

Project Financial Statements and Independent Auditor's Report

"Road Department" SNCO

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

Finance Contract number FIN 82634-AM

As of and for the year ended 31 December 2019



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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 North-South Road Corridor Investment Program-Project 3 (the "Project"), financed by the European Investment Bank (the "EIB") Finance Contract number FIN 82634-AM, implemented by the "Road Department" SNCO, which comprise the statement of Project sources and uses of funds, the Project account statement and the government co-financing account statement as of and for the year ended 31 December 2019, 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 of 31 December 2019, 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- the "Road Department" SNCO has utilized all proceeds of the credit withdrawn from the European Investment Bank only for purposes of the Project as agreed between the Republic of Armenia and the European Investment Bank, in accordance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 of the reporting date the "Road Department" SNCO 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 2019; and (b) these receipts and payments support the Project account liquidations/replenishments during the year ended 31 December 2019.

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” 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 project financial statements, which describes the basis of accounting. The project financial statements are prepared to assist the management of the “Road Department” SNCO 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 20 December 2020. In addition, we draw attention to note 5 to the project financial statements, which describes the project implementation progress. Our opinion is not modified in respect of this matters.
- We draw attention to note 6 to the project financial statements which describes the effect of a new disease COVID-19. Our opinion is not modified in respect of this matter.

Responsibilities of Management for the Project Financial Statements

Management of the “Road Department” SNCO 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.

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.

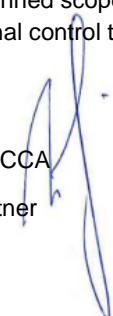
As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- 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” SNCO’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 Hovhannissyan
Chief Executive Officer


Emil Vassilyan, FCCA
Engagement Partner

4 December 2020



Statement of the Project sources and uses of fund

In Euro	Note	Actual				Budget		Variance	
		2019	As of 31 December 2019	2018	As of 31 December 2018	2019	As of 31 December 2019	2019	As of 31 December 2019
Opening balance of bank accounts		1,845		1,255					
Add: Financing									
European Investment Bank credit funds	3	1,016,655	28,000,000	2,076,025	26,983,345				
Government co-financing		596,041	2,302,452	417,468	1,706,411				
Total financing		1,612,696	30,302,452	2,493,493	28,689,756				
Less: Expenses									
European Investment Bank credit funds	4	(1,016,655)	(28,000,000)	(2,076,025)	(26,983,345)	(2,944,373)	(29,927,718)	(1,927,718)	(1,927,718)
Government co-financing		(488,758)	(2,182,119)	(415,225)	(1,693,361)	(1,206,593)	(2,899,954)	(717,835)	(717,835)
Total expenses		(1,505,413)	(30,182,119)	(2,491,250)	(28,676,706)	(4,150,966)	(32,827,672)	(2,645,553)	(2,645,553)
Loss from exchange rate differences		(1,779)	(12,984)	(1,653)	(11,205)				
Closing balance of bank accounts		107,349		1,845					

The project financial statements were approved on 4 December 2020 by:

Stepan Machyan

Acting General Director

Marina Safaryan

Acting Head of Financial Management and Accounting Department, Chief Accountant

This statement of the Project sources and uses of funds is to be read in conjunction with the notes to and forming part of the project financial statements set out on pages 9 to 12.



Project account (Euro) statement

In Euro

	2019	2018
Balance at 1 January	-	-
Add:		
European Investment Bank credit funds	1,016,655	2,076,025
Total inflow	1,016,655	2,076,025
Less:		
Project expenses	(1,016,655)	(2,076,025)
Total outflow	(1,016,655)	(2,076,025)
Balance at 31 December	-	-

The project financial statements were approved on 4 December 2020 by:

Stepan Machyan

Marina Safaryan

Acting General Director

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 9 to 12.

Government co-financing account (AMD) statement

In Euro

	2019	2018
Balance at 1 January	1,845	1,255
Add:		
Government co-financing	597,883	417,468
Returned amount to budget	(1,842)	-
Total inflow	596,041	417,468
Loss from exchange rate differences	(1,779)	(1,653)
Less:		
Project expenses	(488,758)	(415,225)
Total outflow	(488,758)	(415,225)
Balance at 31 December	107,349	1,845

The project financial statements were approved on 4 December 2020 by:

Stepan Machyan

Marina Safaryan

Acting General Director

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 9 to 12.

Notes to the Project financial statements

1 Nature of operations and general information

The “Transport Project Implementation Organization” SNCO, which is the successor of State Agency “Transport Project Implementation Unit” of the Ministry of Territorial Administration and Infrastructure of the Republic of Armenia and “North-South Road Corridor Investment Project Implementation Organization” SNCO, was established as a State Non-Commercial Organization by the Decree No 1304-A of the Government of the Republic of Armenia dated 15 December 2016. According to the decree N1969- A dated 26 December 2019 of the RA Government, the “Transport Project Implementation Organization” SNCO was renamed to “Road Department” SNCO (the “Organization”).

The Finance Contract between the Republic of Armenia and the European Investment Bank (the “EIB”) was signed on 18 November 2013. 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
 - f. km 78 – Mastara
 - g. km 87.5 – Lanjik
 - h. km 94 – Dzorakap and Sarnaghbyur
 - i. km 96 – Artik and Maralik
 - j. km 98.5 – Maralik
 - k. km 104 – Hayrenyats
 - l. km 106.5 – Horom
 - m. km 107.5 – Lusakert
 - n. km 110 – Beniyamin
 - o. km 113.5 – Azatan/Aravik

Each interchange includes 1 No. overbridge (2x18m=36m long)

- vi. Construction of a drainage system (of all facilities), including cleaning and rehabilitation of the existing drainage ditches and culverts;
- vii. Landscaping and other environmental protection facilities to mitigate adverse impacts on the environment;
- viii. Lighting and power including: road signs and road markings, traffic safety and motorway security elements;
- ix. Planning, design, supervision, environmental/other monitoring, auditing, legal, and testing services plus insurance; and
- x. Relocation/reinstatement of utilities as necessary
- p. facilitate efficient subregional road transport transit;
- q. increase trade flows and competitiveness;

- r. lower transport costs;
- s. increase mobility and accessibility to markets, jobs and social services;
- t. improve governance.

The Project closing date is 20 December 2020.

The operating address of the Organization is 4 Tigran Mets Str., 7-th floor, Yerevan, Armenia.

During the reporting year the average number of the staff involved in the Project was 12 (2018` 14).

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 financial statements of the Project are also prepared in accordance with the EIB Finance Contract number FIN 82634-AM.

2.2 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.

2.3 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.

2.4 Expenses

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

2.5 Functional and presentation currency

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

In preparing the project financial statements, transactions in currencies other than the functional currency are recorded at the rates of exchange announced by the Central Bank of Armenia prevailing on the previous dates of the transactions. 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 537.26 drams for 1 Euro as of 31 December 2019 (553.65 Armenian drams for 1 Euro as of 31 December 2018).

3 Financing

The Republic of Armenia received financing from the EIB, which as of 31 December 2019 amounts to Euro 28,000,000. Within the scope of the Project, during the reporting year Euro 1,016,655 is transferred to the Project account. In the statement of project sources and uses of funds are included only those amounts that are controlled and used by the Organization.

4 Expenses

In accordance with the contract number T3-CW-02 signed between the Ministry of Territorial Administration and Infrastructure of the Republic of Armenia and Sinohydro Corporation Limited (the "Contractor") dated 8 December 2015, the Contractor should execute works known as T3-CW-02: Reconstruction and Improvement of the M1 Talin to Gyumri Road from km 90+200 to km 117+670 (Lanjik-Gyumri section). The contractual amount made up Euro 74,066,180. Within the scope of the contract, as of 31 December 2019, payments are made to the Contractor from the EIB and the RA Government co-financing funds at the amount of Euro 28,000,000 and Euro 2,182,119, respectively.

5 Project implementation

As of 31 December 2019 47% (as of 31 December 2018: 45%) of payments were performed in the framework of the Finance Contract, while only 21% (as of 31 December 2018: 17%) of civil works were performed.

6 Subsequent events

In March 2020 the World Health Organization has classified the coronavirus (COVID-19), which has exploded in China in December 2019, as pandemic. The impact of the coronavirus outbreak is unknown at this time. The developing situation with COVID-19 may have some impact on the continuity or the volume of the operations of the Organization as well as on the Project implementation. Since 16 March 2020 the Government of the Republic of Armenia announced a state of emergency in the country and has taken measures to mitigate the effects of the virus. These project financial statements do not reflect the potential effect of the above.