

STATE ROAD AGENCY OF UKRAINE
PROJECT "IMPROVEMENT OF TRANSPORT AND OPERATIONAL CONDITIONS
OF ROAD APPROACHES TO KYIV (EUROPEAN ROADS OF UKRAINE II)"

SPECIAL PURPOSE FINANCIAL STATEMENTS
For the year ended 31 December 2018

Together with Independent Auditor's Report

PROJECT "EUROPEAN ROADS UKRAINE II"

SPECIAL FINANCIAL STATEMENTS

For the year ended 31 December 2018
in EURO

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INDEPENDENT AUDITORS' REPORT

To the State Road Agency of Ukraine

Opinion

We have audited the accompanying special purpose project financial statements of the Project "Improvement of transport and operational conditions of road approaches to Kyiv (European roads of Ukraine II)" (the "Project"), financed under the European Investment Bank ("EIB") Loan agreement No. Fin 26.131 and Fin 26.132 dated 27 May 2011 between the EIB and Ukraine, whose beneficiary is The State Road Agency of Ukraine (the "Ukravtodor"), which comprise:

- The special purpose statement of sources and uses of funds for the year ended 31 December 2018;
- the special purpose statement on expenditure detail for the year ended 31 December 2018 (collectively referred to as the "special purpose project financial statements");
- summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying special purpose financial statements give true and fair view of the sources and uses of funds of the Project "Improvement of transport and operational conditions of road approaches to Kyiv (European roads of Ukraine II)" for the period from 01 January 2018 to 31 December 2018, in accordance the Bank's regulations.

Conditions of the Loan Agreement Fin 26.131 та Fin 26.132 do not provide for the use of partners' funds.

The prepared financial statements comply with the requirements of generally accepted accounting principles and practices, and the instructions from the European Investment bank; and truly and objectively reflect the financial position of the Project as at 31 December 2018 as well as the resources and expenditures for the period from 01 January 2018 to 31 December 2018..

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 State Road Agency 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.



Explanatory paragraph

We draw attention to Note 3 to the Special Financial Statements, where the fact is disclosed that the end date of the loan funds use is 31 December 2020. We do not further qualify our opinion in this regard.

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 the rules of the World Bank, 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's ability to continue as a going concern, 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 control of a key audit partner Nikolaenko O.

Key audit partner

For and on behalf of BDO LLC

Director

17 April 2019

Kyiv



Nikolaenko O.

Balchenko S.

PROJECT "EUROPEAN ROADS UKRAINE II"

SUMMARY OF SOURCES AND USES OF FUNDS

For the year ended 31 December 2018
in EURO

	31 December 2018	<i>For the whole period of the project realization</i>	<i>Budget</i>	<i>Deviations</i>
Financing				
EIB(*)	5 691 872	172 864 091	450 000 000	277 135 909
Ukravtodor	1 138 374	34 244 108	34 244 108	-
	6 830 246	207 108 199	484 244 108	277 135 909
Part 1 (financed from Tranche A)				
1. Works for Parts 1.1 and 1.2	-	157 301 487	225 716 915	68 415 427
2. Front-end Commission for Tranche A (Phase I)		500 000	500 000	-
Part 2 (financed from Tranche B)				
1. Works for Parts 2.1, 2.2, 2.3 and 2.4	6 830 246	48 163 159	257 402 193	209 239 054
3. Supervision Services for Parts 2.3,		518 553	-	-518 553
4. Front-end Commission for Tranche B (Phase II)		625 000	625 000	-
	6 830 246	207 108 199	484 244 108	277 135 909

Note (*) hereinafter expenses of the European Investment Bank for the co-financing of the Project are stated in factual amounts paid on the project's categories to works executors, rather than in amounts of tranches received on the project account of Ukravtodor.

Notes on pages 10 to 17 are an integral part of these special purpose financial statements.

PROJECT "EUROPEAN ROADS UKRAINE II"

USES OF FUNDS BY THE PROJECT'S COMPONENTS

For the year ended 31 December 2018
in EURO

	31 December 2018	<i>For the whole period of the project realization</i>	Budget	Deviations
Uses of the EIB funds by the Project's components				
Part 1 (Phase I financing)				
1. Works for Parts 1.1, 1.2 and 2.1	-	131 084 572	199 500 000	68 415 428
2. Front-end Commission for Phase I	-	500 000	500 000	-
Part 2 (Phase II financing)				
1. Works for Parts 2.2, 2.3 and 2.4	5 691 872	40 135 966	249 375 000	209 239 054
2. Supervision Services for Parts 2.3	-	518 553	-	(518 553)
3. Front-end Commission for Phase II	-	625 000	625 000	-
	5 691 872	172 864 091	450 000 000	277 135 909
Uses of Ukravtodor funds by the Project's components				
Part 1 (Phase I financing)				
1. Works for Parts 1.1, 1.2 and 2.1	-	26 216 915	26 216 915	-
Part 2 (Phase II financing)				
1. Works for Parts 2.2, 2.3 and 2.4	1 138 374	8 027 193	8 027 193	-
2. Supervision Services for Parts 2.3	-	-	-	-
	1 138 374	34 244 108	34 244 108	-
	6 830 2461	207 108 199	484 244 108	277 135 909

Note (*) it is provided to implement co-financing of contract works by the European Investment Bank in Part 2.1 of the Project during the First Project Phase under the terms of the Finance Contract concluded between Ukraine and the European Investment Bank.

Notes on pages 10 to 17 are an integral part of these special purpose financial statements.

PROJECT "EUROPEAN ROADS UKRAINE II"

STATEMENT OF DRAWDOWNS FROM THE ACCOUNT OF THE EIB LOAN

For the year ended 31 December 2018
in EURO

<i>Date</i>	<i>Number of the payment order</i>	<i>Project's categories:</i>				<i>Total</i>
		<i>Works for Part 1 (Phase I)</i>	<i>Works for Part 2 (Phase II)</i>	<i>Supervision Services for Part 2 (Phase II)</i>	<i>Front-end commission for Phases I and II</i>	
12.06.2018	1		1 000 442			1 000 442
18.06.2018	2		1 064 480			1 064 480
24.07.2018	3		680 195			680 195
27.07.2018	4		1 198 726			1 198 726
06.09.2018	5		992 629			992 629
13.11.2018	6		684 639			684 639
20.12.2018	7		70 760			70 760
Drawdown for 2018		-	5 691 872	-	-	5 691 872
Total as at 31.12.2018	-	131 084 573	40 135 966	518 553	1 125 000	172 864 091

Notes on pages 10 to 17 are an integral part of these special purpose financial statements.

RECONCILIATION BETWEEN RECORDS OF UKRAVTODOR AND EIB

For the year ended 31 December 2018
in EURO

Loan amount according to the Loan Agreement		450 000 000
Loan drawdown for 2012	(78 483 833)	
Liabilities of Ukravtodor as at 31 December 2012		(78 483 833)
Loan drawdown for 2013	(65 858 907)	
Liabilities of Ukravtodor as at 31 December 2013		(144 342 740)
Loan drawdown for 2014	(5 263 163)	
Liabilities of Ukravtodor as at 31 December 2014		(149 605 902)
Loan drawdown for 2015	-	
Liabilities of Ukravtodor as at 31 December 2015		(149 605 902)
Loan drawdown for 2016	(16 120 970)	
Liabilities of Ukravtodor as at 31 December 2016		(165 726 872)
Loan drawdown for 2017	(1 445 349)	
Liabilities of Ukravtodor as at 31 December 2017		(167 172 220)
Loan drawdown for 2018	(5 691 872)	
1. Works for Parts 1.1 and 1.2		
2. Front-end Commission for Phase I		
Part 2 (financing of Phase II)		
1. Works for Parts 2.1, 2.2, 2.3 and 2.4	(5 691 872)	
2. Supervision Services for Part 2.3		
3. Front-end Commission for Phase II		
Total	(5 691 872)	
Liabilities of Ukravtodor as at 31 December 2018		(172 864 091)
Balance of unused Loan as at 31 December 2018		277 135 909

Notes on pages 10 to 17 are an integral part of these special purpose financial statements.

NOTES TO THE SPECIAL FINANCIAL STATEMENTS

For the year ended 31 December 2018
in EURO

1. DESCRIPTION OF THE PROJECT

EIB financing

The Loan Agreement between Ukraine and EBRD provides for joint financing of projects by the European Investment Bank (further - EIB or Bank). Corresponding Finance Contract (European Roads Ukraine II) on the provision of loan funds amounting to 450 million EUR was signed by Ukraine and the EIB on 27 May 2011. Under the Finance Contract, financing of the Project by the EIB will be carried out in amounts equal with those by the EBRD.

According to p. 8 of the Preamble of the Finance Contract, the Ministry of Finance of Ukraine agreed to re-credit the funds of the EIB credit in amount of 450 million EUR to Ukravtodor on terms set out in the Finance Contract, Project Agreement and Subsidiary Loan Agreement concluded between Ukravtodor and the Ministry of Finance of Ukraine dated 06 July 2011.

Ukravtodor provides a balance of funds necessary for the Project financing. The EIB credit provides for the financing of the following Project's categories:

<i>Category</i>	<i>Amount, EUR</i>	<i>Comments</i>
Part 1 (Phase I financing)		
1. Works for Parts 1.1, 1.2 and 2.1	199 500 000	These works are financed by the EIB 100% from the credit funds, net of any tax.
2. Front-end Commission for Phase I	500 000	These works are financed by the EIB 100% from the credit funds.
Part 2 (Phase II financing)		
1. Works for Parts 2.2, 2.3 and 2.4	249 375 000	These works are financed by the EIB 100% from the credit funds, net of any tax.
2. Front-end Commission for Phase II	625 000	These works are financed by the EIB 100% from the credit funds.
Part 3 Project Implementation Services		
Preparation of engineering design and tender documents for procurement of services and works for Part 1 and 2	(actual costs of Ukravtodor)	These services are financed by Ukravtodor
Project implementation assistance	(actual costs of Ukravtodor)	These services are financed by Ukravtodor
Total	450 000 000	

Entry into force

The Finance Contract between Ukraine and EIB was ratified by the Law of Ukraine "About Ratification of the Finance Contract "European Roads Ukraine II" (Improvement of Transport and Operational Conditions of Road Approaches to Kiev)" between Ukraine and European Investment Bank, in November 2011.

The Bank announced the entry into force of the Finance Contract by the Letter dated 07 February 2012.

After consultation between the EIB and the Borrower, the Bank set the Second Project Phase Credit Commencement Date - 3 September 2013, of which the Borrower was notified by the Bank letter in September 2013

EBRD financing

Under the Loan Agreement between Ukraine and the European Bank for Reconstruction and Development from 26 November 2010 (hereinafter - Loan Agreement), the Bank agreed to extend to Ukraine a loan in amount of 450 million (four hundred fifty million) EUR, in order to implement the Project "Improvement of Transport And Operational Conditions Of Road Approaches To Kyiv (Pan-European Corridors)".

According to the Project Agreement between Ukraine and the Bank of 26 November 2010 (further - the Project Agreement) the Project will be implemented by the State Road Agency of Ukraine (Ukravtodor).

According to the Decrees of the President of Ukraine dated 13 April 2011 and 09 December 2010 (as amended) the State Road Service of Ukraine (Ukravtodor) was reorganized into the State Road Agency of

NOTES TO THE SPECIAL FINANCIAL STATEMENTS

For the year ended 31 December 2018
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Ukraine (Ukravtodor). Under the provisions of the Decree, the State Road Agency of Ukraine (Ukravtodor) is the successor of the State Road Service of Ukraine.

According to Section 3.1 of Article III of the Loan Agreement, the Ministry of Finance of Ukraine agreed to re-credit funds of EBRD Loan in amount of 450 million to Ukravtodor, under the conditions specified in the Loan Agreement, the Project Agreement and the Sub-Loan Agreement dated 26 November 2010.

The purpose of the Project is to improve the highway infrastructure in Ukraine and facilitate further reform in the road sector of Ukraine by assisting the Borrower in the rehabilitation and upgrading of parts of M-01, M-05, M-06, M-07, N-01 and R-02 roads on sections approaching Kyiv as well as in the outsourcing of the maintenance of the M-06 road section on a basis of output and performance related contracting.

The Project consists of the following categories:

<i>Category</i>	<i>Amount, EUR</i>	<i>Comments</i>
Part 1 (financed from Tranche A)		
1. Works for Parts 1.1 and 1.2	185 217 246	These works are financed by the EBRD (up to 60% of the contract amount, net of any tax) and the EIB.
2. Supervision Services for Parts 1.1 and 1.2	4 335 496	These services are financed by the EBRD on 100% of the contract amount, net of any tax.
3. Works for Part 1.4	56 307 258	These works are financed by the EBRD on 100% of the contract amount, net of any tax.
4. Supervision Services for Parts 1.4	1 640 000	These services are financed by the EBRD on 100% of the contract amount, net of any tax.
5. Front-end Commission for Tranche A	2 500 000	These costs are financed by the EBRD 100% from the credit funds.
Part 2 (financed from Tranche B)		
6. Works for Parts 2.1, 2.2, 2.3 and 2.4	163 400 000	These works are financed by the EBRD (up to 50% of the contract amount, net of any tax) and the EIB.
7. Works for Part 2.5	21 700 000	These works are financed by the EBRD on 100% of the contract amount, net of any tax.
8. Supervision Services for Parts 2.1, 2.2, 2.3, 2.4 and 2.5	12 900 000	These services are financed by the EBRD on 100% of the contract amount, net of any tax.
9. Front-end Commission for Tranche B	2 000 000	These costs are financed by the EBRD 100% from the credit funds.
Part 3. Project Implementation Services		
Preparation of engineering design and tender documents for procurement of services and works for Part 1 and 2	(actual costs of Ukravtodor)	These services are financed by Ukravtodor
Project implementation assistance	(actual costs of Ukravtodor)	These services are financed by Ukravtodor
Total	450 000 000	

2. BASIC ACCOUNTING POLICIES

Amount and Currency of the Loan

By the Finance Contract the Bank provided the Borrower in the person of Ukravtodor, a credit in an amount of EUR 450 000 000 (four hundred fifty million EUR) to be used exclusively for the Project financing and under condition that the amount of the credit provided by the Bank, in any case does not exceed 50 % (fifty) of the total Project cost.

The credit will include two phases:

1. the First Project Phase, up to a maximum of EUR 200 000 000 (two hundred million euro);
2. the Second Project Phase, up to a maximum of EUR 250 000 000 (two hundred fifty million euro).

Basic Terms of the Loan

1.02A. Tranches

The Bank shall disburse the Credit in up to 20 Tranches. The amount of each Tranche, but the first Tranche, if not being the undrawn balance of the First Project Phase Credit or the Second Project Phase Credit, shall be in a minimum amount equivalent to EUR 20 000 000 (twenty million Euros).

1.02B. Disbursement Offer

From time to time up to 15 calendar days before (i) 31 December 2013 in relation to First Project Phase Tranches (hereinafter referred to as the "First Project Phase Final Availability Date") and (ii) the earlier of (a) three years from the Second Project Phase Credit Commencement Date (as defined

NOTES TO THE SPECIAL FINANCIAL STATEMENTS

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in Article 1.09) and (b) 31 December 2016 in relation to Second Project Phase Tranches (hereinafter referred to as the "Second Project Phase Final Availability Date" and each of the First Project Phase Final Availability Date and the Second Project Phase Final Availability Date hereinafter referred to as a "Final Availability Date"), at the Borrower's request, the Bank shall send to the Borrower a Disbursement Offer for the disbursement of a Tranche.

1.02C. Disbursement Acceptance

The Borrower may accept a Disbursement Offer by delivering a Disbursement Acceptance to the Bank no later than the Disbursement Acceptance Deadline.

1.02D. Disbursement Account

Disbursement shall be made to the account in EUR of the Borrower opened with any Ukrainian or foreign bank (the "EUR Collection Account") as the Borrower shall notify in writing to the Bank not later than 15 (fifteen) days before the Scheduled Disbursement Date (with IBAN code or with the appropriate format in line with local banking practice).

1.03. Currency of disbursement

Disbursement of each Tranche shall be made in EUR.

1.05A. Grounds for deferment

Upon the written request of the Borrower, the Bank shall defer the disbursement of any Accepted Tranche in whole or in part to a date specified by the Borrower being a date falling not later than 6 (six) months from its Scheduled Disbursement Date. In such case, the Borrower shall pay the deferment indemnity as determined pursuant to Article 1.05B below.

1.06A. Borrower's right to cancel

The Borrower may at any time by notice in writing to the Bank cancel, in whole or in part and with immediate effect, the undisbursed portion of the Credit. However, the notice shall have no effect in respect of an Accepted Tranche which has a Scheduled Disbursement Date falling within 5 (five) Business Days of the date of the notice.

1.07. Cancellation after expiry of the Credit

Any time following the expiry of a period of 4 (four) months after the Final Availability Date, the Bank may by notice to the Borrower and without liability arising on the part of either Party, cancel any part of the Credit in respect of which no Disbursement Acceptance has been made in accordance with subparagraph 1.02C, paragraph 1.02 Article 1.

1.08. Up-front fee

The Borrower shall pay to the Bank an up-front fee in an amount equivalent to 0.25% (25 basis points) of the amount of the Credit that is EUR 1 125 000 (one million one hundred and twenty five thousand Euros) for the establishment of the Credit under this Contract.

1.09. Commitment fee

The Borrower shall pay to the Bank a commitment fee in Euro as follows:

(a) 10 basis points (0.10 per cent.) p.a. on the available First Project Phase Credit for the period from 60 days from the date of this Contract until and including the First Project Phase Final Availability Date. The accrued First Project Phase Credit commitment fee is payable in arrears on the dates falling semi annually from the date of signature of this Contract or on the date of any cancellation or suspension of the First Project Phase Credit under para 1.05 Article 1 or para 1.06 Article 1; and

(b) 10 basis points (0.10 per cent.) p.a. on the available Second Project Phase Credit for the period from the date of confirmation by the Bank confirming that the conditions for disbursement under subparagraph 1.04B paragraph 1.04 article 1 have been met with regard to the Second Project Phase Credit (the "Second Project Phase Credit Commencement Date") up to and including the Second Project Phase Final Availability Date. The accrued Second Project Phase Credit commitment fee is payable in arrears on the dates falling semi annually from the Second Project Phase Credit Commencement Date or on the date of any cancellation or suspension of the Second Project Phase Credit under para 1.05 article 1 or para 1.06 article 1.

2.02. Currency of repayment, interest and other charges

NOTES TO THE SPECIAL FINANCIAL STATEMENTS

For the year ended 31 December 2018
in EURO

Interest, repayments and other charges payable in respect of each Tranche shall be made by the Borrower in the currency of the Tranche.

3.01. Rate of interest

The Borrower shall pay interest on the outstanding balance of each Floating Rate Tranche at the Floating Rate semi-annually in arrears on the relevant Payment Dates, as specified in the Disbursement Offer commencing on the first such Payment Date following the date of disbursement of the Tranche. If the period from the date of disbursement to the first Payment Date is 30 days or less then the payment of interest accrued during such period shall be postponed to the following Payment Date.

4.01. Normal repayment by installments

(a) The Borrower shall repay each Tranche by installments on the Payment Dates specified in the relevant Disbursement Offer in accordance with the terms of the amortization table delivered pursuant to para 2.03 article 2.

(b) The amortization table shall be drawn up on the basis that:

(i) repayment shall be made by equal semi-annual installments of principal; and

(ii) the first repayment date of each Tranche shall be a Payment Date falling not later than the first Payment Date immediately following the 5th (fifth) anniversary of the Scheduled Disbursement Date of the Tranche and the last repayment date shall be a Payment Date falling not earlier than 4 (four) years and not later than 20 (twenty) years from the Scheduled Disbursement Date.

5.01. Day count convention

Any amount due by way of interest, indemnity or fee from the Borrower under this Contract, and calculated in respect of a fraction of a year, shall be determined on the following respective conventions: for a Floating Rate Tranche, a year of 360 (three hundred and sixty) days and the number of days elapsed.

Basis of preparation

Special financial statements have been prepared on a cash basis of accounting. The accounting policy had been applied consistently during the whole period of the Loan drawdown.

Reporting period

This report covers the period of using the Loan drawdown ended 31 December 2016. Effective date of commencement of cash transactions with respect to the Project is 05 July 2012.

Income and expense recognition

Inflows are stated whenever they are carried at bank accounts. Expenses are recognized when funds are withdrawn from accounts.

Change of cost of works contracts

Para.13.1, 13.2 "Variations Orders" of Part A "General conditions of the Contract", Part B "Special conditions of the Contract" of "Conditions of contract for construction for building and engineering works" by International Federation of Consulting Engineers (first edition dated 1999) provide a mechanism to increase / decrease the contract price due to changes in volumes of any works, their nature, quality, additional costs for implementation of additional works and changes in the sequence or schedule of the construction.

Expenses recognition, accrual method/cash method

When calculating the amount of remuneration of Contractors on interim payment certificates, a mixed approach was used in recognition of Ukravtodor expenses and, respectively, Contractors' fees:

Total cost of work during the period was adjusted by adding / subtracting certain amounts, such as:

- According to the terms of Contractor's Agreements an advance was remitted to the Contractors in amount of 10% from the Contractual cost. Afterwards, when the Contractor was paid not less than 20% from the Contractual amount, cost of payments under payment certificates decreased by 20% from the fee to the Contractor in this certificate to full amortization of the advance amount;
- In accordance with p.14.3 "Application for Interim Payment Certificates" of Part A "General conditions of the Contract", Part B "Special conditions of the Contract" of "Conditions of contract for construction for building and engineering works" by International Federation of consulting engineers (first edition dated 1999), the mechanism of deduction of part of accrued compensation cost to the

NOTES TO THE SPECIAL FINANCIAL STATEMENTS

For the year ended 31 December 2018
in EURO

Contractor with the purpose of quality assurance of performed works, and step-by-step payment of this deduction - half after the acceptance certificate for all objects is issued by the Engineer and another half after the Defects Liability Period

Under the terms of the contract, the amount of retention for each certificate of payment is 10% of previously accrued payment to Contractor. Limit of retention - 5% of the total contract amount.

3. CONSTRUCTION WORKS

Construction works on EIB loans was carried out on the basis of three contracts in 2018. The contracts provide Defects Liability Period, duration 365 days from the moment of signing the Act of acceptance of the road section into operation. During this period, the Contractors undertake to eliminate all defects that arose from their fault during construction, as well as complete all non-essential works that were not completed at the time of acceptance.

The contract between Ukravtodor and Altcom Road Construction LLC (Ukraine), (hereinafter referred to as Contract No. 6). The contract stipulates construction works on the section of the Road M05 Kiev-Odesa at sites km 87 - km 42 and km 36 - km 18 according to Part 2.3 of the Project. In fact, construction work under Contract No. 6 was started in accordance with the order of Engineer (Consultant - High Point Rendel Contract, January 25, 2013) from July 30, 2013.

Contracts No. 6 during July-August 2015 were amended - the terms of construction work were extended for 250 days - for 37 days in connection with the delay of payment by the Customer of down payment in favor of the contractor and for 213 days in connection with force- Major circumstances of the Contractor in connection with access to their assets located in the temporarily occupied territory of the Donetsk region. The Contractor, in accordance with the terms of the Contract (Article 19.1 of the General Conditions of the Contract), sent the Customer and the Engineer the requirement to provide additional time for the implementation of the construction program, arguing that they need to re-register their office and move from their occupied territories assets, mobilize equipment and other resources necessary for construction work. Upon proper assessment by the Engineer of the Contractor's requirements regarding delay in payment of advance payments and force majeure, Ukravtodor has been advised on the legality and validity of such claims. After appropriate consultations with the Banks, it was agreed to extend the terms of work for 250 days until November 27, 2015. The above changes resulted in an increase in the total value of the Contract at EUR 1 626 430. In 2016, the value of the Contract was increased by EUR 2 471 714 due to additional work that was not provided for in the project documentation in accordance with the Contract. After consultation with the Contractor, Supervisory Consultants and the Bank between Ukravtodor and the Contractor, an additional agreement No. 2 was concluded in December 2016.

According to the Contract, as of May 28, 2013, the contract for the major repair of the motorway M05 Kyiv-Odesa on the site (km 17 + 740 - km 36 + 500 km 42 + 000 - km 58 + 000 km 58 + 000 - 87+ 000), "Road construction by Altcom" transferred the rights and obligations of the Contractor of the company, "Taahhut Tasimacilik ve Ticaret Ltd", in accordance with Contract No. 7 (hereinafter referred to as Contract No. 7) as part of the capital repairs. The marginal value of the contract is EUR 14,048,376.

Realization status: open traffic on the section km 17 + 740 - km 36 + 500. Basic construction works on the Contract Area has been completed on 09.09.2018 and the Contractor Engineer has issued an Acceptance Certificate for works under the Contract. From September 20, 2018, the period of responsibility for defects began for 1 year.

According to the Supplement No. 6 dated 17.10.2017 to the contract agreement dated May 28, 2013, the Contractor (Altcom Company) had to complete the works on Lots 2 and 3 until 15.11.2017. However, the work was not completed. The total amount of work performed under the Contract (Lots 2, 3) is roughly 60%.

07.12.2018 The Customer and the Contractor (Altcom Company) signed the Supplement No. 7, the terms of which stipulate the completion of works on Lots 2 and 3 until 31.10.2018. The addition also provides for a penalty of € 9.86 million from the Contractor in connection with the untimely completion of work and compensation of the customer costs of € 1,035 million. As of October 31, 2018, due to the extremely slow performance of work on the parts of the Contract during the current year, these works were not completed. So, according to the Engineer's Service, as at 31.10.2018, the Contractor in 2018 completed only 11% of the work that was supposed to be carried out. Failure by the Contractor to comply with the terms of Supplement No. 7 provides for the termination of the Contract.

In accordance with the terms of the Agreement on the assignment of rights and obligations in the contract for Lot 1 from 10.17.2017, Altcom had to transfer to Onur a copy of the working and executive documentation for performance of work within seven working days from the date of signing this Agreement. However, until now, this issue remains unresolved.

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On 8 July 2018 was a meeting with the participation of representatives of the Customer, the PIU, the Engineer, Ukrdiprodor and the Contractors (Altkom, Onur) took place in the Ukravtodor premises. At the specified meeting, agreements were reached on the transfer of the electronic version of the work drawings by LLC Altkom (the developer of the Ukrdiprodor State Enterprise) to the Onur Company after the payment of the project work. According to the information available, LLC "Altkom" paid the design work of the State Enterprise "Ukrdiprodor", but by this time remained.

4. SERVICES

Co-financing of Supervision Services under the Contract High Point Rendel from the EIB funds

For construction works of Part 2.3 of the Project in May 2013 between Ukravtodor and Contractor - LLC "Road Construction Altkom" (Ukraine) the contract No1 (2) was signed. To provide supervision of construction works of the Contractor, in January 2013 between Ukravtodor and the company «High Point Rendel» HPR contract was concluded. As anticipated by the budget of the Loan Agreement between Ukraine and EBRD, all financing costs of supervision of construction works on Part 1 and 2 shall be financed through the EBRD loan funds. During June-July 2013, the Consultant and Contractor commenced construction works and supervision services under the terms of the contracts. Since at the start of works on Part 2.3 of the Project Tranche B, which under the terms of the loan agreement with EBRD was intended to pay for all the costs of Part 2 of the Project, has not yet entered into force, Ukravtodor and the Ministry of Finance of Ukraine appealed to the EBRD and the EIB to consider the possibility of co-financing of costs of the Consultant services from EIB funds. By the letter dated 25 October 2013, the EIB approved the co-financing possibility of up to 50% of the total costs of the project (on an accrual basis for Phase 1 and Phase 2 of the Project), having mentioned that according to Annex A to the Financial Agreement, Supervision Services are included in the Project. In the letter dated 28 November 2013, the EBRD also approved the possibility of co-financing of any components of the project, having mentioned that under Annex 2 to the Loan Agreement between Ukraine and the EBRD maximum shares are established to be financed by EBRD for each category of the Project

5. BALANCE OF FUNDS IN PART OF EIB FINANCING IN PJSC BG BANK

The Financial Agreement concluded between Ukraine and the EIB provides that works on Part 1 and 2 will be partially financed by the EIB loan funds. For the settlements from the EIB loan funds and in accordance with the terms of the Financial Agreement between the Ministry of Finance of Ukraine and PJSC BG Bank in July 2012 the bank account Contract №104/44/15010-036/74 was concluded under the terms of which the bank account was opened №252333015720 in PJSC BG Bank (hereinafter – BG Bank).

During 2014, PJSC BG Bank repeatedly delayed payment of funds for project works performed. Ukravtodor repeatedly informed the Ministry of Finance of Ukraine of that fact, in particular, by letters in September and October 2014, having indicated that such delays lead to additional costs from the budget for repayment of the EIB loan liabilities.

Due to the deteriorating financial condition of PJSC BG Bank and received complaints about the failure of BG Bank to meet its obligations, by the Decree №745 dated 27 November 2014, the Board of the National Bank of Ukraine (hereinafter – NBU) decided to refer BG Bank to the category of insolvent banks. By the above resolution the NBU, in order to protect the interests of creditors and depositors of BG Bank, has introduced a special regime of control over the activities of BG Bank through the appointment of curators – NBU officials. In accordance with the Ukrainian legislation, upon the decision of the NBU to transfer BG Bank to the category of insolvent banks, the executive management of the Deposit Insurance Fund (hereinafter – the Fund), by the decision №131 dated 27 November 2014 introduced a temporary administration in BG Bank and appointed an authorized person of the Fund for the temporary administration for a period of 3 months, beginning from 28 November 2014 to 27 February 2015. As of 28 November 2014 on account in BG Bank there were cash balances obtained from the EIB Loan in amount of 13 305 425 Euro.

The Ministry of Finance of Ukraine by the letter dated 28 November 2014 appealed to the Fund, where it is stated that on the accounts of PJSC BG Bank there are funds that were received within the Financial Agreement "European roads of Ukraine II" and asked the Fund, in order to prevent the possible loss of budget funds and to avoid complications with international financial organizations on further cooperation, to take appropriate measures regarding the obligations of PJSC BG Bank and the possibility to use the funds in full. The Fund by the letter in January 2015 informed the Ministry of Finance of Ukraine that under current legislation transactions to transfer funds from the accounts of legal entities in PJSC BG Bank are subject to the limitations and therefore the Fund is not able to satisfy the request of the Ministry of Finance of Ukraine.

According to the NBU Resolution №134 dated 26 February 2015, it was decided to revoke the banking license and liquidate PJSC BG Bank. According to Ukrainian law, by the executive directorate of the Fund the decision was made №43 dated 27 February 2015 to open the procedure of liquidation of PJSC BG Bank and the

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authorized person of the Fund was appointed for the liquidation of the bank for a period of one year from 27 February 2015 to 26 February 2016.

To prevent loss of funds in PJSC BG Bank in amount of 13 305 425 Euro, the Ministry of Finance of Ukraine and Ukravtodor on 30 March 2015, pursuant to applicable law filed a joint statement on recognition of monetary claims of the Ministry of Finance of Ukraine and Ukravtodor to the authorized person of the Fund for the liquidation of PJSC BG Bank. In the statement the Ministry of Finance of Ukraine together with Ukravtodor asked the Fund to recognize them as creditors of PJSC BG Bank totaling 13 305 425 Euro and to transfer these funds to the opened with the Ministry of Finance of Ukraine for Project Servicing settlement account in JSC Ukreximbank.

To prevent possible loss of budget funds in the account in PJSC BG Bank, and for continuous monitoring of the process, the Ministry of Finance of Ukraine held a number of meetings with representatives of the Security Service of Ukraine, PJSC BG Bank, the EIB and the Fund. At the date of issue of the Special Financial Statements cash related to the Project were not returned, the liquidation proceedings of PJSC BG Bank is still in place. As expected, in the case of failure to return cash of the Project to PJSC BG Bank, the Ministry of Finance may approve the decision on the inclusion in the draft State Budget of Ukraine for 2016 respective expenditures to finance the project costs that would have been paid from the blocked funds of PJSC BG Bank.

The state budget for the budget program 3511680 (financing by the European Investment Bank projects) provided funds under the Cabinet of Ministers of Ukraine dated 3 1.08.2016 №573 "On approval of the use of funds provided by the state budget for financing of projects joint with the European Investment bank" can be used also for payments to contractors, suppliers of goods, works and services under contracts that have been concluded by Ukravtodor per results of procurement under the rules of the European Bank for Reconstruction and Development in accordance with paragraph 6.04 of Article 6 "Procedure for procurement" of the Financing Agreement between Ukraine and the European Investment Bank within the "Ukraine - European roads in Ukraine II" project.

Contract №13010-05/II1 dated 18 November 2016 for co-financing of the joint with the European Investment Bank project "Ukraine - European roads Ukraine II (Project to improve transport and operating condition of roads on the approaches to Kiev)" between the Ministry of Finance of Ukraine and the State Road Agency of Ukraine. According to the Contract the Ministry of Finance allocates budget funds provided by the budget program 3511680 within the public assignments and in the amount determined by the Ministry of Finance on the basis of submitted by Ukravtodor grounds within 13 305 424 Euro.

In 2016 according to the agreement between the Ministry of Finance of Ukraine and the State Road Agency of Ukraine works were paid to contractors in the amount of 7 160 833 Euro.

In 2017 Ukravtodor paid IPC №19 (Part 2.4, Contract №8) in amount of 1 445 349 Euro though the mentioned co-financing agreement.

In 2018, Ukravtodor paid an amount of EUR 4,699,242.51 in accordance with the co-financing agreement. As of December 31, 2012, the budget program 3511680 has been fully used.

Balance as of 01.01.2015 at BG Bank	EUR	13 305 424,63	
In total, in the bank bankrupt			13 305 424,63

Using the balance of BG Bank for
KPKVKE 3511680

28.12.2016	EUR	3 003 622,93	
28.12.2016	EUR	2 216 433,62	
28.12.2016	EUR	1 940 776,63	
26.05.2017	EUR	1 445 348,94	
27.07.2018	EUR	1 198 726,11	
12.06.2018	EUR	1 000 442,46	
18.06.2018	EUR	1 064 479,58	
24.07.2018	EUR	680 194,94	
13.11.2018	EUR	684 639,42	
20.12.2018	EUR	70 760,00	
Total for KPKVKE 3511680			13 305 424,63

Balance

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6. FINANCING OF CONSTRUCTION WORKS FROM THE STATE BUDGET

Under the terms of the Loan Agreement Ukravtodor pays any taxes that may arise in connection with the implementation of the Project. In 2018, Ukravtodor paid VAT to the Contractors in amount of EUR 1 138 374 from the State Budget.

Additionally, in 2018 Ukravtodor paid amount of EUR 4 699 242,51 though the mentioned co-financing agreement between the Ministry of Finance of Ukraine and the State Road Agency of Ukraine (See details in section "Balance of funds in part of EIB financing in PJSC BG BANK").

7. EIB LOAN MOVEMENTS AND INTEREST REPAYMENT

The table below shows the EIB loan movements in 2018.

Item	Loan principal as at 01.01.2018	Drawdowns	Loan principal repayment, 2018	Loan principal as at 31.12.2018
Loan principal movement	170 277 994	-	(9 066 667)	161 211 327

Note:

Tranche A (Phase I)			(9 066 667)	
Tranche B (Phase II)			-	

The table below shows interest and commitment fees' accrue ment or repayment in 2018

Item	Unpaid amount as at 01.01.2018	Accrued in 2018	Paid in 2018	Unpaid amount as at 31.12.2018
Interests	-	725 268	(725 268)	-
Commitment fees	-	-	-	-
Total	-	725 268	(725 268)	-