

RUE "Belinvestenergosberezhenie"

Financial statements of the "Belarus Biomass District
Heating Project"
#8351 BY
for the year ended 31 December 2018

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Independent Auditors' Report

To the participants and management of RUE "Belinvestenergosberezhenie"

Opinion

We have audited the financial statements of the "Belarus Biomass District Heating Project" #8351 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 year ended 31 December 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 8351BY 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 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 these 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 8351BY 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 8351BY 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 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.



RUE "Belinvestenergosberezhenie"

Independent Auditors' Report

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- 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
Audit Director
LLC "KPMG"
Minsk, Republic of Belarus
April 24, 2019



Audit company: 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 details: registered by Minsk City Executive Committee on 10 February 2011. Registration number in the Unified State Register of legal entities and individual entrepreneurs № 191434140. Legal address: 49 Platonova str., 7th floor, 220012 Minsk Belarus.

Audited entity: RUE "Belinvestenergosberezhenie"

Registration details: Registration number in the Unified State Register of legal entities and individual entrepreneurs № 101458642. Legal address: 29 Masharova av, 220002 Minsk Belarus.

Financial Statements of the project "Belarus biomass district heating project", financed by World Bank loan 8351-BY

Statement of Project Sources and Uses of Funds for the year ended 31 December 2018 *(in USD)*

	Actual		Planned
	For the year ended 31 December 2018	Cumulative total amount	For the whole project period
Opening Cash Balance			
Project Bank Account	-	-	-
World Bank Special Account	1 419 858	-	-
TOTAL	1 419 858	-	-
Plus:			
Sources of Funds			
Government Funds	-	-	-
World Bank Funds	6 500 000	57 805 000	-
Direct payments	-	225 000	-
Special Account	6 500 000	57 805 000	-
TOTAL	6 500 000	57 805 000	-
Less:			
Uses of Funds			
Financed by World Bank	7 019 285	56 904 427	90 000 000
Works, goods, consultant's services, training	7 019 285	56 679 427	89 775 000
Front End Fee	-	225 000	225 000
Financed by Government	-	-	-
TOTAL	7 019 285	56 904 427	-
Closing Cash Balance			
Project Bank Account	-	-	-
World Bank Special Account	900 573	900 573	-
TOTAL	900 573	900 573	-

The financial statements were approved by the management on April 24, 2019 and on behalf of the management signed:

Director
V.V. Knys

Chief accountant
T.P. Bushkevich

The notes on pages from 11 to 14 form an integral part of the financial statements.

Statement of Uses of Funds by Project Activity for the year ended 31 December 2018

(in USD)

Project activities	For the year ended 31 December 2018	Cumulative total amount
1. Contracts for Design, Supply and Installation of Plants		
	1 637 403	9 161 027
MINSK		
BDHP/ICB/14/01	177 636	1 721 628
BDHP/ICB/15/05	456 889	4 568 721
BDHP/DC/17/01	1 002 878	2 870 678
Bank commission	35	65
	141 689	8 347 377
MOGILEV		
BDHP/ICB/14/02	-	3 868 728
BDHP/ICB/14/03	-	3 306 000
BDHP/ICB/16/01	141 689	1 172 649
Bank commission	-	-
	855 265	10 870 771
BREST		
BDHP/ICB/14/04	-	5 199 240
BDHP/ICB/15/01	-	1 518 633
BDHP/ICB/15/02	-	1 909 746
BDHP/DC/17/02	466 215	1 854 102
BDHP/ICB/18/01	389 050	389 050
Bank commission	-	6
	1 924 375	8 817 823
GRODNO		
BDHP/ICB/15/03	1 924 375	8 817 823
Bank commission	-	-
	2 357 127	18 835 970
GOMEL		
BDHP/ICB/15/04	-	2 367 548
BDHP/ICB/15/06	2 357 127	13 631 899
BDHP/ICB/15/08	-	2 836 523
Bank commission	35	171
	70	242
Bank commission for Component 1		
Total for Component 1	6 915 929	56 033 209
2. Consulting services, project management unit's costs		
	103 335	646 167

Bank commission for Component 2	21	51
Total for Component 2	103 356	646 218
Front-end Fee	-	225 000
Total Project Expenditure	7 019 285	56 904 427

The financial statements were approved by the management on April 24, 2019 and on behalf of the management signed:

Director
V.V. Knysh

Chief accountant
T.P. Bushkevich

The notes on pages from 11 to 14 form an integral part of the financial statements.

Special Account Statement for the year ended 31 December 2018*(in USD)*

Bank where the special account was opened

OJSC "Belinvestbank"

Currency

USD

Account Number BY98BLBB36200101458672001006**Opening balance at the beginning of the period** 1 419 858**Add:**

World Bank advances into the SA during the period

6 500 000

Less:

Withdrawals for the project during the period

7 019 285

Refunds to World Bank from the S.A. during the period


-

Total withdrawals during the period**7 019 285****Closing balance as at the end of the period****900 573**

The financial statements were approved by the management on April 24, 2019 and on behalf of the management signed:


Director

V.V. Knysh


Chief accountant
T.P. Bushkevich

The notes on pages from 11 to 14 form an integral part of the financial statements.

Statement of Expenditure Withdrawal Schedule for the year ended 31 December 2018

(in USD)

Number of application for withdrawal	Date of withdrawal	Works, goods, consultant's services, training	Amount received on special account
79	23.01.2018	2 567 891	-
80	29.01.2018	-	2 900 000
81	02.05.2018	1 289 680	-
82	13.06.2018	956 706	-
83	14.06.2018	-	3 600 000
84	14.09.2018	667 618	-
85	17.12.2018	2 468 736	-
86	28.12.2018	219 468	-
87	31.12.2018	1 417 079	-
TOTAL		9 587 177	6 500 000

The financial statements were approved by the management on April 24, 2019 and on behalf of the management signed:

Director
V.V. Knysh

Chief accountant
T.P. Bushkevich

The notes on pages from 11 to 14 form an integral part of the financial statements.

Notes to the financial statements

For the year ended 31 December 2018

(All amounts determined in USD if not otherwise stated)

Project Description

In view of rapidly depleting global stock of conventional exhaustible energy source, during the last several decades the developed economies have concentrated on developing and launching national programs aimed to convert their industries to the use of alternative fuels.

Given the expanding worldwide deficit and ongoing growth of prices for conventional fossil fuels, the Republic of Belarus faces an urgent need to substitute them with local, including renewable energy resources. The objective to maximize the share of local fuels, including renewable energy is a top priority for the nation importing 80-85% of all fuel and energy resources.

Wood is a specific fuel type. The incinerating units should be located near to the fuel bases to reduce the transportation/harvesting component of the resource cost.

The investment amounts and measures on building wood fuel production infrastructure are defined in the 2016–2020 State Program of “Belarusian Forest” approved by Resolution 215 dated March 18, 2016, of the Council of Ministers of the Republic of Belarus. According to this program annual increase in the production of wood fuel and the production of fuel wood chip is planned. The assignments to the Ministry of Forestry of the Republic of Belarus for the production of wood chip by regions are defined.

Wood fuel/wood chips will be supplied for the Project under contracts between facility operators/utilities and regional/district forestry companies.

The Project provides for introducing wood chip-fired boilers and upgrading central district heating systems in 13 settlements in the regions of the Republic of Belarus:

1. Grodno region (Volkovyssk Town);
2. Brest region (Baranovichi Town, Berioza Town, Ivanovo Town);
3. Minsk region (Cherven Town, Starye Dorogi Town, Kholopenichi Settlement);
4. Mogilev region (Kadino Settlement, Cherikov Town, Veremeiki Settlement);
5. Gomel region (Kalinkovichi Town, Ziabrovka Settlement, Zarechje Settlement).

At 11 settlements, the work was completed by the end of 2018:

1. Brest region (Berioza Town, Ivanovo Town);
2. Minsk region (Starye Dorogi Town, Kholopenichi Settlement);
3. Mogilev region (Kadino Settlement, Cherikov Town, Veremeiki Settlement);
4. Gomel region (Ziabrovka Settlement, Zarechje Settlement, Kalinkovichi Town);
5. Grodno region (Volkovyssk Town).

Work continues on the settlements in Brest Town, Cherven Town.

In order to make full use of the loan with account of the directive № 199rp dated 13 December 2017 of the President of the Republic of Belarus, contracts for 2 objects were signed:

1. “Construction of a Block-Modular Domestic Fuel Fired Boiler House on the Territory of Boiler House No.1 in 109 Sovetskaya Str. in the City of Kobryn”;
2. “Construction of a Block-Modular Domestic Fuel Fired Boiler House in Prishchepy Str. in the Town of Buda-Koshelevo with Re-laying of Heating Mains”.

Construction and upgrading of all considered objects is provided for 2014-2019. This would be due to the additional production and sale of electricity generation, which is planned to begin to be produced on the electric generating set in Baranovichi, Volkovysk and Kalinkovichi.

The overall Project average annual boiler capacity factor is 45.5%, since the installed capacity is mostly designed for operation in the heating season only (for six months); also, the load on such

boiler plants is unevenly distributed by the seasons; therefore, boiler equipment has to meet the maximum requirements the coldest periods.

Significant accounting policies.

Basis of accounting

Financial statements have been prepared in accordance with the Loan Agreement 8351BY 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.

Notes to the financial statements

For the year ended 31 December 2018

(All amounts determined in USD if not otherwise stated)

Reporting period

This report covers the period of use of the Loan funds for the year ended 31 December 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 Bank USD is the currency of the financial statements. Payments made in Belarussian 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".

Project accounts

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

Special foreign currency account of the project № BY98BLBB36200101458672001006 is opened in USD.

Budget project account № BY82BLBB36200101458672001003 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 for the Project	89 775 000	100 %
(2) Front-end Fee	225 000	Amount payable pursuant to Section 2.03 of Loan Agreement 8351-BY in accordance with Section 2.07 (b) of the General Conditions
TOTAL AMOUNT	90 000 000	

World Bank Audit Documentation Checklist

Name of Loan/Credit:	"Belarus Biomass District Heating Project"
Loan/Credit #	8351-BY
Auditors' Report:	April 24, 2019

Check if
Included

Check if
N/A

I. Auditors' Report (Opinion):

A. Applicable accounting standards noted

X

B. Applicable auditing standards noted

X

C. Opinion rendered on all forms of withdrawals:

1. Statement of Expenditures for the year ended 31 December 2018

X

2. Designated account

X

D. All sources of financing for the project are noted

X

II. Financial statements:

A. Revenue Earning Entity (all items are to be filled-in):

1. Balance sheet

X

2. Cash Flow Statement

X

3. Income Statement

X

B. Non-Revenue Earning Entity (all items are to be filled-in):

1. Balance sheet

X

2. Statement on use of funds by Project components

X

C. If applicable (refer to Loan Agreement):

1. Statement of Expenditure for the year ended 31 December 2018

X

2. Statement on use of designated account

X

III. Notes to the financial statements

X

IV. Reconciliation between World Bank records and project records

X

V. Management Letter

X