

Audited Project Financial Statements

Project Number: 43439-033

Loan Number: 2967

Period covered: 1 January 2017 to 31 December 2017

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

Prepared by BDO Kazakhstan LLP

For the Asian Development Bank

Date received by ADB: 27 June 2017

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

Financial Statements for the year ended
December 31, 2017
and Independent Auditors' Report

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Independent Auditors' Report

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

Opinion

We have audited the financial statements of the CAREC Corridor 2 [Mangystau Oblast Sections] Investment Program - Project 2 funded under Loan Agreement No. 2967-KAZ between the Government of the Republic of Kazakhstan and the Asian Development Bank (hereinafter the "Project"), which comprise the statement of receipts and disbursements of funds for the year ended December 31, 2017, statement of comparison of budget and actual amounts for the year ended December 31, 2017, statement of disbursements by component for the year ended December 31, 2017, and a summary of significant accounting policies and other explanatory notes ("Financial Statements").

In our opinion,

- the accompanying financial statements fairly present, in all material respects, the Project's receipts and disbursements for the year ended December 31, 2017 and the cash position as at December 31, 2017 in accordance with the International Public Sector Accounting Standard (IPSAS) *Financial Reporting under the Cash Basis of Accounting* published by the International Federation of Accountants (IFAC), as well as in accordance with the requirements of the Asian Development Bank.
- The funds provided by ADB were used solely for the purposes of the Project, as set forth in Loan Agreement No. 2967-KAZ, and no proceeds of the loan were used for other purposes;
- As of the reporting date the Management of the Project was in compliance with all financial covenants of the Loan Agreement No. 2967-KAZ.

Basis for Audit Opinion

We conducted our audit in accordance with International Standards on Auditing. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the Project in accordance with the Code of Ethics for Professional Accountants of the International Ethics Standards Board for Accountants (IESBA Code) and with the ethical requirements that are relevant to our audit of the financial statements in Kazakhstan, 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.

Товарищество с ограниченной ответственностью "BDO Kazakhstan", зарегистрированное в соответствии с законодательством Республики Казахстан, является участником международного объединения BDO International Limited, британского общества с ответственностью, ограниченной гарантией его участников, и является частью международной сети независимых компаний BDO.

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INDEPENDENT AUDITORS' REPORT (continued)

Responsibility of the Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IPSAS

Financial Reporting under the Cash Basis of Accounting published by the International Federation of Accountants (IFAC) and in accordance with the requirements of the Asian Development Bank, and for such internal control as management determines is necessary to enable preparation of the 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 Project's ability to continue as a going concern, disclosing as applicable, matters relating to going concern and using the going concern basis of accounting unless management either intends to liquidate the Project or to cease operations, or has no realistic alternatives but to do so.

Those charged with governance are responsible for overseeing the Project financial reporting process.

Auditor's Responsibility for the Audit of the Financial Statements

Our objective is 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 International Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or errors and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the overall presentation 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 statement, 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 statement, including the disclosures, and whether the financial statement represents the underlying transactions and events in a manner that achieves fair presentation.

INDEPENDENT AUDITORS' REPORT (continued)

We communicate with those responsible for managing the Project 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.

BDO Kazakhstan LLP

State License for Auditing Activities
No.15003448 issued by the Committee for
Financial Control under the Ministry of
Finance of the Republic of Kazakhstan on
February 19, 2015



Director Talgat Omarov

May 31, 2018



Auditor Tolegen Kuandykov

Auditor Qualification Certificate No. МФ-0000490, issued by the Qualification Commission for certification of auditors of the Republic of Kazakhstan on 10 October 2017

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STATEMENT OF RECEIPTS AND DISBURSEMENTS OF FUNDS
for the year ended December 31, 2017

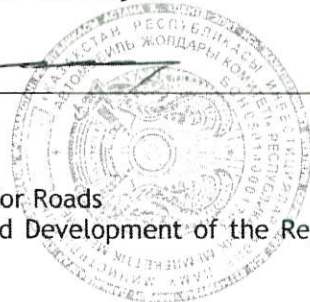
US Dollars	Note	2017			Cumulative amount from the Project start date through December 31, 2017		
		ADB Loan	Proceeds from the Government of the Republic of Kazakhstan	Total	ADB Loan	Proceeds from the Government of the Republic of Kazakhstan	Total
Project cash balance as at January 01		-	-	-	-	-	-
RECEIPTS							
Direct payments		62,674,313	-	62,674,313	230,503,534	-	230,503,534
Proceeds from the Government of the Republic of Kazakhstan		-	10,133,331	10,133,331	-	26,742,767	26,742,767
Total receipts under the Project	5	62,674,313	10,133,331	72,807,644	230,503,534	26,742,767	257,246,301
EXPENDITURES							
Civil Works		61,363,458	9,540,276	70,903,734	227,417,097	25,963,760	253,380,857
Consulting services		1,310,855	593,055	1,903,910	3,086,437	779,007	3,865,444
Total payments under the Project		62,674,313	10,133,331	72,807,644	230,503,534	26,742,767	257,246,301
Project cash balance as at December 31	4	-	-	-	-	-	-

Signed on behalf of the Management of the Project:



A.A. Bekov

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



The notes on pages from 3 to 6 form an integral part of these financial statements.

STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS

for the year ended December 31, 2017

US Dollars	Note	2017			Budget			Variance		
		ADB Loan	Proceeds from the Government of the Republic of Kazakhstan	Total	ADB Loan	Proceeds from the Government of the Republic of Kazakhstan	Total	ADB Loan	Proceeds from the Government of the Republic of Kazakhstan	Total
EXPENDITURES										
Civil Works		61,363,458	9,540,276	70,903,734	61,364,225	9,540,323	70,904,548	100%	100%	100%
Consulting services		1,310,855	593,055	1,903,910	1,310,855	593,055	1,903,910	100%	100%	100%
Total payments under the Project		62,674,313	10,133,331	72,807,644	62,675,080	10,133,378	72,808,458	100%	100%	100%

Signed on behalf of the Management of the Project:



A.A. Bekov

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



The notes on pages from 3 to 6 form an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended December 31, 2017

1. GENERAL PROVISIONS

Kazakhstan Business Environment

The Project activities are carried out in Kazakhstan. Thus, the Project is exposed to the risks specific to economic and financial markets of Kazakhstan, whose economy shows specific features of a developing market economy. The legal, tax, and regulatory frameworks continue developing but are subject to varying interpretations and frequent changes which together with other legal and financial impediments contribute to the challenges faced by entities operating in Kazakhstan.

Nature of operations

Loan Agreement No. 2967-KZ ("Agreement") between the Government of the Republic of Kazakhstan ("Government") and Asian Development Bank ("ADB") was signed on June 18, 2013 and ratified on December 26, 2013 ("Project Start Date"). Pursuant to the Agreement, ADB lends the amount of 371,300,000 US dollars ("Loan") for the purposes of implementing the CAREC Corridor 2 [Mangystau Oblast Sections] Investment Program - Project 2 ("Project"). The Loan shall be repayable by the Government, upon expiry of the grace period, from April 15, 2018 through October 15, 2032.

Loan Agreement No. 2967-KAZ has been amended following the Letter of Agreement of June 20, 2017, ratified November 13, 2017.

Pursuant to the approved budget for 2017, the cash receipts and disbursements under the Project from the funds of the ADB loan and from co-financing of the external loan by the Government were estimated to amount to 62,675,080 US dollars and 10,133,378 US dollars, respectively (2016: 89,355 US dollars and 11,244,744 US dollars, respectively). The planned budget amounts are taken at a conditional exchange rate established by the Government of the Republic of Kazakhstan.

The objective of the Project is to increase transport connectivity and efficiency, and institutional effectiveness through the following activities: road development (reconstruction of the road sections of the CAREC Corridor 2 in the Mangystau Oblast), strengthening capacity for planning, project management and asset management, and improving cross-border infrastructure and facilities.

The Project is implemented by the Committee for Roads under the Ministry of Investment and Development of the Republic of Kazakhstan which acts as the Executing Agency on the part of the Government of Kazakhstan.

The Project consists of the following components:

a) Reconstruction

- i. of approximately 170 km road section (from Km 632.3 to Km 802) between the settlement of Shetpe and the city of Aktau;
- ii. of approximately 73 km section (from Km 0 to Km 73) between Zhetybai and Zhanaozen of the Automobile road (Zhetybai-Zhanaozen-Fetisovo-border of the Republic of Turkmenistan (to Turkmenbashi); and

b) supervision of construction and project management.

NOTES TO THE FINANCIAL STATEMENTS (continued)

The works under Project Component a) (i) (reconstruction of 170 km road section (from Km 632.3 to Km 802) between Shetpe and Aktau) were completed April 30, 2017.

The works under Project Component a) ii are scheduled to commence on February 20, 2018 and last for 20 months.

The Loan withdrawal deadline was extended from October 31, 2017 to September 15, 2020 with a view to finalizing the works on Tranche 2.

2. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

These financial statements have been prepared in accordance with International Public Sector Accounting Standard (IPSAS) *Financial Reporting under the Cash Basis of Accounting* as published by the International Federation of Accountants, and in compliance with the requirements of the Asian Development Bank.

3. SIGNIFICANT ACCOUNTING POLICIES

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

Cash method of accounting

Cash method of accounting recognizes transactions and events only when funds under the Project are received or paid.

Presentation currency

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

Transactions in foreign currency

Transactions in foreign currencies are translated to the presentation currency at the exchange rates prevailing at the reconversion dates. Direct payments from the ADB are translated into US dollars at the exchange rates established by the ADB as at the date of transactions. Proceeds from the Government of the Republic of Kazakhstan are translated into US dollars at the exchange rates established by the National Bank of the Republic of Kazakhstan as at the date of such transactions. Exchange differences arising from translation of transactions denominated in other currencies into US dollars are reported as a net value from changes in exchange rates.

Expenditure Categories

The Agreement specifies the main categories of expenditures financed by the Loan, the amount for each category, as well as the percentage of expenditures to be financed in each category.

The terms and conditions of the Agreement envisage civil works and consulting services.

Funds received

Subject to the terms and conditions of the Agreement, the Government of the Republic of Kazakhstan shall pay the interest and the principal amount of the Loan. Those payments are recorded in the accounts of the Government and are not recognized in these financial statements. The last installment on the Loan shall be payable by the Government on October 15, 2032.

4. CASH

The project has no special accounts.

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

5. DIRECT PAYMENTS

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

Direct payments to Suppliers under the Project for the year ended December 31, 2017 were made based on the following withdrawal applications:

No. of WA	Date of withdrawal	Direct payments	Total
00076	20.01.2017	608,647	608,647
00080	11.04.2017	164,237	164,237
00079	12.04.2017	130,634	130,634
00077	30.05.2017	2,548,196	2,548,196
00078	30.05.2017	2,666,169	2,666,169
00084	23.05.2017	83,834	83,834
00083	22.05.2017	110,018	110,018
00086	26.06.2017	36,544	36,544
00085	22.06.2017	40,308	40,308
00087	26.06.2017	2,286,942	2,286,942
00088	23.06.2017	3,145,780	3,145,780
00090	28.07.2017	680,664	680,664
00089	28.07.2017	1,469,045	1,469,045
00092	28.07.2017	57,389	57,389
00091	31.07.2017	35,215	35,215
00094	23.08.2017	94,048	94,048
00093	24.08.2017	81,362	81,362
00096	25.08.2017	2,200,000	2,200,000
00097	15.09.2017	1,933,978	1,933,978
00099	25.09.2017	64,278	64,278
00100	26.09.2017	2,008,513	2,008,513
00101	26.09.2017	5,857,761	5,857,761
00095	15.09.2017	1,401,041	1,401,041
00098	26.09.2017	27,811	27,811
00102	28.09.2017	740,000	740,000
00104	25.10.2017	52,180	52,180
00105	26.10.2017	9,651,687	9,651,687
00106	26.10.2017	3,588,130	3,588,130
00107	26.10.2017	7,154,134	7,154,134
00108	26.10.2017	2,370,343	2,370,343
00103	01.11.2017	27,045	27,045
00109	22.12.2017	3,223,477	3,223,477
00116	22.12.2017	108,477	108,477
00110	22.12.2017	3,877,535	3,877,535
00115	22.12.2017	130,488	130,488
00111	22.12.2017	27,264	27,264
00112	20.12.2017	112,288	112,288
00119	20.12.2017	166,401	166,401
00113	22.12.2017	1,771,743	1,771,743
00114	21.12.2017	1,940,707	1,940,707
Total		62,674,313	62,674,313

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

6. UNUSED PORTION OF THE LOAN

As of December 31, 2017 the unused portion of the ADB loan totaled 140,796,466 US dollars (2016: 203,470,779 US dollars).

7. DATE OF ISSUE

These financial statements were approved for issuance by Deputy Chairman of the Committee for Roads under the Ministry of Investment and Development of the Republic of Kazakhstan on May 31, 2018.