DOCUMENT OF THE EUROPEAN BANK
FOR RECONSTRUCTION AND DEVELOPMENT

Approved by the Board of Directors on 4 December 2024[1]

UKRAINE

RLF - UKRNAFTA
EMERGENCY DISTRIBUTED GENERATION SUPPORT

[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.

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ABBREVIATIONS / CURRENCY CONVERSIONS

AMI	Annual Mobilised Investment
aFRR	Automatic frequency restoration reserve
BDS/UK/18-1 (F)	EBRD's Strategy for Ukraine
BDS23-180 Final	EBRD's Energy Sector Strategy 2024-28
bn	Billion
bps	Basis points
ca	Circa
CAPEX	Capital Expenditure
CEO	Chief Executive Officer
CMU	Cabinet of Ministers of Ukraine
DAM	Day-ahead market
DD	Due diligence
DSCR	Debt Service Cover Ratio
DSO	Distribution system operator
DSRA	Debt Service Reserve Account
EBITDA	Earnings Before Interest, Tax, Depreciation and Amortisation
EHS	Environmental, Health and Safety
ENTSO-E	European Network of Transmission System Operators for Electricity
EPG	Economic, Policy & Government department
ESAP	Environmental and Social Action Plan
ESD	Environmental and Social Department
ESP	Environmental and Social Policy
ETI	Expected transition impact
EU	European Union
EUR	Euro currency unit
EURIBOR	Euro Interbank Offered Rate
FCR	Frequency containment reserve
FiT	Feed-in-tariff
FW	Framework
FX	Foreign Exchange
G7	Group of Seven
GB	Guaranteed Buyer
GDP	Gross Domestic Product
GET	Green Energy Transition
GW	Gigawatt
GWh	Gigawatt hour
HCII	Human Capital Investment Incentive
HPP	Hydroelectric Power Plant
PSPP	Pump Storage Power Plant
IFI	International Financial Institution
IFRS	International Financial Reporting Standards
IMF	International Monetary Fund
IPM	Investment Profitability Model
JECF	Japan-EBRD Cooperation Fund
kW	Kilowatt
kWh	Kilowatt hours

LGD	Loss Given Default
m	million
MNPI	Material Non-public Information
MoU	Memorandum of Understanding
MW	Megawatt
N/A	Not applicable
NATO	The North Atlantic Treaty Organization
NJSC	National Joint-Stock Company
NPP	Nuclear Power Plant
OCCO	Office of the Chief Compliance Officer
OGC	Office of General Counsel
PC	Physical Climate
PD	Probability of default
PIA	Project Implementation Adviser
PPR	Procurement Policies and Rules
PPA	Power Purchase Agreement
PPAD	Procurement Policy and Advisory Department
PJSC	Private joint stock company
PSD	Project Summary Document
PSO	Public Service Obligation
RAROC	Risk Adjusted Return on Capital
RE	Renewable energy / electricity
RES	Renewable energy sources
RLF FW	Resilience and Livelihoods Framework
SDR	Special Drawing Right
SO	Sub-Operation
SOE	State-Owned Enterprise
SSF	Shareholder Special Fund
SWF	Sovereign Wealth Fund
TC	Technical cooperation
TI	Transition Impact
TSO	Transmission System Operator of Ukraine
UAH	Ukrainian Hryvnia
US	United States of America
USD	United States Dollar
USS	Universal Service Supplier

CURRENCY EQUIVALENTS
(year to date average NBU rate)

1 EUR 43.47 UAH

WEIGHTS AND MEASURES

1 Megawatt (MW) = 1,000 kilowatts (10^3 kW)
1 Gigawatt (GW) = 1 million kilowatts (10^6 kW)
1 Megawatt-hour (MWh) = 1,000 kilowatt-hours (10^3 kWh)
1 Gigawatt-hour (GWh) = 1 million kilowatt-hour (106 kWh)

PRESIDENT'S RECOMMENDATION

This recommendation and the attached Report concerning an operation in favour of Public Joint Stock Company "Ukrnafta" (the "Company", "Ukrnafta"), a Ukrainian State-owned oil&gas company, are submitted for consideration by the Board of Directors.

The operation will consist of a sovereign guaranteed loan to the Company in the amount of up to EUR 80 million (the "Loan"). The Loan will be co-financed by parallel investment grants of up to EUR 9.5 million from the Netherlands and up to EUR 12.5 million from the USA to be channelled via the Crisis Response Special Fund of EBRD. The Loan and the grants will finance the supply and installation of c.100 MW of small-scale gas-fired distributed power and co-generation capacities (the "Project").

The Project will enable the Company to provide more resilient functioning of the Ukrainian power sector with substantial addition of peaking generation in the energy mix, thus improving availability and quality of electricity supplies to Ukrainian population and businesses.

The expected transition impact of the Project comes from the enhancement of Ukraine's energy security and the resilience of its power system amidst continuing military attacks on the energy infrastructure by enabling the Company to contribute to an uninterrupted electricity supply to the population, industry and businesses via the construction of distributed flexible power generation (*Resilient*). The Project will also help (i) to safeguard access to electricity and heating in the context of the elevated risks to people's livelihoods and (ii) to maintain a reliable supply of vital energy services for the Ukrainian population. It will also promote human capital development through relevant workforce management and leadership training programmes (*Inclusive*). In addition, EBRD will support Ukrnafta to establish a dedicated new veteran rehabilitation facility, delivering critical support to demobilised staff members and their families in line with EBRD's Gender SMART approach.

Technical Cooperation ("TC") support for the preparation of the Project is financed by the EBRD Shareholder Special Fund (the "SSF"), while post-signing TC support is expected to be financed by the Action for Equality and Gender (A4EG) Multi-Donor Fund, SSF and/or international donors.

The Project is fully in line with the criteria set forth in the Energy Sector Strategy partial derogation, approved by the Board of Directors in July 2024 BDS24-146 (Rev 1) (Cor 1), for gas-fired electricity and heat generation projects in Ukraine. The Project requires a technical derogation from the Bank's Environmental and Social Policy as the Project environment and social impacts related to gas-fired generation would not be fully assessed at the time of the Board consideration and consequently, it would be subject to limited implementation monitoring due to associated security risks. An independent environmental and social audit will be undertaken on all of the Project sites, and on the corporate Environmental, Social and Governance management system, within 12 months of martial law being lifted in Ukraine.

I am satisfied that the operation is consistent with the "War on Ukraine – EBRD Resilience Package", the Bank's Strategy for Ukraine, the Energy Sector Strategy 2024-28, , the Bank's Equality of Opportunity Strategy 2021-2025, the Bank's Strategy for the Promotion of Gender Equality 2021-2025 and with the Agreement Establishing the Bank.

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

Odile Renaud-Basso

BOARD DECISION SHEET UKRAINE - Ukrnafta Emergency Distributed Generation Support - DTM 55678 Framework: Resilience and Livelihoods Framework - DTM 53662	
Transaction / Board Decision	Board approval[2] is sought for a sovereign guaranteed loan of up to EUR 80m in favour of Ukrnafta (the “Company”), a public joint stock company organised and existing under the laws of Ukraine. The Loan is expected to be supplemented, subject to availability, by up to EUR 22m capex grant support from international donors (the Netherlands and the USA).
Client	The PJSC "Ukrnafta" is 100% owned by the State of Ukraine, represented by NAK Naftogaz (50% +1 share) and the Ministry of Defence (50% -1 share). Ukrnafta is Ukraine’s largest oil and gas producer as well as operator of the largest fuel retail chain comprised of 490 gas fuel stations. In 2023 it generated EUR 2.4bn revenue, EUR765m EBITDA with total assets standing at EUR 1.6bn.
Main Elements of the Proposal	<u>Transition impact</u> **Primary Quality – Resilient.** The proposed financing package will finance the construction of flexible distributed gas power generation capacities in Ukraine. The operation aims to enhance the resilience of Ukraine’s power system and ensure uninterrupted energy supply to homes and businesses in the energy deficit regions of the country. **Secondary Quality – Inclusive.** The Project will help safeguard access to electricity for people, preserving their living standards and livelihoods under Russia’s ongoing full-scale aggression. The Project will also introduce a new strategic workforce management programme and leadership training programme, while supporting the Company to establish a dedicated new veterans’ rehabilitation facility. <u>Additionality</u> – Financing Structure: Crisis response - EBRD financing is provided under the extraordinary circumstances of the war and effectively bridges the financing gap when the market for long-term capex financing in Ukraine is nearly closed. Standard-setting: The Client will benefit from EBRD’s Human Capital Investment Incentive Grant programme (Gender SMART Tag). <u>Sound banking</u> – given the heightened risks, the presence of the Ukraine sovereign guarantee is important to mitigate financial risks arising from the war-stressed economy. The Project is also going to be co-financed by a large portion of grants.
Key Risks	[REDACTED]
Strategic Fit Summary	War on Ukraine – EBRD Resilience Package - Resilience and Livelihoods Framework: Focus on energy security in Ukraine. Strategy for Ukraine: Strengthen energy security. Energy Sector Strategy 2024-2028: Energy security. Equality of Opportunity Strategy 2021-2025 and the Strategy for the Promotion of Gender Equality: Ensuring access to vital services and promoting human capital recovery and resilience.

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

ADDITIONAL SUMMARY TERMS FACTSHEET

EBRD Transaction	A sovereign guaranteed loan of up to EUR 80m (the "Loan") to Ukrnafta, a Ukrainian State-owned oil & gas company. The Loan will finance the construction of co-generation capacities at selected sites in Western and Central Ukraine regions, in locations with high energy & heat deficit (the "Project"). The Project has a total estimated capacity of c. 100MW, with individual unit comprising of gas engines of up to 10 MW capacity each [REDACTED]. The EBRD loan will be complemented with up to EUR 22m capex grants to be used for similar equipment procurement purposes at other multiple sites owned by Ukrnafta to utilize existing infrastructure and available gas.
Existing Exposure	**Existing Exposure:** none, Ukrnafta is a new client [REDACTED].
Maturity / Exit / Repayment	10-years [REDACTED].
Potential AMI eligible financing	None
Use of Proceeds - Description	The proceeds of the Loan and the parallel investment grants will finance emergency capex covering the procurement of gas-fired power generation / cogeneration equipment to be installed across selected new and existing Company's sites.
Investment Plan	Procurement of gas-fired power generation/cogeneration equipment and related works financed by the EBRD loan (EUR 80 m) and the capex grants (EUR 22 m).
Financing Plan	[REDACTED]
Key Parties Involved	- Ukrnafta as the Borrower; - Ukraine as the Guarantor represented by the Ministry of Finance; - Grant providers (multilateral or bilateral international donors); - EBRD.
Conditions to effectiveness	[REDACTED]
Mandatory Prepayment / acceleration event	[REDACTED]
Key Covenants	[REDACTED]
Security / Guarantees	Sovereign Guarantee of Ukraine.
Other material agreements	Guarantee Agreement between the Bank and Ukraine.
Associated Donor Funded TC and Blended Concessional Finance	**A. Technical Cooperation (TC)** *Pre-signing:* **TC1:** Environmental and Social Assessment of the Project. The cost of the assignment is EUR 23,800, financed by the SSF. *Post-signing:* **TC2**: Human Capital Recovery Support. The assignment will include capacity building support aligned with the Company's human capital recovery priorities to be delivered in line with best practices. The estimated cost of the assignment is up to EUR 300,000, expected to be financed from the Action for Equality and Gender (A4EG) Multi-Donor Fund and/or a bilateral donor. **TC3**: Project Implementation Support to assist the Borrower with carrying out the procurement, including overview of technical requirements, contracting, contract administration/supervision, as well as ESAP implementation and reporting. The estimated cost of the assignment EUR 1,200,000, out of which up to EUR 1,000,000 expected to be financed by an international donor and/or the SSF and EUR 200,000 (and possible extensions) will be financed from EBRD loan proceeds.

	Client contributions: The Company will provide a financial contribution to the Project by co-financing the services of Project Implementation Support (TC3). **B. Blended Concessional Finance** The Project is envisaged to be co-financed by a capex grant of up to EUR 22 million expected to be provided by the Netherlands, the United States and/or other international donors via the EBRD Crisis Response Special Fund. In addition, the Project is expected to benefit from an incentive grant of up to EUR 500,000 under the Human Capital Investment Incentive (HCII) Grant Programme contributing to establishing the Company's new veterans' rehabilitation, training and support facility alongside other capital expenses securing workers' wellbeing and livelihoods (linked to Inclusive TI of the Project – see below) through funding secured under the Japan-EBRD Cooperation Fund (JECF). The grant funding is proposed in response to the extraordinary circumstances of the ongoing full-scale war in Ukraine, aimed at supporting energy security and preserving human capital in the country.

[REDACTED]

INVESTMENT PROPOSAL SUMMARY

1. STRATEGIC FIT AND KEY ISSUES

1.1 STRATEGIC CONTEXT

The emergency situation in Ukraine has significantly impacted the country's energy generation capacity. Since the beginning of the war, Ukraine has lost approximately 9 gigawatts (GW) of its generation capacity and 90% of all available flexible generation in the country, including thermal and hydro assets as well as numerous substations. These attacks have directly affected Ukrainian households and businesses, causing regular rolling blackouts that disrupted the lives of millions.

According to the International Energy Agency, the country now operates at about one-third of its pre-war capacity. [REDACTED]. Although the Ukrainian government has managed to stabilize the situation to some extent since September 2024, the upcoming winter is expected to become a critical survival test for the war-torn country and its heavily damaged energy system.

The construction of a decentralized energy system is now a key priority for Ukraine, aiming to improve its resilience to attacks and enhance its energy security.

Following these devastating events, the Ukrainian authorities requested EBRD to help stabilise functioning and enable rapid recovery of the power sector. In this regard, on 5 June 2024 the Bank signed a MoU with the Government of Ukraine, intending to mobilise EUR 300m of further funding to the country's state-owned energy companies to boost Ukraine's energy security.

Ukrnafta as well as other SOEs, has been tasked by the Government to install flexible distributed power generation capacities, leveraging its position as the largest oil and gas producer in Ukraine. This initiative is crucial for enhancing the country's energy security and resilience, especially in the context of ongoing geopolitical tensions and the need for reliable energy sources.

Ukrnafta launched and prioritised development of the co-generation programme this summer, identifying a number of existing co-generation sites for the installation of gas co-generation facilities. By utilizing its own gas resources, the project aims to alleviate pressure on the national grid, enhance energy security and bolster resilience, thereby reducing the risk of total power outages in conflict-affected regions. [REDACTED].

The Project is in line with the War on Ukraine – EBRD Resilience Package endorsed by the Board and consistent with the objectives of the War on Ukraine - EBRD Resilience Package - Resilience and Livelihoods Framework, aimed to help citizens, companies and countries affected by the war in Ukraine. The project specifically targets Resilience and Livelihoods programme focusing on energy security in Ukraine through the construction of the distributed power generation facilities, enabling to provide uninterrupted energy supply to affected customers. The Project is also in line with the Strategy for Ukraine and the Energy Sector Strategy 2024-2028 as it will strengthen energy security in the country. The Project also aligns with the Bank's Equality of Opportunity Strategy 2021-2025 through its actions towards human capital recovery and resilience in response to economic crises and shocks and with the Strategy for the Promotion of Gender Equality through its targeted support to Ukrnafta`s female workers, established and monitored in line with EBRD's Gender SMART approach.

1.2 TRANSITION IMPACT

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

Primary Quality: Resilient

Obj. No.	Objective	Details
1.1	*The sub-operation supports the Resilient quality of the FW through Energy security measures, strengthening municipal service providers directly affected by the wider economic consequences of the war, facilitating imports and exports of production equipment and related materials (capital goods) and TF-related technical assistance, or supporting businesses directly affected by the conflict (i.e., in Ukraine, including those trying to relocate) and businesses indirectly affected (Ukraine part of value chain).*	The implementation of the Project will enhance Ukraine's energy security by financing the construction of distributed flexible generation capacities. The Project aims to enhance the resilience of integrated power system of Ukraine amidst continuing military attacks on the energy infrastructure and enable the Company to contribute to an uninterrupted electricity supply to the population, industry and businesses throughout the country. The municipalities hosting the Project units will benefit from the excess heat generated during electricity production. This heat will be supplied to municipal district heating operators, supporting households, businesses, and social infrastructure.

Secondary Quality: Inclusive

Obj. No.	Objective	Details
2.1	*The sub-operation contributes to the Inclusive quality of the FW by promoting access to vital services and/or goods that enable people's livelihoods; human capital development or preservation; and access to employment and training.*	The Project will help safeguard access to electricity and heating in the context of the elevated risks to people's livelihoods due to Russia's ongoing full-scale aggression in Ukraine. It will also help reduce war-related disruptions on electricity and heating supply to people's homes and workplaces and to reduce the hours of power outages, enabling people to carry out their economic activities and, as such, to maintain their livelihoods. Through EBRD's engagement under the Project, the Company will also introduce a new strategic workforce management programme, reviewing and revising its compensation and benefit systems in order to attract and retain the best possible talent under an increasingly tight labour market in Ukraine, affected by the ongoing forced displacement, mobilisation and war-related casualties, injuries and psychological ill-health imposed by Russia's ongoing war of aggression. Through EBRD's support the Company will also develop a new training programme on 'leadership in crisis' for its management team, developing new managerial and professional competencies in response to the ongoing crisis in Ukraine alongside psychological resilience training (combatting psychological stress and burnout risks) and mental health first-aid training for line managers, (safeguarding the psychological wellbeing of the Company's broader c.20,000 workforce in Ukraine). In addition, through EBRD's Human Capital Investment Incentive Grant Programme, the Company will establish a dedicated new veterans' rehabilitation facility delivering psychological support, legal advice and training / retraining opportunities to its demobilised staff members and their families.

		Finally, the Company will contribute to the development of a new 'Excellence Network' for training in the field of 'urban reconstruction and infrastructure development' – encompassing a focus on the current and future needs of Ukraine's power and energy sector – under a new policy initiative under development by the Ministry of Education and Science of Ukraine and Foundation of the President of Ukraine for Support of Education, Science and Sports. The Company will in particular help to guide the development of new training programmes under the new Excellence Network, partnering with leading local and international education partners alongside public authorities and key experts to help stimulate human capital development and research commercialisation in priority sectors for Ukraine's future reconstruction and economic recovery.

[REDACTED]

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 offers a **tenor**, which is longer than available to the client in the market on reasonable terms and conditions. − Crisis response: EBRD financing **effectively bridges a financing gap** due to adverse market conditions.	− EBRD is offering financing, which is not available in the market due to the ongoing war and high level of risk and uncertainty in Ukraine. − EBRD financing will be supplemented by grants with donors relying on country and sector expertise of the Bank. − EBRD is offering 10-year tenor for the Project, which is longer than available in the market in the current war environment.
Risk mitigation: - EBRD provides comfort to clients and investors, financial or strategic, by **mitigating non-financial risks**, such as country, regulatory, project, economic cycle, or political risks. - EBRD's ability to absorb risk in a certain country/region, where other **IFIs/commercial financiers reached their limit exposure.**	The Bank has been the first IFI which started to finance Ukrainian clients since the beginning of the Russian invasion in February 2022 and continues playing the leading role in supporting the energy sector of Ukraine during the war. With the recent General Capital Increase the Bank is able [REDACTED]to accommodate additional financing to state-owned entities and anticipates playing a central role in resilience and recovery. The Bank's active role in the sector has been also promoting other financing partners and international donors to coordinate on joint efforts aimed at strengthening energy security of the country and attracting investors into the industry.
Standard-setting: helping projects and clients achieve higher standards - Client seeks/makes use of EBRD expertise on **best international procurement practices and standards**.	EBRD funding and application of Bank's PPR will ensure wider market outreach, particularly in the current high-risk environment. The Company's dedicated new veterans' rehabilitation facility (to be established through EBRD's support under the Project) will deliver psychological support, legal advice and training / re-training opportunities to

- **Gender SMART**: Client seeks/makes use of EBRD expertise for the adoption of **gender standards and/or equal opportunities action plans** (e.g. improving women's access to safe transport and/or women-led businesses participation in the client supply chain).	its demobilised staff members and their families. In the immediate term, it will directly support the reintegration of c.350 of Ukrnafta's staff members, demobilised to date, alongside many more returning to civilian life in the months ahead. Support programmes delivered under the new facility will encompass mental healthcare and wellbeing programmes supporting veterans' family members (predominantly women) alongside the spouses of fallen soldiers in coping with the ongoing difficulties imposed by Russia's full-scale aggression in Ukraine. The client's commitments in this area are credited and monitored in line with EBRD's established Gender SMART approach.

1.4 SOUND BANKING - KEY RISKS

Risks	**Probability / Effect**	**Comments**
Risks related to the Borrower		
[REDACTED]	[REDACTED]	[REDACTED]
External risks		
[REDACTED]	[REDACTED]	[REDACTED]

The proposed Project is part of the EUR 300m energy security emergency response programme. It is critical as it will support Ukrnafta in building co-generation distributed capacities in locations with high energy deficit in Western and Central Ukraine. [REDACTED]

2. MEASURING / MONITORING SUCCESS

Primary Quality: Resilient

Obj. No.	FW monitoring indicator	Corresponding SO monitoring indicator	Details	Baseline	Target	Due date
1.1	Infrastructure Services Sustained and Expanded	Net increase in energy infrastructure usage and/or capacity	The Project will result in construction of approximately up to 100 MW of new flexible distributed power generation capacities.	0	100 MW	[REDACTED]

Secondary Quality: Inclusive

Obj. No.	FW monitoring indicator	Corresponding SO monitoring indicator	Details	Baseline	Target	Due date
2.1	Municipal infrastructure services sustained and expanded	Expanded or maintained access of vital products or services.	The Project will help safeguard access to electricity and heating in the context of the elevated risks to people's livelihoods due to Russia's ongoing full-scale aggression in Ukraine.	No	Yes	[REDACTED]
2.2	Livelihoods and employment opportunities of affected people ensured	Practices of relevant stakeholder improved (career	The Company will introduce a new strategic workforce management programme, reviewing and revising its compensation and benefit	No	Yes	[REDACTED]

		progression and remuneration).	systems in order to attract and retain the best possible talent under an increasingly tight labour market in Ukraine.			
2.3	Livelihoods and employment opportunities of affected people ensured	Tailored training programme developed and implemented.	The Company will develop a new training programme on 'leadership in crisis' for its management team, developing new managerial and professional competencies in response to the ongoing crisis in Ukraine.	No	Yes	[REDACTED]
2.4	Livelihoods and employment opportunities of affected people ensured	Practices of the relevant stakeholder improved (equal opportunity policies and practices).	The Company will establish a dedicated new veterans' rehabilitation facility delivering psychological support, legal advice and training / retraining opportunities to its demobilised staff members and their families.	No	Yes	[REDACTED]
2.5	Municipal infrastructure services sustained and expanded	Policy engagement platform is operational.	The Company will contribute to the development of a new 'Excellence Network' for training in the field of 'urban reconstruction and infrastructure development' – encompassing a focus on the current and future needs of Ukraine's power and energy sector – under a new policy initiative under development by the Ministry of Education and Science of Ukraine and Foundation of the President of Ukraine for Support of Education, Science and Sports.	No	Yes	[REDACTED]

3. KEY PARTIES

3.1 Borrower / Investee Company

The Public Joint Stock Company "Ukrnafta" (the "Company" or "PJSC Ukrnafta") is the Ukraine's largest oil and gas producer employing around 22,000 people. Its principal activities are exploration, development, production, processing and distribution of crude oil, condensate, natural gas and petroleum products. It owns and operates three gas-processing plants, 460 petrol filling stations [REDACTED] and provides oilfield services in Ukraine. [REDACTED].

3.2 Guarantor

Despite months of heavy Russian attacks on its energy facilities, Ukraine's economy is expected to grow by 3.0% in 2024 and 4.7% in 2025, according to the Bank's forecast.

The destruction of electricity generation and transmission capacities is impacting Ukraine's economy and has interrupted four quarters of solid gross domestic product (GDP) growth.

The Ukrainian economy grew by an estimated 6.5% year on year in the first quarter of 2024, after growing 5.3% in 2023, marking a partial recovery from a sharp fall at the start of the war in 2022. However, growth has slowed since the first quarter of 2024 because of power shortages and the higher costs of imported electricity.

[REDACTED]. The Ukrainian hyrvnia has lost around 10% against the US dollar since it moved from a fixed exchange rate to a managed float at the beginning of October 2023.
Inflation, which had stabilised below the NBU target level of around 5% in the first half of the year, recently started to rise again, reaching 5.8% in July 2024. This prompted the central bank to pause its relaxation of monetary policy after seven policy-rate cuts between July 2023 and June 2024, during which time the rate was reduced from 25% to 13%.

Ukraine's export prospects have improved, boosted by a Black Sea export corridor along the coast that opened last year. This has removed some of the wartime uncertainty about the safety of using the Black Sea to export Ukraine's vast offerings of agricultural produce and other bulk good such as metals and ores. Nevertheless, the country's economic prospects for the upcoming winter months might be negatively affected by potential prolonged rolling blackouts.

Ukraine is currently rated as "RD" by Fitch (affirmed on 5 September 2024), "SD" by Standard & Poor's (affirmed on 30August 2024) and "Ca" by Moody's (downgraded on 10 February 2023). The ratings from S&P and Fitch reflect the impact of recent restructuring of the country's international bonds for the total amount exceeding USD 20 billion.

4. MARKET CONTEXT

- The Ukrainian energy sector moved to a liberalized market system on 1 July 2019, consisting of the following organised and competitive market segments: (i) a bilateral contracts market; (ii) a day-ahead market; (iii) an intraday market; (iv) a balancing market; and (iv) an ancillary services market.

- The war has disrupted energy security in Ukraine. As of October 2024, Russia destroyed more than 9.2GW of Ukraine's power generation assets, which represented majority of flexible generation capacities of Ukraine, i.e. thermal and hydro generation. In general, out of the 56.2 GW of pre-war power assets, more than 37 GW (67+%) are currently out of operation, i.e., destroyed, severely damaged or under occupation. This has entailed a massive energy supply deficit, which has resulted in power outages. Import capacity from neighbouring countries is currently capped at 1.7 GW, with allowed electricity import increase to 2.1 GW by ENTSO-E in the winter 2024-2025, which is not sufficient to close the supply gap and necessitates the urgent construction of new flexible distributed generation capacities. In July 2024, Ukraine adopted a strategy for the development of distributed generation until 2035, which i identifies renewable and gas-powered power assets as the key technologies of the strategy.

- Gas-powered power producers are envisaged to structure their offtake in line with the market practice, through sale at the prices determined by supply and demand balance on competitive market segments. Electricity market prices maintain the upward trend in Ukraine, which mitigates the merchant offtake risk. Average monthly prices on day-ahead market (DAM) have been steadily growing, reaching record 134 EUR/MWh in July 2024 (+49% YoY). This increase has been driven by the significant deficit of electricity supply, which, for the summer months, was aggravated by the scheduled repairs of blocks of nuclear power plants and further shelling of power assets. The sector Regulator increased the price caps starting from June 1, 2024, which contributed to increase of DAM prices. Imports peaked at a record 859 GWh in June (+91% vs May 2024), adding up to 3,626 GWh for March-September October 2024, due to massive attacks on and destruction of power assets this year. Electricity prices are expected to grow in the medium-term in line with power prices of neighbouring EU countries, due to Ukraine's integration into ENTSO-E in March 2022 in response to Russia's invasion of Ukraine.

- On 5 June 2024 the Bank signed an MoU with the Government of Ukraine, intending to mobilise EUR 300m of further funding to the country's state-owned energy companies to boost Ukraine's energy security. The proposed energy security emergency response programme is intended to support the government in the restoration of power generation facilities and transmission infrastructure, construction of new distributed flexible power generation capacities to ensure stable and uninterrupted electricity supply on the entire territory of Ukraine despite the devastating impact of the war.

- The competitive landscape for petroleum products market changed entirely after the war started. Fuel traders in Ukraine ceased importing petroleum products from Russia and Belarus and had to substitute it by EU products, which created additional difficulties with logistics and led to temporary increase in demand and prices for petroleum products. Before the invasion only one of Ukraine's six refineries, Kremenchuk, which had a processing capacity of 370,000 b/d was operating. However, this facility was damaged by Russian missiles in 2022, which affected availability of its production capacities. In 2024, Poland, Romania, Moldova, Lithuania, Hungary and Greece remained the main exporters of petrol products and LPG to Ukraine.

5. FINANCIAL / ECONOMIC ANALYSIS

5.1 FINANCIAL PROJECTIONS

[REDACTED]

5.2 SENSITIVITY ANALYSIS

[REDACTED]

5.3 PROJECTED PROFITABILITY FOR THE BANK

[REDACTED]

6. OTHER KEY CONSIDERATIONS

6.1 ENVIRONMENT

The Project is categorized B (ESP 2019). Impacts associated with the installation of low-capacity gas-fuelled generation units for the provision of emergency energy needs are site-specific and can be readily assessed through review of the technical documentation, analysis of site conditions, as well as secondary data. Such risks and impacts are well known to the Bank. Identified gaps will be addressed through an Environmental and Social Action Plan (ESAP), which will be agreed prior to Board review. Cumulative issues associated with the operation of such units in terms of ambient noise, health & safety, NOx emissions and the quality of fuels are considered during due diligence. Such facilities would normally fall under Annex II of the EU EIA Directive and require a screening by the competent authorities.

Given the war-related constraints, limited Environmental and Social Due Diligence (ESDD) of the Project has been undertaken using a combination of in-house desktop review of the available documents and selected site visits by an in-country Bank's independent consultant to ascertain site conditions and indicate any red flags. The limited ESDD looked into contextual risks and included a review of conditions on the existing facilities where the generation units will be installed; land and livelihood impacts; associated facilities and grid connection; as well as review of the project technical documentation. The potential sites under consideration are mainly brownfields sites that can be converted into use but will require detailed engineering and preparation works. Ukrnafta is a new Client for the Bank and a rapid high-level review of its corporate E&S capacity has been undertaken to ensure that the Client will be able to deliver the project in line with Bank's PRs. The key impacts associated with the projects include air emissions and noise, as well as construction health and safety. Given that the generation equipment funded by the use of proceed will be procured via open competitive tendering, the Bank will ensure that tender documents include specific provisions requiring compliance of the equipment with specifications set forth in the EU medium combustion plant Directive as well as the EU Industrial Emission Directive and associated BAT BREF for the larger installations.

Due to the constraints associated with the ongoing war, the projects' E&S impacts related to the gas-fired engines and turbines to provide emergency power in Ukraine will not have been fully assessed at the time of the Board consideration and will be subject to limited implementation monitoring due to associated security risks. Therefore, the Project requires a derogation from the ESP related to the restrictions on the due diligence and monitoring process; the level of detail available on air emissions and noise issues; and the potential risks associated with fire and explosion.

There are remaining information gaps pertaining to permitting, land and livelihood, labour and social impacts, including stakeholder engagement, which have not been fully assessed in the course of ESDD but the ESAP will include measures to address all such issues, and will be agreed with the Client prior to the Board consideration.

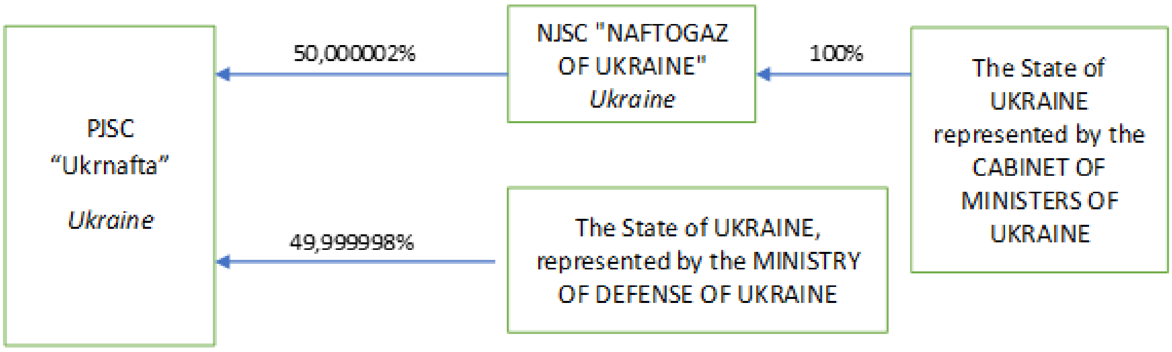
6.2 INTEGRITY

In conjunction with OCCO, integrity due diligence was undertaken on the Company, its shareholders, senior management and other relevant parties. [REDACTED].

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

ANNEXES TO OPERATION REPORT

ANNEX 1 – SHAREHOLDING STRUCTURE



ANNEX 2 – PROJECT IMPLEMENTATION

Procurement classification – *Public sovereign*

[REDACTED]The capacity of the Company to implement the Project was assessed by the PIA. The main risks are associated with the Company's lack of any previous experience of implementing an IFI financed project. At the same time, the Borrower has strong in-house procurement, technical, financial and legal expertise, which will be available to the PIU during procurement and implementation. While the available procurement and technical staff are assessed as sufficiently qualified in their respective professional fields, the lack of experience of international tendering represents a moderate risk to efficient implementation of the proposed investments, and the Company will need to be supported to implement procurement in accordance with Bank's procedures. To mitigate this risk experienced consultants to guide the Company through procurement process and supervise contract implementation will be contracted.

Contracts risk assessment – **High**
The Project is considered complex as it includes several supply contracts and several works contracts to be procured under design and build approach. The technology itself is not particularly complex, as it is well established offered by many reputable manufacturers. However, managing deliveries to and related works at multiple locations will be challenging and will require close guidance and management. [REDACTED]

To address the risk related to Client's limited capacity, the Bank will engage an advance procurement to provide hands-on support in carrying out the tenders. Furthermore, the Project envisages engaging a Project Implementation Support consultant to provide wider project management and construction supervision services. The support of experienced consultants will ensure that contractors' responsibilities for design requirements, including those included in the ESAP, are clearly defined in the tender documents, and any procurement and contractual issues that may arise are addressed in a professional and timely manner.

Project implementation arrangements

A dedicated PIU is established as part of the Project preparation. The PIU will have an overall responsibility for the implementation of the Project. The PIU will be supported by an experienced Consultant that will assist the Company with all aspects of project procurement and contract supervision, implementation and reporting in accordance with Bank's policies and procedures. The Consultant's contract will be financed out of the TC grant.

There are no outstanding land acquisition issues, as the equipment will be installed at existing sites owned by Ukrnafta.

Procurement arrangements

The Project is classified as public sector for procurement purposes. With the exception of the Procurement Support consultant, goods, works, services and consultancy services financed from the Bank's loan and investment and TC grants will be procured through open tendering in accordance with Section III, Articles 1, 2, and 3 of the PPR. The Procurement Support consultant will be engaged via direct contracting provisions outlined in the PPR. All contracts will be procured subject to prior review by the Bank. No derogations or exemptions from PPR are envisaged at this point. [REDACTED].

ANNEX 3 – GREEN ASSESSMENT SUMMARY

SUMMARY

- The Project provides emergency gas-based electricity to the national power grid in Ukraine. Even though these options are emissions intensive, this is only technically available option for the provision of these essential services within the required timeframe in Ukraine.
- The Project is determined **aligned with both mitigation and adaptation goals of the Paris Agreement.**
- The Project is attributed **0% GET.**
- [REDACTED].

The Project falls under the partial derogation from the EBRD Energy Sector Strategy for Ukraine and meets the following criteria:

- *Involves financing of gas-fired* electricity generation plants that supply to the grid, gas-fired heat generation (including combined heat and power (CHP) plants and heat only boilers) that supply to district energy networks and gas-fired industrial and commercial applications for own consumption (*downstream only projects*);
- *can be promptly deployed* to meet the current urgent needs;
- *provide decentralised and small-scale energy supply* (up to 50 MWe of installed electric capacity per unit);
- is *flexible* (i.e., except for CHP units, able to ramp up and down quickly to meet considerations of variable demand and security of supply);
- *has an overall low risk of long-term lock-in*, such that it provides a fast response to the current capacity shortfall and is compatible with a domestic long-term low carbon transition, either by being decommissioned, or transitioned to operating as peaking plants.

PARIS ALIGNMENT ASSESSMENT *Direct finance projects*

Alignment with the mitigation goals of Paris Agreement - General screening
The project is determined as aligned with the mitigation goals of the Paris Agreement based on the application of the Bank's Paris alignment approach for direct finance. The project is in a high emitting sector, with annual GHG emissions expected to be 241,055 tCO2e/yr once operational.

- The project's activity is not included in the 'MDBs' aligned list' under the category.
- There are no activities included in the 'non-aligned list'.
- Applicable additional or specific conditions associated with the 'aligned' project/economic activity have been met. An assessment for mitigation has been conducted, including a review of the NDC, low carbon pathway and carbon lock in assessment.

Alignment with the mitigation goals of Paris Agreement – specific assessment
These types of projects are classed as high emitting and have undergone a specific screening to check that each unit is aligned with the Paris Agreement. The relevant considerations are set out below:

Consistency with Nationally Determined Contribution (NDC) and climate and energy planning in Ukraine

Ukraine's recently approved and adopted its National Energy and Climate Plan (NECP[3]) consistent with its commitments under the Energy Community Treaty to align with the European Union energy acquis and approved by the Energy Community Secretariat. The

[3] Ukraine approves National Energy and Climate Plan on the day of the start of EU accession negotiations | Cabinet of Ministers of Ukraine (kmu.gov.ua) .

NECP commits Ukraine to an economy-wide net domestic reduction of 65 % in GHG emissions by 2030 and a 27% share of renewable energy sources and coal phase out by 2035. The NECP also expected to install 1250 MW of highly manoeuvrable gas power with quick start-up capability to ensure system stability given expected high penetration of intermittent renewables. The country has also publicly announced a Net Zero 2050 for the energy sector and a Net Zero 2060 commitment for the whole economy.

Support for Ukraine's urgent electricity and heat needs will only partially replace the damaged thermal generation capacities (mostly coal based), which had much higher emissions intensity. Therefore, the Project is expected to be consistent with Ukraine's climate ambitions.

Low-carbon pathway (LCP) review

The *Clean Energy Roadmap: From Reconstruction to Decarbonization in Ukraine*[4] developed in 2023, and presented by the government to the international community, shows how Ukraine can decarbonise the energy sector to Net Zero by 2050, and the role of different fuels and technologies. As presented in Figure 1, in a Net Zero transition scenario, unabated natural gas will continue to play a role out to 2035, for electricity generation.

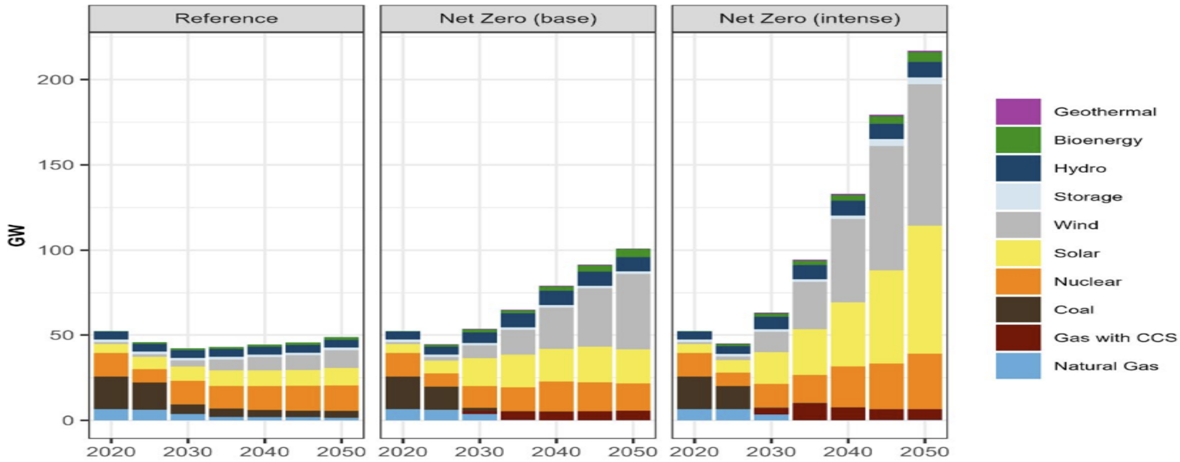


Figure 1. Electricity generation capacity by technology

Due to current system conditions, it is expected that new flexible gas generation is needed and will play a stronger role in the short term, while renewables are built out.

For the heating sector, the same analysis in Figure 2, shows unabated gas continuing to play an important role in a net zero transition during the 2030s.

[4] Clean energy road map 2023

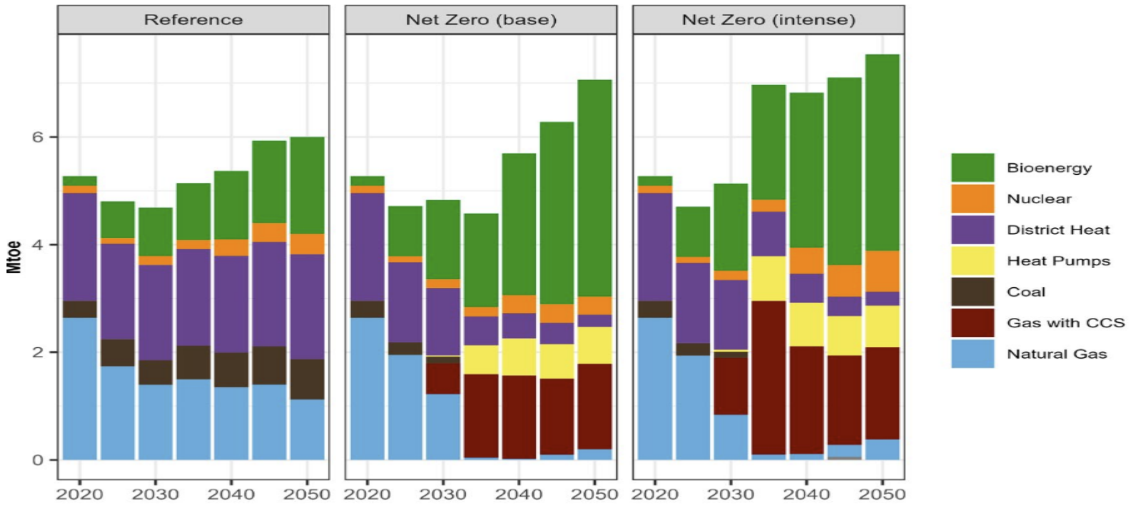


Figure 2. Heat generation by technology

As such, flexible and relatively small-scale natural gas-based heat and power generation is aligned with this transition pathway.

Economic viability test incorporating a shadow carbon price

The economic assessment is applicable to projects with significant carbon emissions, where it is additionally informative to other PA tools. An economic assessment has not been done for these principal reasons:

It is not likely to be additionally informative to other PA tools. The recent NECP and the energy sector LCP out to 2050 provides sufficient information on the compatibility of the project with Net Zero 2050 for the sector.

It would likely lead to a positive conclusion. The baseline for comparison is the existing damaged coal-fired generation assets and a variety of small and inefficient diesel-based emergency generators or solid fuel boilers, that are widely installed. There are no credible low carbon alternatives with compatible deployment timescale. The conclusion of an economic assessment would be positive (i.e. a positive relative NPV compared to the baseline) as these solutions save emissions and costs relative to the baseline. Assessment of a typical high efficiency gas project relative to this baseline shows that the Levelised Cost of Energy[5] (LCOE) is much lower than the baseline. The lower financial LCOE and lower CO2 and air pollution emissions make natural gas a preferable choice for reducing both costs and environmental impact in power generation.[6]

[5] The Economic Levelised Cost of Electricity (LCOE) is the discounted lifetime cost of building and operating a generation asset, including carbon costs, expressed as a cost per unit of electricity generated ($/MWh). It covers all relevant costs faced by the generator, including pre-development, capital, operating, fuel, and financing costs.

[6] The LCOE for natural gas power generation typically ranges from 50-100 Euro per MWh, depending on factors like the type of gas technology. Diesel power generation is significantly more expensive, with LCOE figures ranging from €150 to €200 per MWh. Diesel is often used in backup or remote applications due to its high operational costs and fuel prices. Emissions intensity for natural gas power plants is approximately 400-450 kg CO2 per MWh of electricity produced. Diesel power generation has a higher emissions intensity, typically ranging from 700-750 kg CO2 per MWh. For more detailed analysis and further information please see Lazard LCOE June 2024

Carbon lock-in assessment

Carbon lock-in occurs when technical, economic or institutional factors mean that an asset will continue to operate even though there are economically preferable, lower-carbon options to replace it.

The carbon lock-in risk of the Project is low, for the following reasons:

i. The Project can reasonably operate for the short term and be compatible with low carbon solution as and when these can be developed. The Project is consistent with the best available modelling of a Net Zero 2050 transition for the power and heat sector.

ii. The assets to be financed are high-efficiency, relatively short-lived (smaller unit have an expected lifetime of 10 with larger units expected to have a 20-years technical lifetime) and of limited scale (all less than 50 MWe). The assets are not expected to run at high utilisation rates as the energy system normalises. The assets financed are new and have the highest efficiency for this size or turbine. The assets may not be utilised until the end of their full operating life after the war ends and instead be sold and/or redeployed elsewhere.

iii. The financing arrangements for these assets will specify the use of gas. The Project do not have take-or-pay contracts and will sell electricity directly to the Ukrainian electricity market. Heat is supplied to the local companies to distribute through municipal heating networks (for CHP units, the assets would not be able to run on heat-only mode). The market and regulatory framework of the energy system in Ukraine is unlikely to favour continued operation when lower-carbon replacements are economically preferable. Moreover, renewables (combined with energy storage) are expected to make up the significant share of electricity generation in the long term, due to its low costs. Ukraine has already transitioned to market-based pricing of wholesale and retail energy markets. Ukraine has recently agreed a trajectory for EU membership which gives confidence that in due course Ukraine will adopt EU climate policy and regulations, including an emissions cap and trading system in the long term.

The financing of the Project is an emergency short-term response to meet immediate energy needs. Current provision of electricity and heat in the regions of Ukraine, particularly to cover peak demand, is chronically insufficient due to damaged thermal generation assets and consequent reliance on a few small and inefficient diesel-based generators. There are no credible low carbon alternatives with compatible deployment timescales that can meet these needs. The risk of carbon lock-in is low.

Alignment with the adaptation goals of Paris Agreement

The Project is determined as aligned with the adaptation goals of the Paris Agreement.

GET ATTRIBUTION

The Project is attributed 0% GET.

ANNEX 4 – HISTORICAL FINANCIAL STATEMENTS

[REDACTED]