DOCUMENT OF THE EUROPEAN BANK
FOR RECONSTRUCTION AND DEVELOPMENT

Approved by the Board of Directors on 22 June 2022[1]

MOLDOVA

MOLDOVA GAS SECURITY SUPPLY

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

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

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

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

TABLE OF CONTENTS

Page

ABBREVIATIONS / CURRENCY CONVERSIONS

ACB	Abaniev-Cernauti-Bogorodciani
ANRE	Moldovan Energy Regulator Authority
BCM	Billion cubic metres
b.p.	Basic points
CapEx	Capital Expenditure
CCC	Cash Conversion Cycle
CCY	Currency
CF	Cash Flow
CGAP	Corporate Governance Action Plan
CRM	Client Risk Management
COGS	Cost of Goods Sold
CPI	Consumer Prices Index
EBITDA	Earnings Before Interest, Tax, Depreciation & Amortisation
ECF	Extended Credit Facility
EFF	Extended Fund Facility
EFET	European Federation of Energy Traders
ENERSAP	Energy Reform Action Plan
ERU	Energy Resources of Ukraine
EU	European Union
EUR	Euro
FCF	Free Cash Flow
FOPC	Financial Operations Policy Committee
FX	Foreign Exchange
FY	Financial Year
FYE	Financial Year End (31th of December)
GAAP	Generally Accepted Accounting Principles
GoM	Government of Moldova
GDP	Gross Domestic Product
GSAs	Gas Supply Agreements
HCY	Hard currency
IFRS	International Financial Reporting Standards
IMF	International Monetary Fund
ITC	Input Tax Credit
IUK	Iasi-Ungheni-Chisinau
k	Thousand
LIBOR	London Inter-bank Offered Rate
m	Million
m^3	Cubic meters
mcm	Million cubic meters
MDL	Moldavian Leu
mln	Million
NAK/Naftogaz	National Joint Stock Company Naftogaz of Ukraine
OGC	Office of General Counsel
OL	Operation Leader

PGNiG	Polskie Górnictwo Naftowe i Gazownictwo S.A.
PPAD	Procurement Policy and Advisory Department
PP&R	Procurements policies and Rules
PSAR	Project Support and Reimbursement Agreement
PSO	Public Service Obligation
SBLC	Stand by Letter of Credit
SDKRI	Sebelinka-Dneproppetrovsk-Krivoi Rog-Ismail
SGA	Selling, General and Administrative expenses
SOE	State Owned Enterprise
TC	Technical Cooperation
TI	Transition Impact
TSO	Transmission System Operator
TTF	Title Transfer Facility
YE	Year end
y-o-y	Year-over-year
VMTG	Victor Mining Industry Group Inc.
WC	Working Capital
USAID	United States Agency for International Development

PRESIDENT'S RECOMMENDATION

This recommendation and the attached Report concerning an operation in favour of the Republic of Moldova are submitted for consideration by the Board of Directors.

The facility will consist of a senior revolving loan to the Republic of Moldova of up to EUR 300 million to be on-lent to JSC Energocom, a state-owned energy trader and is submitted under the War on Ukraine – EBRD Resilience Package – Resilience and Livelihoods Framework.

The loan will enable Moldova to finance [REDACTED] planned gas imports for 2022 (based on the current elevated gas prices). The expected transition impact of the Project will stem from: (i) a) strengthening Moldova's energy security by creating strategic gas reserve while at the same time diversifying gas supply routes and sources and b) continuing sector reforms under the Energy Reform Action Plan which includes the corporate governance improvement programme for Energocom, [REDACTED] which aims at, inter alia, increasing transparency and standardisation of procurement practices (*Resilient* transition quality); and (ii) providing an emergency finance facility to prevent gas supply disruption and safeguard access to vital energy services for the Moldovan population and displaced Ukrainians in advance of the main heating season (*Inclusive* transition quality).

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

The Board is requested to approve an exception from the Framework eligibility criteria, which stipulates a maximum investment amount of EUR 200 million (for new finance, including syndicated amounts). While the size of the Project is above this limit, the war on Ukraine has led to an unprecedented increase in gas prices for gas traded on EU hubs. The result is that larger amounts are required for Energocom to procure gas in volumes that help ensure security of supply. Apart from the maximum investment amount, the Project is in line with the rest of the Framework eligibility criteria.

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

Odile Renaud-Basso

BOARD DECISION SHEET

RLF - Moldova –Gas Security Supply - DTM 53417 Framework: REGIONAL - War on Ukraine - EBRD Resilience Package Resilience and Livelihoods Framework - DTM 53662	
Transaction / Board Decision	Board approval[2] is sought for a senior loan of up to EUR 300m in favour of the Republic of Moldova ("the Borrower") to be on-lent to JSC Energocom, a state-owned energy trader (the "Company", "Project Entity"). The loan will finance [REDACTED] planned imports in 2022 (based on current elevated gas prices). The loan will comprise of two tranches: (i) Tranche I: up to EUR 200m uncommitted tranche: that will be committed at the discretion of the Bank and used for the emergency gas supplies in case of supply disruption [REDACTED] ("**Emergency Tranche**"); (ii) Tranche II: up to EUR 100m committed tranche that will be used to create a strategic gas reserve to be stored in Romania or Ukraine to avoid seasonal price spikes and improve energy security (the "**Diversification & Storage Tranche**"). The uncommitted tranche is subject to approval by the Board. The Board is requested to approve an exception from the Framework eligibility criteria, which stipulates a maximum investment amount of EUR 200 million.
Client	**Borrower**: Moldova is rated B3 with a negative outlook by Moody's. **Project Entity**: Energocom is a 100% state-owned energy trader established in 2005. In October 2021, Energocom was appointed by the Government to act as an [REDACTED] gas supplier [REDACTED] by procuring gas on EU hubs. In 2021, Energocom reported EUR 106m of revenues and EUR 0.4m of net profit.
Main Elements of the Proposal	Transition impact **Primary Quality – *Resilient*:** The Project will a) strengthen Moldova's energy security by creating strategic gas reserve while at the same time diversifying gas supply routes and sources and b) continuing sector reforms as part of the ENERSAP developed in parallel to the facility which includes the corporate governance improvement programme for Energocom, which inter alia includes increasing transparency and standardisation of procurement practices. **Secondary Quality – *Inclusive*:** The Project will also provide an emergency facility to prevent gas supply disruption and safeguard access to vital energy services for the Moldovan population and displaced Ukrainians in advance of the main heating season. Additionality – Financing structure; Risk mitigation; Policy. Sound banking – sovereign loan.
Key Risks	Key risks include (i) political and macro-economic risks; (ii) sanctions risk; (iii) integrity risks. These risks are mitigated via structuring the transaction with Moldova being the primary obligor; incumbent reformist government well supported by international partners, and the existing IMF programme with increased support in view of the current socio - economic pressures.
Strategic Fit Summary	• War on Ukraine - EBRD Resilience Package - Resilience and Livelihoods Framework focusing on energy security in Ukraine and affected countries. • Strategy for Moldova: Strengthen energy security. • Energy Sector Strategy: Energy security. • Equality of Opportunity Strategy: Ensuring access to services.

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

ADDITIONAL SUMMARY TERMS FACTSHEET

EBRD Transaction	• Up to EUR 300m revolving loan to the Republic of Moldova to be on-lent to Energocom to finance emergency gas supply and strategic reserve build up, to facilitate diversification of gas supply. The proposed transaction will enable purchase of [REDACTED] gas in 2022 (based on the current price levels) and will continue to be used in the following heating season(s), as the loan proceeds will be repaid and re-disbursed in view of the revolving nature of the loan. • The loan will be composed of two tranches: (i) Emergency Tranche of up to EUR 200m; uncommitted. (ii) Diversification & Storage Tranche of up to EUR 100m; committed. • The strategic importance of the transaction is driven by the energy security objective to ensure continued and uninterrupted gas supply in Moldova, both in 2022 and following years. This is essential to safeguard basic needs and economic livelihoods of the local population as well as refugees from Ukraine.
Existing Exposure	EUR 396m debt to Republic of Moldova, with sovereign and sovereign guaranteed loans equivalent to 60% of the EUR 658m total country portfolio. Sovereign operating assets stand at EUR 114m.
Maturity / Repayment	A 3 year revolving credit facility [REDACTED]
Use of Proceeds	EBRD loan will be utilised to strengthen Moldova's energy security: • up to EUR 200m Emergency Tranche will be used in case of gas supply disruption [REDACTED]; • up to EUR 100m Diversification & Storage Tranche will be used to accumulate and store Moldova's strategic gas reserve in Romania or Ukraine, which will also allow to avoid seasonal price spikes and diversify supply routes and sources. EBRD loan will disburse under Gas Supply Agreements ("**GSAs**") [REDACTED]
Investment Plan	[REDACTED]
Financing Plan	[REDACTED]
Key Parties Involved	• The Borrower: Republic of Moldova • The Project Entity: Energocom • The Off-taker: S.A. Moldovagaz • Gas suppliers: the suppliers identified at pre-qualification stage
Conditions to subscription / disbursement	[REDACTED]
Key Covenants	[REDACTED]
Security / Guarantees	None
Other material agreements	[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

Gas accounts for 31%[3] of Moldova's energy consumption mix. In contrast to majority of its neighbours, where industry is the main consumer of gas, 70% of Moldova's gas is consumed by population and district heating utilities. As of 22 April 2022 around 393 thousand refugees entered the country with most of them only transiting further, while 91 thousand remained in Moldova. With 2.7 million of local population, this represents the highest number per capita in any affected country, and has increased considerably national energy demands, putting pressure on the energy system. With no domestic sources of energy and no gas storage, Moldova relies on gas imports from Russia, via the transit pipeline to Western Europe that crosses Ukraine, under a long-term gas supply contract with Gazprom valid until 2026. This makes Moldova vulnerable to gas price volatility and supply disruptions. Indirectly, Moldova is also affected by a complex relationship between Gazprom and Ukraine for gas transit, currently governed by a long-term gas transit contract that expires in 2024. Therefore there is a risk of natural gas supply disruptions to Moldova [REDACTED]. This risk has escalated since the start of the Russia-led war on 24 February 2022. Moldova's current 5-year gas supply contract with Gazprom was signed on 29 October 2021 in the midst of the energy crisis in Europe [REDACTED].

European gas prices rallied throughout 2021 reaching historic highs (+1000%) at TTF hub in March 2022 since the start of the war on Ukraine. Energy crisis [REDACTED] hampers Moldova's ability to plan for the medium term budgetary spending, and leads to allocation of significant public funding to subsidise households and industry for higher end-user tariffs. Therefore, Moldovan authorities requested EBRD and other multilateral institutions to help with financing its energy security.

In response to the energy crisis exacerbated by the war in Ukraine, on 25 March the European Council included Moldova into a joint common purchase platform for natural gas, LNG and hydrogen created to ensure security of energy supply for all member states. At the same time, EBRD is the only IFI which has come up with a EUR 300m financial structure that would allow Moldova to purchase gas in material quantities ([REDACTED]). The continued ability to procure gas is strategically important for Moldova's energy security and livelihood of its population incl. the increasing number of refugees from Ukraine.

Following recent progress in the implementation of the third Energy Package and commissioning of interconnector with Romania in 2021 (financed by EBRD), Moldova appears to have no legal restraints to [REDACTED] purchase gas from the EU hubs. In order to enable gas procurement [REDACTED] and introduce competition to existing monopoly of Moldovagaz, the government authorised Energocom to procure gas from alternative sources on a spot market by running tenders mainly on EU and Ukrainian borders.

This will enable the Bank to disburse the loan directly to pre-qualified EU suppliers which were selected by Energocom and agreed by EBRD in line with the EBRD procurement rules. The transaction is structured to ensure full transparency and traceability of loan proceeds. Loan disbursements will be made directly to such suppliers against invoices for dispatched gas.

3 Based on the Moldova energy statistics with the government sources. https://statistica.gov.md/category.php?l=en&idc=128&. According to that one, natural gas represented 30.5% of the energy mix of the country in 2020, assuming electricity and heat are generated from gas fired plants.

The Project will strengthen Moldova's energy security by providing both an emergency and long-term financing mechanisms to mitigate the risk of disruption and maintain access to vital energy services, accumulate strategic gas reserve and support diversification of natural gas suppliers and delivery routes. Therefore, the Project is in line with the Moldova Country Strategy, the Energy Sector Strategy and the Equality of Opportunity Strategy. The Project is in line with the War on Ukraine – EBRD Resilience Package endorsed by the Board and is consistent with the objectives of the EUR 2bn War on Ukraine - EBRD Resilience Package - Resilience and Livelihoods Framework (the "Framework"), which promotes access to services for Moldovan population as well as for Ukrainians, mostly women, children and the elderly, who have been displaced to Moldova.

It should be noted that the Bank supported Moldova in December 2019 by approving the Emergency Gas Purchase Facility. This facility provided a financing mechanism to mitigate the potential risk of gas supply disruption that could have been caused by not extending the gas transit agreement between Russia and Ukraine at the end of 2019. The Project was ultimately cancelled as the emergency situation did not arise and the ENERSAP agreed with the authorities was partially implemented. The current Project will involve policy dialogue to deliver on the remaining and extended scope of activities covered in the ENERSAP, namely:

(a) *Improve the capacity at Energocom*: i) implement a CGAP with targeted corporate governance actions to improve the corporate governance and transparency at Energocom in line with agreed best international practice, and ii) work with USAID to improve the capacity of Energocom to purchase gas on competitive European markets.

(b) *Address structural issues in the energy sector*: i) develop, together with other international partners such as Energy Community Secretariat, and implement necessary primary and secondary legislation required for full third-party access, functioning wholesale and retail markets, effective unbundling and further EU market integration with revision to the energy market rules, and ii) implement an enabling framework for renewable energy auctions and facilitate Moldova's first renewable auction by adopting relevant amendments to the Renewables Energy Sources Law and secondary legislation, and by launching the renewable auction with selection of winning bidders.

1.2 TRANSITION IMPACT

The tables below set out the TI Objectives and details of the Project.

Primary Quality: Resilient

Obj. No.	Objective	Details
1.1	The Project introduces new operational approaches that will have a significant effect on the efficiency of client operations.	The Project will improve energy security by providing financing to create strategic reserve facilitating diversification of gas supply imports to Moldova [REDACTED] by procuring gas on EU hubs and storing it in neighbouring Ukraine or Romania until needed. The development of renewables in Moldova will also help the country reduce its dependence on imported gas.
1.2	The Project entails a policy dialogue initiative that has been assessed as Strong Good by the sector economist.	The government intends to introduce necessary amendments to the Gas Law to address energy emergencies in the future. The Bank already has a TC Project in place launched in 2019, to help amend the law and introduce the harmonised tariffs and inter TSO compensation mechanism, following the transaction to finance the Moldova–Romania gas pipeline. This TC was extended to also include the additional amendments required under the current Project. The Project will involve policy dialogue to deliver on the existing and extended scope of activities covered in the ENERSAP, namely amendments to the Gas Law (currently approved by the Parliament in 1st reading), network code compliance and unbundling requirements. It will also include policy dialogue to introduce changes to the Electricity Law required for the development of renewables and implementation of renewable energy auctions in Moldova. Energocom will implement the recommendations prepared by the KPMG in 2020 and 2021 as part of an EBRD-led TC project related to the improvement of corporate governance of Energocom and increasing transparency and standardisation of procurement practices in line with international best practices and building the capacities within the Energocom's procurement function. There is a follow-up USAID financed project which, in coordination with the EBRD, is aimed at improving Energocom's capacity to purchase gas on competitive European markets. The Bank also will help building capacity in the Ministry of Infrastructure and Regional Development and Public Property Agency to help ensure effective delivery of ENERSAP commitments; define short, medium and long-term reform priorities for energy sector reform.
2.3	The company will improve its CG from a base level that is below average in the	The ENERSAP includes provision for a CGAP and a CCG assessment. Energocom will implement the

	country and sector. The CGAP addresses most of the CG issues identified in the company. [REDACTED] There will be no impact of the CGAP beyond the client.	CGAP, including the introduction of internal controls and transparency measures. The CCG assessment will result on an initial disclosure that will set out: • The main principles of the Company's adopted CCG Action Plan; • The anticipated impacts of climate change and climate policies on its business; and • An initial assessment of the Company's exposure to climate risks.

Secondary Quality: Inclusive

Obj. No.	Objective	Details
2.1	Safeguarding energy provision to maintain vital services for the population.	The Project will provide an emergency facility to prevent gas supply disruptions and maintain a reliable supply of vital energy services in advance of the main heating season for both the Moldovan population and Ukrainians refugees, predominantly women, children and elderly.
2.2	Supporting human capital development for local workers	The Project will support human capital development by providing training to local workers to build a selected gas procurement team at Energocom, which will procure both emergency gas supplies and gas to be stored as a reserve from pre-qualified suppliers under EBRD PP&Rs.

The TI delivery risks associated to the transaction mainly stem from (i) no reform being introduced in the country to open the gas market and diversify the gas imports, and restructuring of Energocom not being implemented. [REDACTED] (ii) increased threat to energy security and ability of Moldova to maintain liquidity and financial stability of Energocom and Moldovagaz, in view of increased gas prices and declined revenue collection. The first risk is mitigated by clear conditionalities included in the developed ENERSAP and CGAP which are part of the legal documentation for this Project. The second risk is mitigated by support from the Bank's financing package required by Moldova to ensure uninterrupted gas supply to the country.

1.3 ADDITIONALITY

Identified triggers	**Description**
No triggers identified	N/A

Additionality sources	**Evidence of additionality sources**
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.	• EBRD financing is facilitating the Project successful implementation as Energocom could not secure necessary funding to procure the gas a stand-alone basis nor the GoM has

• 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. • Crisis response: EBRD financing **effectively bridges a financing gap** due to adverse market conditions.	such resources available in the 2022 budget. [REDACTED].
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.	• The Project entails a policy dialogue initiative which includes implementation of an ENERSAP, composed of necessary primary and secondary legislation required for full third-party access, functioning wholesale and retail markets, effective unbundling and further EU market integration with revision to the energy market rules. • The Project will implement an enabling framework for renewable energy auctions and facilitate Moldova's first renewable auction by adopting relevant amendments to the Renewables Energy Sources Law and secondary legislation, and by launching the renewable energy auction with selection of winning bidders.
Standard-setting: helping Projects and clients achieve higher standards • Client seeks/makes use of EBRD expertise on **best international procurement standards**. • Client seeks/makes use of EBRD expertise on **corporate governance** improvements, including for climate risk management.	• Energocom will be using EBRD facility to purchase gas on the basis of EFET contracts from the pre-qualified suppliers selected according to the Bank's PP&R during pre-qualification stage. • Energocom will implement CGAP with targeted actions to improve the CCG and transparency in line with agreed best international practice. • Energocom will work with USAID to improve the capacity to purchase gas on competitive European markets.

1.4 SOUND BANKING - KEY RISKS

Risks	Probability / Effect	Comments
Project specific risks		
Sanctions risk	Low/High	Moldovagaz is a 50%+1 subsidiary of Gazprom of Russia. Gazprom is currently subject to certain specific prohibitions/restrictions imposed by a number of jurisdictions (including the US, UK, Canada). Some of such restrictions would also extend to Gazprom's subsidiaries. [REDACTED]. Mitigants: supplying gas through Moldovagaz is the only option to physically bring gas for Energocom and then to final consumers. Moldovagaz owns the transmission and distribution networks that reach out to 90% of consumers in Moldova. [REDACTED]
		[REDACTED]
Liquidity risk	Medium/Low	Energocom may experience payment delays from Moldovagaz, which have already accumulated [REDACTED] payment arears to Gazprom for gas consumed by Transnistria. the breakaway territory of Moldova [REDACTED]In addition, Moldovagaz may experience low collections or lack of full and timely retail gas tariff adjustments from the Regulator. Mitigants: (i) for emergency gas purchases on EU and Ukrainian borders and subsequent sale to Moldovagaz, the GoM will impose Public Service Obligation (PSO) on Moldovagaz to off-take all gas from Energocom and pay for it in a timely manner. The Regulator and the GoM will work on a timely retail gas tariff adjustment to reflect price of gas sourced via Energocom's tenders; (ii) Republic of Moldova will be the primary obligor on all payment and performance obligations of Energocom.
External risks		
Political risk	High/High	The Russian-led military invasion of Ukraine on 24 February 2022 has radically changed Moldova's geopolitical and security environment. The mass influx of refugees from Ukraine has added to economic and social pressures. At the same time, the pro-reform government continues to rely on a stable single-party parliamentary majority. The government also enjoys strong support by the EU and IFIs.

Sovereign risk	Medium/High	Moldova is a creditworthy borrower with sustainable public debt. The public debt level as a share of GDP stood at 32.1% in 2021 (MDL 77.8 bn), up from 27.9% in 2019 prior to the pandemic on the back of economic contraction and increased fiscal costs due to Covid-19 policy response. The economy recovered in 2021, with GDP growing by 13.9%. Strong recovery was supported by revived export demand from the European automotive value chains as well as robust growth of salaries, social assistance and remittances. International reserves have decreased to US$ 3.4bn in March 2022 due to the external financing pressures from increased gas prices. The war on Ukraine is putting additional stress on the Moldovan economy, causing a reduction by half of the EBRD growth forecast for this year to 2%. Moody's affirmed Moldova's rating at B3 and revised the outlook to negative in April 2022. According to Moody's, credit strengths include Moldova's manageable debt level and high debt affordability supported by sizeable international support despite the rise in debt-to-GDP induced by the coronavirus shock. [REDACTED]. The war on Ukraine increases geopolitical risks and will have an impact on Moldova's economic confidence, trade and investment prospects.
Exchange rate risk	Medium/ Medium	Despite heightened political uncertainty and the pandemic, the Lei strengthened in 2019-2020, while in 2021 it depreciated. Chronic, large current account deficits make the currency vulnerable, while remittances inflows into the banking system mitigate the risk. Increased gas import price under the new contract with Gazprom has been putting additional pressure on the external financing gap, but new IMF programme and IFI financing alleviate the burden. Moldova's vulnerability to external shocks requires having a flexible exchange rate as an effective shock absorber. The formal adoption of the foreign exchange intervention (FXI) strategy in 2020 has helped the National Bank of Moldova to limit its FXIs to reducing excessive exchange rate volatility because of disorderly market conditions.

2. MEASURING / MONITORING SUCCESS

Overall objectives of Project	*Monitoring benchmarks*	*Implementation timing*
- Good financial and operational performance - On-time Project implementation	[REDACTED]	[REDACTED]

Primary Quality: Resilient

Obj. No.	Monitoring indicator	Details	Base-line	Target	Due date
1.1	Practices of the relevant stakeholder improved (operational)	Energocom to purchase gas on competitive European markets	[REDACTED]	[REDACTED]	[REDACTED]
1.2	Legal, institutional or regulatory frameworks in target areas improved	ENERSAP is implemented introducing (i) necessary primary and secondary legislation required for full third-party access, functioning wholesale and retail markets, effective unbundling and further EU market integration with revision to the energy market rules; and ii) implementing an enabling framework for renewable energy auctions and facilitate Moldova's first renewable auction by adopting relevant amendments to the Renewables Energy Sources Law and secondary legislation, and by launching the renewable energy auction with selection of winning bidders and (iii) building capacity in the Ministry of Infrastructure and Regional Development and Public Property Agency to deliver on sector and ownership function reforms.	[REDACTED]	[REDACTED]	[REDACTED]
1.3	Actions in CGAP are implemented	Introduction of internal controls and transparency measures at Energocom. Public Property Agency to improve state ownership function in line with IMF programme.	[REDACTED]	[REDACTED]	[REDACTED]

1.4	CCG developed	Energocom to develop CCG in accordance with ENERSAP	[REDACTED]	[REDACTED]	[REDACTED]

Secondary Quality: Inclusive

Obj. No.	Monitoring indicator	Details	Base-line	Target	Due date
2.1	Provision of vital services/goods maintained	To continue the supply of vital energy services and sustain livelihoods of Ukrainian refugees and the Moldovan population.	[REDACTED]	[REDACTED]	[REDACTED]
2.2	Training programme developed and implemented	To promote human capital development for local workers by introducing a training programme for the new procurement and trading team to be established at Energocom.	[REDACTED]	[REDACTED]	[REDACTED]

3. KEY PARTIES

3.1 BORROWER

The Republic of Moldova is rated by Moody's at B3 with negative outlook.

3.2 PROJECT ENTITY

Energocom is a 100% state-owned enterprise established by the GoM in 2005 as an electricity importer and domestic electricity supplier. In October 2021, the government appointed Energocom to [REDACTED] buy gas from EU suppliers and sell it to Moldovagaz. Energocom has a licence to supply natural gas, although this activity was so far limited to marginal gas import from Romania in 2015-2016 and 4Q2021. In 2017-2020, Energocom has been generating cash solely from electricity supply activities. Energocom reported 2021 unaudited IFRS revenues of EUR 106m, EBITDA of EUR 0.5m, net income of EUR 0.4m, equity of EUR 17.9m and no debt.

3.3 KEY OFF-TAKER

Moldovagaz is an integrated company, incorporated in 1999, that acts as an importer of Russian gas, last resort gas supplier to population[4], transmission system operator (through owned TSO Moldovatransgaz) and monopoly gas distributor (through a number of owned distribution companies). Moldovagaz is controlled by Gazprom (50%+1 share), the GoM owns 35.3% and the remaining stake (13.4%) belongs predominantly to Transnistria, the breakaway territory of Moldova, and individual shareholders (insignificant share). Moldovagaz owns 1,800 km the majority of transmission and distribution network (of which 1,550 km is used for national transmission and 250 km is used for transit) that reach 90% of consumers in the country and through which the gas acquired under the Project could be delivered to customers. Moldovagaz reported 2020 audited Moldovan GAAP revenues of USD 263m, net loss of USD 39m and assets USD of 663m.

[4] As per Moldovan law.

4. MARKET CONTEXT

With no domestic sources of energy and no gas storage, Moldova is highly dependent on imported natural gas that accounts for nearly 31% of the country's energy consumption mix. Currently, all natural gas is imported solely from Russia (with transit via Ukraine) under a 5-year contract with Gazprom expiring in 2026. [REDACTED] Since the start of the war on Ukraine, the risk of gas transit disruption by Gazprom has increased significantly. Given that Moldova imports gas from transit via Ukraine, [REDACTED] motivated the Government of Moldova to secure EBRD financing to build up strategic gas reserve and cover emergency gas supplies [REDACTED].

Gas storage contributes to security of supply by providing additional supply in case of strong demand or supply disruptions; storage supplies 25-30% of gas consumed in winter in Western Europe. During the heating season, storage reduces the need to import additional gas. Storage contributes to absorbing supply shocks. Over the last six months, an unbalanced gas market has led to a sharp increase in gas prices. The EU level of filling of storage during the winter was largely below the level of the preceding years – 10% less in percentage points in January 2021. This has amplified uncertainties as regards security of supply and the volatility of prices.

The European Commission has conducted an EU wide risk preparedness analysis in February 2022. This analysis indicated that while the winter 2021/2022 was eventually safe, there could be risk of insufficient gas in EU storages ahead of the next winter 2022/2023. Therefore, a new EU regulation on mandatory minimum level of gas in storage facilities is currently being discussed by the European Commission[5] with the purpose to reinforce the security of supply ahead of the winter 2022/2023 and for the following winter periods. This will address the very significant risks for security of supply and the EU's economy resulting from the dramatically changed geopolitical situation. It is currently proposed that EU member states should ensure that the storage infrastructures in their territory are full to at least 90% of their capacity. For 2022, a lower filling target of 80% will apply.

In response to the energy crisis exacerbated by the war in Ukraine, on 25 March the European Council included Moldova in a joint common purchase platform for gas, LNG and hydrogen created to ensure security of energy supply for all member states. The platform was established as a coordinated instruments for the purchase of energy with other EU member states to maximise the utilisation of storages.

The difference of gas prices between summer and winter is important to secure gas in storage. Given the ongoing geopolitical developments and high energy prices, an estimate of the foreseeable summer/winter spread is very unreliable. The situation is expected to be particularly problematic ahead of next winter, as prices may be higher in summer than in winter. This is expected to lead to a situation in which storage is not attractive to market participants and filling needs to be ensured by public interventions, including financial support to incentivise the use of storage. [REDACTED].

5. FINANCIAL / ECONOMIC ANALYSIS

5.1 FINANCIAL PROJECTIONS

Historical analysis

Energocom's financial performance analysis is based on FY2021 non-audited IFRS financials and FY2020 IFRS financials audited by Moldauditing (unqualified statement). The financial

[5] The draft regulation can be found here: https://energy.ec.europa.eu/proposal-regulation-gas-storage_en

analysis is presented in EUR while all ratios and growth rates have been calculated in local currency unless stated otherwise.

During 2017-2020, Energocom generated cash solely from electricity supplying activities, from both the regulated (electricity generated in Moldova) and non-regulated (imported electricity) segments, thus effectively being a centralised acquirer of electricity for the country. Its business profile changed however starting from 1st April 2021, whereby Energocom will no longer act as an intermediary in the electricity imports but will remain the supplier for internally produced electricity as designated by the Government. In October 2021, Energocom was [REDACTED] authorised to run open tenders with EU gas suppliers to diversify gas imports [REDACTED]. Through the tenders Energocom so far purchased over 17mcm of technical gas necessary to maintain sufficient pressure in gas pipelines, that gas was supplied to the border of Moldova, amid a drop in deliveries from Gazprom.

In FY 2021, Energocom generated EUR 106m revenues (-45% y-o-y), mostly from the sales of electricity on regulated segment, gas sales accounted for 12% of the revenue. The Company's margin in the regulated electricity segment is established by the regulator ANRE at 0.5% of sales. This is reflected in the EBITDA of EUR 0.5m (-58% y-o-y) which, due to negligible depreciation and no interest expenses, translated into net profit of EUR 0.4m (2020: EUR 1.2m; -64% y-o-y) and net margin of 0.4% (2020: 0.6%).

5.2 Projected Profitability for the Bank

[REDACTED]

6. OTHER KEY CONSIDERATIONS

6.1 ENVIRONMENT

Categorised C (ESP 2019). The proposed transaction involves a loan to the Government of Moldova which will be on-lent to Energocom, who will buy gas from EU suppliers and sell it on to Moldovagaz. Energocom owns no gas storage or transportation assets, while key environmental risks on this transaction are associated with the physical infrastructure owned by others in Moldova and Romania. Therefore, given the structure of the transaction (gas purchase), there will be limited (at best) leverage over the gas infrastructure that will be utilized for supply of gas to and within Moldova. However the Bank does has an existing relation with VestMoldTransgaz (OpId 50410), the company that owns and operates the Moldova-Romania Interconnector, that could be used for transport of gas to Moldova. The VestMoldTransgaz has an obligation to comply with and implement EBRD's [Performance Requirements].

Compliance with the EBRD Performance Requirements has been monitored under the existing loan and results of the monitoring show good performance. This monitoring will be continued in 2022. In terms of Paris Alignment, the Project is considered aligned in terms of mitigation. While further assessment is required in terms of adaptation, such assessment is not feasible given that no data on location of final physical gas transportation infrastructure, owned and operated by third parties, can be obtained. Such data will only be available once tender process if finalised. However, it can be safely assumed that robust surveys aimed at confirming physical risks such as landslides, flood-prone areas and other natural hazards, were conducted prior to construction of the gas transport infrastructure, in order to safeguard its mechanical integrity. There is no GET element associated with this Project.

6.2 INTEGRITY

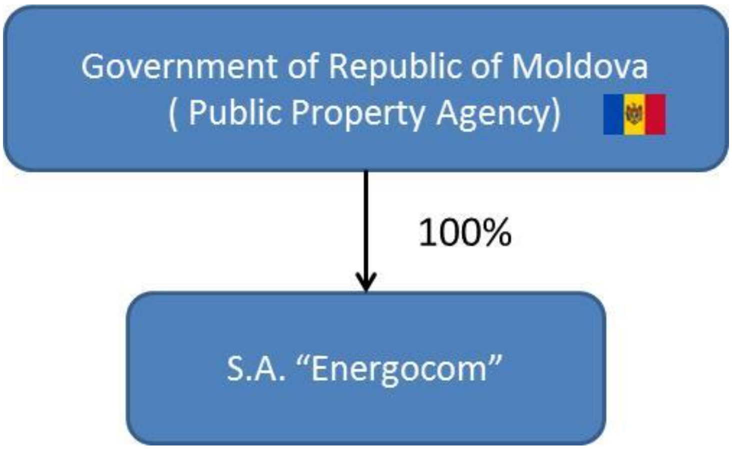
In conjunction with OCCO, updated integrity due diligence was undertaken on Energocom, its senior management, Moldovagaz (the off-taker), and other relevant parties. [REDACTED].

In the context of this project, it is further noted that the use of funds is clear, as are the recipients. Loan disbursements will be made directly, against invoices, to EU gas suppliers pre-qualified under the Bank’s PP&Rs. The full list of suppliers is known and screened, and the gas supply agreements are all compliant with relevant European standards and satisfactory to the Bank.
All actions required by applicable EBRD procedures relevant to the prevention of money laundering, terrorist financing and other integrity issues have been taken with respect to the project, and the project files contain the integrity checklists and other required documentation which have been properly and accurately completed to proceed with the project.

ANNEXES TO OPERATION REPORT

ANNEX 1	Energocom's Shareholding Structure
ANNEX 2	Sustainability of Public Debt for Moldova
ANNEX 3	Historical Financial Statements
ANNEX 4	Moldova Gas Market Analysis
ANNEX 5	Energy Sector Reform Action Plan
ANNEX 6	Project's Sanctions Preliminary Review
ANNEX 7	Green Assessment Summary
ANNEX 8	Project Implementation

ANNEX 1. ENERGOCOM'S SHAREHOLDERS STRUCTURE



ANNEX 2. SUSTAINABILITY OF PUBLIC DEBT FOR MOLDOVA

After a deep GDP contraction of 7.4% in 2020, with domestic consumption, investments and exports all registering substantial declines, the economy has recovered in 2021. GDP growth of 13.9% y/y in 2021 was driven by double digits growth of household consumption on the demand side and equally strong performance of agriculture, transport, trade and ICT sectors on the production side. Strong recovery was supported by revived export demand from European automotive value chains as well as robust growth of salaries, social assistance and remittances. The current account deficit narrowed from 9.3% of GDP in 2019 to 7.5% of GDP in 2020, mainly financed by debt instruments, thus keeping international reserves at comfortable levels. In 2021, the current account deficit widened again to 11.6% of GDP. Rising gas prices since November 2021 put the spot on Moldova's energy security risk, which makes pressure on macroeconomic stability and threatens to disrupt the government reform efforts. High gas prices are pushing trade deficit and current account higher, prompting NBM interventions on the f/x market. In March 2022, international reserve assets have reduced to USD 3.4bn, though still covering more than 5 months of imports.

Higher food prices since the beginning of 2021, and rapid increase of gas prices for households by 80% m/m in November, after being flat since the beginning of the year, have accelerated inflation from almost zero in January 2021 to 18.5% cent in February 2022. Rapid rise of gas price in a situation where spending on utilities already equals more than a quarter of the household income hurt poorer households and triggered government subsidies. However, subsidies are putting pressure on government finances and might crowd out public investments. Rising inflation also prompted the National Bank of Moldova to raise the base rate by almost 1000 b.p. since June 2021 to 12.5% in March 2022.

The war in Ukraine is affecting Moldova through four main channels: i) refugee crisis, ii) prices, iii) trade, and iv) financial markets. As of 22 April 2022 around 393 thousand refugees entered the country with most of them only transiting further, while 91 thousand remained in Moldova. The fragile economy and constrained institutional capacity mean the country is struggling to cope with the influx of Ukrainian refugees. Recent additional rise of energy and grain prices will keep inflation at elevated levels for longer. Moldova's exposure to Russia's economy through exports and remittances is around 5% of its GDP with agriculture products likely to be affected the most. Rising uncertainty and risks drove interbank rate up by 70% since January, while f/x market has been under pressure of increased demand, almost double the normal levels. That prompted NBM to increase its interventions to the record level, last seen during 2014 crisis and foreign reserves declined from the high of USD 4.1bn in October 2021 to 3.4bn now. Because of this stress to the economy, EBRD halved growth forecast for this year to 2%.

The public debt level as share of GDP stood at 32.1% in 2021 (MDL 77.8 bn), up from 27.9% in 2019 prior to the pandemic on the back of economic contraction and increased fiscal costs due to Covid-19 policy response. External public debt, which is denominated in foreign currency and to a large degree owed to multilateral donors under concessional terms, represented about 57.2% of total public debt at the end of 2021. According to the IMF report and based on the Projected economic and fiscal impact of the Covid-19 (Country report, January 2022), Moldova remains at low risk of external and overall debt distress. [REDACTED].

Moody's affirmed Moldova's rating at B3 and revised the outlook to negative in April 2022. According to Moody's, credit strengths include Moldova's manageable debt level and high debt affordability supported by sizeable international support despite the rise in debt-to-GDP induced by the coronavirus shock, improved resilience of the banking sector on the back of reform progress under the IMF programme and willingness and ability to absorb technical expertise and financial support from the international community to help strengthen the institutional framework. [REDACTED].

ANNEX 3. HISTORICAL FINANCIAL STATEMENTS

Energocom S.A.

Income Statement

million	MDL 2019 audited IFRS	MDL 2020 audited IFRS	MDL 2021 non-audited IFRS	EUR 2019 audited IFRS	EUR 2020 audited IFRS	EUR 2021 non-audited IFRS
Sales	4,470.8	4,019.8	2,221.8	227.2	203.6	106.2
Cost of Sales	-4,431.0	-3,965.5	-2,223.2	-225.2	-200.8	-106.2
SG&A	-19.6	-35.6	-11.2	-1.0	-1.8	-0.5
Other Income	13.1	8.1	24.1	0.7	0.4	1.1
Other OPEX	-0.5	-0.4	-0.5	0.0	0.0	0.0
EBITDA	**32.9**	**26.3**	**11.0**	**1.7**	**1.3**	**0.5**
Depreciation	-0.1	-0.1	-0.1	0.0	0.0	0.0
EBIT	**32.8**	**26.2**	**10.9**	**1.7**	**1.3**	**0.5**
Interest Expense	0.0	0.0	0.0	0.0	0.0	0.0
Other Costs/Income (FX)	0.5	1.6	0.5	0.0	0.1	0.0
Profit before tax	**33.3**	**27.8**	**11.4**	**1.7**	**1.4**	**0.5**
Tax incurred	-4.1	-3.3	-2.7	-0.2	-0.2	-0.1
Profit after tax	**29.3**	**24.5**	**8.7**	**1.5**	**1.2**	**0.4**
Dividends	0.0	0.0	0.0	0.0	0.0	0.0
Other Items	0.0	0.0	0.0	0.0	0.0	0.0
Profit for the year	**29.3**	**24.5**	**8.7**	**1.5**	**1.2**	**0.4**

Balance Sheet

million	MDL 2019 audited IFRS	MDL 2020 audited IFRS	MDL 2021 non-audited IFRS	EUR 2019 audited IFRS	EUR 2020 audited IFRS	EUR 2021 non-audited IFRS
Cash	33.1	91.4	243.0	1.7	4.6	11.6
Receivables	342.5	294.3	520.5	17.4	14.9	24.9
Advances	0.0	0.0	0.0	0.0	0.0	0.0
Inventories	0.0	0.0	0.0	0.0	0.0	0.0
Other ST assets	0.0	0.0	1,330.6	0.0	0.0	63.6
Total Current Assets	**375.6**	**385.7**	**2,094.2**	**19.1**	**19.5**	**100.1**
Fixed Assets	1.1	2.9	0.2	0.1	0.1	0.0
Other Assets	0.0	0.0	0.0	0.0	0.0	0.0
Total Assets	**376.7**	**388.6**	**2,094.4**	**19.1**	**19.7**	**100.1**
Short term Debt	0.0	0.0	0.0	0.0	0.0	0.0
Payables	295.4	291.5	325.0	15.0	14.8	15.5
Accrued Expenses	12.3	1.0	0.0	0.6	0.0	0.0
Other ST Liabilities	6.9	22.6	1,394.0	0.3	1.1	66.6
Total Current Liab	**314.6**	**315.1**	**1,719.1**	**16.0**	**16.0**	**82.2**
Long Term Debt	0.0	0.0	0.0	0.0	0.0	0.0
Other Long term Liabilities	0.0	0.0	0.0	0.0	0.0	0.0
Total Liabilities	**314.6**	**315.1**	**1,719.1**	**16.0**	**16.0**	**82.2**
Equity	**62.1**	**73.5**	**375.3**	3.2	3.7	17.9
Total Liab & Equity	**376.7**	**388.6**	**2,094.4**	**19.1**	**19.7**	**100.1**

Cash Flow Statement

million	MDL 2019 audited IFRS	MDL 2020 audited IFRS	MDL 2021 non-audited IFRS	EUR 2019 audited IFRS	EUR 2020 audited IFRS	EUR 2021 non-audited IFRS
Cash from sales	4,529.5	4,126.2	2,095.7	230.2	209.0	100.2
Payments for services and stocks	-4,516.0	-4,045.7	-2,094.8	-229.5	-204.9	-100.1
Payroll payments	-4.2	-4.7	-5.7	-0.2	-0.2	-0.3
Interest payment	0.0	0.0	0.0	0.0	0.0	0.0
Tax payments	-4.5	-5.9	-2.5	-0.2	-0.3	-0.1
Other cash-ins	0.9	1.4	1,701.7	0.0	0.1	81.3
Other payments	-0.2	-0.3	-1,530.7	0.0	0.0	-73.2
Operating C/F	**5.5**	**71.1**	**163.7**	**0.3**	**3.6**	**7.8**
Capex	0.0	0.0	0.0	0.0	0.0	0.0
Investing C/F	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
New loans	0.0	0.0	0.0	0.0	0.0	0.0
Loan repayment	0.0	0.0	0.0	0.0	0.0	0.0
Dividend payment	-5.0	-12.2	-12.2	-0.3	-0.6	-0.6
Financing C/F	**-5.0**	**-12.2**	**-12.2**	**-0.3**	**-0.6**	**-0.6**
Net C/F	**0.6**	**58.9**	**151.5**	**0.0**	**3.0**	**7.2**
FX movements	-1.1	-0.6	0.1	-0.1	0.0	0.0
Cash beg	33.7	33.1	91.4	1.7	1.7	4.4
Ending Cash	**33.1**	**91.4**	**243.0**	**1.7**	**4.6**	**11.6**

Moldovagaz S.A.

Income Statement	MDL' mln				USD' mln			
	2017	2018	2019	2020	2017	2018	2019	2020
Sales	5,650.6	5,170.2	4,623.9	4,522.5	305.6	307.7	268.7	262.7
Cost of Sales	-4,350.3	-3,517.5	-3,068.8	-3,129.1	-235.3	-209.3	-178.3	-181.8
SG&A	-1,274.0	-1,449.4	-1,487.3	-2,065.9	-68.9	-86.3	-86.4	-120.0
Other Income	120.5	27.2	12.1	11.3	6.5	1.6	0.7	0.7
Other OPEX	-48.3	-27.3	-3.1	-14.6	-2.6	-1.6	-0.2	-0.8
EBITDA	**98.5**	**203.3**	**76.8**	**-675.7**	**5.3**	**12.1**	**4.5**	**-39.3**
Depreciation	-3.8	-6.4	-9.8	-8.2	-0.2	-0.4	-0.6	-0.5
EBIT	**94.8**	**196.9**	**67.0**	**-683.9**	**5.1**	**11.7**	**3.9**	**-39.7**
Interest Expense					0.0	0.0	0.0	0.0
Other Costs/Income (FX)	2,028.8	-5.4	-44.6	7.0	109.7	-0.3	-2.6	0.4
Profit before tax	**2,123.6**	**191.5**	**22.4**	**-676.8**	**114.8**	**11.4**	**1.3**	**-39.3**
Tax incurred	197.5	0.0	0.0	0.0	10.7	0.0	0.0	0.0
Profit after tax	**2,321.0**	**191.5**	**22.4**	**-676.8**	**125.5**	**11.4**	**1.3**	**-39.3**
Dividends	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other Items	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Profit for the year	**2,321.0**	**191.5**	**22.4**	**-676.8**	**125.5**	**11.4**	**1.3**	**-39.3**
Balance Sheet								
million	MDL' mln				USD' mln			
	2017	2018	2019	2020	2017	2018	2019	2020
Cash	1,253.7	575.9	75.6	265.6	73.3	33.6	4.3	15.3
Receivables	5,592.9	5,434.5	4,789.1	4,017.8	327.1	317.0	272.5	232.0
Advances	79.7	176.1	242.1	133.9	4.7	10.3	13.8	7.7
Inventories	46.9	82.0	68.2	132.6	2.7	4.8	3.9	7.7
Other ST assets	703.4	795.2	818.0	704.0	41.1	46.4	46.5	40.6
Total Current Assets	**7,676.6**	**7,063.8**	**5,993.0**	**5,253.9**	**448.9**	**412.1**	**341.0**	**303.3**
Fixed Assets	367.7	57.0	51.0	53.6	21.5	3.3	2.9	3.1
Investmetns (inlc. In affiliated Co's)	4,727.0	5,259.4	6,323.2	6,177.0	276.4	306.8	359.8	356.6
Total Assets	**12,771.3**	**12,380.2**	**12,367.2**	**11,484.5**	**746.8**	**722.2**	**703.7**	**663.1**
Short term Debt	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Payables	9,820.8	9,982.1	10,122.5	9,947.4	574.3	582.3	576.0	574.3
Advances & Accrued Expenses	1,273.2	479.4	323.1	320.8	74.5	28.0	18.4	18.5
Other ST Liabilities	2,705.4	2,758.0	2,739.8	2,712.0	158.2	160.9	155.9	156.6
Total Current Liab	**13,799.4**	**13,219.5**	**13,185.4**	**12,980.3**	**807.0**	**771.1**	**750.2**	**749.4**
Long Term Debt	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other Long term Liabilities	4.6	2.0	1.5	1.4	0.3	0.1	0.1	0.1
Total Liabilities	**13,804.0**	**13,221.5**	**13,186.9**	**12,981.7**	**807.2**	**771.3**	**750.3**	**749.5**
Equity	**-1,032.7**	**-841.3**	**-819.7**	**-1,497.2**	**-60.4**	**-49.1**	**-46.6**	**-86.4**
Total Liab & Equity	**12,771.3**	**12,380.2**	**12,367.2**	**11,484.5**	**746.8**	**722.2**	**703.7**	**663.1**
RATIOS								
T Debt/Equity	-	-	-	-	-	-	-	-
Liabilities / Equity	(13.4)	(15.7)	(16.1)	(8.7)	(13.4)	(15.7)	(16.1)	(8.7)
Current Ratio	0.6	0.5	0.5	0.4	0.6	0.5	0.5	0.4
Gross margin	23.0%	32.0%	33.6%	30.8%	23.0%	32.0%	33.6%	30.8%
EBITDA margin	1.7%	3.9%	1.7%	-14.9%	1.7%	3.9%	1.7%	-14.9%
Net Margin	41.1%	3.7%	0.5%	-15.0%	41.1%	3.7%	0.5%	-15.0%

All ratios and growth rates have been calculated in local currency (MDL).

ANNEX 4: MOLDOVAN GAS MARKET ANALYSIS

Consumption

Natural gas is the most used type of fuel in Moldova that accounts for ca 31% of the energy mix. Moldova (excluding Transnistria) consumes c. 1bcm (2020: 1.1 bcm) of gas annually of which the largest consumers are power plants (2020: 35%) and households (36%) and the balance coming from industrials and municipals (29%). Transnistria region[6] consumes extra 2bcm of natural gas, the main consumer of which is the Cuciurgan gas power station that in turn sells power to consumers on the Right Bank, a mainland controlled by the Government of Moldova. [REDACTED].

Table 1. Moldova's gas consumption breakdown (excluding Transnistria)

million m³	2015	2016	2017	2018	2019	2020	2021
Gas imports	1,007	1,032	1,034	1,130	1,058	1,127	1,206
Gas consumption	928	965	965	1,069	1,016	1,046	1,205
of which:							
households	272	285	303	346	348	373	461
legal entities:	656	680	662	723	668	674	744
state organizations	43	45	45	51	46	42	52
power plants	398	404	384	405	365	371	391
other consumers	215	231	233	267	257	261	301

Source: ANRE

[REDACTED]

Gas imports

With no domestic sources of energy and no gas storages, Moldova has been importing natural gas solely from Russia (with transit via Ukraine). In 2020, a new 112km gas interconnector Ungheni-Chisinau was built and commissioned by Transgas, a Romanian TSO, in Moldova's efforts to diversify sources of gas supply. Since October 2021, the interconnector was fully operational and currently allows Moldova to import 1.5 bcm/year of gas from EU, that accounts for c130% of Moldova's annual demand. [REDACTED].

Following recent progress in the implementation of the third Energy Package, Moldova has no legal restraints to purchase gas from EU hubs. In order to enable gas procurement [REDACTED] and introduce competition [REDACTED], the Moldovan government authorised Energocom to procure gas from alternative sources on a spot market by running tenders mainly on EU and Ukrainian borders. As a starting point, in October 2021, the Moldovan government conducted several rounds of gas tenders through Energocom for total of 5mcm. Poland's state-owned PGNiG and Ukrainian private-sector ERU won the first tender, for 1mmc. Trading firm Vitol won the second tender, for 1mmc, and DXT and PGNiG won the third, for 1.5mcm. The final round was for 1.5mcm although Naftogaz, which won the bid, was only awarded 0.5mcm.

Since February 2022, (with USAID-financed TC in coordination with EBRD) the government have been training Energocom's newly recruited team to become a qualified gas trader, and procure and store strategic gas reserve during 2022.

Gazprom's gas supply contract with Moldova

Gazprom, Russian state controlled energy company, is at the moment the single supplier of natural gas to Moldova via its 50%+1 subsidiary Moldovagaz under a 5-year long-term contract signed on 29 October 2021. Previous contract with Gazprom expired in September 2021 and

[6] a formal administrative unit of Moldova established by the Government of Moldova to delineate the territory controlled by the unrecognized Pridnestrovian Moldavian Republic.

negotiations were launched to extend it on the backdrop of significant market price increase for gas in Europe (see more below). [REDACTED].

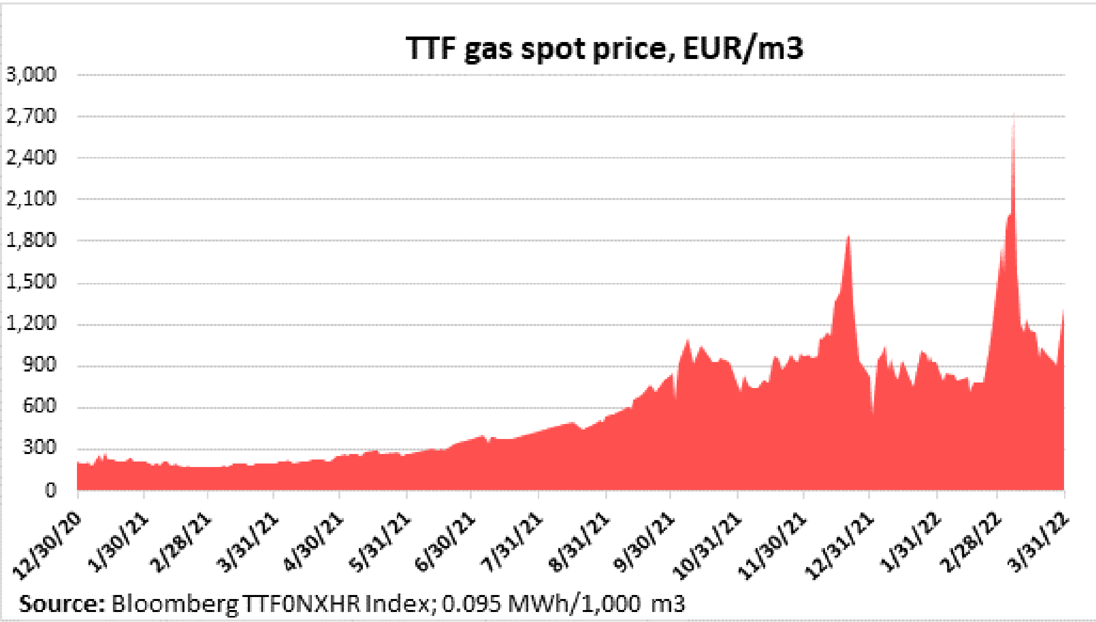
Gazprom's gas transit contract with Ukraine
On 30 December 2019, Gazprom and Naftogaz Ukraine signed agreements covering the transit of Russian gas through Ukraine for the period 2020-24. It provides for 65 bcm to be transited in 2020, and 40 bcm/year in 2021–24 – a total of 225 bcm, with provisions for additional volumes to be shipped if required.

Moldova is reliant on the gas volumes delivered through Ukraine based on this contract. [REDACTED].

Import price. Moldova's import gas pricing under existing contract with Gazprom follows the old market dynamics typical of the natural gas sector in Europe until the mid-2000s, based on long-term contracts negotiated bilaterally by national monopolists (Moldovagaz in this case, backed by their respective governments) directly with foreign suppliers (Gazprom) at prices that have no market benchmark, and were therefore indexed to the prices of substitute commodities such as oil. [REDACTED].

A global market for natural gas is nowadays established, reached a very high level of maturity and integration, which gives suppliers i) alternatives to long-term contracting and ii) a price reference to market their production. Therefore, Energocom [REDACTED] will be procuring gas via open tenders with EU suppliers and prices are likely to reflect EU gas hubs dynamics. Gas procurement during summer season, storage in Ukrainian or Romanian storage and further withdrawal for winter consumption will allow Moldova to (a) ensure gas availability through the winter period (i.e. at peak demand) and (b) to mitigate the winter-summer price differential.

EU Gas hubs pricing



During 2021-1Q2022, the lowest natural gas price for the TTF benchmark was observed in February 2021 amounting to 166 EUR/m3. Since July 2021, due to tighter-than-expected supply, the TTF prices were constantly soaring and reached its peak in December 2021 of 1,856 EUR/m3. In 2022, as the ongoing war on Ukraine shifted to active phase, the EU gas prices reached the historical peak of 2,740 EUR/m3 as of March 7, 2022 (vs. 176 EUR/m3 a year ago), while moderately recovered to 1,325 EUR/m3 as of 31 March 2022.

Negative Summer-Winter Gas Spread. There is a high chance that natural gas prices on EU gas hubs this summer will be higher than next winter. Therefore, strategic gas reserves purchased by EU countries this summer and stored in EU storages may be more expensive than gas purchased next winter on a spot market. As a result, EC is currently developing the procedure for joint gas procurement for EU countries as well as each country's obligations to fill in gas storages. Moldova, Georgia and Ukraine are also part of this EU initiative. [REDACTED].

Infrastructure

Gas sector infrastructure currently includes: high and medium pressure main gas pipelines 1,682 km; medium and low pressure gas distribution pipelines 24,711 km; 3 compression, 1 metering and 79 gas distribution stations. Connection gas pipelines and gas distribution stations situated on the territory of Moldova have the capacity to deliver c. 9 bcm to the Moldovan consumers, while the annual gas consumption of Moldova has been c. 1 bcm (excluding 2 bcm consumed in Transnistria).

Transmission. Moldova imports gas for domestic use through two main pipelines connected to Ukraine: Ananiev-Cernauti-Bogorodciani ("**ACB"**) gas pipeline and Sebelinka-Dneproppetrovsk-Krivoi Rog-Ismail ("**SDKRI**") gas pipeline. ACB is the main import line of Moldova; about 80% of all imported gas comes through this pipeline, whereas SDKRI is used for peak load in the winter.

In 2020, Transgaz, the Romanian TSO, built and commissioned 112km of 1.78 bcm capacity interconnector with Romania and Chisinau (EBRD Project: VMTG - OpID 50410). Pipeline capacity is 4.9 mcm per day, which translates into 1.78 bcm per year, which is more than the 1.2 bcm of the country's annual consumption. [REDACTED] While fully operational from 2021, this pipeline is not actively used at the moment, mainly because the gas imported from Russia through the traditional interconnection route is cheaper. The Iasi – Ungheni – Chisinau ("**IUC**") at full capacity could potentially replace import of gas (except for the peak consumption conditions) from ACB and SDKRI to the capital, Chisinau. However, the supply of gas to the rest of the country should be addressed as well.

The ACB and SDKRI transmission pipelines are owned by Moldovagaz, through its 100% subsidiaries Moldovatransgaz and Tiraspoltransgaz. The IUC is owned by Transgaz, ultimately owned by the Romanian TSO, and is expected to be mainly used by Energocom.

Distribution. There are 24 gas distribution companies in Moldova of which 12 are owned by Moldovagaz, representing c.98% of the gas consumption.

Transit. There are four transit gas pipelines in Moldova with transit capacity of c.45 bcm, supplying Russian gas to Turkey, Romania, Bulgaria and Greece. Total transit in the past years varied between 18 and 20 bcm. The transit pipelines are owned by Moldovagaz and operated by Moldovatransgaz. Transit payments are collected by Moldovagaz, and the total transit revenue is estimated to be c. USD 50m. There are four transit pipelines crossing the territory of the Republic of Moldova:

- North: ACB) gas pipeline (transit capacity: 8.7 bcm pa) – mainly used for importing gas for Moldova's consumption;
- South: Sebelinka-Dneproppetrovsk-Krivoi Rog-Ismail (SDKRI) gas pipeline and Razdelnaia-Ismail (RI) (total transit capacity of both: 15.8 bcm pa); Ananiev-Tiraspol-Ismail (ATI) gas pipeline (transit capacity: 20.0 bcm pa). South pipelines used for the transit of gas to Balkans and/or Turkey.

Storage: Moldova has no gas storage facilities, and no plans to construct any significant facilities. It has been relying on Ukraine to allocate a storage capacity to prepare for cold winter seasons.

Regulation and reforms

Regulator. Gas market in Moldova is regulated. The National Agency for Energy sector Regulation ("**ANRE**") is responsible for tariff approval in natural gas as well as electricity, heating and water sectors. The Law on Natural Gas extends the powers of ANRE to impose financial sanctions on gas companies failing to meet their obligation and sets criteria for licensing gas transportation, distribution, supply and storage.

Reforms/ The implementation of the Third Energy Package remains limited in practice [REDACTED]. In January 2022, Moldova launched the amendments to the Gas Law, which includes the proposals consulted with the EBRD TC experts and Energy Community Secretariat. The draft Gas Law passed 1st reading in the Parliament in April 2022. The notable positive development is the finalisation of the interconnector operated by the certified transmission system operator, Vestmoldtransgaz.

- **Unbundling** [REDACTED]**.** In line with the Law, Moldovagaz was transformed into a holding company with separate subsidiaries for supply, transmission and distribution. However, the unbundling process was stalled due to the lack of secondary legislation [REDACTED]. As a result, Moldovagaz continues to make decisions on behalf of its subsidiaries. Whilst the subsidiaries are legally unbundled they are not independent under the Third Energy Package.
- **Gas market liberalisation** [REDACTED]. After the amendment of the Law on Natural Gas in 2014 it has become possible to have a second (or more) gas TSO in the country. Third party access to gas infrastructure is stipulated in the Law on Natural Gas, but additional legislation shall be complemented by implementing Regulation (EC) 715/2009. Rules and procedures for supplier switching are adopted, and the supply rules are drafted. In practice, however, only incumbent suppliers are active in the market. Third party access to the transmission system is not in place, as Moldovatransgaz holds a transmission service contract only with its owner - Moldovagaz. Third party access to users which do not belong to Moldovagaz' shareholders is impossible. Backhaul (contractual reverse flow) is still not offered by Moldovatransgaz.
- Wholesale market [REDACTED] Moldova's gas market is still monopolised and without a virtual trading point. The REMIT Regulation is not transposed[7].
- **Retail market** [REDACTED] is still heavily regulated under a public service obligation scheme, under which Moldovagaz is responsible for the supply of households, appointed by a decision of ANRE without transparent or competitive procedures. Provisions on supply of last resort universally apply to all customers without adequate eligibility criteria for such gas supply. The security of supply regulatory framework is well established.
- **Interconnectivity** [REDACTED] with the construction of the Vestmoldgastrans (Ungheni Chisinau) pipeline, Moldova has access to another route and source of supply. The Trans-Balkan route remains untapped in the absence of reverse flow**.**
- **Implementation of CGAP by Energocom** [REDACTED]**.** At the request of the Government in 2020 the Bank launched a technical assistance project to support Energocom in improving its corporate governance practices. In particular, the consultants shall assist Energocom in implementing selected actions of the CGAP as to:
  - ✓ Establish/strengthen procurement, risk, independent compliance and internal audit functions;
  - ✓ Conduct an evaluation of Energocom's board to assess the dynamics and effectiveness of the board and prepare the profile and job description for the second, independent and properly qualified, director to be hired by the Company;
  - ✓ Assist with the separation of accounts for its key business lines;
  - ✓ Train the staff working on the procurement department.

7 REMIT is Regulation (EU) No 1227/2011 on wholesale energy market integrity and transparency.

The consultant hired by the Bank worked with Energocom and developed the required internal documentation for Energocom necessary to establish the required procurement and internal control functions as well as performed training for the procurement function.

Currently Energocom, with the support from the Ministry of Infrastructure and Public Property Agency, is in the process of implementation of the CGAP to establish the procurement, risk, independent compliance and internal audit functions in accordance with the advice and documentation submitted by the consultants and the EBRD. It is expected to be implemented by 30 July 2022.

End User Tariffs. Moldova has one of the lowest gas end user tariffs for both industrial and household consumers in Europe largely due to lower gas prices secured with Gazprom. The retail gas tariffs are largely indexed to import price, subsidies provided to the first 150m3 of household (low pressure users). In late January 2022, the retail tariffs were increased 40% in light of the increase in the import price of gas. Subsequently, in February 2022, the National Commission for Emergency Situations increased the state budget subsidies to both household and industrial users to mitigate a price shock. The subsidies are effective for the period from 1 January 2022 to March 2022.

Table 3. Moldova's gas pricing

US$ / 1000m3	**2016**	**2017**	**2018**	**2019**	**2020**	**H1 2021**	**H2 2021**	**Q1 2022**
Av. purchase price of gas	194	162	217	234	149	191	534	632
Av. end user gas tariff	331	278	263	252	238	227*	550*	701

*Source: ANRE, *team estimates*

Energy Strategy 2030 was approved by the Moldovan Government on January 16, 2013. The strategy has three goals at its basis, namely: i) the security of the energy supplies; ii) the development of the competitive markets and their regional and European integration; iii) ensuring of the environment sustainability and combating climate changes. A mid-term evaluation report of the National Development Strategy was presented in November 2017. The key priorities remain: interconnecting with the European energy system, increasing energy efficiency and liberalising the energy market. The Iasi – Ungheni – Chisinau pipeline supports particularly the achievement of the first two objectives, since the reduction of dependence on Russian gas is seen as a top priority objective of the Moldovan Government. The proposed Project will strengthen Moldova's energy security by providing an emergency financing mechanism to mitigate the risk of disruption and supporting diversification of natural gas suppliers and delivery routes.

ANNEX 5. ENERGY SECTOR REFORM ACTION PLAN

	ACTIONS	DEADLINE	RESPONSIBLE ENTITY	COMMENTS
1. Improve Corporate Governance at Energocom				
1.1	Implement a Corporate Governance Action Plan that contains – inter alia - some targeted corporate governance actions aimed at improving the corporate governance and transparency at Energocom in line with agreed best international practices.	[REDACTED]	Public Property Agency, Energocom	[REDACTED]
1.2	Improve the capacity in Energocom to purchase gas on competitive European markets	[REDACTED]	Energocom, USAID	[REDACTED]
1.3	Develop a Climate Corporate Governance (CCG) assessment leading to an initial disclosure that sets out: • The main principles of the Company's adopted CCG Action Plan; • The anticipated impacts of climate change and climate policies on its business; and • An initial assessment of the Company's exposure to climate risks	[REDACTED]	Public Property Agency, Energocom	[REDACTED]
2. **Sector reforms implementation**				
2.1	**Develop and implement necessary primary and secondary legislation and related measures.** In cooperation with the Energy Community, adopt the amendments to the Natural Gas Law necessary for the introduction of the harmonised gas transmission tariff to ensure consistency with the Energy Community acquis, Third Energy Package, network code Regulations, Regulation (EU) No 1227/2011 on wholesale energy market integrity and transparency and national legislative and market condition.	[REDACTED]	The Government of the Republic of Moldova (Ministry of Infrastructure and Regional Development in cooperation with and National Energy Sector Regulator (ANRE), Energy Community Secretariat and EBRD)	[REDACTED]

PUBLIC

2.2	In cooperation with the Energy Community Secretariat, ANRE to modify entry-exit transmission tariff methodology in line with amended Natural Gas Law. The methodology to include a harmonized tariff and an Inter-TSO Compensation (ITC) mechanism.	[REDACTED]	ANRE	[REDACTED]
2.3	Introduce the harmonised gas transmission tariff and ITC mechanism	[REDACTED]	ANRE	[REDACTED]
2.4	Update gas market rules	[REDACTED]	ANRE, Vestmoldtransgaz and Moldovatransgaz	[REDACTED]
2.5	**Strengthen the functional unbundling of the TSOs**. Implementation of unbundling of Moldovatransgaz under the terms and conditions stipulated in the Law No 108 of 27 May 2016 on Natural Gas	[REDACTED]	The Government of the Republic of Moldova (Ministry of Infrastructure and Regional Development), ANRE, Public Property Agency	[REDACTED]
2.6	**Implementation of Renewable Auctions.** Implement an enabling framework for the development of renewables through the amendments to the Renewable Energy Sources Law and implementation of renewable auctions in Moldova.	[REDACTED]	The Government of [the Republic of] Moldova (Ministry of Infrastructure and Regional Development), ANRE, Public Property Agency	[REDACTED]
2.7	Building capacity in the Ministry of Infrastructure and Regional Development and Public Property Agency to deliver on sector reforms	[REDACTED]	The Government of the Republic of Moldova (Ministry of Infrastructure and Regional Development), Public Property Agency, EBRD	[REDACTED]

ANNEX 6. PROJECT'S SANCTIONS REVIEW

[REDACTED]

ANNEX 7. GREEN ASSESMENT SUMMARY

Introduction

The Bank is financing the Energocom for the purchase of natural gas through two tranches:

(i) The Emergency Tranche that will be used only in case of supply disruption

(ii) The Diversification & Storage Tranche that will be used to build up gas reserves to avoid seasonal gas spikes.

The transaction does not involve any capital investment.

Paris alignment assessment

General screening of alignment with the mitigation goals of Paris Agreement

- [REDACTED]. Regarding Project/economic activity, there are no activities included in the 'non-aligned list'.

Specific assessments undertaken

This Project is aligned with the mitigation goals of the Paris Agreement because of the following:

- NDC and LTS Review:
  - The Project is aligned with the implementation of Moldova second NDC[8]:
    In its updated NDC (NDC2), Moldova intends to reduce its greenhouse gas emissions by 70% below its 1990 level in 2030, instead of 64-67% as committed in NDC1.
    The NDC targets cover the following sectors: energy; industrial processes and product use; agriculture; land use, land-use change and forestry and waste.
    The natural gas consumption reduced already by 73.9% from 1990 until 2019. This is due to two factors: (i) a decrease in population by 11.9% and the GDP by 27.7 % between 1990 and 2016 and (ii) the general increase of the energy efficiency leading to a decrease of the energy intensity (CO2eq/GDP) by 4.5% p.a. on average since 2000.
    The Project is not directed to increase the natural gas consumption and does not entail any capex investment directed to increase the production or consumption of the fuel.
    In consequence, the impact of the Project on Moldova NDC strategy is limited.
    Due to the duration of the revolving facility, this Project will have a very limited impact on any possible net-zero target in the second half of this century (as defined by the Paris Agreement).
  - The Project does not put a risk to the newly proposed Low Emissions Development Strategy (2030)[9]:
    The LEDS specific objectives of mitigating GHG emissions by 2030 by sectors from 1990 are: energy – 81%, transportation – 52%, buildings – 74%, industrial processes – 27%, agriculture – 44%, forestry and land use, change of the designation of land use and forestry (FTSCFTS) – 10%, waste – 14%.

[8] https://www4.unfccc.int/sites/ndcstaging/PublishedDocuments/Republic%20of%20Moldova%20First/MD_Updated_NDC_final_version_EN.pdf

[9] https://www4.unfccc.int/sites/SubmissionsStaging/NationalReports/Documents/2340916_Republic%20of%20Moldova-BUR3-1-BUR3-EN-211211_web.pdf

Moldova (excluding Transnistria) natural gas largest consumers are power plants (2020: 35%) and households (36%). The balance coming from industrials and municipals (29%).
The emissions reduction for the energy sector were 75% in 2019 (compared to 1990), which are on track to meet the LEDS target.
The building sector segregated emission are not available, however Moldova is engaged in different activities to improve the energy efficiency of the buildings. The reduction of energy losses in buildings in 2016 was 43.2 ktoe, while in 2018 - 75.9 ktoe.
    - A law on energy performance of buildings, No. 128/2014, as amended by Law No. 160/2016, establishes that after 30 June 2019, new public buildings must be buildings with almost zero energy consumption. After 30 June 2021, all new buildings must be buildings with almost zero energy consumption.
    - The Project is aligned with Moldova current Energy Strategy 2030 (2013)[10]:
    The Moldovan energy sector faces several challenges, the main one being the dependence on imports (especially natural gas). This transaction supports the diversification of the natural gas supply and its affordability. This will support its usage in the country for power and heat generation when compared to other similar, more polluting, sources like coal of fuel oil.
- Carbon lock-in:
  Carbon lock-in occurs when technical, economic or institutional factors mean that an asset will continue to operate in the future in an emissions-intensive way, even when there are feasible, and economically preferable, lower carbon options that could replace it.
  The Project is a revolving facility of short duration (3 years) that does not entail any capital investment. It will be only used to diversify the source of the natural gas that will be consumed anyway and to avoid any disruption of the supply. Consequently, the risk of carbon lock-in of this Project is very low as no new facilities or extension of the operating life of the current facilities are included in the Project.
- Stranded assets:
  The Project is not modifying the remaining operating life of any assets, therefore there is no impact on the risk of stranded assets.
  Additionally the loan tenor is for only 3 years.
- The GHG emissions impact of the Project is considered to be negligible:
    The same amount of natural gas will be consumed leading to the same CO2 emissions.
    However, different routes could be used to deliver the natural gas, e.g. the gas can be delivered from storage facilities in Romania or Ukraine, leading to a change in the emissions linked to natural gas leaks. The change in natural gas emissions is considered to be small as the main bulk of the emissions will happen in Moldova distribution network which will remain the same. Estimating the exact value is not possible because (i) the final complete distribution/storage system that will be used is not known and (ii) an extensive study calculating the current leaks compared to the expected one would be required.

Alignment with the adaptation goals of Paris Agreement

Because of the nature of the transaction -- gas purchasing not associated with new infrastructure -- and the high geographic diversity of existing storage facilities, the adaptation risk is considered low to immaterial. Therefore, the Project is considered Paris aligned for adaptation.

10 http://lex.justice.md/ru/346670/

ANNEX 8. PROJECT IMPLEMENTATION

Procurement classification – *Public sub-sovereign*

[REDACTED]

The Executing Agency for the Project will be Energocom which will be fully responsible for all procurement and implementation activities under the Project.

Contracts risk assessment: ***Low***

The Project will finance contracts for natural gas. Contracts will be awarded to prequalified suppliers/traders solely based on lowest price. All contracts financed under the contract will be based on the industry standard European Federation of Energy Traders (EFET) conditions of contract and applicable provisions of Moldovan law.

Project implementation arrangements:

Energocom has limited experience in the procurement of gas on the international market. For this reason, during the Project implementation phase Energocom will be supported by a gas procurement consultant financed by US Aid. This procurement consultant has been contracted and mobilised and is actively supporting Energocom in the initial procurement activities and the development of the Project specific procurement and implementation arrangements, including the development of a Project specific EFET General Agreement.

Procurement arrangements:

The proposed operation is classified as public sector for procurement purposes. All contracts for natural gas to be financed under the Project, under both the Emergency Tranche and the Diversification and Storage Tranche, shall be procured in accordance with the Bank's PP&R and specifically article 3.12 - Commodities of the PP&R which covers the procurement of commodities such as natural gas. Article 3.12 requires the procurement procedures to be consistent with the Bank's key principles of transparency, accountability, economy and efficiency and to be acceptable to the Bank. The Project specific procurement procedures are currently under discussion between Energom and the Bank and will be very similar to those applied under the Bank's previous Projects with Naftogaz in Ukraine involving the procurement of gas and include a prequalification phase prior to the issue of any invitations to tender.

The final procurement procedures and Project procurement plan will be subject to the sign-off of the Procurement Policy Department (PPAD) prior to the commencement of any procurement activity under the Project. In view of the industry standard requirement for tenders to have extremely short tender validity periods (in minutes/hours) it is anticipated that all contracts will be subject to post review procedures by the Bank as provided for in article 3.36 of the Bank's PP&R.