

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

Approved by the Board of Directors on 28 June 2023¹

CROATIA

PROJECT GRADEC

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

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

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

For the avoidance of any doubt, the information set out here was accurate as at the date of preparation of this document, prior to consideration and approval of the project.

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ABBREVIATIONS / CURRENCY CONVERSIONS

CAGR	Compound Annual Growth Rate
Capex/CAPEX	Capital Expenditures
EBITDA	Earnings Before Interest, Taxes, Depreciation and Amortisation
EBRD	European Bank for Reconstruction and Development
ESAP	Environmental and Social Action Plan
ESG	Environmental, Social, Governance
E&S	Environmental and Social
ESDD	Environmental and Social Due Diligence
EU	European Union
EUR	Euro
GET	Green Economy Transition
GDP	Gross Domestic Product
GHG	Green House Gasses
HRK	Croatian Kuna
ICMA	International Capital Market Association
IFI	International Financial Institution
KPI	Key Performance Indicator
MNPI	Material Non-Public Information
N/A	Not Applicable
OCCO	Office of the Chief Compliance Officer
PR	Performance Requirements
SLB	Sustainability Linked Bond
SLBP	Sustainability Linked Bond Principles
SPTs	Sustainability Performance Targets
SPO	Second Party Opinion
SRG	Sector Risk Guidance
TC	Technical Cooperation
TI	Transition Impact
TIMS	Transition Impact Monitoring System
YE	Year End
y-o-y	Year on Year
ZGH	Zagrebacki holding d.o.o.

CURRENCY CONVERSIONS

HRK/EUR	Year-end	Average
2020	7.54	7.53
2021	7.52	7.52
2022	7.53	7.53

Source: Croatian National Bank

PRESIDENT'S RECOMMENDATION

This recommendation and the attached Report concerning an operation in favour of Zagrebacki Holding d.o.o. (“**Zagreb Holding**”, “**ZGH**”, the “**Company**”, the “**Issuer**”), a limited liability company incorporated in Croatia, are submitted for consideration by the Board of Directors.

The facility will consist of a subscription of up to EUR 91.5 million (up to 30 per cent of the planned placement) to a local EUR 305 million sustainability-linked bond (“**SLB**”), to be issued at a local capital market [REDACTED] . The bond will be fully guaranteed by the City of Zagreb. The operation will enable Zagreb Holding to restructure its balance sheet and unlock its green investment potential, whereas the key performance indicators (“**KPIs**”) and sustainability performance targets (“**SPTs**”) focus on sustainable management of resources including improved waste management and sustainable energy use. The bonds will be the first SLB issuance by a local municipality or public sector company in Croatia.

The expected transition impact of the Project will be derived primarily from the *Green* quality by supporting the Issuer in achieving the KPI's and SPTs under the Project. The operation is also supporting the *Resilient* quality through further development of Croatia's municipal bond market. The Bank's participation, in light of increased market volatility caused by the war on Ukraine, will support confidence in Croatia's capital market at a time of growing investors' uncertainty.

Given that Croatia's bond market is largely undeveloped, compared to its EU counterparts, the Bank remains additional in filling the market gap. The Bank's participation is particularly needed at the current time of increased financial market turmoil and investors' risk aversion in light of ongoing geopolitical events.

I am satisfied that the operation is consistent with the Bank's Municipal and Environmental Infrastructure Sector Strategy, the Bank's Strategy for Croatia, the Bank's Local Currency and Capital Markets (“**LC2**”) Strategy and with the Agreement Establishing the Bank.

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

Odile Renaud-Basso

BOARD DECISION SHEET

CROATIA - PROJECT GRADEC - DTM 54399	
Transaction / Board Decision	Board approval ² is sought for an investment of up to EUR 91.5 million (up to 30 per cent of the planned issuance) in the sustainability-linked bond (“SLB” or the “Bond”), to be issued by Zagrebacki Holding d.o.o. (the “Project”). The Bond will be 100 per cent guaranteed by the City of Zagreb (the “City”).
Client	Zagrebacki Holding d.o.o. (“Zagreb Holding”, “ZGH”, the “Company”, the “Issuer”), a limited liability company, is the largest utility company in Croatia providing water supply and wastewater collection services, solid waste management, roads maintenance, public surfaces maintenance, gas distribution, parking and other communal services to Zagreb’s population through a network of its branches and subsidiaries (currently, there are 12 branches and 6 subsidiaries). In 2022, ZGH generated EUR 651.1 million of revenues [REDACTED] . It has around 7,126 employees.
Main Elements of the Proposal	<p><u>Transition Impact</u> will be derived from the following qualities:</p> <ul style="list-style-type: none"> • Green. As part of the Project, ZGH will commit to implementation of the Sustainability Framework, with the focus on two KPIs related to waste management and renewable energy consumption, resulting in GET share of 55 per cent for the Project, supported by additional commitment to design and implement a Paris-aligned strategy for its GHG emissions. • Resilient. The Project will contribute to the development of Croatian capital market by introducing a new instrument - the first municipality / public sector issuance of the SLB instrument on the local market. Given current market uncertainty, the Bank’s participation further supports the Resilience quality by ensuring a successful issuance and maintaining investors’ confidence in the local capital market. <p><u>Additionality:</u> Bank’s participation contributes to closing the funding gap, and providing comfort to other investors with the quality of the issuance and the Issuer. The Project is part of a wider balance sheet restructuring of the Issuer and is unlocking its investment potential to carry out investments into green and sustainable public infrastructure.</p> <p><u>Sound banking:</u> As per the latest budget revision for 2022, the City of Zagreb generated current revenues of EUR 1.03 billion, with current surplus of EUR 211 million. Zagreb is rated BB/Positive by S&P, and Baa2/Stable by Moody’s. A review of financial projections and stress tests demonstrate consistency with sound banking principles.</p>
Key Risks	<p>Financial risks: The financial risk of the Zagreb Holding is mitigated by the City of Zagreb full guarantee for the new bond.</p> <p>Guarantor risk: City’s stable budgetary performance has been confirmed in its credit rating and in financial model projections. City’s financials and leverage potential are strongly regulated with Budget Act, which limits the amount of borrowing.</p>
Strategic Fit Summary	The proposed investment is consistent with the Bank's Local Currency and Capital Markets (“LC2”) Strategy and strategy for both Municipal and Environmental Infrastructure and Croatia, which focus on capital markets development and promoting green investments.

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

ADDITIONAL SUMMARY TERMS FACTSHEET

EBRD Transaction	Participation in the Sustainability-linked bond (“SLB” or the “Bond”) with up to EUR 91.5m (or up to 30 per cent of the total EUR 305m issuance) to be issued at a local capital market by Zagreb Holding, supported by the 100 per cent guarantee from the City of Zagreb. The bond proceeds will be used to refinance the existing bond maturing in July 2023, a critical step in completing the wider balance sheet restructuring of the Issuer and unlocking its investment potential to carry our investments into green and sustainable public infrastructure and services. The SLB will have 5-year tenor and will be listed on Zagreb Stock Exchange (“ZSE”).
Existing Exposure	Total outstanding exposure: EUR 5.9m to Zagreb Holding (fully guaranteed by the City of Zagreb) from participation in bond issuance maturing in July 2023, listed on ZSE; TIMS rating: On track, PTI 65.
Maturity / Exit / Repayment	The new bond issuance will have a maturity of five years, with a bullet repayment. The Bonds are expected to be held to maturity. The bonds will be traded on ZSE and are expected to have a reasonable liquidity allowing for a gradual exit before maturity.
Potential AMI eligible financing	None.
Use of Proceeds - Description	Refinancing of the existing EUR 305 million bond issued in 2016 and 2017, and maturing on 15 July 2023.
Financing Plan	[REDACTED]
Key Parties Involved	<ul style="list-style-type: none"> • Zagreb Holding as the Issuer • The City of Zagreb as the Guarantor • Privredna banka Zagreb, Zagrebacka banka and Erste&Steiermärkische Bank as Issuing Agents • IFC is considering participation in the transaction • KPMG Croatia as Sustainability advisor • S&P as the Second-party opinion (“SPO”) provider
Conditions to subscription / disbursement	[REDACTED]
Key Covenants	[REDACTED]
Security / Guarantees	The Bond Issuance will be 100 per cent guaranteed by the City of Zagreb.
Other material agreements	Bond Information Memorandum, Framework Agreement between the Issuer and the Bank.
Associated Donor Funded TC and co-investment grants/concessional finance	None.

[REDACTED]

INVESTMENT PROPOSAL SUMMARY

1. STRATEGIC FIT AND KEY ISSUES

1.1 STRATEGIC CONTEXT

The Bank has a long-term relationship with the City of Zagreb and Zagreb Holding through 5 successfully implemented projects: (i) solid waste investments via *Zagreb Landfill Rehabilitation Programme* (1998), (ii) wastewater treatment under Zagreb WWTP – BoT (2001), (iii) supporting capex into the City’s water and wastewater system upgrades (Zagreb Holding Water and Sewer Investment Project (2007), (iv) participation in Zagreb Holding local currency bonds in 2016, and (v) Covid-19 resilience support to the City of Zagreb for vital municipal infrastructure and services (2022).

The planed EUR 305 million sustainability-linked bond issuance, proceeds of which will be used to refinance the existing bond issued by the ZGH in 2016 and 2017, represents the final and critical step in the balance sheet restructuring of the Company and will further improve ZGH’s resilience to external shocks. Furthermore, the operation will unlock investment potential of the Issuer allowing it to accelerate development of green and sustainable infrastructure and services, to the benefit of residents of Zagreb metro area.

The SLB bond will be issued at the local capital market and backed by the full guarantee from the City of Zagreb.

Supporting the ZGH’s SLB issue will enable the Bank to remain engaged with the City of Zagreb and ZGH to support the latter’s green transition. This SLB represents a breakthrough for the Croatian capital market – the first SLB issuance by a local municipality / public sector company in Croatia. Therefore, the bond should have a strong demonstration impact on other potential municipal issuers, both in Croatia and in the region.

In the market dominated by the traditional loan financing, such innovative products are welcomed by the key capital market players such as the Croatian pension funds, whose assets under management keep increasing while the offer of investable securities remains limited. As pension funds have strict limitations on subscribing to new issues, EBRD’s participation remains crucial for ensuring the successful placement of the Bond. In addition to closing the funding gap, EBRD plays a key role in providing comfort to other investors primarily with the quality of the issuance and the Issuer.

In defining the key metrics of the SLB, the ZGH focused on green goals, i.e., sustainable management of resources, which include (i) improvement of waste management and (ii) renewable energy use. [REDACTED].

The proposed investment is consisted with Bank’s strategy for Croatia which focuses of strengthening of financial sustainability and operational efficiency of municipal authorities and supporting capital market development. It is also consistent with the Bank’s Local Currency and Capital Markets (“LC2”) Strategy and the 2019-2024 MEI Sector Strategy. Through the proposed investment, the Bank will facilitate the development of local capital markets to support municipal finance and “act as a catalyst for capital market transactions to increase market confidence and encourage private investments”.

The proposed bond issuance participation will complement the Bank's efforts to support development of Croatia's capital market, whereby the Bank participated as an investor in several local market bond issues, investing a total of ~EUR 117 million in the last 7 years, including Croatia's first sustainability-linked bond in 2022.

1.2 TRANSITION IMPACT

Primary Quality: Green

Obj. No.	Objective	Details
1.1	<i>The percentage of EBRD use of proceeds that supports a green economy transition and therefore qualifies as GET finance exceeds 50%.</i>	With the help of sustainability advisors, ZGH has prepared and adopted the Sustainability Strategy and SLB Framework outlining the following green KPIs: (i) increase in municipal waste separately collected (i.e. removed from the landfill) and (ii) increase in share of renewable electric energy in total electric energy consumption. The Issuer's sustainability targets has been assessed and verified by the Second Party Opinion provider (S&P) and the GET share of the Project has been also confirmed by the Bank.

Secondary Quality: Resilient

Obj. No.	Objective	Details
2.1	<i>The transaction contributes to capital market development through supporting expansion of the market (2nd/3rd issuance in the last 12 months, follow-on). It has a similar maturity compared to similar previous issuances in the market in the past year but is new for the sector*** (debt instrument).</i>	The transaction contributes to capital market development through supporting expansion of the market. The proposed bond will be the second SLB issuance in Croatia, and the first SLB issuance by a local municipality / public sector company and as such a milestone for the development of the local capital market. In addition, the issue will be one of only a handful of non-FI corporate bond placements on the local capital market. Whilst the Croatian legal and regulatory environment for capital markets has progressed significantly vis-a-vis most south-eastern European countries, driven by harmonization of Croatian legislation with EU trends and acquis, significant gaps in terms of market depth, liquidity and product diversification still exist when compared to peer EU member states. For debt financing in particular, Croatian non-financial companies rely heavily on loans (representing 94% of total debt financing) rather than corporate bonds and other debt securities (accounting to 6%). The successful issuance will have a twofold positive impact on the capital market development through (i) promoting ESG

		standards for any future local municipality / public sector company issued bonds, and (ii) promoting capital markets as an alternative source of funding. In this specific case, key ESG areas addressed in the SLB include (i) substantial reduce in waste generation through prevention, reduction, recycling and reuse, and (ii) substantial increase in share of renewable energy in the energy mix.
2.2	<i>Less than 60% of the issuance is expected to be placed with private non-IFI investors.</i>	Based on the indication of interest, around 50% of the issuance is expected to be placed with private non-IFI local institutional investors, mostly pension funds. The EBRD's share in the issuance will not exceed 30%.
2.3	<i>The issuance will be publicly offered and listed on a national exchange. It either has a credit rating from a rating agency other than "Big Three" (including local credit rating agencies) or it is not rated but the issuer is rated by at least one of the "Big Three".</i>	The issuance will be listed on Zagreb Stock Exchange. Both the Issuer and the Guarantor are rated by two of the "Big Three" rating agencies (Moody's and S&P).

Delivery risks for the primary *Green* quality arise from the potential inability of the ZGH's management to achieve its sustainability targets. This risk is mitigated by: (i) engaged external consultants (KPMG) which contributed to the framework and strategy, (ii) financial incentive via penalty [REDACTED] and (iii) ZGH's management's strong commitment to the sustainable value creation which is reflected in the Group's Sustainability Strategy. For the secondary *Resilient* quality, delivery risks relate only to the potential inability to attract interest of non-IFI investors. This risk is mitigated by the fact that local pension funds have strong preference and historical track record of investing in sovereign and municipal bonds and those of local companies with good credit.

1.3 ADDITIONALITY

Identified triggers	Description
A significant share (at least 30%) of the project is for refinancing purposes	ZGH will refinance the existing bond from 2016/2017.
Additionality sources	Description of additionality sources
Financing Structure - Capital market: EBRD financing is expected to effectively ‘close the funding gap’ and allows carrying out a successful book-building process .	<p>EBRD participation in the Bond issuance is expected to ensure its successful placement on the local capital market as it will close the funding gap arising from the strict investment limitations of the Croatian pension funds (key local institutional investors) in subscribing new issuances.</p> <p>EBRD’s financing is linked to a wider balance sheet restructuring, unlocking the Client’s investment potential to carry out investments into green and sustainable public infrastructure and services.</p> <p>Even in light of the potential IFC participation in the issuance, given its total size, importance, limitations of local commercial banks and pension funds, as well as the extremely challenging market environment, EBRD participation is essential for the success of the issuance.</p> <p>In addition, the scale back mechanism has been agreed based on the achieved pricing and corresponding profitability for the Bank. The level of pricing achieved will be determined by the market, depending on the appetite of the investor community and the general market conditions at the time of the issuance.</p>
Innovative financing structures and/ or instruments – EBRD offers an innovative green finance instrument that integrates aspects such as climate and environmental, social and governance (ESG) standards and/or climate and ESG risk considerations into the financing structure.	ZGH is issuing an SLB, a novel instrument for the local capital market which, in addition to the traditional financing component, incorporates the Issuer’s strong commitment to implement ESG improvements. Such commitment is confirmed by linking the cost of funding to the Issuer’s actual progress with the delivery of the targets. This will be the second SLB issuance on the Croatian capital market, and the first SLB issuance by a local municipality / public sector company, thus holding a significant demonstration impact. In addition to supporting such a novel instrument, EBRD also [REDACTED] provided its guidance related to the best market practices [REDACTED].
Risk mitigation – EBRD’s involvement in a debt capital market transaction provides comfort to other investors and further widens market participation.	This SLB represents a breakthrough for the Croatian capital market - the first SLB issuance by a local municipality / public sector company, which represents an untested area for local investors in Croatia. The local investors are keen to invest more the product congaing ESG and green components, but due to lack of experience and know-how related to such products need to rely on reputable and knowledgeable international investor such as EBRD.

1.4 SOUND BANKING - KEY RISKS

Risks	Probability / Effect	Comments
Financial risks	Low/Medium	ZGH is rated Baa2/Stable by Moody's (from July 2022), and B/Stable by S&P (from October 2022). [REDACTED]. The financial risk of ZGH is mitigated by the City's full guarantee for the new bond.
Guarantor risk (additional risk)	Low/Medium	Given the ZGH's limited standalone debt capacity, the bond will be supported by City's full guarantee. Zagreb is Croatia's capital and dominant economic centre. The City is rated BB/Positive by S&P (from March 2023) and Baa2/Stable by Moody's (from July 2022), which reflects its consistently prudent budgetary management, solid operating performance, low direct debt levels as well as a strong likelihood that the Government's support if the city were to face acute liquidity stress. City's stable budgetary performance has been confirmed in the financial model projections. [REDACTED].

2. MEASURING / MONITORING SUCCESS

Primary Quality: Green

Obj. No.	Monitoring indicator	Details	Baseline	Target	Due date	TC
1.1	Percentage of municipal waste collected separately (i.e., removed from landfill)	Collect at least 58% of municipal waste separately	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
1.2	Renewable electrical energy relative to total electrical energy consumed	[I]ncrease renewable electricity to 70% of total energy consumption	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

Secondary Quality: Resilient

Obj. No.	Monitoring indicator	Details	Baseline	Target	Due date	TC
2.1	Volume of new capital market activity raised	The target size of the Bond issuance is EUR 305m.	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

3. KEY PARTIES

3.1 BORROWER

Zagrebacki Holding d.o.o. is a municipal holding company 100 per cent owned by the City of Zagreb. Through a network of branches and subsidiaries (current total of 12 branches and 6 subsidiaries), ZGH provides utility services to the City of Zagreb and its inhabitants such as water supply and wastewater collection, gas distribution, waste collection and disposal. Besides those core utility services, ZGH also provides different services to the City, such as road maintenance, maintenance of parks, public parking organisation etc. Also, some subsidiaries are engaged in operations not typical for utility holding, such as pharmacy, management of sport facilities or real-estate management. ZGH currently employs ca. 7.126 people and is the largest utility company in Croatia. During 2022, ZGH generated EUR 651.1 million of revenues [REDACTED] due to the higher revenues on the back of higher gas sales prices, higher revenues from municipal waste management and parking fees, as well as from raising of internal efficiency.

At the end of 2022, total debt of the Company amounted to EUR 679 million, and was dominated by the EUR 305 million of bonds which will be refinanced by the new bond issue. [REDACTED] ZGH is rated Baa2/Stable by Moody's (July 2022) and B/Stable by S&P (October 2022). The historical financials of the Zagreb Holding are presented in the Annex 3.

3.2 SPONSOR / GUARANTOR

City of Zagreb is the 100 per cent owner of the Issuer. Zagreb is the capital of Croatia and its largest city, with nearly 800,000 inhabitants. Zagreb benefits from its role as Croatia's capital and dominant economic centre. The City contributes about one-third of total Croatian GDP. GDP per capita is comparable with that of similarly rated international peers and about 70 per cent higher than the national average. The City has industry that includes electric machines production, chemical and pharmaceutical industry, food and drink industry, etc. It is also the commercial and financial centre of Croatia with many multinationals having their regional headquarters in Zagreb.

As per the latest budget revision for 2022, the City of Zagreb generated current revenues of EUR 1.03 billion, with current surplus of EUR 211 million. [REDACTED]. The City of Zagreb is rated BB/Positive by S&P (from March 2023), and Baa2/Stable by Moody's (from July 2022).

The historical financials for the City of Zagreb are presented in the Annex 3.

4. MARKET CONTEXT

The municipal debt market is regulated by the Croatian Ministry of Finance and there are restrictions in the fiscal code on how much debt a municipality may contract.

The Croatian local bond market is mostly represented by Croatian government bonds with a limited number of corporate and municipal issues. The entire market functions mainly as over-the-counter ("OTC") dealer market, with small volumes traded directly on the ZSE. The amounts traded OTC need to be reported to the ZSE at the end of the trading day for valuation and statistical purposes. The major market participants are banks, mandatory and voluntary pension funds, mutual funds and insurance companies. The debt market is regulated by the Croatian Financial Service Supervisory Agency (the "HANFA").

The corporate bond market in Croatia is relatively underdeveloped, with very low and irregular trading volumes. With EUR 883 million (5.1 per cent of debt capital market and 1.5 per cent of GDP) being the outstanding notional amount as of July 2022, the Croatian corporate bond market is fairly small relative to the size of the government bond market (EUR 16.4 billion), and also one of the smallest among its EU peers in terms of share of GDP. As of April 2022, on average, domestically issued corporate bonds in the EU-27 countries accounted for 10 per cent of GDP. Excluding the existing ZGH bond, the outstanding volume of the Croatian corporate bond market as of mid-2022 shrunk to around EUR 577 million or 1 per cent of GDP.

The Croatian institutional investor base is relatively shallow and consists primarily of mandatory pension funds and voluntary pension funds, followed by open-end investment funds, insurance companies and banks. All investor groups have pre-defined legal restrictions on investments.

The proposed investment in a SLB is expected to help shaping a more coherent municipal bond market with a liquid issuance of a larger amount. The refinancing of the ZGH's existing bond, including in particular its sustainability-linked features, will become a proper benchmark for future municipal bond issuances, for both municipalities and investors.

5. FINANCIAL / ECONOMIC ANALYSIS

5.1 FINANCIAL PROJECTIONS

[REDACTED]

5.2 SENSITIVITY ANALYSIS

[REDACTED]

5.3 PROJECTED PROFITABILITY FOR THE BANK

[REDACTED]

6. OTHER KEY CONSIDERATIONS

6.1 ENVIRONMENT

Categorised B (ESP 2019). The Project is a capital markets transaction (sustainability linked bond). The Bank's in-house due diligence was based on publicly available information, review of the past ESDD and reporting by Zagreb City where Zagreb Holding was also assessed as a beneficiary, and additional documentation provided by ZGH. The available information allowed for an assessment of the ZGH's E&S capacity and environmental and social risks of this Project in accordance with the Bank's Performance Requirements (PRs). The use of proceeds is focused exclusively on refinancing of the previous bond used for municipal purposes and will explicitly exclude any new high-risk or category A projects. ZGH's Sustainability Linked Bond Framework is in line with the requirements of the ICMA's 2020 Sustainability-Linked Bond Principles, as verified independently by second party opinion from S&P. In this SLB framework, ZGH is committing to future improvements in sustainability outcomes within a 5-year period through (i) improving separate municipal waste collection and preventing it from going to the landfill, and (ii) increasing use of renewable energy such as biogas and distributed solar.

The ESDD has reviewed the status of compliance and the Client's approach to environmental and social governance (ESG) principles and E&S capacity to implement the Bank's PRs and focussed on a corporate-level review of the Client's management systems, ZGH's Sustainability Strategy and decarbonisation efforts, and its current compliance status. ZGH has corporate management systems in place for environmental management and occupational health and safety in line with international standards, and it is working towards gradual greening and decarbonisation. The Client also is committed to corporate social responsibility and is proactively aligning their practices with ESG requirements and sustainability reporting in line with EU CSRD framework. Internal institutional capacity of ZGH will be further strengthened by establishing and staffing a separate unit responsible for overall ESG sustainability management by the end of 2023. Overall, ZGH's operational practices are in compliance with the national regulations.

The Environmental and Social Action Plan (ESAP) has been developed and agreed based on the findings of the ESDD to structure the project in line with EBRD PRs and includes requirements relating to corporate-level management systems, some improvements in existing working practices such as traffic safety, designing and implementing a Paris Agreement-aligned decarbonisation strategy in line with existing leading practice and guidelines and SLB KPIs related measures. ESAP will be included in the Framework Agreement to be signed with the Company shortly before

subscription. The Bank will monitor the Company's performance through reviewing annual reports prepared by the Company and published on its website.

6.2 INTEGRITY

In conjunction with OCCO, internal integrity due diligence was undertaken on Zagrebacki Holding d.o.o ("ZGH"), its subsidiaries and branches, key management, as well as the City of Zagreb and its administration. [REDACTED] integrity due diligence review did not identify any new concerns. [REDACTED].

[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 OTHER ISSUES

Procurement

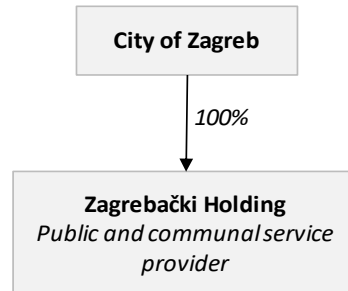
On the basis that the proceeds of the Bank's participation will be used solely for the purposes of refinancing an existing bond and no proceeds will be used to finance the acquisition of any goods, works or services, the Project will be excluded from application of the Bank's Procurement Policies and Rules ("PPR") (2022 version) under article 2.6(d).

ANNEXES TO OPERATION REPORT

ANNEX 1	Shareholding Structure
ANNEX 2	Transition Impact Scoring Chart
ANNEX 3	Historical Financial Statements
ANNEX 4	Green Assessment

ANNEX 1 – SHAREHOLDING STRUCTURE

Zagreb Holding is a public service provider in the City of Zagreb and is wholly-owned by the City of Zagreb. The City of Zagreb is a public entity of local government in the Republic of Croatia.



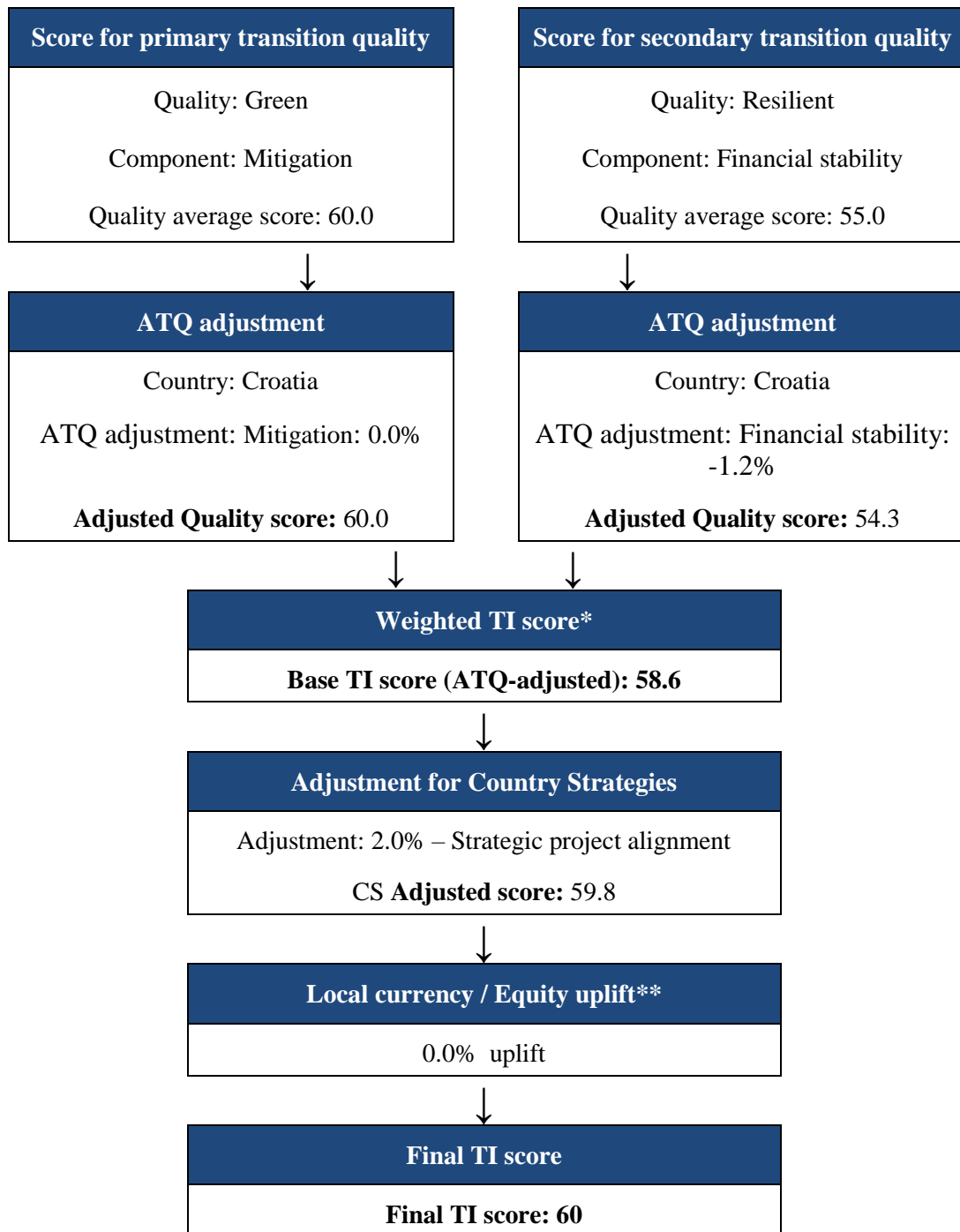
Branches - 100% owned by ZGH

Čistoća <i>Waste management and disposal</i>	Zrinjevac <i>Public area maintenance</i>	Zagrebačke ceste <i>Road maintenance</i>	Robni terminali <i>Warehousing and Logistics</i>	Zagrebački digitalni grad / Zagreb Digital City <i>Communications, networks, infrastructure and services</i>
Zagreb Parking <i>Parking services</i>	Arena Zagreb <i>Sport/entertainment hall</i>	Gradska groblja Zagreb <i>Cemeteries</i>	Vladimir Nazor <i>Tourism and catering services</i>	
Autobusni kolodvor <i>Coach terminal</i>	Tržnice Zagreb <i>Markets</i>	AGM <i>Publishing services</i>		

Subsidiaries - 100% owned by ZGH - except for Zagreb plakat (51%)

Vodoopskrba i odvodnja <i>Water supply and waste water collection</i>	Gradska plinara Zagreb <i>Gas distribution and system operator</i>	Gradska plinara Zagreb - Opskrba <i>Gas supply</i>	Gradsko stambeno komunalno gospodarstvo <i>Real estate management</i>	Zagreb plakat <i>(51% share) Outdoor advertising</i>
		Gradske ljekarne Zagreb <i>Pharmacy chain</i>		

ANNEX 2 - TRANSITION IMPACT SCORING CHART



ANNEX 3 - HISTORICAL FINANCIALS

Historical Financials of Zagreb Holding

Income Statement				
Unit MM €				
EUR million	2019 (A)	2020 (A)	2021 (A)	2022 (A)
Revenue	549,44	501,10	535,34	651,11
Cost of Sales	290,39	277,24	314,88	371,66
SGA	197,61	227,82	258,95	205,45
EBITDA	61,44	-3,97	-38,48	74,00
Depreciation	52,38	53,53	55,56	54,32
EBIT	9,05	-57,50	-94,04	19,68
Interest Income	14,58	11,52	9,60	8,52
Interest Expense	-25,82	-25,94	-26,17	-27,57
Other Costs/Income	4,28	4,72	5,70	6,74
Profit before tax	2,10	-67,20	-104,90	7,37
Tax incurred	1,13	-4,91	0,90	0,60
Profit after tax	0,97	-62,29	-105,80	6,78
Dividends	0,00	0,00	0,00	0,00
Other Items	0,00	0,00	0,00	0,00
Profit for the year	0,97	-62,29	-105,80	6,78
Change in Net Worth	0,97	-62,29	-105,80	6,78
Balance Sheet				
EUR million	2019 (A)	2020 (A)	2021 (A)	2022 (A)
Cash & financial asset	27,3	22,3	18,5	44,9
Receivables	237,2	252,8	213,4	248,0
Inventories	53,4	26,1	19,3	19,3
Financial assets (deposits)	4,2	0,7	3,8	3,8
Total Current Assets	322,0	302,0	255,0	316,0
Fixed Assets	1581,5	1573,7	1544,1	1517,7
Other Assets	296,2	279,1	256,2	219,0
Total Assets	2.199,8	2.154,8	2.055,3	2.052,7
ST Debt plus CPLT Debt	153,1	213,7	159,8	331,0
Payables	66,3	64,9	113,4	68,8
Other ST Liabilities	114,1	116,4	126,5	138,0
Total Current Liab	333,4	395,0	399,6	537,8
Long Term Debt	470,9	461,1	472,9	348,0
Provisions	46,7	45,3	42,1	37,0
Deferred income	439,8	419,5	421,6	414,0
Other LT Liabilities	91,4	95,6	102,2	94,6
Total Liabilities	1.382,2	1.416,6	1.438,5	1.431,3
Equity	817,5	738,2	616,9	621,4
Total Liab & Equity	2.199,8	2.154,8	2.055,3	2.052,7
Cash-Flow Statement				
Unit MM€				
EUR million	2019 (A)	2020 (A)	2021 (A)	2022 (A)
Operating Profit (EBIT)	9,1	-57,5	-94,0	19,7
Depreciation & Amortisation (+)	52,4	53,5	55,6	54,3
Gross Operating CF (EBITDA)	61,4	-4,0	-38,5	74,0
Changes in Working Capital (+/-)	-5,7	-26,5	35,6	-65,3
Taxes Paid	-3,8	-3,3	-1,1	1,3
Other Operating cashflow changes	-4,7	26,0	70,5	-28,5
Net Operating CF	47,3	-7,8	66,4	-18,5
Interest Paid	-22,2	-23,2	-23,6	-23,2
Current Debt Repaid	-115,3	-122,2	-165,3	-305,3
Dividends Paid	0,0	0,0	0,0	0,0
Pre Investment CF	-90,1	-153,2	-122,5	-347,0
Capital Expenditure	-61,8	-63,7	-38,0	-29,5
Pre Financing CF	-128,9	-184,2	-124,5	-329,8
EBRD new Debt	0,0	0,0	0,0	0,0
Other new Debt	114,3	179,8	120,6	356,3
Change in Net Worth	0,0	0,0	0,0	0,0
Change in other items	0,0	0,0	0,0	0,0
Post Financing CF	-14,6	-4,5	-3,9	26,4
Cash End	27,3	22,3	18,5	44,9

[REDACTED]

City of Zagreb - Historical and Budgeted Financials

Financial Projections (in EURm)	2019	2020	2021	2022	2023
	Actual	Actual	Actual	Budget	Budget
Total tax income	744	695	751	886	917
Total income from assets	58	53	54	61	57
Total fee income	160	146	146	151	149
Total grants and transfers	46	56	78	150	212
Total current revenues	1,008	950	1,028	1,248	1,336
Total non-discretionary expenses	596	602	610	633	687
Discretionary expenses	331	313	363	396	368
Total financing expenses	8	7	8	8	11
Total current expenditures	935	922	981	1,037	1,066
TOTAL CURRENT SURPLUS/DEFICIT	72	27	48	211	270
Total capital revenues	21	24	33	44	29
Total capital expenditure and investments	155	122	156	173	232
TOTAL CAPITAL SURPLUS/DEFICIT	-134	-98	-123	-129	-203
NET SURPLUS / DEFICIT BEFORE FINANCING	-61	-71	-75	82	67
Total financing inflows	80	177	186	184	120
Total financing outflows	74	91	110	227	147
NET FINANCING INFLOWS / OUTFLOWS	6	87	76	-42	-27
NET SURPLUS / DEFICIT	-56	16	0	40	40

[REDACTED]

ANNEX 4 - GREEN ASSESSMENT

Introduction

The Project entails the Bank's investment of up to EUR 91.5m as part of a EUR 305m **Sustainability-Linked Bond ("SLB")** with proceeds used for the refinancing of the existing bond in equal amount which is maturing in July 2023.

The project is assessed for Paris Alignment, GET, Climate Risks as outlined further below. The CART is assessed as **aligned with the goals of the Paris Agreement** and qualifies for 55 per cent GET climate finance.

Paris alignment assessment

The Project is assessed as **aligned with the goals of the Paris Agreement** based on the methodology for "other financing instruments".

Alignment with the mitigation goals of Paris Agreement

- The use of proceeds is refinancing. Due to the nature of the financing instrument (which provides general purpose financing to the counterparty underpinned by counterparty-level sustainability commitment), the assessment follows Section 4 of the PA guidance i.e. the alignment of counterparty's activities are assessed.
- While the majority of CART's operations are included in the 'aligned list', the CART has a gas distribution business (noting that this is the "last mile" to end-consumers) that is considered as "high-emitting activity" as per PA Guidance Annex 5.2, with revenue share in total revenue of the holding above the materiality threshold of 20%. CART emissions are also above 100ktCO₂e/yr so is considered "high-emitting".
- As per PA guidance in Section 4.15 and to mitigate potential PA risks, the Bank has received from the counterparty a commitment to implement a Paris-aligned strategy for the counterparty's GHG emissions at the level of the counterparty as a whole within 2 years after signing.
- The counterparty has already taken several steps in this direction, integrated climate change considerations into its practices and issued a Sustainability Strategy 2023 – 2028 earlier this year with the intention to establish and describe a long term strategic framework for sustainability management and green economy development in the next years. As per the Strategy, ZGH has already made a commitment to "implement a comprehensive process to measure CO₂ emission and define targets at the level of ZGH group" by the end of 2023. The Bank recognizes the Strategy and the commitment and aims to build on this commitment for full alignment with Paris Agreement. The counterparty has committed to use existing leading practices and guidelines³ for defining its GHG emission targets as part of its Strategy in order to incorporate considerations of credible target setting. Such leading guidance highlights the importance of the following, which should be taken into consideration by ZGH:
 - a) setting a base year for targets;
 - b) calculating GHG emissions linked to a clear boundary;
 - c) setting targets in the short, medium and long term (beyond the tenure of the bond);

³ e.g. Science-Based Targets initiative, the Transition Pathway Initiative and Climate Action 100+

- d) prioritising specific measures and investments the counterparty will undertake to reduce GHG emissions (e.g. CAPEX included in the Sustainability Strategy 2023 – 2028); and
- e) excluding the use of avoided emissions and carbon credits as a substitute for reductions⁴.
- Regarding project/economic activity, there are no activities included in the 'non-aligned list'.
- Finally, the transaction itself constitutes participation in an SLB which signals issuer's commitment to climate mitigation and resource efficiency via Sustainability Performance Targets ("SPTs") that target an increase in the share of renewable energy in the company's energy mix, as well as an increased diversion of municipal waste from landfills and towards recycling.
- Conclusion: The CART is assessed as aligned with the mitigation goals of Paris Agreement, subject to commitment to design and implement Paris-aligned strategy for GHG emissions on the holding level as explained above (BB1 aligned).

Alignment with the adaptation goals of Paris Agreement

- Internal screening of the project has identified increased flooding as potentially material physical climate risk for the Project location.
- The flood management plans and flood maps in place at the city level have been assessed in-house. The implementation of the Plan is a direct consequence of complying with the EU directive on flood assessment and management.
- The Project is unlikely to undermine climate resilience of the system in which it operates.

Conclusion: The project is assessed as aligned with the adaptation goals of Paris Agreement (BB2 aligned).

GET attribution

- Both Enabled GET (GET Handbook A.5.10) and SLB (GET Handbook A.5.9.2) methodologies for GET attribution are applicable for this project.
- Given the nature of the financing instrument, the Project is evaluated according to the SLB methodology in the GET Handbook (Annex 5.9.2). At the same time, the case is considered not to be eligible for 100% GET attribution according to the applicable criteria given that not all criteria are fully met. Therefore the GET share is corroborated with calculations made under the Enabled GET methodology.
- Below table shows the assessment against the criteria of the SLB methodology for 100% GET attribution:

Methodology A.5.9.2.	Evaluation Notes	
1) SLBs are issued fully in line with the ICMA Sustainability-Linked Bond Principles (SLBPs) and their alignment with the SLBPs has been confirmed by an external reviewer.	Meets the criterion	The SLB is in line with the ICMA Sustainability-Linked Bond Principles (SLBPs) and its alignment with the SLBPs has been confirmed by an external reviewer (a second party opinion provider: S&P). The KPIs of the SLB are found to be relevant to the SLBPs and material.

⁴ Purchase of renewable energy via power-purchase agreements is acceptable and not excluded

2) The sustainability outcome(s) targeted by the issuer relate solely to climate mitigation, climate adaptation or other environmental objectives:	Meets the criterion	The outcomes are related to climate mitigation and environmental objectives.
3) The external review confirms that the selected KPIs are relevant and material from an environmental standpoint in the context of issuer's operations and its environmental impact and the SPTs fall within the external review provider's two highest ratings. For example, the SPTs should be "ambitious" or "highly ambitious". Bonds with KPIs that are not fully relevant and material and SPTs that have lower ratings are not considered GET eligible.	Does not meet the criterion	Selected KPIs are relevant and material from environmental standpoint and they are rated as strong (3/4) and aligned (2/4) respectively according to the SPO report while the SPTs are graded as 'aligned' (2/4). [REDACTED]
4) The EBRD has reviewed the SLB/SLL framework and deems that:		[REDACTED]
a. The KPIs and SPTs are sufficiently ambitious.	Meets the criterion	SPO provider has graded the SPTs as aligned while also recognizing the ambition of the issuer (ZGH). The Bank also recognizes this ambition. While some material sustainability metrics are not included (water/overall carbon emissions) in the SLB framework/targets due to the implementation timeline going slightly beyond the bond tenor, we get comfort thanks to 1) sustainability investments in water and wastewater sectors being covered ZGH Sustainability Strategy 2023 – 2028 with significant investments anticipated to reduce water losses in the supply network and the wastewater treatment system as well as investments in smart water meters; and 2) the Bank will seek commitment for ZGH to finalise and implement sustainable investments and disclosure of carbon footprint via ESAP, which will be an annex to the Framework between the Bank and ZGH.
b. the actions proposed for achieving the SPTs are GET eligible. In case of a mixed investment plan (GET eligible	Meets the criterion	The actions proposed for achieving the SPTs are GET eligible.

and non-eligible), the client will commit to invest an amount equivalent to EBRD's participation in GET eligible investments.	
c. in cooperation with the client, the Bank will monitor the delivery of the KPIs and the associated GET eligible actions and capex delivering those objectives.	<p>Meets the criterion</p> <p>Consistent with ICMA SLBPs, as part of the SLB issuance the issuer commits to have progress against the SPTs for both KPIs verified annually by an external party and to make the sustainability report, including the limited assurance statement, public annually.</p> <p>The Bank also envisages bilateral reporting provisions consistent with GET MRV, such as information on GET eligible CAPEX and OPEX made contributing to the achievement of targets.</p> <p>The Bank will track progress on whatever commitment is agreed related to PA discussed above.</p>

- While the anticipated Project is marketed to investors as a sustainable finance instrument targeting positive climate and environmental outcomes, given that not all criteria of the EBRD GET Handbook are met, 100 per cent GET cannot be considered for the transaction. The GET share of the Project is therefore corroborated with calculations made using the enabled GET methodology, for which the Project also qualifies for.
- Recognising the alignment of the SLB transaction with GET objectives, but noting that not all criteria for 100% GET eligible SLBs are met, the GET share has been corroborated with calculations according to the enabled GET methodology taking into consideration enabled GET eligible investments that will be realised following the fiscal headroom created by the transaction.

*Conclusion: The Project is **55 per cent GET**.*

[REDACTED].