

DOCUMENT OF THE EUROPEAN BANK
FOR RECONSTRUCTION AND DEVELOPMENT

Approved by the Board of Directors on 8 July 2020¹

UKRAINE

UZ LIQUIDITY FACILITY
(VISP - VITAL INFRASTRUCTURE SUPPORT
PROGRAMME)

[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.

TABLE OF CONTENTS

	Page
TABLE OF CONTENTS	3
ABBREVIATIONS / CURRENCY CONVERSIONS.....	4
PRESIDENT'S RECOMMENDATION.....	5
BOARD DECISION SHEET	6
ADDITIONAL SUMMARY TERMS FACTSHEET.....	7
1. STRATEGIC FIT AND KEY ISSUES.....	9
1.1 STRATEGIC CONTEXT.....	9
1.2 TRANSITION IMPACT	10
1.3 ADDITIONALITY	11
1.4 SOUND BANKING - KEY RISKS	11
2. MEASURING / MONITORING SUCCESS.....	13
3. KEY PARTIES	14
3.1 BORROWER / INVESTEE COMPANY	14
4. MARKET CONTEXT	14
5. FINANCIAL / ECONOMIC ANALYSIS	15
5.1 FINANCIAL HIGHLIGHTS	15
5.2 FINANCIAL PROJECTIONS	15
5.3 SENSITIVITY ANALYSIS	15
5.4 PROJECTED PROFITABILITY FOR THE BANK.....	15
6. OTHER KEY CONSIDERATIONS.....	15
6.1 ENVIRONMENT	15
6.2 INTEGRITY.....	16
6.3 PROCUREMENT.....	16
ANNEXES TO OPERATION REPORT	17
ANNEX 1- UZ SHAREHOLDING AND ORGANISATIONAL STRUCTURE	18
ANNEX 2 – THE BANK’S PROJECTS WITH UZ.....	18
ANNEX 3 – MARKET OVERVIEW.....	19
ANNEX 4 – HISTORIC FINANCIAL STATEMENTS	20

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
IFI	International Financial Institution
IFRS	International Financial Reporting Standards
IMF	International Monetary Fund
NIF	Neighbourhood Investment Fund
OCCO	Office of the Chief Compliance Officer
PIU	Project Implementation Unit
CIPS	Chartered Institute of Procurement and Supply
TA/TC	Technical Assistance/Technical Cooperation
UAH	Ukrainian Hryvnia
UAS	Ukrainian Accounting Standards
UZ	Public Joint Stock Company Ukrzaliznytsia
VISP	Vital Infrastructure Support Programme

CURRENCY CONVERSION

(as of 9 June 2020)

EUR 1 = UAH 30.14

USD 1 = UAH 26.60

EUR 1 = USD 1.133

PRESIDENT'S RECOMMENDATION

This recommendation and the attached Report concerning an operation in favour of Public 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 as part of the Vital Infrastructure Support Programme presented under the COVID-19 Solidarity Package.

The facility will consist of a senior secured loan to the Company in an amount of up to USD 150 million (EUR 132.4 million) to be split into three tranches: two committed tranches of USD 50 million (EUR 44.1 million) each and an uncommitted tranche of USD 50 million (EUR 44.1 million).

The operation will enable the Company, an existing client, to address its critical liquidity needs and to ensure stable and uninterrupted railway passenger and cargo transportation services despite the impact of COVID-19. The Company incurred temporary but significant shortfall in revenues due to economic effects of the COVID-19 and decreasing freight transportation volumes as well as a government ban on railway passenger transportation during Ukraine's state of emergency introduced to prevent the spread of the COVID-19 virus. The operation will also enable the Company to continue its ongoing transformation to a modern railway transportation services provider, with an increasingly green focus (driven, inter alia, by the other projects, including UZ Electrification that is currently under implementation).

The expected transition impact of the project is *Resilient*, by providing stabilisation facility to UZ as a key infrastructure provider, and *Well-Governed* by supporting continued implementation of corporate governance action plan for the Company as well as development and implementation of anti-corruption compliance action plan, thereby strengthening corporate governance and compliance functions at the Company.

TC support for this operation is expected to be provided by international donors or the EBRD Shareholder Special Fund for preparation and implementation of the anti-corruption compliance action plan.

I am satisfied that the operation is consistent with the EBRD COVID-19 Solidarity Package, the Bank's Transport Sector Strategy 2019-2024, the Bank's Strategy for Ukraine and with the Agreement Establishing the Bank.

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

Suma Chakrabarti

BOARD DECISION SHEET

UKRAINE – VISP – UZ Liquidity Facility - DTM 52208	
Transaction / Board Decision	Board approval² is sought for a senior loan of up to USD 150 million (EUR 132.4 million) in favour of PJSC "Ukrainian Railways" (the “Company” or “UZ”), a public joint stock company organised and existing under the laws of Ukraine, as part of the Vital Infrastructure Support Programme (Window 2) presented under the COVID-19 Solidarity Package. The loan will consist of three tranches, two committed tranches of USD 50 million (EUR 44.1 million) each (“Tranche 1” and “Tranche 2”, with different security) and an uncommitted tranche of USD 50 million (EUR 44.1 million) (“Tranche 3”). It is proposed that the approval to commit Tranche 3 is delegated to Management.
Client	UZ is a vertically-integrated railway company established in Ukraine on 21 October 2015 through the transformation of the former State Administration for Railway Transport of Ukraine as part of the railway sector reform. UZ is fully owned by the Government of Ukraine represented by the Cabinet of Ministers of Ukraine.
Main Elements of the Proposal	The COVID-19 crisis has triggered immediate and critical liquidity needs for the Company, which need to be addressed to ensure 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 per cent of all cargo transportation and more than 30 per cent of all passenger transportation in the country). The Company requested the Bank’s urgent liquidity financing to alleviate its current financial pressure and strengthen its overall financial resilience and sustainability. <u>Transition impact</u> The Project contributes to the "Resilient" quality as it addresses the Company’s current liquidity shortages resulting from a sudden, significant decrease in revenue due to the economic effects of the COVID-19 crisis and to “Well-Governed” quality as it contributes to continued corporate governance and anti-corruption reforms. <u>Additionality</u> Financing Structure: Crisis response - EBRD financing is provided under the extraordinary circumstances of the Covid-19 crisis and effectively bridges a liquidity gap due to adverse market conditions. <u>Sound banking</u> The proposed loan structure is based on detailed financial analysis, consideration of all key risks and appropriate stress testing. The loan will be secured by a pledge of the rolling stock and a pledge of future revenues/receivables under specific transportation contracts as well as pledge of main consolidated account of UZ.
Key Risks	Credit and liquidity risks, including aspects related to COVID-19. UZ’s revenue generating and debt service capacities have been put under pressure by the COVID-19 crisis. This risk is mitigated by (i) policy measures the Government put in place to support end-users and the most vulnerable industries [REDACTED] [and] secured structure of the transaction.
Strategic Fit Summary	The Project is consistent with the Bank’s Strategy for Ukraine, the Bank’s Transport Sector Strategy 2019-2024, Vital Infrastructure Support Programme presented under the COVID-19 Solidarity Package and with the Agreement Establishing the Bank.

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

ADDITIONAL SUMMARY TERMS FACTSHEET

EBRD Transaction	- A senior loan up to USD 150 million consisting of committed tranches I and II of USD 50 million (EUR 44.1 million) each and uncommitted tranche III of USD 50 million (EUR 44.1 million) to provide emergency liquidity support to PJSC “Ukrainian Railways” (the “Company”, “UZ”), an existing client of the Bank, in order to mitigate the effect of the COVID-19 crisis (the “Project” or the “Facility”). - The Tranche I of the Facility will be secured by a pledge over the Company’s existing rolling stock and Tranche II of the Facility will be secured by a pledge of future revenues/receivables (under specific transportation agreements with pre-agreed list of counterparties) and a pledge of main consolidated account of UZ. Tranche III security will be defined at the time of approval and will depend on the UZ situation at the time (including constraints under other agreements and relevant consents from other debt holders). - The Project is presented as part of the Vital Infrastructure Support Programme (“VISP”) under the Solidarity Package 2.0.
Existing Exposure	- As of June 2020 EBRD’s total exposure to the Company was EUR 90.6 million in operating assets, including: - Fast Passenger Trains Project (DTM 14849, sovereign-guaranteed) – USD 2.9 million (EUR 2.6m); - Rolling Stock Renewal Project (DTM 37921, senior secured loan) – USD 4.9 million (EUR 4.3 million); - Project Voyager (DTM 50833, Eurobond tap issue - listed) – USD 94.9 million (EUR 83.8 million). - UZ Electrification Project (sovereign-guaranteed EUR 150 million loan, signed on 30 December 2017, DTM 45782, TIMS 73) is not yet disbursed and USD 150 million non-sovereign loan under UZ New Rolling Stock Project (DTM 49039) is cancelled.
Maturity / Exit / Repayment	3 year tenor [REDACTED]
Potential AMI eligible financing	None.
Use of Proceeds	The proceeds of the loan will be used to finance critical working capital needs of the Company thereby providing emergency liquidity support to cope with the COVID-19 crisis. Any contracts for goods, works and services, including commodities such as electricity and fuel, financed from the proceeds of Bank’s loan shall be procured in accordance with Bank’s PP&R via (i) open or simplified open tendering, or (ii) a procedure acceptable to the Bank in case of procurement of commodities, as set out article 3.12 of the PP&R. At no time shall use of proceeds include dividends and refinancing (including but not limited to IFI loans). The conditions for the use of proceeds shall be covenanted in the Loan Agreement.
Investment Plan	[REDACTED]
Financing Plan	[REDACTED]
Key Parties Involved	UZ

	EBRD
Conditions to Tranche 3 signing	• [REDACTED] UZ demonstrates the need for tranche III commitment in line with the revised 2020 Business Plan in the context of COVID-19 crisis (to be updated in September); • UZ obtains necessary approvals, authorisations and consents allowing satisfactory pledge of security to the EBRD.
Conditions to subscription / disbursement	• Certified copies of all necessary authorisations and approvals for the execution and performance of the Financing Documents (Loan Agreement) • The Security has been validly created and perfected in a manner satisfactory to the Bank, including Security over the rolling stock [REDACTED]
Key Covenants	• Timely implementation of key milestones defined in the CGAP; • Continued implementation of CGAP for UZ; [REDACTED]
Security / Guarantees	• Pledge over UZ existing rolling stock; [REDACTED]
Other material agreements	Security Agreements Insurance documentation [REDACTED] Project Support Letter from the Government of Ukraine
Associated Donor Funded TC and co-investment grants/concessional finance	A. Technical Cooperation (TC) Post-signing³ TC 1 - Preparation of an Anti-Corruption Compliance Action Plan and support to the Company with its implementation. [REDACTED]. Reimbursement: The above assignment will be a non-reimbursable transactional TC. B. Co-investment grants / Concessional Finance (Non-TC) None Cost sharing: The Company will be responsible for paying all VAT and other indirect taxes that might be applicable to the assignments, thus providing a parallel cost sharing contribution to the Project (VAT is levied at 20 per cent in Ukraine). Additionally, the Company will provide in-kind support in the form of office space, communication connections, etc., for the consultants to work, estimated to amount circa 3 per cent of the total TC budget.

[REDACTED]

³ The TC was approved under cancelled UZ New Rolling Stock project but has not been contracted - and correspond to TI objectives that will be covenanted in the proposed project.

INVESTMENT PROPOSAL SUMMARY

1. STRATEGIC FIT AND KEY ISSUES

1.1 STRATEGIC CONTEXT

This transaction is presented under the VISP-Window 2 aimed at securing emergency liquidity for providers of essential infrastructure services whose stability is threatened by the economic impact of the COVID-19 crisis.

The COVID-19 pandemic crisis is having an unprecedented social and economic impact in the EBRD region including Ukraine. On 16 March 2020, the Ukrainian Government announced a national state of emergency with a quarantine regime for all regions of Ukraine (subsequently extended through the end of May) and fully suspended railway passenger transportation. According to the recent forecasts of the IMF the economic implications of the COVID-19 outbreak for Ukraine are expected to result in a drop in local GDP of up to 7.7 per cent in FY2020.

The crisis has triggered immediate, critical liquidity needs for the Company which need to be addressed in order to ensure the continuation of its operations and uninterrupted provision of essential railway cargo and passenger transportation services critical for the economy and functioning of private sector (more than 80 per cent of all cargo transportation in the country is covered by UZ – as well as more than 30 per cent of passenger transportation).

EBRD support will be an essential resource to help UZ to avoid collapse in service provision and maintain operations and continue to provide vital services to people and businesses/private sector, pay suppliers and employees as well as perform essential operations and maintenance.

Building on the Bank's co-operation over two decades with UZ, the Project is in line with the Bank's Country Strategy for Ukraine by supporting *“improved quality and connectivity of infrastructure”* through *“investments in domestic core transport network (rail)”* as well as promoting *“commercialisation of SOEs... including improvement of corporate governance”*.

Notwithstanding emergency nature of the project it builds upon and expands on the transition achievements of the Bank's previous projects with UZ, inter alia transformation of a former State Administration for Railway Transport into a joint stock company in 2015. In close cooperation with the Bank under the existing projects, the Government and UZ a launched Corporate Governance Review and prepared a Corporate Governance Action Plan (“CGAP”), which was adopted in December 2018 and is currently under implementation. Furthermore, the new Supervisory Board consisting of four independent directors selected on a competitive basis was appointed in 2018. Under the Project, the Bank will support further progress in this area through preparation and implementation of a CGAP for UZ's subsidiaries and improvement of UZ's anti-corruption compliance functions.

The operation is also in line with the Bank's Transport Sector Strategy, which states that the Bank will focus on *“Improved Quality and Connectivity of Network Infrastructure”* by supporting *“investment in rehabilitation and expansion of national, regional and sub-urban rail infrastructure ...to improve access to market and services and create linkages to key transport networks and corridors”*.

1.2 TRANSITION IMPACT

Primary Quality: Resilient

Obj. No.	Objective	Details
1.1	<i>Stabilisation facilities for key infrastructure providers</i>	The operation is part of the Bank's COVID-19 Solidarity Package and is presented under the VISIP. The Bank's loan will be used to support the immediate working capital needs of the Company to compensate for temporary cash shortfall due to COVID-19 related issues [REDACTED], ensuring the Company's logistical operations capacity is adequately preserved throughout and beyond the COVID-19 pandemic.

Secondary Quality: Well-Governed

Obj. No.	Objective	Details
2.1	Continued implementation of CGAP for the Company.	The project will support wider rail sector governance reforms through the continued implementation of CGAP for UZ.
2.2	Development of a stand-alone anti-corruption action plan and its implementation.	A comprehensive anticorruption compliance programme, including the establishment of an effective compliance function responsible for oversight throughout the client's operations, will be implemented. This is to be defined in an anti-corruption action plan, to be developed in collaboration with the Office of the Chief Compliance Officer ("OCCO"), and will be formally agreed as part of the Project by way of covenant.
2.3	Procurement certification is introduced where such certifications are rare in the project country/sector.	CIPS review of existing procurement practices at UZ, benchmarking against international best practices and certification is to be covenanted in the loan documentation.

Delivery risks: Key risks to delivery are related to (i) uncertainties related to the duration and severity of the pandemic impact [REDACTED].

1.3 ADDITIONALITY

Identified triggers	Description
A significant share (at least 30 per cent) of the project is to finance working capital. A subsequent/consecutive transaction with the same client/group either with the same use of proceeds or in the same country (repeat transaction).	Notwithstanding the identified triggers the proposed liquidity facility is necessary to help UZ to mitigate the effects of the COVID-19 crisis, including, inter alia, collapse in service provision, and allow UZ, by bridging the liquidity gap and alleviating financial pressure, to maintain operations and continue to provide vital services to businesses/private sector.

Additionality sources	
Financing structure – Crisis response: EBRD financing bridges a financing gap due to adverse market conditions EBRD offers a large volume instrument that fills a market funding gap and is required to structure the project	The Bank's investment bridges a financing gap due to adverse market conditions resulting from the COVID-19 pandemic – thereby sending strong signal to other market participants. EBRD investment is a large volume instrument that 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.
Standard-setting: helping projects and clients achieve higher standards Client seeks/makes use of EBRD expertise on higher standards, including through financial covenants.	The Bank's conditionality in the loan documentation goes beyond the standard market conditionality covering, inter alia, financial covenants, covenants on corporate governance improvements and improved procurement processes.
Knowledge, innovation and capacity building- EBRD provides expertise, innovation, knowledge and/or capabilities that are material to the timely realisation of the project's objectives, including support to strengthen the capacity of the client.	The Bank through relevant TC provides support to strengthen capacity of the client with respect to corporate governance and compliance functions at the Company.

1.4 SOUND BANKING - KEY RISKS

Risks	Probability / Effect	Comments
Project specific risk		
<i>COVID-19 pandemic--related risk (including demand risk and risk related to the uncertainty around length and severity of the impact)</i>	<i>Medium/ High</i>	Lockdowns and other restrictive measures related to COVID-19 pandemic effect mitigation may remain in place for a prolonged period of time, increasing the pressure on the Company's cash flows. This risk is mitigated by (i) policy measures the Government put in place to support end-users and the most vulnerable industries [REDACTED].

Risks	Probability / Effect	Comments
<i>UZ Cash Flow / Default Risk</i>	<i>Medium/ High</i>	As a result of Eurobond placement and earlier debt restructuring, UZ decreased its debt burden by distributing repayment obligations and shifting significant portion of repayment to 2024. Financial due diligence has been undertaken to assess UZ's financial condition, including development of a conservative financial model to ascertain UZ's revenue generating and debt service capacities, also in the context of COVID-19 crisis effects. The structure of the financial covenants has been agreed to monitor the debt service capacity of UZ [REDACTED]. The risk will be further mitigated by a comprehensive security package.
<i>Security Value and Enforcement Risk</i>	<i>Low/ High</i>	The Bank's financing under Tranche I is expected to be secured by pledge of rolling stock with the principal amount [REDACTED]. Similarly for Tranche II the pledge of future revenues/receivables under specific contracts with pre-identified counterparties [REDACTED]. Additional security will include a pledge over UAH-denominated main consolidated account of UZ as well as a pledge over a debt service reserve account. [REDACTED]
External risks		
<i>Sector Reform Risk</i>	<i>Medium/ Medium</i>	The Bank will continue its policy dialogue and cooperation with the Government to mitigate the sector reform risk. In line with the EU Association Agreement the Government of Ukraine is harmonising the railway sector legislation with the EU directives requirements with the relevant draft law registered in the Parliament and expected to be adopted in 2020. A Corporate Governance Action Plan has been prepared in close cooperation with UZ senior management and the Cabinet of Ministers of Ukraine [REDACTED].

[REDACTED] Country risks are mitigated by improved macroeconomic fundamentals, significant progress in energy and financial sector reforms, progress with the launch of new IMF programme and manageable near-term repayment profile.

Due to its size, the Project has a noticeable impact on the Bank's exposure in Ukraine. This is justified given the proposed short term nature of the proposed loan and the Project's economic benefits, its importance for the railway sector development and sustainability in the context of COVID-19 pandemic and associated economic crisis.

2. MEASURING / MONITORING SUCCESS

The overall objectives of the Project are as follows:

<i>Overall objectives of project</i>	<i>Monitoring benchmarks</i>	<i>Implementation timing</i>
- Stable financial and operational performance, improved liquidity.	- Financial performance in line with the projections in the period following the COVID-19 crisis.	[REDACTED]

The transition impact benchmarks are provided in the table below:

Transition Impact Monitoring Indicators and Benchmarks						
Quality	Obj. No.	Monitoring Indicator	Details	Baseline	Target	Due date*
Resilient	1.1	Improved financial and operational performance	Growth in revenues, profitability and operational indicators in the recovery period following the COVID-19 crisis to pre-crisis level (2019) taking into account the GDP growth	[REDACTED]	[REDACTED]	[REDACTED]
	1.1	Continued implementation of agreed CGAP for the Company	Continued implementation of the CGAP for the Company with corporate governance recommendations satisfactory to the Bank.	[REDACTED]	[REDACTED]	[REDACTED]
	1.2	Anti-corruption practices of the client improved as targeted	Comprehensive anti-corruption compliance programme, including the establishment of an effective compliance function responsible for oversight throughout the client's operations, will be developed and its implementation covenanted.	[REDACTED]	[REDACTED]	[REDACTED]
Well-governed	1.3	Procurement standards of the client improved	CIPS certification obtained	[REDACTED]	[REDACTED]	[REDACTED]

3. KEY PARTIES

3.1 BORROWER / INVESTEE COMPANY

UZ

PJSC "Ukrainian Railways" (the "Company" or "UZ") a vertically-integrated national railway operator in Ukraine fully 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, which is the fifth largest rail network in Europe as measured by passenger turnover, the third largest by railway lines in use and the largest by freight turnover.

UZ is one of the largest single contributors to Ukraine's GDP with the UZ revenue representing 2.34 per cent of Ukraine's GDP as well as one of the largest employers in Ukraine with >270 thousands full-time employees.

UZ was established in Ukraine as a joint stock company on 21 October 2015, as part of the ongoing railway sector reform through the transformation of the former State Administration for Railway Transport of Ukraine. As of May 2020, the Company had 34 branches, including six regional branches established on the basis of former regional railways, and 28 functional subsidiaries. The Company's current organisational structure is provided in Annex 1.

UZ is fully owned by the Government of Ukraine. Although the Company has a certain level of independence in different aspects of its operations and management, the Government exercises substantial influence over UZ through tariff regulation and other regulatory and legislative powers. [REDACTED]

The Bank's experience working with UZ

The Bank has a longstanding relationship with UZ and, despite the challenging environment, UZ has always served its debt obligations towards the Bank in full and on time. The Bank-funded projects have been implemented successfully and significant progress has been made on sector reform, albeit with substantial delays. Key transition impact objectives achieved under these projects include the transformation of UZ into a state-owned public joint stock company, preparation of audited IFRS financial statements, development of a modern fleet management plan for the rolling stock, approval of the CGAP and appointment of an independent Supervisory Board.

Please refer to Annex 2 for further details of the Bank's projects with UZ.

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 per cent 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 per cent of all freight transported in Ukraine by turnover

(excluding transportation by pipeline) and > 30 per cent of passenger transportation by turnover (excluding inner city transport) in 2019.

[REDACTED] UZ's tariffs for domestic freight transportation and domestic passenger and baggage transportation are regulated. The new tariff methodology will be developed in line with the requirements of EU Directive 2001/14/EU as part of broader railway sector reform in line with the EU Association Agreement that includes both legislative changes and structural reform of UZ.

Please refer to the Annex 3 for a detailed market overview.

5. FINANCIAL / ECONOMIC ANALYSIS

5.1 FINANCIAL HIGHLIGHTS

[REDACTED]

5.2 FINANCIAL PROJECTIONS

[REDACTED]

5.3 SENSITIVITY ANALYSIS

[REDACTED]

5.4 PROJECTED PROFITABILITY FOR THE BANK

[REDACTED]

6. OTHER KEY CONSIDERATIONS

6.1 ENVIRONMENT

Categorised C (2019 ESP). The provision of short-term working capital to an existing client to finance critical liquidity needs is not associated with any new environmental or social risks or impacts. ESDD has been undertaken by ESD specialists in line with the ESD COVID-19 response and included a review of an ESDD questionnaire, annual E&S reports provided by the client to the Bank and publicly available information. The ESDD confirmed that the Company continues to be in compliance with national law, relevant EBRD PRs, is on track in implementing the existing ESAP, has maintained its institutional capacity for environmental & social risk management and is addressing public safety and OHS risks linked to the COVID response.

The Company has been significantly adversely affected by the COVID-19 and proceeds will be used solely to cover the Company's short term payment obligations and other working capital needs. The Bank will work with the Company to ensure it continues to provide support to its employees in line with PR2 and national requirements. Currently the Company does not plan any labour restructuring or redundancies within the next two years, should this change then the Company will need to prepare and submit to EBRD a Retrenchment Plan in line with PR 2. Based on the results of the due diligence, the Bank is in the process of agreeing an

updated Environmental and Social Action Plan (ESAP), which will address the issues identified in the ESDD and associated with COVID -19. This includes development of response plans related to labour management and stakeholder engagement to address COVID-19 related impacts. The client is required to continue to ensure that the new project complies with the PRs as well as submit an annual environmental & social report to the Bank.

6.2 INTEGRITY

In conjunction with OCCO, an updated internal integrity review was undertaken on UZ and its senior management [REDACTED] and therefore this project does not pose an unacceptable reputational risk to the Bank. UZ has been a client of the Bank since 1999 and the experience to date has been positive. UZ is also a client of the EIB. [REDACTED]

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

6.3 PROCUREMENT

The proceeds of the loan will be used to finance critical working capital needs of the Company - thereby providing emergency liquidity support to cope with the COVID-19 crisis. Any contracts for goods, works and services, including commodities such as electricity and fuel, financed from the proceeds of Bank's loan shall be procured in accordance with Bank's PP&R via (i) open or simplified open tendering, or (ii) a procedure acceptable to the Bank in case of procurement of commodities, as set out article 3.12 of the PP&R. At no time shall use of proceeds include dividends and refinancing (including but not limited to IFI loans). The conditions for the use of proceeds shall be covenanted in the Loan Agreement.

ANNEXES TO OPERATION REPORT

ANNEX 1	UZ Shareholding and Organisational Structure
ANNEX 2	The Bank's projects with UZ
ANNEX 3	Market Overview
ANNEX 4	Historic Financial Statements

ANNEX 1- UZ SHAREHOLDING AND ORGANISATIONAL STRUCTURE

UZ is fully owned by the Government of Ukraine.

[REDACTED]

ANNEX 2 – THE BANK’S PROJECTS WITH UZ

The Bank’s first sovereign-guaranteed loan to UZ (Railway Development Project, Op ID 4080) was signed in 1999 in the amount of USD 51.9 million to finance the upgrade of Ukraine’s main international railway corridor, Trans-European Network III Kyiv-Lviv, and the purchase of the modern track maintenance machinery. This Project was successfully completed in 2004 and fully repaid by 2014.

The second sovereign-guaranteed loan (Ukraine Railways: Fast Passenger Trains Project, Op ID 14849) in amount of USD 120 million was signed in 2004 to finance acquisition of rail passenger carriages and additional track maintenance equipment and construction of the Beskyd Tunnel (co-financed by EIB). The Bank’s loan is fully disbursed [REDACTED].

The third loan to UZ in the amount of USD 125 million (Ukraine Railways: Rolling Stock Renewal Project, Op ID 37921) was structured on a non-sovereign basis. The loan was extended to finance acquisition of freight wagons. [REDACTED]

The fourth loan to UZ in the amount of EUR 150 million (UZ Electrification, Op ID 45782, ETI 76, PTI 73), structured on sovereign-guaranteed bases, was signed on 30 December 2017. This project, co-financed with EIB, will enable UZ to electrify and modernise a railway line Dolynska-Mykolaiv-Kolosivka in southern Ukraine, connect the line to the high voltage grid and install a second track on single track sections of the Dolynska-Mykolaiv line. [REDACTED]

The last loan to UZ and its subsidiary UZ Cargo Wagon in the amount of USD 150 million (UZ New Rolling Stock Project, Op ID 49039, ETI 65) was signed in November 2018. The loan, structured on a non-sovereign basis, was extended to finance open freight wagons. [REDACTED]

In September 2019 the Bank participated in the tap Eurobond issuance with an investment amount of USD 100 million and the notional amount of USD 94.9 million consolidated and forming a single series with the Eurobond issuance in the amount of USD 500 million which took place on 9 July 2019 (Project Voyager, Op ID 50833, ETI 60). The Eurobonds have a maturity of 7 September 2024. The bonds were listed on Euronext Stock Exchange as of 17 September 2019.

ANNEX 3 – MARKET OVERVIEW

UZ is a monopoly provider of rail transportation in Ukraine and operates Ukraine's 19,800 kilometre-long railway network and related infrastructure, which is the fifth largest rail network in Europe as measured by passenger turnover, the third largest by railway lines in use and the largest by freight turnover. UZ derives the bulk 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 is one of the largest single contributors to Ukraine's GDP [REDACTED]. UZ is also one of the largest employers in Ukraine with >270,000 full-time employees as of 31 December 2019.

By commodity type, ores and coal followed by construction materials and grain are the largest volumes transported by UZ. For freight traffic volumes please refer to the table below:

Freight traffic volumes, million tonnes⁴			
Traffic	2017 A	2018 A	2019 A
Domestic	160	155	159.2
Import	43.9	43.6	45.4
Export	116.1	107.4	113.4
Transit	19.6	16.3	16.2
Total	339.6	322.3	334.2

[REDACTED] 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.

Railway Sector Reforms

The agreement on association between Ukraine and European Union ("EU") defines the obligations of the State to implement 7 directives and 4 by-laws of the EU in the sector of railway transport⁵. The implementation envisages two key vectors of development.

New legislation based on the EU requirements. This direction, inter alia, includes the updated version of the Law "On Railway Transport of Ukraine" (the "Law"), aiming to improve the market mechanisms of the railway sector functioning and building-up of the new structure of relationships among the participants of rail transportation process. The key points of the Law include: (i) providing free and equal access to the infrastructure objects of general use to all market players (incl. implementation of private traction); and (ii) creation of the National Committee, which would conduct regulation in railway transport sector, incl. pricing and tariff methodology, and additional executive body, which would be responsible for the state policy in the sector. Apart from this, the Law suggests that strategic infrastructure (railway track,

⁴ Source: <https://www.uz.gov.ua/files/file/План%20обсягів%20перевезення%20вантажів%20на%202019%20рік.pdf>

⁵ Source: <https://mtu.gov.ua/content/reformi-zaliznichnogo-transportu.html>

technology buildings and premises, electricity supply systems and other units servicing the transportation process) remains in UZ's possession, while other infrastructure (passenger railway stations, logistic centers and other premises) could potentially be subject to lease or concession. Furthermore, the new Law envisages the creation of the system of state regulation in the area of safety according to the requirements of the EU. After the adoption of the Law, the new legislative basis for the sector functioning would be developed further, e.g., the rules of access to infrastructure, licensing and safety certification. In a meantime, the relevant works on improvement of tariff regulation are being conducted (see above in Market Overview).

The new Law No. 1196-1 was registered in Supreme Rada of Ukraine in September 2019 and is expected to be adopted in 2020.

Structural reform of UZ. Structural reform of UZ envisages organisational and financial division of infrastructure operator and transporter (forwarder), which is the key condition to providing equal access to infrastructure for all market players. Such reorganisation (unbundling) would separate the cargo transportation and logistics, passenger transportation, infrastructure, production and services, and management of non-profile assets, giving a possibility for the Company to get ready to emergence of private competitors and attract private investors. This decision is reflected in UZ Strategy for 2019-2023 approved in June 2019 and is supported by its Supervisory Board.

ANNEX 4 – HISTORIC FINANCIAL STATEMENTS

[REDACTED]