

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

## **"Road Department" Fund**

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

#### **Loan Agreement number 2993-ARM**

As at 5 May 2025 and for the period from 1 January 2024 to 5  
May 2025

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# Independent Auditor's Report

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Երևանի Պլազա բիզնես կենտրոն  
ՀՀ, ք. Երևան 0015  
Գրիգոր Լուսավորչի 9  
Հ. + 374 10 50 09 64/61

Grant Thornton CJSC  
Yerevan Plaza Business Center  
9 Grigor Lusavorich Street,  
Yerevan 0015, Republic of Armenia  
T + 374 10 50 09 64/61

To the Government of the Republic of Armenia,

## Opinion

We have audited the accompanying project financial statements of the North-South Road Corridor Investment Program-Project 3 (the "Project"), financed by the Asian Development Bank (the "ADB") Loan Agreement number 2993-ARM, which comprise the statement of Project sources and uses of funds, the advance account statement and the government co-financing accounts statement as at 5 May 2025 and for the period from 1 January 2024 to 5 May 2025, and the statement of expenditures ("SOEs") withdrawal schedule submitted to the ADB for the period from 1 January 2024 to 5 May 2025 in support of Loan Agreement number 2993-ARM withdrawals, 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 (Loan Agreement number 2993-ARM) as at 5 May 2024, and of the cash received and cash paid for the period from 1 January 2024 to 5 May 2025, 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, the Asian Development Bank guidelines ("Project Financial Management and Analysis") and the appropriate covenants of the Loan Agreement number 2993 - ARM;
- the "Road Department" Fund has utilized all proceeds of the loan withdrawn from the Asian Development Bank only for the purposes of the Project as agreed between the Republic of Armenia and the Asian Development Bank, in accordance with the loan agreement; 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 Loan Agreement number 2993-ARM.

In addition:

- (a) with respect to the statement of expenditures, adequate supporting documentation has been maintained to support claims to the Asian Development Bank for reimbursements of expenditures incurred; and (b) expenditures are eligible for financing under Loan Agreement number 2993-ARM.
- (a) the advance account and the government co-financing account give a true and fair view of the receipts collected and payments made during the period from 1 January 2024 to 5 May 2025; and (b) these receipts and payments support advance account liquidations/replenishments during the period from 1 January 2024 to 5 May 2025.

### 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 Asian Development 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*, the financial covenants of the Loan Agreement number 2993-ARM and the Asian Development Bank guidelines, 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.





# Statement of the Project sources and uses of funds

In USD	Note	Actual		Budget		Variance	
		Period from 1		Period from 1		Period from 1	
		January 2024 to 5 May 2025	Year ended 31 December 2023	January 2024 to 5 May 2025	As at 31 December 2023	January 2024 to 5 May 2025	As at 5 May 2025
Opening balance of bank accounts	4	644,901	1,346,093				
Add: Financing							
ADB loan number 2993-ARM	5	16,313,684	4,489,310		71,075,446		
Government co-financing	6	3,357,816	420,209		18,297,979		
<b>Total financing</b>		<b>19,671,500</b>	<b>4,909,519</b>	<b>4,909,519</b>	<b>89,373,425</b>		
Less: Expenses							
ADB Loan Agreement number 2993-ARM	7.1	(16,332,296)	(4,476,858)	(16,257,717)	(71,056,834)	(74,579)	(74,579)
Government co-financing	7.2	(3,655,003)	(985,049)	(21,388,368)	(17,733,365)	(21,062,134)	(326,234)
<b>Total expenses</b>		<b>(19,987,299)</b>	<b>(5,461,907)</b>	<b>(108,777,498)</b>	<b>(88,790,199)</b>	<b>(108,376,685)</b>	<b>(400,813)</b>
Transfer from (to) another project	8	123,521	-	(123,521)	(123,521)		
Gain(loss) from exchange rate differences		17,118	202,314	(25,283)	185,196		
Closing balance of bank accounts	4	469,741	644,901				

The project financial statements were approved on 30 June 2025 by

Arkadi Cherchinyan  
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 10 to 18.

# Advance account (USD) statement

Loan Agreement number 2993-ARM

In USD

	Period from 1 January 2024 to 5 May 2025	2023
Balance at 1 January	18,612	6,160
Add:		
ADB funds	708,485	610,223
Refund to ADB	(9,403)	-
<b>Total inflow</b>	<b>699,082</b>	<b>610,223</b>
Less:		
Project expenses	(717,694)	(597,763)
<b>Total outflow</b>	<b>(717,694)</b>	<b>(597,771)</b>
Balance at the end of period	-	18,612

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

Arkadi Cherchinyan  
Executive Director



Shushanik Grigoryan  
Acting Head of Financial management and accounting  
department/Chief Accountant

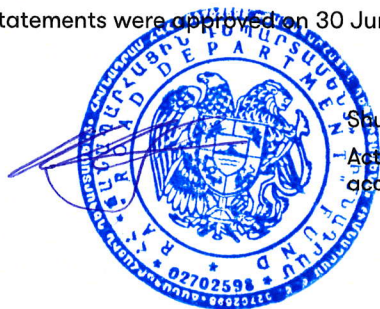
This statement is to be read in conjunction with the notes to and forming part of the Project financial statements set out on pages 10 to 18

# Government co-financing account (AMD) statement

	Period from 1 January 2024 to 5 May 2025	2023
Balance at 1 January	-	379,631
Add:		
Government co-financing	3,432,644	1,131,416
Returned amount to the State budget	(74,828)	(711,207)
<b>Total inflow</b>	<b>3,357,816</b>	<b>420,209</b>
Gain/(loss) from exchange rate differences	(14,294)	(6,514)
Less:		
Project expenses	(3,335,928)	(793,326)
<b>Total outflow</b>	<b>(3,335,928)</b>	<b>(793,326)</b>
Balance at the end of period	7,594	-

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

Arkadi Cherchinyan  
Executive Director



Soushanik 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 10 to 18.



# SOE withdrawal schedule

Loan Agreement number 2993-ARM

In USD

For the period from 1 January 2024 to 5 May 2025

No of withdrawal	Item	Contracts on Works, Goods, Consulting Services and Project Management Support	
		ADB percentage of financing*	Amount to be reimbursed
00216	2. Consulting Services	100%	-
	4. Project Management Support	100%	359,496
00224	2. Consulting Services	100%	14,717
	4. Project Management Support	100%	339,976
00224	2. Consulting Services	100%	93,219
	4. Project Management Support	100%	252,071
<b>Total</b>			<b>1,059,479</b>

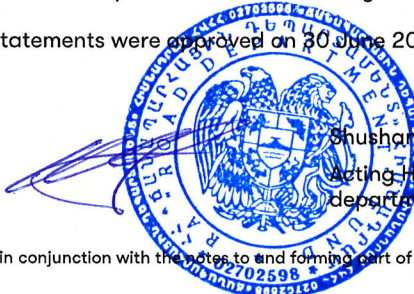
For the year ended 31 December 2023

No of withdrawal	Item	Contracts on Works, Goods, Consulting Services and Project Management Support	
		ADB percentage of financing*	Amount to be reimbursed
00161	2. Consulting Services	100%	7,327
	4. Project Management Support	100%	242,527
00181	2. Consulting Services	100%	5,710
	4. Project Management Support	100%	248,881
<b>Total</b>			<b>504,445</b>

\* Exclusive of taxes and duties imposed within the territory of the Republic of Armenia

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

Arkadi Cherchinyan  
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 10 to 18.



# Notes to the project financial statements

"Road Department" Fund

North-South Road Corridor Investment Program-Project 3

Loan Agreement number 2993-ARM

As at 5 May 2025 and for the period from 1 January 2024 to 5 May 2025 (expressed in USD)



## 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 Loan Agreement number 2993-ARM signed between the Government of the Republic of Armenia and the Asian Development Bank (the "ADB") on 11 March 2014. The loan was declared effective on 24 July 2014. According to N 1298-U decision of the Republic of Armenia dated 6 August 2021 the "Road Department" SNCO was reorganized into Fund.

The budget of the Project is as follows:

Loan Agreement number 2993-ARM

	In USD
ADB	100,000,000
RA Government	32,443,503
<b>Total</b>	<b>132,443,503</b>

The objective of the Project is to develop a sub-regional and national road transport network within the Republic of Armenia. Upon implementation, the Project will:

- facilitate efficient sub-regional road transport transit;
- increase trade flows and competitiveness;
- lower transport costs;
- increase mobility and accessibility to markets, jobs and social services;
- improve governance.

The Project comprises the following parts:

Part A. Reconstruction of the two-lane road section between towns of Talin and Lanjik of approximately 18.7 kilometers and widening such section to a four-lane dual carriageway;

Part B. Preparation and implementation of a long term road subsector plan and road asset management and road maintenance administration system;

Part C. Preparation of feasibility study for Artashat-Kajaran section (304 km) of the North-South corridor; and

Part D. Project implementation support and preparation of a subsequent tranche under the Project, including preparation of the related feasibility study and detailed engineering design.

The Project closing date is 31 December 2024.

The Project is mainly financed through the following categories:

Loan Agreement number 2993-ARM

Category		ADB Financing	
Number	Item	Total Amount Allocated for ADB Financing (In USD)	Percentage and basis for withdrawal from the Loan Account
1	Works	74,000,000	100 percent of total expenditure*
2	Consulting Services	14,200,000	100 percent of total expenditure*
3	Goods	2,400,000	100 percent of total expenditure*
4	Project Management Support	4,400,000	100 percent of total expenditure*
5	Interest Charge and Commitment Charge	5,000,000	100 percent of amounts due
	Total	100,000,000	

\* Exclusive of taxes and duties imposed within the territory of the Republic of Armenia.

The financing of land acquisition and resettlement within the scope of the Project is implemented from Government of Armenia sources.

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 Project financial statements also comply with the Asian Development Bank guidelines ("Project Financial Management and Analysis") and the covenants of the Loan Agreement number 2993-ARM.

### 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 US dollars (USD - presentation currency).

Government co-financing amounts in Armenian drams and payments made from those amounts are converted into USD applying the exchange rate announced by the Central Bank of Armenia on the previous date of the transaction. For direct payments denominated in currency other than the functional currency to the contractor/consultant from the ADB share, the exchange rate set out for the presentation of the operation in the system LFIS (lfis.adb.org) is used.

At the reporting date, monetary items denominated in AMD are retranslated into USD at the rate announced by the Central Bank of Armenia prevailing on that date, which is 389.46 Armenian drams for 1 US dollar as at 5 May 2025 (404.79 Armenian drams for 1 US dollar as at 31 December 2023).



## 2.3 Financing

The Project financing is recognized as such and included in the Project financial statements only when contractors or consultants are paid from the loan account for direct payment procedures. Advance account financing is recognized as such and included in the Project financial statements only when the funds from the loan account are transmitted to the advance 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 as such and included in the Project financial statements when the payment is made to suppliers of goods, works and/or services. The payments are made either directly from the Loan account or from the advance and Government co-financing accounts. The costs of fixed assets acquired are recognized as an expense in the Statement of Project sources and uses of funds. For certain users the cost of acquired fixed assets is disclosed in note 3.

## 3 Fixed assets

The fixed assets of the Project consist of property and equipment purchased for the needs of the Fund for the period of the Project implementation. The cost of fixed assets includes purchase price and other related acquisition costs which were financed from the ADB funds. The fixed assets actually used within the framework of the Project consist of the following

	5 May 2025	31 December 2023
Machinery and equipment	198,593	131,709
Computer software and equipment	47,193	43,467
Furniture	7,715	7,715
Other	3,815	3,815
	<b>257,316</b>	<b>186,706</b>

## 4 Bank accounts

The account balances of the Project are stated in the following table:

	5 May 2025	
	In USD	In AMD
Government co-financing account in AMD	7,594	2,957,688
Bank account in AMD (account 15100-09017860800)	462,147	179,987,692
	<b>469,741</b>	<b>182,945,380</b>

	31 December 2023	
	In USD	In AMD
ADB advance account in USD	18,612	7,533,951
Bank account in AMD (account 15100-09017860800)	626,289	253,515,426
	<b>644,901</b>	<b>261,049,377</b>

## 5 ADB financing

	For the period from 1 January 2024 to 5 May 2025	5 May 2025	2023	31 December 2023
Loan Agreement number 2993- ARM				
Advance account	708,485	7,956,869	610,223	7,248,384
Direct payment	15,614,602	74,441,664	3,879,087	58,827,062
Interest charge	-	5,000,000	-	5,000,000
Refund	(9,403)	(9,403)	-	-
	<b>16,313,684</b>	<b>87,389,130</b>	<b>4,489,310</b>	<b>71,075,446</b>

## 6 Government co-financing

	For the period from 1 January 2024 to 5 May 2025	5 May 2025	2023	31 December 2023
Government co-financing	3,432,644	20,344,427	1,131,416	16,911,783
Less: amount returned to the State budget	(74,828)	(1,125,277)	(711,207)	(1,050,449)
	<b>3,357,816</b>	<b>19,219,150</b>	<b>420,209</b>	<b>15,861,334</b>
Government co-financing, LARP financing	-	2,533,963	-	2,533,963
Less: amount returned to the State budget	-	(97,318)	-	(97,318)
Government co-financing	-	<b>2,436,645</b>	-	<b>2,436,645</b>
Less: amount returned to the State budget	-	-	-	-
	<b>3,357,816</b>	<b>21,655,795</b>	<b>420,209</b>	<b>18,297,979</b>

## 7 Expenses

### 7.1 From ADB fund

Loan number 2993- ARM	For the period from 1 January 2024 to 5 May 2025			5 May 2025		
	Actual	Budget	Variance	Actual	Budget	Variance
Works	15,243,074	15,233,275	9,799	66,065,714	66,055,915	9,799
Consulting Services	479,463	333,028	146,435	11,699,673	11,553,238	146,435
Goods	-	-	-	332,620	332,620	-
Project Management Support	609,759	691,414	(81,655)	4,291,123	4,372,778	(81,655)
Interest charge	-	-	-	5,000,000	5,000,000	-
	<b>16,332,296</b>	<b>16,257,717</b>	<b>74,579</b>	<b>87,389,130</b>	<b>87,314,551</b>	<b>74,579</b>

Loan number 2993- ARM	2023			31 December 2023		
	Actual	Budget	Variance	Actual	Budget	Variance
Works	3,482,358	3,478,050	4,308	50,822,640	50,818,332	4,308
Consulting Services	402,439	404,565	(2,126)	11,220,210	11,222,336	(2,126)
Goods	-	-	-	332,620	332,620	-
Project Management Support	592,061	599,846	(7,785)	3,681,364	3,689,149	(7,785)
Interest charge	-	-	-	5,000,000	5,000,000	-
	<b>4,476,858</b>	<b>4,482,461</b>	<b>(5,603)</b>	<b>71,056,834</b>	<b>71,062,437</b>	<b>(5,603)</b>

Project Management Support is disclosed in the following table:

In USD	For the period from 1 January 2024 to 5 May 2025	For the year ended 31 December 2023
Employee compensation	539,650	533,667
Rent expenses	-	-
Consultation expenses	4,430	5,413
Trip expenses	6,713	8,948
Machinery and equipment expenses	22,566	20,517
Office expenses	1,775	2,555
Communication expenses	1,533	2,360
Transportation expenses	-	-
Other expenses	33,092	18,601
<b>Total</b>	<b>609,759</b>	<b>592,061</b>



## 7.2 From government co-financing amounts

Loan number 2993- ARM	For the period from 1 January 2024 to 5 May 2025			May 2025		
	Actual	Budget	Variance	Actual	Budget	Variance
Works	3,221,293	3,219,510	1,783	16,347,316	16,345,533	1,783
Consulting Services	87,694	91,565	(3,871)	2,623,476	2,627,347	(3,871)
Land Acquisition and Resettlement	319,075	-	319,075	2,161,855	1,842,780	319,075
Goods	-	-	-	81,747	81,747	-
Project Management Support	26,941	17,694	9,247	173,974	164,727	9,247
	<b>3,655,003</b>	<b>3,328,769</b>	<b>326,234</b>	<b>21,388,368</b>	<b>21,062,134</b>	<b>326,234</b>

Loan number 2993- ARM	For the year ended 31 December 2023			31 December 2023		
	Actual	Budget	Variance	Actual	Budget	Variance
Works	697,426	944,319	(246,893)	13,126,024	13,372,916	(246,892)
Consulting Services	83,637	87,937	(4,300)	2,535,782	2,540,083	(4,301)
Land Acquisition and Resettlement	191,723	191,723	-	1,842,780	1,842,780	-
Goods	-	-	-	81,747	81,747	-
Project Management Support	12,263	19,405	(7,142)	147,033	154,175	(7,142)
	<b>985,049</b>	<b>1,243,384</b>	<b>(258,335)</b>	<b>17,733,365</b>	<b>17,991,701</b>	<b>(258,335)</b>

Project Management Support is disclosed in the following table:

	For the period from 1 January 2024 to 5 May 2025	For the year ended 31 December 2023
Employee compensation	13,195	-
Consultation expenses	4,685	2,089
Machinery and equipment expenses	1,561	3,241
Office expenses	353	508
Communication expenses	305	430
Transportation expenses	-	-
Other expenses	6,842	5,995
Total	26,941	12,263

## 8 Transfer from (to) another project

During 2023, a net amount of drams 50,000 thousand, equivalent to USD 123,521, was transferred from the Project's bank account (Ararat Bank account 15100-09017860800) to another Project (North-South Road Corridor Investment Project). This amount has been transferred back to the Project's bank account (Ararat Bank account 15100-09017860800) on 21 May 2024.



## 9 Reconciliation between the amounts received by the Fund and disbursed by the ADB

For the period from 1 January 2024 to 5 May 2025

Category	Appl.	ADB	Fund	Difference
Works				
	00217	2,435,448	2,435,448	-
	00219	1,208,768	1,208,768	-
	00220	125,018	125,018	-
	00222	2,194,589	2,194,589	-
	00223	324,483	324,483	-
	00225	301,711	301,711	-
	00226	94,213	94,213	-
	00227	1,235,364	1,235,364	-
	00228	238,686	238,686	-
	00229	74,726	74,726	-
	00231	1,492,057	1,492,057	-
	00233	1,685,005	1,685,005	-
	00235	2,149,362	2,149,362	-
	00236	300,537	300,537	-
	00237	93,484	93,484	-
	00238	659,058	659,058	-
	00239	630,565	630,565	-
		15,243,074	15,243,074	-
Consulting Services				
	00214	41,136	41,136	-
	00218	38,440	38,440	-
	00221	25,104	25,104	-
	00224	14,717	14,717	-
	00230	65,480	65,480	-
	00232	14,022	14,022	-
	00234	18,067	18,067	-
	00240	39,178	39,178	-
	00241	93,218	93,218	-
	00242	40,070	40,070	-
	00242	30,030	30,030	-
	00244	60,000	60,000	-
		479,462	479,462	-
Project Management Support				
	00216	359,496	359,496	-
	00224	339,977	339,977	-
	00241	252,072	252,072	-
		951,545	951,545	-
Advance/redemption to impressed account				

**Notes to the Project Financial Statements**

As at 5 May 2025 at and for the period from 1 January 2024 to 5 May 2025 (expressed in USD)

	00224	(5,704)	(5,704)	-
	00241	(345,290)	(345,290)	-
		(350,994)	(350,994)	-
Refund		(9,403)	(9,403)	-
<b>Total</b>		<b>16,313,684</b>	<b>16,313,684</b>	<b>-</b>

## 10 Project implementation

As of 5 May 2025 the financial progress of the Project was 87% (as of 31 December 2023: 71%) in the framework of the Loan Agreement. Meanwhile, the physical progress of the Project (Construction of Tranche 3) was 88% (as of 31 December 2023: 71%).