

Audited Project Financial Statements

Project Number: 41193-019

Loan Number: 3129

Period covered: 1 January 2016 to 31 December 2016

Mongolia: Western Regional Road Corridor Development Program – Tranche 2

Prepared by Ministry of Road and Transportation Development

For the Asian Development Bank

Date received by ADB: 30 June 2017

The audited project financial statements are documents owned by the borrower. The views expressed herein do not necessarily represent those of ADB's Board of Directors, Management, or staff. These documents are made publicly available in accordance with ADB's Public Communications Policy 2011 and as agreed between ADB and the Hunan Provincial Water Transportation Construction & Investment Group Co., Ltd.

**WESTERN REGIONAL ROAD CORRIDOR
DEVELOPMENT PROGRAM PROJECT -Tranche 2
LOAN: 3129 MON**

Audit report on Project Financial Statements
for the year ended 31 December 2016



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INDEPENDENT AUDITOR'S REPORT

To WESTERN REGIONAL ROAD CORRIDOR DEVELOPMENT PROGRAM
PROJECT Tranche 2 - Loan: 3129 MON

CC: Asian Development Bank
Mongolian National Audit Office

Report on the Audit of the Project Financial Statements

Opinion

We have audited the financial statements of Western Regional Road Corridor Development Program Project Tranche 2 ("the Project"), which comprise of:

- the balance sheet of the Project as at December 31, 2016;
- the statement of sources and uses of funds
- the statement of expenditures;
- the statement of Imprest Account; and
- notes to the financial statements, including summarized description of the project, a summary of significant accounting policies.

In our opinion the accompanying financial statements of the Project have been prepared, in all material respects, in accordance with financial reporting provisions of Loan Agreement No.3129 MON dated 02 June 2014 signed between Asian Development Bank ("the ADB") and Government of Mongolia ("the MoF").

In our opinion,

- the financial statements present fairly, in all material respects, the cash position of the Western Regional Road Corridor Development Program Project-Tranche 2 as of 31 December 2016 and its receipts and expenditures for the year ended 31 December 2016 in accordance with the cash receipts and payments basis of accounting described in Note 2(a) to the project financial statements.
- the Project has utilized all proceeds of the Loan withdrawn from the ADB only for the purposes of the Project as agreed between the ADB and the Government of Mongolia, in accordance with the Loan Agreement dated 02 June 2014, and no proceeds of the Loan have been utilized for other purposes.
- the statement of Imprest Account presents fairly, in all material respects, the ending balances as of 31 December 2016 and the account activity during the year ended 31 December 2016 on the basis of accounting described in Note 2(a) to the project financial statements.

INDEPENDENT AUDITOR'S REPORT (continued)

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and Loan Disbursement Handbook of Asian Development Bank. 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 client in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matters - Basis for accounting

We draw attention to Note 2(a) to the financial statements, which describes the basis of accounting. The Financial Statements of the Project are prepared on cash receipts and payments basis of accounting to assist the Project in complying with the Loan Disbursement Handbook of the Asian Development Bank. On this basis, funds are recognized when received rather than when earned and disbursements are recognized when paid rather than when incurred. Our opinion is not modified in respect of this matter.

Statement of Imprest account is prepared on the basis of cash deposits and withdrawals for purpose of complying with the Loan Agreement No. 3129 MON.

Other matters

Project financial statements as of 31 December 2016, Imprest account, and sub-account expenditures for the year ended 31 December 2016 were audited by another audit firm which issued unqualified opinion on the audit report dated 20 June 2016.

Responsibilities of Management for the Financial Statements

Project Management is responsible for the preparation and fair presentation of the financial statements in accordance with Loan agreement, 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.

Auditor's 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.

INDEPENDENT AUDITOR'S REPORT (continued)

Auditor's Responsibilities for the Audit of the Financial Statements (continued)

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 Project's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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



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Mongolia

Audit Report Date: 2017.06.23

The Government of Mongolia
The Asian Development Bank
Loan No. 3129-MON

WESTERN REGIONAL ROAD
CORRIDOR DEVELOPMENT PROGRAM PROJECT TRANCHE 2

BALANCE SHEET
as at 31 December 2016

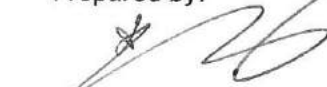
	Notes	At 31 Dec 2016 in USD	At 31 Dec 2015 in USD
ASSETS			
Cash and cash equivalents	6	22,648.54	-
Cumulative construction expenditures	7	19,749,605.37	4,590,667.72
Interest charge	7	457,800.56	188,001.00
Bank charge		43.00	-
TOTAL ASSETS		20,230,097.47	4,778,668.72
SOURCES			
ADB Loan	8	19,721,258.64	4,540,526.32
Interest charge	7c	457,800.56	188,001.00
Counterpart funds - GOM contribution	10	50,141.40	50,141.40
Interest income	9	896.87	-
TOTAL FUNDS		20,230,097.47	4,778,668.72

Approved by:



BAYAN-AMGALAN.B
Project Coordinator

Prepared by:



TSETSEGMAA.D
Project Accountant

The notes set out on pages 9 to 19 form integral part of these financial statements.

The Government of Mongolia
The Asian Development Bank
Loan No. 3129-MON

WESTERN REGIONAL ROAD
CORRIDOR DEVELOPMENT PROGRAM PROJECT TRANCHE 2

STATEMENT OF SOURCES AND USES OF FUNDS
for the year ended 31 December 2016


	Note	Cumulative to 31 Dec 2016 in USD	FY 2016 in USD	Cumulative to 31 Dec 2015 in USD
SOURCES:				
ADB Loan	8	19,721,258.64	15,180,732.32	4,540,526.32
Interest charge	7d	457,800.56	269,799.56	188,001.00
Counterpart funds	10	50,141.40	-	50,141.40
Interest income	9	896.87	896.87	-
Total sources of funds		20,230,097.47	15,451,428.75	4,778,668.72
USES OF FUNDS:				
Project administration	7a	223,592.42	223,592.42	-
Construction works	7b	17,868,076.95	13,277,409.23	4,590,667.72
Consulting services	7c	1,657,936.00	1,657,936.00	-
Interest charge	7d	457,800.56	269,799.56	188,001.00
Bank charge		43.00	43.00	-
Total uses of funds		20,207,448.93	15,428,780.21	4,778,668.72
Surplus of receipts over expenditure		22,648.54	22,648.54	-
As at 31 December 2016				
Cash	6	-	-	-
Imprest account	6	22,387.90	22,387.90	-
Sub-account	6	260.64	260.64	-
		22,648.54	22,648.54	-

Approved by:



BAYAN-AMGALAN.B
Project Coordinator

Prepared by:


TSETSEGMAA.D
Project Accountant

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WESTERN REGIONAL ROAD
CORRIDOR DEVELOPMENT PROGRAM PROJECT TRANCHE 2

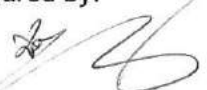
SUMMARY OF WITHDRAWAL APPLICATIONS
for the year ended 31 December 2016

Withdrawal number	Application type	Claimed date	Credit date	Amount credited (USD)
00002	Direct payment	2015-09-09	2015-11-12	2,278,768.20
00004	Direct payment	2015-11-16	2015-12-18	2,261,758.12
WAs up to 31 December 2015				4,540,526.32
00001	Direct payment	2016-01-08	2016-02-12	999,258.00
00005	Direct payment	2015-11-16	2016-01-20	3,651,971.82
00007	Direct payment	2016-04-22	2016-05-24	463,388.40
00008	Replenishment	2016-01-22	2016-03-04	120,000.00
00009	Direct payment	2016-04-18	2016-06-21	6,108.00
00010	Direct payment	2016-05-16	2016-06-21	21,327.00
00011	Direct payment	2016-05-17	2016-06-21	53,247.00
00012	Direct payment	2016-06-21	2016-08-02	98,411.00
00013	Direct payment	2016-07-19	2016-08-26	100,725.00
00014	Replenishment	2016-07-25	2016-09-13	52,187.09
00015	Direct payment	2016-08-04	2016-09-13	2,434,194.82
00016	Direct payment	2016-08-12	2016-09-23	103,201.00
00017	Direct payment	2016-08-25	2016-10-20	916,058.45
00018	Direct payment	2016-09-08	2016-10-06	1,106,651.37
00019	Direct payment	2016-09-09	2016-11-14	697,376.71
00020	Direct payment	2016-09-15	2016-10-06	111,161.00
00021	Replenishment	2016-09-23	2016-12-01	73,200.00
00022	Direct payment	2016-09-30	2016-11-08	1,169,769.09
00023	Direct payment	2016-09-30	2016-11-08	470,551.78
00024	Direct payment	2016-10-11	2016-11-08	95,394.00
00025	Direct payment	2016-11-03	2016-12-14	942,422.13
00026	Direct payment	2016-11-03	2016-12-14	866,212.47
00027	Direct payment	2016-11-10	2016-12-16	558,812.19
00028	Direct payment	2016-11-10	2016-12-14	69,104.00
WAs for the reporting period 2016				15,180,732.32
WAs up to 31 December 2016				19,721,258.64

Note: Withdrawal Applications number 00003 and 00006 were cancelled.

Approved by:

BAYAN-AMGALAN.B
Project Coordinator

Prepared by:

TSETSEGMAA.D
Project Accountant

The notes set out on pages 9 to 19 form integral part of these financial statements.

WESTERN REGIONAL ROAD
CORRIDOR DEVELOPMENT PROGRAM PROJECT TRANCHE 2

IMPREST ACCOUNT STATEMENT
for the year ended 31 December 2016

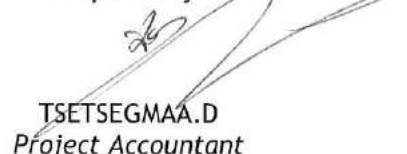
	FY 2016	FY 2015
	in USD	in USD
PART A - ACCOUNT TRANSACTIONS		
Beginning balance	-	-
Add:		
Total amount deposited	245,387.09	-
Interest income	760.83	-
	246,147.92	-
Deduct:		
Total amount withdrawn (Audit fee)	(23,706.71)	-
Total amount withdrawn (Consulting fee)	(19,478.00)	-
Transferred to sub-account (MNT)	(179,734.17)	-
Transferred to cash (MNT)	(798.14)	-
Bank charge	(43.00)	-
	(223,760.02)	-
Ending balance	22,387.90	-
PART B - ACCOUNT RECONCILIATION		
Amount advanced by the ADB	193,200.00	-
Balance of Imprest Account at the end of the year	22,387.90	-
Add:		
Amount claimed and not yet credited	170,644.50	-
Bank charge	43.00	-
Balance of Sub-Account (MNT) as at 31 December 2016	260.64	-
Deduct:		
Interest income	(136.04)	-
Total advance to Imprest account	193,200.00	-

Approved by:



BAYAN-AMGALAN.B
Project Coordinator

Prepared by:



TSETSEGMAA.D
Project Accountant

The notes set out on pages 9 to 19 form integral part of these financial statements.

WESTERN REGIONAL ROAD
CORRIDOR DEVELOPMENT PROGRAM PROJECT TRANCHE 2

NOTES TO THE PROJECT FINANCIAL STATEMENTS
for the year ended 31 December 2016

1. Project background

On 02 June 2014, the Asian Development Bank (ADB) and the Government of Mongolia (GOM) signed an Loan Agreement to finance Western Regional Road Corridor Investment Program-Project 2 by USD 125,000,000 (Loan: 3129 MON). The project closing date is 30 June 2019.

The objective of the Western Regional Road Corridor Investment Program:

Construction of a 743.1 km road through the Western Region of Mongolia, Asian Highway 4 (AH4) and a component of the larger UNESCAP-designed Asian Highway network, also CAREC corridor 4" a", which includes Yarang-Khovd-Olgii-Ulaanbaishint to provide an efficient and safe regional transport route developed in the Western Region of Mongolia to link Xinjiang Autonomous Region in the PRC and Siberia Province of the Russian Federation through Khovd and Bayan-Olgii aimags of Western Mongolia, to facilitate the flow of goods and passengers between the three countries, to promote regional transport of freight and passengers via the Western Road Corridor and increase economic development and regional trade, to build a road that will meet Asian auto road standards on technical safety.

Loan 3129-MON comprises of the following parts:

Part A: Construction of road

Construction of paved road of approximately 189.7 kilometers (km) road between Khovd and Ulaanbaishint with carriageway widths of 7 meters (m) and shoulder widths of 1.5m-2.0m. Construction of 3 bridges in Khovd and Ulgii towns, and improving 14.9km road.

Part B: Equipment

Establish 2 road maintenance units, providing with maintenance and technical equipment.

Part C: Consulting services

Consulting service for construction of road.

Part D: Project administration

Activities of project implementing unit

WESTERN REGIONAL ROAD
CORRIDOR DEVELOPMENT PROGRAM PROJECT TRANCHE 2

NOTES TO THE PROJECT FINANCIAL STATEMENTS (continued)
for the year ended 31 December 2016

1. Project background (continued)

The following table presents allocation of loan proceeds:

No.	Category	Length of road /km/	Financing allocation /USD/	ADB financing in percentage
1.	Construction of road	189.70	107,070,000.00	
1a	Lot 1: Construction of road between Khovd and Shuraga bridge	50.00	22,550,000.00	100%
1b	Lot 2: Construction of road between Shurag bridge and Khashaantiin davaa	53.90	28,230,000.00	100%
1c	Lot 3: Construction of road between Khashaantiin davaa and Tolbo soum	60.00	46,100,000.00	100%
1d	Lot 4: Construction of road between Tolbo soum and Ulaanbaishint	25.80	10,190,000.00	100%
2.	Equipment		2,240,000.00	
2a	Equipment in Khovd		1,120,000.00	54.9%
2b	Equipment in Bayan-Olgii		1,120,000.00	55.2%
3.	Consulting services		6,145,000.00	100%
4.	Project administration		1,400,000.00	100%
5.	Interest and commitment charges		8,145,000.00	100%
Total loan amount			125,000,000.00	

In accordance with the loan agreement, road construction work financing portion of ADB varied lot by lot (lot 1: 83 percent, lot 2: 83.1 percent, lot 3: 96.6 percent, and lot 4: 89.6 percent) and upon request of the Ministry of Finance and Ministry of Road and Transportation, ADB agreed to wholly finance the construction of road as stated in approval dated 07 August 2015.

WESTERN REGIONAL ROAD
CORRIDOR DEVELOPMENT PROGRAM PROJECT TRANCHE 2

NOTES TO THE PROJECT FINANCIAL STATEMENTS (continued)
for the year ended 31 December 2016

1. Project background (continued)

Project implementation unit:

Ministry of Road and Transportation (MRT) is the Executing Agency (EA) of the project and is responsible for project implementation and its performance. The Project Implementation Unit (PIU) was established under Order No.123 of the State Secretary of MRTUD dated on 21 September 2008.

Currently, project coordinator, 2 road engineers, secretary, and financial officer work within the PIU in order to coordinate and monitor daily work of the project implementation and manage the civil works on behalf of the employer, and to cooperate with ADB, Contractors, Consultants, local administrators, and other organizations in order to implement the contract works. The PIU also implements additional loan 2847-MON and Loan 3129-MON.

The Project steering committee (PSC) was established under resolution no.85 of Minister of Road and Transportation dated 29 November 2012. However; due to the Government's organizational restructure, a new PSC was established by resolution no.118 of the Minister of Road and Transportation Development dated 14 December 2016. PSC consists of 11 members including representatives from the Ministry of Finance, the Ministry of Labour, the Ministry of Environment, Green Development and Tourism and other relevant organizations.

2. Summary of significant accounting policies

The following significant accounting policies have been adopted by the Project in the preparation of these statements:

(a) Basis of preparation

The financial statements, expressed in United States Dollars ("USD"), have been prepared on a cash receipts and payments basis of accounting. On this basis, receipts are recognized when received or direct payment to creditors are made rather than when earned and disbursements are recognized when paid rather than when incurred.

(b) Foreign exchange translation

The project financial statements are stated in USD. Transactions in currencies other than USD during the year have been translated into USD at official rate of Mongol Bank at the transaction dates. Exchange differences arising therefrom are taken up in the Statement of Sources and Uses of Funds.

The statement of imprest account is presented in United States dollars ("USD"). The amounts in USD are the actual amounts debited or credited to the Designated Account.

The summary of statements of expenditure is also presented in USD. The amounts in USD are the actual amounts applied for replenishment from the Asian Development Bank.

WESTERN REGIONAL ROAD
CORRIDOR DEVELOPMENT PROGRAM PROJECT TRANCHE 2

NOTES TO THE PROJECT FINANCIAL STATEMENTS (continued)
for the year ended 31 December 2016

2. Summary of significant accounting policies (continued)

(c) Sources of funds

The funds received are recognized as source of funds when received at the Imprest Account plus the inter-bank charges deducted from the remittance. The Imprest Account reflects: (i) deposits and replenishment received from financiers; (ii) payments substantiated by withdrawal applications; and (iii) the remaining balance at financial year-end. Based on reconciliation of imprest account and actual expenditures, the Withdrawal Applications are prepared and submitted to ADB for reimbursement of eligible expenditures.

For direct payment, ADB, at the borrower's request (based on Withdrawal Applications), pays a designed beneficiary directly.

(d) Uses of funds

The expenditures eligible for the Project are recognized as use of funds when actual disbursements are made for project activities.

(e) Procurement

Procurement of goods and services are undertaken in according with the provisions of the "Guidelines for Procurement under ADB Loans" and "Guidelines of the Use of Consultants by ADB" is applied for the selection, engagement and services of the consultants.

3. Project implementation

New 189.7 km paved roads of remained sections between Khovd and Ulaanbaishint will be constructed under the ADB Loan 3129-MON and Consulting services such as Construction supervision, Water quality monitoring, Wildlife movement survey monitoring, social safeguard and HIV/AIDS monitoring, community outreach officer's services will be performed. Accordingly, reconstruction of three bridges and 14.9 km roads in Khovd and Olgy city will be executed under GOM budget. The construction of road was divided into 4 lots and the status of the project implementation in detail is shown below.

The Contract Lot CW1-1

The Contractor China Huashi Enterprises executes the construction works of 50 km road from Khashaatiin davaa to Shurag Bridge according to the Contract Agreement and overall progress of civil works as end of December 2017 is 17.20% against budget of 34.12%. In the 2016, the Contractor China Huashi Enterprises completed the works such as i) general works in 80.72%, ii) site clearance works in 83.33%, iii) earthwork and embankment filling in 50.41%, iv) subbase and base course in 10.52% and passage of traffic is in 100%. Delay against the target is 16.92% and the main reason of delay was obstacles due to archeological findings and fiber cables located within the road alignment.

The Contract Lot CW1-2

The Contractor HKB International Holding LLC executes the construction works of 53.9 km from Shurag bridge to Khovd according to the Contract Agreement and overall progress of civil works as end of December 2016 is 27.44% against approved program in 2016 as 33.20%. Delay of civil works is 5.76%.

WESTERN REGIONAL ROAD
CORRIDOR DEVELOPMENT PROGRAM PROJECT TRANCHE 2

NOTES TO THE PROJECT FINANCIAL STATEMENTS (continued)
for the year ended 31 December 2016

3. Project implementation (continued)

The Contract Lot CW1-3

China Huashi Enterprises company executes the construction works of 60 km from Khashaatiin davaa to Tolbo soum according to the Contract Agreement and overall progress as end of December 2016 is 7.23% against 2016's approved construction program as 26.78%. Delay against the target is 19.55% and main reasons of delay were obstacles due to archeological findings and fiber cables located within the road alignment.

The Contract Lot CW1-4

China Huashi Enterprises company was entered with agreement on 31 August 2015 to execute the construction of 25.8km road from Tsagaannuur to Ulaanbaishint. However; Altain Zam JSC, a company that took part in the tender, made a claim to the court on 07 October 2015 stating that the decision of the tender evaluation committee was illegal. They claimed that the current agreement was to be cancelled and to reannounce the tender.

In accordance with decision of the Primary administration court dated 05 January 2016, it was decided that until the case involving Lot CW1-4 of 3129-MON tender that is within the scope of Western Regional Road Corridor Development Program Project 2 with the case involving the claimant Altain Zam JSC, and defendant Ministry of Road and Transportation is resolved, the current agreement on Lot CW1-4 shall be suspended. No construction works was conducted as of December 2016.

Road construction supervision consultants

Consultancy Contract Agreement for Construction Supervision of 189.7 km roads comprising of Civil Work Lot CW1-1, CW1-2, CW1-3 and CW1-4 with amount of USD 4,996,290 between MRT and ICT in JV with Swedish National Road Consulting AB, Sweden and in association with ICT-Sain Consulting LLC, Mongolia was signed on 04 August 2015. The Consultant started their service on 13th August of 2015 after notification by the MRT. Currently, the Consultant is working in accordance with Consultancy Contract.

Environment monitoring consultant

It was planned to monitor the environmental issues during the construction works as indicated in the FAM. Therefore, MRT made the Contract with Mr.E.Hasar, project environmental monitoring consultant on 1st April 2016. The contract amount is US\$61,080. Thereafter, the Contract Amendment with amount of US\$ 49,260 to Mr.Hasar's Contract was made on 14 June 2016 based on his suggestion to update the detailed environmental assessment.

Social, safeguard, and HIV/AIDS monitoring consultants

It was planned to monitor the social, safeguard and HIV/AIDS activities during the construction works as indicated in the FAM. Therefore, MRTD entered the Contract with Mrs. D.Uranchimeg, safeguard monitoring consultant on 22 August 2016. The Contract amount is US\$ 47,100.

WESTERN REGIONAL ROAD
CORRIDOR DEVELOPMENT PROGRAM PROJECT TRANCHE 2

NOTES TO THE PROJECT FINANCIAL STATEMENTS (continued)
for the year ended 31 December 2016

3. Imprest account and sub-account

In accordance with "Handbook for Borrowers on the Financial Management and Analysis of Projects", the Project management shall open USD Imprest account in commercial banks. This account is used for receiving replenishments that shall be used for the authorised expenditures incurred for the project. The project management opened Imprest account in State Bank of Mongolia.

The project management had opened MNT sub-account in State Bank of Mongolia which is used for operating expenditures.

4. Procurement of goods and consultants

The construction works and consultant services required for the Project and to be financed out of the financing of the Loan are procured in accordance with "Procurement Guidelines" approved in April 2015 and "Guidelines on The Use of Consultants by Asian Development Bank and Its Borrowers" approved in March 2013.

5. Cash and cash equivalents

	At 31 Dec 2016 USD	At 31 Dec 2015 USD
Cash on hand	-	-
Imprest account-USD	22,387.90	-
Sub-account-MNT	260.64	-
	<u>22,648.54</u>	<u>-</u>

The balances of Imprest account and sub-account represents the balance of cash held in State bank of Mongolia as of the end of the reporting date.

WESTERN REGIONAL ROAD
CORRIDOR DEVELOPMENT PROGRAM PROJECT TRANCHE 2

NOTES TO THE PROJECT FINANCIAL STATEMENTS (continued)
for the year ended 31 December 2016

6. Project cumulative expenditures

	Notes	Cumulative to 31 Dec 2016 in USD	FY 2016 in USD	Cumulative to 31 Dec 2015 in USD
Project administration	(a)	223,592.42	223,592.42	-
Construction works	(b)	17,868,076.95	13,277,409.23	4,590,667.72
Consulting services	(c)	1,657,936.00	1,657,936.00	-
Interest charge	(d)	457,800.56	269,799.56	188,001.00
Bank charge		43.00	43.00	-
Total expenditures		20,207,448.93	15,428,780.21	4,778,668.72

The amounts above represent the actual expenditures eligible for the Project and are based on actual payments made during the year 2015 and 2016 as well as cumulative to 31 December 2016.

The breakdown of each category of expenditures can be shown as follows:

(a) Project administration expenses

	Total cumulative in USD	FY 2015 in USD
Salary expenses	127,242.10	-
Office rental fee	31,458.62	-
Audit fee	23,706.71	-
Consulting service fee	19,478.00	-
Communication fee	4,666.08	-
Air ticket and per diem	3,945.22	-
Stationaries	4,904.09	-
Transportation and fuel	2,107.65	-
Computer purchase	1,631.47	-
Other	4,452.48	-
	223,592.42	-

WESTERN REGIONAL ROAD
CORRIDOR DEVELOPMENT PROGRAM PROJECT TRANCHE 2

NOTES TO THE PROJECT FINANCIAL STATEMENTS (continued)
for the year ended 31 December 2016

7. Project cumulative expenditures (continued)

(a) Construction works

		<i>as at 31 December 2016</i>		
CW	Contractors	Total in USD	ADB in USD	GOM in USD
CW-1	China Huashi Enterprises	4,514,580.82	4,514,580.82	-
CW-2	HKB International Holding	9,004,147.60	8,954,006.20	50,141.40
CW-3	China Huashi Enterprises	4,349,348.53	4,349,348.53	-
		17,868,076.95	17,817,935.55	50,141.40

(b) Consulting services

	Total in USD	FY 2016 in USD	FY 2015 in USD
ICT - consulting firm	1,651,828.00	1,651,828.00	-
Khasar.E	6,108.00	6,108.00	-
	1,657,936.00	1,657,936.00	-

(c) Interest charge

ADB provided financings amounting to USD 19,721,258.64 as of 31 December 2016. Since the implementation of the project, the project received financing amounting to USD 20,179,059.20 (including interest charge) as of 31 December 2016 which represents approximately 16.1 percent of the total finances.

According to Article 2.02 of the loan agreement, each year on 15 April and 15 October, interest and principal loan payments shall be paid to ADB. Interest rate amount is stated in 2.2(a) and (b) of the loan agreement. In accordance with this clause, interest and commitment charges amounted to USD 457,800.56 as at 31 December 2016.

7. Loan

	At 31 Dec 2016 in USD	At 31 Dec 2015 in USD
Direct payments	19,475,871.55	4,540,526.32
Replenishment to the Imprest account	245,387.09	-
	19,721,258.64	4,540,526.32

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NOTES TO THE PROJECT FINANCIAL STATEMENTS (continued)
for the year ended 31 December 2016

8. Interest income

This represents the amount of interest income received from the balances of Imprest account and sub-account.

9. Counterpart funds

In accordance with the Loan Agreement, monetary financing portion of GOM is 44.8 to 45.1 percent of equipment and non-monetary participation is exemption from all taxes and duties effective within the territory of Mongolia.

	Cumulative to 31 Dec 2016 in USD	FY 2016 in USD	FY 2015 in USD
GOM financing - in cash	50,141.40	-	50,141.40
GOM financing - in kind of VAT exemption	1,106,033.13	872,916.92	233,116.21
	1,156,174.53	872,916.92	283,257.61

In 2015, the GOM made financing of USD 50,141.40 in cash. According to the loan agreement, road construction work financing portion of ADB was different (lot 1: 83 percent, lot 2: 83.1 percent, lot 3: 96.6 percent, and lot 4: 89.6 percent) in each lot and upon request of the Ministry of road and transportation, ADB agreed to finance road construction works 100 percent by ADB approval dated 07 August 2015. For Lot 1, prior to the issuance of this approval, the GOM paid USD 50,141.40 to "HKB International Holding" LLC according to the contract. It was agreed to deduct the advance from the next payments.

In 2016, VAT exemption amounting to USD 872,916.92 (in 2015: USD 233,116.21) was financed by Government of Mongolia. VAT exemption financing is non-monetary therefore; it is not included in the auditor's report.

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10. Contracts and Outstanding Commitments

Category	Contractor	Contract date	Ending date	Contract amount	Cumulative payments made to 31 December 2016	Outstanding commitment
				USD	USD	USD
CW-1	China Huashi Enterprises Company Limited	2015-08-04	2018-08-31	22,617,581.18	4,514,580.82	18,103,000.36
CW-2	HKB International Holding LLC*	2015-08-04	2018-08-31	27,421,566.00	9,004,147.60	18,417,418.40
CW-3	China Huashi Enterprises Company Limited	2015-08-04	2018-08-31	36,519,718.18	4,349,348.53	32,170,369.65
Consulting-Construction work	Intercontinental Consultants & Technocrats Pvt. Ltd	2015-08-04	2019-08-03	4,996,290.00	1,651,828.00	3,344,462.00
Consulting-Environmental monitoring consultant	Khasar Enkhriimaa	2016-04-01 / 2016-06-14	2018-10-30	110,340.00	20,886.00	89,454.00
Consulting-Social, safeguard, and HIV/AIDS monitoring consultant	Uranchimeg Davaadorj	2016-08-22	2018-10-30	47,100.00	4,700.00	42,400.00
				19,545,490.95	72,167,104.41	

*The Cumulative payments made to HKB International Holding LLC comprises Government of Mongolia's participation of USD 50,141.40 in cash.

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NOTES TO THE PROJECT FINANCIAL STATEMENTS (continued)
for the year ended 31 December 2016

11. Subsequent event

There were no significant events occurred between financial statement date and audit report date, which have material effect on the financial statements.

12. Comparative figures

Certain corresponding figures have been reclassified to conform to the current year's presentation.

13. Translation

These financial statements have been prepared in both Mongolian and English languages and the report in English language will prevail in the case of misunderstanding between versions in Mongolian and English languages.