

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

Approved by the Board of Directors on 28 November 2023¹

KAZAKHSTAN

AKTOBE WWTP MODERNISATION

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

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

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

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

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ABBREVIATIONS

AD	Anaerobic Digestion
BAT	Best Available Technique
CAPEX	Capital Expenditure
City	The city of Aktobe
City Akimat	Executive body of Aktobe city
Company	JSC Aqtobe Su-Energy Group
CREM	The Committee for Regulation of Natural Monopolies of the Republic of Kazakhstan
D&B	Design and Build
DH	District Heating
DSCR	Debt Service Coverage Ratio
E&S	Environmental and Social
ECEPP	EBRD Client Electronic Procurement Portal
EOAP	Equal Opportunities Action Plan
EPFA	Enhanced Partnership Framework Agreement
ESAP	Environmental and Social Action Plan
ESIA	Environmental and Social Impact Assessment
ESDD	Environmental and Social Due Diligence
ESMP	Environmental and Social Management Plan
ETI	Expected Transition Impact
E&S	Environmental and Social
FS	Feasibility study
FX	Foreign currency exchange
GEI	Gender and Economic Inclusion
GET	Green Economy Transition
GHG	Greenhouse Gases
GoK	Government of Kazakhstan
IPPF	Infrastructure Project Preparation Facility
KazCentre	JSC “Kazakhstani Centre for Modernisation of Housing and Utilities Sector”
LTM	Lender’s Technical Monitor
MIC	Ministry of Industry and Construction of the Republic of Kazakhstan
Oblast	Aktobe region
Oblast Akimat	Regional executive body of Aktobe region
OPEX	Operational expenses
PIS	Project Implementation Support
PP&R	Procurement Policies and Rules
PR	Performance Requirements
SDG	Sustainable Development Goal
SEP	Stakeholder Engagement Plan
SMART	State Owned Enterprises Management Assistance Reform and Transformation
SOE	State Owned Enterprise
SSF	EBRD Shareholder Special Fund
TC	Technical Cooperation
TI	Transition Impact
WW	Wastewater
WWTP	Wastewater treatment plant

CURRENCY CONVERSION

(as of 27 October 2023)

EUR 1 = KZT 502.14

PRESIDENT’S RECOMMENDATION

This recommendation and the attached report concerning an operation in favour of Aqtobe Su-Energy Group (the “Company”), a joint stock company incorporated in Kazakhstan, is submitted for consideration by the Board of Directors.

The facility will consist of a loan to the Company of up to KZT 47.7 billion (EUR 94.9 million equivalent) guaranteed by the Republic of Kazakhstan.

The operation will enable the Company to construct a new wastewater treatment plant (“WWTP”) and associated infrastructure in the city of Aktobe in Kazakhstan (the “Project”). The WWTP will have an average capacity of 100,000 m³/day which will be sufficient to service a city with 500,000 inhabitants. The Project is part of the nationwide WWTPs modernisation programme initiated by the government in 2019 (the “Programme”). The expected transition impact of the Project stems from its green qualities. Green TI will be promoted through the reduction of water pollution, GHG and odour emissions and ensuring compliance of treated sewage with local and EU standards.

Pre-signing technical cooperation (“TC”) support for the Project preparation was financed by the Shareholder Special Fund (the “SSF”). Post-signing TC assignments for the implementation and capacity building support to the Company; EUR 395,000 will be financed by the Joint EBRD-Kazakh TC Fund. The Lender’s Technical Monitor to cover four WWTP modernisation projects’ implementation (up to EUR 490,000), and a TC aimed at capacity building of the Programme coordinator, JSC Kazakhstani Centre for Modernisation of Housing and Utilities Sector, (up to EUR 200,000) are proposed to be financed by international donors. However, should donor funds be unavailable for one or more elements of the proposed TC package, the Board is requested to note that an application or applications for financing from the SSF may be made at the time when funds are required.

I am satisfied that the operation is consistent with the Bank’s *Strategy for Kazakhstan* by “promoting low-carbon growth and energy efficiency” through investment in waste management, the *Green Economy Transition approach 2021-2025* and *qualifies for 100 per cent GET*. It is aligned with (i) the *MEI Sector Strategy* aiming for “increased access to essential municipal infrastructure focused on quality, resource efficiency, reduced environmental impact” and “improved quality of public governance and strengthened institutional and regulatory context supporting environmental, financial, and social sustainability of infrastructure”; (ii) the *Strategy for the Promotion of Gender Equality*; (iii) the *Agreement Establishing the Bank* and (iv) with *United Nations Sustainable Development Goals*.

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

Odile Renaud-Basso

BOARD DECISION SHEET

KAZAKHSTAN – AKTOBE WWTP MODERNISATION - DTM 53958	
Transaction / Board Decision	Board approval ² is sought to lend up to KZT 47.7 billion (EUR 94.9 million) on a sovereign guaranteed basis (the “Loan”) to the Company. The Loan will be used to finance the construction of WWTP and associated infrastructure in the city of Aktobe (the “City”).
Client	The Company is the only provider of centralised drinking water supply, wastewater management and district heating distribution services in the City and is fully owned by the City’s municipality (the “City Akimat”). In 2022, the Company had the revenue of KZT 11.7 billion (EUR 24.1 million), EBITDA KZT 0.7 billion (USD 1.4 million) and total assets of KZT 50.0 billion (EUR 103.1 million). The Company is the Bank’s current client.
Main Elements of the Proposal	<i>Transition impact:</i> GET attributions of 100 per cent, stemming from a mix of benefits delivered across climate mitigation, climate adaptation and environmental finance. - TI uplift 1 – high climate resilience benefit/cost ratio: when compared with respective CAPEX and OPEX estimates, transaction delivers high climate resilience benefits. - TI uplift 2 – innovative green products and technologies: as a technology first for public WWTP operators in Kazakhstan, the Project introduces anaerobic digestion as a method for sludge stabilisation and sludge treatment. <i>Additionality:</i> - Financing structure. The market for long-term borrowing for municipal infrastructure projects in Kazakhstan is limited. - Knowledge, innovation and capacity-building. EBRD provides support for strengthening the clients’ capacity in procurement and implementation. <i>Sound banking:</i> - The Loan will be guaranteed by the Republic of Kazakhstan. - Debt service will be supported by tariff subsidies from the state budget.
Key Risks	<i>Borrower’s risk.</i> The Company’s financial standing depends on the tariff levels. Wastewater tariff growth at 15 per cent per annum during 2024-2033 has been preliminary agreed with the Committee for Regulation of Natural Monopolies (“CREM”). The proposed tariff increase combined with the state subsidies are expected to secure the financial sustainability of the Company’s operations. <i>Sovereign risk.</i> Kazakhstan’s economy is expected to grow by 3.9 per cent in 2023 and S&P affirmed its sovereign rating at BBB- and revised its outlook from Negative to Stable in March 2023. This reflects the country’s strong fiscal and external balance sheets, and relatively low debt to withstand external market shocks and honour its financial obligations. <i>Project implementation risk.</i> The risk will be mitigated by involving experienced consultants for a project implementation support, engineering supervision and lender’s technical monitoring.
Strategic Fit Summary	The Project is consistent with the Municipal and Environmental Infrastructure Sector Strategy, the Bank’s Country Strategy for Kazakhstan, the Bank’s Green Economy Transition Approach 2021-2025, Strategy for the Promotion of Gender Equality and with UN Sustainable Development Goals.

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

ADDITIONAL SUMMARY TERMS FACTSHEET

EBRD Transaction	<p>A sovereign-guaranteed loan of up to KZT 47.7 billion (EUR 94.9 million) to the Company to finance the construction of modern WWTP in the city of Aktobe. The Loan will be co-financed by the authorities of Aktobe region (the “Oblast Akimat”) by up to KZT 8.4 billion (EUR 16.7 million).</p> <p>The Company will be supported by the GoK via a tariff subsidisation mechanism introduced in January 2023 (the “Subsidy Rules”). An individual Project’s agreement package will include a tripartite agreement to be signed between the Ministry of Industry and Construction of Kazakhstan (the “MIC”), the Oblast Akimat and the Bank (the “Tripartite Agreement”) and a subsidy agreement to be signed between the Oblast Akimat, the City Akimat and the Company (the “Subsidy Agreement”).</p>
Existing Exposure	<p>The aggregate exposure to the Company is KZT 5.1 billion (EUR 10.1 million):</p> <ul style="list-style-type: none"> (i) DTM 47570 Aktobe Water and Wastewater Modernization Project, KZT 2 billion (EUR 3.9 million); operating assets: EUR 1.9 million; TIMS framework rating: 78 (this project is monitored at the framework level). (ii) DTM 47569 Aktobe District Heating Project, KZT 3.1 billion (EUR 6.2 million); operating assets: EUR 3.6 million; TIMS framework rating: 60 (this project was closed for monitoring in 2020). <p>The Bank’s Sovereign exposure to Kazakhstan is EUR 796 million [REDACTED].</p>
Maturity / Repayment	15 years [REDACTED].
Potential AMI eligible financing	None.
Use of Proceeds	The Loan will finance (i) the construction of a new WWTP including a sludge treatment facility with biogas fuelled power generation unit; (ii) the design and state expertise; (iii) construction supervision; and (iv) a front-end-fee.
Investment and Financing Plan	[REDACTED]
Key Parties Involved	<ul style="list-style-type: none"> • Borrower: JSC Aqtobe Su-Energy Group; • Guarantor: the Republic of Kazakhstan; • Tripartite Agreement parties: the Oblast Akimat, EBRD and the MIC; • The Company’s owner: the City Akimat; • The Programme coordinator: JSC Kazakhstani Centre for Modernisation of Housing and Utilities Sector (“KazCentre”) under the MIC.
Conditions to effectiveness	[REDACTED]
Conditions to disbursement	[REDACTED]
Key Covenants	[REDACTED]
Security / Guarantees	Sovereign guarantee.
Other material agreements	Public Service Contract signed between the City Akimat and the Company.
Associated Donor Funded TC and Blended Concessional Finance	<p>A. Technical Cooperation (TC)</p> <p><u>Pre-signing:</u></p> <p>TC1: Feasibility Study (“FS”) included a comprehensive assessment covering technical, legal, environmental and social aspects for the WWTPs in six locations across Kazakhstan. The total budget for the assignment was EUR 1,172,000, formulated to support the Programme in 2020. It was funded by the Infrastructure Project Preparation Facility</p>

	<p>(“IPPF”). The FS assigned and environmental Category A to the Project, requiring the incorporation of an Environmental and Social Impact Assessment (“ESIA”) into the assignment. The ESIA was prepared and disclosed on 24 July 2023.</p> <p>TC2: National Standard Feasibility Study (“Local FS”). The Local FS allowed the Bank to undergo the Project approval by the GoK, including technical and economical examination by relevant authorities; EUR 70,000 was financed by the SSF.</p> <p><u>Post-signing.</u></p> <p>TC3: Project Implementation Support (“PIS”), including (i) preparing of design and tender documents and procurement of a Design&Build (“D&B”) contract; (ii) assisting with Environmental and Social Action Plan (the “ESAP”) implementation. The estimated cost of the assignment is up to EUR 245,000; to be financed by the EBRD-Kazakh Joint TC Fund.</p> <p>TC 4: Lender’s Technical Monitor (“LTM”) for monitoring the implementation of up to four WWTP modernisation projects to be financed by EBRD in Kazakhstan. This will include monitoring of the PIS consultant’s and the contractors’ performance, correctness of the progress of works, amounts stated in interim performance certificates, identification of potential issues and timely reporting of issues to the Bank. The estimated cost of this TC support for all four projects is up to EUR 490,000; proposed to be financed by an international donor or the SSF.</p> <p>TC 5: SOEs Management Assistance Reform and Transformation (SMART), Technical Assistance Programme: Capacity building for KazCentre. The TC activities substantially correspond to the model Terms of Reference under the SMART programme and have been approved under delegated authority. The estimated total cost of this assignment is up to EUR 200,000; proposed to be financed under the SMART by an international donor or the SSF.</p> <p>B. Blended Concessional Finance</p> <p>N/a.</p> <p>Cost sharing: the Company will provide parallel contribution by paying for the services of the construction supervision consultants in the amount equal to around 3 per cent of the investment costs from the EBRD loan proceeds. Additionally, the GoK (through the Ministry of Finance) will contribute to the Programme by providing funding to the TC assignments through the EBRD-Kazakh Joint TC Fund. Moreover, the Company will provide “in-kind” contributions in the form of office space, communication connections, etc., for the consultants’ work.</p>
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[REDACTED]

INVESTMENT PROPOSAL SUMMARY

1. STRATEGIC FIT AND KEY ISSUES

1.1 STRATEGIC CONTEXT

Kazakhstan's water supply and WW treatment assets have suffered from underinvestment for years. This negatively affected technical conditions and capacity of the facilities. To address the problem, a number of regulatory and institutional initiatives aimed at improving efficiency and the quality of municipal water and WW services were implemented by the GoK in the last few years. The Enhanced Partnership Framework Agreement (the "EPFA") signed between the GoK and IFIs in 2014, has been an efficient measure to improve utility services across the country via the provision of non-sovereign lending for the implementation of high priority assets rehabilitation projects.

WW treatment facilities, however, require much more investment as 27 out of 89 cities in the country do not have any functional WWTP and the depreciation of the current ones is ranging between 60 to 90 per cent. Following the successful cooperation with the Bank under the EPFA, the GoK asked the Bank to participate in the Programme and provide sovereign guaranteed loans to utilities across the country. The city of Aktobe has been selected as a pilot under the Programme.

Being the Bank's EPFA partner since 2015, the Company has managed to significantly improve the quality and reliability of water and DH services, as well as enhance its operational and financial efficiency. The Project will address the Company's next priority investment needs aimed to modernise its WWTP.

The Project will focus on introducing modern WW treatment technologies and is expected to improve WW effluent quality up to the EU and national standards as well as introduce advanced treatment of sludge (by-product of WW treatment). The proposed sludge treatment will significantly eliminate odour problems and substantially reduce the GHG emissions associated with WW treatment, while also producing energy that may be used to meet a portion of the WWTP's electricity needs. Engaging an experienced private D&B contractor will ensure sustainability and high quality of WW treatment operation achieved, among other things, via skills transfer to the Company's staff.

Moreover, the Bank will continue a policy dialogue with the GoK on the water sector institutional development. One of the priority elements in this area would be to reform and enhance the capacity of KazCentre, the Programme coordinator and the sector development agency.

The Project is consistent with the *Green Economy Transition (the "GET") approach 2021-2025* and qualifies for 100 per cent GET. It is aligned with (i) the *MEI Sector Strategy*, (ii) the *Country Strategy for Kazakhstan*, (ii) the *Strategy for the Promotion of Gender Equality* and (iii) the *Equality of Opportunity Strategy*. This Project contributes to many UN Sustainable Development Goals (SDGs), namely: SDG №5 Gender Equality, SDG №6 Clean Water and Sanitation, SDG №9 Industry, Innovation and Infrastructure, SDG №11 Sustainable Cities and Communities, SDG №12 Responsible Consumption and Production, and SDG №17 Partnerships for the SDGs.

1.2 TRANSITION IMPACT

The Project is presented under GET Direct Track.

Primary Quality: Green

No.	Objective	Details
1.1	The percentage of EBRD use of proceeds that supports a green economy transition and therefore qualifies as GET finance exceeds 60 per cent.	<p>Environmental benefits: the Project will result in higher quality of treated WW effluent at scale and return significant volumes of cleaner water back to the environment. Reduced contamination of groundwater/surface water represents an environmental benefit recognised under the GET handbook.</p> <p>Climate adaptation benefits: returning improved-quality WW to the wider system against a background of water stress will help adapt local economies and communities to climate change impacts.</p>

		Climate mitigation benefits: The Anaerobic Digestion (“AD”) sludge stabilization technology will generate biogas as a by-product. By turning biogas into electricity in-house, GHG intensive external electricity provision will be significantly reduced.
1.2	The project introduces one of the first three of its kind green products or technologies that are innovative at the national or regional level.	The Project will introduce AD as a novel technology for sludge stabilization in Kazakhstan. This will improve the current status of sludge management/disposal practices, allowing use of sludge as a renewable source of energy while also contributing to circular economy practices, rather than assessing it as a by-product to be disposed of. The current baseline technology for sludge treatment in KZ (and in Central Asia more widely) does not involve any kind of sludge stabilisation, foregoing the possibility to odour-control the process but also to valorise sludge into improved value products like biogas and higher quality digestate. In contrast, the Project investment into AD technology will (i) provide sludge stabilisation and therefore substantially reduce odour development, (ii) produce biogas and higher quality digestants as by-products, and (iii) establish a precedent among municipal utilities in Kazakhstan for utilising a technology for which high upfront costs and concerns about harsh winters have acted as a constraints.
1.3	The project has a good climate resilience benefit-to-cost ratio which exceeds one.	The Project is “climate resilience efficient”, delivering significant climate resilience benefit (i.e. water savings on scales relevant for Kazakhstan’s national annual freshwater abstraction) based on comparatively modest financial inputs (CAPEX and OPEX).

The Project will also strengthen the gender equality standards of the Company through the development and launch of an Equal Opportunities Action Plan (“EOAP”). As part of the EOAP, the Company will ensure that [REDACTED] employees who will be trained for the introduced green technology at the new facilities will be women. [REDACTED]. The Project will be qualified for “Gender additional” tag.

1.3 ADDITIONALITY

Identified triggers	Description
A subsequent/consecutive transaction (issuance) with the same client/group either with the same use of proceeds or in the same destination country (repeat transaction).	Aktobe Water (OpID 47570): signed in June 2015, the Bank financed the rehabilitation and upgrade of the water and WW infrastructure. Aktobe District Heating (OpID 47569): signed in October 2015, the Bank financed the rehabilitation and upgrade of DH infrastructure.
Additionality sources	Evidence of additionality sources
Financing structure <ul style="list-style-type: none"> EBRD offers financing that is not available in the market from commercial sources on reasonable terms and conditions, e.g. a longer grace period. Such financing is necessary to structure the project. EBRD offers a tenor, which is longer than available to the client in the market on reasonable terms and conditions. 	The Bank provides a long-term financing with a tenor of 15 years [REDACTED], which is not readily available in Kazakhstan from local commercial banks to municipal companies for the investment of this nature.
Standard-setting: helping projects and clients achieve higher standards <ul style="list-style-type: none"> Gender SMART: Client seeks/makes use of EBRD expertise for the adoption of gender standards and/or equal opportunities action plans (e.g. improving women’s access to safe transport and/or women-led businesses participation in the client supply chain). Client seeks/makes use of EBRD expertise on best international procurement standards. Standard-setting: helping projects and clients achieve higher standards - Client seeks EBRD expertise on higher inclusion and gender standards and/or equal opportunities action plans. 	<ul style="list-style-type: none"> Procurement of works and services under the project will be carried out in accordance with EBRD’s PP&R, which go beyond local requirements. The Company seeks to incorporate higher gender standards and an EOAP. As part of the PIS assignment, EBRD will support the Company in developing inclusive and gender-responsive HR policies and practices and an EOAP. The Company will also double the number of female employees to be trained for introduced green technology at the new facilities, which will make at least 37 per cent of trainees women. ESAP implementation.

Knowledge, innovation, and capacity building – 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.	The Company's implementation capacity will be enhanced through a dedicated TC assignment. The Bank will apply its experience in the water and WW sector, including WWTPs modernisation, gained across the countries of operation.
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1.4 KEY RISKS

Risks	Probability / Effect	Comments
Credit risk	Medium / medium	This risk will be mitigated by: <ul style="list-style-type: none"> • sovereign guarantee; and • tariff increases and state support in the form of tariff subsidies.
Dependence on state subsidies	Medium / high	The Company will rely on the GoK's tariff subsidy support until c.a. 2033, subject to a staged 15 per cent tariff increase for WW services from 2025. This risk is mitigated via (i) implementation of the Subsidy Rules; (ii) sovereign guarantee; (iii) the Tripartite Agreement between MIC, the Oblast Akimat and EBRD ensuring transfers from state budget and (iv) a subsidy agreement between the Oblast Akimat and the Company regulating payments of the subsidies. [REDACTED].
Tariff risk	Medium / high	[REDACTED]. The EBRD is focusing its policy dialogue on CREM, KazCentre and other relevant government authorities to mitigate tariff increase risks. The projected tariff growth was approved by state technical expertise as part of the Project's feasibility study review.
Demand risk	Small / medium	The Company is the only provider of centralised sewage services in the City. Due to the nature of its services and natural monopoly position, the risk is not significant. The compound annual average growth rate of the City's population for the last four years was 3.12 per cent. [REDACTED].
Collection risk	Medium / medium	The Company's tariff collection ratio has been above 95 per cent for residential customers and legal entities. The Company has an effective tariff collection procedure, including legal and technical measures.
Project implementation risk	Medium / high	Experienced international PIS consultants will support the Company with the procurement support, construction supervision, reporting standards improvement, ESAP implementation, as well as overall business administration. An experienced D&B contractor and the LTM will also help mitigate this risk. The Project implementation risk is also backed with the Company's experience of implementing earlier projects.
FX and interest rate risks	Medium / medium	The Company will be exposed to <i>interest rate risk</i> . The tariff subsidy mechanism will mitigate this risk, securing financial support to the Company in adverse conditions. [REDACTED].
Sovereign risk	Low / Medium	Kazakhstan is rated BBB-/Stable by S&P and BBB/Stable by Fitch, which shows relatively high creditworthiness. The Kazakh economy has proven resilient to external shocks, despite taking on additional debt. Concurrently, Kazakhstan's public and publicly guaranteed debt is 27.8 per cent of 2022 GDP, of which external debt is 7.4 per cent of the 2022 GDP. Please refer to Annex 4 for more information.

2. MEASURING / MONITORING SUCCESS

TI indicators, primary Quality: Green

No.	Monitoring indicator	Details	Baseline	Target	Due date
1.1	Wastewater treated (m3/year)	Ex-post measurement of the annual volume of WW treated (effluent quality EU-compliant), expressed as cubic metres per year.	0	70,000 m3/day	[REDACTED]
1.2	CO2e emissions reduced (Tonnes/year)	Amount of GHG emissions reduced within a Scope 1 from the WW process during the reporting period. Expressed in Tonnes per year (Tonnes/year).	40,517	20,000 tonnes CO2e/year	[REDACTED]

1.3	New or updated technology introduced	AD technology adopted by the client according to an agreed standard.	no	yes	[REDACTED]
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3. KEY PARTIES

3.1 BORROWER

The Company was registered in 2019 through a merger of the City's district heating, JSC Transenergo (established in 1972), and water supply and WW, JSC Akbulak (established in 1937), companies. The merger was initiated by the Oblast Akimat with the aim to increase the utilities' operational and financial efficiency. Currently, the Company is the only provider of centralised water supply, WW treatment and DH services in the City with population of c.a. 500,000 inhabitants. The share of population connected to the centralised utility services is the following: water supply – 79 per cent, WW treatment – 62 per cent, and DH supply – 41 per cent.

The Company's WWTP was built in 1982 and is located ca. 5 km to the north-west of the City. It has the design capacity of 103,000 m³/day and current flowrate of ca. 55,000 m³/day. The major part of WW treatment equipment is outdated and in poor condition. Only three out of five biological treatment basins are operational although under a semi-emergency technical condition. The aeration and WW sedimentation machinery and equipment are in the same condition. The Company has been regularly penalised by the environment protection authorities for being non-compliant with the national standards.

The Bank's engagement with the Company started in 2015 with the signing of two loans: OPID 47569, Aqtobe District Heating Project – current outstanding amount KZT 1.8 billion (EUR 3.6 million), and OPID 47570, Aqtobe Water Project – current outstanding amount KZT 0.9 billion (EUR 1.9 million). The Bank's cooperation with the Company has been positive to date.

Summary of the Company's audited financial statements is presented in Table 1 below.

Table 1. The Company's audited financial statements, 2020-2022.

Items	KZT billion			EUR million		
	2020	2021	2022	2020	2021	2022
PL items						
Total revenue	10.2	11.8	11.7	21.6	23.3	24.1
EBITDA	0.9	1.9	0.7	2.0	3.7	1.4
Net profit / (loss)	(0.1)	(0.6)	(1.3)	(0.2)	(1.2)	(2.6)
BS items						
Total assets	54.1	52.5	50.0	114.8	104.2	103.1
Total liabilities, including	47.0	45.4	44.1	99.7	90.0	90.9
- loans	5.1	4.7	4.1	10.9	9.3	8.4
Total equity	7.1	7.1	5.9	15.1	14.2	12.2
CF items						
Net CF, including	0.5	(0.1)	(0.2)	1.1	(0.2)	(0.5)
- operating CF	1.8	1.4	0.7	3.8	2.9	1.4
- investing CF	(1.5)	(1.7)	(0.1)	(3.2)	(3.3)	(0.2)
- financing CF	0.2	0.2	(0.8)	0.5	0.3	(1.7)
Ratios						
EBITDA margin	9%	16%	6%			
DSCR	1.1	0.5	0.4			
Net Debt / EBITDA	3.0	1.7	4.2			
EUR / KZT (annual average)	471	504	485			

[REDACTED]

3.2 GUARANTOR

The Loan is guaranteed by the Republic of Kazakhstan. Financial analysis suggests that Kazakhstan has a strong sovereign balance sheet, with a moderate public debt of 27.8 per cent of GDP as well as high international reserves of 43 per cent of GDP. More details are provided in Annex 4.

3.3 PROGRAMME COORDINATOR

The GoK's decision to assign KazCentre as the Programme coordinator was necessary to streamline and facilitate the WWTP projects' preparation and implementation processes.

KazCentre was established in 2009 to support the modernisation and development of communal services in Kazakhstan with the main focus on district heating, water supply and WW management. It is 100 per cent owned by the Construction and Housing Services Committee of the MIC. Investments promotion in the sector through enhanced legal and technical frameworks, rendering research and information services, implementing investment projects, straightening of the housing management companies and introducing innovative solutions and resource efficient technologies are the key priorities for KazCentre. As for the Programme, KazCentre performs a key coordinating role in selection, preparation, implementation and monitoring of the investment projects for the GoK.

4. MARKET CONTEXT

Similarly to other utilities in Kazakhstan, the Company is a local monopoly strictly controlled by authorities as tariffs are set by the CREM. Tariffs are approved for a period of 5 years and revised annually based on the actual performance of utilities. Tariffs are differentiated across customer groups (residents, legal entities, public entities, heating companies). Residents and heating companies pay tariffs which are below the average rate. Their consumption is subsidised by legal and public entities which pay the highest tariffs.

The tariff setting regulation in Kazakhstan allows three approaches for tariff calculation: cost-based, stimulating and indexation. The cost-based approach is the most widely used in Kazakhstan due to its simplicity. The stimulating approach was introduced in 2019 and has not yet been tested. Indexation is only applied to small scale utilities.

All approaches to tariff calculation should provide for the full cost recovery; however, in practice the CREM has been limiting tariff growth. The series of "moratoriums for tariff increase" introduced by the GoK from 2018 till 2022 resulted in further deterioration of the utilities' assets and the growing needs for state budget subsidisation.

The recently introduced Subsidy Rules made the Programme attractive to IFIs and other potential investors. [REDACTED].

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 A (ESP 2019). The Project involves construction of a new WWTP with the capacity of 500,000 population equivalent. The sludge treatment complex will be part of the plant and will include anaerobic digestion facilities, which will generate biogas, and facilities for production of heat and electricity from this biogas. The overall impacts of the proposed investment are assessed to be positive. The Project will result in environmental and social (“E&S”) benefits, including eliminating odour, enhancing WW treatment efficiency to meet the national and the EU requirements, providing an EU-compliant solution for sludge management and disposal in line with the EU best available technique (BAT) requirements for such facilities and the EU Taxonomy, reducing environmental harm and public health risks from the current level of WW treatment and unsustainable practice of sludge disposal in the open lagoons. The Project is expected to contribute to the reduction of pollution in the Ileik River that is part of the in the Ural-Caspian basin and reduce GHG emissions by 23,000 tCO₂e annually.

The E&S due diligence involved review of the local FS, a scoping visit, preparation of a comprehensive ESIA package by an independent Consultant in line with the EBRD performance requirements (PRs), and disclosure of the ESIA package for 120 days for public review and comment (package disclosed on 24 July 2023). The ESIA disclosure package includes (i) ESIA report, including Environmental and Social Management Plan (“ESMP”), (ii) Non-Technical Summary, (iii) Stakeholder Engagement Plan (“SEP”), and (iv) ESAP. All documents have been disclosed in English, Kazakh and Russian on the Company’s website and on the Bank’s website. The ESIA studies included socio-economic impact assessment in the Project area and region, analysis of alternatives, noise assessment, air dispersion modelling, sludge management options, biodiversity, and climate change impact assessment, as well as assessment of the cumulative impacts. The Project has also been subject to a national Environmental Impact Assessment process, including public hearings in August 2023, and received a positive conclusion of the State Ecological Expertise. Additionally, the ESIA study and management plans were discussed during a public meeting in the local community of Kurayly village. No objections from the public have been received. Main concerns expressed during the consultation were related to the air quality monitoring, odour management, pollution prevention, utilisation of biogas, future use of treated water, cost of the investment, tariffs and the use of BAT. Local residents were interested in the future land rehabilitation and in ensuring a green belt around the WWTP. The feedback received during the public consultation was fully addressed and documented and specific references to the ESIA mitigation measures and management plans were provided. No need to update or amend the ESIA documents was identified.

The Company has a corporate level Environmental Policy that covers Environmental, Health and Safety issues and an Operational Environmental Control Program with a monitoring plan, as well as the necessary operational permits and licenses are in place to meet the national requirements. However, overall E&S capacity to implement the Project in line with EBRD PRs is currently limited, and the Company will require further strengthening of its environmental and occupational health and safety systems and procedures in line with international standards. The due diligence also confirmed that the Company has appropriate human resources procedures in place but needs to further develop a written HR policy, including coverage of gender and gender-based violence and harassment in the workplace for both employees and contractors. Worker grievance mechanism also needs formalising, and any future optimisation of staffing, should it be required, will need to include preparation of an adequate Retrenchment Plan in line with PR2.

Operational sites of the existing WWTP are situated to the North-West from the city with the closest residential buildings located at the distance of about 2 km. Through improved quality of WW treatment and better sludge management, the Project will enable significant odour reduction in the vicinity of the WWTP. Air dispersion modelling results indicate that the resultant estimated pollution concentrations will remain within the permissible limits within the sanitary protection zone for the new WWTP site. The

analysis of different alternatives for sludge management and disposal concluded that the proposed solution combining biogas production facilities (anaerobic digester) and land application will provide an optimal solution. The Company will also be required to develop a plan for closure and rehabilitation of the existing sludge lagoons located in the old WWTP site area to prevent this major source of odour and pollution in the future. The Project area is potentially susceptible to increased water stress and drought, and the Project will support better climate resilience of the area through improving quality of treated effluent from the new WWTP as compared to the current situation and hence reducing pressure on the local water resources.

The Project involves no involuntary resettlement of the local communities. The new WWTP construction will take place on the 10.8 ha state-owned land plot adjacent to the existing facility. A portion of that land (3.1 ha) is currently leased by a local farmer and used for agricultural activities (grazing), hence some economic displacement will occur that has been carefully assessed during the ESIA preparation. The Company, in cooperation with the city authorities and the farmer, have agreed to replace the land plot with the same quality of land to the farmer. The Project also involves relocation of several small parts of the existing overhead lines that are currently crossing the WWTP site to the area along the perimeter of the new WWTP within the acquired land plot. The overhead lines relocation component will be financed from the municipal budget and was assessed as an associated facility of the proposed Project.

The Project will have typical construction phase impacts that can be adequately managed through implementation of a construction phase ESMP. The due diligence has identified an existing safety issue related to the retention reservoir that is used for effluent storage prior to its discharge into the environment. Therefore, a third-party dam integrity and safety assessment will be conducted, and the necessary measures will be implemented by the Company as part of the ESAP to ensure continued dam safety, prior to reservoir use for the new WWTP. A traffic and transportation management plan and emergency response plan will also be required for managing health and safety impacts during construction and operation.

There are no protected or sensitive areas in the vicinity of the Project, and the proposed site is not rich in biodiversity. No significant adverse impacts on sensitive cultural areas are expected either.

The Project is structured to comply with the Bank's PRs, including relevant national and the EU environmental requirements. The ESAP and ESMP have been prepared to address the findings of the ESDD and improve E&S performance and risk management. The Company will also implement SEP and community grievance mechanism and develop and implement a robust E&S monitoring plan during Project implementation. ESAP will be attached to the legal agreements with the Company.

The Project will benefit from substantial post-signing TCs to support the implementation of the ESAP and SEP, including through project implementation support as well as construction supervision and LTM assistance. The Bank will monitor the Project's performance through annual E&S reports and site visits, as required.

6.2 INTEGRITY

Updated integrity due diligence was undertaken on the Company, its shareholders, senior management and other relevant parties. The review identified no integrity concerns. The Company is an existing client of the Bank and the experience to date has been positive.

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.

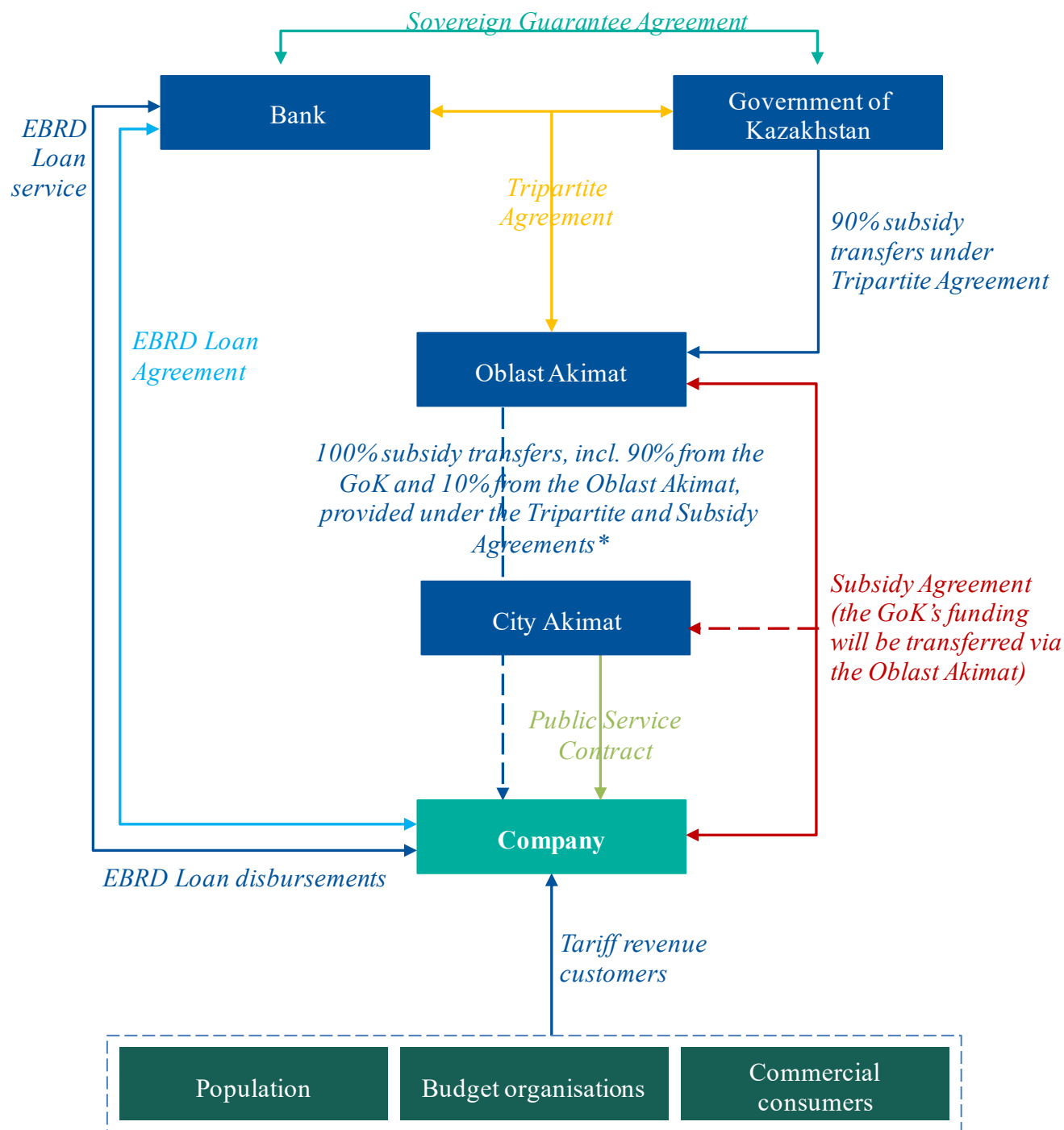
6.3 AFFORDABILITY ANALYSIS

[REDACTED]

ANNEXES TO OPERATION REPORT

ANNEX 1	PROJECT AGREEMENTS CHART
ANNEX 2	PROJECT IMPLEMENTATION
ANNEX 3	GREEN ASSESSMENTS
ANNEX 4	SOVEREIGN ASSESSMENT
ANNEX 5	ECONOMIC ANALYSIS

ANNEX 1 – PROJECT AGREEMENTS CHART



* The debt service subsidies from both GoK and Oblast Akimat can potentially be transferred via the City Akimat.

ANNEX 2 – PROJECT IMPLEMENTATION

Procurement classification – Sovereign

[REDACTED]. By applying the EBRD's toolkit to assess the public sector clients' procurement capacities, the Project Implementation Advisor undertook a capacity assessment of the Company focusing on the sections related to current legal framework, organisation, support and control systems, staffing, records, procurement planning, and project risk. Areas of opportunities and improvements were identified and have been discussed with the Company. Based on this assessment, the overall procurement risk has been identified as "*High*". There are staffing and project risks, e.g. the Company's employees have insufficient experience in international procurement, including use of FIDIC contracts, and insufficient capacity in managing projects related to the construction of WWTPs.

The Company has previous experience in implementing the Bank's financed projects of a similar nature but on a lower scale. To mitigate procurement risks, the Company will be supported by an experienced PIS consultant to assist with project management, design, procurement and supervision of works. The consultant will also make sure that the latest industry technologies and best practices are applied. In addition, the LTM (to cover several WWTP projects financed by the Bank under the Programme) will assist the Bank in monitoring the Project implementation.

Contracts risk assessment – Moderate High:

The Project will involve a contract for design and construction of WWTP and auxiliary assets (FIDIC Yellow Book), in which the Company does not possess wide experience. To mitigate the risks, the Company will be supported by internationally experienced consultants (refer to *The Company's capacity assessment related risk*).

Project implementation arrangements:

The Company has an established a [Project Implementation Unit] which will be responsible for the procurement of goods, works and services and contract administration under the Project. The Company will appoint a qualified project manager, who will be responsible for timely and efficient Project implementation. The Project implementation will be further supported by internationally experienced consultants (refer to *The Company's capacity assessment related risk*).

Procurement arrangements:

The Project is classified as a public sector operation for procurement purposes. The planned contracts financed from the proceeds of the Loan will be procured using open tendering procedure in accordance with Article 3 of Section 3 of the PP&R for the Public Sector and will use the Bank's Standard Tender Documents. A two stage tender is proposed to be used for the main work contract for the construction of the WWTP mainly to get access first of the technical proposals from the tenderers.

All contracts will be subject to prior review by the Bank in accordance with the procedures set out in the PP&R. All tenders will be managed using the ECEPP. Disbursements under the contracts will be made directly to the contractors and suppliers. The enclosed combined Procurement Plan provides the details of the planned investments and TC assignments. Dates are subject to change depending on the dates of loan's signing. [REDACTED].

ANNEX 3 – GREEN ASSESSMENTS

Introduction

- The Project entails construction of a new WWTP in Aktobe city. A technical due diligence was undertaken to support the green assessment.
- The Project is assessed as aligned with the goals of the Paris Agreement based on ‘direct finance’ methodology.
- The Project qualifies for 100 per cent GET climate and environment finance.
- Climate-related financial risk (physical and carbon transition risk) has been assessed as low.

Paris alignment assessment

Alignment with the mitigation goals of Paris Agreement

- The project/economic activity is included in the 'aligned list'.
- Conclusion: The Project is assessed as aligned with the mitigation goals of Paris Agreement.

Alignment with the adaptation goals of Paris Agreement

- The Project incorporates responses to ensure assets are resilient to physical climate risks deemed potentially material:
 - Flooding: the water supply and wastewater infrastructure in the city is protected by a storm water drainage system.
 - Drought: by treating wastewater to discharge standards compliant with EU regulations, the Project will increase availability of clean, reusable water to the wider system mitigate droughts
- Conclusion: The Project is assessed as aligned with the adaptation goals of Paris Agreement.

GET attribution

- The Project has been attributed climate and environment GET finance.
- The expected GET impacts from the investment are:
 - Climate change mitigation:
The integrated biogas-to-electricity unit in the new WWTP will displace electricity consumption from external sources. Additionally, the installation of more energy efficient equipment for the WW treatment process will reduce on-site GHG. Combined, these measures will reduce Scope 1 and 2 GHG emissions by approximately 23,000 tons CO₂/year.
 - Climate change adaptation:
Treated WW effluent will be returned to the water system, increasing the amount of available good-quality water for uses cases such as agriculture irrigation This will relieve pressure on existing freshwater sources in what is context of water stress.
 - Environment - Sustainable use and protection of water and marine resources:
Current WWTP has been constructed on extensive land owned by the City Akimat. Given that the assets are highly depreciated, it is proposed to construct a new WWTP on adjacent land plot. The new WWTP will be designed to treat domestic and pre-treated industrial WW i) with a capacity of 500,000 population equivalent (average WW capacity of 100,000m³/day), and ii) to a quality that meets local and EU discharge standards, reducing environmental (ground- and surface water) contamination in the process. Also, septic tank sludge from households not serviced by the sewerage system will also be transported to the WWTP for treatment. The WWTP is expected to serve 315,900 people at the initial phase of operations in 2027 and further expand its services to reach up to 500,000 by 2040.

Conclusion: The Project is **100 per cent GET**.

ANNEX 4 – SOVEREIGN ASSESSMENT

In 2022, the economy grew by 3.2 per cent y/y. All key sectors expanded, except the mining industry (- 1 per cent y/y). Construction (+9.4 per cent y/y) and agriculture (+9.1 per cent y/y) posted strong growth. Fixed capital investments grew by 7.8 per cent y/y. Despite disruptions at the Caspian Pipeline Consortium's terminal in Novorossiysk, exports demonstrated remarkable resilience (up 39.9 per cent y/y) amid high oil prices. In 2023, growth accelerated. In 1H 2023, the economy expanded by 5.0 per cent y/y. Significant gains were achieved in construction (+13.4 per cent year-on-year), fixed capital investment (+13.1 per cent year-on-year) and retail trade turnover (+8.8 per cent year-on-year). Industry (+3.8 per cent) and agriculture (+3.2 per cent) posted smaller growth rates.

The war in Ukraine and sanctions on Russia led to a sharp KZT depreciation in late February -March 2022. The policy rate hikes (16.75 per cent as of August 11, 2023) and the introduction of a premium interest rate on long-term local currency deposits helped to partially restore the KZT value. Since the beginning of 2023, exchange rate has been supported by positive trade balance, as well as growing interest for Kazakhstani government securities among non-residents. As of August 11, KZT appreciated by 3.8 per cent year-to-date.

In 2022, inflation has been accelerating amid strong growth of nominal wages (19.3 per cent y/y in 2022) coupled with a surge in transport, food and commodity prices. Inflation peaked at 21.3 per cent in February 2023. Inflationary pressures started receding in early spring 2023, and annual CPI fell to 14.0 per cent in July 2023 thanks to high base effect, tight monetary policy and KZT appreciation.

Preliminary estimates suggest that the current account recorded a deficit of USD 3.6 billion in 1H 2023, compared with a surplus of USD 6.5 billion a year ago. Nevertheless, the Kazakh economy has proven resilient to external shocks, despite taking on additional debt. S&P affirmed Kazakhstan's sovereign rating at 'BBB-', and revised its outlook from Negative to Stable on March 3, 2023, reflecting the country's strong fiscal and external balance sheets. As of July 2023, the combination of the National Bank's official foreign exchange reserves (USD 34.18 billion) and National Oil Fund's assets (USD 60.2 billion) was USD 94.38 billion (approximately 42.7 per cent of 2022 GDP). Concurrently, Kazakhstan's public debt stands at 27.8 per cent of 2022 GDP, of which external debt is 7.4 per cent of the 2022 GDP (as of 1 July 2023).

According to internal EBRD's forecasts the economy to expand by 3.9 per cent in 2023. Significant downside risks remain, including inflationary pressures, potential interruptions to oil transit through Novorossiysk and continued challenges related to trade logistics due to a further escalation of the geopolitical conflict over Ukraine. The relocation of foreign firms and investment in new activities related to voluntary exit of major global players from Russia, as well as elevated commodity prices are the major upsides.

ANNEX 5 – ECONOMIC ANALYSIS

[REDACTED]