

EURASIAN TRANSPORT CORRIDOR INVESTMENT CENTER

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

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

**EURASIAN TRANSPORT CORRIDOR INVESTMENT CENTER
EAST-WEST HIGHWAY (SHORAPANI-ARGVETA SECTION) IMPROVEMENT
PROJECT**

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**EURASIAN TRANSPORT CORRIDOR INVESTMENT CENTER
EAST-WEST HIGHWAY (SHOPRAPANI-ARGVETA SECTION) 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**

Management of the EAST-WEST HIGHWAY (SHORAPANI-ARGVETA SECTION) 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:

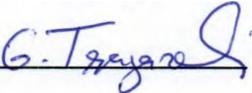
- Properly selecting and applying accounting policies;
- Presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information; and
- Providing additional disclosures when compliance with the specific requirements in IPSAS – Cash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

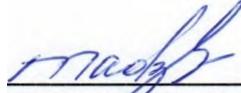
The special purpose project financial statements for the year ended 31 December 2021 were authorised for issue on 5 January 2023 by the Management.

On behalf of the Management:



Giorgi Tsagareli
Director

5 January 2023



Marina Majagaladze
Finance Manager

5 January 2023

INDEPENDENT AUDITOR'S REPORT

To the management of Eurasia Transport Corridor Investment Center:

Opinion

We have audited the accompanying special purpose project financial statements of the East-West Highway (Shorapani-Argveta Section) Improvement Project (the "Project") financed under the Loan Agreement No. 3861-GEO dated 27 November 2019 (the "Agreement"), implemented by the Eurasian Transport Corridor Investment Center ("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 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. 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.

Reissuance

We draw attention to Note 2, which describes the reissuance of the special purpose project financial statements due to an inaccuracy in the detailed description of the loan agreement name. 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 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 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.

Deloitte.

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.



Shota Nanitashvili

On behalf of Deloitte and Touche LLC



5 January 2023

Tbilisi, Georgia

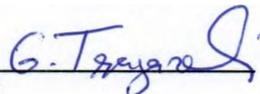
**EURASIAN TRANSPORT CORRIDOR INVESTMENT CENTER EAST-WEST HIGHWAY
(SHORAPANI-ARGVETA SECTION) IMPROVEMENT PROJECT
LOAN NO 3861-GEO**

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

	Actual	Planned*	Variance		Period to date	Cumulative to date
	Period to date	Cumulative to date	Period to date	Cumulative to date		
			Unaudited	Unaudited	Unaudited	Unaudited
FUNDS RECEIVED BY SOURCES						
Asian Development Bank (ADB) Funds	8,229,705	39,228,498	-	-	-	-
Direct payments	7,818,223	38,582,602	-	-	-	-
Capitalized Charges	411,482	645,897	-	-	-	-
Government of Georgia (GoG) co-financing	1,600,830	13,588,482	-	-	-	-
TOTAL FUNDS RECEIVED	9,830,535	52,816,980	-	-	-	-
Foreign exchange difference, net		1	-	1	-	-
LESS: EXPENDITURE						
Category 1 – Works, Goods and Services	7,818,223	38,582,602	7,818,223	38,582,602	-	-
Category 2 - Interest and commitment charges	411,482	645,897	411,482	645,897	-	-
ADB TOTAL	8,229,705	39,228,499	8,229,705	39,228,499	-	-
Category 1 – Works, Goods and Services	1,600,830	13,588,481	1,600,830	13,588,481	-	-
Category 2 - Interest and commitment charges	-	-	-	-	-	-
GoG TOTAL	1,600,830	13,588,481	1,600,830	13,588,481	-	-
TOTAL PROJECT EXPENDITURE	9,830,535	52,816,980	9,830,535	52,816,980	-	-
NET INFLOW OF FUNDS	-	-	-	-	-	-

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

On behalf of the Management:


Giorgi Tsagareli
Director


Marina Majagaladze
Finance Manager

5 January 2023

5 January 2023

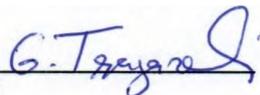
The notes on pages 9 to 15 form an integral part of these special purpose project financial statements.

**EURASIAN TRANSPORT CORRIDOR INVESTMENT CENTER EAST-WEST HIGHWAY
(SHORAPANI-ARGVETA SECTION) IMPROVEMENT PROJECT
LOAN NO 3861-GEO**

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

	31 December 2021
ASSETS	
ADB imprest account	-
TOTAL ASSETS	-
Funds received:	
Funds received from ADB	39,228,498
Funds received from GoG	13,588,482
Total funds received	52,816,980
Project expenditure:	
Financed by ADB	(39,228,498)
Financed by GoG	(13,588,482)
Total project expenditure	(52,816,980)
TOTAL FUNDS RECEIVED LESS PROJECT EXPENDITURE	-

On behalf of the Management:


Giorgi Tsagareli
Director

5 January 2023


Marina Majagaladze
Finance Manager

5 January 2023

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

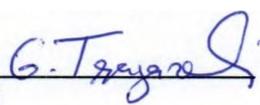
**EURASIAN TRANSPORT CORRIDOR INVESTMENT CENTER EAST-WEST HIGHWAY
(SHORAPANI-ARGVETA SECTION) IMPROVEMENT PROJECT
LOAN NO 3861-GEO**

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

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

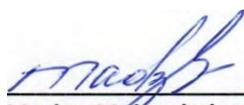
There was no SOE type of expenditure for the year ended 31 December 2021.

On behalf of the Management:



Giorgi Tsagareli
Director

5 January 2023



Marina Majagaladze
Finance Manager

5 January 2023

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

**EURASIAN TRANSPORT CORRIDOR INVESTMENT CENTER EAST-WEST HIGHWAY
(SHORAPANI-ARGVETA SECTION) IMPROVEMENT PROJECT
LOAN NO 3861-GEO**

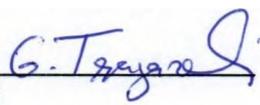
**IMPREST ACCOUNT STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2021
(in EUR)**

Account No.

25020310
Depository Bank State Treasury
Address 16 V. Gorgasali street
Tbilisi, 0114
Georgia

Balance as at 31 December 2020	-
ADD	
ADB replenishment	-
DEDUCT	
Funds used for the Project expenditure	-
Balance as at 31 December 2021	-

On behalf of the Management:



Giorgi Tsagareli
Director



Marina Majagaladze
Finance Manager

5 January 2023

5 January 2023

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

**EURASIAN TRANSPORT CORRIDOR INVESTMENT CENTER EAST-WEST HIGHWAY
(SHORAPANI-ARGVETA SECTION) IMPROVEMENT PROJECT
LOAN NO. 3861-GEO**

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

1. BACKGROUND

The Investment Center for Euro-Asian Transport Corridor was established in 1995 as a non-entrepreneurial and non-profit legal entity. A project unit named “Eurasian Transport Corridor Investment Center” (the “ETCIC” or Transport Reform and Rehabilitation Center – “Organisation”) was formed within the Investment Center for Euro-Asian Transport Corridor to manage the allocated loan received from the Asian Development Bank (“ADB”) and monitor the implementation of transport sector projects.

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

2. REISSUANCE

In the Special Purpose Project Financial Statements for the year ended 31 December 2021 dated 28 June 2022 of the East-West Highway (Shorapani-Argveta Section) Improvement Project financed under the Loan Agreement No. 3861-GEO dated 27 November 2019, an inaccuracy was identified related to the detailed description of the loan agreement name and as such, it was decided to reissue the report. The following table summarizes the impact of the inaccuracy on the Special Purpose Project Financial Statements for the year ended 31 December 2021.

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.3861-GEO (EAST-WEST HIGHWAY IMPROVEMENT PROJECT)	LOAN NO.3861-GEO (EAST-WEST HIGHWAY (SHORAPANI-ARGVETA SECTION) IMPROVEMENT PROJECT)
Header	EAST-WEST HIGHWAY IMPROVEMENT PROJECT Loan NO.3861-GEO	EAST-WEST HIGHWAY (SHORAPANI-ARGVETA SECTION) IMPROVEMENT PROJECT Loan NO.3861-GEO
Page #1	EAST-WEST HIGHWAY IMPROVEMENT PROJECT	EAST-WEST HIGHWAY (SHORAPANI-ARGVETA SECTION) IMPROVEMENT PROJECT
Page #2	East-West Highway Improvement Project	East-West Highway (Shorapani-Argveta Section) Improvement Project

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).

**EURASIAN TRANSPORT CORRIDOR INVESTMENT CENTER EAST-WEST HIGHWAY
(SHORAPANI-ARGVETA SECTION) IMPROVEMENT PROJECT
LOAN NO. 3861-GEO**

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

These special purpose project financial statements, in accordance with the provisions of the Agreement No. 3861-GEO dated 27 November 2019 (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 EUR.

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

Cash – Cash comprises balances with the State Treasury.

4. BASIS OF FUNDING

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

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

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

5. 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.

**EURASIAN TRANSPORT CORRIDOR INVESTMENT CENTER EAST-WEST HIGHWAY
(SHORAPANI-ARGVETA SECTION) IMPROVEMENT PROJECT
LOAN NO. 3861-GEO**

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

(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.

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

	31 December 2021
Application of Withdrawals Schedule	
Expenses incurred in 2021 as per the Applications of Withdrawals Schedule	7,818,223
Expenses incurred in 2021 as Capitalised charges	411,482
	<u>8,229,705</u>
ADB direct payments	7,818,223
Capitalised charges	411,482
	<u>8,229,705</u>
Add:	
Opening Balances	
Imprest Account	-
	-
Less:	
Closing Balances	
Imprest Account	-
	-
TOTAL EXPENDITURE INCURRED IN 2021	<u>8,229,705</u>

**EURASIAN TRANSPORT CORRIDOR INVESTMENT CENTER EAST-WEST HIGHWAY
(SHORAPANI-ARGVETA SECTION) IMPROVEMENT PROJECT
LOAN NO. 3861-GEO**

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

TOTAL WITHDRAWAL SCHEDULE EXPENSES

Withdrawal No.	Withdrawal application date	Total amount in withdrawal schedule	Total attributable to 2021
00011	31-Mar-21	2,531	2,531
00012	29-Apr-21	2,316	2,316
00013	3-Jun-21	2,470	2,470
00014	24-Jun-21	39,240	39,240
00015	29-Jun-21	2,627	2,627
00016	28-Jul-21	2,718	2,718
00017	28-Jul-21	25,889	25,889
00018	13-Sep-21	5,502	5,502
00019	7-Sep-21	42,135	42,135
00020	13-Sep-21	2,679	2,679
00021	1-Oct-21	2,710	2,710
00022	22-Sep-21	562,822	562,822
00023	22-Sep-21	684,352	684,352
00024	22-Sep-21	562,822	562,822
00025	22-Sep-21	684,353	684,353
00026	24-Sep-21	48,843	48,843
00027	1-Oct-21	14,294	14,294
00028	1-Nov-21	2,699	2,699
00029	8-Nov-21	83,305	83,305
00030	8-Nov-21	43,329	43,329
00031	24-Nov-21	72,941	72,941
00032	24-Nov-21	41,150	41,150
00033	10-Dec-21	2,823	2,823
00034	14-Dec-21	1,073,762	1,073,762
00035	14-Dec-21	1,073,762	1,073,762
00036	14-Dec-21	1,307,739	1,307,739
00037	14-Dec-21	1,307,739	1,307,739
00038	15-Dec-21	75,080	75,080
00039	15-Dec-21	45,592	45,592
CAP-921A	15-Feb-21	212,506	212,506
CAP 1	15-Aug-21	198,976	198,976
		8,229,705	8,229,705

**EURASIAN TRANSPORT CORRIDOR INVESTMENT CENTER EAST-WEST HIGHWAY
(SHORAPANI-ARGVETA SECTION) IMPROVEMENT PROJECT
LOAN NO. 3861-GEO**

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

PROJECT EXPENDITURE BY COMPONENTS

Project Activities	FOR THE YEAR ENDED 31 DECEMBER 2021			Cumulative from inception		
	ADB Financing	GoG Financing	Total	ADB Financing	GoG Financing	Total
Component A – Investment costs						
Land acquisition and resettlement	-	189,660	189,660	-	6,479,319	6,479,319
Civil Works	7,257,350	1,300,498	8,557,848	37,484,148	6,873,865	44,358,013
Consulting Service-Design and Supervision	531,798	94,546	626,344	1,069,379	189,668	1,259,047
Consultancy	29,075	12,369	41,443	29,075	12,369	41,443
TOTAL COMPONENT A	7,818,223	1,597,073	9,415,295	38,582,602	13,555,221	52,137,823
Component B - Recurrent Costs						
Project Administration	-	3,757	3,757	-	33,260	33,260
TOTAL COMPONENT B	-	3,757	3,757	-	33,260	33,260
Component C Contingencies						
Contingencies unallocated	-	-	-	-	-	-
TOTAL COMPONENT C	-	-	-	-	-	-
Component D – Financing Charges During Implementation						
Financial charges during implementation	411,482	-	411,482	645,897	-	645,897
TOTAL COMPONENT D	411,482	-	411,482	645,897	-	645,897
TOTAL PROJECT EXPENDITURE	8,229,705	1,600,830	9,830,535	39,228,499	13,588,481	52,816,980

**EURASIAN TRANSPORT CORRIDOR INVESTMENT CENTER EAST-WEST HIGHWAY
(SHORAPANI-ARGVETA SECTION) IMPROVEMENT PROJECT
LOAN NO 3861-GEO**

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

The Project comprises the following main components:

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

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

- Category 1 – Works, Goods and Services and
- Category 2 – Interest and commitment charges

7. COMMITMENTS AND CONTINGENCIES

The Management is not aware of any commitments and contingencies which would have a material impact on the financial position of the Project as at 31 December 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.

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

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.

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 travellers.

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 SPECIAL PURPOSE PROJECT FINANCIAL STATEMENTS

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