

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

Approved by the Board of Directors on 4 December 2024¹

UZBEKISTAN

SARIMAY-MURUNTAU TRANSMISSION

[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

ABBREVIATIONS / CURRENCY CONVERSIONS	3
PRESIDENT’S RECOMMENDATION	4
BOARD DECISION SHEET	5
ADDITIONAL SUMMARY TERMS FACTSHEET	6
1. STRATEGIC FIT AND KEY ISSUES	8
1.1 STRATEGIC CONTEXT	8
1.2 TRANSITION IMPACT	10
1.3 ADDITIONALITY	10
1.4 SOUND BANKING - KEY RISKS.....	11
2. MEASURING / MONITORING SUCCESS.....	13
3. KEY PARTIES	14
3.1 BORROWER	14
3.2 PROJECT IMPLEMENTING ENTITY	15
4. MARKET CONTEXT	15
5. FINANCIAL / ECONOMIC ANALYSIS.....	16
5.1 FINANCIAL PROJECTIONS.....	16
5.2 SENSITIVITY ANALYSIS.....	16
5.3 PROJECTED PROFITABILITY FOR THE BANK	16
6. OTHER KEY CONSIDERATIONS.....	16
6.1 ENVIRONMENT.....	16
6.2 INTEGRITY	18
ANNEXES TO OPERATION REPORT	20
ANNEX 1 – SHAREHOLDING STRUCTURE.....	21
ANNEX 2 – TRANSITION IMPACT SCORING CHART	22
ANNEX 3 – GREEN ASSESSMENT	23
ANNEX 4 – PROJECT IMPLEMENTATION.....	24

ABBREVIATIONS / CURRENCY CONVERSIONS

BMP	Biodiversity Management Plan
CH	Critical Habitat
CO ₂	Carbon Dioxide
EBITDA	Earnings before Interest, Taxes, Depreciation and Amortization
EBRD	European Bank for Reconstruction and Development
ECEPP	EBRD Client e-Procurement Portal
EMF	Electromagnetic Fields
E&S	Environmental and Social
ESAP	Environmental and Social Action Plan
ESDD	Environmental and Social Due diligence
ESIA	Environmental and Social Impact Assessment
ESMP	Environmental and Social Management Plan
ETI	Expected Transition Impact
EUR	Euro
FX	Foreign Exchange
FY	Financial Year
GDP	Gross Domestic Product
GET	Green Economy Transition
GIP	Good International Practice
GoU or Government	Government of Uzbekistan
IFI	International Financial Institution
IFRS	International Financial Accounting Standards
JSC	Joint Stock Company
KBA	Key Biodiversity Areas
LARF	Land Acquisition and Livelihood Restoration Framework
LPA	Legally Protected Areas
LRP	Livelihood Restoration Plan
NEGU	JSC National Electric Grid of Uzbekistan
NTS	Non-Technical Summary
OHL	Overhead line
OHTL	Overhead transmission line
PBF	Priority Biodiversity Features
PD	Probability of Default
PIU	Project Implementation Unit
PIS	Project Implementation Support
PSD	Project Summary Document
PP&R	Procurement Policies & Rules
RAROC	Risk Adjusted Return on Capital
SEP	Stakeholder Engagement Plan
SIF	Sustainable Infrastructure Fund
SSF	Shareholder Special Fund
TC	Technical Cooperation
TIMS	Transition Impact Monitoring System
USD	US Dollar
UZS	Uzbek Som

CURRENCY EQUIVALENTS

(as of 1st October 2024)

Country's Currency Unit	=	Uzbek som (UZS)
1 EUR	=	14,175.32 UZS
1 USD	=	12,715.00 UZS
1 USD	=	0.90 EUR

WEIGHT AND MEASURES

TCO _{2e}	Tonne of Carbon Dioxide equivalent
Megawatt (MW)	1,000 kilowatts (10 ³ kW)
Gigawatt (GW)	1 million kilowatts (10 ⁶ kW)
Megawatt-hour (MWh)	1,000 kilowatt-hours (10 ³ kWh)
Gigawatt-hour (GWh)	1 million kilowatt-hours (10 ⁶ kWh)
Terawatt-hour (TWh)	1 billion kilowatt-hours (10 ⁹ kWh)
tpa	Tonnes per Annum

PRESIDENT'S RECOMMENDATION

This recommendation and the attached Report concerning an operation in favour of the Republic of Uzbekistan (the “Borrower”) are submitted for consideration by the Board of Directors.

The facility will consist of a sovereign loan in the amount of up to USD 66.35 million (EUR 59.52 million equivalent) to finance construction of a c. 230 km 500 kV transmission line in Uzbekistan between the settlements of Sarimay in the Khoresm region and Muruntau in the Navoi region (the “Project”). The loan proceeds will be on-lent to JSC National Electric Grid of Uzbekistan (“NEGU” or the “Company”), a wholly state-owned company incorporated in the Republic of Uzbekistan and the national power transmission utility.

The operation will enable the client to improve reliability, efficiency and stability of the transmission network as well as quality and security of electricity supply in Uzbekistan. The expected transition impact of the Project is two-fold: 1) Green: the operation is classified as 100% GET and will facilitate the integration of renewable energy sources to the national grid; and 2) Resilient: through the Project, the region's power supply reliability will be improved by helping eliminate bottlenecks in the grid and reduce electricity outages, especially during peak demand periods. The Project is part of the required grid extensions and reinforcements that the Republic of Uzbekistan needs to enable reliable and efficient transmission of energy generated from renewable sources. In addition, NEGU will promote gender equality in the traditionally male-dominated energy sector of Uzbekistan, by integrating equal opportunity practices across all aspects of the employment relationship (Gender SMART Tag).

Pre-signing project preparation TCs for this operation have been funded by the Sustainable Infrastructure Fund (“SIF”) and post-signing TCs are proposed to be funded by international donors and EBRD Shareholder Special Fund (“SSF”).

I am satisfied that the operation is consistent with the Bank’s Strategy for Uzbekistan, the Energy Sector Strategy, the Green Economy Transition 2.1 Approach, the Strategy for the Promotion of Gender Equality, 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

UZBEKISTAN – Sarimay-Muruntau Transmission - DTM 54421	
Transaction / Board Decision	Board approval ² is sought for a sovereign loan of up to USD 66.35 million (EUR 59.52 million equivalent) in favour of the Republic of Uzbekistan to finance construction of a c. 230 km 500 kV transmission line in Uzbekistan between the settlements of Sarimay in Khoresm region and Muruntau in Navoi region (the “Project”).
Client	The Republic of Uzbekistan (the “Borrower”), on-lending to Joint Stock Company National Electric Grid of Uzbekistan (“NEGU” or the “Company”).
Main Elements of the Proposal	<p><u>Transition impact:</u> <i>Primary Quality – Green:</i> The Project is classified as 100% GET. It will support reduction of power system losses in the network and facilitate evacuation of renewable energy. <i>Secondary Quality – Resilient:</i> through the Project, the region's power supply reliability will be improved by reducing unplanned outages and eliminating bottlenecks in the grid. The Project will also support the connection of new renewable power plants in the North-Western and South-Western regions. The Project is part of the required grid upgrades needed to strengthen reliability and stability of the country's transmission network, improve capacity of the electricity system and help reduce grid losses.</p> <p><u>Additionality:</u> <i>Financing structure</i> – EBRD offers financing that is not available in the market from commercial sources on reasonable terms and conditions, necessary to structure the Project.</p> <p><i>Risk mitigation (carbon)</i> – EBRD helps the Company to move along a sector-wide low carbon transition pathway. <i>Standard setting: helping projects and clients achieve higher standards</i> – EBRD will help the Company achieve higher standards in ESG management. <i>Gender SMART Tag:</i> EBRD will support NEGU in implementing an Equal Opportunities Action Plan, integrating equal opportunity practices across all aspects of the employment relationship, actively aiming to improve employment for women across the Company and providing capacity building support on this to its employees. <i>Knowledge, innovation, and capacity building</i> – EBRD provides expertise, innovation, knowledge and capabilities that are material to the timely realisation of the Project's objectives.</p> <p><u>Sound banking:</u> The EBRD loan will be ultimately backed by the sovereign.</p>
Key Risks	Credit risk is mitigated by the moderate level of sovereign debt to GDP ratio, at around 33% of GDP as of 1 July 2024, and is expected to moderately expand to 35.5% of GDP by the end of 2024. It remains manageable relative to the foreign exchange reserves. Implementation and project completion risk is mitigated by the Company's experience with procurement under IFIs' requirements (including EBRD's) and involvement of the Project Implementation Support (“PIS”) consultancy.
Strategic Fit Summary	By promoting green energy, regional integration and energy network connectivity, the Project is consistent with the Uzbekistan Country Strategy, the Energy Sector Strategy, the Green Economy Transition 2.1 Approach, the Strategy for the Promotion of Gender Equality, and with the Agreement Establishing the Bank.

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

ADDITIONAL SUMMARY TERMS FACTSHEET

EBRD Transaction	A sovereign loan of up to USD 66.35 million (EUR 59.52 million equivalent) in favour of the Republic of Uzbekistan to finance construction of a c. 230 km 500 kV transmission line in Uzbekistan between the settlements of Sarimay in Khoresm region and Muruntau in Navoi region (the “Project”).
Existing Exposure	Uzbekistan sovereign exposure as of 30 September 2024: sovereign portfolio – c. EUR 1,221 million. Exposure to the Company: Uzbekenergo Muruntau Substation EUR 43.7 million [REDACTED], sovereign loan on-lent to the Company; Navoi Transmission Upgrade– EUR 52.4 million sovereign loan on-lent to the Company; and Sarimay-Djankeldy Transmission EUR 42.2 million [REDACTED] sovereign loan on-lent to the Company. [REDACTED]
Maturity / Exit / Repayment	Up to 20 years [REDACTED].
Potential AMI eligible financing	Not applicable
Use of Proceeds - Description	The proceeds of the EBRD loan will be used to finance construction of high voltage transmission infrastructure connecting the Khoresm and Navoi regions and the associated consultancy support for the project implementation and monitoring. The use of proceeds will be monitored through application of the EBRD PP&R and via conditions precedent to disbursement, review of the progress reports on the agreed Project Implementation Plan (PIP) and monitoring visits, as well as other standard provisions in the legal documentation.
Investment Plan	[REDACTED]
Financing Plan	[REDACTED]
Key Parties Involved	Borrower: Republic of Uzbekistan Project Entity: JSC National Electric Grid of Uzbekistan
Conditions to subscription / disbursement	[REDACTED]
Key Covenants	For the Company: <ul style="list-style-type: none"> – [REDACTED] Environmental and social compliance; – Compliance with the Bank’s Procurement Policies and Rules; – [REDACTED]
Security / Guarantees	Sovereign loan
Other material agreements	Project Agreement with the Company.
Associated Donor Funded TC and Blended Concessional Finance	<p>Technical Cooperation (TC)</p> <p>Pre-signing:</p> <p>TC1: Environmental and social impact assessment [REDACTED] funded by the Sustainable Infrastructure Fund (the “SIF”);</p> <p>TC2: Project preparation study [REDACTED] funded by the SIF;</p> <p>Post-signing:</p> <p>TC3: The Central PIU Consultant’s Services for NEGU [REDACTED] expected to be funded by the Shareholder Special Fund (the “SSF”);</p> <p>TC4: Enhancing Public Procurement Practices: Quality Assurance Capacity Building Programme Client-led Implementation [REDACTED] funded by the SSF;</p> <p>TC5: Lender’s Monitor Support [REDACTED] proposed to be funded by international donors or the SSF;</p>

	<p>Reimbursement: The above assignments are non-reimbursable transactional TCs.</p> <p>Cost-Sharing: The Company will provide a parallel contribution by covering the Project Implementation Support - including procurement and engineering supervision [REDACTED]</p>
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[REDACTED]

INVESTMENT PROPOSAL SUMMARY

1. STRATEGIC FIT AND KEY ISSUES

1.1 STRATEGIC CONTEXT

Uzbekistan's Power Sector Transformation: Embracing Renewables and Developing Grid

Uzbekistan's power sector is a key enabler of the country's economic growth but it continues to suffer from the ageing infrastructure and inefficient capacity. Recognizing these constraints and risks to further growth, the Government of Uzbekistan ("GoU"), with the Bank's support, has embarked on major power sector reforms aimed at establishing an effective regulatory framework, enhancing power supply security and attracting private investment, while aiming to diversify the country's energy mix and develop its significant renewable energy potential.

The Government's renewables deployment plan, comprehensively supported by the Bank in cooperation with other international financial institutions, targets development of 25GW of solar and wind capacity by 2030 – this target was increased from the original goal of 8GW in 2020 in part due to the Bank's direct policy engagement on the green agenda for the sector. The target reflects Uzbekistan's ambition to triple renewables by 2030 under the Global Commitment on Renewable Energy and Energy Efficiency launched at COP28. The expedited growth of renewables is particularly important for the country where [REDACTED] generation still comes from thermal power plants. The Government is taking meaningful steps to achieve its nationally determined contribution under the Paris Agreement, updated in 2021 with a 35% reduction in greenhouse gas emissions from the 2010 levels, replacing the previous 10%. On this path, the Government launched a number of wind and solar PV projects with experienced developers supported by the Bank's financing of 1.7GW wind and 1.4GW solar PV.

Uzbekistan's power system is divided into five regions, with the majority of generation capacity concentrated in the North-Western and South-Western regions. These regions are well positioned for significant renewable energy development, [REDACTED] due to abundant solar and wind potential. However, maximizing this potential requires a robust and modern grid infrastructure.

Uzbekistan's existing grid faces considerable limitations. [REDACTED]. These limitations were highlighted during the Central-Asia-wide blackout in January 2022, which [REDACTED] impacted Uzbekistan, Kazakhstan, and the Kyrgyz Republic. This makes national grid extensions and upgrades a priority for the power sector of the country. [REDACTED].

Recognizing these challenges, Uzbekistan has prioritized the expansion and modernization of its grid infrastructure as a cornerstone of its Low Carbon Pathway ("LCP"), a strategic roadmap developed with the Bank's support for the power sector of Uzbekistan under the Bank's first-of-its-kind technical cooperation programme in 2020. The LCP sets out a viable roadmap for the energy sector decarbonisation in line with the national climate commitments under the Paris Agreement.

EBRD continues to be a key partner in Uzbekistan's clean energy journey: a large part of the Bank's engagement under the Low Carbon Pathway relates to supporting the renewable energy sector, including through 2 GW wind auctions. The Bank also continues to support the GoU with transmission grid upgrades to uphold scaling up of renewables, through financing of new transmission infrastructure implemented by JSC National Electric Grid of Uzbekistan or developed as part of renewables projects and through introducing storage components in the auctions supported by the Bank. The Bank also financed 501MWh battery energy storage system in the country.

The Project

The Project forms part of the grid development plan aimed at facilitation of scaling up renewables in the North-Western and South-Western regions and is consistent with the LCP. By financing the construction of new power infrastructure, the Project will enable the efficient integration of large-scale renewable energy sources, facilitating the connection of [REDACTED] renewable energy capacity in the North-Western and South-Western regions. These regions have rich solar and wind potential, but the current grid is not equipped to absorb this influx of renewable energy. The Project will address existing bottlenecks, improve grid capacity, and ensure secure power transmission. It will strengthen overall resilience and stability of the grid, allowing for a more reliable and sustainable power supply throughout Uzbekistan.

The Project will deliver environmental benefits beyond grid improvements. Estimated annual technical losses will decrease by approximately 34,636 MWh, resulting in annual savings of 16,188 tons of CO₂. Furthermore, the Project is expected to prevent curtailment of [REDACTED] renewable energy [REDACTED], leading to additional greenhouse gas emission reductions of 4,143 tons of CO₂ annually. The projected new renewable energy capacity, the integration of which into the grid will be facilitated by the proposed transmission line, is expected to contribute substantially to CO₂ emissions reduction, [REDACTED].

In addition, the Project will promote gender equality in the traditionally male-dominated energy sector of Uzbekistan, by supporting NEGU in implementing an Equal Opportunities Action Plan (covering the contractors' workforce too), integrating equal opportunity practices across all aspects of the employment relationship, actively aiming to improve employment for women across the Company and providing capacity building support on this to its employees (Gender SMART Tag).

The Project will be implemented by NEGU, a state-owned power transmission company and an existing EBRD client. NEGU's established track record and EBRD's prior support for the power sector reform and unbundling process, through which NEGU was created, ensure a sound foundation for implementation of the Project.

The Project is consistent with the Bank's Energy Sector Strategy, the Country Strategy for Uzbekistan, the Green Economy Transition 2.1 Approach and with the Strategy for the Promotion of Gender Equality. The Project is aligned with the Paris Agreement, helping strengthen the national electricity grid and unlock the potential of renewables. The Project contributes to several UN Sustainable Development Goals ("SDGs"), namely: SDG 7. Clean and Affordable Energy and SDG 9: Industry, Innovation and Infrastructure.

1.2 TRANSITION IMPACT

The table below sets out the TI Objectives and details of the Project.

Obj	Objective	Details
Primary Quality: Green		
1.1	<i>The percentage of EBRD use of proceeds that supports a green economy transition and therefore qualifies as GET finance exceeds 50%.</i>	The Project is 100% GET. The Project will reduce technical losses of the grid by approximately 34,636 MWh per annum, resulting in annual savings of 16,188 tons of CO ₂ . The Project will also prevent the curtailment [REDACTED] of renewable energy per annum, leading to additional greenhouse gas emission reductions [REDACTED].
Secondary Quality: Resilient		
2.1	<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>	The Project will add capacity to the national transmission system with a new transmission line and will help unlock the potential of renewable energy in the region. It will facilitate connection of upcoming renewable power plants [REDACTED] to the national grid and help reduce the overall strain on the national grid. It will enable the development of further private sector renewable investment and correspondingly help diversify the fuel mix in the country. The Project will also prevent the curtailment of [REDACTED] renewable energy, leading to additional greenhouse gas emission reductions [REDACTED].

Key risks to delivery include risks of construction delays and cost overruns, mitigated through establishment of a dedicated PIU and engagement of Project Implementation Support consultancy.

1.3 ADDITIONALITY

Identified triggers	Description
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 Government of Uzbekistan is an existing client of the Bank and NEGU is a project entity under a number of existing sovereign operations (Uzbekenergo Muruntau Substation, Navoi Transmission Upgrade and Sarimay-Djankeldy Transmission line. Infrastructure gaps in Uzbekistan are large, and this operation will support construction of transmission infrastructure that is part of NEGU's investment programme aimed to address the infrastructure gap in the electricity transmission sector.

Additionality sources	Evidence
Financing Structure: 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.	Longer grace period than typically available in the market from commercial sources should allow the Company sufficient time to complete the Project before debt service payments start.
Financing Structure: EBRD offers a tenor, which is longer than available to the client in the market on reasonable terms and conditions.	EBRD's financing terms include a longer tenor compared to other funding opportunities available in the market. The longer tenor is appropriate for the

	long-life infrastructure asset and should give the Company space to progress with the Project without significant pressure on tariff affordability. The Project will allow NEGU to proceed with the high priority grid enhancement initiative.
Financing Structure: 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.	The Bank's investment is needed to close the financing gap for a priority investment by the Company in light of the tight timeline of the Project driven by the Company's commitments under multiple renewable energy development initiatives. The Bank is providing the funding not currently available to the client from local sources on comparable terms.
Risk mitigation: EBRD helps the client to mitigate carbon transition risks and take climate action, such as to move along a low carbon transition pathway.	The Project helps Uzbekistan to progress along the low carbon pathway (developed with EBRD's support for the power sector of Uzbekistan) as it will support a scale-up in renewables and grid strengthening.
Standard-setting: helping projects and clients achieve higher standards: Client seeks/makes use of EBRD expertise on corporate governance improvements, including for climate risk management.	The Bank will work with NEGU in terms of strengthening its corporate management system to allow for the development of a corporate Environmental, Social and Governance (ESG) management system to enable future disclosure of sustainability data.
Gender SMART Tag: Client seeks/makes use of EBRD expertise on gender standards and equal opportunities action plans	The Project will promote gender equality in the traditionally male-dominated energy sector of Uzbekistan by supporting NEGU in implementing an Equal Opportunities Action Plan (covering the contractors' workforce too), integrating equal opportunity practices across all aspects of the employment relationship, actively aiming to improve employment for women across the Company and providing capacity building support on this to its employees.
Knowledge, innovation, and capacity building: 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 client.	Through the Project, the EBRD will introduce high standards and practices via Environmental and Social Action Plan ("ESAP"), procurement and ESG recommendations for implementation that are still innovative for the country and the industry. The EBRD will involve external consultants and in-house experts in the implementation of technical cooperation activities of the Project.

1.4 SOUND BANKING - KEY RISKS

Risks	Probability / Effect	Comments
Sovereign risk/ Fiscal Macro-economic risk	Medium/ High	Uzbekistan is vulnerable to risks arising from inflationary pressures, international commodity price volatility and fiscal policy from on and off-budget operations. The pandemic has particularly resulted in an increase in government debt. <i>Mitigating factors:</i> (i) foreign exchange liberalization which improved foreign investor sentiment and substantial foreign exchange reserves (USD 41.1 billion as of October 2024, covering around 13 months of imports) can provide a buffer against external shocks; (ii) while global energy and commodities prices are on the rise, Uzbekistan being a net

		energy, gold and nonferrous metals exporter will enjoy increased FX earnings and budget revenues; the country being gold exporter benefitted from increased gold prices during 2023; (iii) pandemic impact mitigation measures implemented by the Government helped preserve economic growth as GDP increased by 7.4% in 2021, 5.7% in 2022 and by 6.3% in 2023; (iv) Uzbekistan's credit rating is BB- with stable outlook by both Fitch and S&P, and Ba3 with stable outlook by Moody's.
Credit risk	Medium/ High	<p>Creditworthiness of the Company depends on the tariff increases and efficient revenue collection. Following the outbreak of Covid-19, end-user electricity tariffs remained unchanged over the period of 3Q 2019 - 2H 2022, [REDACTED].</p> <p><i>Mitigating factors:</i> (i) the selective end-user tariff increases introduced in 2H2022 and the recent cover-all end-user tariff increase for business and industry in October 2023 and for residential consumers in May 2024 are expected to strengthen the Company's financial position; (ii) separation of a single buyer function from NEGU into a separate independent entity is ongoing and expected to be completed by the end of 2024. It is expected to help improve the Company's balance sheet; (iii) pending implementation of these measures, the sufficient grace period and tenor of the loan as well as its sovereign nature should help limit risks to the financial stability of the Company and enable debt service.</p>
Implementation risk	Medium/ Medium	<p>Project implementation may see cost overruns and/or completion delays.</p> <p><i>Mitigating factors:</i> (i) the Company is familiar with the EBRD's procurement rules through the three ongoing projects with the Bank (Uzbekenergo Muruntau Substation, Navoi Transmission Upgrade and Sarimay-Djankeldy Transmission), and has experience of projects funded by other IFIs, World Bank and ADB, where open tendering procedure has been conducted; (ii) cost estimates include adequate contingencies; (iii) a Project Implementation Unit (PIU) will be established and will be assisted by consultants selected in accordance with the Bank's procurement rules. The PIU, the PIS consultant on procurement and Supervision Engineer will ensure implementation support throughout all phases of project life cycle, from procurement to installation and commissioning of the Project; (iv) works, goods and services will be procured in line with EBRD's procurement rules.</p>
Completion risk and cost overruns	Medium/ Medium	<p>There is a risk that the Project could be adversely affected by completion delays and cost overruns.</p> <p><i>Mitigating factors:</i> (i) the Project will be constructed under a single turnkey, fixed price, EPC contract procured following the EBRD PP&R rules; (ii) a total contingency budget [REDACTED]; (iii) the experience of implementing portfolio projects with NEGU has been positive so far with significant savings achieved through competitive procurement under all three signed projects.</p>
Regulatory/restructuring risk	Medium/ Medium	<p>[REDACTED].</p> <p><i>Mitigating factors:</i> the Government has expressed its commitment to sector reform and has to date demonstrated a solid track record of reform implementation. The Bank's extensive policy dialogue with the GoU provides reasonable comfort that sector reform will be continued [REDACTED]. The Company is a key infrastructure provider in the country and remains strategically important for the state [REDACTED]. In December 2023, Uzbekistan established a dedicated energy market regulator.</p>
Foreign exchange risk	Medium/ Medium	FX pressures have increased in view of the spillover effects from Russia. The devaluation of the UZS could adversely affect the ability of the Borrower to repay the hard currency loan.

		<i>Mitigating factors:</i> it is expected that the Government will continue to manage the foreign exchange risk effectively. The Central Bank of Uzbekistan adheres to a conservative monetary policy stance. As such, the policy rate was raised by 300 basis points to 17% in March 2022, and the rate was gradually reduced to 13.5% by July 2024, and the nominal UZS/USD exchange rate depreciated by c. 10% in 2023. Risk of external debt distress is also manageable given Uzbekistan's significant foreign exchange reserves that stood at USD 41.1 billion as of October 2024.
Procurement risk	Medium/ Medium	The Project entails procurement of goods, works and services for the construction of high voltage transmission line as well as consulting services. [REDACTED] <i>Mitigating factors:</i> The Company already has experience with procurement in line with the Bank's PP&R. Similar to the previous Bank's projects, qualified procurement consultancy services will be engaged to support the Company with the procurement activities. All procurement of goods, works and services including the construction of high voltage transmission line will be conducted in compliance with the EBRD PP&R. The track record of conducting competitive procurement under portfolio projects with NEGU has been positive with significant savings achieved under all three signed projects.

2. MEASURING / MONITORING SUCCESS

Transition Impact Monitoring Indicators

Primary Quality: Green

Obj. No.	Monitoring indicator	Details	Baseline	Target	Due date
1.1	Primary energy saved (GJ/year)	The Project will reduce technical losses of the grid by c. 34,636 MWh annually and avoid renewable energy curtailment by c. 7,425 MWh per annum. Both these benefits correspond to annual energy savings of 151,420 GJ	0 GJ/year	151,420 GJ/year	[REDACTED]
1.2	CO2e emissions reduced (tonnes/year)	The Project will reduce technical losses of the grid by c. 34,636 MWh annually and avoid renewable energy curtailment [REDACTED].	[REDACTED]	[REDACTED]	[REDACTED]

Secondary Quality: Resilient

Obj. No.	Monitoring indicator	Details	Baseline	Target	Due date
2.1	Number of new/improved electricity/energy service(s) connections	230 km 500 kV overhead transmission line is operational and available for connection to the system.	0	1	[REDACTED]
2.2	Reduction of renewable energy curtailment	The Project will prevent the curtailment of [REDACTED] renewable energy per annum.	[REDACTED]	[REDACTED]	[REDACTED]

Additional Indicators

Indicator type	Monitoring indicator	Details	Baseline	Target	Due date
Advisory & Policy Indicators	Practices of the relevant stakeholder improved (equal opportunity practices of the Company)	The Project will develop and implement an Equal Opportunities Action Plan (covering the contractors' workforce too), integrating equal opportunity practices across all aspects of the employment relationship, and actively aiming to improve employment for women across all the Company's levels.	No	Yes	[REDACTED]
Advisory & Policy Indicators	Tailored training programme developed and implemented	The Project will also include the provision of capacity building support on equal opportunities to NEGU's employees.	No	Yes	[REDACTED]

3. KEY PARTIES**3.1 BORROWER**

The Republic of Uzbekistan will be the borrower of the EBRD loan with the proceeds on-lent to the Company. In January-September 2024, real GDP grew by 6.6%, with the services sector being the main driver, accounting for 3.3% points of the growth rate. Growth was broad-based, with strong gains in construction (9.1%), retail trade (9.2%), services (12.9%) and industry (7.0%) while agriculture (3.1%) grew at a relatively slower pace. With the share of gold reaching 28.8% in exports, total exports increased by only 5.5% year on year ("y/y") in January-August 2024 due to 11.5% y/y decline in gold exports. Meanwhile nongold exports increased by 14.3% y/y. Imports added 7.4% y/y. The economy is forecasted to grow by 6% in both 2024 and 2025.

In January-August 2024, the trade deficit widened by 12.4% y/y and amounted to USD 8.02 billion. Remittance inflows increased by 34.8% y/y in January-September 2024, reaching USD 11.3 billion. At 2.8% in Q2 2024, the current account deficit improved relative to Q2 2023 (7.05% of GDP). In January-July 2024, the fiscal deficit shrunk to around 3% of 2023 GDP, from 5.5% in 2023. The IMF expects 2024 (4% of GDP) and 2025 (3% of GDP) consolidated fiscal deficit targets to be met.

Inflation was gradually decreasing during 2023, down from the peak of 12.3% in July 2022 to 8.8% by the end of 2023. Standing at 10.5% as of September (amid tariff adjustments and currency depreciation), inflation remains above the Central Bank target (5%). The Uzbek Sum depreciated by almost 10% against the USD in 2023, and around 3.6% year-to-date (as of November 7, 2024). Uzbekistan's sovereign rating was affirmed at "BB-" with stable outlook by Fitch on February 23, 2024, and at "BB-/B" long- and short-term foreign and local currency sovereign credit ratings with stable outlook by S&P on May 31, 2024. In H1 2024, the government debt increased by approximately USD 2.1 to USD 37 billion, while the share of general Government debt to GDP dropped from 34.4% as of 1 January 2024 to 33.2% as of 1 July 2024. Standing at USD 41.1 billion as of October 2024 (covering around 13 months of imports) international reserves increased by USD 6.5 billion or by 19% since the beginning of 2024, providing adequate fiscal buffers. Fitch expects this to remain the case, projecting "reserve coverage to be around 11 months of imports in 2023-2024". The Government debt remains manageable relative to large foreign exchange reserves.

3.2 PROJECT IMPLEMENTING ENTITY

The loan will be extended to the Republic of Uzbekistan and on-lent to JSC National Electric Grid of Uzbekistan (NEGU). [REDACTED].

NEGU is a state-owned power utility company established in 2019 as a result of unbundling of JSC Uzbekenergo, a vertically integrated state-owned power utility, and is responsible for transmission and dispatch of electricity. It also acts as a single buyer and off-taker for the electricity system in Uzbekistan. NEGU is in charge of Uzbekistan's high voltage transmission network. Under the current market set-up, the Company purchases electricity from generation companies and sells it to distribution companies at tariffs established by the Inter-agency Commission on Tariffs under the Cabinet of Ministers. It also charges a fee for electricity transit under import/export contracts. The Company's revenue stream thus currently consists of transit fees and proceeds from electricity sale. [REDACTED].

NEGU's financial statements for 2021-23 are based on IFRS and were audited by Ernst & Young. [REDACTED]. Ongoing sovereign operations with NEGU as a project implementing entity entail a comprehensive set of measures that target operational and financial management improvements in the Company, including a number of financial covenants set for NEGU. Please see *Annex 1* for the shareholding structure.

4. MARKET CONTEXT

[REDACTED]. While Uzbekistan is introducing modern gas-fired generation capacity to upgrade the obsolete and highly energy intensive generation fleet, the Government has also started development of up to 25 GW of renewable energy capacity to be achieved by 2030 and is actively looking to expand regional electricity trade. This is in line with Uzbekistan's commitment to triple the installed renewable capacity by 2030 as agreed at COP28.

The power sector is largely state-dominated. Uzbekenergo has undergone unbundling into generation, transmission and distribution, represented by JSC "Thermal Power Plants", JSC "National Electric Grid of Uzbekistan" and JSC "Regional Electric Networks", respectively. In 2023, it was announced that a single buyer and seller of electricity function will be transferred from NEGU to the newly established UzPowerTrade. A new tariff policy was adopted in 2019, stipulating a cost-reflective tariff methodology. Following the outbreak of COVID-19 in 2020 when the Government decided to freeze electricity tariffs to support the population, the Government reintroduced a partial tariff increase for certain industrial users in 2H 2022, followed by a significant hike in 4Q 2023, resulting in industrial users paying double and residential users being charged based on consumption. Tariffs for households were revised in April 2024, resulting in an initial increase in May 2024 to be followed by a further escalation scheduled for April 2025. The Government also maintains a focus on affordability through differentiating charges for residential users as per the sliding consumption scale.

The first sizeable private participation in the sector was in the segment of renewables which the Bank is actively supporting, with the first renewables projects with private sponsors being Nur Navoi, Tutly Solar, Zarafshon Wind, Bash and Dzhankeldy WPPs, Samarkand, Jizzakh and Sherabad solar, Karakalpakstan wind as well as Tashkent Solar PV and BESS financed by the Bank. The Bank has financed 3.1 GW of renewable energy and a 501MWh battery energy storage system in Uzbekistan to date.

The Bank is actively engaged in Uzbekistan's power sector reforms through: (i) an assignment on developing and implementing a roadmap for attracting investment in the power sector through corporate and structural reform (Phase 1 completed; Phase 2 (Electricity law and Energy Market Regulatory Law support) ongoing - the Electricity Law drafted as part of this assignment has been

adopted recently (Law no. 939 dated 7 August 2024) and will come into force 3 months after the date of adoption; the Energy Market Regulatory Law is under development); (ii) an assignment on developing a well-functioning market system for renewables via the implementation of the competitive tendering of wind capacity (the first 100 MW and the second 200 MW plus BESS auctions completed); and (iii) an assignment on power sector climate resilience and low carbon pathway (completed). The Bank supported the country in preparing and carrying out the first wind tender, which was successfully completed in September 2021. The tender attracted interest from over 70 qualified investors in the first stage and completed with the record low price of 2.57 USDc/kWh. The second tender for 200 MW wind capacity alongside a storage component was completed in November 2023 resulting in a winning bid of 4.0945 USDc/kWh, marking another record achievement. Additionally, during COP26, the EBRD and the Uzbek authorities signed an MOU outlining cooperation in the form of Technical Assistance by the Bank to assist Uzbekistan develop a Long Term Strategy and a Methane Emissions Reduction Programme in line with Uzbekistan's commitments under Paris Agreement. Uzbekistan joined the Global Methane Pledge on 26 May 2022.

The power sector reform is on-going and a decree on measures to implement the next stage of energy reform, reflecting a transition plan for the wholesale and retail electricity markets for 2023-2030, was adopted in 2023. The transition plan envisages a step-by-step formation of competitive wholesale and retail electricity markets and introduction of social protection mechanisms in setting electricity tariffs for the population. This provides households and business entities the right to freely choose regional electricity suppliers, and most importantly, the calculation of electricity prices based on supply and demand on the electricity market. The transition aims to (i) digitalise electricity trade transactions via an online trading platform, (ii) liberalise the sector with the entry of private distribution operators and trading companies into the electricity market, and (iii) establish a solid legal framework for the functioning of the market. This plan has been supported by the policy dialogue developed and implemented by the Bank in the energy sector, which included advice on the market structures, drafting of the new electricity law and support offered in relation to setting up an energy regulator. The new regulatory body, the Agency for Development and Regulation of the Energy Market in Uzbekistan was established in the end of 2023 following this decree. According to the Presidential Decree, a single buyer function will be transferred outside of the NEGU's perimeter by the end of 2024.

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

Categorised A (ESP 2019). The construction and operation of a high voltage line may be associated with potentially significant Environmental and Social ("E&S") impacts and requires a full Environmental and Social Impact Assessment ("ESIA") in line with the EBRD Environmental and Social Policy ("ESP"). An ESIA and supplementary package have been prepared in line with the Bank's PRs by an independent E&S consultant, based on the available technical information

and additional studies. An Environmental and Social Due Diligence (“ESDD”) has been carried out for the overhead line (“OHL”) and its findings are addressed in a Project and Corporate Environmental and Social Action Plan (“ESAP”).

The ESIA and supplementary package, inclusive of the Non-Technical Summary, Stakeholder Engagement Plan (“SEP”), Environmental and Social Management Plan (“ESMP”), and Land Acquisition and Resettlement Framework (“LARF”), were disclosed for 120 days on the EBRD's website on 27 March 2024. No issues have been raised by stakeholders to date. The Project has already been subject to a separate national Environmental Impact Assessment (Stage 1 National EIA) in accordance with Uzbekistan's legal and permitting requirements.

The Project involves the construction of a 230 km 500 kV overhead transmission line between the settlements of Sarimay and Muruntau. Implementation of the Project will significantly improve the reliability, efficiency, and stability of the transmission network, as well as the quality and security of electricity supply. The Project will be implemented by JSC National Electric Grid of Uzbekistan (“NEGU”), a state power company in charge of the country's transmission network.

The main potential impacts during construction and operation will be associated with biodiversity, air quality, noise, disturbance and loss of soils, consumption of materials, pollution control and waste generation, economic displacement, worker and public health and safety (including traffic safety), management of workforce employment conditions and welfare, and climate risks, including physical climate-related risks to infrastructure and worker health. Commitments for reducing impacts to acceptable levels and the framework for implementation are outlined in the ESMP, including climate-resilient design choices and appropriate emergency response planning.

The overhead transmission line (“OHTL”) passes primarily through the arid habitats of the Kyzylkum Desert. The Project does not overlap any internationally recognized Key Biodiversity Areas (“KBA”) or Legally Protected Areas (“LPA”), maintaining a distance of at least 10 km from the nearest KBA and at least 3 km from the nearest LPA. The Project does not trigger critical habitat as defined by EBRD PR6 for any receptors and has identified 24 priority biodiversity features (“PBFs”), including three plant species, two reptile species, 14 bird species, three mammal species, and two multi-taxon groups of birds. The Project will mitigate biodiversity impacts following the mitigation hierarchy and align with good international practice (“GIP”), with measures that include selection of “raptor safe” designs for the entire line, installation of bird flight diverters on all portions of the line with elevated waterbird collision risk, and pre-construction surveys, rescue, and relocation of sensitive plants and reptiles, in addition to conventional construction-phase mitigation measures. Any actual bird fatalities will be monitored during operations and accompanied by an adaptive management framework to ensure that any fatalities to PBFs above “no net loss” thresholds are compensated with additional mitigation. All commitments are defined in the ESMP and will be elaborated in a biodiversity management plan (“BMP”). The Project is considered in line with PR6 requirements on No Net Loss.

There are no physical structures or residential properties within the 60m servitude along the overhead line route. There will be some economic displacement impacts associated with permanent land take for the tower footprints relevant to those with land rights along the project servitude, including five private farms. The framework for compensation of losses to those with land rights is defined in the LARF developed in accordance with Uzbek regulations. The LARF also includes livelihood restoration measures to align with PR5. The client will prepare and implement a Livelihood Restoration Plan (“LRP”) in line with PR5 to mitigate displacement impacts.

Levels of electromagnetic fields (“EMF”) fall away to acceptable levels well within 30 m of the overhead line (within the right of way), meaning all properties are well outside the exposure impact area.

Health, safety, and security risks and impacts for both the contractor's employees and the public need to be considered during construction. The contractor selected will have sufficient workforce and equipment to deliver the Project. They will also be required to develop management arrangements and procedures to remove hazards or reduce risks to workforce health and safety. The contractor's workforce will be housed in temporary accommodation facilities designed and built in line with the requirements of EBRD/IFC Guidelines for Worker Accommodation. The ESMP also includes commitments for the contractor to adopt PR2 aligned human resource (“HR”) procedures and an anti-discrimination policy, including requirements related to gender-based violence and harassment. Regular on-site labor monitoring will also be carried out. Along some parts of the OHTL, pre-construction archaeological investigations are required, along with the implementation of a chance finds procedure as stated in the ESMP.

A comprehensive Environmental and Social Action Plan (“ESAP”) for the Project has been developed and agreed with the Client to ensure the Project is structured to meet EBRD PRs. The ESAP includes, inter alia, development and implementation of a robust Environmental, Social and Health and Safety Management System, contractor management, including labour management practices, improvements to safety practices, prevention and control of pollution, development of the Livelihood Restoration Plan, the formal PR2-aligned HR policy and grievance mechanisms for both workers and other stakeholders, community health and safety, conservation of biodiversity, and protection of chance finds procedures to protect cultural heritage.

From October 2023 till January 2024, the Client, supported by the E&S consultant, held public consultations in 10 cities and villages, which were well attended. Questions and concerns raised ranged from access and connectivity to the employment opportunities for local workers for the contractor/subcontractors when the Project would begin.

As part of the ESDD, company-wide Environmental and Social Management practices have been assessed, as well as progress in implementing corrective actions for previous deals. While there has been progress on the implementation of Project-specific ESAP actions for previous deals, achieved with the support from the project PIUs, there are still gaps in the corporate-level ESAP actions. Notably, whereas some elements of the E&S management systems are implemented and an EHS coordinator is appointed, there is no full EHS team required to support company-wide implementation of the E&S management system in line with EBRD PRs, and the Client is mainly following national regulations.

The Bank will work with NEGU in terms of strengthening its corporate management system to allow for the implementation of the project and ESAP as well as the development of a corporate Environmental, Social, and Governance (ESG) management system to enable future disclosure of sustainability data. To bring the project into full compliance with EBRD PRs, the Bank is developing a PIU TC to assist NEGU with the implementation of the required actions and strengthen their overall E&S capacity, which includes, inter alia, support in the implementation of the corporate-level Environmental and Social Management System and corporate ESAP. The Bank will monitor the Project implementation through the review of Annual Environmental and Social Reports (AESR) and site visits as required.

6.2 INTEGRITY

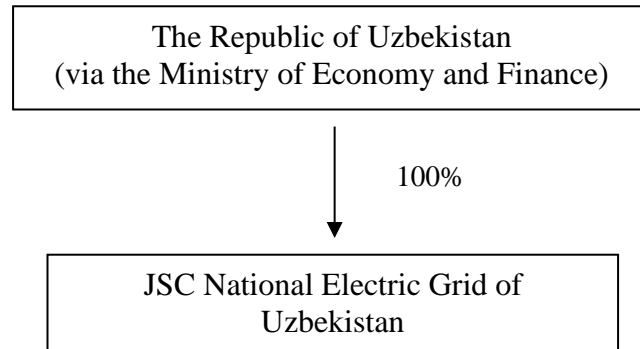
In conjunction with OCCO, updated integrity due diligence was undertaken on JSC National Electric Grid of Uzbekistan (NEGU), senior management and other relevant parties. NEGU is an existing client of the Bank via several projects, including the sovereign UzbekEnergo Murantau

Substation , the Navoi Transmission Upgrade and Sarimay-Djankeldy Transmission line projects, with a positive experience to date.

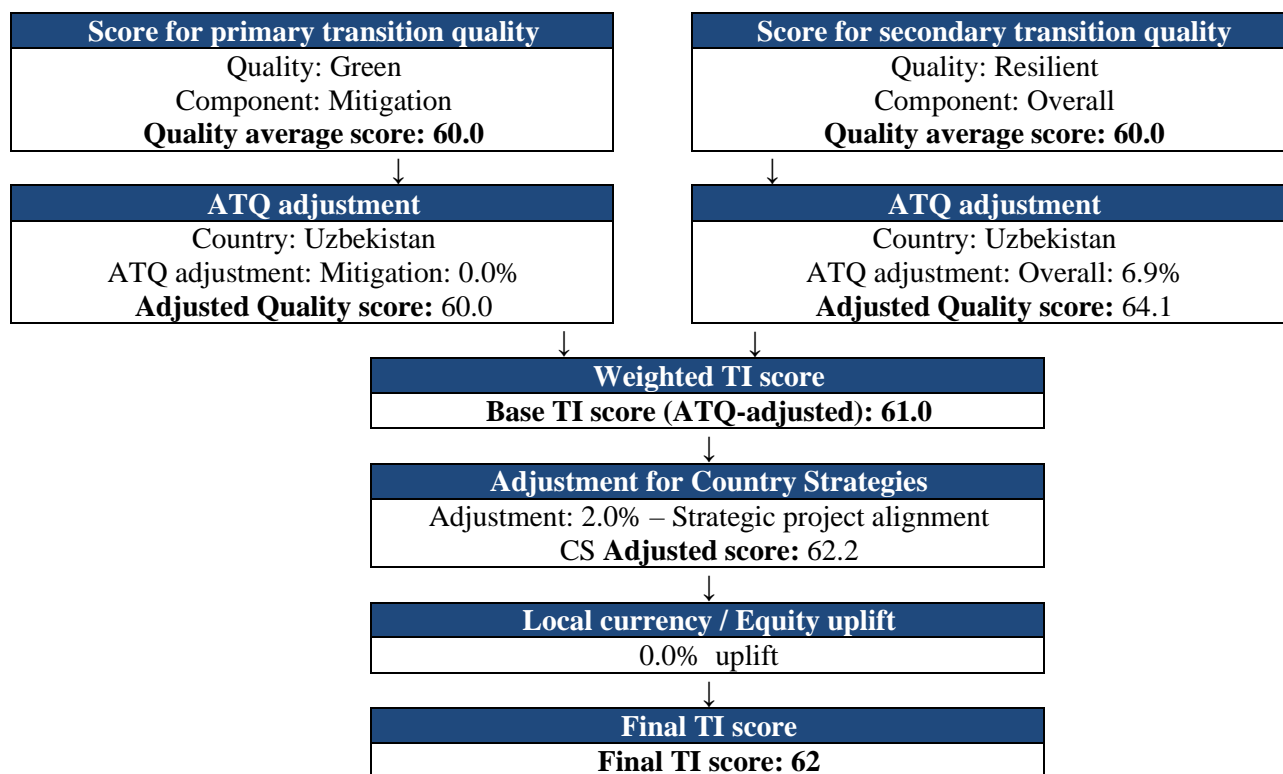
[REDACTED]. All actions required by applicable EBRD procedures relevant to the prevention of money laundering, terrorist financing and other integrity issues have been taken with respect to the Project, and the Project files contain the integrity checklists and other required documentation which have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

ANNEXES TO OPERATION REPORT

ANNEX 1	Shareholding Structure
ANNEX 2	Transition Impact Scoring Chart
ANNEX 3	Green Assessment
ANNEX 4	Project Implementation

ANNEX 1 – SHAREHOLDING STRUCTURE

ANNEX 2 – TRANSITION IMPACT SCORING CHART



ANNEX 3 – GREEN ASSESSMENT

SUMMARY

- The Project is financing the construction of a c. 230 km 500 kV transmission line in Uzbekistan between the settlements of Sarimay (Khoresm region) and Muruntau (Navoi region).
- The Project is determined **aligned with both mitigation and adaptation goals of the Paris Agreement.**
- The Project is attributed 100% **GET.** [REDACTED].

PARIS ALIGNMENT ASSESSMENT

Alignment with the mitigation goals of Paris Agreement - General screening

The Project is determined as aligned with the mitigation goals of the Paris Agreement based on the application of the Bank's Paris alignment approach for direct finance.

- The projects activity is included in the 'MDBs' aligned list' under the category “Electricity transmission and distribution, including energy access, energy storage and demand-side management”.
- There are no activities included in the 'non-aligned list'.

Alignment with the adaptation goals of Paris Agreement

The Project is determined as aligned with the adaptation goals of the Paris Agreement as it satisfies all three steps of the assessment. All material physical climate risks have been addressed.

GET ATTRIBUTION

The Project is attributed 100% GET. This share has been calculated in line with “Greenfield transmission or distribution of electricity that supports delivery of non-nuclear, very-low-carbon electricity”. [REDACTED].

ANNEX 4 – PROJECT IMPLEMENTATION

Procurement classification – *Public sovereign*

[REDACTED]. By applying PPAD's capacity assessment toolkit the client's risk on procurement has been assessed [REDACTED]. All categories i.e., legal framework, organisation of procurement function, support/control systems, staffing, record keeping, procurement planning, procurement cycle, general assessment of the client, and project risk have been assessed.

NEGU can demonstrate earlier procurement experience with projects funded by EBRD and various MDBs such as World Bank (WB) and the Asian Development Bank (ADB). Hence NEGU has vast experience in conducting open competitive procurement procedures under which all interested suppliers or contractors are given adequate notification of contract requirements and all such tenderers are given an equal opportunity to submit a tender.

Contracts risk assessment

- High

The main contract envisages the construction of about 230 km 500 kV transmission line between the settlements of Sarimay (Khoresm region) and Muruntau (Navoi region). This is a challenging construction involving land acquisition, environmental impact, technical constraints, stakeholder coordination, operational challenges and so forth. It is therefore considered as *High* risk contract.

Project implementation arrangements:

The Company will establish a Project Implementation Unit which will be responsible for day to day management of the Project. In order to strengthen the client's capacity to manage these types of challenging projects relevant consultancy support have been planned as follows:

- i. Procurement Support Consultant to PIU with an individual PPAD framework expert to support with the selection of the PIS Consultant
- ii. Project Implementation Support and Supervision Consultant to support with (i) procurement and implementation services and (ii) Supervision services with the main focus on FIDIC Engineering services related to the Overhead Transmission Line Contract
- iii. Centralised PIU comprising of a skilled group of individual experts dedicated to EBRD projects to further strengthen NEGU's project implementation capacity, which now consists of four EBRD-financed projects in the Energy sector.

The team also intends to engage a Lender's Monitor to assist the Bank with monitoring of the Project implementation up to the installation and commissioning of the transmission infrastructure.

Procurement arrangements:

The procurement of all contracts under the Project will follow open competitive procedures via EBRD Client e-Procurement Portal ("ECEPP") in accordance with the requirements of the EBRD PP&R, 2022 edition.

The Bank's relevant Standard Procurement Documents (SPDs) will be used including FIDIC Conditions of Contract for Construction based on the Employer's design for OHTL.

The detailed design, including the Employer's requirements and BoQ sections of the SPDs will be prepared by the local design institute via NEGU's request. NEGU will ensure that the design institute carries out the role of the designer's supervision throughout the construction period.

All loan financed contracts will be procured using ECEPP and subject to prior review by the Bank. [REDACTED].