

Project Financial Statements and Independent Auditor's Report

"Road Department" Fund

**North-South Road Corridor Investment
Program-Project 3**

**Finance Contract number FIN 82634-
AM (EIB)**

As at and for the year ended 31 December 2024

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Independent Auditor's Report

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To the Government of the Republic of Armenia,

Opinion

We have audited the Project financial statements of the North-South Road Corridor Investment Program-Project 3 (the "Project"), financed by the European Investment Bank (the "EIB") Finance Contract number FIN 82634-AM, which comprise the statement of Project sources and uses of funds, the Project account statement and the government co-financing account statement as at and for the year ended 31 December 2024, and notes to the Project financial statements, including a summary of significant accounting policies.

In our opinion,

- the accompanying Project financial statements and appended notes that were also the subject of the audit, give a true and fair view of the cash position of the North-South Road Corridor Investment Program-Project 3 (FIN 82634-AM) as at 31 December 2024, and of the cash received and cash paid for the year then ended, in accordance with the International Public Sector Accounting Standards ("IPSAS") *Financial Reporting Under the Cash Basis of Accounting* issued by the International Public Sector Accounting Standards Board of the International Federation of Accountants, as well as the appropriate covenants of the Finance Contract number FIN 82634-AM;
- the "Road Department" Fund has utilized all proceeds of the credit withdrawn from the European Investment Bank only for the purposes of the Project as agreed between the Republic of Armenia and the European Investment Bank, in accordance with the Finance Contract number FIN 82634-AM; and no proceeds of the Project have been utilized for other purposes;
- as at the reporting date the "Road Department" Fund was in compliance with all financial covenants of the Finance Contract number FIN 82634-AM.

In addition, (a) the Project account statement and the government co-financing account statement give a true and fair view of the receipts collected and payments made during the year ended 31 December 2024; and (b) these receipts and payments support the Project account liquidations/replenishments during the year ended 31 December 2024.

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 Project Financial Statements* section of our report. We are independent of the "Road Department" Fund in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (the "IESBA Code") together with the ethical requirements that are relevant to our audit of the financial statements in the Republic of Armenia, and we have fulfilled our other ethical responsibilities in accordance with those ethical requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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 "Road Department" Fund to meet the requirements of the financial reporting of the European Investment 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 attention to note 1 to the Project financial statements, which describes that the closing date of the Project is 31 December 2024. Our opinion is not modified in respect of this matter.

Responsibilities of Management and Those Charged with Governance for the Project Financial Statements

Management of the "Road Department" Fund is responsible for the preparation and fair presentation of the Project financial statements in accordance with IPSAS *Financial Reporting Under the Cash Basis of Accounting* and the financial covenants of the Finance Contract number FIN 82634-AM, 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.

Those charged with governance are responsible for overseeing the Project's financial reporting process.

Auditor's Responsibilities for the Audit of the Project Financial Statements

Our objectives are to obtain reasonable assurance about whether the Project 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 Project 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 Project 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 "Road Department" Fund's internal control.
- Evaluate the appropriateness of accounting policies and the reasonableness of accounting estimates and related disclosures made by management.
- Evaluate the overall presentation, structure and content of the Project financial statements, including the disclosures, and whether the Project financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the management, 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.

Armen Hovhannisyan

Chief Executive Officer of "Grant Thornton" CJSC

Emil Vassilyan, FCCA

Engagement Partner

30 June 2025

Statement of the Project sources and uses of funds

Euro	Actual				Budget		Variance
	Note	2024	31 December 2024	31 December 2023	2024	31 December 2023	31 December 2023
Opening balance of bank accounts							
		-		58,662			
Add: Financing							
European Investment Bank credit funds	3	1,740,301	46,860,828	5,210,833	45,120,527		
Government co-financing		2,083,042	9,496,680	1,722,892	7,413,638		
Total financing		3,823,343	56,357,508	6,933,725	52,534,165		
Less: Expenses							
European Investment Bank credit funds	4.1	(1,740,301)	(46,860,828)	(5,210,833)	(45,120,527)	(1,886,562)	146,261
Government co-financing	4.2	(2,079,612)	(9,529,005)	(1,763,679)	(7,449,393)	(2,080,428)	816
Total expenses		(3,819,913)	(56,389,833)	(6,974,512)	(52,569,920)	(3,966,990)	147,077
Gain (loss) from exchange rate differences							
		(3,430)	32,325	(17,875)	35,755		
Closing balance of bank accounts							
		-	-	-	-	-	-

The project financial statements were approved on 30 June 2025 by:



Arkadi Chelidzevan
Executive Director

G. Schorsch
Shushanik Grigoryan
Acting Head of Financial management and accounting department/
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 8 to 11.

Project account (Euro) statement

Loan number FIN 82634 - AM

In Euro

	2024	2023
Balance at 1 January	-	-
Add:		
European Investment Bank credit funds	1,740,301	5,210,833
Total inflow	1,740,301	5,210,833
Less:		
Project expenses	(1,740,301)	(5,210,833)
Total outflow	(1,740,301)	(5,210,833)
Balance at 31 December	-	-

The project financial statements were approved on 30 June 2025 by:

Arakadi Charentinyan
Executive Director



Shushanik Grigoryan

Acting Head of Financial management and
accounting department/ Chief Accountant

A handwritten signature in blue ink, appearing to read 'G. Sekevisch', written over the typed name and title of the 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 8 to 11.

Government co-financing account (AMD) statement

Loan number FIN 82634 - AM

In Euro

	2024	2023
Balance 1 January	-	58,662
Add:		
Government co-financing	2,088,818	1,783,416
Returned amount to the State budget	(5,776)	(60,524)
Total inflow	2,083,042	1,722,892
Gain (loss) from exchange rate differences	(3,430)	(17,875)
Less:		
Project expenses	(2,079,612)	(1,763,679)
Total outflow	(2,079,612)	(1,763,679)
Balance at 31 December	-	-

The project financial statements were approved on 30 June 2025 by:



Arkadi Cherkhingan
Executive Director

Shushanik Grigoryan

Acting Head of Financial management and
accounting department/ 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 8 to 11.

Notes to the project financial statements

"Road Department" Fund

North-South Road Corridor Investment Program-Project 3

Finance Contract number FIN 82634-AM (EIB)

As at and for the year ended 31 December 2024 (expressed in EURO)

1 Nature of operations

The "Road Department" Fund (the "Fund") implements the North-South Road Corridor Investment Program - Project 3 (the "Project"), which is financed under the Finance Contract signed between the Republic of Armenia and the European Investment Bank (the "EIB") on 18 November 2013. According to N 1298-U decision of the Republic of Armenia dated 6 August 2021, the "Road Department" SNCO was reorganized into a Fund.

The total amount of the credit was agreed to be Euro 60,000,000.

The Project is part of an overall "North-South Road Corridor Investment Program - Project 3" (the "Project") aimed at improving and upgrading the North-South Road Corridor (NSRC) in Armenia. The NSRC runs 556km from the border with Georgia at Bavra via Gyumri, Ashtarak, Yerevan, Goris and Kapan, to the border with Iran and Meghri. The Project aims to improve some 145 km of the northern part of the corridor between Yerevan and Bavra.

The budget of the Project is as follows:

Finance Contract number FIN 82634-AM

	In Euro
EIB	60,000,000
RA Government	12,000,000
Total	72,000,000

The Project includes the following:

Tranche 3 Talin – Gyumri (km 71+500 to km 117+670)

- i. New Highway construction to convert the existing 2-lane single carriageway to a 4-lane dual carriageway (as an extension of the Tranche 2 highway) from km 71+500 (Talin) to km 117+670 (Gyumri) with a total length of 46.17 km, where Lanjik-Gyumri (from km 90+200 to km 117+670) section will be financed under the loan provided by this Contract.
- ii. Upgrading of the entire technical infrastructure in conformity with motorway construction;
- iii. Construction of 152 No. bridges/structures
 - a) 6 No. Field Connector Overpasses,
 - b) 10 No. Field Connector Underpasses (4 No. at 3m high x 5m wide for pedestrians and animals and 6 No. at 4.5m high x 6m wide for machinery and animals).
 - c) 132 No. Gully Underpasses/Box Culverts, (generally 1.5m x 1.5m box culverts),
 - d) 3 No. River Underpasses,
 - e) 1 No. Railway Underpass.
- iv. The 3 No. River underpasses include the construction of 1 No large bridge structure, 36 m long, at the Karkachan river with 2x2 lanes.
- v. Construction of 10 No. grade separated interchanges at the following locations to provide access to
 - a) km 78 – Mastara
 - b) km 87.5 – Lanjik
 - c) km 94 – Dzorakap and Sarnaghbyur
 - d) km 96 – Artik and Maralik
 - e) km 98.5 – Maralik
 - f) km 104 – Hayrenyats
 - g) km 106.5 – Horom

- h) km 107.5 – Lusakert
- i) km 110 – Beniyamin
- j) km 113.5 – Azatan/Aravik

The Project closing date is 31 December 2024.

The operating address of the Fund is Government House 3, Republic Square, Yerevan, Armenia.

During the reporting year the average number of the staff involved in the Project was 21 (2023: 23).

2 Material accounting policies

2.1 Basis of preparation

The Project financial statements have been prepared in accordance with IPSAS *Financial Reporting Under 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 financial statements of the Project are also prepared in accordance with the EIB Finance Contract number FIN 82634-AM.

2.2 Functional and presentation currency

The national currency of Armenia is the Armenian dram (AMD), which is the Fund's functional currency, since this currency best reflects the economic substance of the underlying events and transactions of the Fund.

These Project financial statements are presented in Euro (presentation currency).

Government co-financing amounts in Armenian drams and payments made from those amounts are converted into Euro applying the exchange rate announced by the Central Bank of Armenia on the previous date of the transaction.

At the reporting date, monetary items denominated in AMD are retranslated into Euro at the rate announced by the Central Bank of Armenia prevailing on that date, which is 413.89 Armenian drams for 1 Euro as at 31 December 2024 (447.9 Armenian drams for 1 Euro as at 31 December 2023).

The national currency of Armenia is the Armenian dram ("dram"), which is the Fund's functional currency since this currency best reflects the economic substance of the underlying events and transactions of the Fund.

2.3 Financing

The Project financing is recognized and included in the Project financial statements only when the credit amounts are transferred to the Project 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 when 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.

2.4 Planned expenses

As at the end of the year "Planned Project Expenses" comprise the sum of the amount of "Actual Project Expenses" as at the end of the previous year and the annual budget expenses of the reporting year.

2.5 Expenses

The Project expenses are recognized and included in the Project financial statements when the payment to counterparties for works performed is made. Payments are made from both the Project account and the Government co-financing account.

3 EIB financing

The Republic of Armenia received financing from the EIB, which as at 1 December 2024 amounts to Euro 46,860,828 (as at 31 December 2023: Euro 45,120,527). Within the scope of the Project, during the reporting year Euro 1,740,301 is transferred to the Project accounts (year ended 31 December 2023: Euro 5,210,833). Included in the statement of Project sources and uses of funds are only those amounts that are controlled and used by the Fund.

4 Expenses

4.1 From EIB fund

Loan number FIN 82634-AM	2024			31 December 2024		
	Actual	Budget	Variance	Actual	Budget	Variance
Works	970,768	1,086,095	(115,327)	44,438,091	44,553,418	(115,327)
Consulting Services	769,533	800,467	(30,934)	2,422,737	2,453,671	(30,934)
	1,740,301	1,886,562	(146,261)	46,860,828	47,007,089	(146,261)

Loan number FIN 82634-AM	2023			31 December 2023		
	Actual	Budget	Variance	Actual	Budget	Variance
Works	4,427,700	4,433,629	(5,929)	43,467,323	43,473,252	(5,929)
Consulting Services	783,133	807,095	(23,962)	1,653,204	1,677,166	(23,962)
	5,210,833	5,240,724	(29,891)	45,120,527	45,150,418	(29,891)

4.2 From government co-financing amounts

Loan number FIN 82634-AM	2024			31 December 2024		
	Actual	Budget	Variance	Actual	Budget	Variance
Works	1,870,217	1,871,857	(1,640)	8,112,219	8,113,859	(1,640)
Consulting Services	208,594	207,774	820	1,413,885	1,413,065	820
Resettlement	801	-	801	1,702	901	801
Other expenses	-	797	(797)	1,199	1,996	(797)
	2,079,612	2,080,428	(816)	9,529,005	9,529,821	(816)

Loan number FIN 82634-AM	2023			31 December 2023		
	Actual	Budget	Variance	Actual	Budget	Variance
Works	1,570,967	1,722,735	(151,768)	6,242,002	6,393,770	(151,768)
Consulting Services	191,811	213,374	(21,563)	1,205,291	1,226,854	(21,563)
Resettlement	901	1,019	(118)	901	1,019	(118)
Other expenses	-	-	-	1,199	1,199	-
	1,763,679	1,937,128	(173,449)	7,449,393	7,622,842	(173,449)

5 Project implementation

As at 31 December 2024 the financial progress of the Project was 78% (as at 31 December 2023: 75%) in the framework of the Finance Contract. Meanwhile, the physical progress of the Project (Construction of Tranche 3) was only 83% (as at 31 December 2023: 67%).