Project «Skills and Jobs Project», financed Under the Agreement No. 8490-KZ between the Government of the Republic of Kazakhstan and the International Bank of Reconstruction and Development

Financial Statement for the Year ended 31 December 2016

And Independent Auditors’ Report
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Independent audit report
Financial Statement
Statement of receipts and disbursements of fund................................. 1-2
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INDEPENDENT AUDITORS’ REPORT


Opinion

We have audited the financial statements for the Project «Skills and Jobs Project», financed under Agreement No.8490-KZ between the Government of the Republic of Kazakhstan and the International Bank of Reconstruction and Development (hereinafter, “Project”), which consist of the statement of cash receipts and disbursements for the year ended 31 December 2016, as well as a summary of significant accounting policies and other explanatory notes (hereinafter - “financial statements”).

In our opinion, the accompanying financial statements fairly present, in all material respects, the cash receipts and disbursements for the year ended 31 December 2016 and cash position as at 31 December 2016 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) and in accordance with the requirements of the International Bank of Reconstruction and Development.

Basis for Opinion

We have performed our audit in accordance with the International Standards on Auditing. Our responsibilities under those standards are described in the section Auditor’s Responsibility for the Audit of the Financial Statements herein. We are independent in relation to the Company, as required by the Code of Ethics for Professional Accountants of the International Ethics Standards Boards for Accountants (Code of IESBA) and the ethical requirements applicable to our audit of the financial statements in Kazakhstan, and we performed other ethical responsibilities of ours in compliance with those requirements and the Code of Ethics for Professional Accountants. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibility of the Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the 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 International Bank of Reconstruction and Development, 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 Company’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 Company or to cease operations, or has no realistic alternatives but to do so.
INDEPENDENT AUDITORS’ REPORT (continued)

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor’s Responsibility for the Audit of the Financial Statements

Our objective are to obtain reasonable assurance about whether the financial statements are free of material misstatement whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high degree of assurance, but is not a guarantee that an audit conducted in accordance with the 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 economic decisions of users taken on the basis of these financial statements.

As part of the audit in accordance with the International Standards on Auditing, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement in the financial statements, whether due to fraud or errors; 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 risk of material misstatement resulting from fraud is higher than the detection risk of material misstatement due to errors, since fraud can involve collusion, forgery, intentional omissions, misrepresentations of information or override of internal controls;
- Obtain understanding of the 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 Company's internal control.
- Evaluate the appropriateness of accounting policies used, and the reasonableness of accounting estimates, and appropriateness of disclosures prepared by management;
- Evaluate the overall presentation of the financial statements, its structure and content, including disclosures, we also evaluate whether the financial statements present the underlying transactions and events so as to ensure their fair presentation.

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements for the current period and, therefore, the key audit matters. We describe these matters in our auditor’s report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.
INDEPENDENT AUDITORS’ REPORT (continued)

The engagement partner on the audit, resulting in the independent auditor’s report, is
Igoshina Natalia.

LLP «BDO Kazakhstan»

State audit license for audit activities on
the territory of the republic of
Kazakhstan: №150003448 issued by the
Ministry of Finance of the Republic of
Kazakhstan on 19 of February 2015

«29» may 2017

Director T.A. Omarov

Auditor N.Igoshina

Auditor Qualification certificate number
МФ-0000040
issued by the Qualification Commission for
certification of auditors of
the Republic of Kazakhstan 08.08.2011

Republic of Kazakhstan, Almaty
Gabdullina, 6
STATEMENT OF RECEIPTS AND DISBURSEMENTS OF FUNDS

For the year ended 31 December 2016

<table>
<thead>
<tr>
<th>US dollars</th>
<th>Notes</th>
<th>IBRD loan</th>
<th>Proceeds from the Government of the RK</th>
<th>Total</th>
<th>IBRD loan</th>
<th>Proceeds from the Government of the RK</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>The cash balances as of 1st of January</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Receipts</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash receipts to special account</td>
<td></td>
<td>238,200</td>
<td></td>
<td>238,200</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Direct payments</td>
<td></td>
<td>-</td>
<td>82,808</td>
<td>82,808</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Returning from special account</td>
<td></td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total receipts under the project</strong></td>
<td><strong>5</strong></td>
<td><strong>238,200</strong></td>
<td><strong>82,808</strong></td>
<td><strong>321,008</strong></td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

Expenses

Part 1: Building the Foundation of a National Qualifications System
 Consulting services | | - | - | - | - | - | - |
 Consultants' services | | - | - | - | - | - | - |

Part 2: Enhancing Skills for Improved Employment Outcomes and Productivity
 Goods | | - | - | - | - | - | - |
 Consulting services | | - | - | - | - | - | - |
 Consultants' services | | - | - | - | - | - | - |
 Trainings | | - | - | - | - | - | - |

Part 3: Project Management and Monitoring and Evaluation
 Goods | | 25,572 | 9,479 | 35,051 | - | - | - |
 Consulting services | | - | - | - | - | - | - |
 Consultants' services | | 155,471 | 53,845 | 209,316 | - | - | - |

Notes on pages from 3 to 7 form an integral part of the financial statements.
## STATEMENT OF RECEIPTS AND DISBURSMENTS OF FUNDS (continued)

For the year ended 31 December 2016

<table>
<thead>
<tr>
<th>US dollars</th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>IBRD loan</td>
<td>Proceeds from the Government of the RK</td>
</tr>
<tr>
<td>Trainings</td>
<td>20,365</td>
<td>7,522</td>
</tr>
<tr>
<td>Operational expenses</td>
<td>30,301</td>
<td>11,962</td>
</tr>
<tr>
<td>Total Project expenses</td>
<td>231,709</td>
<td>82,808</td>
</tr>
<tr>
<td>Other expenses/ (Income)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Commission withheld at replenishment of special account</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Net expenses from change in foreign exchange rates</td>
<td>9</td>
<td>-</td>
</tr>
<tr>
<td>Total other expenses</td>
<td>9</td>
<td>-</td>
</tr>
<tr>
<td>Total Expenses Under the Project</td>
<td>231,718</td>
<td>82,808</td>
</tr>
</tbody>
</table>

Balance as of 31 of December

4 | 6,482 | - | 6,482

Sign on Behalf of the Management of the Project

Nurymbetov B.B.
Vice Minister of Labor and Social Protection of Population of the Republic of Kazakhstan

Tleuov N.O.
Director of the Department of Labor and Social Partnership of the Ministry of Labor and Social Protection of Population of the Republic of Kazakhstan

Sarkeyev B.K.
Director of the Department of Employment and Labor Market Development of the Ministry of Labor and Social Protection of Population of the Republic of Kazakhstan

Notes on pages from 3 to 7 form an integral part of the financial statements.
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2016

1. GENERAL PROVISIONS

Kazakhstan business environment

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 a developing market economy. The legal system, tax system and legislative base continue to develop 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.

Nature of operations

Loan agreement No. 8490-KZ (the “Agreement”) between the Government of the Republic of Kazakhstan (“the Government”) and International Bank of Reconstruction and Development (“IBRD”) was signed on 20 July 2015 and ratified on 05 February 2016 (“Project inception date”). In accordance with the Agreement, IBRD provides a loan in the amount of USD 100,000,000 (hereinafter, “the Loan”) for the purpose of the realization of Skills and Jobs Project (hereinafter, “Project”). The government will repay the principal amount and the percentage of the total loan amount once every six months with contributions that are payable on March 15 and September 15 each year starting September 15, 2020. The closing date for funding is June 30, 2020.

In accordance with the approved budget for 2016, the revenues and expenditures of the Project funds from the proceeds of the IBRD loan and from the co-financing of the external loan by the Government were planned in the amount of 1,130,769 US dollars and 114,611 US dollars, respectively.

The objectives of the Project are to improve employment outcomes and skills of target beneficiaries and to improve the relevance of technical and vocational education and training and higher education programs.

The Project comprises the following components:

Part 1: Building the Foundation of a National Qualifications System

Enhance the institutional capacity of the Borrower for improving the relevance of technical and vocational education and training, higher education, and in-service training, through:

(a) Enhancement of occupational standards, including improvement of approval and updating processes thereof;
(b) Educational and training standards and curricula for technical and vocational education and training and higher education: and
(c) Development of a roadmap for establishing an independent qualifications assessment and award system through the provision of technical assistance for piloting sector-specific skills testing and professional certification centers.

Part 2: Enhancing Skills for Improved Employment Outcomes and Productivity

Provide relevant workforce training to unemployed persons, unproductively self-employed persons, and employed persons in need of training, all identified and selected in accordance with the criteria set forth in the Project Operational Manual (hereinafter, POM), through:

(a) Improvement of public employment services for unemployed and unproductively self-employed people, through:
Project «Skills and Jobs Project», financed under Agreement No.8490-KZ between the government of the Republic of Kazakhstan and the International Bank of Reconstruction and Development

NOTES TO THE FINANCIAL STATEMENTS (continued)

(i) the design and implementation of an action plan to improve and expand public employment services through the Employment Centers or Employment Units, based on an assessment of current capacity carried out in accordance with the POM: and

(ii) the improvement of the capacity of the Employment Centers and Employment Units to provide better advice to users through: (A) the introduction of a profiling tool; (B) the strengthening of the existing labor market information system of the Borrower to enhance the information available to staff of the Employment Centers and Employment Units; and (C) training of staff to adopt a more proactive approach to public employment service provision.

(b) Improvement of the relevance of workforce training, through:

(i) the review of the regulatory framework concerning provision of workforce training provision;

(ii) the development of an inventory of workforce training providers;

(iii) the assessment of the relevance of workforce training and, on the basis of such assessment, development of a list of pre-qualified workforce training providers eligible to provide Training under Part 2(c) below; and

(iv) the provision of the necessary support to selected workforce training providers to improve the relevance of training delivery, including Training under Part 2(c) below.

(c) Establishment and implementation of a skills enhancement-training program, consisting of the provision of Training for: (i) unemployed and unproductively self-employed persons; and (ii) currently employed in need of training, all pursuant to criteria set forth in the POM.

Part 3: Project Management and Monitoring and Evaluation

a) Support Project management, monitoring and evaluation activities and financing of Operating Costs.

b) Development and implementation of a Project information and communication campaign, a feedback and resolution mechanism, and awards of excellence program, all pursuant to criteria set forth in the POM.

2. BASIS OF PREPARATION

These financial statements have been prepared 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), and in accordance with requirements of the International Bank of Reconstruction and Development.

The approved Project budget broken down by categories of expenses under the loan agreement does not represent public information and accordingly comparison of the budget with the 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 method of accounting

Cash method of accounting recognizes transactions and events when cash under the Project is received or paid.
NOTES TO THE FINANCIAL STATEMENTS (continued)

Presentation currency of the financial statements

These financial statements are presented in US dollars (hereinafter, the “US dollars”).

Foreign currency transactions

Disbursements from a specially designated account are translated into the reporting currency at exchange rates established by the National bank of RK as at the date of reconversion. Direct payments from IBRD are translated into USD at the rate of exchange established by the National bank of RK at the date of payments. The co-financing resources of the Government of the Republic of Kazakhstan are translated into US dollars at the exchange rates set by the National Bank of the Republic of Kazakhstan as of the date of the conversion. 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 expenses

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 are the following categories of expenses:

- Goods;
- Consulting services;
- Individual consultants;
- Operating expenses and Training under the project.

Cash receipt

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 March 2034 is the date of the last payment of the Government under the Loan.

Allocation of expenses

The distribution of expenses by components in the report on receipt and expenditure of funds is made on the basis of a comparison of the description of work in the Agreement and the description of work in the primary documents.

4. CASH

To conduct operations on Loan No. 8490-KZ, special accounts have been opened in the Department of the Treasury, Astana, for making cash payments to suppliers:

- NəKZ 10125USD1002300142 US dollars;
  (01.6201.000000000.208490.001.2390001.2)
- NəKZ450702012390001002 KZT.

The cash balances as at 31 December and the special account transactions for the year ended 31 December 2016 are as follows:

<table>
<thead>
<tr>
<th>US dollars</th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance at 31 December</td>
<td>6,482</td>
<td>-</td>
</tr>
<tr>
<td>Including balances denominated in:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>US dollars</td>
<td>5,284</td>
<td>-</td>
</tr>
<tr>
<td>Tenge</td>
<td>1,198</td>
<td>-</td>
</tr>
</tbody>
</table>
Project «Skills and Jobs Project», financed under Agreement No.8490-KZ between the government of the Republic of Kazakhstan and the International Bank of Reconstruction and Development

NOTES TO THE FINANCIAL STATEMENTS (continued)

5. DIRECT PAYMENTS AND REPLENISHMENT OF ACCOUNT

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

Direct payments for Suppliers and cash replenishment of Project for the year ended 31 December 2016, were made according to the following withdrawal applications:

<table>
<thead>
<tr>
<th>No. of withdrawal application</th>
<th>Date of withdrawal</th>
<th>Direct Payments</th>
<th>Replenishment of account</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>19.08.2016</td>
<td>-</td>
<td>170,000</td>
<td>170,000</td>
</tr>
<tr>
<td>2</td>
<td>22.12.2016</td>
<td>-</td>
<td>68,200</td>
<td>68,200</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>-</td>
<td>238,200</td>
<td>238,200</td>
</tr>
</tbody>
</table>

6. UNUSED PORTION OF LOAN

As at 31 December 2016 the unused portion of loan from IBRD amounts to USD 99,761,800 (2015: none).

7. PROJECT RECEIPTS AND EXPENSES FOR CUMULATIVE TOTALS

Statement of cash distribution of Project receipts and expenses for cumulative totals are as follows:

<table>
<thead>
<tr>
<th>US Dollars</th>
<th>Cumulative from the inception date of the project through 31 December 2015</th>
<th>Cumulative disbursements from the inception date of the project through 31 December 2016</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>IBRD loan</td>
<td>Proceeds from the Government of the RK</td>
</tr>
<tr>
<td>RECEPTS</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Replenishment to special account</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Direct payments</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Returning from special account</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Total receipts under the project</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>EXPENSES</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Part 1: Building the Foundation of a National Qualifications System</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Consulting services</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Part 2: Enhancing Skills for Improved Employment Outcomes and Productivity</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Goods</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Consulting services</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Consultants' services</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Training</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>
Project «Skills and Jobs Project», financed under Agreement No.8490-KZ between the government of the Republic of Kazakhstan and the International Bank of Reconstruction and Development

NOTES TO THE FINANCIAL STATEMENTS (continued)

<table>
<thead>
<tr>
<th>US Dollars</th>
<th>Cumulative from the inception date of the project through 31 December 2015</th>
<th>Cumulative disbursements from the inception date of the project through 31 December 2016</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>IBRD loan</td>
<td>Proceeds from the Government of the RK</td>
</tr>
<tr>
<td>Part 3: Project management, monitoring and evaluation</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Goods</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Consulting services</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Consultants’ services</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Training</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Operational expenses</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Expenses under the Project</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>OTHER EXPENSES/ (INCOME)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Commission withheld at replenishment of special account</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Commission for conversion and maintenance of the special account</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Net expenses from change in foreign exchange rates</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Total other expenses</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Total Expenses Under the Project</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

8. DATE OF ISSUE
These financial statements have been approved for issue by the Vice Minister of Labor and Social Protection of the Republic of Kazakhstan and Director of the Department of Labor and Social Partnership of the Ministry of Labor and Social Protection of Population of the Republic of Kazakhstan and Director of the Department of Employment and Labor Market Development of the Ministry of Labor and Social Protection of Population of the Republic of Kazakhstan 29 May 2017.
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Almaty, A15H4E3
Kazakhstan
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Fax: +7 727 331 31 35
www.bdokz.com

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