

Procedure of Air Astana JSC for Selection of the Audit Organization

1. The present Procedure of Air Astana JSC (hereinafter the Company) for selection of the audit organization (hereinafter referred to as “the Procedure”) establishes principles and describes the procedures of selection of the audit organization for the Company and its subsidiaries 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. The procedure is designed in accordance with the legislation of the Republic of Kazakhstan, the Company Charter and other internal documents of the Company. The selection of the Auditor is based on the following principles:

- acquisition of high-quality audit services of financial statements and related services;
- transparency of the selection process, control and responsibility for decisions taken;
- absence of the conflict of interest and compliance with independence;
- efficient spending of money used for the procurement of audit services;
- providing all Participants with equal opportunities;
- fair competition among Participants.

2. The following basic concepts are used in this Procedure:

- **Auditor** – an audit organization recommended to the competent authority to determine the audit organization of the Company in accordance with the Law of the Republic of Kazakhstan "On Joint Stock Companies" and/or the Charters of Company.

- **Subsidiary** - a subsidiary of the Company defined in accordance with IFRS 10 "Consolidated Financial Statements";

- **Unified Commission** - a consulting and advisory body that determines the Auditor selection strategy and implements the Auditor selection procedures for the Company, including their subsidiaries.

- **Customer** - the Company and/or subsidiary of the Company

- **Participant** – an audit organization applying for the conclusion of a service procurement contract of an audit organization for the audit of financial statements, and participating in the selection procedure.

3. The Unified Commission carries out the selection procedure among international audit organizations with a global network of organizations and/or affiliates in order to gain access to international experience in the field of auditing financial statements, as well as meeting the requirements of capital markets (stock exchanges). The list of potential audit organizations is determined and approved by the Unified Commission, taking into account the proposals of the Company's procurement organizer.

4. The Unified Commission has the right to the following in order to implement the Auditor selection strategy:

- 1) determining the period for which an Auditor is selected for the Company, including their subsidiaries. At the same time, the period for which the Auditor is selected should not exceed 5 (five) years;

- 2) uniting the Company, including its subsidiaries, in order to conduct a single selection procedure for them and select a single Auditor. The Unified Commission with representatives of all stakeholders is established when conducting a single selection procedure. The decision to unite and conduct a single selection procedure for the Company is taken at a meeting of the Company's Audit Committee;

- 3) submitting a technical specification (hereinafter - Request for Participation) to potential audit organizations in accordance with the approved list of potential Participants.

5. The composition of the Unified Commission, in case of selecting the Auditor for the Company is as follows:

Chairman of the Unified Commission: - Chairman of the Company's Audit Committee

Members of the Unified Commission: - Members and experts of the Company's Audit Committee;

- Deputy CEO of the Company in charge of financial reporting issues or Head of the Financial Department of the Company in charge of financial reporting issues*

- Deputy CEO of the Subsidiary in charge of financial reporting issues or Head of the Financial Department of the Subsidiary in charge of financial reporting issues*

Secretary of the Unified Commission - representative of the procurement organizer (Procurement and Supply Department).

6. The decision on merging the Company and its subsidiaries in order to carry out a single procedure for selecting and selecting a single Auditor for them should be taken and executed in the form of Minutes of the meeting of the Audit Committee of the Company.

7. The quorum for a meeting of the Unified Commission must be at least half of the number of members of the Unified Commission. In case of an equality of votes, the vote of the Chairman of the Unified Commission is a casting one. If the Chairman of the Unified Commission is unable to attend the meeting, another member of the Unified Commission is appointed Chairman.

8. The selection procedure provides for the following successive stages:

1) if necessary, the procurement organizer prepares a list of subsidiaries with justification for their inclusion in a single selection procedure;

2) responsible employees from the Company's Financial Department and the Procurement and Supply Department collaborate to develop a draft of the technical specification. Subsequently, the Secretary of the Unified Commission forwards this specification, along with the necessary documents, to the members of the Unified Commission for approval.;

3) The Unified Commission holds the first meeting on the selection procedure, at which the following main issues are considered:

1. Determination of the period for which the Auditor is selected (no more than 5 years);
2. Approval of the Request for Participation;
3. Approval of the list of Participants.

4) The decision of the Unified Commission following results of the first meeting is executed in the form of the Minutes.

5) The procurement organizer, sends information about the selection procedure to all Participants from the approved list, with annexation of the Request for Participation, indicating the following deadlines:

- for confirmation of the participation or non-participation of potential audit organizations in the Selection Procedure - at least 5 (five) calendar days,

- for submission of official tender proposals - at least 10 (ten) calendar days from the date of sending information by audit organizations about participation in the customer selection procedure.

7) If necessary, the procurement organizer may hold meetings with potential audit organizations to explain to them the conditions of the Selection Procedure.

8) The tender proposals of the Participants must be sealed and handed over to the procurement organizer according to the act of acceptance and transfer of documents;

9) After receiving the official tender proposals, employees from the Company's Financial Department and the Procurement and Supply Department jointly analyze them for compliance with the requirements of the approved Request for Participation;

10) The procurement organizer sends out official tender proposals and analyzes their

compliance with the requirements of the Request for Participation to the members of the Unified Commission. The procurement organizer, as agreed with the members of the Unified Commission, compiles the schedule of meetings with Participants for their oral presentations (the second meeting of the Unified Commission);

11) Following oral presentations of the Unified Commission the procurement organizer conducts a general discussion of all Participants, according to the results of which the evaluation sheets are filled out and the Participants who took the first, second and third places are determined. The Unified Commission may use the list of evaluation criteria specified in item 14 of this Procedure as standard questions for the evaluation of Participants.

12) If necessary, the Unified Commission by its decision determines the list of audit organizations for the final discussion, which includes the audit organizations that have received the largest number of votes of members of the Unified Commission. The Unified Commission holds repeated meetings with audit organizations from the list for final discussion, in order to obtain additional factors that may significantly influence the selection or will reduce the cost of services. Following repeated meetings, the members of the Unified Commission can adjust the evaluation sheets and audit organizations that took the first, second and third places can be re-determined.

13) The winner is the audit organization with the highest number of votes of members of the Unified Commission present at the meeting. In case of an equality of votes, the vote of the Chairman of the Unified Commission is a casting one;

14) Following oral presentations of the Participants and the final discussion, the Unified Commission decides on the definition of the audit organization;

15) The procurement organizer within 10 calendar days from the date of the final meeting of the Unified Commission compiles the draft Minutes on the results of the selection procedure and submits it to the members of the Unified Commission for approval.

9. In cases where the selection procedure is carried out by the Unified Commission, if the customer has reasonable justification for non-conducting the selection procedure, if the change of the Auditor may result in negative consequences for the Customer, the Unified Commission has the right to consider the following issues at the first meeting:

1) on the absence of the need to change the Auditor, provided that the current Auditor meets the requirements specified in the request for participation in the selection procedure;

2) on determining the term for which the current Auditor is selected (no more than 5 years);

3) on approval of the Request for Participation for the current Auditor.

10. The decision of the Unified Commission following the discussion is executed in the form of the Minutes, which must contain the customer's reasonable justifications for non-conducting the selection procedure and the conclusion of the Unified Commission on the issue "on the absence of the need to change the Auditor".

11. The procurement organizer sends information about the selection procedure to the current Auditor in accordance with sub-item 5) of item 8 of this Procedure.

12. At the next meeting of the Unified Commission (the second meeting), the received proposal of the current Auditor for the cost of financial reporting audit services and an analysis of its compliance with the requirements of the Request for Participation is submitted for consideration. The further selection procedure is carried out in accordance with item 8 of this Procedure.

13. The decision of the Unified Commission is executed in the form of the Minutes, and within 10 (ten) working days from the date of the decision, the procurement organizer sends relevant information to interested potential audit organizations.

14. The recommended criteria for selecting the Auditor are as follows:

- **Approach to service rendering:** comprehensive work plans to ensure full coverage of the audit; implementation and execution of financial and economic audits, as well as efficiency and ratio of price and quality audits; prospective approach to external HR audit with the aim to minimize the cost of compliance; cooperation with internal audit to optimize use of limited resources in the audit; providing results of the audit; global network and resources to render services in different parts of the world; appropriate infrastructure (offices, representative offices).

- **Requirements for the audit team:** professional qualifications, skills, size of the workforce (sufficient number of partners and other employees), clear and appropriate structure of the project team with a clear distribution of roles and responsibilities of employees, availability of

a continuing professional education program for personnel, qualifications and industrial experience of key personnel (partners, senior employees).

- **Service quality:** appropriate verification procedures, including the exchange of information, coordination and control; relevant rules of procedure for settlement of the conflict of interests; clear mechanism of interaction with the Audit Committee, management, and other key objects of the Customer; feedback mechanisms for very specific, and emerging technical issues (speed and quality); special IT system used for the audit.

- **Seriousness of intentions and reputation:** accumulated experience in rendering services by the Participant in terms of timing and quality (positive or negative); competitiveness; enthusiasm, great interest of the Participant, etc.

- **Working hours and cost of services:** Compliance of working hours and cost of services with a given scope of work; transparency of the cost of service, the most competitive total cost package, etc.

- **Integrity:** Compliance with the code of professional and ethical conduct that applied to all employees, as well as updated annually.

- **Objectivity:** objectivity in the performance of duties.

- **Independence:** Effective compliance and control procedures regarding independence in the course of audit services rendering.

- **Additional advantages:** additional and necessary services will be attracted as part of the fee for audit services.

- **Communication:** timely exchange of information on audit results, presented to management by means of complex letters, audit reports and meetings (if necessary). Communication should be adapted according to the audience.

15. The tender proposals of potential audit organizations are considered by employees from the Company's Financial Department and the Procurement and Supply Department for compliance with the requirements specified in the Request for Participation.

16. When considering tender proposals, the procurement organizer has the right to:

- 1) request from the audit organization participating in the Selection Procedure the materials and explanations necessary for consideration, evaluation and comparison of requests;

- 2) request the necessary information from the relevant state bodies, individuals and legal entities in order to clarify the information contained in the Requests for Participation.

17. It is not allowed to reject tender proposals on formal grounds:

- 1) the presence of errors, erratum, clerical errors in the tender proposals;

- 2) failure to specify information (about bank details, BIN, certificate numbers and other information) in the forms of submitted documents, which does not affect the evaluation and comparison of requests for participation in the Selection Procedure by the Unified Commission;

- 3) for other reasons that do not affect the quality or price of audit services offered by the Participant.

18. The Unified Commission rejects the tender proposals of potential audit organizations, if:

- 1) the tender proposal was found to be inconsistent with the requirements specified in the Request for Participation in the selection procedure,

- 2) proposal exceeds the amount specified in the Request for Participation in the Selection Procedure;

- 3) The Participant is included in the List of Unreliable Potential Suppliers (Vendors) and (or) in the Register of Unfair Participants of Public Procurement.

19. The results of the Selection Procedure are executed in the form of the Minutes. The Chairman and all members of the Unified Commission present sign the Minutes on the results of the Selection Procedure.

20. The Minutes on the results of the Selection Procedure should contain information on:

- 1) venue and time of summing up;

- 2) proposals received from audit organizations;

- 3) rejected proposals of audit organizations participating in the Selection Procedure, justification for rejection;

- 4) audit organizations recognized as meeting the requirements specified in the Request for Participation;

5) inconsistencies of audit organizations with the requirements, according to sub-items 1) -3) of item 22 of this Procedure, with justification of the reasons for the absence of the impact of these inconsistencies on the quality and cost of audit services, independence of the audit organization;

6) the winner of the Selection Procedure;

7) participants of the Selection Procedure who took second and third places;

8) recommendations on the definition of an audit organization;

9) conclusion of the Unified Commission on the independence of the winner of the Selection Procedure in relation to the Customer or Customers;

10) other information at the discretion of the Unified Commission.

21. In case of detection of violations in the ongoing/conducted Selection Procedure, the Unified Commission, is obliged to cancel the results of the Selection Procedure until the decision is taken by the competent authority. At that, the Selection Procedure must be re-conducted.

If violations are detected after the decision-making by the competent authority on the determination of the audit organization, the Unified Commission submits a recommendation to the Customer on the revision of this decision.

22. The Secretary of the Unified Commission is obliged to notify the Participants in writing within 3 (three) working days from the date of the decision to cancel the results of the Selection Procedure.

23. Documents on the ongoing or conducted Selection Procedures are stored by the procurement organizer.

24. Following the Selection Procedure, the competent authority of the Customer takes a decision on determining the audit organization that performs the audit of the Customer's financial statements and the amount of payment for its services, on the basis of which the Customer enters into a contract with the Auditor.

25. The conclusion and execution of the contract with the Auditor on procurement of audit services of financial statements is carried out in accordance with the civil legislation of the Republic of Kazakhstan, the Procedure, and this Procedure, based on the decision of the competent authority of the Customer.

26. The volume of audit and related services purchased, the terms of services rendered, the cost of services and other standards of the contract concluded by the Customer with the Auditor must fully comply with the requirements provided for by the approved Request for Participation.

27. Amendments and supplements to the contract with the Auditor are introduced in the form of an additional written agreement to the contract, which is an integral part of the contract.

28. Compulsory minimum requirements for potential audit organizations and the composition of the audit team are as follows:

1) The Participant of the Selection Procedure may be an audit organization that meets the requirements for audit organizations established by the legislation of the Republic of Kazakhstan.

2) The audit organization is not entitled to participate in the Selection Procedure if it is included in the Company's List of Unreliable Potential Suppliers (vendors).

3) As part of the Selection Procedure, the audit organization must confirm its independence by submitting a corresponding statement in its official tender proposal for service rendering, which includes information about the current income of the audit organization from rendering audit and non-audit services to the Customer or its group, as well as the share of this income from the total income of the audit organization.

4) The potential participant in the Selection Procedure must:

- have industry experience, including practical experience in customer service of a similar scale to the Customer (provide a list of the main customers in this industry, the amount of participation and interest of the audit organization in rendering services to the industry in which the Customer operates).

- please, provide detailed information on the following items:

- *the proposed composition of the Customer's audit project team, including leading partners and managers;

- *their roles and responsibilities in the engagement;

- *qualifications and relevant experience, including experience in auditing similar clients;

- *the minimum amount of hours per year devoted to the project by each of the project managers;
- *obligations regarding the planning of the change of Auditors and the succession of personnel engaged in the project;
- *obligations in relation to professional development of employees;
- *other resources and detailed description of the services offered;
- *the list and coverage of the local offices involved.
- *the audit methodology and strategy in relation to the specifics and requirements of the Customer;
- *coordination of work and controls;
- *audit timing;
- *the approach to working with management and members of the Audit Committee/Supervisory Board;
- *the approach to interaction with internal audit services (if any);
- *the approach to the consideration of tax issues;
- *the approach and methods of solving complex and non-standard technical accounting issues;
- *commitments to continuous improvement and enhancing the audit efficiency.
- If applicable, provide a plan for the organization of the change of Auditors, namely, requirements for the procedure for considering results of previous audits and proposals for ensuring smooth operation.
- Quality of services and conflict of interests. Please, provide detailed information on the following items:
 - *general approach to quality assurance of services and customer relationship management;
 - *potential conflicts and the approach to their resolution (including a description of the work performed for direct competitors);
 - *commitment and approach to partner rotation and succession planning of project team members;
 - *description of the quality control system and customer satisfaction assessment.
- Working hours and cost of services. The cost of services is provided in the form of a separate document and should include the following:
 - *man-hours and fixed rates for the proposed audit services, compulsory audit services and other reporting;
 - *mechanism for determining the cost of the audit for the first and subsequent years;
 - *the method of calculating the cost of services;
 - *the proposed schedule of payment of bills, as well as the flexibility of this process.
- Other additional non-audit services. Please, describe the experience and resources available to provide, within the scope of the submitted price quotation, non-audit services potentially interesting for the organization.