CLIMATE RESILIENT ROAD CONNECTIVITY IMPROVEMENT PROJECT

AUDITED FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT
31 DECEMBER 2025

CLIMATE RESILIENT ROAD CONNECTIVITY IMPROVEMENT PROJECT
Under the Financing Agreement Number 76320-LA and 76330-LA between the Lao People's Democratic Republic and the International Development Association

PROJECT INFORMATION

PROJECT MANAGEMENT:	Ms. Vanh Dilaphanh, Director General
IMPLEMENTING AGENCY:	Ministry of Public Works and Transport ("MPWT")
PRINCIPAL BANKERS:	Bank of the Lao PDR Banque Pour Le Commerce Exterieur Lao Public
AUDITORS:	BDO (Laos) Co., Ltd.

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PROJECT MANAGEMENT'S REPORT

The Project Management hereby submits the report together with the audited financial statements of Climate Resilient Road Connectivity Improvement Project ("the Project"), which comprise statement of financial position as at 31 December 2025, statement of sources and uses of funds, statement of expenditures by components, and statement of cash receipts, expenditures and comparison of budget and actual amounts, for the period from 24 February 2025 to 31 December 2025.

Responsibility of the Project Management in respect of the Financial Statements

The Project Management is responsible to ascertain that the financial statements of the Project for the period from 24 February 2025 to 31 December 2025 are prepared, in all material respects, in accordance with basis of preparation and accounting policies set out in Note 2 to the financial statements. In preparing these financial statements, the Project Management is required to select suitable accounting policies and then apply them consistently.

The Project Management is responsible for ensuring that proper accounting records are kept which enable the financial statements to be prepared in compliance with accounting policies set out in Note 2 to the financial statements. The Project Management is also responsible for safeguarding the assets of the Project and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Project Management assumes the responsibility to provide, and has provided, the auditors with all accounting records, supporting and other documents, minutes, and any other pertinent information and explanations, either orally or in writing, necessary for the audit.

Statement by the Project Management

In the opinion of the Project Management, the financial statements set out on pages 5 to 15 are prepared, in all material respects, in accordance with the basis of preparation and accounting policies described in Note 2 to the financial statements.

Signed on behalf of the Project Management,

Director General Vanh DILAPHANH	ຈັນດາວອນ ສິນທະວົງ
Department of Planning and Finance, MPWT	Director of Accounting and Finance Division
	Department of Planning and Finance, MPWT

Vientiane, Lao PDR
Date: 29 June 2026

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INDEPENDENT AUDITORS' REPORT TO THE PROJECT MANAGEMENT OF CLIMATE RESILIENT ROAD CONNECTIVITY IMPROVEMENT PROJECT

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Climate Resilient Road Connectivity Improvement Project ("the Project"), which comprise statement of financial position as at 31 December 2025, statement of sources and uses of funds, statement of expenditures by components and statement of cash receipts, expenditures and comparison of budget and actual amounts, for the period from 24 February 2025 to 31 December 2025 and a summary of significant accounting policies and other explanatory explanation, as set out on pages 5 to 15.

In our opinion, the accompanying financial statements of the Project for the period from 24 February 2025 to 31 December 2025 are prepared, in all material respects, in accordance with the basis of preparation and accounting policies set out in Note 2 to the financial statements.

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 *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence and Other Ethical Responsibilities

We are independent of the Project in accordance with the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)* ("IESBA Code") together with the ethical requirements that are relevant to our audit of the financial statements in Lao PDR, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

Emphasis of Matter - Basis of Accounting and Restriction on Distribution and Use

We draw attention to Note 2 to the financial statements, which describes the basis of preparation and accounting policies adopted by the Project. The financial statements are prepared to assist the Project to meet the financial reporting requirements of its donors. As a result, the financial statements may not be suitable for another purpose. Our report is intended solely for the Project Management and its donors, and should not be distributed to or used by any other parties. Our opinion is not modified in respect of this matter.

Responsibility of the Project Management for the Financial Statements

The Project Management is responsible for the preparation of the financial statements in accordance with the basis of preparation and accounting policies set out in Note 2 to the financial statements, and for such internal controls as the Project Management determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

INDEPENDENT AUDITORS' REPORT TO THE PROJECT MANAGEMENT OF CLIMATE RESILIENT ROAD CONNECTIVITY IMPROVEMENT PROJECT (continued)

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements of the Project as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' 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 the financial statements.

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

- Identify and assess the risks of material misstatement of the financial statements of the Project, 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 Project's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Project Management.

- Conclude on the appropriateness of Project 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 Project's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements of the Project 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 auditors' report. However, future events or conditions may cause the Project to cease to continue as a going concern.

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

INDEPENDENT AUDITORS' REPORT TO THE PROJECT MANAGEMENT OF CLIMATE RESILIENT ROAD CONNECTIVITY IMPROVEMENT PROJECT (continued)

Auditors' Responsibilities for the Audit of the Financial Statements (continued)

We have communicated with the Project Management 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.

BDO Laos

BDO (Laos) Co., Ltd.

ການ ບໍລິສັດ ບີດີໂອ ລາວ ຈຳກັດ BDO (LAOS) CO.,LTD

Vientiane, Lao PDR
Date: 29 June 2026

CLIMATE RESILIENT ROAD CONNECTIVITY IMPROVEMENT PROJECT
Under the Financing Agreement Number 76320-LA and 76330-LA between the Lao People's Democratic Republic and the International Development Association

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2025

	Note	31.12.2025 US$
ASSETS		
Cash and bank balances	3	1,999,476
Advances		1,255
TOTAL ASSETS		2,000,731
LIABILITY		
Other payables	4	10,924
TOTAL LIABILITY		10,924
NET ASSETS		1,989,807
FUND BALANCE		1,989,807

The accompanying notes form an integral part of the financial statements.

CLIMATE RESILIENT ROAD CONNECTIVITY IMPROVEMENT PROJECT
Under the Financing Agreement Number 76320-LA and 76330-LA between the Lao People's Democratic Republic and the International Development Association

STATEMENT OF SOURCES AND USES OF FUNDS
FOR THE PERIOD FROM 24 FEBRUARY 2025 TO 31 DECEMBER 2025

	Note	24.2.2025 to 31.12.2025 US$
SOURCES OF FUNDS		
International Development Association	5	2,051,100
Foreign exchange gain		40
		2,051,140
EXPENDITURES BY CATEGORIES		
Consulting services	6	29,484
Operating costs	7	31,849
		61,333
Excess of sources of funds over expenditures		1,989,807
Fund balance at beginning of the period		-
Fund balance at end of the period		1,989,807

The accompanying notes form an integral part of the financial statements.

CLIMATE RESILIENT ROAD CONNECTIVITY IMPROVEMENT PROJECT
Under the Financing Agreement Number 76320-LA and 76330-LA between the Lao People's Democratic Republic and the International Development Association

STATEMENT OF EXPENDITURES BY COMPONENTS
FOR THE PERIOD FROM 24 FEBRUARY 2025 TO 31 DECEMBER 2025

	Note	24.2.2025 to 31.12.2025 US$
EXPENDITURES BY COMPONENTS	8	
Project management		61,333
		61,333

The accompanying notes form an integral part of the financial statements.

CLIMATE RESILIENT ROAD CONNECTIVITY IMPROVEMENT PROJECT
Under the Financing Agreement Number 76320-LA and 76330-LA between the Lao People's Democratic Republic and the International Development Association

STATEMENT OF CASH RECEIPTS, EXPENDITURES AND COMPARISON OF BUDGET AND ACTUAL AMOUNTS
FOR THE PERIOD FROM 24 FEBRUARY 2025 TO 31 DECEMBER 2025

	Total budget US$ (unaudited)	Actual 24.2.2025 to 31.12.2025 US$
SOURCES OF FUNDS		
International Development Association		2,051,100
Foreign exchange gain		40
		2,051,140
EXPENDITURES BY CATEGORIES		
Goods	220,000	-
Works	1,571,000	-
Consulting services	123,000	29,484
Training and workshops	53,500	-
Operating costs	83,600	31,849
	2,051,100	61,333
Excess of sources of funds over expenditures		1,989,807
Fund balance at beginning of the period		-
Fund balance at end of the period		1,989,807
EXPENDITURES BY COMPONENTS		
Climate resilient road access	1,571,000	-
Project management	426,600	61,333
Institutional development	53,500	-
	2,051,100	61,333

The accompanying notes form an integral part of the financial statements.

CLIMATE RESILIENT ROAD CONNECTIVITY IMPROVEMENT PROJECT
Under the Financing Agreement Number 76320-LA and 76330-LA between the Lao People's Democratic Republic and the International Development Association

NOTES TO THE FINANCIAL STATEMENTS

1. PROJECT BACKGROUND

The Climate Resilient Road Connectivity Improvement Project ("the Project") was established under the Financing Agreement Number 76320-LA and 76330-LA signed on 27 November 2024 between the Lao People's Democratic Republic ("PDR"), represented by the Ministry of Finance and the International Development Association ("IDA") of the World Bank. The Project become effective from 24 February 2025 and is expected to be completed by 30 August 2030. The amount of funding under the financing agreement to be provided to the Project is SDR42,300,000 or equivalent to US$56,000,000, with details as follows:

Category	Amount of the credit allocated (expressed in Special Drawing Rights ("SDR"))	Amount of the credit allocated (expressed in SDR)	Percentage of expenditures to be financed (inclusive of tax)
(1) Goods, works, non-consulting services, consulting services, operating costs, and training and workshops, excluding any land purchase and resettlement cash compensation expenditures under Part 2(h) of the Project	36,200,000	6,100,000	100%
(2) Emergency expenditures under part 4 of the Project	-	-	100%
TOTAL	**36,200,000**	**6,100,000**	

In addition, the Government of Lao PDR will contribute an amount of US$200,000 for land acquisition and resettlement.

The objective of the Project is to improve climate resilient road access in targeted provinces, enhance capacity to manage the road network, and, in case of an eligible crisis or emergency, respond promptly and effectively to it.

The Project is being implemented by the Ministry of Public Works and Transport ("MPWT").

The Project consists of the following parts:

Part 1: Climate Resilient Road Access

Support for: (a) improvement of approximately 300 km of District Roads and Rural Roads in the targeted provinces to the standards of road design class V/VI as per MPWT's road design manual, addressing climate and disaster resilience aspects, and maintenance of the Project roads post improvement during the Project period through output and Performance-based Road Contracts ("OPBRC") and/or Hybrid Performance-based Contracts ("Hybrid PBC"); and (b) construction supervision of the Project road improvement works.

NOTES TO THE FINANCIAL STATEMENTS

1. PROJECT BACKGROUND (continued)

Part 2: Project Management

Support for: (a) financial audit; (b) technical audits of the project road improvement works during construction; (c) environmental and social monitoring and audits; (d) road safety audit of the Project, road designs (at design, construction, and completion stages), and awareness campaigns; (e) road user satisfaction surveys carried out at the start of implementation of works, at mid - term, and at the close of the Project; (f) incremental operating costs; (g) technical and operational assistance for the day-to-day management, monitoring and evaluation of the Project; and (h) land acquisition, resettlement, and rehabilitation costs, including the implementation of resettlement action plans.

Part 3: Institutional Development

Support for MPWT for: (a) capacity building of selected local contractors in the areas of Output and Performance-Based Road Contracts ("OPBRCs"), climate resilience, road safety, and environmental and social risk management; (b) a study on climate resilient road network planning and prioritisation and capacity building of MPWT and Departments of Public Works and Transport ("DPWT"); (c) preparation of a road sector financing strategy; (d) capacity building of selected MPWT and DPWT staff on cross - cutting issues including road maintenance, OPBRC contract management, road safety, gender, citizen engagement, and climate disaster risk; (e) institutional support for a female internship program; and (f) preparation of selected environmental, social, technical, and economic documents as well as feasibility studies, through the provision of technical advisory services in the road sector in targeted provinces.

Part 4: Contingent Emergency Response

Provision of immediate response to an Eligible Crisis or Emergency, as needed.

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

The financial statements of the Project, which are expressed in United States Dollar ("US$"), have been prepared in accordance with modified cash basis of accounting. Under this basis of accounting, fund received is recognised when received rather than when the right to receive it arises, and expenditure is recognised when it is paid rather than when incurred, except for advances to staff as well as accruals for salaries, which have been recognised as receivables and payables in the financial statements and will be reversed when payments are received or made.

The financial statements present sources and uses of funds, and the related financial information in relation to the IDA fund withdrawals and disbursements from the Project's designated account as specified under the Financial Agreement Number 76320-LA and 76330-LA between the Ministry of Finance ("MOF") and the IDA of World Bank.

2.2 Sources of funds

Fund from the IDA are recognised as a source when cash is transferred to the Project's designated account or when direct payments are disbursed by the IDA, rather than when committed or budgeted.

2.3 Expenditures

Expenditure is recognised when payment is made rather than when it is incurred, except as disclosed in Note 2.1 to the financial statements.

2.4 Equipment

Equipment procured is recognised as expenditure when received or when handed-over from the contractors or suppliers upon the respective acceptance and approval by the Project.

2.5 Cash

Cash consists of cash and bank balances with insignificant risk of changes in values.

The Project maintains a designated account with the Bank of the Lao PDR in a US$ denominated account, while operating accounts are maintained in Banque Pour Le Commerce Exterieur Lao Public (one account in US$ and three accounts in LAK).

2.6 Commitments

Commitments are obligations for contracted services provided. Commitments are not accounted for in the financial statements.

2.7 Statement of designated account

The statement of designated account presents the receipts and payments funded by the IDA in accordance with the financing agreement.

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.8 Foreign currency

The Project transacts its operations and maintains its accounting records primarily in United States Dollars ("US$"). Transactions in currencies other than US$ are converted into US$ at rates of exchange prevailing on the transaction date. All foreign exchange differences are recognised in the financial statements.

3. CASH

	31.12.2025 US$
Cash at bank (designated account)	1,640,880
Cash at bank (operating accounts)	358,596
	1,999,476

4. OTHER PAYABLES

	31.12.2025 US$
Accruals	10,855
Payables for open bank accounts	69
	10,924

5. INTERNATIONAL DEVELOPMENT ASSOCIATION

	24.2.2025 to 31.12.2025 US$
Initial advances	2,051,100

6. CONSULTING SERVICES

	24.2.2025 to 31.12.2025 US$
Environmental and social standards consultant	2,799
Financial audit	5,000
National procurement assistance	5,860
National project assistant	2,002
Project coordinator	13,823
	29,484

9. DESIGNATED ACCOUNTS AND WITHDRAWAL APPLICATIONS (continued)

9.2 Reconciliation of designated account

	24.2.2025 to 31.12.2025		
	Credit No. 76320-LA US$	Credit No. 76330-LA US$	Total US$
Initial advance	-	2,051,100	2,051,100
Ending cash balances in designated account (Note 3)	-	1,640,880	1,640,880
Ending cash balances in operating accounts (Note 3)	-	358,596	358,596
Advances	-	1,255	1,255
Current year withdrawn but not yet documented (Note 9.3)	-	50,478	50,478
Payables for open bank accounts (Note 4)		(69)	(69)
Foreign exchange gain	-	(40)	(40)
Total initial advances	-	2,051,100	2,051,100

9.3 Summary of withdrawal applications

During the period from 24 February 2025 to 31 December 2025, only one withdrawal application related to initial advance had been prepared by the Project, approved by the MOF and submitted to the IDA for replenishment, as follows:

		24.2.2025 to 31.12.2025		
Withdrawal application no.	**Date**	**Credit No. 76320-LA US$**	**Credit No. 76330-LA US$**	**Total US$**
DPF-000001	27 Jul 2025	-	2,051,100	2,051,100

During the period from 24 February 2025 to 31 December 2025, no statement of expenditures ("SOE") was prepared. Reconciliation of the SOE to the statement of sources and uses of funds for the period are as follows:

	24.2.2025 to 31.12.2025		
	Credit No. 76320-LA US$	Credit No. 76330-LA US$	Total US$
Total disbursements included in SOE	-	-	-
Current year withdrawn but not yet documented	-	50,478	50,478
Other payables	-	10,855	10,855
Total disbursements included in the statement of sources and uses of funds	-	61,333	61,333
Ending balances of cash in operating accounts (Note 3)	-	358,596	358,596
Advances	-	1,255	1,255
Foreign exchange gain	-	(40)	(40)
Payables for open bank accounts (Note 4)		(69)	(69)
Other payables	-	(10,855)	(10,855)
	-	410,220	410,220

10. COMMITMENTS

The Project has commitments which were contracted but not yet paid as at period end, as follows:

	31.12.2025
	US$
Consulting services	144,044

11. TAXATION CONTINGENCIES

Taxation in Lao PDR encompasses various elements, including personal income tax, value-added tax, and corporate profit tax. While the complexity of these taxes may lead to different interpretations, this situation also offers the Project a chance to engage proactively with the tax framework. Project Management is dedicated to ensuring compliance and has taken careful steps to address tax liabilities based on their interpretation of the legislation. The Project Management acknowledged that there may be varying interpretations among relevant authorities, and they view this as an opportunity to encourage open dialogue and collaboration. By maintaining clear communication with the tax authorities, the Project Management can effectively navigate these complexities and minimise any potential risks.

12. COMPARATIVE FIGURES

There are no comparative figures as this is the first set of financial statements since the commencement of the Project.