

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

Approved by the Board of Directors on 4 November 2020¹

UKRAINE

UKRPOSHTA LOGISTICS DEVELOPMENT

[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.

TABLE OF CONTENTS

Page

TABLE OF CONTENTS	2
ABBREVIATIONS / CURRENCY CONVERSIONS.....	3
PRESIDENT'S RECOMMENDATION.....	4
BOARD DECISION SHEET	5
ADDITIONAL SUMMARY TERMS FACTSHEET.....	6
1. STRATEGIC FIT AND KEY ISSUES.....	8
1.1 STRATEGIC CONTEXT	8
1.2 TRANSITION IMPACT	9
1.3 ADDITIONALITY	10
1.4 SOUND BANKING - KEY RISKS	11
2. MEASURING / MONITORING SUCCESS.....	12
3. KEY PARTIES	13
3.1 BORROWER / INVESTEE COMPANY	13
4. MARKET CONTEXT	14
5. FINANCIAL / ECONOMIC ANALYSIS	14
5.1 FINANCIAL HIGHLIGHTS	14
5.2 FINANCIAL PROJECTIONS	14
5.3 SENSITIVITY ANALYSIS	14
5.4 PROJECTED PROFITABILITY FOR THE BANK.....	15
6. OTHER KEY CONSIDERATIONS.....	15
6.1 ENVIRONMENT	15
6.2 INTEGRITY.....	15
ANNEXES TO OPERATION REPORT	17
ANNEX 1 - PROJECT DESCRIPTION	18
ANNEX 2 – UKRPOSHTA CORPORATE GOVERNANCE ACTION PLAN.	20
ANNEX 3 – HISTORIC FINANCIAL STATEMENTS	21
ANNEX 4 – PROJECT IMPLEMENTATION	22
ANNEX 5 – TRANSITION IMPACT SCORING CHART.....	23

ABBREVIATIONS / CURRENCY CONVERSIONS

CGAP	Corporate Governance Action Plan
ECEPP	EBRD Client E-Procurement Portal
EIA	Environmental Impact Assessment
EIB	European Investment Bank
EPG	Economics, Policy and Governance
EUR	Euro
ESAP	Environmental and Social Action Plan
ESDD	Environmental and Social Due Diligence
GDP	Gross Domestic Product
GET	Green Economy Transition
GHG	Greenhouse Gas
IFI	International Financial Institution
IFRS	International Financial Reporting Standards
IMF	International Monetary Fund
OCCO	Office of the Chief Compliance Officer
OHS	Occupational Health and Safety
PIU	Project Implementation Unit
TA/TC	Technical Assistance/Technical Cooperation
UAH	Ukrainian Hryvnia
UP	Joint Stock Company Ukrposhta

CURRENCY CONVERSION

(as of 30 September 2020)

EUR 1 = UAH 33.13

USD 1 = UAH 28.30

EUR 1 = USD 1.17

PRESIDENT'S RECOMMENDATION

This recommendation and the attached Report concerning an operation in favour of the Joint Stock Company "Ukrposhta" (the **"Company"**, or **"UP"**), the national postal service operator, wholly owned by the Ukrainian Government, are submitted for consideration by the Board of Directors.

The facility will consist of an up to EUR 63 million senior sovereign-guaranteed loan to the Company, split into three tranches: two committed tranches of EUR 23 million (**"Tranche 1"**) and of EUR 30 million (**"Tranche 2"**); and (iii) an uncommitted tranche of EUR 10 million (**"Tranche 3"**) (collectively the **"Project"**). The European Investment Bank (**"EIB"**) will co-finance Tranche 2 and procurement for Tranche 2 component will be under EIB's procurement rules.

The operation will support critical investments in logistics infrastructure and operating fleet by Ukrposhta. It will enable the transformation of the Company's service model in rural areas, putting it on a sustainable footing and providing access to modern delivery, retail and other services to Ukraine's rural population of ca. 15 million people. Furthermore, the Project will support an upgrade of the Company's logistics infrastructure facilitating future growth in its delivery business and improved quality of service including faster and more reliable deliveries.

The Project's expected transition impact is based on the following qualities: (i) *Integrated* improving the range and efficiency of the Company's delivery services with a specific focus on rural areas that are underserved by other market players, and (ii) *Well-Governed* supporting the implementation of the Company's Corporate Governance Action Plan and Anti-Corruption Programme.

TC support for this operation is expected to be provided by the EBRD Shareholder Special Fund (Environmental and Social Assessment, development of a Retrenchment Plan and Occupational Road Safety Management System), EU Neighbourhood Investment Facility (Energy Efficiency Improvements) and the EBRD Ukraine Stabilisation and Sustainable Growth Multi-Donor Account (Corporate Governance Action Plan and Anti-Corruption Programme).

I am satisfied that the operation is consistent with the Bank's Transport Sector Strategy 2019-2024, the Bank's Strategy for Ukraine, the Green Economy Transition Approach and with the Agreement Establishing the Bank.

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

Jürgen Rigterink
Acting President

BOARD DECISION SHEET

UKRAINE – UKRPOSHTA LOGISTICS DEVELOPMENT - DTM 51975	
Transaction / Board Decision	<p>Board approval² is sought for a senior sovereign-guaranteed loan of up to EUR 63 million in favour of JSC “Ukrposhta” (the “Company”, “Ukrposhta” or “UP”), a joint-stock company organised and existing under the laws of Ukraine.</p> <p>The loan will consist of three tranches, including two committed tranches of EUR 23 million (“Tranche 1”) and EUR 30 million (“Tranche 2”), and an uncommitted tranche of EUR 10 million (“Tranche 3”). It is proposed that the decision to commit Tranche 3 is delegated to Management. Tranche 2 will be procured under EIB procurement rules.</p>
Client	<p><u>Borrower</u>: Ukrposhta is the national postal operator of Ukraine with a network of 11,000 branches and 65,000 staff. It is a joint-stock company wholly-owned by the Government of Ukraine, represented by the Ministry of Infrastructure.</p> <p><u>Guarantor</u>: Ukraine is rated at “B” with Stable outlook by Fitch/S&P and at “B3” with Stable outlook by Moody’s.</p>
Main Elements of the Proposal	<p>The Project is a core part of Ukrposhta’s transformation strategy. The Mobile Post Offices component financed by Tranches 1 and 3 will support the reorganisation of the Company’s service model in rural areas through the acquisition of mobile postal vans providing access to modern delivery services to the country’s rural population of ca. 15 million people. The Logistic Network Transformation component financed by Tranche 2 and co-financed by a EUR 30 million loan from EIB will focus on the upgrade of the Company’s logistical infrastructure through investments in modern automated sorting hubs and an associated network of sorting depots.</p> <p><u>Transition impact</u></p> <ul style="list-style-type: none"> • The Project will support the transformation of Ukrposhta’s operating model to enable improvements in delivery services and sustainability of its service model in rural areas (Integrated). • The Project will build on the Bank’s ongoing work in supporting the corporate governance reform at Ukrposhta, through implementation of a Corporate Governance Action Plan and Anti-Corruption Programme (Well-Governed). <p><u>Additionality</u></p> <p>The Bank is uniquely positioned for policy dialogue with the Government on sector issues and has accumulated substantial experience with SOE transformation, corporate governance and anti-corruption reforms. Non-financial additionality also arises from the Bank’s support to Ukrposhta in managing anticipated workforce retrenchment in an inclusive and gender-sensitive manner.</p>
Key Risks	<p>Key risks include the Borrower’s financial risk (including uncertainty related to COVID-19 impact), changing market conditions and project implementation. These risks are mitigated by (i) sovereign guarantee structure of the loan (ii) UP’s solid position on the market and a clear transformation strategy emphasising business growth and operating efficiency; and (iii) Company’s experienced management team, enhanced corporate governance and successful results of the pilot Mobile Post Office project implemented by Ukrposhta in Chernihiv region in 2018-2020.</p>
Strategic Fit Summary	<p>The Project is consistent with the Bank’s Strategy for Ukraine, Transport Sector Strategy 2019-2024, the Green Economy Transition Approach and with the Agreement Establishing the Bank.</p>

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

ADDITIONAL SUMMARY TERMS FACTSHEET

EBRD Transaction	<p>A senior sovereign-guaranteed loan of up to EUR 63 million to JSC Ukrposhta, the national postal operator wholly owned by the Ukrainian Government, consisting of three tranches (the “Project”):</p> <ul style="list-style-type: none"> – EUR 23 million committed <i>Tranche 1</i> for the acquisition and equipping of ca. 1,300 postal vans to be deployed in rural areas across the country (“Mobile Post Offices”). – EUR 30 million committed <i>Tranche 2</i> for the development of modern automated sorting hubs in three regional centres and an associated network of regional sorting depots (“Logistic Network Transformation”) alongside a EUR 30 million sovereign-guaranteed loan from EIB. <p>EUR 10 million uncommitted <i>Tranche 3</i> for the acquisition and equipping of [ca. 600 additional postal vans to complete the Mobile Post Office deployment programme in rural areas across the country (“Mobile Post Offices 2”). [REDACTED] Please refer to Annex 1 for Project overview.</p>
Existing Exposure	<p>None</p> <p>Ukrainian sovereign exposure: EUR 1.7 billion (portfolio), with operating assets of EUR 0.7 billion as at 30 September 2020.</p>
Maturity / Exit / Repayment	<ul style="list-style-type: none"> • Tranche 1: 8 years tenor [REDACTED]; • Tranche 2: 12 years tenor [REDACTED]; • Tranche 3: 8 years tenor [REDACTED].
Potential AMI eligible financing	None.
Use of Proceeds	<p>The proceeds of the loan will be used as follows:</p> <ul style="list-style-type: none"> • Goods, works and services for the acquisition and equipping of postal vans (Tranches 1 and 3: Mobile Post Offices); • Goods, works and services for the development of modern automated sorting hubs and an associated network of regional sorting depots and associated supervision services (Tranche 2: Logistics Network Transformation); • payment of EBRD’s front-end fees from the loan funds. <p>[REDACTED]</p>
Investment Plan	[REDACTED]
Financing Plan	[REDACTED]
Key Parties Involved	<ul style="list-style-type: none"> • Ukrposhta as the Borrower • Ukraine, represented by the Ministry of Finance as the Guarantor • EIB as the parallel lender
Conditions to effectiveness	<ul style="list-style-type: none"> • Adoption of the Environmental and Social Action Plan by UP

	<ul style="list-style-type: none"> • Confirmation of approval of the Corporate Governance Action Plan by UP [REDACTED] • Establishment of a Project Implementation Unit (“PIU”) acceptable to the Bank [REDACTED]
Conditions to Tranche 1 disbursement	[REDACTED]
Conditions to Tranche 2 disbursement	Signing of an EIB Financing Agreement[REDACTED]Signing of the Project Implementation Agreement between the Bank and EIB [REDACTED]
Conditions to Tranche 3 disbursement	[REDACTED]
Key Covenants	<ul style="list-style-type: none"> • Continued implementation of the Corporate Governance Action Plan and Anti-Corruption Programme • Approval and implementation of key compliance policies in Ukrposhta [REDACTED] • Implementation of ESAP agreed with the Bank. [REDACTED]
Security / Guarantees	Sovereign guarantee
Other material agreements	<ul style="list-style-type: none"> • Financing agreement between UP and EIB • Sovereign guarantee between Ukraine and EIB • Project Implementation Agreement between EIB and the Bank
Associated Donor Funded TC and co-investment grants/concessional finance	<p>A. Technical Cooperation (TC)</p> <p><i>Post-signing:</i></p> <p>TC1: Energy efficiency improvements and assessment of possibilities for certification of sorting hubs in accordance with international sustainable certification scheme (BREEAM/LEED). [REDACTED]</p> <p>TC2: Environmental and Social Assessment for Tranche 2. [REDACTED]</p> <p>TC3: Retrenchment Plan Development and Implementation Support. [REDACTED]</p> <p>TC4: Road Safety Management to assist UP with developing and implementing a formal road safety management system within its operations. [REDACTED]</p> <p>TC5: Targeted Anti-Corruption Action Plan including an independent corruption risk assessment for UP and the development and implementation of a Targeted Corruption Risk Management Action Plan. [REDACTED]</p> <p>TC6: Corporate Governance Action Plan to assist UP with the establishment of risk management and compliance functions. [REDACTED]</p> <p><i>Cost sharing:</i> The Company will provide in-kind support in the form of office space, communication connections, etc [REDACTED].</p>

[REDACTED]

INVESTMENT PROPOSAL SUMMARY

1. STRATEGIC FIT AND KEY ISSUES

1.1 STRATEGIC CONTEXT

Postal services provide the means for communication and exchange through one of society's largest and oldest networks reaching even to the most remote areas where no organised retail, pharmacies or banks are present.

At the present time, the global postal industry is being disrupted by technological developments. On one hand, digital means of communication are replacing paper-based ones, decreasing the demand for letters. On the other, the possibility of shopping online and having goods delivered is increasing the demand for parcels and packets³. This is putting pressure on traditional postal operators which must transform themselves and adapt to the new environment in order to survive.

Ukraine is no exception to these trends. Over the last five to seven years, the country has seen one of the highest growth rates of e-commerce and parcel volumes in Europe. This growth has led to a rapid development of the local delivery industry resulting in the emergence of private operators [REDACTED]

The infrastructure upgrade programme is the cornerstone of Ukrposhta's transformation plan. It involves a complete overhaul of the Company's outdated logistics infrastructure including the introduction of modern automated sorting facilities, fleet upgrade and investments in IT to support the growth in volumes and meet customers' expectations on the speed and quality of delivery services. [REDACTED]

The Project will support the above strategic initiatives by (i) financing investments in modern automated sorting hubs and associated sorting depots; and (ii) supporting the reorganisation of the Company's service model in rural areas [REDACTED] through acquisition of mobile postal vans providing access to modern delivery services to the country's rural population of ca. 15 million people. This will have crisis response elements by supporting critical public investment in times of COVID-19 crisis and will strengthen the provision of essential services in rural areas, such as the delivery of medicines to villages with no pharmacy chains.

The Project will build upon and expand on the transition achievements of the Bank's ongoing cooperation in supporting corporate governance reform at Ukrposhta, including the development of a Corporate Governance Action Plan ("CGAP"). The Bank's continued policy dialogue with the Ukrainian authorities as part of the Project will be crucial for ensuring ongoing implementation of the CGAP while Project-related TCs will further support the strengthening of Ukrposhta's anti-corruption, compliance and risk management functions.

The Project is in line with the Bank's Country Strategy for Ukraine: supporting *"commercialisation and restructuring of public entities... [by] integrating policy*

³ Research for the European Parliament's Committee on Transport and Tourism "Postal services in the EU"

engagement and investment, promote commercialisation and restructuring of SOEs... including improvement of corporate governance”.

The operation is also in line with the Bank’s Transport Sector Strategy)), which states that the Bank will focus on “*restructuring of State-owned Enterprises*” by supporting “*the transformation of SOEs into commercially-oriented entities... improving governance, commercial-orientation, financial sustainability*”.

Finally, the Project is consistent with the Green Economy Transition approach by promoting enhanced innovation.

1.2 TRANSITION IMPACT

Primary Quality: Integrated

Obj. No.	Objective	Details
1.1	<i>The Project promotes significant expansion (i.e. min 30 %) of the current infrastructure services, between or within regions where such infrastructure service provision are of inadequate quality.</i>	The Project will support the transformation of Ukrposhta’s logistical model [REDACTED]. The development of modern automated sorting hubs and depots under the Logistics Network Transformation component will help provide better and more reliable delivery services to clients across the country [REDACTED].
1.2	<i>The Project introduces specific measures to improve or expand infrastructure services.</i>	The Mobile Post Offices component will support the transformation of Ukrposhta’s service model in rural areas putting it on a sustainable footing and ensuring continued coverage in small villages [REDACTED]. It will also significantly expand the range of services provided to rural population including e-commerce and medicines delivery in areas where no modern retail or pharmacy chains are present.
1.3	<i>The technology introduced to expand/improve infrastructure used as one of the first three cases in the country and is in line with international best available technology (BAT) standards.</i>	Automated sorting facilities and related IT solutions to be implemented under the Project will bring significant efficiency improvements, including faster delivery times, reduction in lost and damaged percentages, optimised routing and improved fleet utilisation.

Secondary Quality: Well-Governed

Obj. No.	Objective	Details
2.1	<i>The Company’s corporate governance will be improved through the implementation of a Corporate</i>	Since 2016, the Company and the Government of Ukraine have taken significant steps to improve UP’s corporate governance framework resulting in the development of a Corporate Governance Action Plan (“CGAP”) with the Bank’s assistance, and establishment of a supervisory board at UP with majority independent board members in 2018. To further support the CGAP implementation, a TC will be included as part of the Project to help

	<i>Governance Action Plan</i>	strengthen the Risk and Compliance functions in the Company [REDACTED].
2.2	<i>A comprehensive anticorruption programme will be implemented</i>	The Company has taken significant steps to improve its compliance framework and strengthen anti-corruption practices resulting in the adoption of an Anti-Corruption Programme (“ACP”) [REDACTED]. The Project will support ACP implementation through a targeted TC involving the performance of a pilot external corruption risk assessment, preparation of an action plan to address key risk areas identified and support with its implementation. [REDACTED]

Key delivery risks relate to (i) uncertainties about the duration and severity of the COVID-19 pandemic impact, (ii) the adequacy and efficiency of policy response measures that are being or will be implemented to mitigate the pandemic effects, and (iii) the level of the Company’s and the Government's commitment to the implementation of changes concerning corporate governance.

In line with the requirements of the Bank’s Green Economy Transition Approach, the Project will contribute to improvements in supply value chains by optimising fleet utilisation through cargo consolidation and better truck space use. This will reduce the number of trips and fuel required to move the same volume of goods generating fuel savings. The Project will also result in a reduction of energy needs and GHG emissions due to closure of inefficient branches and their substitution with mobile post offices.

1.3 ADDITIONALITY

Identified triggers	Description
<i>None</i>	<i>Not applicable</i>
Additionality sources	
Financing structure <ul style="list-style-type: none"> – Crisis response: EBRD financing effectively bridges a financing gap due to adverse market conditions. – EBRD offers a tenor, which is above the market average and is necessary to structure the project. – EBRD offers a large volume instrument that fills a market funding gap and is required to structure the project. 	The Bank’s investment is needed to close the funding gap. At the same time, EBRD does not crowd out other sources of funding from IFIs, government, commercial banks but rather complements them. The project is co-financed with EIB.
Standard-setting: helping projects and clients achieve higher standards <ul style="list-style-type: none"> – Client seeks/makes use of EBRD expertise on best international procurement standards. – Client seeks/makes use of EBRD expertise on higher inclusion and gender standards. 	

	<p>The Bank provides support to strengthen capacity of Ukrposhta with respect to procurement in accordance with the international standards</p> <p>The Bank also supports Ukrposhta in managing the adverse impacts of the anticipated workforce reductions in an inclusive and gender-sensitive manner. Retrenchment measures will be analysed with a specific focus on their impacts on vulnerable workers facing disproportionate barriers accessing the labour market [REDACTED] and selection mechanisms and criteria will be reviewed to avoid any potential bias [REDACTED].</p>
Policy, sector, Institutional or regulatory change <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 (e.g., an introduction of cost-reflective pricing of energy, water etc.). 	<p>The Bank is uniquely positioned for policy dialogue with the Government on sector issues and has substantial experience with SOE transformation, corporate governance and anti-corruption reforms.</p>
Knowledge, innovation and capacity building <ul style="list-style-type: none"> EBRD provides expertise, innovation, knowledge and/or capabilities that are material to the timely realisation of the project's objectives, including support to strengthen the capacity of the client. 	<p>The Bank through relevant TCs provides support to strengthen the client's capacity with respect to procurement and project implementation, environmental and social issues and applying smart infrastructure solutions.</p>

1.4 SOUND BANKING - KEY RISKS

Risks	Probability / Effect	Comments
Creditworthiness of the sovereign.	<i>Medium/High</i>	In June 2020, Moody's upgraded Ukraine's long-term foreign currency sovereign credit rating from 'Caa1' with positive outlook to 'B3' with stable outlook. In September 2020, Fitch affirmed the rating at 'B' and stable outlook, while S&P also confirmed the rating at 'B' with stable outlook in September 2020. [REDACTED]
Competition risk.	<i>Medium/High</i>	[REDACTED]
Financial risk.	<i>Medium /Medium</i>	[REDACTED] To mitigate this risk the loans are going to be structured under a sovereign guarantee. [REDACTED]
COVID-19 risk.	<i>Medium/High</i>	The impact of COVID-19 on Ukrposhta has been moderate so far and even resulted in increased demand for delivery services following the introduction of quarantine measures in Ukraine [REDACTED]
Implementation/ Procurement risk.	<i>Medium/High</i>	Ukrposhta has a professional management team in place with a track record of delivering complex projects. In 2019 UP successfully implemented a pilot project (Mobile postal offices) in the Chernihiv region. [REDACTED]

2. MEASURING / MONITORING SUCCESS

The overall objectives of the Project are as follows:

<i>Overall objectives of project</i>	<i>Monitoring benchmarks</i>	<i>Implementation timing</i>
- The project will expand access to infrastructure services across regions	Opening of three modern automated sorting hubs in regional centres	[REDACTED]
	Acquisition of new postal vans for Mobile Post Offices to upgrade the service model in rural areas across the country	- [REDACTED]
- Commercialisation and restructuring of public entities	Implementation of the CGAP and Anti-Corruption Programme milestones	- [REDACTED]

The transition impact benchmarks are provided in the table below:

Transition Impact Monitoring Indicators and Benchmarks						
Quality	Obj. No.	Monitoring Indicator	Details	Baseline	Target	Due date*
Primary Quality: Integrated						
Integrated	1.1	Operational restructuring completed	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
	1.2	New or updated technology introduced	- acquisition of ca. 1900 new postal vans for Mobile Post Offices [REDACTED] - opening of three modern automated sorting hubs in regional centres	[REDACTED]	[REDACTED]	[REDACTED]
	1.3	New or updated technology introduced	Introduction of best available technology in automated parcel sorting	[REDACTED]	[REDACTED]	[REDACTED]
Secondary Quality: Well-Governed						
Well-governed	2.1	Actions in Corporate Governance Plan Implemented	- Completion of an external corruption risk assessment and implementation of a Targeted Corruption Risk Management Action Plan	[REDACTED]	[REDACTED]	[REDACTED]
	2.2	Performance of action plan implemented by the client	- Continued implementation of agreed ESAP - Implementation of the Workforce Transformation and Retrenchment Plan	[REDACTED]	[REDACTED]	[REDACTED]

			- Implementation of a formal Road Safety Management System			
	2.3	Practices of the relevant stakeholder improved anti-corruption action plan)	Continued implementation of the Anti-Corruption Programme	[REDACTED]	[REDACTED]	[REDACTED]
	2.4	Actions in Corporate Governance Plan Implemented	<ul style="list-style-type: none"> - Continued implementation of the CGAP for the Company [REDACTED] - Approval and implementation of key compliance policies in Ukrposhta [REDACTED] - Development and adoption of Internal Governance Policy - Development and implementation of a system for management reporting - Establishment of the risk management and compliance functions in Ukrposhta 	[REDACTED]	[REDACTED]	[REDACTED]

3. KEY PARTIES

3.1 BORROWER / INVESTEE COMPANY

Ukrposhta is a joint-stock company wholly owned by the Government of Ukraine represented by the Ministry of Infrastructure. It operates a network of 11,000 branches and employs 65,000 staff. The Company's business is focused on three core segments: (i) *postal and delivery services* [REDACTED]; (ii) *financial services* including pension delivery and money transfers; and (iii) *retail* [REDACTED].

From 2016 to 2019 Ukrposhta delivered tangible results including (i) strong revenue growth [REDACTED] and improved profitability resulting from optimisation of business and product lines, new partnerships with e-commerce players, export promotion programme for Ukrainian SMEs (winner of the 2019 World Post & Parcel Award); (ii) optimised procurement and property management; and (iii) an extensive capex programme with investments in fleet renewal, branch network upgrade and IT. The Company demonstrated its resilience through an effective crisis response to the negative implications of COVID-19 [REDACTED]. The strategy for 2020-2025 envisages more investments in logistics infrastructure and IT (with Mobile Post Offices and Logistics Network Transformation being key projects), expansion of product offerings in key segments and improvement in the quality of services.

Another important element of Ukrposhta's transformation has been corporate governance reform. The Company was corporatised in March 2017 in record time [REDACTED] and the Bank engaged in active policy dialogue with the Ukrainian authorities to promote further reform steps

including the development of a Corporate Governance Action Plan (“CGAP”) for Ukrposhta that was supported through a Bank-funded TC in 2017-2019. The CGAP was prepared in 2018 and its implementation is currently in progress. Ukrposhta’s supervisory board was established in December 2018 with a majority of independent directors appointed following a competitive selection process [REDACTED]. The Project will further support the CGAP implementation through two Bank-funded TCs designed to help establish the Company’s risk and compliance functions and supporting the development and implementation of a Targeted Corruption Risk Management Action Plan.

4. MARKET CONTEXT

As the postal industry in Ukraine is experiencing ongoing structural change, the Company needs to adapt to the changing environment to secure the sustainability of its business model while improving the access, quality and reliability of its services.

Digital transformation is strongly affecting the postal market with different consequences seen in different segments. The spread of digital means of communication is resulting in reduced demand for conventional services (letters and periodicals). On the other hand, rapid development of e-commerce and increasing popularity of global online marketplaces is supporting the growth in domestic and international parcels. [REDACTED]

The Project will contribute to the growth of Ukrposhta’s business leveraging the Company’s existing strengths such as its vast retail network with full national coverage. It will also support the transformation of the Company’s service model in rural areas [REDACTED].

5. FINANCIAL / ECONOMIC ANALYSIS

5.1 FINANCIAL HIGHLIGHTS

[REDACTED]

5.2 FINANCIAL PROJECTIONS

[REDACTED]

5.3 SENSITIVITY ANALYSIS

[REDACTED]

5.4 PROJECTED PROFITABILITY FOR THE BANK

[REDACTED]

6. OTHER KEY CONSIDERATIONS

6.1 ENVIRONMENT

Categorised B (2019 ESP). The acquisition and equipping of postal vans and development of modern automated sorting hubs is not associated with significant environmental or social risks or impacts and can be readily mitigated. Environmental and social due diligence (“ESDD”) for Tranches 1, 2 and 3 has been undertaken by ESD specialists in line with the ESD COVID-19 response and included a review of an ESDD questionnaire and publicly available information.

The ESDD confirmed that the Company is operating in compliance with national law and relevant EBRD PRs. Ukrposhta’s institutional capacity for environmental & social risk management was found to be generally appropriate and processes to address OHS risks linked to the COVID response have been established.

The Company employs 65,000 staff and optimisation measures undertaken by the Company driven by technological processes and/or organisational restructuring have resulted in a reduction of staff numbers. [REDACTED] While the programme is in line with national labour laws, it will need to be aligned to EBRD PR 2 requirements and the Company, with support of external consultants under a Technical Cooperation project, will be required to develop and implement a Retrenchment Plan based on the principles of non-discrimination and consultation.

An Environmental and Social Action Plan (“ESAP”) has been developed and agreed with Ukrposhta to address the issues identified in the ESDD and associated with COVID-19. This includes development of response plans related to labour management and stakeholder engagement to address COVID-19 related impacts, development of a Retrenchment Plan and development of Occupational Road Safety Management system to improve their road safety performance. A national EIA will be also required for Tranche 2 once the project design is further developed, and this will be verified by additional external ESDD and also aligned with EIB’s approach to ensure that all environmental and social issues are addressed and will be subject to the to the Bank review and monitoring. The Company is required to ensure that the project complies with the PRs as well as submit an annual environmental and social report to the Bank.

6.2 INTEGRITY

In conjunction with OCCO, integrity due diligence was undertaken on the Company, its senior management and other relevant stakeholders.

[REDACTED] [T]he transaction does not pose an unacceptable reputational risk to the Bank.

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	Project Description
ANNEX 2	UP Corporate Governance Action Plan
ANNEX 3	Historic Financial Statements
ANNEX 4	Project Implementation
ANNEX 5	Transition Impact Scoring Chart

ANNEX 1 - PROJECT DESCRIPTION

1.1 - Mobile Post Offices

About a quarter of Ukrposhta's post office network is located in small villages and is loss making due to declining demographics and limited demand for all but essential services that are subject to regulated tariffs (letters, pension delivery and periodicals). [REDACTED]

One of the main criteria used by Ukrposhta for optimising its branch network is energy efficiency and facility management needs. [REDACTED] The Bank assisted the Company with the categorisation of buildings, performance of energy audits, energy and facility management trainings, and implementation of software for facility management through the involvement of energy auditors [REDACTED].

In 2018 the Company launched a pilot in Chernihiv region.

This pilot delivered successful results including: (i) wider service offerings and better coverage with ability to reach even remote locations that did not previously have a post office; (ii) enhanced compensation and motivation packages for staff; and (iii) strong economic results. [REDACTED]

The Company aims to expand this programme on the whole territory of Ukraine, which requires the acquisition and equipment of up to 1,900 additional postal vans and development of local points of presence in larger villages to complement them. [REDACTED]

Mobile Post Offices in action



Mobile Post Offices car fleet



1.2 - Logistics Network Transformation

[REDACTED] In 2018-2019, the Company completed a TC project “On modelling of logistic network for Ukrposhta” supported by EIB. As part of it, a new structure of the logistic network was developed by an independent consultancy for Ukrposhta. [REDACTED]

The Logistics Network Transformation component of the Project is going to finance [REDACTED] the construction of 3 sorting hubs [REDACTED] and 16 depots. The implementation of the Project will allow to increase efficiency of UP's logistics moving the sorting facilities outside of congested city centres and increasing fleet utilisation rates. This will result in a reduction of fuel consumption, GHG emissions and local air pollutants.

ANNEX 2 – UKRPOSHTA CORPORATE GOVERNANCE ACTION PLAN

Ukrposhta's Corporate Governance Action Plan (CGAP) is based on Ukrposhta's Target Corporate Governance Model (Target Model). The Target Model and CGAP were developed as part of a Bank-financed TC in 2017-2018.

The Target Model and CGAP cover the following areas:

Corporate Governance Architecture

- Roles of the State – defining roles of the State as the owner, policy maker and regulator, separation of ownership function from policy making and regulatory functions;
- Ownership Policy – referring to reasons for the State to own Ukrposhta, development and approval of ownership policy, separation of PSO costs and identification of financing sources;
- Level Playing Field – exploring whether the same set of rules, which is applicable to privately-owned companies, applies to Ukrposhta, deregulations of tariffs for universal postal services and periodicals, simplification of the procurement policy;
- Corporate Governance Structure – describing key elements of the corporate governance structure, establishing of three governance layers (ownership rights, supervisory board and CEO);
- Remuneration – focusing on rules for setting remuneration to the supervisory board and executive team, establishing of KPIs
- Disposal of property – examining rules and restrictions applicable to Ukrposhta in relation to disposal of its movable and immovable property.

Corporate Governance Internal Mechanisms

- Initial Risk Assessment [REDACTED]
- Internal Audit [REDACTED]
- Risk Management [REDACTED]
- Compliance [REDACTED]
- Methodology and Management Control [REDACTED]
- Disclosure and Transparency [REDACTED]

Key Stakeholders in the CGAP Execution:

- JSC “Ukrposhta” – target company
- Ministry of Infrastructure of Ukraine [REDACTED]
- Cabinet of Ministers of Ukraine [REDACTED],
- Parliament [REDACTED];
- Ministry of Economic Development and Trade [REDACTED] ;
- Ministry of Finance [REDACTED];
- Ministry of Justice [REDACTED];
- the National Agency for Prevention of Corruption [REDACTED];
- the National Commission for the State Regulation of Communications and Informatization [REDACTED] .

ANNEX 3 – HISTORIC FINANCIAL STATEMENTS

[REDACTED]

ANNEX 4 – PROJECT IMPLEMENTATION

Procurement classification – *Public* (sovereign)

[REDACTED] The use of the EBRD Client e-Procurement Platform (“**ECEPP**”) will ensure the compliance with the Bank’s PROCUREMENT Policies and Rules (“**PP&R**”)⁴ and other policies and contribute in minimising this risk. [REDACTED]

Project implementation arrangements

A dedicated PIU consisting of six employees is established by the Company to focus on Project implementation. The PIU will have an overall responsibility for the implementation of the Project, and it will have access to relevant in-house technical expertise, when necessary. For the implementation of the contract to be financed from Tranche 2 the PIU will be supported by an experienced Consultant that will assist the Company with procurement and implementation. The Consultant’s contract will be financed out of the EBRD and EIB loan proceeds.

Procurement arrangements

The Project is classified as public sector for procurement purposes. Goods contract (postal vans) to be financed from Tranches 1 and 3 of Bank’s loan will be procured through open tendering on ECEPP in accordance with Section III, Articles 1, 2, and 3 of the PP&R for public sector. An advance procurement procedure will be used. [REDACTED]

EIB will act as lead financier for procurement of the contracts to be jointly co-financed from the proceeds of EIB loan and Tranche 2 of the Bank’s loan. [REDACTED]

PROCUREMENT PLAN

[REDACTED]

⁴ Applicable to Tranches 1 and 3.

ANNEX 5 – TRANSITION IMPACT SCORING CHART

Transition impact scoring chart

Score for primary quality (TQ) Quality: Integrated Component: Overall Quality average score: 60	Score for secondary quality (TQ) Quality: Well-Governed Component: Corporate-level governance Quality average score: 66
ATQ adjustment for primary TQ Country: Ukraine ATQ adjustment - Overall : 2.6% Adjusted Quality score: 61.6	ATQ adjustment for secondary TQ Country: Ukraine ATQ adjustment - Corporate-level governance : 2% Adjusted Quality score: 67.3
Weighted TI score* Base TI score (ATQ adjusted): 63	
Adjustment for country strategies Adjustment: 2% - Strategic project alignment CS adjusted score: 64.3	
Final TI score FINAL TI score: 64	