

TRANSPORT REFORM AND REHABILITATION CENTER
THIRD EAST-WEST HIGHWAY IMPROVEMENT PROJECT ADDITIONAL
FINANCING
CREDIT NO.5108-GE

TABLE OF CONTENTS

	Page
STATEMENT OF MANAGEMENT AND APPROVAL OF FINANCIAL STATEMENTS	1
INDEPENDENT AUDITORS' REPORT	2-3
SPECIAL PURPOSE PROJECT FINANCIAL STATEMENTS (THIRD EAST-WEST HIGHWAY IMPROVEMENT PROJECT ADDITIONAL FINANCING)	
Statement of Financial Position	4
Balance Sheet Statement	5
Statement of Expenditure Withdrawal Schedule	6
Designated Account Statement	7
Notes to the Special Purpose Project Financial Statements	8-12

TRANSPORT REFORM AND REHABILITATION CENTER
 THIRD EAST-WEST HIGHWAY IMPROVEMENT PROJECT ADDITIONAL
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 THIRD EAST-WEST HIGHWAY IMPROVEMENT PROJECT ADDITIONAL
 FINANCING
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TABLE OF CONTENTS

	Page
STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE SPECIAL PURPOSE PROJECT FINANCIAL STATEMENTS	1
INDEPENDENT AUDITORS' REPORT	2-3
SPECIAL PURPOSE PROJECT FINANCIAL STATEMENTS FOR THE PERIOD FROM 1 JANUARY 2016 TO 31 OCTOBER 2016	
Statement of Sources and Uses of Funds	4
Balance Sheet Statement	5
Statement of Expenditure Withdrawal Schedule	6
Designated Account Statement	7
Notes to the Special Purpose Project Financial Statements	8-12

Management is also responsible for:

- Designing, implementing and maintaining an effective and sound system of internal controls throughout the Project.
- Maintaining adequate accounting records that are sufficient to show and explain the Project's transactions and disclose with reasonable accuracy at any time the financial position of the Project, and which enable them to ensure that the special purpose project financial statements of the Project comply with the Guidelines on Annual Financial Reporting and Auditing for World Bank - Financial Activities issued by the World Bank's Financial Management Sector Board.
- Maintaining statutory accounting records in compliance with Georgian legislation.
- Taking such steps that are reasonably available to them to safeguard the assets of the Project, and
- Preventing and detecting fraud and other irregularities.

The special purpose project financial statements for the period from 1 January to 31 October 2016 were authorized for issue on 28 December 2016 by the Management.

On behalf of Management:


 Giorgi Targareli
 Director


 Marina Mergelidze
 Financial Manager

28 December 2016

28 December 2016

**TRANSPORT REFORM AND
REHABILITATION CENTER
THIRD EAST-WEST HIGHWAY IMPROVEMENT PROJECT ADDITIONAL
FINANCING
CREDIT NO.5108-GE**

**STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION
AND APPROVAL OF THE SPECIAL PURPOSE PROJECT FINANCIAL STATEMENTS
FOR THE PERIOD FROM 1 JANUARY 2016 TO 31 OCTOBER 2016**

Management of the Third East-West Highway Improvement Project Additional Financing (the "Project") implemented by the Transport Reform and Rehabilitation Center (The "Center") is responsible for the preparation of the special purpose project financial statements that present fairly the financial position of the Project as at 31 October 2016, and its sources and uses of funds and movement in designated account for the period from 1 January 2016 to 31 October 2016, in compliance with the Cash Basis International Public Sector Accounting Standard, *Financial Reporting under the Cash Basis of Accounting* ("IPSAS – Cash Basis), and in conformity with the World Bank's Financial Management Sector Board's "Guidelines: Annual Financial Reporting and Auditing for World Bank Financed Activities" (the "World Bank Guidelines").

In preparing the financial statements, management is responsible for:

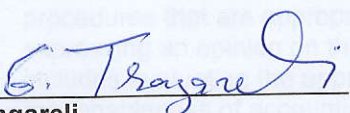
- Properly selecting and applying accounting policies;
- Presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- Providing additional disclosures when compliance with the specific requirements in IPSAS – Cash Basis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

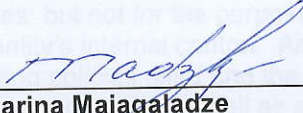
Management is also responsible for:

- 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 on Annual Financial Reporting and Auditing for World Bank – Financed Activities issued by the World Bank's Financial Management Sector Board;
- Maintaining statutory accounting records in compliance with Georgian legislation;
- Taking such steps that are reasonably available to them to safeguard the assets of the Project; and
- Preventing and detecting fraud and other irregularities.

The special purpose project financial statements for the period from 1 January to 31 October 2016 were authorized for issue on 28 December 2016 by the Management.

On behalf of Management:


Giorgi Tsagareli
Director


Marina Majagaladze
Financial Manager

28 December 2016

28 December 2016



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0108 Tbilisi, Georgia
Telephone +995 322 93 5713
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Internet www.kpmg.ge

Independent Auditors' Report

To the management of Transport Reform and Rehabilitation Center

We have audited the accompanying special purpose project financial statements of the Additional Financing for the Third East-West Highway Improvement Project Additional Financing (the "Project"), financed under the International Development Association (the "IDA"), Credit Agreement No. 5108-GE dated 28 June 2012, implemented by the Transport Reform and Rehabilitation Center (the "Center"), which comprise the Statement of Balance Sheet as at 31 October 2016 and the Statements of Sources and Uses of Funds, Statement of Expenditures Withdrawal Schedule ("SOEs") and Designated Account Statement for the period from 1 January 2016 to 31 October 2016 and notes, comprising a summary of significant accounting policies and other explanatory information. The special purpose project financial statements have been prepared by management in accordance with the International Public Sector Accounting Standard: Financial Reporting Under the Cash Basis of Accounting and in conformity with the World Bank's Financial Management Sector Board's "Guidelines: Annual Financial Reporting and Auditing for World Bank-Financed Activities" (the "World Bank Guidelines") as described in Note 2 to the special purpose project financial statements.

Management's Responsibility for the Special Purpose Project Financial Statements

Management is responsible for the preparation and fair presentation of these special purpose project financial statements in accordance with the International Public Sector Accounting Standard: *Financial Reporting Under the Cash Basis of Accounting* and the World Bank Guidelines, for determining the acceptability of the basis of accounting, and for such internal control as management determines is necessary to enable the preparation of special purpose project financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these special purpose project financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the special purpose project financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the special purpose project financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the special purpose project financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation of the special purpose project financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the special purpose project financial statements.

Transport Reform and Rehabilitation Center
Independent Auditors' Report

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the special purpose project financial statements for the period from 1 January 2016 to 31 October 2016 present fairly, in all material respects, the financial position of the Project as at 31 October 2016, and its sources and uses of funds for the period from 1 January 2016 to 31 October 2016 in accordance with the International Public Sector Accounting Standard: *Financial Reporting Under the Cash Basis of Accounting* and the World Bank Guidelines.

Other Matter

Data included on pages 4 to 12 of the accompanying special purpose project financial statements that are marked as "Unaudited" have not been audited.

Basis of Accounting and Restriction on Use and Distribution

Without modifying our opinion, we draw attention to Note 2 to the special purpose project financial statements, which describes the basis of accounting. The special purpose project financial statements are prepared to assist the Center to comply with the requirements of IDA and for providing information to the Government of Georgia and IDA to assist them in evaluating the Project implementation. As a result, the special purpose project financial statements may not be suitable for another purpose. Our report is intended solely for the management of the Center, the Government of Georgia and IDA and should not be used by, or distributed to, other parties.

Component 1 - Construction of Special Facilities	3,100,000	10,070,000	7,970,000	20,140,000
Component 2 - Assets Sale				
Component 3 - Project Management				
IDA TOTAL	3,100,000	10,070,000	7,970,000	20,140,000
Component 1 - Construction of Special Facilities	1,050,110	10,204,621	1,050,110	22,304,841
Component 2 - Assets Sale	251,232	1,305,700	251,232	2,812,664
Component 3 - Project Management	13,367	64,504	13,367	133,504
GOS TOTAL	1,314,709	11,574,825	1,314,709	25,250,999
TOTAL PROJECT EXPENDITURES	4,414,709	21,644,825	9,284,709	45,391,000
NET OUTFLOW OF FUNDS	(1,314,709)	(11,574,825)	(1,314,709)	(25,250,999)

KPMG Georgia LLC
28 December 2016

KPMG Georgia LLC



The special purpose project financial statements were approved by the management of Transport Reform and Rehabilitation Center on 28 December 2016 and were signed on its behalf by:

[Signature]
Giorgi Tsagareli
Director
28 December 2016

[Signature]
Marina Katsarava
Financial Manager
28 December 2016

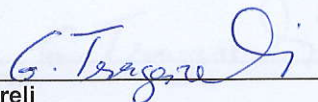
The notes on pages 8 to 12 form an integral part of these special purpose project financial statements.

**TRANSPORT REFORM AND REHABILITATION CENTER
THIRD EAST-WEST HIGHWAY IMPROVEMENT PROJECT ADDITIONAL
FINANCING
CREDIT NO. 5108-GE**

**STATEMENT OF SOURCES AND USES OF FUNDS
FOR THE PERIOD FROM 1 JANURAY 2016 TO 31 OCTOBER 2016
(in US Dollars)**

	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
FUNDS RECEIVED BY SOURCES						
International Development Association (IDA) funds:						
Replenishments	3,883,937					
Direct payment	171,502					
Returned back of unused credit	(4,760,843)					
Total funds (returned back)/received	(705,404)	35,501,654				
Government of Georgia ("GoG") co-financing	1,319,748	12,353,448				
TOTAL FUNDS RECEIVED	614,344	47,855,102				
Foreign exchange difference	(11)	(41)				
LESS: EXPENDITURES AND OTHER FUNDS						
Component 1 - Construction of Sveneti-Ruisi section	3,169,926	30,070,257	3,169,926	30,070,257	-	-
Component 2 - Roads Safety	1,004,520	5,199,468	1,004,520	5,199,468	-	-
Component 3 - Project Management	27,190	231,929	27,190	231,929	-	-
IDA TOTAL	4,201,636	35,501,654	4,201,636	35,501,654	-	-
Component 1 - Construction of Sveneti-Ruisi section	1,055,118	10,964,621	1,055,118	10,964,621	-	-
Component 2 - Roads Safety	251,232	1,303,792	251,232	1,303,792	-	-
Component 3 - Project Management	13,387	84,994	13,387	84,994	-	-
GoG TOTAL	1,319,737	12,353,407	1,319,737	12,353,407	-	-
TOTAL PROJECT EXPENDITURES	5,521,373	47,855,061	5,521,373	47,855,061	-	-
NET OUTFLOW OF FUNDS	(4,907,040)	-				

The special purpose project financial statements were approved by the management of Transport Reform and Rehabilitation Center on 28 December 2016 and were signed on its behalf by:


Giorgi Tsagareli
Director


Marina Majagaladze
Financial Manager

28 December 2016

28 December 2016

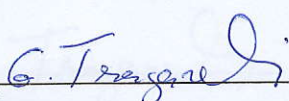
The notes on pages 8 to 12 form an integral part of these special purpose project financial statements.


**TRANSPORT REFORM AND REHABILITATION CENTER
THIRD EAST-WEST HIGHWAY IMPROVEMENT PROJECT ADDITIONAL FINANCING
FINANCING
CREDIT NO. 5108-GE**

**BALANCE SHEET STATEMENT
AS OF 31 OCTOBER 2016
(in US Dollars)**

	31 October 2016
ASSETS	
IDA Designated Account	-
TOTAL ASSETS	-
Funds received:	
Funds received from IDA	35,501,654
Funds received from GoG	12,353,448
Total funds received	47,855,102
Project expenditures:	
Financed by IDA	(35,501,654)
Financed by GoG	(12,353,407)
Total project expenditures	(47,855,061)
Foreign exchange difference	(41)
TOTAL PROJECT EXPENDITURES AND OTHER FUNDS	-

The special purpose project financial statements were approved by the management of Transport Reform and Rehabilitation Center on 28 December 2016 and were signed on its behalf by:


Giorgi Tsagareli
 Director


Marina Majagaladze
 Financial Manager

28 December 2016

28 December 2016

The notes on pages 8 to 12 form an integral part of these special purpose project financial statements.

**TRANSPORT REFORM AND REHABILITATION CENTER
THIRD EAST-WEST HIGHWAY IMPROVEMENT PROJECT ADDITIONAL FINANCING
CREDIT NO. 5108-GE**

**STATEMENT OF EXPENDITURE WITHDRAWAL SCHEDULE
FOR THE PERIOD FROM 1 JANUARY 2016 TO 31 OCTOBER 2016
(in US Dollars)**

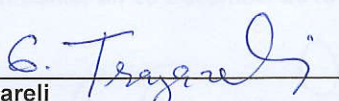
Withdrawal No.	Withdrawal application date	Total SOE in withdrawal schedule	Total SOE attributable to 2015	Total SOE attributable to 2016	Attributable to 2016 - Component 1	Attributable to 2016 - Component 2	Attributable to 2016 - Component 3
12	16 Mar 2016	53,861	45,443	8,418	-	-	8,418
13	17 May 2016	30,228	-	30,228	-	20,643	9,585
14	29 Aug 2016	76,225	-	76,225	-	67,038	9,187
15	10 Oct 2016	-	-	-	-	-	-
16	22 Oct 2016	-	-	-	-	-	-
ADD		160,314	45,443	114,871	-	87,681	27,190

Replacements: 3,887,307
 Direct Payment: 171,302
 Returned back of unused credit: (4,766,813)

DEDUCT
 Funds used for the Project expenditures: 14,261,630

Balance as of 31 October 2016

The special purpose project financial statements were approved by the management of Transport Reform and Rehabilitation Center on 28 December 2016 and were signed on its behalf by:


Giorgi Tsagareli
 Director


Marina Majagaladze
 Financial Manager

28 December 2016

28 December 2016

The notes on pages 8 to 12 form an integral part of these special purpose project financial statements.

**TRANSPORT REFORM AND REHABILITATION CENTER
THIRDT EAST-WEST HIGHWAY IMPROVEMENT PROJECT ADDITIONAL
FINANCING
CREDIT NO. 5108-GE**

**DESIGNATED ACCOUNT STATEMENT
FOR THE PERIOD FROM 1 JANUARY 2016 TO 31 OCTOBER 2016
(in US Dollars)**

Account No.	202250928
Depository Bank	State Treasury
Address	16 V. Gorgasali street Tbilisi, 0114 Georgia

Balance as at 1 January 2016	<u>4,907,040</u>
ADD	
Funds received from IDA:	
Replenishment	3,883,937
Direct Payment	171,502
Returned back of unused credit	(4,760,843)
DEDUCT	
Funds used for the Project expenditures	<u>(4,201,636)</u>
Balance as at 31 October 2016	<u><u>-</u></u>

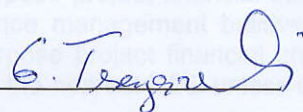
2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

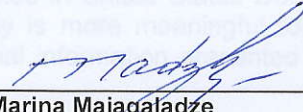
Statement of compliance – These special purpose project financial statements have been prepared in accordance with the Cash Basis International Public Sector Accounting Standard, Financial Reporting under a Cash Basis of Accounting and in conformity with the World Bank's Financial Management Sector Board's "Guidelines: Annual Financial Reporting and Auditing for World Bank-Financed Activities" (the "World Bank Guidelines").

The purpose of these special purpose project financial statements is to provide information to the Government of Georgia and the International Development Association to assist them in evaluating the Project implementation.

Cash basis of accounting - Project financing is recognized as a source of project funds when the cash is received. Project expenditures are recognized as a use of the Project funds on cash basis when the payments are made.

The special purpose project financial statements were approved by the management of Transport Reform and Rehabilitation Center on 28 December 2016 and were signed on its behalf by:


Giorgi Tsagareli
Director


Marina Majagaladze
Financial Manager

28 December 2016

28 December 2016

The notes on pages 8 to 12 form an integral part of these special purpose project financial statements.

**TRANSPORT REFORM AND REHABILITATION CENTER
THIRD EAST-WEST HIGHWAY IMPROVEMENT PROJECT ADDITIONAL
FINANCING
CREDIT NO. 5108-GE**

**NOTES TO THE SPECIAL PURPOSE PROJECT FINANCIAL STATEMENTS
FOR THE PERIOD FROM 1 JANUARY 2016 TO 31 OCTOBER 2016
(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 under the laws of Georgia in accordance with the Georgian Presidential Decree N 119 dated 16 April 1995. The founder of the Investment Center for Euro-Asian Transport Corridor is Georgia represented by the Georgian Government.

A project unit named "Transport Reform and Rehabilitation Center" (the "Center") was formed within the Eurasian Transport Corridor Investment Center.

The Center's principal activity is to manage allocated credits/loans received from the International Development Association ("IDA"), the International Bank for Reconstruction and Development ("IBRD"), the Asian Development Bank (ADB) and the European Investment Bank (EIB) and monitor the implementation of transport sector projects.

The Center implements the Third East-West Highway Additional Financing Improvement Project (the "Project"), financed under the International Development Association ("IDA"). Credit Agreement No. 5108-GE (the "Agreement") in the amount of 27.7 million Special Drawing Rights ("SDR") was signed between the Government of Georgia ("GoG") and IDA on 28 June 2012. The main objectives of the Project are: to contribute to the gradual reduction of road transport costs and improve access, ease of transit and road safety along central part of the East-West Corridor of Georgia and strengthen the capacity of the Road Department in the Ministry of Regional development and Infrastructure of Georgia (RDMRDI) and relevant government entities to plan and manage the road network and to improve road safety. Official termination date of the Agreement was 30 June 2016, with 4 months of grace period ended on 31 October 2016, however, the Project is still in progress and will be financed from GOG finance.

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance – These special purpose project financial statements have been prepared in accordance with the Cash Basis International Public Sector Accounting Standard, *Financial Reporting under a Cash Basis of Accounting* and in conformity with the World Bank's Financial Management Sector Board's "Guidelines: Annual Financial Reporting and Auditing for World Bank-Financed Activities" (the "World Bank Guidelines").

The purpose of these special purpose project financial statements is to provide information to the Government of Georgia and the International Development Association to assist them in evaluating the Project implementation.

Cash basis of accounting - Project financing is recognized as a source of project funds when the cash is received. Project expenditures are recognized as a use of the Project funds on cash basis when the payments are made.

Presentation currency – The national currency of Georgia is the Georgian Lari ("GEL"). These special purpose project financial statements are presented in United States Dollars ("US Dollar" or "USD"), since management believes that, this currency is more meaningful for the users of the special purpose project financial statements. All financial information presented in USD has been rounded to the nearest USD unless otherwise stated.

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 represents the balances with State Treasury of Georgia.

**TRANSPORT REFORM AND REHABILITATION CENTER
THIRD EAST-WEST HIGHWAY IMPROVEMENT PROJECT ADDITIONAL
FINANCING
CREDIT NO. 5108-GE**

**NOTES TO THE SPECIAL PURPOSE PROJECT FINANCIAL STATEMENTS
FOR THE PERIOD FROM 1 JANUARY 2016 TO 31 OCTOBER 2016
(in US Dollars)**

3. DESIGNATED ACCOUNT

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

4. BASIS OF FUNDING

According to the terms of the Agreement, the expenditures of all works, goods and consultant services contracts, including all applicable taxes are co-financed by proceeds received from IDA and GoG at a proportional rate of 80% and 20%, respectively.

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

5. METHODS OF WITHDRAWAL

The methods of withdrawal used from the inception of the credit to 31 October 2016 were as follows:

(a) Designated Account

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

(b) Direct Payment

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

(c) GoG Current Account

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

6. STATEMENT OF EXPENDITURES (SOE)

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

- (i) All expenditures for works valued at less than USD 2,000,000;
- (ii) Consultant services contracts (firms) valued at less than USD 100,000;
- (iii) Consultant services contracts (individuals) valued at less than USD 50,000;
- (iv) All expenditures for goods and non-consulting services valued at less than USD 300,000.

**TRANSPORT REFORM AND REHABILITATION CENTER
THIRD EAST-WEST HIGHWAY IMPROVEMENT PROJECT ADDITIONAL
FINANCING
CREDIT NO. 5108-GE**

**NOTES TO THE SPECIAL PURPOSE PROJECT FINANCIAL STATEMENTS
FOR THE PERIOD FROM 1 JANUARY 2016 TO 31 OCTOBER 2016
(in US Dollars)**

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

Project activities	Actual		Planned		Period from 1 January 2016 to 31 October 2016
	Year to date	Cumulative to date	Year to date	Cumulative to date	
Application of Withdrawals Schedule					
Expenses incurred in 10 months as per the Applications of Withdrawals Schedule					4,201,636
Expenses incurred in 10 months without Applications of Withdrawals Schedule					-
					4,201,636
IDA funds received during 10 months:					
Replenishment					3,883,937
Direct Payment					171,502
Returned back of unused credit					(4,760,843)
					(705,404)
Add:					
Opening Balance as of 1 January 2016					4,907,040
Designated Account					131,037
					4,907,040
Less:					
Closing Balance as at 31 October 2016					-
Designated Account					-
					-
TOTAL EXPENDITURES INCURRED FOR THE PERIOD FROM 1 JANURAY 2016 TO 31 OCTOBER 2016					4,201,636

The Project consists of the following main components:

- Component 1 - Upgrading the existing E60 East-West Highway from Standard to Road to Road to 4-lane carriageway road.
- Component 2 - Institutional strengthening.
- Component 3 - Institutional support to the Road Department in the Ministry of Regional Development and Infrastructure (ADMRI) of Georgia and the Center related to the Project implementation, audits and the Project monitoring and evaluation.

**TRANSPORT REFORM AND REHABILITATION CENTER
THIRD EAST-WEST HIGHWAY IMPROVEMENT PROJECT ADDITIONAL
FINANCING
CREDIT NO. 5108-GE**

**NOTES TO THE SPECIAL PURPOSE PROJECT FINANCIAL STATEMENTS
FOR THE PERIOD FROM 1 JANUARY 2016 TO 31 OCTOBER 2016
(in US Dollars)**

8. PROJECT EXPENDITURES BY COMPONENTS

Project activities	Actual		Planned		Variance	
	Year to date	Cumulative to date	Year to date <i>Unaudited</i>	Cumulative to date <i>Unaudited</i>	Year to date <i>Unaudited</i>	Cumulative to date <i>Unaudited</i>
Component 1 - Construction of Sveneti-Ruisi section						
Civil works	3,737,671	37,367,643	3,737,671	37,367,643	-	-
Land acquisition and Resettlements	263,579	3,443,441	263,579	3,443,441	-	-
Consultancy	223,794	223,794	223,794	223,794	-	-
TOTAL COMPONENT 1	4,225,044	41,034,878	4,225,044	41,034,878	-	-
Component 2 - Roads Safety						
Consultancy	1,226,453	6,342,954	1,226,453	6,342,954	-	-
Vehicles, office equipment and computers for RDMRDI	-	131,007	-	131,007	-	-
Trainings	29,299	29,299	29,299	29,299	-	-
TOTAL COMPONENT 2	1,255,752	6,503,260	1,255,752	6,503,260	-	-
Component 3 - Project Management						
The Center's fees and operating costs	40,577	110,636	40,577	110,636	-	-
Financial audit RDDMRDI	-	52,569	-	52,569	-	-
Consultants	-	153,718	-	153,718	-	-
TOTAL COMPONENT 3	40,577	316,923	40,577	316,923	-	-
TOTAL PROJECT EXPENDITURES	5,521,373	47,855,061	5,521,373	47,855,061	-	-

The Project consists of the following main components:

- Component 1 - Upgrading the existing E60 East-West Highway from Sveneti to Ruisi to a dual carriageway road;
- Component 2 - Institutional strengthening;
- Component 3 - Institutional support to the Road Department in the Ministry of Regional Development and Infrastructure (RDMRDI) of Georgia and the Center related to the Project implementation, audits and the Project monitoring and evaluation.

**TRANSPORT REFORM AND REHABILITATION CENTER
THIRD EAST-WEST HIGHWAY IMPROVEMENT PROJECT ADDITIONAL
FINANCING
CREDIT NO. 5108-GE**

**NOTES TO THE SPECIAL PURPOSE PROJECT FINANCIAL STATEMENTS
FOR THE PERIOD FROM 1 JANUARY 2016 TO 31 OCTOBER 2016
(in US Dollars)**

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

Each component of the Project expenses is further divided into four types of expenses for The SOE purposes: civil works, goods, consultants' services and operating costs.

9. COMMITMENTS AND CONTINGENCIES

Management is not aware of any commitments and contingencies, which would have a material impact on this special purpose project financial statements as at 31 October 2016 for the period from 1 January 2016 to 31 October 2016.

10. GEORGIAN OPERATING ENVIRONMENT

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

11. EVENTS SUBSEQUENT TO THE BALANCE SHEET DATE

There were no significant events subsequent to the balance sheet date.

12. APPROVAL OF FINANCIAL STATEMENTS

These special purpose project financial statements were authorized for issue by the management of the Center on 28 December 2016.