

DOCUMENT OF THE EUROPEAN BANK
FOR RECONSTRUCTION AND DEVELOPMENT

Approved by the Board on 6 May 2020¹

CROATIA
CORRIDOR VC MOTORWAY COMPLETION

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

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

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

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ABBREVIATIONS / CURRENCY CONVERSIONS

BiH	Bosnia and Herzegovina
EIA	Environmental Impact Assessment
EIRR	Economic Internal Rate of Return
ESAP	Environmental and Social Action Plan
EU	European Union
EUR	Euro
EURIBOR	Interbank offered rate for Euro
HBOR	Hrvatska Banka za Obnovu I Razvitak (Croatian Bank for Reconstruction and Development)
HAC	Hrvatske Autoceste d.o.o. (Croatian Motorways Limited)
IFRS	International Financial Reporting Standards
IPPF	Infrastructure Project Preparation Facility
km	Kilometres
LRAP	Labour Restructuring Action Plan
min	Minimum
mln	Million
NEET	Not in Education, Employment or Training
PIU	Project Implementation Unit
PP&R	EBRD Procurement Policies and Rules
RAMS	Road Asset Management System
TC	Technical co-operation
VET	Vocational Education and Training

PRESIDENT'S RECOMMENDATION

This recommendation and the attached Report concerning an operation in favour of Hrvatske Autoceste d.o.o. (“**Croatian Motorways**”, “**HAC**” or the “**Company**”), a state-owned limited liability company incorporated in Croatia, are submitted for consideration by the Board of Directors.

The facility will consist of a sovereign guaranteed loan to the Company in the amount of up to EUR 55 million, to be provided in two tranches as follows: (i) Tranche A in an amount of up to EUR 35.7 million, to be committed at signing; and (ii) Tranche B, an uncommitted tranche, in an amount of up to EUR 19.3 million. The facility will be co-financed by the Croatian Bank for Reconstruction and Development (“**HBOR**”).

The proposed project will enable the completion of the Croatian sections of Corridor Vc, the pan-European motorway, through the construction and installation of motorway equipment on the Corridor’s remaining sections: (i) a section between Halasica Bridge and the town of Beli Manastir, and (ii) a motorway section between the town of Beli Manastir and Hungarian border (the “**Project**”). The Project is a priority infrastructure development for the Government of Croatia and will complement the Bank’s earlier engagements in financing sections of Corridor Vc in Croatia as well as in Bosnia and Herzegovina.

The expected transition impact for the Project will be derived from (i) the “**Integrated**” quality, through the facilitation of Croatia’s internal and regional integration by improving the country’s key transport infrastructure; and (ii) the “**Inclusive**” quality, through the introduction of inclusive procurement practices [REDACTED]. In addition, the Project incorporates climate change resilience improvements in its design to address the risks of increasing extreme weather events impacting the road transport network as a result of climate change, including flooding and extreme rainfall events.

TC support for this operation has been provided by the EBRD Shareholder Special Fund to support the Company and its contractors in the design and implementation of the inclusive procurement component.

I am satisfied that the operation is consistent with the Bank’s Strategy for Croatia and the Transport Sector Strategy and with the Agreement Establishing the Bank.

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

Suma Chakrabarti

BOARD DECISION SHEET

CROATIA–Corridor Vc Motorway Completion - DTM 50712	
Transaction / Board Decision	<p>Board approval² is sought for a sovereign guaranteed loan in an amount of up to EUR 55 million in favour of Hrvatske Autoceste d.o.o. (“HAC” or the “Company”), to be provided in two tranches:</p> <p><i>Tranche A:</i> EUR 35.7 million committed tranche for the construction of a 17.5 km motorway section on Corridor Vc between Halasica bridge and the town of Beli Manastir, as well as the purchase and installation of relevant motorway equipment (“Stage I”).</p> <p><i>Tranche B:</i> EUR 19.3 million uncommitted tranche for the construction of a 5 km motorway section on Corridor Vc from the town of Beli Manastir to the Hungarian border. (“Stage II”). [REDACTED]</p> <p>The Project will be co-financed by HBOR who will provide a loan in the amount of EUR 34.3 million to co-finance Stage I and a loan in the amount of EUR 17.7 to co-finance Stage II.</p>
Client	HAC is a state-owned limited liability company in charge of the construction, maintenance and tolling of Croatia’s motorways. It was established in 2001 and is currently responsible for 926 km out of Croatia’s 1314 km of motorways. HAC is an existing client of the Bank. [REDACTED]
Main Elements of the Proposal	<p><u>Transition impact:</u></p> <p><i>Integrated</i> – Completion of the Croatian part of the Corridor Vc towards the Hungarian border will increase regional connectivity, reduce existing bottlenecks along the Corridor and complement the Bank’s on-going financing of sections of Corridor Vc in BiH.</p> <p><i>Inclusive</i> – the project facilitates introduction of inclusive procurement practices and will open up work-based learning opportunities for young people in an area with high unemployment.</p> <p><u>Additionality:</u></p> <p><i>Financing structure</i> - EBRD offers financing that is not available on the market from commercial sources on reasonable terms and conditions.</p> <p><i>Policy, sector, Institutional or regulatory change</i> – through the Project, the Bank continues to support ongoing sector reform and introduction of best international practices into the Company’s operations.</p> <p><i>Standard setting</i> – the Company is seeking the Bank’s expertise on setting higher standards for economic inclusion through the introduction of inclusive procurement practices, including use of EBRD’s Procurement Policies and Rules (“PP&R”).</p> <p><u>Sound banking</u> – The transaction entails a sovereign-guaranteed loan. Croatia is currently rated BBB- by Fitch, Ba2 by Moody’s, and BBB- by S&P.</p>
Key Risks	The key risk relates to <i>Project implementation</i> , which is mitigated by the Company’s extensive experience in implementing similar EBRD/IFIs funded projects over a number of years. [REDACTED]
Strategic Fit Summary	The Project complies with the Transport Sector Strategy which recognises financing of key road corridors as one of its Strategic Directions, thus promoting regional and international connectivity. The Project is also in line with the Bank’s Strategy for Croatia which, again, stresses (i) the importance of connecting Croatia with regional markets, and (ii) the importance of implementation of inclusive procurement practices. The Project is also in line with the Economic Inclusion Strategy, where the gap for youth employment has been identified as “Large”.

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

ADDITIONAL SUMMARY TERMS FACTSHEET

EBRD Transaction	<p>A sovereign guaranteed loan of up to EUR 55 million in favour of HAC, to be provided in two tranches as follows:</p> <ul style="list-style-type: none"> - <i>Tranche A</i>: to be committed on signing in the amount of up to EUR 35.7 million for the construction of a 17.5 km motorway section on Corridor Vc between Halasica bridge and the town of Beli Manastir, as well as purchase and installation of the relevant motorway equipment. - <i>Tranche B</i>: an uncommitted loan tranche in the amount of up to EUR 19.3 million for the construction of a 5 km motorway section on Corridor Vc from the town of Beli Manastir to the Hungarian border. [REDACTED] <p>The Bank's loan will be co-financed by HBOR who will provide a loan in the amount of EUR 34.3 million to co-finance Stage I and a loan in the amount of EUR 17.7 million to co-finance Stage II.</p> <p><i>The Borrower</i>, HAC, (Croatian Motorways Limited), is a state-owned limited liability company responsible for the construction, maintenance and tolling of the motorways in Croatia.</p>
Existing Exposure	<p>Total exposure to the Croatian Motorways Sector as of 7 April 2020 was EUR 218.7 million, through the following projects:</p> <p>Opid 31848, Corridor 10 Motorway Completion - 6.0 million; Opid 41325, Corridor Vc Completion Project – 31.8 million; Opid 47716, HAC Restructuring Project – 180.9 million.</p>
Maturity / Exit / Repayment	15-years maturity [REDACTED].
AMI eligible financing	None.
Use of Proceeds	<p>Financing of the construction/civil works and installation of the motorway equipment for the following motorway sections located on the Corridor Vc, together with associated loan fees:</p> <ul style="list-style-type: none"> - 17.5 km long motorway section between Halasica Bridge and a town of Beli Manastir; - 5 km motorway section between Beli Manastir and the Hungarian border; - Financing of associated front-end fees. <p>Procurement of all loan financed contracts will be carried out in accordance with the Bank's PP&R. Disbursements from the loan will be made only upon receipt of signed contracts and documentary evidence confirming the fulfilment of contractual obligations by the contractors/consultants.</p>
Investment Plan	[REDACTED]
Financing Plan	[REDACTED]
Key Parties Involved	<ul style="list-style-type: none"> • Hrvatske Autoceste d.o.o.– the Borrower; • The Republic of Croatia, represented by the Ministry of Finance (“MoF”) – the Guarantor; • HBOR – parallel lender

Conditions to subscription / disbursement	<p><i>Conditions to first disbursement include:</i></p> <ul style="list-style-type: none"> • [REDACTED] Incorporation of relevant requirements of the Environmental and Social Action Plan (“ESAP”) into the tender documents and the contract; • Satisfactory evidence of due implementation of the ESAP for the Project. [REDACTED]
Key Covenants	<p><i>Loan Agreement:</i></p> <ul style="list-style-type: none"> • Include into tender documentation the provision for the contractors to provide on-site training opportunities to up to 60 young people [REDACTED]
Security / Guarantees	Sovereign Guarantee of the Republic of Croatia
Other material agreements	None
Associated Donor Funded TC and co-investment grants/concessional finance	<ul style="list-style-type: none"> • Development and implementation of inclusive procurement practices, engaging and supporting the Client and contractor to offer effective on the job training opportunities to young people during the construction phase; EUR 65,000 (financed by the Bank’s Inclusion TC Framework, TCRS 1256).

[REDACTED]

INVESTMENT PROPOSAL SUMMARY

1. STRATEGIC FIT AND KEY ISSUES

Corridor Vc is a branch of one of the three major Trans-European Corridors connecting Budapest with the Adriatic Sea via Port of Ploce, and linking Hungary, Croatia and Bosnia and Herzegovina. Upon completion, Corridor Vc will be the most direct route from Eastern Europe to southern Croatia and its Adriatic coast. It will greatly improve connectivity in the region, reduce existing bottlenecks along the Corridor, thus boosting economic integration between the Western Balkans and the rest of Europe, as well as economic growth in the three countries which it passes through, over its 620 km length (Bosnia & Herzegovina, Croatia and Hungary). The international importance of Corridor Vc has been confirmed through its designation as a core road transport link by the South-East Europe Transport Observatory (SEETO). Planning and construction of the Corridor Vc motorway has been assigned a high priority in all three countries through which it passes. The project has been identified as a priority infrastructure project by the Government of Croatia and will complement earlier Bank's engagements in construction of Corridor Vc in Croatia as well as Bosnia and Herzegovina. Please refer to Annex 2 for map of Corridor Vc and key features of the Project.

In Croatia, Corridor Vc passes through the Slavonija and Baranja region ("**S&B Region**"), which was heavily affected during the war in Croatia in the nineties and never fully recovered. The region is [REDACTED]. The construction of the remaining sections of Corridor Vc is a part of the above development plan and is supported by the sovereign guarantee of the Republic of Croatia.

Through participation in the proposed project, the Bank will encourage economic inclusion practices [REDACTED].

As part of the inclusive procurement, the Company and the contractor will open up accredited work-based learning opportunities for young people during the construction phase of the project, which will equip them with the skills required by the labour market, assisting the youth's transition to employment. An independent consultant funded from the Bank's TC funds will support the client (who is an industry-wide entity) in development and introduction of inclusive procurement.

The proposed project will be an important element of the Bank's continued support for the development and reform of the motorway sector in Croatia and introduction of best international practices into the Company's operations. Building on the achievements of the previous engagements, the Project will reinforce the commitment of the Company and the Government to implementation of the Motorway sector operational restructuring, supported by the Bank (together with World Bank) as part of the HAC Restructuring Project (OpID 47716).

In addition, the Project incorporates climate change resilience improvements in its design to address the risks of increasing extreme weather events, impacting the road transport network as a result of climate change, including flooding and extreme rainfall events.

The Bank has discussed the project and its timetable with the Government representative with view of an ongoing COVID-19 crisis. The Government assured the Bank that the project remains of strategic importance for Croatia, and the Government is committed to its timely implementation.

1.1 STRATEGIC CONTEXT

The proposed project is consistent with the Transport Sector Strategy. The strategy stresses that "economic growth and development requires transportation/mobility and better connected infrastructure and services". Supporting corridors and networks plans and complementing co-financing partners with

investments in constructing motorways has been recognised as one of the strategic directions for the road sector in the countries of operations.

The Project is also consistent with the Strategy for Croatia, stating that “The Bank will support transport ... infrastructure enhancing Croatia’s integration with regional markets...”. The Strategy for Croatia is also stresses the importance of implementation of inclusive practices for the country’s sustainable economic development through “improved vocational and technical training reflecting employer needs, particularly through work based learning and improved skills standards”. [REDACTED]

The Bank has been supporting the development of Croatia’s motorways sector for almost two decades. Its funding to date supported a significant extension of the motorway network in the country, as well as implementation of reforms both at a sector and corporate levels, encouraging improvement of business practices, commercial orientation as well as operational and financial efficiency. For a summary of the past projects in the sector, please refer to Annex 6.

As part of the most recent project - HAC Restructuring Project (Opid 47716) – the Bank, together with the World Bank, played a crucial role in the policy dialogue on motorway sector reform with view of improving operational efficiency and financial sustainability of the key companies in the motorway sector. The restructuring efforts were supported by international consultants mobilised under the Bank’s IPPF facility, who developed a Restructuring Action Plan (“**RAP**”) and Labour Restructuring Action Plan (“**LRAP**”) for the sector companies. The RAP and LRAP, following an endorsement by the World Bank, formed the basis for a Sector Policy Statement adopted by the Government in March 2017 as an official “roadmap” for achieving road and motorway sectors sustainability. The key provisions of a Sector Policy Statement include: (i) sector debt optimisation, (ii) prioritisation of future investments, establishment of debt limits with a focus on projects benefiting from EU grants; (iii) modernisation of the key sector companies; and (iv) restructuring of the road sector by improving supervision and planning, controlling public investment, and increasing governance and operational efficiency by establishing KPIs, staff rationalisation, outsourcing and setting appropriate standards for maintenance works.

To achieve the objectives of the reform, the Government and the Company are working on the implementation of the numerous measures pursuant to Sector Policy Statement, which are expected to be largely implemented by 2022. The key achievements to date are significant and include completion of financial restructuring and improved operational performance; good progress on staff retrenchment plans, introduction of seasonal toll increases, strengthening of the sector governance with the introduction of a planning department within the Ministry of Transport; the Company is progressing well with the relevant consultancy assignments (i.e. RAMS Scoping, tolling strategy, maintenance standards and others).

In addition, in 2018 the Company conducted lighting energy efficiency study with support of an independent consultant financed from EBRD TC funds. The study indicated that significant savings can be achieved in case of installation of LED lighting. On the basis of the report, the Company has adopted and included LED project into its strategy. The preparations for project implementation is currently ongoing.

Building on the above achievements, the proposed project will further support development of Croatian motorways network, critical for the country’s economic development. The commitment of the Company and the government to the reform and implementation of the Sector Policy Statement will be reinforced through introduction of additional covenants as part of the proposed project.

1.2 TRANSITION IMPACT

Obj. No.	Objective	Details
Primary TI Quality: Integrated		
1.1	The Project ensures material quality improvements of the current infrastructure between countries that are currently inadequately integrated.	The Project involves the construction of the remaining sections of Corridor Vc in Croatia, which is the main international transport corridor connecting eastern Croatia with the EU countries (Hungary) in the north and Bosnia and Herzegovina in the south. Completion of the Croatian part of Corridor Vc towards the Hungarian border will increase regional connectivity, reduce existing bottlenecks along the Corridor and complement the Bank's on-going financing of sections of Corridor Vc in Bosnia I Herzegovina. In addition, the Project will support Slavonija and Baranja's economic development and contribute to regional integration by improving connectivity of its main cities with the neighbouring countries.
Secondary TI Quality: Inclusive		
2.1	<i>Youth:</i> The Project will introduce inclusive procurement practices that will be replicated and open up accredited work-based learning opportunities for young people (benefitting 50-100 students)	<p>The Project will introduce inclusive procurement practices, by adding an additional clause into the tender documentation, to engage and support the client and private sector contractors to develop and implement training and work-based learning opportunities for youth (young women and men who possess entry level skills in relevant disciplines but lack practical experience).</p> <p>A minimum of 60 students will benefit from the programme over the life of the investment. Apprentices will receive a combination of classroom-based and on-site training that will complement their ongoing vocational training and meets the quality standards for the relevant programmes, such as carpentry, ironworks, construction equipment operation, and others, as defined by the national legislation. Apprentices will be able to engage on any of the needed occupations during the phase of construction (e.g. engineering, geology, environment, health and safety) through participating vocational schools and local job brokerage agencies. This will enable the students to apply their skills in practice and thereby enhance their overall competitiveness in the labour market, and, importantly, gain exposure to a potential employer. Student learning outcomes will be accredited in line with national standards.</p> <p>In order to support the client and its contractors with the delivery of this new component, a TC will provide capacity building to develop replicable tender document inputs, facilitate training partnerships with established education providers and provide regular monitoring support throughout the process.</p>

1.3 ADDITIONALITY

Identified triggers*	Description
[REDACTED]	[REDACTED]
A subsequent/consecutive transaction with the same client with the same use of proceeds or in the same country (repeat transaction).	Through its previous engagements with HAC, the Bank has supported a significant extension of the motorway network in Croatia as well as sector reform.

Additionality sources	
Financing Structure - EBRD offers a tenor, which is above the market average and is necessary to structure the project.	IFIs remain the only lenders in Croatia willing to provide long-term loans to the motorway sector, which are necessary, taking into account life of underlying assets. By participating in the project, the Bank will provide the financing on terms, which are not available from commercial lenders, but are necessary to structure the project.
Policy, sector, Institutional or regulatory change EBRD's involvement is designed to enhance practices at the sector level.	Through its long-standing engagement with the Client and the authorities, the Bank continues to support sector reform and encourage introduction of the best international practices into the Company's operations. EBRD's commitment and ability to effectively support implementation of the sector reforms is also acknowledged by HAC and the Croatian Government as a key factor in achieving improved institutional framework in the road sector and enhanced operating efficiency of its key entities.
Standard-setting: helping projects and clients achieve higher standards Client seeks EBRD expertise on higher inclusion standards.	HAC is seeking EBRD expertise on setting higher inclusion standards. As part of the Project, the Bank will facilitate introduction of inclusive procurement practices, involving creating on-the-job training opportunities to young people, which will result in accredited certification.

1.4 SOUND BANKING - KEY RISKS

Risks	Probability / Effect	Comments
Sovereign/ country risk	<i>Low/Medium</i>	The risk is mitigated by Croatia's improved macroeconomic performance in recent years: after a period of recession, the country experienced continuous GDP growth in 2015-2019. [REDACTED] The current sovereign ratings of Croatia are as follows: Fitch: BBB-, Moody's: Ba2, S&P: BBB -.
Project Implementation	<i>Low/Medium</i>	Implementation risk is mitigated by HAC's extensive experience in implementing EBRD funded projects. [REDACTED]
Revenue Risk/COVID -19 crisis impact	<i>Medium/Low</i>	The main sources of Company's revenues are toll revenues. [REDACTED]Historically, the Company's revenues demonstrated steady growth driven by traffic volumes and toll increases. The revenues will be affected by the COVID-19 crisis due to a reduction in traffic, however traffic is expected to recover after the crisis. Effects of the COVID crisis have been considered in the financial analysis section below. The risk of insufficient revenues resulting in insufficient cash flows to cover debt service obligations is mitigated by the availability of the sovereign guarantee.

2. MEASURING / MONITORING SUCCESS

<i>Overall objectives of project</i>	<i>Monitoring benchmarks</i>	<i>Implementation timing</i>
- On-time project implementation	- Completion according to the timeline and within the budget.	- [REDACTED]
- Compliance with design standards and project specifications.	- As identified in the project completion report.	- [REDACTED]

<i>Transition Impact Monitoring Indicators and Benchmarks</i>						
Quality	Obj . No.	Monitoring Indicator	Details	Baseline	Target	Due date*
Integrated	1.1	Net increase in road infrastructure usage and/or capacity.	Construction of the motorway sections on Corridor Vc in Croatia: - Stage I (17.5 km) - Stage II (5 km)	[REDACTED]	[REDACTED]	[REDACTED]
	1.2	Number of individuals with improved access to transportation services.	Number of people travelling in cars and buses per year based on annual average daily traffic: - Stage I (min 6.2 mln.) - Stage II (min 7 mln.)	[REDACTED]	[REDACTED]	[REDACTED]
	1.3	Practices of the relevant stakeholder improved (others).	The Client will implement the new tolling system and ensure the full functionality and full acceptance.	[REDACTED]	[REDACTED]	[REDACTED]
	1.4	New or updated technology introduced.	The Client will implement energy efficiency measures in lighting as proposed by the EBRD TC funded study and consultants for Technical and Business Rationalisation of Motorways	[REDACTED]	[REDACTED]	[REDACTED]
	1.5	Practices of the relevant stakeholder improved (operational).	The client will implement optimisation measures related to HAC's motorway maintenance operations as proposed by the consultants for development of National Standards for	[REDACTED]	[REDACTED]	[REDACTED]

			Routine and Periodic Maintenance of Public Roads.			
Inclusive	2.1	Practices of the client improved (inclusive procurement).	Tender documentation includes the requirement for the contractor to provide training and work-based learning to young people. The client will be supported with capacity building activities to improve company level procurement policies in order to replicate the inclusive procurement approach on forthcoming tenders.	[REDACTED]	[REDACTED]	[REDACTED]
	2.2	Number of youth earning an accredited certification and enhancing their skills as a result of training.	At least 60 young people will be engaged in work-based learning provided by the client and its contractor, complementing their ongoing vocational training.	[REDACTED]	[REDACTED]	[REDACTED]
	2.3	Tailored training programme developed and implemented.	TC will support the client and contractor to develop a training and work based learning programme and action plan for implementation and coordination with relevant stakeholders (including the national employment agency, the Ministry of Labour and vocational schools and training centres).	[REDACTED]	[REDACTED]	[REDACTED]

3. KEY PARTIES

3.1 BORROWER/INVESTEE COMPANY

HAC was established in 2001 as a Croatian state-owned limited liability company in charge of construction, maintenance and tolling of the motorways. It is currently responsible for the following motorway sections, totaling 915.5 km:

- A1 Bosiljevo (A6) – Split – Ravča – Ploče- Karamatići
- A3 Bregana – Zagreb (A1, A2, A4, A11) – Slavonski Brod – Sredanci (A5) – Županja – Lipovac
- A4 Ivanja Reka (A3) – Varaždin – Goričan
- A5 Interchange Svilaj – Interchange Sredanci (A3) – Đakovo – interchange Osijek
- A10 border with Bosnia & Herzegovina – interchange Kula Norinska – interchange Ploče
- A11 Interchange Jakuševac (A3) – Interchange Lekenik

HAC's other activities include designing and issuing permits for the location, building and operation of motorways, land development, support activities adjacent to motorways and ancillary activities relating to motorway operation and administration.

Please refer to the Annex 1 for a map of Croatian Motorways.

3.2 GUARANTOR

The Guarantor is the Republic of Croatia.

Croatia's macroeconomic outlook

[REDACTED]The economy recorded a growth rate of 2.9% in 2019, as domestic consumption and investment increased, fuelled by increased earnings, a higher employment rate, an increasing pace of lending, growing disbursement of EU funds, and an overall rising economic sentiment. As a result of the above, the Croatia's credit rating was raised to investment grade. In March 2019, S&P's upgraded Croatia to investment grade (BBB-). In June 2019 Fitch raised the Croatian credit rating from "BB+" to "BBB-", with positive outlook. The Croatian Government is committed to joining the European Exchange Rate Mechanism ("ERM2"), as part of its euro adoption strategy.

Prior to COVID-19 crisis, the economic performance was expected to stay at moderate levels in the near future, with an estimated 2020 growth rate of 2.5%. The crisis however is bound to have a material, although temporary impact on the Croatia's economy, which is highly dependent on tourist industry. As a result, the Bank's base case economic forecast has been adjusted [REDACTED].

The Croatian authorities have announced a considerable fiscal stimulus for the economy, focused on preservation of employment and deferral of tax payment. The Croatian National Bank (the "CNB") has focused on stabilising the local currency and the financial sector. As of March 31, the CNB has intervened to mitigate significant depreciation pressures with around EUR 2.2 billion, about 12 percent of total reserves at end-January. The CNB has also provided additional liquidity, supported the government securities market, and temporarily eased the regulatory burden on banks.

4. MARKET CONTEXT

The Croatian road network consists of approximately 30 thousand km of public roads, including 1,314 km of motorways and semi-motorways. While most of the motorways were constructed or rehabilitated during the period 2000 – 2010, there still remain significant gaps in the completion of Corridor Vc, which is a priority for the Croatian government. All motorway investments were either

funded directly from the central government budget or by sovereign guaranteed loans, including IFIs loans.

A significant share of Croatian motorways is part of the Pan-European motorway network and is part of Pan-European Corridors Vb, Vc and X, thus being strategically important to the entire region. Please refer to Annex 1 for the map of the motorway network in Croatia.

The motorway network is operated by two publicly owned companies and two private concessionaires as described below:

- HAC operates 926 km of motorways, including A1-A5 and A11 motorways;
- Autocesta Rijeka – Zagreb d.d (“**ARZ**”) is a publicly owned concessionaire that operates the A6 motorway (Zagreb-Rijeka) and some adjacent roads with the total length of 187 km;
- BINA-ISTRA d.d., private concessionaire formed in 1998 operates a semi-motorway 141 km long between Matulji-Kanfanar – Pula and Kanfanar-Umag;
- AUTOCESTA ZAGREB-MACELJ d.o.o. operates a motorway 60 km long respectively which is on Corridor Xa.

Both closed and open toll collection systems are applied on motorways operating in Croatia. On motorways and other toll structures operated by HAC tolls are collected in accordance with the length of the travelled section and as per the relevant vehicle category.

5. FINANCIAL / ECONOMIC ANALYSIS

5.1 FINANCIAL PROJECTIONS

[REDACTED]

5.2 SENSITIVITY ANALYSIS

[REDACTED]

5.3 ECONOMIC ANALYSIS

[REDACTED]

5.4 PROJECTED PROFITABILITY FOR THE BANK

[REDACTED]

6. OTHER KEY CONSIDERATIONS

6.1 ENVIRONMENT

Categorised A (ESP 2014). The project involves the construction of a new 22.5 km motorway section between the border with Hungary and Halasica Bridge (over Karasica River) on Motorway A5 inclusive of road crossings, roadside service facilities (RSF), interchanges, toll gates and parallel roads. The motorway is divided into two lots: the 5km long section “Hungarian Border – Beli Manastir” and the 17.5 km long section “Beli Manastir- Osijek”. The project will be implemented by the Highways Agency (HAC). Environmental and social due diligence (“**ESDD**”) was carried out by an independent consultant which included a review of the EIA prepared to meet national requirements in Croatia. The following

documents have been disclosed in May 2019: an overarching Non-Technical Summary (“**NTS**”) covering all components of the Project, national corridor-level Environmental Impact Assessment (“**EIA**”) originally disclosed in 2016, Environmental and Social Action Plan (“**ESAP**”), Stakeholder Engagement Plan (“**SEP**”), Land Acquisition and Resettlement Framework (“**LARF**”), Supplementary Lenders Information Package (“**SLIP**”), Framework Environmental and Social Management Plan (“**F-ESMP**”) and Health and Safety Management Plan (“**F-HSMP**”).

The Project has been subject to the national EIA process for each respective lot in 2003 and 2004, which was supplemented by an updated Environmental Impact Study (“**EIS**”) in 2016 and received a positive decision from the Ministry of Environmental Protection and Energy in 2017. ESDD confirmed that the Project is compliant with the national environmental requirements and the project preparation activities included consideration of technically and financially viable alternatives with active participation of local communities.

HAC has implemented an integrated management system certified to ISO 9001, ISO 14001 and OHSAS 18001:2017 (and is planning to recertify to ISO 45001). It has a Human Resources Department and relevant policies in place that set out the approach for managing their workforce. Workers have several channels available for raising workplace concerns. Approximately 80% of employees are members of the Labour Union. 18.8% of all employees in HAC are women. EBRD's requirements in regards to labour management and working conditions during construction will be included in Works Tender Documents and Contracts for the Project. Gender Based Violence (“**GBV**”) risks have been identified on this project and the Bank is working on measures to mitigate these risks.

The Project will implement pollution prevention and control measures in line with national and EU standards. ESMPs and HSMPs, for construction and operation will include defined requirements for monitoring, in-water and near-water works, waste management, spoil disposal, borrow sites, spill response and groundwater protection.

The total land required for the project is circa 260 ha, affecting approximately 560 land parcels, predominantly of privately-owned cultivated land. The land acquisition process, commenced in 2010, is at an advanced stage for section “Halasica Bridge to Beli Manastir” and the overall completeness of the process is 90%. Further land acquisition for the section “Hungarian border- Beli Manastir is required” and may result in economic displacement. The alignment has avoided residential structures, and there is no physical displacement. The LARF has been developed and disclosed in line with EBRD PR 5 requirements and it also includes the requirement to assess the land acquisition completed in the past and identify any remedial measures required to achieve compliance with EBRD’s PRs. A detailed Land Acquisition and Resettlement Plan will be prepared for the “Hungarian border- Beli Manastir” section when the design is developed in sufficient detail and will be covenanted in the Loan Agreement.

The alignment does not cross any protected or biodiversity sensitive areas. Potential biodiversity impacts may be related to large quantities of gravel to be acquired from River Drava for embankment construction. An additional Biodiversity Impact Assessment will be conducted by an independent expert prior to extraction of materials to identify the potential presence of species and/or habitats of conservation importance that may need to be protected in accordance with national and EU requirements. Despite project alignment being located in the flood plain of the Drava River, relevant risk assessments undertaken as part of the 2016 EIS have shown limited risks to the project. A Road Safety Audit will be undertaken on the detailed design and is captured in the ESAP.

A SEP has been prepared for the project and includes requirements for public engagement during the pre-construction and construction period, including awareness raising activities with the local communities on community health and safety and the grievance mechanism for the project.

An ESAP has been disclosed and includes requirements for a project-specific construction and operation Environmental and Social Management Plan and a Health and Safety Management Plan, Traffic

Management Plan, additional Biodiversity Impact Assessment, UXO chance finds procedure, chance finds procedures, public grievance mechanism and implementation of the SEP.

The Bank will evaluate the Project's environmental and social performance in accordance with the Bank's Performance Requirements through review of reports and monitoring visits.

6.2 INTEGRITY

In conjunction with OCCO, internal integrity due diligence was undertaken on HAC and its management as well as the representative of the government in HAC's general assembly. [REDACTED][I]t was concluded that this project does not present an unacceptable reputational or integrity risk to the Bank. [REDACTED]

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

ANNEXES TO OPERATION REPORT

ANNEX 1	Map Of Croatian Motorways
ANNEX 2	Map and Key Features of the Project
ANNEX 3	Project Implementation
ANNEX 4	Historical Financial Statements
ANNEX 5	EIRR Analysis
ANNEX 6	The Bank's Projects with HAC

ANNEX 1 - MAP OF CROATIAN MOTORWAYS

- A1** Part of the motorway A1 from Zagreb to Bosiljevo is operated by ARZ d.d.
- A7** Part of the motorway A7 is operated by ARZ d.d.
- D10 i D12** were handed over to Croatian Roads Authority



Key

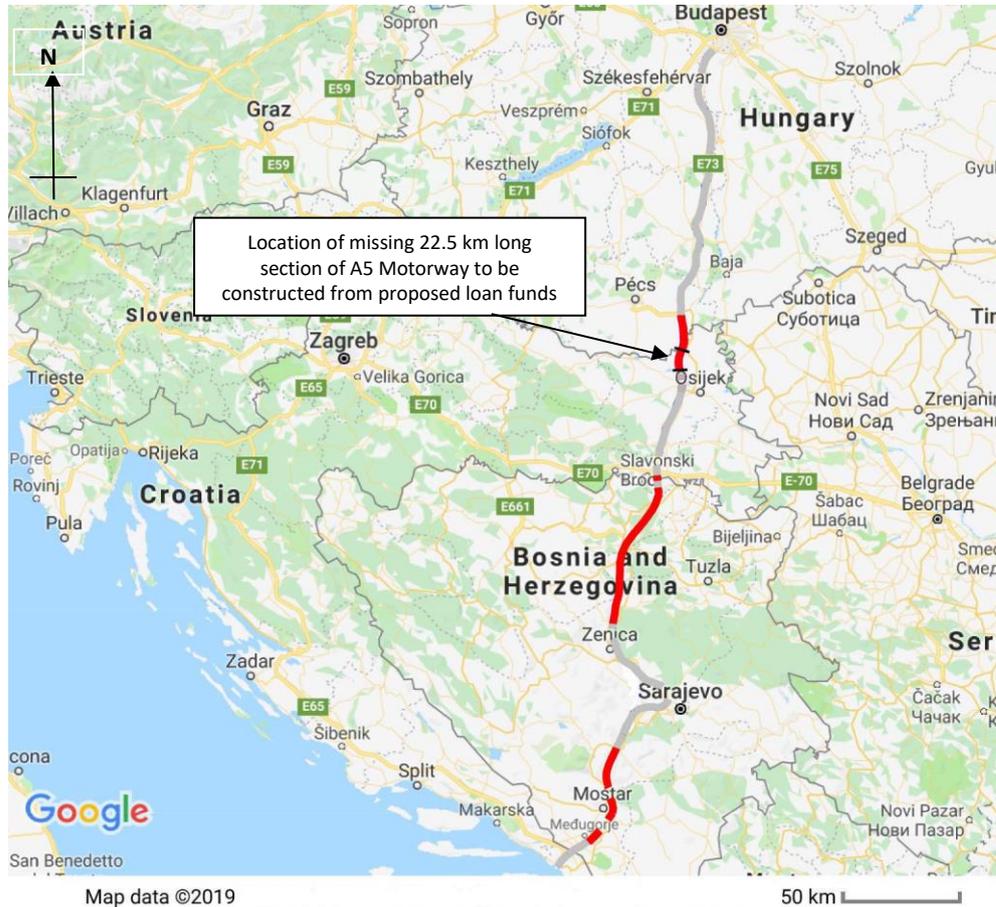
- TUNNEL OVER 5 KM
- TOLLED BRIDGE
- BRIDGE
- STATE ROAD
- BORDER CROSSING

Company	Motorways	Status of construction	Km in service
HRVATSKE AUTOCESTE d.o.o.	A1, A3, A4, A5, A10, A11	IN SERVICE IN CONSTRUCTION	918.50
AUTOCESTA RIJEKA-ZAGREB d.d.	A1, A4, A7, D10, D12	IN PROJECT	187.03
BINA-ISTRRA d.d.	A8, A9		141.00
AUTOCESTA ZAGREB-MACELJ d.o.o.	A2		60.00
TOTAL in service as per 31/12/2018			1,306.53

ANNEX 2 - MAP AND KEY FEATURES OF THE PROJECT

Figure 1 below shows the route of the Corridor Vc motorway and the construction status of various sections along its route.

Figure 1 Regional Map of the Corridor Vc Motorway running through Bosnia & Herzegovina, Croatia and Hungary

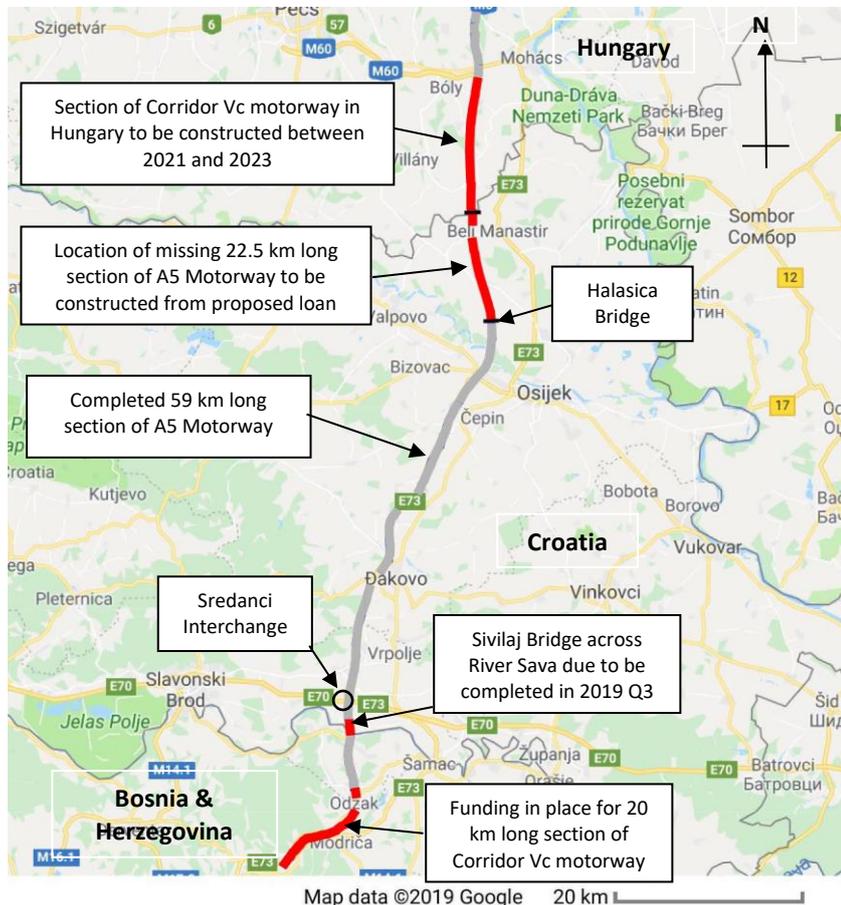


Legend

-  Sections of Corridor Vc motorway where construction still to be carried out
-  Completed Sections of Corridor Vc Motorway

Figure 2 shows the route of the existing and planned sections of the A5 motorway on Corridor Vc through Croatia. The 22.5 km long outstanding section of the A5 motorway between the Halasica bridge and the Hungarian border runs on a new alignment, mostly through gently undulating arable farmland.

Figure 2 Map showing the route of the A5 Motorway on Corridor Vc running through Croatia



Legend

- Sections of Corridor Vc motorway where construction still to be carried out
- Completed Sections of Corridor Vc Motorway

[REDACTED]

CLIMATE RESILIENCE CONSIDERATIONS

In line with the requirements of the Bank's GET Handbook, the project will contribute towards building the climate resilience of the road transport system in the project area, and of the communities and businesses that rely upon these transport links. The project area has experienced several floods in recent years, which have caused damage to transport infrastructure. The region wide floods in 2014 included flooding on the river Drava where the river burst its banks and floodwaters remained for 23 days. According to data from Hrvastke Vode (the legal entity for water management in Croatia) the route crosses areas of medium to high probability of flooding, at the area crossing the Karašica watercourse and the Drava embankment. Whilst overall river water levels are expected to decrease, extreme flood events on Croatian Rivers are expected to increase significantly as a result of climate change. A climate vulnerability and risk assessment was undertaken for the project, which identified several material climate change risks, including:

- Extreme rainfall
- Maximum wind speed
- Storms
- Floods (riverbank and fluvial)
- Soil erosion, instability and landslides

Climate resilience improvements have been integrated into the design of the project. Rainfall drainage has been dimensioned for extreme rainfall situations, watercourse crossings have been designed to prevent the occurrence of erosion and landslides and address the risks of flooding. In addition, operational and maintenance measures will include regular maintenance of drainage channels, continuous monitoring of structures such as bridge supports to review erosion processes, and providing additional information to road users. The projects assets and by extension the traffic flows, will as a result experience less weather-related damage and disruption when compared to the pre-project baseline.

ANNEX 3 – PROJECT IMPLEMENTATION

Procurement classification – *Public Sovereign*

[REDACTED]HAC presents considerable previous experience in the implementation of similar projects funded by other International Financial Institutions. [REDACTED] The Bank has reviewed the terms of reference as well as the conducted procurement process by the client to ensure that it is satisfactory to the Bank and it complies with its PP&R. Similar due diligence will be conducted by the Bank when procurement of works supervision services will be conducted for works under Tranche B.

[REDACTED]

The nature of the works contract is generally considered of moderate to low complexity and has a relatively medium to low degree of implementation risk. The highest potential risk resides on the lack of previous experience in projects of similar nature and volume in the country within the last 10 years. However, it is expected that the contracts would attract sufficient international potential tenderers and interested participants that are currently operating in the region.

[REDACTED]

Procurement arrangements:

There are anticipated three works contracts: for Tranche A, one works contract for Construction of a 17.5 km motorway section on Corridor Vc between Halasica bridge and the town of Beli Manastir, and a second works contract for installation of road equipment and related utilities and furnishing of section: Halasica Bridge - Beli Manastir. As part of Tranche B, it is envisaged a works contract for construction of a 5 km motorway section on Corridor Vc from the town of Beli Manastir to the Hungarian border and installation of the relevant motorway equipment.

All the works contracts will be co-financed by the proceeds of the Bank's loan and the HBOR loan; they will be procured following open tendering procedures in accordance with the Bank's PP&R and will be subject to prior review by the Bank. It is envisaged that the tender documents will be based on the latest version of the Bank's Standard Procurement Documents for procurement of works.

The Project also envisages one technical cooperation contract to support the Client with the implementation of inclusive procurement practices, engaging and supporting the Client and contractor to offer effective on the job training opportunities to young people during the construction phase which consultancy services would be financed as part of the Bank's technical cooperation framework and procured by direct selection in accordance to the provisions of the Bank's PP&R Article 5 (Procurement of Consultant Services).

The Procurement Plan below provides the details of planned investment and consultancy assignments.

Additional information:

The Contracts will be tenderer via the EBRD Client e-Procurement Portal ("ECEPP").

[REDACTED]

ANNEX 4 - HISTORICAL FINANCIAL STATEMENTS

[REDACTED]

ANNEX 5 – EIRR ANALYSIS

[REDACTED]

ANNEX 6 - THE BANK'S PROJECTS WITH HAC

Croatia: Motorway Rehabilitation Project (OpId: 27171)

[REDACTED] The Project was signed in 2002 to finance the rehabilitation of the Zabok-Zagreb-Slavonski Brod section of Corridor X. The Project facilitated institutional development of then newly established company focusing on improvement of its operating practices. The project resulted in improved institutional capacity and operational efficiency of the Company, mainly through introduction of a new IFRS based financial and management reporting system, development of 4-year rolling business plan, development of the strategy for improving efficiency of the maintenance activities.

Corridor 10 Motorway Completion (OpId: 31848)

[REDACTED] In 2003, the Bank financed the final section of Corridor X in Croatia. The key transition achievement included introduction of a cost-based toll structure for the motorway network in Croatia, monitored through a newly adopted electronic toll system.

Corridor Vc Completion Project (OpId 41325)

[REDACTED] The project was signed in November 2010 to finance sections of the Corridor Vc in Croatia. The key transition achievements included institutional strengthening through improvement of procurement policy and practices and implementation of the steps towards the commercialisation and potential private sector participation, including development of the relevant corporate strategy, separation of the tolling and maintenance activities, launch of the tender for monetization of the constructed motorway network.

HAC Restructuring Project (OpId 47716)

[REDACTED] The project was signed in 2016 to support financial and operational restructuring of HAC. Restructuring Action Plan (“**RAP**”) and Labour Restructuring Action Plan (“**LRAP**”) endorsed by EBRD, formed the basis for the sector policy statement adopted by the Government in 2017. The Government and the Company are working on the implementation of the numerous measures pursuant to Sector Policy Statement, which are expected to be largely implemented by 2022. The key achievements to date are significant and include completion of financial restructuring and improved operational performance; good progress on staff retrenchment plans, introduction of seasonal toll increases, strengthening of the sector governance with introduction of Planning Department within the Ministry of Transport; the Company is progressing well with the relevant consultancy assignments (i.e. RAMS Scoping, tolling strategy, maintenance standards and others).

[REDACTED]