



Grant Thornton

Special Purpose Project Financial Statements and  
Independent Auditor's Report

“High Voltage Electric Networks” CJSC

Electricity Supply Reliability Project  
Loan 8055-AM

As of and for the year ended December 31, 2014

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## Independent auditor's report

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To the shareholders of “High Voltage Electric Networks” CJSC

We have audited the accompanying special purpose project financial statements of the Electricity Supply Reliability Project (the “Project”), financed by the International Bank for Reconstruction and Development (the “IBRD”) Loan Agreement 8055-AM, which comprise the statement of financial position as of December 31, 2014, 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 and for the year ended December 31, 2014, as well as the statement of expenditures (“SOE”) submitted to the World Bank for the year ended December 31, 2014 in support of the Loan Agreement 8055-AM withdrawals, and a summary of significant accounting policies and other explanatory information.

### *Management's Responsibility for the Special Purpose Project Financial Statements*

Management of “High Voltage Electric Networks” CJSC (the “Company”) is responsible for the preparation and fair presentation of these special purpose project financial statements in accordance with the accounting policies described in the note 2 to the special purpose project financial statements, the World Bank guidelines, and the relevant points of the Loan Agreement 8055-AM, and for such internal control as management determines is necessary to enable the preparation of these special purpose project financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditor's Responsibility*

Our responsibility is to express an opinion on these special purpose project financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the special purpose project financial statements are free from material misstatement.



An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the special purpose project financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### *Opinion*

In our opinion, the special purpose project financial statements give a true and fair view of the financial position of the Electricity Supply Reliability Project as of December 31, 2014, and of the funds received and expenses incurred for the year then ended, in accordance with the accounting policies described in the note 2 to the special purpose project financial statements, the World Bank guidelines, and the relevant points of the Loan Agreement 8055-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 8055-AM withdrawals.

#### *Basis of Accounting*

Without modifying our opinion, we draw attention to note 2 to the special purpose project financial statements, which describes the basis of accounting. The special purpose project financial statements are prepared to assist the management of the "High Voltage Electric Networks" CJSC to meet the requirements of the financial reporting of the World Bank. As a result, the special purpose project financial statements may not be suitable for another purpose.

#### *Other matter*

The special purpose financial statements of the Electricity Supply Reliability Project for the year ended December 31, 2013 were audited by other auditors, whose auditor's report dated June 17, 2014 expresses an unqualified opinion on those special purpose financial statements.

June 24, 2015

Gagik Gyulbudaghyan

Managing Partner

Emil Vassilyan, FCCA

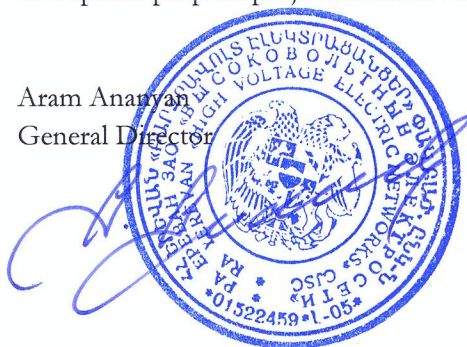
Engagement Partner

## Statement of financial position

In US dollars		As of December 31, 2014	As of December 31, 2013
	Note		
<b>Assets</b>			
<i>Non-current assets</i>			
Accumulated Project expenses		14,198,104	1,943,698
		<u>14,198,104</u>	<u>1,943,698</u>
<i>Current assets</i>			
Advances	4	3,352,610	5,269,683
Bank balances	5	1,336	236
		<u>3,353,946</u>	<u>5,269,919</u>
<b>Total assets</b>		<u><u>17,552,050</u></u>	<u><u>7,213,617</u></u>
<i>Funds and liabilities</i>			
<i>Funds</i>			
Accumulated Project financing		14,928,435	6,929,363
Exchange rate difference		(157,985)	21,106
		<u>14,770,450</u>	<u>6,950,469</u>
<i>Current liabilities</i>			
Accounts payable	6	2,781,600	263,148
		<u>2,781,600</u>	<u>263,148</u>
<b>Total funds and liabilities</b>		<u><u>17,552,050</u></u>	<u><u>7,213,617</u></u>

The special purpose project financial statements were approved on June 23, 2015 by:

Aram Ananyan  
 General Director



Artavazd Ghazaryan  
 Chief Accountant



## Statement of the Project sources and uses of funds

As of and for the year ended December 31, 2014

In US dollars

	Actual		Planned		Variance			Life of Project
	For the year	As of December 31, 2014	For the year	As of December 31, 2014	For the year	As of December 31, 2014		
<i>Sources of funds</i>								
IBRD Loan Number 8055-AM (note 7)	6,766,787	13,590,387						
Government co-financing	1,232,285	1,335,682						
"High Voltage Electric Networks" CJSC financing	-	2,008						
Other	-	358						
<b>Total</b>	<b>7,999,072</b>	<b>14,928,435</b>						
Exchange rate difference	(179,091)	(157,985)						
<i>Less: Uses of funds</i>								
Goods, works, non-consulting services, consultants' services, including training and audit, and operating costs for the Project	12,254,406	13,382,151	14,066,600	15,194,345	(1,812,194)	(1,812,194)	48,759,310	
Land acquisition/grievance mechanisms under the Project	-	-	-	-	-	-	2,000,000	
Refund of the preparation advance	-	718,453	-	718,453	-	-	1,143,190	
Front-end Fee	-	97,500	-	97,500	-	-	97,500	
<b>Total</b>	<b>12,254,406</b>	<b>14,198,104</b>	<b>14,066,600</b>	<b>16,010,298</b>	<b>(1,812,194)</b>	<b>(1,812,194)</b>	<b>52,000,000</b>	
Net increase/(decrease) in working capital (note 9)	(4,434,425)	572,346						

This statement is to be read in conjunction with the notes to and forming part of the special purpose project financial statements set out on pages 8 to 14.

## Statement of uses of funds by Project activities

As of and for the year ended December 31, 2014

In US dollars

	Actual		Planned		Variance		PAD
	For the year	As of December 31, 2014	For the year	As of December 31, 2014	For the year	As of December 31, 2014	Life of Project
A Strengthening of power transmission network	11,591,574	12,009,139	13,241,000	13,658,565	(1,649,426)	(1,649,426)	45,300,000
B Technical assistance	662,832	2,091,465	825,600	2,254,233	(162,768)	(162,768)	4,700,000
Physical contingencies	-	-	-	-	-	-	1,400,000
Price contingencies	-	-	-	-	-	-	500,000
Front-end fee	-	97,500	-	97,500	-	-	100,000
<b>Total</b>	<b>12,254,406</b>	<b>14,198,104</b>	<b>14,066,600</b>	<b>16,010,298</b>	<b>(1,812,194)</b>	<b>(1,812,194)</b>	<b>52,000,000</b>

This statement is to be read in conjunction with the notes to and forming part of the special purpose project financial statements set out on pages 8 to 14.

## SOE withdrawal schedule

*Loan 8055-AM*

*For the year ended December 31, 2014*

*In US dollars*

Application No.	Category Goods, works, non-consulting services, consultants' services including training and audit, and operating costs for the Project
DA-21	41,117
DA-29	5,000
Total	46,117

This statement is to be read in conjunction with the notes to and forming part of the special purpose project financial statements set out on pages 8 to 14.



## Designated account statement

*Loan 8055-AM*

*As of and for the year ended December 31, 2014*

*In US dollars*

Opening balance as of January 1, 2014		236
Add:		
Cumulative unexplained discrepancy	-	
Loan replenishment during the year	<u>244,700</u>	<u>244,700</u>
	<u>244,700</u>	<u>244,700</u>
<i>Less: Refund to the World Bank from the designated account during the year</i>		-
Present outstanding amount advanced to the designated account (1)		<u>244,936</u>
Closing balance as of December 31, 2014		1,336
Add:		
Amount of eligible expenditures paid during the year	243,600	
Service charges (if applicable)	<u>-</u>	<u>-</u>
	<u>243,600</u>	<u>243,600</u>
<i>Less: Interest earned (if credited into the designated account)</i>		-
Total advance accounted for (2)		<u>244,936</u>
Discrepancy (1) – (2) to be explained		-

This statement is to be read in conjunction with the notes to and forming part of the special purpose project financial statements set out on pages 8 to 14.

## Notes to the special purpose project financial statements

### **1 Activity**

“High Voltage Electric Networks” CJSC (the “Company”) has been established based on the resolution of the Government of the Republic of Armenia N450 dated 20 July, 1998 on restructuring “High Voltage Electric Networks” subsidiary to a Closed Joint Stock Company and on the resolution of the Government of the Republic of Armenia N709 dated 23 November, 1999 on reorganizing “Specialized Security on Energetic Objects” SCJSC through joining it to “High Voltage Electric Networks” SCJSC. The Company is the successor of “High Voltage Electric Networks” subsidiary, “High Voltage Electric Networks” CJSC and “Specialized Security on Energetic Objects” SCJSC.

The Company implements the Electricity Supply Reliability Project (the “Project”) financed in accordance with the Loan Agreement 8055-AM dated June 1, 2011 signed between the International Bank for Reconstruction and Development (the “IBRD”) and the Republic of Armenia. In accordance with the sub loan agreement dated November 18, 2011 signed between the Ministry of Finance of the Republic of Armenia and the Company, the Ministry of Finance transferred to the Company the IBRD loan amount of 39,000,000 US dollars, which should be used only for the Project implementation.

The objective of the Project is to increase the reliability and capacity of the power transmission network.

The Project consists of the following parts:

Part A: Strengthening of the power transmission network

Provision of works, goods, and technical assistance for the replacement of an existing power transmission line from the Hrazdan Thermal Power Plant to Shinuhayr substation, including compensation and grievance mechanisms for land acquisition and resettlement.

Part B: Technical assistance

Provision of goods, technical assistance, including Training and Operating Costs, to the HVENC to strengthen its staff capacity in technical supervision, planning, procurement, financial management and Project management and supervision of field works.

In addition to the Project components, the Project appraisal document considers physical contingencies, price contingencies and front-end fees.

The financing of the Project consists of the following category:

Category	Amount of Loan allocated (in US dollars)	Percentage of expenses to be financed (excluding taxes)
Goods, works, non-consulting services, consultants' services including training and audit, and operating costs for the Project	35,902,500	100%
Land acquisition/ grievance mechanisms under the Project	2,000,000	100%
Refund of the preparation advance	1,000,000	Amount to be reimbursed as per point 2.07(a) of the general provision Amount to be paid as per point 2.03 of the loan agreement and point 2.07(b) of the general provision
Front-end fee	97,500	
<b>Total</b>	<b>39,000,000</b>	

The legal address of the Company is Z. Andranik 1, Yerevan, Armenia.

The average number of the PIU's staff during the reporting year was 7 (2013: 3).

## **2 Significant accounting policies**

### **2.1 Basis of preparation**

The special purpose project financial statements were prepared in accordance with the accrual basis of accounting as well as the World Bank guidelines and the relevant points of the requirements of the Loan Agreement 8055-AM. Significant accounting policies are disclosed below.

### **2.2 Functional and presentation currency**

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

In preparing the special purpose project financial statements, transactions in currencies other than US dollar are recorded at the rates of exchange defined by the Central Bank of Armenia prevailing on the dates of the transactions. At each reporting date, monetary items denominated in foreign currencies are retranslated at the rate defined by the Central Bank of Armenia prevailing on that date, which is 474.97 Armenian drams for 1 US dollar as of December 31, 2014 (as of December 31, 2013: 405.64 Armenian drams for 1 US dollar). 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 "Funds".



### **2.3 Project financing**

The financing received in the framework of the Loan Agreement 8055-AM is recorded in the statement of financial position as “Accumulated Project financing” and is recognized at each replenishment. In addition, the current year funds received are disclosed in the statement of Project sources and uses of funds, showing the sources of funds.

### **2.4 Project expenses**

The Project expenses are recognized on the accrual basis of accounting. The accumulated Project expenses are disclosed in the statement of financial position under non-current assets. In addition, current year expenses are disclosed in the statement of Project sources and uses of funds and 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 goods not yet received are stated at nominal value.

### **2.6 Accounts payable**

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

### **2.7 The World Bank financing**

To finance eligible expenditures for the Loan Agreement 8055-AM, the World Bank disburses proceeds from the Project account using one or more of the disbursement methods, which are stated below:

a. Reimbursement

The Bank may reimburse the borrower to finance eligible expenditures that the borrower has prefinanced from its own resources.

b. Advance

The Bank may advance loan proceeds into a designated account of the borrower to finance eligible expenditures as they are incurred and for which supporting documents will be provided at a later date.

c. Direct payments

The Bank may make payments, at the borrower’s request, directly to a third party for eligible expenditures.

d. Special commitment

The Bank may pay amounts to a third party for eligible expenditures under special commitments entered into, in writing, at the borrower’s request and on terms and conditions agreed between the Bank and the borrower.

### **2.8 Planned annual expenses**

As of the end of the period “Planned Project Expenses” comprise the sum of the amount of “Actual Project Expenses” as of the end of the previous period and the annual budget expenses of the reporting period.



### 3. Closing date of the Project

According to the Loan Agreement, the Project closing date was defined as June 30, 2016.

### 4. Advances

In US dollars	As of December 31, 2014	As of December 31, 2013
Hifab Oy (contract number HV-CS-1/2011)	104,152	212,700
Tractebel Engineering S.A (contract number HV-CS-1/2013)	87,883	-
Fichtner GmbH & Co. KG (contract number ETNIP-CS-2/2013)	30,480	-
Kalpataru Power Transmission LTD (contract number HV-W1/2011)	2,728,034	5,056,983
State Budget of the Republic of Armenia	402,061	-
	<u>3,352,610</u>	<u>5,269,683</u>

Advances to the State Budget represent amounts paid to customs bodies from Government co-financing source for future customs fee obligations.

### 5. Bank balances

In US dollars	As of December 31, 2014	As of December 31, 2013
Designated account	1,336	236
	<u>1,336</u>	<u>236</u>

### 6. Accounts payable

In US dollars	As of December 31, 2014	As of December 31, 2013
Hifab Oy (contract number HV-CS-1/2011)	171,757	129,864
Kalpataru Power Transmission LTD (contract number HV-W1/2011)	2,609,843	133,284
	<u>2,781,600</u>	<u>263,148</u>

### 7. Loan 8055-AM

In US dollars	For the year ended December 31, 2014
Special commitment	5,601,746
SOE procedures	46,117
Other procedures	139,141
Direct payments	931,944
Advance	244,700
Redemption of the Designated account advance	(185,258)
Refund	(11,603)
	<u>6,766,787</u>

Under the method of "Other procedures" of financing, the PIU requests advance to and documentation of designated account accompanied by the records evidencing eligible expenditures for payments against contracts valued at more than the amounts in accordance with the Disbursement Letter and contracts that are subject to the World Bank's prior review.

Under the method of "SOE procedures" of financing, the PIU requests advance to and documentation of designated account accompanied by the statement of expenditure (SOE).

The PIU reports regularly on the use of loan proceeds advanced to a designated account. This is disclosed as redemption of the designated account advance.

**8. Uses of funds by category descriptions**

In US dollars	For the year ended December 31, 2014	As of December 31, 2014
Works	11,591,574	12,009,139
Consultants' services	662,832	2,091,465
Front-end Fee	-	97,500
	<u>12,254,406</u>	<u>14,198,104</u>

**9. Net increase/(decrease) in working capital**

In US dollars	For the year ended December 31, 2014	As of December 31, 2014
Increase in bank balances	1,100	1,336
Increase/(decrease) in advances	(1,917,073)	3,352,610
Increase in accounts payable	(2,518,452)	(2,781,600)
	<u>(4,434,425)</u>	<u>572,346</u>

**10. Reconciliation between the amounts received by the “High Voltage Electric Networks” CJSC and disbursed by the World Bank**

Loan 8055- AM

For the year ended December 31, 2014

In US dollars

Category	Appl.	HVEN	WB	Difference
Goods, works, non-consulting services, consultants' services, including Training and audit, and Operating Costs for Project				
	DA-18	82,810	82,810	-
	DA-19	87,517	87,517	-
	DA-20	41,495	41,495	-
	DA-21	112,578	112,578	-
	DA-23	49,243	49,243	-
	DA-22	46,612	46,612	-
	DA-24	67,169	67,169	-
	DA-25	59,001	59,001	-
	DA-28	62,134	62,134	-
	DA-27	60,209	60,209	-
	DA-29	72,680	72,680	-
	DA-31	69,270	69,270	-
	DA-32	76,345	76,345	-
	DA-34	73,629	73,629	-
	DA-35	55,971	55,971	-
	DA-36	55,908	55,908	-
	DA-37	44,631	44,631	-
	DA-9A	5,601,746	5,601,746	-
		6,718,948	6,718,948	-
Advance				
	DA-26	72,500	72,500	-
	DA-30	37,700	37,700	-
	DA-33	100,000	100,000	-
	DA-38	34,500	34,500	-
		244,700	244,700	-
Redemption of the Designated account advance				
	DA-21	(112,578)	(112,578)	-
	DA-29	(72,680)	(72,680)	-
		(185,258)	(185,258)	-
Refund				
		(11,603)	(11,603)	-
		6,766,787	6,766,787	-

**11. Letter of credit**

As per the requirements of the Contract # HV-W-1/2011 signed between the Company and Kalpataru Power Transmission CJSC (the "Contractor") on November 21, 2012 and the Addendum #1 dated April 24, 2013, the Company requested the IBRD to issue an irrevocable confirmed documentary Letter of Credit made available to the Contractor in Oriental Bank of Commerce (located in India) amounting to USD 11,587,214, which has been issued in 2013 based on the Withdrawal Application # DA-9A.

The amount of the Letter of Credit is not incorporated in the accompanying special purpose financial statements, but are recorded in the World Bank (WB Client connection) as Special Commitments.

The amount of Letter of Credit is stated below:

In US dollars	As of December 31, 2014	As of December 31, 2013
Kalpataru Power Transmission CJSC	<u>5,985,468</u>	<u>11,587,214</u>