

**EURASIAN TRANSPORT  
CORRIDOR  
INVESTMENT CENTER**

LOAN NO.2560-GEO  
(ROAD CORRIDOR INVESTMENT PROGRAM –  
PROJECT 1)

Special Purpose Project Financial Statements  
For the Year Ended 31 December 2016

**EURASIAN TRANSPORT CORRIDOR INVESTMENT CENTER  
ROAD CORRIDOR INVESTMENT PROGRAM - PROJECT 1  
LOAN NO.2560-GEO**

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**EURASIAN TRANSPORT CORRIDOR INVESTMENT CENTER  
ROAD CORRIDOR INVESTMENT PROGRAM - PROJECT 1**

**STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION  
AND APPROVAL OF THE SPECIAL PURPOSE PROJECT FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2016**

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Management of the Road Corridor Investment Program – Project 1 (the "Project") implemented by the Eurasian Transport Corridor Investment Center ("ETCIC" or Transport Reform and Rehabilitation Center – "TRRC") is responsible for the preparation of the special purpose project financial statements that present fairly the financial position of the Project as at 31 December 2016, and its sources and uses of funds and movement in impressed account for the year ended 31 December 2016, in compliance with the Cash Basis International Public Sector Accounting Standard, *Financial Reporting under the Cash Basis of Accounting* ("IPSAS – Cash Basis"), and in conformity with the Guidelines for the Financial Governance and Management of Investment Projects Financed by Asian Development Bank.

In preparing the financial statements, management is responsible for:

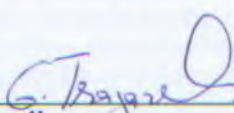
- Properly selecting and applying accounting policies;
- Presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information.
- Providing additional disclosures when compliance with the specific requirements in IPSAS – Cash Basis are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Project, financial position and its sources and uses of funds and movements in designated accounts;
- Making an assessment of the Projects ability to continue as a going concern.

Management is also responsible for:

- Designing, implementing and maintaining an effective and sound system of internal controls, throughout the Project;
- Maintaining adequate accounting records that are sufficient to show and explain the Project's transactions and disclose with reasonable accuracy at any time the financial position of the Project, and which enable them to ensure that the special purpose project financial statements of the Project comply with the Guidelines for the Financial Governance and Management of Investment Projects Financed by Asian Development Bank;
- Maintaining statutory accounting records in compliance with Georgian legislation;
- Taking such steps that are reasonably available to them to safeguard the assets of the Project; and
- Preventing detecting and fraud and other irregularities.

The special purpose project financial statements for the year ended 31 December 2016 were authorized for issue on 29 June 2017 by the Management.

**On behalf of the Management:**

  
\_\_\_\_\_  
**Giorgi Tsagareli**  
Director

29 June 2017

  
\_\_\_\_\_  
**Marina Majagafadze**  
Financial Manager

29 June 2017



## **SPECIAL PURPOSE INDEPENDENT AUDITOR'S REPORT**

**To the management of Eurasia Transport Corridor Investment Center:**

### **Opinion**

We have audited the accompanying special purpose project financial statements of the Road Corridor Investment Program – Project 1 (the "Project") financed under the Loan Agreement No. 2560-GEO dated 29 October 2009, implemented by the Eurasian Transport Corridor Investment Center, which comprise the Balance Sheet as at 31 December 2016 and the related Statement of Sources and Uses of Funds, Statement of Expenditures Withdrawal Schedule ("SOEs") and Statement of Imprest Account for the year ended 31 December 2016 and a summary of significant accounting policies and other explanatory notes (collectively referred to as the "special purpose project financial statements").

In our opinion, the special purpose project financial statements present fairly, in all material respects, the financial position of the Project as at 31 December 2016, and its sources and uses of funds, SOEs and movement in imprest account for the year ended 31 December 2016 in accordance with the IPSAS – Cash Basis and Asian Development Bank Guidelines, as further detailed in Note 2.

### **Basis for Opinion**

We conducted our audit in accordance with International Standards of Auditing ("ISAs"). 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 Organisation in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (the "IESBA Code") together with the ethical requirements that are relevant to our audit of the financial statements in Georgia, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### **Emphasis of Matter – Basis of Accounting and Restriction on Distribution and Use**

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 Project to comply with the requirements of Asian Development Bank. As a result, the special purpose project financial statements may not be suitable for another purpose.

This report is intended solely for use by the management of the Project, the Government of Georgia, and in communicating to the Asian Development Bank. This report is not intended for the benefit of any other third parties and we accept no responsibility or liability to any party other than those mentioned above in respect of the report. Should any third party take decisions based on the contents of the report, the responsibility for such decisions shall remain with those third parties. Our opinion is not modified in respect of this matter.

### **Responsibility of Management and Those Charged with Governance for the Financial Statements**

Management is responsible for the preparation of these special purpose project financial statements in accordance with the basis of accounting described in Note 2.



This includes determining that the International Public Sector Accounting Standard "Financial Reporting Under the Cash Basis of Accounting" ("IPSAS – Cash Basis") is an acceptable basis for the preparation of the special purpose project financial statement in the circumstances, and for such internal control as management determines is necessary to enable the preparation of special purpose project financial statements that are free from material misstatement, whether due to fraud or error.

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

### **Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the special purpose 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 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 financial statements.

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

- Identify and access 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 Organisation'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 Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's 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 auditor's report. However, future events or conditions may cause the Organisation to cease to continue as a going concern.

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.

*Deloitte & Touche*

29 June 2017  
Tbilisi, Georgia



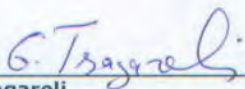
**EURASIAN TRANSPORT CORRIDOR INVESTMENT CENTER  
ROAD CORRIDOR INVESTMENT PROGRAM – PROJECT 1  
LOAN NO 2560-GEO**

**STATEMENT OF SOURCES AND USES OF FUNDS  
FOR THE YEAR ENDED 31 DECEMBER 2016  
(in US Dollars)**


	Actual		Planned*		Variance	
	Year to date	Cumulative to date	Year to date <i>Unaudited</i>	Cumulative to date <i>Unaudited</i>	Year to date <i>Unaudited</i>	Cumulative to date <i>Unaudited</i>
<b>FUNDS RECEIVED BY SOURCES</b>						
Asian Development Bank (ADB) Funds	<b>1,876,664</b>	<b>115,466,531</b>				
Direct payments	1,657,613	113,076,599				
SOE procedures	-	1,222,201				
Additional advance	219,051	1,062,002				
Summary sheet	-	105,729				
Government of Georgia (GoG) co-financing	<b>944,922</b>	<b>40,666,777</b>				
<b>TOTAL FUNDS RECEIVED</b>	<b>2,821,586</b>	<b>156,133,308</b>				
<b>Foreign exchange difference, net</b>	<b>248</b>	<b>(225)</b>				
<b>LESS: EXPENDITURES</b>						
Category 1 - Civil works and land acquisitions	1,657,613	102,404,217	1,657,613	102,404,217	-	-
Category 2 - Consultant's services for works supervision and design	66,991	11,384,174	66,991	11,384,174	-	-
Category 3 - Project management support	262,622	1,328,564	262,622	1,328,564	-	-
Category 4 - Consultancy for capacity development of RDMRDI	-	68,132	-	68,132	-	-
<b>ADB TOTAL</b>	<b>1,987,226</b>	<b>115,185,087</b>	<b>1,987,226</b>	<b>115,185,087</b>	-	-
Category 1 -Civil works and land acquisitions	931,572	37,323,351	931,572	37,323,351	-	-
Category 2 - Consultant's services for works supervision and design	12,058	3,297,535	12,058	3,297,535	-	-
Category 3 - Project management support	1,512	24,445	1,512	24,445	-	-
Category 4 - Consultancy for capacity development of RDMRDI	-	21,197	-	21,197	-	-
<b>GoG TOTAL</b>	<b>945,142</b>	<b>40,666,528</b>	<b>945,142</b>	<b>40,666,528</b>	-	-
<b>TOTAL PROJECT EXPENDITURES</b>	<b>2,932,368</b>	<b>155,851,615</b>	<b>2,932,368</b>	<b>155,851,615</b>		
<b>NET FLOW OF FUNDS</b>	<b>(110,534)</b>	<b>281,468</b>				

\*The company uses flex budget approach, so that at the end of the year Plan is always equal to Actual.

On behalf of the Management:

  
Giorgi Tsagareli  
Director

29 June 2017

  
Marina Majagaladze  
Financial Manager

29 June 2017

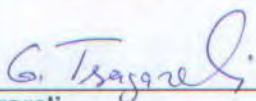
The notes on pages 8 to 13 form an integral part of these special purpose project financial statements.

**EURASIAN TRANSPORT CORRIDOR INVESTMENT CENTER  
ROAD CORRIDOR INVESTMENT PROGRAM - PROJECT 1  
LOAN NO. 2560-GEO**


**BALANCE SHEET STATEMENT  
FOR THE YEAR ENDED 31 DECEMBER 2016  
(in US Dollars)**

	<b>31 December 2016</b>
<b>ASSETS</b>	
ADB imprest account	281,468
<b>TOTAL ASSETS</b>	<b>281,468</b>
<b>Funds received:</b>	
Funds received from ADB	115,466,531
Funds received from GoG	40,666,777
<b>Total funds received</b>	<b>156,133,308</b>
<b>Project expenditures:</b>	
Financed by ADB	(115,185,087)
Financed by GoG	(40,666,528)
<b>Total project expenditures</b>	<b>(155,851,615)</b>
Foreign exchange difference, net	(225)
<b>TOTAL PROJECT EXPENDITURES AND OTHER FUNDS</b>	<b>281,468</b>

On behalf of the Management:

  
\_\_\_\_\_  
**Giorgi Tsagareli**  
Director

29 June 2017

  
\_\_\_\_\_  
**Marina Majagaladze**  
Financial Manager

29 June 2017

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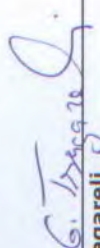


**EURASIAN TRANSPORT CORRIDOR INVESTMENT CENTER  
ROAD CORRIDOR INVESTMENT PROGRAM - PROJECT 1  
LOAN NO. 2560-GEO**


**STATEMENT OF EXPENDITURE WITHDRAWAL SCHEDULE  
FOR THE YEAR ENDED 31 DECEMBER 2016  
(in US Dollars)**

Withdrawal No.	Withdrawal application date	Total SOE in withdrawal schedule	Total SOE attributable to 2015	Attributable to 2015 - Component 1	Attributable to 2015 - Component 4	Total SOE attributable to 2016	Attributable to 2016 - Component 1	Attributable to 2016 - Component 2	Attributable to 2016 - Component 4
168	5-Apr-16	54,097	54,097	12,429	41,668	-	-	-	-
169	1-Jul-16	-	-	-	-	-	-	-	-
170	1-Jul-16	-	-	-	-	-	-	-	-
171	22-Jul-16	164,954	-	-	-	164,954	36,777	-	128,177
		<b>219,051</b>	<b>54,097</b>	<b>12,429</b>	<b>41,668</b>	<b>164,594</b>	<b>36,777</b>	<b>-</b>	<b>128,177</b>

On behalf of the Management:

  
Giorgi Tsagareli  
Director

29 June 2017

  
Marina Majagaladze  
Financial Manager

29 June 2017

The notes on pages 8 to 13 form an integral part of these special purpose project financial statements.



**EURASIAN TRANSPORT CORRIDOR INVESTMENT CENTER  
ROAD CORRIDOR INVESTMENT PROGRAM – PROJECT 1  
LOAN NO. 2560-GEO**

**STATEMENT OF IMPREST ACCOUNT  
FOR THE YEAR ENDED 31 DECEMBER 2016  
(in US Dollars)**

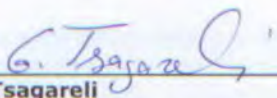
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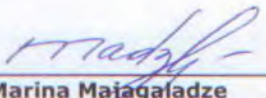
<b>Account No.</b>	2120220223
<b>Depository Bank</b>	State Treasury
<b>Address</b>	16 V. Gorgasali street Tbilisi, 0114 Georgia

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<b>Balance as at 1 January 2016</b>	<b>392,002</b>
<b>ADD</b>	
ADB replenishment	219,051
<b>DEDUCT</b>	
Funds used for the Project expenditures	<u>329,585</u>
<b>Balance as at 31 December 2016</b>	<b><u>281,468</u></b>

On behalf of the Management:

  
\_\_\_\_\_  
**Giorgi Tsagareli**  
Director

  
\_\_\_\_\_  
**Marina Majagafadze**  
Financial Manager

29 June 2017

29 June 2017

The notes on pages 8 to 13 form an integral part of these special purpose project financial statements.



**EURASIAN TRANSPORT CORRIDOR INVESTMENT CENTER  
ROAD CORRIDOR INVESTMENT PROGRAM – PROJECT 1  
LOAN NO. 2560-GEO**

**NOTES TO THE SPECIAL PURPOSE PROJECT FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2016  
(in US Dollars)**

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**1. BACKGROUND**

The Investment Center for Euro-Asian Transport Corridor was established in 1995 as a non-entrepreneurial and non-profit legal entity. A project unit named "Eurasian Transport Corridor Investment Center" (the "ETCIC" or Transport Reform and Rehabilitation Center – "TRRC") was formed within the Investment Center for Euro-Asian Transport Corridor to manage the allocated loan received from the Asian Development Bank ("ADB") and monitor the implementation of transport sector projects.

The purpose of the project ("Road corridor investment program – project 1") is the construction of a new two-lane road of approximately 28 km in length bypassing Kobuleti, and expansion and improvement of approximately 6 – km road section between Kobuleti and Batumi. The Asian Development Bank Loan Agreement No. 2560-GEO (SF) (the "Agreement") in the amount of Special Drawing Rights ("SDR") 75,892,000 was signed between the Government of Georgia ("GoG") and Asian Development Bank ("ADB") on 29 October 2009 and came into effect on 1 December 2009. The project is scheduled to end on 1 January 2018, but management believes that it will be extended for one more year.

**2. ACCOUNTING POLICIES**

**Basis of accounting** – These special purpose project financial statements have been prepared in accordance with the Cash Basis International Public Sector Accounting Standard, *Financial Reporting under a Cash Basis of Accounting* and incorporate the following principal accounting policies, which have been consistently followed in all material respects and comply with the Guidelines for the Financial Governance and Management of Investment Projects Financed by the Asian Development Bank. Project financing is recognized as a source of project funds when the cash is received. Project expenditures are recognized as a use of project funds when the payments are made.

**Functional currency** – These special purpose project financial statements are expressed in United States Dollars ("US Dollar" or "USD").

**Transactions in other currencies** – Transactions in currencies other than reporting currencies are converted to US Dollars at the exchange rate prevailing at the date of the transaction.

**Cash** – Cash comprises balances with State Treasury.

**3. IMPREST ACCOUNT**

Imprest account is designated disbursement account of the Project maintained in US Dollars at State Treasury to ensure the payment of eligible expenditures, within defined limits, which do not require individual authorization from ADB in accordance with the Agreement.

**4. BASIS OF FUNDING**

According to the terms of the Agreement, Category 1 – works are co-financed by proceeds received from ADB and GoG at a proportional rate of 82.3% and 17.7%, respectively, Category 2 – Consulting Services and Category 3 – Project Management Support expenses are 100% financed by ADB.

The GoG is paying all value added, non-residential and other taxes, and land acquisition costs.



**EURASIAN TRANSPORT CORRIDOR INVESTMENT CENTER  
ROAD CORRIDOR INVESTMENT PROGRAM – PROJECT 1  
LOAN NO. 2560-GEO**

**NOTES TO THE SPECIAL PURPOSE PROJECT FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2016 (CONTINUED)  
(in US Dollars)**

**5. METHODS OF WITHDRAWAL**

The methods of withdrawal used from the inception of the loan to 31 December 2016 were as follows:

**(a) Imprest account**

Available amounts were drawn from time to time within limits determined within the loan agreements for the direct payment of eligible expenditures for sub-projects from this special account.

**(b) Direct Payment**

Available amounts are drawn from time to time within limits determined under the credit agreement for direct payments of eligible expenditures for sub-projects. Direct payments are made by ADB directly to third parties. TRRC forms withdrawal applications for request of direct payments and sends it to the ADB, for settlement.

**(c) GoG current account**

The Project maintains a separate account where funds from the Government of Georgia are accumulated. The funds are further disbursed to sub-contractors based on the share of expenditures to be incurred.

**6. STATEMENT OF EXPENDITURES**

Any individual payment to be reimbursed or liquidated under the statement of expenditures procedure shall not exceed the equivalent of USD 100,000. The amount of Statement of Expenditures ("SOE") represents the expenditures incurred in the year 2016. The year of actual expenditure and submission of withdrawal application to ADB may be different.

**7. RECONCILIATION OF AMOUNTS SHOWN AS RECEIVED FROM THE ADB TO ACTUAL EXPENDITURES OF THE PROJECT**

	<u>31 December 2015</u>
<b>Application of Withdrawals Schedule</b>	
Expenses incurred in 2016 as per the Applications of Withdrawals Schedule	1,987,226
Expenses incurred in 2016 without Applications of Withdrawals Schedule	-
	<u><b>1,987,226</b></u>
ADB replenishments	219,051
ADB direct payments	1,657,613
Foreign exchange difference, net	28
	<u><b>1,876,692</b></u>
<b>Add:</b>	
<b>Opening Balances</b>	
Imprest Account	392,002
	<u><b>392,002</b></u>
<b>Less:</b>	
<b>Closing Balances</b>	
Imprest Account	281,468
	<u><b>281,468</b></u>
<b>TOTAL EXPENDITURES INCURRED IN 2016</b>	<u><b>1,987,226</b></u>



**EURASIAN TRANSPORT CORRIDOR INVESTMENT CENTER  
ROAD CORRIDOR INVESTMENT PROGRAM – PROJECT 1  
LOAN NO. 2560 – GEO**

**NOTES TO THE SPECIAL PURPOSE PROJECT FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2016 (CONTINUED)  
(in US Dollars)**

<b>Withdrawal No.</b>	<b>Withdrawal application date</b>	<b>Total amount in withdrawal schedule</b>	<b>Total attributable to 2015</b>	<b>Total attributable to 2016</b>	<b>Total amount attributable to 2017 <i>Unaudited</i></b>
168	5-Apr-16	97,235	54,097	43,138	-
169	1-Jul-16	661,414	-	661,414	-
170	1-Jul-16	996,199	-	996,199	-
171	22-Jul-16	121,816	-	121,816	-
		<b>1,876,664</b>	<b>54,097</b>	<b>1,822,567</b>	-

**8. RECONCILIATION OF CASH IN IMPREST ACCOUNT AND GOG'S ACCOUNT**

	<b>Imprest Account</b>	<b>GoG's Account</b>
<b>Balance as at 1 January 2016</b>	<b>392,002</b>	-
Increase	219,051	944,922
Decrease	(329,585)	(945,142)
Foreign exchange difference, net	-	220
<b>Balance as at 31 December 2016</b>	<b>281,468</b>	-
<b>Imprest Account</b>		
<b>Initial Advance/Replenishments:</b>		
5 April 2016	97,235	
22 July 2016	121,816	
<b>Total</b>	<b>219,051</b>	
<b>SOE liquidation:</b>		
	<b>2016</b>	<b>2015</b>
I quarter	56,285	-
II quarter	108,669	-
III quarter	-	-
IV quarter	-	54,097
	<b>164,954</b>	<b>54,097</b>



**EURASIAN TRANSPORT CORRIDOR INVESTMENT CENTER  
ROAD CORRIDOR INVESTMENT PROGRAM – PROJECT 1  
LOAN NO. 2560-GEO**

**NOTES TO THE SPECIAL PURPOSE PROJECT FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2016 (CONTINUED)  
(in US Dollars)**

**9. PROJECT EXPENDITURES BY COMPONENTS**

Project Activities	Year ended 31 December 2016		Cumulative from inception	
	ADB Financing	GoG Financing	ADB Financing	GoG Financing
				Total
<b>Component 1 - Construction of Kobuleti Bypass section</b>				
Civil works		2,022,905		124,662,806
Land acquisition	1,657,613	365,292	102,404,217	15,064,762
Consultant's services for works supervision and design	-	566,280	-	14,681,709
	66,991	12,058	11,384,174	
<b>TOTAL COMPONENT 1</b>	<b>1,724,604</b>	<b>943,630</b>	<b>113,788,391</b>	<b>40,620,886</b>
				<b>154,409,277</b>
<b>Component 2 - Capacity development of the Roads Department of MORDI</b>				
Consultancy	-	-	68,132	89,329
<b>TOTAL COMPONENT 2</b>	<b>-</b>	<b>-</b>	<b>68,132</b>	<b>21,197</b>
<b>Component 3 - Road Safety Enhancement</b>				
<b>TOTAL COMPONENT 3</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Component 4 - Project management support</b>				
Consultancy for land acquisition and resettlement	112,716	1,512	562,091	569,025
Staff cost	141,306	-	617,199	621,701
Postage	-	-	1,635	1,635
Financial audit service	8,400	-	41,926	41,926
ORIS Consultant	-	-	3,015	3,015
Training	-	-	65,356	77,048
Other expenses	200	-	37,342	38,659
	200	200		
<b>TOTAL COMPONENT 4</b>	<b>262,622</b>	<b>1,512</b>	<b>1,328,564</b>	<b>24,445</b>
				<b>1,353,009</b>
<b>TOTAL PROJECT EXPENDITURES</b>	<b>1,987,226</b>	<b>945,142</b>	<b>115,185,087</b>	<b>40,666,528</b>
				<b>155,851,615</b>







**EURASIAN TRANSPORT CORRIDOR INVESTMENT CENTER  
ROAD CORRIDOR INVESTMENT PROGRAM – PROJECT 1  
LOAN NO. 2560-GEO**

**NOTES TO THE SPECIAL PURPOSE PROJECT FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2016 (CONTINUED)  
(in US Dollars)**

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The Project comprises the following main components:

- Component 1 - Construction of a new two-lane road of approximately 28 km in length bypassing Kobuleti and the expansion and improvement of approximately 6-km road section between Kobuleti and Batumi;
- Component 2 - Capacity development of the Roads Department of Ministry of Regional Development and Infrastructure (MORDI);
- Component 3 - Road safety enhancement; and
- Component 4 - Project management support, including detailed design and supervision consultancy.

The amount of the Loan is allocated to Category appears to exceed all agreed expenditures in that Category, ADB may, by notice to the Borrower, reallocate such excess amount to any other Category. The Project comprises the following main categories:

- Category 1 - Civil works and Land acquisitions
- Category 2 - Consultant's services for works supervision and design
- Category 3 - Project management support
- Category 4 - Consultancy for capacity development of RDMRDI

The Components for project expenses are further divided into four types of expenses for SOE purposes: Civil Works, Goods, Consultants' Services and Operating Costs.

#### **10. COMMITMENTS AND CONTINGENCIES**

The Management is not aware of any commitments and contingencies which would have a material impact on the financial position of the Project and the Imprest Account Statement as at 31 December 2016 and on the funds received and disbursed during the year then ended.

#### **11. OPERATING ENVIRONMENT**

Emerging markets such as Georgia are subject to different risks than more developed markets, including economic, political and social, and legal and legislative risks. Laws and regulations affecting businesses in Georgia continue to change rapidly and tax and regulatory frameworks are subject to varying interpretations. The future economic direction of Georgia is heavily influenced by the fiscal and monetary policies adopted by the government, together with developments in the legal, regulatory, and political environment.

Throughout 2016 Georgia's neighbouring countries, which are large trading partners of Georgia, have experienced significant political and economic turmoil which has had a knock-on effect on the Georgian economy. This has resulted in a significant devaluation of the Georgian Lari against the US dollar and other major currencies.

#### **12. EVENTS SUBSEQUENT TO THE BALANCE SHEET DATE**

There were no significant events subsequent to the balance sheet date that require adjustment to, or disclosure in, these special purpose financial statements.

#### **13. APPROVAL OF FINANCIAL STATEMENTS**

These financial statements were authorized for issue by the Management of ETCIC on 29 June 2017.