

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

Approved by the Board of Directors on 10 February 2021¹

ALBANIA

KESH FLOATING SOLAR PV PROJECT

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

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

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

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ABBREVIATIONS / CURRENCY CONVERSIONS

Acronym	Definition
ALL	Albanian Lek
ARA	Arrears Repayment Agreement between KESH and OSHEE
DSO	Distribution System Operator
EnCS	Energy Community Secretariat
ESAP	Environmental and Social Action Plan
ERE	Energy Regulatory Entity, the Albanian energy regulator
EUR	Euro
GoA	Government of Albania
GWh	Giga Watt Hour
HPP	Hydro Power Plant
IFI	International Financing Institutions
KESH	Korporata Elektroenergjitike Shqiptare Sh.A
kWh	Kilo Watt Hour
LTA	Lenders Technical Adviser
MIE	Ministry of Infrastructure and Energy
MoF	Ministry of Finance and Economy
MoU	Memorandum of Understanding
MWh	Mega Watt Hour
OSHEE	Operatori I Shperndarjes se Energjise Elektrike, the Albanian distribution network operator and retail public supplier
PSO	Public Service Obligation
TSO	Transmission System Operator
TPP	Thermal Power Plant
TWh	Terra Watt Hour

CURRENCY

1 EUR = 123.77 ALL

CONVERSION/UNITS

1 TWh = 1,000 GWh

1 GWh = 1,000 MWh

1 MWh = 1,000 kWh

PRESIDENT'S RECOMMENDATION

This recommendation and the attached Report concerning an operation in favour of a special purpose vehicle to be incorporated in Albania (the “Company”) and fully owned by Korporata Elektroenergjitike Shqiptare Sh.A (“KESH” or the “Sponsor”), are submitted for consideration by the Board of Directors.

The facility will consist of a project finance loan to the Company in the amount of up to EUR 9.1 million. The loan will be supported by a guarantee from the Sponsor, which is a state-owned enterprise in Albania.

The operation will enable the Company to finance the construction and operation of a 12.9 MW floating photovoltaic plant on the surface of the Vau i Dejës hydropower plant reservoir in Albania, currently owned and operated by KESH. The expected transition impact of the Project is from the *Green* and *Resilient* qualities. The operation is 100% GET and it will introduce the first of its kind floating photovoltaic technology not just in Albania but throughout the Western Balkans. The successful implementation of this innovative technology, which delivers additional renewable generation without utilising valuable land and reducing evaporation losses from the reservoir, will have an important demonstration effect in the region (*Green*). The operation is structured as a fully commercial loan to the incumbent state-owned utility and will thus contribute to its commercialisation. It will also allow the Sponsor, which is predominantly a hydropower player, to diversify and increase its resilience to climate and seasonality risk (*Resilient*). The transaction will also be the first ever floating solar PV technology project financed by the Bank.

TC support [REDACTED] for the project preparation (including due diligence and tender preparation) has been provided [REDACTED]..

The Company intends to also apply for an investment grant to the EU/Western Balkans Investment Framework (“WBIF”), with the size of potential investment grant of up to EUR 2.33 million equivalent to 20% of the total capital investments.

I am satisfied that the operation is consistent with the Bank’s Strategy for Albania, the Bank’s Energy Sector Strategy, the Bank’s Green Economy Transition Approach, 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

ALBANIA – KESH Floating Solar PV Project - DTM 51908	
Transaction / Board Decision	Board approval ² is sought for a senior, full recourse, project finance loan of up to EUR 9.1 million in favour of a special purpose vehicle to be incorporated in Albania (the “Borrower”) for the purpose of constructing a 12.9 MW floating solar PV plant on Vau i Dejës hydro power plant reservoir. [REDACTED]
Client	The Borrower, will be 100% owned by Korporata Elektroenergjitike Shqiptare Sh.A (“KESH” or the “Sponsor”). KESH is an Albanian state-owned utility [REDACTED]. KESH currently owns and operates three large hydropower plants with 1,350 MW total capacity accounting for 70% of domestic generation.
Main Elements of the Proposal	<p><u>Transition impact</u></p> <p><u>Green:</u> the Project is 100% GET, delivering climate mitigation benefits through a new green investment in Albania. The Project will introduce the first ever pure-floats based floating solar PV technology and the first ever medium scale floating solar PV project in the country and the wider Western Balkan region, leading to significant innovation in green technology.</p> <p><u>Resilience:</u> The Project will make the Sponsor, predominantly a hydropower player, more resilient to climate-induced hydrology and seasonality risks. This is also the first commercial basis loan from an IFI to KESH and will contribute to increasing its financial resilience.</p> <p><u>Additionality:</u> The Bank offers financing that is not available in the market from commercial sources on reasonable terms and conditions. The Borrower will also make use of EBRD’s expertise on best international procurement standards through TC support. Additional TC support will help to improve standards in safety zoning on HPP dams of KESH.</p> <p><u>Sound Banking:</u> The Project is competitive and commercially sound.</p>
Key Risks	<p><u>Merchant Risk:</u> The Project is planned to sell on unregulated market and is exposed to merchant risk. Mitigation: The risk is mitigated by a back-up agreement for KESH to offtake electricity [REDACTED].</p> <p><u>Regulatory risk:</u> The Project’s generation could be considered part of KESH’s public service obligation (PSO) to supply at regulated prices, which are lower than market prices. Mitigation: Legal due diligence identified this risk as low. [REDACTED]</p> <p><u>Sponsor’s creditworthiness:</u> KESH’s financial performance remains subject to high volatility and high dependence on regulated offtake. Mitigation: Implementation of the KESH Restructuring Project as well as the expected phase-out of the PSO will bring improvements to KESH’s performance.</p> <p><u>Implementation risk:</u> The Project is the first of its kind in Albania and novel for KESH to implement. Mitigation: The Project costs include supervision consultant and the Project will have an experienced turnkey contractor.</p>
Strategic Fit Summary	The Project is consistent with the Bank’s Strategy for Albania; the Bank’s Energy Sector Strategy, the Bank’s Green Economy Transition Approach, and with the Agreement Establishing the Bank.

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

ADDITIONAL SUMMARY TERMS FACTSHEET

EBRD Transaction	A project finance loan of up to EUR 9.1 million in favour of a special purpose vehicle to be incorporated in Albania (the “Borrower”). The loan will benefit from a guarantee from Korporata Elektroenergjitike Shqiptare Sh.A (“KESH” or the “Sponsor”), which is a state-owned utility of Albania.
Existing Exposure	KESH Restructuring Project (OpID 48132): EUR 218 million sovereign-guaranteed loan to KESH signed in 2016. [REDACTED] Komani HPP Dam Safety Upgrade project (OpID: 43125): EUR 12.7 million loan signed in 2012. [REDACTED]
Maturity / Exit / Repayment	The loan will have a maturity of up to 18 years [REDACTED]
Potential AMI eligible financing	N/A
Use of Proceeds	The proceeds of the EBRD loan will be used to finance the construction of the floating solar photovoltaic plant with a 12.9 MW of installed capacity located on the surface of the Vau i Dejës hydropower plant reservoir in Albania. The Use of Proceeds will be covenanted and monitored in the loan agreement. [REDACTED]
Investment Plan	The proceeds of the loan will be used to finance CAPEX and other project costs of the Project.
Financing Plan	[REDACTED]
Key Parties Involved	<ul style="list-style-type: none"> • Borrower SPV • KESH as the guarantor, Sponsor and off-taker. • Energy Regulatory Authority (ERE)
Conditions to subscription / disbursement	<ul style="list-style-type: none"> • Executed originals of all Finance Documents • Evidence of the creation and perfection of all Transaction Security including any necessary notices and registrations [REDACTED]
Key Covenants	<ul style="list-style-type: none"> • [REDACTED] Compliance with EBRD Performance Requirements and ESAP.
Security / Guarantees	<ul style="list-style-type: none"> • Corporate guarantee from KESH for the life of the loan [REDACTED]
Other material agreements	<p><u>Financing Agreements:</u></p> <ul style="list-style-type: none"> • EBRD Loan Agreement with the Borrower SPV [REDACTED] <p><u>Project Agreements:</u></p> <ul style="list-style-type: none"> • PPA between the SPV and KESH • Merchant Offtake Agreements with a potential merchant off-taker [REDACTED]
Associated Donor Funded TC and co-investment grants/concessional finance	<p>A. Technical Cooperation (TC): Total of EUR 365,830</p> <p><i>Pre-signing:</i></p> <ul style="list-style-type: none"> • TC1: Technical review of the Project, development of basic design and technical specifications. [REDACTED]

	<ul style="list-style-type: none"> • TC2: Environmental and Social Due Diligence. [REDACTED] • TC3: Commercial Due Diligence including market analysis of the Project. [REDACTED] • TC4: Legal Due Diligence to provide legal due diligence support to the Borrower and preparation of financing agreements. [REDACTED] • TC5: Advance Procurement support for the preparation of tender documents, procurement support and contracting. [REDACTED] <p><i>Post-signing:</i></p> <ul style="list-style-type: none"> • TC6: HPP Reservoir Safety Zoning. The TC will support the definition of minimum downstream and upstream safety distances for reservoir based activities in relation to hydropower schemes, reservoirs and dams operated by KESH and will be initiated after the first year of operation of the floating solar PV. [REDACTED] <p>B. Co-investment Grants: Up to EUR 2.33 million</p> <p>The Borrower intends to apply in February 2021 for the EU/Western Balkans Investment Framework (“WBIF”) investment grant for up to 20% of the total capital costs equivalent of EUR 2.33 million with the EBRD as the lead IFI. The grant does not have a fully economic justification, as the Project is viable with full commercial financing. However, there are strategic objectives – green economy transition –that need to be considered. Details are provided in Section 6.3.</p>
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[REDACTED]

INVESTMENT PROPOSAL SUMMARY

1. STRATEGIC FIT AND KEY ISSUES

1.1 STRATEGIC CONTEXT

Importance of the Project for Albania and the region

The Albanian electricity sector has one of the lowest carbon intensities of the entire EBRD region as the local supply is almost 100% met by domestic hydropower production. However, hydropower's dependence on weather conditions exposes the country to increasing climate change risks and increases its reliance on imported electricity. In recent years Albania has suffered from several prolonged periods of drought. In these periods Albania is forced to import at short notice expensive power from regional generators, which are typically lignite-fired. This in turn causes high and volatile energy prices in Albania as well as increased demand for highly polluting lignite-fired power in the Balkans.

Accordingly, one of the key priorities of the Albanian National Strategy of Energy is to diversify domestic electricity generation sources and improve the energy mix by developing domestic wind and solar resources. The National Renewable Energy Action Plan of Albania targets an increase in non-hydro renewables to up to 640 MW by 2030 from c.10 MW in 2020, of which 490 MW are planned to be solar capacity. Albania's large volume of reservoir-based hydropower complements perfectly the intermittency of wind and solar generation, where each MWh of solar or wind generation avoids the import of conventional power or allows for the retention of water in a reservoir to be used for generation at another time. In the longer-term, Albania has the potential to be an important provider of flexibility to the rest of the Balkans, similarly to the role that Scandinavian hydropower plays in complementing wind and solar production in Northern Europe.

The Bank has been playing a key role in helping Albania achieve these goals by providing technical assistance to develop competitive procurement of renewable capacities. As a result of this assistance, Albania completed a successful solar PV auction in May 2020, securing a record low tariff of under 2.5 EURc/kWh for a 140 MW project. Building on this success the government has launched, again with EBRD's support, a second solar auction for 100 MW and plans to launch a 130 MW wind auction in 2021.

Albania has an average solar radiation of over 1,300 kWh/m²/year, thus offering one of the most favourable conditions for solar energy production in Europe. The proposed project takes advantage of this and specifically involves the installation of 12.9 MW of floating solar PV technology on the Vau i Dejës reservoir where Kesh's existing Vau i Dejës hydropower plant is located. Floating solar is a rapidly growing technology which offers a number of advantages to compensate for its 10-30% higher capital cost compared to land-based plants:

- it avoids the use of scarce land since solar is typically a land-intensive generation source;
- when installed, as in this case, on a reservoir for an existing hydropower plant, it allows for the use of existing transmission infrastructure rather than requiring construction of new;
- it reduces evaporation losses from the reservoir; and
- proximity to water helps cool the photovoltaic panels, which are more efficient at lower temperatures.

This is particularly relevant for countries like Albania with scarce land recourse and significant existing reservoirs. If Albania were to use all of its large hydropower reservoirs (water surface of 130 km²) for building floating solar PV plants, it could potentially deliver c.4 GW of additional solar capacity.

The 12.9 MW KESH floating solar PV plant, will be the first medium-size floating solar PV and HPP hybrid plant and the first ever application of the pure-floats based (mainstream) technology in Albania and in the entire Western Balkans region. Therefore, it is expected to have a significant demonstration effect and is envisioned to be easily replicated on other hydro reservoirs in Albania and in other countries of the hydro-rich Western Balkans region.

The Sponsor and project structure

KESH, the Sponsor, is the state-owned incumbent generation utility in Albania. KESH has been a long-standing client of EBRD with the Bank financing the KESH Restructuring Project in 2016 (48132) and the Komani HPP Dam Safety Upgrade in 2012 (48132) as well as a number of other completed projects. The investment in the floating solar PV plant complements the implementation of the Climate Risk Management Plan (CRMP) supported by the Bank as part of the KESH Restructuring Project and ultimately adopted by KESH supervisory council in 2018. The CRMP targets diversification into solar energy in order to be more resilient to increasing hydrological variability as a result of climate change.

The Project will have a positive contribution to the financial and operational performance of KESH and its existing business. The Project has the opposite seasonality to KESH's hydro-based generation and will be selling on the merchant market that will help to diversify KESH's regulated, hydro-generated revenues. The Project will also be the first non-sovereign loan to KESH from an international IFI and it will contribute to improved commercialisation and financial resilience of this state utility.

The Project will be constructed, owned and operated by a special purpose company 100% owned by KESH. It will sell all its power on the liberalised wholesale market, but will also have a PPA with KESH which allows the Project to sell electricity to KESH at a guaranteed price, and buy-back electricity from KESH for trade optimisation and balancing purposes. This flexible buy/sell arrangement with the Sponsor transfers the benefit of the synergies between the floating solar PV and the hydropower plant to the SPV. The synergy arises because the hydropower plant can effectively store any electricity that it offtakes from the SPV – electricity purchased by KESH from the SPV reduces KESH's required hydro generation accordingly. Furthermore, the flexible generation of the hydropower dam allows KESH to supply back electricity to the SPV on demand (i.e., during peak merchant price).

Covid-19

The Project will also help to mitigate the post COVID-19 impact on energy sector in Albania. Following the COVID outbreak the Albanian distribution and retail supplier (OSHEE) experienced liquidity constraints due to reduced collections indirectly resulting in delayed payments made to KESH. The Project will provide an opportunity to KESH to expand its client base (currently OSHEE offtakes more than 90% of KESH's generation) and thus help to ease the impact of delayed payments from OSHEE.

The COVID-19 pandemic is not expected to have a material negative impact on the Project implementation. The construction will not start until Q3 2021 and despite the need for the imported equipment, the loan is structured with 2.5-year grace period and with a conservative CAPEX estimate and therefore the Project implementation is expected to be managed well within the time schedule and the budget.

Strategic fit

The Project is the Bank's first opportunity to finance the floating solar PV technology and it paves the way for future financing of similar projects as well as it demonstrates the Bank's strong support for the technological innovation in energy sector. As a result, the Project is consistent with the Energy Strategy which promotes support for the well-functioning energy markets including through innovation. The Project is also consistent with the Strategy of Albania by promoting the commercialisation of public utilities and strengthening energy diversification as well as a low-carbon transition.

Finally, the Project also contributes to a number of UN Sustainable Development Goals (SDGs), namely: SDG 7: Affordable and Clean Energy, SDG 8: Decent Work and Economic Growth, SDG 9: Industry, Innovation and Infrastructure, and SDG: 13 Climate Action.

1.2 TRANSITION IMPACT

Primary Quality: Green

Obj. No.	Objective	Details
1.1	The percentage of EBRD use of proceeds allocated to the Project that qualifies as GET is 50% or higher.	100% of the EBRD's financing qualifies as GET.
1.2	The Project introduces significant innovation in green products or technologies, which fulfils the following three conditions: a) It reduces the environmental impact of a production process or it introduces a new environmentally friendly product to the market; b) It is novel (first or second of its kind) in the relevant market; and c) It is replicable by other market participants.	The Project has a strong demonstration effect as it is: i) the first application of mainstream floating solar PV technology (which is easily replicable) to be implemented in Albania and the Western Balkans region; and; ii) the first commercially-financed renewable project by an SOE in Albania. The Project will pioneer further investments of this kind and will pave the way for other generators, potentially incumbent hydro generators, or new private-sector developers, to make use of reservoir resources in order to diversify their generation and thus improve their operational, environmental and financial performances.

Secondary Quality: Resilient

Obj. No.	Objective	Details
2.1	The Project will make the Sponsor less vulnerable to shocks.	The Project will have the opposite seasonality to the Sponsor's existing hydropower business, being thus a perfect complement to the hydro seasonality impacting KESH's business. In addition, the floating solar PV will have a positive impact on the hydro reservoir due to reduced water evaporation. The Project will sell on the free market at merchant prices that are higher than the regulated price received by KESH's existing hydro generation and is expected to increase KESH's profitability. Finally, this is the first commercial loan (without sovereign support) to KESH from an IFI and it will improve financial resilience of KESH improving credit profile for commercial financing of its future projects.

1.3 ADDITIONALITY

Identified triggers	Description
A subsequent/consecutive transaction with the same client/group either with the same use of proceeds or in the same country (repeat transaction).	The Project is with the existing client, KESH. However, it is the first solar plant to be financed by the Bank with KESH and the project with a merchant risk. EBRD remains additional as it is one of the few financing institutions active in Albania that is willing to accept market risk together with offering commercial financing to an SOE.

Additionality sources	Evidence of additionality sources
Financing structure source EBRD offers financing that is not available in the market from commercial sources on reasonable terms and conditions and EBRD offers a tenor, which is above the market average and is necessary to finance the project.	The EBRD loan structure cannot be matched by commercial lenders in the market. [REDACTED]
Risk mitigation EBRD's long-term relationship with a client provides comfort to the client to finance this innovative project.	The EBRD has existing relationship with KESH due to two existing transactions and more completed transactions in the past. The EBRD's support provided in the course of structuring the transaction helped the Borrower and Sponsor to obtain government pre-approval for this innovative technology project which is one of its kind in Albania.
Standard-setting- helping the clients achieve higher standards Client will make a use of EBRD expertise on best international procurement standards. Client makes use of EBRD expertise on higher environmental standards, above 'business as usual' (e.g. adoption of emissions standards, climate-related ISO standards etc.)	The EBRD managed to mobilise TC to support the preparation of the tender documents in accordance with the EBRD standards. The TC will improve KESH's standards in tender preparation and execution. Additional TC support will help KESH improve Safety Zoning standards on its reservoirs, which together with the ESAP compliance will improve the environmental standards of the client.

1.4 SOUND BANKING - KEY RISKS

Risks	Probability / Effect	Comments
Merchant Risk	Medium/ Low	The Project will sell its output on the unregulated market and thus it is exposed to market risk. Mitigation: The Project will have an offtake agreement with KESH, which will allow the SPV to sell to KESH at a fixed guaranteed price that applies when the SPV cannot achieve a better price in the market. [REDACTED]
Sponsor's creditworthiness	Medium/ Medium	KESH's financial and operational performance is highly impacted by hydrology Mitigation: i) the Project is not expected to utilise the Sponsors' guarantee [REDACTED]
Implementation risk	Low/High	Implementation risks are currently estimated to be low as the Project will be implemented by an experienced EPC contractor selected under a competitive procurement process. Another Mitigant is that the project costs will also finance an Owner's Engineer, who will supervise the EPC works during the entire construction process and ensure smooth implementation.
Legal Risk – PSO Obligation	Low/High	KESH's Public Service Obligation (PSO) could be potentially extended to the new SPV Mitigation: [REDACTED] the PSO is expected to phase out over time as it is based on a temporary and transitory decision and is against the provisions of the Law on Power Market Of Albania [REDACTED].
Legal Risk – State Aid	Low/ Medium	Given KESH's status as an SOE, the parent guarantee and the PPA with KESH might classify as state aid. Mitigation: KESH will secure Albanian State Aid Commission's (ASAC) consent prior to the signing of the loan agreement. The Loan Agreement will be executed subject to securing ASAC's consent.
Legal Risk - Procurement	Low/High	Current Albanian Procurement Law does not allow EBRD's Procurement Policy and Rules (PP&R) to be applied to the Project. Mitigation: the Government of Albania ("GoA") approved New Procurement Law, which allows application of EBRD's PP&R in commercial IFI-financed projects owned by state companies. The law is expected to be effective from early 2021, in line with the Project procurement timeline. Disbursement of the EBRD loan will be conditional to the effectiveness of the New Procurement Law.
Legal Risk-Security	Low/Low	The Project's security is limited to Sponsor Support [REDACTED]. Mitigation: [REDACTED] In case of default, the Bank will rely on the Sponsor Support and the Guarantee versus trying to sell the assets. [REDACTED]
Operational risk	Low/ Medium	Given the novelty of the Project, it could be exposed to operational problems or failure to generate the expected energy yield. Mitigation: [REDACTED] the Project will have an external, experienced O&M service provider selected through a competitive tender, which will service the plant for the first two years and also provide an on-site training to KESH employees.

COVID-19 impact	Low/Low	COVID-19 might impact the Sponsor's financials and the Project. Mitigation: Impact on KESH is only anticipated indirectly through OSHEE, which might be affected by a potential decrease in collections and delay KESH payments. The impact of the first wave of COVID has been minor on KESH. [REDACTED] The project's long grace will accommodate any potential delays in construction due to COVID. [REDACTED]
FX risk	Low/ Medium	The Project has EUR indexed revenues matching the EUR debt service and minimising overall FX risk exposure. Both, merchant electricity prices and the guaranteed floor price from KESH will be fixed in EUR. A small portion of O&M costs are in ALL. Possible devaluation of ALL vs. EUR would have a positive economic impact on the ALL denominated operating costs.
Interest Rate Risk	Low/ Medium	The Project is not hedged and is exposed to EURIBOR variations. However, the sensitivity analysis shows that the Project is relatively robust to the interest rate risk [REDACTED]

2. MEASURING / MONITORING SUCCESS

<i>Overall objectives of project</i>	<i>Monitoring benchmarks</i>	<i>Implementation timing</i>
<ul style="list-style-type: none"> - Implementation of the open tender according to the EBRD PP&R - On-time project implementation - Good financial and operational performance 	<ul style="list-style-type: none"> - Selection of the EPC and O&M contractor - Completion according to the timeline and within the budget - Realising stable revenues, profitability and cash flows 	[REDACTED]

Primary Quality: GREEN

Obj. No.	Monitoring indicator	Details	Baseline	Target	Due date	Donor³
1.1	Renewable Electricity Produced (MWh)	The plant is expected to produce at least 18,000 MWh per year. ⁴	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

³ Donor indicator refers to any indicator which is either part of donor legal agreements to be tracked by EBRD, and/or funded by donors (type of instrument e.g. concessional loan, project indicators etc.). Please select Y or N by removing the not applicable option.

⁴ Because of the very low grid emission factor of Albania, this translates in a GHG emission reduction of just under 300 tCO₂/year. Assuming that the solar generation displaces imports generated at the average Balkan emissions factor, it would result in avoided emissions of c. 15,000 tCO₂/year.

1.2	Renewable electricity capacity installed (MW)	12.9 MW renewable energy floating solar PV plant will increase non-hydro renewable energy capacity in the country.	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
1.3	New or updated GET technology or product leading to renewable energy generation introduced	The first ever medium size floating solar PV plant in Albania with a mainstream, replicable technology.	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

Secondary Quality: RESILIENT

Obj. No.	Monitoring indicator	Details	Baseline	Target	Due date	Donor
2.1	New or updated GET technology or product leading to energy efficiency introduced	The new floating solar PV project to be built and become operational.	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
2.2	New or updated GET technology or product leading to energy efficiency introduced	The plant generates annually in at least 90% of solar generation hours in which Albania imports electricity	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

3. KEY PARTIES

3.1 BORROWER / INVESTEE COMPANY

The Borrower will be an SPV incorporated in Albania for the sole purposes of implementing the Project and solely owned by KESH, the Sponsor.

3.2 SPONSOR

KESH is a state owned energy company established in Albania since 17th of October 1995. KESH provides c.70% of total domestic generation. Since mid-2016, KESH has officially become only an electricity generation company, as the wholesale public supplier function was removed from KESH. KESH currently manages three large hydropower plants located in the Drini river – the Drini river cascade. The three hydropower plants (Fierza, Komani and Vau I Dejes) comprise 1,350 MW of installed capacity.

KESH provides the electricity for regulated customers, covers network losses and represents the only provider of balancing services in Albania. KESH continues to operate under public service obligations (PSO) that require it to prioritize supplying to OSHEE, the Albanian distribution and retail supplier to: i) supply regulated customers at a price agreed between the parties and ultimately approved by the shareholder (MIE for both KESH and OSHEE), and ii) provide electricity to cover the losses in the distribution. Any excess energy remaining after supplying OSHEE can be sold on the free market by KESH, which allows KESH to also trade on the merchant market with low quantities. [REDACTED]

The Bank has been working with KESH to improve both its corporate governance and its management and this is the key focus of the Bank's 2016 Restructuring Project. Under this project KESH has been implementing a comprehensive Corporate Governance Action Plan (the "CGAP"). Since 2016, KESH has achieved significant improvements in its reporting function and the general transparency and independence of its management. In addition, the adoption of the Climate Risk Management Plan (CRMP) by KESH in 2018 shows its commitment to undertake adaptation measures that will help to address the risks of climate change and climate variability; one of the measures being implementation of this Project.

Sponsor Financials

[REDACTED]

4. MARKET CONTEXT

Market participants and generation: The Albanian power market remains largely state owned and consists of following main state participants: 1) state utility KESH; 2) distribution company OSHEE and 3) the transmission system operator OST. The electricity system of Albania is interconnected with the neighbouring systems of Greece, Montenegro, Kosovo and Macedonia (the 400kV transmission line is under construction and partly financed by the EBRD).

Albania's total electricity consumption is met c.70% by domestic hydro generation and the remaining amount is imported with the amount of imports each year depending on the hydro yield that year. Apart from 1,350 MW hydro capacity owned and operated by KESH, there are additional ~1GW of hydro capacities developed through concessions. 12 MW of solar capacities (small projects of up to 2MW each) were licensed in late 2018, but few have been implemented since. The National Renewable Energy Action Plan ("NREAP") includes a renewables target to up to 640 MW within 2030.

Regulations: In April 2015, Albanian Parliament approved Power Sector Law (PSL) in compliance with the EU Third Energy Package and it has since paved the way for sector reforms. Under the monitoring of the EnCS, Albania is making progress in implementing the PSL and progressing with secondary legislation. However, the existence of the PSO is noncompliant with the PSL which liberalised the generation. For this reason, the PSO is considered as a temporary measure and is expected to be gradually phased out in the coming years. In 2019, the GoA adopted a decision to establish a power exchange to be named Albanian Power Exchange (ALPEX), which is expected to start operation in 2021.

Merchant market: The merchant market in Albania can vary between 30% - 40% of the total market size depending on KESH's production in each year because unregulated market's biggest transactions include imported electricity. The sellers on the unregulated market include all generators but the offtakers mainly consist of: 1) OSHEE, importing during peak demand seasons (summer and winter period); 2) power traders, trading domestically and internationally and 3) corporate clients offering corporate PPAs. The trading market is significant – out of c. 50 licensed traders, 5-10 are the largest and

are trading cross border. GSA, one of the largest domestic traders, is the Bank's client through an RSF transaction. Prices on merchant market are determined with bilateral agreements. But for imports of state companies (i.e., OSHEE importing mostly through traders) are typically determined by tender procedures, following Albanian procurement rules. The merchant prices throughout the year closely follow HUPX, with the exception of the peak demand periods further explained below.

Peak market: Peak demand is represented by summer and winter months when consumer demand is high and results in higher demand on the imported electricity. Winter and summer peak market prices were on average c.30% higher than the average annual HUPX prices during the last three years. Albanian merchant market prices (and peak prices) are expected to remain high until 2030, due to continued reliance on import, increased gas prices driving prices of the non-domestic CCGTs affecting import prices in Albania and expected carbon pass through to come. In the period following 2030-2035, Albania is expected to have operational RE capacities that will reduce need for imports, however demand on the balancing electricity required to support intermittent RE sources will contribute to maintain merchant prices high.

Solar energy: Current support programme for small scale solar plants (<2MW) include FiT system. For plants > 2MW, the Bank provided a technical assistance to GoA to develop an auction system in line with the best international practices for a competitive procurement of renewable capacities. As a result, the first round of the Albanian solar auction for the development of a 100 MW plant was introduced and awarded in 2019. However, the project has been on hold. This was followed by the second round of solar auction for 140 MW in early 2020, while the third round for 100 MW was announced in November 2020. The offtake arrangement for PV plants > 2MW includes a guaranteed offtake by OSHEE only for the portion of the output. The Bank is considering to finance the project awarded under the second round.

A new law on renewable energy sources ("RES") was approved in 2017 which introduced contract for difference support scheme however implementation of the new scheme has been delayed until 2021. There are no floating solar PV capacities in Albania and neither is there a support scheme for the floating solar PV technology. However, Norwegian Statkraft started a construction of a small demonstrational 2MW floating solar PV plant on its Banja HPP in Albania. The plant will use niche technology produced by Norwegian Ocean Sun (mostly used for near-shore locations and semi-sheltered waters) and is planned to start operation in 2021. The plant is likely to sell power under the existing support scheme for <2MW solar plants.

5. FINANCIAL / ECONOMIC ANALYSIS

5.1 FINANCIAL PROJECTIONS

[REDACTED]

5.2 SENSITIVITY ANALYSIS

[REDACTED]

5.3 PROJECTED PROFITABILITY FOR THE BANK

[REDACTED]

6. OTHER KEY CONSIDERATIONS

6.1 ENVIRONMENT

Categorised B (2019, ESP). The construction and operation of a 12.9 MW floating photovoltaic plant on the surface of the existing Vau i Dejës hydropower plant (HPP) reservoir is associated with site-specific environment and social (E&S) impacts that can be addressed through the application of mitigation measures.

Environmental and Social Due diligence (ESDD) was carried out by an independent consultant in line with ESD's response to COVID-19 and included a site visit to undertake baseline surveys including biodiversity and water quality and follow up discussions with the Sponsor. ESDD was undertaken in parallel to the Feasibility Study and E&S considerations have been integrated into the site selection, project design and technical specifications.

ESDD has shown that the Sponsor has sufficient E&S capacity to implement the performance requirements. The PV plant will be located in close proximity to the HPP and a short cable connection to the shore will be required to connect to an expanded area within the existing sub-station. The Project is not expected to affect the conservation objectives of any of the surrounding protected or internationally recognized areas. Several critical habitat trigger species were identified including two mollusc and two fish species and two species of crayfish identified as Priority Biodiversity Features. Impacts will be mitigated through seasonal restrictions on the start of construction to avoid crayfish and fish spawning period and translocation from the temporary construction area of molluscs and crayfish, which are found in shoreline habitats around the entire perimeter of the reservoir. A programme of monitoring will be put in place targeted to these species. Other E&S impacts associated with the construction phase including community disturbance and Occupational Health and Safety (OHS) and will be mitigated through standard construction mitigation measures, with specific controls in place for the safety risk associated with working on or in water.

The Project requires minimal land, all of which is state land for which appropriate usage rights will be acquired or is already under the existing use of the Sponsor and there will be no physical or economic resettlement. The recently approved tourism development plan for the municipality of Vau i Dejës focuses on the development of several initiatives in the area to increase mobility through use of the lake for a ferry service and promote tourism and recreation activities. Provisions to ensure the project and tourism and recreation activities can co-exist have been included in the project design. Engagement with the municipality undertaken by the Sponsor indicates the PV project will be compatible with this plan and the Sponsor is required to secure formal approval as part of the permitting process. The Sponsor has already prepared a preliminary EIA and also undertook a detailed EIA in accordance with Albanian legislation which, as reported by the Client, has been approved by the National Environmental Agency.

Operation phase impacts of the plant will be mitigated through the implementation of an OHS plan, provision of related safety equipment and a fire extinguishing system for the PV plant and installation of a floating fence to prevent unauthorised access. An ESAP has been developed and has been agreed with the Sponsor. A Non-Technical Summary and Stakeholder Engagement Plan has been developed and has been disclosed by the Sponsor and on the Bank's website too. The Bank will monitor the implementation of the Project through review of regular monitoring reports during construction and annual reports in operation.

6.2 INTEGRITY

In conjunction with OCCO, integrity due diligence was undertaken on KESH, its shareholder (the Ministry of Infrastructure and Energy), senior management and other relevant parties. [REDACTED]

[T]his project does not pose an unacceptable reputational risk to the Bank. KESH is a longstanding client of the Bank and the experience to date has been positive. [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.

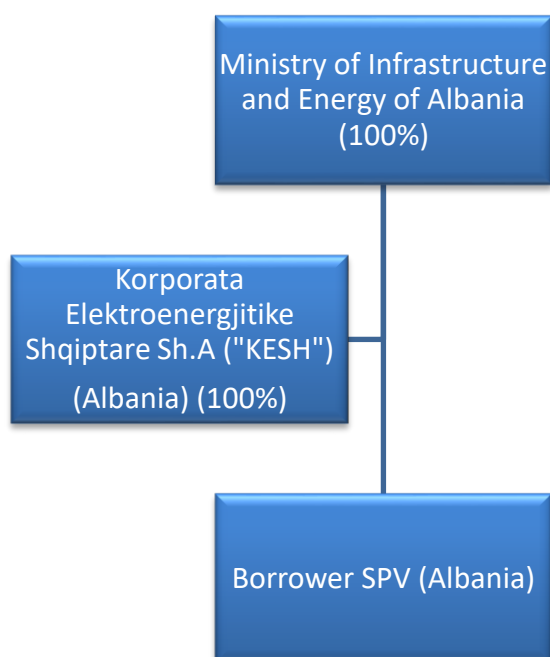
6.3 CONCESSIONAL FINANCE - EU/WBIF GRANT

The Sponsor intends to apply for a grant from the EU/Western Balkans Investment Framework (“WBIF”) for financing up to 20% of the Project CAPEX equal to EUR 2.33 million, in line with the WBIF rules. If obtained, the grant will be available towards the end of the Project's construction and would be used to reduce equally the originally envisioned debt and equity to finance the remaining part of the capital expenditures of the Project.

[REDACTED] By lowering the first mover cost and further derisking the Project, the WBIF grant thus provides further encouragement to this innovative technology with potential for wider demonstration effects in the region.

ANNEXES TO OPERATION REPORT

ANNEX 1	Shareholding Structure
ANNEX 2	Project Description
ANNEX 3	Project Implementation (Procurement Plan)
ANNEX 4	Transition Impact Scoring Chart
ANNEX 5	Sponsor Financials
ANNEX 6	Floating Solar PV Technology
ANNEX 7	TIMS of the existing projects with KESH
ANNEX 8	TI Benchmarks progress for the KESH Restructuring Project

ANNEX 1 - Shareholding Structure

ANNEX 2 - Project Description

The Basic Design report prepared by the LTA has identified the optimal technical characteristics of the floating solar PV plant assuming the recent technology and market developments as well as local conditions, including environmental and social requirements.

Vau i Dejës reservoir: The floating solar PV plant will be installed on the Vau i Dejës hydropower plant lake, northwest of Albania. The Vau i Dejës Lake is located 20 km from Shkodra, 92 km from Tirana and 81 km from Tirana Airport. Vau i Dejës was the first hydropower plant built on the Drin River. The total installed capacity of the HPP is 250 MW. This plant was put into operation in two phases in 1970 and 1975. Vau i Dejës is the lower hydropower dam of the three river cascades (Fierza and Komai and Vau i Dejës).



Plant Location: The floats will be located on the 12.5 ha, which is 38% of the bay area (35 ha) chosen for the plant. Initially, two bays were considered for locating the plant: Option 1 included bay in front of the Qyrsaqi dam (main spillway) and Option 2 was the bay in front of the Zadeja dam (non-main spillway).



The Option 1 was chosen as a preferred location, due to 1) vicinity to the main road that will facilitate construction works; 2) need for a shorter MV cable connection to the existing electricity facilities shared with the existing HPP; 3) more shallow waters that minimize costs for mooring; 4) proximity to KESH

premises and better access for O&M purposes. However, the local municipality is planning to develop tourism activities near the Option 1 including a ferry boat quay. As a result, the team of KESH had to coordinate the preparation of the basic design with the municipality after which it was agreed to leave an adequate corridor on the reservoir for ensuring the safe operation of a ferry boat quay. Additionally, a safety zone was allowed between the shore and the PV floats to allow safe area for the swimming activities.

PV Modules: The plant will be constructed using best-in-class high efficiency monocrystalline silicon modules that will allow to build a compact PV plant using optimal surface on the lake. The Basic Design assumes characteristics of monocrystalline silicon PV models typically used in medium-scale PV installations. Modules efficiency is assumed at 20.93%, with Maximum power (Pmax) of 470Wp (STC) and 350 Wp (NOCT).

Inverters: As the Project has a medium capacity (> 10 MWp), central inverters have been selected in order to reduce CAPEX and optimize the cost of electricity production. Further, large commercial integrated package of Inverter and Transformer Station is assumed in the design that comprises of DC/AC solar inverters, switchgears, protections and controls, SCADA monitoring system and LV/MV transformer.

Floating System: The plant will consist of several types of floats to guarantee the adequate functioning of all equipment and entire system. The floating system will include main floats for PV module support but also floats for passage way and maintenance, inter-connection, inverters and transformer stations and floats for safety barriers. The mooring and anchoring system will be designed to maintain the stability of the floating islands and must prevent the floating islands from moving away from their original location in bad weather or severe climates such as strong wind, storm or variation in water level.

Grid Connection: The project grid connection works will consist of modification works on the existing OST 110/220kV substation and the construction of a new MV/HV substation. The new MV/HV 20/110 kV substation will be built near the shore of the reservoir where floats will be installed and it will be connected to the floating system via the 20 kV marine type underwater cable. The new substation and the existing OST substation will be connected with a new 110 kV underground cable with an approx. length of 5 km. On 13 August 2020, OST issued a Preliminary Opinion Letter on the Basic Design of the Project approving technical characteristics of the grid connection arrangement. The point of delivery for the new plant, as confirmed by OST, will be at the new 20/110 KV substation exit. The Borrower plans to sign the final grid connection agreement with OST prior to start of the construction of the Project.

CAPEX: [REDACTED]

EPC and O&M: EPC and O&M contractor will be appointed following an international tender for turn-key works of the PV infrastructure and grid connection works as well as maintenance program. The bidders will bid according to the technical specification that was already prepared by the LTA appointed by the Bank. The tender will follow the Bank's PP&R. The tender documents will be prepared with donor funded TC support from a procurement consultant appointed by the Bank.

Project Timeline: The project will progress according to preliminary project schedule below.

- Permits works: Nov 2020 – May 2022

- Financing agreement signing: Feb 2021
- EPC tender assignment: July 2021
- EPC team mobilization: July 2021
- EPC detailed design phase: August 2021
- EPC construction phase: September 2021 – Sept 2022
- Commissioning: Sept 2022
- COD / Final operational acceptance: Sept-Dec 2022

ANNEX 3 - Project Implementation (Procurement Plan)

Procurement classification – Public Sovereign

[REDACTED] This is a well-known client to the Bank, thus the risk assessment was determined on the basis of the experience gained during the implementation of the Komani HPP Dam Safety Upgrade project (Op ID: 43125). The client has demonstrated relevant experience in procuring goods and works contracts under IFI financing projects using diverse set of rules. However, they are lacking up to date knowledge on EBRD Procurement Policies and Rules for the public sector operations (PP&R) as well as capacity to conduct the procurement and supervision tasks required during implementation of the project. In order to mitigate these risks, the Project will be supported with a grant funded procurement TC and the SPV intends to hire an Owner's Engineer for the project supervision, that will be partly funded with the loan proceeds.

Contracts risk assessment – Moderate

The scope of the project envisages the design, build and operation for 12.9 MW floating photovoltaic plant located on Vau i Dejës HPP reservoir.

The contract involve certain technical complexity and it is the first of its type and size in the region. The main risk is represented by the competitive photovoltaic market in Albania which often leads to a price war among the companies. This may affect the implementation schedule of the works contracts, as contractors spend more time finding cheap suppliers and subcontractors on the expense of delaying the works schedule under the contracts. The situation is well known to the client and they will take appropriate measures to mitigate the risk. In addition, the lack of client's capacity to conduct the required activities during project implementation would be mitigated with the mobilization of procurement consultant as well as supervision engineer (Owner's Engineer).

Project implementation arrangements:

KESH will be responsible for the implementation of the project, including carrying out the procurement process. KESH is well managed, agile and efficient and employs a team of capable experienced professionals that is retained for this new project and will be part of a Project Implementation Unit (PIU).

The PIU will be established within KESH and it will have overall responsibility for the implementation of the Project. The PIU will be supported by a donor-funded experienced procurement consultant as well as a supervision consultant to mitigate potential procurement and implementation risks. The Consultants will assist the client in all aspects of procurement and the implementation of the Project in accordance with the Bank's policies and also support PIU in meeting requirements of various financing documents.

Procurement arrangements:

One works contract will be financed by the proceeds of the Bank's loan as well as other sources provided by KESH. The contract will be procured following the Bank's PP&R and will be subject to prior review by the Bank.

The works contract will be procured using multi stage open tendering method using the Bank's latest works standard procurement documents templates. The preliminary designs are prepared by the LTA but the final design will be conducted by the awarded contractor through the envisaged EPC contract.

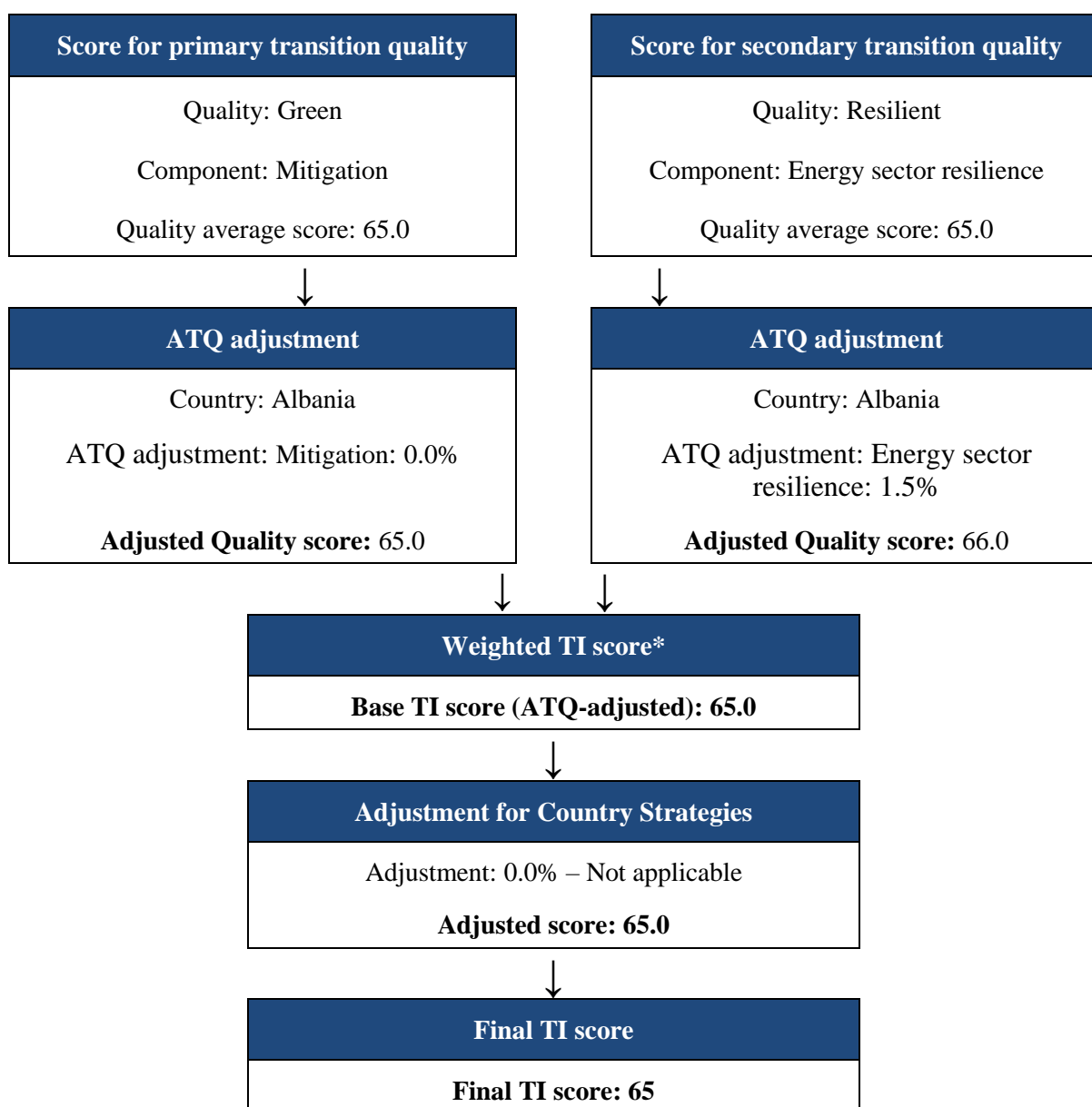
The consultancy contracts will be procured following the provisions of the Bank's PP&R Section 5 (Procurement of Consultant Services). The consultancy contracts for advance procurement support and reservoir safety zoning will be financed by international donors but the technical supervision support

during construction and commissioning will be financed by loan proceeds and sponsor equity. The supervision consultancy assignment will be procured following two stage open competitive selection. The advance procurement support and reservoir safety zoning consultancy assignments are envisaged to be procured following direct selection method in accordance to Bank's PP&R as the estimated budgets for those assignments are below EUR 75,000.

Additional information:

The contracts will be tendered via the EBRD Client e-Procurement Portal (ECEPP). [REDACTED]

ANNEX 4 - Transition Impact Scoring Chart



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

ANNEX 5 - Sponsor Financials

Background

KESH is a joint-stock company established in Albania on the 17th of October 1995, incorporating the already existing electricity generation, transmission and distribution entities. [REDACTED]

Financial analysis

[REDACTED]

ANNEX 6 - Floating Solar PV Technology

The first ever floating solar PV (FPV) installation was installed in 2008 in Napa valley FPV winery in California. The global capacity is currently reaching 2.6 GW and it continues to grow due to the significant exiting potential. According to the World Bank study, if 1 % of the world's existing man-made reservoirs were used to develop floating solar PV plants, it would lead to a 400 GW increase in the global solar installed capacity. Geographically, Asia is dominating the FPV market, with China having capacity of 1-2GW, India -300 MW, Taiwan- 200-300 MW, Vietnam (350 MW) and Japan (100-150 MW). The largest project in Europe is Akuo Energy's FPV in France (Omega 1 project 17 MW) launched in 2019 funded with equity, crowdfunding and local municipality funding; 180MWp project in Taiwan is the largest in the world (to date) in an intertidal area.

Technology: The sector is still going through technological innovation with different companies offering new solutions for PVs on water surfaces (e.g., mostly technologies for bedding/platforms of the PV installations). However, the mainstream and well-tested technology involves installation of platforms as individual floats, where the solar panels and inverters can be attached. The industry leader in the mainstream technology is French Ciel & Terre (France) which is a supplier for 60% of the world's existing FPV projects. Other firms include Sungrow (Chinese) and producers in Europe (Baywa r.e. (Germany)). The main types of FPVs plants include 1) Onshore or near onshore plants like FPV on HPP, or on other water reservoirs or ponds/lakes and 2) Offshore: Maritime FPVs.

Key Benefits: The main attraction of the floating solar PV technology compared to the ground mounted PV is due to: 1) 5-10% higher yield due to cooling effect from the water; 2) less use of land particularly in high density areas; 3) possibility to avoid covering arable land that contributes to food security; 4) hybridization benefits with existing HPP where solar saves water and effectively acts like a “storage”; 5) significant number of water bodies in the world; 6) water conservation by reduced evaporation; and 7) possibility to build near the grid and not in remote locations as it can be for the ground-mounted PV.

Challenges: The technology is still novel and not all the sustainability issues are fully tested. The Capex is 10-30% higher than for the ground-mounted PV and it is also variable site by site. The significantly higher efficiency gains are not always guaranteed and depend on irradiation on a particular site. As a result, FPV projects face difficulty in attracting finance. However, the biggest challenge for bankability is absence of regulation in the countries. Most countries do not have any regulations for FPV development; Some countries fit it under solar FIT schemes, while only few countries in Asia (Taiwan, Vietnam, China) have FPV schemes (e.g., FPV FiT in Vietnam is USD 0.769 /kWh).

Economics: The cost of building FPV technology continues to decrease and currently stands between EUR 0.80 -1.2 million per MW. This corresponds to LCOE of EURcent 4.3- 8 /kWh depending on the WACC, irradiation, and physical characteristics of the Project site. Difference in CAPEX compared to the ground-mounted PV is due to 10% higher costs in materials and 20% higher costs in installation costs and all of it is mostly related to the anchoring and mooring system and floats that are both required for installing panels on the water. Please note, that the floating solar PVs with >10MW benefit from the economies of scale and their higher CAPEX is normally fully compensated by the higher yield of FPVs. OPEX of FPV is also usually higher than for the ground-mounted solar PVs as it involves complex maintenance with divers and boats available on the site to maintain the floats.

Hydropower-connected floating solar PV systems: FPV on HPPS are the most attractive due to 1) existing grid connection; 2) existing access roads; and 3) hybridization benefits which includes solar PV serving as a storage for HPP, reduced water evaporation for HPP and a complementary seasonality of solar and hydro. Unfortunately HPP+FPV are still in the early stages of development. There are only several completed HPP and FPV hybrid plants globally. The first hydropower-connected floating solar PV plant was 218 kilowatt-peak (kWp) plant deployed in Montalegre, Portugal in 2015. Others include 1 MW pilot project commissioned in Brazil, 5MW plant in Kutani Dam in Japan and recently finished project in Russia (<1 MW). However, many projects, and of much greater magnitudes, are in the process of being developed across the world.

ANNEX 7 - TIMS of the existing projects with the Sponsor

1. TIMS ratings- KESH Restructuring Project (OpID: 48132)			
	Original	Previous	New
Transition impact rating	Strong Good	Strong Good	Strong Good
Transition impact risk	High	High	High
ETI / PTI	80	80	80
Reason for rating change	n/a		

2. TIMS ratings- Komani HPP Dam Safety Upgrade (OpID: 43125):			
	Original	Previous	New
Transition impact rating	Good	Good	Good
Transition impact risk	High	Medium	Negligible
ETI / PTI	60	75	90
Reason for rating change	Since all TI benchmarks have now been achieved, EPG at this point closes the monitoring of the project with a final rating of Good/Negligible (PTI 90).		

ANNEX 8 –TI Update for the KESH Restructuring Project

The Project and Background: The Project consists of a senior, sovereign-guaranteed loan of EUR 218 million to KESH, the state-owned Albanian power generation company, for the purposes of refinancing the existing sovereign-guaranteed overdrafts with local commercial banks. The Board approved the Project on 22 June 2016 and the Loan Agreement with KESH was signed on 30 June 2016. The loan has two tranches: the first tranche of EUR 118 million committed on signing (fully disbursed) and the second tranche of EUR 100 million committed on the 4th of December 2019 (with EUR 10.3 million remaining to disburse). The loan proceeds have been, and will be, used to refinance short-term, expensive sovereign-guaranteed loans which KESH entered into on an emergency basis with commercial banks in order to alleviate a critical cash situation created by poor commercial discipline in the sector. [REDACTED]