

EPS FLOODS EMERGENCY RECOVERY PROJECT
PROJECT OPERATION NUMBER 8449_YF
**INTERNATIONAL BANK FOR RECONSTRUCTION AND
DEVELOPMENT**

**Independent Auditors' Report and
Statement of Sources and Uses of Funds
Statement of Expenditures and
Special Account Statement**

**For the period from 1 January
through 31 December 2015**

Belgrade, June 2016



INDEPENDENT AUDITOR'S REPORT

To the Management of Javno Preduzeće Elektroprivreda Srbije, Beograd

We have audited the accompanying project financial statements for the Project No. 8449 YF entitled "EPS Floods Emergency Recovery Project" (the "Project") financed under the loan provided by the International Bank for Reconstruction and Development (the "IBRD") which comprise the Statement of Sources and Uses of Funds, the Statement of Expenditures and Special Account Statements for the period from 1 January through 31 December 2015, and Notes to the Statements, comprising a summary of accounting conventions and other explanatory notes. The project financial statement has been prepared by management of Javno Preduzeće Elektroprivreda Srbije, Beograd (the "Company") using the cash receipts and disbursements basis of accounting described in Note 3.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these project financial statements in accordance with the cash receipts and disbursements basis of accounting described in Note 3; this includes determining that the cash receipts and disbursements basis of accounting is an acceptable basis for the preparation of the project financial statement in the circumstances, and for such internal control as management determines is necessary to enable the preparation of financial statements that is free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these project financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the project financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the project financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the project financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the project 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 Company'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 project 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 project financial statements present fairly, in all material respects, sources and application of funds, expenditure details and movements in the Special Account of the Project financed under the IBRD loan for the period from 1 January 2015 through 31 December 2015, in accordance with the cash receipts and disbursements basis of accounting described in Note 3.

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This version of our report/ the accompanying documents is a translation from the original, which was prepared in Serbian. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.



Basis of Accounting and Restriction on Use and Distribution

Without modifying our opinion, we draw attention to Note 3 to the project financial statements, which describes the basis of accounting. The project financial statements are prepared for the purpose of reporting of Company on the activities of the project with respect to the funding received for the completion of the Project objectives in accordance with the respective loan agreement. As a result, the project financial statements may not be suitable for another purpose. Our report is intended solely for the use of EPS management and IBRD and should not be distributed to or used by parties other than Company of IBRD.

Milivoje Nešović
Milivoje Nešović
Licensed Auditor



PricewaterhouseCoopers d.o.o.
PricewaterhouseCoopers d.o.o., Beograd

Belgrade, 28 June 2016

STATEMENT OF SOURCES AND USES OF FUNDS
For the period from 1 January through 31 December 2015

	01 January through 31 December 2015	In EUR 01 January through 31 December 2014
PROJECT FINANCING		
Cash balance at the beginning of the period	-	-
<i>Proceeds from the IBRD loan</i>		
Reimbursement for goods and services provided	109,867,207	-
Transfers to the Special Account	-	-
Total Project financing	109,867,207	-
PROJECT EXPENDITURES		
<i>IBRD financed:</i>		
Part I Energy Sector Support		
A. Financing of electricity purchases to improve power availability	(94,911,098)	-
B. Supporting urgent restoration of the distribution network	-	-
C. Dewatering of Tamnava West Open Pit Mine	(14,956,109)	-
<i>Payments from the Special account</i>	-	-
Total Project expenditures	(109,867,207)	-
Earned interest deposited on the separate bank account	-	-
Cash balance at the end of the period	-	-

Signed on behalf of Public Enterprise "Elektroprivreda Srbije", Belgrade:



Project Manager

STATEMENT OF EXPENDITURES

For the period from 1 January through 31 December 2015

	Budget	Actual	In EUR
	01 January through 31 December 2015	01 January through 31 December 2015	Variance Cumulative to Date
Sources of Funds			
Counterpart Funds from EPS	-	-	-
World Bank	112,031,875	109,867,207	2,164,669
Interests Earned	-	-	-
Total	112,031,875	109,867,207	2,164,669
Uses of Funds			
Financed by WB			
Component 1 - Financing of electricity purchases to improve power availability	97,075,766	94,911,098	2,164,669
Component 2 - Supporting urgent restoration of the distribution network	-	-	-
Component 3 - Dewatering of Tamnava West Open Pit Mine	14,956,109	14,956,109	-
Sub-total financed by the WB	112,031,875	109,867,207	2,164,669
Financed by EPS			
Component 1 - Financing of electricity purchases to improve power availability	-	-	-
Component 2 - Supporting urgent restoration of the distribution network	-	-	-
Component 3 - Dewatering of Tamnava West Open Pit Mine	-	-	-
Sub-total financed by the EPS	-	-	-
Total uses of funds	112,031,875	109,867,207	2,164,669

Out of the total expenditures (EUR 109,867,207), the amount of EUR 58,487,739 was paid by EPS to suppliers during 2014, as follows:

Component 1: Financing of electricity purchases to improve power availability: EUR 51,350,377

Component 3: Dewatering of Tamnava West Open Pit Mine: EUR 7,137,362

Total reimbursement from IBRD (EUR 109,867,207) was received during 2015.

SPECIAL ACCOUNT STATEMENT**For the period from 1 January through 31 December 2015**

Special Account No.	10226960911-29
Depository Bank	Societe Generale Banka Srbija, AD, Belgrade
Currency	EUR
Special Account No.	275-10226960904-50
Depository Bank	Societe Generale Banka Srbija, AD, Belgrade
Currency	RSD

	01 January through 31 December 2015	In EUR 01 January through 31 December 2014
Cash balance at the beginning of the period	-	-
Cash balance at the end of the period	-	-
Reconciliation of cash balance to project expenditures:		
- Reimbursement from the IBRD	109,867,207	-
- Payments from the Special Account	-	-
	109,867,207	-

Please note that both Special accounts were open during May 2016.

1) Project Background

Republic of Serbia (the "Borrower") entered into a loan agreement with the International Bank for Reconstruction and Development (the "IBRD") on 9 October 2014 with the aim to provide funds for the project described in Schedule 1 of the Loan Agreement.

The objectives of the Project are to: (i) help restore power system capability to reliably meet domestic demand; (ii) protect livelihoods of farmers in the Flood Affected Areas; (iii) protect people and assets from floods; and (iv) improve the Borrower's capacity to respond effectively to disasters.

The Project consists of the following parts:

Part I Energy Sector Support

- A. Financing of electricity purchases to improve power availability.
- B. Supporting urgent restoration of the distribution network by: (i) provision of metering devices for Flood Affected Areas; (ii) provision of mobile substations; (iii) provision for energy-efficient light bulbs, and technical assistance and other goods to support power system load management activities.
- C. Dewatering of Tamnava West Open Pit Mine.

Part II Agricultural Sector Support

Supporting the financing of payments to farmers under the Borrower's Farm Incentives Program, in Flood Affected Areas.

Part III Flood Protection

- A. Rehabilitating and restructuring priority flood prevention and drainage control infrastructure through the provision of works, goods and consultants' services in Flood Affected Areas, and areas vulnerable to flooding.
- B. Support for Project management, including operating costs, and strengthening technical capacity for improved flood prevention and management, including technical studies to identify priority flood prevention infrastructure works and preparation of technical designs, bidding documents and terms of reference for such activities.

Part IV Contingent Emergency Response

Provision of immediate response to an Eligible Crisis or Emergency, as needed.

2) The Loan Agreement

Loan Agreement signed between Republic of Serbia and IBRD refers to the amount of EUR 227,480,000. In order to facilitate the carrying out of the Project Implementing Entity's Respective Part of the Project, the Borrower shall make part of the proceeds of the Loan available to the Project Implementing Entity under a subsidiary agreement between the Borrower and the Project Implementing Entity, under terms and conditions approved by the Bank, which shall include the following: the principal amount of the Loan made available under the Subsidiary Agreement shall be: a) denominated and repayable in Euros; and (b) made in no less favourable than terms of the loan.

Republic of Serbia entered into Subsidiary Agreement with the EPS on 19 February 2015 with the aim to finance Project I Energy Sector Support (as described in Schedule 1 of the Loan Agreement and as listed above in Note 1, Project Background). Out of the total loan amount of EUR 227,480,000, the amount of EUR 157,107,000 is allocated by the aforementioned Subsidiary Agreement to EPS for the financing of Project I.

The loan is repayable in forty-two semi-annual instalments on each interest payment date, beginning with the first loan repayment date falling in November 2023 and ending with the last interest payment date falling in May 2044. The Interest Payment Dates are 1 May and 1 November of each year. The loan is subject of commitment charge of 0.25% per annum on the Unwithdrawn Loan Balance. The loan bears interest rate that is calculated as a sum of six months EURIBOR and the variable spread (currently 0,8%) per annum.

#	Category	Allocated loan amount (in EUR)	Percentage of expenditures to be financed
(1)	Power Purchases for Part I. A of the Project	119,817,000	100% (exclusive of taxes)
(2)	Goods (excluding Power Purchases under Category (1)), works, non-consulting services, training, and consultants' services for Part I of the Project	37,290,000	100%
Total as per Subsidiary Agreement that relates to EPS		157,107,000	
(3)	Payments under the Farm Incentives Program under Part II of the Project	53,084,000	100%
(4)	Goods, works, non-consulting services, consultants' services, Training and Incremental Operating Costs for Parts II and III of the Project	16,720,300	100%
(5)	Emergency Expenditures under Part IV of the Project	-	100%
(6)	Front-end commission	568,700	Amount payable pursuant to Section 2.03 of this Agreement in accordance with Section 2.07 (b) of the General Conditions
Total		227,480,000	

3) Basis of preparation and accounting conventions

3.1 General

The accompanying statements have been prepared for the purposes of reporting of EPS on the activities of the Project with respect to the funding received for the completion of the Project objectives in accordance with the respective loan agreements.

3.2 Accounting Records and Basis of Presentation

Funds originated through the IBRD loan are accounted for using the cash receipts and disbursements basis.

3.3 Exchange Rates

Expenditures paid in Serbian Dinars (RSD) were translated into EUR at the average exchange rate of National Bank of Serbia in effect at the date of each payment.