MINISTRY OF FINANCE OF THE KYRGYZ REPUBLIC AND
MINISTRY OF NATURAL RESOURCES, ECOLOGY AND TECHNICAL SUPERVISION OF THE KYRGYZ REPUBLIC

P177467- Kyrgyz Republic Air Quality Improvement Project (AQIP)

Credit No. 7434-KG from the International Development Association

INDEPENDENT AUDITORS' REPORT AND SPECIAL PURPOSE PROJECT FINANCIAL STATEMENTS

For the years ended 31 December 2025 and 31 December 2024

CONTENTS

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION OF THE SPECIAL PURPOSE FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2025 AND 31 DECEMBER 2024

Management of the Kyrgyz Republic Air Quality Improvement Project (AQIP) (the "Project"), executed by the Ministry of Natural Resources, Environment and Technical Supervision of the Kyrgyz Republic ("MNRETS") and the Ministry of Finance of the Kyrgyz Republic ("MoF") (the "Project Executing Agencies") and implemented by the MNRETS Project Implementation Unit ("MNRETS PIU") and the MoF Project Implementation Unit ("MoF PIU"), is responsible for the preparation of the special purpose financial statements for the years ended 31 December 2025 and 31 December 2024 financed by the Financing Agreement for Credit No. 7434-KG dated 12 December 2023 in accordance with the International Public Sector Accounting Standards "Financial Reporting under the Cash Basis of Accounting" (IPSAS Cash Basis) issued by the International Public Sector Accounting Standards Board (IPSASB) and the Guidelines for the Financial Governance and Management of Investment Projects Financed by the International Development Association (the "IDA Guidelines").

In preparing the special purpose 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 required disclosures for the years ended 31 December 2025 and 31 December 2024.

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 which enable them to ensure that the special purpose financial statements of the Project comply with IPSAS - Cash Basis and the IDA Guidelines;
- Taking such steps that are reasonably available to them to safeguard the assets of the Project and to affirm that funds received have been used in accordance with the Financing Agreement for Credit No. 7434-KG dated 12 December 2023 and World Bank related guidelines, with due attention to economy and efficiency, and only for the purposes for which the financing was provided;
- Preventing and detecting fraud and other errors.

The special purpose financial statements for the years ended 31 December 2025 and 31 December 2024 were authorized for issue on 25 June 2026.

Mrs. Gulnara Abdyldayeva

PIU Director

PIU under the MNRETS of the Kyrgyz Republic

Mrs. Nazgul Ismailova

Finance Manager

PIU under the MNRETS of the Kyrgyz Republic

Mrs. Bermet Musakozhoeva

PIU Director

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Mrs. Mekhriban Davlesova

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25 June 2026

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INDEPENDENT AUDITORS' REPORT

On Special Purpose Project Financial Statements

To the Management of the Ministry of Natural Resources, Environment and Technical Supervision of the Kyrgyz Republic and the Ministry of Finance of the Kyrgyz Republic

Opinion

We have audited the accompanying special purpose project financial statements of the Kyrgyz Republic Air Quality Improvement Project (AQIP) (the "Project"), executed by the Ministry of Natural Resources, Environment and Technical Supervision of the Kyrgyz Republic ("MNRETS") and the Ministry of Finance of the Kyrgyz Republic ("MoF") (the "Project Executing Agencies") and implemented by the MNRETS Project Implementation Unit ("MNRETS PIU") and the MoF Project Implementation Unit ("MoF PIU"), which comprise the special purpose project statement of financial positions as at 31 December 2025 and 31 December 2024, the special purpose project statements of sources and uses of funds, project activities and special accounts for the years ended 31 December 2025 and 31 December 2024, and notes, comprising a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying special purpose project financial statements for the years ended 31 December 2025 and 31 December 2024, are prepared, in all material respects, in accordance with the financial reporting provisions of the Financing Agreement for Credit No. 7434-KG dated 12 December 2023 between the Kyrgyz Republic and the International Development Association (the "Financing Agreement").

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Special Purpose Project Financial Statements section of our report. We are independent of the Project Executing Agencies in accordance with the ethical requirements that are relevant to our audit of the special purpose project financial statements in Kyrgyz Republic, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of matter

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 have been prepared to assist the Project Executing Agencies in complying with the financial reporting provisions of the Financing Agreement referred to above. As a result, the special purpose project financial statements may not be suitable for another purpose. Our report is intended solely for the Project Executing Agencies and the International Development Association and should not be distributed to or used by parties other than those parties. Our opinion is not modified in respect of these matters.

Other matter on which we are required to report

Pursuant to Appendix A of the Terms of Reference of the Contract № AQIP/4.1 for the audit of the special purpose project financial statements of the Project, we have audited the utilization of proceeds of the Credit withdrawn from the International Development Association. In our opinion, the MNRETS PIU and the MoF PIU have utilized, in all material respects, the proceeds of the Credit withdrawn from the International Development Association only for purposes of the Project as agreed between the International Development Association and the Kyrgyz Republic, in accordance with the Financing Agreement, and no proceeds of the Credit have been utilized for other purposes, and all procurements have been done in accordance with the relevant Financing Agreement.

We reviewed and evaluated the internal control and accounting system to obtain a sufficient understanding of the design of relevant control policies and procedures and whether those policies and procedures have been operated as intended.

We obtained a sufficient understanding of the internal control and accounting system to plan the audit and to determine the nature, timing, and extent of tests to be performed. This included obtaining an understanding of the project objectives, project components and activities, institutional arrangements, the accounting and internal control environment, procurement arrangements, management oversight, and reporting arrangements.

We assessed inherent risk and control risk and determined the combined risk. The risk assessments considered the following broad categories under each assertion:

- Existence or occurrence;
- Completeness;
- Rights and obligations;
- Valuation or allocation; and
- Presentation and disclosure.

We evaluated the control environment, the adequacy of the accounting systems, and control procedures. We emphasized the policies and procedures that pertain to the recipient's ability to record, process, summarize, and report financial data consistent with the assertions embodied in each account of the project financial statements. This included, but was not limited to, the control systems for:

- Ensuring that charges to the project are proper and supported.
- Managing cash on hand and in bank accounts.
- Procuring goods, works, and services in accordance with agreed arrangements.
- Maintaining proper custody and management of procured goods and works and providing due acknowledgement of services received.
- Ensuring compliance with the terms of the Financing Agreement and applicable laws and regulations that collectively have a material impact on the project financial statements.
- Including in the study and evaluation other policies and procedures that may be relevant if they pertain to data the auditor uses in applying auditing procedures. This may include, for example, policies and procedures that pertain to nonfinancial data the auditor uses in analytical procedures.
- In fulfilling the audit requirement relating to an understanding of internal control and assessing the level of control risk, we followed the guidance contained in applicable International Standards on Auditing.

We also evaluated whether all necessary supporting documents, records, and accounts have been maintained in respect of all project activities, including expenditures reported using Statements of Expenditure (SOE) method of reporting, and whether they agree with the underlying books of account.

Responsibilities of management and those charged with governance for the special purpose financial statements

Management is responsible for the preparation of the special purpose project financial statements in accordance with the financial reporting provisions of the Financing Agreement 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.

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

Auditor's responsibility for the audit of the special purpose project 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 special purpose project financial statements.

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

- identify and assess the risks of material misstatement of the special purpose project financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Project's internal control.

- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- evaluate the overall presentation, structure and content of the special purpose project financial statements, including the disclosures, and whether the special purpose project financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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.

Moore Azerbaijan

MOORE STEPHENS AZERBAIJAN LIMITED Branch Office BAKU

25 June 2026

SPECIAL PURPOSE PROJECT STATEMENTS OF FINANCIAL POSITION
AS AT 31 DECEMBER 2025 AND 31 DECEMBER 2024
(Expressed in US dollars)

	Note	31 December 2025	31 December 2024
ASSETS AND CUMULATIVE EXPENDITURE			
Cash at bank	3	1,932,379	1,187,155
Cumulative expenditures:			
IDA Credit No. 7434-KG		1,534,457	112,845
TOTAL ASSETS AND CUMULATIVE EXPENDITURE		**3,466,836**	**1,300,000**
SOURCES OF FUNDS			
Project financing:			
IDA Credit No. 7434-KG		3,462,745	1,300,000
Interest Account of the PIU of the MNRETS		4,091	-
TOTAL FUNDS		**3,466,836**	**1,300,000**

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25 June 2026

The notes set out on pages 11-15 form an integral part of these special purpose project financial statements

MINISTRY OF FINANCE OF THE KYRGYZ REPUBLIC AND MINISTRY OF NATURAL RESOURCES, ECOLOGY AND TECHNICAL SUPERVISION OF THE KYRGYZ REPUBLIC
AIR QUALITY IMPROVEMENT PROJECT (AQIP)
CREDIT № 7434-KG
SPECIAL PURPOSE PROJECT STATEMENTS OF SOURCES AND USES OF FUNDS
FOR THE YEARS ENDED 31 DECEMBER 2025 AND 31 DECEMBER 2024
(Expressed in US dollars)

	31 December 2025	31 December 2024	Cumulative 2025
OPENING BALANCES			
IDA Credit No. 7434-KG	1,187,155	-	
TOTAL OPENING BALANCES	**1,187,155**	**-**	
ADD: FUNDS RECEIVED BY SOURCES			
IDA Credit No. 7434-KG	2,162,745	1,300,000	3,462,745
Interest Account of the PIU of the MNRETS	4,091	-	4,091
TOTAL FUNDS RECEIVED	**2,166,836**	**1,300,000**	**3,466,836**
LESS: EXPENDITURE			
IDA Credit No. 7434-KG			
1.Goods, Works, Consulting services, non-consulting services, Operating costs and Training under the Project	1,421,612	112,845	1,534,457
2.Sub-loans under Part 2 of the Project	-	-	-
TOTAL EXPENDITURE	**1,421,612**	**112,845**	**1,534,457**
CLOSING BALANCE			
IDA Credit No. 7434-KG	1,928,288	1,187,155	1,928,288
Interest Account of the PIU of the MNRETS	4,091	-	4,091
TOTAL CLOSING BALANCE	**1,932,379**	**1,187,155**	**1,932,379**

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25 June 2026

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SPECIAL PURPOSE PROJECT STATEMENTS OF PROJECT ACTIVITIES
FOR THE YEARS ENDED 31 DECEMBER 2025 AND 31 DECEMBER 2024
(Expressed in US dollars)

Project Component/Activity	31-12-2025	31-12-2024	Cumulative 2025
1. Strengthen Air Quality Management System			
1.Goods, Works, Consulting services, non-consulting services, Operating costs and Training under the Project	278,609	2,182	280,791
Sub total	**278,609**	**2,182**	**280,791**
2. Support the adoption of clean heating solution			
1.Goods, Works, Consulting services, non-consulting services, Operating costs and Training under the Project	49,588	-	49,588
2.Sub-loans under Part 2 of the Project	-	-	-
Sub total	**49,588**	**-**	**49,588**
3. Improve Urban Greening			
1.Goods, Works, Consulting services, non-consulting services, Operating costs and Training under the Project	832,955	-	832,955
Sub total	**832,955**	**-**	**832,955**
4. Project Implementation Support			
1.Goods, Works, Consulting services, non-consulting services, Operating costs and Training under the Project	260,460	110,663	371,123
Sub total	**260,460**	**110,663**	**371,123**
Total Project Expenditure	**1,421,612**	**112,845**	**1,534,457**

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25 June 2026

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SPECIAL PURPOSE PROJECT STATEMENTS OF SPECIAL ACCOUNTS
FOR THE YEARS ENDED 31 DECEMBER 2025 AND 31 DECEMBER 2024
(Expressed in US dollars)

	IDA Credit No. 7434-KG	Other accounts
Balance as at 1 January 2025	**1,187,155**	**-**
Add:		
Funds received	2,162,745	4,091
Less:		
Eligible expenditure	(1,421,612)	-
Balance as at 31 December 2025	**1,928,288**	**4,091**

	IDA Credit No. 7434-KG	Other accounts
Balance as at 1 January 2024	-	-
Add:		
Funds received	1,300,000	-
Less:		
Eligible expenditure	(112,845)	-
Balance as at 31 December 2024	**1,187,155**	**-**

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25 June 2026

(Expressed in US dollars)

1. BACKGROUND

In accordance with the Financing Agreement for Credit No. 7434-KG dated 12 December 2023 between the Kyrgyz Republic and the International Development Association (the "IDA"), the Kyrgyz Republic has received the below listed funds for the Kyrgyz Republic Air Quality Improvement Project (the "Project").

The Project is executed by the Ministry of Natural Resources, Environment and Technical Supervision of the Kyrgyz Republic and the Ministry of Finance of the Kyrgyz Republic (the "Project Executing Agencies") and implemented by the MNRETS Project Implementation Unit, which is responsible for implementation of Parts 1, 3 and 4 of the Project, including coordination, fiduciary, monitoring and evaluation, social and environmental standards management and reporting, coordination with the MoF PIU and preparation of consolidated Project reporting; and the MoF Project Implementation Unit, which is responsible for implementation of Parts 2 and 4 of the Project, including coordination, fiduciary, monitoring and evaluation, social and environmental standards management and reporting.

The address of the Ministry of Finance is 58 Erkindik Blvd., Bishkek City, 720040, Kyrgyz Republic.

The address of the Ministry of Natural Resources, Ecology and Technical Supervision is 2 Erkindik Blvd, Bishkek City, 720040, Kyrgyz Republic

The objective of the Project is to (i) strengthen the capacity of the Kyrgyz Republic to manage air quality, and (ii) reduce net PM2.5 and GHG emissions in Bishkek. The Components of the Project are:

- Strengthen Air Quality Management System;
- Support the adoption of clean heating solutions;
- Improve Urban Greening;
- Project Implementation Support.

Below stated details of the financing agreement of the Project:

	Note	Amount of USD
International Development Association:		
Credit No. 7434-KG	A	50,000,000

The Financing Agreement for Credit No. 7434-KG between the Kyrgyz Republic and the International Development Association was signed on 12 December 2023 (the "Financing Agreement"). The Closing Date of the Project is 31 December 2030.

A. The financing of Credit No. 7434-KG is implemented through the following categories:

Category	Amount of the Credit Allocated (USD)	Percentage of Expenditures to be Financed (inclusive of Taxes)
Goods, works, consulting services, non-consulting services, Operating Costs and Training under the Project	18,200,000	100%
Sub-loans under Part 2 of the Project	31,800,000	100% of the amount disbursed
Total	**50,000,000**	

2. SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

These Special-Purpose Financial Statements have been prepared in accordance with the International Public Sector Accounting Standard (IPSAS) "Financial Reporting under the Cash Basis of Accounting" promulgated by the International Federation of Accountants (IFAC). Those standards require that cash receipts shall be effective when received and expenditures of funds shall be effective when they are paid rather than when incurred. The financial statements prepared under the cash basis provide readers with information about the sources of cash raised during the period, the purpose for which cash was used and the cash balances at the reporting date. The measurement focus in the financial statements is balances of cash and changes therein.

The Project's Special-Purpose Cash Basis Financial Statements are prepared on the basis of cash receipts and disbursements which are a comprehensive basis of accounting.

2.2 Statement of compliance

The PIU under the MNRETS is responsible for consolidating Project data and preparing special purpose financial statements in accordance with the requirements of Section I, Paragraph A, Item 2(ii) of the Financing Agreement

PIU under the MNRETS and PIU under the MOF of the Air Quality Improvement Project (AQIP) maintains separate books and records by funding source for all expenditures incurred on the project following International Public Sector Accounting Standards (IPSAS).

These special purpose project financial statements have been presented in accordance with the cash basis of accounting and the Financing Agreements, to the extent applicable to these special purpose project financial statements and as agreed by the Project Executing Agencies, the Government of Kyrgyz Republic and International Development Association.

2.3 Cash basis of accounting

Project financing is recognized as a source of project funds when the cash is received. Project expenditures are recognized as a use of project funds when the payments are made.

2.4 Period of accounts

These special purpose financial statements cover the years ended 31 December 2025 and 31 December 2024.

2.5 Taxes

The taxes are paid in accordance with the tax regulations of the Kyrgyz Republic.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.6 Transactions and balances in foreign currencies

The national currency of the Kyrgyz Republic, where the Project is implemented, is the Kyrgyzstan Som (“KGS”). The special purpose project financial statements are presented in US dollar. All financial information presented in US dollar has been rounded to the nearest US dollar.

In preparing the special purpose project financial statements, transactions in currencies other than presentation currency are recorded at the exchange rates defined by local servicing commercial bank prevailing on the date of receipt and payment.

Unrealised gains and losses arising from changes in foreign currency exchange rates are not cash receipts and payments. However, the effect of exchange rate changes on cash held in a foreign currency is reported in the special purpose project statement of sources and uses of funds and other special purpose project statements in order to reconcile cash at the beginning and the end of the period. These amounts are presented separately from cash receipts and payments and include the differences, if any, had those cash receipts and payments and balances been reported at end-of-period exchange rates.

2.7 Sources of funds

The project applies direct payment and replenishment of designated account procedures for the contractors through Applications prepared based on supporting documents. The funds are recognised when earned, which is the date when the funds are directly paid out by IDA to contractors.

The accumulated project financing is disclosed under “Funds” in the special purpose project statement of financial position. In addition, the current year funds received are disclosed in the special purpose statement of Project sources and uses of funds.

Project expenses

Project expenses are recognised on the cash basis of accounting. The accumulated Project expenses are disclosed in the special purpose project statement of financial position.

3. CASH IN BANK

	31 December 2025	31 December 2024
IDA Credit No. 7434-KG	1,928,288	1,187,155
Interest Account of the PIU of the MNRETS	4,091	-
Total cash in bank	**1,932,379**	**1,187,155**

4. PROJECT COMPLETION AND CLOSING DATE

The Project expected closing date is 31 December 2030.

5. FUNDS EXPENDITURES SCHEDULE

IDA Credit No. 7434-KG	**31 December 2025**	**31 December 2024**	**Total cumulative**
1.Strengthen Air Quality Management System	278,609	2,182	**280,791**
2.Support the adoption of clean heating solution	49,588		**49,588**
3. Improve Urban Greening	832,955	-	**832,955**
4.Project Implementation Support	260,460	110,663	**371,123**
Total	**1,421,612**	**112,845**	**1,534,457**

(Expressed in US dollars)

6. PROJECT EXPENDITURES

Below stated Project cumulative expenditures of Credit № 7434-KG as at 31 December 2025 by sources of funds:

	Cumulative 2025	USD	Balance of the budget as at 31 December 2025 USD	%
Goods, works, non-consulting services, consultants' services, training and incremental operating cost for the Project	1,534,457	18,200,000	16,665,543	92%
Sub-loans under Part 2 of the Project	-	31,800,000	31,800,000	100%
Total	**1,534,457**	**50,000,000**	**48,465,543**	**97%**

Below stated Project cumulative expenditures of Credit № 7434-KG as at 31 December 2024 by sources of funds:

	Cumulative 2024	USD	Balance of the budget as at 31 December 2024 USD	%
Goods, works, non-consulting services, consultants' services, training and incremental operating cost for the Project	112,845	18,200,000	18,087,155	99%
Sub-loans under Part 2 of the Project	-	31,800,000	31,800,000	100%
Total	**112,845**	**50,000,000**	**49,887,155**	**100%**

7. SUMMARY REPORTS AND SOEs

W/A	Date	Expenditure categories: Type of Disbursement	Advance	(1) Goods, Works, Consulting services, non-consulting services, Operating costs and Training under the Project	(2) Sub-loans under Part 2 of the Project	Total WA amount in USD
2	28/04/2025	Initial Advance (DA-A)	700,000			**700,000**
3	27/06/2025	Advance and Documentation (DA-A)	-	859,088		**859,088**
4	29/10/2025	Advance and Documentation (DA-A)	-	465,656		**465,656**
5	21/12/2025	Advance and Documentation (DA-A)	-	138,001		**138,001**
Total			**700,000**	**1,462,745**	**-**	**2,162,745**

W/A	Date	Expenditure categories: Type of Disbursement	Advance	(1) Goods, Works, Consulting services, non-consulting services, Operating costs and Training under the Project	(2) Sub-loans under Part 2 of the Project	Total WA amount in USD
AQIP-2	29/07/2024	Initial Advance (DA-A)	300,000	-	-	**300,000**
1	18/10/2024	Initial Advance (DA-B)	1,000,000	-	-	**1,000,000**
Total			**1,300,000**	**-**	**-**	**1,300,000**

8. COMMITMENTS AND CONTINGENCIES

Management is not aware of any commitments and contingencies which would have a material impact on these special purpose project financial statements as at 31 December 2025 and 31 December 2024 and for the periods then ended.

9. OPERATING ENVIRONMENT

The Project's principal activities are within Kyrgyz Republic. Consequently, the Project is exposed to economic and financial markets of Kyrgyz Republic, which display characteristics of an emerging market. The legal, tax and regulatory frameworks continue development, but are subject to varying interpretations and frequent changes which together with the other legal and fiscal impediments contribute to the challenges faced by entities operating in Kyrgyz Republic. The special purpose project financial statements reflect management's assessment of the impact of the operating environment in Kyrgyz Republic on the operations of the Project. The future operating environment may differ from management's assessment.

10. LITIGATIONS

There is no pending litigation related to the Project as at the reporting date and as at the approval date of these special purpose financial statements.

11. POST BALANCE SHEET EVENTS

There were no adjusting or significant non-adjusting events between the reporting date and the date of authorization of these financial statements.