

# Project's Financial Statements and Independent Auditors' Report

Elektrani na Makedonija AD, Skopje

"Preparation of the proposed Lukovo Pole renewable energy project" - International Bank for Reconstruction and Development Advance Agreement numbered PPA No IBRD P4610-MK

For the period from January 01, 2012 through August 10, 2013

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## Management Responsibility

The accompanying financial statements comprising of Statement of Sources and Uses of Funds, Statement of Uses of Funds by Project Activity, Statements of Withdrawals, Balance Sheet, Statement of Designated Bank Account and related disclosure Notes (further referred as to "Project's Financial Statements"), of the Elektrani na Makedonija AD, Skopje (ELEM AD, Skopje), "Preparation of the proposed Lukovo Pole Renewable Energy Project" (further referred to as the "Project"), financed under International Bank for Reconstruction and Development Project Preparation Advance Agreement numbered PPA IBRD No P4610-MK ("Advance Agreement"), for the period from January 01, 2012 through August 10, 2013 on pages 4 to 10, are the responsibility of, and have been approved by, the Project's management.

The accompanying Project's financial statements have been compiled by the Project's management, for the purposes of reporting to ELEM AD, Skopje and International Bank of Reconstruction and Development management, in conformity with the related requirements of IBRD's financial reporting guidelines and in compliance with the relevant provisions set out in the Advance Agreement numbered PPA No IBRD P4610-MK dated April 7, 2011 and Disbursement letter, dated April 7, 2011.

Management, in furtherance of the integrity and objectivity of the Project's financial statements, has developed and maintains an internal control structure, including the appropriate control environment, accounting systems and control procedures. Management believes that internal controls provide assurance that financial records are reliable and form a proper basis for the preparation of financial statements and that assets are properly accounted for and safeguarded. There are, however, inherent limitations that should be recognized in considering the assurances provided by the internal control structure. The internal control process also includes management's communication to employees of policies, which govern ethical business conduct.

Grant Thornton, Independent Auditors, have been engaged to audit these Project's financial statements in accordance with the International Standards on Auditing. Their report is included on pages 2 and 3.

July 29, 2014



Ms. Elena Stojanovska  
FM Officer



Ms. Gordana Dimitrieska Kochanska  
Finance Manager



Mr. Dejan Boshkovski  
General Manager

## Independent Auditors' Report

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To the Management of the Project  
"Preparation of the proposed Lukovo Pole Renewable Energy Project"  
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We have audited the accompanying financial statements of Elektrani na Makedonija AD, Skopje (ELEM AD, Skopje), "Preparation of the proposed Lukovo Pole Renewable Energy Project" (further referred to as the "Project"), financed under International Bank for Reconstruction and Development Advance Agreement numbered PPA No IBRD P4610-MK comprising of the Statement of Sources and Uses of Funds, Statement of Uses of Funds by Project Activity, Statement of Withdrawals, Balance Sheet, Statement of Designated Bank Account and related disclosure Notes (further referred to as "Project's Financial Statements"), for the period from January 01, 2012 through August 10, 2013, included on pages 4 to 10.

### *Management's responsibility for financial statements*

These Project's financial statements are compiled for the purposes reporting to the ELEM AD, Skopje and the International Bank for Reconstruction and Development (IBRD) management. The Projects' management is responsible for developing and maintaining such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Project's Management policy is to prepare the accompanying Project's financial statements on the cash receipts and disbursements basis in conformity with the related requirements of IBRD's financial reporting guidelines and in compliance with the relevant provisions set out in the Advance Agreement numbered PPA No IBRD P4610-MK dated April 7, 2011 and Disbursement letter, dated April 7, 2011. On this basis, cash receipts are recognized when received rather than when earned and cash expenditures are recognized when paid rather than when incurred.

### *Auditor's responsibility*

Our responsibility is to express an opinion on this Project's financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards and instructions require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error.

In making those risk assessments, the auditor considers internal control relevant to the Project's preparation and fair presentation of the financial statements 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 Project's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

*Opinion*

In our opinion, the financial statements of "Preparation of the proposed Lukovo Pole Renewable Energy Project", financed under International Bank for Reconstruction and Development Advance Agreement numbered PPA No IBRD P4610-MK, present fairly, in all material respects, the Project's financial position as at August 10, 2013, and the movements in the sources and uses of funds for the period from January 01, 2012 through August 10, 2013, in conformity with the related requirements of the IBRS's financial reporting guidelines and in compliance with the relevant provisions set out in the Advance Agreement numbered PPA No IBRD P4610-MK dated April 7, 2011 and Disbursement letter, dated April 7, 2011.



Grant Thornton

Skopje,  
August 4, 2014


Financial Statements  
 For the period from January 01, 2012 through August 10, 2013


## Statement of Sources and Uses of Funds

	(Amounts in USD)	
	Actual	
	Current period	Cumulative to date
	January 01, 2012	January 01, 2012
	through August 10,	through August 10,
	2013	2013
<b>Sources of funds</b>		
IBRD Funds	1,407,248.15	1,407,248.15
- Designated bank account	190,268.62	190,268.62
- Direct payments	1,027,020.64	1,027,020.64
- Reimbursements	189,958.89	189,958.89
ELEM AD, Skopje funds	167,573.36	167,573.36
Interest earned	42.90	42.90
<b>Total sources of funds</b>	<b>1,574,864.41</b>	<b>1,574,864.41</b>
<b>Foreign exchange (losses) / gains, net</b>		
	-	-
<b>Uses of funds</b>		
<b>A. Financed by IBRD</b>		
Component 1	(1,334,179.92)	(1,334,179.92)
<b>Subtotal A – Financed by IBRD</b>	<b>(1,334,179.92)</b>	<b>(1,334,179.92)</b>
<b>B. Financed by ELEM AD, Skopje</b>		
Local contractors (VAT included)	(36,218.09)	(36,218.09)
VAT for expenditure financed by IBRD	(127,835.27)	(127,835.27)
Personal tax 10% for panel of experts financed by IBRD	(3,520.00)	(3,520.00)
<b>Subtotal B – Financed by ELEM AD, Skopje</b>	<b>(167,573.36)</b>	<b>(167,573.36)</b>
<b>Total uses of funds</b>	<b>(1,501,753.28)</b>	<b>(1,501,753.28)</b>
Balance	73,111.13	73,111.13
<b>Reconciliation to the balance of unspent funds:</b>		
Add: unspent funds, at beginning	-	-
<b>Unspent funds, at end</b>	<b>73,111.13</b>	<b>73,111.13</b>

The Project's Financial Statements have been approved by the Project's management on July 29, 2014 and signed on its behalf by:

  
 Ms. Elena Stojanovska  
 FM Officer

  
 Ms. Gordana Dimitrieska Kochoska  
 Finance Manager

  
 Mr. Dejan Boshkovski  
 General Manager



Financial Statements

For the period from January 01, 2012 through August 10, 2013

## Statement of Uses of Funds by Project Activity

	(Amounts in USD)	
	Actual	
	Current period January 01, 2012 through August 10, 2013	Cumulative to date January 01, 2012 through August 10, 2013
<b>Uses of funds financed by IBRD</b>		
Civil Engineering Institute "Macedonia" Contract No 08-5542/2 from 12.12.2011	635,011.46	635,011.46
Joint Venture of Acciona Ingenieria S.A and ABC Consulting No 08-4009/1 from 25.07.2012	509,503.92	509,503.92
POIRY infra GmbH Germany Contract No 08-4232/1 from 25.08.2011 and Amendment 1 No 08-4962/1 from 13.10.2011	106,320.05	106,320.05
Joint Venture of BRL INGENIERIE and GPM Consulting No 08-1491/1 from 20.03.2013	39,296.60	39,296.60
Norbert SA Contract for consulting services Small assignments No 08-3462/1 from 27.06.12	11,798.00	11,798.00
Harald Kreuzer Contract for consulting services Small assignments No 08-3464/1 from 27.06.12	11,183.10	11,183.10
Eiric Helland-Hansen Contract for consulting services Small assignments No 08-1605/1 from 20.03.2012	8,667.00	8,667.00
Svetozar Petkovski Contract for consulting services Small assignments No 08-1603/1 from 20.03.2012 and Amendment No 08-1603/2 from 05.07.2012	3,182.26	3,182.26
Sokol Klincarov Contract for consulting services Small assignments No 08-3461/1 from 27.06.2012 and Amendment No 08-3461/2 from 12.07.2012	2,925.31	2,925.31
Cvetanka Popovska Contract for consulting services Small assignments No 08-1604/1 from 20.03.2012 and Amendment No 08-1604/2 from 10.07.2012	2,211.21	2,211.21
Cvetanka Popovska Contract for consulting services Small assignments No 08-3463/1 from 27.06.12	1,607.63	1,607.63
Ilija Andonov Cento Contract for consulting services Small assignments No 08-3465/1 from 27.06.2012	1,071.75	1,071.75
Trifun Paskalov Contract for consulting services Small assignments No 08-3460/1 from 27.06.2012 and Amendment No 08-3460/2 from 12.07.2012	1,052.71	1,052.71
Bank provision for payments	318.92	318.92
Bank provision for transfer of money on the designated bank account	30.00	30.00
<b>Total uses of funds from IBRD</b>	<b>1,334,179.92</b>	<b>1,334,179.92</b>
<b>Uses of funds financed by ELEM AD, Skopje</b>		
Local suppliers (small purchases) , VAT included	36,218.09	36,218.09
- Ilija Andonov Cento	3,498.90	3,498.90
- Empiria EMS	5,183.57	5,183.57
- Bild	12,176.90	12,176.90
- Agencija za planiranje na prostor	7,704.96	7,704.96
- Geosilver	7,653.76	7,653.76
VAT from expenditure financed by IBRD	127,835.27	127,835.27
Personal tax 10% for panel of experts financed by IBRD	3,520.00	3,520.00
<b>Total uses of funds by ELEM AD, Skopje</b>	<b>167,573.36</b>	<b>167,573.36</b>
<b>Total expenditure</b>	<b>1,501,753.28</b>	<b>1,501,753.28</b>

“Preparation of the proposed Lukovo Pole Renewable Energy Project”  
IBRD Advance Agreement number PPA No IBRD P4610-MK

Financial Statements  
For the period from January 01, 2012 through August 10, 2013

## Statement of Withdrawals

Application nr., and date of IBRD's payment advance	Total requested	Transfer of funds to the designated bank account	Disbursement type		Amounts in USD For the period from January 01, 2012 through August 10, 2013		Difference
			Reimbursement	Direct payment	Total disbursed		
1, March 30, 2012	72,464.15	-	72,464.15	-	72,464.15	-	-
2, May 22, 2012	100,000.00	100,000.00	-	-	100,000.00	-	-
3, May 25, 2012	117,494.74	-	117,494.74	-	117,494.74	-	-
4, August 3, 2012	47,957.07	47,957.07	-	-	47,957.07	-	-
5, November 26, 2012	360,397.56	-	-	360,397.56	360,397.56	-	-
6, January, 2, 2013	154,051.39	-	-	154,051.39	154,051.39	-	-
7, May 21, 2013	157,119.16	-	-	157,119.16	157,119.16	-	-
8, June 10, 2013	302,939.65	-	-	302,939.65	302,939.65	-	-
9, June 6, 2013	52,512.88	-	-	52,512.88	52,512.88	-	-
10, June 25, 2013	67,311.55	42,311.55	-	-	42,311.55	25,000.00	-
<b>Total disbursements</b>	<b>1,432,248.15</b>	<b>190,268.62</b>	<b>189,958.89</b>	<b>1,027,020.64</b>	<b>1,407,248.15</b>	<b>25,000.00</b>	



## Balance Sheet

(Amounts in USD)  
August 10, 2013

<b>Assets</b>	
Designated bank account – USD	73,111.13
<b>Total assets</b>	<b>73,111.13</b>
<b>Liabilities and funds</b>	
<b>Funds</b>	
Funds balance brought forward	73,111.13
<b>Total liabilities and funds</b>	<b>73,111.13</b>

“Preparation of the proposed Lukovo Pole Renewable Energy Project”  
IBRD Advance Agreement number PPA No IBRD P4610-MK

Financial Statements  
For the period from January 01, 2012 through August 10, 2013

## Statement of Designated Bank Account – USD

Account number	0023807863
Depository bank	Stopanska Banka AD, Skopje
Address	Kej 11 Oktomvri No 7, 1000 Skopje
Advance Agreement number	PPA No IBRD P4610-MK
Currency	USD

*(Amounts in USD)*  
For the period from  
January 01, 2012  
through August 10,  
2013

<b>Opening balance</b>	-
<hr/>	
<b>Add: Inflows</b>	
Transfer of funds from IBRD	190,268.62
Interest earned	42.90
	<b>190,311.52</b>
<hr/>	
<b>Deduct: Outflows</b>	
Payments for project expenditures	(116,851.47)
Bank provision for payments	(318.92)
Bank provision for transfer of money on the designated bank account	(30.00)
	<b>(117,200.39)</b>
<hr/>	
<b>Closing balance</b>	<b>73,111.13</b>
<hr/>	

## Notes to Project’s financial statements

### 1 General

On April 7, 2011, Elektrani na Makedonija AD, Skopje (“ELEM AD, Skopje” or “the Borrower”), entered into the Project Preparation Advance Agreement numbered PPA No IBRD P4610-MK with the International Bank for Reconstruction and Development (“IBRD”) for financing the “Preparation of the proposed Lukovo Pole Renewable Energy Project” (further referred to as “the Project”) in the amount of USD 3,000,000.00. On April 7, 2011 IBRD accepted the evidence submitted in fulfilment the conditions precedent to effectiveness of the Advance Agreement and consequently the Project and the Advance Agreement became effective on the aforementioned date.

The following table underlines the categories of eligible expenditure that may be financed out of the proceeds of the Advance Agreement (“category”), the allocation of the amounts of the funds to each category, and the percentage of expenditures to be financed for the eligible expenditure in each Category:

Category	Amount of the advance allocated (expressed in USD)	Percentage of the expenditures to be financed
1. Consultants’ services and audit of Financial Statements	3,000,000.00	100%
<b>Total</b>	<b>3,000,000.00</b>	

The refinancing date is June 29, 2012. The first extension of refinancing date is August 10, 2013, after that August 10, 2014 and the last extension of refinancing date is April 6, 2015. According to the provisions of the Advance Agreement, the Borrower is liable to pay interest on the withdrawn advance balance at a rate for each interest period, equal to the reference rate plus the fixed spread. The interest period determination dates are January 1 and July 1 each year. If, on or before the refinancing date, a refinancing agreement has been executed by all of its parties, than the full amount of the withdrawn advance balance shall be repaid to the IBRD as soon as the refinancing agreement becomes effective, by means of a withdrawal by IBRD of an amount of the refinancing proceeds equivalent to the withdrawn advance balance plus such interest, in accordance with the provisions of the refinancing agreement. If, no or before the refinancing date, no refinancing agreement has been executed by all of its parties, or if, by this date, it has been so executed but terminates without becoming effective, than:

- i) If the amount of the withdrawn advance balance does not exceed USD 50,000 it shall be repaid by the Borrower to the IBRD, on such date as IBRD shall specify in a notice to the Borrower, which shall in no event be earlier than 60 days following the date of dispatch of such notice; and
- ii) If the amount of the withdrawn advance balance exceeds USD 50,000 it shall be paid by the Borrower to IBRD in ten approximately equal semiannual installments in the amounts and on the dates which IBRD shall specify in a notice to the Borrower.

“Preparation of the proposed Lukovo Pole Renewable Energy Project”  
IBRD Advance agreement number PPA No IBRDP4610-MK

Notes to the Project’s financial statements (continued)

## **2 Project Objectives, Activities and Management**

### **Project Objectives and Activities**

The objective of the Project is to facilitate the preparation of a proposed project design to help the Guarantor:

- i) Reduce its vulnerability to changes in rainfall due to the climate change;
- ii) Increase availability of renewable energy; and
- iii) Reduce flooding.

The activities for which the advance is provided consist of the following parts:

- a) Preparation of environmental and social impact assessments, environmental management plans and advance on ways to minimize construction and operation impacts in relation to the Project;
- b) Update of feasibility studies and preparation of bidding documents in relation to the Project;
- c) Carrying out of geological investigations in relation to the Project;
- d) Carrying out of reviews, surveys and advice on dam safety matters in relation to the Project and preparation of related documents;
- e) Carrying out of reviews, surveys and advice on environmental and social matters, impact assessments, proposed mitigation measures in relation to the project and preparation of related documents.

### **Project Management**

According to the provisions of the Advance Agreement, the Borrower’s representative is its General Manager. ELEM AD, Skopje is responsible for overall Project oversight and coordination. The guarantor of the Project is the Republic of Macedonia.

## **3 Accounting policies**

Following are the principle accounting policies adopted in preparation of these financial statements.

These accounting policies are consistently applied to all financial periods presented.

### **Basis of preparation**

The accompanying financial statements have been prepared for the purposes of reporting to IBRD, on the activities of the Project related to the funds received for the completion of the Project’s objectives, in accordance with the respective provisions set out in the Advance Agreement numbered PPA No IBRD P4610-MKD signed between the IBRD and ELEM AD, Skopje. These financial statements are prepared on the cash receipts and disbursements basis in conformity with the related requirements of IBRD’s financial reporting guidelines and in compliance with the relevant provisions set out in the Advance Agreement numbered PPA No IBRD P4610-MKD dated April 7, 2011 and Disbursement letter, dated April 7, 2011. On this basis, cash receipts are recognized when received rather than when earned and cash expenditures are recognized when paid rather than when incurred. These instructions closely follow the IBRD’s *Disbursement Guidelines for Projects*.

The financial statements have been prepared for the period from January 01, 2012 through August 10, 2013.

“Preparation of the proposed Lukovo Pole Renewable Energy Project”  
IBRD Advance agreement number PPA No IBRDP4610-MK

Notes to the Project’s financial statements (continued)

**Currency translation**

All accounts are kept in USD this is the reporting currency of the Project. Transactions denominated in currencies other than USD are translated using the buying foreign exchange rates of Stopanska Banka AD, Skopje.



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