DOCUMENT OF THE EUROPEAN BANK
FOR RECONSTRUCTION AND DEVELOPMENT

Approved by the Board of Directors on 22 October 2024[1]

KAZAKHSTAN

PAVLODAR TRAM PHASE II

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

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

bps	Basis Points
CAPEX / OPEX	Capital Expenditures / Operating Expenditures
CP	Conditions Precedent
CPI	Consumer Price Index
CTF	Clean Technology Fund
D&A	Depreciation and Amortisation
DSCR	Debt Service Coverage Ratio
DSRA	Debt Service Reserve Account
ECEPP	EBRD Client e-Procurement Portal
ESAP	Environmental and Social Action Plan
ESDD	Environmental and Social Due Diligence
ESP	Environmental and Social Policy
E&S	Environmental and Social
EUR	Euro
Forex / FX	Foreign Currency Exchange Rate
GBVH	Gender-based violence and harassment
GESP	Global Energy Storage Program
GET	Green Economy Transition
GJ	Gigajoule
GPS	Global Positioning System
HR	Human Resources
GHG	Greenhouse gases
GPMP	Green Project Monitoring Plan
IFRS	International Financial Reporting Standards
KPI	Key Performance Indicators
KZT	Kazakhstani Tenge
LCU	Local Currency Unit
MDB	Multilateral Development Bank
MEI	Municipal & Environmental Infrastructure
NTS	Non-technical Summary
PIP	Priority Investment Program
PIS	Project Implementation Support
PIU	Project Implementation Unit
PPR	Procurement Policies and Rules
PSA	Project Support Agreement
PSC	Public Service Contract
SEP	Stakeholder Engagement Plan
SSF	Shareholder Special Fund
TC	Technical Co-operation
TONIA	Tenge Overnight Index Average
USD	US Dollars

CURRENCY CONVERSION

(as of 25 September 2024)

EUR 1 = KZT 534.94

PRESIDENT'S RECOMMENDATION

This recommendation and the attached report concerning an operation in favour of JSC Pavlodar Tram Management Company named after D.D. Makhmudov (the "Company"), a joint stock company incorporated in Kazakhstan, are submitted for consideration by the Board of Directors.

The facility will consist of a senior loan to the Company of up to EUR 10 million equivalent in Kazakhstani Tenge (the "EBRD Loan") to be co-financed by a loan from the Clean Technology Fund (CTF) of up to EUR 4 million (the "CTF Loan").

The proposed financing will enable the Company to procure up to 25 energy-efficient trams as part of its fleet modernisation programme (the "Project"). The expected transition impact stems from the Project's green aspects. The *Green Quality* will be achieved through climate change mitigation via a reduction of GHG emissions, supporting a shift of public transport to energy-efficient electric mobility and improved services. The Project is 100 per cent GET.

Pre-signing technical cooperation (TC) support for the Project due diligence was financed by the EBRD Shareholders' Special Fund (SSF). Post-signing TC assignment for the Project implementation support of up to EUR 150,000 is envisaged to be financed by an international donor or the SSF.

I am satisfied that the operation is consistent with the Bank's Strategy for Kazakhstan that stresses the need for "*developing and financing green municipal and transport infrastructure projects ... along with capacity support to municipal companies*" and with the Green Economy Transition approach 2021-2025 . The operation is also aligned with the MEI Sector Strategy aiming for "*increased access to essential municipal infrastructure focused on quality, resource efficiency, reduced environmental impact*" as well as the Strategy for the Promotion of Gender Equality , (iii) the Agreement Establishing the Bank and with United Nations Sustainable Development Goals.

I recommend that the Board approve, on a no-objection basis, the proposed loan, substantially on the terms of the attached report.

Odile Renaud-Basso

BOARD DECISION SHEET

KAZAKHSTAN – PAVLODAR TRAM PHASE II – DTM 55163	
Transaction / Board Decision	Board approval[2] is sought for a senior loan of up to EUR 10 million equivalent in KZT (the "EBRD Loan") in favour of JSC Pavlodar Tram Management Company named after D.D. Makhmudov (the "Company") to finance the procurement of up to 25 energy-efficient trams (the "Project"). The Project will be co-financed by a concessional loan of up to EUR 4 million under the CTF Global Energy Storage Programme (GESP) (the "CTF Loan").
Client	The Company is a municipal tram operator owned by the Pavlodar Region Akimat via JSC Social-Entrepreneurial Corporation Pavlodar. [REDACTED] The Company is the Bank's current client [REDACTED] (23 modern trams were procured as part of Phase I of fleet modernisation programme).
Main Elements of the Proposal	*Transition impact:* Primary Quality – Green (GET Direct Track): the EBRD Loan will enable the Company to further renew the tram fleet with energy efficient trams resulting in energy savings and reduction of GHG emissions. *Additionality:* **Financing structure**. Long-term financing options for the municipal infrastructure sector of Kazakhstan remains limited. **Gender SMART**. The Project promotes gender-responsive and safe public transport services for women and youth through regular awareness-raising campaigns to prevent gender-based harassment or misconduct incidents. *Sound banking* The Project fulfils sound banking criteria on the back of a tested subsidy mechanism and an acceptable credit risk profiles of the Company and its ultimate owner.
Key Risks	*Project implementation risk* is mitigated through involvement of experienced experts for procurement and project implementation support as well as the Company's prior experience in implementing Bank-financed projects. *Repayment risk* is mitigated by (i) the Public Service Contract (PSC) that allocates subsidies to cover the Company's operating and financing costs, (ii) the Project Support Agreement (PSA) that contains undertakings of the Pavlodar Region Akimat to financially support the Project and (iii) the Debt Service Reserve Account. *Tariff risk*. While tariffs (fares) remain below economic cost recovery levels the debt service will be supported by a well-functioning and tested subsidy mechanism.
Strategic Fit Summary	The Project is consistent with the Municipal and Environmental Infrastructure Sector Strategy, the Bank's Country Strategy for Kazakhstan, the Bank's Green Economy Transition Approach 2021-2025, Strategy for the Promotion of Gender Equality and with UN Sustainable Development Goals.

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

ADDITIONAL SUMMARY TERMS FACTSHEET

EBRD Transaction	A senior loan of up to EUR 10 million equivalent in KZT to the Company to finance the procurement of up to 25 energy-efficient trams. The EBRD Loan will be disbursed in KZT applying the then current FX rate at the time of each disbursement. The Project will be co-financed by the CTF Loan of up to EUR 4 million to be provided on concessional terms.
Existing Exposure	[REDACTED]
Maturity / Repayment	EBRD Loan: A 13-year tenor [REDACTED] CTF Loan: A 13-year tenor [REDACTED]
Potential AMI eligible financing	None.
Use of Proceeds – Description	The procurement of up to 25 energy-efficient trams, including battery powered models.
Investment and Financing Plan	[REDACTED]
Key Parties Involved	− The Company as the borrower; − The Pavlodar Region Akimat (the "Regional Akimat"), the Pavlodar City Akimat (the "City Akimat"), JSC Social-Entrepreneurial Corporation Pavlodar (SPK) as project support providers under the Project Support Agreement (PSA); − City Akimat as a counterpart under the Public Service Contract (PSC) that provides for subsidy payments.
Conditions to disbursement	[REDACTED]
Key Covenants	[REDACTED]
Security / Guarantees	[REDACTED]
Other material agreements	• PSA; • PSC.
Associated Donor Funded TC and Blended Concessional Finance	**A. Technical Cooperation (TC)** *Pre-signing:* **TC 1: Technical Due Diligence** to conduct (i) the Project's economic and financial assessment; (ii) The Project's GET and Paris Agreement alignment assessment; and (iii) preparation of the Project trams' technical specifications. This was financed by the SSF (EUR 73,905).**TC 2: Environmental and Social Due Diligence (ESDD)** to assist the Company with (i) the Project's Environmental and Social assessment and audit; (ii) Preparation of Environmental and Social (E&S) reporting including ESAP, SEP and NTS. This was financed by the SSF (EUR 30,400).**TC 3: Advance Procurement Support** to assist the Company with procurement, evaluation, and contracting services. This was financed by the SSF (EUR 42,000). *Post-signing:* **TC 4: Project Implementation Support** to assist the Company with implementation and monitoring of the Project, including all aspects of the supply contract implementation and financing, ESAP implementation support and other E&S requirements. The expected cost of the assignment is up to EUR 150,000; proposed to be financed by international donors or the SSF.

	B. Blended Concessional Finance The Project is expected to benefit from the CTF Loan. This will support the expansion of green investment in the public transport sector and enable the Company to invest in pioneering energy-efficient technologies by procuring battery-powered trams, first in Kazakhstan. Given the substantial capital expenditure required for battery-powered trams and the Company's limited debt service capacity due to the subsidized nature of the public transport sector, this concessional financing is essential for making the Project commercially viable. **Reimbursement:** The above TC assignments are non-reimbursable transactional TCs, required to evaluate the investment and assist the Company with the Project's implementation.

[REDACTED]

INVESTMENT PROPOSAL SUMMARY

1. STRATEGIC FIT AND KEY ISSUES

1.1 STRATEGIC CONTEXT

The city of Pavlodar (the "City"), located in the north-east of Kazakhstan, is one of the country's important industrial centres with a population of 361,000. The City currently requires a modernisation and expansion of its public transport system to ensure service reliability with a particular emphasis on the rehabilitation of tram infrastructure. Having the largest tram network in Kazakhstan, the Company has been handling up to 40 per cent of the City's total passenger traffic connecting residential areas with the administrative centre and major industrial zones. Yet, around 60 per cent of the Company's fleet is obsolete as it was commissioned in the 1970s and 1980s.

The Bank's engagement with the Company commenced in 2015 with the financing of a partial renewal of its tram fleet and GPS systems (Phase I); it also helped the Company and the City to improve the sector regulatory framework by introducing a functional subsidy mechanism and developing the City's public transport strategy. The reforms facilitated sustainable public transport operations contributing towards delivering market-based and demand-driven infrastructure. Additionally, the Phase I project helped the Company to enhance its corporate governance standards via establishing new accountability procedures and formalising institutional, accounting, and managerial controls between the Company and the City.

The City now aims to further renew its tram fleet with a modern battery-powered trams with an autonomous driving range of up to 20 km and thus raising the share of modern energy-efficient trams from current 42 per cent to up to 74 per cent, reducing the risk of traffic congestions due to unexpected electricity supply outages, enhancing the resilience of public transport services and direct environmental benefits for the City. The battery-powered trams will also support the City's anticipated tram network expansion programme, which envisions the extension of the tram network without catenary lines. Successful implementation of the Project will foster a shift from private vehicle use to inclusive, environmentally friendly public transport.

The Project will improve drivers' safety conditions, particularly for female drivers, and expand on prevention of gender-based harassment and violence (GBVH) for passengers via the implementation of awareness campaigns to promote safe transport environment for all groups of passengers. These initiatives will be developed in partnership with local women's organisations. They will include activities such as posters, audio and video products demonstrated in trams. The aim will be to disseminate messages to change behaviour around GBVH in public transport and public spaces.

The Project is consistent with the Municipal and Environmental Infrastructure Sector Strategy, which calls for "*increased access to essential municipal infrastructure focused on quality, resource efficiency, reduced environmental impact*". It is also aligned with the Bank's Country Strategy for Kazakhstan which points to "*developing and financing green municipal and transport infrastructure projects … along with capacity support to municipal companies*" as one of the key focus areas. Due to its positive environmental impact, the Project is also consistent with the Bank's Green Economy Transition Approach 2021-2025 which emphasizes the potential for enhanced activity in urban transport. Additionally, the Project is consistent with the Strategy for the Promotion of Gender Equality, which underscores its commitment to advancing gender equality.

The Project also contributes to the United Nations Sustainable Development Goals (SDGs), namely: SDG 3 – Good Health and Well-being, SDG 9 – Industry, Innovation and Infrastructure, SDG 11 – Sustainable Cities and Communities, and SDG 17 – Partnerships for the SDGs.

1.2 TRANSITION IMPACT

The Project's primary quality is Green to be achieved via the renewal of the Company's tram fleet. This will result in a modal shift to a greener public transport, less energy consumption and thus the reduction of GHG emissions and environmental benefits (please refer to *Annex 3* for details). The Project qualifies as a positive climate mitigating activity eligible for GET Direct Track approach.

Primary Quality: Green (GET Direct Track)

Obj. No.	Objective	Details
1.1	The percentage of EBRD use of proceeds that supports green economy transition and therefore qualifies as GET finance exceeds 60 per cent.	The share of GET-compliant EBRD proceeds is 100 per cent. The Project will reduce electric energy consumption due to the procurement of energy-efficient trams translating into a reduction of GHG emissions of 1,877 tons/year.

1.3 ADDITIONALITY

Identified triggers	**Description**
A subsequent/consecutive transaction with the same client/group either with the same use of proceeds or in the same country (repeat transaction).	The implementation of Phase I allowed the Company to procure 23 energy efficient trams and install GPS systems. The Project will further contribute to the City and Company's efforts in improving public transport services via its fleet modernisation.
Additionality sources	**Evidence of additionality sources**
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.	The Bank provides a long-term financing with a tenor of 13 years [REDACTED] which is not readily available in Kazakhstan from local commercial banks to municipally owned companies for an investment of this nature.

Such financing is necessary to structure the project. EBRD offers a **tenor**, which is above the market average and is necessary to structure the project of this nature.	
Risk mitigation EBRD helps the client to mitigate carbon transition risks and take climate action, such as to move along a low carbon transition pathway.	The Project will contribute to the reduction of GHG emission and air pollution. In addition to environmental benefits, the investment will improve the quality of public transport services. This will facilitate a gradual shift from the usage of private vehicles in a favour of environmentally friendly public transport.
Standard-setting: helping projects and clients achieve higher standards **Gender SMART**: Client seeks/makes use of EBRD expertise for the adoption of **higher standards of gender equality and gender-responsive services** Client seeks/makes use of EBRD expertise on **best international procurement standards**.	There is a need to promote prevention of GBVH among passengers. According to a recent survey by MediaNet International Centre for Journalism, in 2021 a 21 per cent of respondents experienced sexual harassment in public transport and public spaces in Kazakhstan. The Company will improve and promote access to safe transport services for all passengers by implementing at least three regular awareness-raising campaigns to provide information to transport users on how to foster and promote a safe transport environment. This will include awareness-raising on identifying and safely reporting incidents of harassment or misconduct on transit and identifying unacceptable behaviours. The information will be developed in partnership with local women's organisations for additional professional expertise. It will include such activities as posters, audio and video products demonstrated in trams. The Project will follow EBRD PPRs for public sector clients.

1.4 Sound Banking – Key Risks

Risks	Probability / Effect	Comments
Project specific risks		
The Company's standalone debt capacity	Medium / High	The PSC is the cornerstone agreement allowing the Company to generate a predictable revenue stream and this arrangement has been demonstrating its sustainability over the last 8 years. Should the Company still experience liquidity issues, the Regional and the City Akimats are required to preserve financial support under the PSA. [REDACTED] The DSRA will be put in place to mitigate the risk of delays in allocation of subsidies.
Sponsor risk	Low / High	Pavlodar Region (the "Region") has been consistently demonstrating budget performance improvements with the current revenue growth of 21 per cent on a y-o-y basis starting

		from 2020. The Region's current budget standing is strong, and the leverage is moderate. The main improvement factor is the growing tax revenue from petrochemical, metallurgy, and energy sectors. Detailed analysis of the Region's performance is presented in *Section 3.2*.
Project implementation risk	Moderate/ Moderate	The Project implementation risk is expected to be moderate due to the Company's successful track record with Phase I. The technical and procurement consultants have been engaged to support the Company with the Project's preparation and implementation, especially concerning the procurement of battery-powered trams, which are unique in Kazakhstan. The Project also envisions post-signing Project Implementation Support (PIS) TC [REDACTED]
Tariff risk	Moderate/ Moderate	The current fare for all buses and trams in the City is below cost recovery level as is common for public transport operators universally. A recent tariff increase by 25 per cent in 2024 pushed the Company to work further on its financial and operational performance efficiency and the City to monitor the service quality. Nevertheless, the sector is expected to be below cost recovery in the foreseeable future, albeit the well-functioning subsidy mechanism safeguards sustainable debt service capacity and operational viability of the Company.
Collection risk	Moderate/ Low	The Company's average fare collection ratio is 95 per cent maintained via e-ticketing system established under Phase I. The risks associated with collection system are largely mitigated by the subsidy mechanism under PSC.
External risks		
Climate Risk	Low/ Medium	Climate-related financial risks associated with carbon transition and physical climate change are low.
FX risk	Low/ Medium	The EBRD Loan will be denominated in KZT. The Company's exposure to the CTF Loan in EUR will also be limited [REDACTED]. The subsidy mechanism under the PSC covers the FX risk. Potential capital cost overruns associated with FX movements, if required, will be covered by the Company and/or the Regional and/or City Akimat through additional equity contributions.

2. MEASURING / MONITORING SUCCESS

Overall objectives of project	Monitoring benchmarks	Implementation timing
Timely implementation of the Project	Completion according to the timeline and within the budget	[REDACTED]
Maintaining appropriate environmental standards	Successful and timely implementation of the ESAP	Throughout the life of the EBRD Loan

Transition Impact Monitoring Indicators

Primary Quality: Green

Obj. No.	Monitoring indicator	Details	Baseline	Target	Due date
1.1	Energy savings (GJ/year)	Energy savings stemming from electricity losses reduced	268,970	165,632 (reducti on of	[REDACTED]

		as the result of the Project		103,339 GJ/year)	
1.2	CO_2 emissions reduced (tonnes/year)	Confirmation on GHG emission reduced as a result of electricity losses reduction	0	1,877	[REDACTED]

Additional Indicators

Indicator type	Monitoring indicator	Details	Baseline	Target	Due date
New or updated technology introduced	Increased deployment of Energy Storage System	Number of innovative energy storage technologies implemented	0	1	[REDACTED]
Gender SMART	Practices of relevant stakeholder improved (addressing violence, harassment and bullying risks)	Implementation of at least 3 new regular awareness-raising campaigns to provide information to transport users on fostering and promoting safe transit and address risk and incident of gender-based harassment or other forms of misconduct. This includes identifying unacceptable behaviour and how to safely report an incident. The information will be developed in partnership with local women's organisations for additional professional expertise and include such activities as posters, audio and video products demonstrated in trams.	0	3	[REDACTED]

3. KEY PARTIES

3.1 BORROWER

The Company was established in 1968 to provide commuting services to large industrial factories in the rapidly growing city of Pavlodar. Its shareholders' structure is presented in *Annex 1*. The Company operates 10 routes across an 89 km tram network, serving approximately 16.4 million passengers annually. It holds a 40 per cent share of the City's public transport sector. The Company has a fleet of 109 trams with 79 of them being more than 40 years old. The average daily number of trams in service is 72 units.

The Company's infrastructure is largely in satisfactory condition. The tram depot is adequately equipped to support both the current fleet and planned upgrades. Although the tram tracks are generally in acceptable condition, they necessitate a long-term renewal strategy, considering their operational lifespan. In turn, the power supply system is adequate and continues to support tram operations reliably.

The Bank's engagement with the Company started in 2015 with the signing of the Phase I project. The Company has a good track record as the Bank's client and, has been servicing the Phase I loan on a timely basis.

[REDACTED]

Table 1 below presents a summary of the audited financial statements for 2021-2023.

Table 1. The Company's audited financial highlights, 2021-2023

Items	KZT million			EUR million		
	2021	2022	2023	2021	2022	2023
Profit and loss						
Revenue	2,533	3,769	4,448	5.0	7.8	9.0
incl. subsidies under PSC	*1,404*	*2,348*	*3,185*	*2.8*	*4.8*	*6.5*
EBITDA	412	485	359	0.8	1.0	0.7
Net profit / (loss)	(161)	(130)	(193)	(0.3)	(0.3)	(0.4)
Balance sheet						
Total assets, including:	4,217	4,004	3,818	8.4	8.3	7.7
- *cash and cash equivalents*	268	183	4	0.5	0.4	0.0
Total liabilities, including:	1,544	1,460	1,467	3.1	3.0	3.0
- *loans*	1,119	938	931	2.2	1.9	1.9
Total equity	2,674	2,544	2,352	5.3	5.2	4.8
Cash flow						
Net CF, including	(703)	(85)	(178)	(1.4)	(0.2)	(0.4)
- *operating CF*	353	325	60	0.7	0.7	0.1
- *investing CF*	(132)	(33)	(39)	(0.3)	(0.1)	(0.1)
- *financing CF*	(924)	(378)	(200)	(1.8)	(0.8)	(0.4)
Ratios						
EBITDA margin	*16%*	*13%*	*8%*			
Debt / EBITDA	*2.7*	*1.9*	*2.6*			
Debt / Equity	*0.4*	*0.4*	*0.4*			
EUR / KZT (annual average)	*504*	*485*	*493*			

The detailed historical financials of the Company are provided in *Annex 4*.

3.2 SPONSOR – THE AKIMAT OF PAVLODAR REGION

The Pavlodar Region is in the north-eastern part of Kazakhstan and has 754 thousand inhabitants (ca. 4 per cent of the country's population). Its strong economic growth prospectives are derived from an intensive on-going development of the non-ferrous metals, general industry, machinery and energy sector. The Region generates more than 40 per cent of the country's total energy production, 60 per cent of ferroalloys and a third of country's refined oil and petrochemical products.

[REDACTED]

4. MARKET CONTEXT

The public transport market in the City comprises of ten transport operators, including the Company being the largest and only municipally owned transport operator. The only municipal bus operator in Pavlodar was privatised back in 2021.

Local authorities regulate the route scheme and tariffs for all market players and periodically tender the bus routes among private bus operators on a competitive basis. Under the approved subsidy methodology, the City Akimat compensates bus operators for operational losses calculated as the difference between the estimated service cost and fare revenue. This methodology includes compensation for fleet depreciation, maintenance CAPEX, drivers' salaries, spare parts, fuel and a profit margin.

In turn, the subsidy mechanism for the Company is governed by an individual PSC and Rules for subsidising passenger transportation by urban rail transport in the City approved by Maslikhat, a Local Council in 2017 (the "Subsidy Rules"), in accordance with the Law of Kazakhstan on Transport. The subsidy methodology covers all major operating costs of the Company among others including amortisation, repairs, payroll, electricity as well as debt service. [REDACTED]

Currently, the City Akimat applies a single tariff fare policy for all means of public transport in the City – KZT 100 (EUR 0.20 equivalent) for cashless payments and KZT 200 (EUR 0.40 equivalent) for cash payments. These tariffs, effective from 1 January 2024, remain below cost-recovery level despite the recent upward adjustment of 25 per cent. This is partly due to the higher costs of running and maintaining an urban rail-based network. Tariff increases are a sensitive issue to balance affordability with service costs, and local authorities continuously monitor fare trends in other regions to ensure alignment with peer cities.

A public transport network optimisation undertaken in 2018 as a part of Public Transport Strategy removed a route overlap between trams, buses, and minibuses. Tram routes serve industrial zones in the northern and southeastern parts of the City, where no bus routes operate. There is a small overlap between tram and bus routes in the City centre, but it is limited to a minor portion of their routes.

In the last few years, with the support of the City Akimat, bus operators have tangibly invested into their fleet renewal by purchasing new compressed natural gas, diesel and electric buses, enhancing their competitive position relative to trams. The proposed investment will further the City Akimat's efforts to facilitate the upgrade and expansion of electric public transport fleet and infrastructure to increase the share of environmentally friendly means of public transport in the City.

5. FINANCIAL / ECONOMIC ANALYSIS

5.1 FINANCIAL PROJECTIONS

[REDACTED]

5.2 SENSITIVITY ANALYSIS

[REDACTED]

5.3 PROJECTED PROFITABILITY FOR THE BANK

[REDACTED]

6. OTHER KEY CONSIDERATIONS

6.1 ENVIRONMENT

Categorized B (2019 ESP). The Project involves procurement of up to 25 energy-efficient trams, including battery powered models, leading to substantial renewal of the Company's obsolete tram fleet in the City. The proposed investment will mainly have environmental and social benefits as it: will enhance accessibility and mobility for all user groups; improve air quality in the City and overall quality, safety and efficiency of the urban transportation.

ESDD was undertaken by an external international consultant together with technical due diligence and focused on the key E&S impacts/risks, the Company's capacity to implement the Project in line with the Bank's Performance Requirements, with specific attention to the maintenance depot, auxiliary facilities and workshops, labour practices, passenger and road safety, and driver training. The project implementation is limited to the urban area within the boundaries of the current urban development and no sensitive ecological receptors or protected zones will be affected. In addition, it is confirmed that the Project will not have significant adverse social impacts to local communities or other project affected parties, nor will the Project require the acquisition of land or result in involuntary resettlement or economic displacement.

The Company has environmental and occupational safety requirements incorporated into contractor agreements and the procurement of trams will be based on EBRD PPRs via the open tender. Additionally, development of Company's internal supplier and contractor monitoring procedure will be required.

Human resource management is structured to directly comply with the national legislation, labour code, collective agreement, written employment contracts. These are in general sufficient to manage the current workforce of over 500 employees. Further formalisation of HR policies will be required, including worker grievance mechanism, retrenchment, and GBVH prevention. The Company has created the Enterprise Standard "Occupational Health and Safety Management System in the Organization" (OHSMS), a mandatory corporate document that serves as the foundation for developing occupational health and safety instructions for each profession in the staff list. Additional assistance in capacity building and training will be needed in implementing this OHSMS, emergency response and road traffic safety, vehicle maintenance and repairs.

The Company is a current client of the Bank with satisfactory performance in implementing the current ESAP. This has been further updated to address additional areas for improvement identified during the ESDD, including external communication with stakeholders, health and safety of passengers and formalisation of community grievance procedure. The revised ESAP has been agreed with the Company. Additional capacity building support with implementation of the ESAP will be provided as part of the PIS support TC. The environmental and social performance of the Project and implementation of the ESAP will be monitored through annual E&S reports and site visits when deemed necessary.

6.2 INTEGRITY

Integrity due diligence was undertaken on the Company, its shareholders, senior management and other relevant parties. [REDACTED]

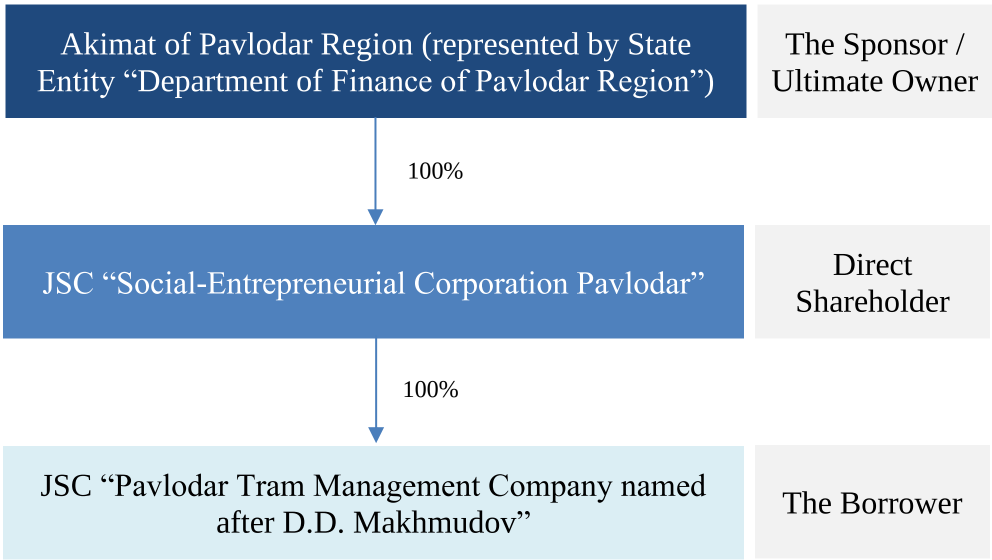
All actions required by applicable EBRD procedures relevant to the prevention of money laundering, terrorist financing and other integrity issues have been taken with respect to the project, and the project files contain the integrity checklists and other required documentation which have been properly and accurately completed to proceed with the project.

6.3 OTHER ISSUES

Concessional Finance - The Bank is envisaging to deploy concessional financing of EUR 4 million from CTF under the GESP funding framework. The CTF Loan will support the acquisition of energy-efficient battery-powered trams which will be the first of its kind in Kazakhstan. Considering the high CAPEX costs of battery powered trams, combined with the Company's limited debt service capacity due to the subsidised environment of public transport sector, the concessional finance will be key to support the Company.

ANNEXES TO OPERATION REPORT

ANNEX 1 – SHAREHOLDING STRUCTURE



ANNEX 2 – PROJECT IMPLEMENTATION

[REDACTED]

The Project will involve a contract to supply tram rolling stocks, in which the Company does not possess recent experience. To mitigate the risks, the Company will be supported by internationally experienced consultants [REDACTED]

Project implementation arrangements:
The Company has an established PIU which will be responsible for the procurement of goods and services and contract administration under the Project. The Company will appoint a qualified project manager, who will be responsible for timely and efficient Project implementation. The Project implementation will be further supported by internationally experienced consultants [REDACTED]

Procurement arrangements:
The Project is classified as a public sector operation for procurement purposes. The planned contracts financed from the proceeds of the EBRD Loan, CTF Loan and Grants administered by the Bank will be procured using an open tendering procedure in accordance with Article 3 of Section 3 of the PPR for the Public Sector and will use the Bank's Standard Tender Documents. A single stage tender is proposed to be used for the supply contract of tram rolling stocks.
All contracts will be subject to prior review by the Bank in accordance with the procedures set out in the PPR. All tenders will be managed using ECEPP. Disbursements under the contracts will be made directly to the contractors and suppliers. [REDACTED]

ANNEX 3 – GREEN ASSESSMENTS

SUMMARY

- The Project is a loan to finance the procurement of up to 25 energy-efficient trams (including battery powered trams) to further renew the obsolete tram fleet in the city of Pavlodar.
- The Project is determined **aligned with both mitigation and adaptation goals of the Paris Agreement.**
- The Project is attributed **100 per cent GET mitigation and environment.**
- Climate-related financial risks have been assessed [REDACTED]. No further action is required.

PARIS ALIGNMENT ASSESSMENT

Alignment with the mitigation goals of Paris Agreement

The Project is determined as aligned with the mitigation goals of the Paris Agreement based on the application of the Bank's Paris alignment approach for direct finance.

- The Projects activity is included in the 'MDBs' aligned list' under the category *'electric passenger transport'*.
- The Project is consistent with the substantial contribution criteria of the EU Taxonomy *under category 'Urban and suburban transport, road passenger transport'* as the activity provides urban passenger transport and its direct (tailpipe) CO_2 emissions are zero.
- There are no activities included in the 'non-aligned list'.

Alignment with the adaptation goals of Paris Agreement

The Project is determined as aligned with the adaptation goals of the Paris Agreement as it satisfies all three steps of the assessment. No material physical climate risks have been identified/all material physical climate risks have been addressed.

GET ATTRIBUTION

The Project is attributed **100 per cent GET**. This share has been calculated in line with **7.1 Urban and rural public transport projects (A.5.3.1.1. Zero-direct-emissions fleet and related infrastructure)**.

The expected impacts of the transaction are

- **Climate change mitigation**: Emission reduction due to the decommission of the old tram fleet, replacement of diesel buses and modal shift to new trams. The total reduction is 1,877 tCO_2e/year.
- **Pollution prevention and control:** Due to air quality improvement where NO_x, PM and SO_2 emission reduction benefits have been quantified as they result in the reduction in air pollutants when compared against the baseline.

GREEN PROJECT MONITORING PLAN

[REDACTED]

ANNEX 4 – HISTORICAL FINANCIAL STATEMENTS

Items	KZT million			EUR'000		
	2021	2022	2023	2021	2022	2023
Profit and loss						
Revenue, including	2,533	3,769	4,448	5,025	7,767	9,017
- transportation services	*1,050*	*1,309*	*1,179*	*2,084*	*2,698*	*2,390*
- ad placement and other	*78*	*112*	*84*	*155*	*230*	*170*
- subsidy	*1,404*	*2,348*	*3,185*	*2,786*	*4,839*	*6,457*
COGS (excl D&A)	(1,923)	(3,093)	(3,916)	(3,816)	(6,375)	(7,939)
Gross profit	609	676	531	1,209	1,393	1,077
Admin costs (excl. D&A)	(198)	(191)	(172)	(392)	(394)	(350)
EBITDA	**412**	**485**	**359**	**817**	**999**	**728**
D&A	(467)	(456)	(435)	(926)	(939)	(882)
Other income	46	18	39	92	38	79
Other expenses	(1)	(6)	(11)	(2)	(12)	(21)
Financial income	13	4	8	26	7	17
Financial expenses	(171)	(206)	(192)	(338)	(425)	(390)
EBT	(167)	(161)	(232)	(331)	(331)	(469)
Income tax	6	31	39	13	64	79
Net profit (loss)	**(161)**	**(130)**	**(193)**	**(319)**	**(267)**	**(390)**
Balance sheet						
Cash and CE	268	183	4	532	376	9
ST Accounts receivables	10	76	477	21	156	966
Inventory	307	472	362	610	972	733
Other ST assets	32	44	60	64	90	122
ST assets	618	774	903	1,226	1,595	1,830
PPE	3,539	3,146	2,758	7,020	6,484	5,591
CIP	61	84	157	120	173	319
LT assets	3,599	3,230	2,916	7,141	6,657	5,910
Total assets	**4,217**	**4,004**	**3,818**	**8,367**	**8,251**	**7,740**
Equity	2,674	2,544	2,352	5,305	5,243	4,767
ST Accounts payables	74	135	157	147	277	319
ST Debt	189	184	354	374	380	718
Other ST liabilities	196	264	293	388	544	593
ST liabilities	459	583	804	910	1,201	1,630
LT Debt	930	753	577	1,845	1,552	1,169
Other LT liabilities	155	124	86	307	255	174
LT liabilities	1,085	877	662	2,153	1,807	1,343
Total equity and liabilities	**4,217**	**4,004**	**3,818**	**8,367**	**8,251**	**7,740**
Cash flow						
CFO	353	325	60	700	671	122
Total CAPEX	(132)	(33)	(39)	(262)	(69)	(78)
CFI	(132)	(33)	(39)	(262)	(69)	(78)
Other financing inflows	269	65	552	534	134	1,119
Interest expense	(160)	(202)	(185)	(317)	(417)	(374)
EBRD loan repayment	(769)	(184)	(184)	(1,526)	(380)	(374)
Other ST loans repayment	(269)	(65)	(382)	(534)	(134)	(774)
CFF	(929)	(387)	(199)	(1,844)	(797)	(404)
FOREX	5	9	(1)	10	19	(1)
Net CF	**(703)**	**(85)**	**(178)**	(1,396)	(176)	(361)
cash - beg	972	268	183	1,928	552	370
cash - end	268	183	4	532	376	9
KZT / EUR (ann. avg.)	***504***	***485***	***493***			