

MINISTRY OF ECONOMY OF RA
AND
IRRIGATED AGRICULTURE DEVELOPMENT IN ARARAT AND
ARMAVIR MARZES (IADAAM) PROJECT IMPLEMENTATION TEAM
“Irrigated Agriculture Development in Ararat and Armavir Marzes”
GRANT SPECIAL PURPOSE
PROJECT FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS’ REPORT
For the year ended 31 December 2025

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INDEPENDENT AUDITORS' REPORT

To the Ministry of Economy of RA and Irrigated Agriculture Development in Ararat and Armavir Marzes (IADAAM) project implementation team

We have audited the accompanying special purpose financial statements of the Project “Irrigated Agriculture Development in Ararat and Armavir Marzes (IADAAM)” (hereinafter the Project), implemented by project implementation team (hereinafter the Entity), which comprise the statement of uses of Agence française de développement (AFD) funds by project main categories of expenditures, the statement of uses of co-financing funds by project main categories of expenditures, the statement of financial position as at 31 December 2025, the grant operating account statement and the co-financing operating account statement for the year ended 31 December 2025, and a summary of significant accounting policies and other explanatory information.

In our opinion, the special purpose financial statements present fairly in all material respects the financial position as at 31 December 2025, and the actual expenditure incurred for the year 31 December 2025, in accordance with the accounting policies described in Note 2, the relevant points of the Financing Agreement CAM 1002 06 D and the applicable contractual conditions.

In our opinion, procurements undertaken within the framework of the Project in all material respects are in conformity with Procurement Guidelines for AFD-Financed Contracts in Foreign Countries.

In our opinion, the direct payments made by AFD in all material respects are supported by appropriate documentation and are in conformity with the applicable contractual conditions.

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 *Auditors Responsibilities for the Audit of the Special Purpose Financial Statements* section of our report. We are independent of the Entity 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 responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient appropriate to provide a basis for our opinion.

Emphasis of Matter - Restriction on Distribution or Use

We draw attention to Note 2(a) of the special purpose financial statements, which describes the basis of accounting. The special purpose financial statements have been prepared for providing information to the Entity to assist them in meeting the requirements of AFD based on the framework of Project. As a result, the special purpose financial statements may not be suitable for another purpose. Our opinion is not modified in respect of this matter.

Emphasis of Matter – Equipment stored at the premises of the contractors

We draw attention to Note 4 of the special purpose financial statements, which describes that given Project sites' remote locations and associated security risks and to prevent possible injuries due to non-use before water access, the Entity adopted a preventive risk-management approach, to store the equipment subject to installation at the premises of the contractors in the amount of EUR 336,655.

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

Management is responsible for the preparation and fair presentation of the special purpose financial statements in accordance with the accounting policies described in Note 2(a), the relevant points of the Financing Agreement CAM 1002 06 D and applicable contractual conditions and for such internal control as management determine is necessary to enable the preparation of the special purpose financial statements that are free from material misstatement whether due to fraud or error.

In preparing the special purpose financial statements, management is responsible for assessing the Project's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate, or to cease operations of Project, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Special Purpose Financial Statements

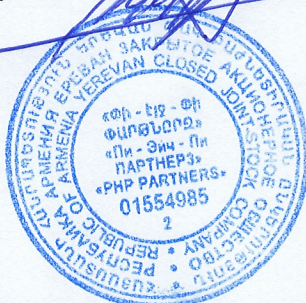
Our objectives are to obtain reasonable assurance about whether the special purpose financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these special purpose financial statements.

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

- Identify and assess the risks of material misstatement of the 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 Entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- 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.

Hovhannes Petrosyan
Director
PHP Partners ejs
02 June 2026

Lilit Minasyan
Partner, Head of Audit Services



Phil Min

“Irrigated Agriculture Development in Ararat and Armavir Marzes (IADAAM)”
Statement of Uses of AFD Funds by Project Main Categories of Expenditures as of 31 December 2025

EUR

COMPONENTS	Actual 2025	Cumulative costs as of 31 December 2025	Planned costs for full project	Costs to go 31 December 2025
TECHNICAL ASSISTANCE				
Component 1 - Institutional support to national and local stakeholders involved in irrigated agriculture				
1.1 Institutional support to the Ministry of Economy	112,103	170,340	250,000	79,660
1.2 Support to the Water Committee and ATDF	68,669	68,669	1,500,000	1,431,331
1.3 Support to the creation and operation of AESTs	741,493	1,207,387	2,000,000	792,613
1.4 Support to the development of cooperatives	133,018	202,902	300,000	97,098
SUB-TOTAL TECHNICAL ASSISTANCE	1,055,283	1,649,298	4,050,000	2,400,702
INVESTMENT				
Component 2 - Improvement of irrigated agriculture outputs				
2.1 Financing for the creation and operation of three AESTs	159,683	208,847	1,400,000	1,191,153
2.2 Creation of the Fund for Cooperative Support	-	-	700,000	700,000
2.3 <i>Financial mechanisms for modern irrigated pilot operations</i>				
2.3.1. Matching grants for installation and equipment on modern irrigated pilot operations	375,660	375,660	1,500,000	1,124,340
2.3.2. Collateral Fund for on-farm investments	-	-	1,000,000	1,000,000
2.4 Fund for Land Consolidation	-	-	1,000,000	1,000,000
SUB-TOTAL INVESTMENT	535,343	584,507	5,600,000	5,015,493
Component 3 – Communication and project management costs				
3.1 Communication and Visibility	11,339	14,811	100,000	85,189

This statement is to be read in conjunction with the notes to and forming part of the Grant project financial statements set out on pages 12 to 15.

*“Irrigated Agriculture Development in Ararat and Armavir Marzes (IADAAM)”
Statement of Uses of AFD Funds by Project Main Categories of Expenditures as of 31 December 2025*

EUR

COMPONENTS	Actual 2025	Cumulative costs as of 31 December 2025	Planned costs for full project	Costs to go 31 December 2025
3.2 Project Management Costs	<u>58,969</u>	<u>158,891</u>	<u>250,000</u>	<u>91,109</u>
SUB-TOTAL COMMUNICATION AND PROJECT MANAGEMENT COSTS	<u>70,308</u>	<u>173,702</u>	<u>350,000</u>	<u>176,298</u>
TOTAL COSTS (AFD Funds)	<u>1,660,934</u>	<u>2,407,507</u>	<u>10,000,000</u>	<u>7,592,493</u>

The project special purpose financial statements were approved and signed on 02 June 2026.

Karen Harutyunyan
IADAAM Project Manager



G. Schein
Shushanik Grigoryan
Finance Manager

This statement is to be read in conjunction with the notes to and forming part of the Grant project financial statements set out on pages 12 to 15.

“Irrigated Agriculture Development in Ararat and Armavir Marzes (IADAAM)”
Statement of Uses of Co-financing Funds by Project Main Categories of Expenditures as of 31 December 2025

EUR

COMPONENTS	Actual costs		Planned costs		Costs to go 31 December 2025
	Actual 2025	Cumulative costs as of 31 December 2025	Planned 2025	Cumulative as of 31 December 2025	
TECHNICAL ASSISTANCE - Component 1 - Institutional support to national and local stakeholders involved in irrigated agriculture					
MoE	218,192	278,775	230,969	301,688	(22,913)
ATDF	<u>73,316</u>	<u>73,316</u>	<u>80,548</u>	<u>80,548</u>	<u>(7,232)</u>
Total Component 1	<u>291,508</u>	<u>352,091</u>	<u>311,517</u>	<u>382,236</u>	<u>(30,145)</u>
INVESTMENT - Component 2 - Improvement of irrigated agriculture outputs					
2.1. Financing for the creation and operation of three AEST's	3,448	13,232	22,557	129,619	(116,387)
2.3. Financial mechanisms for modern irrigated pilot operations	<u>75,188</u>	<u>75,188</u>	<u>491,909</u>	<u>491,909</u>	<u>(416,721)</u>
Total Component 2	<u>78,636</u>	<u>88,420</u>	<u>514,466</u>	<u>621,528</u>	<u>(533,108)</u>
COMMUNICATION AND PROJECT MANAGEMENT COSTS - Component 3					
3.1 Communication and Visibility	126	2,274	9,377	24,624	(22,350)

This statement is to be read in conjunction with the notes to and forming part of the Grant project financial statements set out on pages 12 to 15.

“Irrigated Agriculture Development in Ararat and Armavir Marzes (IADAAM)”
Statement of Uses of Co-financing Funds by Project Main Categories of Expenditures as of 31 December 2025

3.2 Project Management Costs	<u>33,373</u>	<u>63,487</u>	<u>35,922</u>	<u>138,018</u>	<u>(74,531)</u>
Total Component 3	<u>33,499</u>	<u>65,761</u>	<u>45,299</u>	<u>162,642</u>	<u>(96,881)</u>
TOTAL COSTS (Co-Financing Funds)	<u>403,643</u>	<u>506,272</u>	<u>871,282</u>	<u>1,166,406</u>	<u>(660,134)</u>

The project special purpose financial statements were approved and signed on 02 June 2026.

Karen Harutyunyan
IADAAM Project Manager



G. Shushanik Grigoryan
Shushanik Grigoryan
Finance Manager

This statement is to be read in conjunction with the notes to and forming part of the Grant project financial statements set out on pages 12 to 15.

"Irrigated Agriculture Development in Ararat and Armavir Marzes (IADAAM)"
Statement of financial position as of 31 December 2025

<i>EUR</i>	Notes	31 December 2025	31 December 2024
Assets			
<i>Current assets</i>			
Cash and cash equivalents			
AFD Designated account		241,791	347,442
MoE Project Account		-	-
ATDF Project Account		-	-
<i>Total current assets</i>		241,791	347,442
<i>Non-current assets</i>			
Grant project accumulated expenses			
AFD cumulative expenditures		2,407,507	746,573
MoE cumulative expenditures		432,956	102,628
ATDF cumulative expenditures		73,316	-
<i>Total non-current assets</i>		2,913,779	849,201
Total assets		3,155,570	1,196,643
Funds and liabilities			
Grant project accumulated financing	5		
AFD fund provided to Entity		1,000,000	500,000
<i>AFD fund provided directly to:</i>	6		
MoE partner		1,580,629	594,015
ATDF partner		68,669	-
<i>Co-financing Funds:</i>			
MoE fund		431,122	101,681
ATDF fund		73,308	-
Total funds and liabilities		3,153,728	1,195,696
Foreign Exchange Difference		1,842	947
Total net assets and liabilities		3,155,570	1,196,643

The project special purpose financial statements were approved and signed on 02 June 2026.

Karen Harutyunyan
IADAAM Project Manager

Shushanik Grigoryan
Finance Manager

This statement is to be read in conjunction with the notes to and forming part of the Grant project financial statements set out on pages 12 to 15.

“Irrigated Agriculture Development in Ararat and Armavir Marzes (IADAAM)”
AFD operating account statement

	EUR
Opening balance as of 01 January 2025	347,442
Add: Grant replenishment during the period	500,000
Less: Refund to the AFD during the period	-
Present outstanding amount advanced to the Grant operating account (1)	847,442
Closing balance carried forward to the next period	241,791
Add: Amount of eligible expenditures paid during the current period	605,651
Total advance accounted for (2)	847,442
	-

This statement is to be read in conjunction with the notes to and forming part of the Grant project financial statements set out on pages 12 to 15.

“Irrigated Agriculture Development in Ararat and Armavir Marzes (IADAAM)”
Co-financing operating account statement

	EUR
Opening balance as of 01 January 2025	-
<i>Co-financing received during the period:</i>	
<i>MoE</i>	333,458
<i>ATDF</i>	73,308
Less: Refund of co-financing during the period	(4,018)
Foreign Exchange difference	895
Present outstanding amount advanced to the co-financing operating account (1)	403,643
Closing balance as of 31 December 2025	-
Add: Amount of eligible expenditures paid during the period	403,643
Total advance accounted for (2)	403,643
	-

This statement is to be read in conjunction with the notes to and forming part of the Grant project financial statements set out on pages 12 to 15.

1 Background

(a) Organisation and operations

Agriculture represents the main sector of the Armenian economy, mainly dominated by smallholders who are involved in both crop production and livestock production. The number of households is approximately 350,000. Over one million people are residing in rural areas. Out of the total number of the employed population, 31.3 % were occupied in the agricultural sector (2018). Most of the rural population, especially those living in remote areas fall under the segment of vulnerable rural population.

Since the latest institutional reforms of 2020, the Agriculture Department has been moved under the Ministry of Economy and most of the acting human resources at the regional and local level are no longer operational.

As the main part of the agricultural production comes from irrigation, the Government’s recent efforts are oriented on securing water resources (constructing or rehabilitating Reservoirs such as Vedi, Kaps, Mastara) and improving or building Irrigation efficient networks (in Ararat plain under Vedi reservoir or in Armavir’s Baghramyan and Norakert) to promote modernized and well managed irrigated agriculture for high added value Agriculture chains.

According to the Financing Agreement CAM 1002 06 D (Agreement) signed between the Government of the Republic of Armenia and the Agence française de développement (AFD), dated 23 April 2020, the Project implementation team implements the “Irrigated Agriculture Development in Ararat and Armavir Marzes (IADAAM)” Grant project ("Project"). The budget for entire Project is 10 mln Euro, and budget for the agricultural part of Project implemented by the Ministry of Economy of RA is 8.5 mln Euro (excluding local taxes and duties), which is financed by EU grant via AFD. 1.5 mln Euro will be allocated to the Armenian Territorial Development Fund of the Ministry of Territorial Administration and Infrastructures. The Project will be financed by the Government of Republic of Armenia as co-financing for the taxes and duties arising during implementation of the Project.

The Project aims to support the development of modern irrigation by addressing sectorial constraints related to water storage, irrigation infrastructures, land consolidation and access to extension services and credits, through both technical assistance and investment. It targets Ararat and Armavir marzes which, with a population of around 500,000 and about 65 % of irrigable land, have the potential to bring significant leverage to the modernization of agricultural production in Armenia.

The Project under the activities to be financed through the Grant consists of three main components and multiple sub-components:

1. Technical Assistance: Institutional support to national and local stakeholders involved in the irrigated agriculture sector,
2. Improvement of irrigated agriculture outputs,
3. Communication and project management costs

The project is jointly implemented by the Ministry of Economy (MoE) and the Ministry of Territorial Administration and Infrastructure (MTAI) through the Armenian Territorial Development Fund (ATDF). It integrates water management and infrastructure component 1, including the Vedi Reservoir, which provides gravity-driven irrigation water.

Technical assistance (TA) for the Water Component is implemented by a dedicated consulting firm selected by ATDF, while separate technical assistance covers agricultural production, efficient irrigation technologies, economic and financial management, value chain development, and policy advisory services. The agricultural TA focuses on strengthening institutions, building capacity, and promoting high-value agriculture (HVA) to enhance the performance and sustainability of irrigated agriculture in Armenia.

It is expected, through the improvement of irrigation conditions, to secure water supply for farmers and create a dynamic spirit of modern Agriculture relying on some larger-sized or land-consolidated farms, new types of marketing and local business relationships between farmers and agro-processors, improved market access, commercialization processes and better food safety and food quality standards.

A key achievement during the reporting period was the operationalisation of Agricultural Extension Service Teams (AESTs) in the target regions. Three AEST offices were established and equipped, enabling

structured engagement with farmers and local stakeholders. Advisory activities progressed from initial set-up to active field engagement, including farmer surveys, consultations, and advisory visits.

The Project implementation area for the pilot modern irrigated agriculture is located in Ararat and Armavir Marzes on existing or potential irrigated agricultural land under the Water sector rehabilitated or constructed irrigation schemes, such as under the Vedi reservoir or Baghramyan and Norakert.

Pilot operations will be initiated with early adopters who are already implementing modern agricultural practices. These pioneers will serve as demonstration cases, showcasing the benefits of cooperation, land consolidation, and financial support mechanisms.

During the reporting period the number of staff involved in the Grant project implementation was 6 employees.

(b) Project implementation period

According to the Amendment N 2 of the Financing Agreement CAM 1002 06 D (Agreement) signed between the Government of the Republic of Armenia and the Agence française de développement (AFD), dated 23 March 2023, the Project implementation period was extended to 19 June 2026.

2 Basis of preparation

(a) Statement of compliance

The special purpose financial statements are prepared in accordance with the cash basis of accounting and the relevant points of the Financing Agreement CAM 1002 06 D.

The special purpose project financial statements consist of:

- Statement of Uses of AFD Funds by Project Main Categories of Expenditures,
- Statement of Uses of Co-Financing Funds by Project Main Categories of Expenditures,
- Statement of Financial Position,
- AFD Fund Operating Account Statement,
- Co-financing Operating Account Statement,
- Summary of Significant Accounting Policies and Other Explanatory Information.

(b) Reporting currency

The reporting currency of special purpose financial statements is Euro. All financial information presented in Euro has been rounded to the nearest Euro. Government co-financing amounts in Armenian drams and payments made from the co-financing AMD amounts are converted into Euro applying the exchange rate announced by the Central Bank of Armenia on the previous date of the transaction. AFD funds paid directly to partners in AMD are converted into Euro applying the market exchange rate on the day of payment provided by AFD.

(c) Grant project financing

The financing received in the framework of the agreement is recorded in the statement of financial position as "Grant project accumulated project financing" and is recognized at each replenishment. The unused amounts available at the end of the Grant project, which are subject to be returned, shall be deducted from the amounts of "Accumulated Grant project financing" and recognized as payable. In addition, the current period funds received are disclosed in the statement of Grant project sources and uses of funds only when consultants are paid from the grant account for direct payment procedures. Advance account financing is recognized as such and included in the statement of Grant project sources and uses of funds only when the funds from the grant account are transmitted to the advance Euro account opened in the State Treasury of the Republic of Armenia. The amounts of the Government co-financing are recognized as such and included the statement of Grant project sources and uses of funds when the funds are transmitted to the Project current AMD account (the "Government co-financing account"), which is opened in the State Treasury of the Republic of Armenia.

(d) Grant project expenses

The Grant project expenses are recognized on the cash basis of accounting. The accumulated Grant project expenses are disclosed in the statement of financial position under non-current assets. In

addition, expenses are disclosed in the statement of Grant project sources and uses of funds and statement of uses of funds by Grant project main categories of expenditures. Vehicles, computer equipment and furniture procured within the scope of the Grant project and recognized in expenses are the property of the Ministry of Economy. Items of property, plant, and equipment procured within the scope of the Grant project are not recognized as such and no depreciation is calculated in respect of them. Instead, their initial cost is disclosed in note 6.

(e) Planned expenses

The Grant project planned expenses are the Grant project budget defined by the Grant agreement and approved State budget of RA, which includes the grant financing and co-financing.

3 Significant accounting policies

(a) Taxes

All the applicable tax liabilities are calculated and paid in accordance to tax regulations of the Republic of Armenia.

4 Equipment stored at the premises of contractors

In 2025 within the framework of contracts on construction of on-farm irrigation network filtration stations in the pilot areas of Urtsadzor, Dashtakar, Vedi and Goravan settlements, as well as Avshar, Aygavan and Ararat settlements the contractors completed the construction of the filtration stations planned in the project,

However, external constraints beyond the Project’s control, particularly the lack of irrigation water in the Vedi reservoir’s network prevented the testing and commissioning of filtration stations. Given the sites’ remote locations and associated security risks and in order to prevent possible damages due to non-use before water access the Entity adopted a preventive risk-management approach, to store the equipment subject to installation at the premises of the contractors (until June 20, 2026 per storage contracts). This arrangement was agreed with AFD and received AFD’s no-objection letter on 17 October 2025.

The contractors also undertook, based on the signed agreements, to carry out the installation and testing of the installed filtration stations and equipment within a maximum of one month upon receipt of a written notification from the RA Ministry of Economy.

The amount of equipment stored at the premises of the contractors as at 31 December 2025 is EUR 336,655. This amount is reported under the Component 2.3 of Statement of Uses of Funds.

5 Grant project accumulated financing

<i>EUR</i>	2025
<i>Grant funds</i>	
AFD financing	1,000,000
AFD funds provided directly to	
<i>MoE partner</i>	1,580,629
<i>ATDF partner</i>	68,669
Amount returned	-
	2,649,298
<i>Co-financing</i>	
MoE's co-financing	435,140
ATDF's co-financing	73,308
Amount returned	(4,018)
	504,430
Total	3,153,728

AFD funds provided directly to partners represent payments made directly to the project operator JV of Agriconsulting Europe S.A (JV Leader, Belgium), Avenue Consulting Group (Armenia), SDA-Strategic Development Agency NGO (Armenia) and Erek Ar Strategy LLC (Armenia) for the costs incurred by it, as well as payments made to AMPERA LLC, a specialized consulting company selected by ATDF to implement technical assistance for the Water Component. The project operator and the consulting company

perform tasks within Component 1 of the Project.

6 Reconciliation between the amounts received by the Grant project from the AFD and disbursed by the Ministry of Economy

<i>EUR</i>	MoE	AFD	Variance
Stages 1,2	1,000,000	1,000,000	-
	1,000,000	1,000,000	-
Amount returned	-	-	-
	1,000,000	1,000,000	-

7 Property, plant, and equipment

The items of property, plant, and equipment include vehicle, computer and other equipment, furniture and other property acquired in the scope of the Grant project. No depreciation is calculated in respect of them.

The acquired and expensed items are the property of the Ministry of Economy of RA.

The initial cost of the property, plant, and equipment procured within the scope of the Grant project are presented below:

<i>EUR</i>	As of 31 December 2025	As of 31 December 2024
Computer equipment	601	25,187
Furniture and other property	13,870	-
Vehicles	119,418	42,646
	133,889	67,833