

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

Approved by the Board of Directors on 28 July 2020¹

GEORGIA

VISP - GEORGIAN AIR NAVIGATION

[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.

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ABBREVIATIONS / CURRENCY CONVERSIONS

ANS	Air Navigation Services
ANSP	Air Navigation Service Provider
ATC	Air Traffic Control
ATM	Air Traffic Management
CAA	Civil Aviation Authority
Capex	Capital Expenditures
CRCO	Central Route Charges Office
DD	Due Diligence
DSCR	Debt Service Coverage Ratio
DSRA	Debt Service Reserve Account
EBITDA	Earnings before Interest, Tax, Depreciation and Amortisation
EBRD	European Bank for Reconstruction and Development
EHS	Environmental, Health and Safety
E&S	Environmental and Social
ESAP	Environmental and Social Action Plan
ESDD	Environmental and Social Due Diligence
EUR	Euro
EUROCONTROL	European Organization for the Safety of Air Navigation Services
FIR	Flight Information Region
FX	Foreign Exchange
GCAA	Georgian Civil Aviation Agency
GEL	Georgian Lari
HR	Human Resources
ICAO	International Civil Aviation Organization
IFR	Instrument Flight Rules
MoESD	Ministry of Economy and Sustainable Development of Georgia
MTOW	Maximum Take-Off Weight
PIP	Priority Investment Plan
PPE	Property, Plant and equipment
PP&R	Procurement Policies and Rules
PR	Performance Requirement
SU/mvt	Service units per one movement
TC	Technical Co-operation
TI	Transition Impact
ToR	Terms of Reference

CURRENCY CONVERSION

EUR / GEL ²	2017	2018	2019
Annual average	2.8322	2.9913	3.1553

² Annual average of National Bank of Georgia's official daily exchange rates.

PRESIDENT'S RECOMMENDATION

This recommendation and the attached Report concerning an operation in favour of Sakaeronavigatsia Ltd. (the “Borrower”, the “Company” or “Georgian Air Navigation”), a limited liability company incorporated in Georgia, are submitted for consideration by the Board of Directors under Window 2 of the Vital Infrastructure Support Programme (“VISP”) under the EBRD COVID-19 Solidarity Package Phase 2.

The facility will consist of a senior [REDACTED] loan to the Company in the amount of up to EUR 10 million.

The operation will address Georgian Air Navigation’s urgent liquidity support requirements in the face of unprecedented economic impact of the COVID-19. The Project’s expected transition impact is derived from Resilient and Inclusive qualities by addressing the Company’s current liquidity shortages resulting from a sudden, significant change in economic activity due to a crisis event to ensure the continued delivery of vital infrastructure services, and by introducing a new internship programme that aims to increase the share of women within the Company’s workforce. [REDACTED]

I am satisfied that the operation is consistent with the EBRD COVID-19 Solidarity Package, the Bank’s Strategy for Georgia, the Transport Sector Strategy, the Strategy for the Promotion of Gender Equality, the Economic Inclusion Strategy and with the Agreement Establishing the Bank.

I recommend that the Board approve, on a no-objection basis, the proposed loan, substantially on the terms of the attached Report.

Jürgen Rigterink
Acting President

BOARD DECISION SHEET

GEORGIA – VISP GEORGIAN AIR NAVIGATION - DTM 52235	
Transaction / Board Decision	Board approval ³ is sought for the provision of a senior loan of up to EUR 10 million in favour of Sakaeronavigatsia Ltd. (the “Company”). The facility will provide liquidity support to secure the Company’s sustainable operations and mitigate the effect of the COVID-19 crisis (the “Project”).
Client	The Company is fully owned by the Government of Georgia (the “GoG”) and is the national provider of air traffic control and management services for Georgia’s five existing airports. Since 2014 the Company has been a full member of EUROCONTROL. [REDACTED]
Main Elements of the Proposal	<p>The Project is presented under Window 2 of the Vital Infrastructure Support Programme (“VISP”) of the EBRD COVID-19 Solidarity Package.</p> <p><u>Transition impact:</u></p> <ul style="list-style-type: none"> - <i>Resilient</i> – The Project will support the continuation of safe, vital infrastructure air traffic management services, which are significantly affected by the Covid-19 crisis. - <i>Inclusive</i> - The Company will develop and implement a new internship initiative that will increase the share of women in the Company’s talent pipeline. <p><u>Additionality:</u></p> <p>Financing Structure: Crisis response - EBRD financing is provided under the extraordinary circumstances of the Covid-19 crisis and effectively bridges a liquidity gap due to adverse market conditions. The Bank's ability to respond quickly to urgent needs is also a key additionality element.</p> <p><u>Sound banking:</u></p> <p>The proposed loan structure is based on detailed financial analysis, consideration of all key risks and appropriate stress testing.</p>
Key Risks	<p><u>Traffic/Revenue risk:</u> The Company’s revenue is directly linked to the air traffic volume. [REDACTED] However, given that the Company is the national and sole provider of vital air navigation services in Georgia, it is expected to recover along with the expected gradual increase of international flights.</p> <p><u>Collection risk:</u> [REDACTED] <u>Liquidity risk:</u> [REDACTED]</p> <p><u>Macroeconomic and FX risks:</u> The uncertainty around the COVID-19 crisis remains the main risk for the Project, as there is no clarity regarding its duration and overall economic impact. The risk is partly mitigated by the Company’s expected resilience towards economic downturn. [REDACTED]</p>
Strategic Fit Summary	The Project is consistent with the Transport Sector Strategy, the Country Strategy for Georgia, the Economic Inclusion Strategy, the Strategy for the Promotion of Gender Equality and the EBRD COVID-19 Solidarity Package.

³ Article 27 of the AEB provides the basis for this decision.

ADDITIONAL SUMMARY TERMS FACTSHEET

EBRD Transaction	Senior [REDACTED] loan of up to EUR 10 million provided by the EBRD to Sakaeronavigatsia Ltd. (the “Company” or “Georgian Air Navigation”). The loan will finance the Company’s emergency liquidity needs of a key infrastructure provider to assist it to overcome an impact of the COVID-19 crisis, with the ultimate aim of protecting the delivery of vital air navigation and air traffic management services for both terminal and en-route flights.
Existing Exposure	None.
Maturity / Exit / Repayment	[REDACTED].
AMI eligible financing	None.
Use of Proceeds	The proceeds of the loan will finance the Company’s short term working capital needs [REDACTED] in order to secure smooth and long-term sustainable operations. The Bank’s funds will not be used for any expenses requiring the procurement of goods, works or services.
Investment Plan	[REDACTED]
Financing Plan	[REDACTED]
Key Parties Involved	Sakaeronavigatsia Ltd.
Conditions to effectiveness / disbursement	Execution and delivery of the Loan Agreement [REDACTED] and all required authorisations and approvals for the execution and performance of the Financing Documents.
Key Covenants	[REDACTED]
Security / Guarantees	[REDACTED]
Other material agreements	N/A
Associated Donor Funded TC and co-investment grants/concessional finance	<p>A. Technical Cooperation (TC)</p> <p><u>Post-Signing</u></p> <ul style="list-style-type: none"> TC 1: Capacity Assessment and Priority Investment Programme Identification Study. The assignment will assess the existing operational efficiency and effectiveness of air navigation and air traffic management, considering existing PPE and the Company’s capacity. The assignment will also define priority investment programme (PIP) to be potentially financed by the Bank..[REDACTED] <p>TC 2: Internship Initiative to Attract Female Talent to Technical Positions in the Air Navigation Sector to focus on the establishment of a formal internship and outreach programme targeting a set of universities with strong representation of women in relevant technical degrees. [REDACTED]</p> <p>B. Co-investment grants / Concessional Finance (Non-TC)</p> <p>None.</p>

[REDACTED]

INVESTMENT PROPOSAL SUMMARY

1. STRATEGIC FIT AND KEY ISSUES

1.1 STRATEGIC CONTEXT

This transaction is presented under the Vital Infrastructure Support Programme (“VISP”) to provide emergency liquidity support to providers of essential infrastructure services whose stability is threatened by the economic impacts of the COVID-19 crisis. The Bank will support the national provider of air traffic control (“ATC”) and air traffic management (“ATM”) services in Georgia, preserving the Company’s operational and financial stability to ensure the continuation of the provision of vital and safe Air Navigation Services (“ANS”) in Georgia.

Georgian Air Navigation is the sole provider of ANS in the country and services terminal (take-off and landing) and en-route (transit) flights within Georgian air space. As a member of EUROCONTROL, it is an important part of the Eurasian air corridor, making the functioning of its operations vital for the aviation sector’s general stability. The significant number of en-route flights emphasises the importance of the Company’s operations within Eurasian air corridor. Any continuity risks to the Company’s operations extend beyond Georgia’s air space and have a wider impact on the Eurasian air corridor’s smooth and safe functioning.

On 18 March 2020, Georgia closed its borders to international flights to contain the spread of COVID-19. In May 2020, the average number of daily flights was roughly 60-80 flights, a substantial decrease from the daily average of circa 330-350 flights in May 2019. The Company is under enormous pressure to continue to deliver its services in full, while the revenues, which are directly linked to the air traffic volume it controls, are drastically curtailed because of the COVID-19 crises. [REDACTED]

The COVID-19 pandemic had a significant impact on ANS Providers (“ANSP”) worldwide due to significant reduction in traffic levels which in turn negatively affect ANSPs’ revenue. The challenges of protecting frontline staff from infection and the need to continue ANS operations to provide essential services for cargo, passengers, repatriation, humanitarian and emergency flights have resulted in a very difficult position for ANSPs. Georgian Air Navigation, similar to other ANSPs, is under huge pressure with revenue directly related to controlled air traffic volume. Given that air space cannot be closed, as despite a ban on passenger flights, there is considerable demand for cargo and other transportation by air, these flights still need to be managed and controlled. ANS is one of the vital services to be provided regardless of any country’s economic situation. However, lower en-route flights and very limited terminal flight levels directly impact revenue collection rate. This affects the Company’s ability to smoothly and safely provide the air traffic control and management services. The proposed emergency liquidity loan responds to urgent liquidity needs that are essential for the Company’s operation continuity as a key infrastructure provider. In the absence of the Bank’s intervention, there could be a significant risk of collapse in service provision.

The loan will have a systemic impact at a time when the Company’s cash flow stream is temporarily curtailed, by: (i) allowing the Company to continue providing ATC and ATM services, as a vital service; [REDACTED] ensuring the Company can remain an important part of the Eurasian air corridor without threatening its safe functioning.

The Project also aims to strengthen the gender balance in the Company’s workforce by supporting the Company’s Human Resources (“HR”) to establish a new internship programme specifically targeted at increasing the share of women in the Company’s talent pipeline.

[REDACTED] Furthermore, following a post-signing TC support, a priority capex programme will define the Company’s future needs to upgrade its operations.

The Project is consistent with the Bank’s Strategy for Georgia, which calls “... to support transport, energy and logistics infrastructure that can strengthen Georgia’s strategic position as a transit link between Europe and Turkey on one side, and Central Asia and China on the other..”. The Project is also in line with the Transport Sector Strategy as it supports “investment in air navigation systems to provide safe, regionally integrated air traffic management services”. Finally the Project is aligned with the Bank’s Economic Inclusion Strategy and the Strategy for the Promotion of Gender Equality, as the Company will work towards improving its gender balance.

Based on this, the Project will contribute to achieving the following Sustainable Development Goals (“SDG”):

SDG	SDG Target	Rationale
5: Gender Equality	5.1 End all forms of discrimination against all women and girls everywhere	The Company will develop and implement a new internship initiative that will increase the share of women in the Company’s talent pipeline.
9: Industry, Innovation and Infrastructure	9.1 Develop quality, reliable, sustainable and resilient infrastructure, including regional and trans-border infrastructure, to support economic development and human well-being, with a focus on affordable and equitable access for all.	The Bank will support the resilience of infrastructure to ensure the continued provision of vital, safe ANS services in Georgia.
17: Partnerships for the SDGs	17.3 Mobilize additional financial resources for developing countries from multiple sources	This transaction is presented under VISP to provide emergency liquidity support to the providers of essential infrastructure services whose stability is threatened by the economic impacts of the COVID-19 crisis.

1.2 TRANSITION IMPACT

Obj. No.	Objective	Details
Primary TI Quality: Resilient		
1.1	The Project entails addressing current liquidity shortages of the company resulting from a sudden, significant change in economic activity due to the COVID-19 crisis.	The Project will support the continuation of safe and smooth air traffic control and management operations. While air traffic has fallen substantially due to the COVID-19 crisis, air space cannot be closed or reduced service provided, as all flights still need to be managed, even if at a substantially lower level.

Secondary TI Quality: Inclusive		
2.1	The Project will introduce a new, replicable and accredited training programme improving skills for [REDACTED] people from a less developed region in partnership with an existing education body.	With the EBRD's support, the Company will establish their new internship programme as the key recruitment tool for the Company. [REDACTED]

Delivery risks:

The risk associated with the Company's ability to pursue new and accredited training programmes aimed at improving skills for young people, including women, poses a challenge for the Project. This risk is mitigated by the provision of TC support to help the Company to prepare and implement the programme.

1.3 ADDITIONALITY

EBRD financing is provided in the extraordinary circumstances of the COVID-19 crisis. Specific triggers for the Enhanced Additionality Approach will not apply.

Additionality sources

COVID-19 crisis response: EBRD financing effectively bridges a liquidity gap due to adverse market conditions, e.g. the COVID-19 crisis.

Additionality Description

EBRD offers financing that is not available in the market from commercial sources on reasonable **terms and conditions**, e.g. a longer grace period that is rarely available in the market, restricted foreign currency financing, etc. Such financing is necessary to structure the Project. In addition, through the Bank's support, the Company will strengthen its internship initiative to attract female talent to technical positions in the air navigation sector.

1.4 SOUND BANKING - KEY RISKS

Risks	Probability /Effect	Comments
Traffic/ Revenue risk	High/ High	The Company's revenue is directly linked to the volume of air traffic that it controls and is therefore extremely vulnerable to the ongoing dramatic worldwide decrease in air traffic volume currently experienced. However, should the worst case flight forecasts scenario materialise, the Company is expected to remain afloat due to strong balance sheet position. Given that the Company is the national ANSP, it is expected to recover in line with the expected gradual increase of terminal and en-route air traffic volume. [REDACTED]
Collection risk	Low/High	[REDACTED]
Liquidity risk	High/ High	[REDACTED] Although the Company is expected to face a short-term cash shortfall, which is expected to be addressed by the Bank's immediate

		liquidity support loan, in the longer term the Company is expected to regain its operations. [REDACTED]
Macroeconomic risk	High/High	Uncertainty around the COVID-19 crisis remains the main risk for the Project, as there is no clear forecast or expectation on the duration of the crisis and overall impact on the economy. Considering there is no clear timeline on removing current travel restrictions globally, this complicates forecasts on COVID-19's overall impact on the Company's operations. This risk is partially mitigated by the Company's anticipated resilience towards economic downturn, which was demonstrated by stress tests conducted as part of the financial analysis appraisal of the Company.
FX Risks	Medium/High	[REDACTED] [T]he stress test against FX devaluation demonstrated that the Company's financial position is resilient towards such risks.

2. MEASURING / MONITORING SUCCESS

<i>Overall objectives of project</i>	<i>Monitoring benchmarks</i>	<i>Implementation timing</i>
- Good financial and operational performance.	- Financial performance in line with the projections.	[REDACTED]
- Keeping the pre-crisis quality and safety of air traffic management service provision.	- The operations of the Company are in compliance with EUROCONTROL's standards and best practises.	[REDACTED]

Primary Quality: Resilient

Obj. No.	Monitoring indicator	Details	Baseline	Target	Due date
1	Payables	The Company to use EBRD's loan to make timely payment of payables as they become due	[REDACTED]	[REDACTED]	[REDACTED]

Secondary Quality: Inclusive

Obj. No.	Monitoring indicator	Details	Baseline	Target	Due date
2.1	Tailored training programme developed and implemented	The Company will introduce a formal internship programme targeting students from other universities than Georgian Aviation University	[REDACTED]	[REDACTED]	[REDACTED]
2.2	Number of youth earning an accredited certification and enhancing their skills as a result of training	Once established, the internship programme will offer training opportunities to [REDACTED]students of other universities. [REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

2.3	Partnership between private sector and education providers established or strengthened to support learning opportunities	The Company will establish formal collaboration with [REDACTED] other universities in the country, where relevant degree programmes are offered and women make up a significant share of the student population.	[REDACTED]	[REDACTED]	[REDACTED]
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3. KEY PARTIES

3.1 BORROWER / CLIENT

The Borrower is the national provider of ATC and ATM services for all five existing airports in Georgia, of which Tbilisi, Kutaisi and Batumi are international airports, and Mestia and Ambrolauri only service domestic flights. The Company's activities also include the provision of radio-wave and other communication systems; and meteorological and aeronautical information services.

Since 2004, the Company has undergone significant modernisation, including major technical overhauls and implementation of modern systems and staff training that were crucial for meeting international air navigation standards and raising safety levels. Throughout the years, resulting from Georgia's rapidly developing tourism sector, the Company faced significantly increasing flight numbers in the country and was able to transit into a self-financing entity.

In 2014, the Company became a full member of EUROCONTROL, the European Organization for the Safety of Air Navigation Services. Following its integration, tariffs for terminal and en-route ANS were set in line with EUROCONTROL's standards. Tariffs are calculated according to EUROCONTROL's cost-base tariff setting methodology [REDACTED].

The Company's activities and its compliance with local laws are supervised by the Partner's Meeting and the Supervisory Board. The Partner's Meeting is represented by the National Agency of State Property, a state agency of the Ministry of Economy and Sustainable Development ("MoESD"). Among others, it is also responsible for supervising state owned companies, including Georgian Air Navigation and holds the highest governance status. The structure aims to ensure the best corporate governance and management practices. The Company's total number of staff is 800.

3.2 HISTORIC FINANCIAL STATEMENTS OF THE COMPANY

[REDACTED]

4. MARKET CONTEXT

ANSPs in Europe, including some countries in the Eurasia region, fund their operations by the collection of charges from the users of two airspace service categories: (i) terminal ANS, provided to aircrafts as they approach and land at an aerodrome; and (ii) en-route ANS, provided to aircrafts in other phases of flight.

Charges for EUROCONTROL members on en-route ANS are governed by a set of Route Charging Principles, and are collected by the Central Route Charges Office ("CRCO"), a unit of EUROCONTROL. [REDACTED] The Company is subject to the 'Full cost recovery'

regime used by non-EU members that are not bound by EU Regulation 2019/3174. En-route charges under this regime are calculated for a certain year based on that year’s estimated costs and traffic. An adjustment mechanism is then applied in the following years to ensure that only actual service costs are recovered. [REDACTED] Georgia remains subject to the full cost recovery regime unless it commits to the implementation of EU Regulation 2019/317 [REDACTED].

The local regulator of air navigation services, the Georgian Civil Aviation Agency (“GCAA”) under the MoESD, also cooperates closely with the Company to ensure smooth, high quality and long-term sustainability of its operations. [REDACTED]

5. FINANCIAL / ECONOMIC ANALYSIS

5.1 FINANCIAL PROJECTIONS OF THE COMPANY

[REDACTED]

5.2 SENSITIVITY ANALYSIS

[REDACTED]

5.3 PROJECTED PROFITABILITY FOR THE BANK

[REDACTED]

6. OTHER KEY CONSIDERATIONS

6.1 ENVIRONMENT

Categorised B (ESP 2019). Financing the liquidity needs under the VISP for an air traffic navigation and monitoring services provider is associated with site-specific Environmental and Social (“E&S”) risks that can be readily assessed and mitigated via good management practices. Environmental and Social Due Diligence (“ESDD”) was undertaken in-house in line with the ESD ESDD response to COVID-19 and comprised reviewing a completed E&S questionnaire, COVID-related questionnaire and a review of available information from publicly available sources. ESDD has confirmed that the Company has an established internal Environmental, Health and Safety (“EHS”) management system that has been developed in line with national regulatory requirements. The Company’s operations are compliant with both national E&S regulations and International Civil Aviation Organization (“ICAO”) requirements, and it has the capacity to implement the Project in line with the Bank’s PRs. The Company has implemented a COVID-19 response plan that incorporates adequate employee and community Health and Safety measures and stakeholder engagement. [REDACTED] The

⁴ The Regulation of the European Commission (EU) 2019/317 of 11 February 2019 lays down a performance and charging scheme in the single European sky (the Performance and Charging Regulation). It repealed Implementing Regulations (EU) No 390/2013 and (EU) No 391/2013, defining a common charging and performance scheme for air navigation services.

Company will establish a separate grievance mechanism for handling cases related to workers' labour rights. The Company will be required to undertake its activities in line with EBRD ESP and no specific Environmental and Social Action Plan ("ESAP") will be developed for the VISP Project. Additional detailed ESDD will be undertaken by an independent consultant post-signing as part of the capacity assessment and future PIP identification study, and Environmental and Social Action Plan will be developed accordingly. The Bank will monitor the Company's environmental and social performance and ESAP implementation through annual E&S reports.

6.2 INTEGRITY

In conjunction with the OCCO, integrity due diligence was undertaken on the Company, its shareholders, senior management and other relevant parties. The review did not identify any material integrity issues and therefore it was concluded that this project does not pose an unacceptable reputational risk to the Bank.

All actions required by the applicable EBRD procedures relevant to the prevention of money laundering, terrorist financing and other integrity issues have been taken with respect to the Project. 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	Historic Financial Statements of the Company
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ANNEX 1: HISTORIC FINANCIAL STATEMENTS OF THE COMPANY

[REDACTED]