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INTEGRATED LAND ADMINISTRATION SYSTEM PROJECT

PROJECT FINANCIAL STATEMENTS

AND

DESIGNATED ACCOUNT STATEMENT
TOGETHER WITH INDEPENDENT AUDITORS' REPORT

FOR THE YEAR ENDED
DECEMBER 31, 2017

INTEGRATED LAND ADMINISTRATION SYSTEM PROJECT

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INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying Statements of assets and liabilities of the Integrated Land Administration System Project (hereinafter:"the Project") financed under the International Bank for Reconstruction and Development Loan ("Loan") No. 8086-HR as at December 31, 2017 and the related Statement of sources and uses of funds and Statement of expenditure by components ("Project Financial Statement"). These statements are the responsibility of the Project Implementation Unit. Our responsibility is to express an opinion on this statement based on our audit.

We conducted our audit in accordance with International Standards on Auditing. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the Project Financial Statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Project financial statements. We believe that our audit provides a reasonable basis for our opinion.

Registrirano kod Trgovačkog suda u Zagrebu pod brojem 080044149
OIB 76394522236

In our opinion, the Project Financial Statements as at December 31, 2017 present fairly in all material respects, the cash receipts and payments in the year 2017 of the Project in accordance with the World Bank's requirements.

The supplementary information included in Annex I to the Project Financial Statements are presented for the purpose of additional analysis and is not a required part of the basic Project Financial Statements. Such schedules have been subject to the auditing procedures applied in our audit of the basic Project Financial Statements and, in our opinion, are fairly stated in all material respects when considered in relation to the basic Project Financial Statements taken as a whole.

Zagreb, June 29, 2018

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Vedrana Stipić, member of Management Board

Daniela Šunjić, certified auditor

INTEGRATED LAND ADMINISTRATION SYSTEM PROJECT

STATEMENT OF ASSETS AND LIABILITIES
as at December 31, 2017

(EUR)

	31 December 2017	31 December 2016	31 December 2015	31 December 2014
Assets				
Cash on the Loan Designated Account	608,219	248,393	160,255	586,500
Project expenditures	18,870,441	16,365,750	9,976,224	5,141,144
	19,478,660	**16,614,143**	**10,136,479**	**5,727,644**
Liabilities				
Loan IBRD 8086-HR	15,316,040	13,138,103	8,300,798	5,102,914
Republic of Croatia	2,023,593	1,784,000	1,126,768	624,730
Activities financed 100% from the State Budget	2,139,027	1,692,040	708,913	-
	19,478,660	**16,614,143**	**10,136,479**	**5,727,644**

INTEGRATED LAND ADMINISTRATION SYSTEM PROJECT

STATEMENT OF SOURCES AND USES OF FUNDS - PROJECT
as at December 31,2017

(EUR)

	As at 31 December 2017	Cumulative	Planned	Unused
	(1)	(2)	(3)	(3)-(2)
SOURCES:				
IBRD - Direct payment from the Loan Account	2,177,937	15,316,040	16,500,000	1,183,960
Budget of the Republic of Croatia	239,593	2,023,593	2,200,000	176,407
Activities financed 100% from the State Budget	446,987	2,139,027	2,139,027	-
TOTAL SOURCES	**2,864,517**	**19,478,660**	**20,839,027**	**1,360,367**
USE OF FUNDS:				
Cash on the Designated Account*	359,826	608,219	-	(608,219)
Total funds	**359,826**	**608,219**	**-**	**(608,219)**
Land Registration System Development	-	124,780	124,780	-
Spatial Information and Cadastre System Modernization	285,998	3,569,863	4,176,559	606,696
Improving Digital Services	1,482,567	10,111,152	11,059,447	948,295
Project Management, Training and Public Awareness	289,139	1,789,721	2,274,658	484,937
Refund of the Advance P459-HR	-	922,025	922,025	-
Financing of activities from the Preparation phase	-	172,623	101,281	(71,342)
Front-end Fee	-	41,250	41,250	-
Activities financed from the Budget of the Republic of Croatia	446,987	2,139,027	2,139,027	-
Total Expenditures	**2,504,691**	**18,870,441**	**20,839,027**	**1,968,586**
TOTAL USE OF FUNDS	**2,864,517**	**19,478,660**	**20,839,027**	**1,360,367**

* Balance as of December 31, 2017 less opening balance at January 1, 2017

INTEGRATED LAND ADMINISTRATION SYSTEM PROJECT

STATEMENT OF SOURCES AND USES FUNDS- IBRD LOAN NO. 8086 - HR
as at December 31, 2017

(EUR)

	As at 31 December 2017	Cumulative	Planned	Unused
	(1)	(2)	(3)	(3)-(2)
SOURCES:				
IBRD Loan	2,177,937	15,316,040	16,500,000	1,183,960
TOTAL SOURCES	**2,177,937**	**15,316,040**	**16,500,000**	**1,183,960**
USE OF FUNDS:				
Cash	359,826	608,219	-	(608,219)
Total funds	**359,826**	**608,219**	**-**	**(608,219)**
Land Registration System Development	-	106,871	106,871	-
Spatial Information and Cadastre System Modernization	251,751	3,114,372	3,675,373	561,001
Improving Digital Services	1,314,216	8,906,694	9,732,313	825,619
Project Management, Training and Public Awareness	252,144	1,527,463	1,933,022	405,559
Refund of the Advance P459-HR	-	922,025	922,025	-
Financing of activities from the Preparation phase	-	89,146	89,146	-
Front-end Fee	-	41,250	41,250	-
Total Expenditures	**1,818,111**	**14,707,821**	**16,500,000**	**1,792,179**
TOTAL USE OF FUNDS	**2,177,937**	**15,316,040**	**16,500,000**	**1,183,960**

INTEGRATED LAND ADMINISTRATION SYSTEM PROJECT

STATEMENT OF SOURCES AND USES OF FUNDS - REPUBLIC OF CROATIA
as at December 31, 2017

(EUR)

	As at 31 December 2017 (1)	Cumulative (2)	Planned (3)	Unused (3) - (2)
SOURCES:				
Direct payment	239,593	2,023,593	2,200,000	176,407
Activities financed 100% from the State Budget	446,987	2,139,027	2,139,027	-
TOTAL SOURCES	**686,580**	**4,162,620**	**4,339,027**	**176,407**
USE OF FUNDS:				
Land Registration System Development	-	17,909	17,909	-
Spatial Information and Cadastre System Modernization	34,247	455,491	501,186	45,695
Improving Digital Services	168,351	1,204,458	1,327,134	122,676
Project Management, Training and Public Awareness	36,995	262,258	341,636	79,378
Financing of activities from the Preparation phase	-	83,477	12,135	(71,342)
Activities financed from the Budget of the Republic of Croatia	446,987	2,139,027	2,139,027	-
TOTAL USE OF FUNDS	**686,580**	**4,162,620**	**4,339,027**	**176,407**

STATEMENT OF SOURCES AND USES OF FUNDS - continued
as at December 31, 2017

Comments on Statement of Sources and Uses of Funds

(1) The budget is based on total estimated expenditures needed to complete the Project. In accordance with Amendment of the Loan agreement as of April 14, 2017 the Closing Date was extended by 12 months until April 30, 2018.

(2) The first expenditure related to the Project was made on December 7, 2010.

(3) The total Project budget is 20,839,027 EUR and consist as follows:

IBRD Loan No. 8086-HR	16,500,000
Budget of the Republic of Croatia	2,200,000
Activities financed 100% from the State Budget	2,139,027
Total	**20,839,027**

(4) Expenditures in Croatian Kuna were translated into EUR at the exchange rate ruling at the date of the transaction.

STATEMENT OF EXPENDITURE BY COMPONENTS
as at December 31, 2017

(EUR)

Component	For the year ended 31 December 2017	Cumulative
A - Land registration System Development	-	124,780
B - Spatial information and Cadastre System Modernization	285,998	3,569,863
C - Improving Digital Services	1,482,567	10,111,152
D - Project management, Training and Public Awareness	289,139	1,789,721
Refund of the Advance P459-HR	-	922,025
Financing of activities from the Preparation phase	-	172,623
Front-end Fee	-	41,250
Activities financed from the Budget of the Republic of Croatia	446,987	2,139,027
TOTAL	**2,504,691**	**18,870,441**

NOTES TO THE PROJECT FINANCIAL STATEMENTS
as at December 31, 2017

1. GENERAL

The objective of the *Integrated Land Administration System Project* is to modernize the land administration system in order to improve the government services from the point of view of efficiency, transparency and cost. The project represents a continuation of the Real property Registration and Cadastre Project and it further deepens the reforms and integration of the land administration system.

Performance indicators are as follows:

- higher customer satisfaction with the services of the land administration
- reduced processing time of transactions in the Land Registry and Cadastre
- higher percentage of users that send requests/transactions online
- greater use of spatial data to be exchanged between state institutions/ministries.

Beneficiaries of the Project are:

- the public, since they will have greater access to information and better services with fully integrated digital data;
- the entire business community, again with faster access to information and services;
- other government bodies that will share more easily and have a better insight into the government spatial data.

The Project encompasses the following four components:

Component A. - Land Registration System Development

Component B. - Spatial Information and Cadastre System Modernization

Component C. - Improving Digital Services

Component D. - Project Management, Training and Public Awareness

The Project is being implemented over a 6,5 year turn.

The Advance agreement for the Project preparation No. P459-HR between the Republic of Croatia and the International Bank for Reconstruction and Development (the Bank) in the amount of 1,450,000 USD was signed on August 3, 2010. Advance funds, pursuant to the Agreement, financed the purchase of goods and consulting services for:

- preparatory analysis and studies for preparation of detailed Project implementation plan

- pilot Project of the system expansion (roll-out) of JIS on four locations

- execution of the Project.

Advance funds were used by November 15, 2011.

NOTES TO THE PROJECT FINANCIAL STATEMENTS - continued
as at December 31, 2017

The Loan agreement for the Project No. IBRD-8086-HR between Republic of Croatia and the Bank in the amount of 16,5 million Euros was signed on August 17, 2011.

Law on ratification of the Loan agreement between Republic of Croatia and the International Bank for Reconstruction and Development for the Implementation of the Integrated Land Administration System Project was adopted on 24th session of the Croatian Parliament on October 21, 2011 and published on November 7, 2011 in the Official Gazette, International Agreements No. 13/2011.

The Loan became effective on November 15, 2011.

This report contains an overview of the use of funds in 2017 and the total for the period from the effective date of the advance agreement No. P459-HR and the IBRD Loan No. 8086-HR to December 31, 2017.

2. BASIS OF ACCOUNTING AND SUMMARY OF ACCOUNTING POLICIES

2.1. Accounting Records and Basis of Presentation

The Project maintains its accounting records using the World Bank guidelines (Annual Financial Reporting and Auditing for World Bank - Financed Activities, Procurement Handbook and Disbursement Handbook).

2.2. Implementation of the Project

Ministry of Justice and State Geodetic Administration, by the relevant Ministry of construction and spatial planning (hereinafter: MGiPU) concluded the Agreement on Implementation of the Integrated System of Land Administration Project on May 16, 2011 and on March 14, 2012 and February 13, 2014 agreement on amendments to the Agreement on the Implementation of the Integrated Land Administration System.

The Agreement was concluded for the purpose of the regulation of mutual relations and responsibilities in the Project implementation, determining body for implementation of the Project and allocation of responsibilities.

The bodies responsible for implementing the Project are Project Steering Committee, Coordinators of components of the Project in the Ministry of Justice and the State Geodetic Administration and the Project Implementation Unit.

The Project Steering Committee has two co-chairs: Assistant Minister of Justice for civil, commercial and administrative law in the Ministry of Justice and the Director of the State Geodetic Administration.

Members of the Project Steering Committee are: MGiPU Assistant Minister, Head of the Land Registry Management Service in Ministry of Justice, Head of the Division of Cadastral System of the State Geodetic Administration, named representative of the Supreme Court of the republic of Croatia and a named representative of the Ministry of Finances.

NOTES TO THE PROJECT FINANCIAL STATEMENTS -continued
as at December 31, 2017

2.2. Implementation of the Project - continued

The Project Steering Committee manages the Project, monitors the implementation of individual phases of the project, spending, discusses the reports of the Land Registry Management Service, Division of Cadastral Systems and Project Implementation Unit, determines the priority areas, monitors the budget spending, coordinates the donor engagement and makes decisions related to the implementation of the Project and gives permissions for all the key plans and changes of plans.

Coordinators of the Project components at the Ministry of Justice and State Geodetic Administration coordinate the implementation of the activities of individual components for which they are nominated and are accountable for their work to the institutions that nominated them.

The Project Implementation Unit, whose superior is Project Steering Committee, is responsible for the procurement, financial management, disbursements, monitoring and evaluation and compliance of safeguard mechanisms within the Project and it serves as the Secretary of the Project Steering Committee.

On the side of the lender the Bank, there is a Project team with the leader of the Project team responsible for the coordination and monitoring of the implementation of the Project.

Realisation of the Project is determined by the regulations of the Bank for the Project implementation, procurement, contract management, use of the Loan, auditing and reporting to the Bank and the EU.

2.3. Project Expenditure

The Project Expenditure is stated at original cost on the Statement of Assets and Liabilities.

2.4. Liabilities

The Advance agreement No. P459-HR between Republic of Croatia and the Bank in the amount of 1,450,000 USD was signed on August 3, 2010. Advance was approved for the preparation of the Project whose aim is to modernize the Land Administration System to improve government services in terms of efficiency, transparency and cost. Project leaders and beneficiaries are the Ministry of justice and the State Geodetic Administration. Advance funds were used by November 15, 2011.

In accordance with the Decision of the Croatian Government to initiate proceedings for the making of the Loan agreement for the Project, authorised Croatian delegation has made final negotiations with the Bank in June 2011 and the Loan agreement was signed on August 17, 2011.

Contracted amount of the Loan is 16,5 million Euros, The Loan became effective on November 15, 2011.

In accordance with Amendment of the Loan agreement as of April 14, 2017 the Closing Date was extended by 12 months until April 30, 2018.

NOTES TO THE PROJECT FINANCIAL STATEMENTS - continued
as at December 31, 2017

2.4. Liabilities - continued

The principal and the interests are the responsibility of the Republic of Croatia.

Return of the principal starts on November 15, 2015 with final maturity on November 15, 2030. Payment dates of principal are May 15 and November 15.

The amount of interest paid by the Borrower for each interest period is equal to the reference rate for the Loan currency plus the fixed spread, provided that upon conversion of all or partial amount of the principal of the Loan, interests, which the Borrower pays during the conversion period, are determined in accordance with the relevant regulations of the *Article 4 General Conditions*.

Republic of Croatia is obligated to pay the Front-end Fee for the use of the Loan in the amount of 0,25% of the Loan.

2.5. Contributions by the Republic of Croatia

The Republic of Croatia is responsible for paying Project expenditures in accordance with the Loan Agreement. The total amount of Project expenditures paid by the Republic of Croatia for the year ended December 31, 2017 amounted to 686,579 EUR.

ANNEX I

RECONCILIATION OF THE LOAN ACCOUNT

(EUR)

The amount of the loan used by December 31, 2017	**15,316,040**
Cash on the Designated Account	608,219
Increase: total expenditure stated in the Statement of Sources and Use of Funds	14,707,821
Total expenditure	**15,316,040**

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INDEPENDENT AUDITORS' REPORT

We have audited the accompanying Designated Account Statement of the Integrated Land Administration System Project (the Project) financed under International Bank for Reconstruction and Development Loan No. 8086-HR as at December 31, 2017. The Designated Account Statement is the responsibility of the Project implementation Unit. Our responsibility is to express an opinion on the Designated Account Statement based on our audit.

We conducted our audit in accordance with International Standards of Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Designated Account Statement is free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Designated Account Statement. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the accompanying Designated Account Statement as at December 31, 2017 present fairly, in all material respects, the movements in the year 2017 on the Designated Account of the Project, in accordance with World Bank guidelines.

Zagreb, 29 June 2018

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Daniela Šunjić, certified auditor

Registrirano kod Trgovačkog suda u Zagrebu pod brojem 080044149
OIB 76394522236

INTEGRATED LAND ADMINISTRATION SYSTEM PROJECT

DESIGNATED ACCOUNT STATEMENT
as at December 31, 2017

Bank: Raiffeisenbank Austria d.d., Zagreb
IBAN: HR282484008 - 1300158260

Balance as at January 1, 2017	248,393	
Increase		
Withdrawal	2,177,937	
Decrease:		
Payments from the Designated Account		(1,818,111)
Exchange rate		
Balance as at December 31, 2017		**608,219**

Note: Designated Account for the Loan was opened on February 27, 2012 in Raiffeisenbank Austria d.d., Zagreb, IBAN HR282484008-1300158260.