

RUE "Belinvestenergosberezhenie"

Financial statements of the "Additional Financing for
Belarus Energy Efficiency Project"

#8281 BY

for the period from January 1, 2017 to April 28, 2018

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KPMG LLC
57-53 Dzerzhinsky avenue
office 53-2
220089 Minsk, Belarus
Telephone +375 17 372 72 57
Fax +375 17 372 72 58
Mob. phone +375 29 104 75 15
Internet www.kpmg.by

Independent Auditors' Report

Mr. V.V. Knysh,
Director
RUE "Belinvestenergosberezhenie"
12 Dolgobrotskaya St.
Minsk, 220037, Republic of Belarus

Out ref.: 2804-01

Opinion

We have audited the financial statements of the "Additional Financing for Belarus Energy Efficiency Project" #8281 BY (hereinafter - Project) prepared by RUE "Belinvestenergosberezhenie" (hereinafter - Company), which comprise the statement of project sources and uses of funds, statement of uses of funds by project activity, special account statement, statement of expenditure withdrawal schedule for the period from January 1, 2017 to April 28, 2018, and notes to the financial statements comprising main accounting policies and other explanatory information.

In our opinion, the accompanying financial statements are prepared, in all material respects, in accordance with the Loan Agreement 8281BY with the World Bank and in conformity with the World Bank's Financial Management Sector Board's "Guidelines: Annual Financial Reporting and Auditing for World Bank-Financed Activities" (the "World Bank Guidelines"), as described in the Note "Basis of accounting" to the financial statements.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of RUE "Belinvestenergosberezhenie" in accordance

Audited entity: RUE "Belinvestenergosberezhenie"
Registration No. 101458642 in the Unified State Register of legal entities
Minsk, Belarus

KPMG, a limited liability company and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative («KPMG International»), a Swiss entity.

Registration No. 191434140 in the Unified State Register of legal entities



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Independent Auditors’ Report

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with the International Ethics Standards Board for Accountants’ Code of Ethics for Professional Accountants (IESBA Code) and with the ethical requirements that are relevant to our audit of the financial statements in the Republic of Belarus, and we have fulfilled our other ethical responsibilities in accordance with the requirements in the Republic of Belarus 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 – Basis of Accounting and Restriction on Use and Distribution

We draw attention to the Note “Basis of accounting” in the financial statements, which describes the basis of accounting. The financial statements are prepared to assist RUE “Belinvestenergosberezhenie” to meet the financial reporting requirements under the Loan Agreement 8281BY with the World Bank. As a result, the financial statements may not be suitable for another purpose. Our report is intended solely for RUE “Belinvestenergosberezhenie” and the World Bank and should not be used by or distributed to parties other than RUE “Belinvestenergosberezhenie” or the World Bank. Our opinion is not modified in respect of this matter.

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

Management is responsible for the preparation of the financial statements in accordance with the Loan Agreement 8281BY with the World Bank, and in conformity with the World Bank’s Financial Management Sector Board’s “Guidelines: Annual Financial Reporting and Auditing for World Bank-Financed Activities” (the “World Bank Guidelines”), as described in the Note “Basis of accounting” to the financial statements, and for such internal control as management determines is necessary to enable 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 Company’s ability to continue as a going concern, disclosing, as applicable, matters related 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 alternative but to do so.

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

Auditors’ Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors’ 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



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material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of 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 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 Company’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 Company’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors’ report to the related disclosures in the 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 auditors’ report. However, future events or conditions may cause the Company to cease to continue as a going concern.

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.

The engagement partner on the audit resulting in this independent auditors’ report is:

Vasyl Pavlenko

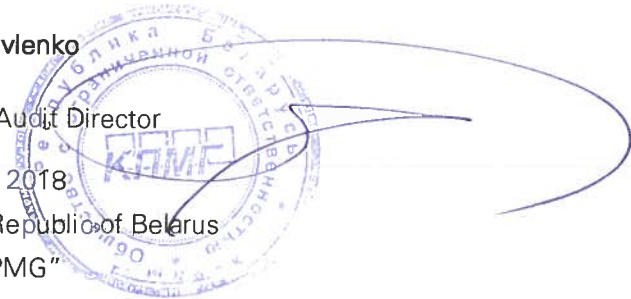
Deputy Audit Director

April 28, 2018

Minsk, Republic of Belarus

LLC “KPMG”

Certificate of state registration is issued by
Minsk Municipal Executive Committee
under ruling of 10.02.2011, Registration number 191434140



**Financial Statements of the project “Additional Financing for Belarus Energy Efficiency Project”, financed by World Bank loan 8281-BY
Statement of Project Sources and Uses of Funds for the period from January 1, 2017 to April 28, 2018**

	<i>(in USD)</i>		
	Actual	Planned	
	For the period from January 1, 2017 to April 28, 2018	Cumulative total amount	For the whole project period (unaudited)
Opening Cash Balance			
Project Bank Account	-	-	-
World Bank Special Account	174 791	-	-
World Bank Special Account (Belarusian rubles in the USD equivalent on the account in Belarusian rubles)	-	-	-
TOTAL	174 791	-	-
Add:			
Sources of Funds			
Government Funds	-	-	-
World Bank Funds	10 643 841	90 000 000	-
Direct payments	5 855 205	50 484 802	-
Special Account	4 788 636	39 515 198	-
TOTAL	10 643 841	90 000 000	-
Less:			
Uses of Funds			
Financed by World Bank	10 818 632	90 000 000	90 000 000
Works, goods, consultant's services, training	10 818 632	89 775 000	89 775 000
Front End Fee	-	225 000	225 000
Financed by Government	-	-	-
TOTAL	10 818 632	90 000 000	90 000 000
Closing Cash Balance			
Project Bank Account	-	-	-
World Bank Special Account	-	-	-
TOTAL	-	-	-

The financial statements were approved by the management on April 28, 2018 and on behalf of the management signed:

Director

V.V. Knysh

Chief accountant

T.P. Bushkevich

The notes on pages from 10 to 11 form an integral part of the financial statements.

Statement of Uses of Funds by Project Activity for the period from January 1, 2017 to April 28, 2018

Project activities	For the period from January 1, 2017 to April 28, 2018	(in USD) Cumulative total amount
1. Contracts for Design, Supply and Installation of Plants		
GOMEL	10 813 853	46 377 867
AF_EEP/ICB/13/02	10 813 853	46 377 867
Bank commission	68	131
MOGILEV	-	43 386 661
AF_EEP/ICB/13/01	-	43 386 661
Bank commission	-	230
Bank commission for Component 1	68	361
Total for Component 1	10 813 921	89 764 889
2. Consulting services, project management unit's costs	4 711	10 111
Bank commission for Component 2	-	-
Total for Component 2	4 711	10 111
Front-end Fee	-	225 000
Total Project Expenditure	10 818 632	90 000 000

The financial statements were approved by the management on April 28, 2018 and on behalf of the management signed:



Director
V.V. Knysch



Chief accountant
T.P. Bushkevich

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Special Account Statement for the period from January 1, 2017 to April 28, 2018

(in USD)

Bank where the special account was opened	OJSC "Belinvestbank"
Currency	USD
Account Number BY28BLBB36200101458672001005	
Opening balance at the beginning of the period	174 791
Add:	
World Bank advances into the SA during the period	4 788 636
Less:	
Withdrawals for the project during the period	4 963 427
Refunds to World Bank from the S.A. during the period	-
Total withdrawals during the period	4 963 427
Closing balance as at the end of the period	-

The financial statements were approved by the management on April 28, 2018 and on behalf of the management signed:



Director

V.V. Knysh



Chief accountant

T.P. Bushkevich

The notes on pages from 10 to 11 form an integral part of the financial statements.

Statement of Expenditure Withdrawal Schedule for the period from January 1, 2017 to April 28, 2018

(in USD)

Number of application for withdrawal	Date of withdrawal	Works, goods, consultant's services, training	Amount received on special account
59	08.02.2017		1 600 000
60	09.02.2017	76 337	
61	28.02.2017		300 000
62	22.03.2017		200 000
63	29.03.2017	2 143 047	
64	30.05.2017		1 600 000
65	23.06.2017	1 461 202	
66	24.07.2017		950 000
67	28.08.2017	881 899	
68	31.08.2017		138 000
69	27.09.2017	400 011	
71	10.04.2018		635,67
72	28.04.2018	931	
Total		4 963 427	4 788 636

The financial statements were approved by the management on April 28, 2018 and on behalf of the management signed.



Director

V.V. Knysh



Chief accountant

T.P. Bushkevich

The notes on pages from 10 to 11 form an integral part of the financial statements.

Notes to the financial statements

For the period from January 1, 2017 to April 28, 2018

(All amounts determined in USD if not otherwise stated)

Project Description

Energy efficiency increase is one of the most important priorities of the State.

The energy sector is among the biggest consumers of fuel and energy resources. Thus Ministry of Energy sites (CHP, power stations, boiler houses) consume 13.0-13.5 mln. tons of coal equivalent per year, thus 50% of total fuel balance of the republic is covered by this consumption.

Now as there exists the necessity of modernization and, in particular, replacement of obsolete end-of-life equipment, the main objective for gas-firing power stations of Belarusian energy system is application of benefits and advantages of steam and gas technologies. Combination in a single plant of gas-turbine and steam-turbine parts operating at high-and low temperature circles makes it possible to considerably increase fuel consumption efficiency (up to 15%), especially gas fuel consumption. Such efficiency increase is so important that almost all developed countries have legally claimed obligatory application of gas-turbine technologies alongside with steam power ones when old plants firing gas are being modernized.

Apart from substantial benefits from reduction of fossil fuel consumption the project activities contribute to increase of heat and electricity supply to the republic's settlements and have positive influence on reliability of heat and electricity supply to population and social sector. The project has also a very significant environmental effect due to green house gases emission reduction.

The project's objective is energy efficiency increase in heat and electric power production in certain cities of the Republic, reduction of energy consumption costs.

At the moment of preparation of the financial statements the Project is implemented.

Significant accounting policies

Basis of accounting

Financial statements have been prepared in accordance with the Loan Agreement 8281BY with the World Bank and in conformity with the World Bank's Financial Management Sector Board's "Guidelines: Annual Financial Reporting and Auditing for World Bank-Financed Activities". Accounting policies were used consistently during the whole period of the Loan use. Accounting data of RUE "Belinvestenergosberezhenie" form the basis for the financial statements preparation. The project transactions recorded separately from the funds received from other sources of finance of RUE "Belinvestenergosberezhenie". RUE "Belinvestenergosberezhenie" keeps its records and prepares its financial statements on the case-based method. Cash inflows are recognized at the moment of cash inflow from the World Bank. Expenses are registered at the date of withdrawal from the special accounts of the Project.

Reporting period

This report covers the period of use of the Loan funds for the period from January 1, 2017 to April 28, 2018.

Functional currency and financial statements currency

The national currency of the Republic of Belarus is Belarussian ruble and this currency is the functional currency of the Project. In accordance with the requirements of the World

Notes to the financial statements

For the period from January 1, 2017 to April 28, 2018

(All amounts determined in USD if not otherwise stated)

Bank USD is the currency of the financial statements. Payments made in Belarusian rubles are presented in the financial statements in USD at the actual bank exchange rate at the date of foreign currency sale.

Funds of the project financed by the World Bank

The World Bank provided Project funds upon requests signed by the authorized representative of RUE "Belinvestenergoberezhnie". In the reporting period, financing provided by additions to the initial advance to the special account of the project opened in OJSC "Belinvestbank", as well as by direct payments.

Project accounts

Project accounts opened in OJSC "Belinvestbank", which comply with the requirements of the World Bank.

Special foreign currency account of the project № BY28BLBB36200101458672001005 is opened in USD.

Budget project account № BY39BLBB36200101458672001001 is opened in BYN. This account is intended for depositing the ruble equivalent of sold currency from the special foreign account.

Determination of earnings and expenses

The following table shows the Categories of components to be funded under the Loan, Loan allocations for each Category and the percentage of costs of components, which will be financed in each Category:

Category	Amount of the Loan funds (in USD)	Percentage of costs to be financed
(1) Goods, works, consultants' services (including audits) and Training under the Project	89 775 000	100 %
(2) (Front-end Fee)	225 000	Amount payable pursuant to Section 2.03 of Loan Agreement 8281-BY in accordance with Section 2.07 (b) of the General Conditions
TOTAL	90 000 000	

World Bank Audit Documentation Checklist

Name of Loan/Credit:	World Bank
Loan/Credit #	8281-BY
Auditors' Report:	April 28, 2018

Check if Included	Check if N/A
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I. Auditors' Report (Opinion):

A. Applicable accounting standards noted	<input checked="" type="checkbox"/>	<input type="checkbox"/>
B. Applicable auditing standards noted	<input checked="" type="checkbox"/>	<input type="checkbox"/>
C. Opinion rendered on all forms of withdrawals:		
1. Statement of Expenditures for the period from January 1, 2017 to April 28, 2018	<input checked="" type="checkbox"/>	<input type="checkbox"/>
2. Designated account	<input checked="" type="checkbox"/>	<input type="checkbox"/>
D. All sources of financing for the project are noted	<input checked="" type="checkbox"/>	<input type="checkbox"/>

II. Financial statements:

A. Revenue Earning Entity (all items are to be filled-in):		
1. Balance sheet	<input type="checkbox"/>	<input checked="" type="checkbox"/>
2. Cash Flow Statement	<input type="checkbox"/>	<input checked="" type="checkbox"/>
3. Income Statement	<input type="checkbox"/>	<input checked="" type="checkbox"/>
B. Non-Revenue Earning Entity (all items are to be filled-in):		
1. Balance sheet	<input type="checkbox"/>	<input checked="" type="checkbox"/>
2. Statement on use of funds by Project components	<input checked="" type="checkbox"/>	<input type="checkbox"/>
C. If applicable (refer to Loan Agreement):		
1. Statement of Expenditure for the period from January 1, 2017 to April 28, 2018	<input checked="" type="checkbox"/>	<input type="checkbox"/>
2. Statement on use of designated account	<input checked="" type="checkbox"/>	<input type="checkbox"/>

III. Notes to the financial statements

<input checked="" type="checkbox"/>	<input type="checkbox"/>
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IV. Reconciliation between World Bank records and project records

<input checked="" type="checkbox"/>	<input type="checkbox"/>
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V. Management Letter

<input checked="" type="checkbox"/>	<input type="checkbox"/>
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