
Датум _____
БЕОГРАД, Булевар

ROAD REHABILITATION AND SAFETY PROJECT

IBRD Project ID: P127876
IBRD Loan No. 8255-YF
EIB Loan No. 82.640
EBRD Loan No.44750

*Statement of Sources and Uses of Funds,
Statement of Expenditures and
Statements of Designated Accounts*

III
ЈАВНО ПРЕДУЗЕЋЕ "ПУТЕВИ СРБИЈЕ"

Број 955-14417/18-1

Датум 29-06-2018

БЕОГРАД, Булевар краља Александра бр. 282

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*Statement of Sources and Uses of Funds,
Statement of Expenditures and
Statements of Designated Accounts*

For the Year Ended December 31, 2017 and
Independent Auditors' Report

ROAD REHABILITATION AND SAFETY PROJECT
IBRD Project ID: P127876
IBRD Loan No. 8255-YF
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INDEPENDENT AUDITORS' REPORT

To the Management of the Project Implementation Team within the Public Enterprise "Roads of Serbia"

Disclaimer of Opinion

We were engaged to audit the accompanying Statement of Sources and Uses of Funds, Statement of Expenditures and the Statement of Designated Accounts of the Project entitled "Road Rehabilitation and Safety Project" (the "Project" or "RRSP"), financed under International Bank for Reconstruction and Development ("IBRD") Loan No. 8255 - YF, European Bank for Reconstruction and Development ("EBRD") Loan No.44750, European Investment Bank ("EIB") Loan No.82.640 and funds contributed by the Republic of Serbia ("RoS") for the year ended December 31, 2017. The Statement of Sources and Uses of Funds, Statement of Expenditures and Statement of Designated Accounts (the "Statements") have been prepared by the Project Implementation Team ("PIT") of the Public Enterprise "Roads of Serbia" ("PERS") on the cash receipt and disbursement basis.

We do not express an opinion on the accompanying Statements of the Project. Because of the significance of the matters described in the Basis for Disclaimer of Opinion section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these Statements.

Basis for Disclaimer of Opinion

As disclosed in the Statements, total Project financing and total Project expenditures for year ended December 31, 2017 amounted to EUR 26,266,775 and EUR 17,304,164, respectively, and include the EBRD's direct payments in the amount of EUR 6,908,281. Based on the responses received to independent confirmation procedures, we identified that the EBRD's direct payments were lower than the direct payments stated in the Statements by the amount of EUR 4,636,731. We were not able to determine potential effects on the accompanying Statements by performing alternative procedures and accordingly, were unable to satisfy ourselves that the EBRD's direct payments are fairly stated in the Statements as of and for year ended December 31, 2017.

Emphasis of Matter and Basis of Accounting and Restriction on Distribution

We draw attention to the following matters:

- a) As disclosed in Note 1 to the Statements, Operation Manual for the implementation of the Project defines components and subcomponents of the Project as well as agreed contribution by each co-financing source of the sub-projects, but without detailed split per components. In addition, detailed categories of expenditures defined in loan agreements with EBRD and IBRD (as disclosed in Note 2 to the Statements), have not been aligned with the components of the subprojects, as defined by the Operation Manual. Based on the information received from the Management of PIT, there were no requests from any of the co-financing parties (IBRD, EBRD, EIB and RoS) for such alignment during this phase of the Project, and up to the date of our report such a request has not been received. The Management of PIT believes that the aforesaid inconsistency between the Operation Manual and categories of expenditures in loan agreements does not pose any risks to the sources of financing and that it will not have any impact to the Project implementation.
- b) As disclosed in Note 2.5 to the Statements, the total funds of the Project (loan and RRSP financing) amounts to EUR 388.8115 million whereas the total disbursed expenditures up to December 31, 2017 totals EUR 67.95 million. Pursuant to representation of Management of PIT there is no split of the total Project's funds per sub-projects as presented in the Statement of Expenditures. Accordingly, the Management of PIT presented the cumulative budgeted disbursements in the Statement of Expenditures representing the total procurement budgeted amounts for EIB, IBRD and RoS financing and budgeted cash-flows for EBRD contracts up to the December 31, 2017.
- c) As disclosed in Note 4, the restructuring procedure of the Project is in progress and formalization of restructuring procedures is expected to be done during July 2018. Restructuring will be done in a manner that some road sections planned within a Project will be excluded from IBRD financing, as a result of mentioned scope reduction. Accordingly final availability dates are to be moved to June 30, 2020 for the IBRD loan and December 31, 2022 for the EBRD loan.

Our opinion is not modified in respect of these matters.

(Continued)

INDEPENDENT AUDITORS' REPORT

To the Management of the Project Implementation Team within the Public Enterprise "Roads of Serbia"
(Continued)

Basis of Accounting and Restriction on Distribution

Without modifying our opinion, we draw attention to Note 3.2 to the Statements, which describes the basis of accounting. The Statements have been prepared for the information and use of PIT, IBRD, EIB, EBRD and RoS and may not be suitable for another purpose. Our report will not be disclosed to any third parties other than those mentioned above and we accept no responsibility for any such action.

Responsibilities of Management for the Statements

The Management of PIT is responsible for the preparation of these Statements in accordance with the cash receipt and disbursement basis, and for such internal control as Management determines is necessary to enable the preparation of Statements that are free from material misstatement, whether due to fraud or error.

In preparing the Statements, Management of PIT is responsible for assessing the ability to continue the Project operations as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless Management either intends to discontinue the Project operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Statements

Our responsibility is to conduct an audit of the Project's Statements in accordance with International Standards on Auditing and to issue an auditor's report. However, because of the matters described in the Basis for Disclaimer of Opinion section of our report, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

We are independent of the PIT in accordance with the ethical requirements that are relevant to our audit of the financial statements in accordance with the cash receipt and disbursement basis, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

June 18, 2018



Deloitte d.o.o.
Belgrade

STATEMENT OF SOURCES AND USES OF FUNDS
 For the Year Ended December 31, 2017
 (In EUR)

	Year Ended	
	December 31, 2017	December 31, 2016
PROJECT FINANCING		
Opening balance on designated accounts at beginning of the period	10,190,075	17,926,337
<i>Proceeds from RoS:</i>		
<i>Transfer into the Designated Account</i>	4,168,519	869,863
	4,168,519	869,863
<i>Proceeds from IBRD</i>		
<i>Transfer into the Designated Account</i>	-	6,569,000
	-	6,569,000
<i>Proceeds from EIB</i>		
<i>Transfer into the Designated Account</i>	4,999,900	11,000,000
	4,999,900	11,000,000
Proceeds from EBRD		
Direct payments	6,908,281	10,644,481
	6,908,281	10,644,481
TOTAL PROJECT FINANCING	26,266,775	47,009,681
PROJECT EXPENDITURES		
<i>Financed by RoS:</i>		
Component 1 – Road Rehabilitation and Safety-regular works	2,222,240	-
Component 3 - Project Detailed Design, Supervision, Management and Monitoring-Regular works	457,993	238,387
	2,680,233	238,387
<i>Financed by IBRD:</i>		
Component 1 - Road Rehabilitation and Safety-Emergency works	3,120,072	6,553,122
Component 2 - Institutional Strengthening	-	5,880
Component 3 - Project Detailed Design, Supervision, Management and Monitoring	1,890,762	694,763
	5,010,834	7,253,765
<i>Financed by EIB:</i>		
Component 1 - Road Rehabilitation and Safety-Emergency works	1,861,988	18,034,791
Component 3 - Project Detailed Design, Supervision, Management and Monitoring	842,828	648,182
	2,704,816	18,682,973
<i>Financed by EBRD:</i>		
Component 1 - Road Rehabilitation and Safety-Emergency works	4,787,949	10,644,481
Component 1 - Road Rehabilitation and Safety-regular works	2,120,332	-
	6,908,281	10,644,481
TOTAL PROJECT EXPENDITURES	17,304,164	36,819,606
Cash balance at the end of the period	8,962,611	10,190,075

Date: June 18, 2018

Approved by:

Gordana Subotički Đorđević
 Project Coordinator



STATEMENT OF EXPENDITURES (Continued)
For the Year Ended December 31, 2015
(In EUR)

	Budgeted Disbursements (as it was previously reported)			Disbursements for the Period Ended December 31, 2015			Committed but Undisbursed			Total	
	RoS	EIB	EBRD**	RoS	EIB	EBRD	RoS	EIB	EBRD		
	Total	Total	Total	Total	Total	Total	Total	Total	Total		
Sub-Project 1:											
<i>Component 1 - Road Rehabilitation and Safety - Emergency works</i>	-	22,973,000	-	-	9,471,296	-	-	13,501,704	22,973,000	-	36,474,704
<i>Component 2 - Institutional Strengthening - Training and workshops</i>	-	250,000	-	-	14,519	-	-	235,481	-	-	235,481
<i>Component 3 - Project Detailed Design, Supervision, Management and Monitoring - Technical Control of Designs and Supervision of Road Emergency works and Environmental Monitoring</i>	730,400	1,571,000	-	-	1,159,695	-	-	411,305	1,753,600	-	2,895,305
Total: Sub-Project 1:	730,400	24,794,000	-	-	10,645,510	-	-	14,148,490	24,726,600	-	39,605,490
Sub-Project 2:											
<i>Component 1 - Road Rehabilitation and Safety - Emergency works</i>	-	-	22,191,000	-	-	-	-	-	-	19,010,000	19,010,000
Total: Sub-Project 2:	-	-	22,191,000	-	-	-	-	-	-	19,010,000	19,010,000
Total Projects Expenditures:	730,400	24,794,000	22,191,000	-	10,645,510	-	-	14,148,490	24,726,600	19,010,000	59,615,490

*Budgeted amounts refer to the Procurement Plan budget amounts for EIB/IBRD/RoS contracts.

**Budgeted amounts for EBRD contracts refer to the cash-flow budget amounts.

STATEMENT OF DESIGNATED ACCOUNTS (Continued)
For the Year Ended December 31, 2017
(In EUR)

	Designated Sub-account No 840-1407764-22 (old No 840-3960721-77)	Designated Account No 504626-100193230	Designated Account No 504627-100193230	Designated Sub-account No 840-1407764-15 (old No 840-3956721-49)	Total
	Source of financing: RoS	Source of financing: IBRD	Source of financing: EIB	Source of financing: EIB and IBRD	
	Administration of the Treasury, Branch Palilula Currency: RSD	Depository Bank: National Bank of Serbia, Ministry of Finance - Finance - Treasury Currency: EUR	Depository Bank: National Bank of Serbia, Ministry of Finance - Treasury Currency: EUR	Administration of the Treasury, Branch Palilula Currency: RSD	
Balance at beginning of the period January 1, 2017	703,323	4,765,279	2,200,000	2,521,473	10,190,075
<i>Inflows</i>					
Replenishment during the period	4,168,519	-	4,999,900	-	9,168,419
Total Inflows:	<u>4,168,519</u>	<u>-</u>	<u>4,999,900</u>	<u>-</u>	<u>9,168,419</u>
<i>Outflows</i>					
Transfers to RSD accounts/from EUR accounts	-	(3,400,000)	(2,600,000)	6,000,000	-
Payments for Project expenditures	(2,680,233)	(476,814)	(167,961)	(7,070,875)	(10,395,883)
Total Outflows:	<u>(2,680,233)</u>	<u>(3,876,814)</u>	<u>(2,767,961)</u>	<u>(1,070,875)</u>	<u>(10,395,883)</u>
Balance at the end of the period December 31, 2017	<u>2,191,609</u>	<u>888,465</u>	<u>4,431,939</u>	<u>1,450,598</u>	<u>8,962,611</u>
<i>Reconciliation for Project expenditures:</i>					
- disbursements from designated Accounts					(10,395,883)
- direct payments from EBRD					(6,908,281)
TOTAL PROJECT EXPENDITURES					<u>(17,304,164)</u>

STATEMENT OF DESIGNATED ACCOUNTS (Continued)
 For the Year Ended December 31, 2016
 (In EUR)

	Designated Sub-account No 840-1407764-22 (old No 840-3960721-77)	Designated Account No 504626-100193230	Designated Account No 504627-100193230	Designated Sub-account No 840-1406764-15 (old No 840-3956721-49)	Total
	Source of financing: RoS	Source of financing: IBRD	Source of financing: EIB	Source of financing: EIB and IBRD	
	Administration of the Treasury, Branch Palilula Currency: RSD	Depository Bank: National Bank of Serbia, Ministry of Finance - Treasury Currency: EUR	Depository Bank: National Bank of Serbia, Ministry of Finance - Treasury Currency: EUR	Administration of the Treasury, Branch Palilula Currency: RSD	
Balance at beginning of the period January 1, 2016	71,847	6,394,160	8,000,000	3,460,330	17,926,337
Inflows					
Replenishment during the period	869,863	6,569,000	11,000,000	-	18,438,863
Total Inflows:	869,863	6,569,000	11,000,000	-	18,438,863
Outflows					
Transfers to RSD accounts/from EUR accounts	-	(8,000,000)	(16,635,343)	24,635,343	-
Payments for Project expenditures	(238,387)	(197,881)	(164,657)	(25,574,200)	(26,175,125)
Total Outflows:	(238,387)	(8,197,881)	(16,800,000)	(938,857)	(26,175,125)
Balance at the end of the period December 31, 2016	703,323	4,765,279	2,200,000	2,521,473	10,190,075

Reconciliation for Project expenditures:

- disbursements from designated Accounts
- direct payments from EBRD

(26,175,125)
(10,644,481)
<u>(36,819,606)</u>

TOTAL PROJECT EXPENDITURES

STATEMENT OF DESIGNATED ACCOUNTS
 For the Year Ended December 31, 2015
 (In EUR)

	Designated Sub-account No 840-3960721-77 Source of financing: RoS	Designated Account No 504626-100193230 Source of financing: IBRD	Designated Account No 504627-100193230 Source of financing: EIB	Designated Sub-account No 840-3956721-49 Source of financing: EIB and IBRD	Total
	Administration of the Treasury, Branch Palilula Currency: RSD	Depository Bank: National Bank of Serbia, Ministry of Finance - Treasury Currency: EUR	Depository Bank: National Bank of Serbia, Ministry of Finance - Treasury Currency: EUR	Administration of the Treasury, Branch Palilula Currency: RSD	
Balance at beginning of the period January 1, 2015	71,847	18,500,000	10,000,000	-	28,571,847
Inflows	71,847	18,500,000	10,000,000	-	28,571,847
Replenishment during the period	-	-	-	-	-
Total Inflows:	71,847	18,500,000	10,000,000	-	28,571,847
Outflows					
Transfers to RSD accounts/from EUR accounts	-	(12,000,000)	(2,000,000)	14,000,000	-
Payments for Project expenditures	-	(105,840)	-	(10,539,670)	(10,645,510)
Total Outflows:	-	(12,105,840)	(2,000,000)	3,460,330	(10,645,510)
Balance at the end of the period December 31, 2015	71,847	6,394,160	8,000,000	3,460,330	17,926,337
Reconciliation for Project expenditures:					
- disbursements from designated Accounts					(10,645,510)
- direct payments from EBRD					(3,181,000)
TOTAL PROJECT EXPENDITURES					(13,826,510)

NOTES TO THE STATEMENTS
For the Year Ended December 31, 2017

1. BACKGROUND

For purposes of realization of the Road Rehabilitation and Safety Project, the Republic of Serbia ("RoS") entered into contract agreements on loans with three International Financial Institutions (IFIs) on November 27, 2013, as follows: Loan Agreement with IBRD, EIB and EBRD, the National Assembly ratified all three agreements by adopting the Law on Confirmation of the Agreements (Official Gazette of RS - International Agreements No. 6/14 dated 20 June 2014).

By Subsidiary Agreements executed by and between the RoS and PERS, regarding IBRD loan on November 19, 2014 and regarding EBRD loan on November 28, 2014 the funds of these loans have been made available to PERS for implementation of the Project pursuant to the Project Agreement signed between PERS, EBRD and IBRD on December 9, 2013.

The Road Rehabilitation and Safety Project ("Project") is a part of a larger IFI's coordinated effort to support RoS in the implementation of the first phase of the National Road Network Rehabilitation Program (NRNRP). The Project refers to two sub-projects: (i) the sub-project co-financed by IBRD, EIB and RoS (ii) the sub-project financed in parallel solely by EBRD. Over the implementation period the Project is designed to cover the following:

- improvement of condition on the state road network by means of rehabilitation of approximately 1,100 km of the existing roads;
- increase of road safety condition through appliance of measures for improvement of road safety in all phases of the Project implementation;
- strengthening capacity and development of institutional coordination in the field of road and traffic safety through implementation of a number of various services.

The Project is designed, as per Operation manual, to use, for the most part, results-based features and will include three components:

1. **Component 1: Road Rehabilitation and Safety** will cover emergency works and regular works: periodic maintenance and rehabilitation works, partial pavement widening, works concerning traffic signalization improvement and structure renewal as well ancillary road connections. This component will also support the incorporation of road safety measures as recommended by road safety audits in the design of the Project's road sections and their subsequent implementation as a way to institutionalize these practices for all road works;
2. **Component 2: Institutional Strengthening** will cover the following:
 - a) **Subcomponent 2A:** Support to road safety will cover road safety inspections and the implementation of low cost road safety measures such as signage, traffic calming measures and road furniture for an additional 1,000 km of national roads beyond what is covered in Project. The implementation of these measures will be covered out of PERS's annual maintenance budget. The subcomponent will also include road safety awareness campaigns, strengthening enforcement on the Project-improved roads and training on road safety audits and inspections.
 - b) **Subcomponent 2B:** Strengthen road rehabilitation and planning processes will cover a road condition survey for the entire National Road Network, an update of the national road database, institutionalization of the development of multi-year maintenance plans based on clearly-defined economic, social and regional criteria; and the adoption and implementation of updated design standards for maintenance and rehabilitation;
 - c) **Subcomponent 2C:** Strengthening maintenance management will cover the development of a strategic plan for Performance-based maintenance contracts ("PBMC"), preparation of model bidding documents for PBMC, training staff and contractors on PBMC, and provision of implementation support.
3. **Component 3: Project Detailed Design, Supervision, Management and Monitoring** will cover the following:
 - a) **Subcomponent 3A:** Supervision and Technical Control for emergency works and for regular works. This subcomponent covers the design and supervision costs for all the roads covered by the Project.
 - b) **Subcomponent 3B:** Project management support. This includes project management support and capacity building to PIT as may be necessary in procurement, financial management, environmental and social safeguards and annual program planning.

NOTES TO THE STATEMENTS
 For the Year Ended December 31, 2017

1. BACKGROUND (Continued)

- c) **Subcomponent 3C: Project Audits.** This includes: (i) the Integrated Performance Audit which will review engineering designs, management of social and environmental issues, procurement, quality assurance, contract management and compliance to agreed conditions, quality of project supervision, review of traffic safety implementation, and achievement of disbursement-linked indicators ("DLIs") to trigger disbursement.

Works on the rehabilitation of the road network are expected to be executed on 55 sections under the Project, with wide geographic distribution and by implementing the specific measures to improve the road safety, environmental protection and to enhance social aspects in the works execution area, pursuant to policies and procedures stipulated by IFIs.

In order to provide proceeds to remedy the damage occurred to the Serbian road network, sections under the Project, due to the floods and heavy rains from May 2014, a framework for the inclusion of the Emergency works component has been established in cooperation with IFIs in the period May - June 2015 and the restructuring of the financial arrangements commenced.

Implementation of the Emergency works component is in progress and it covers execution of the works on repair and rehabilitation of 10 road sections (based on design and build contract conditions) as well as implementation of Consulting Services for technical control of designs and supervision of road emergency works and environmental monitoring. Original one-year implementation period for the Emergency works was extended for additional 6 months for contracts financed by the EIB/IBRD, with June 30, 2016 as new expected completion date. Four contracts for Emergency works financed by the EBRD should have been completed in the period May – July 2016. In addition, the time for execution of emergency works as defined in contracts with vendors and last amendments to them has expired in 2016. No new amendments were executed in 2016 as well as after the reporting date, but as it was disclosed in Note 4. to Statements, according to the evidence of inspection authority the percentage of emergency works completion vary from 80%-100%. As it was disclosed in Statement of expenditures, total budgeted disbursements for the completion of emergency works financed by EBRD amounted to EUR 25,470,357. Out of total, EBRD disbursed to vendors the amount of EUR 18,613,430 through direct payments, for the expenditures with respect to the emergency works completed during the time period from 2015 to the end of 2017.

In terms of financing, the Project is composed of two sub-projects:

1. Sub-project co-financed by RoS, EIB and IBRD proceeds, which, in addition to the road rehabilitation works, will cover all other activities and services envisioned by the Project in the total amount of approximately EUR 290 million (where the Project payments are effected from disbursed proceeds pursuant to the terms of financial agreements) and
2. Sub-project financed by funds of EBRD, which includes only the road rehabilitation works in the amount of EUR 100 million (where payments are to be made directly by EBRD to the Contractors' account).

According to the Operational Manual for the implementation of the Project, dated October 31, 2014 respective individual shares in financing are as follows:

Description	Loan Amount (EUR million)	% Total Funds of the Project	% of Sub - Project
EIB/IBRD/RoS Sub – Project			
IBRD	73.8	19%	25%
EIB	100.0	26%	35%
RoS	116.2	29%	40%
Sub Total:	290.0	74%	100%
EBRD Sub – Project			
EBRD	100.0	26%	100%
	100.0	26%	-
Total RRSP	390.0	100%	100%

NOTES TO THE STATEMENTS
For the Year Ended December 31, 2017

1. BACKGROUND (Continued)

The Loan Agreements executed with IBRD and EBRD define distribution of expenditures according to the respective categories being financed, while the Loan Agreement executed with EIB does not define distribution of expenditures.

The Operation Manual for the Implementation of the Project, uniting and aligning the policies of all three IFIs, defines classification of expenditures across the Project components since it is this expenditure classification per components that is relevant for subsequent assessment of the Project' performance.

For the purpose of unification of the terminology applied in financial reporting on the Project expenditures, expenditures under the Sub-project 1 will be recorded through all three components, while total expenditures financed from the EBRD loan funds will be recorded through Sub-project 2 and component 1. Not one of the creditors (IFIs) have so far issued specific approval of the expenditure classification per components nor have they delivered any comments on the interim financial statements submitted up to date suggesting any weaknesses in the expenditure classification applied.

During Project restructuring, it was accepted that the Emergency works were to be treated as part of category 1 under the IBRD Loan Agreement and as a constituting element of category 1 of the EBRD Loan Agreement. These expenditures within Sub-project 1 and Sub-project 2 are treated under component 1. Since this category of expenditures is not financed by RoS, the agreement of IFIs was that the principle of financing shall be 50% from the IBRD and 50% from the EIB funds within Sub-project 1. This principle is applied during disbursement of tranches, but due to non-harmonized payments and different policies of IFIs in respect of conditions for disbursement of tranches, the applied principle is not mandatory and strict in final distribution of expenditures under this category. The principle of share in financing under Sub-project 1 with the general share of IBRD 25%, EIB 35% and RoS 40% is of higher significance for IFIs. In addition, although within the classification of expenditures, the Services of Supervision and Technical Control for Emergency works do not belong to component 1, given the type of the works for which the Services were contracted, the principle of financing was planned as with the Emergency works, i.e. RoS was also excluded from financing of these Services. Additionally, for all categories of expenditures that are not recognized as eligible expenditures in EIB's procedures, the general approach (25%:35%:40%) could not be applied. The example of such approach is training under the Project which is fully (100%) funded from the IBRD loan, as well as design services procured through CQS method. Due to relatively low level of transactions in the first, second and third year of the Project, the management of PIT believes that the aforesaid do not rise any risks to the sources of financing or will have any impact to the Project implementation.

The time for execution of emergency works as defined in contracts with vendors and last amendments to them has expired in 2016. In 2017, new amendments were signed in the list below:

- Zavlaka-Pričevići Amendment 03 dated June 01, 2017
- Krst-Zavlaka Amendment 03 dated May 24, 2017
- Mali Zvornik-Gračanica Amendment 03 i 04 dated August 02, 2017 and December 15, 2017
- Mali Zvornik-Ljubovija Amendment 03 dated August 15, 2017
- Rogačica- Bajina Bašta Amendment 02 dated August 15, 2017
- Novi Sad-Belgrade (right carriageway) Amendment 01 dated August 09, 2017

2. LOAN AGREEMENT

2.1. A brief description of the Loan Agreement - IBRD Loan No. 8255 – YF

IBRD and the RoS executed Loan Agreement No. 8255 on November 27, 2013. An Amendment to the Loan Agreement was signed on February 3, 2015.

According to the provisions of the Loan Agreement, the total loan amounts to EUR 73,800,000. On September 19, 2014, the Supplementary Agreement was signed on the transfer of loan proceeds stipulating the commitment of IBRD to transfer to PERS the right to use funds in the amount of EUR 73,615,500, i.e. the agreed Loan amount reduced by the amount of front - end fee.

NOTES TO THE STATEMENTS
 For the Year Ended December 31, 2017

2. LOAN AGREEMENT (Continued)

2.1. A brief description of the Loan Agreement - IBRD Loan No. 8255 – YF (Continued)

The following table specifies the categories of eligible expenditures that may be financed out of the proceeds of the Loan ("category"), the allocation of the amounts of the Loan to each category, and the percentage of expenditures to be financed for eligible expenditures in each category.

Category	Amount of the Loan Allocated (expressed in EUR)	Percentage of Expenditures to be financed (exclusive of Taxes)
(1) Goods, works, non-consulting services, and consultant services for Part 1 and Part 2 of the Project	68,760,500	100%
(2) Goods, consultants' services, training, incremental operating costs for Part 3 of the Project, and audit	4,855,000	100%
(3) Front-end fee	184,500	Fee payable by RoS equal to 0.25% of the Loan amount for draw-down of Loan funds
TOTAL LOAN AMOUNT	73,800,000	

The main terms and conditions of the Loan Agreement are described below:

1. The final Loan availability date is December 31, 2019 and by that time Loan funds may be drawn.
2. After conditions for the Loan effectiveness in the amount of the estimated expenditures for the Project Year 1 are met, the Loan repayment is scheduled in semi-annual installments payable on each June 15 and December 15 for each year.
3. The first tranche was drawn in the amount of EUR 18,500,000. The Minister of Finance and Assistant Minister of Finance are signatories of the requests for tranche drawdown, which are sent to the National Bank of Serbia ("NBS"). The second tranche was drawn on July 5, 2016 in the amount of EUR 6,569,000.00
4. The method of disbursement applied is advance payment (based on the procedures of IBRD).
5. The Procurement Plan defines certain road sections on which works will be conducted.
6. During the 5-month period between the date of the Loan Agreement effectiveness and the date of availability of the proceeds, IBRD and the RoS completed all necessary activities to finalize the operational procedures for the withdrawal of the first tranche and first requests for payments were submitted under the concluded contracts
7. For the purposes of the Project, PERS' obligation was to open and maintain two foreign currency designated accounts (in EUR) with NBS, one for IBRD and EIB, each. These two separate designated accounts are accounts to which the funds drawn from IBRD and EIB are placed (deposited). Funds from these accounts needed for payments in local currency are thereafter transferred to PERS' sub-account in Serbian dinars with the Treasury as frequently as necessary (possibly on a daily basis) at the exchange rate effective as of the transfer date. These designated accounts are to be used to ensure effective implementation of the Project and utilization of IBRD and EIB financing.

2.2. A brief description of the Loan Agreement - EIB Loan No. 82.640

EIB and RoS executed Loan Agreement No. 82.640 on November 27, 2013. An Amendment to the Loan Agreement was signed on July 17, 2015.

NOTES TO THE STATEMENTS
 For the Year Ended December 31, 2017

2. LOAN AGREEMENT (Continued)

2.2. A brief description of the Loan Agreement - EIB Loan No. 82.640 (Continued)

According to the provisions of the Loan Agreement, the total loan amounts to EUR 100,000,000.

The main terms and conditions of the Loan Agreement are described below:

1. The final Loan availability date is December 31, 2019 and by that time Loan funds may be drawn.
2. EIB shall disburse the Loan in up to 20 tranches. The amount of each tranche, if not being the undrawn balance of the Loan, shall be in a minimum amount of EUR 5,000,000.
3. The Loan proceeds were made available on July 17, 2015, but the first tranche of the Loan totaling EUR 10 million was effected on December 7, 2015. Payment of the first tranche was delayed as the procedure for application for disbursement had to be repeated and re-certified to fulfil the conditions for payment by EIB. Meanwhile, payments under the Emergency works were effected out of IBRD Loan proceeds. The first transfer from EIB funds to EIB and IBRD sub-account was made on December 12, 2015 in the amount of 2 million EUR, and the first direct payment from EIB designated account was made on February 29, 2016. The first payment from sub-account from EIB funds was made February 2, 2016.
 - The second tranche was made on August 05, 2016 in the amount of EUR 11 million
 - The third tranche was made on August 16, 2017, requested amount was 5 million euros, but amount of tranche withdraw was EUR 4,999,900.00
4. As already described under IBRD Loan, point 7, for the purpose of the Project two separate designated accounts were opened with NBS.
5. The Loan Agreement do not set forth the categories, the amounts of loan funds allocated to each category and the percentages of expenditures to be financed in each category.

2.3. A brief description of the loan agreement – EBRD Loan No. 44750

EBRD and RoS executed Loan Agreement No. 44750 on November 27, 2013. An Amendment to the Loan Agreement was signed on October 14, 2015.

According to the provisions of the Loan Agreement, the total loan amounts to EUR 100,000,000.

The following table sets forth the categories, the amounts of the Loan allocated to each category and the percentages of expenditures to be financed in each category.

Category	Description	Amount of the Loan Allocated (expressed in EUR)	% of Expenditures to be financed
Category 1	Civil Works for Part A – Road Section 1	27,853,000	100% (excluding taxes & duties)
Category 2	Civil Works for Part A – Road Section 2	20,053,000	100% (excluding taxes & duties)
Category 3	Civil Works for Part A – Road Section 3	41,260,000	100% (excluding taxes & duties)
Category 4	Civil Works for Part A – Road Section 4	9,834,000	100% (excluding taxes & duties)
Category 5	Front-End Fee	1,000,000	100%
Total Loan Amount		100,000,000	

NOTES TO THE STATEMENTS
 For the Year Ended December 31, 2017

2. LOAN AGREEMENT (Continued)

2.3. A brief description of the loan agreement – EBRD Loan No. 44750 (Continued)

The main terms and conditions of the Loan Agreement are described below:

1. The final Loan availability date is June 30, 2018 and by that time Loan funds may be drawn.
2. RoS shall repay the Loan in 24 equal semi-annual instalments on June 15 and December 15 of each year, the first Loan repayment date being the interest payment date falling on or immediately after the third anniversary of this Loan Agreement. The minimum drawdown amount shall be EUR 100,000, the minimum prepayment amount shall be EUR 5,000,000 and the minimum cancellation amount shall be EUR 5,000,000. The rate of the commitment charge shall be 0.5% per annum.
3. The method of disbursement applied is direct payment (based on the procedures of EBRD).
4. The Loan is subject to a variable interest rate. RoS may, as an alternative to paying interest at a variable interest rate on all or any portion of the loan then outstanding, elect to pay interest at a fixed interest rate on such a portion of the loan as per the standard terms and conditions.
5. The Loan became effective on May 13, 2015, but the Loan funds were not available for expenditures of the Emergency works until the effectiveness of Amendment 1 to the Loan Agreement. Delayed payments with two to five months of delay have been recorded.
6. A designated account has not been open for the proceeds from EBRD because EBRD pays contractors directly in the amount of costs.

2.4. A brief description of the Contribution of RoS

RoS's share in the total financing of the Project equals 29% and amounts to approximately EUR 116.2 million. There are no detailed allocation of the contribution of RoS to each category and the percentages of expenditures to be financed in each category.

The restructuring of the Project through incorporation of the Emergency works component and rescheduling dynamics of works from the regular part of the Project program to the later period of implementation, excluded the RoS contribution from the Emergency works financing. Therefore, the percentage of the national co-financing share will be increased in the following years to attain the amount of RoS total contribution at the overall Project level. Due to the fact that regular works started in 2017, RoS financing of such works and project designs in 2017 amounted to EUR 2,918,620.

2.5. Breakdown of unspent funds for approved credit lines

The following table presents the breakdown of unspent funds per each co-financing party as at December 31, 2017:

Description	Loan Amount	Disbursed expenditures	(EUR million) Undisbursed funds
EIB/IBRD/RoS Sub – Project			
IBRD	73.6155	22.9100	50.7055
EIB	100.0000	21.3900	78.6100
RoS	116.2000	2.9200	113.2800
Sub Total:	289.8155	47.2200	242.5955
EBRD Sub – Project			
EBRD	99.0000	20.7300	78.2700
	99.0000	20.7300	78.2700
Total RRSP	388.8155	67.9500	320.8655

NOTES TO THE STATEMENTS
 For the Year Ended December 31, 2017

2. LOAN AGREEMENT (Continued)

2.6. Breakdown of committed but undisbursed funds per components and sub projects

The following table presents the breakdown of committed but undisbursed funds per components and sub projects as at December 31, 2017:

Description	Contracted*	Disbursed expenditures	(EUR) Committed but undisbursed
EIB/IBRD/RoS Sub – Project			
<i>Component 1 - Road Rehabilitation and Safety - Emergency works</i>	45,554,017	39,041,269	6,512,748
<i>Component 1 – Road Rehabilitation and Safety – Regular works</i>	8,671,118	2,222,240	6,448,878
<i>Component 2 - Institutional Strengthening – Training and workshops</i>			
	149,452	20,399	129,053
<i>Component 3 - Project Detailed Design, Supervision, Management and Monitoring -</i>			
	9,797,912	5,932,610	3,865,302
Sub Total:	64,172,499	47,216,518	16,955,981
EBRD Sub – Project			
<i>Component 1 - Road Rehabilitation and Safety - Emergency works</i>	25,034,940	18,613,430	6,421,510
<i>Component 1 - Road Rehabilitation and Safety – Regular works</i>	5,134,548	2,120,332	3,014,216
Sub Total	30,169,488	20,733,762	9,435,726
Total	94,341,987	67,950,280	26,391,707

* Contracted values originally expressed in Serbian dinars were translated into EUR at the NBS middle exchange rate effective as of the contract execution date

3. BASIS OF PREPARATION OF THE STATEMENTS AND ACCOUNTING CONVENTION

3.1. General

The accompanying Statements have been prepared for the purposes of reporting to IFIs and RoS on the activities of the Project with respect to the funding received for the completion of the Project objectives in accordance with the respective Loan Agreements.

In the records of IBRD, EIB and EBRD, Loans are stated in EUR, which is the contractually defined currency. Consequently, as per the adopted accounting policy, PIT accounts for and reports all the transactions in EUR amounts as well.

As requested by Operational Manual for the implementation of the Project, these Statements include all Project-related expenditures incurred, which are financed by IBRD Loan No. 7463 YF, EIB Loan No. 82.640, EBRD Loan No. 44750, as well as the expenditures financed by RoS.

3.2. Accounting Records and Basis of Presentation

All funds originated from Loans are accounted for using the cash receipt and disbursement basis. On this basis, funds are recognized by PIT within PERS when actually received on the designated accounts in the case of IBRD, EIB and RoS and expenses are recognized when they are paid, rather than when incurred. Considering that the model applied by EBRD is direct payment, the Project costs are recorded when the payments are made.

NOTES TO THE STATEMENTS
For the Year Ended December 31, 2017

3. BASIS OF PREPARATION OF THE STATEMENTS AND ACCOUNTING CONVENTION (Continued)

3.3. Exchange Rates

Expenditures paid in Serbian dinars from the sub-account for uses of IBRD and EIB funds were translated into EUR at the exchange rate effective at the date of conversion from EUR designated accounts. The exchange rates of those conversions are stated by NBS in its official letter at the conversion date. NBS uses the buying exchange rate at the date of each conversion. For the purpose of presenting the use of funds converted to the sub-account in Serbian dinars and for identification of the source of funds (Loan), PIT applies the exchange rate specified by NBS for converting the expenditures paid from the sub-account in Serbian dinars.

Expenditures paid in Serbian dinars from the sub-account for uses of RoS funds were translated into EUR at the NBS middle exchange rate effective at the date of payment.

The funds disbursed in Serbian dinars under EBRD Loan were translated into EUR at the exchange rate stated in Disbursement Advice issued by EBRD for every payment.

4. EVENTS AFTER THE REPORTING DATE

a) *Status of the Project*

As it became evident that the Project cannot be completed until the date set as the Project completion date, i.e., until December 31, 2019, toward the end of 2017 activities commenced on restructuring of the IBRD/EIB/RoS Sub-Project. During the November 2017 mission of the World Bank to Serbia, it was agreed that the rehabilitation works in years 3 and 4 of the Project and partially road sections planned for year 2 of the Project will be excluded from IBRD financing, i.e., that the newly defined Project scope will only include Project activities that can be substantially completed up to December 31, 2019. This reduction of the Project scope entails decrease in volume of the rehabilitation works financed with IBRD loan funds from the originally planned 750 km to about 250 km. In addition, as a result of the reduced Project scope, cancellation of about EUR 20 million out of the total loan of EUR 73.8 million is expected. The Project activities excluded from the newly defined Project scope as agreed with IBRD, as well as the activities which will continue after the planned cessation of IBRD financing of the Project, will be financed from other sources of financing within the Road Rehabilitation and Safety Project.

The restructuring procedure is in progress. As PERS was informed during the IBRD's visit to Serbia in late May 2018, once internal consents and approvals within IBRD have been obtained, formalization of RRSP restructuring is expected in July 2018. PERS was also informed that the final loan availability date will be moved to June 30, 2020 due to the mandatory verification of the Project's disbursement-linked indicators by the Project Audit Consultant.

With regard to EIB loan financing of the Project, so far there have been no changes to the planned Project scope.

With regard to the EBRD Sub-Project, draft request for extension of EBRD loan availability date (Loan no. 44750) was sent to EBRD for review on May 11, 2018. Upon obtaining EBRD's approval of the draft request, as the institution in charge of the Project implementation, PERS will formally initiate the procedure for loan availability date. According to the said draft request, the ultimate loan availability date should be moved to December 31, 2021.

NOTES TO THE STATEMENTS
 For the Year Ended December 31, 2017

4. EVENTS AFTER THE REPORTING DATE (Continued)

b) Status of Emergency works

According to evidence of inspection authority the percentage of emergency works completion vary from 80%-100%.

The detailed breakdown of percentages of emergency and regular works completion per sub-projects and roads sections (contracts) is presented in the following table:

Road sections/contract	Contracted value in EUR	% of the emergency works completion
EIB/IBRD/RoS Sub – Project		
<i>Component 1 - Road Rehabilitation and Safety - Emergency works</i>		
Arandjelovac (Orašac) – Krčevac	3,516,921	100%
Lazarevac 4 – Arandjelovac	6,190,183	100%
Zavlaka 2 – Pričevići	8,662,820	99%
Krst - Zavlaka 2	6,031,206	99%
Mali Zvornik – Gračanica	11,036,887	100%
Banja Koviljača – Mali Zvornik		
Mali Zvornik – Ljubovija 1	10,116,000	90%
Sub Total EW:	45,554,017	
EBRD Sub – Project		
<i>Component 1 - Road Rehabilitation and Safety -Emergency works</i>		
Topola 1 – Bučin Grob	9,606,625	80%
Raška 2 – Jarinje	4,563,957	100%
Rogačica 2 – Bajina Bašta	4,595,753	95%
Mrčajevci – Kraljevo 1	6,268,605	100%
Sub-Total EW:	25,034,940	
Total	70,588,957	

Deloitte d.o.o. Beograd

Terazije 8
11000 Belgrade
Serbia
Tel: +381 (0) 11 381 21 00
+381 (0) 11 381 22 00
Fax: +381 (0) 11 381 21 12
ceyinfo@deloittece.com
www.deloitte.com/rs

Deloitte d.o.o. Podgorica

Bulevar Svetog Petra Cetinjskog bb,
zgrada Maxim
81000 Podgorica
Montenegro
Tel: +382 (0) 20 228 324
+382 (0) 20 228 096
Fax: +382 (0) 20 228 327
www.deloitte.com/me

Deloitte d.o.o. Banja Luka

Braće Mažar i majke Marije 58 i 60
78000 Banja Luka
Republic of Srpska
Bosnia and Herzegovina
Tel: +387 (0) 51 223 500
+387 (0) 51 224 500
Fax: +387 (0) 51 224 990
www.deloitte.com

Deloitte DOO Skopje

Partizanski odredi 15A
1000 Skopje
Republic of Macedonia
Tel: +389 (0) 2 3111 300
Fax: +389 (0) 2 3119 544
cemkmacedonia@deloittece.com
www.deloitte.com/mk

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