

**EURASIAN TRANSPORT
CORRIDOR INVESTMENT
CENTER**

LOAN NO.3861-GEO
(EAST-WEST HIGHWAY IMPROVEMENT PROJECT)

Special Purpose Project Financial Statements
For The Year Ended 31 December 2020

**EURASIAN TRANSPORT CORRIDOR INVESTMENT CENTER
EAST-WEST HIGHWAY IMPROVEMENT PROJECT
LOAN NO.3861-GEO**

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**EURASIAN TRANSPORT CORRIDOR INVESTMENT CENTER
EAST-WEST HIGHWAY IMPROVEMENT PROJECT**

**STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION
AND APPROVAL OF THE SPECIAL PURPOSE PROJECT FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020**

Management of the EAST-WEST HIGHWAY IMPROVEMENT PROJECT (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 year ended 31 December 2020, the Balance Sheet as at 31 December 2020 and the related Statement of Expenditure Withdrawal Schedule ("SOEs") and Statement of Imprest Account for the year ended 31 December 2020, 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; and
- 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 2020 were authorised for issue on 29 June 2021 by the Management.

On behalf of the Management:



Giorgi Tsagareli
Director

29 June 2021



Marina Majagaladze
Financial Manager

29 June 2021

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 East-West Highway Improvement Project (the "Project") financed under the Loan Agreement No. 3861-GEO dated 27 November 2019 (the "Agreement"), implemented by the Eurasian Transport Corridor Investment Center, which comprise for the year ended 31 December 2020, the Balance Sheet as at 31 December 2020 and the related, Statement of Expenditure Withdrawal Schedule ("SOEs") and Statement of Imprest Account for the year ended 31 December 2020 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 2020 presents fairly, 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 and fair presentation 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.

Those charged with governance are responsible for overseeing the Organisation’s financial reporting process.

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.

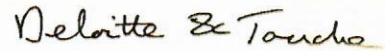
As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- 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.
- Evaluate the overall presentation, structure and content of the special purpose project financial statement, including the disclosures, and whether the financial statement represents the underlying transactions and events in a manner that achieves the fair presentation

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.



Srбуhi Hakobyan
On behalf of Deloitte and Touche LLC



29 June 2021
Tbilisi, Georgia

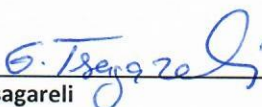
**EURASIAN TRANSPORT CORRIDOR INVESTMENT CENTER EAST-WEST HIGHWAY
IMPROVEMENT PROJECT
LOAN NO 3861-GEO**


**STATEMENT OF SOURCES AND USES OF FUNDS
FOR THE YEAR ENDED 31 DECEMBER 2020
(in EUR)**

	Actual		Planned*		Variance	
	Period to date	Cumulative to date	Period to date <i>Unaudited</i>	Cumulative to date <i>Unaudited</i>	Period to date <i>Unaudited</i>	Cumulative to date <i>Unaudited</i>
FUNDS RECEIVED BY SOURCES						
Asian Development Bank (ADB) Funds	30,998,793	30,998,793	-	-	-	-
Direct payments	30,764,378	30,764,378	-	-	-	-
Capitalized Charges	234,415	234,415	-	-	-	-
Government of Georgia (GoG) co-financing	6,122,888	11,987,650	-	-	-	-
TOTAL FUNDS RECEIVED	37,121,681	42,986,443	-	-	-	-
Foreign exchange difference, net	1	1	-	-	-	-
LESS: EXPENDITURE						
Category 1 – Works, Goods and Services	30,764,378	30,764,378	30,764,378	30,764,378	-	-
Category 2 - Interest and commitment charges	234,415	234,415	234,415	234,415	-	-
ADB TOTAL	30,998,793	30,998,793	30,998,793	30,998,793	-	-
Category 1 – Works, Goods and Services	6,122,889	11,987,651	6,122,889	11,987,651	-	-
Category 2 - Interest and commitment charges	-	-	-	-	-	-
GoG TOTAL	6,122,889	11,987,651	6,122,889	11,987,651	-	-
TOTAL PROJECT EXPENDITURE	37,121,682	42,986,444	37,121,682	42,986,444	-	-
NET INFLOW OF FUNDS	-	-	-	-	-	-

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

On behalf of the Management:


Giorgi Tsagareli
Director
29 June 2021


Marina Majagaladze
Financial Manager
29 June 2021

The notes on pages 9 to 13 form an integral part of these special purpose project financial statements.

**EURASIAN TRANSPORT CORRIDOR INVESTMENT CENTER EAST-WEST HIGHWAY
IMPROVEMENT PROJECT
LOAN NO. 3861-GEO**

**BALANCE SHEET STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2020
(in EUR)**

	<u>31 December 2020</u>
ASSETS	
ADB imprest account	-
TOTAL ASSETS	<u>-</u>
Funds received:	
Funds received from ADB	30,998,793
Funds received from GoG	<u>11,987,651</u>
Total funds received	<u>42,986,444</u>
Project expenditure:	
Financed by ADB	(30,998,793)
Financed by GoG	(11,987,650)
Foreign exchange difference, net	<u>(1)</u>
Total project expenditure	<u>(42,986,444)</u>
TOTAL FUNDS RECEIVED LESS PROJECT EXPENDITURE	<u><u>-</u></u>

On behalf of the Management:



Giorgi Tsagareli
Director

29 June 2021



Marina Majagaladze
Financial Manager

29 June 2021

The notes on pages 9 to 13 form an integral part of these special purpose project financial statements.

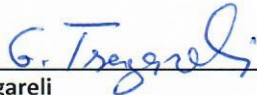
**EURASIAN TRANSPORT CORRIDOR INVESTMENT CENTER EAST-WEST HIGHWAY
IMPROVEMENT PROJECT
LOAN NO. 3861-GEO**

**STATEMENT OF EXPENDITURE WITHDRAWAL SCHEDULE
FOR THE YEAR ENDED 31 DECEMBER 2020
(in EUR)**

Withdrawal No.	Withdrawal application date	Total SOE in withdrawal schedule	Total SOE attributable to 2020
-	-	-	-
		-	-
		<u>-</u>	<u>-</u>

There was no SOE type of expenditure for the year ended 31 December 2020.

On behalf of the Management:



Giorgi Tsagareli
Director
29 June 2021



Marina Majagaladze
Financial Manager
29 June 2021

The notes on pages 9 to 13 form an integral part of these special purpose project financial statements.


**EURASIAN TRANSPORT CORRIDOR INVESTMENT CENTER EAST-WEST HIGHWAY
IMPROVEMENT PROJECT
LOAN NO. 3861 – GEO**

**STATEMENT OF IMPREST ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2020 (CONTINUED)
(in EUR)**

Account No.	25020309
Depository Bank	State Treasury
Address	16 V. Gorgasali street Tbilisi, 0114 Georgia

Balance as at 31 December 2019	-
ADD	
ADB replenishment	-
DEDUCT	
Funds used for the Project expenditure	-
Balance as at 31 December 2020	-

On behalf of the Management:



Giorgi Tsagareli
Director
29 June 2021



Marina Majagaladze
Financial Manager
29 June 2021

The notes on pages 9 to 13 form an integral part of these special purpose project financial statements.

**EURASIAN TRANSPORT CORRIDOR INVESTMENT CENTER EAST-WEST HIGHWAY
IMPROVEMENT PROJECT
LOAN NO. 3861-GEO**

**NOTES TO THE SPECIAL PURPOSE PROJECT FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020 (CONTINUED)
(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.

Project consists of construction of new access controlled dual carriageway or four-lane divided highway, between Shorapani and Argveta in the territory of the Georgia, the improvement of secondary roads connecting to the East-West Highway and construction of a rest stop with separate toilet facilities for women and men, and commercial stalls. The Project shall include the provision of Consulting Services for construction supervision and Project management support. The Project is expected to be completed by 30 June 2025.

2. ACCOUNTING POLICIES

Basis of accounting. This is the first special purpose project financial statements prepared for this project. 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 USD at the exchange rate prevailing at the date of the transaction.

Cash – Cash comprises balances with the State Treasury.

3. BASIS OF FUNDING

According to the terms of the Agreement, 100% of total claimed expenditure of Category 1 - Works, Goods and Services will be financed by ADB and Category 2 - Interest and commitment charges are 100% financed by ADB.

The Government is paying all value added, non-residential and other taxes, and land acquisition costs within the territory of Georgia.

It is allowed by the donor, 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 EAST-WEST HIGHWAY
IMPROVEMENT PROJECT
LOAN NO. 3861 – GEO**

**STATEMENT OF IMPREST ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2020 (CONTINUED)
(in EUR)**

4. METHODS OF WITHDRAWAL

The methods of withdrawal used from the inception of the loan to 31 December 2020 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. No amounts were drawn down during the period from 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.

5. RECONCILIATION OF AMOUNTS SHOWN AS RECEIVED FROM THE ADB TO ACTUAL EXPENDITURE OF THE PROJECT

	31 December 2020
Application of Withdrawals Schedule	
Expenses incurred in 2020 as per the Applications of Withdrawals Schedule	30,764,378
Expenses incurred in 2020 as Capitalised charges	234,415
	30,998,793
ADB direct payments	30,764,378
Capitalised charges	234,415
	30,998,793
Add:	
Opening Balances	
Imprest Account	-
	-
Less:	
Closing Balances	
Imprest Account	-
	-
TOTAL EXPENDITURE INCURRED IN 2020	30,998,793

**EURASIAN TRANSPORT CORRIDOR INVESTMENT CENTER EAST-WEST HIGHWAY
IMPROVEMENT PROJECT
LOAN NO. 3861 – GEO**

**STATEMENT OF IMPREST ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2020 (CONTINUED)
(in EUR)**

TOTAL WITHDRAWAL SCHEDULE EXPENSES

Withdrawal No.	Withdrawal application date	Total amount in withdrawal schedule	Total attributable to 2020
00001	26-Mar-20	6,855,364	6,855,364
00002	26-Mar-20	6,855,364	6,855,364
00003	14-Apr-20	6,858,886	6,858,886
00004	26-Mar-20	6,759,359	6,759,359
00007	8-Jun-20	1,448,913	1,448,913
00008	8-Jun-20	1,448,913	1,448,913
00009	11-Sep-20	350,075	350,075
00010	11-Sep-20	187,504	187,504
CAP	15-Aug-20	234,415	234,415
		30,998,793	30,998,793

6. PROJECT EXPENDITURE BY COMPONENTS

Project Activities	FOR THE YEAR ENDED 31 DECEMBER 2020			Cumulative from inception		
	ADB Financing	GoG Financing	Total	ADB Financing	GoG Financing	Total
Component A – Investment costs						
Land acquisition and resettlement	-	424,897	424,897	-	6,289,659	6,289,659
Civil Works	30,226,798	5,573,367	35,800,165	30,226,798	5,573,367	35,800,165
Consulting Service-Design and Supervision	537,580	95,122	632,702	537,580	95,122	632,702
TOTAL COMPONENT A	30,764,378	6,093,386	36,857,764	30,764,378	11,958,148	42,722,526
Component B - Recurrent Costs						
Project Administration	-	29,503	29,503	-	29,503	29,503
TOTAL COMPONENT B	-	29,503	29,503	-	29,503	29,503
Component C Contingencies						
Contingencies unallocated	-	-	-	-	-	-
TOTAL COMPONENT C	-	-	-	-	-	-
Component D – Financing Charges During Implementation						
Financial charges during implementation	234,415	-	234,415	234,415	-	234,415
TOTAL COMPONENT D	234,415	-	234,415	234,415	-	234,415
TOTAL PROJECT EXPENDITURE	30,998,793	6,122,889	37,121,682	30,998,793	11,987,651	42,986,444

**EURASIAN TRANSPORT CORRIDOR INVESTMENT CENTER EAST-WEST HIGHWAY
IMPROVEMENT PROJECT
LOAN NO. 3861-GEO**

**NOTES TO THE SPECIAL PURPOSE PROJECT FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020 (CONTINUED)
(in EUR)**

The Project comprises the following main components:

- Component A – Investment Costs;
- Component B – Recurrent Costs
- Component C – Contingencies; and
- Component D – Financial charges during implementation

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 – Works, Goods and Services and
- Category 2 – Interest and commitment charges

7. 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 as at 31 December 2020 and on the funds received and disbursed during the period then ended.

8. 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 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 the years 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 Organisation 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. In addition, the Organisation may face the increasingly broad effects of COVID-19 as a result of its negative impact on the global economy and major financial markets. The significance of the effect of COVID-19 on the Organisation's operations largely depends on the duration and the incidence of the pandemic effects on the world and Georgian economy.

The economic shock caused by the coronavirus and the expectations of the future development of pandemic and its impact on the Georgian economy have been reflecting on increased volatility of the foreign exchange market and weakening of Georgian Lari against other currencies.

**EURASIAN TRANSPORT CORRIDOR INVESTMENT CENTER EAST-WEST HIGHWAY
IMPROVEMENT PROJECT
LOAN NO. 3861 – GEO**

**STATEMENT OF IMPREST ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2020 (CONTINUED)
(in EUR)**

Management is unable to predict all developments which could have an impact on the Georgian economy and consequently what effect, if any, they could have on the future financial position of the Organisation. Management believes it is taking all the necessary measures to support the sustainability and development of the Organisation's operations.

9. EVENTS SUBSEQUENT TO THE BALANCE SHEET DATE

Spread of Covid-19 pandemic still has 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.

Ongoing Covid-19 related situation does not have significant effect on the Project. Construction was continued and there was successful transition of administrative function to partial remote working and projects ongoing as planned.

10. APPROVAL OF SPECIAL PURPOSE PROJECT FINANCIAL STATEMENTS

These special purpose project financial statements were authorised for issue by the Management of ETCIC on 29 June 2021.