

Audited Project Financial Statements

Project Number: 46390-003

Loan Number: 3084

Period covered: 1 April 2014 to 31 March 2016

MYA: Power Distribution Improvement Project

Prepared by Electricity Supply Enterprise (ESE)

For the Asian Development Bank

Date received by ADB: 12 May 2017

The audited project financial statements are documents owned by the borrower. The views expressed herein do not necessarily represent those of ADB's Board of Directors, Management, or staff. These documents are made publicly available in accordance with ADB's Public Communications Policy 2011 and as agreed between ADB and the Ministry of Electricity and Energy (MOEE) of the Union of the Myanmar Republic.

Notarial Translation
The Republic of the Union of Myanmar
Office of the Auditor General of the Union
Audit Department



Letter No: (Sa)(Hsa)-1/ADB/(58/2017)

Date: 26th April, 2017

To

Managing Director

Electricity Supply Enterprise

Subject: Translation of Audit Report and Management Letter to English

Reference: As per the Letter No. (Ba-6/Payment(ADB)/004/2017 dated 17/2/2017 from Electricity Supply Enterprise

1. The translation to English for audit report and management letter of financial statements from 1/4/2014 to 31/3/2016, for Power Distribution Improvement Project under Asian Development Bank Loan, was sent by Electricity Supply Enterprise and Yangon Electricity Supply Corporation, Ministry of Electricity and Energy as per the letter from reference.

2. Therefore, the office of the Auditor General of the Union has already checked and scrutinized the translation to English for audit report and management letter from Electricity Supply Enterprise and sent these.

Attached: (1) 1 set of audit report, 4 pages
(2) 1 set of management letter, 6 pages

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For Director General

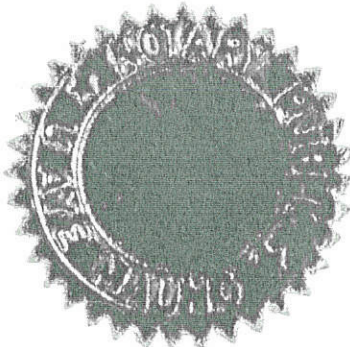
(San San Win, Deputy Director General)

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AUTHENTICATED, true and correct English translation.



28 APR 2017

Noted as No. 559/14 of 2017

U Aye Maung
28-4-17
U Aye Maung, B.Com., B.L.
Advocate & Notary Public.,
No. 563 (1 st, Floor) Merchant Street,
Yangon, Tel; 386976

Complete report received 12 May 2017



ပြည်ထောင်စုသမ္မတမြန်မာနိုင်ငံတော်
ပြည်ထောင်စုစာရင်းစစ်ချုပ်ရုံး
စစ်ဆေးရေးဦးစီးဌာန

စာအမှတ်၊စဆ-၁/ADB/(၅၈ /၂၀၁၇)
ရက်စွဲ၊၂၀၁၇ ခုနှစ် ဧပြီလ ၂၆ ရက်

သို့

ဦးဆောင်ညွှန်ကြားရေးမှူး
လျှပ်စစ်ဓာတ်အားဖြန့်ဖြူးရေးလုပ်ငန်း

အကြောင်းအရာ။ စစ်ဆေးတွေ့ရှိချက်အစီရင်ခံစာနှင့် စီမံခန့်ခွဲမှုအကြောင်းကြားစာ အင်္ဂလိပ်
ဘာသာသို့ ပြန်ဆိုခြင်းကိစ္စ

ရည်ညွှန်းချက်။ လိပ်မူပါရုံး၏ ၁၇-၂-၂၀၁၇ ရက်စွဲပါ စာအမှတ်၊ ဘ-၆/ငွေပေး(ADB)/
၀၀၄/၂၀၁၇

၁။ လျှပ်စစ်နှင့်စွမ်းအင်ဝန်ကြီးဌာန၊ လျှပ်စစ်ဓာတ်အားဖြန့်ဖြူးရေးလုပ်ငန်းနှင့် ရန်ကုန်လျှပ်စစ်
ဓာတ်အားကော်ပိုရေးရှင်းတို့မှ အာရှဖွံ့ဖြိုးရေးဘဏ် ချေးငွေဖြင့် ဆောင်ရွက်လျက်ရှိသော ဓာတ်အား
ဖြန့်ဖြူးမှုစနစ်တိုးတက်ကောင်းမွန်ရေး စီမံကိန်း(Power Distribution Improvement Project) ၏
၁-၄-၂၀၁၄မှ ၃၁-၃-၂၀၁၆ နေ့အထိ စီမံကိန်း၏ ဘဏ္ဍာရေးရှင်းတမ်းများအတွက် စစ်ဆေးတွေ့ရှိ
ချက်အစီရင်ခံစာနှင့် စီမံခန့်ခွဲမှုအကြောင်းကြားစာအား အင်္ဂလိပ်ဘာသာသို့ ပြန်ဆိုထားခြင်းကို
ရည်ညွှန်းချက်ပါစာဖြင့် ပေးပို့လာပါသည်။

၂။ သို့ဖြစ်ပါ၍ လိပ်မူပါရုံးမှ ပေးပို့လာသည့် အင်္ဂလိပ်ဘာသာ ပြန်ဆိုထားသော စစ်ဆေးတွေ့ရှိ
ချက်အစီရင်ခံစာနှင့် စီမံခန့်ခွဲမှုအကြောင်းကြားစာအား ဤရုံးမှ စိစစ်ပြီးဖြစ်ပါ၍ လိုအပ်ချက်များကို
ပြန်လည်ပြင်ဆင်ပြီး ပေးပို့အပ်ပါသည်။

ပူးတွဲ (၁) စစ်ဆေးတွေ့ရှိချက်အစီရင်ခံစာ (၁)စောင် ရွက်ရေ (၄) ရွက်
(၂) စီမံခန့်ခွဲမှုအကြောင်းကြားစာ (၁) စောင် ရွက်ရေ (၆) ရွက်

၂၆/၄/၂၀၁၇
ညွှန်ကြားရေးမှူးချုပ်(ကိုယ်စား)
(စန်းစန်းဝင်း၊ ဒုတိယညွှန်ကြားရေးမှူးချုပ်)
၀၅၂

မိတ္တူ

ရုံးလက်ခံ
မျှော



ပြည်ထောင်စုတရားစစ်ချက်

Restricted

The Republic of the Union of Myanmar
Office of the Auditor General of the Union
Audit Department

Audit Report
on the Financial Statements for the period ended
from 1-4-2014 to 31-3-2016
of Power Distribution Improvement Project
Financed by ADB Loan

Implemented By
Electricity Supply Enterprise
Ministry of Electricity and Energy

January 5, 2017

Restricted

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Audit Report on the Financial Statements for the period from 1.4.2014 to 31.3.2016. of Power Distribution Improvement Project implemented by Electricity Supply Enterprise (ESE) , Ministry of Electricity and Energy with Asian Development Bank Loan

Introduction

The Project Financial Statements prepared in line with International Public Sector Accounting Standards (IPSASs- Accrual Basis) for the period from 1.4.2014 to 31.3.2016. of Power Distribution Improvement Project implemented by Electricity Supply Enterprise (ESE) , Ministry of Electricity and Energy with Asian Development Bank Loan No.3084-MYA (SF) were audited by the Office of the Auditor General of the Union with supporting documents in accordance with the International Standards of Supreme Audit Institutions (ISSAIs).

Management's Responsibility on Financial Statements

2. The project's management is responsible for preparation of financial statements which are in line with the project's Financial Management Manual, the Project Accounting Systems and International Public Sector Accounting Standards (IPSASs-Accrual Basis). And, those statements must be free from material misstatement, whether due to fraud or errors which can lead to the wrong administrative decisions for internal control system.

Responsibility of Auditor

3. Our responsibility is to conduct audit on the financial statements in accordance with International Standards of Supreme Audit Institutions (ISSAIs) and those standards require us to comply with the code of ethics for auditors and to give appropriate audit opinion as per audit findings after conducting audit with reasonable assurance whether material misstatement exists in financial statements.

4. During the course of audit,, regarding to figures and disclosures in financial statements, we obtained audit evidences by evaluating errors and deficiencies and applying audit procedures based on auditor's assessment and judgment. In this regards, we have obtained sufficient audit evidence in order to give audit opinion.

Audit Opinion

5. Financial statements for the period from 1.4.2014 to 31.3.2016 of Power Distribution Improvement Project implemented by Electricity Supply Enterprise (ESE) , Ministry of Electricity and Energy with Asian Development Bank Loan, have been properly prepared in

accordance with International Public Sector Accounting Standards (IPSASs- Accrual Basis) except that total operating expense to total operating revenue ratio of ESE was 96.95% in 2014-2015 fiscal year and 100% in 2015-2016 fiscal year and these ratios were more than 95% as per financial covenants from loan agreement.

(Signed)

On behalf of Director General
(San San Win-Deputy Director General)

POWER DISTRIBUTION IMPROVEMENT PROJECT

ADB LOAN NO: 3084-MYA (SF)

**AUDITED PROJECT FINANCIAL STATEMENTS
AND
AUDIT REPORT OF THE OFFICE OF THE AUDITOR GENERAL**

31 MARCH 2016

Implemented by
ELECTRICITY SUPPLY ENTERPRISE

POWER DISTRIBUTION IMPROVEMENT PROJECT

ADB LOAN NO: 3084-MYA (SF)

(ELECTRICITY SUPPLY ENTERPRISE)

PROJECT INFORMATION

PROJECT FINANCIERS:

THE REPUBLIC OF THE UNION OF MYANMAR
ASIAN DEVELOPEMENT BANK

PROJECT MANAGEMENT:

DAW MI MI KHAING
DIRECTOR GENERAL
DEPARTMENT OF ELECTRIC POWER PLANNING

U TIN MAUNG OO
MANAGING DIRECTOR
ELECTRICITY SUPPLY ENTERPRISE

DAW SAN SAN WIN
GENERAL MANAGER (FINANCE)
ELECTRICITY SUPPLY ENTERPRISE

EXECUTING AGENCY:

DEPARTMENT OF ELECTRIC POWER PLANNING (DEPP)
MINISTRY OF ELECTRICITY AND ENERGY

PROJECT IMPLEMENTING AGENCY:

ELECTRICITY SUPPLY ENTERPRISE (ESE)

PROJECT AREAS:

1. MANDALAY REGION: Four districts
Kyaukse, Meikhtila, Myingyan, and Yameethin;
2. SAGAING REGION: Five districts
Kalay, Katha, Monywa, Sagaing, and Shwebo;
3. MAGWAY REGION: Two townships
Aunglan and Magway.

AUDITOR:

THE OFFICE OF THE AUDITOR GENERAL OF THE UNION

POWER DISTRIBUTION IMPROVEMENT PROJECT

ADB LOAN NO: 3084-MYA (SF)

(ELECTRICITY SUPPLY ENTERPRISE)

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POWER DISTRIBUTION IMPROVEMENT PROJECT

ADB LOAN NO: 3084-MYA (SF)

(ELECTRICITY SUPPLY ENTERPRISE)

Statement of Compliance

The Project Management hereby submits a statement with the financial statements of the Power Distribution Improvement Project ("the Project") implemented by Electricity Supply Enterprise for the 24month period from the date of project effectiveness on 31 March 2014 to end of March 2016.

Project Management's Statement of Compliance

The Project Management is responsible for preparing and fairly presenting the project financial statements and for maintaining sufficient internal controls to ensure that the financial statements are free from material misstatements including omissions and errors, whether due to fraud or error.

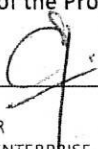
In addition, the Project Management is responsible for ensuring that funds were used only for the purposes of the project, for compliance with financial covenants, procurement process, and relevant laws and regulations.

The Project Management assumes the responsibility to provide, and has provided, the auditors with all accounting records, supporting and other documents, minutes, and any other pertinent information and explanations, either orally or in writing, necessary for the audit.


Approval of the Financial Statements

We hereby approve the accompanying financial statements which present, in all material respects, the financial position of the Project as at 31 March 2016, the funds received and expenses, and the funds withdrawn for the period then ended, in accordance with the accounting policies described in Note 2 of the financial statements and comply with the related Loan Agreement.

Signed on behalf of the Project Management



U TIN MAUNG OO
MANAGING DIRECTOR
ELECTRICITY SUPPLY ENTERPRISE



DAW SAN SAN WIN
GENERAL MANAGER (FINANCE)
ELECTRICITY SUPPLY ENTERPRISE

MYA: POWER DISTRIBUTION IMPROVEMENT PROJECT (LN.3084-MYA)
(ELECTRICITY SUPPLY ENTERPRISE)
STATEMENT OF PROJECT FINANCIAL POSITION
AS AT MARCH 31, 2016

	Note	<u>In US Dollar</u>
ASSETS		
Current Asset		
Advance to suppliers	4	606,029.58
Capital Expenditures:		
Equipment and materials - Yangon		-
Equipment and materials - Mandalay		3,717,998.34
Equipment and materials - Sagaing		1,635,051.98
Equipment and materials - Magway		2,518,312.10
Equipment and materials - Concrete Poles		1,393,155.08
Consulting and engineering services during implementation		581,903.17
Taxes and import expenses		425,205.05
Total investment cost		10,271,625.72
Interest during implementation		8,563.51
Total capital expenditures		10,280,189.23
TOTAL ASSETS		10,886,218.81
LIABILITIES AND FUND RECEIVED		
Fund Received		
Asian Development Bank		
Withdrawals of loan proceeds		4,996,687.26
Interest capitalization		1,856.12
Sub-total - ADB		4,998,543.38
Government Contribution		
Budget contribution		1,657,030.77
Total fund received		6,655,574.15
Liabilities		
Accrued expenses		69,168.75
Accounts payable		3,213,010.31
Retention payable	5	787,136.24
Amount due from the Government contribution		161,329.36
Total liabilities		4,230,644.66
TOTAL LIABILITIES AND FUND RECEIVED		10,886,218.81

See accompanying notes to financial statements which are an integral part of the financial statements.

U TIN MAUNG OO
MANAGING DIRECTOR

DAW SAN SAN WIN
GENERAL MANAGER (FINANCE)

MYA: POWER DISTRIBUTION IMPROVEMENT PROJECT (LN.3084-MYA)
(ELECTRICITY SUPPLY ENTERPRISE)

STATEMENT OF PROJECT INCOME AND EXPENDITURES
FOR 24 MONTH PERIOD FROM 31 MARCH 2014 TO 31 MARCH 2016

	Note	<i>In US Dollar</i>
	Annual	Cumulative
	Year 2015/2016	31-Mar-16
RECEIPTS OF FUNDS		
Fund received from ADB		
Direct payments	4,996,687.26	4,996,687.26
Interest capitalization	1,856.12	1,856.12
Total receipts from ADB	4,998,543.38	4,998,543.38
 Fund received from the Government	 1,657,030.77	 1,657,030.77
 Total Receipts	 6,655,574.15	 6,655,574.15
EXPENDITURES BY COMPONENTS		
ADB Loan Proceeds:		
Component 1: Rehabilitation of the power distribution network in Yangon Project Townships		
Component 2: Rehabilitation of the power distribution network in Mandalay Project Region	3,717,998.34	3,717,998.34
Component 3: Rehabilitation of the power distribution network in Sagaing Project Region	1,635,051.98	1,635,051.98
Component 4: Rehabilitation of the power distribution network in Magway Project Region	2,518,312.10	2,518,312.10
Consulting services to support implementation	581,903.17	581,903.17
Interest under implementation	8,563.51	8,563.51
Government funds:		
Material & equipment - concrete poles	1,393,155.08	1,393,155.08
Taxes and duties	425,205.05	425,205.05
Total Expenditures by component	10,280,189.23	10,280,189.23
 EXCESS/(DEFICIT) OF RECEIPTS OVER EXPENDITURES	 (3,624,615.08)	 (3,624,615.08)

Cont..

MYA: POWER DISTRIBUTION IMPROVEMENT PROJECT (LN.3084-MYA)
(ELECTRICITY SUPPLY ENTERPRISE)

STATEMENT OF PROJECT INCOME AND EXPENDITURES
FOR 24 MONTH PERIOD FROM 31 MARCH 2014 TO 31 MARCH 2016

	Note	<u>In US Dollar</u>
	Annual Year 2015/2016	Cumulative 31-Mar-16
EXPENDITURES BY DISBURSEMENT ALLOCATION		
ADB Fund		
1 Equipment and Materials	7,871,362.42	7,871,362.42
2 Consulting Services	581,903.17	581,903.17
3 Interest charges	8,563.51	8,563.51
4 Unallocated		-
Total ADB Allocation	8,461,829.10	8,461,829.10
GOM Fund		
Equipment and Materials	1,393,155.08	1,393,155.08
Taxes and import expenses	425,205.05	425,205.05
Total Government Allocation	1,818,360.13	1,818,360.13
Total Expenditures	10,280,189.23	10,280,189.23

See accompanying notes to financial statements which are an integral part of the financial statements.

U TIN MAUNG-OO
MANAGING DIRECTOR
ELECTRICITY SUPPLY ENTERPRISE

DAW SAN SAN WIN
GENERAL MANAGER (FINANCE)
ELECTRICITY SUPPLY ENTERPRISE

MYA: POWER DISTRIBUTION IMPROVEMENT PROJECT (LN.3084-MYA)

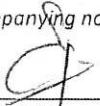
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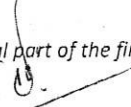
STATEMENT OF PROJECT CASH FLOWS

FOR 24 MONTH PERIOD FROM 31 MARCH 2014 TO 31 MARCH 2016

Description	Note	In US Dollar	
		Annual Year 2015/2016	Cumulative 31-Mar-16
SOURCES OF FUNDS			
Asian Development Bank (ADB)		4,998,543.38	4,998,543.38
Government of Myanmar (GOM)		1,657,030.77	1,657,030.77
Total Receipts		6,655,574.15	6,655,574.15
USES OF FUNDS			
ADB:			
Equipment and materials		4,559,793.22	4,559,793.22
Consulting and engineering Services		436,894.04	436,894.04
Interest during implementation		1,856.12	1,856.12
GOM:			
Equipment and Materials		1,393,155.08	1,393,155.08
Taxes and import expenses		263,875.69	263,875.69
Total Payments		6,655,574.15	6,655,574.15
Net Balance for the Period		-	-
Balance brought forward		-	-
Closing Balance		-	-
SUMMARY BY DISBURSEMENT CATEGORY			
ADB FUND			
1 Equipment and Materials		4,559,793.22	4,559,793.22
2 Consulting Services		436,894.04	436,894.04
3 Interest charges		1,856.12	1,856.12
Total ADB Disbursement		4,998,543.38	4,998,543.38
GOVERNMENT FUND			
Equipment and Materials		1,393,155.08	1,393,155.08
Taxes and import expenses		263,875.69	263,875.69
Total Government Contribution		1,657,030.77	1,657,030.77
TOTAL FUNDS USED		6,655,574.15	6,655,574.15

See accompanying notes to financial statements which are an integral part of the financial statements


 U TIN MAUNG OO
 MANAGING DIRECTOR


 DAW SAN SAN WIN
 GENERAL MANAGER (FINANCE)

MYA: POWER DISTRIBUTION IMPROVEMENT PROJECT (LN.3084-MYA)

(ELECTRICITY SUPPLY ENTERPRISE)


STATEMENT OF WITHDRAWAL APPLICATIONS

FOR THE 24 MONTHS PERIOD ENDED MARCH 31, 2016

in US Dollar

W/A #	Dated	Value Date	Paid to	Cat	Project Total		ESE-Portion
					WA Amount	Category 1	ESE-Portion
ME 001	26-Mar-15	10-Apr-15	AF MERCADOS EMI	2	339,670.00	339,670.00	177,987.08
ME 002	7-Jul-15	21-Jul-15	AF MERCADOS EMI	2	159,854.17	159,854.17	83,763.59
ME 003	6-Oct-15	27-Oct-15	AF MERCADOS EMI	2	128,248.90	128,248.90	67,202.42
ME 004	12-Oct-15	6-Nov-15	LS VINA Cable & System Joint Stock Company	1	526,855.89	526,855.89	526,855.89
ME 005	12-Oct-15	5-Nov-15	LS VINA Cable & System Joint Stock Company	1	793,536.82	793,536.82	543,651.20
ME 006	19-Nov-15	21-Dec-15	Union Resources & Engineering Co., Ltd.	1	543,651.20	543,651.20	543,651.20
ME 007	19-Nov-15	21-Dec-15	Union Resources & Engineering Co., Ltd.	1	562,464.92	562,464.92	46,998.17
ME 008	3-Dec-15	21-Dec-15	AF MERCADOS EMI	2	89,691.16	89,691.16	322,658.73
ME 009	2-Dec-15	21-Dec-15	Soe Electric & Machinery Co., Ltd.	1	322,658.73	322,658.73	60,942.78
ME 010	2-Dec-15	21-Dec-15	Soe Electric & Machinery Co., Ltd.	1	69,635.96	69,635.96	
ME 011	1-Mar-16	22-Mar-16	AF MERCADOS EMI	2	116,303.02	116,303.02	
ME 012	3-Mar-16	14-Mar-16	Union Resources & Engineering Co., Ltd.	1	750,279.08	750,279.08	1,282,533.06
ME 013	3-Mar-16	14-Mar-16	Soe Electric & Machinery Co., Ltd.	1	557,087.66	557,087.66	
ME 014	10-Mar-16	17-Mar-16	Soe Electric & Machinery Co., Ltd.	1	1,282,533.06	1,282,533.06	
ME 015	3-Mar-16	15-Mar-16	LS VINA Cable & System Joint Stock Company	1	3,141,748.26	3,141,748.26	
ME 016	10-Mar-16	17-Mar-16	LS VINA Cable & System Joint Stock Company	1	1,884,094.34	1,884,094.34	1,884,094.34
Total					11,268,313.17	10,434,545.92	4,996,687.26

See accompanying notes to financial statements which are an integral part of the financial statements


 U TIN MAUNG OO
 MANAGING DIRECTOR


 DAW SAN SAN WIN
 GENERAL MANAGER (FINANCE)

POWER DISTRIBUTION IMPROVEMENT PROJECT
ADB LOAN NO: 3084-MYA (SF)
(ELECTRICITY SUPPLY ENTERPRISE)

NOTES TO THE FINANCIAL STATEMENTS
31 MARCH 2016

1. PROJECT INFORMATION

1.1 Overall Project Description

The Power Distribution Improvement Project ("PDIP") was established under the Loan No. 3084-MYA between the Republic of the Union of Myanmar and the Asian Development Bank (ADB) dated 28 January 2014. The Project was effective on 31 March 2014, expected to be completed by 31 December 2016. The project closing date is 31 December 2018.

The Objective of the Project is to reducing losses in the Power Distribution System through rehabilitation of existing run-down power distribution networks in four project regions/ components. The Project is implemented by two implementing agencies comprising (1) Yangon Electricity Supply Corporation (YESC) and (2) Electricity Supply Enterprise (ESE). The Project implementation consultants have been engaged throughout the project implementation period to support in implementation and capacity development of the Project.

The total project cost is estimated at \$73.7 million equivalent, including physical and price contingencies, financing charges during implementation, and taxes and duties. ADB will provide an amount of \$60.0 million loan from the Asian Development Fund to cover the costs of (i) equipment and materials; (ii) consulting services; and (iii) interest during implementation. The cost of concrete poles, taxes and duties, safeguard measures, and engineering services will be funded by the Government of Myanmar. The total contribution of the government is estimated at \$13.7 million equivalent.

Total allocation and withdrawal of Loan Proceeds from ADB

ALLOCATION AND WITHDRAWAL OF LOAN PROCEEDS (Power Distribution Improvement Project)			
	Item	Total Amount Allocated for ADB Financing (SDR) Category	Basis for Withdrawal from the Loan Account
1	Equipment and Materials**	31,297,000	100% of total expenditure claimed*
2	Consulting Services**	2,203,000	100% of total expenditure claimed*
3	Interest Charges	648,000	100% of amounts due
4	Unallocated***	4,731,000	
	Total	38,879,000	

* Exclusive of taxes and duties imposed within the territory of the Borrower.

** Subject to the condition for withdrawal described in paragraph 6 of Schedule 3 of the Loan Agreement.

*** May be used for physical and price contingencies

1.2 Organization and Implementation Arrangement

The Ministry of Electricity and Energy (MOEE), previously named "Ministry of Electric Power" is the executing agency (EA) responsible for overall implementation and management of the Project.

Department of Electric Power Planning (previously called Department of Electric Planning) is accountable for monitoring and coordinating implementation of the two Project Management Units (PMUs) each established by Yangon Electricity Supply Corporation (YESC) and Electricity Supply Enterprise (ESE). Each PMU is responsible for day-to-day implementation and preparation of progress reports, and ensuring that financial and reporting requirements are met and ADB procurement procedures followed with full coordination with its respective project implementation units (PIUs) established in each project region.

The project implementation consultants (PIC) has been engaged to project supports MOEE, YESC and ESE in implementation of the Project. Those tasks include but not limited to (i) a review of the detailed engineering design(s), (ii) procurement implementation, (iii) supervision of financial management and reporting, (iv) final testing and commissioning of the works, (v) social & environmental planning, and (vi) overall project implementation and monitoring.

1.3 Electricity Supply Enterprise (ESE)

ESE is responsible for implementation of project for the following components:

- **Component 2:** rehabilitation of the power distribution network in the *Mandalay Project Region*, including through: (i) the upgrading of two existing 66/11 kV and twenty existing 33/11 kV substations; (ii) replacement of existing 11 kV distribution lines and replacement of existing bare low voltage distribution lines with aerial bundled conductor distribution; (iii) replacement of existing 11/0.4 kV transformers; and (iv) replacement of existing revenue meters with digital meters;
- **Component 3:** rehabilitation of the power distribution network in the *Sagaing Project Region*, including through: (i) the upgrading of three existing 33/11 kV substations; (ii) replacement of existing 11 kV distribution lines and replacement of existing bare low voltage distribution lines with aerial bundled conductor distribution; (iii) replacement of existing 11/0.4 kV transformers; and (iv) replacement of existing revenue meters with digital meters; and
- **Component 4:** rehabilitation of the power distribution network in the *Magway Project Region*, including through: (i) the upgrading of one existing 66/11 kV substation; (ii) replacement of existing 33 kV and 11 kV distribution lines and replacement of existing bare low voltage distribution lines with aerial bundled conductor distribution; (iii) replacement of existing 11/0.4 kV transformers; and (iv) replacement of existing revenue meters with digital meters.

The Project fiscal year is from 1 April to 31 March.

2. SIGNIFICANT ACCOUNTING POLICIES**2.1 Basis of Preparation**

The financial statements have been prepared in accordance with the International Public Sector Accounting Standards (IPSAS). The financial statements present financial position, income and expenditures, cash flows, loan withdrawals and the relevant financial information of the Project.

The financial statements, except for the statement cash flows are prepared on the accrual basis of accounting and the policies will be consistently applied to all years of the project implementation unless otherwise stated.

The presentation currency used in the preparation of the financial statements is *US dollar (USD)* which is the only functional currency of the Project.

2.2 Recognition of Loan Proceeds

The applicable disbursement method of the project is direct payment. The proceeds of the Loan are recognized as a source of funds when the cash has been paid by ADB directly to suppliers and consultants on behalf of the Project.

2.3 Recognition of Project Expenditure

The project expenditures including equipment and supplies, consulting services and interest are recognized as Capital Expenditure of the Project when they are incurred.

2.4 Foreign exchange differences

Disbursements in foreign currencies other than US Dollars (USD) are converted into USD at the prevailing exchange rates declared by the Central Bank of Myanmar ruling at the date of payments.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

There are no critical judgements made by the Management in the process of applying the Project's accounting policies that have the most significant effect on the amount recognized in these financial statements.

4. ADVANCE TO SUPPLIERS

Advance to suppliers represents net payment of ten (10) of the contract price for advance payment after recoupment of payments of good shipped. As at 31 march 2016, the advances consist of the following:

	In US\$
Package 1 – Cables and Conductors	8,636.55
Package 2 – Substation Equipment	543,651.20
Package 3 – Distribution Transformer	53,741.83
Total	606,029.58

5. RETENTION PAYABLES

Retention payable represents the remaining ten (10) of the contract price of the good delivered which shall be paid upon acceptance of goods by the enterprise. As at 31 March 2016, the payables for retention consist of the following:

	In US\$
Package 1 – Cables and Conductors	518,219.34
Package 3 – Distribution Transformer	268,916.90
Total	787,136.24

6. BASIS FOR SHARING OF COMMON COST OF THE PROJECT

The Project common expenses include interest charges and project implementation consultants. ESE and YESC distributed such expenses in the following proportion:

- Interest charges – allocated based on actual interest incurred from their respective outstanding balance of the Loan.
- Consulting services – allocated to ESE and YESC at the proportion of 52.4% and 47.6% respectively.

7. STATEMENT OF BUDGETED VERUS ACTUAL EXPENDITURES

As at 31 March 2016, the actual expenditures versus project budgeted expenditures of ESE are summarized below:

	<u>ACTUAL</u>	<u><i>In US Dollar</i></u> <u>BUDGET</u>
<u>I. BY PROJECT COMPONENT</u>		
ADB Loan:		
A. Investment cost		
1 Yangon Project Townships		
2 Mandalay Project Region	3,996,734.40	13,500,000.00
3 Sagaing Project Region	1,778,306.77	6,500,000.00
4 Magway Project Region	2,678,224.42	5,600,000.00
Subtotal (A)	8,453,265.59	25,600,000.00
B. Contingencies		3,600,000.00
C. Interest During Implementation	8,563.51	500,000.00
Total Project Cost - Loan	8,461,829.10	29,700,000.00
Government Contribution:		
A. Investment cost		
1 Equipment & Materials - Concrete Poles	1,393,155.08	1,900,000.00
2 Installation		3,500,000.00
3 Cost of Safeguard measures		100,000.00
4 Engineering services		300,000.00
5 Taxes and import expenses	425,205.05	1,600,000.00
Subtotal (A)	1,818,360.13	7,400,000.00
B. Contingencies		1,500,000.00
Total Project Cost - GOM	1,818,360.13	8,900,000.00
TOTAL PROJECT BUDGET	10,280,189.23	38,600,000.00
<u>II. BY LOAN ALLOCATION</u>		
1 Equipment and Materials	7,871,362.42	24,000,000.00
2 Consulting Services	581,903.17	1,800,000.00
3 Interest	8,563.51	500,000.00
4 Unallocated		3,800,000.00
TOTAL PROJECT LOAN	8,461,829.10	30,100,000.00

8. CONTINGENT LIABILITIES

As at 31 March 2016, the Project has made contract commitments of goods as follows:

PK	Goods	Date of Contract	<u>Project Total</u>		<u>ESE-Portion</u>		<u>In US Dollar</u>
			Total Contract	Contract ESE-Portion	Commitment (goods shipped)	Payment	
Lot 1	MV and LV Conductors and Cable Repeat Order - MV and LV Conductors and Cable	31-Aug-15	13,203,927.07	5,268,558.92	5,182,193.42	2,410,950.23	
		31-Mar-16	1,805,401.00	-	-	-	
Lot 2	MV Substation Equipment Repeat Order - MV Substation Equipment	30-Sep-15	11,061,161.27	5,436,512.03	-	543,651.20	
		29-Mar-16	3,317,922.55	1,628,397.60	-	-	
Lot 3	Distribution Transformers Repeat Order - Distribution Transformers	22-Oct-15	4,158,323.67	3,420,182.53	2,689,169.00	1,605,191.79	
		30-Mar-16	100,133.05	-	-	-	
Lot 4	Line Materials	31-Mar-16	884,848.42	856,907.45	-	-	
Lot 5	Tools and Equipment						
Lot 6	Revenue Meters						
Lot 7	Concrete Poles				1,393,155.08	1,393,155.08	
Total Equipment			34,531,717.03	16,610,558.53	9,264,517.50	5,952,948.30	

9. Financial Covenants

Under the financial covenants of the Loan Agreement, ESE is required to comply the following covenants:

- (a) Maintain the total accounts receivable at a level that does not exceed the equivalent of 3 months average sales revenue for the fiscal years;
- (b) Maintain the ratio of total operating expenses to total operating revenues not more than 90%

As of year 2015 and 2016, the above conditions have been met as summarized below.

<u>Covenants</u>	<u>Reference to LA</u>	<u>Limit</u>	<u>2016</u>	<u>2015</u>
LEVEL OF ACCOUNTS RECEIVABLE	11(a) Schedule5	3 months	0.86	1.06
OPERATING EXPENSES RATIO	11(c) Schedule5	95%	100.00%	96.95%