

Environmental and Social Review Summary (ESRS)

Note that the Ukraine: Gas Supply Security Facility will rely on the ESRS prepared by IFC for Naftogaz, for the purpose of the US\$200 million IFC operation to support gas purchases from one European supplier.

ENVIRONMENTAL & SOCIAL REVIEW SUMMARY

This Environmental and Social Review Summary (ESRS) is prepared by IFC to disclose its findings and recommendations related to environmental and social considerations regarding potential investments. Its purpose is to enhance the transparency of IFC's activities. For any project documentation or data included or attached herein that has been prepared by the project sponsor, authorization has been given for public release by the project sponsor. IFC considers that this ESRS is of adequate quality for release to the public, but has not necessarily independently verified all of the project information therein. It is distributed in advance of IFC Board of Directors' consideration and may be periodically updated thereafter. Board dates are estimates only and this document should not be construed as presuming the outcome of the Board Directors' decision.

Project number	36113
Country	World Region
Region	WORLD
Sector	O-AK - Commercial Banking - Trade and Supply Chain
Department	Global Industry, Financial Markets
Company name	ENGIE SA
Environmental category	B
Date ESRS disclosed	November 19, 2015
Status	Pend FAP

Overview of IFC's scope of review

Incremental environmental and social (E&S) risk arising from the proposed project compared with the without-project case arises in UTG's gas storage and distribution infrastructure. IFC's scope of review therefore focused on these operations along with E&S management practices established by NAK. IFC also reviewed ENGIE's E&S management practices, but given that incremental risk is in Ukraine the remainder of this review summary will describe only the NAK and UTG operations.

IFC's appraisal of this project included meeting with NAK management in Kyiv and site visits in December 2014 to the UTG's Dashava gas storage facility in Lviv, and associated pipelines. IFC also reviewed NAK's and UTG's environmental and social policies, management systems and related procedures, including those related to Occupational Health and Safety (OHS).

Meetings were held with the NAK's Chief Executive Officer (CEO), Deputy Director of Labor Protection, Industrial Safety and Reliability of Gas and Oil Transportation, Chief Advisor to the Chairman of Board and the Deputy Head of Human Resources (HR) and Social Department.

Project description

The proposed project consists of a trade finance facility of up to US\$200 million (Facility), for up to one year to cover importation of natural gas to Ukraine during the 2015-2016 winter season. Gas will be purchased by the state-owned National Joint Stock Company Naftogaz of Ukraine (Naftogaz or NAK). Gas will be supplied by ENGIE (previously named Gaz de France (GDF) SUEZ) a major European supplier of natural gas, from existing gas distribution infrastructure in Germany and Austria through the Slovakian gas transmission company Eustream, under ENGIE's natural gas supply framework contract with Naftogaz.

Naftogaz (NAK), the recipient of the gas, is a state owned company founded in 1998 and is one of Ukraine's largest companies. It is a vertically integrated oil and gas company engaged in the full cycle of gas and oil field exploration and development, production and exploratory drilling, gas and oil product processing, transport and storage, and supply of natural gas and LPG to consumers, through its different enterprises.

Naftogaz's gas transmission subsidiary is Ukrtransgaz (UTG). UTG's main activities are: natural gas transmission via trunk gas pipelines; storage of natural gas in underground storage facilities; supplying natural gas to consumers; operation, reconstruction and servicing of gas mains and associated facilities; capital construction of gas pipelines and other facilities; production of compressed natural gas and filling vehicles with it at gas-filling compressor stations.

The proposed IFC project complements a \$300 million agreement signed in October 2015 between the European Bank for Reconstruction and Development (EBRD) and Naftogaz. For this proposed transaction IFC has aligned with the approach to environmental and social (E&S) management agreed between EBRD and Naftogaz even though the due dates of some actions extend beyond the maturity of the proposed IFC loan. IFC and Naftogaz have agreed interim measures towards delivery of the agreed E&S commitments and IFC will monitor Naftogaz's progress on these measures during the life of the proposed IFC loan.

Identified applicable performance standards

PS 1 – Assessment and Management of Environmental and Social Risks and Impacts
PS 2 - Labor and working conditions
PS 3 - Resource Efficiency and Pollution Prevention
PS 4 – Community Health, Safety and Security

Environmental and social categorization and rationale

The proposed investment classified as an E&S Category B project according to IFC's Policy on Environmental and Social Sustainability as the environmental and social impacts of the projects are limited, site-specific and can be avoided minimized, or mitigated by adhering to generally recognized performance standards, guidelines, or design criteria. Key environmental and social issues associated with this project include i) management of environmental, social, health and safety risks associated with UTG and how these are identified and assessed by Naftogaz, ii) managing Occupational Health and Safety (OHS) risks; iii) management of life and fire safety and emergency response; iv) energy efficiency and greenhouse gas emissions associated with gas distribution; v) human resources management and retrenchment plans.

Main Environmental & Social Risks-Impacts of the Project and Key Mitigation Measures

PS 1: Assessment and Management of Environmental and Social Risks and Impacts

Policy

The business practices of Naftogaz are designed to meet European environmental protection policies and basic safety standards in radiation and environmental protection. NAT code of conduct adopted in 2014 covers its principles of the environmental policy including responsibility and awareness, balance between economic, environmental and social interests, effective environmental management, and implementation of modern environmentally safe technologies, prevention measures, improving environmental education and culture, and open access to information and transparency of decisions.

In addition, regulations on occupational health are being developed by NAT and its subsidiaries. These will be based on Ukrainian standards, OHSAS 18001 Occupational Health and Safety Management Requirements, and international norms.

Environmental and Social Assessment and Management System

UTG has an environmental, health and safety system in place and is certified against ISO 9001, a quality management system; OHSAS 18001, an occupational health and safety management system; ISO 14001, an environmental management system, and ISO 15001, an energy management system. Naftogaz supervises the operations of UTG through periodical audits covering both safety and environment matters. Naftogaz has a safety management system and procedures in place, though it manages environmental, safety and social issues separately rather than in an integrated manner.

Thus, as set forth in the ESAP, Naftogaz will integrate its existing approach to safety and E&S into an integrated Environmental and Social Management System and enhance this as necessary such that it aligns with Performance Standard 1.

Identification of Risks and Impacts

UTG has a hazards identification and risk assessment system that was last updated in May 2014.

The system outlines the criteria to identify the risk and assessment procedures and illustrates the roles and responsibilities in identifying and managing these risks. Risks associated with UTG activities covering both pipelines and the storage facilities as identified in the UTG system include explosion, failure of the storage cavity, traffic accidents, falling from heights (in well and pits), electric hazards, noise, fire, handling and management of hazardous chemicals such as methanol, and gas leakages.

Preventive measures taken by UTG includes continuous training of workers on Occupational Health and Safety (OHS) and fire safety; ensuring that all workers are wear personal protective equipment; inspection, testing and repairing of equipment, conducting fire and emergency drills, having safety signs clearly placed at the sites; and adopting and being certified against internationally accepted management system requirements for OHS and environment.

Organizational Capacity and Competency

NAK has assigned a safety officer and UTG has in each facility three safety engineer, one ecology engineer and five geology engineers. The safety officer has to pass an exam every three years by the government. The safety officer as part of the requirements of the Government is required to take a re-certification test every three years.

The induction training of all workers include labor safety and fire safety. In addition, workers receive training related to OHS and emergency preparedness on annual basis. At the end of the training there is an exam and the trainees receive a certificate of completion.

Emergency Preparedness and Response

UTG has an emergency preparedness plan and procedures for each of its facilities and all employees are trained on responding in cases of emergency. The plan is approved by the local authorities and is reviewed and updated periodically. A firefighting system and plan is also in place. Firefighting drills are carried out on quarterly basis.

Monitoring and Review

UTG has monitoring plans and conducts continuous monitoring of soil, groundwater, ambient noise and air emission as well as workplace parameters at each of its facilities. The monitoring results are in compliance with national regulations and European commission standards.

Geotechnical investigations are conducted on annual basis by a specialized scientific research center. Soil and ground water analysis are carried out at the end of each season. UTG carries out visual inspection around the main pipelines every 10 days. All monitoring records are reported by UTG to NAK. In addition, ecological and safety inspections are carried out by the Ukrainian authorities.

External Communications and Grievance Mechanisms

UTG has an external communication mechanism which allows the external stakeholders to raise their concerns. UTG has a website where the public can place complaints and grievances. The complaints are delivered and handled directly by UTG president office and are processed and documented according to the nature of the complaint. UTG will clarify that its existing grievance mechanism can receive and facilitate resolution of concerns and grievances about UTG's environmental and social performance, in line with PS 1 requirements.

PS 2: Labor and Working Conditions

NAK Human Resources Policies and Procedures

Naftogaz has 721,000 employees, 47% of which are women. The minimum age of recruitment per Naftogaz policies is 18 years. Student internships are accepted at the age of 17.

Naftogaz has a code of ethics which covers equal opportunity policy, conflict of interest, labor and safety. Naftogaz has a grievance mechanism policy issued by an internal order by the CEO

As set forth in the ESAP, the company will update its HR policy to be aligned with PS2 requirements to cover non-discrimination and equal opportunity, grievance mechanism, employee performance, workers organization, OHS, and training and development.

Retrenchment

Naftogaz is currently in the process of downsizing the number of employees at the corporate level by 15%. As per the Ukrainian Labor law the employer is required to pay severance for a one-month period. Naftogaz pays an additional 1-3 months to the employees being downsized.

As set forth in the ESAP, NAK will develop and implement a retrenchment plan to reduce the

adverse impacts of retrenchment on workers.

Workers Organization

UTG has a collective bargaining agreement for 2013-2015. The collective bargaining agreement covered more than 23,100 workers and 9,900 UTG's non-working pensioners who were members of the Ukrainian trade union association as of January 2015.

Under the collective bargaining agreement UTG pays considerable attention to the social protection of pensioners who have served the company. Guarantees and compensation are stipulated in collective agreements and support for pensioners is reflected in social assistance and benefits.

UTG Occupational Health and Safety

UTG keeps records of incidents and accidents that occurs in each of its facilities. One fatality was been reported in the last three years but there were no other major accidents. The death was due to an explosion where a worker was attempting to repair a leak in a pipeline. Investigation and corrective measures were taken to prevent similar accidents from occurring. As part of their continuous training UTG has incorporated training programs to mitigate this type of accidents.

PS 3: Resource Efficiency and Pollution Prevention

Energy Efficiency and Greenhouse Gas Emissions Reduction Projects

UTG adopts international energy management standards as set by ISO 15001. Since 2005, UTG has adopted measures, which resulted in reduction of natural gas internal consumption and losses by 68% by 2011 compared to the level in 2005.

UTG has reduced gas losses procuring and applying high-quality sealant materials, implementing innovative pipeline and joint repair methods, using a technology that functions like a composite wrap, and by creating six ecological laboratories that are trained, equipped, and staffed to implement inspection and maintenance programs throughout UTG's system. UTG also replaced gas-turbine driven compressors by electric compressors.

Air Emissions and Ambient Air Quality

The main source of air emissions is through natural gas leaks as a result of normal operations and equipment venting. In order to prevent leakage UTG ensures that the pipelines meet international standards for structural integrity and operational performance. In addition, UTG has a program for periodic leak and corrosion detection. Moreover, through continuous monitoring of the amount of gas transmitted leakages in the system are being tracked.

Point source air emissions from fuel combustion in stand-by generators and turbines are also being monitored to ensure compliance with regulatory limits.

PS 4: Community Health, Safety and Security

Infrastructure and Equipment Design and Safety

The natural gas pipelines network was mostly (approximately 98% of the pipelines) constructed during the period from 1960 to 1980, where the land was state owned.

There is a right of way for the natural gas pipelines which ranges from 5 meter to 50 meter, based on the type of pipeline. There are restrictions on the use of heavy equipment in the area surrounding the pipelines. For pipelines passing in agricultural land, it is requested that heavy equipment such as tractors not be used. Inspection of the pipelines is carried out periodically to ensure that there are no leaks. Automatic monitoring devices are installed throughout the pipeline to monitor the pressure and gas flow and to detect, leaks and corrosion.

Protection of underground infrastructure from soil corrosion and other natural phenomena is performed by cathodic protection installations, drainage protection units and other protection units which maintain the system's reliability.

In order to rapidly identify and address gas transportation system operational issues, UTG conducts regular comprehensive surveys of all relevant equipment. Evaluation of all infrastructure is carried out using modern methods including magnetic particle inspection of intra-tube pistons. According to the results any operational issues are resolved without interrupting their work.

Emergency Preparedness and Response

The emergency response plan addresses civil protection from different types of emergencies as well as natural and manmade disasters such as terrorist attacks. The emergency response plans are discussed and communicated with the administrative authorities in each of the locations with UTG facilities are located.

Security Personnel

UTG sites protection is carried out as mandated by the Laws of Ukraine on Pipeline Transport, Oil and Gas, Security Activity, and Security Rules for Main Pipelines, approved by the Regulation of the Cabinet of Ministers of Ukraine number 1747 dated November 16, 2002.

The security structure and procedures of UTG is set out in coordination between UTG, NAT, and the Ministry of Energy and Coal Industry of Ukraine. These agencies foresee the programs and plans, such as financial, logistics, procurement of works and services, capital investment, maintenance, repairs, and anti-terrorism measures, etc.

Under these programs, the critical facilities are protected by the State Security Service of Ukraine units under the Ministry of Internal Affairs and by the specialized guard units of the Ministry of Energy and Coal Industry.

The non-critical facilities are guarded by private subcontracted security personnel. Contracted security also assist the state security forces in the protection of critical facilities. Security companies can be contracted by UTG only by means of open tender procedure, in accordance with the Law of Ukraine on Public Procurement. Terms of site protection, training, equipping and monitoring of contracted security companies are prescribed in the tender documents. The agreed terms are included in the contract. The government security personnel meet the regulatory requirements in terms of procedures and equipment they use in protection of critical facilities. Training requirement for contracted security personnel are stipulated by national regulations and includes the use of weapons, understanding the risks associated with the protected facilities, and protection of the facilities as well as civil protection.

In the event of emergencies and protection of critical facilities, UTG security personnel, local government and national government agencies prepare security management plans in conjunction.

Client's Stakeholder Engagement

Clients Community Engagement

UTG has identified their stakeholders including specialists of the gas transportation and energy industries, journalists, representatives of state authorities, representatives of regulatory bodies, representatives of international companies and organizations, and the public.

Within the scope of the ESIA carried out at project inception scoping and disclosure consultation meetings were held where representatives from the identified stakeholders were in attendance.

UTG has an access to information policy which is disclosed on the company's website. Daily data on underground gas storage levels is available as well as daily statistics on gas transit flows through Ukraine. In addition, disclosed information includes the environmental and social policy. Through the company's website, individuals can send requests for additional information and data.

Local access of project documentation

The ESRS and the ESAP will be translated into the Ukrainian language and made available at the company premises at the following address.

The documents will also be published on Naftogaz's website <http://www.naftogaz.com>

For more information, enquiries and comment please contact

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Environmental & Social Action Plan

Environmental & Social Action Plan -Appraisal	
Task Title & Description	Anticipated Completion Date
Develop an integrated Environmental, Occupational Health and Safety and Social Management System that will incorporate the existing procedures, and is consistent with the requirements of IFC Performance Standard	04/30/2018
Update existing human resource policy and procedures to align with the requirements of Performance Standard 2 including development and implementation of a retrenchment plan as applicable	04/30/2018

Client's Documentation

There are no attachments for this document