OSHC “BARQI TOJIK”

Nurek Hydropower Rehabilitation Project, Phase I Loan No. 000018-1-TJK

Special purpose project financial statements for the year ended December 31, 2018

and independent auditors’ report
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<td>8-12</td>
</tr>
</tbody>
</table>
STATEMENT OF MANAGEMENT’S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE SPECIAL PURPOSE PROJECT FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2018

The following statement, which should be read in conjunction with the independent auditors’ responsibilities stated in the independent auditors’ report set out on pages 3-5, is made with a view to distinguish the respective responsibilities of management and those of the independent auditors in relation to the special purpose project financial statements of “Nurek Hydropower Rehabilitation Project, Phase I”, financed under Loan Agreement No. 000018-1-TJK (the “Project”).

Management is responsible for the preparation of this special purpose project financial statements, the financial position, cash proceeds and disbursements, uses of funds by project components, statement of applications for the year ended December 31, 2018 in accordance with International Public Sector Accounting Standard “Financial Reporting Under the Cash Basis of Accounting” (the “IPSAS”) issued by the International Public Accounting Standards Board of the International Federation of Accountants and the World Bank’s Financial Management Sector Board’s “Guidelines: Annual Financial Reporting and Auditing for World Bank Financed Activities” (the “WB Guidelines”).

In preparing the special purpose project financial statements, management is responsible for:

- selecting suitable accounting policies and applying them consistently;
- making judgments and estimates that are reasonable and prudent;
- stating whether IPSAS and WB Guidelines have been followed, subject to any material departures disclosed and explained in the special purpose project financial statements; and
- preparing the special purpose project financial statements on a going concern basis, unless it is inappropriate to presume that the Project will continue its activity for the foreseeable future.

Management is also responsible for:

- designing, implementing and maintaining effective and sound system of internal control and for revealing risks in system of internal control;
- maintaining proper accounting records that disclose, with reasonable accuracy at any time, the financial position of the Project, and which enable them to ensure that the special purpose project financial statements of the Project comply with IPSAS and WB Guidelines;
- compliance with laws and regulations of the Republic of Tajikistan, accounting system of the Project and the requirements of the World Bank;
- taking such steps as are reasonably available to them to safeguard the assets of the Project; and
- detecting and preventing fraud and other irregularities.

The special purpose project financial statements for the year ended December 31, 2018 were approved and authorized for issue on June 13, 2019 by the management of the Project.

On behalf of the Management:

Ismoilzoda M.  
Chairman

Dustmukhammedov A.  
Chief Accountant

Habibov U.  
Head of PIU

Safarov A.  
Financial manager of PIU

June 13, 2019
Dushanbe, Republic of Tajikistan
INDEPENDENT AUDITORS’ REPORT

To the Management of the Project “Nurek Hydropower Rehabilitation Project, Phase I”:

Report on the special purpose project financial statements

Opinion

[1] We have audited the accompanying special purpose project financial statements of “Nurek Hydropower Rehabilitation Project, Phase I”, financed under Financing Agreements Loan No. 000018-1-TJK (the “Project”) which comprise the statement of cash proceeds and disbursements, the statement of uses of funds by project components for the year ended December 31, 2018 and a summary of significant accounting policies and other explanatory information (the “special purpose project financial statements”).

[2] In our opinion, the accompanying special purpose project financial statements are consistent, in all material respects, cash proceeds and disbursements, and uses of funds by Project components for the year ended December 31, 2018 in accordance with International Public Sector Accounting Standard “Financial Reporting Under the Cash Basis of Accounting” (the “IPSAS”) issued by the International Public Sector Accounting Standards Board of the International Federation of Accountants, and the World Bank’s Financial Management Sector Board’s “Guidelines: Annual Financial Reporting and Auditing for World Bank Financed Activities” (the “WB Guidelines”).

Basis for opinion

[3] We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Project in accordance with the International Ethics Standards Board for Accountants’ Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in the Republic of Tajikistan, 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.

Emphasis of matter

[4] Without qualifying our opinion, we draw attention to Note 2 to the special purpose project financial statements which describe the basis of accounting. These special purpose project financial statements were prepared for complying with the appropriate World Bank Guidelines and Loan agreement requirements, and therefore are not intended to be a complete presentation of the “Nurek Hydropower Rehabilitation Project, Phase I” (the “Project”) operations.

Other matter

[5] The special purpose project financial statements are prepared to assist the Project to comply with the requirements of the World Bank. As a result the special purpose project financial statements may not be suitable for another purpose.
Responsibilities of management and those charged with governance for the special purpose project financial statements

[6] Management is responsible for the preparation of these special purpose project financial statements in accordance with International Public Sector Accounting Standard “Financial Reporting Under the Cash Basis of Accounting” (the “IPSAS”) issued by the International Public Accounting Standards Board of the International Federation of Accountants, and the World Bank’s Financial Management Sector Board’s “Guidelines: Annual Financial Reporting and Auditing for World Bank Financed Activities” (the “WB Guidelines”), and for such internal control as management determines is necessary to enable the preparation of the special purpose project financial statements that are free from material misstatement, whether due to fraud or error.

Auditor’s responsibilities for the audit of the special purpose project financial statements

[7] Our objectives are to obtain reasonable assurance about whether the special purpose project 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 ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error 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 the special purpose project 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 special purpose project financial statements, 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.

- Conclude on the appropriateness of management’s use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Project’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor’s report to the related disclosures in the special purpose project financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor’s report. However, future events or conditions may cause the Project to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the special purpose project financial statements, including the disclosures, and whether the special purpose project financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
[8] We communicate with those charged with governance 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.

[9] 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.

Moore Stephens KSC
Bucharest, Romania
June 13, 2019
STATEMENT OF CASH PROCEEDS AND DISBURSEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018
(in US Dollars)

<table>
<thead>
<tr>
<th>Notes</th>
<th>For the year ended December 31, 2018</th>
<th>Cumulative</th>
<th>For the year ended December 31, 2017</th>
<th>Cumulative</th>
</tr>
</thead>
<tbody>
<tr>
<td>Opening balance</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Funds received</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Loan No. 000018-1-TJK</td>
<td>7,847,694</td>
<td>7,847,694</td>
<td></td>
<td></td>
</tr>
<tr>
<td>OSHC &quot;Barki Tojik&quot; contribution</td>
<td>4</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Total funds received</td>
<td>7,847,694</td>
<td>7,847,694</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Project expenses</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Goods, Works, Non-Consulting Services, Consultants' Services, Training and Incremental Operating Costs</td>
<td>5</td>
<td>7,847,694</td>
<td>7,847,694</td>
<td></td>
</tr>
<tr>
<td>Total project expenses</td>
<td>7,847,694</td>
<td>7,847,694</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Closing balance</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

On behalf of the Management:

Ismoilzoda M. Chairman
Dustmukhamedov A. Chief Accountant
Habibov U. Head of PIU
Safarov A. Financial manager of PIU

June 13, 2019
Dushanbe, Republic of Tajikistan

The notes on pages 8-12 form an integral part of the special purpose project financial statements. The Independent Auditors' Report is on pages 3-5
## STATEMENT OF FUNDS BY PROJECT COMPONENTS

**FOR THE YEAR ENDED DECEMBER 31, 2018**

*(in US Dollars)*

<table>
<thead>
<tr>
<th>Part 1. Goods, Works, Non-Consulting Services, Consultants' Services, Training and Incremental Operating Costs</th>
<th>For the year ended December 31, 2018</th>
<th>Cumulative</th>
<th>For the year ended December 31, 2017</th>
<th>Cumulative</th>
</tr>
</thead>
<tbody>
<tr>
<td>7,847,694</td>
<td>7,847,694</td>
<td>-</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>Part 2. Refund of Preparation Advance</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>Part 3. Front-end fee</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>7,847,694</td>
<td>7,847,694</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

On behalf of the Management:

Ismoilzoda M.  
Chairman

Bustmuhamedov A.  
Chief Accountant

Habibov U.  
Head of PIU

Safarov A.  
Financial manager of PIU

June 13, 2019  
Dushanbe, Republic of Tajikistan

The notes on pages 8-12 form an integral part of the special purpose project financial statements. The Independent Auditors' Report is on pages 3-5
1. GENERAL INFORMATION

According to the Agreement between the Republic of Tajikistan and Asian Infrastructure Investment Bank ("Bank") dated August 1, 2017 the Bank provided Loan No. 000018-1-TJK in the amount of 60,000,000 US Dollars to the Republic of Tajikistan.

The Loan was provided for the “Nurek Hydropower Rehabilitation Project, Phase I” (the “Project”).

Project purpose

The objectives of the Project are to rehabilitate and restore the generating capacity of three power generating units of Nurek HPP, improve their efficiency, and strengthen the safety of the Nurek dam.

The Project consist of the following parts:

Part 1. Rehabilitation of three generating units and key infrastructural components of Nurek HPP
Part 2. Enhancement of dam safety

Project management

The project is implemented by the Project Implementation Unit at the ОSHC “Barqi Tojik”.

Contribution of ОSHC “Barqi Tojik” to the Projects

OSHC “Barqi Tojik” contributes to the Project by performing direct payments, as well as providing funding sources, when granted funds are not readily available, which are subsequently reimbursed.

Duration of the Project is from August 1, 2017 to December 31, 2023.

2. PRESENTATION OF THE SPECIAL PURPOSE PROJECT FINANCIAL STATEMENTS

Basis of preparation

These special purpose project financial statements have been prepared in accordance with the International Public Sector Accounting Standard (the “IPSAS”) “Financial Reporting under the Cash Basis of Accounting” issued by the Public Sector Committee of the International Federation of Accountants, and incorporate the following principal accounting policies, which have been consistently followed in all material respects and comply with the World Bank’s Financial Management Sector Board’s “Guidelines: Annual Financial Reporting and Auditing for World Bank Financed Activities” (the “WB Guidelines”).

Under the cash basis system income (or expenditure) is recognized when cash is received (or paid) irrespective of when goods or services are received.

The Project’s approved budget disclosed by categories of expenses is not publicly available and as such comparison of budget and actual amounts is not presented.
These special purpose project financial statements consist of:

- Statement of cash proceeds and disbursements;
- Statement of uses of funds by project components;
- Notes to the special purpose project financial statements, including short description of main
  statements of accounting policy and other descriptive notes.

The reporting currency of these special purpose project financial statements is US Dollars (the “USD”).

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Cash basis of accounting

Special purpose project financial statements are prepared on a cash basis of accounting. The cash basis of accounting recognizes transactions and events only when cash (including cash equivalents) is received or paid by the entity. Special purpose project financial statements prepared under the cash basis provide readers with information about the sources of cash raised during the period, the purposes for which cash was used and the cash balances at the reporting date. The measurement focus in the special purpose project financial statements is balances of cash and changes therein.

Foreign currency

Operations in foreign currency initially are counted in functional currency by the official currency exchange rate settled by the National Bank of Tajikistan (the “NBT”) on a date of operation.

All payments made in local currency are translated into USD at the official exchange rate defined by National Bank of Tajikistan, at the date of transaction.

Monetary assets and liabilities expressed in foreign currency are converted to functional currency at official exchange rate on a date settled by the NBT.

All foreign exchange differences resulted from maturity or recounting are included in statement of cash proceeds and disbursements.

Non-monetary items are valued according to their historic cost in foreign currency, which are recalculated on rates of the initial operation date.

Cash and cash equivalents

Cash and cash equivalents include cash on hand and due from banks, which can be converted to the corresponding amount of cash in the short term.

Taxes

In accordance with the subsidiary agreement between Ministry of Finance of the Republic of Tajikistan and OSHC “Barqi Tojik”, which is conducted for the Advance, the Project is exempted from value added tax and social tax payments. Calculation and payment of personal income tax and pension fund contributions from income of local staff and consultants is made in accordance with the requirements and rates of the Tax Code of the Republic of Tajikistan.

Project expenses

The expenses are recorded in the period when they were actually paid.

Sources of funds

The funds were provided by the World Bank to the Project through direct payment to the end supplier
of goods and/or services, reimbursement of expenses and contribution of OSHC “Barqi Tojik”.

4. FUNDS RECEIVED

The funds received were presented by the following reimbursement methods:

<table>
<thead>
<tr>
<th>Financing method / sources of financing</th>
<th>For the year ended December 31, 2018</th>
<th>Cumulative</th>
<th>For the year ended December 31, 2017</th>
<th>Cumulative</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loan No. 000018-1-TJK</td>
<td>7,847,694</td>
<td>7,847,694</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Direct payment</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Reimbursement</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>7,847,694</td>
<td>7,847,694</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>OSHC &quot;Barqi Tojik&quot; contribution</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Incurred expenses</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Reimbursed to OSHC &quot;Barqi Tojik&quot;</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>7,847,694</td>
<td>7,847,694</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

5. PROJECT EXPENDITURES

Project expenditures by components are presented in the statement of funds by project components. Project expenditures on major categories are presented in the statement of cash proceeds and disbursements. Breakdown of project expenses by nature is presented as follows:

<table>
<thead>
<tr>
<th>Goods</th>
<th>For the year ended December 31, 2018</th>
<th>Cumulative</th>
<th>For the year ended December 31, 2017</th>
<th>Cumulative</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>7,847,694</td>
<td>7,847,694</td>
<td>-</td>
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<tr>
<td></td>
<td>7,847,694</td>
<td>7,847,694</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

6. FINANCIAL POSITION

Financial position as at December 31, 2018, and 2017 comprise of:

<table>
<thead>
<tr>
<th>December 31, 2018</th>
<th>December 31, 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>ASSETS AND EXPENDITURES</td>
<td>7,847,694</td>
</tr>
<tr>
<td>TOTAL ASSETS AND EXPENDITURES</td>
<td>7,847,694</td>
</tr>
</tbody>
</table>
FINANCING

Loan received 7,847,694
OSHC "Barki Tojik" contribution -

TOTAL FINANCING 7,847,694

7. WITHDRAWAL APPLICATIONS

Withdrawal applications for the year ended December 31, 2018 comprise:

<table>
<thead>
<tr>
<th>Sources of financing</th>
<th>Application</th>
<th>Date</th>
<th>Direct payment</th>
<th>Reimbursement</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loan No. 000018-1-TJK</td>
<td>I</td>
<td>August 25, 2018</td>
<td>7,847,694</td>
<td>-</td>
<td>7,847,694</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>7,847,694</td>
<td>-</td>
<td>7,847,694</td>
</tr>
<tr>
<td>OSHC &quot;Barki Tojik&quot; contribution</td>
<td></td>
<td></td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>7,847,694</td>
<td>-</td>
<td>7,847,694</td>
</tr>
</tbody>
</table>

8. UNDRAWN FUNDS

For the year ended December 31, 2018 undrawn funds are presented as follows:

<table>
<thead>
<tr>
<th>Loan No. 000018-1-TJK</th>
<th>Approved Loan amount</th>
<th>60,000,000</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Disbursed during the period from May 2, 2017 to December 31, 2018</td>
<td>7,847,694</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Undrawn amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>52,152,306</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Loan No. 000018-1-TJK</th>
<th>Loan received as at January 1, 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Disbursed in 2018</td>
</tr>
<tr>
<td></td>
<td>7,847,694</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Loan received as at December 31, 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>7,847,694</td>
</tr>
</tbody>
</table>

9. COMMITMENTS

In the normal course of activities, the Project concludes agreements with suppliers of goods and services in accordance with the established budget and procurement plan. As of December 31, 2018, there were no contractual obligations.

10. LEGAL CASES

There were no any legal claims related to the Project.
11. EVENTS AFTER THE REPORTING DATE

As at the date of issue of the special purpose project financial statements no other significant events or transactions happened, which should be disclosed in the special purpose project financial statements, except for the events or transactions described above.