

Audited Project Financial Statements

Project Number: 48424-002

Loan Number: 3416

Period covered: 1 January 2017 to 31 December 2017

KAZ: CAREC Corridors 1 and 6 Connector Road (Aktobe–Makat) Reconstruction Project

Prepared by BDO Kazakhstan LLP

For the Asian Development Bank

Date received by ADB: 27 June 2017

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CAREC Corridors 1 and 6 Connector Road (Aktobe-Makat) Improvement Project funded under Loan Agreement No. 3416-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 Corridors 1 and 6 Connector Road (Aktobe-Makat) Improvement Project funded under Loan Agreement No. 3416-KAZ between the Government of the Republic of Kazakhstan and the Asian Development Bank

Opinion

We have audited the financial statements of the CAREC Corridors 1 and 6 Connector Road (Aktobe-Makat) Improvement Project funded under Loan Agreement No. 3416-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. 3416-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. 3416-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:

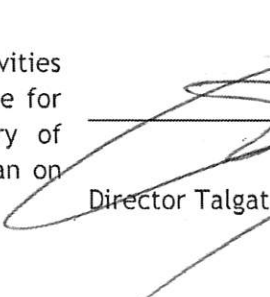
- identify and assess the risks of material misstatement of the financial statement, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting 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

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							
		25,414,061	-	25,414,061	25,414,061	-	25,414,061
Direct payments							
Proceeds from the Government of the Republic of Kazakhstan			115,769	115,769		115,769	115,769
Total receipts under the Project	5	25,414,061	115,769	25,529,830	25,414,061	115,769	25,529,830
EXPENDITURES							
		24,565,779	-	24,565,779	24,565,779	-	24,565,779
Civil Works							
Consulting services		848,282	115,769	964,051	848,282	115,769	964,051
Total payments under the Project		25,414,061	115,769	25,529,830	25,414,061	115,769	25,529,830
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

CAREC Corridors 1 and 6 Connector Road (Aktobe-Makat) Improvement Project funded under Loan Agreement No. 3416-KAZ between the Government of the Republic of Kazakhstan and the Asian Development Bank

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 and goods		24,565,779	-	24,565,779	24,565,781	-	24,565,781	100%	-	100%
Consulting services		848,282	115,769	964,051	848,283	115,769	964,052	100%	100%	100%
Total payments under the Project		25,414,061	115,769	25,529,830	25,414,064	115,769	25,529,833	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 5 form an integral part of these financial statements.

CAREC Corridors 1 and 6 Connector Road (Aktobe-Makat) Improvement Project funded under Loan Agreement No. 3416-KAZ between the Government of the Republic of Kazakhstan and the Asian Development Bank

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. 3416-KZ ("Agreement") between the Government of the Republic of Kazakhstan ("Government") and the Asian Development Bank ("ADB") was signed on December 7, 2016 and ratified on June 13, 2017 ("Project Start Date"). Pursuant to the Agreement, ADB lends the amount of 240,300,000 US dollars ("Loan") for the purposes of implementing the CAREC Corridors 1 and 6 Connector Road (Aktobe-Makat) Improvement Project ("Project"). The Loan shall be repayable by the Government upon expiry of the grace period, from May 15, 2022 through November 15, 2039.

As per 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 25,414,064 US dollars and 115,769 US dollars, respectively. The planned budget amounts are taken at a conditional exchange rate established by the Government of the Republic of Kazakhstan.

The objectives of the Project are to improve road network operational performance, increased transit potential, and improved social and economic development of the western region of Kazakhstan in particular.

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 of approximately 299 km (Km 156 - Km 500) of two-lane highway between Aktobe and Makat, with provision of machinery and equipment for road maintenance, and measures to ensure road traffic safety.
- b) project management services, supervision of construction and improvements to transport system operations.

The Project works are expected to be completed June 30, 2021.

The Loan withdrawal deadline is December 31, 2021 or another date which may be agreed upon periodically by the Government and ADB.

NOTES TO THE FINANCIAL STATEMENTS (continued)

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 Loan Agreement envisage construction works and goods (machinery and equipment), as well as 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 recognised in these financial statements. The last installment on the Loan shall be payable by the Government on November 15, 2039.

4. CASH

The project has no special accounts.

CAREC Corridors 1 and 6 Connector Road (Aktobe-Makat) Improvement Project funded under Loan Agreement No. 3416-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 withdrawal application	Date of withdrawal	Direct payments	Total
00001	20.10.2017	2,692,649	2,692,649
00002	29.09.2017	3,000,712	3,000,712
00003	29.09.2017	905,318	905,318
00004	29.09.2017	784,720	784,720
00005	29.09.2017	2,600,697	2,600,697
00006	18.10.2017	953,540	953,540
00007	29.11.2017	1,353,513	1,353,513
00008	27.10.2017	2,127,715	2,127,715
00009	27.10.2017	1,790,373	1,790,373
00010	27.10.2017	1,495,741	1,495,741
00011	16.11.2017	415,147	415,147
00012	16.11.2017	433,136	433,136
00016	22.12.2017	1,805,756	1,805,756
00017	22.12.2017	537,521	537,521
00018	22.12.2017	1,542,709	1,542,709
00019	22.12.2017	461,393	461,393
00020	26.12.2017	1,559,308	1,559,308
00021	22.12.2017	954,113	954,113
Total		25,414,061	25,414,061

6. UNUSED PORTION OF THE LOAN

As of December 31, 2017 the unused portion of the ADB loan totaled 214,885,939 US dollars (2016: no).

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.