

**ORGANIZATION FOR IMPLEMENTATION OF NORTH-SOUTH ROAD  
CORRIDOR INVESTMENT PROGRAM  
STATE NON-COMMERCIAL ORGANIZATION**

**FINANCIAL STATEMENTS  
AND  
INDEPENDENT AUDITOR'S REPORT**

**for the year ended 31 December 2014**

**YEREVAN  
June 2015**

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# "ՍՕՍ-ԱՌԻԴԻՏ" ՍՊԸ

## "SOS-AUDIT" LTD

### INDEPENDENT AUDITOR'S REPORT N 71

*On the financial statements of "Organization for Implementation of North-South Road Corridor Investment Program" State Non- Commercial Organization  
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 "Organization for Implementation of North-South Road Corridor Investment Program" State Non-Commercial Organization, which comprise the statement of financial position as at 31 December 2014, the statement of financial performance, the statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

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

The Management of the Organization is responsible for the preparation and fair presentation of these financial statements in accordance with International Public Sector Accounting Standards, 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 entity'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.

Քրոու Հորվաթ Բիզնես Ալյանսի Ասոցիացված Անդամ

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# "ՍՕՍ-ԱՌԻԴԻՏ" ՍՊԸ

## "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, the financial statements present fairly in all material respects the financial position of the "Organization for Implementation of North-South Road Corridor Investment Program" State Non-Commercial Organization as of 31 December 2014, as well as financial performance and cash flows for the year then ended in accordance with International Public Sector Accounting Standards.

"SOS-Audit" LLC  
30 June 2015



Manvel Ghazaryan  
Director

  
Gnel Khachatryan, FCCA  
Auditor

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## STATEMENT OF FINANCIAL POSITION

"Organization for Implementation of North-South Road Corridor  
Investment Program" State Non-Commercial Organization  
As at 31 December 2014

	Note	As at 31.12.2014 AMD'000	As at 31.12.2013 AMD'000
<b>ASSETS</b>			
<b>Current assets</b>			
Cash	3	426,087	1,163,437
Advances	4	17,271,842	13,118,623
Inventory		278	370
Other current assets		1,093	6,339
		<u>17,699,300</u>	<u>14,288,769</u>
<b>Non-current assets</b>			
Property and equipment	5	17,882	7,265
Intangible assets		1,496	524
		<u>19,378</u>	<u>7,789</u>
<b>TOTAL ASSETS</b>		<u>17,718,678</u>	<u>14,296,558</u>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Accounts payable	6	8,642,845	3,020,858
Post warranty amounts		2,246,279	359,480
		<u>10,889,124</u>	<u>3,380,338</u>
<b>Non-current liabilities</b>			
Grant related to assets	5	19,378	7,788
		<u>19,378</u>	<u>7,788</u>
<b>TOTAL LIABILITIES</b>		<u>10,908,502</u>	<u>3,388,126</u>
<b>NET ASSETS</b>			
<b>Funds</b>			
ADB Loan 2561-ARM(SF)		18,793,456	8,286,320
ADB Loan 2729-ARM(SF)		15,675,692	8,101,155
The Republic of Armenia		4,093,884	869,278
EBRD-GOA co-financing		9,190	7,152
LARP		3,263,311	2,304,485
Other		128,874	128,754
		<u>41,964,407</u>	<u>19,697,144</u>
Cumulative project expenses		<u>(34,713,016)</u>	<u>(8,947,957)</u>
Other accumulated surplus/(deficit)		<u>(441,215)</u>	<u>159,245</u>
<b>TOTAL NET ASSETS</b>		<u>6,810,176</u>	<u>10,908,432</u>

The 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 financial statements.

Artur Sargsyan  
Chief Executive Officer

Sergey Melik-Yolchyan  
Financial economic executive/chief accountant

Organization for Implementation of North-South Road Corridor Investment Program S.A.O.  
Financial Statements  
for the year ended 31 December 2014

## STATEMENT OF FINANCIAL PERFORMANCE

"Organization for Implementation of North-South Road Corridor  
Investment Program" State Non-Commercial Organization  
For the year ended 31 December 2014

	Year ended 31.12.2014 AMD'000	Year ended 31.12.2013 AMD'000
<b>Income</b>		
Financing from		
<i>ADB Loan 2561-ARM(SF)</i>	10,507,136	322,508
<i>ADB Loan 2729-ARM(SF)</i>	7,574,537	7,646,827
<i>The Republic of Armenia</i>	3,224,606	387,891
<i>EBRD-GOA co-financing</i>	2,038	7,152
<i>LARP</i>	958,826	-
<i>Other</i>	120	105,720
<b>Total income</b>	<b>22,267,263</b>	<b>8,470,098</b>
<b>Expenses</b>		
Project expenses		
<i>Civil Works</i>	20,505,910	2,450,815
<i>Consulting Services</i>	1,019,189	1,013,213
<i>Project Management Support</i>	245,814	165,842
<i>Taxes, duties</i>	2,593,605	423,423
<i>EBRD-GOA co-financing</i>	2,905	5,505
<i>LARP</i>	1,397,636	1,111,777
<i>Other</i>	-	105,720
<b>Total expenses</b>	<b>25,765,059</b>	<b>5,276,295</b>
<b>Foreign currency exchange gain/(loss)</b>	<b>(600,460)</b>	<b>137,493</b>
<b>Surplus/(deficit) for the year</b>	<b>(4,098,256)</b>	<b>3,331,296</b>

## STATEMENT OF CASH FLOWS

*"Organization for Implementation of North-South Road Corridor  
Investment Program" State Non-Commercial Organization  
For the year ended 31 December 2014*

	Year ended 31.12.2014 AMD'000	Year ended 31.12.2013 AMD'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
<b>Receipts</b>		
ADB Loan 2561-ARM(SF) loan financing	419,693	177,500
The Republic of Armenia (on co-financing)	3,171,087	387,891
EBRD-RA co-financing	2,038	7,152
The Republic of Armenia financing(LARP)	958,826	-
Other	79	105,720
	<u>4,551,723</u>	<u>678,263</u>
<b>Payments</b>		
Project expenditures for		
Consulting Services	92,100	19,087
Project Management Support	197,557	141,891
Taxes	3,165,907	570,305
EBRD-GOA co-financing	2,905	5,505
LARP	1,822,101	1,133,083
Other	2,736	65,897
	<u>5,283,306</u>	<u>1,935,768</u>
<b>Net cash flows from operating activities</b>	<u>(731,583)</u>	<u>(1,257,505)</u>
<b>Net decrease in cash</b>	<b>(731,583)</b>	<b>(1,257,505)</b>
Foreign exchange differences	(5,767)	2,124
Opening cash balance	<u>1,163,437</u>	<u>2,418,818</u>
<b>Closing cash balance</b>	<u><b>426,087</b></u>	<u><b>1,163,437</b></u>

## NOTES TO THE FINANCIAL STATEMENTS

*"Organization for Implementation of North-South Road Corridor  
Investment Program" State Non-Commercial Organization  
For the year ended 31 December 2014*

### 1. General information

"Organization for Implementation of North-South Road Corridor Investment Program" State Non-Commercial Organization (the Organization) 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 Organization was registered by the state registry on 10 May 2010, registry number 286.210.07571, certificate number 03A088071.

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

The main objective of the Organization is implementation of "North-South Road Corridor Investment Program" (the Project).

According to the Scope Financing Agreement between the Republic of Armenia (RoA) 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).

The investment program goal is to develop North-South Road Corridor in the Republic of Armenia territory. The project also aims to attract financing for road infrastructure and development of management capability of road infrastructure, and compliance of roads' security with international standards under the Project. Financed under this project the North-South Road Corridor runs 556 km from the border with Georgia at Bavra via Gyumri, Ashtarak, Yerevan, Goris, and Kapan, to the border with Iran at Meghri.

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.

The tranches provision closing date is 31 December 2017.

According to the Loan Agreement "North-South Road Corridor Investment Program-Project 1" between the Republic of Armenia and the Asian Development Bank (ADB) on 12 October 2009, ADB provided the Government of Armenia the loan 2561-ARM(SF) in the total amount of 38,443,000 SDR (Special Drawing Rights).

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



According to the Loan Agreement “North-South Road Corridor Investment Program–Project 3” between the Republic of Armenia and the Asian Development Bank on 11 March 2014, ADB provided the Government of Armenia the loan 2993-ARM in the total amount of 100,000,000 USD (United States Dollars).

## **2. Summary of significant accounting policies**

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

The financial statements are prepared in accordance with the International Public Sector Accounting Standard (IPSAS) developed by the International Federation of Accountants (IFAC).

The financial statements consist of:

- Statement of financial position,
- Statement of financial performance,
- Statement of cash flows,
- Notes to the financial statements, comprising:
  - 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 Accrual basis of accounting***

The financial statements, except for cash flow information, are prepared and presented using the accrual basis of accounting.

Accrual basis means a basis of accounting under which transactions and other events are recognized when they occur (and not only when cash or its equivalent is received or paid). Therefore, the transactions and events are recorded in the accounting records and recognized in the financial statements of the periods to which they relate.

### ***2.3 Basis of measurement***

These financial statements are prepared on the historical cost basis.

### ***2.4 Presentation currency***

These financial statements are presented in the national currency of the Republic of Armenia (AMD) rounded to the nearest thousand.

### ***2.5 Foreign currency transactions***

Foreign currency is a currency other than the presentation currency. Transactions in foreign currencies are translated to presentation currency at exchange rates at the dates of the transactions. Settlement rate of foreign currency over presentation currency established by the Central Bank of the Republic of Armenia is taken as the exchange rate.

At the reporting date:

- a) foreign currency monetary items are reported (restated) using the closing rate (reporting date);

b) non-monetary items which are carried in terms of historical cost denominated in a foreign currency are reported using the exchange rate at the date of the transaction.

Foreign exchange gains and losses arising on the settlement of transactions or from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in statement of financial performance.

The exchange rate defined by the CBA as at 31 December 2014 is USD 1 = 474.97 AMD (as at 31 December 2013 - USD 1 = 405.64 AMD)

## ***2.6 Property and equipment***

Property and equipment are stated at cost, less accumulated depreciation and provision for impairment, where required.

Depreciation is calculated on a straight-line basis in accordance with the following annual depreciation rates:

Transportation means	12%
Computer appliances	30%
Office equipment	12%

## ***2.7 Cash***

Cash comprise bank accounts balances.

## ***2.8 Advances***

Advances are carried at cost less provision for impairment. If there is an indication that the assets, goods or services relating to an advance will not be received, the carrying value of the advance is written down accordingly and a corresponding impairment loss is recognised in the statement of financial performance.

## ***2.9 Government grants***

Grants from the government in return for past or future compliance with certain conditions relating to operating activities of the Organization are recognized at their fair value where there is reasonable assurance that:

- a) the Organization will comply with the conditions attached to them; and
- b) the grants will be received.

Government grants relating to property and equipment are deferred and are recognized as income on a straight line basis over the expected lives of the related assets.

Grants relating to costs are deferred and recognized as income over the period necessary to match them with the costs that they are intended to compensate.

## ***2.10 Taxes***

All applicable taxes are accounted and paid in accordance with tax regulation of the Republic of Armenia.

### 3. Cash

	As at 31.12.2014 AMD'000	As at 31.12.2013 AMD'000
Current account (ADB Loan 2561-ARM(SF)), in USD	87,400	12,347
Current account (ADB Loan 2561-ARM(SF)), in AMD	-	1
Current account (RoA), in AMD*	92,793	53,474
Current account (RoA), in AMD	12,843	422
Current account (RoA, LARP ), in AMD	232,271	1,095,546
Current account (RoA-EBRD), in AMD	780	1,647
	<b>426,087</b>	<b>1,163,437</b>

\* The balance represents interest accrued in the current account, which is recognized as co-financing by the RoA during the current year.

### 4. Advances

	As at 31.12.2014 AMD'000	As at 31.12.2013 AMD'000
Advances on construction (a)	16,824,640	12,823,372
Advances on LARP (b)	425,239	59
Advances on consulting	21,963	295,192
	<b>17,271,842</b>	<b>13,118,623</b>

(a) According to the contract on civil works under Tranche 1 and Tranche 2 projects the prepayment settlement commences from payable amounts on submitted implemented acts succeeding the 30% of total contract work.

(b) The amounts transferred to the RoA depository to settle suits on land acquisitions for which court resolutions were not issued yet.

### 5. Property and equipment

	AMD'000			
	Transportation means	Computer appliances	Office equipment	Total
<b>Cost</b>				
As of 1 January 2013	12,000	16,328	6,011	34,339
Additions	-	-	3,908	3,908
Deductions	(12,000)	-	-	(12,000)
As of 31 December 2013	-	16,328	9,919	26,247
Additions (a)	-	9,167	7,280	16,447
As of 31 December 2014	-	25,495	17,199	42,694
<b>Accumulated depreciation</b>				
As of 1 January 2013	3,831	16,082	1,293	21,206
Annual depreciation charge	2,339	221	1,386	3,946
Deductions	(6,170)	-	-	(6,170)
As of 31 December 2013	-	16,303	2,679	18,982

	Transportation means	Computer appliances	Office equipment	Total
Annual depreciation charge	-	3,336	2,494	5,830
As of 31 December 2014	-	19,639	5,173	24,812
Carrying value				
As of 1 January 2013	8,169	246	4,718	13,133
As of 31 December 2013	-	25	7,240	7,265
As of 31 December 2014	-	5,856	12,026	17,882

a) office equipment acquired under “North-South Road Corridor Investment Program - Project 1” for Project management support.

## 6. Payables

	As at 31.12.2014 AMD'000	As at 31.12.2013 AMD'000
Civil works	156,283	1,583,510
Provision on consulting services and works (a)	8,250,217	1,292,979
Consulting services	224,067	77,690
Salary	10,908	4,706
Taxes	124	1,221
Interest accrued transferrable to the State Budget	-	53,519
Other	1,246	7,233
	<b>8,642,845</b>	<b>3,020,858</b>

(a) Civil works implementation invoice amounts submitted to the Organization as at the reporting date which are not confirmed as at the financial statements signing date.

## 7. Direct payments

During the reporting year, the following direct payments by ADB are not included at the cash flows statement:

- On civil works- equivalent of 7,166,058 thousand AMD (in 2013: 7,363,083 thousand AMD).
- On consulting services - equivalent of 474,552 thousand AMD (in 2013: 283,275 thousand AMD).

## 8. Litigations

As at the reporting date and as at the date of approval of these financial statements, there are some litigations against the Organization related to land disposal and resettlement project.