

APPROVED by the decision of
the Board of Directors of Air Astana JSC
Minutes #160 dated 21 October 2016

**PROCEDURE OF AIR ASTANA JSC
FOR SELECTION OF THE
AUDIT ORGANIZATION**

Almaty, 2016

Content

	Page
1 General provisions	3
2. Supplier selection procedure	3
3 Requirement specification for selection of audit organization	5
Appendix I Request for Procurement Quotation External Audit Services	6
Appendix II The Commission Composition	10

1. General provisions

The present Procedure of Air Astana JSC for selection of the audit organization (hereinafter referred to as “the Procedure”) establishes principles and describes the procedures of selection of the audit organization in accordance with the applicable Legislation of the Republic of Kazakhstan.

The Procedure envisages for providing for selection of the audit organization procedures prior to conclusion of an agreement for services of audit organization in accordance with the provisions of the Procurement Manual of JSC "Air Astana", approved by the decision of the Board of Directors (hereinafter - Procurement Manual).

The procedure is designed in accordance with the legislation of the Republic of Kazakhstan, the Company Charter, the Procurement Manual and other internal documents of the Company.

The basic concepts that are used in this Procedure are as follows:

Auditor/Audit organization - an audit firm providing financial audit services to the Company in compliance with the Legislation of the Republic of Kazakhstan “On Joint Stock Companies”, “On Auditing Activity” and/or Charter of the Company, if applicable;

Commission - the commission established within the Company on the basis of President Order for determining the results of conducted procurement procedures in relation to the appointment of the Auditor; the composition of Commission is approved in accordance with the President’s Order of the Company in accordance with Appendix II to this Procedure. In the absence of the Chairman, the Deputy Chairman shall perform all respective duties of the Chairman. The Commission shall have an odd number of members no less than five. The Commission shall be chaired by the Chief Accountant of the Company.

Procurement Manual - Procurement Manual of the Company, approved by the decision of the Board of Directors of the Company;

Audit Committee – the Audit Committee of the Board of Directors of the Company;

ERP system – Enterprise Resource Planning system - Oracle.

2. Audit organization selection procedure

The selection procedures envisages conducting of the following stages:

1. An authorized person of the Finance Department of the Company shall create Purchase Requisition in the ERP system. The Purchase Requisition shall contain a technical specification with detailed description of respective services.

The Purchase Requisition has to be approved by the Chief Accountant/Manager of the Finance Department of the Company.

2. The approved Purchase Requisition in the ERP system shall be forwarded to the Procurement Department of the Company and further distributes to responsible procurement specialist according to hierarchy.

3. Procurement specialist, after receipt of the approved Purchase Requisition :

- 1) checks the presence of technical specification;
- 2) verifies the availability of funds in budget of Finance Department;
- 3) generates and distributes the request form of the quotation with the required technical specification to all potential suppliers within 3 (three) working days. The request shall be in compliance with the form pursuant to Appendix 1 to this Procedure, and shall contain the following, but not limited to:
 - description of the scope of purchased audit and related services (reporting periods, the amount and nature of the audit procedures);
 - terms of payment, delivery terms and conditions of services, including project of audit or review preparation schedule requested for audit or review by external auditor with indication of expected timing of issue of respective audit reports;
 - timing and address for provision of quotations by the potential suppliers;
 - procurement contract draft.

4. The request for quotations should be forwarded to minimum 4 (four) potential suppliers. Quotations from potential suppliers should be received within 15 (fifteen) calendar days.

5. In case of failure to submit quotations by any potential supplier upon expiration of the appointed deadline, the procurement specialist shall forward a repeated request within 2 (two) working days with the term of receiving quotations within 5 (five) working days.

6. Upon receipt of quotations from potential suppliers, Commission shall analyze all the quotations received and comply the comparative matrix including (but not limited to) the below data:
- unit price and total amount;
 - compliance with the requirements of technical specifications;
 - conclusion by suggesting two potential suppliers and highlighting their advantages.

7. The comparison matrix detecting two potential winners shall be prepared and signed within 10 (ten) working days. The comparison matrix shall be approved and signed page-wise, by the Chairman and all members of Commission.

8. The comparison matrix with commercial proposals of potential suppliers shall be further submitted for consideration of the Audit Committee, who reviews the selection proposals, offers of 2 (two) potential suppliers in matrix and makes its recommendation on preliminary approval.

9. The recommendation of the Audit Committee is further submitted for consideration to the Board of Directors and General Shareholders' Meeting of the Company for making correspondent decisions by the mentioned bodies of the Company within their competence in accordance of the Charter of the Company.

10. After the audit organization who performs an audit of the Company has been determined by the General Shareholders' Meeting of the Company, the Procurement protocol for chosen supplier is issued according to Procurement Manual.

11. The contract with the selected supplier shall be concluded within 25 (twenty five) calendar days from the date when Procurement Protocol is issued.

12. The Auditor selection is carried out for the period not more than 3 years.

3. Requirement specification for selection of audit organization

The requirements of selection of audit organization include and not limited by:

- qualification level of the audit firm employees;
- professional experience of audit firm employees on the Kazakhstan market;
- professional experience of audit firm employees on international markets;
- local and international knowledge of airline business in the industry (the more clients the audit firm has in an airline industry, the better its understanding of the problems of such industry and the sooner it is able to find optimal solutions of the problems).

Appendix 1 to the Present Procedure can be used for the preparation of full list of requirement specification.

Appendix I to Audit organization selection procedure

REQUEST
№ ____ of ____.
for Procurement Quotation
External Audit Services for Air Astana JSC

“Air Astana” JSC invites you to participate in Audit organization selection Procedure for providing audit services for providing audit services for providing audit services
PLEASE PROVIDE A COMMERCIAL OFFER (QUOTATION) ACCORDING TO THE
CURRENT TECHNICAL SPECIFICATION

Technical specification

Full scope of review of the condensed interim financial statement for the first-half of 2017, 2018 and 2019 and the financial forms of Samruk Kazyna Fund for the same periods prepared in accordance with IAS 34, audit of financial statements for the years ended 31 December 2017, 2018 and 2019 and the financial forms of Samruk Kazyna Fund for the same periods, prepared in accordance with IFRS.

1. Main requirements:

1. Audit:
 - a) Audit of financial statements for the years ended 31 December 2017, 2018 and 2019, and the financial forms of Samruk Kazyna Fund for the same periods prepared in accordance with IFRS. Period of the Audit is January – February of the year following the reporting year and as a part of the annual audit, interim procedures for the first 9 month should be completed before 15 November of the reporting year. Signed audit report must be provided not later than 28 February of the year following the reporting year, which may vary at the request of shareholders;
 - b) Signed audit opinion on financial forms of Samruk Kazyna Fund for the same periods must be provided till 28 February of the year following the reporting year, which may vary at the request of shareholders;
 - c) All of the above audit reports and financial statements must be issued in English in tenge, in English in U.S. dollars, in Russian in tenge, in Kazakh in tenge, 7 copies each;
 - d) The financial forms of Samruk Kazyna Fund must be issued only in Russian language in tenge;
 - e) Template tables are to be provided by the audit company for Air Astana JSC to fill in information necessary for the Audit. These are to be provided not later than 10 January of the year following the reporting period;
 - f) Attending stock take in October – December of the reporting year.
 - g) Management letter to be provided in Russian and in English together with the release of the annual audit report prepared in accordance with IFRS not later than 15 March of the year following the reporting year, which may include:
 - analysis of accounting policies on compliance of its methods and principles with Kazakhstan’s legislative requirements on accounting and financial reporting and with International Financial Reporting Standards;
 - analysis of appropriateness of assets and liabilities costing, methods and procedures of assets and liabilities count, including reconciliation of receivables and payables with customers and suppliers;
 - significant inefficiencies within internal controls system and risk management system;
 - review of IT systems and management of these systems;
 - h) The status of fulfillment of prior period recommendations as a result of completion of audited period, but not later than 15 March of the year, following the reporting year.

2. Review:
 - a) Review of interim financial statements for the first half of 2017, 2018 and 2019, and the financial forms of Samruk Kazyna Fund for the same periods prepared in accordance with IAS 34. Period of Review is July of the reporting year and as a part of the first half review, interim procedures for the first quarter should be completed earlier on 15 May. Signed Review report must be provided not later than 31 July of the reporting year, which may vary at the request of shareholders;
 - b) Signed audit opinion on financial forms of Samruk Kazyna Fund for the same periods must be provided till 31 July of the reporting year, which may vary at the request of shareholders;
 - c) All of the above audit reports and financial statements must be issued in English in tenge, in English in U.S. dollars, in Russian in tenge, in Kazakh in tenge, 5 copies each;
 - d) The financial forms of Samruk Kazyna Fund must be issued only in Russian language in tenge;
 - e) Template tables are to be provided by the audit company for Air Astana JSC to fill in information necessary for the Review. These are to be provided not later than 10 July of the reporting period.
3. Audit of financial statements for the years ended 31 December 2017, 2018 and 2019, prepared in accordance with the Order of Minister of Finance of Kazakhstan on «Approval of list and templates of annual financial statements for publishing by public interest companies». Audit report must be provided in 2 copies, in Russian, not later than 15 March of the year following the reporting year.
4. Testing of correctness of tax accruals and declarations on comprehensive income of Air Astana JSC;
5. Recommendations for changes in IFRS if applicable to the financial statements of JSC Air Astana, and creation of awareness on emerging issues related to reporting during the year. Inform and advise us on the effect of changes in IFRS including relevant financial statement disclosure notes.
6. In case IPO is put into effect during the Contract period para 1 remains unchanged and para 2 is changed as follow. The Company reserves the right to choose any of listed below options on rendering services:
 - a) In para 2 there will be a further additional Review of interim financial statements for 3 months ended 31 March of 2017, 2018, 2019 and for 9 months ended 30 September 2017, 2018, 2019 prepared in accordance with IFRS, including audit opinions on financial forms of Samruk Kazyna Fund for the same periods. Signed Review report must be provided not later than last day of the month following the reporting period, which may vary at the request of shareholders.

All of the above audit reports and financial statements must be issued in English in tenge, in English in U.S. dollars, in Russian in tenge, in Kazakh in tenge, 5 copies each.

Template tables are to be provided by the audit company for Air Astana JSC to fill in information necessary for Review. These are to be provided not later than 10th of the last month of the reporting period.
 - b) In para 2 there will be Audit instead of Review (for the first half of 2017, 2018 and 2019) with the same terms and reports, with further additional Review of interim financial statements for 3 months ended 31 March 2017, 2018, 2019 and for 9 months ended 30 September 2017, 2018, 2019 prepared in accordance with IFRS, including audit opinions on financial forms of Samruk Kazyna Fund for the same periods. Signed Audit/Review report must be provided not later than last day of the month following the reporting period, which may vary at the request of shareholders.

All of the above audit reports and financial statements must be issued in English in tenge, in English in U.S. dollars, in Russian in tenge, in Kazakh in tenge, 5 copies each.

Template tables are to be provided by the audit company for Air Astana JSC to fill in information necessary for the Audit/Review. These are to be provided not later than 10th of the last month of the reporting period.
 - c) In para 2 there will be Audit instead of Review (for the first half of 2017, 2018 and 2019) with the same terms and reports, with further additional Audit of interim

financial statements for 3 months ended 31 March 2017, 2018, 2019 and for 9 months ended 30 September 2017, 2018, 2019 prepared in accordance with IFRS, including audit opinions on financial forms of Samruk Kazyna Fund for the same periods. Signed Audit report must be provided not later than last day of the month following the reporting period, which may vary at the request of shareholders.

All of the above audit reports and financial statements must be issued in English in tenge, in English in U.S. dollars, in Russian in tenge, in Kazakh in tenge, 5 copies each.

Template tables are to be provided by the audit company for Air Astana JSC to fill in information necessary for the Audit. These are to be provided not later than 10th of the last month of the reporting period.

- d) Issuance comfort letters under listing rules on international capital markets,

2. Requirements to potential supplier

A potential supplier must submit in its tender application (in technical specifications) table of compliance with all the requirements below by referencing them to the pages of tender documents, and supported by evidence documents.

1. Potential supplier must meet the following qualitative and quantitative characteristics:

- 1) Expertise in the airline industry, taking into account all of the following sub-paragraphs (expertise in this context means the presence of workers with appropriate qualifications and experience).
- 2) The presence of specialized technical support team (experts on accounting in accordance with IFRS in the airline industry, financial and other sectors), in order to ensure quality and operational services to emerging requests or provision of commitment by audit company to establish such a group in within 10 (ten) days from signing of the contract.
- 3) Objectivity of Auditor - Compliance with the principles of auditor independence and absence of conflict of interest, in particular in the following cases:
 - providing non-audit services during audit period, the provision of which leads to a violation of the principle of independence of mind and in fact. The auditor may not be involved in the provision of services involving managerial decision-making and can not audit the information in the compilation of which he was involved.
 - The auditor can not provide services that lead to the violation of the principle of objectivity and confidentiality. For example, the threat of violation of the principle of objectivity and confidentiality can be established:
 - When the auditor acts as a competitor to his immediate customer, or has a joint venture or similar association in which most participants are client's competitors;
 - When the auditor provides services to clients whose interests conflict or the clients are in dispute and debate with each other on questions, operations and issues.

Therefore, a justification must be provided that there is no risk of conflict of interest in the audit firm in accordance with the requirements of the International Federation of Accountants (IFAC), for all services provided or planned for delivery in the period from 1 January 2017 to 31 December 2019.

2. A potential supplier must provide:

- 1) proof of membership in an accredited professional audit firm;
- 2) the presence of a contract of obligatory insurance of civil liability of the audit firm (to provide copy of the contract or insurance policy);
- 3) a copy of the certificate of competency "auditor" at the head of the audit organization.
- 4) the group's global history of dealing with IPO
- 5) experience in issuance comfort letters to Kazakhstan companies under listing rules on international capital markets

3. Requirements to professionals of the potential supplier:

- 1) Partner - employee, holding a managerial position in the audit firm, as evidenced by a power of attorney from the audit firm.
- 2) The presence of at least four (4) specialists: Partner of the Project - Head of Audit, an independent partner, technical partner on the methodology of IFRS, and the Project Manager certified to international standards, ACCA or CPA U.S.A. (with providing notarized copies confirming qualifications);

3) The project must involve at least 3 (three) partners, whereas:

- At least one (1) partner must be a certified public accountant of Kazakhstan (to have a qualification certificate "auditor")
- At least one (1) of the partners should have significant experience in auditing financial statements according to IFRS of airline companies;
- At least 1 (one) of them should have full English, Kazakh and Russian language proficiency;
- At least 1 (one) of them must be citizen of Kazakhstan (notarised copies of the qualification documents must be provided);

4) The company has to have at least 25 (twenty five) employees with CPA or ACCA or CA or ACA or an equivalent international professional qualification, out of which at least 20 (twenty) are residents of Kazakhstan (notarised copies of the qualification documents must be provided);

If a potential supplier submits documents from the competent authorities and organizations of foreign states to confirm its compliance with the requirements of the tender documents, the documents should have consular legalization, unless otherwise stated by the legislation of the Republic of Kazakhstan or international agreement, participants of which are the Republic of Kazakhstan and the government, from bodies and organizations of which the documents are submitted.

5) The company has to have at least 3 employees who have significant experience (at least 3 years) in the delivery of audit and review of financial statements according to IFRS of international companies in the airline industry;

6) Foreign employees engaged in audit/review and in tender application need to have a work permits in Kazakhstan.

To verify compliance of professionals with the abovementioned requirements potential supplier represents in the tender documents CV's, indicating specialists work experience and a list of client companies, and the following supporting documents:

1) for Kazakhstani specialists: notarized copies of contracts of employment or discharge of staffing, placement (with surname, name of the employee, the number and date of the order to hire, position of the specialist), certified by the signature of the head and the seal of the potential supplier;

2) professionals who are not residents of Kazakhstan:

- a letter of liability that the potential supplier provided to its affiliate companies abroad when attracting such specialists from those affiliated companies that are members of a global association of audit firms;
- a letter of confirmation from these affiliated companies that state they do not object of these professionals being hired by potential supplier.

**Appendix II to Audit organization selection procedure
for “Air Astana” JSC**

**Composition of the Commission
for selection of audit organization for providing the audit services**

<p><u>Chair:</u></p> <p>Chief Accountant Air Astana JSC</p>
<p><u>Deputy Chair:</u></p> <p>Senior Financial Manager Air Astana JSC</p>
<p><u>Members:</u></p> <p>Vice President Procurement Air Astana JSC</p> <p>Senior Financial Adviser Air Astana JSC</p> <p>Financial Reporting Manager Air Astana JSC</p> <p>Tender Manager Air Astana JSC</p> <p>Procurement Manager Air Astana JSC</p>