

# **EURASIAN TRANSPORT CORRIDOR INVESTMENT CENTER**

LOAN NO.3524-GEO  
(SECONDARY ROAD IMPROVEMENT PROJECT)

Special Purpose Project Financial Statements  
For the year ended 31 December 2021

**EURASIAN TRANSPORT CORRIDOR INVESTMENT CENTER  
 SECONDARY ROAD IMPROVEMENT PROJECT  
 LOAN NO.3524-GEO**

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**EURASIAN TRANSPORT CORRIDOR INVESTMENT CENTER  
SECONDARY ROAD 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 2021**

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Management of the Secondary Road 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 2021, the Balance Sheet as at 31 December 2021 and the related Statement of Expenditure Withdrawal Schedule ("SOEs") and Statement of Imprest Account for the year ended 31 December 2021, 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:

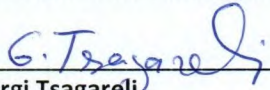
- Properly selecting and applying accounting policies;
- Presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information; and
- Providing additional disclosures when compliance with the specific requirements in IPSAS – Cash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

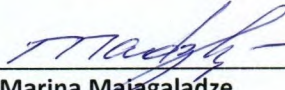
- Designing, implementing and maintaining an effective and sound system of internal controls, throughout the Project;
- Maintaining adequate accounting records that are sufficient to show and explain the Project's transactions and disclose with reasonable accuracy at any time the financial position of 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 end 31 December 2021 were authorised for issue on 28 June 2022 by the Management.

**On behalf of the Management:**

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

28 June 2022

  
\_\_\_\_\_  
**Marina Majagaladze**  
Finance Manager

28 June 2022

## 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 Secondary Road Improvement Project (the "Project") financed under the Loan Agreement No. 3524-GEO dated 19 June 2017 (the "Agreement"), implemented by the Eurasian Transport Corridor Investment Center ("ETCIC" or Transport Reform and Rehabilitation Center – "Organisation"), which comprise Statement of Sources and Uses of Funds for the year ended 31 December 2021, the Balance Sheet as at 31 December 2021 and the related, Statement of Expenditure Withdrawal Schedule ("SOEs") and Imprest Account Statement for the year ended 31 December 2021 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 2021 are presented 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") 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 communicating to the Ministry of Regional Development and Infrastructure of Georgia and 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 Organization 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.



Hakobyan Srбуhi

On behalf of Deloitte and Touche LLC



28 June 2022

Tbilisi, Georgia

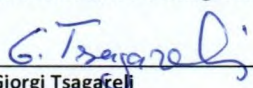
**EURASIAN TRANSPORT CORRIDOR INVESTMENT CENTER  
SECONDARY ROAD IMPROVEMENT PROJECT  
LOAN NO 3524-GEO**

**STATEMENT OF SOURCES AND USES OF FUNDS  
FOR THE YEAR ENDED 31 DECEMBER 2021  
(in US Dollars)**

	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>
<b>FUNDS RECEIVED BY SOURCES</b>						
Asian Development Bank (ADB) Funds	177,524	19,784,796	-	-	-	-
Government of Georgia (GoG) co-financing	342,473	4,498,828	-	-	-	-
<b>TOTAL FUNDS RECEIVED</b>	<b>519,997</b>	<b>24,283,6254</b>	-	-	-	-
Foreign Exchange Difference	543,896	543,896				
<b>LESS: EXPENDITURE (Reimbursement)</b>						
Category 1 – Works and consulting services	(519,237)	18,183,943	(519,237)	18,183,943	-	-
Category 2 - Project management support	-	29,219		29,219	-	-
Category 3 – Interest and commitment charges	225,826	1,075,729	225,826	1,075,729	-	-
Category 4 – Unallocated	-	-	-	-	-	-
<b>ADB TOTAL</b>	<b>(293,411)</b>	<b>19,288,891</b>	<b>(293,411)</b>	<b>19,288,891</b>	-	-
Category 1 – Works and consulting services	269,512	4,418,132	269,512	4,418,132	-	-
Category 2 - Project management support		7,735		7,735	-	-
Category 3 – Interest and commitment charges	-	-	-	-	-	-
Category 4 – Unallocated	-	-	-	-	-	-
<b>GoG TOTAL</b>	<b>269,512</b>	<b>4,425,867</b>	<b>269,512</b>	<b>4,425,867</b>	-	-
<b>TOTAL PROJECT EXPENDITURE</b>	<b>(23,899)</b>	<b>23,714,758</b>	<b>(23,899)</b>	<b>23,714,759</b>	-	-
<b>NET FLOW OF FUNDS</b>		<b>24,970</b>				

\*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

28 June 2022

  
Marina Majagaladze  
Finance Manager

28 June 2022

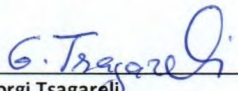
The notes on pages 9 to 15 form an integral part of these special purpose project financial statements.

**EURASIAN TRANSPORT CORRIDOR INVESTMENT CENTER  
SECONDARY ROAD IMPROVEMENT PROJECT  
LOAN NO 3524-GEO**

**BALANCE SHEET STATEMENT  
AS AT 31 DECEMBER 2021  
(in US Dollars)**

	<u>31 December 2021</u>
<b>ASSETS</b>	
ADB imprest account	<u>24,970</u>
<b>TOTAL ASSETS</b>	<u><u>24,970</u></u>
<b>Funds received:</b>	
Funds received from ADB	19,784,796
Funds received from GoG	<u>4,498,828</u>
<b>Total funds received</b>	<u><u>24,283,624</u></u>
<b>Project expenditure:</b>	
Financed by ADB	(19,288,891)
Financed by GoG	<u>(4,425,867)</u>
<b>Total project expenditure</b>	<u><u>(23,714,758)</u></u>
<b>Foreign exchange difference, net</b>	<u><u>(543,896)</u></u>
<b>TOTAL FUNDS RECEIVED LESS PROJECT EXPENDITURE</b>	<u><u><u>24,970</u></u></u>

On behalf of the Management:

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

28 June 2022

  
 \_\_\_\_\_  
 Marina Majagaladze  
 Finance Manager

28 June 2022

The notes on pages 9 to 15 form an integral part of these special purpose project financial statements.



EURASIAN TRANSPORT CORRIDOR INVESTMENT CENTER  
SECONDARY ROAD IMPROVEMENT PROJECT  
LOAN NO. 3524-GEO

STATEMENT OF EXPENDITURE WITHDRAWAL SCHEDULE  
FOR THE YEAR ENDED 31 DECEMBER 2021  
*(in US Dollars)*

Withdrawal No.	Withdrawal application date	Total SOE in withdrawal schedule	Total SOE attributable to 2021
-	-	_____	_____
		=====	=====

There was no SOE type of expenditure for the year ended 31 December 2021

On behalf of the Management:

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

28 June 2022

  
\_\_\_\_\_  
Marina Majagaladze  
Finance Manager

28 June 2022

The notes on pages 9 to 15 form an integral part of these special purpose project financial statements.

EURASIAN TRANSPORT CORRIDOR INVESTMENT CENTER  
SECONDARY ROAD IMPROVEMENT PROJECT  
LOAN NO. 3524-GEO

IMPREST ACCOUNT STATEMENT  
FOR THE YEAR ENDED 31 DECEMBER 2021  
(in US Dollars)

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210250199  
Depository Bank  
Address

State Treasury  
16 V. Gorgasali street  
Tbilisi, 0114  
Georgia

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Balance as at 31 December 2020	<u>24,970</u>
ADD	
ADB replenishment	<u>-</u>
DEDUCT	
Funds used for the Project expenditure	<u>-</u>
Balance as at 31 December 2021	<u><u>24,970</u></u>

On behalf of the Management:

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

28 June 2022

  
\_\_\_\_\_  
Marina Majagaladze  
Finance Manager

28 June 2022

The notes on pages 9 to 15 form an integral part of these special purpose project financial statements.

**EURASIAN TRANSPORT CORRIDOR INVESTMENT CENTER  
SECONDARY ROAD IMPROVEMENT PROJECT  
LOAN NO. 3524-GEO**

**NOTES TO THE SPECIAL PURPOSE PROJECT FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2021  
(in US Dollars)**

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**1. BACKGROUND**

The Investment Center for Euro-Asian Transport Corridor was established in 1995 as a non-entrepreneurial and non-profit legal entity. A project unit named “Eurasian Transport Corridor Investment Center” (the “ETCIC” or Transport Reform and Rehabilitation Center – “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 objectives of the Project are increased mobility and accessibility of the residents of the Kharagauli municipality and tourists. The Project shall comprise rehabilitation of approximately 50 km road between Dzirula and Chumateleti to two-lane all-weather standard, including short access roads to the Borjomi-Kharagauli National Park and to Kharagauli and other railway stations. The Project shall include the provision of Consulting Services for construction supervision and Project management support. The Project was planned to be completed by 31 August 2021 but management extended deadline of the project as only 25% of total budgeted funds were received as at 31/12/2020.

**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 No. 3524-GEO dated 19 June 2017 (the “Agreement”), are prepared for management analysis and in order to report the information to the Ministry of Regional Development and Infrastructure 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.

**EURASIAN TRANSPORT CORRIDOR INVESTMENT CENTER  
SECONDARY ROAD IMPROVEMENT PROJECT  
LOAN NO. 3524-GEO**

**NOTES TO THE SPECIAL PURPOSE PROJECT FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED 31 DECEMBER 2021  
(in US Dollars)**

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**3. BASIS OF FUNDING**

According to the terms of the Agreement, Category 1 – works and consulting, Category 2 – Project management Support are financed 100% of the total expenditure claimed by ADB and Category 3 – Interest and commitment charges are 100% financed by ADB. Category 1 and 2 is exclusive of taxes and duties imposed within the territory of the 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.

**4. METHODS OF WITHDRAWAL**

The methods of withdrawal used from the inception of the loan to 31 December 2021 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.



**EURASIAN TRANSPORT CORRIDOR INVESTMENT CENTER  
 SECONDARY ROAD IMPROVEMENT PROJECT  
 LOAN NO. 3524-GEO**

**NOTES TO THE SPECIAL PURPOSE PROJECT FINANCIAL STATEMENTS (CONTINUED)  
 FOR THE YEAR ENDED 31 DECEMBER 2021  
 (in US Dollars)**

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

	<u>31 December 2021</u>
<b>Application of Withdrawals Schedule</b>	
Expenses incurred in 2021 as per the Applications of Withdrawals Schedule	2,169,279
Expenses Return due to Cashed advance bank guarantee	(2,217,581)
Expenses incurred in 2021 without Applications of Withdrawals Schedule	<u>225,826</u>
	<b><u>177,524</u></b>
ADB direct payments	2,169,279
Advance Refund	(2,217,581)
Capitalised charges	225,826
ADB Replenishments	<u>-</u>
	<b><u>177,524</u></b>
<b>Add:</b>	
<b>Opening Balances</b>	
Imprest Account	<u>24,970</u>
	<b><u>24,970</u></b>
<b>Less:</b>	
<b>Closing Balances</b>	
Imprest Account	<u>24,970</u>
	<b><u>24,970</u></b>
<b>TOTAL EXPENDITURE INCURRED IN 2021</b>	<b><u>177,524</u></b>

**EURASIAN TRANSPORT CORRIDOR INVESTMENT CENTER  
SECONDARY ROAD IMPROVEMENT PROJECT  
LOAN NO. 3524-GEO**

**NOTES TO THE SPECIAL PURPOSE PROJECT FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED 31 DECEMBER 2021  
(in US Dollars)**

**TOTAL WITHDRAWAL SCHEDULE EXPENSES (ADB)**

Withdrawal No.	Value date	Total amount in withdrawal schedule	Total attributable to 2021
000146	17-Mar-21	46,680	46,680
000147	19-Mar-21	7,922	7,922
000148	16-Mar-21	31,009	31,009
000149	25-Mar-21	78,797	78,797
000150	24-Mar-21	102,557	102,557
000151	26-Mar-21	14,576	14,576
000153	31-Mar-21	101,756	101,756
000155	28-Apr-21	58,130	58,130
000156	30-Apr-21	38,893	38,893
000157	29-Apr-21	68,230	68,230
000158	6-May-21	55,830	55,830
000159	10-May-21	7,665	7,665
000160	18-May-21	20,838	20,838
000161	1-Jun-21	64,626	64,626
000162	3-Jun-21	8,079	8,079
000163	1-Jun-21	110,536	110,534
000164	3-Jun-21	137,298	137,296
000165	3-Jun-21	74,882	74,882
000166	9-Jun-21	21,206	21,206
000167	17-Jun-21	58,908	58,908
000168	21-Jun-21	39,144	39,144
000169	21-Jun-21	75,738	75,738
000170	18-Jun-21	58,400	58,400
000171	22-Jun-21	8,367	8,367
000172	23-Aug-21	102,798	102,798
000173	31-Aug-21	66,950	66,950
000174	31-Aug-21	133,230	133,230
000175	9-Aug-21	13,482	13,482
000176	10-Sep-21	6,500	6,500
000177	25-Aug-21	16,028	16,028
000178	10-Sep-21	94,278	94,278
000179	14-Sep-21	16,973	16,973
000180	16-Sep-21	29,128	29,128
000181	20-Sep-21	19,054	19,054
000182	20-Sep-21	38,057	38,057
000183	20-Sep-21	31,590	31,590
000184	22-Sep-21	7,456	7,456
000185	4-Nov-21	30,482	30,482
000186	8-Nov-21	19,562	19,562
000187	8-Nov-21	39,165	39,165
000188	8-Nov-21	21,919	21,919
000189	26-Nov-21	78,883	78,883
000190	13-Dec-21	36,530	36,530
000191	15-Dec-21	22,841	22,841
000192	15-Dec-21	47,806	47,806
TL # 00152	16-Apr-21	6,500	6,500
CAP-921A	1-May-21	112,290	112,290
CAP1	1-Nov-21	113,536	113,536
TL # 9999	8-Dec-21	(2,217,581)	(2,217,581)
		<b>177,524</b>	<b>177,524</b>

**EURASIAN TRANSPORT CORRIDOR INVESTMENT CENTER  
SECONDARY ROAD IMPROVEMENT PROJECT  
LOAN NO. 3524-GEO**

**NOTES TO THE SPECIAL PURPOSE PROJECT FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED 31 DECEMBER 2021  
(in US Dollars)**

**6. PROJECT EXPENDITURE BY COMPONENTS**

Project Activities	For the year 31 December 2021			Cumulative from inception		
	ADB Financing	GoG Financing	Total	ADB Financing	GoG Financing	Total
<b>Component A – Investment costs</b>						
Civil works	1,349,116	241,674	1,590,789	17,078,860	3,030,986	20,109,846
Cashed based guarantee refund	(2,688,516)*	(468,697)	(3,157,213)*	(2,688,516)	(468,697)	(3,157,213)
Land acquisition/social mitigation	-	353,150	353,150	-	1,177,457	1,177,457
Consultancy	820,163	143,385	963,548	3,793,599	678,386	4,471,985
<b>TOTAL COMPONENT A</b>	<b>(519,237)</b>	<b>269,512</b>	<b>(249,725)</b>	<b>18,183,943</b>	<b>4,418,132</b>	<b>22,602,075</b>
<b>Component B - Project management costs</b>						
Project management costs				29,219	7,735	36,954
<b>TOTAL COMPONENT B</b>				<b>29,219</b>	<b>7,735</b>	<b>36,954</b>
<b>Component C – Contingencies unallocated</b>						
Contingencies unallocated	-	-	-	-	-	-
<b>TOTAL COMPONENT C</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Component D – Financial charges during implementation</b>						
Financial charges during implementation	225,826	-	225,826	1,075,729	-	1,075,729
<b>TOTAL COMPONENT D</b>	<b>225,826</b>	<b>-</b>	<b>225,826</b>	<b>1,075,729</b>	<b>-</b>	<b>1,075,729</b>
<b>TOTAL PROJECT EXPENDITURE</b>	<b>(293,411)</b>	<b>269,512</b>	<b>(23,899)</b>	<b>19,288,891</b>	<b>4,425,867</b>	<b>23,714,758</b>

\*The Negative amounts of expenditures are due to Advance return from contractor Akkord Inc for the incorrect provision of services and not fulfillment of contract terms. Advance Payments were reimbursed under the cash advance bank guarantee, from which GOG share of funding was transferred to Treasury Service of Georgia with the amount of 1.248 mln GEL and Co-financing share of ADB, which equaled to 6936370.85 Gel was returned back to loan account in USD equivalent. In total This amounts consists of net amounts returned as well forex losses generated from returned amounts.

The Project comprises the following main components:

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

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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 and consulting services
- Category 2 – Project management support
- Category 3 – Interest and commitment charges; and
- Category 4 – Unallocated

**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 2021 and on the funds received and disbursed during the period then ended.

**8. OPERATING ENVIRONMENT**

Operating environment – Emerging markets such as Georgia are subject to different risks than more developed markets; these include economic, political and social, and legal and legislative risks. Laws and regulations affecting businesses in Georgia continue to evolve rapidly with tax and regulatory frameworks subject to varying interpretations. The future direction of Georgia's economy 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 several years Georgia has experienced a number of legislative changes, which have been largely related to Georgia's accession plan to the European Union. Whilst the legislative changes implemented during 2021 and 2020 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. 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.

Pandemic is at the phase of vaccination all over the world including Georgia that will have a positive effect on economy.



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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.

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**

On 21 February 2022, the President of Russia signed the executive orders on the recognition of the Donetsk People's Republic and the Lugansk People's Republic. On 24 February 2022, a decision to carry out a special military operation in Ukraine was announced. Subsequent to these events, the US, UK, EU and other countries announced an extension of sanctions on certain Russian officials, businessmen and companies. These developments may result in reduced access of the Russian businesses to international capital and export markets, weakening of the Russian Ruble, decline in capitals markets and other negative economic consequences.

The two major sectors of Georgian economy, wine production and tourism industry, are heavily dependent on the Russian market: according to market analysts' assessment, approximately half of the exported Georgian wine in 2021 were to Russia, the second largest being Ukraine; in the tourism sector, Russia and Ukraine also account for significant portion of travelers.

Special military operation carried out by Russia in Ukraine had no effect on the Project. Construction was continued and ongoing as planned.

**10. APPROVAL OF FINANCIAL STATEMENTS**

These special purpose project financial statements were authorised for issue by the Management of ETCIC on 28 June 2022.