DOCUMENT OF THE EUROPEAN BANK
FOR RECONSTRUCTION AND DEVELOPMENT

Approved by the Board of Directors on 27 October 2021[1]

UKRAINE

UKRENERGO SUSTAINABILITY-LINKED EUROBOND

[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

AMI	Annual mobilised investment
ATQ	Assessment of Transition Qualities
BDS/UK/18-1 (F)	EBRD's Strategy for Ukraine
BDS18-237 (F)	EBRD's Energy Sector Strategy
bn	billion
BNPP	Banque Nationale de Paris S.A.
bps	Basis points
ca	Circa
CAPEX	Capital Expenditure
CEO	Chief Executive Officer
CG	Corporate Governance
CGAP	Corporate Governance Action Plan
CMU	Cabinet of Ministers of Ukraine
COVID-19	Coronavirus disease 2019
DCF	Donor Co-Financing
DFF	Direct Finance Framework
DSCR	Debt Service Cover Ratio
DTEK	Ukrainian Energy company DTEK
DTM	Deal Tracking Module
EBITDA	Earnings Before Interest, Tax, Depreciation and Amortisation
EHSS	Environmental, Health and Safety, and Social
EIB	European Investment Bank
ENTSO-E	European Network of Transmission System Operators
EPG	Economic, Policy & Government department
ESAP	Environmental and Social Action Plan
ESD	Environmental and Social Department
ESDD	Environmental and Social Due Diligence
ESP	Environmental and Social Policy
ETI	Expected transition impact
EU	European Union
EUR	Euro currency unit
EURc	Eurocent
FI	Financial Institutions
FiT	Feed-in-tariff
FR	Final Review
FRM	Final Review Memorandum
FX	Foreign Exchange
GB	Guaranteed Buyer
GDP	Gross Domestic Product
GECA	Green Economy and Climate Action
GET	Green Energy Transition
GHG	Greenhouse Gases
GPM	Gross Profit Margin
GSM	General Shareholders Meeting
GW	Gigawatt

GWh	Gigawatt hours
H	half
HPP	Hydroelectric Power Plant
HPS / HES	Hydroelectric Power Station
i.e.	id est, that is
ICSA	Institute of Chartered Secretaries and Administrators
IFI	International Financial Institution
IFRS	International Financial Reporting Standards
IMF	International Monetary Fund
IPM	Investment Profitability Model
ISO	Independent System Operator
KFW	KfW Bankengruppe
km	Kilometre
KPI	Key performance indicators
kV	Kilovolt
kW	Kilowatt
kWh	Kilowatt hours
LGD	Loss Given Default
m	million
MD	Managing Director
MEI	Municipal and Environmental Infrastructure
MNPI	Material Non-public Information
MoE	Ministry of Energy of Ukraine
MoF	Ministry of Finance of Ukraine
MoU	Memorandum of Understanding
MVA	Mega-volt-amperes
MW	Megawatt
N/A	Not applicable
NBU	National Bank of Ukraine
NCSSM	National Commission on Securities and Stock Market
NEURC	National Energy and Public Utilities Regulatory Commission
No.	Number
NPC	National Power Company
NPP	Nuclear Power Plant
OCCO	Office of the Chief Compliance Officer
OCF / CFO	Operating cash flow
OECD	Organisation of Economic Co-operation and Development
OGC	Office of General Counsel
OpID	Operation ID number
OpsCom	Operations Committee
P&L	Profit and Loss Statement
PD	Probability of default
PPE	Property, Plant & Equipment
PrJSC	Private joint stock company
PSD	Project Summary Document
PSO	Public Service Obligation

PSP	Pumped Storage Plant
Q	Quarter
RAROC	Risk Adjusted Return on Capital
RE	Renewable energy / electricity
RES	Renewable energy sources
S&P	Standard and Poor's
SAEE	State Agency for Energy Efficiency and Energy Conservation
SB	Supervisory Board
SBA	Stand-By Arrangement
SDR	Special Drawing Rights
SLB	Sustainability-Linked Eurobond
SOE	State-Owned Enterprise
SPT	Sustainability Performance Targets
SR	Structure Review
SSU	Security Service of Ukraine
SWF	Sovereign Wealth Fund
TC	Technical cooperation
TD	Team Director
TI	Transition Impact
TIMS	Transition Impact Monitoring System
TSO	Transmission System Operator of Ukraine
UAH	Ukrainian Hryvnia
UK	The United Kingdom of Great Britain and Northern Ireland
USS	Universal Service Supplier
YE	Year end
y-o-y	Year on year
yr	year
YTD	Year to date

PRESIDENT'S RECOMMENDATION

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

The proposed transaction will consist of up to 20% subscription (up to EUR 150 million, or equivalent amount in USD) in the up to 7-years EUR 750 million (or equivalent amount in USD) Sustainability-Linked Eurobond ("SLB") issue of the Company to be backed by a state guarantee of Ukraine.

The operation will enable the Company to channel the SLB proceeds to repay payment arrears accumulated during the years of 2020 and 2021 towards the renewable energy producers. [REDACTED] The expected transition impact of the project is derived from restoring financial viability of the Ukrainian renewable energy generation sector and the Company ("Resilient") as well as unlocking further investments in the renewable energy sector of Ukraine ("Green"). The operation is 100% GET.

I am satisfied that the operation is consistent with the Bank's Strategy for Ukraine, the Energy Sector Strategy 2019-2023 and with the Agreement Establishing the Bank.

I recommend that the Board approve the proposed investment under the terms of the attached Report.

Odile Renaud-Basso

BOARD DECISION SHEET

UKRAINE – Project Sapphire – 53221	
Transaction / Board Decision	Board approval[2] is sought for up to 20% subscription (up to EUR 150 million, or equivalent amount in USD) in up to EUR 750 million (or equivalent amount in USD), up to 7-year Sustainability-Linked Eurobond (SLB) to be issued by Ukrenergo and backed by the state guarantee. In case of oversubscription, the Bank is aiming at scaling down its investment.
Client	Ukrenergo is a 100% state-owned company, natural monopoly and the sole electricity transmission grid operator of Ukraine. In 1H 2021, Ukrenergo generated revenues of EUR 1bn, EBITDA of EUR 44m, while total assets stood at EUR 2.6bn and net debt at EUR 0.7bn.
Main Elements of the Proposal	Transition impact **Primary Quality** – ***Resilient***: the Project will enhance financial viability of the Company, as well as stabilise financial performance of the renewable energy generation subsector of Ukraine. **Secondary Quality - *Green***: 100% of the SLB proceeds will be used to repay outstanding receivables of the renewable energy producers and unlock further sustainable development of the renewable generation in the country. That, in turn, will help Ukraine to meet its clean energy transition goals and commitments. Additionality Risk mitigation by: (1) intensified policy dialogue with the authorities that will contribute to financial stabilization of the renewable energy sector and the Company, including the Regulator's commitment to keep Ukrenergo's transmission tariff at cost-reflective level; (2) sending positive signals to renewable energy investors needed to restore credibility of authorities; (3) providing comfort to other potential investors in the instrument and further widening market participation. Sound banking Market price, acceptable returns, state guarantee.
Key Risks	Key risks include: (1) regulatory, (2) integrity, (3) Issuer's liquidity, (4) political and macro-economic risks. These risks are mitigated by: (1) the Regulator's commitment to maintain the TSO tariff at a cost recovery level; (2) the decision of the Cabinet of Ministers of Ukraine to ensure that 100% of the SLB proceeds will be used for repayment to the renewable producers of the accumulated payment arrears in compliance with Ukrainian legislation; (3) state guarantee; and (4) post COVID-19 recovery of the Ukrainian economy.
Strategic Fit Summary	Strategy for Ukraine: Strategic priority to enhance resilience of the financial system - develop capital markets; strengthen regulatory framework for renewable energy; Energy Sector Strategy 2019-2023: integration of renewables, scaling-up renewable energy, decarbonisation.

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

ADDITIONAL SUMMARY TERMS FACTSHEET

EBRD Transaction	Up to 20% subscription (up to EUR 150 million, or equivalent amount in USD) in the up to 7-year EUR 750 million (or equivalent amount in USD) Sustainability-Linked Eurobond (SLB) issued by Ukrenergo and backed by the state guarantee. In case of oversubscription, the Bank is aiming at scaling down its investment.
Existing Exposure	**<u>Ukrenergo</u>** Total debt (all sovereign or sovereign guaranteed): EUR 265m (portfolio) / EUR 92m (operating assets), consisting of: • South Ukraine Transmission Project (OpID 40147): EUR 88.3m portfolio, including EUR 62.9m operating assets [REDACTED]; • Rivne Kyiv High Voltage Line Project (OpID 37598): EUR 27.8m in operating assets [REDACTED]; • Ukrenergo Transmission Network Modernization Project (OpID: 49235): EUR 149m portfolio, including EUR 1.6m operating assets and EUR 147.4m undrawn commitment [REDACTED] **<u>Sovereign</u>** Total amount debt: 1,527m (portfolio) / EUR 629.3m (operating assets).
Maturity / Exit / Repayment	The SLBs are expected to be held to maturity. [REDACTED]
Potential AMI eligible financing	None
Use of Proceeds	[REDACTED]
Investment Plan	[REDACTED]
Financing Plan	[REDACTED]
Key Parties Involved	• Ukrenergo (the SLB Issuer); • Guaranteed Buyer (the offtaker for renewable energy producers, which will be indirectly receiving the proceeds from the issuance); • Rothschild's (Ukrenergo's advisors) [REDACTED]; • Ministry of Finance (representative of the Guarantor).
Conditions to subscription / disbursement	For subscription: Framework Agreement between EBRD and Ukrenergo signed [REDACTED]
Key Covenants	[REDACTED]
Security / Guarantees	[REDACTED] [G]uarantee provided by Ukraine to the bondholders.
Other material agreements	• Bond Prospectus; • Framework Agreement between EBRD and Ukrenergo; [REDACTED]
Associated Donor Funded TC and co-investment grants/concessional finance	None.

[REDACTED]

INVESTMENT PROPOSAL SUMMARY

1. STRATEGIC FIT AND KEY ISSUES

1.1 STRATEGIC CONTEXT

The Project is consistent with the Ukraine Country Strategy which states that "During the next strategy period (2018-2023) the Bank will pursue the following strategic priorities in Ukraine: (iii) Strengthen energy security through **effective regulation**, market liberalisation, **diversified and increased production**, and energy efficiency, and (iv) Enhance resilience of the financial system by strengthening the banking sector, and in parallel **developing capital markets** and other non-bank finance".

The operation is also consistent with the Bank's Energy Sector Strategy 2019-2023 as it will contribute to scaling-up further the renewable energy produced to accelerate the needed green transition of the Ukrainian energy sector.

The Project complies with the Agreement Establishing the European Bank for Reconstruction and Development (AEB). The SLB proceeds will be used by Ukrenergo to cover its outstanding payables to the Guaranteed Buyer. Such repayment of the outstanding obligations would improve financial standing of Ukrenergo and enable it to continue providing vital infrastructure services in Ukraine, which are critical for private sector operations and development, as all industries in the country are dependent on reliable electricity transmission. Furthermore, the SLB proceeds will be ultimately used by the Guaranteed Buyer to cover feed-in tariff payment arears to the Ukrainian renewable energy producers, which is essential for continuing stability and creditworthiness of private businesses in this sector.

The payment arrears owed to renewable energy projects operating under the Feed-in-Tariff support system, which accumulated during the period 2020-2021, have created a deep liquidity crisis in the Ukrainian renewable energy sector over the last two years. This has harmed private investors' and financiers' confidence and halted new investments in the sector. The Bank's involvement in this transaction is necessary to fix the issue of non-payments to renewables and provide an enduring solution to the problem going forward that will restore the credibility of the Ukrainian authorities and signal that conditions have improved and are more stable to enable additional new investment in renewables, which are required to meet the country's climate action commitments and clean energy transition ambitions.

The Project will enable Ukrenergo to channel the SLB proceeds to repay these payment arrears. This will be the first important element of the action plan endorsed by the authorities in order to resolve the current payment crisis in the Ukrainian electricity sector. The second important element of the action plan, is to provide a perdurable solution so that there is no accumulation of arrears in future. As part of this Project structure, the Regulator is expected to provide its commitment to bring and maintain Ukrenergo's tariff at a cost recovery level [REDACTED]. This shall ensure financial stability of the sector going forward and, in turn, unlock future investments in new renewable energy projects in Ukraine.

As a part of the Project implementation, the Bank will further step up in its policy dialogue efforts with the Ukrainian authorities with the objective of improving the financial sustainability of the entire power sector and promoting long-term low-carbon development of the country.

Sector background and recent developments

Ukrenergo is currently well advanced with the preparation of the first SLB issuance in the country. The SLB will benefit from a sovereign guarantee of Ukraine. [REDACTED] The SLB Sustainability component has been already confirmed by Sustainalytics (independent advisers), including respective qualitative performance indicators with regard to future pace of renewable development: (1) connection of wind and solar energy capacity in Ukraine (measured in MW) and (2) share of connected wind and solar energy production capacity of total connected energy production capacity in Ukraine (measured in %). [REDACTED] The SLB's repayment is backed by a sovereign guarantee of Ukraine.

The SLB issuance is also crucial in order to strengthen the financial position of Ukrenergo in the context of its future integration into the ENTSO-E, which is one of the key strategic goals of Ukrenergo. Financial viability of Ukrenergo is required to be able to secure the TSO certification that is, in turn, one of the preconditions for ENTSO-E synchronization.

[REDACTED] The country's continued engagement with the IMF remains crucial for maintaining access to external funding in light of economic weaknesses, significant uncertainty and high public service obligations.

1.2 TRANSITION IMPACT

Primary Quality: Resilient

Obj. No.	Objective	Details
1.1	*The project entails financial restructuring making the company less vulnerable to shocks, for instance by affecting the asset liability/FX mismatch in the company.*	Refinancing of Ukrenergo payables to GB is extremely important to restore the financial position of the Company and resolve the ongoing payment crisis of the renewable energy generation subsector of Ukraine. [REDACTED].
1.2	*The project entails a policy dialogue initiative that has been assessed as Strong Good by the sector economist.*	EBRD's participation in the Project will help accelerating the policy dialogue with the Government of Ukraine on the development of a financial recovery plan for the Ukrainian energy sector in close coordination with other lead stakeholders.
1.3	*The transaction contributes significantly to capital market development by introducing a new instrument* (debt instrument).*	This transaction is expected to be the first ever Sustainability-Linked Eurobond to be issued by a Ukrainian company.
1.4	*At least 80% of the issuance is expected to be placed with private non-IFI investors.*	At least 80% of issuance is expected to be placed with private investors. EBRD is the only IFI expected to participate, and the investment considered is for an amount of up to 20% of the total SLB volume.
1.5	*The issuance will be publicly offered and listed on an international exchange and will have at least one credit rating from "Big Three" international credit rating agencies (S&P, Moody's and Fitch).*	The SLB is planned to be issued on the London Stock Exchange. The issuance is expected to receive a credit rating from Moody's and/or Fitch.

Secondary Quality: Green

Obj. No.	Objective	Details
2.1	*The percentage of EBRD use of proceeds allocated to the project that qualifies as GET is 15% or higher.*	The Project is 100 per cent GET. Issuance of the SLB will solve the issue of financial stability in the sector and enable the sustainable development and long-term finance of renewables going forward.

The delivery risks associated to the transaction come from the regulatory risks associated with the Regulator's commitment to maintain the TSO tariff at cost recovery level.

1.3 ADDITIONALITY

Identified triggers	**Description**
A significant share (at least 30%) of the project is to **finance working capital** (subject to sector characteristics)	The anticipated SLB proceeds will be used to cover current Ukrenergo's debt obligations to Guaranteed Buyer.
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**).	EBRD already has 3 bilateral projects with Ukrenergo relating to the financing of substations rehabilitation and the construction of high voltage lines and related infrastructure. At the same time, this deal will be the first ever Ukrenergo's SLB issuance (and the first SLB issued by Ukrainian company) that will be a crucial step towards the resolution to the payment crisis in the renewable sector.
Additionality sources	**Description**
Policy, sector, institutional, or regulatory change EBRD's involvement in a project is considered additional when it is designed to **trigger a change in the policy**, sector, institutional or regulatory framework, or enhance practices at the sector or country level (e.g., an introduction of cost-reflective pricing of energy, water etc.).	Project related, intensified policy dialogue of the Bank with authorities will contribute to the financial stabilisation of the sector and improved financial standing of Ukrenergo.
Risk mitigation EBRD's involvement in a **debt capital market transaction** provides comfort to other investors and further widens market participation.	IFI's participation in the SLB will attract stronger interest of long-term institutional and financial investors.

1.4 SOUND BANKING - KEY RISKS

Risks	Probability / Effect	Comments
Regulatory Risk	Medium / High	Ukrenergo's repayment capacity is primarily driven by the adequacy of the transmission tariff level approved by the Regulator. [REDACTED]. *Mitigants*: The risk is mitigated by the Trilateral legally binding Agreement between the Regulator, Ministry of Finance and Ukrenergo, that will contain an obligation for the Regulator to maintain the tariff of the TSO at cost recovery level. In addition, the SLB will be backed by a sovereign guarantee of Ukraine.
Guarantor Credit Risk	*Medium / High*	Ukraine is rated B (stable) by S&P and Fitch (positive), and B3 by Moody's (stable). The strength of the sovereign guarantee directly correlates with the strength of the state's credit profile. *Mitigants*: Currently the Ukrainian economy is benefiting from a moderate post Covid-19 recovery. In 2Q'21 GDP grew by 5.7% y-o-y supported by rising global commodity prices. Although public debt increased to 60.7% of GDP by 2020YE (vs. 50% y-o-y), FX reserves increased to $31.6bn as of the end of August 2021 providing sufficient buffer to possible currency fluctuations.
Liquidity Risk	Medium / Medium	In 2020, Ukrenergo's collection rates deteriorated due to the Covid-19 pandemic that caused a general economic slowdown. That, in turn, resulted in delays with the settlement of RES compensation to GB. *Mitigants*: The Ukrainian economy is undergoing the post Covid-19 crisis recovery and for the last 6 months Ukrenergo's collection rate stands at c. 100%.
FX risk	Medium / Medium	A devaluation of the Ukrainian Hryvnia against EUR / USD increases the debt burden on Ukrenergo in UAH terms of predominantly hard currency denominated loan portfolio. *Mitigants*: The risk is mitigated by: (1) a more stable economic environment and the stabilization of the UAH exchange rate vs. EUR/USD over 2016-2021; and (2) the fact that the majority of Ukrenergo's costs covered by the tariff (including financial debt service and compensation to renewables) are pegged to EUR.
Bond liquidity	Low / Medium	The risk that the SLB whilst being of a 'benchmark' size (> EUR 500m) becomes illiquid due to lack of investor demand. *Mitgants:* The risk is partially mitigated by the sovereign guarantee and the Sustainability features that are expected to attract a wider investor range.
Integrity Risk	Medium / High	In line with the Ukrainian legislation GB is obliged to cover payment arrears owed to the renewable energy producers on a pro-rata basis. [REDACTED]. *Mitigants*: [REDACTED] [T]he market is quite fragmented with the majority of the players being either reputable international investors or small and medium local businessmen.

2. MEASURING / MONITORING SUCCESS

TI indicator(s), primary Quality: Resilient

Obj. No.	Monitoring indicator	Details	Baseline	Target	Due date
1.1	Issuance listed on a national or/and international exchange	The SLB are listed on London Stock Exchange.	[REDACTED]	[REDACTED]	[REDACTED]
1.2	Policy dialogue platform is operational	The Regulator maintains the TSO tariff at a cost recovery level.	[REDACTED]	[REDACTED]	[REDACTED]
1.3	Financial restructuring completed as targeted	1. 100% of the SLB proceeds that GB gets from Ukrenergo are used to cover payment arrears to renewables; 2. The Regulator provides commitment to maintain the TSO tariff at a cost recovery level.	[REDACTED]	[REDACTED]	[REDACTED]

TI indicator(s), secondary Quality: Green

Obj. No.	Monitoring indicator	Details	Baseline	Target	Due date
2.1	Renewable energy - electricity produced (%)	Share of connected wind and solar energy production capacity of total connected energy production capacity.	[REDACTED]	[REDACTED]	[REDACTED]
2.2	Renewable energy capacity installed (MW)	Connection of wind and solar energy production capacity in Ukraine.	[REDACTED]	[REDACTED]	[REDACTED]

3. KEY PARTIES

3.1 Issuer

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

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

The Company operates the high-voltage electricity transmission network on the entire territory of Ukraine and is the only holder of a licence issued by the Energy Regulator, NEURC, for electricity transmission by high voltage and interstate electric networks. Ukrenergo's electricity grid consists of 23,000 km of transmission lines of 220 kV, 330kV and 750 kV, and includes 131 step-down transformers with a total capacity of 76,785 MVA. The Company employs 7,800 people and consists of the central head office, eight regional energy systems and eight specialised structural units.

Ukrenergo plays an important role in channelling funds towards the renewable energy producers operating under the feed-in-tariff (FiT) support system. Following the introduction of the new competitive market model in Ukraine on 1 July 2019, the costs related to difference between the FiT level and electricity market price (i.e. compensation to renewables) have been included into Ukrenergo's transmission tariff. [REDACTED].

3.2 GUARANTOR

Since peaking in 2016, the ratio of public and publicly guaranteed debt to GDP has rapidly declined on the back of nominal GDP growth, prudent public finance management and currency appreciation due to large foreign private capital inflows on the domestic government securities market in 2019. It decreased from 81% in 2016 to 61% in 2018 and further to 50% in 2019. The public debt ratio sharply increased to 60.7% in 2020 due to the output decline, depreciation of the currency and increasing financing needs. IMF expects the debt to resume its downward trajectory post-2020, falling to below 50% of the GDP by 2024. According to the IMF, the main risks are relating to high near-term gross financing needs, contingent liabilities associated with the banking system support and exchange rate risks as a significant share of the debt is denominated in foreign currency.

Moody's upgraded Ukraine's long-term foreign currency sovereign credit rating from 'Caa1' (positive outlook) to 'B3' (stable outlook) in June 2020. The same rating and outlook were confirmed in April 2021. In August 2021, Fitch confirmed the rating at 'B' and changed the outlook from stable to positive. S&P confirmed the rating at 'B' (stable outlook) in September 2021. Please see more information in Annex 4.

3.3 KEY OFF-TAKER FOR RENEWABLE ENERGY

The Guaranteed Buyer (GB) is a 100% state owned enterprise that was established in 2019 and launched its operations on 1 July 2019. GB's two major responsibilities are to ensure: (1) implementation of the State payment obligations to renewable energy producers benefiting from FiT regime; and (2) payment administration under Public Service Obligation (PSO) for households.

GB purchases the electricity generated by renewables at FiT price and subsequently sells it on the wider market at market prices. The costs that are incurred by GB associated with a difference between the market price and FiT level are covered by payments received from Ukrenergo.

4. MARKET CONTEXT

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

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

As a settlement manager, Ukrenergo operates the Balancing Power Market, which involves purchases and sales of electricity to maintain the balance between demand and supply, as well as the financial settlement of real-time imbalances, i.e. Ukrenergo collects funds from the parties responsible for the imbalances, and pays to those, who provide balancing energy in real time in response to dispatch commands.

In line with the Electricity Market Law, Ukrenergo is also responsible for covering the difference between feed-in tariff and market price for RES. These amounts need to be included in the electricity transmission tariff, paid by Ukrenergo's customers, and are being transferred to GB, who then pays to renewable producers.

[REDACTED] Ukrenergo had accumulated substantial debts to GB over Jan-Jul 2020 that, in turn, accumulated payment arrears to renewable energy producers. In June 2020, the Government signed a Memorandum of Understanding (MoU) with the two largest industry associations aimed at 2.5%-15% retroactive reduction of the feed-in-tariff levels in exchange of (i) restoring the financial stability of the sector and (ii) not implementing any further negative changes in the regulatory regime. In July 2020, the law on the FIT regime restructuring was approved by the Parliament, according to which Ukraine committed to repay c. 40% of the accumulated debts to renewable energy producers by 2020YE and remaining 60% by 2021YE. As of today the MoU is not fully implemented: out of UAH 25.4 billion (EUR 0.8 billion) of the GB's debt accumulated over January – July 2020, UAH 11.6 billion (EUR 0.4 billion) remains outstanding; in addition extra debt related to 2021 payables in amount of UAH 12.5 billion (EUR 0.4 billion) has been accumulated during 2021YTD.

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 B (2019 ESP) and Medium-High risk, due to the sector and the fact that Ukrenergo as national grid operator does not directly invests in renewable energy sector and this bond project is likely to attract CSO scrutiny. The SLB will be associated with Ukrenergo's aim to support renewables energy sector in Ukraine through the clearance of tariff debts and to facilitate an overall increase in renewables energy generation, leading to a progressive increase of the share of renewable energy sector from 11.8% in 2020 (baseline) to 14.6% in 2022 and 18.7% in 2028, with an increase from 6.4 GW (baseline) in 2020 to c 10 GW in 2030. These KPIs are included in the bond framework. The Project will exclude A category sub-projects and use of proceeds is for debt repayment only. The Project is 100% GET as it meets the international definition for SLBs. *This is a multisite operation and the project is considered Paris aligned for climate mitigation and adaptions and no further assessment is required.*

SLBs are a new and emerging financial product, with limited presence in the market, notably in Ukraine. This transaction will be the first SLB subscription for the EBRD in Ukraine. The Environmental and Social Department (ESD) has been working jointly with the Project team and has undertaken an in-house Environmental & Social (E&S) due diligence based on a corporate E&S questionnaire and support materials provided by the Regional Office (RO) team including second party opinion (SPO) by Sustainalytics. The SPO report confirmed that this SLB is in line with the International Capital Market Association's ("ICMA") principles for SLBs, and the bond framework has been verified and rated as positive SPO by Sustainalytics. We note that the ratings are viewed as ambitious and the two KPI's as adequate (KPI 1a. Connection of new renewable capacity) and strong for KPI 1b regarding the increase in the share of renewables in the system. Additionally, the current Environmental and Social Due Diligence (ESDD) has reviewed the status of the implementation and compliance with the existing ESAPs and the Company's approach to environmental and social governance.

The ESDD has been limited by both time and the nature of capital markets transaction and ESD has relied on publically available documents and the due diligence of the Company undertaken on the past projects and recent monitoring reports. The ESDD confirmed that the existing ESAP is being implemented and the Company has the institutional capacity to implement the Bank's Performance Requirements (PRs). However, this needs to be continuously strengthened and technical support is needed in the future. An updated ESAP is being prepared that will strengthen corporate commitments and include the commitments in the SLB framework. This will include a future E&S review of the company's capacity to implement the Bank's PRs, ESAP as well as status of the existing retrenchment program, which had been developed jointly with EIB and KfW in 2020 as part of a previous project.

Overall, the ESDD has confirmed that the Project is structured to comply with the Bank's PRs. Based on the ESDD, the Bank will update the ESAP prior to Board submission, and will include additional benchmarks into framework agreement. The strengthening of the ESAP will allow for additional KPIs to be met and for stronger annual reporting on environmental, social and governance issues under this issuance and the ESAP.

6.2 INTEGRITY

In conjunction with OCCO, an updated integrity due diligence was undertaken on the Company, its shareholders, senior management and a number of other relevant parties (including the Guaranteed Buyer, which will channel the Bank's funds). [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	TRANSITION IMPACT SCORING CHART
ANNEX 2	SHAREHOLDING STRUCTURE
ANNEX 3	HISTORICAL FINANCIAL STATEMENTS
ANNEX 4	UKRAINE MACROECONOMIC UPDATE

ANNEX 1 - TRANSITION IMPACT SCORING CHART

Score for primary transition quality

Quality: Resilient

Component: Financial stability

Quality average score: 67.0

ATQ adjustment

Country: Ukraine

ATQ adjustment: Financial stability: -0.4%

Adjusted Quality score: 66.7

Score for secondary transition quality

Quality: Green

Component: Mitigation

Quality average score: 60.0

ATQ adjustment

Country: Ukraine

ATQ adjustment: Mitigation: 0.0%

Adjusted Quality score: 60.0

Weighted TI score*

Base TI score (ATQ-adjusted): 65.0

Adjustment for Country Strategies

Adjustment: 2.0% – Strategic project alignment

CS **Adjusted score:** 66.3

Local currency / Equity uplift**

0.0% uplift

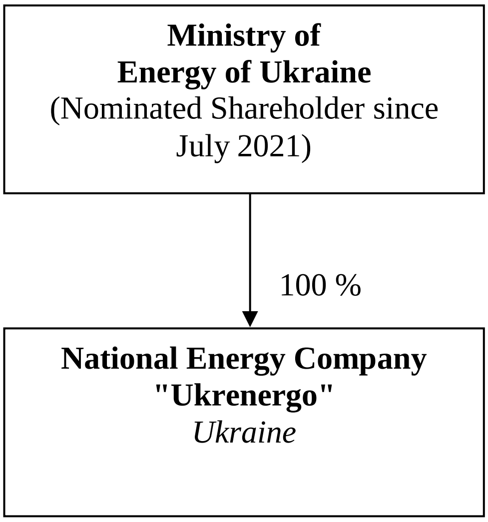
Final TI score

Final TI score: 66

*****The Primary Quality score is weighted 75% for the calculation of the Base TI Score. The Secondary Quality is weighted 25%.

** Please remove this box if the financing uplifts are not applicable.

ANNEX 2 – SHAREHOLDING STRUCTURE



ANNEX 3 – HISTORICAL FINANCIAL STATEMENTS

[REDACTED]

ANNEX 4 - UKRAINE MACROECONOMIC UPDATE

After a contraction in 2020 and the first quarter of 2021, the economy has returned to growth in the second quarter of 2021. In 2020, gross domestic product (GDP) declined by 4.0 per cent as a consequence of reduced foreign demand and Covid-19 pandemic containment measures. Private consumption remained slightly in positive growth territory, driven by a strong demand for goods, but investments in fixed assets fell by almost a quarter despite strong government stimulus in the roads sector. Exports and imports declined by 5.6 and 9.5 per cent respectively. A prolonged lockdown in early 2021 caused the economy to shrink by 2.2 per cent year-on-year in the first quarter of 2021, before returning to a growth of 5.7 per cent year-on-year in the second quarter of 2021, supported by higher commodity prices. Driven by rising prices of utilities, food and transport, inflation accelerated in the first half of 2021 and reached 10.2 per cent in August 2021, prompting the National Bank of Ukraine (NBU) to raise the key policy rate four consecutive times since the beginning of the year to 8.5 per cent in September 2021. Amid rising global commodity prices and erratic reform progress, a moderate recovery in 2021 is likely. The growth recovery which took hold in the second quarter of 2021 is expected to gain further traction in the second half of the year. We expect an economic growth of 3.5 per cent both in 2021 and 2022. Major downside risks remain, however, including the slow speed of vaccinations, the possibility of new variants emerging, and the slow progress of reforms.

The Covid-19 pandemic caused a reversal of previous trends in public finances and the external sector. After several years of prudent fiscal policies, the government deficit deepened to 5.2 per cent of GDP in 2020 due to increased spending to finance the Covid-19 response. On top of that, the fall of output and currency depreciation led to an increase in public debt from 50.3 per cent in 2019 to 60.7 per cent in 2020. The current account deficit turned into a strong surplus of 4.0 per cent of GDP in 2020, supported by low prices of imported hydrocarbons, reduced spending on travel abroad and an increase in the primary income surplus. As a result, foreign reserves rose from US$ 25.3 billion in December 2019 to US$ 29.1 billion in December 2020, equal to 4.8 months of future import coverage. Reserves were boosted further in August 2021 by the new International Monetary Fund Special Drawing Rights allocation of US$ 2.7 billion, which fully compensated for the undisbursed remaining part of the Stand-By Arrangement (SBA) programme. In September 2021, the IMF started a new virtual mission to evaluate reform progress, but further disbursements of the existing programme remain uncertain amid unequal implementation of reforms. [REDACTED] At the same time, continued engagement with the IMF remains crucial for maintaining access to external funding in light of economic weaknesses, significant uncertainty and high public service obligations.

Sustainability of Ukraine's Public Debt

Since peaking in 2016, the ratio of public and publicly guaranteed debt to GDP has rapidly declined on the back of nominal GDP growth, prudent public finance management and currency appreciation due to large foreign private capital inflows on the domestic government securities market in 2019. It decreased from 81% in 2016 to 61% in 2018 and further to 50% in 2019. The public debt ratio sharply increased to 60.7% in 2020 due to the output decline, depreciation of the currency and increasing financing needs. IMF expects the debt to resume its downward trajectory post-2020, falling to below 50% of GDP by 2024. According to the IMF, main risks are related to high near-term gross financing needs, contingent liabilities associated with banking system support and exchange rate risks as a significant share of debt is denominated in foreign currency. Ukraine's official reserve assets increased from US$ 5.6 billion (covering 1 month of imports) in February 2015 to US$ 31.6 billion (covering 4.4 months of future imports) in August 2021 as a result of post–crisis macroeconomic stabilisation, international assistance and capital inflows and additionally boosted by the new IMF SDR allocation of US$ 2.7 billion. Ukraine demonstrated its ability to access external financing in a timely manner, helped by the favourable conditions on the market and track-record of prudent macroeconomic policies in the recent years. Still, continued engagement with the IMF remains key to supporting confidence in the economy and maintaining the open access to financial markets.

Moody's upgraded Ukraine's long-term foreign currency sovereign credit rating from 'Caa1' with positive outlook to 'B3' with stable outlook in June 2020, confirming the rating in April 2021. In August 2021, Fitch confirmed the rating at 'B' and changed the outlook from stable to positive. S&P confirmed the rating at 'B' with stable outlook in September 2021. The rating agencies mention credible macroeconomic management which narrowed fiscal deficits prior to 2020, commitment to inflation-targeting, reduced external vulnerability including due to augmented FX reserves, access to financial markets and to multilateral support and concessional IFI financing on the back of reform implementation as rating strengths. The ratings on Ukraine are constrained by its low per capita income, low external liquidity relative to high financing needs associated with large sovereign debt repayments, exposure to geopolitical risk, a vulnerable, albeit improving, banking sector, and difficult institutional and political environment as well as weak governance indicators.