

# Audited Project Financial Statements

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Project Number: 46416-002

Loan/Grant Number: 3150

Period covered: 1 January 2018 to 31 December 2018

## ARM: Power Transmission Rehabilitation Project

Prepared by CJSC High Voltage Electric Networks (HVEN)

For the Asian Development Bank

Date by ADB: 19 July 2019

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PROJECT FINANCIAL STATEMENTS AND  
INDEPENDENT AUDITOR'S REPORT

"HIGH VOLTAGE ELECTRIC NETWORKS" CJSC

ADB LOAN No: 3150-ARM (COL)

"POWER TRANSMISSION REHABILITATION"  
PROJECT

FROM 01 JANUARY 2018 TO 31 DECEMBER 2018  
AND AS OF 31 DECEMBER 2018



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## INDEPENDENT AUDITOR'S REPORT

To the management and the board 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 (COL), 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 from January 01, 2018 to December 31, 2018 and as of December 31, 2018 submitted to the ADB in support of Loan Agreement 3150-ARM (COL) withdrawals, and notes to the project financial statements, including a summary of significant accounting policies.

In our opinion,

- the accompanying project financial statements 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, 2018, 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- The Company has utilized all proceeds of the loan withdrawn from the Asian Development Bank only for purposes of the Project as agreed between the Asian Development Bank and the Republic of Armenia, in accordance with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 (COL).

In addition, in our opinion, the Government co-financing account give a true and fair view of the receipts collected and payments made from January 01, 2018 to December 31, 2018; and (b) these receipts and payments support Impress account liquidations/replenishments from January 01, 2018 to December 31, 2018.

### 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 (IESBA Code)", and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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**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 your attention to the fact, that the Project financial statements for the year ended December 31, 2017 has been audited by other auditor, whose report dated June 25, 2018 expressed an unmodified opinion on those statements. There is no necessity to adjust the project financial statements of the Company as of and for year ended 31 December 2018.

**Responsibilities of Management and Those Charged with Governance for the 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 (COL) 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 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 judgment 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 Company’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, future 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 also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Albert Asatryan.

June 17, 2019

Sergey Asatryan

Albert Asatryan

Chief Executive Officer

Engagement Partner

ASATRYANS LLC (Kreston Armenia)  
Yerevan, Republic of Armenia





## Statement of Project sources and uses of funds

In USD	Actual	Planned	Variance
	Year ended December 31, 2018	Year ended December 31, 2018	Year ended December 31, 2018
	As of December 31, 2018	As of December 31, 2018	As of December 31, 2018
<b>Loan N 3150-ARM (COL)</b>			
<i>Cash</i>			
As on January 01, 2018	-	-	-
<i>Additions: Financing</i>			
ADB loan N 3150-ARM (COL) (note 3)	3,345,236	10,952,311	
RA Government co-financing	719,541	2,471,211	
"High voltage electric networks" CJSC co-financing	1,997	41,586	
<b>Total financing</b>	<b>4,066,774</b>	<b>13,465,108</b>	<b>-</b>
<i>Disposals: Expenses</i>			
ADB loan N 3150-ARM (COL) (note 4.1)	3,345,236	10,952,311	(1,186,728)
RA Government co-financing (note 4.2)	718,893	2,471,901	(343,205)
"High voltage electric networks" CJSC co-financing (note 4.3)	1,997	41,586	(2,143)
<b>Total expenses</b>	<b>4,066,126</b>	<b>13,465,798</b>	<b>(1,532,076)</b>
<b>Foreign exchange effect</b>	<b>648</b>	<b>(690)</b>	
<b>As on December 31, 2018</b>	<b>-</b>	<b>-</b>	

The Project financial statements were approved by the management of the Company on June 17, 2019 by:

Hayk Harutyunyan  
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 6 to 13.



## RA Government co-financing account (Treasury account statement) in AMD

**Power Transmission Rehabilitation Project**  
**Loan N 3150-ARM (COL)**  
**"High voltage electric networks" CJSC**  
**Account number: 900000900945**  
**Bank: State Treasury of the Republic of Armenia**  
**Address: 1, Meliq-Adamyany str., Yerevan, 0010, RA**  
**Currency: AMD**  
**From 01 January 2018 to 31 December 2018**

	In USD
As of January 01, 2018	-
<i>Additions:</i>	
RA Government co-financing	719,541
Total cash inflow	719,541
Gain/(loss) from foreign exchange	(648)
<i>Disposals:</i>	
Project expenses	717,691
Refundable amount	1,202
Total cash outflow	718,893
As of December 31, 2018	-

This statement is to be read in conjunction with the notes to and forming part of the Project financial statements set out on pages 6 to 13.



# Notes to the financial statements

## 1 Nature of operations and general information

"High Voltage Electric Networks" CJSC (the "Company") or "HVEN" CJSC 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 (COL) was signed between the ADB and the RA on 5 September 2014. On the same date the ADB concluded a Project Agreement with "Electric 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 tranCOLormers, circuit breakers, instrument tranCOLormers, disconnectors, control and protection equipment;
- Providing support to the EPSO and the HVEN for Project management and construction supervision, and capacity building.

The Project expiry date is: June 30, 2020.

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

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



Allocation and withdrawal of loan proceeds (PTRP):

Category					ADB Financing Percentage and basis for withdrawal from the Loan Account
N	Figure	EPSO (SDR)	Company (SDR)	Total SDR	
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 Borrower (Republic of Armenia).

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

N	Figure	ADB Loan N 3150-ARM (COL)		RA Government "Co- financing"	The Company "Co- financing"	Total
		SDR	USD	USD	USD	USD
2	Turnkey (Substations)	12,595,000	17,473,925	-	-	17,473,925
3	Consulting services	1,558,000	2,161,522	-	-	2,161,522
4	Interest	908,940	1,261,036	-	-	1,261,036
5	Unallocated	130,312	180,791	-	-	180,791
	Taxes, duties	-	-	4,500,000	-	4,500,000
	Other (Project's operational costs)	-	-	-	4,000,000	4,000,000
TOTAL		15,192,252	21,077,275	4,500,000	4,000,000	29,577,275



## **2 Significant accounting policies**

### **2.1 Statement of compliance**

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 (COL).

### **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 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, exchange rate set out for the presentation of the operation in the system LFIS (<https://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 483.75 drams for 1 USD as of December 31, 2018 (as of December 31, 2017: 484.10 drams).

As of December 31, 2018 1 SDR equals to 1.38737 USD.



### 3 ADB financing

In USD	Year ended December 31, 2018	As of December 31, 2018
<u>Loan N 3150-ARM (COL)</u>		
Direct payments	3,103,231	10,575,084
Interest	242,005	377,227
	3,345,236	10,952,311

The summary of ADB funds financed through withdrawal applications from 01 January 2018 to 31 December 2018 is stated below:

In USD	Year ended December 31, 2018
<u>Loan N 3150-ARM (COL)</u>	
Withdrawal application number (N)	
B0017	106,410
B0018	148,135
B0019	385,401
B0020	240,832
B0021	108,354
B0022	1,924,718
B0023	175,955
B0024	13,425
	3,103,231
Interest expense	242,005
	3,345,236

B0018 withdrawal application concerns to prior period unpaid consulting services provided by CESI S.P.A. JV INCICO S.P.A/America CJSC. Unpaid amount which have been paid during 2018 relates to:

- For the year ended December 31, 2016: USD 11,050.53 (Invoice N: 3000000066)
- For the year ended December 31, 2017: USD 137,084.42 (Invoices N: 3000003294, 3000003747 and 300000792)



#### 4 Expenses

##### 4.1 Expenses from ADB fund

In USD	Actual		Planned		Variance	
	Year ended December 31, 2018	As of December 31, 2018	Year ended December 31, 2018	As of December 31, 2018	Year ended December 31, 2018	As of December 31, 2018
Loan N 3150-ARM (COL)						
2. Turnkey (Substations)	2,833,317	10,032,436	3,959,403	11,158,522	(1,126,086)	(1,126,086)
3B. Consulting Services	269,914	542,648	288,989	561,723	(19,075)	(19,075)
4. Interest	242,005	377,227	283,572	418,794	(41,567)	(41,567)
	3,345,236	10,952,311	4,531,964	12,139,039	(1,186,728)	(1,186,728)

##### 4.2 Expenses from RA Government co-financing funds

In USD	Actual		Planned		Variance	
	Year ended December 31, 2018	As of December 31, 2018	Year ended December 31, 2018	As of December 31, 2018	Year ended December 31, 2018	As of December 31, 2018
Loan N 3150-ARM.(COL)						
Taxes, duties	717,691	2,470,699	1,062,098	2,815,106	(344,407)	(344,407)
Refundable amount	1,202	1,202	-	-	1,202	1,202
	718,893	2,471,901	1,062,098	2,815,106	(343,205)	(343,205)



#### 4.3 Expenses from HVEN CJSC co-financing funds

In USD	Actual		Planned		Variance	
	Year ended December 31, 2018	As of December 31, 2018	Year ended December 31, 2018	As of December 31, 2018	Year ended December 31, 2018	As of December 31, 2018
Loan N 3150-ARM (COL)						
Project's operational costs	1,997	* 41,586	4,140	43,729	(2,143)	(2,143)
	1,997	* 41,586	4,140	43,729	(2,143)	(2,143)

\* 41,586 USD includes 737 USD, which refers to the amount of customs duties paid by "High Voltage Electric Networks" CJSC in terms of customs clearance of equipment and tools supplied by the main contractor - "Liaoning-Efacec Electrical Equipment Construction Co., Ltd & Northeast China International Electric Power Corporation" JV during 2017. The above amount was reimbursed to the "High Voltage Electric Networks" CJSC from the RA treasury account on April 20, 2018. Also in 2017, the "High Voltage Electric Networks" CJSC paid 2,228 USD in the terminal of "Agarak Terminal" LLC for parking cargo as storage charges, which in 2018 was reimbursed by "Liaoning-Efacec Electrical Equipment Construction Co., Ltd & Northeast China International Electric Power Corporation" JV company to "High Voltage Electric Networks" CJSC. An increasing number of equity as a result of the adjustment decreased by 2,965 USD.



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

From 01 January 2018 to 31 December 2018

In USD	Category	Withdrawal application number	ADB	Company	Difference
<u>Loan N 3150-ARM (COL)</u>					
	2. Turnkey (Substations)				
		B0017	106,410	106,410	-
		B0019	385,401	385,401	-
		B0020	240,832	240,832	-
		B0022	1,924,718	1,924,718	-
		B0023	175,955	175,955	-
			2,833,317	2,833,317	-
	3. Consulting services				
		B0018	148,135	148,135	-
		B0021	108,354	108,354	-
		B0024	13,425	13,425	-
			269,914	269,914	-
	4. Interest		242,005	242,005	-
	<b>TOTAL</b>		<b>3,345,236</b>	<b>3,345,236</b>	<b>-</b>

## 6 Project implementation

As of December 31, 2018 52% of the Project has been implemented in the framework of the Loan Agreement.

The Project expenses by categories are presented below:

Category	Disbursed amounts (by %)
2. Turnkey (Substations)	57%
3. Consulting services	25%
4. Interest	30%
5. Unallocated	-
	52%