

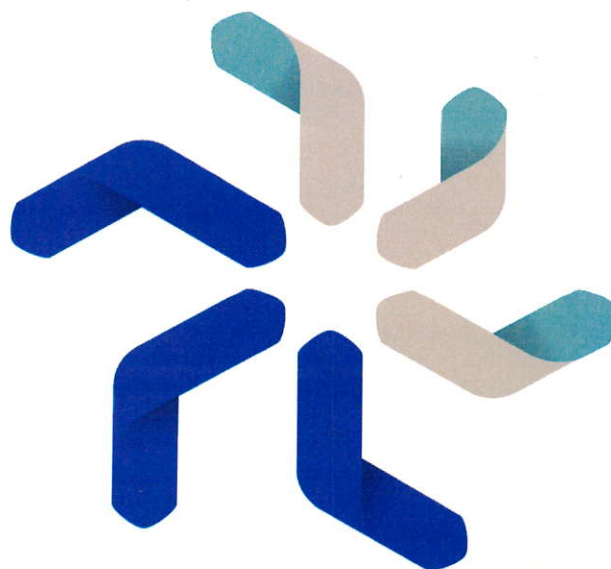
Project Financial Statements and Independent Auditor's Report

"Road Department" Fund

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

Loan Agreement number 2993-ARM

As of and for the year ended 31 December 2022



Contents

Independent auditor's report	3
Statement of the Project sources and uses of funds	6
Advance account (USD) statement	7
Government co-financing account (AMD) statement	8
SOE withdrawal schedule	9
Notes to the Project financial statements	10

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 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 of and for the year ended 31 December 2022 and the statement of expenditures ("SOEs") withdrawal schedule submitted to the ADB for the year ended 31 December 2022 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 of 31 December 2022, 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, 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- the "Road Department" Fund has utilized all proceeds of the loan withdrawn from the Asian Development Bank only for purposes of the Project as agreed between the Republic of Armenia and the Asian Development Bank, in accordance with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 of 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 statements 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 accounts give a true and fair view of the receipts collected and payments made during the year ended 31 December 2022; and (b) these receipts and payments support advance account liquidations/replenishments during the year ended 31 December 2022.

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 2023. Our opinion is not modified in respect of this matter.

Responsibilities of Management 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.
- 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

Emil Vassilyan, FCCA
Engagement Partner

29 June 2023



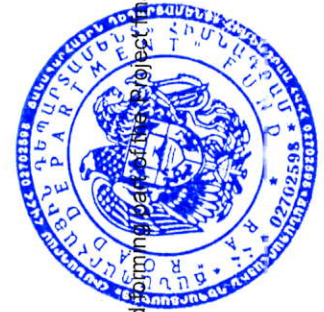
Statement of the Project sources and uses of funds

In USD	Note	Actual			Budget			Variance	
		Year ended 31 December 2022	As of 31 December 2022	Year ended 31 December 2021	As of 31 December 2021	Year ended 31 December 2022	As of 31 December 2022	Year ended 31 December 2022	As of 31 December 2022
	4	830,658		1,070,702					
Opening balance of bank accounts									
Add: Financing									
	5	13,053,583	66,586,136	9,428,397	53,532,553				
ADB loan number 2993-ARM									
	6	2,991,145	17,877,770	2,537,582	14,886,625				
Government co-financing									
Total financing									
		16,044,728	84,463,906	11,965,979	68,419,178				
Less: Expenses									
	7.1	(13,051,860)	(66,579,976)	(9,671,662)	(53,528,116)	(11,860,121)	(65,388,237)	(1,191,739)	(1,191,739)
ADB Loan Agreement number 2993-ARM									
	7.2	(2,684,340)	(16,748,316)	(2,590,592)	(14,063,976)	(2,708,578)	(16,772,554)	24,238	24,238
Government co-financing									
Total expenses									
		(15,736,200)	(83,328,292)	(12,262,254)	(67,592,092)	(14,568,699)	(82,160,791)	(1,167,501)	(1,167,501)
Gain/(loss) from exchange rate differences									
		206,907	210,479	56,231	3,572				
Closing balance of bank accounts									
	4	1,346,093		830,658					

The Project financial statements were approved on 29 June 2023 by:

Gor Avelisyan

Executive Director



Marina Safaryan

Head of Financial Management and Accounting Department/ Chief Accountant

This statement is to be read in conjunction with the notes to and accompanying financial statements set out on pages 10 to 18.

Advance account (USD) statement

Loan Agreement number 2993-ARM

In USD

	2022	2021
Balance as of 1 January	4,437	247,702
Add:		
ADB funds	504,782	241,220
Total inflow	504,782	241,220
Less:		
Project expenses	(503,059)	(484,485)
Total outflow	(503,059)	(484,485)
Balance as of 31 December	6,160	4,437

The Project financial statements were approved on 29 June 2023 by:

Gor Avetisyan

Executive Director



Marina Safaryan

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

Loan Agreement number 2993-ARM

In USD

	2022	2021
Balance as of 1 January	39,063	99,283
Add:		
Government co-financing	3,115,858	2,636,865
Returned amount to the State budget	(124,713)	(99,283)
Total inflow	2,991,145	2,537,582
Gain/(loss) from exchange rate differences	33,763	(7,759)
Less:		
Project expenses	(2,684,340)	(2,590,043)
Total outflow	(2,684,340)	(2,590,043)
Balance as of 31 December	379,631	39,063

The Project financial statements were approved on 29 June 2023 by:

Gor Avetisyan

Executive Director

Marina Safaryan

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 year ended 31 December 2022

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%	61,286
	4. Project Management Support	100%	188,895
00181	2. Consulting Services	100%	14,051
	4. Project Management Support	100%	240,550
Total			504,782

For the year ended 31 December 2021

No of withdrawal	Item	Contracts on Works, Goods, Consulting Services and Project Management Support	
		ADB percentage of financing*	Amount to be reimbursed
00140	2. Consulting Services	100%	69,348
	4. Project Management Support	100%	249,080
Total			318,428

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

The Project financial statements were approved on 29 June 2023 by:

Gor Avetisyan

Executive Director

Marina Safaryan

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

1 Activity

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
Total	132,443,503

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:

- a) facilitate efficient sub-regional road transport transit;
- b) increase trade flows and competitiveness;
- c) lower transport costs;
- d) increase mobility and accessibility to markets, jobs and social services;
- e) 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 2023.

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	65,000,000	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	3,400,000	100 percent of total expenditure*
5	Interest Charge and Commitment Charge	5,000,000	100 percent of amounts due
6	Unallocated	10,000,000	
	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 20 (2021: 18).

2 Significant 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 393.57 Armenian drams for 1 US dollar as of 31 December 2022 (480.14 Armenian drams for 1 US dollar as of 31 December 2021).

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 of the end of the year "Planned Project Expenses" comprise the sum of the amount of "Actual Project Expenses" as of 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:

In USD	As of 31 December 2022	As of 31 December 2021
Machinery and equipment	131,709	131,709
Computer software and equipment	42,454	28,024
Furniture	2,793	2,183
Other	3,296	3,296
	<u>180,252</u>	<u>165,212</u>

4 Bank accounts

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

	As of 31 December 2022	
	In USD	In AMD
ADB advance account in USD	6,160	2,424,391
Government co-financing account in AMD	379,631	149,411,414
Bank account in AMD (account 15100-09017860800)	960,302	377,945,984
Total	1,346,093	529,781,789

	As of 31 December 2021	
	In USD	In AMD
ADB advance account in USD	4,437	2,130,458
Government co-financing account in AMD	39,063	18,755,776
Bank account in AMD (account 15100-09017860800)	787,158	377,945,984
Total	830,658	398,832,218

5 ADB financing

In USD	For the year ended 31 December 2022	As of 31 December 2022	For the year ended 31 December 2021	As of 31 December 2021
Loan Agreement number 2993-ARM				
Advance account	504,782	6,638,161	241,220	6,133,379
Direct payment	11,622,062	54,947,976	8,726,374	43,325,914
Interest charge	926,739	4,999,999	460,803	4,073,260
	<u>13,053,583</u>	<u>66,586,136</u>	<u>9,428,397</u>	<u>53,532,553</u>

6 Government co-financing

In USD	For the year ended 31 December 2022	As of 31 December 2022	For the year ended 31 December 2021	As of 31 December 2021
Government co-financing	3,115,858	15,780,367	2,636,865	12,664,509
Less: amount returned to the State budget	(124,713)	(339,242)	(99,283)	(214,529)
	<u>2,991,145</u>	<u>15,441,125</u>	<u>2,537,582</u>	<u>12,449,980</u>
Government co-financing, LARP financing	-	2,533,963	-	2,533,963
Less: amount returned to the State budget	-	(97,318)	-	(97,318)
	<u>-</u>	<u>2,436,645</u>	<u>-</u>	<u>2,436,645</u>
	<u>2,991,145</u>	<u>17,877,770</u>	<u>2,537,582</u>	<u>14,886,625</u>

7 Expenses

7.1 From ADB fund

In USD	For the year ended 31 December 2022			As of 31 December 2022		
Loan number 2993-ARM	Actual	Budget	Variance	Actual	Budget	Variance
Works *	10,641,896	10,359,780	282,116	47,340,282	47,058,166	282,116
Consulting Services	1,001,545	1,011,594	(10,049)	10,817,771	10,827,820	(10,049)
Goods	-	-	-	332,620	332,620	-
Project Management Support	481,680	488,747	(7,067)	3,089,304	3,096,371	(7,067)
Interest charge	926,739	-	926,739	4,999,999	4,073,260	926,739
	13,051,860	11,860,121	1,191,739	66,579,976	65,388,237	1,191,739

* The Contractor company Sinohydro corporation limited Armenian Branch has requested the Disputes Council (DC) to require the Fund to allocate additional payments to the Contractor for the replacement of the cement-based to concrete-based pavement. A part of the claim (561,787 US dollar) has been met in 2022 and the amount has been transferred to the Contractor (included under works capture), whereas DC decided that the Contractor should provide additional justifications for the rest of the claim.

Within the framework of the construction, "SINOHYDRO CORPORATION" limited Armenian Branch presented to the Fund a penalty claim for delayed payments in the amount of USD 95,071. The Fund accepted only USD 70,997 of that claim, which has not yet been paid during the reporting year.

Project Management Support is disclosed in the following table:

In USD	For the year ended 31 December 2022	As of 31 December 2022
Employee compensation	395,225	2,350,356
Rent expenses	-	388,474
Consultation expenses	4,255	75,871
Trip expenses	4,824	35,049
Machinery and equipment expenses	13,024	48,861
Office expenses	1,025	24,097
Communication expenses	1,397	14,795
Transportation expenses	29,279	50,267
Other expenses	32,652	101,535
Total	481,681	3,089,305

In USD	For the year ended 31 December 2021			As of 31 December 2021		
Loan number 2993-ARM	Actual	Budget	Variance	Actual	Budget	Variance
Works	7,188,128	7,182,990	5,138	36,698,386	36,693,248	5,138
Consulting Services	1,662,818	1,668,635	(5,817)	9,816,226	9,822,043	(5,817)
Goods	-	-	-	332,620	332,620	-
Project Management Support	359,913	374,550	(14,637)	2,607,624	2,622,261	(14,637)
Interest charge	460,803	460,803	-	4,073,260	4,073,260	-
	9,671,662	9,686,978	(15,316)	53,528,116	53,543,432	(15,316)

Project Management Support is disclosed in the following table:

In USD	For the year ended 31 December 2021	As of 31 December 2021
Employee compensation	298,259	1,955,131
Rent expenses	-	388,474
Consultation expenses	3,689	71,616
Trip expenses	2,313	30,225
Machinery and equipment expenses	16,861	35,837
Office expenses	3,321	23,072
Communication expenses	1,085	13,398
Other expenses	34,385	89,871
Total	359,913	2,607,624

7.2 From government co-financing amounts

In USD	For the year ended 31 December 2022			As of 31 December 2022		
Loan number 2993-ARM	Actual	Budget	Variance	Actual	Budget	Variance
Works	2,446,075	2,412,182	33,893	12,428,597	12,394,704	33,893
Consulting Services	221,529	274,722	(53,193)	2,452,145	2,505,338	(53,193)
Land Acquisition and Resettlement	-	-	-	1,651,057	1,651,057	-
Goods	-	-	-	81,747	81,747	-
Project Management Support	16,736	21,674	(4,938)	134,770	139,708	(4,938)
	2,684,340	2,708,578	(24,238)	16,748,316	16,772,554	(24,238)

Project Management Support is disclosed in the following table:

In USD

	For the year ended 31 December 2022	As of 31 December 2022
Rent expenses	-	65,578
Consultation expenses	1,438	25,119
Machinery and equipment expenses	2,016	7,462
Office expenses	196	3,916
Communication expenses	278	2,671
Transportation expenses	5,634	9,654
Other expenses	7,174	20,370
Total	16,736	134,770

In USD	For the year ended 31 December 2021			As of 31 December 2021		
Loan number 2993- ARM	Actual	Budget	Variance	Actual	Budget	Variance
Works	2,240,374	2,265,271	(24,897)	9,982,522	10,007,419	(24,897)
Consulting Services	337,921	341,358	(3,437)	2,230,616	2,234,053	(3,437)
Land Acquisition and Resettlement	549	-	549	1,651,057	1,650,508	549
Goods	-	-	-	81,747	81,747	-
Project Management Support	11,748	20,332	(8,584)	118,034	126,618	(8,584)
	2,590,592	2,626,961	(36,369)	14,063,976	14,100,345	(36,369)

Project Management Support is disclosed in the following table:

In USD

	For the year ended 31 December 2021	As of 31 December 2021
Rent expenses	-	65,578
Consultation expenses	1,278	23,681
Machinery and equipment expenses	1,986	5,446
Office expenses	674	3,720
Communication expenses	216	2,393
Other expenses	7,594	17,216
Total	11,748	118,034

8 Reconciliation between the amounts received by the Fund and disbursed by the ADB

For the year ended 31 December 2022

In USD		ADB	Fund	Difference
Works				
	00162	616,891	616,891	-
	00163	153,669	153,669	-
	00168	407,093	407,093	-
	00170	421,882	421,882	-
	00171	120,513	120,513	-
	00173	125,879	125,879	-
	00174	419,284	419,284	-
	00175	61,064	61,064	-
	00177	172,887	172,887	-
	00178	576,577	576,577	-
	00179	441,683	441,683	-
	00180	132,439	132,439	-
	00182	441,193	441,193	-
	00183	132,622	132,622	-
	00184	447,534	447,534	-
	00185	130,940	130,940	-
	00186	1,557,718	1,557,718	-
	00187	463,627	463,627	-
	00190	1,194,895	1,194,895	-
	00191	368,828	368,828	-
	00192	1,721,314	1,721,314	-
	00193	533,364	533,364	-
		<u>10,641,896</u>	<u>10,641,896</u>	<u>-</u>
Consulting Services				
	00161	61,286	61,286	-
	00164	104,426	104,426	-
	00165	95,433	95,433	-
	00166	40,681	40,681	-
	00167	74,329	74,329	-
	00169	87,261	87,261	-
	00172	74,026	74,026	-
	00176	88,793	88,793	-
	00181	14,051	14,051	-
	00188	91,320	91,320	-
	00189	88,850	88,850	-
	00194	95,054	95,054	-
	00195	66,898	66,898	-
	00196	73,095	73,095	-
		<u>1,055,503</u>	<u>1,055,503</u>	<u>-</u>

	ADB	Fund	Difference
Project Management Support			
00161	188,895	188,895	-
00181	240,550	240,550	
	429,445	429,445	-
Interest	926,739	926,739	-
Total	13,053,583	13,053,583	-

9 Project implementation

As of 31 December 2022 the financial progress of the Project was 67% (as of 31 December 2021: 54%) in the framework of the Loan Agreement. Meanwhile, the physical progress of the Project (Construction of Tranche 3) was 70% (as of 31 December 2021: 62%).