

# Audited Project Financial Statements

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Project Number: 45389-004

Loan Number: 3144-AZE

Period covered: 1 January 2017 to 31 December 2018

## AZE: Second Road Network Development Investment Program, Project 2

Prepared by State Agency of Azerbaijan Automobile Roads (AAY)

For the Asian Development Bank

Date received by ADB: 29 July 2019

The audited project financial statements are documents owned by the borrower. The views expressed herein do not necessarily represent those of ADB's Board of Directors, Management, or staff. These documents are made publicly available in accordance with ADB's Access to Information Policy and as agreed between ADB, the Government of the Republic of Azerbaijan and State Agency of Azerbaijan Automobile Roads (AAY).

**SECOND ROAD NETWORK DEVELOPMENT  
INVESTMENT PROGRAM PROJECT 2  
LOAN NUMBER 3144-AZE**

**Special-Purpose Financial Statements and  
Independent Auditors' Report**  
For the Year Ended December 31, 2018

**SECOND ROAD NETWORK DEVELOPMENT INVESTMENT PROGRAM  
PROJECT 2  
LOAN NUMBER 3144-AZE**

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

The following statement is made with a view to distinguishing respective responsibilities of the management and those of the independent auditors in relation to the Special-Purpose Financial Statements of the "Second Road Network Development Investment Program-Project 2" ("Project") implemented by the State Agency of Azerbaijan Automobile Roads.

Management is responsible for the preparation of the Special-Purpose Financial Statements of the Project that present fairly the Special-Purpose Balance Sheet of the Project as at December 31, 2018, the Statement of Summary of Sources and Uses of Funds, Statement of Uses of Funds by Project Components, the Statement of Advance and the Project Accounts for the year ended December 31, 2018, in accordance with the International Public Sector Accounting Standards ("IPSAS") issued by the International Public Sector Accounting Standards Board of the International Federation of Accountants ("IFAC-IPSASB") and relevant provisions of the loan agreement number 3144-AZE signed between the Republic of Azerbaijan and Asian Development Bank on December 29, 2014 (the "Loan Agreement") as described in Note 1 to the Special-Purpose Financial Statements and for such internal control as management determines is necessary to enable the preparation of the Special-Purpose Financial Statements that are free from material misstatement, whether due to fraud or error.

In preparing the Special-Purpose Financial Statements, management is responsible for:

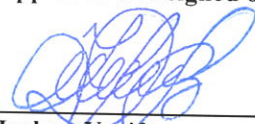
- Selecting suitable accounting principles and applying them consistently;
- Making judgments and estimates that are reasonable and prudent;
- Stating whether the IPSAS and relevant provisions of the Loan Agreement have been followed, subject to any material departures disclosed and explained in the Special-Purpose Financial Statements; and
- Preparing the Special-Purpose Financial Statements annually, throughout the Project life.

Management is also responsible for:

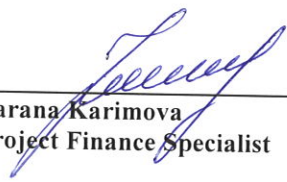
- Designing, implementing and maintaining an effective and sound system of internal controls, throughout the Project;
- Maintaining proper accounting records that disclose, with reasonable accuracy at any time, the financial position of the Project, and which enable them to ensure that the Special-Purpose Financial Statements of the Project comply with the IPSAS and relevant provisions of the Loan Agreement;
- Taking such steps as are reasonably available to them to safeguard the assets of the Project; and
- Detecting and preventing fraud and other irregularities.

The Special-Purpose Financial Statements for the year ended December 31, 2018 were authorized for issue on July 11, 2019 by the management of the Project Implementation Unit.

Approved and signed on behalf of management of the Project:

  
\_\_\_\_\_  
Jeyhun Yusifov  
Project Director

July 11, 2019  
Baku, the Republic of Azerbaijan

  
\_\_\_\_\_  
Tarana Karimova  
Project Finance Specialist

July 11, 2019  
Baku, the Republic of Azerbaijan

## **INDEPENDENT AUDITORS' REPORT**

To the Management of "Second Road Network Development Investment Program-Project 2":

### ***Opinion***

We have audited the Special-Purpose Financial Statements of "Second Road Network Development Investment Program-Project 2" (the "Project"), which comprise the Special-Purpose Balance Sheet as at December 31, 2018, and the Statements of Summary of Sources and Uses of Funds, the Statements of Uses of Funds by Project Components, for the year ended December 31, 2018 and a basis of accounting and other explanatory notes (collectively referred to as the "Special-Purpose Financial Statements") financed under the Asian Development Bank ("ADB") through loan agreement number 3144-AZE (the "Loan Agreement").

In our opinion, the accompanying Special-Purpose Financial Statements present fairly, in all material respects, the financial position of the Project as at December 31, 2018 the cash receipts and disbursements on behalf of the Project and transactions passed through the Project's special accounts for the year ended December 31, 2018 in accordance with International Public Sector Accounting Standards ("IPSAS") and relevant provisions of the Loan Agreement as described in Note 2 of the Special-Purpose Financial Statements.

State Agency of Azerbaijan Automobile Roads has utilized all proceeds of the loan withdrawn from ADB only for the purposes of the Project as agreed between the ADB and the Republic of Azerbaijan in accordance with the Loan Agreement and no proceeds of the loan have been utilized for other purposes. In addition, all payments reported are eligible for financing under the respective loan agreement and adequate documentation have been maintained to support the claims for withdrawal.

In addition with respect to statements of expenditures, adequate supporting documentation has been maintained to support claims to the Asian Development Bank for reimbursements of expenditures incurred and expenditures are eligible for financing under Loan Agreement.

### ***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 Auditors' Responsibilities for the Audit of the Special-Purpose Financial Statements section of our report. We are independent of the Project 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 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 Financial Statements, which describes the basis of accounting. The Special-Purpose Financial Statements are prepared to assist the Project's Implementation Unit team in complying with the financial reporting provisions of the Loan Agreements referred to above. As a result, the Special-Purpose Financial Statements may not be suitable for any other purpose. Our report is intended solely for the Project Implementation Unit, the Government of the Republic of Azerbaijan and ADB and should not be distributed to or used by parties other than Project's Implementation Unit team and ADB. Our opinion is not modified in respect of this matter.

***Other Matter***

The Special-Purpose Financial Statements of the Project as at and for the year ended December 31, 2017 were audited by another auditor who expressed an unmodified opinion on those financial statements on April 2, 2018.

***Responsibilities of Management for the Special-Purpose Financial Statements***

Management is responsible for the preparation and fair presentation of the Special-Purpose Financial Statements in accordance with IPSAS and relevant provisions of the Loan Agreements as described in Note 2 to the Special-Purpose Financial Statements, and for such internal control as management determines is necessary to enable the preparation of Special-Purpose Financial Statements that are free from material misstatement, whether due to fraud or error.

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

Our objectives are to obtain reasonable assurance about whether the Special-Purpose Financial Statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' 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 Financial Statements.

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 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 Project's internal control;
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

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.

*Baker Tilly Azerbaijan*

July 11, 2019

Baku, the Republic of Azerbaijan

**SECOND ROAD NETWORK DEVELOPMENT INVESTMENT PROGRAM PROJECT 2  
LOAN NUMBER 3144-AZE**

**SPECIAL-PURPOSE BALANCE SHEET  
AS AT DECEMBER 31, 2018**


*(Amounts expressed in the United States Dollars unless otherwise indicated)*

	Notes	December 31, 2018	December 31, 2017
<b>ASSETS AND CUMULATIVE USES OF FUNDS</b>			
Cash and cash equivalents		105,803	108,798
Cumulative uses of funds	4	<u>143,047,817</u>	<u>102,686,571</u>
<b>TOTAL ASSETS AND CUMULATIVE USES OF FUNDS</b>		<b><u>143,153,620</u></b>	<b><u>102,795,369</u></b>
<b>SOURCES OF FUNDS</b>			
ADB Funds		121,588,870	88,033,147
Government Funds		<u>21,564,750</u>	<u>14,762,222</u>
<b>TOTAL SOURCES OF FUNDS AND LIABILITIES</b>		<b><u>143,153,620</u></b>	<b><u>102,795,369</u></b>

Approved and signed on behalf of management of the Project:

  
\_\_\_\_\_  
Jeyhun Yusifov  
Project Director

July 11, 2019  
Baku, the Republic of Azerbaijan

  
\_\_\_\_\_  
Tarana Karimova  
Project Finance Specialist

July 11, 2019  
Baku, the Republic of Azerbaijan

The notes on pages 9-12 form an integral part of these Special-Purpose Financial Statements.

# **SECOND ROAD NETWORK DEVELOPMENT INVESTMENT PROGRAM PROJECT 2** **LOAN NUMBER 3144-AZE**

## **STATEMENT OF SUMMARY OF SOURCES AND USES OF FUNDS** **FOR THE YEAR ENDED DECEMBER 31, 2018**

*(Amounts expressed in the United States Dollars unless otherwise indicated)*

	December 31, 2018	December 31, 2017	Cumulative as at December 31, 2018
<b>OPENING BALANCE</b>			
ADB Advance account	105,391	-	
Cash on hand	254	-	
GOA Project account	3,153	472	
<b>Total</b>	<b>108,798</b>	<b>472</b>	
<b>ADD: FUNDS RECEIVED</b>			
<b>ADB Loan Number 3144-AZE</b>			
ADB funds for the project	33,159,790	32,355,424	120,988,277
Replenishment/Advance to the Advance account	395,933	204,660	600,593
<b>Subtotal ADB Loan</b>	<b>33,555,723</b>	<b>32,560,084</b>	<b>121,588,870</b>
<b>Government of Azerbaijan</b>			
Advance to the Project Account	6,802,527	4,681,383	21,564,750
<b>Subtotal Government of Azerbaijan</b>	<b>6,802,527</b>	<b>4,681,383</b>	<b>21,564,750</b>
<b>TOTAL FUNDS RECEIVED</b>	<b>40,358,250</b>	<b>37,241,467</b>	<b>143,153,620</b>
<b>NET TRANSFER BETWEEN ACCOUNTS</b>			
ADB Advance account	-	(3,153)	(3,153)
GOA Project account	-	3,153	3,153
<b>LESS: EXPENDITURE</b>			
<b>ADB Loan Number 3144-AZE</b>			
Works	(31,299,049)	(30,896,428)	(116,545,311)
Consulting services	(2,257,071)	(1,555,731)	(4,936,031)
Foreign exchange difference (loss)/gain	(2,369)	873	(1,496)
<b>Subtotal ADB share of expenditure</b>	<b>(33,558,489)</b>	<b>(32,451,286)</b>	<b>(121,482,838)</b>
<b>Government of Azerbaijan</b>			
Works	(6,738,117)	(4,292,681)	(20,774,763)
Consulting services	(64,410)	(387,810)	(799,399)
Bank charges	-	(1,407)	(2,941)
Foreign exchange difference (loss)/gain	(229)	43	12,124
<b>Subtotal Government of Azerbaijan share of expenditure</b>	<b>(6,802,756)</b>	<b>(4,681,855)</b>	<b>(21,564,979)</b>
<b>TOTAL EXPENDITURE</b>	<b>(40,361,245)</b>	<b>(37,134,141)</b>	<b>(143,047,817)</b>

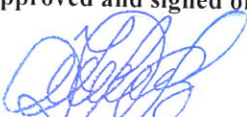
**SECOND ROAD NETWORK DEVELOPMENT INVESTMENT PROGRAM PROJECT 2**  
**LOAN NUMBER 3144-AZE**

**STATEMENT OF SUMMARY OF SOURCES AND USES OF FUNDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2018 (Continued)**

*(Amounts expressed in the United States Dollars unless otherwise indicated)*

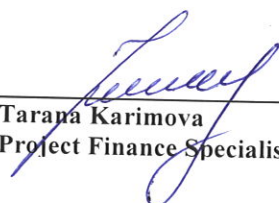
	December 31, 2018	December 31, 2017	Cumulative as at December 31, 2018
<b>CLOSING BALANCE</b>			
ADB Advance account	102,875	105,391	
Cash on hand	4	254	
GOA Project account	2,924	3,153	
	<u>105,803</u>	<u>108,798</u>	

Approved and signed on behalf of management of the Project:



Jeyhun Yusifov  
Project Director

July 11, 2019  
Baku, the Republic of Azerbaijan



Tarana Karimova  
Project Finance Specialist

July 11, 2019  
Baku, the Republic of Azerbaijan

The notes on pages 9-12 form an integral part of these Special-Purpose Financial Statements.


**SECOND ROAD NETWORK DEVELOPMENT INVESTMENT PROGRAM PROJECT 2**  
**LOAN NUMBER 3144-AZE**

**STATEMENT OF USES OF FUNDS BY PROJECT COMPONENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2018**

*(Amounts expressed in the United States Dollars unless otherwise indicated)*

	December 31, 2018	December 31, 2017	Cumulative as at December 31, 2018
<b>Project Components</b>			
<b>Component 1</b>			
<b>Works</b>			
Construction of Jalilabad-Shorsulu road	31,299,049	30,896,428	116,545,311
VAT	6,738,117	4,292,681	20,774,763
<b>Total Component 1</b>	<b>38,037,166</b>	<b>35,189,109</b>	<b>137,320,074</b>
<b>Component 2</b>			
<b>Project implementation support</b>			
Construction supervision	1,852,752	1,445,413	4,418,995
PIU support	396,328	96,735	493,063
Expert opinion	7,990	13,583	26,851
Bank charges	-	1,407	2,941
WHT	23,004	137,630	284,794
VAT	41,407	250,180	511,727
<b>Total Component 2</b>	<b>2,321,481</b>	<b>1,944,948</b>	<b>5,738,371</b>
<b>Foreign exchange difference(gain)/loss</b>	<b>2,598</b>	<b>(916)</b>	<b>(10,628)</b>
<b>TOTAL USES OF FUNDS BY PROJECT COMPONENTS</b>	<b>40,361,245</b>	<b>37,133,141</b>	<b>143,047,817</b>

Approved and signed on behalf of management of the Project:

  
**Jeyhun Yusifov**  
**Project Director**

  
**Tarana Karimova**  
**Project Finance Specialist**

July 11, 2019  
Baku, the Republic of Azerbaijan

July 11, 2019  
Baku, the Republic of Azerbaijan

The notes on pages 9-12 form an integral part of these Special-Purpose Financial Statements.

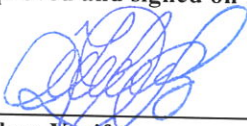
# **SECOND ROAD NETWORK DEVELOPMENT INVESTMENT PROGRAM PROJECT 2** **LOAN NUMBER 3144-AZE**

## **STATEMENT OF ADVANCE AND PROJECT ACCOUNTS** **FOR THE YEAR ENDED DECEMBER 31, 2018**

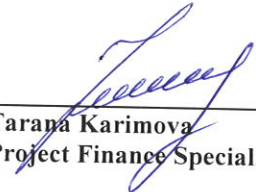
*(Amounts expressed in the United States Dollars unless otherwise indicated)*

	GOA Project Account	ADB Advance Account	Cash on hand
<b>January 1, 2017</b>	<u>472</u>	<u>-</u>	<u>-</u>
Add:			
Project funds received	4,681,383	204,660	-
<b>Total receipts</b>	<u>4,681,383</u>	<u>204,660</u>	<u>-</u>
Transfer from ADB Advance account to GOA Project account	98,765	(98,765)	-
Cash withdrawn from the GOA Project Account	(3,106)	-	3,106
Deduct:			
Project eligible expenditure	4,775,288	494	2,852
<b>Total deductions</b>	<u>4,775,288</u>	<u>494</u>	<u>2,852</u>
<b>Effect of exchange rate changes</b>			
ADB Advance account (loss)/gain	883	(10)	-
GOA Project account gain	43	-	-
<b>Total effect of exchange rate changes</b>	<u>926</u>	<u>(10)</u>	<u>-</u>
<b>December 31, 2017</b>	<u>3,153</u>	<u>105,391</u>	<u>254</u>
<b>January 1, 2018</b>	<u>3,153</u>	<u>105,391</u>	<u>254</u>
Add:			
Project funds received	6,802,527	395,933	-
<b>Total receipts</b>	<u>6,802,527</u>	<u>395,933</u>	<u>-</u>
Transfer from ADB Advance account to GOA Project account	101,415	(101,415)	-
Cash withdrawn from the GOA Project Account	(3,588)	-	3,588
Cash withdrawn from the ADB Advance Account	-	(8,712)	8,712
Deduct:			
Project eligible expenditure	(6,900,354)	(285,953)	(12,550)
<b>Total deductions</b>	<u>(6,900,354)</u>	<u>(285,953)</u>	<u>(12,550)</u>
<b>Effect of exchange rate changes</b>			
ADB Advance account loss	-	(2,369)	-
GOA Project account loss	(229)	-	-
<b>Total effect of exchange rate changes</b>	<u>(229)</u>	<u>(2,369)</u>	<u>-</u>
<b>December 31, 2018</b>	<u>2,924</u>	<u>102,875</u>	<u>4</u>

Approved and signed on behalf of management of the Project:

  
**Jeyhun Yusifov**  
**Project Director**

July 11, 2019  
Baku, the Republic of Azerbaijan

  
**Tarana Karimova**  
**Project Finance Specialist**

July 11, 2019  
Baku, the Republic of Azerbaijan

The notes on 9-12 form an integral part of these Special-Purpose Financial Statements.

# SECOND ROAD NETWORK DEVELOPMENT INVESTMENT PROGRAM PROJECT 2 LOAN NUMBER 3144-AZE

## NOTES TO THE SPECIAL-PURPOSE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2018

*(Amounts expressed in the United States Dollars unless otherwise indicated)*

### 1. DESCRIPTION OF THE PROJECT

On December 29, 2014 the Republic of Azerbaijan (the "Borrower" or "GOA") and Asian Development Bank (the "ADB") has been signed Loan Agreement 3144-AZE for the implementation of the Second Road Network Development Investment Program, Project 2 (the "Project").

ADB agreed to lend to the Borrower from ADB's ordinary capital resources an amount of USD 250,000,000 (two hundred fifty million US Dollars). The amount may be converted from time to time through a currency conversion in accordance with the provisions of the loan agreement. The objective of the Project is to build an adequate, efficient, safe, and sustainable road network linking the Republic of Azerbaijan domestically and internationally. The Project is expected to be completed by June 30, 2020.

The Project consists of the following components:

- a) construction of approximately 30 km of four-lane road section between the towns of Jalilabad and Shorsulu on the new Masalli-Shorsulu motorway;
- b) project implementation support for construction supervision and program management covering planning, procurement, Project implementation, financial management and compliance with safeguard requirements;
- c) mainstreaming of road safety audits and improvements, development of road and pavement standard and guidelines, and development of performance based maintenance contracts;
- d) rehabilitation of approximately 55 km of the M5 (Yevlakh-Azagatala-Georgian border) road and connecting R57 (from M5 to Shaki) road and installation of tolling system along the M3 motorway.

Counterpart financing, as stipulated by the loan agreement, is to be provided by the Government of the Republic of Azerbaijan.

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### Statement of compliance

The Special-Purpose Financial Statements have been prepared on the cash basis of accounting in conformity with the International Public Sector Accounting Standards ("IPSAS") "Financial Reporting issued by the International Public Sector Committee of the International Federation of Accountants ("IFAC-PSC") and incorporate the principal accounting policies from the "Guidelines: Handbook for Borrowers on the Financial Management and Analysis of Projects" financed by the ADB.

#### Other basis of preparation criteria

The Special-Purpose Financial Statements are prepared under the historical cost basis of accounting. Source funding and government contributions are recognized when the related cash is received or paid out on behalf of the Project. Expenditures are accounted for on the basis of actual disbursement of funds from account of the Project.

# **SECOND ROAD NETWORK DEVELOPMENT INVESTMENT PROGRAM PROJECT 2** **LOAN NUMBER 3144-AZE**

## **NOTES TO THE SPECIAL-PURPOSE FINANCIAL STATEMENTS** **FOR THE YEAR ENDED DECEMBER 31, 2018 (Continued)**

*(Amounts expressed in the United States Dollars unless otherwise indicated)*

### **Foreign currency transactions and translation**

The Project uses the United States Dollar ("USD") as its functional currency for following reasons:

- a) ADB's funding is received in USD;
- b) Budgets and financial reports for the Project are prepared in USD.

Balance sheet monetary items denominated in currencies other than USD have been translated into USD using the exchange rate of the Central Bank of Republic of Azerbaijan ("CBRA") effective as at appropriate date. All income and expense transactions denominated in currencies other than USD are converted into USD using the exchange rate of the CBRA prevailing on the date of transaction. At December 31, 2018 the official AZN/USD exchange rates set by the CBRA were 1.70 and comparative December 31, 2017 were as 1.7001.

### **3. BUDGET OF FUNDING**

The categories of budget of funding are summaries below according to the Loan Agreement:

Number	Item	Allocation and Withdrawal of Loan Proceeds		ADB Financing Basis for Withdrawal from the Loan Account
		Category	Total Amount Allocated for ADB Financing	
		Original	Revised	
1	Works	200,000,000	220,000,000	100% of total expenditure claimed*
2	Consulting Services	20,000,000	20,000,000	
2A	Construction supervision	7,000,000	14,200,000	100% of total expenditure claimed*
2B	Program and Project management support	5,500,000	5,500,000	100% of total expenditure claimed*
2C	Studies for transport sector governance	6,000,000	-	100% of total expenditure claimed*
2D	Sector capacity development	1,200,000	-	100% of total expenditure claimed*
2E	Project external audits	300,000	300,000	100% of total expenditure claimed*
3	Unallocated	30,000,000	10,000,000	
	Total	250,000,000	250,000,000	

\*Exclusive of taxes and duties imposed within the territory of the Borrower.

### **4. CUMULATIVE USES OF FUNDS**

As at December 31, 2018 and December 31, 2017, cumulative uses of funds for the Project comprise the following:

	December 31, 2018	December 31, 2017
ADB share	**121,482,838	87,924,349
Government of Azerbaijan share	21,564,979	14,762,222
<b>Total cumulative uses of funds</b>	<b>143,047,817</b>	<b>102,686,571</b>

## SECOND ROAD NETWORK DEVELOPMENT INVESTMENT PROGRAM PROJECT 2 LOAN NUMBER 3144-AZE

### NOTES TO THE SPECIAL-PURPOSE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2018 (Continued)

(Amounts expressed in the United States Dollars unless otherwise indicated)

\*\* Difference between ADB disbursements (USD 121,588,870) and project expenditures (USD 121,482,838) in the amount of USD 106,032 represents closing balance of advance account (USD 102,875), cash on hand (USD 4) and cumulative amount of net transfers between Advance account and the Project account (USD 3,153).

#### 5. APPLICATIONS FOR WITHDRAWAL SCHEDULE

As at December 31, 2018 and December 31, 2017, ADB funding requested by the Project comprise the following:

Application Withdrawal No.	Total amount
Application for withdrawal No 34 (direct payment)	197,479
Application for withdrawal No 35 (direct payment)	3,816,491
Application for withdrawal No 36 (direct payment)	3,243,749
Application for withdrawal No 37 (direct payment)	3,068,867
Application for withdrawal No 38 (direct payment)	192,509
Application for withdrawal No 39 (Replenishment)	197,530
Application for withdrawal No 40 (direct payment)	4,854,304
Application for withdrawal No 41 (direct payment)	8,801,268
Application for withdrawal No 42 (direct payment)	3,919,114
Application for withdrawal No 43 (direct payment)	440,759
Application for withdrawal No 44 (direct payment)	3,595,256
Application for withdrawal No 45 (direct payment)	299,384
Application for withdrawal No 46 (direct payment)	7,990
Application for withdrawal No 47 (direct payment)	185,210
Application for withdrawal No 48 (Replenishment)	198,403
Application for withdrawal No 49 (direct payment)	46,570
Application for withdrawal No 50 (direct payment)	490,840
<b>Total applications ADB funding during the year ended December 31, 2018</b>	<b><u>33,555,723</u></b>
<b>Total applications ADB funding during the year ended December 31, 2017</b>	<b><u>32,560,084</u></b>

#### 6. METHOD OF DISBURSEMENT

The methods of disbursement for the financing were as follows:

**Advance** – ADB advances loan proceeds into the Advance Account of the Borrower to finance eligible expenditure as they are incurred and for which supporting documents will be provided at a later date.

**Direct Funding** – ADB makes payments, at the Borrower's request, directly to a third party for eligible expenditure.

**Reimbursement Procedure** – ADB reimburses the Borrower for expenditure eligible for financing pursuant to the loan agreement ("eligible expenditure") that the Borrower has pre-financed from its own resources.

**SECOND ROAD NETWORK DEVELOPMENT INVESTMENT PROGRAM PROJECT 2  
LOAN NUMBER 3144-AZE**

**NOTES TO THE SPECIAL-PURPOSE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2018 (Continued)**

*(Amounts expressed in the United States Dollars unless otherwise indicated)*

**7. METHOD OF WITHDRAWAL**

The methods of withdrawal were as follows:

**ADB Advance Account**

Advance Account is Advance disbursement accounts of the Project to effect the payment of eligible expenditure, within defined limits, which do not require individual authorization from the ADB.

Available amounts were drawn down within the limits determined by the relevant loan agreement for the payment of eligible expenditure for contractors from the Advance Account.

**Project account**

The Project maintains a separate account where the GOA funds are accumulated. The funds are further disbursed to pay VAT and WHT for the payment to contractors and consultants. Any unused balance on the Project account at December 31 is carried forward to next financial year.

**Statement of expenditure ("SOE")**

The statement of expenditures (SOE) procedure is used for reimbursement of eligible expenditures for Project management support and individual consultants and to liquidate advances provided into the Advance account, in accordance with ADB's Loan Disbursement Handbook and detailed arrangements agreed upon between the Borrower and ADB.

**8. OPERATING ENVIRONMENT**

The Project's principal business activities are within the Republic of Azerbaijan. Laws and regulations affecting the Project's operations in the Republic of Azerbaijan are subject to rapid changes and the Project's operations could be at certain level of risk due to changes in the political and business environment.