

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

Approved by the Board of Directors on 30 September 2020¹

UZBEKISTAN

VISP: ELECTRICITY SUPPORT FACILITY

[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

BAT	Best Available Technology
CAGR	Compounded Annual Growth Rate
COO	Country of Operation
EBITDA	Earnings before Interest, Taxes, Depreciation and Amortization
ECEPP	EBRD Client E-Procurement Portal
ESAP	Environmental and Social Action Plan
ESDD	Environmental and Social Due Diligence
ESP	Environmental and Social Policy
ETI	Expected Transition Impact
EUR	Euro
E&S	Environmental and Safety
FEF	Front-end fee
FX	Foreign Exchange
FY	Financial Year
GDP	Gross Domestic Product
GET	Green Economy Transition
IFI	International Financial Institution
IFRS	International Financial Accounting Standards
JSC	Joint Stock Company
MIFT	Ministry of Investments and Foreign Trade of Uzbekistan
NDC	Nationally Determined Contribution
PP&R	Procurement Policies & Rules
SOE	State-Owned Enterprise
SPD	Standard Procurement Documents
TC	Technical Cooperation
TD	Tender Documents
TCFD	Task Force on Climate-related Financial Disclosures
TPP	Thermal Power Plant
USD	US Dollar
UZS	Uzbek Som
YE	Year End

CURRENCY EQUIVALENTS

Current EUR 1.00	=	USD 1.08
2019 UZS 9,508	=	USD 1.00 (EoP)
2019 UZS 8,851	=	USD 1.00 (AoP)
2018 UZS 8,340	=	USD 1.00 (EoP)
2018 UZS 8,069	=	USD 1.00 (AoP)
2017 UZS 5,114	=	USD 1.00

MEASURES

GW	Gigawatt
kV	Kilovolt
kWh	Kilowatt-hour
MVA	Megavolt-ampere
MW	Megawatt
TWh	Terawatt-hour

PRESIDENT'S RECOMMENDATION

This recommendation and the attached Report concerning an operation in favour of the Republic of Uzbekistan (the “Borrower”) are submitted for consideration by the Board of Directors. The facility will consist of a sovereign loan in the amount of up to EUR 88.6 million where the proceeds will be on-lent to JSC Navoi Thermal Power Plant, JSC Takhiatash Thermal Power Plant, JSC Syrdarya Thermal Power Plant, JSC Talimarjan Thermal Power Plant and JSC Tashkent Thermal Power Plant (together – the “Subsidiaries”), the subsidiaries of JSC Thermal Power Plants (the “Company”), a joint stock company incorporated in the Republic of Uzbekistan.

The operation, presented under the Vital Infrastructure Support Programme (under the EBRD COVID-19 Solidarity Package, will enable the client to maintain delivery of vital electricity supply in a reliable manner during the crisis caused by the COVID-19 pandemic via provision of liquidity support to finance the working capital and operational liquidity needs of the Subsidiaries. The expected transition impact of the Project is two-fold: 1) Resilient: the Project will support the vital power infrastructure provider in Uzbekistan during the crisis and contribute to strengthening the financial position of the Company and the Subsidiaries upon sector unbundling, preserving the transition momentum in the power sector of the country; and 2) Well-Governed: the Project will include measures targeting improvement of corporate governance at the Subsidiaries and the Company through corporate governance and financial management capacity building assistance, including in climate corporate governance, gender and inclusion-related matters.

Under the proposed operation, the Company will commit to decommission [REDACTED] inefficient thermal generation units. Early retirement of high carbon generation assets is critical for decarbonisation of the Uzbek power sector and is expected to result in c.500,000 ton CO₂e emissions savings per year, supporting Uzbekistan in meeting its NDCs commitments under the Paris Agreement.

TC support for this operation is expected to be provided by an international donor and the EBRD Shareholder Special Fund.

I am satisfied that the operation is consistent with the Uzbekistan Country Strategy, the Energy Sector Strategy, the Green Economy Transition Approach, the Strategy for the Promotion of Gender Equality 2016-2020, the Vital Infrastructure Support Programme under the EBRD COVID-19 Solidarity Package and with the Agreement Establishing the Bank.

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

Jürgen Rigterink
Acting President

BOARD DECISION SHEET

UZBEKISTAN – VISP: Electricity Support Facility - DTM 52135	
Transaction / Board Decision	Board approval ² is sought for a loan of up to EUR 88.6 million in favour of the Republic of Uzbekistan, to finance working capital and operational liquidity needs (the “Project”) of JSC Navoi Thermal Power Plant, JSC Takhiatash Thermal Power Plant, JSC Syrdarya Thermal Power Plant, JSC Talimarjan Thermal Power Plant, and JSC Tashkent Thermal Power Plant (together – the “Subsidiaries”), the subsidiaries of JSC Thermal Power Plants.
Client	The Republic of Uzbekistan, on-lending to the Subsidiaries owned by the state power generation company JSC Thermal Power Plants (the “Company”).
Main Elements of the Proposal	<p><u>Transition impact:</u> <i>Primary Quality – Resilient:</i> the Project will support the vital power infrastructure provider in Uzbekistan and contribute to strengthening the financial position of the Company and the Subsidiaries during the period of COVID-19 pandemic outbreak and power sector unbundling. <i>Secondary Quality – Well Governed:</i> the Project will include measures targeting improvement of corporate governance and financial management, as well as introduce the client to climate corporate governance, reflecting TCFD recommendations as appropriate, and support gender mainstreaming in the energy sector. The Project also targets development of the guidance on decommissioning of inefficient generation capacity as part of an ambitious decarbonisation agenda under the Bank’s policy engagement on the low carbon pathway in the Uzbek energy sector.</p> <p><u>Additionality:</u> <i>Financing structure:</i> EBRD financing covers a financing gap caused by adverse market conditions and the COVID-19 impact [REDACTED]. <i>Standard-setting: helping projects and clients achieve higher standards:</i> The client will benefit from EBRD’s expertise in gender-sensitive corporate governance and financial standards. <i>Knowledge, Innovation and Capacity Building:</i> The Bank’s technical, institutional and regulatory expertise are material to the timely realisation of the Project’s objectives. Additionality is further underpinned by the Bank’s covenanted conditionalities.</p> <p><u>Sound banking.</u> The EBRD loan will be backed by the sovereign debt capacity.</p>
Key Risks	Credit risk is mitigated by the moderate level of public and publicly guaranteed debt to GDP ratio, which stands at 29% of GDP as of YE2019 and remains manageable relative to the foreign exchange reserves.
Strategic Fit Summary	<p>The operation will combine long-term reform objectives with an immediate response to the COVID-19 crisis. Newly established Company is a cornerstone player in the Uzbek power sector. The Company committing to decommission its old generation capacity, adopting and implementing adequate financial management and corporate governance practices is key for the sector’s sustainable development in the long term.</p> <p>The Project is consistent with the Uzbekistan Country Strategy, the Energy Sector Strategy, the Green Economy Transition approach, the Strategy for the Promotion of Gender Equality 2016-2020, the Vital Infrastructure Support Program under the EBRD COVID-19 Solidarity Package, and with the Agreement Establishing the Bank.</p>

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

ADDITIONAL SUMMARY TERMS FACTSHEET

EBRD Transaction	A loan of up to EUR 88.6 million in favour of the Republic of Uzbekistan, with loan proceeds on-lent to finance working capital and operational liquidity needs (the “Project”) of JSC Navoi Thermal Power Plant, JSC Takhiatash Thermal Power Plant, JSC Syrdarya Thermal Power Plant, JSC Talimarjan Thermal Power Plant, and JSC Tashkent Thermal Power Plant (together – the “Subsidiaries”), the subsidiaries of state owned JSC Thermal Power Plants incorporated in the Republic of Uzbekistan.
Existing Exposure	Uzbekistan sovereign exposure as of 30 June 2020: sovereign portfolio – c. EUR 630 million. [REDACTED]
Maturity / Exit / Repayment	Up to 7 years [REDACTED].
Potential AMI eligible financing	N/a
Use of Proceeds	<p>The proceeds of the EBRD loan will be used for a liquidity injection into the Subsidiaries to address their working capital and operational liquidity needs with regards to payments to employees and procurement of operational and maintenance inventories. The contracts for the inventories supply and related procurement assistance services will be procured in accordance with the EBRD PP&R for public sector operations. Please refer to Annex 3 for details.</p> <p>Taking into account the necessity to expedite the processing of urgent investments in operational and maintenance inventories, the advance contracting in accordance with the PP&R is planned to be used for procurement of the inventories as well as respective procurement assistance. For the contracts, if any, which will get to the signing before the loan is signed, the retroactive financing may need to be applied in line with the Bank’s Operations Policy for Retroactive Financing with regards to the respective use of proceeds. Use of proceeds control will be covered by the standard provisions in the legal documentation. [REDACTED]</p>
Investment Plan	[REDACTED]
Financing Plan	[REDACTED]
Key Parties Involved	<p>Borrower: Republic of Uzbekistan</p> <p>Project Entities: JSC Navoi Thermal Power Plant, JSC Takhiatash Thermal Power Plant, JSC Syrdarya Thermal Power Plant, JSC Talimarjan Thermal Power Plant, JSC Tashkent Thermal Power Plant, and JSC Thermal Power Plants</p>
Conditions to subscription / disbursement	<p>Conditions to disbursement:</p> <ul style="list-style-type: none"> – Execution of the Loan Agreement, Project Agreement, Subsidiary Agreements; [REDACTED] – With regard to the investments subject to PP&R: appointment of the acceptable procurement consultant; [REDACTED]
Key Covenants	<p>[REDACTED]</p> <ul style="list-style-type: none"> – Environmental and social compliance; [REDACTED]
Security / Guarantees	Sovereign loan
Other material agreements	None

<p>Associated Donor Funded TC and co-investment grants/concessional finance</p>	<p>A. Technical Cooperation (TC)</p> <p>Pre-signing:</p> <p>TC5: TC on support to the Government of Uzbekistan in the definition and implementation of policies to attenuate the economic impact of COVID-19 in the power sector [REDACTED];</p> <p>Post-signing:</p> <p>TC1: Corporate Governance Capacity Building Assistance. [REDACTED];</p> <p>TC2: Capacity building to improve the Company’s climate corporate governance, reflecting Task Force for Climate Related Financial Disclosures recommendations as appropriate. [REDACTED];</p> <p>TC3: Compliance with the Industrial Emissions Directive – BAT Assessment. [REDACTED];</p> <p>TC4: Guidance on assessment of environmental, health and safety and social impacts of decommissioning. [REDACTED]</p> <p>Reimbursement: The above assignments are non-reimbursable transactional TCs.</p> <p>Cost-Sharing: The Client will provide in-kind support, in the form of office space, communication connections, etc., for the consultants’ work, presumed to amount to three per cent of the total budget and will also finance the procurement assistance out of the loan proceeds.</p> <p>B. Co-investment grants / Concessional Finance (Non-TC) – n/a</p>
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[REDACTED]

INVESTMENT PROPOSAL SUMMARY

1. STRATEGIC FIT AND KEY ISSUES

1.1 STRATEGIC CONTEXT

Since the start of the COVID-19 crisis in Uzbekistan in March 2020, the country has been affected at an unprecedented scale and has introduced strict quarantine measures, lockdowns and various policy actions aimed at providing financial relief and supporting the economy. The power sector is central to the country's economy and population both as a provider of critical utility services during the pandemic and as key enabler of the post-COVID-19 economic recovery. The sector is experiencing a liquidity squeeze driven by: (i) a drop in consumption due to the economic slowdown; and (ii) lower revenue collections on the back of social policy measures introduced to counter the crisis, including the ban on switching off non-payers and waiving late payment fines.

The EBRD was the first IFI to proactively engage in supporting the Uzbek power sector during the COVID-19 crisis while leveraging off its financing for a comprehensive long-term reform agenda. The Uzbek Government approached the Bank with a request to help with the urgent liquidity needs in the energy sector including JSC Thermal Power Plants (the "Company"). The Company is a recently established entity following the sector unbundling of JSC Uzbekenergo ("Uzbekenergo") supported by the Bank, and is an existing client of the Bank through Talimarjan CCGT Project (signed in 2019). The proposed liquidity support covers working capital and operational liquidity needs for the Company to maintain its operations in the period of the current crisis and beyond. [REDACTED] The expected decrease in the operating cash flows threatens to disrupt operations and puts at risk the Company's ability to effectively and reliably deliver electricity to consumers. The timing of recovery in collections is currently uncertain especially given the second wave of COVID-19 in summer 2020. This uncertainty necessitates a stabilisation facility for working capital and operational liquidity needs with an extended repayment profile to support the Company's uninterrupted operations, and provide immediate liquidity with a manageable debt repayment profile appropriate for the currently uncertain outlook.

Since the start of the country's transformation in 2017, the Bank is actively engaging in supporting Uzbekistan in the power sector reform agenda. In March 2019, with the EBRD's capacity building assistance on the electricity market structures and unbundling, Uzbekistan started the restructuring of Uzbekenergo into JSC Thermal Power Plants (power generation assets), JSC National Electric Networks of Uzbekistan (power transmission assets and single buyer function), and JSC Regional Electric Networks (power distribution assets). The unbundling of the vertically integrated utility is a complex reform process requiring changes in the financial and business operation processes of the newly established companies. [REDACTED] The Project will contribute to establishing the Company on a solid financial footing, particularly crucial in the context of the on-going pandemic-related crisis. The Project will safeguard the Bank's policy agenda including creation of a properly functioning payment mechanism and a single buyer model as a transition step to market liberalization. The Bank's liquidity response is complementary to the assistance provided by development partners. While the IMF, ADB and WB are providing budget support and policy lending, EBRD is focusing on the targeted corporate support to the country's power utility with sector- and client-specific conditionalities. The Project

supports the sector restructuring process, bolsters the Bank's ongoing cooperation with the Company and preserves the transition momentum [REDACTED].

The Bank's engagement in the Uzbek power sector is anchored in the low carbon transition. In 2019, the Bank started working on a first-of-its-kind technical cooperation programme on establishing a low-carbon pathway for the power sector in the country, which aims at developing a viable roadmap for the sector decarbonisation in line with the national climate commitments under the Paris Agreement. The low-carbon pathway includes a scale-up in renewables with the parallel decarbonisation of the gas-fired generation. This engagement is ongoing despite the impact of the pandemic and is well received by the Government. [REDACTED] This approach, encompassing the Bank's ongoing energy projects in the country including the proposed Project, is expected to deliver a catalytic and long-term systemic impact.

A significant part of the Bank's engagement relates to supporting development of the nascent renewables including through 1 GW of wind auctions under the Government's overall plan of 8 GW of solar and wind capacity by 2030. At the same time, through close engagement with the Company, a key sector stakeholder and essential utility provider, the Bank is in a position to facilitate low carbon transition in conventional power generation, which is critical for Uzbekistan [REDACTED]. The proposed Project will include [REDACTED] decommissioning of the ageing thermal generation units [REDACTED] at the Company's [REDACTED] power plant. Early retirement of inefficient and carbon intensive generation assets is critical to accelerate the peaking of GHG emissions in the power sector, in line with the principles of the Paris Agreement. [REDACTED]The Project is consistent with the Green Economy Transition approach and the Bank is supporting two technical cooperation assignments on the BAT assessment and the decommissioning impact assessment guidelines. Decommissioning [REDACTED] would result in c. 500,000 ton CO₂e emissions savings per year, supporting the country in reaching its NDCs under the Paris Agreement, i.e. reduction in CO₂ emissions by 10% per unit of GDP by 2030 from the 2010 level. In parallel, the Bank is working with the Company on a technical cooperation project aimed at assessing climate-related risks (in particular due to future water availability issues) for the existing thermal power plants.

Under the Project, the Bank will provide support to the client in taking initial steps to align with international best practices on climate governance and disclosures, including reporting the anticipated impacts of climate change and climate policies on its business in line with the Task Force for Climate Related Financial Disclosures ("TCFD") recommendations as appropriate.

The Project will uphold the high-level commitments of the Company to work on the corporate governance and financial management improvements. Corporate governance is a key priority as energy SOEs are defining their new roles in the sector following the unbundling of the vertically integrated Uzbekenergo. As part of the broader engagement with the client the Bank intends to provide support in adoption of IFRS at a number of the Company's subsidiaries, complementing the work on IFRS introduction at the Company level. In addition, the Bank will deepen its cooperation with the client on gender and inclusion matters and will support the Company in developing a Roadmap to implement the recently adopted Laws on Protection of Women and Gender Equality and obtain guidance on the practical implementation of gender equality principles in the power generation industry. [REDACTED]

Through this operation, the Bank is also contributing to a technical assistance request by the Ministry of Investments and Foreign Trade (MIFT) to assist the Government with the design and implementation of business-supporting policy responses to help mitigate the economic impact of the pandemic, under the Bank’s Rapid Advisory Response Framework.

The proposed Project is part of the Bank’s COVID-19 Solidarity Package and follows the principles of the Vital Infrastructure Support Programme (“VISP”). The Bank’s financing for the Project is integrally aligned with the Uzbekistan Country Strategy that calls for strengthening the governance and corporatisation of SOEs, the Energy Sector Strategy that promotes fostering well-functioning energy markets, the Strategy for the Promotion of Gender Equality 2016-2020 that promotes equal opportunities in male-dominated high-value sectors, and with the Green Economy Transition. The Project is aligned with the Sustainable Development Goal of providing “*access to affordable, reliable, sustainable, and modern energy*”.

1.2 TRANSITION IMPACT

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

Primary Quality: Resilient

Obj. No.	Objective	Details
1.1	Stabilisation facilities for key infrastructure providers	The operation is part of the Bank’s COVID-19 Solidarity Package and is presented under the VISP. The Bank's loan will be used to support the working capital and operational liquidity needs of the Company to compensate for temporary cash shortfall due to COVID-19 related issues (whether government action, consumer constraints or temporary reduction in demand), ensuring the Company’s power generation capacity is adequately preserved throughout and beyond the COVID-19 pandemic. The proposed support facility, which addresses liquidity issues, will also allow the Company time to establish a sound financial standing and to emerge from Uzbekenergo unbundling on a solid financial footing.
1.2	The project entails a policy dialogue initiative that has been assessed as Excellent by the sector economist	The Bank, as part of the Rapid Advisory Response Framework (Covid Stress Test for Energy Sector in Uzbekistan TC), is providing support to the MIFT and the Ministry of Energy following the Government’s request to assist in the design and implementation of business-supporting policy responses to help mitigate the economic impact of the pandemic. The Bank has reviewed the financial situation of the Company and will provide recommendations and engage with the Government to support policy reforms which can improve efficiency at the Company.

Secondary Quality: Well-Governed

Obj. No.	Objective	Details
2.1	The company will improve its CG from a base level that is on par with the average in the country and sector	Corporate governance is currently maintained by the Company and its subsidiaries in compliance with the Government's regulations. The Company is a newly established entity and would benefit from support in introducing modern corporate governance practices that are novel for the country and the sector. The Project entails corporate governance review and support in capacity building in relation to corporate governance and financial management practices as well as gender mainstreaming in the Company. The Bank will support the Company in developing a road map to implement the recently adopted Laws on Protection of Women and Gender Equality and obtain guidance on the practical implementation of gender equality principles in the power generation industry. The Project also targets development of the guidance on decommissioning as part of an ambitious decarbonisation agenda under the Bank's policy engagement on the low carbon pathway in the Uzbek energy sector.
2.2	Climate-related financial disclosures	The Company will take initial steps in improving its climate change corporate governance, including describing the anticipated impacts of climate change and climate policies on its business and accounting Scope 1, Scope 2, and Scope 3 GHG emissions, in line with the TCFD recommendations as appropriate.

Key risks to delivery are related to: (i) uncertainties related to the duration and severity of the pandemic impact; (ii) the adequacy and efficiency of policy response measures that are being or will be implemented to mitigate the pandemic effects; (iii) the level of the Company's and the Government's commitment to the implementation of changes to the existing corporate governance practice; and (iv) capacity of the Company's management team to implement and monitor adequate adherence to the changes.

1.3 ADDITIONALITY

Additionality sources	Description of additionality sources
<p>Financing structure</p> <p>EBRD offers financing that is not available in the market from commercial sources on reasonable terms and conditions. EBRD offers a tenor above the market average, which is necessary to structure the Project and ensure the delivery of the longer-term TI objectives. Crisis response: EBRD financing effectively bridges a financing gap due to adverse market conditions. Public sector: EBRD investment is needed to close the funding gap. At the same time, EBRD does not crowd out other sources, such as</p>	<p>[REDACTED] Compared to other very limited options typically available in the market [REDACTED], the EBRD's financing should enable the companies to progress towards the cost-reflective tariffs without jeopardizing their debt service capacity [REDACTED]. The Project, contributing to liquidity support and balance sheet restructuring during the COVID-19 pandemic at a time of squeezed cash flows, will uphold the client's financial resilience and support the Company's plan to establish itself on a solid financial footing following sector unbundling. EBRD's targeted corporate support to Uzbekistan's state power generation company, the Bank's existing client, is part of broader, coordinated IFI support to Uzbekistan, where budget support is being provided by the IMF, ADB and WB, while EBRD is focusing on targeted, company-specific support with attached conditionalities.</p>

from IFIs, government, commercial banks and/or complements them.	
<p>Standard-setting: helping projects and clients achieve higher standards</p> <p>Client seeks/makes use of EBRD expertise on corporate governance improvements and higher financial standards, including through financial covenants.</p>	<p>The Project will uphold the high-level commitments of the Company to strengthen corporate governance through support in the implementation of corporate governance and financial management improvements. Corporate governance is a key priority as energy SOEs are defining their own role in the electricity sector following the unbundling of the integrated Uzbekenergo monolith.</p> <p>Under the operation the Company will have a [REDACTED]commitment to decommission old generation capacity [REDACTED].</p> <p>To avoid a disproportionate effect of the COVID-19 crisis on women, as they are likely to carry most of the additional burden of unpaid care work, the Project will also seek EBRD expertise on higher gender equality standards. The Bank will support the Company in developing a roadmap to implement the recently adopted Laws on Protection of Women and Gender Equality and obtain guidance on the practical implementation of gender equality principles in the power generation industry.</p>
<p>Knowledge, innovation and capacity building</p> <p>EBRD provides expertise, innovation, knowledge and/or capabilities that are material to the timely realisation of the Project's objectives, including support to strengthen the capacity of the client.</p>	<p>Through the Project, the EBRD will introduce high standards and practices via ESAP, procurement and corporate governance recommendations implementation that are still innovative for the country and the industry. The EBRD will involve external consultants and in-house experts in the implementation of technical cooperation activities of the Project. The Bank has also involved an external consultant as part of the Rapid Advisory Response Framework to provide support to the MIFT and the Ministry of Energy following the Government's request to assist in the design and implementation of business-supporting policy responses to help mitigate the economic impact of the pandemic.</p>

1.4 SOUND BANKING - KEY RISKS

Risks	Probability / Effect	Comments
Sovereign risk	Medium/ High	<p>Uzbekistan remains vulnerable to risks arising from inflationary pressures, international commodity price volatility and fiscal policy from on and off-budget operations. Uzbekistan's economy will likely be impacted by the coronavirus pandemic in 2020, with the country's key trade partners also affected by the macroeconomic pressures. The pandemic has particularly resulted in growing government debt.</p> <p><i>Mitigating factors:</i> (i) foreign exchange liberalization which improved foreign investor sentiment and substantial foreign exchange reserves [REDACTED] can provide a buffer against external shocks; (ii) temporary reduction in gas export revenue due to lower prices is expected to be covered by increased revenue from other export items such as gold; (iii) pandemic-specific impact mitigation measures are being introduced</p>

		[REDACTED]; while the 2020 growth forecast is expected at 1.5%, a strong rebound is expected in 2021 with GDP up by 6.5%. ³
Credit risk	Medium-high/High <i>(medium-high probability in the short run in view of the pandemic)</i>	Creditworthiness of the Company and the Subsidiaries depends on the tariff increases and efficient revenue collection. In 2020, following the outbreak of COVID-19, the decision was made to freeze electricity tariffs over 2020. <i>Mitigating factors:</i> (i) recently changed regulatory framework, including introduction of a new cost-reflective tariff methodology; and (ii) sovereign structure of the loan.
Implementation risk	Medium/Medium	Implementation of part of the Project related to procurement of goods may incur cost overruns and/or completion delays. <i>Mitigating factors:</i> i) Works, goods and/or services will be procured in line with the Bank's procurement rules which will be covenanted in the legal documentation and the Bank will closely monitor the process; (ii) the company's predecessor had earlier experience with procurement under IFIs' requirements in the WB and ADB funded projects but the Company is not familiar with the Bank's PP&R and thus the experienced procurement consultant, acceptable to the Bank, will be engaged by the Company to assist with the implementation; and (iii) cost estimates include adequate contingencies.
Regulatory/restructuring risk	Medium/High	[REDACTED] Government continues to demonstrate strong commitment to engaging with the IFIs to work collectively on the reforms and build on the progress achieved to date with power sector unbundling.
Foreign exchange risk	Medium/Medium	The devaluation of the Som could adversely affect the ability of the Borrower to repay the hard currency loan. <i>Mitigating factors:</i> It is expected that the Government will be able to manage the foreign exchange risk effectively. Risk of external debt distress is manageable given Uzbekistan's significant foreign exchange reserves and FX liberalization.
Coronavirus-related risk	High/Medium	This risk includes demand risk and risk related to the uncertainty around length and severity of the impact. Lockdowns and other restrictive measures related to coronavirus effect mitigation may remain in place for a prolonged period of time, increasing the pressure on the Company's cash flows. <i>Mitigating factors:</i> (i) the Government put in place a set of policy measures to support end-users and the most vulnerable industries, including creation of an anti-crisis fund in the amount of UZS 10 trillion (USD 1 billion); (ii) following the Bank-led TC on stress testing, the Government is expected to include provisions for supporting liquidity in the power sector as part of the COVID response strategy.

³ [Note – since initial circulation of this document, forecasts have been updated to indicate a 2% contraction in 2020, followed by a GDP rebound by 4.5% in 2021]

2. MEASURING / MONITORING SUCCESS

<i>Overall objectives of project</i>	<i>Monitoring benchmarks</i>	<i>Implementation timing</i>
<ul style="list-style-type: none"> - Liquidity support of the companies - Improvement in financial management and corporate governance practices 	<ul style="list-style-type: none"> - Liquidity support financing disbursed - IFRS implemented at the Subsidiaries level 	[REDACTED]

Primary Quality: Resilient

Obj. No.	Monitoring indicator	Details	Baseline	Target	Duration
1.1	<i>Financial restructuring completed as targeted</i>	Each of the Subsidiaries are able to maintain DSCR [REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
1.2	<i>Institutional capacity strengthened in target area (financial stress test analysis)</i>	The Government will include provisions for supporting liquidity in the power sector as part of the COVID response strategy	[REDACTED]	[REDACTED]	[REDACTED]

Secondary Quality: Well-Governed

Obj. No.	Monitoring indicator	Details	Baseline	Target	Duration
2.1	<i>Improved standards</i>	IFRS implemented	[REDACTED]	[REDACTED]	[REDACTED]
	<i>Advocacy/knowledge management activity delivered</i>	Workshop delivered for the supervisory board and management on corporate strategy/KPIs	[REDACTED]	[REDACTED]	[REDACTED]
	<i>Corporate governance (CG) improved: commitment to CG</i>	An IFRS department established in the company and training provided to IFRS department staff on industry-relevant IFRS standards	[REDACTED]	[REDACTED]	[REDACTED]
	<i>Institution-level capacity strengthened in target area</i>	Recommendations on gender mainstreaming adopted by the client; best practices disseminated to the wider power and energy sector	[REDACTED]	[REDACTED]	[REDACTED]
	<i>Improved standards</i>	Guidance on decommissioning in line with EBRD ESP is developed and agreed by the client	[REDACTED]	[REDACTED]	[REDACTED]

2.2	<i>Climate CG improved: transparency and disclosure</i>	The Company will develop and adopt an action plan towards improving its climate change corporate governance, including reporting the anticipated impacts of climate change and climate policies on its business in line with the TCFD recommendations as appropriate	[REDACTED]	[REDACTED]	[REDACTED]
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3. KEY PARTIES

3.1 BORROWER

In 2019, Uzbekistan’s economy continued to grow steadily at 5.6%, slightly accelerating relative to 2017 (4.5%) and 2018 (5.4%). The economy was predicted to grow by 5.8% in 2020, with this forecast updated following the coronavirus outbreak to 1.5%, while a rebound of 6.5% is expected in 2021.⁴ In response to the global slowdown caused by the pandemic, the Government has approved a set of anti-crisis measures. These include setting an up to USD 1 billion anti-crisis fund to support entrepreneurship, implementation of infrastructure projects, and expansion of social support as well as providing tax and loan repayment holidays to the affected sectors.

Uzbekistan’s public debt is relatively low and sustainable. Public and publicly guaranteed debt stood at around 29% of GDP in 2019. External debt rose from 20.3% of GDP YE2016 to around 41% of GDP as of YE2019, reflecting mostly UZS depreciation and the Eurobond placement in February 2019. [REDACTED] As per the country’s request, the IMF agreed to lend USD 375 million to Uzbekistan to provide budget support in view of the pandemic. The country is expected to carry on with the reform agenda and to maintain its commitment to sovereign debt sustainability. On the back of the pandemic impact, on 5 June 2020 S&P has revised its outlook from stable to negative for Uzbekistan affirming BB-/B ratings due to expected rapid rise in the country’s external and fiscal debt over the next 12 months, partly caused by USD 1 billion in additional government spending in response to the coronavirus pandemic.

3.2 THE COMPANY AND THE SUBSIDIARIES

The loan will be extended to the Republic of Uzbekistan and will be on-lent to JSC Navoi Thermal Power Plant (“Navoi PP”), JSC Takhiatash Thermal Power Plant (“Takhiatash PP”), JSC Syrdarya Thermal Power Plant (“Syrdarya PP”), JSC Talimarjan Thermal Power Plant (“Talimarjan PP”), and JSC Tashkent Thermal Power Plant (“TashTES” or “Tashkent PP”; together – the “Subsidiaries”), each of these owned by the state power generation company JSC Thermal Power Plants (the

⁴ [Note – since initial circulation of this document, forecasts have been updated to indicate a 2% contraction in 2020, followed by a GDP rebound by 4.5% in 2021]

“Company”), to finance working capital and operational liquidity needs of the Subsidiaries. The Company was established in 2019 upon Uzbekenergo’s unbundling and thus has financial information available starting from 2019 only. The Company is structured as a holding company and is a shareholder of the gas-fired power plants. The Company and all of its subsidiaries run gas-fired capacity only, while ownership of the country’s partially coal-fired power plants was transferred to the State Agency for Assets Management in February 2020. [REDACTED] The Bank will support the Company/its Subsidiaries with the preparation of IFRS financials. [REDACTED]

Navoi PP, Takhiatash PP, Syrdarya PP, Talimarjan PP and TashTES are the Company’s subsidiaries operating gas-fired power plants in the Navoi, Karakalpakstan, Syrdarya, Kashkadarya, and Tashkent regions. Their total installed capacity is c. 9.5 GW. [REDACTED]

4. MARKET CONTEXT

Uzbekistan’s total installed power generation capacity is 12.9 GW, of which thermal power plants account for c. 11 GW, accompanied by 1.85 GW hydropower capacity. TPPs thus represent c. 85% of the total generation capacity. The Government is introducing modern high-efficiency gas-fired generation capacity to address the power sector constraints related to obsolete and highly energy intensive infrastructure, to allow for sizeable development of the currently planned 8 GW of intermittent solar and wind, as well as developing regional trade.

The power sector until recently was fully state-dominated. The first private participation in the sector is envisioned to be in renewable energy development which the Bank is actively supporting. Uzbekenergo has recently undergone unbundling into generation, transmission and distribution, represented by the Company, JSC National Electric Networks of Uzbekistan and JSC Regional Electric Networks, respectively. [REDACTED]The new tariff policy was adopted in 2019, calling for cost-reflective tariff methodology implementation by 2023.

In 2020, following the outbreak of COVID-19, the decision was made to freeze electricity tariffs over 2020. At the same time, a Concept Note for Ensuring Electricity Supply in Uzbekistan in 2020-2030, issued by the Ministry of Energy in April 2020, reiterates the Government’s commitment to proceed with the power sector reform and declares that by 2023 a competitive wholesale electricity market should be formed. The note also stresses the importance of renewables development and sets out a goal of reaching 3 GW of wind and 5 GW of solar installed capacity by 2030, implemented by private investors under PPAs.

The Bank is actively engaging in Uzbekistan’s power sector reform through (i) the assignment on developing and implementing the roadmap for attracting investment in the power sector through corporate and structural reform (Phase 1 completed); (ii) the assignment to help develop a well-functioning market system for renewables via the implementation of the competitive tendering of wind capacity; and (iii) the assignment on the power sector climate resilience and low carbon pathway. The Bank also supports

the country in preparing and carrying out the first wind tender in Uzbekistan, which was announced to the public in April 2020 attracting over 70 qualified investors in the first stage. In early 2020, the Bank was requested by the authorities to support an ambitious policy work including development of the Electricity Law and strengthening corporate governance of the newly established Company, as well as assisting with the financial turnaround of the power generation sector.

5. FINANCIAL / ECONOMIC ANALYSIS

5.1 FINANCIAL PROJECTIONS

[REDACTED]

5.2 SENSITIVITY ANALYSIS

[REDACTED]

5.3 PROJECTED PROFITABILITY FOR THE BANK

[REDACTED]

6. OTHER KEY CONSIDERATIONS

6.1 ENVIRONMENT

Categorised B (2019 ESP) and High risk due to both the age and complexity of infrastructure operated by the Company, as well as to the environmental risks related to the gas power plant decommissioning commitments agreed with the Company to reduce its environmental footprint. Due to international travel restrictions and strict quarantine measures implemented by the government of Uzbekistan to contain the COVID-19 pandemic, there have been limitations to the scope of the appraisal; and in line with agreed COVID-19 ESDD approach for High Risk Projects, all findings will need to be verified through a site visit once the quarantine measures are lifted (either before or after signing of the Project). The ESDD was finalised and the ESAP was agreed. Restructured SEP has been prepared taking into account COVID related restrictions. A set of best practice guidelines for the future decommissioning will be shared with the Company for adoption. The project is consistent with the GET approach and the GET share is 39%. The GET rationale is driven by the Company's commitment to decommission 3gas power generation units [REDACTED] ahead of their physical lifetime. This will accelerate the low carbon pathway of the power sector in Uzbekistan, in line with the 2050 sector strategy for decarbonisation. Decommissioning activities will need to comply with the EBRD ESP. The Bank will assist the Company with a TC providing guidance on full decommissioning in line with the international best environmental practice. The ESDD was based on review of the environmental & social documentation, phone and video interviews with relevant management and personnel

of JSC TPP and the subsidiaries, in addition to review of video footage of selected plant installations. Due diligence has identified opportunities to introduce integrated management systems which should optimise the implementation of ISO requirements related to environmental protection, quality control, occupational health and safety. Currently environmental management functions are mainly the responsibility of the Environmental Impact Control Division (EICD) at the JSC TPP corporate level. It is envisaged that the ESAP will enhance EICD capacity so they can play a more prominent role in planning and conducting environmental activities as part of any investment projects. Currently monitored environmental parameters do not allow assessing full compliance with the EU Industrial Emissions Directive. Given the age of the facilities, and ongoing and planned modernisation activities, a TC supported BAT assessment should be conducted to identify critical non-compliance areas and improvements needs. Long-term measures will also need to be developed to address presence of asbestos-containing materials and other elements that can pose significant health and safety and environmental pollution risks if not managed safely. Working conditions are regulated by national labour legislation. Grievance procedure needs to be revised in line with PR2 to allow for anonymous grievances. ESDD findings suggest that there are elevated risks of employees being involved in cotton harvesting. It is therefore proposed that an external labour monitoring is conducted during the cotton harvesting season.

6.2 INTEGRITY

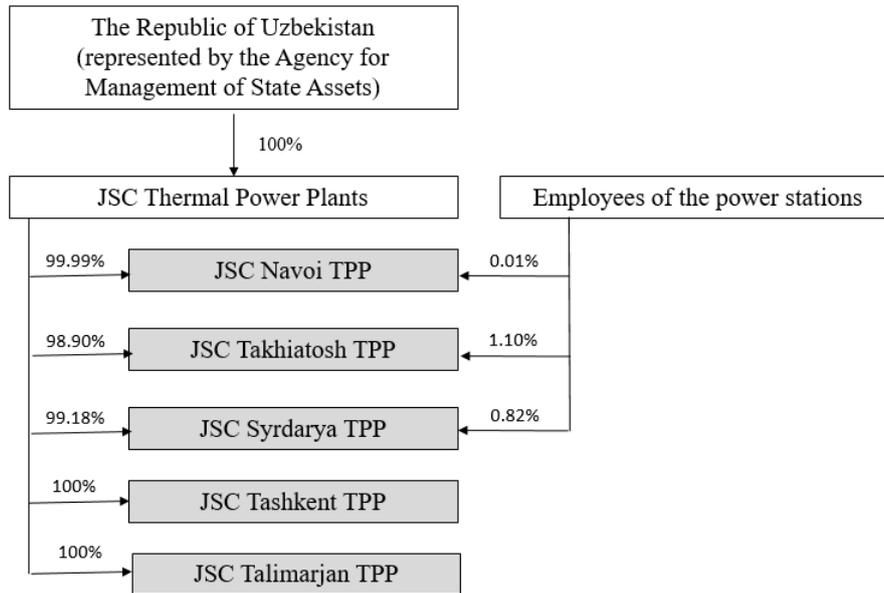
In conjunction with OCCO, integrity due diligence was undertaken on the Company and its shareholders, Syrdarya PP, Talimarjan PP, Navoi PP, Takhiatash PP, and TashTES, their senior management and other relevant parties. [REDACTED]

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	Historical Financial Statements
ANNEX 3	Project Implementation

ANNEX 1: SHAREHOLDING STRUCTURE



ANNEX 2: HISTORICAL FINANCIAL STATEMENTS

[REDACTED]

ANNEX 3: PROJECT IMPLEMENTATION

Procurement classification – *Public sovereign*

[REDACTED] The Bank's first project with the Company is being implemented following the ADB's procurement rules and thus the client has no experience with the PP&R. That project has not yet reached the tendering stage, thus neither positive gains in experience, nor any improvements to other aspects of the previous assessment to the company capacity [REDACTED], have yet been achieved. Therefore, a qualified procurement consultant will be engaged to support the Client with the project procurement.

Contracts risk assessment

- *Low*

Procurement will involve the supply of inventories and the related services, which is a routine exercise for the company and its subsidiaries and is generally a low risk exercise. Although such procurement often is managed by the company's yet another subsidiary, which will not be the case for the Bank's financed contracts, the PIU will be able to draw on that subsidiary's expertise on an as-needed basis.

Project implementation arrangements:

The Company will be required to establish a Project Implementation Unit to be in charge of managing the project. However, given the contracts expected to be procured are mainly for the routine operational expenditures, all PIU experts are expected to be included on a part-time basis and performing the required tasks within their ongoing workload as they would do those regardless of the funding source. Since a key gap in the available within the company expertise is the experience with the EBRD's PP&R, it is proposed to engage an individual procurement consultant to support the Company's PIU with the purely procurement tasks, such as preparation of the TDs using the EBRD's SPDs and work in ECEPP, evaluation of tenders etc., while the technical part of the TDs and other technical aspects will be covered by the respective Company's subsidiaries, which will be the beneficiaries of the subject contracts, with the support of their procurement agent (also the Company's subsidiary) they normally use to support their purchasing activities.

The procurement consultant is to be funded from the loan proceeds and engaged under the advance contracting procedures. The companies have started preparation of the technical requirements and if they are ready by the time of the procurement consultant mobilisation planned for September then procurement of repair contracts may also proceed under the advance contracting procedures. The Bank's Operations Policy for Retroactive Financing may need to be applied.

Procurement arrangements:

The goods and services, financed from the Bank's loan, will be procured following open tendering / simplified open tendering procedures in accordance with the requirements of the Bank's Procurement Policies and Rules (PP&R) for public sector operations.

The Bank's ECEPP standard tender documents for Goods / Simple Goods will be used by the client, as appropriate. The consultancy services for the Project will be procured following the requirements of the Section III, Article 5 of the EBRD PP&R, the procurement consultant will be appointed using the direct contracting procedures. All contracts will be subject to Prior review by the Bank.

Procurement Plan
[REDACTED]