

POWER SECTOR FINANCIAL RECOVERY PROGRAM

IBRD LOAN NUMBER 8615-AM

SPECIAL PURPOSE FINANCIAL STATEMENTS

AND

INDEPENDENT AUDITOR'S REPORT

For the year ended 31 December 2017

YEREVAN
February 2018

POWER SECTOR FINANCIAL RECOVERY PROGRAM

IBRD LOAN NUMBER 8615-AM

TABLE OF CONTENTS

| | Page |
|---|-------------|
| STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND PRESENTATION OF THE SPECIAL PURPOSE FINANCIAL STATEMENTS | 3 |
| INDEPENDENT AUDITOR'S REPORT | 4-5 |
| SPECIAL PURPOSE FINANCIAL STATEMENTS For the year ended 31 December 2017: | |
| Statement of program expenditures by implementing entities | 6 |
| Statement of funds received under categories | 7 |
| Statement of funds received under program activities | 9 |
| Summary of funds received under each DLI | 11 |
| Statement of Segregated Accounts | 12 |
| Notes to the special purpose financial statements | 13 |

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND PRESENTATION OF THE SPECIAL PURPOSE FINANCIAL STATEMENTS

The Program is implemented through the Ministry of Energy Infrastructure and Natural Recourses of the Republic of Armenia ("MEINR") with the assistance of "Armenian Nuclear Power Plant" CJSC ("ANPP"), "Yerevan Thermal Power Centre" CJSC ("YTPC") and Public Services Regulator Commission of the Republic of Armenia ("PSRC").

The Program management is responsible for the preparation of the special purpose financial statements of "Power Sector Financial Recovery Program" (hereafter: the Program) financed by Loan Agreement IBRD Loan Number 8615-AM that present fairly the Program's expenditures by implementing entities, cash flows, Funds received, and movement of segregated accounts for the year ended 31 December 2017, in accordance with the International Public Sector Accounting Standard "Financial Reporting under the Cash Basis of Accounting" (IPSAS-Cash Basis) issued by the International Public Sector Accounting Standards Board (IPSASB) within the International Federation of Accountants (IFAC) and the Financial Management Manual for World Bank Financed Investment Operations (WB Guidelines).

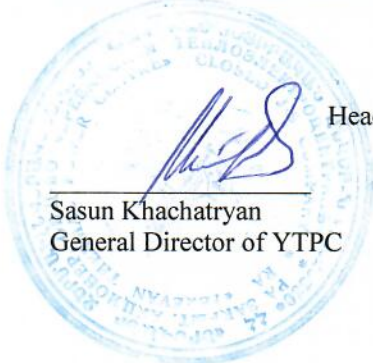
In preparing the special purpose financial statements, the Program management is responsible for:

- Properly selecting and applying accounting policies;
- Presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- Providing additional required disclosures for the year ended 31 December 2017.

Program management is also responsible for:

- Designing, implementing and maintaining an effective and sound system of internal controls, throughout the Program;
- Maintaining adequate accounting records that are sufficient to show and explain the Program's transactions, and which enable them to ensure that the special purpose financial statements of the Program comply with *IPSAS – Cash Basis* and the *WB Guidelines*;
- Taking such steps that are reasonably available to them to safeguard the assets of the Program and to affirm that funds received have been used in accordance with the Loan Agreement IBRD Loan Number 8615-AM signed on 12 May 2016, and World Bank related guidelines, with due attention to economy and efficiency, and only for the purposes for which the financing was provided; and
- Preventing and detecting fraud and other errors.

The special purpose financial statements for the year ended 31 December 2017 were authorized for issue on 26 February 2018 by the Program management.



Boris Gyulumyan
Head of Financial Economic Department of MEINR



INDEPENDENT AUDITOR'S REPORT

To the Ministry of Energy Infrastructure and Natural Resources of the Republic of Armenia ("MEINR")

Opinion

We have audited the special purpose financial statements of "Power Sector Financial Recovery Program" ("Program") financed by Loan Agreement IBRD Loan Number 8615-AM signed on 12 May 2016 ("Loan Agreement"), and implemented by MEINR, with the assistance of "Armenian Nuclear Power Plant" CJSC ("ANPP"), "Yerevan Thermal Power Centre" CJSC ("YTPC") and Public Services Regulator Commission of the Republic of Armenia ("PSRC"), which comprise the statement of program expenditures by implementing entities, statement of fund received under categories, statement of funds received under program activities, Summary of Funds received under each DLI, and the statement of segregated accounts for the year ended 31 December 2017, and notes to the special purpose financial statements, including a summary of significant accounting policies.

In our opinion,

1. the accompanying financial statements present fairly, in all material respects, the cash flows for the year ended 31 December 2017 in accordance with International Public Sector Accounting Standard: *Financial Reporting Under the Cash Basis of Accounting, (IPSAS-Cash Basis)*;
2. funds have been used in accordance with the conditions of the Loan Agreement concluded between the International Bank for Reconstruction and Development (IBRD) and the Republic of Armenia, and WB Guidelines, with due attention to economy and efficiency, and only for the purposes for which the financing was provided;
3. supporting documents, records and accounts have been kept in respect of all Program ventures. Respective reports issued during the period were in agreement with the underlying books of account;
4. The Segregated accounts used has been maintained in accordance with the provision of the Loan Agreement, and World Bank related guidelines;

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) as issued by International Auditing and Assurance Standards Board (IAASB) of the International Federation of Accountants (IFAC). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report.

We are independent of the Program, of the MEINR, of the ANPP, of the YTPC and of the PSRC in accordance with the *International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code)*, and we have fulfilled our other ethical requirements in accordance with IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of the Management for the Financial Statements

Management of the Program is responsible for the preparation and fair presentation of the special purpose financial statements in accordance with IPSAS-Cash Basis issued by the International Public Sector Accounting Standards Board (IPSASB) of the IFAC and Financial Management Manual for World Bank Financed Investment Operations (“WB Guidelines”), and for such internal control as management determines is necessary to enable the preparation of special purpose financial statements that are free from material misstatement, whether due to fraud or error.

Auditor’s Responsibility for the Audit of the Special Purpose Financial Statements


Our objectives are to obtain reasonable assurance about whether the special purpose 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 high level of assurance, but is not a guaranty that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements arise from fraud and 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 special purpose financial statements.

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

- Identify and assess the risks of material misstatement of the special purpose 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 internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Evaluate the overall presentation, structure and content of the special purpose financial statements, including the disclosures, and whether the special purpose financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with management regarding, 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.

“BDO Armenia” CJSC
26 February 2018


Vahagn Sahakyan, FCCA
Managing Partner


Gnel Khachatryan, FCCA
Engagement Partner

Power Sector Financial Recovery Program
IBRD Loan Number 8615-AM

Statement of program expenditure by implementing entities
For the year ended 31 December 2017
(Amounts are shown in US dollars)

| Program Expenditure | Actual* | | Budget Cumulative for the Project | Implementation Cumulative % |
|---|---------------------|---------------------------------|---|--------------------------------|
| | Reporting period | Cumulative as at 31.Dec.2017 | | |
| ANPP | | | | |
| Refinancing of commercial loans | - | 8,525,191 | 8,525,191 | 100% |
| | - | 8,525,191 | 8,525,191 | 100% |
| YTPC | | | | |
| Repayment of the payable for natural gas (the payable under the contract with Yerevan GGM of Gazprom Armenia CJSC for supply of gas to generate power for domestic needs) | - | 18,807,670 | 16,973,996 | 111% |
| Overhaul of the gas turbine | 4,230,422 | 5,076,506 | 12,821,981 | 40% |
| Refinancing of commercial loans | - | 4,604,073 | 4,603,522 | 100% |
| Program audits and IVA | 32,107 | 41,449 | 300,000 | 14% |
| | 4,262,529 | 28,529,698 | 34,699,499 | 82% |
| Total | 4,262,529 | 37,054,889 | 43,224,690 | 86% |

(*) Actual amounts paid in AMD or EUR translated into USD applying exchange rate as at baseline date, 1 February 2016 (Note 2.3).


Sasun Khachatryan
General Director of YTPC

26 February 2018

The notes on pages 13-20 form an integral part of these special purpose financial statements.


Moyses Vardanyan
General Director of ANPP


Boris Gyulumyan
Head of Financial Economic Department of MEINR

Power Sector Financial Recovery Program
IBRD Loan Number 8615-AM

Statement of funds received under categories
For the year ended 31 December 2017
(Amounts are shown in US dollars)

| | Actual | | Budget | | Variance | |
|---|------------------|------------------------------|------------------|------------------------------|------------------|------------------------------|
| | Reporting period | Cumulative as at 31.Dec.2017 | Reporting period | Cumulative as at 31.Dec.2017 | Reporting period | Cumulative as at 31.Dec.2017 |
| Opening Uncovered DLI Advance | 7,220,000 | - | | | | |
| SOURCES OF FUNDS | | | | | | |
| IBRD Loan Number 8615-AM | 2,441,000 | 26,109,595 | | | | |
| Co-financing of YTPC | 4,426,842 | 5,253,557 | | | | |
| Total | 6,867,842 | 31,363,152 | | | | |
| WITHDRAWAL CATEGORIES | | | | | | |
| (1) DLI#1: Decision at shareholder meetings | | | | | | |
| YTPC | - | 2,832,000 | - | 2,832,000 | - | - |
| ANPP | - | 2,024,880 | - | 2,024,880 | - | - |
| | - | 807,120 | - | 807,120 | - | - |
| (2) DLI#2: Liquidation of Haigasard | | | | | | |
| YTPC | 1,000,000 | 1,000,000 | 1,000,000 | 1,000,000 | - | - |
| ANPP | 715,000 | 715,000 | 715,000 | 715,000 | - | - |
| | 285,000 | 285,000 | 285,000 | 285,000 | - | - |
| (3) DLI#3: No new non-core business expenditure of ANPP | | | | | | |
| YTPC | 1,900,000 | 1,900,000 | 1,900,000 | 1,900,000 | - | - |
| ANPP | 1,358,500 | 1,358,500 | 1,358,500 | 1,358,500 | - | - |
| | 541,500 | 541,500 | 541,500 | 541,500 | - | - |
| (4) DLI#4: No new non-core business expenditure of YTPC | | | | | | |
| YTPC | 1,900,000 | 1,900,000 | 1,900,000 | 1,900,000 | - | - |
| ANPP | 1,358,500 | 1,358,500 | 1,358,500 | 1,358,500 | - | - |
| | 541,500 | 541,500 | 541,500 | 541,500 | - | - |
| (5) DLI#5: Reduce of principal amount of loan of ANPP | | | | | | |
| YTPC | - | 4,259,595 | - | 4,260,000 | - | (405) |
| ANPP | - | 3,045,611 | - | 3,045,900 | - | (289) |
| | - | 1,213,984 | - | 1,214,100 | - | (116) |
| (6) DLI#6: Reduce of principal amount of loan of YTPC | | | | | | |
| YTPC | - | 2,300,000 | - | 2,300,000 | - | - |
| ANPP | - | 1,644,500 | - | 1,644,500 | - | - |
| | - | 655,500 | - | 655,500 | - | - |
| (7) DLI#7: Reduce of gas payable of YTPC | | | | | | |
| YTPC | - | 4,982,000 | - | 4,982,000 | - | - |
| ANPP | - | 3,562,130 | - | 3,562,130 | - | - |
| | - | 1,419,870 | - | 1,419,870 | - | - |

Power Sector Financial Recovery Program
IBRD Loan Number 8615-AM

Statement of funds received under categories
For the year ended 31 December 2017
(Amounts are shown in US dollars)

| | Actual | | Budget | | Variance | |
|--|-------------------|------------------------------|-------------------|------------------------------|------------------|------------------------------|
| | Reporting period | Cumulative as at 31.Dec.2017 | Reporting period | Cumulative as at 31.Dec.2017 | Reporting period | Cumulative as at 31.Dec.2017 |
| (8) DLI#8: ENAs tariff margin for each period | | | | | | |
| YTPC | 400,000 | 1,400,000 | 400,000 | 1,400,000 | - | - |
| ANPP | 286,000 | 1,001,000 | 286,000 | 1,001,000 | - | - |
| | 114,000 | 399,000 | 114,000 | 399,000 | - | - |
| (9) DLI#9: Tariffs for YTPC and Hrazdan TPP | | | | | | |
| YTPC | 400,000 | 1,400,000 | 400,000 | 1,400,000 | - | - |
| ANPP | 286,000 | 1,001,000 | 286,000 | 1,001,000 | - | - |
| | 114,000 | 399,000 | 114,000 | 399,000 | - | - |
| (10) DLI#10: Electricity supplied by YTPC is maintained | | | | | | |
| YTPC | 1,721,000 | 1,721,000 | 1,721,000 | 1,721,000 | - | - |
| ANPP | 1,230,515 | 1,230,515 | 1,230,515 | 1,230,515 | - | - |
| | 490,485 | 490,485 | 490,485 | 490,485 | - | - |
| (11) Front-end fee | | | | | | |
| YTPC | - | 75,000 | - | 75,000 | - | - |
| ANPP | - | 53,625 | - | 53,625 | - | - |
| | - | 21,375 | - | 21,375 | - | - |
| Renovation of gas-turbine of YTPC | | | | | | |
| YTPC | 4,426,842 | 5,253,557 | 4,230,422 | 5,076,506 | 196,420 | 177,051 |
| | 4,426,842 | 5,253,557 | 4,230,422 | 5,076,506 | 196,420 | 177,051 |
| Total | 11,747,842 | 29,023,152 | 11,551,422 | 28,846,506 | 196,420 | 176,646 |
| Closing Uncovered DLI Advance | 2,340,000 | 2,340,000 | | | | |


 Sasun Khachatryan
 General Director of YTPC


 Movses Vardanyan
 General Director of ANPP

Head of Financial Economic Department of MEINR

26 February 2018
 The notes on pages 13-20 form an integral part of these special purpose financial statements.

Power Sector Financial Recovery Program
IBRD Loan Number 8615-AM

Statement of funds received under program activities
For the year ended 31 December 2017
(Amounts are shown in US dollars)

| Activity | Actual | | Planned | | Variance | |
|---|------------------|------------------------------|------------------|------------------------------|------------------|------------------------------|
| | Reporting period | Cumulative as at 31.Dec.2017 | Reporting period | Cumulative as at 31.Dec.2017 | Reporting period | Cumulative as at 31.Dec.2017 |
| A. Elimination of non-core business related cash flows | | | | | | |
| A.1. No new non-core business expenditures | | | | | | |
| <i>YTPC</i> | 4,800,000 | 7,632,000 | 4,800,000 | 7,632,000 | - | - |
| <i>ANPP</i> | 3,800,000 | 6,632,000 | 3,800,000 | 6,632,000 | - | - |
| | 2,717,000 | 4,741,880 | 2,717,000 | 4,741,880 | - | - |
| | 1,083,000 | 1,890,120 | 1,083,000 | 1,890,120 | - | - |
| A.2. Liquidation of Haigasard state-owned CJSC | | | | | | |
| <i>YTPC</i> | 1,000,000 | 1,000,000 | 1,000,000 | 1,000,000 | - | - |
| <i>ANPP</i> | 715,000 | 715,000 | 715,000 | 715,000 | - | - |
| | 285,000 | 285,000 | 285,000 | 285,000 | - | - |
| B. Reduction of expensive loans | | | | | | |
| <i>YTPC</i> | - | 6,559,595 | - | 6,560,000 | - | (405) |
| <i>ANPP</i> | - | 4,690,111 | - | 4,690,400 | - | (289) |
| C. Repayment of the payable of YTPC with Yerevan GGM branch of Gazprom Armenia CJSC | | | | | | |
| <i>YTPC</i> | - | 1,869,484 | - | 1,869,600 | - | (116) |
| <i>ANPP</i> | - | 4,982,000 | - | 4,982,000 | - | - |
| | - | 3,562,130 | - | 3,562,130 | - | - |
| | - | 1,419,870 | - | 1,419,870 | - | - |
| D. Modification of tariffs to fully reflect the cost of electricity supply | | | | | | |
| D.1. Amendment of ENA's license to allow tariff adjustment related to cost of electricity purchased | | | | | | |
| <i>YTPC</i> | 800,000 | 2,800,000 | 800,000 | 2,800,000 | - | - |
| <i>ANPP</i> | 400,000 | 1,400,000 | 400,000 | 1,400,000 | - | - |
| | 286,000 | 1,001,000 | 286,000 | 1,001,000 | - | - |
| | 114,000 | 399,000 | 114,000 | 399,000 | - | - |
| D.2. Revision of tariff-setting methodology related to FX on gas purchase | | | | | | |
| <i>YTPC</i> | 400,000 | 1,400,000 | 400,000 | 1,400,000 | - | - |
| <i>ANPP</i> | 286,000 | 1,001,000 | 286,000 | 1,001,000 | - | - |
| | 114,000 | 399,000 | 114,000 | 399,000 | - | - |
| E. Maintenance of the generation capacity of the gas turbine at the YTPC | | | | | | |
| <i>YTPC</i> | 1,721,000 | 1,721,000 | 1,721,000 | 1,721,000 | - | - |
| <i>ANPP</i> | 1,230,515 | 1,230,515 | 1,230,515 | 1,230,515 | - | - |
| | 490,485 | 490,485 | 490,485 | 490,485 | - | - |

**Power Sector Financial Recovery Program
IBRD Loan Number 8615-AM**

Statement of funds received under program activities
For the year ended 31 December 2017
(Amounts are shown in US dollars)

| Activity | Actual | | Planned | | Variance | |
|-----------------------------------|-------------------|------------------------------|-------------------|------------------------------|------------------|------------------------------|
| | Reporting period | Cumulative as at 31.Dec.2017 | Reporting period | Cumulative as at 31.Dec.2017 | Reporting period | Cumulative as at 31.Dec.2017 |
| Front-end fee | - | 75,000 | - | 75,000 | - | - |
| YTPC | - | 53,625 | - | 53,625 | - | - |
| ANPP | - | 21,375 | - | 21,375 | - | - |
| Renovation of gas-turbine of YTPC | 4,426,842 | 5,253,557 | 4,230,422 | 5,076,506 | 196,420 | 177,051 |
| YTPC | 4,426,842 | 5,253,557 | 4,230,422 | 5,076,506 | 196,420 | 177,051 |
| Total | 11,747,842 | 29,023,152 | 11,551,422 | 28,846,506 | 196,420 | 176,646 |


Sasun Khachatryan
General Director of YTPC


Moses Vardanyan
General Director of ANPP


Boris Gyulumyan
Head of Financial Economic Department of MEINR

26 February 2018
The notes on pages 13-20 form an integral part of these special purpose financial statements.

Power Sector Financial Recovery Program
IBRD Loan Number 8615-AM

Summary of funds received under each DLI
 For the year ended 31 December 2017
 (Amounts are shown in US dollars)

IBRD Loan Number 8615-AM

| Applicati on # | Value date | DLI Advance/ (Advance recovery) | Disbursement category documented | | | | | | | | | | | Total paid | | | |
|---|-------------|--|--|--|---|---|--|--|---|---|--|---|---------------------------|------------------|---------------------|---------------|----------------------|
| | | | (1) DLI#1: Decision at shareholder meetings | (2) DLI#2: Liquidatio n of Haigasard | (3) DLI#3: No new non-core business expenditu re of ANPP | (4) DLI#4: No new non-core business expenditu re of YTPC | (5) DLI#5: Reduce of principal amount of loan of ANPP | (6) DLI#6: Reduce of principal amount of loan of YTPC | (7) DLI#7: Reduce of gas payable of ANPP | (8) DLI#8: ENAs tariff margin for each period | (9) DLI#9: Tariffs for YTPC and Hrazdan TPP | (10) DLI#10: Electricity supplied by YTPC is maintaine d | (11) Front- end fee | | Total Documented | | |
| 5-Y | 22.Mar.2017 | (1,297,010) | - | 715,000 | - | - | - | - | - | - | - | - | - | - | - | - | 648,505 |
| 5-A | 22.Mar.2017 | (516,990) | - | 285,000 | - | - | - | - | - | - | - | - | - | - | - | - | 258,495 |
| 6-Y | 26.Jul.2017 | (2,192,190) | - | - | 1,358,500 | - | - | - | - | - | - | 286,000 | - | - | - | - | 1,096,810 |
| 6-A | 26.Jul.2017 | (873,810) | - | - | - | 541,500 | - | - | - | - | - | 114,000 | - | - | - | - | 437,190 |
| Total for the reporting period | | (4,880,000) | - | 1,000,000 | 1,900,000 | 1,900,000 | 1,900,000 | - | - | - | - | 400,000 | 1,721,000 | 400,000 | 1,721,000 | 75,000 | 7,321,000 |
| Cumulative as at 31.Dec.2017 | | 2,340,000.00 | 2,832,000 | 1,000,000 | 1,900,000 | 1,900,000 | 1,900,000 | 4,259,595.49 | 2,300,000 | 4,982,000 | 1,400,000 | 1,400,000 | 1,721,000 | 1,400,000 | 1,721,000 | 75,000 | 23,769,595.49 |

(*) Withdrawal application with "Y" relates to YTPC, and with "A" to ANPP.


 Sasun Khachatryan
 General Director of YTPC
 26 February 2018


 Boris Gyulamyanyan
 Head of Financial Economic Department of MEINR


 Movses Vardanyan
 General Director of ANPP


The notes on pages 13-20 form an integral part of these special purpose financial statements.

**Power Sector Financial Recovery Program
IBRD Loan Number 8615-AM**

Statement of Segregated Accounts
For the year ended 31 December 2017
(Amounts are shown in US dollars)


| | | |
|-------------------------------------|---|--------------|
| Entity | YTPC | ANPP |
| Segregated account (SA) bank number | 900000902438 | 900000902453 |
| Bank | Central Treasury of the Republic of Armenia | |
| Bank location | Meliq Adamyany Street 1, Yerevan, Republic of Armenia, 0010 | |
| Account currency | USD | USD |

| | YTPC | ANPP | Total |
|---|---|-------------------|---------------------|
| | For the period from 1 Jan 2017 to 31 Dec 2017 | | |
| | USD | USD | USD |
| 1. Opening balance as at 1.Jan.2017 | - | 0.71 | 0.71 |
| 2. Add: opening discrepancy | - | - | - |
| 3. WB advance/replenishment | 1,745,315.00 | 695,685.00 | 2,441,000.00 |
| 4. Less: Refund to WB from SA | - | - | - |
| 5. Present outstanding amount advanced to SA | 1,745,315.00 | 695,685.71 | 2,441,000.71 |
| 6. SA closing balance as at 31.Dec.2017 | - | 0.71 | 0.71 |
| 7. Add: Amount of eligible expenditures paid | 1,745,315.00 | 695,685.00 | 2,441,000.00 |
| 8. Less: interest earned (if credited to SA) | - | - | - |
| 9. Total advance accounted for | 1,745,315.00 | 695,685.71 | 2,441,000.71 |
| 10. Closing discrepancy (5)-(9) | - | - | - |



Sasun Khachatryan
General Director of YTPC

Boris Gyulumyan
Head of Financial Economic Department of MEINR



Movses Vardanyan
General Director of ANPP

26 February 2018

The notes on pages 13-20 form an integral part of these special purpose financial statements.

Notes to the special purpose financial statements

For the year ended 31 December 2017

(Amounts are shown in US dollars)

1. General information

1.1. The Program

The Power Sector Financial Recovery Program (“Program”) is implemented in accordance with the Republic of Armenia Government resolution N 6 dated February 18, 2016. The Program objective is to maintain adequate and reliable electricity supply through improvement of the financial standing of the state-owned power generation companies and the private power distribution company.

The Program carries out through the Ministry of Energy and Natural Resource of the Republic of Armenia (MENR), with the assistance of “Armenian Nuclear Power Plant” CJSC (ANPP), “Yerevan Thermal Power Centre” CJSC (YTPC) and Public Services Regulator Commission (PSRC).

The total cost of the Program is assessed 43,224,690 United States dollars (USD), of which USD 30,000,000 million is financed under the Loan Agreement 8615-AM signed on May 12, 2016 between the Republic of Armenia and International Bank for Reconstruction and Development (“IBRD” or “WB”).

The payment currency of IBRD Loan Number 8615-AM is United States dollars (USD).

The Closing date of IBRD Loan Number 8615-AM is set 30 July 2021.

The Grace Period for submitting withdrawal application for expenditures incurred before the Closing date is six months following the Closing date: 31 January 2022.

1.2. Subsidiary agreements

According to the Loan Agreement, the ANPP receives 28.5% of the Loan proceeds and the YTPC receives 71.5% of the Loan proceeds subject to the achievement of the Disbursement Linked Results (“DLRs”) and/or Disbursement Linked Indicators (“DLIs”) set forth in the table IV.A.2. of Schedule 2 of the Loan Agreement and corresponding verification process.

For this purpose a subsidiary agreements were concluded between the Ministry of Finance of the Republic of Armenia (MoF) and the ANPP, and the MoF and the YTPC both on 14 June 2016, according to which they will receive sub-loans in the amount of 8,550,000 USD and 21,450,000 USD, respectively, as the terms of the Loan agreements are achieved.

1.3. The Program objectives

The Program consists of the following activities:

A. Elimination of cash outflows of state-owned power companies for non-core business related reasons through: (i) establishment of a prohibition of non-core business related expenditures, lending, and borrowing for ANPP and YTPC; and (ii) liquidation of Haigasard state-owned CJSC.

B. Reduction of expensive commercial loans and recovery of receivables through: (i) refinancing of the principal amounts of commercial loans of ANPP and YTPC listed in Supplemental Letter; and (ii) recovery of receivables of ANPP and YTPC for electricity supplied to Electric Networks of Armenia (ENA).

C. Repayment of the payable of YTPC with Yerevan GGM branch of Gazprom Armenia CJSC under a contract referred to in Supplemental Letter No. 3.

D. Modification of tariffs to fully reflect the cost of electricity supply through: (i) amendment of ENA's license to allow adjusting the tariff margin by the full size of loss (profit) incurred due to

**Power Sector Financial Recovery Program
IBRD Loan Number 8615-AM**

Notes to the special purpose financial statements

For the year ended 31 December 2017

(Amounts are shown in US dollars)

mismatch between actual and forecast cost of electricity purchased by ENA; and (ii) revision of tariff-setting methodology to allow adjusting the tariff by the full size of natural gas purchase related loss (profit) incurred due to fluctuation of AMD/US\$ exchange rate.

E. Maintenance of the generation capacity of the gas turbine at YTPC's Combined Cycle Gas Turbine plant (CCGT), through replacement of some components of the gas turbine.

1.4. The Program Budget

The Program is financed by:

- IBRD Loan Number 8615-AM
- YTPC internally generated funds.

| Category | IBRD Loan Number 8615- AM | YTPC | Total |
|---|---------------------------------|-------------------|-------------------|
| | USD | USD equivalent | USD equivalent |
| (1) DLI#1: Decision at shareholder meetings | 2,832,000 | - | 2,832,000 |
| (2) DLI#2: Liquidation of Haigasard | 2,000,000 | - | 2,000,000 |
| (3) DLI#3: No new non-core business expenditure of ANPP | 2,500,000 | - | 2,500,000 |
| (4) DLI#4: No new non-core business expenditure of YTPC | 2,500,000 | - | 2,500,000 |
| (5) DLI#5: Reduce of principal amount of loan of ANPP | 4,260,000 | - | 4,260,000 |
| (6) DLI#6: Reduce of principal amount of loan of YTPC | 2,300,000 | - | 2,300,000 |
| (7) DLI#7: Reduce of gas payable of YTPC | 4,982,000 | - | 4,982,000 |
| (8) DLI#8: ENAs tariff margin for each period | 2,000,000 | - | 2,000,000 |
| (9) DLI#9: Tariffs for YTPC and Hrazdan TPP | 2,000,000 | - | 2,000,000 |
| (10) DLI#10: Electricity supplied by YTPC is maintained | 4,551,000 | - | 4,551,000 |
| Renovation of gas-turbine of the YTPC | - | 13,224,690 | 13,224,690 |
| Front-end fee | 75,000 | - | 75,000 |
| Total | 30,000,000 | 13,224,690 | 43,224,690 |

1.5. Program Implementation

The Program is implemented through the Ministry of Energy Infrastructure and Natural Resources of the Republic of Armenia ("MEINR") with the assistance of "Armenian Nuclear Power Plant" CJSC ("ANPP"), "Yerevan Thermal Power Centre" CJSC ("YTPC") and Public Services Regulator Commission of the Republic of Armenia ("PSRC") (all together "Program management").

The MEINR address is: 2, Pavstos Buzand Street, Yerevan, Republic of Armenia, 0010;

The YTPC address is: Building 3, Arin-Berd street 3rd, Yerevan, Republic of Armenia, 0053;

The ANPP address is: Town Metsamor, Armavir marz, Republic of Armenia, 0910;

The PSRC address is: Building 22, Saryan street, Yerevan, Republic of Armenia, 0002.

Notes to the special purpose financial statements

For the year ended 31 December 2017

(Amounts are shown in US dollars)

2. Summary of significant accounting policies

2.1. Preparation and presentation of financial statements

The special purpose financial statements are prepared in accordance with the International Public Sector Accounting Standard: *Financial Reporting Under the Cash Basis of Accounting* (IPSAS-Cash Basis), issued by the International Public Sector Accounting Standards Board (IPSASB) within the International Federation of Accountants (IFAC), and presented in accordance with Financial Management Manual for World Bank Financed Investment Operations (March 2010): RM 3 – Financial Reporting and Auditing.

The principal accounting policies applied in the preparation of these special purpose financial statements are set out below. These policies have been consistently applied to all the periods presented.

2.2 Cash basis of accounting

Program financing is recognised as a source of Program funds when the cash is received. Program expenditures are recognised as a use of Program funds when the payments are made.

2.3 Reporting currency

The reporting currency of these special purpose financial statements is United States dollars (USD). The cofinancing received and expenditures made in local currency, Armenian Drams (AMD), or Euro (EUR) are translated into USD based at the exchange rate prevailing at the date of the transaction as issued by the Central Bank of the Republic of Armenia (“CBRA”).

However, for the purpose of presenting *Statement of Program Expenditures by Implementing Entities*, the exchange rate of non-USD expenditures are translated applying CBRA issued exchanged rates prevailing at the baseline year, 1 February 2016, as that exchange rate is applied to assess the compliance of results achieved, as measured to DLIs (Note 1.2) that has results monetary thresholds determined in USD underlying currency.

The exchange rate defined by the CBRA on USD/EUR rate on AMD is as follows:

| Date | USD | EUR |
|------------------|--------|--------|
| 1 February 2016 | 489.16 | 531.03 |
| 31 December 2016 | 483.94 | 512.20 |
| 31 December 2017 | 484.10 | 580.10 |

Notes to the special purpose financial statements

For the year ended 31 December 2017

(Amounts are shown in US dollars)

3. Progress of Loan proceeds withdrawal

| Category | Cumulative Withdrawal as at 31 Dec 2017 | Cumulative total budget of the Project | Execution |
|---|---|--|------------|
| | USD | USD | % |
| (1) DLI#1: Decision at shareholder meetings | 2,832,000 | 2,832,000 | 100% |
| (2) DLI#2: Liquidation of Haigasard | 1,000,000 | 2,000,000 | 50% |
| (3) DLI#3: No new non-core business expenditure of ANPP | 1,900,000 | 2,500,000 | 76% |
| (4) DLI#4: No new non-core business expenditure of YTPC | 1,900,000 | 2,500,000 | 76% |
| (5) DLI#5: Reduce of principal amount of loan of ANPP | 4,259,595 | 4,260,000 | 100% |
| (6) DLI#6: Reduce of principal amount of loan of YTPC | 2,300,000 | 2,300,000 | 100% |
| (7) DLI#7: Reduce of gas payable of YTPC | 4,982,000 | 4,982,000 | 100% |
| (8) DLI#8: ENAs tariff margin for each period | 1,400,000 | 2,000,000 | 70% |
| (9) DLI#9: Tariffs for YTPC and Hrazdan TPP | 1,400,000 | 2,000,000 | 70% |
| (10) DLI#10: Electricity supplied by YTPC is maintained | 1,721,000 | 4,551,000 | 38% |
| Renovation of gas-turbine of the YTPC | 5,253,557 | 13,224,690 | 40% |
| Front-end fee | 75,000 | 75,000 | 100% |
| Total | 29,023,152 | 43,224,690 | 67% |

4. Financing

4.1. IBRD Loan Number 8615-AM

| | Reporting year USD | Cumulative as at 31 Dec 2017 USD |
|--|-----------------------|--|
| DLI advance/ (advance recovery) | (4,880,000.00) | 2,340,000.00 |
| DLI payment | 7,321,000.00 | 23,694,595.49 |
| Front-end fee | - | 75,000.00 |
| Total | 2,441,000.00 | 26,109,595.49 |
| Total financing budget | | 30,000,000 |
| Percentage of finance provided as at 31 Dec 2017 | | 87% |

4.2. YTPC co-financing

| | Reporting year USD | Cumulative as at 31 Dec 2017 USD |
|--|-----------------------|--|
| In-cash | 4,426,842 | 5,253,557 |
| Total financing budget | | 13,224,690 |
| Percentage of finance provided as at 31 Dec 2017 | | 40% |

Power Sector Financial Recovery Program
IBRD Loan Number 8615-AM

Notes to the special purpose financial statements
 For the year ended 31 December 2017
 (Amounts are shown in US dollars)

5. DLJs/DLRs implementation progress

| DLJs | DLRs | Progress of implementation as at 31 Dec 2017 | Corresponding verification process | Amount of Loan Allocated (USD) | Amount of Loan Proceed Cumulative as at 31 Dec 2017 (USD) |
|---|---|--|------------------------------------|--------------------------------|---|
| (1) DLJ#1: Decision at shareholder meetings | DJR #1: Shareholders of ANPP and YTPC have met and made a decision prohibiting their non-core business related expenditures | Implemented by 30.06.2016 | WB conformed on 16.08.2016 | 2,832,000 | 2,832,000 |
| | DJR#2.1: Shareholders of Haigasard met and (i) made a decision to liquidate, and (ii) approved the liquidation plan | Implemented by 31.12.2016 | WB conformed on 16.02.2017 | 1,000,000 | 1,000,000 |
| | DJR#2.2: Liquidation Commission appointed has completed the revaluation of assets of the company | Implemented by 31.12.2017 | WB conformed on 24.01.2018 | 500,000 | - |
| | DJR#2.3: Haigasard's liquidation is completed and registered by State Registry of the Legal Entities | | | 500,000 | - |
| (2) DLJ#2: Liquidation of Haigasard | Subtotal | | | 2,000,000 | 1,000,000 |
| (3) DLJ#3: No new non-core business expenditure of ANPP | DJR#3.1: ANPP has not incurred in any new non-core business related expenditures, borrowing and lending for FY 2016 | Implemented by 31.12.2016 | WB conformed on 11.07.2017 | 1,900,000 | 1,900,000 |
| | DJR#3.2: ANPP has not incurred in any new non-core business related expenditures, borrowing and lending for FY 2017 | | | 200,000 | - |
| | DJR#3.3: ANPP has not incurred in any new non-core business related expenditures, borrowing and lending for FY 2018 | | | 200,000 | - |
| | DJR#3.4: ANPP has not incurred in any new non-core business related expenditures, borrowing and lending for FY 2019 | | | 200,000 | - |
| | Subtotal | | | 2,500,000 | 1,900,000 |
| (4) DLJ#4: No new non-core business expenditure of YTPC | DJR#4.1: YTPC has not incurred in any new non-core business related expenditures, borrowing and lending for FY 2016 | Implemented by 31.12.2016 | WB conformed on 11.07.2017 | 1,900,000 | 1,900,000 |
| | DJR#4.2: YTPC has not incurred in any new non-core business related expenditures, borrowing and lending for FY 2017 | | | 200,000 | - |
| | DJR#4.3: YTPC has not incurred in any new non-core business related expenditures, borrowing and lending for FY 2018 | | | 200,000 | - |
| | DJR#4.4: YTPC has not incurred in any new non-core business related expenditures, borrowing and lending for FY 2019 | | | 200,000 | - |
| | Subtotal | | | 2,500,000 | 1,900,000 |

Power Sector Financial Recovery Program
IBRD Loan Number 8615-AM

Notes to the special purpose financial statements
For the year ended 31 December 2017
(Amounts are shown in US dollars)

| DLIs | DLRs | Progress of implementation as at 31 Dec 2017 | Corresponding verification process | Amount of Loan Allocated (USD) | Amount of Loan Proceed Cumulative as at 31 Dec 2017 (USD) |
|--|---|--|------------------------------------|--------------------------------|---|
| (5) DL#5: Reduce of principal amount of loan of ANPP | DLR#5.1: ANPP has reduced the principal amount of the outstanding commercial loans by at least USD 2,172,000 during 01.02.2016-11.05.2016 | Implemented as at 11.05.2016 | WB conformed on 16.08.2016 | 1,085,000 | 1,085,595 |
| | DLR#5.2: ANPP has reduced the principal amount of the outstanding commercial loans by at least USD 2,828,000 during 12.05.2016-31.12.2016 | Implemented as at 30.06.2016, so settling all selected loans | | 1,414,000 | 1,414,000 |
| | DLR#5.3: ANPP has reduced the principal amount of the outstanding commercial loans by at least USD 3,520,000 during FY 2017 | | | 1,760,000 | 1,760,000 |
| | Subtotal | | | 4,260,000 | 4,259,595 |
| | | | | 500,000 | 500,000 |
| (6) DL#6: Reduce of principal amount of loan of YTPC | DLR#6.1: YTPC has reduced the principal amount of the outstanding commercial loans by at least USD 1,000,000 during 01.02.2016-30.06.2016 | Implemented as at 11.05.2016 | WB conformed on 06.09.2016 | 800,000 | 800,000 |
| | DLR#6.2: YTPC has reduced the principal amount of the outstanding commercial loans by at least USD 1,600,000 during 01.07.2016-31.12.2016 | Implemented as at 10.08.2016, so settling all selected loans | | 1,000,000 | 1,000,000 |
| | DLR#6.3: YTPC has reduced the principal amount of the outstanding commercial loans by at least USD 3,520,000 during FY 2017 | | | 2,300,000 | 2,300,000 |
| | Subtotal | | | 780,000 | 780,000 |
| | | | | 120,000 | 120,000 |
| (7) DL#7: Reduce of gas payable of YTPC | DLR#7.1: YTPC's payable under this contract reduced to AMD 10,861,961,848 as at 12.05.2016 | Implemented as at 11.05.2016 | WB conformed on 16.08.2016 | 600,000 | 600,000 |
| | DLR#7.2: YTPC's payable under this contract reduced to AMD 10,661,961,848 as at 30.06.2016 | Implemented as at 30.06.2016 | | 900,000 | 900,000 |
| | DLR#7.3: YTPC's payable under this contract reduced to AMD 9,661,961,848 as at 31.12.2016 | | | 1,200,000 | 1,200,000 |
| | DLR#7.4: YTPC's payable under this contract reduced to AMD 8,161,961,848 as at 30.06.2017 | | | 600,000 | 600,000 |
| | DLR#7.5: YTPC's payable under this contract reduced to AMD 6,661,961,848 as at 31.12.2017 | | | 900,000 | 900,000 |
| | DLR#7.6: YTPC's payable under this contract reduced to AMD 5,161,961,848 as at 31.12.2018 | | | 1,200,000 | 1,200,000 |
| | DLR#7.7: YTPC's payable under this contract reduced to AMD 4,161,961,848 as at 31.12.2019 | | | 600,000 | 600,000 |
| | DLR#7.8: YTPC's payable under this contract reduced to AMD 3,858,961,848 as at 31.12.2020 | | | 600,000 | 600,000 |
| Subtotal | | | 182,000 | 182,000 | |
| | | | 4,982,000 | 4,982,000 | |

Power Sector Financial Recovery Program
IBRD Loan Number 8615-AM

Notes to the special purpose financial statements
For the year ended 31 December 2017
(Amounts are shown in US dollars)

| DLIs | DLRs | Progress of implementation as at 31 Dec 2017 | Corresponding verification process | Amount of Loan Allocated (USD) | Amount of Loan Proceed Cumulative as at 31 Dec 2017 (USD) |
|--------------------|--|--|------------------------------------|--------------------------------|---|
| | DLR#8.1: ENA's license is amended by PSRC by 30.06.2016 and ENA's margin is adjusted by 31.12.2016 | Implemented by 30.06.2016 | WB conformed on 16.08.2016 | 1,000,000 | 1,000,000 |
| | DLR#8.2: ENA's margin is adjusted by PSRC by 31.12.2017 | Implemented by 01.02.2017 | WB conformed on 11.07.2017 | 400,000 | 400,000 |
| | DLR#8.3: ENA's margin is adjusted by PSRC by 31.12.2018 | | | 200,000 | - |
| | DLR#8.4: ENA's margin is adjusted by PSRC by 31.12.2019 | | | 200,000 | - |
| | DLR#8.5: ENA's margin is adjusted by PSRC by 31.12.2020 | | | 200,000 | - |
| | Subtotal | | | 2,000,000 | 1,400,000 |
| | DLR#9.1: Tariff setting methodology is revised by PSRC by 30.06.2016 and tariffs for YTPC and Hrazdan TPP for each new tariff period are revised by PSRC by 31.12.2016 | Implemented by 30.06.2016 | WB conformed on 16.08.2016 | 1,000,000 | 1,000,000 |
| | DLR#9.2: Tariffs for YTPC and Hrazdan TPP for each new tariff period are revised by PSRC by 31.12.2017 | Implemented by 01.02.2017 | WB conformed on 11.07.2017 | 400,000 | 400,000 |
| | DLR#9.3: Tariffs for YTPC and Hrazdan TPP for each new tariff period are revised by PSRC by 31.12.2018 | | | 200,000 | - |
| | DLR#9.4: Tariffs for YTPC and Hrazdan TPP for each new tariff period are revised by PSRC by 31.12.2019 | | | 200,000 | - |
| | DLR#9.5: Tariffs for YTPC and Hrazdan TPP for each new tariff period are revised by PSRC by 31.12.2020 | | | 200,000 | - |
| | Subtotal | | | 2,000,000 | 1,400,000 |
| | DLR#10.1: YTPC supplied to the power transmission network at least 1400GWh of electricity during FY2016 | Implemented | WB conformed on 16.02.2017 | 1,721,000 | 1,721,000 |
| | DLR#10.2: YTPC supplied to the power transmission network at least 1400GWh of electricity during FY2017 | Implemented by 31.12.2017 | WB conformed on 24.01.2018 | 1,630,000 | - |
| | DLR#10.3: YTPC supplied to the power transmission network at least 1400GWh of electricity during FY2018 | | | 400,000 | - |
| | DLR#10.4: YTPC supplied to the power transmission network at least 1400GWh of electricity during FY2019 | | | 400,000 | - |
| | DLR#10.5: YTPC supplied to the power transmission network at least 1400GWh of electricity during FY2020 | | | 400,000 | - |
| | Subtotal | | | 4,551,000 | 1,721,000 |
| (11) Front-end fee | N/a | n/a | n/a | 75,000 | 75,000 |
| Total | | | | 30,000,000 | 23,769,595 |

6. Program Expenditures in underlying currencies

| Program Expenditure | Actual | |
|---|------------------------------------|--------------------------------|
| | Reporting year ended 31.12.2017 | Cumulative as at 31.12.2017 |
| ANPP | | |
| Refinancing of commercial loans | - | EUR 2,000,000.00 |
| | - | USD 6,354,000.00 |
| YTPC | | |
| Repayment of the payable for natural gas (the payable under the contract with Yerevan GGM of Gazprom Armenia CJSC for supply of gas to generate power for domestic needs) | - | AMD 9,199,959,708.00 |
| Overhaul of the gas turbine | EUR 3,896,867.00 | EUR 4,676,240.00 |
| Refinancing of commercial loans | - | USD 650,000.00 |
| | - | EUR 3,642,307.45 |
| Program audits and IVA | AMD 15,705,520.00 | AMD 20,275,440.00 |

7. Use of Loan proceeds by YTPC and ANPP

| Nature of proceeds used | YTPC | ANPP | Total |
|--|-------------------|------------------|-------------------|
| | USD | USD | USD |
| Use of Loan Proceeds | | | |
| Cumulative as at 01.01.2017 | | | |
| Paying for energy input supply | 12,179,310 | 4,854,690 | 17,034,000 |
| Repayment of commercial loan balance | 4,690,111 | - | 4,690,111 |
| | 16,869,421 | 4,854,690 | 21,724,111 |
| Reporting year ended 31.12.2017 | | | |
| Paying for energy input supply | 1,745,315 | 2,127,979 | 3,873,294 |
| Maintenance and operation of Plant | - | 368,963 | 368,963 |
| | 1,745,315 | 2,496,942 | 4,242,257 |
| Cumulative as at 31.12.2017 | | | |
| Paying for energy input supply | 13,924,625 | 6,982,669 | 20,907,294 |
| Repayment of commercial loan balance | 4,690,111 | - | 4,690,111 |
| Maintenance and operation of Plant | - | 368,963 | 368,963 |
| | 18,614,736 | 7,351,632 | 25,966,368 |
| Proceeds Received | | | |
| Cumulative as at 01.01.2017 | 16,869,421 | 6,724,175 | 23,593,596 |
| Year ended 31.12.2017 | 1,745,315 | 695,685 | 2,441,000 |
| | 18,614,736 | 7,419,860 | 26,034,596 |
| Unused amount outstanding | | | |
| As at 01.01.2017 | - | 1,869,485 | 1,869,485 |
| As at 31.12.2017 | - | 68,228 | 68,228 |

8. Event after reporting date

After the reporting date, the following conformation of results achieved was approved by the WB against the DLI Advance outstanding.

| Application # | Date | DLI Advance/ (Advance recovery) | (2) DLI#2: Liquidation of Haigasard | (10) DLI#10: Electricity supplied by YTPC is maintained | Total Documented | Total paid |
|----------------------|------------|---------------------------------------|---|---|---------------------|------------|
| DLI Advance recovery | 6.Feb.2018 | (500,000) | 500,000 | - | 500,000 | - |
| DLI Advance recovery | 6.Feb.2018 | (1,630,000) | - | 1,630,000 | 1,630,000 | - |
| Total | | (2,130,000) | 500,000 | 1,630,000 | 2,130,000 | - |

9. Litigations

There are no pending litigations related to the Program as at reporting date and as at approval date of these financial statements.