



Special Purpose Project Financial Statements and
Independent Auditor's Report

“High Voltage Electric Networks” CJSC

Electricity Transmission Network Improvement Project
Grant TF016604

As of October 8, 2015 and for the period from
July 1, 2014 to October 8, 2015

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Contents

	Page
Independent auditor's report	1
Statement of financial position	3
Statement of the Project sources and uses of funds	4
Statement of uses of funds by Project activities	5
SOE withdrawal schedule	6
Designated account statement	7
Notes to the special purpose project financial statements	8

Independent auditor's report

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To the shareholder of “High Voltage Electric Networks” CJSC

We have audited the accompanying special purpose project financial statements of the Electricity Transmission Network Improvement Project (the “Project” or the “ETNIP”), financed by the International Bank for Reconstruction and Development (the “IBRD”) Grant Agreement TF016604, which comprise the statement of financial position as of October 8, 2015, the statement of the Project sources and uses of funds, the statement of uses of funds by Project activities, the designated account statement as of October 8, 2015 and for the period from July 1, 2014 to October 8, 2015, as well as the statement of expenditures (“SOE”) submitted to the World Bank for the period from July 1, 2014 to October 8, 2015 in support of the Grant Agreement TF016604 withdrawals, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Special Purpose Project Financial Statements

Management of “High Voltage Electric Networks” CJSC (the “Company”) is responsible for the preparation and fair presentation of these special purpose project financial statements in accordance with the accounting policies described in note 2 to the special purpose project financial statements, the World Bank guidelines, and the relevant points of the Grant Agreement TF016604, and for such internal control as management determines is necessary to enable the preparation of these special purpose project financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these special purpose project 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 about whether the special purpose project financial statements are free from material misstatement.

An audit involves performing procedures to obtain 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 risks of material misstatement of the special purpose project financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating 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.

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

Opinion

In our opinion, the special purpose project financial statements give a true and fair view of the financial position of the Electricity Transmission Network Improvement Project as of October 8, 2015, and of the funds received and expenses incurred for the period from July 1, 2014 to October 8, 2015, in accordance with the accounting policies described in the note 2 to the special purpose project financial statements, the World Bank guidelines, and the relevant points of the Grant Agreement TF016604.

In addition, in our opinion, the SOEs submitted together with the internal controls and procedures involved in their preparation can be relied upon to support the applications for the Grant Agreement TF016604 withdrawals.

Basis of Accounting

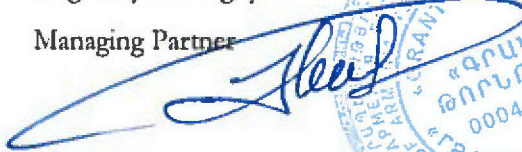
Without modifying our opinion, we draw attention to note 2 to the special purpose project financial statements, which describes the basis of accounting. The special purpose project financial statements are prepared to assist the management of the "High Voltage Electric Networks" CJSC to meet the requirements of the financial reporting of the World Bank. As a result, the special purpose project financial statements may not be suitable for another purpose.

Emphasis of a Matter

We draw attention to note 3 to the special purpose project financial statements which states that the closing date of the Project was defined as May 30, 2015. Our opinion is not qualified in respect of this matter.

October 9, 2015

Gagik Gyulbudaghyan
Managing Partner



Emil Vassilyan, FCCA
Engagement Partner



Statement of financial position

In US dollars	Note	As of October 8, 2015
Assets		
<i>Non-current assets</i>		
Accumulated Project expenses		654,785
		<u>654,785</u>
Total assets		<u><u>654,785</u></u>
<i>Funds and liabilities</i>		
<i>Funds</i>		
Accumulated Project financing	4	644,590
Exchange rate difference		10,195
		<u>654,785</u>
Total funds and liabilities		<u><u>654,785</u></u>

The special purpose project financial statements were approved on October 8, 2015 by:

Aram Ananyan
 General Director

Artavazd Ghazaryan
 Chief Accountant

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

Statement of the Project sources and uses of funds

As of October 8, 2015 and for the period from July 1, 2014 to October 8, 2015

In US dollars

	Actual		Planned		Variance		Life of Project
	For the period	As of October 8, 2015	For the period	As of October 8, 2015	For the period	As of October 8, 2015	
<i>Sources of funds</i>							
Grant TF 016604 (note 5)	620,302	620,302					
Government co-financing (note 4)	20,353	20,353					
"High Voltage Electric Networks" CJSC financing	3,935	3,935					
Total	644,590	644,590					
Exchange rate difference	10,195	10,195					
<i>Less: Uses of funds</i>							
Consultants' services (including audit) and training	654,785	654,785	1,072,060	1,072,060	(417,275)	(417,275)	1,070,300
Total	654,785	654,785	1,072,060	1,072,060	(417,275)	(417,275)	1,070,300
Net increase in working capital	-	-					

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

Statement of uses of funds by Project activities

As of October 8, 2015 and for the period from July 1, 2014 to October 8, 2015

In US dollars

	Actual		Planned		Variance		Life of Project
	For the period	As of October 8, 2015	For the period	As of October 8, 2015	For the period	As of October 8, 2015	
Part 1: Preparation of investment scope of ETNIP and technical grid studies	461,278	461,278	687,026	687,026	(225,748)	(225,748)	775,000
Part 2: Preparation of safeguards documents	103,225	103,225	231,956	231,956	(128,731)	(128,731)	231,300
Part 3: Training and scoping of technical assistance under ETNIP	84,985	84,985	143,478	143,478	(58,493)	(58,493)	49,000
Part 4: Preparation of operational manuals	2,816	2,816	-	-	2,816	2,816	5,000
Part 5: Financial audit	2,481	2,481	9,600	9,600	(7,119)	(7,119)	10,000
Total	654,785	654,785	1,072,060	1,072,060	(417,275)	(417,275)	1,070,300

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

SOE withdrawal schedule

Grant TF 016604

For the period from July 1, 2014 to October 8, 2015

In US dollars

Application No.	Category
7-DA	Consultants' services (including audit), and training 86,731
12-DA	28,485
Total	115,216

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

Designated account statement

Grant TF 016604

As of October 8, 2015 and for the period from July 1, 2014 to October 8, 2015

In US dollars

Opening balance as of July 1, 2014		-
Add:		
Cumulative unexplained discrepancy	-	
Grant replenishment during the year	175,000	
Transfer from the local account	5,820	
	<u>180,820</u>	<u>180,820</u>
<i>Less: Refund to the World Bank from the designated account during the year</i>		(26,638)
Present outstanding amount advanced to the designated account (1)		<u>154,182</u>
Closing balance as of October 8, 2015		-
Add:		
Amount of eligible expenditures paid during the year	122,210	
Transfer to the local account	31,972	
Service charges (if applicable)	-	
	<u>154,182</u>	<u>154,182</u>
<i>Less: Interest earned (if credited into the designated account)</i>		-
Total advance accounted for (2)		<u>154,182</u>
Discrepancy (1) – (2) to be explained		-

“Transfer from the local account” comprises the sum transferred from the local account of the Company, which includes returned amounts previously provided for travel expenses.

“Transfer to the local account” comprises the sum transferred to the Company as reimbursement for the expenses incurred.

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

Notes to the special purpose project financial statements

1 Activity

“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 November 23, 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 Company implements the Electricity Supply Reliability Project (the “Project”) financed in accordance with the Grant Agreement TF 016604 dated February 12, 2014 signed between the International Bank for Reconstruction and Development (the “IBRD”) and the Republic of Armenia. In accordance with the sub-grant agreement dated June 30, 2014 signed between the Ministry of Finance of the Republic of Armenia and the Company, the Ministry of Finance transferred to the Company the IBRD grant amount of 670,000 US dollars, which should be used only for the Project implementation.

The objectives of the Project are to (a) enhance the readiness of the High Voltage Electric Networks and the Yerevan Thermal Power Plant to implement Electricity Transmission Network Improvement Project; (b) strengthen the capacity of the Company and the Yerevan Thermal Power Plant.

The Project consists of the following parts:

Part 1: Preparation of investment scope of the Project and technical grid studies

- (a) Identifying potential priority investment needs including economic and financial justification of the proposed investments to be supported under the Project based on the comprehensive economic and financial analysis.
- (b) Preparing design, technical specifications and bidding documents.
- (c) Developing a detailed implementation schedule to ensure timely implementation of investments under the Project.
- (d) Conducting technical studies to improve reliability, safety and security of the power system, including studies required for the Project.

Part 2: Preparation of safeguards documents

- (a) Providing support to the Company and the Yerevan Thermal Power Plant to prepare, disclose and discuss the safeguards documents for the Project.
- (b) Identifying gender impacts and designing relevant mitigation measures to promote gender sensitivity within the Project.

Part 3: Training and scoping of technical assistance under the Project.

- (a) Providing training to the Company and the Yerevan Thermal Power Plant staff on technical, fiduciary, and safeguards aspects of the Project preparation and implementation.
- (b) Supporting the scoping of the technical assistance under the Project.

Part 4: Preparation of operational manuals.

Preparing the operational manuals to guide the Company and the Yerevan Thermal Power Plant in the implementation of their respective components of the Project.

Part 5: Financial audit

Conducting an audit on the use of the grant funds.

The financing of the Project consists of the following part:

Category	Amount of the grant allocated (in US dollars)	Percentage of expenditures to be financed (excluding taxes)
Consultants' services (including audit) and training	670,000	100%
Total	670,000	

The legal address of the Company is Z. Andranik 1, Yerevan, Armenia.

The average number of the Company's staff involved in the Project during the reporting period was 8.

2 Significant accounting policies

2.1 Basis of preparation

The special purpose project financial statements were prepared in accordance with the accrual basis of accounting as well as the World Bank guidelines and the relevant points of the requirements of the Grant Agreement TF 016604. Significant accounting policies are disclosed below.

2.2 Functional and presentation currency

The national currency of the Republic of Armenia is Armenian dram. These special purpose project financial statements are presented in US dollars (presentation currency).

In preparing the special purpose project financial statements, transactions in currencies other than US dollar are recorded at the rates of exchange defined by the Central Bank of Armenia prevailing on the dates of the transactions. At each reporting date, monetary items denominated in foreign currencies are retranslated at the rate defined by the Central Bank of Armenia prevailing on that date, which is 472.16 Armenian drams for 1 US dollar as of October 8, 2015. Any exchange rate differences are recognized in the statement of the Project sources and uses of funds and the accumulated figure of exchange rate difference is disclosed in the Statement of financial position under "Funds".

2.3 Project financing

The financing received in the framework of the Grant Agreement TF 016604 is recorded in the statement of financial position as "Accumulated Project financing" and is recognized at each replenishment. In addition, the current year funds received are disclosed in the statement of Project sources and uses of funds, showing the sources of funds.

2.4 Project expenses

The Project expenses are recognized on the accrual basis of accounting. The accumulated Project expenses are disclosed in the statement of financial position under non-current assets. In addition, current year expenses are disclosed in the statement of Project sources and uses of funds and statement of uses of funds by Project activities.

2.5 The World Bank financing

To finance eligible expenditures for the Grant Agreement TF 016604, the World Bank disburses proceeds from the Project account using one or more of the disbursement methods, which are stated below:

a. Reimbursement

The Bank may reimburse the borrower to finance eligible expenditures that the borrower has prefinanced from its own resources.

b. Advance

The Bank may advance grant proceeds into a designated account of the borrower to finance eligible expenditures as they are incurred and for which supporting documents will be provided at a later date.

c. Direct payments

The Bank may make payments, at the borrower's request, directly to a third party for eligible expenditures.

d. Special commitment

The Bank may pay amounts to a third party for eligible expenditures under special commitments entered into, in writing, at the borrower's request and on terms and conditions agreed between the Bank and the borrower.

3. Closing date of the Project

According to the Grant Agreement, the Project closing date was defined as May 30, 2015 with the grace period until September 30, 2015. The Company has not made any payments after the grace period until the date of these special purpose project financial statements, but has submitted applications to the World Bank.

4. Accumulated Project financing

In US dollars	For the period from July 1, 2014 to October 8, 2015
Grant funds	
Grant received	646,940
Amount returned (imprest account balance)	(26,638)
	<u>620,302</u>
Co-financing	
Co-financing of the Company	20,371
Amount returned (bank account balance)	(18)
	<u>20,353</u>
"High Voltage Electric Networks" CJSC financing	3,935
	<u>644,590</u>

5. Grant TF 016604

In US dollars	For the period from July 1, 2014 to October 8, 2015	As of October 8, 2015
SOE procedures	115,216	115,216
Direct payments	471,939	471,939
Designated account advances	175,000	175,000
Redemption of designated account advance	(146,295)	(146,295)
Other procedures	31,080	31,080
Amount returned	(26,638)	(26,638)
	<u>620,302</u>	<u>620,302</u>

Under the method of “Other procedures” of financing, the Company requests advance to and documentation of designated account accompanied by the records evidencing eligible expenditures for payments against contracts valued at more than the amounts in accordance with the Disbursement Letter and contracts that are subject to the World Bank's prior review.

Under the method of “SOE procedures” of financing, the Company requests advance to and documentation of designated account accompanied by the statement of expenditure (SOE).

The Company reports regularly on the use of grant proceeds advanced to a designated account. This is disclosed as redemption of the designated account advance.

6. Subsequent events

On 7 October, 2015 the Company submitted to the World Bank the Application 13-DA (2,067 USD) under the method of SOE procedure, which has not been reflected in the World Bank system (Client Connection) as of the date of the special purpose project financial statements.

7. Reconciliation between the amounts received by the "High Voltage Electric Networks" CJSC and disbursed by the World Bank

Grant TF 016604

For the period from July 1, 2014 to October 8, 2015

In US dollars

<u>Category</u>	<u>Appl.</u>	<u>Company</u>	<u>The World Bank</u>	<u>Difference</u>
Consultants' services (including audit) and training				
	2-DA	72,434	72,434	-
	4-DA	45,675	45,675	-
	5-DA	93,296	93,296	-
	7-DA	88,896	88,896	-
	10-DA	130,173	130,173	-
	11-DA	130,362	130,362	-
	12-DA*	86,104	86,104	-
	USD 28,705.37 excess*	(28,705)	(28,705)	-
		<u>618,235</u>	<u>618,235</u>	-
Advance				
	1-DA	40,000	40,000	-
	3-DA	40,000	40,000	-
	6-DA	20,000	20,000	-
	7-DA	(88,896)	(88,896)	-
	8-DA	20,000	20,000	-
	9-DA	55,000	55,000	-
	12-DA	(57,399)	(57,399)	-
		<u>28,705</u>	<u>28,705</u>	-
Amounts returned (note 4)		<u>(26,638)</u>	<u>(26,638)</u>	-
Total		<u>620,302</u>	<u>620,302</u>	-

*The Organization has erroneously submitted the withdrawal application No. 12-DA at the amount of US dollars 86,104 as a documented amount (whereas the attached breakdown amounted to US dollars 57,399), which was accepted by the World Bank on September 28, 2015. The error was corrected through the transaction No. USD 28,705.37 excess on September 30, 2015.

