

Zagrebački holding group

SUSTAINABILITY REPORT 2016



GROUP PROFILE



Managing social, economic and environmental impacts of our operations

Ensure healthy, pleasant and safe urban living every day



CORPORATE SOCIAL RESPONSIBILITY AS AN INTEGRAL PART OF BUSINESS STRATEGY

SOCIAL CATEGORY



Responsible and transparent operations, keeping in mind the well-being of the community and the employees

Implementing sustainability principles in all segments of our operations



WE CARE ABOUT THE ENVIRONMENT

SUSTAINABILITY REPORT - ZAGREB HOLDING GROUP ANNUAL NON-FINANCIAL REPORT 2016

aligned with the guidelines of the
Global Reporting Initiative (GRI)
Reporting level: Core

We will be happy to answer all your questions about this
Non-Financial Report and corporate social responsibility
of Zagreb Holding. Please write to:

Zagreb Holding Ltd.
Ulica grada Vukovara 41
10000 Zagreb
E-mail: ured.uprave@zgh.hr

GROUP PROFILE

Zagreb Holding mission, vision and strategic framework
Description of the Group's subsidiaries and companies
Risks and risk management
Service quality and business process improvement
Plans and projects



CORPORATE SOCIAL RESPONSIBILITY AS AN INTEGRAL PART OF BUSINESS STRATEGY

Key material aspects of the Group
Stakeholders
Dialogue with stakeholders



SOCIAL CATEGORY

Responsibility to the Group's employees
Community care
Strategic partnerships
Awards and recognitions received by the Group



WE CARE ABOUT THE ENVIRONMENT

Energy
Water and waste waters
Greenhouse gas emissions
Waste and waste management

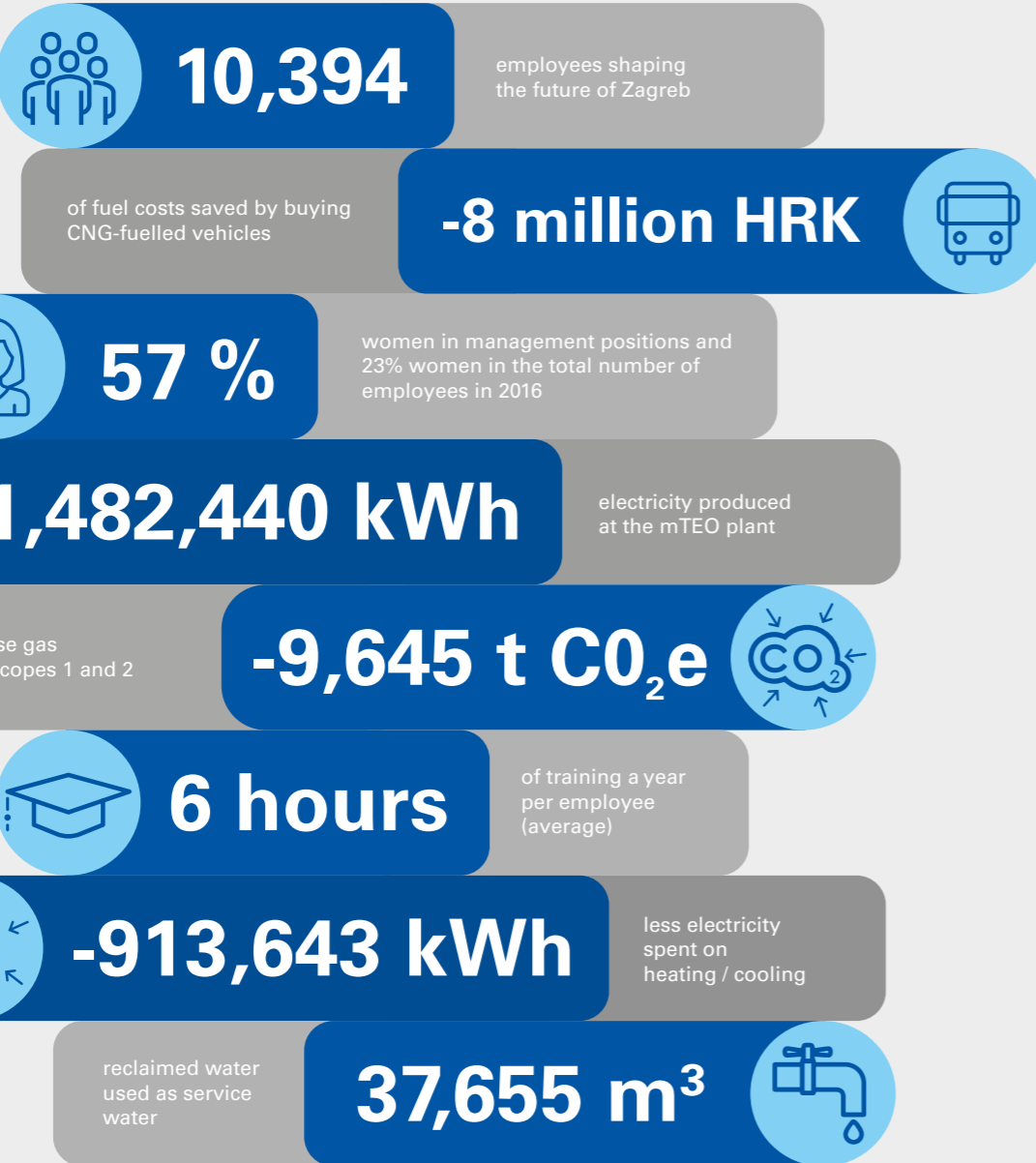


APPENDICES

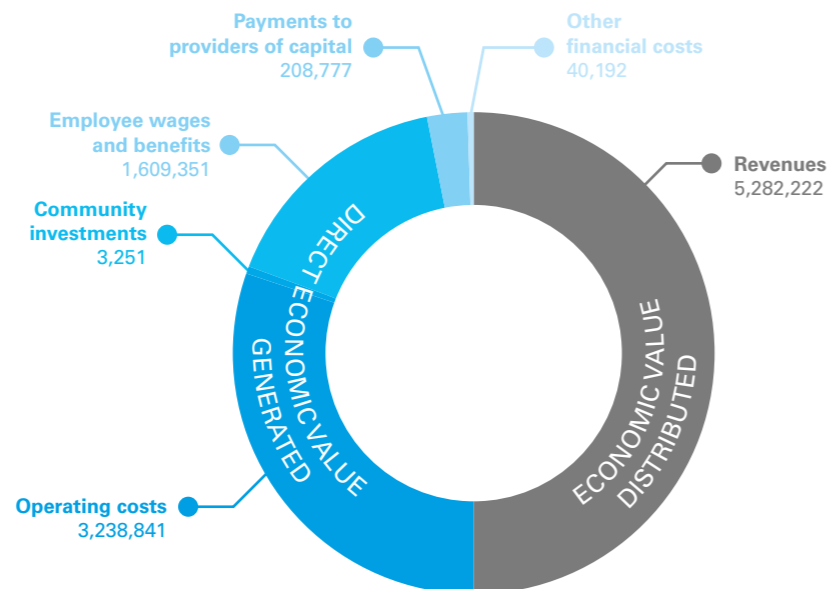
GRI Index



THE GROUP IN NUMBERS



GRI 4 - EC1 Social profit and loss account 2016 (in 000 HRK)



Statement of the President of the Management Board

Dear readers,

It is my great pleasure to present to you the Zagreb Holding Group's first independent non-financial report, or sustainable operation and corporate social responsibility report. The report spans the year 2016 and has been prepared in line with the Global Reporting Initiative (GRI)'s international non-financial reporting guidelines.

The Group's corporate responsibility strategy includes providing high-quality, reliable public services by growing and developing the Group in line with the principles of corporate social responsibility in the management of the social, economic and environmental impacts of its operations. Keeping up with economic and social development standards, and keeping in mind the community we operate in, we implement environmental protection measures in many segments of our operations, and we invest considerable funds in risk reduction and technological process improvement, whose results offer better solutions and less negative environmental impact.

Some of our efforts are aimed at promoting and developing environmental awareness. Bulky waste was removed twice a year in 2016 following prior generation of applications, and the number of "recycling islands" was raised 151% (from 242 to 607). The number of containers for separate collection of reusable waste was raised by 382% (35,296 containers). Five mobile recycling centres were opened in course of the year and the construction of another immobile recycling centre started. All these measures increased the amount of separately collected waste by 25% in comparison with 2015.

We also operate a construction waste recycling facility, where citizens can dispose of all their construction waste free of charge, and we recycle it and use it as construction material. By recycling construction waste, we produced 170,876 tonnes of granular material satisfying all quality requirements in 2016, which had a positive impact on the environment and saved natural resources. Small Thermal Power Plant (mTEO) at the Prudinec/Jakuševac Landfill produced 19,006,584 kWh of electricity from landfill gas, enough to cover the average annual electricity consumption of around 6,000 households. The production of electricity from landfill gas indirectly reduced greenhouse gas emissions (CO₂e) by 4728.84 tonnes. We are very proud of the mTEO because it is the first plant in Croatia that generates electricity out of "waste". We were also the first in Croatia to introduce gas-fuelled public transport buses. At present, we have 76 in operation. Annual CO₂ emissions were cut by approximately 3,500 tonnes through the use of compressed natural gas, which is an impressive figure considering the distance travelled by our vehicles. Our efforts were recognised by the Council of the Alternative Fuels Coordination of the Adriatic-Ionian Region, which presented the City of Zagreb and the Zagreb Holding, Subsidiary ZET with the honorary title and excellence label "Alternative Fuels Ambassador 2016".

The services we provide are of public interest, and their quality directly impacts the standard of living of our fellow citizens. This gives us a special responsibility. To make our services more accessible, we made our Call Centre available 0-24 h as of 1 September. Late last year, we offered legalisation of all illegally built connections to the water supply and the sewerage network, and we worked on promoting the connection of new users with the support of the City of Zagreb. We offered economically disadvantaged citizens the possibility of entering into agreements on the repayment of their debt in instalments. The Group thus showed that it was truly at the service of the citizens.

In 2016, we completed one of our most important projects, the Svetice Swimming Pool Complex, and the Gym and Swimming Pool of the Iver Primary School. We also started the first stage of construction of 608 apartments in the Podbrežje Estate, whose completion is expected in December 2017. The City of Zagreb will



offer some of these apartments to our fellow citizens, and 206 apartments will be offered to junior researchers. We continually develop and maintain the traffic infrastructure in accordance with the maintenance programme. We opened the new public garage in Jelkovec and lowered the prices at other public parking facilities. After an eight year break, we held the international Auto Show on the premises of the Zagreb Fair. The attractive contents and novelties aroused a great public interest. 141,555 visitors saw the Show in six days, and the event had a positive impact on the car market. We added a fund-raising dimension to the Auto Show by donating some of the proceeds to the Sveti Duh Hospital to help purchase diagnostic devices.

In 2016, we completed our bond refinancing, which had been preceded by extraordinarily successful intensive economic and operative activities. The transaction received high praise from the Croatian investor community, which recognised the systematic efforts we have invested in restructuring and advancing the total of our operations. The renowned international rating agency Standard&Poor's confirmed this by upgrading the Zagreb Holding's rating on three successive occasions, which came as a confirmation that the Group was on the right course at the very end of the year.

This year, the Group for the first time voluntarily published its first non-financial report, or the report on corporate social responsibility and the impact of its operations on the society and on the environment. The information contained therein is a result of years of efforts invested by the Group's employees and strategic dedication of the Group's management. Since this is the first consolidated report containing this information for all subsidiaries and companies comprising the Zagreb Holding Group, 2016 will be considered the base year against which we will be able to declare decreases by subsidiary or by company more clearly in the reports that will follow.

The information and the analyses we have conducted so far lead us to the conclusion that the Zagreb Holding Group had a positive impact on the environment and the society as a whole in 2016 through its initiatives and through sustainable management. To attain our future targets in the domain of sustainable operation more quickly and easily, we will be happy to hear any suggestions or objections you may have regarding the non-financial report in your hands.

Sincerely,

Ana Stojić Deban

The President of the Management Board

Zagreb Holding mission, vision and strategic framework

Mission

We ensure healthy, pleasant and safe urban living to the citizens of Zagreb and the local community. Every day.

The Group's mission is to efficiently deliver utility and other urban services through corporate social responsibility focused on making and keeping all stakeholders satisfied.

Vision

To be a reliable member of Zagreb's families and a positive energy in urban life.

The Group's vision is to become a synonym for pleasant, organised and healthy living in Zagreb, an example of excellence in public service delivery and the driver of business development of Zagreb and Croatia.

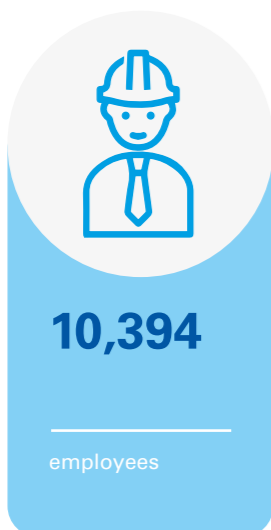
Creating the prerequisites needed for the Group to grow sustainably for the future generations is our key medium-term target.

A lasting dedication to corporate responsibility and business excellence aimed at attaining the optimal combination of price, service quality, operating efficiency, greater comfort of urban living and customer, employee, owner, and social and business community satisfaction are the fundamental values of the Zagreb Holding Group.

Aware of the thin line between corporate responsibility to economic sustainability of the company and sustainable future in terms of preservation of the environment and social values, the Zagreb Holding Group creates the prerequisites for the preservation of resources and social values for the future generations. We merely borrowed the resources we exploit every day from the future generations. The Group therefore implemented tools for the prevention and minimization of economic, environmental and social risks in its business and technological processes.

The Group's corporate responsibility strategy includes providing high-quality, reliable public services by growing and developing the Group in line with the principles of corporate social responsibility in the management of the social, economic and environmental impact of its operations.

- **Management and preservation of social values** is an ongoing process that we perfect and upgrade on a daily basis. Employee education and equality, basic collective agreement, anti-corruption efforts, and the establishment of the Irregularities Committee are just some of the steps we have taken to preserve our wealth of social values.
- **Environmental management and protection** is the greatest challenge that the Group faces in the times of so many technological and climate changes. Our quality and environmental protection policy based on the requirements of the ISO 14001 standard and our energy policy based on the requirements of the ISO 50001 standard, based, among other things, on the precautionary principle, serve as a guarantee of the minimization of our potential negative environmental impacts.



Group Profile

Organisation name and seat

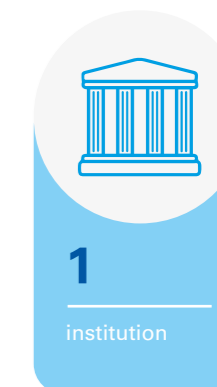
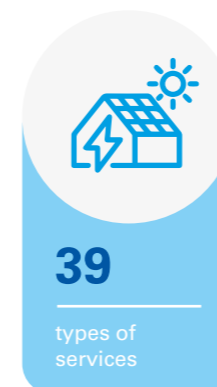
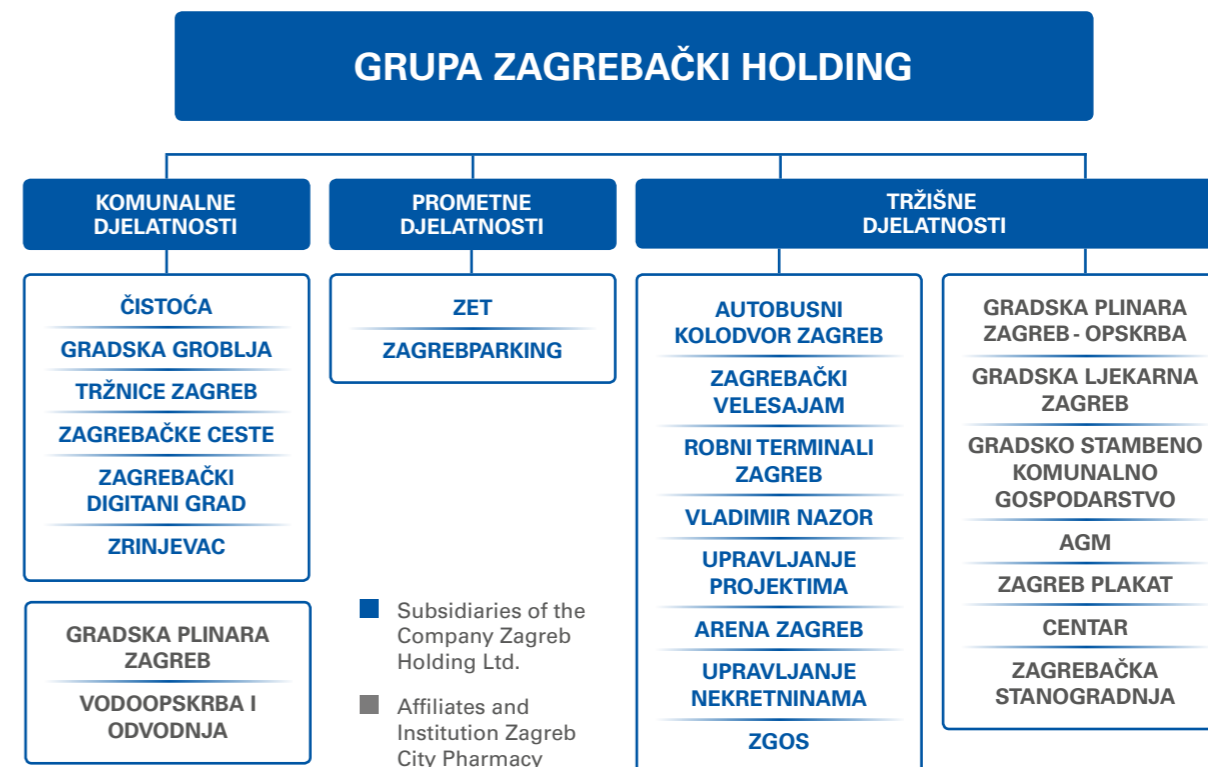
The Zagreb Holding Group is composed of the company Zagreb Holding Ltd., eight affiliate companies and one institution, and is 100% owned by the City of Zagreb. The Group is based in Zagreb, Ulica grada Vukovara 41. The Group primarily operates only in the territory and in the market of the Republic of Croatia.

Zagreb Holding was incorporated in 2006 under the Companies Act by transferring the interests in 22 companies owned by the City of Zagreb to the holding company City Utility Company Ltd., which changed its name to Zagreb Holding Ltd. in 2007. After some other status changes, as of 31 December 2016 the Holding comprised 16 subsidiaries providing the municipal, traffic and

commercial services that used to be provided by former city-owned companies.

“The activities of the Zagreb Holding are of vital importance for the City of Zagreb, which gives us a special responsibility for the quality of life in the community we operate in.”

The table and flowchart below provide an overview of the Group's components, organisational forms and services included in and analysed in this consolidated non-financial report.





55,908,282
270

Graveyard and crematoria maintenance, funeral and burial services, and cemetery decoration.

Graveyard expansion planning in line with the needs and plans of the City of Zagreb and the construction of new burial plots.

Graveyard maintenance, including waste disposal and landscaping.

Preservation of cultural heritage - Mirogoj Cemetery is a protected cultural property and a member of the Association of Significant Cemeteries of Europe (ASCE).

Started operating in 1873, when Mirogoj Cemetery was founded.

28 city cemeteries



74,868,081
314

Organises the sale of locally grown food in outdoor facilities and wholesale markets.

Operates in 28 locations and has around 2,500 clients.

Wholesale market - 19,462 m² of indoor and outdoor storage, offices and produce sales facilities

6,000 m² of cold storage

Special attention is paid to waste collection, recycling and disposal.

Established in 1930, when the Dolac Market was first built.

Green spaces in 22 locations in city districts



204,532,666
673

Design, landscaping and maintenance of public and other green spaces, children's playgrounds and sports and recreational facilities.

Production, wholesale and retail of seedlings, potted plants and cut flowers, bulbs and grass seeds, potting soil, garden supplies, machinery and tools.

Many years of tradition in the decoration of spaces for different events.

Organises the international flower exhibition Floraart.

Founded in 1893 as Gradska vrtlarija ("City Gardening Company").

11,747,256 m² of park areas maintained



392,140,803
1,505

Waste management system in the City of Zagreb area.

Separate collection of re-usable waste in recycling bins set up in public traffic areas and recycling centres.

Collection and removal of municipal waste from households and other customers.

Cleaning of public traffic areas. Snow clearing and salting in the pedestrian zone and other similar public areas.

The city-owned waste disposal and street cleaning company dates back to 1923.

607 "recycling islands" in public areas



486,116,629
3.672

Organisation of city and suburban public transport in the following categories:

- Buses - 403 buses, average age 8 years
- Trams - 276 trams, of which 142 low-floor

20 vehicles for the transport of persons with disability

28 modern buses for the transport of lower-grade primary school students

Tourist trains and open-top buses

The Funicular Railway, a protected cultural monument (since 1890)

Organised public city transport in Zagreb since 1981

More than 15.5 million tickets sold



128,981,022
403

Organisation and monitoring of stationary traffic in the City of Zagreb.

Total public garage capacity: 2,612 parking places

Promotion of bike parking - the project "Take Your Bike to the Garage"

Reserved parking places for persons with disability, for electric vehicles, and family parking places in all public garages.

Investments in environmentally friendly, energy efficient lightning in public garages.

Organisation of stationary traffic since 1965.

Electrical vehicle charging stations in 5 public garages



45,328,091
98

Passenger transport, bus, luggage and goods handling, ticket sales, bus ticket booking.

Info office, luggage storage and personal vehicle parking services.

Ticket sales at 15 locations at the Bus Terminal building and online. Possibility of delivery of purchased tickets to the customers' addresses.

The Bus Terminal building is fully adapted to persons with mobility impairment.

The Bus Terminal was established in 1961 and got its present look in 1987, when the new terminal building was built.

186,108 buses incoming



50,787,466
154

The communication platform promoting and networking the economy of the City of Zagreb and the Republic of Croatia with its European and global environment through the organisation of fairs and other events.

Since 1925, member and one of the founders of the Union of International Fairs (UFI), which now has 533 members, and three-time host of the global congress.

Hosts a number of fairs and exhibitors from different industries every year.

Operates as a modern fair destination since 1909.

211,653 tickets sold



168,452,235
396

Regulated gas distribution - distribution system operator.

Management, maintenance and development of a safe, reliable and efficient distribution system.

Maximal distribution system safety (Distribution Centre is available 24 h a day for all calls).

Expansion of the distribution area in the City of Zagreb and other parts of Croatia.

In business continually since 1862.

280,091 satisfied customers



422,900,370
1.039

Extraction, quality control, distribution and delivery of safe and healthy water, drainage and waste water quality monitoring.

Construction and repair of the water supply and drainage system and all water supply and drainage facilities.

Around 10,000 water samples tested yearly for around 150,000 quality indicators. All results confirm the excellent quality of water in Zagreb.

Water Supply Museum.

The public water supply system has been in place since 1878, and the construction of the sewerage system began in 1892.

57,018,467 m³ water delivered



374,142,398
474

Maintenance, management and protection of public and unclassified roads in the City of Zagreb - a total of 2,500 km of roads.

Maintenance of road facilities and bridges - 94 bridges.

Development of programmes and performance of works in small municipal actions in the city districts.

Excavation site and road damage repairs.

Winter Road Maintenance Department - 259 crews divided between 15 stand-by locations; storage with 11,000 tonnes of salt on hand; 29 vehicles + 2 fully equipped specialized Winter Road Maintenance vehicles. In business since 1947.

170,876 t of recycled granular material produced



18,110,657
23

Construction, maintenance and management of communication infrastructure in the City of Zagreb Area.

Two development steps:

- 1 - management and lease of the telecommunication cable duct system
- 2 - consideration of the possibility of laying own cables and infrastructure with the objective of leasing ducts and telecommunication canals.

Promotion of equal, non-discriminatory terms for all operators using the cable duct system.

Established in 2006

Balanced service prices that are not a burden for the citizens



1,041,807,941
113

The leading natural gas supplier of customers connected to the gas distribution systems in the Republic of Croatia.

Safe, reliable and continuous natural gas supply and sale of compressed natural gas (CNG) as a motor vehicle fuel.

Amounts of gas delivered (in m³):

- Households: 265,932,319
- Businesses: 124,609,493

Free on-line service MY BILL introduced in 2012, and a mobile app available since 2014.

The Company was established in 2008.

Natural gas supply 3,842,501,293 kWh



78,803,302
238

Reception and handling of goods in domestic and international traffic is its core business.

160,000 m² of indoor and more than 35,000 m² of outdoor storage space.

Forwarding, customs, transshipment, transport and weighing services.

A truck parking area, outdoor cargo parking area and container terminal.

The first company in Croatia to obtain a certificate for the truck and cargo vehicle parking area in line with EU safe parking area standards.

Established in 1953.

The first certified safe cargo vehicle parking area



127,810,393
33

Management and remediation of the Prudinec/Jakuševac Municipal Landfill in Zagreb.

The following is monitored at the landfill:

- The condition of surface and ground waters
- Air quality
- Birds - numbers, annual movements and daily and seasonal movements of the birds that come to the landfill to feed
- Landfill gas emissions (CH₄, CO₂, O₂, H₂S i H₂)
- Terrain topography

Established in 1998.

19,006,584 kWh of renewable electrical energy



88,694,125
263

The leading building manager in Zagreb and Croatia. Its strength is in the quality, comprehensiveness and the number of services it provides.

The Company offers legal and technical aid to coproprietors, and offers the possibility of financing at advantageous interest for major interventions on buildings.

It contributes to the development of the City and its surroundings by helping advance residential culture

It maintains the Grič Cannon, one of the symbols of Zagreb, public passageways, fountains...

In business since 1990.

Maintains around 180,000 facilities

Izvišće o održivosti Grupe Zagrebački holding za 2016.

Sales in 2016 (in HRK)

Number of employees on 31 December 2016

Sales in 2016 (in HRK)

Number of employees on 31 December 2016

ZAGREBAČKA STANOGRADNJA



Construction, consulting, collection, analysis and dissemination of information in civil engineering, water engineering and transport.

Production of permanent geodetic reference point studies for basic geodetic interventions.

Utility cadastre studies and professional geodetic services.

Top project - construction of the Podbrežje housing estate.

Established in 2013.

Construction of the Podbrežje Housing Estate

UPRAVLJANJE PROJEKTIMA



Management of construction projects, mostly for public facilities for the City - nursery schools, schools, gyms, swimming pools.

Projects:

- Jelkovec Residential Estate
- Sports and Recreational Centre Svetice
- Iver Primary School, Gym and Swimming Pool

Residential estate construction project - an example of efficient and modern solution to housing needs, especially those of young families.

Established in 2006.

N. Jelkovec - new homes for 10,000 our fellow citizens



Transparent management of all forms of real estate properties entrusted to the Zagreb Holding Ltd. as their proprietor or manager.

Resolution of property disputes in all forms of real estate properties entrusted.

Conclusion of lease and temporary use agreements; conclusion of sale and purchase agreements for real estate properties.

Investment and regular maintenance.

Spatial plan analyses, status monitoring, suggestions on amendments to spatial and other plans. Established 2016.

Transparent management of all Zagreb Holding real estate properties



The largest gym in Croatia, with a gross surface area of 90,340 m² and 6 floors.

A total of 15,000 seats.

The gym is designed as the venue for different types of sports events, but also cultural, business, exhibition, fair, and entertainment events, concerts, conventions and congresses.

Built in 2008 for the 21st World Handball Championship.

Architectonic symbol of the City of Zagreb

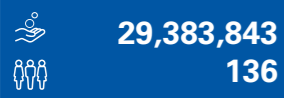
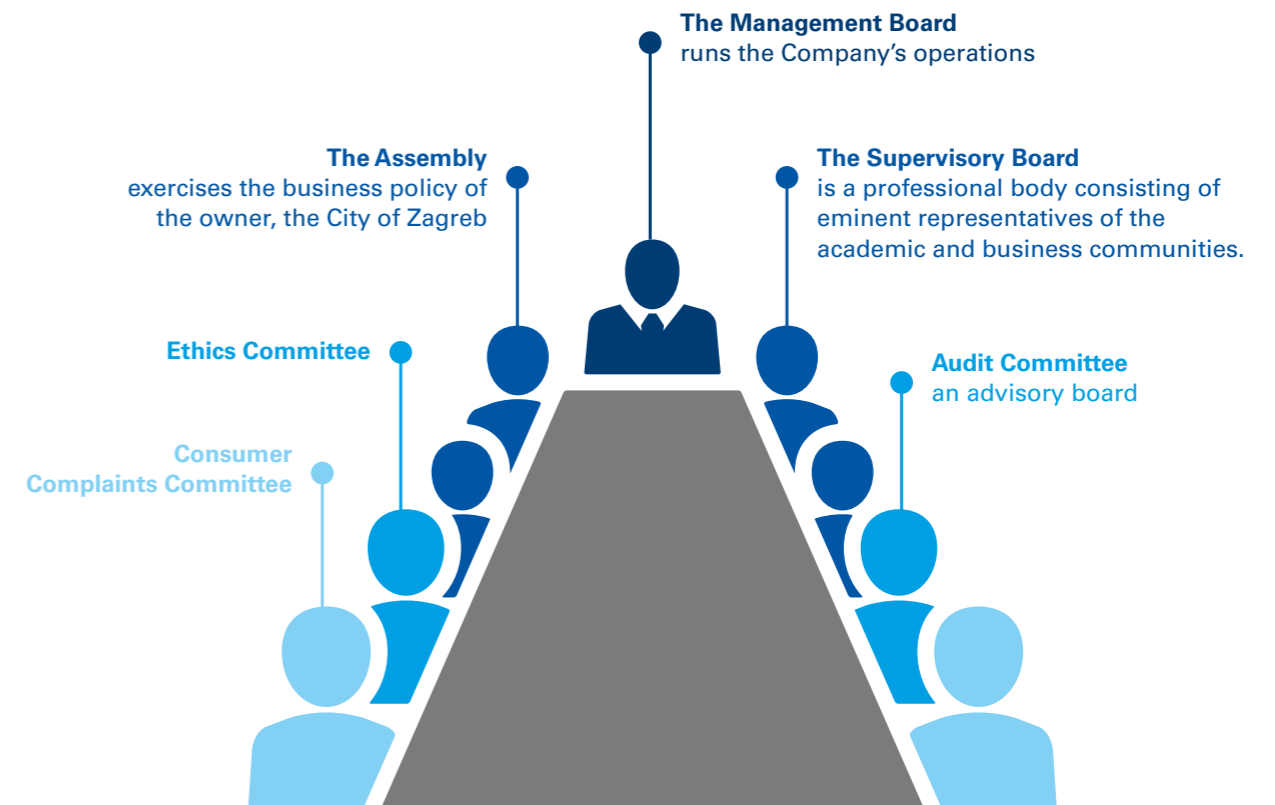
Corporate governance and sustainability

The Zagreb Holding Group bears a tremendous social and economic responsibility. Accordingly, it implements the latest good and responsible governance standards, abiding by the high corporate governance standards based on the OECD principles. Company governance and control instruments have been implemented at all levels of the Company to ensure proper and efficient operations. The corporate governance structure is defined by the Companies Act, its main act and the Articles of Association.

Zagreb Holding Ltd. is a limited liability company whose governing bodies are the Management Board, the Supervisory Board, and the Assembly of the Company as the highest-ranking governing body. The Audit Committee is an advisory body that supports the Supervisory Board in its work. The Company Zagreb Holding Ltd. operates its core business through 16 subsidiaries and is the owner of 8 limited liability companies and the Institution City Pharmacy Zagreb. The subsidiaries, affiliates and the institution comprise the Zagreb Holding Group, with Zagreb Holding Ltd. as its leading business policy creator.

Under the Companies Act, the affiliates have their own bodies supervising their activities (with the exception of AGM Ltd., Zagreb Housing Construction Ltd. and Centre Ltd, which are not under legal obligation to have supervisory boards). This means that the components of the Zagreb Holding Group practice a closed corporate governance system, with mechanisms characteristic of limited liability companies activated, while the Institution is run according to statutory regulations governing institutions. The City of Zagreb, as the sole founder, exercises its role and its business policy as the proprietor through the Company Assembly.

An Ethics Committee and a Consumer Complaints Committee are active at Group level. These bodies are also responsible for the components of the Zagreb Holding Group. Subsidiary directors, company directors and the Management Board of the Company are together responsible for making decisions on economic, environmental and social impacts.



Organises holidays for children and youth, offering different types of holiday programmes at Nazor's facilities at the coast and in Zagreb.

Established in 1962 as a City of Zagreb institution for the organisation of holidays for children and youth between 6 and 17 years of age.

Systematically develops educational and sports and recreational programmes in line with children's rights and needs and the International Convention on the Rights of the Child.

It also operates premium facilities on Mt. Sljeme, hotel Tomislavov dom and suites Snježna kraljica.

8 holiday and meeting locations for young people



A medical institution that has a contract with the Croatian Health Insurance Fund and operates 38 pharmacy units, a manufacturing lab and a testing lab.

Operates 5 24-hour pharmacies.

The manufacturing lab produces its own preparations based on traditional recipes, and the testing lab ensures the quality of the preparations.

The Institution follows Zagreb's famed pharmacy tradition. The oldest pharmacy operating as a part of the Institution dates back to the 14th century.

Established in 1966.

38 pharmacy units, a manufacturing lab and a testing lab



Publishing, gallery and exhibition services.

Ten specialised book series comprising titles dedicated to humanist sciences, fiction, publicist titles, luxurious monographs, literature for the children and youth, and more.

3 book stores, a web book store and galleries that welcome esteemed and aspiring Croatian artists alike.

Established in 1967.

40 years of experience in the publishing industry



Outdoor advertising services.

The outdoor advertising surfaces are located along the main thoroughfares and downtown, at the busiest and highest-traffic locations in the City of Zagreb.

CENTAR



Organisation of sports holidays for children and youth.

Organisation of trips for athletes.

Accountant and book-keeping services.

01. Identified risks

The Group has identified financial risks (market, currency, interest, credit, liquidity risks) and pays special attention to climate and regulatory risks as a provider of services in natural resource management, including drinking water supply, drainage, gas supply, and the public service of waste collection, transport and treatment.

<h3>Market risk</h3> <ul style="list-style-type: none"> Exposure to market risk is supplemented by a sensitivity analysis. There have been no changes in the Group's exposure to market risk or the way market risk is managed or measured. 	<h3>Climate risk</h3> <ul style="list-style-type: none"> Environmental risks can influence the business results, mainly the security and continuity in the delivery of the Group's products and services, and the demand. 	<h3>Reputation risk</h3> <ul style="list-style-type: none"> Results from unprofessional and unethical workplace behaviour. 	<h3>Regulatory risk</h3> <ul style="list-style-type: none"> Results from regulations governing human health and environmental safety and protection, including regulations governing waste management and water analysis.
<h3>Credit risk</h3> <ul style="list-style-type: none"> Credit risk is the risk of non-payment, i.e. the failure of the Group's customers to fulfil their contractual obligations, which influences the possible financial loss of the Group. 	<h3>Liquidity risk</h3> <ul style="list-style-type: none"> The Group continually analyses and manages its cash flows, properties and the sources of asset funding. 	<h3>Interest risk</h3> <ul style="list-style-type: none"> 34.54% loans payable are tied to a variable interest rate, which is recognised as a considerable uncertainty related to future interest cash flows. The Group actively monitors the movements of the EURIBOR, LIBOR and ZIBOR rates. 	<h3>Currency risk</h3> <ul style="list-style-type: none"> The Group is exposed to currency risk related to changes in the HRK EUR exchange rate for its non-current loans payable, 35% of which are in EUR.

Direct financial results of climate change are primarily reflected in increased investments in highly energy efficient systems, such as renewable energy sources and other technological innovations. On the other hand, Zagreb Holding expects these investments to contribute to lower energy costs in the long term, resulting in savings. Financial implications of climate change have not been quantified.

Other climate change related risks and circumstances for the Group depend on the individual industry. Due to the nature of their business and their reliance on natural resources in their daily activities, we believe climate change will have the greatest impact on the companies and subsidiaries in the municipal and transport industries, and on the companies Zagreb City Gasworks - Supply and ZGOS.

In the event of major abnormal weather events (floods, earthquakes and such), the highest level of alert will be issued for the emergency intervention services and all other resources to make sure that all services of public interest are available to the citizens of Zagreb.

02. Risk management

The Group has integrated risk, quality, environment, and workplace health and safety management systems based on internationally recognised standards. Independent authorised firms evaluate the quality of implementation of these systems every year.

ISO 9001, ISO 14001, OHSAS 18001, ISO 22000, ISO 50001, ISO/IEC 17025 certificates

SUBSIDIARIES AND AFFILIATES OF THE GROUP	ISO 9001	ISO 14001	OHSAS 18001	ISO 22000	ISO 50001	HRN EN ISO/IEC 17025
Subsidiary City Waste Disposal	Yes	Yes	Yes	Yes	Yes	Yes
Subsidiary City Cemeteries	Yes	Yes	Yes	Yes	Yes	Yes
Zagreb City Gasworks Ltd.	Yes	Yes	Yes	Yes	Yes	Yes
Subsidiary ZGOS	Yes	Yes	Yes	Yes	Yes	Yes
Subsidiary Zrinjevac	Yes	Yes	Yes	Yes	Yes	Yes
Zagreb City Gasworks - Supply Ltd.	Yes	Yes	Yes	Yes	Yes	Yes
City Housing and Municipal Services Company Ltd.	Yes	Yes	Yes	Yes	Yes	Yes
Zagreb City Pharmacy	Yes	Yes	Yes	Yes	Yes	Yes
Subsidiary Zagreb Freight Station	Yes	Yes	Yes	Yes	Yes	Yes
Subsidiary Zagreb Markets	Yes	Yes	Yes	Yes	Yes	Yes
Water Supply and Drainage Ltd.	Yes	Yes	Yes	Yes	Yes	Yes
Subsidiary Zagreb Roads	Yes	Yes	Yes	Yes	Yes	Yes
Subsidiary Vladimir Nazor	Yes	Yes	Yes	Yes	Yes	Yes

ISO 9001:2008 quality management systems are a motivation to improve the quality of our services, which is attained through systematic management of documentation and business processes.

ISO 14001 environmental management system applies to environmental aspects in every segment of the Group's operations, including maintenance and landscaping of public green areas and children's playgrounds, natural gas distribution, generation of electricity from landfill gas and waste management, graveyard and crematoria maintenance, and funeral services.

ISO 22000:2005 - HACCP international code of practice - general food hygiene principles.

ISO 50001:2011 standard "Energy management systems - Requirements with guidance" provides the requirements for the establishment of an energy management system (EnMS) in industrial plants, commercial, administrative and state buildings, and entire organisations.

Workplace health and safety management system based on the **OHSAS 18001:2007**.

General requirements for the competence of testing and calibration laboratories **HRN EN ISO/IEC 17025** - the laboratory of the Technological Department of the Water Supply and Drainage's Drainage Sector received the 5-year accreditation on 2 June 2016.

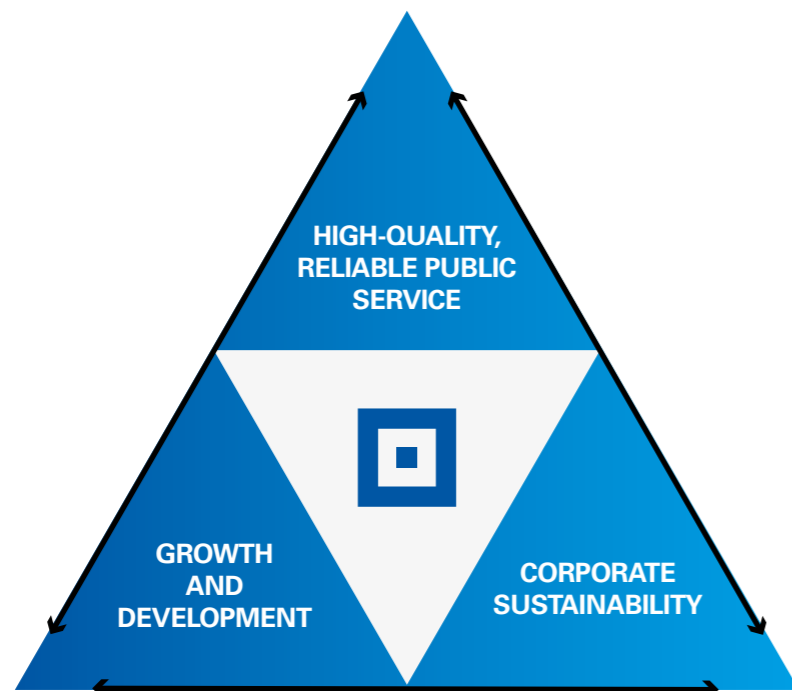


The Winter Road Maintenance Department operates as a part of the Subsidiary Zagreb Roads and has 259 crews divided between 15 standby locations, along with the crews of the subsidiaries City Waste Disposal, Zrinjevac, Zagrebparking, and ZET, and the Company Water Supply and Drainage. The GPS Centre has an early road ice discovery system, which notifies the centre about the current condition of the roads using sensors in 17 selected locations (road temperature, air temperature, road moisture and freezing point considering the salinity of the road, precipitation, fog).

Such a system help Zagreb Roads react preventively in the most critical points in the City in order to prevent traffic accidents. Thanks to investments in machinery and technology, and the employment of all available capacities of the Zagreb Holding Group to prevent the consequences of snow-related abnormal weather events, the City of Zagreb boasts one of the best organised winter road maintenance departments in Europe.

03. Corporate social responsibility strategy

The Group believes that a corporate responsibility strategy includes providing high-quality, reliable public services by growing and developing the Group in line with the principles of corporate social responsibility in the management of the social, economic and environmental impact of its operations.



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Economic responsibility

- Sustainable growth of the Group
- Investing in products, goods and services of value to the society



Social responsibility

- Participating in the development of the local community
- Respecting workers' rights
- Investing in human resources
- Investing in health and safety



Environmental responsibility

- Environmentally friendly technologies
- Efficient utilisation of natural resources
- Generation of electricity from landfill gas

04. Service quality and business process improvement

ZET

Traffic safety: The total number of traffic accidents in 2016 was down by 4.7% compared to 2015. The total number of injured persons in 2016 was also down from 219 to 158 persons, or by 28% compared to 2015.

Environmental protection: After the acquisition of 16 new gas-fuelled buses, ZET's fleet now has 76 buses that use gas as their fuel.

Savings measures: The number of departures at some routes was reduced in 2016 based on passenger counting results and vehicle load factor, which helped save fuel, maintenance and overtime. Fuel costs were cut and pollution reduced by putting in operation the gas filling station at the Podsused Bus Facility in late 2015 and by acquiring gas-fuelled buses.

Preparations are under way for the "No Regret" project, which comprises the acquisition of 15 buses and will be co-funded by the EU and realised in 2017. A feasibility study has been produced for the project, and been authorised by the JASPERS mission and the MMPI.



ZET has 76 gas-fuelled buses, which are filled at its own filling stations.

Water Supply and Drainage

The preparation of the project and study documentation and the application package for EU co-funding for the agglomerations Zagreb and Glavničica: The project is co-funded through the Ministry of Agriculture (now Ministry of Environmental Protection and Energy) and the Ministry of Regional Development and EU Funds. The preparation and implementation of infrastructural projects in water management supports timely and efficient implementation of the Operational Programme "Environmental Protection" and helps prepare for the absorption of funds from the EU financial framework 2014-2020.

Construction of the main water supply pipeline Aleja Bologne-Lisičina: in line with the implementation plan for water utility directives, the project applied to Restricted Call for Proposals EN.2.1.16 for grants from the Cohesion Fund in the Operational Programme "Environmental Protection" for the implementation of investments projects pertaining to smaller segments of the public water supply/drainage systems to contribute to integral agglomeration solutions and integral water supply area solutions.

City Cemeteries

Graveyard plans were produced in a GIS application for four big cemeteries, improving the information we provide about the burial plots and the deceased on the Subsidiary's website.

Establishment of new information systems to support the Group's operations

Expanded use of the documentation management system: the programming system was upgraded in the archive management segment, and a unified archiving system was established for the whole Company.

Unified programming system for human resource management and salary accounting: advanced use and programme upgrade at the level of the Zagreb Holding Ltd. and the affiliates Water Supply and Drainage Ltd., City Housing and Municipal Services Company Ltd. and AGM Ltd.

Register and One Utility Bill: activities on the alignment of the data in the Register and the upgrade of the One Utility Bill.

Zagrebparking

Parking permits for persons with disability now available on the ePK portal: a service upgrade allowed this group of customers to purchase their parking permits using the web service too.

New apps to support Subsidiary employees in their work: a new mobile app based solution implemented for supervisors in the field, plus a complaints and information app.

Text message notification of residential parking permit expiry: added notification to customers about the expiry of their residential parking permits by text message.

15

04. Service quality and business process improvement

Zagreb Roads

Construction waste recycling plant produces granular material satisfying all requirements by recycling construction waste, which has a positive impact on the environment and saves natural resources. The citizens can dispose of all their construction waste free of charge.

The Subsidiary produced 170,876 tonnes of granular material by recycling construction waste in 2016, saving a lot of money and making a positive impact on the environment.

ZGOS

Prevention of odour spreading by installing cover-up membranes at the Landfill. Positive effects are also expected in form of less soil used for extended cover and less leachate waters.

City Waste Disposal

Preparations are under way for a "No Regret" waste management project, including the acquisition of containers for separate waste collection, containers, bins and supporting vehicle machinery, and mobile recycling centre construction.

Acquisition of separate waste collection containers to expand the "recycling islands" system (500 sets).

Distribution of containers for separate collection of waste paper to family homes and smaller residential buildings.

Mixed municipal waste containers are set up in city areas where waste used to be collected in bags (only 8% of the mixed municipal waste collection programme remains uncovered by containers) to ensure the same level of service quality to all our customers.

Bulky waste removal service at the customers' request (the number of customers using this service increased 40%). Applications are mailed to the customers' home addresses, and a web app is also available.

Fuel and water consumption data is entered into the ISGE system: energy cost management should result in energy cost reduction by 10% a year over the following 5 years.

Zrinjevac

Construction of biomass boilers at the Markuševac location: the subsidiary has considerable amounts of biomass (mainly tree pruning waste). This investment makes efficient use of the biomass and saves money.

Capital infrastructural projects

The completion of the Svetice Swimming Pool Complex and the Swimming Pool and Gym of the Iver Primary School in Sesvet-ski Kraljevac: both complexes were handed over to the City of Zagreb for its use.

Reconstruction and construction of the Sveti Duh Day Stay Hospital and garage: the Company started the preliminary activities in 2016.



Construction of the Podbrežje Project - 1st stage: Zagreb Housing Construction Ltd. started the activities associated with the construction of 608 apartments, whose completion is expected in December 2017. Out of the total number of apartments, 400 will be taken over by the City of Zagreb to address the housing needs of its citizens, and 208 apartments are reserved for junior researchers in cooperation of the City of Zagreb and the Zagreb University to address the housing needs of junior teaching staff at the University.

According to the Urban Plan, the entire Podbrežje project includes the following:

- 11 standalone residential buildings with up to 9 floors and 1,800 apartments
- Two nursery schools
- A primary school
- A culture and information centre
- A swimming pool complex and a gym
- Parks and 12 playgrounds - 6 playgrounds for children 0-6 years of age, and 6 playgrounds for children 7-18 years of age.



05. Plans and projects identified for co-funding from eu funds

A team was formed in the Group, at Zagreb Holding level, that is in charge of the preparation and management of projects co-funded with grants from EU funds and state aids. The activities on the preparation of projects eligible for co-funding by the Environmental Protection and Energy Efficiency Fund and the ESI funds, and possible co-funding through the so-called ITU mechanism (Integrated Territorial Investments), continued in 2016.

Project ideas identified as having the potential for co-funding from ESI funds and ITU mechanisms for the most part pertain to advancement of the city public transport, and include the advancement of tram transport (TRAM project), including tram efficiency improvement (Zagreb PoTEZ), investments in tram infrastructure and the construction of tram depots, and the acquisition of buses and trams for city public transport, primarily low-floor vehicles fuelled by environmentally friendly fuels and/or using technological solutions that will help achieve considerable fuel savings and reduce the emissions of harmful gases into the atmosphere (the TRES project and the EL_BUS project for the acquisition of electrical buses). They also include energy-efficient and environmentally friendly technological solutions for the other business systems in the Group, such as construction of new electrical vehicle charging stations, implementation of electric bicycles in the public garage system, introduction of environmentally friendly lighting at public garages, and energy efficiency of facilities in general.

We continue the work on preparing the documentation needed to apply for EU funding with public city transport projects in collaboration with JASPERS.

Zagreb Holding and its subsidiaries (ZET and Zagrebparking) continue to participate in the production of the Traffic Master Plan for the Zagreb metropolitan area. The Company Integrated Zagreb Area Traffic (IPZP) is the project leader. **The Master Plan encompasses the traffic projects** of the Zagreb Holding with a medium-term and long-term perspective, such as the project Parking Infrastructure and System Development, which is an extension of public transport (the park&ride system), and the related introduction of a **single ticket for public transport and parking**. The Traffic Master Plan will serve as the basis for the application of projects for EU-funding, and it has to be coordinated with the Traffic Strategy of the Republic of Croatia.

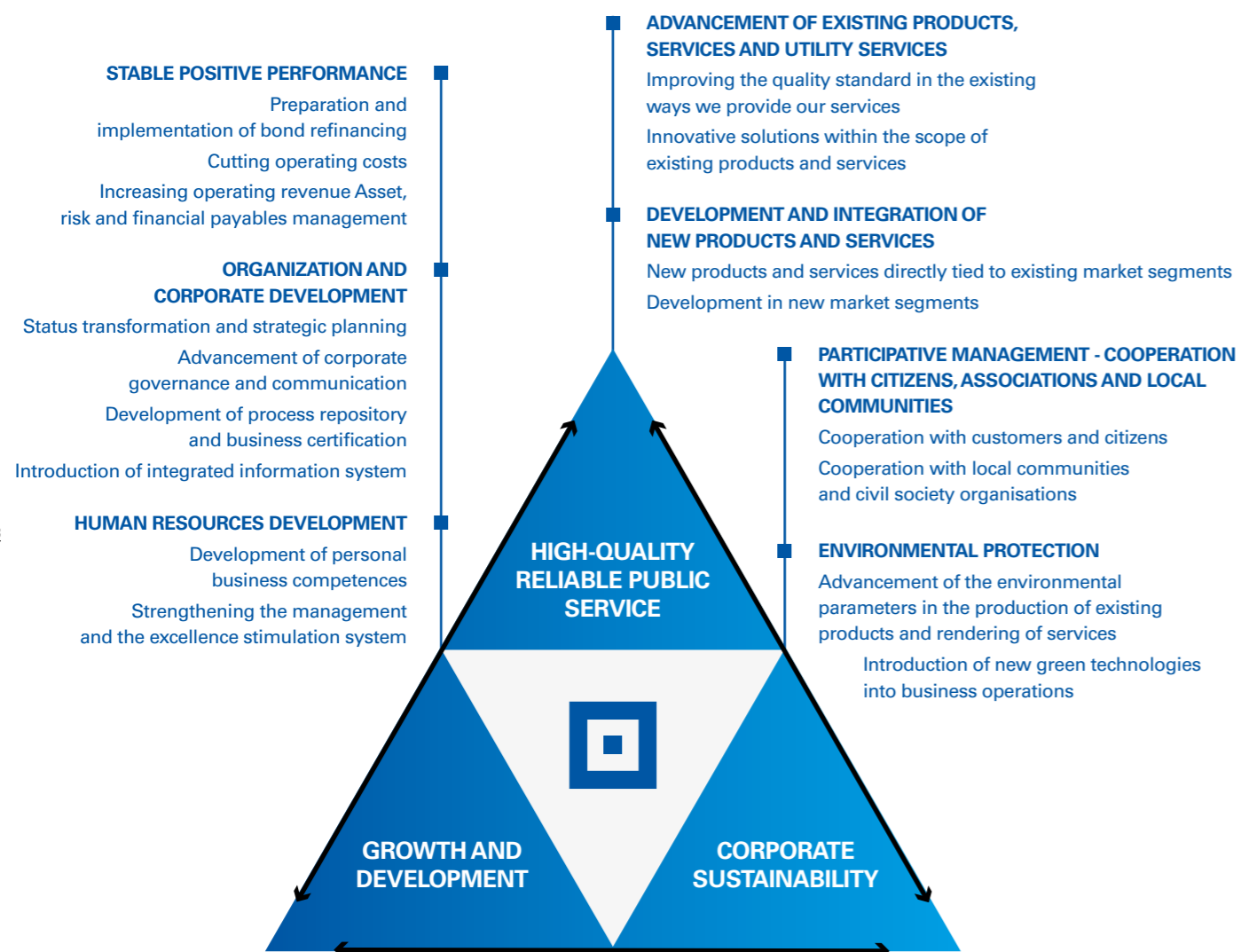
Projects in waste disposal and management in the subsidiaries City Waste Disposal, ZGOS and Zrinjevac have a much greater potential for application for EU funding in the Operational Programme Competitiveness and Cohesion 2014-2020 (Priority Axis 6: Environmental Protection and Sustainability of Resources) than has been realised so far, but they depend on the alignment of the City Waste Management Plan with the Waste Management Plan of the Republic of Croatia. The realisation of bigger projects can only commence after the new Waste Management Plan is adopted in the City of Zagreb.



ZET's tram fleet includes 142 low-floor, air-conditioned trams made in Croatia, which make up more than 50% of its fleet. Some of the funds for the innovative tram components that allow some of the expended energy to be fed back into the grid were obtained through the Civitas Elan EU project, aimed at better and cleaner city traffic. As a part of further modernisation of the city public transport, we plan to buy new low-floor buses and trams fuelled by environmentally friendly fuels.

Corporate social responsibility as an integral part of the business strategy

The Group believes that a corporate responsibility strategy includes providing high-quality, reliable public services by growing and developing the Group in line with the principles of corporate social responsibility in the management of the social, economic and environmental impact of its operations. The Group implemented corporate social responsibility in its business strategy to foster responsible, efficient and sustainable operations.



The Group understands corporate social responsibility as economic, social, and environmental responsibilities, which are a constituent part of all the business targets in line with the principles of sustainable development and responsible conduct of the Group.

- Responsible practices in the social sphere include the management of the impact of the Group's operations and its products and services on the society, such as social investments, involvement in the development of the local community, and matters associated with respecting workers' rights and investing in human resources and health and safety.
- Responsible practices in the environmental protection sphere are understood as the management of the impact of the Group's operations and its products and services on the

environment, such as production technology and efficiency in the exploitation of natural resources.

This year, the Group for the first time voluntarily published its first independent non-financial report, or the report on corporate social responsibility and the impact of its operations on the society and on the environment regularly and publicly, the Group will successfully overcome new business challenges by minimizing the identified risks in its operations through efficient management of the Group's resources. The Group's dedication to corporate social responsibility is the result of many years of efforts invested by its employees. The Non-Financial Report for the first time presents this dedication in quantitative form (and in narrative form where numerical data does not exist) to help the Group attain sustainable long-term growth through more efficient management.

Key material aspects of the Zagreb Holding Group

Sustainability and corporate social responsibility of the Group are integrated into the Company's strategy. The business strategy is not focused solely on financial profit criteria, but also on corporate social responsibility and sustainability, which are considered equally important targets in the Group's activities. Key material, economic, social, and environmental aspects of the Group's operations were identified based on the principles of the international recognized Global Reporting Initiative (GRI) framework. An analysis of the business strategy and determination of the social strategy, mission and key values of the Group, which has taken several months, was performed in early 2017 in cooperation with outside consultants.

The procedure of determining the important aspects (of the content of the report)

Directors and representatives of 16 subsidiaries, eight affiliates and one institution together defined the material aspects in the organization that are of crucial importance for the Group at workshops held with the key internal stakeholders in the Group and at individual meetings with consultants. In defining the key material aspects (Step 1), we were guided by the principle of sustainability, and we considered the impact of our operations on the environment, the local community, our employees and the society. The identification of the impact of our operations on the environment, the local community, our employees and the society and its positioning on the materiality matrix (Steps 2 and 3) allows us to analyse the entirety of our operations in order to be able to operate efficiently in the long term.

KPIs at Zagreb Holding Group level were defined at group and individual workshops, and the process of collection of data for their quantification followed. The identified KPIs are aligned with the defined social strategy and targets of the company, and measurable indicators for the monitoring of results in future periods.



MATERIALITY MATRIX

visual representation of the prioritization of the economic, environmental and social aspects

The identification of the material economic, environmental and social aspects in the process of determining the report's content and defining the limits of the aspects was performed in line with the Global Reporting Initiative (GRI) methodology. The materiality matrix at the level of all organisational units of the Group was defined in accordance with the process of identification and prioritization of the material aspects within the organization on the Company's operations.

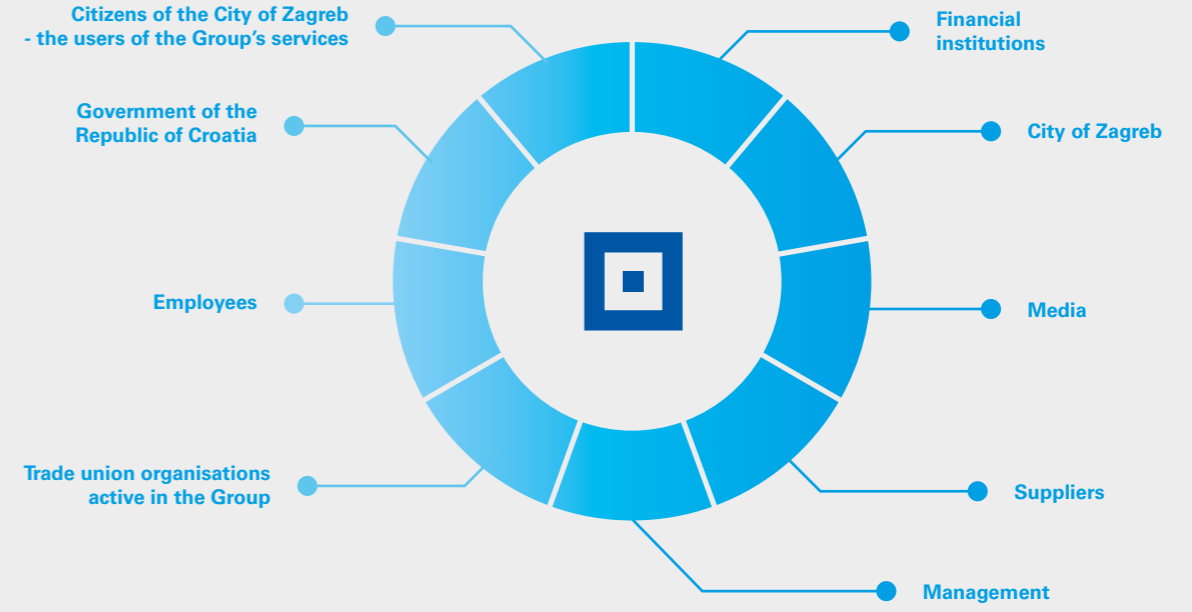
The materiality matrix identifies and prioritizes the environmental, social and economic material aspects with respect to their impact on the company's operations and their importance for the identified key stakeholders.



SIGNIFICANCE OF ECONOMIC, ENVIRONMENTAL AND SOCIAL IMPACTS OF THE ZAGREB HOLDING

Stakeholders

The social strategy is a result of proactive operations of the Group and its understanding of the wishes and the needs of the stakeholders. The Group bases its proactivity on a long-standing successful cooperation and dialogue with the key stakeholders in providing municipal, traffic and commercial services.



Dialogue with stakeholders

The Group maintains a close connection and interacts with the identified stakeholders. These are the key activities:

- Providing high-quality services to all users and communication with users,
- Employee education and professional training,
- Ensuring occupational health and safety,
- Trade union activity.

The Group influences its reputation in the dealings with all stakeholders through its dedication to information transparency. Special attention is therefore paid to regular corporate reporting.

Employees - All components of the Zagreb Holding Group have dedicated human resource management departments in line with their organizational structures. Trust and freedom of communication about the topics we share are built with the em-

ployees through free access to knowledge and information, and through different forms of collaborative and participative management. The rights and the position of the employees in the organisation with respect to equality in exercising material and non-material worker rights are guaranteed by the Labour Act and the collective agreements (Basic Collective Agreement for the Company Zagreb Holding Ltd. and collective agreements in the affiliate companies).

Dialogue with stakeholders

Citizens of the City of Zagreb and the public - Citizens of Zagreb are the users of our services, and availability of information is one of our primary objectives in the development of relations with our users. The importance of honest and transparent communication for the Group is demonstrated by the fact that not a single case of violation of regulations and voluntary codes was recorded in marketing communication, including advertising, promotion and sponsorship. Dialogue with citizens of Zagreb happens daily through the following channels:

- **Customer centres** - the central Customer Centre, where users can access all services from the domain of the Zagreb Holding in one place, submit applications, complaints etc, and the customer centres at the affiliates, where the users can access services from the domain of a particular affiliate.
- **Call Centre** - where customers can learn all information, report irregularities etc by calling a single number, 072 500 400, which is available 0-24
- **Web form at www.zgh.hr** - where users can send inquiries directly, and report irregularities and do everything else from the domain of the activities of the Group as a whole. All information from the domain of the Group's activities is also published on www.zgh.hr.
- **The Group's website** - all websites contain contacts and/or web forms that users can use to directly talk to us about matters that interest them or send us an inquiry.
- **Zagreb Holding One Utility Bill** - the back of the bill contains all information about billing, complaint options, changes in services, and more. Important information we would like to communicate (such as the bulky waste removal schedule) is enclosed to the bill on a separate flyer.

City of Zagreb - City of Zagreb is the founder and the 100% owner of the Zagreb Holding. Accordingly, the Holding's operations are focused primarily on improving the quality and scope of the public services we provide for the well-being of the citizens, the businesses, and the local governments and self-governments in the City of Zagreb. Our ultimate objective is to advance the standard of living for the citizens and the competitiveness of the City's economy, and to have a positive impact on the reputation of the City of Zagreb in comparison with other cities. We work closely together on the topics that we have in common, and build dialogue in order to implement the development strategy of the City of Zagreb.

Suppliers - All public procurement proceedings are carried out in accordance with the Public Procurement Act and are advertised publicly, which allows all stakeholders an equal status in public procurement proceedings. Communication is also associated with monitoring the execution of contracts, complaints,

certificates of proper execution of contracts, and preliminary consultations with interested economic operators (suppliers) under Article 198 of the Public Procurement Act (2016).

Trade unions - There are 31 trade unions active in the Group at the moment, some of which are active at national level, and some only within the employer Zagreb Holding. The employer treats the representatives of all active trade unions equally in line with the regulations of the Labour Act and the Basic Collective Agreement for the Workers in the Company Zagreb Holding Ltd. The Management Board of the Company Zagreb Holding Ltd. and its dedicated departments hold formal and informal meetings with trade union representatives throughout the year in accordance with the above acts, inform them on time about changes and novelties in the Company's operations, and involve them in the decision-making process through the consultation or codecision procedure.

Financial institutions and investors - The Zagreb Holding, as an issuer of bonds in the capital market, publishes all the required information on the websites of the Zagreb Holding, the Zagreb Stock Exchange, the Croatian Financial Services Supervisory Agency (HANFA) and other media (Hina, Reuters) under the rules of the Zagreb Stock Exchange and the Capital Market Act. The principle of corporate governance with timely and objective informing about the most important activities and business results of the Company is also applied in the communication with the financial institutions.

Media - We continually track and analyse our media presence and public perception. We are in daily contact with the general public through a variety of communication channels (press releases, live statements, social networks, Call Centre), and we proactively create contents about the operations of the Zagreb Holding Group. We organise campaigns to inform the public about the news about the services we provide and the improvements we introduce.

Public - We have developed relations with the media outlets covering topics related to the Zagreb Holding's operations, and we make proactive statements to provide timely information to the users of our services about their improvements and our operations. We use web-based customer satisfaction survey tools. We use social networks to communicate with the younger population.

Croatian Government (Ministries and others) - The Zagreb Holding Group has actively commented on the draft Public Procurement Bill (Ministry of Economy). The Group was also consulted about the application of the Public Procurement Act (Public Procurement System Administration), the Croatian Government's Regulation on the Criteria, Standards and Procedures for the Financing and Contracting of Programmes and Projects of General Interest Implemented by NGOs, labour law, etc.





Social category

Responsibility to the Group's employees

In addition to caring about its impact on the society as a whole and the satisfaction of its customers, the Group devotes particular attention to the well-being of its employees. Its 10,394 are employees shaping the future of the City of Zagreb. The Group's employees are its greatest value and play a pivotal role in building an efficient system providing high-quality services, and creating the kind of future that the citizens of the City of Zagreb would like to live in.

The Group's primary objective is to ensure the application of the principles of equal opportunities and diversity in all processes and functions, and to make them a constituent part of the decision-making process in everyday practice. The purpose is to implement the diversity policy as one of the elements of corporate social responsibility. The Management of the Company Zagreb Holding has enacted the **Code of Conduct** and the **Corporate Governance Code** as the legal framework, and appointed the Ethics Committee and the Irregularities Committee, which work on identifying the violations of the Code of Conduct and proposing sanctions for the perpetrators of the identified violations, each within their respective scope of authority.

The Group aims to attain responsible and transparent operations through social management mechanisms using:

The Corporate Governance Code

Defines the moral and ethical principles of conduct for all the Group's employees and bodies and enacts binding rules for all business actions and decisions. The new Code of Conduct implements legal regulations aimed at eradicating corruption, and introduces stricter supervision of Group employees as "function holders".

The Code of Conduct

It identifies the basic rules of ethical conduct for all employees of the Zagreb Holding Group in order to identify and promote the fundamental ethical values in the business relations, and actions in case of their infringement.

The principles and actions under the Corporate Governance Code and Code of Conduct are considered as guidelines for all the Group's components.

Irregularities Committee

The Committee is responsible for all the Group's components. Its responsibility is to identify and eradicate possible irregular, unprofessional or illegal activities in the Group. The Committee considers and assesses the substance of complaints, and determines the ways of institutional investigation of complaints and suspected irregularities.

The Committee resolves the possible irregularities as discreetly, thoroughly, and professionally as possible, protecting the personal integrity and professional authority of all employees, and works to protect the business reputation of the Group as a whole.

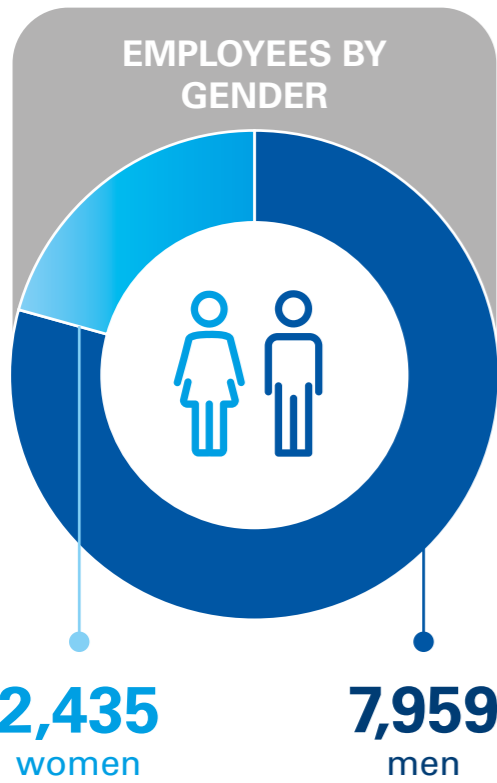
Complaints, findings, information, and suspicions about possible irregularities are delivered to the Committee in written, by email, by phone, or in person. Every known author of a complaint receives a written reply from the Committee. In case of indisputably identified irregularities, the Committee issues a recommendation to the management of the subsidiary or affiliate to eliminate the irregularities.

Ethics Committee

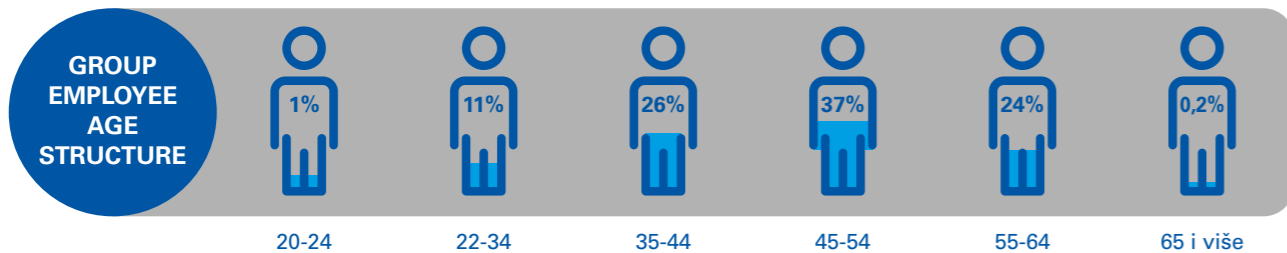
The Committee was established in 2011 in order to resolve complaints regarding illegal and/or unethical conduct in the Company's operations. All Zagreb Holding Group customers, business partners and employees can report any illegal and/or unethical actions in Holding operations to the Ethics Committee in written or in electronic form. Protection of privacy is guaranteed.

All reported irregularities are investigated, and the person who made the report is informed about the conclusions of the investigation. In the event of infringement of the Code of Conduct, the Management Board of the Company is notified.

The Ethics Committee normally does not investigate anonymous complaints because it has no way of contacting the sender to send its reply. However, if the members of the Committee conclude that a complaint they received is relevant, they forward it to the Internal Audit and Control Department for further action.



- 10,394** employees
- 31** trade unions
- 100%** Group employees covered by collective agreements



332 new employees

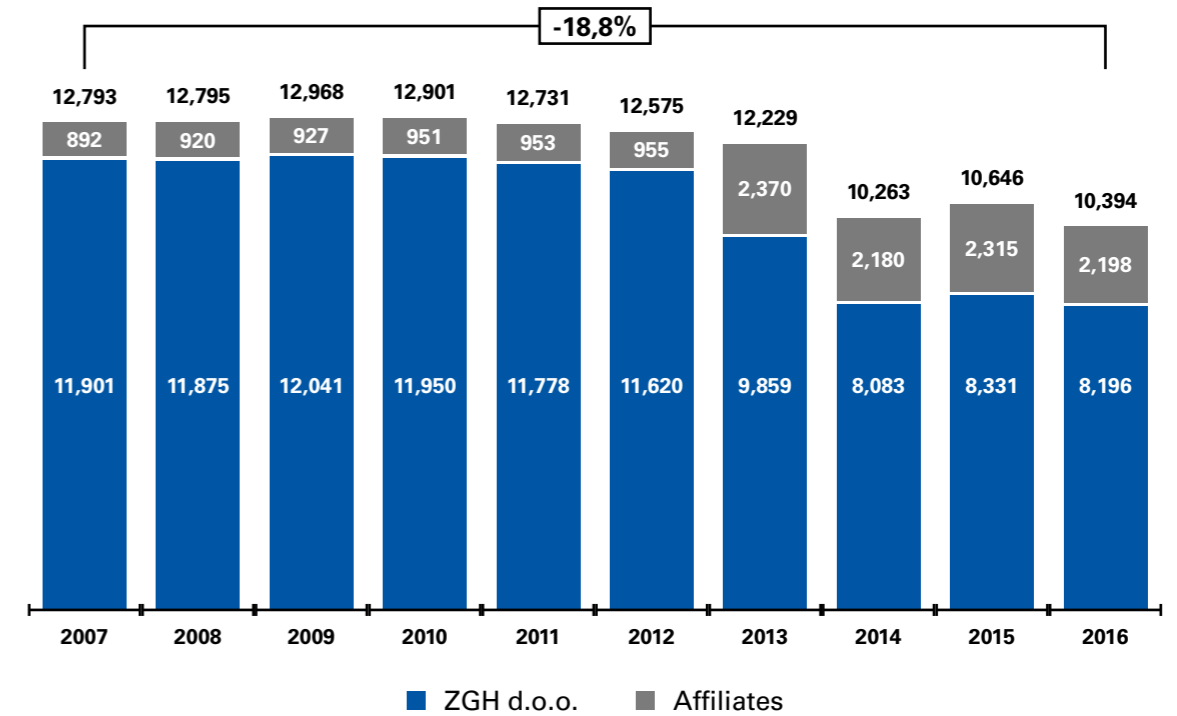
Due to their knowledge and experience, the Group considers its senior employees an asset. On 31 December 2016, the Group employed 2,527 persons older than 55 (25% of all employees).

42.3 The average age of the Group's employees in 2016 was 42.3 years.

73 female employees and 11 male employees exercised their right to maternity an/or parental leave in 2016.

On 31 December 2016, the Group employed 10,394 persons or 252 persons fewer than on 31 December 2015, when it employed 10,646. The number of employees decreased by 2,399 in the period 2007-2016.

Number of employees in the Company and in the Group 2007-2016



Benefits for employees with indefinite period and fixed-term contracts (LA3)

The Group's employees equally enjoy all rights guarantees by the Labour Act and and the Collective Agreement. The employees have equal rights, irrespectively of their gender, whether they work full-time, part-time or shorter hours, and whether they have indefinite period of fixed term contracts.

Life insurance is not provided to the employees, and health insurance is provided through mandatory health insurance. Employees receive retirement benefits and termination benefits in the event of termination of their employment due to redundancy or personal reasons. The amounts of the benefits set by the Collective Agreement are higher than the amounts set by the Labour Act. Employees are insured by the company Croatia osiguranje against serious medical conditions, accidents, and cases of employer public liability.

73 female employees and 11 male employees exercised their right to maternity an/or parental leave in 2016. Most female employees have not returned to work after the expiry of their maternity leave, but continued to use the parental leave.

AZ Zagreb - closed-end voluntary pension fund for the Group's employees

In addition to its commitment to the satisfaction of its users, the Group pays special attention to the well-being of its employees. In cooperation with the coordinating committee of the trade unions active in the Group, we established the closed-end voluntary pension fund AZ Zagreb for Zagreb Holding employees in 2008. By establishing the fund and offering financial incentives, we encourage our employees to save in the long term, having in mind the quality of their lives even after they retire. Membership in the fund is voluntary for all employees.

On 31 December 2016, 1,249 Group employees were members of the AZ Zagreb closed-end voluntary pension fund. The Company Zagreb Holding contributed a total of 2,376,076 HRK of voluntary pension.

The other material rights of the workers include:

SOLIDARITY SUPPORTS	OTHER MATERIAL RIGHTS
Employee death benefits	St. Nicolas gifts for children
Benefits for employees in the event of the death of an immediate family member	Vacation bonuses
Occurrence of disability for employees	Christmas bonuses
Medical leave for employees longer than 90 days	Gift in kind at Easte
Occurrence of severe disability of children or spouse	Retirement benefit
Supports for children of employees-casualties of the Homeland War	0-24 employee insurance
	WORKERS ARE ENTITLED TO KEEP THEIR SALARIES IN THE EVENT OF REDUCED CAPACITY FOR WORK, ESTABLISHED BY RELEVANT AUTHORITIES, UP TO FIVE YEARS BEFORE REACHING RETIREMENT AGE
Purchasing medical aids and coverage of participation in purchasing essential medications prescribed by relevant physician	TERMINATION BENEFIT IN THE EVENT OF WORKPLACE INJURY OR OCCUPATIONAL DISEASE
Repairing damage caused by natural disasters	TRANSPORT COMPENSATION
One-time benefit for the birth of a child	
Benefits for employees who sustained severe workplace injury, when notifying the Labour Inspection is required	

Occupational health and safety (LA4, LA5 and LA8)

Health and injury prevention are at the top of our list of priorities. Comprehensive occupational health and safety measures were implemented in the Group in previous years. All occupational health and safety matters regarding the employees are regulated by the collective agreements.

8 hours

an occupational safety training is organised for all new employees to prevent workplace injuries (average duration is 8 hours)

The Workers' Council is active in the Company Zagreb City Gasworks Ltd. Workers' councils that the Group employers would consult, among other things, prior to making decisions on occupational health and safety measures, as regulated by the Labour Act, have not been established in the other components of the Group. Trade union commissioners therefore took over all workers' council rights and obligations. The employer consults trade union commissioners, who have workers' council rights and obligations, prior to making any decision relevant to the workers' position, including decisions regarding occupational health and safety measures, and provides information relevant for making the decision and analysing its impact on the workers' position.

Some of the subsidiaries have Occupational Health and Safety Committees, into which workers are appointed by virtue of decision of the Company's Director or subsidiary manager. The percentage of worker members of formal joint committees for occupational health and safety matters consisting of representatives of the management and the workers is lower than 1%.

The Occupational Health and Safety Committee is composed of:

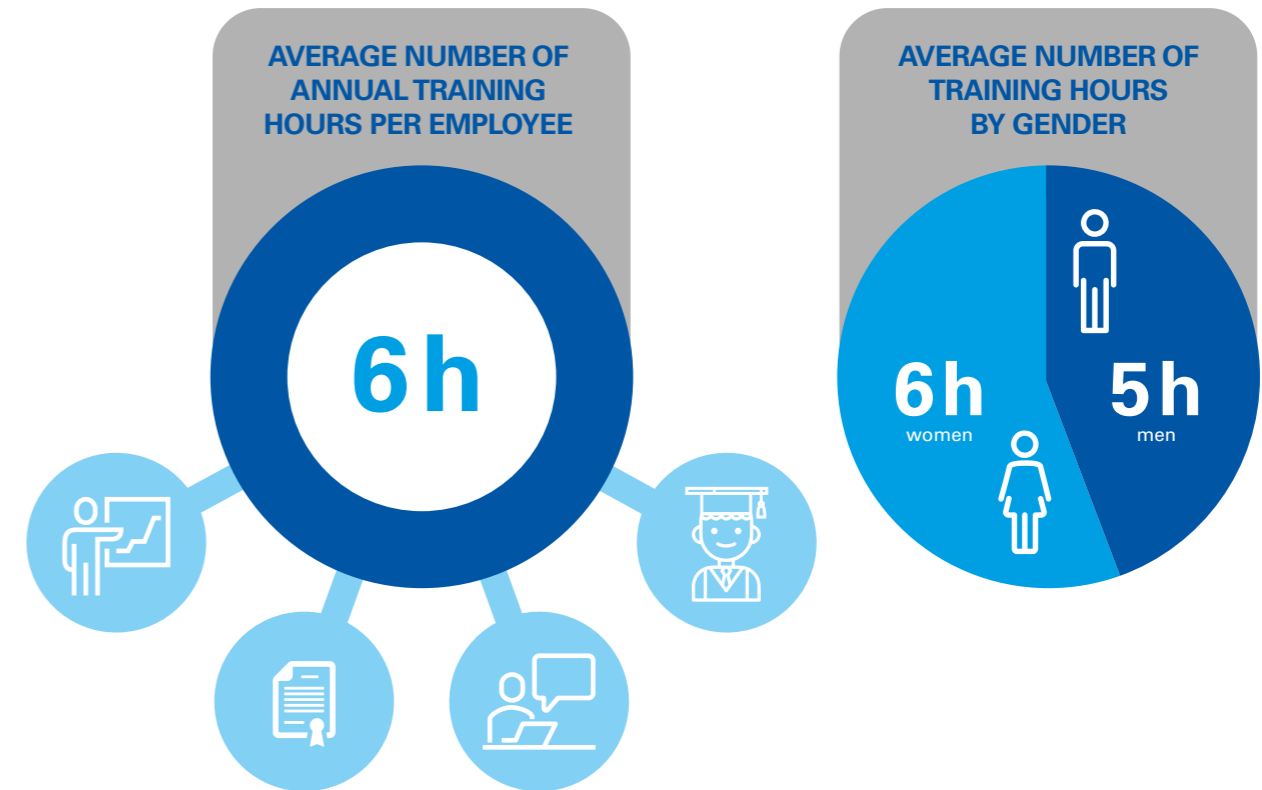
1. Chairperson (authorised representative of the employer)
2. Five members
3. Physician specialising in occupational medicine
4. Occupational health and safety professional

Obligations regarding reporting, consulting and codecision with trade union commissioners are fulfilled in the manner and under the terms set forth by the Labour Act.

Training and education (LA9, LA10)

The development of Group employee potentials is the central position for providing high-quality, innovative services to the citizens of Zagreb. The Group strives to provide continual trainings and education to its employees in order to increase the efficiency of its operations. Protective measures are regularly implemented to minimize or eliminate risks to employee health and the working environment in the work processes.

The Group's target is to recruit the best and the most highly qualified employees, and to keep them. We are proud to present the following figures:



These are the skill formation and life-long learning programmes supporting permanent employability that the Group's employees are actively involved in:

- Professional training in management
- Gaining technical baccalaureus title
- Gaining university baccalaureus title
- Co-financing of postgraduate professional studies
- Training in the preparation and implementation of EU policies and projects
- Seminars, professional conferences, symposiums, conferences or workshops in a specific area of activity of professional departments.

Occupational health and safety trainings are organised for all new employees (average duration 8 hours). The employers in the Group keep records of all types of trainings the employees were referred to in order to gain new knowledge, skills and competences. The Group has not measured work performance in the reporting period, but data on the individual development of the employees are a constituent part of employee records. We plan to develop and implement a work performance measurement system in the upcoming periods.

Professional lectures, mentorships and workshops

The companies in the Group and the healthcare institution systematically encourage their employees to participate in various professional and business conferences and similar events as lecturers or presenters, with the objective of developing the skills and competences of its employees, and advancing the Company's image in mind. In 2016, 30 of our employees presented 40 professional and scientific papers at 8 different professional conferences, 7 symposiums, 6 professional conferences, 3 congresses and 2 forums, and delivered 4 lectures at universities. A total of 15 professional papers were published in conference and symposium publications or as standalone articles in professional magazines. The employees of the institution Zagreb City Pharmacy organised 15 free workshops outside of the pharmacies, and two e-courses.

270 secondary school and university students completed their work placement in the Group in 2016. 30 students underwent apprenticeship, and 44 underwent professional training without employment under the guidance of our mentors.

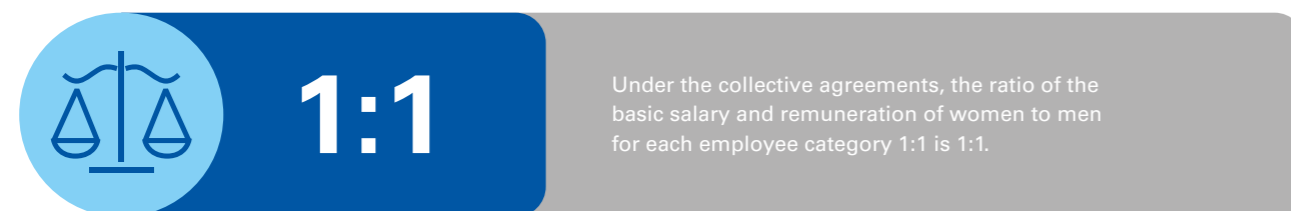
Our employees-mentors are licensed under the Regulation on the Procedures and Methods of Issuing Permits/Licenses for Carrying Out Practical Training and Apprenticeship (Official Gazette 37/15 from 1 April 2015), based on which they taught the basics of the following professions to apprentices: car mechanic, bodyworker, car painter, car electrician, locksmith, electro-mechanic, machinist, electronics mechanic and gas mechanic.

Gender equality (LA12, LA13)

The Group considers gender equality an essential part of its corporate culture. Still, there are traditionally more men than women working in some segments of the Group's operations, largely due to the nature of the services provided by the Group (road cleaning and maintenance, water supply and drainage, public city transport etc).

There were 23% women in the total number of employees in 2016 and 57% women in management positions in 2016.

The Group aims to further increase the share of women among employees and in management positions.



Non-discrimination (HR3)

Diversity and equal opportunities, gender equality, family and work balance, non-discriminatory environment, and career opportunities in the company are the bases for the creation of attractive jobs and optimal development opportunities.

There are 31 trade unions active in the Group. The representativeness of trade unions in collective bargaining is defined by the employer with an agreement signed in 2012. The Basic Collective Agreement is in force for the employees of the Company Zagreb Holding Ltd., which regulates in detail the rights and obligations of the employees, and collective agreements in affiliates.

Special attention is paid to protection and promotion of the rights of persons with disabilities. Low-floor vehicles were bought to adjust the public transport system to the needs of all user categories. Hundreds of the Group's employees with varying degrees of disability successfully participate in challenging and diverse tasks in all the Group's branches every day.

The Group abides by the regulations of the Labour Act defining the obligation of reporting about all issues of particular relevance for the economic and social position of the employees, the obligation of consultation prior to making decisions relevant for the position of the employees, and codecision with the workers' council and trade union commissioners. These regulations are incorporated into the Group's internal acts, thus developing a partnership with the trade unions and workers' councils organised and active in the Group.

The Ethics Committee received 21 complaints about irregularities in 2016, 36.36% less than in 2015. Out of 21 complaints, 9 were filed by the employees, 10 by citizens/users of our services, and 2 complaints were anonymous. No complaints about irregularities have been received from business partners.

Protection and promotion of the rights of persons with disabilities

- Low-floor vehicles in city public transport
- Employment and protection of rights of employees with varying degrees of disability
- Business partnership with the Institution for the Rehabilitation of Persons with Disability by Professional Rehabilitation and Employment (URIHO)

Anti-corruption policies and procedures (SO4)

The Group implements a policy of zero tolerance of corruptive conduct by working on strengthening its internal control systems, continually implementing the audit recommendations of the Internal Audit and Control Department, and implementing activities recommended by the State Audit Office in auditing the efficiency of the prevention and discovery of frauds.

The Group is under obligation to enforce the Act on the Internal Control System in the Public Sector, Act on Transparent Flows of Public Funds, and the Fiscal Responsibility Act. The President of the Management Board guarantees the efficiency of the internal control systems and ensures continual methodological risk management and elimination of internal weaknesses and irregularities with her Statement on Fiscal Responsibility.

Community care

The Zagreb Holding Group makes a significant contribution to the economic and infrastructural development of the local community in the City of Zagreb. The Group's business activities generate value for the society by creating jobs, paying salaries, taxes, and contributions, buying products and services from different suppliers, contributing to the state budget etc. The Group invests in infrastructural projects and numerous initiatives related to environmental protection in order to improve the quality of its services and thus generate new value for the society. (EC1)

The economic and social impact of the Zagreb Holding on the society is shown in the "Social Cash Flow", which shows the directly generated economic value - inputs (revenues), and the distributed economic values - output, i.e. the value distributed back to the stakeholders. The retained value is the difference between the directly generated and distributed value.

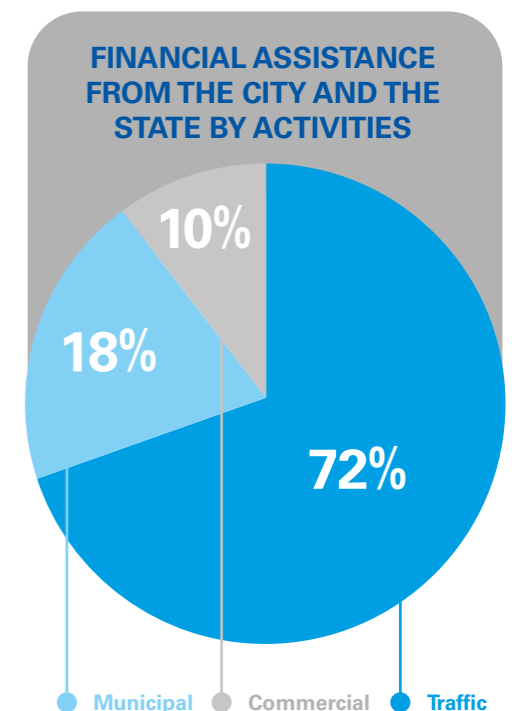
The Group has developed mechanisms to improve dialogue with its users and to improve its services. The Customer Centre, located at the address of the Directorate of the Company Zagreb Holding Ltd., has a special significance.

Financial assistance from the City of Zagreb and the state (EC4)

In 2016, the Zagreb Holding Group declared 830,545,080 HRK of revenues from state aids and supports received from its owner, the City of Zagreb, the state and others, and revenues from deferred recognition of assets financed by others, of which:

- 575,400,715 HRK for cost co-financing from the City of Zagreb (pertains mostly to ZET and the co-financing of transport costs)
- 21,795,669 for cost co-financing from the state and others
- 233,348,695 HRK for the acquisition of assets from the City of Zagreb and others

Since the Group's activities are of pivotal importance for the City of Zagreb, the quality of the products and services that the Group provides and its choice of technologies have a direct impact on the quality and standard of living of all of Zagreb's citizens. We therefore systematically strive to increase the standards of responsible social development, respect human rights with the Group, and expand the social dialogue, skill gaining, equal opportunities, forecasts and change management.



Supplier chain

The Zagreb Holding Group orders all goods/works/services publicly and carries out public procurement procedures in line with the Public Procurement Act. Croatian bidders deliver their bids in the public procurement procedures, even though some of the goods offered are of foreign origin. Most of the bidders and suppliers with whom we enter into agreements on the delivery of goods, performance of services, or execution of works are based in the City of Zagreb or in its immediate vicinity. A minor number of the suppliers come from outside of the Zagreb County.



Suppliers outside of Croatia (all of whom are based in the EU) accounted for less than 1% of the total agreements that the Zagreb Holding Group entered into and total goods that the Group ordered directly from the suppliers in 2016. Most of our suppliers are retailers, mediators, and wholesalers. A minor number are direct producers or licensees.

The estimated cash value of payments to suppliers for goods and services delivered to the Zagreb Holding Group is approximately HRK 2.2 billion.

Green public procurement guidelines

In 2016, the Management Board of the Company Zagreb Holding Ltd. adopted the Guidelines for Green Public Procurement in Zagreb Holding Ltd., which are taken into consideration when procuring products and services. Procurement of products with a smaller environmental footprint compared to other products and services of the same type is encouraged through the public procurement system.

Communication with the users

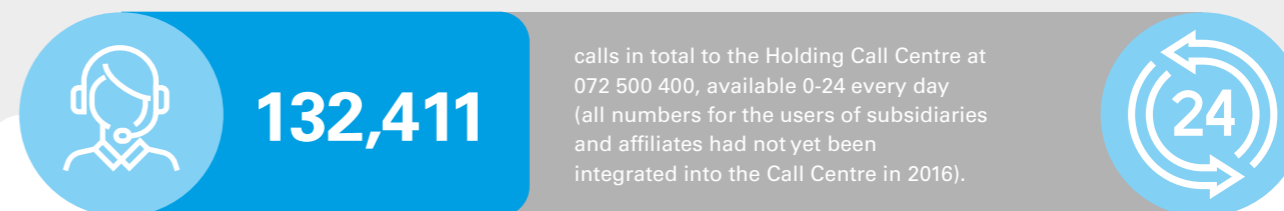
The Customer Centre, located at the address of the Directorate of the Company Zagreb Holding Ltd., has a special significance in ensuring direct communication with the users. The Centre offers all information about all of the Group's services to the users in one place, and also offers payment of municipal service bills free of transaction charges. There is also a dedicated complaints area, where customers can submit their objections or complaints against their bills or any of the services provided by the Group in written or in person.

The citizens and the users of the municipal services are offered the possibility of accessing and paying their bills online through three independent systems that are used for communication with the users, delivery of bills, and presentation of municipal service data, each in its respective domain. The systems are: the MOJ VIO solution, operated by the company Water Supply and Drainage Ltd., the MY BILL web and mobile app, operated by the company Zagreb City Gasworks-Supply Ltd., and the municipal service bill and one utility bill delivery system into the Personal User Mailbox of the e-Citizens central government portal and the mPretinac mobile app.

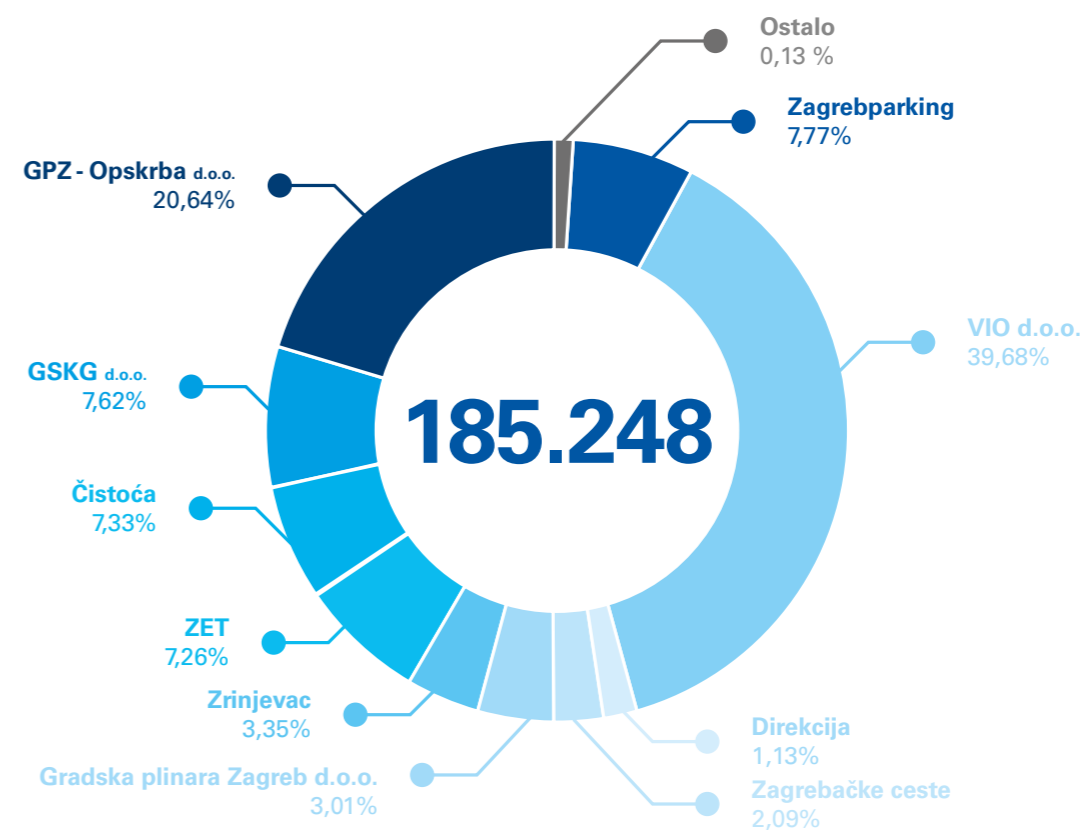
Na besplatnu web uslugu
MOJ RAČUN društva
Gradska plinara Zagreb-Opkrba d.o.o.
registrirano je vlasnika 51.306
računa za prirodni plin.



Number of calls to the Holding Call Centre by Group components



The number of customers' emails answered by the Zagreb Holding Group in 2016



Consumer Complaints Committee

The Group's customers are protected by committees operating in subsidiaries and affiliates as first-instance bodies, and the Consumer Complaints Committee operating at Group level as a second-instance body, and resolving the complaints of customers unsatisfied with the decisions of the first-instance bodies. By setting up this committee, the Group raised the bar in protecting the consumers from possible abuses. The impartiality of the Committee is ensured by appointing representatives of consumer protection associations into this body in addition to the employees of the Group's subsidiaries and affiliates. The Committee met 40 times in 2016 and considered 752 complaints, more than 50% of which were resolved in the complainant's favour.

An example of the first-instance body's work

Resolution of complaints in Zagreb City Gasworks-Supply Ltd.

Objections and complaints from natural gas buyers are received by the company Zagreb City Gasworks Supply Ltd. in written form through the fax service, e-mail, over the phone or in person at the Company's Customer Centre in Radnička cesta 1, at the Zagreb Holding's Customer Centre in Ulica grada Vukovara 41 and at Elektrometal Ltd- in Ulica Ferde Rusana in Bjelovar. 235,094 complaints were received and processed in 2016, of which:

- 107,722 customers at windows,
- 59,637 "third instalments" issued (payment of gas bills according to actual consumption),
- 40,399 gas bills corrected,
- 11,975 customer changes,
- 6,748 invoices corrected and entered,
- 6,633 written replies to gas customers,
- 3,802 requests for debt repayment in instalments and
- 1,185 advance payment instalments corrected.

The Group's Consumer Complaints Committee received 20 complaints from gas customers unsatisfied with the decisions of the first-instance body in the company, all of which were turned down, i.e. the Committee confirmed

Some of the Group's components surveyed the satisfaction of their customers in the reporting period. An example is the analysis of the satisfaction of the users of the Group's services and the other interested parties that the Subsidiary City Waste Disposal monitors systematically and in an organised way by:

- Analysing emails,
- Analysing the survey on the Subsidiary's website,
- Analysing mentions of the Subsidiary in the media,
- Analysing the activities of the Zagreb Holding Call Centre for the Subsidiary.

The average number of complaints received by mail, email, phone and other channels per 1000 customers was 200 in 2015, and 134 in 2016. A comparison of 2015 and 2016 shows an increase in the number of emails in 2016 in the following processes: removal of municipal waste by 224% (from 1,070 in 2015 to 3,474 in 2016), primary recycling by 159% (from 1,161 in 2015 to 3,016 in 2016), bulky waste removal by 81% (from 555 in 2015 to 1,009 in 2016), and cleaning and washing by 24% (from 381 in 2015 to 473 in 2016). A decrease in the number of emails occurred in the following segments: collection of payments for services by 26% (from 5,542 in 2015 to 4,091 in 2016) and communication by 9% (from 234 in 2015 to 211 in 2016).

The analysis of emails leads to the conclusion that the Subsidiary City Waste Disposal needs to continue paying special attention to the questions and complaints made by its customers. It is important to consider their suggestions as quickly as possible, investigate their complaints, eliminate possible omissions and solve problems. The speed of answering the questions is a very important psychological factor, often the decisive factor, for building the positive image of City Waste Disposal.

Sponsorships and donations

In line with its long-standing corporate social responsibility practices, the Group strives to be a reliable partner to the community it operates in, and work systematically on recognising the specific needs of the society and supporting good humanitarian, cultural, educational, healthcare, scientific and sports projects through its sponsorship and donation programme. All approved sponsorships and donations are published on the Group's website, which contributes to transparency and positively affects the trust of our customers.



3,251,304 HRK

spent by the Group on gifts, donations and sponsorships in 2016

The Zagreb Holding supports a number of projects of public interest through sponsorships and donations in its corporate social responsibility policy. As a socially sensitive employer, the Group also cares for its employees suffering from severe medical conditions and for the families of its deceased employees through donations and solidarity supports. The principles, the criteria and the procedure of awarding sponsorships and donations are defined by The Zagreb Holding's Regulations on Sponsorships and Donations and the Agreement on the Rights of the Croatian Veterans from the Homeland War- Employees of the Zagreb Holding Ltd., Its Companies and Its Institution. Solidarity supports paid to the employees and their family members are regulated by the Basic Collective Agreement.

Voluntary blood donation and humanitarian campaigns

The Group implemented several humanitarian campaigns in cooperation with the Zagreb City Chapter of the Red Cross in 2016. The Zagreb City Chapter of the Red Cross and the Croatian Institute for Transfusion Medicine Petrova 3 organised the traditional voluntary blood donation at the Zagreb Holding. A total of 11 voluntary blood donation campaigns were organised in 2016 in the Subsidiaries City Waste Disposal and ZET and in the Companies Zagreb City Gasworks and Zagreb City Gasworks - Supply.

Approximately 1,240 employees participated in these campaigns, donating more than 550 litres of blood. ZET had approximately 150 donors per campaign and 4 campaigns in course of the year, City Waste Disposal had 100 donors per campaign and 4 campaigns, and the Gasworks had 60 donors per campaign and 3 campaigns. Many Zagreb Holding employees make voluntary blood donations in campaigns organised by the Zagreb City Chapter of the Red Cross in city districts and local committees, and in the Institute for Transfusion Medicine.

The Subsidiary ZET has an Association of ZET's Voluntary Blood Donors, which, in addition to organising blood donation campaigns, also organises excursions for its members as a sign of gratitude for their humaneness and preparedness to help those in need. Members of the Association are not only ZET employees, but also pensioners, former employees of the Subsidiary.

Awards are presented to donors who have made a certain number of donations every year on National Blood Donor Day. 20 Zagreb Holding employees were presented with these awards in 2016: eight were presented with awards for 50 blood donations, seven with awards for 75 donations, four with awards for 100 donations, and one for the award for 125 blood donations.

We organised two humanitarian campaigns in cooperation with the Zagreb City Chapter of the Red Cross in 2016, in which Zagreb Holding employees raised more than HRK 6,000 and collected almost two tonnes of food and more than 1,000 cosmetic products for the Zagreb Food Bank.



The Zagreb Holding supports civil society organisations, among other ways, by lending its resources to goals of public interests. We primarily support the activities of UNICEF Croatia as a project partner, mailing UNICEF flyers calling for donations to UNICEF's programmes together with our utility bills. During our five years of cooperation, UNICEF raised 740,000 HRK in citizen donations in this way, 370,000 HRK of which was raised in 2016 alone.

Membership of the Group's components in associations and strategic partnerships (G4-16)

Membership in associations	Croatian Standards Institute	Croatian professional chambers	Croatian Chamber of Chartered Geodetic Engineers	Croatian Chamber of Architects	Croatian Society for Quality	Association of Bus Terminals and Road Transport with the Croatian Chamber of Economy
	Association of Building Managers	Croatian Chamber of Forestry and Wood Processing Engineers	Croatian Water & Wastewater Association	Croatian Markets Association	Association of Significant Cemeteries of Europe (ASCE)	
	Croatian Parking Association	The Association of Municipal Management with the Croatian Chamber of Economy	Croatian Employers' Association	Croatian Metrology Society	Croatian Gas Association	
Position in management body	Members and one position of the chairman of the standardisation committee (Technical Committee for Cableways, Funicular Railways and Ski Lifts)					
Participation in projects or committees	The ASCE holds annual meetings and workshops in different destinations, and the manager of the Subsidiary is a member of the Council of the Association of Municipal Management with the Croatian Chamber of Economy.					

Externally developed economic, environmental and social charters, principles, or other initiatives to which the Group subscribes or which it endorses (G4-15)

The Zagreb Holding is under obligation to enforce the regulations from a number of laws and bylaws, the most important of which are:

1. Environmental Protection Act (Official Gazette 80/13, 153/13, 78/15),
2. Air Protection Act (Official Gazette 130/11, 47/14),
3. Water Act (Official Gazette 153/09, 63/11, 130/11, 56/13, 14/14),
4. Noise Protection Act (Official Gazette 30/09, 55/13, 153/15, 41/16),
5. Sustainable Waste Management Act (Official Gazette 94/13),
6. Fire Protection Act (Official Gazette 92/10),
7. Physical Planning and Building Act (Official Gazette 76/07, 38/09, 55/11, 90/11, 50/12, 55/12, 80/13, 78/15),
8. Act on Archive Material and Archives (Official Gazette 105/97, 64/00, 65/09, 125/11),
9. Occupational Health and Safety Act (Official Gazette 71/14, 118/14, 154/14),
10. Labour Act (Official Gazette 93/14),
11. Non-ionizing Radiation Protection Act (Official Gazette 91/10),
12. Building Act (Official Gazette 153/2013, 20/17),
13. Public Procurement Act (Official Gazette 120/16).

The legal regulations are the basic and the lowest standard that the Group members fulfil in performing their activities. In line with its strategic focus on sustainable and socially responsible business, following legal requirements is the minimal criterion in the Group's operations. A number of international standards that the Group members have voluntarily introduced into their operations are a step further from the legally proscribed minimum: ISO 9001, ISO 14001, ISO 50001, OHSAS 18001, ISO 22000/HACCP and ISO 27001.

In the segment of protecting workers' rights, the collective agreements for the employees of the Zagreb Holding also guarantee rights above the legally proscribed minimums.

The Group voluntarily abides by the National Green Public Procurement Action Plan 2015-2017 With a View on 2020.

Group members participate in almost all activities in the city related to prevention in environmental protection. The Subsidiary ZET has actively participated in the following projects: the production of the City of Zagreb Noise Map, the Air Quality Improvement Action Plan for the City of Zagreb, the Air Quality Protection and Improvement Programme in the City of Zagreb, and other city projects.

The Subsidiary ZET also designed and implemented its own Environmental Management System project. After efficiency testing, the System was implemented in ten Subsidiaries of the Company and companies owned by the City of Zagreb by virtue of decision of the Management Board of the Company.

Awards and recognitions

- Alternative Fuels Ambassador 2016 - ZET

44 honorary titles and diplomas were presented at the Alternative Fuels Day and the 14th LPG Summit of the Adriatic-Ionian Euroregion at the Alternative Fuels 2016 International Forum and Media Festival to physical and legal persons who have earned the title of Alternative Fuel Ambassador with their activity in this area.

One of the honorary titles, the excellence label Alternative Fuel Ambassador 2016, was presented to the City of Zagreb and the Subsidiary ZET.

- AA Certificate 2016 - Zagreb City Pharmacy

The Credit Rating Excellence Certificate is one of the most important European standards defining business quality, and an internationally recognised economic quality and excellence label in the business world.

- The first certified safe cargo vehicle parking - Zagreb Freight Station

The Subsidiary Zagreb Freight Station was the first in Croatia to certify its truck and cargo vehicles parking in accordance with the EU safe and secure parking standard, receiving three "padlocks" for safety and four stars for service. The Jankomir Outdoor Parking is certified according to the high ESPORG EU criteria (European Secure Parking Organisation), based on the EU LABEL project. The certificate presentation ceremony was held on 5 October 2016 in Brussels at the Conference on Safe and Connected Truck Parking Areas in Europe.



**EUROPEAN SECURE
PARKING ORGANISATION**



SECURITY  **SERVICE** 



We care about the environment

We are witnessing major meteorological changes, increasingly heavy precipitation, flooding, and increasingly frequent dry spells. Croatia and Zagreb have been impacted by global warming too. To stop further warming and minimise negative impact of climate change, we must reduce greenhouse gas emissions into the atmosphere as much as possible. This can be accomplished primarily by reducing primary energy consumption, increasing energy efficiency, and replacing fossil fuels with renewable energy sources.

Guided by the idea of sustainability, the Zagreb Holding Group has been focused on environmental targets in this segment for many years. In 2016, the Company Zagreb Holding decided to take the next step and produce the non-financial report to better define corporate responsibility strategies, including the environment. The Company strives to contribute to environmental protection through its everyday activity and the services it provides to the citizens of the City of Zagreb in line with the principles of sustainable development.

In accordance with its corporate guidelines and abidance by the legal regulations in environmental protection, the Zagreb Holding strives to contribute to increased energy efficiency, reduction of carbon dioxide emissions, fuel consumption optimization, and continual advancement of its services and the quality of life in the social community it is operating in through its activities.

Environmental protection is one of the segments of our operations in which we invest considerable efforts and funds. Among other reasons, we do so because our choice of technologies strongly impacts the quality of the environment, primarily air quality, and our impact on the quality of the environment is evident relatively quickly due to the scope of the services we provide. Our approach and the measures we implement differ depending on the business segment. In services of public interest, the strategies and measures are closely tied to the strategy of development of the City of Zagreb, which is primarily focused on applying the principle of sustainable development and investing in improving the quality of services and environmental protection.

The Zagreb Holding Group continually participates in the implementation and design of environmental protection projects.

To ensure the implementation of the latest sustainability principles in environmental protection, the Zagreb Holding Green Office has been systematically organising educational workshops for the employees since 2011. The Office works to raise awareness and knowledge about energy efficiency among Zagreb Holding employees and save energy.



We applied the Bin2Grid project directly to the European Commission as a part of the Horizon 2020 programme. The project addresses the possibilities of separate collection of food waste for the purpose of biomethane production and its use as a fuel in the local filling station network.

The objective of the project is to investigate and identify the main obstacles standing in the way of such procurement through specific practical examples, and propose tools and models to implement innovation and green public procurement in the waste management sector based on the Europa 2020 strategy and the Directives of the European Parliament.

In addition to these two ongoing projects in environmental protection, we applied for EU funding with two more projects in 2016, REEF2W and SIM4Urban.

REEF2W (Increased Renewable Energy and Energy Efficiency by Integrating, Combining and Empowering Urban Wastewater and Organic Waste Management Systems) applied within the Interreg Central Europe II programme. It aims to increase the use of renewable energy sources and improve energy efficiency through the implementation of an efficient system for the management of different types of organic waste.

SIM4Urban



SIM4Urban (Sustainable and Integrated Management of utility infrastructure for functional urban areas) applied within the Interreg Central Europe II programme. It aims to establish a service infrastructural network interoperable in planning, installation, documentation and operation, which should minimize the negative impact on the environment and influence the consumption by end consumers through the prices of energy resources.

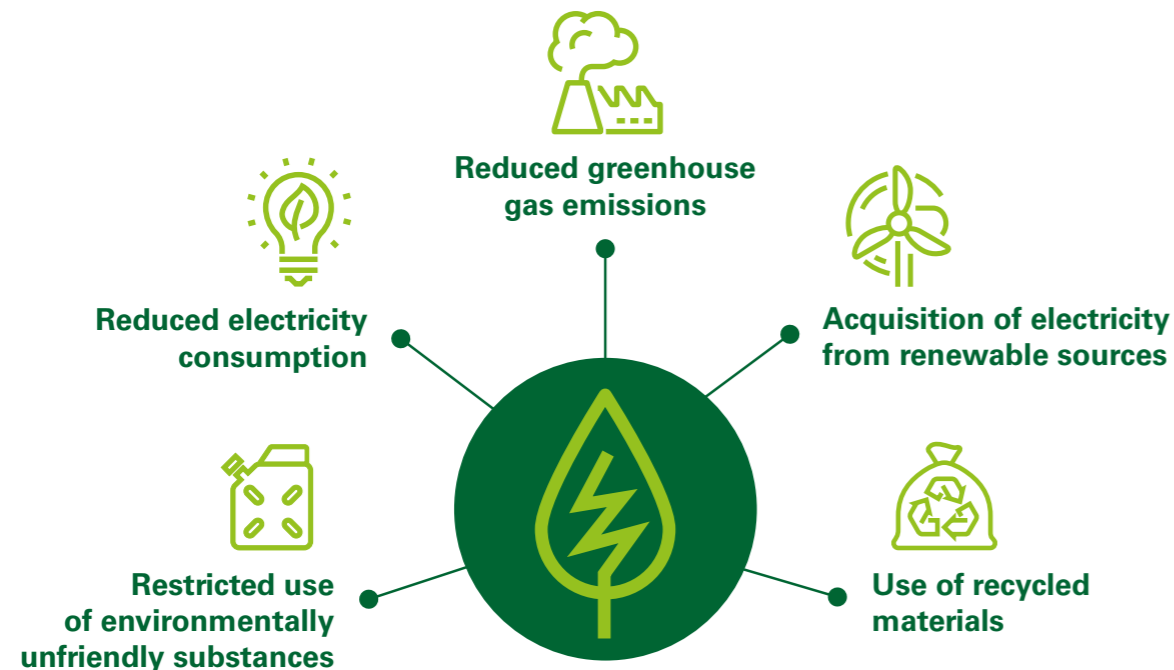
In 2016, the company continued to implement the results and the experiences gained in the Civitas Elan and Clean Fleets projects by using environmentally friendly fuels in accordance with the principles of sustainable development: biodiesel in the Subsidiary City Waste Disposal, and natural gas in the Subsidiary ZET. This is in line with the Clean Vehicles Directive.

The project plans the construction of a biogas plant that would use the collected biowaste for combined production of heat and electricity, pumping of biomethane into the grid, and use of biomethane in the City's vehicles.



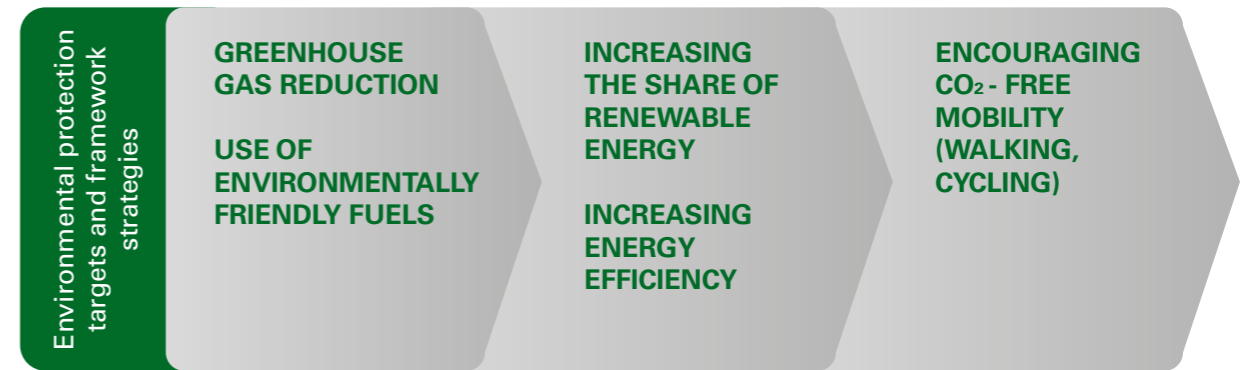
Keeping abreast of the environmental and social responsibility standards, the Company Zagreb Holding Ltd. follows the National Green Public Procurement Action Plan 2015-2017 With a View on 2020. Based on this Plan, the Management Board of the Company adopted the Guidelines for the Implementation of Green Public Procurement in the Zagreb Holding in 2016, which are taken into consideration in the procurement of products and services.

Green public procurement is characterised by:



Procurement of products with a lesser environmental footprint compared to other products and services of the same type is encouraged through the public procurement system in this way. The green public procurement concept is based on the establishment of clear, tested, justified and ambitious environmental standards for products and services, based on their total lifetime. The so-called standards that are introduced apply to several priority groups: printing and copying paper, motor vehicles, electricity, cleaning services, telecommunication services, and office and IT equipment. Such procurement is characterized by reduced greenhouse gas emissions, use of recycled materials, reduced electricity consumption, procurement of electrical energy from renewable sources, and restricted use of environmentally unfriendly substances.

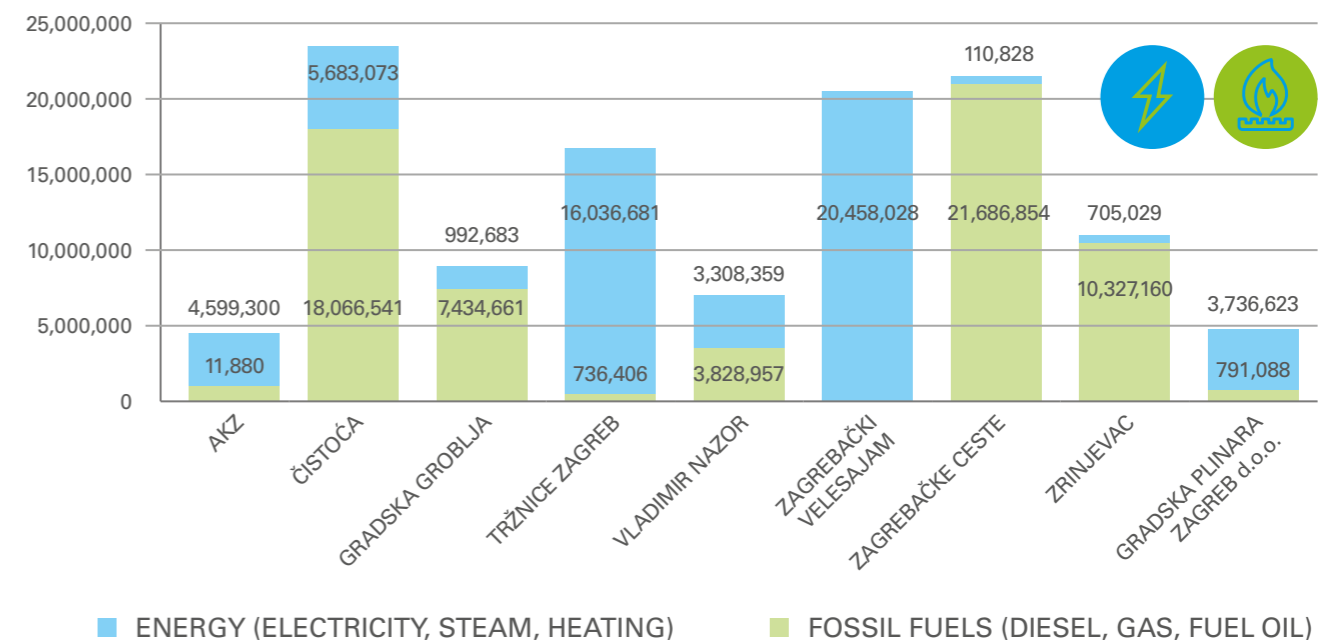
Environmental protection targets and framework strategies



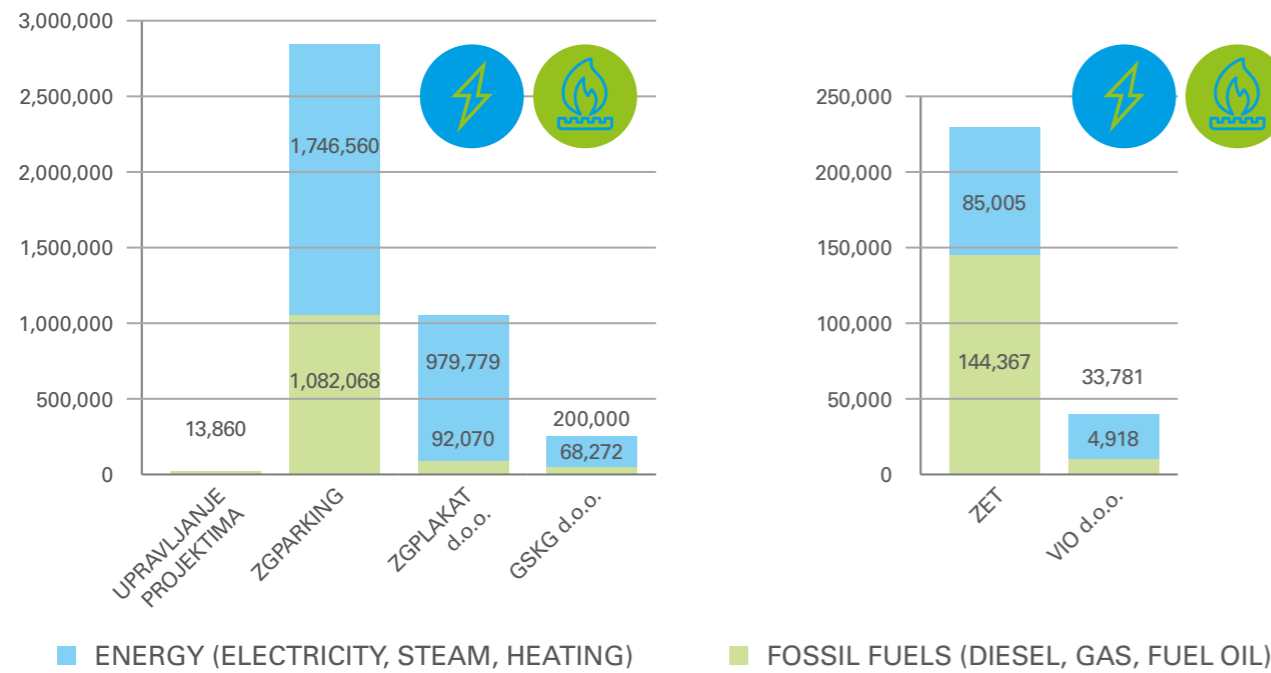
Energy (EN 3, EN 6)

The primary energy consumption of the Zagreb Holding rests mainly on fossil fuels. Fossil fuels account for 63% of total energy consumption. This consumption for the most part pertains to the transport systems of the subsidiaries ZET, City Waste Disposal, Zagreb Roads and Zrinjevac. The analysis of the total consumption of fuels from non-renewable sources comprises the values of the following subsidiaries and companies: Zagreb Bus Terminal, City Waste Disposal, Zagreb Digital City, City Cemeteries, Zagreb Freight Station, Project Management, Zagreb Markets, Vladimir Nazor, Zagreb Fair, Zagreb Roads, Zagrebparking, ZET, ZGOS, Zrinjevac, Zagreb City Gasworks Ltd., Zagreb plakat Ltd., City Housing and Municipal Services Company Ltd. and Water Supply and Drainage Ltd.

Energy consumption (kWh)



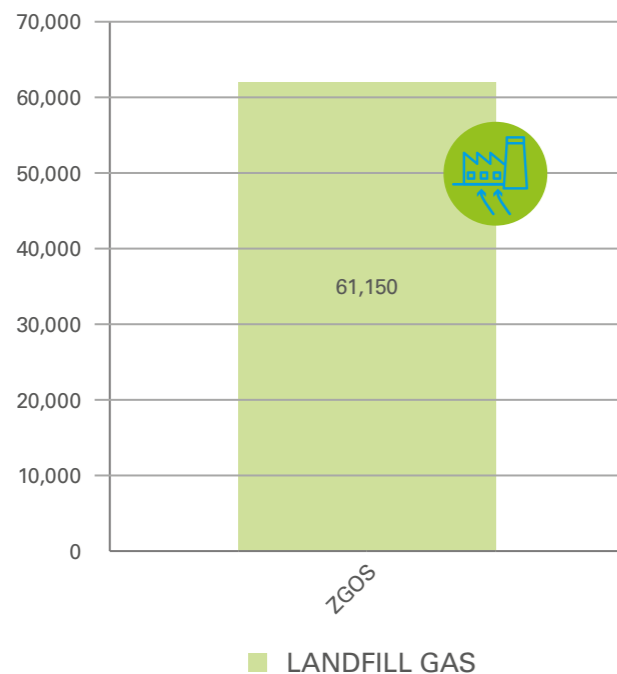
Energy consumption (kWh) Energy consumption (MWh)



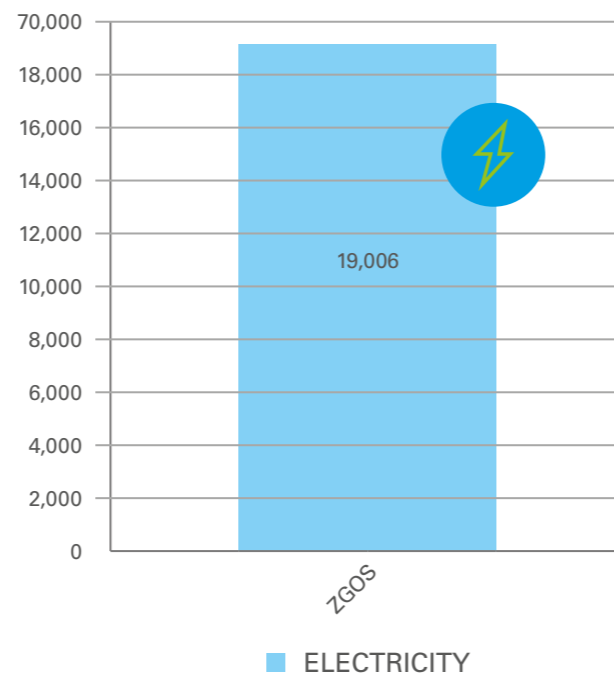
In addition to energy consumption, the subsidiary ZGOS uses landfill gas as a renewable energy source for the production of electricity. The Subsidiary ZGOS generates electricity under the licence issued by the Croatian Energy Regulatory Agency, and the generated electricity is marketed in accordance with the Agreement on the Purchase of Electricity from a Plant Using a Renewable Energy Source signed with HEP Ltd.

Until the end of 2016, the Small Thermal Power Plant mTEO plant had been the only facility in Croatia generating electricity from landfill gas. A total of **19,006,584 kWh** of electricity was produced from landfill gas in 2016, enough to cover the average annual electricity consumption of around 6,000 households.

Renewable energy consumption (MWh)



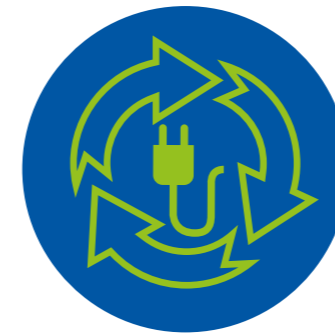
Renewable energy production (MWh)



As of recently, the Subsidiary conducts monitoring of air quality, meteorological parameters at the closest national network station, measurement of the composition of landfill gas, measurement of emissions from immobile sources, measurement of the quality of leachate, ground and surface waters, monitoring of the operation of the intervention pumping system, monitoring of bird numbers at the landfill, and measurement of the noise level at the landfill.

The Group's component, **Zagreb City Gasworks Ltd.**, is the distribution system operator responsible for the energy activity of gas distribution and the distribution system. As the distribution system operator, Zagreb City Gasworks Ltd. is responsible for the management, maintenance and development of a safe, reliable and efficient gas supply and distribution system. In 2016, as a part of its implementation of the Quality, Environmental Protection and Energy Policy, the Company implemented measures for the advancement of the integrated quality management and environmental protection system in line with ISO 9001 (certified for the first time in May 2005) and ISO 14001 (certified for the first time in December 2014), along with activities for the introduction of an energy management system under ISO 50001 (certified in November 2016).

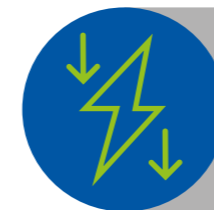
Even though 2016 was taken as the basis year in the collection and analysis of future data and energy savings reporting, based on data from the previous period, initiatives and sustainable management, we may conclude that energy savings were accomplished in 2016 as well.



We adapted our transport operations to actual needs and demand, reducing the number of departures on some routes based on passenger counting and on vehicle load factors. On some routes, we increased the number of departures, which helped us save fuel and electricity and reduce vehicle maintenance costs and overtime. Our trams travelled a total of **13,279,232 km** on 15 daytime and 4 night-time routes. The number of kilometres was down 2% compared to 2015, which cut the cost of electricity expended on powering trams by 36,151,901 HRK or by 1.3% compared to 2015.



The Company Zagreb City Gasworks Ltd. saved **113,360 kWh** of electricity and heating/cooling energy. The analysis encompasses Zagreb Roads as well.



- 913,643 kWh

We also started the investment in environmentally friendly and energy efficient lighting in public garages, which will eventually reduce the cost of electricity in public garages by 40%. Free electrical vehicle charging stations were introduced in the public garages in 2016. To cut electricity costs, the Company Zagrebplakat Ltd. started the project Energy Efficiency- LEDification of Advertising Boards, whose long-term objective is to contribute to the reduction of electricity consumption.

Waters and wastewaters (EN 8, EN 10, EN 22)

In the environmental aspect of our operations, we pay special attention to drinking water supply and drainage, services of vital interest for the City of Zagreb, which we provide through our Company Water Supply and Drainage Ltd.

Water is of vital importance for every living being, and its availability is a fundamental right. One of our priority activities therefore consists in securing the availability of sufficient amounts of drinking water for the needs of the current and future generations.

At this moment, almost all citizens of our City are connected to the city water supply system. Only 0.74% or 5,830 of our fellow citizens are still waiting for water supply system connections to be built in their district or street. 4.95% or 39,100 are still waiting for connections to the sewerage system.

Our water supply system spans 3,123 km and has 97,037 registered connections, and our sewerage system spans 2,097 km and has 71,936 connections. The quality of the water supply and drainage system was improved in 2016 by building 9 km of water pipelines of different profiles and 19 km of sewers. In order to reduce water losses in the system and protect the environment, we repaired 1,808 m² of pipelines and 1.899 m² of sewers and sewerage facilities. Basic capacity expansion resulted in 769 new water supply and 516 new sewerage connections.



Zagreb gets its drinking water from 8 waterwells with a total of around 30 wells, the most important among which are Mala Mlaka, Petruševac, Sašnak, Strmec and Zaprude. The primary target is to provide a continuous healthy water supply and adequate precipitation and wastewater drainage to all consumers in the City of Zagreb and parts of the Zagreb County.

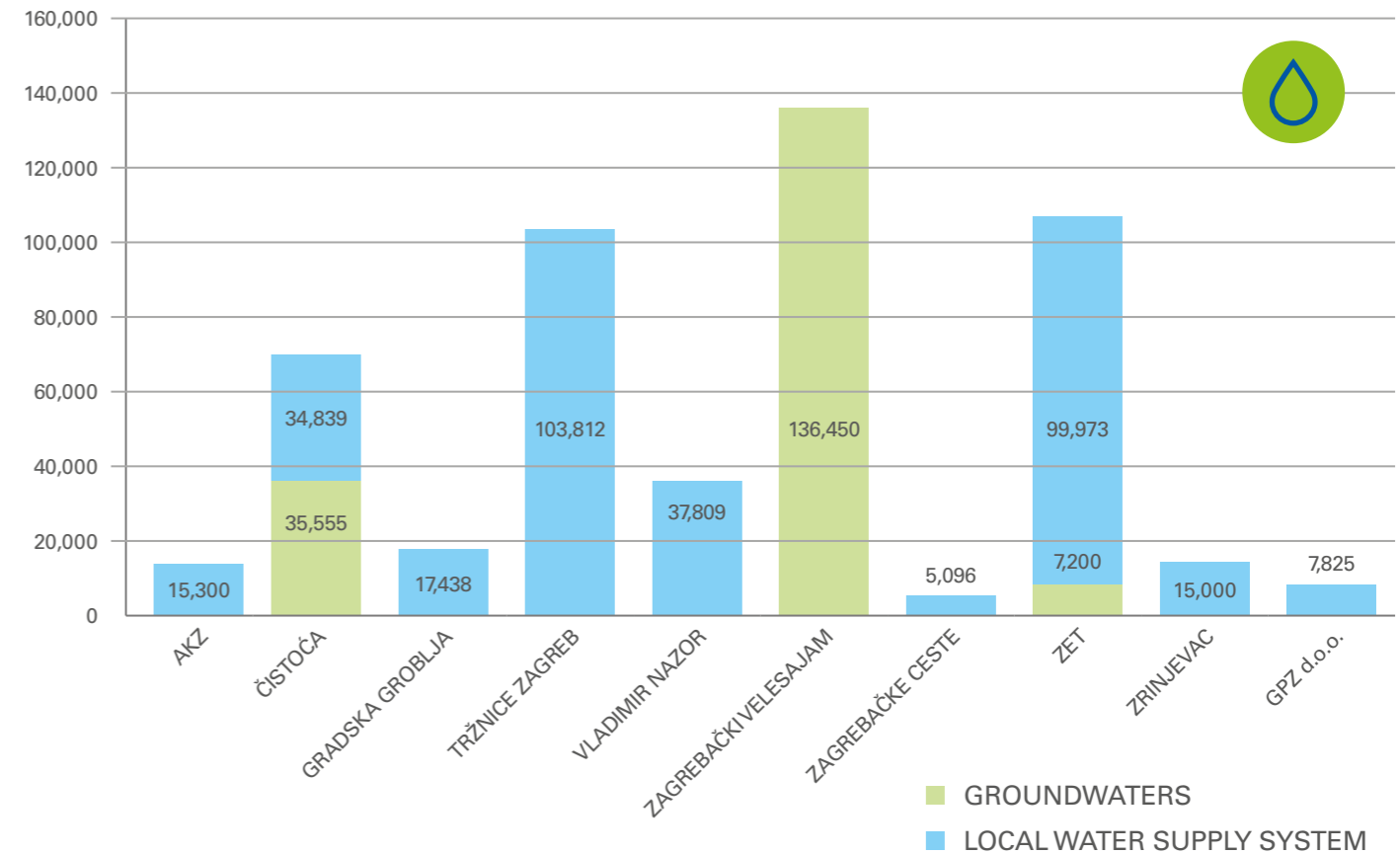


With this target in mind, we continually monitor water quality at the waterwells, water supply facilities and catchment areas. The dynamic of water quality control ranges from daily to monthly, depending on the sampling site. We tested a total of 9,068 water samples in 2016 (the water quality level trend, declared in non-compliant samples, was only 0.08%, compared to 5-6% at national level).

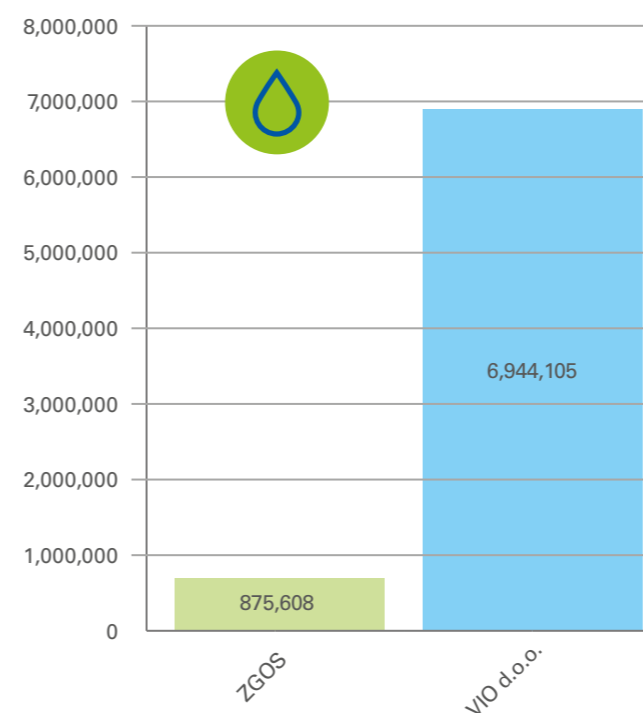
In addition to regular quality control, the Company Water Supply and Drainage applies ISO 9001 and ISO 22000/HACCP quality management system standards in its operations, and performs regular external supervisory audits and internal audits (a total of 38 in 2016) for these standards.

Below is an overview of water withdrawal by source and by subsidiary/company.

Water withdrawal (m³)



Water withdrawal (m³)



The Subsidiary ZGOS has substantial groundwater withdrawal. However, this is due to the Intervention Pumping System, which was built to establish full control of the pollution that occurred in the past in the Jakuševac Landfill area. This was accomplished by building a hydraulic barrier with four wells, which have installed pumps with the capacity of 100 l/s and can accept all groundwaters streaming below the Jakuševac Landfill, which prevents the contaminated groundwaters from going downstream from the Landfill. The modernisation of the system through the acquisition of a new pump for the system and putting in operation the existing pump with frequency conversion capacity is in progress.

In 2016, the Subsidiary ZGOS started the implementation of the "cover-up" project. The project consists of setting up membranes (artificial materials) in the north and south slopes to prevent odours from spreading. A membrane was set up at the north slope in course of the year, and preparations were started to set up another membrane at the south slope to reduce the negative impact of the landfill on air quality in its vicinity. In addition to odour prevention, this measure will also reduce the amount of dirt used for extended cover-up, and will consequently reduce extended cover-up costs. We also expect it to result in the reduction of the amount of leachate, because the amount of precipitation waters entering the landfill body will be reduced.

We also regularly monitor the quality of the groundwaters and surface waters. The HRN ISO 5667-11:2011 standard is applied to the groundwater sampling procedure. On the whole, in recent years we have had a downward trend in the measured levels of pollutants in the groundwater and in the number of exceeded parameters. The analysis of groundwater quality data by the Faculty of Geotechnical Engineering of the University of Zagreb since 2002 showed that the negative environmental impact of the Prudinec/Jakuševac Landfill has declined considerably after remediation. The remediation has been a substantial breakthrough in groundwater protection in Zagreb and its surroundings.

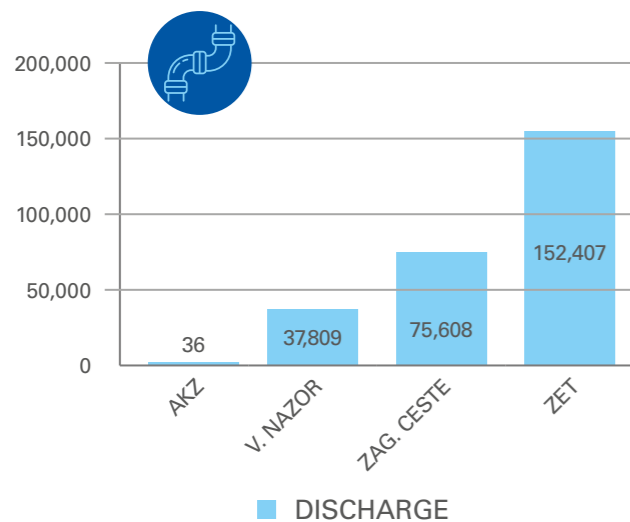
The Subsidiary ZGOS measures the condition of the surface waters (waters in the river Sava) at one point located upstream and one point located downstream from the leachate outlets into the river every three months. Test results have shown that water quality in the river Sava is the same upstream and downstream from the landfill, which means that the landfill does not impact the quality of water in the river Sava.



Service wastewaters from applied technological processes undergo a pre-treatment process before they are discharged into the public drainage system.

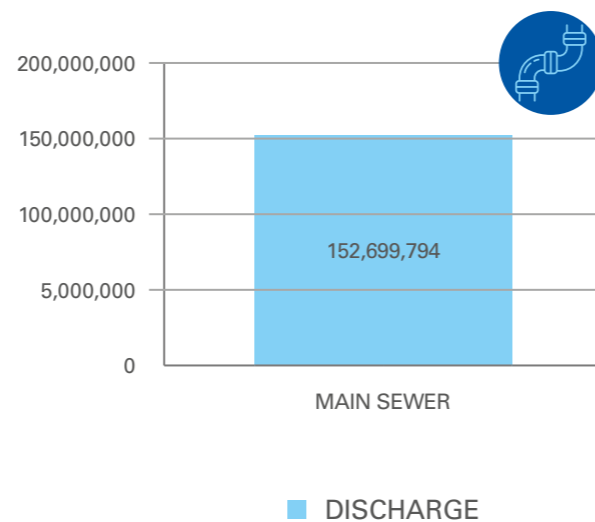
Below is an overview of the amount of wastewaters discharged into the public drainage system (service + sanitary + precipitation) by Subsidiary and by Company.

Water discharge (m³)



Total water discharge (m³)

According to the records of VIO



37,655 m³

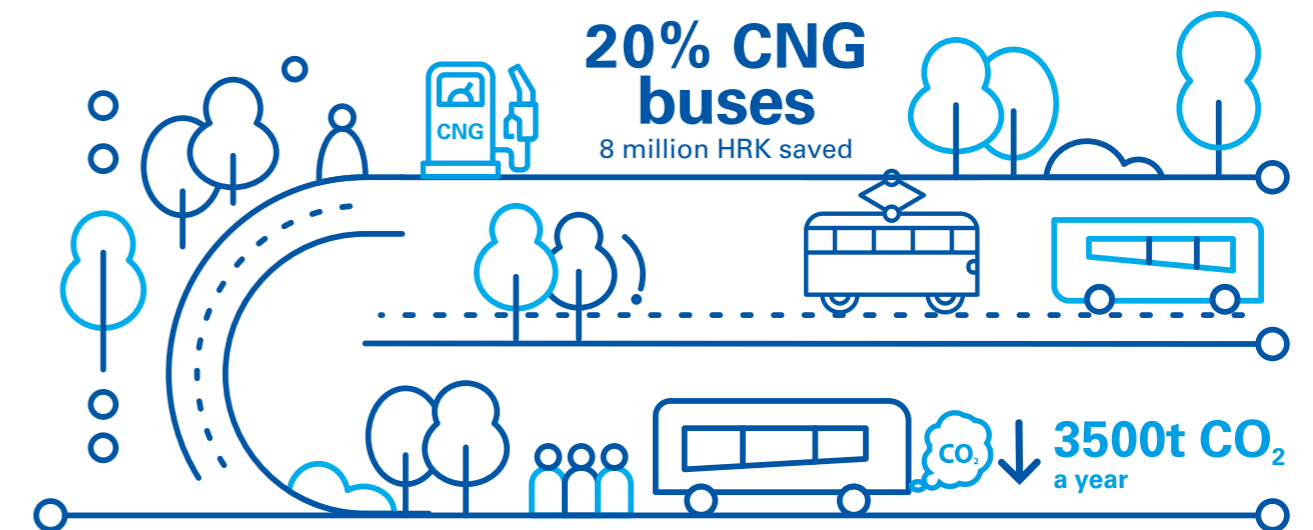
In addition to discharging water, the Subsidiaries City Waste Disposal and ZET recover and pre-treat water, and use this service water to wash public areas and vehicles. The total amount of water used in this way is 37,655 m³.

Greenhouse gas emissions (EN 15, EN 16, EN 19)

The Zagreb Holding Group has made environmental protection one of the most important aspects of our operations. Considerable funds and efforts are invested in this aspect. We are aware that our choice of technologies and processes has a strong impact on the environment, especially on air quality. With continual development and advancement in mind, we implemented processes that include the minimization of our negative impact with respect to greenhouse gases into our business and management strategies. Public city transport has the strongest impact in the group.

Our strategic focus in choosing the technological solutions to use in city and suburban public transport is on the use of environmentally friendly fuels, such as the use of compressed natural gas (CNG) in bus transport and the acquisition of vehicles meeting the EURO 6 standard, as well as further expansion of the tram network in order to reduce emissions, improve the condition of the environment, and increase the quality of our transport service.

Our buses travelled a total of 27,165,564 km in 2016 on 138 daytime and 4 night-time scheduled routes, 3 special routes, and services for special transport of persons with disability and school children. Out of the total number of our public city transport buses, 327 run on diesel, and 76 on gas.



Annual CO₂ emissions were cut by approximately 3,500 tonnes through the use of compressed natural gas, which is an impressive figure considering the distance travelled by our vehicles.

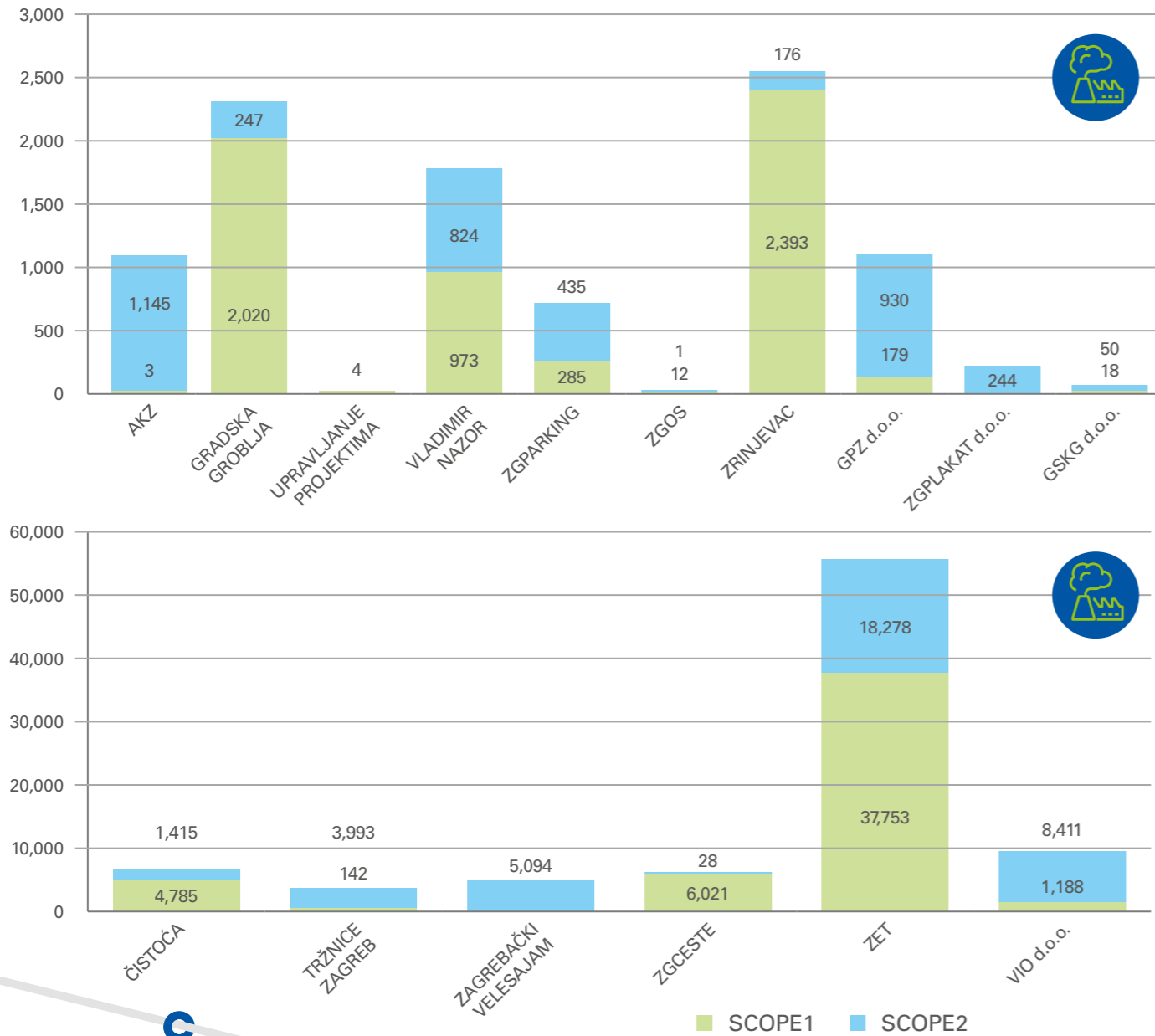
Having analysed the activities and projects realised so far in the segment of alternative fuels under Directive 94/14 EU, the Council of the Alternative Fuels Coordination of the Adriatic-Ionian Region presented the City of Zagreb and the Zagreb Holding, Subsidiary ZET, with the honorary title- excellence label Alternative Fuel Ambassador 2016 as the promoters of values resulting from real, living application of the guidelines of the European Union, decarbonisation of the transport system through the implementation of environmentally friendly fuels, increase in environmental and energy efficiency, and reduction in greenhouse gas emissions.

Use of trams in public city transport plays an important role in air quality, especially in downtown Zagreb. Thanks to this tradition, dating back to 1891, the city centre is not polluted by exhaust fumes from the city public transport system.

In addition, energy was saved in 2016. As we mentioned before, we adapted our transport operations to actual needs and demand, reducing the number of departures on some routes based on passenger counting and on vehicle load factors. On some routes, we increased the number of departures, which helped us save on fuel and electricity, and reduce vehicle maintenance costs and overtime. In addition to already mentioned savings in tram transport, we cut the number of kilometres travelled by our buses by 3.15% compared to 2016, to 864,195.

The following greenhouse gas values were obtained based on the analysis of the 2016 data according to energy and fuel consumption using the GHG calculator:

Greenhouse gas emissions (tCO₂e)



We completed the preparations for the construction of the new cableway to Mt. Sijeme in 2016, and based on these preparations, we started the reconstruction of the tram line Mihaljevac-Dolje and the demolition of the old cableway in early 2017. We plan to invite tenders for a new cableway in 2017. We would like to point out that the cableway will directly link the urban area of the city with the Medvednica Nature Park, which is located in immediate vicinity of Zagreb, an asset that few European capitals have. When the cableway is completed in 2018, as we plan, the personal vehicle traffic on Medvednica will be considerably reduced, which will go a long way toward protecting the nature and the environment there.

We also plan to expand the tram network to Velika Gorica to link the City of Zagreb with the Airport.

We must also consider that ZGOS produced electricity from landfill gas, indirectly reducing greenhouse gas emissions (CO₂e) by 4728.84 t.

The year 2016 will be taken as the base year against which we will be able to report reductions by subsidiary and by company more clearly in the upcoming reports. We may conclude from existing data and analyses that the Zagreb Holding Group reduced greenhouse gas emissions by 9,645 tCO₂e thanks to its initiatives.

+1,755
SEEDLINGS

-9,645
tCO₂e

We help the City of Zagreb "breathe fully" by restoring destroyed green spaces and planting new seedlings. In 2016, we restored a total of 112,165 m² damaged lawns, planted 5,192 new shrubbery seedlings, repopulated 1,076 m of damaged hedges with new seedlings, planted 23,549 m² of flower gardens, planted 1,961 roses and hydrangeas, and planted 1,755 young tree seedlings. Having in mind that trees absorb excess carbon dioxide (CO₂) from the atmosphere, along with odours and harmful gases, and filter air particles by absorbing them in their leaves and their bark, thus purifying the air that we breathe, the planting of new seedlings was a considerable contribution to a healthier and more sustainable environment. Also, having in mind that every tree absorbs almost 22 kg of CO₂ a year, we can conclude that the new seedlings alone absorb almost 38,614 kg of CO₂ a year.



Waste and waste management (EN 23, EN 31)

The Group maintains cleanliness and manages waste in the City of Zagreb through its Subsidiary City Waste Disposal.

Considering the objectives of the waste management policy in the City of Zagreb, the impact of the Zagreb Holding is even more important, because the realisation of the objectives largely depends on the citizens of Zagreb, in whom we strive to foster a responsible relationship toward the environment with a variety of measures. These measures are implemented in line with the Decision on the Public Services of Collection of Mixed Municipal Waste, Biodegradable Municipal Waste, Separate Collection of Waste Paper, Metal, Glass, Plastic, and Textile, and Bulky Municipal Waste in the City of Zagreb (Official Gazette of the City of Zagreb 23/2016), which the Assembly of the City of Zagreb adopted in line with the regulations of the Sustainable Waste Management Act (Official Gazette 94/13), defining the criteria and the manner of providing the public service, as well as the method of cost calculation.

The objectives of the Decision are to increase the rate of recycling/reuse of municipal waste, to increase the rate of separation of certain types of municipal waste, with the ultimate objective of the separation increasing to 50% by 2020, and to phase out the disposal of recyclable materials.



Priorities were defined in waste management, primarily in environmental protection in Croatia and in alignment with EU standards, mostly with respect to:

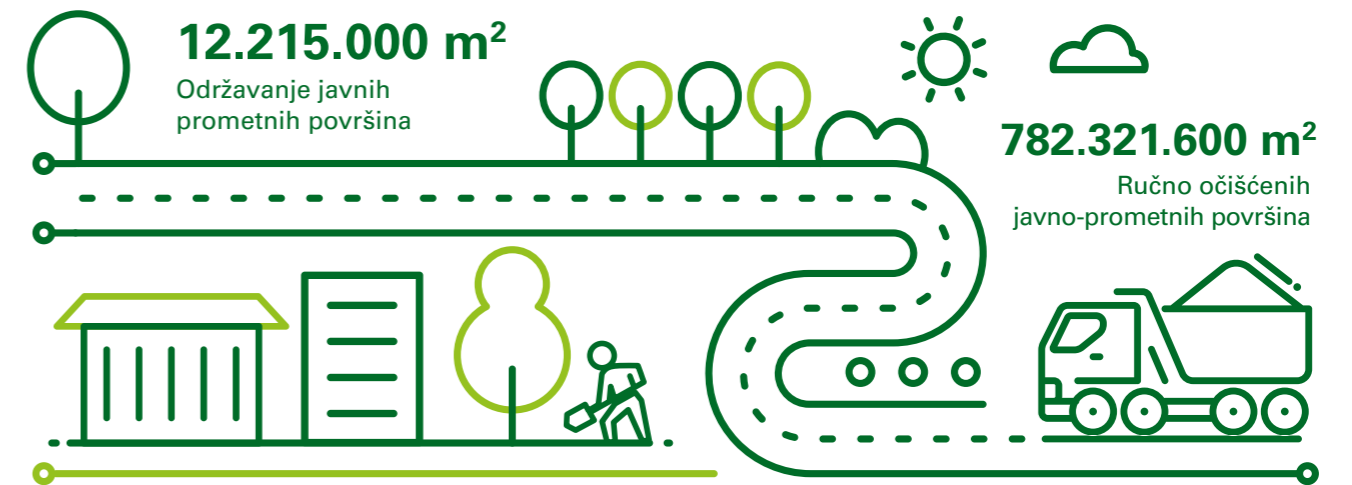


The Zagreb Holding Group implemented the following activities focused on sustainable waste management and environmental protection in 2016:



We reduced the number of pickups of mixed municipal waste in August 2016. Mixed municipal waste is now picked up twice a week in 84% of the City, once a week in 7% of the city, and three times a week in 9% of the City (downtown), same as before. This allows the citizens to take part in more rational waste management. A positive impact on the environment also results from reduced consumption of fuel in waste removal.

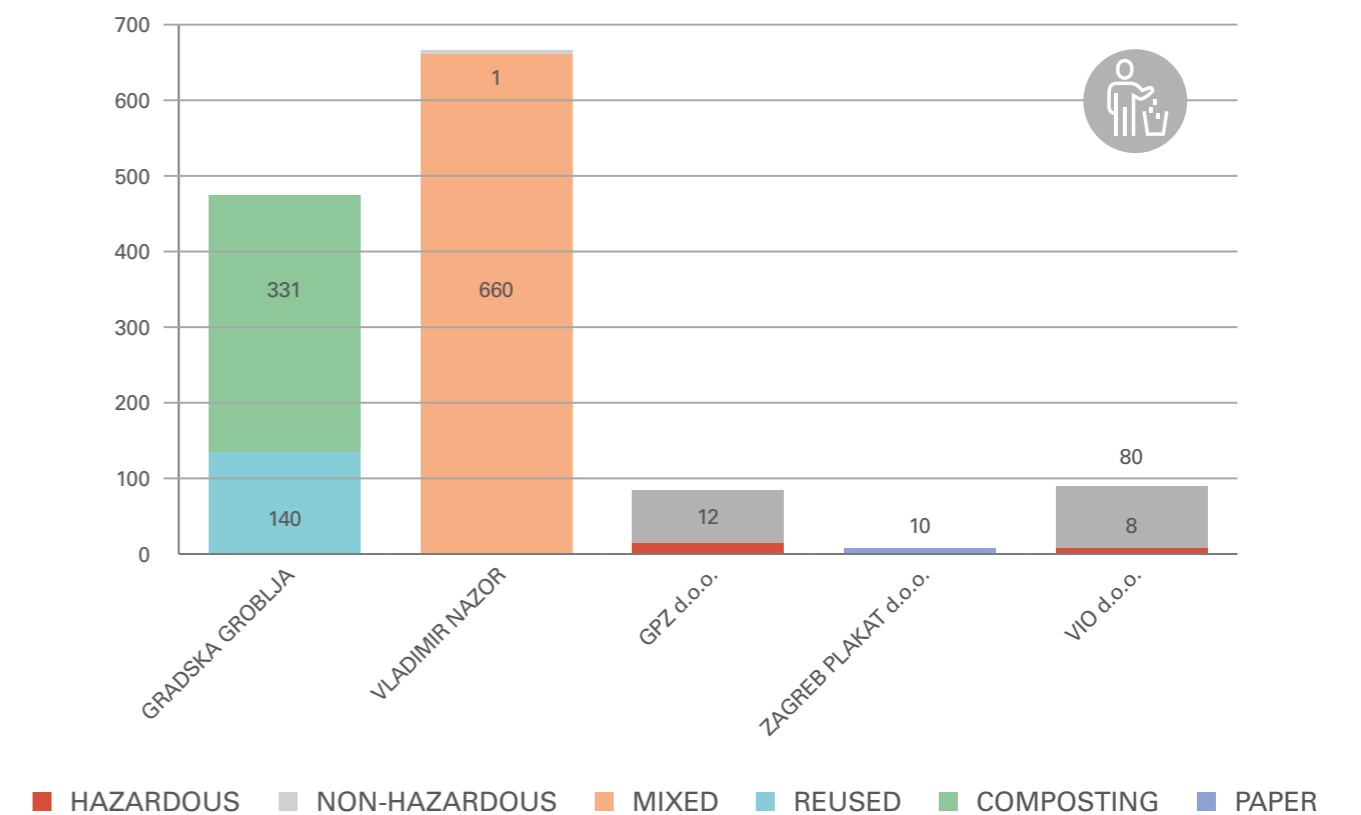
Always keeping the City of Zagreb clean and neat for our citizens and our guests is one of the important principles. To make this happen, our hard-working employees manually clean almost 782,321,600 m² of public traffic areas in the City of Zagreb every year. Through the Subsidiary City Waste Disposal, the Group cleans 12,215,000 m² of public traffic areas (cleaning and washing services are performed according to a programme that is a constituent part of the annual agreement with the City of Zagreb). We mostly use service water obtained from the service water well at the Subsidiary's seat in cleaning.



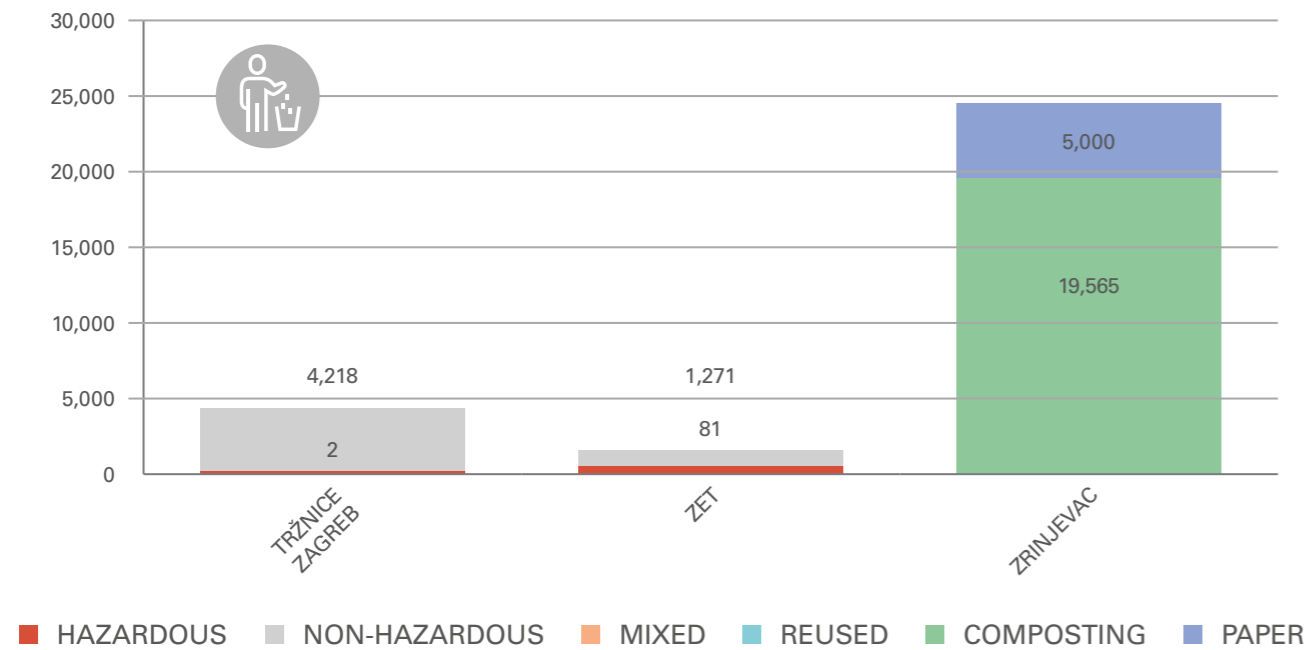
In line with its business policy, the Subsidiary City Waste Disposal implements an Integrated Management Plan, including the Quality and Environment Management Plan aligned with the international standards ISO 9001:2004 and ISO 14001:2004, and occupational health and safety management system according to OHSAS 18001:2007. This allows an independent firm to evaluate the quality of its implementation in the Subsidiary every year and certify the obtained results. In 2016, it was confirmed that the Subsidiary City Waste Disposal set up and maintained a management system fulfilling the requirements and the principles of the standards, allowing the organisation to systematically fulfil the important requirements of its own Product and Service Policy. The Subsidiary City Waste Disposal stands out as the industry leader in environmental protection, safety and quality with these certificates and future implementations of other international standards.

The subsidiaries manage their own waste in their activities and services. The amounts of waste managed by individual subsidiaries are presented below:

Total waste weight by type (t)

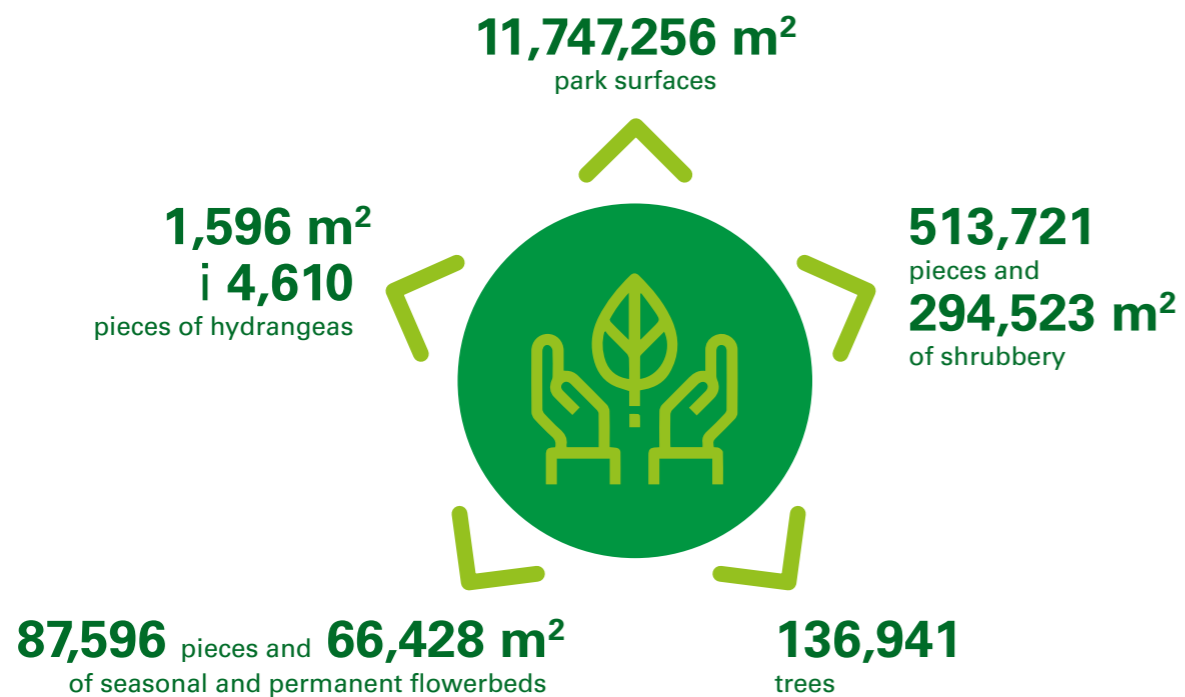


Total waste weight by type (t)



We can note that there is a considerable composting practice in the Subsidiary Zrinjevac. This is because the Subsidiary is responsible for the landscaping and maintenance of public green areas and children's playgrounds. City park, lawn and tree avenue maintenance includes, among other things, cleaning, lawn moving and grass clippings collection, collection of leaves and rubbish from public areas, restoration of lawns, tree maintenance and trimming, green waste disposal, compost production at two composting facilities operated by the Subsidiary Zrinjevac, and disposal of the collected waste. In numbers, this means the following:

We treat and we clean



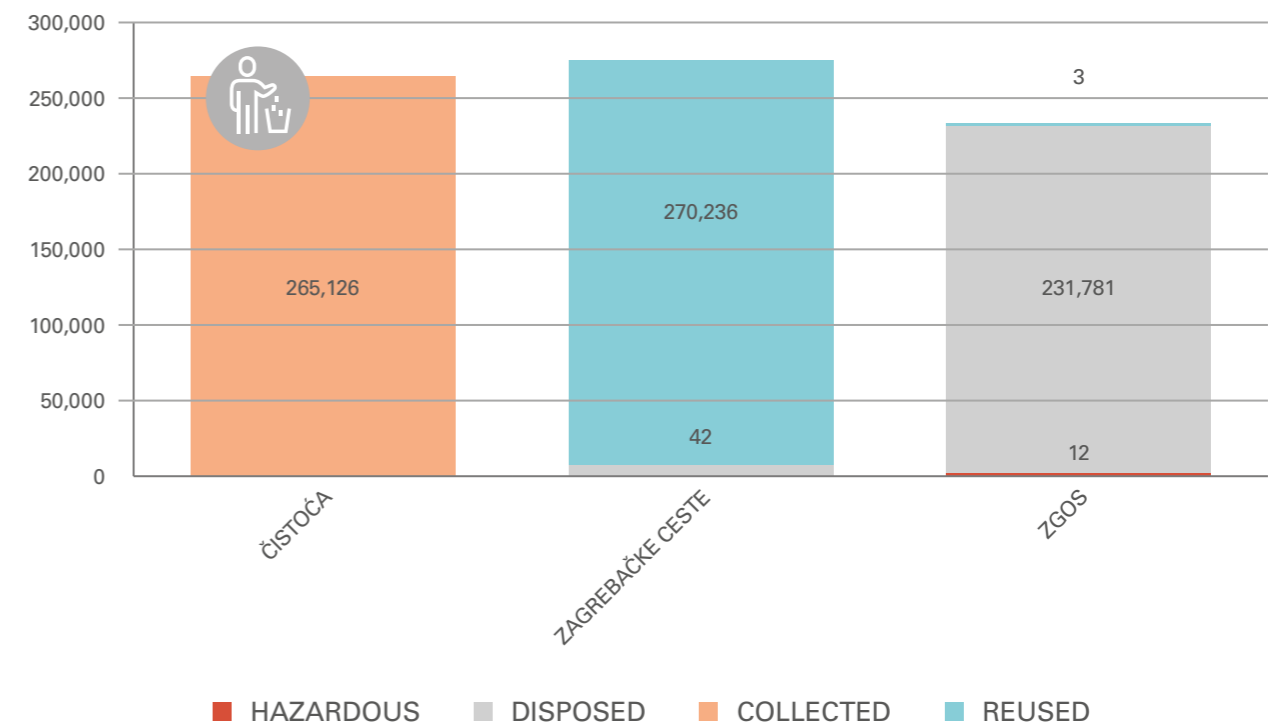
The Subsidiary City Waste Disposal reported a considerable amount of waste. The waste collected by the Subsidiary also includes the majority of the waste collected from the other subsidiaries.



The Subsidiary Zagreb Roads is a positive example of savings and environmental protection and conservation. The Subsidiary operates a construction waste recycling facility, where citizens can dispose of all their construction waste free of charge, and we recycle it and use it as construction material. By recycling construction waste, we produced 170,876 tonnes of granular material satisfying all quality requirements in 2016, which had a positive impact on the environment and saved natural resources. 26,580 tonnes of asphalt mixtures containing recycled materials are produced at the recycling asphalt facility of the Subsidiary in Rakitje.

This saves substantial costs of raw materials and supplies consumed and lowers the costs of milled mass disposal. In 2013, when the modern recycling plant in Rakitje, which uses modern environmentally friendly technologies, was built, the Zagreb Holding and Zagreb Roads were among the first companies in Europe to use this type of technology.

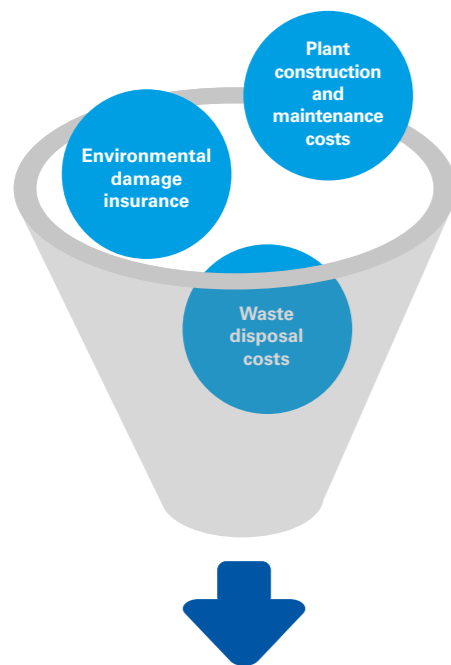
Total waste weight by type (t)



The Subsidiary City Waste Disposal disposes waste at the Prudinec/Jakuševac Landfill. In the segment of waste management, the Prudinec/Jakuševac Landfill has a substantial impact on air quality, and a substantial social impact in form of economic activity of environmentally safe and technologically advanced management of waste and its use in the production of renewable energy, while minimizing methane emissions into the atmosphere, which minimizes the impact on the destruction of the ozone layer.

The Prudinec/Jakuševac Landfill is a structure built under the Construction Act. The remediation and construction project at the Jakuševac Landfill is implemented in accordance with the construction permit issued in 2000. Landfill remediation started in 1998 and is the responsibility of the Subsidiary ZGOS. Thanks to remediation, investments and undertaken activities, the Prudinec/Jakuševac Landfill has become more than a simple piece of land where Zagreb's population, measuring almost a million, leaves everything that it considers unnecessary and hazardous. It is also a modern plant that recycles construction waste, makes compost and treats landfill gas, constantly monitoring groundwaters and leachate, air, waste composition and the animals.

The following facilities and systems are located within the confines of the Prudinec/Jakuševac Landfill: the leachate treatment facility and the facility for the generation of electricity from landfill gas (mTEO). There is also a biocomposting facility, a facility for the recycling of construction waste, and a plateau for the storage of reusable waste components. The positive effects of the generation of energy from landfill gas and the groundwater protection measures in this location were described in the previous chapters.

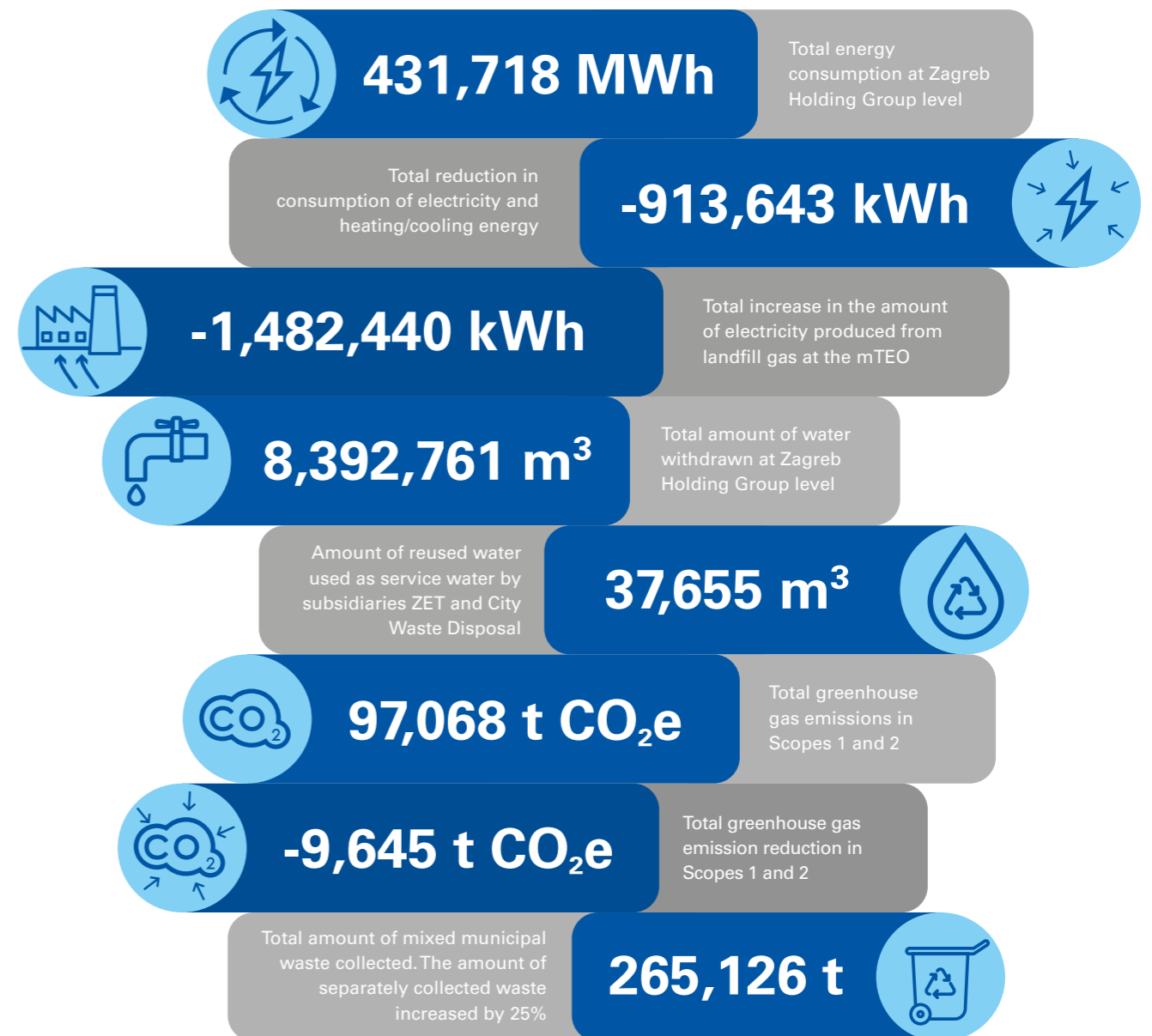


Naturally, environmental protection measures include funding.

In addition to the above, the Zagreb Holding Group invests in risk minimization and improvement of technological processes whose results offer better solutions and lower negative impacts on the environment.

21,412,905.36 HRK

2016



GRI index

Aspect	GRI description	STATUS	Page
G4-1	The Statement of the President of the Management Board	OK	5
G4-2	Key impacts, risks and opportunities	OK	12, 13, 14, 15, 16, 17
G4-3	Name of the organisation	OK	7
G4-4	Primary brands, products and services	OK	7, 8, 9, 10
G4-5	Location of the organisation's headquarters	OK	7
G4-6	Countries where the organisation operates	OK	7
G4-7	Nature of ownership and legal form	OK	7
G4-8	Market presence	OK	7
G4-9	Scale of organisation	OK	6, 7
G4-10	Total number of employees by type of employment, type of contract and region	OK	26
G4-11	Employees under collective agreements, %	OK	26
G4-12	Description of the supply chain	OK	32
G4-13	Significant changes during the reporting period	OK	15, 16
G4-14	Management of the precautionary principle	OK	6, 18
G4-15	Externally developed economic, environmental and social charters, principles, or other initiatives to which the organisation subscribes or which it endorses	OK	36
G4-16	Membership of associations	OK	36
Identified material aspects and boundaries			
G4-17	Entities included in the organisation's consolidated financial statements	OK	8, 9, 10
G4-18	Process for defining the report content	OK	19
G4-19	Material aspects list	OK	20
G4-20	Material aspects within the organisation	OK	20

Stakeholder engagement

G4-24	List of stakeholder groups the organisation engaged	OK	21, 22
G4-25	Identification and selection of engaged stakeholders	OK	21
G4-26	Approaches to stakeholder engagement	OK	21, 22

Report profile

G4-28	Reporting period	OK	5
G4-29	Date of most recent previous report	OK	18
G4-30	Reporting cycle	OK	5
G4-31	Contact point for questions regarding the sustainability report	OK	2
G4-32	GRI guidelines overview	OK	56

Governance structure and its composition

G4-34	Governance structure of the organisation	OK	11
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G4-56	Conduct values and standards, conduct rules	OK	25
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CATEGORY: ECONOMIC

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G4-EC1	Generation of value for the community and the society	OK	4, 31
G4-EC2	Financial implications and other risks and opportunities for the organization's activities due to climate change	OK	12
G4-EC4	Financial assistance from the City of Zagreb and the state	OK	31

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CATEGORY: ENVIRONMENT

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G4-EN10	Percentage and total volume of water recycled and reused	OK	46
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G4-HR3		OK	30

