

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

Approved by the Board of Directors on 20 September 2023<sup>1</sup>

**SERBIA**

**SERBIA VOZ REGIONAL DEPOTS**

*[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]*

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

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

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## ABBREVIATIONS / CURRENCY CONVERSIONS

|           |   |
|-----------|---|
| CAGR      | Compound Annual Growth Rate                                 |
| CAPEX     | Capital Expenditures  |
| CGAP      | Corporate Governance Action Plan                            |
| CP        | Conditions Precedent  |
| CPI       | Consumer Price Index  |
| EBITDA    | Earnings Before Interests Tax Depreciation and Amortisation |
| ECEPP     | EBRD Client e-Procurement Portal                            |
| ESAP      | Environmental and Social Action Plan                        |
| E&S       | Environmental and Social                                    |
| ESDD      | Environmental and Social Due Diligence                      |
| ETI       | Expected Transition Impact                                  |
| EU        | European Union  |
| EUR       | Euro  |
| FDI       | Foreign Direct Investment                                   |
| GDP       | Gross Domestic Product                                      |
| GET       | Green Economy Transition                                    |
| GoS       | Government of Serbia  |
| IFRS      | International Financial Reporting Standards                 |
| ILO       | International Labour Organisation                           |
| IMF       | International Monetary Fund                                 |
| JSCSR     | Joint Stock Company Serbian Railways                        |
| KPI       | Key Performance Indicator                                   |
| LGD       | Loss Given Default  |
| MoF       | Ministry of Finance   |
| MoCTI     | Ministry of Construction, Transport and Information         |
| OCCO      | Office of the Chief Compliance Officer                      |
| OGC       | Office of the General Counsel                               |
| PA        | Paris Agreement   |
| PD        | Probability of Default                                      |
| PIA       | Project Implementation Adviser                              |
| PIU       | Project Implementation Unit                                 |
| PP&R      | Procurement Policies & Rules                                |
| PPAD      | Procurement Policy and Advisory Department                  |
| PSD       | Project Summary Documents                                   |
| PSC / PSO | Public Service Contract / Public Service Obligation         |
| PTI       | Portfolio Transition Impact                                 |
| RAROC     | Risk-adjusted return on capital                             |
| RoS       | Republic of Serbia  |
| SOE       | State-Owned Enterprise                                      |
| SSF       | Shareholder Special Fund                                    |
| SSC       | Sector Skills Council                                       |
| TA / TC   | Technical Assistance / Technical Cooperation                |
| TACs      | Track access Charges  |
| TI        | Transition Impact   |
| TOR       | Terms of References   |
| yoy       | Year-on-Year  |

FX: 1 EUR = 117.3 RSD (June 2023)

## PRESIDENT'S RECOMMENDATION

This recommendation and the attached Report concerning an operation in favour of Serbia Voz (the “**Company**” or the “**Borrower**”), a state-owned company acting as the national railway passenger operator of the Republic of Serbia where it is incorporated, are submitted for consideration by the Board of Directors.

The facility will consist of a sovereign-guaranteed loan to the Company in the amount of up to EUR 25 million. The loan will be guaranteed by the Republic of Serbia.

The operation will enable the Company to finance the construction of a new depot and rehabilitation of two regional depots used for maintenance of the Company's rolling stock, as well as the procurement of new maintenance equipment and supervision, with an aim to enhance the efficiency of passenger services through modernised maintenance practices (the “**Project**”).

The Project's primary transition quality is *Inclusive* through the introduction of improved policy practices in the area of skills development in the railway sector, and a dual education programme, to support a holistic approach in creating a workforce fit for the future. The secondary transition quality is *Well-Governed* through further support to the Company to improve its governance and internal controls especially regarding risk management and internal capacity building and policies for strategic and short-term business planning.

TC support for project preparation has been provided by the EBRD Shareholder Special Fund (“**SSF**”). Funding for post-signing TCs for (i) support for the implementation of inclusion measures, and (ii) assistance for the implementation of corporate governance improvements, is expected to be financed by SSF or an international donor.

I am satisfied that the operation is consistent with the Bank's Strategy for Serbia, the Bank's Transport Sector Strategy, the GET approach and with the Agreement Establishing the Bank. Moreover, the Project contributes to the agenda of the Equality of Opportunity strategy and of the Strategy for the Promotion of Gender Equality.

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

**Odile Renaud-Basso**

## BOARD DECISION SHEET

| SERBIA – Serbia Voz Regional Depots - DTM 53488 |  |
|---|--|
| <b>Transaction / Board Decision</b>             | Board approval <sup>2</sup> is sought for a sovereign guaranteed loan of up to EUR 25 million in favour of Serbia Voz (the “ <b>Company</b> ” or the “ <b>Borrower</b> ”), the state-owned railway passenger operator of Serbia, to finance the construction of a new regional depot in Nis and rehabilitation and upgrade of two regional depots in Zemun and Sombor for the maintenance of the Company’s rolling stock, as well as the procurement of new maintenance equipment and works supervision (the “ <b>Project</b> ”).  |
| <b>Client</b>                                   | <p>Borrower: Serbia Voz, the Serbian state-owned railway passenger operator. In 2022, Serbia Voz reported revenues of EUR 61.1 million, EBITDA of EUR 7.2 million and net loss of EUR 2.9 million. At YE 2022, debt amounted to EUR 110.5 million and cash balance stood at EUR 5.1 million.</p> <p>Guarantor: Republic of Serbia (“<b>RoS</b>” or the “<b>Guarantor</b>”) through the Ministry of Finance (“<b>MoF</b>”).</p>   |
| <b>Main Elements of the Proposal</b>            | <p>The Project aims to enhance the efficiency of passenger services through improved maintenance practices.</p> <p><b>Transition impact:</b></p> <ul style="list-style-type: none"> <li>- Primary Quality – <i>Inclusive</i> – The Project will introduce improved policy practices in the area of skills development in the railway sector while complementing ongoing efforts to improve dual education and sectoral coordination and attract new cohorts into education programmes.</li> <li>- Secondary Quality – <i>Well-Governed</i> – the Project will support the Company’s efforts to improve its governance and internal controls most specifically for risk management operations.</li> </ul> <p><b>Additionality:</b> 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; (ii) standard setting to achieve higher standards through provision of expertise on corporate governance and achieving gender equality, through outreach activities, to enrol in the dual education programmes for the railway sector, including (iii) higher environmental standards and (iv) best international procurement standards.</p> <p><b>Sound banking:</b> The transaction is sovereign-guaranteed.</p> |
| <b>Key Risks</b>                                | Implementation risk is mitigated by the fact that works are not complex and supervision consultants will be engaged to assist the Company with project implementation. Debt service capacity risk of the Company is mitigated through the sovereign guarantee.   |
| <b>Strategic Fit Summary</b>                    | The Project is consistent with: (i) the Bank’s Strategy for Serbia, (ii) the Bank’s Transport Sector Strategy, (iii) the GET approach and with the Agreement Establishing the Bank. Moreover, the Project is in line with the Equality of Opportunity strategy and the Strategy for the Promotion of Gender Equality.  |

<sup>2</sup> Article 27 of the AEB provides the basis for this decision.

## ADDITIONAL SUMMARY TERMS FACTSHEET

|  |   |
|--|---|
| <b>EBRD Transaction</b>  | Sovereign guaranteed loan of up to EUR 25 million to Serbia Voz to finance the construction of a new regional depot in Nis and the rehabilitation of two regional depots in Zemun and Sombor for the maintenance of the Company's rolling stock, including the procurement of new maintenance equipment, and works supervision, to enhance the efficiency of passenger services through improved maintenance practices (the " <b>Project</b> ").  |
| <b>Existing Exposure</b>   | <p><u>Existing Exposure to the Republic of Serbia:</u></p> <ul style="list-style-type: none"> <li>As of 3 July 2023 [REDACTED]. The Bank's sovereign portfolio/exposure to the Republic of Serbia is EUR 1,266.9 million [REDACTED].</li> </ul> <p><u>Existing exposure to Serbia Voz:</u></p> <ul style="list-style-type: none"> <li>As of end-June 2023, exposure to Serbia Voz is: (i) <b>JSC Serbian Railways Loan II</b> (OpId: 48410) of EUR 3.5 million [REDACTED], (ii) <b>TPS Zemun Project</b> (OpId: 48405 &amp; 50043) - two loans of EUR 30 million [REDACTED] and EUR 22 million (undrawn: EUR 3.7 million [REDACTED]) to finance the modernisation of the Company's train depot and introduction of ERP, EMIS and auto-ticketing systems, and (iii) <b>Serbia Voz Rolling Stock Acquisition</b> (OpId: 50823) of EUR 100 million [REDACTED] for the procurement of 18 electric multiple units ("EMUs").</li> </ul> |
| <b>Maturity / Exit / Repayment</b>                                 | 15 years [REDACTED].  |
| <b>EPF Eligible Investment</b>                                     | n/a   |
| <b>Potential AMI eligible financing</b>                            | n/a   |
| <b>Use of Proceeds - Description</b>                               | Proceeds of the loan will finance (i) the construction of a new regional depot in Nis and rehabilitation of two regional depots in Zemun and Sombor, for the maintenance of the Company's rolling stock; (ii) procurement of new maintenance equipment; and (iii) works supervision consultants, to enhance the efficiency of passenger services through improved maintenance practices.  |
| <b>Investment Plan</b>   | [REDACTED]  |
| <b>Financing Plan</b>  | [REDACTED]  |
| <b>Key Parties Involved</b>  | <ul style="list-style-type: none"> <li>Serbia Voz</li> <li>Ministry of Finance</li> <li>Ministry of Construction, Transport and Infrastructure</li> </ul>   |
| <b>Conditions to subscription / disbursement</b>                   | [REDACTED]  |
| <b>Key Covenants</b>   | <ul style="list-style-type: none"> <li>[REDACTED]</li> <li>Satisfactory implementation of the Environmental and Social Action Plan ("ESAP");</li> <li>[REDACTED]</li> </ul>   |
| <b>Security / Guarantees</b>                                       | Sovereign Guarantee.  |
| <b>Other material agreements</b>                                   | Guarantee Agreement with the Republic of Serbia.  |
| <b>Associated Donor Funded TC and Blended Concessional Finance</b> | <p><b>A. Technical Cooperation (TC)</b></p> <p><i>Pre-Signing</i></p>   |

- **TC1: Economic and technical analysis** including GET and PA assessment; EUR 174,944 funded by Shareholder Special Fund (“SFF”) and finalised in July 2023.

Post-Signing

- **TC2: Assistance for the implementation of corporate governance improvements**, including corporate governance specialist consultants/legal consultants. Up to EUR 75,000 proposed to be financed by an international donor or the SSF.
- **TC 3: Support for the implementation of inclusion measures**, including the introduction of green and digital skills into national curricula for railway education profiles and supporting youth and women’s access to skills and employment. Up to EUR 75,000 approved under the Gender and Inclusion Framework (TCRS 12804) and proposed to be financed by an international donor or the SSF.

**Client contributions:** The Company will be responsible for paying all VAT (if applicable) and other indirect taxes that are applied to any post-signing TCs as a parallel cost sharing contribution to the Project (VAT is levied at 20 per cent in Serbia). The Company will also make a parallel contribution of up to EUR 500,000 paid from the Bank’s loan to finance the works supervision consultant.

[REDACTED]

## INVESTMENT PROPOSAL SUMMARY

### 1. STRATEGIC FIT AND KEY ISSUES

#### 1.1 STRATEGIC CONTEXT

Over the past years, Serbia has strategically increased investments in the rail sector including infrastructure, passenger and cargo transport following years of underinvestment. The most recent rail infrastructure investment in the high-speed line Belgrade-Novı Sad has contributed to a significant increase in number of passengers from 2.7 million passengers in 2021 to 5.6 million passengers in 2022 when the line was opened. With continued investments in key infrastructure lines such as the high-speed line Novi Sad-Subotica (to Hungarian boarder) and Belgrade-Nis (Bank-financed project OpID 53136) investment in passenger rail modernisation will be of key importance for reviving neglected passenger rail transport and reducing further carbon emissions by creating a viable substitute for road transport.

The Project is a continuation of the Bank’s previous projects with Serbia Voz consisting of i) expansion and upgrade of the Company’s main technical passenger station in Zemun at the outskirts of Belgrade in 2017 and 2018 (TPS Zemun I & II) and ii) acquisition of new rolling stock [REDACTED].

The Project will enable the Company to enhance the efficiency of passenger services through the introduction of modern maintenance practices for its rolling stock. This will lead to (i) improved and increased vehicle availability, (ii) reduced vehicle retention time in workshops and a reduction in the empty runs of coaching stock (currently they all need to move to Belgrade), (iii) improved quality of maintenance and lower maintenance costs, (iv) improved safety and working conditions for the employees; and (v) cost efficiencies and more financially sustainable operations. In addition, the investment will provide a new regional maintenance hub in Nis to accommodate increasing traffic in the region and planned construction of high-speed rail Belgrade – Nis. The Project will also involve energy efficiency measures and will achieve a **100 per cent GET contribution**.

The Project also continues to support the Company’s efforts to improve its **corporate governance**. Through previous Bank projects, Serbia Voz adopted and implemented a Corporate Governance Action Plan (“CGAP”), which was successfully concluded in 2021. Following the establishment of a dedicated organisational unit for planning and risk management, the Project will provide additional assistance to strengthen the Company’s strategic planning processes and risk management system. This will significantly contribute to the Company's ability to deal with its most pressing challenges, but also to improve its efficiency and financial sustainability.

Moreover, Serbia Voz is facing serious labour force challenges, mainly due to an aging, near-retirement workforce and prevalent skills gaps. [REDACTED]. The anticipated changes in the volume of railway transport and technological changes of relevance for railway traffic and maintenance of rolling stock will aggravate human capital challenges even further. This situation is exacerbated by the low interest of pupils to enrol in specialised technical vocational high-school education, which traditionally supplies the workforce that the railway sector needs. Therefore, the Project will also work towards promoting **human capital in the sector** by (i) implementing the recommendations developed from the Sector Skills Council (“SSC”) Assessment and piloting a new model for SSC in the railway sector enabling more responsive and effective sector-wide skills development policies; (ii) assessing the digital and green skills needs in the sector and, through the



SSC as a vehicle, introducing green and digital skills competences into national education standards and curricula of dual education programmes in the railway sector; and (iii) tackling the challenge education providers in the sector face, such as severe lack of interest of youth and in particular young women to enrol into railway sector schools, through an outreach campaign to attract youth and particularly women into the sector. These actions will enable Serbia Voz to take a leading role in preventing the substantial workforce shortages expected in the future due to aging work force cohorts and a change in the skills required.

Considering the above, the Project is in line with:

- The **Strategy for Serbia** by improving the transport network and supporting regional economic connectivity, while also foster competitiveness and governance by reforming selected state-owned enterprises.
- 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 **Green Economy Transition (“GET”)** approach, which acknowledges the potential for incremental activity in the rail sector to support the transition to low carbon economies.
- Finally, the Project will make a contribution towards the EBRD’s **Equality of Opportunity Strategy** and its **Strategy for the Promotion of Gender Equality (SPGE)** by promoting access to skills and employment for young women and men in Serbia’s railway sector.

## 1.2 TRANSITION IMPACT

### Primary Quality: Inclusive

| Obj. No. | Objective   | Details  |
|----------|---|--|
| 1.1      | <b>EMPLOYABILITY:</b><br><i>The Project broadens access to market-relevant skills and training opportunities, boosting the supply of human capital with demonstrably moderate need and outstanding effectiveness.</i> | As a result of the sector-wide human capital approach of the Ministry of Construction, Transport and Infrastructure (“MoCTI”) and EBRD, and the Bank’s project with Serbian Railways Infrastructure, all three railway companies (Serbia Cargo, Serbian Railways Infrastructure and Serbia Voz) will be participating in the delivery of dual education learning on the basis of the existing curricula. Through <i>this</i> investment, the dual education curricula will be improved as curricula on emerging digital and green skills required in the sector will be introduced to the programmes. As a result of this, [REDACTED] students will acquire railway sector market-relevant green and digital skills annually across the three railway companies participating in dual education provision. |
| 1.2      | <b>EMPLOYABILITY:</b><br><i>The Project delivers inclusive business policies, practices or standards at the client level with verifiable</i>  | The Company will lead on establishing an inter-company working group, including the MoCTI that will aim to attract more students into the sector, and into the dual education programme. With TC support, the Company will lead the working group in the design and implementation of a public mobilisation campaign to attract more youth, with a focus on girls, into the railway dual education programmes. This will be carried out in formal partnership with partner high schools, presenting the new dual education   |

|     |  |  |
|-----|--|--|
|     | <i>commitment within 1-2 distinct behavioural change areas</i>   | programme as attractive. As part of a collaboration with MoCTI, Serbia Cargo and Serbian Railways Infrastructure, this human capital and gender equality approach will contribute to presenting the railway companies as modern and inclusive employers fit for the future. This will address the severe lack of interest of youth, particularly women, to enrol in railway schools.   |
| 1.3 | <b>EMPLOYABILITY:</b><br><i>The Project encompasses sizeable impact on a policy, regional or sectoral scale with measurable policy-level outcomes.</i> | <p>As part of EBRD's railway sector approach on human capital development and the on-going effort led by the MoCTI, the Project will lead to the establishment of a re-designed and effective SSC for the railway sector. An Assessment of the structure, functioning and effectiveness of the currently existing SSC is underway (supported by the Serbia Cargo Project). On the basis of the recommendations to be formulated as a result of the Assessment, <i>this</i> Project will assist the re-design of the SSC to effectively collect input from all key employers, policy makers and other stakeholders. The successful implementation of the SSC will in the long term positively impact the future skilled labour supply for all railway companies.</p> <p>Through TC support the Project will deliver on a digital and green skills needs assessment for the railway sector leading to the identification of required green and digital skills for which education standards will be developed. On the basis of this, as mentioned above, new curricula for green and digital skills in the railway sector will be introduced to the dual education programmes delivered by all three railway projects (Serbia Cargo, Serbian Railways Infrastructure and Serbia Voz). These actions will address the current and future substantial workforce shortages in the Company and the sector, due to an aging workforce and a change in the skills required for the future of the railway sector.</p> |

### Secondary Quality: Well-Governed

| Obj. No. | Objective  | Details  |
|----------|--|--|
| 2.1      | <i>Substantial improvements of corporate governance will be implemented.</i> | <p>In line with the CGAP implemented in 2021, further support will be provided for the Company's efforts to improve its governance and internal controls. Following the establishment of a dedicated organisational unit for planning and risk management, additional assistance is envisaged for strengthening of the strategic planning processes and risk management system in the Company, as well as improving composition of the executive body of the Company. In particular, it is foreseen that activities will include: (i) Development of the risk management strategy and tools for Serbia Voz and supporting the activities of the Company in operationalising the system of financial management and control; (ii) Strengthening of internal policies and processes for strategic and short-term business planning in the Company; (iii) Review of the adequacy of managerial roles and functions and their representation on the governing bodies of the Company; and (iv) Internal capacity building related to implementation of the above actions and training to relevant employees of the Company in the areas of risk management. As part of the improvement of strategic and business planning processes, the EBRD will work with the Company to identify the most relevant KPIs as a reflection of strategy/business plan for the supervisory board to monitor, in line with the measures envisaged by the Strategy for governance of SOEs for the period 2021-2027 which was developed with EBRD's assistance. The improvements are expected to significantly contribute to the Company's ability to deal with its most pressing</p> |

|  |  |   |
|--|--|---|
|  |  | challenges, such as rapid improvement of sales channels and risks related to human capital. |
|--|--|---|

### 1.3 ADDITIONALITY

| Identified triggers   | Description  |
|---|--|
| A subsequent transaction with the same client with the use of proceeds with the same country. | This is a repeat transaction with the same client following two previous projects for Zemun depot and new rolling stock acquisition. |

| Additionality sources   | Evidence of additionality sources  |
|---|--|
| <b>Financing Structure</b> <ul style="list-style-type: none"> <li>EBRD offers financing that is not available in the market from commercial sources on reasonable <b>terms and conditions</b>, [REDACTED]. Such financing is necessary to structure the project.</li> <li>EBRD offers a <b>tenor</b>, which is longer than available to the client in the market on reasonable terms and conditions.</li> <li>EBRD offers a large volume instrument that fills a market funding gap and is required to structure the project.</li> </ul>  | <p>Proposed 15 year tenor [REDACTED] and loan size of EUR 25 million cannot be obtained from local commercial banks due to regulatory constraints. [REDACTED]. Financing from other IFIs for the sector has typically been for rail infrastructure improvements where most of rail related investments have been concentrated recently.</p>  |
| <b>Standard-setting: helping projects and clients achieve higher standard</b> <ul style="list-style-type: none"> <li>Client seeks/makes use of EBRD expertise on <b>corporate governance</b> improvements, including for climate risk management.</li> <li><b>Gender SMART</b>: Client seeks/makes use of EBRD expertise for the adoption of <b>gender standards and/or equal opportunities action plans</b> (e.g. improving women's access to safe transport and/or women-led businesses participation in the client supply chain).</li> <li>Client seeks/makes use of EBRD expertise on higher environmental standards, above 'business as usual' (e.g. adoption of emissions standards, climate-related ISO standards etc.)</li> </ul> | <ul style="list-style-type: none"> <li>Corporate governance implementation will be supported with the help of consultants to be engaged by the Bank to further improve Company's practices and operations including risk and financial management.</li> <li>Under the proposed investment, Serbia Voz will lead on the establishment of a cross-sectoral working group that will aim to attract more students into the dual education program, with a focus on targeting girls.</li> <li>The ESAP agreed with the Company will ensure compliance and implementation of best practice.</li> </ul> |

|   |  |
|---|--|
| <ul style="list-style-type: none"> <li>– Client seeks/makes use of EBRD expertise on best international procurement standards.</li> </ul> | <ul style="list-style-type: none"> <li>- The Company will benefit from the Bank's expertise and guidance with regards to implementing Bank's PP&amp;R and thereby achieve the optimal result with regards to procurement.</li> </ul> |
|---|--|

#### 1.4 SOUND BANKING - KEY RISKS

| Risks                                | Probability / Effect | Comments  |
|--------------------------------------|----------------------|---|
| Procurement risk                     | <i>Low/ Medium</i>   | <p>The Project will be implemented by an experienced PIU established within the Company.</p> <p><u>Risk mitigation:</u> The Company will provide all the necessary support and technical advice throughout the preparation, tendering, contract negotiations and the implementation process, in compliance with the EBRD's PP&amp;R. Additionally, a supervision consultant will be appointed to supervise the two works contracts under the Project.</p>   |
| Dependence on state subsidies        | <i>Low/ Medium</i>   | <p>The Company's main sources of revenue are Public Service Obligation ("PSO") compensation received from GoS (circa 80 per cent) and travel fares. Potential macro-economic shocks could affect the capacity of the Company to service its debt, which is dependent on subsidies.</p> <p><u>Risk mitigation:</u> (i) GoS will be required to provide additional state budget allocations for timely debt service under the Project, and the budget allocations to service the debt will be covenanted under the Guarantee Agreement; (ii) with the increasing passenger traffic to come with development of rail infrastructure in the coming period the Company's dependence on subsidies is expected to decrease gradually.</p>  |
| Sovereign risk / Macro-economic risk | <i>Medium/ High</i>  | <p>Growth is expected to remain subdued in the near-term. Economic growth is expected to slow down further to 2 per cent in 2023 before returning closer to its medium-term potential at 3.5 per cent in 2024 (EBRD REP, May 2023). The expected slowdown in Eurozone export markets will continue to weigh on external demand, still high inflation will continue eroding disposable incomes and tight financial conditions on local and external markets, reflected in a slowdown of credit growth, will further dampen domestic demand. The medium-term outlook remains robust, underpinned by macroeconomic stability, a record of strong public and foreign investments and a commitment to reform anchored by the EU approximation process.</p> <p><u>Macro-economic risk is mitigated by:</u> (i) Serbia's public debt to fall below 50 per cent of GDP by 2026 (assuming timely return to fiscal discipline and absence of external shocks), and recovery of economic growth in the medium term, according to the IMF; (ii) the majority (85 per cent) of the public debt is fixed rate, average maturity of outstanding debt is long and share of official and institutional creditors in the external debt is high; (iii) availability of external financing, including through successful Eurobond issuances in January 2023 (a 5-year and a 10-year Eurobond, both hedged against</p> |

|  |  |  |
|--|--|--|
|  |  | the euro and heavily oversubscribed), engagement with the IMF through a two-year Stand By Arrangement and bilateral financing. |
|--|--|--|

## 2. MEASURING / MONITORING SUCCESS

### TI indicator(s), primary Quality: Inclusive

| Obj. No. | Monitoring indicator   | Details   | Baseline   | Target     | Due date   |
|----------|--|---|------------|------------|------------|
| 1.1      | Recommended policy or strategy or regulatory framework/ standard agreed by relevant stakeholder(s) | On the basis of the SSC assessment conducted, a new model for a more relevant and effective SSC will be designed and piloted with participation of the Company.   | [REDACTED] | [REDACTED] | [REDACTED] |
| 1.2      | Recommended policy or strategy or regulatory framework/ standard agreed by relevant stakeholder(s) | Both, the Serbian authorities and the Company (within its merit) to implement at least 75% of the recommendations formulated as result of the SSC Assessment.   | [REDACTED] | [REDACTED] | [REDACTED] |
| 1.3      | Legal, institutional or regulatory frameworks in target areas improved                             | New education standards for green and digital skills in the railway sector will be adopted and integrated into dual education curricula.  | [REDACTED] | [REDACTED] | [REDACTED] |
| 1.4      | Practices of the relevant stakeholder improved (skills development)                                | The Company will lead on the establishment and activity of an inter-company working group with the aim to develop an outreach campaign and mobilisation strategy to attract youth into the railway sector dual education programmes. The campaign is expected to lead to an increase in the number of enrolled students by 15 per cent. | [REDACTED] | [REDACTED] | [REDACTED] |
| 1.5      | Number of individuals enhancing their skills as a result of training                               | [REDACTED] students will gain green and digital market-relevant skills for the railway sector annually, leading to over 150 trained individuals within a three-year period.   | [REDACTED] | 150        | [REDACTED] |

### TI indicator(s), secondary Quality: Well-Governed

| Obj. No. | Monitoring indicator  | Details  | Baseline   | Target     | Due date   |
|----------|---|--|------------|------------|------------|
| 2.1      | Corporate governance improved: Control and Environment Processes      | Risk management policy approved.   | [REDACTED] | [REDACTED] | [REDACTED] |
| 2.2      | Corporate governance improved: Structure and Functioning of the Board | Improvement to the composition of the executive body of Serbia Voz based on a review of senior managerial roles and functions. | [REDACTED] | [REDACTED] | [REDACTED] |

#### Additional Indicators

| Indicator type               | Monitoring indicator  | Details   | Baseline   | Target     | Due date   |
|------------------------------|---|---|------------|------------|------------|
| Advisory & Policy Indicators | Practices of the relevant stakeholder improved (skills development) | The outreach and mobilisation campaign will specifically focus on attracting girls to railway dual education programmes. A dedicated campaign will be designed and implemented to this end. | [REDACTED] | [REDACTED] | [REDACTED] |

### 3. KEY PARTIES

#### 3.1 BORROWER

Serbia Voz was created in August 2015 as the exclusive national railway passenger operator of Serbia following the unbundling of the vertically integrated JSC Serbian Railways (“JSCSR”). The railway sector reform implemented in 2015 consisting of the separation of the passenger, cargo and infrastructure activities was aimed to improve business operations. Serbia Voz is fully owned by GoS represented by the Ministry of Construction, Transport and Infrastructure (“MoCTI”). The Company currently operates at the urban, national and international level.

The Company employed 2,195 people in 2022 of which 75 per cent were men.

#### 3.2 GUARANTOR

The Guarantor is the Republic of Serbia, represented by MoF. Due to the adverse global macroeconomic environment, GDP growth slowed to 2.3 per cent year-on-year in 2022 and continued at a muted pace of 0.7 per cent in the first quarter of 2023 as household consumption growth and government consumption gradually slowed down, ultimately contracting in the first quarter of 2023 as inflation remained firmly in double-digits. A strong decline in government consumption since mid-2022, coupled with muted investment growth, contributed to a sharp decline in construction activity. The current account deficit widened from 4.2 per cent of GDP in 2021 to 6.9 per cent of GDP in 2022, largely on the back of an increased energy import bill and weakening external demand. FDI inflow reached a record high of EUR 4.4 billion in nominal terms in 2022 (mainly from China and the EU).

The main challenges for Serbia’s debt sustainability relate to the absence of further structural fiscal adjustment and unfavourable internal and external developments due to different shocks. The



country's debt is however considered sustainable in the medium-term. Serbia is rated at BB+ (Stable) by S&P, Ba2 (Stable) by Moody's and BB+ (Stable) by Fitch.

More detail is available in Annex 2.

## 4. MARKET CONTEXT

Since early 1990s, the railway sector in Serbia has been experiencing severe under-investment, which has resulted in deteriorated infrastructure and rolling stock, low transportation speeds (only 3 per cent of the railway lines are authorised to have speeds over 120 km/h) and unreliable services. Passenger traffic on local and international lines decreased from approximately 10 million passengers in 2000 to 5 million passengers in 2011. Since 2013 and following infrastructure rehabilitation efforts and introduction of additional rolling stock and traction units, passenger traffic stabilised around 5-6 million passengers annually. However, due to the Covid-19 crisis and the restrictions implemented by the GoS, these numbers significantly decreased in 2020 (the number of passengers and cargo dropped by respectively 38 per cent and 30 per cent). Traffic started recovering in 2021 and especially in 2022 when 5.6 million passengers were recorded, spurred by the opening of the high-speed rail line between Belgrade and Novi Sad. The number of passengers is expected to continue increasing with the opening of new high-speed lines (Subotica-Novı Sad, Belgrade-Nis).

Railway transport remains however behind road transport, which is the dominant mode of transport in the country for freight and passengers. Over the past few years, road accounted for more than 90 per cent of passenger transport and more than 40 per cent of transport of goods. That is due to the poor conditions of the railway sector but also to the growth of car ownership and road logistics networks.

Aware of this situation, the GoS has initiated major investments in Serbia Voz's rolling stock and its maintenance capacities, and in the railway route infrastructures. These improvements were aimed at improving the quality of service, reducing downtime, and increasing train availability.

The railway passenger transport market remains under state-control, with the Company being the only railway passenger operator in Serbia. In February 2016, GoS and Serbia Voz signed a Public Service Contract ("PSC") establishing a mechanism necessary for the passenger railway operator to i) provide a vehicle for GoS to procure socially necessary railway transport services, ii) set the institutional relationship between GoS and Serbia Voz on a commercial footing and iii) enable GoS to limit its support to the passenger railway operator by stipulating which services are purchased in exchange for a PSO compensation. [REDACTED].

## 5. FINANCIAL / ECONOMIC ANALYSIS

### 5.1 FINANCIAL PROJECTIONS

[REDACTED]

### 5.2 SENSITIVITY AND EIRR ANALYSIS

[REDACTED]

### 5.3 PROJECTED PROFITABILITY FOR THE BANK

[REDACTED]

## 6. OTHER KEY CONSIDERATIONS

### 6.1 ENVIRONMENT

Categorised B (ESP 2019). The environmental and social due diligence (“ESDD”) for the Project was carried out internally by ESD and comprised of an environmental and social (“E&S”) assessment of the Project, site visits to regional maintenance depots, a review of the current operations and E&S supporting documentation and company’s E&S capacity to manage risks and impacts.

ESDD confirmed a clear understanding of the E&S arrangements currently implemented. Various E&S documents were shared including operating permits, environmental procedures, monitoring data and training records. Serbia Voz has various internal rulebooks, operational procedures, guidelines and formal mechanisms in place. The ESDD has identified that the Company has not been certified with independent accreditation for its environmental, health and safety and social (“EHS”) management system, however it has a set of internal EHS procedures in place for management of E&S issues and risks and has introduced both internal and external reporting channels on EHS issues. The Company has the necessary organisational capacities for the management of E&S aspects in line with the PRs in relation to environmental issues, human resources, pollution prevention and control, waste management and management of health and safety (“H&S”) issues, supply chain and contractor management, and stakeholder management. Contractor and supply chain management is managed through standard tender documents and public procurement laws. An environmental and social action plan (“ESAP”) has been developed and agreed with the Company. The ESAP stipulates development of E&S policy at the level of the company, development of construction E&S management plan (“CESMP”) with sub-plans (construction waste management plan, asbestos management plan, H&S management plan, emergency preparedness and response plan (including fire safety) and traffic management plan), and prevention of forced labour risks associated with potential procurement of solar modules, if any.

Serbia Voz is required to meet national labour law and sector-specific regulations related to rail transport in Serbia. The Company complies with national requirements for labour and working conditions, which are in line with core International Labour Organisation (“ILO”) conventions and forced labour and child labour are prohibited by local legislation. The Company has an active Collective Agreement in place, Risk Assessment Act, Rulebook on the organisation and systematisation of workplaces and a written internal Code of Ethics for employees. The Company has a well-established HR function which manages labour and working conditions adequately.



Additionally, ESAP includes improvement measures related to external grievance mechanism to fully comply with PR2.

The Company has regular environmental inspections and ESDD confirmed arrangements for meeting national requirements related to wastewater / waste management and emergency preparedness and response are in place. Adequate waste management is ensured through day-to-day implementation of waste management plan. In line with the ESAP, the Company will need to undertake mitigation measures and remedial actions regarding spills and pollution, and circular economy principles to fully comply with PR3. Adequate H&S risk management and internal capacity has been established for managing risks to workers in line with internal Risk Assessment Act. Policies and procedures reviewed during ESDD also align with good international practice. In line with PR4, Serbia Voz will need to implement asbestos surveys, management of asbestos waste, as well as climate resilience measures, as stipulated in the ESAP.

None of the regional depots are in biodiversity sensitive areas, cultural heritage sites or near to sensitive receptors. Land acquisition will be needed for construction of the new regional maintenance depot in Nis, for which the state land will be secured. Serbia Voz engages with various stakeholders, publicise relevant company information, has contact details on their website and generally has an operational grievance mechanism in place. Further formalisation of this would be beneficial including updating their complaints procedure on their website.

The Bank will continue to monitor Serbia Voz activities through annual E&S monitoring reports and site visits if necessary.

## **6.2 INTEGRITY**

In conjunction with OCCO, integrity due diligence was undertaken on Serbia Voz, its senior management and Board Members. [REDACTED]. It was therefore concluded that the Project does not pose an unacceptable integrity or reputational risk to the Bank. Serbia Voz is one of three state-owned entities that were unbundled in 2015 from JSC Serbian Railways. Serbia Voz is an existing client of the Bank, and experience to date has been positive.

All actions required by applicable EBRD procedures relevant to the prevention of 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 | Sovereign Debt Assessment                      |
| ANNEX 3 | Historical Financial Statements                |
| ANNEX 4 | Transition Impact Scoring Chart                |
| ANNEX 5 | EBRD's Projects in the Serbian Railways Sector |
| ANNEX 6 | Green Assessments                              |
| ANNEX 7 | Economic Evaluation                            |
| ANNEX 8 | Project Implementation                         |

## ANNEX 1 – PROJECT DESCRIPTION

### Project background and objectives

Serbia Voz provides train services across the country serving long distance, regional and local needs. International routes to neighbouring countries are also operated. Approximately 38 per cent of the Serbian Rail Network is electrified, therefore, the fleet of passenger trains is made up of a mixture of Electric Multiple Units (EMU's), Diesel Multiple Units (DMU's), Coaching stock and Electric and Diesel Locomotives.

Following recent investment projects to improve rail infrastructure (e.g. upgrading the TEN-T Corridor X), passenger growth has been predicted to increase dramatically over the next 20 years.

In line with these strategic investments, the Company intends to rationalise the day-to-day operational maintenance arrangements into three light maintenance depot locations which sit on or are close to the Corridor X route. Two of the facilities in the rationalised strategy will be rehabilitation/upgrades of the existing Zemun (Belgrade) and Sombor depots while the third facility will be a new depo at Nis. No investment is currently planned at other regional depots, and it is expected that as the development of the business on Corridor X progresses, these facilities will be progressively decommissioned.

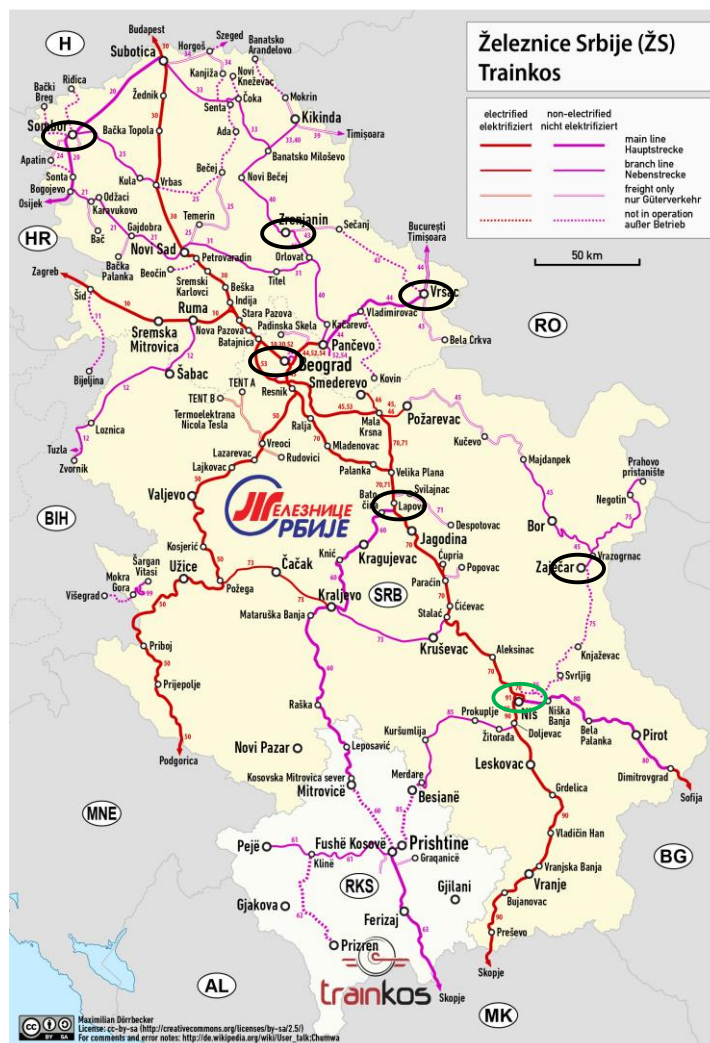


Figure 1: Location of Depots

The investment to be financed by EBRD comprises:

- the rehabilitation and upgrade of the trains depots in Zemun and Sombor, including energy efficiency measures;
- the construction of a new regional train depot in Nis, and the procurement of new maintenance equipment for this depot;
- supervision.

This investment is essential for train services to operate efficiently, as the current rolling stock maintenance infrastructure is outdated and non-functional, making the maintenance of newly acquired rolling stock challenging. The Company needs specialised equipment and facilities, which require the reconstruction/construction of halls and workshops as well as the procurement of new and modern maintenance equipment. These will improve both rolling stock maintenance and employees' working conditions.

On top of renovating the existing buildings and constructing new, some infrastructure components (heating water supply, sewerage, tracks, switches etc.) require the development of completely new systems due to dilapidation. In this context, a specific focus will be put on energy efficiency to lower energy consumption, and the reduction of workspace and environmental pollution.

### **Planned works**

At **Zemun**, the planned works are relatively limited, encompassing structural and architectural rehabilitation/life extension of the underfloor lathe building and maintenance hall of EMUs. In both buildings the works can broadly be described as upgrade/ replacement of facades and roofing and cleaning and upgrade of flooring. More significant investments in the interior fit out and equipping of the facilities is being undertaken in parallel under the broader Zemun TPS upgrade and expansion project. The scope of work currently envisaged at Zemun under this investment does not currently include and road, railway engineering, building services/utilities or telecommunications works, however elements of work under these areas are included in the wider Zemun TPS project.

At **Sombor**, the planned works are relatively limited, encompassing structural and architectural rehabilitation/life extension of the main DMU maintenance hall and minor remedial works to other buildings. In the main maintenance hall, the works can broadly be described as replacement of the roofing and cleaning and upgrade of flooring. The scope of work currently envisaged at Sombor under this investment does not currently include and road, railway engineering, building services/utilities or telecommunications works.

At **Nis**, there is a need to create a multi-purpose depot in the South of Serbia for the needs of ongoing maintenance and repair of DMU (710 and 711) and EMU (Flirt and Kiss). In accordance with the development and project plan of the railway, Nis will be a railway regional center/node of intersection and passage of passenger and cargo railway traffic along Corridor X. The planned investment of the site includes an EMU and DMU maintenance hall, facility for housing an underfloor lathe for processing the wheels of railway vehicles, facility to accommodate construction for tracking railway vehicles, tracks for access to facilities, safety systems of track facilities, telecommunications, systems and security, hydro technical installations, internal roads and lighting of the complex. At this stage, no specifications have been generated for Nis, as the concept design has not yet started, but there is a detailed technical document which sets some of the key technical specifications of the site, including requirements of vehicle maintenance, unscheduled maintenance, wheel processing, and washing.

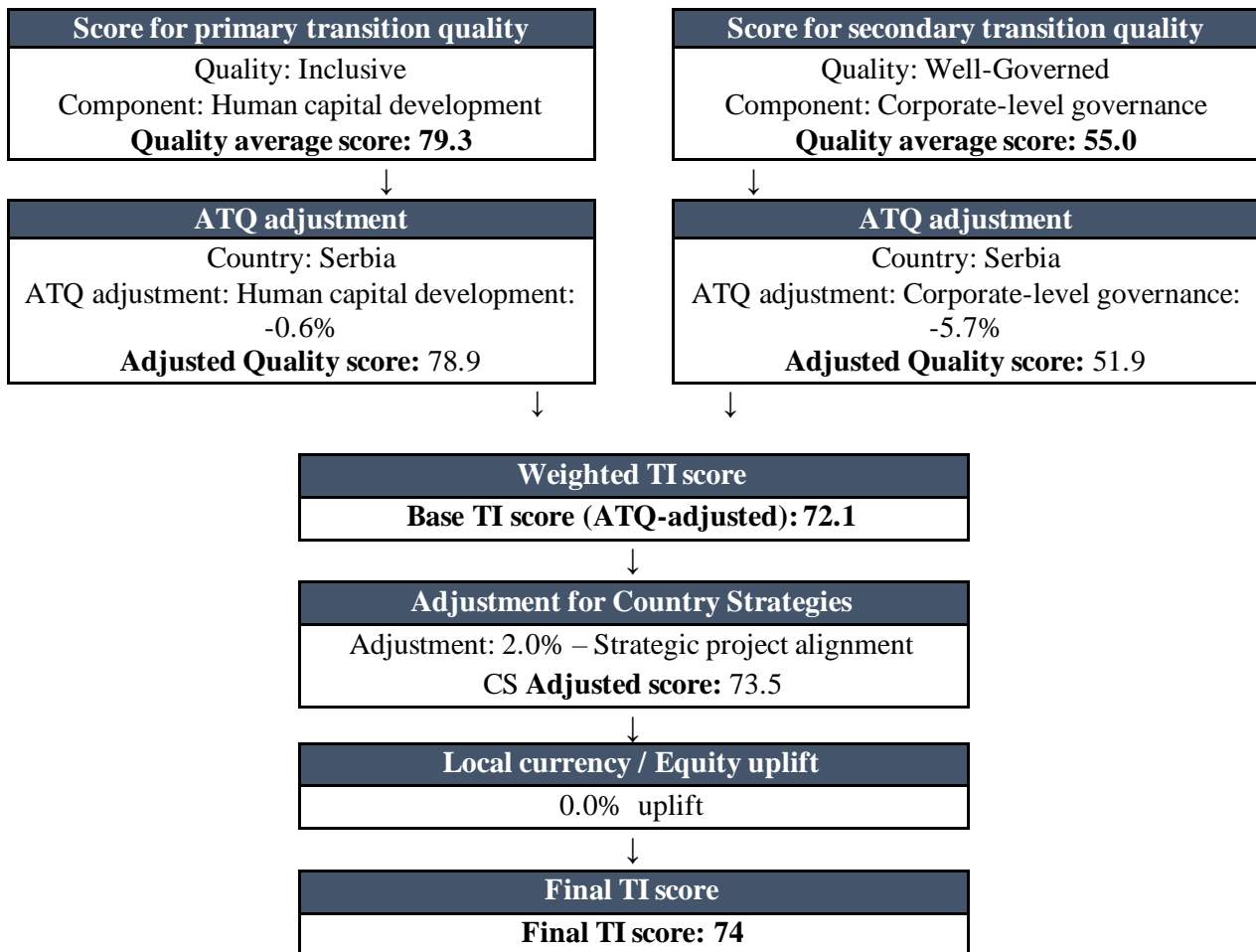
## **ANNEX 2 – SOVEREIGN DEBT ASSESSMENT**

[REDACTED]

## ANNEX 3 – HISTORICAL FINANCIALS

| Model period ending                               | 31 Dec 19     | 31 Dec 20    | 31 Dec 21     | 31 Dec 22    |
|---|---------------|--------------|---------------|--------------|
| EUR million                                       | Actual        | Actual       | Actual        | Actual       |
| <b>Profit &amp; Loss</b>                          |               |              |               |              |
| Operating revenue                                 | 13.8          | 9.3          | 12.3          | 20.7         |
| PSO Compensation                                  | 33.0          | 35.3         | 34.5          | 40.4         |
| <b>Total revenues</b>                             |               |              | <b>46.8</b>   | <b>61.1</b>  |
| Production services costs                         | 15.3          | 12.8         | 13.6          | 17.0         |
| including Track access charges                    | -             | -            | -             | 11.4         |
| Personnel cost                                    | 22.8          | 22.4         | 23.6          | 25.5         |
| Cost of material                                  | 2.2           | 2.6          | 2.7           | 2.2          |
| Cost of energy (Fuel + Electricity)               | 5.3           | 4.0          | 5.1           | 5.8          |
| <b>EBITDA</b>                                     | <b>(1.16)</b> | <b>0.57</b>  | <b>(0.62)</b> | <b>7.22</b>  |
| Fixed assets depreciation - plant, property & equ | (7.7)         | (6.1)        | (6.6)         | (7.2)        |
| <b>EBIT</b>                                       | <b>(8.9)</b>  | <b>(5.5)</b> | <b>(7.3)</b>  | <b>0.0</b>   |
| <b>Profit after tax (PAT)</b>                     | <b>(22.2)</b> | <b>(9.0)</b> | <b>1.7</b>    | <b>(2.9)</b> |
| Model period ending                               | 31 Dec 19     | 31 Dec 20    | 31 Dec 21     | 31 Dec 22    |
|   | Actual        | Actual       | Actual        | Actual       |
| <b>Balance sheet</b>                              |               |              |               |              |
| Cash  | 3.3           | 1.3          | 1.3           | 5.1          |
| <b>Total current assets</b>                       | <b>15.3</b>   | <b>10.6</b>  | <b>13.0</b>   | <b>18.0</b>  |
| Fixed assets balance - property, plant & equipm   | 262.5         | 270.7        | 280.5         | 391.7        |
| <b>Total assets</b>                               | <b>294.6</b>  | <b>300.9</b> | <b>311.5</b>  | <b>439.7</b> |
| <b>Total current liabilities</b>                  | <b>29.0</b>   | <b>40.3</b>  | <b>43.0</b>   | <b>55.2</b>  |
| Long-term portion of long-term debt               | 14.3          | 22.6         | 30.3          | 91.7         |
| <b>Total non current liabilities</b>              | <b>19.3</b>   | <b>27.9</b>  | <b>35.0</b>   | <b>96.5</b>  |
| <b>Total liabilities</b>                          | <b>48.3</b>   | <b>68.2</b>  | <b>78.0</b>   | <b>151.7</b> |
| <b>Equity Balance</b>                             | <b>155.6</b>  | <b>143.2</b> | <b>149.8</b>  | <b>206.2</b> |
| <b>Total shareholder fund and liabilities</b>     | <b>289.4</b>  | <b>295.6</b> | <b>311.5</b>  | <b>439.7</b> |
| EUR million                                       | 31 Dec 19     | 31 Dec 20    | 31 Dec 21     | 31 Dec 22    |
|   | Actual        | Actual       | Actual        | Actual       |
| <b>Cash flow</b>                                  |               |              |               |              |
| Operating CF                                      | 0.4           | 2.2          | (10.2)        | 3.8          |
| Net Cash from Investing                           | -             | -            | -             | -            |
| Net Cash from Financing                           | 14.8          | 10.5         | 23.6          | 69.8         |
| Net Change in Cash                                | 15.2          | 12.7         | 13.4          | 73.6         |
| Cash balance at end of year                       | 3.3           | 1.3          | 1.3           | 5.1          |

## ANNEX 4 – TRANSITION IMPACT SCORING CHART



\*The Primary Quality score is weighted 75% for the calculation of the Base TI Score. The Secondary Quality is weighted 25%.

\*\* Please remove this box if the financing uplifts are not applicable.

## **ANNEX 5 – EBRD’S PROJECTS IN THE SERBIAN RAILWAY SECTOR**

**The Bank has been involved in the rail sector in Serbia since the early 2000s** and is therefore one of the main counterparts of the Serbian Government when it comes to investment and reforms in rail. EBRD notably played a significant role in the preparation and actual unbundling of the vertically-integrated JSC Serbian Railways (“JSCSR”) that occurred in 2015. A brief summary of the Bank’s portfolio projects and achievements in the railway sector is presented below.

### **Prior the restructuring reform process, EBRD worked with JSCSR on:**

- The rehabilitation and modernisation of key sections of Corridor X (JSC Serbian Railways, Op ID: 42262, signing: December 2016, amount: EUR 95 million), [REDACTED]).
- The financing of the programme of track renewal on Corridor X and the purchase of up to 15 electric locomotives to enhance the efficiency of both passenger and freight services (Serbian Railways Corridor X, Op ID: 41125, signing: September 2010, amount: EUR 100 million), [REDACTED]).
- The acquisition of 30 passenger Electric Multiple Units or EMUs (Serbian Railways – EMUs, Op ID: 38711, signing: May 2009, amount: EUR 100 million), ETI score: 60, [REDACTED]).
- The acquisition of 1,100 freight wagons (Serbian Railways Rolling Stock Project, Op ID: 35414, signing: July 2006, amount: EUR 60 million), ETI score: 60 [REDACTED]).
- The maintenance of the railway capacity through a programme of rehabilitation to improve JSCSR operating efficiency and labour productivity (Serbian Railways: ZTP Belgrade Reconstruction Project, Op ID: 18659, signing: October 2001, amount: EUR 57 million), ETI score: 60 [REDACTED]).

While financing those various projects, EBRD worked closely and supported JSCSR in the railway restructuring reform process and the transition towards a more competitive railway sector. Over the years, EBRD supported JSCSR (i) in the submission of a new railway law to Parliament, (ii) in establishing a unit responsible for the restructuring, (iii) in creating a holding company structure, (iv) in preparing and implementing a plan for network rationalisation, (v) in preparing and submitting the PSO, (vi) in introducing a costing methodology for the key segments of the passenger business, (vii) in allocation the assets amongst the four subsidiary companies, (viii) in establishing contracts between the four subsidiary companies, etc.

### **Following the unbundling of JSCRS in four different entities in 2015, EBRD worked on several projects with Serbia Voz:**

- The reconstruction and expansion of the technical passenger station, Zemun, which will become the main maintenance depot for Serbia Voz’s fleet, and introduction of the new management and information systems (TPS Zemun



Project I and II, Op ID: 48405, signing: December 2017, amount: EUR 30 million, ETI score: 60 [REDACTED], status: on-track, and Op ID: 50043, signing: October 2018, amount: EUR 22 million, ETI score: 60 [REDACTED], status: on-track.

- The acquisition of 18 EMUs to provide additional passenger services on the electrified lines of the Serbian Rail network (Serbia Voz Rolling Stock Acquisition, Op ID: 50823, signing: October 2019, amount: EUR 100 million), ETI score: 63 [REDACTED], status: on-track.

Through those loans, EBRD has worked closely with the newly established Serbia Voz on strengthening its governance and operations to become a modern and efficient passenger railway actor, notably through the adoption and implementation of a CGAP and through the obligation to maintain the level of several key operational ratios (i.e. working ratio, labour productivity ratio, fleet availability ratio).

**In 2022, the Bank signed two important railways projects in infrastructure and freight:**

- A tranché sovereign loan of up to EUR 550 million in favour of the Republic of Serbia, for the benefit of Serbian Railways Infrastructure, the state-owned railway infrastructure asset management company in Serbia, to finance the modernisation and upgrade of the ca. 230 km long electrified railway infrastructure section between Belgrade and Nis (**High Speed Rail Belgrade to Nis**, Op ID: 53136, signing: December 2022, committed amount of the first tranche: EUR 60 million, ETI score: 78). The Project will build up on the Bank's reform agenda in the Serbian rail sector with a focus on integration, competitiveness, operational efficiency, corporate governance, gender equality and human capital development while promoting regulatory structural reforms.
- A sovereign guaranteed loan to Serbia Cargo, the national rail freight operator, to modernise its fleet through the purchase of new locomotives, wagons and wagon overhaul (**Serbia Cargo Rolling Stock Renewal**, Op ID: 53274, signing: November 2022, amount: EUR 43 million, ETI score: 64). The expected transition impact of the project includes improvements of corporate governance addressed through a corporate governance action plan, and by developing policy recommendations on improved sector-wide skills development approaches for the railway sector.

## ANNEX 6 – GREEN ASSESSMENTS

### **Introduction**

The Project consists of the rehabilitation and upgrade of two regional depots/workshops used for the maintenance of the Company's rolling stock across the country and the opening of a new depot in Nis. 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 mitigation and adaptation goals of the Paris Agreement. The project is attributed as 100 per cent 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 the Bank's technical due diligence a climate change vulnerability and risk assessment indicated that the project is sensitive to climate change, in particular to increase of precipitation intensity, floods and extreme temperatures. Specific measures are to be included in the ESAP to address identified risks, including:

- Integrating projections of changes in annual precipitation when designing storm water drainage systems.
- When designing the air-conditioning system, consider the temperature rise projections.
- Developing an Emergency Response Procedure.

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**

The project is considered an integral part of rail infrastructure. In line with the GET handbook, the depots are attributed as 100 per cent GET. As Serbia Voz does not transport fossil fuels, and the depots are for Serbia Voz (exclusively), the project is attributed as 100 per cent GET.



## **ANNEX 7 – ECONOMIC EVALUATION**

[REDACTED]

## ANNEX 8 - PROJECT IMPLEMENTATION

### Procurement classification – *Public sovereign*

#### Project risk assessment:

|  |                                 |
|--|---------------------------------|
| <i>Overall risk rating</i>                           | - <i>Moderate High</i> based on |
| <i>Country risk assessment</i>                       | - <i>Moderate High</i>          |
| <i>The Client's capacity assessment related risk</i> | - <i>Moderate Low</i>           |

The Project is implemented by a longstanding client and PIU which has successfully implemented several EBRD financed projects in the last 10 years. PIA has carried out an updated procurement capacity assessment of Serbia Voz and the PIU structure remains the same as for the previous EBRD projects. On this basis, and considering the previous successful experience, the overall assessment of the Company and PIU is moderate low, with the only risk being the potential changes in the PIU personnel which may affect the quality of the team managing the Project.

*Contracts risk assessment* - *Moderate High*

There will be only 3 tenders under the Project: one for design and build of a new depot in Nis, one for rehabilitation of two existing depots in Zemun and Sombor, and the third for the procurement of maintenance equipment for Nis. None of these contracts are technically challenging as they involve simple works and off the shelf goods.

#### Project implementation arrangements:

Serbia Voz will utilise the existing PIU established in January 2011 during the implementation of 'EMUs Modernisation' project (DTM: 48410), the PIU which has successfully implemented since then other 3 EBRD funded projects. The PIU will be supported by the PIA who will provide extensive training to the PIU staff.

Additionally, a supervision consultant will be appointed to supervise the two works contracts to be placed under the Project.

#### Procurement arrangements:

The Project envisages two separate tenders for works: one single open tender contract for the rehabilitation of the existing depots in Zemun and Sombor, and one open multiple stage tender for the design and build of the Nis depot. A separate open stage single tender, with 3 lots, will cover the procurement of maintenance equipment for the Nis depot (including any related services).

The loan proceeds will also finance the contract for supervision services for the construction and rehabilitation of the 3 depots. This will be subject to a single stage competitive selection.

All contracts will be procured through open competitive procedures in accordance with Chapter 3 of the Bank's PP&R for public sector operations.

The EBRD's standard tender documents for works, goods and consultancy services will be used for procurement of these contract.

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

In addition, the Project will benefit from two post-signing grant funded TC contracts covering a) Assistance for the implementation of corporate governance improvements, and b) Support for the implementation of inclusion measures, including the introduction of green and digital skills into national curricula for railway education profiles and supporting youth and women's access to skills and employment. [REDACTED].

The description of the contracts, their estimated values, the procurement strategy and timelines for implementation is presented in the indicative procurement plan below.

**Additional information:** Tendering for the Project will be conducted using the EBRD Client E-Procurement Portal (ECEPP). [REDACTED].