

**RAIL TRADE AND TRANSPORT  
FACILITATION PROJECT OF  
THE REPUBLIC OF AZERBAIJAN  
LOAN AGREEMENTS  
NUMBER 7509-AZ AND 8282-AZ**

**Special-Purpose Financial Statements and  
Independent Auditors' Report**  
For the Year Ended December 31, 2015

# RAIL TRADE AND TRANSPORT FACILITATION PROJECT OF THE REPUBLIC OF AZERBAIJAN

## TABLE OF CONTENTS

---

	Page
STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE SPECIAL-PURPOSE FINANCIAL STATEMENT FOR THE YEAR ENDED DECEMBER 31, 2015	1
INDEPENDENT AUDITORS' REPORT	2-3
SPECIAL-PURPOSE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2015:	
Special-purpose balance sheet	4
Statement of cash receipts and payments	5-6
Statement of project activities	7-9
Statement of designated and project accounts	10
Statement of expenditure and summary sheet withdrawal schedule	11
Notes to the special-purpose financial statements	12-15

**STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE SPECIAL-PURPOSE FINANCIAL STATEMENT FOR THE YEAR ENDED DECEMBER 31, 2015**

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 Rail Trade and Transport Facilitation Project ("Project").

Management is responsible for the preparation of the Special-Purpose Financial Statements that present fairly the Special-Purpose Balance Sheet of the Project as at December 31, 2015, the Statement of Cash Receipts and Payments, the Statement of Project Activities, the Statement of Designated and Project Accounts and the Statement of Expenditure and Summary Sheet Withdrawal Schedule ("SOE" and "SSWS") for the year ended, in accordance with the International Public Sector Accounting Standards ("IPSAS") "Financial Reporting under the Cash Basis of Accounting" 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 7509-AZ (the "Loan Agreement") 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 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 on a going concern basis, unless it is inappropriate to presume that the Project will continue its operations for the foreseeable future.

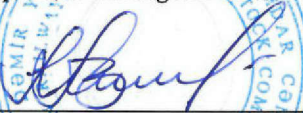
Management is also responsible for:

- 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;
- Maintaining statutory accounting records in compliance with legislation and accounting principles of the Republic of Azerbaijan;
- 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, 2015 were authorized for issue on June 20, 2016 by the management of the Project Implementation Unit.

**Approved and signed on behalf of the Management of the Project Implementation Unit:**



  
**Hijran Valehov**  
Deputy Chairman

  
**Seymur Gahramanov**  
Project Director

  
**Vusal Mehdiyev**  
Finance Specialist

June 20, 2016  
Baku, the Republic of Azerbaijan



## BAKER TILLY AZERBAIJAN

Audit, Tax and Consulting  
Demirchi Tower, 16th floor  
Khodjaly Avenue, 37  
AZ1025, Baku  
Azerbaijan

T: + 994 (12) 404 7 666  
F: + 994 (12) 404 7 667

office@bakertilly.az  
www.bakertilly.az

### INDEPENDENT AUDITORS' REPORT

To the Management of the Project Implementation Unit of Rail Trade and Transport Facilitation Project of the Republic of Azerbaijan:

We have audited the accompanying Special-Purpose Financial Statements of the Rail Trade and Transport Facilitation Project of the Republic of Azerbaijan (the "Project"), which comprise the Special-Purpose Balance Sheet as at December 31, 2015, and the Statement of Cash Receipts and Payments, the Statement of Project Activities, the Statement of Designated and Project Accounts and the Statement of Expenditure and Summary Sheet Withdrawal Schedule ("SOE" and "SSWS") for the year then ended, and a summary of significant accounting policies and other explanatory notes (collectively referred to as the "Special-Purpose Financial Statements") financed by the International Bank for Reconstruction and Development (the "IBRD") through loan agreement number 7509-AZ (the "Loan Agreement").

#### *Management's Responsibility for the Special-Purpose Financial Statements*

Management is responsible for the preparation and fair presentation of these Special-Purpose Financial Statements in accordance with International Public Sector Accounting Standards ("IPSAS") "Financial Reporting under the Cash Basis of Accounting" issued by the Public Sector Committee of the International Federation of Accountants ("IFAC-PSC") and relevant provisions of the financing 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 the Special-Purpose 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 Financial Statements based on conducting the 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 whether the Special-Purpose Financial Statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in these Special-Purpose Financial Statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the Special-Purpose Financial Statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the project management's preparation and fair presentation of the Special-Purpose 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 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 Special-Purpose Financial Statements present fairly, in all material respects, the financial position of the Project as at December 31, 2015, 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, 2015 in accordance with IPSAS "Financial Reporting under the Cash Basis of Accounting" and relevant provisions of the Loan Agreement as described in Note 2 of the Special-Purpose Financial Statements.

In addition, with respect to the SOE and SSWS, all payments reported are eligible for financing under the respective loan agreement and adequate documentation have been maintained to support the claims for withdrawal.

*Baker Tilly Azerbaijan*

June 20, 2016

Baku, the Republic of Azerbaijan



# RAIL TRADE AND TRANSPORT FACILITATION PROJECT OF THE REPUBLIC OF AZERBAIJAN

## SPECIAL-PURPOSE BALANCE SHEET AS AT DECEMBER 31, 2015

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

	Note	December 31, 2015	December 31, 2014
<b>ASSETS AND CUMULATIVE USES OF FUNDS</b>			
Cash and cash equivalents	3	3,332,180	2,535,987
Cumulative uses of funds		367,684,462	306,583,353
Due from Project Account		-	107,368
Due from IBRD Designated Account		36,741	-
<b>TOTAL ASSETS AND CUMULATIVE USES OF FUNDS</b>		<b>371,053,383</b>	<b>309,226,708</b>
<b>SOURCES OF FUNDS</b>			
Cumulative project funds		371,636,466	309,122,161
Accumulated exchange rate differences		(619,824)	(2,821)
Due to IBRD Designated Account		-	107,368
Due to Project Account		36,741	-
<b>TOTAL SOURCES OF FUNDS</b>		<b>371,053,383</b>	<b>309,226,708</b>

Approved and signed on behalf of the Management of the Project Implementation Unit:

  
**Hijran Valehov**  
 Deputy Chairman

  
**Seymur Gahramanov**  
 Project Director

  
**Vusal Mehdiyev**  
 Finance Specialist

June 20, 2016  
Baku, the Republic of Azerbaijan

The notes on pages 12-15 form an integral part of these Special-Purpose Financial Statements.

# RAIL TRADE AND TRANSPORT FACILITATION PROJECT OF THE REPUBLIC OF AZERBAIJAN

## STATEMENT OF CASH RECEIPTS AND PAYMENTS FOR THE YEAR ENDED DECEMBER 31, 2015

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

	Year ended December 31, 2015	Year ended December 31, 2014	Cumulative December 31, 2015
<b>OPENING BALANCE</b>			
IBRD Designated Account	760,746	2,196,141	
Project Account	1,775,239	252,697	
Cash in hand	2	2	
<b>TOTAL OPENING BALANCE</b>	<b>2,535,987</b>	<b>2,448,840</b>	
<b>ADD: FUNDS RECEIVED</b>			
<b>IBRD Loan Number 7509-AZ and 8282-AZ</b>			
Advance to the IBRD Designated Account	2,999,988	1,907,830	17,852,945
Direct funding	49,266,931	94,217,714	279,380,878
Front-end fee	-	-	1,675,000
<b>Subtotal IBRD Loan funds</b>	<b>52,266,919</b>	<b>96,125,544</b>	<b>298,908,823</b>
<b>Government of Azerbaijan</b>			
Advance to the Project Account	10,247,386	19,480,796	72,727,643
<b>Subtotal Government of Azerbaijan funds</b>	<b>10,247,386</b>	<b>19,480,796</b>	<b>72,727,643</b>
<b>TOTAL FUNDS RECEIVED</b>	<b>62,514,305</b>	<b>115,606,340</b>	<b>371,636,466</b>
<b>DUE FROM/(DUE TO) ACCOUNTS AND CASH WITHDRAWALS</b>			
<b>Due from/(due to) accounts</b>			
(Due to)/due from Project account	(36,741)	107,368	
Due from/(due to) IBRD Designated Account	36,741	(107,368)	
<b>Cash withdrawals/IBRD Loan Number 7509-AZ</b>			
Cash withdrawn from the IBRD Designated Account	-	-	(718,964)
Cash withdrawn from the Project Account	-	-	(126,942)
<b>Total cash withdrawals</b>	<b>-</b>	<b>-</b>	<b>(845,906)</b>
<b>LESS: EXPENDITURE</b>			
<b>IBRD Loan Number 7509-AZ (bank payments)</b>			
Consultants' services	(1,755,739)	(2,679,434)	(9,878,843)
Goods	(842,358)	(454,692)	(4,396,809)
Civil works	(253,158)	-	(1,498,268)
Incremental operating costs	(95,708)	(94,510)	(410,487)
Training	(627)	(7,221)	(44,194)
<b>Subtotal IBRD Loan expenditure (bank payments)</b>	<b>(2,947,590)</b>	<b>(3,235,857)</b>	<b>(16,228,601)</b>
<b>IBRD Loan Number 7509-AZ (cash payments)</b>			
Consultants' services	-	-	(495,658)
Incremental operating costs	-	-	(223,258)
<b>Subtotal IBRD Loan expenditure (cash payments)</b>	<b>-</b>	<b>-</b>	<b>(718,916)</b>

# RAIL TRADE AND TRANSPORT FACILITATION PROJECT OF THE REPUBLIC OF AZERBAIJAN

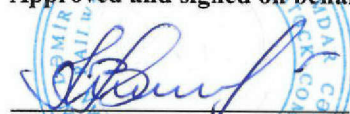
## STATEMENT OF CASH RECEIPTS AND PAYMENTS FOR THE YEAR ENDED DECEMBER 31, 2015 (Continued)

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

	Year ended December 31, 2015	Year ended December 31, 2014	Cumulative December 31, 2015
<b>IBRD Loan Number 7509-AZ (direct funding)</b>			
Civil works*	(49,266,931)	(94,217,714)	(279,005,766)
Goods	-	-	(324,890)
Consultants' services	-	-	(50,222)
<b>Subtotal IBRD Loan expenditure (direct funding)</b>	<b>(49,266,931)</b>	<b>(94,217,714)</b>	<b>(279,380,878)</b>
<b>Front-end fee</b>	<b>-</b>	<b>-</b>	<b>(1,675,000)</b>
<b>Government of Azerbaijan (bank payments)</b>			
Civil works*	(7,775,416)	(17,185,540)	(64,075,784)
Consultants' services	(633,670)	(667,137)	(3,432,769)
Goods	(452,015)	(176,530)	(1,908,634)
Incremental operating costs	(25,376)	(28,753)	(128,294)
Training	(111)	(1,274)	(8,659)
<b>Subtotal Government of Azerbaijan expenditure (bank payments)</b>	<b>(8,886,588)</b>	<b>(18,059,234)</b>	<b>(69,554,140)</b>
<b>Government of Azerbaijan (cash payments)</b>			
Consultants' services	-	-	(87,471)
Incremental operating costs	-	-	(39,456)
<b>Subtotal Government of Azerbaijan (cash payments)</b>	<b>-</b>	<b>-</b>	<b>(126,927)</b>
<b>TOTAL EXPENDITURE</b>	<b>(61,101,109)</b>	<b>(115,512,805)</b>	<b>(367,684,462)</b>
<b>FOREIGN EXCHANGE DIFFERENCE</b>			
Project Account	(617,003)	(6,388)	(619,763)
Cash in hand	-	-	(61)
<b>Total foreign exchange difference</b>	<b>(617,003)</b>	<b>(6,388)</b>	<b>(619,824)</b>
<b>CLOSING BALANCE</b>			
IBRD Designated Account	849,885	760,746	
Project Account	2,482,293	1,775,239	
Cash in hand	2	2	
<b>TOTAL CLOSING BALANCE</b>	<b>3,332,180</b>	<b>2,535,987</b>	

\* Civil works represent mainly the works related to the realization of the Project. The civil works contracts have been granted to "Optima-Atef" JV and the consortium consisting of "Bombardier Transportation" (Signal) Ltd., Bombardier Transportation Sweden AB and Trans-Signal-Rabita LLC (the "Consortium"). Average completion period for "Optima-Atef" JV contract is 54 months and value of the contract is USD 397,805,000 and average completion period for the Consortium is 78 months and values of the contracts granted are USD 268,605,304, SEK 91,852,825 and AZN 44,615,248.

Approved and signed on behalf of the Management of the Project Implementation Unit:

  
Hijran Valehov  
Deputy Chairman

  
Seymur Gahramanov  
Project Director

  
Vusal Mehdiyev  
Finance Specialist

June 20, 2016  
Baku, the Republic of Azerbaijan

The notes on pages 12-15 form an integral part of these Special-Purpose Financial Statements.



# RAIL TRADE AND TRANSPORT FACILITATION PROJECT OF THE REPUBLIC OF AZERBAIJAN

## STATEMENT OF PROJECT ACTIVITIES FOR THE YEAR ENDED DECEMBER 31, 2015

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

	Year ended December 31, 2015	Year ended December 31, 2014	Cumulative December 31, 2015 (Reclassified)
<b>1 Rehabilitation of East-West Main Line</b>			
<b>Consultants' Services</b>			
Signalling equipment	-	-	31,885
Technical services (Reclassified)	92,382	1,566,046	3,892,011
VAT(Reclassified)	16,629	281,885	700,555
	-	-	-
<b>Subtotal</b>	<b>109,011</b>	<b>1,847,931</b>	<b>4,624,451</b>
<b>Civil works</b>			
Design, Supply and Installation of Signalling System	31,639,481	22,540,964	111,686,232
Design, Supply and Installation of Power System	17,772,121	70,579,615	177,920,142
VAT	7,733,298	16,760,344	50,965,715
	-	-	-
<b>Subtotal</b>	<b>57,144,900</b>	<b>109,880,923</b>	<b>340,572,089</b>
<b>Total Rehabilitation of East-West Main Line</b>	<b>57,253,911</b>	<b>111,728,854</b>	<b>345,196,540</b>
<b>2 New Mainline Locomotives (restructured and removed from the scope of financing)</b>	-	-	-
<b>3 Modernization of Azerbaijan Railways Services</b>			
<b>Civil works</b>			
Construction of administrative building and warehouse for OSR team	127,631	1,290,417	3,371,494
VAT	22,974	231,914	606,367
	-	-	-
<b>Subtotal</b>	<b>150,605</b>	<b>1,522,331</b>	<b>3,977,861</b>
<b>Consultants' Services</b>			
IT software procurement	1,143,149	-	2,667,156
IT hardware procurement	44,963	-	44,963
IFRS accounting system implementation	368,639	445,794	2,127,199
Oil spill prevention and response	-	-	734,152
Valuation of Azerbaijan Railways asset for reporting purposes	-	104,400	324,800
Legal consultancy	9,800	9,800	49,000
VAT(Reclassified)	280,205	86,126	756,746
	-	-	-
<b>Subtotal</b>	<b>1,846,756</b>	<b>646,120</b>	<b>6,704,016</b>
<b>Training</b>			
Goods supply of re-railing system	-	-	574
Goods supply of excavators and vehicles	-	3,825	4,112
	-	-	-
<b>Subtotal</b>	<b>-</b>	<b>3,825</b>	<b>4,686</b>

# RAIL TRADE AND TRANSPORT FACILITATION PROJECT OF THE REPUBLIC OF AZERBAIJAN

## STATEMENT OF PROJECT ACTIVITIES FOR THE YEAR ENDED DECEMBER 31, 2015 (Continued)

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

	Year ended December 31, 2015	Year ended December 31, 2014	Cumulative December 31, 2015 (Reclassified)
<b>Goods</b>			
Supply of re-railing system	-	-	1,303,990
Supply of excavators and vehicles	-	177,808	2,499,401
OSR equipment temporary storage tanks	-	-	98,690
OSR equipment storage container	-	-	55,315
IT hardware procurement	951,800	357,123	1,308,923
OSR equipment-generators and lighting system	-	-	45,403
OSR equipment-hot water pressure washer	-	-	17,551
OSR equipment-safety and PP accessories and hand tools	-	-	51,901
OSR equipment-hi-tech equipment	-	-	13,668
Custom duties	109,416	-	109,416
VAT	187,673	96,290	938,200
<b>Subtotal</b>	<b>1,248,889</b>	<b>631,221</b>	<b>6,442,458</b>
<b>Total Modernization of Azerbaijan Railways Services</b>	<b>3,246,250</b>	<b>2,803,497</b>	<b>17,129,021</b>
<b>4 Project Implementation</b>			
<b>Training</b>			
Training for PIU	738	4,670	6,198
<b>Subtotal</b>	<b>738</b>	<b>4,670</b>	<b>6,198</b>
<b>Goods</b>			
Vehicles for PIU	-	6,476	72,931
Office furniture for consultants	4,353	-	47,828
IT hardware equipment	34,857	-	45,598
VAT	6,274	-	27,994
<b>Subtotal</b>	<b>45,484</b>	<b>6,476</b>	<b>194,351</b>
<b>Incremental operating costs</b>			
IFRS coordinator	32,687	46,646	222,962
Office support	17,650	8,743	128,037
Per diems and travel expenses	-	-	132,713
PIU staff costs	13,927	19,277	88,103
Bank charges	11,349	12,274	59,640
Custom duties	-	-	13,939
Vehicles for PIU insurance	-	-	16,896
IT hardware insurance	9,495	-	9,495
Conversion charge	8,638	3,850	31,155
Vehicles services	8,950	3,965	22,513
IT equipment for AR (technical assistance)	-	-	5,672
Financial system's upgrade	-	-	2,489
PIU staff medical insurance	14,720	20,082	48,194
VAT	3,668	1,949	13,211
<b>Subtotal</b>	<b>121,084</b>	<b>116,786</b>	<b>795,019</b>
<b>Civil works</b>			
Office renovation for consultants	-	-	29,868
<b>Subtotal</b>	<b>-</b>	<b>-</b>	<b>29,868</b>

# RAIL TRADE AND TRANSPORT FACILITATION PROJECT OF THE REPUBLIC OF AZERBAIJAN

## STATEMENT OF PROJECT ACTIVITIES

FOR THE YEAR ENDED DECEMBER 31, 2015 (Continued)


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

	Year ended December 31, 2015	Year ended December 31, 2014	Cumulative December 31, 2015 (Reclassified)
<b>Training</b>			
Training for PIU	-	-	41,969
<b>Subtotal</b>	-	-	41,969
<b>Consultants' Services</b>			
Project audit	240,572	570,262	1,139,795
PIU staff costs	148,909	179,613	938,870
Consulting for evaluation of electric locomotives	-	-	23,610
Translation support	858	-	858
VAT	43,303	102,647	513,363
<b>Subtotal</b>	433,642	852,522	2,616,496
<b>Total Project Implementation</b>	600,948	980,454	3,683,901
<b>Front-end fee</b>	-	-	1,675,000
<b>TOTAL PROJECT ACTIVITIES</b>	61,101,109	115,512,805	367,684,462

PIU – Project Implementation Unit

OSR – Operation, Service and Repair

Approved and signed on behalf of the Management of the Project Implementation Unit:

  
Hijran Valehov  
Deputy Chairman

  
Seymur Gahramanov  
Project Director

  
Vusal Mehdiyev  
Finance Specialist

June 20, 2016

Baku, the Republic of Azerbaijan

The notes on pages 12-15 form an integral part of these Special-Purpose Financial Statements.

# RAIL TRADE AND TRANSPORT FACILITATION PROJECT OF THE REPUBLIC OF AZERBAIJAN

## STATEMENT OF DESIGNATED AND PROJECT ACCOUNTS FOR THE YEAR ENDED DECEMBER 31, 2015

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

Statement of designated and project accounts for 2015 constitute from following:

	Project Account AZN-3201	Kapital Bank OJSC Designated Account USD-3211	Cash in hand
<b>Opening balance as at January 1, 2014</b>	<b>252,697</b>	<b>2,196,141</b>	<b>2</b>
Add:			
Project funds received	19,480,796	1,907,830	-
<b>Total receipts</b>	<b>19,480,796</b>	<b>1,907,830</b>	<b>-</b>
Deduct:			
Project eligible expenditure	(18,059,234)	(3,235,857)	-
<b>Total deductions</b>	<b>(18,059,234)</b>	<b>(3,235,857)</b>	<b>-</b>
<b>Effect of exchange rate</b>			
Government share	(6,388)	-	-
<b>Total effect of exchange rate</b>	<b>(6,388)</b>	<b>-</b>	<b>-</b>
Due from Project Account	107,368	-	-
Due to IBRD Designated Account	-	(107,368)	-
<b>Closing balance as at December 31, 2014</b>	<b>1,775,239</b>	<b>760,746</b>	<b>2</b>
Add:			
Project funds received	10,247,386	2,999,988	-
<b>Total receipts</b>	<b>10,247,386</b>	<b>2,999,988</b>	<b>-</b>
Deduct:			
Project eligible expenditure	(8,886,588)	(2,947,590)	-
<b>Total deductions</b>	<b>(8,886,588)</b>	<b>(2,947,590)</b>	<b>-</b>
<b>Effect of exchange rate</b>			
Government share	(617,003)	-	-
<b>Total effect of exchange rate</b>	<b>(617,003)</b>	<b>-</b>	<b>-</b>
Due to Project Account	(36,741)	-	-
Due from IBRD Designated Account	-	36,741	-
<b>Closing balance as at December 31, 2015</b>	<b>2,482,293</b>	<b>849,885</b>	<b>2</b>

Approved and signed on behalf of the Management of the Project Implementation Unit:

  
Hijran Valehov  
Deputy Chairman

  
Seymur Gahramanov  
Project Director

  
Vusal Mehdiyev  
Finance Specialist

June 20, 2016  
Baku, the Republic of Azerbaijan

The notes on pages 12-15 form an integral part of these Special-Purpose Financial Statements.

# RAIL TRADE AND TRANSPORT FACILITATION PROJECT OF THE REPUBLIC OF AZERBAIJAN

## STATEMENT OF EXPENDITURE AND SUMMARY SHEET WITHDRAWAL SCHEDULE FOR THE YEAR ENDED DECEMBER 31, 2015

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

IBRD Loan Number 7509 AZ

For the year ended December 31, 2014

	Total amounts reimbursed
Application for withdrawal No 23 (advance)	1,907,830
Total applications reimbursed during the period ended December 31, 2014	1,907,830

For the year ended December 31, 2015

	Total amounts reimbursed
Application for withdrawal No 35 (advance)	2,999,988
Total applications reimbursed during the period ended December 31, 2015	2,999,988

Approved and signed on behalf of the Management of the Project Implementation Unit:

  
Hijran Valehov  
Deputy Chairman  
Seymur Gahramanov  
Project Director  
Vusal Mehdiyev  
Finance Specialist

June 20, 2016  
Baku, the Republic of Azerbaijan

The notes on pages 12-15 form an integral part of these Special-Purpose Financial Statements.



# RAIL TRADE AND TRANSPORT FACILITATION PROJECT OF THE REPUBLIC OF AZERBAIJAN

## NOTES TO THE SPECIAL-PURPOSE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2015

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

---

### 1. DESCRIPTION OF THE PROJECT

On December 18, 2009, the Republic of Azerbaijan ("Recipient") and the International Bank for Reconstruction and Development (the "IBRD") have agreed to lend to the Recipient, on the terms and conditions set forth or referred to in the Loan Agreement 7509 AZ (the "Loan Agreement"), a credit facility in the amount equivalent to 450,000,000 United States Dollars (USD 450,000,000) (the "Loan") to assist in financing the project described in Schedule 1 to the Loan Agreement (the "Project"). The Project's original completion date of September 30, 2013 has been extended to December 31, 2017 on September 17, 2013.

On June 27, 2013, the IBRD and the Government of Republic of Azerbaijan agreed to restructure the Project by providing additional financing in the amount of USD 220,000,000 and extending the closing date to December 31, 2017 (Loan Agreement 8282 AZ). The additional financing will be used for full replacement of power supply and signaling systems on the East-West Main Line.

The objective of the Project is to improve railway services in the Republic of Azerbaijan, as well as the competitiveness, financial sustainability, operating and cost efficiency and capacity of the Azerbaijan Railways CJSC in particular along the east-west transport corridor. The Project consists of the following components:

#### Component 1: Rehabilitation of East-West Main Line

- (a) Rehabilitation of about 240 km of mainline track;
- (b) Conversion of power supply on the East-West Main Line; and
- (c) Upgrading signaling, compatible with the new 25kV AC power supply system.

On June 27, 2013, the IBRD and the Government of Republic of Azerbaijan agreed to restructure the Loan Agreement and correspondently, additional 298 km of mainline track was included in the scope of Component 1.

#### Component 2: New Mainline Locomotives

This is provision of goods and services in order to provide mainline 25kV AC electric locomotives to operate on the east-west corridor.

The Recipient and IBRD agreed to finance the new mainline locomotives directly using the funds of Government of Republic of Azerbaijan and requested the IBRD to reallocate USD 202,000,000 to the rehabilitation of the East-West mainline of Component 1.

#### Component 3: Modernization of Azerbaijan Railways Services

Provision of works, goods, services and training in order to:

- (a) Support the implementation of the restructuring and development of Azerbaijan Railways CJSC, including, but not limited to, for the transition to the International Financial Reporting Standards and legal restructuring of the Azerbaijan Railways CJSC; and
- (b) Improve its oil spill prevention capacity.

# RAIL TRADE AND TRANSPORT FACILITATION PROJECT OF THE REPUBLIC OF AZERBAIJAN

## NOTES TO THE SPECIAL-PURPOSE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2015 (Continued)

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

---

### Component 4: Project Implementation

This is support of the PIU for effective implementation of the Project, through provision of goods, consulting services and training.

Cumulative expenditure amount of USD 1,898,545 regarding the technical assistance was reclassified from technical services under the Component 3 to technical services under the Component 1. The IBRD responded by "no objection" regarding this issue.

## 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 under the Cash Basis of Accounting" issued by the International Public Sector Accounting Standards Board of the International Federation of Accountants ("IFAC-PSC") and incorporate the principal accounting policies from the relevant World Bank financial reporting guidelines.

### **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 the Project's behalf. Expenditure is accounted for on the basis of actual disbursement of funds from the Project accounts.

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

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

- a) The IBRD's funding is received in USD;
- b) Majority expenditure are denominated in USD;
- c) Receipts from operating activities are retained 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 the Republic of Azerbaijan ("CBAR") 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 CBAR prevailing on the date of transaction.

On February 21, 2015 the CBAR devalued the Azerbaijani Manat (AZN). As a result, the official exchange rates of AZN to the USD fell to AZN 1.05 per USD, and the official exchange rate of AZN to the EUR fell to AZN 1.19 per EUR, i.e. by approximately 34% from the exchange rates at the effective date of devaluation.

On December 21, 2015 the CBAR introduced a floating exchange rate that resulted in one-time devaluation of AZN against USD and other major currencies by approximately 48%.

# RAIL TRADE AND TRANSPORT FACILITATION PROJECT OF THE REPUBLIC OF AZERBAIJAN

## NOTES TO THE SPECIAL-PURPOSE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2015 (Continued)

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

### 3. CASH AND CASH EQUIVALENTS

	December 31, 2015	December 31, 2014
Project Account	2,482,293	1,775,239
IBRD Designated Account	849,885	760,746
Cash in hand	2	2
<b>Total cash and cash equivalents</b>	<b>3,332,180</b>	<b>2,535,987</b>

### 4. DESIGNATED ACCOUNT

The Recipient has established a Designated Account at a commercial bank acceptable to the IBRD in accordance with the Loan Agreement. Designated Account is established, managed, replenished and liquidated in accordance with the IBRD's "Disbursement Guidelines for Projects" and detailed arrangements agreed upon between the Recipient and the IBRD.

The Project maintains its Designated Account in USD with the Kapital Bank OJSC (located in the Republic of Azerbaijan).

### 5. BASIS OF FUNDING AND ELIGIBLE EXPENDITURE

The following table specifies the categories of eligible expenditure that may be financed out of the allocations of the amounts indicated in the Loan Agreement to each category, and the percentage of expenditure to be financed for eligible expenditure in each category:

	Allocation of the Loan (expressed in USD)				Percentage of expenditure to be financed
	Original	Revised Original	Additional Financing	Total	
(1) Goods, works, consultants' services, training and incremental operating costs for Component 1 of the Project	232,875,000	434,875,000	211,950,000	646,825,000	100%
(2) Goods for Component 2 of the Project	202,000,000	-	-	-	0%
(3) Goods, works, consultants' services, training and incremental operating costs for Components 3 and 4 of the Project	14,000,000	14,000,000	7,500,000	21,500,000	85%
(4) Front-end fee	1,125,000	1,125,000	550,000	1,675,000	0.25% of the total disbursement
<b>TOTAL</b>	<b>450,000,000</b>	<b>450,000,000</b>	<b>220,000,000</b>	<b>670,000,000</b>	

# RAIL TRADE AND TRANSPORT FACILITATION PROJECT OF THE REPUBLIC OF AZERBAIJAN

## NOTES TO THE SPECIAL-PURPOSE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2015 (Continued)

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

---

### 6. METHODS OF DISBURSEMENT

The methods of disbursement used from the inception of the financing up to and including December 31, 2015 were as follows:

**Advance** – the IBRD may advance loan proceeds into the Designated Account of the Recipient to finance eligible expenditure as they are incurred and for which supporting documents will be provided at a later date.

**Direct Funding** – the IBRD may make payments, at the Recipient's request, directly to a third party for eligible expenditure.

**Reimbursement procedure** – the IBRD may reimburse the Recipient for expenditure eligible for financing pursuant to the Loan Agreement that the Recipient has pre-financed from its own resources.

**Commitment procedure** – the IBRD may pay amounts to a third party for eligible expenditure under special commitments entered into, in writing, at the Recipient's request and on terms and conditions agreed between the IBRD and the Recipient.

### 7. METHOD OF WITHDRAWAL

#### *IBRD Designated Account*

Designated Account is designated disbursement accounts of the Project to effect the payment of eligible expenditure, within defined limits, which do not require individual authorization from the IBRD. Available amounts were drawn down within the limits determined by the relevant loan agreement for the payment of eligible expenditure for sub-contractors from the Designated Account.

#### *Project Account*

The Project maintains a separate account where the Government funds are accumulated. The funds are further disbursed to sub-contractors based on the shares of expenditure to be incurred by each funding source.

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

Under the SOE method, the Project forwards to the IBRD an application for reimbursement of payments already made using an application for withdrawal with SOE forms as the only documentation.

#### *Cash in hand*

During the reporting period, the Project management did not utilize cash in hand.

### 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.