

Audited Project Financial Statements

Project Number: 43405-026
Loan/Grant Number: 3238
Period covered: 1 January 2016 to 31 December 2016

GEO: Urban Services Improvement Investment Program – Tranche 4

Prepared by BDO LLC (Georgia)

For the Asian Development Bank
Date received by ADB: 19 April 2017

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 Public Communications Policy 2011 and as agreed between ADB and the United Water Supply Company of Georgia LLC.

UNITED WATER SUPPLY COMPANY OF GEORGIA LLC
URBAN SERVICES IMPROVEMENT INVESTMENT PROGRAM, Project 4 (Loan No. 3238-GEO)
PROJECT FINANCIAL STATEMENT
As of and for the year ended December 31, 2016
Currency: USD

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Project Financial Statement

**Of Project 4 - Urban services improvement investment
program (Loan No. 3238-GEO)**

With accompanied independent auditor's report

For the year ended December 31, 2016

UNITED WATER SUPPLY COMPANY OF GEORGIA LLC
Urban services improvement investment program, Project 4 (Loan No. 3238-GEO)
PROJECT FINANCIAL STATEMENT

As of and for the year ended December 31, 2016

Currency: USD

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In our opinion,

- The aforementioned project financial statements and notes present fairly, in all material respects, the cash position of the Urban Services Improvement Investment Program, project 4 as of December 31, 2016, and of the receipts and payments for the year then ended, in conformity with the cash basis of accounting, as described in the note 2 to the project financial statements.
- The Organization has utilized all proceeds of the loan withdrawn from the ADB only for purposes of the Project, as agreed between the ADB and Georgia, in accordance with the Loan Agreement No. 3238-GEO, and no proceeds of the loan have been utilized for the other purposes.
- As of the reporting date the Organization was in compliance with all financial covenants of the Loan Agreement No. 3238-GEO.

Basis of Accounting

Without modifying our opinion, we draw attention to Note 2 to the project financial statement, which describes the basis of accounting policy. The project financial statement is prepared to assist the management of the Organization to comply with the requirements of the ADB. As a result, the project financial statements may not be suitable for another purpose.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under these 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 Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (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.

Responsibilities of Management and Those Charged with Governance for the Project Financial Statements

Management of the United Water Supply of Georgia LLC (referred to as "Organization") is responsible for the preparation and fair presentation of this financial statement in accordance with the financial covenants of the Loan Agreement No. 3238-GEO, the ADB Government Bank Guidelines and the cash basis of accounting, as described in note 2 to the project financial statements. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the project financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Those charged with governance are responsible for overseeing the Project's financial reporting process.

Independent Auditor's Report

To the management of the United Water Supply of Georgia LLC

Opinion

We have audited the accompanying project financial statements of the **Urban services improvement investment program, Project 4** (further "Project"), financed by the Asian Development Bank (further "ADB") **Loan No. 3238-GEO**, which comprise the statement of the Project sources and uses of funds, the government co-financing account statement as of and for the year ended December 31, 2016, and a summary of significant accounting policies and other explanatory information.

In our opinion,

- the aforementioned project financial statements and notes thereto present fairly, in all material respects, the cash position of the Urban Services Improvement Investment Program, project 4 as of December 31, 2016, and of the receipts and payments for the year then ended, in conformity with the cash basis of accounting, as described in the note 2 to the project financial statement;
- The Organization has utilized all proceeds of the loan withdrawn from the ADB only for purposes of the Project as agreed between the ADB and Georgia, in accordance with the Loan Agreement No. 3238-GEO; and no proceeds of the loan have been utilized for the other purposes;
- As of the reporting date the Organization was in compliance with all financial covenants of the Loan Agreement No. 3238-GEO.

Basis of Accounting

Without modifying our opinion, we draw attention to Note 2 to the project financial statement, which describes the basis of accounting policy. The project financial statement is prepared to assist the management of the Organization to comply with the requirements of the ADB. As a result, the project financial statements may not be suitable for another purpose.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (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.

Responsibilities of Management and Those Charged with Governance for the Project Financial Statements

Management of the United Water Supply of Georgia LLC (further "Organization") is responsible for the preparation and fair presentation of this financial statement in accordance with the financial covenants of the Loan Agreement No. 3238-GEO, the Asian Development Bank guidelines and the cash basis of accounting, as described in note 2 to the project financial statements. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the project financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

Those charged with governance are responsible for overseeing the Project's financial reporting process.

Auditor's Responsibilities for the Audit of the Project Financial Statements

Our objectives are to obtain reasonable assurance about whether the 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 project financial statements.

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

- Identify and assess 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 Company'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 the 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 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 Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion.

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.

Tbilisi, Georgia

17 March, 2017

BDO LLC

UNITED WATER SUPPLY COMPANY OF GEORGIA LLC

Urban services improvement investment program, Project 4 (UWSCG Loan No. 3238-GEO)

PROJECT FINANCIAL STATEMENT

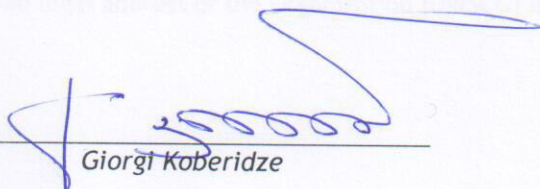
As of and for the year ended December 31, 2016

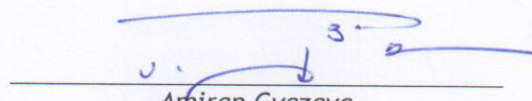
Currency: USD

Statement of the project sources and uses of funds for the period from January 1, 2016 to December 31, 2016:

	Note	Year ended December 31, 2016			As at December 31, 2016		
		Actual	Planned	Variance	Actual	Planned	Variance
Opening balance of bank accounts	3	-	-	-	-	-	-
Add: Financing							
ADB Loan No. 3238-GEO	4	9,613,714	10,348,000	734,286	14,003,193	17,647,153	3,643,960
Government co-financing		1,682,500	1,862,029	179,529	2,452,703	3,175,446	722,743
Total financing		11,296,214	12,210,029	913,815	16,455,896	20,822,599	4,366,703
Less: Expenses							
ADB Loan No. 3238-GEO	5.1	9,613,714	10,348,000	734,286	14,003,193	17,647,153	3,643,960
Government co-financing	5.2	1,682,500	1,862,029	179,529	2,452,703	3,175,446	722,743
Total expenses		11,296,214	12,210,029	913,815	16,455,896	20,822,599	4,366,703
Closing balance of bank accounts	3	-	-	-	-	-	-

These statements including the notes are signed by:


 Giorgi Koberidze
 Director


 Amiran Gvazava
 Invited Advisor in Financial Issues

This statement is to be read in conjunction with the notes to and forming part of Statement of the Project financial statement set out on pages 6 to 9.

UNITED WATER SUPPLY COMPANY OF GEORGIA LLC

Urban services improvement investment program (Loan No. 3238-GEO)

NOTES TO THE PROJECT FINANCIAL STATEMENT

As of and for the year ended December 31, 2016

Currency: USD

1. Basic Activities

Under the Loan Agreement No. 3238-GEO dated February 5, 2015, The Asian Development Bank (the ADB) has provided a multi-tranche financing facility to Georgia in the amount of 108,000,000 USD for the implementation of the urban services improvement investment program, Project 4. The loan agreement was signed by the Asian Development Bank and Ministry of Finance of Georgia.

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

The project comprises the following components:

Component 1 - Infrastructure improvement:

(a) Rehabilitation, upgrade and expansion of the water supply systems in the towns of Gudauri, Jvari and Zugdidi.

(b) improvement of sewerage system in the town of Poti through (i) replacement of old sewer lines, (ii) laying of new sewer lines, (iii) construction of sewage pumping stations, and (iv) construction of a new sewerage treatment plant; and

Component 2 - Project Implementation Support:

(c) provision of support to UWSCG for (i) creation of sex-disaggregated consumer database to develop targeted marketing campaigns, (ii) establishing customer care units in WSS service centres, which are staffed by at least 30% women that inform, educate, and communicate on water, hygiene and sanitation, and (iii) project implementation and management, including support to the investment program management office.

Component 1 and Component 2 are implemented by the United Water Supply Company of Georgia LLC (further UWSCG) according to Subsidiary Loan Agreement between Ministry of Finance of Georgia, Ministry of Regional Development and Infrastructure of Georgia and UWSCG dated March 26, 2015.

The project is expected to complete by December 31, 2017. Loan closing date is June 30, 2018.

The project is financed through the following main categories:

N	Item	Total Amount Allocated for ADB Financing (in USD)	Basis for withdrawal from the Loan Account
1	Works	99,060,000	84.75%of total expenditure claimed
2	Goods	30,000	84.75%of total expenditure claimed
3	Consulting Services	5,140,000	84.75%of total expenditure claimed
4	Interest and Commitment Charges	2,480,000	100% of amounts due
5	Unallocated	1,290,000	
Total		108,000,000	

The legal address of the Organization (UWSCG) is 76b Vazha-pshavela Ave. Tbilisi, 0186, Georgia.

UNITED WATER SUPPLY COMPANY OF GEORGIA LLC

Urban services improvement investment program (Loan No. 3238-GEO)

NOTES TO THE PROJECT FINANCIAL STATEMENT

As of and for the year ended December 31, 2016

Currency: USD

2. Accounting Policy

a) Basis of preparation

The project financial statements have been prepared on the cash basis of accounting. Under this basis of accounting, financing is recognised when received rather than when earned and expenses are recognised when paid rather than when incurred. Accounting policies for recognition and measurement of each item of the project financial statements is described below.

The project financial statement also comply with the Asian Development Bank guidelines ("Project Financial management and Analysis") and the covenants of the Loan Agreement No. 3238-GEO

Operating and Presentation Currency

For the Organisation the operating currency is Georgian currency (GEL) and the presentation currency is USD. The project financial statements are presented in USD.

Government co-financing amounts in Georgian laris and payments made from those amounts are converted into USD applying the official exchange rate determined by the National Bank of Georgia on the day of the transaction.

In preparing the project financial statements, transactions in currencies other than the operating currency are recorded at the rates of exchange reported on the ADB Loan and Grant Financial Information Services (LFIS).

b) Financing and Expenses

The project financing from ADB loan is recognised as such and included in the project financial statements only if payment is made from loan account:

- To supplier under the direct payment procedure or
- To UWSCG under the reimbursement procedure, for payments made to suppliers

The amount of Government co-financing are recognised as such and included in the project financial statements if funds are transmitted to the Government co-financing account jointly used for all tranches within the scope of the Urban Services Improvement Investment Program.

The project expenses are recognised as such and include in the project financial statements when payment is made to suppliers of goods, works or consulting services under the direct payment or to UWSCG under the reimbursement procedure. Payments are made either directly from the ADB loan account or from the Government co-financing accounts.

Planned expenses

Planned project expenses for the reporting period represent the annual budget by expense category and by source of financing, approved by the management of the UWSCG and the ADB.

3. Bank accounts

As the project is financed through direct payment and reimbursement procedures, UWSCG doesn't maintain designated bank accounts for ADB financing.

Government co-financing accounts are used for portion of expenses funded by the Government of Georgia for all tranches within the scope of the Urban Services Improvement Investment Program.

UNITED WATER SUPPLY COMPANY OF GEORGIA LLC

Urban services improvement investment program (UWSCG Loan No. 3238-GEO)

NOTES TO THE PROJECT FINANCIAL STATEMENT

As of and for the year ended December 31, 2016

Currency: USD

4. ADB Financing

	For the year ended December 31, 2016	As at December 31, 2016
Direct payment	9,350,287	13,611,404
Reimbursement	-	19,818
Interest and Commitment Charges	263,427*	371,971
Total	9,613,714	14,003,193

*Interest charge is calculated on the principal amount of the loan withdrawal and outstanding from time to time at the rate for each interest period of the sum of: a) LIBOR B) 0.60% as provided in Section 3.02 of the Loan Regulations less a credit of 0.10% as provided by section 3.03 of the Loan regulations and c) a maturity premium of 0.20% as provided by Section 3.03 of the Loan Regulations. Commitment charge of 0.15% per annum. Such charge shall accrue on the full amount of the loan (less amounts withdrawn from time to time), commencing 60 days after the date of this Loan Agreement.

5. Expenses

5.1 From ADB fund:

	For the year ended December 31, 2016			As at December 31, 2016		
	Actual	Planned	Variance	Actual	Planned	Variance
Works*	9,019,333	10,173,000	1,153,667	12,374,849	16,923,000	4,548,151
Goods	-	-	-	19,818	-	(19,818)
Consulting Services	330,954	175,000	(155,954)	1,236,555	724,153	(512,402)
Interest and Commitment Charges	263,427	-	(263,427)	371,971	-	(371,971)
Total	9,613,714	10,348,000	734,286	14,003,193	17,647,153	3,643,960

The allocation of expenses (excluding interest charges) through components is presented in the table below:

	For the year ended December 31, 2016		
	ADB	Co-financing	TOTAL
Component 1	9,019,333	1,630,717	10,650,050
Component 2	330,954	51,783	382,737
Total	9,350,287	1,682,500	11,032,787

5.2 From government co-financing amounts:

	For the year ended December 31, 2016			As at December 31, 2016		
	Actual	Planned	Variance	Actual	Planned	Variance
Works*	1,630,717	1,830,540	199,823	2,234,512	3,045,142	810,630
Goods	-	-	-	3,453	-	(3,453)
Consulting Services	51,783	31,489	(20,294)	214,738	130,304	(84,434)
Interest and Commitment Charges	-	-	-	-	-	-
Total	1,682,500	1,862,029	179,529	2,452,703	3,175,446	722,743

UNITED WATER SUPPLY COMPANY OF GEORGIA LLC

Urban services improvement investment program (Loan No. 3238-GEO)

NOTES TO THE PROJECT FINANCIAL STATEMENT

As of and for the year ended December 31, 2016

Currency: USD

5. Expenses (continued)

*Works includes paid advances to the contractor (Azeraqartikinti OJSC) amounted 3,744,453 USD according to the agreement signed December 25, 2015. Contractor was obliged to perform Contract requirements related to construction of Sewage System in Poti. The Contractor was not following the Contract requirement. As a result, process for Contract's termination of contract has been started. According to the Advance Payment Guarantee the company has requested the Contractor's bank to pay advance Payment to contractor. The company has received back its advance payment in February, 2017. This money will be used for financing new contract for construction of sewage system in Poti.

6. Financing and expenses in Georgian Lari

	For the year ended December 31, 2016	As at December 31, 2016
Financing		
ADB Loan No. 3238-GEO	23,856,462	34,258,233
Government co-financing	4,150,782	5,967,236
Total financing	28,007,244	40,225,469
Expenses		
Works	26,466,926	35,955,055
Goods	-	54,203
Consulting Services	916,806	3,333,956
Interest and Commitment Charges	623,512	882,255
Total expenses	28,007,244	40,225,469

7. Project implementation

Category	Budgeted in USD	Disbursement by ADB in USD	Amounts disbursed in %
Works	99,060,000	12,374,849	12.49%
Goods	30,000	19,818	66.06%
Consulting Services	5,140,000	1,236,555	24.06%
Interest and Commitment Charges	2,480,000	371,971	15.00%
Unallocated	1,290,000		0%
Total	108,000,000	14,003,193	12.97%

8. Land acquisition and resettlement

During the year ended 31 December 2016 was established resolution No: 2586 dated 15 December 2016 for resettlement in Zugdidi Region with total amount of GEL 41,719.48. Amount for this financing was taken from the savings under Resolution of No 526.

The expenditure related to resettle the population from the specific lands to be used for the construction for the Project purposes. During the 2016 year was not incurred any expenses under this degree.