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«SOUTH KARAKALPAKSTAN WATER RESOURCES MANAGEMENT IMPROVEMENT» PROJECT
IDA CREDIT No.5490-UZ/IBRD LOAN No.8389-UZ

INDEPENDENT AUDITOR'S REPORT AND SPECIAL FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER, 2017

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INDEPENDENT AUDITOR'S REPORT

To the Management of the Centre for the Implementation of Investment Projects in Agriculture and Water Resources Sector under the Ministry of Agriculture and Water Resources of the Republic of Uzbekistan, «South Karakalpakstan Water Resources Management Improvement» Project

Opinion

We have audited the special financial statements (hereinafter the financial statements) of the «South Karakalpakstan Water Resources Management Improvement» Project (hereinafter referred to as the Project), financed from the funds of the International Development Association loan No. 5490-UZ (hereinafter referred to as the Association,), and Loan No. 8389-UZ of the International Bank for Reconstruction Development (hereinafter referred to as IBRD), according to the financing agreement from October 29, 2014 (hereinafter referred to as the Financing Agreement) for the period from 1 January, 2017 to 31 December, 2017. The financial statements include: the Summary of Sources and Uses of Funds with Indication of the World Bank and Counterpart Funds, Statement of Expenditure by Project Component, the Statement of Expenditure Withdrawal Schedule from the Credit Account with the Use of Expendables, Summary sheet on the credits and reimbursed funds of the expense sheet procedure, Report on Direct Payments Schedule on IDA Credit, Special Purpose Balance Sheet, Reports on Special Accounts and Notes to the special financial statements, including a summary of basic principles of accounting policy.

The financial statements were prepared by the management of the Project Implementation Unit of the Centre for Implementation of Investment Projects (formerly PIU, hereinafter referred to as the Centre) on a cash basis, in accordance with the International Public Sector Accounting Standards (hereinafter referred to as IPSAS) issued by the International Accounting Standards Board in the public sector of the International Federation of Accountants.

In our opinion, the attached special financial statements reflect fairly in all material respects the sources and use of the "South Karakalpakstan Water Resources Management Improvement" Project funds as at and for the year ended 31 December 2017, in accordance with the terms of the Financing Agreement and IPSAS.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISA). Our responsibilities in accordance with these standards are described further in the section "Auditor's responsibility for the audit of financial statements" of our opinion. We are independent of the Project in accordance with the ethical requirements applicable to our audit of financial statements in the Republic of Uzbekistan, and we have fulfilled other ethical duties in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter – Basis of accounting

The implemented Project with the participation of IDA and IBRD envisages the contribution of the Republic of Uzbekistan, which according to the Decree of the President of the Republic of Uzbekistan of 24 March, 2015 No. PD-2324 "On measures to implement the "South Karakalpakstan Water Resources Management Improvement" project should amount to 161.82 million US dollars: including US $ 45.9 million in the form of funds to finance the construction of the Buston Canal, US $ 50.05 million in the form of tax exemptions and other mandatory payments, 26.59 in the form of amount in order to finance the work on the overhaul of the Yanbash Canal and measures for the safety of the Tuyamuyun Dam, as well as 39.28 million US dollars in form of financial costs during the investment period. This report does not include the Government Contribution of the Republic of Uzbekistan.

Responsibility of Management and Those Charged with Governance, Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with IPSAS: "Financial statements on the cash basis of accounting" and for the internal control system that management considers necessary for the preparation of 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 with the project, disclosing, where applicable, issues related to current activities and the use of the basis for accounting, unless management intends to complete or terminate the project or not a realistic alternative for this.

The persons responsible for the management are responsible for overseeing the preparation of the financial statements of the Project.

Auditor's Responsibility for the Audit of Financial Statements

Our objective is to obtain reasonable assurance that the financial statements are free from material misstatement, whether due to fraud or error, and in the issuance of an audit opinion that contains our opinion. Reasonable confidence is a high degree of certainty, but it is not a guarantee that an audit conducted in accordance with International Standards on Auditing always reveals significant distortions if they exist. Distortions can be the result of unfair acts or mistakes and are considered significant if one can reasonably assume that individually or collectively they can affect the economic decisions of users made on the basis of these financial statements.

As part of the audit conducted in accordance with ISA, 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 error; 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 a material misstatement as a result of unfair acts is higher than the risk of not detecting a significant distortion as a result of an error, since unfair acts may include collusion, fraud, intentional omission, misrepresentation or circumvention of the internal control system;
- get an understanding of internal control related to the audit, to develop audit procedures that are appropriate in the circumstances, but not to express an opinion and evaluate the effectiveness of the company's internal control;
- assess the appropriateness of the accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- make a conclusion about the legitimacy of management's use of the assumption of business continuity, and on the basis of the obtained audit evidence - the conclusion whether there is a significant uncertainty in connection with events or conditions that may raise significant doubts in the ability of the Company to

continue its business continuously. If we conclude that there is significant uncertainty, we must draw attention to our disclosure in the financial statements, or, if such disclosure is inappropriate, modify our opinion. Our conclusions are based on the audit evidence received before the date of our audit report. However, future events or conditions may lead to the Company losing the ability to continue its business continuously;

- assess the full presentation, structure and content of the financial statements, including information, and whether the financial statements present a fair understanding of the underlying transactions and events;
- obtain sufficient appropriate audit evidence relating to the financial information of the organization or activities within the Company in order to express an opinion on the financial statements. We are responsible for the management, control and conduct of the Company's audit. We remain fully responsible for our audit opinion..

We maintain contact with those charged for corporate governance, including, among other things, information on the planned scope and timing of the audit, as well as significant comments on the audit results, including significant deficiencies in the internal control system that we identify in the course of the audit.

Partner: Sh.N. Nosirov

Auditor: N.N. Yulchiev

29 June, 2018
Tashkent, Uzbekistan

SUMMARY OF SOURCES AND USES OF FUNDS SHOWING THE WORLD BANK AND COUNTERPART FUNDS SEPARATELY

For the period from 01 January 2017 to 31 December 2017

(in US dollars)

	Actual	
	Year to Date	Cumulative to Date
Sources of funds		
IBRD funds	-	45 725
DS-A	-	-
Direct payments	-	45 725
IDA funds	3 534 964	16 698 820
DS-A	3 000 123	11 356 400
Direct payments	534 841	5 342 420
Government Funds	-	-
Bid. documents receipts	2 174	27 189
Pension Funds	775	1 326
Other	-	
Total	**3 537 913**	**16 773 060**
Works, Goods, Consulting services, Non-consulting services, Training		
SubComp 1.1.1:Improving section of the Right Bank Canal & Pakhta-Arna, Construction the Bustan Canal	2 451 395	2 451 395
SubComp 1.1.2: Rehabilitation existing canals	-	-
SubComp 1.1.3: Technical assistance for designing and supervision	72 281	815 996
SubComp 1.2.1: SCADA implementation - Bustan	-	-
SubComp 1.2.2: SCADA implementation - Ellikkala	-	-
SubComp 1.3.1: ESAMP	-	-
SubComp 1.3.3: Land leveling and deep ripping	-	-
SubComp 1.3.4: Study of Tuyamuyun Dam & Dismantling of pumping station	-	-
SubComp 2.1: Strengthening capacities of local water resource management institutions	-	113 460
SubComp 2.2: Crop Intensification and Diversification	-	-
SubComp 2.3: Cotton Harvest Mechanization	1 162 300	9 651 191
SubComp 2.4: Communication, Outreach Campaigns and Gender	-	-
SubComp 3.1.2: Office Equipment for PIU	15 259	82 732
SubComp 3.1.3: Training for PIU staff	1 086	1 086
SubComp 3.1.4: Office refurbishment	1 191	62 529
SubComp 3.2: Preparation of a feasibility study for follow-up investment activities	-	-
SubComp 3.3: Monitoring & Evaluation	122 395	133 918
SubComp 3.4: Audit	9 315	9 315
SubComp 3.5: Development of operating rules for the Tuyamuyun dam	-	-
SubComp 3.6: Developing a strategy for agriculture diversification	-	-
SubComp 3.7: Developing a certifying of cotton	-	-
Total	**3 835 222**	**13 321 622**

SUMMARY OF SOURCES AND USES OF FUNDS SHOWING THE WORLD BANK AND COUNTERPART FUNDS SEPARATELY

For the period from 01 January 2017 to 31 December 2017 (Continued)

(in US dollars)

	Actual	
	Year to Date	Cumulative to Date
Cash compensation RPF & RAP		
SubComp 1.3.2: RFP & RAP and Compensation	-	-
Total	**-**	**-**
Incremental Operating costs PIU		
SubComp 3.1.1: Incremental Operating Costs of PIU	237 769	515 307
Total	**237 769**	**515 307**
Front end Fee IBRD		
Front end Fee IBRD	-	45 725
Total	**-**	**45 725**
Tender documentation		
Tender documentation	1 563	11 549
Total	**1 563**	**11 549**
Penion fund		
Pension fund	759	1 309
Total	**759**	**1 309**
Other	6 349	6 349
Total project expenditure	**4 081 662**	**13 901 861**
Excess of Receipts over Payments	**(543 749)**	**2 871 198**
Opening balance		
IBRD funds	-	-
IDA funds	3 396 117	-
Government funds	16 912	-
Total	**3 413 029**	**-**
Net Available Cash	**2 869 280**	**2 871 198**
Closing Cash Balance		
IBRD funds	-	-
IDA funds	2 858 055	2 858 055
Government funds	11 686	11 686
Total	**2 869 741**	**2 869 741**
Exchange rate difference	461	1 457

Signed for and on behalf of Management on June 29, 2018.

Project manager

K. Matyakubov

Deputy chief accountant

I. Zubareva

STATEMENT OF EXPENDITURE DETAIL ON PROJECT COMPONENTS

For the period from 01 January 2017 to 31 December 2017

(in US dollars)

Project Components and Activities	Actual		Budgeted		Variances	
	2017	Cumulative to Date	2017	Cumulative to Date	2017	Cumulative to Date
Component 1: Modernization of irrigation network						
SubComp 1.1.1:Improving section of the Right Bank Canal & Pakhta-Art, Construction of Bustan Canal	2 451 395	2 451 395	2 896 000	11 408 198	444 605	8 956 803
SubComp 1.1.2: Rehabilitating existing canals	-	-	-	-	-	-
SubComp 1.1.3: Technical Assistance for desgining and supervision	72 281	815 996	450 000	1 193 715	377 719	377 719
SubComp 1.2.1: SCADA Implementation - Bustan	-	-	-	-	-	-
SubComp 1.2.2: SCADA Implementation - Ellikkala	-	-	-	-	-	-
SubComp 1.3.1: ESAMP	-	-	-	-	-	-
SubComp 1.3.2: RFP & RAP and Compensation	-	-	-	-	-	-
SubComp 1.3.3: Land leveling and deep ripping	-	-	-	-	-	-
SubComp 1.3.4: Study of Tuyamuyun Dam & Dismantling of pumping station	-	-	-	-	-	-
Total	***2 523 676***	***3 267 391***	***3 346 000***	***12 601 913***	***822 324***	***9 334 522***
Component 2: Modernization of agriculture						
SubComp 2.1: Strengthening capacities of local water resource manageme	-	113 460	-	116 900	-	3 440
SubComp 2.2: Crop Intensification and Diversification	-	-	-	-	-	-
SubComp 2.3: Cotton Harvest Mechanization	1 162 300	9 651 191	158 000	10 839 310	(1 004 300)	1 188 119
SubComp 2.4: Communication, Outreach Campaigns and Gender	-	-	-	-	-	-
Total	***1 162 300***	***9 764 651***	***158 000***	***10 956 210***	***(1 004 300)***	***1 191 559***

STATEMENT OF EXPENDITURE DETAIL ON PROJECT COMPONENTS (Continued)

For the period from 01 January 2017 to 31 December 2017

(in US dollars)

Project Components and Activities	Actual		Budgeted		Variances	
	2017	Cumulative to Date	2017	Cumulative to Date	2017	Cumulative to Date
Component 3: Project Management, Monitoring and Evaluation						
SubComp 3.1.1: Incremental Operating Costs of PIU	237 769	515 307	206 025	712 146	(31 744)	196 838
SubComp 3.1.2: Office Equipment for PIU	15 259	82 732	10 000	204 020	(5 259)	121 288
SubComp 3.1.3: Training of PIU staff	1 086	1 086	-	-	(1 086)	(1 086)
SubComp 3.1.4: Office refurbishment	1 191	62 529	-	70 000	(1 191)	7 471
SubComp 3.2: Preparation of feasibility study for followup investment activities	-	-	-	-	-	-
SubComp 3.3: Monitoring & Evaluation	122 395	133 918	137 000	167 000	14 605	33 082
SubComp 3.4: Audit	9 315	9 315	30 000	30 000	20 685	20 685
SubComp 3.5: Development of operating rules for the Tuyamuyun Dam	-	-	-	-	-	-
SubComp 3.6: Developing a strategy for agricultural diversification	-	-	-	-	-	-
SubComp 3.7: Developing a certifying of cotton	-	-	-	-	-	-
Total	***387 015***	***804 887***	***383 025***	***1 183 166***	***(3 990)***	***378 278***
Front end Fee						
Front end Fee	-	45 725	-	45 725	-	-
Total	***-***	***45 725***	***-***	***45 725***	***-***	***-***
Total project expenditure	**4 072 991**	**13 882 654**	**3 887 025**	**24 787 014**	**(185 966)**	**10 904 359**

Signed for and on behalf of Management on June 29, 2018

Project manager

K. Matyakubov _____

Deputy chief accountant

I. Zubareva _____

SOE WITHDRAWAL SCHEDULE - IDA CREDIT ACCOUNT

For the period from 01 January 2017 to 31 December 2017

(in US dollars)

Withdrawal application №	Disbursement Category				Recovered	Total Amount for Reimbursement	Designated account replanishment amount
	Works, Goods, Consulting services, Non-consulting services, Training	Cash compensation RPF & RAP	Incremental Operating costs PIU	Unallocated funds			
6*							438 493
7	1 587 129		80 219			1 667 348	1 667 348
8	792 113		102 169			894 282	894 282
13*	921 139		55 381			976 520	
Total	**3 300 381**	**-**	**237 769**	**-**	**-**	**3 538 150**	**3 000 123**

Note:
* Application No. 6 as of 01 January, 2017 was reflected in the 2016 expenditure category, but was credited in 2017.
*Application No. 13 was prepared on the basis of the Withdrawal Statement and the use of expenditure statements for the period from October 2017 to January 2018 in the amount of US $ 1 005 082,52. This report includes only the amount of expenditures for the period from October to December 2017. The application was paid in 2018.

Signed for and on behalf of Management on June 29, 2018.

Project manager

K. Matyakubov

Deputy chief accountant

I. Zubareva

RECONCILIATION STATEMENT FOR REPLENISHED AND RECOVERED SOE DISBURSMENTS – IDA CREDIT

For the period from 01 January 2017 to 31 December 2017

(in US dollars)

Total SOE Expendiures	**3 538 150**
SOE (Appl # 13)is being reiewed by the bank as of December 31, 2017	(976 520)
Total	**2 561 630**
Recovered	3 000 123
Credited from deposit	(438 493)
Total	**2 561 630**
Difference	**-**

Signed for and on behalf of Management on June 29, 2018.

Project manager

K. Matyakubov_____

Deputy chief accountant

I. Zubareva _____

DIRECT PAYMENTS SCHEDULE – IDA CREDIT

For the period from 01 January 2017 to 31 December 2017

Withdrawal application №	Category	Payment currency	Total in payment currency	Total amount in USD
№ 9	1	USD	18 057	18 057
№ 10	1	USD	516 784	516 784
Total				**534 841**

Signed for and on behalf of Management on June 29, 2018.

Project manager

K. Matyakubov

Deputy chief accountant

I. Zubareva

SPECIAL PURPOSE BALANCE SHEET AS AT 31 DECEMBER 2017

(in US dollars)

	as at 31.12.2017
ASSETS	
Cash and cash equivalents	**2 869 741**
Fixed assets	**186 587**
Project expenditure	
Credit №5490-UZ/Loan №8389-UZ	13 702 472
Government funds	-
Tender's documentation	11 549
Payment of pension	1 309
Other expenses	6 349
Total expenditures	**13 721 679**
Gain (Loss) from foreign exchange differences	1 457
TOTAL ASSETS	**16 779 464**
ACCUMULATED FUNDS	
Project financing	
Credit №5490-UZ/Loan №8389-UZ	16 744 545
Government funds	-
Tender's documentation	27 189
Payment of pension	1 326
Other expenses	-
Total financing	**16 773 060**
Revaluation of fixed assets	6 404
TOTAL ACCUMULATED FUNDS	**16 779 464**

Signed for and on behalf of Management on June 29, 2018.

Project manager

K. Matyakubov

Deputy chief accountant

I. Zubareva

USD DESIGNATED ACCOUNT STATEMENT
For the period from 01 January 2017 to 31 December 2017

Account №	**20210840904122849014**
Depositary bank	**InFinBank**
Address	**18 Navoi St., Tashkent, Uzbekistan**
Source of financing	**IDA Credit № 5490- UZ**
Currency	**US dollars**
Balance as at 01 January 2017	**3 396 033**
Cash inflow:	
Transfer of IDA funds for account replenishment	3 000 122
Total	**3 000 122**
Cash outflow:	
Converted to UZS in special account InFinBank	254 765
Paid to suppliers of goods and services	3 283 290
Training	467
Total	**3 538 522**
Balance as at 31 December 2017	**2 857 633**

Signed for and on behalf of Management on June 29, 2018.

Project manager

K. Matyakubov

Deputy chief accountant

I. Zubareva

UZS DESIGNATED ACCOUNT STATEMENT

For the period from 01 January 2017 to 31 December 2017

Account №	**20210000804122849022**	
Depositary bank	**InFinBANK**	
Address	**18 Navoi St., Tashkent, Uzbekistan**	
Credit	**IDA Credit No5490-UZ**	
Currency	**in thousansd of UZS**	**in US dollars**
Balance as at 01 January 2017	**271**	**84**
Cash inflow:		
Converted into UZS	1 295 639	254 765
ForEx gain		1
Total	**1 295 639**	**254 766**
Cash outflow:		
Transfer to UZS Block Account MAWR	1 032 775	203 190
Paid to suppliers of goods and services	259 725	51 239
Foreign exchange difference	-	1
Total	**1 292 500**	**254 430**
Balance as at 31 December 2017	**3 410**	**420**

Signed for and on behalf of Management on June 29, 2018.

Project manager

K. Matyakubov

Deputy chief accountant

I. Zubareva

UZS BLOCK ACCOUNT MAWR STATEMENT

For the period from 01 January 2017 to 31 December 2017

Account №	**20210000904122849001**	
Depositary bank	**KDB Bank Uzbekistan, Yunusabad branch**	
Address	**77, Nasirov St., Tashkent, Uzbekistan**	
Type of account	**Current block account**	
Relevant loan/credit	**IDA Credit No5490-UZ**	
Currency	**in thousands of UZS**	**in US dollars**
Balance as at 01 January 2017	**46 391**	**14 356**
Cash inflow:		
Transfer from special IDA conversion account	1 032 775	203 190
Receipt of funds for bidding documentation	2 851	586
Transfer from transit account	1 347	397
Transfer from social payments account	3 170	711
Foreign exchange difference	-	23
Total inflow	**1 086 533**	**204 907**
Cash outflow:		
Bank charges	22 192	4 443
Transfer to corporate card UZS	10 200	2 243
Debit card payment (PIU staff salaries, travel expenses, etc.)	296 710	58 752
Cash payments (PIU staff salaries, travel expenses, etc.)	267 478	56 954
Payments to suppliers	35 649	7 835
Payment of PIU staff income tax	145 897	27 980
Payment of PIU staff social payments	71 046	13 920
Unified social charge on PIU staff salaries	172 895	35 728
Foreign exchange difference		3 469
Total outflow	**1 022 066**	**211 324**
Balance as at 31 December 2017	**64 468**	**7 939**

Signed for and on behalf of Management on June 29, 2018.

Project manager

K. Matyakubov

Deputy chief accountant

I. Zubareva

USD BIDDING ACCOUNT STATEMENT
For the period from 01 January 2017 to 31 December 2017

Account №	**20210840004122849012**
Depositary bank	**KDB Bank Uzbekistan, Yunusabad branch**
Address	**77, Nasirov St., Tashkent, Uzbekistan**
Type of account	**Account for tender receipts**
Relevant loan/credit	**IDA Credit №5490-UZ**
Currency	**In US dollars**
Balance as at 01 January 2017	**2 556**
Cash inflow:	
Tranfer of funds from transit account for tender documentation	1 191
Total	**1 191**
Cash outflow:	
Total	
Balance as at 31 December 2017	**3 747**

Signed for and on behalf of Management on June 29, 2018.

Project manager

K. Matyakubov

Deputy chief accountant

I. Zubareva

USD TRANSIT ACCOUNT STATEMENT
For the period from 01 January 2017 to 31 December 2017

Account №	**20210840904122849013**
Depositary bank	**KDB Bank Uzbekistan, Yunusabad branch**
Address	**77, Nasirov St., Tashkent, Uzbekistan**
Type of account	**Transit account**
Relevant loan/credit	**IDA Credit №5490-UZ**
Currency	**In US dollars**
Balance as at 01 January 2017	**-**
Cash inflow:	
Receipt for tender documentation	1 588
Total	**1 588**
Cash outflow:	
Obligatory currency sale - conversion to block account	397
Transfer to the account for tender receipts	1 191
Total	**1 588**
Balance as at 31 December 2017	**-**

Signed for and on behalf of Management on June 29, 2018.

Project manager

K. Matyakubov

Deputy chief accountant

I. Zubareva

UZS SOCIAL PAYMENT ACCOUNT STATEMENT

For the period from 01 January 2017 to 31 December 2017

Account №	**20210000004122800000**		
Depositary bank	**KDB Bank Uzbekistan, Yunusabad branch**		
Address	**77, Nasirov St., Tashkent, Uzbekistan**		
Type of account	**Special account for social payments**		
Relevant loan/credit	**IDA Credit No5490-UZ**		
Currency	**In thousands of UZS**	**In US dollars**	
Balance as at 01 January 2017		**-**	**-**
Cash inflow:			
Receipts for Pension fund		3 170	775
Foreign exchange difference		-	103
Total		**3 170**	**878**
Cash outflow:			
Transfer of funds to MAWR Block account in UZS		3 170	711
Foreign exchange difference			167
Total		**3 170**	**878**
Foreign exchange difference			
Balance as at 31 December 2017		**-**	**-**

Signed for and on behalf of Management on June 29, 2018.

Project manager

K. Matyakubov

Deputy chief accountant

I. Zubareva

UZS CORPORATE PLASTIC CARD ACCOUNT STATEMENT
For the period from 01 January 2017 to 31 December 2017

Account №	**22620000504122849002**		
Depositary bank	**KDB Bank Uzbekistan, Yunusabad branch**		
Address	**77, Nasirov St., Tashkent, Uzbekistan**		
Type of account	**Special account for corporate card**		
Relevant loan/credit	**IDA Credit No5490-UZ**		
Currency	**In thousands of UZS**	**In US dollars**	
Balance as at 01 January 2017		-	-
Cash inflow:			
Transfer from primary account - block account		6 850	1 535
Foreign exchange difference		-	3
Total		**6 850**	**1 538**
Cash outflow:			
Paidto suppliers of goods and services		6 850	1 501
Foreign exchange difference		-	37
Total		**6 850**	**1 538**
Balance as at 31 December 2017		-	-

Signed for and on behalf of Management on June 29, 2018.

Project manager

L. Matyakubov

Deputy chief accountant

I. Zubareva

UZS CORPORATE PLASTIC CARD ACCOUNT STATEMENT
For the period from 01 January 2017 to 31 December 2017

Account №	**22620000504122849003**	
Depositary bank	**KDB Bank Uzbekistan, Yunusabad branch**	
Address	**77, Nasirov St., Tashkent, Uzbekistan**	
Type of account	**Special account for corporate card**	
Relevant loan/credit	**IDA Credit No5490-UZ**	
Currency	**In thousands of UZS**	**In US dollars**
Balance as at 01 January 2017	-	-
Cash inflow:		
Transfer from primary account - block account	3 350	708
Foreign exchange difference	-	-
Total	**3 350**	**708**
Cash outflow:		
Paidto suppliers of goods and services	3 335	706
Total	**3 335**	**706**
Balance as at 31 December 2017	**15**	**2**

Signed for and on behalf of Management on June 29, 2018.

Project manager

K. Matyakubov

Deputy chief accountant

I. Zubareva

1 PROJECT DESCRIPTION

Government of the Republic of Uzbekistan received financing of International Development Association (hereinafter - IDA) and International Bank for Reconstruction and Development (hereinafter - IBRD) to implement «South Karakalpakstan Water Resources Management Improvement" Project.

The finance was allocated in accordance with following agreements that were signed on 29 October, 2014:

- between the Republic of Uzbekistan and International Development Association (IDA) Financing Agreement - Credit No.5490-UZ;
- between the Republic of Uzbekistan and International Bank for Reconstruction and Development (IBRD) Loan Agreement – Loan No.8389-UZ.

In accordance with the Resolution of the President of the Republic of Uzbekistan No.PR-2324 on 24 March, 2015 "On measures of implementation of the "South Karakalpakstan Water Resources Management Improvement Project" with the participation of the World Bank", the implementation of the project started from 7 April, 2015.

The completion date of the project is 30 September, 2021.

According to the Resolution of the President of the Republic of Uzbekistan No. PR-2324 dated 24 March 2015, the executive body responsible for the implementation of the Project, for the targeted and effective use of credit and borrowed funds, as well as for ensuring the achievement of all the target indicators of the Project, is the Ministry of Agriculture and Water Resources of the Republic of Uzbekistan.

Functions for managing and coordinating the implementation of the Project are assigned to the existing Project Implementation Unit for water infrastructure.

The Project Implementation Unit for water infrastructure was created by Order No. 308 dared 11 December, 2000 of the Ministry of Agriculture and Water Resources of the Republic of Uzbekistan (hereinafter - MAWR). Based on the Order No.91 dated 16 April, 2001 of the MAWR and the Resolution No.564 dated 21 May, 2001of Khokim of Shaykhantahur district of Tashkent city, PIU became an independent legal entity.

Based on Resolution of the President of the Republic of Uzbekistan No.PR-2506 dated 10 March, 2016 and the Order No. 52 dated 13 March 2016 of the Ministry of Agriculture and Water Resources of the Republic of Uzbekistan, the Project Implementation Unit for water infrastructure was renamed as the World Bank Project Implementation Unit under the Ministry of Agriculture and Water Resources of the Republic Uzbekistan.

Pursuant to the Decree of the President of the Republic of Uzbekistan No.PD-5134 of 04 August 2017 "On Measures for the Basic Improvement of the Activity of the Ministry of Agriculture and Water Resources of the Republic of Uzbekistan", Resolution No. PR-3172 of the President of the Republic of Uzbekistan of 04 August 2017 "On Measures for Further Improvement of the Organization of activities of the Ministry of Agriculture and Water Resources "and the Order No. 249 dated 6 September, 2017 of the Ministry of Agriculture and Water Resources of the Republic of Uzbekistan "The World Bank Project Implementation Unit" under the Ministry of Agriculture and Water Resources was renamed as the "Center for the Implementation of Investment Projects in Agriculture and Water Resources sector" under the Ministry of Agriculture and Water Resources of the Republic of Uzbekistan.

The regional office of the Project - without the formation of a legal entity, is located in Bustan (Ellikkalin district of the Republic of Karakalpakstan).

The project has the following objectives:

- Improvement of irrigation networks;
- Improvement of water resources management methods in the Project Area in a sustainable and financially efficient manner.

The project includes the following components:

Part 1 - Modernization of the irrigation network;

PROJECT DESCRIPTION (Continued)

Part 2 – Modernization of agriculture;

Part 3 – Project management, monitoring and evaluation.

Financing and Project payments

The total cost of the project is $ 376.71 million, of which:

- 136 497 249 Special Drawing Rights (SDRs) (156 900 000 SDRs initially, 20 402 751 SDRs - canceled as of 08.04.2017) (equivalent to USD 214 845 million) - IDA share under the Financing Agreement, Credit No. 5490-UZ
- $ 45 725 ($ 18 290 000 initially, $ 18 244 275 - canceled as of 08.04.2017) - share of IBRD under the Loan Agreement, Loan No. 8389-UZ
- $ 161.82 million ($ 115.92 million initially) - contribution of the Government of the Republic of Uzbekistan, including:
  - USD 45.9 million - funding for the construction of the Buston Canal (western part);
  - USD 50.05 million - provision of tax and other obligatory payments provided for by Resolution of the President of the Republic of Uzbekistan No. PR-2324 of 24 March 2015.
  - USD 26.59 million shall be used for financing: (i) works on major repair of the Yambash Canal; (ii) measures for the safety of the Tuyamuyun dam, except foe expenses for study of a security of a dam.
  - USD 39.28 million - financial costs during the investment period.

Repayment of the principal and interest on the Credit and Loan will be made by the Ministry of Finance of the Republic of Uzbekistan from budget funds.

According to the letter dated 30 June, 2017 No. 02710/ 17, the share of the World Bank has been reduced, and the share of the Republic of Uzbekistan has been increased by USD 45.9 million.

IBRD and IDA funds were allocated to finance the following items of expenditure:

Category	The amount for financing allocated by IDA (expressed in SDR)	The amount for financing allocated by IBRD (expressed in USD)	Percentage of expenditure to be financed (exclusive of Taxes, except Withheld Taxes)
(1) Goods, works, non-consulting services, consultant's services and Training for the Project	129 677 249	-	100%
(2) Compensation under Part 1.3 (A) of the Project	4 760 000	-	100%
(3) Incremental Operating Costs under Part 3 of the Project	2 060 000	-	100%
(4) Front-end Fee		45 725	The amount payable under Section 2.03 of the IBRD Agreement in accordance with Section 2.07 (b) of the "General Conditions"
Total	**136 497 249**	**45 725**	
Canceled as of 8 April, 2017	20 402 751	18 244 275	
Total	**156 900 000**	**18 290 000**	

(*) SDR - Special Drawing Rights

Going Concern

According to the Financing Agreement, the Project should be completed by September 30, 2021.

2 ACCOUNTING POLICY

Basis for preparation of financial statements

These Special Purpose Financial Statements are prepared on the basis of the International Public Sector Accounting Standards (IPSAS): "Financial statements on the cash basis of accounting".

The Report on the "Summary Sources and Uses of Funds showing the World Bank and Counterpart Funds Separately", the Report "Statement of Expenditure Detail on Project Components", the Special Purpose Balance Sheet and the Notes to the special financial statements are prepared for the presentation of operations made under the Project.

The report "Summary Sources and Uses of Funds showing the World Bank and Counterpart Funds Separately", the Report "Statement of Expenditure Detail on Project Components", Special Purpose Balance Sheet and Reports on Designated (Special) accounts are prepared on the cash basis of accounting, in accordance with the following principles.

Financing

Financing of the Project is recognized in the following cases:

- When payments to the suppliers of material resources or services are made by the Bank or the Association ("Direct Payment" procedures, "Special Commitment of the World Bank").
- When transferring funds from the Loan or Credit Accounts administered by IBRD and IDA to Designated (Special) Accounts for the Project opened in InFinBank.

Expenditure of funds

Project expenditures are recognized and reported in the Special Purpose Financial Statements prepared on the cash basis, in cases when:

- payment is made to suppliers of goods, works and / or services either directly from the Loan or Credit Account ("Direct Payment", "Special Commitment of the World Bank"), or from the Special and Current Accounts of the Project;
- in the payment of funds for travel expenses, salary for the Project staff, payment of taxes withheld at the source of payments, and payment of bank interest from the special and current accounts of the Project.

Reporting currency and currency exchange methodology

The currency of the Special Purpose Financial Statements of the Project is US dollar (USD).

On 2 September, 2017, Presidential Decree No.PD-5177 "On Priority Measures for the Liberalization of Monetary Policy" was issued, according to which from 5 September, 2017, market mechanisms are used when establishing the exchange rate of the national currency in relation to foreign currency.

In this regard, in 2017, the following principles of the exchange rate translation were applied in the preparation of the Special Purpose Financial Statements of the Project

ACCOUNTING POLICY (Continued)

- by means of co-financing of the Government of Uzbekistan replenishments and expenses in national currency "UZS" were converted into US dollars:
  - from 1 January to 4 September, 2017 at the relevant rate of the Central Bank of the Republic of Uzbekistan (CBRU), effective at the time of receipt of payment or payment of specific costs;
  - from 5 September to 31 December, 2017 - at the rate of sale of US dollars on the Republican Currency Exchange on the day of the transaction.
- by means of IDA, expenses in national currency are converted into US dollars at the rate applicable at the date of conversion of USD into Uzbek soums;
- by means of IDA funds, the expenses incurred from the project's foreign exchange account in any other foreign currency are transferred to US dollars at the exchange rate of the international currency exchange at the time of the transaction.

Cash balances in Uzbek soums in the bank accounts of the Project is revalued at the official exchange rate of the Central Bank of the Republic of Uzbekistan at the reporting date. As of 31 December, 2017, the exchange rate of the Central Bank of Uzbekistan is UZS 8 120.07 / USD 1.

3 SUBMITTED FINANCIAL STATEMENTS

Special Purpose Financial Statements for the project during the reporting period have been prepared in accordance with the Guidelines of the World Bank's "Report on financial monitoring of projects financed by the World Bank" and in accordance with IPSAS on a cash basis, consisting of the following forms:

Summary Sources and Uses of Funds showing the World Bank and Counterpart Funds Separately

The financing of expenditures from the beginning of the project was carried out from the funds of the IBRD and IDA for a total amount of 16 773 059, 32 US dollars.

In addition, US $ 1 325,59 was transferred from the Extra budgetary Pension Fund under the Ministry of Finance to the Special Account for Social Payments, opened under the Project with the purpose of paying pension to working pensioners.

Also, the Project received funds from the sale of budding documents in the amount of $ 27 188,97. These funds were used to pay the costs associated with the preparation and holding of tenders.
Financing and expenses related to the payment of pensions, preparation of tender documents, are included in the Report "Summary Sources and Uses of Funds showing the World Bank and Counterpart Funds Separately", but are not reflected in the " Statement of Expenditure Detail on Project Components ", since they are not direct sources / expenses of the Project.
The total amount of expenditures accrued since the beginning of the project amounted to USD 13 901 861,49, including:

- the total cost of the project amounted to USD 13 882 654,63,

Other expenses (pensions, tenders, other) – USD 19 206,86.

Balances at the beginning and at the end of the reporting period under the line "Government funds" include both balances due to the Government and balances received from the Pension Fund from the sale of bidding documents and other receipts.

The exchange rate difference reflected in the report includes both the exchange rate difference from the revaluation of the balance of funds in settlement accounts as of the last day of each month, as well as the exchange difference formed as a result of the difference between the formation of the dollar equivalent for transfers of funds from the IDA account (at the rate FIFO conversion) and actually incurred expenses from the

SUBMITTED FINANCIAL STATEMENTS

(Continued)

primary PIU (at the current rate of the Central Bank of Uzbekistan) to pay salaries, the income tax and the corresponding bank interest, as according to the legislation of the Republic of Uzbekistan, the payment of salaries and the payment of income tax can be made only with the primary account of the organization.

Statement of Expenditure Detail on Project Components

This form details the information on the expenses of the reporting period for the project in terms of components and subcomponents of the project, the project budget for the reporting period and the deviation of actual expenditures from the planned ones. The budget for the project for the reporting period was compiled in accordance with the network schedule and the estimate of operating costs of the hydraulic fracturing unit, approved by the Ministry of Agriculture and Water Resources.

It should be noted that this form contains information only about expenses directly related to the Project. The expenses associated with the payment of pensions, the preparation of tender documents, other expenses in this form are not included.

SOE withdrawal schedule – IDA credit account

In this report, in the context of applications for withdrawal of funds, the amount of funds is shown in the context of categories, which was offset by advance funds.

Reconciliation statement for replenished and recovered SOE disbursements the IDA credit

This Statement reflects information on the total amount of expenditure under the procedure of expenditure statements, as well as amounts credited by advance funds.

Direct payment schedule – IDA credit

This report shows the amount of funds by category, which was withdrawn from the IDA-administered Credit Account, under the "Direct Payments" procedure for the year ended 31 December, 2017.

Special purpose balance sheet

The presented Special Purpose Balance Sheet is compiled using the cash method in US dollars and contains information on the means of the project "South Karakalpakstan Water Resources Management Improvement" in the context of:

- Under Assets – Cash and cash equivalents, fixed assets, and the amount of the Project expenses in terms of all sources of financing;
- Under Accumulated Funds - the total amount of funds received under the Project from all sources of financing (IBRD, IDA, Government of the Republic of Uzbekistan, sale of tender documents, Pension Fund, Other) and the amount of revaluation of fixed assets purchased under this project.

The indicator "Cash" includes cash balances as for the funds allocated for this IDA project, IBRD, the Government, and balances on funds received from the Pension Fund from the sale of bidding documents and other receipts (balances of cash on settlement accounts in Uzbek amounts, are represented in the dollar equivalent at the official exchange rate of the national currency at the balance sheet date).

The indicator "Fixed Assets" includes fixed assets purchased under the Project at fair (revalued) value as of the end of the reporting period and for the purposes of preparation of these financial statements, fixed assets are not depreciated. Expenses under the item "Intangible assets" (Software 1C: Accounting) are included in the total expenses of the Project.

SUBMITTED FINANCIAL STATEMENTS

(Continued)

The indicator "Project expenditures" includes the expenditures associated with the implementation of the Project, incurred from all sources of financing.

The indicator "Revaluation of fixed assets" includes the annual revaluation of fixed assets as of 01 January, produced on an annual basis in accordance with the requirements of the current legislation of Uzbekistan.

Accounting for the contribution of the Republic of Uzbekistan

The implemented Project with the participation of IDA and IBRD envisages the contribution of the Republic of Uzbekistan, which in accordance with the Decree of the President of the Republic of Uzbekistan of 24 March, 2015 No. PD-2324 "On measures to implement the project "South Karakalpakstan Water Resources Management Improvement" amount in the equivalent of 161.82 million US dollars, including 45.9 million US dollars - in the form of funds to finance the construction of the Buston Canal, USD 50.05 million in the formof tax concessions and other mandatory payments, 26.59 - in the form of funds for financing the work on the overhaul of the Yanbash Canal and security measures for the Tuyamuyun dam, and 39.28 million US dollars in financial costs during the investment period.

4 SPECIAL AND CURRENT ACCOUNTS

During 2017, the following accounts were closed at InFiN Bank in connection with the cancellation of the share of the IBRD under the project:

- IBRD special account in US dollars (20.210.840.204.122.849.015);
- IBRD special conversion account in Uzbek soums (20.210.000.804.122.849.023).

During 2017, the Project used the following accounts in JSCB "InFiNBank":

№ of Comment	Account number	Account description
	Assignment of an account	
	20.210.840.204.122.849.014	USD IDA Special account
A special account is an account opened in InFinBank in foreign currency - US dollars (USD), on which the funds of IDA are accumulated. Funds in the Special Account in US Dollars are used to convert US dollars into local currency or any other currency provided for by contracts, to pay travel expenses for business trips outside the Republic of Uzbekistan, pay suppliers of goods and services, pay salaries to foreign individual consultants.		
	20.210.000.804.122.849.022	UZS Special IDA conversion account
In addition to the special account in US dollars, a special conversion account of IDA in local currency (UZS) is opened in the same bank to account for funds from the USD conversion, which is used for payments to local suppliers in accordance with expenditure categories, payroll to Project staff and local individual consultants, payment of taxes withheld at the source of payments, payment of travel expenses for business trips in the Republic of Uzbekistan, and payment of bank interest.		

SPECIAL AND CURRENT ACCOUNTS (Continued)

In addition, the Project used the following accounts in the Yunusabad branch of KDB Bank Uzbekistan:

- Transit account in US dollars;
- Primary account in Uzbek soums - current block account;
- Account for tender receipts in US dollars;
- Special account for social payments.

№	Account number	Account description
	Assignment of an account	
	20.210.840.904.122.849.013	USD Transit account
	Transit account for the receipt of currency funds from the implementation of tender documentation.	
	20.210.840.004.122.849.012	USD Tender account
	A secondary deposit account, opened in US dollars, is used to receive currency funds from the implementation of tender documents.	
	20.210.000.904.122.849.001	UZS Primary account-Current Block account
	The block account opened in Uzbek sums is the primary account of the Center, on which are accumulated: (i) project funds intended to provide cash for salaries to PIU staff, local individual consultants, travel expenses to employees, pensions, as well as the payment of income tax and personal pension contributions of employees; (ii) project funds received from the implementation of tender documents. From these funds, payment is made for the costs of organizing and holding tenders.	
	20.210.000.004.122.800.000	UZS Special account for social payments
	A special account for social payments opened in Uzbek sums is used to receive funds from the Pension Fund for the payment of pensions to working pensioners (employees) of the project	

The following accounts were used for the project at KDB Bank Uzbekistan:

	22.620.000.304.122.849.002	UZS Account corporate card
	A special account for a corporatedebit card, opened in Uzbek soums, is used to account for funds on a plastic card, which are used for payments to local suppliers.	
	22.620.000.304.122.849.003	UZS Account corporate card
	A special account for a corporate plastic card, opened in Uzbek soums, is used to account for funds on a plastic card, which are used for payments to local suppliers.	

SPECIAL AND CURRENT ACCOUNTS (Continued)

The balances on the bank accounts of the Project are given in the following table:

Balance as at 01 January 2017	
Special IDA account in USD	3 396 033
Special IDA account in UZS	84
Special IBRD account in USD	-
Special IBRD account in UZS	-
Tender account in USD	2 556
Transit account in USD	-
MAWR block account in UZS	14 356
Special account for social payments in UZS	-
Corporate card in UZS	-
Total	**3 413 029**
Balance as at 31 December 2017	
Special IDA account in USD	2 857 633
Special IDA account in UZS	420
Special IBRD account in USD	-
Special IBRD account in UZS	-
Tender account in UZS	3 747
Transit account in USD	-
MAWR block account in UZS	7 939
Special account for social payments in UZS	-
Corporate card in UZS	2
Total	**2 869 741**

5 FIXED ASSETS

The fixed assets purchased or received for the effective implementation of the Project's tasks are accounted for on the cost items as soon as these funds are received. For the purposes of these financial statements, property, plant and equipment are not depreciated and are recorded at fair (revalued) cost.

The Fixed Assets of the Project include:

- Fixed assets purchased for operating needs;
- Fixed assets transferred to the project "South Karakalpakstan Water Resources Management Implementation" Project from the "Ferghana Valley Water Management" Project (Phase1);
- Fixed assets purchased for the Project implementation by consultants - consulting firm "Nazar Business and Technology" LLC, which monitors and evaluates the Project. The expensesof these assets was paid as a part of the total remuneration of consultants and is reflected in the category "Consulting services" of the relevant articles of the Financial Statement Summary Sources and Uses of Funds showing the World Bank and Counterpart Funds Separately.
- Fixed assets purchased for the project implementation by international consultants - consulting firm "Mott MacDonald-Temelsu" - carrying out technical supervision of the ICB / 1 package. The expenses of these assets was paid as a part of the total remuneration of consultants and is reflected in the category "Consulting services" of the relevant articles of the Financial Statement Summary Sources and Uses of Funds showing the World Bank and Counterpart Funds Separately.

Control over the safety of used fixed assets is carried out by conducting an annual inventory. The last inventory was carried out on 01 December, 2017.

During the audit on 18 May, 2018, the auditors of "Grant Thornton" LLC conducted a random check of the actual availability of fixed assets purchased under the Project.

The fixed assets at the disposal of the Project Center are presented in the following composition:

Name of the fixed assets	Balance as at 01.01.2017	Increased in 2017	Revaluation in 2017	Decreased in 2017	Balance as at 31.12.2017
Computers	23 021	29 422	-	-	52 443
Office equipment	16 346	5 807	1 138	-	23 291
Transportation	43 237	737	2 278	-	46 252
Furniture	16 287	25 740	266	-	42 293
Measuring and regulating devices	1 035	550	103	-	1 688
Other FA	17 341	2 565	714	-	20 620
Total	**117 267**	**64 821**	**4 499**	**-**	**186 587**

The basis for the revaluation of property is the current legislation of Uzbekistan, according to which, to all enterprises, organizations and institutions of the Republic of Uzbekistan, regardless of ownership and departmental subordination, as of 01 January must revalue the value of fixed assets.

6 LEGAL STATUS, TAXES AND CHARGES

PIU is a legal entity acting on the basis of the Charter registered by the decision of the Shayhontohur Hokimiyat of the Tashkent city No.564 from 21 May, 2001.

According to the Decree of the President of the Republic of Uzbekistan No. PD-2506 of 10 March, 2016, by order of the Ministry of Agriculture and Water Management dated 13 March, 2016, No. 52, the Charter of the PIU was revised, approved by the order of the Ministry of Agriculture and Water Resources of 31 May, 2016

6. LEGAL STATUS, TAXES AND CHARGES (Continued)

No. 93 and registered with the decision of the Shayhontohur Hokimiyat of the Tashkent city of 10 June, 2016 No.R-09-01691.

In accordance with the Decree of the President of the Republic of Uzbekistan No.PD-5134 of 04 August, 2017 "On Measures for the Basic Improvement of the Activity of the Ministry of Agriculture and Water Resources of the Republic of Uzbekistan," Decree No.P-3172 of the President of the Republic of Uzbekistan of 04 August, 2017 "On measures for the further improvement of the organization of activities of the Ministry of Agriculture and Water Management", the Charter of the Center was revised, approved by the order of the Ministry of Agriculture and Water Management of 6 September, 2017 No.249 and registered with the decision of Shayhontohur Khokimiyat of Tashkent city administration from 15 December, 2017g No.09-01691.

The Center is a state non-commercial enterprise, exempted from state and local taxes on the basis of the Tax Code of the Republic of Uzbekistan.

On the basis of the Credit / Loan Agreement, IDA / IBRD allocated funds for 100% financing of taxes withheld at the source of payments - taxes on social payments, income tax for residents and non-residents, customs clearance fees.

According to the Decree of the President of the Republic of Uzbekistan dated 24 March, 2015 No. PD-2324, the goods, works and services purchased under the project are exempted for the duration of the project and the warranty period from:

- Customs payments (excluding customs duties), value added tax, fees to state trust funds for goods (works, services), equipment and vehicles purchased from the IDA Credit and IBRD loan;
- Payment of corporate income tax for non-resident legal entities of the Republic of Uzbekistan;
- Payment of income tax on individuals - foreign individuals involved in the implementation of the contract.

7 RECONCILIATION OF IDA AND IRDB FUNDS FINANCING

As of 31 December, 2017, when reconciling the Client Connection payments with the data of the PIU report, no discrepancies in the financing of the Project are found:

	By the data of (www.worldbank.org) Client Connection	By the Project data	Deviation
IDA funds	16 698 820	16 698 820	-
IBRD funds	45 725	45 725	-