Audited Project Financial Statements

Project Number: 46375-002
Loan Number: 3524
Period covered: 1 January 2018 to 31 December 2018

GEO: Secondary Road Improvement Project

Prepared by Deloitte & Touche LLC for Eurasia Transport Corridor Investment Center

For the Asian Development Bank
Date received by ADB: 30 June 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 and Eurasian Transport Corridor Investment Center.
EURASIAN TRANSPORT CORRIDOR INVESTMENT CENTER
LOAN NO. 3524-GEO
(SECONDARY ROAD IMPROVEMENT PROJECT)

Special Purpose Project Financial Statements
For the year ended 31 December 2018
# EURASIAN TRANSPORT CORRIDOR INVESTMENT CENTER
SECONDARY ROAD IMPROVEMENT PROJECT
LOAN NO.3524-GEO

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EUROASIAN TRANSPORT CORRIDOR INVESTMENT CENTER
SECONDARY ROAD IMPROVEMENT PROJECT
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 Secondary Road Improvement Project (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 the Statement of Sources and Uses of Funds for the year ended 31 December 2018, the Balance Sheet as at 31 December 2018 and the related, Statement of Expenditures Withdrawal Schedule ("SOEs") and Statement of Imprest 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 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 Project's 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 authorized for issue on 25 June 2019 by the Management.

On behalf of the Management:

Giorgi Tsagareli
Director

Marina Majagaladze
Financial Manager

25 June 2019
25 June 2019
INDEPENDENT AUDITOR'S REPORT

To the management of Eurasia Transport Corridor Investment Center:

Opinion

We have audited the accompanying special purpose project financial statements of the Secondary Road Improvement Project (the "Project") financed under the Loan Agreement No. 3524-GEO dated 19 June 2017 (the "Agreement"), 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 the related, Statement of Expenditures Withdrawal Schedule ("SOEs") and Statement of Imprest 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 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 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 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.
Deloitte.

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 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 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 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 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  
SECONDARY ROAD IMPROVEMENT PROJECT 
LOAN NO 3524-GEO  

STATEMENT OF SOURCES AND USES OF FUNDS  
FOR THE YEAR ENDED 31 DECEMBER 2018  
(in US Dollars)  

<table>
<thead>
<tr>
<th></th>
<th>Actual</th>
<th>Planned*</th>
<th>Variance</th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Period to date</td>
<td>Cumulative to date</td>
<td>Period to date</td>
<td>Cumulative to date</td>
<td>Period to date</td>
<td>Cumulative to date</td>
<td></td>
</tr>
<tr>
<td>FUND$ RECEIVED BY SOURCES</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Asian Development Bank (ADB)</td>
<td>3,462,481</td>
<td>6,103,561</td>
<td>3,462,481</td>
<td>6,103,561</td>
<td>Unaudited</td>
<td>Unaudited</td>
<td></td>
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<tr>
<td>Funds</td>
<td>Direct payments</td>
<td>3,353,798 5,870,545</td>
<td>3,353,798 5,870,545</td>
<td>-</td>
<td>-</td>
<td></td>
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<tr>
<td></td>
<td>Replenishment</td>
<td>25,000</td>
<td>25,000</td>
<td>Unaudited</td>
<td>Unaudited</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Interest and</td>
<td>183,683</td>
<td>208,016</td>
<td>Unaudited</td>
<td>Unaudited</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>commitment charges</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Government of Georgia (GOG)</td>
<td>1,198,047</td>
<td>1,714,511</td>
<td>1,198,047</td>
<td>1,714,511</td>
<td>Unaudited</td>
<td>Unaudited</td>
<td></td>
</tr>
<tr>
<td>TOTAL FUNDS RECEIVED</td>
<td>4,660,528</td>
<td>7,818,072</td>
<td>4,660,528</td>
<td>7,818,072</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>LESS: EXPENDITURES</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Category 1 – Works and</td>
<td>3,253,798</td>
<td>5,870,545</td>
<td>3,253,798</td>
<td>5,870,545</td>
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<td></td>
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<tr>
<td>consulting services</td>
<td>4,363</td>
<td>4,363</td>
<td>4,363</td>
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<td></td>
<td></td>
<td></td>
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<tr>
<td>Category 2 - Project</td>
<td>183,683</td>
<td>208,016</td>
<td>183,683</td>
<td>208,016</td>
<td></td>
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<td></td>
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<tr>
<td>management support</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Category 3 – Interest and</td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>commitment charges</td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Category 4 – Unallocated</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ADB TOTAL</td>
<td>3,441,844</td>
<td>6,082,924</td>
<td>3,441,844</td>
<td>6,082,924</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Category 1 – Works and</td>
<td>1,196,960</td>
<td>1,713,424</td>
<td>1,196,960</td>
<td>1,713,424</td>
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<tr>
<td>consulting services</td>
<td>1,087</td>
<td>1,087</td>
<td>1,087</td>
<td></td>
<td></td>
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<td></td>
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</tr>
<tr>
<td>management support</td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Category 3 – Interest and</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>commitment charges</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Category 4 – Unallocated</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>GoG TOTAL</td>
<td>1,198,047</td>
<td>1,714,511</td>
<td>1,198,047</td>
<td>1,714,511</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>TOTAL PROJECT</td>
<td>4,639,891</td>
<td>7,797,435</td>
<td>4,639,891</td>
<td>7,797,435</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>EXPENDITURES</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>NET FLOW OF FUNDS</td>
<td>20,637</td>
<td>20,637</td>
<td>20,637</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*The project uses flex budget approach, so that at the end of the period 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 8 to 12 form an integral part of these special purpose project financial statements.
EURASIAN TRANSPORT CORRIDOR INVESTMENT CENTER  
SECONDARY ROAD IMPROVEMENT PROJECT  
LOAN NO. 3524-GEO  

BALANCE SHEET STATEMENT  
FOR THE YEAR ENDED 31 DECEMBER 2018  
(in US Dollars)  

<table>
<thead>
<tr>
<th></th>
<th>31 December 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>ASSETS</td>
<td></td>
</tr>
<tr>
<td>ADB imprest account</td>
<td>20,637</td>
</tr>
<tr>
<td>TOTAL ASSETS</td>
<td>20,637</td>
</tr>
<tr>
<td>Funds received:</td>
<td></td>
</tr>
<tr>
<td>Funds received from ADB</td>
<td>6,103,561</td>
</tr>
<tr>
<td>Funds received from GoG</td>
<td>1,714,511</td>
</tr>
<tr>
<td>Total funds received</td>
<td>7,818,072</td>
</tr>
<tr>
<td>Project expenditures:</td>
<td></td>
</tr>
<tr>
<td>Financed by ADB</td>
<td>(6,082,924)</td>
</tr>
<tr>
<td>Financed by GoG</td>
<td>(1,714,511)</td>
</tr>
<tr>
<td>Total project</td>
<td>(7,797,435)</td>
</tr>
<tr>
<td>expenditures</td>
<td></td>
</tr>
<tr>
<td>TOTAL FUNDS RECEIVED</td>
<td>20,637</td>
</tr>
<tr>
<td>LESS PROJECT EXPENDITURES</td>
<td></td>
</tr>
</tbody>
</table>

On behalf of the Management:

Giorgi Tsagareli  
Director

Marina Majaguladze  
Financial Manager

25 June 2019  
25 June 2019

The notes on pages 8 to 12 form an integral part of these special purpose project financial statements.
EURASIAN TRANSPORT CORRIDOR INVESTMENT CENTER
SECONDARY ROAD IMPROVEMENT PROJECT
LOAN NO. 3524-GEO

STATEMENT OF EXPENDITURE WITHDRAWAL SCHEDULE
FOR THE YEAR ENDED 31 DECEMBER 2018
(in US Dollars)

<table>
<thead>
<tr>
<th>Withdrawal No.</th>
<th>Withdrawal application date</th>
<th>Total SOE in withdrawal schedule</th>
<th>Total SOE Attributable to 2018</th>
<th>Total SOE attributable to 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>00026</td>
<td>25-Mar-19</td>
<td>-</td>
<td>6,500</td>
<td>10,018</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Unaudited</td>
</tr>
</tbody>
</table>

Withdrawal application No.26 was sent to ADB on 25-Mar-2019, the amount was approved and replenished by ADB in May 2019. Total SOE expenditures in withdrawal application No.26 were USD 16,518 from which USD 6,500 is SOE attributable to 2018 and USD 10,018 is SOE attributable to 2019. There was no SOE withdrawal application sent for approval in 2018.

On behalf of the Management:

Giorgi Tsagareli  
Director  
25 June 2019

Marina Majagafadze  
Financial Manager  
25 June 2019

The notes on pages 8 to 12 form an integral part of these special purpose project financial statements.
EURASIAN TRANSPORT CORRIDOR INVESTMENT CENTER
SECONDARY ROAD IMPROVEMENT PROJECT
LOAN NO. 3524 – GEO

STATEMENT OF IMPREST ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2018
(in US Dollars)

<table>
<thead>
<tr>
<th>Account No.</th>
<th>210250199</th>
</tr>
</thead>
<tbody>
<tr>
<td>Depository Bank</td>
<td>State Treasury</td>
</tr>
<tr>
<td>Address</td>
<td>16 V. Gorgasali street</td>
</tr>
<tr>
<td></td>
<td>Tbilisi, 0114</td>
</tr>
<tr>
<td></td>
<td>Georgia</td>
</tr>
</tbody>
</table>

Balance as at 1 January 2018

ADD
ADB replenishment

DEDUCT
Funds used for the Project expenditures

Balance as at 31 December 2018

On behalf of the Management:

Giorgi Tsagareli  Marina Majagaladze
Director          Financial Manager
25 June 2019      25 June 2019

The notes on pages 8 to 12 form an integral part of these special purpose project financial statements.
EURASIAN TRANSPORT CORRIDOR INVESTMENT CENTER
SECONDARY ROAD IMPROVEMENT PROJECT
LOAN NO. 3524-GEO

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

1. BACKGROUND

The Investment Center for Euro-Asian Transport Corridor was established in 1995 as a non-entrepreneurial and non-profit legal entity. 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 the allocated loan received from the Asian Development Bank ("ADB") and monitor the implementation of transport sector projects.

The objectives of the Project are increased mobility and accessibility of the residents of the Kharagauli municipality and tourists. The Project shall comprise rehabilitation of approximately 50 km road between Dzirula and Chumateleli to two-lane all-weather standard, including short access roads to the Borjomi-Kharagauli National Park and to Kharagauli and other railway stations. The Project shall include the provision of Consulting Services for construction supervision and Project management support. The Project is expected to be completed by 31 August 2021.

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 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 United States Dollars ("US Dollar" or "USD").

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

Cash – Cash comprises balances with the State Treasury.

3. BASIS OF FUNDING

According to the terms of the Agreement, Category 1 – works and consulting, Category 2 – Project management Support are financed 100% of the total expenditure claimed by ADB and Category 3 – Interest and commitment charges are 100% financed by ADB. Category 1 and 2 is 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
SECONDARY ROAD IMPROVEMENT PROJECT
LOAN NO. 3524-GEO

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

(a) Imprest account
Available amounts were drawn from time to time within limits determined within the loan
agreements for the direct payment of eligible expenditures for sub-projects from this special
account. No amounts were drawn down during the period from special account.

(b) Direct payment
Available amounts are drawn from time to time within limits determined under the credit
agreement for direct payments of eligible expenditures for sub-projects. Direct payments are
made by ADB directly to third parties. TRRC forms withdrawal applications for request of direct
payments and sends it to the ADB, for settlement.

(c) 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. RECONCILIATION OF AMOUNTS SHOWN AS RECEIVED FROM THE ADB TO ACTUAL
EXPENDITURES OF THE PROJECT

<table>
<thead>
<tr>
<th>Application of Withdrawals Schedule</th>
<th>31 December 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Expenses incurred in 2018 as per the Applications of Withdrawals Schedule</td>
<td>3,258,161</td>
</tr>
<tr>
<td>Expenses incurred in 2018 as Capitalised charges</td>
<td>183,683</td>
</tr>
<tr>
<td></td>
<td><strong>3,441,844</strong></td>
</tr>
<tr>
<td>ADB replenishments</td>
<td>25,000</td>
</tr>
<tr>
<td>Capitalised charges</td>
<td>183,683</td>
</tr>
<tr>
<td>ADB direct payments</td>
<td><strong>3,254,798</strong></td>
</tr>
<tr>
<td></td>
<td><strong>3,462,481</strong></td>
</tr>
</tbody>
</table>

Add:
Opening Balances
Imprest Account

Less:
Closing Balances
Imprest Account

TOTAL EXPENDITURES INCURRED IN 2018

   **(20,637)**

   **(20,637)**

   **3,441,844**
<table>
<thead>
<tr>
<th>Withdrawal No.</th>
<th>Value date</th>
<th>Total amount in withdrawal schedule</th>
<th>Total attributable to 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>00004</td>
<td>25-Jun-18</td>
<td>25,000</td>
<td>25,000</td>
</tr>
<tr>
<td>00005</td>
<td>21-Sep-18</td>
<td>271,839</td>
<td>271,839</td>
</tr>
<tr>
<td>00006</td>
<td>29-Nov-18</td>
<td>16,980</td>
<td>16,980</td>
</tr>
<tr>
<td>00007</td>
<td>03-Dec-18</td>
<td>26,324</td>
<td>26,324</td>
</tr>
<tr>
<td>00008</td>
<td>03-Dec-18</td>
<td>10,703</td>
<td>10,703</td>
</tr>
<tr>
<td>00009</td>
<td>17-Dec-18</td>
<td>41,456</td>
<td>41,456</td>
</tr>
<tr>
<td>00010</td>
<td>19-Dec-18</td>
<td>64,516</td>
<td>64,516</td>
</tr>
<tr>
<td>00011</td>
<td>19-Dec-18</td>
<td>25,983</td>
<td>25,983</td>
</tr>
<tr>
<td>00012</td>
<td>18-Dec-18</td>
<td>107,481</td>
<td>107,481</td>
</tr>
<tr>
<td>00013</td>
<td>26-Dec-18</td>
<td>2,688,516</td>
<td>2,688,516</td>
</tr>
<tr>
<td>CAP</td>
<td>01-Nov-18</td>
<td>102,693</td>
<td>102,693</td>
</tr>
<tr>
<td>CAP</td>
<td>01-May-18</td>
<td>80,990</td>
<td>80,990</td>
</tr>
</tbody>
</table>

3,462,481

3,462,481

Ten withdrawal applications were approved by ADB. Also interest and commitment charges for USD 183,683 were capitalised on the loan amount as commission charge.
### 6. PROJECT EXPENDITURES BY COMPONENTS

<table>
<thead>
<tr>
<th>Project Activities</th>
<th>ADB Financing</th>
<th>GoG Financing</th>
<th>Total</th>
<th>ADB Financing</th>
<th>GoG Financing</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Component A – Investment costs</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Civil works</td>
<td>2,874,478</td>
<td>500,063</td>
<td>3,374,541</td>
<td>5,491,225</td>
<td>971,705</td>
<td>6,462,930</td>
</tr>
<tr>
<td>Land acquisition/social mitigation</td>
<td>-</td>
<td>629,184</td>
<td>629,184</td>
<td>-</td>
<td>674,006</td>
<td>674,006</td>
</tr>
<tr>
<td>Consultancy</td>
<td>379,320</td>
<td>67,713</td>
<td>447,033</td>
<td>379,320</td>
<td>67,713</td>
<td>447,033</td>
</tr>
<tr>
<td><strong>TOTAL COMPONENT A</strong></td>
<td><strong>3,253,798</strong></td>
<td><strong>1,196,960</strong></td>
<td><strong>4,450,758</strong></td>
<td><strong>5,870,545</strong></td>
<td><strong>1,713,424</strong></td>
<td><strong>7,583,969</strong></td>
</tr>
<tr>
<td>Component B – Project management costs</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Project management costs</td>
<td>4,363</td>
<td>1,087</td>
<td>5,450</td>
<td>4,363</td>
<td>1,087</td>
<td>5,450</td>
</tr>
<tr>
<td><strong>TOTAL COMPONENT B</strong></td>
<td><strong>4,363</strong></td>
<td><strong>1,087</strong></td>
<td><strong>5,450</strong></td>
<td><strong>4,363</strong></td>
<td><strong>1,087</strong></td>
<td><strong>5,450</strong></td>
</tr>
<tr>
<td>Component C –</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Contingencies unallocated</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Contingencies unallocated</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>TOTAL COMPONENT C</strong></td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Component D – Financial charges during</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>implementation - CAP</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Financial charges during implementation</td>
<td>183,683</td>
<td>-</td>
<td>183,683</td>
<td>208,016</td>
<td>-</td>
<td>208,016</td>
</tr>
<tr>
<td><strong>TOTAL COMPONENT D</strong></td>
<td><strong>183,683</strong></td>
<td><strong>-</strong></td>
<td><strong>183,683</strong></td>
<td><strong>208,016</strong></td>
<td><strong>-</strong></td>
<td><strong>208,016</strong></td>
</tr>
<tr>
<td><strong>TOTAL PROJECT EXPENDITURES</strong></td>
<td><strong>3,441,844</strong></td>
<td><strong>1,198,047</strong></td>
<td><strong>4,639,891</strong></td>
<td><strong>6,082,924</strong></td>
<td><strong>1,714,511</strong></td>
<td><strong>7,797,435</strong></td>
</tr>
</tbody>
</table>
The Project comprises the following main components:

- Component A – Investment costs;
- Component B – Project management costs;
- Component C – Contingencies; and
- Component D – Financial charges during implementation

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 – Works and consulting services
- Category 2 – Project management support
- Category 3 – Interest and commitment charges
- Category 4 – Unallocated

7. 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.

8. 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 European Union Association Agreement. Whilst the legislative changes implemented during 2017 and 2018 paved the way, more can be expected as Georgia’s action plan for achieving accession to the European Union continues to develop.

9. 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 financial statements.

10. APPROVAL OF SPECIAL PURPOSE PROJECT FINANCIAL STATEMENTS

These financial statements were authorised for issue by the Management of ETCIC on 25 June 2019.
EURASIAN TRANSPORT CORRIDOR INVESTMENT CENTER
Loan NO.3524-GEO
(Secondary Road Improvement project)

Assurance report
For the Year Ended 31 December 2018
INDEPENDENT ASSURANCE REPORT

To the management of Eurasia Transport Corridor Investment Center:

Introduction

We have audited, in accordance with International Standards on Auditing, the accompanying special purpose project financial statements of the Road Secondary road improvement project (the "Project") financed under the Loan Agreement No. 3524-GEO dated 19 June 2017, implemented by the Eurasian Transport Corridor Investment Center, which comprise the Balance Sheet as at 31 December 2018 and the related Statement of Sources and Uses of Funds, Statement of Expenditure Withdrawal Schedule ("SOEs") and statement of Imprest Account Statement 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") and have expressed an unqualified opinion thereon dated 21 June 2019.

Responsibilities for the Subject Matter

Management is responsible for preparing and maintaining of books and records on Statement of Expenditure and for compliance with Statement of Expenditure procedures through maintaining supporting documentation on claims to the Asian Development Bank ("ADB") for reimbursement of expenditure incurred and that the expenditure is eligible for financing under the Loan Agreement for the year ended 31 December 2018. Management is also responsible for compliance with Article III (paragraphs 3.01, 3.02, 3.03, 3.04) of the Loan Agreement in terms of using the ADB funds. Management is also responsible for such internal control as management determines is necessary to enable the preparation of the above information that is free from material misstatement, whether due to fraud or error.

Scope and Subject Matter Information

We have performed our examination to determine whether under the Loan Agreement with the Asian Development Bank (ADB) dated 19 June 2017 ("The Loan Agreement"), in all material respects, based on the criteria defined in Appendix 1 - Excerpt from Terms of Reference, the ADB funds have been used for the purposes for which the funds were provided as set out in Article III (paragraphs 3.01, 3.02, 3.03, 3.04) of the Loan Agreement No. 3524-GEO dated 19 June 2017 for the year ended 31 December 2018 (defined in the Appendix 2 of this report).

Appendix 1 - Excerpt from Terms of Reference:

a. The ADB funds have been used for the purposes for which the funds were provided as set out in Article III (paragraphs 3.01, 3.02, 3.03, 3.04) of the Loan Agreement No. 3524-GEO, dated 19 June 2017, for the year ended 31 December 2018 (defined in the Appendix 2 of this report).

b. The project has complied with the Imprest account procedures as defined in Schedule III of the initial Loan agreement Loan No. 3524-GEO, i.e. Imprest account presents fairly in all material respect receipts collected and payments made and supports Imprest Account liquidations and replenishments during the year ended 31 December 2018;
Auditor's responsibility

Our responsibility is to express a conclusion on the subject matter discussed above based on our reasonable assurance engagement. We conducted our engagement in accordance with International Standard on Assurance Engagements (ISAE) 3000 (Revised) applicable to assurance engagements. This standard requires that we plan and perform our examination on the subject matter referred to above and perform other procedures as we consider necessary in the circumstances. We believe that our work provides a reasonable basis for our conclusion.

The firm applies International Standard on Quality Control (ISQC) 1 and, accordingly, maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

We have complied with the independence and other ethical requirements of the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

Inherent limitations exist in assurance engagements, due to the selective testing of the information being examined. Therefore fraud, error or non-compliance may occur and not be detected. Non-financial data may be subject to more inherent limitations than financial data, given its nature and the methods used for determining or estimating such data. These inherent limitations may influence the evaluation of the subject matter against criteria as defined in the excerpt from Terms of Reference.

We believe that evidence we have obtained is sufficient and appropriate to provide basis of our assurance conclusion.

Conclusion

In our opinion, in all material respect based on the criteria defined in defined in Appendix 1 - Excerpt from Terms of Reference:

a. The Project utilised all proceeds of the loan withdrawn from ADB only for the purposes of the Project as agreed between ADB and Government of Georgia in accordance with the Loan Agreement.

b. The Project has complied with the Imprest account procedures as defined in Schedule III of the initial Loan agreement Loan No. 3524-GEO, i.e. Imprest account presents fairly in all material respect receipts collected and payments made and supports Imprest Account liquidations and replenishments during the year ended 31 December 2018 as detailed in Attachment 1 of this report.

Restriction on distribution and use

This report is prepared to assist the Project to comply with the requirements of Asian Development Bank. As a result, it may not be suitable for another purpose. Our report is intended solely for use by the management of the Project, the Government of Georgia in communicating with the Asian Development Bank and should not be distributed or used by anyone other than these specified parties.

Stuart Leighton
On behalf of Deloitte and Touche LLC

25 June 2019
Tbilisi, Georgia
Appendix 1

Excerpt from Terms of Reference

Appendix A - TERMS OF REFERENCE, section XIV states following:

The additional engagement will be reasonable assurance engagement which will be undertaken in accordance with International Standard on Assurance Engagements (ISAE 3000), and will involve a positive form of expression (reasonable assurance) of the practitioner’s conclusion as to whether ADB & AIIB funds have been used only for the purposes for which the funds were provided as defined in the Article III (paragraphs 3.01, 3.02, 3.03, 3.04) and Schedule I of the Loan Agreement dated 12 June 2017 (Loan Number 3520-GEO), Article III (paragraph 3.02) and Schedule 1 of the Loan Agreement dated 17 June 2017 (Loan 8328-000021-1-GEO), and Article III (paragraphs 3.01, 3.02, 3.03, 3.04) and Schedule 1 of the Loan Agreement dated 19 June 2017 (Loan 3524-1-GEO) for the period 1 January - 31 December for fiscal years 2017-2019;

Separate report will be issued based on the reasonable assurance engagement.

Appendix 2

Article III of Loan Agreement #3524, dated 19 June 2017: Use of Proceeds of the Loan

Section 3.01.
The Borrower shall cause the proceeds of the Loan to be applied to the financing of expenditures on the Project in accordance with the provisions of this Loan Agreement.

Section 3.02.
The proceeds of the Loan shall be allocated and withdrawn in accordance with the provisions of Schedule 3 to this Loan Agreement, as such Schedule may be amended from time to time by agreement between the Borrower and ADB.

Section 3.03.
Except as ADB may otherwise agree, the Borrower shall procure, or cause to be procured, the items of expenditure to be financed out of the proceeds of the Loan in accordance with the provisions of Schedule 4 to this Loan Agreement.

Section 3.04.
The Loan Closing Date for the purposes of Section 9.02 of the Loan Regulations shall be 28 February 2022 or such other date as may from time to time be agreed between the Borrower and ADB.

Schedule 1: Description of the Project

1. The objectives of the Project are increased mobility and accessibility of the residents of the Kharagauli municipality and tourists.

2. The Project shall comprise rehabilitation of approximately 50 km road between Ozirula and Chumateleli to two-lane all-weather standard, including short access roads to the Borjomi-Kharagauli National Park and to Kharagauli and other railway stations.

3. The Project shall include the provision of Consulting Services for construction supervision and Project management support.

4. The Project is expected to be completed by 31 August 2021.
Schedule 3 of Loan Agreement #3524, dated 19 June 2017

Basis for Withdrawal from the Loan Account

Except as ADB may otherwise agree, the proceeds of the Loan shall be allocated to items of expenditure, and disbursed on the basis of the withdrawal percentage for each item of expenditure set forth in the Table.

Interest and Commitment Charges

The amount allocated to Category "Interest and Commitment Charges" is for financing interest and commitment charges on the Loan during the implementation period of the Project. ADB shall be entitled to withdraw from the Loan Account and pay to itself, on behalf of the Borrower, the amounts required to meet payments, when due, of such interest and commitment charges.

Reallocation

Notwithstanding the allocation of Loan proceeds and the withdrawal percentages set forth in the Table,

(a) if the amount of the Loan allocated to any Category appears to be insufficient to finance all agreed expenditures in that Category, ADB may, in consultation with the Borrower, (i) reallocate to such Category, to the extent required to meet the estimated shortfall, amounts of the Loan which have been allocated to another Category but, in the opinion of ADB, are not needed to meet other expenditures, and (ii) if such reallocation cannot fully meet the estimated shortfall, reduce the withdrawal percentage applicable to such expenditures in order that further withdrawals under such Category may continue until all expenditures thereunder shall have been made; and

(b) if the amount of the Loan allocated to any Category appears to exceed all agreed expenditures in that Category, ADB may, in consultation with the Borrower, reallocate such excess amount to any other Category.

Disbursement Procedure

Except as ADB may otherwise agree, the Loan proceeds shall be disbursed in accordance with the Loan Disbursement Handbook.

Retroactive Financing

Withdrawals from the Loan Account may be made to finance eligible expenditures incurred under the Project before the Effective Date, but not earlier than 12 months before the date of this Loan Agreement in connection with Works and Consulting Services, subject to a maximum amount equivalent to 20% of the Loan amount.
Attachment 1

STATEMENT OF IMPREST ACCOUNT

Balance as at 1 January 2018

ADD
ADB replenishment 25,000

DEDUCT
Funds used for the Project expenditures (4,363)

Balance as at 31 December 2018 20,637

Imprest Account

Initial Advance/Replenishments:
N/A 25,000

Total 25,000

Total SOE expenditures in withdrawal application No.26 were USD 16,518 from which USD 6,500 is SOE attributable to 2018 and USD 10,018 is SOE attributable to 2019. There were no SOE withdrawal application approved or replenished by ADB during 2018.