

Audited Project Financial Statements

Project Number: 48424-002

Loan Number: 3416

Period covered: 1 January 2018 to 31 December 2018

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

Prepared by Russelle Bedford Group of Companies

For the Asian Development Bank

Date received by ADB: 20 June 2019

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 Access to Information Policy and as agreed between ADB and the Ministry of Finance.

**Project for the reconstruction of the
“Aktobe-Makat” highway connecting the
CAREC Corridors 1 and 6,
funded under the agreement
No. 3416-KAZ, concluded between
Government of the Republic of Kazakhstan and
Asian Development Bank**

Financial statements

for the year ended December 31, 2018

Project for the reconstruction of the "Aktobe-Makat"
highway connecting the CAREC Corridors 1 and 6,
funded under agreement No. 3416-KAZ, concluded
between Government of Republic of Kazakhstan and
Asian Development Bank

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Project for the reconstruction of the "Aktobe-Makat" highway connecting the CAREC Corridors 1 and 6, funded under agreement No. 3416-KAZ, concluded between Government of Republic of Kazakhstan and Asian Development Bank

**STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018.**

In order to distinguish the responsibilities of auditors and management regarding the financial statements for the Project for the reconstruction of the "Aktobe-Makat" highway connecting the CAREC Corridors 1 and 6, funded under agreement No. 3416-KAZ, concluded between Government of the Republic of Kazakhstan and Asian Development Bank (hereinafter referred to as the "Project"), the following statement was made, which should be read in conjunction with the description of the duties of the auditors contained in the Independent Auditors' Report.

Management of the Project is responsible for the preparation of these financial statements, which in all material aspects reliably reflect the results of its activities, which includes the statement of cash receipts and payments for the year ended December 31, 2018; the statement of comparison of budget and actual amounts for the year ended December 31, 2018, and a brief description of significant aspects of the accounting policies and other explanatory notes to the financial statements (hereinafter referred to as "financial statements") in accordance with International Financial Reporting Standards ("IFRS").

In preparing the financial statements, management of the Project is responsible for:

- Properly selecting and applying accounting policies;
- presenting information, including accounting policies in a form that ensures the relevance, reliability, comparability and clarity of such information;
- disclosure of additional information in cases where compliance with IPSAS requirements is not enough for users to understand the impact of certain transactions, as well as other events or conditions on the financial position and financial results of the Project;
- assessment of the Project's ability to continue operations in the foreseeable future.

Management is also responsible for:

- development, implementation and maintenance of an efficient and reliable internal control system in the Project;
- keeping records in a form that allows you to disclose and explain the transactions of the Project, as well as provide information on any date with sufficient accuracy on the financial situation of the Project and ensure that the financial statements comply with the requirements of the IPSAS ;
- maintenance of accounting in accordance with the legislation of the Republic of Kazakhstan and IPSAS;
- taking all reasonably possible measures to safeguard the assets of the Project;
- detection and prevention of facts of financial and other abuses.

These financial statements of the Company for the year ended December 31, 2018 were approved for issue on **May 30, 2019**.

Deputy Chairman of the Roads
Committee under the Ministry of
Industry and Infrastructural
Development of the Republic of
Kazakhstan
Chief Accountant of the Roads
Committee under the Ministry of
Industry and Infrastructural
Development of the Republic of
Kazakhstan



Bekov A.A.

Alimzhanova M.S.

INDEPENDENT AUDITOR'S REPORT



Approved by
General Director
"IAC "Russell Bedford A+ Partner" LLC
Kudaibergenova Sh.Ye.

To the management of the Project for the reconstruction of the "Aktobe-Makat" highway connecting the CAREC Corridors 1 and 6, funded under agreement No. 3416-KAZ, concluded between Government of the Republic of Kazakhstan and Asian Development Bank.

Audit report

We conducted an audit of the attached financial statements of the Project for the reconstruction of the "Aktobe-Makat" highway connecting the CAREC Corridors 1 and 6, funded under agreement No. 3416-KAZ, concluded between Government of the Republic of Kazakhstan and Asian Development Bank (the "Project"), which includes the statement of cash receipts and payments for the year ended December 31, 2018, the statement of comparison of budget and actual amounts for the year ended December 31, 2018, as well as a brief description of significant accounting policies and other explanatory notes (hereinafter - "financial statements").

In our opinion:

- The financial statements in all material aspects reliably reflect the cash receipts and payments of the Project for the year ended December 31, 2018 and the cash balance as of December 31, 2018, in accordance with the International Public Sector Accounting Standards (IPSAS) "Financial reporting on the cash accounting method", published by the International Federation of Accountants, and in accordance with the requirements of the Asian Development Bank;
- Funds received from ADB were used only for the purposes stipulated by the Project, in accordance with the loan agreement "3416-KAZ", and no loan proceeds were used for other purposes;
- At the reporting date, the Management the Project has complied with all the financial terms of the Loan Agreement No. 3416-KAZ.

Basis for opinion

We conducted our audit in accordance with International Auditing Standards (IAS). Our responsibilities in accordance with these standards are described later in the "Auditor's Responsibility for the Audit of Financial Statements" section of our report. We are independent in relation to the Project in accordance with the Code of Ethics of Professional Accountants of the International Ethics Standards Board for Accountants (IESBA Code), and we have fulfilled other ethical obligations in accordance with the IESBA Code. We believe that the audit evidence we have received is sufficient and appropriate to serve as a basis for our opinion.

Management responsibility for financial statements

Management the Project is responsible for the preparation and fair presentation of these financial statements in accordance with the International Public Sector Accounting Standard (IPSAS) "Financial reporting on the cash accounting method" published by the International Federation of Accountants, as well as in accordance with the requirements of the Asian Development Bank, and the internal control system that management considers necessary for the preparation of financial statements that do not contain material misstatements due to fraud or errors.

In preparing the financial statements, management is responsible for assessing the ability of the Project to continue its activities, for disclosing, if applicable, information relating to the continuity of activities, and for reporting on the basis of the continuity assumption, unless management intends to liquidate the Project, stop its activities or when there is no real alternative other than liquidation or termination of activities.

Persons responsible for corporate governance are responsible for overseeing the preparation of the financial statements of the Project.

Auditor's responsibility for auditing financial statements

Our goal is to obtain reasonable assurance that the financial statements presented are free from material misstatements due to fraud or error, and to issue an audit report containing our opinion. Reasonable assurance is a high degree of certainty, but does not guarantee that an audit conducted in accordance with International Standards on Auditing always reveals significant distortions, if any. Distortions can be the result of fraud or error and are considered significant if it can reasonably be assumed that, individually or collectively, they can affect the economic decisions of users made on the basis of these financial statements.

As part of an audit conducted in accordance with International Standards on Auditing, we apply professional judgment and maintain professional skepticism throughout the audit. In addition, we perform the following:

- Identify and assess the risks of material misstatement of financial statements due to fraud or errors; we develop and conduct audit procedures in response to these risks; we obtain audit evidence that is sufficient and appropriate to serve as a basis for expressing our opinion. The risk of not detecting material misstatement as a result of misconduct is higher than the risk of not detecting material misstatement as a result of an error, since unscrupulous actions may include collusion, forgery, intentional omission, distorted information or actions to bypass the internal control;
- Gain an understanding of the internal control system that is relevant for an audit, in order to develop audit procedures appropriate to the circumstances, but not to express an opinion on the effectiveness of the Project's internal control system;
- Evaluate the appropriateness of the accounting policies used and the reasonableness of accounting estimates and the corresponding disclosure of information prepared by management;
- Assess the presentation of the financial statements as a whole, its structure and content, including the disclosure of information, and whether the financial statements represent the underlying operations and events so as to ensure their fair presentation.

We carry out informational interaction with persons responsible for corporate governance, bringing to their attention, among other things, information about the planned scope and timing of the audit, as well as significant observations on the results of the audit, including significant deficiencies in the internal control system, which we identify during the audit.

Respectfully,



Gulshat Nazarymbetova
Auditor / Partner
"IAC "Russell Bedford A+ Partners" LLC

Qualification certificate of auditor
No. 0000559 from 02.02.2018



Sholpanai Kudairbergenova
Auditor
"IAC "Russell Bedford A+ Partners" LLC

Qualification certificate of auditor
No. 1-ПН 0000541 from 01.02.2018

State license for Auditing activities in the territory of the Republic of Kazakhstan No. 18013076, issued by the Committee for Internal State Control of the Ministry of Finance of the Republic of Kazakhstan date July 3, 2018

May 30, 2019



Project for the reconstruction of the "Aktobe-Makat" highway connecting the CAREC Corridors 1 and 6, funded under agreement No. 3416-KAZ, concluded between Government of Republic of Kazakhstan and Asian Development Bank

FINANCIAL STATEMENTS

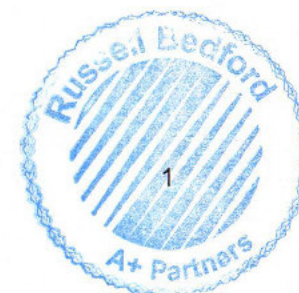
STATEMENT OF CASH RECEIPTS AND PAYMENTS for the year ended December 31, 2018

US dollars	Note	ADB loan	2018	Cumulative result from the start date of the Project till December 31, 2018			
			Receipts from the Government of the Republic of Kazakhstan	Total	ADB loan	Receipts from the Government of the Republic of Kazakhstan	Total
Cash of the Project as of January 1							
RECEIPTS							
Direct payments		35 907 294		35 907 294	61 321 355		61 321 355
Receipts from the Government of the Republic of Kazakhstan			3 743 232	3 743 232		3 859 001	3 859 001
Total receipts of the Project	5	35 907 294	3 743 232	39 650 526	61 321 355	3 859 001	65 180 356
EXPENDITURES							
Construction works		34 890 068	3 357 463	38 247 531	59 455 847	3 357 463	62 813 310
Consulting services		1 017 226	385 769	1 402 995	1 865 508	501 538	2 367 046
Total payments of the Project		35 907 294	3 743 232	39 650 526	61 321 355	3 859 001	65 180 356
Cash of the Project as of December 31	4	-	-	-	-	-	-

Signed on behalf of the management of the Project

Bekov A. A.

Deputy Chairman of the Roads Committee under the Ministry of Industry and Infrastructural Development of the Republic of Kazakhstan
Explanatory notes form an integral part of these financial statements



Project for the reconstruction of the "Aktobe-Makat" highway connecting the CAREC Corridors 1 and 6, funded under agreement No. 3416-KAZ, concluded between Government of Republic of Kazakhstan and Asian Development Bank

FINANCIAL STATEMENTS

STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS for the year ended December 31, 2018

US dollars	Note	2018			Budget			Deviation		
		ADB loan	Receipts from the Government of the Republic of Kazakhstan	Total	ADB loan	Receipts from the Government of the Republic of Kazakhstan	Total	ADB loan	Receipts from the Government of the Republic of Kazakhstan	Total
EXPENDITURES										
	Construction works and goods	34 890 068	3 357 463	38 247 531	34 890 068	3 357 463	38 327 844	100%	100%	100%
	Consulting services	1 017 226	385 769	1 402 995	1 017 226	385 769	1 402 995	100%	100%	100%
	Total payments of the Project	35 907 294	3 743 232	39 650 526	35 907 294	3 743 232	39 650 526	100%	100%	100%

Signed on behalf of the management of the Project

Bekov A.A.

Deputy Chairman of the Roads Committee under the Ministry of Industry and Infrastructural Development of the Republic of Kazakhstan

Explanatory notes form an integral part of these financial statements



Project for the reconstruction of the "Aktobe-Makat" highway connecting the CAREC Corridors 1 and 6, funded under agreement No. 3416-KAZ, concluded between Government of Republic of Kazakhstan and Asian Development Bank

NOTES TO THE FINANCIAL STATEMENTS
for the year ended December 31, 2018

NOTES TO THE FINANCIAL STATEMENTS
For the year ended December 31, 2018

1. GENERAL PROVISIONS

Terms of economic activity in the Republic of Kazakhstan

Project activities are carried out in Kazakhstan. Accordingly, the Project is confirmed by the risks inherent in the economic and financial markets of Kazakhstan, which demonstrates the characteristics of a country with a developing market economy. The legal system, tax system and legal framework continue to evolve, but are subject to varying interpretations and frequent changes, which, along with other legal and financial obstacles, exacerbate the problems faced by organizations operating in Kazakhstan.

Nature of activity

Loan Agreement No. 3416-KAZ (hereinafter the "Agreement") between the Government of the Republic of Kazakhstan (hereinafter, the "Government") and the Asian Development Bank (hereinafter "ADB") was signed on December 7, 2016 and ratified on June 13, 2017 (the start date of the Project). Under the Agreement, ADB provides a loan in the amount of 240,300,000 US dollars (hereinafter referred to as the "Loan") for the implementation of the Project "Project for the reconstruction of the "Aktobe-Makat" highway connecting the CAREC Corridors 1 and 6" (hereinafter the "Project"), and is subject to repayment by the Government, after the grace period expires, from May 15, 2022 to November 15, 2039.

In accordance with the approved budget for 2018, the revenues and expenditures of funds under the Project from the proceeds of the ADB loan and from the co-financing of the external loan by the Government were planned in the amount of 35,907,294 US dollars and 3,743,232 US dollars respectively. Planned budget sums are taken at a conditional rate set by the Government of the Republic of Kazakhstan.

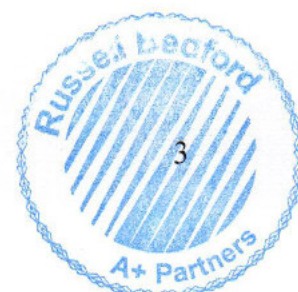
The objectives of the Project are to improve the operational performance of the republican road network, increase the transit potential and improve the socio-economic development of the Western region.

The Project is implemented by the Committee for Roads of the Ministry of Industry and Infrastructure Development of the Republic of Kazakhstan, which acts as the Implementing Agency on the part of the Government of the Republic of Kazakhstan.

The Project consists of the following parts:

- a. reconstruction of the road section with a length of about 299 kilometers (156 km - 500 km) of a two-lane road between the settlements of Aktobe and Makat, including the provision of road maintenance equipment and the provision of road safety measures;
- b. project management, construction supervision and transport system improvement services.

Implementation of the Project is expected to be completed on December 31, 2021. The end date of the loan withdrawal period is December 31, 2021, or another date that may be periodically agreed between the Government and ADB.



Project for the reconstruction of the "Aktobe-Makat" highway connecting the CAREC Corridors 1 and 6, funded under agreement No. 3416-KAZ, concluded between Government of Republic of Kazakhstan and Asian Development Bank

NOTES TO THE FINANCIAL STATEMENTS
for the year ended December 31, 2018

2. BASIC PRINCIPLES OF PREPARING FINANCIAL STATEMENTS

These financial statements were prepared in accordance with the International Public Sector Accounting Standards (IPSAS) "Financial Reporting on the Cash Accounting Method", published by the International Federation of Accountants, and in accordance with the requirements of the Asian Development Bank.

3. KEY ACCOUNTING POLICIES

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

Cash accounting method

Cash accounting method recognizes transactions and events only when cash is received and paid under the Project.

Presentation currency

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

The reason for using a currency other than national is the financing of the Project at the expense of ADB Loan funds provided in US dollars and these financial statements have been prepared in accordance with the requirements of Section 4.05 of Loan Agreement No. 3416-KAZ of December 7, 2016.

Foreign currency transactions

Transactions in foreign currencies are translated to the reporting currency at exchange rates of the dates of these transactions. ADB direct payments are translated into US dollars at exchange rates set by ADB at the date of these transactions. Receipts from the Government of the Republic of Kazakhstan are translated into US dollars at exchange rates set by the National Bank of the Republic of Kazakhstan at the date of these transactions. Exchange rate differences arising from the translation of transactions denominated in other currencies into US dollars are provided as a net value from changes in exchange rates.

Categories of expenditures

The agreement defines the main categories of expenses financed by the Loan, the amount of each category, as well as the share of funding for each category..

The terms of the loan agreement provide for construction work and goods (machinery and equipment), consulting services and unallocated expenses.

Funds received

Under the terms of the Agreement, the Government of the Republic of Kazakhstan is obliged to pay interest and the principal amount of the Loan. These payments are recorded in the accounts of the Government and are not reflected in these financial statements. The date of the last repayment on the Loan by the Government is November 15, 2039.

4. CASH

The Project has no special accounts.



Project for the reconstruction of the "Aktobe-Makat" highway connecting the CAREC Corridors 1 and 6, funded under agreement No. 3416-KAZ, concluded between Government of Republic of Kazakhstan and Asian Development Bank

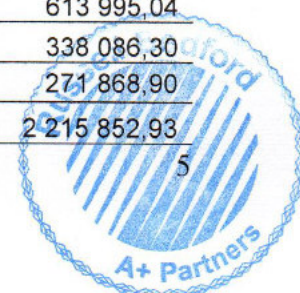
NOTES TO THE FINANCIAL STATEMENTS
for the year ended December 31, 2018

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 of the Agreement.

Direct payments to Suppliers for the ADB Project for the year ended December 31, 2018 were made according to the following applications:

Application №	Date of withdrawal of funds	Direct payments	Total
22	28.02.2018	7 096,34	7 096,34
23	25.04.2018	260 213,23	260 213,23
24	25.04.2018	87 762,94	87 762,94
25	26.04.2018	78 834,25	78 834,25
28	18.05.2018	184 986,00	184 986,00
27	18.05.2018	143 766,25	143 766,25
26	22.05.2018	1 456 921,58	1 456 921,58
29	29.05.2018	437 890,67	437 890,67
30	22.06.2018	757 992,53	757 992,53
35	27.06.2018	297 304,29	297 304,29
33	28.06.2018	556 270,15	556 270,15
34	29.06.2018	166 568,48	166 568,48
32	29.06.2018	141 436,56	141 436,56
31	29.06.2018	474 722,51	474 722,51
36	24.07.2018	72 255,07	72 255,07
40	25.07.2018	626 684,60	626 684,60
42	27.07.2018	2 150 000,00	2 150 000,00
43	27.07.2018	2 150 000,00	2 150 000,00
37	27.07.2018	373 070,53	373 070,53
41	27.07.2018	190 442,52	190 442,52
38	27.07.2018	600 667,50	600 667,50
39	27.07.2018	184 218,96	184 218,96
44	13.08.2018	116 680,45	116 680,45
46	23.08.2018	244 958,23	244 958,23
45	23.08.2018	780 782,19	780 782,19
50	23.08.2018	558 034,27	558 034,27
47	23.08.2018	792 255,47	792 255,47
48	23.08.2018	248 557,79	248 557,79
49	23.08.2018	601 029,05	601 029,05
57	18.09.2018	1 037 995,84	1 037 995,84
59	18.09.2018	834 694,54	834 694,54
51	18.09.2018	535 923,52	535 923,52
56	18.09.2018	613 995,04	613 995,04
58	19.09.2018	338 086,30	338 086,30
60	19.09.2018	271 868,90	271 868,90
54	27.09.2018	2 215 852,93	2 215 852,93



Project for the reconstruction of the "Aktobe-Makat" highway connecting the CAREC Corridors 1 and 6, funded under agreement No. 3416-KAZ, concluded between Government of Republic of Kazakhstan and Asian Development Bank

NOTES TO THE FINANCIAL STATEMENTS
for the year ended December 31, 2018

Application number	Date of withdrawal of funds	Direct payments	Total
55	26.09.2018	578 299,18	578 299,18
52	27.09.2018	2 119 508,99	2 119 508,99
53	26.09.2018	555 286,08	555 286,08
61	18.10.2018	97 996,00	97 996,00
65	22.10.2018	784 697,43	784 697,43
67	23.10.2018	770 930,55	770 930,55
66	23.10.2018	247 051,25	247 051,25
68	24.10.2018	47 705,33	47 705,33
64	25.10.2018	147 260,97	147 260,97
62	25.10.2018	2 115 249,29	2 115 249,29
63	26.10.2018	667 404,62	667 404,62
70	14.11.2018	170 093,84	170 093,84
69	15.11.2018	1 216 019,29	1 216 019,29
73	21.11.2018	1 464 713,25	1 464 713,25
74	21.11.2018	462 077,19	462 077,19
71	21.11.2018	856 270,55	856 270,55
72	21.11.2018	270 130,07	270 130,07
75	21.11.2018	854 346,16	854 346,16
76	23.11.2018	94 226,37	94 226,37
77	23.11.2018	89 516,34	89 516,34
78	07.12.2018	57 839,87	57 839,87
79	07.12.2018	583 094,77	583 094,77
80	10.12.2018	184 533,59	184 533,59
82	11.12.2018	66 949,29	66 949,29
81	12.12.2018	638 894,80	638 894,80
83	19.12.2018	177 379,10	177 379,10
Total:			35 907 293,65

6. UNUSED PORTION OF THE LOAN

As of December 31, 2018, the unused portion of the ADB Loan amounts to **178,978,645 US dollars** (2017: 214,885,939 US dollars).

7. DATE OF ISSUE

These financial statements were approved for release by the Deputy Chairman of the Roads Committee under the Ministry of Industry and Infrastructural Development of the Republic of Kazakhstan on May 31, 2019.

