

**Project “Development of auto-roads East West
(Almaty – Khorgos Section): International Transit
Corridor Western Europe- Western China (CAREC
1b)” financed under Agreement №8156-KZ
between the Government of the Republic of
Kazakhstan and the International bank for
Reconstruction and Development**

**Financial statements for the year ended 31
December 2016**

And Independent Auditors’ Report

Table of content

Independent Audit report

Financial statement

Statement of receipts and disbursements of fund..... 1-2

Notes to financial statements 3-6





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Independent Auditors' Report

To the Management of the Project "Development of auto-roads East West (Almaty – Khorgos Section): International Transit Corridor Western Europe- Western China (CAREC 1b)" funded under the Agreement No. 8156-KZ between the Government of the Republic of Kazakhstan and the International Bank for Reconstruction and Development:

Opinion

We have audited the accompanying financial statements of "Development of auto-roads East West (Almaty – Khorgos Section): International Transit Corridor Western Europe- Western China (CAREC 1b)" funded under the Agreement No. 8156-KZ between the Government of the Republic of Kazakhstan and the International Bank for Reconstruction and Development ("Project") which consist of the statement of cash receipts and disbursements for the year then ended 31 December 2016, as well as a summary of significant accounting policies and other explanatory notes.

In our opinion, the accompanying financial statements fairly present, in all material respects, the cash receipts and disbursements for the year then 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.

Товарищество с ограниченной ответственностью "BDO Kazakhstan", зарегистрированное в соответствии с законодательством Республики Казахстан, является участником международного объединения BDO International Limited, британского общества с ответственностью, ограниченной гарантией его участников, и является частью международной сети независимых компаний BDO.

BDO Kazakhstan, a limited liability partnership, registered under the laws of the Republic of Kazakhstan, is a member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of independent member firms.

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 is to obtain reasonable assurance whether the financial statements are free of material misstatement due to fraud or error, and to express the audit opinion. Reasonable assurance means a high degree of certainty, but does not guarantee that the audit performed in accordance with the International Standards on Auditing always identifies significant misstatements, if any. Misstatement can be caused by fraud or errors, and are considered material if you can reasonably assume that they, individually or cumulatively, can impact on economic decisions of users made on the basis of the financial statements.

As part of the audit in accordance with the International Standards on Auditing, we exercise professional judgment and maintain professional scepticism 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.

STATEMENT OF RECEIPTS AND DISBURSMENTS OF FUNDS

For the year ended 31December 2016

| <i>US dollars</i> | Notes | 2016 | | | 2015 | | |
|---|----------|--------------------|--|--------------------|--------------------|--|--------------------|
| | | IBRD loan | Proceeds from the Government of the RK | Total | IBRD loan | Proceeds from the Government of the RK | Total |
| The cash balances as of 1 st of January | | 23,235 | - | 23,235 | 121,709,085 | - | 121,709,085 |
| RECEIPTS | | | | | | | |
| Receipts to special account | | 162,452,000 | - | 162,452,000 | 2,396,892 | - | 2,396,892 |
| Direct payments | | 16,860,574 | - | 16,860,574 | 4,088,321 | - | 4,088,321 |
| Co-financing from the Republic of Kazakhstan | | - | 19,402,306 | 19,402,306 | - | 29,250,488 | 29,250,488 |
| Total Receipts Under the Project | 5 | 179,312,574 | 19,402,306 | 198,714,880 | 6,485,213 | 29,250,488 | 35,735,701 |
| Expenses | | | | | | | |
| Goods, works, non-consulting services and consulting services | | 179,015,483 | 19,402,306 | 198,417,789 | 128,179,824 | 29,250,488 | 157,430,312 |
| Total Expenses Under the Project | | 179,015,483 | 19,402,306 | 198,417,789 | 128,179,824 | 29,250,488 | 157,430,312 |
| Other expenses/(income) | | | | | | | |
| Commission withheld at replenishment of special account | | - | - | - | 29 | - | 29 |
| Fee for conversion and servicing on a special account | | - | - | - | 178 | - | 178 |
| Net expenses(income) from change in foreign exchange rates | | (6,163) | - | (6,163) | (8,968) | - | (8,968) |
| Listed in the republican budget | | - | - | - | - | - | - |
| Total Expenses Under the Project | | (6,163) | - | (6,163) | (8,761) | - | (8,761) |

Notes on pages from 3 to 6 form an integral part of the financial statements.

STATEMENT OF RECEIPTS AND DISBURSMENTS OF FUNDS (continued)

For the year ended 31 December 2016

| Us dollars | Notes | 2016 | | 2015 | | Total |
|----------------------------------|-------|-------------|--|-------------|--|-------------|
| | | IBRD loan | Proceeds from the Government of the RK | IBRD loan | Proceeds from the Government of the RK | |
| Total Receipts Under the Project | | 179,009,320 | 19,402,306 | 128,171,063 | 29,250,488 | 157,421,551 |
| Balance as of 31 of December | 4 | 326,489 | - | 23,235 | - | 23,235 |

Sign on Behalf of the Management of the Project:



A.A. Bekov

Deputy Chairman of Motor Roads committee of the Ministry for Investment and Development of the Republic of Kazakhstan



Project "Development of auto-roads East West (Almaty -- Khorgos Section): International Transit Corridor Western Europe- Western China (CAREC 1b)" financed under Agreement №8156-KZ between the Government of the Republic of Kazakhstan and the International bank for Reconstruction and Development

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

1. GENERAL PROVISIONS

Business environment in 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 developing market economy. The legal system, tax system and legislative base continue developing 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. 8156-KZ (the "Agreement") between the Government of the Republic of Kazakhstan (the "Government") and International Bank for Reconstruction and Development (the "IBRD") was signed on 10 October 2012 and ratified on 23 May 2013 ("inception date of the project"). Under the Agreement, IBRD provides a loan of USD 1,068,000,000 (the "Loan") for the Project implementation purpose "Development of auto-roads East-West (Almaty-Khorgos): International transit corridor Western Europe-Western China (CAREC 1b)" (the "Project"), and shall be repaid by the Government from 15 August 2017 through 15 February 2031 after the end of the grace period.

In accordance with the approved budget for 2016, cash receipts and payment of the Project financed by Loan from IBRD and co-financed by the Government of Republic of Kazakhstan were planned in the amount of 179,015,483 US dollars and 19,402,306 US dollars. The planned budget amounts are taken at the conditional exchange rate established by the Government of the Republic of Kazakhstan.

The purpose of the project is to improve the efficiency of traffic on the site of the International transit corridor Western Europe-Western China within Almaty oblast and improve road management in the areas of road corridor Western Europe-Western China.

The project is implemented by the Motor Roads committee of the Ministry for Investment and Development of the Republic of Kazakhstan, which acts as the Executive Agent on the part of the Government of the Republic of Kazakhstan.

The end date of the withdrawal period is June 30, 2017.

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 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.

Project "Development of auto-roads East West (Almaty – Khorgos Section): International Transit Corridor Western Europe- Western China (CAREC 1b)" financed under Agreement №8156-KZ between the Government of the Republic of Kazakhstan and the International bank for Reconstruction and Development

NOTES TO THE FINANCIAL STATEMENTS (continued)

Cash method of accounting

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

Presentation currency of the financial statements

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

Foreign currency transactions

Transactions in foreign currency are translated into the reporting currency at the rate of exchange ruling at the date of such transactions. Disbursements from a specially designated account in tenge are translated to US dollars at exchange rates established by the National bank of RK ruling as at the date of payments of the above funds from a specially designated account in US dollars.

Direct payments from IBRD are translated into USD at the rate of exchange established by IBRD at the date of payments. Receipts from the Government of the Republic of Kazakhstan are translated to US dollars at the foreign exchange rates established by the National Bank of the Republic of Kazakhstan at the date of payments. 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, works, non-consulting services, consulting services*

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 February 2031 is the date of the last payment of the Government under the Loan.

4. CASH

To conduct operations on Loan No.8156-KZ, special accounts have been opened in the Department of the Treasury, Astana, for making cash payments to suppliers:

- № KZ10125USD1002300142 US dollars
01.6201.00000000.090109.001.2420009.2
- № KZ85125EUR1001300142 Euro
01.6201.00000000.090109.002.2420009.2
- KZ4607021012420009001, KZT

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

| <i>US dollars</i> | 2016 | 2015 |
|------------------------------------|---------|--------|
| Balance at 31 December | 326,489 | 23,235 |
| Including balances denominated in: | | |
| US dollars | 326,489 | 23,235 |
| Tenge | - | - |

Project "Development of auto-roads East West (Almaty – Khorgos Section): International Transit Corridor Western Europe- Western China (CAREC 1b)" financed under Agreement №8156-KZ between the Government of the Republic of Kazakhstan and the International bank for 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, according to following withdrawal application:

| <i>US dollars</i> | | | | |
|-------------------------------|----------------------|-------------------|--------------------------|--------------------|
| No. of withdrawal application | Date of withdrawal | Direct Payments | Replenishment of account | Total |
| 24-DA | 13 January 2016 г. | - | 5,382,000 | 5,382,000 |
| 26-DA | 19 February 2016 г. | - | 5,050,000 | 5,050,000 |
| 32 | 24 February 2016 г. | 181,544 | - | 181,544 |
| 33 | 29 February 2016 г. | 236,476 | - | 236,476 |
| 27-DA | 16 March 2016 г. | - | 9,300,000 | 9,300,000 |
| 28-DA | 22 April 2016 г. | - | 5,020,000 | 5,020,000 |
| 29-DA | 6 May 2016 г. | - | 10,000,000 | 10,000,000 |
| 34 | 20 May 2016 г. | 2,107,088 | - | 2,107,088 |
| 30-DA | 25 May 2016 г. | - | 9,300,000 | 9,300,000 |
| 31-DA | 8 June 2016 г. | - | 19,600,000 | 19,600,000 |
| 35 | 22 June 2016 г. | 2,139,844 | - | 2,139,844 |
| 33-DA | 12 July 2016 г. | - | 11,000,000 | 11,000,000 |
| 36 | 27 July 2016 г. | 984,579 | - | 984,579 |
| 37 | 27 July 2016 г. | 1,837,790 | - | 1,837,790 |
| 34-DA | 23 August 2016 г. | - | 4,600,000 | 4,600,000 |
| 38 | 26 August 2016 г. | 704,028 | - | 704,028 |
| 39 | 2 September 2016 г. | 703,821 | - | 703,821 |
| 35-DA | 6 September 2016 г. | - | 9,200,000 | 9,200,000 |
| 36-DA | 22 September 2016 г. | - | 13,200,000 | 13,200,000 |
| 37-DA | 18 October 2016 г. | - | 16,700,000 | 16,700,000 |
| 38-DA | 14 November 2016 г. | - | 3,300,000 | 3,300,000 |
| 40 | 28 November 2016 г. | 3,376,287 | - | 3,376,287 |
| 40-DA | 28 November 2016 г. | - | 7,400,000 | 7,400,000 |
| 41 | 2 December 2016 г. | 4,589,118 | - | 4,589,118 |
| 42-DA | 29 November 2016 г. | - | 10,400,000 | 10,400,000 |
| 41-DA | 8 December 2016 г. | - | 18,000,000 | 18,000,000 |
| 43-DA | 20 December 2016 г. | - | 5,000,000 | 5,000,000 |
| Total | | 16,860,574 | 162,452,000 | 179,312,574 |

6. UNUSED PORTION OF LOAN

As of 31 December 2016 the balance of undrawn borrowing facilities of Loan from IBRD was 536,136,927 US dollars (2015: 715,449,501 US dollars).

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NOTES TO THE FINANCIAL STATEMENTS (continued)

7. PROJECT EXPENSES FOR CUMULATIVE TOTALS

Statement of cash distribution of Project expenses for cumulative totals is as follows:

| | Cumulative from the inception date of the project through 31 December 2015 | | | Cumulative from the inception date of the project through 31 December 2016 | | |
|--|--|--|--------------------|--|--|--------------------|
| | IBRD loan | Proceeds from the Government of the RK | Total | IBRD loan | Proceeds from the Government of the RK | Total |
| <i>US dollars</i> | | | | | | |
| RECEIPTS | | | | | | |
| Receipts to special account | 263,259,524 | - | 263,259,524 | 425,711,524 | - | 425,711,524 |
| Direct payments | 89,290,975 | - | 89,290,975 | 106,151,549 | - | 106,151,549 |
| Co-financing from the Government of the Republic of Kazakhstan | - | 61,210,876 | 61,210,876 | - | 80,613,182 | 80,613,182 |
| Total Receipts Under the Project | 352,550,499 | 61,210,876 | 413,761,375 | 531,863,073 | 80,613,182 | 612,476,255 |
| EXPENSES | | | | | | |
| Goods, works, non-consulting services, consulting services | 352,311,917 | 61,210,876 | 413,522,793 | 531,327,400 | 80,613,182 | 611,940,582 |
| Total Expenses Under the Project | 352,311,917 | 61,210,876 | 413,522,793 | 531,327,400 | 80,613,182 | 611,940,582 |
| Other expenses /(income) | | | | | | |
| Fee withheld at replenishment of special account | 191 | - | 191 | 191 | - | 191 |
| Fee for conversion and servicing on a special account | 86,596 | - | 86,596 | 86,596 | - | 86,596 |
| Net expenses from change in foreign exchange rates | 126,612 | - | 126,612 | 120,449 | - | 120,449 |
| Listed in the republican budget | 1,948 | - | 1,948 | 1,948 | - | 1,948 |
| Total other expenses | 215,347 | - | 215,347 | 209,184 | - | 209,184 |
| Total payment under the program | 352,527,264 | 61,210,876 | 413,738,140 | 531,536,584 | 80,613,182 | 612,149,766 |

8. DATE OF ISSUE

The present financial statements were approved for issue by Deputy Chairman of Motor Roads committee of the Ministry for Investment and Development of the Republic of Kazakhstan on 05 June 2017.



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