

**INDEPENDENT AUDITOR'S REPORT
on the Foundation "Bureau of Economic Analysis"
Statements under
Second National Hydromet Modernization Project**

**To the Founders of
Foundation "Bureau of Economic Analysis"**

Dated July 30, 2015

Data on audited entity

| | |
|---------------------------|--|
| Full name | Foundation "Bureau of Economic Analysis" |
| Abbreviated name | BEA Foundation |
| State registration | Certificate on state registration 77 № 007858322 of September 26, 2002 issued by Moscow Interdistrict Tax Inspection of Russia № 39; It is entered into the Uniform State Register of legal bodies under basic state registration number 1027739268644. |
| Location | bld.3, 27, Zubovskiy boulevard, Moscow, the Russian Federation, 119021 |
| Mail address | bld.3, 27, Zubovskiy boulevard, Moscow, the Russian Federation, 119021 |

Data on auditor

| | |
|---|---|
| Full name | Limited Liability Company «Nexia Pacioli» |
| Abbreviated name | «Nexia Pacioli» LLC |
| State registration | Certificate on state registration № 856.235 of June 23, 1995 issued by Moscow Registration Chamber; Certificate on state registration 77 №005390060 of October 22, 2002 issued by Moscow Interdistrict Tax Inspection of Russia №39; It is entered into the Uniform State Register of legal bodies under basic state registration number 1027739428716. |
| Location | 2, Malaya Polyanka, Moscow, the Russian Federation, 119180 |
| Mail address | 2, Malaya Polyanka, Moscow, the Russian Federation, 119180 |
| Membership in the self-regulating organization of auditors | Is a member of self-regulating organization of auditors the Non-commercial partnership «Institute of Professional Auditors»; It is entered into the Register of Auditors and the Audit Organizations of the specified self-regulating organization of auditors in October 30, 2009 under basic registration number 10202000073. |

We have audited the accompanying BEA Foundation statements under Second National Hydromet Modernization Project (hereinafter – Project), which comprise:

- Project Sources and Uses of Funds as of December 31, 2014 in USD’000 (Annex 1);
- Project Sources and Uses of Funds as of December 31, 2014 in RUR’000 (Annex 2);
- Statement of Expenditure Detail as of December 31, 2014 in USD’000 (Annex 3);
- Statement of Expenditure Detail as of December 31, 2014 in RUR’000 (Annex 4);
- Designated Account Statement for the reported period from May 08, 2014 till December 31, 2014 in USD (Annex 5);
- Statement of Expenses (SOE) Withdrawal Schedule for the reported period from May 08, 2014 till December 31, 2014 in USD (Annex 6);
- Notes to the Project Financial Statements.

As described in item 2.2. of the Notes to the Project Financial Statements, accounting policy is to prepare the accompanying special-purpose financial statements on the basis of cash method of receipts and disbursements.

The statements have been prepared by Management of Foundation “Bureau of Economic Analysis” based on the financial reporting provisions in Loan Agreement № 8291-RU of January 17, 2014 and requirements specified in the Guidelines on annual financial reports and audit regarding activity financed by the World Bank.

Management’s Responsibility for the Statements

Management is responsible for preparation and fair presentation of these special-purpose financial statements in accordance with the financial reporting provisions in Loan Agreement № 8291-RU of January 17, 2014 and requirements specified in the IBRD Guidelines, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor’s responsibility

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

Audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the statements, whether due to fraud or error. In making those risk assessments the auditor considers internal control relevant to the Foundation “Bureau of Economic Analysis” preparation of the 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 BEA Foundation’s internal control.

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 statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

«Nexia Pacioli» LLC

Audit report on the statements of Foundation "Bureau of Economic Analysis" under Second National Hydromet Modernization Project for the period from May 08, 2014 till December 31, 2014

Opinion

In our opinion, the BEA Foundation statements under Second National Hydromet Modernization Project for the reported period from May 08, 2014 till December 31, 2014 are prepared in all material respects fairly in accordance with the requirements contained in Loan Agreement № 8291-RU of January 17, 2014 and the Guidelines to the annual financial statements and audit in respect of the activities financed by the World Bank.

Basis of Preparation


The statements are prepared to reflect observance by the audited entity of the requirements specified in Loan Agreement № 8291-RU of January 17, 2014 and the Guidelines on annual financial reports and audit regarding activity financed by the World Bank. As a result, the statements may not be suitable for another purpose.

Other information

In the Auditor's report on the Foundation "Bureau of Economic Analysis" Statements under Second National Hydromet Modernization Project, issued on June 5, 2015 in the "Basis of Preparation and Restrictions on Distribution and Use " indicated that the Auditor's report was intended solely for the Foundation "Bureau of Economic Analysis" and the World Bank.

This Auditor's report is revised in the delisting of the Information on restrictions on the distribution and use.

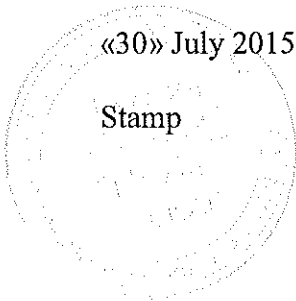
Deputy General Director of «Nexia Pacioli» LLC
(auditor qualification certificate
№ 02-000315, unlimited
Included into the Register of Auditors and Audit
Organizations of NP "IPAR" under basic registration
number 29402001055)



Yulia V. Emelyanova

«30» July 2015

Stamp



Foundation "Bureau of economic analysis"
Second National Hydromet Modernization Project (RHM-2 Project)
IBRD Loan № 8291-RU

Financial Statements for the reported period from May 08, 2014 till December 31, 2014

Table of Contents

| № | Statement Name | Reporting Currency |
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| 1 | Project Sources and Uses of Funds | USD'000 |
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| 3 | Statement of Expenditure Detail | USD'000 |
| 4 | Statement of Expenditure Detail | RUR'000 |
| 5 | Designated Account Statement | USD |
| 6 | Statement of Expenses (SOE) Withdrawal Schedule | USD |
| | Notes to the Project Financial Statements | |

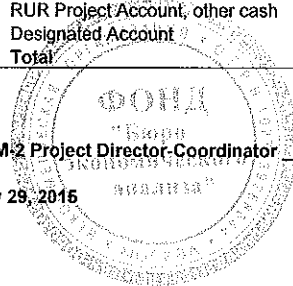
Project Sources and Uses of Funds
 as of December 31, 2014

USD'000

| | Actual | | Budget | | Variation | | Planned for Project life |
|---|-----------------|--------------------|-----------------|--------------------|-----------------|--------------------|--------------------------|
| | Reported period | Cumulative-to-Date | Reported period | Cumulative-to-Date | Reported period | Cumulative-to-Date | |
| Opening Cash Balance | | | | | | | |
| RUR Project Account, other cash | - | - | - | - | - | - | - |
| Designated Account | - | - | - | - | - | - | - |
| Total | - | - | - | - | - | - | - |
| Add: | | | | | | | |
| Sources of Funds | | | | | | | |
| Government of Russia (GOR) co-financing funds | 328 | 328 | 1 704 | 1 704 | 1 376 | 1 376 | 79 535 |
| IBRD Funds | 304 | 304 | 1 286 | 1 286 | 982 | 982 | 60 000 |
| Total | 632 | 632 | 2 990 | 2 990 | 2 358 | 2 358 | 139 535 |
| Less: | | | | | | | |
| Uses of IBRD Loan Funds | | | | | | | |
| Category 1. Goods, non-consulting services, consulting services, training | 16 | 16 | 1 024 | 1 024 | 1 008 | 1 008 | 57 895 |
| Category 2. Operating costs | 137 | 137 | 262 | 262 | 125 | 125 | 2 105 |
| Total | 153 | 153 | 1 286 | 1 286 | 1 133 | 1 133 | 60 000 |
| Uses of GOR co-financing Funds | | | | | | | |
| Category 1. Goods, non-consulting services, consulting services, training | 21 | 21 | 1 356 | 1 356 | 1 335 | 1 335 | 76 744 |
| Category 2. Operating costs | 182 | 182 | 348 | 348 | 166 | 166 | 2 791 |
| Total | 203 | 203 | 1 704 | 1 704 | 1 501 | 1 501 | 79 535 |
| Uses of IBRD Loan and GOR co-financing Funds | | | | | | | |
| Category 1. Goods, non-consulting services, consulting services, training | 37 | 37 | 2 380 | 2 380 | 2 343 | 2 343 | 134 639 |
| Category 2. Operating costs | 319 | 319 | 610 | 610 | 291 | 291 | 4 896 |
| Total | 356 | 356 | 2 990 | 2 990 | 2 634 | 2 634 | 139 535 |
| Add: | | | | | | | |
| Exchange rate difference | (21) | (21) | - | - | - | - | - |
| Closing Cash Balance | | | | | | | |
| RUR Project Account, other cash | 104 | 104 | - | - | - | - | - |
| Designated Account | 151 | 151 | - | - | - | - | - |
| Total | 255 | 255 | - | - | - | - | - |

RHM-2 Project Director-Coordinator

May 29, 2015



A.Y. Vasiliev
 A.Y. Vasiliev

Financial Director

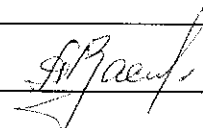
N.A. Vinogradova
 N.A. Vinogradova

Project Sources and Uses of Funds
 as of December 31, 2014


RUR'000

| | Reported period | Cumulative-to-date |
|---|-----------------|--------------------|
| Opening Cash Balance | | |
| RUR Project Account, other cash | - | - |
| Designated Account | - | - |
| Total | - | - |
| Add: | | |
| Sources of Funds | | |
| Government of Russia (GOR) co-financing funds | 14 372 | 14 372 |
| IBRD Funds | 11 969 | 11 969 |
| Total | 26 341 | 26 341 |
| Less: | | |
| Uses of IBRD Loan Funds | | |
| Category 1. Goods, non-consulting services, consulting services, training | 770 | 770 |
| Category 2. Operating costs | 5 659 | 5 659 |
| Total | 6 429 | 6 429 |
| Uses of GOR co-financing Funds | | |
| Category 1. Goods, non-consulting services, consulting services, training | 1 022 | 1 022 |
| Category 2. Operating costs | 7 501 | 7 501 |
| Total | 8 523 | 8 523 |
| Uses of IBRD Loan and GOR co-financing Funds | | |
| Category 1. Goods, non-consulting services, consulting services, training | 1 792 | 1 792 |
| Category 2. Operating costs | 13 160 | 13 160 |
| Total | 14 952 | 14 952 |
| Add: | | |
| Exchange rate difference | 2 946 | 2 946 |
| Closing Cash Balance | | |
| RUR Project Account, other cash | 5 849 | 5 849 |
| Designated Account | 8 486 | 8 486 |
| Total | 14 335 | 14 335 |

RHM-2 Project Director/Coordinator


 A.Y. Vasiliev

Financial Director


 N.A. Vinogradova

May 29, 2015

Statement of Expenditure Detail

as of December 31, 2014

USD'000

| Project Components and Activities | Actual | | Budget | | Variation | | Planned for Project life according to Proc. Plan in operation as of December 31, 2014 |
|---|-----------------|--------------------|-----------------|--------------------|-----------------|--------------------|---|
| | Reported period | Cumulative-to-Date | Reported period | Cumulative-to-Date | Reported period | Cumulative-to-Date | |
| COMPONENT A | | | | | | | |
| Strengthening Information Communication Technology (ICT) Infrastructure and systems delivering weather, climate and hydrological data and information | | | | | | | |
| A1. Strengthening technical capacity for operational hydrometeorological forecasting, research on climate and climate change | - | - | - | - | - | - | 33 900 |
| A2. Development of regional data storage and archiving systems for improved operational user access to Roshydromet's information resources | - | - | - | - | - | - | 3 500 |
| A3. Improvement of Roshydromet's Integrated information and telecommunication system | - | - | - | - | - | - | 8 000 |
| Subtotal for Component A | - | - | - | - | - | - | 45 400 |
| COMPONENT B | | | | | | | |
| Modernization of observation networks | | | | | | | |
| B 1. Improvement of the meteorological observation network | - | - | 250 | 250 | 250 | 250 | 17 100 |
| B 2. Improvement of the upper air observation network | - | - | 750 | 750 | 750 | 750 | 17 500 |
| B 3. Upgrading of regional operational forecasting units | - | - | - | - | - | - | 1 500 |
| B 4. Modernization of the hydrological network | - | - | 750 | 750 | 750 | 750 | 37 535 |
| Subtotal for Component B | - | - | 1 750 | 1 750 | 1 750 | 1 750 | 73 635 |
| COMPONENT C | | | | | | | |
| Institutional and regulatory strengthening, improvement of service delivery to clients and better preparedness for emergencies | | | | | | | |
| C 1. Roshydromet's institutional and regulatory strengthening | 26 | 26 | 430 | 430 | 404 | 404 | 4 900 |
| C 2. Improvement of service delivery to clients | - | - | - | - | - | - | 2 230 |
| C 3. Improvement of the emergency preparedness system | - | - | - | - | - | - | 6 070 |
| C 4. Strengthening operational capacity, research and development of Roshydromet's system | - | - | - | - | - | - | 750 |
| Subtotal for Component C | 26 | 26 | 430 | 430 | 404 | 404 | 13 950 |
| COMPONENT D Project management | | | | | | | |
| D 1. Systems Integrator services | - | - | 90 | 90 | 90 | 90 | 904 |
| D 2. Services of individual consultants | - | - | 10 | 10 | 10 | 10 | 200 |
| D 3. Documentation translation services | 11 | 11 | 50 | 50 | 39 | 39 | 250 |
| D 4. PIU office equipment | - | - | 50 | 50 | 50 | 50 | 150 |
| D 5. Audit | - | - | - | - | - | - | 150 |
| D 6. Operating costs | 319 | 319 | 610 | 610 | 291 | 291 | 4 896 |
| Subtotal for Component D | 330 | 330 | 810 | 810 | 480 | 480 | 6 550 |
| Total for the Project | 356 | 356 | 2 990 | 2 990 | 2 634 | 2 634 | 139 535 |

RHM-2 Project Director/Coordinator

A.Y.Vasiliev

Financial Director

N.A.Vinogradova

May 29, 2015

Statement of Expenditure Detail

as of December 31, 2014

RUR'000

| Project Components and Activities | Fact | |
|---|-----------------|--------------------|
| | Reported period | Cumulative-to-Date |
| COMPONENT A | | |
| Strengthening Information Communication Technology (ICT) infrastructure and systems delivering weather, climate and hydrological data and information | | |
| A1. Strengthening technical capacity for operational hydrometeorological forecasting, research on climate and climate change | - | - |
| A2. Development of regional data storage and archiving systems for improved operational user access to Roshydromet's information resources | - | - |
| A3. Improvement of Roshydromet's integrated information and telecommunication system | - | - |
| Subtotal for Component A | - | - |
| COMPONENT B | | |
| Modernization of observation networks | | |
| B 1. Improvement of the meteorological observation network | - | - |
| B 2. Improvement of the upper air observation network | - | - |
| B 3. Upgrading of regional operational forecasting units | - | - |
| B 4. Modernization of the hydrological network | - | - |
| Subtotal for Component B | - | - |
| COMPONENT C | | |
| Institutional and regulatory strengthening, improvement of service delivery to clients and better preparedness for emergencies | | |
| C 1. Roshydromet's institutional and regulatory strengthening | 1 279 | 1 279 |
| C 2. Improvement of service delivery to clients | - | - |
| C 3. Improvement of the emergency preparedness system | - | - |
| C 4. Strengthening operational capacity, research and development of Roshydromet's system | - | - |
| Subtotal for Component C | 1 279 | 1 279 |
| COMPONENT D Project management | | |
| D 1. Systems Integrator services | - | - |
| D 2. Services of individual consultants | - | - |
| D 3. Documentation translation services | 513 | 513 |
| D 4. PIU office equipment | - | - |
| D 5. Audit | - | - |
| D 6. Operating costs | 13 160 | 13 160 |
| Subtotal for Component D | 13 673 | 13 673 |
| Total for the Project | 14 952 | 14 952 |

RHM-2 Project Director/Coordinator

A.Y. Vasiliev

Financial Director

N.A. Vinogradova

May 29, 2015

Designated Account (DA) Statement

for the reported period from May 08, 2014 till December 31, 2014

Designated Account № 40703840738000069444 in USD
Bank: Bank: Savings Bank of the Russian Federation

USD

Designated Account opening balance as of May 08, 2014

Total credits (add):

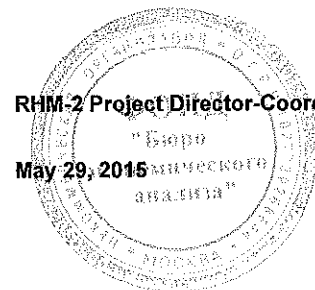
| | | |
|---|-------------------|-------------------|
| IBRD advance to DA during the period | 200 000,00 | |
| IBRD replenishments of DA during the period | 103 644,51 | |
| | <u>303 644,51</u> | <u>303 644,51</u> |

Total debits (less):

| | | |
|--|-------------------|-------------------|
| Refund to IBRD from DA during the period | - | |
| IBRD eligible expenditures paid from DA during the period | 152 813,57 | |
| IBRD funds converted into Russian rubles (drawn from DA to RUR Project account as of December 31, 2014) | 5,58 | |
| | <u>152 819,15</u> | <u>152 819,15</u> |

Designated Account closing balance as of December 31, 2014

150 825,36



RHM-2 Project Director-Coordinator

A.Y. Vasiliev

Financial Director

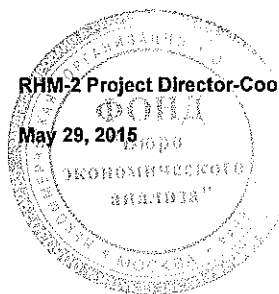
N.A. Vinogradova

Statement of Expenses (SOE) Withdrawal Schedule

for the reported period from May 08, 2014 till December 31, 2014

USD

| Application for withdrawal of Loan № 8291 proceeds | Loan Category | | Total |
|--|---|----------------------|-------------------|
| | 1 Goods, non-consulting services, consulting services, training | 2 Operating costs | |
| 2 | 2 641,17 | 101 003,34 | 103 644,51 |
| 3 | 13 087,07 | 36 081,36 | 49 168,43 |
| Total | 15 728,24 | 137 084,70 | 152 812,94 |



RHM-2 Project Director-Coordinator

May 29, 2015

A.Y. Vasiliev
 A.Y. Vasiliev

Financial Director

N.A. Vinogradova
 N.A. Vinogradova

Notes to the Financial Statements

Note 1

Project Objectives and Legal Framework

The Second National Hydromet Modernization Project (RHM-2 Project or Project) is regarded as a continuation of the National Hydromet Modernization Project.

The main objective of the Project is the further development of national capacities for the provision of reliable and timely meteorological, hydrological and climate information to the population and different sectors of the economy of the country along with increasing opportunities for the integration of Russia into the global system of provision meteorological services.

The Project is subdivided into four components:

Component A. Strengthening Information Communication Technology (ICT) infrastructure and systems delivering weather, climate and hydrological data and information;

Component B. Modernization of observation networks;

Component C. Institutional and regulatory strengthening, improvement of service delivery to clients and better preparedness for emergencies;

Component D. Project management.

The Project is financed jointly by the Russian Federation and the International Bank for Reconstruction and Development (IBRD). IBRD has extended the Loan № 8291-RU (IBRD Loan № 8291-RU or Loan) in the equivalent of USD 60,000,000.00 to finance the Project. The co-financing of the Project from the Federal budget of the Russian Federation (co-financing of RF or Government of Russian Federation (GOR) co-financing funds) comprises the RUR equivalent of USD 79,534,884.00. According to the agreed minutes of negotiations between Russian Federation and IBRD, held in the year 2013, the total Project Budget comprises the IBRD Loan № 8291-RU and Russian Federation funds in the amount of USD 139,534,884.00.

General management and strategic supervision over the Project as well as approval of annual work plans and programs is vested with RHM-2 Project Management Committee which has been set up by RosHydromet executive order. It comprises representatives of agencies participating in the Project: RosHydromet, the Ministry of natural resources and environment of Russia, the Ministry

of Finance of Russia, the Ministry of Economic Development of Russia as well as representatives of PIU BEA Foundation.

Foundation "Bureau of Economic Analysis" (BEA Foundation) acts as a Project Implementation Unit in compliance with the Loan Agreement. According to its Charter BEA Foundation is a legal entity set up as a non-profit foundation and registered by the Ministry of Justice of the Russian Federation in 1996.

According to the Loan # 8291-RU Agreement the Ministry of Finance of Russian Federation (Ministry of Finance of Russia) and RosHydromet signed with BEA Foundation on April 09, 2014 the Agency Agreement № 01-01-06/17-108 (Agency Agreement), where the responsibilities of BEA Foundation in such areas as procurement, financial management, Project funds disbursement and reporting are specified.

In accordance with the Agency Agreement, BEA Foundation on behalf of the Trustees (Ministry of Finance of Russia and Roshydromet) performs legal and other actions related to Project implementation in accordance with the Loan Agreement and the Agency Agreement. All Project funds inclusive the Loan funds and the co-financing of RF funds as well as the assets purchased out of them, belong to the Russian Federation and do not belong to BEA Foundation as a legal entity. BEA Foundation does not derive any income from its PIU activities which are fully financed from the Project Operating costs (Component D Project management) sources of funds.

In the process of the Project implementation BEA Foundation is bound by financial covenants set forth in the Agency Agreement. BEA Foundation is responsible for preparation of annual Project Financial Statements (Financial Statements) and their submission to the IBRD, The Ministry of Finance of Russia, Roshydromet together with auditors' report prepared by independent auditors.

The Loan Agreement between the Russian Federation and IBRD for purpose of the Project financing (Loan № 8291-RU Agreement or Loan Agreement) was signed on January 17, 2014 and was effective on May 08, 2014. According to the Loan № 8291-RU Agreement, the Project shall be completed by December 31, 2018.

Note 2

Compliance Statement and Compilation Principles

2.1. Compliance with IBRD Guidelines

Financial statements are compiled in compliance with the IBRD Guidelines.

2.2. Cash Accounting and Financial Reporting

These financial statements are based on cash accounting and reporting model, which is acceptable under IBRD Guidelines for IBRD non-revenue-earning and non-commercial projects.

Cash accounting means that the Project sources of funds are reflected in the financial statements for the period to which they were received on the Project Bank Accounts or withdrawn from the IBRD Loan Account as direct payments; the Project expenditures are reflected for the period to which they were paid from the Designated Account, Ruble Project Account or from the IBRD Loan Account.

Note 3

Financial Management System and Accounting Policies

3.1. Financial Management System

BEA Foundation has set up and maintains a Financial Management System for the Project. The Financial Management System structure and principles are formulated in the RHM-2 Project Operations Manual approved by PMC and IBRD. Detailed accounting policies are regulated by BEA Foundation management. In FY2014 BEA Foundation has adopted a new version of accounting policies. The accounting policies significant to the RHM-2 Project Financial Statements are specified below:

3.2. Separation of BEA Foundation and RHM-2 Project Assets and Accounts

The assets and liabilities of BEA as a legal entity are accounted for and reported separately from those assets and liabilities attributable to the Project. Separate accounting is facilitated by maintaining separate bank accounts assigned exclusively for Project needs – Designated account and Ruble Project Account (see below notes 7 and 8).

The Project Financial Statements include all sources of funds, attributable to the Project, comprising Loan № 8291-RU funds and co-financing funds of RF.

3.3. Local Currency for Accounting Purposes

The Project funds are provided in two currencies: IBRD Loan funds - in US Dollars, co-financing funds of RF - in Russian Rubles (RUR).

The Project expenditures can be incurred and paid in different currencies.

The majority of the Project expenditures are paid in RUR.

A set of the Project accounts is kept in Russian Rubles as required by Russian accounting rules and regulations. In addition a set of accounts reflecting Project sources and uses of funds is also kept in US Dollars. Currency translation policy is described below.

3.4 Financial reporting currency and currency translation policies

The Project Financial Statements are prepared in US dollars and Russian Rubles.

The Project Financial Statements are prepared in US Dollars for the following reasons:

The Project is appraised in USD in the PAD; the Loan Agreement, the Project Procurement plan and annual Budgets are produced in USD;

One part of the Project financing comes from IBRD Loan provided in USD,

The Designated Account is maintained in USD.

In order to provide comparable financial information to Russian users of Financial Statements, two statements (Project Sources and Uses of Funds; Uses of Funds (by the Project Components and activities) are also prepared in Russian Rubles (RUR).

The official exchange rate of the Bank of Russia on May 08, 2014 was equal to RUR 35.4971 for USD 1.00. Designated Account opening balance for the reported period as at May 08, 2014 was equal to zero.

The official exchange rate of the Bank of Russia at December 31, 2014 was equal to RUR 56.2584 for USD 1.00 (see Note 4 herein).

3.4.1 Translation of RUR in the Statements Prepared in USD

The Co-financing of RF funds received in RUR are translated into USD and reported in the Financial Statements at the Bank of Russia official rates effective at the dates when these funds are paid into Ruble Project account. The expenditures paid out of these funds are translated at the at the Bank of Russia official rates effective at the dates when the co-financing funds were paid from the Ruble Project account.

RUR expenditures paid out of converted Loan funds are reported in USD at the actual rates of conversion of funds from the Designated account spent on the reported expenditures. These rates are equal to Bank of Russia official rates. The same rates are used in Applications for withdrawal for

Designated Account replenishments submitted to IBRD throughout the reported period. Loan funds are converted by BEA requests in amounts limited to actual needs.

The Ruble Project Account opening and closing balances for the reported period are translated into USD at the Bank of Russia official rate as at May 08, 2014, and December 31, 2014, accordingly.

The exchange rate adjustments of the Ruble Project Account daily balances (due to fluctuation of the Bank of Russia official USD/RUR rate) in the amount of USD'000 21 (loses) are shown as a separate item of the Financial Statement "Project Sources and Uses of Funds" in USD'000.

3.4.2 Translation of USD in the Statements Prepared in RUR

Loan funds paid into the Designated account, as well as Loan funds paid through direct payments are translated into RUR at the Bank of Russia official rates effective at the payment dates. Expenditures paid in USD are translated at the Bank of Russia rate effective at payment dates.

The Designated Account opening and closing balances for the reported period are translated into USD at the Bank of Russia official rate as at May 08, 2014, and December 31, 2014, accordingly.

The exchange rate adjustments of the Designated Account in RUR daily balances (due to fluctuation of the Bank of Russia official USD/RUR rate) in the amount of RUR'000 2,946 (gains) are shown as a separate item of the Financial Statement "Project Sources and Uses of Funds" in RUR'000.

3.5 Operating Costs shared between the Projects implemented by BEA Foundation

Besides the Second National HydroMeteorological Modernization Project, which started in FY2014, BEA Foundation took part in FY2014 in implementation of State Statistical System Project-2 (STASYS-2 Project) which was started in April of 2008 and continued to implement the activities under preparation of "Yakutia Innovative Pre-School Development" Project, which were started in August of 2013.

STASYS-2 Project is jointly financed by the Russian Federation and IBRD which extended the Loan № 4867-RU in the amount equal to USD 10,000,000.00 to the Russian Federation for its financing. The Loan № 4867-RU Agreement was effective on April 22, 2008 and the STASYS-2 Project implementation should be completed by December 31, 2018.

The "Yakutia Innovative Pre-School Development" Project preparation was financed in 2014 by the Government of Republic Sakha (Yakutia), which extended the funds from the republic budget of Republic Sakha (Yakutia) in the amount of RUR 8,654,361.00 for this purpose.

The funds of the named Projects are managed by BEA Foundation and accounted for separately. Separate set of Project Financial Statements is prepared by BEA annually for each Project.

In order to save on Project management costs and because of using joint office space for the Projects, some types of the operating costs are shared between the Projects according to the internal instructions of BEA Foundation in proportion to the amount of staff members, involved in implementation of the Projects, according to the approved operating costs budgets for the respective Projects.

The shared operating costs comprise:

- salaries of some BEA staff members, involved in implementation of the Projects;
- office rent and utilities;
- telephone/fax expenses, office supplies, car rental expenses
- other operating costs charged by joint suppliers.

Each shared operating expense is split into separate payments made from separate RUR Project accounts to suppliers' or staff accounts and is charged to the Project costs in actually paid share.

Note 4

Reported Period

The Project Financial Statements are prepared for each calendar year of the Project implementation.

The Loan № 8291-RU Agreement was effective as of May 08, 2014, from this date the implementation of the Project started. These Project Financial Statements cover the period from May 08, 2014, to December 31, 2014

The given period is also referred to as reported period in the Financial Statements.

Note 5

Planned Data

The Project Procurement Plan and the Annual Project Budget are considered to be the basic Project planning documents. The Procurement Plan is based initially on PAD and further duly amended by the PMC, agreed by the Ministry of finance of Russia and the Ministry of economic development of Russia and approved by the IBRD.

The above documents are prepared in USD so the planned data is provided for comparison only in Statements prepared in USD.

The Procurement plan for the Project, which is shown in the present Financial Statements, was considered and accepted by the PMC on June 18, 2014, agreed with the Ministry of Finance of Russia on July 21, 2014 (letter dated July 21, 2014 № 17-04-12/35583), with the Ministry of Economic Development of Russia on July 18, 2014 (letter dated July 18, 2014 № 16718-EE/Д14и), with the World Bank on July 29, 2014 and approved by the Head of Roshydromet on September 15, 2014.

The Project budget for the period from 8 May 2014 to 31 December 2014, including the operating costs budget for the period from May 8, 2014 to December 31, 2014 was considered and accepted by the PMC on June 18, 2014, agreed with the Ministry of Finance of Russia on July 21, 2014 (letter dated July 21, 2014 № 17-04-12/35583), with the Ministry of Economic Development of Russia on July 18, 2014 (letter dated July 18, 2014 № 16718-EE/214и), with the World Bank on August 20, 2014 and approved by the Head of Roshydromet on August 7, 2014.

Note 6

Loan Disbursement Model

In accordance with the Disbursement letter to the Loan № 8291-RU Agreement, disbursement of the Loan № 8291-RU funds is based on traditional IBRD model, using Statement of Expenses (SOE), summary sheets and direct payments. During the reported period disbursement of the Loan funds was realized using Statements of Expenses.

Note 7

Designated Account

In accordance with the Disbursement letter to the Loan № 8291-RU and the Agency Agreement, the Designated Account in US Dollars № 40703840738000069444 (Designated Account

or DA) in BEA Foundation name was opened with the Savings Bank of the Russian Federation (Sberbank) in July 2014 upon Ministry of Finance of Russia approval, provided by the letter dated December 25, 2013 # 17-04-11/57175. The terms of the Designated Account opening and keeping, are established in the Agreement signed by BEA Foundation and Sberbank.

According to the IBRD Disbursement letter to the Loan № 8291-RU the ceiling comprises the amount of USD 3,000,000.00. In the reported period the initial deposit in the amount of USD 200,000.00 was paid from IBRD Loan account into the Designated Account. As the Loan funds were being spent for financing eligible expenditures, the Designated account was replenished on the basis of Applications for withdrawal submitted by BEA Foundation to IBRD.

According to the Agency Agreement, the interest earned on the Designated account balance is to be directly transferred by BEA Foundation to the Federal Budget of Russian Federation in compliance with the payment instructions given by the Ministry of Finance of Russia.

In the reported period Sberbank accrued interest in the total amount of USD 38.88 (equivalent of RUR 1,706.09 at the exchange rate of the Bank of Russia on the dates of accrual) on the Designated account balance. BEA Foundation in the reported period transferred interest in the total amount of RUR 1,761.39 (including exchange rate differences in the amount of RUR 55.30) to the Federal budget of Russian Federation in compliance with the payment instructions of the Ministry of Finance of Russia.

Note 8

Ruble Project Account

In order to facilitate payments in Russian Rubles, Ruble Project Account (Ruble Project Account or RUR Project Account) № 40703810538000070029 was opened in BEA Foundation name with Sberbank simultaneously with the Designated Account.

The Ruble Project account accumulates both co-financing of RF funds and RUR funds received after the Loan № 8291-RU funds conversion from the Designated account. Sberbank makes USD to RUR conversions at the Bank of Russia official exchange rate effective on the value dates.

According to the Agency Agreement, the interest earned on the Ruble Project account balance is to be directly transferred by BEA Foundation to the Federal Budget of the Russia Federation in compliance with the payment instructions given by the Ministry of Finance of Russia.

In the reported period Sberbank accrued interest in the total amount of RUR 7,120.53 on the Ruble Project account balance. BEA Foundation in the reported period transferred interest in the total

amount of RUR 7,120.53 to the Federal budget of the Russian Federation in compliance with the payment instructions of the Ministry of Finance of Russia.

Note 9

Project financing from IBRD Loan

The Project is implemented with use of the Loan № 8291-RU extended by IBRD to the Russian Federation in the amount of USD 60,000,000.00. According to the covenants of the Loan № 8291-RU Agreement all the Project expenses are financed from the Loan funds in the amount of 43%.

The total amount withdrawn from the Loan № 8291-RU account by December 31, 2014 was USD 303,644.51 or 0.01% of the total Loan amount.

The table below provides information on cumulative uses of the Loan № 8291-RU funds as at December 31, 2014 (by Loan categories, according to the Loan Agreement). The figures are cumulative and rounded off.

Table 1.

| | | | | (USD'000) |
|---|---|---|-------------------------|---------------|
| No. | Category Description | Assigned under the Loan Agreement | Used (actually paid) | Unused |
| 1 | Goods, non-consulting services, consulting services, training | 57,895 | 16 | 57,879 |
| 2 | Operating costs | 2,105 | 137 | 1,968 |
| Total Uses of Loan Funds | | 60,000 | 153 | 59,847 |
| Add: Loan funds advanced into the Designated Account and not yet disbursed as at December 31, 2014 (inclusive Loan Funds, converted into RUR) | | | 151 | |
| Total Loan Funds disbursed from Loan Account with IBRD | | | 304 | |

The tables below provide information on actual amounts of Loan № 8291-RU funds received and disbursed by the Project (by the Components according to the Loan Agreement and the Procurement Plan) in the reported period and cumulatively.

Table 2

| IBRD funds received | USD'000 | | RUR'000 | |
|---------------------|-----------------|------------|-----------------|---------------|
| | Reported period | Cumulative | Reported period | Cumulative |
| IBRD funds | 304 | 304 | 11,969 | 11,969 |
| Total | 304 | 304 | 11,969 | 11,969 |

Table 3

| IBRD loan funds used | USD'000 | | RUR'000 | |
|---|-----------------|------------|-----------------|--------------|
| | Reported period | Cumulative | Reported period | Cumulative |
| Component A. Strengthening Information Communication Technology (ICT) infrastructure and systems delivering weather, climate and hydrological data and information | - | - | - | - |
| Component B. Modernization of observation networks | - | - | - | - |
| Component C. Institutional and regulatory strengthening, improvement of service delivery to clients and better preparedness for emergencies | 11 | 11 | 550 | 550 |
| Component D. Project management | 142 | 142 | 5,879 | 5,879 |
| Total | 153 | 153 | 6,429 | 6,429 |

The IBRD Loan № 8291-RU funds closing balance (inclusive Loan funds advanced into the Designated Account and Loan funds converted into RUR) as of December 31, 2014 was USD 150,830.94 (RUR 8,485,507.43 equivalent), of which Loan funds advanced into the Designated account comprised USD 150,825.36 (RUR 8,485,193.43 equivalent), Loan funds converted into RUR on the Ruble Project Account comprised USD 5.58 (RUR 314.00 equivalent).

Note 10

Project co-financing from the Federal Budget of the Russian Federation

The Project implementation is provided also by the Russian Federation co-financing funds, estimated during negotiations between Russian Federation and IBRD in the amount of USD 79,534,884.003. According to the Loan № 8291-RU Agreement all the Project expenses are financed from the co-financing of RF funds in the amount of 57%.

RosHydromet has been appointed as the Federal Budget Funds Controlling Body for the Project implementation according to the Project Agreement between Ministry of Finance of Russia, RosHydromet and BEA Foundation.

In the reported period the co-financing of RF funds were provided to the Project in the form of the Federal budget funds assigned for payments of co-financing share.

These funds were provided by RosHydromet in accordance with the Project Agreement in the sufficient amount.

These funds were considered as the Project source of funds and were incorporated in total into BEA financial statements on the Project as co-financing of RF.

The tables below provide information on actual amounts of co-financing of RF funds received and disbursed by the Project (by the Components according to the Loan Agreement and the Procurement Plan) in the reported period and cumulatively.

Table 4

| Co-financing funds received | USD'000 | | RUR'000 | |
|---|-----------------|------------|-----------------|---------------|
| | Reported period | Cumulative | Reported period | Cumulative |
| Government of Russian Federation co-financing funds | 328 | 328 | 14,372 | 14,372 |
| Total | 328 | 328 | 14,372 | 14,372 |

Table 5

| Co-financing funds used | USD'000 | | RUR'000 | |
|--|-----------------|------------|-----------------|--------------|
| | Reported period | Cumulative | Reported period | Cumulative |
| Component A. Strengthening Information Communication Technology (ICT) infrastructure and systems delivering weather, climate and hydrological data and information | - | - | - | - |
| Component B. Modernization of observation networks | - | - | - | - |
| Component C. Institutional and regulatory strengthening, improvement of service delivery to clients and better preparedness for emergencies | 15 | 15 | 729 | 729 |
| Component D. Project management | 188 | 188 | 7,794 | 7,794 |
| Total | 203 | 203 | 8,523 | 8,523 |

The Project co-financing of RF funds closing balance as a part of the Ruble Project account balance as of December 31, 2014 was USD 103,973.23 (RUR 5,849,367.35 equivalent) (see Note 8).

Note 11

Project Budget Performance

The Project Budget data for the reported period given in the financial statements is based on the Project Budget-2014 and Procurement Plan considered and accepted by PMC, agreed with the Ministry of Finance of Russia, Ministry of Economic Development of Russia and IBRD and approved by the Head of Roshydromet. The budget data from the beginning of the Project implementation (Cumulative-to-Date) include actual planned expenses (the budget) for the reported period.

The planned data for the whole Project life is based on the Loan Agreement and the Procurement Plan in operation at the reported date, the version of the Procurement Plan in operation as of December 31, 2014, namely the version of the Procurement Plan considered and accepted by PMC on the 3d meeting held on June 18, 2014 and agreed with the Ministry of Finance of Russia, Ministry of Economic Development of Russia, IBRD and approved by the Head of Roshydromet.

The table below provides summarized information on Project Budget-2014 (planned period from May 08, 2014 to December 31, 2014) actual cash performance.

Table 6

| (USD'000) | | | |
|--|------------|--------------|--------------|
| Project Expenditures | Actual | Budget | Used (%) |
| Component A. Strengthening Information Communication Technology (ICT) infrastructure and systems delivering weather, climate and hydrological data and information | - | - | - |
| Component B. Modernization of observation networks | - | 1,750 | (0%) |
| Component C. Institutional and regulatory strengthening, improvement of service delivery to clients and better preparedness for emergencies | 26 | 430 | (6%) |
| Component D. Project management | 330 | 810 | (41%) |
| Total | 356 | 2,990 | (12%) |

As it is seen from the Table 4, the RHM-2 Project Budget for FY2014 is fulfilled on 12%.

The reasons for underperformance of the approved RHM-2 Project Budget for FY2014 are as following:

Longer than planned procedures of preparation and approval of technical requirements for the procurement of goods and services for the Project.

The economy in the total amount of USD'000 7 under the contract № RHM/3/C.1.g for provision of services for organizing of the conference workshop.

The economy in the total amount of USD'000 291 under the Operating costs budget for FY 2014 (see Note 12).

Note 12

Project Management Costs

Project management costs comprise cost of consulting services for the Project system integration, cost of services of individual consultants, cost of translation services for the Project, cost of equipment procured for the needs of the Project PIU, annual Project audit costs, operating costs of the Project PIU.

In the Project Procurement plan the Project operating costs are estimated as USD'000 4,896, or 3.5% of the total Project costs (USD'000 139,535). The Operating costs breakdown as a part of the annual Project budget is considered and accepted by PMC, is agreed with the Ministry of Finance of Russia, the Ministry of Economic Development of Russia and IBRD and is approved by Head of Roshydromet.

The actual operating costs as at the end of the reported period are USD'000 319 or 6,5% of the total Operating costs amount.

In order to save Projects funds, in the FY2014, operating costs in common were shared according to the inner BEA Foundation instructions between the Second National HydroMeteorological System Modernization Project, Development of the State Statistical System Project – 2, preparation of "Yakutia Innovative Pre-School Development" Project, during the corresponding periods of the Projects implementation (see Note 3.5 herein).


The operating costs budget for 8 months of FY2014, period from May 08, 2014 till December 31, 2014 was considered and accepted by PMC, agreed with the Ministry of Finance of Russia and the Ministry of Economic Development of Russia and approved by the Head of Roshydromet in the amount of USD'000 610. The actual operating costs in 8 months of FY 2014 comprised USD'000 319. The economy in the amount of USD'000 291 was partly an actual saving of operating costs (including the saving under the budget item "PIU staff salary inclusive social charges" due to the fact of gradual staff hiring) and also economy due to exchange rate fluctuations under the operating contracts, concluded in RUR.

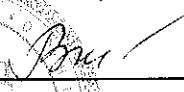
The table below provides information on the Project Operating Costs as of December 31, 2014.

Table 7

| Operating costs | (USD'000) | | | |
|---|-----------------|--------------------|-----------------|--------------------|
| | Actual | | Budget | |
| | Reported period | Cumulative-to-date | Reported period | Cumulative-to-date |
| <u>BEA staff costs</u> | | | | |
| BEA staff salaries | 218 | 218 | 407 | 407 |
| BEA staff business trips | - | - | 30 | 30 |
| Total BEA staff costs: | 218 | 218 | 437 | 437 |
| <u>Operating Rent Costs</u> | | | | |
| Office rent | 78 | 78 | 110 | 110 |
| Total rent costs: | 78 | 78 | 110 | 110 |
| <u>Costs of office maintenance</u> | | | | |
| Stationary, bank charges, transportation, information, others | 23 | 23 | 63 | 63 |
| Total costs of office maintenance | 23 | 23 | 63 | 63 |
| TOTAL | 319 | 319 | 610 | 610 |

Cost of the translation services for the Project paid in FY2014 was USD'000 11.

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