

Audited Project Financial Statement

Project Number: 45389-004

Loan Number: 3144-AZE

Period covered: 1 January to 31 December 2019

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: 17 December 2020

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, 2019

**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, 2019

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, 2019, 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, 2019, 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:

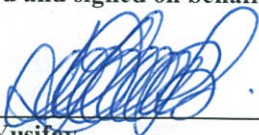
- Selecting suitable accounting principles and applying them consistently;
- Making judgments and estimates that are reasonable and prudent;
- Stating whether the IPSAS and relevant provisions of the Loan Agreement have been followed, subject to any material departures disclosed and explained in the 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, 2019 were authorized for issue on October 30, 2020 by the management of the Project Implementation Unit.

Approved and signed on behalf of management of the Project:



Jeyhun Yusifov
Project Director

October 30, 2020
Baku, the Republic of Azerbaijan



Tarana Karimova
Project Finance Specialist

October 30, 2020
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, 2019, 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, 2019 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, 2019 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, 2019 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 all material respects. 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 all material respects.

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.

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

October 30, 2020

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, 2019**

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

	Notes	December 31, 2019	December 31, 2018
ASSETS AND CUMULATIVE USES OF FUNDS			
Cash and cash equivalents		89,798	105,803
Cumulative uses of funds	4	187,240,657	143,058,445
TOTAL ASSETS AND CUMULATIVE USES OF FUNDS		187,330,455	143,164,248
SOURCES OF FUNDS			
ADB Funds		158,374,222	121,588,870
Government Funds		28,943,411	21,564,750
Foreign exchange difference		12,822	10,628
TOTAL SOURCES OF FUNDS AND LIABILITIES		187,330,455	143,164,248

Approved and signed on behalf of management of the Project:



Jeyhun Yusifov
Project Director

October 30, 2020
Baku, the Republic of Azerbaijan



Tarana Karimova
Project Finance Specialist

October 30, 2020
Baku, the Republic of Azerbaijan

The notes on pages 9-13 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, 2019**

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

	December 31, 2019	December 31, 2018	Cumulative as at December 31, 2019
OPENING BALANCE			
ADB Advance account	102,875	105,391	
Cash on hand	4	254	
GOA Project account	2,924	3,153	
Total	105,803	108,798	
ADD: FUNDS RECEIVED			
ADB Loan Number 3144-AZE			
ADB direct funds for the project	36,259,329	33,159,790	157,247,606
Replenishment/Advance to the Advance account	526,023	395,933	1,126,616
Subtotal ADB Loan	36,785,352	33,555,723	158,374,222
Government of Azerbaijan			
Advance to the Project Account	7,378,661	6,802,527	28,943,411
Subtotal Government of Azerbaijan	7,378,661	6,802,527	28,943,411
TOTAL FUNDS RECEIVED	44,164,013	40,358,250	187,317,633
NET TRANSFER BETWEEN ACCOUNTS			
ADB Advance account	-	-	(3,153)
GOA Project account	-	-	3,153
LESS: EXPENDITURE			
ADB Loan Number 3144-AZE			
Works	(33,264,058)	(31,299,049)	(149,809,369)
Consulting services	(3,543,201)	(2,257,071)	(8,479,232)
Subtotal ADB share of expenditure	(36,807,259)	(33,556,120)	(158,288,601)
Government of Azerbaijan			
Works	(6,196,593)	(6,738,117)	(26,971,356)
Consulting services	(1,176,120)	(64,410)	(1,975,519)
Bank charges	(2,240)	-	(5,181)
Subtotal Government of Azerbaijan share of expenditure	(7,374,953)	(6,802,527)	(28,952,056)
TOTAL EXPENDITURE	(44,182,212)	(40,358,647)	(187,240,657)
FOREIGN EXCHANGE DIFFERENCE			
ADB Advance account	2,194	(2,369)	698
GOA Project account	-	(229)	12,124
Total foreign exchange difference	2,194	(2,598)	12,822


**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, 2019	December 31, 2018	Cumulative as at December 31, 2019
CLOSING BALANCE			
ADB Advance account	82,584	102,875	
Cash on hand	582	4	
GOA Project account	6,632	2,924	
	<u>89,798</u>	<u>105,803</u>	

Approved and signed on behalf of management of the Project:



Jeyhun Yusifov
Project Director

October 30, 2020
Baku, the Republic of Azerbaijan



Tarana Karimova
Project Finance Specialist

October 30, 2020
Baku, the Republic of Azerbaijan

The notes on pages 9-13 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, 2019

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

	December 31, 2019	December 31, 2018	Cumulative as at December 31, 2019
Project Components			
Component 1			
Works			
Construction of Jalilabad-Shorsulu road	17,313,122	31,299,049	133,858,433
Upgrading Yevlakh-Zagatala-Georgian border road	15,950,936	-	15,950,936
VAT	6,196,593	6,738,117	26,971,356
Total Component 1	39,460,651	38,037,166	176,780,725
Component 2			
Project implementation support			
Construction supervision	2,955,849	1,852,752	7,374,844
PIU office support	547,987	396,328	1,041,050
Expert opinion	39,393	7,990	66,244
Bank charges	2,240	-	5,181
WHT	412,151	23,004	696,945
VAT	763,941	41,407	1,275,668
Total Component 2	4,721,561	2,321,481	10,459,932
TOTAL USES OF FUNDS BY PROJECT COMPONENTS	44,182,212	40,358,647	187,240,657

Approved and signed on behalf of management of the Project:


 Jeyhun Yusifov
 Project Director

October 30, 2020
 Baku, the Republic of Azerbaijan


 Tarana Karimova
 Project Finance Specialist

October 30, 2020
 Baku, the Republic of Azerbaijan

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

STATEMENT OF ADVANCE AND PROJECT ACCOUNTS **FOR THE YEAR ENDED DECEMBER 31, 2019**


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

	GOA Project Account	ADB Advance Account	Cash on hand
January 1, 2019	<u>2,924</u>	<u>102,875</u>	<u>4</u>
Add:			
Project funds received	7,378,661	526,023	-
Total receipts	<u>7,378,661</u>	<u>526,023</u>	<u>-</u>
Cash withdrawn from the GOA Project Account	-	-	
Cash withdrawn from the ADB Advance Account	-	(13,544)	13,544
Deduct:			
Project eligible expenditure	(7,374,953)	(534,964)	(12,966)
Total deductions	<u>(7,374,953)</u>	<u>(534,964)</u>	<u>(12,966)</u>
Effect of exchange rate changes			
ADB Advance account gain	-	2,194	-
Total effect of exchange rate changes	<u>-</u>	<u>2,194</u>	<u>-</u>
December 31, 2019	<u><u>6,632</u></u>	<u><u>82,584</u></u>	<u><u>582</u></u>
January 1, 2018	<u>3,153</u>	<u>105,391</u>	<u>254</u>
Add:			
Project funds received	6,802,527	395,933	-
Total receipts	<u>6,802,527</u>	<u>395,933</u>	<u>-</u>
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	(6,798,939)	(387,368)	(12,550)
Total deductions	<u>(6,900,354)</u>	<u>(387,368)</u>	<u>(12,550)</u>
Effect of exchange rate changes			
ADB Advance account (loss)	-	(2,369)	-
GOA Project account (loss)	(229)	-	-
Total effect of exchange rate changes	<u>(229)</u>	<u>(2,369)</u>	<u>-</u>
December 31, 2018	<u><u>2,924</u></u>	<u><u>102,875</u></u>	<u><u>4</u></u>

Approved and signed on behalf of management of the Project:


Jeyhun Yusifov
Project Director

October 30, 2020
Baku, the Republic of Azerbaijan


Tarana Karimova
Project Finance Specialist

October 30, 2020
Baku, the Republic of Azerbaijan

The notes on pages 9-13 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, 2019

(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. Initially, the Project was expected to be completed by June 30, 2020. The revised project closing date is June 30, 2021.

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, 2019 (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, 2019 the official AZN/USD exchange rate set by the CBRA was 1.70 (2018: AZN/USD 1.70).

3. BUDGET OF FUNDING

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

Allocation and Withdrawal of Loan Proceeds					
Number	Item	Category	Total Amount Allocated for ADB		ADB Financing Basis for Withdrawal from the Loan Account
			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, 2019 and December 31, 2018, cumulative uses of funds for the Project comprise the following:

	December 31, 2019	December 31, 2018
ADB share	**158,288,601	121,481,342
Government of Azerbaijan share	28,952,056	21,577,103
Total cumulative uses of funds	187,240,657	143,058,445

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, 2019 (Continued)

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

**Difference between ADB disbursements (USD 158,374,222) and project expenditures (USD 158,288,601) in the amount of USD 85,621 represents closing balance of advance account (USD 82,584), cash on hand (USD 582), cumulative amount of foreign exchange gain differences USD 698 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, 2019 and December 31, 2018, ADB funding requested by the Project comprise the following:

Application Withdrawal No.	Total amount
Application for withdrawal No 51 (direct payment)	105,414
Application for withdrawal No 52 (direct payment)	554,283
Application for withdrawal No 53 (direct payment)	2,217,133
Application for withdrawal No 54 (direct payment)	623,838
Application for withdrawal No 55 (direct payment)	2,495,498
Application for withdrawal No 57 (Replenishment)	134,190
Application for withdrawal No 58 (direct payment)	68,005
Application for withdrawal No 60 (direct payment)	275,331
Application for withdrawal No 61 (direct payment)	1,123,083
Application for withdrawal No 63 (direct payment)	323,942
Application for withdrawal No 64 (direct payment)	1,295,846
Application for withdrawal No 65 (direct payment)	393,215
Application for withdrawal No 66 (direct payment)	1,557,060
Application for withdrawal No 67 (direct payment)	159,841
Application for withdrawal No 69 (Replenishment)	193,004
Application for withdrawal No 70 (direct payment)	58,920
Application for withdrawal No 73 (direct payment)	727,779
Application for withdrawal No 74 (direct payment)	162,283
Application for withdrawal No 75 (direct payment)	535,773
Application for withdrawal No 76 (direct payment)	1,969,594
Application for withdrawal No 77 (direct payment)	146,155
Application for withdrawal No 78 (direct payment)	323,730
Application for withdrawal No 79 (direct payment)	494,106
Application for withdrawal No 80 (direct payment)	1,976,231
Application for withdrawal No 81 (direct payment)	332,976
Application for withdrawal No 82 (direct payment)	2,137,871
Application for withdrawal No 83 (direct payment)	780,742
Application for withdrawal No 84 (direct payment)	3,296,455
Application for withdrawal No 85 (direct payment)	170,058
Application for withdrawal No 86 (direct payment)	324,406
Application for withdrawal No 87 (direct payment)	39,393
Application for withdrawal No 88 (Replenishment)	198,859
Application for withdrawal No 89 (direct payment)	399,517
Application for withdrawal No 90 (direct payment)	1,516,119
Application for withdrawal No 91 (direct payment)	438,633
Application for withdrawal No 92 (direct payment)	1,818,102
Application for withdrawal No 93 (direct payment)	752,744
Application for withdrawal No 94 (direct payment)	2,186,236
Application for withdrawal No 95 (direct payment)	279,003
Application for withdrawal No 96 (direct payment)	430,254
Application for withdrawal No 97 (direct payment)	741,806
Application for withdrawal No 98 (direct payment)	3,027,924
Total applications ADB funding during the year ended December 31, 2019	36,785,352
Total applications ADB funding during the year ended December 31, 2018	33,555,723

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, 2019 (Continued)

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

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.

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.

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, 2019 (Continued)

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

9. EVENTS AFTER REPORTING PERIOD

In late 2019 the outbreak of coronavirus occurred in Wuhan, China. The situation at December 31, 2019 was limited in number of reported cases and geography and therefore this event was considered as non-adjusted event for the financial reporting purposes. However, after January 2020 the situation changed drastically, and on March 2020 the World Health Organization (WHO) announced that the coronavirus outbreak can be characterized as a pandemic.

Many governments, including the government of Azerbaijan Republic have introduced various measures to combat the outbreak, including travel restrictions, quarantines, closure of business and other venues and lockdown of certain area. These measures have affected the global supply chain as well as demand for goods and services and resulted in significant disruption to business operations and a significant increase in economic uncertainty, with more volatile asset prices and currency exchange rates, and a marked decline in long-term interest rates in developed economies. These government responses and their corresponding effects are still evolving.

These events and conditions create a level of uncertainty and risk that companies may not have encountered before, and may result in significant financial reporting implications.

Currently, the management is working on action plans under different scenarios of future developments. The Project Implementation Unit does not expect any major disruption to its business plan and operations due to the pandemics.