

**EURASIAN TRANSPORT
CORRIDOR INVESTMENT
CENTER**

LOAN NO.3520-GEO/8328-GEO
(BATUMI BYPASS ROAD PROJECT – GOG SHARE)

Special Purpose Project Financial Statements
For the Year Ended 31 December 2018

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

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**EURASIAN TRANSPORT CORRIDOR INVESTMENT CENTER
BATUMI BYPASS ROAD PROJECT GOG SHARE**

**STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION
AND APPROVAL OF THE SPECIAL PURPOSE PROJECT FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

Management of the Batumi Bypass Road Project – GoG Share (the "Project") implemented by the Eurasian Transport Corridor Investment Center ("ETCIC" or Transport Reform and Rehabilitation Center – "TRRC") is responsible for the preparation of the special purpose project financial statements that present fairly Statement of Sources and Uses of Funds for the Year Ended 31 December 2018, the Balance Sheet as at 31 December 2018 and Statement of Project Account for the Year Ended 31 December 2018, 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:

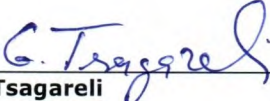
- Properly selecting and applying accounting policies;
- Presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information; and
- Providing additional disclosures when compliance with the specific requirements in IPSAS – Cash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

The special purpose project financial statements for the Year Ended 31 December 2018 were authorised for issue on 25 June 2019 by the Management.

On behalf of the Management:



Giorgi Tsagareli
Director

25 June 2019



Marina Majagaladze
Financial Manager

25 June 2019

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 – GoG Share (the "Project") financed under the Loan Agreements No. 3520-GEO and No. 8328-GEO dated 12 June 2017 and 17 June 2017 respectively (the "Agreements"), implemented by the Eurasian Transport Corridor Investment Center, which comprise Statement of Sources and Uses of Funds for the Year Ended 31 December 2018, the Balance Sheet as at 31 December 2018 and Statement of Project Account for the Year Ended 31 December 2018 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 2018 are prepared, in all material respects, in accordance with the IPSAS – Cash Basis and Asian Development Bank Guidelines, as further detailed in Note 2.

Basis for Opinion

We conducted our audit in accordance with International Standards of Auditing ("ISAs"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Special Purpose Project Financial Statements section of our report. We are independent of the Organisation in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (the "IESBA Code") together with the ethical requirements that are relevant to our audit of the special purpose project financial statements in Georgia, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter – Basis of Accounting and Restriction on Distribution and Use

We draw attention to Note 2 to the special purpose project financial statements, which describes the basis of accounting. The special purpose project financial statements are prepared to assist the Project's management to comply with the financial reporting provisions of the Agreement referred to above. 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 reporting the information to the Government of Georgia, and to communicate the compliance with the use of the Project's funds to the Asian Development Bank. This report is not intended for the benefit of any other third parties and we accept no responsibility or liability to any party other than those mentioned above in respect of the report. Should any third party take decisions based on the contents of the report, the responsibility for such decisions shall remain with those third parties. Our opinion is not modified in respect of this matter.

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

Management is responsible for the preparation of these special purpose project financial statements in accordance with the basis of accounting described in Note 2.

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

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

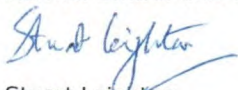
Auditor's Responsibilities for the Audit of the Special Purpose Project Financial Statements

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 scepticism 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.



Stuart Leighton
On behalf of Deloitte and Touche LLC



25 June 2019
Tbilisi, Georgia

**EURASIAN TRANSPORT CORRIDOR INVESTMENT CENTER
BATUMI BYPASS ROAD PROJECT GOG SHARE
LOAN NO 3520-GEO/8323-GEO GOG SHARE**

**STATEMENT OF SOURCES AND USES OF FUNDS
FOR THE Year Ended 31 December 2018
(in USD)**

	Actual		Planned*		Variance	
	Period to date	Cumulative to date	Period to date <i>Unaudited</i>	Cumulative to date <i>Unaudited</i>	Period to date <i>Unaudited</i>	Cumulative to date <i>Unaudited</i>
FUNDS RECEIVED BY SOURCES						
International financial institution (IFI) Funds	-	138,710				
GOG retroactive funds for ADB (foreign exchange gain)	-	<u>138,710</u>				
Government of Georgia	<u>2,805,385</u>	<u>43,871,503</u>				
TOTAL FUNDS RECEIVED	<u>2,805,385</u>	<u>44,010,213</u>				
Foreign exchange difference, net	<u>(20)</u>	<u>36</u>				
LESS: EXPENDITURES						
Category 1 - Works	2,487,922	43,549,128	2,487,922	43,549,128	-	-
Category 2 - Consulting Services	287,030	291,998	287,030	291,998	-	-
Category 3 - Project management and institutional support	146,821	146,821	146,821	146,821	-	-
Category 4 - Interest and other financial charges	-	-	-	-	-	-
Category 5 - Unallocated	-	-	-	-	-	-
TOTAL	<u>2,921,773</u>	<u>43,987,947</u>	<u>2,921,773</u>	<u>43,987,947</u>	<u>-</u>	<u>-</u>
TOTAL PROJECT EXPENDITURES	<u>2,921,773</u>	<u>43,987,947</u>	<u>2,921,773</u>	<u>43,987,947</u>		
NET FLOW OF FUNDS	<u>(116,408)</u>	<u>22,302</u>				

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

On behalf of the Management:


Giorgi Tsagareli
Director

25 June 2019


Marina Majagaladze
Financial Manager

25 June 2019

The notes on pages 7 to 10 form an integral part of these special purpose project financial statements.

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

**BALANCE SHEET STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2018
(in USD)**

	Notes	31 December 2018
ASSETS		
GOG Project account		<u>22,302</u>
TOTAL ASSETS		<u><u>22,302</u></u>
Funds received:		
Funds received from GOG		43,871,503
GOG retroactive funds for ADB (Foreign exchange gain)		<u>138,710</u>
Total funds received		<u><u>44,010,213</u></u>
Project expenditures:		
Financed by GOG	5	<u>(43,987,947)</u>
Total project expenditures		<u><u>(43,987,947)</u></u>
Foreign exchange difference, net		<u>36</u>
TOTAL PROJECT FUNDS LESS EXPENDITURES		<u><u>22,302</u></u>

GOG retroactive funds for ADB (Foreign Exchange Gain) represents the foreign exchange gain. Per Loan Agreement No. 3520-GEO the borrower may make reimbursable expenditure before the effective date of the loan for the works and consulting services, subject to a maximum amount equivalent to 20% of the loan amount.

The borrower has exercised this right and Government of Georgia have paid on behalf of ADB GEL 9,397,850 for civil works, which was equivalent to USD 3,788,218 at the date of transaction. Later ADB reimbursed the amount to Government of Georgia. At the date of reimbursement exchange rate of USD to GEL have increased and the outstanding liability of GEL 9,397,850 equaled USD 3,649,508. The difference between the received and paid amount represents the additional financing from ADB, which was placed on Government of Georgia project account in the State Treasury.

On behalf of the Management:



Giorgi Tsagareli
Director

25 June 2019



Marina Majagaladze
Financial Manager

25 June 2019

The notes on pages 7 to 10 form an integral part of these special purpose project financial statements.

**EURASIAN TRANSPORT CORRIDOR INVESTMENT CENTER
BATUMI BYPASS ROAD PROJECT GOG SHARE
LOAN NO. 3520-GEO/8328 – GEO GOG SHARE**

**STATEMENT OF PROJECT ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2018
(in USD)**

Account No.	299250818
Depository Bank	State Treasury
Address	16 V. Gorgasali street Tbilisi, 0114 Georgia

Balance as at 31 December 2017 **138,710**

ADD

GOG Replenishment -

DEDUCT

Project Expenditure

(116,408)

Balance as at 31 December 2018

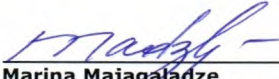
22,302

On behalf of the Management:



Giorgi Tsagareli
Director

25 June 2019



Marina Majagaladze
Financial Manager

25 June 2019

The notes on pages 7 to 10 form an integral part of these special purpose project financial statements.

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

**NOTES TO THE SPECIAL PURPOSE PROJECT FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018
(in USD)**

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 – "TRRC") 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 and 8328-GEO 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 expenditures of the project in accordance with the provisions of this loan agreement.

Government of Georgia started contribution in land acquisition and resettlement expenses from June 8, 2016 before these agreements were officially signed.

The outputs of the project will be:

- (i) 14.3 km of a new two-lane bypass road skirting Batumi; and
- (ii) routine and periodic maintenance carried out using Performance Based Maintenance ("PBM") contracts.

The Batumi bypass road is located in Khelvachauri district and starts from Senaki-Poti-Sarpi road, passes through mountainous terrain and densely populated areas of villages of Makhinjauri, Gantiadi, Kapreshumi, Salibauri, Peria, Makhvilauri, and Kakhaberi, and ends at the juncture of the existing Batumi-Akhaltzikhe road (E691) on an entirely new alignment. It includes construction of five tunnels, 14 bridges on two major rivers and long valley crossings, and two grade separated interchanges.

PBM contracts have both output and performance based components and consist of

- (i) initial repairs, so that routine maintenance can be performed (four to six month duration);
- (ii) routine maintenance comprising lump-sum monthly payments per km related on meeting defined operating-and-maintenance service levels (entire contract period, typically five years);
- (iii) periodic maintenance (resurfacing), according to a given annual schedule or total output in km over the contract period; and
- (iv) emergency maintenance works.

2. ACCOUNTING POLICIES

Basis of accounting – These special purpose project financial statements have been prepared in accordance with the Guidelines for the Financial Governance and Management of Investment Projects Financed by Asian Development Bank and the accounting policies set out below. 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*.

These special purpose project financial statements, in accordance with the provisions of the Agreement, are prepared to report the Project's financial results to the Government of Georgia and to communicate the compliance with the use of the funds to the Asian Development Bank. As

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

**NOTES TO THE SPECIAL PURPOSE PROJECT FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED)
(in USD)**

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 expenditures - are recognised as a use of project funds when the payments are made.

Functional currency – These special purpose project financial statements are expressed in USD (or "USD").

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

Cash – Cash comprises cash on hand and balances with the State Treasury.

3. BASIS OF FUNDING

The borrower will contribute approximately USD 87.2 million of land acquisition and resettlement and taxes and duties. International financial institutions contributions and relevant shares are presented below:

According to the terms of the ADB Loan Agreement No.3520-GEO:

- Category 1 – 32.3% of the Batumi Bypass Road Project works and 100% of performance-based maintenance project works*;
- Category 2 – 50% of construction supervision of Batumi Bypass Road Project; 100% of performance-based maintenance contract design and respective supervision;
- Category 3 – 100% of Project management and institutional support*;
- Category 4 – 100% of Interest and commitment charges; and
- Category 5 – Unallocated.

*Exclusive of taxes and duties imposed within the territory of the borrower.

According to the terms of the AIIB Loan Agreement No. 8323-GEO (000021-01-GEO):

- Category 1 – 48% of the Batumi Bypass Road Project works*;
- Category 2 – 50% of construction supervision of Batumi Bypass road project;
- Category 3 – Not financed
- Category 4 – Interest and Other Financing Charges are financed by 100% of the amount payable on or prior to the closing date pursuant to section 2.07 (c) of the general condition and 100% of the amount payable to section 2.03 of the Loan Agreement in accordance with section 2.07 (b) of the general conditions; and
- Category 5 – Unallocated.

* Exclusive of taxes and duties imposed within the territory of the borrower

4. METHODS OF WITHDRAWAL

The methods of withdrawal used from the inception of the loan to 31 December 2018 were as follows:

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

**NOTES TO THE SPECIAL PURPOSE PROJECT FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED)
(in USD)**

(a) 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 expenditures to be incurred.

5. PROJECT EXPENDITURE BY COMPONENTS

Project Activities	Year Ended 31 December 2018		Cumulative from inception	
	GOG Financing	Total	GOG Financing	Total
Component A – Investment costs				
Land acquisition and resettlement	842,181	842,181	38,218,458	38,218,458
Civil works	1,645,741	1,645,741	5,330,670	5,330,670
Construction Supervision Consultant for Batumi Bypass Road	287,030	287,030	291,998	291,998
Project management and institutional support	146,821	146,821	146,821	146,821
TOTAL COMPONENT A	2,921,773	2,921,773	43,987,947	43,987,947
Component B – Contingencies unallocated				
Physical	-	-	-	-
Price	-	-	-	-
TOTAL COMPONENT B	-	-	-	-
Component C – Financial Charges during Implementation _ CAP				
Interest during implementation	-	-	-	-
Commitment charges	-	-	-	-
Front end fee	-	-	-	-
TOTAL COMPONENT C	-	-	-	-
TOTAL PROJECT EXPENDITURE	2,921,773	2,921,773	43,987,947	43,987,947

According to Project administration manual the borrower will contribute USD 87.2 million for land acquisition and resettlement and taxes and duties. USD 42.3 million is allocated to land acquisition and resettlement that covers 100% of this type of cost category and is incurred exclusively by Government of Georgia. The project is 13.7 km of the 14.3 km long road will require land acquisition and resettlement (LAR). For the purposes of LAR the road has been split into two sections, Section 1 (7 km), and Section 2 (6.7 km).

The Borrower through the Road Department shall ensure that all land and all rights-of-way required for the Project are made available to the works of contractor in accordance with the schedule agreed under the related Works.

Land acquisition began on 8 June 2016 and was still in active phase as of reporting date.

The Project comprises the following main components:

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

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

**NOTES TO THE SPECIAL PURPOSE PROJECT FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED)
(in USD)**

If the amount of the Loan allocated to a category appears to exceed all agreed expenditures 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 – Civil works
- Category 2 – Consulting services
- Category 3 – Project management and institutional support
- Category 4 – Interest and commitment charges
- Category 5 – Unallocated

6. COMMITMENTS AND CONTINGENCIES

The Management is not aware of any commitments and contingencies which would have a material impact on the financial position of the Project as at 31 December 2018 and on the funds received and disbursed during the period then ended.

7. OPERATING ENVIRONMENT

Emerging markets such as Georgia are subject to different risks than more developed markets, including economic, political and social, and legal and legislative risks. Laws and regulations affecting businesses in Georgia continue to change rapidly and tax and regulatory frameworks are subject to varying interpretations. The future economic direction of Georgia 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 two years Georgia has experienced a number of legislative changes, which have been largely related to the Usdpean Union Association Agreement. Whilst the legislative changes implemented during 2018 and 2017 paved the way, more can be expected as Georgia's action plan for achieving accession to the Usdpean Union continues to develop.

8. EVENTS SUBSEQUENT TO THE BALANCE SHEET DATE

There were no significant events subsequent to the balance sheet date that require adjustment to, or disclosure in, these special purpose project financial statements.

9. APPROVAL OF SPECIAL PURPOSE PROJECT FINANCIAL STATEMENTS

These special purpose project financial statements were authorised for issue by the Management of ETCIC on 25 June 2019.