

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

Approved by the Board of Directors on 18 October 2023¹

NORTH MACEDONIA

RAIL CORRIDOR VIII - PHASE 3

[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 a 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 a approval of the project.

TABLE OF CONTENTS

	Page
TABLE OF CONTENTS	2
ABBREVIATIONS / CURRENCY CONVERSIONS	3
PRESIDENT’S RECOMMENDATION	4
BOARD DECISION SHEET	6
ADDITIONAL SUMMARY TERMS FACTSHEET	7
1. STRATEGIC FIT AND KEY ISSUES	10
1.1 STRATEGIC CONTEXT.....	10
1.2 TRANSITION IMPACT	12
1.3 ADDITIONALITY	15
1.4 SOUND BANKING - KEY RISKS.....	16
2. MEASURING / MONITORING SUCCESS	17
3. KEY PARTIES	18
3.1 BORROWER	18
3.2 CONTRACTING ENTITIES.....	19
4. MARKET CONTEXT	20
5. FINANCIAL / ECONOMIC ANALYSIS	21
5.1 FINANCIAL/ECONOMIC PROJECTIONS.....	21
5.2 SENSITIVITY ANALYSIS.....	21
5.3 PROJECTED PROFITABILITY FOR THE BANK.....	21
6. OTHER KEY CONSIDERATIONS	21
6.1 ENVIRONMENT.....	21
6.2 INTEGRITY.....	23
ANNEXES TO OPERATION REPORT	24
ANNEX 1 - TRANSITION IMPACT SCORING CHART	25
ANNEX 2 – PROJECT DESCRIPTION	26
ANNEX 3 – SHAREHOLDING STRUCTURE	29
ANNEX 4 – NORTH MACEDONIA MACROECONOMIC UPDATE AND SOVEREIGN DEBT ASSESSMENT	30
ANNEX 5 – EBRD’S PROJECTS IN THE MACEDONIAN RAILWAY SECTOR 31	31
ANNEX 6 – PERI FINANCIALS	33
ANNEX 7 – GREEN ASSESSMENTS	35
ANNEX 8 – PROJECT IMPLEMENTATION	36
ANNEX 9 – ECONOMIC ASSESSMENT	38

ABBREVIATIONS / CURRENCY CONVERSIONS

CAPEX	Capital Expenditures
CFCD	Central Financing and Contracting Department
CP	Conditions Precedent
CPI	Consumer Price Index
DSCR	Debt Service Coverage Ratio
EBITDA	Earnings Before Interests Tax Depreciation and Amortisation
ECEPP	EBRD Client e-Procurement Portal
EIRR	Economic Internal Rate of Return
ESAP	Environmental and Social Action Plan
ESD	Environmental and Sustainability Department
ESDD	Environmental and Social Due Diligence
ESIA	Environmental and Social Impact Assessment
ETI	Expected Transition Impact
EU	European Union
EUR	Euro
FIDIC	International Federation of Consulting Engineers
GDP	Gross Domestic Product
GET	Green Economy Transition
GHG	Greenhouse Gas
IFI	International Finance Institution
IFRS	International Financial Reporting Standards
IPA II	Instrument for Pre-accession Assistance (II)
MKD	Macedonian Denar
MoEPP	Ministry of Environment and Physical Planning
MoF	Ministry of Finance
MoU	The Memorandum of Understanding
MoTC	Ministry of Transport and Communications
NDC	Nationally Determined Contributions
OCCO	Office of the Chief Compliance Officer
OCL	Overhead Contact Line
OGC	Office of the General Counsel
PERI	Public Enterprise for Railway Infrastructure
PEP	Politically Exposed Person
PIA	Project Implementation Adviser
PIU	Project Implementation Unit
PP&R	Procurement Policies & Rules
PPAD	Procurement Policy and Advisory Department
PSD	Project Summary Documents
RAROC	Risk-adjusted return on capital
RAP	Resettlement Action Plan
SEP	Stakeholder Engagement Plan
SOE	State-Owned Enterprise
SSF	Shareholder Special Fund
TA/TC	Technical Assistance/Technical Cooperation
TEN-T	Trans-European Transport Network
TI	Transition Impact
TIMS	Transition Impact Monitoring System
TOR	Terms of References
WBIF	Western Balkans Investment Framework

FX: 1 EUR = 61.54 MKD (18 September 2023)

PRESIDENT’S RECOMMENDATION

This recommendation and the attached Report concerning an operation in favour of the Republic of North Macedonia (“**North Macedonia**” or the “**Borrower**”) are submitted for consideration by the Board of Directors.

The facility will consist of a tranchéd sovereign loan in the amount of up to EUR 175 million, for the benefit of the Public Enterprise for Railway Infrastructure (“**PERI**” or “the **Company**”), the fully state-owned railway infrastructure asset management company in North Macedonia.

The operation will enable the construction of a railway section, approximately 23 km in length, between Kriva Palanka and the border with Bulgaria (the “**Project**” or “**Section 3**”). Section 3 is the last section of the eastern end of rail Corridor VIII in North Macedonia which is an indicative extension of Trans-European Transport Network (“**TEN-T**”) in the Western Balkans.

The proposed loan will finance separate works contracts and will be structured in two tranches: (i) the first tranche in the amount of up to EUR 74 million, to be committed at signing (“**Tranche 1**”), to finance the initial portion of the main construction contract; and (ii) the second tranche in the amount of EUR 101 million, to be committed at the Bank’s own discretion and subject to satisfactory implementation progress (“**Uncommitted Tranche 2**”). The Project is co-financed with a EUR 175 million loan to be provided by the European Investment Bank (“**EIB**”) and grants from the European Union through their Instrument for Pre-Accession Assistance (“**IPA II**”) in the amount of EUR 60.7 million and through the Western Balkans Investment Framework (“**WBIF**”) in the amount of EUR 134 million.

The Project has a significant strategic importance for North Macedonia, as it will establish the first connection of Macedonian rail transport with Bulgaria. Consequently, it will support the country's economic development and European integration and enhance its rail competitiveness by facilitating safe and reliable international transit movement of freight and passengers with neighbouring EU countries and Turkey.

The expected transition impact is derived from the *Inclusive* and *Green* qualities. The Project will promote the *Inclusive* transition quality by integrating universal access standards into the design of the current project, while strengthening Company’s policy to embed principles of universal access into future railway infrastructure investments. The Project will also promote the *Green* transition quality through the modal shift from road to rail resulting in a significant reduction of carbon emissions. The Project is 95% GET eligible and Gender Additional.

TC support for project preparation has been provided by the Central European Initiative (“**CEI**”). Additional post-signing TC support to the Company for capacity building for the implementation of universal and gender-responsive access standards is proposed to be financed by an international donor or EBRD Shareholder Special Fund (“**SSF**”).

I am satisfied that the operation is consistent with the Bank’s Strategy for North Macedonia, the Transport Sector Strategy, the Green Economy Transition (GET)

approach 2021-2025, EBRD's Strategy for the Promotion of Gender Equality (SPGE), Equality of Opportunity Strategy 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

NORTH MACEDONIA – RAIL CORRIDOR VIII, PHASE 3– DTM 53041	
Transaction / Board Decision	Board approval ² is sought for a sovereign loan of up to EUR 175 million in favour of the Republic of North Macedonia (“ North Macedonia ” or the “ Borrower ”), for the benefit of Public Enterprise for Railway Infrastructure (“ PERI ” or the “ Company ”), the state-owned railway infrastructure asset management company of North Macedonia. The operation will finance the construction of a single-track electrified railway line, approximately 23 km in length, between Kriva Palanka and the border with Bulgaria (the “ Project ” or “ Section 3 ”). Section 3 is the last section of the eastern end of rail Corridor VIII in North Macedonia which is an indicative extension of the TEN-T network in the Western Balkans. The Project is co-financed with a EUR 175 million loan provided by EIB along with EU grant funding through its national programme IPA II (EUR 60.7 million) and the WBIF (EUR 134 million). The proposed loan will finance separate works contracts and will be structured in two tranches: (i) the first tranche of up to EUR 74 million, will be committed at signing (“ Tranche 1 ”) and will finance the initial portion of the main construction contract and (ii) the second tranche with a total amount of EUR 101 million, will be committed at the Bank’s own discretion subject to satisfactory implementation progress (“ Uncommitted Tranche 2 ”). It is proposed that the commitment of Tranche 2 be delegated to Management.
Client	The Borrower is the Republic of North Macedonia, represented by the Ministry of Finance (“ MoF ”). As of 11 September 2023, the Bank’s total sovereign exposure was EUR 935 million (including operating assets of EUR 281 million). The Project Entity is PERI.
Main Elements of the Proposal	<p><u>Transition impact:</u> Primary Quality: The Project will promote the <i>Inclusive</i> transition quality by integrating universal access standards into the design of the current project, while strengthening PERI’s policy to embed principles of universal access into future railway infrastructure investments, ensuring accessibility for all passengers. Secondary quality: The Project will also support the <i>Green</i> transition quality by delivering a modal shift from road to rail which will result in a significant reduction in carbon emissions, estimated to be at 221,495 tCO₂/year.</p> <p><u>Additionality:</u> The Bank’s additionality is derived from (i) providing financing with a long tenor, not available in the market from commercial sources on reasonable terms and conditions, and from closing the funding gap; (ii) helping the Company to mitigate physical transition risk; (iii) supporting the Company on achieving higher Gender SMART standards (iv) providing expertise and knowledge that are material to the timely realisation of the project’s objectives.</p> <p><u>Sound banking:</u> The transaction is a sovereign loan.</p>
Key Risks	<p><u>Country and Repayment Risk:</u> North Macedonia’s rating (BB+/BB-) is underpinned by demonstrated resilience to external shock and maintained macroeconomic stability.</p> <p><u>Implementation Risk:</u> The EUR 560 million project is composed of three works contracts. The main civil works will be implemented by MoF’s Central Financing and Contracting Department (“CFCD”) while the remaining two contracts will be implemented by Project Entity. Project implementation risk will be mitigated by the (i) CFCD’s prior experience in implementing EU funded projects; (ii) PERI’s demonstrated recent positive signs in implementing Phase 1 and Phase 2 of the Rail Corridor VIII, which are currently under implementation; (iii) mobilisation of PIU consultancy support (funded by EU WBIF TCs) and construction supervisor (funded by EU WBIF TC and EIB loan) to assist CFCD and PERI. The Project’s procurement will be done in accordance with PRAG rules (with open eligibility) for the main works contract involving IPA II funds. For the other works contracts, procurement will follow the EIB’s Guide to Procurement.</p>
Strategic Fit Summary	The Project is in line with the Bank’s Strategy for North Macedonia, the Transport Sector Strategy, the Green Economy Transition (GET) approach 2021-2025, EBRD’s Strategy for the Promotion of Gender Equality (SPGE), Equality of Opportunity Strategy and with the Agreement Establishing the Bank.

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

ADDITIONAL SUMMARY TERMS FACTSHEET

EBRD Transaction	<p>A sovereign loan in the amount of up to EUR 175 million in favour of North Macedonia for the benefit of PERI.</p> <p>The proposed loan will finance separate works contracts and will be structured in two tranches: (i) the first tranche of up to EUR 74 million, will be committed at signing (“Tranche 1”) and will finance the first part of the main construction contract; and (ii) the second tranche with a total amount of EUR 101 million, will be committed at the Bank’s own discretion subject to satisfactory implementation progress (“Uncommitted Tranche 2”). It is proposed the commitment of Tranche 2 be delegated to Management.</p>
Existing Exposure	<p>Total outstanding sovereign exposure to North Macedonia: The Bank’s total sovereign exposure as of 11 September 2023 was EUR 935 million in portfolio and EUR 281 million in operating assets, including EUR 196.1 million portfolio and EUR 66.6 million of operating assets in the railway sector.</p> <p><i>Please refer to Annex 5 for an overview of TIMS ratings pertaining to projects within the railways sector</i></p>
Maturity / Exit / Repayment	<p>15 years tenor [REDACTED], for each tranche. [REDACTED]</p>
Potential AMI eligible financing	<p>n/a</p>
Use of Proceeds - Description	<p>[REDACTED]</p> <p>Project scope: The EBRD loan proceeds will be used for the construction, signalling and telecommunication of section 3 of rail infrastructure on the eastern end of the rail Corridor VIII: from Kriva Palanka to the Bulgarian border in total length of approximately 23 km; as well as the electrification works for the overall eastern rail line including the sections 1, 2 and 3. The Project will be divided into two parts:</p> <ul style="list-style-type: none"> • <i>Part 1 of the Project:</i> Construction of the railway infrastructure between Kriva Palanka and the border with Bulgaria (“Main Civil Works”), encompassing the initial 50% of the contractual scope; • <i>Part 2 of the Project:</i> <ul style="list-style-type: none"> ○ Part 2A: completion of the remaining 50% of the Main Civil Works contract; ○ Part 2B: Signalling and Telecommunications works specifically for Section 3; ○ Part 2C: Electrification works for the overall eastern rail line including the sections 1, 2 and 3. <p>Tranche 1 will co-finance Part 1 of the Project while Uncommitted Tranche 2 will co-finance Part 2 of the Project. <i>Please see Annex 2 for Project Description.</i></p> <p>The EBRD loan will finance three works contracts for the Project: (i) Main Civil Works, (ii) signalling and telecommunications, and (iii) electrification works.</p> <p>The Main Civil Works contract, co-financed with IPA II grant funds, will be procured in accordance with the EU’s Practical Guide for Procurement (“PRAG”) rules with open eligibility. MoF’s CFCD will be the contracting entity for this contract. The remaining two works contracts will be co-financed by EIB (as the Lead Financier) and EU WBIF. The Procurement of these contracts will be undertaken in accordance with EIB’s Guide to</p>

	Procurement under the existing Mutual Reliance Agreement. The contracting entity for both contracts will be PERI. A procurement capacity assessment was conducted for both PERI and CFCD (as per Annex 8) and found to be satisfactory considering the procurement of dedicated PIU consultants and supervision engineers.
Investment Plan	[REDACTED]
Financing Plan	[REDACTED]
Key Parties Involved	<ul style="list-style-type: none"> • Government of North Macedonia represented by MoF as the Borrower; • PERI as Project Entity and Beneficiary; • PERI and CFCD as Contracting Authorities; • EIB, and EU WBIF and IPA II National instrument as co-financiers of the Project;
Conditions to subscription / disbursement	[REDACTED]
Key Covenants	[REDACTED]
Security / Guarantees	Sovereign Loan
Other material agreements	<ul style="list-style-type: none"> • Project Agreement between the Bank and the Project Entity; • Project Implementation Agreement between the Bank and EIB; • EIB Loan Agreement between the Borrower and EIB; • EU WBIF Investment Grant Agreement between the EIB and the Borrower; • Bilateral Agreement between the Borrower and EU under IPA II.
Associated Donor Funded TC and Blended Concessional Finance	<p>A. Technical Cooperation (TC)</p> <p><u>Pre signing:</u></p> <p>TC 1: <u>Environmental and Social Support and Gender Due Diligence</u> for additional studies during the preparation of the Environmental and Social Impact Assessment, support to the Project Entity during the disclosure period as well as gender due diligence. This TC, which cost EUR 74,825, was financed by the CEI. <i>Completed</i></p> <p>TC2: <u>RAP Implementation Support</u>: Support to the Project Entity to implement the RAP prior to engagement and mobilisation of the implementation support consultant [REDACTED]. The cost is up to EUR 70,000, financed by the CEI.</p> <p><u>Post signing:</u></p> <p>TC3: <u>Integrating Universal Access Standards into Railway Infrastructure Design</u></p> <p>1. Support the Project Entity to: (i) strengthen the Company’s policy for integrating universal access standards into future railway infrastructure investments through the establishment of the Working Group and issuance of an administrative note on best practice, and through capacity building to implement such administrative note; (ii) support the Working Group to oversee the integration of universal access standards into the design of the two stations in the Project.</p> <p>Funding source: EBRD SSF or an international donor. [REDACTED].</p> <p><u>Reimbursement and Cost Sharing:</u></p> <p>The above TC assignment is a non-reimbursable transactional TC required to structure the Project and achieve the Project objectives. The</p>

	<p>Borrower/Company will be responsible for paying any VAT and other indirect taxes that are applied to the post-signing TC assignments as a parallel contribution to the Project (VAT is levied at 18% in North Macedonia).</p> <p>B. Co-investment grants / Concessional Finance (Non-TC)</p> <p>Co-investment grant:</p> <ol style="list-style-type: none"> 1. Type of concessional finance: Capex grant 2. Objective: co-finance Project capex programme 3. Funding source: WBIF (EIB-led) 4. Amount: EUR 134 million. <i>Confirmed</i> <p>Co-investment grant:</p> <ol style="list-style-type: none"> 1. Type of concessional finance: Capex grant 2. Objective: co-finance Project capex programme 3. Funding source: National IPA II 4. Amount: EUR 60.7 million. <i>Confirmed</i>
--	--

[REDACTED]

INVESTMENT PROPOSAL SUMMARY

1. STRATEGIC FIT AND KEY ISSUES

1.1 STRATEGIC CONTEXT

Corridor VIII is an essential component of the South-East axle, one of the five new TEN-T axes. The Macedonian railway line along Corridor VIII spans 315 km in length (part of the 1,500 km-long Corridor VIII), with approximately 50 percent of it already constructed. Currently, there are missing connections at both the western and eastern ends, which means that North Macedonia lacks railway links with neighbouring Albania and Bulgaria (its most important export destination). Direct railway traffic between Bulgaria and North Macedonia operates only indirectly via Nis (Serbia), resulting in increased distance (around 150 km), costs, and travel time (due to two border crossings instead of one). This poses a significant obstacle to international trade and renders rail transport largely uncompetitive compared to road transport. Consequently, the majority of freight and passenger traffic crossing the border relies on road transportation.

Recognizing the challenges, the Government of North Macedonia has prioritized the completion of Corridor VIII's construction in its National Transport Strategy (2018-2030). Specifically, the rail link toward Bulgaria at the eastern end is considered a top priority due to its earlier commencement and more advanced stage of related construction works. The Project has also been identified as one of only four flagship investments connecting the East to the West in the EU Economic and Investment Plan for the Western Balkans.

The eastern end of Corridor VIII, the rail link with Bulgaria (Kumanovo – Bulgarian Border), spans a total of 89 km. This link includes two other single-track sections, apart from the Project section. The first two sections, financed by the Bank, are as follows:

- **Section 1:** Kumanovo – Beljakovce (30.8 km) – funded by EBRD (Op ID 42921). The original rehabilitation/construction works faced delays between 2013 and 2020, leading to their re-tendering. The works contract was signed with the Austrian contractor Strabag in July 2022, and the works are currently ongoing with a planned completion by the end of 2025.
- **Section 2:** Beljakovce – Kriva Palanka (33.9 km) – funded by EBRD (Op ID 44175). The project implementation also experienced delays, but the works were re-tendered in 2020 and awarded to Turkish contractor Gulermak in July 2022. The works are currently ongoing with a planned completion by the end of 2025.

With Sections 1 and 2, the railway corridor will only be operating (but not initially electrified) from Skopje to Kriva Palanka, generating therefore benefits limited to the small domestic traffic. However, the full benefits, particularly those associated with international freight and passenger traffic, can only be realized once the missing Section 3 is constructed and put into operation. Additionally, the Project scope includes electrification for Sections 1 and 2.

By financing the construction of the remaining Section 3, the Project aims to achieve the following:

- Establish the first rail connection between North Macedonia and the Bulgaria and expand the connectivity with EU core TEN-T network, contributing to better regional connectivity and integration;
- Facilitate international/transit movement of goods and people, particularly with EU neighbouring countries (shortening the railway link between North Macedonia and the Black Sea by approximately 200 km, providing strategic connectivity to the ports of Varna and Burgas) and Turkey (shortening the railway link between North Macedonia and Istanbul by approximately 150 km);
- Shift traffic from road to rail transport by enhancing the competitiveness of the rail sector (freight transport estimated to reach 1.2 million tons by 2046), which would result in lower air pollution and greenhouse gas emissions (estimated to be around 221,495 tCO₂/year) and thus reducing the overall negative impact of transport on environment;
- Improve traffic safety and reliability for both passengers and freight, create business development opportunities near the railway line and stations, and enhance environmental conditions in the covered settlements and regions.

During the first two sections, the Bank's focus on transition impact centred on implementing well-governed and competitive measures, including: (i) preparation of a best practice PSO for the passenger services; (ii) creation of a dedicated Rail Safety Directorate; (iii) execution of Cross Border Agreements with Serbia and Kosovo; (iv) enhancement of revenue measures for the PERI through leasing the excess capacity of optic network to the private operators, revising to the methodology track access charging rates and improving in Network Statements (v) introduction of ISO 9001 and ISO 14001 certificates and improvements in procurement procedures. The Government of North Macedonia and PERI have made substantial progress towards achieving the transition impact objectives under these two phases.

The Project will now build upon the Bank's support agenda in the Macedonian rail sector with a strong focus now on Inclusion to address the identified gaps on access to infrastructure in the country.

Although Universal Access standards have been incorporated into the legal and regulatory framework of North Macedonia, the country has a mixed record in implementing these standards in infrastructure goods and services, including the railway sector. In 2022, a report by the Transport Community highlighted that public transport is not accessible for persons with reduced mobility, new trains do not comply with accessibility standards, and transport companies are unfamiliar with their obligations under the United Nations Convention on the Rights of Persons with Disabilities (“**UNCRPD**”). The Social Forum, which serves as a platform for dialogue between key transport stakeholders of the EU and the Western Balkans Regional Partners, concluded that further efforts are required to improve passengers' rights in the Western Balkans' rail sector, making it more accessible for everyone in terms of entering and exiting stations and trains, purchasing tickets, availability of waiting areas, and provision of assistance.

It is estimated by the Institute of Public Health of North Macedonia that 10% of the population has a disability. The country also has an aging population, with older

workers (50-64) comprising 23.6% of the working age population (according to the International Labour Organization (“ILO”).

The Project will strengthen universal access standards in the railway sector with the aim to increase utilisation of people with disabilities and restricted mobility, women who are at risk of violence and harassment, parents with children, and senior citizens. This will respond to North Macedonia’s National Transport Strategy (2018-2030) which recognises the need to align rail infrastructure with EU technical specifications for interoperability (“TSI”) relating to accessibility for persons with disabilities and reduced mobility.

The Project aims to promote inclusive design and delivery of passenger rail services through various pathways, as described in the Transition Impact Section.

Considering the above, the Project is consistent with the following strategies:

- The Bank's Country Strategy for the Republic of North Macedonia as it supports *"improved quality and connectivity of key transport [...] infrastructure"* by financing *"completion of the core transport networks under the TEN-T"*.
- The Transport Sector Strategy which acknowledges that *"...railway plays a central role to create a multimodal, environmentally friendly, efficient and safe transport system"*. As part of its Operational Approach, as it is stated in the Strategy, *"The Bank will continue to engage in the rail sector, working across both the public and private sectors, financing infrastructure rehabilitation, upgrade or new construction, rolling stock renewal... Through its investments, the Bank will support the ongoing reforms in the region"*.
- The EBRD's Equality of Opportunity Strategy 2021-2025, by integrating universal access standards into railway infrastructure design; and the EBRD's Strategy for the Promotion of Gender Equality (SPGE) by integrating gender-responsive access standards into the project design.
- The Green Economy Transition ("GET") approach, which acknowledges the potential for incremental activity in the rail sector to support the transition to low carbon economies.

1.2 TRANSITION IMPACT

The tables below set out the TI Objectives and details of the Project. *See Annex 1 on TI Impact Scoring Chart.*

Primary Quality: Inclusive

Obj. No.	Objective	Details
1.1	<i>ACCESSIBILITY: The Project unlocks services through inclusive design and delivery, promoting more equal economic participation with demonstrably moderate</i>	The Company aims to increase rail passenger usage by requiring universal access standards, in alignment with EU standards, to be built into the tender documents for design and construction of the two stations under this project. This will overcome barriers to access for people with disabilities, women, parents with children, and senior citizens (e.g. through ramps, step-free access, well-designed lighting for increased security). The

	<i>need and robust effectiveness</i>	contractor will implement these requirements drawing on recommendations provided by the Company.
1.2	<i>ACCESSIBILITY: The Project delivers inclusive business policies, practices or standards at the client level with verifiable commitment within 4 distinct behavioural change areas</i>	<p>The Project will support the Company at the policy level to integrate universal access standards, in alignment with EU standards, into current and future rail infrastructure investments and service delivery. With TC support, the Company will establish a Working Group to oversee this integration, and will issue an administrative note on best practice. The TC will also provide capacity building to the Working Group to on-train to relevant stakeholders in the Company in delivery of the administrative note. These actions will raise standards of accessibility for people with disabilities on public transport that are currently weak in North Macedonia. A report by the Transport Community in 2022 found that public transport on roads is largely off-limits or very difficult to use for people with disabilities as a result of lack of accessibility features, such as unsuitable bus stops. At present, none of the stations in North Macedonia are accessible – universal design standards are not routinely applied, which reduces if not prevents altogether passengers’ accessibility.</p> <p>These actions respond to the aims of the National Transport Strategy to improve accessibility and safety on public transport, and the recognised need to align the transport sector with EU passenger rights legislation which requires passengers with reduced mobility to enjoy similar access to other passengers.</p> <p>In order to further embed universal access standards into the two stations under the project, the Company will implement the following three additional actions, which will be overseen by the Working Group with support from the TC.</p> <ul style="list-style-type: none"> (i) The design and implementation of a communication campaign to inform the public of the Project’s accessibility features. This campaign will aim to reverse current public opinion about the country’s lack of accessible goods and services. (ii) Provision of information materials at the two stations that is accessible to all passengers, including people with disabilities, in accordance with EU Standards. For example: large directional signs accompanied by pictograms; clear and unambiguous text and symbols (taking into consideration colour and size specifications) providing information; audible announcements or a staffed information service, and location of the information to be placed in line with EU accessibility standards. (iii) The design of a capacity building programme for PERI station staff to be implemented first at the two stations in responding to passengers with special needs. For example, responding to special requests

		from passengers with special needs for directions, help with luggage, assistance in embarking and disembarking the train, or responding to passengers reporting incidents of violence, harassment or bullying
--	--	---

Secondary Quality: Green

Obj. No.	Objective	Details
2.1	<i>The percentage of EBRD use of proceeds that supports a green economy transition and therefore qualifies as GET finance is 15% or higher.</i>	<p>The Project offers significant benefits by rerouting railway freight transport that currently takes a longer route via Serbia/Nis. This rerouting would cut 100 km and eliminate a border crossing. Additionally, a considerable amount of freight currently transported by roads would be shifted to rail, reducing the number of trucks on the road by approximately 35,000 per year by 2046.</p> <p>The Project will deliver a modal shift from road to rail, leading to a substantial decrease in carbon emissions. It is estimated that the project would result in a reduction of approximately 221,495 tons of scope 3 CO2 emissions per year. The Project is attributed as 95% GET. The environmental benefits of the entire Rail Corridor VIII eastern segment will be fully realized with the implementation of the third section, which is being financed through this project.</p> <p>Overall, the Project offers significant advantages by shortening the freight transport route, reducing truck traffic, and promoting a shift from road to rail, resulting in substantial environmental benefits, particularly in terms of carbon emissions reduction.</p>

Delivery risks: The risks associated with both Inclusive and Green qualities are mainly related to: (a) PERI's and CFCD's capacity to implement the Project in accordance with the requirements set by the Bank; (b) the commitment of the contractor and PERI to implement the agreed inclusive measures in the Project. These risks are mitigated by: (i) CFCD prior experience in successfully implementing EU/EBRD/EIB funded projects (e.g., Rail Corridor X), and PERI's demonstrated recent positive signs in implementing Phase 1 and Phase 2 of the Corridor VIII, which are currently under implementation; (ii) deployment of comprehensive TC support during the implementation phase; (iii) inclusive measures being already included in the tender dossier; (iv) EBRD mobilised TC to support PERI on the implementation of the inclusive measures complemented by the introduction of relevant undertakings under the financing agreements; and (v) the Project's high visibility and strategic importance to the country.

1.3 ADDITIONALITY

Identified triggers	Description
A subsequent / consecutive transaction (issuance) with the same client/group.	The Project is a follow-up on EBRD financing of two first sections of the eastern end of Rail Corridor VIII. The completion of the third section is crucial for the success of the Bank's previous involvement in Rail Corridor VIII. This Project demonstrates the Bank's commitment to assisting the Government of North Macedonia in enhancing regional connectivity, promoting green infrastructure, and fostering economic and inclusive development by expanding the TEN-T railway networks
Additionality sources	Evidence of additionality sources
<p>Financing Structure EBRD offers financing that is not available in the market from commercial sources on reasonable terms and conditions, e.g. a longer grace period than the market average, restricted foreign currency financing etc. Such financing is necessary to structure the project.</p> <p>EBRD offers a tenor, which is above the market average and is necessary to structure the project.</p>	<p>Provision of missing long-term financing in the country to match the life of infrastructure asset of a Project.</p> <p>Proposed 15-year tenor [REDACTED] and loan size of EUR 175 million cannot be obtained from local commercial banks due to the nature of this investment which is sizable and require longer term financing from IFIs coupled with sizable investment grant.</p>
<p>Risk Mitigation</p> <p>EBRD helps the client to mitigate physical transition risks and take climate action, such as to identify and manage physical climate risks and build resilience to them.</p>	<p>The Bank's involvement has helped and will continue help mitigate and manage environmental and social risks through due diligence, support to the implementation of RAP throughout the disclosure period and adherence to the ESAP covenants.</p>
<p>Standard-setting: helping projects and clients achieve higher standards</p> <p>Gender SMART: Client seeks/makes use of EBRD expertise for the adoption of gender standards and/or equal opportunities action plans (e.g. improving women's access to safe transport and/or women-led businesses participation in the client supply chain).</p>	<p>The Project will respond to the security needs of female passengers by integrating gender-responsive access standards into the design of the two stations, that are based on the results of the gender assessment being carried out as part of due diligence.</p>
<p>Knowledge, innovation and capacity building</p> <p>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>	<p>The EBRD provides expertise and knowledge gained from the financing and implementation of the section 1 and 2 of the rail Corridor VIII.</p>

1.4 SOUND BANKING - KEY RISKS

Risks	Probability / Effect	Comments
Country, Macroeconomic and Repayment Risk	Medium/High	North Macedonia is rated at BB+ (Stable) by Fitch, revised from Negative in April 2023 in light of the country's demonstrated resilience to external shocks and maintained macroeconomic stability and at BB- (Stable) by S&P, affirmed in January 2023. Public debt to GDP has decreased from 58% in March 2021 to 54% in May 2023. The IMF (country report, November 2022) assessed public debt level as sustainable in the medium term. Authorities have taken steps to improve debt composition and fiscal consolidation through the implementation of fiscal rules and the establishment of an independent fiscal council. The authorities are relying on external funding to meet liquidity needs, including support from the IMF, EU budget grants, and Eurobond issuances (latest issuance in March 2023 with an oversubscribed 4-year EUR 500m).
Implementation risk	Medium/High	The sizeable EUR 560 million project is composed of three works contracts to be implemented by the Project Entity and MoF's CFCD. Project implementation risk will be mitigated by the (i) CFCD prior successful experience in implementing EU funded projects of this complexity; (ii) PERI's demonstrated recent positive signs in implementing Phase 1 and Phase 2 of the Corridor VIII, which are currently under implementation; (iii) mobilisation of PIU consultancy support (funded by EU WBIF TCs) and construction supervisor (funded by EU WBIF TC and EIB loan) to support CFCD and PERI over the procurement selection process as well as implementation. The Project's procurement will be done in accordance with PRAG rules (with open eligibility) for the main works contract involving IPA II funds. For the other works contracts, procurement will follow the EIB's Guide to Procurement.
Cost overrun risk	Medium/High	Risk of cost escalation due to inflationary pressures (material and energy costs), project's size and design and build (Yellow Book FIDIC) nature of the contract. This risk has been adequately mitigated by the allocation of significant financial and technical contingencies [REDACTED]. Benchmarking analysis also shows that the cost estimate is in line with recent projects in the region.
Environmental and Social risk	Medium/Medium	The risk arises since the Project is categorised as A with project-specific environmental and social issues including physical resettlement and noise and vibration. A formalised and participatory Environmental and Social Impact Assessment ("ESIA") for the Project has been conducted to meet the Bank's requirements and disclosed and will be available for 120 days during which stakeholder consultation activities will be undertaken. The Bank, together with EIB, led the environmental and social due diligence (supported by external consultants) and defined robust mitigation measures under the ESAP. The Project will be implemented by the Project Entity and CFCD who will have comprehensive support on E&S through the PIU consultancy support, supervision consultants and dedicated RAP implementation support to ensure the requirements of the PRs are met.

2. MEASURING / MONITORING SUCCESS

- Compliance with ESAP, design standards and project specifications. - On-time project implementation	- [REDACTED]	[REDACTED]
--	--------------	------------

Primary Quality: Inclusive

Obj. No.	Monitoring indicator	Details	Baseline	Target	Due date
1.1	Expanded access to infrastructure [REDACTED]	The Company will build into the tender documents a requirement for universal access standards in a alignment with EU standards for design of the two stations.	No	Yes	[REDACTED]
1.2	Recommended policy or strategy or regulatory framework / standard agreed by relevant stakeholder(s) [REDACTED] [TC]	The Company will establish a technical working group and issue and adopt an administrative note to oversee integration of universal access standards into current and future rail infrastructure design. MoF to ensure that Project Entity adopts universal access standards into railway infrastructure designs.	No	Yes	[REDACTED]
1.3	Practices of the relevant stakeholder improved (inclusive infrastructure services/design)	The Company will integrate Universal Access principles into the (re-)design of at least 10 stations/ halts of the new network as recommended in the administrative note issued and adopted by the working group.	No	Yes	[REDACTED]
1.4	Practices of the relevant stakeholder improved (inclusive infrastructure services/design) [REDACTED] [TC]	The Company will provide information for passengers at the two stations in formats that are accessible to all. Standards on accessible information will be included in the administrative note issued and adopted by the working group.	No	Yes	[REDACTED]
1.5	Practices of the relevant stakeholder improved (community outreach, advocacy, awareness-raising) [REDACTED] [TC]	The Company will implement regular communication campaigns (during operations period of the Project) and distribute information material as to be recommended in the administrative note issued and adopted by the working group to inform the public of the Project's accessibility features.	No	Yes	[REDACTED]
1.6	Practices of the relevant stakeholder improved (skills development) [REDACTED] [TC]	The Company will deliver 2 training programmes for staff in the two stations under the project in how to respond to the diverse needs of passengers. Future	0	2	2028

		training programmes for staff covering future projects to be included as part of the administrative note.			
--	--	---	--	--	--

Secondary Quality: Green

Obj. No.	Monitoring indicator	Details	Baseline	Target	Due date
2.1	CO2e emissions reduced (tonnes/year)	Freight shifted from road to rail resulting in reduced scope 3 emissions given that rail is significantly more carbon efficient per tonne-km than road transportation.	0	221,495	[REDACTED]

Additional Indicators

Indicator type	Monitoring indicator	Details	Baseline	Target	Due date
Core client indicators	Physical capacity of the client extended	Construction completed on the an ca. 22 km-long single track electrified line.	0	22	[REDACTED]
Core client indicators	Net increase in rail infrastructure usage: cargo	Freight rail transport (thousand tonne per annum)	0	515	[REDACTED]
Core client indicators	Net increase in rail infrastructure use: passenger	Number of thousand passenger travelling on the section by train (thousand per annum)	0	165	[REDACTED]
Advisory & Policy Indicators	Practices of the relevant stakeholder improved (addressing violence, harassment and bullying risks)	Design of the two railway stations will include all recommendations from the gender assessment	No	Yes	[REDACTED]

3. KEY PARTIES

3.1 BORROWER

North Macedonia is the Borrower of the proposed financing, represented by the MoF. North Macedonia is rated at BB+ (Stable) by Fitch, revised from Negative in April 2023 in light of the country's demonstrated resilience to external shock and maintained macroeconomic stability and at BB- (Stable) by S&P, affirmed in January 2023.

North Macedonia's economy has experienced moderate growth, with a rebound of 3.9% in 2021 followed by a slowdown to 2.1% in 2022 and maintaining the same rate in the first quarter of 2023. The contraction of industry and construction activity in 2022 was driven by a slowdown in external markets, while investment growth remained robust. Household demand is expected to remain moderate in 2023 due to high inflation rates, and the slowdown in trading partners may affect exports and investor confidence. Despite these challenges, macro financial stability is maintained, supported by a prudent exchange rate regime pegged to the Euro and sizeable international reserve assets. The banking sector has remained stable, well-capitalized, and liquid, with non-

performing loans at a low level. Public debt to GDP has increased to 54% in May 2023 (vs. 50.8% in December 2021) but decreased from record high 58% in March 2021. According to IMF, the public debt is considered sustainable in the medium term with authorities making steps to improve debt composition and fiscal consolidation through the implementation of fiscal rules and the establishment of an independent fiscal council. The authorities are relying on external funding to meet liquidity needs, including support from the IMF, EU budget grants, and Eurobond issuances in the amount of EUR 1.36 billion.

For more details, please refer to the Annex 4- North Macedonia's Macroeconomic and Public Debt Summary.

3.2 CONTRACTING ENTITIES

PERI is the national railway infrastructure manager established in 2007, in charge of the construction, reconstruction and maintenance of Macedonian railways networks and passenger stations. As of 31 December 2022, the total number of employees in the Company was 837 persons and total assets of EUR 525 million. Its accounts are prepared in accordance with IFRS and are audited annually by reputable international audit firms.

PERI's operating costs are covered by its revenues, which include an annual payment by the Government, and any operating surpluses are allowed to be retained for subsequent re-investment. PERI capital investment programmes for infrastructure are generally funded through annual allocations from the government budget within a three-year rolling program framework.

PERI generates its revenues (~EUR 19 million in 2022) through various sources, including: (i) access charges paid by the railways operators (currently only one), (ii) infrastructure maintenance and operating ("IMO") payments from the Government for operating the non-commercial sections of the network (representing ca. 29% of total revenue over the last five years), and (iii) other revenue derived from rentals and services for third parties. In 2022, total revenues increased by 37.5% y-o-y due to the increase in non-operating revenues including grants funds. However, operating revenues decreased by 11% y-o-y (EUR 6.0 million in 2022 vs. EUR 6.7 million in 2021) due to lower access charges revenues generated by freight and passenger transport, which declined by 17% and 5%, respectively.

In 2022, the Company achieved an EBITDA of EUR 4.7 million, resulting in a margin of 25% (compared to EUR 1.9 million in 2021). However, PERI continues to generate operating losses since its establishment (EUR 2.6 million in 2022) due to high depreciation charges (EUR 7.3 million in 2022). Depreciation primarily relates to the infrastructure itself, for which the government holds legal responsibility. Consequently, PERI recorded a net loss of EUR 2.3 million in 2022 (compared to a net loss of EUR 4.9 million in 2021).

More information on the historical financial performance of the Company is provided in Annex 6.

CFCD is a department within Ministry of Finance, in charge of tendering, contracting, monitoring, reporting and payments of EU IPA funded projects in North Macedonia.

4. MARKET CONTEXT

The railway infrastructure in North Macedonia dates back to 1873 with construction of the first railway track from Skopje to Thessaloniki in Greece. Today, the railway network in North Macedonia includes 925 km of single track lines, connecting major cities and towns within the country. The Macedonian railway network system connects north-south with the railway network systems of Serbia, Kosovo and Greece. The main railway corridor is Corridor X, which in North Macedonia runs for 215 km and comprises the following three main sections: (a) Tabanovci – Skopje 49 km; (b) Skopje Veles 51 km; and (c) Veles – Gevgelija 115 km. In addition, there are secondary lines which run from Veles through to Kamenica and Kocani, a line from Skopje along Corridor VIII west to Kosovo and Kicevo and the Corridor VIII running east from Skopje to the Bulgarian border (under construction). Additionally, the railway network is comprised by 226 km station and 102 km industrial rail tracks. The rail infrastructure consists of both electrified and non-electrified lines, with the main railway hub located in the capital city, Skopje.

Currently, there is only one rail transport operator, which is state-owned. This rail transport company is an existing client of the Bank. However, a Law on the Liberalisation of the rail transport market is currently being prepared. Once this law is approved, the rail transport sector will be opened up to new operators.

Total number of transported passengers in North Macedonia was 405,507 in 2022, which is around 1,100 of transport passengers daily. At the same time, total transported freight in 2022 was 1,370,000 tons, which is only 3,750 tons daily. The relatively low levels of utilisation compared to the EU average are primarily due to the inadequate railway infrastructure in the country.

Railway transport	2018	2019	2020	2021	2022
Passengers carried (in '000)	540	549	253	252	405
National	534	546	253	252	405
International	6	3	-	-	-
Goods carried (in '000 tonnes)	1,679	1,829	1,737	1,934	1,372
National	9	13	5	6	4
International	1,670	1,829	1,732	1,928	1,368

5. FINANCIAL / ECONOMIC ANALYSIS

5.1 FINANCIAL/ECONOMIC PROJECTIONS

[REDACTED]

5.2 SENSITIVITY ANALYSIS

[REDACTED]

5.3 PROJECTED PROFITABILITY FOR THE BANK

[REDACTED]

6. OTHER KEY CONSIDERATIONS

6.1 ENVIRONMENT

The Project is categorised A under EBRD's Environmental and Social Policy (2019) as there is the potential for significant environmental and social (“**E&S**”) impacts associated with the construction and operation of a new approximately 23 km single-track railway line from the town of Kriva Palanka to the border between North Macedonia and Bulgaria and electrification of the 88km eastern rail line. Benefits of the Project include enhanced transport links within the region with reduced travel time between Skopje and Sofia, increased freight capacity and reduced CO₂ emissions associated with a shift from road transport to rail.

Environmental and Social Due Diligence (“**ESDD**”) commenced with a review of the approved national Environmental Impact Assessment (2017), which determined that a further assessment on certain topics was required. A Supplementary E&S disclosure package has been developed in accordance with the EBRD Performance Requirements (“**PRs**”) which includes: an Environmental and Social Impact Assessment (“**ESIA**”) Addendum; Supplementary Biodiversity Assessment; a Biodiversity Management Plan (“**BMP**”); Environmental and Social Management Plan (“**ESMP**”); Resettlement Action Plan (“**RAP**”); Non-Technical Summary (“**NTS**”) and Stakeholder Engagement Plan (“**SEP**”). This E&S disclosure package was disclosed in English, Macedonian and Albanian (NTS only) on 15 June 2023, so for a period of at least 120 days prior to the EBRD's Board consideration of the Project in line with the Bank's Access to Information Policy. Topics raised in the consultations undertaken during the disclosure period included noise, adequacy of compensation related to land expropriation, nuisance and impacts to local infrastructure during construction. A consultation report will be added to the E&S Disclosure Package confirming the mitigation proposed in response to the issues raised by stakeholders

The Project route crosses both urban and rural areas and the design of the Project was recently reviewed to optimise the routing options which included a consideration of E&S issues. As a result, the access roads were re-designed in response to community feedback and to reduce the amount of physical resettlement. Environmental and social impacts, particularly resettlement, economic displacement and biodiversity impacts have been avoided in many cases since approximately 10 km of the alignment is within tunnels and a further 5 km on bridges. The total area of land affected by the Project is estimated at 647 ha which will be acquired on a permanent basis for the construction

and operation of the railway. Approximately one third of this land (291 parcels) is privately owned. The Project is estimated to result in physical resettlement of 15 residential buildings. A RAP has been developed and publicly disclosed to define mitigation, compensation and livelihood restoration measures in line with national law and PR5.

The supplementary biodiversity assessment identified a number of areas of critical habitat (“CH”) and priority biodiversity features (“PBF”) with 12 ha of such habitat due to be lost to the Project. A number of CH and PBF mammal, bird and amphibian species are noted, but impacts are generally expected to be restricted to construction phase disturbance and, subject to mitigation, will not be significant. The railway route passes through three areas that are proposed for biodiversity protection. An appropriate assessment process has been conducted for the two proposed Emerald sites and concluded that there are unlikely to be significant effects on the integrity of these areas or qualifying features: in Pchinja-German (MK0000029, a 1.8 km section of the railway is routed along the edge of the protected area, the majority in tunnels or under bridges and no qualifying habitats will be affected; and in the Osogovo Mountains (MK0000023) the entire area is crossed by a tunnel. On 2.4 km of railway that crosses a degraded part of the proposed Nature Park "Gorge of Kiselichka Reka", the majority of the railway is within a tunnel and impacts are not expected to be significant.

Noise and vibration impacts have the potential to be significant. During construction, these will be addressed in line with the national and international standards and mitigation measures such as noise barriers, low noise and vibration construction methods, advance notification to communities, restriction on working times, pre- and post-condition surveys and monitoring during construction activities. Where impacts are predicted to be significant, residents will be offered the opportunity to temporarily relocate during the construction activity at the cost of the Project. During the operations phase, noise will be mitigated through installation of noise barriers or noise insulation at selected properties. Disturbance due to vibration has the potential to affect a large number of properties during the train movements, which will be mitigated through specific track design measures and operational controls. Both noise and vibration models will be updated by the Contractor and mitigation measures updated is appropriate and included in the final design. Due to the underlying terrain and the necessity of Project bridges, even after the application of mitigation measures, significant visual impacts are predicted at specific locations. Photomontages of the Project have been developed and are included in the ESIA Addendum.

Rail and tunnel safety will be designed and managed in accordance with national and EU standards, including detailed requirements for management of safety risks such as emergency escape systems and seismic hazards. An Emergency Response Plan will be developed for both construction and operation phases. All crossings will pass either under or over the railway, which provides significant mitigation of community health and safety impacts. Fencing will be constructed in areas of high risk of third party access. An occupational health and safety plan will be developed for construction and operation phases. The construction contractor and sub-contractors will also be required to manage potential impacts to workers and communities, including labour rights of construction workers, health and safety risks to workers and communities and will establish and implement grievance procedures in line with the Bank requirements.

Accessibility measures and gender considerations will be included in the final station design.

Consultations have been undertaken to inform the Supplementary E&S package. A SEP has been prepared defining engagement activities during the Project lifecycle, including a grievance mechanism. As part of the 2017 ESIA, the national authorities undertook consultation with their counterparts in Bulgaria due to the cross-border tunnel, to which the Bulgarian authorities concluded that there was no further need for their participation or public discussion of the report. The NTS for the supplementary package has also been made available in Bulgarian. The E&S impacts of the works on the Bulgarian side of the border were assessed in the Supplementary E&S package as an associated facility and are considered to be low and suitably mitigated in accordance with EU legislation.

An Environmental and Social Action Plan (“**ESAP**”) has been developed, agreed with the Project Entity, and disclosed and the Project will be monitored regularly including site visits by the Bank and consultants to ensure compliance with the ESAP and the PRs.

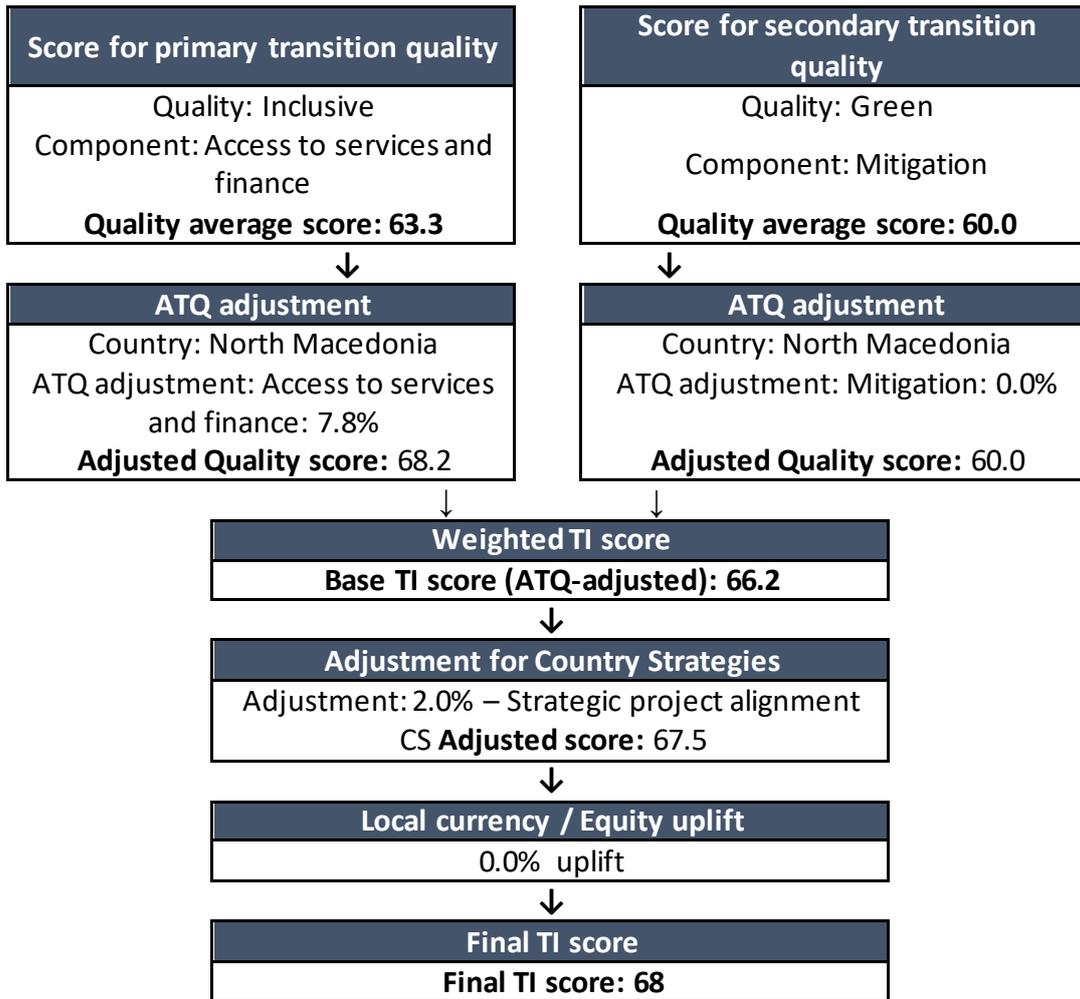
6.2 INTEGRITY

Integrity due diligence was undertaken on the Borrower and Project Entity, its shareholders, senior management and other relevant parties. [REDACTED] [I]t has been concluded that the Project 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	Transition Impact Scoring Chart
ANNEX 2	Project Description
ANNEX 3	Shareholder Structure
ANNEX 4	North Macedonia Macroeconomic Update and Sovereign Debt Assessment
ANNEX 5	EBRD's projects in the Macedonian Railway sector
ANNEX 6	PERI Financials
ANNEX 7	Green Assessment
ANNEX 8	Project Implementation (Procurement Plan)
ANNEX 9	Economic Assessment

ANNEX 1 - TRANSITION IMPACT SCORING CHART



ANNEX 2 – PROJECT DESCRIPTION

Corridor VIII is a multi-modal transportation network that includes sea and riverine ports, airports, roads and railways that are projected along the east-western axis. It begins at the southern Italian ports of Bari and Brindisi, passes through Albania, North Macedonia and Bulgaria, and leads to the Black Sea-the ports of Varna and Burgas.

The new railway section Kriva Palanka – Bulgarian Border is planned as the last missing section connecting the railway networks of North Macedonia and Bulgaria along the Pan-European Corridor VIII. The line is also part of the Core TEN-T railway network indicative extension to Western Balkans.

Figure 1 and 2: Project and TEN-T



The Rail Corridor VIII link with Bulgaria (Kumanovo – Bulgarian Border) includes the following 3 single track sections, of which the third is the project section:

- Section 1: Kumanovo – Beljakovce (30.8 km) – construction on-going funded by EBRD;
- Section 2: Beljakovce – Kriva Palanka (33.9 km) – construction on-going funded by EBRD;
- Section 3: Kriva Palanka – Bulgarian Border (23 km) – the Project

The Project area is located on the territory of the municipality of Kriva Palanka, which belongs to the Northeast Region of the Republic of North Macedonia. Section 3 starts before the town of Kriva Palanka and goes to the border with the Republic of Bulgaria. The Project area encompasses the following settlements: T'lminci, Kriva Palanka, Gradec, Lozanovo, Drenje, Kiselica, Trnovo, Zidilovo, Krklja, Kostur and Uzem

The Project design was conducted in line with Macedonian and EU technical and operational standards (including the Technical Specifications for Interoperability – TSI).

Figure 3: Project location

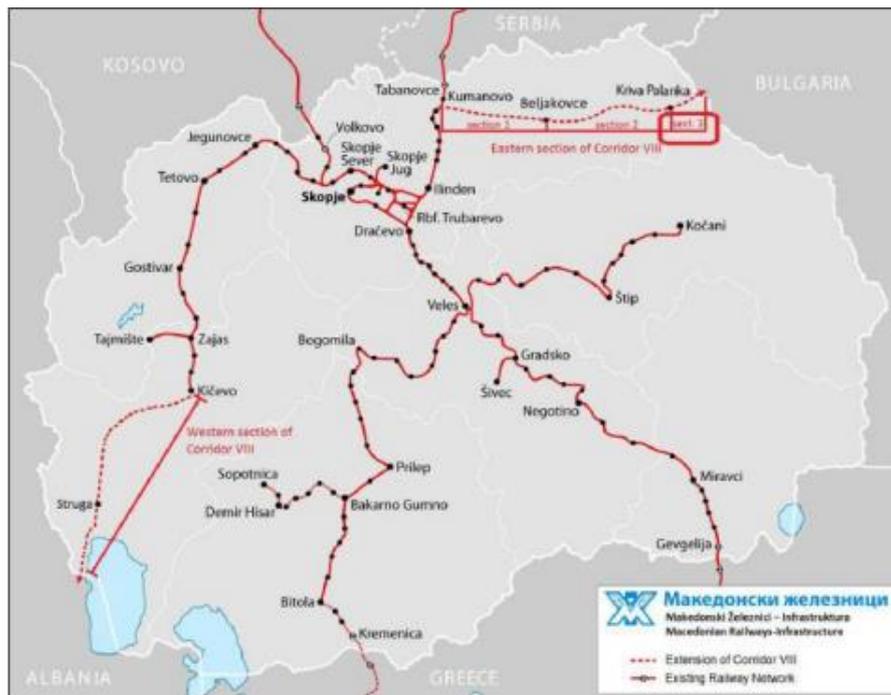


Figure 4: Project alignment



The Project comprises the following:

- Section 3: Construction of ca. 23 km new single-track, 100km/h max. design speed railway between Kriva Palanka and the border with Bulgaria. The scope includes the following:
 - a station in Kriva Palanka with 2 side tracks and 3 tracks for maintenance and stabilisation,
 - a halt in the village of Zhidilovo with 2 side tracks,
 - 22 tunnels with a total length of about 10 km and

- 52 bridges (viaducts) with a total length of about 5 km.
- Electrification for Sections 1, 2 and 3 which includes:
 - Construction of approx. 90 km of overhead contact line (“OCL”) and the relevant earth protection system;
 - Construction of 1 new traction substation (25 kV TSS) 25 kV AC in Kratovo (located on Section 2: Beljakovce to Kriva Palanka) and 1 in Kriva Palanka;
 - Connection to 110 kV feeder and construction of 110 kV current transformer station (110 kV TS) on the same location of 25 kV TSS.

The scope of work related to Section 3 consists of the following activities:

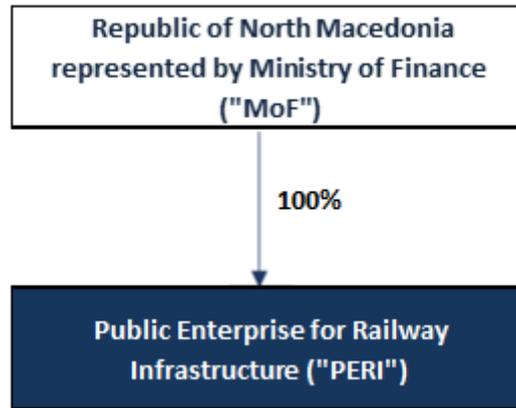
- The execution of earthworks and drainage,
- The construction of 52 bridges and 22 tunnels, including reconstruction of the 1150m border tunnel within the Macedonian territory,
- The execution of 23.5 km main track, 4.3 km station tracks and 14 sets of points,
- The construction of a substation West of Kriva Palanka.
- Temporary roads to provide access to construction sites.

In respect of related facilities, Section 3 is foreseen to have:

- one station (in KrivaPalanka at km 70.58 with 2 side tracks and 3 tracks for maintenance and stabilisation),
- one halt in the village of Zhidilovo at km 80.37 with two side tracks, and
- passenger building and a railway maintenance facility.

[REDACTED]

ANNEX 3 – SHAREHOLDING STRUCTURE



**ANNEX 4 – NORTH MACEDONIA MACROECONOMIC
UPDATE AND SOVEREIGN DEBT ASSESSMENT**

[REDACTED]

ANNEX 5 – EBRD’S PROJECTS IN THE MACEDONIAN RAILWAY SECTOR

The Bank has been involved in the rail sector in North Macedonia since 2010 and so far has signed 4 projects of which 3 with PERI and one with the transport operator. EBRD worked closely with the Ministry of Transport and Communication and PERI in pursuing the railway restructuring reform process and transition towards a more competitive railway sector. A brief summary of the Bank’s portfolio projects and achievements in the railway sector is presented below:

Transaction	Description	Transition impact achieved
Macedonian Railways - Corridor X (Op ID: 41327) [REDACTED]	<ul style="list-style-type: none"> • Sovereign loan to finance rehabilitation and modernisation of key sections of Corridor X. • Signing October 2010. • Amount: EUR 17.6 million. 	<ul style="list-style-type: none"> • Confirmation PSO inclusion in 2010 budget. • Establishment in 2010 of an operational safety directorate. • Strengthening the functionality of Rail Regulator responsible for quality control. • Definition of an appropriate structure for PSO to be secured by the Central government, as restructuring reform aimed at establishing clear cost allocations between freight and passenger services. • Establishment of a formal contract between the Government and PERI, which signed in 2011.
Railway Corridor VIII - Phase I (Op ID 42921) [REDACTED]	<ul style="list-style-type: none"> • Sovereign loan (with introduction of on-lending features in 2014) to finance rehabilitation of a 30.8 km section of Corridor VIII in the east from Kumanovo via Beljakovce and Kriva Palanka. • Signing October 2012. • Amount: EUR 46.5 million. 	<ul style="list-style-type: none"> • In 2015 new methodology for calculation of Track Access Charges adopted by PERI Management board including a cost calculation system, which allows the allocation of related direct costs to respective services and builds the basis for a price definition; a system that takes into account different types of trains and different related costs. • Introduction and implementation of new calculations in the Network Statement for 2016.
Railroad Rolling Stock Equipment (Op ID 43997) [REDACTED]	<ul style="list-style-type: none"> • Sovereign-guaranteed loan to finance replacement of rolling stock with new equipment offering higher service quality and energy efficiency benefits. • Signing October 2012. • Amount: EUR 50 million. 	<ul style="list-style-type: none"> • Adoption of the MRT Business Segmentation Strategy and the Action Plan for Privatisation in 2019 by the Government. • Adoption of the Energy Efficiency Policy for the Company at end 2015. • Adoption of the Safety Management System by the Government, in compliance with EU legislation and certified by the Safety Authority from January 2020 to 2025.
Rail Corridor VIII - Second Phase (Op ID 44175)	<ul style="list-style-type: none"> • Sovereign loan with on-lending features to finance construction of a new section at the northern end of Beljakovce and end in the vicinity of the city of 	<ul style="list-style-type: none"> • Cross-border agreement between Serbia and North Macedonia signed on February 2015. Agreements between North Macedonia and Kosovo, and North Macedonia and Serbia signed to establish one-stop procedures at the border crossing points of the countries.

[REDACTED]	Kriva Palanka, with a length of approximately 34 km. <ul style="list-style-type: none">• Signing December 2014.• Amount: EUR 145 million.	<ul style="list-style-type: none">• Protocols on organisation and regulation of railway traffic and operation of railway staff signed between Railway Infrastructure managers and Railway Transport operations of both countries.• Progress made on setting standards of Corporate Governance, with introduction of ISO 9001 and ISO 14001 certificates and CIPS standards, related to improvements in procurement procedures and improved practices.
-------------------	--	--

ANNEX 6 – PERI FINANCIALS

Income Statement						
Unit MM€ / IFRS Audited						
	2017 (A)	2018 (A)	2019 (A)	2020 (A)	2021 (A)	2022 (A)
Revenue	13.08	14.66	13.93	12.61	13.79	18.96
Cost of Sales	-10.06	-9.63	-9.51	-8.85	-9.66	-10.84
SGA	-2.28	-3.14	-1.77	-1.13	-2.23	-3.40
EBITDA	0.75	1.88	2.65	2.63	1.89	4.73
Depreciation	-8.23	-8.08	-8.29	-7.78	-6.94	-7.29
EBIT	-7.48	-6.20	-5.64	-5.15	-5.05	-2.56
Interest Expense	-0.19	-0.22	-0.17	-0.17	-0.16	-0.17
Other Costs/Income	0.47	0.31	0.28	0.07	0.35	0.41
Profit before tax	-7.21	-6.11	-5.54	-5.24	-4.86	-2.32
Tax incurred	0.00	0.00	0.00	0.00	0.00	0.00
Profit after tax	-7.21	-6.11	-5.54	-5.24	-4.86	-2.32
Dividends	0.00	0.00	0.00	0.00	0.00	0.00
Other Items	0.00	0.00	0.00	0.00	0.00	0.00
Profit for the year	-7.21	-6.11	-5.54	-5.24	-4.86	-2.32
Change in Net Worth	0.00	0.00	0.00	0.00	0.00	0.00

Balance Sheet						
	2017 (A)	2018 (A)	2019 (A)	2020 (A)	2021 (A)	2022 (A)
Cash	0.10	0.11	4.41	8.05	7.78	2.91
Receivables	2.55	3.23	4.20	3.40	4.10	4.59
Inventories	5.32	5.74	5.89	7.37	7.70	6.99
Total Current Assets	7.98	9.08	14.50	18.82	19.58	14.49
Fixed Assets	471.33	469.86	473.89	471.06	475.39	511.22
Other Assets	0.00	0.00	0.00	0.00	0.00	0.00
Total Assets	479.31	478.94	488.39	489.88	494.97	525.71
ST Debt plus CPLT Debt	5.63	10.76	13.59	18.07	27.43	37.60
Payables	5.42	4.32	3.38	1.34	1.33	1.74
Accrued Expenses	0.00	0.00	0.00	0.00	0.00	0.00
Other ST Liabilities	0.00	0.00	0.00	0.00	0.00	0.00
Total Current Liab	11.05	15.08	16.97	19.41	28.76	39.34
Long Term Debt	10.72	11.50	19.07	17.72	14.93	23.45
Other LT Liabilities	13.71	13.92	19.67	25.30	28.70	42.64
Total Liabilities	35.48	40.50	55.70	62.43	72.39	105.44
Equity	443.83	438.44	432.69	427.45	422.59	420.27
Total Liab & Equity	479.31	478.94	488.39	489.88	494.97	525.71

Cash-Flow Statement						
Unit MM€ / IFRS Audited						
	2017 (A)	2018 (A)	2019 (A)	2020 (A)	2021 (A)	2022 (A)
Operating Profit (EBIT)	-7.48	-6.20	-5.64	-5.15	-5.05	-2.56
Depreciation & Amortisation (+)	8.23	8.08	8.29	7.78	6.94	7.29
Gross Operating CF (EBITDA)	0.75	1.88	2.65	2.63	1.89	4.73
Changes in Working Capital (+/-)	-0.36	-2.52	-2.53	-3.68	-1.86	-0.75
Tax Paid	0.00	0.00	0.00	0.00	0.00	0.00
Net Operating CF	0.38	-0.63	0.12	-1.05	0.03	3.98
Interest Paid	-0.04	-0.14	-0.12	-0.13	-0.03	-0.02
Current Debt Repaid	2.60	5.82	10.33	3.09	6.60	18.69
Dividends Paid						
Pre Investment CF	2.94	5.04	10.33	1.91	6.59	22.66

Capital Expenditure	-5.08	-6.31	-12.65	-4.96	-11.30	-66.23	
Pre Financing CF	-2.14	-1.26	-2.32	-3.06	-4.70	-43.57	
EBRD new Debt	0.00	0.00	0.00	0.00	0.00	0.00	
Other new Debt	0.00	0.00	0.00	0.00	0.00	0.00	
Government grants	1.03	1.27	6.91	2.79	4.41	42.59	
Post Financing CF	-1.11	0.01	4.59	-0.27	-0.29	-0.98	
Cash End	0.10	0.11	4.41	8.05	7.78	2.91	

[REDACTED]

ANNEX 7 – GREEN ASSESSMENTS

Introduction

The Project consists of construction of a new rail infrastructure link. The project is assessed for Paris Agreement (“PA”) alignment and GET. As a sovereign transaction, Climate-related financial risk was not applicable. The project is assessed as positively aligned for both the mitigation and adaptation goals of the Paris Agreement. The project is attributed as 95% GET.

Paris alignment assessment

General screening of alignment with the mitigation goals of Paris Agreement

- 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'.

The project is included in the ‘aligned list’ under the category ‘rail infrastructure’. As such the project is considered aligned with mitigation goals of the Paris Agreement.

Alignment with the adaptation goals of Paris Agreement

Steps 1 & 2: As part of a technical study of the project, the Joint Assistance to Support Projects in European Regions (JASPERS) programme reviewed the approach to identifying, assessing and responding to physical climate risks. The study concluded that the vulnerability and risk assessment carried out as part of the ESIA Report identified the material risks and relevant adaptation measures of structural nature were incorporated into the design. This satisfies steps 1 & 2 of the adaptation assessment.

Step 3: The project is unlikely to have a broader impact on the climate resilience of the system in which it operates.

As the project satisfies all three steps of the BB2 assessment, the project is considered as aligned with the adaptation goals of the Paris Agreement.

GET attribution

In line with the GET handbook, projects which involve financing the construction and operation of transport infrastructure that is dedicated to low-carbon transport are 100% GET eligible. As such, the project is attributed as 100% GET, minus the proportion of fossil fuels anticipated to be carried on the line in the initial year of operation. It is estimated that the annual transported weight of fossil fuel is 5% of its total, hence the overall GET share is 95%. The Project will lead to annual savings of scope 3 emissions of 221,495 tonnes of CO₂eq as a result of a modal shift from road to rail.

ANNEX 8 – PROJECT IMPLEMENTATION

Procurement classification – *Public (Sovereign)*

Project risk assessment:

[REDACTED]

Contracts risk assessment - *Moderate High*

Project implementation arrangements:

The Project will be implemented by PERI which has experience in the implementation of Phases I and II of the Project. For the works contract that will be financed in part by IPA II funds, the CFCD within the Ministry of Finance, which has prior experience in successfully implementing EU funded projects, will undertake the procurement process and act as the contracting authority. In view of the nature and complexity of the Project, the implementing authorities will be supported by an experienced project implementation consultant financed by the WBIF Grant. The EIB will finance interim procurement support to enable PERI and the CFDC to finalise and issue the tender documents for the main works contract prior to the engagement of the Project Implementation Support Consultant.

Procurement arrangements:

The Project is classified as public sector for procurement purposes. The EBRD, the European Union “EU” and the EIB have agreed that the EIB will act as the Lead Financier (“**LF**”), for procurement purposes. The respective roles of the EBRD, the EU and the EIB in the procurement and subsequent contract administration process will be governed by a “Non-Paper” negotiated between the three parties and a project specific Project Implementation Agreement between the EBRD and the EIB which is based on the EBRD/EIB Mutual Reliance Agreement as modified to reflect the co-financing from the IPA II funds.

The Project will be implemented through a number of contracts as detailed in the attached Procurement Plan. The main works contract that will be jointly financed together with IPA II funds will be procured in accordance with the EU’s Practical Guide to Procurement (PRAG), with open eligibility. This approach is consistent with Article 2.6 of the Bank’s Procurement Policies and Rules (“**PPR**”) which states that the Bank’s PPR does not apply to the procurement of works when the Bank is a minority co-financier (less than 30%) of a contract financed under a development support initiative, such as the EU Cohesion and Structural Funds, and the proposed procurement procedures are acceptable to the Bank. The tender document will be based on the PRAG standard tender document for works and will include the joint EBRD/EIB Covenant of Integrity. Following the subsequent tender evaluation process, and prior to the issue any no-objection to the proposed contract award, the EIB will provide EBRD with full

details of the entity proposed for contract award to enable EBRD to verify the eligibility of the entity for EBRD financing prior to contract award.

The contracts for the electrification and signalling and telecommunication works that will be jointly financed by the EIB and EBRD will be procured under Open International procurement procedures in accordance with EIB's Guide to Procurement and the project specific Project Implementation Agreement between the EBRD and the EIB.

Contracting Arrangements:

The main works contract to be jointly financed by the EIB and EBRD together with IPA II funds will be contracted in accordance with the FIDIC Conditions of Contract for Plant & Design-Build (Yellow Book). It is currently envisaged that the contracts for the electrification and signalling and telecommunication works will also be contracted under the FIDIC Yellow Book.

Consulting Services:

The consulting contracts for the Project Implementation Support Consultant and the Supervision of Works will be will be procured under Restricted International procurement procedures in accordance with EIB's Guide to Procurement. All other associated donor funded TCs (i.e. Environmental and Social Support and Gender Due Diligence, RAP Implementation Support and Integrating Universal and Access Standards into Railway Infrastructure Design) have been or will be procured in accordance with the Bank's procurement rules. [REDACTED].

ANNEX 9 – ECONOMIC ASSESSMENT

[REDACTED]