RUE “Belinvestenergosberezhnie”

Financial statements of the “Belarus Biomass District Heating Project”
#8351
for the year ended 31 December 2016
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Independent Auditors’ Report on Financial Statements

To: Mr. V.V. Knysh
Director
RUE “Belinvestenergosberezhenie”
12 Dolgobrotskaya St.
Minsk, 220037, Republic of Belarus

Certificate of state registration is issued under ruling of
Minsk City Executive Committee on 4 July 2000
Registration number №101486672
Out ref.: 2704-05

Opinion

We have audited the accompanying financial statements of the “Belarus Biomass District Heating Project” #8351 (hereinafter - Project) prepared by RUE “Belinvestenergosberezhenie”, 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 2016, and notes to the financial statements. The financial statements have been prepared by management on the basis of cash accounting and in accordance with the relevant guidelines of the World Bank.

In our opinion, the financial statements of the Project for the year ended 31 December 2016 are prepared, in all material respects, on the basis of cash accounting and in accordance with the relevant guidelines of the World Bank.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those provisions and standards are further described in the “Auditor’s responsibilities for the audit of the Financial Statements” section of our report. We are independent of RUE “Belinvestenergosberezhenie” in accordance with International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Republic of Belarus, and we have fulfilled our other ethical responsibilities 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 and Restriction of Use and Distribution**

We draw attention to Notes to the financial statements, which describe the basis of accounting. The financial statements are prepared to assist RUE “Belinvestenergosberezhenie” to comply with the financial reporting provisions of the World Bank. As a result, the financial statements may not be suitable for another purpose. Our report is intended solely for the 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 Director for the World Bank’s Projects Implementation for the Financial Statements**

The Management is responsible for the preparation of these financial statements on the basis of cash accounting and in accordance with the relevant guidelines of the World Bank, as well as for such internal control as management determines necessary to enable the preparation of these financial statements that are free from material misstatement, whether due to fraud or error.

Director for the World Bank’s projects implementation is responsible for overseeing the financial reporting process of RUE “Belinvestenergosberezhenie”.

**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 internal control of RUE “Belinvestenergosberezhenie”.
• Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

We communicate with director for the World Bank's projects implementation 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.

Vasyl Pavlenko
Deputy Audit Director
27 April 2017
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 "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 2016

<table>
<thead>
<tr>
<th>Sources of Funds</th>
<th>Actual</th>
<th>Planned</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>For the year ended 31 December 2016</td>
<td>Cumulative total amount</td>
</tr>
<tr>
<td>Project Bank Account</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>World Bank Special Account (Belarusian rubles in the USD equivalent on the account in Belarusian rubles)</td>
<td>355 857</td>
<td>-</td>
</tr>
<tr>
<td>TOTAL</td>
<td>355 857</td>
<td>-</td>
</tr>
</tbody>
</table>

Sources of Funds

- Government Funds
- World Bank Funds 16 360 000 25 205 000 -
- Direct payments - 225 000 -
- Special Account 16 360 000 24 980 000 -
- TOTAL 16 360 000 25 205 000 -

Less: Uses of Funds

- Financed by World Bank
  - Works, goods, consultant's services, training 15 674 522 23 938 665 89 775 000
  - Front End Fee - 225 000 225 000
- Financed by Government - - -
- TOTAL 15 674 522 24 163 665 -

Closing Cash Balance

- Project Bank Account - - -
- World Bank Special Account 1 041 335 1 041 335 -
- TOTAL 1 041 335 1 041 335 -

Chief engineer acting director G.A. Kirilchik

Chief accountant T.P. Bushkevich

The notes on pages from 10 to 12 form an integral part of the financial statements.
Statement of Uses Funds by Project Activity for the year ended 31 December 2016

(in USD)

<table>
<thead>
<tr>
<th>Project activities</th>
<th>For the year ended 31 December 2016</th>
<th>Cumulative total amount</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>1. Contracts for Design, Supply and Installation of Plants</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>MINSK</td>
<td></td>
<td></td>
</tr>
<tr>
<td>BDHP/ICB/14/01</td>
<td>491 180</td>
<td>491 180</td>
</tr>
<tr>
<td>MOGILEV</td>
<td></td>
<td></td>
</tr>
<tr>
<td>BDHP/ICB/14/02</td>
<td>1 127 776</td>
<td>7 292 653</td>
</tr>
<tr>
<td>BDHP/ICB/14/03</td>
<td>615 251</td>
<td>3 868 728</td>
</tr>
<tr>
<td>BDHP/ICB/14/04</td>
<td>394 600</td>
<td>3 306 000</td>
</tr>
<tr>
<td>BDHP/ICB/16/01</td>
<td>117 925</td>
<td>117 925</td>
</tr>
<tr>
<td>Bank commission</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>BREST</td>
<td></td>
<td></td>
</tr>
<tr>
<td>BDHP/ICB/14/04</td>
<td>3 886 948</td>
<td>4 563 451</td>
</tr>
<tr>
<td>BDHP/ICB/15/01</td>
<td>789 238</td>
<td>1 518 633</td>
</tr>
<tr>
<td>BDHP/ICB/15/02</td>
<td>1 731 746</td>
<td>1 909 746</td>
</tr>
<tr>
<td>Bank commission</td>
<td>12</td>
<td>12</td>
</tr>
<tr>
<td>GOMEL</td>
<td></td>
<td></td>
</tr>
<tr>
<td>BDHP/ICB/15/04</td>
<td>2 129 548</td>
<td>2 367 548</td>
</tr>
<tr>
<td>BDHP/ICB/15/06</td>
<td>2 860 449</td>
<td>2 860 449</td>
</tr>
<tr>
<td>BDHP/ICB/15/08</td>
<td>2 490 373</td>
<td>2 490 373</td>
</tr>
<tr>
<td>Bank commission</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td>Bank commission for Component 1</td>
<td>15</td>
<td>15</td>
</tr>
<tr>
<td>Total for Component 1</td>
<td>15 507 273</td>
<td>23 494 048</td>
</tr>
<tr>
<td><strong>2. Consulting services, PMU's costs</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bank commission for Component 2</td>
<td>167 249</td>
<td>444 617</td>
</tr>
<tr>
<td>Total for Component 2</td>
<td>10</td>
<td>30</td>
</tr>
<tr>
<td>Front-end Fee</td>
<td>-</td>
<td>225 000</td>
</tr>
<tr>
<td><strong>Total Project Expenditure</strong></td>
<td>15 674 522</td>
<td>24 163 665</td>
</tr>
</tbody>
</table>

Chief engineer acting director
G.A. Kirilchik

Chief accountant
T.P. Bushkevich

The notes on pages from 10 to 12 form an integral part of the financial statements.
Special Account Statement for the year ended 31 December 2016

<table>
<thead>
<tr>
<th>Bank where the special account was opened</th>
<th>OJSC “Belinvestbank”</th>
</tr>
</thead>
<tbody>
<tr>
<td>Currency</td>
<td>USD</td>
</tr>
</tbody>
</table>

Account Number 3620933616134

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Opening balance at the beginning of the period</td>
<td>355,857</td>
</tr>
<tr>
<td>Add:</td>
<td></td>
</tr>
<tr>
<td>World Bank advances into the SA during the period</td>
<td>16,360,000</td>
</tr>
<tr>
<td>Less:</td>
<td></td>
</tr>
<tr>
<td>Withdrawals for the project during the period</td>
<td>15,674,522</td>
</tr>
<tr>
<td>Refunds to World Bank from the S.A. during the period</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total withdrawals during the period</strong></td>
<td>15,674,522</td>
</tr>
<tr>
<td><strong>Closing balance as at the end of the period</strong></td>
<td><strong>1,041,335</strong></td>
</tr>
</tbody>
</table>

Chief engineer acting director  
G.A. Kirilchik

Chief accountant  
T.P. Bushkevich

The notes on pages from 10 to 12 form an integral part of the financial statements.
Statement of Expenditure Withdrawal Schedule for the year ended 31 December 2016

<table>
<thead>
<tr>
<th>Number of application for withdrawal</th>
<th>Date of withdrawal</th>
<th>Works, goods, consultant’s services, training</th>
<th>Amount received on special account</th>
</tr>
</thead>
<tbody>
<tr>
<td>25</td>
<td>18.01.2016</td>
<td>600 000</td>
<td>600 000</td>
</tr>
<tr>
<td>26</td>
<td>26.01.2016</td>
<td>200 000</td>
<td>200 000</td>
</tr>
<tr>
<td>27</td>
<td>28.01.2016</td>
<td>600 000</td>
<td>600 000</td>
</tr>
<tr>
<td>30</td>
<td>23.03.2016</td>
<td>350 000</td>
<td>350 000</td>
</tr>
<tr>
<td>32</td>
<td>03.05.2016</td>
<td>650 000</td>
<td>650 000</td>
</tr>
<tr>
<td>33</td>
<td>20.05.2016</td>
<td>1 000 000</td>
<td>1 000 000</td>
</tr>
<tr>
<td>36</td>
<td>07.06.2016</td>
<td>600 000</td>
<td>600 000</td>
</tr>
<tr>
<td>37</td>
<td>10.06.2016</td>
<td>2 000 000</td>
<td>2 000 000</td>
</tr>
<tr>
<td>39</td>
<td>24.06.2016</td>
<td>3 500 000</td>
<td>3 500 000</td>
</tr>
<tr>
<td>41</td>
<td>18.08.2016</td>
<td>600 000</td>
<td>600 000</td>
</tr>
<tr>
<td>43</td>
<td>30.08.2016</td>
<td>450 000</td>
<td>450 000</td>
</tr>
<tr>
<td>45</td>
<td>07.09.2016</td>
<td>450 000</td>
<td>450 000</td>
</tr>
<tr>
<td>46</td>
<td>14.09.2016</td>
<td>650 000</td>
<td>650 000</td>
</tr>
<tr>
<td>49</td>
<td>26.09.2016</td>
<td>510 000</td>
<td>510 000</td>
</tr>
<tr>
<td>51</td>
<td>11.10.2016</td>
<td>850 000</td>
<td>850 000</td>
</tr>
<tr>
<td>53</td>
<td>01.11.2016</td>
<td>750 000</td>
<td>750 000</td>
</tr>
<tr>
<td>55</td>
<td>15.11.2016</td>
<td>600 000</td>
<td>600 000</td>
</tr>
<tr>
<td>56</td>
<td>19.12.2016</td>
<td>2 000 000</td>
<td>2 000 000</td>
</tr>
</tbody>
</table>

Total 16 360 000 16 360 000

Chief engineer acting director  
G.A. Kirilchik  
Chief accountant  
T.P. Bushkevich

The notes on pages from 10 to 12 form an integral part of the financial statements.
Notes to the financial statements
For the year ended 31 December 2016
(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 2011-2015 State Program of Forest Sector Development approved by
Resolution 1626 dated November 3, 2010, of the Council of Ministers of the Republic of
Belarus. The program provides for annual step-up of the volumes of wood fuel production
and fuel wood chip production. The Ministry of Forestry of the Republic of Belarus has
received regional-level assignments for wood chip production.

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

Enhancement of efficient use of renewable wood biomass for electric and heat energy
production in settlements of the Republic of Belarus covered by the Project.

The Project provides for introducing wood chip-fired boilers and upgrading central district
heating systems in 13 settlements of the Republic of Belarus (Berioza Town, Baranovichi
Town, Ivanovo Town, Volkovysk Town, Ziabrovka Settlement, Zarechje Settlement,
Cherven Town, Kholopenichi Settlement, Kalinkovichi Town, Kadino Settlement,
Veremeiki Settlement, Cherikov Town, Starye Dorogi Town). It is planned to build/upgrade
all 13 facilities in 2014-2019 due to the electricity generation/supply to be launched 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 on a cash basis of accounting. Accounting policies
were used consistently during the whole period of the Loan use. Accounting data of
RUE “Belinvestenergosberezenie” form the basis for the financial statements preparation.
The project transactions recorded separately from the funds received from other sources of
finance of RUE “Belinvestenergosberezenie”.

10
Notes to the financial statements

For the year ended 31 December 2016
(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 2016.

Financial statements currency

USD is the currency of the financial statements in accordance with the requirements of the World Bank. Payments made in Belarusian rubles are presented in the financial statements in USD at the actual exchange rate.

Funds of the project financed by the World Bank

The World Bank provided Project funds upon requests signed by the authorized representative of RUE “Belinvestenergosberezhenie”. 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 № 3620933616134 is opened in USD. Budget project account № 3620933610127 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

Project management group keeps its records and prepares its financial statements on cash basis accounting. Cash proceeds are recorded when obtained from the World Bank. Expenses are recorded at the date of withdrawal of funds from the project accounts. 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:

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount of the Loan funds (in USD)</th>
<th>Percentage of costs to be financed</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Goods, works, consultants’ services (including audits), and Training for the Project</td>
<td>89 775 000</td>
<td>100 %</td>
</tr>
<tr>
<td>(2) Front-end Fee</td>
<td>225 000</td>
<td>Amount payable pursuant to Section 2.03 of Loan Agreement 8351-BY in accordance with Section 2.07 (b) of the General Conditions</td>
</tr>
<tr>
<td>TOTAL AMOUNT</td>
<td>90 000 000</td>
<td></td>
</tr>
</tbody>
</table>
The project ‘Reconstruction of the boiler house of the Tekser neighbourhood in the city of Baranovichi with capacity increase and installation of boilers for MW (6MW)’.

During 2016 in terms of the implementation of the project ‘Usage of wood biomass for central heating’ under the Contract No. BHHP/ICB/15/01 dated 25 August 2015 ‘Reconstruction of the boiler house of the Tekser neighbourhood in the city of Baranovichi with capacity increase and installation of boilers for MW (6MW)’, the Contractor violated the substantial terms of the contract, namely the provided bank guarantee for the fulfillment of the contract terms is not confirmed by the guarantor.

Due to the detected violations KUPP "Baranovichi communteploset" informed the Contractor about the suspension of all payments under the above contract. At the moment, the work on the project is suspended.
World Bank Audit Documentation Checklist

<table>
<thead>
<tr>
<th>Name of Loan/Credit:</th>
<th>World Bank</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loan/Credit #</td>
<td>8351-BY</td>
</tr>
<tr>
<td>Auditors’ Report:</td>
<td>27 April 2017</td>
</tr>
</tbody>
</table>

I. Auditors’ Report (Opinion):

A. Applicable accounting standards noted
   
   B. Applicable auditing standards noted
   
   C. Opinion rendered on all forms of withdrawals:
      1. Statement of Expenditures for the year ended 31 December 2016
      2. Designated account
      D. All sources of financing for the project are noted

II. Financial statements:

A. Revenue Earning Entity (all items are to be filled-in):
   1. Balance sheet
   2. Cash Flow Statement
   3. Income Statement

B. Non-Revenue Earning Entity (all items are to be filled-in):
   1. Balance sheet
   2. Statement on use of funds by Project components

C. If applicable (refer to Loan Agreement):
   1. Statement of Expenditure for the year ended 31 December 2016
   2. Statement on use of designated account

III. Notes to the financial statements

IV. Reconciliation between World Bank records and project records

V. Management Letter

Check if Included | Check if N/A
---|---
X | X
X | X
X | X
X | X
X | X
X | X
X | X
X | X
X | X
X | X