

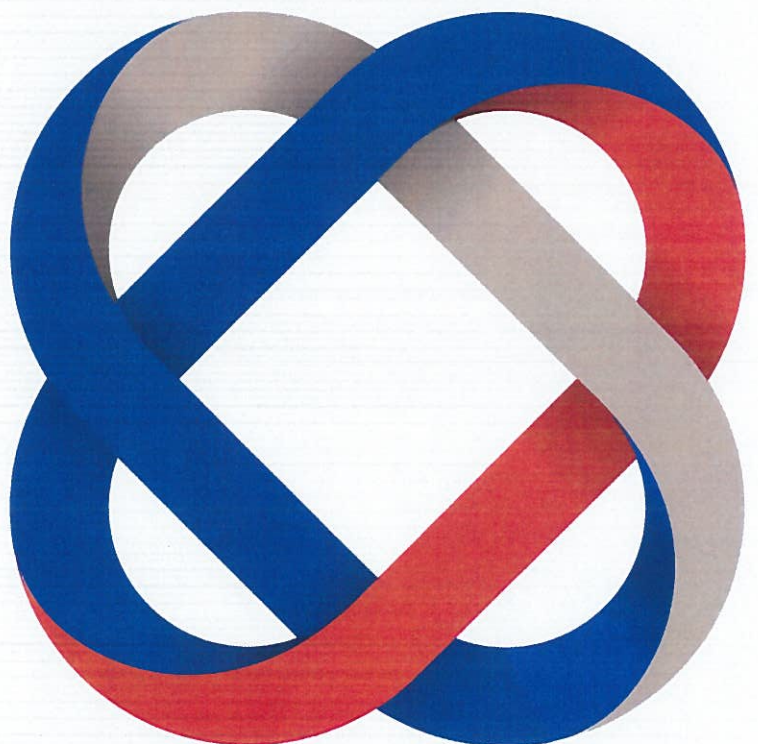
# **Consolidated Project Financial Statements and Independent Auditor's Report**

**Transport Project Implementation Organization  
SNCO**

**Lifeline Road Network Improvement Project  
IBRD Loan Number 8229-AM**

**IBRD Loan Number 8523-AM**

As of and for the year ended 31 December 2017



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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 accompanying consolidated project financial statements of the Lifeline Road Network Improvement Project (the "Project"), financed by the International Bank for Reconstruction and Development (the "IBRD") Loan Agreement 8229-AM and Loan Agreement 8523-AM, which comprise the consolidated statement of financial position as of 31 December 2017, the consolidated statement of the Project sources and uses of funds, the consolidated statement of uses of funds by Project activities, the designated account statements as of and for the year ended 31 December 2017, as well as the statements of expenditures ("SOE") submitted to the World Bank for the year ended 31 December 2017 in support of the Loan Agreement 8229-AM and Loan Agreement 8523-AM withdrawals, and a summary of significant accounting policies and other explanatory information.

In our opinion, the consolidated project financial statements give a true and fair view of the consolidated financial position of the Lifeline Road Network Improvement Project as of 31 December 2017, and of the funds received and expenses incurred for the year then ended, in accordance with the accounting policies described in note 2 to the consolidated project financial statements, the World Bank guidelines, and the relevant points of the Loan Agreement 8229-AM and Loan Agreement 8523-AM.

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 Loan Agreement 8229-AM and Loan Agreement 8523-AM withdrawals.

## *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 Consolidated Project Financial Statements* section of our report. We are independent of the "Transport Project Implementation Organization" SNCO 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 consolidated project financial statements, which describes the basis of accounting. The consolidated project financial statements are prepared to assist the management of the "Transport Project Implementation Organization" SNCO to meet the requirements of the financial reporting of the World Bank. As a result, the consolidated 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 12 to the accompanying consolidated project financial statements, which describes the changes in the political situation of the Republic of Armenia. Although there is certain political instability at present, management of the "Transport Project Implementation Organization" SNCO does not consider that it will have a significant impact on the Project's performance, direction and continuity. The possible effects of this matter cannot be estimated as at the date of this report, therefore these consolidated project financial statements do not include adjustments resulting from it. Our opinion is not modified in respect of this matter.

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

Management of the "Transport Project Implementation Organization" SNCO is responsible for the preparation and fair presentation of these consolidated project financial statements in accordance with the accounting policies described in note 2 to the consolidated project financial statements, the World Bank guidelines, and the relevant points of the Loan Agreement 8229-AM and Loan Agreement 8523-AM, and for such internal control as management determines is necessary to enable the preparation of these consolidated 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 Consolidated Project Financial Statements*

Our objectives are to obtain reasonable assurance about whether the consolidated 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 consolidated 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 consolidated 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 "Transport Project Implementation Organization" SNCO's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Evaluate the overall presentation, structure and content of the consolidated project financial statements, including the disclosures, and whether the consolidated 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.

Gagik Gyulbudaghyan

Managing Partner

28 June 2018

Emil Vassilyan, FCCA

Engagement Partner



# Consolidated statement of financial position

US dollar		As of 31 December 2017	As of 31 December 2016
	Note		
<b>Assets</b>			
Non-current assets			
Accumulated Project expenses (Loan Agreement 8229-AM and Loan Agreement 8523-AM)		73,924,858	61,201,352
		<u>73,924,858</u>	<u>61,201,352</u>
Current assets			
Advances	4	2,607,104	1,918,465
Bank balances	5	705,445	2,679,460
		<u>3,312,549</u>	<u>4,597,925</u>
<b>Total assets</b>		<u><u>77,237,407</u></u>	<u><u>65,799,277</u></u>
<b>Funds and liabilities</b>			
Accumulated Project financing (Loan Agreement 8229-AM)	7	43,270,669	42,970,669
Accumulated Project financing (Loan Agreement 8523-AM)	7	18,434,054	9,575,257
Government co-financing (Loan Agreement 8229-AM)	8	10,739,038	10,630,356
Government co-financing (Loan Agreement 8523-AM)	8	4,415,677	1,771,047
Other		63,645	-
Exchange rate difference		87,301	89,426
		<u>77,010,384</u>	<u>65,036,755</u>
Current liabilities			
Accounts payable	6	227,023	762,522
		<u>227,023</u>	<u>762,522</u>
<b>Total funds and liabilities</b>		<u><u>77,237,407</u></u>	<u><u>65,799,277</u></u>

The project financial statements were approved on 28 June 2018 by:

Vardan Karapetyan

Acting General Director

Manana Tarposhyan

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 consolidated project financial statements set out on pages 12 to 20.



# Consolidated statement of the Project sources and uses of funds

As of and for the year ended 31 December 2017

In US dollars

	Actual		Planned		Variance		Life of Project
	Year ended 31 December 2017	As of 31 December 2017	Year ended 31 December 2017	As of 31 December 2017	Year ended 31 December 2017	As of 31 December 2017	
<b>Sources of funds</b>							
World Bank financing (note 7)							
IBRD Loan Agreement 8229-AM	300,000	43,270,669					
IBRD Loan Agreement 8523-AM	8,858,797	18,434,054					
Government co-financing (note 8)							
IBRD Loan Agreement 8229-AM	108,682	10,739,038					
IBRD Loan Agreement 8523-AM	2,644,630	4,415,677					
Other	63,645	63,645					
<b>Total</b>	<b>11,975,754</b>	<b>76,923,083</b>					
Exchange rate difference	(2,125)	87,301					
<b>Less: Uses of funds</b>							
IBRD Loan Agreement 8229-AM							
Goods, works, non-consulting services, consultants' services, and Operating Costs under the Project (note 9)	624,220	53,752,602	910,704	57,590,472	(286,484)	(3,837,870)	56,109,375
Front-end Fee	-	112,500	-	112,500	-	-	112,500
<b>Total IBRD Loan Agreement 8229-AM</b>	<b>624,220</b>	<b>53,865,102</b>	<b>910,704</b>	<b>57,702,972</b>	<b>(286,484)</b>	<b>(3,837,870)</b>	<b>56,221,875</b>
IBRD Loan Agreement 8523-AM							
Goods, works, non-consulting services, consultants' services, Operating Costs and Training under the Project (except for Parts 1(e) and 2(b) (i) of the Project) (note 9)	12,099,286	19,959,756	14,569,474	23,723,291	(2,470,188)	(3,763,535)	49,900,000
Front-end Fee	-	100,000	-	100,000	-	-	100,000
<b>Total IBRD Loan Agreement 8523-AM</b>	<b>12,099,286</b>	<b>20,059,756</b>	<b>14,569,474</b>	<b>23,823,291</b>	<b>(2,470,188)</b>	<b>(3,763,535)</b>	<b>50,000,000</b>
<b>Total</b>	<b>12,723,506</b>	<b>73,924,858</b>	<b>15,480,178</b>	<b>81,526,263</b>	<b>(2,756,672)</b>	<b>(7,601,405)</b>	
<b>Net increase/(decrease) in working capital (note 10)</b>	<b>(749,877)</b>	<b>3,085,526</b>					

This consolidated statement of the Project sources and uses of funds is to be read in conjunction with the notes to and forming part of the consolidated project financial statements set out on pages 12 to 20.

# Consolidated statement of uses of funds by Project activities

As of and for the year ended 31 December 2017

	Actual		Planned		Variance		
	Year ended 31 December 2017	As of 31 December 2017	Year ended 31 December 2017	As of 31 December 2017	Year ended 31 December 2017	As of 31 December 2017	Life of Project
<b>IBRD Loan Agreement 8229-AM</b>							
Part 1: Lifeline Road Improvement	589,419	51,785,215	531,383	54,703,863	58,036	(2,918,648)	52,390,000
Road Rehabilitation Works	581,278	42,106,838	523,242	44,766,474	58,036	(2,659,636)	41,510,000
Pilot on Rehabilitation and Maintenance Contract	-	5,600,786	-	5,562,400	-	38,386	6,760,000
Pilot for Routine Maintenance through Microenterprises	-	-	-	-	-	-	170,000
Supervision and Technical Designs	8,141	3,861,349	8,141	4,154,989	-	(293,640)	3,700,000
Road Safety Engineering and Black Spot Improvement	-	216,242	-	220,000	-	(3,758)	250,000
Part 2: Project Management and Institutional Strengthening	34,801	1,967,387	379,321	2,886,609	(344,520)	(919,222)	3,719,375
Project Management and Implementation, including audits	13,724	902,476	108,244	1,083,444	(94,520)	(180,968)	1,109,375
Road Asset Management System and Survey Equipment	-	219,352	250,000	935,516	(250,000)	(716,164)	500,000
Road Safety Technical Assistance	-	-	-	-	-	-	250,000
Technical Assistance	21,077	845,559	21,077	867,649	-	(22,090)	1,860,000
<b>Total IBRD Loan Agreement 8229-AM</b>	<b>624,220</b>	<b>53,752,602</b>	<b>910,704</b>	<b>57,590,472</b>	<b>(286,484)</b>	<b>(3,837,870)</b>	<b>56,109,375</b>
<b>IBRD Loan Agreement 8523-AM</b>							
Part 1: Lifeline Road Improvement	11,888,632	19,743,504	13,948,898	22,854,246	(2,060,266)	(3,110,742)	46,710,000
Road Rehabilitation Works	10,381,252	17,867,880	12,362,317	19,909,986	(1,981,065)	(2,042,106)	37,420,000
Pilot on Rehabilitation and Maintenance Contract	-	-	-	-	-	-	5,090,000
Supervision and Technical Designs	1,507,380	1,875,624	1,586,581	2,944,260	(79,201)	(1,068,636)	4,200,000
Part 2: Project Management and Institutional Strengthening	210,654	210,654	620,576	869,045	(409,922)	(652,793)	3,190,000
Project Management and Implementation, including audits	210,654	210,654	250,576	250,576	(39,922)	(39,922)	1,040,000
Road Asset Management System and Survey Equipment	-	-	370,000	450,091	(370,000)	(450,091)	440,000
Road Safety Technical Assistance	-	-	-	-	-	-	230,000
Technical Assistance	-	5,598	-	168,378	-	(162,780)	1,480,000
<b>Total IBRD Loan Agreement 8523-AM</b>	<b>12,099,286</b>	<b>19,959,756</b>	<b>14,569,474</b>	<b>23,723,291</b>	<b>(2,470,188)</b>	<b>(3,763,535)</b>	<b>49,900,000</b>
<b>Total</b>	<b>12,723,506</b>	<b>73,712,358</b>	<b>15,480,178</b>	<b>81,313,763</b>	<b>(2,756,672)</b>	<b>(7,601,405)</b>	

This consolidated statement of uses of funds by Project activities is to be read in conjunction with the notes to and forming part of the consolidated project financial statements set out on pages 12 to 20.



# SOE withdrawal schedule

*IBRD Loan Agreement 8229-AM  
For the year ended 31 December 2017  
In US dollars*

Category	
Application No.	
	Goods, works, non-consulting services, consultants' services, and Operating Costs under the Project
27-DA	630,138
Total	630,138

*IBRD Loan Agreement 8523-AM  
For the year ended 31 December 2017  
In US dollars*

Category	
Application No.	
	Goods, works, non-consulting services, consultants' services, Operating Costs and Training under the Project (except for Parts 1(e) and 2(b)(i) of the Project)
08-DA	2,057,805
09-DA	1,752,237
11-DA	2,094,779
Total	5,904,821

The SOE withdrawal schedule is to be read in conjunction with the notes to and forming part of the consolidated project financial statements set out on pages 12 to 20.

# Designated account statement

*IBRD Loan Agreement 8229-AM  
As of and for the year ended 31 December 2017  
In US dollars*

Opening balance as of 1 January 2017		369,594
Add:		
Cumulative unexplained discrepancy		-
Loan replenishment during the year	300,000	
	<u>300,000</u>	<u>300,000</u>
Less: Refund to the World Bank from the designated account during the year		-
Present outstanding amount advanced to the designated account (1)		<u>669,594</u>
Closing balance as of 31 December 2017		204,859
Add:		
Amount of eligible expenditures paid during the year	464,735	
Service charges (if applicable)	-	
	<u>464,735</u>	<u>464,735</u>
Less: Interest earned (if credited into the designated account)		
Total advance accounted for (2)		<u>669,594</u>
Discrepancy (1) – (2) to be explained		-

The designated account statement is to be read in conjunction with the notes to and forming part of the consolidated project financial statements set out on pages 12 to 20.

# Designated account statement

*IBRD Loan Agreement 8523-AM  
As of and for the year ended 31 December 2017  
In US dollars*

Opening balance as of 1 January 2017		2,302,088
Add:		
Cumulative unexplained discrepancy		-
Loan replenishment during the year	8,858,797	
	<u>8,858,797</u>	<u>8,858,797</u>
Less: Refund to the World Bank from the designated account during the year		-
Present outstanding amount advanced to the designated account (1)		<u>11,160,885</u>
Closing balance as of 31 December 2017		499,775
Add:		
Amount of eligible expenditures paid during the year	10,661,110	
Service charges (if applicable)	-	
	<u>10,661,110</u>	<u>10,661,110</u>
Less: Interest earned (if credited into the designated account)		
Total advance accounted for (2)		<u>11,160,885</u>
Discrepancy (1) – (2) to be explained		-

The designated account statement is to be read in conjunction with the notes to and forming part of the consolidated project financial statements set out on pages 12 to 20.



# Notes to the consolidated project financial statements

## 1 Activity

The “Transport Project Implementation Organization” SNCO, which is the successor of State Agency “Transport Project Implementation Unit” of the Ministry of Transport and Communication of the Republic of Armenia, was established as a State Non-Commercial Organization by the Government Decree No 1304-A of the Government of the Republic of Armenia dated 15 December 2016.

The “Transport Project Implementation Organization” SNCO implements the Lifeline Road Network Improvement Project (the “Project”), which is financed under the Loan Agreement 8229-AM signed between the International Bank for Reconstruction and Development (the “IBRD”) and the Government of the Republic of Armenia on 11 February 2013.

The objective of the Project is to improve access of rural communities to markets and services through the upgrading of selected Lifeline Roads, and to strengthen the capacity of the “Transport Project Implementation Organization” SNCO to manage the Lifeline Road Network.

The Project consists of the following parts:

### Part 1: Lifeline Road Improvement

- Carrying out improvement works for approximately 147 kilometres of selected roads within the Lifeline Road Network.
- Carrying out, on a pilot basis, rehabilitation and routine maintenance works of approximately 23 kilometres of selected segments of the Lifeline Road Network, under the terms of a Rehabilitation and Maintenance Contract.
- Carrying out detailed design studies, related technical supervision activities and independent technical audits for rehabilitation activities under the Project.
- Carrying out road safety improvement works, including Black Spots improvements.

### Part 2: Project Management and Institutional Strengthening

- Provision of support for Project coordination and implementation through, the financing of operating costs required for Project administration and monitoring (including financial audits).
- Carrying out a road safety program, including, inter alia, (i) the detailed design for carrying out of Black Spots improvement works; (ii) the provision of training programs for ARD personnel; (iii) road safety educational practices in Safe Villages schools, and (iv) carrying out of road safety campaigns linked to the Lifeline Road Network.
- Provision of technical assistance for, inter alia, the: (i) carrying out of a feasibility study for the rehabilitation and maintenance of roads using a performance-based approach, including the identification of at least one road section; (ii) carrying out of studies on social monitoring and evaluation related to the Project, as well as road sector financial sustainability; (iii) provision of training to MOTCIT staff and local contractors on the new concepts introduced by the Project, including design and implementation of multi-year performance based contracts, efficient design standards, and planning and contract monitoring for MOTCIT and ARD staff; and (iv) carrying out of technical studies and detailed designs required for the preparation of potential future investments in the road sector.

In accordance with the Loan Agreement 8229-AM dated 11 February 2013, the financing of the Project is implemented through the following categories:

**Category**

	Percentage of expenditures to be financed (inclusive of taxes)	Amount of the Loan allocated (in USD)
Goods, works, non-consulting services, consultants' services, and Operating Costs under the Project	80 %	44,887,500
Front-end Fee		112,500
<b>Total</b>		<b>45,000,000</b>

**Front-end Fee**

The Front-end Fee payable by the Republic of Armenia shall be equal to one quarter of one percent (0.25%) of the Loan amount.

The Project's amounts are allocated to the following components:

**Summary by components**

	Bank financing (in USD) (inclusive of taxes)	Government financing (in USD)	Total Cost (in USD)
Lifeline Road Improvement	41,912,000	10,478,000	52,390,000
Project Management and Institutional Strengthening	2,975,500	743,875	3,719,375
<b>Total Project Costs</b>	<b>44,887,500</b>	<b>11,221,875</b>	<b>56,109,375</b>
Front-end fee	112,500	-	112,500
<b>Total</b>	<b>45,000,000</b>	<b>11,221,875</b>	<b>56,221,875</b>

On 26 August 2015 the new Loan Agreement 8523-AM (Additional Financing for the Lifeline Road Network Improvement Project) has entered into force between the International Bank for Reconstruction and Development (the "IBRD") and the Government of the Republic of Armenia, providing additional financing for the Lifeline Road Network Improvement Project at the amount of USD 40,000,000.

The Project consists of the following parts:

**Part 1: Lifeline Road Improvement**

- Carrying out of improvement works for approximately 360 kilometres of selected roads within the Lifeline Road Network.
- Carrying out, on a pilot basis, (i) rehabilitation and routine maintenance works of approximately 23.4 kilometres of selected segments of the Lifeline Road Network, under the terms of a Rehabilitation and Maintenance Contract; and (ii) carrying out rehabilitation and routine maintenance works of approximately 23 kilometres of selected segments of the Lifeline Road Network, under the terms of two Rehabilitation and Maintenance Contracts.
- Carrying out of detailed design studies, related technical supervision activities and independent technical audits for rehabilitation activities under the Project.
- Carrying out of road safety improvement works, including: (i) Black Spots improvements; (ii) works associated with the implementation of the Safe Villages in all roads rehabilitated under the Project; and (iii) the acquisition and installation of road signs.
- If an Eligible Emergency has occurred and the requirements set forth in this Agreement have been met, provide support to respond to an Eligible Emergency through the design and carrying out of selected roads sector investments within the Borrower's territory.



## Part 2: Project Management and Institutional Strengthening

- Provision of support for Project coordination and implementation through: (i) the financing of Operating Costs required for Project administration and monitoring; and (ii) the carrying out of Project financial audits.
- (i) Acquisition of a road asset management system database, including installation and training to ARD personnel for the use of said database, (ii) acquisition of road survey equipment for surveying road conditions and traffic; and (iv) carrying out Lifeline Road Network data collection for the road asset management system.
- Carrying out of a road safety program, including inter alia, (i) the detailed design for carrying out of Black Spots improvement works; (ii) the provision of technical assistance and training programs for ARD personnel; (iii) the carrying out of road safety educational practices in Safe Villages schools, (iv) the carrying out of road safety campaigns linked to the Lifeline Road Network; (v) the development of a road safety action plan; and (vi) the implementation of selected activities of the action plan developed under Part 2(c)(v) of the Project.
- Provision of technical assistance for, inter alia, the: (i) carrying out of a feasibility study for the rehabilitation and maintenance of roads using a performance-based approach, including the identification of at least one road section ; (ii) carrying out of studies on social monitoring and evaluation related to the Project, as well as road sector financial sustainability; (iii) provision of training to MOTCIT staff and local contractors on the new concepts introduced by the Project, including design and implementation of multi-year performance based contracts, efficient design standards, and planning and contract monitoring for MOTCIT and ARD staff; (iv) carrying out of technical studies and detailed designs required for the preparation of potential future investments in the road sector; (v) preparing a strategic development plan for the Lifeline Road Network; and (vi) enhancing disaster risk preparedness for the road sector.

In accordance with the Loan Agreement 8523-AM dated 26 August 2015, the financing of the Project is implemented through the following categories:

Category	Percentage of expenditures to be financed (inclusive of taxes)	Amount of the Loan allocated (in USD)
Goods, works, non-consulting services, consultants' services, Operating Costs and Training under the Project (except for Parts 1(e) and 2(b) (i) of the Project)	80 %	39,900,000
Front-end Fee		100,000
Total		40,000,000

The legal address of the "Transport Project Implementation Organization" SNCO is 28 Nalbandyan str., Yerevan, Armenia.

The average number of the staff, dedicated to the Project during the reporting year was 17.



## 2 Significant accounting policies

### 2.1 Basis of preparation

The consolidated 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 Loan Agreement 8229-AM and Loan Agreement 8523-AM. Significant accounting policies are disclosed below.

### 2.2 Functional and presentation currency

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

In preparing the consolidated project financial statements, transactions in currencies other than US dollar are recorded at the rates of exchange announced by the Central Bank of Armenia prevailing on the previous dates of the transactions. For direct payments denominated in AMD to the contractor/consultant from the World Bank share, the exchange rate set out for the presentation of the operation in the system client connection (<https://clientconnection.worldbank.org>) is used. At each reporting date, bank balances, advances and payables denominated in foreign currencies are retranslated at the rate announced by the Central Bank of Armenia prevailing on that date, which is 484.10 Armenian drams for 1 US dollar as of 31 December 2017. 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 "Exchange rate differences".

### 2.3 Project financing

The financing received in the framework of the Loan Agreement 8229-AM and Loan Agreement 8523-AM is recorded in the consolidated 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 consolidated 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 consolidated statement of financial position under non-current assets. In addition, current year expenses are disclosed in the consolidated statement of Project sources and uses of funds and consolidated statement of uses of funds by Project activities. Additionally, a further breakdown of expenses by categories is disclosed in note 9.

### 2.5 Advances

Advances, which comprise amounts paid for services and goods not yet received are stated at nominal value.

### 2.6 Accounts payable

Payables comprise the amounts to be paid and are stated at nominal value.

### 2.7 The World Bank financing

To finance eligible expenditures for the Loan Agreement 8229-AM and Loan Agreement 8523-AM, 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 loan 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 Loan Agreement 8229-AM and Loan Agreement 8523-AM, the Project closing date was defined as 30 December 2019.

### 4 Advances

In US dollars

	As of 31 December 2017	As of 31 December 2016
Sisiani FPAT LLC (contract number CW-NCB-LRNIP-AF-2017/8)	533,772	-
Blesk LLC (contract number CW-NCB-LRNIP-AF-2017/7)	526,880	-
AAB Project LLC (contract number CW-NCB-LRNIP-AF-2017/3)	322,132	-
Ararat-Chanshin LLC (contract number CW- NCB-LRNIP-AF-2017/4)	304,307	-
JV Undermoscow OJSC and Mostovik LLC (contract number CW- NCB-LRNIP-AF 2017/9)	267,319	-
Kapavor LTD (contract number CW-NCB-LRNIP-AF-2017/6)	182,847	-
Kapavor LTD (contract number CW-NCB-LRNIP-AF-2017/1) (lot 2)	153,094	-
Ararat-Chanshin LLC (contract number CW- NCB-LRNIP-AF-2017/1) (lot 1)	147,242	-
JV Tavushi CSS CJSC and Ararat-Chanshin LLC (contract number CW- NCB-LRNIP-AF-2017/5)	144,854	-
Suardi JSC, AAB Project and Kotayk REC LLC (contract number CW- NCB-LRNIP-AF-2016/8)	-	743,846
Suardi JSC and Undermoscow OJSC (contract number CW- NCB- LRNIP-AF-2016/7)	-	490,199
Kapavor LTD (contract number CW-NCB-LRNIP-AF-2016/2)	-	317,194
RB&E of Gavar OJSC AND Khachhar LLC (contract number CW- NCB-LRNIP-AF-2016/6)	-	187,628
Kuarlini LLC (contract number CW-NCB-LRNIP-AF-2016/4)	-	87,862
Ter-Hayrapetyan, Shin LLC and A.A.B Project LLC (contract number CW-NCB-LRNIP-AF-2016/1)	-	58,001
Other	24,657	33,735
	<u>2,607,104</u>	<u>1,918,465</u>

## 5 Bank balances

In US dollars

	As of 31 December 2017	As of 31 December 2016
Designated account (Loan Agreement 8229-AM)	204,859	369,594
Designated account (Loan Agreement 8523-AM)	499,775	2,302,088
Local account (Loan Agreement 8229-AM)	35	7,430
Local account (Loan Agreement 8523-AM)	776	348
	<u>705,445</u>	<u>2,679,460</u>

## 6 Accounts payable

In US dollars

	As of 31 December 2017	As of 31 December 2016
Retention payables to contractors	221,874	762,253
Other	5,149	269
	<u>227,023</u>	<u>762,522</u>

## 7 World Bank Financing

*IBRD Loan Agreement 8229-AM*

In US dollars	For the year ended 31 December 2017	As of 31 December 2017
SOE procedures	630,138	18,840,007
Other procedures	698,721	23,530,842
Designated account advance/(redemption), net	(1,028,859)	787,320
Front-end fee	-	112,500
	<u>300,000</u>	<u>43,270,669</u>

*IBRD Loan Agreement 8523-AM*

In US dollars	For the year ended 31 December 2017	As of 31 December 2017
SOE procedures	5,904,821	8,011,127
Other procedures	1,253,976	5,122,927
Designated account advance	1,700,000	5,200,000
Front-end fee	-	100,000
	<u>8,858,797</u>	<u>18,434,054</u>

Under the method of "Other procedures" of financing, the "Transport Project Implementation Organization" SNCO 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 "Transport Project Implementation Organization" SNCO requests advance to and documentation of designated account accompanied by the statement of expenditure (SOE).



The "Transport Project Implementation Organization" SNCO reports regularly on the use of loan proceeds advanced to a designated account. This is disclosed as a redemption of the designated account advance.

## 8 Government co-financing

For all expenses under the IBRD Loan Agreement 8229-AM, there is a 20% Government co-financing. During the reporting year there was Government co-financing at the amount of US dollars 108,682.

For all expenses under the IBRD Loan Agreement 8523-AM, there is a 20% Government co-financing. During the reporting year there was Government co-financing at the amount of US dollars 2,644,630.

## 9 Uses of funds by category descriptions

The consolidated statement of the Project sources and uses of funds discloses the expenses in two categories, one of which combines a number of subcategories as reflected in the Loan Agreement 8229-AM and Loan Agreement 8523-AM. For the convenience of certain users, the breakdown of the uses of funds according to subcategories is disclosed in the table below:

### *IBRD Loan Agreement 8229-AM*

In US dollars	For the year ended 31 December 2017	As of 31 December 2017
Works	581,278	47,923,866
Goods	-	219,352
Consultants' services	42,921	4,741,906
Operating Costs and training	21	867,478
Front-end Fee	-	112,500
	<u>624,220</u>	<u>53,865,102</u>

### *IBRD Loan Agreement 8523-AM*

In US dollars	For the year ended 31 December 2017	As of 31 December 2017
Works	10,381,252	17,867,880
Consultants' services	1,507,380	1,881,222
Operating Costs and training	210,654	210,654
Front-end Fee	-	100,000
	<u>12,099,286</u>	<u>20,059,756</u>

## 10 Net increase/(decrease) in working capital

In US dollars	For the year ended 31 December 2017	As of 31 December 2017
Increase/(decrease) in bank balances	(1,974,015)	705,445
Increase in advances	688,639	2,607,104
Decrease/(Increase) in accounts payable	535,499	(227,023)
	<u>(749,877)</u>	<u>3,085,526</u>

# 11 Reconciliation between the amounts received by the "Transport Project Implementation Organization" SNCO and disbursed by the World Bank

IBRD Loan Agreement 8229-AM  
For the year ended 31 December 2017  
In US dollars

Category	Appl.	"Transport Project Implementation Organization" SNCO	WB	Difference
Goods, works, non-consulting services, consultants' services, and Operating Costs under the Project	27-DA	1,328,859	1,328,859	-
		1,328,859	1,328,859	-
Designated account advance/(redemption), net	27-DA	(1,328,859)	(1,328,859)	-
	28-DA	300,000	300,000	-
		(1,028,859)	(1,028,859)	-
Total		300,000	300,000	-

IBRD Loan Agreement 8523-AM  
For the year ended 31 December 2017  
In US dollars

Category	Appl.	"Transport Project Implementation Organization" SNCO	WB	Difference
Goods, works, non-consulting services, consultants' services, Operating Costs and Training under the Project (except for Parts 1(e) and 2(b)(i) of the Project)	8-DA	2,914,713	2,914,713	-
	9-DA	1,827,155	1,827,155	-
	11-DA	2,416,929	2,416,929	-
		7,158,797	7,158,797	-
Designated account advance	6-DA	700,000	700,000	-
	7-DA	1,000,000	1,000,000	-
		1,700,000	1,700,000	-
Total		8,858,797	8,858,797	-

## 12 Subsequent events

In April-May 2018 after the resignation of the Prime Minister nominated and elected by the ruling political party in the National Assembly as a result of the political upheaval and disobedience of the population in the Republic of Armenia, the National Assembly nominated the popular candidate for the post of the Prime minister, and accordingly, a new government was formed, which considers itself temporary until the formation of the new National Assembly through extraordinary elections. Although there is certain political instability at present, the management of the "Transport Project Implementation Organization" SNCO does not consider that these processes will have a significant impact on the Project's performance, direction and continuity, and according to the management of the "Transport Project Implementation Organization" SNCO, there is no necessity to adjust the financial statements of the Project as of and for the year ended 31 December 2017.