

**HŽ PUTNIČKI PRIJEVOZ d.o.o., Zagreb
SUBSTAINABLE CROATIAN RAILWAYS IN EUROPE
PROJECT**

**International Bank for Reconstruction and Development
Loan no. 8501- HR**

**PROJECT FINANCIAL STATEMENT
AND
DESIGNATED ACCOUNT STATEMENT
TOGETHER WITH INDEPENDENT AUDITOR'S REPORTS
FOR THE YEAR ENDED
31 DECEMBER 2020**

CONTENTS

	Page
Independent Auditor's Report	1 - 2
Statement of Assets and Liabilities	3
Statements of Sources and Uses of Funds by Project Categories	4
Statement of Uses of Funds by Project Activities	5
Summary Reports and Statement of Expenditure	6 - 14
Designated Account Statement	15
Notes to the Project Financial Statements	16 - 21
Reconciliation of the Loan account	22
Management Letter	23-24
Checklist	25

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 2020. ("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 Project in all material respects, present truthfully and fairly the state of the Project's assets and liabilities as at 31 December 2020 and the use of funds and costs, as well as cash receipts and payments of the Project during the year ended 31 December 2020 in accordance with International Public Sector Accounting Standards issued by the Public Sector Committee of the International Federation of Accountants.

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

- (a) Adequate supporting documentation has been maintained to support claims for their settlement
- (b) the Summary Statement of Expenditure has been reconciled with Project Financial Statements
- (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 2021

Audit d.o.o.

Ulica Silvija Strahimira Kranjčevića 41

10000 Zagreb



Darko Karić, director, certified auditor

STATEMENT OF ASSETS AND LIABILITIES

for the year ended 31 December 2020

	Note	31 December 2020	31 December 2019
		EUR	EUR
Assets			
Front end fee	8	107.500	107.500
Project expenditures	8	38.453.424	27.593.934
Designated Account	9	423.895	12.666
TOTAL		38.984.819	27.714.100
Liabilities			
IBRD Loan NO. 8501 HR	2	38.984.819	27.714.100
TOTAL		38.984.819	27.714.100

Project is effective as of 4 August 2015.

STATEMENT OF SOURCES AND USES OF FUNDS BY PROJECT CATEGORIES
for the year ended 31 December 2020

in EUR	Actual in EUR		Plan in EUR	
	In the year 2020	Cumulative until 31 December 2020	Plan during Project life	Completion progress in %
Sources of Funding				
Counterpart funding ¹⁾	-	-	-	-
IBRD Loan Funds				
Front-end fee on Designated Account	12.667	-	-	-
Advances to Designated Account	580.000	15.540.962	-	-
Reimbursement	-	4.269.552	-	-
Direct Payments	10.690.718	19.174.305	-	-
TOTAL	11.283.385	38.984.819	43.000.000	90,66%
Project expenditures by loan categories				
1. a) Retrenchment Payments - category 2 - retroactive reimbursement	-	4.269.552	4.269.552	100,00%
1. b) Retrenchment Payments - category 2 - current	-	3.735.443	3.735.443	100%
2. Goods, works, non-consulting services, consultants' services and training for Part B of the Project - category 3	10.859.489	30.442.810	34.887.505	87,26%
3. Front-end fee -category 8	-	107.500	107.500	100,00%
Bank charges /costs of bank	-	5.619	-	-
Total expenditures	10.859.489	38.560.924	43.000.000	89,68%
Final balance on Designated account	423.895	423.895	-	-
TOTAL	11.283.384	38.984.819	43.000.000	90,66%

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 IBRD 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 "the state would finance the works of HŽ Putnički prijevoz d.o.o. subsidiaries for rehabilitation of its transport vehicles, while the IBRD loan would finance either supply of goods, or finance companies used for rehabilitation for transport vehicles, which would be selected through public procurement procedures".

Contribution to the project objectives from HŽ Putnički prijevoz d.o.o., Zagreb till 31 December 2020 amounted to a total of HRK 74 million (EUR 9.818.363) as per middle exchange rate at 31 December 2020 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 2020.

STATEMENT OF USES OF FUNDS BY PROJECT ACTIVITIES
for the year ended 31 December 2020

Project components and subcomponents	In the year 2020	Cumulative until 31 December 2020	Plan during Project life	Completion progress in %
	EUR	EUR	EUR	EUR
B 1. Retrenchment payments	-	8.004.995	8.004.995	62,42%
1. a) Retrenchment Payments - category 2 - retroactive reimbursement	-	4.269.552	4.269.552	100,00%
1. b) Retrenchment Payments - category 2 - current	-	3.735.443	3.735.443	100,00%
B 2. Investment to contribute to the restructuring plan of company HZ PUTNICKI PRIJEVOZ d.o.o.	10.859.489	30.448.429	34.887.505	87,28%
a) Rehabilitating rolling stock to improve efficiency of the fleet	10.791.628	30.049.464	33.098.357	90,79%
b) Modernizing and integrating information technology	67.861	393.346	707.148	55,62%
c) Preparing studies to adapt business processes to reorganize operations and improve energy efficiency of operations	-	-	107.000	-
d) Capacity building on management and restructuring	-	-	975.000	-
Bank charges /costs of bank	-	5.619	-	-
Front end fee	-	107.500	107.500	100,00%
TOTAL	10.859.489	38.560.924	43.000.000	89,68%

SUMMARY REPORTS AND STATEMENT OF EXPENDITURE

for the year ended 31 December 2020

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
6	26.2.2016	(4.269.552)	4.269.552	-	-	-	4.269.552	-
7	11.2.2016	53.000	-	-	-	-	-	53.000
8	23.2.2016	(52.715)	52.632	-	83	-	52.715	-
9	3.3.2016	148.000	-	-	-	-	-	148.000
10	23.3.2016	(148.791)	148.683	-	109	-	148.792	-
11	1.4.2016	47.500	-	-	-	-	-	47.500
12	14.4.2016	(48.077)	48.000	-	77	-	48.077	-
13	6.4.2016	107.100	-	-	-	-	-	107.100
14	25.4.2016	(107.688)	-	107.687	1	-	107.688	-
15	12.4.2016	328.600	-	-	-	-	-	328.600
16	27.4.2016	(328.802)	328.692	-	110	-	328.802	-
17	12.5.2016	(225)	-	225	-	-	225	-
18	9.6.2016	206.000	-	-	-	-	-	206.000
19	16.6.2016	(101.091)	-	100.981	110	-	101.091	-
20	17.6.2016	(100.981)	-	100.981	-	-	100.981	-
	24.6.2016	25.000	-	-	-	-	-	25.000

SUMMARY REPORTS AND STATEMENT OF EXPENDITURE
for the year ended 31 December 2020

Withdrawal application No.	Date of receipt of funds (DA, reimbursement)	In Loan currency EUR							Total Expenditures Claimed in SOE	Amount Received (DA, reimbursement)
		3	4	5	6	7	8	9		
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	-	-	-
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)	-	-	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	-	-	-
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	-	-	-

SUMMARY REPORTS AND STATEMENT OF EXPENDITURE
for the year ended 31 December 2020

Withdrawal application No.	Date of receipt of funds (DA, reimbursement)	In Loan currency EUR							Total Expenditures Claimed in SOE	Amount Received (DA, reimbursement)
		3	4	5	6	7	8	9		
1	2									
47	8.12.2016	(19.973)	19.973	-	-	-	19.973	-		
48	29.12.2016	(1.057)	1.057	-	-	-	1.057	-		
Total for 2016:		7.793	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	0	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		
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		

SUMMARY REPORTS AND STATEMENT OF EXPENDITURE
for the year ended 31 December 2020

Withdrawal application No.	Date of receipt of funds (DA, reimbursement)	In Loan currency EUR							Total Expenditures Claimed in SOE	Amount Received (DA, reimbursement)
		3	4	5	6	7	8	9		
1	2									
71	25.7.2017	(747)	0	747	0	0	747	0		0
72	29.8.2017	830.000	0	0	0	0	0	830.000		830.000
73	7.9.2017	(472.578)	0	472.467	111	0	472.578	0		0
74	15.9.2017	(349.196)	0	349.196	0	0	349.196	0		0
75	27.9.2017	360.000	0	0	0	0	0	360.000		360.000
76	3.10.2017	(322.000)	0	321.790	210	0	322.000	0		0
77	6.10.2017	321.790	0	0	0	0	0	321.790		321.790
78	5.10.2017	(12.032)	12.032	0	0	0	12.032	0		0
79	13.10.2017	(322.000)	0	321.790	210	0	322.000	0		0
80	18.10.2017	1.205.000	0	0	0	0	0	1.205.000		1.205.000
81	20.10.2017	(24.194)	24.064	0	130	0	24.194	0		0
82	2.11.2017	148.000	0	0	0	0	0	148.000		148.000
83	24.10.2017	(197.780)	38.016	159.764	0	0	197.780	0		0
84	8.11.2017	321.790	0	0	0	0	0	321.790		321.790
85	8.11.2017	(965.579)	0	965.370	209	0	965.579	0		0
86	27.11.2017	665.000	0	0	0	0	0	665.000		665.000
87	13.11.2017	(146.041)	0	146.041	0	0	146.041	0		0
88	14.11.2017	(321.999)	0	321.790	209	0	321.999	0		0
89	17.11.2017	460.000	0	0	0	0	0	460.000		460.000
90	30.11.2017	(464.325)	0	464.066	259	0	464.325	0		0
91	4.12.2017	(286.863)	0	286.865	0	0	286.863	0		0
92	27.12.2017	(287.245)	0	287.245	0	0	287.245	0		0
Total for 2017:		130.795	562.804	4.926.995	1.989	-	5.491.785	5.622.580		

SUMMARY REPORTS AND STATEMENT OF EXPENDITURE

for the year ended 31 December 2020

Withdrawal application No.	Date of receipt of funds (DA, reimbursement)	In Loan currency EUR						Total Expenditures Claimed in SOE	Amount Received (DA, reimbursement)
		3	4	5	6	7	8		
1	2	3	4	5	6	7	8	9	
93	24.1.2018	345.000	0	0	0	0	0	345.000	0
94	22.1.2018	(323.118)	20.237	302.750	131	0	323.118	0	0
95	26.1.2018	450.000	0	0	0	0	0	450.000	0
96	31.01./02.02.	(595.773)	0	608.219	131	0	608.350	0	0
97	09.02.2018.	0	0	(12.577)	0	0	(12.577)	0	0
98	02.03.2018.	780.000	0	0	0	0	0	780.000	0
99	20.03.2018.	125.000	0	0	0	0	0	125.000	0
100	16.03.2018.	(118.576)	0	118.445	131	0	118.576	0	0
101	26.03.2018.	(728.384)	728.254	0	131	0	728.384	0	0
102	16.04.2018.	150.000	0	0	0	0	0	150.000	0
103	13.04.2018.	(148.588)	0	148.457	131	0	148.588	0	0
104	16.04.2018.	210.000	0	0	0	0	0	210.000	0
105	28.05.2018.	(268.177)	0	268.046	131	0	268.177	0	0
106	08.06.2018.	(207)	207	0	0	0	207	0	0
107	13.06.2018.	290.000	0	0	0	0	0	290.000	0
108	20.6./28.06.	(281.811)	13.123	268.556	131	0	281.811	0	0
109	09.07.2018.	480.000	0	0	0	0	0	480.000	0
	28.07.2018.	5.302.384	0	5.302.384	0	0	5.302.384	0	0
110		(5.302.384)	0	0	0	0	0	5.302.384	0
111	12.7./13.7.2018.	(474.649)	0	474.518	131	0	474.649	0	0
112	16.07.2018.	(1.925)	1.925	0	0	0	1.925	0	0
113	20.07.2018.	260.000	0	0	0	0	0	260.000	0
114	01.08.2018.	(267.996)	0	267.864	131	0	267.995	0	0
115	21.08.2018.	266.000	0	0	0	0	0	266.000	0
	24./27.08.2018.	(266.321)	0	266.240	81	0	266.321	0	0

SUMMARY REPORTS AND STATEMENT OF EXPENDITURE

for the year ended 31 December 2020

Withdrawal application No.	Date of receipt of funds (DA, reimbursement)	In Loan currency EUR							Total Expenditures Claimed in SOE	Amount Received (DA, reimbursement)
		3	4	5	6	7	8	9		
1	2	3	4	5	6	7	8	9		
116	05.09.2018.	260.000	0	0	0	0	0	260.000	0	0
117	14.09.2018.	(266.932)	0	266.851	81	0	266.932	0	0	0
118	27.09.2018.	(4.138)	0	4.138	0	0	4.138	0	0	0
119	10.10.2018.	22.000	0	0	0	0	0	22.000	0	22.000
120	11.10.2018.	(8.739)	0	8.739	0	0	8.739	0	0	0
121	18.10.2018.	(15.173)	0	15.151	22	0	15.173	0	0	0
122	20.12.2018.	200.000	0	0	0	0	0	200.000	0	200.000
123	21.12.2018.	(11.064)	0	10.983	82	0	11.065	0	0	0
124	27.12.2018.	(170.957)	60.934	110.023	0	0	170.957	0	0	0
Total for 2018		(114.528)	824.680	8.428.787	1.445	0	9.254.912	9.140.384		
125	storno		0	0	0	0	0	0	0	475.000
126	18.01.2019.	475.000		0	0	0	0	0	0	0
127	06.02.2019.	(441.297)	441.216	0	81	0	441.297	0	0	0
128	12.02.2019.	(35.183)	35.183	0	0	0	35.183	0	0	0
129	21.02.2019.	50.000	0	0	0	0	0	0	0	50.000
130	01.03.2019.	(69.551)	0	69.500	51	0	69.551	0	0	0
131	20.03.2019.	90.000	0	0	0	0	0	0	0	90.000
132	29.03.2019.	(10.615)	0	10.533	81	0	10.615	0	0	0
133	03.04.2019.	30.000	0	0	0	0	0	0	0	30.000
134	09.-15.04.2019.	(102.546)	0	102.515	31	0	102.546	0	0	0
135	25.04.2019.	20.000	0	0	0	0	0	0	0	20.000
136	03.05.2019.	(31.537)	0	31.516	20	0	31.537	0	0	0
137	10.06.2019.	7.000	0	0	0	0	0	0	0	7.000

SUMMARY REPORTS AND STATEMENT OF EXPENDITURE
for the year ended 31 December 2020

Withdrawal application No.	Date of receipt of funds (DA, reimbursement)	In Loan currency EUR							Total Expenditures Claimed in SOE	Amount Received (DA, reimbursement)
		3	4	5	6	7	8	9		
1	2									
138	27.06.2019.	(3.549)	0	3.541	7	0	3.549	0		0
139	11.07.2019.	85.000	0	0	0	0	0	85.000		85.000
140	23.07.2019.	(66.722)	0	66.640	82	0	66.722	0		0
141	24.07.2019.	120.000	0	0	0	0	0	120.000		120.000
142	02.09.2019.	(98.713)	0	98.631	82	0	98.713	0		0
143	09.08.2019.	(32.480)	0	32.480	0	0	32.480	0		0
144	01.10.2019.	127.000	0	0	0	0	0	127.000		127.000
145	09.10.2019.	(104.136)	104.054	0	82	0	104.136	0		0
146	16.10.2019.	92.000	0	0	0	0	0	92.000		92.000
147	30.10.2019.	(39.188)	0	39.107	81	0	39.188	0		0
148	Direct payment	3.073.702	0	0	0	0	0	3.073.702		3.073.702
149	02.12.2019.	(32.117)	0	32.117	0	0	32.117	0		0
150	19.12.2019.	300.000	0	0	0	0	0	300.000		300.000
151	23.12.2019.	(20.471)	0	20.471	0	0	20.471	0		0
152	24.12.2019.	(322.679)	0	322.679	0	0	322.679	0		0
Total for 2019		(14.784)	580.453	3.903.432	598	0	4.484.486	4.469.702		
153	Direct payment	3.074.116	0	0	0	0	0	0		0
154	Direct payment	(3.074.116)	0	3.074.116	0	0	3.074.116	3.074.116		3.074.116
155	Direct payment	3.076.186	0	0	0	0	0	0		0
		(3.076.186)	0	3.076.186	0	0	3.076.186	3.076.186		3.076.186
	13.01.2020.	(3.519)	0	3.519	0	0	3.519	0		0

SUMMARY REPORTS AND STATEMENT OF EXPENDITURE

for the year ended 31 December 2020

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
156.	13.02.2020.	25.000	0	0	0	0	0	25.000
157	09.03.2020.	(27.003)	0	27.003	0,12	0	27.003	0
158	Direct payment	3.005.353	0	0	0	0	0	3.005.353
159	07.05.2020.	(3.005.353)	0	3.005.353	0	0	3.005.353	0
160	29.06.2020.	555.000	0	0	0	0	0	555.000
161	28.08.2020.	(107.123)	0	107.123	0,11	0	107.123	0
162	24.09.2020.	(6.959)	0	6.959	0	0	6.959	0
163	16.10.2020.	(3.469)	0	3.469	0	0	3.469	0
164	Direct payment	(10.287)	0	10.287	0	0	10.287	0
		1.535.064	0	0	0	0	0	1.535.064
		(1.535.064)	0	1.535.064	0	0	1.535.064	0
165	02.11.2020.	(3.458)	0	3.458	0	0	3.458	0
166	17.12.2020.	(6.953)	0	6.953	0	0	6.953	0
Total 2020.		411.229	0	10.859.490	0	0	10.859.489	11.270.719
Direct payments from the Loan Account in 2020 year							168.772	
Total Expenses 2020 with Direct Payments							10.859.489 ³⁾	
Total Initial Costs with Direct Payments		423.895 ²⁾	8.004.994	30.442.810	5.620	107.500	38.560.924 ⁴⁾	38.984.819

SUMMARY REPORTS AND STATEMENT OF EXPENDITURE

for the year ended 31 December 2020

- 1) Amount of EUR 4.269.552 for *Retrenchment Payments - category 2 - retroactive reimbursement* - the transaction was not effected through the Designated Account, but directly to the bank account of HŽPP;
- 2) Amount of EUR 423.895 represents balance on Designated Account at as of 31 December 2020.
- 3) The amount of EUR 10.859.489 represents the costs of the Project for the year 2020 as shown in the Report on the use of funds per Project activity,
- 4) Expenditures for 2015, 2016, 2017, 2018, 2019 and 2020 presented in the table in columns 4, 5, 6 and 7 in the total amount of EUR 38.560.924 represent the total project costs as at 31 December 2020 as shown in the Report on the use of funds per Project activity.

DESIGNATED ACCOUNT STATEMENT
for the year ended 31. December 2020

(EUR)

Account No: HR0424070001500331767

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 year EUR
Opening balance at the beginning of the period	12.667	-
Add:		
World Bank advances into DA during the period	580.000	15.540.962 ¹
Interest earned (if credited into DA)	-	-
Funds available during the period	580.000	15.540.962
Less:		
Payments for eligible expenditures during the period	168.772	15.117.067 ²
Refund to World Bank from the DA during the period	-	-
Service charges (if debited to DA)	-	-
	159.772	15.117.067
Closing balance at the end of the period	420.228	420.228

1) The amount is lower by EUR 23,443,857 in SOE column 9 (EUR 38,984,819). The difference relates to the Compensation for severance pay in the amount of EUR 4,269,552) and the advance payment of new trains direct payment for the delivery of trains in the amount of EUR 19,174,305.

2) The amount is by EUR 23.443.857 less than the amount in SOE column 8 (EUR 38.560.924). The difference refers to the Compensation for severance pay (EUR 4.269.552) and EUR 19.174.305 advance payment of new trains and direct payment for train delivery.

1. GENERAL INFORMATION

In May 2015, the International Bank for Reconstruction and Development approved three loans to railway sector in the total amount of 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. All loans are part of 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 and 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, counselling 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.

NOTES TO THE PROJECT FINANCIAL STATEMENTS

for the year ended 31 December 2020 - continued

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, counselling 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 and 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, counselling 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 Zagreb – Savski Marof line;
 - (c) Replacing switches, electrical, and support systems (for safety and signaling) on international and domestic corridors selected pursuant to criteria set forth in Supplemental Letter 4.;
 - (d) Constructing and improving the Borongaj, Rijeka-Brajdica i 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 and financial reconstruction of the Company in order to deliver better services in a financially sustainable way.

NOTES TO THE PROJECT FINANCIAL STATEMENTS

for the year ended 31 December 2020 - continued

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 million 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. 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 instalment 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	Instalment share (Expressed as a percentage)
On each 15 June and 15 December	
- beginning 15 June 2018	3,33%
- till 15 June 2032	
On 15 December 2032.	3,43%

NOTES TO THE PROJECT FINANCIAL STATEMENTS

for the year ended 31 December 2020 - continued

According 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.

In June 2019, Annex II of the loan agreement was signed, which extended the completion date of the project from May 30, 2020 to November 30, 2021, in order to complete the rehabilitation works on the Savski Marof - Zagreb section and harmonized indicators.

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:

- 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
- 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 and training for Part B 2 of the Project
IBRD loan	43,0	8,0	35,0
Govern funds	9,8	0	9,8
Total	52,8	8,0	44,8

5. PROJECT MANAGEMENT

Project implementation unit ("PIU") has been established within HŽ PUTNIČKI PRIJEVOZ d.o.o., Zagreb 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 2020	31 December 2019
Retrenchment payment	8.004.994	8.004.994
Goods, works, non-consulting services, consultants' services and training for part B of the project	30.442.810	19.583.321
Bank charges	5.620	5.620
Front-end-fee	107.500	107.500
Total	38.560.924	27.701.435

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 2020 in the amount of EUR 423.895 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

Loan disbursed until 31 December 2020	u EUR
	38.984.819
Amount on the Designated account	423.895
Add: total expenditures stated in the Statement of sources and Uses of funds	38.560.924
	38.984.819
Add: Foreign exchange differences	-
Total recorded	38.984.819

MANAGEMENT LETTER

HŽ PUTNIČKI PRIJEVOZ d.o.o.
Strojarska cesta 11
10000 Zagreb

Dear Sirs,

This letter contains our comments, observations, and recommendations concerning the internal control structure and other matters which resulted from our audit of the Project Financial Statements of the SUSTAINABLE CROATIAN RAILWAYS IN EUROPE PROJECT (Project) financed under INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT LOAN NO 8501 HR (Loan) as of 31 December 2020.


In planning and performing our audit we considered the project's internal control structure in order to determine our auditing procedures for the purpose of expressing an opinion on the Financial Statements, taken as a whole, and not to provide assurance on the internal control structure. Our report does not necessarily include all the remarks and recommendations and we would like to emphasize that there may be some weaknesses in the internal control system that we did not encounter during the conduct of our audit procedures. We have taken into account the degree of compliance of the Project with the terms of the Loan, and the Bank's procurement, cost and financial reporting guidelines.

This report is intended solely for the information and use of the Bank and the Project Implementation Unit. We would be pleased to discuss our comments, observations, and recommendations with you.

With respect,

In Zagreb, 31 May 2021

Audit d.o.o.
Ulica Silvija Strahimira Kranjčevića 41
10000 Zagreb


Darko Karić, director, certified auditor



ACCOUNTING RECORDS, SYSTEMS AND CONTROLS

Nothing significant noted.

DEFICIENCIES AND WEAKNESSES IN SYSTEMS AND INTERNAL CONTROLS

Nothing significant noted.

COMPLIANCE WITH THE FINANCIAL COVENANTS AND BANK'S GUIDELINES

The conditions set in the loan agreement for the Debt Service Coverage ("DSC") are that, unless the Bank agrees otherwise, Company shall not incur any debt, unless a reasonable forecast of the revenues and expenditures of the Company doesn't 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 Borrower in such year on all debt of the Borrower 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 Borrower in such year on all debt of the Borrower including the debt to be incurred, after the Closing Date until the repayment of the Loan under this Agreement.

Calculation of Debt Service Coverage Ratio is prepared for year 2020 based on audited data of annual financial statements prepared by the Borrower. According to the Borrower, forecast for 2021 and beyond can't be determined as "reasonable", hence DSCR ratio was not prepared as it is influenced by various factors that affects the accuracy of data.

Based on the above, the calculation of the DSC ratio shows that the Borrower has reached the default DSC ratio as of 31 December 2020 because it amounts to 2, 81.

It is required that the Borrower regularly monitors movement of DSC ratios and communicate with the Bank in order to meet the provisions of the Loan Agreement regarding entering into arrangements or contracts that that could materially affect, the ability of the Borrower to perform any of its respective obligations under Loan Agreement.

OTHER MATTERS

Nothing significant noted.

A handwritten signature in blue ink is written over a circular official stamp. The stamp contains text in a circular border, including 'KAZAKHSTAN' at the top and 'KAZAKH' at the bottom, with a central emblem.

CHECKLIST

Loan name:	SUSTAINABLE CROATIAN RAILWAYS IN EUROPE PROJECT
Loan #:	IBRD 8501 HR
Audited year:	31 December 2020

Included

N/A

I. Audit Report (Opinion):		
A. Applicable accounting standards noted	X	
B. Applicable auditing standards noted	X	
C. Opinion on all forms of disbursement:		
1. Financial statements	X	
2. Designated Account	X	
D. All sources of financing for the project are noted	X	
II. Financial statements:		
A. Revenue Entity (all of the following are required):		
1. Balance Sheet		X
2. Cash Flow Statement		X
3. Income Statement		X
B. Non-Revenue Entity (all of the following are required):		
1. Statement of Assets and Liabilities	X	
2. Summary of Sources and Uses of Funds	X	
C. If applicable (refer to the Loan Agreement):		
1. Statement of Expenditure (SOE)	X	
2. Special Account Statement	X	
III. Notes to the Financial Statements	X	
IV. Management Letter to the Project implementation unit	X	