

PRIVATE JOINT STOCK COMPANY “UKRHYDROENERGO”

**“UKRAINE — IMPROVING POWER SYSTEM RESILIENCE FOR EUROPEAN
POWER GRID INTEGRATION (INSTALLATION OF HYBRID SYSTEMS FOR
ELECTRICITY PRODUCTION IN UKRHYDROENERGO” PROJECT**

SPECIAL PURPOSE FINANCIAL STATEMENTS

for the period from 22 May 2022 to 31 December 2022

Together with Independent Auditor’s Report

“UKRAINE — IMPROVING POWER SYSTEM RESILIENCE FOR EUROPEAN POWER GRID INTEGRATION (INSTALLATION OF HYBRID SYSTEMS FOR ELECTRICITY PRODUCTION IN UKRHYDROENERGO)” PROJECT

Special Purpose Financial Statements

for the period from 22 May 2022 to 31 December 2022

in USD

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INDEPENDENT AUDITOR'S REPORT

To the management of PJSC "UKRHYDROENERGO"

To the Representatives of the International Bank for Reconstruction and Development

To the Representatives of the Clean Technology Fund

Opinion

We have audited the special purpose financial statements of "Ukraine – Improving Power System Resilience for European Power Grid Integration (Installation of Hybrid Systems for Electricity Production in Ukrhydroenergo)" Project as at 31 December 2022 and for the period from 22 May 2022 to 31 December 2022, financed by the International Bank for Reconstruction and Development Loan No. 9284-UA, Clean Technology Fund Loan and Grant Agreement No. TF0B5994 and No. TF0B5724, respectively, which comprise:

- Summary of sources and use of funds as of 31 December 2022;
- Statement of expenses from 22 May 2022 to 31 December 2022;
- Statement on the Special Account for the period from 22 May 2022 to 31 December 2022;
- Summary of significant accounting policies and other explanatory notes.

In our opinion, special purpose financial statements present fairly and accurately the sources and uses of the funds of Loan No. 9284-UA, Clean Technology Fund Loan and Grant Agreement No. TF0B5994 and No. TF0B5724, respectively, in respect of "Ukraine – Improving Power System Resilience for European Power Grid Integration (Installation of Hybrid Systems for Electricity Production in Ukrhydroenergo)" Project as at 31 December 2022 and for the period from 22 May 2022 to 31 December 2022, in accordance with the regulations of the Bank.

External funds have been used as required by the relevant general terms and conditions, financial arrangements and use of funds letter with appropriate attention to efficiency and economy and have been used only for the respective intended purpose.

Services have been procured in accordance with the relevant general terms and conditions, the relevant financial arrangements and the use of funds letter.

Accounting and storage of necessary supporting documents, accounting records and accounts of all Project transactions, including those relating to expenditures set out in the Actual cost reports, have been properly recorded and maintained. There is a clear correlation between the accounting records and the financial statements submitted to the World Bank.

The special purpose financial statements comply with generally accepted accounting principles and practices and World Bank guidelines and present fairly and impartially the financial position of the Project as at 31 December 2022 and the resources and disbursements for the period from 22 May 2022 to 31 December 2022.

Separate opinion on expenditures

In addition, in respect of expenditures for the period from 22 May 2022 to 31 December 2022, appropriate supporting documentation was maintained to support the applications submitted to the Bank for reimbursement of the expenditures incurred and the expenditures specified in the applications are subject to financing under the terms of Loan No. 9284-UA, Loan No. TF0B5994 and Grant Agreement No. TF0B5724.



Separate opinion on the Statement on the Special Account

In our opinion, the special purpose financial statements for the Special Account present fairly and accurately the financial position of the special account of the Project as at 31 December 2022 and for the period from 22 May 2022 to 31 December 2022 in accordance with the requirements of the World Bank.

These accounts have been maintained in accordance with the provisions of the relevant general conditions, the relevant financing arrangements and the use of funds letter.

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 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 these requirements and the IESBA's Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material uncertainty related to going concern

(1) Final date of use of the funds

We draw your attention to Note 3 to the special purpose financial statements, which states that the final date of use of the funds of the Loan is 31 December 2026 or such later date as the Bank determines. Our opinion is not modified in respect of this matter.

(2) Military aggression of the Russian Federation against Ukraine

We draw your attention to Notes 6 and 7 to the special purpose financial statements of the Project, which state that from 24 February 2022, the Company is subject to a negative impact on its operations and financial performance related to the full-scale military invasion into the territory of Ukraine by the Russian Federation. The extent or timing of further developments or the timing of the end of hostilities is an uncertainty. These events and conditions, together with the other matters described in Notes 6 and 7, indicate that a material uncertainty exists that may cast significant doubt about the Company's and the Project's ability to continue as a going concern. The special purpose financial statements of the Project do not include any adjustments that might be required as a result of this uncertainty. Our opinion is not modified in respect of this matter.

Emphasis of matter

Basis of accounting and restrictions on distribution and use

We draw your attention to Note 2 to the Special purpose financial statements for the Project, which describes the basis of accounting used in the preparation of the Special purpose financial statements for the Project. The Special purpose financial statements for the Project have been prepared in accordance with the requirements of the World Bank and the Special purpose financial statements for the Project may not be appropriate for other purposes. Our independent auditor's report is intended solely for the management of the Company, IBRD and CTF and should not be distributed to or used by any other party. Our opinion is not modified in respect of the following matters.

Other matters

The Company has prepared its package of financial statements for the year ended 31 December 2022 in accordance with International Financial Reporting Standards, for which we have expressed a separate independent auditor's report dated 14 April 2023.

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

Management of the Company is responsible for the preparation and fair presentation of these special purpose financial statements in accordance with the requirements of the World Bank 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 its special purpose financial statements Management is responsible for assessing the the Project's ability to continue as a going concern for the period of use of the funds, that is until 31 December 2026 or such later date as the Bank determines, disclosing, where applicable, going concern matters 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 on the 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 Company's management.
- Conclude that management uses the going concern assumption as a basis for accounting and, based on the audit evidence obtained, conclude that there is significant uncertainty about events or conditions that would 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 the planned scope and timing of the audit and significant audit findings detected during an audit, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance the assertion that we have complied with the relevant ethical requirements for independence, and inform them of all relations and other matters that could reasonably be considered influencing our independence, and, where applicable, of relevant preventive measures.

The audit was performed under the supervision of the Key Audit Partner O. M. Nikolaenko.

Key Audit Partner

Registration Number in the Register of Auditors and Audit Entities. 101534

15 June 2023

Kyiv

Limited liability company BDO. EDRPOU code is: 20197074. Registration Number in the Register of Auditors and Audit Entities: 2868. Legal address: 4, Andriia Fabra Street, Dnipro, 49070, Tel. 044-393-26-91.

BDO LLC is included in the Register of auditors and audit entities in section 4 "Audit entities that have right to perform statutory audits of financial statements of public interest entities". Link to the Register: <https://www.apu.com.ua/subjekty-adytorskoi-dijalnosti-jaki-majut-pravo-provodyty-obovjazkovyj-audyt-finansovoi-zvitnosti-pidpryjemstv-shho-stanovljat-suspilnyj-interes/>



O. M. Nikolaenko

“UKRAINE – IMPROVING POWER SYSTEM RESILIENCE FOR EUROPEAN POWER GRID INTEGRATION (INSTALLATION OF HYBRID SYSTEMS FOR ELECTRICITY PRODUCTION IN UKRHYDROENERGO” PROJECT

Special Purpose Financial Statements

for the period from 22 May 2022 to 31 December 2022

in USD

STATEMENT OF MANAGEMENT’S RESPONSIBILITY FOR THE PREPARATION AND APPROVAL OF THE SPECIAL PURPOSE FINANCIAL STATEMENTS

The following statement, which should be read in conjunction with the independent auditors’ responsibilities stated in the independent auditor’s report set out on pages I-IV, is made with a view to distinguishing the respective responsibilities of management and those of the independent auditors in relation to the special purpose financial statements in relation to “Ukraine – Improving Power System Resilience for European Power Grid Integration (Installation of Hybrid Systems for Electricity Production in Ukrhydroenergo” Project financed by IBRD Loan No. 9284-UA, CTF Loan No. TF0B5994 and CTF Grant No. TF0B5724, for the period from 22 May 2022 to 31 December 2022.

Management of the PJSC “Ukrhydroenergo” and the Project is responsible for the preparation of the special purpose financial statements, that present fairly and impartially the financial position of the Project as at 31 December 2022 and the resources and expenditures for the period from 22 May 2022 to 31 December 2022.

In preparing the special purpose financial statements, management of the PJSC “Ukrhydroenergo” and the Project is responsible for:

- Selecting suitable accounting principles and applying them consistently;
- Presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- Providing additional disclosures in notes and annexes when compliance with the accounting policies set out in Note 3 is insufficient to understand the impact of particular transactions, other events and conditions on the special purpose financial statements of the Project;
- Assessing the ability of PJSC “Ukrhydroenergo” and the Project to continue as a going concern.

Management of the PJSC “Ukrhydroenergo” and the Project is also responsible for:

- Developing, implementing and maintaining an effective and sound system of internal control over the Project;
- Keeping adequate accounting records that are sufficient to disclose with reasonable accuracy at any time the financial position of the Project and which enable them to ensure that the special purpose financial statements for the Project comply with the accounting policies set out in Note 3;
- Taking measures within its competence to ensure the safety of the Project assets;
- Preventing and detecting fraud and other irregularities.

The special purpose financial statements for the period from 22 May 2022 to 31 December 2022, which are presented in this independent auditor’s report, were approved on 15 June 2023.

Signed on behalf of the PJSC “Ukrhydroenergo”

Deputy CEO for Strategy and Investments of the PJSC “Ukrhydroenergo”

Volodymyr Rudenko



(Anunponova k.o.)

Volodymyr Rudenko

“UKRAINE — IMPROVING POWER SYSTEM RESILIENCE FOR EUROPEAN POWER GRID INTEGRATION (INSTALLATION OF HYBRID SYSTEMS FOR ELECTRICITY PRODUCTION IN UKRHYDROENERGO” PROJECT

SUMMARY OF SOURCES AND USE OF FUNDS

for the period from 22 May 2022 to 31 December 2022
in USD

	<u>Actual</u>	
	<u>For the period</u>	<u>Aggregate</u>
Balance at beginning of the period		
Special account of JSC “Ukreximbank” (IBRD loan No. 9284-UA) - USD	-	-
Current account of JSC “Ukreximbank” (IBRD loan No. 9284-UA) - UAH	-	-
Special account of JSC “Ukreximbank” (CTF loan No. TF0B5994) - USD	-	-
Current account of JSC “Ukreximbank” (CTF loan No. TF0B5994) - UAH	-	-
Total available funds at the beginning of the period:	-	-
Sources of funds:		
Loan from the International Bank for Reconstruction and Development	455,352	455,352
Clean Technology Fund loan	155,448	155,448
Clean Technology Fund grant	-	-
PJSC “Ukrhydroenergo”	336,426	336,426
Funding total:	947,226	947,226
Project expenses:		
Category 1: Goods, works, non-consulting services, consulting services for Part 1.1 of the Project	-	-
Category 2: Goods, works, non-consulting services, consulting services for Part 1.2 of the Project	-	-
Category 3: Goods, works, non-consulting services, consulting services for Part 1.3 of the Project	-	-
Category 4: (a) consultancy services for Part 1.4 of the Project; and (b) operating costs and training for Part 1 of the Project	2,982	2,982
Category 5: Front-end fee	595,500	595,500
Category 6: Interest Rate Cap or Interest Rate Collar premium	-	-
Consulting services, Training and Operating Costs under Part 2 of the Project	-	-
Interest and commission on IBRD and CTF loans	336,426	336,426
Project expenses total:	934,908	934,908
Balance at the end of the period		
Special account of JSC “Ukreximbank” (IBRD loan No. 9284-UA) - USD	10,344	10,344
Current account of JSC “Ukreximbank” (IBRD loan No. 9284-UA) - UAH	4	4
Special account of JSC “Ukreximbank” (CTF loan No. TF0B5994) - USD	1,969	1,969
Current account of JSC “Ukreximbank” (CTF loan No. TF0B5994) - UAH	2	2
	12,318	12,318

Approved by the Management of the PJSC “Ukrhydroenergo” and the Project and signed on its behalf:

Deputy CEO for Strategy and Investments of the
PJSC “Ukrhydroenergo”

Volodymyr Rudenko

[Handwritten signature] / *Андреева Р.О.*



Notes on pages 11-17 are an integral part of the special purpose financial statements.

“UKRAINE — IMPROVING POWER SYSTEM RESILIENCE FOR EUROPEAN POWER GRID INTEGRATION (INSTALLATION OF HYBRID SYSTEMS FOR ELECTRICITY PRODUCTION IN UKRHIDROENERGO)” PROJECT

STATEMENT OF WITHDRAWALS FROM THE LOAN ACCOUNT

for the period from 22 May 2022 to 31 December 2022
in USD

	<i>For the period 22.05.2022- 31.12.2022</i>	<i>Over the entire Project implementation period</i>	<i>Budget (*)</i>	<i>Funding balance</i>
Use of funds from the International Bank for Reconstruction and Development by Project components				
Category 1: Goods, works, non-consulting services, consulting services for Part 1.1 of the Project	-	-	149,557,500	149,557,500
Category 2: Goods, works, non-consulting services, consulting services for Part 1.2 of the Project	-	-	7,550,000	7,550,000
Category 3: Goods, works, non-consulting services, consulting services for Part 1.3 of the Project	-	-	16,000,000	16,000,000
Category 4: (a) consultancy services for Part 1.4 of the Project; and (b) operating costs and training for Part 1 of the Project	2,504	2,504	3,450,000	3,447,496
Category 5: Front-end fee	442,500	442,500	442,500	-
Category 6: Interest Rate Cap or Interest Rate Collar premium	-	-	-	-
Consulting services, Training and Operating Costs under Part 2 of the Project	-	-	-	-
	445,004	445,004	177,000,000	176,554,996
Use of the funds of the Clean Technology Fund by Project components				
Category 1: Goods, works, non-consulting services, consulting services for Part 1.1 of the Project	-	-	28,747,000	28,747,000
Category 2: Goods, works, non-consulting services, consulting services for Part 1.2 of the Project	-	-	1,450,000	1,450,000
Category 3: Goods, works, non-consulting services, consulting services for Part 1.3 of the Project	-	-	3,000,000	3,000,000
Category 4: (a) consultancy services for Part 1.4 of the Project; and (b) operating costs and training for Part 1 of the Project	477	477	650,000	649,523
Category 5: Front-end fee	153,000	153,000	153,000	-
Category 6: Interest Rate Cap or Interest Rate Collar premium	-	-	-	-
Consulting services, Training and Operating Costs under Part 2 of the Project	-	-	1,000,000	1,000,000
	153,477	153,477	35,000,000	34,846,523
Use of funds of the PJSC “Ukrhydroenergo” by Project components				
Category 1: Goods, works, non-consulting services, consulting services for Part 1.1 of the Project	-	-	-	-
Category 2: Goods, works, non-consulting services, consulting services for Part 1.2 of the Project	-	-	-	-
Category 3: Goods, works, non-consulting services, consulting services for Part 1.3 of the Project	-	-	-	-
Category 4: (a) consultancy services for Part 1.4 of the Project; and (b) operating costs and training for Part 1 of the Project	-	-	-	-
Category 5: Front-end fee	-	-	-	-
Category 6: Interest Rate Cap or Interest Rate Collar premium	-	-	-	-
Consulting services, Training and Operating Costs under Part 2 of the Project	-	-	-	-
Interest and fees on IBRD and CTF loans	336,426	336,426	336,426	-
	336,426	336,426	336,426	-
	934,908	934,908	212,336,426	211,401,518

Notes on pages 11-17 are an integral part of the special purpose financial statements.

“UKRAINE – IMPROVING POWER SYSTEM RESILIENCE FOR EUROPEAN POWER GRID INTEGRATION (INSTALLATION OF HYBRID SYSTEMS FOR ELECTRICITY PRODUCTION IN UKRHYDROENERGO)” PROJECT

STATEMENT OF WITHDRAWALS FROM THE LOAN ACCOUNT

for the period from 22 May 2022 to 31 December 2022
in USD

<i>Application number</i>	<i>Category</i>	<i>Date of withdrawal</i>	<i>Payment</i>		<i>USD equivalent</i>
			<i>Currency</i>	<i>Amount</i>	
1-B.	DA-B	05.08.2022	USD	2,448	2,448
FRONT END FEE (TFOB5995)	5	27.06.2022	USD	153,000	153,000
1- A	DA-A	05.08.2022	USD	12,852	12,852
FRONT END FEE (9284-UA)	5	13.06.2022	USD	442,500	442,500
Total:					610,800

Summary by category:	
Component 5	595,500
DA-A	12,852
DA-B	2,448
Total:	610,800

“UKRAINE – IMPROVING POWER SYSTEM RESILIENCE FOR EUROPEAN POWER GRID INTEGRATION (INSTALLATION OF HYBRID SYSTEMS FOR ELECTRICITY PRODUCTION IN UKRHYDROENERGO)” PROJECT

STATEMENT OF WITHDRAWALS THROUGH PROCEDURE FOR DRAWING UP EXPENSE STATEMENTS

for the period from 22 May 2022 to 31 December 2022

in USD

Application number	Category						Total	
	1	2	3	4	5	6		
1. Expenses actually incurred before 22.05.2022 and reimbursed by the World Bank during the period 22.05.2022-31.12.2022.								
-	-	-	-	-	-	-	-	
Total	-	-	-	-	-	-	-	
2. Applications submitted to the World Bank and reimbursed in the period 22.05.2022-31.12.2022.								
FRONT END FEE (TF0B5995)	-	-	-	-	153,000	-	153,000	
FRONT END FEE (9284-UA)	-	-	-	-	442,500	-	442,500	
1-SOE	-	-	-	2,045	-	-	2,045	
Total	-	-	-	2,045	595,500	-	597,545	
3. Expenses actually incurred for the period from 22 May 2022 to 31 December 2022								
From loan account	-	-	-	-	595,500	-	595,500	
From special accounts	-	-	-	-	-	-	-	
From current accounts in national currency	-	-	-	2,982	-	-	2,982	
Total	-	-	-	2,982	595,500	-	598,482	
4. Table of discrepancies in Project expenses between the World Bank and MU records for the period from 22 May 2022 to 31 December 2022								
Reimbursed according to IBRD data	-	-	-	-	2,045	595,500	-	597,545
Amount of expenses not submitted for reimbursement as at 31.12.2022	-	-	-	-	937	-	-	937
According to MU	-	-	-	-	2,982	595,500	-	598,482

Notes on pages 11-17 are an integral part of the special purpose financial statements.

“UKRAINE — IMPROVING POWER SYSTEM RESILIENCE FOR EUROPEAN POWER GRID INTEGRATION (INSTALLATION OF HYBRID SYSTEMS FOR ELECTRICITY PRODUCTION IN UKRHYDROENERGO)” PROJECT

STATEMENT OF WITHDRAWALS FROM SPECIAL ACCOUNTS

for the period from 22 May 2022 to 31 December 2022
in USD

IBRD loan No.9284-UA

<i>Category</i>	<i>Date of withdrawal</i>	<i>Payment</i>		<i>USD</i>
		<i>Currency</i>	<i>Amount</i>	<i>Equivalent amount</i>
Sub_account	29.08.2022	USD	1,721	1,721
Sub_account	07.11.2022	USD	500	500
Sub_account	13.12.2022	USD	287	287
Total:				2,508

Summary by category	
Sub_account	2,508
Total:	2,508

“UKRAINE — IMPROVING POWER SYSTEM RESILIENCE FOR EUROPEAN POWER GRID INTEGRATION (INSTALLATION OF HYBRID SYSTEMS FOR ELECTRICITY PRODUCTION IN UKRHYDROENERGO)” PROJECT

STATEMENT OF WITHDRAWALS FROM SPECIAL ACCOUNTS (CONTINUES)

for the period from 22 May 2022 to 31 December 2022
in USD

CTF loan No. TF0B5995

<i>Category</i>	<i>Date of withdrawal</i>	<i>Payment</i>		<i>USD Equivalent amount</i>
		<i>Currency</i>	<i>Amount</i>	
Sub_account	29.08.2022	USD	329	329
Sub_account	07.11.2022	USD	95	95
Sub_account	13.12.2022	USD	55	55
Total:				479
Summary by category				
Sub_account				479
Total:				479

“UKRAINE — IMPROVING POWER SYSTEM RESILIENCE FOR EUROPEAN POWER GRID INTEGRATION (INSTALLATION OF HYBRID SYSTEMS FOR ELECTRICITY PRODUCTION IN UKRHYDROENERGO” PROJECT

STATEMENT OF SPECIAL ACCOUNTS

for the period from 22 May 2022 to 31 December 2022
in USD

Deposit bank	Ukreximbank
Account No.	UA523223130000026007040059464
Loan No.	9284-UA
Currency	USD
BALANCE AT BEGINNING OF THE PERIOD	
Receipts: Funds received	12,852
Interest accrued	-
TOTAL FUNDS RECEIVED	12,852
Withholding: expenses	-
Transfer of funds into the national currency	2,508
Direct payments from a special account	-
Payment for banking services	-
TOTAL EXPENDITURES	2,508
BALANCE AT THE END OF THE PERIOD	10,344
Deposit bank	Ukreximbank
Account No.	UA89322310000026008050059464
Loan No.	TF0B5994
Currency	USD
BALANCE AT BEGINNING OF THE PERIOD	
Receipts: Funds received	2,448
Interest accrued	-
TOTAL FUNDS RECEIVED	2,448
Withholding: expenses	-
Transfer of funds into the national currency	479
Direct payments from a special account	-
Payment for banking services	-
TOTAL EXPENDITURES	479
BALANCE AT THE END OF THE PERIOD	1,969

Notes on pages 11-17 are an integral part of the special purpose financial statements.

“UKRAINE — IMPROVING POWER SYSTEM RESILIENCE FOR EUROPEAN POWER GRID INTEGRATION (INSTALLATION OF HYBRID SYSTEMS FOR ELECTRICITY PRODUCTION IN UKRHYDROENERGO” PROJECT

STATEMENT OF ACTUAL EXPENSES IN THE NATIONAL CURRENCY

for the period from 22 May 2022 to 31 December 2022
in USD

Project expenses (IBRD loan)	----- Payment-----		USD Equivalent Amount
	Currency	Amount	
Category 1: Goods, works, non-consulting services, consulting services for Part 1.1 of the Project	UAH	-	-
Category 2: Goods, works, non-consulting services, consulting services for Part 1.2 of the Project	UAH	-	-
Category 3: Goods, works, non-consulting services, consulting services for Part 1.3 of the Project	UAH	-	-
Category 4: (a) consultancy services for Part 1.4 of the Project; and (b) operating costs and training for Part 1 of the Project	UAH	91,660	2,504
Category 5: Front-end fee	UAH	-	-
Category 6: Interest Rate Cap or Interest Rate Collar premium	UAH	-	-
Consulting services, Training and Operating Costs under Part 2 of the Project	UAH	-	-
Total expenses for the period		91,660	2,504

Project expenses (CTF Loan)	----- Payment -----		USD Equivalent Amount
	Currency	Amount	
Category 1: Goods, works, non-consulting services, consulting services for Part 1.1 of the Project	UAH	-	-
Category 2: Goods, works, non-consulting services, consulting services for Part 1.2 of the Project	UAH	-	-
Category 3: Goods, works, non-consulting services, consulting services for Part 1.3 of the Project	UAH	-	-
Category 4: (a) consultancy services for Part 1.4 of the Project; and (b) operating costs and training for Part 1 of the Project	UAH	17,471	477
Category 5: Front-end fee	UAH	-	-
Category 6: Interest Rate Cap or Interest Rate Collar premium	UAH	-	-
Consulting services, Training and Operating Costs under Part 2 of the Project	UAH	-	-
Total expenses for the period		17,471	477

Notes on pages 11-17 are an integral part of the special purpose financial statements.

“UKRAINE – IMPROVING POWER SYSTEM RESILIENCE FOR EUROPEAN POWER GRID INTEGRATION (INSTALLATION OF HYBRID SYSTEMS FOR ELECTRICITY PRODUCTION IN UKRHYDROENERGO)” PROJECT

RECONCILIATION BETWEEN THE RECORDS OF MU AND THE BANK

for the period from 22 May 2022 to 31 December 2022
in USD

Loan amount		212,000,000
Deduct:		
Project expenses:		
Category 1: Goods, works, non-consulting services, consulting services for Part 1.1 of the Project	-	
Category 2: Goods, works, non-consulting services, consulting services for Part 1.2 of the Project	-	
Category 3: Goods, works, non-consulting services, consulting services for Part 1.3 of the Project	-	
Category 4: (a) consultancy services for Part 1.4 of the Project; and (b) operating costs and training for Part 1 of the Project	2,982	
Category 5: Front-end fee	595,500	
Category 6: Interest Rate Cap or Interest Rate Collar premium	-	
Consulting services, Training and Operating Costs under Part 2 of the Project	-	
Total:		(598,482)
Special account of JSC “Ukreximbank” (IBRD loan No. 9284-UA) - USD	10,344	
Current account of JSC “Ukreximbank” (IBRD loan No. 9284-UA) - UAH	4	
Special account of JSC “Ukreximbank” (CTF loan No. TF0B5994) - USD	1,969	
Current account of JSC “Ukreximbank” (CTF loan No. TF0B5994) - UAH	2	
Total available funds		(12,318)
Total withdrawals:		(610,800)
Balance as at 31 December 2022		211,389,200

“UKRAINE — IMPROVING POWER SYSTEM RESILIENCE FOR EUROPEAN POWER GRID INTEGRATION (INSTALLATION OF HYBRID SYSTEMS FOR ELECTRICITY PRODUCTION IN UKRHYDROENERGO)” PROJECT

NOTES TO THE SPECIAL PURPOSE FINANCIAL STATEMENTS

for the period from 22 May 2022 to 31 December 2022

in USD

1. PROJECT DESCRIPTION

The International Bank for Reconstruction and Development (the “IBRD”) and PJSC “Ukrhydroenergo” (the “Borrower”) entered into Loan Agreement No. 9284-UA and Grant Agreement TF0B5724 dated 13 September 2021 to finance “Ukraine — Improving Power System Resilience for European Power Grid Integration (Installation of Hybrid Systems for Electricity Production in Ukrhydroenergo)” Project (“Project”). The objective of the Project is to enhance the flexibility of Ukraine’s power grid through storage investments and market expansion to support synchronization with the European electricity grid and decarbonization of the power sector.

The Project consists of the following parts:

Part 1. Installation of Battery Energy Storage System (“BESS”) with Solar Photovoltaic Plants (“PV”), Establishment of an Energy Management System and Supervision Consultancy.

- 1.1 Installation of: (i) BESS in Selected HPPs to provide ancillary services to the electricity grid; (ii) solar PV plants to supply electricity to the battery storage facilities and provide auxiliary consumption; and (iii) an energy management system.
- 1.2 Installation at Dniester HPP of a long duration BESS to charge electric vehicles, including electric buses.
- 1.3 Installation of a PV plant in Dniester HPP to support the charging of electric vehicles.
- 1.4 Provision of Project implementation support and financing of a supervision consultancy, including: (a) the carrying out of: (i) supervision, management and coordination activities; and (ii) Project audits; and (b) the carrying out of knowledge sharing activities to strengthen the Borrower’s capacity in advanced energy management.

Part 2. Technical Assistance

Provision of technical assistance for: (i) the development of battery storage decommissioning and recycling technical procedures; (ii) the carrying out of a gender assessment of the Borrower’s human resources policies and practices to identify factors influencing gender diversity and inclusion, including specific recommendations; (iii) the implementation of supervision and monitoring of environmental and social tasks under the Project, including, inter alia, the establishment and maintenance of a grievance redress mechanism and the carrying out of citizen engagement activities; and (iv) the strengthening of the Borrower’s capacity on operation and maintenance best practices, safety measures, and battery recycling through the carrying out of training, workshops and study tours.

The Company may take samples of the loan proceeds under the Loan Agreements until 31 December 2026.

The cost of the Project is USD 212,000,000, which includes IBRD Loans No. 9284-UA in the amount of USD 177,000,000, TF0B5995 in the amount of USD 34,000,000 and Grant TF0B5724 in the amount of USD 1,000,000.

2. BASIS OF PRESENTATION

These special purpose financial statements for the Project have been prepared on the cash basis of accounting and include the following significant accounting policies, which have been consistently applied in all material respects, and comply with the recommendations of the Financial Management Committee of the World Bank “Recommendations: Annual Financial Statements and Audit of Activities Financed by the World Bank”. The Project funding is recognised as a source of funds for the Project when the funds are received. Project expenditures are recognised as a use of funds under the Project when payments are made.

The reporting currency is USD. Items included in the special purpose financial statements of the Project are measured using the currency that best reflects the economic substance of the underlying events and circumstances relevant to the Company (the “functional currency”). The functional currency of the Project is USD.

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NOTES TO THE SPECIAL PURPOSE FINANCIAL STATEMENTS

for the period from 22 May 2022 to 31 December 2022

in USD

Transactions in other currencies are translated into USD at the interbank exchange rate ruling at the date of the transaction to convert the relevant USD into the currency of payment. Cash balances in other currencies are translated into USD at the interbank exchange rate on the last date of conversion of USD into the currency of payment.

3. ACCOUNTING POLICIES

Basis of preparation

The special purpose financial statements have been prepared on the cash basis of accounting. The accounting policies have been consistently applied throughout the period of the use of the funds of the Loan.

Reporting period

This report covers the period of use of funds of IBRD Loan No. 9284-UA, CTF Loan No. TF0B5995 and CTF Grant No. TF0B5724 from 22 May 2022 to 31 December 2022. The World Bank has set the final closing date for the loan as 31 December 2026.

Special bank account

In accordance with the terms of the Loan Agreement and to ensure the implementation of the Project, the Ministry of Finance of Ukraine opened a Special Account in USD with JSC “Ukreximbank” on the terms agreed with IBRD.

Recognition of income and expenses

The Project Management Unit maintains its records and prepares its financial statements on a cash basis. Revenues are recognised when they are received on the bank accounts supported by advances from IBRD. Expenditures are recorded on the date when the funds are withdrawn from the accounts. The Project Reports shall be prepared in accordance with the provisions of Section 5.08 of the General Conditions and on the basis of indicators acceptable to the World Bank. Each Project Report covers a period equal to one calendar quarter and shall be submitted to the World Bank no later than forty-five (45) days after the end of the period covered by each such report.

The procurement of all goods, works and non-consulting services required for the Project to be financed out of the Loan shall be in accordance with the requirements of Section I of the Procurement Guidelines and the provisions of Section III of Appendix 2 of the Loan Agreement.

The procurement of all consultant services required for the implementation of the Project and to be financed from the Loan shall be carried out in accordance with the requirements of Sections I and IV of the Manual for the Selection and Employment of Consultants and the provisions of Section III of Appendix 2 of the Loan Agreement.

Foreign currency transactions

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

Statements of expenditure

The statements of expenditure are used to recognise the expenditure incurred under the Loan during the calendar quarter and paid from the Special account.

In accordance with the additional withdrawal guidelines established by IBRD, all expenditures paid from the Special account must be included in the statements of expenditures for the relevant period and submitted to IBRD.

The statements of expenditure shall be accompanied by primary documents (copies of invoices, certificates of work performed, etc.).

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NOTES TO THE SPECIAL PURPOSE FINANCIAL STATEMENTS

for the period from 22 May 2022 to 31 December 2022

in USD

4. BUDGET

The proceeds of the Loan in relation to the use of the proceeds of the IBRD Loan No. 9284-UA were used to finance the following expenditures and were used exclusively for the activities under the established categories:

<i>Category</i>	<i>Amount of the Loan Allocated (expressed in USD)</i>	<i>Percentage of expenditure to be financed</i>
Category 1: Goods, works, non-consulting services, consulting services for Part 1.1 of the Project	149,557,500	84%
Category 2: Goods, works, non-consulting services, consulting services for Part 1.2 of the Project	7,550,000	84%
Category 3: Goods, works, non-consulting services, consulting services for Part 1.3 of the Project	16,000,000	84%
Category 4: (a) consultancy services for Part 1.4 of the Project; and (b) operating costs and training for Part 1 of the Project	3,450,000	84%
Category 5: Front-end fee	442,500	
Category 6: Interest Rate Cap or Interest Rate Collar premium	-	
TOTAL	177,000,000	

The proceeds of the Loan in relation to the use of the proceeds of the CTF Loan No. TF0B5995 were used to finance the following expenditures and were used exclusively for the activities under the established categories:

<i>Category</i>	<i>Amount of the Loan Allocated (expressed in USD)</i>	<i>Percentage of expenditure to be financed</i>
Category 1: Goods, works, non-consulting services, consulting services for Part 1.1 of the Project	28,747,000	16%
Category 2: Goods, works, non-consulting services, consulting services for Part 1.2 of the Project	1,450,000	16%
Category 3: Goods, works, non-consulting services, consulting services for Part 1.3 of the Project	3,000,000	16%
Category 4: (a) consultancy services for Part 1.4 of the Project; and (b) operating costs and training for Part 1 of the Project	650,000	16%
Category 5: Front-end fee	153,000	
TOTAL	34,000,000	

The proceeds of the Loan in relation to the use of the proceeds of the CTF Loan No. TF0B5724 were used to finance the following expenditures and were used exclusively for the activities under the established categories:

<i>Category</i>	<i>Amount of the Loan Allocated (expressed in USD)</i>	<i>Percentage of expenditure to be financed (exclusive of taxes)</i>
Consulting services, Training and Operating Costs under Part 2 of the Project	1,000,000	100%
TOTAL	1,000,000	

5. LOAN REPAYMENT SCHEDULE

The following tables set out the principal repayment dates of the Loan and the percentage of the total principal amount of the Loan payable on each Principal Repayment Date (the “Contribution Share”).

IBRD loan repayment schedule

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<i>Principal repayment date</i>	<i>Contribution share</i>
Each 15 February and 15 August	
From 15 August 2029	4.17%
untill 15 August 2040	
15 February 2041	4.09%
CTF loan repayment schedule	
<i>Principal repayment date</i>	<i>Contribution share</i>
Each 15 February and 15 August:	
From 15 August 2031	1%
untill 15 February 2041	
From 15 August 2041	
untill 15 February 2061	2%

6. ECONOMIC ENVIRONMENT

The Company operates in Ukraine. As at the date of approval of the financial statements, the Ukrainian economy is under the influence of both external and global factors.

A new stage of the russian-Ukrainian war (hereinafter referred to as the military aggression) began on 24 February 2022 with a full-scale invasion of the russian army. The government immediately imposed martial law across the country, which has now been extended until 19 May 2023. The russian invasion is causing serious economic and humanitarian damage to the country, which is reflected in financial pressure on the budget, trade disruptions, the displacement of millions of people and significant damage to infrastructure with potentially long-term macroeconomic and social consequences. Currently, the government has prioritised spending on defence and social resources and continues to meet its external debt obligations. Companies pay taxes, and money fuels the financial system.

At the outbreak of military aggression, the NBU postponed its decision to increase the key policy rate, which was 10% at the time, imposed restrictions on hryvnia withdrawals by customers, and switched from a flexible regime to a fixed exchange rate of UAH 29.2549/USD at the foreign exchange market to ensure a more reliable and stable functioning of the country's financial system.

Effective from 03 June 2022, the NBU Board approved a key policy rate increase to 25% by its Resolution No. 262-rsh dated 02 June 2022 "On the Key Policy Rate". The key policy rate increase will revive interest in hryvnia assets, reduce pressure on international reserves, and have a restraining effect on inflation.

Effective from 21 July 2022, the National Bank of Ukraine adjusted the official hryvnia/US dollar exchange rate by 25% to UAH 36,5686/USD to balance the foreign exchange market and maintain the resilience of the economy in times of war. Fixing the exchange rate from the first hour of the full-scale war at UAH 29,2549/USD has helped ensure the stable operation of the financial system.

In 2022, inflationary pressures in Ukraine increased significantly due to the effects of the full-scale war. In 2022, inflation reached 26.6%, caused by both global trends, in particular high energy prices, and internal factors, primarily related to military aggression. These included disruptions in supply chains, destruction of businesses' assets, rising production costs, and increased demand for certain goods and services from the population amid insufficient supply.

Russia's targeted attacks on Ukraine's energy infrastructure have resulted in significant electricity shortages. At the same time, given the extent of the damage, the energy system has demonstrated high flexibility and adaptability. Thanks to business adjustments, the economy is still operating, although at lower capacity levels.

The electricity shortage is leading to a decline in production and reduced consumer demand.

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Despite the current volatile situation, the banking system is stable, with sufficient liquidity even during the martial law period. All banking services are available to both legal entities and individuals.

In response to russia's actions, the European Union, the United States, the United Kingdom, Japan and many other countries imposed unprecedented sanctions against the individuals involved, including the senior management of the aggressor country, and business entities in various sectors of its economy.

The management and personnel of the Company and the Project are located outside the area of open hostilities and operate in a relatively normal business mode.

These factors will affect the results of the Company's and the Project's operations in future periods. The management of the Company and the Project monitors the current situation and takes measures to mitigate any negative effects to the extent possible.

In preparing these Special purpose financial statements for the Project, the known and estimable effects of these factors on the Special purpose financial statements for the Project in the reporting period have been considered.

Management of the Company and the Project cannot predict all developments that could have an impact on the wider economy and what effect they could have on the Special purpose financial statements of the Project and the Company in the future. The management of the Company and the Project believe they are taking all necessary measures to support the sustainability of the business. However, a further unstable business environment could negatively affect the results of operations and financial position of the Company and the Project in a manner not currently determinable. These special purpose financial statements for the Project reflect management's current assessment of the impact a Ukrainian business environment has on the operations and the financial position of the Company and the Project. The future business environment may differ from management's current assessment. As at the date of approval for issue of these Special purpose financial statements for the Project, there is a material uncertainty regarding the going concern.

7. EVENTS AFTER THE REPORTING DATE

Budget

According to the letter from the International Bank for Reconstruction and Development, agreed by PJSC “Ukrhydroenergo” on 13.01.2023, a new Part 3 “Contingent Emergency Response” was added and a new Category 7 “Emergency Expenditures” was added. These expenditures are to be financed by IBRD loan No. 9284-UA.

On 09.05.2023, a letter was received from IBRD on the activation of Part 3 “Contingent Emergency Response”. The Bank accepted the justification of PJSC “Ukrhydroenergo” for the withdrawal of funds for payments under Category 7 “Emergency Expenditures” in the amount of USD 173 million. According to the agreement, the implementation period of Part 3 “Contingent Emergency Response” will be two years from the date of this letter, thus the closing date of Part 3 “Contingent Emergency Response” is 09.05.2025.

Full-scale war with russia is still ongoing

The full-scale war with russia is ongoing in Ukraine and the legal regime of martial law is effective.

Kakhovka HPP has been occupied by russian troops almost from the very beginning of russia's military aggression. In October 2022, PJSC “Ukrhydroenergo” filed a lawsuit with the European Court of Human Rights against the russian federation to recover damages caused by russia's military aggression against Ukraine. At the time, according to PJSC “Ukrhydroenergo's” rough estimates, the damages were estimated at UAH 17 billion.

On 06 June 2023, at 02:50 a.m., russian troops internally detonated the structures of the Kakhovka HPP. A number of communities were flooded. The destruction of the plant endangers the lives of hundreds of thousands of people. The explosion of the plant and dam is another act of terrorism by the russian government. The destruction of the HPP is considered a violation of the Geneva Convention.

In the future, the key risk is the prolongation of the war, even if the fighting is localised. This will require the economy to operate for a long time in extreme conditions, threatening to deepen its decline and

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increasing the need for assistance from partners. The impact of the war on the global economy will also increase.

International support for Ukraine is growing thanks to the resistance of the Armed Forces, effective diplomacy and extensive coverage in the global media. The main mechanisms of support include arms supplies, financial and humanitarian aid, and sanctions against russia.

Since the beginning of the year, inflation has been falling faster than expected. The weakening of inflationary pressures was facilitated by an ample supply of food and fuel, as well as a fairly rapid recovery of the energy system from the effects of russian terrorist attacks. Another important factor was the improvement in inflation expectations since the beginning of the year, following the termination of emission financing, the strengthening of the hryvnia cash exchange rate, and the increased attractiveness of hryvnia assets. The NBU expects inflation to slow to 14.8% in 2023 and return to single digits in the following years.

Given the rapid recovery of the power system and loose fiscal policy, the economic growth forecast for 2023 has been upgraded from 0.3% to 2.0%. Under the security assumptions, no significant power shortages are expected in the future, except for local and situational deficits in the second half of the year. At the same time, increased budget expenditures amid significant international financial assistance will support economic activity and consumption. Reduced security risks will help accelerate economic growth to 4.3% in 2024 and 6.4% in 2025, starting next year. Thus, the de-occupation of the territories and the full reopening of the Black Sea ports will help to gradually increase industrial production and harvests. In addition, domestic demand is expected to expand due to the return of some involuntary migrants.

In total, this year's revenues from international partners may exceed USD 42 billion. Proceeds from partners will contribute to the growth of international reserves to about USD 35 billion as of the end of the year.

Given the uncertainty associated with the war, as well as significant state budget expenditures, maintaining exchange rate stability amid plans for currency liberalisation will require ensuring that hryvnia savings remain highly attractive. With this in mind, the key policy rate is kept at 25%. The NBU's updated forecasts foresee the key policy rate cuts starting in 2023 QIV.

The key risk to these forecasts is a longer duration and intensity of the war. The main assumption of the forecast is that security risks will significantly decrease from the beginning of 2024. A longer duration of hostilities could slow economic recovery and worsen inflation and exchange rate expectations. This would pose additional challenges for the economy and finance.

The situation continues to evolve and its consequences are currently uncertain. Management is unable to predict all of the developments that could affect the wider economy and what effect they could have on the financial position and the results of future operations of the Company. Management monitors the possible impact of these developments on the Company and will take all possible measures to mitigate any effects.

WORLD BANK AUDIT DOCUMENTATION CHECKLIST

Name of Loan/Credit:	World Bank UKRAINE
Loan/Credit/Grant #	9284-UA, TF0B5994, TF0B5724
Audit Report:	Period from 22 May 2022 to 31 December 2022

	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"/>