

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

Approved by the Board of Directors on 13 December 2023¹

TUNISIA

STEG ELMED POWER INTERCONNECTOR

[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	4
BOARD DECISION SHEET.....	5
ADDITIONAL SUMMARY TERMS FACTSHEET.....	6
1. STRAGIC FIT AND KEY ISSUES	9
1.1 STRATEGIC CONTEXT	9
1.2 TRANSITION IMPACT.....	12
1.3 ADDITIONALITY	13
1.4 SOUND BANKING - KEY RISKS	13
2. MEASURING / MONITORING SUCCESS	16
3. KEY PARTIES.....	18
3.1 BORROWER.....	18
3.2 SPONSORS	19
3.3 GUARANTOR	19
4. MARKET CONTEXT	19
5. FINANCIAL/ECONOMIC ANALYSIS.....	20
5.1 FINANCIAL PROJECTIONS.....	20
5.2 SENSITIVITY ANALYSIS	20
5.3 PROJECTED PROFITABILITY FOR THE BANK.....	20
6. OTHER KEY CONSIDERATIONS.....	20
6.1 ENVIRONMENT.....	20
6.2 INTEGRITY	22
ANNEXES TO OPERATION REPORT.....	23
ANNEX 1 – SHAREHOLDING STRUCTURE.....	24
ANNEX 2 – HISTORICAL FINANCIAL STATEMENTS.....	25
ANNEX 3 – PROJECT IMPLEMENTATION.....	28
ANNEX 4 – TRANSITION IMPACT SCORING CHART	30
ANNEX 5 – GREEN ASSESSMENT	31
ANNEX 6 - ASSOCIATED TECHNICAL COOPERATION.....	33
ANNEX 7 – PROJECT DESCRIPTION.....	33

ABBREVIATIONS / CURRENCY CONVERSIONS

ANME	National Agency for Energy Conservation
BMP	Biodiversity Management Plan
Capex	Capital Expenditures
CEF	Connecting Europe Facility
CFO	Chief Finance Officer
CHA	Critical Habitat Assessment
CVRA	Climate Vulnerability and Risk Assessment
EIB	European Investment Bank
ENTSO-E	European Network of Transmission System Operators for Electricity
EPC	Engineering, Procurement and Construction
ESAP	Environmental and Social Action Plan
ESIA	Environmental and Social Impact Assessment
ESP	Environmental and Social Policy
EU	European Union
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
GO	Guarantee of Origin
GW	Gigawatt
HDD	Horizontal Directional Drilling
HVDC	High Voltage Direct Current
IFI	International Financial Institution
IMF	International Monetary Fund
IPP	Independent Power Producer
KfW	Kreditanstalt für Wiederaufbau
kWh	Kilowatt Hour
LCP	Low Carbon Pathway
MDB	Multilateral Development Bank
MIP	Market Integration Programme
MRF	Mutual Reliance Framework
MoE	The Ministry Of Industry, Mines And Energy Of Tunisia
MW	Megawatt
NG	Net Gain
NNL	No Net Loss
O&M	Operation and Maintenance
OHTL	Overhead Transmission Lines
Opex	Operating Expenses
PCI	Project of Common Interest
PIA	Project Implementation Agreement
PIU	Project Implementation Unit
RE	Renewable Energy
SOE	State Owned Enterprise
STEG	Société Tunisienne de l'Électricité et du Gaz
TERA	Tunisia electricity regulatory authority
TOE	Tonne of Oil Equivalent
TSO	Transmission System Operator
TYNDP	Ten Year Network Development Plan
WB	World Bank

CURRENCY CONVERSIONS

Country's Currency Unit = Tunisian Dinar (TND)EUR 1
= TND 3.38

PRESIDENT'S RECOMMENDATION

This recommendation and the attached Report concerning an operation in favour of Société Tunisienne de l'Électricité et du Gaz (the "STEG" or "Company"), a state-owned national utility responsible for the production, transport, and distribution of electricity and gas throughout the Tunisia, are submitted for consideration by the Board of Directors. The facility is a loan of EUR 45 million guaranteed by the Republic of Tunisia.

The operation will finance construction of a 200-km 600MW High-Voltage Direct Current submarine interconnection cable connecting electricity transmission networks of Tunisia and Italy (the "Project"), one component of the Tunisia-Italy electricity interconnection and associated infrastructure known as ELMED. The Project will contribute to integration of the European and North African electricity grids and will help accelerate renewable energy development in Tunisia.

Alongside the Bank ELMED will be financed by the World Bank, EIB and KfW, and benefit from an EU grant from the Connecting Europe Facility (CEF) of EUR 308 million. The submarine cable (the Project) will be co-financed by the Bank with the EIB and KfW, while the substations and associated power lines will be financed by the World Bank. The operation is included under the EBRD-EIB Framework Cooperation Agreement.

The expected transition impact of the Project stems from (i) the Resilient quality through supporting operationalisation of the future independent Tunisia electricity regulatory authority (TERA) and facilitating commercialisation of electricity to be exported to Italy, and (ii) the Green quality through development of a Low Carbon Pathways (LCP) for the energy sector of Tunisia ensuring the sector's alignment with the Paris Agreement and related national climate goals and strategies, including implementation of the Guarantee of Origin (GO) and carbon credit certification mechanisms compatible with EU rules.

The operation will be accompanied by policy dialogue supported by technical cooperation that includes; 1) a Market Integration Programme which will provide regulatory assistance to support the operationalisation of an independent TERA to be financed by EU NIP; 2) the design and implementation of the LCP for the energy sector and the establishment of the GO scheme and carbon credit certification mechanism to be financed by EU NIP; 3) Environmental and Social studies to ensure that the Project is in line with EBRD's Performance Requirements, and 4) lender monitoring to ensure that the implementation and operation of the Project is in line with the Bank's standards.

I am satisfied that the Project is consistent with the Bank's Strategy for Tunisia, the Energy Sector Strategy, the Green Economy Transition Approach and with the Agreement Establishing the Bank.

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

Odile Renaud-Basso

BOARD DECISION SHEET

TUNISIA - STEG ELMED POWER INTERCONNECTOR - DTM 54389	
Transaction / Board Decision	Board approval ² is sought for a sovereign-guaranteed loan of up to EUR 45 million (the “Loan”) in favour of Société Tunisienne de l’Électricité et du Gaz (“STEG” or the “Company”), a state-owned national utility, for the construction of the first Tunisia-Italy electricity interconnector called ELMED (“ELMED”) as well as related transmission infrastructure in Tunisia. ELMED will be operated and owned jointly by STEG and Italy’s private transmission system operator (TSO) Terna S.p.A. The Republic of Tunisia will provide a sovereign guarantee for the Loan. ELMED will be financed by the World Bank, the EIB, KfW, EBRD and a grant from the EU’s Connecting Europe Facility (CEF). The Project is flagged as a Joint Financing Project under the EBRD-EIB Framework Cooperation Agreement. The Loan will finance one component of ELMED: the submarine cable between Tunisia and Italy (“Project” or “Component 1”), co-financed with EIB, KfW and the EU CEF grant, while the World Bank will finance other components. [REDACTED]
Client	STEG is a fully state-owned vertically-integrated national electricity and gas utility company.
Main Elements of the Proposal	<p><u>Transition impact</u></p> <p>Resilient – ELMED contributes to the stability and interconnectivity of electricity networks in Europe and North Africa. Along with the Project, EBRD will provide a comprehensive policy reform package that supports the operationalisation of an independent Tunisia electricity regulatory authority and facilitate commercialisation of electricity exported through ELMED.</p> <p>Green – the Project will facilitate investment in RE in Tunisia and the replacement of gas-fired thermal generation in Tunisia and Italy which will contribute to climate targets, with potential of RE projects on both sides reaching 134 GW by 2030.</p> <p><u>Additionality</u> - EBRD, along with the World Bank, EIB and KfW, offer sovereign financing that is not available from commercial sources on appropriate terms and conditions for a project of such scale and strategic importance.</p> <p><u>Sound banking</u> – the loan will benefit from a sovereign guarantee to mitigate the repayment risk of the loans, given the current financial situation of the Company.</p>
Key Risks	<p>E&S risks: A gap analysis of the existing ESIA was carried out against EBRD’s Performance Requirements, and further E&S studies have been launched to tackle the identified gaps. A comprehensive E&S Action Plan, which tackles the identified E&S risks in line with the Bank’s PRs will be adopted by the Company. An E&S lender monitoring consultant will be hired to monitor the E&S aspects of the Project and the implementation of the ESAP throughout the Project cycle.</p> <p>Implementation Risk: This is STEG’s first submarine interconnector project, but TERNA will coordinate and lead on procurement relying on its experience in complex projects. STEG is an experienced utility company and an existing client Bank and is familiar with the Bank’s PP&Rs. STEG shall appoint a Project Implementation Unit (PIU) and a contract implementation supervision engineer will be recruited to monitor the contract through implementation phase. In addition, a Lender’s Monitor will be recruited to report to the Bank on compliance with procurement and environmental and social policies.</p> <p>Credit Risk: Mitigated by STEG’s track record of staying current on its payments and the loan will ultimately benefit from a sovereign guarantee.</p>

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

Strategic Fit Summary

The Project is consistent with the Bank’s Strategy for Tunisia, the Energy Sector Strategy, the Green Economy Transition Approach and with the Agreement Establishing the Bank.

ADDITIONAL SUMMARY TERMS FACTSHEET

EBRD Transaction	<p>A sovereign-guaranteed loan of up to EUR 45 million in favour of Société Tunisienne de l’Électricité et du Gaz (“STEG” or the “Company”), a state-owned national utility, for the construction of the first Tunisia-Italy electricity interconnection, comprising a submarine cable between Tunisia and Italy and two substations in each country called ELMED (“ELMED”) as well as related electricity transmission infrastructure in Tunisia to evacuate power through ELMED. ELMED will be operated and owned jointly by STEG and Italy’s private transmission system operator (TSO) Terna S.p.A. The Republic of Tunisia will provide a sovereign guarantee for the Project. ELMED will be financed by the World Bank, the EIB, KfW, the EBRD and a grant from the EU’s Connecting Europe Facility (CEF).</p> <p>The proposed loan will finance one component of ELMED: the Tunisian section of the 200-km 600MW High-Voltage Direct Current (HVDC) submarine cable between the two landing points in Cap Bon region in Tunisia and south of Sicily in Italy (the “Project” or “Component 1”). The Project will be co-financed with EIB, KfW and a grant from the EU’s Connecting Europe Facility (CEF). [REDACTED]</p> <p>The Project is flagged as a Joint Financing Project under the EBRD-EIB Framework Cooperation Agreement, and a Joint Project Selection letter was signed for this purpose.</p>
Existing Exposure	<p>Direct exposure to STEG (sovereign-guaranteed): EUR 313.5m (Operating assets EUR 196.4m):</p> <ul style="list-style-type: none"> ○ OPID 46575 (2016) – EUR 30.2m for the reinforcement of the electricity transmission network in North-Eastern Tunisia. [REDACTED]. ○ OPID 51859 (2020/2022) – EUR 283.3m. [REDACTED]. <p>Direct exposure to sovereign in Tunisia: EUR 818m. [REDACTED] (OPID 54941, 45537, 53812, 46575, 49086, 49268, 46507, 51859, and 49250).</p>
Maturity / Exit / Repayment	The loan will have a tenor of up to 18 years [REDACTED].
Potential AMI eligible financing	N/A
Use of Proceeds – Description	<p>- The proceeds of the loan will be used to finance the Project that includes the design, equipment supply, construction and installation, and testing of the submarine electricity cable. for a total cost of EUR 211m.</p> <p>-</p>

	- The Bank will disburse directly to the suppliers against invoices reviewed and verified by the project implementation unit (PIU) and supporting consultant.
Use of Proceeds / Financing Plan	[REDACTED]
Key Parties Involved	Borrower: STEG Guarantor: Republic of Tunisia Project sponsors: STEG and TERNA Co-lenders: EIB, KfW. The World Bank will be financing another component of ELMED. Grant provider: European Union's Connecting Europe Facility.
Conditions to subscription / disbursement	[REDACTED]
Key Covenants	[REDACTED]
Security / Guarantees	Sovereign guarantee.
Other material agreements	A guarantee agreement between the Bank and the Republic of Tunisia represented by the Ministry of Economy and Planning to guarantee the financial obligations of the Company.
Associated Donor Funded TC and Blended Concessional Finance	<p>A. Technical Cooperation (TC)</p> <ul style="list-style-type: none"> • Low Carbon Pathway (LCP) and Guarantees of Origin (GO) for renewable energy: development of a long-term decarbonisation roadmap for the electricity sector in line with the planned climate and energy policies of the country as well as the objectives of the Paris Agreement (indicative budget: c. EUR 600,000). In parallel, support to the national stakeholders on the establishment of a RE GO system in line with EU regulations and international best practices, from conceptualisation, feasibility and design to implementation (indicative budget: c. EUR 400,000). Total budget: EUR 1,000,000. [REDACTED] • Market Integration Programme (MIP) – under EBRD's SOEs Management Assistance Reform and Transformation (SMART) Framework: Regulatory assistance to support with the establishment of an independent electricity regulatory authority, facilitate the commercialisation of electricity across the interconnector through harmonisation of rules. Estimated budget EUR 1,500,000[REDACTED] • Environmental and social studies: the Bank is supporting STEG with the E&S studies required for the Project to comply with EBRD PRs, namely (i) E&S gap analysis and (ii) further surveys and studies required to address the gaps (including i.e. critical habitat assessment and supplementary biodiversity study, navigational risk assessment, immediate E&S supervision for STEG's tendering process, ESAP implementation support, update of resettlement framework plan, and E&S independent lender monitoring consultancy). Total estimated budget: EUR 549,281. Funding source is SSF.

	<ul style="list-style-type: none">• Lender Monitoring – procurement and technical: the Bank will hire lender monitoring consultants to monitor technical and procurement aspects of the Project are in place as per Bank’s policies and procedures. Total estimated budget: EUR 369k. Funding source is SSF.• Lender Monitoring – E&S: the bank will hire an E&S lender monitoring consultant to monitor management and mitigation of material E&S risks and issues associated with the Project to ensure Project compliance with specific provisions and the overall objectives of the Environmental and Social Action Plan (ESAP). Total estimated budget is EUR 195k. Funding source is SSF. <p>B. Blended Concessional Finance N/A</p>
--	--

[REDACTED]

INVESTMENT PROPOSAL SUMMARY

1. STRAGIC FIT AND KEY ISSUES

1.1 STRATEGIC CONTEXT

Tunisia's power generation is heavily dominated by gas-fired power plants - 5.6 GW of installed capacity out of 5.9 GW in total, which generated 97 per cent of total domestic production in 2020. The majority (two-third) of the gas necessary for the production is imported from Algeria and weighs heavily on the country's budget (representing almost 1 per cent of Tunisia's total budget and c. 5 per cent of its GDP). STEG, the state-owned electricity and gas utility, owns 99 per cent of the total installed capacity. The current RE production capacity in Tunisia is very limited at 312 MW or ca. 3 per cent of Tunisia's generation, comprising a few hydroelectric power plants with a cumulative capacity of 62 MW, three wind farms of 240 MW capacity in total and one PV plant of 10 MW, all owned and operated by STEG.

Tunisia has been working on launching an ambitious renewable energy investment plan to reduce its dependence on fossil fuels, improve energy security and reduce the cost of power. In 2015 the country adopted a renewable energy law to promote the development of renewable energy and encourage private sector's investments and liberalising production and export of electricity. The plan is to increase the share of wind and solar energy sources in Tunisia's electricity production from ca. 3 per cent to 35 per cent by 2030. In line with this effort the government launched the first tender of 500 MW utility-scale solar projects in 2019 which are under development, of which a 100 MW has reached financial close. In 2022 the Ministry of Energy announced a new renewable energy tender programme of 1.7 GW, which is planned to be launched in 2024 with support from the EBRD.

ELMED will play a critical role in supporting the expansion of renewable energy in Tunisia and accelerating its decarbonisation on several levels: (i) it will build the necessary infrastructure both within Tunisia and with the EU to allow for renewable energy integration and reduce the infrastructure constraints on RE development, (ii) it will enable imports of renewable energy from Italy replacing fossil fuel electricity imports to Tunisia, (iii) it will allow for the sale of RE power produced in Tunisia on the European market thanks to the new infrastructure and the introduction of the guarantee of origin scheme and carbon credit certification mechanism. ELMED will contribute to allowing Tunisia to meet its 2030 target and build 4.8GW of RE capacity in the country. It will boost the transition to cleaner and more sustainable energy generation.

ELMED will also contribute to the grid stability and dispatching optimisation required for a better RE integration in the two markets, where ambitious RE objectives in the two countries have been set to reach 134 GW in total (4 GW in Tunisia and 130 GW in Italy respectively), with RE target of 35 per cent in Tunisia by 2030. It actively promotes the use of renewables, enhances energy infrastructure, reduces carbon emissions, and integrates Tunisia into the European energy market.

More generally, ELMED will be the first electricity interconnection infrastructure to connect EU and Tunisia. It holds significant strategic importance as it (i) will enhance energy security by reducing dependence on gas imports through diversifying energy and supply sources, making both Italy and Tunisia less vulnerable to energy disruptions; (ii) will facilitate energy trade as the interconnection promotes cross-border energy trade, allowing Italy and Tunisia to exchange electricity, optimize resources, and reduce energy costs for consumers; (iii) stimulate economic growth through infrastructure development, job creation, and increased foreign investments.

As the Bank's first submarine cable interconnection project, ELMED is an example of successful collaboration between Tunisia, Italy, the EU and IFIs showcasing a longstanding partnership in fostering green transition through the shared vision and regional development. The strong collaboration between the World Bank, the EIB, KfW, the EU and the Bank played a pivotal role in mobilising required financing and best practices for this major infrastructure undertaking. Tunisia offers its geographical advantage and potential for renewable energy sources. The Project's commitment to clean energy and reduced carbon emissions aligns with the global sustainability agenda.

The Project (Component 1 financed by the Bank) is part of the wider ELMED operation funded by the World Bank (EUR 234 million), EIB (EUR 45 million), EBRD (EUR 45 million), KfW (EUR 35 million) and the EU's CEF grant (EUR 308 million), as well as [REDACTED] funds mobilised by the EU NIP. This includes [REDACTED] technical assistance package for procurement support led by EIB, [REDACTED] investment grant for KfW and a comprehensive TC package [REDACTED] mobilised by the Bank to support its policy engagement as well as procurement and environmental and social studies of the subsequent components of ELMED. [REDACTED].

The common appraisal of ELMED is a testimony of the deepened cooperation between the IFIs joining forces to deliver a strategically important transaction both for the EU and North Africa. ELMED is a flagship project under the EBRD-EIB Framework Cooperation Agreement (FCA) signed in 2021 with EIB leading on procurement and technical aspects and EBRD on environment and social aspects, while results of appraisal are shared by lead institutions and relied on by all partner IFIs.

ELMED is a strategic project for the European Union in line with its commitment to enhance regional energy interconnections, promote stability, and meet environmental standards. As a priority project for the EU, ELMED is included in the list of projects of Common Interest (PCI) and is part of the European Green Deal, REPowerEU and Global Gateway initiatives. The EU made a considerable contribution to the investment programme through a EUR 308 million grant under the Connecting Europe Facility, as well as through the EU NIP envelope. The Memorandum of Understanding on a strategic and global partnership between the European Union and Tunisia signed on 16 July 2023 included a separate pillar on energy partnership and collaboration highlighting the strategic importance of ELMED. This strategic partnership is aimed at "strengthening the security of energy supply, providing citizens and businesses with low-carbon energy at competitive prices and strengthening the network infrastructure in Tunisia".

The Project includes an ambitious policy engagement to support the expansion of renewable energy in Tunisia. It builds on existing engagement of the Bank as a major policy partner in the renewable energy (RE) sector and with STEG. To-date the Bank has played an important role in supporting existing RE plans in Tunisia offering crucial policy support aimed at enhancing the bankability of the PPA and attractiveness of the tenders run under the RE Concession regime (for both 2019 500MW tender and the forthcoming 1.7 GW tender announced in December 2022). On 16 October 2023, the Bank signed an MOU with the Tunisian authorities to deepen the policy engagement in the sector with a pledge to develop a Low Carbon Pathway for the electricity sector, and Guarantees of Origin along with a carbon credit certification mechanism.

The Project will allow the EBRD to continue its long-standing efforts to reform STEG and the wider sector. To-date the Bank has been a reform partner of STEG, actively engaging in the implementation of a Corporate Reform Roadmap, an integral part of the Bank's ongoing restructuring project approved by the Board in 2020 (OpID 46575 and OPID 51859). This comprehensive partnership with STEG encompasses various aspects, including enhancement of corporate and climate governance, financial restructuring, unbundling, digitalisation, and human resources practices. The policies improvements embedded in ELMED is a continuation of the Bank's existing policy support in the country. The MOU signed on 16 October 2023 includes a new Market Integration Programme aiming at (i) regulatory assistance to support the establishment of an independent electricity regulatory authority, and (ii) development of secondary legislation required to implement a competitive regulatory system and harmonisation of rules to facilitate the commercialisation of electricity flows across the interconnector;

Once operational, ELMED is expected to contribute to Tunisia's macroeconomic stability as follows:

- Reducing the cost of imported power: from 2030 onwards, Tunisia will benefit from cheaper RE imports from Italy due to the surplus of RE capacities there. [REDACTED]
- Growing FX reserves and improving trade balance: in the medium-term renewable energy exported to Italy and the wider EU through ELMED will contribute to generating foreign currency earnings and helping meet international payment obligations. [REDACTED]
- Stimulate growth: by offering a route to the European power markets, ELMED will stimulate investment in domestic renewable energy generation, creating employment and supporting overall economic growth in Tunisia. [REDACTED]

The Project is consistent with the Bank's Strategy for Tunisia, the Energy Sector Strategy, and the Green Economy Transition Approach and with the Agreement Establishing the Bank. It is aligned with the Green Economy Transition (GET) 2021-25, which seeks to promote green, low-carbon, and resilient economies within the regions where the EBRD operates. Additionally, the Project is fully aligned with the Bank's Strategy for Tunisia, actively supporting the nation's transition to a greener economy. The Project will incentivise investments in RE in Tunisia as it is considered as an enabling infrastructure for such projects. In the broader context of the Energy Sector Strategy, ELMED acts as a catalyst for moving towards cleaner energy sources. The Project contributes to a host of UN Sustainable Development Goals (SDGs), namely: SDG 7. Affordable and Clean Energy, SDG 9. Industry, Innovation and Infrastructure, and SDG 13. Climate Action.

1.2 TRANSITION IMPACT

Primary Quality: Resilient

Obj. No.	Objective	Details
1.1	<i>The Project entails a policy dialogue initiative that has been assessed as Excellent by the sector economist.</i>	<p>A policy reform package, the Market Integration Programme aimed at supporting the operationalisation of the future independent Tunisia electricity regulatory authority (TERA), facilitate the commercialisation of electricity and ensure non-discriminatory access/fair capacity allocation on the cable will be developed under the transaction. EBRD support will target development of secondary legislation to implement a competitive regulation conducive to attracting private investments and simplifying procedures for electricity trading on the interconnector, while strengthening the capacity of the Tunisian stakeholders (STEG, Ministry of Energy, Electricity Regulator) to adopt, and adapt to, the new electricity market set-up.</p> <p>MIP will be deployed under EBRD's SOEs Management Assistance Reform and Transformation (SMART) Framework.</p>
1.2	<i>The Project will allow the connection of planned renewable energy installations which currently are not possible due to inadequacy of the grid, or lead to a decrease in the curtailment of existing renewable energy installations, as verified by ESD.</i>	<p>ELMED contributes largely to the electricity interconnection of the Europe – North Africa region. Its associated grid reinforcement projects will help connect future RE plants in south Tunisia directly to the country's more industry intensive areas and through the interconnector to Italy and its surrounding EU countries. It encourages better RE integration and the replacement of gas-fired thermal generation in the two markets which will contribute to climate change targets, with potential of RE projects on both sides reaching 134 GW by 2030.</p>

Secondary Quality: Green

Obj. No.	Objective	Details
2.1	<i>The percentage of EBRD use of proceeds that supports a green economy transition and therefore qualifies as GET</i>	<p>The GET share of the Project is 62 per cent based on the joint-MDB methodology for climate finance attribution. According to the methodology, interconnection of electricity systems, including the trans-border transmission of electricity, the weighted average share of very-low-carbon should be used to apportion the financing. In the case of ELMED, the weighted average share of very-low-carbon electricity is based on the available targets for 2030 of Tunisia and Italy (35 per cent and 65 per cent respectively). [REDACTED]</p>

	<i>finance is 15 per cent or higher.</i>	
2.2	<i>This Project involves a good policy engagement, which is new and aims to deliver institutional reform and lead to structural changes across sectors/markets.</i>	The Project would entail an impactful package of policy dialogues that aim to deliver Tunisia’s climate objectives. The LCP will be developed for the energy sector in Tunisia which would ensure the sector’s alignment with Paris Agreement and with related national climate goals and strategies; TC supports will also be provided to future electricity regulator for the implementation of a Guarantee of Origin (GO) and Carbon Credit certification mechanism.

1.3 ADDITIONALITY

1.4 SOUND BANKING - KEY RISKS

Identified triggers: <i>No triggers identified</i>		
Additionality sources <i>Financing Structure</i>		
<ul style="list-style-type: none"> – EBRD offers financing that is not available in the market from commercial sources on appropriate terms and conditions [REDACTED]. Such financing is necessary to structure the Project. – Public sector: EBRD investment is needed to close the funding gap. At the same time, EBRD does not crowd out other sources, such as from IFIs, government, commercial banks and/or complements them. 		
Standard-setting: helping Projects and clients achieve higher standards		
<ul style="list-style-type: none"> – Company seeks/makes use of EBRD expertise on best international procurement standards. 		
Knowledge, innovation, and capacity building		
<ul style="list-style-type: none"> – EBRD provides expertise, innovation, knowledge and/or capabilities that are material to the timely realisation of the Project’s objectives, including support to strengthen the capacity of the Company 		
isks	Probability / Effect	Comments
<i>Project specific risks</i>		
Sponsor risk	Medium / Medium	[REDACTED] <i>Mitigation:</i> STEG is an SOE that operates as a natural monopoly with a sustainable revenue stream and the loan will benefit from a sovereign guarantee.
Implementation risk	High / High	ELMED is a cross-continent multi-stakeholder project that entails complexities in its project implementation aspects such as procurement [REDACTED]. <i>Mitigation:</i> ELMED is a priority and strategic project for Tunisia, Italy as well as the EU. [REDACTED]. TERNA as co-sponsor, coordinator and lead on procurement has long experience in similar complex projects, and has the resources to successfully procure it. STEG on the other hand is an experienced utility company and is an existing client to the Bank which makes it familiar with the Bank’s PP&Rs. This is STEG’s first submarine interconnector project but STEG shall appoint a Project

		Implementation Unit (PIU) and a contract implementation supervision engineer will be recruited to monitor the contract throughout the implementation phase. In addition, a Lender’s Monitor will be recruited to report to EBRD on compliance with PPRs and other requirements.
E&S Risk	High/High	<p>a. Biodiversity risks – the ongoing CHA identified that there are Critical Habitats and Priority Biodiversity features in the Project area; and the entire straight of Sicily is a recognised biodiversity hotspot. The Company will need to ensure that the Project causes no Net Loss and achieves Net Gain. The contractors should use the Horizontal Directional Drilling to avoid impacts to seagrass areas at the landfalls coastal areas and implement other avoidance measures (e.g.) micro re-routing of the cable should pre-construction surveys identify coral communities along the cable route.</p> <p>b. Navigational Risk – the area is a busy shipping routes and commercial fishing ground. There are also vessels with no Automatic Identification System (e.g. artisanal fishing boats; diving boats; and potentially migration traffic boats). The Company will need to ensure that the contractors develop Method Statements for the laying of the submarine cable in line with findings and recommendations of the Navigational Risk Assessment.</p> <p>c. [REDACTED]the stakeholder engagement activities up to date focused on the local authorities and NGOs and only 7 inhabitants of the adjacent areas were consulted. No previous engagement with the Fisheries Department, the Navy, local businesses, local fishermen and owners/users of agricultural lands adjacent to the onshore cable connection route.</p> <p>d. [REDACTED]It is highly advisable for the Bank to mobilise TC funds and to provide relevant capacity building at the institutional level.</p> <p>Mitigation: The Project will include an Environmental and Social Action Plan containing actions aimed at enhancing the Company’s capacity to implement and comply with the EBRD’s environmental and social requirements, developing and implementing Supply Chain Audit procedures and Contractor Management procedures; developing Construction Management Plan; conducting pre-construction field biodiversity surveys and requesting contractors to develop navigational risk management plans; developing a detailed Resettlement Action Plan based on the updated Resettlement Framework, etc. The implementation of the Bank’s requirements will be monitored [REDACTED]. The Bank will also provide ESAP implementation support to the Company to improve their capacity to manage specific impacts and risks of the Project.</p>
<i>External risks</i>		

<p>Political/regulatory risk</p>	<p>Medium / Medium</p>	<p>STEG is a state owned entity and its decisions are largely affected by the government. ELMED is a major project which: (i) is politically linked to the countries it is implemented in; Tunisia, Italy, and other EU countries, and (ii) can be largely affected by the success of reforms to be implemented in Tunisia. [REDACTED]<i>Mitigation:</i> The Project benefits from a high political support shown from both countries and the EU.</p>
<p>Macro-economic risk</p>	<p>Medium / High</p>	<p>[REDACTED]While Tunisian economy continued to slow down during first half of 2023, it has shown some resilience to the challenging conditions. Main improvements have been recorded in the current account balance (expected to contract to 5.8 per cent of GDP in 2023 from 8.6 per cent in 2022) supported by better tourism, remittances, and trade balance. Tunisia repaid all its external debt on time.</p> <p>[REDACTED] Mitigation: There is international support for Tunisia accompanied with reform efforts that are expected to pave the way for the stabilisation of the macro-fiscal situation in the country. ELMED is a project of strategic priority for Tunisia, Italy as well as the EU. [REDACTED] The expected increase in global oil prices is a risk. However, the Project in itself is a critical a mitigant as it promotes diversification of the energy supply and the use of renewable energy.</p> <p>Furthermore, more recently the EU has agreed in the MOU signed on 16 July 2023 with Tunisia on a strategic and global partnership which includes ELMED and energy transition.</p>

2. MEASURING / MONITORING SUCCESS

TI indicator, primary Quality: Resilient

Obj. No.	Monitoring indicator	Details	Baseline	Target	Due date
1.1	Policy engagement platform is operational	Support the establishment of the Tunisian Electricity Regulatory Authority (“TERA”)	[REDACTED]	[REDACTED]	[REDACTED]
1.2	Legal, institutional or regulatory frameworks in target areas improved	Approval of Capacity Allocation & Congestion Mechanism rules and electricity market methodologies developed under the Market Integration Plan	[REDACTED]	[REDACTED]	[REDACTED]
1.3	Expanded access to infrastructure	Third Party Access on the ELMED interconnector	[REDACTED]	[REDACTED]	[REDACTED]
1.4	Policy engagement platform is operational	Operationalisation of the approved Capacity Allocation & Congestion Mechanism rules and electricity market methodologies	[REDACTED]	[REDACTED]	[REDACTED]

TI indicator, secondary Quality: Green

Obj. No.	Monitoring indicator	Details	Baseline	Target	Due date
2.1	New regulatory instruments (e.g. model law, guidelines)	Completion of the TC to identify GoOs framework	[REDACTED]	[REDACTED]	[REDACTED]
2.2	Recommended policy or strategy or regulatory framework/ standard agreed by relevant stakeholder(s)	Completion of LCP	[REDACTED]	[REDACTED]	[REDACTED]
2.3	Regulatory body established or strengthened as targeted	Set-up the required functions for the GoOs within the regulator	[REDACTED]	[REDACTED]	[REDACTED]
2.4	Legal, institutional or regulatory frameworks in target areas improved	Government to approve a new RE strategy setting new RES targets for 2035 based on LCP outcome	[REDACTED]	[REDACTED]	[REDACTED]
2.5	Policy advice delivered: Recommendations and standards for cross-border trade or transactions	Obtain EU accreditation for the GoOs	[REDACTED]	[REDACTED]	[REDACTED]
2.6	Renewable energy capacity installed (MW)	35% of RES installed capacity [REDACTED] translating to 4.8GW	[REDACTED]	[REDACTED]	[REDACTED]

3. KEY PARTIES

3.1 BORROWER

STEG is the national electricity and gas utility created in 1962, when the Tunisian Government decided to nationalise the generation, transmission, distribution, import and export of electricity and gas. The Company supplies the national market in electric energy and fuel gas. It is a public company with financial autonomy placed under the Ministry of Industry, Mines and Energy.

STEG is a natural monopoly for transmission and distribution of electricity and gas. It acts as the single buyer for all electricity generated³, operates the electricity network and owns c. 99 per cent of domestic electricity generation. The transmission network is connected to Algeria and to Libya.

STEG runs the operation and development of the domestic natural gas transmission and distribution network. The national gas supply is mainly sourced from Algeria through a pipeline crossing Tunisia toward Italy and also from the national oil & gas company (“ETAP”) and other domestic gas producers.

Please see the table below for key financial highlights and *Annex 2* for STEG’s full historical financial statements in accordance with Tunisian Accounting Standards.

EURm	2016 A	2017 A	2018 A	2019 A	2020 A	2021 A	2022 A
Sales	1,583	1,496	1,459	1,677	1,647	1,646	1,782
Subsidies	-	218	386	381	31	415	987
Gross Profit	219	85	(62)	(91)	49	166	(258)
EBITDA	225	104	(57)	(104)	107	176	(260)
Net Income	(102)	(359)	(613)	33	(19)	(13)	(532)
Current assets	739	834	704	767	937	2,224	2,388
Fixed assets	2,745	2,467	2,374	2,407	2,461	2,339	2,302
Total assets	3,485	3,301	3,077	3,174	3,398	4,563	4,690
Current liabilities	967	1,156	1,480	1,654	1,605	1,928	2,599
Non-current liabilities	2,157	2,246	2,351	2,200	2,504	2,270	2,309
Total liabilities	3,124	3,402	3,831	3,854	4,109	4,198	4,908
Equity	361	(102)	(754)	(680)	(711)	365	(218)
Operating cash flow	(16)	55	(141)	181	(58)	316	74
Cash flow after investment activities	(280)	(161)	(454)	(154)	(254)	201	(51)
Cash flow after financial activities	(201)	95	(87)	26	32	41	4
Total financial debt	2,126	2,367	2,669	2,420	2,721	2,407	2,353
Cash	114	195	83	105	139	176	176
Net Debt	2,011	2,172	2,586	2,315	2,581	2,230	2,177
Net Debt/EBITDA	9	21	(45)	(22)	24	13	(8)
Total liabilities/Equity	9	(34)	(5)	(6)	(6)	12	(23)

- [REDACTED]

³ The law has been amended to allow for private-to-private electricity flows. Operationalisation of the private-to-private mechanism is pending the publication of the secondary legislation.

3.2 SPONSORS

STEG and TERNNA will jointly develop the Project with TERNNA acting as coordinator on the Project. A joint procurement agreement has been signed between STEG and TERNNA in December 2022 delegating the procurement of the Project to TERNNA.

TERNNA manages the Italian transmission grid for high and extra-high-voltage electricity and is the largest independent electricity transmission system operator (TSO) in Europe. Its institutional public service role is essential to guarantee Italy's electricity supply and enable the operation of the entire national electricity system. Terna carries out grid planning, electricity system development and maintenance, and guarantees the balance of supply and demand for electricity. With approximately 75,000 km of high and extra-high-voltage power lines, 900 substations covering the entire country and 26 cross-border interconnections, Terna relies on the expertise of 5,600 professionals. In 2022, Terna recorded revenues of EUR 3bn, EBITDA of EUR 2.1bn, and profit of EUR 860m, with a total assets of EUR 22.1bn. *See Annex 2 (Historical Financial Statements) for Terna's full financial statements.*

3.3 GUARANTOR

The loan facility will be backed by a sovereign guarantee from the Republic of Tunisia, as represented by the Tunisian Ministry of Economy and Planning.

Although the Tunisian economy showed some resilience to extremely challenging conditions, growth slowed in 2022 and into 2023. Growth decelerated to 2.4 per cent in 2022 (down from 4.3 per cent in 2021), dropping further to 1.2 per cent year on the year in the first half of 2023. While the tourism, financial services and industrial sectors expanded, the slowdown in growth was driven by contractions in agriculture (drought impacted agricultural output) and mining (phosphate production dropped).

The fiscal deficit remained high at 7.6 per cent of GDP in 2022 (compared to 7.7 per cent in 2021), although tax revenues increased on the back of better tax enforcement, [REDACTED] The deficit is projected to slightly increase to 7.7 per cent of GDP in 2023 (from an initial budget target of 5.2 per cent)[REDACTED]. Public debt remained high at around 80 per cent of GDP in 2022, with almost 60 per cent from external sources.

The current account deficit widened to 8.6 per cent of GDP in 2022 (from 6.0 per cent in 2021), mostly driven by a widening trade deficit, despite the recovery in tourism and remittances. Current account balance is expected to narrow to 5.8 per cent of GDP in 2023, supported by improvements in tourism, remittances, and the trade balance (the latter narrowed by 28 per cent in the first three quarters of 2023). Despite the external pressures, foreign exchange reserves continued to slowly recover, reaching USD 8.4bn in October 2023 to cover 3.8 months of imports (up from USD 7.2bn at the end of 2022).

[REDACTED]. Tunisia is rated Caa2/Negative by Moody's, CCC- by Fitch and CCC/Negative by IHS.

4. MARKET CONTEXT

Tunisia's power sector is predominantly controlled by STEG, which has authority over electricity and gas transmission, distribution, and generation. The country has an electrification

rate of 99.8 per cent. Around 97 per cent of Tunisia's electricity is generated from fossil fuels, primarily natural gas, with a significant portion being imported from Algeria. Utility tariffs have been heavily subsidised, but the government has been gradually implementing reforms to make tariffs more cost reflective. As part of the ongoing reform, tariffs were increased by 12 per cent for electricity and 16 per cent for gas in 2022. Tunisia has ambitious RE objectives aiming to increase the share of RE in the electricity mix to 35 per cent by 2030. The MoE has awarded a 1st round of solar concessional regime totalling 500 MW in 2019, the implementation of which is delayed due to challenging macro-economic factors. Nevertheless, market stakeholders are working towards unblocking the situation and also recently launched a new RE programme to tender 1,700 MW between 2023 and 2026.

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

The Project is Categorised A (ESP 2019). The environmental and social due diligence identified that no National Environmental Impact Assessment was required/undertaken either in Italy or Tunisia and, thus no relevant regulatory expertise procedure/review process by the specialised ministries and relevant governmental departments was triggered. However, the Company has completed an Environmental and Social Impact Assessment (ESIA) on the marine cable and landfall infrastructure components for the Tunisian component of the Project, along with other supporting documents such as the Environmental and Social Management Plan, a Framework Biodiversity Management Plan, etc. [REDACTED]. The independent gap analysis of the existing ESIA against the Bank's Performance Requirements identified insufficient assessment of risks and impacts on marine and terrestrial biodiversity, impacts on livelihoods, restrictions of access, insufficient stakeholder identification and engagement, and the need to conduct a Critical Habitat Assessment, a navigational risk assessment and additional socio-economic impact assessment. Community safety and security, and employment expectations will also need be thoroughly addressed through enhanced stakeholder engagement and management plans. The gap analysis also included a review of supplementary documentation on the Italian side of the future marine cable infrastructure and a site visit to landfall locations on both countries. All the risks identified (or to be identified) are (will be) addressed through specific plans implementation of which is required by the Environmental and Social Action Plan (ESAP). Currently, a number of supplementary studies, identified by the gap analysis, are ongoing. In particular, a Critical Habitat Assessment (CHA)

has undertaken a review of data on seabed habitats and information across protected areas/Key Birds Areas and other internationally recognised areas and included a direct review of features that may trigger Priority Biodiversity Features (PBF) and Critical Habitats. Due to mobility, distribution and density of species the entire Strait of Sicily has been defined as the Ecologically Appropriate Area of Assessment (EAAA). The CHA has identified that the Strait of Sicily as Marine Critical habitat and the landing points in Italy and Tunisia as coastal critical habitats. Based on the precautionary principles, 34 species have been identified that may support the classification of critical habitat across multiple criteria, encompassing both a high-level certainty for species forming critical habitat and the likelihood of triggering critical habitat based on ranges, habitat associations and support for important functions. In addition, 54 species have been identified as PBF. The Project also lies within or has some potential connectivity to several legally protected areas and other areas with recognised high biodiversity values. The CHA confirmed that the proposed Project is located within an area of high biodiversity importance within the Mediterranean Sea and the Project must clearly demonstrate that the requirements of PR 6 have been met and there is No net Loss to biodiversity and Net Gains are achieved. The assessment of potential impacts on Critical Habitats identified that mitigation measures that avoid significant impacts on critical habitat and PBF have been largely embedded in the preliminary project design. In particular, the cable route will avoid seagrass beds in the nearshore waters of Sicily by the use of the Horizontal Directional Drilling. Nesting of loggerhead turtles is currently only confirmed on the coast of Sicily where the landing is proposed. However, nesting on the Tunisian coastline cannot be discounted related to uncertainties in baseline information. All nesting is expected to be at a low level. Coastal works should be conducted outside of the nesting zone and the use of HDD shall ensure that there is no disturbance across the crawl and nesting zones. Construction lighting within land-based working areas and the lighting of construction vessels and equipment can result in detrimental impacts on nesting loggerhead turtles. Therefore, seasonal construction restrictions during the nesting period may also need to be implemented. Cable burial activities will be undertaken in a linear manner and the impacts will be localised to activities at each point along the cable route. In Tunisian waters the distance from activities and seagrass beds should be confirmed by the Project to ensure that there is appropriate separation to avoid sediment disturbance and deposition impacts. While preliminary design information confirm that some reef habitat has been avoided, complete avoidance cannot be confirmed. Cable installation has the potential to have adverse moderate impacts on deep-sea coral and sponge communities and nearshore biogenic reefs. Some footprint impacts are especially likely for shallow water reefs where such habitat is present broadly. There is potential for cable installation to lead to sediment suspension adjacent to reef habitats and trigger localised effects on reef integrity. The Project shall therefore implement micro-routing if reef habitats are identified by pre-construction surveys in offshore and nearshore sections. With regard to achieving No Net Loss (NNL), for most impacts NNL will be achieved without any mitigation that is additional to what is embedded in the project design. However, cable laying may lead to impacts on biogenic reefs and coralline algal formations in case this cannot be avoided for technical reasons. The feasibility of restoration for these features may be low, and therefore, some limited offsets may be required. Whilst further assessment and monitoring is required to quantify losses to inform the development of offsets, the Project should produce a Biodiversity Action Plan to set out a precautionary approach for their delivery. Net Gain (NG) is required for critical habitat, which can be achieved through the development and

implementation of the Offset Strategy and Biodiversity Offsets Management Plan. Navigational Risk Assessment and update of the Resettlement Framework are currently ongoing. The ESAP will be updated with findings of the ongoing studies and various milestones for implementation of high priority actions covenanted as a Condition to Disbursement. It should be noted that no Project Company was established for the marine cable construction and/or operation and thus there are no Project standards. The Project implementation will be regulated by the Governance Agreement between STEG and Terna (the Sponsor of the Project infrastructure development in the Italian territory). While impacts on the Italian side of the Project have been assessed by the independent consultants and, required actions and recommendations have been communicated to the Italian sponsor of the Project [REDACTED]. The current Environmental and Social Action Plan contains actions aimed at enhancing the Client's capacity to implement and comply with the EBRD's environmental and social requirements, developing and implementing Supply Chain Audit procedures and Contractor Management procedures; developing Construction Management Plan; conducting pre-construction field biodiversity surveys and requesting contractors to develop navigational risk management plans; developing a detailed Resettlement Action Plan based on the updated Resettlement Framework, etc. The implementation of the Bank's requirements will be monitored on a 6-monthly basis during the construction and on annual basis during the operation of the Project. The Bank will also provide ESAP implementation support to the Client to improve their capacity to manage specific impacts and risks of the Project.

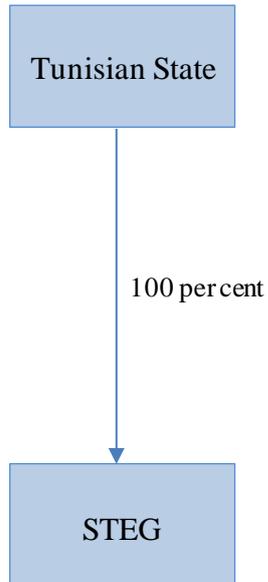
6.2 INTEGRITY

In conjunction with OCCO, integrity due diligence was conducted on STEG and Terna and their respective shareholders and senior management. [REDACTED]. All actions required by applicable EBRD procedures relevant to the prevention of money laundering, terrorist financing and other integrity issues are being have been taken with respect to the project, and the project files contain the integrity checklists and other required documentation which have been properly and accurately completed to proceed with the Project.

ANNEXES TO OPERATION REPORT

ANNEX 1	SHAREHOLDING STRUCTURE
ANNEX 2	HISTORICAL FINANCIAL STATEMENTS
ANNEX 3	PROJECT IMPLEMENTATION
ANNEX 4	TRANSITION IMPACT SCORING CHART
ANNEX 5	GREEN ASSESSMENT
ANNEX 6	ASSOCIATED TECHNICAL COOPERATION
ANNEX 7	PROJECT DESCRIPTION

ANNEX 1 – SHAREHOLDING STRUCTURE



ANNEX 2 – HISTORICAL FINANCIAL STATEMENTS

STEG Historical financials in EUR million

PROFIT AND LOSS (EURm)	2016 A	2017 A	2018 A	2019 A	2020 A	2021 A	2022 A
Sales	1,583	1,496	1,459	1,677	1,647	1,646	1,782
<i>growth %</i>	<i>-10%</i>	<i>-6%</i>	<i>-2%</i>	<i>15%</i>	<i>-2%</i>	<i>0%</i>	<i>8%</i>
Subsidies	-	218	386	381	31	415	987
<i>growth %</i>	<i>0%</i>	<i>15%</i>	<i>26%</i>	<i>23%</i>	<i>2%</i>	<i>25%</i>	<i>55%</i>
Total revenues	1,583	1,714	1,845	2,058	1,679	2,061	2,769
<i>growth %</i>	<i>-26%</i>	<i>8%</i>	<i>8%</i>	<i>12%</i>	<i>-18%</i>	<i>23%</i>	<i>34%</i>
Cost of sales	(1,363)	(1,629)	(1,907)	(2,149)	(1,630)	(1,895)	(3,027)
<i>% of sales</i>	<i>86%</i>	<i>109%</i>	<i>131%</i>	<i>128%</i>	<i>99%</i>	<i>115%</i>	<i>170%</i>
Gross Profit	219	85	(62)	(91)	49	166	(257)
Administrative expenses	(21)	(21)	(19)	(19)	(20)	(21)	(23)
<i>% of sales</i>	<i>1%</i>						
Other operating income	30	43	25	24	88	65	44
<i>% of sales</i>	<i>2%</i>	<i>3%</i>	<i>2%</i>	<i>1%</i>	<i>5%</i>	<i>4%</i>	<i>2%</i>
Other operating expenses	(2)	(3)	(1)	(17)	(9)	(34)	(24)
<i>% of sales</i>	<i>0%</i>	<i>0%</i>	<i>0%</i>	<i>1%</i>	<i>1%</i>	<i>2%</i>	<i>1%</i>
Total Opex	4	19	7	(12)	53	10	(3)
<i>% of sales</i>	<i>0%</i>	<i>-1%</i>	<i>0%</i>	<i>1%</i>	<i>-3%</i>	<i>-1%</i>	<i>0%</i>
EBITDA	224	104	(55)	(103)	101	176	(260)
Depreciation	(47)	(80)	(60)	(63)	(66)	(84)	(116)
Interest expense	(268)	(382)	(497)	198	(53)	(104)	(155)
Interest income	1	1	0	2	0	0	1
Other non-current income/expenses	(2)	0	2	1	(6)	0	0
Profit before tax	(92)	(357)	(609)	36	(23)	(11)	(530)
Income tax	(12)	(2)	(2)	(2)	(2)	(2)	(2)
Net income	(104)	(359)	(611)	34	(25)	(13)	(532)
<i>% of sales</i>	<i>-7%</i>	<i>-24%</i>	<i>-42%</i>	<i>2%</i>	<i>-1%</i>	<i>-1%</i>	<i>-30%</i>
BALANCE SHEET	2016 A	2017 A	2018 A	2019 A	2020 A	2021 A	2022 A
Cash and equivalents	114	195	83	105	139	176	176
Receivables	513	443	516	525	634	694	794
<i>in days of sales</i>	<i>117 days</i>	<i>107 days</i>	<i>127 days</i>	<i>113 days</i>	<i>138 days</i>	<i>152 days</i>	<i>160 days</i>
Inventory	79	83	79	90	102	100	94
<i>in days of sales</i>	<i>18 days</i>	<i>20 days</i>	<i>20 days</i>	<i>19 days</i>	<i>22 days</i>	<i>22 days</i>	<i>19 days</i>
Other current assets	31	109	22	43	58	1,248	1,318
Other current financial assets	3	3	3	4	5	6	7
Total current assets	739	834	704	767	937	2,224	2,388
Intangible assets	0	0	0	0	0	0	0
Tangible assets	2,346	2,097	1,801	1,879	2,060	1,915	1,958
Assets under construction	376	338	541	495	366	383	294
Non current financial assets	23	31	31	33	35	41	50
Total non current assets	2,745	2,467	2,374	2,407	2,461	2,339	2,302
TOTAL ASSETS	3,485	3,301	3,077	3,174	3,398	4,563	4,690
Current borrowings and financial liabilities	264	392	567	476	539	482	436
Payables	519	571	746	1,013	811	1,266	1,976
<i>in days of cost of sales</i>	<i>137 days</i>	<i>126 days</i>	<i>141 days</i>	<i>170 days</i>	<i>179 days</i>	<i>241 days</i>	<i>235 days</i>
Other current liabilities	185	194	167	165	256	179	188
Total current liabilities	967	1,156	1,480	1,654	1,605	1,928	2,599
Non-current financial debt	1,862	1,975	2,102	1,944	2,182	1,924	1,918
Provisions	166	152	132	131	186	206	243
Security deposits	129	118	117	124	135	139	148
Other non current liabilities	0	0	0	0	0	0	0
Total non current liabilities	2,157	2,246	2,351	2,200	2,504	2,270	2,309
TOTAL LIABILITIES	3,124	3,402	3,831	3,854	4,109	4,198	4,908
Endowment funds	32	28	24	23	23	23	22
Share capital	636	568	506	487	496	486	480
Legal reserves	0	0	0	0	0	0	0
Retained earnings	(307)	(698)	(1,284)	(1,190)	(1,230)	(144)	(721)
TOTAL EQUITY	361	(102)	(754)	(680)	(711)	365	(218)
TOTAL EQUITY AND LIABILITIES	3,485	3,301	3,077	3,174	3,398	4,563	4,690

CASH FLOW STATEMENT	2016 A	2017 A	2018 A	2019 A	2020 A	2021 A	2022 A
Net income	(102)	(359)	(613)	33	(19)	(13)	(532)
Adjustment for amortisation and FX	353	464	469	(72)	176	184	248
Changes in working capital	(175)	(15)	90	220	(215)	(921)	404
Accounting changes	(92)	(36)	(87)	1	0	1,065	(47)
PRE-INVESTMENT CASH FLOW	(16)	55	(141)	181	(58)	316	74
Divestments	6	7	7	8	6	9	10
Capital expenditure	(261)	(207)	(312)	(335)	(196)	(111)	(118)
Other acquisitions	(9)	(16)	(8)	(9)	(7)	(13)	(17)
PRE-FINANCING CASH FLOW	(280)	(161)	(454)	(154)	(254)	201	(51)
Change in debt liabilities	26	204	316	134	249	(200)	14
Investment subsidies	47	46	38	33	29	32	31
Security deposits	5	6	13	13	8	8	11
POST-FINANCING CASH FLOW	(201)	95	(87)	26	32	41	4
CASH END	114	195	83	105	139	176	177

TERNA historical financials in EUR million

Income Statement	2021	2022
Regulated Revenue	2253.5	2542.3
Non-regulated revenue	350.9	421.4
International revenue	0.4	0.8
Total Revenues	2604.8	2964.5
Personal expenses	289	341.5
Cost of service	187.6	222.6
Materials	195.5	241.3
Other costs	25.1	30.6
Quality of Service	5.9	1.9
Cost of service under concession	46.9	67.4
Total operating cost	750	905.3
EBITDA	1854.8	2059.2
<i>EBITDA margin</i>	<i>71 per cent</i>	<i>69 per cent</i>
Amortisation, Dep, and impairment losses	654.4	725.7
EBIT	1200.4	1333.5
<i>EBIT margin</i>	<i>46 per cent</i>	<i>45 per cent</i>
Net financial income/(expense)	-78.9	-100.1
Profit before tax	1121.5	1233.4
Income tax	317.9	355.4
Net income (from continuing operations)	803.6	878
P/L from discontinued operations and assets	-12.8	-20.3
Net income	790.8	857.7
<i>Net profit margin</i>	<i>30 per cent</i>	<i>29 per cent</i>

Balance Sheet	2021	2022
Intangible assets	657	776
PP&E	15,317	16,201

PUBLIC

Financial Assets	380	509
<i>Total net non-current assets</i>	<i>16,353</i>	<i>17,485</i>
Payables	-209.1	-1332.6
Receivables	448.4	778.7
Trade payables	-737.5	-775.5
Tax assets	-50.6	-50.5
Other net liabilities	-1157.9	-1352.9
<i>Total net working capital</i>	<i>14,646</i>	<i>14,753</i>
Sundry provisions	(48)	(68)
Net invested capital	14,598	14,684
Net assets held for sale	118	61
Total net invested capital	14,716	14,745
Equity attributable to owners of Parent	4,682	6,142
Equity attributable to non-controlling interest	31	27
Net debt	10,003	8,576
Total	14,716	14,745

Cash Flow Statement	2021	2022
Profit for the year	791	858
Amortization, dep, and impairment	654	726
Net change in provisions	(73)	20
Net losses/(gains) on sale of assets	(14)	(7)
<i>Operating Cashflow</i>	<i>1,359</i>	<i>1,596</i>
Change in net working capital	-227.6	1024.8
Other changes in PP&E	42.6	35.7
Changes in investments	-0.4	2.4
Change in financial assets	128.9	-131.2
<i>Cashflow from operating activities</i>	<i>1,302</i>	<i>2,528</i>
Total Capital Expenditures	(1,521)	(1,757)
<i>Free Cashflow</i>	<i>(219)</i>	<i>771</i>
Net assets held for sale	(118)	57
Dividends paid to shareholders	-556.4	-601
Cashflow hedge	79	1,204
Other movements in equity (non-controlling interests)	(16)	(5)
<i>Change in debt</i>	<i>(830)</i>	<i>1,426</i>

ANNEX 3 – PROJECT IMPLEMENTATION

Procurement classification – *Public (sovereign)*

[REDACTED]

Project implementation arrangements:

The project will be operated and jointly owned by STEG, the EBRD Borrower, and the Italian Transmission System Operator TERNA S.p.A. TERNA and STEG had negotiated a Joint Procurement Agreement by which they set the project implementation and procurement arrangements for the project. Both TERNA and STEG had agreed to delegate to Terna Rete Italia S.p.A. (TRI), a company incorporated under the laws of Italy, wholly owned and entirely controlled by TERNA, to conduct the operations on their behalf. TRI is the TERNA's subsidiary entitled to develop in the interest of TERNA the relevant procurement process and for the purposes of the Project entrusted with the mission to conduct the Joint Procurement Process in its own name and in the interest of TERNA and also in the name and on behalf of STEG as per the relevant Mandates.

STEG is delegating to TRI the power to act on its name and on his behalf for the launching and management of the prequalification phase by a specific Mandate and another Mandate is yet to be negotiated for the tender following prequalification.

TRI has previous EIB financing experience under the operations inside the EU section of the EIB guide to procurement and a proven experience for complex similar operations.

After the contract signature, it will belong to STEG to monitor the contract implementation with the support of Consultant for EPC contract supervision.

STEG is already a Client of the Bank and had demonstrated a good understanding of EBRD PP&R and its requirements as well as good technical skills.

The intention is to also engage a Lender's Monitor to assist the Bank to monitor the procurement and contract implementation phases.

Procurement arrangements:

The procurement plan includes:

- one EPC operation, the HVDC submarine cable; and
- one Consulting services contract, the EPC supervision services.

The EPC operation is divided into two contracts of equal value to be signed by STEG on the Tunisian side and TERNA on the Italian side. Both contracts will be awarded to the same tenderer.

The HVDC submarine cable, EPC, financed from the Bank's loan, will be procured under negotiated procedure following prequalification. The WB standard tender documents will be used for the operation.

- **Prequalification**

It has been agreed that the prequalification would be processed in accordance with the EIB GtP provisions for operations inside the EU. This falls under PP&R 2.6(b) as the EBRD loan does finance less than 30% of the total project value. Hence, the EBRD will not receive any no objection from the EIB in line with GtP for operations inside the EU allowing for a lighter monitoring process without any prior review. The prequalification has been launched on 21/05/2023, published on the EBRD website following the General Procurement Notice published on 19/05/2023, and applications were received by 17/07/2023. Two entities, namely, NEXANS (French) and

PRYSMIANS (Italian) submitted an application and both are currently prequalified. The decision to refer to the GtP for operations inside the EU was justified by the proven capacity and previous experience of TRI to conduct prequalification for complex EPC and in accordance with all donors. The prequalification procedure had been determined to be acceptable to the Bank.

EBRD and EIB had defined the conditions of their cooperation for the prequalification phase by inserting specific provision to the Project Implementation Agreement negotiated between the two Banks.

- Tender: negotiated procedure

The tender procedure will be processed in compliance with the EIB GtP for operations outside the EU. This falls under PPR 2.6 (a) and EIB will conduct reviews on behalf of the Donors and share all information and documents as stated in the Project Implementation Agreement drafted in accordance with the Mutual Reliance Agreement. The negotiated procedure following a prequalification had been determined to be acceptable to the Bank. The EIB will conduct prior review to the negotiated procedure phase and share the no objection with the EBRD promptly. It has been agreed that the tender documents will be shared with the EBRD previous distribution. It has to be noted that both TERNA and STEG are associated to the technical specifications drafting and will contribute to the finalisation of the tender documents.

STEG and TERNA will appoint the Tender Commission (5 members) to proceed with tenders evaluation. The evaluation will be done in four steps:

- (1) verification of administrative documentation;
- (2) verification and evaluation of technical documentation;
- (3) evaluation of economical offer;
- (4) negotiation.

TRI actions shall be conducted in name and on behalf, and under the control of both STEG and TERNA.

- Contract monitoring

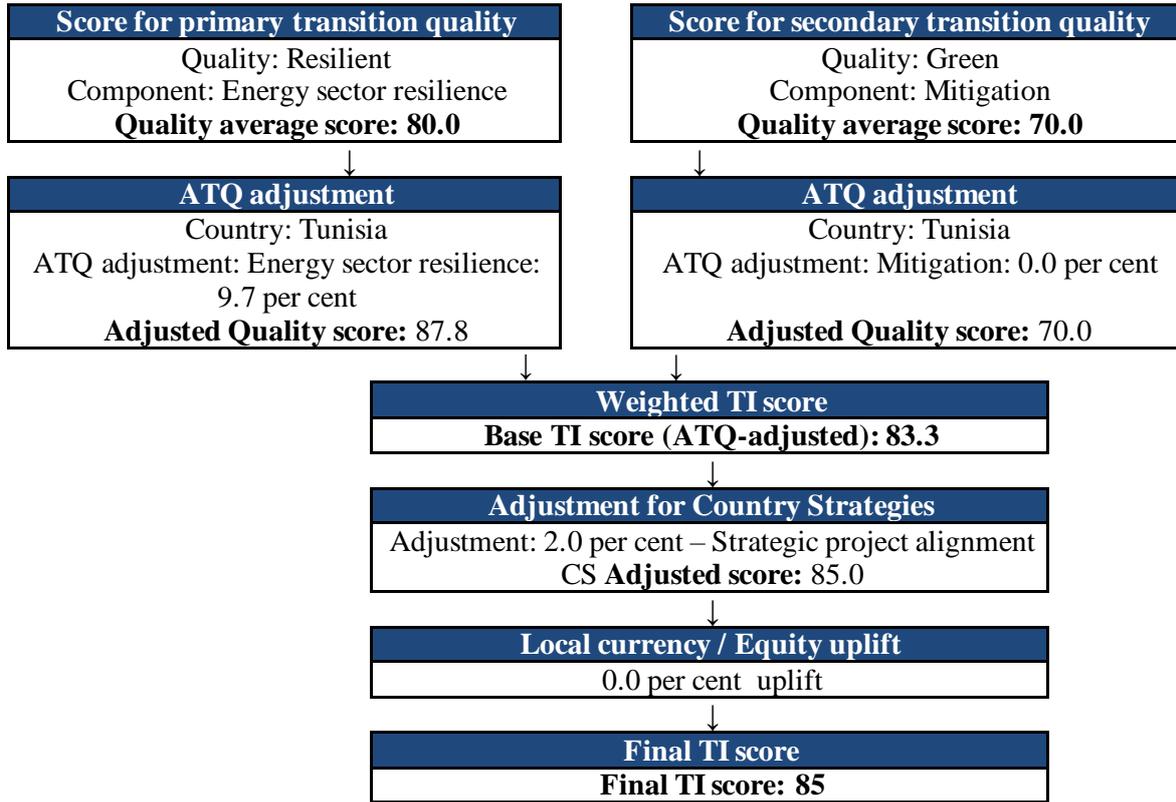
Two EPC contracts will be signed for the supply and laying of the cables (submarine and terrestrial) to connect the two converter stations:

- on one side by STEG for the relevant and exclusive activities falling within the Tunisian segment, according to Tunisian law and STEG internal policies as well as the requirements from the lenders; and
- on the other side by TRI for the relevant and exclusive activities falling within the Italian segment, according to the Italian law and TERNA's internal policies.

The contract jointly co-financed by the Bank will be implemented by STEG with the support of a supervision Consultant. EIB will monitor the contract implementation on behalf of all Lenders as provided for in the Project Implementation Agreement and share all information with EBRD.

It is agreed that the jointly co-financed contract tender phase will be subject to prior review.
[REDACTED]

ANNEX 4 – TRANSITION IMPACT SCORING CHART



ANNEX 5 – GREEN ASSESSMENT

Introduction

The Project has been assessed as aligned with the mitigation and adaptation goals of Paris Agreement. ESD performed a screening of the Project and concluded that it does not face any potentially material physical climate risks. Sector and the Project type is included in the ‘aligned list’.

The Project includes post-signing work with the Government of Tunisia and STEG on development of a long-term decarbonisation strategy which will map out the Tunisian energy sector’s transition.

The Project has also been assessed for Climate Risk: Physical Climate (PC) risk and Carbon Transition (CT) risk. No second stage assessment was required.

Paris alignment assessment

Alignment with the mitigation goals of Paris Agreement

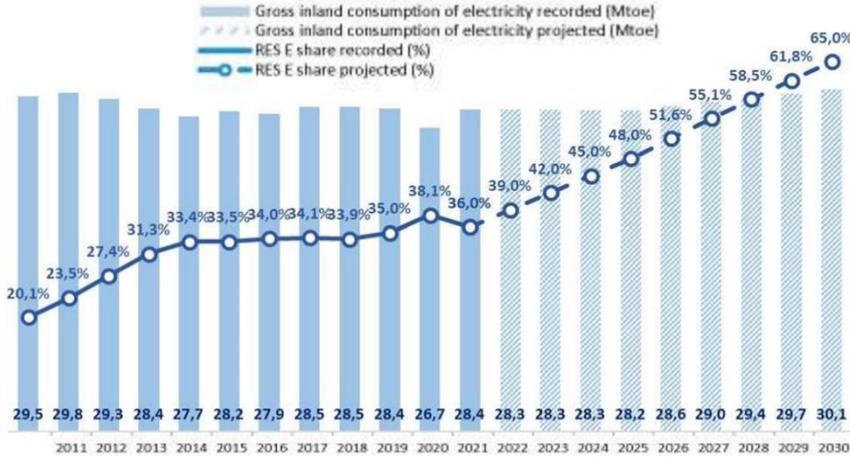
- The Project/economic activity is **included** in the 'aligned list'.
- Regarding Project/economic activity(ies), there are **no** activities included in the 'non-aligned list'.
- Applicable additional or specific conditions associated with the ‘aligned’ Project/economic activity **have** been met.

Alignment with the adaptation goals of Paris Agreement

- Evaluation of the physical climate risk and vulnerability context: extreme heat events have been identified as potentially material physical climate risks for the Project.
- Definition of climate resilience measures:
ELMED has undertaken a comprehensive Climate Vulnerability and Risk Assessment (CVRA) as part of the climate-proofing documentation, to help manage the risks from climate variability and change and help mainstreaming climate resilience into ELMED’s project lifecycle. Specifically, the CVRA has focused on Project climate risk in relation to a change in the Project locations’ temperature profile.
The CRVA, in its climate resilience statement, clearly demonstrates to stakeholders, investors and verifiers that climate resilience has been considered in the Project development cycle. It concludes that the physical climate risk identified at the screening stage – extreme heat events – does only pose a minor risk to the Project components over their lifespan. It notes that although the Project locations are projected to experience an increase in extreme temperature spells under relevant climate change scenarios, the Project components are considered sufficiently resilient against heat waves and temperature variability in terms of both potential asset damage but also safe and healthy considerations.
- Appraisal of broader climate resilience context: the Project is compatible with the broader climate resilience context.

GET attribution

- *In all other transmission or distribution projects, the Project shall demonstrate that the electricity system is increasing the share of non-nuclear very-low-carbon electricity use, or if the system is already dominated by very-low-carbon electricity and there is little scope for expanding the share of non-nuclear very-low-carbon electricity, the activity shall not decrease the current share.*
Two electricity systems are linked with this interconnector. Both will be increasing the share of renewables.
Italy:



Source: Italy’s Draft NCEP, June 2023

Tunisia:

In March 2022, Tunisia had about 472MW of installed renewable energy capacity of which 244 MW was wind power, 166 MW solar power, and 62 MW of hydroelectric power, representing a combined 8 per cent of national energy production capacity. The Government of Tunisia aims to raise the usage of renewable energy resources to 35 per cent of total power capacity by 2030 (Source: Tunisia - Country Commercial Guide, International Trade Administration US, June 2022).

[REDACTED].

GET Share = 62 per cent.

ANNEX 6 - ASSOCIATED TECHNICAL COOPERATION

[REDACTED]

ANNEX 7 – PROJECT DESCRIPTION

[REDACTED]