His Excellency Stepan Kubiv  
First Vice Prime Minister –  
Minister of Economic Development and Trade  
Ministry of Economic Development and Trade  
12/2 M. Grushevs’kyi Street,  
Kyiv, 01008, Ukraine

Re: Ukraine: EC-WB Trust Fund II for Policy Advice to Ukrainian Gas Sector Reforms and Infrastructural Support to Modernization of the Gas Transportation System  
Grant No. TF0A4498: Support to Ukrtansgaz PIU

Excellency:

In response to the request for financial assistance made on behalf of Ukraine ("Recipient"), I am pleased to inform you that the International Bank for Reconstruction and Development ("World Bank"), acting as administrator of grant funds provided by the European Commission on behalf of the European Union ("EU") ("Donor" or 'EU") under the EC-WB Trust Fund II for Policy Advice towards the Implementation of Reforms in the Ukrainian Gas Sector and Infrastructural Support to Modernization of the Gas Transportation System (TF072721), proposes to extend to the Recipient a grant in an amount not to exceed one million forty seven thousand six hundred nineteen Euros (€1,047,619) ("Grant") on the terms and conditions set forth or referred to in this letter agreement ("Agreement"), which includes the attached Annex and Appendix, to assist in the financing of the project described in the Annex ("Project").

This Grant is funded out of the abovementioned trust fund for which the World Bank receives periodic contributions from the Donor. In accordance with Section 3.02 of the Standard Conditions (as defined in the Annex to this Agreement), the World Bank’s payment obligations in connection with this Agreement are limited to the amount of funds made available to it by the Donor under the abovementioned trust fund, and the Recipient’s right to withdraw the Grant proceeds is subject to the availability of such funds.

The Recipient represents, by confirming its agreement below, that it is authorized to enter into this Agreement and to carry out the Project in accordance with the terms and conditions set forth or referred to in this Agreement.
Please confirm the Recipient’s agreement to the foregoing by having an authorized official of the Recipient sign and date the enclosed copy of this Agreement, and returning it to the World Bank.

Very truly yours,

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

By

Satu Kähkönen
Country Director
Belarus, Moldova and Ukraine
Europe and Central Asia Region

AGREED:

UKRAINE

By

Authorized Representative

Name: H.E. Stepan Kubiv
Title: First Vice Prime Minister
          Minister of Economic Development and Trade of Ukraine
Date: May 4, 2017

cc: Mr. Myroslav Khymko, Acting President of PJSC Ukrtansgaz
    Mr. Frank Heemskerk, Executive Director, The World Bank

Enclosures:
(2) Disbursement Letter of the same date as this Agreement, together with World Bank “Disbursement Guidelines for Investment Project Financing”, dated February 2017
(3) “Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants”, dated October 15, 2006 and revised as of July 1, 2016
(4) “World Bank Procurement Regulations for Borrowers under Investment Project Financing” dated July 1, 2016
Article I
Standard Conditions; Definitions

1.01. **Standard Conditions.** The "Standard Conditions for Grants Made by the World Bank out of Various Funds" dated February 15, 2012 ("Standard Conditions"), with the modifications set forth in the Appendix to this Agreement, constitute an integral part of this Agreement.

1.02. **Definitions.** Unless the context requires otherwise, the capitalized terms used in this Agreement have the meanings ascribed to them in the Standard Conditions or in this Agreement.

   (a) "IFI" means the following international financial institutions: the European Bank for Reconstruction and Development (EBRD), European Investment Bank (EIB), and the World Bank, and any other international financial institution agreed between the Recipient, EBRD, EIB and World Bank.

   (b) "PIU" means the Project Implementation Unit established within UTG.

   (c) "Steering Committee" means the steering committee to be established, for strategic oversight of the Grant.

   (d) "Subsidiary Agreement" means the agreement between the Recipient, through Ministry of Economic Development and Trade, and UTG, referred to in Section 2.03(a) below, pursuant to which the proceeds of the Grant shall be made available to UTG.

   (e) "UTG" means Public Joint Stock Company (PJSC) UKRTRANSGAZ, the gas transmission operator in Ukraine, established and operating pursuant to the Establishing Documents.

Article II
Project Execution

2.01. **Project Objectives and Description.** The objectives of the Project is to strengthen the capacity of UTG's PIU. The Project consists of the following parts:

   **Part 1. Training and Capacity Building for UTG’s PIU**

   Provision of training to build the PIU's capacity to enable it to perform the following tasks for IFI-supported projects in accordance with applicable IFI policies, rules and procedures:

   (a) finalization of technical designs and technical project support;

   (b) procurement under the Project;

   (c) management and finalization of the required environmental and social impact assessment process, and assistance in the development and implementation of required environmental and social mitigation measures and instruments;

   (d) setting up a project accounting and financial management system;
(e) setting up a project quality control system;
(f) contract and claim management including final acceptance/testing; and
(g) compliance with IFI’s documentary requirements for project preparation and implementation issues, particularly in relation to the emergency project(s) to be funded jointly by the EBRD and the EIB.

Part 2. Project Audit and Operating Expenses

Financing of annual financial audits and the incremental operating expenses of the PIU.

2.02. **Project Execution Generally.** The Recipient declares its commitment to the objectives of the Project. To this end, the Recipient shall cause the Project to be carried out by UTG (“Project Implementing Entity”) in accordance with the provisions of: (i) Article II of the Standard Conditions; (ii) the “Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants”, dated October 15, 2006 and revised in January 2011 and as of July 1, 2016 (“Anti-Corruption Guidelines”); (iii) this Article II; and (iv) the agreement dated the same date as this Agreement between the World Bank and the Project Implementing Entity, as such agreement may be amended from time to time (“Project Agreement”).

2.03. **Institutional and Other Arrangements.**

(a) Subsidiary Agreement

(i) To facilitate the carrying out of the Project, the Recipient shall make the proceeds of the Grant available to the Project Implementing Entity under a subsidiary agreement (“Subsidiary Agreement”) between the Recipient and the Project Implementing Entity, under terms and conditions approved by the World Bank, which shall include that the Recipient shall cause UTG to: (A) perform in accordance with the provisions of the Subsidiary Agreement all of the obligations of UTG therein set forth; (B) carry out the Project with due diligence and efficiency and in conformity with appropriate administrative, economic, financial and environmental practices; (C) take all action, including the provision of funds, facilities, services and other resources, necessary or appropriate for the carrying out of the Project; (D) carry out the Project in accordance with the provisions of this Agreement and in accordance with the Anti-Corruption Guidelines; and (E) not take or permit to be taken any action which would prevent or interfere with the carrying out of the Project.

(ii) The Recipient shall exercise its rights under the Subsidiary Agreement in such manner as to protect the interests of the Recipient and the World Bank and to accomplish the purposes of the Grant. Except as the World Bank shall otherwise agree, the Recipient shall not assign, amend, abrogate or waive the Subsidiary Agreement or any of its provisions.

(b) Project Implementation Unit

The Recipient shall cause UTG to maintain the PIU, throughout the duration of the Project, in a form and with functions, staffing, resources, terms of reference and qualifications satisfactory to the World Bank.
2.04. **Donor Visibility and Visit.** (a) The Recipient shall take or cause to be taken all such measures as the World Bank shall reasonably request, on the basis of the visibility note made available by the World Bank to the Recipient, to identify publicly the Donor's support for the Project.

(b) For the purposes of Section 2.09 of the Standard Conditions, the Recipient shall, upon the World Bank's request, take all measures required on its part to enable the representatives of the Donors to visit any part of the Recipient's territory for purposes related to the Project.

2.05. **Documents; Records.**

In addition and without limitation to the obligations set forth in Section 2.05 of the Standard Conditions, the Recipient shall ensure that:

(a) all records evidencing expenditures under the Project are retained for seven years and six months after the Closing Date, such records to include: (i) this Agreement, all addenda thereof, and any amendments thereto; (ii) the Recipient’s financial and narrative progress reports submitted to the World Bank; (iii) the Recipient’s financial information related to the Grant, including audit reports, invoices and payroll records; (iv) the Recipient’s implementation documentation (including sub-agreements, procurement files, contracts, purchase orders); and (v) the corresponding supporting evidence referred to in Section 3.04 of the Standard Conditions; and

(i) the representatives of the World Bank are: (i) able to examine all records referred to above in paragraph (a); (ii) provided all such information concerning such records as they may from time to time reasonably request; and (iii) able to disclose such records and information to the Donor.

2.06. **Project Monitoring, Reporting and Evaluation.**

(a) The Recipient shall monitor and evaluate the progress of the Project and prepare Project Reports in accordance with the provisions of Section 2.06 of the Standard Conditions and on the basis of indicators agreed with the World Bank. Each Project Report shall cover the period of one calendar quarter, and shall be furnished to the World Bank not later than forty-five (45) days after the end of the period covered by such report.

(b) The Recipient shall cause UTG to share the Project Reports with the Steering Committee.

(ii) The Recipient shall prepare the Completion Report in accordance with the provisions of Section 2.06 of the Standard Conditions. The Completion Report shall be furnished to the World Bank not later than six (6) months after the Closing Date.

2.07. **Financial Management.** (a) The Recipient shall ensure that a financial management system is maintained in accordance with the provisions of Section 2.07 of the Standard Conditions.

(b) The Recipient shall ensure that interim unaudited financial reports for the Project are prepared and furnished to the World Bank not later than forty-five (45) days after the end of each calendar quarter, covering the quarter, in form and substance satisfactory to the World Bank.
(c) The Recipient shall have its Financial Statements audited in accordance with the provisions of Section 2.07 (b) of the Standard Conditions. Each such audit of the Financial Statements shall cover the period of one fiscal year of the Recipient. The audited Financial Statements for each such period shall be furnished to the World Bank not later than six (6) months after the end of such period.

2.08. **Procurement**

(a) All consultants’ services required for the Project and to be financed out of the proceeds of the Grant shall be procured in accordance with the requirements set forth or referred to in the “World Bank Procurement Regulations for Borrowers under Investment Project Financing” dated July 1, 2016 (“Procurement Regulations”), and the provisions of the Recipient’s procurement plan for the Project (“Procurement Plan”) dated November 18, 2016 provided for under Section IV of the Procurement Regulations, as the same may be updated from time to time in agreement with the World Bank.

(b) **Procurement Documents.** Procurement Documents shall require the Bidder, Proposer or Consultant) to provide the Recipient with digital copies of its Bid or Proposal (as the case may be, and as all such terms are defined in the Procurement Regulations).

(c) **Right to use Project outputs.** To the extent the Recipient has the intellectual property rights to Project outputs and subject to any third party proprietary or confidential obligation it may have, the Recipient shall grant the Donor the right to use such outputs for purposes limited to the development, implementation and monitoring of EU programs, including distribution to the public, translation, storage and archive.

**Article III**

**Withdrawal of Grant Proceeds**

3.01. **Eligible Expenditures.** The Recipient may withdraw the proceeds of the Grant in accordance with the provisions of: (i) Article III of the Standard Conditions; (ii) this Section; and (iii) such additional instructions as the World Bank may specify by notice to the Recipient (including the “World Bank Disbursement Guidelines for Projects” dated May 2006, as revised from time to time by the World Bank and as made applicable to this Agreement pursuant to such instructions), to finance eligible expenditures as set forth in the following table. The table specifies the categories of Eligible Expenditures that may be financed out of the proceeds of the Grant (“Category”), the allocations of the amounts of the Grant to each Category, and the percentage of expenditures to be financed for Eligible Expenditures in each Category:

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount of the Grant Allocated (expressed in EUR)</th>
<th>Percentage of Expenditures to be Financed (inclusive of Taxes)</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Consultants’ services, Training and Operating Costs for the Project</td>
<td>1,047,619</td>
<td>100%</td>
</tr>
<tr>
<td><strong>TOTAL AMOUNT</strong></td>
<td><strong>1,047,619</strong></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>
For the purposes of this section, the term:

(i) "Training" means the reasonable costs, as shall have been approved by the World Bank, for training and workshops conducted under the Project, including tuition, travel and subsistence costs for training and workshop participants, costs associated with securing the services of trainers and workshop speakers, rental of training and workshop facilities, preparation and reproduction of training and workshop materials, and other costs directly related to training course and workshop preparation and implementation (but excluding goods and consultants' services); and

(ii) "Operating Costs" means the reasonable costs, as shall have been approved by the World Bank, for the incremental expenses incurred on account of Project implementation consisting of: bank charges, communication and fuel costs, office rent, office supplies and equipment, office equipment maintenance, utilities, document duplication/printing, consumables, travel cost and per diem for Project staff for travel linked to the implementation of the Project, and other necessary expenses directly related to the grant implementation (but excluding consultants' services and salaries of officials of the Recipient's civil service).

3.02. Withdrawal Conditions. Notwithstanding the provisions of Section 3.01 of this Agreement, no withdrawal shall be made for payments made prior to the date of countersignature of this Agreement by the Recipient.

3.03. Withdrawal Period. The Closing Date ("Closing Date") referred to in Section 3.06 (c) of the Standard Conditions is July 31, 2018.

Article IV
Additional Remedies

4.01. Additional Events of Suspension. The Additional Events of Suspension referred to in Section 4.02 (k) of the Standard Conditions consist of the following:

(a) The Recipient has taken or permitted to be taken any action which would prevent or interfere with the performance by UTG of its obligations under the Project Agreement.

(b) UTG has failed to perform any obligation under the Project Agreement.

(c) IBRD has declared UTG ineligible to receive proceeds of any financing made by IBRD, or otherwise to participate in the preparation or implementation of any project financed in whole or in part by IBRD (including as administrator of funds provided by another financier), as a result of: (i) a determination by IBRD that UTG has engaged in fraudulent, corrupt, coercive or collusive practices in connection with the use of the proceeds of any financing made by IBRD; and/or (ii) a declaration by another financier that UTG is ineligible to receive proceeds of financings made by such financier or otherwise to participate in the preparation or implementation of any project financed in whole or in part by such financier as a result of a determination by such financier that UTG has engaged in fraudulent, corrupt, coercive or collusive practices in connection with the use of the proceeds of a financing made by such financier.
(d) As a result of events which have occurred after the date of this Agreement, an extraordinary situation has arisen which makes it improbable that UTG will be able to perform its obligations under the Project Agreement.

(e) The Establishing Documents pursuant to which UTG has been established and is operating have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of UTG to perform any of its obligations under the Project Agreement.

(f) The World Bank has determined after the Effective Date referred to in Section 5.03 of this Agreement that prior to such date but after the date of this Agreement, an event has occurred which would have entitled the World Bank to suspend the Recipient's right to make withdrawals from the Grant Account if this Agreement had been effective on the date such event occurred.

Article V
Effectiveness; Termination

5.01. This Agreement shall not become effective until evidence satisfactory to the World Bank has been furnished to the World Bank that the conditions specified below have been satisfied.

(a) The execution and delivery of this Agreement on behalf of the Recipient, and of the Project Agreement on behalf of UTG, have been duly authorized or ratified by all necessary governmental and corporate action.

(b) If World Bank so requests, the condition of UTG, as represented or warranted to the World Bank at the date of this Agreement, has undergone no material adverse change after such date.

(c) The Subsidiary Agreement referred to in Section 2.03(a) of this Annex has been executed on behalf of the Recipient and UTG.

5.02. Except as the Recipient and the World Bank shall otherwise agree, this Agreement shall enter into effect on the date upon which the World Bank dispatches to the Recipient notice of its acceptance of the evidence required pursuant to Section 5.01 ("Effective Date"). If, before the Effective Date, any event has occurred which would have entitled the World Bank to suspend the right of the Recipient to make withdrawals from the Grant Account if this Agreement had been effective, the World Bank may postpone the dispatch of the notice referred to in this Section until such event (or events) has (or have) ceased to exist.

5.03. Termination for Failure to Become Effective. This Agreement and all obligations of the parties under it shall terminate if it has not entered into effect by the date ninety (90) days after the date of this Agreement, unless the World Bank, after consideration of the reasons for the delay, establishes a later date for the purpose of this Section. The World Bank shall promptly notify the Recipient of such later date.
Article VI
Recipient's Representative; Addresses

6.01. **Recipient's Representative.** The Recipient's Representative referred to in Section 7.02 of the Standard Conditions is the Minister of Economic Development and Trade of Ukraine.

6.02. **Recipient's Address.** The Recipient's Address referred to in Section 7.01 of the Standard Conditions is:

   Ministry of Economic Development and Trade  
   12/2 M. Grushevs'kyi Street,  
   Kyiv, 01008, Ukraine

   Telephone: 38 (044) 253-9394  Facsimile: 38 (044) 226-3181

6.03. **World Bank's Address.** The World Bank's Address referred to in Section 7.01 of the Standard Conditions is:

   International Bank for Reconstruction and Development  
   1818 H Street, N.W. Washington, D.C. 20433  
   United States of America

   Telephone: 1 (202) 473-1000  Facsimile: 1 (202) 477-6391