

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

Approved by the Board of Directors on 6 March 2024¹

MOLDOVA

**MOLDOVA ROMANIA POWER INTERCONNECTION
PHASE II**

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

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

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

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

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ABBREVIATIONS / CURRENCY CONVERSIONS

ANRE	National Energy Regulatory Agency
CAGR	Compound Annual Growth Rate
CFO/CFI/CFE	Cash From Operations/Investments/Financing
DSCR	Debt Service Coverage Ratio
DSO	Distribution System Operator
E&S	Environmental and Social
EBITDA	Earnings before Interest, Taxes, Depreciation and Amortisation
EnC	Energy Community
EnCS	Energy Community Secretariat
EIB	European Investment Bank
ENTSO-E	European Network of Transmission System Operators for Electricity
ESIA	Environmental and Social Assessment
EU	European Union
EUR	Euro
EURIBOR	Euro Interbank Offered Rate
FX	Foreign Exchange
GDP	Gross Domestic Product
IMF	International Monetary Fund
kV	Kilo-Volt
MDL	Moldovan Leu
MOE	Ministry of Energy
MOF	Ministry of Finance
MVA	Mega Volt-Ampere
NIP	Neighbourhood Investment Platform
IMF	International Monetary Fund
IPS/UPS	Integrated Power System/Unified Power System
PIU	Project Implementation Unit
PowerSAP	Power Sector Action Plan
PPE	Property, Plant and Equipment
PP&R	Procurement Policies & Rules
SOE	State-Owned Enterprise
SSF	EBRD Shareholder's Special Fund
TC	Technical Cooperation
TSO	Transmission System Operator
USD	US Dollars
WB	World Bank
YE	Year-End

CURRENCY CONVERSIONS

Country's Currency Unit	Moldovan leu (MDL)
1 MDL	= 100 bani
EUR/MDL	20.0
USD/EUR	1.10

WEIGHT AND MEASURES

TCO _{2e}	Tonne of Carbon Dioxide equivalent
Megawatt (MW)	1,000 kilowatts (10 ³ kW)
Gigawatt (GW)	1 million kilowatts (10 ⁶ kW)
Megawatt-hour (MWh)	1,000 kilowatt-hours (10 ³ kWh)
Gigawatt-hour (GWh)	1 million kilowatt-hours (10 ⁶ kWh)
Terawatt-hour (TWh)	1 billion kilowatt-hours (10 ⁹ kWh)

PRESIDENT'S RECOMMENDATION

This recommendation and the attached Report concerning an operation in favour of the Republic of Moldova (the “Borrower”), as well as Moldelectrica (the “Company”), a fully state-owned electricity transmission system operator (“TSO”), are submitted for consideration by the Board of Directors.

The facility will consist of a sovereign loan to the Republic of Moldova represented by the Ministry of Finance in the amount of up to EUR 30.8 million. The Borrower will on-lend the loan to the Company, which will use the proceeds for the (i) construction of the high-voltage electricity transmission line between the city of Balti on the Moldovan territory and the Romanian border, (ii) construction of Balti 400kV substation, and (iii) rehabilitation of the existing domestic power transmission network of Moldova (collectively, the “Project”).

Total project cost is EUR 77.0 million and is to be co-financed by the European Investment Bank (“EIB”) with a loan of EUR 30.8 million and the EUR 15.4 million EU Neighbourhood Investment Platform (“NIP”) grant. [REDACTED].

The transition qualities of the Project are Resilient and Integrated. The Project will increase the energy security of Moldova by accelerating the ongoing integration with ENTSO-E and strengthen Moldova’s regional integration through the construction of a new cross-border electricity interconnection with Romania. Additionally, the Project will require the Republic of Moldova to continue implementing the Power Sector Reform Action Plan (“PowerSAP”), originally developed and agreed in close collaboration among EBRD, the EU, EIB, World Bank, Energy Community Secretariat and the Government of Moldova. The PowerSAP introduces a comprehensive reform package to implement the EU Third Energy Package in Moldova’s electricity market.

TC support for this operation is expected to be provided by international donors and/or the EBRD Shareholder Special Fund.

I am satisfied that the operation is consistent with the Bank’s Strategy for the Republic of Moldova, the Bank’s Energy Sector Strategy 2024-2028 and with the Agreement Establishing the Bank.

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

Odile Renaud-Basso

BOARD DECISION SHEET

MOLDOVA - Moldova Romania Power Interconnection Phase II - DTM 54567	
Transaction / Board Decision	Board approval ² is sought for a sovereign loan of up to EUR 30.8 million in favour of the Republic of the Moldova through the country’s Ministry of Finance (“MOF”). The proceeds of the loan will be used, together with a parallel loan from EIB and a grant from EU NIP, to finance the (i) construction of the high-voltage electricity transmission line between the city of Balti on the Moldovan territory and the Romanian border, (ii) construction of Balti 400kV substation, and (iii) rehabilitation of the existing domestic power transmission network of Moldova (collectively, the “Project”).
Client	The Borrower is the Republic of Moldova represented by the MOF. The proceeds of the loan will be on-lent to Moldelectrica, the 100% state-owned electricity TSO in Moldova under the supervision of the Ministry of Energy (“MOE”).
Main Elements of the Proposal	<ul style="list-style-type: none"> • <u>Transition impact</u>: Transition impact stems from the <i>Resilient</i> and <i>Integrated</i> qualities. The Project will improve the energy security for Moldova by accelerating the country’s ongoing integration with ENTSO-E and accelerate the development of regional integration as Moldova will introduce a new route for electricity exchange, potentially earning transit fees from transactions between Romania and Ukraine through constructing a new interconnection line with Romania. The Project will also lead to a reduction of losses in the electricity transmission network and increase the reliability of electricity supply to the consumer through reconstructing and modernizing [REDACTED] equipment. Additionally, the Project will require the Republic of Moldova to continue implementing the Power Sector Reform Action Plan (“PowerSAP”), originally developed and agreed in close collaboration among EBRD, EU, EIB, World Bank, Energy Community Secretariat and the Government of Moldova, to introduce a comprehensive reform package to implement the EU Third Energy Package in Moldova’s electricity market. • <u>Additionality</u>: No long-term commercial lending available; mobilisation of grants and co-financing; policy dialogue; sector reform. • <u>Sound banking</u>: Moldova’s sovereign creditworthiness is expected to remain sustainable. Moody’s affirmed B3 and revised the outlook to stable in August 2023. The public debt level, as a share of GDP, stood at 33.2% in 2021, due to the COVID-19 policy response. It is expected to peak at 37.1% by 2025, with the overall risk of debt distress assessed as moderate.
Key Risks	<ul style="list-style-type: none"> • <u>Implementation risk</u> is mitigated by the following: (i) a TC grant-funded consultant will assist the Company’s Project Implementation Unit (PIU) with tendering and contracting of the Project; and (ii) the Company has a track record in procuring and operating high-voltage 400 kV transmission lines and substations, as well as implementing rehabilitation of its equipment. • [REDACTED]<u>regulatory risk</u> is mitigated by the fact that the Bank has a well-established dialogue with the National Energy Regulatory Agency (“ANRE”) [REDACTED].
Strategic Fit Summary	The proposed transaction is consistent with the Bank’s Strategy for Moldova, since it leads to strengthening Moldova’s energy resilience and security and promoting greener economy. It is also consistent with the Bank’s Energy Sector Strategy 2024-2028 which focuses on expansion and upgrade of network infrastructure and regional energy systems integration.

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

ADDITIONAL SUMMARY TERMS FACTSHEET

EBRD Transaction	<p>Up to EUR 30.8m sovereign loan to the Republic of Moldova for the construction of the high-voltage electricity transmission line between the city of Balti on the Moldovan territory and the Romanian border, including Balti 400kV substation, and the rehabilitation of the existing power transmission network.</p> <p>Total project cost of EUR 77.0m will be co-financed by EIB with a loan of EUR 30.8m and the EUR 15.4m EU NIP investment grant. The EU NIP grant will be repurposed from the larger grant approved under <i>Moldova Romania Power Interconnection Phase I</i>.</p> <p>The construction of the overhead line (“OHL”) from the Romania-Moldova border to the city of Suceava in Romania will be financed by the Romanian TSO Transelectrica.</p>
Existing Exposure	Total amount of sovereign portfolio in Moldova as of 31 December 2023 is EUR 865m, with operating assets of EUR 283m in 13 projects in Sustainable Infrastructure and Natural Resources sectors, a sovereign loan of up to USD 20m on-lent to Moldelectrica for the rehabilitation of its transmission network [REDACTED].
Maturity / Exit / Repayment	Tenor of 18 years [REDACTED].
Potential AMI eligible financing	None.
Use of Proceeds - Description	The proceeds of the loans from the Bank and EIB, and the investment grant from EU NIP will be used for the (i) construction of the high-voltage electricity transmission line between the city of Balti on the Moldovan territory and the Romanian border, (ii) construction of Balti 400kV substation, and (iii) rehabilitation of the existing domestic power transmission network of Moldova.
Investment Plan	[REDACTED]
Financing Plan	[REDACTED]
Key Parties Involved	<ul style="list-style-type: none"> • The Borrower: Republic of Moldova; • The Company: Moldelectrica; • Parallel lender: EIB; • Investment Grant provider: EU Neighbourhood Investment Platform.
Conditions to subscription / disbursement	[REDACTED]
Key Covenants	<ul style="list-style-type: none"> • [REDACTED] • Implementation of PowerSAP and Environmental and Social Action Plan; • Compliance with EBRD Procurement Policy and Rules.
Security / Guarantees	Sovereign loan.
Other material agreements	<ul style="list-style-type: none"> • Project Implementation Agreement between EBRD and EIB under the “<i>EBRD-EIB Procedural Framework on mutual reliance on procurement in joint co-financed projects outside the EU</i>”.
Associated Donor Funded TC and Blended Concessional Finance	<p>Technical Cooperation (TC)</p> <p>Given the Borrower is a sovereign state while the Company is a fully state-owned entity, as well as the relative complexity of the Project, TC support in tendering and implementing the Project will be required. In addition, the</p>

development of a Corporate Governance Action Plan (“CGAP”) by Moldelectrica will also require TC support.

Pre-Signing:

- TC1: Advance Procurement Support. An individual expert to assist the Company’s Project Implementation Unit (PIU) with tendering and contracting of Project Implementation Support (TC2). The estimated cost of the assignment is up to EUR 20,000, expected to be financed by the EBRD Shareholder Special Fund (the “SSF”) under PPAD-managed TC Programme for Enhancing Public Procurement Practices: Quality Assurance and Capacity Building for Client-led Implementation.

Post-Signing:

- TC2: Project Implementation Support to assist Moldelectrica with (i) preparation of tender documentation; (ii) tender evaluation and contract negotiations; (iii) supervision of works and administration of the supply contracts; and (iv) reporting to the Bank. The estimated cost of this assignment is up to EUR 2,500,000 out of which EUR 1,500,000 is expected to be covered from EBRD and EIB loan proceeds and EUR 1,000,000 is expected to be financed by an international donor and/or the SSF.
- TC3: CGAP. The assignment will support the development and implementation of a CGAP to bring Moldelectrica’s corporate governance in line with best international practices [REDACTED]. The estimated cost of the assignment is up to EUR 350,000, expected to be funded from the 2021-2022 SSF work plan, EEC allocation to SMART.

Client contributions:

The Company will provide financial contribution to the Project by co-financing the services of Project Implementation Support Consultants (TC2) in an amount of up to EUR 1.5 million from EBRD and EIB loan proceeds.

Blended Concessional Finance:

The Project will be co-financed by an investment grant up to EUR 15.4 million from EU NIP [REDACTED].

[REDACTED]

INVESTMENT PROPOSAL SUMMARY

1. STRATEGIC FIT AND KEY ISSUES

1.1 STRATEGIC CONTEXT

Moldova's power system and electricity supply have been heavily dependent on a single source. More than 80% of domestic electricity consumption (4 TWh) has been historically provided from the unrecognised breakaway region of Transnistria and imports from Ukraine through IPS/UPS (synchronous electricity transmission grid of some CIS countries as well as Georgia and Mongolia). In 2015, Moldova took a strategic decision to establish the asynchronous interconnection with Romania, which consisted of construction of the Vulcanesti back-to-back substation as part of the Vulcanesti-Issaccea power interconnection line, aiming to enable energy source diversification and strengthening Moldova's energy security. With financial support from the Bank, EIB, and EU NIP, Moldelectrica commenced the project implementation.

However, in a completely unprecedented manner, without the completion of the above facility, ENTSO-E synchronization was performed on 16 March 2022 due to the urgent need for Moldova and Ukraine to depart from IPS/UPS as a result of the war on Ukraine. Given the ENTSO-E synchronization, Moldova had to reassess its options and, based on an updated system study, it was decided to discontinue the Vulcanesti back-to-back substation project and commence another power interconnection the Balti-Suceava 400kV line instead. The Balti-Suceava 400kV line aims to strengthen the integration with ENTSO-E, which is a high priority for Moldova to improve its energy security.

In addition, the electricity network equipment installed in Moldova is [REDACTED] outdated. Some have a lifespan of more than 40 years and Moldelectrica's budget allocated for reconstruction and modernisation has not been enough to replace all the equipment. The Project will increase the reliability of the electricity supply to consumers by renovating the 110 kV bays with circuit breakers (as is widely applied in the EU). Additionally, to reduce losses in the electricity transmission network, the Project will replace a series of 110 kV power transformers that are conceptually and physically obsolete at several substations. This component will build on Moldelectrica's successful network rehabilitation efforts following the implementation of Moldelectrica Transmission Network Rehabilitation Project approved by the Bank in 2012 that financed the design and rehabilitation of a number of substations, transformers and transmission lines.

EBRD's loan will require Moldova to continue implementing the Power Sector Reform Action Plan ("PowerSAP"), originally developed and agreed in close collaboration among the Bank, EU, EIB, WB, Energy Community Secretariat and the Government of Moldova, to introduce a comprehensive reform package to implement the EU Third Energy Package in Moldova's electricity market.

1.2 TRANSITION IMPACT

Primary Quality: Resilient

Obj. No.	Objective	Details
1.1	<i>The project entails a policy</i>	The Bank together with WB, EU, Energy Community and EIB will continue its engagement in the policy dialogue with the Government of

	<i>dialogue initiative that has been assessed as Excellent by the sector economist.</i>	Moldova to ensure reform implementation. A Power Sector Reform Action Plan (“PowerSAP”) has been developed and agreed in close collaboration among EBRD, EU, EIB, WB, Energy Community Secretariat and the Government of Moldova. [REDACTED]. The PowerSAP is designed as a comprehensive reform package to implement EU Third Energy Package in Moldova’s electricity market. The PowerSAP was originally established as a part of the <i>Moldova Romania Power Interconnection Phase I</i> project (Op ID: 47087) in 2017 [REDACTED]. Based on the PowerSAP, Moldova undertakes to (i) adopt rules in line with EU standard for capacity allocation with Ukraine and Romania, and (ii) establish a Power Market Operator to build an organized wholesale market.
1.2	<i>Project will help client move towards international best practice in terms of system reliability or flexibility.</i>	The electricity network equipment installed in Moldova [REDACTED] is outdated, some with a lifespan of more than 40 years; [REDACTED]. The Project will increase the reliability of the electricity supply to consumers by renovating the 110 kV bays for connecting the power transformers, which, at the moment, the vast majority of substations are using instead of circuit breakers (as is widely applied in the EU). Additionally, to reduce losses in the electricity transmission network, the Project will replace a series of 110 kV power transformers [REDACTED] at several substations. These actions aim to maintain reliable electricity supply to the free economic zones of the Republic of Moldova, leading to improvements of the economic development and the well-being of the residents of the Republic of Moldova.

Secondary Quality: Integrated

Obj. No.	Objective	Details
2.1	<i>The project will either (i) add cross-border interconnection capacity where there is a recognised need for additional capacity; or (ii) improve the interconnection between regions within the country, between which transmission capacity is significantly constrained.</i>	<p>The Project will allow Moldova to enhance its cooperation with Romania and the other ENTSO-E countries and accelerate the development of regional integration as Moldova will introduce a new route for electricity exchange, potentially earning transit fees from transactions between Romania and Ukraine. The Project will bring diversification of the energy supply sources of Moldova, which will also increase competition between energy suppliers, ultimately leading to the opening of the Moldovan electricity market for liberalisation. The proposed interconnection will enable Moldova to import additional energy from the ENTSO-E network which will considerably enhance stability and reliability of power supply that are prerequisites for private sector development. This would in turn contribute to the long-term sustainability and security of the Moldovan power sector.</p> <p>Moldova’s ENTSO-E synchronization was performed on 16 March 2022 due to the urgent need for Moldova and Ukraine to depart from IPS/UPS as a result of the war on Ukraine. The Project is expected to increase the inter-transmission capacity of 300 MW, maximum 1,200 GWh/year.</p>
2.2	<i>The project will result support the country's compliance with criteria for ENTSO-E membership and synchronization contributing to a</i>	The PowerSAP has been developed by the EBRD together with the EIB, World Bank, the EU and the Energy Community Secretariat and is designed as a comprehensive reform package to implement the EU’s Third Energy Package in the Moldovan electricity market. The PowerSAP will be finalised as part of the loan agreement negotiations and will be attached

<i>substantial number of priority actions identified by the ENTSO-E feasibility studies or recommendations.</i>	to the EBRD loan agreement. Key actions under the PowerSAP include: (i) corporate development of Moldelectrica through the implementation of a CGAP; and (ii) the revision of the commercial set-up of the electricity market.
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Delivery risks:

The key transition impact delivery risk is potential delays in the market reform programme. [REDACTED].

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).	This transaction follows a transaction with the same client under the same structure, namely a direct sovereign loan to the Republic of Moldova on-lent to Moldelectrica.

Additionality sources	Evidence of additionality sources
<p>Financing structure</p> <ul style="list-style-type: none"> - EBRD offers financing that is not available in the market from commercial sources on reasonable terms and conditions. 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. - EBRD offers a large volume instrument that fills a market funding gap and is required to structure the project. 	Moldova's access to long-term investment funding is limited. No commercial banks are willing or capable of providing the tenor and the volume required for this type of a project in the energy sector of Moldova.
<p>Policy, sector, institutional, or regulatory change</p> <ul style="list-style-type: none"> - EBRD's involvement in a project is considered additional when it is designed to trigger a change in the policy, sector, institutional or regulatory framework, or enhance practices at the sector or country level. 	The Project entails a policy dialogue initiative, which includes implementation of the PowerSAP, a reform package to implement the EU Third Energy Package as well as the CGAP to bring Moldelectrica's corporate governance in line with best international practices.

1.4 SOUND BANKING - KEY RISKS

Risks	Probability / Effect	Comments
<i>Project specific risks</i>		
Implementation /Cost overruns risk	Low /Medium	Implementation risks include delays and cost overruns in procurement [REDACTED]. <i>Mitigation:</i> EBRD and EIB (the “Lenders”) will closely monitor the implementation of the Project. A PIU Support Consultant will be contracted to assist Moldelectrica’s PIU during implementation.
<i>External risks</i>		
Sovereign risk	Medium/ High	Moldova’s sovereign creditworthiness is expected to remain sustainable. Moody’s affirmed B3 and revised the outlook to stable in August 2023. The public debt level, as a share of GDP, stood at 33.2% in 2021, up from 34% in 2020 due to the Covid-19 policy response. It is expected to peak at 37.1% by 2025, with the overall risk of debt distress assessed as moderate. <i>Mitigation:</i> Sovereign debt capacity of Moldova remains acceptable taking the total size of the loan for the Project into consideration. Moldovan government is committed to a balanced fiscal policy, which should safeguard macroeconomic and financial stability in Moldova over the medium term.
FX risk	Medium/ Medium	Moldova was one the hardest-hit economies by the war on Ukraine, seeing the Lei depreciation by 7.4% in 2022. However, that was reversed by 7.5 % appreciation in 2023 (up to 6 June). <i>Mitigation:</i> External financing from IFIs led to increase in foreign exchange reserves, surpassing the pre-war level and reaching USD 4.8 billion. Strengthened market confidence, large interest rate differentials and significant external financing could support further the exchange rate in short run. The latest IMF programme review in April injected additional USD 96 million. As a result of the positive foreign exchange market conditions and sharply decelerating inflation, the National Bank of Moldova (NBM) has more room for downward adjustment of policy rate.

2. MEASURING / MONITORING SUCCESS

Transition Impact Monitoring Indicators

Primary Quality: Resilient

Obj. No.	Monitoring indicator	Details	Baseline	Target	Due date	TC related
1.1	Legal, institutional or regulatory frameworks in target areas improved	(i) Rules for capacity allocation of cross-border capacities and transparency requirements adopted and implemented by Moldelectrica and Ukrenergo in accordance with Regulation (EC) 714/2009; (ii) A Power Market Operator should be established; The Power Market Operator should procure and implement appropriate software tools for the operation of the new market segments; (iii) Apply EU harmonised allocation rules for capacity allocation, if agreed by counterparts from Ukraine and Romania.	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
1.2	Practices of the relevant stakeholder improved (system reliability)	Corporatisation of Moldelectrica: Develop and implementation of a Corporate Governance Action Plan (the CGAP) to bring Moldelectrica's corporate governance in line with best international practices.	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

Secondary Quality: Integrated

Obj. No.	Monitoring indicator	Details	Baseline	Target	Due date	TC related
2.1	Net increase in energy infrastructure usage and/or capacity	Increase the transmission power capacity through the Project.	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
2.2	Membership in trading platforms	After the project implementation, Moldelectrica will become compliant with criteria for ENTSO-E membership and synchronization.	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

3. KEY PARTIES

3.1 BORROWER - REPUBLIC OF MOLDOVA

The Borrower is the Republic of Moldova, represented by the country's MOF.

3.2 PROJECT ENTITY - MOLDELECTRICA (LOAN BENEFICIARY)

Moldelectrica is a 100% state-owned electricity transmission system operator in Moldova under the supervision of the MOE. Moldelectrica was created as a result of separating the generation, distribution and transmission assets of the state-owned company Moldenergo into three separate companies in 1997 and from the reorganisation of the unbundled company Moldtranselectro in 2000.

The Company's key function is the transportation and control over the process of transmission of electric energy in Moldova on the right bank of the Nistru River.

Moldelectrica's assets include approximately six thousand km of transmission lines of 400, 330, and 110kV, four thousand km of distribution lines of 35 and 6-10kV voltage levels, substations of 35-400 kV voltage and transformers with a total capacity of around 4,650 MVA.

As of January 2022, Moldelectrica had 1,330 employees, and in 2022, Moldelectrica transmitted 4.3 TWh of electricity.

4. MARKET CONTEXT

[REDACTED]. The country's generation capacity that covers around 20% of demand mainly consists of outdated gas-fired plants that operate in base load and are in need of rehabilitation and modernisation. The large Kuchurgan power plant with installed capacity of 2,520 MW is owned by the Inter-RAO (Russia) and located in the unrecognised breakaway region of Transnistria. Additionally, two CHPs in Chisinau owned by Termoelectrica provide c. 76% of available capacity outside Transnistria with the balance being provided by eight small JSC CET-Nord owned plants in Balti (7%), the Costesti hydropower plant (5%) and other small scale RE plants (11%).

Electricity imports from Ukraine normally covered around 20-30% of demand but had been stopped before the time of submission due to the damage to electricity infrastructure in Ukraine following attacks by Russian missiles. On 13 October 2022, Moldovan state-owned energy trader Energocom signed a 100 MW power supply contract with Romania's hydropower producer Hidroelectricain in order to secure alternative electricity supplies; Romania had shortly before capped the price of electricity exports to Moldova at 450 RON (USD c.90) per MWh due to the exceptional situation created by Russia's war on Ukraine.

Moldova has been a member of the Energy Community since 2010 and signed an Association Agreement with the European Union on 27 June 2014 obliging it to make its legislation conform to the EU *acquis communautaire*, which is the core EU energy legislation. ANRE is the single authority tasked with regulating Moldova's energy sector, and is equipped with country-wide regulatory competences in the electricity, gas, heat and oil sectors. ANRE's main responsibilities are regulation and licensing, tariff policy and consumer protection in the electricity, heat and oil and natural gas markets. By law, ANRE is an institution legally distinct and functionally independent from any other public entity.

In March 2022, in the light of Russian aggression in Ukraine and potential disruptions of the electricity market, the urgent implementation of synchronisation of Moldovan and Ukrainian grids with ENTSO-E has been completed. This provided the Republic of Moldova with direct access to the ENTSO-E, and thus possibility to source the electricity directly either from Ukraine or the EU countries through the state-owned Energocom which intermediates the import of electricity for the Moldovan market. This is currently limited to 100 MW, but the limit will increase over time.

Moldelectrica is the state-owned TSO and central dispatcher for the whole country, including the Transnistria region, while ICS Premier Energy Distribution S.A. (Premier Energy) and RED Nord are the distribution system operators (DSOs). Premier Energy is the sole private operator and covers two-thirds of the country including the capital city of Chisinau. The TSO and the two DSOs have been legally unbundled from generation and supply activities, while the Electricity Law provides an ownership unbundling model for the TSO and the conditions for certification as per Moldova's commitment to the Energy Community Treaty (ECT). Additionally, the wholesale electricity market is based on bilateral contracts.

In the renewable electricity market, the key stakeholders are the grid operators: the TSO Moldelectrica and the two DSOs, as well as SA Energocom, the Central Electricity Supplier appointed by the government. The Bank has been supporting the Government to establish a robust framework for renewable energy auctions for solar PV and onshore wind. The Bank helped to prepare the necessary legislative amendments that are currently in the process of approval by the Parliament. The Bank remains committed to assisting the government with the

implementation of the renewable auctions that are planned to be launched in 2024 to auction 165 MW, consisting of 105 MW for wind and 60 MW for solar.

5. FINANCIAL / ECONOMIC ANALYSIS

5.1 FINANCIAL SUMMARY

[REDACTED]

5.2 ECONOMIC SUMMARY

[REDACTED]

5.3 PROJECTED PROFITABILITY FOR THE BANK

[REDACTED]

6. OTHER KEY CONSIDERATIONS

6.1 ENVIRONMENT

Category A (ESP 2019). The construction of a 400kV overhead transmission line (OHL) between the city of Balti in northern area of Moldova and the Romanian border requires a comprehensive Environmental and Social Impact Assessment (EISA) including public consultation and disclosure for a minimum of 120-days.

The project is located in the northern part of Moldova, in an area of relatively low topographic relief. Land use in the area is mainly rural and agricultural, although in the western portions of the site there are wetlands. Several alternative routes were reviewed considering technical, economic, social, cultural resources and environmental factors. The central route was selected as this route minimised impacts on land use and to local populations while minimising impacts to protected areas and biodiversity. The selected route maximises use of existing infrastructure and borders of agricultural fields. The route runs from the back to back (BtB) station located in Balti, Moldova and runs roughly westward to the border with Romania and will include 157 towers for overhead power lines. The majority of these towers will be located in agricultural lands, with only one tower located in a forested area. The route was selected to ensure that there are no residential units within the safety zone of the power lines and there is no physical displacement associated with the project. After construction all existing land use can continue beneath the lines and within the safety zone.

A comprehensive set of management plans have been developed setting forth the actions that are to be implemented to avoid, minimise and mitigate potential impacts associated with construction and operation of the project. The towers will be designed to avoid electrocution to birds and to minimise collision risks, including diverters in high risk areas. The project cannot reasonably avoid all protected areas due to the extended protected areas along the Prut River marking the Romanian/Moldovan border. Nonetheless, the project has been aligned to minimise length in protected areas but does indeed cross small portions of the Padurea Domneasca. A specific biodiversity impact assessment report was completed to assess potential impacts to birds caused by the projects, and the avoidance, protection, mitigation and monitoring measures set forth in this report must be implemented by the company in support of construction and operation of the project. These measures include retaining a qualified ornithologist to oversee the project, the selection of specific locations for the towers in coordination with management of the protected area, provision of bird flight diverters in the sensitive areas and development and implementation of a monitoring program to confirm efficacy of the implemented measures. As mentioned the exact locations for towers within this protected area will be selected with management of the protected area prior to construction, and the management of the protected area has agreed that the project can be installed within the protected area without compromising the conservation objectives of the protected area.

Moldelectrica understand that one of the main risks on this project will be adequate contractor management, and have prepared a detailed Environmental and Social Management and Monitoring Plan to help organise contractor management and to set forth responsibilities of all parties. The contractor will be responsible for developing and implementing numerous Environmental and Social Management plans as outlined in the existing ESMP to cover the construction and operation of the project. A project implementation unit will be established and will employ environmental, social, safety and community specialists. An independent environmental and social consultant will be retained to monitor the project two time per year during construction and up to once per year during operation (for the life of the loan).

The Project Environmental and Social Impact Assessment (ESIA) disclosure package was uploaded on the EBRD website on 22 May 2023.

<https://www.ebrd.com/work-with-us/projects/esia/moldova-romania-power-interconnection-phaseii.html>

6.2 INTEGRITY

Integrity due diligence was undertaken on the Borrower (Ministry of Finance), the ultimate beneficiary (Moldelectrica), 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	Moldelectrica Financial Statements
ANNEX 2	Project Implementation
ANNEX 3	Transition Impact Scoring Chart
ANNEX 4	Shareholding Structure
ANNEX 5	Green Assessment Summary
ANNEX 6	Power Sector Action Plan
ANNEX 7	Corporate Governance Action Plan

ANNEX 1 – MOLDELECTRICA FINANCIAL STATEMENTS

[REDACTED]

ANNEX 2 – PROJECT IMPLEMENTATION**Procurement classification:***Public sub-sovereign*

[REDACTED]

The Company has over 10 years of extensive continuous successful experience in managing projects financed by the EBRD under PPR. It is expected that the same PIU that is managing the recently completed EBRD projects will be tasked with the implementation of the current Project. The PIU has the technical skills and experience to manage the project in accordance with the EBRD PPR.

The Bank will provide additional training to the PIU staff on how to use the new Standard Procurement Documents. In this respect, an individual expert to be financed by the SSF under PPAD managed TC Programme for Enhancing Public Procurement Practices: Quality Assurance and Capacity Building for Client-led Implementation, will be appointed to train the PIU and provide then hands on support with the first tender that will be launched under the Project (namely, the PIU Support Consultant tender).

*Contracts risk assessment**Moderate high*

The contracts foreseen to be procured under the Project can be considered standard capex for a electricity transmission company. However, they are highly specialized in nature with a limited number of qualified suppliers and contractors. At the time of conducting the capacity assessment, it was noted that no recent market survey was conducted in Moldova, to establish if there is sufficient number of companies interested in supplying the required works and goods covered by the project to ensure genuine competition. This is considered a moderate high in the implementation of the Project, which will have to be addressed by the PIU Support Consultant who, prior to issuing the tenders, will do appropriate market research and promotion of the Project and its tenders.

Project implementation arrangements:

The Company intends to use the current centralised PIU that is also managing all other IFI and donor-funded projects (EBRD, EIB and WB). The PIU has extensive experience in implementation of similar project and qualified staff. Moreover, the PIU will be supported by a PIU Support Consultant tasked to assist the PIU with the development of the Employer's Requirements/ Technical Specifications, procurement activities, contracts monitoring and administration , reporting on covenants and supervision of contracts financed under the Project.

Procurement arrangements:

The Project is classified as a public sector operation for procurement purposes. Goods, works and services (including consultancy services) financed from the Bank's loan, as described in the below Procurement Plan, will be procured using open tendering procedure in accordance with Section 3 of the PPR for the Public Sector and will use the Bank's Standard Tender Documents.

Currently the Project envisages that the Company will be responsible for procurement of there (3) supply and install tenders and the PIU Support consultancy services. All supply and install tenders will be procured through open multi stage tendering process based on EBRD Supply and Install form of contract. The PIU Support consultancy services will be tendered based on single state open method.

The current the procurement strategy is indicative. The PIU Support Consultant will be requested to assess the procurement strategy that is currently presented, and based on market research and identified associated procurement risks, either to confirm it or to propose a revised one. Any modification of the procurement strategy will be subject to the Bank's prior approval.

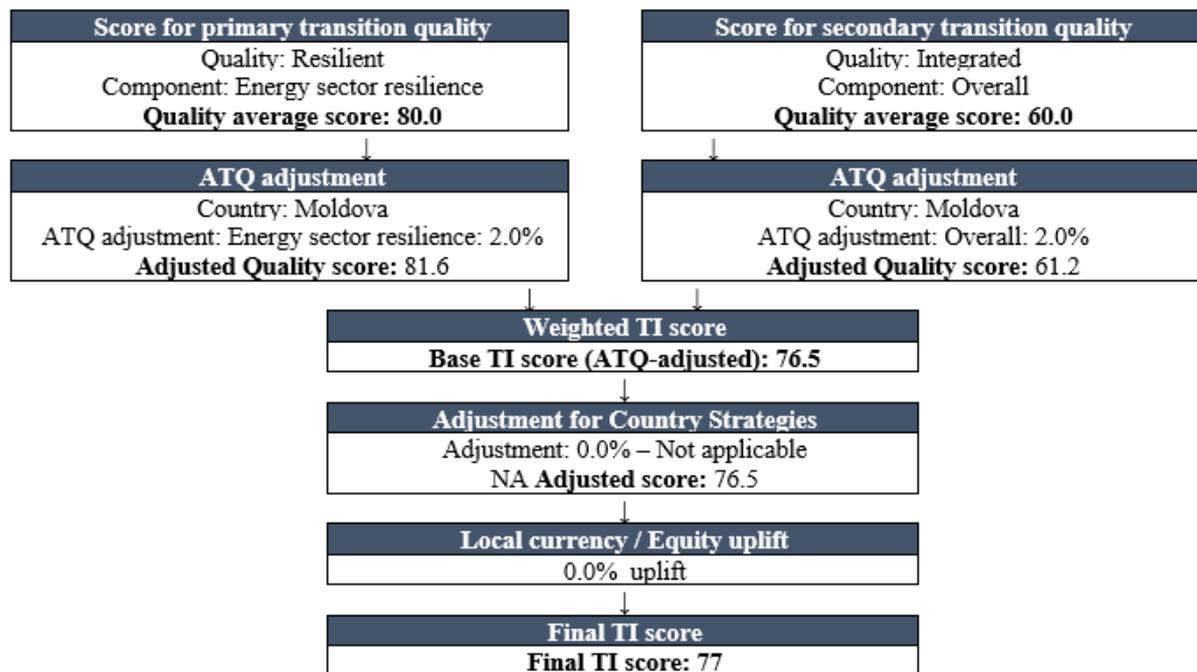
The revised procurement strategy may impact the number of tenders lots or the type of contract to be used. However at this moment in time we do not envisage any request for direct award of a contract.

All contracts will be subject to prior review by the Bank.

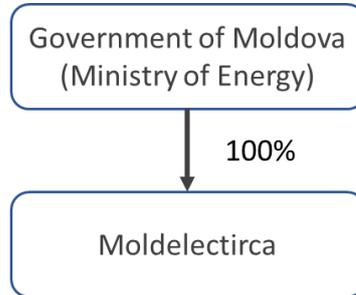
Additional information:

The Project will be co-financed with the EIB, with EBRD being the Lead Financial Institution. The Project Implementation Agreement will EIB is expected to be signed prior to commencement of procurement activities under the Project. [REDACTED].

ANNEX 3 - TRANSITION IMPACT SCORING CHART



ANNEX 4 – SHAREHOLDING STRUCTURE



ANNEX 5 – GREEN ASSESSMENT SUMMARY**Introduction**

The project has been assessed as ‘aligned’ for mitigation and adaptation. For mitigation, the project is on the ‘aligned’ list under “electricity transmission and distribution, including energy access, energy storage and demand-side management”. For adaptation, the risks of extreme heat events, wildfires and floods are mitigated, and the project does not undermine broader climate resilience. Physical climate risk is low (3) – due to the geographic diversification of sovereign assets. Climate transition risk score is 3 (sovereign), with no further assessment required.

Paris alignment assessment – direct finance***Alignment with the mitigation goals of Paris Agreement: general screening***

- The project/economic activity is **included** in the 'aligned list'.
- Regarding project/economic activity(ies), there are **no** activities included in the 'non-aligned list'.
- Applicable additional or specific conditions associated with the ‘aligned’ project/economic activity **have** been met.

Alignment with the adaptation goals of Paris Agreement

- Evaluation of the physical climate risk and vulnerability context: screening indicated potential risk of extreme heat events, wildfires and floods at the OHL route Moldova-Romania.
- Definition of climate resilience measures: In order to address the climate hazards flagged during the initial screening, the ESAP requires the development and implementation of an "Emergency Preparedness and Response Plan (EPRP). Amongst other items, this plan will include:
 - A vulnerability assessment of the financed pylons to relevant hazards such as flooding, wildfires, extreme winds
 - where relevant, the assessment of adaptation/resilience measures to designs and/or maintenance.
- Appraisal of broader climate resilience context: the project does not undermine climate resilience of the wider system and does not contravene relevant national legislation or action plans on adaptation.

GET attribution

100% of proceeds are GET eligible. Out of these, circa 49% will go for greenfield EU Taxonomy aligned investments – construction of the high-voltage electricity transmission line between the city of Balti on the Moldovan territory and the Romanian border, and construction of Balti 400kV substation. The rest will be used for brownfield rehabilitation of the existing domestic power transmission network of Moldova, resulting in transmission loss reduction and savings of circa 967 tonnes of CO₂/annum. [REDACTED]

PUBLIC

OFFICIAL USE

ANNEX 6 – POWER SECTOR ACTION PLAN

[REDACTED]

PUBLIC

OFFICIAL USE

ANNEX 7 – CORPORATE GOVERNANCE ACTION PLAN

[REDACTED]