

Audited Project Financial Statements

Project Number: 46416-002

Loan/Grant Number: 3150

Period covered: 1 January 2017 to 31 December 2017

ARM: Power Transmission Rehabilitation Project

Prepared by CJSC Electro Power System Operator (EPSO)

For the Asian Development Bank

Date by ADB: 11 January 2019

The audited project financial statements are documents owned by the borrower. The views expressed herein do not necessarily represent those of ADB's Board of Directors, Management, or staff. These documents are made publicly available in accordance with ADB's Access to Information Policy and as agreed between ADB and the CJSC Electro Power System Operator (EPSO).

“Electro Power System Operator” CJSC

Power Transmission and Rehabilitation Project Extension and Upgrade
of the SCADA/EMS Project supported by the Asian Development Bank

Financial Statements and
Independent Auditor's Report
For the year ended 31 December 2017

Yerevan
June 2018թ.

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Ministry of Finance on 02.08.2006

Independent Auditor's Report

To the management of “Electro Power System Operator” CJSC

Opinion

We have audited the Special Purpose Financial Statements of Power Transmission and Rehabilitation Project Extension and Upgrade of the SCADA/EMS Project supported by the Asian Development Bank (ADB), which includes the financial statements for the receiving and spending of funds from ADB as of December 31, 2017.

In our opinion, the accompanying special purpose financial statements give a true and fair view on the receiving and spending of funds as of December 31, 2017 under the ARM 46416 Program Agreement signed on 5 September 2014 between ADB and “Electro Power Operator”.

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 on facts and circumstances

The special purpose financial statements of the Company as at 31 December 2016 were audited by another auditor who provided an unmodified opinion on those financial statements on 08 June 2017.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the special purpose financial statements in accordance with the terms of ARM 46416 Program Agreement signed on 5 September 2014 between ADB and “Electro Power Operator”, 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.

In preparing the financial statements, management is responsible for assessing the Company'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 Company or cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the 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 Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, further events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

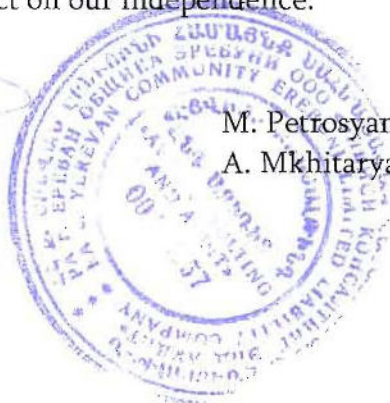
We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We provide assurance to those charged with governance, that we have maintained the ethical requirements of independence, also we inform them of all relations and other issues that, according to reasonable assumption, can affect on our independence.

June 13, 2018

Director

Auditor



M. Petrosyan

A. Mkhitarian



Project Name: Power Transmission and Rehabilitation Project Extension and Upgrade of the SCADA/EMS Project

Loan/Grant No: 3150-ARM

Special Purpose Statement of Cash Receipts and Payments¹

For the Year Ended 31 December 2017

(Expressed in US\$)

	<u>Notes</u>	<u>Year Ended 31/12/2015</u>	<u>Year Ended 31/12/2016</u>	<u>Year Ended 31/12/2017</u>	<u>Cumulative</u>
Receipts					
ADB Loan ²	3, 8	269,029.34	201,630.74	2,033,715.37	2,504,375.45
Total Financing from ADB		269,029.34	201,630.74	2,033,715.37	2,504,375.45
Fund received from Government	3	33,674.09	58,971.96	26,817.70	119,463.75
Other Donor Fund (EPSO)	3	-	-	-	-
Total Receipts from External Assistance		33,674.09	58,971.96	26,817.70	119,463.75
Miscellaneous Receipts	4-5	-	-	-	-
Total Receipts		302,703.43	260,602.70	2,060,533.07	2,623,839.20

Payments {classification should be done in accordance with the Financing Agreement}

Plants, Vehicles and Machinery	11	-	-	1,864,577.59	1,864,577.59
Goods	13	-	-	-	-
Consultancy Services, including	14	302,703.43	260,602.70	94,320.68	657,626.81
a) Consulting Services	14.1	267,418.57	194,873.30	52,888.15	515,180.02
b) VAT	14.3	33,674.09	58,971.96	26,817.70	119,463.75
c) Interests	14.4	1,610.77	6,757.44	14,614.83	22,983.04
Civil Works	12	-	-	101,634.80	101,634.80
Project Management Expenses	6	-	-	-	-
Total Payments for Project Expenses		302,703.43	260,602.70	2,060,533.07	2,623,839.20
Excess/(Shortfall) of Receipts over Project		-	-	-	-
Suspense Items	7	-	-	-	-
Increase/(Decrease) in Cash		-	-	-	-

¹ Notes set out on pages 6 to 12 form an integral part of these Special Purpose Statement of Cash Receipts and Payments

² This include amounts received from ADB (Imprest account, direct payment and reimbursement method)

Cash at beginning of reporting period

Impress Account Cash in Hand	9	-	-	-	-
Cash in Hand	10	-	-	-	-

Cash at the end of reporting period

Impress Account Cash in Hand	9	-	-	-	-
Cash in Hand	10	-	-	-	-
Increase/(Decrease) in Cash		-	-	-	-

Yerevan, 04.06.2018թ.

General Director
M. Mnacakanyan



Chief Accountant
L. Melkonyan

Project Name: Power Transmission and Rehabilitation Project Extension and Upgrade of the SCADA/EMS Project

Loan/Grant No: 3150-ARM

Special Purpose Statement of Comparison Budgeted and Actual Amounts

For the Year Ended 31 December 2017

Loan	For the current year ended 31/12/2017		Cumulative from [beginning of project] to year to date	
	Budgeted expenditures	Actual expenditures	Budgeted expenditures	Actual expenditures
Cost Categories	USD	USD	USD	USD
Civil Works	105, 183	101, 634.80	105, 183	101 634.80
Goods	-	-	-	-
Consultancy Services	168, 566	94, 320.68	671, 566	657, 626.81
Plants, Vehicles and Machinery	1, 975, 802	1, 864, 577.5	4, 047, 102	1, 864, 577.59
Project Management Expenses	-	-	-	-
Total	2,249,551	2,060,533.0	4,823,851	2,623,839.20

Yerevan, 04.06.2018թ.

General Director
M. Mnacakanyan



Chief Accountant
L. Melkonyan



Project Name: Power Transmission and Rehabilitation Project Extension and Upgrade of the SCADA/EMS Project

Loan/Grant No: 3150-ARM

Notes to Special Purpose Statement of Cash Receipts and Payments

For the Year Ended 31 December 2017

Tabular amounts are presented in US Dollar

1. BACKGROUND, NATURE OF OPERATIONS AND ACTIVITIES

The Government of Republic of Armenia has received financial assistance from the Asian Development Bank (ADB) in the form of a loan amounting to \$37 million, from which 13.6 million Dollars is to finance "Power Transmission and Rehabilitation Project Extension and Upgrade of the SCADA/EMS" Project. The Government of Republic of Armenia has also agreed to contribute the payments on taxes, duties and custom clearance actual in the borrower area made on behalf of the project.

The main purpose of the project is the enhancement of power transmission network operational efficiency. It is aiming to improve the national electro power system operation reliability and transmission capacity.

The project, including the financial activities, is administered and managed by the RA Ministry of Energy and Natural Resources. ADB's contributions are used to pay project expenses through "direct payment method" to the suppliers and consultants for the benefit of the project. An imprest account had been set up by "Electro Power System Operator" CJSC in the RA Ministry of Finance for the purposes of paying the amounts of VAT calculated on the consulting services related to the project. Payments to consultants had made up directly by ADB on which corresponding notes were submitted to "Electro Power System Operator" CJSC.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

The Special Purpose Statement of Cash Receipts and Payments (Statement) has been prepared in accordance with Cash Basis International Public Sector Accounting Standards Financial Reporting under the Cash Basis of Accounting and comply with ADB guidelines. Accordingly, they are prepared for the special purpose of the project management and ADB in accordance with the agreements between the RA Government and ADB.

Cash receipts are recognized when they are credited in the bank account. Payments made directly by ADB to third parties for project expenses are recognized as project expenditures and receipts as financing under the project, even if the cash does not flow through the project as it is for the benefit of the project. Such payments and receipts are recognized based on the value dates of the payment transactions made by ADB. For payments out of Imprest Account maintained with the Ministry of Finance, they are recognized when the payments are executed.

The accounting policies have been applied consistently throughout the reporting year.

Reporting entity

The Statement solely reflects the financial status of "Power Transmission and Rehabilitation Project Extension and Upgrade of the SCADA/EMS" Project. The Project is funded by ADB, as well as co-financed by the RA Government.

Reporting Period

The Statement apply to fiscal year ended 31 December 2017 and has been prepared based on transactions for the year from 01 January 2017 to 31 December 2017.

Reporting currency and Foreign Currency Transactions

The currency of reporting is United States dollar (US\$).

Transactions in AMD are converted to USD at the exchange rate prevailing at the date of transaction. Foreign currency bank balances are re-stated at the year-end rate, and the resulting gains/losses are recognized in the statement of receipts and payments account.

Cash and Cash Equivalent

Cash and cash equivalents represent the balance remaining in the Imprest Account and cash in hand.

Bank Charges

No bank charges were made in order to transfer VAT to the RA state budget under the project.

3. STATUS OF FUNDS AND UNCOMMITTED FUNDS

The project is financed by ADB through a loan, as well as co-financed by the RA Government. During the reporting period, in-kind contributions were not reflected. The total funds financing the project and the available funds for future commitments as of 31 December 2017 are as follow:

	Total Financing	Total Committed as of 31/12/2017	Available Balance as of 31/12/2017
ADB Loan	2 504 375.45	2 504 375.45	-
Contribution of the RA Government	119 463.75	119 463.75	-
Other Fund	-	-	-
Total	2 623 839.20	2 623 839.20	-

The RA Government contributions are implemented in accordance with the Sub-loan agreement signed on February 6, 2015 between the RA Ministry of Finance and "Electro Power System Operator" CJSC (Article 3, paragraph 3.1).

4. IN-KIND CONTRIBUTIONS

In-kind contributions were not reflected in the reporting year for the implementation of the project.

5. MISCELLANEOUS RECEIPTS

There were no other cash inflows for the implementation of the project.

6. PROJECT MANAGEMENT EXPENSES

Project management expenses comprise recurrent expenses of the Project Management Office within the RA Ministry of Energy and Natural Resources that is responsible for the implementation of the project. Such expenses were not intended in the project budget for the reporting year and were not made actually.

7. SUSPENSE ITEMS

Suspense items consist of payments made by the project, which are initially considered as eligible expenses but are later found to be ineligible, and thus cannot be charged to the project. They are placed in Suspense Accounts pending the receipt of refund. Such expenses were not intended in the project budget for the reporting year and were not made actually.

8. ADB LOAN

Loan	31/12/2015	31/12/2016	31/12/2017
Transfer to Imprest Account by ADB	-	-	-
Direct Payment made by ADB	269,029.34	201,630.34	2,060,533.07
Reimbursement made	-	-	-
Commitment Letter	-	-	-
Total ADB Loan Receipts	269,029.34	201,630.74	2,060.533.07

9. IMPREST ACCOUNT

The accrued VAT amounts on consulting services related to the Project were transferred to the budget through this account. Other cash flows were not made on this account. No balances were available in the account as of December 31, 2017.

10. CASH IN HAND

Cash transactions were not reflected during the reporting year for the implementation of the project.

11. PLANT, EQUIPMENT AND VEHICLES

In the reporting year 1,864,577.59 USD payments have been made to "Redinet" CJSC and "Simens Actengineuschaft" Consortium.

12. CIVIL WORKS

In the reporting year 101,634.80 USD payments have been made to "Redinet" CJSC and "Simens Actengineuschaft" Consortium.

13. GOODS

Such expenses were not intended in the project budget for the reporting year and were not made actually.

14. CONSULTANCY SERVICES

	31/12/2015	31/12/2016	31/12/2017
Loan no.3150-ARM	269,029.34	201,630.74	67,502.98
Government contribution	33,674.09	58,971.96	26,817.70
Donor fund	-	-	-
Total	302,703.43	260,602.70	94,320.68

15. RECONCILIATION BETWEEN THE AMOUNTS RECEIVED BY "ELECTRO POWER SYSTEM OPERATOR"**CJSC AND ADB AS OF AND FOR THE YEAR ENDED 31/12/2017**

In US dollars

Category	Application No	Project	ADB	Difference
Civil Works	C-001	105,183	101,634.80	3,548.20
Plants, Vehicles and Machinery	C-001	1,975,802	1,864,577.59	111,224.41
Environmental and remediation	-	-	-	-
Consulting services	A0008-A0009	68707	67,502.98	1,204.02
Project management	-	-	-	-
Total	-	2,149,692	2,033,715.37	-

Project Name: Power Transmission and Rehabilitation Project Extension and Upgrade of the SCADA/EMS Project

Loan/Grant No: 3150-ARM

Special Purpose Statement of Funds Received by Methods of Withdrawals

For the Year Ended 31 December 2017

Loan

Funds Received from	31.12.2015	31.12.2016	31.12.2017
ADB Loan	269,029.34	201,630.74	2,033,715.37
The RA Government	33,674.09	58,971.96	26,817.70
Other Donor	-	-	-
Interest Received	-	-	-
Total Funds Received	302,703.43	260,602.70	2,060,533.07
Payments through Direct Payment			
Civil Works	-	-	1,864,577.59
Goods	-	-	-
Consultancy Services	267,418.57	194,873.30	52,888.15
Plants, Vehicles and Machinery	-	-	101,634.80
Interests	1,610.77	6,757.44	14,614.83
Total Direct Payment	269,029.34	201,630.74	2,033,265.37
Payments through Imprest Account			
Project Management Expenses	-	-	-
VAT payment	33,674.09	58,971.96	26,817.70
Movement in Imprest Account	-	-	-
Closing balance	-	-	-
Opening balance	-	-	-
Total Imprest Account Payment	33,674.09	58,971.96	26,817.70
Reimbursable Expenses	-	-	-
Ineligible Expenses	-	-	-
Total Payment Made	302,703.43	260,602.70	2,060,533.07

Yerevan, 04.06.2018թ.

General Director
M. Mnacakanyan



Chief Accountant
L. Melkonyan

