

**LEPL EURASIAN TRANSPORT  
CORRIDOR INVESTMENT  
CENTER / TRANSPORT  
REFORM AND  
REHABILITATION CENTER**

LOAN NO. 8788-GE  
(ADDITIONAL FINANCING EAST-WEST HIGHWAY  
CORRIDOR IMPROVEMENT PROJECT)

**Special Purpose Project Financial Statements**

**For the Year Ended 31 December 2020**

**LEPL EURASIAN TRANSPORT CORRIDOR INVESTMENT CENTER /  
TRANSPORT REFORM AND REHABILITATION CENTER  
ADDITIONAL FINANCING EAST-WEST HIGHWAY CORRIDOR IMPROVEMENT  
LOAN NO.8788-GE**

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**LEPL EURASIAN TRANSPORT CORRIDOR INVESTMENT CENTER / TRANSPORT REFORM AND REHABILITATION CENTER  
ADDITIONAL FINANCING EAST-WEST HIGHWAY CORRIDOR IMPROVEMENT  
LOAN NO.8788-GE**

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

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Management of the East-West Highway Corridor Improvement Project (the "Project") implemented by the LEPL Eurasian Transport Corridor Investment Center ("ETCIC") / Transport Reform and Rehabilitation Center ("TRRC") is responsible for the preparation of the special purpose project financial statements that present fairly the statement of balance sheet of the Project, the statement of sources and uses of funds, the statements of expenditure withdrawal schedule and movement in designated account for the year ended 31 December 2020, and notes comprising a summary of significant accounting policies and other explanatory information 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 World Bank's Financial Management Sector Board's "Guidelines: Annual Financial Reporting and Auditing for World Bank Financed Activities" (the "World Bank Guidelines").

In preparing the special purpose project financial statements, management is responsible for:

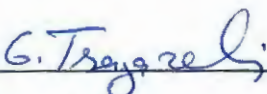
- Properly selecting and applying accounting policies;
- Presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- Providing additional disclosures when compliance with the specific requirements in IPSAS – Cash Basis 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.

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 on Annual Financial Reporting and Auditing for World Bank – Financed Activities issued by the World Bank's Financial Management Sector Board;
- 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 authorized for issue on 30 June 2021 by the Management.

**On behalf of Management:**

  
\_\_\_\_\_

**Giorgi Tsagareli**  
Director

30 June 2021

  
\_\_\_\_\_

**Marina Majagaladze**  
Financial Manager

30 June 2021



KPMG Georgia LLC  
GMT Plaza  
5th Floor, 4 Liberty Square  
Tbilisi, Georgia 0105  
Telephone +995 322 93 5713  
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## **Independent Auditors' Report on Special Purpose Project Financial Statements**

To the Management of LEPL Eurasian Transport Corridor Investment Center / Transport Reform and Rehabilitation Center

### ***Opinion***

We have audited the special purpose project financial statements of the East-West Highway Corridor Improvement Project (the "Project"), financed under the International Bank for Reconstruction and Development (the "IBRD"), Loan Agreement No. 8788-GE, dated 2 April 2018, implemented by the LEPL Eurasian Transport Corridor Investment Center/ Transport Reform and Rehabilitation Center (the "Center"), which comprise the Statement of Balance Sheet as at 31 December 2020, the Statements of Sources and Uses of Funds, Expenditure Withdrawal Schedule ("SOEs") and Designated Account for the period from 1 January 2020 to 31 December 2020, and notes, comprising a summary of significant accounting policies and other explanatory information. The special purpose project financial statements have been prepared by management in accordance with the International Public Sector Accounting Standard: Financial Reporting Under the Cash Basis of Accounting and in conformity with the World Bank's Financial Management Sector Board's "Guidelines: Annual Financial Reporting and Auditing for World Bank-Financed Activities" (the "World Bank Guidelines") as described in Note 2 to the special purpose project financial statements.

In our opinion, the accompanying special purpose project financial statements present fairly, in all material respects, the financial position of the Project as at 31 December 2020, and its sources and uses of funds for the year ended 31 December 2020 in accordance with the International Public Sector Accounting Standard: Financial Reporting Under the Cash Basis of Accounting and the World Bank Guidelines.

### ***Basis for Opinion***

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Special Purpose Project Financial Statements* section of our report. We are independent of the Center in accordance with the International Ethics Standards Board for Accountants International Code of Ethics for Professional Accountants (including International Independence Standards) (*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 the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### ***Other Matter***

Planned and prospective data included on pages 4 to 15 of the accompanying special purpose project financial statements that are marked as "*Unaudited*" have not been audited.

### ***Emphasis of Matter - Basis of Accounting and Restriction on 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 Center to comply with the requirements of IBRD and for providing information to the Government of Georgia and IBRD to assist them in evaluating the Project implementation. As a result, the special purpose project financial statements may not be suitable for another purpose. Our opinion is not modified in respect of this matter.



### ***Responsibilities 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 International Public Sector Accounting Standard: Financial Reporting Under the Cash Basis of Accounting and the World Bank Guidelines, for determining the acceptability of the basis of accounting 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.

Those charged with governance are responsible for overseeing the Center's financial reporting process.

### ***Auditors' 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 auditors' 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 judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess 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 Center's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Evaluate the overall presentation, structure and content of the special purpose project financial statements, including the disclosures, and whether the special purpose project financial statements represent the underlying transactions and events in a manner that achieves 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.

The engagement partner on the audit resulting in this independent auditors' report is:

Natia Tevzadze

KPMG Georgia LLC  
Tbilisi, Georgia  
30 June 2021

**LEPL EURASIAN TRANSPORT CORRIDOR INVESTMENT CENTER / TRANSPORT REFORM AND REHABILITATION CENTER  
ADDITIONAL FINANCING EAST-WEST HIGHWAY CORRIDOR IMPROVEMENT  
LOAN NO. 8788-GE**

**STATEMENT OF SOURCES AND USES OF FUNDS  
FOR THE YEAR ENDED 31 DECEMBER 2020**

*(in Euros)*

	Actual as at		Planned as at		Variance	
	31 December 2020	31 December 2020	31 December 2020	31 December 2020	Period to date	Cumulative to date
	Period to date	Cumulative to date	Period to date	Cumulative to date	Period to date	Cumulative to date
			<i>Unaudited</i>	<i>Unaudited</i>	<i>Unaudited</i>	<i>Unaudited</i>
<b>FUNDS RECEIVED BY SOURCES</b>						
International Bank for Reconstruction and Development ("IBRD") funds	4,377,900	6,420,150				
Government of Georgia ("GoG") co-financing	680,561	6,494,633				
European Investment Bank ("EIB")	23,000,000	42,000,000				
<b>TOTAL FUNDS RECEIVED</b>	<b>28,058,461</b>	<b>54,914,783</b>				
<b>LESS: EXPENDITURES</b>						
Component 1 – Improvement and Asset Management ("IBRD")	2,518,748	4,501,364	2,518,748	4,501,364	-	-
<b>IBRD Total:</b>	<b>2,518,748</b>	<b>4,501,364</b>	<b>2,518,748</b>	<b>4,501,364</b>	<b>-</b>	<b>-</b>
Component 1 – Improvement and Asset Management ("GoG")	562,966	4,188,107	562,966	4,188,107	-	-
<b>GoG Total:</b>	<b>562,966</b>	<b>4,188,107</b>	<b>562,966</b>	<b>4,188,107</b>	<b>-</b>	<b>-</b>
Component 1 – Improvement and Asset Management ("EIB")	2,612,283	18,878,581	2,612,283	18,878,581	-	-
<b>EIB Total:</b>	<b>2,612,283</b>	<b>18,878,581</b>	<b>2,612,283</b>	<b>18,878,581</b>	<b>-</b>	<b>-</b>
<b>TOTAL EXPENDITURES BY COMPONENTS</b>	<b>5,693,997</b>	<b>27,568,052</b>	<b>5,693,997</b>	<b>27,568,052</b>	<b>-</b>	<b>-</b>
<b>UNALLOCATED</b>						
Land Acquisition	93,034	2,093,466	93,034	2,093,466	-	-
Compensation for Land	7,752	164,337	7,752	164,337	-	-
Other	16,809	48,723	16,809	48,723	-	-
Front-End Fees	-	42,250	-	42,250	-	-
<b>TOTAL UNALLOCATED EXPENDITURES</b>	<b>117,595</b>	<b>2,348,776</b>	<b>117,595</b>	<b>2,348,776</b>	<b>-</b>	<b>-</b>
<b>TOTAL PROJECT EXPENDITURES</b>	<b>5,811,592</b>	<b>29,916,828</b>	<b>5,811,592</b>	<b>29,916,828</b>		
<b>NET FLOWS OF FUNDS</b>	<b>22,246,869</b>	<b>24,997,955</b>				

The special purpose project financial statements were approved by the management of LEPL Eurasian Transport Corridor Investment Center / Transport Reform and Rehabilitation Center on 30 June 2021 and were signed on its behalf by:

  
Giorgi Tsagareli  
Director

30 June 2021

  
Marina Majagaladze  
Financial Manager

30 June 2021

The notes on pages 10 to 15 form an integral part of these special purpose project financial statements.

**LEPL EURASIAN TRANSPORT CORRIDOR INVESTMENT CENTER / TRANSPORT REFORM AND REHABILITATION CENTER  
ADDITIONAL FINANCING EAST-WEST HIGHWAY CORRIDOR IMPROVEMENT  
LOAN NO. 8788-GE**

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

	Actual as at		Planned as at		Variance	
	31 December 2019		31 December 2019			
	Period to date	Cumulative to date	Period to date	Cumulative to date	Period to date	Cumulative to date
				<i>Unaudited</i>	<i>Unaudited</i>	<i>Unaudited</i>
<b>FUNDS RECEIVED BY SOURCES</b>						
International Bank for Reconstruction and Development ("IBRD") funds	2,000,000	2,042,250				
Government of Georgia ("GoG") co-financing	3,996,268	5,814,072				
European Investment Bank ("EIB")	19,000,000	19,000,000				
<b>TOTAL FUNDS RECEIVED</b>	<b>24,996,268</b>	<b>26,856,322</b>				
<b>LESS: EXPENDITURES</b>						
Component 1 – Improvement and Asset Management ("IBRD")	1,982,616	1,982,616	1,982,616	1,982,616	-	-
<b>IBRD Total:</b>	<b>1,982,616</b>	<b>1,982,616</b>	<b>1,982,616</b>	<b>1,982,616</b>	<b>-</b>	<b>-</b>
Component 1 – Improvement and Asset Management ("GoG")	3,625,141	3,625,141	3,625,141	3,625,141	-	-
<b>GoG Total:</b>	<b>3,625,141</b>	<b>3,625,141</b>	<b>3,625,141</b>	<b>3,625,141</b>	<b>-</b>	<b>-</b>
Component 1 – Improvement and Asset Management ("EIB")	16,266,298	16,266,298	16,266,298	16,266,298	-	-
<b>EIB Total:</b>	<b>16,266,298</b>	<b>16,266,298</b>	<b>16,266,298</b>	<b>16,266,298</b>	<b>-</b>	<b>-</b>
<b>TOTAL EXPENDITURES BY COMPONENTS</b>	<b>22,245,182</b>	<b>22,245,182</b>	<b>22,245,182</b>	<b>22,245,182</b>	<b>-</b>	<b>-</b>
<b>UNALLOCATED</b>						
Land Acquisition	311,652	2,000,432	311,652	2,000,432	-	-
Compensation for Land	27,561	156,585	27,561	156,585	-	-
Other	31,914	31,914	31,914	31,914	-	-
Front-End Fees	-	42,250	-	42,250	-	-
<b>TOTAL UNALLOCATED EXPENDITURES</b>	<b>371,127</b>	<b>2,231,181</b>	<b>371,127</b>	<b>2,231,181</b>	<b>-</b>	<b>-</b>
<b>TOTAL PROJECT EXPENDITURES</b>	<b>22,245,182</b>	<b>24,105,236</b>	<b>22,245,182</b>	<b>24,105,236</b>		
<b>NET FLOWS OF FUNDS</b>	<b>2,751,086</b>	<b>2,751,086</b>				

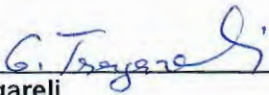
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**LEPL EURASIAN TRANSPORT CORRIDOR INVESTMENT CENTER / TRANSPORT  
REFORM AND REHABILITATION CENTER  
ADDITIONAL FINANCING EAST-WEST HIGHWAY CORRIDOR IMPROVEMENT  
LOAN NO. 8788-GE**

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

	<b>31 December 2020</b>	<b>31 December 2019</b>
<b>ASSETS</b>		
IBRD Designated account	1,876,536	17,384
EIB Special account	23,121,419	2,733,702
<b>TOTAL ASSETS</b>	<b>24,997,955</b>	<b>2,751,086</b>
<b>Funds received:</b>		
Funds received from IBRD	6,420,150	2,042,250
Funds received from GoG	6,494,633	5,814,072
Funds received from EIB	42,000,000	19,000,000
<b>Total funds received</b>	<b>54,914,783</b>	<b>26,856,322</b>
<b>Project expenditures:</b>		
Financed by IBRD	4,501,364	1,982,616
Financed by GoG	6,494,633	5,814,072
Financed by EIB	18,878,581	16,266,298
Front -End Fees	42,250	42,250
<b>Total project expenditures</b>	<b>29,916,828</b>	<b>24,105,236</b>
<b>TOTAL PROJECT EXPENDITURES AND OTHER FUNDS</b>	<b>24,997,955</b>	<b>2,751,086</b>

The special purpose project financial statements were approved by the management of LEPL Eurasian Transport Corridor Investment Center / Transport Reform and Rehabilitation Center on 30 June 2021 and were signed on its behalf by:

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

30 June 2021

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

30 June 2021

The notes on pages 10 to 15 form an integral part of these special purpose project financial statements.



**LEPL EURASIAN TRANSPORT CORRIDOR INVESTMENT CENTER / TRANSPORT REFORM AND REHABILITATION CENTER  
ADDITIONAL FINANCING EAST-WEST HIGHWAY CORRIDOR IMPROVEMENT  
LOAN NO.8788-GE**

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

*Statement of Expenditure Withdrawal Schedule for the period from 1 January 2020 to 31 December 2020:*

Withdrawal No.	Withdrawal application date	Total SOE in withdrawal schedule	Total SOE attributable to 2019	Total SOE attributable to 2020	Attributable to 2020 - Component 1	Attributable to 2020 - Component 2	Attributable to 2020 - Component 3	Total SOE attributable to 2021
3	23-Mar-20	-	-	-	-	-	-	-
7	21-Jul-20	-	-	-	-	-	-	-
		-	-	-	-	-	-	-


*Statement of Expenditure Withdrawal Schedule for the period from 1 January 2019 to 31 December 2019:*

Withdrawal No.	Withdrawal application date	Total SOE in withdrawal schedule	Total SOE attributable to 2018	Total SOE attributable to 2019	Attributable to 2019 - Component 1	Attributable to 2019 - Component 2	Attributable to 2019 - Component 3	Total SOE attributable to 2020
3	5-Mar-19	-	-	-	-	-	-	-
		-	-	-	-	-	-	-

The special purpose project financial statements were approved by the management of LEPL Eurasian Transport Corridor Investment Center / Transport Reform and Rehabilitation Center on 30 June 2021 and were signed on its behalf by:

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

30 June 2021

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

30 June 2021

The notes on pages 10 to 15 form an integral part of these special purpose project financial statements.

**LEPL EURASIAN TRANSPORT CORRIDOR INVESTMENT CENTER / TRANSPORT  
REFORM AND REHABILITATION CENTER  
ADDITIONAL FINANCING EAST-WEST HIGHWAY CORRIDOR IMPROVEMENT  
LOAN NO.8788-GE**

**STATEMENT OF DESIGNATED ACCOUNT  
FOR THE YEAR ENDED 31 DECEMBER 2020  
(in Euros)**

**Account No.** 202258247  
**Depository Bank** State Treasury  
**Address** 16 V. Gorgasali street  
Tbilisi, 0114  
Georgia

<b>Balance as at 1 January 2020</b>	<u><b>17,384</b></u>
<b>ADD</b>	
Funds received from IBRD	1,982,617
Direct Payment	<u>-</u>
<b>DEDUCT</b>	
Funds used for the Project in 2020 ("IBRD")	(123,465)
Direct Payment	<u>-</u>
<b>Balance as at 31 December 2020</b>	<u><b>1,876,536</b></u>
<b>Balance as at 1 January 2019</b>	<u>-</u>
<b>ADD</b>	
Funds received from IBRD:	2,000,000
Direct Payment:	<u>-</u>
<b>DEDUCT</b>	
Funds used for the Project in 2010 ("IBRD")	(1,982,616)
Direct Payment	<u>-</u>
<b>Balance as at 31 December 2019</b>	<u><b>17,384</b></u>
<b>Balance as at 1 January 2020</b>	<u><b>2,733,702</b></u>
<b>ADD</b>	
Funds received from EIB:	23,000,000
Direct Payment:	<u>-</u>
<b>DEDUCT</b>	
Funds used for the Project in 2010 ("EIB")	(2,612,283)
Direct Payment	<u>-</u>
<b>Balance as at 31 December 2020</b>	<u><b>23,121,419</b></u>
<b>Balance as at 1 January 2019</b>	<u>-</u>
<b>ADD</b>	
Funds received from EIB:	19,000,000
Direct Payment:	<u>-</u>
<b>DEDUCT</b>	
Funds used for the Project in 2010 ("EIB")	(16,266,298)
Direct Payment	<u>-</u>
<b>Balance as at 31 December 2019</b>	<u><b>2,733,702</b></u>

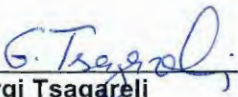
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**LEPL EURASIAN TRANSPORT CORRIDOR INVESTMENT CENTER / TRANSPORT  
REFORM AND REHABILITATION CENTER  
ADDITIONAL FINANCING EAST-WEST HIGHWAY CORRIDOR IMPROVEMENT  
LOAN NO.8788-GE**

**STATEMENT OF DESIGNATED ACCOUNT  
FOR THE YEAR ENDED 31 DECEMBER 2020  
(in Euros)**

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The special purpose project financial statements were approved by the management of LEPL Eurasian Transport Corridor Investment Center / Transport Reform and Rehabilitation Center on 30 June 2021 and were signed on its behalf by:

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

30 June 2021

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

30 June 2021

# LEPL EURASIAN TRANSPORT CORRIDOR INVESTMENT CENTER / TRANSPORT REFORM AND REHABILITATION CENTER ADDITIONAL FINANCING EAST-WEST HIGHWAY CORRIDOR IMPROVEMENT LOAN NO.8788-GE

## NOTES TO THE SPECIAL PURPOSE PROJECT FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (in Euros)

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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 under the laws of Georgia, in accordance with the Georgian Presidential Decree N 119 dated 16 April 1995. The founder of the Investment Center for Euro-Asian Transport Corridor is the Georgian Government.

A project unit named "LEPL Eurasian Transport Corridor Investment Center"/"Transport Reform and Rehabilitation Center" (the "Center") was formed within the Investment Center for Euro-Asian Transport Corridor. The Center's principal activity is 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") and the European Investment Bank ("EIB") and monitor the implementation of transport sector projects.

The Center implements the East-West Highway Corridor Improvement Project (the "Project"), financed under the International Bank for Reconstruction and Development (the "IBRD"). The Loan Agreement No.8788-GE (the "Agreement") in the amount of (EUR) 16.9 million was signed between the Government of Georgia ("GoG") and IBRD on 2 April 2018 ("inception"). The main objectives of the Project are upgrading of existing 11 km 2-lane East-West Highway Corridor to a 2-lane dual carriageway road, from Chumateleti to Khevi. Build on the on-going institutional strengthening activities financed under the on-going highway project. Also provide support to strength Roads Department's (RD) Intelligent Transport System (ITS) Unit and complement the road safety activities by providing real time information to improve mobility and traffic safety along the corridor. The project will also provide technical support to Ministry of Economy and Sustainable Development (MESD) to develop and implement a logistics strategy.

### 2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

**Statement of compliance** – 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 in conformity with the World Bank's Financial Management Sector Board's "Guidelines: Annual Financial Reporting and Auditing for World Bank-Financed Activities" (the "World Bank Guidelines").

The purpose of these special purpose project financial statements is to provide information to the Government of Georgia and International Bank for Reconstruction and Development (IBRD) to assist them in evaluating the Project implementation.

**Cash basis of accounting** - 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.

**Presentation currency** – The national currency of Georgia is the Georgian Lari ("GEL"). These special purpose project financial statements are presented in EURO ("EUR"), in conformity with World Bank Guidelines. All financial information presented in EUR has been rounded to the nearest EUR unless otherwise stated.

**Transactions in other currencies** – Transactions in currencies other than presentation currency are converted to EUR at the exchange rate prevailing at the date of the transaction.

**Cash** – Cash represents balances with State Treasury of Georgia.

**LEPL EURASIAN TRANSPORT CORRIDOR INVESTMENT CENTER / TRANSPORT  
REFORM AND REHABILITATION CENTER  
ADDITIONAL FINANCING EAST-WEST HIGHWAY CORRIDOR IMPROVEMENT  
LOAN NO.8788-GE**

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

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**3. DESIGNATED ACCOUNT**

Designated account is a designated disbursement account of the Project that is maintained in Euros at the State Treasury to ensure the payment of eligible expenditures, within defined limits, which do not require individual authorization from IBRD in accordance with the Agreement.

**4. BASIS OF FUNDING**

The total cost of the Project is estimated at EUR 109.7 million. The part of the expenditures of works, goods, non-consulting services, consultant services, training and incremental operating costs, including all applicable taxes amounted to EUR 16.9 million is co-financed by proceeds received from IBRD. The balance of EUR 75.9 million, which is 69% of the total Project cost is co-financed by proceeds received from European Investment Bank (EIB) and the remaining amount EUR 16.9 million is co-financed by proceeds received from the GoG.

The land acquisition and associated resettlement costs are funded entirely by the GoG.

**5. METHODS OF WITHDRAWAL**

The methods of withdrawal used from the inception of the loan to 31 December 2020 were as follows:

**(a) Designated account**

The Center withdraws the eligible amounts from the Designated account and prepares and sends replenishment requests to the World Bank with authorized signatures. The replenishment requests and respective documentation are reviewed by the World Bank and an approved amount is transferred to the Designated account.

**(b) Direct Payment**

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

**(c) GoG Current Account**

The Project maintains a separate account where funds from the GOG are accumulated. The funds are further disbursed to sub-contractors based on the share of expenditures to be incurred. The project has common GEL account and special organization code for their funds in State Treasury of Georgia.

**6. STATEMENT OF EXPENDITURES (SOE)**

Withdrawals are to be made on the basis of SOEs for expenses on contracts within the following contractual limits:

- (i) All expenditures for works valued at less than USD 10,000,000;
- (ii) Consultant services contracts (firms) valued at less than USD 200,000;
- (iii) Consultant services contracts (individuals) valued at less than USD 50,000;
- (iv) All expenditures for goods and non-consulting services valued at less than USD 300,000.

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

	<b>31 December 2020</b>
<b>Application of Withdrawals Schedule</b>	
Expenses incurred in 2020 as per the Applications of Withdrawals Schedule	2,518,748
	<b>2,518,748</b>
IBRD funds received in 2020	4,377,900
Foreign Exchange difference:	-
<b>Add:</b>	
<b>Opening Balance</b>	
Designated account	17,384
	<b>17,384</b>
<b>Less:</b>	
<b>Closing Balance</b>	
Designated account	1,876,536
	<b>1,876,536</b>
<b>TOTAL EXPENDITURES INCURRED IN 2020</b>	<b>2,518,748</b>
	<b>31 December 2019</b>
<b>Application of Withdrawals Schedule</b>	
Expenses incurred in 2019 as per the Applications of Withdrawals Schedule	1,982,616
	<b>1,982,616</b>
IBRD funds received in 2019	2,000,000
Foreign Exchange difference:	-
<b>Add:</b>	
<b>Opening Balance</b>	
Designated account	-
	-
<b>Less:</b>	
<b>Closing Balance</b>	
Designated account	17,384
	-
<b>TOTAL EXPENDITURES INCURRED IN 2019</b>	<b>1,982,616</b>

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**8. PROJECT EXPENDITURES BY COMPONENTS**

Project activities	Actual as at 31 December 2020		Planned as at 31 December 2020		Variance	
	Period to Date	Cumulative to date	Period to date	Cumulative to date	Period to date	Cumulative to date
			<i>Unaudited</i>	<i>Unaudited</i>	<i>Unaudited</i>	<i>Unaudited</i>
<b>Component 1 - Rehabilitation and Improvement of Selected Secondary and local Roads</b>						
Upgrading 11 km From Chumateleti to Khevi	3,422,086	25,121,981	3,422,086	25,121,981	-	-
Construction Supervision	2,271,911	2,446,071	2,271,911	2,446,071	-	-
<b>TOTAL COMPONENT 1</b>	<b>5,693,997</b>	<b>27,568,052</b>	<b>5,693,997</b>	<b>27,568,052</b>	<b>-</b>	<b>-</b>
<b>TOTAL EXPENDITURES BY COMPONENTS</b>	<b>5,693,997</b>	<b>27,568,052</b>	<b>5,693,997</b>	<b>27,568,052</b>	<b>-</b>	<b>-</b>
<b>UNALLOCATED</b>						
Land Acquisition	93,034	2,093,466	93,034	2,093,466	-	-
Compensation For land	7,752	164,337	7,752	164,337	-	-
Other	16,809	48,723	16,809	48,723	-	-
Front-End Fees	-	42,250	-	42,250	-	-
<b>TOTAL UNALLOCATED EXPENDITURES</b>	<b>117,595</b>	<b>2,348,776</b>	<b>117,595</b>	<b>2,348,776</b>	<b>-</b>	<b>-</b>
<b>TOTAL PROJECT EXPENDITURES</b>	<b>5,811,592</b>	<b>29,916,828</b>	<b>5,811,592</b>	<b>29,916,828</b>	<b>-</b>	<b>-</b>

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Project activities	Actual as at 31 December 2019		Planned as at 31 December 2019		Variance	
	Period to Date	Cumulative to date	Period to date	Cumulative to date	Period to date	Cumulative to date
			<i>Unaudited</i>	<i>Unaudited</i>	<i>Unaudited</i>	<i>Unaudited</i>
<b>Component 1 - Rehabilitation and Improvement of Selected Secondary and local Roads</b>						
Upgrading 11 km From Chumateleti to Khevi	21,699,895	21,699,895	21,699,895	21,699,895	-	-
Construction Supervision	174,160	174,160	174,160	174,160	-	-
<b>TOTAL COMPONENT 1</b>	<b>21,874,055</b>	<b>21,874,055</b>	<b>21,874,055</b>	<b>21,874,055</b>	<b>-</b>	<b>-</b>
<b>TOTAL EXPENDITURES BY COMPONENTS</b>						
<b>UNALLOCATED</b>	<b>21,874,055</b>	<b>21,874,055</b>	<b>21,874,055</b>	<b>21,874,055</b>	<b>-</b>	<b>-</b>
Land Acquisition	311,654	2,000,432	311,654	2,000,432	-	-
Compensation For land	27,562	156,585	27,562	156,585	-	-
Other	31,914	31,914	31,914	31,914	-	-
Front-End Fees	-	42,250	-	42,250	-	-
<b>TOTAL UNALLOCATED EXPENDITURES</b>	<b>371,127</b>	<b>2,231,181</b>	<b>371,127</b>	<b>2,231,181</b>	<b>-</b>	<b>-</b>
<b>TOTAL PROJECT EXPENDITURES</b>	<b>22,245,182</b>	<b>24,105,236</b>	<b>22,245,182</b>	<b>24,105,236</b>	<b>-</b>	<b>-</b>

The Project consists of the following main components:

- Upgrading of approximately 11.0 km of the existing two-lane East-West Highway Corridor to a two-lane dual carriageway from Chumateleti to Khevi and carrying out construction supervision and providing quality assurance services for all civil works financed under the Project and on the section of the road from Chumateleti to Khevi within the East-West Highway Corridor.
- Providing support for capacity building to the RD's Intelligent Transport System (ITS) Unit, including: design and installation of ITS equipment along critical locations of the East-West Highway corridor and the development of annual road user's satisfaction surveys and providing technical assistance to Ministry of Economy and Sustainable Development (MESD).
- Strengthening the technical capacity of RD to carry out the project.
- Preparation of designs and supporting studies for future investments for the development of the road network.

The categories of expenditures incurred are presented in line with the categories specified in the Agreement.



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**9. COMMITMENTS AND CONTINGENCIES**

Management is not aware of any commitments and contingencies which would have a material impact on this special purpose project financial statements as at 31 December 2020 and for the period then ended.

**10. GEORGIAN OPERATING ENVIRONMENT**

The Center's operations are located in Georgia. Consequently, the Center is exposed to the economic and financial markets of Georgia, which display characteristics of an emerging market. The legal, tax and regulatory frameworks continue development, but are subject to varying interpretations and frequent changes which together with other legal and fiscal impediments contribute to the challenges faced by entities operating in Georgia. The COVID-19 coronavirus pandemic has further increased uncertainty in the business environment. The special purpose project financial statements reflect management's assessment of the impact of the Georgian operating environment on the operations of the Center. The future operating environment may differ from management's assessment.

**11. APPROVAL OF SPECIAL PURPOSE PROJECT FINANCIAL STATEMENTS**

These special purpose project financial statements were authorized for issue by the management of the Center on 30 June 2021.