

**Qazaq Air JSC**

Financial Statements for the period  
from 1 April 2015 (date of incorporation)  
to 31 December 2015

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## Independent Auditors' Report

To the Management of Qazaq Air JSC

We have audited the accompanying financial statements of Qazaq Air JSC (the "Company"), which comprise the statement of financial position as at 31 December 2015, and the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the period from 1 April 2015 (date of incorporation) to 31 December 2015, and notes, comprising a summary of significant accounting policies and other explanatory information.

### *Management's Responsibility for the Financial Statements*

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

### *Auditors' Responsibility*

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

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

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

*Opinion*

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2015, and its financial performance and its cash flows for the period from 1 April 2015 (date of incorporation) to 31 December 2015 in accordance with International Financial Reporting Standards.





Sergey Dementyev  
Certified Auditor

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

**KPMG Audit LLC**

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



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

9 March 2016



'000 KZT	Note	31 December 2015
<b>Assets</b>		
Property, plant and equipment	8	72,695
Intangible assets		20,973
Prepayments for non-current assets	9	92,163
<b>Non-current assets</b>		<b>185,831</b>
Inventories	10	217,307
Trade and other receivables	11	103,320
Prepayments and deferrals	9	132,653
Guarantee deposits	12	360,517
Cash and cash equivalents	13	3,643,838
<b>Current assets</b>		<b>4,457,635</b>
<b>Total assets</b>		<b>4,643,466</b>
<b>Equity</b>		
Share capital		120,000
Additional paid-in capital		4,728,637
Accumulated losses		(1,180,960)
<b>Total equity</b>	14	<b>3,667,677</b>
<b>Liabilities</b>		
Trade and other payables	15	434,421
Other taxes payable	16	421,293
Deferred income		41,634
Advances received		32,231
Provision for aircraft re-delivery		46,210
<b>Current liabilities</b>		<b>975,789</b>
<b>Total liabilities</b>		<b>975,789</b>
<b>Total equity and liabilities</b>		<b>4,643,466</b>

**Qazaq Air JSC**  
*Statement of Profit or Loss and Other Comprehensive Income for the period  
from 1 April 2015 (date of incorporation) to 31 December 2015*

'000 KZT	Note	<u>2015</u>
<b>Revenue</b>		
Passenger revenue	5	384,330
Other revenue	5	<u>1,892</u>
<b>Total revenue</b>		<u><b>386,222</b></u>
<b>Operating expenses</b>		
Aircraft operating lease costs	6	(2,343,759)
Employee costs	6	(295,855)
Fuel		(292,039)
Handling, landing fees and route charges	6	(104,907)
Passenger service	6	(101,020)
Transport, accomodation and subsistence costs		(49,719)
Information technology		(48,976)
Selling costs		(47,504)
Property lease cost		(42,554)
Consultancy, legal and professional fees		(37,224)
Start-up costs		(24,029)
Insurance		(8,234)
Engineering and maintenance		(8,005)
Depreciation and amortisation		(5,219)
Aircraft licenses		(3,915)
Other		(88,643)
<b>Total operating expenses</b>		<u><b>(3,501,602)</b></u>
<b>Operating loss</b>		<u><b>(3,115,380)</b></u>
Finance income		121
Foreign exchange gain, net		<u>1,934,317</u>
<b>Loss before tax</b>		<u><b>(1,180,942)</b></u>
Income tax expense	7	(18)
<b>Loss and total comprehensive income for the period</b>		<u><b>(1,180,960)</b></u>

These financial statements were approved by management on 9 March 2016 and were signed on its behalf by:

 <hr style="border: 0; border-top: 1px solid black; margin: 5px 0;"/> <p>Alexander Blair Treherne Pollock  <i>Acting Chairman of the Management Board</i></p>		 <hr style="border: 0; border-top: 1px solid black; margin: 5px 0;"/> <p>Arman Toleuov  <i>Chief Accountant</i></p>
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**Qazaq Air JSC**  
*Statement of Changes in Equity for the period from 1 April 2015 (date of incorporation) to 31 December 2015*

<b>‘000 KZT</b>	<b>Share capital</b>	<b>Additional paid-in capital</b>	<b>Accumulated losses</b>	<b>Total equity</b>
Balance at 1 April 2015 (date of incorporation)	-	-	-	-
<b>Total comprehensive income</b>				
Loss and total comprehensive income for the period	-	-	(1,180,960)	(1,180,960)
<b>Transactions with owners of the Company</b>				
Issue of ordinary shares	120,000	-	-	120,000
Other contributions	-	4,728,637	-	4,728,637
<b>Balance at 31 December 2015</b>	<b>120,000</b>	<b>4,728,637</b>	<b>(1,180,960)</b>	<b>3,667,677</b>

**Qazaq Air JSC**  
*Statement of Cash Flows for the period from 1 April 2015 (date of incorporation) to 31 December 2015*

'000 KZT	<u>2015</u>
<b>Cash flows from operating activities</b>	
Cash receipts from customers	454,111
Cash paid to suppliers	(2,952,658)
Cash paid to employees	(239,035)
Cash paid for other taxes	(100,848)
Other payments	(233,665)
<b>Cash flows used in operations before interest and tax</b>	<u>(3,072,095)</u>
Interest received	121
Income tax paid	(18)
<b>Net cash used in operating activities</b>	<u>(3,071,992)</u>
 <b>Cash flows from investing activities</b>	
Purchase of property, plant, and equipment	(75,961)
Purchase of intangible assets	(22,926)
Prepayments for non-current asset	(92,163)
<b>Net cash from used in investing activities</b>	<u>(191,050)</u>
 <b>Cash flows from financing activities</b>	
Proceeds from issuance of ordinary shares	120,000
Contributions to additional paid-in capital	4,728,637
<b>Net cash from financing activities</b>	<u>4,848,637</u>
 <b>Net increase in cash and cash equivalents</b>	<u>1,585,595</u>
 <b>Cash and cash equivalents at 1 April 2015 (date of incorporation)</b>	 -
Effect of foreign exchange differences	2,058,243
<b>Cash and cash equivalents at 31 December 2015 (Note 13)</b>	<u><u>3,643,838</u></u>

## **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 Management Board Resolution of Samruk-Kazyna National Welfare Fund JSC #02/15 dated 19 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 Astana. As at 31 December 2015 the Company operated three brand-new Bombardier Q400 NextGen turboprop aircraft provided under operating lease agreements with Falcon Aviation Services LLC (UAE).

The Company registered its office in 11/3 Mailin street, Almaty, 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 recent significant depreciation of the Kazakhstan tenge, and the reduction in the global price of oil, have increased the level of uncertainty in the 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”).

### **(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 during 2015 and is currently in a start-up phase being dependent upon continuous financial support from the Parent Company. During the first year of its operations the Company incurred a net loss of KZT 1,180,960 thousand and continued development of the Company’s operations would require additional capital or loan contributions from the Parent Company. 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.



### **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 judgments, 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.

There are no critical judgments in applying accounting policies that may have a significant effect on the amounts recognised in the financial statements.

There are no assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year.

#### ***Measurement of fair values***

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.



## 5. Revenue

<b>'000 KZT</b>	<b>2015</b>
<b>Passenger revenue</b>	
Passenger transport	357,762
Airport surcharge	21,067
Excess baggage	5,501
	<b>384,330</b>
<b>Other revenue</b>	
Penalties from passengers	1,892
	<b>1,892</b>
	<b>386,222</b>

## 6. Operating expenses

### (a) Aircraft operating lease costs

<b>'000 KZT</b>	<b>2015</b>
Fixed lease charges	2,224,671
Other costs related to operating leases	72,878
Aircraft re-delivery costs	46,210
	<b>2,343,759</b>

### (b) Employee costs

<b>'000 KZT</b>	<b>2015</b>
Wages and salaries of administrative personnel	126,972
Wages and salaries of operational personnel	120,856
Wages and salaries of sales personnel	23,712
Social tax and social contribution	24,315
	<b>295,855</b>

The number of employees as at 31 December 2015 was 154.

### (c) Handling, landing fees and route charges

<b>'000 KZT</b>	<b>2015</b>
Landing fees	39,678
De-icing fluids	33,647
Aero navigation	21,657
Meteorological services	3,374
Other	6,551
	<b>104,907</b>

### (d) Passenger service

<b>'000 KZT</b>	<b>2015</b>
Airport charges	64,307
Catering	20,844
Security	12,163
Other	3,706
	<b>101,020</b>

## 7. Income tax expense

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

'000 KZT	2015
<b>Current tax expense</b>	
Current period	18
<b>Deferred tax expense</b>	
Tax effects of temporary differences	152,905
Changes in unrecognised temporary differences	(152,905)
	<b>18</b>

### Reconciliation of effective tax rate:

	2015	
	'000 KZT	%
<b>Loss before income tax</b>	<b>(1,180,942)</b>	<b>100</b>
Income tax at statutory rate	(236,188)	20
Tax effect of non-deductible expenses	83,301	(7)
Changes in unrecognised temporary differences	152,905	(13)
	<b>18</b>	<b>-</b>

### Unrecognised deferred tax assets

Deferred tax assets have not been recognised in respect to the following items:

'000 KZT	2015
Tax losses carried forward	142,887
Provision for aircraft re-delivery	9,242
Trade and other payables	3,434
Other taxes payable	1,014
Inventories	123
Intangible assets	(297)
Property, plant and equipment	(3,498)
	<b>152,905</b>

Accumulated tax losses of KZT 714,435 thousand originated in 2015 expire in ten years from the origination date.

Deferred tax assets have not been recognised in respect of the above items because of the absence of convincing evidence that future taxable profit will be available against which the Company can utilise the benefits therefrom.

## 8. Property, plant and equipment

'000 KZT	Vehicles	Machinery and equipment	Computers and office equipment	Total
<i>Cost</i>				
Balance at 1 April 2015 (date of incorporation)	-	-	-	-
Additions	32,317	10,756	32,888	75,961
<b>Balance at 31 December 2015</b>	<b>32,317</b>	<b>10,756</b>	<b>32,888</b>	<b>75,961</b>
<i>Accumulated depreciation</i>				
Balance at 1 April 2015 (date of incorporation)	-	-	-	-
Depreciation for the period	(1,616)	(229)	(1,421)	(3,266)
<b>Balance at 31 December 2015</b>	<b>(1,616)</b>	<b>(229)</b>	<b>(1,421)</b>	<b>(3,266)</b>
<i>Carrying amounts</i>				
At 1 April 2015 (date of incorporation)	-	-	-	-
<b>At 31 December 2015</b>	<b>30,701</b>	<b>10,527</b>	<b>31,467</b>	<b>72,695</b>

## 9. Prepayments and deferrals

'000 KZT	31 December 2015
<i>Non-current</i>	
Prepayments for non-current assets	92,163
	<b>92,163</b>
<i>Current</i>	
Advances paid for services	46,442
Advances paid for goods	17,739
Deferred expenses	66,372
Taxes prepaid	2,100
	<b>132,653</b>

As at 31 December 2015 prepayments for non-current assets were made to Bombardier as pre-delivery payment for two aircrafts.

## 10. Inventories

'000 KZT	31 December 2015
Aircraft fuel	196,091
Uniforms	6,028
Spare parts	2,325
Other materials	13,480
	<b>217,924</b>
Write-down of inventories in the current period	(617)
	<b>217,307</b>

## 11. Trade and other receivables

'000 KZT	31 December 2015
Value added tax recoverable	99,075
Trade receivables	4,196
Receivables from employees	49
	<b>103,320</b>

The Company's exposure to credit risk related to trade and other receivables is disclosed in Note 17.

## 12. Guarantee deposits

Guarantee deposits comprise security deposits for the three leased aircraft required under the lease agreements as security for future lease payments to be made by the Company. Guarantee deposits are denominated primarily in US dollars. The Company's exposure to credit and currency risks related to guarantee deposits is disclosed in Note 17.

## 13. Cash and cash equivalents

'000 KZT	31 December 2015
Current accounts with local banks	3,643,574
Term deposits with local banks	250
Cash on hand	14
	<b>3,643,838</b>

The Company's exposure credit and currency risks for financial assets and liabilities are disclosed in Note 17.

## 14. Equity

### (a) Share capital

'000 KZT	2015	
	'000 KZT	%
Samruk-Kazyna National Welfare Fund JSC	120,000	100

As at 31 December 2015, share capital comprised 120,000 authorised, issued and fully paid ordinary shares with a par value of KZT 1,000 per share.

### (b) Additional paid-in capital

In June 2015 the Company received interest-free financial aid of KZT 4,728,637 thousand for the purpose of working capital replenishment from its sole shareholder, Samruk-Kazyna National Welfare Fund JSC with maturity in June 2016. The provided financial aid is to be settled by issuance by the Company of 4,728,637 ordinary shares at KZT 1,000 per share. The Company recognises the received financial aid as additional paid-in capital until the time when the shares are issued to the Parent Company after which the amount will be reclassified to share capital.

### (c) 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 statutory 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 2015 the Company had accumulated losses of KZT 1,180,960 thousand. No dividends were declared during the period ended 31 December 2015.



## 15. Trade and other payables

'000 KZT	31 December 2015
Trade payables	388,691
Wages and salaries payable to employees	26,558
Other	19,172
	<u>434,421</u>

The Company's exposure to currency and liquidity risk related to trade and other payables is disclosed in Note 17.

## 16. Other taxes payable

'000 KZT	31 December 2015
Withholding income tax	395,527
Personal income tax	12,131
Other taxes	13,635
	<u>421,293</u>

Withholding income tax payable relates to aircraft lease payments made to Falcon Aviation Services LLC (UAE).

## 17. 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 amounts. The basis for determining fair values is disclosed below.

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

### (b) Measurement of fair values

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

## 17. Fair values and risk management, continued

### (a) Financial risk management, continued

#### (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 maximum exposure to credit risk for trade receivables, guarantee deposits and cash and cash with banks at the reporting date was:

	Carrying amount 31 December 2015
'000 KZT	
Trade receivables	4,196
Guarantee deposits	360,517
Cash and cash equivalents	3,643,824
	<b>4,008,537</b>

#### Trade and other receivables

The Company's exposure to credit risk is influenced mainly by the individual characteristics of each customer. 100% of trade receivables are due from domestic customers. As at 31 December 2015 there was no significant concentration of credit risk in respect of trade accounts receivable (Note 11).

No receivables are past due or impaired as at 31 December 2015. No impairment losses were recognised during the period ended 31 December 2015.

#### Guarantee deposits

The Company holds three guarantee deposits of KZT 360,517 thousand denominated in US Dollars for leased aircraft with the lessor, which represents its maximum credit exposure on these assets. The Company does not expect this counterparty to fail to meet its obligations.

#### Cash and cash equivalents

As at 31 December 2015 the Company holds cash and cash equivalents of KZT 3,643,824 thousand with Kazkommertsbank JSC, which is rated C, based on rating agency Standard & Poor's ratings. The Company does not expect this counterparty to fail to meet its obligations.

#### (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.



## 17. Fair values and risk management, continued

### (a) Financial risk management, continued

#### (iii) Liquidity risk, continued

##### Exposure to liquidity risk

The following are the remaining contractual maturities of financial liabilities at the reporting date. The amounts are gross and undiscounted, and include 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 2015

'000 KZT	Carrying amount	Contractual cash flows	On demand	Less than 2 mnths
<b>Non-derivative financial liabilities</b>				
Trade payables	388,691	388,691	388,691	-

#### (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, nor incurs financial liabilities, 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:

'000 KZT	USD- denominated 2015	GBP- denominated 2015
Guarantee deposits	360,517	-
Cash and cash equivalents	3,630,300	4,365
Trade payables	(234,501)	(9,877)
<b>Net exposure</b>	<b>3,756,316</b>	<b>(5,512)</b>

## 17. Fair values and risk management, continued

### (c) Financial risk management, continued

#### (iv) Market risk, continued

##### Currency risk, continued

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

in KZT	Average rate	Reporting date spot
	From 1 April to 31 December 2015	2015
USD 1	234.58	339.47
GBP 1	359.19	503.30

##### Sensitivity analysis

A reasonably possible strengthening by 20% of the KZT, as indicated below, against all other currencies at 31 December 2015 would have decreased profit and loss net of taxes by the amounts shown below. Foreign exchange changes would not have an effect in 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	Strengthening by 20%	Weakening by 60%
	Profit or loss	Profit or loss
31 December 2015		
USD	(601,011)	1,803,032
GBP	882	(2,646)

A weakening of KZT by 60% against the above currency at 31 December 2015 would have increased profit and loss net of taxes by the amounts shown above on the basis that all variables remain constant.

#### (v) Interest rate risk

The Company was not exposed to interest rate risk at 31 December 2015.

### (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 any currently legally enforceable right to offset recognised amounts, because the right 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.

## 18. Operating leases

The Company leases three aircrafts under operating lease contracts. The leases typically run for an initial period of one year, with an option to renew the lease after that date. The Company does not have an option to purchase the leased aircraft at the expiry of the lease period.

Operating lease commitments stated below include only the non-cancellable fixed part of lease payments (denominated in U.S. Dollars).

'000 KZT	2015
Less than one year	3,437,700

## 19. 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 has a full coverage of a mandatory insurance as declared by the laws of Kazakhstan. In addition the Company obtained a voluntary insurance of the third party liability. Currently, the Company is not exposed to the risk of loss of high value assets as the main production assets are under operating lease where risks of destruction lie with the owner of the assets (the lessor).

### (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. 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 these financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

## 20. Related parties

### (a) Parent and ultimate controlling party

The Company's 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 period, which is included in employee costs (Note 6):

'000 KZT	2015
Salaries and bonuses	45,290
Contributions to State pension fund	2,873
Social contributions	288
	<b>48,451</b>



## 20. Related parties, continued

### (c) Other related party transactions

'000 KZT	Transaction value	Outstanding balance
	2015	31 December 2015
<b>Purchase of goods and services:</b>		
Samruk-Kazyna subsidiaries	117,235	53,065
State-owned companies	73,313	5,159
	<b>190,548</b>	<b>58,224</b>

Related parties comprise the shareholder of the Company and all other companies in which this shareholder have 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.

## 21. Basis of measurement

The financial statements are prepared on the historical cost basis.

## 22. Significant accounting policies

The accounting policies set out below have been consistently applied by the Company.

### (a) Revenue

#### *Passenger revenue*

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

### (b) Finance income and 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.

## **22. Significant accounting policies, continued**

### **(c) Foreign currency**

Transactions in foreign currencies are translated to the functional currency of 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 retranslation are recognised in profit or loss.

### **(d) Employee benefits**

#### ***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.

### **(e) Income tax**

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognised in profit or loss.

#### **(i) Current tax**

Current tax comprises 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, unused 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.

## **22. Significant accounting policies, continued**

### **(e) Income tax, continued**

#### **(ii) Deferred tax, continued**

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.

### **(f) Inventories**

Inventories are measured at the lower of cost and net realisable value. The cost of inventories are based on FIFO principle except for fuel, which is 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.

### **(g) Property, plant and equipment**

#### **(i) Recognition and measurement**

Items of property, plant and equipment 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.

#### **(ii) Subsequent expenditure**

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 an 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:

- vehicles 5-10 years;
- office equipment and furniture 5 years;
- other 4-8 years.



## **22. Significant accounting policies, continued**

### **(g) Property, plant and equipment, continued**

#### **(iii) Depreciation, continued**

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

### **(h) Intangible assets**

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

#### **(i) Subsequent expenditure**

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 recognised in profit or loss on a straight-line basis over the estimated useful lives of intangible assets, since this most closely reflects the expected pattern of consumption of 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.

### **(i) Financial instruments**

The Company classifies non-derivative financial assets into the following categories: loans and receivables.

The Company classifies non-derivative financial liabilities into the other financial liabilities category.

#### **(i) Non-derivative financial assets and financial liabilities – recognition and derecognition**

The Company initially recognises loans and receivables on the date that they are originated. All other financial assets and financial liabilities are recognised initially on the trade date at which the Company becomes a party to the contractual provisions of the instrument.

The Company derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Company is recognised as a separate asset or liability.

The Company derecognises a financial liability when its contractual obligations are discharged or cancelled or expire. Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company currently has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously. The Company currently has a legally enforceable right to set off if that right is not contingent on a future event and enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the Company and all counterparties.

## **22. Significant accounting policies, continued**

### **(i) Financial instruments, continued**

#### **(ii) *Non-derivative financial assets and financial liabilities – recognition and derecognition, continued***

##### ***Loans and receivables***

Loans and receivables are a category of financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses.

Loans and receivables category comprise the following classes of financial assets: trade and other receivables (Note 11), guarantee deposits (Note 12) and cash and cash equivalents (Note 13).

##### ***Cash and cash equivalents***

Cash and cash equivalents comprise cash balances.

#### **(iii) *Non-derivative financial liabilities - measurement***

Non-derivative financial liabilities are recognised initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest method.

Other financial liabilities comprise trade and other payables (Note 16).

### **(iv) *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.

### **(j) Impairment**

#### **(i) *Non-derivative financial assets***

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets (including equity securities) are impaired can include:

- default or delinquency by a debtor;
- restructuring of an amount due to the Company on terms that the Company would not consider otherwise;
- indications that a debtor will enter bankruptcy;
- adverse changes in the payment status of borrowers or issuers in the Company;
- economic conditions that correlate with defaults;
- the disappearance of an active market for a security; or
- observable data indicating that there is measurable decrease in expected cash flows from a group of financial assets.



## 22. Significant accounting policies, continued

### (j) Impairment, continued

#### (i) *Non-derivative financial assets, continued*

##### *Financial assets measured at amortised cost*

The Company considers evidence of impairment for these assets at both an individual asset and a collective level. All individually significant assets are individually assessed for impairment. Those found not to be impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Assets that are not individually significant are collectively assessed for impairment by grouping together assets with similar risk characteristics.

In assessing collective impairment the Company uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss is calculated as the difference between an asset's carrying amount, and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account. When the Company considers that there are no realistic prospects of recovery of the asset, the relevant amounts are written off. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease and the decrease can be related objectively to an event occurring after the impairment was recognised, the decrease in impairment loss is reversed through profit or loss.

#### (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.

An 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.

### (k) 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.

## **22. Significant accounting policies, continued**

### **(l) Leases**

#### **(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 on 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.

## **23. New standards and interpretations not yet adopted**

A number of new standards, amendments to standards and interpretations are not yet effective as at 31 December 2015, and have not been applied in preparing these financial statements. The Company plans to adopt these pronouncements when they become effective.

The Company has not yet analysed the likely impact of the new Standard on its financial position or performance.

- IFRS 9 *Financial Instruments*, published in July 2014, replaces the existing guidance in IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets, and the new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39. IFRS 9 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted.
- IFRS 15 *Revenue from Contracts with Customers* establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including IAS 18 *Revenue*, IAS 11 *Construction Contracts* and IFRIC 13 *Customer Loyalty Programs*. The core principle of the new standard is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The new standard results in enhanced disclosures about revenue, provides guidance for transactions that were not previously addressed comprehensively and improves guidance for multiple-element arrangements. IFRS 15 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted.



## **23. New standards and interpretations not yet adopted, continued**

- IFRS 16 *Leases* replaces the current guidance for the lease accounting, including IAS 17 *Leases*, IFRIC 4 *Determining Whether an Arrangement Contains a Lease*, SIC-15 *Operating Leases—Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The new standard cancels the currently used dual accounting model for a lessee. This model requires classification of a lease as either a finance lease recognised on the face of a balance sheet or off-balance operating lease. It will be replaced by a single accounting model, which implies that a lease is recognised on the face of a balance sheet and is similar to the current accounting of a finance lease. For lessors the currently used accounting rules will generally remain the same—lessors will continue to classify a lease as either a finance lease or an operating lease. IFRS 16 is effective for annual reporting periods beginning on or after 1 January 2019, with early adoption permitted provided that IFRS 15 *Revenue from Contracts with Customers* is also applied.

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

- *Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to IAS 16 and IAS 38).*
- *Annual Improvements to IFRSs 2012–2014 Cycle – various standards.*
- *Disclosure Initiative (Amendments to IAS 1).*