

MINISTRY OF ENERGY AND COAL INDUSTRY OF UKRAINE
SECOND POWER TRANSMISSION PROJECT, PART 3,

SPECIAL PURPOSE FINANCIAL STATEMENTS

For the period from 01 January 2018 to 31 December 2018

Together with Independent Auditor's Report

SECOND POWER TRANSMISSION PROJECT, PART 3

SPECIAL PURPOSE FINANCIAL STATEMENTS

For the period from 01 January 2018 to 31 December 2018

In USD

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INDEPENDENT AUDITOR'S' REPORT

To the Ministry of Energy and Coal Industry of Ukraine

Report on the audit of the special purpose financial statements

Opinion

We have audited the accompanying special purpose financial statements of the Second Power Transmission Project, Part 3 (the "Project"), financed from the Loan No. 8462-UA for the period from 01 January 2018 to 31 December 2018, which comprise:

- Summary of Sources and Uses of Funds as at 31 December 2018;
- Report on the Statements of Expenditure from 01 January 2018 to 31 December 2018;
- Special Account Statement for the period from 01 January 2018 to 31 December 2018;
- Summary of significant accounting policies and other explanatory notes.

In our opinion, the accompanying special purpose financial statements give true and fair view of the sources and uses of funds of the Loan No. 8462-UA in respect of the Second Power Transmission Project, Part 3, for the period from 01 January 2018 to 31 December 2018, in accordance the Bank's regulations.

External funds have been used in compliance with the requirements of the corresponding general conditions, financial agreements, and the Disbursement Letter, paying due attention to efficiency and cost-effectiveness; and have been used only for the corresponding purposes.

Conditions of the Loan Agreement № 8462-UA do not provide for the use of partners' funds.

The services have been purchased in compliance with the corresponding general conditions, financial agreements, and the Disbursement Letter.

Accounting and storing of the necessary interim documents, accounting data and accounts regarding all Project transactions, including those concerning the expenditures disclosed in the Statements of actual expenditures, are performed in a due manner. There is a clear interconnection between accounting data and the financial statements provided to the World Bank.

The prepared special purpose financial statements comply with the requirements of generally accepted accounting principles and practices, and the instructions from the World Bank; and truly and objectively reflect the financial position of the Project as at 31 December 2018 as well as the resources and expenditures for the period from 01 January 2018 to 31 December 2018.

Opinion regarding expenditures

In addition, with regard to the expenditures for the period from 01 January 2018 to 31 December 2018, adequate supporting documentation was maintained to confirm applications submitted to the Bank for reimbursement of the expenditures incurred, and that the expenditures stated in the withdrawal applications are to be financed in accordance with the terms and conditions of the Loan № 8462-UA.

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 *Auditor's Responsibilities for the Audit of the Special Purpose Financial Statements* section of our report. We are independent of the Ministry of Energy and Coal Industry of Ukraine in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA's Code), and ethical requirements applied in Ukraine to our audit of financial statements, and we have fulfilled our other ethical responsibilities in accordance with the IESBA's Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of matter

We draw attention to Note 2 to the Special Purpose Financial Statements, where the fact is disclosed that the Closing Date is 30 June 2020, or such later date set by the Bank. We do not further qualify our opinion in this regard.

Responsibility of Management and Those Charged with Governance for the Special Purpose Financial Statements

Management is responsible for the preparation and fair presentation of these special purpose financial statements in accordance with World Bank's regulations, and for such internal control as management determines is necessary to enable the preparation of the special purpose financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the special purpose financial statements, management is responsible for assessing the Project ability to continue as a going concern within the period of uses of funds, i.e. before 30 June 2020, or such later date set by the Bank disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Project or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the financial reporting process of the Project.

Auditor's Responsibility for the Audit of the Special Purpose Financial Statements

Our objectives are to obtain reasonable assurance about whether the special purpose financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's 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 special purpose 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 special purpose 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.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the 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 Project's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the special purpose 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 auditor's report. However, future events or conditions may cause the Project to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the special purpose financial statements, including the disclosures, and whether the special purpose financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The audit was performed under the supervision of the Head of the Audit dep-t, Nikolaenko Alexander N.
Head of the Audit dep-t

Nikolaenko A.N.

On behalf of BDO LLC

Director

24 May 2019

Kyiv



Balchenko S.O.

SECOND POWER TRANSMISSION PROJECT, PART 3

SUMMARY OF SOURCES AND USES OF FUNDS

For the period from 01 January 2018 to 31 December 2018
In USD

	Factual	
	For the period	Total
Opening balance		
Special account with JSC Ukreximbank - USD	88,000	
Current account with JSC Ukreximbank - UAH	1,226	
Total available funds at the beginning of period:	89,226	
Sources of funds:		
Loan of the International Bank for Reconstruction and Development	80,172	346,116
Total financing:	80,172	346,116
Project expenditure:		
Category 2: Goods, non-consulting services, consultants' services, and Training for Part 3 of the Project	166,702	343,420
Total Project expenditure:	166,702	343,420
Closing balance		
Special account with JSC Ukreximbank - USD	-	-
Current account with JSC Ukreximbank - UAH	2,696	2,696
	2,696	2,696

Notes on pages 13 - 15 are an integral part of these financial statements.

SECOND POWER TRANSMISSION PROJECT, PART 3

STATEMENT OF WITHDRAWALS FROM THE LOAN ACCOUNT

For the period from 01 January 2018 to 31 December 2018

In USD

Number of application	Category	Date of withdrawal	Payment		USD equivalent
			Currency	Amount	
5-MECI/SA	DA-C	28.08.2018	USD	80,172	80,172
Total:					80,172

Summary schedule by categories:	
DA-C	80,172
Total:	80,172

Notes on pages 13 - 15 are an integral part of these financial statements.

SECOND POWER TRANSMISSION PROJECT, PART 3

STATEMENT OF WITHDRAWALS THROUGH THE SUMMARY OF STATEMENTS OF EXPENDITURES

For the period from 01 January 2018 to 31 December 2018

In USD

<i>Number of application</i>	<i>Category 2</i>	<i>Total</i>
1. Expenditures factually incurred up to 01.01.2018 and compensated by the World Bank during the period from 01.01.2018 - 31.12.2018		
5-MECI/SA	9,032	9,032
		-
Total	9,032	9,032
2. Applications submitted to the World Bank and reimbursed for the period 01.01.2018 - 31.12.2018		
5-MECI/SA	71,140	71,140
		-
Total	71,140	71,140
3. Costs actually incurred for the period from 01 January 2018 to 31 December 2018		
From the Loan account	-	-
From Special Accounts	26,605	26,605
From current accounts in national currency	140,097	140,097
Total	166,702	166,702
4. Table of differences in Project costs between the World Bank records and PIU for the period from 01 January 2018 to 31 December 2018		
Reimbursed according to IBRD information	71,140	71,140
Amount of costs not provided for reimbursement as at 31 December 2018	95,562	95,562
According to PIU data	166,702	166,702

Notes on pages 13 - 15 are an integral part of these financial statements.

SECOND POWER TRANSMISSION PROJECT, PART 3

STATEMENT OF CASH WITHDRAWAL FROM SPECIAL ACCOUNTS

For the period from 01 January 2018 to 31 December 2018

In USD

Category	Date of withdrawal	Payment		USD Equivalent amount
		Currency	Amount	
Sub_account	24.01.2018	USD	12,500	12,500
2	26.01.2018	EUR	8,928	11,205
Sub_account	13.03.2018	USD	9,600	9,600
Sub_account	28.03.2018	USD	9,900	9,900
Sub_account	11.05.2018	USD	9,400	9,400
Sub_account	30.05.2018	USD	9,600	9,600
Sub_account	22.06.2018	USD	9,200	9,200
Sub_account	13.07.2018	USD	7,500	7,500
Sub_account	25.07.2018	USD	9,095	9,095
Sub_account	31.08.2018	USD	11,800	11,800
Sub_account	24.09.2018	USD	20,500	20,500
Sub_account	04.10.2018	USD	23,500	23,500
2	30.10.2018	EUR	13,392	15,401
Sub_account	28.12.2018	USD	8,971	8,971
Total:				168,172

Summary by categories	
Category 2	26,605
Sub_account	141,566
Total:	168,172

Notes on pages 13 - 15 are an integral part of these financial statements.

SECOND POWER TRANSMISSION PROJECT, PART 3

SPECIAL ACCOUNT STATEMENT

For the period from 01 January 2018 to 31 December 2018

In USD

Deposit bank	Ukreximbank
Account No.	25235000000000
Loan No.	84620
Currency	USD
<hr/>	
OPENING BALANCE	88,000
Receipts: Funds received	80,172
Accrued interest	-
TOTAL FUNDS RECEIVED	80,172
Holdback: expenditure	
Translation of funds in national currency	141,566
Direct payments from special account	26,605
Payment of bank services	-
TOTAL EXPENDITURE	168,172
CLOSING BALANCE	-

Notes on pages 13 - 15 are an integral part of these financial statements.

SECOND POWER TRANSMISSION PROJECT, PART 3

STATEMENT OF FACTUAL EXPENDITURES IN NATIONAL CURRENCY

For the period from 01 January 2018 to 31 December 2018

In USD

	----- Payment-----		USD
	Currency	Amount	Equivalent amount
Category 2: Goods, non-consulting services, consultants' services, and Training for Part 3 of the Project	UAH	3,820,494	140,097
Total expenditure of the period		3,820,494	140,097

Notes on pages 13 - 15 are an integral part of these financial statements.

SECOND POWER TRANSMISSION PROJECT, PART 3

RECONCILIATION BETWEEN RECORDS OF PIU AND THE BANK

For the period from 01 January 2018 to 31 December 2018

In USD

Loan amount		2,500,000
Subtract:		
Project costs:		
Category 2: Goods, non-consulting services, consultants' services, and Training for Part 3 of the Project	343,420	
Total:	(343,420)	
Special account with JSC Ukreximbank - USD	-	
Current account with JSC Ukreximbank - UAH	2,696	
Total available funds	(2,696)	
Total withdrawals:		(346,116)
Balance as at 31 December 2018		2,153,884

Notes on pages 13 - 15 are an integral part of these financial statements.

SECOND POWER TRANSMISSION PROJECT, PART 3

NOTES TO THE SPECIAL PURPOSE FINANCIAL STATEMENTS

For the period from 01 January 2018 to 31 December 2018

In USD

1. PROJECT DESCRIPTION

Since 2004, the Ministry of Fuel and Energy (MoFE) and, more recently, the Ministry of Energy and Coal Industry (MoECI) together with the World Bank have been implementing measures to prepare and implement the energy sector reform and development program. The program is aimed at increasing the level of security and reliability of energy supply, promoting the uninterrupted operation of the energy market in Ukraine, as well as providing Ukraine with support for legal, institutional and technical harmonization of the energy sector of Ukraine with the EU internal energy market.

Launched in 2015, the Second Power Transmission Project is supported by the IBRD loan of USD 330 million and the loan of the Clean Technology Fund of 48,425 million USD. The Project includes Part 3 in the amount of 2.5 million USD to provide the Ministry of Energy and Coal Industry with institutional capacity for reform implementation in the energy sector in accordance with Ukraine's commitments in the framework of the Energy Community membership, as well as the Association Agreement between Ukraine and the EU.

According to paragraph B6 Section II of Additional article 2 to the Loan Agreement "The Borrower, through MoECI, shall have the Financial Statements corresponding to Part 3 of the project audited in accordance with the provisions of Section 5.09 (b) of the General Conditions. Each such audit of the Financial Statements shall cover the period of one fiscal year of the Borrower. The audited Financial Statements for each such period shall be furnished to the Bank not later than six (6) months after the end of such period".

Total amount of Part 3 of the Loan No. 8462-UA is USD 2 500 000.00.

Part 3 Procurement Plan specifies that the Part funds shall be used to finance consulting services (individual consultants and consulting companies).

The first contract under Part 3 was signed on 23 August 2016. The use of funds to finance activities under Part 3 of the Loan No. 8462-UA began in the fourth quarter of 2016.

The following accounts were opened for use of funds under Part 3 of the Loan No. 8462-UA:

- Special (USD) account in JSC "State Export-Import Bank of Ukraine" (advances from the World Bank Loan Account, settlements in foreign currency, receipt of funds from the Loan Account for resale, remittance of currency funds for further settlements in UAH);
- Special account in national currency in JSC "State Export-Import Bank of Ukraine" (enrollment of Ukrainian hryvnias received from the sale of foreign currency funds, payments in UAH);
- Special (EUR) account in JSC "State Export-Import Bank of Ukraine" (payment of services in EUR).

2. BASIS OF PRESENTATION

These special purpose financial statements of the Project are prepared on a cash basis and include such significant accounting policies that have been consistently applied in all material respects and are in accordance with the recommendations of the World Bank's Financial Management Committee "Recommendations: Annual Financial Reporting and Audit of Activities, funded by the World Bank". Project financing is recognized as a source of funds for the Project at the time of receipt of funds. Project costs are recognized as the use of funds under the Project at the time of making payments.

The reporting currency is US Dollars. Items included in the special purpose financial statements of the Project are valued using the currency that best reflects the economic substance of the Company's relevant events and circumstances ("functional currency"). The functional currency of the Project is US Dollars.

SECOND POWER TRANSMISSION PROJECT, PART 3

NOTES TO THE SPECIAL PURPOSE FINANCIAL STATEMENTS

For the period from 01 January 2018 to 31 December 2018

In USD

Transactions in other currencies are translated into US dollars at the interbank currency exchange rate, which was effective on the date of the respective conversion of US dollars into the payment currency. Cash balances in other currencies are translated into US dollars at the interbank exchange rate of the last conversion of USD into the currency of payment.

3. ACCOUNTING POLICIES

Basis of preparation

Special purpose financial statements were prepared on the cash basis. The accounting policy was applied consistently throughout the period of using the Loan funds.

Reporting period

This report covers the Disbursement period of Part 3 of the Loan No. 8462-UA from 01 January 2018 to 31 December 2018. The World Bank has established the closing date - 30 June 2020, or such later date set by the Bank.

Special bank account

In accordance with the terms of the Loan Agreement and to ensure the implementation of the Project for the Ministry of Energy and Coal Industry of Ukraine, a Special Account in US dollars was opened in PJSC "State Export-Import Bank of Ukraine" under terms and conditions agreed with the IBRD.

Recognition of receipts and expenditures

The Project keeps its records and prepares its financial statements on the cash basis. Receipts are recorded when they are made on bank accounts, which are supported by advances from the IBRD. Expenditures are recorded on the date of funds withdrawal from accounts. Project Statements are prepared in accordance with the provisions of Section 5.08 of the General Conditions and on the basis of indicators acceptable to the Bank. Each Project Statement covers a period equal to one calendar quarter and is submitted to the Bank no later than forty-five (45) days after the end of the period covering each such report.

All goods, works and non-consulting services required for the Project and to be financed out of the proceeds of the Loan shall be procured in accordance with the requirements set forth or referred to in Section I of the Procurement Guidelines and with the provisions of Section III of Supplement 2 to the Loan Agreement.

All consultants' services required for the Project and to be financed out of the proceeds of the Loan shall be procured in accordance with the requirements set forth or referred to in Sections I and IV of the Consultant Guidelines and the provisions of Section III, Supplement 2, of the Loan Agreement.

Foreign currency transactions

The accompanying financial statements are presented in USD. Transactions in other currencies are translated into US dollars at the actual exchange rate at which these currencies were purchased, unless otherwise stated.

Statements of expenditures

The statements of expenditure are used to recognize the expenditures of the Loan during the calendar quarter that were paid from the Special Account.

According to additional withdrawal instructions of the IBRD, all expenditures paid from the Special Account shall be included in the statements of expenditure for the relevant period and submitted to the IBRD.

Together with the statements of expenditure, the primary documents are submitted (copies of checks, invoices, works acceptance acts, etc.).

SECOND POWER TRANSMISSION PROJECT, PART 3

NOTES TO THE SPECIAL PURPOSE FINANCIAL STATEMENTS

For the period from 01 January 2018 to 31 December 2018

In USD

4. BUDGET

From the Loan proceeds (Part 3 of the Project), the following items were financed; they were used exclusively for the activities of the established categories:

<i>Category</i>	<i>Total allocated Loan funds (USD-denominated)</i>	<i>% financed expenditures</i>
(2): Goods, non-consulting services, consultants' services, and Training for Part 3 of the Project	2,500,000	100%
TOTAL	2,500,000	

5. AMORTIZATION SCHEDULE (including Part 3)

The following table sets forth the Principal Payment Dates of the Loan and the percentage of the total principal amount of the Loan payable on each Principal Payment Date ("Installment Share"). If the proceeds of the Loan have been fully withdrawn as of the first Principal Payment Date, the principal amount of the Loan repayable by the Borrower on each Principal Payment Date shall be determined by the Bank by multiplying: (a) Withdrawn Loan Balance as of the first Principal Payment Date; by (b) the Installment Share for each Principal Payment Date, such repayable amount to be adjusted, as necessary, to deduct any amounts referred to in paragraph 4 of the Supplement to the Loan Agreement to which a Currency Conversion applies.

<i>Principal Payment Date</i>	<i>Installment Share (Expressed as a Percentage)</i>
On each 15 January and 15 July Beginning 15 January 2020 Through 15 January 2032	3.85%
On 15 July 2032	3.75%

6. OPERATING ENVIRONMENT

The principal economic activity is performed on the territory of Ukraine. The Ukrainian economy is in a protracted crisis, complicated by the military conflict in eastern Ukraine and the unrecognized separation of the Autonomous Republic of Crimea. Stabilization of the situation in Ukraine will largely depend on the government's actions aimed at resolving the military conflict, reforming the country's financial, administrative, fiscal and legal systems. To solve the above-mentioned tasks, the government of the country introduces rather severe and unpopular measures, such as partial mobilization of the population liable to military service, introduction of new taxes and fees, as well as restrictions on cash and non-cash foreign currency transactions, etc.

WORLD BANK AUDIT DOCUMENTATION CHECKLIST

Name of Loan/Credit:	World Bank UKRAINE
Loan/Credit #	8462-UA
Audit Report:	Year ended December 31, 2018

	Check if Included	Check if N/A
I. Audit 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	<input checked="" type="checkbox"/>	<input type="checkbox"/>
2. Special 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 Reports:		
A. Revenue Earning Entity (all of the following are required):		
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 of the following are required):		
1. Balance sheet	<input type="checkbox"/>	<input checked="" type="checkbox"/>
2. Summary of Sources and Uses of Funds	<input checked="" type="checkbox"/>	<input type="checkbox"/>
C. If applicable (refer to Loan Agreement):		
1. Statement of Expenditure (SOE) Statement	<input checked="" type="checkbox"/>	<input type="checkbox"/>
2. Special Account Statement	<input checked="" type="checkbox"/>	<input type="checkbox"/>
III. Notes to the Financial Statements	<input checked="" type="checkbox"/>	<input type="checkbox"/>
IV. Reconciliation between World Bank records and project records	<input checked="" type="checkbox"/>	<input type="checkbox"/>
V. Management Letter	<input checked="" type="checkbox"/>	<input type="checkbox"/>