

**NORTH-SOUTH ROAD CORRIDOR INVESTMENT PROGRAM-
PROJECT 2**

LOAN NUMBER 2729-ARM

FINANCED BY ASIAN DEVELOPMENT BANK

FINANCIAL STATEMENTS

AND

INDEPENDENT AUDITOR'S REPORT

For the year ended 31 December 2014

**YEREVAN
June 2015**

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**THE MANAGEMENT COUNCIL
OF NORTH-SOUTH ROAD CORRIDOR INVESTMENT PROGRAM**

Chairman of the Management Council

Hovik Abrahamyan Prime Minister of the Republic of Armenia

Members of the Management Council

Gagik Beglaryan	Minister of Transport and Communication of the Republic of Armenia
Yervand Zakharyan	Minister of Energy and Natural Resources of the Republic of Armenia
Gagik Khachatryan	Minister of Finance of the Republic of Armenia
Hovhannes Manukyan	Minister of Justice of the Republic of Armenia
Karen Chshmaritian	Minister of Economy of the Republic of Armenia
Taron Margaryan	Yerevan Mayor
Kamo Areyan	First Deputy Mayor
Vahe Nikoyan	Deputy Mayor
Nerses Yeritsyan	Deputy Chairman of the Central Bank of the Republic of Armenia
Artur Araqelyan	Deputy of Minister of Transport and Communication of the Republic of Armenia
Ashot Musayan	Deputy Chairman of the State Committee of Real Estate Cadastre adjunct to the Republic of Armenia
Artur Sargsyan	Acting Executive General Director of the "Organization for Implementation of North-South Road Corridor Investment Program" State Non-Commercial Organization
Nora Martirosyan	Deputy Director of the Yerevan Urban Development Investment Programs Implementation Agency, Projects Manager



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"SOS-AUDIT" LTD

INDEPENDENT AUDITOR'S REPORT N 70

*On the financial statements of
"North-South Road Corridor Investment Program – Project 2"
for the year ended 31 December 2014*

To the Management of the "Organization for Implementation of North-South Road Corridor Investment Program" State Non-Commercial Organization (The Organization)

We have audited the accompanying financial statements of the "North-South Road Corridor Investment Program – Project 2" (the Project) financed by the Asian Development Bank Loan 2729-ARM, 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 year ended 31 December 2014, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

The Organization'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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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 year ended 31 December 2014 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 2729-ARM "North-South Road Corridor Investment Program–Project 2 (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 2729-ARM were complied.

"SOS-Audit" LLC
30 June 2015



Manvel Ghazaryan
Manvel Ghazaryan
Director

Gnel Khachatryan
Gnel Khachatryan, FCCA
Auditor

STATEMENT OF CASH RECEIPTS AND PAYMENTS

North-South Road Corridor Investment Program –Project 2
ADB Loan 2729-ARM
For the year ended 31 December 2014

	Note	Year ended 31.12.2014	Cumulative as at 31.12.2014
		USD	USD
Cash Receipts			
ADB Loan 2729-ARM financing	3	18,633,867	38,965,647
The Republic of Armenia co-financing		2,139,579	3,336,354
Total financing		20,773,446	42,302,001
Payments for	5		
Works		17,634,220	35,583,772
Consulting Services		685,226	2,494,463
Interest		327,886	900,878
Taxes, duties		2,140,819	3,031,809
Total Payments		20,788,151	42,010,922
Other inflows/(outflows)	6	49,232	(250,588)
Foreign currency loss		(33,184)	(38,344)
Net increase in cash		1,343	2,147
Opening cash balance		804	-
Closing cash balance	4	2,147	2,147

The project financial statements were approved by the management of "Organization for Implementation of North-South Road Corridor Investment Program" State Non-Commercial Organization on 30 June 2015 and signed on its behalf. The accompanying notes form an integral part of these project financial statements.

Artur Sargsyan
Chief Executive Officer



Sergey Melik-Yolchyan
Financial economic executive/chief accountant

STATEMENT OF USES OF FUNDS BY PROJECT ACTIVITY

North-South Road Corridor Investment Program—Project 2

ADB Loan 2729-ARM

For the year ended 31 December 2014

USD

Project Activity	Expenditures		Financing source			
	Total		ADb Loan 2729-ARM	RoA financing	Other (note 7)	Financing source as at 31.12.2014
	Year ended 31.12.2014	Cumulative as at 31.12.2014				
Reconstruction of 41.3 km of two-lane road section between towns of Ashtarak and Talin and widening it into four-lane road	19,054,099	37,349,705	17,634,220	1,419,879	-	35,583,772
Consulting services and Project management	1,406,166	3,760,339	671,761	718,196	16,209	2,480,997
Interest	327,886	900,878	327,886	-	-	900,878
Total	20,788,151	42,010,922	18,633,867	2,138,075	16,209	38,965,647
						3,029,066
						16,209

North-South Road Corridor Investment Program Project 2

Financial Statements

for the year ended 31 December 2014

STATEMENT OF LOAN WITHDRAWALS

North-South Road Corridor Investment Program–Project 2

ADB Loan 2729-ARM

For the year ended 31 December 2014

USD

Application number	Expenditure category			Total
	Civil works	Consulting services	Interest	
	1	2	3	
6DP	70,761.22	-	-	70,761.22
7DP	596,986.48	-	-	596,986.48
8DP	3,939,116.06	-	-	3,939,116.06
9DP	896,873.00	-	-	896,873.00
12DP	5,037,381.84	-	-	5,037,381.84
13DP	-	13,536.21	-	13,536.21
14DP	3,478,307.92	-	-	3,478,307.92
15DP	2,400,000.00	-	-	2,400,000.00
16DP	1,214,793.52	-	-	1,214,793.52
17DP	-	658,225.12	-	658,225.12
	-	-	165,625.30	165,625.30
	-	-	162,260.81	162,260.81
Total	17,634,220.04	671,761.33	327,886.11	18,633,867.48

REPORT ON PROJECT'S DISBURSEMENT PROGRESS

North-South Road Corridor Investment Program—Project 2

ADB Loan 2729-ARM

For the year ended 31 December 2014

USD

Category	Actual		Budget		Variance	
	Year ended 31.12.2014	Cumulative as at 31.12.2014	Year ended 31.12.2014	Cumulative as at 31.12.2014	Year ended 31.12.2014	Cumulative as at 31.12.2014
Works	17,634,220	35,583,772	25,975,224	91,096,178	(8,341,004)	(55,512,406)
Consulting Services	685,226	2,494,463	1,158,159	4,557,859	(472,933)	(2,063,396)
Interest	327,886	900,878	327,886	900,878	-	-
Other (taxes)	2,140,819	3,031,809	3,787,089	11,262,133	(1,646,270)	(8,230,324)
Total	20,788,151	42,010,922	31,248,358	107,817,048	(10,460,207)	(65,806,126)

NOTES TO THE FINANCIAL STATEMENTS

North-South Road Corridor Investment Program–Project 2
ADB Loan 2729-ARM
For the year ended 31 December 2014

1. General information

1.1. Project financing

According to the Scope Financing Agreement between the Republic of Armenia and the Asian Development Bank (ADB) signed on 15 September 2009, ADB agreed to provide the Government of Armenia multi-tranche financial facility in the total amount of 500 million USD (United States Dollars) to finance the North-South Road Corridor Investment Program (the Project).

Financing tranches may be made available by ADB provided matters continue to be in accordance with the general understandings and expectations on which the Facility is based. Each loan constitutes a separate tranche. Each tranche may be financed under terms different from the financing terms of previous or subsequent tranches. Tranches may be provided in sequence or simultaneously, and some may overlap in time with each other.

According to the Loan Agreement North-South Road Corridor Investment Program–Project 2 (special operations) (hereafter: the Project) between the Republic of Armenia and the Asian Development Bank (ADB) on 30 May 2011, ADB provided the Republic of Armenia the loan 2729-ARM in the total amount of 170,000,000 USD .

Co-financing is provided through the state budget resources of the Republic of Armenia. The co-financing is provided to cover taxes and duties applicable.

The loan closing date is 30 June 2017.

1.2. Project objectives

The Project's goals financed by the loan 2729-ARM are:

- (i) Facilitate efficient sub regional road transport transit;
- (ii) Increase trade flows and competitiveness;
- (iii) Lower transport costs,
- (iv) Increase mobility and accessibility to markets, jobs and social services;
- (v) Improve governance.

The Project's components are:

- (i) Reconstruction of approximately 41.3 km of two-lane road section between towns of Ashtarak and Talin and widening it into four-lane road
- (ii) Consulting services and Project management, including preparation of feasibility studies and detailed design of subsequent Project's proposed for financing under the Investment Program, construction supervision, preparation of tender documents, procurement and capacity building.

1.3. The Project Budget

The Project budget totals to 210,000,000 US dollars.

Category	ADB Loan 2729-ARM	The Republic of Armenia	Total
	USD	USD	USD
Works	149,700,000	-	149,700,000
Consulting Services	7,000,000	-	7,000,000
Interest	10,000,000	-	10,000,000
Other (including local taxes)	-	32,000,000	32,000,000
Unallocated	3,300,000	8,000,000	11,300,000
Total	170,000,000	40,000,000	210,000,000

1.4. The Project Implementation Unit

The Project is implemented by "Organization for Implementation of North-South Road Corridor Investment Program" State Non-Commercial Organization (the Organization) which was established by the decree of N 446-N dated 11 March 2010 by the Government of the Republic of Armenia. The Organization is a non-commercial legal entity. The governing state authority of the Organization is the Ministry of Transport and Communication of the Republic of Armenia.

The operating address of the Organization is: 58 Pushkin Street, Yerevan, the Republic of Armenia.

1.5. Land Acquisition and Resettlement Plan (LARP)

The Project implementation requires land acquisition and resettlement of persons affected. The Republic of Armenia Government by the decree N 1139-N dated 6 Sept 2012 approved land acquisition and resettlement plan for North-South Road Corridor Investment Program–Project 2 (road section between towns of Ashtarak and Talin).

LARP is wholly financed by the Republic of Armenia Government. The cost of LARP was determined as 2,304,485 thousand Armenian Drams. The Government provided total amount to "Organization for Implementation of North-South Road Corridor Investment Program" State Non-Commercial Organization in year 2012. In accordance with the Republic of Armenia Government Decree N 603-N dated 12.06.2014, on 21 July 2014 an additional amount of 958,826 thousand dram was provided for financing of LARP.

During 2014, the expenditures related to LARP amounted to 1,822,101 thousand Armenian drams (2013: 1,133,083 thousand drams).

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 annual state budget of the Republic of Armenia at the date of transfer.

The exchange rate defined by the state budget of the Republic of Armenia for year 2014 is USD 1 = 405.26 AMD (in 2013 USD 1=405.26).

The exchange rate defined by the CBA as at 31 December 2014 is USD 1 =474.97 AMD (in 31.12.2013 USD 1=405.64).

2.5 Cash

Cash comprise bank accounts balances.

2.6 Project Financing

The Project financing through IDA Credit 2729-ARM in the total amount of 170,000,000 USD 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.

2.7 Taxes

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

3. ADB Loan 2729-ARM financing

	Year ended 31.12.2014 USD	Cumulative as at 31.12.2014 USD
Direct Payment	18,305,981	38,064,769
Interest	327,886	900,878
Total	18,633,867	38,965,647

4. Cash

	As at 31.12.2014 USD	As at 31.12.2013 USD
Current account, RoA co-financing, in AMD	2,147	804
Total	2,147	804

5. Project's implementation progress

Category	Cumulative as at 31.12.2014 USD	Budget USD	Implementation %
Works	35,583,772	149,700,000	23.8
Consulting Services	2,494,463	7,000,000	35.6
Interest	900,878	10,000,000	9.0
Other (including local taxes)	3,031,809	32,000,000	9.5
Unallocated	-	11,300,000	-
Total	42,010,922	210,000,000	20.0

6. Other inflows/(outflows)

	As at 31.12.2014 USD
<i>Amounts temporary received/(provided) from/(to) Tranche 1</i>	
From RoA co-financing (in 2012)	(299,820)
From ADB Loan 2561-ARM(SF) (in 2014)	13,465
From RoA co-financing (in 2014)	2,744
	(283,611)
Other	33,023
	(250,588)

7. Prepayments and payables

For the information purposes, not redeemed prepayments and payables as at the reporting date are set below.

Prepayments	As at 31.12.2014 USD	As at 31.12.2013 USD
On civil works*	26,933,577	17,116,153
On consultancy	46,239	718,355
Total	26,979,816	17,834,508

Payables	31.12.2014 USD	31.12.2013 USD
On civil works	-	84,913
Post warranty amounts	1,153,359	240,138
On consultancy	-	16,450
Total	1,153,359	101,363

(*)According to civil works contract, the prepayment settlement commences from payable amounts on submitted implemented acts succeeding the 30% of total contract work. Though completed works consist of 17 million USD as at the reporting date, only works in the amount of approximately 12 million USD have been approved. Therefore, there were no settlement of prepayments as at the reporting date and the date of signing these financial statements.

8. Events after the reporting date

The application for Direct Payment N 16 in the amount of 4,166,784 USD was submitted to ADB on 29.04.2015 and approved on 29.05.2015.

9. Litigations

There are no pending litigations related to the Project as at reporting date and as at approval date of these financial statements.

ANNEX . EXPENDITURE DETAILS BY ITEMS

North-South Road Corridor Investment Program –Project 2
 ADB Loan 2729-ARM
 For the year ended 31 December 2014
 In USD

Description	Paid amount	Contract
Works		
Civil works	17,634,220	Construction contract T1-T2 CW-01, dated 27 April 2012
Total civil works	17,634,220	
Consulting services		
Project management consultant	685,226	Contract for consultants services dated 18 May 2012
Total Consulting services	685,226	
Total Expenditures from ADB fund	18,649,049	
Taxes		
Civil works	1,419,879	Contract T1-T2 CW-01, dated 27 April 2012
Project management consultant	720,940	Contract for consultants services dated 18 May 2012
Total Expenditures from co-financing fund	2,140,819	