HŽ PUTNIČKI PRIJEVOZ d.o.o., Zagreb
SUSTAINABLE CROATIAN RAILWAYS IN EUROPE
PROJECT
INTERNATIONAL BANK FOR RECONSTRUCTION AND
DEVELOPMENT LOAN No. 8501HR

PROJECT FINANCIAL STATEMENT
AND
SPECIAL ACCOUNT STATEMENT
TOGETHER WITH INDEPENDENT AUDITOR `S REPORTS
FOR THE YEAR ENDED
31 December 2016
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INDEPENDENT AUDITOR'S REPORT

1. 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, Statements of Sources and Uses of Funds, Statement of Uses of Funds by Activities, Statement of Expenditure (SOE) and Designated Account Statement for the year ended 31 December 2016 (all together, the "Project Financial Statements").

2. 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.

3. 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.

4. In our opinion, 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 2016 in accordance with International Public Sector Accounting Standards issued by the Public Sector Committee of the International Federation of Accountants.
5. 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) the Summary Statement of Expenditure has been reconciled to the other Project Financial Statements and (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.

BDO CROATIA d.o.o., Zagreb
Trg J. F. Kennedy 6b
10000 Zagreb
Croatia

Zdenko Balen, Member of the Management Board

Zagreb, 30 May 2017
## STATEMENT OF ASSETS AND LIABILITIES
For the year ended 31 December 2016

<table>
<thead>
<tr>
<th>Note</th>
<th>31.dec 16 EUR</th>
<th>31.dec.15 EUR</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Front end fee</td>
<td>8</td>
<td>107,500</td>
</tr>
<tr>
<td>Project expenditures</td>
<td>8</td>
<td>8,362,752</td>
</tr>
<tr>
<td>Designated account</td>
<td>9</td>
<td>11,182</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td></td>
<td>8,481,434</td>
</tr>
<tr>
<td><strong>Liabilities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>IBRD Loan No. 8501 HR</td>
<td>2</td>
<td>8,481,434</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td></td>
<td>8,481,434</td>
</tr>
</tbody>
</table>

Project is effective as of 4 August 2015.
## STATEMENT OF SOURCES AND USES OF FUNDS - CUMULATIVE
For the year ended 31 December 2016

<table>
<thead>
<tr>
<th>Sources of Funding</th>
<th>Actual in EUR</th>
<th>Plan in EUR</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>In the year</td>
<td>Cumulative</td>
</tr>
<tr>
<td></td>
<td>2016</td>
<td>till 31</td>
</tr>
<tr>
<td></td>
<td></td>
<td>December</td>
</tr>
<tr>
<td></td>
<td>8,481,434</td>
<td>43,000,000</td>
</tr>
<tr>
<td></td>
<td>7,855,734</td>
<td>19.72%</td>
</tr>
<tr>
<td><strong>Counterpart funding</strong></td>
<td><strong>8,481,434</strong></td>
<td><strong>43,000,000</strong></td>
</tr>
<tr>
<td><strong>IBRD Loan Funds</strong></td>
<td><strong>7,855,734</strong></td>
<td><strong>43,000,000</strong></td>
</tr>
<tr>
<td>Front-end fee</td>
<td>0</td>
<td>107,500</td>
</tr>
<tr>
<td>Advances to Designated Account</td>
<td>3,586,182</td>
<td>4,104,382</td>
</tr>
<tr>
<td>Reimbursement</td>
<td>4,269,552</td>
<td>4,269,552</td>
</tr>
<tr>
<td>Direct Payments</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td><strong>Use of funds</strong></td>
<td><strong>7,855,734</strong></td>
<td><strong>8,481,434</strong></td>
</tr>
</tbody>
</table>

**Balance at DA account at 31 Dec**

<table>
<thead>
<tr>
<th>Project expenditures by loan categories</th>
<th>Actual in EUR</th>
<th>Plan in EUR</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>In the year</td>
<td>Cumulative</td>
</tr>
<tr>
<td></td>
<td>2016</td>
<td>till 31</td>
</tr>
<tr>
<td></td>
<td></td>
<td>December</td>
</tr>
<tr>
<td></td>
<td>8,470,252</td>
<td>43,000,000</td>
</tr>
<tr>
<td></td>
<td>7,848,050</td>
<td>19.70%</td>
</tr>
<tr>
<td>1. a) Retrenchment Payments - category 2 - retroactive reimbursement</td>
<td>4,269,552</td>
<td>4,600,000</td>
</tr>
<tr>
<td>1. b) Retrenchment Payments - category 2 - current</td>
<td>1,252,803</td>
<td>11,500,000</td>
</tr>
<tr>
<td>2. Goods, works, non-consulting services, consultants' services and training for Part B of the Project - category 3</td>
<td>2,324,106</td>
<td>26,792,500</td>
</tr>
<tr>
<td>3. Front-end fee - category 8</td>
<td>0</td>
<td>107,500</td>
</tr>
<tr>
<td>Bank charges /costs of bank</td>
<td>1,589</td>
<td>1,589</td>
</tr>
</tbody>
</table>

1) Counterpart funding - As described in Project appraisal document dated April 9, 2015, total project cost for support for HZ Passenger Transport 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 HZ 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 HZP's 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.

However, in year 2016, contribution to the project objectives from HZ Putnički prijevoz d.o.o. were HRK 17,000,000 (EUR 2,248,677) or cumulative till 31 December 2016 HRK 56,000,000 (EUR 7,407,407) as per middle exchange rate at December 31, 2016 of Croatian National Bank), and relate to regular HZPT expenditures for modernization of "rolling stock" subsidized by the government. These expenditures were audited during the audit of annual financial statements of HZPT for year ended 31 December 2016.
# Statement of Uses of Funds by Activities

For the year ended 31 December 2016

<table>
<thead>
<tr>
<th>Project components and subcomponents</th>
<th>In the year 2016</th>
<th>Cumulative till 31 December 2016</th>
<th>Plan Project Life</th>
<th>Completion In %</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>EUR</td>
<td>EUR</td>
<td>EUR</td>
<td>EUR</td>
</tr>
<tr>
<td><strong>B 1. Retrenchment payments</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. a) Retrenchment Payments - category 2 - retroactive reimbursement</td>
<td>5,522,355</td>
<td>6,037,057</td>
<td>16,100,000</td>
<td>37.50%</td>
</tr>
<tr>
<td>1. b) Retrenchment Payments - category 2 - current</td>
<td>4,269,552</td>
<td>4,269,552</td>
<td>4,600,000</td>
<td>92.82%</td>
</tr>
<tr>
<td></td>
<td>1,252,803</td>
<td>1,767,505</td>
<td>11,500,000</td>
<td>15.37%</td>
</tr>
<tr>
<td><strong>B 2. Investment to contribute to the restructuring plan of</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>HZ PUTNICKI PRUJEVOZ d.o.o.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>a) Rehabilitating rolling stock to improve efficiency of the fleet</td>
<td>2,325,695</td>
<td>2,325,695</td>
<td>26,792,500</td>
<td>0%</td>
</tr>
<tr>
<td>b) Modernizing and integrating information technology</td>
<td>2,263,088</td>
<td>2,263,088</td>
<td>17,900,000</td>
<td>12.64%</td>
</tr>
<tr>
<td>c) Preparing studies to adapt business processes to reorganize operations and improve energy efficiency of operations</td>
<td>61,018</td>
<td>61,018</td>
<td>6,600,000</td>
<td>0.92%</td>
</tr>
<tr>
<td>d) Capacity building on management and restructuring</td>
<td>2,292,500</td>
<td></td>
<td></td>
<td>0%</td>
</tr>
<tr>
<td>Bank charges /costs of bank</td>
<td>1,589</td>
<td>1,589</td>
<td></td>
<td>0%</td>
</tr>
<tr>
<td>Front End Fee</td>
<td>0</td>
<td>107,500</td>
<td>107,500</td>
<td>100%</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td>7,848,050</td>
<td>8,470,252</td>
<td>43,000,000</td>
<td>19.70%</td>
</tr>
</tbody>
</table>
Summary Reports and Statement of Expenditure withdrawal for the year ended 31 December 2016

<table>
<thead>
<tr>
<th>Withdrawal application No</th>
<th>Date of receipt of funds (DA, reimbursement)</th>
<th>Initial Deposit/(Recovery of the Designated Account)</th>
<th>HZP Retrenchment Payments (cat 2)</th>
<th>Goods, works, non-consulting services, consultants’ services and Training (bank fees) (cat 3)</th>
<th>Front and fee (cat 8)</th>
<th>Total Expenditures Claimed in SOE</th>
<th>AmountReceived (DA, reimbursement)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>4.8.2015</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>107,500</td>
<td>107,500</td>
</tr>
<tr>
<td></td>
<td>1.12.2015</td>
<td>518,200</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>518,200</td>
<td>518,200</td>
</tr>
<tr>
<td>2</td>
<td>22.12.2015</td>
<td>(514,810)</td>
<td>514,702</td>
<td>-</td>
<td>109</td>
<td>514,810</td>
<td>514,810</td>
</tr>
<tr>
<td>Total for 2015:</td>
<td></td>
<td>3,390</td>
<td>514,702</td>
<td>109</td>
<td>107,500</td>
<td>622,310</td>
<td>625,700</td>
</tr>
<tr>
<td>3</td>
<td>5.1.2016</td>
<td>58,982</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>58,982</td>
</tr>
<tr>
<td>4</td>
<td>22.1.2016</td>
<td>(59,356)</td>
<td>59,267</td>
<td>-</td>
<td>89</td>
<td>-</td>
<td>59,356</td>
</tr>
<tr>
<td>5&lt;sup&gt;a&lt;/sup&gt;</td>
<td>26.2.2016</td>
<td>4,269,552</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>4,269,552</td>
</tr>
<tr>
<td>6&lt;sup&gt;b&lt;/sup&gt;</td>
<td>26.2.2016</td>
<td>(4,269,552)</td>
<td>4,269,552</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>4,269,552</td>
</tr>
<tr>
<td>7</td>
<td>11.2.2016</td>
<td>53,000</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>53,000</td>
</tr>
<tr>
<td>8</td>
<td>23.2.2016</td>
<td>(52,715)</td>
<td>52,632</td>
<td>-</td>
<td>83</td>
<td>-</td>
<td>52,715</td>
</tr>
<tr>
<td>9</td>
<td>3.3.2016</td>
<td>148,000</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>148,000</td>
</tr>
<tr>
<td>11</td>
<td>1.4.2016</td>
<td>47,500</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>47,500</td>
</tr>
<tr>
<td>12</td>
<td>14.4.2016</td>
<td>(48,077)</td>
<td>48,000</td>
<td>-</td>
<td>77</td>
<td>-</td>
<td>48,077</td>
</tr>
</tbody>
</table>

SUSTAINABLE CROATIAN RAILWAYS IN EUROPE PROJECT
INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT LOAN No. 8501 HR
<table>
<thead>
<tr>
<th>Withdrawal application No</th>
<th>Date of receipt of funds (DA, reimbursement)</th>
<th>Initial Deposits/Recovery of the Designated Account</th>
<th>HZP Retrenchment Payments (cat 2)</th>
<th>Goods, works, non-consulting services, consultants’ services and Training (bank fees) (cat 3)</th>
<th>Front end fee (cat 8)</th>
<th>Total Expenditures Claimed in SOE</th>
<th>Amount Received (DA, reimbursement)</th>
</tr>
</thead>
<tbody>
<tr>
<td>13</td>
<td>6.4.2016</td>
<td>107,100</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>107,100</td>
</tr>
<tr>
<td>14</td>
<td>25.4.2016</td>
<td>(107,688)</td>
<td>107,687</td>
<td>1</td>
<td></td>
<td></td>
<td>107,688</td>
</tr>
<tr>
<td>15</td>
<td>12.4.2016</td>
<td>328,600</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>328,600</td>
</tr>
<tr>
<td>16</td>
<td>27.4.2016</td>
<td>(328,802)</td>
<td>328,692</td>
<td>110</td>
<td></td>
<td></td>
<td>328,802</td>
</tr>
<tr>
<td>17</td>
<td>12.5.2016</td>
<td>(225)</td>
<td></td>
<td>225</td>
<td></td>
<td></td>
<td>225</td>
</tr>
<tr>
<td>18</td>
<td>9.6.2016</td>
<td>206,000</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>206,000</td>
</tr>
<tr>
<td>19</td>
<td>16.6.2016</td>
<td>(101,091)</td>
<td></td>
<td>100,981                                           110</td>
<td></td>
<td></td>
<td>101,091</td>
</tr>
<tr>
<td>20</td>
<td>17.6.2016</td>
<td>(100,981)</td>
<td></td>
<td>100,981                                           -</td>
<td></td>
<td></td>
<td>100,981</td>
</tr>
<tr>
<td>21</td>
<td>24.6.2016</td>
<td>25,000</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>25,000</td>
</tr>
<tr>
<td>22</td>
<td>24.6.2016</td>
<td>(18,709)</td>
<td>18,654</td>
<td>55</td>
<td></td>
<td></td>
<td>18,709</td>
</tr>
<tr>
<td>23</td>
<td>13.7.2016</td>
<td>(6,468)</td>
<td>6,468</td>
<td></td>
<td></td>
<td></td>
<td>6,468</td>
</tr>
<tr>
<td>24</td>
<td>22.7.2016</td>
<td>200,000</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>200,000</td>
</tr>
<tr>
<td>25</td>
<td>22.7.2016</td>
<td>(185,128)</td>
<td></td>
<td>185,018                                           110</td>
<td></td>
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<td>185,128</td>
</tr>
<tr>
<td>26</td>
<td>2.8.2016</td>
<td>(7,676)</td>
<td></td>
<td>7,566                                              110</td>
<td></td>
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<td>7,676</td>
</tr>
<tr>
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<td>4.8.2016</td>
<td>95,000</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>95,000</td>
</tr>
<tr>
<td>28</td>
<td>4.8.2016</td>
<td>(92,683)</td>
<td></td>
<td>92,683                                             -</td>
<td></td>
<td></td>
<td>92,683</td>
</tr>
</tbody>
</table>

SUSTAINABLE CROATIAN RAILWAYS IN EUROPE PROJECT
INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT LOAN No. 8501 HR
<table>
<thead>
<tr>
<th>Withdrawal application No</th>
<th>Date of receipt of funds (DA, reimbursement)</th>
<th>Initial Deposit/(Recovery of the Designated Account)</th>
<th>HZP Retrenchment Payments (cat 2)</th>
<th>Goods, works, non-consulting services, consultants' services and Training (bank fees) (cat 3)</th>
<th>Front end fee (cat 8)</th>
<th>Total Expenditures Claimed in SOE</th>
<th>Amount Received (DA, reimbursement)</th>
</tr>
</thead>
<tbody>
<tr>
<td>29</td>
<td>12.8.2016</td>
<td>(11,219)</td>
<td></td>
<td>11,219</td>
<td></td>
<td>11,219</td>
<td></td>
</tr>
<tr>
<td>30</td>
<td>30.8.2016</td>
<td>197,000</td>
<td></td>
<td></td>
<td></td>
<td>197,000</td>
<td></td>
</tr>
<tr>
<td>31</td>
<td>2.9.2016</td>
<td>(11,016)</td>
<td></td>
<td>10,906  110</td>
<td></td>
<td>11,016</td>
<td></td>
</tr>
<tr>
<td>32</td>
<td>14.9.2016</td>
<td>(185,365)</td>
<td></td>
<td>185,365</td>
<td></td>
<td>185,365</td>
<td></td>
</tr>
<tr>
<td>33</td>
<td>21.9.2016</td>
<td>965,000</td>
<td></td>
<td></td>
<td></td>
<td>965,000</td>
<td></td>
</tr>
<tr>
<td>34</td>
<td>20.9.2016</td>
<td>(1,953)</td>
<td></td>
<td>1,843  110</td>
<td></td>
<td>1,953</td>
<td></td>
</tr>
<tr>
<td>35</td>
<td>22.9.2016</td>
<td>(751,213)</td>
<td></td>
<td>751,103  110</td>
<td></td>
<td>751,213</td>
<td></td>
</tr>
<tr>
<td>36</td>
<td>14.10.2016</td>
<td>540,000</td>
<td></td>
<td></td>
<td></td>
<td>540,000</td>
<td></td>
</tr>
<tr>
<td>37</td>
<td>18.10.2016</td>
<td>(561,331)</td>
<td>561,331</td>
<td></td>
<td></td>
<td>561,331</td>
<td></td>
</tr>
<tr>
<td>39</td>
<td>21.10.2016</td>
<td>(922)</td>
<td></td>
<td>922</td>
<td></td>
<td>922</td>
<td></td>
</tr>
<tr>
<td>40</td>
<td>25.10.2016</td>
<td>(8,156)</td>
<td>8,046</td>
<td>110</td>
<td></td>
<td>8,156</td>
<td></td>
</tr>
<tr>
<td>41</td>
<td>31.10.2016</td>
<td>-</td>
<td>-</td>
<td></td>
<td></td>
<td>-</td>
<td>130,000</td>
</tr>
<tr>
<td>42</td>
<td>3.11.2016</td>
<td>-</td>
<td>-</td>
<td></td>
<td></td>
<td>-</td>
<td>440,000</td>
</tr>
<tr>
<td>43</td>
<td>3.11.2016</td>
<td>(435,321)</td>
<td>-</td>
<td>435,211  110</td>
<td></td>
<td>435,321</td>
<td></td>
</tr>
</tbody>
</table>
Summary Reports and Statement of Expenditure withdrawal - continued for the year ended 31 December 2016

<table>
<thead>
<tr>
<th>Withdrawal application No</th>
<th>Date of receipt of funds (DA, reimbursement)</th>
<th>Initial Deposit/(Recovery of the Designated Account)</th>
<th>HZP Retrenchment Payments (cat 2)</th>
<th>Goods, works, non-consulting services, consultants’ services and Training (bank fees) (cat 3)</th>
<th>Front end fee (cat 8)</th>
<th>Total Expenditures Claimed in SOE</th>
<th>Amount Received (DA, reimbursement)</th>
</tr>
</thead>
<tbody>
<tr>
<td>44</td>
<td>10.11.2016</td>
<td>(202,770)</td>
<td>-</td>
<td>202,770</td>
<td>-</td>
<td>202,770</td>
<td></td>
</tr>
<tr>
<td>45</td>
<td>25.11.2016</td>
<td>(4,229)</td>
<td>-</td>
<td>4,229</td>
<td>-</td>
<td>4,229</td>
<td></td>
</tr>
<tr>
<td>46</td>
<td>6.12.2016</td>
<td>45,000</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>45,000</td>
</tr>
<tr>
<td>47</td>
<td>6.12.2016</td>
<td>(24,184)</td>
<td>-</td>
<td>24,109</td>
<td>75</td>
<td>24,184</td>
<td></td>
</tr>
<tr>
<td>48</td>
<td>8.12.2016</td>
<td>(19,973)</td>
<td>19,973</td>
<td>-</td>
<td>-</td>
<td>19,973</td>
<td></td>
</tr>
<tr>
<td>49</td>
<td>29.12.2016</td>
<td>(1,058)</td>
<td>1,058</td>
<td>-</td>
<td>-</td>
<td>1,058</td>
<td></td>
</tr>
<tr>
<td>Total for 2016:</td>
<td></td>
<td>7,792</td>
<td>5,522,356</td>
<td>2,324,106</td>
<td>1,480</td>
<td>7,847,942</td>
<td>7,855,734</td>
</tr>
</tbody>
</table>

| Total | 11.182 | 6,037,057 | 2,324,106 | 1,589 | 107,500 | 8,470,252 | 8,481,434 |

1) transaction not through DA account, but directly to HZPP account, used for Retrenchment Payments - category 2 - retroactive reimbursement;
2) Amount of EUR 3,390 represents balance on Designated Account at as of 31 December 2015;
3) Amount of EUR 11,182 represents balance on Designated Account as of 31 December 2016;
4) The total costs for 2015 and 2016 presented in SOE in the amount of EUR 8,470,252 represents total Project costs as at 31 December 2016 as shown in Statement of uses of funds by activity;

SUSTAINABLE CROATIAN RAILWAYS IN EUROPE PROJECT
INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT LOAN No. 8501 HR
DESIGNATED ACCOUNT STATEMENT
for the year ended 31 December 2016

(Account No. HR4123300031553630311
Depository Bank Splitska banka d.d., Split Address R. Boškovića 25, Split Loan IBRD Loan No. 8501

<table>
<thead>
<tr>
<th>Description</th>
<th>For the year</th>
<th>From the beginning of the Project</th>
</tr>
</thead>
<tbody>
<tr>
<td>Opening balance at the beginning of the period</td>
<td>EUR 3,498.36</td>
<td>EUR -</td>
</tr>
<tr>
<td>Add:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>World Bank advances into DA during the period</td>
<td>EUR 3,586,073.25</td>
<td>EUR 4,104,273.25</td>
</tr>
<tr>
<td>Interest earned (if credited into DA)</td>
<td>EUR -</td>
<td>EUR -</td>
</tr>
<tr>
<td>Funds available during the period</td>
<td>EUR 3,586,073.25</td>
<td>EUR 4,104,273.25</td>
</tr>
<tr>
<td>Less:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Payments for eligible expenditures during the period</td>
<td>EUR 3,576,910.07</td>
<td>EUR 4,091,502.96</td>
</tr>
<tr>
<td>Refund to World Bank from the DA during the period</td>
<td>EUR -</td>
<td>EUR -</td>
</tr>
<tr>
<td>Service charges (if debited to DA)</td>
<td>EUR 1,479.78</td>
<td>EUR 1,588.53</td>
</tr>
<tr>
<td></td>
<td>EUR 3,578,389.85</td>
<td>EUR 4,093,091.49</td>
</tr>
<tr>
<td>Closing balance at the end of the period</td>
<td>EUR 11,181.76</td>
<td>EUR -</td>
</tr>
</tbody>
</table>

SUSTAINABLE CROATIAN RAILWAYS IN EUROPE PROJECT
INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT LOAN No. 8501 HR
Payments from the WB Special Account for the project expenditures

<table>
<thead>
<tr>
<th>Description/supplier/contract</th>
<th>Date</th>
<th>EUR</th>
<th>Amount in HRK</th>
</tr>
</thead>
<tbody>
<tr>
<td>retrenchment-cat 2</td>
<td>12.01.2016</td>
<td>59,267</td>
<td>452,800.00</td>
</tr>
<tr>
<td>retrenchment-cat 2</td>
<td>16.2.2016</td>
<td>52,632</td>
<td>400,000.00</td>
</tr>
<tr>
<td>retrenchment-cat 2</td>
<td>16.3.2016</td>
<td>148,683</td>
<td>1,121,067.72</td>
</tr>
<tr>
<td>retrenchment-cat 2</td>
<td>1.4.2016</td>
<td>48,000</td>
<td>360,000.00</td>
</tr>
<tr>
<td>goods-cat 3</td>
<td>7.4.2016</td>
<td>107,687</td>
<td>806,250.00</td>
</tr>
<tr>
<td>retrenchment-cat 2</td>
<td>14.4.2016</td>
<td>328,692</td>
<td>2,450,400.00</td>
</tr>
<tr>
<td>goods-cat 3</td>
<td>4.5.2016</td>
<td>225</td>
<td>1,675.36</td>
</tr>
<tr>
<td>goods-cat 3</td>
<td>09.06.2016</td>
<td>100,981</td>
<td>759,375.00</td>
</tr>
<tr>
<td>bank chargers - cat 3</td>
<td>13.06.2016</td>
<td>100,981</td>
<td>759,375.00</td>
</tr>
<tr>
<td>bank chargers - cat 3</td>
<td>12.1.2016</td>
<td>88.95</td>
<td>679.58</td>
</tr>
<tr>
<td>bank chargers - cat 3</td>
<td>16.2.2016</td>
<td>82.97</td>
<td>630.57</td>
</tr>
<tr>
<td>bank chargers - cat 3</td>
<td>16.3.2016</td>
<td>108.76</td>
<td>820.05</td>
</tr>
<tr>
<td>bank chargers - cat 3</td>
<td>1.4.2016</td>
<td>77.47</td>
<td>581.03</td>
</tr>
<tr>
<td>bank chargers - cat 3</td>
<td>7.4.2016</td>
<td>1.18</td>
<td>8.84</td>
</tr>
<tr>
<td>bank chargers - cat 3</td>
<td>14.4.2016</td>
<td>110.02</td>
<td>820.20</td>
</tr>
<tr>
<td>bank chargers - cat 3</td>
<td>9.6.2016</td>
<td>109.92</td>
<td>826.60</td>
</tr>
<tr>
<td>bank chargers - cat 3</td>
<td>28.6.2016</td>
<td>54.97</td>
<td>412.55</td>
</tr>
<tr>
<td>goods-cat 3</td>
<td>28.6.2016</td>
<td>18,654.23</td>
<td>140,000.00</td>
</tr>
<tr>
<td>retrenchment-cat 2</td>
<td>13.7.2016</td>
<td>6,467.60</td>
<td>48,093.10</td>
</tr>
<tr>
<td>goods-cat 3</td>
<td>22.7.2016</td>
<td>185,018.05</td>
<td>1,383,750.00</td>
</tr>
<tr>
<td>bank chargers - cat 3</td>
<td>22.7.2016</td>
<td>110.23</td>
<td>824.41</td>
</tr>
<tr>
<td>goods-cat 3</td>
<td>2.8.2016</td>
<td>7,565.57</td>
<td>56,250.00</td>
</tr>
<tr>
<td>bank chargers - cat 3</td>
<td>2.8.2016</td>
<td>110.19</td>
<td>819.26</td>
</tr>
<tr>
<td>goods-cat 3</td>
<td>4.8.2016</td>
<td>92,682.52</td>
<td>691,875.01</td>
</tr>
<tr>
<td>goods-cat 3</td>
<td>12.8.2016</td>
<td>11,219.02</td>
<td>83,749.98</td>
</tr>
<tr>
<td>goods-cat 3</td>
<td>2.9.2016</td>
<td>10,906.04</td>
<td>81,250.00</td>
</tr>
</tbody>
</table>
## DESIGNATED ACCOUNT STATEMENT - continued
for the year ended 31 December 2016

<table>
<thead>
<tr>
<th>Description/supplier/contract</th>
<th>Date</th>
<th>Amount in EUR</th>
<th>Amount in HRK</th>
</tr>
</thead>
<tbody>
<tr>
<td>bank chargers - cat 3</td>
<td>2.9.2016</td>
<td>110.17</td>
<td>820.77</td>
</tr>
<tr>
<td>goods-cat 3</td>
<td>14.9.2016</td>
<td>185,365.04</td>
<td>1,383,750.00</td>
</tr>
<tr>
<td>goods-cat 3</td>
<td>20.9.2016</td>
<td>1,843.16</td>
<td>13,749.97</td>
</tr>
<tr>
<td>bank chargers - cat 3</td>
<td>20.9.2016</td>
<td>109.96</td>
<td>820.30</td>
</tr>
<tr>
<td>goods-cat 3</td>
<td>22.9.2016</td>
<td>751,102.50</td>
<td>5,620,500.01</td>
</tr>
<tr>
<td>bank chargers - cat 3</td>
<td>22.9.2016</td>
<td>110.00</td>
<td>823.13</td>
</tr>
<tr>
<td>retrenchment-cat 2</td>
<td>18.10.2016</td>
<td>561,331.12</td>
<td>4,199,879.44</td>
</tr>
<tr>
<td>goods-cat 3</td>
<td>20.10.2016</td>
<td>101,290.52</td>
<td>759,375.00</td>
</tr>
<tr>
<td>goods-cat 3</td>
<td>21.10.2016</td>
<td>921.83</td>
<td>6,875.01</td>
</tr>
<tr>
<td>retrenchment-cat 2</td>
<td>25.10.2016</td>
<td>8,046.13</td>
<td>60,000.00</td>
</tr>
<tr>
<td>bank chargers - cat 3</td>
<td>25.10.2016</td>
<td>110.04</td>
<td>823.32</td>
</tr>
<tr>
<td>goods-cat 3</td>
<td>3.11.2016</td>
<td>435,211.17</td>
<td>3,256,250.00</td>
</tr>
<tr>
<td>bank chargers - cat 3</td>
<td>3.11.2016</td>
<td>109.98</td>
<td>822.87</td>
</tr>
<tr>
<td>goods-cat 3</td>
<td>10.11.2016</td>
<td>202,770.36</td>
<td>1,518,750.00</td>
</tr>
<tr>
<td>goods-cat 3</td>
<td>24.11.2016</td>
<td>4,229.07</td>
<td>31,625.00</td>
</tr>
<tr>
<td>goods-cat 3</td>
<td>6.12.2016</td>
<td>24,108.81</td>
<td>181,250.00</td>
</tr>
<tr>
<td>bank chargers - cat 3</td>
<td>6.12.2016</td>
<td>74.97</td>
<td>563.62</td>
</tr>
<tr>
<td>retrenchment-cat 2</td>
<td>8.12.2016</td>
<td>19,973.37</td>
<td>150,000.00</td>
</tr>
<tr>
<td>retrenchment-cat 2</td>
<td>29.12.2016</td>
<td>1,057.66</td>
<td>7,932.48</td>
</tr>
<tr>
<td><strong>TOTAL:</strong></td>
<td></td>
<td><strong>3,578,389.85</strong></td>
<td><strong>26,796,945.18</strong></td>
</tr>
</tbody>
</table>
NOTES TO THE PROJECT FINANCIAL STATEMENTS
for the year ended 31 December 2016

1. GENERAL INFORMATION

In May 2015 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 August 4, 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. 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) 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 - continued  
for the year ended 31 December 2016

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

1. Retrenchment - provision of 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 and enabling investment to increase system efficiency

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


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 Ljubosina 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

HZ PUTNIČKI PRIJEVOZ d.o.o., Zagreb (the Company) 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 Company 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 schedule 3 of loan agreement, to which a currency conversion applies.

<table>
<thead>
<tr>
<th>Principal payment date</th>
<th>Installment share (Expressed as a percentage)</th>
</tr>
</thead>
<tbody>
<tr>
<td>On each June 15 and December 15</td>
<td></td>
</tr>
<tr>
<td>- beginning June 15, 2018</td>
<td>3.33%</td>
</tr>
<tr>
<td>- through June 15, 2032</td>
<td></td>
</tr>
<tr>
<td>On December 15, 2032</td>
<td>3.43%</td>
</tr>
</tbody>
</table>
NOTES TO THE PROJECT FINANCIAL STATEMENTS - continued
for the year ended 31 December 2016

Pursuant to the finance contract, the Company has to ensure documents on the assets/funds usage and shall purchase goods, procure services and order works for the Project in accordance with the current edition of the IBRD Guide to Procurement.

Pursuant to the finance contract 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.

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

<table>
<thead>
<tr>
<th>Sources of funds (in EUR million)</th>
<th>Total</th>
<th>Retrenchment Payments under Part B 1 of the Project</th>
<th>Goods, works, non-consulting services, and consultants' services for Part B 2 of the Project</th>
<th>Capitalization of interest charges &amp; front-end fee</th>
</tr>
</thead>
<tbody>
<tr>
<td>IBRD loan</td>
<td>43.0</td>
<td>16.1</td>
<td>26.8</td>
<td>0.1</td>
</tr>
<tr>
<td>Govern funds</td>
<td>9.4</td>
<td>0</td>
<td>9.4</td>
<td>0</td>
</tr>
<tr>
<td>Total</td>
<td>52.4</td>
<td>16.1</td>
<td>36.2</td>
<td>0.1</td>
</tr>
</tbody>
</table>

5. PROJECT MANAGEMENT

Project implementation unit ("PIU") has been established within the Company and is in charge for the project implementation.
NOTES TO THE PROJECT FINANCIAL STATEMENTS - continued
for the year ended 31 December 2016

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 Splitska Banka d.d., Split.

7. DEVIATIONS FROM AGREED CONDITIONS

There were no deviations from the contracted terms.

8. PROJECT EXPENDITURES

<table>
<thead>
<tr>
<th>Expenditures in EUR</th>
<th>31 December 2016</th>
<th>31 December 2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Retrenchment payments</td>
<td>6,037,057</td>
<td>514,702</td>
</tr>
<tr>
<td>Goods, works, non-consulting services, consultants'</td>
<td></td>
<td></td>
</tr>
<tr>
<td>services and training</td>
<td>2,324,106</td>
<td>0</td>
</tr>
<tr>
<td>Bank charges / cost of bank</td>
<td>1,589</td>
<td>0</td>
</tr>
<tr>
<td>Front end fee</td>
<td>107,500</td>
<td>107,500</td>
</tr>
<tr>
<td>Total</td>
<td>8,470,252</td>
<td>622,202</td>
</tr>
</tbody>
</table>

9. DESIGNATED ACCOUNT AND NET ASSETS

The Company opened Designated Account at Splitska Banka d.d., Split ("SB") in order to realize the Project. Designated Account balance as of 31 December 2016 in the amount of EUR 11,181.76 is confirmed by the bank statement of SB.

10. VALUE ADDED TAX

As per December 31, 2016, Value Added Tax (VAT) was paid for transactions regarding project component B.2.a and B.2.b
## Reconciliation of the Loan account

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount (EUR)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loan disbursed until 31 December 2016</td>
<td>8,481,434</td>
</tr>
<tr>
<td>Amount on Designated account</td>
<td>11,182</td>
</tr>
<tr>
<td>Add: total expenditures stated in the Statement of sources and Uses of funds</td>
<td>8,362,752</td>
</tr>
<tr>
<td>Add: Front-end fee</td>
<td>107,500</td>
</tr>
<tr>
<td>Add: Foreign exchange differences</td>
<td>0</td>
</tr>
<tr>
<td>Total recorded</td>
<td>8,481,434</td>
</tr>
</tbody>
</table>