

RUE "Belinvestenergosberezhenie"

Financial statements of the "Belarus Biomass District
Heating Project"
#8351 BY
for the year ended 31 December 2017

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Independent Auditors' Report

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

Out ref.: 2804-03

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 2017, 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

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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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



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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 "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 2017

(in USD)

	Actual	Planned
	For the year ended 31 December 2017	Cumulative total amount
		For the whole project period (unaudited)
Opening Cash Balance		
Project Bank Account	-	-
World Bank Special Account	1 041 336	-
World Bank Special Account (Belarusian rubles in the USD equivalent on the account in Belarusian rubles)	-	-
TOTAL	1 041 336	-
Sources of Funds		
Government Funds	-	-
World Bank Funds	26 100 000	51 305 000
Direct payments	-	225 000
Special Account	26 100 000	51 080 000
TOTAL	26 100 000	51 305 000
Less:		
Uses of Funds		
Financed by World Bank	25 721 478	49 885 142
Works, goods, consultant's services, training	25 721 478	49 660 142
Front End Fee	-	225 000
Financed by Government	-	-
TOTAL	25 721 478	49 885 142
Closing Cash Balance		
Project Bank Account	-	-
World Bank Special Account	1 419 858	1 419 858
TOTAL	1 419 858	-

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

Director

V.V. Knysn

Chief accountant

T.P. Bushkevich

The notes on pages from 11 to 13 form an integral part of the financial statements.

Statement of Uses of Funds by Project Activity for the year ended 31 December 2017

(in USD)

Project activities	For the year ended 31 December 2017	Cumulative total amount
1. Contracts for Design, Supply and Installation of Plants		
MINSK	7 032 444	7 523 624
BDHP/ICB/14/01	1 052 812	1 543 992
BDHP/ICB/15/05	4 111 832	4 111 832
BDHP/DC/17/01	1 867 800	1 867 800
Bank commission	30	30
MOGILEV	913 035	8 205 688
BDHP/ICB/14/02	-	3 868 728
BDHP/ICB/14/03	-	3 306 000
BDHP/ICB/16/01	913 035	1 030 960
Bank commission	-	-
BREST	2 023 675	10 015 505
BDHP/ICB/14/04	635 788	5 199 239
BDHP/ICB/15/01	-	1 518 633
BDHP/ICB/15/02	-	1 909 746
BDHP/DC/17/02	1 387 887	1 387 887
Bank commission	-	12
GRODNO	6 893 448	6 893 448
BDHP/ICB/15/03	6 893 448	6 893 448
Bank commission		
GOMEL	8 760 473	16 478 843
BDHP/ICB/15/04	-	2 367 548
BDHP/ICB/15/06	8 414 323	11 274 772
BDHP/ICB/15/08	346 150	2 836 523
Bank commission	127	130
Bank commission for Component 1	157	172
Total for Component 1	25 623 232	49 117 280
2. Consulting services, project management unit's costs		
	98 246	542 832
Bank commission for Component 2	-	30
Total for Component 2	98 246	542 862

Front-end Fee	-	225 000
Total Project Expenditure	25 721 478	49 885 142

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 11 to 13 form an integral part of the financial statements.

Special Account Statement for the year ended 31 December 2017*(in USD)*

Bank where the special account was opened	OJSC "Belinvestbank"
Currency	USD
Account Number BY98BLBB36200101458672001006	
Opening balance at the beginning of the period	1 041 336
Add:	
World Bank advances into the SA during the period	26 100 000
Less:	
Withdrawals for the project during the period	25 721 478
Refunds to World Bank from the S.A. during the period	-
Total withdrawals during the period	25 721 478
Closing balance as at the end of the period	1 419 858

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 11 to 13 form an integral part of the financial statements.

Statement of Expenditure Withdrawal Schedule for the year ended 31 December 2017

(in USD)

Number of application for withdrawal	Date of withdrawal	Works, goods, consultant's services, training	Amount received on special account
57	10.01.2017		500 000
58	16.01.2017		300 000
59	24.01.2017	4 051 105	
60	08.02.2017		1 600 000
61	14.02.2017	141 716	
62	22.03.2017	1 064 498	
63	30.03.2017	271 450	
64	03.05.2017	249 163	
65	04.05.2017		1 000 000
66	18.05.2017		2 000 000
67	26.05.2017	2 465 213	
68	30.05.2017		3 000 000
69	27.06.2017	2 368 512	
70	28.06.2017		4 000 000
71	09.08.2017		1 500 000
72	18.08.2017	5 991 020	
73	22.08.2017		5 000 000
74	26.09.2017	3 538 737	
75	27.09.2017		4 100 000
76	26.10.2017	4 028 088	
77	07.12.2017	1 510 155	
78	07.12.2017		3 100 000
Total		25 679 657	26 100 000

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 11 to 13 form an integral part of the financial statements.

Notes to the financial statements

For the year ended 31 December 2017

(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.

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, Volkovyssk 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 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 "Belinvestenergoberezhnie" form the basis for the financial statements preparation. The project transactions recorded separately from the funds received from other sources of finance of RUE "Belinvestenergoberezhnie". RUE "Belinvestenergoberezhnie" 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 2017

(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 2017.

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", 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 № 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	

Notes to the financial statements

For the year ended 31 December 2017

(All amounts determined in USD if not otherwise stated)

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. BDHP/ICB/15/01 dated 25 August 2015 'Reconstruction of the boiler house of the Texer neighbourhood in the city of Baranovichi with capacity increase and installation of boilers for MW (6MW)', the Contactor 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. Additional direct contract BDHP/DC/17/02 for the performance of construction and installation works for the site "Reconstruction of Boiler House in Tekser Housing Estate, Baranovichi Town with Capacity Increase and Installation of Boilers Firing Domestic Fuels (6 MW)" to the amount of 2 100 000 USD was signed on July 14, 2017 with LLC "Uniongas". The contract is under implementation.

World Bank Audit Documentation Checklist

Name of Loan/Credit:	World Bank
Loan/Credit #	8351-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 year ended 31 December 2017	<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 year ended 31 December 2017	<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

IV. Reconciliation between World Bank records and project records

V. Management Letter