

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

Approved by the Board of Directors on 10 May 2023¹

UKRAINE

UZ EMERGENCY SUPPORT

[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.

TABLE OF CONTENTS

	Page
TABLE OF CONTENTS	2
ABBREVIATIONS / CURRENCY CONVERSIONS.....	3
PRESIDENT’S RECOMMENDATION	4
BOARD DECISION SHEET	5
ADDITIONAL SUMMARY TERMS FACTSHEET	6
1. STRATEGIC FIT AND KEY ISSUES.....	8
1.1 STRATEGIC CONTEXT.....	8
1.2 TRANSITION IMPACT	9
1.3 ADDITIONALITY	10
1.4 SOUND BANKING - KEY RISKS	11
2. MEASURING / MONITORING SUCCESS.....	14
3. KEY PARTIES	16
3.1 BORROWER.....	16
3.2 GUARANTOR	16
4. MARKET CONTEXT	17
5. FINANCIAL / ECONOMIC ANALYSIS	18
5.1 FINANCIAL PROJECTIONS	18
5.2 SENSITIVITY ANALYSIS	18
5.3 PROJECTED PROFITABILITY FOR THE BANK.....	18
5.4 ECONOMIC ANALYSIS (EIRR).....	18
6. OTHER KEY CONSIDERATIONS.....	18
6.1 ENVIRONMENT	18
6.2 INTEGRITY.....	18
ANNEXES TO OPERATION REPORT.....	19
ANNEX 1 – SHAREHOLDING STRUCTURE.....	20
ANNEX 2 – GREEN ASSESSMENTS	21
ANNEX 3 – HISTORICAL FINANCIAL STATEMENTS.....	22
ANNEX 4 - PROJECT IMPLEMENTATION	23

ABBREVIATIONS / CURRENCY CONVERSIONS

BoD	Board of Directors
CGAP	Corporate Governance Action Plan
ECEPP	EBRD Client e-Procurement Portal
EIB	European Investment Bank
EMIS	Energy Management and Information System
EPG	Economics, Policy and Governance
EU	European Union
EUR	Euro
ESAP	Environmental and Social Action Plan
ESDD	Environmental and Social Due diligence
GDP	Gross Domestic Product
GET	Green Economy Transition
GHG	Greenhouse gas
IDP	Internally Displaced Person
IFI	International Financial Institution
IFRS	International Financial Reporting Standards
IMF	International Monetary Fund
OCCO	Office of the Chief Compliance Officer
PIU	Project Implementation Unit
PPR	Bank's Procurement Policies and Rules
RST	Reform Support Teams
TA/TC	Technical Assistance/Technical Cooperation
UAH	Ukrainian Hryvnia
UAS	Ukrainian Accounting Standards
UNOCHA	United Nations Office for Humanitarian Affairs
UZ	Public Joint Stock Company Ukrainian Railways (Ukrzaliznytsia)

CURRENCY CONVERSION

(as of 14 April 2023)

EUR 1 = UAH 40.26

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 200 million. The Loan will consist of two components: (i) a committed Tranche 1 of up to EUR 100 million to provide emergency capex financing covering track rehabilitation materials and other critical infrastructure investments, and (ii) an uncommitted Tranche 2 of up to EUR 100 million to provide working capital support. Fifty per cent of the Loan will be guaranteed by a combination of guarantees, to be provided by the US through the Crisis Response Special Fund and the Government of Netherlands or other EU/G7 donor. The Project is expected to be co-financed by an investment grant of up to EUR 10 million from a bilateral or multilateral donor to cover urgently needed investments in communication equipment, energy efficient lighting and step free access on several major railroad stations. [REDACTED].

The operation will enable the Company to address its immediate critical needs to improve railway connectivity with the EU and to ensure stable and uninterrupted railway cargo transportation (including logistics for 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 support the resilience of the Company and its operations as well as to maintain and improve export and import logistics by providing emergency financial support to UZ, funding critical investments in the Company's infrastructure (*Resilient*). The proposed Project will support the Company to continue facilitating the large movements of people, including the rising numbers of people with conflict-related disabilities, Internally Displaced Persons ("IDPs") and refugees seeking shelter and improved livelihoods within Ukraine and abroad. The project will also support the Company to continue delivering vital supplies through cargo transportation from Europe to Ukrainians affected by the war (*Inclusive*).

Technical Cooperation ("TC") support for the preparation of this Project has been provided by the EBRD Shareholder Special Fund (the "SSF"), while the post-signing TC to assist the Company with Project implementation and design of an Energy Management Information System is expected to be financed by international donors and/or the SSF.

I am satisfied that the operation is in line with the War on Ukraine – EBRD Resilience Package endorsed by the Board and consistent with the objectives of the EUR 2 billion War on Ukraine - EBRD Resilience Package - Resilience and Livelihoods Framework, which aims to help citizens, companies and countries affected by the war in Ukraine.

The operation change is consistent with the Bank's Strategy for Ukraine, the Bank's Transport Sector Strategy 2019-2024 as well as the Bank's Equality of Opportunity Strategy 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

UKRAINE – UZ EMERGENCY SUPPORT - DTM 54150	
Framework: REGIONAL – Resilience and Livelihoods Framework - DTM 53662	
Transaction / Board Decision	<p>Board approval² is sought for a senior loan of up to EUR 200 million (the “Loan”) in favour of PJSC "Ukrainian Railways" (the “Company” or "UZ"), a public joint stock company organised and existing under the laws of Ukraine. The Loan will consist of two tranches: (i) a committed Tranche 1 up to EUR 100 million to provide emergency capex financing [REDACTED], and (ii) an uncommitted Tranche 2 of up to EUR 100 million for working capital support, [REDACTED]. . In order to partially mitigate the EBRD’s risk, the Loan will be supported by guarantees covering 50% of the committed amount of the Loan from the Government of the United States (“US”) through its contribution to the Crisis Response Special Fund (“CRSF”) and from the Government of Netherlands or other EU/G7 Guarantor.</p> <p>EBRD’s loan is expected to be supplemented by up to EUR 10 million investment grant co-financing from a bilateral or multilateral donor to finance urgently needed investments in communication equipment, energy efficient lighting and step free access on several major railroad stations. [REDACTED].</p>
Client	<p>UZ is a vertically integrated railway company fully owned by the Government of Ukraine. Existing exposure: EUR 237.9 million. Available commitment: EUR 98.5 million.</p>
Main Elements of the Proposal	<p>The war on Ukraine has triggered immediate and critical capex and liquidity needs for the Company, which must be addressed, to ensure improved connectivity with the EU and continued and uninterrupted provision of essential cargo and passenger transportation services critical for the broader economy and functioning of private sector (UZ covers more than 80% of all cargo transportation and more than 30% of all passenger transportation in the country). The Company therefore requested EBRD financing to implement vital capex and alleviate its current financial pressure.</p> <p><u>Transition impact</u> Primary Quality – Resilient. Through funding critical investments in the Company's infrastructure and providing critical liquidity support the Project supports resilience of the Company and its operations. 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. <u>Additionality</u> – Financing Structure: Crisis response - EBRD financing is provided under the extraordinary circumstances of the war and effectively bridges financing gap [REDACTED]. <u>Sound banking</u> – The transaction is sovereign-guaranteed. It will also benefit from guarantees backed by the Government of United States and Government of Netherlands or other EU/G7 guarantor.</p>
Key Risks	<p>Key risks include: (i) political, military damage and macro-economic risks; (ii) UZ’s credit and liquidity risk (iii) procurement and implementation risk. The (i) and (ii) risks are mitigated by the sovereign guarantee in combination with the US and Netherlands or other EU/G7 guarantees; strong commitment from international partners (incl. G7, the EU, the IMF) together with capacity support to the Government provided by RST embedded in relevant line ministries of the Ukraine Reforms Architecture to support Ukraine in the ongoing situation and in the reconstruction phase. The (iii) risk is mitigated by limiting the scope to supply only and providing TC –funded consultancy support for the Project implementation.</p>
Strategic Fit Summary	<p>The operation is consistent with the War on Ukraine – EBRD Resilience Package: Focus on national infrastructure services in Ukraine, Strategy for Ukraine , Transport Sector Strategy 2019-2024 and Equality of Opportunity Strategy 2021-2025 and the Strategy for the Promotion of Gender Equality 2021-2025: Ensuring access to services and promoting equal opportunities.</p>

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

ADDITIONAL SUMMARY TERMS FACTSHEET

EBRD Transaction	A senior loan of up to EUR 200 million (the “Loan”) to UZ to finance the following needs: (1) committed Tranche 1 of up to EUR 100 million for emergency capex, and (2) uncommitted Tranche 2 up to EUR 100 million for working capital support. The Loan will benefit from guarantees from the US, the Government of Netherlands or other EU/G7 donor to partially mitigate the EBRD’s risk, combined to provide 50% cover. The Project is expected to be co-financed by an investment grant of up to EUR 10 million from bilateral or multilateral donor to cover urgently needed investments in communication equipment, energy efficient lighting and step free access on several major railroad stations. [REDACTED].
Existing Exposure	<p>Total outstanding exposure to UZ: EUR 237.9 million, including:</p> <ul style="list-style-type: none"> • Project Voyager (Op ID 50833), [REDACTED] and • UZ Electrification (Op ID 45782) [REDACTED]. <p>Total outstanding sovereign exposure in Ukraine: EUR 1,037 million in operating assets and EUR 2,017 million in portfolio, or EUR 1,543 million adjusted for partial EU/G7 guarantees as of 27 March 2023.</p> <p>Sovereign: Total amount debt: EUR 1,950 million (portfolio) / EUR 875 million (operating assets).</p>
Maturity / Exit / Repayment	Capex tranche (committed): 15 year tenor. [REDACTED] Liquidity support tranche (uncommitted): 5 year tenor. [REDACTED]
Potential AMI eligible financing	None
Use of Proceeds	[REDACTED]
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; • US (through CRSF) as the Partial Guarantor; • Netherlands or other EU/G7 Guarantor- as the Partial Guarantor • Ministry of Infrastructure as the Owner representative; • EBRD.
Conditions to subscription / disbursement	<ul style="list-style-type: none"> • [REDACTED]
Key Covenants	<ul style="list-style-type: none"> • Compliance with EBRD PPR. • [REDACTED] Implement existing corporate ESAP and Project specific ESAP. [REDACTED]
Security / Guarantees	Sovereign Guarantee of Ukraine. US guarantee through CRSF. Guarantee from the Government of Netherlands or other EU/G7 Guarantor (unfunded).
Other material agreements	[REDACTED]
Associated Donor Funded TC and co-investment grants/concessional finance	<p>A. Technical Cooperation (“TC”)</p> <p><i>Pre-signing:</i></p> <p>TC 1: Technical Assessment. [REDACTED] TC 2: Environmental and Social Assessment. [REDACTED]</p>

	<p><i>Post-signing:</i></p> <p>TC3: Project Implementation Support. The TC will support the Client with preparation of procurement documentation, carrying out tenders and overseeing contract implementation. [REDACTED]</p> <p>TC 4: Technical Scoping and Verification (Improvement of Railway Stations Infrastructure). The TC will verify the Company's needs to improve the existing infrastructure at selected railway stations in order to improve energy efficiency, accessibility, communications etc., and define the scope of required procurement.. [REDACTED]</p> <p>TC 5: 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. [REDACTED]</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. [REDACTED]</p> <p>B. Concessional Finance</p> <p>The Project is proposed to be co-financed by an investment grant of up to EUR 10 million expected to be provided by a bilateral or multilateral donor. Should the donor funds be unavailable in full or in part, SSF may be approached to cover such financing gaps.</p> <p>The Project will also be supported by guarantees from the Government of the United States to be provided via the EBRD Crisis Response Special Fund the Government of Netherlands or other EU/G7 Guarantor.</p>
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[REDACTED]

INVESTMENT PROPOSAL SUMMARY

1. STRATEGIC FIT AND KEY ISSUES

1.1 STRATEGIC CONTEXT

PJSC "Ukrainian Railways" (the "Company" or "UZ") is a vertically-integrated national railway operator in Ukraine wholly owned by the Government of Ukraine. UZ is a monopoly provider of rail transportation in Ukraine and operates Ukraine's 19,786 kilometre-long railway network and related infrastructure. It is one of the largest single contributors to Ukraine's GDP with UZ revenue representing 2.34% of Ukraine's GDP - as well as one of the largest employers in Ukraine with >270 thousands 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 [REDACTED] during the war period [REDACTED] as well as maintained passenger transportation operations. Moreover, UZ has quickly stepped in to address the immediate critical needs of evacuating the 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-affected disabilities. 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, the elderly, and also people with disabilities who face significant challenges accessing transport. As of 1Q 2023, starting from the beginning of the war UZ has evacuated circa 4.0 million people and delivered more than 170 thousand tons of humanitarian aid.

In the current war environment, the proposed emergency capex and liquidity program under Resilience and Livelihoods Framework will support the Company in addressing vital needs to maintain operations, resolve border crossing bottlenecks, and ensure improved connectivity with the EU. This is key for the continuation of UZ's operations and provision of essential railway cargo and passenger transportation services, which themselves are critical for the economy and functioning of private sector [REDACTED] as well as for humanitarian efforts. Moreover, with the closure of Black Sea ports due to the Russian naval blockade (reopened partially as part of grain corridor, but always at risk of the renewed closure), the improved operations of UZ at the EU border have become indispensable for maintaining Ukraine export/import logistics, including agricultural products and critical supplies and therefore of paramount importance for both Ukrainian economy and the global food security in the countries dependent on importing the Ukrainian agricultural products.

EBRD's proposed emergency capex and liquidity program, envisaged to be supported by a 50% guarantee from the US and Netherlands or other EU/G7 Guarantor, is an essential resource to help UZ to improve operations at the border and continue to provide vital services to people and businesses/private sector, maintaining logistics of key Ukrainian exports (including agricultural products) and critical imports. Tranche 1 of the financing would allow UZ to rehabilitate key railway corridors on the border with EU, while Tranche 2 would provide the necessary liquidity to the Company to finance critical working capital needs.

The Project is in line with the War on Ukraine – EBRD Resilience Package endorsed by the Board and consistent with the objectives and requirements of the EUR 2 billion War on Ukraine - EBRD Resilience Package - Resilience and Livelihoods Framework, aimed to help citizens, companies and countries affected by the war in Ukraine. The Project specifically targets Resilience and Livelihoods programme focusing on maintaining critical national infrastructure

services in Ukraine through emergency capex and liquidity support programme to secure uninterrupted access to railway transportation services to population and businesses throughout the country.

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, which promotes access to services for all and equal opportunities.

1.2 TRANSITION IMPACT

Primary Quality: Resilient

Obj. No.	Objective	Details
1.1	<i>The sub-operation supports the Resilient quality of the FW through Energy security measures, strengthening municipal service providers directly affected by the wider economic consequences of the war, facilitating imports and exports of production equipment and related materials (capital goods) and TF-related technical assistance, or supporting businesses directly affected by the conflict (i.e., in Ukraine, including those trying to relocate) and businesses indirectly affected (Ukraine part of value chain).</i>	EBRD's proposed CAPEX loan is an essential resource to support Ukraine's national railway operator, whose operations have been directly affected by the war. The proceeds of the loan will be used to finance critical investments in the Company's infrastructure, including its vast network, operating fleet and supporting infrastructure. Moreover with the partial closure of Ukrainian ports due to the Russian naval blockade continued operation of UZ has become critically important for maintaining Ukraine exports and imports logistics and therefore vitally important both for the Ukrainian economy as well as for supporting the global food security for the countries dependent on importing the Ukrainian agricultural product.

Secondary Quality: Inclusive

Obj. No.	Objective	Details
2.1	<i>The sub-operation contributes to the Inclusive quality of the FW by promoting access to vital services and/or goods that enable people's livelihoods (e.g. food, energy, accommodation, infrastructure, communications, health services, basic utilities, and products...).</i>	<p>The project will specifically improve access to the railway transport services for persons with disabilities ("PWD"), women with children including infants, senior citizens, and others needing special assistance. The Company will benefit from a donor-supported investment grant to cover infrastructure design and related equipment that ensures step free access on [REDACTED] railroad stations (such as lifts, ramps, level surfaces, and clearly explained information on accessibility visible on the trains and stations).</p> <p>Even before the war, United Nations Office for the Coordination of Humanitarian Affairs (UNOCHA) estimated that 13% of Ukrainians in</p>

		<p>need of humanitarian need had a disability, and since the onset of Russia's aggression this number has risen significantly. Accounts from NGOs note that people with disabilities face challenges accessing transport and are therefore unable to leave their homes. Accessible transport is also critical for the elderly and for women and children. In a country where 1 in 4 people are over 60, the impact of the war on older persons, including those with disabilities, has also been dramatic as they encounter rising challenges in accessing vital services including accessible transport. The majority of IDPs and refugees on the move are women accompanied by their children or elderly relatives, who also require accessible transport to aid them as they leave their homes.</p>
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The TI delivery risks associated to the transaction mainly come from (1) the continuing Russian military aggression in Ukraine, resulting in continuing damages to infrastructure, putting passenger and cargo transportation services and preservation of livelihoods at risk; and (2) procurement and implementation risk associated with the inability to obtain required insurances and bank guarantees to work in Ukraine in the current circumstances. The first risk is mitigated by the resilience of Ukrainian population against invasion, support from the Western allies, financial and humanitarian fast-tracked emergency assistance from G7, the EU, the IMF and other international partners together with capacity support to the Government provided by Reform Support Teams embedded in relevant line ministries of the Ukraine Reforms Architecture. The second risk is mitigated by limiting the scope to supply only and mobilising the TC-funded consultancy for PIU support.

1.3 ADDITIONALITY

Identified triggers	Description
<p>A significant share [REDACTED] of the Project is to finance working capital (subject to sector characteristics).</p>	<p>50% of the loan proceeds will be used to cover critical operational expenditures, including electricity, utilities, other short-term working capital needs to ensure continued operations of UZ notwithstanding the war. This is in line with the RLF Framework objectives.</p>
<p>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)</p>	<p>The on-going Russian military aggression against Ukraine materially affected the Company's operations and its financial position. While the state subsidies and liquidity support provided by IFIs helped to soften the blow, the Company needs to rely on external financing to support its capital investment programme and liquidity needs, especially in view of significant damage to its infrastructure and on-going challenges resulted from changes in import/export and domestic flows of cargo. The EBRD has already repurposed EUR 148.8 million in liquidity support during 2022 and has portfolio capital markets transaction related to the financing of the rehabilitation of priority railway lines, predominantly</p>

	on TEN-T network. At the same time, this deal complements the support already in place and finances priority investments aimed at maintaining and expanding the cross-border capacity and improving railway connectivity corridors with the EU. The Bank's financing will help UZ to maintain its essential operations and to ensure continued provision of vital services to people and businesses of Ukraine.
Additionality sources	Evidence of additionality sources
Financing Structure <ul style="list-style-type: none"> - EBRD offers financing that is not available in the market from commercial sources on reasonable terms and conditions, e.g. a longer grace period. Such financing is necessary to structure the Project. - 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. 	<ul style="list-style-type: none"> - EBRD is offering financing, which is not available in the market due to the ongoing war and high level of risk and uncertainty in Ukraine. - EBRD is offering 5-year tenor for working capital support tranche, which is longer than available in the market in current war environment.
Risk mitigation EBRD's ability to absorb risk in a certain country/region. [REDACTED]	The Loan will benefit from guarantees to be provided by the US through CRSF and from the Government of Netherlands or other EU/G7 Guarantor, where local commercial financiers cannot provide such risk-sharing mechanism.
Standard-setting: helping projects and clients achieve higher standards <ul style="list-style-type: none"> - Client seeks/makes use of EBRD expertise on best international procurement practices and standards. - Gender SMART: Client seeks/makes use of EBRD expertise for the adoption of gender standards and/or equal opportunities action plans (e.g. improving women's access to safe transport and/or women-led businesses participation in the client supply chain). 	<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. - The Project will support measures to combat GBVH, to further improve access to railway services for female users, by increasing the number of well positioned energy efficient lighting. This will also provide a safer and more accessible environment for people with disabilities, children, and the elderly.

1.4 SOUND BANKING - KEY RISKS

Risks	Probability / Effect	Comments
Project specific risks		
Counterparty credit / liquidity risk	High / Medium	<p>UZ's financial and operational position has been adversely affected by the ongoing war in Ukraine. The military activities negatively affect UZ's cargo volumes, due to damage to its existing infrastructure (destroyed bridges, railroads and auxiliary buildings), ongoing blockade of Ukrainian ports by Russian forces (all types of cargo except for grain), recent power outages across the country and general economic slowdown in Ukraine. The war has also caused millions of people to migrate to Western Ukraine and the EU (mostly women and children) and UZ's played an instrumental role here, providing free of charge evacuation trains from all affected cities.</p> <p><i>Mitigants: While the duration and outcome of the war are unpredictable, EBRD's credit risk will be partially mitigated by the presence of the guarantee from G7/EU sovereign donor which will cover 50% of Tranches 1 and 2. The loan is further covered by the sovereign guarantee from Ukraine. [REDACTED]</i></p>
FX Risk	High / High	<p>While the currency of the proposed transaction is in EUR, most of the UZ's revenues are in UAH and come from different corporate entities and individuals. [REDACTED].</p> <p><i>Mitigants: This risk is partially mitigated by strict capital control measures implemented by the National Bank of Ukraine and inflow of external financing from IFIs and bilateral donors. [REDACTED]. This risk is also likely to be mitigated by support of developed economies pledging significant financial aid for reconstruction phase in Ukraine. Several multi-donor accounts are being created in the IMF, World Bank and the European Union.</i></p>
Procurement and Implementation risk	High / High	<p>The inability to obtain required insurances and bank guarantees to work in Ukraine in the current circumstances is affecting the competition and the ability to deliver the goods from international suppliers in Bank's ongoing projects in Ukraine. In addition, the competition is limited by the security concerns and shortage (and high prices) of materials on the commodity market.</p> <p><i>Mitigants: Carrying out market sounding prior to tendering will confirm the market appetite and assist with fine-tuning the procurement strategy, as appropriate. [REDACTED].</i></p>
Guarantor risk	Low / High	<p>[REDACTED].</p> <p><i>Mitigants: The EBRD loan will benefit from an unconditional and irrevocable guarantee to be extended by a G7/EU sovereign donor for 50% of Tranches 1 and 2. [REDACTED]. The loan financing will also be fully covered a sovereign guarantee.</i></p>
External risks		
Political risk	High / Low	<p>Russia's military aggression on Ukraine has increased political risks to the extreme and made the overall situation unpredictable, having caused enormous suffering, death and destruction in Ukraine and having created an unparalleled security crisis in Europe.</p> <p><i>Mitigants: Ukraine continues to ensure critical functions, including utility supplies, on most of its territory, and remains resolved and united in</i></p>

		<i>defending its independence, sovereignty and territorial integrity. G7, the EU, the IMF and Ukraine's other international partners are strongly committed to supporting Ukraine and its people in the face of the Russian aggression, providing fast-track emergency assistance, financial and humanitarian aid.</i>
Macro-economic risk	High / Low	<p>Russia's invasion of Ukraine has put the economy under enormous stress, with the heavy devastation of infrastructure and production capacities and unprecedented losses of human capital. Initially, combat operations were in regions that generate 60% of GDP. In the second half of 2022 the fighting has become more concentrated, covering territory that generates around 20% of GDP. The economy contracted by around 28% YoY in the period January to September 2022 [REDACTED]. Huge production and logistical disruptions have caused inflation to rise to 26.6% YoY in December 2022. The government has implemented a range of measures to curb the impact of high inflation, including export bans and regulated prices for a range of essential food items, reduced fuel taxes and utility price freezes. To ensure exchange rate stability and curb inflation, NBU more than doubled the policy rate from 10% to 25% at the beginning of June 2022. Yet in July 2022 NBU had to devalue the hryvnia by 20% and fix it at the new lower level.</p> <p>Fiscal expenditures in 2022 increased by 52% on the back of the increased funding for the armed forces while revenues increased by 22% driven by external grants. The fiscal gap of 30% of GDP was financed by USD 12.0 billion of monetary financing and USD 31.2 billion of external financing. Slightly less than half of the external financing was provided in the form of grants mostly from the US. [REDACTED]. The EU signed a loan agreement with Ukraine for EUR 18.0 billion of Macro Financial Assistance distributed in equal quarterly amounts, and the rest is expected from the USA, IFIs and other bilateral donors.</p> <p><i><u>Mitigants:</u> This risk is likely to be mitigated by support of developed economies which are pledging significant financial aid for Ukraine. Several multi-donor accounts are being created in the IMF, World Bank and EU.</i></p>

[REDACTED] [T]he Project is very important for UZ as it will help UZ to maintain its operations and to ensure continued provision of vital passenger and cargo transportation services to people and businesses of Ukraine. It will provide an emergency facility to support the Company operations as well as finance the critical capex necessary to maintaining and expanding the cross-border capacity and improving railway connectivity corridors with the EU.

2. MEASURING / MONITORING SUCCESS

Primary Quality: Resilient

Obj. No.	FW monitoring indicator	Corresponding SO monitoring indicator	Details	Baseline	Target	Due date	TC related
1.1	Infrastructure Services Sustained and Expanded	Improved operational performance of the client	Net increase in rail infrastructure usage and or capacity (cargo volumes transported) - recovery to [REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
1.2	Practices of the relevant stakeholder improved	Improved energy management standards	Implementation of 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	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

Secondary Quality: Inclusive

Obj. No.	FW Monitoring indicator	Corresponding SO Monitoring indicator	Details	Baseline	Target	Due date	TC related
2.1	Number of infrastructure service providers maintaining or improving their operational performance or service delivery	Practices of the relevant stakeholder improved (inclusive infrastructure services/design)	The Project will support the Company in further strengthening their delivery of safe and accessible transport services for people with disabilities, senior citizens and women with their children and infants by introducing step free access, including lifts, ramps and level surfaces on [REDACTED] railroad stations [REDACTED]. -	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
2.2	Number of infrastructure service providers maintaining or improving their operational performance or	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 with children aware of the accessibility improvements introduced.	[REDACTED]	[REDACTED]		[REDACTED]

	service delivery						
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Additional Indicators

Indicator type	Monitoring indicator	Details	Baseline	Target	Due date	TC related
Advisory & Policy Indicators	Gender SMART - Practices of the relevant stakeholder improved (addressing violence, harassment and bullying risks)	The project will enable increased safety for women in public spaces including around stations to increase their access to livelihood opportunities, by introducing [REDACTED] energy efficient lighting fixtures	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Advisory & Policy Indicators	Gender - SMART Generic Indicator	Technical Scoping and Verification (Improvement of Railway Stations Infrastructure) completed	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

3. KEY PARTIES

3.1 BORROWER

PJSC "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 in Ukraine and operates Ukraine's 19,786 kilometre-long railway network and related infrastructure. UZ is one of the largest single contributors to Ukraine's GDP with the UZ revenue representing 2.34% of Ukraine's GDP - as well as one of the largest employers in Ukraine with >270 thousands full-time employees.

The war affected significantly and adversely the country, the people, businesses and, correspondingly, the operations of UZ. Notwithstanding the war UZ maintained cargo operations [REDACTED] during the war period based on management estimates as well as maintained passenger transportation operations. Moreover UZ has quickly stepped in to address the immediate critical needs of evacuating the people from the areas affected by military hostilities and delivering humanitarian aid. As of 1Q 2023 starting from the beginning of the war UZ has evacuated circa 4.0 million people and delivered more than 170 thousand tons of humanitarian aid. [REDACTED].

3.2 GUARANTOR

Since peaking in 2016, the ratio of public and publicly guaranteed debt to GDP has [REDACTED] declined on the back of nominal GDP growth, prudent public finance management and currency appreciation due to large foreign private capital inflows on the domestic government securities market in 2019. It decreased from 79.5% in 2016 to 60.4% in 2018 and further to 50.5% in 2019. The public debt ratio [REDACTED] increased to 61.0% in 2020 due to the output decline, depreciation of the currency and increasing financing needs related to the Covid-19 pandemic, before falling back to 49.0% in 2021. IMF expects the debt to grow to 86.2% due to the military conflict with Russia and remain at similar levels for 5 years because of a sharp increase in the government budget deficit and the falling economy. [REDACTED].

Moody's downgraded Ukraine's long-term foreign currency sovereign credit rating from 'B3' with stable outlook to 'Caa2' in March 2022 and then readjusted to 'Ca' with stable outlook in February 2023. The key drivers behind the decision were the impaired Ukraine's debt sustainability and the severe impact that Russia's invasion will have on Ukraine's economic and fiscal strength due to extensive damages to its productive capacity. Fitch has initially downgraded Ukraine's rating several times to 'RD' and then upgraded to 'CC' in August 2022, following the successful agreement with creditors to freeze debt service until the end of 2023. Similarly, S&P also upgraded Ukraine's long-term rating from 'SD' to 'CCC+' with stable outlook after the agreement with creditors. Please refer to Annex 8 for more information.

4. MARKET CONTEXT

UZ operates Ukraine's 19,800 kilometre-long railway network and related infrastructure, which is the fourth largest rail network in Europe as measured by both passenger and freight turnover. 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. There are high barriers to entry, which helps UZ retain a natural monopoly within the Ukrainian railway network. Railway transport is particularly effective compared with other modes of transport for freight of raw materials. However, road traffic is a main competitor for the transport of finished products and there are indications of increasing competition between these modes of transport.

The war affected significantly and adversely the country, the people, businesses and, correspondingly, the operations of UZ. As a result of hostilities on the territory of Ukraine, UZ incurred unplanned expenses related to the evacuation of the population, the transportation of humanitarian aid, as well as direct damage, destruction and loss of property. In order to deter the Russian military invasion on 26 February 2022, railway junctions on the border with the aggressor country were blown up. In March 2022, the railway connection with the republic of Belarus was also completely stopped. Some railway facilities throughout the territory were damaged by rocket and artillery fire. As a result of the temporary occupation of some territories in the Donetsk, Luhansk, Kharkiv, Zaporizhzhya and Kherson regions, access to part of the UZ assets and control over them has been temporarily or completely limited (since resumed for liberated regions of Kharkiv and Kherson).

Notwithstanding the war, UZ has maintained cargo operations [REDACTED] as well as maintained passenger transportation operations. Moreover, UZ has quickly stepped in to address the immediate critical needs of evacuating the people from the areas affected by military hostilities (as of February 2023, UZ evacuated circa 4 million people). All major suppliers of materials, repair partners, logistics/storage partners have been operating and meeting the needs of UZ - and no critical assets preventing UZ from continuing operations have been damaged. With the closure of ports due to the Russian naval blockade (reopened partially as part of grain corridor, but always at a risk of the renewed closure), the improved operations of UZ at the EU border have become critically important for maintaining Ukraine export/import logistics, including agricultural products and critical supplies and therefore vitally important both for Ukrainian economy as well as for supporting the global food security for the countries dependent on importing the Ukrainian agricultural products. Thus, thanks to the reorientation of the cargo transportation routes for exports, railway share in 2022 grew compared to 2021 by 12.4%, with grains capturing 38% in the exported cargo structure.

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. [REDACTED].

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). Environmental and social due diligence (“ESDD”) of the proposed investment; as well as a review of the EHSS 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 at the final stage of completion. It has been confirmed that the environmental and social impacts associated with the Project are limited mainly to the construction stage, though risks of labour issues such as violations of overtime regulations are applicable to the operation phase as well. All impacts will be addressed through the application of good international practices and standards. ESDD confirmed that the Project is structured to be in line with the EBRD’s Performance Requirements (“PRs”), will have social and public safety benefits, and will improve the safety and reliability of the rehabilitated railway sections.

The Project implementation is limited to the boundaries of existing sections of railway and no sensitive ecological receptors or protected zones will be affected. In addition, it is confirmed that the project will not have significant adverse social impacts to local communities or other project affected parties, nor will the Project require the acquisition of land or result in involuntary resettlement or physical and economic displacement.

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 development and implementation of the enhanced E&S standards and practices during construction and operation and will also address war related challenges and enhance E&S management system, including the grievance mechanism. Additional capacity building support with implementation of the ESAP will be provided as part of the separate already existing TC to support our clients in Ukraine.

The environmental and social performance of the project and implementation of the ESAP will be monitored through annual E&S reports and site visits when deemed necessary.

6.2 INTEGRITY

In conjunction with OCCO, updated integrity due diligence was undertaken on the Company and its senior management. [REDACTED]. It was [REDACTED] concluded that this project does not pose an unacceptable integrity or reputational risk to the Bank. [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	GREEN ASSESSMENTS
ANNEX 3	HISTORICAL FINANCIAL STATEMENTS
ANNEX 4	PROJECT IMPLEMENTATION

ANNEX 1 – SHAREHOLDING STRUCTURE

[REDACTED]

ANNEX 2 – GREEN ASSESSMENTS

Introduction

The Project consists of a CAPEX tranche (tranche 1) for rehabilitation/repairs of existing infrastructure, acquisition of battery shunting locomotives, and a liquidity tranche (tranche 2). The project is assessed for Paris Agreement (“PA”) alignment and GET. As a sovereign transaction, Climate-related Financial Risk is not applicable. The project is assessed as positively aligned for both mitigation and adaptation goals of the Paris Agreement. The project is attributed as 45% GET.

Paris alignment assessment

Alignment with the mitigation goals of Paris Agreement

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

For the liquidity tranche, it is required to look at the broader client operations. As the company owns, operates and maintains national rail infrastructure assets and has a majority of electric locomotives (85%³), it is also considered aligned with mitigation goals.

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. The CAPEX tranche use of proceeds are nonetheless likely to have a wider impact on the system in which it operates. The liquidity loan requires assessing corporate level vulnerability to climate change, and rail infrastructure can generally be considered climate vulnerable, as a result of extensive linear infrastructure covering vast territories. In response, the client has committed in the ESAP to identify as part of eventual reconstruction efforts how it can integrate climate change considerations into reconstruction programme, and adopt any corresponding processes as part of its on-going operations to manage potential physical climate related risks in line with leading market practices.

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

GET attribution

CAPEX tranche use of proceeds will be used to finance the procurement of rails, switches, hotbox overheating detection systems, battery shunting locomotives and other related 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 rail network (estimated at 10%). As a result, the CAPEX tranche is attributed as 90% GET. Liquidity support tranche to finance critical operational expenditures, including electricity, utilities, wages, other critical short-term working capital needs is not attributed any GET. Overall GET attribution is thus 45%.

³ <https://mtu.gov.ua/en/content/statistichni-dani-pro-ukrainski-zalznici.html>

Green Finance Project Monitoring Plan

The GET outcomes will be achieved through the rehabilitation of rail infrastructure and increased use of the network. The monitoring plan is outlined below. [REDACTED].

ANNEX 3 – HISTORICAL FINANCIAL STATEMENTS [REDACTED]

ANNEX 4 - PROJECT IMPLEMENTATION

Procurement classification – *Public sovereign*

[REDACTED]

UZ has implemented projects in accordance with the EBRD procurement policies and procedures, however the current procurement staff capacity is very limited. The support of an experienced consultant will be required to ensure timely and efficient tendering and contracting.

Contracts risk assessment – Low

Only supply contracts will be procured, which are considered relatively low risk. [REDACTED].

Project implementation arrangements:

A Project Implementation Unit is established within the Company and will have an overall responsibility for the implementation of the Project. The Client will engage a consultant to provide the PIU with the necessary support in procurement and project implementation.

Procurement arrangements:

The Project is classified as public sector for procurement purposes. The procurement of *capex* items shall be subject to the provisions of the PPR applicable to public sector operations.

The Working *Capital support* tranche is expected to be used to finance operational expenditures (as defined in the PPR) and will be excluded from the application of article 2.6 (d) of the PPR. Should UZ propose to use part of this tranche to finance procurement of commodities, or goods, works and services, use of proceeds shall be subject to Bank's prior sign off, and the provisions of article 3 of the PPR for public sector operations shall apply.

The exact composition of the Project component proposed to be financed from an investment grant is not finalised. Overall the gran[t]s is expected to be used for facilities to improve energy efficiency (replacement of lamps etc.), accessibility for people with limited mobility (ramps, lifts etc.), and other facilities at selected railway stations, communications equipment. The technical verification of the capex needs in this regard is being finalised. It is expected that procedures for Procurement under National Laws (PPR Article 3.26) or Direct Contracting (PPR Article 3.24) may be proposed for selected contracts. [REDACTED].