

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

Approved by the Board of Directors on 28 May 2020¹

POLAND

**GrCF2-W2 - WARSAW METRO LINE II
EXTENSION PROJECT**

[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.

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ABBREVIATIONS / CURRENCY CONVERSIONS

CEE	Central and Eastern Europe
City	City of Warsaw
Company	Warsaw Metro Ltd
DSCR	Debt Service Coverage Ratio
EIB	European Investment Bank
EBIT	Earnings before Interest and Taxes
EBITDA	Earnings before Interest, Taxes, Depreciation and Amortisation
EHS	Environment, Health and Safety
ESAP	Environmental and Social Action Plan
ESIA	Environmental and Social Impact Assessment
EU	European Union
EUR	Euro
GDP	Gross Domestic Product
GHG	Greenhouse gases
IFRS	International Financial Reporting Standards
IFI	International Financial Institution
MSA	Municipal Support Agreement
PLN	Polish Zloty
PSC	Public Service Contract
PSD	Project Summary Document
PPR	EBRD Procurement Policies and Rules
Regulation 1370	Regulation No 1370/2007 of the European Parliament and of the Council of 23 October 2007 on public passenger transport services by rail and by road and repealing Council Regulations Nos 1191/69 and 1107/70
SG&A	Selling, General and Administrative Expenses
VAT	Value Added Tax
ZTM	Public Transport Authority in Warsaw

CURRENCY CONVERSION

(year to date average based on the National Bank data)

1 EUR	4.5 PLN
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PRESIDENT'S RECOMMENDATION

This recommendation and the attached Report concerning an operation in favour of Metro Warszawskie Sp. z o.o. (“**Warsaw Metro**” or the “**Company**”), a limited liability company incorporated in Poland, are submitted for consideration by the Board of Directors.

The proposed financing to the Company will consist of a syndicated loan facility in the amount of up to PLN 392.5 million (EURO 87.2 million equivalent) comprising a (i) committed Tranche I in the amount of up to PLN 322.7 million (EUR 71.7 million) and (ii) uncommitted Tranche II in the amount of up to PLN 69.80 million (EUR 15.5 million), provided alongside the EU and European Investment Bank (“**EIB**”). The Bank’s participation in the syndicated loan facility will consist of (i) part of Tranche I in the amount of up to PLN 193.62 million (EUR 43 million) and (ii) uncommitted Tranche II in the amount of up to PLN 69.80 million (EUR 15.5 million).

This is a sub-project under Green Cities Framework (“**GrCF2**”), which serves as a sector-wide catalyst for addressing environmental challenges at the City level through the preparation and subsequent implementation of a Green City Action Plan (“**GCAP**”). The sub-project will be the first Green Cities project in Poland. Given the need to improve air quality, the City of Warsaw has agreed to accept the GrCF2 conditionalities, requiring the City to implement the GCAP and Climate Action Plan (“**CAP**”) to prioritise and drive the City’s investments to support its green development.

The operation will enable Warsaw Metro to purchase up to 45 metro trains (comprising a primary order of 37 plus an option for 8 additional trains) to be operated over the extended Metro Line II currently under construction and to partially replace the old rolling stock currently operating on Line I. The expected transition impact of the project is Green and Well-governed in line with the objectives of GrCF-2.

TC support for this operation is expected to be provided by Poland and Taipei China.

I am satisfied that the operation is consistent with the Bank’s Strategy for Poland, the Municipal and Environmental Infrastructure Sector Strategy, with the Green Economy Transition Approach and the Agreement Establishing the Bank.

The Project requires an exception from the Bank’s Procurement Policies and Rules (as set out under Section 2.4), due to the Bank’s co-financing of the Project along with EU Cohesion Funds and EIB.

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

Suma Chakrabarti

BOARD DECISION SHEET

POLAND – GrCF2 - Warsaw Metro Line II Extension - DTM 48666 Framework: GrCF2, DTM50674	
Transaction / Board Decision	Board approval ² is sought for a syndicated senior loan of up to PLN 263.42 million (EUR 58.5 million equivalent) in favour of Metro Warszawskie Sp. z o.o. (“ Warsaw Metro ” or the “ Company ”) comprising participation in <u>Tranche I Loan (committed tranche)</u> in the amount of up to PLN 193.62 million (EUR 43 million equivalent); and <u>Tranche II Loan (uncommitted tranche)</u> up to PLN 69.8 million (EUR 15.5 million equivalent) of uncommitted amount entirely for the Bank’s own account. Commitment of the uncommitted tranche will be delegated to Management. The Project will be the City’s “trigger investment” under EBRD GrCF2, formally initiating Warsaw’s participation in the programme. The Project requires an exception from the Bank’s Procurement Policies and Rules (as set out in Section 2.4), due to co-financing alongside EU Cohesion Funds.
Client	Metro Warszawskie Sp. z o.o. (an existing client of the Bank), a limited liability company wholly owned by Warsaw City. The Company is the operator of the first and the second metro line in Warsaw.
Main Elements of the Proposal	<p>Transition impact: The Project fully contributes to GRCF’s transition objectives by focusing on Green as the primary transition quality through the preparation of a GCAP and through this trigger project which will reduce CO₂ emissions [REDACTED], NOx emissions [REDACTED] and PM emissions [REDACTED], fully in line with the levels set forth in the Framework. The secondary quality is Well-governed through the development and implementation of a comprehensive GCAP for the City.</p> <p>Additionality stems from two elements: (i) the Project’s novel financial structure, which is based on the elimination of the Municipal Support Agreement (“MSA”) and reliance on an updated Public Service Contract (“PSC”). The EBRD has played a key role in the development of the PSC; and (ii) EBRD specific related conditionalities for the Project, which will require the Company to implement an ESAP, and the City to prepare a GCAP and CAP to prioritise and drive the City’s investments. The City of Warsaw has agreed to accept the framework conditionalities (requiring the City to implement the GCAP and CAP) [REDACTED].</p> <p>Sound banking: The financing structure depends on a robust PSC with the City of Warsaw and has been stress tested.</p>
Key Risks	<p>Credit risk: This risk is mitigated by a new PSC, which will provide: (i) sustainable financial support to the Company and (ii) a long contractual arrangement enabling the Company to secure long term financing.</p> <p>Implementation delay: This risk is mitigated by the finalised completion of construction works on phase 2 of the Metro Line II development. The contract for supply of metro trains (now concluded) will be monitored on an ongoing basis [REDACTED].</p>
Strategic Fit Summary	<p><i>Poland Country Strategy</i> underlines “reduced air pollution” under the Strategic Priority of Promoting Green Economy Transition in Poland.</p> <p>The <i>MEI Sector Strategy</i> envisages focusing on scaling-up high GET-impact investments in urban transport sector and in cities through repeat investments supporting the green agenda.</p> <p>The <i>Green Economy Transition Approach</i> (GET) recognises the benefits of EBRD lending to public sector entities to achieve significant environmental benefits in the form of CO₂ emission reduction and reduction of air pollution.</p>

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

ADDITIONAL SUMMARY TERMS FACTSHEET

EBRD Transaction	<p>The proposed transaction will consist of a syndicated loan facility in the amount of up to PLN 392.5 million (EURO 87.2 million equivalent) comprising a (i) committed Tranche I in the amount of up to PLN 322.7 million (EUR 71.7 million) and (ii) uncommitted Tranche II in the amount of up to PLN 69.80 million (EUR 15.5 million).</p> <p>The Bank's loan for its own account in the syndicated loan facility will consist of (i) part of Tranche I in the amount of up to PLN 193.62 million (EUR 43 million) and (ii) uncommitted Tranche II in the amount of up to PLN 69.80 million (EUR 15.5 million). Commitment of Tranche II will be at sole discretion and approval by the Bank and will be delegated to the Management.</p>
Existing Exposure	Approximately PLN 65.8 million (EUR 14.6 million equivalent) outstanding under PLN 322 million (EUR 71.5 million equivalent) loan facility signed with the Company in 2011 (DTM 39386) and maturing in 2024.
Maturity / Exit / Repayment	17-years maturity [REDACTED].
AMI eligible financing	The Transaction assumes syndication [REDACTED].
Use of Proceeds	<p>The proceeds of the EBRD loan will be used to finance the acquisition of up to 45 metro trains required in connection with the expansion of Warsaw Metro's system. The basic order counts 37 new trains, which are to service the extended Warsaw Metro Line II and partially replace the old and inefficient rolling stock operated on Line I. The remaining 8 trains are optional and will be subject to the Company deciding on increasing the order [REDACTED].</p> <p>The EBRD loan will be part of a larger financing package for a total of PLN 1.3 billion (EUR 290 million equivalent), co-financed by EIB and EU grant funds. The use of proceeds will be monitored [REDACTED].</p> <p>The Project will be Warsaw's and Poland's first investment under EBRD Green Cities, and will support the City to identify and prioritise its most pressing environmental challenges through the accompanied development of a GCAP and CAP in coordination with C40³.</p>
Financing Plan	[REDACTED]
Key Parties Involved	<ul style="list-style-type: none"> • The City of Warsaw as 100% shareholder of the Company • Warsaw Metro Company as the Borrower • European Commission as donor of the EU grant • European Investment Bank and commercial bank(s) as co-financiers
Conditions to disbursement	<ul style="list-style-type: none"> • All financing and Project documents are in place, including the new PSC. [REDACTED]
Key Covenants	<ul style="list-style-type: none"> • [REDACTED] Development of the GCAP and its approval by the City Council.
Security / Guarantees	<ul style="list-style-type: none"> • Assignment of rights under the new PSC. [REDACTED]
Other material agreements	<ul style="list-style-type: none"> • EU grant agreement • EIB agreement [REDACTED]
Associated Donor Funded TC and co-	Post-signing

³ C40 is a network of the world's megacities committed to addressing climate change.

<p>investment grants/concessional finance</p>	<p>TC: Green City Action Plan & Climate Action Plan – to assist the City with developing a GCAP & CAP to prioritise investments in the City of Warsaw in pursuit of the green agenda and to develop a low-carbon and climate resilient development pathway as part of the C40 initiative. [REDACTED].</p> <p>Reimbursement: The above assignment is a non-reimbursable transactional TC to support both appropriate project preparation and implementation aspects.</p> <p>Cost Sharing: The City will be responsible for making all VAT and other indirect tax payments that are applied to the post-signing TC assignment. Moreover, Poland is to be one of the donors for the GCAP and CAP development.</p>
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[REDACTED]

INVESTMENT PROPOSAL SUMMARY

1. STRATEGIC FIT AND KEY ISSUES

1.1 STRATEGIC CONTEXT

The proposed Project will be Poland's first project under EBRD Green Cities implemented by the largest Polish city, Warsaw. The City is challenged by providing services for a growing population, while addressing its current air quality issues and greenhouse gas ("GHG") intensity. In 2013, Warsaw hosted the UNFCCC's COP19, putting the City at the centre of the global effort to address climate change. Since then, the City has taken steps to reduce emissions and improve air quality, particularly through its highly publicised participation in the C40 network of cities.

Warsaw is one of ninety four megacities around the world forming the C40 network, which represents one twelfth of the world's population and one quarter of the global economy. These cities, through C40, have commonly signed on to reduce their GHG emissions in line with the Paris Agreement, and subsequently improve air quality for their citizens.

Globally, cities account for around 70% of GHG emissions, while air pollution accounts for 4.2 million premature deaths per year according to the World Health Organisation. According to the European Environment Agency⁴, Poland today ranks as the second in the EU, after Bulgaria, in terms of PM¹⁰ concentrations in relation to the daily limit value and as the first in terms of urban and suburban background PM^{2.5} concentrations. [REDACTED] Almost half of primary PM^{2.5} emissions come from transport and the City of Warsaw, together with four other Polish cities, remains the most congested city in Central Europe. Within the EU, Poland's electricity generation is also one of the most greenhouse gas intensive, stemming from the predominant reliance on coal as a primary fuel source.

Recognising the tangible health impacts of air pollution and the global impacts of carbon emissions, Warsaw has committed to developing a greener future by investing in its public transit system while developing a comprehensive strategy to improve its environmental performance. Warsaw has committed to battling the problem of emissions and concentrations of air pollution by tackling the issue of congestion and facilitating a modal shift from the currently dominant vehicular traffic to metro or trams.

One of the solutions to this issue has been the expansion of Warsaw's metro network, which remains the City's single largest investment undertaken to date. The central section of Metro Line II, co-financed by the Bank with a loan for rolling stock, brought very positive results in terms of ridership and attractiveness of this means of transport. Significant challenges, however, still remain, related primarily to combating the growing share of private car transportation in the total transportation within Warsaw [REDACTED]. In this context, the Project aims to further increase a modal shift to public transport and as a result more profoundly reduce the emissions of not only CO₂ but even equally important of PM¹⁰ and PM^{2.5}.

⁴ EEA Report, No 10/2019, Air Quality in Europe – 2019 report.

While the Project will enable Warsaw to begin to address its local challenges with air pollution and greenhouse gas emissions, the investment is a first step in the City's effort to promote in a coherent way its sustainable development and address climate change through participation in EBRD Green Cities and C40. In conjunction with the Project, Warsaw will receive the combined support of EBRD Green Cities and C40 to develop a multi-decade investment plan and roadmap to achieve carbon neutrality [REDACTED] while addressing its most immediate challenges in the short term. The City will develop a combined EBRD GCAP and C40 CAP, with EBRD and C40 working together to support delivery of the final product. Only three cities belong to C40 in the Bank's countries of operation: Cairo, Istanbul and Warsaw. While GCAPs focus on immediate investment and policy action cities can take in the next five years to promote green development, C40's CAP take a longer outlook to 2050 to design a pathway for cities to de-carbonise and address their climate risks. The two methodologies are highly complementary and will be combined to produce one cohesive document that outlines an ambitious yet politically feasible vision for the City's low-carbon and climate resilient future.

In this sense, the Project will play an instrumental role in the development and implementation of the GrCF2 (DTM50674) and is going to send strong signals to the market given (i) united cooperation with C40 on development of a common strategy for the City, (ii) Warsaw being the first city in Poland joining the Green Cities and (iii) the trigger project being the first to be financed by a syndicated loan.

The Project is consistent with the:

- Poland Country Strategy, which underlines “reduced air pollution” under the Strategic Priority of Promoting Green Economy Transition in the country.
- Municipal and Environmental Infrastructure Sector Strategy which envisages focusing on scaling-up high GET-impact investments in urban transport sector and in cities through repeated investments supporting the green agenda.
- Green Economy Transition Approach (GET) which recognises the benefits of EBRD lending to public sector entities to achieve significant environmental benefits in the form of CO₂ emission reduction and reduction of air pollutions.

The Project is the Bank's second project with the Metro Company, which was approved by the Board of Directors in March 2011. The original project [REDACTED] financed the acquisition of new rolling stock, an investment stemming from the construction of the central section of Metro Line II (6 km long and covering 7 stations), connecting both sides of the Vistula river, which commenced in 2009. The project, completed in March 2015, was an enormous success, surpassing the expectations in terms of the number of passengers transported during the first year of operation; the significant level of modal shift, but also its contribution to the development and integration of the eastern part of Warsaw with the centre and business areas. The project was estimated to result in CO₂ emission reduction reaching approx. 200,000 tonnes. [REDACTED]

1.2 TRANSITION IMPACT

The Project is proposed as a trigger project under the Framework and is expected to result in a significant [REDACTED] reduction in CO₂ annually [REDACTED]. Moreover, the extended metro line is also expected to result in [REDACTED] reduction of NO_x [REDACTED] and [REDACTED] reduction of particular matter pollution [REDACTED]. Given high air pollution in Warsaw, its inclusion in EBRD Green Cities will enable the City to develop a GCAP as well as a CAP and identify priority actions

and investments to address its environmental challenges. The Project will also have a significant demonstration effect, since it will be the first project included under the Bank's framework, where (i) the city is a C40 megacity and (ii) the Loan is syndicated to commercial bank(s).

The GrCF2 is a strategic and multi-project approach Framework targeting environmental issues in selected large cities in the Bank's countries of operation. The primary goal is to achieve significant environmental improvements and promote the green transition quality within the relevant cities. The GrCF2 also aims to build necessary capacity and facilitate better coordination and buy-in among various stakeholders within the relevant cities in order to improve the governance, operational efficiency and financial sustainability of the targeted investments and initiatives. These objectives are supported by the development and implementation of a City-specific GCAP identifying and prioritising environmental challenges and ways to address them through targeted investments, services and policy instruments.

The transition qualities promoted under this Framework are: Green (primary) and Well-governed (secondary) and the Warsaw Metro Line II Extension Project is expected to support the Framework objectives in the following ways:

Green: The extension of Warsaw Metro's network and increased coverage of the Warsaw area by this fast and large capacity public transport mode is expected to result in [REDACTED] CO₂ reduction [REDACTED] and of [REDACTED] tonnes of NO_x and [REDACTED]tonnes of particular matters (PM). Therefore, upon completion the Project will bring a [REDACTED] reduction in CO₂ emissions as well as [REDACTED] lower NO_x and PM emission at the Project area [REDACTED].

Well-governed: this "trigger project" for the City under EBRD Green Cities will support Warsaw in developing its combined GCAP and CAP. The action plans to be developed will help the City identify and prioritise the environmental challenges to be addressed through long term development goals.

TI Objectives Table

Obj. No.	Framework Objective	Transition Indicators	Contribution of Operation to Framework Objectives	Baselines	Target Values	Implementation Timelines
Primary TI Quality: Green						
1.1	Multiple green investments: Each participating city makes on average at least 3 investments that address priority environmental challenges identified by the GCAP, where all EBRD financed projects reduce emissions or improve resource efficiency by minimum 20% or promote climate change resilience.	Implementing an eligible Green Cities project	The signed Green Cities project will reduce GHG emissions [REDACTED].	[REDACTED]	[REDACTED]	[REDACTED]
1.2	Environmental impact: To achieve significant environmental improvements for at least one priority environmental challenge, i.e. the promotion or protection of certain performance levels (colour codes) for critical environmental challenges as specified in the GCAPs, for more than 50% of the Green Cities.	Achieving significant environmental impact in a priority environmental challenge identified in the GCAP	The project will address air pollution and climate mitigation concerns through the substantial reductions in GHG, PM and NOx emissions.	[REDACTED]	[REDACTED]	[REDACTED]
1.3	Effective GCAP implementation: To achieve the overall objective, the Framework will also have an implementation objective of achieving at least 50% of all verifiable targets, set in all GCAPs, within 5 years after the respective GCAP finalisation (including both investments and well defined policy measures).	Implementing a project identified as a target for the GCAP	The Project will support the City to develop a Green City Action Plan that sets verifiable targets	[REDACTED]	[REDACTED]	[REDACTED]
1.4	Strong follow-on support: At least 50% of transactions and investment volume under GrCF2 being follow-on investments addressing critical	Implementing a follow-on project	The Project will support the City to develop a GCAP,	[REDACTED]	[REDACTED]	[REDACTED]

	environmental challenges identified in the GCAPs.		enabling follow on opportunities.			
Secondary TI Quality: Well-governed						
2.1	New GCAPs: 10 additional GCAPs finalised and approved where all GCAPs include priority actions and a monitoring strategy.	GCAP developed and submitted for approval	Warsaw's GCAP sent to the City Council including an implementation and monitoring strategy	[REDACTED]	[REDACTED]	[REDACTED]
2.2	PSCs and tariff increases: PSCs and effective tariff increases in line with the respective PSCs, aimed at cost-recovery or improved fare-box ratio, for the majority of all sub-projects benefitting revenue-generating operators.	Public service contract signed and implemented	A PSC for Warsaw Metro effectively implemented, i.e. KPIs implemented in line with timely approved business and investment plans	[REDACTED]	[REDACTED]	[REDACTED]
		Tariffs reached the target level	Cost recovery level to be reached as part of the PSC implementation.	[REDACTED]	[REDACTED]	[REDACTED]
2.3	Access to financial markets: Develop green finance roadmaps in 4 cities to address the key elements required to access green finance markets, including green bonds.	A green finance roadmap finalised	n/a	[REDACTED]	[REDACTED]	[REDACTED]

1.3 ADDITIONALITY

Identified triggers	Description
A subsequent/consecutive transaction with the same client/group with the same use of proceeds (repeat transaction).	Warsaw Metro Project (2011, EUR 71.5 million).
Financial Additionality	Explanation
<p>Financing Structure</p> <p>EBRD offers a large volume instrument that fills a market funding gap. This is required for the Projects to materialise and sends a confirming signal to the market.</p>	<p>The Company and City requested EBRD’s participation. The Bank’s involvement as a co-financier is additional in this Project due to expected elimination of the MSA for the financing. The proposed transaction will require a new PSC to be signed between the City and the Company to provide (i) sustainable financial support to the Company and (ii) a long contractual arrangement enabling the City to secure long term financing that reflects the lifetime of the asset. Historically commercial bank financing for rolling stock acquisition has been based on a PSC and MSA structure. Therefore, the proposed financing is expected to be unique in terms of structuring, by allowing the Company to proceed with its ambitious investment and policy objectives. The Bank will play a key role in structuring the Project through the development of a new PSC structure.</p>
<p>EBRD investment is needed to close the funding gap. At the same time, EBRD does not crowd out other sources, such as from IFIs, government, commercial banks and/or complements them</p>	<p>The total project cost is estimated to be EUR 290 million and some EUR 174 million of this is expected to be financed by parallel lenders, including EIB and commercial banks. Moreover, the latest outbreak of COVID-19 pandemic makes the financing market highly volatile and the banks are very cautious when deciding upon new financing commitments, making the Bank’s financing even more critical.</p>
<p>Risk mitigation</p> <p>EBRD helps the client to mitigate carbon transition risks and take climate action, such as to move along a low carbon transition pathway.</p> <p>EBRD helps the client to mitigate climate governance risks and take climate action, such as to improve its internal corporate governance for managing climate risks.</p>	<p>The Warsaw Metro Project will be the “trigger project” for the City under EBRD Green Cities, through which the Bank will support Warsaw in developing its GCAP and CAP. The action plans to be developed will help the City identify and prioritise the environmental challenges to be addressed through long term development goals</p>
<p>Standard-setting: helping projects and clients achieve higher standards</p> <p>Client seeks EBRD expertise on corporate governance improvements, including for climate risk management.</p> <p>Client seeks EBRD expertise on higher environmental standards, above ‘business as usual’ (e.g. adoption of emissions standards, climate-related ISO standards etc.).</p>	<p>EBRD [REDACTED]conditionalities [REDACTED] promote performance improvements and greater transparency. As part of the Project’s conditionalities, the client will be required to implement an Environmental and Social Action Plan (ESAP), GCAP and CAP to prioritise and drive the City’s investments. [REDACTED]</p>

1.4 SOUND BANKING - KEY RISKS

Risks	Probability / Effect	Comments
Credit risk of the Company	Low/Medium	The [REDACTED] PSC will [REDACTED] support the lenders in the long term and ensure that the Company is able to perform its activity without any major hurdles. Last but not least, the City's payment obligations under the PSC will be included in the long term financial plan adopted by the City Council.
Operational performance of the Company	Low/Medium	The Company's financial position might be affected by its operational underperformance under the PSC [REDACTED]. This risk is however mitigated by the Company's existing track record and very good quality of services provided. [REDACTED].
Implementation/operating risk	Medium/Low	The risk related to delays and problems with project implementation stems primarily from (i) the supplier's operational capacity to deliver the rolling stock on time and (ii) potential delays in construction of the second phase of the Metro Line II. The construction of the second phase of Metro Line II has just been completed. The third stage has already been started, with the same EPC contractors selected for the subsequent stages of the development. The completion of the third stage of metro development has been scheduled for 2022 and currently no delays in the construction are reported. The supply of metro trains will be monitored on an ongoing basis [REDACTED].
Termination of PSC	Low/High	The risk related to termination of the new PSC is mitigated by the obligation imposed on the City to pay [REDACTED] the total amount of all payments due to the Banks. [REDACTED]
Interest Rate Risks	Medium/Low	The tariff setting formula is based on the cost plus principle. [REDACTED]
Covid-19 risk	High /Medium	The Company's revenues only to certain extent are dependent on the volume of kilometres performed. [REDACTED] The outbreak of Covid-19 is likely to have an impact on the City's revenues. In light of lower revenue prospects, the City might need to reduce its investment spending and the operating costs. [REDACTED] The proposed Project remains however, the City's priority investment due to the need for fast, large scale public transport and the significant support of the EU funding for the development of this investment.

2. MEASURING / MONITORING SUCCESS

Overall objectives of project	Monitoring benchmarks	Implementation timing
<ul style="list-style-type: none"> • Good financial and operational performance • On-time project implementation • Environmental compliance 	<ul style="list-style-type: none"> • Financial ratios meeting covenanted levels • Completion according to the timeline and within the budget • ESAP compliance 	[REDACTED]

The Project monitoring indicators taking into account TI objectives are presented in the table below. This sub-project will be monitored individually. Information collected at sub-project level will be aggregated and used to inform Framework level monitoring.

Project Monitoring Indicators

Indicator	Projected Impact	Implementation Timing
Green		
Total Population benefitting from improved access to public transport (individuals)	Metro line 2 will connect City's centre with residential and commercial areas that together have more than 755 thousand inhabitants. This represents 44% of overall Warsaw population. The daily ridership is expected to reach 137,000 passengers.	[REDACTED]
Annual reduction in tonnes of CO ₂ equivalent savings (tonnes CO ₂ eq / yr)	[REDACTED]	[REDACTED]
Well-Governed		
Public service contract or Public Service Obligation signed and implemented	New PSC	[REDACTED]
Green Cities Action Plan (GCAP) approved	GCAP	[REDACTED]

3. KEY PARTIES

3.1 BORROWER

Warsaw Metro is a company set up as an internal operator of the Warsaw metro system. Apart from its core activity of providing transport services, the Company is also responsible for maintenance and operation of the metro system infrastructure as well as supervision of the metro infrastructure construction process as a substitute investor at the request of the capital City of Warsaw. The Company is also responsible for the preparatory works related to the construction of subway lines.

The Metro Company is an internal public transport operator as defined in the EU Regulation No 1370/2007 of the European Parliament. As such, the Company's primary source of revenues (ca 90%) comes from payments made by the Warsaw City for public transport services provided (other revenue sources entail proceeds from commercial activity like rent, lease and advertising, [REDACTED] and remuneration for acting as a project implementing agent for construction of Metro Line II on behalf of the City sourcing [REDACTED]). Regulation 1370 sets the maximum compensation the Company is entitled to: the revenues paid should cover the Company's costs related to the services performed, increased by a reasonable profit (with reasonable profit capped [REDACTED]). [REDACTED]

Currently the Company operates two subway lines linking north, south, west and east parts of Warsaw and covering 31 metro stations in total. A map of Warsaw metro is presented in Annex 8.

3.2 THE CITY OF WARSAW

With almost 1.8 million inhabitants Warsaw is the largest city in Poland and the 10th largest in the European Union. Warsaw is an alpha global city, a major international tourist destination and a significant cultural, political and economic hub. The City's local economy is relatively diversified with historically low unemployment (1.3% as of November 2019 as compared to 3.2% on average in Poland), a high average salary (at ca 23% higher than the national average) and a high number of companies. This results in a diversified tax base with no concentration risks [REDACTED]. Moody's current rating for the City of Warsaw is A2. In December 2019 Fitch affirmed the rating of the City of Warsaw at A- with stable outlook.

4. MARKET CONTEXT

- In 2005 Warsaw adopted a City Development Strategy ("Strategy") setting out the City's development priorities for public transport up to the year 2020. In line with the Strategy, the City's investment plan continues to focus on the extension and further development of the metro, commuter rail and tram services.
- Despite significant investments, Warsaw's metro is unable to accommodate the City's needs in a sustainable way and the City is concerned about the impact of increased motorisation as commuters increasingly rely on cars to get to and from work. This has resulted in an increased air pollution (with the majority of districts in Warsaw exceeding the concentration limits for PM¹⁰) and therefore decreased quality of life for the Warsaw inhabitants.
- Public transport services in Warsaw are organised and coordinated by Zarząd Transportu Miejskiego ("ZTM"), the urban transport regulator and a budgetary unit of the City. ZTM acts as the transport authority and regulator and (i) determines the quantity and quality of services, (ii) contracts the companies; (iii) enforces all obligations under the PSCs; (iv) launches tenders and (v) is responsible for passenger information and ticketing.
- Warsaw public transport consists of two metro lines (Metro Line I and II, with a total length of 32.4 km), a 275 km tram network, buses (covering the entire city street network and 70 km of dedicated bus lanes) as well as inner city rail (95 km). The bus transportation has the largest share in the public transportation ridership (52%) with trams delivering 24% of passengers. Metro services comprise 16% of ridership with the remaining part (8%) being delivered by inner rail. In 2016 the public transport share in the total transportation work was at the level of 44% (in terms of passenger kilometres) with 56% delivered by individual cars.
- Despite a relatively well-developed network of public transport means, the average commuting time in public transport (41 minutes) still exceeds the average time spent in a car (32 minutes). This difference reflects that the bulk of Warsaw's public transport, unlike the metro, is run alongside rather than independently from city traffic.
- Other identified transport-related problems of Warsaw include: (i) a lack of a rail-based transport service in some of the large residential areas, both existing and new;

(ii) poor interconnectivity between the outer districts and the city centre and (iii) low service levels if measured by speed of travel and passenger comfort. Congestion is particularly high on key transport corridors. The Vistula River divides the City resulting in heavy congestion on bridges during rush hour as commuters from suburban areas on the right bank travel to their workplaces on the left-bank. Moreover, the population of Warsaw is estimated to reach 2.5 million by 2050, from the estimated 1.8 million currently (registered and unregistered residents), exacerbating the current system.

- Construction of the new sections of the Metro Line II will result in shorter travel times and will directly improve the quality of public transport between the densely populated areas of Wola, Bemowo, Bródno, Targówek, and Gołław and the city centre. Execution of the investment is combined with the integration of all the ground-level transport systems in the area of Metro Line II and individual tram and bus routes and will also include Park & Ride facilities in neighbourhoods of remote stations.

5. FINANCIAL / ECONOMIC ANALYSIS

5.1 FINANCIAL SUMMARY AND PROJECTIONS

[REDACTED]

5.2 SENSITIVITY ANALYSIS

[REDACTED]

5.3 PROJECTED PROFITABILITY FOR THE BANK

[REDACTED]

6. OTHER KEY CONSIDERATIONS

6.1 ENVIRONMENT

Categorised B (2019 ESP). Acquisition and operation of the rolling stock to be used at existing metro Line I and Line II and in the future at expanded Line II in Warsaw will result in net environmental benefits related to expected savings of CO₂, NO_x and PM emissions from car and bus transportation in the city.

The ESDD for the Project was carried out by ESD and included review of E&S questionnaires, meetings and review of the corporate environmental, H&S, labour management systems implemented by the Client, review of communication and stakeholder procedures, services safety and supervision and reporting from Contractors and implementation of the ESAP agreed under previous transaction with the Client. The expansion of Line II is not considered an associated facility as the Project could operate without the expansion of the line and, the Line is not being expanded as a result of the Project. Still, ESDD also considered the E&S issues associated with Line II, where the

rolling stock financed under this transaction will be used in the future and have not identified any significant risks or impacts.

The ESDD has confirmed that the Client operations are covered by a mature certified integrated management system in line with ISO 9001:2015-10, ISO 14001:2015-09 and still applicable at the time of last re-certification OHSAS 18001:2004. The Company has appointed suitably qualified Environmental and H&S management overseeing operational aspects, as well cooperating closely with Investment Department overseeing any works carried out by the Contractors. Services Safety is governed by a set of procedures and authorisations given by a national Railway Transportation Board in regards to safe operation of trains, stations and infrastructure.

The Company employs (as of March, 2020) 2678 employees (15% women). There are 4 trade unions operating in the Company. The majority of employees belongs to one of four trade unions. There is a collective agreement and employee rulebook, which are consulted with Trade unions, in particular in relations to pay levels according to employee group Labour standards are in line with Polish national requirements and aligned with EU labour legislation. There were no protests or disputes with trade unions in the last 3 years. The Company operates a non-discrimination policy and has implemented an internal grievance mechanism, albeit further improvements have been suggested in the ESAP.

The Company diligently implemented ESAP agreed with the Bank in 2011, including provision of noise barrier at Kabaty (end of Line I) depot, implementation of ongoing noise monitoring, improvements to wastewater discharges from depots and implementation of grievance mechanism. The Company has been providing regular comprehensive Annual E&S reports to the Bank.

The ESAP has been revised to strengthen the internal grievance mechanism, and formalise a range of stakeholder engagements activities carried out by the Metro, particularly in regards to construction of extension lines, which can be considered good international practise and to continue to monitor Contractors in regards to implementation of environmental conditions stipulated in environmental permits and H&S performance. The Bank will continue to monitor company's EHS performance and compliance with EBRD PRs through a review of annual reports and monitoring visits as required.

6.2 INTEGRITY

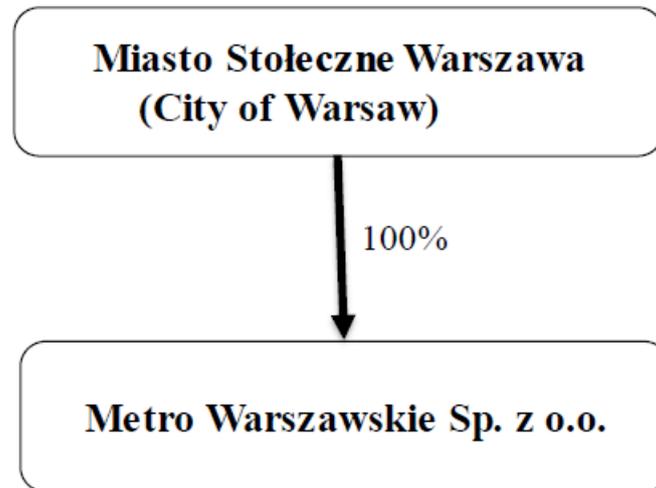
In conjunction with OCCO, integrity due diligence was undertaken on the Company, its shareholders, senior management and other relevant parties including the selected supplier of rolling stock. The [REDACTED] project does not pose an unacceptable reputational risk to the Bank. The Company has been a client of the Bank since 2011. [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	Implementation Progress of GrCF / GrCF2
ANNEX 3	Historical Financial Statements of the Warsaw Metro Company
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ANNEX 1 – Shareholding Structure



ANNEX 2 - Implementation Progress of GrCF / GrCF2

The Green Cities Framework (“**GrCF**”), approved by the Board in November 2016, set an ambitious agenda for the Bank’s municipal business, with the over-arching aim being ‘to serve as a sector-wide catalyst for addressing environmental challenges at the City level’. After only 2 years of operation, the Framework proved its ability to act as such a catalyst with the utilisation of the entire EUR 250 million headroom. As a consequence, in October 2018 a new Framework was approved by the Board, Green Cities Framework 2 (“**GrCF2**”), with a headroom of EUR 1.1 billion, with EUR 700 million from the Bank’s own capital and the remainder from the Green Climate Fund (“**GCF**”) and other donors. Given the sizeable amount from the GCF, in the form of concessional loans and grants for both capex and TC and the requirement to confirm to GCF the availability of Bank co-financing, GrCF2 is divided into two windows: Window I for GCF co-financing and Window II for non GCF co-financing. Since 2016, the GrCF and GrCF2 have mobilised nearly EUR 1.5 billion in EBRD and donor funding. [REDACTED]

ANNEX 3 – Historical Financial Statements of Warsaw Metro Company

[REDACTED]

ANNEX 4 – Historical Financials of the City of Warsaw

[REDACTED]

ANNEX 5 - Project Implementation

Procurement classification – Public

Project risk assessment:

[REDACTED]

The Client has over 15 years of successful experience in implementation of similar EU financed projects. For this purpose, the Company has set up permanent dedicated project implementation structure which is adequately staffed with technical, legal, financial and procurement staff.

Contracts risk assessment - Low

The supply contract which is funded under this transaction has already been awarded, approved by the Cohesion Fund Managing Authority and is currently being under the implementation. The contract has been procured without any eligibility or origin restrictions. As the time of submission of the SRM, the Bank is not aware of any issues with the implementation of the contract.

Project implementation arrangements:

The sub-project will require an exception from EBRD's PP&R, as envisaged under paragraph 2.4 of the PP&R for projects jointly co-financed with EU Cohesion/Structural Funds. FOPC issued a general recommendation in favour of exceptions to allow national procurement rules for all projects co-financing with EU Cohesion/Structural Funds in Poland at its meeting on 05 May 2011.

The exception refers to one single contract for supply of 45 new 6-car metro trains (37 trains of primary order and 8 trains of optional order) which, following an open tender in accordance with the Polish Public Procurement Law, was awarded to consortium Skoda Transportation a.s. and Skoda Vagonka a.s on 30 January 2020 for the amount of PLN 1,308.3 million.

The Bank will finance up to twenty (20)% of the contract [REDACTED].

The contract does not require retroactive financing.

All consultancy contracts to be financed by Bank's technical assistance will be tendered in accordance with Chapter 5 of Bank's PP&R.

ANNEX 6 - Procurement Plan

[REDACTED]

ANNEX 7 – Project EIRR

The independent analysis carried out for the Bank outlined that estimated ridership on metro system in Warsaw will increase by 41.2 million passengers on the first full year of operations of Line 2 with service level of similar to Line 1. The ridership on metro Line 2 and the modal shift was calculated based on the data received from the Company⁵. [REDACTED]

ANNEX 8 – Map of the Warsaw Metro Network

The planned length of Warsaw metro line 2 at this stage is 23.1 km. The extension of metro line 2 central section has three phases:

- **Phase 1** included 6.5 km long Central section with 7 stations (C7 - C15). This was opened on 8 March 2015:
- **Phase 2** included:
 - 3.2 km long section between stations C16 – C18 located on North-East part of the line;
 - 3.4 km long Westbound section between stations C8 – C6;

This phase has just been completed with the westbound section opened for passengers in March 2020.

- **Phase 3** includes:
 - 3.9 km long Northbound section between stations C19 – C21 (currently under construction);
 - 2 km long Westbound section between stations C5 – C4 (currently under construction);
 - 3.9 km section with three stations C3 – C1 and depot at the end of line (currently under design and securing required permits).

⁵ Rezultaty Studium Wykonalności Projektu: Budowa II linii metra wraz z zakupem taboru – Etap III. 2016



**ANNEX 9 – Warsaw Metro (BDS 11-044 (F))
Monitoring Benchmarks and their achievement**

[REDACTED]