

**EURASIAN TRANSPORT
CORRIDOR
INVESTMENT CENTER**

LOAN NO.8328/000021-01-GEO
(BATUMI BYPASS ROAD PROJECT)

Special Purpose Project Financial Statements
For the Year Ended 31 December 2019

**EURASIAN TRANSPORT CORRIDOR INVESTMENT CENTER
BATUMI BYPASS ROAD PROJECT
LOAN NO.8328/000021-01-GEO**

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**EURASIAN TRANSPORT CORRIDOR INVESTMENT CENTER
BATUMI BYPASS ROAD PROJECT**

**STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION
AND APPROVAL OF THE SPECIAL PURPOSE PROJECT FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019**

Management of the Batumi bypass road project (the "Project") implemented by the Eurasian Transport Corridor Investment Center ("ETCIC" or Transport Reform and Rehabilitation Center – "Organisaiton") 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 2019 and its sources and uses of funds and movement in designated account for the Year Ended 31 December 2019, in compliance with the Cash Basis International Public Sector Accounting Standard, *Financial Reporting under the Cash Basis of Accounting* ("IPSAS – Cash Basis"), and the Guidelines for the Financial Governance and Management of Investment Projects Financed by Asian Development Bank.

In preparing the special purpose project 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 and detecting fraud and other irregularities.

The special purpose project financial statements for the Year Ended 31 December 2019 were authorised for issue on 16 November 2020 by the Management.

On behalf of the Management:



Giorgi Tsagareli
Director

16 November 2020



Marina Majagaladze
Financial Manager

16 November 2020

SPECIAL PURPOSE INDEPENDENT AUDITOR'S REPORT

To the management of Eurasian Transport Corridor Investment Center:

Opinion

We have audited the accompanying special purpose project financial statements of the Batumi bypass road project (the "Project") financed under the Loan Agreement No. 8328-GEO dated 17 June 2017 (the "Agreement"), implemented by the Eurasian Transport Corridor Investment Center, which comprise Statement of Sources and Uses of Funds for the Year Ended 31 December 2019, the Balance Sheet as at 31 December 2019 and the related Statement of Expenditure Withdrawal Schedule ("SOEs") and Statement of Designated Account for the Year Ended 31 December 2019 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 accompanying special purpose project financial statements for the Year Ended 31 December 2019 are prepared, in all material respects, in accordance with the cash basis of International Public Sector Accounting Standard (IPSAS) promulgated by the International Federation of Accountants (IFAC), 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 Special Purpose Project 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 special purpose project 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's management in complying with the financial reporting provisions of the Agreement. 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 in reporting the information to the Government of Georgia, and in communicating to the Asian Development Bank information about the Project's compliance with the financial reporting provisions of the Agreement. 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 Special Purpose Project Financial Statements

Management is responsible for the preparation of these special purpose project financial statements in accordance with the cash basis of IPSAS the basis of accounting as further detailed 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 special purpose project 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.

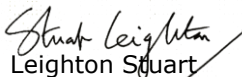
Auditor’s Responsibilities for the Audit of the Special Purpose Project Financial Statements

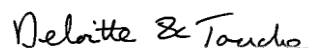
Our objectives are to obtain reasonable assurance about whether the special purpose project financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance, 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 special purpose project 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 special purpose 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 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 special purpose project 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.


Leighton Stuart
On behalf of Deloitte and Touche LLC


16 November 2020
Tbilisi, Georgia

**EURASIAN TRANSPORT CORRIDOR INVESTMENT CENTER
BATUMI BYPASS ROAD PROJECT
LOAN NO 8328/000021-01-GEO**

**STATEMENT OF SOURCES AND USES OF FUNDS
FOR THE YEAR ENDED 31 December 2019
(in US Dollars)**

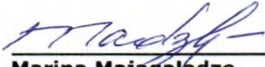
	Actual		Planned*		Variance	Cumulative
	Year to date	Cumulative to date	Year to date	Cumulative to date	Year to date	to date
			Unaudited	Unaudited	Unaudited	Unaudited
FUNDS RECEIVED BY SOURCES						
Direct payments	7,256,077	10,023,812	-	-	-	-
Reimbursement via advance on designated account	-	8,982,020	-	-	-	-
Capitalised Charges Intermediate Bank	887,053	1,717,989	-	-	-	-
Charges withhold from Replenishment amounts and Refunded	135	195	-	-	-	-
Additional advance	4,095,394	5,942,198	-	-	-	-
Total Asian Infrastructure investment Bank (AIIB) Funds	12,238,659	26,666,214	-	-	-	-
TOTAL FUNDS RECEIVED	12,238,659	26,666,214	-	-	-	-
Foreign exchange difference, net	-	-	-	-	-	-
LESS: EXPENDITURE						
Category 1 - Civil works	9,675,440	22,473,618	9,675,440	22,473,618	-	-
Category 2 - Consulting services	1,047,522	1,803,308	1,047,522	1,803,308	-	-
Category 3 - Project management and institutional support	-	-	-	-	-	-
Category 4 - Interest and other financing charges	887,054	1,717,989	887,054	1,717,989	-	-
Category 5 - Unallocated	-	-	-	-	-	-
AIIB TOTAL	11,610,016	25,994,915	11,610,016	25,994,915	-	-
TOTAL PROJECT EXPENDITURE	11,610,016	25,994,915	11,610,016	25,994,915	-	-
NET FLOW OF FUNDS	628,643	671,299	-	-	-	-

*The project 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

16 November 2020


Marina Majagaladze
Financial Manager

16 November 2020

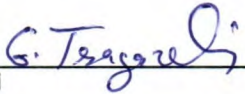
The notes on pages 8 to 16 form an integral part of these special purpose project financial statements.

**EURASIAN TRANSPORT CORRIDOR INVESTMENT CENTER
BATUMI BYPASS ROAD PROJECT
LOAN NO 8328/000021-01-GEO**

**BALANCE SHEET STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2019
(in US Dollars)**

	31 December 2019
ASSETS	
AIIB designated account	671,299
TOTAL ASSETS	671,299
Funds received:	
Funds received from AIIB	26,666,214
Total funds received	26,666,214
Project expenditure:	
Financed by AIIB	(25,994,915)
Total project expenditure	(25,994,915)
Foreign exchange difference, net	-
TOTAL FUNDS RECEIVED LESS PROJECT EXPENDITURE	671,299

On behalf of the Management:



Giorgi Tsagareli
Director

16 November 2020



Marina Majagaladze
Financial Manager

16 November 2020

The notes on pages 8 to 16 form an integral part of these special purpose project financial statements.

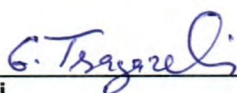
**EURASIAN TRANSPORT CORRIDOR INVESTMENT CENTER
BATUMI PASS ROAD PROJECT
LOAN NO 8328/000021-01-GEO**

**STATEMENT OF EXPENDITURE WITHDRAWAL SCHEDULE
FOR THE YEAR ENDED 31 DECEMBER 2019
(in US Dollars)**

<u>Withdrawal No.</u>	<u>Withdrawal application date</u>	<u>Total SOE in withdrawal schedule</u>	<u>Total SOE attributable to 2019</u>
-	-	-	-
-	-	-	-
		<u>-</u>	<u>-</u>

There was no SOE type of expenditure in 2019.

On behalf of the Management:



Giorgi Tsagareli
Director

16 November 2020



Marina Majagaladze
Financial Manager

16 November 2020

The notes on pages 8 to 16 form an integral part of these special purpose project financial statements.

**EURASIAN TRANSPORT CORRIDOR INVESTMENT CENTER
BATUMI BYPASS ROAD PROJECT
LOAN NO 8328/000021-01-GEO**

**DESIGNATED ACCOUNT STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2019
(in US Dollars)**

Account No.	299250818
Depository Bank	State Treasury
Address	16 V. Gorgasali street Tbilisi, 0114 Georgia

Balance as at 31 December 2018	<u>42,656</u>
ADD	
AIIB reimbursement	<u>4,095,529</u>
DEDUCT	
Funds used for the Project expenditure	<u>(3,466,886)</u>
Balance as at 31 December 2019	<u>671,299</u>

On behalf of the Management:



Giorgi Tsagareli
Director

16 November 2020



Marina Majagaladze
Financial Manager

16 November 2020

The notes on pages 8 to 16 form an integral part of these special purpose project financial statements.

**EURASIAN TRANSPORT CORRIDOR INVESTMENT CENTER
BATUMI BYPASS ROAD PROJECT
LOAN NO 8328/000021-01-GEO**

**NOTES TO THE SPECIAL PURPOSE PROJECT FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019
(in US Dollars)**

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 – "Organisaiton") was formed within the Investment Center for Euro-Asian Transport Corridor to manage allocated credits/loans received from the International Development Association ("IDA"), the International Bank for Reconstruction and Development ("IBRD"), the Asian Development Bank ("ADB"), Asian Infrastructure Investment Bank ("AIIB") and the European Investment Bank (EIB) and monitor the implementation of transport sector projects.

AIIB Loan number 000021-1-GEO in the amount of USD 114 million for "Batumi Bypass Road Project" was signed between the Government of Georgia ("GoG") and Asian Infrastructure and Investment Bank ("AIIB") on 17 June 2017.

The Project will construct a new two-lane 14.3 km long highway to provide a bypass to the Batumi port city (second largest city in Georgia). The road will be constructed on a new alignment, which passes through a number of mountainous settlements. Due to hilly nature of the terrain, this stretch of road requires construction of 5 tunnels and 19 bridges over rivers and valleys. Additionally, the controlled-access highway will have 4 grade separated interchanges to regulate traffic ingress/egress. The Project will also finance construction supervision and quality assurance services associated with the civil works including specialised structural and geotechnical works.

2. ACCOUNTING POLICIES

Basis of accounting –

These special purpose project financial statements have been prepared in accordance with the cash-based International Public Sector Accounting Standard (IPSAS) promulgated by the International Federation of Accountants (IFAC).

These special purpose project financial statements, in accordance with the provisions of the Agreement, are prepared for management analysis and in order to report the information to the Government of Georgia and the Asian Development Bank. As a result these special purpose project financial statements may not be suitable for another purpose.

Project financing is recognised as a source of project funds when the cash is received.

Project expenditure are recognised 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 the State Treasury.

3. DESIGNATED ACCOUNT

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

**EURASIAN TRANSPORT CORRIDOR INVESTMENT CENTER
BATUMI BYPASS ROAD PROJECT
LOAN NO 8328/000021-01-GEO**

**NOTES TO THE SPECIAL PURPOSE PROJECT FINANCIAL STATEMENTS
FOR YEAR ENDED 31 DECEMBER 2019 (CONTINUED)
(in US Dollars)**

4. BASIS OF FUNDING

According to the terms of the Agreement:

- Category 1 – Works which is divided into 1A Batumi Bypass Road and 1B Performance-based Maintenance are financed by 48% and 0% of the total expenditure claimed by, respectively*;
- Category 2 – Consulting services, which are divided into 2A Construction Supervision for Batumi Bypass Road and 2B Performance-based Maintenance Contract Design and Supervision for Performance-based Maintenance are financed by 50% and 0% of the total expenditure claimed by AIIB, respectively*;
- Category 3 – Project Management and Institutional Support is financed by 100% of the total expenditure claimed by AIIB*;
- Category 4 – Interest and Other Financing Charges are financed by 100% of the amount payable on or prior to the closing date pursuant to section 2.07 (c) of the general condition and 100% of the amount payable to section 2.03 of the Loan Agreement in accordance with section 2.07 (b) of the general conditions; and
- Category 5 – Unallocated.

* Exclusive of taxes and duties imposed within the territory of the borrower.

It is allowed by the ADB, to utilise loan funds, subsequent to relevant approvals, to finance projects under other loans, if there are any residual unexpended funds.

**EURASIAN TRANSPORT CORRIDOR INVESTMENT CENTER
BATUMI PASS ROAD PROJECT
LOAN NO 8328/000021-01-GEO**

**NOTES TO THE SPECIAL PURPOSE PROJECT FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)
(in US Dollars)**

5. METHODS OF WITHDRAWAL

The methods of withdrawal used from the inception of the loan to 31 December 2019 were as follows:

(a) Designated account

Available amounts were drawn from time to time within limits determined within the loan agreements for the direct payment of eligible expenditure 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 expenditure for sub-projects. Direct payments are made by AIIB directly to third parties in USD amounts only. Organisation forms withdrawal applications for request of direct payments and sends it to the AIIB, for settlement.

6. STATEMENT OF EXPENDITURE

Any individual payment to be reimbursed or liquidated under the statement of expenditure procedure shall not exceed the equivalent of USD 100,000. The amount of Statement of Expenditure ("SOE") represents the expenditure incurred in the year 2019. The year of actual expenditure and submission of withdrawal application to AIIB may be different.

**EURASIAN TRANSPORT CORRIDOR INVESTMENT CENTER
BATUMI BYPASS ROAD PROJECT
LOAN NO 8328/000021-01-GEO**

**NOTES TO THE SPECIAL PURPOSE PROJECT FINANCIAL STATEMENTS
FOR YEAR ENDED 31 DECEMBER 2019 (CONTINUED)
(in US Dollars)**

**7. RECONCILIATION OF AMOUNTS SHOWN AS RECEIVED FROM THE AIIB TO
ACTUAL EXPENDITURE OF THE PROJECT**

	31 December 2019
Application of Withdrawals Schedule	
Expenses incurred in 2019 as per the Applications of Withdrawals Schedule	10,722,962
Expenses for financial charges during the implementation	<u>887,054</u>
	<u>11,610,016</u>
AIIB reimbursement via designated account	4,095,529
AIIB direct payments via designated account	7,256,077
Front end fee	<u>887,053</u>
	<u>12,238,659</u>
Add:	
Opening Balances	
Designated Account	<u>42,656</u>
Less:	
Closing Balances	
Designated Account	<u>671,299</u>
TOTAL EXPENDITURE INCURRED IN 2019	<u>11,610,016</u>

**EURASIAN TRANSPORT CORRIDOR INVESTMENT CENTER
BATUMI BYPASS ROAD PROJECT
LOAN NO 8328/000021-01-GEO**

**NOTES TO THE SPECIAL PURPOSE PROJECT FINANCIAL STATEMENTS
FOR YEAR ENDED 31 DECEMBER 2019 (CONTINUED)
(in US Dollars)**

TOTAL WITHDRAWAL SCHEDULE EXPENSES

<u>Withdrawal No.</u>	<u>Withdrawal application date</u>	<u>Total amount in withdrawal schedule</u>	<u>Total attributable to 2019</u>
CAP	15-Mar-19	388,890	388,890
00028	21-Mar-19	57,385	57,385
00030	21-Mar-19	86,303	86,303
00029	21-Mar-19	41,966	41,966
00031	29-Mar-19	50,363	50,363
00033	29-Mar-19	28,259	28,259
00032	29-Mar-19	26,004	26,004
00034	01-Apr-19	1,247,059	1,247,059
00035	02-Apr-19	707,728	707,728
00038	28-May-19	28,413	28,413
00045	19-Jun-19	47,592	47,592
00042	19-Jun-19	793,259	793,259
00043	19-Jun-19	1,424,649	1,424,649
00046	20-Jun-19	65,644	65,644
00044	21-Jun-19	97,404	97,404
00048	04-Sep-19	52,435	52,435
00051	09-Sep-19	542,983	542,983
00052	09-Sep-19	975,169	975,169
CAP	15-Sep-19	498,163	498,163
00062	26-Sep-19	33,431	33,431
00061	26-Sep-19	22,150	22,150
00060	26-Sep-19	40,564	40,564
00057	26-Sep-19	51,482	51,482
00056	26-Sep-19	752,312	752,312
00055	26-Sep-19	418,895	418,895
00065	27-Nov-19	664,308	664,308
00066	27-Nov-19	36,975	36,975
00064	27-Nov-19	1,215,571	1,215,571
00072	20-Dec-19	24,212	24,212
00071	20-Dec-19	30,370	30,370
00070	20-Dec-19	39,177	39,177
00074	27-Dec-19	591,342	591,342
00073	27-Dec-19	1,158,202	1,158,202
		12,238,659	12,238,659

**EURASIAN TRANSPORT CORRIDOR INVESTMENT CENTER
 BATUMI BYPASS ROAD PROJECT
 LOAN NO 8328/000021-01-GEO**

**NOTES TO THE SPECIAL PURPOSE PROJECT FINANCIAL STATEMENTS
 FOR YEAR ENDED 31 DECEMBER 2019 (CONTINUED)
 (in US Dollars)**

8. RECONCILIATION OF CASH IN DESIGNATED ACCOUNT

	<u>Designated Account</u>
Balance as at 31 December 2019	<u>42,656</u>
Increase	12,238,659
Decrease	<u>(11,610,016)</u>
Balance as at 31 December 2019	<u>671,299</u>
Designated Account	
Initial Advance/Replenishments:	<u>-</u>
Total	<u><u>-</u></u>

**EURASIAN TRANSPORT CORRIDOR INVESTMENT CENTER
BATUMI PASS ROAD PROJECT
LOAN NO 8328/000021-01-GEO**

**NOTES TO THE SPECIAL PURPOSE PROJECT FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)
(in US Dollars)**

9. PROJECT EXPENDITURE BY COMPONENTS

Project Activities	Year Ended 31 December 2019		Cumulative from inception	
	AIIB Financing	Total	AIIB Financing	Total
Component A – Investment costs				
Civil works	9,675,440	9,675,440	22,473,618	22,473,618
Consulting services	1,047,522	1,047,522	1,803,308	1,803,308
TOTAL COMPONENT A	10,722,962	10,722,962	24,276,926	24,276,926
Component B- Contingencies unallocated				
Physical	-	-	-	-
Price	-	-	-	-
TOTAL COMPONENT B	-	-	-	-
Component C – Financial charges during implementation				
Interest during implementation	-	-	-	-
Commitment charges	-	-	-	-
Front-end fee	887,054	887,054	1,717,989	1,717,989
TOTAL COMPONENT C	887,054	887,054	1,717,989	1,717,989
TOTAL PROJECT EXPENDITURE	11,610,016	11,610,016	25,994,915	25,994,915

**EURASIAN TRANSPORT CORRIDOR INVESTMENT CENTER
BATUMI PASS ROAD PROJECT
LOAN NO 8328/000021-01-GEO**

**NOTES TO THE SPECIAL PURPOSE PROJECT FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)
(in US Dollars)**

The Project comprises the following main components:

Component A – Investment Costs;
Component B – Contingencies; and
Component C – Financial Charges during Implementation – CAP;

If the amount of the Loan allocated to a category appears to exceed all agreed expenditure 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
Category 2 – Consulting services
Category 3 – Project management and institutional support
Category 4 – Interest and commitment charges; and
Category 5 – Unallocated

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 Designated Account Statement as at 31 December 2019 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.

For the last two years Georgia has experienced a number of legislative changes, which have been largely related to the European Union Association Agreement. Whilst the legislative changes implemented during 2018 and 2017 paved the way, more can be expected as Georgia's action plan for achieving accession to the European Union continues to develop.

In addition to that, starting from early 2020 a new coronavirus disease (COVID-19) has begun rapidly spreading all over the world resulting in announcement of the pandemic status by the World Health Organization in March 2020. Responses put in place by many countries to contain the spread of COVID-19 are resulting in significant operational disruption for many companies and have significant impact on global financial markets. As the situation is rapidly evolving it may have a significant effect on business of many companies across a wide range of sectors, including, but not limited to such impacts as disruption of business operations as a result of interruption of production or closure of facilities, supply chain disruptions, quarantines of personnel, reduced demand and difficulties in raising financing.

12. EVENTS SUBSEQUENT TO THE BALANCE SHEET DATE

Spreading the Covid-19 pandemic had a significant negative impact on the world economy and country-specific measures. Deteriorated outlook of the future caused increased volatility of the foreign exchange market subsequent to the year-end.

Covid-19 had no effect on the Project. Construction was continued and there was Successful transition of administrative function to partial remote working and projects ongoing as planned.

**EURASIAN TRANSPORT CORRIDOR INVESTMENT CENTER
BATUMI BYPASS ROAD PROJECT
LOAN NO 8328/000021-01-GEO**

**NOTES TO THE SPECIAL PURPOSE PROJECT FINANCIAL STATEMENTS
FOR YEAR ENDED 31 DECEMBER 2019 (CONTINUED)
*(in US Dollars)***

13. APPROVAL OF SPECIAL PURPOSE PROJECT FINANCIAL STATEMENTS

These special purpose project financial statements were authorised for issue by the Management of ETCIC on 16 November 2020.