QAZAQ AIR JSC

Financial statements
for the year ended 31 December 2021

QAZAQ AIR JSC

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STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

Management of QAZAQ AIR JSC (hereinafter – the "Company") is responsible for the preparation of the financial statements as at 31 December 2021 of the Company, that fairly present the financial results of its operations, cash flows and changes in equity for the year then ended, in compliance with International Financial Reporting Standards (hereinafter – "IFRSs").

In preparing the financial statements, management is responsible for:

– properly selecting and applying accounting policies;
– presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
– application of reasonable estimates and assumptions;
– additional disclosures when compliance with requirements of IFRS is insufficient to enable users of the financial statements to understand the impact of specific transactions, as well as other events and conditions on the financial position and results of the Company's operations;
– assessment of the Company's ability to continue as a going concern in the foreseeable future.

Management is also responsible for:

– designing, implementing and maintaining an effective and reliable system of internal controls;
– maintaining of proper accounting system, allowing preparation of the Company's financial position information at any time with reasonable accuracy, and to ensure compliance with IFRS;
– maintaining statutory accounting records in compliance with law of the Republic of Kazakhstan;
– adopting of measures within its competence to safeguard assets of the Company; and
– detecting and preventing fraud and other abuses.

The financial statements of the Company for the year ended 31 December 2021 were approved for issuance by the management on 17 March 2022.

Chairman of the Management Board ______________________ Plamen Atanassov Tzvetkov

Chief accountant ______________________ Kissekova Gulmira Kazbekovna

17 March 2022
Nur-Sultan, the Republic of Kazakhstan

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INDEPENDENT AUDITORS' REPORT

To the Shareholders and management of QAZAQ AIR JSC

Opinion

We have audited the financial statements of QAZAQ AIR JSC (hereinafter – "the Company"), which comprise the statement of financial position as at 31 December 2021, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2021, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (hereinafter - "IFRSs").

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 *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance 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. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Regarding the Going Concern

We draw attention to Note 3 to the financial statements, which indicates that for the year ended 31 December 2021, the Company's net loss amounted to 6,461,796 thousand tenge, net cash inflow from operating activities amounted to 730,652 thousand tenge. As at 31 December 2021, the Company's total liabilities exceed its total assets by 10,982,634 thousand tenge, and accumulated deficit amounted to 11,102,634 thousand tenge. These conditions, together with other matters set out in Note 3, indicate the existence of a material uncertainty that may cast significant doubt on the Company's ability to continue as a going concern for the foreseeable future. Our opinion is not modified in respect of this matter.

Other Matter

The financial statements of the Company for the year ended 31 December 2020 were audited by another auditor who expressed an unmodified opinion on those statements on 23 April 2021.

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 IFRSs, 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 auditor's 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 skepticism 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 auditor's 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 auditor's 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 of QAZAQ AIR JSC, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Auditors' Responsibilities for the Audit of the Financial Statements (continued)

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 audit.

Grant Thornton LLP

Evgeny Zhemaletdinov

Auditor/Engagement Partner

Certified Auditor of the Republic of Kazakhstan
Qualification certificate
№MF-00000553 dated 20 December 2003

Yerzhan Dossymbekov

General Director
Grant Thornton LLP

State license for providing audit services on the territory of the Republic of Kazakhstan No.18015053, issued by the Internal State Audit Committee of the Ministry of Finance of the Republic of Kazakhstan dated 3 August 2018 (the date of primary issue – 27 July 2011)

17 March 2022
Almaty, the Republic of Kazakhstan

QAZAQ AIR JSC

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2021

In thousands of tenge	Note	2021	2020
Revenue and other income			
Revenue from passenger transportation and other operating income	5	12,753,160	7,652,007
Total revenue and other income		**12,753,160**	**7,652,007**
Operating expenses			
Employee costs	6(a)	(3,115,688)	(2,828,178)
Fuel		(2,946,023)	(2,162,930)
Depreciation and amortisation		(2,831,399)	(2,438,813)
Engineering and maintenance	6(b)	(1,897,388)	(1,329,256)
Handling, landing fees and route charges	6(c)	(1,500,760)	(1,105,012)
Passenger service	6(d)	(1,009,699)	(609,073)
Insurance		(375,611)	(345,693)
Transport, accommodation and subsistence costs		(336,620)	(263,657)
Information technology		(333,940)	(288,962)
Training costs		(215,604)	(199,671)
Property lease cost		(157,800)	(139,570)
Consultancy, legal and professional fees		(61,029)	(36,275)
Selling costs		(57,352)	(29,127)
Aircraft licenses		(36,924)	(70,906)
Provided staff costs		–	(34,340)
Other		(236,229)	(145,490)
Total operating expenses		**(15,112,066)**	**(12,026,953)**
Operating loss		**(2,358,906)**	**(4,374,946)**
Impairment loss on property and equipment	9	(441,593)	(5,813,581)
Operating loss		**(2,800,499)**	**(10,188,527)**
Finance income	7	84,849	60,103
Finance costs	7	(4,994,920)	(5,024,582)
Other income and expense		(14,475)	(11,181)
Net foreign exchange loss		(36,789)	(68,137)
Loss before income tax		**(7,761,834)**	**(15,232,324)**
Corporate income tax benefit	8	1,300,038	2,675,985
Loss for the year		**(6,461,796)**	**(12,556,339)**
Other comprehensive income			
Items that will not be reclassified to profit or loss:			
Loss from revaluation of property and equipment		–	(1,162,254)
Income tax benefit		–	232,451
Other comprehensive income/ (loss) for the year, net of corporate income tax		**–**	**(929,803)**
Total comprehensive loss for the year		**(6,461,796)**	**(13,486,142)**

The notes on pages 5-40 are an integral part of these financial statements.

Chairman of the Management Board — Plamen Atanassov Tzvetkov

Chief accountant — Kissekova Gulmira Kazbekovna

17 March 2022

Nur-Sultan, the Republic of Kazakhstan

QAZAQ AIR JSC

STATEMENT OF FINANCIAL POSITIONASAT 31 DECEMBER 2021

In thousands of tenge	Note	31 December 2021	31 December 2020
Assets			
Property and equipment	9	23,280,749	25,301,495
Intangible assets		23,875	24,126
Prepayments and deferred expenses	10	276,453	139,163
Non-current assets		**23,581,077**	**25,464,784**
Inventories	11	1,064,224	924,754
Trade and other receivables	12	150,802	193,806
Prepayments and deferrals	10	772,504	527,269
Cash and cash equivalents	13	3,674,715	1,674,646
Current assets		**5,662,245**	**3,320,475**
Total assets		**29,243,322**	**28,785,259**
Equity			
Charter capital	14	120,000	120,000
Accumulated loss		(11,102,634)	(9,892,478)
Total equity		**(10,982,634)**	**(9,772,478)**
Liabilities			
Loan from the Parent Company	15	37,776,355	36,801,576
Lease liabilities		–	6,087
Non-current liabilities		**37,776,355**	**36,807,663**
Lease liabilities		2,386	–
Trade and other payables	16	1,332,100	872,601
Other taxes payable except CIT		91,537	65,873
Deferred income	17	787,383	577,407
Advances received		236,195	234,193
Current liabilities		**2,449,601**	**1,750,074**
Total liabilities		**40,225,956**	**38,557,737**
Total equity and liabilities		**29,243,322**	**28,785,259**

The notes on pages 5-40 are an integral part of these financial statements.

Chairman of the Management Board — Plamen Atanassov Tzvetkov

Chief accountant — Kissekova Gulmira Kazbekovna

17 March 2022
Nur-Sultan, the Republic of Kazakhstan

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2021

In thousands of tenge	Share capital	Asset revaluation reserve	Retained earnings/ accumulated loss	Total equity/ (equity deficit)
At 1 January 2020	**120,000**	**929,803**	**1,187,883**	**2,237,686**
Total comprehensive income/ (loss)				
Loss for the year	–	–	(12,556,339)	(12,556,339)
Other comprehensive income/ (loss)				
Loss from revaluation of property and equipment, net of income tax	–	(929,803)	–	(929,803)
Total comprehensive loss for the year	–	**(929,803)**	**(12,556,339)**	**(13,486,142)**
Recognition of discount on the loan provided by the Parent Company, net of tax (Note 15)	–	–	1,475,978	1,475,978
Total transactions with owners of the Company	–	–	**1,475,978**	**1,475,978**
Balance at 31 December 2020	**120,000**	–	**(9,892,478)**	**(9,772,478)**
At 1 January 2021	**120,000**	–	**(9,892,478)**	**(9,772,478)**
Total comprehensive income/ (loss)				
Loss for the year	–	–	(6,461,796)	(6,461,796)
Other comprehensive income/ (loss)				
Total comprehensive loss for the year			**(6,461,796)**	**(6,461,796)**
Transactions with the owners of the Company				
Recognition of discount on the loan provided by the Parent Company, net of tax (Note 15)	–	–	5,251,640	5,251,640
Total transactions with the owners of the Company	–	–	**5,251,640**	**5,251,640**
Balance at 31 December 2021	**120,000**		**(11,102,634)**	**(10,982,634)**

The notes on pages 5-40 are an integral part of these financial statements.

Chairman of the Management Board ______________________ Plamen Atanassov Tzvetkov

Chief accountant ______________________ Kissekova Gulmira Kazbekovna

17 March 2022
Nur-Sultan, the Republic of Kazakhstan

STATEMENT OF CASH FLOW
FOR THE YEAR ENDED 31 DECEMBER 2021

In thousands of tenge	**2021**	**2020**
Cash flows from operating activities		
Cash receipts from customers	13,982,233	8,595,085
Cash paid to suppliers	(9,327,357)	(7,644,870)
Cash paid to employees	(3,444,229)	(2,494,881)
Cash paid for taxes other than corporate income tax	(552,904)	(409,797)
Cash flows from/ (used in) operating activities before interest and corporate income tax paid	**657,743**	**(1,954,463)**
Interest received	85,781	50,305
Corporate income tax paid	(12,872)	–
Net cash flows from/ (used in) operating activities	**730,652**	**(1,904,158)**
Cash flows from investing activities		
Acquisition of property and equipment (Note 9)	(1,249,259)	(12,856)
Acquisition of intangible assets	–	(5,480)
Net cash flow used in investing activities	**(1,249,259)**	**(18,336)**
Cash flows from financing activities		
Proceeds from loan from the Parent Company (Note 15)	2,544,971	2,242,644
Net cash flows from financing activities	**2,544,971**	**2,242,644**
Net increase in cash and cash equivalents	**2,026,364**	**320,150**
Cash and cash equivalents at 1 January	1,674,646	1,402,412
Effect of foreign exchange differences	(26,295)	(47,916)
Cash and cash equivalents at 31 December (Note 13)	**3,674,715**	**1,674,646**

The notes on pages 5-40 are an integral part of these financial statements.

Chairman of the Management Board — Plamen Atanassov Tzvetkov

Chief accountant — Kissekova Gulmira Kazbekovna

КАЗАКСТАН РЕСПУБЛИКАСЫ НҰР-СУЛТАН ҚАЛАСЫ
РЕСПУБЛИКА КАЗАХСТАН ГОРОД НУР-СУЛТАН
БСН 150440000668
АКЦИОНЕРЛІК ҚОҒАМЫ
QAZAQ AIR
АКЦИОНЕРНОЕ ОБЩЕСТВО
БИН 150440000668

17 March 2022
Nur-Sultan, the Republic of Kazakhstan

1. GENERAL INFORMATION

QAZAQ AIR Joint Stock Company (hereinafter - the "Company") was established on 1 April 2015 in accordance with the legislation of the Republic of Kazakhstan on the basis of the decision of the Board of Directors of Samruk-Kazyna National Welfare Fund JSC No. 117 dated 30 January 2015.

The sole shareholder of the Company is Samruk-Kazyna National Welfare Fund JSC (hereinafter - the "Parent Company"), which is owned by the Government of the Republic of Kazakhstan. The main activity of the Company is the provision of regular domestic and international air transportation services. The Company provides services to subsidized socially significant air transportation in the Republic of Kazakhstan. Since 2021, the Company has started serving cross-border international air routes to the Russian Federation and the Republic of Kyrgyzstan.

As at 31 December 2021 and 2020, the Company operated five of its own De Havilland Dash 8 Q400 NextGen turboprop aircrafts, which were acquired in 2019. As at 31 December 2021, the Company's fleet is included in the Kazakh register of aircrafts. The Company also has its own line maintenance station licensed by Aviation Administration of Kazakhstan JSC.

The Company is registered at the address: Kazakhstan, Nur-Sultan, Yesil district, 119 Kabanbai Batyr Ave.

2. NEW AND AMENDED INTERNATIONAL FINANCIAL REPORTING STANDARDS

New standards, interpretations and amendments to existing standards and interpretations

The accounting principles adopted in the preparation of the financial statements are consistent with the principles applied in the preparation of the Company's financial statements for the year ended 31 December 2020, except for the adopted new standards and interpretations that became effective from 1 January 2021. The Company has not early adopted standards, interpretations or amendments that have been issued but are not yet effective.

Interest Rate Benchmark Reform – Phase 2: Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 ("IBOR Reform – Phase 2")

The amendments provide temporary reliefs which address the financial reporting effects when an interbank offered rate (IBOR) is replaced with an alternative nearly risk-free interest rate (RFR). The amendments provide for the following:

- A practical expedient to require contractual changes, or changes to cash flows that are directly required by the reform, to be treated as changes to a floating interest rate, equivalent to a movement in a market rate of interest;
- Permit changes required by IBOR reform to be made to hedge designations and hedge documentation without the hedging relationship being discontinued;
- Provide temporary relief to entities from having to meet the separately identifiable requirement when an RFR instrument is designated as a hedge of a risk component.

These amendments did not have any impact on the Company's financial statements as it does not have any hedging relationships based on interest rates.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

New standards, interpretations and amendments to existing standards and interpretations (continued)

Covid-19-Related Rent Concessions beyond 30 June 2021 Amendments to IFRS 16

On 28 May 2020, the IASB issued Covid-19-Related Rent Concessions - amendment to IFRS 16 Leases. The amendments provide relief to lessees from applying IFRS 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the Covid-19 pandemic. As a practical expedient, a lessee may elect not to assess whether a Covid-19 related rent concession from a lessor is a lease modification. A lessee that makes this election accounts for any change in lease payments resulting from the Covid-19 related rent concession the same way it would account for the change under IFRS 16, if the change were not a lease modification.

The amendment was intended to apply until 30 June 2021, but due to the continued impact of the Covid-19 pandemic, on 31 March 2021 the IASB decided to extend the application of the practical expedients until 30 June 2022. The new amendment applies to annual reporting periods beginning on or after 1 April 2021. The Company does not have any Covid-19 related lease concessions granted, but plans to apply practical expedients, if necessary, within a reasonable period. This amendment did not have any impact on the Company's financial statements.

Standards issued but not effective yet

The following are new standards, amendments and interpretations that have been issued but are not yet effective as of the date the Company's financial statements are issued. The Company intends to apply these standards, amendments and interpretations, if applicable, from the effective date.

IFRS 17 Insurance Contracts

In May 2017, the IASB released IFRS 17 Insurance Contracts, a comprehensive new financial reporting standard for insurance contracts that addresses recognition and measurement, presentation and disclosure. When IFRS 17 becomes effective, it will replace IFRS 4 Insurance Contracts, which was issued in 2005. IFRS 17 applies to all types of insurance contracts (i.e. life and non-life insurance, direct insurance and reinsurance), regardless of the type of entity that issues them, and to certain guarantees and financial instruments with conditions discretionary participation. There are several exceptions to the scope. The main objective of IFRS 17 is to provide an accounting model for insurance contracts that is more efficient and consistent for insurers. Unlike the requirements of IFRS 4, which are primarily based on previous local accounting policies, IFRS 17 provides a comprehensive model for accounting for insurance contracts, covering all relevant aspects of accounting.

IFRS 17 is based on a general model, supplemented by the following:

- Certain modifications for insurance contracts with direct participation terms (variable fee method).
- Simplified approach (premium distribution approach) mainly for short-term contracts.

IFRS 17 is effective for periods beginning on or after 1 January 2023 and comparative information is required. Early application is permitted provided that the entity also applies IFRS 9 and IFRS 15 on or before the date of first application of IFRS 17. This standard is not applicable to the Company.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Standards issued but not effective yet (continued)

Amendments to IAS 1 Classification of Liabilities as Current or Non-current

In January 2021, the IASB issued amendments to paragraphs 69 to 76 of IAS 1 to specify the requirements for classifying liabilities as current or non-current. The amendments clarify:

- What is meant by a right to defer settlement;
- That a right to defer must exist at the end of the reporting period;
- That classification is unaffected by the likelihood that an entity will exercise its deferral right;
- That only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification.

The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and must be applied retrospectively. The Company is currently assessing the impact the amendments will have on current practice and whether existing loan agreements may require renegotiation.

Amendments to IFRS 3: Definition of a Business – Reference to the Conceptual Framework

In May 2021, the IASB issued Amendments to IFRS 3 Business Combinations - Reference to the Conceptual Framework. The amendments are intended to replace a reference to the Framework for the Preparation and Presentation of Financial Statements, issued in 1989, with a reference to the Conceptual Framework for Financial Reporting issued in March 2019 without significantly changing its requirements.

The Board also added an exception to the recognition principle of IFRS 3 to avoid the issue of potential ‘day 2’ gains or losses arising for liabilities and contingent liabilities that would be within the scope of IAS 37 or IFRIC 21 Levies, if incurred separately.

At the same time, the Board decided to clarify existing guidance in IFRS 3 for contingent assets that would not be affected by replacing the reference to the Framework for the Preparation and Presentation of Financial Statements.

The amendments are effective for annual reporting periods beginning on or after 1 January 2022 and apply prospectively. These amendments are not expected to have a material impact on the financial statements of the Company.

Amendments to IAS 16: Property, Plant and Equipment: Proceeds before Intended Use

In May 2021, the IASB issued Property, Plant and Equipment — Proceeds before Intended Use, which prohibits entities deducting from the cost of an item of property, plant and equipment, any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling such items, and the costs of producing those items, in profit or loss.

The amendment is effective for annual reporting periods beginning on or after 1 January 2022 and must be applied retrospectively to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented when the entity first applies the amendment. These amendments are not expected to have a material impact on the financial statements of the Company.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Standards that have been issued but not yet effective (continued)

Amendments to IAS 37: Onerous Contracts – Costs of Fulfilling a Contract

In May 2021, the IASB issued amendments to IAS 37 to specify which costs an entity needs to include when assessing whether a contract is onerous or loss-making.

The amendments apply a “directly related cost approach”. The costs that relate directly to a contract to provide goods or services include both incremental costs and an allocation of costs directly related to contract activities. General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract.

The amendments are effective for annual reporting periods beginning on or after 1 January 2022. The Company will apply these amendments to contracts for which it has not yet fulfilled all its obligations at the beginning of the annual reporting period in which it first applies the amendments.

Amendments to IFRS 1 «First-time Adoption of International Financial Reporting Standards» – Subsidiary as a first-time adopter

As part of the 2018-2020 Annual Improvements to IFRSs, the IASB has issued an amendment to IFRS 1 First-time Adoption of International Financial Reporting Standards. Under the amendment, a subsidiary that elects to apply paragraph D16(a) of IFRS 1 may measure accumulated exchange differences using the amounts recognized in the parent's financial statements based on the parent's date of transition to IFRSs. This amendment also applies to associates and joint ventures that elect to apply paragraph D16(a) of IFRS 1.

This amendment is effective for annual periods beginning on or after 1 January 2022. Early application is allowed. This standard is not applicable to the Company.

IFRS 9 Financial Instruments – Fees in the ’10 per cent’ test for derecognition of financial liabilities

As part of its 2018-2020 Annual Improvements to IFRS standards process, the IASB issued an amendment to IFRS 9. The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other’s behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment.

The amendment is effective for annual reporting periods beginning on or after 1 January 2022 or after that date. Earlier adoption permitted. This amendment is not expected to have a material impact on the Company.

Amendment to IAS 41 Agriculture – Taxation in measuring fair value.

As part of the annual improvements to IFRS 2018-2020 period, the IASB has issued an amendment to IAS 41 Agriculture. The amendment removes the requirement in paragraph 22 of IAS 41 that entities exclude tax-related cash flows when measuring the fair value of assets within the scope of IAS 41.

An entity shall apply this amendment prospectively to fair value measurements at or after the start date of the first annual reporting period beginning

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Standards that have been issued but not yet effective (continued)

Amendments to IAS 8 - Determination of Accounting Estimates

In February 2021, the IASB issued amendments to IAS 8 introducing a definition of "accounting estimates". The amendments clarify the difference between changes in accounting estimates and changes in accounting policies and the correction of errors. It also explains how organizations use measurement methods and inputs to develop accounting estimates.

The amendments are effective for annual periods beginning on or after 1 January 2023 and apply to changes in accounting policies and estimates that occur on or after the start date of that period. Early application is permitted subject to disclosure of that fact. These amendments are not expected to have a material impact on the Company.

Amendments to IAS 1 and Practice Guideline No. 2 on the Application of IFRS - Disclosure of Accounting Policies

In February 2021, the IASB issued amendments to IAS 1 and IFRS Practice Guideline 2 on Making Materiality Judgments, which provide guidance and examples to help entities apply materiality judgments when disclosing accounting policies. The amendments should help entities disclose more useful information about accounting policies by replacing the requirement for entities to disclose “significant information” about accounting policies with a requirement to disclose “material information” about accounting policies, and by adding guidance on how entities should apply the concept materiality in making decisions on disclosure of information about accounting policies.

The amendments to IAS 1 apply for annual periods beginning on or after 1 January 2023, with early application possible. Since the amendments to Practice Note 2 on the Application of IFRSs provide non-mandatory guidance on the application of the definition of materiality to accounting policy information, it is not required to indicate the effective date of the amendments.

The Company is currently assessing the impact these amendments may have on disclosures of the Company's accounting policies.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance with IFRS

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

Going concern

The accompanying financial statements have been prepared on a going concern basis, which involves the disposal of assets and settlement of liabilities in the ordinary course of business.

In 2021, the Company reached full production capacity of the entire fleet of 5 aircrafts. In 2021, the Company increased the number of year-round subsidized air routes in the Republic of Kazakhstan and launched international flights to the Russian Federation and the Republic of Kyrgyzstan.

As a result, in 2021, the Company for the first time since inception achieved a positive cash flows from operating activities in the amount of 730,652 thousand tenge. As at 31 December 2021, the balance of cash and cash equivalents in the Company’s accounts amounted to 3,674,715 thousand tenge (31 December 2020: 1,674,646 thousand tenge).

For the year ended 31 December 2021, the Company incurred a net loss of 6,461,796 thousand tenge (2020: 12,556,339 thousand tenge) and the Company’s total liabilities as at 31 December 2021 exceeded its total assets by 10,982,634 thousand tenge. The net loss for 2021 includes the amortization of the discount on loans from the Parent Company in the amount of 4,456,432 thousand tenge (2020: 4,509,319 thousand tenge). The major part of the Company's liabilities equal to 94% from total liabilities comprise loans from the Parent Company for the purchase of aircraft, provision of scheduled maintenance and supporting working capital. Loans provided to fund working capital have a conversion option into the Company's share capital at the discretion of the Parent Company. The Parent Company has provided a credit line until the end of its term in 2030 to support the financial stability of the Company, if necessary, for the foreseeable future (Note 15).

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Going concern (continued)

The circumstances described above indicate that the going concern of the Company for the foreseeable future depends primarily on the decisions of the Parent Company.

The management of the Company has neither the intention nor the need to liquidate or reduce the scale of operations. These financial statements of the Company have been prepared on a going concern basis, which assumes continued significant support from the Parent Company, including the possible implementation of financing and the potential conversion of loans into equity of the Company, if necessary. As at 31 December 2021 and 2020 the Company's financial statements have been prepared on a going concern basis.

Functional and presentation currency

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

Assessment base

This financial information has been prepared on a historical cost basis, except for aircraft, which are measured at fair value at each reporting date.

The accounting policies described below have been applied by the Company consistently throughout the reporting periods presented in these financial statements.

Revenue from passenger transportation

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

Financial income and expenses

For all financial instruments measured at amortized cost, interest income or expense is recognized at the effective interest rate that is discounted to expected future cash payments or receipts through the expected life of the financial instrument, or a shorter period, where applicable, of accuracies are adjusted to the net carrying amount of the financial asset or financial liability.

Foreign currency

When preparing the financial statements, transactions in a currency other than the functional currency (foreign currency) are reflected at the exchange rate at the date of the transaction. Monetary items denominated in foreign currencies are translated at the appropriate rate of exchange at the date of the financial statements. Non-monetary items denominated in a foreign currency and measured at fair value are translated using the exchange rates ruling at the date the fair value was determined.

Non-monetary items carried at historical cost in a foreign currency are not restated. Exchange differences on monetary items arising from changes in exchange rates are recognized in profit or loss in the period in which they occur.

The weighted average exchange rates prevailing on the Kazakhstan Stock Exchange (hereinafter - the "KASE") are used as the official exchange rates in the Republic of Kazakhstan.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Employee benefits

In accordance with the legislation on pension provision and social insurance, the Company withholds pension contributions from employees' wages and transfers them to pension funds. Once the pension contributions have been paid, the Company has no further pension obligations. After retirement, all pension payments are managed directly by the pension fund.

Short term rewards

Discounting is not applied in determining the liability for short-term employee benefits and related expenses are recognized as the service is rendered by employees. For amounts expected to be paid under a short-term cash bonus or profit sharing plan, a liability is recognized if the Company has a present legal or constructive obligation to pay the related amount arising from the past performance of services by employees and the amount of that liabilities can be measured reliably.

Corporate income tax

Corporate income tax expense includes current income tax and deferred tax. Current and deferred tax are recognized in profit or loss, except to the extent that it relates to items recognized directly in equity or other comprehensive income.

Current tax

Current corporate income tax includes the amount of tax that is expected to be paid or refunded on taxable profit or loss for the year, which is calculated based on tax rates in effect or in substance in effect at the reporting date, and income tax adjustments of previous years.

Deferred tax

Deferred tax is recognized for temporary differences arising between the carrying amounts of assets and liabilities, which are determined for the purposes of their recognition in the financial statements, and their tax base. Deferred tax is not recognized for temporary differences on the initial recognition of assets and 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 recognized for unused tax losses, tax credits and deductible temporary differences only to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and reduced to the extent that it is no longer probable that the related tax benefits will be realised.

The amount of deferred tax is determined based on the tax rates that will apply in the future, when the temporary differences reverse, based on laws in force or substantively enacted at the reporting date.

The deferred tax estimate reflects the tax consequences resulting from the way in which the Company intends to recover or settle the carrying amount of its assets or settle liabilities at the end of the reporting period.

Inventories

Inventories are measured at the lower of cost and net realizable value. The cost of inventories is determined on a FIFO (first-in-first-out) method, except for fuel and anti-icing fluids, which are costed on a weighted average basis and includes the costs of acquiring inventories and other costs to bring inventories to present location and bringing them into the appropriate state. Net realizable value is the estimated selling price of inventories less all estimated costs of completion and selling expenses.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fixed assets

Recognition and valuation

Items of property and equipment other than aircraft are stated at cost less accumulated depreciation and impairment losses.

The cost includes costs that are directly attributable to the acquisition of the relevant asset.

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

Any gain or loss on disposal of an item of property and equipment is determined by comparing the proceeds from its disposal with its carrying amount and is recognized net in the line “other income” or “other expenses” in profit or loss for the period.

Aircrafts are measured at fair value less accumulated depreciation and any impairment losses recognized after the revaluation date. Revaluation occurs with sufficient frequency to provide assurance that the fair value of the revalued asset does not differ materially from its carrying amount. The amount of the increase resulting from the revaluation of an aircraft is recognized directly under the revaluation surplus heading in other comprehensive income. However, such an increase in value shall be recognized in profit or loss to the extent that it reverses a decrease in the same asset previously recognized in profit or loss.

Decrease in value resulting from the revaluation of an aircraft is recognized in profit or loss for the period. However, such a decrease is recognized in other comprehensive income to the extent of the existing amount of the credit balance in the item “revaluation surplus”. On disposal of an asset, the portion of the revaluation reserve that is directly attributable to that asset is transferred from the asset revaluation reserve to retained earnings.

Subsequent costs

The cost of replacing a significant component of an item of property and equipment increases the carrying amount of that item if it is probable that the Company will derive future economic benefits from that item and its cost can be measured reliably. The carrying amount of the replaced component is written off. Expenses for day-to-day maintenance of items of property and equipment are recognized in profit or loss for the period at the time they are incurred.

Depreciation

Items of property and equipment are depreciated from the date they are installed and ready for use, and for items of property and equipment built in-house, from the date the item is completed and ready for use. Depreciation is calculated based on the cost of the asset less its estimated residual value.

Each component of an item of property and equipment is depreciated on a straight-line basis over its expected useful life because that method most accurately reflects the expected consumption of future economic benefits embodied in the asset, and the depreciation charge is included in profit or loss for the period.

The expected useful lives of property and equipment were as follows:

Fixed asset group	Useful life
Aircraft (excluding individual components of the asset)	25 years
Machinery and equipment	4 – 25 years
Vehicles	5 – 10 years
Computers and office equipment	4 – 7 years
Other	4 – 8 years

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fixed assets (continued)

Depreciation (continued)

The individual components of an aircraft asset are depreciated over the average expected useful life between overhauls, which is based on flight hours or cycles.

Depreciation methods expected useful lives and residual values of property and equipment are reviewed at each reporting date and adjusted if necessary.

Property and equipment, other than aircraft, are carried at cost less accumulated depreciation and accumulated impairment losses, if any.

Intangible assets

Intangible assets acquired by the Company and having a finite useful life are carried at cost less accumulated depreciation and impairment losses.

Subsequent costs

Subsequent costs are capitalized in the cost of a particular asset only if they increase the future economic benefits embodied in that asset. All other costs are recognized in profit or loss for the period as incurred.

Amortization

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

Typically, each component of an intangible asset is amortized on a straight-line basis over its expected useful life because that method most accurately reflects the expected consumption of the future economic benefits embodied in the asset, and the depreciation charge is included in profit or loss for the period.

The expected useful lives of intangible assets in the reporting and comparative periods were as follows:

Group of intangible assets	Useful life
Software	3 - 10 years

Amortization methods, expected useful lives and residual values of property and equipment are reviewed as at each financial year end date and adjusted if necessary

Deferred expenses

Training costs are classified by the Company as prepayments and amortized on a straight-line basis over the period during which the Company is entitled to claim reimbursement from employees in the event of termination of the employment contract.

Prepayment

Prepayments are reported at cost less any allowance for impairment. A prepayment is classified as non-current if the expected date of receipt of the goods or services related to it is more than one year, or if the prepayment relates to an asset that will be accounted for as non-current on initial recognition. An advance payment for the acquisition of an asset is included in its carrying amount when the Company obtains control of the asset, and it is probable that the future economic benefits associated with it will flow to the Company. Other prepayments are written off to profit or loss when the related goods or services are received. If there is an indication that the assets, goods or services relating to the prepayment will not be received, the carrying amount of the prepayment is written off and the associated impairment loss is recognized in profit or loss for the year.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments

Recognition and initial measurement

Trade receivables are initially recognized when they are incurred. All other financial assets and liabilities are initially recognized when the Company enters into a contractual relationship involving these instruments.

A financial asset (unless it is a trade receivable that does not contain a significant financing component) or financial liability is initially measured at fair value. Trade receivables that do not contain a significant financing component are initially measured at the transaction price.

Classification and subsequent measurement

Financial assets

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

Financial assets are reclassified after initial recognition only if the Company changes the 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 business model.

A financial asset is measured at amortized cost only if it meets both of the following conditions and is not designated by the Company as at fair value through profit or loss:

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

Financial assets - business model evaluation

The Company evaluates the objective of the business model in which the asset is held at the level of a portfolio of financial instruments, as this best reflects the way the business is managed, and information is provided to the management. The following information is considered:

- Policies and targets set for the portfolio and how these policies work in practice. This includes management's strategy to earn contractual interest income, maintain a defined interest rate structure, ensure that the maturities of financial assets match the maturities of the financial liabilities used to finance those assets or expected cash outflows, or realize cash flows through the sale of assets.
- How portfolio performance is measured and how this information is communicated to the Company's management.
- Risks affecting the performance of the business model (and the financial assets held within that business model) and how those risks are managed.
- How managers responsible for managing the portfolio are remunerated (for example, whether the remuneration depends on the fair value of the specified assets or on the contractual cash flows received from the assets).
- The frequency, volume and timing of historical sales of financial assets, the reasons for such sales, and expectations regarding the future level of sales.

Transfers of financial assets to third parties in transactions that do not qualify for derecognition are not treated as sales for that purpose and the Company continues to recognize those assets.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial assets – an assessment of whether the cash flows provided for in the contract are solely payment of principal and interest

For the purposes of this assessment, the "principal amount" is defined as the fair value of a financial asset at initial recognition. “Interest” is defined as compensation for the time value of money, for credit risk on principal outstanding for a certain period of time, and for other major risks and costs associated with lending (such as liquidity risk and administrative costs) and include profit margin.

When assessing whether the cash flows provided for in the contract are exclusively payments of the principal amount and interest on the outstanding part of the principal amount (the “SPPI criterion”), the Company analyses the contractual terms of the financial instrument. This includes assessment of whether the financial asset contains any contractual condition that may change the timing or amount of the contractual cash flows so that the financial asset would not meet the analyzed requirement.

During the assessment, the Company analyzes:

- conditional events that may change the timing or amount of cash flows;
- conditions that can adjust the coupon rate stipulated by the contract, including variable rate terms;
- conditions for early repayment and prolongation of the validity period;
- conditions that limit the Company's claims to cash flows from specified assets (for example, non-recourse financial assets)

The early repayment condition meets the SPPI criterion if the amount paid for early repayment represents, in substance, the principal amount outstanding and interest on the principal amount outstanding and may include reasonable additional compensation for early termination. In addition, the condition for early repayment is considered to meet this criterion if the financial asset is acquired or originated at a premium or discount to the nominal amount specified in the contract, the amount payable upon prepayment is, in substance, the nominal amount specified in the contract plus accrued (but not paid) contractual interest (and may also include reasonable additional compensation for early termination of the contract); and at initial recognition of the financial asset, the fair value of its early repayment condition is insignificant.

Financial assets - subsequent measurement and gains and losses

Financial assets measured at amortized cost	These assets are subsequently measured at amortized cost using the effective interest method. Amortized cost is reduced by the amount of the impairment loss. Interest income, exchange gains and losses and impairments are recognized in profit or loss. Any gain or loss on derecognition is recognized in profit or loss for the period.

Modification of the terms of financial assets and financial liabilities

Financial assets

If the terms of a financial asset are modified, the Company assesses whether the cash flows of the modified asset are significantly different. If the cash flows differ significantly (“significant modification of terms”), then the rights to the contractual cash flows of the original financial asset are considered to have expired. In this case, the recognition of the original financial asset is derecognised and the new financial asset is recognized at fair value.

The Company conducts a quantitative and qualitative assessment of whether the modification of the conditions is significant, i.e. whether the cash flows of the original financial asset and the cash flows of the modified or replaced financial asset differ significantly. The Company conducts a quantitative and qualitative assessment of the significance of the modification of conditions, analyzing qualitative factors, quantitative factors and the combined effect of qualitative and quantitative factors. If the cash flows are significantly different, then the rights to the contractual cash flows of the original financial asset are considered to have expired. In making this assessment, the Company is guided by guidance on the derecognition of financial liabilities by analogy.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Modification of the terms of financial assets and financial liabilities (continued)

Financial liabilities (continued)

The Company concludes that the modification is significant based on the following qualitative factors:

- change in the currency of a financial asset;
- change in the type of collateral or other means of improving the quality of the asset;
- a change in the terms of a financial asset resulting in non-compliance with the SPPI criterion (for example, adding a conversion term).

If the cash flows of the modified asset measured at amortized cost do not differ significantly, such modification of terms does not result in derecognition of the financial asset. In this case, the Company restates the gross carrying amount of the financial asset and recognizes the amount of the adjustment to the gross carrying amount as a modification gain or loss in profit or loss. The gross carrying amount of the financial asset is restated as the present value of the renegotiated or modified cash flows, discounted using the financial asset's original effective interest rate. Costs and fees incurred adjust the carrying amount of the modified financial asset and are amortized over the remaining life of the modified financial asset.

Financial obligations

The Company derecognises a financial liability when its terms change in such a way that the cash flows of the modified liability change significantly. In this case, a new financial liability with modified terms is recognized at fair value. The difference between the carrying amount of the old financial liability and the amount of the new financial liability with modified terms is recognized in profit or loss.

If the modification of terms (or replacement of a financial liability) does not result in the derecognition of a financial liability, the Company applies an accounting policy that is consistent with the approach for adjusting the gross carrying amount of a financial asset in cases where the modification of terms does not result in the derecognition of a financial asset – i.e. the Company recognizes any adjustment to the amortized cost of a financial liability arising from such modification (or replacement of a financial liability) in profit or loss at the date of the modification (or replacement of a financial liability).

Changes in the amount of cash flows on existing financial liabilities are not considered modifications of terms if they are a consequence of the current terms of the contract.

The Company conducts a quantitative and qualitative assessment of the significance of the modification of conditions, analyzing qualitative factors, quantitative factors and the combined effect of qualitative and quantitative factors. The Company concludes that the modification is significant based on the following qualitative factors:

- change in the currency of the financial liability;
- changing the type of collateral or other means of improving the quality of the obligation;
- adding a conversion condition;
- change in the subordination of a financial liability.

For measurement purposes, terms are considered to be significantly different if the present value of the cash flows under the new terms, including commission payments less commission received, discounted at the original effective interest rate, differs by at least 10% from the discounted present value of the remaining cash flows of the original financial liability. If the replacement of one debt instrument with another, or modification of its terms, is accounted for as an repayment, then the cost or commission incurred is recognized as part of the profit or loss on the settlement of the related debt. If the replacement of one debt instrument by another or modification of its terms is not accounted for as an repayment, then the carrying amount of the related liability is adjusted by the costs or fees incurred and the adjustment is amortized over the remaining life of the modified liability.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Derecognition

Financial assets

The Company derecognises a financial asset when it loses its contractual cash flow rights on that financial asset, or when it transfers the rights to receive the contractual cash flows in a transaction that transfers substantially all the risks and the benefits of ownership of that financial asset, or in which the Company neither transfers nor retains a substantial portion of all the risks and rewards incidental to ownership of that financial asset, but does not retain control of the financial asset.

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

Financial obligations

The Company derecognises a financial liability when the contractual obligations under it are discharged, canceled or terminated. The Company also derecognises a financial liability when its terms are modified and the cash flows of the modified liability are materially different, in which case a new financial liability based on the modified terms is recognized at fair value.

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

Offsetting

Financial assets and financial liabilities are offset and presented in the statement of financial position on a net basis only when the Company currently has an enforceable right to offset the recognized amounts and intends to either settle them on a net basis or realize the asset and fulfill the obligation at the same time.

Charter capital

Ordinary shares

Ordinary shares are classified as equity. Additional costs directly related to the issuance of ordinary shares and stock options are reflected, taking into account the tax effect, as a decrease in equity.

Impairment

Non-derivative financial assets

Financial instruments

The Company recognizes loss allowances for expected credit losses (ECLs) on financial assets measured at amortized cost.

The Company estimates the reserves for losses in an amount equal to the ECL for the entire period., with the exception of the following instruments, for which the amount of the recognized reserve will be equal to the 12-month expected credit losses:

- Bank balances for which the 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 margin, trade and other receivables will always be measured at an amount equal to lifetime expected credit losses.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment (continued)

Non-derivative financial assets (continued)

Financial instruments (continued)

In assessing whether there has been a significant increase in the credit risk of a financial asset since initial recognition and in assessing ECLs, the Company analyzes reasonable and verifiable 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 past experience and a reasonable assessment of credit quality, and includes forward-looking information.

The Company assumes that the credit risk of a financial asset has increased significantly if it is overdue for more than 30 days.

A financial asset is classified by the Company as a financial asset for which a default event has occurred in the following cases:

- it is unlikely that the borrower will repay its loan obligations to the Company in full without the Company taking measures such as the sale of collateral (if any); or
- the financial asset is overdue by more than 90 days.

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

The 12-month ECL is that part of the ECL that arises from default events that are possible within 12 months after the reporting date (or a shorter period if the expected life of the financial instrument is less than 12 months).

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

ECL score

Expected credit losses are an estimate weighted by the likelihood of credit losses. Credit losses are measured as the present value of all expected cash shortfalls (i.e. the difference between the cash flows due to the Company under the contract and the cash flows that the Company expects to receive).

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

Credit-impaired financial assets

At each reporting date, the Company assesses financial assets carried at amortized cost for credit impairment. A financial asset is 'credit-impaired' when one or more events occur that have a negative effect on the estimated future cash flows of that financial asset.

Evidence that a financial asset is credit-impaired is, in particular, the following observable data:

- significant financial difficulty of the borrower or issuer;
- breach of contract, such as default or overdue payment by more than 90 days;
- restructuring by the Company of a loan or advance payment on terms that it would not otherwise consider;
- the likelihood of bankruptcy or other financial reorganization of the borrower; or
- the disappearance of an active market for a security as a result of financial difficulties.

Presentation of allowance for expected credit losses in the statement of financial position

Allowances for expected credit losses on financial assets measured at amortized cost are deducted from the gross carrying amount of those assets.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Presentation of allowance for expected credit losses in the statement of financial position (continued)

Write-offs

The full carrying amount of a financial asset is written off when the Company has no reason to expect that the financial asset will be recovered in full or in part. For businesses, the Company makes individual assessments of the timing and amount of write-offs based on a reasonable expectation of recovery. The Company does not expect a significant recovery of the amounts written off. However, written off financial assets may continue to be subject to enforcement in order to comply with the Company's procedures for recovering amounts due.

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, the asset's recoverable amount is calculated.

For the purposes of impairment testing, assets that cannot be tested individually are combined into the smallest group of assets that generates cash inflows from continuing use that are independent of cash inflows from other assets or cash generating units (CGUs).

The recoverable amount of an asset, or CGU, is the largest of two values: the value in use of that asset (that unit) and its fair value less costs to sell. In calculating value in use, expected future cash flows are discounted to their present value using a pre- tax discount rate that reflects the current market estimate of the time value of money and the risks specific to the asset or CGU.

An impairment loss is recognized if the carrying amount of an asset or its related cash generating unit (CGU) is greater than its estimated recoverable amount. Impairment losses are recognized in profit or loss for the period. An impairment loss recognized in a prior period is reviewed at each reporting date to determine whether there is any indication that the loss should be reduced or no longer recognised. Amounts written off for impairment losses are reversed if there has been a change in the estimates used to calculate the recoverable amount. An impairment loss is reversed only to the extent that the asset can be restored to its carrying amount, less accumulated depreciation, if no impairment loss had been recognised.

Lease

At the time of conclusion of the contract, an entity evaluates whether the contract as a whole or its individual components is a lease. A contract is a lease or contains a lease component if the contract conveys the right to control the use of an identified asset for a specified period of time in exchange for consideration. To assess whether the right to control the use of an identified asset under this contract is transferred, the Company applies the definition of a lease under IFRS 16.

This accounting policy will apply to contracts that were concluded on or after 1 January 2019.

The Company as a lessee

The Company recognizes a right-of-use asset and a lease liability at the commencement date of the lease. The right-of-use asset is initially measured at cost, which is the initial amount of the lease liability, adjusted for the amount of lease payments made on or before the commencement date, plus the initial direct costs incurred and the estimated costs that would be incurred on dismantling and relocation of the underlying asset, restoration of the underlying asset or the site on which it is located, less lease incentives received.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Lease (continued)

The Company as a lessee (continued)

Subsequently, a right-of-use asset is depreciated on a straight-line basis from the commencement date of the lease to the end of the lease term, unless the lease agreement transfers ownership of the underlying asset to the Company before the end of the lease term or if the cost of the right-of-use asset exercise reflects the exercise by the Company of a call option. In such cases, the right-of-use asset is depreciated over the useful life of the underlying asset, which is determined using the property and equipment approach. In addition, the cost of a right-of-use asset is periodically reduced by the amount of impairment losses, if any, and adjusted when certain revaluations of the lease liability are made.

The lease liability is initially measured at the present value of the lease payments outstanding at the commencement date, discounted using the interest rate implicit in the lease or, if such a rate cannot be readily determined, using the Company's incremental borrowing rate. The Company generally uses its incremental borrowing rate as the discount rate.
The Company determines its incremental borrowing rate based on interest rates from various external sources and makes certain adjustments to take into account the terms of the lease and the type of asset being leased.

Lease payments included in the measurement of the lease liability include:

- fixed charges, including substantively fixed charges;
- variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date of the lease;
- amounts expected to be paid by the tenant under the residual value guarantee;
- the exercise price of a purchase option if it is reasonably certain that the Company will exercise the option, the lease payments for the additional lease period arising from the existence of an option to extend the lease, if it is reasonably certain that the Company will exercise the option to extend the lease, and penalties for early termination of the lease, unless there is reasonable assurance that the Company will not terminate the lease early.

The lease liability is measured at amortized cost using the effective interest method. It is remeasured if future lease payments change due to a change in an index or rate, if the Company's estimate of the amount payable under the residual value guarantee changes, if the Company changes its estimate of whether it will exercise a call option, an option to extend the lease, or its termination, or if a lease payment that is in substance fixed is renegotiated. was reduced to zero.

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

The Company has elected not to recognize right-of-use assets and lease liabilities for leases of low-value assets and short-term leases. The Company recognizes lease payments made under such agreements as an expense on a straight-line basis over the lease term.
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4. USE OF PROFESSIONAL JUDGMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of financial statements in accordance with IFRS requires management to make judgments, assumptions and estimates that affect how accounting policies are applied and how much assets, liabilities, income and expenses are reported. Actual results may differ from these estimates.

The assumptions and estimates made on their basis are regularly reviewed to determine if they need to be changed. Changes in accounting estimates are recognized in the reporting period in which the estimates are revised and in all subsequent periods affected by those changes.

Recoverability of a deferred tax asset

Significant management judgment is required to determine the amount of deferred tax assets that can be recognized based on the likely timing and level of future taxable income and future tax planning strategies. The tax code allows a business to carry forward accumulated tax losses for the next ten years. Management has concluded that it is probable that sufficient taxable profit will be available to utilize the deferred tax asset by comparing the pre-tax profit projected in the 5-year business plan with the tax loss carry forward as at 31 December 2021. Refer to Note 2 for information about the assumptions and uncertainties in the estimates that have the primary risk of requiring a material change, in the amounts presented in the financial statements in the next financial year.

Fair value measurement

Certain accounting policies of the Company and a number of disclosures require an assessment of the fair value of both financial and non-financial assets and liabilities.

When estimating the fair value of an asset or a liability, the Company uses, to the extent possible, observable market data. Fair value measurements are assigned to different levels of the fair value hierarchy, depending on the inputs used in the respective valuation techniques:

- Level 1: quoted (unadjusted) prices for identical assets and liabilities in active markets.
- Tier 2: Inputs other than quoted prices used for Tier 1 estimates that are observable either directly (i.e., such as prices) or indirectly (i.e., determined from prices).
- Level 3: inputs for assets and liabilities that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or liability can be assigned to different levels of the fair value hierarchy, then the fair value measurement is generally assigned to the level of the hierarchy that corresponds to the lowest level input that is material to the overall measurement.

The Company recognizes transfers between levels of the fair value hierarchy at the end of the reporting period during which the change takes place.

Revaluation of property and equipment

The Company accounts for aircraft at revalued amounts. Revalued aircraft represent one class of assets under IFRS 13 based on the nature, characteristics and risks inherent in the asset. The inputs for determining the fair value of aircraft belong to level 3 in the fair value hierarchy (unobservable inputs).

In 2021 and 2020, the Company used data from global indicative analytical agencies IBE and Ascend to independently assess the market value of aircrafts. Due to the continuation of the Covid-19 coronavirus pandemic, aircrafts revaluation loss of 441,593 thousand tenge was recognized in 2021 (Note 9).

4. THE USE OF PROFESSIONAL JUDGMENTS, ESTIMATES AND ASSUMPTIONS (CONTINUED)

Recoverability of a deferred tax asset (continued)

Revaluation of fixed assets (continued)

In 2020, due to the impact of the Covid-19 coronavirus pandemic, the Company recognized a decrease in the cost of aircrafts in the amount of 6,975,835 thousand tenge. As a result, an impairment charge of 5,813,581 thousand tenge less previously recognized positive revaluation in equity of 929,803 thousand tenge and less deferred corporate income tax of 232,447 thousand tenge.

5. REVENUE AND OTHER OPERATING INCOME

In thousands of tenge	**2021**	**2020**
Revenue from passenger transportation		
Regular passenger transportation	12,369,245	7,525,015
including:		
- *fuel surcharges*	*1,024,007*	*795,067*
- *airport taxes*	*577,061*	*349,057*
- *excess baggage*	*123,819*	*86,240*
Charter flights	282,840	89,529
Total revenue from contracts with customers	**12,652,085**	**7,614,544**
Other income		
Other income	101,075	37,463
	101,075	**37,463**
	12,753,160	**7,652,007**

During the year ended 31 December 2021, domestic passenger traffic comprised 94% (2020: 99%) of total passenger revenue.

During 2021 and 2020, there was no revenue from operations with a single client of 10% or more of total revenue.

6. OPERATING EXPENSES

(a) Employee costs

In thousands of tenge	**2021**	**2020**
Operating personnel salary	2,291,982	2,137,911
Salary of administrative staff	498,094	472,920
Sales staff salaries	66,896	76,516
Social tax and social contributions	258,716	140,831
	3,115,688	**2,828,178**

As at 31 December 2021, the number of employees in the Company was 276 (31 December 2020: 279).

6. OPERATING EXPENSES (CONTINUED)

(b) Engineering and maintenance

In thousands of tenge	2021	2020
Spare parts warehouse and maintenance	1,588,217	836,659
Parking lot maintenance	169,589	347,578
Other	139,582	145,019
	1,897,388	**1,329,256**

Parking maintenance costs are costs for services provided by the supplier, which include regular checks of aircrafts and carry out current repairs at the location of the Company.

(c) Handling, landing fees and route charges

In thousands of tenge	2021	2020
Landing fees	479,770	362,574
Ground handling	409,639	306,920
Air navigation	300,787	176,539
Security	215,852	153,211
Anti-icing fluids	94,712	105,768
	1,500,760	**1,105,012**

(d) Passenger service

In thousands of tenge	2021	2020
Airport fees	830,126	442,855
Onboard meals	149,292	125,826
Other	30,281	40,392
	1,009,699	**609,073**

7. FINANCE INCOME AND COST

In thousands of tenge	2021	2020
Financial income		
Interest income on bank deposits	84,849	60,103
	84,849	**60,103**
Financial expenses		
Amortization of the discount on the loan from the Parent Company and interest expenses (Note 15)	4,994,358	5,023,311
Interest expense on lease liabilities	562	1,271
	4,994,920	**5,024,582**

8. CORPORATE INCOME TAX BENEFIT

The applicable tax rate for the Company is 20%, which is the income tax rate for Kazakhstan companies.

In thousands of tenge	2021	2020
Current income tax expense		
Reporting period	**12,872**	8,877
Origination and reversal of temporary differences	**(1,312,910)**	(2,684,862)
Deferred income tax benefit	**(1,300,038)**	**(2,675,985)**
Deferred income tax related to items recognized in other comprehensive income during the year		
Deferred tax from revaluation of assets	–	(232,451)
Income tax benefit recognized directly in other comprehensive income	**–**	**(232,451)**

8. INCOME TAX BENEFIT (CONTINUED)

Reconciliation of the effective tax rate:

	2021		2020	
	In thousands of tenge	**%**	**In thousands of tenge**	**%**
Loss before taxation	**(7,761,834)**	**100**	**(15,232,324)**	**100**
Income tax calculated at the established rate applicable to the Company	(1,552,367)	20.0	(3,046,465)	20.0
Tax effect of non- deductible expenses	180,403	(0.9)	219,066	(1.4)
Change in unrecognized deferred tax assets	71,926	(0.4)	151,414	(1.0)
	(1,300,038)	**16.7**	**(2,675,985)**	**17.6**

Change in temporary differences during the year:

In thousands of tenge	**1 January 2021**	**Recognized in profit or loss**	**Recognized in equity**	**31 December 2021**
Tax losses carry-forward	7,558,279	991,182	–	8,549,461
Trade and other payables	23,723	(7,578)	–	16,145
Other taxes payable	6,282	136	–	6,418
Intangible assets	1,744	(336)	–	1,408
Lease obligations	1,217	(740)	–	477
Deferred tax assets	**7,591,245**	**982,664**	–	**8,573,909**
Loan from the Parent Company	(6,251,948)	891,286	(1,312,910)	(6,673,572)
Property and equipment	(1,186,766)	(489,819)	–	(1,676,585)
Right-of-use assets	(1,117)	705	–	(412)
Deferred tax liabilities	**(7,439,831)**	**402,172**	**(1,312,910)**	**(8,350,569)**
Deferred tax asset /(liability)	**151,414**	**1,384,836**	**(1,312,910)**	**223,340**
Unrecognized deferred tax asset	(151,414)	(71,926)	–	(223,340)
Total deferred tax asset/(liability)	**–**	**1,312,910**	**(1,312,910)**	**—**

In thousands of tenge	**1 January, 2020**	**Recognized in profit or loss**	**Recognized in equity**	**31 December 2020**
Tax losses carry-forward	5,988,950	1,569,329	–	7,558,279
Trade and other payables	16,758	6,965	–	23,723
Other taxes payable	4,226	2,056	–	6,282
Intangible assets	1,560	184	–	1,744
Lease obligations	4,475	(3,258)	–	1,217
Deferred tax assets	**6,015,969**	**1,575,276**	–	**7,591,245**
Loan from Parent Company	(6,784,818)	901,865	(368,995)	(6,251,948)
fixed assets	(1,776,236)	357,019	232,451	(1,186,766)
Right-of-use assets	(3,233)	2,116	–	(1,117)
Deferred tax liabilities	**(8,564,287)**	**1,261,000**	**(136,544)**	**(7,439,831)**
Deferred tax asset /(liability)	**(2,548,318)**	**2,836,276**	**(136,544)**	**151,414**
Unrecognized deferred tax asset	–	(151,414)	–	(151,414)
Total deferred tax asset/(liability)	**(2,548,318)**	**2,684,862**	**(136,544)**	–

As at 31 December 2021, the amount of tax losses with period for the use of accumulated tax losses that expires within ten years from the origination date is amounted to 41,630,605 thousand tenge (31 December 2020: 37,034,325 thousand tenge). The nearest expiration period for accumulated tax losses in the amount of 487,618 thousand tenge is in 2025.

9. PROPERTY AND EQUIPMENT

In thousands of tenge	Aircrafts	Vehicles	Machinery and equipment	Computers and office equipment	Right-of-use assets	Construction in progress	Total
Cost /Revalued amount							
As at 1 January 2020	**38,546,898**	**31,869**	**17,652**	**110,664**	**115,241**	–	**38,822,324**
Additions and lease modification	–	–	–	12,856	–	–	12,856
Disposals	–	–	–	(5,624)	(104,655)	–	(110,279)
Revaluation	(1,341,855)	–	–	–	–	–	(1,341,855)
As at 31 December 2020	**37,205,043**	**31,869**	**17,652**	**117,896**	**10,586**	–	**37,383,046**
Additions	144,573	–	2,254	3,898	–	1,098,534	**1,249,259**
Disposals	(110,655)	–	–	(5,314)	–	–	(115,969)
Internal transfers	937,526	–	–	588	–	(938,114)	–
As at 31 December 2021	**38,176,487**	**31,869**	**19,906**	**117,068**	**10,586**	**160,420**	**38,516,336**
Accumulated depreciation							
As at 1 January 2020	**(3,930,194)**	**(21,141)**	**(7,117)**	**(65,380)**	**(99,075)**	–	**(4,122,907)**
Charge for the year	(2,394,061)	(4,780)	(1,847)	(21,529)	(10,579)	–	(2,432,796)
Disposals	–	–	–	3,477	104,655	–	108,132
Revaluation	(5,633,980)	–	–	–	–	–	(5,633,980)
As at 31 December 2020	**(11,958,235)**	**(25,921)**	**(8,964)**	**(83,432)**	**(4,999)**		**(12,081,551)**
Charge for the year	(2,802,402)	(4,780)	(1,844)	(15,067)	(3,528)	–	(2,827,621)
Disposals	110,655	–	–	4,523	–	–	115,178
Revaluation	(441,593)	–	–	–	–	–	(441,593)
As at 31 December 2021	**(15,091,575)**	**(30,701)**	**(10,808)**	**(93,976)**	**(8,527)**	–	**(15,235,587)**
Book value							
As at 31 December 2020	**25,246,808**	**5,948**	**8,688**	**34,464**	**5,587**	–	**25,301,495**
As at 31 December 2021	**23,084,912**	**1,168**	**9,098**	**23,092**	**2,059**	**160,420**	**23,280,749**

In 2021, the Company carried out the planned basic maintenance of two aircraft in Germany at the base of an authorized aircraft maintenance organization. Also at the end of 2021, the Company sent a third aircraft for scheduled basic maintenance to Germany. In January 2022, basic maintenance of the third aircraft was completed.

9. PROPERTY AND EQUIPMENT (CONTINUED)

The carrying amount of aircrafts, if they were carried at cost less accumulated depreciation, is as follows:

In thousands of tenge	31 December 2021	31 December 2020
Initial cost	38,176,487	37,205,043
Accumulated depreciation	(8,836,401)	(6,144,654)
Accumulated impairment	(6,255,174)	(5,813,581)
Residual value	**23,084,912**	**25,246,808**

In 2021, the independent appraisal company Russel Bedford estimated the fair market value of five aircrafts model DHC -8 400. The fair market value is based on the global indicators of analytical agencies IBE and Ascend, which led to be a decrease in the cost of these types of aircrafts due to the effect of the Covid-19 coronavirus pandemic and affect of the manufacturer's announcement of a sales restriction of new aircrafts before the recovery of the industry after the pandemic. In accordance with the report of an independent appraiser, the Company in 2021 recognized a decrease in the fair value of aircrafts in the amount of 441,593 thousand tenge in the statement of profit or loss (2020: 5,813,581 thousand tenge according to the results of the valuation due to the effect of the Covid -19 coronavirus pandemic). As at 31 December 2021, the total revaluation loss on these assets amounted to 6,255,174 thousand tenge (31 December 2020: 5,813,581 thousand tenge).

As at 31 December 2021, all of the Company's aircrafts with a carrying value of 23,084,912 thousand tenge was pledged as collateral for loans received from the Parent Company (2020: 25,246,808 thousand tenge).

10. PREPAYMENTS AND DEFERRED EXPENSES

In thousands of tenge	31 December 2021	31 December 2020
Long term		
Deferred expenses for employee training	276,453	139,163
	276,453	**139,163**
Short term		
Future spending	191,363	224,093
Prepayment for goods	464,234	221,353
Prepayment for services	99,171	64,081
Prepayment for other taxes	17,736	17,742
	772,504	**527,269**

Deferred expenses are represented by employee training costs incurred by the Company, which are subject to reimbursement by employees under individual labor contracts in the event that the employee does not work for the Company for a certain period of time after training. The average duration of such a period is ranging between two and four years. The Company amortizes these expenses over duration period on a straight-line basis, which is management's estimate of the minimum period over which the Company will benefit from the work of its employees.

11. INVENTORIES

In thousands of tenge	31 December 2021	31 December 2020
Spare parts	751,502	578,916
Aviation fuel	259,025	332,256
Uniform	35,560	33,600
Other materials	77,806	39,651
	1,123,893	**984,423**
Write-down of inventories to net realizable value	(59,669)	(59,669)
	1,064,224	**924,754**

12. TRADE AND OTHER RECEIVABLES

In thousands of tenge	31 December 2021	31 December 2020
Trade receivables	51,505	7,644
Accounts receivable of employees	16,191	36,506
Value added tax receivable	83,106	149,656
	150,802	**193,806**

Information about the Company's exposure to credit, currency and impairment risks in relation to financial assets is disclosed in Note 18.

13. CASH AND CASH EQUIVALENTS

In thousands of tenge	31 December 2021	31 December 2020
Current accounts in Kazakhstani banks	2,663,021	572,304
Short-term deposits with original maturity less than 90 days in Kazakhstan banks	1,011,905	1,101,832
Cash on hand	265	723
	3,675,191	**1,674,859**
Provision on expected credit losses	(476)	(213)
	3,674,715	**1,674,646**

Information about the Company's exposure to credit, currency and impairment risks in relation to financial assets is disclosed in Note 18.

14. CHARTER CAPITAL

Share capital

In thousands of tenge	31 December 2021	%	31 December 2020	%
Samruk- Kazyna National Welfare Fund JSC	120,000	100	120,000	100

As at 31 December 2021 and 2020, the Company's share capital consisted of 120,000 authorized, issued and fully paid ordinary shares with a par value of 1,000 each.

Dividends

In accordance with the legislation of the Republic of Kazakhstan, a shareholder of the Company has the right to include in dividends the amount of retained earnings of previous years. Profit distribution is not allowed if the equity capital becomes negative or the distribution of net income would result in the Company becoming insolvent.

The Company did not declare or pay dividends during 2021 and 2020.

Asset revaluation reserve

As at 31 December 2021 and 2020, the Company owns five aircrafts.

In 2020, as a result of the revaluation, the cost of aircrafts was reduced as a result of the impact of the Covid -19 pandemic both on the aviation industry as a whole and on the number of flights and passengers in the Company in the amount of 6,975,835 thousand tenge. The Company recognized a decrease of 1,162,254 thousand tenge before income tax in other comprehensive income. The remaining loss on revaluation of assets in the amount of 5,813,581 thousand tenge was recognized in profit or loss for the period.

In 2021 based on a reassessment impacted by the continuation of the pandemic in 2021 Covid -19, the cost of aircraft was reduced and a loss on revaluation of assets in the amount of 441,593 thousand tenge was recognized in the statement of profit or loss.

15. LOAN FROM THE PARENT COMPANY

In thousands of tenge	31 December 2021	31 December 2020
Long term		
Samruk- Kazyna National Welfare Fund JSC	36,724,437	36,287,584
Accrued interest expense payable	1,051,918	513,992
	37,776,355	**36,801,576**

In January 2021, the amount of the credit line under agreement No. 656-i signed with the Parent Company in March 2017 with a maturity date of 31 December 2030 and an interest rate of 0.01% per annum to finance the Company's operating activities was increased to 23,122,136 thousand tenge. According to the terms of this credit line, the principal amount and interest are payable in bullet payment at maturity. As at 31 December 2021, the amount of available funds receivable under this credit line is 2,493,692 thousand tenge.

During 2021, under this credit line, the Company received funds in the amount of 1,700,556 thousand tenge (2020: 2,242,644 thousand tenge).

In 2017, financial assistance received from the Parent Company in the amount of 13,303,706 thousand tenge was converted into credit line No. 652-i with a maturity date 31 December 2030 and an interest rate 0.01% per annum. According to the terms of this credit line, the principal amount and interest are repayable in bullet payment at maturity. This loan was issued to finance the Company's operations.

The contractual terms of loans to finance the Company's operations include the possibility of partial conversion into equity based on the decision of the Parent Company.

In February 2019, the Company signed a 12-year loan agreement with the Parent Company for the purchase of two new DHC-8 Q400NG aircraft from Bombardier Inc. in the amount of 16,000,000 thousand tenge with principal repayment in one amount at the end of the term and interest in semi-annual installments with the first payment after 60 months from the date of the first tranche at a rate of 0.1% per annum. The Company provided purchased aircraft as collateral for this loan.

In October 2019, the Company received a loan from the Parent Company for 15 years for the purchase of three previously leased DHC-8 Q400NG aircraft and for funding of their scheduled maintenance in the amount of 21,000,000 thousand tenge with a principal and interest semi-annual payments with the first payment starting after 24 months from the date of the first tranche at a rate of 2.5% per annum. On 2 November 2021, the repayment period was extended to 60 months from the date of the first tranche. The Company provided purchased aircraft as collateral for this loan. As at 31 December 2021, the amount of available funds under this credit line is 676,982 thousand tenge.

During 2021, under this credit line, the Company received cash in the total amount of 844,415 thousand tenge (2020: nil).

Funds received in 2021 under credit lines at below market rates from the Parent Company were recognized at fair value at inception using a market rate of 18.0% under an operating activity financing agreement and 16,0% under an agreement for the purchase of aircraft and their scheduled maintenance. As a result, the discount on loans received during 2021 in the amount of 6,564,550 thousand tenge (2020: 1,844,973 thousand tenge) less the corresponding deferred tax in the amount of 1,312,910 thousand tenge (2020: 368,995 thousand tenge) was recognized directly within equity. The related finance costs for the period ended 31 December 2021 amounted to 4,994,358 thousand tenge (2020: 5,023,311 thousand tenge).

All borrowings were initially recognized at fair value using market interest rates.

15. LOAN FROM THE PARENT COMPANY (CONTINUED)

Reconciliation of changes in liabilities and cash flows from financing activities

In thousands of tenge	Loan from the Parent Company
Balance as at 1 January 2021	**36,801,576**
Changes in cash flows from financing activities	
Proceeds from borrowings	2,544,971
Total changes due to cash flows from financing activities	**2,544,971**
Other changes	
Interest expense	537,926
Amortization of the discount on the loan from the Parent Company	4,456,432
Recognition of a discount on a loan from the Parent Company	(6,564,550)
Total other changes	**(1,570,192)**
Balance at 31 December 2021	**37,776,355**

In thousands of tenge	Loan from the Parent Company
Balance as at 1 January 2020	
Changes in cash flows from financing activities	**31,380,594**
Proceeds from borrowings	2,242,644
Total changes due to cash flows from financing activities	**2,242,644**
Other changes	
Interest expense	513,992
Amortization of the discount on the loan from the Parent Company	4,509,319
Recognition of a discount on a loan from the Parent Company	(1,844,973)
Total other changes	**3,178,338**
Balance at 31 December 2020	**36,801,576**

16. TRADE AND OTHER PAYABLES

In thousands of tenge	31 December 2021	31 December 2020
Trade payables	1,189,988	608,019
Wages and salaries payable to employees	138,759	238,160
Other	3,353	26,422
	1,332,100	**872,601**

Information about the Company's exposure to currency risk and liquidity risk in relation to trade and other payables is disclosed in Note 18.

17. DEFERRED INCOME

In thousands of tenge	31 December 2021	31 December 2020
Deferred income	787,383	577,407
	787,383	**577,407**

Deferred income on transportation represents the value of sold but unused passenger tickets that have not yet expired.

18. FAIR VALUE AND RISK MANAGEMENT

Accounting classifications and fair value

Management believes that the fair value of the Company's financial assets and liabilities approximates their carrying amounts. The basis for determining fair value is disclosed below.
Management classifies the fair value of the Company's financial assets and liabilities in Level 2 of the fair value hierarchy.

18. FAIR VALUE AND RISK MANAGEMENT (CONTINUED)

Fair value measurement

The estimated fair value of all financial assets and liabilities determined for disclosure purposes is calculated using discounted cash flow methods, based on estimated future cash flows and market interest rates at the reporting date.

Financial risk management

The use of financial instruments exposes the Company to the following types of risk:

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

Basic principles of risk management

The Management Board has overall responsibility for organizing the Company's risk management system and overseeing the functioning of this system. The Management Board of the Company is responsible for developing the Company's risk management policy and supervising its implementation. The Management Board regularly reports on its work to the Board of Directors.

Credit risk

Credit risk is the risk that the Company will incur a financial loss caused by a customer or counterparty to a financial instrument failing to meet its contractual obligations and arises primarily from the Company's customer receivables, margin deposits and bank balances.

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

Exposure to credit risk

The maximum exposure to credit risk for trade receivables, margin deposits, restricted cash and cash and cash equivalents with banks as at the reporting date was as follows:

In thousands of tenge	**Book value**	
	31 December 2021	**31 December 2020**
Trade account receivables	51,505	7,644
Cash and cash equivalents other than cash on hand	3,674,450	1,673,923
	3,725,955	**1,681,567**

Trade and other receivables

The Company's exposure to credit risk mainly depends on the individual characteristics of each customer/client. 83% of the Company's trade account receivables as at 31 December 2021 were from internal customers (31 December 2020: 100%). As at 31 December 2021, there is no significant concentration of credit risk on trade account receivables (31 December 2020: none).

18. FAIR VALUE AND RISK MANAGEMENT (CONTINUED)

Exposure to credit risk (continued)

Trade and other receivables (continued)

An analysis of the Company's exposure to credit risk in relation to trade and other receivables is presented below:

In thousands of tenge	31 December 2021	31 December 2020
	Not credit-impaired	Not credit-impaired
Other clients:		
The duration of trading relations with the Company is less than 5 years	51,505	7,644
Total gross carrying amount	**51,505**	**7,644**

Estimated expected credit losses for credit institutions as at 31 December 2021 and 2020

The Company allocates each position exposed to credit risk based on data that is determined to predict the risk of loss (including, but not limited to, external ratings, audited financial information, management accounts and cash flow projections, and counterparty information available to in the media) and through the application of expert judgment. Credit risk levels are determined using qualitative and quantitative factors that are indicative of default risk and are consistent with external credit rating definitions obtained from Standard & Poor's.

Cash and cash equivalents

As at 31 December 2021, the Company had cash and cash equivalents excluding cash on hand totaling 3,674,450 thousand tenge (31 December 2020: 1,673,923 thousand tenge). Cash and cash equivalents are placed with banks rated BB to BB + by Standard & Poor's.

Impairment of cash and cash equivalents was estimated based on expected credit losses under contractual maturities, which reflect the short terms of exposures. The Company considers, based on external counterparty credit ratings, that its cash and cash equivalents have low credit risk.

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. The Company's approach to liquidity management is to ensure, to the extent possible, that the Company has sufficient liquidity at all times to meet its obligations on time, both under normal and stressful conditions, without incurring unacceptable losses or exposing reputation of the Company.

The Company generally ensures that sufficient cash is available on demand to meet expected operating expenses, including servicing financial liabilities, without taking into account the potential impact of exceptional circumstances that could not reasonably be foreseen, such as the impact of natural disasters.

18. FAIR VALUE AND RISK MANAGEMENT (CONTINUED)

Exposure to liquidity risk

Information on the remaining contractual maturities of financial liabilities at the reporting date is provided below. Gross and undiscounted amounts are presented, excluding the effect of offset agreements. It is not expected that the cash flows taken into account in the maturity analysis could be materially earlier or significantly different.

31 December 2021

In thousands of tenge	Book value	Cash flows under the contract	Less than 2 months	Less than 12 months	Less than 5 years	Over 5 years
Non-derivative financial liabilities						
Trade payables	1,189,988	1,189,988	1,189,988	–	–	–
Loan from the Parent Company	37,776,355	71,144,215	–	–	–	71,144,215
Lease liabilities	2,386	2,948	–	2,948	–	–
	38,968,729	**72,337,151**	**1,189,988**	**2,948**	**–**	**71,144,215**

31 December 2020

In thousands of tenge	Book value	Cash flows under the contract	Less than 2 months	Less than 12 months	Less than 5 years	Over 5 years
Non-derivative financial liabilities						
Trade payables	608,019	608,019	608,019	–	–	–
Loan from the Parent Company	36,801,576	68,061,318	–	–	–	68,061,318
Lease liabilities	6,087	7,358	–	–	–	7,358
	37,415,682	**68,676,695**	**608,019**	**–**	**–**	**68,068,676**

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and share prices, will adversely affect the Company's earnings or the value of its holdings of financial instruments. The goal of market risk management is to control and keep exposure to market risk within acceptable limits while optimizing the return on investment.

In order to manage market risks, the Company does not buy or sell derivative instruments. The Company does not apply hedge accounting to manage the volatility in profit or loss over a period.

Currency risk

The Company is exposed to currency risk on cash and cash equivalents, margin deposits and purchases denominated in a currency other than the Company's functional currency, these transactions are denominated primarily in US dollars.

With respect to other monetary assets and liabilities denominated in foreign currencies, the Company's policy is to maintain the net exposure at risk within acceptable limits by buying or selling foreign currency at spot rates, when necessary, to eliminate short-term imbalances.

18. FAIR VALUE AND RISK MANAGEMENT (CONTINUED)

Exposure to currency risk

The Company's exposure to currency risk as at 31 December 2021 was as follows:

In thousands of tenge	Tenge	US dollar	Russian ruble	Euro	British pound	Total as at 31 December 2021
Financial assets:						
Cash and cash equivalents	2,133,633	1,298,851	242,398	44	–	3,674,926
Total financial assets	**2,133,633**	**1,298,851**	**242,398**	**44**	–	**3,674,926**

In thousands of tenge	Tenge	US dollar	Russian ruble	Euro	British pound	Total as at 31 December 2021
Financial obligations:						
Trade payables	469,452	698,007	10,178	12,275	76	1,189,988
Total financial obligations	**469,452**	**698,007**	**10,178**	**12,275**	**76**	**1,189,988**
Open position	**1,664,181**	**600,844**	**232,220**	**(12,231)**	**(76)**	**2,484,938**

The Company's exposure to currency risk as at 31 December 2020 was as follows:

In thousands of tenge	Tenge	US dollar	Russian ruble	Euro	Total as at 31 December 2020
Financial assets:					
Cash and cash equivalents	1,116,936	556,860	340	–	1,674,136
Total financial assets	**1,116,936**	**556,860**	**340**	–	**1,674,136**

In thousands of tenge	Tenge	US dollar	Russian ruble	Euro	Total as at 31 December 2020
Financial obligations:					
Trade payables	188,789	233,478	2,006	1,060	425,333
Total financial obligations	**188,789**	**233,478**	**2,006**	**1,060**	**425,333**
Open position	**928,147**	**323,382**	**(1,666)**	**(1,060)**	**1,248,803**

The following foreign exchange rates were applied during the year:

tenge	Spot exchange rate at the reporting date 31 December 2021	Spot exchange rate at the reporting date 31 December 2020
1 US dollar	**431.80**	420.91
1 euro	**489.10**	516.79
1 Russian ruble	**5.76**	5.62

Exchange rates of foreign currencies at the date of issue of the statements in Note 22.

Sensitivity analysis

A reasonably possible strengthening/weakening of the tenge, as shown below, against all other currencies as at 31 December 2021 and 31 December 2020 would have affected profit or loss, net of taxes, by the amounts shown below. A change in the exchange rate would have no effect on equity. This analysis assumes that all other variables, especially interest rates, remain constant and do not take into account the impact of forecast sales and acquisitions.

18. FAIR VALUE AND RISK MANAGEMENT (CONTINUED)

Sensitivity analysis (continued)

In thousands of tenge	31 December 2021		31 December 2021		31 December 2021	
	Tenge / US Dollar 13%	Tenge / US dollar (10%)	Tenge / Russian ruble 13%	Tenge / Russian ruble (13%)	Tenge / Euro 13%	Tenge / Euro (10%)
Impact on profit or loss and equity	81,386	(62,604)	23,654	(23,654)	(1,573)	1,210

In thousands of tenge	31 December 2020		31 December 2020		31 December 2020	
	Tenge / US Dollar 14%	Tenge / US dollar (11%)	Tenge / Russian ruble 15%	Tenge / Russian ruble (15%)	Tenge / Euro 14%	Tenge / Euro (11%)
Impact on profit or loss and equity	45,263	(35,564)	(297)	297	(153)	120

Interest rate risk

As at 31 December 2021 and 2020, the Company is not exposed to interest rate risk.

Master netting agreement or similar agreements

The Company may enter into purchase and sales agreements with the same counterparties in the ordinary course of business. The corresponding amounts of receivables and payables do not always meet the criteria for offsetting in the statement of financial position. This is because the Company may not currently have a legally enforceable right to set off the recognized amounts, as the right to set off may only be enforceable on the occurrence of certain events in the future. In particular, in accordance with the civil law norms in force in Kazakhstan, an obligation can be settled by offsetting a homogeneous claim, the term of which has come or is not specified or is determined by the moment of demand.

Income analysis

The Company analyzes the impact of risks on earnings before taxes, interest and depreciation and amortization (EBITDA) calculated by the Company as follows:

In thousands of tenge	2021	2020
Revenue and other income	12,753,160	7,652,007
Cost of sales	(11,318,810)	(8,668,776)
Gross loss	**1,434,350**	**(1,016,769)**
Administration expenses	(781,262)	(747,864)
Selling expenses	(180,595)	(171,499)
EBITDA	**472,493**	**(1,936,133)**

The amount of impairment charge of property and equipment, which is part of operating expenses in 2021 and 2020 in the amount of 441,593 thousand tenge and 5,813,581 thousand tenge, respectively, was not included as cost in EBITDA calculation the Company according to the methodology provided the Parent Company. Other expenses and losses for 2021 and 2020 totaling 51,264 thousand tenge and 79,318 thousand tenge, respectively, are also not included in the EBITDA calculation.

The improvement in the value of indicator is due to the current fleet reaching its target production capacity, expanding the geography of flights to border countries and lifting Covid-19 restrictions on domestic air travel.

18. FAIR VALUE AND RISK MANAGEMENT (CONTINUED)

Capital management

The company does not have a formal equity management policy. However, management has a policy of maintaining a strong capital base in order to maintain the confidence of investors, creditors and the market, and to ensure the future development of the business.

The Company is not subject to external regulatory requirements for equity capital.

19. CONTINGENT ASSETS AND LIABILITIES

Insurance

The market of insurance services in the Republic of Kazakhstan is in its infancy and many forms of insurance common in other countries of the world are not yet available in Kazakhstan. The company has all compulsory insurance policies stipulated by the legislation of the Republic of Kazakhstan. Currently, the Company is not exposed to the risk of loss of large assets, as the Company has entered into voluntary aviation insurance contracts. The Company has policies of voluntary aviation insurance against “all risks” of property damage to aircraft and civil liability, as well as policies of voluntary aviation insurance of war risks and associated risks of property damage to aircraft.

Contingent tax liabilities in the Republic of Kazakhstan

The tax system in Kazakhstan, being relatively new, is characterized by frequent changes in legislation, official pronouncements and court decisions, which are often vague and contradictory, which allows for their ambiguous interpretation by various tax authorities, including opinions regarding the treatment of income, expenses and other items of financial statements in accordance with IFRS. Checks and investigations regarding the correctness of the calculation of taxes are carried out by regulatory bodies at various levels, which have the right to impose large fines and charge interest. The correctness of the calculation of taxes in the reporting period can be verified over the next five calendar years, however, under certain circumstances, this period may be extended.

These circumstances may result in tax risks in Kazakhstan being much higher than in other countries. The management of the Company, based on its understanding of applicable tax laws, regulatory requirements and court decisions, believes that tax liabilities are fully reflected. However, taking into account the fact that interpretations of tax legislation by various regulatory authorities may differ from the opinion of the Company's management, if enforcement actions are taken against the Company by regulatory authorities, their impact on the Company's financial statements may be material.

During the period from 15 to 19 February 2021, Aviation Administration of Kazakhstan JSC conducted an inspection check of the Company. Based on the results of their check Aviation Administration of Kazakhstan JSC came to the conclusion that it is possible to allow the Company to perform seasonal /irregular domestic and commercial flights on the territory of the Republic of Kazakhstan with the subsequent elimination of identified non-compliances. The Company provided a corrective action plan to eliminate non-compliances, according to which the Company undertakes to eliminate all non-compliances by 20 May 2021. The company eliminated all discrepancies in a timely manner.

20. RELATED PARTIES

Parent and ultimate controlling party

The immediate Parent Company of the Company is Samruk- Kazyna National Wealth Fund JSC, which is owned by the Government of the Republic of Kazakhstan.

Operations with senior management personnel

Remuneration of key management personnel

Compensation received by the key management personnel in reporting year included in personnel costs (Note 6) were the following:

In thousands of tenge	2021	2020
Salary and bonuses	249,664	274,907
Social Security contributions	23,322	13,236
	272,986	**288,143**

As at 31 December 2021 and 2020, the key management personnel consists of the Chairman of the Management Board and members of the Management Board of the Company with a total of 3 people.

Other transactions with related parties

Expenses

In thousands of tenge	2021	2020
Purchase of goods and services:		
Entities controlled by the Parent	296,196	116,032
State enterprises	257,506	226,765
	553,702	**342,797**

Borrowings

In thousands of tenge	31 December 2021	31 December 2020
Loans received, net of repayments during the year		
Samruk- Kazyna National Welfare Fund JSC	36,724,437	36,287,584
Accrued remuneration	1,051,918	513,992
	37,776,355	**36,801,576**

Related parties include a shareholder of the Company and all other companies in which that shareholder has a controlling interest. These transactions are carried out in the ordinary course of the Company's business on terms comparable to those on which the Company enters into transactions with unrelated parties.

Transactions with entities related to the Government

The company works with a number of enterprises that are under the control of the Government of the Republic of Kazakhstan. The Company applies the exemption provided by IAS 24 “Related Parties” to provide simplified disclosures for transactions with entities associated with the Government of the Republic of Kazakhstan.

The Company carries out transactions with enterprises associated with the Government of the Republic of Kazakhstan. These transactions are part of the normal activities of the Company and are carried out on terms comparable to the terms of interaction with enterprises not associated with the Government of the Republic of Kazakhstan.

21. CONDITIONS FOR CARRYING OUT FINANCIAL AND ECONOMIC ACTIVITIES IN KAZAKHSTAN

The Company operates primarily in Kazakhstan. Accordingly, the Company's business is influenced by the economy and financial markets of Kazakhstan, which are characterized by characteristics of an emerging market. The legal, tax and administrative systems continue to evolve, but are subject to the risk of ambiguous interpretation of their requirements, which are also subject to frequent changes, which, together with other legal and fiscal barriers, creates additional problems for enterprises doing business in Kazakhstan. There has been significant volatility in 2021 and 2020 caused by the coronavirus outbreak. Together with other factors, this led to a sharp decline in oil prices and stock indices and exacerbated the depreciation of the Kazakh tenge. These developments further increase the level of uncertainty in the business environment in Kazakhstan.

These financial statements reflect management's view of the impact that the business environment in Kazakhstan has on the Company's operations and financial position. The actual impact of future business conditions may differ from management's estimates.

22. EVENTS AFTER THE REPORTING DATE

The situation with the new Covid strain -19 omicron.

Since November 2021, the spread of a more contagious strain of Covid-19 omicron (hereinafter referred to as “omicron”) begun in the United States and Western Europe. According to preliminary results from a World Health Organization (WHO) study, compared to other options of concern, the omicron option increases the risk of re-infection with the coronavirus. WHO recommends that countries continue to take effective epidemic control measures to reduce the overall spread of Covid-19, to conduct risk assessments and expand the capacity of public health structures.

In January 2022, the growth rate of the number of people infected with coronavirus remains significant in Kazakhstan and around the world. The vaccination of the population is continued in the Republic of Kazakhstan: both its own two-component coronavirus vaccine and vaccines from other manufacturers are used. As at reporting date more than 8.6 million people in the Republic of Kazakhstan were vaccinated with two components and more than 9.3 million people with one component out of the total number of citizens.

In 2022 the management continues to take preventive measures to minimize the spread of Covid-19 infection among its employees.

State of emergency due to protests in Kazakhstan

On 2 January 2022 rallies were held in the Mangistau region against a sharp increase in the price of liquefied gas, which later turned into mass protests across the country with economic and political demands. On 4 and 5 January 2022 protesters clashed with law enforcement officers in Almaty, which resulted in damage to public and private property, looting and other crimes.

To ensure order and normalize the situation in the country, the President of the Republic of Kazakhstan introduced a State of Emergency for the period from 5 January to 19 January 2022 throughout the territory of Kazakhstan, and also received assistance from countries that are members of the Collective Security Treaty Organization. The measures taken by the President included the imposition of a curfew, strengthening measures to protect especially important state and strategic facilities, as well as facilities that ensure the vital activity of the population and the functioning of transport, the imposition of restrictions on movement, holding meetings and rallies, and other measures aimed at ensuring the safety of the population.

As at the reporting date, the Company continues to assess the impact of these events on the Company’s operations and financial results.

22. SUBSEQUENT EVENTS (CONTINUED)

The situation in Ukraine and sanctions against the Russian Federation

On 24 February 2022, the Russian Federation began hostilities on the territory of Ukraine. During the hostilities of the units of the Russian armed forces, attacks were carried out on the military infrastructure of Ukraine, aviation, air defense facilities and military airfields, and some settlements and cities of Ukraine were blocked. In Ukraine, a state of emergency was introduced, the evacuation of the civilian population of Ukraine began in the direction of countries near and far abroad. The actions of the Russian Federation were strongly condemned by most countries of the world community, international organizations and led to new sanctions against the Russian Federation. Leading countries of the world, including France, Germany, Italy, Great Britain, Canada and the USA have introduced restrictive economic measures against Russia. In particular, a ban on Russian aviation flights over the territory of Europe and the United States, the exclusion of certain Russian banks from the SWIFT messaging system (worldwide interbank financial communication channel), the introduction of restrictive measures against the Central Bank of Russia, some commercial banks and officials of Russia, the introduction of a ban on the export of certain goods and technologies, as well as a ban on the provision of related insurance services. Against the backdrop of the situation around Ukraine and increased geopolitical risks, volatility in the financial markets has risen sharply, and energy prices have risen. As a result, the shares of the largest Russian companies have significantly depreciated (from 50 to almost 100 percent), the ruble has sharply weakened to a record low level (from 76 to 105.4 Russian rubles per US dollar as at 17 March 2022).

Due to the fact that the imposition of sanctions against the Russian Federation has a significant indirect impact on the economy of the Republic of Kazakhstan, this affected the conditions of flights to the territory of Russia, an increase in the cost of fuel, as well as a change in the tenge exchange rate: the official exchange rate of the National Bank of the Republic of Kazakhstan against the US dollar rose to 508.94 tenge per 1 US dollar (as at 17 March 2022). The cost of one barrel of Brent crude rose from 98.05 US Dollar to 103.2 US Dollar. In order to ease the pressure on the tenge, the NBRK's Monetary Policy Committee decided to raise the base rate to 13.5% with an interest band of +/-1 percentage point. On 27 February 2022, the National Bank of Kazakhstan announced that it would carry out foreign exchange interventions to "reduce the unreasonable impact of excessive fluctuations of the ruble on the tenge." As at the date of signing of these financial statements, the exchange rate of the tenge against the US dollar is 508.94 tenge (Note 18).