

I.

Zračna luka Osijek d.o.o.

Services of General Economic Interest: guidance for report to be submitted following the 2012 SGEI Decision and the 2012 SGEI framework

The reporting obligations are set out in Article 9 of the 2012 SGEI Decision:

Each Member State shall submit a report on the implementation of this Decision to the Commission every 2 years. The reports shall provide a detailed overview of the application of this Decision for the different categories of services referred to in Article 2(1), including:

- (a) a description of the application of this Decision to the services falling within its scope, including in-house activities;*
- (b) the total amount of aid granted in accordance with this Decision, with a breakdown by the economic sector of the beneficiaries;*
- (c) an indication of whether, for a particular type of service, the application of this Decision has given rise to difficulties or complaints by third parties; and*
- (d) any other information concerning the application of this Decision required by the Commission and to be specified in due time before the report is to be submitted.*

Paragraph 62 of the 2012 SGEI Framework sets in principle identical reporting obligations for aid granted under the 2012 SGEI Framework.

Please structure your report as follows:

1. EXPENDITURE OVERVIEW

General SGEI government expenditure by functions (millions EUR)		
	2016	2017
Compensation for Services of General Economic Interest (1+2)	0.430	0.423
(1) Compensation granted on the basis of the SGEI Decision	0.430	0.423
(2) Compensation granted on the basis of the SGEI Framework	0.00	0.00

2. DESCRIPTION OF THE APPLICATION OF THE SGEI DECISION AND THE SGEI FRAMEWORK AND AMOUNT GRANTED

Please structure this part of your report by the following sections:

- 1) Hospitals (Art. 2(1)(b))
- 2) Social services (Art. 2(1)(c))
 - a) Health and long term care
 - b) Childcare
 - c) Access to and reintegration into the labour market

d) Social housing

e) Care and social inclusion of vulnerable groups

3) Air or maritime links to islands with average annual traffic below the limits set in Art. 2(1)(d)

4) Airports and ports with average annual traffic below the limit set in Art. 2(1)(e)

Decision to keep Zračna luka Osijek d.o.o. open for public air transport in the period 2014-2018

The undertaking tasked under this Decision with the provision of a service of general economic interest is Zračna luka Osijek d.o.o.

The Airports Act (*Narodne novine* (NN; Official Gazette of the Republic of Croatia) Nos 19/1998, 14/2011 and 78/2015) lays down the ownership structure of Zračna luka Osijek d.o.o., and partners enjoy rights and obligations in proportion to their ownership shares: Republic of Croatia 55 %, Osijek-Baranja County 20 % and City of Osijek 25 %. The share capital of Zračna luka Osijek d.o.o. is HRK 26 208 000 (approx. EUR 3 426 million).

According to NACE classification (rev. 2), the economic activity of the state aid beneficiary is:

5223 – Service activities incidental to air transportation

The business activities of Zračna luka Osijek d.o.o. comprise primary and secondary activities.

The primary activities of Zračna luka Osijek d.o.o. comprise all activities relating to aircraft ground handling, aircraft parking, passenger services, goods handling and activities aimed at providing scheduled and charter routes in domestic and international transport.

The secondary activities of Zračna luka Osijek d.o.o. comprise activities aimed at providing end users with comprehensive services and include car rental, accommodation and food services, leasing of office and advertising space, duty-free sales, etc.

For each of the items outlined above please provide information in the form of the following table:

Clear and comprehensive description of how the respective services are organized in your Member State¹
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Explanation of what kind of services in the respective sector have been defined as SGEI in your Member State. Please list the contents of the services entrusted as SGEI as
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¹ If in a certain sector only a small number of individual SGEIs exist in your Member State, we appreciate a detailed description of those services. If a large number of services are entrusted in a specific sector in your Member State (for example because the competence lies with regional or local authorities), individual details of the entrustments would be disproportionate, but a clear and concise general description of the way the sector is organised including the common features of the individual entrustments remains crucial. Since cases falling under the SGEI Framework will be limited in number, the Commission expects a detailed description of each specific measure.

clearly as clearly as possible.
<p>In order to keep Zračna luka Osijek d.o.o. open for public air transport, the airport operator must provide an SGEI comprising a series of technical and technological tasks and operations required for the safe provision of air transport involving aircraft, passengers, luggage, goods, items and post, and remain open for public air transport in accordance with directives laying down times when the airport is open for public air transport.</p> <p>Zračna luka Osijek d.o.o. provides the SGEI during the airport's operational period as laid down in the Order on airport operational time (NN No 133/2013), according to which the airport must be open from 27 October 2013 to 29 March 2014, 06.30–12.00 and 17.00–18.00 on Mondays, Wednesdays and Thursdays, and 08.00–15.00 on Tuesdays and Fridays. Under this Directive, Zračna luka Osijek d.o.o. must also be open outside the indicated opening hours upon request, which must be submitted during the working hours and notified through the SITA communication system 24 hours in advance.</p> <p>All other activities of Zračna luka Osijek d.o.o., including the secondary activities, are not considered as SGEIs.</p>
Explanation of the (typical) forms of entrustment . If standardized templates for entrustments are used for a certain sector, please attach them.
<p>Entrustments in the form of a Decision.</p> <p>Specifically: The Decision of 16 April 2014 to keep Zračna luka Osijek d.o.o. open for public air transport in the period 2014–2018; please find a copy of the Decision enclosed.</p>
Average duration of the entrustment (in years) and the proportion of entrustments that are longer than 10 years (in %) per sector. Specify in which sectors SGEI were entrusted with a duration exceeding 10 years and explain how this duration is justified?
<p>The duration of the entrustment is five years.</p> <p>Under the Decision, Zračna luka Osijek d.o.o. will provide the SGEI from 1.1.2014 to 31.12.2018.</p>
Explanation whether (typically) exclusive or special rights are assigned to the undertakings.
Which aid instruments have been used (direct subsidies, guarantees, etc.)?
Direct subsidies
Typical compensation mechanism as regards the respective services and whether a methodology based on cost allocation or the net avoided cost methodology is used.
The compensation is a subsidy covering lost earnings in relation to expenses. The

compensation covers all direct variable and fixed costs as well as a proportionate share of common overheads incurred in the provision of the SGEI.

The compensation does not cover the reasonable profit arising from the provision of the SGEI.

The calculation of the compensation, i.e. the difference between expenditure and revenue, is based on all revenue (including revenue from the primary and secondary activities and extraordinary and financial revenue) but only on direct expenses incurred in the provision of the services of general economic interest and a corresponding share of expenses that are common to both services of general economic interest and other services.

Typical arrangements for avoiding and repaying any overcompensation.

Under the Decision, Zračna luka Osijek d.o.o. may not be granted other forms of state aid, irrespective of the provider (national, regional or local level), without obtaining a prior opinion from the competent body. In order to avoid overcompensation, the Ministry of Maritime Affairs, Transport and Infrastructure shall carry out regular inspections. If these reveal that *de minimis* aid has been granted (irrespective of administrative level), the Ministry will reduce the compensation by the amounts of any *de minimis* aid granted to Zračna luka Osijek d.o.o. under Commission Regulation (EU) No 1407/2013 of 18 December 2013 on the application of Articles 107 and 108 of the Treaty on the Functioning of the European Union to *de minimis* aid (OJ L 352, 24.12.2013, p. 1) and Commission Regulation (EU) No 360/2012 of 25 April 2012 on the application of Articles 107 and 108 of the Treaty on the Functioning of the European Union to *de minimis* aid granted to undertakings providing services of general economic interest (OJ L 114, 26.4.2012, p. 297).

Amount of aid granted

Total amount of aid granted (in millions EUR)². This includes all aid granted in your territory, including aid granted by regional and local authorities. (A+B+C)

2016	2017
0.430	0.423
A: Total amount of aid granted (in millions EUR) paid by national central authorities	
2016	2017
0.430	0.423
B: Total amount of aid granted (in millions EUR) paid by regional authorities	
2016	2017
0.00	0.00
C: Total amount of aid granted (in millions EUR) paid by local authorities	
2016	2017
0.00	0.00
Share of expenditure per aid instrument (direct subsidy, guarantees etc.) (if available)	

² As stipulated in Article 9 b) of the SGEI Decision and Para. 62 b) of the SGEI Framework. Please provide a breakdown by calendar year.

2016	2017
Additional quantitative information (e.g. number of beneficiaries per sector, average aid amount, size of the undertakings)	

3. DESCRIPTION OF THE APPLICATION OF THE 2012 SGEI FRAMEWORK
PLEASE STRUCTURE THIS PART OF YOUR REPORT BY THE FOLLOWING SECTIONS:

1) SGEI compensation exceeding EUR 15 million, falling outside the SGEI Decision (please specify the Commission decision approving each measure if applicable):

4. COMPLAINTS BY THIRD PARTIES

Please be as specific as possible and include the sector for which you have received the complaints, the contents of the complaints and the possible follow-up by your authorities.

THERE WERE NO COMPLAINTS BY THIRD PARTIES DURING THE REPORTING PERIOD (2016-2017)

5. MISCELLANEOUS QUESTIONS

a. We kindly invite you to indicate whether your authorities have experienced difficulties in applying the 2012 SGEI Decision and ask you to in particular consider the following issues:

- drawing up an entrustment act that complies with Article 4 of the SGEI Decision;
- specifying the amount of compensation in line with Article 5 of the SGEI Decision;
- determining the reasonable profit level in line with Article 5(5)-(8) of the SGEI Decision;
- regularly checking overcompensation as required by Article 6 of the SGEI Decision;

Please be as specific as possible in your reply, include relevant examples and, if applicable, the sector for which the difficulties are (most) relevant.

b. We kindly invite you to indicate whether your authorities have experienced difficulties in applying the 2012 SGEI Framework and ask you to in particular consider the following issues:

- carrying out a public consultation in line with paragraph 14 of the SGEI Framework;
- complying with public procurement rules in line with para 19 of the SGEI Framework;
- determining the net avoided cost as required by paras 25-27 of the SGEI Framework;
- determining the reasonable profit level in line with paras 33-38 of the SGEI Framework;

Please be as specific as possible in your reply, include relevant examples and, if applicable, the sector for which the difficulties are (most) relevant.

c. If you have any other comments on the application of the SGEI Decision and the SGEI Framework on issues other than the ones covered in the previous questions please feel

free to provide them within your report.

THERE WERE NO DIFFICULTIES IN APPLYING THE 2012 SGEI DECISION DURING THE REPORTING PERIOD (2016-2017)

II.

HP-Hrvatska pošta d.d., Zagreb

Services of General Economic Interest: guidance for report to be submitted following the 2012 SGEI Decision and the 2012 SGEI framework

The reporting obligations are set out in Article 9 of the 2012 SGEI Decision:

Each Member State shall submit a report on the implementation of this Decision to the Commission every 2 years. The reports shall provide a detailed overview of the application of this Decision for the different categories of services referred to in Article 2(1), including:

(a) a description of the application of this Decision to the services falling within its scope, including in-house activities;

(b) the total amount of aid granted in accordance with this Decision, with a breakdown by the economic sector of the beneficiaries;

(c) an indication of whether, for a particular type of service, the application of this Decision has given rise to difficulties or complaints by third parties; and

(d) any other information concerning the application of this Decision required by the Commission and to be specified in due time before the report is to be submitted.

Paragraph 62 of the 2012 SGEI Framework sets in principle identical reporting obligations for aid granted under the 2012 SGEI Framework.

Please structure your report as follows:

1. EXPENDITURE OVERVIEW

Please complete the following table:

Total SGEI government expenditure by legal basis (millions EUR)		
	2016	2017
Compensation for Services of General Economic Interest (1+2)	10.524	10.432
(1) Compensation granted on the basis of the SGEI Decision	10.524	10.432
(2) Compensation granted on the basis of the SGEI Framework	0	0

Non-compulsory: If your Member State has not granted State aid for the provision of SGEI in certain sectors on the basis of the SGEI Decision or the SGEI Framework, information regarding other instruments to ensure the provision of those services would be very useful. If available, please provide a brief description of these instruments (e.g. direct aid to users, compensation complying with all four Altmark criteria, SGEI *de minimis* aid for SGEI, etc.) and the sectors in which they are used.

2. DESCRIPTION OF THE APPLICATION OF THE 2012 SGEI DECISION

Please structure this part of your report by the following sections:

1. Hospitals (Art. 2(1)(b))
2. Social services (Art. 2(1)(c))
 - a. Health and long term care
 - b. Childcare
 - c. Access to and reintegration into the labour market
 - d. Social housing
 - e. Care and social inclusion of vulnerable groups
3. Air or maritime links to islands with average annual traffic not exceeding the limit set in Art. 2(1)(d)
4. Airports and ports with average annual traffic not exceeding the limit set in Art. 2(1)(e)
5. SGEI compensation not exceeding an annual amount EUR 15 million (Art. 2(1)(a))
 - i. Postal services
 - ii. Energy
 - iii. Waste collection
 - iv. Water supply
 - v. Culture
 - vi. Financial services
 - vii. Other sectors (please specify)

In accordance with Article 4 of the Commission Decision of 20 December 2011 on the application of Article 106(2) of the Treaty on the Functioning of the European Union to State aid in the form of public service compensation granted to certain undertakings entrusted with the operation of services of general economic interest, and with the provisions of the State Aid Act (NN Nos 47/14 and 69/17), the provider of State aid (the Ministry of the Sea, Transport and Infrastructure) produced the entrustment act, the Programme for State Aid to HP-Hrvatska pošta d.d. in the form of compensation for providing a universal service from 2014 to 2018 ('the Programme'), which was submitted to the Ministry of Finance for an opinion. In the opinion of the Ministry of Finance, the Programme is in line with the State Aid Act and with the State Aid Policy Guidelines and is fully in line with the Commission Decision of 20 December 2011 on the application of Article 106(2) of the Treaty on the Functioning of the European Union to State aid in the form of public service compensation granted to certain undertakings entrusted with the operation of services of general economic

interest.

The Postal Services Act (NN Nos 144/12, 153/13 and 78/15) lays down the procedure for compensating the provider where the obligation to provide the universal service creates a net cost that represents an unfair financial burden for the provider. The Croatian Regulatory Authority for Network Industries (HAKOM) issues a decision determining the amount of the net cost that represents an unfair financial burden for the universal service provider, which, in accordance with Article 48(5) of the Postal Services Act, is paid from the national budget, on the basis of HAKOM's decision and in accordance with the rules on State aid. Article 49(1) of the Postal Services Act requires a universal service provider seeking compensation for an unfair financial burden to apply to HAKOM by 31 July for the preceding calendar year. Article 49(2) requires the universal service provider to submit an audit report and a calculation of the net cost incurred, which must be drawn up in accordance with Articles 47 and 50 of the Postal Services Act. It also requires the universal service provider to submit additional justification for the net cost at HAKOM's request. Finally, Article 48(4) of the Postal Services Act requires HAKOM to issue its decision as a rule within 60 days, or at the latest within six months of the date of submission of a duly completed application as referred to in Article 49(1) of the Postal Services Act.

When determining the level of compensation for an unfair financial burden at the request of HP-Hrvatska pošta d.d. ('HP'), the HAKOM Council is required by Articles 8(1)(6) and 10(1) of the Postal Services Act to issue a decision determining the amount that represents an unfair financial burden for the universal service provider, HP (the decision is issued during the current year, for the preceding year). The universal service provider, HP, submits a request to HAKOM (during the current year) for compensation for the universal service costs that represent an unfair financial burden (during the preceding year), accompanied by the corresponding annual financial accounts and an independent auditor's report. HP's request states that its universal service obligation imposes an unfair financial burden on it by requiring it to provide services under conditions other than the usual market conditions.

The legal regulations and the Instruction (issued by the HAKOM Council) on the calculation of and compensation for the net cost of the universal service and an evaluation of the unfair financial burden of 31 August 2015 ('the Instruction') require HP to submit a calculation of the net cost of the universal service.

To examine whether the calculation submitted with HP's request is justified, HAKOM requests the opinion of an independent auditor. HAKOM holds a series of workshops with representatives of the independent auditor and HP, where all elements of the calculation are discussed, focusing in particular on the assumptions used under the commercial scenario. Based on the figures submitted and the workshops held, the independent auditor submits a final report with an independent expression of assurance of the commercial scenario and calculation of the net cost.

In line with the independent auditor's report on the net cost, HAKOM determines the final amount of the net cost of the universal service. Once the amount of the net cost of the universal service has been determined, HAKOM launches the procedure for evaluating the unfair financial burden for the universal service provider. Under the procedure, HAKOM evaluates whether the net cost of the universal service represents an unfair financial burden in accordance with point 5 of the Instruction.

HAKOM Council issued a decision (Class: UP/I-344-02/16-06/01, Ref. No: 376-06/16-7) of

11 October 2016 determining that the amount of HRK 79 062 286.00 (≈EUR 10 524 529.80) represented an unfair financial burden for the universal service provider, HP-Hrvatska pošta d.d., in 2015, and on the basis of the decision the amount determined was paid to the universal service provider.

HAKOM Council issued a decision (Class: UP/I-344-02/17-06/02, Ref. No: 376-06/17-5) of 23 October 2017 determining that the amount of HRK 78 766 289.00 (≈EUR 10 432 534.01) represented an unfair financial burden for the universal service provider, HP-Hrvatska pošta d.d., in 2016, and on the basis of the decision the amount determined was paid to the universal service provider.

For each of the items outlined above please provide information in the form of the following table:

Clear and comprehensive description of how the respective services are organized in your Member State³
Explanation of what kind of services in the respective sector have been defined as SGEI in your Member State. Please list the contents of the services entrusted as SGEI as clearly as possible.
<p>The Postal Services Act requires the universal (postal) service to be provided as a service in the interest of the Republic of Croatia, and the universal service is therefore considered to be a service of general economic interest. Article 3 of the Postal Services Act states that the provision of the universal service is in the interest of the Republic of Croatia, and the users of postal services throughout the country must be provided with the universal service under the same conditions. In accordance with the Postal Services Act, postal services include the universal service, alternative postal services and other postal services.</p> <p>The universal service is the group of postal services available to all users of postal services throughout the Republic of Croatia at an affordable price, and the universal service provider must provide the universal service at the standard laid down in the Postal Services Act through its postal network. The universal service includes postal services in domestic and international traffic:</p> <ol style="list-style-type: none"> 1. the receipt, routing, transport and delivery of items of correspondence weighing of up to 2 kg; 2. the receipt, routing, transport and delivery of parcels weighing of up to 10 kg; 3. the receipt, routing, transport and delivery of registered items and items with a declared value; 4. the receipt, routing, transport and delivery of items for the blind weighing of up to 7 kg, free of charge; 5. the routing, transport and delivery of parcels weighing up to 20 kg in incoming

³ If in a certain sector only a small number of individual SGEIs exist in your Member State, we appreciate a detailed description of those services. If a large number of services are entrusted in a specific sector in your Member State (for example because the competence lies with regional or local authorities), individual details of the entrustments would be disproportionate, but a clear and concise general description of the way the sector is organised including the common features of the individual entrustments remains crucial.

international post.

The Postal Services Act requires the universal service provider, HP, to provide all users with the following services, at least five working days per week:

1. one receipt of postal items;
2. one delivery of postal items to the home address or business premises of all natural and legal persons.

However, the above services need not apply under certain geographical conditions or other circumstances.

HP is required to deliver all postal items in the condition in which they were received. HP is required to provide users free of charge with confirmation of receipt for registered items, items with a declared value and parcels, and to request the signature of the person to whom the postal item was delivered, as proof of delivery. The Postal Services Act and the Rules on the provision of the universal service (NN No 41/13) lay down other criteria to be met by the universal service provider.

The Rules on the provision of the universal service lay down the criteria to be met by the universal service provider's postal network. The postal network is understood to mean the organisational system and all types of resources interconnected as a single technical/technological unit which are used by the universal service provider specifically to provide the universal service throughout the Republic of Croatia.

The universal service provider is required to establish a network of post offices in such a way that:

1. each post office covers an average area of not more than 80 km², or
2. each post office serves an average of not more than 6 000 inhabitants.

The average number of inhabitants and average area in km apply to the entire territory of the Republic of Croatia. The postal network must be composed of at least 700 regular post offices. The universal service provider is required to establish a network of access points in built-up areas, with a distance between access points of not more than 5 000 m.

Article 40 of the Postal Services Act requires HP to ensure that:

1. 85 % of postal items of the fastest category are delivered within one working day, and 95 % within two working days, in domestic postal traffic, and that 95 % of all other items in domestic traffic are delivered within three working days;
2. 85 % of postal items of the fastest category are delivered within three working days, and 97 % within five working days, in international postal traffic with other EU Member States; for other countries, the maximum delivery dates are as laid down in the acts of the Universal Postal Union.

For postal items addressed to recipients on the islands or received on the islands, the maximum delivery dates are one day longer. The final date for the receipt or posting of postal items must be indicated in the HP's offices intended for users of the service and

on post boxes, broken down by category of speed for the transport of items.

The universal service provider is required each year, in line with Croatian standards, to measure the quality of the universal service provided, and to have an independent body measure the quality of delivery of postal items in order to determine the percentage of items delivered.

The Rules on the provision of the universal service lay down the manner in which the universal service provider issues and conducts a call for tenders for having the quality of the universal service measured by an independent body, which must be in line with the following Croatian standards:

1. HRN EN 13850 - Measurement of the transit time of end-to-end services for single piece priority mail
2. HRN EN 14508 - Measurement of the transit time of end-to-end services for single piece non-priority mail
3. HR EN 14012 - Measuring complaints and compensation

The Postal Services Act requires the universal service provider to submit to the Croatian Regulatory Authority for Network Industries (HAKOM), for information, an annual report on the quality of the universal service, by 1 April for the preceding calendar year.

Explanation of the (typical) **forms of entrustment**. If standardized templates for entrustments are used for a certain sector, please attach them.

Provision of alternative and other postal services

The right to provide alternative and other postal services is acquired by any legal or natural person from the date of submission of a duly completed application to HAKOM. The application for the provision of postal services must be submitted to HAKOM in writing and contain the following details:

1. the name, registered or home address and personal identification number of the legal or natural person;
2. an extract from the corresponding register of legal or natural persons;
3. a list and description of the alternative and/or other postal services to be provided;
4. the cost of the postal services;
5. the area where the alternative and/or other postal services are to be provided (domestic and/or international traffic);
6. the period in which the applicant intends to start providing the alternative and/or other postal services.

Within eight days of receipt of a duly completed application, HAKOM will issue the postal service provider with confirmation of submission of a duly completed application for certain types of postal services. The confirmation is not an administrative act.

HAKOM will examine the application to determine whether it relates to alternative postal services, taking into account the characteristics of the postal services applied for, their usefulness from the point of view of the users of postal services, and the cost of the

service. If it is apparent from the application that the postal services applied for are alternative postal services, HAKOM will issue a decision on the provision of alternative postal services within 90 days of receipt of the duly completed application. Before issuing its decision, HAKOM will seek the opinion of the body responsible for safeguarding competition.

HAKOM's decision must contain the following details:

1. the right to provide alternative postal services in the specified area, in accordance with the application submitted;
2. the details of the postal service provider specified in the decision;
3. the obligations to be met by the alternative postal service provider.

The alternative postal service provider is required to notify HAKOM in writing of any change in the circumstances referred to in the application, without delay, and at the latest within 30 days of the change occurring. The alternative service provider is not allowed to transfer the right to provide alternative postal services to another legal or natural person.

The universal service provider is entitled to provide alternative postal services without obtaining HAKOM's prior consent.

Average duration of the entrustment (in years) and the proportion of entrustments that are **longer than 10 years** (in %) per sector. Specify in which sectors SGEI were entrusted with a duration exceeding 10 years and explain how this duration is justified?

In accordance with Article 67(1) of the Postal Services Act, HP is the universal service provider and has the right and obligation to provide that service. Article 67(2) of the Postal Services Act entrusts HP with the right and obligation to provide the universal service for a 15-year period (from the date of entry into force of the Act, on 1 January 2013), and HAKOM is required to carry out an analysis every five years of the state of the market for postal services, so as to determine whether there are postal service providers that can provide the universal service. If HAKOM's analysis determines that there are postal service providers that can provide the universal service, a public tender procedure will be carried out in order to determine the universal service provider.

Explanation whether (typically) **exclusive or special rights** are assigned to the undertakings.

No.

Which **aid instruments** have been used (direct subsidies, guarantees, etc.)?

Direct subsidies.

Typical **compensation mechanism** as regards the respective services and whether a methodology based on cost allocation or the net avoided cost methodology is used.

The Postal Services Act requires HP to separate its accounts by separating income and expenditure generated from the universal service from income and expenditure

generated from alternative postal services and from income and expenditure generated from other postal services, broken down by the type of service and product. This separation of accounts, based on the consistently applied and objectively justifiable cost accounting principles, also serves as the source for data for calculating the net cost of the universal service. In accordance with the Postal Services Act, an Instruction on the separation of accounts and cost accounting has been issued, which is intended to regulate the obligation of the universal service provider and provides a framework for the regulatory reports and other information to be submitted by HP periodically to HAKOM as part of its legal obligations.

The separation of accounts which the Instruction requires of HP must fulfil the following objectives:

- to determine the cost of the services incurred, so that the prices for the services provided under the universal service can be determined accurately;
- to provide the basis for determining the net cost of providing the universal service.

HP's cost accounting allocates costs for each service, i.e.:

- a) the costs that can be directly attributed to a particular service or product, and
- b) common costs that cannot be directly attributed to a particular service or product.

Common costs that cannot be directly attributed to a particular service or product are allocated as follows:

1. whenever possible, they are allocated on the basis of a direct analysis of the origin of the costs themselves;
2. when a direct analysis is not possible, common cost categories are allocated on the basis of an indirect linkage to another cost category or group of cost categories for which a direct assignment or allocation is possible, the indirect linkage being based on similar cost structures;
3. when it is not possible to allocate costs using direct or indirect measures, the cost category is allocated on the basis of a general allocator computed by using the ratio of all expenses directly or indirectly assigned or allocated, on the one hand, to each of the universal services and, on the other hand, to the alternative postal services and other postal services;
4. common costs which are necessary for the provision of the universal service, alternative postal services and other postal services will be allocated appropriately when the universal service, alternative postal services and other postal services use the same source of costs.

The procedure for calculating the net cost and the compensation mechanism are laid down in Articles 48-50 of the Postal Services Act. Article 48(1) of the Postal Services Act provides that if the obligation to provide the universal service creates a net cost that represents an unfair financial burden on the universal service provider, then the provider is entitled to compensation for the unfair financial burden determined.

The Rules on the provision of the universal service lay down the integral parts of the calculation of the net cost. They require the calculation of the net cost to be based on costs related to the provision of the universal service at the specified standard which generate a loss for the universal service provider, or under conditions where the costs are not in line with the usual rules of the market economy, as laid down in the Postal Services Act. The Rules on the provision of the universal service also provide that

the net cost must include any cost related to and necessary for the provision of the universal service, and must be calculated as the difference between the net cost with an obligation to provide the universal service and the net cost without an obligation to provide the universal service.

To calculate the unfair financial burden in the postal sector, HAKOM has issued an Instruction in accordance with the Postal Services Act and the Rules on the provision of the universal service, and as universal service provider in the Republic of Croatia HP is required to use a cost model whose cost base is according to the historical cost accounting (HCA) method and which is based on the fully allocated cost (FAC) accounting method. The ABC (activity-based costing) method is used as the technique for allocating costs.

A universal service provider seeking compensation for an unfair financial burden must apply to HAKOM by 31 July for the preceding calendar year. HAKOM must issue its decision as a rule within 60 days, or at the latest within six months of the date of submission of a duly completed application.

To calculate the net cost, the universal service provider must produce a business study with and without the obligation to provide a universal service, taking the following factors into account:

1. the net cost is based only on the costs related to provision of the universal service at the standard specified;
2. when calculating the net cost, only the following components of the universal service are taken into account:
 - a) those that generate a loss for the universal service provider, or
 - b) those that arise when the universal service provider operates under market conditions that fall outside the scope of the usual rules of the market economy;
3. when calculating the net cost, account is taken of ensuring the provision of the universal service to special users or groups of users of services generating a loss for the universal service provider or provided under cost conditions that do not correspond to the usual rules of the market economy;
4. when it is possible to provide the universal service at the specified standard using several different methods, the net cost is calculated by considering the method that ensures the provision of the universal service at the specified standard at the lowest cost, even if the universal service provider opts for a different method;
5. all tangible and intangible benefits which accrue to the universal service provider by providing the universal service are deducted from the cost of the universal service; these benefits include:
 1. income generated from the universal service, as well as income from services that do not form part of the universal service and which would not have been obtained by the universal service provider without providing the universal service,
 2. an increase in the value of the brand as a result of providing the universal service,
 3. a reduction in the cost of providing other services as a result of synergies created by providing the universal service,
 4. other tangible and intangible benefits determined by HAKOM;
6. the universal service provider is entitled to an appropriate level of profit when

providing the universal service, allowing it to achieve a rate of return on resources that it could have obtained without providing the universal service.

Based on the calculation, HAKOM issues a decision determining the amount of the net cost that represents an unfair financial burden for the universal service provider. The funds for providing compensation for the unfair financial burden are paid from the national budget, on the basis of HAKOM's decision and in accordance with the rules on State aid.

Typical arrangements for avoiding and repaying any overcompensation.

As the provider of State aid, the Ministry of the Sea, Transport and Infrastructure ensures that the compensation paid to HP for provision of the universal service meets the requirements set out in the Commission Decision of 20 December 2011 on the application of Article 106(2) of the Treaty on the Functioning of the European Union to State aid in the form of public service compensation granted to certain undertakings entrusted with the operation of services of general economic interest, in particular that HP does not receive compensation in excess of the amount determined in accordance with Article 5 of the Decision.

Similarly, following a written request by the Commission, the Ministry of the Sea, Transport and Infrastructure will submit all information requested and carry out regular checks at least every three years during the period of the Programme and at the end of that period. If HP receives compensation in excess of the amount determined in accordance with Article 5 of the Commission Decision, the Ministry of the Sea, Transport and Infrastructure will ask HP to repay the overcompensation paid. The criteria for calculating the compensation will be revised for future periods.

The amounts stated in the forecast for the Programme are indicative, and the exact amount of the net cost for each year is determined by decision of HAKOM following a procedure laid down in the Postal Services Act and the Instruction.

To avoid any distortion of competition, on no account may the compensation for an unfair financial burden on HP exceed, between 2014 and 2018, the amount necessary to cover the unfair financial burden, on the basis of an actual and true presentation of costs and receipts associated with the universal service, and the parameters for allocating costs and revenues. As the compensation is calculated and paid at the end of the calendar year, based on a decision by HAKOM on the amount of the unfair financial burden issued on the basis of the findings of an independent auditor, we do not believe it is possible to overcompensate the universal service provider, because HAKOM calculates the compensation *ex post* (after the end of the calendar year).

Also, in the event of any change in the situation described, or if the conditions for the application of the Commission Decision cease to be met, the competent Croatian authorities are responsible for carrying out the procedure under Article 2(3) of the Commission Decision (notification of the European Commission in accordance with Article 108(3) TFEU).

A short explanation of how the **transparency requirements** (see Article 7 of the 2012 SGEI Decision) for the aid above 15 million euro to undertakings that also have activities outside the scope of the SGEI are being complied with. In your answer please

also include some relevant examples of information published for this purpose (e.g. some links to websites or other references), indicate whether you have a central website on which you publish this information for all aid measures concerned in your Member State (and if so provide the link to this website), or alternatively explain if and how the publication takes place at the level granting the aid (e.g. central, regional or local level).

Amount of aid granted

Total amount of aid granted (in millions EUR).⁴ This includes all aid granted in your territory, including aid granted by regional and local authorities. **(A+B+C)**

2016	2017
10.601	10.470
A: Total amount of aid granted (in millions EUR) paid by national central authorities	
2016	2017
10.524	10.432
B: Total amount of aid granted (in millions EUR) paid by regional authorities	
2016	2017
0	0
C: Total amount of aid granted (in millions EUR) paid by local authorities	
2016	2017
0.077	0.038
Share of expenditure per aid instrument (direct subsidy, guarantees etc.) (if available)	
2016	2017
Additional quantitative information (e.g. number of beneficiaries per sector, average aid amount, size of the undertakings)	
2016	2017

4 COMPLAINTS BY THIRD PARTIES

Please provide an overview of complaints by third parties, in particular litigation before national courts, regarding measures in scope of the 2012 SGEI Decision or 2012 SGEI Framework. Please be as specific as possible in your reply and include the sector for which you have received the complaints, the contents of the complaints and the possible follow-up by your authorities or the likely outcome of the court proceedings.

There were no complaints by third parties during the reporting period (2016-2017).

5. MISCELLANEOUS QUESTIONS

⁴ As stipulated in Article 9 b) of the 2012 SGEI Decision.

- a. We kindly invite you to indicate whether your authorities have experienced difficulties in applying the 2012 SGEI Decision and ask you to in particular consider the following issues:

- drawing up an entrustment act that complies with Article 4 of the SGEI Decision;
- specifying the amount of compensation in line with Article 5 of the SGEI Decision;
- determining the reasonable profit level in line with Article 5(5)-(8) of the SGEI Decision;
- regularly checking overcompensation as required by Article 6 of the SGEI Decision;

Please be as specific as possible in your reply, include relevant examples and, if applicable, the sector for which the difficulties are (most) relevant.

- b. We kindly invite you to indicate whether your authorities have experienced difficulties in applying the 2012 SGEI Framework and ask you to in particular consider the following issues:

- carrying out a public consultation in line with paragraph 14 of the SGEI Framework;
- complying with public procurement rules in line with para 19 of the SGEI Framework;
- determining the net avoided cost as required by paras 25-27 of the SGEI Framework;
- determining the reasonable profit level in line with paras 33-38 of the SGEI Framework;

Please be as specific as possible in your reply, include relevant examples and, if applicable, the sector for which the difficulties are (most) relevant.

- c. If you have any other comments on the application of the SGEI Decision and the SGEI Framework on issues other than the ones covered in the previous questions please feel free to provide them within your report.



REPUBLIC OF CROATIA
MINISTRY OF MARITIME AFFAIRS,
TRANSPORT AND INFRASTRUCTURE

Pursuant to Article 41a of the Air Transport Act (*Narodne novine* (NN; Official Gazette of the Republic of Croatia) Nos 69/09, 84/11, 54/13 and 127/13), the Minister for Maritime Affairs, Transport and Infrastructure hereby issues a

DECISION
to keep Zračna luka Osijek d.o.o. open for public air transport in the period 2014–2018

I.

In order to keep Zračna luka Osijek d.o.o. open for public air transport, the airport operator shall be obliged to provide a service comprising a series of technical and technological tasks and operations required for the safe provision of air transport involving aircraft, passengers, luggage, goods, items and post, and remain open for public air transport in accordance with the directives laying down the periods when the airport is open for public air transport.

II.

The service referred to in point I of this Decision is a service of general economic interest.

III.

The airport operator shall perform the service referred to in point I of this Decision in the period 2014–2018, during the airport's operational periods as laid down in the Order on airport operational time for the purpose of public air transport (NN No 133/2013).

IV.

This Decision does not apply to any other services provided by Zračna luka Osijek d.o.o., including secondary activities such as storage, lease of office space, road transport, accommodation and food services, land and car park leasing, agency services, etc., which are not considered services of general economic interest.

V.

Since Zračna luka Osijek d.o.o. cannot cover all its expenses resulting from the provision of services of general economic interest, the Ministry of Maritime Affairs, Transport and Infrastructure shall pay Zračna luka Osijek d.o.o. compensation for the earnings lost compared with expenses.

The compensation shall be paid for each business year in the period laid down in point III of this Decision as a subsidy from the annual budget of the Ministry of Maritime Affairs, Transport and Infrastructure.

The compensation shall cover all direct variable and fixed costs, a proportionate share of the common overheads incurred in the provision of the service referred to in point I of this Decision, and a proportionate share of the overheads common to both the services of general economic interest and other services.

The compensation shall not cover reasonable profit arising from the provision of the services referred to in point I of this Decision.

The compensation to Zračna luka Osijek d.o.o. shall be granted in accordance with the Commission Decision of 20 December 2011 on the application of Article 106(2) of the Treaty on the Functioning of the European Union to State aid in the form of public service compensation granted to certain undertakings entrusted with the operation of services of general economic interest (OJ L 11, 11.1.2012, p. 289).

VI.

The criteria according to which the compensation referred to in point I of this Decision is calculated, monitored and inspected shall be laid down for the period 2014–2018 and shall, as a minimum, include:

A forecast of annual revenue and expenses broken down by category of the services of general economic interest referred to in point I of this Decision.

An outline of anticipated annual revenue and expenses shall be based on the forecast of annual revenue and expenses and shall be broken down as follows:

Total revenue:

- revenue from primary activity
 - a) ground handling revenue
 - b) service revenue
 - c) revenue from ground handling and servicing of cargo aircraft (foreign)
 - d) service revenue (GW fee)
 - e) other revenue
- revenue from secondary activity
- extraordinary revenue
- financial revenue

Total expenditure:

- expenditure from primary activity
 - a) material and raw material costs
 - b) energy and fuel costs
 - c) write-off of small inventory
 - d) current maintenance costs
 - e) depreciation
 - f) utilities
 - g) gross salary costs
 - h) workers compensation costs
 - i) costs of intellectual and health services
 - j) costs of other services
 - k) banking and transaction fees
 - l) insurance premiums
 - m) taxes and contributions attached to other public charges not dependent on result
 - n) other operating costs
- revenue from secondary activity
- extraordinary expenses and revaluation adjustment
- financial revenue

Profit before tax Loss
before tax

The calculation of compensation for the provision of the service referred to in point I of this

Decision, which corresponds to the difference between expenses and revenue, shall be based on all revenue (including revenue from main and secondary activities and extraordinary and financial revenue) but only on direct expenses incurred in the provision of the services of general economic interest and a corresponding share of expenses that are common to both services of general economic interest and other services.

The compensation per year shall be:

- For 2014	HRK 3 300 000.00
- For 2015	HRK 3 250 000.00
- For 2016	HRK 3 200 000.00
- For 2017	HRK 3 150 000.00
- For 2018	HRK 3 100 000.00

VII.

The Ministry of Maritime Affairs, Transport and Infrastructure shall monitor and inspect the compensation paid at the end of each year or on the basis of an ad hoc decision if so required.

The amount of compensation shall not exceed the amount required to cover the costs of Zračna luka Osijek d.o.o. incurred in provision of the services referred to in point 1 of this Decision, having regard to the revenue generated respectively by these services.

The compensation may not be used for other purposes (set out in point IV of this Decision) since this would render it illegal State aid.

In order to avoid overcompensation, the Ministry of Maritime Affairs, Transport and Infrastructure shall carry out regular inspections and shall repay to the state budget of the Republic of Croatia any amounts constituting overcompensation; in this case the calculation criteria shall be revised for future periods. In the light of inspections aimed at preventing overcompensation, Zračna luka Osijek d.o.o. may not be granted other forms of State aid, irrespective of provider (national, regional or local), without obtaining a prior opinion from the Croatian Competition Agency.

The compensation for the provision of the service referred to in point I of this Decision shall be reduced by the amounts of any *de minimis* aid granted to Zračna luka Osijek d.o.o. under Commission Regulation (EU) No 1407/2013 of 18 December 2013 on the application of Articles 107 and 108 of the Treaty on the Functioning of the European Union to *de minimis* aid (OJ L 352, 24.12.2013, p. 1) and Commission Regulation (EU) No 360/2012 of 25 April 2012 on the application of Articles 107 and 108 of the Treaty on the Functioning of the European Union to *de minimis* aid granted to undertakings providing services of general economic interest (OJ L 114, 26.4.2012, p. 297). 2012.,

Where the amount of overcompensation does not exceed 10 % of the average annual compensation, it may be carried over, if justified, to the next financial year, in which case the amount receivable by Zračna luka Osijek d.o.o. for the following year shall be reduced by the amount carried over.

The funds granted under this Decision shall be analysed at the end of the granting period (last quarter of 2018) and, on the basis of this analysis, the Ministry of Maritime Affairs, Transport and Infrastructure shall examine the option of continuing to subsidise the operations of Zračna luka Osijek d.o.o.

The Ministry of Maritime Affairs, Transport and Infrastructure shall keep all documents relating to the funds granted under this Decision throughout the granting period (2014–2018) and for a minimum of 10 years after the granting period (until the end of 2028).

VIII.

Funds for the compensation of the part of lost earnings in relation to the expenses of providing the service referred to in point I of this Decision shall be allocated from the state budget of the Republic of Croatia for each calendar year.

IX.

The Ministry of Maritime Affairs, Transport and Infrastructure shall set aside budget funds for the compensation referred to in point VIII of this Decision as ‘subsidy to an undertaking for the provision of an activity financed from the state budget A570333 – Ensuring traffic safety standards in Croatian airports’.

X.

Zračna luka Osijek d.o.o. shall keep the internal financial reports and accounts of income and expenditure relating to the provision of the service referred to in point I of this Decision separate from its other activities.

XI.

Every two years the Ministry of Maritime Affairs, Transport and Infrastructure shall submit to the European Commission, via the Croatian Competition Agency, a report on the implementation of this Decision in accordance with Article 9 of the Commission Decision.

XII.

This Decision shall enter into force on the date of its adoption, and shall apply as of 1 January 2014. It shall not be published in the Official Gazette (*Narodne novine*).

Class: 402-01/13-03/02

Ref. No: 530-06-1-1-2-14-8

Zagreb, 16 April 2014



CLASS: UP/I-344-02/16-06/01

REF. NO: 376-06/16-7

Zagreb, 11 October 2016

In accordance with Article 8(1)(6) and Article 10(1) of the Postal Services Act (NN Nos 144/12, 153/13 and 78/15), under a procedure for determining the level of compensation for an unfair financial burden on the universal service provider launched at the request of HP-Hrvatska pošta d.d., Jurišićeva 13, 10000 Zagreb, at a meeting held on 11 October 2016 the Council of the Croatian Regulatory Authority for Network Industries adopted the following

DECISION

The unfair financial burden on the universal service provider HP-Hrvatska pošta d.d. in 2015 is calculated as HRK 79 062 286.00 (seventy-nine million sixty-two thousand two hundred and eighty-six kuna).

G r o u n d s

On 1 July 2016 the universal service provider HP-Hrvatska pošta d.d. ('HP') submitted to the Croatian Regulatory Authority for Network Industries (HAKOM) a request for compensation for the universal service costs that represented an unfair financial burden in 2015, accompanied by the corresponding annual financial accounts and an independent auditor's report for 2015, as well as a calculation of the net cost incurred, in accordance with Article 49(1) and (2) of the Postal Services Act.

HP's request states that its universal service obligation imposes an unfair financial burden on it by requiring it to provide services under conditions other than the usual market conditions.

HP's request describes how it would operate if it were not required to provide the universal service. The assumptions used under the scenario with no obligation to provide the universal service are shown under the heading 'Commercial scenario', which is based on changes in the following operational parameters: (i) the density of access points for the receipt of postal items; (ii) the frequency of delivery of postal items, and (iii) providing postal services to the blind free of charge.

HP states that under the Commercial scenario, there would be a lower density of access points and a lower frequency of delivery, which would lead to further changes in transport, routing and related

overheads. These changes would have the effect of reducing operating expenses, but also of reducing income from the universal service and other services.

Based on its revised financial accounts for 2015, HP showed the effect of the changes that would arise under the Commercial scenario on income and expenditure.

According to HP's calculation, in a situation with no obligation to provide the universal service, i.e. to operate under market conditions, its expenditure would have been HRK 158 390 784.00 lower in 2015. Consequently, HP's total expenditure under the Commercial scenario would have been HRK 1 358 792 437.00.

	Costs under the USO scenario	Fall in costs under the Commercial scenario	Costs under the Commercial scenario	% change
Receipt (activities at the counter)	562 088 380.00	72 547 776.00	489 540 604.00	13 %
Delivery	427 275 501.00	56 893 830.00	370 381 671.00	13 %
Transport	53 853 619.00	16 821 556.00	37 032 063.00	31 %
Routing	82 935 993.00	190 351.00	82 745 642.00	0.2 %
Structural activities (overheads)	323 550 003.00	11 828 923.00	311 721 080.00	4 %
Financial expenditure	31 632 201.00	-	31 632 201.00	0 %
International accounting	35 847 524.00	108 348.00	35 739 176.00	0 %
Total	1 517 183 221.00	158 390 784.00	1 358 792 437.00	10 %

Although the Commercial scenario assumes sustainable business activity in the long term, some of HP's business income would be permanently lost due to the lower density of access points and lower frequency of delivery under the Commercial scenario. According to the calculation made, HP's income were it to operate with no universal service obligation would fall by HRK 42 246 641.00. Consequently, HP's total income under the Commercial scenario would have been HRK 1 659 712 094.00.

Effect of the Commercial scenario						
	Income under the USO scenario	Density of access points	Frequency of delivery	Other	Income under the Commercial scenario	% change
Postal services	946 924 337.00	2 862 039.00	0.00		944 062 299.00	0 %
Priority items of correspondence	10 295 273.00	119 946.00	1 327 259.00		8 848 069.00	14 %
Express services	86 866 557.00	1 372 227.00	0.00		85 494 330.00	2 %
Financial services	277 248 784.00	22 551 936.00	0.00		254 696 848.00	8 %
Retail sales	77 090 573.00	12 850 161.00	0.00		64 240 412.00	17 %
Other	304 686 958.00	2 490 333.00	0.00	-173 512.00	302 370 137.00	1 %
Total	1 703 112 482.00	42 246 641.00	1 327 259.00	-173 512.00	1 659 712 094.00	3 %

Moreover, in accordance with legal regulations and the Instruction on the calculation of and compensation for the net cost of the universal service and an evaluation of the unfair financial burden of 31 August 2015 ('the Instruction') (Class: 344-02/14-06/01, Ref. No: 376-11-15-5), the market benefits arising from the universal service were also calculated, as HRK 29 908 054.00. The amount obtained by calculating the difference between optimised costs and reduced income under the Commercial scenario is deducted from this total market benefit. The total net cost of the universal service also includes appropriate profit, defined as the fair rate of return on the capital employed (weighted average cost of capital – WACC), which was calculated as the difference between necessary investments in property

where the business operates under the universal service obligation and under the Commercial scenario, at a total amount of HRK 5 130 878.00.

As a result, the difference between HP's financial result with an obligation to provide the universal service and without such obligation would be HRK 90 213 220.00, which is, according to HP's findings, the amount of the net cost of the universal service for 2015.

To examine whether the calculation submitted with HP's request is justified, HAKOM requested the opinion of an independent auditor, BDO Croatia d.o.o. ('BDO'). Between 6 and 30 September 2016 HAKOM held a series of workshops with representatives of the independent auditor, BDO, and HP, where various elements of the calculation were discussed, focusing in particular on the assumptions used under the Commercial scenario, especially the density of access points, frequency of delivery, market benefits and appropriate profit.

Based on the figures submitted and the workshops held, the independent auditor submitted its final report on the Commercial scenario on 30 September 2016 and its calculation of HP's net cost for 2015. The findings of the report were explained to HP beforehand at a meeting with the independent auditor, and HP had no further comments.

The report reveals that some elements of the calculation of the net cost to HP are incorrect. Specifically, the following findings were made:

1. Under the Commercial scenario, HP assumed it would operate with 705 post offices, i.e. that it would close 312 post offices. Consequently, it assumed a reduction in the level of income and various types of expenditure arising from provision of the universal service. Since HP is legally required to ensure access to the universal service through a network of at least 700 offices, based on an analysis of the coverage of the territory of the Republic of Croatia, the independent auditor considers that the calculation of the net cost should be corrected by opening another 26 post offices under the Commercial scenario.

This correction has the following effect on the calculation of the net cost:

	HP's calculation	Corrected calculation	Effect on net cost
Cost of post offices closed	59 443 314.00	53 623 036.00	(5 820 278.00)
Increase of costs in other post offices	(2 062 492.00)	(1 877 858.00)	184 634.00
Other operating costs	15 166 955.00	13 880 816.00	(1 286 139.00)
Fall in income	(42 246 642.00)	(37 718 112.00)	4 528 530.00
	30 301 135.00	27 907 882.00	(2 393 253.00)

2. Under the Commercial scenario, HP assumed a fall in the number of postmen, as a result of the fall in the number of offices, from 2 273 to 1 841, or 432 postmen. Since, as mentioned above, the number of offices set to close under the Commercial scenario needs to be corrected, so too does the number of postmen. The independent auditor considers it reasonable to assume that in the context of a fall in the number of offices under the Commercial scenario, there will also be a fall in the number of postmen, of 391. The independent auditor therefore considers that the costs associated with the number of postmen should be corrected, as should income from advertising on postmen's clothing, which has the following effect on the calculation of the net cost:

	HP's calculation	Corrected calculation	Effect on net cost
Staff costs	46 391 708.00	40 929 199.00	5 462 509.00
Costs associated with the number of vehicles	1 084 420.00	1 084 420.00	0.00
Costs associated with the number of km travelled	2 706 616.00	2 706 616.00	0.00
Other delivery costs	6 711 087.00	6 486 152.00	(224 935.00)
Fall in income	(1 327 259.00)	(1 319 497.00)	7 762.00
	55 566 572.00	49 886 890.00	(5 679 682.00)

3. Further to the above points, the following amounts should be corrected:

- (i) the saving on transport and sorting costs should be reduced from HRK 17 011 907.00 to HRK 16 207 897.00, i.e. the net cost should be reduced by HRK 804 010.00;
- (ii) the saving on overheads should be reduced from HRK 11 828 923.00 to HRK 11 173 508.00, i.e. the net cost should be reduced by HRK 655 415.00;
- (iii) the saving on international accounting should be reduced by HRK 18 722.00.

According to the above figures, the net cost would fall by HRK 1 478 147.00.

4. Under the Commercial scenario, HP assumed an increased corporate reputation and brand value accounting for 20 % of total marketing costs. As is clear from marketing campaigns and the company's key focus on the very fact that by providing the universal service, the company has privileged access to potential users, the independent auditor considers that the calculation of these benefits should be based on 30 % of total marketing costs. Besides, based on the above corrections, we also need to adjust for the increased effect of advertising and the effect of interest on deferred debt payments, which has the following effect on the net cost:

	HP's calculation	Corrected calculation	Effect on net cost
Increased effect of advertising	1 268 568.00	1 203 624.00	64 944.00
Brand value	2 546 786.00	3 820 179.00	(1 273 393.00)
Interest income and expenditure on deferred payment for services	329 134.00	329 134.00	0.00
	4 144 488.00	5 352 937.00	(1 208 449.00)

5. Under the Commercial scenario, HP calculated the effect of tax relief relating to a change in VAT treatment. Under this scenario, the company is able to use a higher rate of deduction of input VAT (pro rata) by deducting input VAT at a rate of 74 % of VAT on the invoice, compared with a rate of 26 % under the universal service scenario. This difference is treated the same way in the calculation of the net cost as the pro rata change during the final calculation of VAT at the end of each year. The independent auditor states that the Commercial scenario involves assumptions that do not correspond to the conditions of the pro rata change. Rather, it involves a rate determined under the assumption that the universal service is not VAT-exempt, and the part of this sum that relates to the acquisition of fixed assets would not be included under income, nor, therefore, in the calculation of the net cost for 2015. Consequently, the sum of HRK 3 997 515.00 was included under income. The independent auditor considers that this sum should be included in the reduction of the cost of acquiring fixed assets. This means that in the calculation of the net cost under the Commercial scenario, the part of expenditure relating to depreciation would be lower for the part of the sum relating to 2015 according to the useful life of the assets, and for the part relating to the reduced depreciation of assets acquired in previous years, for which a higher deduction of input VAT would have been possible at the time of acquisition under the

Commercial scenario. The independent auditor therefore considers that, assuming an average useful life of the assets and historical data on the acquisition of assets, it can be concluded that the reduction in depreciation is the same as the amount of the difference in input VAT.

6. Under the Commercial scenario, HP calculated appropriate profit on a reduction in assets to the sum of HRK 44 616 329.00, which, assuming a WACC of 11.50 %, gives appropriate profit of HRK 5 130 878.00. The independent auditor considers that the above calculation should be corrected for changes in the assets employed following a change in the number of offices and frequency of delivery. On that basis, the independent auditor considers that the appropriate profit should be reduced from HRK 5 130 878.00 to HRK 4 739 474.00, i.e. the net cost should be reduced by HRK 391 403.00.

Based on the six points above, the independent auditor considers that the net cost totals HRK 79 062 286.00, rather than the HRK 90 213 220.00 shown under the Commercial scenario attached and in the net cost calculated by HP for 2015, a reduction of HRK 11 150 934.00.

Based on the above procedure, HAKOM makes the following findings:

On 1 July 2016 the universal service provider, HP, submitted a request for compensation for the universal service costs that represented an unfair financial burden in 2015. The request was submitted within the period and in the manner laid down in Articles 49 and 50 of the Postal Services Act. The calculation of the net cost of the universal service was made in accordance with point 4 of the Instruction.

HP's request shows the total amount of the net cost as HRK 90 213 220.00, according to the following elements:

Reference to the Instruction		Δ Costs	Δ Income	Δ Effect
CNCi	Density of access points	72 547 776.00	42 246 641.00	30 301 135.00
DNCi	Frequency of delivery	56 893 830.00	1 327 259.00	55 566 571.00
	Geographical coverage	0.00	0.00	0.00
STC	Transport and routing	17 011 907.00	0.00	17 011 907.00
OHC	Overheads	11 828 923.00	0.00	11 828 923.00
	International accounting	108 348.00	0.00	108 348.00
FSR	Free services for the blind		-173 512.00	173 512.00
	Δ Effect	158 390 784.00	43 400 388.00	114 990 396.00
MB	Market benefits			-29 908 054.00
Profit	Appropriate profit			5 130 879.00
NCUS	Σ Net cost of universal service			90 213 220.00

In line with the opinion of the independent auditor on the calculation submitted by HP, HAKOM corrected the following elements of the calculation:

1. density of access points;
2. frequency of delivery;
3. overheads;
4. market benefits, and
5. appropriate profit.

The final amount of the net cost of the universal service is calculated as HRK 79 062 286.00, according to the following elements:

Reference to the Instruction

		Δ Costs	Δ Income	Δ Effect
CNCi	Density of access points	65 625 994.00	37 718 112.00	27 907 882.00
DNCi	Frequency of delivery	51 206 387.00	1 319 497.00	49 886 890.00
	Geographical coverage	0.00	0.00	0.00
STC	Transport and routing	16 207 897.00	0.00	16 207 897.00
OHC	Overheads	11 173 508.00	0.00	11 173 508.00
	International accounting	89 625.00	0.00	89 625.00
FSR	Free services for the blind		-173 512.00	173 512.00
	Δ Effect	144 303 411.00	38 864 096.00	105 439 315.00
MB	Market benefits			-31 116 503.00
Profit	Appropriate profit			4 739 474.00
NCUS	Σ Net cost of universal service			79 062 286.00

Once the amount of the net cost of the universal service had been determined, HAKOM launched the procedure for evaluating the unfair financial burden for the universal service provider. This procedure involved having to assess whether the net cost of the universal service represented an unfair financial burden for the purposes of point 5 of the Instruction, i.e. whether:

- the net cost of the universal service consisted exclusively of demonstrable and economically acceptable costs;
- the net cost value of the universal service, calculated in line with the principles laid down in the Instruction, was positive;
- the net cost of the universal service exceeded 1 % of the total costs of the universal service provider;
- the net cost of the universal service represented a significant share of the universal service provider's pre-tax profit;
- the universal service provider's EBITDA margin (EBITDA = Earnings before interest, tax, depreciation and amortisation) was 5 % lower than the EBITDA margin of the three largest postal service providers present on the market. The calculation is based on demonstrable and economically acceptable information from the documented evidence of the universal service provider and other postal service providers;
- a universal service provider that ended the year with a loss would have made a profit if it had been compensated for the net cost of the universal service.

By analysing the facts, HAKOM found that four of the above criteria under point 5(3) of the Instruction were met, and that the amount of the net cost represented an amount that the universal service provider, HP, could not be expected to have borne. Consequently, all the conditions for determining that the net cost of the universal service represents an unfair financial burden on the universal service provider were met.

As far as the first criterion is concerned, the independent auditor's report reveals that the net cost of the universal service is based on the revised regulatory financial accounts, which are derived from the revised annual financial accounts, and on the calculations derived from assumptions made in line with the Instruction, which reveals that the net cost of the universal service consists exclusively of demonstrable and economically acceptable costs.

As for the second criterion, the net cost value is considered to be positive when the intangible benefits of the universal service are lower than the net cost of the universal service provider. The independent auditor's report reveals, in relation to this second criterion, that the intangible benefits are shown under the Commercial scenario to be lower than HP's net cost value.

According to HP's revised regulatory accounts for 2015, its total operating costs stood at HRK 1 517 183 221.00, whereas the independent auditor's accounts show HP's net cost for the same period as HRK 79 062 286.00. It is clear, therefore, that HP's net cost exceeds 1 % of its total operating costs, meaning that the third criterion is met.

This is because for this criterion, HAKOM took account of the opinion of the independent auditor, the company BDO, which had also revised HP's regulatory accounts for 2015 and found that the income from compensation for HP's unfair financial burden for 2014 should be excluded from its operating profit for 2015. So, according to HP's revised regulatory financial accounts for 2015, its pre-tax operating profit stood at HRK 104 132 506.00, whereas the independent auditor's accounts show HP's net cost for the same period as HRK 79 062 286.00. It is clear, therefore, that the net cost for the universal service provider represents a significant share of pre-tax profit, which means that the fourth criterion is met.

As four of the six criteria are met, HAKOM saw no need to examine the last two criteria, since the Instruction requires a minimum of four criteria to be met for the entire amount of the net cost to be considered an unfair financial burden.

Consequently, under this procedure the unfair financial burden on HP, as universal service provider, is calculated as HRK 79 062 286.00.

In light of the above, it has been decided as in the operative part of this decision.

LEGAL REMEDY:

No appeal may be lodged against this decision. However, administrative proceedings may be brought before the High Administrative Court of the Republic of Croatia within 30 days of receipt.

Copy to:

1. HP-Hrvatska pošta d.d., Jurišićeva 13, 10000 Zagreb - hand delivery
2. Ministry of Maritime Affairs, Transport and Infrastructure, Prisavlje 14, 10001 Zagreb - for information, hand delivery

3. For the files



CLASS: UP/I-344-02/1 7-06/02
REF. NO: 376-06-17-5
Zagreb, 23 October 2017

In accordance with Article 8(1)(6) and Article 10(1) of the Postal Services Act (NN Nos 144/12, 153/13 and 78/15), under a procedure for determining the level of compensation for an unfair financial burden on the universal service provider launched at the request of HP-Hrvatska pošta d.d., Jurišićeva 13, Zagreb, at a meeting held on 23 October 2017 the Council of the Croatian Regulatory Authority for Network Industries adopted the following

DECISION

The amount of the unfair financial burden on the universal service provider HP-Hrvatska pošta d.d., Jurišićeva 13, Zagreb, in 2016 is set at HRK 78 766 289.00 (seventy-eight million seven hundred and sixty-six thousand two hundred and eighty-nine kuna).

G r o u n d s

On 30 June 2017 the universal service provider HP-Hrvatska pošta d.d. ('HP') submitted to the Croatian Regulatory Authority for Network Industries (HAKOM) a request for compensation for the universal service costs that represented an unfair financial burden in 2016, accompanied by the corresponding annual financial accounts and a report by an independent auditor, KPMG Croatia d.o.o., Ivana Lučića 2a, Zagreb, for 2016, as well as a calculation of the net cost incurred, in accordance with Article 49(1) and (2) of the Postal Services Act.

HP's request states that its universal service obligation imposes an unfair financial burden on it by requiring it to provide services under conditions other than the usual market conditions.

HP's request describes how it would operate if it were not required to provide the universal service. The assumptions used under the scenario with no obligation to provide the universal service are shown under the heading 'Commercial scenario', which is based on changes in the following operational parameters: (i) the density of access points for the receipt of postal items; (ii) the frequency of delivery of postal items, and (iii) providing postal services to the blind free of charge.

HP states that under the Commercial scenario, there would be a lower density of access points and a lower frequency of delivery, which would lead to further changes in transport, routing and related overheads. These changes would have the effect of reducing operating expenses, but also of reducing income from the universal service and other services.

Based on its revised financial accounts for 2016, HP showed the effect of the changes that would arise under the Commercial scenario on income and expenditure. According to HP's calculation, in a situation with no obligation to provide the universal service, i.e. to operate under market conditions, its expenditure would have been HRK 177 611 774.000 lower in 2016. Consequently, HP's total expenditure under the Commercial scenario would have been HRK 1 379 188 365.00.

	Costs under the USO scenario	Fall in costs under the Commercial scenario	Costs under the Commercial scenario	% change
Receipt (activities at the counter)	584 456 745.00	95 892 008.00	488 564 737.00	16 %
Delivery	425 276 614.00	48 579 369.00	376 697 246.00	11 %
Transport	52 321 767.00	19 100 462.00	33 221 305.00	37 %
Routing	100 315 361.00	595 958.00	99 719 403.00	0.6 %
Structural activities (overheads)	323 862 718.00	13 238 007.00	310 624 711.00	4 %
Financial expenditure	31 802 173.00	0.00	31 802 173.00	0 %
International accounting	38 764 761.00	205 970.00	38 558 791.00	1 %
Total	1 556 800 139.00	177 611 774.00	1 379 188 365.00	11 %

Although the Commercial scenario assumes sustainable business activity in the long term, some of HP's business income would be permanently lost due to the lower density of access points and lower frequency of delivery under the Commercial scenario. According to the calculation made, HP's income were it to operate with no universal service obligation would fall by HRK 56 447 271.00. Consequently, HP's total income under the Commercial scenario would have been HRK 1 641 503 529.

Effect of the Commercial scenario						
	Income under the USO scenario	Density of access points	Frequency of delivery	Other	Income under the Commercial scenario	% change
Postal services	961 484 270.00	5 108 687.00	0.00		956 375 583.00	1 %
Priority items of correspondence	9 326 647.00	141 847.00	1 164 037.00		8 020 763.00	14 %
Express services	100 006 604.00	2 652 503.00	0.00		97 354 101.00	3 %
Financial services	271 212 464.00	27 470 127.00	0.00		243 742 337.00	10 %
Retail sales	83 140 822.00	15 610 955.78	0.00		67 529 866.00	19 %
Other	272 779 993.00	4 505 542.00	0.00	-206 428.00	268 480 879.00	2 %
Total	1 697 950 800.00	55 489 661.00	1 164 037.00	-206 428.00	1 641 503 529.00	3 %

Moreover, in accordance with legal regulations and the Instruction on the calculation of and compensation for the net cost of the universal service and an evaluation of the unfair financial burden of 31 August 2015 ('the Instruction') (Class: 344-02/14-06/01, Ref. No: 376-11-15-5), the market benefits arising from the universal service were also calculated, as HRK 28 857 779.00. The amount obtained by calculating the difference between optimised costs and reduced income under the Commercial scenario is deducted from this total market benefit. The total net cost of the universal service also includes appropriate profit, defined as the fair rate of return on the capital employed (weighted average cost of capital – WACC), which is calculated as the difference between necessary investments in property where the business operates under the universal service obligation and under the Commercial scenario, at a total amount of HRK 5 274 338.00.

As a result, the difference between HP's financial result with an obligation to provide the universal service and without such obligation would be HRK 97 581 062.00, which is, according to HP's findings, the amount of the net cost of the universal service for 2016.

Reference to the Instruction

		Δ Costs	Δ Income	Δ Effect
CNCi	Density of access points	95 892 008.00	55 489 662.00	40 402 346.00
DNCi	Frequency of delivery	48 579 369.00	1 164 037.00	47 415 332.00
	Geographical coverage	0.00	0.00	0.00
STC	Transport and routing	19 696 420.00	0.00	19 696 420.00
OHC	Overheads	13 238 007.00	0.00	13 238 007.00
	International accounting	205 970.00	0.00	205 970.00
FSR	Free services for the blind		-206 428.00	206 428.00
	Δ Effect	177 611 774.00	56 447 271.00	121 164 503.00
MB	Market benefits			-28 857 779.00
Profit	Appropriate profit			5 274 338.00
NCUS	Σ Net cost of universal service			97 581 062.00

To examine whether the calculation submitted with HP's request is justified, HAKOM requested the opinion of an independent auditor, BDO Croatia d.o.o., Trg J. F. Kennedyja 6b, Zagreb ('BDO'). Between 30 August and 29 September 2017 HAKOM held a series of workshops with representatives of BDO and HP, where all elements of the calculation were discussed, focusing in particular on the assumptions used under the Commercial scenario, especially the density of access points, frequency of delivery, market benefits and appropriate profit.

Based on the figures submitted and the workshops held, on 10 October 2017 BDO submitted a final report with an independent expression of assurance of the Commercial scenario and calculation of the net cost for 2016 ('the Report'). The findings of the Report were explained to HP beforehand at a meeting with BDO, and HP had no further comments.

The Report reveals that some elements of the calculation of the net cost to HP are incorrect. Specifically, the following findings were made:

1. Under the Commercial scenario, HP assumed it would operate with 734 post offices, i.e. that it would close 281 post offices. Consequently, it assumed a reduction in the level of income and various types of expenditure arising from provision of the universal service. HP is required by law to ensure a density of access points whereby each post office covers an average area of not more than 80 km² and serves an average of not more than 6 000 inhabitants. HP is also required to ensure a postal network composed of at least 700 regular post offices. Based on an analysis of nationwide coverage, BDO considers it necessary to change the status of a number of post offices, from closed to open in the case of 18 post offices and from open to closed in the case of 17 post offices.

Also, having analysed the costs of the post offices closed, BDO considers that the costs of severance provisions, depreciation of mopeds and bicycles, and depreciation and amortisation over previous years

should be excluded from the calculation of the net cost.

This correction has the following effect on the calculation of the net cost:

	HP's calculation	Corrected calculation	Effect on net cost
Cost of post offices closed	82 694 332.00	69 260 822.00	(13 433 510.00)
Increase of costs in other post offices	(2 449 021.00)	(2 080 254.00)	368 767.00
Other operating costs	15 646 698.00	15 581 614.00	(65 084.00)
Fall in income	(55 489 661.00)	(48 204 220.00)	7 285 441.00
	40 402	34 557 962.00	(5 844 386.00)
	348.00		

2. Under the Commercial scenario, HP assumed a reduction in frequency of delivery by confining five-day-per-week postal deliveries to large towns and cities. Five-day-per-week postal deliveries in other regions are shown under the Commercial scenario as being made every second day, and deliveries in regions currently exempted from the five-day regime would be made at most once per week. Here, BDO found that HP had excluded the delivery area of Velika Gorica from the five-day delivery regime, even though BDO considered Velika Gorica to be a large town.

Moreover, BDO found that in some delivery areas where there was no change in frequency of delivery, there was a sharp reduction in the number of workers, achieving considerable cost savings.

BDO therefore considers that under the Commercial scenario, the number of workers should be reduced in proportion to the change in the frequency of delivery for each area. BDO also considers that five-day delivery should be kept for the Velika Gorica delivery area and all costs associated with the change in frequency of delivery should be corrected under the Commercial scenario, which would have the following effect on the calculation of the net cost:

	HP's calculation	Corrected calculation	Effect on net cost
Staff costs	37 174 491.00	27 288 530.00	(9 885 961.00)
Costs associated with the number of vehicles	1 950 900.00	1 923 409.00	(27 491.00)
Costs associated with the number of km travelled	2 870 574.00	2 824 346.00	(46 228.00)
Other delivery costs	6 583 404.00	5 600 662.00	(982 742.00)
Fall in income	(1 164 038.00)	(1 150 468.00)	13 570.00
	47 415 331.00	36 486 479.00	(10 928 852.00)

3. Further to the above points, the following amounts should be corrected:

- (i) the saving on transport and sorting costs should be reduced from HRK 19 696 420.00 to HRK 19 553 651.00, i.e. the net cost should be reduced by HRK 142 769.00;
- (ii) the saving on overheads should be reduced from HRK 13 238 007.00 to HRK 12 822 877.00, i.e. the net cost should be reduced by HRK 415 130.00;
- (iii) the saving on international accounting should be reduced by HRK 49 343.00.

According to the above figures, the net cost would fall by HRK 607 242.00.

4. Under the Commercial scenario, HP assumed an increased corporate reputation and brand value accounting for 20 % of total marketing costs. As is clear from marketing campaigns and the company's key focus on the very fact that by providing the universal service, the company has privileged access to potential users, BDO considers that the calculation of these benefits should be based on 30 % of total marketing costs. Besides, based on the above corrections, we also need to adjust for the increased effect of advertising, which has the

following effect on the net cost:

	HP's calculation	Corrected calculation	Effect on net cost
Increased effect of advertising	1 367 784.00	1 325 880.00	41 904.00
Brand value	2 925 095.00	4 387 643.00	-1 462 548.00
	4 292 879.00	5 713 523.00	-1 420 644.00

5. Under the Commercial scenario, HP calculated appropriate profit on a reduction in assets to the sum of HRK 49 757 901.00, which, assuming a WACC of 10.60 %, gives appropriate profit of HRK 5 274 338.00. BDO considers that the above calculation should be corrected for changes in the assets employed following a change in the number of post offices and frequency of delivery. On that basis, BDO considers that the appropriate profit should be reduced from HRK 5 274 338.00 to HRK 5 260 688.00, i.e. the net cost should be reduced by HRK 13 649.00.

Based on the five points above, BDO considers that the net cost totals HRK 78 766 289.00, rather than the HRK 97 581 062.00 shown under the Commercial scenario attached and in the net cost for 2016 calculated by HP, a reduction of HRK 18 814 773.00.

In line with the BDO Report on the net cost, HAKOM calculated the final amount of the net cost of the universal service as HRK 78 766 289.00, according to the following elements:

Reference to the Instruction		Δ Costs	Δ Income	Δ Effect
CNCi	Density of access points	82 762 181.00	48 204 220.00	34 557 961.00
DNCi	Frequency of delivery	37 636 948.00	1 150 468.00	36 486 479.00
	Geographical coverage	0.00	0.00	0.00
STC	Transport and routing	19 553 651.00	0.00	19 553 651.00
OHC	Overheads	12 822 877.00	0.00	12 822 877.00
	International accounting	156 626.00	0.00	156 627.00
FSR	Free services for the blind		-206 428.00	206 428.00
	Δ Effect	152 932 284.00	49 148 261.00	103 784 023.00
MB	Market benefits			-30 278 422.00
Profit	Appropriate profit			5 260 688.00
NCUS	Σ Net cost of universal service			78 766 289.00

Once the amount of the net cost of the universal service had been determined, HAKOM launched the procedure for evaluating the unfair financial burden for the universal service provider. This procedure involved having to assess whether the net cost of the universal service represented an unfair financial burden for the purposes of point 5 of the Instruction, i.e. whether:

- a) the net cost of the universal service consisted exclusively of demonstrable and economically acceptable costs;
- b) the net cost value of the universal service, calculated in line with the principles laid down in the Instruction, was positive;
- c) the net cost of the universal service exceeded 1 % of the total costs of the universal service provider;
- d) the net cost of the universal service represented a significant share of the universal service provider's pre-tax profit;

- e) the universal service provider's EBITDA margin (EBITDA = Earnings before interest, tax, depreciation and amortisation) was 5 % lower than the EBITDA margin of the three largest postal service providers present on the market. The calculation is based on demonstrable and economically acceptable information from the documented evidence of the universal service provider and other postal service providers;
- f) a universal service provider that ended the year with a loss would have made a profit if it had been compensated for the net cost of the universal service.

By analysing the facts, HAKOM found that four of the above criteria under point 4(3) of the Instruction were met, and that the amount of the net cost represents an amount that the universal service provider, HP, could not be expected to have borne. Consequently, all the conditions to determine that the net cost of the universal service represent an unfair financial burden on the universal service provider were met.

As far as the first criterion is concerned, the BDO Report reveals that the net cost of the universal service is based on the revised regulatory financial accounts, which are derived from the revised annual financial accounts, and on the calculations derived from assumptions made in line with the Instruction, which reveals that the net cost of the universal service consists exclusively of demonstrable and economically acceptable costs.

As for the second criterion, the net cost value is considered to be positive when the intangible benefits of the universal service are lower than the net cost of the universal service provider. The BDO Report reveals, in relation to this second criterion, that the intangible benefits are shown under the Commercial scenario to be lower than HP's net cost value.

According to HP's revised regulatory accounts for 2016, its total operating costs stood at HRK 1 556 800 139.00, whereas the BDO Report shows HP's net cost for the same period as HRK 78 766 289.00. It is clear, therefore, that HP's net cost exceeds 1 % of its total operating costs, meaning the third criterion is met.

Also, according to HP's revised financial accounts for 2016, its pre-tax operating profit stood at HRK 141 150 662.00, whereas the BDO Report shows HP's net cost for the same period as HRK 78 766 289.00. It is clear, therefore, that the net cost for the universal service provider represents a significant share of pre-tax profit, which means that the fourth criterion is met.

As four of the six criteria are met, HAKOM saw no need to examine the last two criteria, since the Instruction requires a minimum of four criteria to be met for the entire amount of the net cost to be considered an unfair financial burden.

Consequently, under this procedure the unfair financial burden on HP, as universal service provider, is calculated as HRK 78 766 289.00.

In light of the above, it has been decided as in the operative part of this decision.

LEGAL REMEDY:

No appeal may be lodged against this decision. However, administrative proceedings may be brought before the High Administrative Court of the Republic of Croatia within 30 days of receipt.

Copy to:

1. HP-Hrvatska pošta d.d., Jurišićeva 13, 10000 Zagreb - hand delivery
2. Ministry of the Sea, Transport and Infrastructure, Prisavlje 14, 10001 Zagreb - for information,

hand delivery
3. For the files

General SGEI government expenditure by functions (millions EUR)		
	2016	2017
<i>Compensation for Services of General Economic Interest (I+2)</i>	0.54	1.08
(1) Compensation granted on the basis of the SGEI Decision	0.54	1.08
(2) Compensation granted on the basis of the SGEI Framework		

Clear and comprehensive description of how the respective services are organized in your Member State
Explanation of what kind of services in the respective sector have been defined as SGEI in your Member State. Please list the contents of the services entrusted as SGEI as clearly as possible.
<p>STATE-RUN FERRY ROUTE 338 Valbiska - Lopar and back</p> <p>STATE-RUN SHIPPING ROUTES 501 Brodarica - Krapanj and back 612 Komiža - Biševo and back</p> <p>STATE-RUN HIGH-SPEED ROUTE 9141 Pula - Unije - Susak - Mali Lošinj - Ilovik - Silba - Zadar and back</p> <p><i>* Ports on the mainland are marked in bold, the other ports are on islands.</i></p>
Explanation of the (typical) forms of entrustment . If standardized templates for entrustments are used for a certain sector, please attach them.
The entrustment act specifying the public service obligations is a decision on the selection of the most advantageous tenderer, granting the right to provide a public transport service on the routes referred to on the basis of an open public procurement procedure, after which a public service contract is concluded.
Average duration of the entrustment (in years) and the proportion of entrustments that are longer than 10 years (in %) per sector. Specify in which sectors SGEI were entrusted with a duration exceeding 10 years and explain how this duration is justified?
For the routes referred to, the entrustment and the contracts are valid from 2015 to 2020 (5 years), except for route 9141, the entrustment for which runs from 1.6.2017 to 31.12.2017.
Explanation whether (typically) exclusive or special rights are assigned to the undertakings.
Exclusive rights are assigned, since a shipping company granted the right to provide a public transport service on the basis of a public tender and a public service contract may perform that service only.
Which aid instruments have been used (direct subsidies, guarantees, etc.)?
<i>Direct aid to shipping companies for providing a public transport service in scheduled maritime transport (State aid in the form of public service compensation)</i>
Typical compensation mechanism as regards the respective services and whether a methodology based on cost allocation or the net avoided cost methodology is used.
<i>The compensation mechanism is based on the cost allocation methodology, i.e. the amount of public service compensation should not exceed what is necessary to cover the</i>

<i>net costs of fulfilling the public service obligation, including a reasonable profit.</i>	
Typical arrangements for avoiding and repaying any overcompensation.	
<i>At the end of the financial year, the shipping company submits financial accounts for each individual route, in line with the principle of separate accounts, and the contracting authority is required to perform accountancy checks so as to determine the final actual costs and revenue of the route. If the checks determine that the shipping company has been paid a higher amount of public service compensation than the final costs and revenue, the contracting authority will ask the company to repay the overcompensation for provision of the public service to the budget.</i>	
Amount of aid granted	
Total amount of aid granted (in millions EUR). This includes all aid granted in your territory, including aid granted by regional and local authorities. (A+B+C)	
2016	2017
EUR 0.54 min	EUR 1.08 min
A: Total amount of aid granted (in millions EUR) paid by national central authorities	
2016	2017
EUR 0.54 min	EUR 1.08 min
B: Total amount of aid granted (in millions EUR) paid by regional authorities	
2016	2017
0.00	0.00
C: Total amount of aid granted (in millions EUR) paid by local authorities	
2016	2017
0.00	0.00
Share of expenditure per aid instrument (direct subsidy, guarantees etc.) (if available)	
2016	2017
Additional quantitative information (e.g. number of beneficiaries per sector, average aid amount, size of the undertakings)	
2016 2017	3 beneficiaries 3 beneficiaries