

Audited Project Financial Statements

Project Number: 46416-002
Loan/Grant Number: 3150
Period covered: 1 January to 31 December 2016

ARM: Power Transmission Rehabilitation Project

Prepared by CJSC High Voltage Electric Networks (HVEN)

For the Asian Development Bank
Date received by ADB: 12 July 2017

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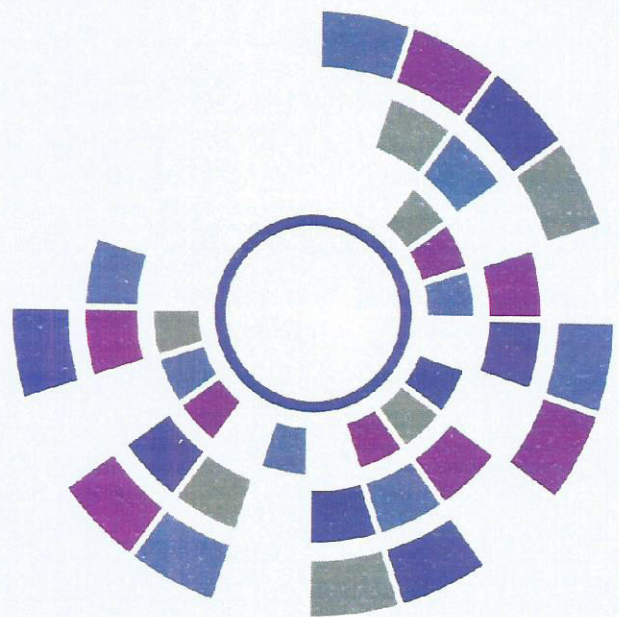
Project Financial Statements and Independent
Auditor's Report

“High Voltage Electric Networks” CJSC

“Power Transmission Rehabilitation Project”

Loan number 3150-ARM (SF)

December 31, 2016



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Grant Thornton

Independent auditor's report

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To the management of “High Voltage Electric Networks” CJSC

Opinion

We have audited the project financial statements of “Power Transmission Rehabilitation Project” (the “Project”), financed by the Asian Development Bank (the “ADB”) Loan number 3150-ARM (SF), implemented by the “High Voltage Electric Networks” CJSC (the “Company”), which comprise the statement of project sources and uses of funds and the government co-financing account statement as of and for the year ended December 31, 2016 submitted to the ADB for the year ended December 31, 2016 in support of Loan Agreement 3150-ARM (SF) withdrawals, and notes to the project financial statements, including a summary of significant accounting policies.

In our opinion,

- the accompanying project financial statements and appended notes that were also the subject of the audit, give a true and fair view of the cash position of the Project as of December 31, 2016, and of the cash received and cash paid for the year then ended in conformity with the cash basis of accounting, as described in the note 2 to the project financial statements;
- The Company has utilized all proceeds of the loan withdrawn from the Asian Development Bank only for purposes of the Project as agreed between the Asian Development Bank and the Republic of Armenia, in accordance with the loan agreement; and no proceeds of the loan have been utilized for other purposes;
- As of the reporting date the Company was in compliance with all financial covenants of the Loan Agreement number 3150-ARM (SF).

The RA government co-financing account give a true and fair view of the receipts collected and payments made during the year ended December 31, 2016; and (b) these receipts and payments support Imprest account liquidations/replenishments during the year ended December 31, 2016.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (“ISAs”). Our responsibilities under those standards are further described in the *Auditor’s Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants’ Code of Ethics for Professional Accountants (the “IESBA Code”) together with the ethical requirements that are relevant to our audit of the financial statements in the Republic of Armenia, and we have fulfilled our other ethical responsibilities in accordance with those ethical requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matters

We draw attention to note 2 to the project financial statements, which describes the basis of accounting. The project financial statements are prepared to assist the management of the Project Management Unit of the “High Voltage Electric Networks” CJSC to meet the requirements of the financial reporting of the Asian Development Bank. As a result, the project financial statements may not be suitable for another purpose. Our opinion is not modified in respect of this matter.

Other Matter

The special purpose financial statements of the “Power Transmission Rehabilitation Project” for the year ended December 31, 2015 were audited by other auditors, whose auditor’s report dated July 22, 2016 expresses an unqualified opinion on those special purpose financial statements.

Responsibilities of Management for the Project Financial Statements

Management of the Company is responsible for the preparation and fair presentation of the project financial statements in conformity with the cash basis of accounting, as described in the note 2 to the project financial statements, the financial covenants of the Loan Agreement 3150-ARM (SF) and the Asian Development Bank guidelines, and for such internal control as management determines is necessary to enable the preparation of project financial statements that are free from material misstatement, whether due to fraud or error.



Auditor's Responsibilities for the Audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the project financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these project financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the project financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies and the reasonableness of accounting estimates and related disclosures made by management.
- Evaluate the overall presentation, structure and content of the project financial statements, including the disclosures, and whether the project financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the management regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

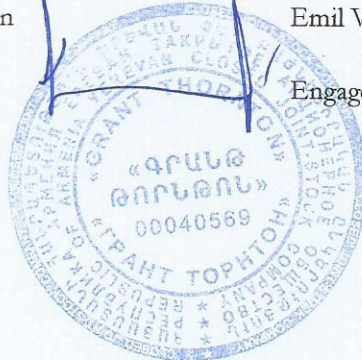
Gagik Gyulbudaghyan

Managing Partner

June 30, 2017

Emil Vassilyan, FCCA

Engagement Partner



Statement of project sources and uses of funds

In USD	Note	Year ended December 31, 2016			As of December 31, 2016		
		Actual	Planned	Variance	Actual	Planned	Variance
Opening balance of bank accounts		-			-		
Add: Financing							
ADB loan number 3150 -ARM (SF)	3	3,002,990			3,261,762		
Government co-financing		258,066			323,067		
"High Voltage Electric Networks" CJSC co-financing		2,043			34,521		
Total financing		3,263,099			3,619,350		
Less: Expenses							
ADB loan number 3150 -ARM (SF)	4.1	3,002,990	6,063,700	(3,060,710)	3,261,762	6,322,472	(3,060,710)
Government co-financing	4.2	257,888	318,231	(60,343)	323,034	383,377	(60,343)
High Voltage Electric Networks" CJSC funds	4.3	2,043	-	2,043	34,521	32,478	2,043
Total expenses		3,262,921	6,381,931	(3,119,010)	3,619,317	6,738,327	(3,119,010)
Exchange rate differences		178			33		
Closing balance of bank accounts		-			-		

The project financial statements were approved on June 22, 2017 by:

Artur Baghdasaryan
 General Director

Emil Nikoghosyan
 Chief Accountant

The Statement of project sources and uses of funds is to be read in conjunction with the project financial statements set out on pages 6 to 11.



Government co-financing account (AMD) statement

Account number: 900000900945

Bank: State Treasury of the Republic of Armenia

Address: Yerevan 0010, Meliq-Adamyan 1

Loan number 3150 - ARM (SF)

Currency: AMD

As of and for the year ended December 31, 2016

	USD
Balance as of January 1, 2016	-
Add:	
Government co-financing	258,066
Total inflow	258,066
Gain from exchange rate differences	(178)
Less:	
Project expenses	139,055
Compensation for expenses made by "High Voltage Electric Networks" CJSC	118,833
Total outflow	257,888
Balance as of December 31, 2016	-

The project financial statements were approved on June 30, 2017 by:

Artur Baghdasaryan
General Director

Emil Nikoghosyan
Chief Accountant



The Government co-financing account (AMD) statement is to be read in conjunction with the notes to the project financial statements set out on pages 6 to 11.

Notes to the project financial statements

1 General information

The Republic of Armenia (the “RA”) has received a loan from the Asian Development Bank (the “ADB”) for the implementation of the “Power Transmission Rehabilitation Project” (the “Project”). The Loan Agreement number 3150 -ARM(SF) was signed between the ADB and the RA on September 5, 2014. The same date, the ADB concluded Project Agreement with "Electro Power Systems Operator" CJSC (EPSO) and “High Voltage Electric Networks” CJSC (the “Company”).

A Subsidiary Loan Agreement was concluded on February 2, 2015 between the Ministry of Finance of the Republic of Armenia and the “High Voltage Electric Networks” CJSC, according to which the Government of the Republic of Armenia relends part of Loan received from ADB to the Company in the amount of equivalent to 15,192,292 SDR.

The objective of the Project is to increase operational efficiency of the Republic of Armenia transmission network.

The Project’s components are:

- Expanding supervisory control and data acquisition and energy management systems;
- Rehabilitation the two 220 kilovolt substations (Agarak 2 and Shinuhayr) including replacement of aging power transformers, circuit breakers, instrument transformers, disconnectors, control and protection equipment;
- Providing support to EPSO) and HVEN for Project management and construction supervision, and capacity building.

The Project closing date is June 30, 2020.

The Project implemented by EPSO and the Company is mainly financed through the following categories:

Category					ADB Financing
No	Item	EPSO (SDR)	Company (SDR)	Total (SDR)	Percentage and basis for withdrawal from the Loan Account
1	Turnkey (SCADA and EMS expansion)	7,466,000	-	7,466,000	100% of required expenses *
2	Turnkey (Substations)	-	12,595,000	12,595,000	100% of required expenses *
3	Consulting Services	779,000	1,558,000	2,337,000	100% of required expenses *
3A.	SCADA and EMS expansion	779,000	-	779,000	100% of required expenses *
3B.	Substations	-	1,558,000	1,558,000	100% of required expenses *
4	Interest	520,060	908,940	1,429,000	100% of required expenses *
5	Unallocated	64,688	130,312	195,000	100% of required expenses *
	Total	8,829,748	15,192,252	24,022,000	

* Exclusive of taxes and duties imposed within the territory of the Republic of Armenia.

The Project implementation by the HVEN is financed through following sources:

No	Item	ADB Loan 3150-ARM (SF)		RA Government	Company	Total
		SDR	USD	USD	USD	USD
2	Turnkey (Substations)	12,595,000	16,991,531	-	-	17,452,892
3B.	Consulting Services	1,558,000	2,093,215	-	-	2,159,167
4	Interest	908,940	1,216,291	-	-	1,259,518
5	Unallocated	130,312	174,281	-	-	180,573
	Taxes, duties	-		4,500,000	-	4,500,000
	Other (Project's operational costs)	-		-	4,000,000	4,000,000
	Total	15,192,252	20,475,318	4,500,000	4,000,000	29,552,150

The legal address of the Company is 1 Zoravar Andranik street, Yerevan 0084, Republic of Armenia.

During the reporting period the average number of the staff involved in the Project was 17 (2015: 17).

2 Significant accounting policies

2.1 Basis of preparation

The project financial statements of the Project have been prepared on the cash basis of accounting. Under this basis of accounting financing is recognized when received rather than when earned and expenses are recognized when paid rather than when incurred. The project financial statements of the Project also comply with the Asian Development Bank guidelines (“Project Financial Management and Analysis”) and the covenants of the Loan number 3150-ARM (SF).

2.2 Financing

The Project financing is recognized as such and included in the project financial statements only if suppliers are paid from the loan account for direct payment procedures. Imprest account financing is recognized as such and included in the project financial statements only if the funds from the loan account are transmitted to the imprest account opened in the State Treasury of the Republic of Armenia.

The amounts of the Government co-financing are recognized as such and included in the project financial statements if the funds are transmitted to the Project current account (the “Government co-financing account”), which is opened in the State Treasury of the Republic of Armenia.

2.3 Planned expenses

As of the end of the period “Planned Project Expenses” comprise the sum of the amount of “Actual Project Expenses” as of the end of the previous period and the annual budget expenses of the reporting year.

2.4 Expenses

The Project expenses are recognized as such and included in the project financial statements if the payment is made to suppliers of goods, works and/or services. The payments are made either directly from the Loan account or from the imprest and Government co-financing accounts.

2.5 Functional and presentation currency

Armenian dram (“AMD”) is the national currency of the Republic of Armenia. The US dollar (“USD”) is the functional currency of the PMU for maintaining Project records and ledgers. The project financial statements of the Project are presented in USD (presentation currency).

The Government co-financing amounts in Armenian drams and payments made from those amounts are converted into USD applying the exchange rates set out by the Central Bank of Armenia on the dates of the transactions.

Expenses made by the HVEN and later compensated by the Government co-financing account are converted into USD applying the exchange rates set out by the Central Bank of Armenia on the dates of the Government compensation.

In preparing the project financial statements, transactions in currencies other than the functional currency are recorded at the rates of exchange defined by the Central Bank of Armenia prevailing on the dates of the transactions. For direct payments denominated in currency other than the functional currency to the contractor/consultant from the ADB share, the exchange rate set out for the presentation of the operation in the system LFIS (lfis.adb.org) is used. At the reporting date, monetary items denominated in AMD are retranslated into USD at the rate defined by the Central

Bank of Armenia prevailing on that date, which is 483.94 drams for 1 USD as of December 31, 2016 (as of December 31, 2015: 483.75 drams).

3 ADB financing

In USD	For the year ended December 31, 2016	As of December 31, 2016
<i>Loan number 3150-ARM (SF)</i>		
Direct payments	2,975,012	3,233,771
Interest	27,978	27,991
	3,002,990	3,261,762

The summary of ADB funds financed through withdrawal applications for the year ended December 31, 2016 is stated in the following table:

In USD	For the year ended December 31, 2016
<i>Loan number 3150-ARM (SF)</i>	
Withdrawal application N	
00008	1,103
00009	995
00010	2,961,037
00011	11,877
	2,975,012
Interest charge	27,978
Total	3,002,990

4 Expenses

4.1 From ADB fund

In USD	For the year ended December 31, 2016			As of December 31, 2016		
<i>Loan number 3150-ARM (SF)</i>	Actual	Planned	Variance	Actual	Planned	Variance
2. Turnkey (Substations)	2,961,037	5,948,400	(2,987,363)	2,961,037	5,948,400	(2,987,363)
3B. Consulting Services	13,975	115,300	(101,325)	272,734	374,059	(101,325)
4. Interest	27,978	-	27,978	27,991	13	27,978
	3,002,990	6,063,700	(3,060,710)	3,261,762	6,322,472	(3,060,710)

The difference between the actual and planned costs is largely due to the fact that was originally planned to select a construction organization and start the construction works in the beginning of 2016. However, the contract with the construction organization was actually signed in May 2016.

4.2 From government co-financing funds

In USD Loan number 3150-ARM (SF)	For the year ended December 31, 2016			As of December 31, 2016		
	Actual	Planned	Variance	Actual	Planned	Variance
Taxes, duties	257,888	318,231	(60,343)	323,034	383,377	(60,343)
	257,888	318,231	(60,343)	323,034	383,377	(60,343)

4.3 From HVEN amounts

In USD Loan number 3150-ARM (SF)	For the year ended December 31, 2016			As of December 31, 2016		
	Actual	Planned	Variance	Actual	Planned	Variance
Project's operational costs	2,043	-	2,043	34,521	32,478	2,043
	2,043	-	2,043	34,521	32,478	2,043

5 Reconciliation between the amounts received by the Company and disbursed by the ADB for the year ended December 31, 2016

For the year ended December 31, 2016

Loan number 3150-ARM (SF)

In USD

Category	Withdrawal application N	ADB	Company	Difference
2. Turnkey (Substations)				
	00010	2,961,037	2,961,037	-
		2,961,037	2,961,037	-
3B. Consulting Services				
	00008	1,103	1,103	-
	00009	995	995	-
	00011	11,877	11,877	-
		13,975	13,975	-
4. Interest				
		27,978	27,978	-
		3,002,990	3,002,990	-

6 Project implementation

As of December 31, 2016 12% of the Project has been implemented in the framework of the Loan Agreement. The Project expenses by categories (in percentages) are presented in the table below:

Category	Amounts disbursed in %
2. Turnkey (Substations)	18%
3B. Consulting Services	13%
4. Interest	2%
5. Unallocated	-
Total	12%