

# **EURASIAN TRANSPORT CORRIDOR INVESTMENT CENTER**

LOAN NO.3803-GEO AND NO.50271  
(NORTH-SOUTH CORRIDOR (KVESHETI-KOBI) ROAD  
PROJECT)

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

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

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

**STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION  
AND APPROVAL OF THE SPECIAL PURPOSE PROJECT FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2021**

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Management of the North-South Corridor (Kvesheti-Kobi) Road- (the "Project") implemented by the Eurasian Transport Corridor Investment Center ("ETCIC" or Transport Reform and Rehabilitation Center – "Organisation") is responsible for the preparation of the special purpose project financial statements that present fairly the Statement of Sources and Uses of Funds for the 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 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 and European Bank for Reconstruction and Development.

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

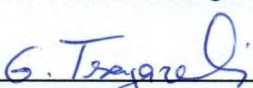
- Properly selecting and applying accounting policies;
- Presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information.
- Providing additional disclosures when compliance with the specific requirements in IPSAS – Cash Basis are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Project, financial position and its sources and uses of funds and movements in designated accounts;
- Making an assessment of the Projects ability to continue as a going concern.

Management is also responsible for:

- Designing, implementing and maintaining an effective and sound system of internal controls, throughout the Project;
- Maintaining adequate accounting records that are sufficient to show and explain the Project's transactions and disclose with reasonable accuracy at any time the financial position of the Project, and which enable them to ensure that the special purpose project financial statements of the Project comply with the Guidelines for the Financial Governance and Management of Investment Projects Financed by Asian Development Bank and European Bank for Reconstruction and Development;
- 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 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 North-South Corridor (Kvesheti-Kobi) Road Project (the "Project") financed under the Loan Agreement No. 3803-GEO dated 27 August 2019 (the "Agreement 1") and Loan Agreement No. 50271 dated 11 October 2019 (the "Agreement 2"), 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 1 and Agreement 2. 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, Asian Development Bank and European Bank for Reconstruction and Development information about the Project’s compliance with the financial reporting provisions of the Agreement 1 and Agreement 2. 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



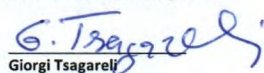
**EURASIAN TRANSPORT CORRIDOR INVESTMENT CENTER  
NORTH-SOUTH CORRIDOR (KVESHETI-KOBI) ROAD PROJECT  
LOAN NO 3803-GEO AND NO 50271**

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

	Actual		Planned*		Variance	
	Year to date	Cumulative to date	Year to date	Cumulative to date	Year to date	Cumulative to date
			Unaudited	Unaudited	Unaudited	Unaudited
<b>FUNDS RECEIVED BY SOURCES</b>						
ABD Funds	27,080,818	84,943,871	-	-	-	-
Government Funds	7,671,090	23,239,879	-	-	-	-
EBRD Funds	7,007,584	18,938,809	-	-	-	-
<b>TOTAL FUNDS RECEIVED</b>	<b>41,759,492</b>	<b>127,122,559</b>	-	-	-	-
<b>Foreign exchange difference, net</b>	<b>189</b>	<b>189</b>	-	-	-	-
<b>LESS: EXPENDITURE</b>						
Category (1) Works for Tunnel Section	24,050,696	63,330,167	24,050,696	63,330,167	-	-
Category (2) Works for Road Section and Services	2,420,773	20,234,774	2,420,773	20,234,774	-	-
Category (3) Incremental Administrative Expenses	-	-	-	-	-	-
Cat (4)_Interest and commitment charges	593,729	1,363,310	593,729	1,363,310	-	-
<b>ADB TOTAL</b>	<b>27,065,198</b>	<b>84,928,251</b>	<b>27,065,198</b>	<b>84,928,251</b>	-	-
Category (1) Works for Tunnel Section	7,007,584	18,404,809	7,007,584	18,404,809	-	-
Category (2) Works for Road Section and Services	-	-	-	-	-	-
Category (3) Incremental Administrative Expenses	-	-	-	-	-	-
Cat (4)_Interest and commitment charges	-	534,000	-	534,000	-	-
<b>EBRD TOTAL</b>	<b>7,007,584</b>	<b>18,938,809</b>	<b>7,007,584</b>	<b>18,938,809</b>	-	-
Category (1) Works for Tunnel Section	5,587,207	14,772,098	5,587,207	14,772,098	-	-
Category (2) Works for Road Section and Services	543,374	4,379,078	543,374	4,379,078	-	-
Category (3) Incremental Administrative Expenses	1,531,201	4,079,395	1,531,201	4,079,395	-	-
Acquisition of drones and related training and capacity building	9,497	9,497	9,497	9,497	-	-
Cat (4)_Interest and commitment charges	-	-	-	-	-	-
<b>GoG TOTAL</b>	<b>7,671,279</b>	<b>23,240,068</b>	<b>7,671,279</b>	<b>23,240,068</b>	-	-
<b>TOTAL PROJECT EXPENDITURE</b>	<b>41,744,061</b>	<b>127,107,128</b>	<b>41,744,061</b>	<b>127,107,128</b>	-	-
<b>NET FLOW OF FUNDS</b>	<b>15,620</b>	<b>15,620</b>	<b>15,620</b>	<b>15,620</b>	-	-

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

On behalf of the Management:

  
Giorgi Tsagareli  
Director  
28 June 2022

  
Marina Majagaladze  
Finance Manager  
28 June 2022

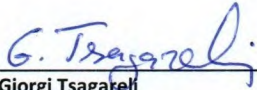
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**EURASIAN TRANSPORT CORRIDOR INVESTMENT CENTER  
NORTH-SOUTH CORRIDOR (KVESHETI-KOBI) ROAD PROJECT  
LOAN NO 3803-GEO AND NO 50271**

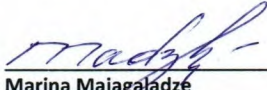
**BALANCE SHEET STATEMENT  
AS AT 31 DECEMBER 2021  
(in EUR)**

	<b>31 December 2021</b>
<b>ASSETS</b>	
ADB imprest account	<u>15,620</u>
<b>TOTAL ASSETS</b>	<u>-</u>
<b>Funds received:</b>	
Funds received from ADB	84,943,871
Funds received from EBRD	18,938,809
Funds received from GoG	<u>23,239,879</u>
<b>Total funds received</b>	<u>127,122,559</u>
<b>Project expenditure:</b>	
Financed by ADB	(84,928,251)
Financed by EBRD	(18,938,809)
Financed by GoG	<u>(23,240,068)</u>
<b>Total project expenditure</b>	<u>(127,107,128)</u>
Foreign exchange difference, net	<u>189</u>
<b>TOTAL FUNDS RECEIVED LESS PROJECT EXPENDITURE</b>	<u><u>15,620</u></u>

On behalf of the Management:

  
Giorgi Tsagareli  
Director

28 June 2022

  
Marina Majagaladze  
Finance Manager

28 June 2022

Notes to the special purpose project financial statements 9-14



**EURASIAN TRANSPORT CORRIDOR INVESTMENT CENTER  
NORTH-SOUTH CORRIDOR (KVESHETI-KOBI) ROAD PROJECT  
LOAN NO 3803-GEO AND NO 50271**

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

<u>Withdrawal No.</u>	<u>Withdrawal application date</u>	<u>Total SOE in withdrawal schedule</u>	<u>Total SOE attributable to 2021</u>
-	-	-	-
		-	-
		-	-

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

**EURASIAN TRANSPORT CORRIDOR INVESTMENT CENTER  
NORTH-SOUTH CORRIDOR (KVESHETI-KOBI) ROAD PROJECT  
LOAN NO 3803-GEO AND NO 50271**

**IMPREST ACCOUNT STATEMENT  
FOR THE YEAR ENDED 31 DECEMBER 2021  
(in EUR)**

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Account No.	210257032
Depository Bank	State Treasury
Address	16 V. Gorgasali street Tbilisi, 0114 Georgia

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<b>Balance as at 31 December 2020</b>	-
<b>ADD</b>	
ADB replenishment	15,620*
<b>DEDUCT</b>	
Funds used for the Project expenditure	-
<b>Balance as at 31 December 2021</b>	<b><u>15,620</u></b>

\* This replenishment refers to initial deposit advanced to the imprest account for small payments to subcontractors. Expenditures has not yet been made, hence SOE schedule has zero balance.

On behalf of the Management:

  
Giorgi Tsagareli  
Director

28 June 2022

  
Marina Majagaladze  
Finance Manager

28 June 2022

**EURASIAN TRANSPORT CORRIDOR INVESTMENT CENTER  
NORTH-SOUTH CORRIDOR (KVESHETI-KOBI) ROAD PROJECT  
LOAN NO 3803-GEO AND NO 50271**

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

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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 No. 3803-GEO dated 27 August 2019 (the "Agreement 1") received from the Asian Development Bank ("ADB") and loan No. 50271 dated 11 October 2019 (the "Agreement 2") received from European Bank for Reconstruction and Development ("EBRD"), and monitor the implementation of transport sector projects.

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

On 30 December 2020 sub-agreement was formed with European Bank for Reconstruction and Development. The donor agrees to provide a grant in the amount of EUR 100,000. Grant must be used for acquisition of drones, and related training and capacity buildings.

**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 1 and Agreement 2, are prepared for management analysis and in order to report the information to the Ministry of Regional Development and Infrastructure of Georgia, Asian Development Bank and the European Bank for Reconstruction and Development. As a result these special purpose project financial statements may not be suitable for another purpose.

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

**Project expenditure** are recognised as a use of project funds when the payments are made.

**Functional currency** – These special purpose project financial statements are expressed in EUR.

**Transactions in other currencies** – Transactions in currencies other than reporting currencies are converted to US Dollars at the exchange rate prevailing at the date of the transaction.

**Cash** – Cash comprises balances with State Treasury.

**EURASIAN TRANSPORT CORRIDOR INVESTMENT CENTER  
NORTH-SOUTH CORRIDOR (KVESHETI-KOBI) ROAD PROJECT  
LOAN NO 3803-GEO AND NO 50271**

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

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**3. BASIS OF FUNDING**

According to the terms of the Agreement 1 and Agreement 2, Category 1 – Works for Tunnel Section are co-financed by proceeds received from ADB, EBRD and GoG at a proportional rate of 65.6%, 19.1% and 15.3%, respectively, Category 2 – Works for Road Section and Services are financed by ADB and GOG by 82% and 18% respectively, Category 3 - Incremental Administrative Expenses are 100% financed by ADB and Category 4 – Interest and commitment charges expenses are financed by ADB and EBRD.

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

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.

**(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 and EBRD directly to third parties. Organisation forms withdrawal applications for request of direct payments and sends it to the ADB and EBRD for settlement.

**(c) (Reimbursement)**

Withdrawals from the Loan Account may be made to finance eligible expenditure incurred under the Project before the Effective Date, but not earlier than 12 months before the date of this Loan Agreement, in connection with Works and Consulting Services, subject to a maximum amount equivalent to 20% of the Loan amount.

**(d) 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  
NORTH-SOUTH CORRIDOR (KVESHETI-KOBI) ROAD PROJECT  
LOAN NO 3803-GEO AND NO 50271**

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

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

	<b>31 December 2021</b>
<b>Application of Withdrawals Schedule</b>	
Expenses incurred for the year ended at 31 December 2021 as per the Applications of Withdrawals Schedule	26,471,469
Expenses incurred for the year ended at 31 December 2021 as Capitalised charges	593,729
	<b>27,065,198</b>
ADB direct payments	26,487,089
ADB Capitalised charges	593,729
	<b>27,080,818</b>
<b>Add:</b>	
<b>Opening Balances</b>	
Imprest Account	<b>15,620</b>
	-
<b>Less:</b>	
<b>Closing Balances</b>	
Imprest Account	-
<b>TOTAL EXPENDITURE INCURRED IN 2021</b>	<b>27,065,198</b>

**TOTAL ADB WITHDRAWAL SCHEDULE EXPENSES**

<b>Withdrawal No.</b>	<b>Value date</b>	<b>Total amount in withdrawal schedule</b>	<b>Total attributable to 2021</b>
00015	30-Mar-21	63,228	63,228
00016	30-Mar-21	48,092	48,092
00017	30-Mar-21	463,343	463,343
00018	30-Mar-21	93,574	93,574
00019	30-Mar-21	463,343	463,343
00020	30-Mar-21	93,574	93,574
00021	18-May-21	13,727	13,727
00022	18-May-21	73,923	73,923
00023	4-Jun-21	5,145	5,145
00024	21-Jun-21	80,202	80,202
00025	21-Jun-21	12,878	12,878
00026	23-Jun-21	986,691	986,691
00027	23-Jun-21	986,691	986,691
00028	23-Jun-21	211,958	211,958
00029	23-Jun-21	211,958	211,958
00030	25-Jun-21	1,593,880	1,593,880
00031	30-Jun-21	7,412,252	7,412,252
00032	28-Jul-21	87,063	87,063
00033	28-Jul-21	9,895	9,895
00034	30-Jul-21	16,894	16,894
00035	9-Aug-21	13,518	13,518
00036	8-Sep-21	5,297	5,297

**EURASIAN TRANSPORT CORRIDOR INVESTMENT CENTER  
NORTH-SOUTH CORRIDOR (KVESHETI-KOBI) ROAD PROJECT  
LOAN NO 3803-GEO AND NO 50271**

**NOTES TO THE SPECIAL PURPOSE PROJECT FINANCIAL STATEMENTS (CONTINUED)**

**FOR THE YEAR ENDED 31 DECEMBER 2021**

*(in EUR)*

00037	25-Aug-21	85,071	85,071
00038	25-Aug-21	17,693	17,693
00039	25-Aug-21	537,023	537,023
00040	25-Aug-21	537,023	537,023
00041	25-Aug-21	116,850	116,850
00042	25-Aug-21	116,850	116,850
00043	13-Sep-21	88,091	88,091
00044	13-Sep-21	17,454	17,454
00045	21-Sep-21	214,080	214,080
00046	21-Sep-21	214,080	214,080
00047	21-Sep-21	979,114	979,114
00048	21-Sep-21	979,114	979,114
00049	1-Oct-21	100,038	100,038
00050	1-Oct-21	13,968	13,968
00051	7-Dec-21	15,620	15,620
00052	28-Oct-21	105,739	105,739
00053	8-Dec-21	3,798	3,798
00054	28-Oct-21	9,752	9,752
00055	23-Nov-21	1,206,892	1,206,892
00056	23-Nov-21	1,206,892	1,206,892
00057	24-Nov-21	262,634	262,634
00058	24-Nov-21	262,634	262,634
00059	26-Nov-21	115,081	115,081
00060	26-Nov-21	10,712	10,712
00061	29-Nov-21	346,185	346,185
00062	29-Nov-21	346,185	346,185
00063	30-Nov-21	296,123	296,123
00064	30-Nov-21	296,123	296,123
00065	14-Dec-21	122,506	122,506
00066	20-Dec-21	16,391	16,391
00067	17-Dec-21	2,012,362	2,012,362
00068	15-Dec-21	2,008,261	2,008,261
00069	15-Dec-21	439,812	439,812
00070	15-Dec-21	439,812	439,812
CAP-921A	15-May-21	296,873	296,873
CAP1	15-Nov-21	303,154	303,154
CAP2	15-Nov-21	-6,298	-6,298
		<b>27,080,818</b>	<b>27,080,818</b>

**EURASIAN TRANSPORT CORRIDOR INVESTMENT CENTER  
NORTH-SOUTH CORRIDOR (KVESHETI-KOBI) ROAD PROJECT  
LOAN NO 3803-GEO AND NO 50271**

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

**PROJECT EXPENDITURE BY COMPONENTS**

Project Activities	For the year ended 31 December 2021				Cumulative from inception			
	ADB Financing	GoG Financing	EBRD	Total	ADB Financing	GoG Financing	EBRD	Total
<b>Component A – Investment Costs</b>								
Civil works	25,335,311	5,868,247	7,007,584	38,211,141	81,703,884	18,729,786	18,404,809	118,838,479
Land acquisition	-	1,481,925	-	1,481,925	-	4,004,782	-	4,004,782
Consultancy	1,136,158	262,334	-	1,398,492	1,861,057	421,390	-	2,282,447
<b>TOTAL COMPONENT A</b>	<b>26,471,469</b>	<b>7,612,506</b>	<b>7,007,584</b>	<b>41,091,559</b>	<b>83,564,941</b>	<b>23,155,958</b>	<b>18,404,809</b>	<b>125,125,708</b>
<b>Component B – Recurrent Costs</b>								
Project Management Costs	-	49,276	-	49,276	-	74,613	-	74,613
<b>TOTAL COMPONENT B</b>	<b>-</b>	<b>49,276</b>	<b>-</b>	<b>49,276</b>	<b>-</b>	<b>74,613</b>	<b>-</b>	<b>74,613</b>
<b>Component C – Contingencies</b>								
Contingencies_Unallocated	-	-	-	-	-	-	-	-
<b>TOTAL COMPONENT C</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Component D – Financial Charges During Implementation</b>								
Interest and commitment charges	593,729	-	-	593,729	1,363,310	-	-	1,363,310
Front end fee	-	-	-	-	-	-	534,000	534,000
<b>TOTAL COMPONENT D</b>	<b>593,729</b>	<b>-</b>	<b>-</b>	<b>593,729</b>	<b>1,363,310</b>	<b>-</b>	<b>534,000</b>	<b>1,897,310</b>
<b>Total Component D</b>	<b>593,729</b>	<b>-</b>	<b>-</b>	<b>593,729</b>	<b>1,363,310</b>	<b>-</b>	<b>534,000</b>	<b>1,897,310</b>
<b>EBRD GRANT 50271 DRONES*</b>		<b>9,497</b>		<b>9,497</b>		<b>9,497</b>		<b>9,497</b>
<b>TOTAL PROJECT EXPENDITURE</b>	<b>27,065,198</b>	<b>7,671,279</b>	<b>7,007,584</b>	<b>41,744,061</b>	<b>84,928,251</b>	<b>23,240,068</b>	<b>18,938,809</b>	<b>127,107,128</b>

\*So far, only GOG share of financing has been used within the scope of Grant Agreement formed between Georgia and European Bank for Reconstruction and Development on 31 December 2021

The Project comprises the following main components:

- Component A – Investment Costs;
- Component B – Recurrent Costs;
- Component C - Contingencies\_Unallocated
- Component D - Financial Charges During Implementation.
- EBRD GRANT 50271 DRONES

The amount of the Loan is allocated to Category appears to exceed all agreed expenditure in that Category, Donor may, by notice to the Borrower, reallocate such excess amount to any other Category. The Project comprises the following main categories:

- Category 1 – Works for tunnel section
- Category 2 – Works for road sections and services
- Category 3 – Incremental administrative expenses; and
- Category 4 – Interest and commitment charges
- Acquisition of drones and related training and capacity building

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

**6. COMMITMENTS AND CONTINGENCIES**

The Management is not aware of any commitments and contingencies which would have a material impact on the financial position of the Project and the Imprest Account Statement as at 31 December 2021 and on the funds received and disbursed during the year then ended.

**7. 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.

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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.

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.

#### **8. 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.

#### **9. APPROVAL OF FINANCIAL STATEMENTS**

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