QAZAQ AIR JSC

Financial Statements

for the year ended
31 December 2019

Contents

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Independent Auditors' Report

To the Board of Directors and Management of QAZAQ AIR JSC

Opinion

We have audited the financial statements of QAZAQ AIR JSC (the "Company"), which comprise the statement of financial position as at 31 December 2019, the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2019, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

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

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

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

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

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

«КПМГ Аудит» ЖШС, Қазақстанда тіркелген жауапкершілігі шектеулі серіктестік, Швейцария заңнамасы бойынша тіркелген KPMG International Cooperative ("KPMG International") қауымдастығына кіретін KPMG тәуелсіз фирмалар желісінің мүшесі.

KPMG Audit LLC, a company incorporated under the Laws of the Republic of Kazakhstan, a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

Sergey Dementyev
Certified Auditor
of the Republic of Kazakhstan
Auditor's Qualification Certificate
No. MФ-0000086 of 27 August 2012

KPMG Audit LLC

State Licence to conduct audit No.0000021 dated 6 December 2006 issued by the Ministry of Finance of the Republic of Kazakhstan

Sergey Dementyev
General Director of KPMG Audit LLC
acting on the basis of the Charter

29 May 2020

‘000 KZT	Note	31 December 2019	31 December 2018*
Assets			
Property, plant and equipment	9	34,699,417	81,344
Intangible assets		24,661	26,574
Guarantee deposits	13	-	459,493
Prepayments and deferrals	10	231,596	3,049,165
Restricted cash		-	1,480
Non-current assets		**34,955,674**	**3,618,056**
Inventories	11	535,508	547,131
Trade and other receivables	12	297,614	243,672
Prepayments and deferrals	10	639,851	503,714
Guarantee deposits	13	-	63,716
Restricted cash		-	10,000
Cash and cash equivalents	14	1,402,412	1,197,967
Current assets		**2,875,385**	**2,566,200**
Total assets		**37,831,059**	**6,184,256**
Equity	15		
Share capital		120,000	120,000
Asset revaluation reserve		929,803	-
Retained earnings/(accumulated losses)		1,187,883	(4,370,342)
Total equity		**2,237,686**	**(4,250,342)**
Liabilities			
Loan from the Parent Company	16	31,380,594	5,166,475
Lease liabilities	20	7,493	-
Provisions	19	-	868,368
Deferred tax liabilities	8	2,548,318	7,113
Non-current liabilities		**33,936,405**	**6,041,956**
Liabilities			
Loan from the Parent Company	16	-	2,673,253
Trade and other payables	17	979,194	1,183,009
Other taxes payable	18	137,189	189,903
Deferred income		330,684	253,863
Advances received		195,019	92,614
Lease liabilities	20	14,882	-
Current liabilities		**1,656,968**	**4,392,642**
Total liabilities		**35,593,373**	**10,434,598**
Total equity and liabilities		**37,831,059**	**6,184,256**

The Company initially applied IFRS 16 at 1 January 2019, using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative effect of initially applying IFRS 16 is recognised in retained earnings at the date of initial application. See Note 25 a (iii(i)*).

The statement of financial position is to be read in conjunction with the notes to, and forming part of, the financial statements set out on pages 11 to 41.

'000 KZT	**Note**	**2019**	**2018***
Revenue and other income			
Passenger revenue	5	8,009,289	5,640,844
Other revenue	5	14,028	12,701
Total revenue and other income		**8,023,317**	**5,653,545**
Operating expenses			
Depreciation and amortisation		(3,831,328)	(32,355)
Fuel		(2,247,880)	(1,889,283)
Engineering and maintenance	6	(1,914,240)	(2,949,893)
Employee costs	6	(1,785,853)	(1,562,040)
Handling, landing fees and route charges	6	(958,731)	(737,693)
Provided staff costs	6	(877,142)	(1,098,719)
Passenger service	6	(545,120)	(448,751)
Insurance		(267,376)	(225,145)
Transport, accommodation and subsistence costs		(254,600)	(213,503)
Information technology		(230,176)	(187,465)
Training cost		(199,001)	(205,248)
Consultancy, legal and professional fees		(174,577)	(118,495)
Property lease cost		(156,596)	(199,196)
Selling costs		(81,967)	(143,230)
Aircraft licenses		(47,474)	(25,196)
Aircraft operating lease costs		-	(3,507,951)
Other		(194,448)	(223,118)
Total operating expenses		**(13,766,509)**	**(13,767,281)**
Operating loss		**(5,743,192)**	**(8,113,736)**
Finance income	7	255,311	153,383
Finance costs	7	(2,630,328)	(3,145,265)
Other income and expense		15,061	22,614
Foreign exchange gain, net		17,294	118,902
Loss before tax		**(8,085,854)**	**(10,964,102)**
Income tax benefit	8	875,348	4,011,258
Loss for the year		**(7,210,506)**	**(6,952,844)**

The Company initially applied IFRS 16 at 1 January 2019, using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative effect of initially applying IFRS 16 is recognised in retained earnings at the date of initial application. See Note 25 a (iii(i)*).

The statement of profit or loss and other comprehensive income is to be read in conjunction with the notes to, and forming part of, the financial statements set out on pages 11 to 41.

'000 KZT	Note	2019	2018*
Other comprehensive income			
Items that will never be reclassified to profit or loss			
Gain from revaluation of property, plant and equipment		1,162,254	-
Income tax		(232,451)	-
Other comprehensive income for the year, net of income tax		**929,803**	-
Total comprehensive loss for the year		**(6,280,703)**	**(6,952,844)**

The Company initially applied IFRS 16 at 1 January 2019, using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative effect of initially applying IFRS 16 is recognised in retained earnings at the date of initial application. See Note 25 a (iii(i)).*

These financial statements were approved by management on 29 May 2020 and were signed on its behalf by:

Plamen Tzvetkov Atanasov
Chairman of the Management Board

Aigul Zhussupova
Chief Accountant

The statement of profit or loss and other comprehensive income is to be read in conjunction with the notes to, and forming part of, the financial statements set out on pages 11 to 41.

'000 KZT	**Share capital**	**Asset revaluation reserve**	**Accumulated losses**	**Total equity**
Balance at 1 January 2018	120,000	-	(13,426,984)	(13,306,984)
Adjustment on initial application of IFRS 9	-	-	(153,966)	(153,966)
Adjusted balance at 1 January 2018	**120,000**	**-**	**(13,580,950)**	**(13,460,950)**
Total comprehensive loss				
Loss for the year	-	-	(6,952,844)	(6,952,844)
Transactions with owners of the Company				
Recognition of discount on the loan provided by the Parent Company, net of tax (Note 16)	-	-	16,163,452	16,163,452
Total transactions with owners of the Company	**-**	**-**	**16,163,452**	**16,163,452**
Balance at 31 December 2018	**120,000**	**-**	**(4,370,342)**	**(4,250,342)**
Balance at 1 January 2019	120,000	-	(4,370,342)	(4,250,342)
Adjustment on initial application of IFRS 16*	-	-	(5,679)	(5,679)
Adjusted balance at 1 January 2019	**120,000**	**-**	**(4,376,021)**	**(4,256,021)**
Total comprehensive loss				
Loss for the year	-	-	(7,210,506)	(7,210,506)
Other comprehensive income				
Gain from revaluation of property, plant and equipment, net of income tax	-	929,803	-	929,803
Total comprehensive loss for the year	**-**	**929,803**	**(7,210,506)**	**(6,280,703)**
Transactions with owners of the Company				
Recognition of discount on the loan provided by the Parent Company, net of tax (Note 16)	-	-	12,774,410	12,774,410
Total transactions with owners of the Company	**-**	**-**	**12,774,410**	**12,774,410**
Balance at 31 December 2019	**120,000**	**929,803**	**1,187,883**	**2,237,686**

The Company initially applied IFRS 16 at 1 January 2019, using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative effect of initially applying IFRS 16 is recognised in retained earnings at the date of initial application. See Note 25 a (iii(i)*).

The statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the financial statements set out on pages 11 to 41.

‘000 KZT	**2019**	**2018***
Cash flows from operating activities		
Cash receipts from customers	9,045,391	6,272,269
Cash paid to suppliers	(9,060,442)	(10,867,284)
Cash paid to employees	(1,490,391)	(1,279,913)
Cash paid for other taxes	(1,019,052)	(1,336,008)
Other receipts/(payments)	11,480	(5,000)
Cash flows used in operations before interest and tax	**(2,513,014)**	**(7,215,936)**
Interest received, net of tax	37,718	116,193
Net cash used in operating activities	**(2,475,296)**	**(7,099,743)**
Cash flows from investing activities		
Proceeds from sales of property, plant and equipment	-	48
Acquisition of property, plant and equipment	(12,516,635)	(20,374)
Acquisition of intangible assets	(5,030)	(1,172)
Net cash used in investing activities	**(12,521,665)**	**(21,498)**
Cash flows from financing activities		
Proceeds from loan from the Parent Company	40,618,755	5,043,262
Payments on loan from the Parent Company	(3,282,389)	-
Lease payments, including interest paid	(22,222,805)	-
Net cash from financing activities	**15,113,561**	**5,043,262**
Net increase/(decrease) in cash and cash equivalents	**116,600**	**(2,077,979)**
Cash and cash equivalents at 1 January	1,197,967	3,164,087
Effect of foreign exchange differences	87,845	111,859
Cash and cash equivalents at 31 December (Note 14)	**1,402,412**	**1,197,967**

The Company initially applied IFRS 16 at 1 January 2019, using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative effect of initially applying IFRS 16 is recognised in retained earnings at the date of initial application. See Note 25 a (iii(i)*).

The statement of cash flows is to be read in conjunction with the notes to, and forming part of, the financial statements set out on pages 11 to 41.

1. Reporting entity

(a) Organisation and operations

QAZAQ AIR JSC (the "Company") is a joint stock company as defined in the Civil Code of the Republic of Kazakhstan. The Company was established as a joint stock company on 1 April 2015 by Board of the Directors Resolution of Samruk-Kazyna National Welfare Fund JSC #117 dated 30 January 2015.

The sole shareholder of the Company is Samruk-Kazyna National Welfare Fund JSC ("the Parent Company") which is owned by the Government of the Republic of Kazakhstan. The Company's principal activity is the provision of scheduled domestic air services.

The Company operated its first flight on 27 August 2015, a Bombardier Q-400 NextGen service from Almaty to Nur-Sultan. As at 31 December 2019 the Company operated five De Havilland Dash 8 Q400 NextGen turboprop aircraft purchased during 2019. Two of the five aircraft were purchased directly from aircraft manufacturer De Havilland Aircraft of Canada Limited (former Bombardier Inc.), while the other three aircraft were purchased as a result of modification of operating lease agreements with Falcon Aviation Services LLC (UAE) (the "Lessor"). The modification represents transaction of termination of operating lease agreements with the Lessor and simultaneous purchase of aircraft from the owner of aircraft Chorus Aviation Capital (Ireland) Limited.

The Company registered its office at 119 Kabanbai Batyr Avenue, Yessil district, Nur-Sultan, Kazakhstan.

(b) Kazakhstan business environment

The Company's operations are primarily located in Kazakhstan. Consequently, the Company is exposed to the economic and financial markets of Kazakhstan which display characteristics of an emerging market. The legal, tax and regulatory frameworks continue development, but are subject to varying interpretations and frequent changes which together with other legal and fiscal impediments contribute to the challenges faced by entities operating in Kazakhstan. In addition, the first months of 2020 have seen significant global market turmoil triggered by the outbreak of the coronavirus. Together with other factors, this has resulted in a sharp decrease in the oil price and the stock market indices, as well as a continuing depreciation of the Kazakhstan Tenge. These developments are further increasing the level of uncertainty in the Kazakhstan business environment.

These financial statements reflect management's assessment of the impact of the Kazakhstan business environment on the operations and the financial position of the Company. The future business environment may differ from management's assessment.

2. Basis of accounting

(a) Statement of compliance

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

This is the first set of the Company's annual financial statements where IFRS 16 *Leases* has been applied. Changes to significant accounting policies are described in Note 25(a).

(b) Going concern

These financial statements have been prepared on a going concern basis which assumes realisation of assets and settlement of liabilities in the ordinary course of business. The Company has been established in 2015 and is currently in a development phase being dependent upon continuous financial support from the Parent Company.

During the period ended 31 December 2019 the Company incurred a net loss of KZT 7,210,506 thousand (2018: KZT 6,952,844 thousand).

The continued development of the Company's operations would require additional capital or loan contributions from the Parent Company, since per management's assessment of the development plan, which was approved by the Board of Directors, the Company will not generate positive results from its operations in nearest three years. The Parent Company has committed to provide the Company with such financial and other support as is necessary to permit the Company to continue in operational existence in the foreseeable future. As a result, management has concluded that no material uncertainty exists in relation to the Company's ability to continue as going concern.

As a result of the coronavirus global outbreak, state of emergency in Kazakhstan and further activated quarantine administration in the country, after reporting date the Company had to cease its flights to all directions for an unknown period of time starting from 22 March 2020. Also there was a significant weakening of KZT against foreign currencies as a result of oil prices having fallen significantly during 2020. Management assessed the potential impact of these events on the Company's operations and concluded that as at the date of approval of these financial statements the application of going concern assumption remained unchanged. Please refer to Note 26 for details.

3. Functional and presentation currency

The national currency of the Republic of Kazakhstan is the Tenge ("KZT"), which is the Company's functional currency and the currency in which these financial statements are presented. All financial information presented in KZT has been rounded to the nearest thousand, except when otherwise indicated.

4. Use of estimates and judgements

The preparation of financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Significant judgement is involved in determining a provision for aircraft maintenance during 2019 under the operating lease agreement (Note 19). The estimate was prepared by management without involvement of an independent expert, based on the current condition of aircraft, historical maintenance cost, flight hours and cycles, expected future utilisation of the aircraft over the remaining life of the operating leases. The estimates were based on the following key assumptions:

- expected utilisation rate for flight hours and cycles is based on historical data and actual usage;
- market prices of actually performed overhauls and norms included in Bombardier Inc. Maintenance Program are used for determining costs of maintenance services and spare parts;
- the aircraft are assumed to be operating within the standard norms and conditions; and
- no provisions have been made for unscheduled maintenance.

Information about critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements, except for calculation of provision for maintenance mentioned is included in Note 8 – recognition of deferred tax assets and liabilities.

The main assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year relate to Note 2(b).

Fair value measurement

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

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

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

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

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

Revaluation of property, plant and equipment

The Company accounts for aircraft at revalued amount. Revalued aircraft represent one class of assets under IFRS 13 on the basis of the nature, characteristics and risks inherent in the asset. The inputs for determining the fair values of aircraft are classified as Level 3 in the fair value hierarchy (unobservable inputs). The Company believes that the fair value of aircraft at the acquisition date is equal to the consideration transferred under the sale and purchase agreements, as all purchase transactions during 2019 were made between knowledgeable parties in an arm's length transaction. As a result of revaluation of three aircraft in 2019, the Company recognised a revaluation gain of KZT 929,803 thousand, net of income tax (Notes 15, 20) with regard to those aircraft that the Company previously held under lease agreement and which then were repurchased from the owner of said assets at the cost taking into account the existing lease relationships. As a result of accounting for the repurchase of leased aircraft, the value has been formed in the accounting, given the existing terms of a lease and lease relationship from the beginning of lease of aircraft, which does not reflect the fair value as at the time of repurchase.

5. Revenue and other income

'000 KZT	**2019**	**2018**
Passenger revenue		
Scheduled passenger transport	7,936,127	5,571,073
including:		
- *fuel surcharge*	*698,610*	*506,397*
- *airport surcharge*	*347,607*	*395,167*
- *excess baggage*	*41,323*	*43,003*
Charter flights	73,162	69,771
Total revenue from contracts with customers	**8,009,289**	**5,640,844**
Other revenue		
Other revenue	14,028	12,701
	14,028	**12,701**
	8,023,317	**5,653,545**

For the year ended 31 December 2019, passenger revenue from domestic flights comprised more than 99% (31 December 2018: 99%) of the total passenger revenue.

During the year ended 31 December 2019 there was no revenue from transactions with a single customer that accounts for 10% and more of the total revenue (2018: none).

The Company deals with the large ticket sales agencies. Tickets are usually sold on a prepayment basis every month. Due to the short-term nature of the Company's performance obligations, the opening balance of deferred income of KZT 253,863 thousand was fully recognised as revenue during 2019.

6. Operating expenses

(a) Engineering and maintenance

'000 KZT	2019	2018
Line Maintenance	588,220	422,889
Technical maintenance – variable lease payments	481,345	935,448
Spare parts pool and maintenance	403,016	865,831
C-check	216,452	-
Engines lease and overhaul costs	164,343	-
CAMO management	112,500	61,578
Technical maintenance – provision	(112,597)	645,536
Other	60,961	18,611
	1,914,240	**2,949,893**

Line maintenance expenses represent salary and related costs of four engineers provided by the Lessor who perform regular aircraft inspection and current repairs at the Company's location.

Spare parts pool and maintenance reserves were paid to the Lessor for provision of spare parts and access to them at all times required to keep the aircraft in an airworthy condition and were calculated as the amount equal to the fixed rate defined in the agreement multiplied by the actual flight hours and flight cycles of each aircraft. The CAMO management expenses relate to fixed payments to the Lessor for services provided for the management of the continuing airworthiness of the aircraft.

(b) Employee costs

'000 KZT	2019	2018
Wages and salaries of operational personnel	1,062,821	670,765
Wages and salaries of administrative personnel	424,121	595,865
Wages and salaries of sales personnel	81,891	88,520
Social tax and social contribution	217,020	206,890
	1,785,853	**1,562,040**

The number of employees as at 31 December 2019 was 271 employees (31 December 2018: 270 employees).

(c) Handling, landing fees and route charges

'000 KZT	2019	2018
Landing fees	344,089	259,850
Ground handling	217,819	163,073
Aero navigation	162,660	124,689
Security	159,114	113,657
De-icing liquids	75,049	76,424
	958,731	**737,693**

(d) Provided staff costs

'000 KZT	2019	2018
Provided staff costs	792,100	992,513
Withholding income tax on provided staff	85,042	106,206
	877,142	**1,098,719**

(e) Passenger service

'000 KZT	2019	2018
Airport charges	404,803	315,518
Catering	101,763	92,820
Other	38,554	40,413
	545,120	**448,751**

7. Finance income and costs

'000 KZT	2019	2018
Finance income		
Reversal of an impairment loss and writing-off of discount on guarantee deposits for leased aircraft	188,631	-
Interest income on bank deposits	53,108	138,685
Unwinding of discount on guarantee deposits	13,572	14,698
	255,311	**153,383**
Finance costs		
Unwinding of discount on loan from the Parent Company and interest expense accrued	2,169,648	3,145,265
Interest expense on lease liabilities (Note 20)	460,680	-
	2,630,328	**3,145,265**

8. Income tax benefit

The Company's applicable tax rate is the income tax rate of 20% for Kazakhstan companies.

'000 KZT	2019	2018
Current tax expense		
Current period	**8,082**	**22,492**
Deferred tax expense		
Origination and reversal of temporary differences	(1,251,130)	(2,016,282)
Underprovided in prior years	367,700	149,799
Change in unrecognised temporary differences	-	(2,167,267)
	(883,430)	**(4,033,750)**
	(875,348)	**(4,011,258)**
Deferred income tax related to items recognised in other comprehensive income during the year		
Deferred tax on revaluation of assets	232,451	-
Income tax expense recognised directly in other comprehensive income	**232,451**	**-**

Reconciliation of effective tax rate:

	2019		**2018**	
	'000 KZT	**%**	**'000 KZT**	**%**
Loss before income tax	**(8,085,854)**	**100**	**(10,964,102)**	**100**
Income tax using the Company's domestic tax rate	(1,617,171)	20.0	(2,192,820)	20.0
Change in recognised deductible temporary differences due to write-down of deferred tax assets	260,915	(3.2)	-	-
Tax effect of non-deductible expenses	105,126	(1.3)	176,538	(1.6)
Withholding tax on interest income	8,082	(0.1)	22,492	(0.2)
Underprovided in prior years	367,700	(4.5)	149,799	(1.4)
Change in unrecognised temporary differences	-	-	(2,167,267)	19.8
	(875,348)	**10.9**	**(4,011,258)**	**36.6**

Movement in temporary differences during the year:

'000 KZT	1 January 2019	Recognised in profit or loss	Impact of adopting IFRS 16	Recognised in equity	31 December 2019
Tax loss carry-forwards	3,801,591	2,187,359	-	-	5,988,950
Loan from the Parent Company	(4,004,307)	413,092	-	(3,193,603)	(6,784,818)
Provisions	173,674	(173,674)	-	-	-
Trade and other payables	15,596	1,162	-	-	16,758
Other taxes payable	4,778	(552)	-	-	4,226
Intangible assets	1,318	242	-	-	1,560
Property, plant and equipment	(1,833)	(1,541,952)	-	(232,451)	(1,776,236)
Other accruals	2,070	(2,070)	-	-	-
Right-of-use assets	-	2,212,639	(2,215,872)	-	(3,233)
Lease liabilities	-	(2,212,816)	2,217,291	-	4,475
	(7,113)	**883,430**	**1,419**	**(3,426,054)**	**(2,548,318)**

Accumulated tax losses of KZT 29,944,750 thousand as at 31 December 2019 (31 December 2018: KZT 19,007,955 thousand) expire in ten years from the origination date. Accumulated tax losses of KZT 487,618 thousand expire in 2025. During 2018 and 2019, the Company has fully recognised deferred tax assets due to origination of a deferred tax liability arising on the loan from Parent Company, which was recognised in equity. Deferred tax assets have not been recognised in respect of these items in prior years because it is not probable that future taxable profit will be available against which the Company can utilise the benefits therefrom.

9. Property, plant and equipment

'000 KZT	Vehicles	Machinery and equipment	Computers and office equipment	Right-of-use assets	Aircraft	Total
Cost/Revalued amount						
Balance at 1 January 2018	31,869	15,812	80,555	-	-	128,236
Additions	-	-	20,374	-	-	20,374
Disposals	-	-	(931)	-	-	(931)
Balance at 31 December 2018	**31,869**	**15,812**	**99,998**	**-**	**-**	**147,679**
Opening balance adjustment due to application of IFRS 16	-	-	-	11,132,197	-	11,132,197
Balance at 1 January 2019, adjusted	**31,869**	**15,812**	**99,998**	**11,132,197**	**-**	**11,279,876**
Additions and lease modification	-	1,840	10,960	11,024,543	15,445,658	26,483,001
Revaluation of variable lease payments that depend on an index or a rate (Note 20)	-	-	-	(282,114)	-	(282,114)
Internal movements	-	-	-	(21,759,385)	21,759,385	-
Disposals	-	-	(294)	-	-	(294)
Revaluation	-	-	-	-	1,341,855	1,341,855
Balance at 31 December 2019	**31,869**	**17,652**	**110,664**	**115,241**	**38,546,898**	**38,822,324**
Accumulated depreciation						
Balance at 1 January 2018	(11,581)	(2,929)	(29,478)	-	-	(43,988)
Charge for the year	(4,780)	(2,462)	(15,570)	-	-	(22,812)
Disposals	-	-	465	-	-	465
Balance at 31 December 2018	**(16,361)**	**(5,391)**	**(44,583)**	**-**	**-**	**(66,335)**
Opening balance adjustment due to application of IFRS 16	-	-	-	(52,839)	-	(52,839)
Balance at 1 January 2019, adjusted	**(16,361)**	**(5,391)**	**(44,583)**	**(52,839)**	**-**	**(119,174)**
Charge for the year	(4,780)	(1,726)	(21,050)	(2,937,112)	(859,717)	(3,824,385)
Internal movements	-	-	-	2,890,876	(2,890,876)	-
Disposals	-	-	253	-	-	253
Revaluation	-	-	-	-	(179,601)	(179,601)
Balance at 31 December 2019	**(21,141)**	**(7,117)**	**(65,380)**	**(99,075)**	**(3,930,194)**	**(4,122,907)**
Carrying amount						
Balance at 31 December 2018	**15,508**	**10,421**	**55,415**	**-**	**-**	**81,344**
Balance at 31 December 2019	**10,728**	**10,535**	**45,284**	**16,166**	**34,616,704**	**34,699,417**

Carrying amount of aircraft, if it were subsequently stated at cost, net of accumulated depreciation, is as follows:

'000 KZT	**31 December 2019**
Cost	37,205,043
Accumulated depreciation	(3,750,593)
Residual value	**33,454,450**

Property, plant and equipment, except for aircraft, are carried at cost, net of accumulated depreciation and accumulated impairment losses, if any. The Company revalued aircraft as at the acquisition date. The Company believes that the fair value of aircraft at the acquisition date is equal to the amount of consideration transferred under the purchase and sale agreements, as all purchase transactions during 2019 were made between knowledgeable parties and on an arm's length basis and thus no independent valuation of the aircraft has been carried out. As a result of revaluation of three aircraft in 2019, the Company recognised a revaluation gain of KZT 929,803 thousand, net of income tax (Notes 15, 20) with regard to those aircraft that the Company previously held under lease agreement and which then were repurchased from the owner of said assets at the market value, taking into account the existing lease relationships. As a result of accounting for the repurchase of leased aircraft, the value has been formed in the accounting, given the existing terms of a lease and lease relationship from the beginning of lease of aircraft, which does not reflect the fair value as at the time of repurchase.

As at 31 December 2019 all aircraft of the Company with carrying amount of KZT 34,616,704 thousand were served as collateral for loans received from the Parent Company (Note 16).

10. Prepayments and deferred expenses

'000 KZT	**31 December 2019**	**31 December 2018**
Non-current		
Deferred expenses on employees training costs	231,596	89,028
Prepayments for non-current assets	-	2,929,869
Discount on guarantee deposits	-	30,268
	231,596	**3,049,165**
Current		
Deferred expenses	254,808	196,845
Prepayments for goods	243,556	42,632
Prepayments for services	123,745	228,992
Other taxes prepaid	17,742	35,245
	639,851	**503,714**

Deferred expenses comprise employees training costs incurred by the Company, which are reimbursable by employees under their individual employment contracts if an employee has not worked for the Company during a period of time after finishing the training course. The average period is 2-4 years. The Company amortises such costs over such employment period on a straight-line basis, that represents management's estimate of a minimum period over which the Company would get benefits from employees working for the Company.

In 2017, the Company signed an agreement with Bombardier Inc. for the purchase of two new aircraft of Q400 model. According to the agreement, the Company made an advance payment of KZT 2,929,869 thousand for two aircraft (Note 22(c)). In 2019, the Company paid up the total value of aircraft and replenished its air fleet. As the result of the purchase, prepayment made in 2017 was included into the cost of aircraft according to the sale and purchase contract.

11. Inventories

'000 KZT	**31 December 2019**	**31 December 2018**
Aviation fuel	329,557	467,015
Spare parts	120,118	11,974
Uniform	26,669	18,904
Other materials	59,164	49,238
	535,508	**547,131**

12. Trade and other receivables

'000 KZT	31 December 2019	31 December 2018
Value added tax receivable	288,796	11,010
Receivables from employees	5,476	2,342
Trade receivables	3,342	11,752
Other receivables	-	218,568
	297,614	**243,672**

The Company's exposure to credit, currency and impairment risks related to financial assets is disclosed in Note 21.

13. Guarantee deposits

'000 KZT	31 December 2019	31 December 2018
Long-term		
Guarantee deposits for leased aircraft	-	637,490
Loss allowance	-	(177,997)
	-	**459,493**
Short-term		
Guarantee deposit for leased engine	-	38,036
Guarantee deposit for leased office space	-	25,680
	-	**63,716**

Long-term guarantee deposits comprised security deposits for the three leased aircraft required under the operating lease agreements as a security for future lease payments to be made by the Company. Guarantee deposits were denominated in US dollars. During 2019, the Company repurchased leased aircraft and as a result of purchase of the aircraft, the guarantee deposits were included into the cost of aircraft according to the sale and purchase contracts.

As at 31 December 2018 the Company estimated the expected credit loss on guarantee deposits for leased aircraft based on the assumption that the lessor is rated CCC as per Standard& Poor's scale.

The Company's exposure to credit, currency and impairment risks related to financial assets is disclosed in Note 21.

14. Cash and cash equivalents

'000 KZT	31 December 2019	31 December 2018
Short-term deposits with local banks	1,072,112	740,787
Current accounts with local banks	329,392	456,515
Cash on hand	1,086	1,046
	1,402,590	**1,198,348**
Loss allowance	(178)	(381)
	1,402,412	**1,197,967**

The Company's exposure to credit, currency and impairment risks related to financial assets is disclosed in Note 21.

15. Equity

(a) Share capital

'000 KZT	31 December 2019	%	31 December 2018	%
Samruk-Kazyna National Welfare Fund JSC	120,000	100	120,000	100

As at 31 December 2018 and 2019, the Company's share capital comprised 120,000 authorised, issued and fully paid ordinary shares with a par value of KZT 1,000 per share.

(b) Dividends

In accordance with Kazakhstan legislation the Company's distributable reserves are limited to the balance of retained earnings as recorded in the Company's financial statements prepared in accordance with IFRS or profit for the year if there is an accumulated loss brought forward. A distribution cannot be made if this would result in negative equity or the Company's insolvency. As at 31 December 2019 the Company had retained earnings of KZT 1,187,883 thousand (31 December 2018: accumulated loss of KZT 4,370,342 thousand). The Company has not declared dividends during the year ended 31 December 2019 (2018 year: the Company has not declared dividends).

(c) Assets revaluation reserve

During 2019, the Company purchased five aircraft. For two new aircraft no revaluation surplus was recorded as these aircraft were purchased directly from the aircraft manufacturing company. The assets revaluation reserve of KZT 929,803 thousand, net of income tax (Notes 9 and 20), relates to revaluation surplus of three aircraft that the Company previously held under lease agreement and which then were repurchased from the owner of said assets at the market value, taking into account the existing lease relationships. As a result of accounting for the repurchase of leased aircraft, the value has been formed in the accounting, given the existing terms of a lease and lease relationship from the beginning of lease of aircraft, which does not reflect the fair value as at the time of repurchase.

The Company believes that the fair values of aircraft approximate their carrying amount at the year-end 2019.

16. Loan from the Parent Company

'000 KZT	**31 December 2019**	**31 December 2018**
Long-term		
Sovereign Wealth Fund "Samruk-Kazyna" JSC	31,269,681	5,162,616
Interest payable	110,913	3,859
	31,380,594	**5,166,475**
Short-term		
Sovereign Wealth Fund "Samruk-Kazyna" JSC	-	2,673,253
	-	**2,673,253**

In 2015, the Company received an interest-free financial aid of KZT 4,728,637 thousand from its sole shareholder – Sovereign Wealth Fund "Samruk-Kazyna" JSC - for replenishment of working capital with maturity in June 2016. The financial aid was received by several tranches and was repayable by means of issue of 4,728,637 ordinary shares at par value of KZT 1,000 per share by the Company. The Company recognised the received financial aid as additional paid-in capital.

The contractual terms for repayment of the provided facility were modified in April 2016 in order to extend the term of repayment of the financial aid until 31 December 2016 and introduce an option for the Parent Company to demand the repayment of the financial aid by cash upon its maturity. As a result, the Company reclassified the financial aid of KZT 4,728,637 thousand from additional paid-in capital to liabilities. In accordance with the addendum signed the amount of the financial aid has also increased to KZT 13,303,706 thousand.

In March 2017, the Company signed a loan agreement with the Parent Company, which provided for converting the initial interest-free financial aid of KZT 13,303,706 thousand into a loan facility with maturity on 31 December 2017.

In March 2017, the Company also signed an additional loan agreement with the Parent Company of KZT 6,523,227 thousand with maturity on 31 December 2017. The purpose of the loan is financing Company's operating activities. The loan amount under the contract was increased to KZT 11,566,489 thousand in December 2017 and to KZT 15,084,419 thousand in December 2018. In accordance with the Addendum signed in November 2019, the loan amount was increased to KZT 18,927,888 thousand.

In December 2017, the maturity of the loan facilities was extended until 31 December 2018.

In December 2018, the maturity of the loan facilities was extended until 31 December 2030.

The contractual terms of loans for financing of operating activities of the Company includes the option of partial conversion to the equity based on Parent Company's decision.

On 6 December 2017, the Company signed with the Parent Company an interest-free financial aid agreement for KZT 2,987,209 thousand with a maturity of one year from the date of agreement for the purpose of financing advance payments for two new aircraft of Q400 model to Bombardier Inc. (Note 10). In December 2018, the repayment term of the financial aid was extended until 5 December 2019. In March 2019, the financial aid was repaid from the funds received under the loan agreement signed in February 2019.

In February 2019, the Company signed a loan agreement with the Parent Company for the amount of KZT 16,000,000 thousand with a maturity of 12 years. The intended purpose of loan received is purchasing two new aircraft of Q400 model of the company Bombardier Inc. Aircraft were purchased in April and June 2019, respectively. The loan received under the contract was secured by two purchased aircraft. This loan was initially recognised at fair value using a market interest rate.

In addition, in October 2019, the Company signed a loan agreement with the Parent Company for the amount of KZT 21,000,000 thousand with maturity of 15 years. The intended purpose of the loan received is purchasing three new aircraft of Q400 model, which were previously leased under operating lease contracts. The aircraft were acquired in October 2019. The loan received under the contract was secured by three purchased aircraft. The loan was initially recognised at fair value using a market interest rate.

At initial recognition all loans were recognised at fair value using a market interest rate.

The resulted discount of KZT 15,968,013 thousand on loans and tranches received in 2019 (2018: KZT 20,204,315 thousand) net of corresponding deferred tax of KZT 3,193,603 thousand (2018: KZT 4,040,863 thousand) was recognised directly in equity.

Corresponding finance costs during the period ended 31 December 2019 amounted to KZT 2,172,513 thousand (2018: KZT 3,145,265 thousand).

Reconciliation of movements of liabilities to cash flows arising from financing activities

'000 KZT	**Loan from the Parent Company**
Balance at 1 January 2019	**7,839,728**
Changes from financing cash flows	
Proceeds from borrowings	40,618,755
Repayment of borrowings	(3,282,389)
Total changes from financing cash flows	**37,336,366**
Other changes	
Interest expense	107,054
Unwinding of discount on loan from the Parent Company	2,065,459
Recognition of discount on loan from the Parent Company	(15,968,013)
Total other changes	**(13,795,500)**
Balance at 31 December 2019	**31,380,594**

17. Trade and other payables

'000 KZT	**31 December 2019**	**31 December 2018**
Trade payables	841,911	1,031,175
Wages and salaries payable to employees	131,743	122,910
Other	5,540	28,924
	979,194	**1,183,009**

The Company's exposure to currency and liquidity risk related to trade and other payables is disclosed in Note 21.

18. Other taxes payable

'000 KZT	31 December 2019	31 December 2018
Withholding income tax	36,242	72,342
Personal income tax	21,591	54,175
Other taxes	79,356	63,386
	137,189	**189,903**

19. Provisions

'000 KZT	31 December 2019	31 December 2018
Provision for aircraft maintenance	-	770,465
Provision for aircraft re-delivery	-	97,903
	-	**868,368**

Under the terms of its long-term aircraft operating lease agreements, the Company is obliged to carry out and pay for maintenance based on usage of the aircraft and return aircraft to the lessor in a satisfactory condition at the end of the lease term. During 2019, the Company repurchased the leased aircraft as a result of modification of the operating lease terms and therefore, the provisions for aircraft maintenance in the amount of KZT 662,360 thousand were off as part of the modification of the operating lease agreements under IFRS 16. The Company's use of estimates and judgments in determining provision for aircraft maintenance are disclosed in Note 4.

20. Lease liabilities

As at 1 January 2019, the Company recognised lease liabilities of KZT 10,806,822 thousand for three aircraft under operating lease agreements with Falcon Aviation Services LLC, which represent present value of future lease payments. During 2019, the Company and the lessor agreed to terminate the lease with an obligation of subsequent purchase of leased aircraft. Such change in the lease was accounted for as a modification of lease terms as a result of which the Company recognised an adjusted asset as a right-of-use asset. The Company recognised a historical cost of aircraft of KZT 18,885,246 thousand resulted from those transactions. As a result of the transaction, the amount of the consideration transferred under the sale and purchase contract amounted to KZT 20,047,500 thousand. As at the acquisition date, the Company recognised an increment in value of aircraft of KZT 929,803 thousand net of income tax in the asset revaluation reserve.

	Lease payments	Present value of lease payments
'000 KZT	**31 December 2019**	**31 December 2019**
Not later than one year	17,558	14,882
Later than one year and not later than five years	6,749	7,493
	24,307	**22,375**
Less: future finance costs	(1,932)	-
Present value of minimum lease payments	**22,375**	**22,375**

Included in the financial statements as:	
- current portion of lease obligations	14,882
- non-current portion of lease obligations	7,493
	22,375

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

'000 KZT	Lease liabilities without transfer of ownership
Balance at 1 January 2019	-
Adjustments on initial application of IFRS 16	10,902,913
Balance at 1 January 2019	**10,902,913**
Amount of the consideration transferred under the sale and purchase contract of aircraft	(20,047,500)
Payment of lease liabilities, including interest paid	(2,175,305)
Total changes from financing cash flows	**(22,222,805)**
The effect of changes in foreign exchange rates	79,361
Other changes	
Interest expense (Note 7)	460,680
Modification of aircraft lease agreements	11,074,148
Revaluation of variable lease payments that depend on an index or a rate (Note 9)	(282,114)
New leases or new lease liabilities	10,192
Total other changes	**11,262,906**
Balance at 31 December 2019	**22,375**

21. Fair values and risk management

(a) Accounting classifications and fair values

Management believes that the fair value of the Company's financial assets and liabilities approximates their carrying amount. The basis for determining fair values is disclosed below.

Management categorises the fair value of the Company's financial assets and liabilities into Level 2 of the fair value hierarchy.

(b) Fair value measurement

The estimated fair values of all financial assets and liabilities, which is determined for disclosure purposes, are calculated using discounted cash flow techniques based on estimated future cash flows and market rate of interest at the reporting date.

(c) Financial risk management

The Company has exposure to the following risks from its use of financial instruments:

- credit risk;
- liquidity risk;
- market risk.

(i) Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. Management is responsible for developing and monitoring the Company's risk management policies. Management reports regularly to the Board of Directors on its activities.

(ii) Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's receivables from customers, guarantee deposits and bank balances.

The carrying amount of financial assets represents the Company's maximum credit risk exposure.

Exposure to credit risk

The maximum exposure to credit risk related to the Company's trade receivables, guarantee deposits, restricted cash, cash and cash equivalents with the banks at the reporting date was as follows:

'000 KZT	Carrying amount	
	31 December 2019	**31 December 2018**
Trade receivables	3,342	11,752
Other trade receivables	-	218,568
Guarantee deposits	-	523,209
Cash in banks	1,401,326	1,196,921
Restricted cash	-	11,480
	1,404,668	**1,961,930**

Trade and other receivables

The Company's exposure to credit risk is influenced mainly by the individual characteristics of each customer/client. 100% of the Company's trade receivables as at 31 December 2019 and 31 December 2018 is attributable to domestic customers. As at 31 December 2019 there was no significant concentration of credit risk in respect of trade receivables (Note 12) (31 December 2018: none).

A summary of the Company's exposure to credit risk for trade and other receivables is as follows:

'000 KZT	31 December 2019	31 December 2018
	Not credit-impaired	**Not credit-impaired**
Assigned credit rating at CCC	-	218,540
Other customers:		
- Less than four years' trading history with the Company	3,342	11,780
Total gross carrying amount	**3,342**	**230,320**

Expected credit loss assessment for corporate customers as at 1 January and 31 December 2019

The Company allocates each exposure to a credit risk grade based on data that is determined to be predictive of the risk of loss (including but not limited to external ratings, audited financial statements, management accounts and cash flow projections and available press information about counterparties) and applying experienced credit judgement. Credit risk grades are defined using qualitative and quantitative factors that are indicative of the risk of default and are aligned to external credit rating definitions from agency Standard & Poor's.

On initial application of IFRS 9, the Company did not recognise an impairment allowance for trade and other receivables as at 1 January 2018 as the amount was insignificant.

Guarantee deposits

As at 31 December 2018, the Company held three long-term guarantee deposits of KZT 459,493 thousand denominated in USD for the leased aircraft with the lessor, that was rated 'CCC', and two short-term guarantee deposits for KZT 63,716 denominated in KZT and USD related to the leased office and engine. As at 31 December 2019 the Company had no guarantee deposits.

Impairment of guarantee deposits was measured based on 12-month ECL.

On initial application of IFRS 9, the Company recognised an impairment allowance for guarantee deposits as at 1 January 2018 in the amount of KZT 153,966 thousand. The balance of the allowance has increased up to KZT 177,997 thousand as at 31 December 2018 as the result of change in the USD exchange rate.

Cash and cash equivalents

As at 31 December 2019, the Company held cash and cash equivalents of KZT 1,401,326 thousand (31 December 2018: KZT 1,196,921 thousand). The cash and cash equivalents are held with banks and financial institutions, which are rated 'BB' to 'BB+' based on Standard & Poor's ratings.

Impairment on cash and cash equivalents has been measured based on expected credit losses over the contractual maturities that reflects the short maturities of the exposures. The Company considers that its cash and cash equivalents have low credit risk based on the external credit ratings of the counterparties.

Restricted cash

As at 31 December 2018 the Company held restricted cash of KZT 11,480 thousand, placed with the bank rated 'BB' based on Standard &Poor's ratings. As at 31 December 2019 the Company had no restricted cash.

Impairment on restricted cash has been measured on a 12-month expected loss basis and reflects the short maturities of the exposures. The Company considers that its restricted cash has low credit risk based on the external credit ratings of the counterparties.

(iii) Liquidity risk

Liquidity risk is the risk that the 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.

Typically, the Company ensures that it has sufficient cash on demand to meet expected operational expenses, including the servicing of financial obligations; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters.

Exposure to liquidity risk

The following are the contractual maturities of financial liabilities at the reporting date. The amounts are gross and undiscounted, and exclude the impact of netting agreements. It is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different amounts.

31 December 2019

'000 KZT	Carrying amount	Contractual cash flows	Less than 2 months	Less than 12 months	Less than 5 years	More than 5 years
Non-derivative financial liabilities						
Trade payables	841,911	841,911	841,911	-	-	-
Loan from the Parent Company	31,380,594	65,304,682	-	-	-	65,304,682
Lease liabilities	22,375	24,307	10,328	7,230	6,749	-
	32,244,880	**66,170,900**	**852,239**	**7,230**	**6,749**	**65,304,682**

31 December 2018

'000 KZT	Carrying amount	Contractual cash flows	Less than 2 months	Less than 12 months	Less than 5 years	More than 5 years
Non-derivative financial liabilities						
Trade payables	1,031,175	1,031,175	1,031,175	-	-	-
Loan from the Parent Company	7,839,728	27,861,263	-	2,987,209	-	24,874,054
	8,870,903	**28,892,438**	**1,031,175**	**2,987,209**	**-**	**24,874,054**

(iv) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

The Company does not buy or sell derivatives in order to manage market risks. The Company does not apply hedge accounting in order to manage volatility in profit or loss.

Currency risk

The Company is exposed to currency risk on cash and cash equivalents, guarantee deposits and purchases that are denominated in a currency other than the functional currency of the Company, primarily the U.S. Dollar (USD).

In respect of other monetary assets and liabilities denominated in foreign currencies, the Company's policy is to ensure that its net exposure is kept to an acceptable level by buying or selling foreign currencies at spot rates when necessary to address short-term imbalances.

Exposure to currency risk

The Company's exposure to foreign currency risk was as follows:

	31 December 2019		31 December 2018	
'000 KZT	**USD-denominated**	**GBP-denominated**	**USD-denominated**	**GBP-denominated**
Guarantee deposits	-	-	497,529	-
Cash and cash equivalents	302,069	12,526	447,726	-
Other receivables	-	-	218,540	-
Trade payables	(661,067)	(15,721)	(917,994)	(15,047)
Net exposure	**(358,998)**	**(3,195)**	**245,801**	**(15,047)**

The following significant exchange rates have been applied during the year:

in KZT	**Average rate**	**Reporting date spot rate**	**Average rate**	**Reporting date spot rate**
	2019	**31 December 2019**	**2018**	**31 December 2018**
USD 1	382.87	382.59	344.90	384.20
GBP 1	488.69	503.41	459.56	488.13

Sensitivity analysis

A reasonably possible strengthening/weakening of the USD, as indicated below, against all other currencies at 31 December 2019 and 31 December 2018 would have affected profit and loss net of taxes by the amounts shown below. Foreign exchange changes would not have an effect on equity. The analysis assumes that all other variables, in particular interest rates, remain constant and ignores any impact of forecast sales and purchases.

'000 KZT	**KZT strengthening**		**KZT weakening**	
	USD	**GBP**	**USD**	**GBP**
31 December 2019	**12%**	**12%**	**9%**	**9%**
Profit/(loss)	34,464	307	(25,848)	(230)
31 December 2018	**14%**	**15%**	**10%**	**15%**
Profit/(loss)	(27,530)	1,806	19,664	(1,806)

(v) Interest rate risk

The Company was not exposed to interest rate risk at 31 December 2019 and 31 December 2018.

(d) Master netting or similar agreements

The Company may enter into sales and purchase agreements with the same counterparty in the normal course of business. The related amount receivable and payable do not always meet the criteria for offsetting in the statement of financial position. This is because the Company may not have legally enforceable rights to offset recognised amounts, because the rights to offset may be enforceable only on the occurrence of future events. In particular, in accordance with the Kazakh civil law an obligation can be settled by offsetting against a similar claim if it is due, has no maturity or is payable on demand.

(e) Capital management

The Company does not operate formal capital management policies. However, management aims to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business.

The Company is not subject to externally imposed capital requirements.

22. Contingencies

(a) Insurance

The insurance industry in the Republic of Kazakhstan is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available. The Company holds all policies of mandatory insurance required by the laws of Kazakhstan. Currently, the Company is not exposed to the risk of loss of high value assets as the Company has concluded contracts of voluntary aircraft insurance. The Company holds policies of voluntary aircraft insurance against all risks of property damage of the aircraft and of the third party liability, as well as policies of voluntary aircraft insurance against risk of war and associated risks.

(b) Taxation contingencies in the Republic of Kazakhstan

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.

These circumstances may create tax risks in Kazakhstan that are more significant than in other countries. 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 the financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

(c) Capital commitment

During 2017, the Company concluded an agreement with Bombardier Inc. on purchase of two Bombardier Q400 aircraft. In 2019, the Company paid the full amount of consideration for aircraft and increased its aircraft fleet. As a result of the purchase transaction, the amount of advance paid in 2017 was included in the cost of aircraft under the sale contract.

23. Related parties

(a) Parent and ultimate controlling party

The Company's immediate parent company is Samruk-Kazyna National Welfare Fund JSC, which is owned by the Government of the Republic of Kazakhstan.

(b) Transactions with key management personnel

Key management remuneration

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

'000 KZT	**2019**	**2018**
Salaries and bonuses	209,793	244,727
Contributions to State Pension Fund	7,360	5,100
Social contributions	20,163	23,758
	237,316	**273,585**

(c) Other related party transactions

(i) Expenses

'000 KZT	**Transaction value**	**Outstanding balance**	**Transaction value**	**Outstanding balance**
	2019	**2019**	**2018**	**2018**
Purchase of goods and services:				
Samruk-Kazyna National Welfare Fund JSC subsidiaries	399,134	319	347,099	8,746
State-owned companies	186,917	9,610	374,757	19,625
	586,051	**9,929**	**721,856**	**28,371**

(ii) Loans

'000 KZT	**Transaction value**	**Outstanding balance**	**Transaction value**	**Outstanding balance**
	2019	**2019**	**2018**	**2018**
Loans received, net of repayments during the year				
Samruk-Kazyna National Welfare Fund JSC	37,336,366	31,269,681	5,043,262	7,835,869
Interest accrued	-	110,913	-	3,859
	37,336,366	**31,380,594**	**5,043,262**	**7,839,728**

Related parties comprise the shareholder of the Company and all other companies in which this shareholder has a controlling interest. These transactions are conducted in the ordinary course of the Company's business on terms comparable to those with other entities that are not related.

24. Basis of measurement

The financial information is prepared on the historical cost basis, except for aircraft which are measured at fair value at each reporting date.

25. Significant accounting policies

The accounting policies set out below have been consistently applied by the Company to all periods presented in these financial statements, except for the cases described in Note 25(a).

(a) Changes in significant accounting policies

IFRS 16

The Company has initially applied IFRS 16 *Leases* from 1 January 2019.

The Company applied IFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognised in retained earnings at 1 January 2019. Accordingly, the comparative information presented for 2018 has not been restated – i.e. it is presented, as previously reported, under IAS 17 and related interpretations. The details of the changes in accounting policies are disclosed below. Additionally, the disclosure requirements in IFRS 16 have not generally been applied to comparative information.

***(i)* Definition of a lease**

Previously, the Company determined at contract inception whether an arrangement was or contained a lease under IFRIC 4 *Determining Whether an Arrangement contains a Lease*. The Company now assesses whether a contract is or contains a lease based on the new definition of a lease. Under IFRS 16, a contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration.

On transition to IFRS 16, the Company elected to apply the practical expedient to grandfather the assessment of which transactions are leases. The Company applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed. Therefore, the definition of a lease under IFRS 16 has been applied only to contracts entered into or changed on or after 1 January 2019.

(ii) As a lessee

The Company leases various assets including aircraft, vehicles, and buildings.

As a lessee, the Company previously classified leases as operating or finance leases based on its assessment of whether the lease transferred substantially all of the risks and rewards of ownership. Under IFRS 16, the Company recognises right-of-use assets and lease liabilities for most of these leases – i.e. these leases are on-balance sheet.

(i) Leases classified as operating leases under IAS 17

Previously, the Company classified property leases as operating leases under IAS 17. On transition, for these leases, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Company’s incremental borrowing rate as at 1 January 2019 (Note 25 iii*(i)*). Right-of-use assets are measured at either:

- their carrying amount as if IFRS 16 had been applied since the commencement date, discounted using the Company’s incremental borrowing rate at the date of initial application: – the Company applied this approach to lease of vehicles and buildings; or
- an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments: – the Company applied this approach to aircraft leases.

The Company has tested its right-of-use assets for impairment on the date of transition and has concluded that there is no indication that the right-of-use assets are impaired.

The Company used a number of practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17. In particular, the Company:

- did not recognise right-of-use assets and liabilities for leases of low value assets (e.g. IT equipment);
- did not recognise right-of-use assets and liabilities for leases for which the lease term ends within 12 months of the date of initial application;
- excluded initial direct costs from the measurement of the right-of-use asset at the date of initial application; and
- used hindsight when determining the lease term.

(ii) Lease modification

A lease modification is a change in the scope of a lease, or the consideration for a lease, that was not part of its original terms and conditions, including addition of an obligation to purchase an asset upon immediate reduction of a lease term provided for in a lease agreement. Transaction which include separate termination of previous relationships under operating lease and simultaneous conclusion of purchase agreement considered to be a linked transaction which in substance represent lease modification.

The Company accounts for a lease modification that is not a separate lease at the effective date of the modification by remeasuring the lease liability. To do so, the Company discounts the revised lease payments using a revised discount rate determined at that date and:

- for lease modifications that decrease the scope of the lease, the lessee decreases the carrying amount of the right-of-use asset to reflect the partial or full termination of the lease, and recognises a gain or loss that reflects the proportionate decrease in scope; and

- for all other lease modifications, the lessee makes a corresponding adjustment to the right-of-use asset.

(iii) Impact on financial statements

(i) Impact on transition

On transition to IFRS 16, the Company recognised additional right-of-use assets, including investment property, and additional lease liabilities, recognising the difference in retained earnings. The impact on transition is summarised below.

'000 KZT	**1 January 2019**
Right-of-use assets presented in property, plant and equipment	11,132,197
Accumulated depreciation	(52,839)
Deferred tax asset	1,419
Lease prepayments	(183,543)
Lease liabilities	(10,902,913)
Retained earnings	5,679

When measuring lease liabilities for leases that were classified as operating leases, the Company discounted lease payments using its incremental borrowing rate at 1 January 2019. The weighted-average rate applied is 6% in USD for aircraft lease agreements and 13.5% in KZT for all other leases.

Presented below is the reconciliation of the lease commitments as at 31 December 2018 with the accrual of lease liabilities presented as at 1 January 2019:

'000 KZT	**1 January 2019**
Operating lease commitment at 31 December 2018 as disclosed in the Company's financial statements	8,682,920
Discounted lease payments as at 31 December 2018 not disclosed in the Company's financial statements	96,091
Discounted variable payments that depend on an index or a rate, including withholding tax	1,445,355
Discounted payments of withholding tax for fixed payments	1,590,901
Effect on discounting for fixed payments	(728,811)
Lease prepayments	(183,543)
Lease liabilities recognised at 1 January 2019	**10,902,913**

Amendments to IAS 23 Borrowing Costs

The Company has adopted amendments to IAS 23 Borrowing Costs issued by the International Accounting Standards Board as part of Annual Improvements to IFRS Standards 2015–2017 Cycle from 1 January 2019 and apply them to borrowing costs incurred on or after that date. The amendments clarify that the general borrowings pool used to calculate eligible borrowing costs excludes only borrowings that specifically finance qualifying assets that are still under development or construction. Therefore, the Company treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete. Borrowings that were intended to specifically finance qualifying assets which are now ready for their intended use or sale – or any non-qualifying assets – the Company includes in its general pool. Amendments to IAS 23 Borrowing Costs have no impact on the financial statements for the year ended 31 December 2019.

New standards and interpretations not yet adopted

A number of new standards are effective for annual periods beginning after 1 January 2019 and earlier application is permitted; however, the Company has not early adopted the new or amended standards in preparing these financial statements.

The following amended standards and interpretations are not expected to have a significant impact on the Company's financial statements.

- *Amendments to References to Conceptual Framework in IFRS Standards.*
- *Definition of a Business (Amendments to IFRS 3).*
- *Definition of Material (Amendments to IAS 1 and IAS 8).*
- *IFRS 17 Insurance Contracts.*

(b) Revenue

Passenger revenue

The Company identifies two performance obligations – passenger transportation and charter flights. Ticket sales are reported as revenue at point of time when performance obligation related to passenger transportation service has been satisfied. The cost of tickets sold and still valid but not used by the reporting date is recognised as deferred (unearned) passenger transportation revenue. This item is reduced either when the Company performs the transportation service or when the passenger requests a refund for the ticket. Certain portion of revenue from unused tickets is recognised at the actual flight date in the amount presuming that the probability that a customer will claim the Company to perform its obligations for the service is remote.

(c) Finance income and finance costs

Finance costs comprise interest income and foreign currency gains and losses. Interest income or expense is recognised using the effective interest method. Foreign currency gains and losses are reported on a net basis as either finance income or finance cost depending on whether foreign currency movements are in a net gain or net loss position.

(d) Foreign currency

Transactions in foreign currencies are translated to the functional currency of the Company at exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period.

Non-monetary items in a foreign currency that are measured based on a historical cost are translated using the exchange rate at the date of the transaction. Foreign currency differences arising in translation are recognised in profit or loss.

(e) Employee benefits

(i) Defined contribution plans

The Company does not incur any expenses in relation to provision of pensions or other post-employment benefits to employees. In accordance with the State pension social insurance regulations, the Company withholds pension contributions from employee salaries and transfers them into pension funds. Once the pension contributions have been paid, the Company has no further pension obligations. Upon retirement of employees, all pension payments are administrated by the pension fund directly.

(ii) Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

(f) Income tax

Income tax expense comprises current and deferred tax. Current tax and deferred tax is recognised in profit or loss except to the extent that it relates to items recognised directly in equity or in other comprehensive income.

(i) Current tax

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

(ii) Deferred tax

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss.

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be used. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised;

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

The measurement of deferred tax reflects the tax consequences that would follow the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax assets and liabilities, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

(g) Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on first-in-first-out principle except for fuel and de-icing fluids, which are based on the weighted average cost principle, and includes expenditure incurred in acquiring the inventories and other costs incurred in bringing them to their existing location and condition.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

(h) Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment, excluding aircraft, are measured at cost less accumulated depreciation and impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset.

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

Any gain or loss on disposal of an item of property, plant and equipment is determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and is recognised net within other income/other expenses in profit or loss.

Aircraft are measured at fair value less accumulated depreciation and impairment losses recognized at the date of revaluation. Valuations are performed with sufficient frequency to ensure that the fair value of a revalued asset does not differ materially from its carrying amount. A revaluation increase on aircraft is recognised directly under the heading of revaluation surplus in other comprehensive income. However, the increase is recognised in profit or loss to the extent that it reverses a revaluation decrease of the same asset previously recognised in profit or loss.

A revaluation decrease on aircraft is recognised in profit or loss. However, the decrease is recognised in other comprehensive income to the extent of any credit balance existing in the revaluation surplus. Upon disposal, any revaluation surplus relating to the particular asset being sold is transferred to retained earnings.

(i) Subsequent expenditures

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

(iii) Depreciation

Items of property, plant and equipment are depreciated from the date that they are installed and are ready for use, or in respect of internally constructed assets, from the date that the asset is completed and ready for use. Depreciation is based on the cost of the asset less its estimated residual value.

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset.

The estimated useful lives of significant items of property, plant and equipment are as follows:

- Aircraft (excluding separate asset components) 25 years;
- Vehicles 5 – 10 years;
- Office equipment and furniture 4 – 7 years;
- Other 4–8 years.

Separate asset component of an aircraft is amortised over the average expected life between major overhauls which is based on flight hours or cycles.

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

(i) Intangible assets

Intangible assets that are acquired by the Company, which have finite useful lives, are measured at cost less accumulated amortisation and impairment losses.

(i) Subsequent expenditures

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is recognised in the profit or loss as incurred.

(ii) Amortisation

Amortisation is based on the cost of the asset less its estimated residual value.

Amortisation is generally recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of intangible assets, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset.

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

- Software 3-10 years.

Amortisation methods, useful lives and residual values are reviewed at each financial year end and adjusted if appropriate.

(j) Deferred expenses

The training costs are classified by the Company as a prepayment of its expenses and are amortised on a straight-line basis over a period, during which the Company has a right to oblige these expenses become payable by the employees, should such employees terminate his/her employment.

(k) Financial instruments

(i) Recognition and initial measurement

Trade receivables are initially recognised when they are originated. All other financial assets and financial liabilities are initially recognised when the Company becomes a party to the contractual provisions of the instrument.

A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value. A trade receivable without a significant financing component is initially measured at the transaction price.

(ii) Classification and subsequent measurement

Financial assets

On initial recognition, a financial asset is classified as measured at: amortised cost.

Financial assets are not reclassified subsequent to their initial recognition unless the Company changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

A financial asset is measured at amortised 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 (SPPI) on the principal amount outstanding.

Financial assets – Business model assessment:

The Company makes an assessment of the objective of the business model in which a financial asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. These include whether management's strategy focuses on earning contractual interest income, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of any related liabilities or expected cash outflows or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Company's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and expectations about future sales activity.

Transfers of financial assets to third parties in transactions that do not qualify for derecognition are not considered sales for this purpose, consistent with the Company's continuing recognition of the assets.

Financial assets – Assessment whether contractual cash flows are solely payments of principal and interest:

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Company considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition.

In making this assessment, the Company considers:

- contingent events that would change the amount and timing of cash flows;
- terms that may adjust the contractual coupon rate, including variable-rate features;
- prepayment and extension features; and
- terms that limit the Company's claim to cash flows from specified assets (e.g. non-recourse financial assets).

A prepayment feature is consistent with the solely payments of principal and interest criterion if the prepayment amount substantially represents unpaid amounts of principal and interest on the principal amount outstanding, which may include reasonable additional compensation for early termination of the contract. In addition, a prepayment feature is treated as consistent with this criterion if a financial asset is acquired or originated at a premium or discount to its contractual par amount, the prepayment amount substantially represents the contractual par amount plus accrued (but unpaid) contractual interest (which may also include reasonable compensation for early termination), and the fair value of the prepayment feature is insignificant on initial recognition.

Financial assets – Subsequent measurement and gains and losses:	
Financial assets measured at amortised cost	These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.

(ii) Modification of financial assets and financial liabilities

Financial assets

If the terms of a financial asset are modified, the Company evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different (referred to as 'substantial modification'), then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised and a new financial asset is recognised at fair value.

The Company performs a quantitative and qualitative evaluation of whether the modification is substantial, i.e. whether the cash flows of the original financial asset and the modified or replaced financial asset are substantially different. The Company assesses whether the modification is substantial based on quantitative and qualitative factors in the following order: qualitative factors, quantitative factors, combined effect of qualitative and quantitative factors. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset deemed to have expired. In making this evaluation the Company analogises to the guidance on the derecognition of financial liabilities.

The Company concludes that the modification is substantial as a result of the following qualitative factors:

- change the currency of the financial asset;
- change in collateral or other credit enhancement;
- change of terms of financial asset that lead to non-compliance with SPPI criterion (e.g. inclusion of conversion feature).

If the cash flows of the modified asset carried at amortised cost are not substantially different, then the modification does not result in derecognition of the financial asset. In this case, the Company recalculates the gross carrying amount of the financial asset and recognises the amount arising from adjusting the gross carrying amount as a modification gain or loss in profit or loss. The gross carrying amount of the financial asset is recalculated as the present value of the renegotiated or modified contractual cash flows that are discounted at the financial asset's original effective interest rate. Any costs or fees incurred adjust the carrying amount of the modified financial asset and are amortised over the remaining term of the modified financial asset.

Financial liabilities

The Company derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability extinguished and the new financial liability with modified terms is recognised in profit or loss.

If a modification (or exchange) does not result in the derecognition of the financial liability the Company applies accounting policy consistent with the requirements for adjusting the gross carrying amount of a financial asset when a modification does not result in the derecognition of the financial asset, i.e. the Company recognises any adjustment to the amortised cost of the financial liability arising from such a modification (or exchange) in profit or loss at the date of the modification (or exchange).

Changes in cash flows on existing financial liabilities are not considered as modification, if they result from existing contractual terms.

The Company assesses whether the modification is substantial based on quantitative and qualitative factors in the following order: qualitative factors, quantitative factors, combined effect of qualitative and quantitative factors. The Company concludes that the modification is substantial as a result of the following qualitative factors:

- change the currency of the financial liability;
- change in collateral or other credit enhancement;
- inclusion of conversion feature;
- change the subordination of the financial liability.

For the quantitative assessment the terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial liability. If an exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment. If the exchange or modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the liability and are amortised over the remaining term of the modified liability.

(iv) Derecognition

Financial assets

The Company derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Company neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

The Company enters into transactions whereby it transfers assets recognised in its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets. In these cases, the transferred assets are not derecognised.

Financial liabilities

The Company derecognises a financial liability when its contractual obligations are discharged or cancelled or expire. The Company also derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognised at fair value.

On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognised in profit or loss.

(v) Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company currently has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

(vi) Share capital

Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

(l) Impairment

(i) Non-derivative financial assets

Financial instruments

The Company recognises loss allowances for ECLs on financial assets measured at amortised cost.

The Company measures loss allowances at an amount equal to lifetime ECLs, except for the following, which are measured at 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.

Loss allowances for trade and other receivables are always measured 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 and 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.

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 realising security (if any is held); or
- the financial asset is more than 90 days past due.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument.

12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months).

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.

Credit-impaired financial assets

At each reporting date, the Company assesses whether financial assets carried at amortised cost 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.

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or being more than 90 days past due;
- the restructuring of a loan or advance by the Company on terms that the Company would not consider otherwise;
- it is probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for a security because of financial difficulties.

Presentation of allowance for ECL in the statement of financial position

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

Write-offs

The gross carrying amount of a financial asset is written off when the Company has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. For corporate customers, the Company individually makes an assessment with respect to the timing and amount of write-off based on whether there is a reasonable expectation of recovery. The Company expects no significant recovery from the amount written off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Company’s procedures for recovery of amounts due.

(ii) Non-financial assets

The carrying amounts of the Company’s non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset’s recoverable amount is estimated.

For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGU.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

An impairment loss is recognised if the carrying amount of an asset or its related cash-generating unit (CGU) exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss.

In respect of assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(m) Provisions

A provision is recognised if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as finance cost.

(n) Leases

The Company has applied IFRS 16 using the modified retrospective approach and therefore the comparative information has not been restated and is presented, as required under IAS 17 and IFRIC 4. The details of the accounting policies under IAS 17 and IFRIC 4 are disclosed separately.

Policy applicable from 1 January 2019

At inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Company uses the definition of a lease in IFRS 16.

This policy is applied to contracts entered into, on or after 1 January 2019.

(i) As a lessee

The Company recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Company by the end of the lease term or the cost of the right-of-use asset reflects that the Company will exercise a purchase option. In that case the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate.

The Company determines its incremental borrowing rate by obtaining interest rates from various external financing sources and makes certain adjustments to reflect the terms of the lease and type of the asset leased.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee;
- the exercise price under a purchase option that the Company is reasonably certain to exercise, lease payments in an optional renewal period if the Company is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Company is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, if the Company changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Company presents right-of-use assets that do not meet the definition of investment property in 'property, plant and equipment' and lease liabilities in 'loans and borrowings' in the statement of financial position.

The Company has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets and short-term leases. The Company recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

Policy applicable before 1 January 2019

(i) Leased assets

Assets held by the Company under leases that transfer to the Company substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments.

Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are operating leases and the leased assets are not recognised in the Company's statement of financial position.

(ii) Lease payments

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

26. Subsequent events

In connection with the recent rapid development of the coronavirus pandemic (COVID-19), many countries, including the Republic of Kazakhstan, introduced quarantine measures, which had a significant impact on the level and scale of business activity of market participants. It is expected that both the pandemic itself and measures to minimize its consequences will affect the activities of companies from various industries. Additionally, since March 2020, significant volatility has been observed in the stock, currency and commodity markets, including a drop in oil prices and a depreciation of the tenge against the US dollar and the euro.

The scope and duration of these events remain uncertain, but they will affect revenue, cash flows and financial position of the Company. As a result of the quarantine measures, the Company had to cancel all its flights in all directions from 22 March 2020. Starting from 1 May 2020, the Company partially resumed its route network and, as of the current date, the Company operates flights to 13 directions. In May 2020 the Company resumed its operations by 40% compared with initial planned indicators before quarantine.

Management developed different scenarios, which have been sent to the Board of Directors of the Company for approval, in which the worst case was based on the assumption that the Company should restart its operations from beginning of July 2020. Based on the projected cash flows, which includes additional costs from ceased operations and devaluation of tenge, an additional financial support from the Parent Company would be required in the amount of KZT 2.5 bln. The Parent Company confirmed its intention to provide the necessary additional financial support as a result of COVID-19.

Based on above, management concluded that as at the date of approval of these financial statements no material uncertainty exists in relation to the Company's ability to continue as going concern.

However, the future actual and wider effects of the virus, depreciation of Kazakhstan tenge and the decrease in the oil price and their effect on the Kazakhstan economy, including any resulting impact on the Company's financial results in 2020, are not possible to determine at the date of approval of these financial statements and will depend on further development of the situation and its significance.

The Company will continue to monitor the impact from the situation in the Republic of Kazakhstan and the region, with an assessment of its impact on financial results and financial position of the Company in order to take early preventive measures.