

Audited Project Financial Statements

Project Number: 43405-025
Loan Number: 3078
Period covered: 31 December 2017

GEO(SF): Urban Services Improvement Investment Program – Project 3

Prepared by EY Georgia LLC

For the Asian Development Bank
Date by ADB: 6 June 2018

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"Urban Services Improvement
Investment Program"

Loan No. 3078-GEO (SF) (Project 3)

*Special Purpose Financial Statement
For the year ended 31 December 2017
Together with Independent Auditor's Report*

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Independent Auditor's Report

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Independent auditor's report

To the management and shareholders of United Water Supply Company of Georgia LLC

Opinion

We have audited the statement of cash receipts and payments for the year ended 31 December 2017 of "Urban services Improvement Investment Program (Georgia)" (the Project) implemented by United Water Supply Company of Georgia LLC (the Entity) and financed by Loan No. 3078-GEO (SF) (Project 3) from Asian Development Bank and notes to the statement of cash receipts and payments, including a summary of significant accounting policies (together "the Special Purpose Financial Statement").

In our opinion, the accompanying Special Purpose Financial Statement is prepared, in all material respects, in accordance with the basis of accounting described in Note 2 of the Special Purpose Financial Statement.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the Special Purpose Financial Statement* section of our report. We are independent of the Entity in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with 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 use

We draw attention to Note 2 to the Special Purpose Financial Statement, which describes the basis of accounting. The Special Purpose Financial Statement has been prepared by the management of the Entity based on the requirements of the Project 3 Loan Agreement No. 3078-GEO (SF), dated 19 December 2013 (the Loan Agreement) as described in Note 2 of the Special Purpose Financial Statement. The Special Purpose Financial Statement is prepared to provide information to Asian Development Bank and the Government of Georgia. As a result of the Special Purpose Financial Statement may not be suitable for another purpose. Our opinion is not modified in respect of this matter.

Responsibilities of management for the Special Purpose Financial Statement

Management is responsible for the preparation of the Special Purpose Financial Statement in accordance with the basis of accounting described in Note 2 of the Special Purpose Financial statement, and for such internal control as management determines is necessary to enable the preparation of the Special Purpose Financial Statement that is free from material misstatement, whether due to fraud or error.

Auditor's responsibilities for the audit of the Special Purpose Financial Statement

Our objectives are to obtain reasonable assurance about whether the Special Purpose Financial Statement as a whole is 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 this Special Purpose Financial Statement.

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

- ▶ Identify and assess the risks of material misstatement of the Special Purpose Financial Statement, 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 Entity's internal control.
- ▶ Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates, if any, and related disclosures made by management.
- ▶ Evaluate the overall presentation, structure and content of the Special Purpose Financial Statement, including the disclosures, and whether the Special Purpose Financial Statement represents the underlying transactions and events in a manner that achieves fair presentation.

Other matters on which we are required to report

The Entity is also responsible for compliance with Sections 3.02, 3.03 and 3.04 of the Loan Agreement on the use of the proceeds of the Loan and for compliance with financial covenants contained in paragraphs 6 and 7 of Schedule 3 to the Loan Agreement. We have audited the utilization of the proceeds of the Loan in accordance with requirements of Sections 3.02, 3.03 and 3.04 of the Loan Agreement and the Entity's compliance with the financial covenants contained in paragraphs 6 and 7 of Schedule 3 to the Loan Agreement, described in Notes 10.1 and 10.2 of the Special Purpose Financial Statement. In our opinion, the Entity has utilized, in all material respects, the proceeds of the Loan only for the purposes of the Project in accordance with Sections 3.02, 3.03 and 3.04 of the Loan Agreement and no proceeds have been used for other purposes and the Entity is compliant with financial covenants contained in paragraphs 6 and 7 of Schedule 3 to the Loan Agreement.

Our cumulative liability with respect to any damage or loss connected with this report may not exceed the fee received by us under the audit agreement. We do not accept any liability if the users of this report do not accept the terms of the audit agreement on which the report was prepared.



Ruslan Khoroshvili

On Behalf of EY Georgia LLC

30 May 2018

Tbilisi Georgia

"Urban Services Improvement Investment Program" (Georgia)

Special Purpose Financial Statement for Loan No. 3078-GEO (SF) (Project 3) - 31 December 2017

STATEMENT OF CASH RECEIPTS AND PAYMENTS
For the year ended 31 December 2017

In US Dollars

	2017					
	Cash receipts and payments controlled by the entity			Cash receipts and payments by third party		
	For the year	Cumulative	For the year	Cumulative	For the year	Cumulative
Opening cash balance:	-	-	-	-	-	-
Cash receipts from the Asian Development Bank	-	-	11,254,187	35,728,253	11,254,187	35,728,253
Cash receipts from the Government of Georgia	1,902,435	6,153,585			1,902,435	6,153,585
Total cash receipts:	1,902,435	6,153,585	11,254,187	35,728,253	13,156,622	41,881,838
Cash disbursements from the Asian Development Bank funding:						
Construction or civil works	-	-	(10,498,258)	(33,875,770)	(10,498,258)	(33,875,770)
Goods	-	-	(84,589)	(593,235)	(84,589)	(593,235)
Consulting services	-	-	(132,100)	(238,361)	(132,100)	(238,361)
Interest charge	-	-	(539,240)	(1,020,887)	(539,240)	(1,020,887)
Cash disbursements from the Government of Georgia funding:						
Construction or civil works	(1,864,596)	(5,994,395)	-	-	(1,864,596)	(5,994,395)
Goods	(15,182)	(117,591)	-	-	(15,182)	(117,591)
Consulting services	(22,657)	(41,599)	-	-	(22,657)	(41,599)
Total cash disbursements:	(1,902,435)	(6,153,585)	(11,254,187)	(35,728,253)	(13,156,622)	(41,881,838)
Foreign exchange difference, net	-	-	-	-	-	-
Closing cash balance	-	-	-	-	-	-

Signed and authorized for issue on 30 May 2018.

Ekaterine Galdava, Director

Irakli Urushadze, Deputy Director in Financial Issues

"Urban Services Improvement Investment Program" (Georgia)

Special Purpose Financial Statement for Loan No. 3078-GEO (SF) (Project 3) - 31 December 2017

STATEMENT OF CASH RECEIPTS AND PAYMENTS
For the year ended 31 December 2016

In US Dollars

	2016					
	Cash receipts and payments controlled by the entity		Cash receipts and payments by third party		Total cash receipts and payments	
	For the year	Cumulative	For the year	Cumulative	For the year	Cumulative
Opening cash balance:	-	-	-	-	-	-
Cash receipts from the Asian Development Bank	-	-	10,002,259	24,474,066	10,002,259	24,474,066
Cash receipts from the Government of Georgia	1,699,247	4,251,150	-	-	1,699,247	4,251,150
Total cash receipts:	1,699,247	4,251,150	10,002,259	24,474,066	11,701,506	28,725,216
Cash disbursements from the Asian Development Bank funding:						
Construction or civil works	-	-	(9,575,436)	(23,377,512)	(9,575,436)	(23,377,512)
Goods	-	-	-	(508,646)	-	(508,646)
Consulting services	-	-	(95,292)	(106,261)	(95,292)	(106,261)
Interest charge	-	-	(331,531)	(481,647)	(331,531)	(481,647)
Cash disbursements from the Government of Georgia funding:						
Construction or civil works	(1,682,209)	(4,129,799)	-	-	(1,682,209)	(4,129,799)
Goods	-	(102,409)	-	-	-	(102,409)
Consulting services	(17,038)	(18,942)	-	-	(17,038)	(18,942)
Total cash disbursements:	(1,699,247)	(4,251,150)	(10,002,259)	(24,474,066)	(11,701,506)	(28,725,216)
Foreign exchange difference, net	-	-	-	-	-	-
Closing cash balance	-	-	-	-	-	-

The accompanying notes on 5-12 are an integrated part of this Special Purpose Financial Statement

NOTES TO THE SPECIAL PURPOSE FINANCIAL STATEMENT

"Urban Services Improvement Investment Program" (Georgia)

Special Purpose Financial Statement for Loan No. 3078-GEO (SF) (Project 3) - 31 December 2017

1. General

According to the Loan Agreement dated 19 December 2013 the Asian Development Bank (the "ADB") provided a Loan no. 3078-GEO (SF) to the Government of Georgia (the "GOG") from the ADB's special funds resources in various currencies equivalent to sixty-four million two hundred five thousand Special Drawing Rights ("SDR") (the "Loan") for the purposes of implementing "the Urban Services Improvement Investment Program" (the "Project").

On 7 March 2014 a Subsidiary Loan Agreement was formed between Georgia as represented by the Ministry of Finance of Georgia, the Ministry of Regional Development and Infrastructure of Georgia (the "MRDI") and the United Water Supply Company of Georgia LLC (the "UWSCG LLC" or the Entity). The liabilities under the Loan in respect of the Project were reassigned to the Entity and the implementation was concluded to take place under the oversight of the MRDI.

The Entity is 100 % owned by the State of Georgia.

Address of the UWSCG LLC: 76B Vazha-Phshavela Ave., Tbilisi, Georgia

Duration of the Project: December 2014 until 31 March 2019

Project purpose

The objective of the Investment Program is to improve water supply and sanitation services in secondary towns of Georgia.

According to the amendment N2 to the Loan Agreement No. 3078-GEO (SF), dated 25 July 2017, an additional activity (Activity: 1.3) was added to the Project component.

The Project consists of the following components:

1. Component: Infrastructure Improvement

The objective of the component is construction of a new Water Supply System (WSS) in Kutaisi and Ureki, including a water distribution network, sewage collection system, build of reservoirs and pumping stations.

This component consists of the following activities:

- 1.1. Activity: *Augmentation of the water supply system in the town of Kutaisi through construction of reservoirs, pumping stations, and corresponding water transmission mains, and distribution network*
- 1.2. Activity: *Construction and/or upgrading a new water supply and sewerage system in the town of Ureki including a water distribution network, sewage collection system and sewage treatment plant*
- 1.3. Activity: *Construction and/or upgrading of the water supply systems in the towns of Abasha and Telavi and construction of wastewater system including a sewerage collection system and sewage treatment plant/s in the town of Gudaur*
- 1.4. Activity: *Procurement of sewer cleaning vehicle and water quality testing laboratory equipment*

NOTES TO THE SPECIAL PURPOSE FINANCIAL STATEMENT

"Urban Services Improvement Investment Program" (Georgia)

Special Purpose Financial Statement for Loan No. 3078-GEO (SF) (Project 3) - 31 December 2017

1. General (continued)

2. Component: Institutional Effectiveness

The objective of this component is to implement Geographic Information Systems (GIS) mapping of water and sewerage network for secondary towns, human resource development through establishing WSS management program in Georgian universities and hiring of Individual Consultants in order to support the Investment Program Management Office (IPMO). This component consists of the following activities:

- 2.1. Activity: *Provision of support (i) for GIS mapping of water and sewerage network for secondary towns, and (ii) for human resource development through WSS management program in Georgian universities*
- 2.2. Activity: *Provision of support to the UWSCG LLC for (i) creation of sex-disaggregated consumer database to develop targeted marketing campaigns (ii) establishing customer care units in WSS service centers, and (iii) project implementation and management, including supporting the Investment Program management office, and capacity development and training.*

2. Basis of preparation

This Special Purpose Financial Statement has been prepared by the management of the Entity based on the following requirements of the Loan Agreement No. 3078-GEO (SF), dated 19 December 2013 (the Loan Agreement) and the ADB's Project Administration Instructions (PAI 5.07, revised in August 2015):

- ▶ The Special Purpose Financial Statement has been primarily prepared in accordance with the International Public Sector Accounting Standards ("IPSAS") "Financial Reporting under the Cash Basis of Accounting" issued by the Public Sector Committee of the International Federation of Accountants following the requirements set out in Section 4.03 of the Loan Agreement and Section B of the Project Administration Instructions (PAI 5.07, revised in August 2015);
- ▶ Notes 10.1 and 10.2 to the Special Purpose Statement have been added specifically to address the requirement of Sections 3.02, 3.03, and 3.04; and paragraphs 6 and 7 of Schedule 3 to the Loan Agreement, respectively.

The Special Purpose Financial Statement comprises:

- ✓ • Statement of cash receipts and payments
 - ✓ • Notes to the Special Purpose Financial Statement, including the summary of significant accounting policies.
- ✓ The reporting currency of this Special Purpose Financial Statement is US Dollars.

NOTES TO THE SPECIAL PURPOSE FINANCIAL STATEMENT

"Urban Services Improvement Investment Program" (Georgia)

Special Purpose Financial Statement for Loan No. 3078-GEO (SF) (Project 3) - 31 December 2017

3. Summary of significant accounting policies

(i) Cash basis of accounting

The Special Purpose Financial Statement was prepared and presented based on cash method of accounting. Cash method of accounting is the accounting principle, according to which changes in the financial position of the entity are recognized only at the time when cash is paid or obtained.

The Special Purpose Financial Statement prepared based on cash method presents information on the source of cash, application of funds objectives and cash balances at the reporting date. The measurement focus in the Special Purpose Financial Statement is balances of cash and changes therein.

(ii) Foreign currency

Cash accounts of the Project are maintained in Georgian Lari (GEL); however the Special Purpose Financial Statement is prepared in US Dollars for the purposes of reporting to the ADB.

Cash receipts and payments arising from transactions in a foreign currency is recorded in an entity's reporting currency by applying to the foreign currency amount the exchange rate between the reporting currency and the foreign currency at the date of the receipts and payments. Foreign exchange rate is the actual rate used for each transaction. Funds received from the ADB in the foreign currency are translated using the actual rate at which the ADB purchases the foreign currency at the transaction date. For co-financing received from the GOG, the rate published by the National Bank of Georgia (NBG) is used as actual rate; since this is the reference rate most commonly used for foreign currency denominated contracts in Georgia.

(iii) Cash

As the Project is mainly financed through direct payments of reimbursement procedures, the UWSCG LLC does not have bank account for Project expenses, attributable to the ADB funds. Only one cash account for funds received from the GOG is maintained in Georgian commercial bank. Funds received from the GOG are mainly transferred at the same day from the UWSCG LLC account in the Georgian commercial bank to contractors' accounts. In 2015 on this account were also located funds received under resolution of the GOG No. 526, related to land acquisition and resettlement (Note 9).

(iv) Project expenditures

The expenses and advances paid are recorded in the period when they are actually paid by direct payment, reimbursement payment or transferred to the escrow account or account for letter of credit. The Project expenditures are financed proportionately by the ADB and the GOG (Note 6).

NOTES TO THE SPECIAL PURPOSE FINANCIAL STATEMENT

"Urban Services Improvement Investment Program" (Georgia)

Special Purpose Financial Statement for Loan No. 3078-GEO (SF) (Project 3) - 31 December 2017

4. Project funds by main categories and components

The table below presents annual cash receipts by sources and payments by categories:

	2017		Cumulative	
	In US Dollars	In Georgian Lari*	In US Dollars	In Georgian Lari*
Cash receipts from the ADB	11,254,187	27,722,476	35,728,253	82,490,384
Cash receipts from the GOG	1,902,435	4,733,405	6,153,585	14,402,687
Total cash receipts:	13,156,622	32,455,881	41,881,838	96,893,071

	2016		Cumulative	
	In US Dollars	In Georgian Lari*	In US Dollars	In Georgian Lari*
Cash receipts from the ADB	10,002,259	23,713,981	24,474,066	54,767,908
Cash receipts from the GOG	1,699,247	4,133,060	4,251,150	9,669,282
Total cash receipts:	11,701,506	27,847,041	28,725,216	64,437,190

	2017		Cumulative	
	In US Dollars	In Georgian Lari*	In US Dollars	In Georgian Lari*
Construction or civil works	12,362,854	30,444,879	39,870,165	92,111,265
Goods	99,771	248,668	710,826	1,574,123
Consulting services	154,757	372,726	279,960	675,084
Interest charge	539,240	1,389,608	1,020,887	2,532,599
Total cash disbursements:	13,156,622	32,455,881	41,881,838	96,893,071

	2016		Cumulative	
	In US Dollars	In Georgian Lari*	In US Dollars	In Georgian Lari*
Construction or civil works	11,257,645	26,790,766	27,507,311	61,666,386
Goods	-	-	611,055	1,325,455
Consulting services	112,330	272,358	125,203	302,358
Interest charge	331,531	783,917	481,647	1,142,991
Total cash disbursements:	11,701,506	27,847,041	28,725,216	64,437,190

* For the purposes of presenting expenditures in GEL, the costs incurred under the contracts denominated in currency other than GEL, has been translated using the NBG rate prevailing at the date of transaction.

NOTES TO THE SPECIAL PURPOSE FINANCIAL STATEMENT

"Urban Services Improvement Investment Program" (Georgia)

Special Purpose Financial Statement for Loan No. 3078-GEO (SF) (Project 3) - 31 December 2017

4. Project funds by main categories and components (Continued)

The table below presents annual cash disbursements by components:

	2017		Cumulative	
	In US Dollars	In Georgian Lari	In US Dollars	In Georgian Lari
Component 1.1	5,673,789	13,809,087	20,382,844	48,069,508
Component 1.2	5,707,009	13,978,841	18,505,265	41,384,806
Component 1.3*	982,056	2,656,951	982,056	2,656,951
Component 1.4*	99,771	248,668	710,826	1,574,123
Component 2.2	154,757	372,726	279,960	675,084
Interest	539,240	1,389,608	1,020,887	2,532,599
Total cash disbursements:	13,156,622	32,455,881	41,881,838	96,893,071

	2016		Cumulative	
	In US Dollars	In Georgian Lari	In US Dollars	In Georgian Lari
Component 1.1	5,856,213	13,922,276	14,709,055	34,260,421
Component 1.2	5,401,432	12,868,490	12,798,256	27,405,965
Component 1.3*	-	-	611,055	1,325,455
Component 2.2	112,330	272,358	125,203	302,358
Interest	331,531	783,917	481,647	1,142,991
Total cash disbursements:	11,701,506	27,847,041	28,725,216	64,437,190

*According to the amendment N2 to the Loan Agreement, in 2017 a new activity was added in component 1 of the Project (Component 1.3 in 2017 disclosure). Accordingly, prior year component 1.3 is presented as component 1.4 in 2017 disclosure.

5. Comparison of budget and actual cash disbursements

The table below presents comparison of budget and actual cash disbursements from the ADB funding and the GOG co-financing separately.

The budget of the Project agreed between the parties relates to the whole period of the Project, which is determined as 5 years. At the end of the Project, final variance will be presented between budget and cumulative actual cash payments under the Project.

Budget related to the ADB financing

	2017		
	Budget*	Actual payments	Variance
Construction or civil works	83,619,217	33,875,770	49,743,447
Goods	1,193,421	593,235	600,186
Consulting services	2,126,226	238,361	1,887,865
Interest charge	3,452,091	1,020,887	2,431,204
Unallocated	1,045,311	-	1,045,311
Total cash disbursements:	91,436,266	35,728,253	55,708,013

NOTES TO THE SPECIAL PURPOSE FINANCIAL STATEMENT

"Urban Services Improvement Investment Program" (Georgia)

Special Purpose Financial Statement for Loan No. 3078-GEO (SF) (Project 3) - 31 December 2017

5. Comparison of budget and actual cash disbursements (continued)

Budget related to the ADB financing (continued)

	2016		
	Budget*	Actual payments	Variance
Construction or civil works	78,933,680	23,377,512	55,556,168
Goods	1,126,549	508,646	617,903
Consulting services	2,007,085	106,261	1,900,824
Interest charge	3,258,656	481,647	2,777,009
Unallocated	986,738	-	986,738
Total cash disbursements:	86,312,708	24,474,066	61,838,642

As at 31 December 2017 and as at 31 December 2016, undrawn borrowing facilities comprised respectively USD 55,708,013 and USD 61,838,642.

*Budget figures originally presented in SDRs are converted to USD using the International Monetary Fund (IMF) exchange rate -1.4241 and 1.3443 as at 31 December 2017 and 31 December 2016, respectively.

Budget related to the GOG co-financing

	2017		
	Budget**	Actual payments	Variance
Construction or civil works	15,046,526	5,994,395	9,052,131
Goods	214,745	117,591	97,154
Consulting services	382,595	41,599	340,996
Unallocated	1,147,956	-	1,147,956
Total cash disbursements:	16,791,822	6,153,585	10,638,237

	2016		
	Budget**	Actual payments	Variance
Construction or civil works	14,203,406	4,129,799	10,073,607
Goods	202,712	102,409	100,303
Consulting services	361,157	18,942	342,215
Unallocated	1,083,632	-	1,083,632
Total cash disbursements:	15,850,907	4,251,150	11,599,757

**The budget for the GOG co-financing represents the planned spending by the GOG proportionate to their co-financing for the Project (Note 6).

Disbursement plan

The Entity shall update the disbursement plan, which is prepared before the Loan Agreement, annually or as needed throughout the duration of the Project. Total cash disbursements amounted to USD13,156,622 and USD11,701,506 for 2017 and 2016, respectively.

NOTES TO THE SPECIAL PURPOSE FINANCIAL STATEMENT

"Urban Services Improvement Investment Program" (Georgia)

Special Purpose Financial Statement for Loan No. 3078-GEO (SF) (Project 3) - 31 December 2017

6. Funds Provided

The Project is financed by two sources: 84.75% of construction or civil works, goods and consulting services are financed by the ADB and remaining 15.25% by the GOG. The resolution of the GOG is issued each year to approve the GOG's financial contribution in the Project. Interest charge is totally financed by the ADB. As for, Unallocated expenses 47.66% are financed by the ADB and remaining by the GOG.

During 2017 the ADB made direct payment to the suppliers' accounts as reimbursements of expenses for work performed in the suppliers' contractual currencies.

Financing from the GOG was received by the Entity on GEL accounts in Georgian commercial bank and then repaid to respective beneficiaries. Under the resolution of the GOG No. 412, dated 6 March 2017, all financing made by the GOG into the Project are contributed into the capital of the Entity

7. Cash Disbursements

Total cash disbursements during 2017, include civil works, goods, consulting service fees and interest payments in amount of USD13,156,622 (2016: USD 11,701,506).

8. Loan No. 3078-GEO (SF) from the ADB

The Loan bears an interest rate of 2% per annum and has a maturity of 15 years. The payments of principal commence after the grace period starting from May 2019.

The interest charge and any other charge on the Loan is payable semi-annually on 15 May and 15 November in each year, starting from 15 May 2015. The ADB withdraws interest payable from the loan account and pays itself the amounts due during the grace period. During 2017 two semi-annual interest payments were withdrawn by the ADB in the amount of USD 539,240 (2016: USD 331,531). The interest charge will be covered by the GOG after the grace period.

9. Land acquisition and resettlement

During 2014 the GOG approved USD 274,935 (GEL 486,718) to finance land acquisition and resettlement in Ureki Region under the resolution of the GOG No. 526. The expenditure related to resettle the population from the specific lands to be used for the construction for the Project purposes. The expenditure was incurred after the Project was launched and was not included under the initial budget, and was totally financed by the GOG. From the total amount of financing USD 233,831 (GEL 408,987) was paid to land owners during 2014. During 2015, based on the resolution of the GOG No. 434 and no objection note received from the ADB, expenses related to the project Mestia Water Supply and Sewerage Networks Construction (MES-02), which is implemented by the UWSCG LLC under Project 2, with the total amount of GEL 15,751, was covered from residual cash balance from the GOG financing received for Ureki Region resettlement. During 2016, based on the resolution of the GOG No. 2586 and no objection note received from the ADB, expenses related to the project Zugdidi Water Supply and Sewerage Networks Construction (ZUG-01), which is implemented by the UWSCG LLC under Project 4, with the total amount of GEL 41,719.48, was covered from residual cash balance from the GOG financing received for Ureki Region resettlement.

NOTES TO THE SPECIAL PURPOSE FINANCIAL STATEMENT

"Urban Services Improvement Investment Program" (Georgia)

Special Purpose Financial Statement for Loan No. 3078-GEO (SF) (Project 3) - 31 December 2017

10. Compliance with the use of the Loan Proceeds and financial covenants

In accordance with the requirements of the Section B of the Project Administration Instructions (PAI 5.07, revised in August 2015) of the Asian Development Bank, the Entity is required to report on the use of the proceeds of the Loan and compliance with the financial covenants, which is contained in the Notes 10.1 and 10.2 below.

10.1 Use of Funds for the Purpose Intended

For years 2017 and 2016, the Entity has utilised all funds received from the ADB and the GOG in accordance with Sections 3.02, 3.03 and 3.04 of the Loan Agreement exclusively in the carrying out of the Project.

10.2 Financial covenants

As at 31 December 2017 and 2016, the UWSCG LLC was in compliance with the following financial covenants related to the Project contained in paragraphs 6 and 7 of the Schedule 3 to the Loan Agreement:

- 1) No withdrawals were made from the Loan account for reimbursement of eligible expenditures incurred under the Project before the effective date, but not earlier than 12 months before the date of the Loan Agreement in connection with works, goods, and consulting services.;
- 2) No withdrawal was made from the Loan account until the Subsidiary Loan Agreement was signed.