

# Audited Project Financial Statements

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Project Number: 46416-002  
Loan/Grant Number: 3150  
Period covered: 12 February 2015 to 31 December 2015

## ARM: Power Transmission Rehabilitation Project

Prepared by CJSC High Voltage Electric Networks (HVEN)

For the Asian Development Bank  
Date received by ADB: July 2016

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 Public Communications Policy 2011 and as agreed between ADB and the CJSC High Voltage Electric Networks (HVEN).

**POWER TRANSMISSION REHABILITATION PROJECT**

**LOAN NUMBER 3150-ARM (SF)**

**FINANCED BY ASIAN DEVELOPMENT BANK**

**Partially Implemented by:  
"High Voltage Electric Networks" CJSC**

**FINANCIAL STATEMENTS**

**AND**

**INDEPENDENT AUDITOR'S REPORT**

**For the period from 12 February 2015 to 31 December 2015**

**YEREVAN  
July 2016**

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## **INDEPENDENT AUDITOR'S REPORT**

*On the financial statements of  
"Power Transmission Rehabilitation Project"  
for the period from 12 February 2015 to 31 December 2015*

To the Management of the "High Voltage Electric Networks" Closed Joint Stock Company

We have audited the accompanying financial statements of the "Power Transmission Rehabilitation Project" (the Project) financed by the Asian Development Bank Loan 3150-ARM (SF), and Partially Implemented by "High Voltage Electric Networks" CJSC (the Company), which comprise the statement of cash receipts and payments, the statement of uses of funds by project activity, the statement of loan withdrawals, and the report on project's disbursement progress for the period from 12 February 2015 to 31 December 2015, and a summary of significant accounting policies and other explanatory notes.

### *Management's Responsibility for the Financial Statements*

The Company's Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Public Sector Accounting Standard "Financial Reporting Under the Cash Basis of Accounting", and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

### *Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain reasonable audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment including the assessment of the risk of material misstatement of the financial statements, whether due to fraud or error. In making those assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statement 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 organization's internal control. An audit also includes the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.



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## "SOS-AUDIT" LTD

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Opinion

In our opinion,

1. the financial statements present fairly in all material respects the cash receipts and payments for the period from 12 February 2015 to 31 December 2015 in accordance with International Public Sector Accounting Standard “Financial Reporting Under the Cash Basis of Accounting” and “Handbook for Borrowers on the Financial Management and Analysis of Projects” issued by Asian Development Bank;
2. funds were used in accordance with the Loan Agreement 3150-ARM (SF) “Power Transmission Rehabilitation Project (Special Operations)” concluded between the Republic of Armenia and Asian Development Bank, and only for the purpose for which they were provided;
3. financial covenants of the Loan Agreement 3150-ARM (SF) were complied.

“SOS-Audit” LLC  
22 July 2016



*Manvel Ghazaryan*  
Manvel Ghazaryan  
Director

*Nazik Chitchyan*  
Nazik Chitchyan  
Auditor

Քրոու Ջորվաթ Բիզնես Ալյանսի Անդիտաված Անդամ

ԳԳ, ք.Երևան 0037, Ա. Տիգրանյան 38/55; Դեռ.՝ (+37410) 20 11 51; www. sosaudit.am; Էլ-փոստ՝ info@sosaudit.am

An Associate of the Crowe Horwath Business Alliance

38/55 A. Tigranyan, 0037 Yerevan, RA; Tel.: (+37410) 20 11 51; www. sosaudit.am; E-mail: info@sosaudit.am

## STATEMENT OF CASH RECEIPTS AND PAYMENTS

*Power Transmission Rehabilitation Project  
Partially implemented by "High Voltage Electric Networks" CJSC  
ADB Loan 3150-ARM (SF)  
For the period from 12 February 2015 to 31 December 2015*

	Note	Reporting period	Cumulative as at
		USD	31.12.2015
		USD	USD
<b>Cash Receipts</b>			
ADB Loan 3150-ARM (SF) financing	3	258,772.17	258,772.17
The Republic of Armenia co-financing		65,000.96	65,000.96
"High Voltage Electric Networks" CJSC co-financing		32,477.98	32,477.98
<b>Total financing</b>		<b>356,251.11</b>	<b>356,251.11</b>
<b>Payments for</b>			
2. Substations		-	-
3(b) Consulting Services		258,759.20	258,759.20
4. Interest charge		12.97	12.97
Taxes, duties		65,145.58	65,145.58
Other (Project's operational costs)		32,477.98	32,477.98
<b>Total Payments</b>		<b>356,395.73</b>	<b>356,395.73</b>
Foreign exchange gain/(loss)		144.62	144.62
<b>Net increase/(decrease) in cash</b>		-	-
Opening cash balance		-	-
<b>Closing cash balance</b>		-	-

*The project financial statements were approved by the management of "High Voltage Electric Networks" CJSC on 22 July 2016 and signed on its behalf. The accompanying notes form an integral part of these project financial statements.*

**Aram Ananyan**  
General Director

**Artavazd Ghazaryan**  
Chief Accountant



*Power Transmission Rehabilitation Project  
Financial Statements  
for the period from 12 February 2015 to 31 December 2015*

## STATEMENT OF USES OF FUNDS BY PROJECT ACTIVITY

Power Transmission Rehabilitation Project  
 Partially implemented by "High Voltage Electric Networks" CJSC  
 ADB Loan 3150-ARM (SF)  
 For the period from 12 February 2015 to 31 December 2015  
 USD

Project Activity	Expenditures		Financing source			Financing source		
	Reporting period	Cumulative as at 31.12.2015	Reporting period			Cumulative as at 31.12.2015		
	Total		ADB Loan 3150-ARM (SF)	RoA financing	HVEN	ADB Loan 3150-ARM (SF)	RoA financing	HVEN
2.Rehabilitation the two 220-kilovolt substations (Agarak 2 and Shinuhayr)	-	-	-	-	-	-	-	-
a) civil works	-	-	-	-	-	-	-	-
b) rehabilitation of electrical equipment	-	-	-	-	-	-	-	-
c) environment and social mitigation	-	-	-	-	-	-	-	-
3.Consulting services	323,904.78	323,904.78	258,759.20	65,145.58	-	258,759.20	65,145.58	-
Interest	12.97	12.97	12.97	-	-	12.97	-	-
Other (Project's operational costs)	32,477.98	32,477.98	-	-	32,477.98	-	-	32,477.98
<b>Total</b>	<b>356,395.73</b>	<b>356,395.73</b>	<b>258,772.17</b>	<b>65,145.58</b>	<b>32,477.98</b>	<b>258,772.17</b>	<b>65,145.58</b>	<b>32,477.98</b>

## STATEMENT OF LOAN WITHDRAWALS

*Power Transmission Rehabilitation Project  
Partially implemented by "High Voltage Electric Networks" CJSC  
ADB Loan 3150-ARM (SF)  
For the period from 12 February 2015 to 31 December 2015  
USD*

Application number	Expenditure category		Total
	Consulting services	Interest	
	3	4	
B0001	1,466.45	-	1,466.45
B0002	1,451.18	-	1,451.18
B0003	1,488.38	-	1,488.38
B0004	1,453.29	-	1,453.29
B0005	250,000.00	-	250,000.00
B0006	1,051.02	-	1,051.02
B0007	1,848.88	-	1,848.88
CAP	-	12.97	12.97
<b>Total</b>	<b>258,759.20</b>	<b>12.97</b>	<b>258,772.17</b>



## REPORT ON PROJECT'S DISBURSEMENT PROGRESS

Power Transmission Rehabilitation Project  
 Partially implemented by "High Voltage Electric Networks" CJSC  
 ADB Loan 3150-ARM (SF)  
 For the period from 12 February 2015 to 31 December 2015  
 USD

Category	Actual		Budget		Variance	
	Reporting period	Cumulative as at 31.12.2015	Reporting period	Cumulative as at 31.12.2015	Reporting period	Cumulative as at 31.12.2015
2. Substations	-	-	-	-	-	-
3.(b) Consulting Services	258,759.20	258,759.20	260,000.00	260,000.00	(1,240.80)	(1,240.80)
4. Interest charge	12.97	12.97	-	-	12.97	12.97
Taxes, duties	65,145.58	65,145.58	71,000.00	71,000.00	(5,854.42)	(5,854.42)
Other (Other Project's operational costs)	32,477.98	32,477.98	-	-	32,477.98	32,477.98
<b>Total</b>	<b>356,395.73</b>	<b>356,395.73</b>	<b>331,000.00</b>	<b>331,000.00</b>	<b>25,395.73</b>	<b>25,395.73</b>

## NOTES TO THE FINANCIAL STATEMENTS

*Power Transmission Rehabilitation Project  
Partially implemented by "High Voltage Electric Networks" CJSC  
ADB Loan 3150-ARM (SF)  
For the period from 12 February 2015 to 31 December 2015*

### 1. General information

#### 1.1. Project financing

According to the Loan Agreement between the Republic of Armenia and the Asian Development Bank (ADB) on 5 September 2014, ADB agreed to provide the Republic of Armenia the loan 3150-ARM (SF) in the total amount of 24,022,000 Special Drawing Rights (SDR) to finance the Power Transmission Rehabilitation Project (the Project).

The same date, the ADB concluded Project Agreement with "Electro Power Systems Operator" CJSC (EPSO) and "High Voltage Electric Networks" CJSC (HVEN) sharing the Project implementation between them.

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

The Republic of Armenia provides co-financing through the state budget to cover taxes and duties applicable.

The Loan Agreement became effective on 12 February 2015.

The Loan closing date is 30 June 2020.

#### 1.2. Project objectives

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

The Project's components are:

- (a) Expanding supervisory control and data acquisition and energy management systems;
- (b) 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;
- (c) Providing support to EPSO) and HVEN for Project management and construction supervision, and capacity building.

### 1.3. The Project Implementation

The Project is implemented by "Electro Power Systems Operator" CJSC (EPSO) and "High Voltage Electric Networks" CJSC (HVEN).

The EPSO was established by the decree of N 779-A dated 2 May 2003 by the Government of the Republic of Armenia.

The HVEN was established by the decree of N 450 dated 20 July 1998 by the Government of the Republic of Armenia.

The address of the "HVEN" CJSC is: 1 Zoravar Andranik Street, Yerevan 0084, the Republic of Armenia.

### 1.4. The Project Budget

The ADB Loan 3150-ARM(SF) budget totals to 24,022,000 SDR.

Category	Total SDR	Shared between	
		EPSO	HVEN
		SDR	SDR
1.Turnkey (SCADA and EMS expansion)	7,466,000	7,466,000	-
2. Turnkey (Substations)	12,595,000	-	12,595,000
3.Consulting Services	2,337,000	779,000	1,558,000
3A. SCADA and EMS expansion	779,000	779,000	-
3B. Substations	1,558,000	-	1,558,000
Interest	1,429,000	520,060	908,940
Unallocated	195,000	64,688	130,312
<b>Total</b>	<b>24,022,000</b>	<b>8,829,748</b>	<b>15,192,252</b>

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

Category	ADB Loan 3150-ARM (SF)		The Republic of Armenia	HVEN	Total
	SDR	USD updated*	USD	USD	USD
2. Turnkey (Substations)	12,595,000	17,452,892	-	-	17,452,892
3B.Consulting Services	1,558,000	2,159,167	-	-	2,159,167
Interest	908,940	1,259,518	-	-	1,259,518
Unallocated	130,312	180,573	-	-	180,573
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>21,052,150</b>	<b>4,500,000</b>	<b>4,000,000</b>	<b>29,552,150</b>

(\*) Budget USD equivalent of SDR underlined loan is calculated based on cumulative funds received in USD, plus USD equivalent of undisbursed funds (if any) in SDR as at reporting date. SDR/USD rate at 31.12.2015 is set 1 SDR=1.3857 USD.

## **2. Significant accounting policies**

### ***2.1 Preparation and presentation of financial statements***

The Project financial statements are prepared in accordance with the International Public Sector Accounting Standard “Financial Reporting Under the Cash Basis of Accounting” issued by the International Federation of Accountants (IFAC) and presented in accordance with “Handbook for Borrowers on the Financial Management and Analysis of Project” issued by Asian Development Bank on 2006.

The Project financial statements consist of:

- Statement of cash receipts and payments,
- Statement of uses of funds by project activity,
- Statement of loan withdrawals,
- Report on Project’s disbursement progress,
- Notes to the financial statements, comprising:
  - Summary of significant accounting policies,
  - Other explanatory notes.

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the periods presented.

### ***2.2 Cash basis of accounting***

The financial statements are prepared and presented using the cash basis of accounting. Cash basis means a basis of accounting under which transactions and other events are recognized only when cash or its equivalent is received or paid. Financial statements prepared under the cash basis provide information about the sources of cash raised during the period, the purpose for which cash was used and the cash balances at the reporting date.

### ***2.3 Reporting currency***

The Project functional statements are presented in United States Dollars (USD).

### ***2.4 Foreign currency transactions***

Foreign currency is a currency other than the reporting currency of the Project.

Project accounts are maintained and transactions are made in USD and Armenian Drams (AMD). Transactions denominated in AMD are translated into USD as follows:

- Contributions of the Republic of Armenia expressed in AMD are translated into USD at the official exchange rate defined by the CBA of the Republic of Armenia at the date of transfer.

The exchange rate defined by the CBA as at 31 December 2015 is USD 1 =483.75 AMD.

## 2.5 Project Financing

The Project financing through IDA Credit 3150-ARM (SF) in the total amount of 15,192,252 SDR is done 100% for all expenditure categories defined in the credit agreement.

Taxes and duties imposed by the tax laws of the Republic of Armenia are not paid through the credit funds. Those are paid from co-financing funds provided by the Republic of Armenia.

The Project Implementation Unit (PIU) related expenditures are covered by the HVEN.

## 2.6 Taxes

All applicable taxes are paid in accordance with tax regulations of the Republic of Armenia.

## 3. ADB Loan 3150-ARM (SF) financing

	Reporting period USD	Cumulative as at 31.12.2015 USD
Direct Payment	258,759.20	258,759.20
Interest	12.97	12.97
<b>Total</b>	<b>258,772.17</b>	<b>258,772.17</b>

The financing of ADB Loan funds are completed through Direct Payment procedures.

## 4. Project's implementation progress

Category	Cumulative as at 31.12.2015	Budget	Implementation*
	USD	USD	%
2.Turnkey (Substations)	-	17,452,892	-
3B.Consulting Services	258,759.20	2,159,167	12%
Interest	12.97	1,259,518	-
Unallocated	-	180,573	-
Taxes, duties	65,145.58	4,500,000	1%
Other (Project's operational costs)	32,477.98	4,000,000	1%
<b>Total</b>	<b>356,395.73</b>	<b>29,552,150</b>	<b>1%</b>

## 5. Prepayments and payables

For the information purposes, non-settled prepayments and payables as at the reporting date are set below.

<b>Prepayments</b>	<b>As at 31.12.2015 USD</b>
On consultancy	250,000.00
<b>Total</b>	<b>250,000.00</b>

<b>Payables</b>	<b>31.12.2015 USD</b>
On income tax	637.07
<b>Total</b>	<b>637.07</b>

## ANNEX. EXPENDITURE DETAILS BY ITEMS

*Power Transmission Rehabilitation Project  
Partially implemented by "High Voltage Electric Networks" CJSC  
ADB Loan 3150-ARM (SF)  
For the period from 12 February 2015 to 31 December 2015  
In USD*

<b>Description</b>	<b>Paid amount</b>	<b>Contract</b>
<b>Consulting services</b>		
Project consultant (CESI S.P.A., INCICO S.P.A., (JV), Ameria CJSC (subconsultant) )	250,000.00	Contract for consultants services dated 20 November 2015
Consultant Karen Khudoyan	8,759.20	Contract for consultants services dated 24 June 2015
<b>Total Consulting services</b>	<b>258,759.20</b>	
<b>Total Expenditures from ADB fund</b>	<b>258,759.20</b>	
<b>Taxes</b>		
Project consultant (CESI S.P.A., INCICO S.P.A., (JV), Ameria CJSC (subconsultant) )	62,751.12	Contract for consultants services dated 20 November 2015
Consultant Karen Khudoyan	2,394.46	Contract for consultants services dated 24 June 2015
<b>Total Taxes covered by the Republic of Armenia co-financing</b>	<b>65,145.58</b>	
<b>Operational costs covered by the HVEN</b>	<b>32,477.98</b>	