



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

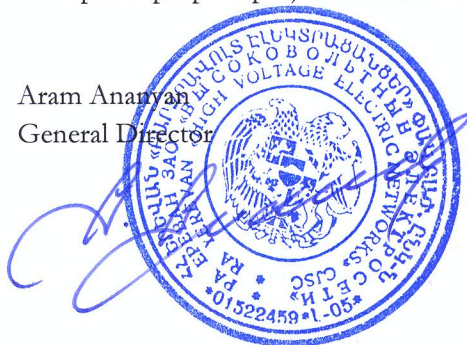
Engagement Partner

Statement of financial position

| In US dollars | | As of December 31, 2014 | As of December 31, 2013 |
|------------------------------------|------|----------------------------|----------------------------|
| | Note | | |
| Assets | | | |
| <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> |
| Total assets | | <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> |
| Total funds and liabilities | | <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 | | | | | | |
| Total | 7,999,072 | 14,928,435 | | | | | | |
| 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 | |
| Total | 12,254,406 | 14,198,104 | 14,066,600 | 16,010,298 | (1,812,194) | (1,812,194) | 52,000,000 | |
| 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 |
| Total | 12,254,406 | 14,198,104 | 14,066,600 | 16,010,298 | (1,812,194) | (1,812,194) | 52,000,000 |

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 | |
| Total | 39,000,000 | |

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".

