MINISTRY OF ECONOMY OF THE REPUBLIC OF ARMENIA

PROJECT FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT

Climate-Adaptive Food Security Enhancement Project

Grant Agreement Number 9241-ARM

As at 31 December 2025 and for the period from 26 July 2024 to 31 December 2025

YEREVAN 2026

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29.06.2026

APPROVED

General Director
Baker Tilly Armenia CJSC

V. Gevorgyan

INDEPENDENT AUDITOR'S REPORT

To the Ministry of Economy of the Republic of Armenia

Opinion

We have audited the accompanying Project Financial Statements of the Climate-Adaptive Food Security Enhancement Project ("CAFSEP" or the "Project"), financed by a grant provided by the Government of Japan through the Japan Fund for Prosperous and Resilient Asia and the Pacific (JFPR) and administered by the Asian Development Bank ("ADB") under Grant Agreement No. 9241-ARM, which comprise the Statement of Cash Receipts and Payments, Statement of Budget versus Actual Expenditures, Statement of Advance Account, Satement of Government Co-Financing Account, Summary Statement of Expenditures and the related notes to the Project Financial Statements for the period from 26 July 2024 to 31 December 2025, including a summary of significant accounting policies.

In our opinin,

- the accompanying Project Financial Statements present fairly, in all material respects, the cash position of the Climate-Adaptive Food Security Enhancement Project as at 31 December 2025 and the cash receipts and payments for the period then ended in accordance with International Public Sector Accounting Standards (IPSAS), Financial Reporting under the Cash Basis of Accounting, the requirements of the Asian Development Bank and the provisions of Grant Agreement No. 9241-ARM,
- the proceeds of ADB Grant No. 9241-ARM have been utilized solely for the purposes of the Project and in accordance with the provisions of the Grant Agreement;
- expenditures financed from Grant proceeds are supported by appropriate documentation and are eligible for financing under the Grant Agreement;
- the Advance Account has been maintained and operated in accordance with the requirements of the Asian Development Bank and the Grant Agreement; and
- the Project complied, in all material respects, with the applicable financial covenants and requirements of the Grant Agreement.

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 Ministry of Economy if the Republic of Armenia and Project implementation team (PIT) in accordance with the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards) ("IESBA Code") and have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Project Financial Statements

PIT Management of the Ministry of Economy of the Republic of Armenia is responsible for the preparation and fair presentation of the Project Financial Statements in accordance with International Public Sector Accounting Standards (IPSAS), Financial Reporting under the Cash Basis of Accounting, the provisions of Grant Agreement No. 9241-ARM, and the requirements and guidelines of the Asian Development Bank (ADB), acting as administrator of the Japan Fund for Prosperous and Resilient Asia and the Pacific (JFPR), and for such internal control as management determines is necessary to enable the preparation of Project Financial Statements that are free from material misstatement, whether due to fraud or error.

Management is also responsible for ensuring that the proceeds of the grant provided by the Government of Japan through the Japan Fund for Prosperous and Resilient Asia and the Pacific (JFPR) and administered by ADB are utilized solely for the purposes intended under the Grant Agreement and that adequate supporting documentation is maintained for all Project expenditures.

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 International Standards on Auditing (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 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 that 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 Ministry of Economy's 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 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.
- Assess whether Project expenditures were incurred for eligible purposes and in accordance with the provisions of Grant Agreement No. 9241-ARM.
- Review the operation of the Advance Account and evaluate whether the use of Grant proceeds complied with the requirements of the Asian Development Bank and the Grant Agreement.
- Obtain sufficient appropriate audit evidence regarding the financial information and activities of the Project to provide a basis for our opinion.
- We communicate with those charged with governance 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.

Auditor

Grigor Sargsyan

29.06.2026

STATEMENT OF CASH RECEIPTS AND PAYMENTS

In USD	Note	For the period from 26 July 2024 to 31 December 2025	As of December 2025
Opening balance of bank accounts	3	-	
JFPR grant proceeds received through ADB	4	420,806	420,806
Government counterpart contributions received		67,995	67,995
Total financing		**488,801**	**488,801**
Cash Payments			
Project expenditures financed from JFPR Grant proceeds		(348,292)	(348,292)
Project expenditures financed from Government counterpart contributions		(64,123)	(64,123)
Total cash payments		**(412,415)**	**(412,415)**
Gain(loss) from exchange rate differences		(3,872)	(3,872)
Closing balance of bank accounts		**72,514**	**72,514**

The project financial statements were approved on 29 June 2026 by:

Arman Sargsyan

Project Director

29.06.2026

Shushanik Grigoryan

Project Financial Manager

STATEMENT OF BUDGETED VERSUS ACTUAL EXPENDITURES

In USD

	Approved Budget	Actual Expenditures	Variance
ADB/ JFPR Grant Financing			
Grant category			
Equipment and materials, consulting and non-consulting services	2,270,000	198,043	2,071,957
Project management	460,000	150,249	309,751
Unallocated	270,000	-	270,000
Total	**3,000,000**	**348,292**	**2,651,708**
Government counterpart financing			
Taxes and duties	530,000	64,123	465,877
Total government counterpart financing	**530,000**	**64,123**	**465,877**
Total project cost	**3,530,000**	**412,415**	**3,117,585**

Arman Sargsyan

Project Director

29.06.2026

Shushanik Grigoryan

Project Financial Manager

STATEMENT OF ADVANCE ACCOUNT

In USD

	For the period from 26 July 2024 to 31 December 2025
Opening balance as of 26.07.2024	-
Initial advance received from ADB/ JFRP	87,000
Replenishment No. 1	81,874
Replenishment No. 2	85,527
Replenishment No. 3	82,881
Replenishment No. 4	83,524
Total inflow	**420,806**
Less:	
Eligible expenditures paid from the advance account	(348,292)
Total outflow	**(348,292)**
Balance at the end of the period	**72,514**

Arman Sargsyan

Project Director

29.06.2026

Shushanik Grigoryan

Project Financial Manager

STATEMENT OF GOVERNMENT CO-FINANCING ACCOUNT

In USD	For the period from 26 July 2024 to 31 December 2025
Opening balance as of 26.07.2024	-
Add:	
Government counterpart contributions received	68,014
Returned to State budget	(19)
Total net inflows	**67,995**
Less:	
Project expenditures financed from Government counterpart contributions	(64,123)
Total outflows	**(64,123)**
Loss from exchange rate differences	(3,872)
Balance at the end of the period	-

Arman Sargsyan

Project Director

29.06.2026

Shushanik Grigoryan

Project Financial Manager

SOE WITHDRAWAL SCHEDULE

Withdrawal	Item	ADB %	Amount in USD
WA 00001	Initial advance	100	87,000
WA 00002	Consulting Services	100	22,257
	Project Management Support	100	59,616
WA 00003	Consulting Services	100	53,051
	Project Management Support	100	32,476
WA 00004	Consulting Services	100	61,110
	Project Management Support	100	21,771
WA 00005	Consulting Services	100	61,624
	Project Management Support	100	21,900
Total			**420,806**

Arman Sargsyan

Project Director

29.06.2026

Shushanik Grigoryan

Project Financial Manager

Notes to the project financial statements

1 Nature of operations and general information

The Climate-Adaptive Food Security Enhancement Project (the "Project" or "CAFSEP") is financed by a grant provided by the Government of Japan through the Japan Fund for Prosperous and Resilient Asia and the Pacific (JFPR) and administered by the Asian Development Bank (ADB) under Grant Agreement No. 9241-ARM dated 22 May 2024.

The Grant Agreement was signed between the Republic of Armenia (the "Recipient") and the Asian Development Bank acting as administrator of the JFPR. The Project became effective on 26 July 2024 and is scheduled to close on 30 June 2027.

The Project is implemented by the Ministry of Economy of the Republic of Armenia through the Project Implementation Team (PIT), which is responsible for the day-to-day management, financial administration, procurement, monitoring, and reporting of Project activities.

The total Project cost amounts to USD 3,530,000 and is financed as follows:

Source of Financing	**Amount (USD)**
JFPR Grant administered by ADB	3,000,000
Government of Armenia counterpart financing	530,000
Total Project Cost	**3,530,000**

The objective of the Project is to increase the resilience of agricultural livelihoods and enhance food security in rural areas highly vulnerable to climate change impacts. The Project focuses on selected communities in the Shirak and Tavush regions of the Republic of Armenia.

The Project comprises the following components:

1. Climate-resilient energy solutions established and further enabled;
2. Climate-smart agricultural technologies for food security enhanced; and
3. Capacity of the Ministry of Economy for climate-smart agricultural planning enhanced.

Project expenditures financed from the JFPR Grant include expenditures related to equipment and materials, consulting and non-consulting services, project management support, and other eligible expenditures in accordance with the Grant Agreement and the revised allocation and withdrawal arrangements approved by ADB.

Government counterpart financing is provided primarily for taxes and duties arising from Project activities and other eligible counterpart expenditures in accordance with the Grant Agreement.

These Project Financial Statements cover the period from 26 July 2024, being the Project effectiveness date, to 31 December 2025.

The Project is mainly financed through the following categories:

Source of financing / category	Description	Approved Allocation (USD)
JFPR grant financing		
Category 1	Equipment and materials, consulting and non-consulting services	2,270,000
Category 2	Project management support	460,000
Category 3	Unallocated	270,000
Total JFPR grant financing		**3,000,000**
Government counterpart financing	Taxes and duties and other eligible counterpart expenditures	**530,000**
Total project cost		**3,530,000**

The JFPR Grant finances eligible expenditures net of taxes and duties imposed within the territory of the Republic of Armenia, while the Government counterpart financing is primarily intended to finance taxes and duties arising from Project implementation.

2 Significant accounting policies

2.1 Basis for preparation

These Project Financial Statements have been prepared in accordance with the International Public Sector Accounting Standard (IPSAS) Financial Reporting under the Cash Basis of Accounting issued by the International Public Sector Accounting Standards Board (IPSASB), the requirements of Grant Agreement No. 9241-ARM, and relevant guidelines of the Asian Development Bank (ADB).

The Project Financial Statements are presented solely to demonstrate the financial performance and cash flows of the Climate-Adaptive Food Security Enhancement Project and are not intended to present the financial position or results of operations of the Ministry of Economy of the Republic of Armenia.

Under the cash basis of accounting, financing is recognized when received rather than when earned, and expenditures are recognized when paid rather than when incurred. Accordingly, the Project Financial Statements do not recognize accounts receivable, accounts payable, accrued income, accrued expenses, or other assets and liabilities that are not settled through cash transactions.

The Project Financial Statements have been prepared to comply with the requirements of Grant Agreement No. 9241-ARM dated 22 May 2024 between the Republic of Armenia and the Asian Development Bank (ADB), acting as administrator of the Japan Fund for Prosperous and Resilient Asia and the Pacific (JFPR), as well as the relevant financial reporting requirements and guidelines of ADB, including the Financial Management and Analysis of Projects.

The reporting period covered by these Project Financial Statements is from 26 July 2024 to 31 December 2025.

2.2 Functional and presentation currency

The Project's functional and presentation currency is the United States Dollar (USD), as the Project financing, budgeting, disbursement, and financial reporting are primarily denominated in USD.

Government counterpart contributions received in Armenian drams (AMD) and expenditures financed from such contributions are translated into USD using the exchange rates prevailing on the day preceding the respective transactions dates.

Cash balances denominated in AMD are translated into USD at the exchange rate published by the Central Bank of Armenia prevailing at the reporting date. Foreign exchange differences arising from currency translation are recognized in the Statement of Cash Receipts and Payments in the period in which they occur.

2.3 Financing

Grant financing and Government counterpart financing are recognized when funds are received in the respective Project bank accounts maintained with the State Treasury of the Republic of Armenia.

Financing is recognized on a cash basis in the period in which the related cash receipts occur.

2.4 Expenditures

Project expenditures are recognized and included in the Project Financial Statements when payments are made for eligible goods, works, consulting services, non-consulting services and other Project activities in accordance with the Grant Agreement.

Payments are made from the Project Advance Account and the Government counterpart account maintained with the State Treasury of the Republic of Armenia.

In accordance with the cash basis of accounting, expenditures are recognized when paid rather than when incurred.

3 Bank accounts

The account balances of the Project are stated in the following table:

As of 31 Decembner 2025

Account	**USD Equivalent**
Project advance account in USD (ADB/JFPR grant)	72,514
Government co-financing account in AMD	-
Total	**72,514**

4 Reconciliation between ADB Disbursements and Project Records

For the period 26 July 2024 to 31 December 2025

Description	**USD Equivalent**
Amount disbursed by ADB (Client Portal/Loan Financial Information System)	420,806
Amount credited by the Treasury/Bank	420,806
Amount recorded in the Project accounting records	420,806
Difference	**-**

Detailed Reconciliation

Withdrawal Application	ADB Disbursement (USD)	Amount Received (USD)	Difference
Initial Advance	87,000	87,000	-
Replenishment No. 1	81,874	81,874	-
Replenishment No. 2	85,527	85,527	-
Replenishment No. 3	82,881	82,881	-
Replenishment No. 4	83,524	83,524	-
Total	**420,806**	**420,806**	-

5 Project Implementation

The Project became effective on 26 July 2024 and is scheduled to close on 30 June 2027.

As at 31 December 2025, Project implementation activities were ongoing. During the reporting period, project implementation focused primarily on project start-up activities, recruitment of consultants, preparation of technical specifications, procurement documentation, and initiation of procurement processes. Major procurement packages under the investment component were under preparation or procurement at the reporting date, and therefore substantial expenditures had not yet been incurred. This variance is consistent with the Project implementation schedule and does not indicate underperformance.

Cumulative actual expenditures incurred under the Project amounted to USD 412,415, including USD 348,292 financed from the JFPR Grant and USD 64,123 financed through Government counterpart contributions. Project is still in first implementation phase, so the Financial progress is 11.7%.

Project implementation progress is monitored by the Ministry of Economy of the Republic of Armenia and reported periodically to the Asian Development Bank in accordance with the Grant Agreement and Project Administration Manual.