



**Energy Community Secretariat,
Vienna, Austria**

Report on the Audit of the Financial
Statements for the year ended
31 December 2017

23 March 2018

KPMG Austria GmbH
Wirtschaftsprüfungs- und Steuerberatungsgesellschaft
14056119/10090683

Draft

Table of Contents

	Page
1. Audit Contract and Scope of the Engagement	4
2. Breakdown and Description of Significant Financial Statement Items	5
3. Summary of Audit Findings	6
3.1. Compliance with Requirements of the Accounting System and Financial Statements	6
3.2. Explanations and Evidence	6
3.3. Reporting per Section 273 Paragraph 2 UGB	6
4. Bestätigungsvermerk/Auditor's report	7
5. Auditor's Report (Translation)	10

Draft

Annexes

	Annex
Financial Statements	
Financial Statements for the year ended 31 December 2017	I
— Statement of Financial Position as of 31 December 2017	
— Statement of Financial Performance for the Year ended 31 December 2017	
— Comparison of Budget and Actual amounts for the Year 2017	
— Indirect Method Cash Flow Statement for the Year ended 31 December 2017	
— Notes to the Financial Statements for the Year ended 31 December 2017	
Other Annexes	
Conditions of Contract	II

Draft

To the Director of
Energy Community Secretariat,
Vienna, Austria

We have audited the financial statements for the year ended 31 December 2017 of

**Energy Community Secretariat,
Vienna, Austria**
(referred to as "the Organization"),

and **report** on the result of our audit as follows:

1. Audit Contract and Scope of the Engagement

The Organization, represented by the Director concluded an **audit contract** with us to audit the financial statements of the Organization as of 31 December 2017. Our audit also comprised the accounting system in accordance with Section 269 et seq UGB (Austrian Commercial Code).

The audit is a **voluntary** audit.

According to Article 80 of the Energy Community Procedures for the Establishment and Implementation of Budget, Auditing and Inspection, the Director shall, subject to approval by the Budget Committee, designate an independent External Auditor.

The **audit includes** assessing whether the statutory requirements and additional regulations as stipulated in the articles of association were adhered to.

Our audit was performed in accordance with the **legal requirements and Austrian Standards on Auditing**. These standards require that we comply with International Standards on Auditing – (ISAs). An auditor conducting an audit obtains reasonable assurance that the financial statements are free from material misstatement. Absolute assurance is not attainable due to the test nature and other inherent limitations of an audit, together with the inherent limitations of any accounting and internal control system. There is an unavoidable risk that even material misstatements may remain undetected. Areas which are generally covered in special engagements were not included in our scope of work.

We performed the audit at the Organization's registered office in Vienna in November 2017 (interim audit) as well as between February and March 2018 (final audit). The audit was substantially completed at the date of this report.

Engagement partner of the engagement is Mr. Mag. Dr. Johannes Bauer, Wirtschaftsprüfer (Austrian Chartered Accountant).

Draft

Our audit is based on the audit contract concluded with the Organization. The "General **Conditions of Contract**" issued by the Chamber of Austrian Chartered Accountants (see Annex II), form an integral part of the audit contract. The conditions of contract do not only apply to the Organization and the auditor, but to third parties as well. Our liability as auditors is guided under Section 275 UGB.

2. Breakdown and Description of Significant Financial Statement Items

The breakdown and description of all significant financial statement items are included in the notes to the financial statements. We refer to the respective disclosures made by management in the notes.

Draft

3. Summary of Audit Findings

3.1. Compliance with Requirements of the Accounting System and Financial Statements

During our audit, we obtained evidence that the accounting requirements, Organization's articles of association as well as **International Public Sector Accounting Standards (IPSAS)** have been complied with.

In line with our risk and controls based audit approach and to the extent we considered necessary for the purpose of expressing an opinion, we considered internal controls related to sub processes of the financial reporting process as part of our audit.

With regard to the compliance of the **financial statements** with all applicable accounting requirements we refer to the auditor's report.

3.2. Explanations and Evidence

The Organization's legal representative has sufficiently provided all evidence and explanations requested by us as well as their signed management representation letter.

3.3. Reporting per Section 273 Paragraph 2 UGB

During our audit we did not note any facts which indicate that there could be substantial doubt about the Organization's ability to continue as a going concern nor indicate a material deterioration of the Organization's performance. Neither did we note any indications of non-compliance with Austrian law or the Organization's articles of association. We did not note any material weaknesses in the internal controls over the financial reporting process.

Draft

4. Bestätigungsvermerk/Auditor's report

Bericht zum Jahresabschluss

Prüfungsurteil

Wir haben den Jahresabschluss der

Energy Community Secretariat,
Vienna, Austria,

bestehend aus der Bilanz zum 31. Dezember 2017, der Erfolgsrechnung, der Geldflussrechnung nach der indirekten Methode sowie dem "Vergleich zwischen budgetierten und tatsächlichen Beträgen" für das an diesem Stichtag endende Geschäftsjahr und dem Anhang, geprüft.

Nach unserer Beurteilung entspricht der Jahresabschluss den gesetzlichen Vorschriften und vermittelt ein möglichst getreues Bild der Vermögens- und Finanzlage zum 31. Dezember 2017 sowie der Ertragslage der Organisation für das an diesem Stichtag endende Geschäftsjahr in Übereinstimmung mit den International Public Sector Accounting Standards (IPSAS).

Grundlage für das Prüfungsurteil

Wir haben unsere Abschlussprüfung in Übereinstimmung mit den österreichischen Grundsätzen ordnungsgemäßer Abschlussprüfung durchgeführt. Diese Grundsätze erfordern die Anwendung der International Standards on Auditing (ISA). Unsere Verantwortlichkeiten nach diesen Vorschriften und Standards sind im Abschnitt "Verantwortlichkeiten des Abschlussprüfers für die Prüfung des Jahresabschlusses" unseres Bestätigungsvermerks weitergehend beschrieben. Wir sind von der Organisation unabhängig in Übereinstimmung mit den österreichischen unternehmensrechtlichen und berufsrechtlichen Vorschriften und wir haben unsere sonstigen beruflichen Pflichten in Übereinstimmung mit diesen Anforderungen erfüllt. Wir sind der Auffassung, dass die von uns erlangten Prüfungsnachweise ausreichend und geeignet sind, um als Grundlage für unser Prüfungsurteil zu dienen. Bezüglich unserer Verantwortlichkeit und Haftung als Abschlussprüfer gegenüber der Organisation und gegenüber Dritten kommt § 275 UGB zur Anwendung.

Verantwortlichkeiten des gesetzlichen Vertreters für den Jahresabschluss

Der gesetzliche Vertreter ist verantwortlich für die Aufstellung des Jahresabschlusses und dafür, dass dieser in Übereinstimmung mit den International Public Sector Accounting Standards (IPSAS) ein möglichst getreues Bild der Vermögens-, Finanz- und Ertragslage der Organisation vermittelt. Ferner ist der gesetzliche Vertreter verantwortlich für die internen Kontrollen, die er als notwendig erachtet, um die Aufstellung eines Jahresabschlusses zu ermöglichen, der frei von wesentlichen – beabsichtigten oder unbeabsichtigten – falschen Darstellungen ist.

Draft

Bei der Aufstellung des Jahresabschlusses ist der gesetzliche Vertreter dafür verantwortlich, die Fähigkeit der Organisation zur Fortführung der Unternehmenstätigkeit zu beurteilen, Sachverhalte im Zusammenhang mit der Fortführung der Unternehmenstätigkeit – sofern einschlägig – anzugeben sowie dafür, den Rechnungslegungsgrundsatz der Fortführung der Unternehmenstätigkeit anzuwenden, es sei denn, der gesetzliche Vertreter beabsichtigt, entweder die Organisation zu liquidieren oder die Unternehmenstätigkeit einzustellen oder hat keine realistische Alternative dazu.

Verantwortlichkeiten des Abschlussprüfers für die Prüfung des Jahresabschlusses

Unsere Ziele sind hinreichende Sicherheit darüber zu erlangen, ob der Jahresabschluss als Ganzes frei von wesentlichen – beabsichtigten oder unbeabsichtigten – falschen Darstellungen ist und einen Bestätigungsvermerk zu erteilen, der unser Prüfungsurteil beinhaltet. Hinreichende Sicherheit ist ein hohes Maß an Sicherheit, aber keine Garantie dafür, dass eine in Übereinstimmung mit den österreichischen Grundsätzen ordnungsgemäßer Abschlussprüfung, die die Anwendung der ISA erfordern, durchgeführte Abschlussprüfung eine wesentliche falsche Darstellung, falls eine solche vorliegt, stets aufdeckt. Falsche Darstellungen können aus dolosen Handlungen oder Irrtümern resultieren und werden als wesentlich angesehen, wenn von ihnen einzeln oder insgesamt vernünftigerweise erwartet werden könnte, dass sie die auf der Grundlage dieses Jahresabschlusses getroffenen wirtschaftlichen Entscheidungen von Nutzern beeinflussen.

Als Teil einer Abschlussprüfung in Übereinstimmung mit den österreichischen Grundsätzen ordnungsgemäßer Abschlussprüfung, die die Anwendung der ISA erfordern, üben wir während der gesamten Abschlussprüfung pflichtgemäßes Ermessen aus und bewahren eine kritische Grundhaltung.

Darüber hinaus gilt:

- Wir identifizieren und beurteilen die Risiken wesentlicher – beabsichtigter oder unbeabsichtigter – falscher Darstellungen im Abschluss, planen Prüfungshandlungen als Reaktion auf diese Risiken, führen sie durch und erlangen Prüfungsnachweise, die ausreichend und geeignet sind, um als Grundlage für unser Prüfungsurteil zu dienen. Das Risiko, dass aus dolosen Handlungen resultierende wesentliche falsche Darstellungen nicht aufgedeckt werden, ist höher als ein aus Irrtümern resultierendes, da dolose Handlungen betrügerisches Zusammenwirken, Fälschungen, beabsichtigte Unvollständigkeiten, irreführende Darstellungen oder das Außerkraftsetzen interner Kontrollen beinhalten können.
- Wir gewinnen ein Verständnis von dem für die Abschlussprüfung relevanten internen Kontrollsystem, um Prüfungshandlungen zu planen, die unter den gegebenen Umständen angemessen sind, jedoch nicht mit dem Ziel, ein Prüfungsurteil zur Wirksamkeit des internen Kontrollsystems der Organisation abzugeben.
- Wir beurteilen die Angemessenheit der vom gesetzlichen Vertreter angewandten Rechnungslegungsmethoden sowie die Vertretbarkeit der vom gesetzlichen Vertreter dargestellten geschätzten Werte in der Rechnungslegung und damit zusammenhängende Angaben.

- Wir ziehen Schlussfolgerungen über die Angemessenheit der Anwendung des Rechnungslegungsgrundsatzes der Fortführung der Unternehmenstätigkeit durch den gesetzlichen Vertreter sowie, auf der Grundlage der erlangten Prüfungsnachweise, ob eine wesentliche Unsicherheit im Zusammenhang mit Ereignissen oder Gegebenheiten besteht, die erhebliche Zweifel an der Fähigkeit der Organisation zur Fortführung der Unternehmenstätigkeit aufwerfen kann. Falls wir die Schlussfolgerung ziehen, dass eine wesentliche Unsicherheit besteht, sind wir verpflichtet, in unserem Bestätigungsvermerk auf die dazugehörigen Angaben im Jahresabschluss aufmerksam zu machen oder, falls diese Angaben unangemessen sind, unser Prüfungsurteil zu modifizieren. Wir ziehen unsere Schlussfolgerungen auf der Grundlage der bis zum Datum unseres Bestätigungsvermerks erlangten Prüfungsnachweise. Zukünftige Ereignisse oder Gegebenheiten können jedoch die Abkehr der Organisation von der Fortführung der Unternehmenstätigkeit zur Folge haben.
- Wir beurteilen die Gesamtdarstellung, den Aufbau und den Inhalt des Jahresabschlusses einschließlich der Angaben sowie ob der Jahresabschluss die zugrunde liegenden Geschäftsvorfälle und Ereignisse in einer Weise wiedergibt, dass ein möglichst getreues Bild erreicht wird.

Wien, am 23 March 2018

KPMG Austria GmbH
Wirtschaftsprüfungs- und Steuerberatungsgesellschaft

Mag. Dr. Johannes Bauer
Wirtschaftsprüfer

Draft

5. Auditor's Report (Translation)

Report on the Financial Statements

Audit Opinion

We have audited the financial statements of

**Energy Community Secretariat,
Vienna, Austria,**

which comprise the Statement of financial position as of 31 December 2017, the statement of financial performance, the "comparison of Budget and actual amounts" and the indirect method cash flow statement for the year then ended, and the notes.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Organization as of 31 December 2017 and its financial performance for the year then ended, in accordance with International Public Sector Accounting Standards (IPSAS).

Basis for our Opinion

We conducted our audit in accordance with Austrian Standards on Auditing. These standards require the audit to be conducted in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the "Auditor's Responsibilities" section of our report. We are independent of the Company, in accordance with Austrian Generally Accepted Accounting Principles and professional regulations, and we have fulfilled our other responsibilities under those relevant ethical requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion. Our liability as auditors is guided under Section 275 UGB.

Responsibilities of Management for the Financial Statements

The Organization's management is responsible for the preparation and fair presentation of the financial statements in accordance with International Public Sector Accounting Standards (IPSAS) 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.

Management is also responsible for assessing the Organization'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 Organization or to cease operations, or has no realistic alternative but to do so .

Draft

Auditor's Responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole, are free from material misstatements – whether due to fraud or error – and to issue an auditor's report that includes our audit opinion. Reasonable assurance represents a high level of assurance, but provides no guarantee that an audit conducted in accordance with Austrian Standards on Auditing (and therefore ISAs), will always detect a material misstatement, if any. Misstatements may result from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Austrian Standards on Auditing, we exercise professional judgment and maintain professional skepticism throughout the audit.

Moreover:

- We identify and assess the risks of material misstatements in the financial statements, whether due to fraud or error, we design and perform audit procedures responsive to those risks and obtain sufficient and appropriate audit evidence to serve as a basis for our audit opinion. The risk of not detecting material misstatements 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.
- We 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 entity's internal control.
- We evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- We 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 Organization's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our audit report to the respective note in the financial statements. If such disclosures are not appropriate, we will modify our audit 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 Organization to cease to continue as a going concern.



- We evaluate the overall presentation, structure and content of the financial statements, including the notes, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Vienna, 23 March 2018

KPMG Austria GmbH
Wirtschaftsprüfungs- und Steuerberatungsgesellschaft

signed by:
Mag. Dr. Johannes Bauer
Wirtschaftsprüfer
(Austrian Chartered Accountant)

This report is a translation of the original report in German, which is solely valid.

The financial statements together with our auditor's opinion may only be published if the financial statements are identical with the audited version attached to this report. Section 281 Paragraph 2 UGB (Austrian Commercial Code) applies.

**Financial Statements
as of 31 December 2017**

Statement of Financial Position as of 31 December 2017

		31 December 2017	31 December 2016
	Notes	In EUR	In EUR
ASSETS			
A. Current assets			
I. Cash and cash equivalents	1	1.373.771,80	2.241.333,43
II. Receivables	2		
1. VAT (Federal Ministry of Finance)		131.242,14	112.437,14
2. Budget contributions receivables		0,00	12.285,48
3. Other receivables		2.060,02	4.441,62
Total receivables		133.302,16	129.164,24
III. Prepayments	3	217.319,69	244.905,49
Total current assets		1.724.393,65	2.615.403,16
B. Non-current assets			
I. Intangible assets	4		
Software and licences		7.618,97	19.385,16
II. Tangible assets	5		
Infrastructure, plant and equipment		337.732,68	91.845,50
Total non-current assets		345.351,65	111.230,66
TOTAL ASSETS		2.069.745,30	2.726.633,82
LIABILITIES			
A. Current liabilities			
I. Accounts payables	7		
1. Trade payables		224.830,13	81.029,08
2. Other liabilities		453.068,22	264.179,18
3. Legal commitments		423.110,00	800.143,00
4. Unused appropriations		62.618,78	22.579,85
5. Unused donations		560.766,52	1.447.472,05
Total current liabilities		1.724.393,65	2.615.403,16
Deferred income	8	0,00	0,00
Investments	9	345.351,65	111.230,66
TOTAL LIABILITIES AND NET ASSETS		2.069.745,30	2.726.633,82

Statement of Financial Performance for the year ending 31 December 2017

	Notes	31 December 2017 in EUR	31 December 2016 in EUR
REVENUE			
1. Donations	10		
a) Budget Contribution Parties		4.586.931,00	4.574.500,00
b) Other donations		242.200,00	1.796.173,54
c) Allocation to investments		-353.423,89	-109.946,01
d) Legal commitments, prior year		800.143,00	539.675,30
e) Legal commitments, current year		-423.110,00	-800.143,00
f) Unused appropriations		-20.141,36	-12.395,62
g) Unused donations		886.705,53	-1.447.472,05
Total donations		5.719.304,28	4.540.392,16
2. Finance revenue		1.878,95	1.679,09
TOTAL REVENUE		5.721.183,23	4.542.071,25
EXPENSES			
1. Salaries	11		
2. Depreciation and amortization and disposal			
a) of fixed intangible and tangible assets		-2.758.923,46	-2.335.638,16
b) usage of obligations dedicated for assets		-119.302,90	-84.064,08
Total depreciation and amortization and disposal		119.302,90	84.064,08
3. Operating expenses		-2.962.259,77	-2.206.433,09
TOTAL EXPENSES		-5.721.183,23	-4.542.071,25
NET SURPLUS FOR THE PERIOD		0,00	0,00

Indirect Method Cash Flow Statement for Year ended 31 December 2017

	2017	2016
	in EUR	in EUR
CASH FLOW FROM OPERATING ACTIVITIES		
Surplus (Deficit) from ordinary activities	0,00	0,00
Non-cash movements		
+ Depreciation and disposal of non-current assets	119.302,90	84.064,08
- Usage of obligations dedicated for assets	-119.302,90	-84.064,08
- Increase in receivables	-4.137,92	130.374,01
+ Decrease in prepayments	27.585,80	-155.679,39
+ Increase in trade payables and other liabilities	332.690,09	160.319,35
+ Increase in deferred income	0,00	-7.777,00
- Decrease in unused commitments	-377.033,00	260.197,02
- Decrease in unused appropriations	40.038,93	-13.928,44
+ Increase in unused donations	-886.705,53	1.447.472,05
Net cash flows from operating activities (1)	-867.561,63	1.820.977,60
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions of non-current assets	-353.423,89	-109.946,01
Net cash flows from investing activities	-353.423,89	-109.946,01
CASH FLOWS FROM FINANCING ACTIVITIES		
Grant contribution for assets	353.423,89	109.946,01
Net cash flows from financing activities	353.423,89	109.946,01
Net increase/ (decrease) in cash and cash equivalents	-867.561,63	1.820.977,60
Cash and cash equivalents at the beginning of January 1, 2017	2.241.333,43	420.355,83
Cash and cash equivalents at the end of December 31, 2017	1.373.771,80	2.241.333,43

Comparison of Budget and Actual amounts for the year 2017

(in EUR)	Original Budget 2017	Changes due to other Sources of Revenue	Budget Transfers 2017	Final Budget 2017	Actual amounts 2017 on a comparable basis	Legal Commitments 2017	Actual amounts 2017 on a comparable basis incl. Legal Commitments	Actual amounts on a comparable basis incl. Legal Commitments [in %]	Unused Donations	Unused Appropriations
Notes										
13										
15										
17										
ORDINARY BUDGET										
1. HUMAN RESOURCES										
	2.457.079,00		0,00	2.457.079,00	2.405.635,29		2.405.635,29	97,91%		51.443,71
Subtotal Human Resources										
2. TRAVEL EXPENSES										
	122.400,00		-18.700,00	103.700,00	103.644,80		103.644,80	99,95%		55,20
	245.412,00	1.878,95	-29.800,00	215.812,00	214.415,77		214.415,77	99,35%		1.396,23
	367.812,00		-48.300,00	319.512,00	318.060,57		318.060,57	99,55%		1.451,43
Subtotal Travel Expenses										
3. OFFICE EXPENSES										
	25.000,00		40.000,00	65.000,00	64.935,67		64.935,67	99,90%		64,33
	50.000,00		22.500,00	72.500,00	72.404,81		72.404,81	99,87%		95,19
	147.084,00	1.878,95	-8.100,00	140.862,95	138.958,43		138.958,43	98,65%		1.904,52
	53.000,00		-200,00	52.800,00	52.795,86		52.795,86	99,99%		4,14
	275.084,00	1.878,95	54.200,00	331.162,95	329.094,77	0,00	329.094,77	99,38%		2.068,18
Subtotal Office Expenses										
4. OTHER COSTS AND SERVICES										
	56.304,00		-18.000,00	38.304,00	38.280,05		38.280,05	99,94%		23,95
	459.000,00		7.500,00	466.500,00	466.497,00	374.380,00	466.497,00	100,00%		3,00
	132.600,00		-10.500,00	122.100,00	122.032,69		122.032,69	99,94%		67,31
	106.080,00		202.200,00	308.280,00	308.219,25		308.219,25	99,99%		60,75
	15.300,00		0,00	15.300,00	15.137,60		15.137,60	98,94%		162,40
	214.200,00		-76.100,00	138.100,00	132.553,52		132.553,52	95,98%		5.546,48
	330.480,00		-56.000,00	274.480,00	274.172,32		274.172,32	99,89%		307,68
	172.992,00		-55.000,00	117.992,00	117.829,03	48.730,00	117.829,03	99,86%		162,97
	1.486.956,00		-5.900,00	1.481.056,00	1.051.611,46	423.110,00	1.474.721,46	99,57%		6.334,54
Subtotal Other Costs and Services										
	2.129.852,00	1.878,95	0,00	2.131.730,95	1.698.766,80	423.110,00	2.121.876,80	99,54%		9.854,15
Subtotal Operating Expenses										
	4.586.931,00	1.878,95	0,00	4.588.809,95	4.104.402,09	423.110,00	4.527.512,09	98,66%		61.297,86
TOTAL EXPENSES - ORDINARY BUDGET										
EXTRAORDINARY BUDGET										
		170.000,00		170.000,00	170.000,00		170.000,00	100,00%	0,00	0,00
		7.200,00		7.200,00	7.200,00		7.200,00	100,00%	0,00	0,00
		59.915,99		59.915,99	6.991,38		6.991,38	11,67%	52.924,51	0,00
		35.000,00		35.000,00	35.000,00		35.000,00	100,00%	0,00	0,00
		497.515,08		497.515,08	227.547,09		227.547,09	45,74%	269.967,99	0,00
		920.041,08		920.041,08	682.167,14		682.167,14	74,15%	237.873,94	0,00
Subtotal Extraordinary Budget										
		1.689.672,05		1.689.672,05	1.128.905,61		1.128.905,61	66,81%	560.766,44	0,00
TOTAL EXPENSES - EXTRAORDINARY BUDGET										
	4.586.931,00	1.691.551,00	0,00	6.278.482,00	5.233.307,70	423.110,00	5.656.417,70	90,09%	560.766,44	61.297,86
ORDINARY & EXTRAORDINARY BUDGET										

Note:
Columns "Other Sources of Revenue" and "Legal Commitments" are setup as planversions in R&S and can therefore have no Cent values
As advised by Auditors (Mrs. Oberbeck) on 18-Feb-2016 these columns should be manually adapted with Cent values to reflect correct figures from accounting

NOTES TO THE FINANCIAL STATEMENTS OF THE ENERGY COMMUNITY

<u>1. OBJECTIVES AND BUDGET OF THE ORGANISATION</u>	<u>2</u>
<u>2. SIGNIFICANT ACCOUNTING POLICIES</u>	<u>3</u>
LEGAL BASIS OF PREPARATION.....	3
<u>3. NOTES TO THE FINANCIAL STATEMENTS</u>	<u>7</u>
NOTE 1: CASH AND CASH EQUIVALENTS.....	7
NOTE 2: RECEIVABLES	7
NOTE 3: PREPAYMENTS	7
NOTE 4: INTANGIBLE ASSETS.....	8
NOTE 5: TANGIBLE ASSETS	9
NOTE 6: LEASES	10
NOTE 7: ACCOUNTS PAYABLES.....	10
NOTE 8: DEFERRED INCOME	11
NOTE 9: INVESTMENT DONATIONS	11
NOTE 10: REVENUE	12
NOTE 11: EXPENSES	13
NOTE 12: EXCHANGE GAIN AND LOSSES	14
NOTE 13: CHANGES FROM ORIGINAL TO FINAL BUDGET	15
NOTE 14: RECONCILIATION OF STATEMENT OF BUDGETARY COMPARISON AND STATEMENT OF FINANCIAL PERFORMANCE	16
NOTE 15: STATEMENT OF BUDGETARY COMPARISON: EXPLANATION OF MATERIAL DIFFERENCES BETWEEN THE BUDGET AND ACTUAL AMOUNTS.....	17
NOTE 16: RECONCILIATION UNUSED APPROPRIATIONS OF STATEMENT OF BUDGETARY COMPARISON AND STATEMENT OF FINANCIAL PERFORMANCE	20
NOTE 17: REPAYMENT NOT USED BUDGET APPROPRIATIONS	20
NOTE 18: KEY MANAGEMENT PERSONNEL.....	21
NOTE 19: EVENTS AFTER THE BALANCE SHEET DATE.....	22

1. OBJECTIVES AND BUDGET OF THE ORGANISATION

The Energy Community (“EnC”, “Organisation”) has been established under the Treaty signed in Athens on 25 October 2005 and entered into force on 1 July 2006 for the duration of 10 years. Its duration was extended by the decision of the Ministerial Council on 24 October 2013 until 2026.

The Energy Community stands for a process that aims to extend the EU internal energy market to the South East Europe region, Georgia, Moldova and Ukraine. The task of the Energy Community is to organise the relations between the Parties to the Treaty and create a legal and economic framework in relation to gas and electricity sectors falling within the scope of the energy *acquis*. The main goals are to create a stable and regulatory market framework capable of attracting investment; to create a single regulatory space for trade; to enhance security of supply; to improve the environmental situation and to develop electricity and gas market competition on a broader geographical scale.

The Institutions established under the Treaty are the Ministerial Council, the Permanent High Level Group, the Regulatory Board, the Fora, and the Secretariat. Further bodies established in the course of Treaty implementation through Ministerial Council decisions, are Task Forces/Coordination Groups/ Committees etc.

The Secretariat is the only permanent institution of the Energy Community established by the Treaty and has its seat in Vienna, Austria.

By the *Agreement between the Energy Community and the Republic of Austria regarding the seat of the Secretariat of the Energy Community* (“Agreement”, “Headquarters Agreement”) of 1 July 2007, Austria recognizes the legal personality of the Energy Community as an international organization. Energy Community is registered in the Republic of Austria by the Federal Ministry of European and International Affairs with the assigned organization number (1010180000).

Energy Community is funded from contributions derived from the Parties to the Treaty that are European Union, on one side, and the Contracting Parties¹ on the other side and voluntary contribution from Republic of Austria (host country) and other donors. The Organization operates within the framework of a biennial program and budget which provides the appropriations to constitute the budgetary expenditures authorization approved by the Ministerial Council every second year². Energy Community *Procedures for Establishment and Implementation of Budget, Auditing and Inspection* (“Budgetary Procedures”) in its version of 2014 provide financial framework for the management of resources / budget assigned.

The responsibility for the implementation of the Energy Community budget lies with the Director of the Secretariat. Pursuant to the Article 79 of the *Budgetary Procedures*³ the accounts of the previous year are established not later than 31 March.

These accounts are validated by the Director as an authorising officer under the Budgetary Procedures.

¹ As of January 2018: Albania, Bosnia & Herzegovina, former Yugoslav Republic of Macedonia, Georgia, Moldova, Montenegro, Kosovo*, Serbia, Ukraine

² See Article 74 of the Treaty

³ Procedural Act of the Ministerial Council of the Energy Community No 2014/01/MC-EnC amending Procedural Act No 2006/03/MC-EnC laying down the Energy Community Procedures for the Establishment and Implementation of Budget, Auditing and Inspection

Pursuant to the Article 37 of the above mentioned Budgetary Procedures, the Director of the Secretariat, introduces rules, which specify obligations of staff members of the Secretariat's that are involved in financial operations of the Energy Community.

2. SIGNIFICANT ACCOUNTING POLICIES

Legal Basis of Preparation

The accounts of the Energy Community "EnC" are kept in accordance with Procedural Act No. 2014/01 of 23 September 2014⁴ on the *Energy Community Procedures for Establishment and Implementation of Budget, Auditing and Inspection (Budgetary Rules)*.

The financial statements have been prepared on an accrual and going concern basis⁵ and the policies have been applied consistently throughout the period. The statements comply with the requirements of IPSAS.

The accounts of the Energy Community are kept in euro based on a calendar year.

Prepayments for Research and Consultancy Contracts

Energy Community has in its annual budgets funds of EUR 400.000 to EUR 500.000 for consultancy work. The contracts for studies are concluded for the duration of up to 1 year (in regular case), whereas their execution may fall in the time beyond the financial year. The agreed upon deliveries are presented in accordance with agreed milestones reflected accordingly in the contracts. It is normally agreed with the service provider(s) that a first payment will be done after the receipt of the inception report and next instalments are paid after receiving interim and final reports.

All deliverables are subject to Director's approvals followed by notification and respective payments of agreed upon instalments.

Only the final report of a study is generating the benefit for the Energy Community with an added value for the progress to be made within the Treaty implementation. The preceding reports (inception, interim) of the reflecting purely the ongoing progress made in study execution without generating any added value for the Energy Community.

In accordance with the International Public Sector Accounting Standards framework, the accounting treatment for each transaction has to follow the following rules: Understandability, Relevance, Materiality, Reliability, Substance over Form, Prudence, Completeness. Due to the fact that the instalments based on the inception or interim report do not represent an added value for the EnC and - based on the economic content of the regularly requested services and following the general accounting rules in accordance with the IPSAS framework, all instalments are considered as prepayment in the statement of financial position at 31 December of the relevant financial year.

⁴ Procedural Act of the Ministerial Council of the Energy Community No 2014/01/MC-EnC amending Procedural Act No 2006/03/MC-EnC laying down the Energy Community Procedures for the Establishment and Implementation of Budget, Auditing and Inspection

⁵ The overall accounting principles to be followed when preparing the financial statements are laid down in Article 70 of the *Energy Community Procedures for Establishment and Implementation of Budget, Auditing and Inspection* and are the same as described in IPSAS 1, which are: fair presentation, accrual basis, going concern, consistency of presentation, prudence, no netting, materiality and comparability of information.

The prepayments are booked into expense account upon receipt of final results of the consultancy service

Tax exemption

Based on the *Agreement between the Energy Community the Republic of Austria regarding the seat of the Secretariat*, the Republic of Austria recognizes the Energy Community with its international juridical personality and its legal capacity in Austria. Based on this Agreement, – according to Article 10 of the Agreement – it is exempted from all forms of taxation. This freedom from taxation refers – among others - to indirect taxes included in the prices of goods and services (VAT) supplied to EnC.

The requirements of the claiming procedure, as established by the responsible Ministry of Finance in Austria, result in the fact that invoices with the gross amount less than EUR 73 are not eligible for tax refund, thus all invoices with gross amount below EUR 73 are charged to expenditure account.

Depreciation method

Accounting treatment for property, plant and equipment is prescribed in IPSAS 17. The principal issue in accounting for property, plant and equipment are timing of recognition of assets, the determination of their carrying amounts and the depreciation charges to be recognized in relation to them. Depreciation is the systematic allocation of the depreciable amount of an asset over its useful life. The depreciation method used must reflect the pattern in which the asset's future economic benefit of service potential is expected to be consumed by the entity. The depreciation charge for each period should be recognized as an expense.

The Energy Community applies the straight-line method of depreciation. For specific classes of assets, the following useful lives are estimated:

- Computer software and other intangible assets – 3 years
- Computer hardware – 3 years
- Electronic devices – 3 years
- Technical equipment – 3 years
- Furniture – 5 years

The non-current assets are presented in the Statement of the Financial Position at its net book value in the Section "B. Non-current Assets". The depreciation of the non-current assets is presented in the Statement of Financial Performance in the Section "Expenses. 2. Depreciation and Amortization and Disposal, a) of fixed intangible and tangible assets".

Foreign Currency Transactions

The functional currency of the Energy Community is euro and these financial statements are presented in euro. All transactions occurring in other currencies are translated in euro using InforEur rate⁶ as published under:

http://ec.europa.eu/budget/contracts_grants/info_contracts/inforeuro/index_en.cfm.

Both realised and not realised gains and losses resulting from the settlement of such transactions and from the translation at the reporting date of assets and liabilities denominated in currencies other than the Energy Community's functional currency are recognised in the Statement of Financial Performance.

Provisions

Provisions are recognised when the Organisation has a legal obligation as a result of a past event, whereby it is probable that an outflow of resources will be required to settle the obligations and where a reliable estimate of the amount of the obligation can be made.

Unused appropriations

Unused appropriations are budget contributions from any sources of revenue (parties' contributions, finance/other income) which have not been used in the current year and which have to be paid back to the Parties in the following year; unused appropriations are calculated as a difference between total revenue (incl. interest and other income) and incurred actual expenditures (incl. unused commitments). For accounting purpose, as long as there is a restriction on the use of funds, unused appropriations and unused commitments may not be presented as equity but have to be shown as a liability.

Unused commitments

Unused commitments are budget contributions which have not been used (paid or invoiced) at the balance sheet date but for which commitments (e.g. by the commissioning of studies) have been entered into in the current year or in prior years; they related to the future periods, following IPSAS1 may not be shown as expenses⁷ therefore are accounted as deductions from revenue.

Unused donations

Unused donations are in advance agreed⁸ contributions received from third parties (governments) or other institutions/sources (EU grants) for an agreed upon amount and purpose in advance, which have not been used entirely at the balance sheet date.

⁶ See http://ec.europa.eu/budget/contracts_grants/info_contracts/inforeuro/index_en.cfm ; the rates indicated are the market rates for the penultimate day of the previous month quoted by the European Central Bank or, depending on availability, provided by the delegations or other appropriate sources close to that date

⁷ they do not meet the definition of expenses as defined by IPSAS 1: "Expenses are decreases in economic benefits or service potential during the reporting period in the form of outflows or consumption of assets or incurrences of liabilities that result in decreases in net assets/equity, other than those relating to distributions to owners".

⁸ See Article 15 of the Budgetary Procedures

Unused budget appropriations

Unused budget appropriations (not used and not committed at the end of the financial year) shall be paid back to the Parties on annual basis. The repayment methodology is based on the budget report and made in accordance with Annex IV ('Contribution to Budget') of the Treaty. The total calculated amount due shall equal/ be reconcilable with the amount of *unused appropriations* shown in the balance sheet as of 31 December. The table of repayments is subject to audit each year and shall be part of the Auditor's report.

Budget amendments

Budget amendments are made on annual basis to reflect sources of revenue other than contributions from the Parties (i.e. other interest and income interest). The Commission proposed on 22 March 2011 to the Budget Committee to consider the amendment of 2011 budget in order to reflect interest and other income obtained by the Energy Community in the years 2007-2010. Following this proposal, the Budget Committee decided at the same meeting that the budget 2011 should be amended accordingly. As a consequence, on 6 October 2011 the amendment Decision was approved by the Ministerial Council upon Commission's proposal (see Procedural Act of the Ministerial Council of the Energy Community PA/2011/01/MC-EnC). Following this decision, revenues from other sources should be recorded at the beginning of each budget year as *pro memoria*. The exact amount shall be then reflected in the financial statement for a given year. It implies – based on the *principle of equilibrium* - that the expenditure in each year can increase up to sum of the contributions from the Parties and of the other revenue obtained by the Energy Community.

Change in accounting policy

The Organisation recognises the effect of changes in accounting policy retrospectively. The effects in changes in accounting policy are applied prospectively if retrospective application is impractical.

Presentation changes

Certain prior year comparatives have been reclassified in order to confirm the current's year presentation. These reclassifications had no impact on the Energy Community's reported year-end result. These reclassifications include the following:

- Reclassification of received travel costs refunds from other income to the expense account,
- Disclosure of donation received from the Republic of Austria from the ordinary to extraordinary budget items in the statement of Comparison of Budget and Actual amounts for the year 2016.

3. NOTES TO THE FINANCIAL STATEMENTS

Note 1: Cash and cash equivalents

Cash and cash equivalents are financial instruments and defined as current assets. They include cash at hand and deposits held at bank.

Cash on hand is held in a single bank account in Austria. The average rate of interest earned on this bank account in 2017 was 0.05%.

Included in cash and cash equivalents at 31 December 2017 are EUR 1,372,265.39 at bank account (2016: EUR 2,239,674.69) and petty cash EUR 1,506.41 (2016: EUR 1,433.74).

Note 2: Receivables

	December 31, 2017	December 31, 2016
	in EUR	in EUR
VAT (Federal Ministry of Finance, Austria)	131.242,14	112.437,14
Budget contributions	0,00	12.285,48
Other receivables	2.060,02	4.441,62
Total receivables	133.302,16	129.164,24

Receivables are carried at original amount less write-off. Receivables are written off, when there is objective evidence that Energy Community will not be able to collect all amounts due according to the original terms of receivables.

On 31 December 2017 the total amount of receivables resulted from VAT claims against Federal Ministry of Finance of the Republic of Austria for the value added tax refunds of EUR 131,242.14 (2016: EUR 112,437.14), contrary to 2016 where receivables from budget contributions from the Parties amounted to EUR 12,285.48 in 2017 those receivables were none and other receivables at the amount of EUR 2,060.02 (2016: EUR 4,441.62).

Note 3: Prepayments

	December 31, 2017	December 31, 2016
	in EUR	in EUR
Prepaid expenses	42.229,38	10.484,40
Payments in advance (studies for research and consulting)	73.721,80	175.530,00
Prepayment (annual leave accrual)	101.368,51	58.891,09
Total prepayments	217.319,69	244.905,49

The prepaid expenses account represents amounts advanced to different suppliers for services extending beyond financial year 2017 (like subscription contacts concluded etc).

Prepayments in advance for consultancy contacts refer to advance payments to providers of the service where the finalisation of it has not been completed at the end of the year 2017. The amount of EUR 73,721.00 (2016: EUR 175,530.00) relate to the contracts concluded for research and consulting in the areas of work of the Energy Community.

Prepayment in the amount of EUR 101,368.51(2016: EUR 58,891.09) relate to accrual for leave accumulated by staff members of the EnC by 31 December 2017. This position, build following accounting requirements, shall not be cash effective as it is underpin by the Energy Community framework. In this regard, Energy Community Staff Regulation 10.2 employees are entitled to annual leave at the rate of 2.5 working days per month. Leave accumulated in preceding years not used by 31 March of any year will be forfeited. Annual leave cannot be compensated with pay as consumption of it shall be made within the notice period (Staff Regulations, Consolidated version, 10.2. Annual leave). Therefore, the adaption of this accrual will not be considered in the repayments to the Parties and, as a consequence, results in a prepayment in the same amount as the accrual for annual leave as of 31 December.

Note 4: Intangible assets

Acquired software and licences are capitalised on the basis of the costs incurred to acquire and bring them to use. These costs are amortised over their estimated useful lives (3 years). Costs capitalisable include all directly attributable costs necessary to create, produce, and prepare the asset to be capable of operating in intended by manner. Costs associated with maintaining computer software and licenses are recognised as expenses as incurred.

<i>Computer software and licences</i>	December 31, 2017 in EUR	December 31, 2016 in EUR
Gross carrying amount at 31 December previous year	111.066,95	108.180,66
Additions	640,00	4.831,29
Disposals	- 40.355,99	- 1.945,00
Gross carrying amount at 31 December current year	71.350,96	111.066,95
Accumulated depreciation at 31 December previous year	91.681,79	76.544,62
Depreciation charge for current year	12.406,19	17.082,17
Disposals	- 40.355,99	- 1.945,00
Accumulated depreciation at 31 December current year	63.731,99	91.681,79
Net carrying amount at 31 December current year	7.618,97	19.385,16
<i>Net carrying amount at 31 December previous year</i>	<i>19.385,16</i>	<i>31.636,04</i>

Note 5: Tangible assets

All items of property, plant and equipment are stated at historic cost less depreciation and impairment. Historic cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are capitalised only when it is probable that future economic benefits associated with the item will flow to the Energy Community and the cost of the item can be measured reliably. Repairs and maintenance are charged to the expenditure account during the financial period in which they incurred.

<i>Infrastructure, Plant and equipment</i>	December 31, 2017 in EUR	December 31, 2016 in EUR
Gross carrying amount at 31 December previous year	457.261,65	359.431,55
Additions	352.783,89	105.114,72
Disposals	- 101.726,55	- 7.284,62
Gross carrying amount at 31 December current year	708.318,99	457.261,65
Accumulated depreciation at 31 December previous year	365.416,15	305.718,86
Depreciation charge for current year	106.896,71	66.941,41
Disposals	- 101.726,55	- 7.244,12
Accumulated depreciation at 31 December current year	370.586,31	365.416,15
Net carrying amount at 31 December current year	337.732,68	91.845,50
<i>Net carrying amount at 31 December previous year</i>	<i>91.845,50</i>	<i>53.712,69</i>

Depreciation is calculated using the straight-line method to allocate the assets' cost to their estimated useful lives, as follows:

Type of asset	Straight-line depreciation rate
Intangible assets	33.33%
Tangible assets	20.00% to 33.33%

The assets' useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the statement of financial performance. Assets whose purchase price is below EUR 400.00 are fully depreciated in the year of purchase.

Note 6: Leases

	December 31, 2017	December 31, 2016
	in EUR	in EUR
Within one year	1.880,64	1.880,64
Between two and five years	156,72	156,72
Total	2.037,36	2.037,36

Leases of tangible assets where the lessee has substantially all the risks and rewards of ownership are classified as financial lease. Leases where the lessor retains a significant portion of the risks and rewards inherent to the ownership are classified as operating lease. Payments made under operating leases are charged to the statement of financial performance for the portion accrued during the financial year.

On 31 December 2017, Energy Community had outstanding commitments resulting from one operating lease contract. Future minimum lease payments fall due as follows:

Note 7: Accounts payables

	December 31, 2017	December 31, 2016
	in EUR	in EUR
Trade payables	224.830,13	81.029,08
Other liabilities	453.068,22	264.179,18
Legal commitments	423.110,00	800.143,00
Unused appropriations	62.618,78	22.579,85
Unused donations	560.766,52	1.447.472,05
Total accounts payable	1.724.393,65	2.615.403,16

Accounts payable include under trade payable invoices received from suppliers not yet settled at the end of the year (EUR 224,830.13).

Other liabilities of EUR 453,068.22 (2016: 264,179.18) include the provision for the legal case (EUR 290,633.40; 2016: EUR 200,000.00), costs of audit (EUR 16,500.00; 2016: EUR 16,500.00), other provisions (EUR 41,616.91; 2016: 5,000.00). The rest of the position includes accruals for salaries related to 2017 EUR 2,949.40 (2016: EUR 0) and accrual for annual leave of EUR 101,368.51 (2016: EUR 58,891.09).

Legal commitments of the financial year 2017 refer contractual commitments entered by the Energy Community by 31 December 2017 without having received goods or services by the end of the year.

Unused appropriations shown as liability towards the Parties represent an amount to be paid back to the parties under the Treaty subject to further reconciliation with previous periods. As a general rule, the calculated repayment amounts are based on the statement of financial performance plus change in annual leave accruals as of 31 December.

The repayment amount for 2017 is EUR 62,618.78 (2016: EUR 22,579.85). As the accrual for annual leave is treated as a liability that will never be prohibitive, the annual alteration of this accrual is excluded from the calculation for the repayment amount for unused budget.

Unused donations of the financial year 2017 refer to payment appropriations received from other sources as the parties' contributions reduced by the actual amounts spent in 2016. These positions, presented under extraordinary budget in Statement of Comparison of Budget and Actual amounts, refer to two ongoing grant contracts conclude in 2016 with EU. This item includes EUR 269,967.99 for direct grant contract CONNECTA (2016/373-263) and EUR 237,873.94 for grant contact EU4Energy (2016/364-837). The overall amount of EUR 560,766.52 contains also a payment appropriation of EUR 52,924,51 from the donation received from the Republic of Poland in 2016 and 2017.

Note 8: Deferred Income

According to the Energy Community accounting rules, transactions are recognised in the financial statements in the period to which they related. Similar as for the accrued expenses, also, revenue is accounted for in the period to which it relates. At year-end, if an invoice is issued for a service and/or delivery relating to future periods, the revenue will be deferred and recognised in the subsequent accounting period.

Same as in 2016, at 31 December 2017, there was no deferred income (in 2016: EUR 0.00).

Note 9: Investment donations

Since the investments) were made by using the contributions of the Parties to the Treaty, the same amount is also shown as "investment donations".

The book value as of 31 December 2017 of investments consists of the book value as of 1 January 2017 amounting to EUR 111,230.66 (1 January 2016: EUR 85,348.73) and additions amounting to EUR 353,423.89 (in 2016: EUR 109,946.01) were reduced by depreciation of EUR 119,302.90 (in 2016: EUR 84,064.08). The additions of the year include the expenditures related to the Secretariat's offices space renovation and extension in 2017.

Note 10: Revenue

	2017 in EUR	2016 in EUR
I. Donations		
Budget contribution parties	4.586.931,00	4.574.500,00
Other donations	242.200,00	1.796.173,54
Allocation to investments	-353.423,89	-109.946,01
Unused commitments, prior year	800.143,00	539.675,30
Unused commitments, current year	-423.110,00	-800.143,00
Unused appropriations	-20.141,36	-12.395,62
Unused donations	886.705,53	-1.447.472,05
Subtotal donations	5.719.304,28	4.540.392,16
II. Other sources of revenue		
Finance revenue	1.878,95	1.679,09
Other revenue	-	-
Subtotal other sources of revenue	1.878,95	1.679,09
Total revenue	5.721.183,23	4.542.071,25

Amounts shown under 'budget contribution parties' represent actual revenue received from the Parties and adopted by the Ministerial Council.

Other donations represent revenue received in connection with contributions made by donors for defined projects (or purposes) under special accounts (extraordinary accounts) not included in the ordinary budget of the Energy Community. In 2017, the donation from the Federal Ministry of Science, Research and Economy of Austria amounted to EUR 170,000.00 (in 2016: EUR 171,952.92). Further donations were received in 2017 from the Governments of Poland EUR 30.000 (2016: EUR 30.000), different sponsors monies EUR 7.200⁹, from Vyshegrad Fund EUR 35,000. ¹⁰ In 2017, no further payments were received under the grant contacts concluded in 2016 (2016: EUR 516.650 for direct grant contract CONNECTA (2016/373-263) and EUR 1.052.929 for grant contact EU4Energy (2016/364-837)).

Revenue adjustments are related to the deferral of not used revenue and follows the accounting policies established at the Energy Community.

Other sources of revenue related to interest earned in 2017 of EUR 1,878.95 (in 2016: EUR 1,679.09).

⁹ Contribution to the expenses of the Vienna Forum on European Energy Law

¹⁰ Contribution to the expenses of the Energy Community Summer School

Note 11: Expenses

ORDINARY BUDGET

Types of expenses	2017	2016
	in EUR	in EUR
Human Resources expenses	2.448.112,71	2.152.456,43
Expenses for studies, research and consulting	394.667,00	443.831,16
Costs of audit, legal and financial advice	321.119,25	368.787,10
Reimbursement of travel expenses to conference participants	274.172,32	250.216,78
Travel expenses	214.415,77	269.319,65
Consumables (office cleaning, supplies, running costs, electricity)	138.952,48	88.153,90
Expenses of conferences and seminars	132.553,52	126.217,68
Cost of outsourced services (IT, payroll)	292.785,78	159.975,62
Trainings	101.659,03	116.927,00
Daily Subsistence Allowance (DSA)	103.644,80	-
Office rent	64.935,67	21.717,36
Other services	52.796,01	55.931,44
Advertising, communications and representation	38.280,05	34.724,33
Financial Services	15.137,60	
Subtotal ordinary budget	4.593.231,99	4.088.258,45

EXTRAORDINARY BUDGET

Types of expenses	2017	2016
	in EUR	in EUR
Other costs	441.575,65	38.351,58
Human Resources expenses	310.810,75	183.181,73
Office rent	245.050,00	186.352,92
Travel expenses	49.893,52	29.296,05
Expenses of conferences and seminars	43.675,76	16.630,52
Reimbursement of travel expenses to conference participants	34.740,16	-
Consumables (office cleaning, supplies, running costs, electricity)	2.205,40	-
Subtotal extraordinary budget	1.127.951,24	453.812,80
TOTAL EXPENSES (ORDINARY AND EXTRAORDINARY BUDGET)	5.721.183,23	4.542.071,25

Expenses arising from the purchase of goods and services are reported on a modified accrual basis, recognising expenses when goods are received and services rendered.

Expenses are presented for the ordinary budget of the Energy Community in separation of the extraordinary budget (see above).

Personnel expenditure includes short-term employees such as base salary, accident insurance contribution and inflationary adjustment of the base salary. Travel includes costs of airfare, daily subsistence allowances, terminal allowances and other travel costs of the staff. Costs of legal and financial advice include a provision for the costs of potential outcome of the ongoing arbitration (decision award) with former employee of the Energy Community, costs of court procedure and of the arbitrator's work.

EXTRAORDINARY BUDGET Types of expenses	2017	Donation Austria	Sponsor's Donation	Donation Poland	IVF Vyshegrad Fund	Grant Contract CONNECTA	Grant Contract EU4Energy
	in EUR	2017 in EUR	2017 in EUR	2017 in EUR	2017 in EUR	2017 in EUR	2017 in EUR
Other costs	441.575,65			5.675,45	2.162,60	191.259,88	242.477,72
Human Resources expenses	310.810,75						310.810,75
Office rent	245.050,00	170.000,00					75.050,00
Travel expenses	49.893,52			-	5.387,85	14.375,91	30.129,76
Expenses of conferences and seminars	43.675,76		7.200,00	410,00	16.068,00	4.858,78	15.138,98
Reimbursement of travel expenses to conference participants	34.740,16			905,93	11.381,55	17.052,52	5.400,16
Consumables (office cleaning, supplies, running costs, electricity)	2.205,40				-	-	2.205,40
Subtotal extraordinary budget	1.127.951,24	170.000,00	7.200,00	6.991,38	35.000,00	227.547,09	681.212,77

Expenses in the extraordinary budget represent different types of expenditure financed from other sources of revenue than Parties contributions.

Note 12: Exchange gain and losses

Energy Community realises exchange gains and losses on accounts payable and accounts receivable transactions incurred in currencies other than euro based on exchange rate in effect on the date of the transaction. In 2017, there were no effects realised from any exchange gain or losses (2016: EUR -16,936.18¹¹).

¹¹ Resulting from Contract between Foreign and Commonwealth Office (UL) and the Energy Community dated 21 July 2015 for the amount of GBP 150,000.00; contact was finalized at the end of first quarter 2016.

Note 13: Changes from Original to Final Budget

	BUDGET 2017		
	Initial Budget	Other Sources of Revenue	Final Budget
<i>in EUR</i>			
Contributions from the Parties			
European Union	4,354,832.00		4,354,832.00
Republic of Albania	4,128.00		4,128.00
Bosnia and Herzegovina	9,174.00		9,174.00
Former Yugoslav Republic of Macedonia	4,587.00		4,587.00
Moldova	4,587.00		4,587.00
Montenegro	1,835.00		1,835.00
Republic of Serbia	24,769.00		24,769.00
Ukraine	179,808.00		179,808.00
United Nations Interim Administration in Kosovo	3,211.00		3,211.00
Subtotal	4,586,931.00		4,586,931.00
Other sources of revenue			
Contribution of the Republic of Austria		170,000.00	170,000.00
Sponsor's Donation		7,200.00	7,200.00
Donation Republic of Poland		30,000.00	30,000.00
IVF Vyshegrad Fund		35,000.00	35,000.00
Grant Contract CONNECTA			0.00
Grant Contract EU4Energy			0.00
Finance revenue	<i>pro memoria adjustment</i>	1,878.95	1,878.95
Subtotal		244,078.95	244,078.95
Total Revenue	4,586,931.00	244,078.95	4,831,009.95

The original budget represents the approved 2016-2017 biennial budget. Final budget represents the budget after transfers and 'pro memoria' adjustments (finance revenue).

Further changes due to other sources of revenue refer to the above listed donations, grants, sponsors' monies and finance revenue received.

Note 14: Reconciliation of Statement of Budgetary Comparison and Statement of Financial Performance

Reconciliation of Statement of budgetary Comparison and Statement of Financial Performance

(in EUR)	Actual amounts Budget Report 2017	Legal Commitments 2016	Differences Budget Report vs. Financial Statements	Actual amounts Statement of Financial Performance
	(1)	(2)	(3)	(4)= (1)+(2)+(3)
ORDINARY BUDGET				
1. HUMAN RESOURCES				
Subtotal Human Resources	2.405.635,29	0,00	42.477,42	2.448.112,71
2. TRAVEL EXPENSES				
Daily Subsistence Allowance (DSA)	103.644,80			103.644,80
Travel Expenses (flights and incidentals)	214.415,77			214.415,77
Subtotal Travel Expenses	318.060,57			318.060,57
3. OFFICE EXPENSES				
Office rent	64.935,67			64.935,67
Office equipment	72.410,76	280.058,76	-352.469,52	0,00
Consumables	138.952,48			138.952,48
Other Services	52.795,86	0,15		52.796,01
Subtotal Office Expenses	329.094,77	280.058,91	-352.469,52	256.684,16
4. OTHER COSTS AND SERVICES				
Advertising, communication and representation	38.280,05			38.280,05
Studies, research and consulting	92.117,00	302.550,00		394.667,00
Costs of outsourced services (IT, payroll, etc.)	122.032,69	170.753,09		292.785,78
Costs of Audit, Legal and Financial Advice	308.219,25	12.900,00		321.119,25
Financial services	15.137,60			15.137,60
Conference costs	132.553,52			132.553,52
Refunding	274.172,32			274.172,32
Training	69.099,03	32.560,00		101.659,03
Subtotal Other Costs and Services	1.051.611,46	518.763,09		1.570.374,55
Subtotal Operating Expenses	1.698.766,80	518.763,09	-352.469,52	2.145.119,28
TOTAL EXPENSES - ORDINARY BUDGET	4.104.402,09	798.822,00	-309.992,10	4.593.231,99
EXTRAORDINARY BUDGET				
Donation Austria	170.000,00			170.000,00
Sponsor's Donation	7.200,00			7.200,00
Donation Poland	6.991,38			6.991,38
IVF Vyshegrad Fund	35.000,00			35.000,00
Grant Contract CONNECTA	227.547,09			227.547,09
Grant Contract EU4Energy	682.167,14		-954,37	681.212,77
TOTAL EXPENSES - EXTRAORDINARY BUDGET	1.128.905,61	0,00	-954,37	1.127.951,24
ORDINARY & EXTRAORDINARY BUDGET	5.233.307,70	798.822,00	-310.946,47	5.721.183,23

Energy Community budget is established on a modified accrual basis in accordance with the Budgetary Procedures and Rules, and is approved by the Ministerial Council.

The reconciliation provides an explanation of both the changes between the original and final budget after transfers, and the material differences between the budget and the actual amounts. Energy Community budget and financial accounts are prepared using two different bases: the Statement of Financial Position, Statement of Financial Performance, Statement of Changes in Net Assets and Statement of Cash Flow are prepared on a full accrual basis, whereas the Statement of Comparison of Budget and Actual Amounts is prepared on a modified accrual basis.

As required by IPSAS 24, a reconciliation is provided between the actual amounts on a comparable basis as presented in Statement of Budgetary Comparison and the actual amounts in the Statement of the Financial Performance identifying separately any basis, timing and entity differences.

Basis differences occur when the approved budget is prepared on a basis other than the full accrual accounting basis. Basis differences include the depreciation of assets, full recognition of legal commitments.

Column 2: Legal Commitments

Through the approval of the Budget Committee the Energy Community is entitled to expend unused budget from previous years in future years as long as the funds are committed. The portion of expenditures incurred in the course of 2017 that is attributable to open commitments from 2016 is shown in this column.

Column 3: Differences between Actual Amounts in the Financial Statements and Actual Budget Amounts

Amount of EUR 42,477.42 represents the increase in the accruals for annual leave between 31 December 2016 and 31 December 2017. The accrued expenses are not covered by the approved budget and based on the applicable rules of the Energy Community are non-cash item.

Budget basis requires that the capital expenditures are recorded as current year expenses at acquisition costs. Accounting basis requires that these expenditures are capitalised and depreciated over the useful life of the assets. The acquisition costs of additions to the assets in 2017 amount to EUR 352,469.52 (in 2016: EUR 99,745.84) for ordinary budget and EUR 954.37 for extraordinary budget for grant contact EU4Energy (2016/364-837; in 2016: EUR 10,200.17).

Note 15: Statement of Budgetary Comparison: Explanation of material differences between the budget and actual amounts

Following the requirement of IPSAS 24 this section refers to major differences between the final budget, for which Energy Community is accountable, and actual amounts.

Human Resources

Budget Line Human Resources covers expenses for salaries of the Secretariat's staff which represent all-inclusive employee remuneration and expenses for accident insurance for staff.

On 31 December 2017, Energy Community employed 48¹² staff. Utilization of the human resources budget (incl. short – term appointments, i.e. internship and secondment) amounted to 97.91% (in 2016: 98.77%).

Travel Expenses

This item covers travel expenses of the Energy Community staff related to technical assistance to the Contracting Parties and participation at meetings and conferences organized at different locations outside the Secretariat's headquarters. Level of utilization reached 99.55 % (in 2016: 100.00%) of the authorized final budget for this budget line EUR 319,512.00.

Office Expenses

Budget Line Office includes expenses for acquisitions of fixed assets, office furniture, computer equipment and software, as well as, expenses for telephone, cleaning, maintenance and repair, and rental expenses.

The authorized final budget for this budget line of EUR 331,162.95 (2016: EUR 533,379.09), was implemented in 99.38%.

Other Costs, Services

Advertising and Communications

Advertising and Communications expenses relate to Energy Community publications aimed at distribution to the interested public in order to promote operations and the Institutions of the Energy Community throughout the region of its scope of activities. Similarly, all material related to public relations together with representation is covered by this budget line. Utilization of the final budget of EUR 38,280.05 (in 2016: 34,820.00) remained at 99.94% (in 2016: 99.73%).

Studies, Research and Consulting

In general this budget line allocates funds for activities related to consulting by third parties in the areas of work of the Energy Community. During 2017 the Energy Community initiated several contracts related to studies and research (total amount EUR 466,497.00), where not all of them were finalized in 2017.

Taking into account those unused commitments, budget utilization 2017 for Studies, Research and Consulting of EUR reached high level of 100.00% (in 2016: 100.00%).

Cost of outsourced services (IT)

Outsourced services relate to consulting and maintenance work provided by external IT specialists (web server, computer equipment and software in use). Also included in this position are the costs for leased office equipment, as well as fees for web based travel administration software and yearly service fee for the accounting software.

¹² This number contains permanent and temporary personnel.

Utilization of this budget position amounted to 99.94% (in 2016: 100.00%).

Cost of Audit, Legal and Financial Advice

Expenses under this budget relate mainly to the costs of the annual audit as well as financial and legal advice, when required.

Legal costs incl. accrual for the ongoing legal case (with former employee) amount to EUR 290,633.40 that required a transfer of additional budget appropriations into this budget line in the course of year-end accounts closure. This final budget was used in 99,98% (in 2016: EUR 381,690.00; 100%).

Financial Services

This budget forecasts expenditures for bank fees in relation to bank account held by the Energy Community. In the course of its regular business the Energy Community reimburses travel costs to participants at conferences and meetings organized by its Institutions. They mainly come from non EU countries, to which bank transfers are subject to relatively high fee rates, making those fees the main cost driver of this budget position.

The utilization of the final budget of EUR 15,300.00 (in 2016: EUR 13,547.00) in 2017 (98.94%, in 2016: 99.98%) was caused by numerous transaction outside the EU area relating to the reimbursement of travel expenditures.

Conference Costs

Conference costs relate to expenses incurred for conference and meeting facilities, technical equipment and catering.

The budget of this position had been adjusted within the financial year from the initial level of EUR 214,200.00 (in 2016: 210,000.00) to EUR 138,100.00 (in 2016: 136,220.00). The utilization amounts to 94.84% (in 2016: 92.66%). Within this budget line substantial savings were made due to the location of the meetings, namely majority of those took place in Vienna at the premises of the Secretariat.

Refunding

Refunding represents the reimbursement of travel expenses to the eligible participants at the meetings organized by the Institutions of the Energy Community. The budget of this position had been adjusted within the financial year from the original level of EUR 330,480.00 (in 2016: EUR 324,000.00) to EUR 274,480.00 (in 2016: EUR 250,220.00). The final budget was utilized in almost 100% (in 2016: 100.00%).

Training and Seminars

The budget of this position was adjusted by the means of budget transfers within the financial year from the original level of EUR 172,992.00 (in 2016: EUR 169,600.00) to EUR 117,992.00 (in 2016: EUR 149,500.00). Thus the final budget for training was utilized by 99.86% (in 2016: 99.99%).

Note 16: Reconciliation Unused Appropriations of Statement of Budgetary Comparison and Statement of Financial Performance

(in EUR)	Budget Report	Statement of Financial Performance	Variance
Initial Budget	4.586.931,00	4.586.931,00	-
Budget adjustment for other income and interest income	1.878,95	1.878,95	-
Donations of the Republic of Austria (rent expenses)	170.000,00	170.000,00	-
Sponsor's Donation	7.200,00	7.200,00	-
Donation Poland	59.915,89	59.915,89	-
IVF Vyshegrad Fund	35.000,00	35.000,00	-
Grant Contract CONNECTA	497.515,08	497.515,08	-
Grant Contract EU4Energy	920.041,08	920.041,08	-
Final Budget	6.278.482,00	6.278.482,00	-
Legal Commitments 2017	- 423.110,00	- 423.110,00	-
Unused Donations 2017	- 560.766,52	- 560.766,52	-
Sub-total	5.294.605,48	5.294.605,48	-
Personnel costs (ordinary + extraordinary budget)	- 2.716.446,04	- 2.758.923,46	42.477,42
Operating expenses (ordinary + extraordinary budget)	- 2.516.861,66	- 2.962.259,77	445.398,11
Sub-total	- 5.233.307,70	- 5.721.183,23	487.875,53
Additions non current assets	-	353.423,89	353.423,89
Legal commitment 2016	-	800.143,00	800.143,00
Total = Unused budget appropriations	61.297,78	20.141,36	41.156,42
Changes in accrual for leave	-	-	42.477,42
Unused legal commitments 2016	-	-	1.321,00
Difference	0,00	0,00	0,00

Unused appropriations in the budget report are calculated as a difference between the final budget and the actual expenditures (including legal commitments of the year) without consideration of accruals (unused annual leave entitlements).

Note 17: Repayment Not Used Budget Appropriations

Based on the decision of the Ministerial Council of 6 October 2011, starting 2012 the repayment amount to the Parties shall consider, in addition to the position of not used budget appropriations shown in the statement of financial position¹³, all other sources of revenue (incl. interest gained)¹⁴.

¹³ Minutes of the Budget Committee meeting of April 11 2013 (item 5a)

¹⁴ Minutes of the Budget Committee meeting of March 22 2012 (item 2)

Calculated repayment amounts to the Parties resulting from budget implementation in 2017 are presented below.

Parties	Contribution in EUR	Contribution in %	Unused	Unused Legal	Total repayment amount
			Appropriations 2017	Commitments 2017	
			(1)	(2)	(3) = (1) + (2)
European Union	4.354.832,00	94,94%	58.196,10	1.254,15	59.450,25
Republic of Albania	4.128,00	0,09%	55,17	1,19	56,36
Bosnia and Herzegovina	9.174,00	0,20%	122,60	2,64	125,24
former Yugoslav Republic of Macedonia	4.587,00	0,10%	61,30	1,32	62,62
Moldova	4.587,00	0,10%	61,30	1,32	62,62
Montenegro	1.835,00	0,04%	24,52	0,53	25,05
Republic of Serbia	24.769,00	0,54%	331,01	7,13	338,14
Ukraine	179.808,00	3,92%	2.402,87	51,78	2.454,65
Kosovo*	3.211,00	0,07%	42,91	0,92	43,83
TOTAL	4.586.931,00	100,00%	61.297,78	1.321,00	62.618,78

Total repayment amount for not used budget appropriations 2017, amounts to EUR 62,618.78. This amount includes not entirely used legal commitments of 2016.

Note 18: Key management personnel

The key management personnel (as defined by IPSAS 20) of the Energy Community Secretariat is the Director and the Deputy Director, who acts at the same time as a head of unit and is appointed by the Director. The aggregate remuneration (as defined by IPSAS 20) of members of the management and the number of managers determined on a full-time equivalent basis receiving remuneration within this category are:

	2017	2016
Aggregate remuneration	276,876.00	271,452.00
Number of persons	2 persons	2 persons

*This designation is without prejudice to positions on status, and is in line with UNSCR 1244 and the ICJ Opinion on the Kosovo declaration of independence.

Note 19: Events after the balance sheet date

At the date of signing of these accounts no major subsequent events occurred after balance sheet date that had come to the attention of the Director that have to be recognized in the financial statements.

Signature of the Director of the Secretariat of the Energy Community

Janez Kopac

23.03.2018