		(5,394)	(6,567)
Repayment of borrowings		(792)	(813)
Net cash used in financing activities		**(25,670)**	**(27,655)**
NET (DECREASE)/INCREASE IN CASH AND BANK BALANCES		**(20,525)**	**129,031**
Effect of exchange rate changes on cash and bank balances held in foreign currencies		(179)	(155)
Foreign currency translation loss		-	(445)
CASH AND BANK BALANCES, at the beginning of the period	16	**148,181**	**29,987**
CASH AND BANK BALANCES, at the end of the period	**16**	**127,477**	**158,418**

The notes on pages 9-42 form an integral part of this condensed interim financial information. The independent auditors' report on review of interim financial information is on page 2.

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, fuel sales.

The Company operated its maiden flight on 15 May 2002, a Boeing-737 service from Almaty to Kazakhstan's national capital, Astana. As at 30 June 2018 and 31 December 2017, the Company operated 32 turbojet aircraft of which 10 aircraft are acquired under finance lease and 22 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 "National Welfare Fund "Samruk-Kazyna" JSC (which holds the investment on behalf of the Government of the Republic of Kazakhstan) and BAE Systems Kazakhstan Limited, that own 51% and 49% of the shares of the Company, respectively.

2. BASIS OF PREPARATION

Statement of compliance

This condensed interim financial information has been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting".

The condensed interim financial information is unaudited and does not include all the information and disclosures required in the annual financial statements. Management believes that the disclosures in this condensed interim financial information are adequate to make the information presented not misleading if this financial information is read in conjunction with the Company's annual financial statements for 2017 prepared in accordance with IFRS.

This is the first set of the Company's financial statements in which IFRS 15 "Revenue from Contracts with Customers" and IFRS 9 "Financial Instruments" have been applied.

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 economic environment in which the Company operated.

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.

Comparative information presented in these financial statements is the same as reported in issued condensed interim financial information for the six-month period ended 30 June 2017 in USD presentation currency.

Since before 31 December 2017 the Company's functional currency was tenge, the financial results and financial position of the Company for the six-month period ended 30 June 2017 were translated into the presentation currency using the following procedures:

(in thousands of USD)

2. BASIS OF PREPARATION (continued)

Functional and presentation currency (continued)

a) assets and liabilities as at 30 June 2017 were translated at the closing rate at the reporting date;

b) income and expenses for the reporting period were translated at the average six-month exchange rate; and

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

The following table summarizes US Dollar exchange rates as at 30 June 2018 and for the six-month period then ended:

	Six-month period ended 30 June 2018	**Six-month period ended 30 June 2018**
	Average rate	Spot rate
Tenge (KZT)	0.003	0.003
Euro (EUR)	1.211	1.165
British Pound (GBP)	1.376	1.315

The following table summarizes KZT exchange rates as at 30 June 2017 and for the six-month period then ended:

	Six-month period ended 30 June 2017	**Six-month period ended 30 June 2017**
	Average rate	Spot rate
US dollar (USD)	318.59	322.27
Euro (EUR)	344.65	367.52
British Pound (GBP)	400.51	418.40

As requested by shareholders, the Company prepares two sets of financial statements with presentation currency Kazakhstani tenge and US Dollar (“USD”) 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 six-month period ended 30 June 2018, 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.

3. SIGNIFICANT ACCOUNTING POLICIES

This condensed interim financial information has been prepared under the historical cost convention.

Except as described below, the same accounting policies, presentation and methods of computation have been followed in this condensed interim financial information as were applied in the preparation of the Company’s financial statements for the year ended 31 December 2017. The results for the six-month period ended 30 June 2018 are not necessarily indicative of the results expected for the full year.

The Company has initially adopted IFRS 15 *Revenue from Contracts with Customers* (see A) and IFRS 9 *Financial Instruments* (see B) from 1 January 2018. A number of other new standards are effective from 1 January 2018 but they do not have a material effect on the Company’s financial statements.

(in thousands of USD)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

A. IFRS 15 *Revenue from Contracts with Customers*

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognized. It replaced IAS 18 *Revenue*, IAS 11 *Construction Contracts*, IFRIC 13 *Customer Loyalty Programmes* and other related interpretations.

The Company has adopted IFRS 15 using the cumulative effect method (without practical expedients), with the effect of initially applying this standard recognised at the date of initial application (i.e. 1 January 2018). Accordingly, the information presented for 2017 has not been restated – i.e. it is presented, as previously reported, under IAS 18, IAS 11, IFRIC 13 and other related interpretations.

The Company has determined that its accounting policies for revenue recognition applied under the previous standards do not differ significantly from those introduced by IFRS 15.

The following table summarises the impact, net of tax, of transition to IFRS 15 on retained earnings.

’000 USD	*Note*	Impact of adopting IFRS 15 at 1 January 2018
Retained earnings		
Ticket breakage	*(a)*	(121)
Change fees	*(b)*	(64)
Impact at 1 January 2018		**(185)**

There was no material impact of adopting IFRS 15 on the Company’s interim statement of financial position as at 30 June 2018 and its interim statements of profit or loss, other comprehensive income and cash flows for the six month period then ended.

The details of the new significant accounting policies and the nature of the changes to previous accounting policies in relation to the Company’s various services are set out below.

Nature of adjustment	Nature, timing of satisfaction of performance obligations	Nature of change in accounting policy
a. Ticket breakage	Under IFRS 15, the timing of revenue recognition for ticket breakage depends on whether the entity expects to be entitled to a breakage amount – i.e. if it is highly probable that recognising breakage will not result in a significant reversal of the cumulative revenue recognised. An entity considers the variable consideration guidance to determine whether – and to what extent – it recognises breakage. It determines the amount of breakage to which it is entitled as the amount for which it is considered highly probable that a significant reversal will not occur in the future. This amount is recognised as revenue in proportion to the pattern of rights exercised by the customer when the entity expects to be entitled to breakage. Otherwise, the entity recognises breakage when the likelihood of the customer exercising its remaining rights becomes remote.	Under IAS 18, a certain estimated portion of revenue for ticket breakage was recognised at ticket sale date based on the Company’s breakage statistics. Under IFRS 15 no breakage can be recognised before the scheduled flight date (i.e. the actual performance of obligation - transportation services). Since the Company possesses reliable historical statistics on ticket breakage, starting from 1 January 2018 ticket breakage is recognised at the flight date at the amount for which the likelihood of customers exercising its rights is considered remote.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

A. IFRS 15 *Revenue from Contracts with Customers* (continued)

Nature of adjustment	Nature, timing of satisfaction of performance obligations	Nature of change in accounting policy
b. Change fees	Under the performance obligation concept a change fee charge should be accounted and posted to revenue once travel happens. Thus, this service is now combined with passenger transportation, as it cannot be distinct from original performance – which is the flight (i.e. a customer cannot benefit from the service without taking a flight). Although the change service is provided in advance of the flight, the benefit from it is not provided until a customer takes the flight.	Under IAS 18, change fees were recognised as revenue when a passenger requested a change and paid for the respective fee. Under IFRS 15, apart from the difference in timing of revenue recognition mentioned above, the change in approach leads to a reclassification of this revenue stream from Other revenue to Passenger revenue caption in the Company's statement of profit or loss.

B. IFRS 9 *Financial Instruments*

IFRS 9 sets out requirements for recognizing 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*.

The impact of adopting IFRS 9 on opening balance due to recognition of expected credit losses is USD 297 thousand.

The details of new significant accounting policies and the nature and effect of the changes to previous accounting policies are set out below.

i. Classification and measurement of financial assets and financial liabilities

IFRS 9 largely retains the existing requirements in IAS 39 for the classification and measurement of financial liabilities. However, it eliminates the previous IAS 39 categories for financial assets of held to maturity, loans and receivables and available for sale.

The adoption of IFRS 9 has not had a significant effect on the Company's accounting policies related to classification and measurement.

Under IFRS 9, on initial recognition, a financial asset is classified as measured at: amortized cost; fair value through other comprehensive income (hereinafter referred to as "FVOCI") – debt investment; FVOCI – equity investment; or fair value through profit or loss (hereinafter referred to as "FVTPL"). The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. Derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never separated. Instead, the hybrid financial instrument as a whole is assessed for classification.

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

(in thousands of USD)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

B. IFRS 9 *Financial Instruments* (continued)

i. Classification and measurement of financial assets and financial liabilities (continued)

A debt investment is measured at FVOCI if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All financial assets not classified as measured at amortized cost or FVOCI as described above are measured at FVTPL. On initial recognition, the Company may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortized cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

A financial asset (unless it is a trade receivable without a significant financing component that is initially measured at the transaction price) is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition.

The following accounting policies apply to the subsequent measurement of financial assets.

Financial assets at FVTPL	These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognized in profit or loss.
Financial assets at amortised cost	These assets are subsequently measured at amortized cost using the effective interest method. The amortized cost is reduced by impairment losses (see (ii) below). Interest income, foreign exchange gains and losses and impairment are recognized in profit or loss. Any gain or loss on derecognition is recognized in profit or loss.
Debt investments at FVOCI	These assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognized in profit or loss. Other net gains and losses are recognized in OCI. On derecognition, gains and losses accumulated in OCI are reclassified to profit or loss.
Equity investments at FVOCI	These assets are subsequently measured at fair value. Dividends are recognized as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognized in OCI and are never reclassified to profit or loss.

All financial assets of the Company were classified as loans and receivables under IAS 39 and are measured at amortized cost in accordance with IFRS 9 as at 1 January 2018. The differences between IFRS 9 and IAS 39 carrying values amounts of financial assets at 1 January 2018 relate solely to the new impairment requirements, as described further below:

Financial Assets	Original classification under IAS 39	New classification under IFRS 9	Original carrying amount under IAS 39	New carrying amount under IFRS 9
Guarantee deposits	Loans and Receivables	Amortised cost	54,510	54,286
Trade and other receivables	Loans and Receivables	Amortised cost	29,441	29,371
Bank deposits	Loans and Receivables	Amortised cost	5	5
Cash and bank balances	Loans and Receivables	Amortised cost	148,181	148,178
Total financial assets			**232,137**	**231,840**

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

B. IFRS 9 *Financial Instruments* (continued)

ii. Impairment of financial assets

IFRS 9 replaces the ‘incurred loss’ model in IAS 39 with an ‘expected credit loss’ (ECL) model. The new impairment model applies to financial assets measured at amortized cost, contract assets and debt investments at FVOCI, but not to investments in equity instruments. Under IFRS 9, credit losses are recognized earlier than under IAS 39.

The financial assets at amortized cost consist of guarantee deposits, trade receivables, bank deposits and cash and cash equivalents.

Under IFRS 9, loss allowances are 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.

The Company measures loss allowances at an amount equal to lifetime ECLs, except for the following, which are measured as 12-month ECLs:

- bank balances for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition.

The Company has elected to measure loss allowances for trade receivables and contract assets at an amount equal to lifetime ECLs.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Company’s historical experience and informed credit assessment including forward-looking information.

The Company assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due or if the external credit rating assigned to a financial asset by an international rating agency falls to CCC or lower per Standard and Poor’s and Fitch or Caa1 per Moody’s.

The Company considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Company in full, without recourse by the Company to actions such as realizing security (if any is held); or
- the financial asset is more than 90 days past due.

The Company considers a debt security to have low credit risk when its credit risk rating is equivalent to the globally understood definition of ‘investment grade’. The Company considers this to be Baa3 or higher per Moody’s or BBB- or higher per Standard and Poor’s or Fitch.

The maximum period considered when estimating ECLs is the maximum contractual period over which the Company is exposed to credit risk.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Company expects to receive).

ECLs are discounted at the effective interest rate of the financial asset.

(in thousands of USD)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

B. IFRS 9 *Financial Instruments* (continued)

ii. Impairment of financial assets (continued)

Credit-impaired financial assets

At each reporting date, the Company assesses whether financial assets carried at amortised cost and debt securities at FVOCI are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Presentation of impairment

Loss allowances for financial assets measured at amortized cost are deducted from the gross carrying amount of the assets.

Impairment losses on financial assets are presented under 'finance costs', similar to the presentation under IAS 39, and not presented separately in the statement of profit or loss due to materiality considerations.

Impact of the new impairment model

For assets in the scope of the IFRS 9 impairment model, impairment losses are generally expected to increase and become more volatile. The Company has determined that the application of IFRS 9's impairment requirements at 1 January 2018 results in an additional impairment allowance as follows:

	Estimated additional impairment recognized at 1 January 2018
Guarantee Deposits	224
Trade and other receivables	70
Cash and bank balances	3
Gross additional impairment losses	**297**

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 trade 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 with the lessors of the Company's aircraft 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 impairment loss 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. The Company estimated that application of IFRS 9's impairment requirements at 1 January 2018 results in an increase of approximately USD 224 thousand over the impairment loss recognised under IAS 39.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

B. IFRS 9 *Financial Instruments* (continued)

ii. Impairment of financial assets (continued)

Cash and cash equivalents

Cash and cash equivalents are held with banks and financial institutions 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 a low credit risk based on the external credit ratings of the counterparties.

The Company uses the similar approach for assessment of ECLs for cash and cash equivalents as that 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 3 thousand over the impairment recognised under IAS 39.

iii. Transition

Changes in accounting policies resulting from the adoption of IFRS 9 have been applied retrospectively, except as described below.

- The Company has taken an exemption not to restate comparative information for prior periods with respect to classification and measurement (including impairment) requirements. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognised in retained earnings as at 1 January 2018. Accordingly, the information presented for 2017 does not generally reflect the requirements of IFRS 9 but rather those of IAS 39.
- The Company has performed determination of the business model within which a financial asset is held on the basis of the facts and circumstances that existed at the date of initial application.
- If an investment in a debt security had low credit risk at the date of initial application of IFRS 9, then the Company has assumed that the credit risk on the asset had not increased significantly since its initial recognition.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In preparing this condensed interim financial information, the significant judgments made by management in applying the Company's accounting policies and the key sources of estimation uncertainty were consistent with those that were applied to the Company's annual financial statements for 2017 prepared in accordance with IFRS, except for new significant judgements and key sources of estimation uncertainty related to the application of IFRS 9, as described above.

(in thousands of USD)

5. REVENUE

Passenger revenue	Six-month period ended 30 June 2018 (unaudited)	Six-month period ended 30 June 2017 (unaudited)
Passenger transport	304,577	260,879
Fuel surcharge	45,577	32,988
Airport services	20,878	18,375
Excess baggage	2,546	2,137
	373,578	**314,379**

Cargo and mail revenue	Six-month period ended 30 June 2018 (unaudited)	Six-month period ended 30 June 2017 (unaudited)
Cargo	8,636	7,930
Mail	963	778
	9,599	**8,708**

Other revenue	Six-month period ended 30 June 2018 (unaudited)	Six-month period ended 30 June 2017 (unaudited)
Gain on disposal of spare parts and other assets	444	305
Income from ground services	428	550
Advertising revenue	365	728
Penalties on agency contracts	114	4,084
Aviation fuel sale	-	4,543
Warranty returns	-	969
Spare parts received free of charge	-	149
Other	2,026	1,317
	3,377	**12,645**

During the six-month period ended 30 June 2018 and 30 June 2017, passenger, cargo and mail revenue, representing total revenue from contracts with customers, were generated from the following destinations:

	Six-month period ended 30 June 2018 (unaudited)	Six-month period ended 30 June 2017 (unaudited)
Domestic	100,545	93,454
Europe	82,276	64,503
Asia	77,038	71,030
Russia	59,351	46,943
CIS Regional (excluding Russia)	36,217	27,046
Middle East	27,750	20,111
Total passenger, cargo and mail revenue	**383,177**	**323,087**

(in thousands of USD)

6. OPERATING EXPENSES

Handling, landing fees and route charges	Six-month period ended 30 June 2018 (unaudited)	Six-month period ended 30 June 2017 (unaudited)
Aero navigation	23,368	20,359
Handling charge	19,182	16,145
Landing fees	11,995	11,505
Meteorological services	116	66
Other	920	685
	55,581	**48,760**

Passenger service	Six-month period ended 30 June 2018 (unaudited)	Six-month period ended 30 June 2017 (unaudited)
Airport charges	22,491	18,728
Catering	13,604	12,689
In-flight entertainment	2,927	2,423
Security	2,163	1,654
Other	4,298	3,962
	45,483	**39,456**

Engineering and maintenance	Six-month period ended 30 June 2018 (unaudited)	Six-month period ended 30 June 2017 (unaudited)
Maintenance – variable lease payments	15,934	14,549
Maintenance – components	9,183	4,153
Maintenance – provisions (Note 19)	7,819	12,440
Spare parts	6,456	5,906
Technical inspection	1,130	1,041
	40,522	**38,089**

Employee costs	Six-month period ended 30 June 2018 (unaudited)	Six-month period ended 30 June 2017 (unaudited)
Wages and salaries of operational personnel	25,092	20,997
Wages and salaries of administrative personnel	6,516	5,209
Social tax	3,793	3,345
Wages and salaries of sales personnel	2,169	1,807
Other	2,851	1,549
	40,421	**32,907**

The average number of employees during the six-month period ended 30 June 2018 was 5,198 (2017: 4,868).

(in thousands of USD)

6. OPERATING EXPENSES (continued)

Aircraft operating lease costs	Six-month period ended 30 June 2018 (unaudited)	Six-month period ended 30 June 2017 (unaudited)
Fixed lease charges	31,843	29,866
Leased engine on wing costs	1,204	726
Lease of engines and rotable spare parts	618	567
Operating lease return costs	194	82
	33,859	**31,241**

Selling costs	Six-month period ended 30 June 2018 (unaudited)	Six-month period ended 30 June 2017 (unaudited)
Reservation costs	10,952	9,826
Commissions	6,092	4,818
Advertising	3,723	3,817
Interline commissions	329	214
Other	251	210
	21,347	**18,885**

Aircraft crew costs	Six-month period ended 30 June 2018 (unaudited)	Six-month period ended 30 June 2017 (unaudited)
Accommodation and allowances	7,788	6,827
Contract crew	7,094	4,101
Training	3,484	2,677
	18,366	**13,605**

Insurance	Six-month period ended 30 June 2018 (unaudited)	Six-month period ended 30 June 2017 (unaudited)
Hull insurance	770	834
Legal liability insurance	723	680
Medical insurance	365	348
Other	126	151
	1,984	**2,013**

(in thousands of USD)

7. FINANCE INCOME AND COSTS

Finance income	Six-month period ended 30 June 2018 (unaudited)	Six-month period ended 30 June 2017 (unaudited)
Interest income on bank deposits	1,070	1,216
Reversal of impairment allowance on financial assets	204	4,297
Revaluation of discount on guarantee deposits	29	99
Unwinding of discount on Ab-initio pilot trainees receivables	15	30
Other	2	150
	1,320	**5,792**

Finance costs	Six-month period ended 30 June 2018 (unaudited)	Six-month period ended 30 June 2017 (unaudited)
Interest expense on finance lease	4,678	5,714
Interest expense on bank loans	423	-
Impairment allowance on financial assets	108	-
	5,209	**5,714**

8. INCOME TAX BENEFIT

The Company's income tax benefit for the six-month period ended 30 June was as follows:

	Six-month period ended 30 June 2018 (unaudited)	Six-month period ended 30 June 2017 (unaudited)
Deferred income tax benefit	4,152	1,552

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 30 June 2018 and 31 December 2017 is presented below.

Deferred tax assets	30 June 2018 (unaudited)	31 December 2017
Provision for aircraft maintenance	14,288	14,754
Trade and other payables	5,261	2,520
Carried forward corporate income tax losses	3,553	1,058
Trade Receivables	315	-
Total	**23,417**	**18,332**
Deferred tax liabilities		
Difference in depreciable value of property, plant and equipment	(31,251)	(29,213)
Intangible assets	(108)	(127)
Prepaid expenses	(8)	(13)
Total	**(31,367)**	**(29,353)**
Net deferred tax liabilities	**(7,950)**	**(11,021)**

(in thousands of USD)

8. INCOME TAX BENEFIT (continued)

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 1,081 thousand related to carried forward corporate income tax losses, which were recognized in equity (six months ended 30 June 2017: USD 2,596 thousand).

The income tax rate in the Republic of Kazakhstan, where the Company is located, at 30 June 2018 and 31 December 2017 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% (2017: 20%) to the actual income tax expense recorded in the Company’s statement of profit or loss and other comprehensive income:

	Six-month period ended 30 June 2018 (unaudited)	**Six-month period ended 30 June 2017 (unaudited)**
Loss before tax	**(22,438)**	**(5,517)**
Income tax (benefit) at statutory rate	(4,488)	(1,103)
Tax effect of non-taxable income	(41)	(858)
Tax effect of non-deductible expenses	377	409
Income tax benefit	**(4,152)**	**(1,552)**

(in thousands of USD)

9. PROPERTY 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 2017	**42,303**	**5,679**	**3,241**	**2,424**	**296,915**	**17,656**	**368,218**
Additions (unaudited)	-	-	-	-	-	14,455	14,455
Disposals (unaudited)	(962)	(173)	(114)	(49)	(1,383)	-	(2,681)
Transfers (unaudited)	4,831	459	299	533	4,949	(11,071)	-
Foreign currency translation difference (unaudited)	1,403	191	108	78	10,112	565	12,457
At 30 June 2017 (unaudited)	**47,575**	**6,156**	**3,534**	**2,986**	**310,593**	**21,605**	**392,449**
At 1 January 2018	**48,579**	**6,348**	**3,432**	**3,527**	**289,324**	**20,625**	**371,835**
Additions (unaudited)	4,276	409	997	373	885	-	6,940
Disposals (unaudited)	(2,137)	(32)	(170)	(19)	(485)	-	(2,843)
Transfers (unaudited)	-	-	19,091	-	-	(19,091)	-
At 30 June 2018 (unaudited)	**50,718**	**6,725**	**23,350**	**3,881**	**289,724**	**1,534**	**375,932**
Accumulated depreciation							
At 1 January 2017	**17,346**	**4,092**	**1,199**	**1,221**	**73,140**	**-**	**96,998**
Charge for the period (unaudited) (Note 10)	2,817	289	184	154	9,394	-	12,838
Disposals (unaudited)	(554)	(167)	(114)	(42)	(1,288)	-	(2,165)
Foreign currency translation difference (unaudited)	567	138	40	40	2,409	-	3,194
At 30 June 2017 (unaudited)	**20,176**	**4,352**	**1,309**	**1,373**	**83,655**	**-**	**110,865**
At 1 January 2018	**20,183**	**4,425**	**1,462**	**1,323**	**82,688**	**-**	**110,081**
Charge for the period (unaudited) (Note 10)	3,061	332	241	182	8,181	-	11,997
Disposals (unaudited)	(215)	(32)	(170)	(8)	(485)	-	(910)
At 30 June 2018 (unaudited)	**23,029**	**4,725**	**1,533**	**1,497**	**90,384**	**-**	**121,168**
Net book value							
At 30 June 2017 (unaudited)	**27,399**	**1,804**	**2,225**	**1,613**	**226,938**	**21,605**	**281,584**
At 1 January 2018	**28,396**	**1,923**	**1,970**	**2,204**	**206,636**	**20,625**	**261,754**
At 30 June 2018 (unaudited)	**27,689**	**2,000**	**21,816**	**2,384**	**199,340**	**1,534**	**254,764**

(in thousands of USD)

9. PROPERTY AND EQUIPMENT (continued)

The Company's obligations under finance leases are secured by the lessors' title to the leased assets, which have a carrying amount of USD 199,639 thousand (unaudited) (2017: USD 226,938 thousand) (Note 22).

Rotable spare parts include aircraft modification costs.

During the six months ended 30 June 2018 USD 224 of interest relating to the EBRD loan was capitalized into property, plant and equipment (six months ended 30 June 2017: USD 1,082).

10. DEPRECIATION AND AMORTISATION

	Six-month period ended 30 June 2018 (unaudited)	Six-month period ended 30 June 2017 (unaudited)
Depreciation of property and equipment (Note 9)	11,997	12,838
Amortisation of intangible assets	469	465
Total	**12,466**	**13,303**

11. GUARANTEE DEPOSITS

	30 June 2018 (unaudited)	31 December 2017
Non-current		
Guarantee deposits for leased aircraft	17,328	17,922
Other guarantee deposits	2,358	1,714
Impairment allowances (IFRS 9)	(291)	-
	19,395	**19,636**
Current		
Guarantee deposits to secure Letters of Credit for maintenance liabilities (Note 24)	35,564	32,871
Guarantee deposits for leased aircraft	2,091	757
Other guarantee deposits	421	1,246
Impairment allowances (IFRS 9)	(35)	-
	38,041	**34,874**
	57,436	**54,510**

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

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

	30 June 2018 (unaudited)	31 December 2017
Within one year	37,655	33,628
After one year but not more than five years	9,339	7,276
More than five years	8,021	10,703
	55,015	**51,607**
Fair value adjustment	(32)	(57)
	54,983	**51,550**

(in thousands of USD)

12. INVENTORIES

	30 June 2018 (unaudited)	31 December 2017
Spare parts	24,887	23,547
Fuel	11,955	5,499
Crockery	3,043	2,414
Goods in transit	2,411	3,007
De-icing liquid	1,559	494
Promotional materials	1,430	1,544
Uniforms	1,243	1,151
Blank forms	176	229
Other	1,294	1,283
	47,998	**39,168**
Less: cumulative write-down for obsolete and slow-moving inventories	(619)	(555)
	47,379	**38,613**

13. PREPAYMENTS

	30 June 2018 (unaudited)	31 December 2017
Non-current		
Advances paid for services	7,073	6,514
Prepayments for aircraft under operating leases	4,826	1,464
Prepayments for non-current assets	3,320	108
	15,219	**8,086**
Current		
Advances paid for services	17,739	14,591
Prepayments for finance lease	5,436	5,483
Prepayments for operating leases	2,981	2,856
Advances paid for goods	1,766	6,871
	27,922	**29,801**
Less: impairment allowance for prepayments	(411)	(411)
	27,511	**29,390**

As at 30 June 2018 non-current prepayments include prepayments to Boeing as pre-delivery payment for the remaining three aircraft (Note 24).

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

(in thousands of USD)

14. TRADE AND OTHER RECEIVABLES

	30 June 2018 (unaudited)	31 December 2017
Non-current		
Due from employees and Ab-initio pilot trainees	1,590	2,040
Other financial assets	50,415	50,920
	52,005	**52,960**
Less: impairment allowance	(48,298)	(49,036)
	3,707	**3,924**
Current		
Trade receivables	29,133	17,571
Receivable from lessors – variable lease reimbursement	9,802	8,116
Due from employees and Ab-initio pilot trainees	968	923
	39,903	**26,610**
Less: impairment allowance	(1,210)	(1,093)
	38,693	**25,517**

The movements in impairment allowance on trade and other receivables for the periods ended 30 June 2018 and 31 December 2017 were:

	Six-month period ended 30 June 2018 (unaudited)	Year ended 31 December 2017
At the beginning of the period*	**(50,129)**	**(54,818)**
Accrued during the period	(604)	(405)
Reversed during the period	663	4,785
Written off against previously created allowance	-	416
Foreign currency translation differences	562	(107)
At the end of the period	**(49,508)**	**(50,129)**

* The Company has initially applied IFRS 15 and IFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See Note 3.

In 2016, due to the significant credit quality deterioration of KazInvestBank JSC following the recall of its banking license, and Delta Bank JSC on 22 May 2017 following by the temporary suspension of its 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.

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 thousands of USD)

14. TRADE AND OTHER RECEIVABLES (continued)

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. As at 30 June 2018 the total impairment allowance in relation to above mentioned receivables comprised USD 48,298 thousand (31 December 2017: USD 49,036 thousand).

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

Amounts due from trainees of the Ab-initio pilot program in respect of 50% of their initial training costs are classified as interest free loans. The remaining costs are classified by the Company as a prepayment of its expenses and are amortised over a period of seven years, during which period the Company has a right to oblige these expenses also to become payable by the pilot trainees should such pilot trainee terminate his/her employment. The alumni of Ab-initio pilot program can either repay the remaining training cost by cash or defer for the future so that this amount becomes payable only if they leave the Company. Amounts due from those cadets who selected the option were reclassified to deferred expenses and are amortized using the straight line method over the remaining amortization term.

At 30 June 2018, eight debtors including IATA Bank Settlement Plans (BSPs) as collecting agencies from the worldwide travel agencies comprised 50% of the Company’s trade and other receivables (at 31 December 2017: eight debtors comprised 45%).

The Company’s net trade and other receivables are denominated in the following currencies:

	30 June 2018 (unaudited)	31 December 2017
US Dollar	15,481	8,391
Tenge	13,303	12,754
Euro	3,137	2,444
Russian Rouble	2,134	1,209
Other	8,345	4,643
	42,400	**29,441**

15. OTHER TAXES PREPAID

	30 June 2018 (unaudited)	31 December 2017
Value added tax recoverable	28,163	17,411
Prepayment for environment tax	1	1
Other taxes prepaid	710	674
	28,874	**18,086**

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

(in thousands of USD)

16. CASH AND BANK BALANCES

	30 June 2018 (unaudited)	31 December 2017
Current accounts with local banks	17,898	42,204
Current accounts with foreign banks	89,418	85,806
Term deposits with local banks with original maturity less than 3 months	20,000	20,068
Cash on hand	146	103
Accrued interest	24	-
	127,486	**148,181**
Impairment allowance (IFRS 9)	(9)	-
	127,477	**148,181**

At 30 June 2018, current accounts with banks in tenge earn interest in the range of 4% to 7% per annum (31 December 2017: 6% to 8% per annum), in USD in the range of 0.10% to 2.09% per annum (31 December 2017: 0.10% to 1.5%). As at 30 June 2018 short-term deposits with banks earn interest of up to 9% per annum (2017: up to 10.5%).

Cash and bank balances are denominated in the following currencies:

	30 June 2018 (unaudited)	31 December 2017
US Dollar	115,938	141,649
Indian Rupee	2,794	3,208
GBP	2,621	122
Euro	1,877	571
Tenge	1,828	1,438
Uzbek Soms	671	125
Russian Rouble	540	283
Chinese Yuan	226	69
Other	982	716
	127,477	**148,181**

17. EQUITY

As at 30 June 2018 and 31 December 2017, share capital was comprised of 17,000 authorised, issued and fully paid ordinary shares with a par value of KZT 147,150 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 30 June 2018 the Company had retained earnings, including the loss for the current period, of USD 120,108 thousand (31 December 2017: USD 150,552 thousand), and total equity of USD 60,643 thousand (31 December 2017: USD 86,763 thousand).

In May 2018, based on the decision of the Annual General Meeting of Shareholders, the Company declared a dividend payment equivalent to 30% of the net profit of the Company for 2017. The total amount of the dividends was 3,845,505 thousand tenge (equivalent to USD 11,676 thousand as of announcement date), which will be distributed and paid in accordance with their shareholdings. Dividend payment is scheduled to August 2018. Dividends per share at 30 June 2018 were 226,206 tenge (equivalent to USD 0.7 thousand) (2017: nil).

(in thousands of USD)

17. EQUITY (continued)

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 (2017: 17,000). The Company has no instruments with potential dilutive effect.

	Six-month period ended 30 June 2018 (unaudited)	Six-month period ended 30 June 2017 (unaudited)
Loss for the period	(18,286)	(3,965)
Number of ordinary shares	17,000	17,000
Loss per share – basic and diluted (USD)	**(1,076)**	**(233)**

18. DEFERRED REVENUE

	30 June 2018 (unaudited)	31 December 2017
Unearned transportation revenue	76,699	43,190
Customer loyalty program	6,462	5,244
	83,161	**48,434**

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.

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

19. PROVISION FOR AIRCRAFT MAINTENANCE

	30 June 2018 (unaudited)	31 December 2017
Engines	57,989	59,113
D-Check	5,443	6,298
C-Check	4,444	2,766
Provision for redelivery of aircraft	2,216	2,152
Auxiliary Power unit	1,889	1,739
Landing gear	1,282	1,702
	73,263	**73,770**

The movements in the provision for aircraft maintenance were as follows for the six-month period ended 30 June 2018 and the year ended 31 December 2017:

	Six-month period ended 30 June 2018 (unaudited)	Year ended 31 December 2017
At 1 January	**73,770**	**58,798**
Accrued during the period (Note 6)	13,185	21,743
Reversed during the period (Note 6)	(5,366)	(2,072)
Used during the period	(8,326)	(4,582)
Foreign currency translation difference	-	(117)
	73,263	**73,770**

(in thousands of USD)

19. PROVISION FOR AIRCRAFT MAINTENANCE (continued)

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

The planned utilisation of these provisions is as follows:

	30 June 2018 (unaudited)	31 December 2017
Within one year	25,875	13,260
During the second year	32,973	45,645
During the third year	9,010	8,539
After the third year	5,405	6,326
Total provision for aircraft maintenance	**73,263**	**73,770**
Less: current portion	(25,875)	(13,260)
Non-current portion	**47,388**	**60,510**

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.

20. TRADE AND OTHER PAYABLES

	30 June 2018 (unaudited)	31 December 2017
Trade payables	43,185	29,450
Dividends payables	11,274	-
Deposits received	3,574	2,210
Other taxes payable	2,880	618
Wages and salaries payable to employees	2,558	2,340
Operating lease payables	2,264	1,510
Employee unused vacation	1,087	1,505
Advances received	708	674
Pension contribution	443	513
Other	112	63
	68,085	**38,883**

(in thousands of USD)

20. TRADE AND OTHER PAYABLES (continued)

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

	30 June 2018 (unaudited)	**31 December 2017**
Tenge	27,783	10,735
US Dollar	25,236	16,738
Euro	7,121	5,660
GBP	1,686	711
Russian roubles	931	988
Other	5,328	4,051
	68,085	**38,883**

21. LOANS

	30 June 2018 (unaudited)	**31 December 2017**
Non-current		
Bank loan	-	10,519
	-	**10,519**
Current		
Current portion of bank loan	11,008	1,558
Interest payable	62	72
	11,070	**1,630**

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 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.

The loan is subject to certain financial covenants, one of which had not been met as at 30 June 2018. The loan agreement provides the Company with a period of 30 days to remedy such non-compliance, prior to the loan becoming in default. Before the date of approval of the financial statements, the Company obtained a waiver from the lender for the non-compliance as at 30 June 2018. Since the Company did not have an unconditional right to defer settlement for at least twelve months on the reporting date of 30 June, the loan is classified as a current liability.

22. FINANCE LEASE LIABILITIES

During the years from 2012 to 2014 the Company acquired eleven aircraft under the 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 199,639 thousand (unaudited) (2017: USD 206,638 thousand) (Note 9).

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 six-month period ended 30 June 2018.

(in thousands of USD)

22. FINANCE LEASE LIABILITIES (continued)

	Minimum lease payments		Present value of minimum lease payments	
	30 June 2018 (unaudited)	31 December 2017	30 June 2018 (unaudited)	31 December 2017
Not later than one year	48,082	49,162	40,195	39,926
Later than one year and not later than five years	187,150	188,187	164,620	163,213
Later than five years	100,251	123,178	96,365	117,584
	335,483	**360,527**	**301,180**	**320,723**
Less: future finance charges	(34,303)	(39,804)	-	-
Present value of minimum lease payments	**301,180**	**320,723**	**301,180**	**320,723**
Included in the financial statements as:				
- current portion of finance lease obligations			40,195	39,926
- non-current portion of finance lease obligations			260,985	280,797
			301,180	**320,723**

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

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 2018	12,149	320,723	332,872
Changes from financing cash flows			
Repayment of borrowings	(792)	-	(792)
Payment of finance lease liabilities	-	(19,484)	(19,484)
Interest paid	(657)	(4,737)	(5,394)
Total changes from financing cash flows	**(1,449)**	**(24,221)**	**(25,670)**
The effect of changes in foreign exchange rates	(277)	-	(277)
Other changes			
Capitalised borrowing costs	224	-	224
Interest expense (Note 7)	423	4,678	5,101
Total other changes	**647**	**4,678**	**5,325**
Balance at 31 December 2017	**11,070**	**301,180**	**312,250**

On 1 July 2015 the Company designated a portion of its US dollar finance lease obligations as hedges of highly probable future US Dollar revenue streams. The Company applies the cash flow hedge accounting model to this hedging transaction, in accordance with IAS 39.

In connection with the transition of the functional currency to US Dollar, this hedge ceased to be economically effective from 31 December 2017. At 30 June 2018, a foreign currency loss of USD 83,926 thousand (31 December 2017: USD 89,331 thousand), before deferred corporate income tax of USD 16,785 thousand (31 December 2017: USD 17,866 thousand) representing an effective portion of the hedge, is deferred in the hedging reserve in the equity. As a result of the functional currency change, the hedge relationship has been discontinued so that starting from 1 January 2018, no further foreign currency translation gains or losses is transferred from profit or loss to the hedge reserve, and the hedge reserve recognized in equity shall remain in equity until the forecasted revenue cash flows are received.

22. FINANCE LEASE LIABILITIES (continued)

During the first half of 2018 the amount reclassified from the hedging reserve to foreign exchange loss in profit or loss statement was USD 5,405 thousand (before income tax of USD 1,081 thousand) (six months ended 30 June 2017: USD 4,974 thousand (before income tax of USD 995 thousand).

23. 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.

Capital management

The Company manages its capital to ensure the Company will be able to continue as going concern while maximising the return to the shareholders through the optimisation of the debt and equity balance.

The capital structure of the Company consists of net debt (comprising loans and finance lease obligations in Notes 21 and 22) and equity of the Company (comprising issued capital, functional currency transition reserve, reserve on hedging instruments and retained earnings as detailed in Note 17).

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 counter party 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 on a base of their book value.

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

As at 30 June 2018 there was no significant concentration of credit risk in respect of trade accounts receivable (Note 14).

As a result of the increased credit risks on some of the banks and loss of funds in Delta Bank and Kazinvestbank, management reconsidered its cash management policy and tightened controls related to placement of cash in its banks: increased rating and financial requirements for counterparty banks, established credit limits and tenures for every counterparty bank and introduced documented procedures for selecting banks for investment of cash.

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.

The Company's EBRD loan had variable interest rates with a fixed margin (Note 21). If the variable part of interest rate on the EBRD loan in six-month period of 2018 would have been 20% higher or lower than the actual for the period, the interest expense would not have changed significantly.

(in thousands of USD)

23. FINANCIAL INSTRUMENTS (continued)

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 the Tenge. For amounts of assets and liabilities denominated in foreign currencies refer to Notes 14, 16, 20 and 21.

The Company management believes that it has taken appropriate measures to support the sustainability of the Company business under the current circumstances in respect of foreign currency risk.

Foreign currency sensitivity analysis

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

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 condensed interim financial information of the Company.

	Notes	30 June 2018 KZT (unaudited)	31 December 2017 KZT
Assets			
Guarantee deposits	11	43	40
Trade and other receivables	14	13,303	12,754
Other taxes prepaid	15	28,874	18,086
Income tax prepaid		1,733	738
Bank deposits		4	-
Cash and bank balances	16	1,828	1,438
Total		**45,785**	**33,056**
Liabilities			
Trade and other payables	20	27,783	10,735
Loans	21	11,070	12,149
Total		**38,853**	**22,884**
Net position		**6,932**	**10,172**

As at 30 June 2018 and in 2017 the following table details the Company's sensitivity of weakening and strengthening of the US Dollar against the tenge by 13%. The 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 above mentioned sensitivity ratios. The sensitivity analysis includes trade and other receivables, cash and bank balances, bank deposits, guarantee deposits, trade and other payables, financial assets and liabilities at fair value through profit or loss, loans and finance lease liabilities.

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

	Weakening of US Dollar Tenge	Strengthening of US Dollar Tenge
30 June 2018	**13%**	**(13%)**
Profit/(loss)	721	(721)

	Weakening of US Dollar Tenge	Strengthening of US Dollar Tenge
31 December 2017	**13%**	**(13%)**
Profit/(loss)	1,058	(1,058)

(in thousands of USD)

23. FINANCIAL INSTRUMENTS (continued)

Foreign currency sensitivity analysis (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, financial assets and liabilities at fair value through profit or loss, 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.

The following tables detail the Company's remaining contractual maturity for its non-derivative financial assets and liabilities. The tables have been drawn up based on the following:

- the undiscounted cash flows of financial liabilities based on the earliest date on which the Company can be required to pay, and

- on the undiscounted contractual maturities of the financial assets including interest that will be earned on those assets except the Company anticipates that the cash flow will occur in different period.

Liquidity and interest risk tables

	Weighted average effective interest rate %	Up to 3 months	3 months to 1 year	1-5 years	Over 5 years	Total
30 June 2018 (unaudited)						
Financial assets						
Non interest bearing						
Trade and other receivables	-	29,102	9,591	3,251	456	**42,400**
Guarantee deposits	-	252	37,789	10,915	8,480	**57,436**
Cash and bank balances	-	127,477	-	-	-	**127,477**
Fixed rate						
Bank deposits	4.55	4	-	-	-	**4**
Financial liabilities						
Non interest bearing						
Trade and other payables		65,217	630	-	-	**65,847**
Variable rate						
Loans (tenge denominated)		675	1,963	8,936	3,875	**15,449**
Fixed rate						
Finance lease liabilities		12,071	36,011	187,150	100,251	**335,483**

(in thousands of USD)

23. FINANCIAL INSTRUMENTS (continued)

Liquidity and interest risk tables (continued)

	Weighted average effective interest rate %	Up to 3 months	3 months to 1 year	1-5 years	Over 5 years	Total
31 December 2017						
Financial assets						
Non interest bearing						
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**
Fixed rate						
Bank deposits	4.55	5	-	-	-	**5**
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**

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.

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 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.

23. FINANCIAL INSTRUMENTS (continued)

Fair values (continued)

Finance lease liabilities

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

Management categorises the fair value of the Company's financial assets and liabilities in level 3 of the fair value hierarchy.

24. COMMITMENTS AND CONTINGENCIES

Capital commitments

During 2012, the Company finalised an agreement with Boeing to purchase three Boeing-787s aircraft – under finance lease agreements. The Company is committed to pre-delivery payments in accordance with the agreed payment schedule. Delivery of the Boeing 787s is now deferred to 2019 with the last pre-delivery payments deferred to 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 variable lease payments are denominated and settled in US Dollars. This currency is routinely used in international commerce for aircraft operating leases.

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 A321 was delivered in the second half of 2017, the second A321 was delivered in June 2018 and the remaining two aircraft are due in 2018 or 2019 to replace some current leases on expiry and for future expansion.

Stand-by Letters of Credit as of 30 June 2018 were USD 52,564 thousand, of which USD 35,564 thousand were secured by deposits (Note 11). These Letters of Credit were obtained as security for Lessors to cover any unfulfilled maintenance liabilities on the return of aircraft to Lessors.

(in thousands of USD)

24. COMMITMENTS AND CONTINGENCIES (continued)

Operating lease commitments (continued)

Commitments for leases of aircraft currently in operation:

	30 June 2018 (unaudited)	31 December 2017
Within one year	63,764	65,113
After one year but not more than five years	88,917	115,088
More than five years	21,601	22,031
	174,282	**202,232**

Commitments for leases of aircraft to be delivered from the second half of 2018 to 2020:

	30 June 2018 (unaudited)	31 December 2017
Within one year	25,605	16,831
After one year but not more than five years	182,958	175,707
More than five years	158,667	180,844
	367,230	**373,382**

Engine

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

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

Non-cancellable operating lease commitments are payable as follows:

	30 June 2018 (unaudited)	31 December 2017
Within one year	2,000	1,730
After one year but not more than five years	1,565	2,440
	3,565	**4,170**

24. COMMITMENTS AND CONTINGENCIES (continued)

Insurance

Aviation insurance

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

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

Non – Aviation Insurance

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

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

Taxation contingencies

The taxation system in Kazakhstan is relatively new and is characterised by 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 this condensed interim financial information, if the authorities were successful in enforcing their interpretations, could be significant.

The functional currency of the Company is the 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 a functional currency different from tenge in the accounting books. 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.

(in thousands of USD)

24. COMMITMENTS AND CONTINGENCIES (continued)

Operating Environment

Emerging markets such as Kazakhstan are subject to different risks than more developed markets, including economic, political and social, and legal and legislative risks. Laws and regulations affecting businesses in Kazakhstan continue to change rapidly, tax and regulatory frameworks are subject to varying interpretations. The future economic direction of Kazakhstan is heavily influenced by the fiscal and monetary policies adopted by the government, together with developments in the legal, regulatory, and political environment.

In addition, the significant devaluation of the Kazakhstani tenge in 2015 has increased the level of uncertainty in the business environment.

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

25. 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 during six-month period ended 30 June 2018 to independent directors was USD 44 thousand (during six-month period ended 30 June 2017: USD 44 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):

	Six-month period ended 30 June 2018 (unaudited)	Six-month period ended 30 June 2017 (unaudited)
Salaries and bonuses	2,471	2,067
Social tax	229	220
	2,700	**2,287**

Transactions with related parties

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

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

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

(in thousands of USD)

25. RELATED PARTY TRANSACTIONS (continued)

Transactions with related parties, continued

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

Services received	**Six-month period ended 30 June 2018 (unaudited) Transaction value**	**30 June 2018 (unaudited) Outstanding balance**	**Six-month period ended 30 June 2017 (unaudited) Transaction value**	**31 December 2017 Outstanding balance**
State-owned companies	14,954	(2,109)	14,071	(431)
Shareholders and their subsidiaries	2,337	(129)	2,379	84
	17,291	**(2,238)**	**16,450**	**(347)**

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

Services provided by the Company	**Six-month period ended 30 June 2018 (unaudited) Transaction value**	**30 June 2018 (unaudited) Outstanding balance**	**Six-month period ended 30 June 2017 (unaudited) Transaction value**	**31 December 2017 Outstanding balance**
State-owned companies	-	-	4,456	-
Shareholders and their subsidiaries	686	187	586	483
	686	**187**	**5,042**	**483**

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.

26. STANDARDS ISSUED BUT NOT YET EFFECTIVE

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

The Company has the following updates to information provided in the last annual financial statements about the standards issued but not yet effective that may have a significant impact on the Company's consolidated financial statements.

IFRS 16 *Leases*

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

The standard is effective for annual periods beginning on or after 1 January 2019. Early adoption is permitted.

IFRS 16 introduces a single, on-balance sheet lease 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 recognition 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.

The Company has completed an initial assessment of the potential impact on its consolidated financial statements but has not yet completed its detailed assessment. The actual impact of applying IFRS 16 on the financial statements in the period of initial application will depend on future economic conditions, including the Company's borrowing rate at 1 January 2019, the composition of the Company's lease portfolio at that date, the Company's latest assessment of whether it will exercise any lease renewal options and the extent to which the Company chooses to use practical expedients and recognition exemptions.

Thus far, the most significant impact identified is that the Company will recognise new assets and liabilities for its operating leases of aircraft. As at 30 June 2018, the Company's future minimum lease payments under non-cancellable operating leases amounted to USD 174,282 thousand, on an undiscounted basis.

In addition, the nature of expenses related to those leases will now change because IFRS 16 replaces the straight-line operating lease expense with a depreciation charge for right-of-use assets and interest expense on lease liabilities.

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

Transition

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

– retrospective approach; or

– modified retrospective approach with optional practical expedients.

The lessee applies the election consistently to all of its leases.

The Company plans to apply IFRS 16 initially on 1 January 2019, using a modified retrospective approach. Therefore, the cumulative effect of adopting IFRS 16 will be recognised as an adjustment to the opening balance of retained earnings at 1 January 2019, with no restatement of comparative information.

26. STANDARDS ISSUED BUT NOT YET EFFECTIVE (continued)

IFRS 16 *Leases* (continued)

Transition (continued)

When applying a modified retrospective approach to leases previously classified as operating leases under IAS 17, the lessee can elect, on a lease-by-lease basis, whether to apply a number of practical expedients on transition. The Company is assessing the potential impact of using these practical expedients.

The Company is not required to make any adjustments for leases in which it is a lessor except where it is an intermediate lessor in a sub-lease.

27. APPROVAL OF THE CONDENSED INTERIM FINANCIAL INFORMATION

The condensed interim financial information was approved by management of the Company and authorised for issue on 7 August 2018.