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HŽ PUTNIČKI PRIJEVOZ d.o.o., Zagreb

SUSTAINABLE CROATIAN RAILWAYS IN EUROPE PROJECT

International Bank For Reconstruction And Development Loan
No. 8501 HR

PROJECT FINANCIAL STATEMENT
AND
SPECIAL ACCOUNT STATEMENT
TOGETHER WITH INDEPENDENT AUDITOR`S REPORTS
FOR THE YEAR ENDED
31 DECEMBER 2018

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INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying Financial Statements of the SUSTAINABLE CROATIAN RAILWAYS IN EUROPE PROJECT (hereinafter: "the Project") financed under the INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT LOAN No. 8501 - HR ("Loan"), which comprise the Statement of Assets and Liabilities, the Statements of Sources and Uses of Funds, the Statement of Uses of Funds by Activities, Statement of Expenditure (SOE) and Designated Account Statement for the year ended 31 December 2018 ("Project Financial Statements").

The Project Financial Statements are the responsibility of the Project's management. Our responsibility is to express an opinion on the Project Financial Statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing issued by the International Auditing and Assurance Standards Board of the International Federation of Accountants. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall statement presentation. We believe our audit provides a reasonable basis for our opinion.

The Project management's policy is to prepare the accompanying statements on the cash receipts and payments basis in conformity with International Public Sector Accounting Standards issued by the Public Sector Committee of the International Federation of Accountants. On this basis, cash receipts are recognized when received and cash expenditures are recognized when paid rather than when incurred.

In our opinion, the Financial Statements of the SUSTAINABLE CROATIAN RAILWAYS IN EUROPE PROJECT present fairly in all material respects the cash receipts and payments of the Project during the year ended 31 December 2018 in accordance with International Public Sector Accounting Standards issued by the Public Sector Committee of the International Federation of Accountants.

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With respect to Summary Statement of Expenditure ("SOE") – Application for Loan Withdrawal:

(a) Adequate supporting documentation has been maintained to support claims for reimbursements of expenditures incurred;
(b) (b) the Summary Statement of Expenditure has been reconciled to the other Project Financial Statements and
(c) (c) the expenditure disbursements underlying the Summary Statement of Expenditure have been made in accordance with the purposes intended in the Loan Agreement No. 8501 HR.

In Zagreb, 31. May 2019

Audit d.o.o.
Radnička cesta 54
10 000 Zagreb
Croatia

za revizijske usluge AUDIT d.o.o. ZAGREB

Darko Karić, director, certified auditor

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STATEMENT OF ASSETS AND LIABILITIES
for the year ended 31 December 2018

	Note	31 December 2018	31 December 2017
		EUR	EUR
Assets			
Front end fee	8	107.500	107.500
Project expenditures	8	23.109.449	13.854.537
Designated Account	9	27.449	141.977
TOTAL		**23.244.398**	**14.104.014**
Liabilities			
IBRD Loan No. 8501 HR	2	23.244.398	14.104.014
TOTAL		**23.244.398**	**14.104.014**

Project is effective as of 4 August 2015.

STATEMENT OF SOURCES AND USES OF FUNDS BY PROJECT CATEGORIES for the year ended 31 December 2018

in EUR	Actual in EUR In the year 2018	Actual in EUR Cumulative until 31 December 2018	Plan in EUR Plan during Project life	Plan in EUR Completion progress in %
Sources of Funding	-	-	-	-
Counterpart funding[1)]	-	-	-	-
IBRD Loan Funds	-	-	-	-
Front-end fee	141.977	-	-	-
Advances to Designated Account	3.838.000	13.564.962	-	-
Reimbursement	-	4.269.552	-	-
Direct Payments	5.302.384	5.409.884	-	-
TOTAL	**9.282.361**	**23.244.398**	**43.000.000**	**54,06%**
Project expenditures by loan categories				
1. a) Retrenchment Payments - category 2 - retroactive reimbursement	-	4.269.552	4.269.552	92,82%
1. b) Retrenchment Payments - category 2 - current	824.680	3.154.989	8.554.708	36,88%
2. Goods, works, non-consulting services, consultants' services and training for Part B of the Project - category 3	8.428.787	15.679.886	30.068.240	52,15%
3. Front-end fee -category 8	-	107.500	107.500	100,00%
Bank charges /costs of bank	1.445	5.022	-	-
Total expenditures	**9.254.912**	**23.216.949**	**43.000.000**	**53,99%**
Final balance on Designated account	27.449	27.449	-	-
TOTAL	**9.282.361**	**23.244.398**	**43.000.000**	**54,06%**

1) Counterpart funding - As described in "Project appraisal document" dated 9 April 2015, total project cost for support for HŽ Putnički prijevoz d.o.o. restructuring is stated in the amount of EUR 52.4 million including IBRD financing of EUR 43 million and EUR 9.4 million contribution of HŽ Putnički prijevoz d.o.o. to the rehabilitation of its respective rolling stock components (part of component B-2 of the project). These contributions are to be provided in parallel to the WB funding and for separate activities linked to the same objective. These funds and expenditures from these funds are not shown in these report since it is stated in project appraisal document that *"the state would finance the works of HŽ Putnički prijevoz d.o.o. subsidiaries while the IBRD loan would finance either supply of goods used for rehabilitation, or finance companies competitively selected to carry out these rehabilitations"*. Since this was not the case, contributions to the project objectives were not included in above statement.

In the year 2018, contribution to the project objectives from HŽ Putnički prijevoz d.o.o. amounted to HRK 6 million (EUR 808.889,70) or cumulative till 31 December 2018 HRK 74 million (EUR 9.976.306,27) as per middle exchange rate at 31 December 2018 of Croatian National Bank, and relate to regular HŽ Putnički prijevoz d.o.o. expenditures for modernization of "rolling stock" subsidized by the government.

These expenditures were audited during the audit of annual financial statements of HŽ Putnički prijevoz d.o.o. for year ended 31 December 2018.

STATEMENT OF USES OF FUNDS BY PROJECT ACTIVITIES
for the year ended 31 December 2018

Project components and subcomponents	In the year 2018.	Cumulative until 31 December 2018	Plan during Project life	Completion progress in %
	EUR	EUR	EUR	EUR
B 1. Retrenchment payments	**824.680**	**7.424.541**	**12.824.260**	**57,89%**
1. a) Retrenchment Payments - category 2 - retroactive reimbursement	-	4.269.552	4.269.552	100,00%
1. b) Retrenchment Payments - category 2 - current	824.680	3.154.989	8.554.708	36,88%
B 2. Investment to contribute to the restructuring plan of HZ PUTNICKI PRIJEVOZ d.o.o.	**8.430.232**	**15.679.886**	**30.068.240**	**52,15%**
a) Rehabilitating rolling stock to improve efficiency of the fleet	8.428.787	15.581.450	28.000.000	55,65%
b) Modernizing and integrating information technology	-	98.436	1.500.000	6,56%
c) Preparing studies to adapt business processes to reorganize operations and improve energy efficiency of operations	-	-	568.240	-
d) Capacity building on management and restructuring	-	-	-	-
Bank charges /costs of bank	**1.445**	**5.022**	-	-
Front End Fee	-	**107.500**	**107.500**	**100,00%**
TOTAL	**9.254.912**	**23.216.949**	**43.000.000**	**53,99%**

		in Loan currency EUR						
Withdrawal application No	Date of receipt of funds (DA, reimbursement)	Initial Deposit/(Recovery of the Designated Account)	HZP Retrenchment payments (cat 2)	Goods, works, non-consulting services, consultants' services and training (bank fees) (cat 3)		Front end fee (cat 8)	Total Expenditures Claimed in SOE	Amount Received (DA, reimbursement)
1	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**
	4.8.2015	-	-	-	-	107.500	107.500	107.500
1	1.12.2015	518.200	-	-	-	-	-	518.200
2	22.12.2015	(514.810)	514.702	-	109	-	514.810	-
Total for 2015:		**3.390**[2)]	**514.702**	**-**	**109**	**107.500**	**622.310**	**625.700**
3	5.1.2016	58.982	-	-	-	-	-	58.982
4	22.1.2016	(59.356)	59.267	-	89	-	59.356	-
5[1)]	26.2.2016	4.269.552	-	-	-	-	-	4.269.552
[1)]	26.2.2016	(4.269.552)	4.269.552	-	-	-	4.269.552	-
6	11.2.2016	53.000	-	-	-	-	-	53.000
7	23.2.2016	(52.715)	52.632	-	83	-	52.715	-
8	3.3.2016	148.000	-	-	-	-	-	148.000
9	23.3.2016	(148.791)	148.683	-	109	-	148.792	-
10	1.4.2016	47.500	-	-	-	-	-	47.500
11	14.4.2016	(48.077)	48.000	-	77	-	48.077	-

		in Loan currency EUR						
Withdrawal application No	Date of receipt of funds (DA, reimbursement)	Initial Deposit/(Recovery of the Designated Account)	HZP Retrenchment Payments (cat 2)	Goods, works, non-consulting services, consultants' services and Training (bank fees) (cat 3)		Front end fee (cat 8)	Total Expenditures Claimed in SOE	Amount Received (DA, reimbursement)
1	2	3	4	5	6	7	8	9
12	6.4.2016	107.100	-	-	-	-	-	107.100
13	25.4.2016	(107.688)	-	107.687	1	-	107.688	-
14	12.4.2016	328.600	-	-	-	-	-	328.600
15	27.4.2016	(328.802)	328.692	-	110	-	328.802	-
16	12.5.2016	(225)	-	225	-	-	225	-
17	9.6.2016	206.000	-	-	-	-	-	206.000
18	16.6.2016	(101.091)	-	100.981	110	-	101.091	-
19	17.6.2016	(100.981)	-	100.981	-	-	100.981	-
20	24.6.2016	25.000	-	-	-	-	-	25.000
21	24.6.2016	(18.709)	18.654	-	55	-	18.709	-
22	13.7.2016	(6.468)	6.468	-	-	-	6.468	-
23	22.7.2016	200.000	-	-	-	-	-	200.000
24	22.7.2016	(185.128)	-	185.018	110	-	185.128	-
25	2.8.2016	(7.676)	-	7.566	110	-	7.676	-
26	4.8.2016	95.000	-	-	-	-	-	95.000
27	4.8.2016	(92.683)	-	92.683	-	-	92.683	-

		in Loan currency EUR						
Withdrawal application No	Date of receipt of funds (DA, reimbursement)	Initial Deposit/(Recovery of the Designated Account)	HZP Retrenchment Payments (cat 2)	Goods, works, non-consulting services, consultants' services and Training (bank fees) (cat 3)		Front end fee (cat 8)	Total Expenditures Claimed in SOE	Amount Received (DA, reimbursement)
1	2	3	4	5	6	7	8	9
28	12.8.2016	(11.219)	-	11.219	-	-	11.219	-
29	30.8.2016	197.000	-	-	-	-	-	197.000
30	2.9.2016	(11.016)	-	10.906	110	-	11.016	-
31	14.9.2016	(185.365)	-	185.365	-	-	185.365	-
32	21.9.2016	965.000	-	-	-	-	-	965.000
33	20.9.2016	(1.953)	-	1.843	110	-	1.953	-
34	22.9.2016	(751.213)	-	751.102	110	-	751.212	-
35	14.10.2016	540.000	-	-	-	-	-	540.000
36	18.10.2016	(561.331)	561.331	-	-	-	561.331	-
37	20.10.2016	(101.291)	-	101.291	-	-	101.291	-
38	21.10.2016	(922)	-	922	-	-	922	-
39	25.10.2016	(8.156)	8.046	-	110	-	8.156	-
40	31.10.2016	130.000	-	-	-	-	-	130.000
41	3.11.2016	440.000	-	-	-	-	-	440.000
42	3.11.2016	(435.321)	-	435.211	110	-	435.321	-

		in Loan currency EUR						
Withdrawal application No	Date of receipt of funds (DA, reimbursement)	Initial Deposit/(Recovery of the Designated Account)	HZP Retrenchment Payments (cat 2)	Goods, works, non-consulting services, consultants' services and Training (bank fees) (cat 3)		Front end fee (cat 8)	Total Expenditures Claimed in SOE	Amount Received (DA, reimbursement)
1	2	3	4	5	6	7	8	9
43	10.11.2016	(202.770)	-	202.770	-	-	202.770	-
44	25.11.2016	(4.229)	-	4.229	-	-	4.229	-
45	6.12.2016	45.000	-	-	-	-	-	45.000
46	6.12.2016	(24.184)	-	24.107	75	-	24.184	-
47	8.12.2016	(19.973)	19.973	-	-	-	19.973	-
48	29.12.2016	(1.057)	1.057	-	-	-	1.057	-
Total for 2016		**7.792**	**5.522.355**	**2.324.106**	**1.479**	**-**	**7.847.942**	**7.855.734**
49	11.1.2017	250.000	0	0	0	0	0	250.000
50	9.1.2017	(914)	0	914	0	0	914	0
51	26.1.2017	(222.213)	221.180	923	110	0	222.213	0
52	30.1.2017	(21.465)	21.465	0	0	0	21.465	0
53	21.2.2017	10.000	0	0	0	0	0	10.000
54	1.3.2017	(971)	0	931	40	0	971	0
55	7.3.2017	(20.270)	20.270	0	0	0	20.270	0
56	17.3.2017	443.000	0	0	0	0	0	443.000
57	21.3.2017	(441.039)	0	440.928	111	0	441.039	0
58	24.3.2017	(933)	0	933	0	0	933	0
59	21.4.2017	(929)	0	929	0	0	929	0
60	26.4.2017	125.000	0	0	0	0	0	125.000

Withdrawal application No	Date of receipt of funds (DA, reimbursement)	Initial Deposit/(Recovery of the Designated Account)	HZP Retrenchment Payments (cat 2)	Goods, works, non-consulting services, consultants' services and Training (bank fees) (cat 3)		Front end fee (cat 8)	Total Expenditures Claimed in SOE	Amount Received (DA, reimbursement)
1	2	3	4	5	6	7	8	9
61	4.5.2017	(83.181)	83.071	0	111	0	83.181	0
62	9.5.2017	(38.742)	38.742	0	0	0	38.742	0
63	10.5.2017	27.000	0	0	0	0	0	27.000
64	12.5.2017	(2.475)	2.475	0	0	0	2.475	0
65	17.5.2017	(27.000)	0	26.943	57	0	27.000	0
66	14.6.2017	102.000	0	0	0	0	0	102.000
67	27.6.2017	(105.338)	101.489	3.738	111	0	105.338	0
68	3.7.2017	354.000	0	0	0	0	0	354.000
69	12.7.2017	(352.376)	0	352.265	111	0	352.376	0
70	14.7.2017	(1.360)	0	1.360	0	0	1.360	0
71	25.7.2017	(747)	0	747	0	0	747	0
72	29.8.2017	830.000	0	0	0	0	0	830.000
73	7.9.2017	(472.578)	0	472.467	111	0	472.578	0
74	15.9.2017	(349.196)	0	349.196	0	0	349.196	0
75	27.9.2017	360.000	0	0	0	0	0	360.000
76	3.10.2017	(322.000)	0	321.790	210	0	322.000	0
77	6.10.2017	321.790	0	0	0	0	0	321.790
78	5.10.2017	(12.032)	12.032	0	0	0	12.032	0
79	13.10.2017	(322.000)	0	321.790	210	0	322.000	0
80	18.10.2017	1.205.000	0	0	0	0	0	1.205.000
81	20.10.2017	(24.194)	24.064	0	130	0	24.194	0
82	2.11.2017	148.000	0	0	0	0	0	148.000
83	24.10.2017	(197.780)	38.016	159.764	0	0	197.780	0
84	8.11.2017	321.790	0	0	0	0	0	321.790
85	8.11.2017	(965.579)	0	965.370	209	0	965.579	0
86	27.11.2017	665.000	0	0	0	0	0	665.000
87	13.11.2017	(146.041)	0	146.041	0	0	146.041	0

		in Loan currency EUR						
Withdrawal application No	Date of receipt of funds (DA, reimbursement)	Initial Deposit/(Recovery of the Designated Account)	HZP Retrenchment Payments (cat 2)	Goods, works, non-consulting services, consultants' services and Training (bank fees) (cat 3)		Front end fee (cat 8)	Total Expenditures Claimed in SOE	Amount Received (DA, reimbursement)
1	2	3	4	5	6	7	8	9
88	14.11.2017	(321.999)	0	321.790	209	0	321.999	0
89	17.11.2017	460.000	0	0	0	0	0	460.000
90	30.11.2017	(464.325)	0	464.066	259	0	464.325	0
91	4.12.2017	(286.863)	0	286.863	0	0	286.863	0
92	27.12.2017	(287.245)	0	287.245	0	0	287.245	0
Total for 2017:		**130.795**	**562.804**	**4.926.993**	**1.989**	**-**	**5.491.785**	**5.622.580**
93	24.1.2018	345.000	0	0	0	0	0	345.000
94	22.1.2018	(323.118)	20.237	302.750	131	0	323.118	0
95	26.1.2018	450.000	0	0	0	0	0	450.000
	31.01./02.02.	(595.773)	0	608.219	131	0	608.350	0
96	09.02.2018.	0	0	(12.577)	0	0	(12.577)	0
97	02.03.2018.	780.000	0	0	0	0	0	780.000
98	20.03.2018.	125.000	0	0	0	0	0	125.000
99	16.03.2018.	(118.576)	0	118.445	131	0	118.576	0
100	26.03.2018.	(728.384)	728.254	0	131	0	728.384	0
101	16.04.2018.	150.000	0	0	0	0	0	150.000
102	13.04.2018.	(148.588)	0	148.457	131	0	148.588	0
103	16.04.2018.	210.000	0	0	0	0	0	210.000
104	28.05.2018.	(268.177)	0	268.046	131	0	268.177	0
105	08.06.2018.	(207)	207	0	0	0	207	0
106	13.06.2018.	290.000	0	0	0	0	0	290.000
107	20.6./28.06.	(281.811)	13.123	268.556	131	0	281.811	0
108	09.07.2018.	480.000	0	0	0	0	0	480.000
109	28.07.2018.	5.302.384	0	5.302.384	0	0	0	0

		in Loan currency EUR						
Withdrawal application No	Date of receipt of funds (DA, reimbursement)	Initial Deposit/(Recovery of the Designated Account)	HZP Retrenchment Payments (cat 2)	Goods, works, non-consulting services, consultants' services and Training (bank fees) (cat 3)		Front end fee (cat 8)	Total Expenditures Claimed in SOE	Amount Received (DA, reimbursement)
1	2	3	4	5	6	7	8	9
		(5.302.384)	0	0	0	0	0	0
110	12.07./13.07.2018.	(474.649)	0	474.518	131	0	474.649	0
111	16.07.2018.	(1.925)	1.925	0	0	0	1.925	0
112	20.07.2018.	260.000	0	0	0	0	0	260.000
113	01.08.2018.	(267.996)	0	267.864	131	0	267.995	0
114	21.08.2018.	266.000	0	0	0	0	0	266.000
115	24./27.08.2018.	(266.321)	0	266.240	81	0	266.321	0
116	05.09.2018.	260.000	0	0	0	0	0	260.000
117	14.09.2018.	(266.932)	0	266.851	81	0	266.932	0
118	27.09.2018.	(4.138)	0	4.138	0	0	4.138	0
119	10.10.2018.	22.000	0	0	0	0	0	22.000
120	11.10.2018.	(8.739)	0	8.739	0	0	8.739	0
121	18.10.2018.	(15.173)	0	15.151	22	0	15.173	0
122	20.12.2018.	200.000	0	0	0	0	0	200.000
123	21.12.2018.	(11.064)	0	10.983	82	0	11.065	0
124	27.12.2018.	(170.957)	60.934	110.023	0	0	170.957	0
Total 2018		**(114.528)**	**824.680**	**8.428.787**	**1.445**	**0**	**3.952.528**	**3.838.000**
Overall since the beginning of the Project		**27.449**[2)]	**7.424.541**	**15.679.886**	**5.022**	**107.500**	**17.914.565**	**17.942.014**
Direct payments from the Loan Account							5.302.384	
Total Expenses 2018 with Direct Payments							**9.254.912**[3)]	
Total Initial Costs with Direct Payments							**23.216.949**[4)]	

- transaction was not executed through DA account, but directly to HŽPP account, used for *Retrenchment Payments - category 2 - retroactive reimbursement;*
- Amount of EUR 27.449 represents balance on Designated Account at as of 31 December 2018;
- The amount of EUR 9.254.912 represents the costs of the Project for 2018 as shown in the Report on the use of funds per Project activity
- Expenditures for 2015, 2016, 2017 and 2018 presented in the table in columns 4,5,6 and 7 in the total amount of EUR 23.216.949 represent the total project costs as at 31 December 2018 as shown in the Report on the use of funds per Project activity;

DESIGNATED ACCOUNT STATEMENT
for the year ended 31 December 2018

(EUR)

Account No.	HR0424070001500331767
Depository Bank	OTP banka d.d., Split
Address	Domovinskog rata 61, Split
Loan	IBRD Loan No. 8501

	For the year EUR	From the beginning of the Project EUR
Opening balance at the beginning of the period	**141.977**	-
Add:		
World Bank advances into DA during the period	3.838.000	13.564.962[1)]
Interest earned (if credited into DA)	-	-
Funds available during the period	3.979.977	13.564.962
Less:		
Payments for eligible expenditures during the period	3.952.528	13.537.513[2)]
Refund to World Bank from the DA during the period	-	-
Service charges (if debited to DA)	-	-
	3.952.528	13.537.513
Closing balance at the end of the period	**27.449**	**27.449**

1) The amount is EUR 4.377.052 lower than the amount in SOE column 9 (EUR 17.942.014). The difference refers to Retrenchment Payments - retroactive reimbursement; (EUR 4.269.552) and Initial Fee (EUR 107.500)

2) The amount is EUR 4.377.052 lower than the amount in SOE column 8 (EUR 17.914.565). The difference refers to Retrenchment Payments - retroactive reimbursement (EUR 4.269.552) and Initial Fee (EUR 107.500)

1. GENERAL INFORMATION

In May 2015, the International Bank for Reconstruction and Development approved three loans to railway sector totaling to EUR 163.5 million, of which EUR 43 million to the company HŽ PUTNIČKI PRIJEVOZ d.o.o., Zagreb, EUR 41.5 million to the company HŽ CARGO d.o.o., Zagreb and EUR 79 million to the company HŽ INFRASTRUKTURA d.o.o., Zagreb. Granted loans are part of the "Sustainable Croatian Railways in Europe Project" (SUCRE) which became effective on 4 August 2015.

The objective of the Project is to improve the operational efficiency and the financial sustainability of the public railway sector in the Republic of Croatia.

The Project consists of the following parts:

Part A Support to the Sector Restructuring and Coordination

1. Finalizing asset management separation among the railway companies and clarifying the legal status of their main assets, through the provision of consulting services and non-consulting services to Ministry of Maritime Affairs, Transport and Infrastructure.
2. Project coordination support, sector reform monitoring, and definition of railway services obligations with HŽ INFRASTRUKTURA d.o.o., Zagreb and HŽ PUTNIČKI PRIJEVOZ d.o.o., Zagreb through the provision of consulting services, non-consulting services, Training, and Operating Costs to Ministry of Maritime Affairs, Transport and Infrastructure.

Part B Support to restructuring of the company HŽ PUTNIČKI PRIJEVOZ d.o.o., Zagreb

1. Retrenchment of employees. Provision of the retrenchment payments for the company HŽ PUTNIČKI PRIJEVOZ d.o.o., Zagreb, including job outplacement and retraining services, counseling and advisory support.
2. Investment to contribute to the restructuring plan of the company HŽ PUTNIČKI PRIJEVOZ d.o.o., Zagreb
   (a) Purchase of new DMU (amendment based on the Annex to the Loan Agreement as of 28 June 2018) and rehabilitating rolling stock to improve efficiency of the fleet.
   (b) Modernizing and integrating information technology.
   (c) Preparing studies to adapt business processes to reorganize operations and improve energy efficiency of operations.
   (d) Capacity building on management and restructuring.

Part C Support to the restructuring of the company HŽ CARGO d.o.o., Zagreb

1. Retrenchment of employees. The retrenchment payments for the company HŽ CARGO d.o.o., Zagreb, including job outplacement and retraining services, counseling and advisory support.

2. Investment to contribute to the restructuring plan of the company HŽ CARGO d.o.o., Zagreb

   (a) Rehabilitating rolling stock to improve efficiency of the fleet.
   (b) Modernizing and integrating information technology.
   (c) Capacity building on management and restructuring.

Part D Support to the restructuring of the company HŽ INFRASTRUKTURA d.o.o., Zagreb rand enabling investment to increase system efficiency

1. Retrenchment of employees. Provision of the retrenchment payments for the company HŽ INFRASTRUKTURA d.o.o., Zagreb including job outplacement and retraining services, counseling and advisory support.

2. Installing railway safety crossings based on prioritization criteria set forth in Supplemental Letter 4.

3. Undertaking other railway safety works, including:

   (a) Reinforcing cuts and slope on the two corridors from Rijeka;
   (b) Rehabilitating or replacing the Klostar and Ljubošina bridges on the Zagreb-Rijeka axis.

4. Undertaking emergency infrastructure investments, including:

   (a) Rehabilitating the Ogulin - Moravice line;
   (b) Rehabilitating the Varazdin - Cakovec line; and
   (c) Replacing switches, electrical, and support systems (for safety and signaling) on international and national corridors selected pursuant to criteria set forth in Supplemental Letter #4; and
   (d) Constructing and improving the Borongaj, Rijeka - Brajdica, and Vinkovci railway stations.

5. Capacity building on management and restructuring.

The Company is responsible for the management of the activities under Part B including procurement, disbursement, financial management, monitoring, reporting and coordination. The objective of this component is to support operational efficiency and financial situation in order to deliver better services in a financially sustainable way.

2. INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT LOAN AGREEMENT

HŽ PUTNIČKI PRIJEVOZ d.o.o., Zagreb (the Borrower) signed a Loan Agreement with the International Bank for Reconstruction and Development (the Bank) in the amount of EUR 43 millions on 6 May 2015 for the financing of the Sustainable Croatian Railways in Europe Project. Principal, charges, fees and interest are the obligations of the Company as a Borrower.

It was agreed that the Borrower will pay to the Bank a front-end fee in the amount of 0.25% from the total loan amount or EUR 107,500. The Commitment charge payable by the Company is 0.25% per annum on the Unwithdrawn Loan Balance.

The interest payable by the Company is at a rate equal to reference rate for the loan currency plus the variable spread. Interest, commitment charges on the Unwithdrawn Loan Balance and other charges shall be repayable semi-annually in arrears on June 15 and December 15 in each year.

The following table sets forth the principal payment dates of the loan and the percentage of the total principal amount of loan payable on each principal payment date (Installment share). If the proceeds of the loan have been fully withdrawn as of the first Principal payment date, the principal amount of the loan repayable by the Company on each principal payment date shall be determined by the Bank by multiplying: a) withdrawn loan balance as of the first principal payment date; by b) the installment share for each principal payment date, such repayable amount to be adjusted, as necessary, to deduct any amounts referred to paragraph 4 of the Loan Agreement, to which a currency conversion applies.

Principal payment date	Installment share (Expressed as a percentage)
On each 15 June and 15 December - beginning 15 June, 2018 - through 15 June, 2032	3.33%
On 15 December, 2032	3.43%

Regarding to the Loan Agreement, the Company has to ensure documents on the funds usage and purchase goods, procure services and order works for the Project in accordance with the current edition of the IBRD Guide to Procurement.

Regarding to the Loan Agreement the Company will engage management consultant with international experience for the purpose of generally supporting the investment planning, management of contracts and technical support. Furthermore, the Company shall engage consultants – designers and supervisors under selection procedures satisfactory to the Bank.

The Company has to use funds approved by and remitted from the loan exclusively for the purpose they were intended. The Bank is authorized to cancel further assets usage if they establish that the approved assets are not used for designated purposes.

On 28 June 2018 an Annex I of the Loan Agreement was signed which changed the amount of financing of individual components, so HŽPP increased the financing of the acquisition of the new 4 DMUs, resulting in a reduction of the amount for Component B1. - Retrenchment Payments of EUR 3.2 million. for the same amount increased the financing of component B2 - Investments that will contribute to the restructuring plan.

3. DEBT SERVICE COVERAGE

Except as the Bank shall otherwise agree, the Company shall not incur any debt unless a reasonable forecast of the revenues and expenditures of the Company shows that the estimated net revenues of the Company for each fiscal year during the term of the debt to be incurred:
(a) shall be at least 1.0 times the estimated debt service requirements of the Company in such year on all debt of the Company including the debt to be incurred, up to the Closing Date; and
(b) shall be at least 1.1 times the estimated debt service requirements of the Company in such year on all debt of the Company including the debt to be incurred, after the Closing Date until the repayment of the Loan under this Agreement.

4. PROJECT COST AND FINANCING

Sources of funds (in EUR million)	Total	Retrenchment Payments under Part B 1 of the Project	Goods, works, non-consulting services, and consultants' services for Part B 2 of the Project	Capitalization of interest charges & front-end fee
IBRD loan	43,0	12,8	30,1	0,1
Govern funds	9,4	0	9,4	0
Total	**52,4**	**16,1**	**36,2**	**0,1**

5. PROJECT MANAGEMENT

Project implementation unit ("PIU") has been established within the Company and is in charge for the project implementation.

6. ACCOUNTING RECORDS AND BASE FOR PRESENTATION

Within the business books (general ledger) of the Company are recorded all Project transactions.

Project accounting records are also kept in supporting tables (excel), based on which the enclosed Financial Statements of the Project have been made.

In order to realize the Project, special account in foreign currency accounts (EUR) was opened in OTP Bank d.d., Split.

7. DEVIATIONS FROM AGREED CONDITIONS

There were no deviations from the contracted terms.

8. PROJECT EXPENDITURES

Expenditures in EUR	31 December 2018	31 December 2017
Retrenchment payments	7.424.541	6.599.861
Goods, works, non-consulting services, consultants' services and training	15.679.886	7.251.099
Bank charges	5.022	3.577
Front end fee	107.500	107.500
Total	**23.216.949**	**13.962.037**

9. DESIGNATED ACCOUNT AND NET ASSETS

The Company opened Designated Account at OTP Bank d.d., Split in order to realize the Project. Designated Account balance as of 31 December 2018 in the amount of EUR 27.499,61 is confirmed by the OTP Bank d.d. , Split.

10. VALUE ADDED TAX

In accordance with the change in the remuneration arrangements, the proceeds of the Loan will be used to finance costs for products, consulting and non-consulting services and VAT free training. This refers to all future payments from 5 June 2017 within the Project, including outstanding payments for already signed contracts.

Reconciliation of the Designated account

	in EUR
Loan disbursed until 31 December 2018	**17.942.014**
Amount on Designated account	27.449
Add: total expenditures stated in the Statement of sources and Uses of funds	17.914.565
	17.942.014
Add: Foreign exchange differences	-
Total recorded	**17.942.014**