

EURASIAN TRANSPORT CORRIDOR INVESTMENT CENTER

LOAN NO.3803-GEO
(NORTH-SOUTH CORRIDOR (KVESHETI-KOBI)
ROAD PROJECT)

Special Purpose Project Financial Statements
For the Period from 27 August 2019 to 31 December
2019

EURASIAN TRANSPORT CORRIDOR INVESTMENT CENTER NORTH-SOUTH CORRIDOR (KVESHETI-KOBI) ROAD PROJECT LOAN NO.3803-GEO

TABLE OF CONTENTS

	Page
STATEMENT OF MANAGEMENT’S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE SPECIAL PURPOSE PROJECT FINANCIAL STATEMENTS	1
INDEPENDENT AUDITOR’S REPORT	2-3
SPECIAL PURPOSE PROJECT FINANCIAL STATEMENTS FOR THE PERIOD FROM 27 AUGUST 2019 TO 31 DECEMBER 2019:	
Statement of sources and uses of funds	4
Balance sheet statement	5
Statement of expenditure withdrawal schedule	6
Imprest account statement	7
Notes to the special purpose project financial statements	8-13

**EURASIAN TRANSPORT CORRIDOR INVESTMENT CENTER
NORTH-SOUTH CORRIDOR (KVESHETI-KOBI) ROAD PROJECT**

**STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION
AND APPROVAL OF THE SPECIAL PURPOSE PROJECT FINANCIAL STATEMENTS
FOR THE PERIOD STARTED AT 27 AUGUST 2019 AND ENDED 31 DECEMBER 2019**

Management of the North-South Corridor (Kvesheti-Kobi) Road- (the "Project") implemented by the Eurasian Transport Corridor Investment Center ("ETCIC" or Transport Reform and Rehabilitation Center – "Organisation") is responsible for the preparation of the special purpose project financial statements that present fairly the Statement of Sources and Uses of Funds for the period from 27 August 2019 to 31 December 2019, the Balance Sheet as at 31 December 2019 and the related Statement of Expenditure Withdrawal Schedule ("SOEs") and Statement of Imprest Account for the period from 27 August 2019 to 31 December 2019, in accordance 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:

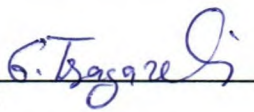
- Properly selecting and applying accounting policies;
- Presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information.
- Providing additional disclosures when compliance with the specific requirements in IPSAS – Cash Basis 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 period from 27 August 2019 to 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 Eurasia Transport Corridor Investment Center:

Opinion

We have audited the accompanying special purpose project financial statements of the North-South Corridor (Kvesheti-Kobi) Road Project (the "Project") financed under the Loan Agreement No. 3803-GEO dated 27 August 2019 (the "Agreement"), implemented by the Eurasian Transport Corridor Investment Center, which comprise Statement of Sources and Uses of Funds for the period from 27 August 2019 to 31 December 2019, the Balance Sheet as at 31 December 2019 and the related, Statement of Expenditure Withdrawal Schedule ("SOEs") and Statement of Imprest Account for the period from 27 August 2019 to 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 period from 27 August 2019 to 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 Organization 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

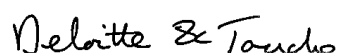
Our objectives are to obtain reasonable assurance about whether the special purpose project financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance, 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
NORTH-SOUTH CORRIDOR (KVESHETI-KOBI) ROAD PROJECT
LOAN NO 3803-GEO**


**STATEMENT OF SOURCES AND USES OF FUNDS
FOR THE PERIOD FROM 27 AUGUST 2019 TO 31 DECEMBER 2019
(in EUR)**

	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>
FUNDS RECEIVED BY SOURCES						
ABD Funds	56,986,102	56,986,102	-	-	-	-
Government Funds	7,756,492	7,756,492	-	-	-	-
EBRD Funds	11,931,226	11,931,226	-	-	-	-
TOTAL FUNDS RECEIVED	76,673,820	76,673,820	-	-	-	-
Foreign exchange difference, net	-	-	-	-	-	-
LESS: EXPENDITURE						
Category (1) Works for Tunnel Section	39,279,471	39,279,471	37,970,126	39,279,471	-	-
Category (2) Works for Road Section and Services	17,706,631	17,706,631	17,706,631	17,706,631	-	-
Category (3) Incremental Administrative Expenses	-	-	-	-	-	-
Cat (4)_Interest and commitment charges	-	-	-	-	-	-
ADB TOTAL	56,986,102	56,986,102	56,986,102	56,986,102	-	-
Category (1) Works for Tunnel Section	11,397,226	11,397,226	11,397,226	11,397,226	-	-
Category (2) Works for Road Section and Services	-	-	-	-	-	-
Category (3) Incremental Administrative Expenses	-	-	-	-	-	-
Cat (4)_Interest and commitment charges	534,000	534,000	534,000	534,000	-	-
EBRD TOTAL	11,931,226	11,931,226	11,931,226	11,931,226	-	-
Category (1) Works for Tunnel Section	3,753,433	3,753,433	3,753,433	3,753,433	-	-
Category (2) Works for Road Section and Services	3,811,977	3,811,977	3,811,977	3,811,977	-	-
Category (3) Incremental Administrative Expenses	191,082	191,082	191,082	191,082	-	-
Cat (4)_Interest and commitment charges	-	-	-	-	-	-
GoG TOTAL	7,756,492	7,756,492	7,756,492	7,756,492	-	-
TOTAL EXPENDITURE BY COMPONENTS	76,673,820	76,673,820	76,673,820	76,673,820	-	-
TOTAL PROJECT EXPENDITURE	76,673,820	76,673,820	76,673,820	76,673,820	-	-
NET FLOW OF FUNDS	-	-	-	-	-	-

*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


Marina Majagaladze
Financial Manager

16 November 2020

16 November 2020

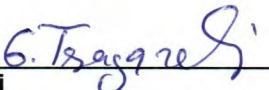
The notes on pages 8 to 13 form an integral part of these special purpose project financial statements.

**EURASIAN TRANSPORT CORRIDOR INVESTMENT CENTER
NORTH-SOUTH CORRIDOR (KVESHETI-KOBI) ROAD PROJECT
LOAN NO 3803-GEO**

**BALANCE SHEET STATEMENT
FOR THE PERIOD FROM 27 AUGUST 2019 TO 31 DECEMBER 2019
(in EUR)**

	31 December 2019
ASSETS	
ADB imprest account	-
TOTAL ASSETS	-
Funds received:	
Funds received from ADB	56,986,102
Funds received from EBRD	11,931,226
Funds received from GoG	7,756,492
Total funds received	76,673,820
Project expenditure:	
Financed by ADB	(56,986,102)
Financed by EBRD	(11,931,226)
Financed by GoG	(7,756,492)
Total project expenditure	(76,673,820)
Foreign exchange difference, net	-
TOTAL FUNDS RECEIVED LESS PROJECT EXPENDITURE	-

On behalf of the Management:



Giorgi Tsagareli
Director



Marina Majagaladze
Financial Manager

16 November 2020

16 November 2020

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

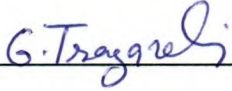
NORTH-SOUTH CORRIDOR (KVESHETI-KOBI) ROAD PROJECT
LOAN NO 3803-GEO

STATEMENT OF EXPENDITURE WITHDRAWAL SCHEDULE
FOR THE PERIOD FROM 27 AUGUST 2019 TO 31 DECEMBER 2019
(in EUR)

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

There was no SOE type of expenditure for the period from 27 August 2019 to 31 December 2019.

On behalf of the Management:



Giorgi Tsagareli
Director



Marina Majagaladze
Financial Manager

16 November 2020

16 November 2020

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

**EURASIAN TRANSPORT CORRIDOR INVESTMENT CENTER
NORTH-SOUTH CORRIDOR (KVESHETI-KOBI) ROAD PROJECT
LOAN NO 3803-GEO**

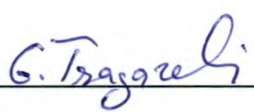
**IMPREST ACCOUNT STATEMENT
FOR THE PERIOD FROM 27 AUGUST 2019 TO 31 DECEMBER 2019
(in EUR)**

Account No.
Depository Bank
Address


State Treasury
16 V. Gorgasali street
Tbilisi, 0114
Georgia

Balance as at 27 August 2019	_____ -
ADD ADB replenishment	_____ -
DEDUCT Funds used for the Project expenditure	_____ -
Balance as at 31 December 2019	===== -

On behalf of the Management:



Giorgi Tsagareli
Director



Marina Majagaladze
Financial Manager

16 November 2020

16 November 2020

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

**EURASIAN TRANSPORT CORRIDOR INVESTMENT CENTER
NORTH-SOUTH CORRIDOR (KVESHETI-KOBI) ROAD PROJECT
LOAN NO 3803-GEO**

**NOTES TO THE SPECIAL PURPOSE PROJECT FINANCIAL STATEMENTS
FOR THE PERIOD FROM 27 AUGUST 2019 TO 31 DECEMBER 2019
(in EUR)**

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 – "Organisation") 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 ("North-South Corridor (Kvesheti-Kobi) Road Project) is the construction of (A) a climate-resilient bypass road approximately 23 kilometer (km) in length between Kvesheti and Kobi in the territory of the Borrower; and (B) climate-resilient all-weather local access roads approximately 5 km in total length; and (ii) the development and implementation of a gender-sensitive road safety awareness campaign to roadside villages and schools. The project is expected to be completed by 30 June 2026.

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 EUR.

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 expenditure, 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 for Tunnel Section are co-financed by proceeds received from ADB, EBRD and GoG at a proportional rate of 65.6%, 19.1% and 15.3%, respectively, Category 2 – Works for Road Section and Services are financed by ADB and GOG by 82% and 18% respectively, Category 3 - Incremental Administrative Expenses and Category 4 – Interest and commitment charges expenses are 100% financed by ADB.

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

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
NORTH-SOUTH CORRIDOR (KVESHETI-KOBI) ROAD PROJECT
LOAN NO 3803-GEO**

**NOTES TO THE SPECIAL PURPOSE PROJECT FINANCIAL STATEMENTS
FOR THE PERIOD FROM 27 AUGUST 2019 TO 31 DECEMBER 2019 (CONTINUED)
(in EUR)**

5. METHODS OF WITHDRAWAL

The methods of withdrawal used from the inception of the loan to 31 December 2019 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 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 ADB directly to third parties. Organisation 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 expenditure to be incurred.

6. RECONCILIATION OF AMOUNTS SHOWN AS RECEIVED FROM THE ADB AND EBRD TO ACTUAL EXPENDITURE OF THE PROJECT

	31 December 2019
Application of Withdrawals Schedule	
Expenses incurred for the period started at 27 August 2019 and ended at 31 December 2019 as per the Applications of Withdrawals Schedule	<u>68,917,328</u>
	<u>68,917,328</u>
ADB direct payments	56,986,102
EBRD direct payments	11,931,226
Foreign exchange difference, net	-
	<u>68,917,328</u>
Add:	
Opening Balances	
Imprest Account	-
	-
Less:	
Closing Balances	
Imprest Account	-
	-
TOTAL EXPENDITURE INCURRED IN 2019	<u>68,917,328</u>

**EURASIAN TRANSPORT CORRIDOR INVESTMENT CENTER
NORTH-SOUTH CORRIDOR (KVESHETI-KOBI) ROAD PROJECT
LOAN NO 3803-GEO**

**NOTES TO THE SPECIAL PURPOSE PROJECT FINANCIAL STATEMENTS
FOR THE PERIOD FROM 27 AUGUST 2019 TO 31 DECEMBER 2019 (CONTINUED)
(in EUR)**

TOTAL ADB WITHDRAWAL SCHEDULE EXPENSES

<u>Withdrawal No.</u>	<u>Value date</u>	<u>Total amount in withdrawal schedule</u>	<u>Total attributable to 2019</u>
00004	02-Dec-2019	23,447	23,447
00003	02-Dec-2019	594,082	594,082
00001	10-Dec-2019	8,829,599	8,829,599
00005	10-Dec-2019	15,923,254	15,923,254
00006	10-Dec-2019	15,923,254	15,923,254
00007	10-Dec-2019	3,716,482	3,716,482
00008	10-Dec-2019	3,716,482	3,716,482
00002	16-Dec-2019	8,259,502	8,259,502
		56,986,102	56,986,102

TOTAL EBRD DISBURSEMENT APPLICATION EXPENSES

<u>Disbursement Application No.</u>	<u>Value date</u>	<u>Total amount in drawdown schedule</u>	<u>Total attributable to 2019</u>
999	16-Dec-2019	534,000	534,000
1	19-Dec-2019	4,621,209	4,621,209
2	19-Dec-2019	4,621,209	4,621,209
3	19-Dec-2019	1,077,404	1,077,404
4	19-Dec-2019	1,077,404	1,077,404
		11,931,226	11,931,226

**EURASIAN TRANSPORT CORRIDOR INVESTMENT CENTER
NORTH-SOUTH CORRIDOR (KVESHETI-KOBI) ROAD PROJECT
LOAN NO 3803-GEO**

**NOTES TO THE SPECIAL PURPOSE PROJECT FINANCIAL STATEMENTS
FOR THE PERIOD FROM 27 AUGUST 2019 TO 31 DECEMBER 2019 (CONTINUED)
(in EUR)**

7. PROJECT EXPENDITURE BY COMPONENTS

Project Activities	For the period from 27 August 2019 to 31 December 2019				Cumulative from inception			
	ADB Financing	GoG Financing	EBRD	Total	ADB Financing	GoG Financing	EBRD	Total
Component 1 - Construction of Kvesheti-Kobi Bypass section								
Civil works	56,368,573	7,430,082	11,397,226	75,195,881	56,368,573	7,430,082	11,397,226	75,195,881
Land acquisition	-	187,176	-	187,176	-	187,176	-	187,176
Consultancy	617,529	135,329	-	752,858	617,529	135,329	-	752,858
TOTAL COMPONENT A	56,986,102	7,752,587	11,397,226	76,135,915	56,986,102	7,752,587	11,397,226	76,135,915
Component 2 - Capacity development of the Roads Department of MORDI								
Project Management Costs	-	3,905	-	3,905	-	3,905	-	3,905
TOTAL COMPONENT B	-	3,905	-	3,905	-	3,905	-	3,905
Component 3 - Road Safety Enhancement								
Contingencies_Unallocated	-	-	534,000	534,000	-	-	534,000	534,000
TOTAL COMPONENT C	-	-	534,000	534,000	-	-	534,000	534,000
Component 4 - Project management support								
Interest and commitment charges	-	-	-	-	-	-	-	-
TOTAL COMPONENT D	-	-	-	-	-	-	-	-
TOTAL PROJECT EXPENDITURE	56,986,102	7,756,492	11,931,226	76,673,820	56,986,102	7,756,492	11,931,226	76,673,820

**EURASIAN TRANSPORT CORRIDOR INVESTMENT CENTER
NORTH-SOUTH CORRIDOR (KVESHETI-KOBI) ROAD PROJECT
LOAN NO 3803-GEO**

**NOTES TO THE SPECIAL PURPOSE PROJECT FINANCIAL STATEMENTS
FOR THE PERIOD FROM 27 AUGUST 2019 TO 31 DECEMBER 2019 (CONTINUED)
(in EUR)**

The Project comprises the following main components:

- Component A – Investment Costs;
- Component B – Recurrent Costs;
- Component C – Contingencies; and
- Component 4 – Financial Charges During Implementation.

The amount of the Loan is allocated to 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 – Works for tunnel section
- Category 2 – Works for road sections and services
- Category 3 – Incremental administrative expenses; and
- Category 4 – Interest and commitment charges

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

8. 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 2019 and on the funds received and disbursed during the year then ended.

9. 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 three 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 2019 and 2018 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.

10. 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
NORTH-SOUTH CORRIDOR (KVESHETI-KOBI) ROAD PROJECT
LOAN NO 3803-GEO**

**NOTES TO THE SPECIAL PURPOSE PROJECT FINANCIAL STATEMENTS
FOR THE PERIOD FROM 27 AUGUST 2019 TO 31 DECEMBER 2019 (CONTINUED)
(in EUR)**

11. APPROVAL OF FINANCIAL STATEMENTS

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