

Audited Project Financial Statements

Project Number: 43439-033

Loan Number: 2967

Period covered: 1 January 2014 to 31 December 2014

KAZ: CAREC Corridor 2 (Mangystau Oblast Section) Investment Program, Project 2

Prepared by Ministry of Finance

For the Asian Development Bank

Date received by ADB: 9 July 2015

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 Ministry of Finance.

**Project "CAREC Corridor 2 [Mangistau Oblast Sections]
Investment Program – Project 2" financed under
Agreement No. 2967-KAZ, between
the Government of the Republic of Kazakhstan
and Asian Development Bank**

Financial statements

*with independent auditors' report
for the year ended 31 December 2014*

Project "CAREC Corridor 2 [Mangistau Oblast Sections]
Investment Program – Project 2" financed under Agreement No. 2967-KAZ,
between the Government of the Republic of Kazakhstan
and Asian Development Bank

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Independent auditors' report

To the Management of the Project CAREC Corridor 2 [Mangystau Oblast Sections] Investment Program - Project 2, financed under Agreement No. 2967-KAZ, between the Government of the Republic of Kazakhstan and Asian Development Bank:

We have audited the accompanying financial statements of the CAREC Corridor 2 [Mangystau Oblast Sections] Investment Program - Project 2, financed under Agreement No. 2967-KAZ, between the Government of the Republic of Kazakhstan and Asian Development Bank (the "Project"), which comprise statement of receipts and disbursement of funds for the year ended 31 December 2014, statement of cumulative cash receipts, statement of cumulative cash disbursements, detailed statement of loan drawdown for the year then ended, and a summary of significant accounting policies and other explanatory information (the "financial statements").

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Public Sector Accounting Standards (IPSAS) "Financial Reporting Under the Cash Basis of Accounting" issued by the International Public Sector Accounting Standards Board of the International Federation of Accountants, and the financial reporting provisions of Loan Agreement No. 2967-KAZ between the Government of the Republic of Kazakhstan and Asian Development Bank, and for such internal control as management determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Project's preparation of the financial statements 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



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Opinion

In our opinion, the financial statements present fairly, in all material respects, the cash receipts and payments of the Project for the year ended 31 December 2014 in accordance with International Public Sector Accounting Standards (IPSAS) "Financial Reporting Under the Cash Basis of Accounting" issued by the International Public Sector Accounting Standards Board of the International Federation of Accountants, and the financial reporting provisions of Loan Agreement No. 2967-KAZ between the Government of the Republic of Kazakhstan and Asian Development Bank.

Ernst & Young LLP

Alexandr Nazarkulov
Auditor

Auditor qualification certificate
No. МФ-0000059 dated 6 January 2012

11 June 2015

Evgeny Zhemaletdinov
General Director
Ernst and Young LLP

State audit license for audit activities on the
territory of the Republic of Kazakhstan: series
МФЮ-2 No. 0000003 issued by the Ministry of
Finance of the Republic of Kazakhstan
on 15 July 2005

Project "CAREC Corridor 2 [Mangistau Oblast Sections]
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STATEMENT OF RECEIPTS AND DISBURSEMENTS OF FUNDS

For the year ended 31 December 2014

US dollars	2014		2013	
	ADB loan	Receipts from Government of the Republic of Kazakhstan	ADB loan	Receipts from Government of the Republic of Kazakhstan
Receipts				
Direct payments	39,173,838	-	-	-
Total receipts under the Project	39,173,838	-	39,173,838	-
Expenses				
Construction works	39,173,838	-	-	-
Total payments under the Project	39,173,838	-	39,173,838	-

Signed on behalf of the management of the Project:

A.A. Bekov

Deputy Chairman of Motor Roads Committee of
the Ministry for Investment and Development of
the Republic of Kazakhstan



STATEMENT OF CUMULATIVE CASH RECEIPTS

From the inception of the Project through 31 December 2014

	31 December 2013			Receipts for the year ended 31 December 2014			Cumulative from the inception date of the Project through 31 December 2014		
	ADB loan	Receipts from Government of the Republic of Kazakhstan	Total	ADB loan	Receipts from Government of the Republic of Kazakhstan	Total	ADB loan	Receipts from Government of the Republic of Kazakhstan	Total
<i>US dollars</i>									
Receipts									
ADB direct payments	-	-	-	39,173,838	-	39,173,838	39,173,838	-	39,173,838
Direct payments from the Government of the Republic of Kazakhstan	-	-	-	-	-	-	-	-	-
Total receipts under the Project	-	-	-	39,173,838	-	39,173,838	39,173,838	-	39,173,838

Signed on behalf of the management of the Project:

A.A. Bekov

Deputy Chairman of Motor Roads Committee of
the Ministry for Investment and Development of
the Republic of Kazakhstan



Project "CAREC Corridor 2 (Mangistau Oblast Sections)
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STATEMENT OF CUMULATIVE CASH DISBURSEMENTS

From the inception of the Project through 31 December 2014

	31 December 2013			Expenses for the year ended 31 December 2014			Cumulative from the inception date of the Project through 31 December 2014		
	ADB loan	Receipts from Government of the Republic of Kazakhstan	Total	ADB loan	Receipts from Government of the Republic of Kazakhstan	Total	ADB loan	Receipts from Government of the Republic of Kazakhstan	Total
US dollars									
Expenses									
Construction works	-	-	-	39,173,838	-	39,173,838	39,173,838	-	39,173,838
Total payments under the Project	-	-	-	39,173,838	-	39,173,838	39,173,838	-	39,173,838

Signed on behalf of the management of the Project:



A.A. Bekov

Deputy Chairman of Motor Roads Committee of
the Ministry for Investment and Development of
the Republic of Kazakhstan

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DETAILED STATEMENT OF LOAN DRAWDOWN

For the year ended 31 December 2014

US dollars

No. of withdrawal application	Date of withdrawal	Direct payments	Total
1	16 September 2014	7,042,371	7,042,371
2	28 November 2014	7,042,371	7,042,371
3	22 December 2014	1,703,016	1,703,016
4	16 September 2014	10,763,523	10,763,523
5	28 November 2014	10,763,523	10,763,523
6	22 December 2014	1,859,033	1,859,033
		39,173,838	39,173,838

Signed on behalf of the management of the Project:

A.A. Bekov

Deputy Chairman of Motor Roads committee
the Ministry for Investment and Development of
the Republic of Kazakhstan



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

1. GENERAL PROVISIONS

Operating environment in the Republic of Kazakhstan

Project activities are carried out in Kazakhstan. Accordingly, the project is exposed to risks incidental to economic and financial markets of Kazakhstan, which demonstrate characteristics of a country with developing market economy. The legal system, tax system and legislative base continue developing but are subject to various interpretations and frequent changes, which together with other legal and financial impediments intensify the problems encountered by the entities operating in Kazakhstan.

Type of business

Loan agreement No. 2967-KAZ (the "Agreement") between the Government of the Republic of Kazakhstan (the "Government") and Asian Development Bank ("ADB") was signed on 18 June 2013 and ratified on 23 December 2013 ("Inception date of the Project"). Under the Agreement ADB provides a loan of US dollars 371,300,000 (the "Loan") for the Project implementation purpose "Transport CAREC corridor 2 [Mangistau oblast] (the "Project"), and shall be repaid by the Government from 15 April 2018 through 15 October 2032 after the end of the grace period.

The purpose of the Project is to increase the transport connectivity and efficiency, and institutional effectiveness of sections of Transport CAREC corridor 2 in Mangistau oblast.

The Project was carried out by the Motor Roads Committee of the Ministry for Investment and Development of the Republic of Kazakhstan that acts as an Executive Agent on behalf of the Government of the Republic of Kazakhstan.

The Project comprises the following components:

- reconstruction of a 170 km road section between km 632.3 and km 802 on the road between the settlement of Shetpe and the city of Aktau within the framework of the CAREC Corridor 2 in Mangistau oblast; and
- support for construction supervision.

It is expected that the implementation of the Project will be completed on 30 April 2019.

31 October 2017 is the date of completion the loan drawdown period or such other date that may be agreed by the Government and ADB.

2. BASIS OF PREPARATION

These financial statements have been prepared in accordance with International Public Sector Accounting Standards (IPSAS) *Financial Reporting Under the Cash Basis of Accounting* issued by the International Public Sector Accounting Standards Board of the International Federation of Accountants, and the financial reporting provisions of Loan Agreement No. 2967-KZ between the Government of the Republic of Kazakhstan and the Asian Development Bank.

The Project's approved budget disclosed by components of expenses is not publicly available and as such comparison of budget and actual amounts is not presented.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Cash basis of accounting in these financial statements

In these financial statements receipts and expenses are recognised when they are incurred.

Presentation currency

These financial statements are presented in US dollars (the "US dollars").

NOTES TO THE FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currency transactions

Transactions in foreign currency are translated into the reporting currency at the rate of exchange ruling at the date of such transactions. Direct payments from ADB are translated into US dollars at the rate of exchange established by ADB at the date of payments. Receipts from the Government of the Republic of Kazakhstan are translated to US dollars at the foreign exchange rates established by the National Bank of the Republic of Kazakhstan at the date of payments. The foreign exchange differences arising upon translation of transactions denominated in other currencies in US dollars are presented as a net value from a change in foreign exchange rates.

Categories of expenditures

The agreement determines the main categories of expenditures financed by the Loan, quantity for each category as well as a share of financing for each category.

In accordance with the Agreement, there is only one category of expenditures, which is construction works.

Cash received

Based on the terms and conditions of the Agreement, the Government of the Republic of Kazakhstan is obliged to repay interest and principal of the Loan. These payments are recorded in the Government accounts and are not reflected in these financial statements. 15 October 2032 is the date of the last payment by the Government under the Loan.

4. CASH

The Project does not have special accounts.

5. DIRECT PAYMENTS

Direct payments under the Project are made by ADB and Government of the Republic of Kazakhstan directly to suppliers determined in accordance with the terms and conditions of the Agreement.

6. UNDRAWN BORROWING FACILITIES

As of 31 December 2014 the balance of undrawn borrowing facilities of Loan from ADB comprise 332,126,162 US dollars.

7. DATE OF ISSUE

The financial statements were approved for issue by Deputy Chairman of Motor Roads Committee of the Ministry for Investment and Development of the Republic of Kazakhstan on 11 June 2015.

