

**DOCUMENT OF THE EUROPEAN BANK
FOR RECONSTRUCTION AND DEVELOPMENT**

Approved by the Board of Directors on 23 November 2022¹

UKRAINE

**UKRENERGO TRANSMISSION NETWORK
EMERGENCY RESTORATION**

[Redacted in line with the EBRD's Access to Information Policy]

[Information considered confidential has been removed from this document in accordance with the EBRD's Access to Information Policy (AIP). Such removed information is considered confidential because it falls under one of the provisions of Section III, paragraph 2 of the AIP]

¹ As per section 1.4.8 of EBRD's Directive on Access to Information (2019), the Bank shall disclose Board reports for State Sector Projects within 30 calendar days of approval of the relevant Project by the Board of Directors. Confidential information has been removed from the Board report.

For the avoidance of any doubt, the information set out here was accurate as at the date of preparation of this document, prior to consideration and approval of the project.

TABLE OF CONTENTS

Page

TABLE OF CONTENTS	2
ABBREVIATIONS / CURRENCY CONVERSIONS	3
PRESIDENT'S RECOMMENDATION.....	6
BOARD DECISION SHEET	7
ADDITIONAL SUMMARY TERMS FACTSHEET	8
INVESTMENT PROPOSAL SUMMARY	10
1. STRATEGIC FIT AND KEY ISSUES.....	10
1.1 STRATEGIC CONTEXT	10
1.2 TRANSITION IMPACT	11
1.3 ADDITIONALITY.....	12
1.4 SOUND BANKING - KEY RISKS.....	13
2. MEASURING / MONITORING SUCCESS.....	15
3. KEY PARTIES.....	16
3.1 BORROWER	16
3.2 GUARANTOR.....	17
4. MARKET CONTEXT.....	17
5. FINANCIAL / ECONOMIC ANALYSIS	19
5.1 FINANCIAL PROJECTIONS	19
5.2 SENSITIVITY ANALYSIS	19
5.3 PROJECTED PROFITABILITY FOR THE BANK.....	19
6. OTHER KEY CONSIDERATIONS.....	20
6.1 ENVIRONMENT	20
6.2 INTEGRITY	20
6.3 OTHER ISSUES	20
ANNEXES TO OPERATION REPORT.....	22
ANNEX 1 – SHAREHOLDING STRUCTURE.....	23
ANNEX 2 – GREEN ASSESSMENTS.....	24
ANNEX 3 – HISTORICAL FINANCIAL STATEMENTS.....	25
ANNEX 4 – PROJECT IMPLEMENTATION	27
ANNEX 5 – STATUS OF IMPLEMENTATION OF CORPORATE GOVERNANCE	
ACTION PLAN	30
ANNEX 6 – TECHNICAL ASSISTANCE OVERVIEW	31

ABBREVIATIONS / CURRENCY CONVERSIONS

AMI	Annual Mobilised Investment
ATQ	Assessment of Transition Qualities
BDS/UK/18-1 (F)	EBRD's Strategy for Ukraine
BDS18-237 (F)	EBRD's Energy Sector Strategy
bn	Billion
bps	Basis points
ca	Circa
CAPEX	Capital Expenditure
CCY	Currency
CEO	Chief Executive Officer
CG	Corporate Governance
CGAP	Corporate Governance Action Plan
CMU	Cabinet of Ministers of Ukraine
COVID-19	Coronavirus disease 2019
CS	Country Strategy
CSRD	Corporate Sustainability Reporting Directive
DA	Disbursement Application
DAM	Day-ahead market
DCF	Donor Co-Financing
DD	Due diligence
DSCR	Debt Service Cover Ratio
DSO	Distribution System Operator
DTEK	Ukrainian Energy company DTEK
DTM	Deal Tracking Module
EBITDA	Earnings Before Interest, Tax, Depreciation and Amortisation
EHS	Environmental, Health and Safety
EHSS	Environmental, Health and Safety, and Social
ENTSO-E	European Network of Transmission System Operators
EPG	Economic, Policy & Government department
EPP	Enforcement Policy and Procedures
ESAP	Environmental and Social Action Plan
ESD	Environmental and Social Department
ESP	Environmental and Social Policy
ETI	Expected transition impact
EU	European Union
EUR	Euro currency unit
EURc	Eurocent
ExCom	Executive Committee
FiT	Feed-in-tariff
FR	Final Review
FRM	Final Review Memorandum
FX	Foreign Exchange
GB	Guaranteed Buyer
GDP	Gross Domestic Product
GECA	Green Economy and Climate Action
GET	Green Energy Transition
GSM	General Shareholders Meeting

GW	Gigawatt
H	Half
HPP	Hydroelectric Power Plant
PSPP	Pump Storage Power Plant
IDP	Internally displaced person
IFI	International Financial Institution
IFRS	International Financial Reporting Standards
IMF	International Monetary Fund
INED	Independent Non-Executive Director
IPM	Investment Profitability Model
IPS	Integrated Power System
IRR	Internal Rate of Return
ISO	Independent System Operator
km	Kilometre
KPI	Key performance indicators
kV	Kilovolt
kW	Kilowatt
kWh	Kilowatt hours
LGD	Loss Given Default
m	Million
MD	Managing Director
MEI	Municipal and Environmental Infrastructure
MNPI	Material Non-public Information
MoE	Ministry of Energy of Ukraine
MoU	Memorandum of Understanding
MW	Megawatt
N/A	Not applicable
NBU	National Bank of Ukraine
NCSSM	National Commission on Securities and Stock Market
NEURC	National Energy and Public Utilities Regulatory Commission
No.	Number
NPC	National Power Company
NPP	Nuclear Power Plant
OCCO	Office of the Chief Compliance Officer
OECD	Organisation of Economic Co-operation and Development
OGC	Office of General Counsel
OL	Operation leader
OpID	Operation ID number
OpsCom	Operations Committee
PA	Paris Agreement
PC	Physical Climate
PD	Probability of default
PIA	Project Implementation Adviser
PPR	Procurement Policies and Rules
PPAD	Procurement Policy and Advisory Department
PPE	Property, Plant & Equipment
PrJSC	Private joint stock company
PSD	Project Summary Document
PSO	Public Service Obligation

PSP	Pumped Storage Plant
Q	Quarter
RAROC	Risk Adjusted Return on Capital
RE	Renewable energy / electricity
RES	Renewable energy sources
RLF FW	Resilience and Livelihoods Framework
RST	Reform Support Teams
S&P	Standard and Poor's
SAEE	State Agency for Energy Efficiency and Energy Conservation
SB	Supervisory Board
SBIC	Small Business Investment Committee
SIC	Standard Industrial Classification
SLB	Sustainability-Linked Eurobond
SOE	State-Owned Enterprise
SOL	Single Obligor Limit
SR	Structure Review
SSF	Shareholder Special Fund
SWF	Sovereign Wealth Fund
SWP	Strategic Workforce Planning
TC	Technical cooperation
TD	Team Directors
TI	Transition Impact
TSO	Transmission System Operator of Ukraine
UAH	Ukrainian Hryvnia
UE	PrJSC Ukrenergo
UK	The United Kingdom of Great Britain and Northern Ireland
US	United States of America
USS	Universal Service Supplier
YE	Year end
y-o-y	Year on year

PRESIDENT’S RECOMMENDATION

This recommendation and the attached Report concerning an operation in favour of “National Power Company “Ukrenergo” (the “Company”), a fully state-owned company incorporated in Ukraine, are submitted for consideration by the Board of Directors.

The facility will consist of a sovereign guaranteed loan (the “Loan”) to the Company in the amount of up to EUR 300m. The Loan will consist of two components: (1) up to EUR 150m for procurement of equipment to implement emergency repairs of Ukrainian power transmission system, and (2) up to EUR 150m of capital structure support. The Loan will be supported by the donor “funded guarantee” of up to 50% to be funded by the US through its contribution to the EBRD Crisis Response Special Fund (the “Crisis Fund”) to partially mitigate the EBRD’s risk. The Loan will also be supplemented by an investment grant of up to EUR 72m to be provided by the Netherlands via the Crisis Fund with the same use of proceeds as the first component of the Loan to finance procurement of equipment.

The operation will enable the Company to secure uninterrupted energy supply to the population and businesses throughout the country and ensure the stability of the country’s energy system. These measures are critically important, especially during the upcoming winter season, in light of the major damages caused by the Russian bombings to the Ukrainian transmission system. The Project will also strengthen the Ukrainian power system’s ability to maintain commercial flows with ENTSO-E.

The expected transition impact of the Project is driven by the need to support the resilience of the Company and its operations as well as to improve energy security by providing emergency financial support to Ukrenergo to help it restore and maintain the Ukrainian transmission system during the war (*Resilient*). The Project will also preserve and enhance human capital by safeguarding access to electricity for households and businesses affected by the war, whose livelihoods and economic activity are at immense risk due to the Russian war on Ukraine. It will allow Ukrenergo to resume electricity supply to customers, prevent disruptions and reliably maintain its vital energy services for the entire economy of Ukraine. Moreover, the Company will engage the Client on strategic workforce management activities to address its skill-related needs in line with the evolving crisis situation by identifying crisis management skill gaps and putting in place essential support to management and affected workers (*Inclusive*). In addition, Ukrenergo will update its Gender Action Plan in light of the war and launch an outreach campaign promoting access to career opportunities for internally displaced young women, which will help fill workforce gaps within its own staff and across the vital energy industry (*Gender SMART*).

The Project is benefitting from post-signing technical cooperation (“TC”) support to facilitate the implementation of the Project, support Ukrenergo on ENTSO-E synchronisation and enhance the Company’s strategic workforce management activities including its Gender Action Plan. The aforementioned TC support is expected to be provided by an international donor or the EBRD Shareholder Special Fund (the “SSF”).

I am satisfied that the operation is in line with the War on Ukraine – EBRD Resilience Package endorsed by the Board and consistent with the objectives of the EUR 2 billion War on Ukraine - EBRD Resilience Package - Resilience and Livelihoods Framework, which aims to help citizens, companies and countries affected by the war in Ukraine. The operation is consistent with the Bank’s Strategy for Ukraine, Energy Sector Strategy 2019-2023, Equality of Opportunity Strategy, Strategy for the Promotion of Gender Equality, and with the Agreement Establishing the Bank.

The Project requires a derogation from the Bank’s Environmental and Social Policy as the Bank can not undertake a meaningful due diligence and project implementation monitoring due to the ongoing war and associated security risks.

I recommend that the Board approve the proposed loan substantially on the terms of the attached Report.

Odile Renaud-Basso

BOARD DECISION SHEET

UKRAINE – Ukrenergo Transmission Network Emergency Restoration - DTM 54138	
Transaction / Board Decision	Board approval ² is sought for a senior loan of up to EUR 300m in favour of “National Power Company “Ukrenergo” (“Ukrenergo” or the “Company”), a fully state-owned corporatized company incorporated in Ukraine. The Loan will consist of two components: (1) up to EUR 150m for procurement of equipment necessary for the emergency repairs to restore and maintain the Ukrainian power transmission system [REDACTED], and (2) up to EUR 150m of capital structure support [REDACTED]. The Loan will be supported by the donor “funded guarantee” of up to 50% to be funded by the United States (“US”) through its contribution to the Crisis Fund (“the US Crisis Fund Guarantee”) to partially mitigate the EBRD’s risk. The loan will also be supplemented by up to EUR 72 million investment grant to be funded by the Netherlands via the Crisis Fund with the same use of proceeds as the first component of the loan to finance procurement of equipment.
Client	Ukrenergo is a 100% state-owned corporatized company with a majority independent Board of Directors, a natural monopoly and the sole electricity transmission system operator (TSO) of Ukraine. In 1H 2022, Ukrenergo generated revenues of EUR 1.2bn, EBITDA of EUR 13.5m, while total assets stood at EUR 3.1bn and net debt at EUR 1.4bn.
Main Elements of the Proposal	<p>The operation will enable the Company to secure uninterrupted energy supply to population and businesses throughout the country and ensure the stability of the country’s energy system, which is strategically important, especially during the upcoming winter season [REDACTED]. The Project will also strengthen the Ukrainian power system’s ability to maintain commercial flows with ENTSO-E.</p> <p><u>Transition impact</u></p> <p>Primary Quality – Resilient. The Project aims to support the resilience of the Company and its operations as well as to improve energy security by providing emergency financial support to Ukrenergo to help it restore and operate the Ukrainian transmission system during the war.</p> <p>Secondary Quality – Inclusive. The Project will preserve and strengthen human capital under the emergency response by safeguarding reliable access to electricity vital for people’s livelihoods and companies’ economic activity as well as by engaging the client in strategic workforce management activities under the crisis response.</p> <p><u>Additionality</u> – Financing Structure (financing not available in the market, closing a financing gap; Risk mitigation (absorbing risk with a big ticket [REDACTED]); Standard setting (EBRD funding and application of Bank’s PPR will ensure wider market outreach, particularly in the current high risk environment); Gender SMART (adopting improved gender practices).</p> <p><u>Sound banking</u> – enhanced credit profile thanks to the US Crisis Fund Guarantee and a sovereign guarantee of Ukraine.</p>
Key Risks	Key risks include: (i) procurement and implementation risk; (ii) Ukrenergo’s credit and liquidity risk; (iii) political, military damage and macro-economic risks. The (i) risk is mitigated by limiting the scope to supply only and carrying out market sounding during the due diligence to confirm market appetite and capabilities to supply the equipment. The (ii) and (iii) risks are somewhat mitigated by the sovereign guarantee in combination with the US Crisis Fund Guarantee; strong commitment from international partners (incl. G7, the EU and the IMF) together with capacity support to the Government provided by RST embedded in relevant line ministries of the Ukraine Reforms Architecture to support Ukraine in the ongoing situation and in the reconstruction phase.
Strategic Fit Summary	<ul style="list-style-type: none"> • War on Ukraine – EBRD Resilience Package: Focus on energy security in Ukraine. • Strategy for Ukraine: Strengthen energy security. • Energy Sector Strategy 2019-2023: Energy security. • Equality of Opportunity Strategy 2021-2025 and the Strategy for the Promotion of Gender Equality: Ensuring access to services and upgrading human capital under the emergency response.

² Article 27 of the AEB provides the basis for this decision.

ADDITIONAL SUMMARY TERMS FACTSHEET

EBRD Transaction	A senior loan of up to EUR 300m (the Loan) to Ukrenergo to finance the following needs: (1) up to EUR 150m for equipment procurement necessary for the emergency repairs to restore and maintain the Ukrainian power transmission system (“Capex Tranche”), and (2) up to EUR 150m for capital structure support (“Capital Support Tranche”). The Loan will be supported by the donor “funded guarantee” of up to 50% to be funded by the United States through its contribution to the Crisis Fund to partially mitigate the EBRD’s risk. The Loan will also be supplemented by up to EUR 72 million investment grant to be funded by the Netherlands via the Crisis Fund.
Existing Exposure	<p>Ukrenergo: Total debt (all sovereign or sovereign guaranteed): EUR 300m (portfolio) / EUR 276.8m (operating assets), consisting of:</p> <ul style="list-style-type: none"> • Rivne Kyiv High Voltage Line Project (OpID 37598) [REDACTED]. • South Ukraine Transmission Project (OpID 40147) [REDACTED]. • Ukrenergo Transmission Network Modernization Project (OpID: 49235) [REDACTED]. • Project Sapphire (OpID 53221) [REDACTED]. The project represents EBRD’s subscription in a Sustainability-Linked Eurobond (“SLB”) issued by Ukrenergo in November 2021. <p>Sovereign: Total amount debt: EUR 1,950m (portfolio) / EUR 875m (operating assets).</p>
Maturity / Exit / Repayment	<p>Capex Tranche: 15 year tenor [REDACTED].</p> <p>Capital Support Tranche: 10 year tenor [REDACTED].</p>
Potential AMI eligible financing	None
Use of Proceeds	<p>Capex tranche and Investment Grant: the proceeds of the Capex Tranche and the investment grant will be used to finance the procurement of new autotransformers and auxiliary equipment to provide for the functioning of the high voltage transmission grid. The use of proceeds of the Capex Tranche and investment grant will be monitored through direct payment to equipment suppliers, involvement of an independent consultant, reporting by the Company, provision of evidence and auditing.</p> <p>Capital Support Tranche: the proceeds of the Capital Support Tranche of the loan will be used to finance critical operational expenditures such as ancillary services to balance the electricity production and consumption, compensation for curtailments of renewables, acquisition of electricity to compensate for grid losses, and public service obligations related to renewable generation.</p> <p>The use of proceeds of the Capital Support Tranche that falls within definition of Operational Expenditures under PPR 2022 is excluded from the application of the PPR under rule 2.6(d) of the PPR. However, it is expected that a bulk of the Capital Support Tranche will be used by the Company for procurement of electricity, which is a commodity. [REDACTED] Capital Support Tranche will be also used for payments of compensation to suppliers of electricity from renewable sources. The procurement of electricity or other commodities, or goods, works and services by the Company that do not fall within definition of Operating Expenditures, will be carried out and monitored in accordance with PPR and will be subject to the Bank’s prior sign off.</p> <p>The use of proceeds of the entire Bank’s loan, including any portion of the proceeds of the Capital Support Tranche used for Operating Expenditures of the Company, will be audited [REDACTED].</p>
Investment Plan	<ul style="list-style-type: none"> • Procurement of autotransformers, transformers and auxiliary equipment [REDACTED]. • Capital structure support expenses as described above in the Use of Proceeds section [REDACTED].
Financing Plan	[REDACTED]
Key Parties Involved	<ul style="list-style-type: none"> • Ukrenergo as the Borrower; • Ukraine as the Guarantor represented by the Ministry of Finance; • Ministry of Energy as the Owner representative; • EBRD.
Conditions to disbursement	[REDACTED]
Key Covenants	<ul style="list-style-type: none"> • Compliance with EBRD PPR. • [REDACTED] • Implement existing corporate ESAP and Project specific ESAP. • [REDACTED]
Security/ Guarantees	[REDACTED]
Other material agreements	[REDACTED]
Associated Donor Funded TC and co-investment grants/concessional finance	<p>A. Technical Cooperation (TC)</p> <p><i>Post-Signing:</i></p> <ul style="list-style-type: none"> • TC 1: Pre-Shipment Testing and Validation to support Ukrenergo in engaging a specialised company(ies) to carry out testing and inspection of “second-hand” equipment sourced from

	<p>neighbouring/regional TSOs. The estimate cost of this assignment is up to EUR 74,950, proposed to be financed by an international donor or the SSF.</p> <ul style="list-style-type: none"> • TC 2: Human capital emergency response TC support under the Gender & Economic Inclusion Technical Assistance Framework to support Ukrenergo on a series of strategic workforce management activities, develop needed re-skilling and up-skilling programmes and strengthen its Gender Action Plan. The estimated cost of the assignment is up to EUR 200,000, proposed to be financed by an international donor or the SSF. • TC 3: ENTSO-E Synchronisation Advisory Support to Ukrenergo in completing the synchronisation of the power system of continental Europe. The estimated assignment's cost is up to EUR 250,000, proposed to be financed by an international donor or the SSF. <p>B. Investment Grant</p> <p>The Project will be co-financed by an investment grant of up to EUR 72 million to be provided by the Netherlands via a contribution to the Crisis Fund. The investment grant will be extended by the Bank to Ukrenergo for capex purposes. [REDACTED].</p>
--	--

[REDACTED]

INVESTMENT PROPOSAL SUMMARY

1. STRATEGIC FIT AND KEY ISSUES

1.1 STRATEGIC CONTEXT

NEC “Ukrenergo” is a natural monopoly and the sole electricity transmission system operator of Ukraine. Ukrenergo transmits electricity to large industrial customers and regional electricity distribution companies that further deliver electricity to end-users as well as are in charge of exports and imports of electricity. Ukrenergo is a corporatized State owned legal entity, having a majority independent Board of Directors, the Ministry of Energy of Ukraine performs owner functions on behalf of the State.

In the first 8 months of Russian war on Ukraine started on 24 February 2022 the Ukrainian electricity system has proved its resilience by ensuring stable supply of electricity to businesses and households. Moreover, following Ukraine integration into ENTSO-E in March 2022, Ukraine has started export of electricity to the European Union and Moldova. However, starting from mid of October 2022 as a result of Russian missile and drone bombing attacks, Ukraine’s power infrastructure has suffered major damages. According to recent reports, 400 energy facilities were damaged in 16 regions of Ukraine and the city of Kyiv, leaving some 4 million people without access to power (as of early-November). The core operating infrastructure of Ukrenergo, including numerous high voltage substations, transformer stations and high voltage transmission lines all over the country have been damaged or destroyed. Ukrenergo’s headquarters have been bombed on 17 October. Prolonged power outages were reported in several regions.

Ukrenergo managed to restore power supply to all regions of the county under control of Ukrainian government, however, the system is not functioning in a stable mode. All electricity customers are suffering from daily rolling blackouts and there is an urgent need of emergency repairs to maintain integrity and stable functioning of the transmission grid of the country, including back-up capacity, especially in view of the upcoming winter season, to ensure uninterrupted energy supply to population and businesses throughout the country, vital for maintaining livelihoods and economic activity.

The proceeds of the proposed loan will allow the Company to perform swift emergency repairs of damaged equipment, transformer stations and transmission lines where needed. The proposed Capex financing will primarily be used for the procurement of new transformers and auxiliary equipment to provide for functioning of the high voltage transmission grid. Ukrenergo will install this equipment at its own cost. The emergency procurement of necessary equipment items will be arranged in line with EBRD PPR, which will include sourcing of ‘second hand’ equipment from neighbouring/regional TSOs. The details of procurement and implementation arrangements are presented in Annex 4.

The proposed capital structure support tranche will be used to cover Ukrenergo’s critical operational expenditures in light of impaired collection payments caused by the war, which will strengthen the Company’s financial resilience and ensure a continued provision of vital services to people and businesses of Ukraine. The Project will enable the Company to secure uninterrupted energy supply to households and businesses, vital for maintaining their livelihoods and economic activities under the ongoing crisis while safeguarding the stability of the country’s energy system during the upcoming winter season and beyond, and in the face of continuing attempts to destroy the Ukrainian power system infrastructure by the Russian army. The Project will also strengthen the Ukrainian power system’s ability to maintain commercial flows with ENTSO-E.

The Project is in line with the War on Ukraine – EBRD Resilience Package endorsed by the Board and consistent with the objectives of the EUR 2 billion War on Ukraine - EBRD Resilience Package - Resilience and Livelihoods Framework, aimed to help citizens, companies and countries affected by the war in Ukraine. The Project specifically targets Resilience and Livelihoods programme focusing on energy security in Ukraine through emergency transmission network restoration to secure uninterrupted energy supply to households and businesses throughout the country. The Project is also in line with the Strategy for Ukraine and the Energy Sector Strategy 2019-2023 as it will strengthen

energy security in the country. The Project also aligns with the Bank's Equality of Opportunity Strategy 2021-2025 and the Strategy for the Promotion of Gender Equality, which promotes access to services for all and equal opportunities.

1.2 TRANSITION IMPACT

The Transition Impact of the Project was assessed manually in line with that of the RLF receiving a final ETI score of 70. Impact notes the manual rating is justified by the exceptional circumstances surrounding the Project, in particular as due to the RLF transaction size constraints the Project could not have been formally presented under this framework but the rationale for the Project and its Transition Impact fits with those of the RLF [REDACTED].

Primary Quality: Resilient

Obj. No.	Objective	Details
1.1	<i>The Project entails financial restructuring making the company less vulnerable to shocks, for instance by affecting the asset liability/FX mismatch in the company.</i>	The capital structure support tranche will be used to finance critical operational expenditures of Ukrenergo and will enable the Company to secure uninterrupted energy supply to population and businesses during the upcoming winter season and in the environment of impaired collection payments caused by the war.
1.2	<i>Project will help client move towards international best practice in terms of system reliability or flexibility.</i>	The Project will improve energy system reliability and flexibility, strengthen maintenance of Ukrenergo's synchronisation with the European electricity network ENTSO-E and facilitate exports of Ukrainian electricity.
1.3	<i>The technology introduced by the Project is prevalent in the EBRD region (>2 examples of its deployment) but has never been deployed in this country.</i>	The loan proceeds will finance procurement and installation of automated transformers, which will replace physically destroyed and obsolete manual equipment across the country. The new equipment will improve resilience of the critical infrastructure to climate change impact too.

Secondary Quality: Inclusive

Obj. No.	Objective	Details
2.1	<i>The Project will create new economic opportunities for women/the local population in a less developed region through increased access to services by at least 10% and training at least 300 people.</i>	<p>The Project will help safeguard access to electricity for people, whose livelihoods and economic security are currently under immense strain and ongoing risk due to the Russian war on Ukraine. According to recent reports, around 40% of Ukraine's power infrastructure has been damaged and more than 10% of Ukrainian population are facing disruptions in electricity supply. At the time of writing, some 4 million people are without power across 14 regions plus Kyiv. Thus, the Project will provide an emergency facility to help Ukrenergo reconnect disconnected customers and prevent electricity supply disruptions for Ukrainian households, companies and communities.</p> <p>The Project will also enhance access to market-relevant skills and employment opportunities for workers. With the Bank's technical assistance, Ukrenergo will develop a comprehensive package of Strategic Workforce Management activities including: (i) a plan to close the skills gap with other ENTSO-E members, (ii) a training course for managers on</p>

		Leading through Change and Managing Change, (iii) new e-courses and modules on adaptability skills, and (iv) a reskilling programme for workers at risk of redundancy from automation. Please see more details on the package in Annex 6.
--	--	---

The TI delivery risks associated to the transaction mainly come from (1) the continuing Russian military aggression in Ukraine, resulting in (i) significant distractions, losses of connections to basic services, putting preservation of livelihoods at risk; and (ii) increased threat to energy security; as well as (2) procurement and implementation risk associated with the inability to obtain required insurances and bank guarantees to work in Ukraine in the current circumstances. The (1) risk is mitigated by the resilience of Ukrainian population against invasion, military support from the Western allies, financial and humanitarian fast-tracked emergency assistance from G7, the EU, the IMF and other international partners together with capacity support to the Government provided by Reform Support Teams embedded in relevant line ministries of the Ukraine Reforms Architecture. The (2) risk is mitigated by limiting the scope to supply only and carrying out market sounding and consultations prior to tendering to confirm the risk appetite of the market and capabilities to manufacture and supply the required equipment, and provide the basis for developing an optimal procurement strategy.

1.3 ADDITIONALITY

Identified triggers	Description
A significant share [REDACTED] of the Project is to finance working capital (subject to sector characteristics).	50% of the loan proceeds will be used to cover critical operational expenditures, including ancillary services to balance the electricity production and consumption, compensation for curtailments of renewables, acquisition of electricity to compensate for grid losses, and public service obligations related to renewable generation.
A subsequent/consecutive transaction (issuance) with the same client/group either with the same use of proceeds or in the same destination country (repeat transaction)	The EBRD has already repurposed EUR 147m in liquidity support during 2022 and has two ongoing bilateral projects with Ukrenergo related to the financing of the construction of high voltage lines and respective infrastructure. At the same time, this deal complements the liquidity support in place and finances priority emergency investments aimed at restoring and maintaining the Ukrainian energy transmission system following the major damages caused in October 2022 by the war. The Bank's financing will help Ukrenergo to maintain its essential operations and to ensure a continued provision of vital services to people and businesses of Ukraine.
Additionality sources	Evidence of additionality sources
Financing Structure <ul style="list-style-type: none"> - EBRD offers financing that is not available in the market from commercial sources on reasonable terms and conditions, e.g. a longer grace period. Such financing is necessary to structure the Project. - EBRD offers a tenor, which is longer than available to the client in the market on reasonable terms and conditions. - Crisis response: EBRD financing effectively bridges a financing gap due to adverse market conditions. 	<ul style="list-style-type: none"> - EBRD is offering financing, which is not available in the market due to the unfolding war and high level of risk and uncertainty in Ukraine. - EBRD is offering 10-year tenor for capital structure support tranche, which is longer than available in the market in current war environment [REDACTED]. - Due to the continuous attacks by the Russian army on the Ukrainian power infrastructure the client's financial needs will likely exceed the requested EUR 300m and the Bank will continue exploring how to mobilise more investment grants from international donors to supplement the emergency financing support to Ukrenergo. Due to Bank's efforts, additional investment grant funding of up to EUR 72 million (to be financed by the Netherlands via their contribution to the Crisis Fund) for the

	purpose of the Project is expected to be blended with the Loan.
Risk mitigation EBRD's ability to absorb risk in a certain country/region [REDACTED].	The Loan will benefit from the "donor funded" guarantee to be provided by the US through the Crisis Fund to cover 50% of exposure, where local commercial financiers cannot provide such risk-sharing mechanism.
Standard-setting: helping projects and clients achieve higher standards: Client seeks/makes use of EBRD expertise on best international procurement practices and standards .	EBRD funding and application of Bank's PPR will ensure wider market outreach, particularly in the current high risk environment.
Standard-setting: helping projects and clients achieve higher standards: Gender SMART: Client seeks/makes use of EBRD expertise for the adoption of gender standards and/or equal opportunities action plans .	EBRD will support Ukrenergo in updating its Gender Action Plan to 2027, revising its KPIs and integrating suggestions from the Bank's new toolkit on avoiding gender-based violence (GBV) risks in Ukraine. The Company will also re-launch its equal opportunity awareness campaign on the role of women in science, technology, engineering and mathematics (STEM) careers, with the aim to reach local communities and internally displaced people through a range of channels. Further details are included in Annex 6.

1.4 SOUND BANKING - KEY RISKS

Risks	Probability / Effect	Comments
Project specific risks		
Procurement and Implementation risk	High / High	The inability to obtain required insurances and bank guarantees to work in Ukraine in the current circumstances is affecting the competition and the ability to perform the works in Bank's ongoing projects in Ukraine. <i>Mitigants:</i> [REDACTED] Carrying out market sounding and consultations prior to tendering shall confirm the risk appetite of the market and capabilities to manufacture and supply the required equipment, and provide the basis for developing an optimal procurement strategy.
Counterparty credit / liquidity risk	High / High	Whilst Ukrenergo continues to operate the grid, the military activities have negatively affected the Company's ability to collect payments for the electricity transmission and dispatch services. The war has displaced millions of people within Ukraine, and caused substantial disruption to normal life due to damage to civilian areas, therefore making very difficult collection of electricity bills both from businesses and households. <i>Mitigants:</i> While the duration and outcome of the war are unpredictable, the risk is somewhat mitigated by the sovereign guarantee of Ukraine and the US Crisis Fund Guarantee.
Regulatory risk	High / Low	Ukrenergo's revenue is based on an electricity tariff determined by a Cost+ method and approved by the State Regulator. There is a risk that the Regulator would not adjust the tariff appropriately, which would not allow to cover Ukrenergo's operating expenses, capital expenses, the cost of debt service. [REDACTED]. <i>Mitigants:</i> The risk will be mitigated by the provisions of the Guarantee Agreement, envisaging that the Guarantor (Ukraine) shall take measures that the Regulator effects, as frequently as needed, adjustments to the level and structure of tariffs enabling

		<i>Ukrenergo to comply with its obligations under the Loan Agreement, including financial covenants. [REDACTED].</i>
FX Risk	High / Low	<p>A devaluation of the Ukrainian Hryvnia against EUR / USD increases the debt burden on Ukrenergo in UAH terms of predominantly hard currency denominated loan portfolio.</p> <p><u>Mitigants:</u> <i>Under extreme war conditions, so far, the National Bank of Ukraine has skilfully managed macro-financial stability. It pledged to maintain fixed exchange rate of UAH and not return to inflation targeted policy until the end of the war. It is likely that external financing gap would further deepen in short to medium term because of high reconstruction costs after the end of war and time needed to renew the export potential in metals and grains sectors. This risk is likely to be mitigated by support of developed economies pledging significant financial aid for Ukraine. The risk is also mitigated by the fact that costs for debt servicing in either currency are regularly reviewed and covered as part of the TSO tariff approved by the Regulator.</i></p>
Integrity risk	Medium / Medium	<p>[REDACTED]. <u>Mitigants:</u> <i>Ukrenergo is an existing client of the Bank and extensive due diligence has been undertaken over multiple projects. [REDACTED]. Ukrenergo has successfully implemented the corporate governance reform and the Bank's loan portfolio includes conditions of the continued implementation of a comprehensive corporate governance action plan (CGAP), which contains a number of specific compliance aspects.</i></p>
External risks		
Political risk	High / High	<p>The Russian war on Ukraine has increased political risks to the extreme and made the overall situation unpredictable, having caused enormous suffering, death and destruction in Ukraine and having created an unparalleled security crisis in Europe.</p> <p><u>Mitigants:</u> <i>More than eight months into the war, Ukraine at the same time continues to ensure critical functions, including heating, water, gas and electricity supplies on most of its territory. Ukraine remains resolved and united in defending its independence, sovereignty and territorial integrity. G7, the EU, the IMF and Ukraine's other international partners together with capacity support to the Government provided by Reform Support Teams embedded in relevant line ministries of the Ukraine Reforms Architecture are strongly committed to supporting Ukraine and its people in the face of the Russian aggression, providing fast-tracked emergency assistance, financial and humanitarian.</i></p>
Macro-economic risk	High / Low	<p>The war has brought economic recovery to an abrupt halt. Russia's invasion of Ukraine has put the economy under enormous stress, with heavy devastation of infrastructure, production capacities and the unprecedented loss of human capital. The economy shrank by 15.1 per cent year-on-year in the first quarter of 2022 and by 37.2 per cent in the second quarter when the most severe and widespread fighting took place. Initially, combat operations were widespread in regions that generated 60 per cent of GDP in 2021, but in more recent months the fighting has become more concentrated, in areas generating around 20 per cent of GDP. In order to preserve macroeconomic stability, on the day of the invasion the NBU fixed the exchange rate, limited cash withdrawals and introduced capital controls by preventing most cross-border transactions. Nevertheless, huge production and logistical disruptions had caused inflation to rise to 24.6 per cent year-on-year by September 2022, and it is likely that inflationary pressures will persist throughout the rest of the year and into 2023. The government has implemented a range of measures to curb the</p>

		<p>impact of high inflation, including export bans and regulated prices for a range of essential food items, reduced fuel taxes and utility price freezes. Plummeting tax revenues combined with soaring defence and social spending opened a fiscal gap of at least US\$ 4 bn a month.</p> <p><i>Mitigants: The financing burden was partially alleviated by private sector creditors who accepted the government's request to postpone repayments of, and interest payments on Eurobonds for two years. The Ukrainian government also expects to receive USD 15-20bn from the IMF next year and convinces the Fund, the United States and Europe to finance the needs of Ukraine's budget in equal parts in external funds.</i></p>
--	--	---

The risks of this project are elevated. The Project will help Ukrenerg to maintain its operations and to ensure a continued provision of vital services to people and businesses of Ukraine. It will provide an emergency facility that will help the Company to reconnect disconnected customers, prevent electricity supply disruptions and maintain a reliable supply of vital energy services during the heating season for the Ukrainian population, predominantly women, children and elderly. The pipeline agreement for Ukraine has been also exceptionally approved by ExCom on the basis of the guarantee cover of at least 50%, which will be secured for this Project by the US Crisis Fund Guarantee.

2. MEASURING / MONITORING SUCCESS

Primary Quality: Resilient

Obj. No.	Monitoring indicator	Details	Baseline	Target	Due date	TC
1.1	Practices of the relevant stakeholder improved (system reliability)	Procurement strategy reflects the outcome of the market consultations, expected to be a combination of open tenders and direct contracts. Open tendering would demonstrate the acceptance of the market of Client's adapted strategies. Signed contracts for the required equipment would demonstrate the resilience of Client's processes in the present high-risk environment.	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
1.2	Financial restructuring completed as targeted	50% of the loan proceeds will be used to cover critical operational expenditures of Ukrenerg and improve its financial resilience to enable the Company to continue providing vital services to the population and businesses despite the devastating impact of the war.	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

Secondary Quality: Inclusive

Obj. No.	Monitoring indicator	Details	Baseline	Target	Due date	TC
2.1	Number of new/improved electricity/energy service(s) connections	Share of total damaged Ukrenerg's power infrastructure restored, vital to restore connectivity to electricity for households, companies and communities affected by the war.	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

2.2	Tailored training programme developed and implemented [TC]	EBRD will support Ukrenergo to develop a comprehensive package of strategic workforce management activities, including (i) a plan to close the skills gap with other ENTSO-E members, (ii) a training course for managers on Leading through Change and Managing Change, (iii) new e-courses and modules on adaptability skills, and (iv) a reskilling programme for workers at risk of redundancy from automation.	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
-----	--	---	------------	------------	------------	------------

3. KEY PARTIES

3.1 BORROWER

Ukrenergo is a natural monopoly company and the sole electricity transmission grid operator of Ukraine. The Company transmits electricity to large industrial customers and regional electricity distribution companies that further deliver electricity to end users. It is also responsible for electricity imports and exports.

Ukrenergo is a corporatized 100% state-owned company with the Ministry of Energy acting as its nominated shareholder. The Company adheres to the best corporate governance principles. Ukrenergo was created in June 2000 through a combination of elements of the National Dispatch Centre of Ukraine and State Energy Company "Ukrelectroperedacha", from which it inherited the centralised dispatch function over the Ukrainian power grid and the high-voltage grid system respectively.

The Company operates the high-voltage electricity transmission network on the entire territory of Ukraine and is the only holder of a licence issued by the Energy Regulator, NEURC, for electricity transmission by high voltage and interstate electric networks. Ukrenergo's electricity grid consists of 21,800 km of transmission lines of 220 kV, 330kV and 750 kV, and includes 107 step-down transformers. The Company employs 7,600 people and its head office is located in Kyiv.

Ukrenergo plays an important role in channelling funds towards the renewable energy producers operating under the feed-in-tariff (FiT) support system. Following introduction of the new competitive market model in Ukraine on 1 July 2019, by law the costs related to difference between the FiT level and electricity market price (i.e. compensation to renewables) have been included into Ukrenergo's transmission tariff. In turn, Ukrenergo is obliged to downstream respective part of its tariff to the Guaranteed Buyer (GB), the offtaker for renewable energy producers, who then purchases electricity from RES at a FiT level.

Ukrenergo has successfully finalised the implementation of corporate governance reform initiated with Bank's support, which brought the Company's corporate governance to one of the highest levels among SOEs in the sector and the country. It has also contributed to the successful (emergency) integration into the ENTSO-E network, which took place in mid-March 2022, one year ahead of plan, though accelerated by Russian war on Ukraine.

In 1H 2022, Ukrenergo reported total revenue of EUR 1.2b (up by 15% y/y), including EUR 35m of revenue on granting access to the transmission capacity of interstate power networks following integration into the ENTSO-E network in March 2022, which prior to October bombings allowed for subsequent increase in electricity export capacity to 300 MW. 1H 2022 EBITDA stood at EUR 13.5m, however the Company reported a net loss of EUR 132m mainly due to: (i) EUR 130m of expected credit losses on trade and other accounts receivable, and (ii) EUR 65m of net foreign exchange loss realised during 1H 2022 on borrowings denominated in hard currencies as a result of ca. 5% devaluation of UAH against EUR on the back of ongoing hostilities in the country. Total assets stood at EUR 3.1bn, Financial Debt at EUR 1.6bn and Equity at EUR 0.2bn as of June 2022.

3.2 GUARANTOR

Since peaking in 2016, the ratio of public and publicly guaranteed debt to GDP has rapidly declined on the back of nominal GDP growth, prudent public finance management and currency appreciation due to large foreign private capital inflows on the domestic government securities market in 2019. It decreased from 79.5% in 2016 to 60.4% in 2018 and further to 50.5% in 2019. The public debt ratio sharply increased to 61.0% in 2020 due to the output decline, depreciation of the currency and increasing financing needs related to the Covid-19 pandemic, before falling back to 49.0% in 2021. IMF expects the debt to grow to 86.2% in 2022 due to the Russian war on Ukraine and remain at similar levels for 5 years because of a sharp increase in the government budget deficit and the falling economy. The financing burden was partially alleviated by private sector creditors who accepted the government's request to postpone repayments of, and interest payments on Eurobonds for two years. So far Ukraine has been paying its debt as scheduled, despite the war. While the requested postponement of repayments would reduce the external financing gap, it is still substantial, leaving the country dependent on bilateral creditors.

Moody's downgraded Ukraine's long-term foreign currency sovereign credit rating from 'B3' with stable outlook to 'Caa2' in March 2022 and then to 'Caa3' with negative outlook in May. The key drivers behind the decision were the impaired ability of Ukraine to service its debt and the severe impact that Russia's invasion will have on Ukraine's economic and fiscal strength due to extensive damages to its productive capacity. Fitch has initially downgraded Ukraine's rating several times to 'RD' and then upgraded to 'CC' in August 2022, following the successful agreement with creditors to freeze debt service until the end of 2023. Similarly, S&P also upgraded Ukraine's long-term rating from 'SD' to 'CCC+' with stable outlook after the agreement with creditors.

4. MARKET CONTEXT

The Ukrainian energy sector moved to a liberalised market system on 1 July 2019. The new market replaced the regulated single buyer model with a model consistent with the EU Energy Acquis. The new market consists of: (i) a bilateral contracts market; (ii) a day-ahead market; (iii) an intraday market; (iv) a balancing market; and (v) an ancillary services market.

Despite liberalisation, administrative interferences of the authorities in the electricity market functioning are still taking place. In particular, household electricity tariffs are subsidized through a Public Service Obligation (PSO) mechanism operated by GB that allocates part of low-cost electricity generated by SOEs – Energoatom (nuclear energy producer) and partly Ukrenergo (large hydro energy producer). Starting from 1 October 2021, the PSO model was changed to “financial PSO” with Energoatom becoming responsible for selling to suppliers the whole amount of electricity required by households at a fixed price via special electronic auctions.

As a settlement manager, Ukrenergo operates the Balancing Power Market, which involves purchases and sales of electricity to maintain the balance between demand and supply, as well as the financial settlement of real-time imbalances, i.e. Ukrenergo collects funds from the parties responsible for the imbalances, and pays to those, who provide balancing energy in real time in response to dispatch commands. In line with the Electricity Market Law, Ukrenergo is also responsible for covering the difference between feed-in tariff and market price for RES. These amounts need to be included in the electricity transmission tariff, paid by Ukrenergo's customers, and are being transferred to GB, who then pays to renewable producers.

Due to the imperfections of the new electricity market model, untimely and insufficient adjustments of Ukrenergo's tariffs as well as the implications of the COVID-19 pandemic resulting in deterioration of the Ukrenergo's collection rate, Ukrenergo had accumulated substantial debts to GB over Jan-Jul 2020 that, in turn, accumulated payment arrears to RE producers. In June 2020, the Government signed MoU with the two largest industry associations aimed at 2.5% -15% retroactive reduction of the feed-in-tariff levels in exchange of (i) restoring the financial stability of the sector and (ii) not implementing any further negative changes in the regulatory regime. In July 2020, the law on the FIT regime restructuring was approved by the Parliament, according to which Ukraine committed to repay c. 40% of the accumulated debts to RES by 2020YE and remaining 60% by 2021YE.

The accumulated debt to RES in the amount of UAH 24.1 bn (c. EUR 0.8 bn) was subsequently repaid from the SLB proceeds issued by Ukrenergo in November 2021. Russian war on Ukraine, however, effected the timely payments to RES again, leading to accumulation of another UAH 16.5 bn (c. EUR 460m) of debt for March-October 2022 period.

On 16 March 2022, Ukraine joined the unified continental European electricity system ENTSO-E and completed an emergency synchronisation of its power grids with the ENTSO-E in response to Russia's invasion of Ukraine. On 7 June, the transmission system operators (TSOs) of Continental Europe responded positively to the request of Ukrenergo for the gradual opening of commercial electricity exchanges on the interconnections with Ukraine.

5. FINANCIAL / ECONOMIC ANALYSIS

5.1 FINANCIAL PROJECTIONS

[REDACTED]

5.2 SENSITIVITY ANALYSIS

[REDACTED]

5.3 PROJECTED PROFITABILITY FOR THE BANK

[REDACTED]

6. OTHER KEY CONSIDERATIONS

6.1 ENVIRONMENT

Category B (ESP 2019), high risk due to limited due diligence and war conditions. The Bank's use of proceeds will be applied to finance equipment deliveries and provide capital structure support for the Company to pay its OPEX and pay amount due to renewables, procure electricity to perform its balancing function and cover technical losses. The ongoing war limits the ability for the Bank to carry out its environmental and social due diligence and project implementation and monitoring. Hence, a derogation from the Bank's Environmental and Social Policy (ESP) is being sought from the Board as the Bank cannot undertake a comprehensive environmental and social due diligence of the Project or the Company.

The Project is PA aligned for mitigation subject to no direct grid connection to fossil fuels plants, and PC score is not applicable due to sovereign guarantee. The Project is 50% GET eligible based on the fact that payments for renewable energy will be made with the proceeds of the loan.

Overall, the Bank has good experience with Ukrenergo, and the Company has been implementing, to the satisfaction of the Bank, environmental and social undertakings agreed under previous financing agreements (including existing ESAP). As part of the current loan the Bank undertook a desk based due diligence using questionnaires and past monitoring reports; based on this the Bank updated the existing ESAP to take account of new EU regulatory requirements (such as Sustainability Reporting under CSRD, which will include climate risk disclosures). All newly procured equipment using the Bank's proceeds will need to be EU compliant and environmental, health and Safety (EHS) issues will have to be considered in all operations of the Company and the planned investment. An independent E&S audit will be undertaken of the Project and corporate ESG management once hostilities stop and it is possible to do so in 2023. Based on this audit the ESAP will be updated in 2023-2024.

6.2 INTEGRITY

In conjunction with OCCO, updated integrity due diligence was undertaken on the Company and its management. [REDACTED].

The proceeds of the capital structure support component will be used by Ukrenergo for electricity acquisition, balancing services, compensation for curtailments of renewables and public service obligations related to renewable energy generation. These liabilities are governed by Ukrainian energy sector regulations and market mechanisms, and Ukrenergo's use of the proceeds will be subject to audit by an external auditor acceptable to the Bank. It is therefore concluded that the Project does not pose an unacceptable integrity or reputational risk the Bank.

All actions required by applicable EBRD procedures relevant to the prevention of money laundering, terrorist financing and other integrity issues have been taken with respect to the Project, and the project files contain the integrity checklists and other required documentation which have been properly completed to proceed with the Project.

6.3 OTHER ISSUES

Concessional Finance

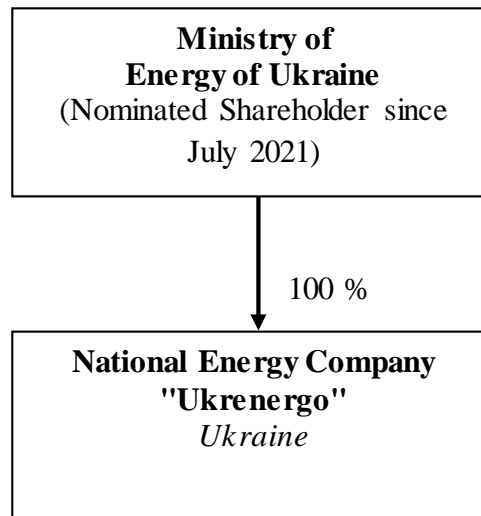
The EBRD loan will be supported by the donor "funded guarantee" to be provided by the US through its contribution to the Crisis Response Special Fund. The loan will also be co-financed by a EUR 72 million grant contribution from the Netherlands (subject to Parliamentary approval). These funds will be an integral part of the financial package provided by the EBRD and will enable the urgently needed emergency repairs of the Ukrainian power transmission system and support the operations of Ukrenergo. The financing is critical to secure uninterrupted energy supply to the population and businesses throughout the country and to ensure the stability of Ukraine's energy system. The severe social and economic consequences of the war on Ukraine mean that such blended finance structures are one of the most valuable tools EBRD can deploy in the current circumstances to

support the country's economy, sustain vital economic services and safeguard the basic needs and economic livelihoods of the population. Specifically, the blended finance structure made available to Ukrenergo allows EBRD to absorb substantially increased risk and enables crisis financing when commercial structures are not viable.

ANNEXES TO OPERATION REPORT

ANNEX 1	SHAREHOLDING STRUCTURE
ANNEX 2	GREEN ASSESSMENTS
ANNEX 3	HISTORICAL FINANCIAL STATEMENTS
ANNEX 4	PROJECT IMPLEMENTATION
ANNEX 5	STATUS OF IMPLEMENTATION OF CORPORATE GOVERNANCE ACTION PLAN
ANNEX 6	TECHNICAL ASSISTANCE OVERVIEW

ANNEX 1 – SHAREHOLDING STRUCTURE



ANNEX 2 – GREEN ASSESSMENTS

Introduction

The Project is 50% GET eligible due to the following: (i) the implementation of the Project will lead to improving resilience of the infrastructure, reduce losses in transmission grid, improve connectivity of renewables to the grid, and (ii) [REDACTED] the capital structure support tranche proceeds will be used to cover compensation for curtailments of renewables and public service obligations related to renewable generation. The Project was determined as aligned with mitigation and adaptation goals of the Paris Agreement. The Project will not finance investments in fossil fuels generation. PC score was not provided as loan is sovereign guaranteed. CT score is 3. No further assessment was conducted.

Paris alignment assessment

The project activities included in universally aligned list with the mitigation goals of Paris Agreement. The Loan under the Project is sovereign guaranteed. Therefore, Project is considered as aligned both for mitigation and adaptation goals.

GET attribution

50% of the use of proceeds under the Project will contribute to improving flexibility/connection of the power grid infrastructure, which is considered by ENTSO-E as a key priority for achieving carbon neutrality. The use of proceeds include: 1) Capex tranche to finance the procurement of new best available to the company transformers purchased in accordance to EBRD procurement rules to replace damaged and additional equipment to provide for functioning of the high voltage transmission grid; 2) Capital structure support tranche to finance critical operational expenditures, including ancillary services to balance the electricity production and consumption, compensation for curtailments of renewables, acquisition of electricity to compensate for grid losses, and public service obligations related to renewable generation.

The implementation of the Project will lead to improving resilience of the infrastructure, reduce losses in transmission grid and improve connectivity of renewables to the grid. The loan proceeds will be partially used to cover compensation for curtailments of renewables and public service obligations related to renewable generation, which will allow renewable electricity producers to maintain their operations, enabling to achieve targets of NDC of Ukraine. The Project overall will lead to improving connectivity of consumers to power grid avoiding from switching to carbon intensive generation sources, such as diesel generators. The Project is considered 50% GET.

Green Finance Project Monitoring Plan

Two key parameters contributing to Green Economy Transition as a result of the Project will be monitored:

- Changes in connected renewable power plants and supplied energy from low-carbon sources to the grid. Provisions of monitoring is already included under Project Sapphire (OpID 53221). No new reporting is envisaged to avoid double counting.

ANNEX 3 – HISTORICAL FINANCIAL STATEMENTS

Ukrenergo EUR m	Audited			Unaudited	
	2019	2020	2021	1H2021	1H2022
Statement of Profit or Loss					
Revenue	909	1,891	2,201	1,040	1,198
Cost of sales	(667)	(2,582)	(2,172)	(1,038)	(1,083)
Gross profit	242	(691)	29	2	115
Administrative expenses	(20)	(27)	(28)	(13)	(12)
Other operating expenses	(100)	(135)	(16)	(3)	(153)
Other operating income	19	5	55	4	6
EBITDA	141	(847)	153	44	14
Depreciation and impairment	(143)	(122)	(113)	(55)	(58)
EBIT	(2)	(969)	40	(11)	(45)
Finance costs	(12)	(13)	(56)	(19)	(61)
Finance income	13	7	6	2	7
Non-operating FX gain / (loss)	80	(113)	15	31	(65)
Profit before income tax	80	(1,089)	5	3	(163)
Income tax gain / (expenses)	(16)	196	(1)	6	31
Net profit for the year	64	(893)	4	9	(132)
Statement of Financial Position					
Property, plant and equipment	2,102	1,587	1,795	n/a	1,761
Intangible assets	13	11	23	n/a	23
Deferred tax assets	-	53	59	n/a	91
Other non-current assets	-	2	2	n/a	2
Non-current assets	2,115	1,653	1,878	n/a	1,876
Cash and cash equivalents	112	85	335	n/a	247
Trade and other receivables	149	307	530	n/a	788
VAT receivable	18	182	70	n/a	72
Inventories	10	7	9	n/a	13
Other current assets	34	6	173	n/a	132
Current assets	322	587	1,116	n/a	1,252
Total assets	2,437	2,240	2,995	n/a	3,129
Equity	1,418	286	323	n/a	188
Long-term loans and borrowings	175	355	1,309	n/a	1,331
Retirement benefit obligations	21	19	23	n/a	24
Other non-current liabilities	201	34	56	n/a	57
Total non-current liabilities	397	408	1,388	n/a	1,413
Short-term loans and borrowings	316	158	257	n/a	304
Trade and other payables	179	1,362	895	n/a	1,178
Advances received	35	6	95	n/a	12
Other current liabilities	92	20	38	n/a	33
Total current liabilities	623	1,546	1,284	n/a	1,527
Total liabilities	1,020	1,954	2,672	n/a	2,940
Total equity and liabilities	2,437	2,240	2,995	n/a	3,129

Statement of Cash Flows					
Net profit for the year	64	(893)	4	9	(132)
<i>Adjustments for:</i>					
Depreciation and impairment	143	122	113	55	58
Foreign currency exchange loss/(gain)	(80)	113	(15)	(31)	65
Finance expenses	12	13	56	19	61
Finance income	(13)	(7)	(6)	(2)	(7)
Income tax expense	16	(196)	1	(6)	(31)
Cash generated from operations before working capital changes	141	(847)	153	44	14
Changes in working capital	37	970	(571)	(53)	(8)
Income tax paid	(34)	(22)	(0.3)	(0)	(0.8)
Interest received	13	7	5	2	7
Net cash (used in)/generated from operating activities	157	108	(413)	(6)	12
Acquisition of property, plant and equipment	(82)	(56)	(67)	(24)	(14)
Net cash used in investing activities	(82)	(56)	(67)	(24)	(14)
Dividends paid	(17)	(18)	-	-	(4)
Proceeds from loans and borrowings	30	34	826	157	49
Repayments of loans and borrowings	(48)	(54)	(68)	(29)	(71)
Interest paid	(17)	(17)	(48)	(18)	(60)
Net cash generated from/(used in) financing activities	(52)	(55)	709	110	(87)
Net (decrease)/increase in cash and cash equivalents	23	(3)	229	79	(88)
Cash and cash equivalents at beginning	73	112	85	85	335
Foreign exchange differences on cash and cash equivalents	16	(24)	21	8	1
Cash and cash equivalents at end	112	85	335	173	247

ANNEX 4 – PROJECT IMPLEMENTATION

Procurement classification – *Public sovereign*

[REDACTED]

In October 2022 Ukrenergo became the first public company in Ukraine to be awarded the CIPS Procurement Excellence Primary Award for by the U.K. Chartered Institute of Procurement and Supply, specifically developed by CIPS with Bank's PPD to increase the Bank's transition impact on selected projects to develop a comprehensive and efficient corporate structure governing an organisation's internal procurement activities. The procurement staff have extensive knowledge and practical experience of EBRD procurement policies and procedures. The procurement system remains robust and the Company retained the expertise and capacity required to implement planned emergency investments without external support. Bank's in-house engineer and an independent consultant to be engaged by the Bank will review technical specification and be available to address technical issues, as appropriate.

Contracts risk assessment - Low

Only supply contracts will be procured, which are considered relative low risk. It is provisionally agreed with the Company that the equipment would be delivered to a warehouse/place near western Ukrainian border, which is expected to be acceptable to prospective suppliers. The Client will carry out the installation of equipment using own resources, with suppliers supervising the installation remotely via video technology. The scope of the contract(s), particularly for larger items such as autotransformers and transformers, will include standard factory testing and pre-shipment inspection.

At the same time, there is no realistic way to mitigate or manage the risk of damage and destruction during transportation within Ukraine and installation and commissioning of equipment.

With prior agreement of the Bank, the Client is currently sourcing selected 'second hand' equipment from neighbouring/regional TSOs, which they may have in stock. In relation to the required equipment, the 'second hand' is defined as a pre-owned specific product conforming to relevant international standards, which has not previously been put into service, not altered or modified, has been maintained as per manufacturers recommendation and free from any defects and impurities. Additionally, further conditions shall apply:

- Age of the equipment shall be no older than 60 months;
- All relevant warranties & guarantees shall be valid for at least 24 months post shipment date and transferrable to Ukrenergo;
- Equipment shall be subjected to pre-shipment testing and validation;
- Equipment drawings, manuals & spares shall be included.

Any changes to the above conditions shall be subject to Bank's prior sign off.

Project implementation arrangements:

A Project Implementation Unit is established within the Company and will have an overall responsibility for the implementation of the Project. The Bank will engage a consultant, to be funded from the team budget, to provide technical advice and carry out price and value for money verification in case of direct contract(s). The Bank will also support Ukrenergo in engaging a specialised company(ies), to be funded from a TC grant, to carry out pre-shipment testing and validation of 'second-hand' equipment.

Procurement arrangements:

The Project is classified as public sector for procurement purposes. The procurement of *capex* items or commodities, goods and services that do not fall within operating expenditures of the Company to be financed out of the proceeds of the loan and procurement of capex items with the proceeds of the investment grant from the Netherlands shall be subject to the provisions of the EBRD PPR applicable to public sector operations.

In view of the current situation in Ukraine, to assess the risk appetite of the market and assist in developing a workable and realistic procurement delivery strategy, prior to the commencement of procurement procedures Ukrenergo held [REDACTED] an online market consultations event, hosted by the Bank, with the industry. This shall assist to in determine the most economic and efficient way forward, identify key contractual risks, and establish the minimum timescales required for proposal preparation and for the physical supply of equipment (it is assumed that some items may be available for immediate delivery, while and some equipment may need to be manufactured and, therefore, may only be available on longer lead times). This analysis will enable Ukrenergo and the Bank to finalise the most appropriate procurement procedure(s) to fulfil the objectives of the Project in the shortest possible time whilst maintaining an open and transparent procurement process.

The event attracted wide interest from the market, and there are clear indications that some items may be procured via open tendering. Many commented, however, that the current demand for transformer equipment worldwide is very high and lead times will be long. A few participants suggested they may look into prioritising Ukrenergo's needs within the current contracts with other clients, but this will require further investigation. Taking into account that under the current circumstances in Ukraine the equipment is required urgently, direct contract(s) shall be considered a likely eventuality. And in case 'second-hand' equipment, should it become available, a direct contract with a state-owned TSO would be the only option. Article 3.24 of the PPR, Direct Contracting may be used where the Client has demonstrated to the Bank's satisfaction that the application of a competitive method of procurement is neither practical, economic nor efficient. In relation to the Project the following circumstances justify Direct Contracting:

(c) Goods, Works, Services or Consultancy Services can only be provided by a single Participant because of exclusive capabilities, rights or availability of required products or unique expertise or experience;

(d) standardisation with existing equipment is determined to be important and justified, the number of new items are generally less than the existing number and compatible Goods cannot be provided by other suppliers or where a consultant has been or is involved in the early phases of a project, such as feasibility or design stages, and it has been determined that continuity is necessary and no advantage would be gained from following competitive procedures;

(e) it is a case brought about by unforeseeable events or circumstances not attributable to the procuring entity.

[REDACTED]. To enable Ukrenergo and the Bank to respond swiftly to any such opportunities, it is proposed that all contracts proposed to be awarded under Direct Contracting procedures will be subject to the sign-off of the PPAD Director, which will confirm that proposals are fully in line with the Bank's PPR, prior to the issue of the Bank's no objection to the award. Negotiated contracts will be reviewed by PPAD's Project Implementation Adviser and the Bank's in-house SIG engineer to ensure compliance with standard provisions and technical requirements, and that the proposed risk management plan is adequate, where appropriate. In

each case, an independent consultant will verify the negotiated price to ensure that the contract represents value for money. Details of contracts awarded directly will be reported to the Board via BOI.

The proceeds of the *capital structure support tranche* expected to be used to finance operational expenditures (as defined in the PPR) are excluded from the application of article 2.6 (d) of the PPR. However, it is expected that a bulk of the capital structure support tranche will be used by the Company for procurement of electricity, which is a commodity, and payments of compensation to suppliers of electricity from renewable sources. The procurement of electricity or any other commodities, goods, works and services by the Company that do not fall within definition of operating expenditures, will also be carried out and monitored in accordance with PPR and will be subject to the Bank's prior sign off.

With regard to the monitoring the use of proceeds of the loan (Capex and Commodities) and the investment grant, the following provisions shall apply:

- Equipment (new) to be procured via open tendering and direct contracting – regular integrity provisions as required by relevant policies of the Bank shall apply (presentation of the Covenant of Integrity by participants, mandatory integrity checks of suppliers, the Prohibited Practices, Bank's right to audit etc.);
- Equipment ('second hand') to be procured via direct contracting and Commodities – PPAD and OCCO shall prepare tailored integrity provisions to be included in contract conditions, to reflect the specific nature of procurement. In any instance, the right of the Bank to audit contract records and documentation shall remain mandatory.

Additional information:

The final procurement and implementation strategy and the Procurement Plan shall be updated following the market consultations and shall be subject to a sign off by the PPAD Director. [REDACTED].

ANNEX 5 – STATUS OF IMPLEMENTATION OF CORPORATE GOVERNANCE ACTION PLAN

[REDACTED]

ANNEX 6 – TECHNICAL ASSISTANCE OVERVIEW

TC1: Pre-Shipment Testing and Validation to support Ukrenergo in carrying out testing and inspection of ‘second-hand’ equipment sourced from neighbouring/regional TSOs. The estimate cost of this assignment is up to EUR 74,950, proposed to be financed by an international donor or the SSF.

The **main objective** of this assignment is to provide on-site consultancy services for Pre-shipment Equipment Testing and Validation of second-hand equipment in Donors/Givers’ premises to ensure it meets the efficiency and warranty requirements via:

- Reviewing the Requirement list and associated technical specifications;
- Carrying out on-site pre-shipment equipment testing and validation;
- Providing information to assess SF6 volumes, contaminants or environmentally hazardous substances for each equipment;
- Opining and assisting in monitoring the pricing (considering market standard for equivalent new equipment and asset depreciation).

TC2: Gender and Inclusion TC support under the Gender & Economic Inclusion Technical Assistance Framework. The estimated cost of the assignment is up to EUR 200,000, proposed to be financed by an international donor or the SSF.

The **main objectives** of this assignment are as follows:

- The TC will promote the following series of Strategic Workforce Planning activities.
 - First, thanks to this assistance, Ukrenergo will assess what the recent integration into ENTSO-E means in terms of skills standards and qualification requirements. It will analyse the gap between its current skills standards and the standards followed by other ENTSO-E members and develop a plan for closing such a gap.
 - Second, the Company will develop a training course for people managers at all levels on Leading through Change and Managing Change, to ensure that managers can follow the most appropriate tools and practices for leading their teams throughout the implementation of the SWP activities.
 - Third, the Company will also update the training offer of its Vinnytsia Training Centre so that it can better respond to the current crisis needs. This will include strengthening the offer of the e-learning platform and developing new modules and courses for the ca. 8,000 employees on adaptability skills (i.e. coping strategies for working in hazardous conditions, stress management, etc.)
 - Finally, in collaboration with EBRD and KfW, the training offer of the Vinnytsia Centre will also be expanded to include new reskilling courses for workers at risk of redundancy - based on a rapid assessment of skills requirements across other parts of Ukrenergo’s business, supply chain or the local economy. In line with its development strategy, Ukrenergo is planning to automate some of its substations between 2023 and 2027, meaning a complete rehabilitation of [REDACTED] facilities with [REDACTED] employees [REDACTED] in need of reskilling and redeployment in the next 5 years.
- On the gender side, the TC will support Ukrenergo implement better gender practices along the following dimensions.
 - The Company will update its Gender Action Plan, developed last year with USAID support, so that it can integrate the implications of the current war situation. This will involve: (i) updating all the statistics on which the plan relied, (ii) including a series of best-practice examples on how other energy companies in conflict situations achieved greater gender equality, (iii) integrating suggestions from the Bank’s new toolkit on preventing and addressing Gender Based Violence (GBV) risks in Ukraine, and (iv)

revising the plan's KPI so that the share of women in the workforce can gradually increase during the reconstruction phase.

- Ukrenergo will also re-launch the equal opportunity awareness campaign that it used to support with partner schools and universities to promote the role of women in STEM careers. The campaign will be re-designed to reach local communities and IDPs through different channels (e.g. collaborations with NGOs, CSOs, etc.), with a pilot starting from the Ivano-Frankivsk region.

TC 3: ENTSO-E Synchronisation Advisory Support to Ukrenergo in completing the synchronisation of the power system of continental Europe. The estimated assignment's cost is up to EUR 250,000, proposed to be financed by an international donor or the SSF.

The **main objective** is to provide continued advisory support from ENTSO-E on the synchronisation of Ukraine's power system with the power system of Continental Europe and to progress Ukrenergo's full membership of ENTSO-E, as well as strengthening cooperation between Ukrenergo and TSOs of the Regional Group Continental Europe. This shall include (i) conclusion of multilateral agreements on regional cooperation to ensure the security of energy supply both in Ukraine and in Europe as a whole; and (ii) knowledge sharing and provision of expertise in areas such as supply chain management of replacement equipment, meeting synchronisation milestones, system stability and balancing, cross-border issues etc. It will include assistance from the ENTSO-E Secretariat to Ukrenergo in the context of facilitating the process for the emergency synchronisation and an assistance plan for clarifying aspects of ENTSO-E activities, including assistance in the involvement of Ukrenergo in multilateral agreements that regulate interactions between European TSOs, as well as acquiring the status of a full member of ENTSO-E.