

**MINISTRY OF ENERGY OF UKRAINE
SECOND POWER TRANSMISSION PROJECT, PART 3,**

SPECIAL PURPOSE FINANCIAL STATEMENTS

For the period from January 01, 2023 to
December 31, 2023

Together with Independent Auditor's Report

SECOND POWER TRANSMISSION PROJECT, PART 3

SPECIAL PURPOSE FINANCIAL STATEMENTS

For the period from January 01, 2023 to December 31, 2023

In USD

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INDEPENDENT AUDITOR'S REPORT

To the Ministry of Energy of Ukraine

Opinion

We have audited the accompanying special purpose financial statements of the Second Power Transmission Project, Part 3 (the "Project"), financed from the Loan No. 8462-UA for the period from January 01, 2023 to December 31, 2023, which comprise:

- Summary of Sources and Uses of Funds as at December 31, 2023;
- Report on the Statements of Expenditure from January 01, 2023 to December 31, 2023;
- Special Account Statement for the period from January 01, 2023 to December 31, 2023;
- Summary of significant accounting policies and other explanatory notes.

In our opinion, the accompanying special purpose financial statements give true and fair view of the sources and uses of funds of the Loan No. 8462-UA in respect of the Second Power Transmission Project, Part 3, for the period from January 01, 2023 to December 31, 2023, in accordance the Bank's regulations.

External funds have been used in compliance with the requirements of the corresponding general conditions, financial agreements, and the Disbursement Letter, paying due attention to efficiency and cost-effectiveness; and have been used only for the corresponding purposes.

Conditions of the Loan Agreement № 8462-UA do not provide for the use of partners' funds.

The services have been purchased in compliance with the corresponding general conditions, financial agreements, and the Disbursement Letter.

Accounting and storing of the necessary supporting documents, accounting data and accounts regarding all Project transactions, including those concerning the expenditures disclosed in the Statements of actual expenditures, are performed in a due manner. There is a clear interconnection between accounting data and the financial statements provided to the World Bank.

The prepared special purpose financial statements comply with the requirements of generally accepted accounting principles and practices, and the instructions from the World Bank; and truly and objectively reflect the financial position of the Project as at December 31, 2023, as well as the resources and expenditures for the period from January 01, 2023 to December 31, 2023.

Separate opinion on expenditures

In addition, with regard to the expenditures for the period from January 01, 2023 to December 31, 2023, adequate supporting documentation was maintained to confirm applications submitted to the Bank for reimbursement of the expenditures incurred, and that the expenditures stated in the withdrawal applications are to be financed in accordance with the terms and conditions of the Loan № 8462-UA.

Separate opinion on Special Accounts Statement

In our opinion, the financial statements on the Special accounts give true and fair view of financial position of the Special Accounts of the Project, as at December 31, 2023 and for the period from January 01, 2023 to the date fixed in consistence with the World Bank regulations.

These accounts were maintained according to the provisions of the corresponding general conditions, financial agreements, and the Disbursement 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 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

Closing date for the Loan disbursement

We draw attention to Note 3 to the special purpose financial statements, which states that the closing date for the Loan disbursement is June 30, 2025, or such later date set by the Bank.

Military aggression of the Russian Federation against Ukraine

We draw attention to Notes 6 and 7 to the special purpose financial statements of the Project, which state that on February 24, 2022, the military invasion of Ukraine by the Russian Federation began and continues, which became the basis for the introduction of martial law in Ukraine from 05:30 on February 24, 2022 in accordance with the Law of Ukraine "On Approval of the Decree of the President of Ukraine "On the Introduction of Martial Law in Ukraine" No. 2102, which continues as of the date of approval of these special purpose financial statements of the Project. These events indicate that a material uncertainty exists that may cast significant doubt on the ability of the Ministry of Energy of Ukraine and the Project to continue as a going concern.

Our opinion is not modified in respect to this matter.

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

Management is responsible for the preparation and fair presentation of these special purpose financial statements in accordance with World Bank's regulations, 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 the special purpose financial statements, management is responsible for assessing the Project ability to continue as a going concern within the period of uses of funds, i.e. by June 30, 2025, or such later date set by the Bank disclosing, as applicable, matters related to going concern 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 as a whole 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 management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may 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, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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

Key Audit Partner

Nikolaenko O.M.

Number of registration with the Register of Auditors and Audit Companies: 101534

July 16, 2024

Kyiv

Limited Liability Company BDO. Identification code under EDRPOU: 20197074. Number of registration in the Register of Auditors and Audit Companies: 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 companies in section 4 - Auditing companies entitled to perform statutory audits of financial statements of public interest entities-. Link to the Register: <https://www.apu.com.ua/subjekty-audytorskoj-dijalnosti-jaki-majut-pravo-provodyty-obovjazkovyj-audyt-fnansovoi-zvitnosti-pidpryjemstv-shho-stanovljat-suspilnyj-interes/>

SECOND POWER TRANSMISSION PROJECT, PART 3

SPECIAL PURPOSE FINANCIAL STATEMENTS

For the period from January 01, 2023 to December 31, 2023

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 auditor's responsibilities stated in the Independent Auditor's Report on pages I-III is made with a view to distinguishing the respective responsibilities of management and of the independent auditor in relation to the special purpose financial statements under the Second Power Transmission Project, Part 3 financed from the Loan No. 8462-UA, for the period from January 01, 2023 to December 31, 2023.

The management of the Ministry of Energy of Ukraine and the Project is responsible for the preparation of the special purpose financial statements that give true and fair view of the financial position of the Project as at December 31, 2023, and resources and expenditures for the period from January 01, 2023 to December 31, 2023.

In preparing the special purpose financial statements, the management of the Ministry of Energy of Ukraine and the Project is responsible for:

- Selecting suitable accounting principles and applying them consistently;
- Presentation of information, including accounting policies so as to provide for its appropriateness, reliability, comparability and understandability;
- Additional disclosures in Notes and Annexes in cases, where meeting the requirements of the accounting policies stated in Note 3 is insufficient for understanding of the effect of specific operations, other events and conditions on the special purpose financial statements under the Project;
- Assessing the ability of the Ministry of Energy of Ukraine and the Project to operate as a going concern.

The management of the Ministry of Energy of Ukraine and the Project is also responsible for:

- Designing, implementing and maintaining an effective and sound internal control system within the Project's implementation;
- Maintaining proper accounting records that enables disclosures at any time with sufficient accuracy about the financial condition of the Project and that ensure that these special purpose financial statements under the Project comply with the accounting policies set out in Note 3;
- Taking such steps as are reasonably available to them to safeguard the assets of the Project;
- Preventing and detecting fraud and other irregularities.

The special purpose financial statements for the period from January 01, 2023 to December 31, 2023 were approved on July 16, 2024.

Head of PIU



Tolmachov D.

SECOND POWER TRANSMISSION PROJECT, PART 3**SUMMARY OF SOURCES AND USES OF FUNDS**

For the period from January 01, 2023 to December 31, 2023

In USD

	Factual	
	For the period	Total
Opening balance		
Special account with JSC Ukreximbank - USD	96,225	
Current account with JSC Ukreximbank - UAH	1,048	
Total available funds at the beginning of period:	97,273	
Sources of funds:		
Loan of the International Bank for Reconstruction and Development	340,492	1,634,036
Total financing:	340,492	1,634,036
Project expenditure:		
Category 2: Goods, works, services (other than consultants' services), consultants' services, and Training for Part 3 of the Project	401,317	1,597,587
Total Project expenditure:	401,317	1,597,587
Closing balance		
Special account with JSC Ukreximbank - USD	24,318	24,318
Current account with JSC Ukreximbank - UAH	12,131	12,131
	36,449	36,449

Head of PIU



Tolmachov D.

SECOND POWER TRANSMISSION PROJECT, PART 3

STATEMENT OF WITHDRAWALS FROM THE LOAN ACCOUNT

For the period from January 01, 2023 to December 31, 2023

In USD

<i>Number of application</i>	<i>Category</i>	<i>Date of withdrawal</i>	<i>Payment</i>		<i>USD</i>
			<i>Currency</i>	<i>Amount</i>	<i>equivalent</i>
11-MECI/SA	DA-C	26.07.2023	USD	148,972	148,972
12-MECI/SA	DA-C	16.11.2023	USD	191,521	191,521
Total:					340,492

Summary statement by categories:	
DA-C	340,492
Total:	340,492

SECOND POWER TRANSMISSION PROJECT, PART 3

STATEMENT OF WITHDRAWALS THROUGH THE SUMMARY OF STATEMENTS OF EXPENDITURES

For the period from January 01, 2023 to December 31, 2023

In USD

<i>Number of application</i>	<u><i>Category 2</i></u>	<i>Total</i>
1. Expenditures factually incurred up to 01.01.2023 and reimbursed by the World Bank during the period from 01.01.2023 - 31.12.2023		
11-MECI/SA	114,411	114,411
Total	114,411	114,411
2. Applications submitted to the World Bank and reimbursed for the period 01.01.2023 - 31.12.2023		
11-MECI/SA	34,561	34,561
12-MECI/SA	191,521	191,521
Total	226,082	226,082
3. Costs actually incurred for the period from January 01, 2023 to December 31, 2023		
From the Loan account	-	-
From Special Accounts	-	-
From current accounts in national currency	401,317	401,317
Total	401,317	401,317
4. Table of discrepancies in Project expenditures between the World Bank records and PIU for the period from January 01, 2023 to December 31, 2023		
Reimbursed according to IBRD information	226,082	226,082
Expenditures not provided for reimbursement as at December 31, 2023	175,235	175,235
According to PIU	401,317	401,317

Notes on pages 9-13 are an integral part of these special purpose financial statements.

SECOND POWER TRANSMISSION PROJECT, PART 3

STATEMENT OF CASH WITHDRAWAL FROM SPECIAL ACCOUNTS

For the period from January 01, 2023 to December 31, 2023

In USD

<i>Category</i>	<i>Date of withdrawal</i>	<i>Payment</i>		<i>USD Equivalent amount</i>
		<i>Currency</i>	<i>Amount</i>	
Sub_account	02.01.2023	USD	16,500	16,500
Sub_account	04.01.2023	USD	17,200	17,200
Sub_account	03.02.2023	USD	1,900	1,900
Sub_account	01.03.2023	USD	22,500	22,500
Sub_account	14.03.2023	USD	4,700	4,700
Sub_account	06.04.2023	USD	31,700	31,700
Sub_account	27.07.2023	USD	72,200	72,200
Sub_account	09.08.2023	USD	13,500	13,500
Sub_account	07.09.2023	USD	22,200	22,200
Sub_account	27.09.2023	USD	6,000	6,000
Sub_account	06.10.2023	USD	25,500	25,500
Sub_account	20.11.2023	USD	51,500	51,500
Sub_account	29.11.2023	USD	10,000	10,000
Sub_account	12.12.2023	USD	45,000	45,000
Sub_account	26.12.2023	USD	8,500	8,500
Sub_account	28.12.2023	USD	63,500	63,500
Total:				412,400
Summary by categories				
Sub_account				412,400
Total:				412,400

Notes on pages 9-13 are an integral part of these special purpose financial statements.

SECOND POWER TRANSMISSION PROJECT, PART 3

SPECIAL ACCOUNT STATEMENT

For the period from January 01, 2023 to December 31, 2023

In USD

Deposit bank	Ukreximbank
Account No.	UA133223130000025235000000000
Loan No.	8462-UA
Currency	US dollars

OPENING BALANCE	96,225
Receipts: Funds received	340,492
Accrued interest	-
TOTAL FUNDS RECEIVED	340,492
Holdback: expenditure	
Translation of funds in national currency	412,400
Direct payments from special account	-
Payment of bank services	-
TOTAL EXPENDITURE	412,400
CLOSING BALANCE	24,318

Notes on pages 9-13 are an integral part of these special purpose financial statements.

SECOND POWER TRANSMISSION PROJECT, PART 3

STATEMENT OF FACTUAL EXPENDITURES IN NATIONAL CURRENCY

For the period from January 01, 2023 to December 31, 2023

In USD

	<u>----- Payment-----</u>		<i>USD</i>
	<i>Currency</i>	<i>Amount</i>	<i>Equivalent amount</i>
Category 2: Goods, works, services (other than consultants' services), consultants' services, and Training for Part 3 of the Project	UAH	14,778,090	401,317
Total expenditure of the period		14,778,090	401,317

SECOND POWER TRANSMISSION PROJECT, PART 3

RECONCILIATION BETWEEN RECORDS OF PIU AND THE BANK

For the period from January 01, 2023 to December 31, 2023

In USD

Loan amount		2,500,000
Deduct:		
Project expenditures:		
Category 2: Goods, works, services (other than consultants' services), consultants' services, and Training for Part 3 of the Project	1,597,587	
Total:		<u>(1,597,587)</u>
Special account with JSC Ukreximbank - USD	24,318	
Current account with JSC Ukreximbank - UAH	12,131	
Total available funds		<u>(36,449)</u>
Total withdrawals:		<u>(1,634,036)</u>
		865,964
<hr/> Balance as at December 31, 2023 <hr/>		

Notes on pages 9-13 are an integral part of these special purpose financial statements.

SECOND POWER TRANSMISSION PROJECT, PART 3

NOTES TO THE SPECIAL PURPOSE FINANCIAL STATEMENTS

For the period from January 01, 2023 to December 31, 2023

In USD

1. PROJECT DESCRIPTION

Since 2004, the Ministry of Fuel and Energy (MoFE) and, more recently, the Ministry of Energy and Coal Industry (MoECI), and today the Ministry of Energy of Ukraine together with the World Bank have been implementing measures to prepare and implement the energy sector reform and development program. The program is aimed at increasing the level of security and reliability of energy supply, promoting the uninterrupted operation of the energy market in Ukraine, as well as providing Ukraine with support for legal, institutional and technical harmonization of the energy sector of Ukraine with the EU internal energy market.

Launched in 2015, the Second Power Transmission Project is supported by the IBRD loan of USD 330 million and the loan of the Clean Technology Fund of 48,425 million USD. The Project includes Part 3 in the amount of 2.5 million USD to provide the Ministry of Energy and Coal Industry with institutional capacity for reform implementation in the energy sector in accordance with Ukraine's commitments in the framework of the Energy Community membership, as well as the Association Agreement between Ukraine and the EU.

According to paragraph B6 Section II of Additional article 2 to the Loan Agreement "The Borrower, through MoECI, shall have the Financial Statements corresponding to Part 3 of the Project audited in accordance with the provisions of Section 5.09 (b) of the General Conditions. Each such audit of the Financial Statements shall cover the period of one fiscal year of the Borrower. The audited Financial Statements for each such period shall be furnished to the Bank not later than six (6) months after the end of such period".

Total amount of Part 3 of the Loan No. 8462-UA is USD 2,500,000.00.

Part 3 Procurement Plan specifies that the Part funds shall be used to finance consulting services (individual consultants and consulting companies).

The procurement plan for Component 3 of the Second Power Transmission Project was not changed in 2022 specifically in view of the outbreak of military aggression by the Russian Federation. However, the terms of reference for several consulting works, in particular, for the Consultant on methodological support for the development of the energy security system of Ukraine, the Consultant on gas market integration and implementation of the REPowerEU initiative, as well as the consultants on the implementation of the Concept and Action Plan for the development of "smart" grids, were finalized in view of the military aggression of the Russian Federation. In 2023, the Procurement Plan included two tasks (Expert on the preparation and implementation of projects for the restoration, reconstruction and modernization of Ukraine's energy sector and Analyst on the restoration of energy infrastructure) aimed at solving the tasks of restoring energy infrastructure affected by military attacks by the Russian Federation.

The first contract under Part 3 was signed on August 23, 2016. The use of funds to finance activities under Part 3 of the Loan No. 8462-UA began in the fourth quarter of 2016.

The following accounts were opened for use of funds under Part 3 of the Loan No. 8462-UA:

- Special (USD) account in JSC "State Export-Import Bank of Ukraine" (advances from the World Bank Loan Account, settlements in foreign currency, receipt of funds from the Loan Account for resale, remittance of currency funds for further settlements in UAH);
- Special account in national currency in JSC "State Export-Import Bank of Ukraine" (enrollment of Ukrainian hryvnias received from the sale of foreign currency funds, payments in UAH);
- Special (EUR) account in JSC "State Export-Import Bank of Ukraine" (payment of services in EUR).

2. BASIS OF PRESENTATION

These special purpose financial statements of the Project are prepared on a cash basis and include such significant accounting policies that have been consistently applied in all material respects and are in accordance with the recommendations of the World Bank's Financial Management Committee "Recommendations: Annual Financial Reporting and Audit of Activities, funded by the World Bank". Project financing is recognized as a source of funds for the Project at the time of receipt of funds. Project costs are recognized as the use of funds under the Project at the time of making payments.

SECOND POWER TRANSMISSION PROJECT, PART 3

NOTES TO THE SPECIAL PURPOSE FINANCIAL STATEMENTS

For the period from January 01, 2023 to December 31, 2023

In USD

The reporting currency is US Dollars. Items included in the special purpose financial statements of the Project are valued using the currency that best reflects the economic substance of the Ministry's relevant events and circumstances ("functional currency"). The functional currency of the Project is US Dollars.

Transactions in other currencies are translated into US dollars at the interbank currency exchange rate, which was effective on the date of the respective conversion of US dollars into the payment currency. Cash balances in other currencies are translated into US dollars at the interbank exchange rate of the last conversion of USD into the currency of payment.

3. ACCOUNTING POLICIES

Basis of preparation

Special purpose financial statements were prepared on the cash basis. The accounting policy was applied consistently throughout the period of using the Loan funds.

Reporting period

This report covers the Disbursement period of Part 3 of the Loan No. 8462-UA from January 01, 2023, to December 31, 2023. The World Bank has established the closing date - June 30, 2025, or such later date set by the Bank.

Special bank account

In accordance with the terms of the Loan Agreement and to ensure the implementation of the Project for the Ministry of Energy of Ukraine, a Special Account in US dollars was opened in PJSC "State Export-Import Bank of Ukraine" under terms and conditions agreed with the IBRD.

Recognition of receipts and expenditures

The Project keeps its records and prepares its financial statements on the cash basis. Receipts are recorded when they are made on bank accounts, which are supported by advances from the IBRD. Expenditures are recorded on the date of funds withdrawal from accounts. Project Statements are prepared in accordance with the provisions of Section 5.08 of the General Conditions and on the basis of indicators acceptable to the Bank. Each Project Statement covers a period equal to one calendar quarter and is submitted to the Bank no later than forty-five (45) days after the end of the period covering each such report.

All goods, works and non-consulting services required for the Project and to be financed out of the proceeds of the Loan shall be procured in accordance with the requirements set forth or referred to in Section I of the Procurement Guidelines and with the provisions of Section III of Supplement 2 to the Loan Agreement.

All consultants' services required for the Project and to be financed out of the proceeds of the Loan shall be procured in accordance with the requirements set forth or referred to in Sections I and IV of the Consultant Guidelines and the provisions of Section III, Supplement 2, of the Loan Agreement.

Foreign currency transactions

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

Statements of expenditures

The statements of expenditure are used to recognize the expenditures of the Loan during the calendar quarter that were paid from the Special Account.

According to additional withdrawal instructions of the IBRD, all expenditures paid from the Special Account shall be included in the statements of expenditure for the relevant period and submitted to the IBRD.

SECOND POWER TRANSMISSION PROJECT, PART 3

NOTES TO THE SPECIAL PURPOSE FINANCIAL STATEMENTS

For the period from January 01, 2023 to December 31, 2023

In USD

Together with the statements of expenditure, the primary documents are submitted (copies of checks, invoices, works acceptance acts, etc.).

4. BUDGET

From the Loan proceeds (Part 3 of the Project), the following items were financed; they were used exclusively for the activities of the established categories:

<i>Category</i>	<i>Total allocated Loan funds (USD-denominated)</i>	<i>% financed expenditures</i>
(2) Goods, works, services (other than consultants' services), consultants' services, and Training for Part 3 of the Project	2,500,000	100%
TOTAL	2,500,000	

5. AMORTIZATION SCHEDULE (including Part 3)

The following table sets forth the Principal Payment Dates of the Loan and the percentage of the total principal amount of the Loan payable on each Principal Payment Date ("Installment Share"). If the proceeds of the Loan have been fully withdrawn as of the first Principal Payment Date, the principal amount of the Loan repayable by the Borrower on each Principal Payment Date shall be determined by the Bank by multiplying: (a) Withdrawn Loan Balance as of the first Principal Payment Date; by (b) the Installment Share for each Principal Payment Date, such repayable amount to be adjusted, as necessary, to deduct any amounts referred to in paragraph 4 of the Supplement to the Loan Agreement to which a Currency Conversion applies.

<i>Principal Payment Date</i>	<i>Installment Share (Expressed as a Percentage)</i>
On each January 15 and July 15 Beginning January 15, 2020 Through January 15, 2032	3.85%
On July 15, 2032	3.75%

In accordance with the Agreement on the Irrevocable Transfer of Loan Funds No. 8462-UA, which was provided to Ukraine by the International Bank for Reconstruction and Development for the implementation of the Second Power Transmission Project, between the Ministry of Finance of Ukraine and the Ministry of Energy of Ukraine dated August 18, 2016, the Ministry of Energy of Ukraine does not make any repayment of the loan funds.

6. ECONOMIC ENVIRONMENT

Ukraine is engaged in a full-scale war with the Russian Federation and the legal regime of martial law is in effect. In 2023, the economy recovered thanks to the high adaptability of businesses and households to the war and loose fiscal policy, which was supported by large-scale international financing. According to NBU estimates, GDP grew by 5.7% in 2023. Despite the war, economic growth will continue. In 2024,

SECOND POWER TRANSMISSION PROJECT, PART 3

NOTES TO THE SPECIAL PURPOSE FINANCIAL STATEMENTS

For the period from January 01, 2023 to December 31, 2023

In USD

real GDP will grow by 3.6%, mainly due to high budget spending against the background of expected sufficient international assistance.

However, if the active phase of the war lasts longer, the economy is likely to grow more slowly. Russia does not stop trying to destroy the country's economic potential, evidenced by the terrorist attack on the Kakhovka HPP, the intensification of barbaric shelling of port infrastructure, the blockade of the grain corridor in the Black Sea by Russia and its eventual withdrawal from the grain agreement. Thus, the risks to the economy, as well as the need for international assistance, were significant. The main assumption is that high security risks will decrease significantly as of 2025. If high security risks persist for longer, they will have a negative impact on business and consumer expectations, as well as on exchange rate and inflation expectations. This will also increase pressure on public finances and exacerbate problems in the labor market. Under this scenario, economic growth potential will be lower and inflationary pressures will be higher than currently expected.

Thanks to external support and the NBU's consistent policy, Ukraine's international reserves grew by 42% in 2023 to reach USD 40.5 billion. Despite delays in the flow of international assistance in early 2024, it is expected to be resumed in the coming months. Under the baseline scenario of the NBU's forecast, Ukraine will receive about USD 37 billion in 2024 as external loans and grants.

Since early 2023, inflation has been falling faster than expected. The easing of inflationary pressures was facilitated by an ample supply of food and fuel, as well as a rapid recovery of the energy system from the damage caused by the Russian terrorist attacks. An important factor was the improvement in inflation expectations since the beginning of the year amid the cessation of emission financing, the strengthening of the hryvnia cash exchange rate, and the increased attractiveness of hryvnia assets. As a result, in 2023, consumer inflation slowed to 5.1% year-on-year (26.6% in 2022).

In July 2023, the NBU Board decided to cut the key policy rate to 22% from 25% set in June 2022. Given the improvement in inflation expectations and further slowdown in inflation, the current and projected rate cuts are consistent with maintaining the attractiveness of hryvnia savings. In September 2023, the NBU decided to cut the key policy rate from 22% to 20%, in October to 16%, and from December 15, 2023, to 15%. These steps support economic recovery while not posing a threat to macrofinancial stability.

On October 3, 2023, the National Bank of Ukraine switched to a regime of managed exchange rate flexibility, following the strategy of easing currency restrictions. The official exchange rate is based on the interbank market rate and is no longer set by the NBU, as it was since February 24, 2022. In doing so, the NBU keeps monitoring the situation on the interbank foreign exchange market and tries to significantly limit exchange rate fluctuations, preventing both significant depreciation and significant strengthening of the hryvnia.

The war between Ukraine and the Russian Federation is ongoing and results in significant destruction of property and assets in Ukraine and other material consequences. The consequences of the war are evolving daily and their impact in the longer term is uncertain. The future impact on the Ukrainian economy depends on the outcome of the full-scale war, the successful implementation of new reforms by the Ukrainian government, the country's recovery and transformation strategy with a view to EU membership, and cooperation with international funds.

The management and staff of the Ministry and the Project are located outside the open hostilities and keep working in relatively normal operating mode.

These factors will have an impact on the Ministry of Energy of Ukraine's and the Project's operating results in future periods. The management of the Ministry and the Project monitors the development of the current situation and takes measures to minimize any negative consequences to the extent possible.

When preparing these special purpose financial statements, the known and estimable effects of the above factors on the Project's special purpose financial statements in the reporting period were considered.

Management of the Ministry of Energy of Ukraine 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 Ministry of Energy of Ukraine in the future. The management

SECOND POWER TRANSMISSION PROJECT, PART 3

NOTES TO THE SPECIAL PURPOSE FINANCIAL STATEMENTS

For the period from January 01, 2023 to December 31, 2023

In USD

of the Ministry of Energy of Ukraine 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 Ministry of Energy of Ukraine 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 Ministry of Energy of Ukraine 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 PERIOD

As stated in Note 6, the full-scale war with Russia is ongoing in Ukraine and the legal regime of martial law is in effect. In the future, the key risk is the prolongation of the war even if the hostilities are localized. This will require the economy to operate for a long time under extreme conditions, which could lead to a deeper decline and increase the need for assistance from partners. The impact of the war on the global economy will also increase.

In addition, there are significant risks of systematic disruptions in the rhythm of international assistance and/or a significant decline in its volume.

The situation is still ongoing, and its consequences are still uncertain. It is currently impossible to predict all changes that may have an impact on the overall economy. Management keeps monitoring possible impact of the above-mentioned events on the Company and will take all possible measures to mitigate any consequences.

The management and staff of the Ministry of Energy of Ukraine and the Project are outside the open hostilities and keep working in normal operating mode.

WORLD BANK AUDIT DOCUMENTATION CHECKLIST

Name of Loan/Credit:	World Bank UKRAINE
Loan/Credit #	8462-UA
Audit Report:	Year ended December 31, 2023

	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"/>

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