

EURASIAN TRANSPORT CORRIDOR INVESTMENT CENTER

LOAN NO.8328/000021-1-GEO / 3520-GEO
(BATUMI BYPASS ROAD PROJECT)

Special Purpose Project Financial Statements
For the Year Ended 31 December 2021

**EURASIAN TRANSPORT CORRIDOR INVESTMENT CENTER
BATUMI BYPASS ROAD PROJECT
LOAN NO.8328/000021-1-GEO / 3520-GEO**

TABLE OF CONTENTS

	Page
STATEMENT OF MANAGEMENT’S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE SPECIAL PURPOSE PROJECT FINANCIAL STATEMENTS	1
INDEPENDENT AUDITOR’S REPORT	2-4
SPECIAL PURPOSE PROJECT FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021:	
STATEMENT OF SOURCES AND USES OF FUNDS	5
BALANCE SHEET STATEMENT	7
STATEMENT OF EXPENDITURE WITHDRAWAL SCHEDULE	8
DESIGNATED ACCOUNT STATEMENT	9
Notes to the special purpose project financial statements	10-20
1. Background.....	10
2. Reissuance	10
3. Accounting policies.....	12
4. Designated account.....	12
5. Basis of funding	12
6. Methods of withdrawal	13
7. Statement of expenditure	13
8. Reconciliation of amounts shown as received from the aib and adb to actual expenditure of the project	14
9. Reconciliation of cash in designated account	17
10. Project expenditure by components	18
11. Commitments and contingencies.....	19
12. Operating environment.....	19
13. Events subsequent to the balance sheet date	20
14. Approval of special purpose project financial statements.....	20

**EURASIAN TRANSPORT CORRIDOR INVESTMENT CENTER
BATUMI BYPASS 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**

Management of the Batumi bypass road project (the “Project”) implemented by the Eurasian Transport Corridor Investment Center (“ETCIC” or Transport Reform and Rehabilitation Center – “Organisaiton”) is responsible for the preparation of the special purpose project financial statements that present fairly the financial position of the Project as at 31 December 2021 and its sources and uses of funds and movement in designated account for the Year Ended 31 December 2021, in compliance 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 Asian Infrastructure Investment Bank.

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

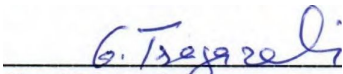
- Properly selecting and applying accounting policies;
- Presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information.
- Providing additional disclosures when compliance with the specific requirements in IPSAS – Cash Basis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

Management is also responsible for:

- Designing, implementing and maintaining an effective and sound system of internal controls, throughout the Project;
- Maintaining adequate accounting records that are sufficient to show and explain the Project’s transactions and disclose with reasonable accuracy at any time the financial position of the Project, and which enable them to ensure that the special purpose project financial statements of the Project comply with the Guidelines for the Financial Governance and Management of Investment Projects Financed by Asian Development Bank and Asian Infrastructure Investment Bank;
- Maintaining statutory accounting records in compliance with Georgian legislation;
- Taking such steps that are reasonably available to them to safeguard the assets of the Project; and
- Preventing and detecting fraud and other irregularities.

The special purpose project financial statements for the Year Ended 31 December 2021 were authorised for issue on 5 January 2023 by the Management.

On behalf of the Management:



Giorgi Tsagareli
Director

5 January 2023



Marina Majagaladze
Finance Manager

5 January 2023

SPECIAL PURPOSE INDEPENDENT AUDITOR'S REPORT

To the management of Eurasian Transport Corridor Investment Center:

Opinion

We have audited the accompanying special purpose project financial statements of the Batumi bypass road project (the "Project") financed under the Loan Agreement No. 8328-GEO dated 17 June 2017 (the "Agreement 1") and Loan Agreement No. 3520-GEO dated 12 June 2017 (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 Designated 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 3.

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 3 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.

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited ("DTTL"), its global network of member firms, and their related entities (collectively, the "Deloitte organization"). DTTL (also referred to as "Deloitte Global") and each of its member firms and related entities are legally separate and independent entities, which cannot obligate or bind each other in respect of third parties. DTTL and each DTTL member firm and related entity is liable only for its own acts and omissions, and not those of each other. DTTL does not provide services to clients. Please see www.deloitte.com/about to learn more.

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 Asian Infrastructure Investment Bank 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.

Reissuance

We draw attention to Note 2, which describes the reissuance of the special purpose project financial statements due to the inaccuracies identified in the special purpose project financial statements. As such, these special purpose project financial statements and the related audit opinion replace the previously issued special purpose project financial statements and related audit opinion. Our audit opinion is not modified in respect of this matter.

Responsibility of Management and Those Charged with Governance for the Special Purpose Project Financial Statements

Management is responsible for the preparation of these special purpose project financial statements in accordance with the cash basis of IPSAS the basis of accounting as further detailed in Note 3.

This includes determining that the International Public Sector Accounting Standard "Financial Reporting Under the Cash Basis of Accounting" ("IPSAS – Cash Basis") is an acceptable basis for the preparation of the special purpose project financial statement in the circumstances, and for such internal control as management determines is necessary to enable the preparation of special purpose project financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the special purpose project financial statements, management is responsible for assessing the Organisation's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless management either intends to liquidate the Organisation or to cease operations, or has no realistic alternative but to do so.

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

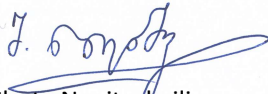
Auditor's Responsibilities for the Audit of the Special Purpose Project Financial Statements

Our objectives are to obtain reasonable assurance about whether the special purpose project financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these special purpose project financial statements.

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

- Identify and access the risks of material misstatement of the special purpose project financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organisation's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the special purpose project financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Organisation to cease to continue as a going concern.

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.



Shota Nanitashvili

On behalf of Deloitte and Touche LLC

Deloitte & Touche
5 January 2023

Tbilisi, Georgia

**EURASIAN TRANSPORT CORRIDOR INVESTMENT CENTER
BATUMI BYPASS ROAD PROJECT
LOAN NO 8328/000021-1-GEO / 3520-GEO**

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

	Actual		Budget*		Variance	Cumulative to
	Year to date	Cumulative to date	Year to date	Cumulative to date	Year to date	date
			Unaudited	Unaudited	Unaudited	Unaudited
FUNDS RECEIVED BY SOURCES						
AIIB Funds	10,582,534	48,653,297	-	-	-	-
Direct Payment	6,298,082	23,082,680	-	-	-	-
Replenishments	-	8,982,020	-	-	-	-
Capitalised Charges	831,045	3,542,704	-	-	-	-
Intermediate Bank Charges withhold from Replenishment amounts and Refunded	-	195	-	-	-	-
Additional advance	3,453,407	13,045,698	-	-	-	-
ADB Funds	14,400,479	40,455,569	-	-	-	-
Direct payments	14,084,466	35,116,112	-	-	-	-
Replenishments	-	281,165	-	-	-	-
ADB reimbursement	100,481	100,481	-	-	-	-
Retroactive	-	4,096,608	-	-	-	-
Capitalised Charges	215,532	861,203	-	-	-	-
Government Funds	9,907,493	67,294,037	-	-	-	-
Government of Georgia	9,907,493	67,155,327	-	-	-	-
GOG retroactive funds for ADB (foreign exchange gain)	-	138,710	-	-	-	-
TOTAL FUNDS RECEIVED	<u>34,890,506</u>	<u>156,402,903</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Foreign exchange difference ADB portion, net	(2,729)	(14,640)	-	-	-	-
Foreign exchange difference GOG portion, net	(94)	(127)	-	-	-	-
Foreign exchange difference, net	<u>(2,823)</u>	<u>(14,767)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
LESS: EXPENDITURE						
Category 1 - Civil works	8,478,092	40,636,927	8,478,092	40,636,927	-	-
Category 2 - Consulting services	1,265,722	4,360,696	1,265,722	4,360,696	-	-
Category 3 - Project management and institutional support	-	-	-	-	-	-
Category 4 - Interest and other financing charges	831,045	3,542,704	831,045	3,542,704	-	-
AIIB TOTAL	<u>10,574,859</u>	<u>48,540,327</u>	<u>10,574,859</u>	<u>48,540,327</u>	<u>-</u>	<u>-</u>
Category 1 - Civil works	12,614,115	34,635,017	12,614,115	34,635,017	-	-

**EURASIAN TRANSPORT CORRIDOR INVESTMENT CENTER
BATUMI BYPASS ROAD PROJECT
LOAN NO 8328/000021-1-GEO / 3520-GEO**

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

Category 2 - Consulting services	1,546,604	4,591,991	1,546,604	4,591,991	-	-
Category 3 - Project management and institutional support	94,070	351,674	94,070	351,674	-	-
Category 4 - Interest and other financing charges	215,532	861,203	215,532	861,203	-	-
ADB TOTAL	<u>14,470,321</u>	<u>40,439,885</u>	<u>14,470,321</u>	<u>40,439,885</u>	-	-
Category 1 - Civil works	9,194,810	65,144,351	9,194,810	65,144,351	-	-
Category 2 - Consulting services	513,582	1,652,649	513,582	1,652,649	-	-
Category 3 - Project management and institutional support	104,422	367,314	104,422	367,314	-	-
Category 4 - Interest and other financing charges	-	-	-	-	-	-
GOG TOTAL	<u>9,812,814</u>	<u>67,164,314</u>	<u>9,812,814</u>	<u>67,164,314</u>	-	-
TOTAL PROJECT EXPENDITURE	<u>34,857,994</u>	<u>156,144,526</u>	<u>34,857,994</u>	<u>156,144,526</u>	-	-
NET FLOW OF FUNDS	<u>29,689</u>	<u>243,609</u>	-	-	-	-

*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

5 January 2023


Marina Majagaladze
Finance Manager

5 January 2023

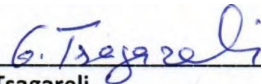
The notes on pages 10 to 20 form an integral part of these special purpose project financial statements.

**EURASIAN TRANSPORT CORRIDOR INVESTMENT CENTER
BATUMI BYPASS ROAD PROJECT
LOAN NO 8328/000021-1-GEO / 3520-GEO**

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

	31 December 2021
ASSETS	
AIIB designated account	112,970
ADB imprest account	1,045
GOG Project account	129,594
TOTAL ASSETS	243,609
Funds received:	
Funds received from AIIB	48,653,297
Funds received from ADB	40,455,569
Funds received from GOG	67,155,327
GOG retroactive funds for ADB (Foreign exchange gain)	138,710
Total funds received	156,402,903
Project expenditure:	
Financed by AIIB	(48,540,327)
Financed by ADB	(40,439,885)
Financed by GOG	(67,164,314)
Total project expenditure	(156,144,526)
Foreign exchange difference, net	(14,767)
TOTAL FUNDS RECEIVED LESS PROJECT EXPENDITURE	243,609

On behalf of the Management:


Giorgi Tsagareli
 Director

5 January 2023


Marina Majagaladze
 Finance Manager

5 January 2023

The notes on pages 10 to 20 form an integral part of these special purpose project financial statements.

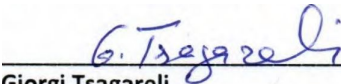
**EURASIAN TRANSPORT CORRIDOR INVESTMENT CENTER
BATUMI PASS ROAD PROJECT
LOAN NO 8328/000021-1-GEO / 3520-GEO**

**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 in 2021.

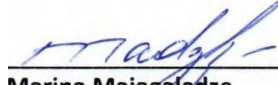
On behalf of the Management:



Giorgi Tsagareli

Director

5 January 2023



Marina Majagaladze

Finance Manager

5 January 2023

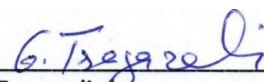
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**EURASIAN TRANSPORT CORRIDOR INVESTMENT CENTER
BATUMI BYPASS ROAD PROJECT
LOAN NO 8328/000021-1-GEO / 3520-GEO**

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

Depository Bank	State Treasury	
Address	16 V. Gorgasali street	
	Tbilisi, 0114	
	Georgia	
<hr/>		
AIIB - Balance as at 31 December 2020		105,295
ADB - Balance as at 31 December 2020		73,616
GOG - Balance as at 31 December 2020		35,010
		<hr/>
Balance as at 31 December 2020		213,921
ADD		
AIIB Direct Payment via designated account		3,453,407
ADB replenishment		-
GOG Replenishment		100,481
DEDUCT		
Funds used for the Project expenditure – AIIB		(3,445,732)
Funds used for the Project expenditure – ADB		(69,843)
Funds used for the Project expenditure – GOG		(5,896)
Foreign Exchange Gain		(2,729)
AIIB - Balance as at 31 December 2021		112,970
ADB - Balance as at 31 December 2021		1,045
GOG - Balance as at 31 December 2021		129,594
		<hr/>
Balance as at 31 December 2021		243,609

On behalf of the Management:



Giorgi Tsagareli
Director



Marina Majagaladze
Finance Manager

5 January 2023

5 January 2023

The notes on pages 10 to 20 form an integral part of these special purpose project financial statements.

**EURASIAN TRANSPORT CORRIDOR INVESTMENT CENTER
BATUMI BYPASS ROAD PROJECT
LOAN NO 8328/000021-1-GEO / 3520-GEO**

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

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 – “Organisaiton”) was formed within the Investment Center for Euro-Asian Transport Corridor 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”), Asian Infrastructure Investment Bank (“AIIB”) and the European Investment Bank (EIB) and monitor the implementation of transport sector projects.

Government of Georgia (“borrower”) has requested (i) a loan of EUR 108,190,000 (equivalent to 114,000,000) from Asian Development Bank’s (“ADB”) ordinary capital resources, and (ii) a loan of USD 114,000,000 from the Asian Infrastructure Investment Bank (“AIIB”) to help finance the Batumi Bypass Road Project. The borrower will contribute approximately USD 87,200,000 for land acquisition and resettlement and taxes and duties.

On 12 and 17 June 2017 the loan agreements number 3520-GEO dated 12 June 2017 (the “Agreement 2”) and 8328-GEO dated 17 June 2017 (the “Agreement 1”) with above-mentioned amounts were signed between ADB and Government of Georgia and AIIB and Government of Georgia, respectively. The borrower is obliged to use the proceeds of the loan for financing of expenditure of the project in accordance with the provisions of this loan agreement.

The Project will construct a new two-lane 14.3 km long highway to provide a bypass to the Batumi port city (second largest city in Georgia). The road will be constructed on a new alignment, which passes through a number of mountainous settlements. Due to hilly nature of the terrain, this stretch of road requires construction of 5 tunnels and 19 bridges over rivers and valleys. Additionally, the controlled-access highway will have 4 grade separated interchanges to regulate traffic ingress/egress. The Project will also finance construction supervision and quality assurance services associated with the civil works including specialised structural and geotechnical works.

2. REISSUANCE

In the Special Purpose Project Financial Statements for the year ended 31 December 2021 dated 28 June 2022 of the Batumi bypass road project financed under the Loan Agreement No. 8328-GEO dated 17 June 2017 and Loan Agreement No. 3520-GEO dated 12 June 2017, an inaccuracy was identified related to the detailed description of the loan agreement name, the loan agreement number, disclosure of the basis of funding, disclosure of expenses attributable to 2021 in the total withdrawal schedule expenses – ADB, disclosure of foreign exchange difference in the Statement of sources and uses of funds, i. e. presentation of ADB and GOG portion and as such, it was decided to reissue the report. The following tables summarize the impact of the inaccuracy on the Special Purpose Project Financial Statements for the year ended 31 December 2021.

**EURASIAN TRANSPORT CORRIDOR INVESTMENT CENTER
BATUMI BYPASS ROAD PROJECT
LOAN NO 8328/000021-1-GEO / 3520-GEO**

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

Page	Special Purpose Project Financial Statements For The Year Ended 31 December 2021 dated 28 June 2022.	Special Purpose Project Financial Statements For The Year Ended 31 December 2021 dated 5 January 2023.
Cover page	LOAN NO.8328/000021-01-GEO / 3520-GEO (BATUMI BYPASS ROAD PROJECT)	LOAN NO.8328/000021-1-GEO / 3520-GEO (BATUMI BYPASS ROAD PROJECT)
Header	LOAN NO.8328/000021-01-GEO / 3520-GEO	LOAN NO.8328/000021-1-GEO / 3520-GEO
Header, Note 5	EURASIAN TRANSPORT CORRIDOR INVESTMENT CENTER NORTH-SOUTH CORRIDOR (KVESHETI-KOBI) ROAD PROJECT LOAN NO 3803-GEO AND NO 50721	EURASIAN TRANSPORT CORRIDOR INVESTMENT CENTER BATUMI BYPASS ROAD PROJECT LOAN NO 8328/000021-1-GEO / 3520-GEO
Note 5	4. BASIS OF FUNDING. Category 2 – Consulting services, which are divided into 2A Construction Supervision for Batumi Bypass Road, 2B Feasibility Study and Detailed Design and 2C Construction Supervision for Poti Bridge and Approach Roads and Bakurtsikhe-Tsnori Road are financed by 50% and 0% of the total expenditure claimed by AIIB and by 50% and 100% of the total expenditure claimed by ADB, respectively	4. BASIS OF FUNDING. Category 2 – Consulting services, which are divided into 2A Construction Supervision for Batumi Bypass Road, 2B Feasibility Study and Detailed Design and 2C Construction Supervision for Poti Bridge and Approach Roads and Bakurtsikhe-Tsnori Road are financed by 50%, 0% and 0% of the total expenditure claimed by AIIB and by 50%, 100% and 100% of the total expenditure claimed by ADB, respectively
Note 5	4. BASIS OF FUNDING. Category 3 – Project Management and Institutional Support is financed by 100% of the total expenditure claimed by AIIB	4. BASIS OF FUNDING. Category 3 – Project Management and Institutional Support is financed by 100% of the total expenditure claimed by ADB

<i>In US Dollars</i>	As previously issued		As restated	
	For the year ended 31/12/2021		For the year ended 31/12/2021	
	Year to date	Cumulative to date	Year to date	Cumulative to date
Statement of sources and use of funds				
Foreign exchange difference ADB portion, net	-	-	(2,729)	(14,640)
Foreign exchange difference GOG portion, net	-	-	(94)	(127)
Foreign exchange difference, net	(2,823)	(14,767)	(2,823)	(14,767)

<i>In US Dollars</i>	As previously issued		As restated	
	For the year ended 31/12/2021		For the year ended 31/12/2021	
	Total amount in withdrawal schedule.	Total attributable to 2021	Total amount in withdrawal schedule.	Total attributable
Total withdrawal schedule expenses - ADBTOTAL				
Withdrawal No.				
0000142	100,526	100,526	100,526	-
Total amount	14,400,479	14,400,479	14,400,479	14,299,953

**EURASIAN TRANSPORT CORRIDOR INVESTMENT CENTER
BATUMI BYPASS ROAD PROJECT
LOAN NO 8328/000021-1-GEO / 3520-GEO**

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

3. 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 Infrastructure Investment Bank 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.

4. DESIGNATED ACCOUNT

Designated account is designated disbursement account of the Project maintained in US Dollars at the State Treasury to ensure the payment of eligible expenditure, within defined limits, which do not require individual authorisation from AIIB and ADB in accordance with the Agreement 1 and Agreement 2.

5. BASIS OF FUNDING

According to the terms of the Agreement 1 and Agreement 2:

- Category 1 – Works which is divided into 1A Batumi Bypass Road, 1B Rehabilitation and Civil Works and 1C Poti Bridge and Approach Roads and Bakurtsikhe-Tsnori Road are financed by 48%, 0% and 0% of the total expenditure claimed by AIIB and 32.3%, 100% and 100% of the total expenditure claimed by ADB, respectively*;
- Category 2 – Consulting services, which are divided into 2A Construction Supervision for Batumi Bypass Road, 2B Feasibility Study and Detailed Design and 2C Construction Supervision for Poti Bridge and Approach Roads and Bakurtsikhe-Tsnori Road are financed by 50%, 0% and 0% of the total expenditure claimed by AIIB and by 50%, 100% and 100% of the total expenditure claimed by ADB, respectively*;

**EURASIAN TRANSPORT CORRIDOR INVESTMENT CENTER
BATUMI BYPASS ROAD PROJECT
LOAN NO 8328/000021-1-GEO / 3520-GEO**

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

- Category 3 – Project Management and Institutional Support is financed by 100% of the total expenditure claimed by ADB*;
 - Category 4 – Interest and Other Financing Charges are financed by 100% by ADB and AIIB
- * Exclusive of taxes and duties imposed within the territory of the borrower.

It is allowed by the donors, to utilise loan funds, subsequent to relevant approvals, to finance projects under other loans, if there are any residual unexpended funds.

6. METHODS OF WITHDRAWAL

The methods of withdrawal used from the inception of the loan to 31 December 2021 were as follows:

(a) Designated 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 AIIB and ADB directly to third parties. Organisation forms withdrawal applications for request of direct payments and sends it to the AIIB and ADB 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.

7. STATEMENT OF EXPENDITURE

Any individual payment to be reimbursed or liquidated under the statement of expenditure procedure shall not exceed the equivalent of USD 100,000. The amount of Statement of Expenditure ("SOE") represents the expenditure incurred in the year 2021. The year of actual expenditure and submission of withdrawal application to AIIB may be different.

**EURASIAN TRANSPORT CORRIDOR INVESTMENT CENTER
BATUMI BYPASS ROAD PROJECT
LOAN NO 8328/000021-1-GEO / 3520-GEO**

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

8. RECONCILIATION OF AMOUNTS SHOWN AS RECEIVED FROM THE AIIB AND ADB TO ACTUAL EXPENDITURE OF THE PROJECT

	31 December 2021
Application of Withdrawals Schedule	
AIIB - Expenses incurred in 2021 as per the Applications of Withdrawals Schedule	6,298,082
AIIB - Expenses incurred in 2021 without Applications of Withdrawals Schedule	3,445,732*
AIIB - Expenses for financial charges during the implementation	831,045
ADB - Expenses incurred in 2021 as per the Applications of Withdrawals Schedule	14,184,946
ADB - Expenses incurred in 2021 without Applications of Withdrawals Schedule	69,843
ADB - Expenses for financial charges during the implementation	215,532
	25,045,180
ADB reimbursement	100,481
ADB direct payment	14,084,466
ADB Capitalized charges	215,532
AIIB Direct Payment via designated account	3,453,407
AIIB direct payments	6,298,082
AIIB Front end fee	831,045
Foreign Exchange Difference	(2,729)
	24,980,284
Add:	
Opening Balances	
AIIB - Designated Account	105,295
ADB - Designated Account	73,616
	178,911
Less:	
Closing Balances	
AIIB - Designated Account	112,970
ADB - Designated Account	1,045
	114,015
TOTAL EXPENDITURE INCURRED IN 2021	25,045,180

* Should be cleaned in the end of the project by the liquidation applications

**EURASIAN TRANSPORT CORRIDOR INVESTMENT CENTER
BATUMI BYPASS ROAD PROJECT
LOAN NO 8328/000021-1-GEO / 3520-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.	Withdrawal application date	Total amount in withdrawal schedule	Total attributable to 2021
00134	1/21/2021	55,557	55,557
00135	1/21/2021	27,330	27,330
00136	1/22/2021	30,427	30,427
00137	1/21/2021	52,488	52,488
00138	1/21/2021	24,788	24,788
00139	1/22/2021	25,308	25,308
00140	3/3/2021	309,904	309,904
00141	3/4/2021	137,977	137,977
00142	3/31/2021	100,526	-*
00143	4/20/2021	6,500	6,500
00144	5/7/2021	375,179	375,179
00145	5/7/2021	161,788	161,788
00146	6/7/2021	140,252	140,252
00147	6/7/2021	189,376	189,376
00148	6/7/2021	104,786	104,786
00149	6/9/2021	77,153	77,153
00150	6/18/2021	666,910	666,910
00151	6/18/2021	313,945	313,945
00152	7/12/2021	2,635	2,635
00153	8/27/2021	81,818	81,818
00154	8/27/2021	56,348	56,348
00155	8/27/2021	75,107	75,107
00156	9/20/2021	30,961	30,961
00157	9/20/2021	26,026	26,026
00158	9/20/2021	31,866	31,866
00159	9/20/2021	506,001	506,001
00160	9/20/2021	242,224	242,224
00161	9/22/2021	77,153	77,153
00162	10/8/2021	38,576	38,576
00163	10/25/2021	1,262,745	1,262,745
00164	10/15/2021	597,218	597,218
00165	11/15/2021	52,875	52,875
00166	10/15/2021	31,468	31,468
00167	10/15/2021	42,119	42,119
00168	10/25/2021	1,929	1,929
00170	11/26/2021	310,887	310,887
00171	11/24/2021	148,745	148,745
00172	12/8/2021	77,618	77,618
00173	12/8/2021	49,981	49,981
00174	12/8/2021	59,861	59,861
00175	12/13/2021	460,920	460,920
00176	12/13/2021	220,632	220,632
00177	12/16/2021	2,484,214	2,484,214
00178	12/16/2021	1,091,559	1,091,559
00179	12/16/2021	1,205,887	1,205,887
00180	12/16/2021	2,117,380	2,117,380
CAP - 921A	3/15/2021	112,155	112,155
CAP 1	9/15/2021	105,978	105,978
CAP 2	9/15/2021	(2,601)	(2,601)
		14,400,479	14,299,953

*ADB Withdrawal application No. 00142 is SOE type of expenditure in 2021. The period covered of Withdrawal application No. 00142 was July 2018 – July 2019.

**EURASIAN TRANSPORT CORRIDOR INVESTMENT CENTER
BATUMI BYPASS ROAD PROJECT
LOAN NO 8328/000021-1-GEO / 3520-GEO**

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

TOTAL WITHDRAWAL SCHEDULE EXPENSES - AIIB

Withdrawal No	Withdrawal application date	Total amount in withdrawal schedule	Total attributable to 2021
00138	2/19/2021	108,045	108,045
00139	2/22/2021	52,868	52,868
00140	2/22/2021	57,199	57,199
00141	3/22/2021	205,923	205,923
00142	3/15/2021	460,538	460,538
00143	5/31/2021	245,575	245,575
00144	5/17/2021	557,541	557,541
00146	6/24/2021	189,376	189,376
00147	6/24/2021	104,780	104,780
00148	6/24/2021	142,824	142,824
00149	6/29/2021	991,073	991,073
00150	6/29/2021	459,317	459,317
00151	9/24/2021	81,818	81,818
00152	9/24/2021	57,662	57,662
00153	9/24/2021	75,024	75,024
00154	9/24/2021	751,952	751,952
00155	9/24/2021	357,916	357,916
00157	10/27/2021	884,632	884,632
00158	10/28/2021	1,876,524	1,876,524
00159	11/15/2021	83,836	83,836
00160	10/27/2021	57,509	57,509
00161	10/27/2021	73,363	73,363
00162	12/10/2021	461,999	461,999
00163	12/13/2021	216,413	216,413
00164	12/10/2021	77,618	77,618
00165	12/13/2021	50,337	50,337
00166	12/13/2021	58,838	58,838
00167	12/20/2021	684,959	684,959
00168	12/20/2021	326,029	326,029
CAP - 008	3/15/2021	407,889	407,889
CAP - 009	9/15/2021	423,156	423,156
		10,582,533	10,582,533

**EURASIAN TRANSPORT CORRIDOR INVESTMENT CENTER
BATUMI BYPASS ROAD PROJECT
LOAN NO 8328/000021-1-GEO / 3520-GEO**

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

9. RECONCILIATION OF CASH IN DESIGNATED ACCOUNT

	<u>Designated Account</u>
AIB - Designated Account	105,295
ADB - Designated Account	<u>73,616</u>
Balance as at 31 December 2021	<u>178,911</u>
ADB reimbursement	100,481
ADB direct payment	14,084,466
ADB Capitalized charges	215,532
AIB Direct Payment via designated account	3,453,407
AIB direct payments	6,298,082
AIB Front end fee	831,045
Foreign Exchange Difference	(2,729)
Total Increase	<u>24,980,284</u>
AIB - Expenses incurred in 2021 as per the Applications of Withdrawals Schedule	6,298,082
AIB - Expenses incurred in 2021 without Applications of Withdrawals Schedule	3,445,732
AIB - Expenses for financial charges during the implementation	831,045
ADB - Expenses incurred in 2021 as per the Applications of Withdrawals Schedule	14,184,946
ADB - Expenses incurred in 2021 without Applications of Withdrawals Schedule	69,843
ADB - Expenses for financial charges during the implementation	<u>215,532</u>
Total Decrease	<u>25,045,180</u>
AIB - Designated Account	112,970
ADB - Designated Account	<u>1,045</u>
Balance as at 31 December 2021	<u>114,015</u>
Designated Account	
Initial Advance/Replenishments:	<u>-</u>
Total	<u>-</u>

**EURASIAN TRANSPORT CORRIDOR INVESTMENT CENTER
BATUMI BYPASS ROAD PROJECT
LOAN NO 8328/000021-1-GEO / 3520-GEO**

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

10. PROJECT EXPENDITURE BY COMPONENTS

Project Activities	Year Ended 31 December 2021				Cumulative from inception			
	AiIB Financing	ADB Financing	GOG Financing	Total	AiIB Financing	ADB Financing	GOG Financing	Total
Component A – Investment costs								
Civil works	8,478,092	12,614,115	4,710,969	25,803,176	40,636,927	34,635,017	17,997,706	93,269,650
Land acquisition and resettlement	-	-	4,483,841	4,483,841	-	-	47,146,645	47,146,645
Consulting services	1,265,722	1,546,604	513,582	3,325,908	4,360,696	4,591,991	1,652,649	10,605,336
Project management and institutional support	-	94,070	104,422	198,492	-	351,674	367,314	718,988
TOTAL COMPONENT A	9,743,814	14,254,789	9,812,814	33,811,417	44,997,623	39,578,682	67,164,314	151,740,619
Component B- Contingencies unallocated								
Physical	-	-	-	-	-	-	-	-
Price	-	-	-	-	-	-	-	-
TOTAL COMPONENT B	-	-	-	-	-	-	-	-
Component C – Financial charges during implementation								
Interest during implementation	831,045 *	215,532	-	1,046,577	3,542,704*	861,203	-	4,403,907
Commitment charges	-	-	-	-	-	-	-	-
Front-end fee	-	-	-	-	-	-	-	-
TOTAL COMPONENT C	831,045	215,532	-	1,046,577	3,542,704	861,203	-	4,403,907
TOTAL PROJECT EXPENDITURE	10,574,859	14,470,321	9,812,814	34,857,994	48,540,327	40,439,885	67,164,314	156,144,526

*Organization decided to reclassify Interest during implementation from component B – Contingencies unallocated to component C - Interest during implementation

**EURASIAN TRANSPORT CORRIDOR INVESTMENT CENTER
BATUMI PASS ROAD PROJECT
LOAN NO 8328/000021-1-GEO / 3520-GEO**

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

The Project comprises the following main components:

Component A – Investment Costs;
Component B – Contingencies; and
Component C – Financial Charges during Implementation – CAP;

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

Category 1 – Civil works
Category 2 – Consulting services
Category 3 – Project management and institutional support
Category 4 – Interest and commitment charges; and

11. 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 Designated Account Statement as at 31 December 2021 and on the funds received and disbursed during the year then ended.

12. 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 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

**EURASIAN TRANSPORT CORRIDOR INVESTMENT CENTER
BATUMI BYPASS ROAD PROJECT
LOAN NO 8328/000021-1-GEO / 3520-GEO**

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

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.

13. 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.

14. APPROVAL OF SPECIAL PURPOSE PROJECT FINANCIAL STATEMENTS

These special purpose project financial statements were authorised for issue by the Management of ETCIC on 5 January 2023.