

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

Approved by the Board of Directors on 17 December 2025<sup>1</sup>

**NORTH MACEDONIA**

**FREIGHT ROLLING STOCK RENEWAL**

*[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 (2024), 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

BCR	Benefit Cost Ratio
CDP	Corporate Development Programme
CP	Conditions Precedent
EIRR	Economic Internal Rate of Return
ERP	Enterprise Resource Planning
ESAP	Environmental and Social Action Plan
ESD	Environmental and Sustainability Department
ESDD	Environmental and Social Due Diligence
ESHS	Environmental, Social, Health and Safety
ETI	Expected Transition Impact
EU	European Union
EUR	Euro
GDP	Gross Domestic Product
GET	Green Economy Transition
GHG	Greenhouse Gas
IFI	International Finance Institution
IFRS	International Financial Reporting Standards
ILO	International Labor Organisations
MKD	Macedonian Denar
MoF	Ministry of Finance
MoT	Ministry of Transport
NTS	National Transport Strategy
OCCO	Office of the Chief Compliance Officer
OGC	Office of the General Counsel
PEP	Politically Exposed Person
PERI	Public Enterprise for Railway Infrastructure
PIA	Project Implementation Adviser
PIU	Project Implementation Unit
PP&R	Procurement Policies & Rules
PPAD	Procurement Policy and Advisory Department
PSD	Project Summary Documents
PSO	Public Service Obligation
RAROC	Risk-adjusted return on capital
SRG	Sector Risk Guidance
SSF	Shareholder Special Fund
TC	Technical Cooperation
TEN-T	Trans-European Transport Network
TI	Transition Impact
TSI	Technical Specifications for Interoperability

FX: 1 EUR = 61.55 MKD as of 23 October 2025

## PRESIDENT'S RECOMMENDATION

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

The facility will consist of a sovereign loan of up to EUR 20.9 million to the Republic of North Macedonia, for the benefit of the Macedonian Railways Transport Joint Stock Company Skopje (“**MRT**” or the “**Company**”), a state-owned joint-stock company and the national railway operator of the Republic of North Macedonia. The loan proceeds will finance the acquisition of up to five new electric locomotives, including spare parts, to be used for freight transport, as well as the implementation of an enterprise resource planning (“**ERP**”) system to enhance MRT’s operational efficiency by streamlining its core business processes (the “**Project**”). The Ministry of Transport (“**MoT**”) will be responsible for implementing the Project.

The operation will enable the Company to modernise its freight rolling stock fleet, enhance the efficiency and quality of its freight operations, improve safety and reduce CO<sub>2</sub> emissions.

The expected transition impact of the Project is derived from the *Competitive* transition quality through the development of a corporate development plan (“**CDP**”) focusing on improving operational and financial performance, by preparing an efficiency action plan, as well as improvements and alignment of the public service obligation (“**PSO**”) methodology with the European Union (“**EU**”) Directive. The secondary transition quality is *Green*, through the promotion of modal shift to a green and sustainable transport mode. The Project’s Green Economy Transition (“**GET**”) share is 86 percent. The Project is classified as *Gender Additional*, as the transaction will support integration of gender-neutral language and non-discriminatory practices across the Company’s human resource operations, thereby promoting equal opportunities in the workplace.

Technical cooperation (“**TC**”) support for the Project’s preparation has been provided by the EBRD Shareholder Special Fund (“**SSF**”). Post-signing TC for Project implementation support as well as for the development of the CDP is proposed to be financed by an international donor or the SSF.

I am satisfied that the operation is consistent with the Bank’s Strategy for North Macedonia 2025-2030, the Bank’s Infrastructure Sector Strategy 2025-2029, the GET Approach 2021-2025, the 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

### North Macedonia – Freight Rolling Stock Renewal – DTM 56748

<b>Transaction / Board Decision</b>	Board approval <sup>2</sup> is sought for a sovereign loan of up to EUR 20.9 million in favour of the Republic of North Macedonia (“ <b>North Macedonia</b> ” or the “ <b>Borrower</b> ”) to finance the purchase of (i) up to five new electric locomotives, including spare parts, to be used for freight transport and (ii) an enterprise resource planning (“ <b>ERP</b> ”) system (the “ <b>Project</b> ”). The Project will help the Company enhance the efficiency and sustainability of its operations, improve quality and safety of its freight transport, and reduce CO <sub>2</sub> emissions.
<b>Client</b>	The Borrower is the Republic of North Macedonia, represented by the Ministry of Finance (“ <b>MoF</b> ”). The Ministry of Transport (“ <b>MoT</b> ” or the “ <b>Implementing Entity</b> ”) will be responsible for the Project’s implementation. The client and beneficiary is Macedonian Railways Transport Joint Stock Company Skopje (“ <b>MRT</b> ”, the “ <b>Company</b> ” or the “ <b>Beneficiary</b> ”), the state-owned national railway operator of the Republic of North Macedonia.
<b>Main Elements of the Proposal</b>	<p><u>Transition impact</u>  Primary Quality – <i>Competitive</i> – The Project envisages the development of a corporate development plan (“<b>CDP</b>”) focusing on improving MRT’s operational and financial performance through the preparation of an efficiency action plan, including improvements in the tariff methodology, as well as improvements and alignment of the public service obligation (“<b>PSO</b>”) methodology with EU Directive on public rail passenger transport services.</p> <p>Secondary Quality – <i>Green</i> - The Project is 86 per cent GET. It promotes a shift to a green and sustainable transport mode.</p> <p><u>Additionality</u>  <i>Financing structure</i>: Provision of long-term financing that is not accessible through commercial sources on reasonable terms and conditions for projects of this nature.</p> <p><i>Setting standards</i>: EBRD’s engagement will help the Company in setting standards in terms of the PSO contract and adhering to international best practice.</p> <p><i>Gender Smart</i>: The Company is committed to improving its gender and equal opportunities standards through the introduction of non-discriminatory practices in its human resources policies and practices and systematically collect and report sex-disaggregated data.</p> <p><u>Sound banking</u>: The transaction is a sovereign loan.</p>
<b>Key Risks</b>	<p><u>Country and Repayment Risk</u>: North Macedonia’s rating is BB+ (Fitch) and BB- (S&amp;P) and is supported by credible and consistent macroeconomic policies as well as commitment to an EU accession process which acts as a reform anchor over the medium term.</p> <p><u>Implementation risk</u>: MoT and MRT have limited experience in implementing EBRD-financed projects. This risk will be mitigated by the appointment of experienced international consultants, acceptable to the Bank, to assist the MoT and the Company with preparation, procurement and implementation of the Project. The Project components will be procured through open tendering in accordance with the Bank’s Procurement Policies and Rules (“<b>PP&amp;R</b>”).</p>
<b>Strategic Fit Summary</b>	The Project is consistent with the Bank’s Strategy for North Macedonia 2025-2030, the Bank’s Infrastructure Sector Strategy 2025-2029, the GET Approach 2021-2025, the Strategy for the Promotion of Gender Equality 2021-2025 and with the Agreement Establishing the Bank.

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

## ADDITIONAL SUMMARY TERMS FACTSHEET

<b>EBRD Transaction</b>	A sovereign loan in the amount of up to EUR 20.9 million in favour of the Republic of North Macedonia for the benefit of MRT, to finance the purchase of up to five new electric locomotives, including spare parts, to be used for freight transport as well as an ERP system to enhance MRT's operational efficiency.
<b>Mutual Reliance</b>	No.
<b>Associated Derivative Exposure</b>	None.
<b>Existing Exposure</b>	Total EBRD sovereign exposure to North Macedonia, as of 30 September 2025, was EUR 977 million [REDACTED]
<b>Maturity / Exit / Repayment</b>	Tenor of 15 years [REDACTED]
<b>Potential AMI eligible financing</b>	None
<b>Use of Proceeds - Description</b>	The proceeds of the Bank's loan will be used to finance the acquisition of: (i) up to five new electric locomotives, including spare parts; (ii) an ERP system; and (iii) front-end fee ("FEF").
<b>Investment Plan</b>	[REDACTED]
<b>Financing Plan</b>	[REDACTED]
<b>Key Parties Involved</b>	<ul style="list-style-type: none"> <li>• Republic of North Macedonia represented by the MoF as the Borrower.</li> <li>• MoT as the Implementing Entity and the Borrower's authorized representative for disbursements.</li> <li>• MRT as the Project's Beneficiary.</li> </ul>
<b>Conditions to subscription / disbursement</b>	[REDACTED]
<b>Key Covenants</b>	[REDACTED]
<b>Security / Guarantees</b>	Sovereign loan.
<b>Other material agreements</b>	[REDACTED]
<b>Associated Donor Funded TC and Blended Concessional Finance</b>	<p><b>Technical Cooperation (TC)</b>  <u>Pre-Signing:</u>  <b>TC1: Technical, economic and financial due diligence</b> - EUR 75,000 funded from the SSF. <i>Completed.</i>  <u>Post- signing</u>  <b>TC 2: Project Implementation Support</b> [REDACTED]</p> <p><b>TC 3: Preparation and Development of CDP</b> focusing on improving operational and financial performance of the MRT, as well as its freight transport tariff methodology and improvements and alignment of the PSO with the relevant EU Directive. [REDACTED]</p>

[REDACTED]

## INVESTMENT PROPOSAL SUMMARY

### 1. STRATEGIC FIT AND KEY ISSUES

#### 1.1 STRATEGIC CONTEXT

North Macedonia's railway network forms part of Corridor VIII and Corridor X which are indicative extensions of Trans-European Transport Network ("TEN-T") Core Network Corridors in the Western Balkans, facilitating transport from Central Europe to Southeast Europe. The MRT is the national rail operator, responsible for all passenger and freight rail transportation within the country.

Railway transport in North Macedonia has declined over the past decade due to underinvestment in rail infrastructure and outdated rolling stock, resulting in reduced reliability and competitiveness compared to road transport. Recognising these challenges, the Government of North Macedonia has prioritised the modernisation of the railway sector, both infrastructure and operation, in its national strategies, aiming to enhance the efficiency, safety, and sustainability of rail operations. Moreover, projects like the ongoing upgrading on the eastern section of rail Corridor VIII, and Government initiatives to rehabilitate the existing sections of rail Corridor X and build a new high-speed route on the same corridor, are expected to boost rail transport volumes.

The international freight transport is the key business segment for MRT [REDACTED]. Therefore, modernising and expanding the rail fleet has become a strategic priority, fully aligned with the Company's Business Plan 2025–2029 and Action Plan for Restructuring and Development (2025–2027), focusing on optimising and modernising operations, increasing both freight and passenger traffic, and ensuring the economic and financial sustainability of the Company. Furthermore, the Project adheres to the requirements set forth in the EU Reform Agenda for the Western Balkans, aimed at enhancing the management and performance of state-owned railway enterprises.

The Project's key objective is to renew and modernize MRT's rolling stock to address operational inefficiencies and financial challenges faced by the Company, ultimately improving the safety, competitiveness, and sustainability of railway transport while reducing costs and environmental impact. By replacing obsolete rolling stock operating beyond their useful life, the Company aims to improve the quality and volumes of freight services on network, supporting modal shift from road to rail. In addition, the Project will support implementation of the ERP to help the Company streamline operations, strengthen financial control, and integrate the Company's key functions into a unified, single platform.

The Project is a continuation of Bank's efforts to support the development of North Macedonia's railway sector through targeted investments and strategic reforms. In 2018, the Bank supported one of MRTs' most significant investment programmes since inception, for the procurement of new passenger units, electric locomotives and EU-compliant wagons. It further supported strengthening MRT institutionally through the development of a business segmentation strategy and implementation of an energy

efficiency programme. In addition, the Bank has been a key player in the development and upgrade of the country's infrastructure rail network through ongoing support for the development of the eastern section of Corridor VIII as well as the upgrade of rail Corridor X.

As part of the Project, TC support will be provided to the MRT for the preparation and adoption of CDP to help enhance the Company's competitiveness through improvement of overall efficiency and identification of potential savings of cost and increasing revenues. The CDP will provide recommendations for the improvement of the existing PSO in accordance with international best practice and alignment with EU requirements. Additionally, the Project will support the Company in undertaking a series of strategic actions aimed at embedding non-discriminatory practices across its human resource operations.

The Project is in line with:

- The Strategy for North Macedonia 2025-2030 as the Project will “*promote rail transport by enhancing the competitiveness of the rail sector through [...] strengthening operational capacity of the rail transport service provider*”.
- The Infrastructure Sector Strategy 2025-2029,” which aims at improving connectivity as well as the “*efficiency and quality of networks*” while also promoting “*modal-shifts toward sustainable low-carbon/zero-carbon solutions such as [...] rail*”.
- The Strategy for the Promotion of Gender Equality 2021-2025 by integrating gender-neutral language and non-discriminatory practices across the Company's human resource operations, thereby promoting equal opportunities in the workplace.
- The GET approach 2021-2025, which acknowledges the importance of low-carbon transport systems.

## 1.2 TRANSITION IMPACT

### Primary Quality: Competitive

Obj. No.	Objective	Details
1.1	Specific cost reduction and/or revenue increase measures will be introduced to improve profitability or at least achieve break-even (for loss-making entities).	The Project supports the development of the CDP focusing on enhancing the competitiveness of the Company through the preparation of an efficiency action plan that will also include improvements of the Company's tariff methodology related to freight transport, aimed at enhancing cost-efficiency and enabling long-term financial stability and loss reduction. The Project also supports amendments to the existing PSO to align it with EU Directive, and assist the Company to comply with the EU Growth Plan Reform Agenda to which the Company has committed. In addition, the Project will support the recommendation of a suitable ERP system for MRT to streamline its operations and allow integration of key functions, such as finance and accounting; procurement and inventory; human resources and

		payroll; asset management; maintenance; reporting and analytics.
1.2.	Specific organisational measures to reduce costs will be introduced and material cost reductions will be benchmarked and monitored (i.e. [REDACTED] reduction of the cost per unit of service regardless of whether that is charged to users or taxpayers).	The procurement of new electric locomotives is expected to lead to a decrease in the operating expenses of the Company, ultimately leading to improved operational efficiency. Moreover, the Project will benefit from technical assistance for the CDP, which will aim to further strengthen the operational and financial capacity.

#### Secondary Quality: Green

Obj. No.	Objective	Details
2.1	The percentage of EBRD use of proceeds that supports a green economy transition and therefore qualifies as GET finance is 15% or higher.	The Project is 86 per cent GET and will promote higher use of rail transport, supporting a modal shift to a greener transport mode, ultimately leading to reduced CO <sub>2</sub> emissions [REDACTED].

**Delivery risks:** The risks associated with both *Competitive* and *Green* qualities are mainly related to implementation capacities of the MoT and MRT. These risks are mitigated by: (i) the Government's commitment to continue supporting the development of North Macedonia's railway sector and related sector reforms, including its support for the Project, and the Bank's ongoing policy dialogue with the Government.

### 1.3 ADDITIONALITY

Identified triggers	Description
A subsequent / consecutive transaction (issuance) with the same client/group.	MoF, MoT and MRT are existing clients of the Bank with positive track record. Previous transactions in the railway sector include Railway Fleet Renewal Project, Rail Corridor VIII 1 <sup>st</sup> , 2 <sup>nd</sup> , 3 <sup>rd</sup> Phase and Rail Joint Border Crossing.

Additionality sources	Description of additionality sources
<b>Financing Structure</b> EBRD offers financing that is not available in the market from commercial sources on reasonable <b>terms and conditions</b> , e.g. a longer grace period. Such financing is necessary to structure the project.	EBRD provides long-term financing of 15 years, [REDACTED] which is not readily available in North Macedonia from local commercial banks.
<b>Policy, sector, institutional, or regulatory change</b>	The Project entails the review and update of the existing PSO contract between MRT and the MoT to align it with international best

<p>EBRD's involvement in a project is considered additional when it is designed to <b>trigger a change in the policy</b>, sector, institutional or regulatory framework, or enhance practices at the sector or country level (e.g., an introduction of cost-reflective pricing of energy, water etc.)</p>	<p>practice. It will result in recommendations for improvement and a new template agreement that adheres to EU regulations and international best practice.</p>
<p><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).</p>	<p>The Project will support the MRT to promote inclusion and gender equality by undertaking a series of strategic actions aimed at embedding non-discriminatory practices across its human resource operations. First, a comprehensive policy will be drafted that will explicitly prohibit discrimination in recruitment and promotion, with a clear emphasis on gender equality. To reinforce this commitment, all job descriptions will be revised to incorporate gender-neutral language and imagery, ensuring that opportunities appeal equally to all candidates. Additionally, the Company will systematically collect sex-disaggregated data on recruitment, promotions, and dismissals, and transparently present this information in the Company's annual reports to monitor progress and accountability. To streamline and institutionalize this process, a dedicated module will be integrated into the ERP, the Project funded component, enabling efficient and consistent data collection and analysis.</p>

#### 1.4 SOUND BANKING - KEY RISKS

Risks	Probability / Effect	Comments
Sovereign/Macroeconomic risk	Low/Medium	[REDACTED]
Implementation risk	Medium / High	MoT and the Company have limited experience in implementing EBRD-financed projects. This risk will be mitigated by the appointment of experienced international consultants, acceptable to the Bank, to assist the Implementing Entity throughout the procurement process up to commissioning.
Market risk/	Medium/ Medium	A significant share of North Macedonia's freight movement involves international transit along Corridor X, being the interconnecting link between Serbia and Greece along the TEN-T Western Balkans – Eastern Mediterranean Corridor. Rail freight volume has been experiencing a decline over the past two decades. However, since mid-2024, this trend is reversing as a result of provided additional capacity provided through leased locomotives. The new electric locomotives to be acquired through the Project are expected to further increase the Company's operational efficiency and competitiveness,

		reinforcing this positive trend. The assessment of the proposed investment, undertaken as part of the due diligence, confirmed that the Project continues to be feasible even if the rail freight demand is to remain constant at 2025 levels.
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## 2. MEASURING / MONITORING SUCCESS

### Transition Impact Monitoring Indicators

#### Primary Quality: Competitive

Obj. No.	Monitoring indicator	Details	Baseline	Target	Due date
1.1.	Operational restructuring completed	The Project will support the development of CDP that will incorporate the preparation of an efficiency action plan aimed at enabling the Company to improve cost-efficiency and increase revenues, thus, ultimately reducing its operating losses [REDACTED].	[REDACTED]	[REDACTED]	[REDACTED]
1.2	Operational performance of the client: efficiency	The Project will result in cost-efficiencies in the maintenance costs, leading to [REDACTED] reduction of maintenance cost per electric locomotive compared to the corresponding diesel locomotives currently in operation.	[REDACTED]	[REDACTED]	[REDACTED]
1.3	Public service contract or Public Service Obligation signed and implemented [Covenanted]	Revision and adoption of PSO to align with EU Directives on public passenger transport services by rail and international best practices.	[REDACTED]	[REDACTED]	[REDACTED]
1.4	Corporate Development Plan (CDP) approved [Covenanted]	The CDP component will prepare and implement an efficiency action plan to enhance competitiveness against road transport, including revisions to the commercial tariff methodology for freight, thus improving the Company's financial stability.	[REDACTED]	[REDACTED]	[REDACTED]

#### Secondary Quality: Green

Obj. No.	Monitoring indicator	Details	Baseline	Target	Due date
2.1	CO <sub>2</sub> e emissions reduced (tonnes/year)	The Project will promote higher usage of rail transportation, which will ultimately lead to annual CO <sub>2</sub> savings [REDACTED].	[REDACTED]	[REDACTED]	[REDACTED]

## Additional Indicators

Indicator type	Monitoring indicator	Details	Baseline	Target	Due date
Advisory & Policy Indicators	Practices of the relevant stakeholder improved (equal opportunity practices of the client)	The Company will: <ul style="list-style-type: none"> <li>- Draft a comprehensive policy that explicitly prohibits discrimination in recruitment and promotion (emphasis on gender equality);</li> <li>- Revise job description to incorporate gender-neutral language and imagery;</li> <li>- Systematically collect sex-disaggregated data on recruitment, promotions, and dismissals, and transparently present this information in its annual reports;</li> <li>- Streamline and institutionalize this process by introducing a dedicated module into the ERP.</li> </ul>	[REDACTED]	[REDACTED]	[REDACTED]

## 3. KEY PARTIES

### 3.1 BORROWER

[REDACTED]

### 3.2 IMPLEMENTING ENTITY

The MoT is responsible for the implementation of the National Transport Strategy (“NTS”) 2018–2030, which prioritises improvements in the quality and competitiveness of railway transport. The Railway Department within the MoT will take the lead on the Project’s implementation and will be supported by a dedicated team of qualified personnel provided by the Company, ensuring effective day-to-day management and oversight of all Project components. Furthermore, the MoT will be the Borrower’s authorized representative for managing the special account to be established for the disbursements of the Bank’s loan proceeds.

### 3.3 BENEFICIARY

MRT is the national railway transport operator responsible for the transportation of passengers and freight within North Macedonia. Since the 2007 sector reform, when the rail infrastructure and operations were separated into two independent entities, MRT acts as an integrated passenger and freight rail operator, while Public Enterprise Macedonian Railways Infrastructure Skopje (“PERI”) acts as the manager of the railway network infrastructure. The Company is fully state-owned, with the Government of North Macedonia holding 100 per cent of the shares, and currently employees 609 employees. MRT prepares its annual accounts in accordance with IFRS which are audited annually by reputable international audit firms.

[REDACTED]

## 4. MARKET CONTEXT

Railway transport in North Macedonia is managed by MRT, the national railway operator. In 2024, the Government, in consultation with the European Commission, paused plans to liberalise the market until EU accession progresses, partially due to the potential impact on MRT financial viability.

Railway transport in North Macedonia has been experiencing a notable decline, primarily due to prolonged underinvestment. Ongoing infrastructure challenges and outdated rolling stock have led to a significant decline in freight transport volumes, which fell from 1.7 million tonnes in 2020 to 0.8 million tonnes in 2024. This downturn is also in part attributed to ongoing construction works along Corridor X in Serbia, which disrupted international operations.

[REDACTED]

The Government is committed to modernising the country's rail infrastructure and operations to improve service quality and achieve sustainable transport objectives, including decarbonisation. These efforts aim to boost rail traffic and strengthen connectivity both within North Macedonia and with neighbouring countries. Growth in rail freight is anticipated due to rolling stock upgrades as well as significant infrastructure investments on rail Corridor VIII, the planned rehabilitation of rail Corridor X, and proposed development of a new high-speed rail Corridor X, as announced by the Government. Further advancement will depend on continued infrastructure improvements, modern rolling stock, and addressing bottlenecks such as border crossing delays for international rail travel.

## 5. ECONOMIC ANALYSIS

### 5.1 ECONOMIC ANALYSIS

[REDACTED]

### 5.2 SENSITIVITY ANALYSIS

[REDACTED]

### 5.3 PROJECTED PROFITABILITY FOR THE BANK

[REDACTED]

## 6. OTHER KEY CONSIDERATIONS

### 6.1 ENVIRONMENT

Category B (ESP 2024). The environmental and social (“E&S”) risks associated with the purchase and use of up to five new electrical locomotives are typical for the rail transport and mechanical workshop sector and can be readily addressed via mitigation measures. An external international consultant was engaged to perform an environmental and social due diligence (“ESDD”) of the Project against the EBRD Environmental and Social Requirements (“ESRs”). This assessment included interviews with the Company’s management, review of background information, site visit/audit and preparation of the ESDD report, including the environmental and social action plan (“ESAP”).

ESDD determined that MRT is generally in compliance with national environmental and occupational health and safety legislation (including railway related laws) and they assign E&S responsibilities internally, however there are some areas for improvement needed, particularly in developing and implementing formal integrated environmental, social, health and safety (“ESHS”) management system.

MRT operates the rolling stock on infrastructure owned and operated by PERI. MRT has five operational bases, with the main one located in Skopje. This is the main workshop and office location for the Company. Four smaller facilities are located in the cities of Trubarevo, Veles, Bitola and Gevgelija. MRT currently employs 609 employees. Many International Labor Organisations (“ILO”) conventions and pertinent EU legislation relating to labour regulations have been adopted by national legislation. MRT is generally compliant with national labour code and workers onsite are represented by nine various trade unions. The MRT operations are inspected regularly by the labour inspectorate with no significant adverse findings. The ESAP will require MRT to conduct a risk assessment for all work areas/job tasks, including work at heights.

The Company was the subject of an EBRD financed technical cooperation project in 2012, focused on assessing the occupational health and safety (“OHS”) aspects of MRT, which was a newly formed company as part of the restructuring of the national railway sector. This assessment included an improvement plan addressing occupational safety issues at the site. While many of these actions have been partially implemented, there are additional actions to implement based on the Project ESDD outcomes, which have been incorporated into the ESAP for this Project. North Macedonia has enshrined the relevant EU OHS regulations into national legislation, and the site is materially compliant with national requirements for occupational health and safety. Also, the North Macedonia law on interoperability of railways incorporates most of the requirements of EU Railway Safety Directive 2016/798. Currently, there is a new law being drafted that is to incorporate the remaining requirements of the EU Directive on Railway Safety.

As part of the site visit/audit, the central Skopje site and the Trubarevo sites were visited and the observations at these locations suggest that the general level of health and safety (“H&S”) protection is in line with national legislation. The Company will need to improve waste management and spill prevention practices in order for these materials to be stored in a structured manner. The maintenance of the tracks is responsibility of PERI, however the ESAP will require technical specifications for locomotives to be designed and procured in accordance with all international standards, EU Directives 2016/797 and 2016/798 related to railway interoperability and safety, Technical Specifications for Interoperability (“TSI”) of the European rail system. In relation to operation safety, the ESAP will require MRT to monitor and review safety performance and when relevant to engage and develop measures jointly with other key stakeholders such as PERI.

The ESAP has been prepared to structure the Project to achieve compliance with the ESRs. The main actions in the ESAP include development and implementation of an integrated health, safety, social and environmental management, development of central organised facilities for storage of hazardous materials and wastes, measures to prevent entry of any oil, lubricants or solvents into the site drainage system, review of operational needs for use of all above ground or in ground storage tanks and either upgrades to these facilities (to prevent potential leaks) or dismantling and decontamination, provision of adequate internal and external resources to implement the new integrated management system (including performance of risk assessments at all work locations) and development of a stakeholder engagement plan commensurate to the operations. The ESAP has been agreed with the MoT and MRT.

The Project is consistent with the EBRD’s GET approach. It will lead to greenhouse gas (“GHG”) emissions reductions via the replacement of diesel locomotives with electric locomotives. The Project’s GET share is 86 per cent.

The Project is considered aligned with the mitigation objectives of the Paris Agreement as it features in the joint Multilateral Development Bank list of Paris-aligned projects (as “Electric passenger or freight transport”) and meets accompanying conditions. The Project components will not be dedicated to the transport of fossil fuels. The Project is considered aligned with the adaptation objectives of the Paris Agreement as potential climate hazards have been determined to be non-material.

## 6.2 INTEGRITY

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

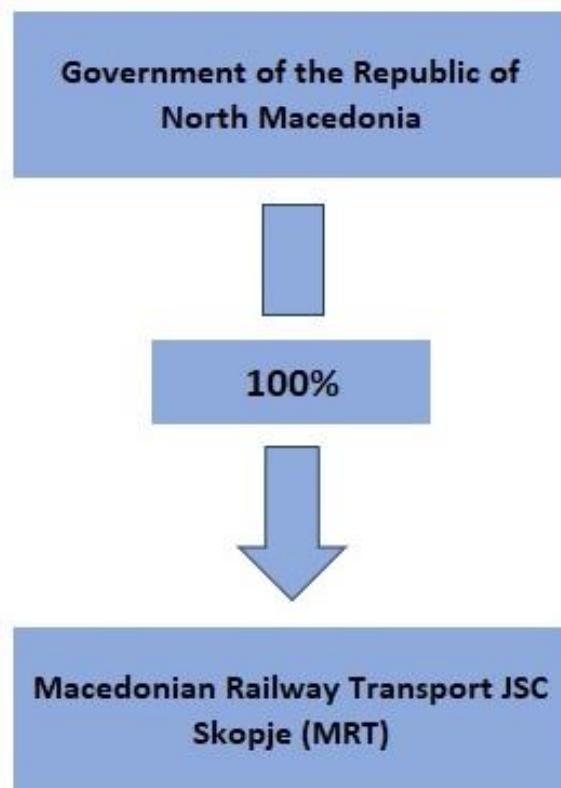
All actions required by applicable EBRD procedures relevant to the prevention of money laundering, terrorist financing and other integrity issues have been taken with respect to the Project, and the project files contain the integrity checklists and other required documentation which have been properly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

## ANNEXES TO OPERATION REPORT

ANNEX 1	Transition Impact Scoring Chart
ANNEX 2	Shareholding Structure of the Company
ANNEX 3	Green Assessments
ANNEX 4	Project Implementation

**ANNEX 1 - TRANSITION IMPACT SCORING CHART**  
[REDACTED]

## ANNEX 2 - SHAREHOLDING STRUCTURE OF THE COMPANY



## ANNEX 3 - GREEN ASSESSMENTS

### SUMMARY

- The Project consists of the acquisition of up to five new electric rail locomotives and an ERP system.
- The Project is determined **aligned with both mitigation and adaptation goals of the Paris Agreement.**
- The Project is attributed **86% Green finance.**

[REDACTED]

#### **General screening of alignment with the mitigation goals of Paris Agreement**

The Project/economic activity is considered to be **included** in the 'aligned list' category of 'Electric Passenger or Freight Transport'.

#### **Alignment with the adaptation goals of Paris Agreement**

##### Step 1: Evaluation of the physical climate risk and vulnerability context:

The Project involves acquisition of moveable assets. Whilst the operation of these assets may be impacted by impact of climate change on other assets of the system (for example extreme heat impacting electric supply, or flooding of the network), the physical climate risk faced by the assets being financed by the Bank are not material.

##### Step 2: Definition of climate resilience measures:

No specific climate resilience measures have been incorporated, as no material risks to the assets being financed by the Bank were identified.

##### Step 3: Appraisal of broader climate resilience context:

The Project does not undermine the resilience of wider systems and is not inconsistent with the national policy for context adaptation.

The Project satisfies the three steps of the adaptation approach, and is thus considered aligned with adaptation goals of the Paris Agreement.

### **Green Finance Attribution**

The Project is 86 per cent Green Finance eligible for climate change mitigation. The use of proceeds related to the purchase of up to five electric locomotives (EUR 20.2 million of EUR 20.7 million) are eligible in line with the Green Finance category "Zero-direct-emissions fleet and related infrastructure for electric rolling stock". An adjustment of 12 per cent is made proportional to the share of fossil fuels transported on the North Macedonian rail network. The Project is anticipated to result in CO<sub>2</sub> savings [REDACTED].

## ANNEX 4 – PROJECT IMPLEMENTATION

### Procurement classification – *Public sovereign*

[REDACTED]

#### **Project implementation arrangements:**

The MoT will serve as the Project’s Implementing Entity, leading the PIU, which will include members from both MoT and MRT. The PIU will oversee procurement and contracting, supported by external consultants to address capacity constraints and ensure adherence to Bank policies.

#### **Procurement arrangements:**

The envisaged contracts will be subject to the Bank’s latest PP&R. The goods contract for the locomotives and related spare parts will be procured using Open Competitive Multi-Stage Tender procedure. The contract will be subject to prior review. The procurement documents would be based on EBRD latest standard procurement documents. Given the complexity and nature of the contract, the Bank will explore together with the PIU and the PIU support consultant, the potential use of quality-based criteria and value-for-money approach.

The procurement of the ERP system will be based on a single stage tender with two envelopes due its relatively simple nature. Similar approach will be used for the selection of the PIU support consultant and CDP consultant. The PIU support consultant will support the PIU with the procurement of all intended contracts under this Project.

#### **Additional information:**

All planned activities shall be procured following Bank’s electronic procurement system (ECEPP).

[REDACTED]