QAZAQ AIR JSC

Financial Statements
for the year ended
31 December 2018

Contents

«КПМГ Аудит» жауапкершілігі
шектеулі серіктестік
Қазақстан 050051 Алматы,
Достық д-лы 180,
Тел./факс 8 (727) 298-08-98, 298-07-08

KPMG Audit LLC
050051 Almaty, Kazakhstan
180 Dostyk Avenue,
E-mail: company@kpmg.kz

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 2018, 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 2018, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

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

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

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

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 #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

6 March 2019

’000 KZT	Note	31 December 2018	31 December 2017*
Assets			
Property, plant and equipment	9	81,344	84,248
Intangible assets		26,574	34,945
Guarantee deposits	13	459,493	541,303
Prepayments and deferrals	10	3,049,165	3,081,889
Restricted cash		1,480	6,480
Non-current assets		**3,618,056**	**3,748,865**
Inventories	11	547,131	140,636
Trade and other receivables	12	243,672	29,845
Prepayments and deferrals	10	503,714	426,344
Guarantee deposits	13	63,716	-
Restricted cash		10,000	-
Cash and cash equivalents	14	1,197,967	3,164,087
Current assets		**2,566,200**	**3,760,912**
Total assets		**6,184,256**	**7,509,777**
Equity	15		
Share capital		120,000	120,000
Accumulated losses		(4,370,342)	(13,426,984)
Total equity		**(4,250,342)**	**(13,306,984)**
Liabilities			
Loan from the Parent Company	16	5,166,475	-
Provisions	19	868,368	171,400
Deferred tax liabilities	8	7,113	-
Non-current liabilities		**6,041,956**	**171,400**
Liabilities			
Loan from the Parent Company	16	2,673,253	19,855,516
Trade and other payables	17	1,183,009	378,644
Other taxes payable	18	189,903	130,603
Deferred income		253,863	149,581
Advances received		92,614	79,585
Provisions	19	-	51,432
Current liabilities		**4,392,642**	**20,645,361**
Total liabilities		**10,434,598**	**20,816,761**
Total equity and liabilities		**6,184,256**	**7,509,777**

* The Company has initially applied IFRS 9 and IFRS 15 at 1 January 2018. Under the transition methods chosen, comparative information is not restated (see Note 25(a)).

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 10 to 41.

'000 KZT	Note	2018	2017*
Revenue			
Passenger revenue	5	5,640,844	4,141,746
Other revenue	5	12,701	86,062
Total revenue		**5,653,545**	**4,227,808**
Operating expenses			
Aircraft operating lease costs	6	(3,507,951)	(3,836,667)
Engineering and maintenance	6	(2,949,893)	(1,325,058)
Fuel		(1,889,283)	(1,412,612)
Employee costs	6	(1,562,040)	(1,377,908)
Provided staff costs	6	(1,098,719)	(955,699)
Handling, landing fees and route charges	6	(737,693)	(603,962)
Passenger service	6	(448,751)	(338,771)
Insurance		(225,145)	(171,819)
Transport, accommodation and subsistence costs		(213,503)	(154,552)
Training cost		(205,248)	(187,839)
Property lease cost		(199,196)	(173,054)
Information technology		(187,465)	(157,494)
Selling costs		(143,230)	(101,277)
Consultancy, legal and professional fees		(118,495)	(112,572)
Depreciation and amortisation		(32,355)	(33,146)
Aircraft licenses		(25,196)	(18,490)
Other		(223,118)	(263,818)
Total operating expenses		**(13,767,281)**	**(11,224,738)**
Operating loss		**(8,113,736)**	**(6,996,930)**
Finance income	7	153,383	194,488
Finance costs	7	(3,145,265)	(2,103,637)
Other income and expense		22,614	6,767
Foreign exchange gain/(loss), net		118,902	(5,723)
Loss before tax		**(10,964,102)**	**(8,905,035)**
Income tax benefit	8	4,011,258	986,361
Loss for the year		**(6,952,844)**	**(7,918,674)**

* The Company has initially applied IFRS 9 and IFRS 15 at 1 January 2018. Under the transition methods chosen, comparative information is not restated (see Note 25(a)).

These financial statements were approved by management on 6 March 2019 and were signed on its behalf by:

Adel Dauletbek
Acting Chief Executive Officer

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 10 to 41.

’000 KZT	**Share capital**	**Accumulated losses**	**Total equity**
Balance at 1 January 2017	120,000	(9,558,120)	(9,438,120)
Total comprehensive loss			
Loss and total comprehensive income for the year	-	(7,918,674)	(7,918,674)
Transactions with owners of the Company			
Recognition of discount on the loan provided by the Parent Company, net of tax (Note 16)	-	4,049,810	4,049,810
Total transactions with owners of the Company	**-**	**4,049,810**	**4,049,810**
Balance at 31 December 2017	**120,000**	**(13,426,984)**	**(13,306,984)**
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 and total comprehensive income 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)**

* The Company has initially applied IFRS 9 and IFRS 15 at 1 January 2018. Under the transition methods chosen, comparative information is not restated (see Note 25(a)).

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 10 to 41.

'000 KZT	2018	2017*
Cash flows from operating activities		
Cash receipts from customers	6,272,269	4,770,884
Cash paid to suppliers	(10,867,284)	(9,776,773)
Cash paid to employees	(1,279,913)	(1,100,556)
Cash paid for other taxes	(1,336,008)	(988,598)
Other payments	(5,000)	(5,000)
Cash flows used in operations before interest and tax	**(7,215,936)**	**(7,100,043)**
Interest received, net of tax	116,193	158,847
Net cash used in operating activities	**(7,099,743)**	**(6,941,196)**
Cash flows from investing activities		
Proceeds from sales of property, plant, and equipment	48	-
Purchase of property, plant, and equipment	(20,374)	(23,219)
Purchase of intangible assets	(1,172)	(3,377)
Prepayments for non-current assets	-	(2,929,869)
Net cash used in investing activities	**(21,498)**	**(2,956,465)**
Cash flows from financing activities		
Proceeds from loan from the Parent Company	5,043,262	9,510,436
Net cash from financing activities	**5,043,262**	**9,510,436**
Net decrease in cash and cash equivalents	**(2,077,979)**	**(387,225)**
Cash and cash equivalents at 1 January	3,164,087	3,549,614
Effect of foreign exchange differences	111,859	1,698
Cash and cash equivalents at 31 December (Note 14)	**1,197,967**	**3,164,087**

* The Company has initially applied IFRS 9 and IFRS 15 at 1 January 2018. Under the transition methods chosen, comparative information is not restated (see Note 25(a)).

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 10 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 Astana. As at 31 December 2018 the Company operated three Bombardier Q400 NextGen turboprop aircrafts provided under short-term operating lease agreements with Falcon Aviation Services LLC (UAE) ("the Lessor"). On 24 March 2017 the Company signed new operating lease agreements under new terms with the Lessor for the same three aircrafts extending the operating lease period till 2022.

The Company registered its office at 38 Dostyk 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 depreciation of the Kazakhstan tenge which took place during 2015, and a reduction in the global price of oil, have increased the level of uncertainty in the business environment.

These financial statements reflects 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 in which IFRS 15 *Revenue from Contracts with Customers* and IFRS 9 *Financial Instruments* have 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 2018 the Company incurred a net loss of KZT 6,952,844 thousand (2017: KZT 7,918,674) resulting in accumulated losses of KZT 4,370,342 thousand (31 December 2017: KZT 13,426,984 thousand) and its current liabilities exceeded its current assets by KZT 1,826,442 thousand (31 December 2017: KZT 16,884,449 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.

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.

Significant judgment is involved in determining a provision for aircraft maintenance during 2018 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 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 judgments 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 the 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).

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.

4. Use of estimates and judgements, continued

Measurement of fair values, continued

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

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

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

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

5. Revenue and other income

The effect of initially applying IFRS 15 on the Group's revenue from contracts with customers is described in Note 25(a). Due to the transition method chosen in applying IFRS 15, comparative information has not been restated to reflect the new requirements.

'000 KZT	**2018**	**2017**
Passenger revenue		
Passenger transport	5,571,073	4,084,846
including:		
-fuel surcharge	*506,397*	*176,555*
-airport surcharge	*395,167*	*181,277*
-excess baggage	*43,003*	*41,201*
Charter flights	69,771	56,900
Total revenue from contracts with customers	**5,640,844**	**4,141,746**
Other revenue		
Penalties from passengers	-	80,767
Other	12,701	5,295
	12,701	**86,062**
	5,653,545	**4,227,808**

Penalties from passengers for changes in ticket details in accordance with IFRS 15 have been reclassified from other revenue to passenger revenue starting from 1 January 2018.

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

During the year ended 31 December 2018 there was no revenue from transactions with a single customer that accounts for 10% and more of the total revenue (2017: 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 149,581 thousand was fully recognised as revenue during 2018.

6. Operating expenses

(a) Aircraft operating lease costs

’000 KZT	2018	2017
Fixed lease charges	2,824,650	3,048,620
Withholding tax on lease charges	690,580	640,427
Other costs related to operating leases	(7,279)	147,620
	3,507,951	**3,836,667**

(b) Engineering and maintenance

’000 KZT	2018	2017
Maintenance reserves	935,448	666,847
Spare parts pool and maintenance	865,831	186,842
Accrual of provision for aircraft maintenance	645,536	139,765
Line Maintenance	422,889	299,903
CAMO management	61,578	45,178
Other	18,611	(13,477)
	2,949,893	**1,325,058**

Under the current agreements with the Lessor the Company is obliged to make payments for aircraft maintenance reserves, line maintenance, spare parts pool and maintenance reserves and CAMO (Continuing Airworthiness) management. Maintenance reserves are paid for the future inspections and overhauls of each significant component of the aircraft separately and are 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. 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 are paid to the Lessor for provision of spare parts and access to them at all times required to keep the aircrafts in an airworthy condition and are 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 aircrafts.

These reserves are expected to be utilised during the future inspections and are not reimbursable by the Lessor, if not utilised. The Company is also expected to finance any shortages of the reserve over actual maintenance costs (Note 19).

(c) Employee costs

’000 KZT	2018	2017
Wages and salaries of operational personnel	670,765	543,863
Wages and salaries of administrative personnel	595,865	534,626
Wages and salaries of sales personnel	88,520	74,253
Social tax and social contribution	206,890	225,166
	1,562,040	**1,377,908**

The number of employees as at 31 December 2018 was 270 employees (31 December 2017: 228 employees).

(d) Provided staff costs

’000 KZT	2018	2017
Provided staff cost	992,513	866,730
Withholding income tax on provided staff	106,206	88,969
	1,098,719	**955,699**

6. Operating expenses, continued

(e) Handling, landing fees and route charges

’000 KZT	2018	2017
Landing fees	259,850	210,345
Ground handling	163,073	135,816
Aero navigation	124,689	112,346
Security	113,657	90,023
De-icing liquids	76,424	55,432
	737,693	**603,962**

(f) Passenger service

’000 KZT	2018	2017
Airport charges	315,518	218,481
Catering	92,820	80,729
Other	40,413	39,561
	448,751	**338,771**

7. Finance income and costs

’000 KZT	2018	2017
Finance income		
Interest income on bank deposits	138,685	184,939
Unwinding of discount on guarantee deposits	14,698	9,549
	153,383	**194,488**
Finance costs		
Unwinding of discount on loan from the Parent Company and interest expense accrued	3,145,265	2,103,637
	3,145,265	**2,103,637**

8. Income tax benefit

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

’000 KZT	2018	2017
Current tax expense		
Current period	22,492	26,092
Deferred tax expense		
Origination and reversal of temporary differences	(2,016,282)	(1,644,063)
Underprovided in prior years	149,799	-
Changes in unrecognised temporary differences	(2,167,267)	631,610
	(4,033,750)	**(1,012,453)**
	(4,011,258)	**(986,361)**

8. Income tax benefit, continued

Reconciliation of effective tax rate:

	2018		2017	
	'000 KZT	**%**	**'000 KZT**	**%**
Loss before income tax	**(10,964,102)**	**100**	**(8,905,035)**	**100**
Income tax at statutory rate	(2,192,820)	20.0	(1,781,007)	20.0
Tax effect of non-deductible expenses	176,538	(1.6)	136,944	(1.5)
Withholding tax on bank interest	22,492	(0.2)	26,092	(0.3)
Underprovided in prior periods	149,799	(1.4)	-	-
Changes in unrecognised temporary differences	(2,167,267)	19.8	631,610	(7.1)
	(4,011,258)	**36.6**	**(986,361)**	**11.1**

Movement in temporary differences during the year:

'000 KZT	**1 January 2018**	**Recognised in profit or loss**	**Recognised in equity**	**31 December 2018**
Tax losses carried forward	2,698,480	1,103,111	-	3,801,591
Loan from the Parent Company	(592,041)	628,597	(4,040,863)	(4,004,307)
Provisions	44,566	129,108	-	173,674
Trade and other payables	11,726	3,870	-	15,596
Other taxes payable	5,885	(1,107)	-	4,778
Intangible assets	579	739	--	1,318
Property, plant and equipment	(2,029)	196	-	(1,833)
Other accruals	101	1,969	-	2,070
	2,167,267	**1,866,483**	**(4,040,863)**	**(7,113)**
Unrecognised deferred tax assets	(2,167,267)	2,167,267	-	-
Net amount	**-**	**4,033,750**	**(4,040,863)**	**(7,113)**

Accumulated tax losses of KZT 19,007,955 thousand as at 31 December 2018 (31 December 2017: KZT 13,492,400 thousand) expire in ten years respectively from the origination date. Accumulated tax losses of KZT 487,618 thousand expire in 2025. During 2018 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 as it was not probable that future taxable profit would be available against which the Company could utilise the benefits therefrom.

9. Property, plant and equipment

'000 KZT	Vehicles	Machinery and equipment	Computers and office equipment	Total
Cost				
Balance at 1 January 2017	31,869	17,141	58,780	107,790
Additions	-	800	22,419	23,219
Disposals	-	(2,129)	(644)	(2,773)
Balance at 31 December 2017	**31,869**	**15,812**	**80,555**	**128,236**
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**
Accumulated depreciation				
Balance at 1 January 2017	(6,403)	(1,189)	(12,338)	(19,930)
Charge for the year	(5,178)	(1,740)	(17,140)	(24,058)
Balance at 31 December 2017	**(11,581)**	**(2,929)**	**(29,478)**	**(43,988)**
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)**
Carrying amounts				
Balance at 1 January 2018	**20,288**	**12,883**	**51,077**	**84,248**
Balance at 31 December 2018	**15,508**	**10,421**	**55,415**	**81,344**

10. Prepayments and deferrals

'000 KZT	31 December 2018	31 December 2017
Non-current		
Prepayments for non-current assets	2,929,869	2,929,869
Deferred expenses on employees training costs	89,028	108,300
Discount on guarantee deposits	30,268	43,720
	3,049,165	**3,081,889**
Current		
Prepayments for services	228,992	214,824
Deferred expenses	196,845	174,756
Prepayments for goods	42,632	6,356
Other taxes prepaid	35,245	30,408
	503,714	**426,344**

Non-current deferred expenses are represented by the employees training costs incurred by the Company and which are reimbursable from employees under individual employment contracts, provided employee does not work for a certain period of time after trainings. The average period is 2-4 years. The Company amortises such costs over period of the required services on a straight line basis, which represents management's estimate of a minimum period over which the Company would be benefiting from employees working for the Company.

In 2017 the Company signed an agreement with Bombardier Inc. for the purchase of two new aircrafts of Q400 model. According to the agreement, the Company made an advance payment of KZT 2,929,869 thousand for the two aircraft (Note 22(c)).

11. Inventories

'000 KZT	**31 December 2018**	**31 December 2017**
Aircraft fuel	467,015	77,997
Uniforms	18,904	18,772
Spare parts	11,974	1,464
Other materials	49,238	42,403
	547,131	**140,636**

12. Trade and other receivables

'000 KZT	**31 December 2018**	**31 December 2017**
Trade receivables	11,752	9,432
Value added tax recoverable	11,010	15,096
Receivables from employees	2,342	1,333
Other receivables	218,568	3,984
	243,672	**29,845**

Other trade receivables comprise KZT 218,540 thousand which represent receivables from the lessor on variable payments subject to reimbursement based on results of aircraft maintenance performed up to the reporting date.

The Company's exposure to credit and currency risks, and risk of impairment losses related to financial assets are disclosed in in Note 20.

13. Guarantee deposits

'000 KZT	**31 December 2018**	**31 December 2017**
Long-term		
Guarantee deposits for leased aircraft	637,490	541,303
Expected credit loss allowance	(177,997)	-
	459,493	**541,303**
Short term		
Guarantee deposit for leased engine	38,036	-
Guarantee deposit for leased office space	25,680	-
	63,716	-

Long-term guarantee deposits comprise security deposits for the three leased aircraft required under the existing operating lease agreements as a security for future lease payments to be made by the Company. Guarantee deposits are denominated in US dollars.

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 and currency risks, and risk of impairment losses related to financial assets are disclosed in Note 20.

14. Cash and cash equivalents

'000 KZT	**31 December 2018**	**31 December 2017**
Short-term deposits with local banks	740,787	2,596,104
Current accounts with local banks	456,515	567,577
Cash on hand	1,046	406
	1,198,348	**3,164,087**
Expected credit loss allowance	(381)	-
	1,197,967	**3,164,087**

The Company's exposure to credit and currency risks, and risk of impairment losses related to financial assets are disclosed in in Note 20.

15. Equity

(a) Share capital

'000 KZT	31 December 2018	%	31 December 2017	%
Samruk-Kazyna National Welfare Fund JSC	120,000	100	120,000	100

As at 31 December 2017 and 2018 years 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 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 2018 the Company had accumulated losses of KZT 4,370,342 thousand (31 December 2017: KZT 13,426,984 thousand). No dividends were declared during the year ended 31 December 2018 (2017 year: none).

16. Loan from the Parent Company

'000 KZT	31 December 2018	31 December 2017
Long-term		
Samruk-Kazyna National Welfare Fund JSC	5,162,616	-
Interest payable	3,859	-
	5,166,475	**-**
Short-term		
Samruk-Kazyna National Welfare Fund JSC	2,673,253	19,853,935
Interest payable	-	1,581
	2,673,253	**19,855,516**

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. In April 2016 the Company signed an addendum to the initial interest-free financial aid agreement with the Parent Company, which outlined a change in the contractual terms on prolongation of the provided facility till 31 December 2016 and introduction of 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 equity to liabilities. In accordance with the addendum 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 to convert the initial interest-free financial aid of KZT 13,303,706 thousand into a loan facility bearing 5.5% interest rate per annum 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 5.5% interest rate per annum and maturity on 31 December 2017. The purpose of the loan is financing Company's operating activities.

In October 2017 the Company signed addendum to the loan agreements mentioned above, which set out a change of the interest rate from 5.5% to 0.01% per annum effective from 1 January 2017.

In December 2017 maturity of the loan facilities was further prolonged till 31 December 2018.

In December 2018 maturity of the loan facilities was further prolonged till 31 December 2030.

On 6 December 2017 the Company signed an interest free financial aid agreement with the Parent Company 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 aircrafts of Q400 model to Bombardier Inc. (Note 10).

16. Loan from the Parent Company, continued

In December 2018 maturity of financial aid was further prolonged till 5 December 2019.

All loans were initially recognised at fair value using a market interest rate of 13.87% per annum.

Due to extension of the period for repayment of credit facilities till 2030, the loans were recognised at fair value using the market interest rate of 14% per annum. The resulted discount of KZT 20,204,315 thousand net of corresponding deferred tax KZT 4,040,863 thousand was recognised directly in equity.

Corresponding finance costs representing unwinding of discount amounted to KZT 3,145,265 thousand during the period ended 31 December 2018.

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

’000 KZT	**Loan from the Parent Company**
Balance at 1 January 2018	**19,855,516**
Changes from financing cash flows	
Proceeds from borrowings	5,043,262
Total changes from financing cash flows	**5,043,262**
Other changes	
Interest expense	2,278
Unwinding of discount on loan from the Parent Company	3,142,987
Recognition of discount on loan from the Parent Company	(20,204,315)
Total other changes	**(17,059,050)**
Balance at 31 December 2018	**7,839,728**

17. Trade and other payables

’000 KZT	**31 December 2018**	**31 December 2017**
Trade payables	1,031,175	300,864
Wages and salaries payable to employees	122,910	73,224
Other	28,924	4,556
	1,183,009	**378,644**

The Company’s exposure to currency and liquidity risk related to trade and other payables is disclosed in Note 20.

18. Other taxes payable

’000 KZT	**31 December 2018**	**31 December 2017**
Withholding income tax	72,342	54,797
Personal income tax	54,175	30,464
Other taxes	63,386	45,342
	189,903	**130,603**

19. Provisions

’000 KZT	**31 December 2018**	**31 December 2017**
Non-current		
Provision for aircraft maintenance	770,465	88,333
Provision for aircraft re-delivery	97,903	83,067
	868,368	**171,400**
Current		
Provision for aircraft maintenance	-	51,432
	-	**51,432**

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. The Company’s use of estimates and judgments in determining provision for aircraft maintenance are disclosed in Note 4.

20. 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.

(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.

Credit risk exposure

The maximum exposure to credit risk the Company's financial assets at the reporting dates was as follows:

	Carrying amount	
'000 KZT	**31 December 2018**	**31 December 2017**
Trade receivables	11,752	9,432
Other trade receivables	218,568	3,984
Guarantee deposits	523,209	541,303
Cash in banks	1,196,921	3,163,681
Restricted cash	11,480	6,480
	1,961,930	**3,724,880**

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 2018 and 2017. As at 31 December 2018 there was no significant concentration of credit risk in respect of trade receivables (Note 12) (31 December 2017: none).

20. Fair values and risk management, continued

(c) Financial risk management

(ii) Credit risk, continued

Trade and other receivables, continued

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

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

Comparative information under IAS 39

An analysis of the credit quality of trade and other receivables that were neither past due nor impaired as at 31 December 2017 is as follows.

’000 KZT	31 December 2017
Neither past due nor impaired	
Assigned credit rating at CCC	-
Other customers:	
– Less than four years’ trading history with the Company	13,416
Total not impaired trade receivables	**13,416**

No receivables were past due or impaired as at 31 December 2017.

Expected credit loss assessment for corporate customers as at 1 January and 31 December 2018

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 customers) 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 impairment allowance for trade and other receivables as at 1 January 2018 as the amount was insignificant.

Guarantee deposits

The Company holds three long-term guarantee deposits of KZT 459,493 thousand (31 December 2017: KZT541,303 thousand) denominated in US Dollars for the leased aircraft with the lessor, that was rated CCC, and two short-term guarantee deposits for KZT 63,716 (2017: none) denominated in KZT and USD related to the leased office and engine.

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

On initial application of IFRS 9, the Company recognised 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.

Cash and cash equivalents

As at 31 December 2018 the Company held cash and cash equivalents of KZT 1,196,921 thousand (31 December 2017: KZT 3,163,681 thousand). The cash and cash equivalents are held with banks and financial institutions, which are rated B to BB+ based on Standard and Poor’s ratings.

Impairment on cash and cash equivalents has been measured on an expected loss basis according to 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.

On initial application of IFRS 9, the Company did not recognise an impairment allowance as at 1 January 2018 as the amount was insignificant. The amount of the allowance increased up to KZT 381 thousand as at 31 December 2018.

20. Fair values and risk management, continued

(c) Financial risk management

(ii) Credit risk, continued

Restricted cash

As at 31 December 2018 the Company held restricted cash of KZT 11,480 thousand (31 December 2017: KZT 6,480 thousand), placed with the bank rated BB based on Standard &Poor's ratings.

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 and has low credit risk based on the external credit ratings of the counterparties.

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

(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 remaining contractual maturities of the Company's 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 2018

'000 KZT	Carrying amount	Contractual cash flows	Less than 2 months	Less than 12 months	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**

31 December 2017

'000 KZT	Carrying amount	Contractual cash flows	Less than 2 months	Less than 12 months	More than 5 years
Non-derivative financial liabilities					
Trade payables	300,864	300,864	300,864	-	-
Loan from the Parent Company	19,855,516	22,817,732	-	22,817,732	-
	20,156,380	**23,118,596**	**300,864**	**22,817,732**	**-**

20. Fair values and risk management, continued

(c) Financial risk management

(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:

	31 December 2018		**31 December 2017**	
'000 KZT	**USD-denominated**	**GBP-denominated**	**USD-denominated**	**GBP-denominated**
Guarantee deposits	497,529	-	541,303	-
Cash and cash equivalents	447,726	-	546,044	7,303
Trade receivables	218,540	-	-	-
Trade payables	(917,994)	(15,047)	(87,492)	(12,044)
Net exposure	**245,801**	**(15,047)**	**999,855**	**(4,741)**

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

'000 KZT	**Average rate**	**Reporting date spot**	**Average rate**	**Reporting date spot**
	2018	**31 December 2018**	**2017**	**31 December 2017**
USD 1	344.90	384.20	326.08	332.33
GBP 1	459.56	488.13	420.12	448.61

Sensitivity analysis

A reasonably possible strengthening/weakening of the USD, as indicated below, against all other currencies at 31 December 2018 and 31 December 2017 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.

20. Fair values and risk management, continued

(c) Financial risk management, continued

(iv) Market risk, continued

Sensitivity analysis, continued

’000 KZT	Strengthening by 14%	Weakening by 10%
	Profit or loss	Profit or loss
31 December 2018		
USD	(27,530)	19,664

’000 KZT	Strengthening by 15%	Weakening by 15%
	Profit or loss	Profit or loss
31 December 2018		
GBP	1,806	(1,806)

’000 KZT	Strengthening by 10%	Weakening by 10%
	Profit or loss	Profit or loss
31 December 2017		
USD	(79,988)	79,988

’000 KZT	Strengthening by 15%	Weakening by 15%
	Profit or loss	Profit or loss
31 December 2017		
GBP	569	(569)

(v) Interest rate risk

The Company was not exposed to interest rate risk at 31 December 2018 and 2017.

(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.

21. Operating leases

The Company leases three aircraft under operating lease contracts till 2022. 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	**31 December 2018**	**31 December 2017**
Less than one year	2,766,240	2,380,374
After one year but not more than five years	6,224,040	7,486,765
	8,990,280	**9,867,139**

22. Commitments and 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 these financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

(c) Capital commitments

During 2017, the Company concluded an agreement with Bombardier Inc. on purchase of two Bombardier Q400 aircraft. The Company is committed to pre-delivery payments in accordance with the agreed payment schedule (Note 10). Delivery of the aircraft is expected in 2019. The terms of the Company’s contract with the above supplier precludes it from disclosing information on the purchase cost of the aircrafts. Management believes that the Parent Company will provide sufficient funds to meet these significant commitments when they become due.

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.

23. Related parties, continued

(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	**2018**	**2017**
Salaries and bonuses	244,727	180,532
Contributions to State pension fund	5,100	4,746
Social contributions	23,758	19,859
	273,585	**205,137**

(c) Other related party transactions

(i) Expenses

'000 KZT	**Transaction value 2018**	**Outstanding balance 31 December 2018**
Purchase of goods and services:		
Samruk-Kazyna National Welfare Fund JSC subsidiaries	347,099	8,746
State-owned companies	374,757	19,625
	721,856	**28,371**

'000 KZT	**Transaction value 2017**	**Outstanding balance 31 December 2017**
Purchase of goods and services:		
Samruk-Kazyna National Welfare Fund JSC subsidiaries	341,299	2,000
State-owned companies	381,040	28,282
	722,339	**30,282**

(ii) Loans

'000 KZT	**Transaction value 2018**	**Outstanding balance 31 December 2018**
Loans received:		
Samruk-Kazyna National Welfare Fund JSC	5,043,262	7,835,869
Interest accrued	-	3,859
	5,043,262	**7,839,728**

'000 KZT	**Transaction value 2017**	**Outstanding balance 31 December 2017**
Loans received:		
Samruk-Kazyna National Welfare Fund JSC	9,510,436	19,853,935
Interest accrued	-	1,581
	9,510,436	**19,855,516**

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.

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 describe in Note 25(a), the accounting policies set out below have been applied consistently to all periods presented in these financial statements.

(a) Changes in significant accounting policies

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

Due to the transition methods chosen by the Company in applying these standards, comparative information throughout these financial statements has not been restated to reflect the requirements of the new standards.

IFRS 15 *Revenue from Contracts with Customers*

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaced IAS 18 *Revenue*, IAS 11 *Construction Contracts* and related interpretations. Under IFRS 15, revenue is recognised when a customer obtains control of the goods or services. Determining the timing of the transfer of control – at a point in time or over time – requires judgement.

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

The Company determined that its current revenue recognition policies do not differ significantly from the requirements of policies set out in IFRS 15.

Therefore, IFRS 15 did not have a significant impact, on the timing of revenue recognition of the Company, its retained earnings as at 1 January 2018, statement of financial position as at 31 December 2018, and statements of profit or loss and other comprehensive income and cash flows for the year ended 31 December 2018. For additional information about the Company's accounting policies relating to revenue recognition, see Note 25(b).

IFRS 9 *Financial Instruments*

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

As a result of the adoption of IFRS 9, the Company has adopted consequential amendments to IFRS 7 *Financial Instruments: Disclosures*, which are applied to disclosures for 2018 but are not applied, as a rule, to comparative information.

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

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, FVOCI and FVTPL. The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. IFRS 9 eliminates the previous IAS 39 categories of held to maturity, loans and receivables and available for sale.

IFRS 9 largely retains the existing requirements in IAS 39 for the classification and measurement of financial liabilities.

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

25. Significant accounting policies, continued

(a) Changes in significant accounting policies, continued

IFRS 9 *Financial Instruments, continued*

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

For an explanation of how the Company classifies and measures financial instruments, treats modifications and accounts for related gains and losses under IFRS 9, see Note 25(i).

The following table and the accompanying notes below explain the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the Company's financial assets as at 1 January 2018.

The effect of adopting IFRS 9 on the carrying amounts of financial assets at 1 January 2018 relates solely to the new impairment requirements for impairment and revaluation of fair value of equity securities on adoption of the new standard.

'000 KZT	**Original classification under IAS 39**	**New classification under IFRS 9**	**Original carrying amount under IAS 39**	**New carrying amount under IFRS 9**
Financial assets				
Guarantee deposits	Loans and receivables	Amortised cost	541,303	387,337
Trade and other receivables	Loans and receivables	Amortised cost	13,416	13,416
Cash and cash equivalents and restricted cash	Loans and receivables	Amortised cost	3,170,567	3,170,567
Total financial assets			**3,725,286**	**3,571,320**

Guarantee deposits, trade and other receivables as well as cash and cash equivalents and restricted cash that were classified as loans and receivables under IAS 39, currently are classified at amortised cost. Increase in the impairment allowance for guarantee deposits of KZT 153,966 thousand was recognised in the opening balance of retained earnings as at 1 January 2018 on transition to IFRS 9.

(ii) Impairment of financial assets

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

For assets in the scope of the IFRS 9 impairment model, impairment losses are generally expected to increase and become more volatile.

The Company has determined that the application of IFRS 9's impairment requirements at 1 January 2018 results in an additional allowance for impairment as follows.

'000 KZT	
Loss allowance at 31 December 2017 under IAS 39	-
Additional impairment recognised at 1 January 2018 on:	
Guarantee deposits	153,966
Loss allowance at 1 January 2018 under IFRS 9	**153,966**

To calculate the expected effect from application of requirement to impairment under IFRS 9, the Company has used the corporate default rating of Falcon Aviation at the CCC level, based on the data from Standard and Poor's «Annual Global Corporate Default Study And Rating Transitions» report, which sets the PD value among corporation at 35.8%.

Application of requirements of IFRS 9 as related to impairment at 1 January 2018 has resulted in the increase of impairment loss recognised under IAS 39 by KZT 153,966 thousand.

25. Significant accounting policies, continued

(a) Changes in significant accounting policies, continued

IFRS 9 *Financial Instruments, continued*

(ii) Financial assets impairment, continued

Additional information about how the Company measures the allowance for impairment is described in Note 25(l).

(iii) Transition

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

– The Company has used an exemption not to restate comparative information for prior periods with respect to classification and measurement (including impairment) requirements. Therefore, comparative periods have not been restated. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognised in retained earnings and reserves as at 1 January 2018. Accordingly, the information presented for 2017 generally reflects rather the requirements of IAS 39 than those of IFRS 9.

– The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application:

– The determination of the business model within which a financial asset is held.

– The designation and revocation of previous designations of certain financial assets and financial liabilities as measured at FVTPL.

(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. The cost of tickets that have been issued, but which will never be used, are recognised as revenue from passenger transportation at the date of their expiry. The maximum validity period of the tickets is one year.

(c) 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.

(d) 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.

25. Significant accounting policies, continued

(e) 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.

(f) Income tax

Income tax expense comprises current and deferred tax. Current tax and deferred tax are 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 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.

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.

25. Significant accounting policies, continued

(h) 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 4 – 7 years;
- other 4 – 8 years.

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 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.

25. Significant accounting policies, continued

(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 – Policy applicable from 1 January 2018

On initial recognition, a financial asset is classified as measured at: amortised cost and FVOCI – equity investment.

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 on the principal amount outstanding.

Financial assets – Business model assessment: Policy applicable from 1 January 2018

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 of financial assets in prior periods, the reasons for such sales and expectations about future sales activity.

25. Significant accounting policies, continued

(k) Financial instruments, continued

(ii) Classification and subsequent measurement, continued

Financial assets – Business model assessment: Policy applicable from 1 January 2018, continued

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: Policy applicable from 1 January 2018

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 a 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 or 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. Additionally, for a financial asset acquired at a discount or premium to its contractual par amount, a feature that permits or requires prepayment at an amount that substantially represents the contractual par amount plus accrued (but unpaid) contractual interest (which may also include reasonable additional compensation for early termination) is treated as consistent with this criterion if the fair value of the prepayment feature is insignificant at initial recognition.

Financial assets – Subsequent measurement and gains and losses: Policy applicable from 1 January 2018	
Financial assets 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.

Financial assets – Policy applicable before 1 January 2018

The Company classified its financial assets into loans and trade receivables.

Financial assets – Subsequent measurement and gains and losses: Policy applicable before 1 January 2018	
Loans and receivables	Measured at amortised cost using the effective interest method.

25. Significant accounting policies, continued

(k) Financial instruments, continued

(ii) Classification and subsequent measurement, continued

Financial liabilities – Classification, subsequent measurement and gains and losses

Financial liabilities are classified as measured at amortised cost. A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition.

Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognised in profit or loss. Other financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognised in profit or loss. Any gain or loss on derecognition is also recognised in profit or loss.

(iii) 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 analogizes 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.

25. Significant accounting policies, continued

(k) Financial instruments, continued

(iii) Modification of financial assets and financial liabilities, continued

Financial liabilities, continued

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 on its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. In such 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 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.

When financial liability is derecognised, the difference between the repaid carrying amount and consideration paid (including any transferred non-cash assets or assumed liabilities) is recognised in profit or loss.

25. Significant accounting policies, continued

(k) Financial instruments, continued

(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

Policy applicable from 1 January 2018

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.

25. Significant accounting policies, continued

(l) Impairment, continued

(i) Non-derivative financial assets, continued

Policy applicable from 1 January 2018, continued

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-off

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.

Policy applicable before 1 January 2018

Non-derivative financial assets

Financial assets not classified as at FVTPL were assessed at each reporting date to determine whether there was objective evidence of impairment.

Objective evidence that financial assets were impaired included:

- 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 or issuer would enter bankruptcy;
- adverse changes in the payment status of borrowers or issuers;
- the disappearance of an active market for a security because of financial difficulties; or
- observable data indicating that there was a measurable decrease in the expected cash flows from a group of financial assets.

For an investment in an equity instrument, objective evidence of impairment included a significant or prolonged decline in its fair value below its cost.

25. Significant accounting policies, continued

(l) Impairment, continued

(i) Non-derivative financial assets, continued

Policy applicable before 1 January 2018, continued

Financial assets measured at amortised cost	The Company considered evidence of impairment for these assets at an individual asset level. An impairment loss was 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 were recognised in profit or loss and reflected in an allowance account. When the Company considered that there were no realistic prospects of recovery of the asset, the relevant amounts were written off. If the amount of impairment loss subsequently decreased and the decrease was related objectively to an event occurring after the impairment was recognised, then the previously recognised impairment loss was reversed through profit or loss.

A financial asset not classified as financial instrument measured at fair value through profit or loss 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 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;
- 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.

Financial assets measured at amortised cost

For a financial assets measured at amortised cost 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 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.

.

25. Significant accounting policies, continued

(l) Impairment, continued

(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.

(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

(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.

26. New standards and interpretations not yet adopted

A number of new Standards, amendments to Standards and Interpretations will be effective for annual periods beginning after 1 January 2019, and their requirements have not been applied in preparation of these financial statements.

Of those standards that are not yet effective, IFRS 16 is expected to have a significant impact on the Company's financial statements in the period of initial application.

IFRS 16 *Leases*

The Company is required to adopt IFRS 16 *Leases* from 1 January 2019. The Company has assessed the estimated impact that initial application of IFRS 16 will have on its financial statements, as described below. The actual impact of adopting the standard on 1 January 2019 may change because:

– the new accounting policies are subject to change until the Company presents its first financial statements that include the date of initial application.

The Company is still assessing the impact from IFRS 16 on the contractual obligations to perform aircraft maintenance included in its aircraft lease agreements.

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

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

(i) Leases in which the Company is a lessee

The Company will recognise new assets and liabilities for its operating leases of aircraft, offices and warehouses. The nature of expenses related to those leases will now change because the Company should recognise depreciation charge of the right-of-use assets and interest expense on lease liabilities.

Previously, the Company recognised operating lease expense on a straight-line basis over the term of the lease, and recognised assets and liabilities only to the extent that there was a timing difference between actual lease payments and the expense recognised.

Based on the currently available information the Company assesses the effect of initial application of IFRS 16 as at 1 January 2019 as follows:

'000 KZT	**31 December 2018**	**Expected effect of initial application of IFRS 16**	**Expected adjusted balance as at 1 January 2019**
Right-of-use assets	-	7,400,000	7,400,000
Lease liabilities	-	9,200,000	9,200,000
Accumulated losses	(4,370,342)	(1,440,000)	(5,810,342)
Deferred tax liabilities/(assets)	7,113	(360,000)	(352,887)

(ii) Transition

The Company plans to apply IFRS 16 initially on 1 January 2019, using a modified retrospective approach. Therefore, the cumulative effect of adopting IFRS 16 will be recognised as an adjustment to the opening balance of retained earnings at 1 January 2019, with no restatement of comparative information. In accordance with the transition method chosen, the lease liabilities are measured at the present value of the remaining lease payments, discounted using the Company's incremental borrowing rate at the date of initial application, and right-of-use assets are measured as if the standard has always been applied since the lease commencement date.

26. New standards and interpretations not yet adopted, continued

IFRS 16 *Leases*, continued

(ii) Transition, continued

The Group plans to apply the practical expedient to grandfather the definition of a lease on transition. This means that it will apply IFRS 16 to all contracts entered into before 1 January 2019 and identified as leases in accordance with IAS 17 and IFRIC 4.

Other standards

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

– IFRIC 23 *Uncertainty over Tax Treatments*;

– *Annual Improvements to IFRS Standards 2015-2017 Cycle – various standards;*

– *Amendments to References to Conceptual Framework in IFRS Standards.*

27. Subsequent events

On 25 February 2019 the Company signed a new loan agreement with the Parent Company for KZT 16,000,000 thousand at 0.1% per annum and maturity in 12 years. The loan is intended to finance the remaining amounts due under purchase agreements of two new Bombardier Q400 aircraft and repayment of interest-free financial aid with a carrying amount of KZT 2,987,209 thousand at the end of 2019.