

REQUEST FOR EXPRESSIONS OF INTEREST (CONSULTING SERVICES – FIRMS SELECTION)

COUNTRY: CROATIA

NAME OF PROJECT : SUSTAINABLE CROATIAN RAILWAYS IN EUROPE PROJECT

Loan No.: _____

Assignment Title: Croatian Railways - Asset Management

Reference No. : SUCRE-HZI-CS-QCBS-01-2015

The HŽ INFRASTRUKTURA d.o.o. has applied for financing from the World Bank toward the cost of the **Sustainable Croatian Railways in Europe Project**, and intends to apply part of the proceeds for consulting services.

The consulting services (“the Services”) include the following consulting services to be provided to HZ Infrastructure, HZ Passenger Transport and HZ Cargo, and under the supervision of the Ministry of Maritime Affairs, Transport and Infrastructure (MMATI).

As a part of the overall business restructuring, each company has started to work on its asset management systems to make it more efficient. The government requires external services to reach the following goals: (i) ensuring completion of the asset repartition between companies and resolution of disputes, if any; (ii) ensuring a neutral valuation of assets (especially non-core assets) in order to maximize self-financing of the sector’s restructuring and investment program; (iii) ensuring that companies adopt a strategy that optimizes assets management.

The detailed Terms of Reference for the above referenced consulting services is posted on the website of the HŽ Infrastruktura d.o.o. at www.hzinfra.hr

The HŽ Infrastruktura d.o.o. now invites eligible consulting firms (“Consultants”) to indicate their interest in providing the Services. Interested Consultants should provide information demonstrating that they have the required qualifications and relevant experience to perform the Services. The shortlisting criteria are:

- company profile, organization and staffing
- details of experience or similar assignments undertaken in the previous five years, including a reference list providing information on name of assignment, cost, duration, location, client, and a contact detail for enquiring references as relevant.
- Confirmation of availability of the following key experts with the required qualifications as indicated in detail in the terms of reference.

1. **Project director (team leader, 9 person-month)**
2. **Legal expert/advisor specializing in real estate (2 Person-Month)**
3. **Real estate specialist/ business valuator (2 person- Month)**
4. **Senior financial specialist (4 person-month)**
5. **Senior railway specialist (3 person-month)**
6. **Accounting specialist (2 person-month)**
7. **Financial specialist (10 person-month)**

Implementation period of this assignment is 12 months.

Expression of interest must be accompanied by a completed Contact Sheet. One original and two copies of Expression of interest in English, shall be submitted to the Client in an envelope marked Expression of Interest for HZ Infrastructure **Croatian Railways - Asset Management** .

The attention of interested Consultants is drawn to paragraph 1.9 of the World Bank's "Guidelines: Selection and Employment of Consultants under IBRD Loans and IDA Credits and Grants by World Bank Borrowers" dated January 2011 (revised July 2014). ("Consultant Guidelines"), setting forth the World Bank's policy on conflict of interest. In addition, please refer to the following specific information on conflict of interest related to this assignment as per paragraph 1.9 of Consultant Guidelines.

Consultants may associate with other firms in the form of a joint venture or a sub consultancy to enhance their qualifications. The "association" may take the form of a Joint Venture or a sub consultancy. In case of a Joint Venture (JV), all members of the JV will be evaluated jointly for the purpose of short listing and shall be jointly and severally liable for the assignment and shall sign the contract in case of award is made to that JV group. Interested consultants should clearly indicate the structure of their "association" and the duties of the partners and sub consultants in their application. Unclear expression of interests in terms of "in association with" and/or "in affiliation with" and etc. may not be considered for short listing. Keeping one expression of interest per firm as principle, a consultant firm may decide whether it wishes to participate as a sub consultant or as an individual consultant or as a partner in a joint venture. Please note that a firm shall submit only one expression of interests in the same selection process either individually as a consultant or as a partner in a joint venture. No firm can be a sub consultant while submitting an expression of interests individually or as a partner of a joint venture in the same selection process. A firm, if acting in the capacity of sub consultant in any consultant or JV, may participate in more than one consultant, but only in the capacity of a sub consultant.

A Consultant will be selected in accordance with the Quality and Cost Based Selection Method (QCBS) method set out in the Consultant Guidelines.

Further information can be obtained at the address below during office hours 0800 to 1500 hours local time.

Expressions of interest must be delivered in a written form to the address below (in person, or by fax, or by e-mail) by **April 29th 2015 till 15 o'clock local time**.

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TERMS OF REFERENCE

Croatian Railways - Asset Management

I. BACKGROUND

The Croatian Railway Sector is undergoing a substantial reform needed to recapture traffic to meet the country's mobility objectives at an affordable level of price. This is undertaken in a context of large backlog in investment, difficult financial situation of the companies and recent separation of the railway holding into three companies in charge of infrastructure management, passenger transport and freight transport (HZ Infrastructure, HZ Passenger Transport and HZ Cargo). HZI and HZP are also facing the largest investment program ever to be implemented for the sector with high co-financing needs, and a fiscal context in which the long term sustainability of the subsidies allocated to passenger services and infrastructure is not guaranteed.

II. OBJECTIVES OF THE CONSULTANCY SERVICES

As a part of the overall business restructuring, each company has started to work on its asset management systems to make it more efficient. The government, however, is still required to ensure that the overall system is managed efficiently. It is also in charge of the definition of the public domain and needs to have the last word in decisions resulting from the initial separation between companies. The government requires external services to reach the following goals: (i) ensuring completion of the asset repartition between companies and resolution of disputes, if any; (ii) ensuring a neutral valuation of assets (especially non-core assets) in order to maximize self-financing of the sector's restructuring and investment program; (iii) ensuring that companies adopt a strategy that optimizes assets management.

III. SCOPE OF THE ASSIGNMENT

The following consulting services are to be provided to HZ Infrastructure, HZ Passenger Transport and HZ Cargo, and under the supervision of the Ministry of Maritime Affairs, Transport and Infrastructure (MMATI). The status of asset management and inventory in the various companies is listed in Annex I.

For purpose of this task *assets* include: long term tangible and intangible¹ assets, and short-term inventories² (core and non-core, operational spare parts, raw materials).

The scope of work is envisioned to be divided into three primary activities:

¹ This can include licenses, patents, copyrights, etc

² Due diligence on short term inventories should be carried out for HZ Cargo and HZ Passenger Transport. As the inventory of HZ Infrastructure is considered complete, due diligence would focus on the part of the inventory which has raised qualifications in the 2013 auditors' report, unless being substantially resolved by the company in the meantime.

Phase 1. Due diligence report: Inception, initial review and recommendations

During the inception phase, the consultancy firm will carry out an overall due diligence.

1.1. Process of separation of assets and status of disputed assets

- (i) Review the asset division processes in the Croatian railway system since 2000, its outcomes and shortfalls. Particular focus should be given to 2006-2007 period and during the then made Croatian Railways Division Plan;
- (ii) Identify and classify disputable assets of the Croatian Railway Companies with regard to ownership and legal titles, in Croatia or countries in the region;
- (iii) Review existing data, information, reports and systems available at the state level and in the companies, and assess remaining information and data gaps;

1.2. Asset management in the Croatian Railways Companies

- (iv) Review the existing asset management organization and practices in HZ Infrastructure, HZ Passenger Transport and HZ Cargo and their selected subsidiaries; including asset policies, strategies, operational plans and systems (formal and applied in practice), ongoing activities, and plans for implementing new asset management policy and related plans and systems;
- (v) Review the existing fixed asset cycles and internal control procedures; including investment planning, procurement and purchase, maintenance and repairs, physical safeguarding, monitoring (technical, safety, cost, revenue, and efficiency), liquidation or sale, and decision making process. Review whether legal agreements related to sale, rent or leasing of major fixed assets secure financial and legal interests of the companies. Provide recommendations on identified risks, deficiencies, areas for improvement of processes, efficiencies, decision making, accountability, coordination, and reporting lines;

1.3 Proposed assets classification and valuation methodology and proposed coordination mechanisms for dispute resolution

- (vi) Prepare coherent (to extent possible) asset definition and classification for the Croatian railway sector, which would divide the assets into “core assets” (operational and needed for mandatory functions and services, administrative support for core operations, idle, obsolete or assets for sale) and “non-core assets” (non-operational, social/discretionary, surplus);
- (vii) Define methodology for classifying and valuating assets for the purpose of: *financial reporting* in line with IFRS endorsed by the EU (review of adequacy of the depreciation method and rates linked to the business model of the entities, taking into account new IFRS 13 Fair Value Measurement and impact on accounting policy); *business analysis/decision making*; and *operational asset management standards* in railway sector (e.g., PAS 55). Proposed classification should be adequate to track the cost, revenue, and physical indicators of asset items/groups, feasible to gather and maintain, taking into account current and planned IT systems;
- (viii) Formulate recommendations for coordination, and resolution of disputes for certain assets, with the State Office for Management of State Assets (DUUDI), the Ministry of Finance (MoF), the Ministry of Construction and Physical Planning (MCP), and selected municipalities, in a realistic timeframe to be discussed by the different parties.

1.4. Road map for implementation of asset management

- (ix) Review roles and responsibilities of different stakeholders with regard to asset management in the Croatian railway sector, and relationship between them; propose actions for enhancing coordination, management and governance in line with international best practices and existing legal framework;

- (x) Provide a detailed SWOT analysis for asset management in the sector, with strategic and operational recommendations for asset management; this SWOT will inter alia list weaknesses identified in the applicable legislation(e.g., accounting, classification, public domain, servitude);
- (xi) Outline a time bound roadmap for the implementation of a global efficient asset management, covering the aspects of inventory, valuation, and proposals for implementation of tools and systems, reporting mechanisms, performance measurement between the various stakeholders and the owner, and legal and regulatory improvements for the weaknesses mentioned above.

Throughout the Phase 1, all Croatian Railways Companies would assign staff to provide the consultant with necessary information for their work. However, the consultant should not rely on Croatian Railway companies for any kind of administrative support, but would need to ensure that an adequate team is mobilized, combining the necessary skills for the assignment.

Phase 2. Implementation of asset management improvements

The consultants will actively support the implementation of the conclusions of the first phase through several tasks, centered around: (i) confirming and finalizing inventories and asset management classification for all companies; (ii) solving outstanding issues related to separation of disputed assets; (iii) valuating assets (with a focus on non-core assets) to maximize opportunities to self-finance the restructuring plans; and (iv) supporting improved efficiency of asset management in the companies. These activities will be carried out in parallel, with appropriate linkage among them.

2.1. Confirmation and finalization of inventories and accounting valuation

- (i) Classifying assets in line with the methodology developed during the inception phase. The classification should use existing synergies to extent possible, and provide for better integration of various needs, departments, and registers, and to avoid duplication of efforts;
- (ii) Review and complete as necessary the inventory of assets for each HZ company, keeping a list of disputed or unclear status assets and incorporating them once situation is solved and including data listed in Annex 2 to these ToRs;
- (iii) Review or carry out the valuation of the assets for accounting purposes in accordance with IFRS as endorsed by EU to provide sufficient information to resolve financial audit issues related to valuation. The valuation should be based on fair value.

2.2. Outstanding issues related to separation of disputed assets and assets with unclear legal status

The objective of this activity is to resolve the assets with an unclear status (legal or geodetic), and those that are currently disputed between companies, taking into account accounting, operational and business decision making dimensions. The priority will be given to assets being disputed, but the consultancy will also support the review and resolution of outstanding legal status of assets which are not disputed in order to allow all companies and the state to have full clarity on the status of their assets by the end of the consultancy. This will include:

- (iv) Propose division of disputable assets among the Croatian Railway Companies and solution to resolve disputes or solve unclear cases to the owner as necessary (for disputable assets in the country and in the region, including assets disputed as part of the partition of former Yugoslavia);
- (v) Procedural/legal assistance to companies in carrying out the transfer of disputable assets between the companies, including transfer of legal titles and accounting transfer; including valuation and support to the modification of land titles. For assets which would be sold or its legal title transferred to the state, as part of the dispute or separation process, carry out a valuation based on market value as part of activity 2.3.

- (vi) For disputable assets that Companies have already started resolving themselves, the consultant should, in consultation with them and the line ministry, propose how to carry out the assignment in this regard³.

2.3. Valuation of assets to be commercialized or transferred

For this activity, the consultancy firm will distinguish between valuation for accounting purposes, which in most cases is total and at historic cost (depreciated for buildings), and valuation for management (decision making and transactions) which is selective and at market value. Valuation activities will be carried out in the following sequence:

- (vii) Integrate the conclusions of phase 1 to define or review the strategy to monetize unused non-core assets, i.e., maximize the performance and value of non-core activities to the core railway business by selling, leasing or franchising them to businesses with the greatest competencies in the activities, thereby generating the highest net revenues in the long term (horizon of 20years). The activity would review, and revise as necessary, a plan for managing real estate and land of Croatian Railways Companies, taking into account “highest and best use” approach (e.g., including moving from expensive prime locations to more modest settings to maximize the revenue and/or minimize cost of assets);
- (viii) Prepare procedures for market-based valuation for non-core assets, ideally pricing for sales and rent should be done through competitive allocations (auctions);
- (ix) Prepare a valuation report for the assets planned for divestiture under the control of the relevant authorities for asset transactions, reporting on available documentation, inventory data, valuation data, procedures for transactions (what, to whom, at what price) and balance sheet and accounting information;
- (x) Formulate recommendations on how the companies should set up teams and/or units to manage these activities – these institutional recommendations should take in account the EU and Croatian legal framework, and take in account coordination with MMATI and MoF. Consultant should identify training needs in the companies and the Government to implement the mentioned procedures and tools.

2.4. Support to increase efficiency in asset management in the companies

- (xi) Provide inputs for revision of the restructuring plans of Croatian Railways Companies with regard to changes in the status of certain assets;
- (xii) Assist Croatian Railways Companies in preparation/revision of their asset management plans based on the overall findings and in line with their medium-term business plans; including performance measurement for assets and their benchmarks to the EU averages (including accounting, financial, physical, operational indicators);
- (xiii) Provide support to companies in identifying revenues stemming activities that utilize railway assets. These include telecommunications companies that use railway rights-of-way, train stations retail or offices, advertising hoardings, and commercial car parks, among others;
- (xiv) Support changes to the IT systems for Asset Management in line with findings of phase 1 and proposals for integration of Financial Management and Asset Management Systems;
- (xv) Prepare a close out report; including general project information and objectives, summary of all deliverables completed, performance measurement, transition plan, lessons learned, outstanding issues, request for project closure approval;
- (xvi) Review the implementation of the plans within 12 months and prepare a report.

³ For convenience, Companies may decide to proceed with work on separation of some of the disputable assets and finalize it themselves. In this case, the consultant should incorporate outcomes of the Companies’ work in all his other deliverables, as needed. Moreover, this should not in any way prevent the consultant to start the assignment.

IV. DELIVERABLES

Following will be delivered by the consultancy firm:

- Due diligence report in two sequences:
 - o Interim due diligence report providing current status of the asset management in Croatian Railways Companies (activity 1.1, 1.2 and 1.3)
 - o Full due diligence report⁴
- Implementation roadmap for asset management for Croatian Railways Companies and MMATI (activity 1.4)
- Review, modifications, and gathering missing information for complete asset inventories for the Croatian Railways Companies and accounting valuation (activity 2.1.)
- Listing of assets with unresolved legal titles together with proposed resolution and support in transfers (activity 2.2)
- Provide valuation procedures, valuation report, asset strategy, and plan with recommended actions for managing assets to be sold or transferred, including institutional recommendations and training needs (activity 2.3)
- Preparation of transactions documentation (request for proposal, draft contracts, bidding documents) for assets to be divested (activity 2.2 and 2.3)
- Inputs into key strategic and business documents and reports of Croatian Railways Companies and MMATI (activity 2.4)
- Close out report including the implementation plan for 12 months (activity 2.4)

Language of the report is Croatian with English translation arranged by the Consultant.

V. TIMETABLE AND DURATION OF THE CONTRACT

The duration of the contract is estimated to be 12 months for phase 1 and items 2.1 and 2.4. Activities under 2.2 and 2.3 may require a longer period of implementation. Support to individual transactions will therefore need to be estimated and will need to be adjusted to the needs after phase 1. Quick mobilization and timely delivery is required under this assignment as per the timetable below. Each report will require client review and the final scope of phase 2 (for component 2.2 and 2.3) will be determined after the review of phase 1.

For assets that are identified by Croatian Railways Companies as priority for the consultant's assignment, the consultant should propose a shortened timetable of deliverables that would be implemented in parallel with the rest of the assignment.

The timetable for deliverables is as follows:

DELIVERABLE	DEADLINE (in business days)
Interim due diligence report	30
Final diligence report	60
Implementation roadmap	60
Asset inventory	80
Valuation report	100
Listing of assets with unresolved legal titles	80-180

⁴ Report should contain, inter alia, Croatian Railways Division Plan and clearly outline issues with regard to assets division.

Inputs into strategic and business reports	60-150
Transaction documentation	180
Close out report	360

VI. QUALIFICATION OF CONSULTANT

Only firms will be eligible for being awarded this consultancy assignment. Firms should have a proven track record and successfully completed similar assignments. The consultant will include qualified personnel in the field of accounting and audit; real estate management; railway policy and legal issues. The consulting firms shall have sufficient qualified personnel and resources to provide all necessary professional, technical, expert services, and administrative support as required for accomplishing all the required services within the prescribed time. The languages of this assignment are Croatian and English.

The consulting firm shall appoint a project director who has the authority to perform that role and the appropriate competence and capabilities. The responsibilities of the project director should be clearly defined by the consultancy firm and agreed with the client. The agreed responsibilities should be understood by the project director, other members of the project team and those responsible for the management of the consultancy firm.

Description of Key Staff:

1. **Project director (national, team leader, 9 person-month):** The project director will have the overall responsibility for work and all reports prepared. He/she will work closely with both national and international specialists to ensure quality of the work produced. He/she will have specific inputs to the asset management assessment, inventory and valuation processes. He/she will act as the chief liaison for the consultancy team with the client. The project director should have at least 15 years of professional experience and possess relevant qualifications including professional accounting/auditing, financial, professional valuation, asset management, real estate certificates.

He/she should have demonstrated successful track record in designing and developing asset management systems (preferably in railways); possess experience in carry out (asset) management and financial audits; applications/provision of auditing or advisory services including financial reporting in accordance with IFRS and fair valuation of property, plant and equipment; preparation of policies, strategies and operational plans in transport (preferably railways) and large SOEs. The identity and role of the project director should be included in proposal. The client will advise on the appointment of the project director. The project director may also be interviewed by members of the client team. The project director shall not be changed without good reason and without the approval by the client.

2. **Legal expert/advisor specializing in real estate (national, 2 Person-Month):** The legal expert with at least 15 years of experience, lawyer qualification and specialization in property legislation, and provision of legal services related to transactions. The specialist will review the legal status of assets and propose corrective actions. The specialist will provide inputs to the government in dealing with the disputed assets.
3. **Real estate specialist/ business valuator (national, 2 person- Month):** The real estate specialist/ business valuator holding professional qualification will provide input to the valuation report, methodologies for market based valuation, options to maximize the revenues from sale, disposal, rent of idle or non-core assets, recommendation to the asset management policy, strategy and

implementation plan. The specialist will scope out the terms of reference for possible asset tendering/outsourcing to the private sector.

4. **Senior financial specialist (international, 4 person-month):** The senior specialist should have proven experience in asset management and SOE restructuring, and in designing asset management systems, as part of the implementation of financial management database systems. He/she will provide direct technical support to the team leader with regard to asset management systems and aspects of the project. The specialist will be responsible for carrying out the review of the existing inventory assessment, develop methodology, associated tools and related training for valuing and preparing inventory and valuation, as well as establishing monitoring systems. The specialist will formulate PPP options for private sector participation. The specialist will develop procedures for disposal of assets, prepare the bid documentation and implementation plan for the transition to the new asset management systems.
5. **Senior railway specialist (international, 3 person-month):** The international specialist will provide guidance on rail related aspects to other team members. Preferably the specialist should have at least 15 years working in large railway organizations under restructuring. The specialist should be familiar with EU legislation, railway asset management standards, and preferably knowledge or railway legislation in the Eastern Europe. The specialist will review the asset management and inventory/disputed assets from a railway operational perspective. The specialist will formulate recommendations and formulate various asset management options into the policy, strategy and implementation plans.
6. **Accounting specialist (national, 2 person-month):** The national specialist should be a graduate in accounting and/or auditing, with at least 5 years of experience in application of IFRS, especially valuation of assets using fair value. He/she should be proficient in specifying the requirements of accounting and financial management software systems. The specialist will assist in reviewing the existing accounting and asset management systems in place for Croatian Railways Companies. He or she will provide inputs to the proposed tools, data analysis, reports and institutional support.
7. **Financial specialist (national, 10 person-month):** The financial specialist will support the due diligence, inventory and valuation activities by collecting and processing data.

ANNEX 1: The status of asset management in the Croatian Railways Companies

ANNEX 2: Data to be included for real estate assets

ANNEX 1: The status of asset management in the Croatian Railways Companies

On January 1, 2006 the Railway Act came into force and the legal status of the railway infrastructure has experienced a fundamental change. By this Act the railway infrastructure was defined as a public good in general use in the ownership of the Republic of Croatia. Transitional and final provisions of the Act planned for a division of HZ Croatian Railways Ltd. into more companies. These changes have created dilemmas relating primarily to the method of determining and demarcating railway infrastructure from other properties, especially those owned by HZ Croatian Railways Ltd.

The entry into force of the mentioned Railway Act, assets which were owned by HZ Croatian Railways Ltd., and which fall under the railway infrastructure, on 1 January 2006 became ex-lege public good in general use owned by the Republic of Croatia. HZ Croatian Railways Ltd. as a legal entity is divided in accordance with the provisions of the Act on the Division of HZ Croatian Railways Ltd. (Official Gazette 153/05). In accordance with Article 1, Paragraph 1 of this Act, the Government adopted the Decision on the Division of HZ Croatian Railways Ltd. (Class: 341-01 / 06-02 / 01, Reg 5030114-06-3 of 6 July 2006).

Therefore, in accordance with Section II of this Government's decision, the basis for division of HZ Croatian Railways Ltd. is the Division Plan of HZ Croatian Railways. Also, in accordance with paragraph IV of the Government's decisions, railway infrastructure is defined in accordance to the provisions of Article 15. of the Railways Act (Official Gazette no. 123/2003 and 30/2004) as public good in general use owned by the Republic of Croatia, and which is an integral part of the Decision that will not become the property of the legal successors of HZ Croatian Railways Ltd.

However, there is still an open question about the division of HZ Croatian Railways Ltd. In particular, its legal successors (HZ Cargo Ltd., HZ Passenger Transport Ltd., and HZ Infrastructure Ltd.) have claimed their ownership rights from the Republic of Croatia, which are based on the transfer of assets to public domain. These claims are based on the fact that the Croatian Railways Ltd had registered share capital of HRK 7,334 million until 30 May 2006, when the Croatian Railways general assembly decision was made to reduce its share capital by HRK 6,011 million; thus the reduced capital amounted to HRK 1,324 million. The reduced share capital of HRK 1,324 million was split among four new companies based on the Act on the Division of Croatian Railways. Article 2, paragraph 1 and 2 of the Act on the Division stipulates which assets will become the property of the Republic of Croatia. The Government determined the list of land, facilities and equipment which makes the railway infrastructure and public goods in general use. However, on such list the assets amount to HRK 7,317 million, which means that not every asset is listed. Transferred assets were not specified; rather the lump sum of HRK 7.300 million was transferred.

The usage of the decreased amount of stock capital is formally prescribed in the Companies Act, Article 465b. The Companies Act, Article 550N stipulates that if a part of the property was not distributed according to the division plan, or it wouldn't be possible to do so, such a property or a compensation for it shall be allocated to the new HZ companies in the same proportion to the property which was distributed according to the Act on the Division of Croatian Railways. The same was specified in Section 6.2 of the Act on the Division of the Croatian Railways. Furthermore, registration and valuation of the property of the former Croatian Railways was never executed by an authorized person. The Republic of Croatia is not the legal successor of Croatian Railways, rather, in this moment, HZ Infrastructure Ltd., HZ Passenger Transport Ltd. and HZ Cargo Ltd.

Therefore, the process of defining public goods and the registration of ownership from the Act on the Division of Croatian Railways is an on-going issue from 2006 to the present. The above mentioned

amount of HRK 7,300 million specified by the Government Decision under Article 2, Paragraph 2 of Act on the Division of Croatian Railways was greatly exceeded. The Republic of Croatia has transferred assets which market value is several times greater than the amount of HRK 7,300 million. The purchase value of the underlying assets is estimated at over HRK 19,000 million on the basis of the accounting data from the division of Croatian Railways, with the remark that no authorized evaluator did the assessment the value of the property, and most likely, if assessed it would only be greater.

Section 6.2 of the Act on the Division of Croatian Railways and the contract with HZ Holding Ltd. stipulate that HZ Holding Ltd. should take account of the underlying assets, as well as the transfer of public goods. However, HZ Holding Ltd. is no longer in the court register from the end of 2012, and the final report was never submitted.

A) HZ Cargo

HZ Cargo claims are derived from the fact that the Republic of Croatia took over assets of more than HRK 7,300 million in worth, and HZ Cargo should receive 40% of that amount which exceeds the value of HRK 7,300 million. Given all the above, it is necessary to determine the value of assets transferred in public property, i.e. in the property of the Republic of Croatia, and from that amount deduct the lump sum of HRK 7,300 million. 40% of the remaining amount is HZ Cargo claim towards Croatia.

On November 30, 2014 the total assets of HZ Cargo were HRK 1,914.1 million. Total assets comprise 79.2% of long-term assets. Most of the long-term assets (87%) refer to tangible assets and are comprised of land, buildings and transportation assets.

Inventory rolling stock of the HZ Cargo contains 5,519 freight wagons (closed, opened, plateau and others) grouped in more than 50 different series and subseries. Additionally, 4,837 wagons of the total inventory are active, 624 wagons are inactive, and 58 wagons are considered inaccessible because they are located in areas of railway administrations formed after the breakup of Yugoslavia (the processes of wagon exchange are initiated). Most freight wagons owned are older than thirty years, which has resulted in extremely high costs of regular maintenance and moreover in emergency repairs. Additionally, almost all wagons in the range have the speed limit above 80 km/h, however due to the poor state of infrastructure (railways) freight wagons mostly operate at considerably lower speed, which results in inadequate wagon turnover.

In 2012, when HZ Train Traction Ltd. and HZ Holding Ltd. ceased to exist, a national freight carrier (HZ Cargo) with a complete service was created – with its own traction and wagons. Among other changes in the ownership after the division of the HZ Train Traction Ltd., the number of locomotives and real estate was increased. HZ Cargo locomotive inventory park consists of 187 traction units, 66 electric and 121 diesel locomotives. Of these 187 traction units 149 are active, and the rest are inactive traction units waiting for a decision about their future status, respectively the justifiability assessment of the investment on the basis of the technical condition of each vehicle. In this period no new traction units were acquired, and the average age of all traction units in HZ Cargo Inventory Park is almost 42 years. Additionally, it should be mentioned that some of the vehicles exploited are more than 50 years old.

In addition to the 58 wagons, three diesel locomotives from Series 2062 are considered to be unavailable because they are in the areas of railway administrations formed after the breakup of Yugoslavia. As time goes by the concerned rolling stock and locomotives have less and less value, and it is not likely for them to be physically returned because of technical conditions (damaged by the war, devastated parts and assemblies on them, inaccessibility to tracks, etc.).

Stable plant production and equipment located within the Company consists of buildings, warehouses and office buildings, which are located on the entire territory of the Republic of Croatia. In some cases, multiple locations at the same station or a city, or complexes which consist of several objects of different age, condition, purpose and level of usability (e.g. Ploce). The facilities managed by the Company are built in the period before 70's of the last century. Many of them are in a rather bad shape and need significant funds for their restoration. Furthermore, the Company is land owner in Ploce, Zagreb-East and Koprivnica. Therefore, it is necessary to make a reassessment of the value of (some) assets. HZ Cargo has begun to resolve certain issues independently, thus the consultants will have to build on existing processes and/or work in parallel.

General information on assets of the company can be obtained from audit reports available from the company. Additional information on the list of assets of HZ Cargo can be accessed by candidate firms, subject to a Confidentiality Agreement to be signed with the company.

B) HZ Passenger Transport

In relation to the division of the company HZ Croatian Railways Ltd., aside from the mentioned *lex specialis* (Law on the Division of Croatian Railways Croatian Railways Ltd.) and the Decision of the Government, applicable law is also the Companies Act, as general legal regulation in the Republic of Croatia which regulates the division of the company and the legal consequences of that division.

HZ Passenger Transport Ltd. has presented to the line ministry and other legal successors of HZ Croatian Railways Ltd. its legal position regarding the legal status and problems concerning division of assets of HZ Croatian Railways among its legal successor. In addition to presenting this position in a public, transparent and unambiguous way, HZ Passenger Transport also suggested an option by which the above problems could be resolved in accordance with the Croatian legislation.

Firstly, HZ Passenger Transport considers that this issue, given the value of the property/assets concerned, deserves a special attention. It also believes that division of HZ Croatian Railways Ltd. was not conducted in accordance with the then applicable provisions of the Companies Act. One of the main disadvantages of the Division Plan is the insufficiently precise description and division of parts of assets and liabilities, i.e., legal relations that were to be transferred to each new entity. The Division Plan has divided assets, rights and liabilities/obligations of the company exclusively through the balance sheet, which is not sufficiently precise to determine the assets of the company being divided, nor its sources or components. The property in the Division Plan was shown by items in an accounting manner, while a legal ownership of the respective assets has never been made.

Therefore, the Division Plan of HZ Croatian Railways Ltd. did not divide the assets of that company in a way by which its legal successors could register as owners of that property. In other words, on the basis of the Division Plan it is not possible to determine which assets are part of legal succession passed on to entities that are legal successors of HZ Croatian Railways Ltd. The mentioned Plan, in this form, does not constitute a valid legal basis by which the assets of the legal predecessor could be shared and registered as ownership of a particular legal successor of HZ Croatian Railways Ltd.

Given the deficiencies of the Division Plan in terms of the lack of real estate registry, HZ Passenger Transport Ltd. pointed out that the division of assets of HZ Croatian Railways Ltd. among its legal successor should be done in accordance with Art. 550 n. Paragraph 1. pt. 1 of the Companies Act, i.e., in the established legal successors' shares in the share capital of HZ Croatian Railways Ltd.

The provision of Art. 550 n. Paragraph 1. pt. 1 of the Companies Act provides that with the registration of the division in the court the following legal consequences arise: parts of the assets of the

company being divided, obligations and legal relationships, in accordance with the Division Plan by universal succession are transferred to new companies. If some part of the assets is not divided by the Division Plan or it was not possible to do so, such a piece of property or compensation for it shall be distributed to all new companies in the same proportion as the net assets of the company being divided that was allocated to the company.

The provision of Art. 550.n. Paragraph.2. of the Companies Act provides that the flaws in a decision on the division shall not affect the validity of entries and the legal consequences of the division referred to in paragraph 1 of this Article.

The provision of Art.36. of the Law on Ownership and Other Proprietary Rights provides that if more than one person has a thing in its ownership, so that to each belongs a part of the right of ownership, all parties are co-owners of this thing calculated in proportion to the entire ownership, and parts of ownership rights that they are entitled to are their shares in co-ownership.

Important to note is also a decision of HZ Holding Ltd. No. Uh-35-15 / 12 of 26 October 2012, providing the shares in the share capital of HZ Croatian Railways Ltd. in the following ratio: HZ Infrastructure 16.93%, HZ Passenger Transport Ltd. 42.97%, and HZ Cargo Ltd. 40.10%.

Therefore, HZ Passenger Transport Ltd. as universal legal successor of HZ Croatian Railways Ltd. pointed out that in accordance with the aforementioned legal provisions it necessary to initiate the procedure for the conclusion of a valid agreement on the division of assets of HZ Croatian Railways Ltd. Such division among its legal successor should be made in accordance with the criteria laid down in the Companies Act and the criteria of legal successors shares in the share capital of the predecessor.

With this in mind, HZ Passenger Transport Ltd. has proposed to urgently resolve the following items:

In relation to assets of HZ Croatian Railways Ltd. which (i) do not fall under the railway infrastructure (i.e., public good in general use, owned by the Republic of Croatia), and (ii) are not listed or registered in the Division Plan of HZ Croatian Railways (or which actually were not subject to division of HZ Croatian Railways Ltd.), an agreement should be reached among the legal successors of HZ to divide assets in accordance with the established proportions of shares in the share capital established by the Decision of HZ Holding Ltd. Uh-35-15 / 12 of 26 October 2012.

Therefore, HZ Passenger Transport proposed clearly and unequivocally that, without any delay with all the legal successors of HZ, mutual rights and obligations arising from ownership of assets are clarified, in order to clearly and unambiguously determine which legal successor is authorized to dispose real estate of the legal predecessor.

In this sense, HZ Passenger Transport has also started the process of registering ownership rights with respect to property in the City of Rijeka in accordance with the legal predecessors' shares in the share capital of HZ Croatian Railways Ltd. (HZ Infrastructure 16.93%, HZ Passenger Transport Ltd. 42.97% and HZ Cargo Ltd. 40.10%).

In relation to the two proposals submitted to Municipal Court of Rijeka, the court issued two decisions pursuant to which it fully accept proposals of HZ Passenger Transport. HZ Infrastructure in relation to both solutions filed objections.

Rijeka Municipal Court, in both cases, issued decisions dismissing the complaint of HZ Infrastructure Ltd. as unfounded. (Decision Z-6824/14 of 1 October 2014 and Decision Z-12323/14 of 21 October 2014) and confirmed the decision to accept proposals for registration of HZ Passenger Transport.

It is also important to note that after the above mentioned decisions, with the support of the relevant line ministry, HZ Passenger Transport has initiated a procedure to settle amicably this issue with other legal successors.

General information on assets of the company can be obtained from audit reports available from the company. Additional information on the list of assets of HZ Passenger Transport can be accessed by candidate firms, subject to a Confidentiality Agreement to be signed with the company.

C) HZ Infrastructure

Besides the general applicable legal regulations of the Republic of Croatia (Civil Obligations Act, Ownership and Other Proprietary Rights Act, Land Registration Act, Law on State Survey and the Real Estate Cadastre, Law on Restitution of Property Expropriated During Yugoslav Communist Rule, General Administrative Procedure Act, Civil Procedure Act, Act on the Division of the HZ Croatian Railways Ltd., Apartment Lease Act, Specially Protected Tenancies (Sale to Occupier) Act), the administrative sector of Real Estate at HZ Infrastruktura Ltd. is carrying out its affairs in accordance with the provisions of the Railway Act, Ordinance on the Lease of Apartments and Provision of Apartments within the Railway Infrastructure Area for Official Use to Employees of HZI and the Decision on the Sale of Apartments Owned by HZI, for which previous Approval of the Government of the Republic of Croatia has been obtained, as well as the decisions of the Management Board.

The basic mission of the Real Estate department at HZ Infrastructure Ltd. is drafting and maintaining a register of real estate and resolving legal and housing affairs. The Real Estate department is also in charge of taking care of the right of way of railway infrastructure, which, pursuant to the provisions of the Railway Act, has the status of public domain in general use and owned by the Republic of Croatia.

Approximately 18,000 cadastral plots make up the list provided for the management of and owned by HZ Infrastructure, on which approximately 3,500 structures are situated (station buildings, warehouses, accompanying buildings), and which are to be found in the area of the entire Republic of Croatia, and their records are kept at 803 cadastral municipalities.

For most cadastral plots whose shape and surface area match the data in the land registry books and the actual state of the plot, certificates have been issued to the competent General Attorney's Office for the needs of the registration of title deeds in the land register of the Republic of Croatia – public domain in general use. It follows that the line plots in rural areas have mostly been registered in accordance with positive results. In city areas through which stretch very large line plots (several tens of thousands of square meters) it is necessary to carry out the entry of railway infrastructure into the registry in accordance with the Railway Act. This primarily includes the drawing up of as built drawings and geodesic surveys depending on whether the actual state corresponds to the cadastral or land register data.

Since the provisions of the Road Act in the part concerning the registration of public roads are analogous to the provisions of the Railway Act, it is the intention of HZ Infrastructure to set in motion measures to draw up the geodesic surveys and other appropriate procedures with the aim of registering railway infrastructure. Apart from the above-stated, it is necessary to solve the property rights to the real estate through which industrial tracks pass and which according to the law are not railway infrastructure, as well as to the real estate on which there were railway tracks which have since been closed down and no longer exist.

HZ Infrastructure Ltd. actively participates in the procedures of withdrawing the status of public domain in general use which is in the competence of the Croatian Government for those parts of the railway infrastructure for which public interest does not exist nor the interest of users of railway transport services, and for those on which railway transport has permanently been terminated. Likewise, the inventory of the real estate and land assets part of the activities done by the consultant should include categories listed in the Annex 2.

While working on the project it is important to collect all the above-mentioned data for every piece of real estate. **Apart from that, it is necessary to indicate that HZ Infrastructure Ltd. is able to provide legal assistance during the realisation of the project but is not able to place a sufficient number of qualified employees at disposal of the consultant for collecting and processing all the data.** The data we have indicated above and which would be necessary to collect during the surveillance of the state of real estate at HZ Infrastructure Ltd., would serve as data to be entered into the ongoing Project of the "System for Managing and Controlling the Property of HZ Infrastructure Ltd. and Public Domain" which was set up by HZ Infrastructure Ltd. during 2013/2014.

The key shortcomings of the existing system for property management arise from the inadequate process of evidencing property, monitoring its use, maintenance and replacement, that is, the non-existence of a basis for adequate planning, monitoring and reporting. All the above-mentioned is hindering HZ Infrastructure to undertake preventive measures to advance the efficiency of its business operations, quality of service and traffic safety.

The mentioned problems can be derived from the following cause:

- Data is archived after a business event has occurred and analyses are based upon historical data with limited and/or no projection possibility.
- It is necessary to shorten the time from taking a note of the event to entering it into the system
- A major part of the data has not been recorded electronically, but can be found in archives in location dispersed all across the country, which presents a problem when relevant data is reviewed and quick status reports are drafted.
- Within the organization, there are several different systems into which the data is entered, which are not mutually complementary or specialized for asset management. The consequence of this is that departments lose a great deal of time to compile, prepare and generate reports necessary for further reporting and activities of the Management Board.
- The functions of asset management are dispersed within several departments within the company without electronic and systematic linking of activities.
- Impossibility of fast control during tracking of technical maintenance parameters and comparison with required maintenance activities.

All of the above mentioned creates a situation in which the existing assets are managed in a non-systematic way, preventive measures and corrections are carried out ad hoc, mostly upon detection of irregularities, and a course of action follows in line with empirically defined rules and procedures.

Furthermore, HZ Infrastructure Ltd. currently does not have at its disposal precise data as to the costs incurred due to ineffective asset management, since there is no basis for the assessment of the mentioned, i.e., there is no objective, updated and complete record of the current state of real estate (amounts, values, status in real time, appearance, use, property and legal relations, locations, users, maintenance needs, malfunctions, guarantees and other variables depending on the type of property). Besides the non-existence of data on the current status, and due to this data on costs incurred as direct and/or indirect result of the asset management system, HZ Infrastructure Ltd. does not have at its disposal even the data on the assessment of the alternatives for property use with the aim of increasing its efficacy and as a consequence of improving system competitiveness.

Taking the mentioned into consideration, and with the aim of maintaining and development of (outdated) property, construction and renewal, it is necessary to improve the quality of master data, links and analysis, in order to speed up the procurement process based on realistic, accurate and rational plans of needs. This would also reduce the reserves and the existing ones would be put to more effective use.

This means that systematic improvement of management and supervision within HŽ Infrastruktura would increase transparency and create savings in business operations. Introduction of linear asset management would significantly contribute to the preparation of technical documentation, drafting of the plan of needs and tracking the realization of the procurement plan, preparation of better quality materials for procurement, preparation and carrying out of works on railway line and track structures maintenance and investments, tracking of realization and deadlines, warning of frequent maintenance on a specific property or on a section and risk prevention.

Gathering and checking of data from multiple sources requires too much time and leads to possible errors.

It is extremely important to track data on activities and maintenance in real time or in approximately real time, which includes tracking of the status of assets, equipment and maintenance costs for current, past and foreseeable storage needs and connected costs, tracking of work history and requirements.

We believe that the following benefits will be achieved by introducing the management and supervision of assets and resources system at HZ Infrastructure Ltd.:

- Improvement of the asset and resource management system in such a way to improve IT support, which will enable clear tracking of total costs connected with every individual asset unit. This will enable optimum investment into every asset unit and facilitate decisions regarding it.
- Create a unique place which will contain master data on assets.
- Supervision of all rail infrastructure components
- Advanced analytical tool for reporting and prognostic asset data analysis will be obtained.
- Improvement and optimization of business and work processes
- Improvement of the reporting system and planning of maintenance for assets and resources of HZ Infrastructure Ltd.
- Increase of the level of work tasks management, automatization of opening and closing work orders and supervisions of works carried out
- Drafting of a report will be possible at any moment regarding the state of railway infrastructure and reporting to the competent ministry, i.e., the Government of the Republic of Croatia will be faster and more accurate.

According to Gartner company independent indicators (www.gartner.com, September 2010), which conducted research into 10 railway administrations, the following results were obtained by the introduction of a resource management system:

- a 5-10% reduction of material costs
- 10-50% procurement savings
- a 10-20% reduction of reserve handling costs
- 20-30% savings in reserves
- a 3-5% reduction in new equipment procurement

General information on assets of the company can be obtained from audit reports available on the website <http://www.hzinfra.hr/business-report> or directly from the company. Additional information on the list of assets of HZ infrastructure can be accessed by candidate firms, subject to a Confidentiality Agreement to be signed with the company.

ANNEX 2: Data to be included by asset within the real estate inventory

Type of real estate
Mat. No. of Cadastral Office
Name of Cadastral Office
No. of land registry file
No. of land registry plot
No. of sub-file
Total surface area of land registry plot
(m2)
What lies on the land registry plot
Type of ownership
Share in ownership
Burden on property
Court dispute
No. of title deed
Mat. No. of Cadastral Office – title deed
Name of cadastral office – title deed
No. of cadastral plot – title deed
Total surface area of cadastral plot – title deed
(m2)
Bearer of rights
Share in bearer of rights
No. of cadastral plan
Address
Postal code
Regional plan use
PIN of real estate user/Name of real estate user
Legal basis
Share
Value of real estate (HRK)
Name of value appraiser
No. of title deed
Manner of use of real estate
Surface area in title deed
Property owner
Actual surface area of the real estate in the field
The comment which refers to the comparison of the state of the real estate in the title deed and its actual state
Name of real estate in the bookkeeper's card
Proposal of the name of the real estate (for bookkeeping)
Comment (for bookkeeping)
Actual state of the real estate
Address
The intended use of the real estate
Actual users of the real estate
Data on the number of flats
The number of floors
Km mark of the real estate
Photograph;