

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

Approved by the Board of Directors on 4 December
2024¹

UKRAINE

UZ ELECTRIC LOCOMOTIVES

[Redacted in line with the EBRD's Access to Information Policy]

[Information considered confidential has been removed from this document in accordance with the EBRD's Access to Information Policy (AIP). Such removed information is considered confidential because it falls under one of the provisions of Section III, paragraph 2 of the AIP]

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

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

AESR	Annual Environmental & Social Report
BoD	Board of Directors
CGAP	Corporate Governance Action Plan
CPI	Consumer Price Index
CSD	Climate Strategy & Delivery
CT	Carbon Transition
DC	Direct current
DSCR	Debt Service Coverage Ratio
EBITDA	Earnings Before Interest, Taxes, Depreciation and Amortisation
ECEPP	EBRD Client e-Procurement Portal
EFF	Extended Fund Facility
EHSS	Environmental, Health and Safety, and Social
EIB	European Investment Bank
EIRR	Economic Internal Rate of Return
EMIS	Energy Management and Information System
ENPV	Economic Net Present Value
eop	End of period
EPG	Economics, Policy and Governance
EPP	Enforcement Policy and Procedures
ESAP	Environmental and Social Action Plan
ESD	Environment and Sustainability Department
ESDD	Environmental and Social Due diligence
ETI	Expected Transition Impact Score
EU	European Union
EUR	Euro
FW	Framework
FX rate	Foreign exchange rate
G7	The Group of Seven (Canada, France, Germany, Italy, Japan, the United Kingdom, the United States)
GDP	Gross Domestic Product
GET	Green Economy Transition
GHG	Greenhouse gas
HCI	Human Capital Investment Incentive Grant Programme
IDP	Internally displaced person
IFI	International Financial Institution
IFRS	International Financial Reporting Standards
IMF	International Monetary Fund
IRR	Internal Rate of Return
LGD	Loss Given Default
LTM	Last Twelve Month
NBU	National Bank of Ukraine
NWC	Net Working Capital

OCCO	Office of the Chief Compliance Officer
PC	Physical climate
PD	Probability of Default
PIU	Project Implementation Unit
pkm	Passenger-kilometre
PPR	Procurement Policies and Rules
PSD	Project Summary Document
RAROC	Risk Adjusted Return on Capital
RELINC	Repairing Essential Logistics Infrastructure & Network Connectivity Project
RST	Reform Support Team
SDR	Special Drawing Rights
SIG	Sustainable Infrastructure Group
SO	Single Obligor
SSF	EBRD Shareholder Special Fund
TA/TC	Technical Assistance/Technical Cooperation
tkm	Tonne-kilometre
UAH	Ukrainian Hryvnia
UAS	Ukrainian Accounting Standards
UNOCHA	United Nations Office for the Coordination of Humanitarian Affairs
URTF	Ukraine Relief, Recovery, Reconstruction and Reform Trust Fund
USD	United States Dollars
UZ PJSC, Company	Public Joint Stock Company Ukrainian Railways (Ukrzaliznytsia)
YE	Year-end

CURRENCY CONVERSION
(year to date average NBU rate)

EUR 1 = UAH 43.18

PRESIDENT’S RECOMMENDATION

This recommendation and the attached Report concerning an operation in favour of Joint Stock Company "Ukrainian Railways" (the “Company”, “UZ”), a vertically-integrated national railway operator incorporated in Ukraine, 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 300 million (the “Loan”). The Loan will consist of: (i) committed Tranche 1 of up to EUR 120 million, and (ii) uncommitted Tranche 2 of up to EUR 180 million to finance acquisition of new electric locomotives. The Loan will be co-financed by a parallel investment grant of up to USD 190 million (EUR 175 million) from the Government of the United States, administered by the World Bank through the Ukraine Relief, Recovery, Reconstruction and Reform Trust Fund (URTF) as part of the Repairing Essential Logistics Infrastructure & Network Connectivity (RELINC) Project.

The operation will enable the Company to address its critical needs to renew its operating fleet, to maintain operations and ensure stable and uninterrupted railway cargo (including logistics for the agricultural exports and critical imports) and passenger transportation services, despite the devastating impact of the war on Ukraine.

The expected transition impact of the Project is driven by the need to fund critical investments in the Company’s electric locomotive fleet (*Green*), further strengthened by measures to accelerate the adoption of advanced energy efficiency technologies and practices in the railway sector. The Project is expected to contribute to improved efficiency of the fleet, support continued sustainable operations of the Company, and help maintain and improve exports and imports logistics. The proposed Project will support the Company’s (i) continued facilitation of large movements of people, including the rising numbers of people with conflict-related disabilities, internally-displaced persons (“IDPs”) and refugees seeking safety within Ukraine and abroad, and (ii) delivery of vital supplies through cargo transportation from Europe to the Ukrainians affected by the war (*Inclusive*). The Project will also support human capital development through a new veterans’ reintegration programme established through EBRD’s assistance, delivering critical and timely support to UZ staff and their families.

The post-signing Technical Cooperation (“TC”) TC to assist the Company with the Project implementation is expected to be financed by international donors and/or the SSF, alongside advisory support aligned with UZ’s most pressing human capital goals to be financed through the Action for Equality and Gender (A4EG) Fund or Ukraine Multi-Donor Account.

I am satisfied that the operation is consistent with the “War on Ukraine – EBRD Resilience Package”, the Bank’s Strategy for Ukraine, the Bank’s Transport Sector Strategy 2019-2024 the Bank’s Equality of Opportunity Strategy 2021-2025, the Bank’s Strategy for the Promotion of Gender Equality 2021-2025, and with the Agreement Establishing the Bank.

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

Odile Renaud-Basso

BOARD DECISION SHEET

UKRAINE – UZ ELECTRIC LOCOMOTIVES – DTM 55499	
Transaction / Board Decision	Board approval ² is sought for a senior sovereign-guaranteed loan of up to EUR 300 million in favour of JSC “Ukrainian Railways”, a joint stock company organised and existing under the laws of Ukraine. The Loan will finance acquisition of electric locomotives and consist of two tranches: (i) EUR 120 million committed Tranche 1 and (ii) EUR 180 million uncommitted Tranche 2. Commitment of Tranche 2 will be at the sole discretion of the Bank. It is proposed that a commitment decision for the uncommitted tranche to be delegated to management. The Project will be co-financed by a parallel investment grant of USD 190 million from the Government of the United States, administered by the World Bank through the Ukraine Relief, Recovery, Reconstruction and Reform Trust Fund (URTF) as part of the Repairing Essential Logistics Infrastructure & Network Connectivity (RELINC) Project.
Client	UZ is a vertically integrated railway company fully owned by the Government of Ukraine. Existing exposure: EUR 221 million. [REDACTED].
Main Elements of the Proposal	<p>In the current crisis environment triggered by the war on Ukraine, the emergency capex program covering acquisition of electric locomotives will support the Company in addressing its critical operating fleet renewal and ensuring continuity of its operations. Provision of essential railway cargo and passenger transportation services remains critical for the Ukrainian population, the Ukrainian economy and continued functioning of the private sector (based on pre-war estimates, more than 80% of all cargo transportation and more than 30% of passenger transportation in the country are covered by UZ) as well as for humanitarian efforts.</p> <p><u>Transition impact</u></p> <p>Primary Quality – Green. Through funding critical investments to renew the Company’s electric locomotives fleet, further strengthened by measures to accelerate the adoption of advanced energy efficiency technologies and practices in the railway sector, the Project ensures improved efficiency and reduced GHG emissions, as well as continued sustainable operations of the Company.</p> <p>Secondary Quality – Inclusive. The proposed Project ensures ongoing transport of people, including the rising numbers of people with disabilities, IDPs and refugees, seeking shelter and improved livelihoods, and ongoing delivery of vital supplies from Europe to Ukrainians affected by the war. The Project will also help to support demobilised workers through a new veterans’ reintegration programme.</p> <p><u>Additionality</u> – Financing Structure: Crisis response - EBRD financing is provided under the extraordinary circumstances of the war and effectively bridges the financing gap when the market for long-term capex financing in Ukraine is nearly closed. Standard-setting: The Client will benefit from EBRD’s capacity building for the establishment of targeted human capital recovery actions.</p> <p><u>Sound banking</u> – The transaction is sovereign-guaranteed. Additionally, it is parallel financed by a significant investment grant from the World Bank.</p>
Key Risks	Key risks include: (i) political, military damage and macro-economic risks; (ii) UZ’s credit and liquidity risks (iii) procurement and implementation risks. The (i) and (ii) risks are mitigated by the sovereign guarantee, in combination with the parallel grant funding from the World Bank and capacity support to the Government provided by Reform Support Teams (“RST”), embedded in the relevant line ministries of the Ukraine Reforms Architecture to support Ukraine. The (iii) risks are mitigated by the TC –funded consultancy support for the Project implementation.
Strategic Fit Summary	<p>The operation is consistent with:</p> <ul style="list-style-type: none"> • War on Ukraine – EBRD Resilience Package : Focus on national infrastructure services in Ukraine. • Strategy for Ukraine (• Transport Sector Strategy 2019-2024.

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

- Equality of Opportunity Strategy 2021-2025 and the Strategy for the Promotion of Gender Equality 2021-2025: Ensuring access to vital services, employment and livelihood opportunities during crisis.

ADDITIONAL SUMMARY TERMS FACTSHEET

EBRD Transaction	A senior sovereign-guaranteed loan of up to EUR 300 million to UZ to finance the acquisition of electric locomotives consisting of: (1) EUR 120 million committed Tranche 1, and (2) EUR 180 million uncommitted Tranche 2. The EBRD loan will be co-financed by a parallel investment grant of up to USD 190 million from the Government of the United States, administered by the World Bank through the Ukraine Relief, Recovery, Reconstruction and Reform Trust Fund (URTF) as part of the Repairing Essential Logistics Infrastructure & Network Connectivity (RELINC) Project.
Existing Exposure	Total outstanding exposure to UZ: EUR 220.8 million, including: <ul style="list-style-type: none"> • Project Voyager (Op ID 50833) [REDACTED] • UZ Electrification (Op ID 45782) [REDACTED]; and • UZ Emergency Support (Op ID 54150) [REDACTED]
Maturity / Exit / Repayment	18-year tenor [REDACTED]
Potential AMI eligible financing	None
Use of Proceeds - Description	The proceeds of the loan and a parallel investment grant from the World Bank will be used to finance emergency capex covering the procurement of electric locomotives necessary to ensure continued sustainable operations of the Company.
Investment Plan	[REDACTED]
Financing Plan	[REDACTED]
Key Parties Involved	<ul style="list-style-type: none"> • UZ as the Borrower; • Ukraine as the Guarantor represented by the Ministry of Finance; • Ministry of Restoration (former Ministry of Infrastructure); • World Bank as the parallel Grant provider from RELINC Program; • EBRD.
Conditions to subscription / disbursement	[REDACTED]
Key Covenants	[REDACTED]
Security / Guarantees	Sovereign Guarantee of Ukraine.
Other material agreements	Guarantee Agreement between the Bank and Ukraine.
Associated Donor Funded TC and co-investment grants/concessional finance	<p>A. Technical Cooperation (TC)</p> <p><i>Post-signing:</i></p> <p>TC1: Project Implementation Support. The TC will support the Client with contract implementation, supervision of supply of goods, any required testing (including pre-shipment inspection if any) and contract management, including application of the price adjustment mechanism. The estimated total cost of this assignment is up to EUR 250,000, proposed to be financed by an international donor and/or the SSF.</p> <p>TC 2: Strategic Workforce Management and Veterans' Reintegration Programme support. Gender and Economic Inclusion TC support under EBRD's Human Capital Response for Ukraine TC Programme will help UZ to promote a series of strategic workforce management activities in line with its most pressing human capital needs. The estimated cost of the assignment is up to EUR 250,000, expected to be financed under the Action for Equality and Gender (A4EG) Multi-Donor Fund or via the Ukraine MDA or via an international donor.</p>

	<p><i>Client contribution:</i> No financial contribution will be applied given the on-going war on Ukraine and the Client's limited resources.</p> <p>B. Concessional Finance EBRD loan is expected to be supported by a parallel investment grant of up to USD 190 million from the Government of the United States, which will be administrated and provided via the World Bank directly to the Company.</p>
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[REDACTED]

INVESTMENT PROPOSAL SUMMARY

1. STRATEGIC FIT AND KEY ISSUES

1.1 STRATEGIC CONTEXT

JSC "Ukrainian Railways" is a vertically-integrated national railway operator in Ukraine wholly owned by the Government of Ukraine. UZ is a monopoly provider of rail transportation, operating 19,800 kilometre-long railway network and related infrastructure. It is one of the largest single contributors to Ukraine's GDP, with UZ's revenue pre-war representing 2.34% of the country's GDP. UZ is also the single largest employer in Ukraine, with circa 200,000 full-time employees.

The war affected significantly and adversely the country, people, businesses and the operations of UZ. Notwithstanding the war, UZ maintained cargo operations at circa 50%, while passenger transportation operations almost recovered to the pre-war level. Moreover, UZ has quickly stepped in to address the immediate critical needs of evacuating people from the areas affected by military hostilities and delivering humanitarian aid. The war has led to a constant flux of IDPs and refugees, including a rising number of people with conflict-related injuries, disabilities and psychological conditions. Current estimates are that 35% of Ukraine's pre-war population have had to leave their jobs and homes and become displaced either abroad (7.8 million people) or internally (6.5 million people). The majority of these are women with children, older people, and people with disabilities who face significant challenges accessing transport. As of 3Q 2024, since the start of the war UZ has evacuated over four million people and delivered circa 200 thousand tons of humanitarian aid across Ukraine.

In the current war environment, the proposed emergency capex programme will support the Company's electric locomotives fleet renewal needs, thereby ensuring maintained operations and improved connectivity with EU countries. This is key for the continuation of UZ's operations and provision of essential railway cargo and passenger transportation services to Ukraine's population, critically underpinning the country's macroeconomic functioning and the feasibility of supply chain and labour inputs to private sector (based on pre-war estimates, more than 80% of all cargo transportation and more than 30% of passenger transportation in the country is covered by UZ), as well as for humanitarian relief efforts following attacks and across the front-line areas. Moreover, with the continued threat by the Russian military to the Ukrainian Black Sea ports, UZ's improved operations at the EU border have become indispensable for maintaining Ukraine's export/import logistics, including that for agricultural products and critical supplies, and therefore of paramount importance for both Ukraine's economy and the global food security in the countries dependent on importing its agricultural products.

The Project is consistent with the objectives of the War on Ukraine – EBRD Resilience Package. The Project is also in line with the Strategy for Ukraine and the Transport Sector Strategy 2019-2024 as it will strengthen railway sector operations in the country. The Project also aligns with the Bank's Equality of Opportunity Strategy 2021-2025 and the Strategy for the Promotion of Gender Equality 2021-2025 through its focus on broadening access to vital services, employment and livelihood opportunities for people and communities in crisis situations.

1.2 TRANSITION IMPACT

Primary Quality: Green

Obj. No.	Objective	Details
1.1	<i>New electric locomotives will replace the old, less energy efficient locomotives currently presented in the Company's fleet</i>	<p>The Project is expected to contribute to improved efficiency of the fleet, as well as support continued sustainable operations of the Company and maintain and improve exports and imports logistics. The Project will result in significant energy savings due to introduction of more energy efficient locomotives into the Company's fleet.</p> <p>Savings in energy of up to 15% can be expected from new locomotives. An additional 20% of energy may be saved if regenerative braking is available from the Ukrainian Railways overhead power system infrastructure. Electric locomotives produce no emissions at the point of use.</p> <p>The green aspects of the investment will be further strengthened by measures to accelerate the adoption of advanced energy efficiency technologies and practices in the railway sector through EMS and EMIS assignments that would also be covenanted in the loan documentation.</p> <p>The depreciation rate of JSC "Ukrainian Railways" existing active electric locomotive fleet exceeds 95%. The last time the fleet was renewed was in 2014, when five new DC electric locomotives were purchased. The active fleet forecast for 2023-2033 shows that to maintain a sufficient active locomotive fleet, the total number of new electric locomotives as of 2033 should be at least 250 units. Due to the growing volume of freight traffic, the use of electric locomotives is expected to increase. It will not be possible to meet the needs for freight operations in the future with the existing active fleet of electric locomotives without purchasing new units. Some of the Company's existing locomotives were designed and manufactured in the 60s and 80s of the last century and require higher repair and maintenance costs, as well as higher operating costs than modern ones.</p>

Secondary Quality: Inclusive

Obj. No.	Objective	Details
2.1	<i>DIVERSITY: The Project introduces more open, equal and diverse HR policies and practices, broadening demand</i>	<p>Through EBRD's engagement under the Project, UZ will establish a targeted veterans' reintegration programme in line with best practices, helping to secure the livelihoods and return-to-work opportunities for its c.10,000 mobilised staff members (ca. 5% of UZ's total workforce) alongside c.1,000 who have already returned from the front lines and back into work – many of them with significant support and rehabilitation needs. The programme</p>

	<i>for human capital with demonstrably moderate need and robust effectiveness.</i>	<p>will benefit disabled workers and those with psychological injuries in particular, helping to address one of the leading, national-level priorities for Ukraine's labour market by broadening access to livelihood opportunities among a significantly hard-to-reach group. Even before the war, UNOCHA estimated that 13% of Ukrainians in need of humanitarian need had a disability – a number that has risen significantly since the onset of Russia's full-scale aggression. Ongoing mobilisation, casualties, forced displacement and disappearances among workers continue to impose significant workforce volatility, turnover costs and skills shortages on employers. UZ's commitment to retaining and reintegrating its most impacted workers under the ongoing wartime challenges thus represent significant and timely impact through EBRD's engagement under the ongoing Human Capital Response for Ukraine TC Programme.</p> <p>The Project is also vital for maintaining Ukraine's railway freight and passenger transport services under the ongoing wartime crisis imposed by Russia's ongoing aggression in the country. The Company's services play an indispensable role for the movement of forcefully displaced people to safer areas; the delivery of vital inputs for Ukraine's businesses; and logistical operations shaping humanitarian relief operations in response to the ongoing attacks across the whole of Ukraine.</p>
	<i>DIVERSITY: The Project delivers inclusive business policies, practices or standards at the client level with verifiable commitment within 1-2 distinct behavioural change areas.</i>	<p>The improvement of UZ's veterans' reintegration measures will introduce key improvements to its human resources policies and practices, constituting a valuable and timely behavioural change for the Company in response to the ongoing wartime challenges in Ukraine. It will most likely encompass the introduction of new return-to-work protocols for professional reintegration for staff members upon demobilisation; workplace adjustments for accessible and 'trigger free' environments; training to managers on psychological first aid and risk mitigation in sensitive situations; new psychological support avenues for veterans, co-workers and their families; new upskilling and retraining opportunities for veterans; and other such measures aligned with leading local and international practices.</p>

[REDACTED]

1.3 ADDITIONALITY

Identified triggers	Description
A subsequent/consecutive transaction (issuance) with the same client/group either with the same use of proceeds or in the same destination country (repeat transaction).	[REDACTED]. By supporting critical investments in electric locomotives fleet renewal, the Bank's financing will help UZ to maintain its essential operations and ensure continued provision of vital services to people and businesses of Ukraine.
Additionality sources	Evidence of additionality sources
Financing Structure - EBRD offers financing that is not available in the market from	- EBRD is offering financing, which is not available on reasonable terms in the market due

<p>commercial sources on reasonable terms and conditions, e.g. a longer grace period. Such financing is necessary to structure the Project.</p> <ul style="list-style-type: none"> - EBRD offers a tenor, which is longer than available to the client in the market on reasonable terms and conditions. - Crisis response: EBRD financing effectively bridges a financing gap due to adverse market conditions. 	<p>to the ongoing war and high level of risk and uncertainty in Ukraine.</p> <ul style="list-style-type: none"> - EBRD is offering 18-year tenor for the Project, which is longer than available in the market in current war environment.
<p>Risk mitigation EBRD's ability to absorb risk in a certain country/region, where other IFIs/commercial financiers reached their limit exposure.</p>	<p>EBRD is able to absorb the risk in Ukraine, while the financing from other IFIs/commercial financiers is constrained in particular for longer term capex projects.</p>
<p>Standard-setting: helping projects and clients achieve higher standards</p> <ul style="list-style-type: none"> - Client seeks/makes use of EBRD expertise on best international procurement practices and standards. 	<ul style="list-style-type: none"> - EBRD funding and application of Bank's PPR will ensure wider market outreach, particularly in the current high-risk environment. -

1.4 SOUND BANKING - KEY RISKS

Risks	Probability / Effect	Comments
<i>Project specific risks</i>		
Counterparty credit / liquidity risk	<i>High/ Medium</i>	<p>UZ's financial and operational position has been adversely affected by the ongoing Russian aggression against Ukraine, which negatively affects UZ's cargo volumes, due to damage to its existing infrastructure (destroyed bridges, railroads and axillary buildings), periodic power outages across the country and general economic slowdown in Ukraine. Nevertheless, a 70% increase of tariffs for the Company's cargo transportations, as well as unblocked grain export via Black Sea ports helped to mitigate the negative effect of the war in 2022 and 2023.</p> <p><i><u>Mitigants:</u> While the duration and outcome of the war are unpredictable, EBRD's credit risk will be mitigated by the presence of the sovereign guarantee from Ukraine. [REDACTED]</i></p>
FX Risk	<i>High / High</i>	<p>While the proposed transaction is in EUR, most of the UZ's revenues are in UAH. In October 2023, the central bank shifted its exchange rate policy from a pegged to a managed flexible exchange rate, allowing it to gradually depreciate by 10% since the peg was lifted. [REDACTED]</p>

		<i>Mitigants: That is partially mitigated by the managed exchange rate regime applied by the National Bank of Ukraine, and the four-year IMF programme which underpins macroeconomic stability. The stable and predictable inflow of external financing from the EU, IFI and other bilateral donors fully covers Ukraine's external financing gap. Medium-term risk is likely to be mitigated by the support of developed economies pledging significant financial aid for reconstruction phase in Ukraine.</i>
Guarantor risk	<i>Low / High</i>	[REDACTED]
External risks		
Political risk	<i>High / Low</i>	[REDACTED]
Macro-economic risk	<i>High / High</i>	<p>Russian war of aggression put Ukraine's economy under enormous stress, with heavy devastation of infrastructure and production capacities, displaced people and disrupted trade. After a deep fall of 28.8% in the initial phase of the war, GDP increased by 5.3% in 2023, and by 6.5% in the first quarter of 2024. Opening of the new Black Sea export corridor along the coastline enabled increased exports of grain and resumed maritime exports of other bulk goods, like metals and ores, and even container transport. [REDACTED]. Inflation fell steadily throughout 2023 and stood at just 3.24% in March and April 2024. In response to easing inflationary pressures, the NBU has been cutting the policy rate since mid-2023, to 13.0% in June 2024. However, inflation has been rising again (8.6% in September), leading the central bank to pause further rate cuts. The exchange rate gradually depreciated by 10% in the last twelve months. The resulting pass-through to inflation and the higher production costs caused by electricity shortages have increased inflationary pressures in the second half of 2024, prompting an increasingly cautious approach to monetary policy.</p> <p>External financing remains essential for sustaining macroeconomic stability. Financing from the EU and the USA which provided around 70% of the total of USD 73.5 billion in the previous two years was hit by delay at the beginning of 2024. Eventually, the new EU package of EUR 50 billion for the period 2024-27 (around EUR 16 billion expected to be released in 2024) was approved in February, and the US contribution of around USD 8 billion - in April. Together with the inflows from other bilateral and multilateral creditors, external financing is expected to fully cover the budget deficit in 2024, forecast at USD 38.6 billion or 20% of GDP. In October 2024, the EU agreed on an up to EUR 35 billion MFA for Ukraine, connected to a new loan mechanism linked to the G7 agreement from June 2024 on the use of the immobilised Russian assets. The MFA amount would be provided to Ukraine in tranches with the full amount disbursed by end of 2025. It is expected that at least EUR 10 billion will be provided by USA, UK, Japan etc. Heavy reliance on foreign debt financing has lifted public debt by more than 60% since the start of the war, to USD 155.0</p>

		<p>billion as of August 2024, or close to 90% of GDP. Bilateral creditors from the G7+ group of countries have extended the grace period for debt repayments to March 2027.</p> <p><i>[REDACTED]Mitigants: External financing provided by bilateral partners and the IFIs help maintaining macroeconomic stability.</i></p>
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[REDACTED]. By supporting locomotives fleet renewal, the Project will finance the capex critical to maintaining and expanding cross-border capacity and improving railway connectivity corridors with the EU.

2. MEASURING / MONITORING SUCCESS

Primary Quality: Green

Obj. No.	Corresponding SO monitoring indicator	Details	Base line	Target	Due date	TC related
1.1	Improved energy management standards	Design of an Energy Management Information System in order to allow the Company to collect information on energy consumption and implement strategies for its reduction	No	Yes	[REDACTED]	[REDACTED]
1.2	Improved energy management standards	Procurement and implementation of an Energy Management Information System	No	Yes	[REDACTED]	[REDACTED]
1.3	Electric locomotives fleet sustained and expanded	Number of new electric locomotives purchased	0	60	[REDACTED]	[REDACTED]
1.4	CO2e emissions reduced (tonnes/year)	Through acquisition of the new electric locomotives that are more energy efficient, a scope 2 saving of 55.5ktCO2/p.a. is expected. To be assessed through activity data of freight operations, specifically delivering on average 16.5million tkm/day on average.	0	55,500 tCO2/year in energy savings	[REDACTED]	[REDACTED]

Secondary Quality: Inclusive

Obj. No.	Corresponding SO Monitoring indicator	Details	Base line	Target	Due date	TC related
2.1	Practices of the relevant stakeholder improved (career progression and	The Project will support the Company in further strengthening its HR practices with respect to veterans' professional reintegration.	No	Yes	[REDACTED]	[REDACTED]

	remuneration)					
2.2	Number of employees from under-served group (other than women)	The Project will help the company to retain and reintegrate a sizeable share (most likely 20% or more) of its c.10,000 mobilised staff members upon their return to civilian and professional life.	0	2,000	[REDACTED]	[REDACTED]
2.3	Practices of the relevant stakeholder improved (inclusive infrastructure services/design)	The Company will support an information, communication campaign to make people with disabilities, senior citizens and women aware of the accessibility improvements introduced.	No	Yes	[REDACTED]	[REDACTED]

Additional Indicators

Indicator type	Monitoring indicator	Details	Baseline	Target	Due date	TC related
Advisory & Policy Indicators	Project Implementation Support completed	Competitive procurement undertaken in line with agreed rules	No	Yes	[REDACTED]	[REDACTED]

3. KEY PARTIES

3.1 BORROWER

[REDACTED]

3.2 GUARANTOR

Despite months of heavy Russian attacks on its energy facilities, Ukraine's economy is expected to grow by 3.0% in 2024 and 4.7% in 2025, according to the Bank's forecast.

The destruction of electricity generation and transmission capacities is impacting Ukraine's economy and has interrupted four quarters of solid gross domestic product (GDP) growth.

The Ukrainian economy grew by an estimated 6.5% year on year in the first quarter of 2024, after growing 5.3% in 2023, marking a partial recovery from a sharp fall at the start of the war in 2022. However, growth has slowed since the first quarter of 2024 because of power shortages and the higher costs of imported electricity. [REDACTED].

Inflation, which had stabilised below the NBU target level of around 5% in the first half of the year, recently started to rise again, reaching 5.8% in July 2024. This prompted the central bank to pause its relaxation of monetary policy after seven policy-rate cuts between July 2023 and June 2024, during which time the rate was reduced from 25% to 13%.

Ukraine's export prospects have improved, boosted by a Black Sea export corridor along the coast that opened last year. This has removed some of the wartime uncertainty about the safety of using the Black Sea to export Ukraine's vast offerings of agricultural produce and other bulk goods, such as metals and ores. [REDACTED].

Ukraine is currently rated as "RD" by Fitch (affirmed on 5 September 2024), "SD" by Standard & Poor's (affirmed on August 2024) and "Ca" by Moody's (downgraded on 10 February 2023). The ratings from S&P and Fitch reflect the impact of recent restructuring of the country's international bonds.

For detailed macroeconomic analysis please refer to **Annex 8**.

4. MARKET CONTEXT

UZ operates Ukraine's 19,800 kilometre-long railway network (47.2% of which is electrified) and related infrastructure, which is the fourth largest rail network in Europe as measured by both passenger and freight turnover. Ukraine rail transport system is enhanced in main trans-European transport corridors (East – West, Baltic Sea – Black Sea).

Ukrainian railway directly borders and cooperates with railways of Moldova, Poland, Romania, Slovakia, Hungary and ensures the work with 40 international railway cross-walks, and also serves Ukrainian seaports of the Black Sea and Sea of Azov basin.

UZ derives circa 80% of its revenues from freight transportation, but also engages in passenger transportation, locomotive traction, infrastructure operations, rolling stock repair and maintenance, logistics, engineering, research and development, and construction.

UZ accounted for > 80% of all freight transported in Ukraine by turnover (excluding transportation by pipeline) and > 30% of passenger transportation by turnover (excluding inner city transport) in 2021 prior to the war. Over the years, the Company has undertaken significant efforts to upgrade its infrastructure, rolling stock and services, despite facing financial challenges.

The Company plays a pivotal role in the economy, enabling the transport of heavy industry products, agricultural goods, and minerals, which are key transport commodities for Ukraine. Additionally, UZ's passenger services connect major cities, towns, and rural areas within Ukraine, providing essential mobility for millions of people.

UZ is subject to State regulation of its tariffs for domestic freight transportation and domestic transportation of passengers and baggage. The new tariff methodology is planned to be developed in line with the requirements of EU Directive 2001/14/EU. It is expected to include an infrastructure component in order to reflect costs related to use of the railway infrastructure and investment components through which a portion of the tariff would be budgeted to help UZ to modernise its existing infrastructure and rolling stock. The implementation of the tariff methodology would also lead to a review of the freight tariffs structure, including the mechanisms for compensation to railway carriers for lost revenue. Reflective of the increased operational costs the Government adopted an increase of circa 70% for the freight tariffs effective since July 2022.

5. FINANCIAL / ECONOMIC ANALYSIS

5.1 FINANCIAL PROJECTIONS

[REDACTED]

5.2 SENSITIVITY ANALYSIS

[REDACTED]

5.3 PROJECTED PROFITABILITY FOR THE BANK

[REDACTED]

5.4 ECONOMIC ANALYSIS (EIRR)

[REDACTED]

6. OTHER KEY CONSIDERATIONS

6.1 ENVIRONMENT

Categorised B (ESP 2019). An environmental and social due diligence (ESDD) of the proposed investment as well as a review of environmental, social, health and safety policies and procedures and the capacity of the company to manage risks associated with the proposed Project has been undertaken by external E&S consultants and is under completion.

UZ is an existing Client to the Bank with satisfactory performance and implementation of the environmental and social requirements. It has been confirmed that environmental and social impacts associated with the Project, are limited mainly to the operation and maintenance of the locomotives and will be addressed through the application of good international practices and standards. The ESDD confirmed that the Project is structured to be in line with the EBRD's Performance Requirements (PRs) and will have social and public safety benefits and improve safety and reliability of the rail transportation services.

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. Maintenance of the newly procured electric locomotives will be within the existing depots and workshops and no sensitive ecological receptors or protected zones will be affected.

Relevant environment, train traffic safety and occupational health and safety requirements have been added in the technical specifications for the tender, which also include training of train drivers, maintenance & operational personal. Special tools and equipment required for disassembly, overhaul and reassembly of locomotives will be provided as part of the project that will significantly improve working standards in the workshops.

Due to ongoing war and military conscription, the Company is experiencing a serious labour shortage. that requires to be addressed along with improvements in working conditions, remunerations, resting times, training, and development. Company is coordinating with Trade Union to improve the situation. Worker grievance mechanism is in place along with appeal mechanism under the Collective Agreement. with some additional awareness raising recommended.

Deteriorating condition of the existing fleet and equipment requires constant repairing and pose risks to health and safety of the workers. Many depots in Ukraine were built over 100 years ago and require significant repair and reconstruction. The firefighting system is outdated and is

performed with the use of fire hoses. It is not synchronized with the fire alarm system. This is to be addressed via ESAP. Recently established Traffic, Environmental and Occupational Safety (T&EHS) under the Engineering and Technical Support Division of UZ is responsible for overseeing the health and safety aspects at central and at the depot's levels.

An Environmental and Social Action Plan ("ESAP") is under development to address the areas for improvement identified during the ESDD and needs to be agreed with the Company before the Board. The ESAP covers implementation of the enhanced EH&S standards and practices at the level of depots and workshops and improvement of sanitary and hygiene workers facilities with specific focus on gender and accessibility component as well as employee retention through adequate remuneration, training and career development.

6.2 INTEGRITY

In conjunction with OCCO, updated integrity due diligence was undertaken on the Company and its senior management. [REDACTED].

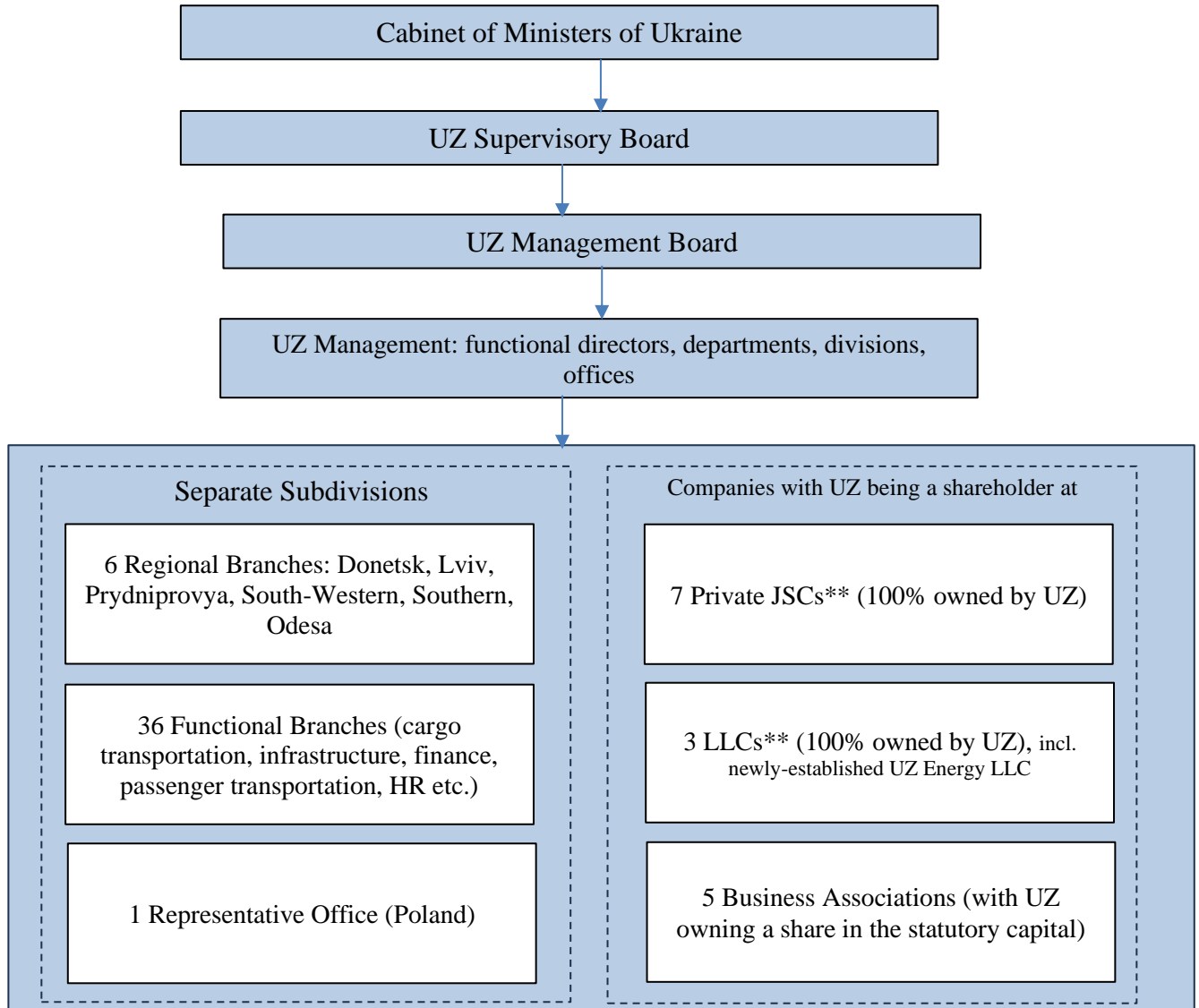
All actions required by applicable EBRD procedures relevant to the prevention of money laundering, terrorist financing and other integrity issues have been taken with respect to the project, and the project files contain the integrity checklists and other required documentation which have been properly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

ANNEXES TO OPERATION REPORT

ANNEX 1	SHAREHOLDING STRUCTURE
ANNEX 2	PROJECT DESCRIPTION
ANNEX 3	GREEN ASSESSMENTS
ANNEX 4	HISTORICAL FINANCIAL STATEMENTS
ANNEX 5	PROJECT IMPLEMENTATION

ANNEX 1 – SHAREHOLDING STRUCTURE

UZ is fully owned by the Government of Ukraine. The Company's organisation structure* is provided below.



[REDACTED]

ANNEX 2 – PROJECT DESCRIPTION

Current Setup and Related Project Rationale

As of 2024, a significant portion of UZ's electric locomotives is approaching the end of their extended service life and will soon be decommissioned due to unserviceable conditions. Currently, the median age of the electric locomotive fleet is 43 years, and 33% of this fleet is permanently out of service. This decommissioning will severely impact UZ's ability to meet market demand for railway transportation services, triggering the needs for the new traction fleet acquisition.

The challenges posed by a rolling stock that is over 40 years old include technically difficult and costly maintenance, resulting in high Opex, as well as low reliability and availability. In the worst cases, locomotives can spend extended periods out of service while awaiting spare parts, which may need to be specially manufactured due to the original supplier no longer stocking parts for such vintage equipment or having gone out of business. Additionally, some locomotives are often cannibalized for spare parts to keep others operational.

Without the acquisition of new rolling stock, UZ's active fleet of electric locomotives is projected to decline by more than 80% by 2033. In the current crisis environment resulting from the war in Ukraine, an emergency capital expenditure program is crucial to help UZ address its pressing need to renew its operating fleet and ensure the continuity of its operations. This is vital for providing essential railway cargo and passenger transportation services, which are critical for the economy and the functioning of the private sector. Pre-war estimates indicated that UZ was responsible for over 80% of all cargo transportation and more than 30% of passenger transportation in the country, in addition to supporting humanitarian efforts.

Project Scope and Technical Specifications

The Project envisages the renewal of the UZ electric locomotive fleet, which would include the acquisition of 80-90 new locomotives (exact number depends on the particular model and its final price) under the open tendering. [REDACTED].

Other Expected Positive Outcomes

The Project envisages some significant cost reductions derived from the locomotive fleet renewal. Specifically, (i) maintenance costs are expected to be at least about 20% lower for the new locomotives compared to the heritage locomotives (and substantially more if single-bodied locomotive are purchased), (ii) energy costs are expected to be 15%-35% lower for the new locomotives (the exact percentage depending on the availability of the regenerative braking facilities).

Picture A.2.2 Two-Section Electric Locomotive vs. Single Section Model



ANNEX 3 – GREEN ASSESSMENTS

Introduction

The Project consists of a CAPEX for acquisition of electric locomotives. The project is assessed for Paris Agreement (PA) alignment, GET. The project is assessed as positively aligned for both mitigation and adaptation goals of the Paris Agreement. The project is attributed as 85% GET.

Paris alignment assessment

Alignment with the mitigation goals of Paris Agreement

The CAPEX relates to acquisition of electric locomotives. Rail infrastructure is **included** in the 'aligned list', and electric locomotives meet EU Taxonomy Substantial Contribution criteria. There are **no** activities included in the 'non-aligned list'.

As such the project is considered aligned with mitigation goals of the Paris Agreement.

Alignment with the adaptation goals of Paris Agreement

As the physical location of the use of proceeds under the CAPEX tranche is not specifically identified, physical risk screening was not possible, nor the associated materiality assessment. However, electric locomotives themselves are typically only modestly impacted by climate related risks – associated infrastructure (overhead powerlines, rail infrastructure) are more vulnerable, but are outside the boundaries of the assessment. In addition, the CAPEX tranche use of proceeds are unlikely to have a wider impact on the system in which it operates.

As such the project is considered aligned with the adaptation goals of the Paris Agreement.

GET attribution

CAPEX use of proceeds will be used to finance the procurement of electric locomotives and associated equipment. These are considered as 100% GET eligible. In line with the GET handbook, an adjustment is made based on the estimated fossil fuel share in the freight rail network (estimated at 15%). As a result, the overall GET attribution is thus 85%.

The CO₂ savings as a result of an improved efficiency is estimated at 55ktCO₂/year for the 90 locomotives. [REDACTED].

ANNEX 4 – HISTORICAL FINANCIALS

[REDACTED]

ANNEX 5 - PROJECT IMPLEMENTATION

[REDACTED]. UZ has implemented projects in accordance with the EBRD procurement policies and procedures, however the current procurement staff capacity is relatively limited. Considering that the World Bank is the lead on procurement in the subject project, the capacity assessment and related support activities have been delegated to WB. Implementation of EBRD financed “Contract B” will be supported by an international PIU Support Consultant which will be hired by the time when Contract B will enter into force.

Contracts risk assessment – Moderate High

The Project consists of a single procurement of electric locomotives. To ensure homogenous O&M requirements for the whole fleet, the plan is to run a single tender with two lots, but both lots/contracts will be signed with the same supplier, one contract financed under the WB project, while another one to be financed under EBRD project. WB financed contract will be referred to as “Contract A” while the EBRD financed one will be referred to as “Contract B”. While the contracts will be of relatively simple nature – supply of goods, there are other associated risks caused by the war. For example, there is no realistic way to mitigate or manage the risk of damage and destruction during transportation within Ukraine. The Client is ready to absorb these risks and confirmed that war risk insurance will not be requested from the suppliers and in case of damage or destruction during transportation the Client will bear the costs. While these risks are allocated to the parties best placed to manage the risks, the risks still remain, hence the relevant assessment of moderate high.

The place of delivery was originally indicated as border of Ukraine, but during the tender process this was changed through an amendment to tender documents to one of the depots of the regional branch of the Odesa Railways.

The delivery of the first locomotive for Contract B according to procurement documents is scheduled within 1030 days of contract signing, with the last delivery under the contract within 1800 days. This estimated schedule will be further discussed with the winning participant with the aim of reducing the delivery period if possible.

Project implementation arrangements:

A Project Implementation Unit is established within the Company and will have an overall responsibility for implementation of the Project. The World Bank is taking the lead on procurement, therefore the project implementation capacity assessment and related implementation support has been delegated to the World Bank with relation to Contract A. Implementation of Contract B should be a relatively straightforward process, as the Client will continue working with the same supplier, under the same contract terms and for the same goods. In order to bridge any possible gaps and provide necessary support, the Client will hire an international PIU Support Consultant.

Procurement arrangements:

The Project is classified as public sector for procurement purposes. In line with PPR article 2.6 (a) the PPR does not apply to Tender #1 (procurement of locomotives) as this tender is being carried out in line with the World Bank’s procurement

policy and the WB is taking the leading role in monitoring the procurement activities in line with its own procedures.

EBRD PPR will apply to procurement of a PIU Support Consultant (TC #1).

All tenders subject to EBRD PPR will be procured through open competitive procedures using the Bank's latest templates of standard procurement documents, and will be subject to prior review. [REDACTED].