

# Audited Project Financial Statements

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Project Number: 46416-002

Loan/Grant Number: 3150

Period covered: 1 January to 31 December 2017

## ARM: Power Transmission Rehabilitation Project

Prepared by CJSC High Voltage Electric Networks (HVEN)

For the Asian Development Bank

Date received by ADB: 6 July 2018

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# **Project Financial Statements and Independent Auditor's Report**

## **“High Voltage Electric Networks” CJSC**

Power Transmission Rehabilitation Project  
Loan No. 3150-ARM (SF)

As of and for the year ended 31 December 2017



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# Independent auditor's report

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 31 December 2017 submitted to the ADB for the year ended 31 December 2017 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 31 December 2017, 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- The Company has utilized all proceeds of the loan withdrawn from the Asian Development Bank only for purposes of the Project as agreed between the Asian Development Bank and the Republic of Armenia, in accordance with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).

In addition, in our opinion, the Government co-financing account give a true and fair view of the receipts collected and payments made during the year ended 31 December 2017; and (b) these receipts and payments support Imprest account liquidations/replenishments during the year ended 31 December 2017.

## *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.

We draw attention to note 9 to the project financial statements, which describes the changes in the political situation of the Republic of Armenia. Although there is certain political instability at present, the management of the Company does not consider that these processes will have a significant impact on the Company's performance, direction and continuity, and according to the management of the Company, there is no necessity to adjust the project financial statements of the Company as of and for the year ended 31 December 2017.

*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



Emil Vassilyan, FCCA  
Engagement Partner



25 June 2018





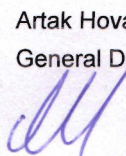
# Statement of Project sources and uses of funds

In USD

	Year ended 31 December 2017			As of 31 December 2017		
	Actual	Planned	Variance	Actual	Planned	Variance
Opening balance of bank accounts	-					
<i>Add: Financing</i>						
ADB loan number 3150 -ARM (SF) (note 3)	4,345,313			7,607,075		
Government co-financing	1,428,603			1,751,670		
"High Voltage Electric Networks" CJSC co-financing	5,068			39,589		
<b>Total financing</b>	<b>5,778,984</b>			<b>9,398,334</b>		
<i>Less: Expenses</i>						
ADB loan number 3150 -ARM (SF) (note 4.1)	4,345,313	4,708,723	(363,410)	7,607,075	7,970,485	(363,410)
Government co-financing (note 4.2)	1,429,974	1,514,297	(84,323)	1,753,008	1,837,331	(84,323)
High Voltage Electric Networks" CJSC funds (note 4.3)	5,068	2,104	2,964	39,589	36,625	2,964
<b>Total expenses</b>	<b>5,780,355</b>	<b>6,225,124</b>	<b>(444,769)</b>	<b>9,399,672</b>	<b>9,844,441</b>	<b>(444,769)</b>
Exchange rate differences	(1,371)			(1,338)		
Closing balance of bank accounts	-			-		

The project financial statements were approved on June 25, 2018 by:

Artak Hovakimyan  
General Director




Gevorg Muradyan  
Chief Accountant



This statement is to be read in conjunction with the notes to and forming part of the project financial statements set out on pages 8 to 13.

# 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 31 December 2017

	USD
Balance as of 1 January 2017	-
<i>Add:</i>	
Government co-financing	1,428,603
Total inflow	<b>1,428,603</b>
Gain from exchange rate differences	1,371
<i>Less:</i>	
Project expenses	1,429,974
Total outflow	<b>1,429,974</b>
Balance as of 31 December 2017	-

This statement is to be read in conjunction with the notes to and forming part of the project financial statements set out on pages 8 to 13



# Notes to the Project financial statements

## 1 Nature of operations and general information

“High Voltage Electric Networks” CJSC (the “Company”) has been established based on the resolution of the Government of the Republic of Armenia N450 dated 20 July 1998 on restructuring “High Voltage Electric Networks” subsidiary to a Closed Joint Stock Company and on the resolution of the Government of the Republic of Armenia N709 dated 23 November 1999 on reorganizing “Specialized Security on Energetic Objects” SCJSC through joining it to “High Voltage Electric Networks” SCJSC. The Company is the successor of “High Voltage Electric Networks” subsidiary, “High Voltage Electric Networks” CJSC and “Specialized Security on Energetic Objects” SCJSC.

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 5 September 2014. On the same date the ADB concluded a Project Agreement with “Electro Power Systems Operator” CJSC (the “EPSO”) and the Company.

A Subsidiary Loan Agreement was concluded on 2 February 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 the EPSO and the HVEN for Project management and construction supervision, and capacity building.

The Project closing date is 30 June 2020.

The Project implemented by the 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 *
	<b>Total</b>	<b>8,829,748</b>	<b>15,192,252</b>	<b>24,022,000</b>	

\* 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	
2	Turnkey (Substations)	12,595,000	16,991,531	-	-	16,991,531
3B.	Consulting Services	1,558,000	2,093,215	-	-	2,093,215
4	Interest	908,940	1,216,291	-	-	1,216,291
5	Unallocated	130,312	174,281	-	-	174,281
	Taxes, duties	-		4,500,000	-	4,500,000
	Other (Project's operational costs)	-		-	4,000,000	4,000,000
	<b>Total</b>	<b>15,192,252</b>	<b>20,475,318</b>	<b>4,500,000</b>	<b>4,000,000</b>	<b>28,975,318</b>

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

## 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 484.10 drams for 1 USD as of December 31, 2017 (as of December 31, 2016: 483.94 drams).

### 3 ADB financing

In USD

	For the year ended 31 December 2017	As of 31 December 2017
<i>Loan number 3150-ARM (SF)</i>		
Direct payments	4,238,082	7,471,853
Interest	107,231	135,222
	<b>4,345,313</b>	<b>7,607,075</b>

The summary of ADB funds financed through withdrawal applications for the year ended 31 December 2017 is stated in the following table:

In USD

	For the year ended 31 December 2017
<i>Loan number 3150-ARM (SF)</i>	
Withdrawal application N	
00012	170,600
00013	1,481,127
00014	101,765
00015	236,486
00016	2,248,104
	<b>4,238,082</b>
Interest charge	<b>107,231</b>
Total	<b>4,345,313</b>

### 4 Expenses

#### 4.1 From ADB fund

In USD

	For the year ended 31 December 2017			As of 31 December 2017		
<i>Loan number 3150-ARM (SF)</i>	Actual	Planned	Variance	Actual	Planned	Variance
2. Turnkey (Substations)	4,238,082	4,481,161	(243,079)	7,199,119	7,442,198	(243,079)
3B. Consulting Services	-	227,562	(227,562)	272,734	500,296	(227,562)
4. Interest	107,231	-	107,231	135,222	27,991	107,231
	<b>4,345,313</b>	<b>4,708,723</b>	<b>(363,410)</b>	<b>7,607,075</b>	<b>7,970,485</b>	<b>(363,410)</b>

## 4.2 From government co-financing funds

In USD

Loan number 3150-ARM (SF)	For the year ended 31 December 2017			As of 31 December 2017		
	Actual	Planned	Variance	Actual	Planned	Variance
Taxes, duties	1,429,974	1,514,297	(84,323)	1,753,008	1,837,331	(84,323)
	<b>1,429,974</b>	<b>1,514,297</b>	<b>(84,323)</b>	<b>1,753,008</b>	<b>1,837,331</b>	<b>(84,323)</b>

## 4.3 From HVEN amounts

In USD

Loan number 3150-ARM (SF)	For the year ended 31 December 2017			As of 31 December 2017		
	Actual	Planned	Variance	Actual	Planned	Variance
Project's operational costs	5,068	2,104	2,964	39,589	36,625	2,964
	<b>5,068</b>	<b>2,104</b>	<b>2,964</b>	<b>39,589</b>	<b>36,625</b>	<b>2,964</b>

## 5 Reconciliation between the amounts received by the Company and disbursed by the ADB

For the year ended December 31, 2016

Loan number 3150-ARM (SF)

In USD

Category	Withdrawal application N	ADB	Company	Difference
2. Turnkey (Substations)				
	00012	170,600	170,600	-
	00013	1,481,127	1,481,127	-
	00014	101,765	101,765	-
	00015	236,486	236,486	-
	00016	2,248,104	2,248,104	-
		<u>4,238,082</u>	<u>4,238,082</u>	<u>-</u>
4. Interest		<u>107,231</u>	<u>107,231</u>	<u>-</u>
		<b><u>4,345,313</u></b>	<b><u>4,345,313</u></b>	<b><u>-</u></b>

## 6 Project implementation

As of December 31, 2017 35% 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)	40%
3B. Consulting Services	13%
4. Interest	10%
5. Unallocated	-
Total	35%

## 7 Subsequent events

In April-May 2018 after the resignation of the prime minister nominated and elected by the ruling political party in the National Assembly as a result of the political upheaval and disobedience of the population in the Republic of Armenia, the National Assembly nominated the popular candidate for the post of the prime minister, and accordingly, a new government was formed, which considers itself temporary until the formation of the new National Assembly through extraordinary elections. Although there is certain political instability at present, management of the Company does not consider that these processes will have a significant impact on the Project's performance, direction and continuity, and according to management of the Company, there is no necessity to adjust the financial statements of the Project as of and for the year ended 31 December 2017.