

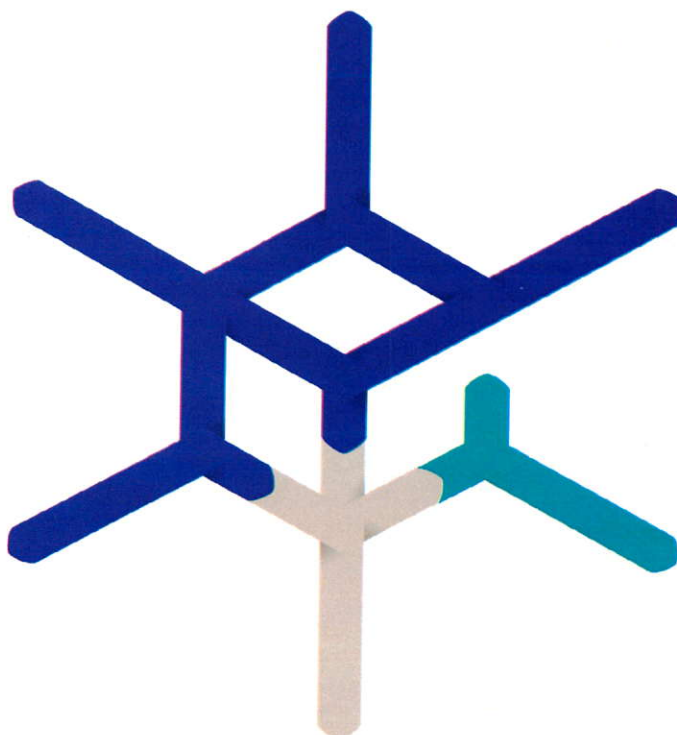
Project Financial Statements and Independent Auditor's Report

"Road Department" Fund

Lifeline Road Network Improvement Project

IBRD Loan Number 8957-AM

As of and for year ended 31 December 2021



Contents

Independent auditor's report	3
Statement of financial position	6
Statement of the Project sources and uses of funds	7
Statement of uses of funds by Project activities	8
SOE withdrawal schedule	9
Designated account statement	10
Notes to the Project financial statements	11

Independent auditor's report

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To the Government of the Republic of Armenia,

Opinion

We have audited the accompanying 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 8957-AM, which comprise the statement of financial position as of 31 December 2021, the statement of the Project sources and uses of funds, the statement of uses of funds by Project activities, the designated account statement as of 31 December 2021 and for the year then ended, as well as the statements of expenditures ("SOE") submitted to the World Bank for the year ended 31 December 2021 in support of the Loan Agreement 8957-AM withdrawals, and a summary of significant accounting policies and other explanatory information.

In our opinion, the Project financial statements give a true and fair view of the financial position of the Lifeline Road Network Improvement Project (Loan Agreement 8957-AM) as of 31 December 2021, 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 Project financial statements, the World Bank guidelines, and the relevant points of the Loan Agreement 8957-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 8957-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 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 World 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 3 to the Project financial statements, which describes that the closing date of the Project is 31 December 2022. 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 these Project financial statements in accordance with the accounting policies described in note 2 to the Project financial statements, the World Bank guidelines, and the relevant points of the Loan Agreement 8957-AM, and for such internal control as management determines is necessary to enable the preparation of these 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:

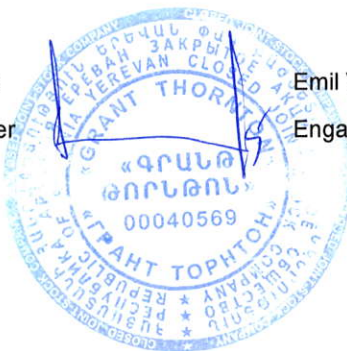
- Identify and assess the risks of material misstatement of the Project financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not 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

30 June 2022



Emil Vassilyan, FCCA
Engagement Partner

Statement of financial position

In Euro	Note	As of 31 December 2021	As of 31 December 2020
Assets			
Accumulated Project expenses		12,495,434	1,026,735
Advances		20,434	2,019,153
Bank balances	4	316,808	823,701
Total assets		12,832,676	3,869,589
Funds and liabilities			
World Bank financing	6	10,166,111	3,296,147
Government co-financing	7	2,507,297	626,818
Other		24,590	-
Exchange rate differences		(257,798)	(220,773)
Accounts payable	5	392,476	167,397
Total funds and liabilities		12,832,676	3,869,589

The Project financial statements were approved on 30 June 2022 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 11 to 16.

Statement of the Project sources and uses of funds

In Euro	Actual		Budget		Variance		Life of Project
	Year ended 31 December 2021	As of 31 December 2021	Year ended 31 December 2021	As of 31 December 2021	Year ended 31 December 2021	As of 31 December 2021	
Sources of funds							
World Bank financing (note 6)	6,869,964	10,166,111					
Government co-financing (note 7)	1,880,479	2,507,297					
Other	24,590	24,590					
Total	8,775,033	12,697,998					
Loss from exchange rate differences	(37,025)	(257,798)					
Less: Uses of funds							
Goods, works, training, operating costs, non-consulting services, and consulting services under Parts 1 and 2 of the Project (note 8)	11,468,699	12,461,934	12,294,057	19,878,204	(825,358)	(7,416,270)	16,716,500
Front-end Fee	-	33,500	-	33,500	-	-	33,500
Total	11,468,699	12,495,434	12,294,057	19,911,704	(825,358)	(7,416,270)	16,750,000
Net decrease in working capital (note 9)	(2,730,691)	(55,234)					

This statement is to be read in conjunction with the notes to and forming part of the Project financial statements set out on pages 11 to 16.

Statement of uses of funds by Project activities

In Euro	Actual		Budget		Variance		Life of Project
	Year ended 31 December 2021	As of 31 December 2021	Year ended 31 December 2021	As of 31 December 2021	Year ended 31 December 2021	As of 31 December 2021	
Part 1: Lifeline Road Improvement	11,222,204	12,199,314	11,999,915	19,567,937	(777,711)	(7,368,623)	15,066,500
Road Rehabilitation Works	10,140,419	10,941,123	9,838,125	15,259,777	302,294	(4,318,654)	11,750,000
Supervision and Technical Designs	1,081,785	1,258,191	2,161,790	4,308,160	(1,080,005)	(3,049,969)	3,316,500
Part 2: Project Management and Institutional Strengthening	246,495	262,620	294,142	310,267	(47,647)	(47,647)	1,650,000
Project Management and Implementation, including audits	231,112	233,517	294,142	296,547	(63,030)	(63,030)	1,650,000
Technical Assistance	15,383	29,103	-	13,720	15,383	15,383	-
Total	11,468,699	12,461,934	12,294,057	19,878,204	(825,358)	(7,416,270)	16,716,500

The statement of uses of funds by Project activities does not include the Front-end Fee at the amount of Euro 33,500 as of 31 December 2021.

This statement is to be read in conjunction with the notes to and forming part of the Project financial statements set out on pages 11 to 16.

SOE withdrawal schedule

For the year ended 31 December 2021

IBRD Loan Agreement 8957-AM

In Euro

<i>Application No.</i>	<i>Category</i> <i>Goods, works, training, operating costs, non-consulting services,</i> <i>and consulting services under Parts 1 and 2 of the Project</i>
4-DA	654,131
5-DA	772,538
6-DA	1,147,872
7-DA	1,289,385
8-DA	1,313,483
9-DA	901,151
10-DA	482,476
Total	6,561,036

This statement is to be read in conjunction with the notes to and forming part of the Project financial statements set out on pages 11 to 16.

Designated account statement

As of and for the year ended 31 December 2021

IBRD Loan Agreement 8957-AM

In Euro

Balance as of 1 January 2021		808,930
Add:		
Cumulative unexplained discrepancy	-	
Loan replenishment during the year*	6,869,789	
Returned amount **	190,192	
	<u>7,059,981</u>	<u>7,059,981</u>
Less:		
Refund to the World Bank from the designated account during the year		-
Present outstanding amount advanced to the designated account (1)		<u>7,868,911</u>
Balance as of 31 December 2021		259,975
Add:		
Amount of eligible expenditures paid during the year	7,608,936	
Service charges (if applicable)	-	
	<u>7,608,936</u>	<u>7,608,936</u>
Less:		
Interest earned (if credited into the designated account)		-
Total advance accounted for (2)		<u>7,868,911</u>
Discrepancy (1) – (2) to be explained		-

* During the reporting year the Fund has received Euro 6,869,964 loan replenishment from the World Bank, of which Euro 175 were charged by the intermediate bank for transfer services.

** Returned amount includes advances refunded by "Zangezurttranshin" OJSC in relation to the termination of the contract for the construction of M6-Yeghegnut-Debet road section.

This statement is to be read in conjunction with the notes to and forming part of the Project financial statements set out on pages 11 to 16.

Notes to the Project financial statements

1 Activity

The "Road Department" Fund (the "Fund") implements the Lifeline Road Network Improvement Project (the "Project"), which is financed under the Loan Agreement number 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. According to N 1298-u decision of the Republic of Armenia dated 6 August 2021 the "Road Department" SNCO was reorganized into Fund.

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.

On 10 October 2019 another Loan Agreement 8957-AM (Second 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 Euro 13,400,000.

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 Fund to manage the Lifeline Road Network.

The Project consists of the following parts:

Part 1: Lifeline Road Improvement

- Carrying out improvement works for approximately 450 kilometres of selected roads within the Lifeline Road Network.
- (i) Carrying out, on a pilot basis, 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 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.

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 MoTAI personnel for the use of said database, (ii) acquisition of road survey equipment for surveying road conditions and traffic, (iii) acquisition of road laboratory equipment for testing the quality of works carried out under the Project, 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 MoTAI and Traffic Police personnel in road safety management topics, (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, (vi) the implementation of selected activities of the action plan developed under Part 2(c)(v) of the Project, and (vii) the development and installation of a crash data collection and management system and the provision of a training program for Traffic Police, MoTAI, and other stakeholders as needed in using the system.
- 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 MoTAI 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 MoTAI, (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, including the carrying out of a risk assessment of natural hazards to road infrastructure.

Part 3: Contingent Emergency Response Component

Provision of support upon occurrence of an Eligible Emergency, as needed.

In accordance with the Loan Agreement 8957-AM dated 10 October 2019, 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 Euro)
Goods, works, training, operating costs, non-consulting services, and consulting services under Parts 1 and 2 of the Project	80%	13,366,500
Emergency expenditures under Part 3 of the Project	100%	-
Front-end Fee		33,500
Total		13,400,000

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 Euro) (inclusive of taxes)	Government financing (in Euro)	Total Cost (in Euro)
Lifeline Road Improvement	12,046,500	3,020,000	15,066,500
Project Management and Institutional Strengthening	1,320,000	330,000	1,650,000
Total Project Costs	13,366,500	3,350,000	16,716,500
Front-end fee	33,500	-	33,500
Total	13,400,000	3,350,000	16,750,000

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

During the reporting period the average number of the staff involved in the Project was 17.

2 Significant accounting policies

2.1 Basis of preparation

The Project financial statements have been prepared in accordance with the accrual basis of accounting, as well as the World Bank guidelines and the relevant points of the Loan Agreement 8957-AM. Significant accounting policies are disclosed below.

2.2 Functional and presentation currency

The national currency of the Republic of Armenia is the Armenian dram ("dram"). These Project financial statements are presented in Euro (presentation currency).

In preparing the Project financial statements, transactions in currencies other than Euro 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 Armenian drams to the contractor/consultant from the World Bank share, the exchange rates set out for the presentation of the operation in the system client connection (<https://clientconnection.worldbank.org>) are 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 542.61 Armenian drams for 1 Euro as of 31 December 2021 (31 December 2020: drams 641.11 for 1 Euro). 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 8957-AM is recorded in the statement of financial position as "Accumulated Project financing" and is recognized at each replenishment. In addition, the current period funds received are disclosed in the statement of Project sources and uses of funds, showing the sources of funds.

The World Bank financing

To finance eligible expenditures for the Loan Agreement 8957-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 pre-financed 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.

Government co-financing

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 Project expenses

The Project expenses are recognized on the accrual basis of accounting. The accumulated Project expenses are disclosed in the statement of financial position. In addition, current period expenses are disclosed in the statement of Project sources and uses of funds and the statement of uses of funds by Project activities. Additionally, a further breakdown of expenses by categories is disclosed in note 8.

2.5 Advances

Advances, which comprise amounts paid for services and works 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.

3 Closing date of the Project

According to the Loan Agreement 8957-AM, the Project closing date was defined as 31 December 2022.

4 Bank balances

In Euro	As of 31 December 2021	As of 31 December 2020
Designated account	259,975	808,930
Local account	56,833	14,771
	<u>316,808</u>	<u>823,701</u>

5 Accounts payable

In Euro	As of 31 December 2021	As of 31 December 2020
Retention payables to contractors*	276,963	78,183
Payables to contractors	115,513	89,214
	<u>392,476</u>	<u>167,397</u>

*Includes retention payables to "Zangezurtranshin" OJSC amounted of Euro 19,140. As of the reporting date management has not yet determined whether the retention will be paid or not.

6 World Bank financing

In Euro	For the year ended 31 December 2021	As of 31 December 2021
SOE procedures	6,561,036	8,323,683
Other procedure	771,777	771,777
Designated account advance/(redemption)	(462,849)	1,037,151
Front-end fee	-	33,500
	<u>6,869,964</u>	<u>10,166,111</u>

7 Government co-financing

For all expenses under the IBRD Loan Agreement 8957-AM, there is a 20% of Government co-financing. During the reporting year the Government co-financing amounts to Euro 1,895,250 and returned amount is Euro 14,771. The Government co-financing net amount is Euro 1,880,479 (as of 31 December 2021: Euro 2,507,297).

8 Uses of funds by category descriptions

The 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 8957-AM. For the convenience of certain users, the breakdown of the uses of funds according to subcategories is disclosed in the table below:

In Euro	For the year ended 31 December 2021	As of 31 December 2021
Works	10,140,419	10,941,123
Consultants' services	221,059	411,185
Operating Costs and training	1,107,221	1,109,626
Front-end Fee	-	33,500
	<u>11,468,699</u>	<u>12,495,434</u>

9 Net decrease in working capital

In Euro	For the year ended 31 December 2021	As of 31 December 2021
Increase/(decrease) in bank balances	(506,893)	316,808
Increase/(decrease) in advances	(1,998,719)	20,434
Increase in accounts payable	(225,079)	(392,476)
	<u>(2,730,691)</u>	<u>(55,234)</u>

10 Reconciliation between the amounts received by the Fund and disbursed by the World Bank

For the year ended 31 December 2021

In Euro

Category	Appl.	Fund	WB	Difference
Goods, works, training, operating costs, non-consulting services, and consulting services under Parts 1 and 2 of the Project				
	4-DA	832,878	832,878	-
	5-DA	972,770	972,770	-
	6-DA	1,230,260	1,230,260	-
	7-DA	1,371,987	1,371,987	-
	8-DA	1,462,849	1,462,849	-
	9-DA	901,151	901,151	-
	10-DA	560,918	560,918	-
		<u>7,332,813</u>	<u>7,332,813</u>	<u>-</u>
Designated account advance redemption				
	8-DA	(462,849)	(462,849)	-
		<u>(462,849)</u>	<u>(462,849)</u>	<u>-</u>
Total		<u>6,869,964</u>	<u>6,869,964</u>	<u>-</u>

11 Legal commitments

There is one lawsuit against the Fund as of the reporting date. "Zangezurttranshin" OJSC (the "plaintiff") filed a lawsuit against the Fund for recognizing the contractual obligations "duly fulfilled" and for not returning the amount of the performance guarantee. The plaintiff also filed a lawsuit against the bank issuing the guarantee with the content of prohibiting the payment of the guarantee to the Fund. There is no final judicial act on the case yet.