

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 Yangon Electricity Supply Corporation (YESC)

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/(59/2017)

Date: 26th April, 2017

To

Chief Executive Officer

Yangon Electricity Supply Corporation

Subject: Translation of Audit Report and Management Letter to English

Reference: As per the Letter No. (Ba-6/10/215 dated 27/2/2017 from Yangon Electricity Supply Corporation

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 Yangon Electricity Supply Corporation and sent these.

Attached: (1) 1 set of audit report, 4 pages

(2) 1 set of management letter, 6 pages

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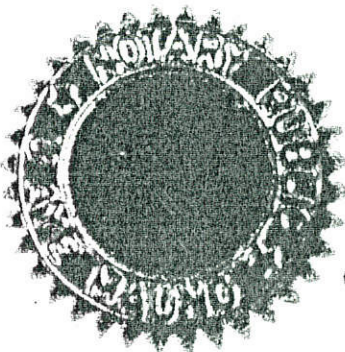
For Director General

(San San Win, Deputy Director General)

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AUTHENTICATED, true and correct English translation.

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

28 APR 2017

Noted as No. 560/4 of 2017

Rec'd 12 May 2017



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Restricted

The Republic of the Union of Myanmar
Office of the Auditor General of the Yangon Region

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
Yangon Electricity Supply Corporation
Ministry of Electricity and Energy

December 16, 2016

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 Yangon Electricity Supply Corporation (YESC), Ministry of Electricity and Energy with Asian Development Bank Loan.

Introduction

1. 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 Yangon Electricity Supply Corporation (YESC), 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 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 appropriate 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 Yangon Electricity Supply Corporation (YESC), 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 for the followings;

- (a) Government contribution amount presented in project financial statements was USD 393,239.80 but actual government contribution amount was USD 401,893.73. Therefore, government contribution was understated USD 8653.93 in comparison with actual government contribution.
- (b) Financial statements were not prepared for the respective financial year.

(Signed)

Khin Yee
Director

**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
YANGON ELECTRICITY SUPPLY CORPORATION
(YESC)**

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

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 HTUN KYWE
CHIEF EXECUTIVE OFFICER
YANGON ELECTRICITY SUPPLY CORPORATION

U KO KO
GENERAL MANAGER (FINANCE)
YANGON ELECTRICITY SUPPLY CORPORATION

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

PROJECT IMPLEMENTING AGENCY: YANGON ELECTRICITY SUPPLY CORPORATION (YESC)

PROJECT AREAS: YANGON REGION

AUDITOR: THE OFFICE OF THE AUDITOR GENERAL OF THE UNION

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

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

Statement of Compliance

The Project Management hereby submits a statement with the financial statements of the Power Distribution Improvement Project ("the Project") under Yangon Electricity Supply Corporation for the 24month period from the project effectiveness on 31 March 2014 to 31 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.

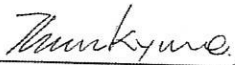
In addition, the Project Management is responsible for ensuring that funds were used only for the purposes of the project, for compliance with financial covenants, procurement process, and relevant laws and regulations.

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



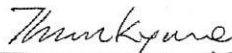
U HTUN KYWE
CHIEF EXECUTIVE OFFICER



U KO KO
GENERAL MANAGER (FINANCE)

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

	Note	<u>In US Dollar</u>
ASSETS		
Current Asset		
Advance to suppliers		539,085.15
Capital Expenditures:		8,865,525.52
Equipment and materials - Yangon		-
Equipment and materials - Mandalay		-
Equipment and materials - Sagaing		-
Equipment and materials - Magway		-
Consulting services under implementation		528,599.07
Interest under implementation		9,437.80
Taxes and custom duties		428,057.78
Total expenditures		9,831,620.17
TOTAL ASSETS		10,370,705.32
LIABILITIES AND FUND RECEIVED		
Fund Received		
ADB - Withdrawals of loan proceeds		6,271,625.91
ADB - Interest		1,923.54
Total funds received from ADB		6,273,549.45
Government contribution		393,239.80
Total Fund received		6,666,789.25
Liabilities		
Accrued expenses		64,253.97
Accounts payable		2,718,291.57
Retention payable		886,552.55
Amount due from the Government contribution		34,817.98
Total liabilities		3,703,916.07
TOTAL LIABILITIES AND FUND RECEIVED		10,370,705.32



U HTUN KYWE
CHIEF EXECUTIVE OFFICER




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GENERAL MANAGER (FINANCE)

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

MYA: POWER DISTRIBUTION IMPROVEMENT PROJECT (LN.3084-MYA)
 (YANGON ELECTRICITY SUPPLY CORPORATION)
 STATEMENT OF PROJECT INCOME AND EXPENDITURES
 FOR 24 MONTH PERIOD FROM 31 MARCH 2014 TO 31 MARCH 2016

	Note	Annual Year 2015/2016	<i>In US Dollar</i> Cumulative 31-Mar-16
RECEIPTS OF FUNDS			
Fund received from ADB			
Direct payments		6,271,625.91	6,271,625.91
Interest capitalization		1,923.54	1,923.54
Total receipts from ADB		6,273,549.45	6,273,549.45
Fund received from the Government		393,239.80	393,239.80
Total Receipts		6,666,789.25	6,666,789.25
EXPENDITURES BY COMPONENTS			
Component 1: Rehabilitation of the power distribution network in Yangon Project Townships		8,865,525.52	8,865,525.52
Component 2: Rehabilitation of the power distribution network in Mandalay Project Region		-	-
Component 3: Rehabilitation of the power distribution network in Sagaing Project Region		-	-
Component 4: Rehabilitation of the power distribution network in Magway Project Region		-	-
Consulting services to support implementation		528,599.07	528,599.07
Interest under implementation		9,437.80	9,437.80
Taxes and custom duties		428,057.78	428,057.78
Total Expenditures by component		9,831,620.17	9,831,620.17
EXCESS/(DEFICIT) OF RECEIPTS OVER EXPENDITURES		(3,164,830.92)	(3,164,830.92)
EXPENDITURES BY DISBURSEMENT ALLOCATION			
ADB Funds			
1 Equipment and Materials		8,865,525.52	8,865,525.52
2 Consulting Services		528,599.07	528,599.07
3 Interest charges		9,437.80	9,437.80
4 Unallocated		-	-
Total Expenditures by disbursement category		9,403,562.39	9,403,562.39
Government Contribution			
Taxes and duties		428,057.78	428,057.78
TOTAL EXPENDITURES		9,831,620.17	9,831,620.17



U HTUN KYWE
CHIEF EXECUTIVE OFFICER



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GENERAL MANAGER (FINANCE)

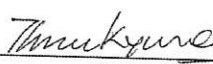
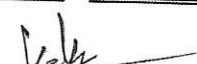
See accompanying notes to financial statements which are an integral part of the financial statements

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

(YANGON ELECTRICITY SUPPLY CORPORATION)

STATEMENT OF PROJECT CASH FLOWS

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

Description	Note	<i>in US Dollar</i>	
		Annual Year 2015/2016	Cumulative 31-Mar-16
SOURCES OF FUNDS			
Asian Development Bank (ADB)		6,273,549.45	6,273,549.45
Government contribution (GOM)		393,239.80	393,239.80
Total Receipts		6,666,789.25	6,666,789.25
USES OF FUNDS			
ADB			
Equipment and Materials		5,874,752.70	5,874,752.70
Consulting and Engineering Services		396,873.21	396,873.21
Interest During Implementation		1,923.54	1,923.54
GOM			
Taxes and Duties		393,239.80	393,239.80
Total Payments		6,666,789.25	6,666,789.25
Net Balance for the Period		-	-
Balance brought forward		-	-
Closing Balance		-	-
SUMMARY BY DISBURSEMENT CATEGORY			
ADB FUND			
1 Equipment and Materials		5,874,752.70	5,874,752.70
2 Consulting Services		396,873.21	396,873.21
3 Interest charges		1,923.54	1,923.54
Total Expenditures by Category		6,273,549.45	6,273,549.45
GOVERNMENT FUND			
Taxes and Duties		393,239.80	393,239.80
TOTAL DISBURSEMENTS		6,666,789.25	6,666,789.25
 U HTUN KYWE CHIEF EXECUTIVE OFFICER		 U KO KO GENERAL MANAGER (FINANCE)	

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

MYA: POWER DISTRIBUTION IMPROVEMENT PROJECT (LN.3084-MYA)
 YANGON ELECTRICITY SUPPLY CORPORATION
 STATEMENT OF WITHDRAWAL APPLICATIONS
 FOR THE 24 MONTHS PERIOD ENDED MARCH 31, 2016

W/A #	Dated	Value Date	Paid to	Cat #	Withdrawal Application Amount		Disbursement Portion	YESC
					Total Amount	Category 2		
ME 001	26-Mar-15	10-Apr-15	AF MERCADOS EMI	2	339,670.00	339,670.00	161,682.92	
ME 002	7-Jul-15	21-Jul-15	AF MERCADOS EMI	2	159,854.17	159,854.17	76,090.58	
ME 003	6-Oct-15	27-Oct-15	AF MERCADOS EMI	2	128,248.90	128,248.90	61,046.48	
ME 004	12-Oct-15	6-Nov-15	LS VINA Cable & System Joint Stock Company	1	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		
ME 006	19-Nov-15	21-Dec-15	Union Resources & Engineering Co., Ltd.	1	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		
ME 008	3-Dec-15	21-Dec-15	AF MERCADOS EMI	2	89,691.16	89,691.16		
ME 009	2-Dec-15	21-Dec-15	Soe Electric & Machinery Co., Ltd.	1	322,658.73	322,658.73		
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		
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		
Total					11,268,313.17	10,434,545.92	833,767.25	6,271,625.91

U H Tun Kywe
 U HTUN KYWE
 CHIEF EXECUTIVE OFFICER

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 U KO KO
 GENERAL MANAGER (FINANCE)

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

POWER DISTRIBUTION IMPROVEMENT PROJECT (LN.3084-MYA(SF))
(YANGON ELECTRICITY SUPPLY CORPORATION)
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)			
	Ite	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. Yangon Electricity Supply Corporation (YESC)

YESC is responsible for implementation of project component 1 in Yangon region. The project activities include rehabilitation power distribution network in each of the *Yangon Project Townships* through: (i) the upgrading of four existing 66/11 kV and four existing 33/11 kV substations; (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; and (iii) replacement of existing 11/0.4 kV transformers.

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.

2.3 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. BASIS FOR SHARING OF COMMON EXPENSES

The Project common expenses include interest charges and project implementation consultants. ESE and YESC have 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.

5. STATEMENT OF BUDGETED VERUS ACTUAL EXPENDITURES

	<i>In US Dollar</i>	
	<u>ACTUAL</u>	<u>BUDGET</u>
<u>I. BY PROJECT COMPONENT</u>		
A. Investment cost by component		
1 Yangon Project Townships	9,394,124.59	30,100,000.00
2 Mandalay Project Region		
3 Sagaing Project Region		
4 Magway Project Region		
Sub-total investment by component	<u>9,394,124.59</u>	<u>30,100,000.00</u>
B. Contingencies		
C. Interest During Implementation	9,437.80	4,500,000.00
TOTAL	<u>9,403,562.39</u>	<u>35,100,000.00</u>
<u>II. BY LOAN ALLOCATION</u>		
1 Equipment and Materials	8,865,525.52	24,300,000.00
2 Consulting Services	528,599.07	1,600,000.00
3 Interest	9,437.80	500,000.00
4 Unallocated		3,500,000.00
TOTAL	<u>9,403,562.39</u>	<u>29,900,000.00</u>

6. CONTINGENT LIABILITIES

As at 31 March 2016, the Project has committed the following goods contracts:

In US Dollar

<u>PK</u>	<u>Goods</u>	<u>Contract</u> <u>YESC Portion</u>	<u>Goods</u> <u>Delivered</u>	<u>Payments</u>
Lot 1	MV and LV Conductors and Cable	7,935,368.15	7,231,317.10	3,935,285.08
Lot 2	MV Substation Equipment	5,624,649.24	937,848.85	1,312,744.00
Lot 3	Distribution Transformers	696,359.57	696,359.57	626,723.62
Lot 4	Line Materials	27,940.97		
	Total Equipment	14,284,317.93	8,865,525.52	5,874,752.70

7. Financial Covenants

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

- Maintain the total accounts receivable at a level that does not exceed the equivalent of 3 months average sales revenue for the fiscal years;
- 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	1.13	1.13
OPERATING EXPENSES RATIO	11(c) Schedule5	95%	93.91%	95%