

**EURASIAN TRANSPORT
CORRIDOR INVESTMENT
CENTER**

FINANCE CONTRACT FIN N^o 81.299 FINANCING
AGREEMENT ENPI/2012/023087-GE-04
(GEORGIA EAST-WEST HIGHWAY PROJECT-A)

**Special Purpose Project Financial Statements and
Independent Auditor's Report
for the year ended 31 December 2013**

**EURASIAN TRANSPORT CORRIDOR INVESTMENT CENTER
GEORGIA EAST-WEST HIGHWAY PROJECT-A
FINANCE CONTRACT FIN N^o 81.299
FINANCING AGREEMENT ENPI/2012/023087-GE-04**

TABLE OF CONTENTS

	Page
STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE SPECIAL PURPOSE PROJECT FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013	1
INDEPENDENT AUDITOR'S REPORT	2-3
SPECIAL PURPOSE PROJECT FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013:	
Statement of sources and uses of funds	4
Balance sheet statement	5
Special accounts statement	6
Notes to the special purpose project financial statements	7-10

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE SPECIAL PURPOSE PROJECT FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

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 financial position of the Georgia East-West Highway Project-A Samteredia-Grigoleti-Kobuleti section ("the Project" or Georgia East-West Highway Project-A) as at 31 December 2013, and its sources and uses of funds and movement in special account for the year ended 31 December 2013, in compliance with the Cash Basis International Public Sector Accounting Standard, *Financial Reporting under the Cash Basis of Accounting* ("IPSAS – Cash Basis").

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;
- 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 special accounts;
- Making an assessment of the Projects ability to continue as a going concern.

Management is also responsible for:

- Designing, implementing and maintaining an effective and sound system of internal controls, throughout the Project;
- Maintaining adequate accounting records that are sufficient to show and explain the Project's transactions and disclose with reasonable accuracy at any time the financial position of the Project;
- 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
- Detecting and preventing fraud and other irregularities.

The special purpose project financial statements for the year ended 31 December 2013 were authorised for issue on 23 June 2014 by the Management.

On behalf of Management:

Giorgi Tsagareli
Director

23 June 2014

Marina Majagaladze
Financial Manager

23 June 2014

INDEPENDENT AUDITOR'S REPORT

To the management of the Eurasian Transport Corridor Investment Center:

We have audited the accompanying special purpose project financial statements of the Georgia East-West Highway Project-A Samteredia-Grigoleti-Kobuleti section (the "Project" or Georgia East-West Highway Project-A), financed under the Finance Contract FIN N^o 81.299 between Government of Georgia ("GoG") and the European Investment Bank ("EIB") dated 11 May 2012 and Financing Agreement ENPI/2012/023087-GE-04 between Government of Georgia and European Union ("EU") dated 11 May 2012, implemented by the Roads Department of the Ministry of Regional Development and Infrastructure of Georgia and supported by the Eurasian Transport Corridor Investment Center, which comprise the balance sheet statement as at 31 December 2013 and the related statement of sources and uses of funds and special accounts statement for the year ended 31 December 2013 and a summary of significant accounting policies and other explanatory notes (collectively referred to as the "special purpose project financial statements"). The special purpose project financial statements have been prepared by management using the Cash Basis International Public Sector Accounting Standard, *Financial Reporting under the Cash Basis of Accounting* ("IPSAS – Cash Basis").

Management's responsibility for the special purpose project financial statements

Management is responsible for the preparation and fair presentation of these special purpose project financial statements in accordance with the basis of accounting described in Note 2. This includes determining that the IPSAS – Cash Basis of accounting is an acceptable basis for the preparation of the special purpose project financial statements in the circumstances, and for such internal control as management determines is necessary to enable the preparation of the special purpose project financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these special purpose project financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the special purpose project financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the special purpose project financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the special purpose project financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the preparation and fair presentation of the special purpose project financial statements 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the special purpose project financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the accompanying special purpose project financial statements present fairly, in all material respects, the financial position of the Project as at 31 December 2013, and its sources and uses of funds and special accounts statement for the year ended 31 December 2013 in accordance with the IPSAS – Cash Basis of accounting.

Basis of accounting and restriction on distribution and use

Without modifying our opinion, 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 to comply with the requirements of EIB and EU. As a result, the special purpose project financial statements may not be suitable for another purpose. Our report is intended solely for use by the management of the Project, the GoG, EU and EIB and should not be distributed or used by anyone other than these specified parties.

Deloitte & Touche

23 June 2014
Tbilisi, Georgia

**EURASIAN TRANSPORT CORRIDOR INVESTMENT CENTER
 GEORGIA EAST-WEST HIGHWAY PROJECT-A
 FINANCE CONTRACT FIN N^o 81.299
 FINANCING AGREEMENT ENPI/2012/023087-GE-04**

**STATEMENT OF SOURCES AND USES OF FUNDS
 FOR THE YEAR ENDED 31 DECEMBER 2013
 (in Euros)**

	Actual		Planned		Variance	
	Year to date	Cumulative to date	Year to date	Cumulative to date	Year to date	Cumulative to date
			<i>Unaudited</i>	<i>Unaudited</i>	<i>Unaudited</i>	<i>Unaudited</i>
FUNDS RECEIVED BY SOURCES						
European Investment Bank (EIB) funds	20,000,000	23,000,000				
European Union (EU) funds	-	10,000,000				
Government of Georgia (GoG) co-financing	329,490	413,968				
TOTAL FUNDS RECEIVED	20,329,490	33,413,968				
LESS: EXPENDITURES						
Component 1 – Works, equipment and supplies	14,840,219	14,840,219	14,840,219	14,840,219	-	-
Component 2 Service contracts	1,139,909	1,411,444	1,139,909	1,411,444	-	-
EIB TOTAL	15,980,128	16,251,663	15,980,128	16,251,663	-	-
Component 1 – Works, equipment and supplies	2,015,126	2,015,126	2,015,126	2,015,126	-	-
Component 2 Service contracts	192,468	192,468	192,468	192,468	-	-
EU TOTAL	2,207,594	2,207,594	2,207,594	2,207,594	-	-
Component 1 – Works, equipment and supplies	-	-	-	-	-	-
Component 2 Service contracts	329,490	413,968	329,490	413,968	-	-
GoG TOTAL	329,490	413,968	329,490	413,968	-	-
TOTAL EXPENDITURES BY COMPONENTS	18,517,212	18,873,225	18,517,212	18,873,225	-	-
BANK CHARGES	126	238	126	238	-	-
FRONT END FEES (EIB)	-	50,000	-	50,000	-	-
TOTAL PROJECT EXPENDITURES	18,517,338	18,923,463	18,517,338	18,923,463	-	-
NET FLOWS OF FUNDS	1,812,152	14,490,505				

On behalf of Management:

 Giorgi Tsagareli
 Director

 Marina Majagaladze
 Financial Manager

23 June 2014

23 June 2014

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

EURASIAN TRANSPORT CORRIDOR INVESTMENT CENTER
 GEORGIA EAST-WEST HIGHWAY PROJECT-A
 FINANCE CONTRACT FIN N^o 81.299
 FINANCING AGREEMENT ENPI/2012/023087-GE-04

BALANCE SHEET STATEMENT
 AS AT 31 DECEMBER 2013
 (in Euros)

	31 December 2013
ASSETS	
EIB Special Account	6,698,227
EU Special Account	7,792,279
TOTAL ASSETS	14,490,506
Funds received:	
Funds received from EIB	-
Funds received from EU	20,000,000
Funds received from GoG	329,490
Total funds received	20,329,490
Expenditures by components:	
Financed by EIB	(15,980,128)
Financed by EU	(2,207,594)
Financed by GoG	(329,490)
Total expenditures by components	(18,517,212)
Bank charges	(126)
Front end Fees	-
Total project expenditures	(18,517,338)
TOTAL EXPENDITURES AND OTHER FUNDS	1,812,152

On behalf of Management:

 Giorgi Tsagareli
 Director

23 June 2014

 Marina Majagaladze
 Financial Manager

23 June 2014

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

EURASIAN TRANSPORT CORRIDOR INVESTMENT CENTER
GEORGIA EAST-WEST HIGHWAY PROJECT-A
FINANCE CONTRACT FIN N^o 81.299
FINANCING AGREEMENT ENPI/2012/023087-GE-04

SPECIAL ACCOUNTS STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2013
(in Euros)

Account No.	217250929
Depository Bank	State Treasury
Address	16 V. Gorgasali street Tbilisi, 0114 Georgia

Balance as at 1 January 2013	2,678,465
ADD	
Funds received from EIB	20,000,000
DEDUCT	
Funds used for Project expenditures	<u>(15,980,238)</u>
Balance as at 31 December 2013	<u><u>6,698,227</u></u>

Account No.	217230929
Depository Bank	State Treasury
Address	16 V. Gorgasali street Tbilisi, 0114 Georgia

Balance as at 1 January 2013	9,999,888
ADD	
Funds received from EU	-
DEDUCT	
Funds used for Project expenditures	<u>(2,207,609)</u>
Balance as at 31 December 2013	<u><u>7,792,279</u></u>

On behalf of Management:

Giorgi Tsagareli
Director

23 June 2014

Marina Majagaladze
Financial Manager

23 June 2014

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

**EURASIAN TRANSPORT CORRIDOR INVESTMENT CENTER
GEORGIA EAST-WEST HIGHWAY PROJECT-A
FINANCE CONTRACT FIN N^o 81.299
FINANCING AGREEMENT ENPI/2012/023087-GE-04**

**NOTES TO THE SPECIAL PURPOSE PROJECT FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013**

(in Euros)

1. BACKGROUND

The Investment Center for Euro-Asian Transport Corridor was established in 1995 as a non-entrepreneurial and non-profit legal entity. A project unit named "Eurasian Transport Corridor Investment Center" (the "ETCIC" or Transport Reform and Rehabilitation Center – "TRRC") was formed within the Investment Center for Euro-Asian Transport Corridor to manage allocated credits/loans received from the International Development Association ("IDA"), the International Bank for Reconstruction and Development ("IBRD"), the Asian Development Bank (ADB), the European Investment Bank (EIB) and monitor the implementation of transport sector projects.

The European Investment Bank Finance Contract FIN N^o 81.299 (the "Contract") in the amount of EUR 170 million was signed between the Government of Georgia ("GoG"), represented by the Ministry of Finance of Georgia and European Investment Bank ("EIB") on 11 May 2012 to finance East-West Highway Project-A Samtredia-Grigoleti-Kobuleti section ("Project" or "Georgia East-West Highway Project-A"). EIB declares its willingness to consider further requests from GoG for the balance of EUR 30 million if such request is submitted in due course. European Union ("EU") Financing Agreement ENPI/2012/023087-GE-04 (the "Agreement") in the amount of EUR 20 million was signed between the Government of Georgia, represented by the Ministry of Regional Development and Infrastructure of Georgia and European Union, represented by the European Commission ("EC") on 11 May 2012 to co-finance the Project through Neighborhood Investment Facility ("NIF") non-reimbursable grant.

The purpose of the Project is to upgrade and improve the western part of the East-West highway for a total length of about 68 kilometers. The contract and agreement under audit, mentioned above, finance construction of Samtredia-Grigoleti-Kobuleti section, which comprises one section from the three covered by the entire project. Other two parts are financed under parallel financings by Japan International Cooperation Agency and ADB. Samtredia-Grigoleti-Kobuleti section financed by EIB and EU comprise construction of about 52 kilometers motorway and upgrading of about 16 kilometers road along the same alignment.

Roads Department of Ministry of Regional Development and Infrastructure of Georgia (RDMRDI) coordinates, manages and evaluates all aspects of the implementation of the Project. RDMRDI is supported by the Eurasian Transport Corridor Investment Center in the management of the financial aspects of the Project.

2. ACCOUNTING POLICIES

Basis of accounting – 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* and incorporate the following principal accounting policies. 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 Euros ("EUR").

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

Cash – Cash comprises balances with State Treasury.

**EURASIAN TRANSPORT CORRIDOR INVESTMENT CENTER
GEORGIA EAST-WEST HIGHWAY PROJECT-A
FINANCE CONTRACT FIN N° 81.299
FINANCING AGREEMENT ENPI/2012/023087-GE-04**

**NOTES TO THE SPECIAL PURPOSE PROJECT FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2013
(in Euros)**

3. SPECIAL ACCOUNTS

Special accounts are designated disbursement accounts of the Project maintained in Euro at the State Treasury. Disbursements from special account do not require individual authorisations from EIB and EU.

4. BASIS OF FUNDING

According to the terms of the Agreement with EU, expenditures are co-financed by proceeds received from EIB and EU at a proportional rate of 88% and 12%, respectively.

GoG is responsible to co-finance the components of the Project which are not eligible for financing by the EU and EIB. GoG is responsible for paying all value added taxes, land acquisition costs and other non-eligible expenditures.

European Commission transfers the total NIF contribution in two successive tranches to the special account based on payment request from the Ministry of Regional Development and Infrastructure of Georgia. The first financing payment amounts to EUR 10 million and the second payment of EUR 10 million shall be paid after actual payments out of both special accounts amount to EUR 58,350,000.

EIB also disburses its loan in several tranches into the special account based on the request of Ministry of Finance of Georgia. The amount of each tranche shall be a minimum of EUR 10 million, provided that the first tranche can be minimum EUR 3 million. EIB prepares disbursement offer which is accepted by Ministry of Finance of Georgia.

5. METHODS OF WITHDRAWAL

The methods of withdrawal used for the year ended 31 December 2013 were as follows:

(a) Special Accounts

Purchase of service, works, equipment and supplies are authorized by EIB and performed through open international tender or other acceptable procurement procedure complying with EIB Guide to Procurement. Eurasian Transport Corridor Investment Center withdraws the eligible amounts from the special accounts based on contract terms and conditions and invoices submitted by a contractor.

(b) 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.

