ZAGREB HOLDING GROUP

ANNUAL STATEMENT

2017

ZAGREB HOLDING

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About us

"Business activities of Zagreb Holding are extremely important for the City of Zagreb, which makes us particularly responsible for the quality of life of the community in which we operate."

Zagreb Holding was established in 2006 in accordance with the Companies Act and is wholly owned by the City of Zagreb. The company was established by transferring business shares of 22 companies owned by the City of Zagreb to the company City Municipal Services Company Ltd., which took over the role of a holding company. In 2007, the Company changed its name to Zagreb Holding Ltd. After further changes in its status, Zagreb Holding Ltd. is now a group of connected companies and institutions, which constitute the Zagreb Holding Group (hereinafter: the Group). The Group includes the company Zagreb Holding Ltd. with 16 subsidiaries, 8 affiliates, and 1 institution. The association of subsidiaries, affiliates and the institution constitute the Zagreb Holding Group, with Zagreb Holding Ltd. as the leading company in the creation of business policies.

THE GROUP'S ACTIVITIES ARE DIVIDED INTO THE FOLLOWING BUSINESS AREAS:

- municipal activities
- traffic activities
- commercial activities
- energy-related activities

The business area of municipal activities includes the following services: potable water supply, wastewater drainage and treatment, cleaning services, municipal waste disposal, public area maintenance, maintenance of unclassified roads, retail markets, cemetery and crematorium maintenance, and transportation of the deceased.

The business area of traffic activities includes the services of public transport and regulation of stationary traffic.

The business area of commercial activities includes the following services: building management and maintenance, sales of apartments and business venues, publishing and exhibition activities, bus terminal services, organisation of field trips and vacations for children and young people, catering services and tourism, storage and safekeeping of goods, freight vehicles parking and Zagreb Free Zone services, outdoor advertising, organisation of fairs and conferences, landfill management, construction, design, supervision, and other.

Activities of the City Pharmacies Zagreb - a health institution of the Croatian Health Insurance Fund - may be classified as special activities conducted under special regulations.

Furthermore, the Group includes companies which provide energy-related services, natural gas distribution and supply services, and services of generation of electricity from landfill gas.

The Group's main task is efficient and continual conduct of municipal activities with maximum environmental protection and maximum protection of public interest of the local community. Fundamental standards related to providing these services are defined by law and other numerous legal acts. As we are aware of the responsibility that we have towards the citizens of the City of Zagreb, we constantly strive to improve the quality of public services, while respecting the principles of sustainable development. Thus, the standard of living in the City of Zagreb is visibly higher than in other cities in the Republic of Croatia. At the same time, we promote social dialogue in the Company, and we enable our workers to acquire new advanced knowledge and skills. Increase in the quality and number of public services has a positive effect on the well-being of citizens, businesses, and local government and self-government of the City of Zagreb. As a result, the citizens' standard of living, competitiveness of the city economy, and the reputation of the City of Zagreb is higher in comparison with other cities. Based on that, the vision of the City of Zagreb as a place of pleasant, organised, and healthy lifestyle becomes a reality in which Zagreb Holding serves as an example of excellence in providing public services, as well as the initiator, promoter, and agent of business development of the City of Zagreb and the Republic of Croatia.

2017 in Numbers

57,885,402 m³

of water supplied to consumers

31,180,587

number of tickets sold by ZET

413

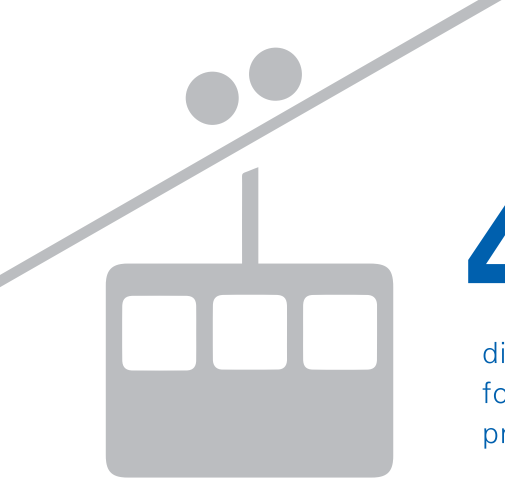
buses

276

trams

11,705,855 m²

of maintained park areas

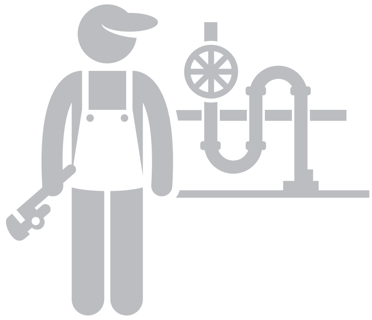


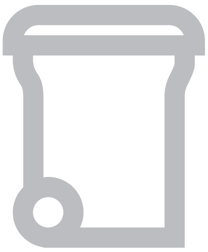
42,422,768 km

distance travelled by buses, trams, cable car, vehicles for disabled persons, and vehicles for transportation of primary school students

3,904,146,274 kWh

of natural gas distributed to consumers





85,515

containers for separate collection of recyclable waste

13,609,660 kWh

of electricity generated from landfill gas at the mTEO plant

200,000 tonnes

of asphalt produced

11,286

employees

2,500 km

of roads maintained regularly

Key financial indicators of business performance

Sales income	HRK 3,793,577,535	2016 HRK 3,842,428,098
EBIT	HRK 102,376,104	2016 HRK 203,853,761
EBITDA	HRK 632,043,459	2016 HRK 751,993,401
Net debt/equity ratio	54.67%	2016 46.58%
Total income/expense ratio	100.3%	2016 102.1%
Self-financing indicator	42.4%	2016 40.9%
Share of staff costs in total operating expenses	32.8%	2016 33.2%
Current ratio	1.1	2016 1.0

Example of savings with a positive effect on environment

In 2017, by recycling construction waste, the subsidiary Zagreb Roads produced 140,502.40 tonnes of recycled aggregates. Aggregates meet all quality requirements and have a positive effect on the environment and preservation of natural resources. At the same time, the Subsidiary's asphalt facility (Rakitje Asphalt Facility shown on the photograph) produced 31,200 tonnes of asphalt mixes which contain recycled material. Based on that, significant savings were made in the costs of raw material and supplies used, and the costs of milled mass disposal were also reduced.

A letter by the President of the Management Board

Looking back at 2017, we are glad to be able to say that for the Zagreb Holding Group, it was a year of great investments in municipal and traffic infrastructure, a year in which we successfully completed the financial restructuring process and improved the quality of our services, keeping in mind the social, economic, and ecological aspects of our business operations.

Over the course of the year, a total of 10 kilometres of tram lines were renewed, 471,252 m^2 of roads were asphalted and rehabilitated, new machinery for maintaining public areas was procured, and at the end of the year, we renewed the vehicle fleet by procuring 26 new municipal vehicles for waste collection and disposal. Water supply and drainage system was renewed by constructing 12 kilometres of water pipelines and 30 kilometres of canals, while additional 6.5 kilometres of water pipelines and 1.8 kilometres of canals and canal facilities were rehabilitated. In addition to the improvement in the quality of water supply and drainage system, the expansion of basic water supply and drainage capacities resulted in 1,008 new water supply connections, and 916 new canal connections, or 2,774 new users of the water supply and drainage system. Furthermore, 7,388 metres of new gas pipelines were constructed, while 11,368 metres of the existing gas pipelines and 1,004 gas connections were reconstructed.

Significant investments in green infrastructure were made as well. Number of containers for separate collection of recyclable waste was increased by 84.3%, or from 46,406 to 85,515 containers. 76 new "recycling islands" were established, and the tenth recycling centre - Klara - was opened in September. This recycling centre, the largest in the city, was funded by resources from the budget of the City of Zagreb. Under a pilot project of home composting carried out by the City of Zagreb, we provided citizens with 11,531 home composters in just over a month. All these measures resulted in a 26.5% increase in the amount of separately collected waste compared to 2016.

We also expanded the bus fleet by procuring 19 new buses - 4 buses for transportation of primary school students and 15 city buses, all financed by a grant from the Cohesion Fond as part of the Programme: Procurement of 15 Buses for ZET. Total value of the buses is HRK 42.5 million, and the grant will cover all so-called eligible costs amounting to HRK 32 million. All buses are powered by engines built in accordance with EURO 6 emission standards - engines with the lowest emission of CO_2 available in the market. The buses are low-floor buses and they are equipped with air conditioning.

Regarding public purpose facilities constructed for the City of Zagreb, in April 2017, we completed the construction of the sports gym and swimming pool next to the Jelkovec Secondary School in Novi Jelkovec and started the construction of Hrvatski Leskovec Primary School. Besides the City of Zagreb, we are the main investors for the construction of a day-care hospital and garage as part of the reconstruction of the Clinical Hospital Sveti Duh. In April, Technological Park Zagreb was opened at the Zagreb Fair. The park is intended for the development of start-ups and creation of innovative and highly-advanced technologies.

We continued with the implementation of the Zagreb Strategy for Equalization of Opportunities for Persons with Disabilities in 2017 as well. 5 new vehicles were procured due to the fact that in March, the transportation service for disabled persons became a 24-hour service. A new test low-floor tram with a movable aluminium ramp for disabled persons was also introduced. At the end of May, Zagreb Holding also introduced its mobile office. In a specialised vehicle, which is also adapted for disabled persons, users can, among other things, request any service offered by Zagreb Holding. Throughout the month, the mobile office visits all city districts according to a prearranged schedule. Furthermore, individual visits can be arranged through the Call Centre, especially visits to the homes of elderly and disabled citizens.

We also expanded the range of services for other users, of which the most important was the introduction of single-ride tickets priced at HRK 4, which are valid for 30 minutes and can be used in the first and the second tariff zone. Users showed great interest in the new tickets, and more than 24.7 million tickets were sold by the end of the year. Furthermore, the tariff model based on a division into four zones that had been used until that point was changed into a two-zone model with the aim of popularising public city transport further. Prices of combined tickets of ZET and Croatian Railways for suburban transportation were also reduced. Prices of all types of combined monthly and yearly passes were reduced by 33%.

The event that has significantly marked the financial year 2017 is the closure of a ten-year period of indebtedness on the foreign capital market by the repayment of Euro bonds issued in 2007. Repayment began in 2016 with the early repayment of EUR 146.3 million, and it was completed on 5 July 2017 with the repayment of the remaining EUR 153.7 million. Funds were collected by issuing seven-year bonds in HRK on the national capital market which were backed by a guarantee provided by the City of Zagreb - but now under significantly more favourable terms than those pertaining to the previous indebtedness on the foreign capital market. Issuance of national bonds in HRK was completed in two tranches, and both tranches saw the interest of national investors that was significantly higher than the amount issued. For issuance of bonds amounting to a total of HRK 2.3 billion, the market offered almost HRK 4 billion, which is the best example of investors' trust in the future of Zagreb Holding.

Our efforts and results achieved in financial and operational restructuring of the company Zagreb Holding Ltd. was also recognised by the international rating agency Moody's. First, in March, the agency changed the credit rating of Zagreb Holding from negative to stable, and then, on 15 May, it changed its rating from Ba3 to Ba2 with a stable outlook.

At the end of the financial year, with total profit of HRK 5.43 billion and total expenses of HRK 5.41 billion, the Group had a lower business result compared to 2016. However, the stability of business operations was not questionable at any moment. We remain devoted to fulfil our mission in the year ahead as well: to secure a healthy, pleasant, and safe urban life for the citizens of Zagreb and the local community. Day in and day out.

President of the Management Board
Ana Stojić Deban

Introduction

In 2017, realised investments amounted to more than HRK 620.8 million, which represents an increase by 247.4% compared to the previous year. In addition to the investments in traffic infrastructure, vehicles, and machinery, significant resources were invested in green infrastructure, water supply and drainage, gas pipelines, and capital projects.

The Group's business operations in 2017 can be described in short as resumption of realising capital projects, major infrastructural works, and completion of the process of Euro bond repayment. However, 2017 was yet another year which the Group started burdened by regulatory changes related to gas supply. In 2017, as a result of lower gas supply (purchase) prices, the average monthly gas sales price for households was lower by approximately 11%, and by approximately 20% for corporate users. In addition, by virtue of the decision of the Croatian Regulatory Energy Agency dated 1 April 2017, the supply margin of the company Zagreb City Gasworks-Supply Ltd. for the public service has been reduced by 35% compared to 2016.

With the total profit of HRK 5.43 billion and expenses of HRK 5.41 billion at the end of 2017, the Group, comprised of Zagreb Holding Ltd., eight affiliates and institution, generated profit after tax amounting to HRK 1.7 million. Compared to 2016, the business result is lower by HRK 73.2 million. Business result was affected, among other things, by lower income from passenger transport, gas sales, road management and maintenance, construction and project management, and cleaning and waste disposal. Lower income did not affect the realisation of planned investments, which were higher by 247.4% compared to 2016.

As a provider of services of public interest, in its business operations the Group is guided by high standards of corporate governance and transparency, defined by the Code of Corporate Governance. The Code was passed in May 2016 with the aim of establishing even more efficient business operations and responsible resource management that serve to improve organisation and are in the interest of the users of municipal and public services, citizens of the City of Zagreb in general, and all other interest and influence groups. The Code defines integral management of mechanisms ensuring strategic planning and realisation of objectives, including decision-making processes, procedures, and tools used in the conduct of responsible business operations, as well as an assessment and evaluation system. The principles of conduct under the Code are regarded as guidelines for all components of the Zagreb Holding Group

In accordance with the strategic aims of business procedures, the Group's activities in 2017 were primarily focused on the following areas:

- **Customer relationship management**
- **Management of relationship with the City of Zagreb**
- **Infrastructure investments**
- **Financial restructuring**
- **Employee relations**

Some of the most important business activities realised in 2017 are listed below.

Customer relationship management

Available 24 hours a day, 365 days a year

As part of the transformation of the Call Centre into a digital communication centre, a new service web page for citizens was started in 2017. The web page sada.zgh.hr provides all important information about the Group's operations in real time. If necessary, the information may be updated every minute. This service enables users to communicate directly with the agents of the Call Centre and online. Users may ask their questions via WhatsApp, Viber, chat, and Facebook Messenger, and they can follow information about services on all social networks. In addition, this digital platform allows file sharing, so this communication channel can be used not only for asking questions and responding, but also for sharing files. Therefore, citizens are no longer required to visit an office to file a certain request or check its status, except in those situations where legal acts require personal identification and verification.

In 2017, all information services and phone reservations of the Zagreb Bus Terminal were integrated in Zagreb Holding Call Centre in their entirety. Users can now access services by calling the Call Centre at +38572500400. There are no additional fees, calls are charged based on the cost of local calls to landlines, and the Centre is available 24 hours a day, 365 days a year.

In mid-May, Zagreb City Gasworks Ltd. introduced the e-Bill (e-Račun) - a service which saves paper and reduces costs. Users may choose not to receive paper bills for services of distribution, connection, gas pipeline inspection, and other non-standard services. Besides that, users of municipal services had already been able to check usage, calculation, and payment status online through three independent systems - the desktop application MOJ VIO (My Water Supply and Drainage) created by Water Supply and Drainage Ltd., desktop and mobile application MOJ RAČUN (My Bill), created by Zagreb City Gasworks-Supply Ltd., and the system of delivering a one single utility bill of Zagreb Holding to the mPretinac (Mobile Mailbox) of the e-građani (e-citizens) service.

Mobile office for the elderly and disabled citizens

On 29 May, a new service for citizens was introduced - Zagreb Holding Mobile Office. This specialised vehicle is a small user centre where users have access to all services offered by Zagreb Holding. Users can also file requests for changing personal information, file all types of petitions, obtain information, and effect payments without transaction fees. Throughout the month, the vehicle visits all city districts

As of 1 September 2016, Zagreb Holding Call Centre is available 24 hours a day, 365 days a year. In 2017, the Call Centre received 534,321 calls at +38572500400. If for any reason callers are not able to connect with the Call Centre, agents will call them back to provide them with information that users request. This is why this Call Centre is special compared to other similar centres.

according to a prearranged schedule. By calling the Call Centre, users are able to appoint individual visits, especially to elderly and disabled citizens since the vehicle is adapted for disabled persons.

By the end of 2017, the mobile office visited all city districts 6 times on average, travelled the distance of approximately 5,000 km, and visited approximately 350 locations.

Obtaining information via one single bill

In 2017, the back of the single bill of Zagreb Holding was redesigned, which increases its value due to the fact that it includes more educational and informative content useful for citizens - service users. Upon paying bills, citizens receive proof of payment which has important information printed on the back.

By redesigning the single bill, we have also reduced the need for printing additional brochures for certain notices, which used to be sent to users together with the single bills.

Management of relationship with the City of Zagreb

Realisation of public purpose projects

City of Zagreb is the founder and 100% owner of Zagreb Holding. Accordingly, the Group's business operations are primarily focused on improving the quality and extending the scope of public services to the benefit of the citizens, businesses, and local government and self-government of the City of Zagreb. The ultimate objective is to improve the citizens' standard of living and competitiveness of the city economy, and to create a positive effect on the reputation of the City of Zagreb in comparison with other cities. To achieve the above-mentioned objectives, the City of Zagreb strongly supported the activities of Zagreb Holding in 2017 as well. Some of those activities were sponsoring and providing financial support for the organisation of specialised fairs at the Zagreb Fair and the organisation of the International Garden Exhibition Floorart.

Swimming pool in Novi Jelkovec - source: www.zagreb.hr

The Group also realises capital public purpose projects for the City of Zagreb. In 2017, the sports gym and swimming pool next to the secondary school in Novi Jelkovec were completed and handed over to the City for management. In mid-May, we started the reconstruction works on the compound Clinical Hospital Sveti Duh, which works include the addition of a day-care hospital and underground garage. The main investors are the City of Zagreb and Zagreb Holding Ltd. Furthermore, the first phase of Podbrežje Project - Zagreb Housing Construction Model - is almost completed, and we also started the construction of Hrvatski Leskovac Primary School. It is to be one of the most modern future schools, with the total capacity of 320 students divided into 16 classes, and it will consist of a ground floor, first floor, a two-section sports gym, and an outdoor area. In line with the city policy of reducing energy consumption and implementing renewable energy sources, this educational institution will have the A energy class label. Construction is expected to be completed in August 2018.

Primary School in Hrvatski Leskovac will be one of the most modern schools in Zagreb

Infrastructure investments

By investing in equipment and vehicles, the amount of separately collected waste was increased by 26.5%

In 2017, Zagreb Holding Ltd. enforced the Decision on the Public Service of Collection of Mixed Municipal Waste, Biodegradable Waste, Separate Collection of Waste Paper, Metal, Glass, Plastic and Textile, and Bulky Municipal Waste in the City of Zagreb.

- A total of 39,109 new containers for recyclable waste (paper, plastic, metal packaging, glass, and bio-waste) were set up, thereby increasing the total number of containers by 84.3%, or from 46,406 to 85,515 containers.
- Number of containers for paper was increased by 38,960 containers, or by 111% compared to 2016. In 2017, the total number of installed containers amounted to 78,267. Most of the containers have the capacity of 80, 120, and 240 litres (73,275 containers), but there are also containers with the capacity of 1,100 litres and containers with the capacity of 1.5-3 m^3 (so-called "bells").
- Compared to 2016, the number of "recycling islands" was increased by 76 "islands", totalling 683 at the end of 2017.
- A new recycling centre - Klara - was opened as the second recycling centre in the city district Novi Zagreb - Zapad. It is the largest recycling centre in the City, and it was funded by resources from the budget of the City of Zagreb.
- As part of a pilot project of home composting conducted by the City of Zagreb, the subsidiary City Waste Disposal provided citizens with 11,531 home composters in just over a month.
- Citizens have been informed about the importance of separate collection of waste via brochures that accompanied the single bill, as well as through information printed on the back of the single bill, published on the web site of Zagreb Holding Ltd., platform sada.zgh.hr, and social networks. Citizens can also obtain information from the Call Centre.

All these measures resulted in a 26.5% increase in the amount of separately collected waste compared to 2016.

On 1 November, the Regulation on Municipal Waste Management entered into force. This Regulation defines the system of separate waste collection based on the "door-to-door" system, including "recycling islands" and mobile recycle yards, and the obligation of handing over/collecting each type of waste separately. The Regulation sets forth the obligations and deadlines for public service providers, including those related to establishing and using the digital system Records on Collected Municipal Waste, which must be implemented no later than 1 May, and exceptionally no later than 1 November 2018. Cities and municipalities were given three months to adjust their operations according to the Regulation and to define how the system would work in their areas.

At the end of the year, 26 new municipal vehicles of the subsidiary City Waste Disposal were introduced. Twenty-four vehicles, with volumes ranging from 6 m^3 to 22 m^3, are intended for waste collection, while the remaining 2 are road sweepers. New vehicles reduced the average age of the vehicle fleet from 15 to 12 years. In the second phase of vehicle procurement, which should be completed in 2018, we expect to procure 9 more vehicles. The purchased vehicles create less noise and are built according to the latest version of the Euro 6 emission standard and the latest standards of filtering and processing exhaust gases, which contributes to the continual environmental protection efforts in the City.

1
new recycling centre

+76
new "recycling islands"

+11,531
home composters

+39,109
containers for separate collection of recyclable waste

26.5%
increase in the amount of separately collected waste

Currently, 0.74%, or 5,830 citizens of the City of Zagreb are awaiting the installation of water supply connections, while 4.95%, or 39,100 citizens are not connected to the water drainage network

A total of 2,774 new users were connected to the water supply and drainage system.

In 2017, Water Supply and Drainage Ltd. constructed 12 kilometres of water pipelines (of different sizes) and 30 kilometres of canals. With the aim of reducing water losses and protecting the environment, 6.5 kilometres of water pipelines and 1.8 kilometres of canals and canal facilities were repaired. In addition to the improvement in the quality of water supply and drainage system, the extension of fundamental water supply and drainage capacities resulted in 1,008 new water supply connections, and 916 new canal connections, or 2,774 new users of the water supply and drainage system.

Construction of a transport collector of Sesvete Waste Water Treatment Centre with Sesvete pumping station and construction of a relief facility with a retention canal at the site of Sesvete collector is currently in progress. Investment amounts to HRK 46.9 million, and its realisation will enable the treatment of approximately 40% of wastewater from Sesvete at the facility.

Works on the primary sewerage system in one part of Hrvatski Leskovac and on the first phase of the construction of public canals Kupinečki Kraljevec are still in progress. In 2017, the total of 16,620 metres of canals were constructed in said areas. Also, works on drainage systems in Sveta Nedelja were resumed in 2017 as well, and 3,800 metres of canals were constructed.

Total investments by Water Supply and Drainage Ltd. in 2017 amounted to HRK 145.8 million.

7,388 metres of new gas pipelines in 2017

More than HRK 70 million invested in gas network

In 2017, Zagreb City Gasworks Ltd. reconstructed 11,368 metres of gas pipelines and 1,004 gas connections, while also constructing 7,388 metres of new gas pipelines. In 2017, total realised investments by Zagreb City Gasworks Ltd. amounted to over HRK 70 million. Numerous activities were carried out with the aim of further improvements in safety and reliability of gas systems. Among other things, before the heating season, gas odorisation was carried out to allow detection of even the smallest leaks and to repair them in time. It was concluded that the entire gas distribution system was impermeable.

In 2017, the subsidiary Zagreb Electric Tram invested HRK 66.7 million in repairing tram lines. A total of 4,820 metres of tram lines were repaired at the busiest parts of the tram line network. As part of the preparations for construction of the new cable car Sljeme, 5,180 metres of tram lines were fully repaired and can now be used by low-floor trams as well. Furthermore, by the end of the year, the powerhouse, haulage and track cables, all poles, and the middle cableway station of the old cable car were removed. Works cost HRK 4.5 million.

In 2017, as part of the asphalting programme and increased road maintenance, the subsidiary Zagreb Roads asphalted 198,027 m^2 of roads (149 streets), while as part of the municipal services plan, the subsidiary repaired and asphalted 273,225 m^2 of roads (463 streets). Total works, including emergency interventions, cost over HRK 267 million.

Financial restructuring

Full repayment of Eurobonds

The event that significantly marked the financial year 2017 is the closure of a ten-year period of indebtedness on the foreign capital market by the repayment of Eurobonds issued in 2007. Repayment began in 2016 with the early repayment of EUR 146.3 million, and it was completed on 5 July 2017, with the repayment of the remaining EUR 153.7 million. Zagreb Holding had been preparing this repayment in detail for the past two years. Resources were collected by issuing seven-year bonds in HRK on the national capital market which were backed by a guarantee provided by the City of Zagreb - but now under significantly more favourable terms than those pertaining to the previous debt on the foreign capital market.

National issuance of bonds in HRK was completed in two tranches. The first tranche was completed in July 2016 and it amounted to HRK 1.8 billion, while the second tranche was completed in June 2017 and it amounted to HRK 0.5 billion. Both tranches together represent a single bond issuance in the total nominal amount of HRK 2.3 billion at a fixed annual interest rate of 3.875% due for payment by 2023. Interest of national investors in HRK bonds of Zagreb Holding was significantly higher than the amount issued. Total demand amounted to almost HRK 4 billion, which is not only the best example of the investors' trust in Zagreb Holding as the bond issuer, but also a great contribution to the national capital market, which is "hungry" for good investment opportunities.

Confirmation of successful business operations

In March 2017, the international rating agency Moody's announced that it had changed the credit rating of Zagreb Holding from negative to stable. The outlook became more positive due to the reduction in foreign currency credit debt and bond refinancing, which established stable business operations and liquidity. Positive changes were also the result of continual support of the City of Zagreb, which Moody's recognised as a strong institutional interconnection. In May 2017, Moody's increased its rating of Zagreb Holding from Ba3 to Ba2 with a stable outlook.

Employee relations

In 2017, the number of employees was increased by 892 workers, or 8.6%. These were primarily employees who had been temporarily hired through employee-leasing agencies, who had mostly performed tasks related to primary business activity of the subsidiaries and affiliates for a period longer than six months, and to the employees who had been required for regular and timely performance of tasks related to primary business activities of the Group's companies.

Furthermore, realised investments include procuring new machinery and equipment, which improved the quality of the employees' work environment.

AZ Zagreb - closed-end voluntary pension fund for employees

In cooperation with the coordination of trade unions which operate within the Group, a closed-end voluntary pension fund for employees of Zagreb Holding was established in 2008. By establishing the fund and providing financial incentives, Zagreb Holding encourages employees to invest in long-term retirement savings plans. Membership in the fund is voluntary for all employees.

As at 31 December 2017, a total of 1,379 of the Group's employees were members of the closed-end voluntary pension fund AZ Zagreb. In 2017, through sponsorship, the Group completed payments of premiums for voluntary pension insurance in the total amount of HRK 2.6 million.

Policy of zero tolerance for corrupt behaviour

The Group implemented the policy of zero tolerance for corrupt behaviour in 2017 by strengthening its internal control system, by continually implementing the audit recommendations of the Internal Audit and Control Department, and by taking the actions recommended by the State Audit Office in the revision of the efficiency of fraud prevention and discovery.

In addition to the function of the Ethics Committee, the Management Board of the Company Zagreb Holding Ltd. appointed an Irregularities Committee in December 2015, whose task is to implement institutional business processes of identifying and permanently eliminating possible irregular, unprofessional or illegal activities in the Group.

The Group is under obligation to enforce the Act on the System of Internal Audits in the Public Sector, the Act on the Transparency of the Flows of Public Funds, and the Fiscal Responsibility Act.

Environmental protection and conservation of natural resources is one of the Group's top priorities, as evidenced by the increasing number of quality certificates obtained by the members of the Group: ISO 9001, ISO 14001, ISO 50001, OHSAS 18001, ISO 22000, as well as other special certificates and standards specific for the Group's various activities.

The Group pays special attention to corporate social responsibility and to achieving greater customer satisfaction with the services provided by the Group. Corporate social responsibility helps build the Company's reputation and motivates its workers to work on business development, as a long-term focus, all with the aim of realising the plans that the Group has set and adopted.

Asphalt facility of the subsidiary Zagreb Roads


1202
2209

The Group's Profile

The Group's Profile

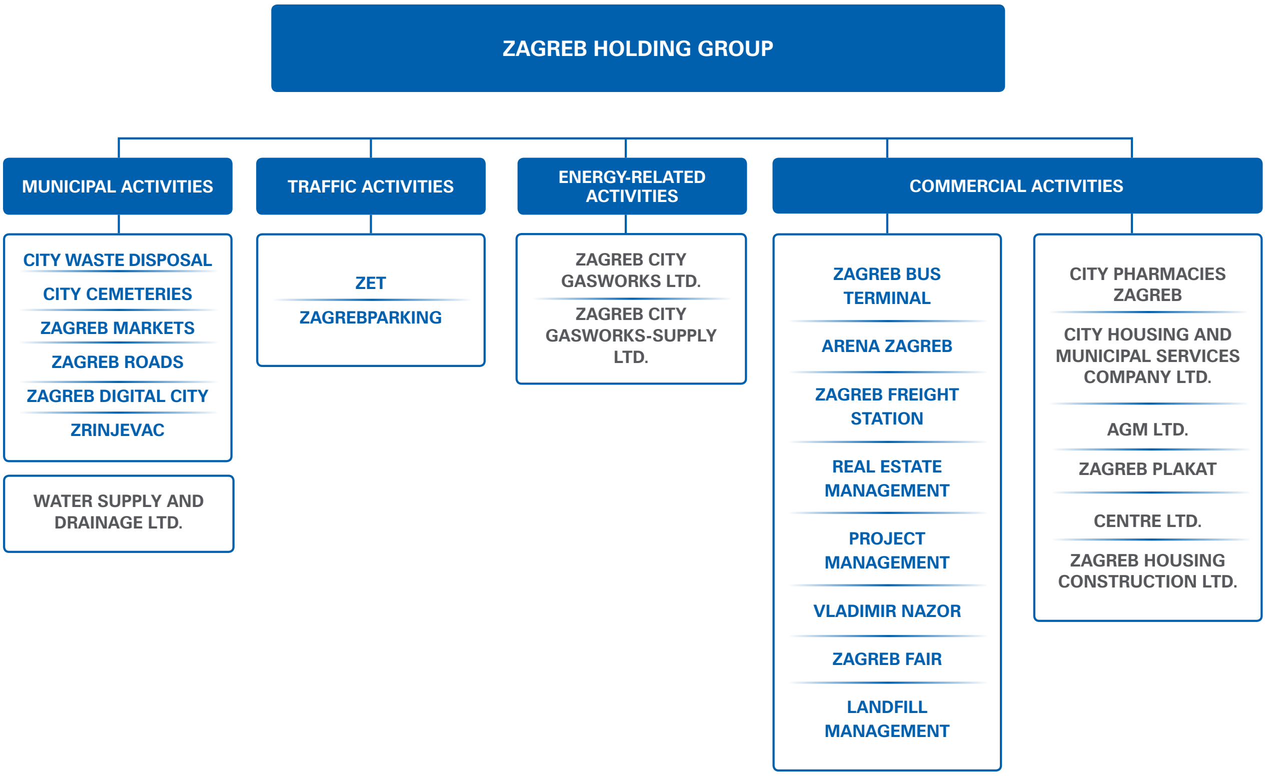
Company Zagreb Holding Ltd. was established in 2006 in accordance with the Companies Act as City Municipal Services Company Ltd. In January 2007, the company changed its name to Zagreb Holding Ltd. It is wholly owned by the City of Zagreb. As at 31 December 2017, the Company comprised 16 subsidiaries that took over the activities of the former city-owned companies. Head Office of Zagreb Holding Ltd. is located in Zagreb, Ulica grada Vukovara 41. As at 31 December 2017, the Company owned 8 companies and 1 institution, which together comprised the Zagreb Holding Group.

The table and the flowchart below provide an overview of the components, organisation forms and activities of the Group.

No.	Name	Primary business activity
	Subsidiaries of the company Zagreb Holding Ltd.	
1.	City Cemeteries	Funerary and similar activities
2.	City Waste Disposal	Cleaning, waste disposal
3.	Zagreb Electric Tram	Public transport
4.	Zrinjevac	Landscaping and maintenance of green spaces
5.	Zagreb Roads	Management, maintenance, and construction of regional and local roads
6.	Zagrebparking	Services at public parking lots and garages
7.	Zagreb Bus Terminal	Bus terminal services
8.	Zagreb Markets	Wholesale and retail markets, storage
9.	Landfill Management	Waste collection and disposal
10.	Zagreb Digital City	Telecommunication ducts and network leasing
11.	Project Management	Construction and sale of apartments
12.	Arena Zagreb	Management and maintenance of sports facilities
13.	Zagreb Freight Station	Goods storage
14.	Vladimir Nazor	Organised vacations for young people and travel agency
15.	Zagreb Fair	Organisation of fairs, conferences, consulting
16.	Real Estate Management	Real estate property services
	Companies and institution owned by the Company	
1.	Zagreb City Gasworks Ltd., 100% owned by Zagreb Holding	Gas distribution
2.	Zagreb City Gasworks-Supply Ltd., 100% owned by Zagreb Holding	Gas supply
3.	City Pharmacies Zagreb, 100% owned by Zagreb Holding	Pharmacy services
4.	Zagreb Plakat Ltd., 51% owned by Zagreb Holding	Advertising space leasing
5.	City Housing and Municipal Services Company Ltd., 100% owned by Zagreb Holding	Building management
6.	Water Supply and Drainage Ltd., 100% owned by Zagreb Holding	Water collection, treatment, and distribution
7.	AGM Ltd., 100% owned by Zagreb Holding	Publishing services
8.	Zagreb Housing Construction Ltd., 100% owned by Zagreb Holding	Construction and sale of apartments
9.	Centre Ltd., 100% owned by Zagreb Holding	Organising summer sports vacations for young people

The Group's activities are grouped into the following business areas: municipal, energy-related, traffic, and commercial activities. Investment projects are managed through centralised business functions with the aim of developing and improving business activities, city infrastructure, and municipal and service industry activities.

Organisational structure of the Group as at 31 December 2017



By virtue of the Decision of the Commercial Court in Zagreb (Tt-17/49954-2) dated 29 December 2017, the demerger of the Company was carried out with the establishment of new limited liability companies - Zagreb Electric Tram Ltd. and Zagreb Fair Ltd., and the economic units were demerged into the newly-established companies. In the procedure of demerger with establishment of new companies, the Company's share capital was reduced by HRK 656,193 to the amount of HRK 3,177,044 thousand, while the operational effects of the Demerger Plan entered into force on 1 January 2018. Upon implementation of the Demerger Plan, business shares in the new companies were acquired by the City of Zagreb, which became the only member, i.e. the only owner of business shares in the newly established companies Zagreb Electric Tram Ltd. and Zagreb Fair Ltd.

Strategic framework elements

The Group's mission is to efficiently provide municipal and urban services through responsible corporate operations focused on accomplishing and maintaining the satisfaction of all interest groups.

The Group's vision is to become a synonym for pleasant, organised and healthy lifestyle in Zagreb, an example of excellence in providing public services, and the initiator, promoter, and agent of business development of the City of Zagreb and the Republic of Croatia.

Continual focus on corporate responsibility and business excellence with the aim of accomplishing the optimal combination of price and quality of services, efficiency of business operations, improvement in the comfort of urban lifestyle, satisfaction of users, employees, owners, and social and business communities are the fundamental values of the Group.

Mission and vision statements have been defined in accordance with the strategic framework elements.

Mission statement

We secure a healthy, pleasant, and safe urban life for the citizens of Zagreb and the local community. Day in and day out.

Vision statement

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

Our key business objective in the medium term is to create the prerequisites for generating sustainable growth of the Group, and then generate said growth and free up balance sheet potential for focused investments.

Corporate Governance

Corporate governance

Zagreb Holding Ltd. is the owner of the following limited liability companies: Zagreb City Gasworks Ltd., Zagreb City Gasworks-Supply Ltd., City Housing and Municipal Services Company Ltd., Water Supply and Drainage Ltd., Zagreb Plakat Ltd., Zagreb Housing Construction Ltd., AGM Ltd., and Centre Ltd.

Zagreb Holding Ltd. is also the owner of an institution, City Pharmacies Zagreb.

During 2017, Zagreb Holding Ltd. conducted its primary business operations through 16 subsidiaries: Zagreb Bus Terminal, City Waste Disposal, City Cemeteries, Zagreb Freight Station, Project Management, Zagreb Markets, Vladimir Nazor, Arena Zagreb, Zagrebparking, Zagreb Roads, Zagreb Digital City, Zagreb Electric Tram, Zagreb Fair, Landfill Management - ZGOS Zrinjevac, and Real Estate Management. The subsidiaries, affiliates and the institution comprise the Zagreb Holding Group, with Zagreb Holding Ltd. as its leading company in the creation of business policies.

In accordance with the Companies Act, affiliates have their own company bodies that monitor and supervise their activities (with the exception of the companies AGM Ltd., Zagreb Housing Construction Ltd. and Centre Ltd., which are not under legal obligation to have Supervisory Boards). The companies of the Zagreb Holding Group thus practice a closed corporate governance system, with mechanisms characteristic of limited liability companies activated. The Institution is managed in accordance with the currently valid acts on institutions.

In regulating its mode of operation and behaviour, the Zagreb Holding Group is oriented towards implementing high corporate governance standards based on OECD principles and corporate governance and business transparency.

Ethics Committee and a Consumer Protection Committee operate at Group level.

The Group's Bodies

Management Board

During 2017 and 2016, members of the Management Board of Zagreb Holding Ltd. were:

2017

1. Ana Stojić Deban, President of the Management Board from 16 June 2015
2. Daniela Franić, member of the Management Board from 6 March 2015
3. Bernard Mršo, member of the Management Board from 8 August 2016

2016

1. Ana Stojić Deban, President of the Management Board from 16 June 2015
2. Daniela Franić, member of the Management Board from 6 March 2015
3. Bernard Mršo, member of the Management Board from 8 August 2016

Supervisory Board

During 2017 and 2016, members of the Supervisory Board of Zagreb Holding Ltd. were:

2017

1. Mirna Šitum, member (from 1 July 2013), Deputy President (from 2 July 2013), President (from 8 December 2014 to 1 July 2017)
2. Davor Štern, member (from 1 July 2013), Deputy President (from 8 December 2014 to 1 July 2017)
3. Ivan Šikić, member (from 1 July 2013 to 1 July 2017), member (from 21 September 2017)
4. Gojko Bežovan, member (from 1 July 2013 to 1 July 2017), member (from 21 September 2017)
5. Mirsad Srebreniković, member (from 28 May 2015 to 21 September 2017)
6. Jelena Pavičić Vukičević, member (from 28 May 2015 to 9 March 2017)
7. Andrea Šulentić, member (from 28 May 2015)
8. Nikola Mijatović, member (from 8 August 2016), Deputy President (from 27 September 2017)
9. Mario Županić, member (from 8 August 2016)
10. Ivan Lončarević, member (from 9 September 2017 to 21 September 2017)
11. Ljubo Jurčić, member (from 21 September 2017), President (from 27 September 2017)
12. Josip Budimir, member (from 21 September 2017)
13. Mihaela Grubišić Šeba, member (from 21 September 2017)
14. Domagoj Bešker, member (from 21 September 2017)

2016

1. Mirna Šitum, member (from 1 July 2013), Deputy President (from 2 July 2013), President (from 8 December 2014)
2. Davor Štern, member (from 1 July 2013), Deputy President (from 8 December 2014)
3. Ivan Šikić, member (from 1 July 2013)
4. Gojko Bežovan, member (from 1 July 2013)
5. Mirsad Srebreniković, member (from 28 May 2015)
6. Jelena Pavičić Vukičević, member (from 28 May 2015)
7. Andrea Šulentić, member (from 28 May 2015)
8. Grgo Jelinić, member (from 28 May 2015 to 8 August 2016)
9. Mirko Herak, member (from 28 May 2015 to 8 August 2016)
10. Ivan Ćelić, member (from 8 August 2016 to 21 November 2016)
11. Nikola Mijatović, member (from 8 August 2016)
12. Mario Županić, member (from 8 August 2016)

Assembly of the Company

The City of Zagreb is the only member of the Assembly of the company Zagreb Holding Ltd. During 2017 and 2016, its representatives were:

2017
1. Milan Bandić (from 22 April 2015)
2. Slavko Kojić (from 28 June 2013)
3. Vesna Kusin (from 30 March 2015 to 14 June 2017)
4. Olivera Majić (from 14 June 2017)

2016
1. Milan Bandić (from 22 April 2015)
2. Slavko Kojić (from 28 June 2013)
3. Vesna Kusin (from 30 March 2015)

Affiliates and the public institution

During 2017, Directors of the affiliates and Director of the public institution owned by Zagreb Holding Ltd. were:

Affiliate	Director of the Company
Zagreb City Gasworks Ltd.	Tihana Colić
Zagreb City Gasworks-Supply Ltd.	Igor Pirija
Zagreb Plakat Ltd.	Bosiljka Grbašić, Kruno Ian Bodegray
City Pharmacies Zagreb	Nadica Jambrek
City Housing and Municipal Services Company Ltd.	Joško Jakelić
Water Supply and Drainage Ltd.	Štefica Mihalic
AGM Ltd.	Dinko Čutura from 2 November 2016 to 11 September 2017, Ana Stojić Deban from 31 May 2017 to 11 September 2017, Stjepan Bekavac from 11 September 2017
Zagreb Housing Construction Ltd.	Željko Horvat
Centre Ltd.	Tomislav Bilić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Statement of Compliance with the Code of Corporate Governance

Pursuant to Article 22 of the Accounting Act (Official Gazette 78/15, 120/16), the Management Board of the Company Zagreb Holding Ltd., Zagreb, Ulica Grada Vukovara 41 (hereinafter: the Company) hereby issues the following

STATEMENT

of Compliance with the Code of Corporate Governance in 2017

1. The Company voluntarily applies the Code of Corporate Governance of the Company Zagreb Holding Ltd., passed by the following Company bodies: the Management Board, on 23 December 2015; the Supervisory Board, on 11 May 2016; and the Assembly of the Company on 12 May 2016. The Code has been published on the Company's web pages.

2. In the financial year 2017, the Company complied with and implemented the recommendations set forth by the Code, in all the relevant aspects, by publishing all information that the currently valid regulations require to be published, and the publication of which is in the best interest of the investors and all stakeholders.

   There were minor deviations from certain recommendations proposed by the Code. More specifically, a comprehensive calendar of important events was not published on the Company's web pages. Instead, individual calendars were published on the web pages of individual subsidiaries. Meetings of the Supervisory Board are convened when necessary, in accordance with daily information about the Company's activities, business operations, and problems indicated by the Management Board, Assembly, and the public, including information that has been brought to the attention of the Supervisory Board and that directly or indirectly affects the activities of the Company. Therefore, Meetings of the Supervisory Board are convened depending on various topics of discussion, and not only depending on the topics prescribed by the Articles of Association and by legal acts. Thus, the Framework Plan of the Activities of the Supervisory Board was not adopted. Members of the Audit Committee are not members of the Supervisory Board. Supervisory Board has the discretion right to decide about the composition of the Audit Committee. The Audit Committee has not drafted the rules about the services that the external audit company and its affiliates are not allowed to provide to the Company, services that they are only allowed to provide with previous approval of the Committee, and services that they are allowed to provide without the approval of the Committee (considering the fact that the Audit Committee supervises the activities of the external audit company and all extra services that the external auditor may provide to the company, as regulated by the Audit Act and the EU Regulation on Specific Requirements Regarding the Statutory Audit of Public-Interest Entities).

   The subsidiaries and the affiliates of the Zagreb Holding Group have also complied with and implemented, in all the relevant aspects, the recommendations set forth by the Code. Minimal deviations from the implementation of the Code are related to the obligation to submit quarterly written reports to the Management Board and assemblies of the affiliates. Said obligation is fulfilled by submitting monthly consolidation packages comprising basic financial statements (profit and loss statement, balance sheet, cash flow, and other) instead of submitting quarterly reports.

   Directors of the subsidiaries comprising the Company and members of the Management Boards of affiliates largely kept their business operations within the scope of the approved annual plans. Deviations from the plans were for the most part related to operating items that were impossible to plan ahead, such as provisioning costs and value adjustment costs.

3. The Company ensures the efficiency of the internal audit system in financial reporting, consisting of different records and methods implemented to initiate, identify, analyse, classify and record business events, including all measures and procedures to be implemented in connection with the accounting of business events, and, eventually, the compilation of reliable financial statements.

   The Internal Audit Department is in charge of reviewing the efficiency of the internal audit system which organises and supervises the flow of accurate, concrete, and integral information about the Company.

   The Company is under obligation to have independent external auditors as an important corporate governance instrument to ensure that the financial reports adequately reflect the actual state of the Company as a whole.

4. In 2017, the Management Board of the Company was composed of the following members: Ana Stojić Deban – President of the Management Board, Daniela Franić – member of the Management Board, Bernard Mršo – member of the Management Board. Members of the Management Board are appointed for a four-year term.

   Management Board manages the Company's business operations in accordance with the Articles of Association and legal acts. Members of the Management Board represent the Company individually and independently, unless a special decision by the member of the Company requires a member of the Management Board to represent the Company collectively with other members of the Management Board or together with an individual member who can represent the company independently and individually. If more than one member of the

Management Board are appointed, one member is appointed President. The scopes of authority of members of the Management Board are defined by a special decision of the Management Board.

The Management Board is under obligation to make sure that the Company keeps financial and other records and business documentation, prepares bookkeeping documents, makes realistic evaluations of its assets and liabilities, compiles financial and other reports in accordance with accounting regulations and standards and valid laws and regulations. During this financial year, the Management Board submitted reports on the Company's operations to the Supervisory Board in accordance with the Companies Act.

The Supervisory Board supervises the management of the Company's business operations in accordance with the Companies Act, the Articles of Association, the Rules of Procedure of the Supervisory Board, and other valid regulations. Assembly of the Company appoints and dismisses members of the Supervisory Board, who are appointed for a four-year term. One member serves as a representative of the workers and is appointed and dismissed in accordance with the regulations of the Labour Act. To be able to fulfil their obligation to supervise the management of the Company's business operations, members of the Supervisory Board regularly receive detailed information and reports on the state of the Company, its management, and business operations. In addition, the Supervisory Board carries out internal control and supervision procedures through the Audit Committee, which provides professional support to the Supervisory and Management Boards in efficient fulfilment of the obligations of corporate governance, risk management, financial reporting and control of the Company. The Supervisory Board's report on performed supervision of the Company management is a constituent part of the Company's annual statements that are submitted to the Assembly of the Company.

During 2017, members of the Supervisory Board were:

- Mirna Šitum, member (from 1 July 2013), Deputy President (from 2 July 2013), President (from 8 December 2014 to 1 July 2017)
- Davor Štern, member (from 1 July 2013), Deputy President (from 8 December 2014 to 1 July 2017)
- Ivan Šikić, member (from 1 July 2013 to 1 July 2017), member (from 21 September 2017)
- Gojko Bežovan, member (from 1 July 2013 to 1 July 2017), member (from 21 September 2017)
- Mirsad Srebreniković, member (from 28 May 2015 to 21 September 2017)
- Jelena Pavičić Vukičević, member (from 28 May 2015 to 9 March 2017)
- Andrea Šulentić, member (from 28 May 2015)
- Nikola Mijatović, member (from 8 August 2016), Deputy President (from 27 September 2017)
- Mario Župan, member (from 8 August 2016)
- Ivan Lončarević, member (from 9 March 2017 to 21 September 2017)
- Ljubo Jurčić, member (from 21 September 2017), President (from 27 September 2017)
- Josip Budimir, member (from 21 September 2017)
- Mihaela Grubišić Šeba, member (from 21 September 2017)
- Domagoj Bešker, member (from 21 September 2017)

Assembly of the Company is composed of the City of Zagreb as the only member of the Company, represented by representatives appointed pursuant to the Conclusion on the Representatives of the City of Zagreb in the Assemblies of Companies in which the City of Zagreb holds a 100% stake. The representatives are:

- Milan Bandić, Mayor of the City of Zagreb,
- Vesna Kusin, Deputy Mayor - prior to 14 June 2017, and Olivera Majić, PhD, Deputy Mayor - from 14 June 2017
- Slavko Kojić, Head of the City Office for Financing.

Assembly of the Company is usually convened once a year. It must be convened whenever the Company's interests so require and in cases defined by the law and the Articles of Association.

Assembly decides about the Company's financial statements, the utilisation of profit and the coverage of losses; alienation and encumbrance of the Company's real estate; investments in the development and construction of new facilities and investments in other companies; the Company's annual operations plan; increase and reduction of the share capital; appointment and dismissal of members of the

Supervisory Board; status changes, amendments to the Articles of Association and winding up of the Company. In addition to this, the Assembly decides upon all other matters included in its scope of authority under the law, Articles of Association, and other internal acts.

5. In the implementation of the diversity policy, the primary objective of the Company is to ensure the application of the principles of equal opportunities and diversity in all processes and functions, and to make them a constituent element of decision-making in everyday practice. The implementation of anti-discrimination measures, ensuring equality irrespective of belonging to a particular age, gender, ethnic, national, or other group, and establishment of an inclusive working environment is of special significance. With the aim of implementing the diversity policy as one of the elements of corporate social responsibility, the Company adopted the Code of Conduct as a legal framework and appointed the Ethics Committee and the Irregularities Committee, whose task is to identify actions that represent discrimination on any basis and propose sanctions for such behaviour, each within its scope of authority.

   Special attention is paid to the protection and promotion of the rights of persons with disabilities. The Company is one of the leaders in implementation of measures and activities defined by the Zagreb Strategy for Equalization of Opportunities for Persons with Disabilities in the period between 2016 and 2020, which aims to ensure a complete integration of disabled persons by integrating them into significant life areas, by enabling equal participation in the political, public, and cultural life; in the education process; in employment, healthcare, and rehabilitation; in social protection; in legal protection and violence prevention; in research, development, and other areas. One of the Strategy's determinants- professional rehabilitation and employment - is the key element in social inclusion and economical independence of disabled persons, and work and employment are the fundamental conditions for integration in regular, everyday life. Taking into account the implementation of the above-mentioned provision, the Company employs 346 disabled persons, or 3.94% of the total number of employees, who successfully participate in the performance of the Company's activities on daily basis.

In accordance with Article 22 of the Accounting Act, this Statement constitutes a separate section and a constituent part of the Company's Annual Statement for 2017.

In Zagreb, 25 April 2018

ZAGREBAČKI HOLDING
d.o.o.
ZAGREB, Ulica grada Vukovara 41

President of the Management Board

Ana Stojić Deban


INFORMACIJE
REKLAMACIJE
BLAGAJNE 18-20
BLAGAJNE 21-23
BLAGAJNE 24-25
ZET

Management Report and Business Analysis

Management Report and Business Analysis

Pursuant to the Accounting Act (Official Gazette 78/15, 134/15, 120/16), we hereby present the Management Report for the year that ended on 31 December 2017.

Pursuant to Item (b) of Paragraph 8 of Article 21a of the Accounting Act, a separate non-financial report will be published on the web page of the company Zagreb Holding Ltd. no later than six months after the date of the balance sheet.

Corporate responsibility and sustainability

As the largest provider of municipal services in the City, Zagreb Holding Group is aware of its significant impact on the environment and the society. The Group's main task is to provide high-quality public municipal services and goods to the citizens of the City of Zagreb, but the Group's companies also carry out other activities of public interest. Furthermore, the companies are characterised by a strong interconnection of financial and non-financial objectives with the interests of the broader social community in which they operate. The Group's financial results not only contribute to local development, but also influence economic and social developments in the Croatian economy. By employing a substantial number of people and by working with suppliers, contractors, and other stakeholders, the Group contributes to the local community by building stable partnerships. In accordance with city policies, the Group is devoted to implementing the principles of sustainable development in its daily business procedures. The aim of such practice is to avoid a potentially negative impact on the environment and the society, and to increase the long-term value in public interest.

In fulfilling its mission, the Group strives for maximum protection of the environment and of the public interest of the City of Zagreb. The Group's long-term strategic orientation is focused on achieving business excellence together with sustainable business operations, with the aim of fulfilling the needs of all present and future users of services provided by the Group's companies. In a broader perspective, Zagreb Holding's responsibility implies corporate social responsibility, including not only economic, but also social and environmental responsibility. Economic, social, and environmental responsibility represent constituent parts of the business objectives, which are based on the Group's principles of sustainable development and responsible behaviour.

- **The Group believes that corporate social responsibility practice includes management of the impact of the Group's operations, products, and services on the society, such as social investments, involvement in the development of the local community, and issues related to respecting workers' rights and investments in human resources, health, and safety.**
- **A responsible practice in the domain of environmental protection pertains to the management of the environmental impact of the Group's operations, products, and services, such as production technology and efficiency of exploitation of natural resources.**

In addition to the annual statement, the Group will publish a separate report on the sustainability of Zagreb Holding Group for 2017 - the second non-financial annual report of the Group.

Relationship with interest and influence groups

Considering the fact that the Group provides municipal services to the citizens of the City of Zagreb, the Group's operations are of pivotal importance for the functioning of the City, which is another indicator of the Group's overall responsibility toward the community.

The main interest and influence groups that the Group is connected to and interacts with are: citizens of the City of Zagreb - service users, employees, the City of Zagreb, suppliers, financial institutions, trade union organisations active in the Group, and the media. The following are our key activities in terms of relations with interest and influence groups: providing quality services by the Group to all users, communication with users, education and professional training of employees, ensuring occupational safety and health, and trade union activity. Conflict of interest and other important issues related to acceptable professional conduct of the employees and the management are regulated by the Code of Conduct, and there is an independent internal audit unit that contributes to increased personal and professional responsibility.

The Group works on improving the visibility and accessibility of all data and information related to citizens and its users on a daily basis, which is how it contributes to the transparency of its own operations and ultimately increases the trust of citizens and other interest and influence groups in the public administration system. The importance of relationship with all interest and influence groups is evident in interactive communication, both formal and informal, which takes place directly or via the web interface. Such communication allows interest and influence groups to ask questions, voice their opinions, and discuss topics that are relevant for them. The Customer Centre located at the address Ulica grada Vukovara 41, the web interface Customer Zone, the web platform sada.zgh.hr, and the Zagreb Holding Call Centre have provided a great contribution in this context. By introducing

the Call Center, available at +38572500400, it is much easier for citizens to obtain information on all fees included in the single bill, and to obtain information about other services provided by Zagreb Holding.

By opting for information transparency, the Group shapes its reputation in the relationship with all interest groups. We therefore pay special attention to regular corporate reporting, including accessibility and full compliance of reporting with the requirements of the Accounting Act and the Public Procurement Act.

Impact on society

Based on its operations and activities, the Zagreb Holding Group has a significant economic, social and environmental responsibility, which is reflected in the Group's impact on society and the environment. Accordingly, the Group implements the principles of good and responsible management of the company and its resources aimed at making its operations efficient and sustainable. The Group's responsibility regarding business operations is reflected in voluntary practices that surpass the minimum prescribed by the law, and such activities relate to the following areas: economic sustainability, incorporation of corporate social responsibility in business strategy, dialogue with the community, human rights, and responsibility for products and services.

Since the Group's activities are of crucial importance for the City of Zagreb, the quality of the products and services it provides and its choice of technologies have a direct impact on the quality of life and the standard of living of all citizens of the City of Zagreb. The Group also has an extra responsibility to consistently promote corporate social responsibility in its relations with its external users and in the promotion of responsible behaviour and social dialogue with its own workers.

Therefore, we systematically strive to improve the standards of responsible social development and abidance by human rights within the Group itself. We also strive to improve social dialogue, skill acquisition, equal opportunities, and the prediction and management of change. In addition to abidance by human rights, we devote maximum attention to observing labour standards and labour rights.

The Group devotes special attention to the development of services focused on the promotion of rights of disabled persons, for instance by adapting its public transport low-floor vehicles to accommodate disabled persons, or by involving disabled persons in its work procedures as employees who participate in challenging and diverse activities in all of the Group's components on a daily basis. We would also like to underline our important business partnership with the Institution for Vocational Rehabilitation and Employment for Persons with Disabilities (URIHO).

By applying the internal and the external dimension of corporate social responsibility to all its stakeholders, in combination with zero tolerance for all forms of unethical and corrupt behaviours, the Group pays special attention to the two of its largest interest groups – service users and workers.

The practices of increasing the transparency and publicity of business operations and strengthening personal responsibility are promoted as part of corporate social responsibility, in combination with the ever-increasing cooperation with civil society organisations. Such practices are aimed at balancing out the demand for improving the quality of life and the well-being of the broader social community.

Business operations of the Zagreb Holding Group are carried out in accordance with the laws, ethical standards, and principles of sustainable development and social responsibility, they comply with the Code of Conduct, and they aim to achieve responsible, professional, ethical, and transparent business conduct.

Ethical Committee and Irregularities Committee

Since the Group works in the interest of the public, in December 2010, the Management Board of the Company Zagreb Holding Ltd. adopted the Code of Conduct, which lays out the basic guidelines and rules of ethical behaviour for all employees and appointed the Ethical Committee. In 2017, the Ethical Committee held 7 meetings and reviewed 18 reports on irregularities. Compared to 2016, when 21 reports were submitted, the number of reports was reduced by 14%. Reports on employees were mostly related to inappropriate behaviour in the workplace. In all those cases, the Directors of the subsidiaries of Zagreb Holding Ltd. and the Director of the Internal Audit and Control Department were asked for their statements on the matter. Based on their statements, most of the reports turned out to be unsubstantiated.

All users of the Group's services, the Group's business partners, and employees can report illegal and/or unethical conduct in the Group's operations to the Ethics Committee, in written or electronic form, and we guarantee to protect their privacy in the process. The Committee investigates all submitted reports and notifies the applicant about the final conclusion. If the Committee discovers infringement of the Code of Conduct, it notifies the Management Board of the Company Zagreb Holding Ltd. For that purpose, the Irregularities Committee was set up to review petitions and complaints, and to notify the Management Board of the Company Zagreb Holding Ltd. about its findings.

In 2017, the Irregularities Committee, comprised of 3 members, received 54 petitions, which represents an insignificant increase compared to 2016, when 51 petitions were received. Of 54 petitions in total, 39 petitions have been resolved, 13 petitions have been rejected, and 2 petitions are still pending. Most petitions were submitted by employees, followed by trade unions and service users. Fewest petitions were submitted by the management. Most petitions were related to suspicious business procedures, followed by petitions related to irregular activities of employees and management. Of 39 petitions that have been resolved, irregularities were confirmed in 8 cases.

Consumer Complaints Committee

Consumer Complaints Committee ensures consumer protection of the Group's customers. In the first instance, consumer complaints are resolved by special committees set up by subsidiaries and affiliates. These committees were set up to investigate complaints against services provided by a particular subsidiary or affiliate. Following the adoption of the Ordinance on Consumer Complaints, a Committee was set up at Group level as a second-instance body to resolve consumer complaints related to providing services from the Group's registered activities. The Committee was set up in accordance with the Consumer Protection Act (Official Gazette 41/14, 110/15). By setting up this Committee, the Group improved the protection of consumers from possible malfeasance. Impartiality of this Committee was further ensured by appointing representatives of consumer protection associations as members, in addition to the employees of Zagreb Holding Ltd. and affiliates. During 2017, the Committee held 38 meetings and reviewed 581 complaints, of which 277, or 48%, were resolved in the applicant's favour. In 252 cases, or 43%, a first-instance decision made by individual companies of the Zagreb Holding Group was confirmed, while in 35 cases, or 6%, it was concluded that the Committee was not competent to decide on the matter at hand. Most complaints, 374 of them, or 64%, were related to Zagrebparking, followed by Water Supply and Drainage Ltd., which received 112 complaints, or 19%. In the past years, the largest number of complaints was related to the quality of services provided by these two Group members; however, the number of complaints has been significantly decreasing since 2015.

In accordance with its long-standing practice of corporate social responsibility, the Zagreb Holding Group strives to be a reliable partner of the community that it operates in. By investing systematic effort into recognising specific needs of the society, as well as through its sponsorship and donation programmes, it strives to support high-quality humanitarian, cultural, educational, environmental, healthcare, scientific, and sports projects. Principles, criteria, and the procedure for awarding sponsorship and donations are defined by the Ordinance on Sponsorship and Donations adopted by Zagreb Holding Ltd., Zagreb City Gasworks Ltd., and Zagreb City Gasworks-Supply Ltd. All approved sponsorships and donations are published on company web pages, which contributes to the Group's transparency and increases the trust of our consumers.

The system of providing financial support and support in kind to civil society organisations, as permitted by our capacities, is part of the Group's efforts to contribute to the well-being of the community that we live and work in. In collaboration with local self-government and civil society organisations, the Group strives to balance out the demands for improvement in the quality of life, social well-being, and efficient and profitable operations of municipal service providers.

We build trust through responsible, professional, ethical, and transparent business operations.

CUSTOMER CENTRE

All the information in one place

Submission of requests and complaints

Payment of bills without fees

Bill status

MOBILE OFFICE

Small user centre

CONSUMER PROTECTION COMMITTEE

Second-instance body which customers may contact if they are unsatisfied with decisions made by first-instance bodies of subsidiaries and affiliates

ETHICAL COMMITTEE

Resolves reports of illegal and/or unethical business operations

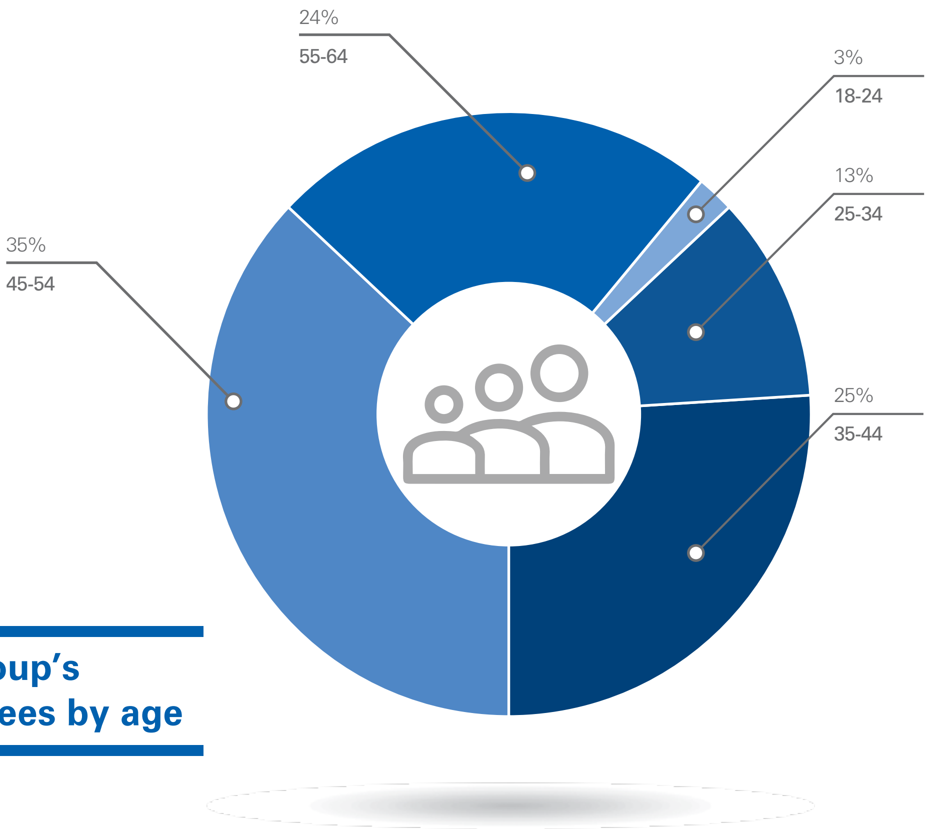
IRREGULARITIES COMMITTEE

Investigates petitions and complaints and notifies the Management Board of the Company with the aim of permanent elimination of potential irregular, unprofessional, or illegal operations

Responsibility to the Group's Employees

Besides paying attention to the impact on the society as a whole and the satisfaction of the users of its services, the Group also cares for the well-being of its employees. Our employees are our most valuable asset, and they play a pivotal role in building an efficient system with potential to deliver high-quality services to the citizens and the businesses of the City of Zagreb. As at 31 December 2017, the Group had 11,286 employees, which represents an increase by 892 employees compared to the number of employees as at 31 December 2016, when the Group had 10,394 employees.

Description	31 December 2017	31 December 2016
Employees	11,286	10,394
% of women in the total number of employees	23	23
% of women in management positions	54	57
Number of active trade unions in the Group	31	31

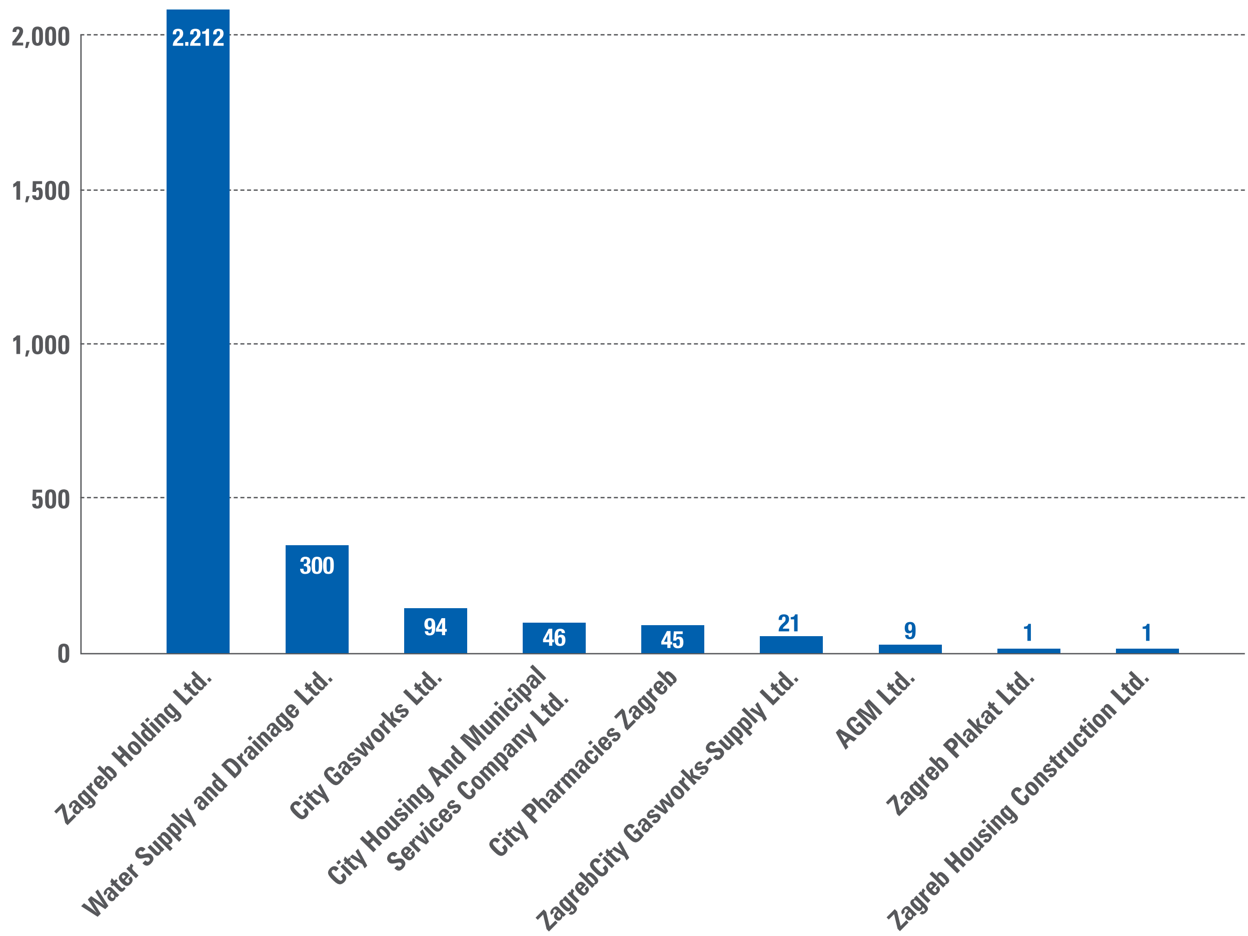


The Group's employees by age

As at 31 December 2017, the Group had 2,729 employees older than 55 (24% of all employees):

Description	Total	Age						
		up to 19	20-24	25-34	35-44	45-54	55-64	65 and above
Total	11,286	20	272	1,508	2,859	3,898	2,724	5

The Group's employees aged 55 and above



The Group complies with the provisions of the Labour Act under which the companies are required to inform the workers about all issues of particular relevance for their economic and social status, and to consult with the workers before making decisions of relevance for their position, or to make such decisions jointly with the worker's council or the trade union commissioner exercising the rights and assuming the obligations of the workers' council. Some of these provisions have been incorporated in the internal acts of the Group's companies, thus fostering a partnership with trade unions and the workers' councils operating in the Group's companies.

Special attention is paid to the protection and promotion of the rights of disabled persons.

Since 2003, the Zagreb Strategy for Equalization of Opportunities for Persons with Disabilities is a key strategic document of the City of Zagreb related to the creation of policies pertaining to disabled persons. The current Strategy prescribes priorities in form of measures and activities achievable in the period between 2016 and 2020. It was designed in cooperation with representatives of disabled persons and it pays special attention to currently identified needs and possibilities. Among others, Zagreb Holding has the main role, or one of the main roles in implementation of the measures and activities that the Strategy prescribes.

Great effort is constantly put into adapting public transport and public areas so that disabled persons could traverse the city on their own. In relation to that, the tram fleet consists of several types of trams, of which 142 are low-floor trams (52% of the total number of trams), while from the total of 413 buses, 345 are low-floor buses (84%). From the total of 257 tram stations, 176 are adapted for disabled persons (68%).

We have organised the transportation of disabled persons and children with developmental disorders by specialised vans. Furthermore, based on the agreement concluded between the City of Zagreb and Zagreb Holding Ltd., unemployed persons with disabilities now have the right to obtain a free annual pass, in accordance with the Decision on Social Welfare (Official Gazette of the City of Zagreb 26/14). Company Zagreb Holding Ltd. has installed 16 new "stop" buttons for blind and partially sighted persons, constructed pedestrian ramps, and reconstructed concrete or granite curbs with the aim of increasing traffic safety. It has also been working on constructing and equipping playgrounds in accordance with principles of universal (inclusive) design, and on constructing new and adapting the existing promenades based on the needs of children with developmental disorders and disabled persons.

Special attention is paid to the protection and promotion of the rights of disabled persons. Every day, hundreds of Group employees with varying degrees of disability successfully participate in challenging and diverse activities carried out by each of the Group's companies.

To increase efficiency, the Group strives to provide its workers with continual training and additional education. We also regularly implement occupational health and safety measures to minimize or eliminate the risk to the workers and the working environment that arises during the performance of the work activities.

Environmental research, development, and protection activities

In accordance with the principles of sustainable development, the Group makes an effort to help improve the attitude towards the environment through its everyday activities and the services it provides to the citizens of the City of Zagreb.

In accordance with corporate guidelines and compliance with legal regulations pertaining to environmental protection, the Zagreb Holding Group strives to increase energy efficiency, reduce carbon dioxide emissions, optimise fuel consumption, and constantly improve its services, i.e. the quality of life of the social community that it operates in.

There is a Central Department for Energy Efficiency operating in the Zagreb Holding Group. This Department was formed at the very end of 2016 with the aim of systematic energy and water management. In accordance with the Energy Efficiency Act, it carries out and organises activities related to energy and water management at Group level. Its aim is to improve the efficiency of energy and water usage, consequently reducing greenhouse gas emissions. One of the most important objectives of the Central Department for Energy Efficiency is the introduction of an energy management system based on the HR ISO 50001 standard in all components of the Group.

In 2017, in the realisation of the objectives we had set, we organised free professional training for 11 energy consultants and 18 energy efficiency associates.

Some of the Group's business processes involve generation of greenhouse gas emissions. All relevant environmental protection regulations are applied in these processes, and they are monitored by management systems. The Group continually works on establishing and maintaining international environmental management standards (ISO 14001), energy management standards (ISO 50001), food/drinking water safety management standards (ISO 22000), and information security management standards (ISO 27001), which are the best tools for attaining corporate social responsibility.

Following the environmental and social responsibility standards, the Group aligns its operations with the National Green Public Procurement Action Plan 2015-2017, With a View on 2020. In 2016, based on this plan, the Management Board of the company Zagreb Holding Ltd. adopted the Guidelines for the Implementation of Green Public Procurement in Zagreb Holding Ltd. in 2016, which are followed in the procurement of goods and services. The public procurement system is thus used to encourage the procurement of products with a lower environmental footprint than its counterpart products and services. The green public procurement concept rests on the establishment of clear, verified, justified, and ambitious environmental standards for products and services based on their entire useful life. Standards that we introduced apply to several priority categories: printing and copying paper, motor vehicles, electricity, cleaning services, telecommunications services, and office and IT equipment. Such public procurement is characterised by lower greenhouse gas emissions, use of recycled materials, lower electricity consumption, use of electricity generated from renewable sources, and restrictions on the use of agents that have a negative impact on the environment.

In addition to making environmental protection part of the everyday activities of its employees, the Group also implements various measures and activities to encourage the local community to show responsibility for the environment. The Group thus strives to involve other stakeholders and work together with them to achieve a much stronger positive impact on environmental protection. Encouraging citizens to sort waste is our main objective. To accomplish this, we have set up containers for separate collection of different types of waste. We have also organised the collection of bulky and other waste and constructed new recycling centres and "recycling islands". All these measures reflect the principles implemented in the Group's environmental protection strategy.

In 2017, the number of "recycling islands" was increased from 607 to 683. In addition, a large-scale distribution of separate collection waste paper containers to our customers was being carried out from the beginning of 2017. At the end of 2017, approximately 76,000 individual customers had adequate containers for separate collection of waste paper, which is an increase by 39,000 containers compared to 2016.

By introducing the service of bulky waste removal at customer request only and by manual sorting of collected bulky waste and waste from illegal dumps, we have reduced the amount of deposited waste, and increased the amounts of usable waste that gets recovered.

Business operations of the Prudinec/Jakuševec Landfill

During 2017, the Group actively and continually implemented environmental protection measures through its subsidiary Landfill Management by ensuring proper functioning of the Prudinec/Jakuševec Landfill, built based on the construction permit and the approved amendments to the main design. In 2014, a certificate of occupancy was obtained for the enclosed section of the Landfill, the construction of which has been fully completed.

In 2017, Landfill Management continued to carry out the project of constructing a gas system at the Jakuševec Landfill and the project of procuring the third generator set. The aim of this project is to retrofit the facilities and related systems to improve the level of environmental protection and use of renewable energy sources, which should eventually be reflected in the increase of income. This project is co-financed by the Environmental Protection and Energy Efficiency Fund, which covered 40% of eligible costs, or HRK 4.25 million, based on the agreement concluded at the end of 2014. The project should have been realised by the end of June 2016, but considering that it was not, the subsidiary requested an extension for the deadline to the end of 2017, and an annex to the agreement has been concluded. **Total completed payments by the Fund in the period between December 2014 and December 2017 amounted to HRK 3.6 million, representing 84% of the total amount invested by the Fund in the realisation of the project.**

The activity of waste disposal using the D1 procedure is carried out at the Prudinec/Jakuševec Landfill in accordance with the permit for carrying out waste management activities from July 2015. The subsidiary Landfill Management monitors the state of the environment in accordance with the Decision on Integrated Environmental Protection Conditions for the Prudinec/Jakuševec Landfill from September 2016.

In July 2016, the Ministry of Environment and Energy initiated the reopening of the procedure of evaluating the environmental permit for the Prudinec/Jakuševec Landfill. During 2017, the documentation for the procedure of the environmental permit renewal was being supplemented through regular communication with the Ministry. The procedure of evaluating the environmental permit and issuance of a new environmental permit, possibly under new conditions prescribed by competent authorities, is expected to be completed during 2018.

A detailed monitoring of the state of the environment is conducted at the landfill. Monitoring includes air quality monitoring, measuring of meteorological parameters, measuring of landfill gas composition, measuring of the quality of leachate, surface water, and ground water, monitoring of the functioning of the Intervention Pumping System (IPS), monitoring of bird numbers at the landfill, and measurement of noise produced by the landfill facility.

In addition, at the Prudinec/Jakuševec Landfill, collection and processing of landfill gas is carried out in supervised conditions to avoid harmful emission into the environment and to use gas for energy generation purposes. The small thermal power plant mTEO had been the only plant in the Republic of Croatia to generate electricity from landfill gas by the end of 2016. This plant for generation of electricity from landfill gas protects the ozone layer, avoids the greenhouse effect, and produces electricity and heat from the collected landfill gas.

In the period between December 2004 and December 2017, the power plant mTEO extracted and processed a total of **122,043,609 m^3** of landfill gas. In the same period, a total of **92,526,943 kWh** of electricity was produced and transmitted into the HEP system.

During 2017, the mTEO plant extracted **13,609,660 kWh** of electricity from landfill gas, representing a result lower by 5,396,924 kWh compared to 2016. Electricity generation is reduced compared to the same period of the previous year as a result of one gas motor-generator (GP2) being out of service due to major overhaul after it had reached 24,000 running hours.

Subsidiary Landfill Management carries out the activity of generating electricity in accordance with the licence issued by the Croatian Energy Regulatory Agency in May 2013 and the Decision on Acquisition of the Status of Eligible Producer granted in December 2014. Generated electricity is marketed in accordance with the Power Purchase Agreement from a Facility Using a Renewable Energy Source signed with the Croatian Energy Market Operator Ltd.

In 2017, when procuring public transport vehicles and in carrying out basic services, the Group continued to apply results and experience gained by participating in projects Civitas Elan and Clean Fleets by using ecologically acceptable fuels.

In addition to the above-mentioned activities, the Group initiates and participates in numerous educational campaigns on raising awareness about the significance of environmental values and sustainable development. We continually align our internal acts with environmental protection regulations as they are amended, continually cooperate with city authorities, the competent ministry, Croatian Environment Agency, and the Environmental Protection and Energy Efficiency Fund. We also collect data for the Environmental Pollution Register and deliver it to the City Office for Environment Protection of the City of Zagreb and to the Croatian Environment Agency on an annual basis. Furthermore, we have been carrying out the project Environmental Management in Zagreb Holding by keeping records on waste generation, management, and disposal.

Until the end of 2016, the mTEO plant was the only facility in the Republic of Croatia that generated electricity from landfill gas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Projects financed through EU funds and funding instruments

The team for preparation and management of projects co-funded through EU grants and state aids operates at the Group level, and its objective is to use EU funds and state aids as much as possible. This team was formed to improve the selection and preparation of projects that would be submitted for EU funding and state aids, communication on projects carried out by Zagreb Holding Group, cooperation and coordination in the selection of projects with the competent Office for EU Programs and Projects of the City of Zagreb, cooperation with competent ministries and funds, and communication between subsidiaries/affiliates and the Management Board of Zagreb Holding Ltd. regarding preparations for decision-making and defining priorities.

Regarding ESI funds, the Group focuses on projects related to transport and projects related to waste management. In 2017, through the subsidiary ZET, Zagreb Holding continued its participation in drafting the Master Plan of the Transport System in Zagreb Metropolitan Area - the project carried out by the company Integrated Traffic of Zagreb Area Ltd. Master Plan of the Transport System will serve as a foundation for submitting project proposals for EU funding. Projects that are being prepared by Zagreb Holding Ltd. for potential co-funding by OPCC, under priority axis 7 - Connectivity and Mobility, and by the so-called ITI mechanisms (Integrated Territorial Investments) are the following: Procurement of New Buses and Trams, Reconstruction of Tram Infrastructure, Traffic Surveillance and Management System, Video Surveillance and Passenger Counting System.

During 2017, the project called “Procurement of 15 Buses for ZET” was prepared and submitted under the restricted Call for Project Proposals for Procurement of Buses for Providing Public Transport Services. The project was approved, and in October 2017 we concluded the agreements on grants for procurement of 15 buses for the subsidiary ZET. The restricted grant procedure was carried out by the Ministry of the Sea, Transport and Infrastructure within European Structural and Investment Funds and the Operational Programme Competitiveness and Cohesion. Total value of the buses is HRK 42.5 million, and the grant will cover all eligible costs amounting to HRK 32 million, of which 85% will be financed by resources from the Cohesion Fund, while the remaining 15% from the National Budget. The remaining other costs will be covered by Zagreb Holding, i.e. the subsidiary ZET. We have also started preparing the documentation for obtaining another grant for procurement of new buses in the amount of HRK 45 million.

This is the Group’s first major project related to transport that is co-financed by the Cohesion Fund as part of the Operational Programme Competitiveness and Cohesion, priority axis 7 - Connectivity and Mobility, investment priority 7ii - Developing and improving environmentally-friendly (including low-noise) and low-carbon transport systems, including inland waterways and maritime transport, ports, multimodal links and airport infrastructure, in order to promote sustainable regional and local mobility, Specific objective 7ii2 - increase the number of transported passengers in urban public transport.

Conclusion of the agreement on grants for procurement of 15 buses for the subsidiary ZET on 23 October 2017.

Furthermore, the group is aware of challenges and binding targets related to waste management set by the EU and national legislation, pertaining to establishing a sustainable waste management system. In that regard, besides starting preparatory work for projects that could be co-financed by the operational Programme Competitiveness and Cohesion 2014-2020, Specific objective 6i1 - Reduced amount of waste disposed at landfills, the subsidiary City Waste Disposal currently participates in three European projects related to said matter:

- Bin2Grid is a project submitted directly to the European Commission as part of the Horizon 2020 Programme. The project is related to the possibilities of separate food waste collection with the purpose of producing biomethane and using it as a fuel through a local network of filling stations. The expected result of the project is increased production of energy from renewable sources through sustainable waste management in four cities - Zagreb, Skopje, Malaga and Paris. The project began in January 2015 and it shall last for three years. Subsidiary City Waste Disposal is the project coordinator. Total project budget amounts to EUR 790,000, of which the share of the City Waste Disposal amounts to EUR 120,000.

PROMOTION OF PUBLIC PROCUREMENT OF INNOVATION FOR RESOURCE EFFICIENCY WASTE TREATMENT

- The project PPI4Waste was also submitted directly to the European Commission as part of the Horizon 2020 Project. The project deals with EU waste management guidelines, with an emphasis on sustainability and innovation, and comprises measures and activities related to green public procurement in waste management. The objective of the project is to investigate and identify the main obstacles preventing green public procurement through specific practical examples, and to propose tools and models for the implementation of innovation and green public procurement in waste management based on the Europe 2020 strategy and the Directives of the European Parliament. Technical Institute of Seville is the project coordinator, and City Waste Disposal is one of eight project partners from the following EU member states: Croatia, Belgium, Germany, Sweden, Spain, Netherlands, and Italy. Total project budget amounts to EUR 1,000,000, of which the share of the City Waste Disposal amounts to EUR 70,000.

- Project REEF 2W is related to improving energy efficiency by integrating, combining and empowering urban wastewater and organic waste management systems through sustainable management of municipal wastewater and organic waste. The project is carried out as part of the EU programme Interreg Central Europe. It started in June 2017 and it will last for three years, until mid-2020. Total of 13 partners participates in the project, and they are coordinated by the Italian the National Agency for New Technologies, Energy and Sustainable Economic Development (ENEA). Subsidiary City Waste Disposal participates in the project as project partner and its task is efficient resource management through integrated approach of resolving problems related to energy inefficiency and efficient wastewater and organic waste management. The objective of the project REEF 2W is to offer specific technical solutions in analysis and planning of processes for optimisation of facilities for wastewater treatment, municipal waste management system, and reduction in local energy consumption. Total project budget amounts to EUR 2,300,000, of which the share of the City Waste Disposal amounts to EUR 191,000.

Establishing highly-efficient, reliable, and safe IT and telecommunication support to the Group's operations

Standardisation of software for different business areas remains our priority and we keep putting a lot of work into it. In that regard, we have implemented the following measures during 2017:

A **Uniform program for human resources management and salary calculation – improvement of its utilisation and upgrade**

Uniform human resources management and salary calculation software was implemented at the level of Zagreb Holding Ltd. and some of its subsidiaries (Water Supply and Drainage Ltd., City Housing and Municipal Services Company Ltd., AGM Ltd.). The uniform software platform encompasses all human resources management and salary calculation processes, including a uniform database and uniform salary calculation process.

B **Registry and Single Utility Bill**

Work on the alignment of data in the Registry and the upgrade of Single Utility Bill continued throughout 2017.

The following is the result of active support of the work of the Single Utility Bill Team:

- Registry has been connected with the Personal Identification Number system and Personal Identification Number can now be checked automatically
- Zagreb Holding Ltd. has become connected to the e-Citizens (e-Građani) system and bills can be delivered in PDF format to the users' Mailbox
- Digital archive of bills and forms in PDF format has been created
- Web service for the consolidation of registry information with the Company Water Supply and Drainage Ltd. has been developed
- Buyer cards accessible through the e-Citizens system have been developed
- Proposals for activities designed to further improve the project "Registry of Facilities and Users" have been prepared
- Users can now opt out of receiving printed bills using authorisation through the e-Citizens system.

Major infrastructural projects

Technological Park

In April 2017 on the first floor of the Pavilion 12 of the Zagreb Fair, the Technological Park Zagreb was opened. It is intended for the development of start-ups and creation of innovative and highly-advanced technologies. Technological Park Zagreb covers the area of 7,313 m^2, its value amounts to HRK 17 million, and it will include 110 start-ups with approximately 350 employees. The area is divided into 118 separate modular work units, meeting rooms, common rooms, and laboratories. It will also include a Computer Forensics Centre, Centre for Development of Interfaces, Electronics, Environmental Protection Technology, and other.

Sports gym and swimming pool in Novi Jelkovec

Construction of the sports gym and swimming pool next to the secondary school in Novi Jelkovec was completed and the facilities were handed over to the City for management. They were opened to the public on 17 May 2017. The sports compound comprises three swimming pools, a sports gym, a restaurant, and changing rooms. It covers the area of more than 10,000 m^2. A large swimming pool, a recreational swimming pool, and a pool for children occupy a net area of 6,300 m, while ancillary rooms are situated in the basement. The remaining area is occupied by a three-section sports gym with additional rooms and equipment on the ground floor. An exercise room, a gym, a gymnastics room, and changing rooms are located in the basement.

Source: www.zagreb.hr

Addition of a day-care hospital and underground garage

In mid-May, we started reconstructing the compound of Clinical Hospital Sveti Duh, which works include the addition of a day-care hospital and underground garage. The main investors are the City of Zagreb and Zagreb Holding Ltd. The underground garage comprises 2 fully underground levels, 2 levels that are more than 50% underground, and 3 above-ground levels. The underground garage has 477 parking spaces (of which 5% are accessible parking spaces). Total work costs amount to HRK 124.3 million. Construction is expected to be finished in May 2019.

Podbrežje

The first phase of Podbrežje Project – Zagreb Housing Construction Model – is almost completed. The first phase included the construction of four buildings comprising 608 apartments and the construction of a primary school and a kindergarten. This entire city block is designed as a car-free zone with pedestrian and bicycle paths, and a 70-hectare park is planned to be built, facing the city block.

Hrvatski Leskovac Primary School

Construction of Hrvatski Leskovac Primary School began in October 2017. It is to be one of the most modern schools with the total capacity of 320 students divided into 16 classes. It will consist of a ground floor, first floor, a two-section sports gym, and an outdoor area. In line with the city policy of reducing energy consumption and implementing renewable energy sources, this educational institution will have the A energy class label. Construction is expected to be completed in October 2018.

Plans for the future development of the Group

Business transformation

The Group's restructuring process continued in 2017 by adopting the plan for demerging the company Zagreb Holding with establishment of new limited liability companies for the subsidiaries Zagreb Electric Tram and Zagreb Fair. New companies Zagreb Electric Tram Ltd. and Zagreb Fair Ltd. are wholly owned by the City of Zagreb and they have been operating independently since 1 January 2018.

The Group faces the challenges of advancing the operations of all its components in accordance with the requirements of competitive business while at the same time promoting technological advancement and improving the overall quality of its services. Successful implementation of a high-quality medium-term development strategy is one of the ways to address these challenges and a tool which ensures an active role in restructuring.

The Group's development orientation

In the next medium term, the Group's vision will be achieved by carrying out activities and projects which contribute to the realisation of the three key strategic objectives:

- **Strategic objective 1** – High-quality and reliable public services
- **Strategic objective 2** – Growth and development
- **Strategic objective 3** – Corporate sustainability (corporate social responsibility, social, economic, and environmental aspects)

The definition of strategic objectives and strategy as tools for the realisation of the Group's objectives is based on defining corporate processes and on the organisational structure that will help and support their realisation. The Group's development objective is to increase the quality and the scope of its public services to the benefit of the citizens, businesses and the local government and self-government of the City of Zagreb, thus improving the standard of living for the citizens, the competitiveness of the City's economy, and the reputation of the City of Zagreb in comparison with other cities. In the fulfilment of said objective, the Group is also guided by the need to meet public interests and to achieve sustainable profitability, the key elements being efficient cost management, improvement of business processes, and the development of an integrated information system on the reporting, management and operational levels, along with carefully considered investments in the development of new services and improvement in the quality of existing services.

In line with the City's development guidelines, the corporate strategy envisages a strategic orientation on organic growth and a strategy of expansion of the municipal service portfolio with an emphasis on efficiency and marginal profitability. Furthermore, we expect to become more competitive in a selected portfolio of market activities and achieve the leading position in the industry.

We will continue to consolidate our operations in the future to maintain a positive business result through stronger focus on income growth, cost control, and further improvements in business and management processes.

Investments in municipal activities and human resources were chosen as the priorities. They represent the foundation of the Group and the development of the Group depends on their efficiency.

Measures for planned future development of the Group

The Group's development measures represent a specific framework for defining development projects and activities, project leaders, and approximate amount of funds required to implement certain measures. They contribute to the fulfilment of strategic objectives underlined in the previous chapters and they lead to the eventual fulfilment of the Group's vision.

The Development Strategy defines a total of 18 measures for the fulfilment of the Group's seven specific development objectives. These measures will be implemented by 2020 to ensure the improvement of service quality, stronger development and growth, and establishment of sustainable long-term operations.

Objectives, priorities, and planned measures for the Group's development in the period before 2020 are presented as follows:

Specific objectives	Planned measures
Strategic objective 1: High-quality and reliable public services	
1.1. Improvement of the existing products, services, and service industry activities	• Improving quality standards in the current service provision • Innovative solutions within existing products and services
1.2. Development and integration of new products and services	• New products and services directly connected to the existing market segments • Development in new market segments
Strategic objective 2: Growth and development	
2.1 Stable positive results	• Reducing operating expenses • Increasing operating income • Asset, risk, and financial liability management
2.2 Organisation and corporate development	• Strategic planning • Advancement of corporate governance and communication • Development of a process repository and business certification • Introduction of an integrated information system
2.3 Human resources development	• Development of personal professional competences • Strengthening of management and excellence promotion system
Strategic objective 3: Corporate sustainability	
3.1. Participative management – cooperation with citizens, associations, and local communities	• Cooperation with service users and citizens • Cooperation with local communities and civil society organisations
3.2. Environmental protection	• Improvement of environmental parameters in the production of existing products and service provision • Implementation of green technologies in business

Business analysis

Business result and financial position

in HRK 000

Description	2017	2016	Result in 2017/ in 2016
1	2	3	4=2/3
Operating income	5,221,257	5,045,106	103.5
Operating expenses	(5,118,880)	(4,841,253)	105.7
Financial income	207,487	237,116	87.5
Financial expenses	(294,438)	(330,659)	89.0
Total income	**5,428,744**	**5,282,222**	**102.8**
Total expenses	**(5,413,318)**	**(5,171,912)**	**104.7**
Profit before tax	**15,426**	**110,310**	**14.0**
Tax (expense)	*(13,722)*	*(35,378)*	*38.8*
Profit after tax	**1,704**	**74,932**	**2.3**
Profit from operating activities	*102,377*	*203,853*	*50.2*
Loss from financial activities	*(86,951)*	*(93,543)*	*93.0*

Most important events related to the Group's business operations in 2017 are the following:

- In relation to gas distribution, in December 2016, the Croatian Regulatory Energy Agency (hereinafter: HERA) passed a Decision on the Amount of Tariff Items for Gas Distribution (Official Gazette 122/2016) for the second regulation period between 2017 and 2021. These Tariff Items are valid as of 1 January 2017, and they apply to all distribution system operators in the Republic of Croatia. Pursuant to the above-mentioned Decision, tariff items for all tariff models (Ts1) for 2017 were, on average, 12% higher compared to the 2016 tariff items.
- In relation to gas supply, as a result of lower gas supply (purchase) prices, the average monthly gas sales price for households was lower by approximately 11%, and by approximately 20% for corporate users. Furthermore, by virtue of a decision by HERA dated 1 April 2017, the supply margin of the company Zagreb City Gasworks-Supply Ltd. for the public service has been reduced by 35% compared to 2016. Furthermore, in addition to the regulatory reduction in the period between 1 April and 30 September 2017, the margin of the company Zagreb City Gasworks – Supply Ltd., was reduced further by approximately 15% by virtue of a decision adopted by the owners of the company Zagreb City Gasworks-Supply
- In February 2017, we introduced new single-ride tickets, valid for 30 minutes and priced at HRK 4, as a new model of fare collection in the first tariff zone of the City of Zagreb. New single-ride tickets were also introduced outside the traffic area of the City of Zagreb in March 2017. At the same time, three zones outside of the City of Zagreb - in the area of the cities Velika Gorica and Zaprešić, and the municipalities Bistra, Luka, Stupnik, and Klinča Sela - were converted into a single zone.
- Increase in the number of employees due to the fact that Group companies' work organization required employees who had been temporarily hired through employee-leasing agencies (and who mostly performed tasks related to primary business activity of the companies for a period longer than six months) to be employed permanently; increase in the number of employees as a result of hiring a satisfactory number of employees required for regular and timely performance of tasks related to primary business activities of the companies (for instance, hiring tram drivers and bus drivers, hiring employees in charge of delivering and unloading containers for separate collection of recyclable waste, and other).
- On 5 July 2017, Zagreb Holding Ltd. fully completed the repayment of Eurobonds. These bonds were issued in 2007 on the foreign capital market and amounted to a total of EUR 300 million. Repayment began in 2016 with the early repayment of EUR 146.3 million and it was completed in 2017 with the repayment of the remaining EUR 153.7 million. This repayment ended the 10-year period of indebtedness on the foreign capital market.

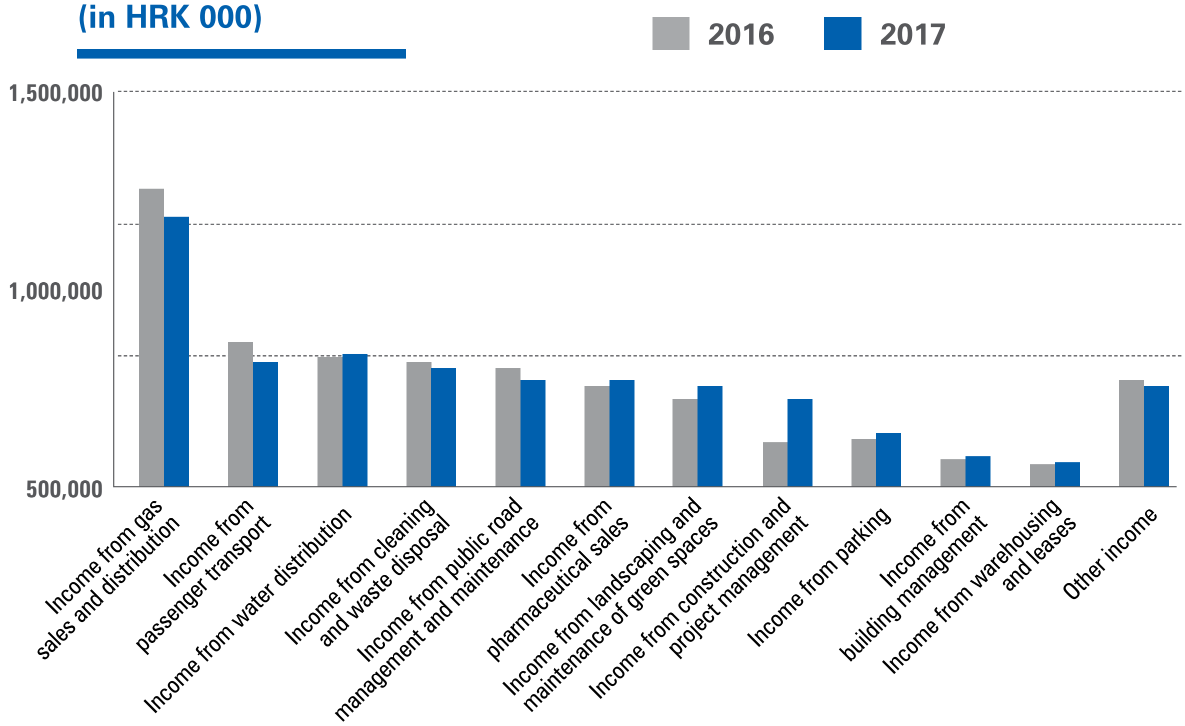
Profit and loss account and other comprehensive profit report

Description	2017 In HRK 000	2016 In HRK 000	Result in 2017/in2016
1	2	3	4=2/3
OPERATING INCOME			
Sales income	3,793,578	3,842,428	98.7
Other operating income	1,427,679	1,202,678	118.7
Total	**5,221,257**	**5,045,106**	**103.5**
OPERATING EXPENSES			
Cost of material and services	(2,244,894)	(2,263,344)	99.2
Staff costs	(1,678,606)	(1,609,351)	104.3
Depreciation	(529,667)	(548,140)	96.6
Value adjustment of assets	(423,624)	(167,283)	253.2
Provisioning	(106,342)	(107,998)	98.5
Other operating expenses	(135,747)	(145,137)	93.5
Total	**(5,118,880)**	**(4,841,253)**	**105.7**
FINANCIAL INCOME	**207,487**	**237,116**	**87.5**
FINANCIAL EXPENSES	**(294,438)**	**(330,659)**	**89.0**
TOTAL INCOME	**5,428,744**	**5,282,222**	**102.8**
TOTAL EXPENSES	**(5,413,318)**	**(5,171,912)**	**104.7**
PROFIT BEFORE TAX	**15,426**	**110,310**	**14.0**
Tax (expense)	*(13,722)*	*(35,378)*	*38.8*
PROFIT IN THE YEAR	**1,704**	**74,932**	**2.3**
Other comprehensive profit			
Profit from revaluation of real estate properties (net)	-	86,675	-
Profit from valuation of available-for-sale financial assets	(2,606)	4,610	(56.5)
Other changes in comprehensive profit	-	(37,137)	
Total comprehensive profit in the year	**(902)**	**129,080**	**(0.7)**

Total sales income in 2017 amounted to HRK 3,793,578 thousand and were lower by HRK 48,850 thousand or 1.3% compared to 2016, primarily as the result of the following changes occurring in some segments of the Group's business operations:

- Lower income from gas sales and distribution by HRK 111,032 thousand as the result of the reduction in average monthly gas sales price for households (by approximately 11%) and for companies (by approximately 20%) due to the reduction in the gas supply price. Furthermore, by virtue of the decision by the Croatian Energy Regulatory Agency dated 1 April 2017, the supply margin of the company Zagreb City Gasworks-Supply Ltd. for the public service has been reduced by 35% compared to the previous year and the margin of the company was further reduced by 15% in the period between 1 April and 30 September 2017 by virtue of a decision by the owners of the company Zagreb City Gasworks-Supply.
- Reduced income from passenger transport by HRK 50,243 thousand as the result of introducing new single-ride tickets valid for 30 minutes and priced at HRK 4,00 as a contemporary model of fare collection, which resulted in a large decrease in the sales of single-ride tickets priced at HRK 10,00, decrease in the sales of all monthly passes, and decrease in the sales of most yearly passes.
- Reduced income from public road management and maintenance by HRK 44,932 thousand as the result of a smaller volume of work carried out for the City of Zagreb compared to the previous year.
- Reduced income from cleaning and waste disposal by HRK 17,845 thousand as the result of the reduction in the number of weekly waste pickups. Based on the survey of the districts of the City of Zagreb regarding the necessary number of weekly waste pickups and following the submitted proposal for reduction thereof, the Mayor of the City of Zagreb passed the Order on Municipal Waste Collection, published in the Official Gazette of the City of Zagreb (No. 11, dated 15 July 2016), stating that as of 1 August 2016, the number of mixed municipal waste pickups would be reduced. Therefore, mixed municipal waste is currently being picked up twice a week in 84% of the city, once a week in 7% of the city, and, as before, three times a week in 9% of the city (city centre).
- Increased income from construction and project management by HRK 100,731 thousand as the result of declaring income from the construction of public purpose facilities for the City of Zagreb in accordance with IFRIC 12 Service Concession Agreements, under which the Group registers the construction phase as an expense for the period and simultaneously recognises the income in accordance with the degree of completion of the project (IAS 11 Construction Contracts), which was the reason for the most significant increase in subcontractor service costs.
- Increased income from landscaping and maintenance of green spaces by HRK 38,554 thousand as the result of a larger volume of work for the programme of maintaining municipal infrastructure in the area of districts of the City of Zagreb and for emergency interventions for maintenance of city parks and other public green spaces.
- Increased income from pharmaceutical sales by HRK 18,550 thousand as the result of higher income from sales of prescription drugs of the Croatian Health Insurance Institute and higher income from over-the-counter drugs and preparations.
- Increased income from parking by HRK 12,029 thousand primarily as the result of higher income from sales of hourly parking permits through the new m-parking service, higher sales of parking permits for commercial vehicles, and higher income from sales of daily parking permits for foreign vehicles.

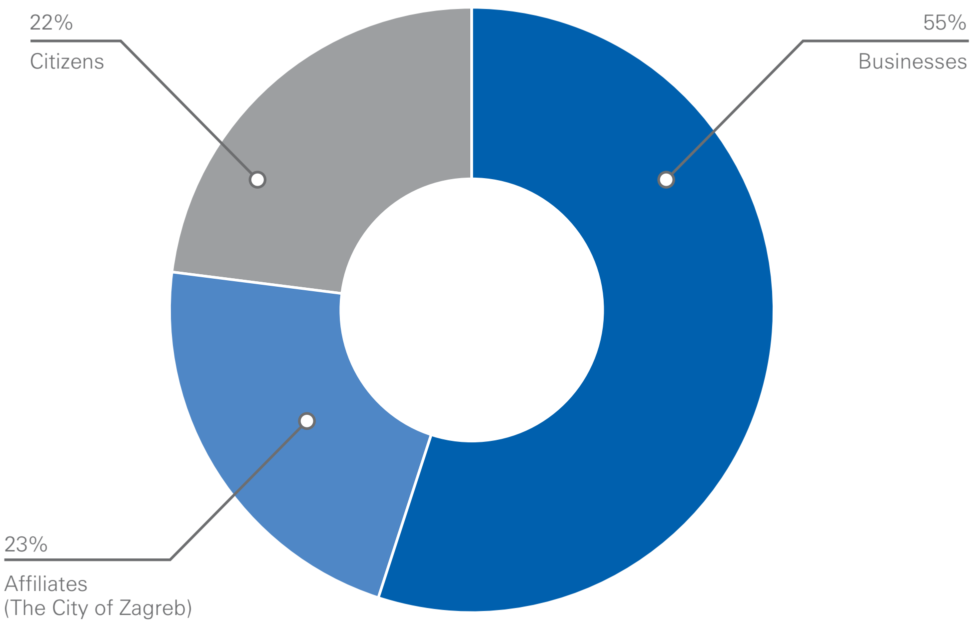
Income by business segments (in HRK 000)



Considering that gas sales and distribution, water distribution, passenger transport, and cleaning and waste removal accounted for a total of 56% of the Group's sales income in 2017, the physical indicators of the companies Zagreb City Gasworks Ltd, Zagreb City Gasworks-Supply Ltd., and Water Supply and Drainage Ltd. and the subsidiaries Zagreb Electric Tram and City Waste Disposal are shown in the table below:

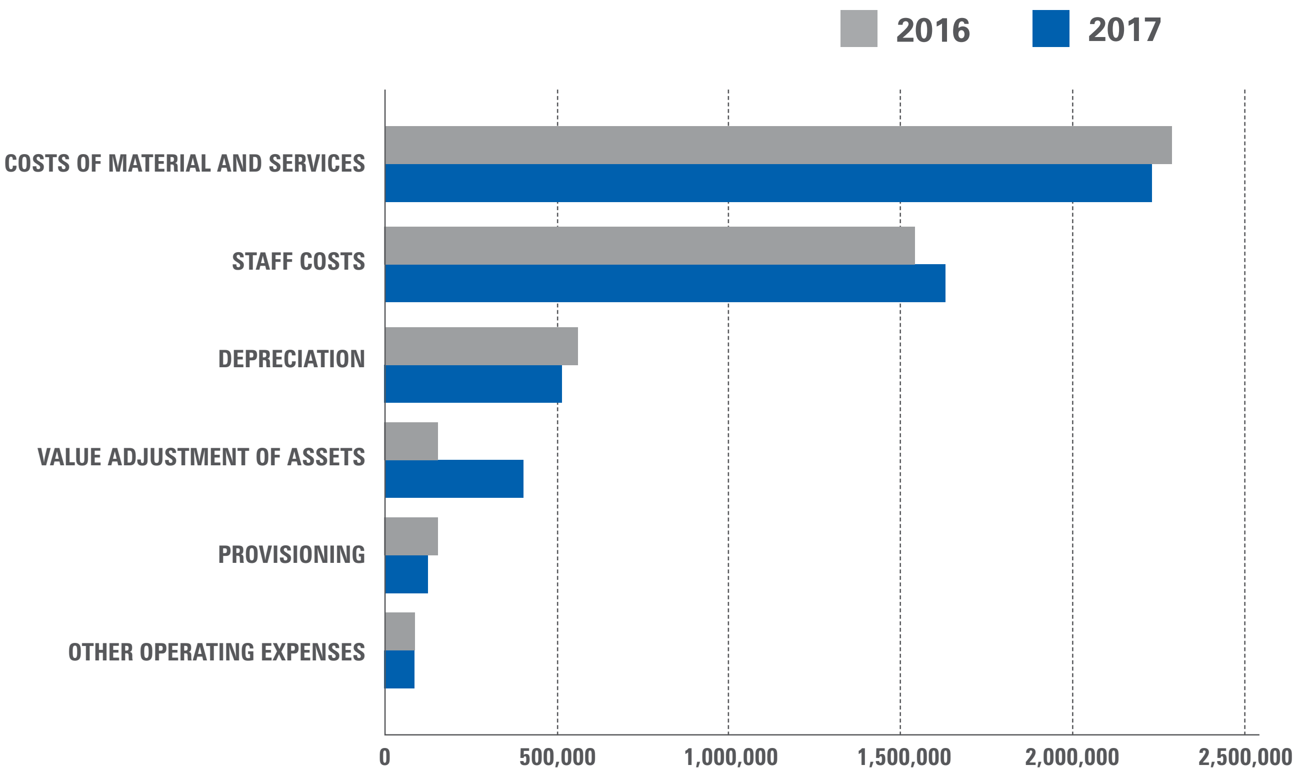
Company/Subsidiary	Basic types of services	Unit of measurement	Result I – XII 2017	Result I. - XII 2016	Index
1	2	3	4	5	6=4/5
Zagreb City Gasworks Ltd.	Quantities of natural gas distributed	kWh	3,904,146,274	3,921,476,993	99.6
	Number of distribution system users	piece	282,047	280,091	100.7
Zagreb City Gasworks-Supply Ltd.	Natural gas supply	kWh	3,801,891,530	3,842,501,293	98.9
	Number of consumers	piece	289,663	291,061	99.5
Water Supply and Drainage Ltd.	Amount of water distributed	m^3	57,885,402	57,018,467	101.5
	Water consumed for business activities	m^3	1,410,806	1,354,832	104.1
Zagreb Electric Tram	Single-trip tickets	piece	26,140,511	11,423,822	228.8
	- Single-trip tickets – HRK 10,00	*piece*	*1,371,645*	*11,423,822*	12.0
	- Single-trip tickets – HRK 4,00	*piece*	*24,768,866*	-	-
	One-day passes	piece	41,930	130,589	32.1
	Monthly passes – City of Zagreb	piece	630,778	773,140	81.6
	Yearly passes – City of Zagreb	piece	160,285	164,692	97.3
	Monthly passes – other cities and municipalities	piece	62,631	79,718	78.6
	Yearly passes - other cities and municipalities	piece	3,780	3,970	95.2
	E-wallet	piece	3,904,464	2,730,166	143.0
	Tickets – Funicular	piece	211,770	168,750	125.5
	Tourist tickets	piece	12,906	11,947	108.0
	Tickets to Sljeme	piece	7,959	16,136	49.3
	Multiday coupons	piece	3,573	9,455	37.8
City Waste Disposal	Municipal waste collection and removal				
	a) Average monthly chargeable area - businesses	m^2	2,000,000	2,650,000	75.5
	b) Average monthly chargeable volume - households	l	178,000,000	156,900,000	113.4
	Number of service users		387,567	383,950	100.9
	- households		374,281	371,150	100.8
	- businesses - m^2		8,618	9,300	92.7
	- businesses - agreements		4,668	3,500	133.4
	Public traffic area maintenance	m^2	1,106,869,100	1,117,823,455	99.0
	- Manual public traffic area cleaning	m^2	766,872,000	782,321,600	98.0
	- Public traffic area cleaning using machinery	m^2	165,002,000	152,920,000	107.9
	- Public traffic area washing	m^2	174,995,100	182,581,855	95.8
	Collected waste, of which:	tonnes	274,897	265,126	103.7
	- Mixed municipal waste	tonnes	230,104	229,726	100.2
	- Separately collected waste	tonnes	44,793	35,400	126.5

The breakdown of the Group's sales income by customer categories in 2017 is presented as follows:



Other operating income amounts to HRK 1,427,679 thousand and is higher by 18.7%, or HRK 225,001 thousand compared to 2016 as the result of higher unrealised profit from change in the fair value of investment property (by HRK 316,024 thousand) based on the appraisal by a qualified and authorised property appraiser, whereas income from the reversal of provisions are lower (by HRK 54,571 thousand), as well as income from collected written-off receivables (by HRK 22,014 thousand) and income from the reversal of deferred income recognition (by HRK 12,771 thousand). In 2017, as a result of change in the market value of investment property, profit amounted to HRK 114,742 thousand (HRK 338,943 thousand of unrealised profit from change in the fair value and HRK 224,201 thousand of losses from investment property registered in the Company's financial records in accordance with IAS 40 Investment Property), whereas in 2016, losses from change in the market value of investment property amounted to HRK 4,948 thousand (HRK 22,919 thousand of unrealised profit from change in the fair value and HRK 27,867 thousand of losses from change in the fair value of investment property).

Structure of operating expenses is presented below:

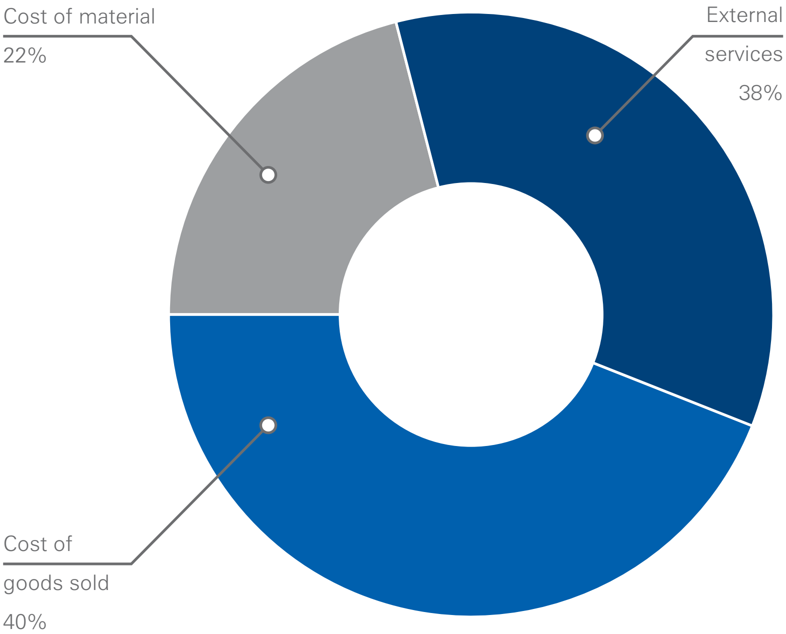


Cost of material and services in 2017 amounts to HRK 2,244,894 thousand and is lower by 0.8%, or HRK 18,450 thousand compared to 2016, primarily as the result of lower costs of goods sold (by HRK 99,360 thousand) due to the reduction in the gas supply price.

Structure of the cost of material and services shows the following:

- Subcontractor service costs are higher (by HRK 117,617 thousand) as the result of a larger volume of work conducted for the projects registered in the Group's financial records under IFRIC 12 Service Concession Agreements, for which income and costs are declared (under IAS 11 Construction Contracts) according to the degree of completion of construction of the facilities (of which the most important are the first phase of the construction of city area Podbrežje, construction of the Day Stay Hospital and garage for the Clinical Hospital Sveti Duh, and construction of Jelkovec Secondary School).
- Costs of rent and lease services are lower (by HRK 20,247 thousand) because the Financial Statements of the company Zagrebački Holding Ltd. for 2016 declared the cost of backward-looking indexation of the rent for the facility Arena Zagreb (for the period between 2009 and 2016).
- Cost of hiring employees via employment agencies is lower (by HRK 30,129 thousand) due to the fact that Group companies' work organization required employees who had been temporarily hired through employee-leasing agencies and who had performed tasks related to primary business activity of the companies for a period longer than six months to be employed permanently.

The breakdown of the cost of material is presented as follows:



Staff costs in 2017 were higher by HRK 69,255 thousand compared to 2016 as the result of higher gross salaries costs (by HRK 63,487 thousand), higher compensations for employees' costs, and higher expenses for other employee benefits (by HRK 5,768 thousand). Gross salary costs are higher due to a larger average number of the Group's employees resulting from permanently hiring employees who had been temporarily employed via employment agencies to perform tasks related to primary business activities of the Group's companies, as well as from other hiring of employees required for regular conduct of the Group companies' business operations (such as, for instance, employees in the subsidiary City Waste Disposal following a significant increase in the number of containers for separate collection of recyclable waste, or tram drivers in the subsidiary ZET, and other). In relation to the larger number of employees, costs of transportation of employees to and from their workplace and costs of bonuses have increased, which has also had an effect in terms of higher compensations for employees' costs, and higher expenses for other employee benefits.

Value adjustment costs in 2017 were lower by HRK 256,341 thousand compared to the result in 2016 as the result of higher losses from change in the fair value of investment property (by HRK 196,334 thousand) and higher costs of value adjustments of current assets (by HRK 60,755 thousand). Higher expenses from value adjustment of current assets resulted primarily from the value adjustment of receivables from the companies of the Agrokor Group as a result of entry into force of the Act on Extraordinary Administration for Companies with Systemic Importance for the Republic of Croatia.

Provisioning costs for 2017 amount to HRK 106,342 thousand and are lower by HRK 1,656 thousand in the two compared periods. Structure of provisioning costs shows that provisioning costs arising from possible litigation losses are lower (by HRK 10,378 thousand) and that the provisions for costs within warranty period are lower (by HRK 12,053 thousand), whereas costs of provisions for litigations and provisions for employee benefits in accordance with IAS 19 are higher (by HRK 28,161 thousand). Provisions for employee benefits under IAS 19 Employee Benefits are higher due to the increase in the number of employees of the Group's companies and a lower discount rate.

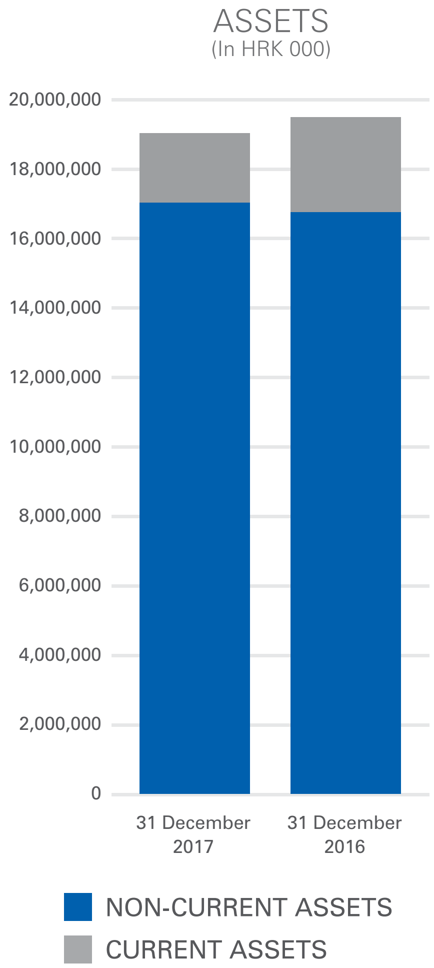
Other operating expenses in 2017 are lower by HRK 9,390 thousand compared to 2016 due to lower costs of fines, penalties, and damages (by HRK 16,673 thousand), lower business expenses from previous years that were subsequently calculated (by HRK 7,080 thousand), and higher taxes not depending on the result and other compensations (by HRK 12,629 thousand). Higher costs of tax not depending on the result and other compensations pertain to the declared costs of public utility fees and water fees paid for the construction of the Day Stay Hospital and garage for the Clinical Hospital Sveti Duh and Hrvatski Leskovec Primary School.

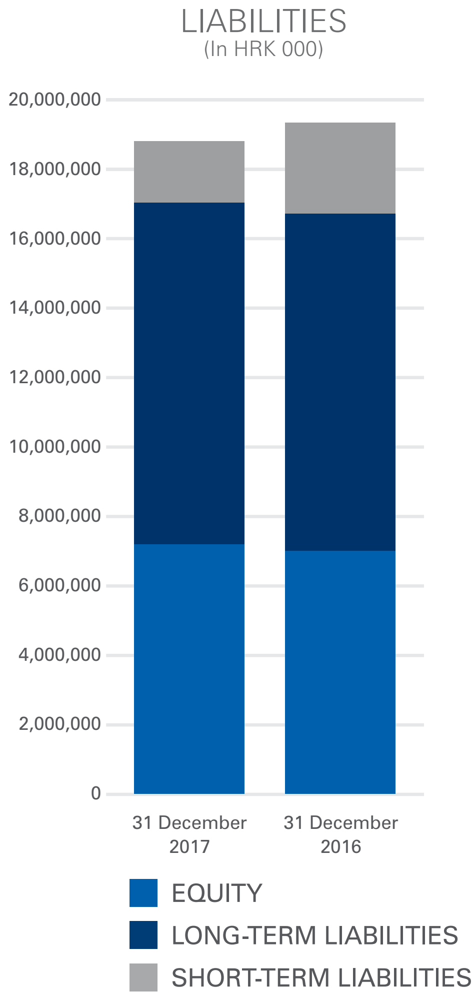
Despite a lower result from the ratio of positive and negative exchange rate differences (from the ratio of positive and negative exchange rate differences, the Group made a profit of HRK 39,922 thousand in 2016, whereas in 2017 it made a profit of HRK 17,366 thousand). The Group's loss from financial activities in 2017 was lower by HRK 6,592 thousand. Loss from financial activities was lower due to lower expenses from interest and the absence of expenses from the early redemption of eurobonds that the company Zagreb Holding Ltd. had to cover in 2016.

Statement of financial position/balance sheet

Description	31 December 2017 In HRK 000	31 December 2016 In HRK 000	Index
1	2	3	4=2/3
NON-CURRENT ASSETS			
Property, facilities, and equipment	13,221,975	13,191,970	100.2
Investment property	2,138,577	1,955,426	109.4
Intangible assets	15,392	22,828	67.4
Other financial assets	131,864	133,364	98.9
Non-current receivables	1,638,759	1,666,893	98.3
Deferred tax assets	38,964	37,746	103.2
Total non-current assets	**17,185,531**	**17,008,227**	**101.0**
CURRENT ASSETS			
Inventories	361,338	341,474	105.8
Receivables from customers and other receivables	1,691,598	1,543,418	109.6
Other financial assets	65,533	107,459	61.0
Cash and cash equivalents	158,909	1,057,715	15.0
Total current assets	**2,277,378**	**3,050,066**	**74.7**
TOTAL ASSETS	**19,462,909**	**20,058,293**	**97.0**
Off-balance sheet items	*364,170*	*225,214*	*161.7*
EQUITY AND LIABILITIES			
Share capital	3,833,236	3,833,236	100.0
Revaluation reserves	2,884,931	2,887,537	99.9
Other reserves	322,618	322,618	100.0
Retained earnings	694,933	695,267	100.0
Non-controlling interest	10,386	8,348	124.4
Total equity	**7,746,104**	**7,747,006**	**100.0**
LONG-TERM LIABILITIES			
Loans payable	2,193,030	2,130,099	103.0
Liabilities under issued bonds	2,243,265	1,637,661	137.0
Other long-term liabilities	73,277	151,669	48.3
Provisioning	507,402	460,148	110.3
Deferred income recognition	4,089,689	4,282,740	95.5
Deferred tax liability	614,179	614,780	99.9
Total long-term liabilities	**9,720,842**	**9,277,097**	**104.8**
SHORT-TERM LIABILITIES			
Liabilities to suppliers and other liabilities	1,337,485	1,325,965	100.9
Liabilities under credits and loans	658,478	547,772	120.2
Liabilities under issued bonds	-	1,160,453	0.0
Total short-term liabilities	**1,995,963**	**3,034,190**	**65.8**
TOTAL LIABILITY	**19,462,909**	**20,058,293**	**97.0**
Off-balance sheet items	*364,170*	*225,214*	*161.7*

As at 31 December 2017, the Group's total assets amounted to HRK 19,462,909 thousand and were lower by 3% compared to 31 December 2016. In 2017, the Group's total investments in property, facilities, and equipment amounted to HRK 618,398 thousand, while investments in intangible assets amounted to HRK 2,447 thousand (a total of HRK 620,845 thousand of new acquisitions). Most significant investments in 2017 are the following: purchase of the land in Podbrežje for the second phase of the construction of the city area in the amount of HRK 183,576 thou-





sand; tram lines maintenance in the amount of HRK 66,739 thousand; investments in the water drainage system (collectors and collector canals) in the amount of HRK 58,060 thousand; procurement of 19 buses in the amount of HRK 36,705 thousand; investments in the reconstruction of the existing gas pipelines and installation of new gas pipelines in the amount of HRK 32,477 thousand; investments in the water supply network in the amount of HRK 28,458 thousand; investments in the water drainage network in the amount of HRK 25,574 thousand; and purchase of vehicles for the subsidiary City Waste Disposal in the amount of HRK 24,243 thousand.

As at 31 December 2017, property investments amounted to HRK 2,138,577 thousand and were higher by 9% compared to the same period of the previous year due to the fact that in 2017, based on the appraisal by a qualified and authorised property appraiser, calculated profit from the net change in the fair value of investment property amounted to HRK 114,742 thousand (whereas unrealised net loss amounted to HRK 4,948 thousand in 2016), which is included in the consolidated profit and loss account.

Non-current receivables pertain to the receivables from the City of Zagreb for guarantees for long-term loans taken over from the subsidiary ZET, receivables from the City of Zagreb and the Government of the Republic of Croatia for financing the costs of leasing the sports hall Arena Zagreb, receivables from the City of Zagreb based on lease agreements, receivables from the City of Zagreb based on agreements concluded in accordance with IFRIC 12 *Service Concession Agreements*, and receivables based on loans and credit sales.

In July 2007, the company Zagreb Holding Ltd. issued EUR 300 million in eurobonds with a 5.5% annual coupon rate and a single redemption payment due in July 2017. In July 2016, the company Zagreb Holding Ltd. issued HRK bonds in the nominal amount of HRK 1,800,000 thousand at a fixed interest rate of 3.875% and the redemption value of 97.19%. Proceeds obtained from bond issuance were used for the early redemption of the bonds - a transaction by which Zagreb Holding Ltd. redeemed 48.8% of eurobonds. Remaining proceeds were used a year later for the redemption of the remaining eurobonds with maturity in July 2017 (which reflected in the cash balance as at 31 December 2016). In July 2017, the company Zagreb Holding Ltd. issued the second tranche of HRK bonds in the nominal amount of HRK 500,000 thousand at a fixed interest rate of 3.875% and the redemption value of 102.00%. Combined with the amount from the first tranche, the Company repaid the remaining amount of eurobonds within the maturity period.

Based on the foregoing, as at 31 December 2016, HRK 1,637,661 thousand of long-term liabilities for issued HRK bonds (nominal amount of HRK 1,800,000 thousand in the issuance of bonds minus the discount cost and other costs of bond issuance amounting to HRK 162,339 thousand) and HRK 1,160,453 thousand of short-term liabilities for issued eurobonds were declared in the Statement of Financial Position

(Balance Sheet) of the Group. As at 31 December 2017, HRK 2,243,265 thousand of long-term liabilities for issued HRK bonds (HRK 2,300,000 thousand in the nominal issuance of bonds plus issuance premium amounting to HRK 9,286 thousand minus the discount cost and other costs of bond issuance amounting to HRK 66,021 thousand) were declared in the Statement of Financial Position (Balance Sheet) of the Group.

As at 31 December 2017, loans payable, compared to the same period of the last year, were increased as the result of increased investments realised by Zagreb Holding Ltd.

As at 31 December 2016, other declared long-term liabilities primarily pertained to the liability of the company Zagreb Holding Ltd. to the City of Zagreb for the guarantee provided for the HRK bond issuance. As at 31 December 2017, the long-term liability to the City of Zagreb for the guarantee provided for the HRK bond issuance was not declared as such, but rather the Company declared it under short-term liabilities in 2017. Considering that the remaining liability for the guarantee is variable and cannot be determined precisely, it was declared as an off-balance sheet liability.

The Group's net debt was increased by HRK 625,948 thousand and it amounted to HRK 4,234,651 thousand as at 31 December 2017 (compared to HRK 3,608,703 thousand as at 31 December 2016). The net debt/equity ratio as at 31 December 2017 was 54.7% (compared to 46.6% as at 31 December 2016).

Business risk statement

Financial risk management objectives

To be able to predict potential situations that could negatively affect business operations and the fulfilment of set objectives, the Group identifies financial risks, establishes their potential impact on the Group's future business operations, and manages financial risks.

To increase business security, the Group makes an effort to reduce, avoid, and overcome various forms of financial risks that it encounters in its business operations. Certain financial risks are accepted if they are considered economically justified.

The most important risks and the methods used to manage them are described below. The Group has not used derivative instruments for risk management. The Group does not use derivative instruments for speculation purposes.

Market risk

The prices of municipal services are proposed by the Management Board based on market prices and set and approved by the City of Zagreb.

The Group's activities are primarily exposed to the financial risk of fluctuations of foreign currency exchange rates and interest rates. 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 methods used to manage and measure risk.

Currency risk

The Group carries out certain transactions in a foreign currency and is therefore exposed to the risks of fluctuations in exchange rates. The table below shows the carrying amounts of the Group's monetary assets and monetary liabilities denominated in foreign currency on the report date.

Currency	Liabilities		Assets	
	31 December 2017	31 December 2016	31 December 2017	31 December 2016
	In HRK 000	In HRK 000	In HRK 000	In HRK 000
EUR	1,469,690	3,027,662	1,440,248	1,479,613
USD	-	-	-	-
Other currencies	-	-	-	-

In 2017, the Group's exposure to currency risk was reduced significantly as the result of the redemption of eurobonds and based on the issuance of HRK bonds.

Interest risk

The Group is not significantly exposed to the risk of interest rate fluctuations since 26.07% of its total loans payable and lease liabilities are tied to variable interest rates. A fixed interest rate was contracted for 73.93% of the total amount of the Group's loans payable. Majority of loans payable pertain to the issued bonds with a fixed annual coupon of 3.875% and to the liability under the financial lease of Arena Zagreb with an interest rate of 4.7%.

15.25% of loans payable are related to EURIBOR, whereas 10.61% of loans payable are related to the yield on the Treasury Bills issued by the Croatian Ministry of Finance. In regard to EURIBOR volatility and yield on the Treasury Bills issued by the Croatian Ministry of Finance, the Group finds the interest risk acceptable, and thus no derivative instruments for interest risk protection have been contracted.

The Group's interest risk was reduced in 2017 as the result of bond refinancing, i.e. by issuing a new tranche of bonds at a lower interest rate compared to the previous indebtedness.

Liquidity risk

The Group uses the following instruments to monitor and reduce liquidity risk: cash flow analysis and management, asset analysis, analysis of asset funding resources, buyer creditworthiness analysis, payment guarantees, agreements for open lines of credit based on the revolving principle, and other.

Credit risk management

Credit risk is the Group's risk of the buyers' default or failure to meet contractual obligations, which consequently produces a potential financial loss of the Group. While conducting business with its buyers, the Group collects payment guarantees in order to protect itself from potential financial risks and losses arising from the buyers' default or failure to meet contractual obligations.

Buyers are divided into risk groups in accordance with their financial indicators and previous business with the Group. Also, adequate measures of protection against credit risk are enforced for each group. To assign buyers to a particular group, we mostly use the information from their official financial statements and the Group's information about their previous business with the Group. The Group has established business relationships with a large number of buyers from different industries of different sizes, as well as with a large number of retail customers. Receivables from customers are adjusted for the value of doubtful and bad debts.

The statement of the persons responsible for the preparation of the statements of Zagreb Holding Group in accordance with Article 403 of the Capital Market Act

We hereby declare that the following is true to the best of our knowledge:

- International Financial Reporting Standards were followed in the preparation of the audited financial statements of Zagreb Holding Group for the period between 1 January 2017 and 31 December 2017 (consolidated). The statements fully and truthfully represent assets and liabilities, profits and losses, financial position, and business operations of the issuer and the companies included in the consolidation as a whole.
- The Statement of the Management of Zagreb Holding Group for the period between 1 January 2017 and 31 December 2017 (consolidated) fully and truthfully represents the development, the business results, and the position of the issuer and the companies included in the consolidation, along with a description of the major risks that the issuer and the companies are exposed to as a whole

In Zagreb, 25 April 2018

Ana Stojić Deban

President of the Management Board

Zagreb Holding Ltd.

Bernard Mršo

Member of the Management Board

Zagreb Holding Ltd.

Daniela Franić

Member of the Management Board

Zagreb Holding Ltd.

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Overview of Events in 2017

JANUARY

On several occasions after 1 January, the Winter Road Maintenance Department of the subsidiary Zagreb Roads announced the third level of emergency preparedness (alert level) for the City of Zagreb due to low temperatures and snow. When necessary, the roads were sprinkled and cleaned 24 hours a day by 259 teams, 161 trucks, and 98 specialised vehicles distributed to 15 locations from which they could respond to emergencies at any moment. By the end of the winter of 2017, the Winter Road Maintenance Department worked for 17,190.77 hours, during which it used 9,042.54 tonnes of salt in bulk and 6,423.13 tonnes of dolomitic gravel for de-icing roads.

On 3 January, the subsidiary City Waste Disposal announced a public call for designing an educational children's board game about responsible waste management. As part of the project, it was estimated that 3,000 packs of the board game would be distributed to kindergartens and schools.

Since 19 January, following a one-month test period, persons with disabilities have been able to buy the disabled driver stickers online as well. Users can enable this service by visiting the ePK portal of the subsidiary Zagrebparking and upgrading the services that they use. It is therefore much easier for persons with disabilities to complete the purchase process.

Project of reconstructing the compound of Clinical Hospital "Sveti Duh" was announced. This project included the addition of a daycare hospital with an underground garage and its main investors were the City of Zagreb and Zagreb Holding. The Company started the preparatory work for this major infrastructural project in 2016.

On 22 January, the Environmental Protection and Energy Efficiency Fund made a public announcement that the proposals for the energy renovation of 32 multi-apartment buildings in Zagreb had been accepted. This project was carried out by City Housing and Municipal Services Company Ltd., which delivered the necessary documentation to the Environmental Protection and Energy Efficiency Fund.

On 27 January 2017, Zagreb Holding once again organised an exhibition at the Zagreb Fair as part of the event "Night of Museums". This was the second occasion on which the entire history of the Group's activities was presented in a single interactive programme. According to our estimations, the exhibition held by Zagreb Holding Ltd. titled "Stari Zagreb od vugla do vugla" ("Through the Streets of the Old Zagreb") was visited by approximately 5,700 citizens.

Subsidiary Zagreb Electric Tram initiated a pilot project for introducing free Wi-Fi in public transport vehicles. Free Wi-Fi was introduced in three trams, which was the first step in enabling free Wi-Fi in all public transport vehicles.

FEBRUARY

ZET: On 1 February, ZET introduced single-ride public transport tickets priced at HRK 4,00, which are valid for 30 minutes and can be used in the first tariff zone. Users showed great interest in the new tickets and by 28 February, 3.7 million single-ride tickets were sold.

On 16 February, the reconstruction of the tram line Mihaljevac – Dolje was started. After the reconstruction, the completion of which was expected in June, this section of the tram line will be suited for low-floor trams as well. Deconstruction of the old cable car Sljeme began on 17 February.

On 17 February, City Pharmacies Zagreb introduced the first drive-in pharmacy in Zagreb. The pharmacy was opened in the city area Retkovec. It represents a simple and efficient manner in which all drivers can procure pharmaceuticals and obtain relevant information about them.

In the period between 22 February and 26 February, the fairs Boat Show and Hotel&Gastrotech were held at the Zagreb Fair. With more than 330 presenters from 31 countries, presentations of the latest nautical trends, and exhibitions of more than 120 boats in 6 pavilions, the 26th Boat Show was the largest Boat Show in the last 7 years. All key indicators show that the 2017 Boat Show was more successful than the previous one: the exhibition area was larger by 30%, the number of presenters was larger by 15%, and the number of exhibited boats was larger by 20%. In 5 days, 27,402 visitors attended the fairs.

On 27 February, ZET concluded the agreement with the cities Velika Gorica and Zaprešić and the municipalities Bistra, Klinča Sela, Luka and Stupnik. Based on that agreement, the above-mentioned cities and municipalities have constituted a single second tariff zone since 1 March. The previous tariff model divided the traffic network into 4 zones. Since 1 March, ZET's traffic network has been divided into 2 zones.

On 28 February, a new agreement on lower prices of combined tickets for ZET and Croatian Railways for suburban transport was concluded between Zagreb Holding and Croatian Railways-Passenger Transport. Based on the agreement, since 1 March, the price of all types of combined annual and yearly passes have been lower by 33%.

During 2017, 40 events were held at Arena Zagreb, which were attended by 275,699 visitors. Based on the number of events and visitors, 2017 was one of the most successful years for Arena Zagreb since it was established.

MARCH

ZET: On 1 March, the 30-minute single-trip ticked priced at HRK 4,00 was also introduced to the second tariff zone.

The pilot project for free Wi-Fi in public transport vehicles was continued by introducing free Wi-Fi in three buses.

On three bus routes that drive to hilly areas: Britanski Trg – Mihaljevac, Britanski Trg – Kraljevec and Mihaljevac – Sljeme - the project "Bring a Bike on the Bus" was carried out in the period between March and 1 November. Buses that drive on these routes are equipped with bike racks which passengers may use to transport their bicycles free of charge.

ZET's traffic network was expanded on 9 March by introducing a new bus route 148 Reljkovićeva – Hercegovačka – Bosanska – Reljkovićeva, with the length of approximately 3 kilometres.

On 22 March, the transportation service for disabled persons changed its previous work schedule and became a 24-hour service. Therefore, vans specialised for transporting disabled persons have been available 24 hours a day ever since.

On 5 March, the subsidiary Zagreb Roads marked the 70 years of its existence by publishing a monograph, which, after 20 years, once again presented the history of the subsidiary in one place.

On 13 March, the international rating agency Moody's announced that it had changed the credit rating of Zagreb Holding from negative to stable. In addition, the outlook became more positive due to the reduction in foreign currency credit debt and bond refinancing, which had stabilised business operations and liquidity. Positive changes also resulted from the continual support of the City of Zagreb, which Moody's had recognised as a strong institutional interconnection.

New vehicles: On 15 March, the subsidiary City Waste Disposal introduced 6 electric tricycles for cleaning public traffic areas. In addition to 326 mechanical tricycles, the subsidiary has also owned electric tricycles. During 2017, electric tricycles were tested while carrying out various operative tasks in all conditions.

Company Water Supply and Drainage Ltd. has procured 20 personal vehicles for carrying out its regular tasks (water meter readings, visits to water reservoirs and pumping stations, and other) and 3 tanker trucks for transporting water and drinks.

Subsidiary Zrinjevac has procured 15 modern mowers.

On 28 March, a new bus route 290 Kvaternikov Trg – Airport (Pleso) – Velika Gorica was introduced. This bus route has created a direct traffic connection for all passengers who travel to and from the recently built International Airport and a high-quality transport service for citizens of Velika Gorica, and especially for residents of Pleso and surrounding city areas.

APRIL

On 1 April, tram routes 5 and 7 were extended. Route 5 has been extended to Dubrava, while route 7 has been extended to Dubec.

We started to test the new service web page of Zagreb Holding – sada.zgh.hr – which enables citizens to obtain all important information about the Group's operations in real time. If necessary, the information may be updated every minute. This service also enables users to chat directly with the agents of the Call Centre online.

Since 1 April, the subsidiary City Waste Disposal has emptied the containers for paper distributed to citizens two times a month. If necessary, service users can call the Call Centre and arrange the containers for paper to be emptied more frequently.

On 7 April 2017, the Technological Park Zagreb was opened on the first floor of the Pavilion 12 of the Zagreb Fair. Technological Park Zagreb covers the area of 7,313 m^2, its value amounts to HRK 17 million, and it will include 110 start-ups with approximately 350 employees. It is intended for the development of start-ups and creation of innovative and highly-advanced technologies. The area is divided into 118 separate modular work units, meeting rooms, common rooms, and laboratories. It will also include a Computer Forensics Centre, Centre for Development of Interfaces, Electronics, Environmental Protection Technology, and other.

On 10 April, the subsidiary Zagrebparking continued to carry out the project "Bicycle Garages" at the public garage "Langov Trg". This is the third public garage which, by constructing a bicycle parking, encourages people to use bicycles as the most efficient and ecologically most acceptable means of transport in the city. The ultimate objective is to provide free parking for cyclists in all eight public garages.

In April, 670 employees who had previously worked for the Zagreb Holding Group as agency-leased workers were employed permanently. These were the workers who had worked for a period longer than six months at positions for which we required permanent employees.

On 26 April, the first test low-floor tram with a movable aluminium ramp for disabled persons was introduced at the tram depot Remiza Trešnjevka. Platform lifts for the disabled will be set up by the second tram doors. It will be significantly easier for persons with disabilities to use public transport.

Since April, all recycling yards have had longer working hours on weekends: from 5 AM to midnight on Saturdays, and from 8 AM to 10 PM on Sundays.

MAY

On May 4, we announced a public call for hiring employees with higher education qualifications at 28 positions at Zagreb Holding. As part of the large-scale employment plan, which aims to ensure a technologically more advanced level of services provided by Zagreb Holding, and to contribute to the reduction of youth unemployment in the City of Zagreb, we plan to employ approximately one hundred young people with higher education qualifications by the end of 2017. Furthermore, in May, we also announced a public invitation to education institutions for expression of interest in cooperation with Zagreb Holding.

In its report from 15 May, the renowned international rating agency Moody's increased its rating of the Zagreb Holding from Ba3 to Ba2 with a stable outlook. Increase in the rating by Moody's was a clear confirmation that the rating agency had recognised the efforts made by the Management Board of Zagreb Holding and results achieved in financial and operational restructuring of the Company. Increase in the rating was also the result of a strong and significant support of the City of Zagreb, which, in 2016, had provided guarantee for issuance of corporate bonds.

To ensure equal service quality in all city areas, ZET reorganised two existing bus routes - routes 271 and 272 - and divided them into three new separate bus routes: Dubec-Moravče, Dubec- Jesenovec and Dubec- Glavnica Donja, which started operating on 5 May.

On 8 May, the 52nd International Garden Exhibition Floorart was opened. It is the largest horticulture event in this part of Europe. The exhibition was announced by an installation placed at Trg Bana Josipa Jelačića square. According to our estimations, by 14 May, the exhibition was attended by approximately 350,000 visitors from all parts of the Republic of Croatia.

On 13 May, ZET introduced four new specialised buses for transporting primary school students whose domicile is more than 3 kilometres away from their school. New buses seat 53 passengers and they will also be used for extracurricular activities of primary school children.

In mid-May, City Gasworks Zagreb Ltd. introduced e-Bill as part of its business operations. By introducing the e-Bill instead of paper bills for the services of distribution, connection, gas pipeline inspection, and other non-standard services, the Company will reduce the costs of producing, printing, enveloping, and sending bills, as well as eliminate the costs of issuing paper bills.

On 17 May, the sports gym and swimming pool next to the secondary school in Novi Jelkovec were opened to the public. The sports compound comprises three swimming pools, a sports gym, a restaurant, and changing rooms. It covers the area of more than 10,000 m^2. A large swimming pool, a recreational swimming pool, and a pool for children occupy a net area of 6,300 m^2, while additional rooms are located in the basement. The remaining area is occupied by a three-section sports gym with additional rooms and equipment on the ground floor. An exercise room, a gym, a gymnastics room, and changing rooms are located in the basement.

On 29 May, a mobile office of Zagreb Holding started operating. This specialised vehicle will enable service users a more approachable and integrated service management, and during the month, the vehicle will visit all city districts according to a prearranged schedule. Furthermore, through the Call Centre, service users are able to appoint individual visits, especially visits to the homes of elderly and disabled citizens since the vehicle is adapted for persons who have difficulties with walking and for disabled persons. In the mobile service centre, service users may request all services offered by Zagreb Holding, file requests for changing personal information, file petitions, obtain information, and effect payments without transaction fees.

In May, the subsidiary Zagreb Freight Station obtained a licence for carrying out terminal services for the Truck Terminal of Zagreb Freight Station at Jankomir and Žitnjak. These are also the only truck parking lots in the City of Zagreb licensed for carrying out terminal services in accordance with legal provisions.

Since the beginning of May, four repaired barrier gates at Business Units Jankomir and Žitnjak of Zagreb Freight Station have been operable. The investment amounted to approximately HRK 1.5 million. These modern barrier gates also have fire detection systems, video-surveillance, toilets, LED lighting, and heating and cooling systems.

JUNE

The reconstruction of the tram lines at the crossroad of Savska Cesta, Vodnikova and Jukićeva Ulica streets began in June. During the reconstruction, which will last for approximately 2 months, 597 metres of tram lines will be repaired. Works cost HRK 10 million. During the summer, we plan to reconstruct a total of 10 kilometres of tram lines in Zagreb, including the reconstruction of Maksimirska Cesta road, which also started in June.

Since 7 June, the bus route 140 Mihaljevec - Sljeme has been extended to the Mountain Hut Hunjka.

On 26 June, a non-binding public invitation for expression of interest in any type of commercialisation of properties (purchase and sale/lease/right to build and other) of Zagreb Holding Ltd. by filing written offers was published on the web page of Zagreb holding (www.zgh.hr) and on the web page of the subsidiary Real Estate Management (www.nekretnine-zgh.hr). In total, 18 properties, vacant business venues and land owned by the subsidiaries ZET, Zagreb Fair, and Zagreb Freight Station were offered for commercialisation. The purpose of this public call was to inspect the market in terms of commercialisation of the above-mentioned properties and it does not represent a binding offer for purchasing and selling, leasing, establishing the right to build or any other type of commercialisation of said properties.

On 27 June, potential investors were introduced to the issuance of the Second Tranche of Bonds in the nominal amount up to HRK 500 million, which combined with the bonds issued in the first tranche, on 15 July 2016, in the total nominal amount of HRK 1,800 million, represent a single, integral issuance of bonds in the total nominal amount up to HRK 2,300 million at a fixed yearly interest rate of 3.875%, with maturity on 15 July 2023. In the subscription period lasting from 27 June to 29 June, the investors subscribed the nominal amount of the Second Tranche of Bonds totalling to HRK 996.5 million, of which the total nominal amount of HRK 500 million was allocated to the investors.

Pursuant to the Public Call for co-financing of renovation of façades on multi-apartment buildings (in the amount of 80% for street façades and 60% for other façades) announced by the City of Zagreb on 21 March 2017, the company City Housing and Municipal Services Company Ltd. nominated 3,000 buildings under its management for renovation. On 30 June 2017, the company signed an Agreement with the City of Zagreb on renovation of façades of the first 85 highest-ranked buildings.

JULY

On 5 July, eurobonds issued in 2007 on the foreign capital market in the total amount of EUR 300 million were fully repaid. Repayment began in 2016 with the early repayment of EUR 146.3 million, and it was completed on 5 July 2017 with the repayment of the remaining EUR 153.7 million. This repayment ended the 10-year period of indebtedness on the foreign capital market. Resources for repayment of eurobonds were collected by issuing seven-year bonds in HRK on the national capital market which were backed by a guarantee provided by the City of Zagreb - but now under significantly more favourable terms than those pertaining to the previous indebtedness on the foreign capital market. Interest of national investors in HRK bonds of Zagreb Holding was significantly higher than the amount issued. Total demand amounted to almost HRK 4 billion, which is not only the best example of the investors' trust in Zagreb Holding as the bond issuer, but also a great contribution to the national capital market which demands good investment opportunities.

On 7 July, the subsidiary ZET introduced five new low-floor rigid buses. Buses seat 80 passengers and they are equipped with a ramp for easier entrance for disabled persons in wheelchairs, video-surveillance, and air conditioning. It is the resumption of the project of modernising ZET's vehicle fleet to ensure that citizens have high-quality, safe, and comfortable means of transportation. The above-mentioned buses are only a portion of vehicles that we have ordered, and we expect to receive another ten articulated buses by autumn. New buses are powered by the most modern EURO 6 engines, which have extremely low emissions of harmful gases.

Employees of Zagreb Holding also participated in extinguishing the fires that spread through Dalmatia in July. In the early morning of July 18, 100 firemen, 36 fire trucks, 2 vehicles and 5 officials of the City Office of Emergency Management, 2 tanker trucks, a van, and 6 employees of Water Supply and Drainage Ltd. headed to Split.

AUGUST

On 3 August, the repaired part of the tram line Mihaljevac – Dolje started operating. Deconstruction of the old tram line started on 16 February. During almost six months, 5,180 metres of the tram line and overhead contact lines were fully repaired.

On 31 August, following the reconstruction of the tram line that had begun at the beginning of July, the crossroad of Savska Cesta and Vodnikova streets was open for traffic. During the year, the subsidiary ZET repaired a total of 10 kilometres of tram lines with the value of HRK 65 million.

SEPTEMBER

On 4 September, the recycling centre Klara at 10 Sisačka Cesta started operating. It is the second recycling centre in the City District Novi Zagreb Zapad and it is currently the largest recycling centre in the City of Zagreb. The investment amounted to HRK 2.1 million.

During the summer construction season, Zagreb City Gasworks Ltd. reconstructed 7,338 metres of gas pipelines and 495 household gas connections in Sesvete. By connecting end buyers to gas connections, the final phase of the works on the low-pressure gas pipeline Brestje began on 5 September.

On 14 September, the subsidiary Zagrebparking introduced the project "Defibrillators". As part of this project, in cooperation with the City

Office for Health, AED defibrillators were set up in the garage "Kvaternikov Trg" and at the garage "Tuškanac".

On 11 September, the Assembly of the Company appointed Stjepan Bekavac as the Director/member of the Management Board of the company AGM Ltd.

On 18 September, the old premium-rate phone number of the Zagreb Bus Terminal was closed down. All information and phone reservations have been entirely integrated into the Call Centre. There are no additional fees for the service, calls are charged based on the cost of local calls to landlines, and the Centre is available 24 hours a day, 365 days a year.

On 27 September, a constitutive session of the Supervisory Board was held, where it was decided that the renowned economist and university professor Ljubo Jurčić would be appointed President of the Supervisory Board of Zagreb Holding Ltd., and that Nikola Mijatović, who at the moment was a member of the Supervisory Board, would be appointed Deputy President.

OCTOBER

On 13 October, at the tram depot Remiza Trešnjevka, five new specialised vans were introduced. Two vans are intended for transportation of children with developmental disorders, and three for transportation of disabled persons. Many associations of disabled persons attended the presentation of the vehicles. Specialised vehicles are available to service users 24 hours a day, and disabled persons and children with developmental disabilities use them daily to get to work, faculties, schools, kindergartens, and to attend recreation activities and therapy sessions. More than 1,200 persons use the ZET's specialised van service at least once a year, while approximately 50 children and young persons with developmental disabilities and 100 disabled elderly persons use the transportation service on a daily basis.

On 17 October, City Housing and Municipal Services Company Ltd. announced another public call for collecting offers by contractors for energy renovation of multi-apartment buildings. The public call was announced in accordance with the provisions prescribed in the Public Call of the Ministry of Construction for Grants for Energy Renovation of Multi-apartment Buildings from the European Regional Development Fund.

On 21 October, in the subsidiary Zagreb Freight Station at Jankomir, an exercise by the operating forces of the system of Civil Protection of the City of Zagreb, Zagreb-Zapad, titled "Urban Rescue 2017", was held. More than 300 people participated in the exercise and successfully completed all tasks - from finding to evacuating victims. Participants were shown how to use tools for transportation of victims and how trained dogs can find victims and help rescue them. More than 60 employees of Zagreb Freight Station participated in the exercise which was initiated and carried out by said subsidiary.

On 23 October, the agreements on grants for the project "Procurement of 15 Buses for ZET" were concluded. The restricted grant procedure was carried out by the Ministry of the Sea, Transport and Infrastructure within the European Structural and Investment Funds and the Operational Programme "Competitiveness and Cohesion". The cost of the project amounted to a total of HRK 42.5 million. Grants will cover all so-called eligible costs amounting to HRK 32 million, of which 85% will be financed by resources from the Cohesion Fund, and the remaining 15% from the National Budget. The remaining costs will be covered by Zagreb Holding– subsidiary ZET.

On 31 October, Zagreb City Gasworks Ltd. celebrated the 155th anniversary of the Zagreb gasworks, marking the day on which Zagreb got its first public gas lighting back in 1863. On that occasion, two replicas of gas lanterns, of which currently there are 239, were set up at Gornji Grad at the south side of the Trg Svetog Marka square. Zagreb is the only city which has continually kept the tradition of manual lighting of gas lanterns. Every day, two lamplighters turn off the gas lamps at dawn, and light them at dusk.

NOVEMBER

A new bus route 241 (Main Railway Station – Veliko Polje) started operating on 9 November. Buses have been operating on a 11-kilometre route and stop at 15 bus stations.

On 11 November, at the vehicle base at Žitnjak, the Winter Road Maintenance Department of the subsidiary Zagreb Roads held a ceremonial review of its vehicles. Winter Road Maintenance Department organised its operations for the entire winter - from 15 November 2017 to 15 April 2018, 24 hours a day. 19,000 tonnes of salt were stored in the warehouse, and if necessary, strategic reserves would be used as well. A total of 2,589 kilometres of roads were cleaned by snow ploughs and sprinkled with salt, of which 1,097 kilometres of Priority 1 roads, and 1,492 kilometres of Priority 2 roads.

Distribution of home composters to all interested customers began on 15 November and it was expected to be finished in 60 days. It was a part of the Pilot Project of Home Composting, which the City of Zagreb has continually carried out as part of the responsible policy of disposing all types of waste. The aim of this policy is to create optimal municipal infrastructure, raise ecological awareness, and develop positive waste disposal habits even further. Zagreb Waste Management Centre Ltd., which is also included in this project, even created an educational movie for that purpose. Subsidiary City Waste Disposal also participated in the project and it was in charge of home composter distribution.

On 20 November, the event "Kids Takeover Day - a Day for Children, by Children", was held at Zagreb Holding. It is a global initiative organised by UNICEF, which was organised for the first time as part of celebrating the International Children's Day. Besides spending time with their par-

ents at their workplace, our employees' children also had the chance to participate in a symbolic meeting of the Children's Management Board and say what they think our company should do for children. The first "Kids Takeover Day - a Day for Children, by Children" was also celebrated by the City Pharmacies Zagreb, which organised a visit to our laboratory in Buzin for the school children from the Saint Joseph Home.

On 24 November, new information and communication technologies of the Call Centre were presented. The digital platform sada.zgh.hr also allows file sharing, so this communication channel can be used not only for asking questions and responding, but also for sharing files. Therefore, service users will no longer have to visit our offices to file certain requests or check their status, except in those situations where legal acts require personal identification and verification.

On 25 November, the Foundation "Croatian Heart House", in cooperation with the Student Association StePP and the City Office for Health, as part of the campaign "Bring Me Back to Life" ("Oživi me"), organised an educational training about cardiopulmonary resuscitation for 26 employees of Zagrebparking. This training is part of the project "Defibrillators", which the subsidiary Zagrebparking presented to the public on 14 September this year. As part of this project, carried out in cooperation with the City Office for Health, AED defibrillators were set up in the garages "Kvaternikov Trg" and "Tuškanac".

On 29 November, the Management Board of the Company adopted a decision on adopting the plan for demerging the company Zagreb Holding Ltd. with establishment of new limited liability companies for the subsidiaries Zagreb Electric Tram and Zagreb Fair. By virtue of this Demerger Plan, the restructuring process of the Company, which had started in 2013, was continued in accordance with the adopted business policies by separating individual business operations into different companies. The demerger of the Company was the result of the interest in increasing the efficiency of asset management and internal organisation in the Company, while rationalising costs at the same time.

DECEMBER

During the Advent in Zagreb, which started on 1 December and lasted to 7 January 2018, public transportation, including the funicular, was free in the first tariff zone area during the weekend, i.e. from Friday at noon to Sunday at midnight.

On 27 December, 26 new municipal vehicles of the subsidiary City Waste Disposal were introduced. 24 vehicles, with volumes ranging from 6 m^3 to 22 m^3, were intended for waste collection, while the remaining 2 were road sweepers. New vehicles have reduced the average age of the vehicle fleet from 15 to 12 years. In the second phase of vehicle procurement, which should be completed next year, we expect to procure 9 more vehicles. The purchased vehicles create less noise and are built according to the latest version of the Euro 6 emission standard and the latest standards of filtering and processing exhaust gases, which contributes to the continual environmental protection efforts in the City. On 1 February, the Decision on the Manner of Providing the Public Service of Collecting Mixed and Biodegradable Municipal Waste and Services related to the Public Service in the City of Zagreb entered into force, and these new vehicles will enable us to adjust our operations to said Decision even better.

In December, the procedure for procuring the services of Designing the Study of the Tram Traffic Development in the City of Zagreb was started. This procedure is carried out in accordance with the procedures that require us to be acquainted with Croatian legislature and the procedures and rules conditioned by co-financing through European resources. Based on the designed Study, we expect that the estimated value of the project submitted for co-financing through EU resources will exceed the amount of EUR 80 million.

During 2017, the subsidiary Zagreb Roads repaired three gas stations near the subsidiary: the gas station in the working unit Mechanisation at Žitnjak, in the subsidiary's Head Office in Donje Svetice, and in the working unit Rakitje Asphalt Facility. By repairing the gas stations, we plan to reduce total costs by 7% to 12%, which means that the entire investment would pay off as early as in the second year of their use.

Construction works on gas stations included removal and disposal of old equipment and installations and setting up new containers and devices with four gas pump nozzles, replacement of all installations and setting up the device for identifying users and providing them with relevant information and setting up the system for gas pump monitoring and automated measuring of fuel levels.

The new system enables us to monitor fuel supplies and the quality of supplied fuel, to receive fuel supplies according to our own measuring equipment, to compile reports on fuel consumption by individual consumers, vehicles, machines, and the internal number, to compile reports on particular gas pumps, to reduce the number of human errors, to decrease CO_2 emission, and to connect with all ERP systems in the subsidiary Zagreb Roads or in the company Zagreb Holding.


C

Consolidated annual financial statements for the year that ended on 31 December 2017 with the Independent Auditor's Report

ZAGREBAČKI HOLDING d.o.o.
and its subsidiaries,
Zagreb

Consolidated financial statements
for the year ended 31 December 2017
together with Independent Auditor's Report

Contents

REPONSIBILITY FOR CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

The Management of **Zagrebački holding d.o.o.**, Zagreb, ("the Company") is responsible for ensuring that the consolidated annual financial statements of the Company for 2017 are prepared in accordance with the Accounting Act (Official Gazette No 78/15, 120/16) and the International Financial Reporting Standards to give a true and fair view of the financial position and its consolidated financial performance and its consolidated cash flows and its consolidated changes on equity of the Company for that period.

After making enquiries, the Management Board reasonably expects the Company to have adequate resources to continue to operate in the foreseeable future. Accordingly, the Management Board prepared the consolidated annual financial statements using the going concern basis of accounting.

In preparing the consolidated annual financial statements, the Management Board is responsible for:

- selection and consistent application of suitable accounting policies in accordance with the applicable financial reporting framework;
- giving reasonable and prudent judgments and estimates; and
- using the going concern basis of accounting, unless it is inappropriate to presume so.

The Management Board is responsible for keeping the proper accounting records, which at any time with reasonable certainty present the consolidated financial position and the consolidated financial performance of the Company, and also their compliance with the Accounting Act and the International Financial Reporting Standards. The Management Board is also responsible for safe keeping the assets of the Company and also for taking reasonable steps for prevention and detection of fraud and other irregularities.

For and on behalf of the Management Board:

Ana Stojić Deban, President of the Management Board	Daniela Franić, Member of the Management Board	Bernard Mršo, Member of the Management Board

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INDEPENDENT AUDITOR'S REPORT

To the owner of Zagrebački holding d.o.o., Zagreb

Report on the audit of consolidated annual financial statements

Opinion

We have audited the enclosed consolidated annual financial statements of the company ZAGREBAČKI HOLDING d.o.o., Avenija grada Vukovara 41, Zagreb (hereinafter "the Company") and its subsidiaries (hereinafter "the Group") for the year ended 31 December 2017, which comprise the consolidated Statement of financial position (Balance sheet) as at 31 December 2017, consolidated Income Statement, consolidated Statement of other comprehensive income, consolidated Statement of changes in equity and consolidated Statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with the Accounting Act and the International Financial Reporting Standards (the "IFRS"), determined by the European Commission and published in the Official Journal of the EU.

Basis for opinion

We conducted our audit in accordance with Accounting Act, Audit Act and International Auditing (ISAs). Our responsibilities under those standards are further described in our Independent Auditor's report under section Auditor's responsibilities for the audit of the consolidated annual financial statements. We are independent of the Company in accordance with the Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of matter

We draw attention to Note 17 to the consolidated annual financial statements, in which it is stated that certain municipal land registers have not been entirely organized. The Group has been undergoing the process of entering the title over land and construction sites into appropriate land registry which confirms the ownership. Even though the Group is in possession of documents confirming its ownership, there is uncertainty regarding the resolving of the status of these properties. Our opinion has not been modified regarding this matter.

Registrirano kod Trgovačkog suda u Zagrebu pod brojem 080044149
OIB 76394522236

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. We have determined the matters described below to be the key audit matters to be communicated in our Independent Auditor's report:

Key audit matter	**How we addressed key audit matters**
Valuation of property investments	
Description of key estimates and judgements regarding investment property is shown in Notes: 3. f), 3. x), 18. to the consolidated financial statements. As at 31 December 2017, in its consolidated Statement of Financial Position (Consolidated Balance Sheet), the Group stated the amount of HRK 2,138,577 thousand of investment in property in the process of which, due to new evaluation of investment in property, profit was determined in the net amount of HRK 114,742 thousand (2016: HRK 4,948 thousand loss). The assessment of investment in property was implemented based on the estimate by a sworn appraiser authorized for assessing the value of property. The court appraiser assessed the property in line with the Property Valuation Act (OG 78/2015) and the Ordinance on Property Appraisal Methods (OG 105/2015). The property at issue mostly includes business venues and construction land in the area of the City of Zagreb. In line with the afore stated, due to the significance and using judgements in assessing the fair value, we hold that the assessment of the Company`s investment is a key audit matter.	We estimated the competence and abilities of the Appraiser and confirmed their qualifications. Moreover, estimated their independence and the scope of their work and inspected the signed contract due to unusual conditions set therein and/or agreed fee. In line with the above stated, we confirmed that the Appraisers are independent and competent and that the scope of their activity is appropriately determined. We tested the accuracy of the qualification of investment into property, including new investments, income from rent and related expenses, confirming all of these with the balances stated in business records of the Group. We also examined the Appraiser`s reports to confirm they were made in line with the prescribed methods. On a sample, we analysed the adequacy of the Appraiser's selection of a specific appraisal method and related explanations. We examined the adequacy of recording the changes determined in a re-estimate in the consolidated financial statements of the Group. Furthermore, we estimated the adequacy of the data published in the consolidated financial statements.
Collectability of trade receivables	
Description of key estimates and judgements regarding trade receivables is shown in Notes: 3. i), 3. x), 10. and 22. to the consolidated financial statements. As at 31 December 2017, in its consolidated Statement of Financial Position (Consolidated Balance Sheet), the Group stated net trade receivables in the amount of HRK 924,802 thousand. Furthermore, the consolidated Income Statement for 2017 shows loss due to decrease of receivables in the amount of HRK 195,969 thousand (2017: HRK 129,934 thousand). We hold the collectability of trade receivables and the level of impairments implemented for disputable receivables to represent a significant risk and thus also a key audit matter due to the nature of these balances (utility activities are regulated by special acts and receivables have not been covered by financial instruments) and also due to a large scope of customers of the Group with small portions in receivables.	We estimated the design and the implementation of key controls in monitoring the collectability of receivables. We analysed the adequacy of the policy of the Group regarding the valuation of trade receivables. We considered the consistency of judgements made by the Management regarding the collectability of receivables. We made the expected age structure of customers based on the data from earlier years and all significant changes occurring in the observed period and compared it to the current age structure. We compared reports on the customers age structure with corrections recorded in the consolidated financial statements of the Group. On a sample, we tested invoices included in the reports on due receivables and checked the maturity accuracy. On a sample, we examined and also gave a critical analysis on the explanations provided with certain regular receivables. Furthermore, we estimated the adequacy of the data published in the consolidated financial statements

Key audit matters (continued)

Key audit matter	How we addressed key audit matters
Income recognition Description of key estimates and judgements regarding income recognition is shown in Notes: 3. t), 5, 6, and 13. to the consolidated financial statements. In the consolidated Income Statement for 2017, the Group stated income from sales in the amount of HRK 3,793,578 thousand HRK. Income from sales mostly include a high volume of transactions of low individual value. We identified the following types of transactions and statements regarding the income recognition which we hold to represent a significant risk and thus also a key audit matter: - completeness of income recorded on the base of the collection system, accuracy and integrity of income recognized based on transactions outside of regular collectability process and allocation appropriateness of the total transactions value between more elements within the transaction package	We estimated the design and the implementation of key controls in monitoring the invoicing system. We analysed the adequacy and consistency of adopted policies of the Company regarding the income recognition. Our IT auditors implemented further procedures which include the control of transaction integrity and the overview of applicative controls in subsidiaries/daughter companies using "billing" application or on-line payment or payment via mobile phone operators (like Zagrebparking, Gradska plinara and ZET). For subsidiaries/related companies with externalized service of invoicing (GSKG, ViO and Čistoća) we examined the contracts and held meetings with service provider representatives with the objective to understand the system of interim controls IT security as well as control procedures of data transaction integrity. We implemented evidence testing on a sample of non-systematic adjustments outside of the normal collectability process. Through independent customers' receipts on a reference sample, we confirmed calculated balances and cash flows. On a sample, we checked the adequacy of income recognition in related periods. Furthermore, we estimated the adequacy of the data published in the consolidated financial statements

Other issues

We draw attention to Note 3 of the Company's Annual Report for 2017, where it is stated that, in accordance with point (b), paragraph 8, Article 21, of Labour Act, a web page with the separate non-financial report of the Company will be published no later than 6 months from the balance sheet date, Our opinion has not been modified in this regard.

Other Information in the Annual Report

The Management is responsible for other information. Other information includes information included in the Annual report, but do not include the consolidated annual financial statements and our Independent auditor's report on them and does not include a separate nonfinancial report that we expect to become available after that date.

Our opinion on the consolidated annual financial statements does not include other information, except to the extent explicitly stated in the part of our Independent auditor's report, entitled Report on compliance with other legal or regulatory requirements, and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated annual financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated annual financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. In this sense, we do not have anything to report.

Responsibilities of the Management and Those Charged with Governance for the Consolidated Annual Financial Statements

The Management is responsible for the preparation of consolidated annual financial statements that give a true and fair view in accordance with IFRS, determined by the European Commission and published in the Official Journal of the EU; and for such internal control as management determines is necessary to enable the preparation of consolidated annual financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated annual financial statements, the Management is responsible for assessing the Group`s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Annual Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated annual financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated annual financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated annual financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management.

Auditor's Responsibilities for the Audit of the Consolidated Annual Financial Statements (continued)

- Conclude on the appropriateness of the Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated annual financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated annual financial statements, including the disclosures, and whether the consolidated annual financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- We are collecting sufficient audit evidence relating to financial information of entities or business activities within the Group to express our opinion on consolidated financial statements. We are responsible for the organization, supervision and implementation of the Group's audit.We are solely responsible for expressing our opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and that we will communicate with them all relationships and other matters that may reasonably be considered to influence our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated annual financial statements of the current period and are therefore the key audit matters. We describe these matters in our Independent Auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our Independent Auditor's report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Compliance with Other Legal or Regulatory Requirements

Report based on the requirements of EU Regulation No. 537/2014

On 15 September 2017, we were appointed by the General Assembly of the Company, based on the suggestion of the Supervisory Board to audit the annual financial statements for 2017.

At the date of this report we have been continuously engaged in carrying out the audits of the Company's annual financial statements for 2015, up to the Company's annual financial statements for 2017, which is in total three years.

In addition to the issues that we have mentioned in our Independent Auditor's report as key audit matters, we have nothing to report in relation to point (c) of Article 10 of EU Regulation No. 537/2014.

Through our statutory audit of the Company's annual financial statements for the year 2017, we are able to detect irregularities, including fraud in accordance with Section 225, Responding to Non-Compliance with the IESBA Code of Conduct, which requires us to, during our audit engagement, see if the Company has complied with laws and regulations which are generally recognized to have a direct impact on the determination of significant amounts and disclosures in annual financial statements, as well as other laws and regulations that do not have a direct effect on the determination of significant amounts and disclosures in the annual financial statements, but compliance with which may be crucial for operational aspects of the Company's business, its ability to continue with going concern or to avoid significant penalties.

Except where we encounter or gain knowledge about disrespect of any of the aforementioned laws or regulations that is apparently insignificant, in our judgment of its content and its influence, financial or other, for the Company, its stakeholders and the general public, we are obliged to inform the Company and ask it to investigate this case and take appropriate measures to resolve the irregularities and to prevent the reappearance of these irregularities in the future. If the Company does not correct any irregularities which are basis of incorrect disclosures in the audited annual financial statements that are cumulatively equal to or greater than the amount of significance to the financial statements as a whole; until the date of the revised balance sheet; we are required to modify our opinion in the independent auditor's report.

In the revision of the Company's annual financial statements for the year 2017, we determined the significance for the annual financial statements as a whole in the amount of HRK 54,000 thousand which represents approximately 1% of the Company's total income. We believe that total income is an important indicator and represents the most frequently used benchmark for the Company's performance.

Our audit opinion is consistent with the additional report for the Company's Auditing Board, prepared in accordance with provisions of Article 11 of Regulation (EU) No. 537/2014

Report based on the requirements of EU Regulation No. 537/2014 (continued)

During the period between the initial date of the audited consolidated annual financial statements of the Company for the year 2017 and the date of this report, we did not provide the Bank with prohibited non-scheduled services and in the business year prior to the aforementioned period we did not provide services for the design and implementation of internal control procedures or risk management related to preparation and/or control of financial information or the design and implementation of technological systems for financial information, and we have maintained independence in the performance of the audit in relation to the Company.

Report based on the requirements of the Accounting Act

The Management is responsible for the preparation of the Management report as part of the Annual report of the Company and we are obliged to express an opinion on the compliance of the Management report as part of the Annual report of the Company with the consolidated annual financial statements of the Company. In our opinion, based on our audit of the consolidated annual financial statements of the Company, information in the Management report as part of the Annual report of the Company for 2017 are in accordance with the financial information stated in the consolidated annual financial statements of the Company set out on pages 10 to 108 on which we expressed our opinion as stated in the Qualified opinion section above.

In our opinion, based on the work that we performed during the audit, the Company's management report for 2017 which is an integral part of the Annual report for 2017 is prepared in accordance with the Accounting act.

Based on the knowledge and understanding of the Company and its environment obtained while performing the audit, we have not found that there are material misstatements in the Company's Management report for 2017 which is an integral part of the Company's Annual report for 2017.

In our opinion, based on the work that we performed during the audit, the Statement that code of corporate governance is applied, included in the Annual Report for 2017, is in accordance with the requirements of article 22, paragraph 1, points 3 and 4 of the Accounting act.

The Statement that code of corporate governance is applied, included in the Annual Report for 2017, includes information from article 22, paragraph 1, points 2, 5 and 6 and 7 of the Accounting act.

The Management Board is responsible for the preparation of consolidated annual financial statements for the year ended 31 December 2017 in prescribed form based on the Statute of structure and content of annual financial statements (Official Gazette 95/16) and in accordance with other regulations governing the operations of the Company ("Standard annual financial statements"). Financial information presented in Company's standard annual financial statements are in accordance with the information presented in the Company's annual financial statements set out on pages 10 to 108 on which we expressed our opinion as stated in the Qualified opinion section above.

The engaged partner on the audit of consolidated financial report for 2017, resulting in this Independent Auditor's report is Ivan Štimac, Certified Auditor.

Zagreb, 26 April 2018

BDO Croatia d.o.o.
Trg J. F. Kennedy 6b
10000 Zagreb

BDO
BDO Croatia d.o.o.
za pružanje revizorskih,konzalting
i računovodstvenih usluga
Zagreb, J.F. Kennedy 6/b

Jeni Krstičevic, President of the Management Board

Ivan Štimac, Certified Auditor

Consolidated Income Statement and Consolidated Statement of Other Comprehensive Income

For the year ended 31 December 2017

	Note	2017	2016
		(in HRK '000)	(in HRK '000)
OPERATING INCOME			
Sales	5	3,793,578	3,842,428
Other operating income	6	1,427,679	1,202,678
Total		**5,221,257**	**5,045,106**
OPERATING EXPENSES			
Cost of material and services	7	(2,244,894)	(2,263,344)
Staff costs	8	(1,678,606)	(1,609,351)
Depreciation and amortisation	9	(529,667)	(548,140)
Impairment allowance on current and non-current assets	10	(423,624)	(167,283)
Provisions for risks and charges	11	(106,342)	(107,998)
Other operating expenses	12	(135,747)	(145,137)
Total		**(5,118,880)**	**(4,841,253)**
FINANCIAL INCOME	13	**207,487**	**237,116**
FINANCIAL EXPENSES	14	**(294,438)**	**(330,659)**
TOTAL INCOME		**5,428,744**	**5,282,222**
TOTAL EXPENSES		**(5,413,318)**	**(5,171,912)**
PROFIT BEFORE TAX		**15,426**	**110,310**
INCOME TAX EXPENSE	15	**(13,722)**	**(35,378)**
PROFIT FOR THE YEAR		**1,704**	**74,932**
Attributable to:		**1,704**	**74,932**
The equity holders of the Company		(334)	69,718
Non-controlling interests		2,038	5,214
Other comprehensive income			
Items that will not be reclassified to profit or loss			
Revaluation surplus, net of taxes		-	86,675
Profit from evaluating financial assets available for sale	15	(2,606)	4,610
Other changes in comprehensive gain		-	(37,137)
Total comprehensive gain for the year		**(902)**	**129,080**
Total comprehensive gain attributable to:		**(902)**	**129,080**
Equity holders of the Company		(2,940)	123,866
Non-controlling interests		2,038	5,214

	Note	31 Dec 2017	31 Dec 2016
		(in HRK '000)	(in HRK '000)
NON-CURRENT ASSETS			
Property, plant and equipment	17	13,221,975	13,191,970
Investment property	18	2,138,577	1,955,426
Intangible assets	16	15,392	22,828
Other financial assets	19	131,864	133,364
Non-current receivables	20	1,638,759	1,666,893
Deferred tax assets	15	38,964	37,746
Total non-current assets		**17,185,531**	**17,008,227**
CURRENT ASSETS			
Inventories	21	361,338	341,474
Trade receivables and other receivables	22	1,691,598	1,543,418
Other financial assets	19	65,533	107,459
Cash and cash equivalents	23	158,909	1,057,715
Total current assets		**2,277,378**	**3,050,066**
TOTAL ASSETS		**19,462,909**	**20,058,293**
Off-balance sheet items	31	**364,170**	**225,214**

	Note	31 Dec 2017	31 Dec 2016
		(in HRK '000)	(in HRK '000)
EQUITY	24		
Share capital	24a	3,833,236	3,833,236
Revaluation reserve	24b	2,884,931	2,887,537
Other reserves	24c	322,618	322,618
Retained earnings	24d	694,933	695,267
Non-controlling interests	24e	10,386	8,348
Total equity		**7,746,104**	**7,747,006**
NON-CURRENT LIABILITIES			
Loans payable	25	2,193,030	2,130,099
Liabilities under issued long-term securities	26	2,243,265	1,637,661
Other non-current liabilities	27	73,277	151,669
Provisions	28	507,402	460,148
Deferred income	29	4,089,689	4,282,740
Deferred tax liability	15	614,179	614,780
Total non-current liabilities		**9,720,842**	**9,277,097**
CURRENT LIABILITIES			
Trade payables and other liabilities	30	1,337,485	1,325,965
Loans and borrowings	25	658,478	547,772
Liabilities for issued securities	26	-	1,160,453
Total current liabilities		**1,995,963**	**3,034,190**
TOTAL EQUITY AND LIABILITIES		**19,462,909**	**20,058,293**
Off-balance sheet items	31	**364,170**	**225,214**

	Share capital	Revaluation reserves	Capital and reserves created from profit	Retained earnings/ accumulated losses	Equity attributable to the owner to the Parent	Non-controlling interest	Total
	(in HRK '000)	(in HRK '000)	(in HRK '000)	(in HRK '000)	(in HRK '000)	(in HRK '000)	(in HRK '000)
Balance as at 31 December 2015	**3,833,236**	**2,796,252**	**319,977**	**708,178**	**7,657,643**	**6,866**	**7,664,509**
Profit for the year	-		-	69,718	**69,718**	-	**69,718**
Profit payment to non-controlling interests	-	-	-	-	-	(3,732)	(3,732)
Effect of the end of the liquidation of company Centar d.o.o.	-	-	2,641	(2,139)	**502**	-	**502**
Reclassification from retained profit to other comprehensive profit	-	-	-	(43,353)	**(43,353)**	-	**(43,353)**
Other comprehensive profit	-	91,285	-	(37,137)	**54,148**	5,214	**59,362**
Balance as at 31 December 2016	**3,833,236**	**2,887,537**	**322,618**	**695,267**	**7,738,658**	**8,348**	**7,747,006**
Other comprehensive loss	-	(2,606)	-	-	**(2,606)**	-	**(2,606)**
Profit for the year	-	-	-	(334)	**(334)**	2,038	**1,704**
Balance as at 31 December 2016	**3,833,236**	**2,884,931**	**322,618**	**694,933**	**7,735,718**	**10,386**	**7,746,104**

	2017	2016
	(in HRK '000)	(in HRK '000)
Cash flows from operating activities		
Profit for the year	***1,704***	***74,932***
Tax expense recognised in the income statement	13,722	35,378
Finance cost recognised in profit or loss	272,317	254,298
Investment income recognised in profit or loss	(122,036)	(165,849)
Impairment allowance on current assets	227,248	138,558
Change in the fair value of investment property	(114,742)	4,948
Impairment allowance on non-current assets	731	858
Depreciation and amortisation	529,667	548,140
Profit from sale of assets	(4,358)	(5,410)
Increase / (decrease) in long-term provisions	47,254	(21,555)
Decrease in deferred income on assets financed by others	(193,051)	(179,448)
Foreign exchange losses	17,366	(55,568)
Effect of liquidating a subsidiary	-	2,640
Other non-monetary items	(2,606)	2,514
Changes in working capital:		
Increase in inventories	(19,864)	(40,825)
Increase in trade receivables	(108,245)	(187,960)
(Increase) / decrease in receivables from related companies	(158,158)	(102,445)
Decrease / (increase) in amounts due from employees	(2,099)	405
Decrease / (increase) in receivables from the State	(22,485)	18,507
(Increase) / decrease in other receivables	(84,405)	(144,148)
Decrease /increase in liabilities to suppliers and related parties	25,849	(28,734)
(Decrease) / increase in advances received	-	1,056
Decrease in liabilities for taxes and contributions	(32,474)	5,051
Decrease in amounts due to employees	18,716	2,359
Decrease / (increase) in other non-current liabilities	(74,599)	60,245
Decrease / (increase) in other current liabilities	(19,726)	173,264
Profit payment to non-controlling interests	-	(3,732)
Net cash generated from operations	***195,726***	***387,479***

	2017	2016
	(in HRK '000)	(in HRK '000)
Cash flows from operating activities		
Cash generated from operations	195,726	387,479
Income taxes paid	-	(23,436)
Interest paid	(209,873)	(248,325)
Net cash generated from operating activities	**(14,147)**	**115,718**
Cash flows from investing activities		
Purchases of tangible and intangible assets	(621,755)	(250,987)
Expense of investment property	-	(2,077)
Decrease in advances for fixed assets	379	113
Proceeds from sale of tangible assets	4,358	1,752
Receipts from collection of long-term receivables	28,134	325,600
Income from dividends	-	1,743
Purchase costs for financial assets	43,426	141,506
Interest paid	122,000	158,702
Net cash used in investing activities	**(423,458)**	**376,352**
Cash flows from financing activities		
Received loans and borrowings	1,300,470	-
Repayments of loans and borrowings	(1,122,641)	(486,131)
Received issued bonds	500,000	1,734,948
Repayment of bonds	(1,139,030)	(1,104,814)
Net cash generated from financing activities	**(461,201)**	**144,003**
Net cash increase	**(898,806)**	**636,073**
Cash as at 1 January	**1,057,715**	**421,642**
Cash as at 31 December	**158,909**	**1,057,715**

1. GENERAL INFORMATION

History, incorporation and status changes

On 27 December 2005, The City of Zagreb and Zagrebački holding d.o.o. ("the Company") concluded several share transfer agreements involving 22 companies on the basis of which the ownership interests in these companies were transferred in full from the City of Zagreb to the Company. The transferred equity interests in the nominal amount of HRK 4,036,590 thousand represent assets that are at the free disposal of the Company. In addition, pursuant to these agreements, the City of Zagreb increased the subscribed capital of the Company, by converting the receivables under the Share Transfer Agreement by a total of HRK 4,036,590 thousand in equity of the Company.

In 2006 and 2007, several companies, which are enumerated below, were merged into the Company, and the Company underwent several changes in its status, all of which were registered at the Commercial Court in Zagreb.

Upon the merger, the merged entities transferred all of their assets and liabilities to the Company as the acquirer. Pursuant to the underlying merger agreements and the applicable provisions of the Companies Act, the share capital of the Company was not increased by the share capital of each of the merged entities because it held the entire share capital in each of the entities.

In 2013 the Company defined a Demerger plan involving the establishment of new companies and transfer of a part of its assets and liabilities to the new companies, in accordance with the adopted strategic highlights. Until the end of 2013 the following operating units had been spun off: Water supply (as a result of the underlying changes of Law on Waters, Official Gazette 153/09, 63/11, 130/11, 56/13), Facility management, Construction and sale of flats, and Publishing (as a result of the strategic focus to separate commercial operations from the communal activities), resulting in the establishment of four new companies.

Pursuant to the Decision (No Tt-13/25472-2) of the Commercial Court in Zagreb, dated 8 November 2013, the demerger of the Company involving the establishment of the following new companies was entered into the Court registry: Gradsko stambeno komunalno gospodarstvo d.o.o., Vodoopskrba i odvodnja d.o.o., Zagrebačka stanogradnja d.o.o. and AGM d.o.o.

As part of the demerger involving the establishment of the above-mentioned companies, the share capital was distributed by reducing the share capital of the Company by HRK 2,069,128 thousand from HRK 4,208,629 thousand to HRK 2,139,501 thousand.

Following the Company's status changes and registration of new companies the Company concluded Contract on transfer of business shares with City of Zagreb as transferor whereas the Company acquired for following companies: Gradsko stambeno komunalno društvo d.o.o., Vodoopskrba i odvodnja d.o.o., AGM d.o.o. and Zagrebačka stanogradnja d.o.o. Business shares are transferred to the Company in the total amount of HRK 2,069,128 thousand which is the same as nominal value of share capital for each of above mentioned companies. Based on transfer of business shares receivables from City of Zagreb are transferred to additional share capital of the Company during the year 2013 as it is stated in Commercial Court in Zagreb.

1. GENERAL INFORMATION (CONTINUED)

Activities

As at 31 December 2017, the Company comprised the following business units/branches:

	Name of the branch:	Headquarters	Form of organization	Principal activity	Ownership interest 2017	Ownership interest 2016
	Zagrebački holding	Avenija grada Vukovara 41	limited liability company	Public transport; water supply; cleaning, waste collection and disposal; travel agency business; sports, facility and real estate management	100% City of Zagreb	100% City of Zagreb
1.	Gradska groblja	Mirogoj 10	branch	Funeral and related services	100% Zg.holding	100% Zg.holding
2.	Čistoća	Radnička 82	branch	Public area cleaning, waste collection and disposal	100% Zg.holding	100% Zg.holding
3.	Zagrebački električni tramvaj	Ozaljska 105	branch	Public passenger transport	100% Zg.holding	100% Zg.holding
4.	Zrinjevac	Remetinečka 92	branch	Landscaping and plant growing	100% Zg.holding	100% Zg.holding
5.	Zagrebparking	Šubićeva 40/III	branch	Public parking lots and garages	100% Zg.holding	100% Zg.holding
6.	Zagrebačke ceste	Donje Svetice 48	branch	Regional and local road management, maintenance and construction	100% Zg.holding	100% Zg.holding
7.	Autobusni kolodvor Zagreb	Avenija M.Držića 4	branch	Bus station	100% Zg.holding	100% Zg.holding
8.	Tržnice Zagreb	Šubićeva 40/V	branch	Wholesale and retail markets, warehousing and storage	100% Zg.holding	100% Zg.holding
9.	ZGOS	Zeleni trg 3	branch	Waste collection and removal	100% Zg.holding	100% Zg.holding
10.	Zagrebački digitalni grad	Av.Dubrovnik 15	branch	Lease of IT cable and network systems	100% Zg.holding	100% Zg.holding
11.	Upravljanje projektima	Jankomir 25	branch	Flat construction and sale	100% Zg.holding	100% Zg.holding
12.	Arena Zagreb	Ul. V. Vukova 8	branch	Sports facility management and maintenance	100% Zg.holding	100% Zg.holding
13.	Robni terminali Zagreb	Jankomir 25	branch	Warehousing	100% Zg.holding	100% Zg.holding
14.	Vladimir Nazor	Maksimir 52	branch	Travel agency business	100% Zg.holding	100% Zg.holding
15.	Zagrebački velesajam	Av.Dubrovnik 15	branch	Organisation of fairs, congresses, seminars	100% Zg.holding	100% Zg.holding
16.	Upravljanje nekretninama	Jankomir 25	branch	Real estate business	100 % Zg.holding	-

1. GENERAL INFORMATION (CONTINUED)

Activities (continued)

Companies and institutions owned by the Company that form the Zagrebački holding Group (hereinafter: the Group):

	Name of the branch	Headquarters	Form of organiza tion	Principal activity	Ownership interest 2016	Ownership interest 2015
Companies and institutions owned by Zagrebački holding						
1.	Gradska plinara Zagreb d.o.o.	Radnička 1	d.o.o.	Gas distribution	100% Zg.holding	100% Zg.holding
2.	Gradska plinara Zagreb - Opskrba d.o.o.	Radnička 1	d.o.o.	Gas supply	100% Zg.holding	100% Zg.holding
3.	Zagreb plakat d.o.o.	Savska cesta 1	d.o.o.	Lease of advertising space	51% Zg.holding	51% Zg.holding
4.	Gradska ljekarna Zagreb	Kralja Držislava 6	institution	Drugstore	100% Zg.holding	100% Zg.holding
5.	Gradsko stambeno komunalno gospodarstvo d.o.o.	Savska cesta 1	d.o.o.	Facility management	100% Zg.holding	100% Zg.holding
6.	Vodoopskrba i odvodnja d.o.o.	Folnegovićeva 1	d.o.o.	Water collection, treatment and supply	100% Zg.holding	100% Zg.holding
7.	AGM d.o.o.	Mihanovićeva 28	d.o.o.	Publishing	100% Zg.holding	100% Zg.holding
8.	Zagrebačka stanogradnja d.o.o.	Bukovačka cesta 4	d.o.o.	Flat construction and sale	100% Zg.holding	100% Zg.holding
9.	Centar d.o.o.	Palmotićeva 22-2	d.o.o.	Organization of sports holidays for youth	100% Zg.holding	100% Zg.holding

According to the decision of the General Assembly, by the Solution of Commercial Court in Zagreb (Tt-15 / 29795-2) dated 15 October 2015, merge of the company Zagreb Arena d.o.o. to the Company is registered in the court registry.

Pursuant to the Decision of the Commercial Court from 9 April 2014, company Centar d.o.o. registered the end of its operating, changing of the company and appointing the liquidator. As at 14 June 2016, in line with the Decision of the Commercial Court, the function of the liquidator ceases and the continued operating of the company is entered into the court register.

By the Decision of the Commercial Court in Zagreb (Tt-17 / 49954-2) of 29 December 2017, the division of the Company was carried out by separation with the establishment of new limited liability companies - Zagrebački električni tramvaj d.o.o., and Zagrebački velesajam d.o.o. With the division of economic units into newly formed companies, the Company's share capital was reduced by HRK 656,193 thousand to the amount of HRK 3,177,044 thousand while the business effects of the Plan entered into force on 1 January 2018. The shares were acquired by the City of Zagreb, which, after the implementation of the Plan, was the only member, i.e. the only holder of business shares in the new companies Zagrebački električni tramvaj d.o.o., and Zagrebački velesajam d.o.o.

1. GENERAL INFORMATION (CONTINUED)

Principal activities

During the year, the principal activities of the Group comprised the provision of the following services:

a) Cleaning and waste removal services
b) Public passenger transport services
c) Water collection, treatment and supply
d) Landscaping and plant growing
e) Management, maintenance, construction and protection of regional and local roads
f) Parking services
g) Gas supply and distribution
h) Drugstore
i) Warehousing and rental services
j) Waste disposal and management
k) Flat, business premises and garage construction and sale
l) Other services

Staff

At 31 December 2017, the Group had 11,286 employees (31 December 2016: 10,394 employees), as presented below:

The Group	No. of staff **31 Dec 2017**	No. of staff **31 Dec 2016**
The Company	8,825	8,196
Subsidiaries	2,461	2,198
	11,286	**10,394**

1. GENERAL INFORMATION (CONTINUED)

Directors and the Management

The members of the **Management Board** of the Company were as follows:

2017	2016
1. Ana Stojić Deban, President of the Management Board since 16 June 2015	1. Ana Stojić Deban, President of the Management Board since 16 June 2015
2. Daniela Franić, Member since 6 March 2015	2. Daniela Franić, Member since 6 March 2015
3. Bernard Mršo, Member since 8 August 2016	3. Bernard Mršo, Member since 8 August 2016

Subsidiaries	**Director as at 31 December 2016**
1, Gradska plinara Zagreb d.o.o.	Tihana Colić
2, Gradska plinara Zagreb Opskrba d.o.o.	Igor Pirija
3, Zagreb plakat d.o.o.	Bosiljka Grbašić, Kruno Ian Bodegray
4, Gradska ljekarna Zagreb	Nadica Jambrek, principal
5, Gradsko stambeno komunalno gospodarstvo d.o.o.	Joško Jakelić
6, Vodoopskrba i odvodnja d.o.o.	Štefica Mihalic
7, AGM d.o.o.	Dinko Čutura, from 2 November to 11 September 2017 Ana Stojić Deban from 31 May 2017 to 11 September 2017 Stjepan Bekavac from 11 September 2017
8, Zagrebačka Stanogradnja d.o.o.	Željko Horvat
9, Centar d.o.o.	Tomislav Bilić

1. GENERAL INFORMATION (CONTINUED)

The Supervisory Board

The members of **the Supervisory Board** of the Company during 2017 were as follows:

1. Mirna Šitum, member (since 1 July 2013), deputy president (from 2 July 2013), president (from 8 December 2014 to 1 July 2017)
2. Davor Štern, member (since 1 July 2013), deputy president ((from 8 December 2014 to 1 July 2017)
3. Ivan Šikić, member (from 1 July 2013 to 1 July 2013), member (since 21 September 2017)
4. Gojko Bežovan, member (from 1 July 2013 to 1 July 2013), member (since 21 September 2017)
5. Mirsad Srebreniković, member (from 28 May 2015 to 21 September 2017)
6. Jelena Pavičić Vukičević, member (from 28 May 2015 to 9 March 2017)
7. Andrea Šulentić, member (since 28 May 2015)
8. Nikola Mijatović, member (since 8 August 2016), deputy president (since 27 September 2017)
9. Mario Župan, member (since 8 August 2016)
10. Ivan Lončarević, member (from 9 March 2017 to 21 September 2017)
11. Ljubo Jurčić, member (since 21 September 2017), president (since 21 September 2017)
12. Josip Budimir, member (since 21 September 2017)
13. Mihaela Grubišić Šeba, member (since 21 September 2017)
14. Domagoj Bešker, member (since 21 September 2017),

The members of **the Supervisory Board** of the Company during 2016 were as follows:

1. Mirna Šitum, Deputy President (since 1 July 2013), President (since 8 December 2014)
2. Davor Štern, Member (since 1 July 2013), Deputy President (since 8 December 2014)
3. Ivan Šikić, Member (since 1 July 2013)
4. Gojko Bežovan, Member (since 1 July 2013)
5. Mirsad Srebreniković, Member (since 28 May 2015)
6. Jelena Pavičić Vukičević, Member (since 28 May 2015)
7. Andrea Šulentić, Member (since 28 May 2015)
8. Grgo Jelinić, Member (since 28 May 2015)
9. Mirko Herak, Member (since 28 May 2015)
10. Ivan Ćelić, Member (from 8 August 2016 to 21 November 2016)
11. Nikola Mijatović, Member (since 8 August 2016)
12. Mario Župan, Member (since 8 August 2016)

1. GENERAL INFORMATION (CONTINUED)

The Assembly of the Company

The only member of **the Assembly** is City of Zagreb, and representatives of member during 2017 were as follows:

1. Milan Bandić (since 22 April 2015)
2. Slavko Kojić (since 28 June 2013)
3. Vesna Kusin (since 30 March 2015 until 14 June 2017)
4. Olivera Majić (since 14 June 2017)

The only member of **the Assembly** is City of Zagreb, and representatives of member during 2016 were as follows:

1. Milan Bandić (since 22 April 2015)
2. Slavko Kojić (since 28 June 2013)
3. Vesna Kusin (since 30 March 2015)

2. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS")

Standards and Interpretations effective in the current period

The following new standards and revised existing standards and interpretations issued by the International Accounting Standards Board adopted by the European Union are effective for the current period:

- Amendments to IAS 12: Recognition of Deferred Tax Assets for Unrealized Losses

  Amendments shall enter into force for annual periods beginning on or after 1 January 2017, subject to prior application being permitted. The purpose of the amendment is to clarify the application for the recognition of deferred tax assets to unrealized losses in order to address the differences in practice related to the application of the provisions of IAS 12 Income Tax. Certain problems related to differences in practice in the treatment of temporary tax differences on the basis of fair value reduction, asset sale for an amount higher than book value and probable future taxable profits and consideration of a combined or separate impact assessment.

- Amendments to IAS 7: Disclosure Initiative

  Amendments shall be effective for annual periods beginning on or after 1 January 2017, or, where applicable, prior application may be granted. The purpose of the amendment is to provide disclosures that allow users of financial statements to assess the impact of changes in liabilities from financial activities, including cash and non-cash changes. Amendments state that one way of meeting disclosure requirements is to align the spreadsheet between initial and closing positions in the statement of financial position for liabilities arising from financial activities, including changes in cash flows from financing, changes that result from loss or gain of control over subsidiaries or other affairs, the effect of exchange rate fluctuations, changes in fair value and other changes.

The adoption of these amendments the standards did not significantly affect the financial statements of the Company.

Standards and Interpretations issued by the Standards Board that have not yet entered into force and which the Company has not previously adopted

At the date of issuance of these financial statements, the following standards, amendments and interpretations issued by the International Standards Board have not been adopted by the European Union:

- IFRS 9 Financial Instruments: Classification and Measurement

  The Standard is effective for annual periods beginning on or after January 1, 2018, with earlier application being allowed. Final version of IFRS 9 *Financial Instruments* refers to all phases of a financial instruments project and modifies IAS 39 Financial Instruments: Recognition and Measurement as well as all prior versions of IFRS 9. The Standard introduces new classification and measurement requirements, impairment and hedge accounting. The Company's management plans to adopted the standard after its effective date and is currently evaluating the impact of this standard on financial reporting.

2. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (CONTINUED)

- IFRS 15 Revenue from Contracts with Customers

The Standard is effective for annual periods beginning on or after 1 January 2018. The standard introduces a 5-step model applicable to customer-based revenue (with limited exceptions), regardless of the type of revenue transaction or industry. Standard requirements will also apply to the recognition and measurement of profits and losses from sales of some non-financial assets which is not a part of the Company's regular activities (for example, the sale of property, plant and equipment or intangible assets). Extensive disclosures will be required, including disaggregation of total revenue; information on execution obligations; changes in amounts of contracted assets and liabilities between periods and key estimates and judgments. The Company's management is currently evaluating the impact of this standard on financial reporting.

- IFRS 15 Revenue from Contracts with Customers (Explanation)

Explanations are effective for annual periods beginning on or after 1 January 2018, or earlier, with prior application being allowed. The purpose of the explanation is to clarify the purpose of the Board when defining the requirements of IFRS 15 Revenue from Contracts with Customers, in particular accounting treatment of identified execution obligations by supplementing the definition of a "separately recognizable" principle, consideration of the relationship between the principal and the agent including an assessment of whether the subject is the principal or the agent in the transaction, as well as the application of access control and licensing by providing additional guidance for the accounting treatment of intellectual property and royalties. Explanations also provide additional practical tools for entities subject to IFRS 15 using a full retroactive approach or for those who opt to use a modified retroactive approach. These clarifications are still not adopted in the EU. The Company's management is currently evaluating the impact of these clarifications on financial reporting.

- IFRS 16 Leases

The Standard is effective for annual periods beginning on or after January 1, 2019. IFRS 16 defines the rules for recognition, measurement, presentation and disclosure for the leases of both contractual parties, i.e. the buyer (the "lessee") and the supplier (the "lessor"). In accordance with the new standard the lessees should recognize most leases in their financial statements. A single accounting model will be applied to all leases, with certain exceptions. Accounting treatment of leases at the lessor will not be significantly altered. The Company's management is currently evaluating the impact of this standard on financial reporting.

- IFRIC 22: Foreign Currency Transactions and Advance Consideration

Interpretation shall be effective for annual periods beginning on or after 1 January 2018, with prior application being allowed. It explains the accounting treatment of transactions involving the receipt or payment of prepayments in a foreign currency. Interpretation applies to foreign currency transactions where an entity recognizes a non-cash asset or a non-monetary liability arising out of the payment or receipt of prepayments before the entity recognizes the relevant assets, costs or income. The interpretation states that the transaction date for the purpose of determining the exchange rate takes the date of initial recognition of non-monetary assets (prepayments) or deferred income (liabilities). In cases where there are multiple payments or receipts of prepayments, the entity must specify the transaction date for each payment. This interpretation has not yet been adopted in the EU.

2. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (CONTINUED)

- IFRIC 23: Uncertainty over Income Tax Treatments

Interpretation shall be effective for annual periods beginning on or after 1 January 2019, with prior application being allowed. Interpretation refers to the determination of taxable profit (tax losses), tax bases, unused tax losses, unused tax incentives and tax rates when there is uncertainty regarding the treatment of income tax under IAS 12. It specifically considers whether tax treatment should be considered jointly; prerequisites for verification of tax authorities; determination of taxable profit (tax loss), tax base, unused tax losses, unused tax allowances and tax rates; and the effect of changes in facts and circumstances. This interpretation has not yet been adopted in the EU.

- Amendments to IFRS 2: Classification and measurement of share based payment transactions

Amendments shall be effective for annual periods beginning on or after 1 January 2018, with prior application being allowed. Amendments have defined the accounting treatment of the impact of performance and non-performance measures on cash-settled share-based payments, share-based payments with the option of net settlement of a tax liability and changes in share-based payment conditions that change the transaction's classification from one settled in cash to the one is settled by equity instruments. These amendments have not yet been adopted in the EU.

- Amendments to IAS 40: Transfer of Investment Property

Amendments shall be effective for annual periods beginning on or after 1 January 2018, with prior application being allowed. Amendments clarify at what point the entity should transfer the property, including the property under construction or the investment in property. Amendments state that change in the way of use arises when the property meets, or ceases to meet, the definition of investment in property and there is an evidence of change. The management's intention to use the property by itself does not give evidence of changing the way of use. These amendments have not yet been adopted in the EU.

- Annual Improvements to IFRSs (Cycle 2014-2016), which represent a collection of amendments to various standards. Annual improvements are effective for annual periods beginning on or after January 1, 2017 for IFRS 12 Disclosure of Interests in Other Entities and for annual periods beginning on or after 1 January 2018 or for IFRS 1 First-time Adoption of International Financial Reporting Standards and IAS 28 Investments in Associates and Joint Ventures. Earlier application is permitted for IAS 28 Investments in Associates and Joint Ventures. These annual improvements have not yet been adopted in the EU. An overview of the yearly improvement for the 2014-2016 cycle is given below:

- IFRS 1 First-time Adoption of International Financial Reporting Standards – improving erases short-term exemptions from disclosures about financial instruments, compensation of employees and investors, which are applicable for entities applying IFRS for the first time.

- IAS 28 Investments in Associates and Joint Ventures – this amendment clarifies that the choice of recognition of an investment in an associate or joint venture held by a venture capital or other qualified entity at fair value through income statement, is available for all investments in associates and joint ventures at the level of each individual investment, when it comes to initial recognition.

2. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (CONTINUED)

- IFRS 12 Disclosure of Interests in Other Entities - amendments clarify that requirements for IFRS 12 disclosures, except those for summarised financial information of subsidiaries, joint ventures and associates, apply to investments in a subsidiary, joint venture or associate that is classified as asset held for sale, or distribution, or as a discontinued operation in accordance with IFRS 5.

- Negative Compensation Prepayment Features (Amendments to IFRS 9)

Amendments shall enter into force for annual periods starting on or after 1 January 2019, with prior application being allowed. They change the existing IFRS 9 waiver right claims to allow measurement at amortized cost (or, depending on the business model, at fair value through other comprehensive income) even in the case of negative fees. These amendments have not yet been adopted in the EU.

- Long-term interests in associates and joint ventures (Amendments to IAS 28)

Amendments shall be effective for annual periods beginning on or after 1 January 2019, with prior application being allowed. It clarifies that an entity applies IFRS 9 Financial Instruments on long-term stakes in associates or joint ventures that form part of a net investment in an associate or a joint venture but to which the equity method does not apply. These amendments have not yet been adopted in the EU.

New and amended IFRS adopted by the IASB, not yet adopted in the EU

- IASB has published the Annual Improvement of IFRSs 2015-2017, which is a summary of IFRS amendments. Amendments shall be effective for annual periods beginning on or after 1 January 2019.
- These annual improvements have not yet been adopted in the EU. The review of Annual Improvements to IFRSs for the 2015 – 2017 cycle issued by the IASB is shown below:

- IFRS 3 and IFRS 11: Amendments to IFRS 3 state that when an entity acquires control over a joint venture operation, it re-measures the previously held interests in that business. Amendments to IFRS 11 clarify that when an entity acquires joint control over a joint venture operation, an entity does not measure previously held interests in that business.

- IAS 12: Amendments clarify that any tax consequences of dividends (i.e. profit distributions) should be recognized in profit or loss, regardless of how the tax is incurred

- IAS 23: Amendments clarify that if any specific loan remains uncollected after the related asset is ready for intended use or sale, this loan becomes part of the entity's generally lending facility during calculation of the capitalization rate on general lending.

3. SIGNIFICANT ACCOUNTING POLICIES

a) Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the EU.

The consolidated financial statements were approved by the Management Board on 25 April 2018 for issue to the General Assembly of Stakeholders.

Where necessary, comparative information has been reclassified in order to achieve consistency with the current financial year amounts and other disclosures.

b) Basis of preparation of the consolidated financial statements

The accompanying consolidated financial statements comprise the financial statements of the Company and the entities controlled by it, i.e. its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to use its power to affect its returns.
- The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Company gains control until the date when the Company ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The consolidated financial statements of the Group have been prepared under the historical cost basis, except for certain non-current assets, which are stated at revalued amounts, as disclosed in Note 17 to the consolidated financial statements. The preparation of the consolidated financial statements in accordance with IFRSs requires from management to make estimates and assumptions that affect the application of accounting policies and reported amounts of assets and liabilities, and revenues and expenses. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 3 x.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

c) Reporting currency

The consolidated financial statements of the Group are prepared in Croatian HRK. All amounts disclosed in these consolidated financial statements are presented in thousands of HRK unless stated otherwise. As at 31 December 2017, the official exchange rate of the Croatian HRK against 1 euro and 1 US dollar was HRK 7,513648 and HRK 6,269733 respectively (31 December 2016: HRK 7,557787 for 1 EUR and HRK 7,168536 for 1 USD).

d) Intangible assets

Computer software

Software licences are capitalised based on the cost of purchase and bringing software into a working condition for its intended use. The cost is amortised over the useful life of an asset which is 5 years.

Internally generated intangible assets – research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred. An internally-generated intangible asset arising from development (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- the intention to complete the intangible asset and use or sell it;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for an internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is recognised in profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible assets are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

e) Property, plant and equipment

Buildings held for use in the production or supply of goods or services, or for administrative purposes, are stated in the consolidated balance sheet / consolidated statement of financial position at cost, and land is carried at revalued amount being the fair value at the date of revaluation, less any subsequent accumulated depreciation and subsequently accumulated impairment losses. Revaluations are performed with sufficient regularity such that the carrying amounts do not differ materially from those that would be determined using fair values at the end of each reporting period. Last revaluation was performed in 2015.

Any increase arising on the revaluation of such land is recognised in other comprehensive income, except to the extent that it reverses a revaluation decrease for the same asset previously recognised in profit or loss, in which case the increase is credited to profit or loss to the extent of the decrease previously recognised. A decrease in the carrying amount arising on the revaluation of such land is recognised in profit or loss to the extent that it exceeds the balance, if any, held in the properties revaluation reserve relating to a previous revaluation of that asset.

Properties in the course of construction for production, supply or administrative purposes or purposes not yet defined are carried at cost, less any recognised impairment loss. Cost includes professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Depreciation of these assets, which is provided on the same basis as for other properties, commences when the assets are ready for their intended use.

Freehold land is not depreciated.

Installations and equipment are recognised initially at cost, less accumulated depreciation and accumulated impairment losses.

Depreciation is provided so as to write down the cost or revalued amount of an asset over the estimated useful life of the asset using the straight-line method. The estimated useful life and amortisation method are reviewed at the end of each annual reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease.

Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and recognised in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

e) Property, plant and equipment (continued)

Property, plant and equipment are depreciated using the straight-line method at the rates ranging from 1.25% to 25% annually, over the following useful lives, as follows:

	2017	2016
Buildings	20-80 years	20-80 years
Vehicles	4-20 years	4-20 years
Plant and equipment	4-10 years	4-10 years
Office equipment	4-5 years	4-5 years

Residual value is calculated on prices prevailing at the date of acquisition or revaluation.

Assets under construction comprise costs directly related to construction of tangible fixed assets plus an appropriate allocation of variable and fixed overheads that are incurred during construction. Assets under construction are depreciated once they are ready for use. Costs incurred in replacing major portions of the Group's facilities, which increase their productive capacity or substantially extend their useful life, are capitalised. Maintenance, replacement or partial replacement costs are recognised as expenses in the period in which they are incurred.

Impairment of tangible and intangible assets

At each reporting date the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is an indication that the assets may be impaired. If any such indication exists, the recoverable amount of the asset is estimated to determine the potential impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generated unit) is estimated to be less that its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately as an expense, unless the relevant asset is land or a building other than an investment property carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is credited immediately to income, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

f) Investment properties

Investment property represents property (land) held by the Group for increasing its market value or for lease. Investment property is measured initially at cost. Subsequent to initial recognition, investment properties are measured at fair value. Gains and losses arising from changes in the fair value of investment properties are included in profit or loss for the period in which they arise.

When transferring from investment property to property used by the owner, the fair value at the date of transfer will be the cost for the purposes of IAS 16. For transfer of the property used by the owner to the investment property, IAS 16 will apply to the date of the change of its purpose when the difference between the carrying value determined in accordance with IAS 16 and its fair value, will be recognized as a revaluation reserve in accordance with IAS 16.

Investment properties are derecognised on sale or permanent withdrawal from use, as well as when no future economic benefits from their disposal are expected. Any gain or loss arising from de-recognition of an item of investment property, measured as the difference between the net disposal proceeds and the carrying amount of the asset, is recognised in profit or loss when the item is derecognised.

During 2017 investment properties were re-measured at fair value on the basis of appraisals by a certified property appraisal expert, upon which the losses resulting from the change in the fair values were included in the statement of comprehensive income for the year 2017 (Note 18 to the consolidated financial statements).

g) Non-current financial assets

The Group classifies its financial assets into the following categories: financial assets at fair value through consolidated statement of comprehensive income, loans and receivables, held-to-maturity investments and financial assets available for sale.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period.

Income is recognised on an effective interest basis for debt instruments other than financial assets designated at fair value through consolidated statement of comprehensive income.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

g) Financial assets (continued)

Financial assets at fair value through profit or loss (FVTPL)

Financial assets are classified as at FVTPL when a financial asset is either held for trading or it is designated as at FVTPL.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near future, or
- it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking, or
- is a derivative not designated or effective as a hedging instrument.

A financial liability other than a financial liability held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IAS 39 Financial Instruments: Recognition and Measurement permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on re-measurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability and is included in the 'other gains and losses' line item in the consolidated statement of comprehensive income.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

g) financial assets (continued)

Held-to-maturity (HTM) investments

Bills of exchange and debentures with fixed or determinable payments and fixed maturities dates that the Group has the positive intent and ability to hold to maturity are classified as held-to-maturity investments. Held-to-maturity investments are recorded at amortised cost using the effective interest method less any impairment, with revenue recognised on an effective yield basis.

Financial assets available for sale

Listed shares and listed redeemable notes held by the Group that are trade in an active market are classified as available for sale and stated at fair value. The Group also has investments in unlisted shares that are not traded in an active market but are classified as financial assets available for sale and carried at fair value because the management considers that their fair value can be determined reliably. Gains and losses arising from changes in the fair value are recognised in other comprehensive income and accumulated in equity within investment revaluation reserve, except for impairment losses, interest determined using the effective interest rate and exchange differences on monetary assets which are recognised in profit or loss. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognised in the investments revaluation reserve is included in profit or loss for the period.

Dividends on AFS equity instruments are recognised in profit or loss when the Company's right to receive the dividends is established.

Loans and receivables

Trade, loan and other receivables with fixed or determinable payments that are not quoted on an active market are classified as loans and receivables and measured at amortised cost using the effective interest method, less any impairment losses. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

The fair value of AFS monetary assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the reporting date. Exchange differences arisen on translation and recognised in profit or loss are determined on the basis of the amortised cost of the monetary asset. Other exchange differences are recognised in other comprehensive income.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

g) financial assets (continued)

Impairment of financial assets

Financial assets, other than those at fair value through profit or loss reported in the consolidated statement of comprehensive income, are assessed for indications of impairment at each reporting date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

For unlisted shares classified as AFS, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For all other financial assets, including redeemable notes classified as AFS and finance lease receivables, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty or
- default or delinquency in interest or principal payments or
- it becoming probable that the borrower will enter bankruptcy or financial restructuring.

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 60 days, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

With the exception of AFS equity instruments, if, in subsequent periods, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through the statement of comprehensive income to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

In respect of AFS equity securities, impairment losses previously recognised in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognised directly in equity

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire; or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

h) Cash and cash equivalents

Cash comprises cash on hand and with banks. Cash equivalents comprise demand deposits and term deposits with maturities of up to three months.

i) Trade receivables and prepayments

Trade debtors and prepayments are shown at amounts invoiced in accordance with the underlying agreement, order, delivery note and other documents serving as the billing basis, net of allowance for uncollectible amounts.

The Management provides for bad and doubtful receivables past due beyond one year, and on the basis of the overall ageing structure of all receivables, as well as by reviewing individual significant amounts receivable.

j) Inventories

Inventories comprise mainly spare parts, materials, work in progress and finished products and are carried at the lower of weighted average price, net of allowance for obsolete and excessive inventories, and net realisable value. Management provides for inventories based on a review of the overall ageing of all inventories and a specific review of significant individual items included in inventories. Inventories of work in progress and finished products are carried at the lower of production cost and the net selling price.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

k) Foreign currencies

Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are included in the comprehensive statement of comprehensive income for the period. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in the statement of comprehensive income, except for differences arising on the retranslation of non-monetary items available for sale in respect of which gains and losses are recognised directly in equity. For such non-monetary items, any exchange component of that gain or loss is also recognised directly in equity.

l) Retirement, jubilee awards and solidarity support

For defined benefit retirement benefit plans, the cost of providing benefits is determined using the Projected Unit Credit Method, with actuarial valuations being carried out at each reporting date. Actual gains and losses are recognised in the period in which they arise.

Past service cost is recognised immediately to the extent that the benefits are already vested. Otherwise, it is amortised on a straight-line basis over certain period until the benefits become vested.

The Group provides one-off long-service benefits (jubilee awards), solidarity support (in case of death of the employee, the death of a close family of workers, disability, purchasing medical supplies, for the birth of the child, sick leave longer than 90 days, etc.), and retirement benefits to its employees. The obligation and the cost of these benefits are determined using the Projected Unit Credit Method. The Projected Unit Credit Method considers each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation. The retirement benefit obligation is measured at the present value of estimated future cash flows using a discount rate that is similar to the interest rate on government bonds where the currency and terms of the government bonds are consistent with the currency and estimated terms of the benefit obligation.

m) Income tax

Income tax expense represents the sum of the tax currently payable and deferred tax.

Current tax

The tax currently payable is based on taxable profit for the year Taxable profit differs from the net profit reported in the consolidated statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are not taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the reporting date.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Deferred tax

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the consolidated financial statements and the corresponding tax basis used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which the deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or a part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the reporting date. The measurement of deferred tax liabilities and assets reflects the amount that the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority, and the Group intends to settle its current tax assets and liabilities.

Current and deferred taxes for the period

Deferred tax is charged or credited to the statement of comprehensive income, except when it relates to items charged or credited directly to equity, or where it arises from the initial accounting of a business combination, in which case it is also recognised in equity.

n) Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event and it is probable (i.e. more likely than not) that an outflow of resources will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate. Where the effect of discounting is material, the amount of the provision is the present value of the expenditures expected to be required to settle the obligation, determined using the estimated risk free interest rate as the discount rate. Where discounting is used, the reversal of such discounting in each year is recognised as a financial expense and the carrying amount of the provision increases in each year to reflect the passage of time.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

o) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in net profit or loss for the period in which they are incurred.

Short-term borrowings and supplier credits are recognised at the original amount less balances repaid. Interest expense is charged to the consolidated Income statement for the period to which the interest relates.

p) Financial liabilities and equity instruments issued by the Group

Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recorded at the proceeds received, net of direct issue costs.

Obligations under financial guarantee contracts

Financial guarantee contract obligations are measured initially at their fair values and are subsequently measured at the higher of:

- the amount of the obligation under the contract, as determined in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets; and
- the amount initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the revenue recognition policies.

Financial liabilities

Financial liabilities are classified as either financial liabilities at fair value through consolidated income statement or other financial liabilities.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial liabilities at fair value through consolidated income statement

p) Financial liabilities and equity instruments issued by the Group (continued)

Financial liabilities are classified as at fair value through consolidated income statement where the financial liability is either held for trading or it is designated as at FVTPL.

A financial liability is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near future or
- it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial liability other than a financial liability held for trading may be designated as at fair value through consolidated income statement upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise or
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis or
- it forms part of a contract containing one or more embedded derivatives, and IAS 39 Financial Instruments: Recognition and Measurement permits the entire combined contract (asset or liability) to be designated as at fair value through consolidated statement of comprehensive income.

Financial liabilities at FVTPL are stated at fair value, with any resultant gain or loss recognised in the consolidated income statement. The net gain or loss recognised in the consolidated income statement incorporates interest paid on the financial liability. The fair value is determined as described in Note 33 to the consolidated financial statements - Financial instruments.

Other financial liabilities

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

p) Financial liabilities and equity instruments issued by the Group (continued)

Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income and interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or expired.

q) Operating segment reporting

In accordance with IFRS 8, the Group identified its operating segments on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segments and to assess their performance. Details of individual operating segments are disclosed in Note 4 to the consolidated financial statements.

The Group monitors and presents specifically the results of its major business segments. The business segments are the basis upon which the Group reports its primary segment information. Certain financial information, analysed by business and geographical segments, are presented in Note 4 to the consolidated financial statements.

r) Contingent liabilities

Contingent liabilities have not been recognised in these financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. No contingent assets have been recognised in these consolidated financial statements. They are disclosed in the notes when the inflow of economic benefits becomes probable.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

s) Events after the reporting period

Events after the reporting date that provide additional information about the Group's position at the reporting date (adjusting events) are reflected in the consolidated financial statements. Post period-end events that are not adjusting events are disclosed in the notes when material.

t) Revenue recognition

Revenue is recognised when it is probable that economic benefits associated with a transaction will flow into the Group and when the amount of the revenue can be measured reliably. Sales are recognised net of sales taxes and discounts. Revenue from rendering services is recognised by reference to the days worked. Invoices are issued on the basis of authenticated documentary evidence of the ordering party of actual services performed by the last day in a month.

Revenue description:

- Water supply service income comprises income from connections, water meter installation, as well as from permanent monthly fees, increased by actual consumption based on the assessed consumption level, as adjusted at the end of the reporting period to reflect the actual consumption based on the readings;
- Public transport service revenue comprises income from the sale of tickets as per the public transport price list for the City of Zagreb;
- Revenue from waste removal and cleaning contain income from the provided waste removal and cleaning services at rates determined in the applicable price list of the City of Zagreb;
- Public road management and maintenance revenue is recognised to the extent of the services and works delivered, in accordance with the underlying contracts with customers;
- Income from the sale of flats is recognised when the significant risks and rewards of the ownership are passed onto the buyer, together with the related costs of selling (constructing) the flats;
- Warehousing and operating lease income is recognised in accordance with IAS 17 on a straight-line basis over the relevant lease term.
    1. Product and merchandise sales are recognised when the delivery is made and accepted by the customer and when the collectability of the receivables is virtually certain. Revenue from the sale of goods is recognised when all the following conditions are satisfied:
        - the Group has transferred to the buyer the significant risks and rewards of ownership of the goods
        - the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold
        - the amount of the revenue can be measured reliably
        - it is probable that the economic benefits associated with the transaction will flow to the entity and
        - the costs incurred or to be incurred on those transactions can be measured reliably.
    2. Sales of services are recognised in the accounting period in which the services are rendered, by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

t) Revenue recognition (continued)

The stage of completion of the contract is determined as follows:

- fees for the laying of installations are recognised by reference to the stage of completion of installations, which is determined as a period from the end of the reporting period relative to the total expected period of installation completion
- servicing fees included in the cost of goods sold are recognised by based on the share of the total servicing cost of a product sold by reference to the number of services performed of products sold in prior periods and
- revenue from time and material contracts is recognised at the contractual rates as labour hours and direct expenses are incurred.

iii. Income from government grants comprises the following:
  - grants related to assets, including non-monetary grants at fair value, which are presented in the consolidated balance sheet / consolidated statement of financial position as deferred income, and are recognised as revenue over the period necessary to match them with the related costs (depreciation);
  - grants receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the entity with no future related costs, which are recognised as income of the period in which it becomes receivable.

A government grant is not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to it, and that the grant will be received.

The benefit of a government grant approved at an interest rate below the market rate is accounted for as a government grant and disclosed as the difference between the funds received and the fair value of the loan on the basis of the prevailing market interest rates.

Grants whose primary condition is that the Group should purchase, construct or otherwise acquire long-term assets are recognised in the consolidated balance sheet / consolidated statement of financial position as deferred income and transferred to profit or loss on a systematic and rational basis over the useful life of the asset.

Other government subsidies are recognised systematically as revenue through the number of periods necessary to match them with the related costs. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

iv. Interest income is recognised on a time basis so as to capture the actual yield on an asset.

v. Dividend income is recognised when the right to receive payment has been established.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

u) Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

Amounts due from lessees under finance leases are recognised as receivables at the amount of the Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

Rental income from operating leases is recognised on the straight- line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight- line basis over the lease term.

The Group as lessee

Assets held under finance leases are initially recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated balance sheet / consolidated statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing costs. Contingent rentals are expensed in the period in which they arise.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals are expensed in the period in which they arise.

Incentives received to enter into operating leases are recognised as liabilities. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

v) Derivative financial instruments

The Group enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign exchange rate risks, including foreign exchange forward contracts, interest rate swaps and currency swaps.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

v) Derivative financial instruments (continued)

Embedded derivatives

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently re-measured at fair value at the end of each reporting period. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship. The Group designates certain derivatives as either hedges of the fair value of recognised assets or liabilities or firm commitments (fair value hedges), hedges of highly probable forecast transactions or hedges of foreign currency risk of firm commitments (cash flow hedges), or hedges of net investments in foreign operations.

A derivative with a positive fair value is recognised as a financial asset whereas a derivative with a negative fair value is recognised as a financial liability. A derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than 12 months and it is not expected to be realised or settled within 12 months. Other derivatives are presented as current assets or current liabilities.

Derivatives embedded in other financial instruments or host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of host contracts and the host contracts are not carried at fair value through profit or loss.

An embedded derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the hybrid instrument is more than 12 months and it is not expected to be realised or settled within 12 months. Other embedded derivatives are presented as current assets or current liabilities.

w) Comparatives

Where necessary, comparative information has been reclassified to conform to the current year's presentation.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

x) Use of estimates in the preparation of financial statements

Critical judgements in applying accounting policies

In the application of the Group's accounting policies, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on past experience and other factors that are considered to be relevant. Actual results may differ from those estimates.

The estimates and underlying assumptions are continually reviewed. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of revision and future periods if the revision affects both current and future periods.

For the purpose of financial reporting, the Group measures part of its assets and liabilities at fair value.

In estimating the fair value of assets and liabilities, the Group uses market data where available. Where Level 1 inputs are not available, the Group engages third party qualified appraiser to perform the valuation. The Group works closely with the qualified external appraisers to establish the appropriate valuation techniques and inputs to the model.

Useful life of property, plant and equipment and intangible assets

The determination of the useful life of the assets is based on past experience involving similar assets, as well as on forecast changes in the economic environment and industry-specific factors. The useful life is reviewed annually or whenever there are indications of significant changes in the underlying assumptions. We believe this accounting estimate is significant considering the considerable share of depreciable assets in the total assets. Therefore, any change in the underlying assumptions could be material for the Group's financial position and the results of its operations.

Impairment of non-current assets

Impairment is recognised in the consolidated financial statements of the Group whenever the net carrying amount of an asset or a cash-generating unit exceeds the higher of the assets i.e. cash-generating unit's recoverable amount or fair value less costs to sell. Fair value less costs to sell is determined on the basis of observable inputs from identical selling transactions under normal market conditions involving similar assets or observable market prices less additional costs of disposal.

Value in use is measured using the discounted cash flow projections. The most significant variables in determining cash flows are discount rates, time values, the period of cash flow projections, as well as assumptions and judgements used in determining cash receipts and payments.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

x) Use of estimates in the preparation of financial statements (continued)

Availability of taxable profits against which the deferred tax assets could be recognised

A deferred tax asset is recognized only to the extent that it is probable that the related tax benefit will be realised. In determining the amount of deferred taxes that can be recognised significant judgements are required, which are based on the probable quantification of time and level of future taxable profits, together with the future tax planning strategy. In 2017, deferred tax assets on available tax differences were recognised. The carrying amount of deferred tax assets is disclosed in Note 14 to the consolidated financial statements.

Actuarial estimates used in determining employee benefits

The cost of defined benefits is determined using actuarial estimates. Actuarial estimates involve assumptions about discount rates, future salary increases and the mortality or fluctuation rates. Because of the long-term nature of those plans, there is uncertainty surrounding those estimates. As at 31 December 2017 provisions for employee benefits amounted to HRK 179,128 thousand (as at 31 December 2016 the total provisions amounted to HRK 216,011 thousand) (see Note 27 to the consolidated financial statements).

Consequences of certain legal actions

Parent and its subsidiaries are involved in legal actions which have arisen from the regular course of its operations. The management makes estimates when the probable outcome of a legal action has been assessed, and the provisions are recognised on a consistent basis (see Note 27 to the consolidated financial statements).

Impairment of trade receivables

Trade receivables are estimated at each consolidated balance sheet / consolidated statement of financial position date (and monthly) and are impaired based on estimated probability of their collection.

Fair value measurement and valuation process

Some of the Group's assets are measured at fair value for financial reporting purposes.

In estimating the fair value of an asset or a liability, the Group uses market-observable data to the extent it is available. Where Level 1 inputs are not available, the Group engages third party qualified appraisers to perform the valuation. The Group coordinates the evaluation process and works closely with the qualified external appraisers to establish the appropriate valuation techniques and inputs to the model.

4. STATUS CHANGES

On 18 October 2017, the Assembly of the Company adopted the Decision on the initiation of the status changes of the Company's division with the establishment of new limited liability companies - Zagrebački električni tramvaj d.o.o. and Zagrebački velesajam d.o.o.; with the separation of economic units of passenger transport in public transport and organization of trade fairs, congresses and consultations - public transport services and fairs service to newly established companies.

By the Decision of the Commercial Court in Zagreb (Tt-17 / 49954-2) from 29 December 2017, the Company was divided by the separation with foundation and reduction of the share capital to the amount of HRK 3,177,044 thousand while the business effects of the Division Plan became effective on 1 January In 2018. The City of Zagreb gained its stake in the new companies, and is the only member (i.e. only shareholder) of the new companies after the implementation of the Plan.

	Public transportation	**Organisation of fairs, congresses and consulting**
	(in HRK '000)	(in HRK '000)
Operating income	1,075,631	131,867
Operating expenses	(1,320,000)	(205,120)
Operating profit / (loss)	***(244,369)***	***(73,253)***
Financial income	7,128	605
Financial expenses	(28,598)	(22)
Net profit (loss) from financial activities	***(21,470)***	***583***
Profit/loss before tax from separated business	**(265,839)**	**(72,670)**

4. STATUS CHANGES (CONTINUED)

The assets of the separate economic units (with effect from 1 January 2018) are shown as follows:

	Public transportation	Organisation of fairs, conresses and consulting
	(in HRK '000)	(in HRK '000)
NON-CURRENT ASSETS		
Property, plant and equipment	2,351,453	838,600
Investment in property	-	492,418
Long-term receivables	12,536	6,210
Deferred tax assets	16,521	648
Total non-current assets	**2,380,510**	**1,337,876**
CURRENT ASSETS		
Inventories	52,379	1,547
Current receivables	87,715	13,581
Cash	721	85
Total current assets	**140,815**	**15,213**
TOTAL ASSETS	**2,521,325**	**1,353,089**
EQUITY		
Share capital	95,951	560,242
Transferred loss	(2,547)	(29,325)
Revaluation reserves	418,348	614,324
Total equity	**511,752**	**1,145,241**
NON-CURRENT LIABILITIES		
Provisions	98,537	10,377
Loans and borrowings	546,943	-
Liabilities to related companies	314,654	32,122
Other non-current liabilities	93,872	135,077
Deferred income	700,757	3,962
Total non-current liabilities	**1,754,763**	**181,538**
CURRENT LIABILITIES		
Liabilities to related companies	3,811	12,770
Loans and borrowings	131,256	-
Trade payables	55,983	10,026
Other current liabilities	63,760	3,514
Total current liabilities	**254,810**	**26,310**
TOTAL EQUITY AND LIABILITIES	**2,521,325**	**1,353,089**
	-	-
Off-balance sheet items	140,152	87,251

5. SEGMENT INFORMATION (CONTINUED)

SALES

	2017	**2016**
	(in HRK '000)	**(in HRK '000)**
Croatian market	3,792,247	3,840,475
EU market	1,331	1,953
	3,793,578	3,842,428

In accordance with IFRS 8, the Group identified its operating segments on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segments and to assess their performance. The Group identified its operating segments on the basis of reports regularly reviewed by the Management and used by it in making strategic decisions. Operating segments have been formed by the nature of the business of the branches managed by the Group (see Note 1 to the consolidated financial statements), identifying nine activities as operating segments, whereas the twelfth segment includes all other activities of the Group.

The operating segments comprise the following:

1. Water distribution
2. Passenger transport
3. Cleaning and waste removal
4. Public road management and maintenance
5. Parking services
6. Warehousing and rentals
7. Waste disposal and management
8. Facility management
9. Flat construction and sale
10. Gas sale and distribution
11. Pharmaceutical sales
12. Other activities

5. SEGMENT INFORMATION (CONTINUED)

SALES (CONTINUED)

Set out below is a breakdown of revenue and results of the Group by its reporting segments presented in accordance with IFRS 8. The presented sales comprise sales to third parties.

	2017	2016
	(in HRK '000)	(in HRK '000)
Gas distribution and sale	917,639	1,028,671
Passenger transport	433,926	484,169
Water distribution revenue	420,892	418,135
Cleaning and waste removal	351,487	369,332
Public road maintenance and management	301,047	345,979
Pharmaceutical sales	285,609	267,059
Landscaping income	239,000	200,446
Construction and sale of apartments	206,470	105,739
Parking services	128,341	116,312
Facility management	97,061	91,126
Warehousing and lease	79,778	76,266
Other income	332,328	339,194
	3,793,578	**3,842,428**

5. SEGMENT INFORMATION (CONTINUED)

SALES (CONTINUED)

Other income comprises of the following:

	2017	2016
	(in HRK '000)	(in HRK '000)
Market income	72,774	74,640
Funeral services	58,552	55,839
Organization of fairs and congresses	42,874	48,380
Bus station	42,076	42,465
Travel agencies	32,579	29,230
Lease of telecom cable and network systems	20,021	16,177
Waste management	18,164	25,449
Publishing	6,222	6,472
Other income	39,066	40,542
	332,328	**339,194**

5. SEGMENT INFORMATION (CONTINUED)

2017 segment revenue and results

2017 (HRK '000)	Facility management	Water distribution	Passenger transport	Cleaning and waste removal	Public road mgmt. and maintenanc	Flat constructin and sale	Parking services	Ware-housing and rentals	Landscaping services	Gas sale and distribution	Drugstore operations	Other	Eliminated	Total
Revenue from third parties	97,061	420,892	433,926	351,488	301,047	206,470	128,341	79,778	239,000	917,639	285,609	332,327	-	3,793,578
Inter-segment sales	227,763	5,004	2,886	25,203	37,188	1,740	14,906	2,611	5,341	186,270	69	116,371	(625,352)	-
Total sales	**324,824**	**425,896**	**436,812**	**376,691**	**338,235**	**208,210**	**143,247**	**82,389**	**244,341**	**1,103,909**	**285,678**	**448,698**	**(625,352)**	**3,793,578**
Expenses from other operations, net of other ordinary income	**(154,836)**	**(425,801)**	**(681,181)**	**(366,621)**	**(309,586)**	**(222,853)**	**(108,721)**	**41,154**	**(235,106)**	**(1,060,113)**	**(274,672)**	**(439,572)**	**546,707**	**(3,691,201)**
Profit / (loss) from operating activities	**169,988**	**95**	**(244,369)**	**10,070**	**28,649**	**(14,643)**	**34,526**	**123,543**	**9,235**	**43,796**	**11,006**	9,126	**(78,645)**	**102,377**
Finance revenue	98,903	10,249	7,128	5,998	509	74,799	1,901	492	81	12,012	4,305	11,865	(20,755)	207,487
Financial expenses	(198,346)	(9,298)	(28,598)	(1,554)	(1,613)	(18,908)	(1,358)	(34)	(5)	(37)	(968)	(41,480)	7,761	(294,438)
Net financial result	(99,443)	951	(21,470)	4,444	(1,104)	55,891	543	458	76	11,975	3,337	(29,615)	(12,994)	(86,951)
Profit / (loss) before taxation	70,545	**1,046**	**(265,839)**	**14,514**	**27,545**	**41,248**	**35,069**	**124,001**	**9,311**	**55,771**	14,343	**(20,489)**	**(91,639)**	15,426
Tax income (expense)	**540**	**(875)**	-	-	-	-	-	-	-	**(10,217)**	**(2,238)**	**(932)**	-	**(13,722)**
Net profit / (loss)	**71,085**	**171**	**(265,839)**	**14,514**	**27,545**	**41,248**	**35,069**	**124,001**	**9,311**	**45,554**	**12,105**	**(21,421)**	**(1,639)**	**1,704**

5. SEGMENT INFORMATION (CONTINUED)

2016 segment revenue and results

2016 (in HRK '000)	Facility management	Water distribution	Passenger transport	Cleaning and waste removal	Public road mgmt. and maintenanc	Flat constructin and sale	Parking services	Ware-housing and rentals	Landscaping services	Gas sale and distribution	Drugstore operations	Other	Eliminated	Total
Revenue from third parties	91,126	418,136	484,169	369,332	345,979	105,739	116,312	76,266	200,446	1,028,672	267,059	339,192	-	3,842,428
Inter-segment sales	209,698	4,765	1,947	22,808	28,163	1,571	12,670	2,537	4,087	181,589	19	110,579	(580,433)	-
Total sales	**300,824**	**422,901**	**486,116**	**392,140**	**374,142**	**107,310**	**128,982**	**78,803**	**204,533**	**1,210,261**	**267,078**	**449,771**	**(580,433)**	**3,842,428**
Expenses from other operations, net of other ordinary income	**(236,841)**	**(420,593)**	**(595,398)**	**(357,785)**	**(294,776)**	**(111,587)**	**(98,021)**	**(76,313)**	**(102,415)**	**(1,143,225)**	**(259,143)**	**(510,838)**	**558,170**	**(3,648,765)**
Profit / (loss) from operating activities	**63,983**	**2,308**	**(109,282)**	**34,355**	**79,366**	**(4,277)**	**30,961**	**2,490**	**102,118**	**67,036**	**7,935**	**(61,067)**	**(22,263)**	**193,663**
Finance revenue	134,687	12,944	14,323	6,065	632	83,297	2,571	371	-	13,847	4,464	22,307	(58,392)	237,116
Financial expenses	(196,319)	(14,200)	(40,306)	(1,365)	(1,436)	(19,334)	(1,209)	(89)	-	(48)	(242)	(50,700)	4,779	(320,469)
Net financial result	(61,632)	(1,256)	(25,983)	4,700	(804)	63,963	1,362	282	-	13,799	4,222	(28,393)	(53,613)	(83,353)
Profit / (loss) before taxation	2,351	1,052	(135,265)	39,055	78,562	59,686	32,323	2,772	102,118	80,835	12,157	(89,460)	(75,876)	110,310
Tax income (expense)	(13,937)	(978)	-	-	-		-	-	-	(16,167)	(1,560)	(2,736)	-	(35,378)
Net profit / (loss)	**(11,586)**	**74**	**(135,265)**	**39,055**	**78,562**	**59,686**	**32,323**	**2,772**	**102,118**	**64,668**	**10,597**	**(92,196)**	**(75,876)**	**74,932**

5. SEGMENT INFORMATION (CONTINUED)

Segment assets and liabilities as at 31 December 2017

31 Dec 2017, (in HRK '000)	Facility management	Water distribution	Passenger transport	Cleaning and waste removal	Public road mgmt. and maintenance	Flat constructing and sale	Parking services	Ware-housing and rentals	Landscaping services	Gas sale and distribution	Drugstore operations	Other	Eliminated	Total
Property, plant and equipment	866,842	4,189,939	2,599,711	264,403	138,672	134	107,178	308,739	223,905	998,869	37,362	3,229,799	256,422	**13,221,975**
Intangible assets	244	1,007	5,824	1,649	4	-	-	478	56	4,546	771	813	-	**15,392**
Investment property	839,474	-	-	-	-	-	3,750	1,193,309	-	-	-	492,418	(390,374)	**2,138,577**
Inventories	4	16,589	52,379	8,252	39,943	174,564	622	836	17,711	8,547	31,334	10,557	-	**361,338**
Trade receivables, net	16,620	537,305	25,621	44,911	3,739	664	9,193	11,709	2,313	189,775	52,252	30,700	-	**924,802**
Unallocated	7,230,924	70,948	136,119	277,514	361,109	1,029,613	296,623	1,620	99,554	330,012	135,087	2,332,324	(9,500,622)	**2,800,825**
Total assets	**8,954,108**	**4,815,788**	**2,819,654**	**596,729**	**543,467**	**1,204,975**	**417,366**	**1,516,691**	**343,539**	**1,531,749**	**256,806**	**6,096,611**	**(9,634,574)**	**19,462,909**
Issued bonds	2,268,004	-	-	-	-	-	-	-	-	-	-	-	(24,739)	**2,243,265**
Trade payables	13,472	203,508	55,983	17,870	37,011	24,793	5,273	3,059	19,528	140,936	14,492	42,718	-	**578,643**
Amounts due to employees	4,021	10,035	36,849	12,807	5,807	290	3,665	2,039	5,961	4,266	3,444	9,348	-	**98,532**
Equity and unallocated liabilities	6,668,611	4,602,245	2,726,822	566,052	500,649	1,179,892	408,428	1,511,593	318,050	1,386,547	238,870	6,044,545	(9,609,835)	**16,542,469**
Total equity and liabilities	**8,954,108**	**4,815,788**	**2,819,654**	**596,729**	**543,467**	**1,204,975**	**417,366**	**1,516,691**	**343,539**	**1,531,749**	**256,806**	**6,096,611**	**(9,634,574)**	**19,462,909**
31 Dec 2017 Other segment information														
Capital expenditure:	**185,733**	**145,777**	**116,950**	**42,574**	**4,119**	**119**	**5,118**	**3,665**	**13,451**	**71,552**	**3,159**	**14,596**	-	**606,813**
Property, plant and equipment	185,733	145,777	116,574	41,876	4,119	119	5,118	3,665	13,451	70,610	2,913	14,411	-	**604,366**
Intangible assets	-	-	376	698	-	-	-	-	-	942	246	185	-	**2,447**
Depreciation and impairment	3,971	167,837	157,919	16,262	14,748	25	7,537	3,084	6,017	114,088	3,187	34,360	632	**529,667**

5. SEGMENT INFORMATION (CONTINUED)

Segment assets and liabilities as at 31 December 2016

31 Dec 2016 (in HRK '000)	Facility management	Water distribution	Passenger transport	Cleaning and waste removal	Public road mgmt. and maintenance	Flat constructing and sale	Parking services	Ware-housing and rentals	Landscaping services	Gas sale and distribution	Drugstore operations	Other	Eliminated	Total
Property, plant and equipment	675,658	4,209,379	2,637,733	238,184	149,341	41	113,360	310,061	216,440	1,040,744	37,414	3,250,129	313,486	**13,191,970**
Intangible assets	553	3,690	8,800	1,632	28	-	-	602	83	5,484	785	1,171	-	**22,828**
Investment property	733,339	-	-	-	-	-	-	1,084,618	-	-	-	507,547	(370,078)	**1,955,426**
Inventories	25	17,274	45,208	7,850	38,339	171,725	180	867	15,916	7,718	26,654	9,718	-	**341,474**
Trade receivables, net	16,194	538,444	66,704	43,884	3,686	1,499	10,994	8,663	2,028	247,515	63,922	40,272	-	**1,043,805**
Unallocated	7,568,920	33,276	196,386	315,321	339,800	911,187	264,660	3,653	68,472	286,410	118,091	2,322,451	(8,925,837)	**3,502,790**
Total assets	**8,994,689**	**4,802,063**	**2,954,831**	**606,871**	**531,194**	**1,084,452**	**389,194**	**1,408,464**	**302,939**	**1,587,871**	**246,866**	**6,131,288**	**(8,982,429)**	**20,058,293**
Issued bonds	1,800,000	-	-	-	-	-	-	-	-	-	-	-	(162,339)	**1,637,661**
Trade payables	12,899	176,049	50,331	17,863	50,795	22,920	3,192	2,880	24,745	172,837	13,038	50,264	-	**597,813**
Amounts due to employees	3,415	7,096	29,783	10,811	3,400	244	2,814	1,654	4,036	5,430	3,784	7,349	-	**79,816**
Equity and unallocated liabilities	7,178,375	4,618,918	2,874,717	578,197	476,999	1,061,288	383,188	1,403,930	274,158	1,409,604	230,044	6,073,675	(8,820,090)	**17,743,003**
Total equity and liabilities	**8,994,689**	**4,802,063**	**2,954,831**	**606,871**	**531,194**	**1,084,452**	**389,194**	**1,408,464**	**302,939**	**1,587,871**	**246,866**	**6,131,288**	**(8,982,429)**	**20,058,293**
31 Dec 2016 Other segment information														
Capital expenditure:	**1,007**	**140,458**	**10,751**	**4,598**	**17,597**	**4**	**2,620**	**4,957**	**5,752**	**50,082**	**4,322**	**8,839**	**-**	**250,987**
Property, plant and equipment	987	140,458	9,255	3,618	17,597	4	2,620	4,857	5,714	48,653	3,810	8,528	-	246,101
Intangible assets	20	-	1,496	980	-	-	-	100	38	1,429	512	311	-	4,886
Depreciation and impairment	4,531	173,422	165,604	16,196	13,346	34	7,398	3,128	5,801	118,085	2,326	37,277	992	548,140

6. OTHER OPERATING INCOME

	2017	2016
	(in HRK '000)	(in HRK '000)
Grant and subsidy income	600,311	597,196
Unrealised gains from change in fair value of investment property	338,943	22,919
Reversal of deferred income	220,578	233,349
Recovery of amounts previously written off	108,245	130,259
Income from reversal of provisions	58,906	113,477
Other operating income	100,696	105,478
	1,427,679	**1,202,678**

Income from grants and subsidies represents principally the revenue from the City of Zagreb, comprising the following:

- financial support from the City Budget for purposes approved by the Assembly
- financial support for the repayment of loans (principal, interest, fees).

	2017			2016		
	City of Zagreb	Other	**Total**	City of Zagreb	Other	**Total**
	(in HRK '000)	(in HRK '000)	(in HRK '000)	(in HRK '000)	(in HRK '000)	(in HRK '000)
ZET	535,443	-	535,443	502,736	-	502,736
Other	45,500	19,368	64,868	72,665	21,795	94,460
Total	**580,943**	**19,368**	**600,311**	**575,401**	**21,795**	**597,196**

Income from reversal of deferred income is recognised in accordance with IAS 20 Accounting for Government Grants and Disclosure of Government Assistance over the period of utilisation and is systematically matched against the related costs (depreciation) - see Note 3(t) to the consolidated financial statements.

Unrealised gains from change in fair value of property are recognized for the property whose fair value increased in 2017 based on the estimate made by court appointed expert. At the same time unrealised loss in the amount of HRK 224,201 thousand (2016: HRK 27,867 thousand) were recognized for those property whose fair value decreased. The net effect from the movement in fair value of investment property through profit or loss HRK 114,742 thousand (2016: HRK 4,948 thousand of unrealised net loss) (see Note 17 to the consolidated financial statements).

6. OTHER OPERATING INCOME (CONTINUED)

Income from reversal of provisions relates mainly to the following:

	2017	2016
	(in HRK '000)	(in HRK '000)
a) Employee benefit provisions	8,559	37,203
b) Litigation provisions, as per the attorney's assessment	26,027	39,283
c) Other provisions	24,320	36,991
	58,906	**113,477**

Other operating incomes comprise internal sales, surplus and other unspecified income.

7. COST OF MATERIALS AND SERVICES

	2017	2016
	(in HRK '000)	(in HRK '000)
Cost of raw material and supplies	242,237	242,299
Energy costs	227,506	219,723
Expensed small items	25,261	22,184
a) Total material costs	*495,004*	*484,206*
b) Changes in the value of inventories of work in progress and finished products	*(1,780)*	*(7,806)*
c) Cost of goods sold	*896,873*	*996,233*
Subcontractor service costs	302,897	185,280
Maintenance	161,280	160,037
Municipal utility fees and charges	93,158	106,227
Transportation costs	51,277	45,353
Rental and lease costs	42,228	62,475
Data processing and software maintenance services	40,283	37,915
Intellectual services	30,235	32,656
Insurance premiums	29,299	28,709
Bank and payment operation charges	10,634	12,018
Advertising and promotion	4,773	4,489
Other external services	88,733	115,552
d) Total external services	*854,797*	*790,711*
	2,244,894	**2,263,344**

In 2017 the audit expenses amount HRK 608 thousand HRK (2016: HRK 689 thousand).

In line with the Lease Agreement closed on 14 June 2007 with company Lanište d.o.o., the Group included in the cost of rent in 2016 the indexing expense of leasing facility Arena Zagreb (for the period from 2007 to 2016) in the amount of HRK 28,558 thousand. Namely, pursuant to the aforementioned Agreement, it was determined that the Group is allowed to voluntarily breach it and purchase the object at the price set in the Agreement. Since this issue has not been implemented, the rent for 2016 includes indexation for all previous seven years, together with the rent for the 8^{th} year of the lease.

At the same time, on the base of indexation, the Group also classified the income from the City of Zagreb and the Croatian Government that are obliged to reimburse the indexation effects on the basic rent in the amount of 50%.

8. STAFF COSTS

	2017	2016
	(in HRK '000)	(in HRK '000)
Net wages and salaries	944,350	888,700
Taxes and contributions	607,528	599,691
Reimbursement of costs to employees and other employee benefits	126,728	120,960
	1,678,606	**1,609,351**
Number of employees as at 31 December	**11,286**	**10,394**

Costs reimbursed to employees and other employee benefits comprise benefits regulated by the Collective Agreement, such as commutation allowance to the extent of the public transport costs, gifts and bonuses (long-service benefits, Christmas and Easter allowances, vacation allowance, and similar), education and advanced training costs and similar.

9. DEPRECIATION AND AMORTISATION

	2017	2016
	(in HRK '000)	(in HRK '000)
Depreciation of property, plant and equipment (Note 17)	520,408	535,023
Amortisation of intangible assets (Note 16)	9,259	13,117
	529,667	**548,140**

10. IMPAIRMENT

	2017	2016
	(in HRK '000)	(in HRK '000)
Impairment of current assets	199,313	138,558
Losses from fair value adjustment of investment property	224,201	27,867
Impairment of other fixed assets	110	858
	423,624	**167,283**

11. PROVISIONS FOR RISKS AND CHARGES

	2017	2016
	(in HRK '000)	(in HRK '000)
Litigation provisions	38,472	48,850
Provisions under IAS 19 Employee Benefits	33,458	5,297
Provisions for disposal of bulky waste	2,630	6,287
Provisions for the restoration of natural resources	7,512	7,255
Provisions for expenses in the guarantee period	2,850	14,903
Other provisions	21,420	25,406
	106,342	**107,998**

Other provisions also include provisions on the base of the difference between incentive and reference price of delivered electricity kwhs to company Hrvatski operator tržišta energije d.o.o. by the Company`s branch ZGOS, due to non-realization of legally required 50% efficiency in terms of appropriately using the incentive price.

12. OTHER OPERATING EXPENSES

	2017	2016
	(in HRK '000)	(in HRK '000)
Fines, penalties, damages	46,961	63,634
Taxes and contributions independent of operating results	25,835	13,206
Administrative and court expenses	17,770	22,419
Grants, donations and sponsorships	11,772	3,250
Written-off receivables	6,936	2,563
Representation and entertainment	1,993	1,779
Other operating expenses	24,480	38,286
	135,747	145,137

Damages relate principally to ZGOS Branch in respect of environmental protection fee payable at a rate of HRK 65 per ton of disposed municipal waste on the Jakuševac Landfill and compensation paid for reduced quality of life in the area of Prudinec/Jakuševec, the area under the impact of the construction intended for waste disposal, in line with the Decision of the Assembly of the City of Zagreb dated 5 June 2014

Other operating expenses comprise deficits, cost of inventories sold, subsequently identified costs and expenses not specified above.

13. FINANCIAL INCOME

	2017	2016
	(in HRK '000)	(in HRK '000)
Income from interests on loans and deposits – unrelated parties	22,251	29,980
Income from interest on loans – related parties	99,786	119,244
Other financial income	20,458	18,489
Foreign currency gains	64,992	69,403
	207,487	**237,116**

Other financial income comprises mainly income from discounting of receivables and payables and other financial income.

14. FINANCIAL EXPENSES

Financial expenses

	2017	2016
	(in HRK '000)	(in HRK '000)
Interest expenses	209,873	249,495
Discount expenses	16,458	12,493
Discounted receivables	*9,402*	*7,265*
Discounted issued bonds	*7,056*	*5,228*
Expenses of bond issuance	17,932	10,190
Expenses from early repurchase of bonds	-	27,620
Interest expenses – related companies	2,203	492
Other interest expenses	346	888
Foreign exchange losses	47,626	29,481
	294,438	**330,659**

Net effect of exchange differences

	2017	2016
	(in HRK '000)	(in HRK '000)
Foreign exchange gains	64,992	69,403
Foreign exchange losses	(47,626)	(29,481)
	17,366	**39,922**

In July 2016, the Company early repurchased 48.77% of Euro bonds by issuing new bonds with a nominal value of HRK 1,800,000 thousand with a coupon of 3.875%.

In July 2017, the Company paid the remaining 51.23% of Euro bonds and issued another bond tranche of a nominal value of HRK 500,000 with a coupon of 3.875%.

Other financial expenses relate mainly to the discount on the sale of receivables.

15. INCOME TAX

The Group is not subject to taxation, but entities forming the Group are. Corporate income tax is determined by applying the rate of 20% to the taxable income, and as at 1 January 2017, due to legislative changes, the rate applied is 18%.

Tax expense recognised in profit or loss

	2017	2016
	(in HRK '000)	(in HRK '000)
Income tax expenses comprise the following:		
Current tax	(20,524)	28,173
Deferred tax expense on the origination and reversal of temporary differences	1,218	7,205
The effect of tax losses that are not recognized as tax assets	33,028	-
Tax (income)/expense recognised in profit or loss	**13,722**	**35,378**

The relationship between the accounting profit and tax expense for the year:

	2017	2016
	(in HRK '000)	(in HRK '000)
Profit before taxation	15,426	110,310
Income tax rate of 18% (2016: 20%)	2,777	22,062
Effect of permanent differences, net	(23,301)	14,381
Effect of unrecognised and unused tax losses	33,028	(8,270)
Effect of termination of temporary differences previously recognized as deferred tax assets	-	7,205
Effect of temporary differences recognised as deferred tax assets	1,218	-
Tax expense recognised in profit or loss	**13,722**	**35,378**

Decrease of the corporate income tax rate from 20% to 18% (applicable since 1 January 2017) had an effect on the decrease in deferred tax liability due to a necessity to impair the deferred tax in line with the tax rate to be applied in the period when deferred tax liability will occur.

15. INCOME TAX (CONTINUED)

Balance of deferred tax - deferred tax asset and deferred tax liability

2017	**Opening balance**	**Income tax recognised in profit or loss**	**Recognised in other comprehensive income**	**Recognised directly in equity**	**Closing balance**
	(in HRK '000)	(in HRK '000)	(in HRK '000)	(in HRK '000)	(in HRK '000)
Temporary differences					
Provisions	37,504	1,263	-	-	38,767
Value adjustment of inventory	12	-	-	-	12
Value adjustment of land	45	(45)	-	-	-
Revaluation of land	666,522	-	-	-	666,522
Property, plant and equipment	9,148	-	-	(29)	9,119
Revaluation of financial assets	3,249	-	(572)	-	2,677
Deferred income	3,614	-	-	-	3,614
Effects of changes in corporate income tax rate	*(67,753)*	-	-		*(67,753)*
Unused tax losses and tax credits					
Tax losses	185	-	-	-	185
Deferred tax assets	**37,746**	**1,218**	-	-	**38,964**
Deferred tax liabilities	**614,780**	-	**(572)**	**(29)**	**614,179**

15. INCOME TAX (CONTINUED)

Balance of deferred tax - deferred tax asset and deferred tax liability (continued)

2016	Opening balance	Income tax recognised in profit or loss	Recognised in other comprehensive income	Recognised directly in equity	Closing balance
	(in HRK '000)	(in HRK '000)	(in HRK '000)	(in HRK '000)	(in HRK '000)
Temporary differences					
Provisions	43,334	1,375	(7,205)	-	37,504
Value adjustment of inventory	12	-	-	-	12
Value adjustment of land	45	-	-	-	45
Revaluation of land	670,987	-	(4,465)	-	666,522
Property, plant and equipment	229	-	8,919		9,148
Revaluation of financial assets	2,313	936	-	-	3,249
Deferred income	3,614	-	-	-	3,614
Effects of changes in corporate income tax rate	-	*(365)*	*(67,388)*		*(67,753)*
Unused tax losses and tax credits					
Tax losses	185	-	-	-	185
Deferred tax assets	**43,576**	**1,375**	**(7,205)**	**-**	**37,746**
Deferred tax liabilities	**677,143**	**571**	**(62,934)**	**-**	**614,780**

16. INTANGIBLE ASSETS

	31 Dec 2017	31 Dec 2016
	(in HRK '000)	(in HRK '000)
Cost or valuation	211,890	210,503
Accumulated depreciation and impairment	(196,498)	(187,675)
	15,392	**22,828**

The structure of intangible assets is as follows:

	31 Dec 2017	31 Dec 2016
	(in HRK '000)	(in HRK '000)
Patents, concessions and similar rights	8,758	13,745
Intangible assets under development	5,100	5,382
Other intangible assets	1,534	3,701
	15,392	**22,828**

16. INTANGIBLE ASSETS (CONTINUED)

(in HRK '000)	Patents, licences and other rights	Other intangible assets	Intangible assets under development	Total intangible assets
COST				
Balance as at 31 Dec 2015	**86,769**	**114,602**	**11,093**	**212,464**
Additions	2,398	469	2,019	4,886
Transfer to non-current receivables IFRIC 12	-	-	(5,724)	(5,724)
Transfer from assets under development	2,322	75	(1,869)	528
Reclassification (from/to)	-	-	(137)	(137)
Retirement, disposal, sale	(1,511)	(3)	-	(1,514)
Balance as at 31 Dec 2016	**89,978**	**115,143**	**5,382**	**210,503**
Additions	1,598	161	688	2,447
Transfer from assets under development	372	24	(115)	281
Reclassification (from/to)	-	-	(855)	(855)
Retirement, disposal, sale	(478)	(8)	-	(486)
Balance as at 31 Dec 2017	**91,470**	**115,320**	**5,100**	**211,890**
IMPAIRMENT				
Balance as at 31 Dec 2015	**69,373**	**106,335**	**4,917**	**180,625**
Amortisation	8,007	5,110	-	13,117
Retirement, disposal, sale	(1,147)	(3)	-	(1,150)
Discontinuation of impairment	-	-	(4,917)	(4,917)
Balance as at 31 Dec 2016	**76,233**	**111,442**	-	**187,675**
Amortisation	6,907	2,352	-	9,259
Reclassification (from/to)	-	-	-	-
Retirement, disposal, sale	(428)	(8)	-	(436)
Balance as at 31 Dec 2017	**82,712**	**113,786**	-	**196,498**
NET CARRYING AMOUNT				
Balance as at 31 Dec 2015	**17,396**	**8,267**	**6,176**	**31,839**
Balance as at 31 Dec 2016	**13,745**	**3,701**	**5,382**	**22,828**
Balance as at 31 Dec 2017	**8,758**	**1,534**	**5,100**	**15,392**

17. PROPERTY, PLANT AND EQUIPMENT

	31 Dec 2017	31 Dec 2016
	(in HRK '000)	(in HRK '000)
Cost or valuation	22,768,025	22,295,425
Accumulated depreciation or impairment	(9,549,015)	(9,106,799)
	13,219,010	**13,188,626**
Prepayments made	**2,965**	**3,344**
Total	**13,221,975**	**13,191,970**

Structure of property, plant and equipment

	31 Dec 2017	31 Dec 2016
	(in HRK '000)	(in HRK '000)
Buildings	6,285,709	6,128,571
Land	4,522,688	4,570,097
Tools and vehicles	1,541,885	1,605,905
Tangible assets under construction	628,674	632,130
Plant and equipment	190,018	201,887
Other tangible assets	50,036	50,036
	13,219,010	**13,188,626**

Movements in prepayments:

	2017	2016
	(in HRK '000)	(in HRK '000)
Opening balance	**3,344**	**3,458**
Additions		-
Disposals	(379)	(114)
Closing balance	**2,965**	**3,344**

17. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

(in HRK '000)	Land	Buildings	Equipment	Tools and vehicles	Other long-term assets	Intangible Assets	TOTAL
COST OR VALUATION							
Balance as at 31 Dec 2015	4,656,081	12,306,168	1,344,298	3,266,491	50,160	828,994	**22,452,192**
Additions	-	25,798	16,803	7,901	-	195,599	**246,101**
Transfer to long-term receivables IFRIC 12	(4,054)	-	-	-	-	(250,358)	**(254,412)**
Transfer from assets under development	127	54,132	32,877	13,736	4	(101,437)	**(561)**
Reclassifications (transfers from/to)	-	-	683	(2,403)	1,717	3	-
Revaluation	(1,627)	-	-	-	-	-	**(1,627)**
Retirement, disposal, sale	-	(3,232)	(36,095)	(30,615)	-	(2,229)	**(72,171)**
Entry of earlier written-off assets	-	-	-	3	-	-	**3**
Adjustmets of previous years	(61,769)	(12,331)	-	-	-	-	**(74,100)**
Balance as at 31 Dec 2016	4,588,758	12,370,535	1,358,566	3,255,113	51,881	670,572	**22,295,425**
Additions	423	54,006	19,751	26,721	-	503,465	**604,366**
Transfer from assets under development	87	427,360	24,869	55,938	-	(511,458)	**(3,204)**
Reclassifications (transfers from/to)	(47,919)	(91)	4,745	1,502	(1,717)	(7,650)	**(51,130)**
Retirement, disposal, sale	(422)	(2,545)	(33,146)	(41,243)	-	(76)	**(77,432)**
Balance as at 31 Dec 2017	4,540,927	12,849,265	1,374,785	3,298,031	50,164	654,853	**22,768,025**
IMPAIRMENT							
Balance as at 31 Dec 2015	18,664	5,917,145	1,115,256	1,538,400	128	17,345	**8,606,938**
Depreciation	-	307,503	77,010	142,755	-	7,755	**535,023**
Revaluation	(3)	-	-	-	-	-	**(3)**
Transferred (from) / to	-	-	7	(1,724)	1,717	-	-
Retirement, disposal, sale	-	(3,224)	(35,594)	(30,223)	-	-	**(69,041)**
Adjustmets of previous years	-	20,540	-	-	-	13,342	**33,882**
Balance as at 31 Dec 2016	18,661	6,241,964	1,156,679	1,649,208	1,845	38,442	**9,106,799**
Depreciation	-	325,531	60,767	146,373	-	(12,263)	**520,408**
Transferred (from) / to	-	(1,442)	1	1,717	(1,717)	-	**(1,441)**
Retirement, disposal, sale	(422)	(2,497)	(32,680)	(41,152)	-	-	**(76,751)**
Balance as at 31 Dec 2017	18,239	6,563,556	1,184,767	1,756,146	128	26,179	**9,549,015**
CARRYING AMOUNT							
Balance as at 31 Dec 2015	4,637,417	6,389,023	229,042	1,728,091	50,032	811,649	13,845,254
Balance as at 31 Dec 2016	4,570,097	6,128,571	201,887	1,605,905	50,036	632,130	13,188,626
Balance as at 31 Dec 2017	4,522,688	6,285,709	190,018	1,541,885	50,036	628,674	13,219,010

17. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Title to land and buildings

The registration of the Group's title to land and buildings in appropriate registers, serving as evidence of ownership, is in progress. Since some municipal registries have not been fully updated, the process of registering the properties is longer than for new structures. In addition, the City of Zagreb has surrendered a significant portion of its assets to be managed by the Group. The status of such assets has not been fully defined. A part of those properties has been registered but the status of the remaining properties is still pending.

An overview of the fixed asset (land and buildings) ownership structure is presented below:

Land (revaluated)

	31 Dec 2017	31 Dec 2016
	(in HRK '000)	(in HRK '000)
Registered	3,283,354	3,254,683
Unregistered	1,239,334	1,315,414
	4,522,688	**4,570,097**

Review of residual values

Following the requirements of to IAS 16 (Property, Plant and Equipment) that are effective for the current period, the Group reviewed the residual values used for the purposes of depreciation calculations in the light of the amended definition of residual value in the revised Standard. The review did not highlight any requirement for an adjustment to the residual values used in the current or prior periods.

Impairment of assets

Under IAS 36, the carrying amount should be compared to the recoverable amount each time when there is an indication of impairment and, if higher, written down to the recoverable amount. The recoverable amount of an asset is greater of (i) net selling price if the asset can be sold and (ii) value in use, which is the net present value of future cash flows based on reasonable and supportable assumptions that represent management's best estimate of the future economic conditions and plans. In the opinion of the Management Board, the carrying amount of tangible assets presented above is recoverable from future operations.

17. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Assets pledged as collateral

	31 Dec 2017	31 Dec 2016
	(in HRK '000)	(in HRK '000)
Real estate as collateral	41,397	49,915
	41,397	**49,915**

Capitalised borrowing costs under IAS 23

Neither in 2017 nor in 2016 did the Company capitalise borrowing expenses.

18. INVESTMENT IN PROPERTY

	2017	2016
	(in HRK '000)	(in HRK '000)
Balance as at 1 January	**1,955,426**	**1,958,298**
Sales	-	-
Increase of the value for new investments	17,489	2,076
Increase in fair value through profit or loss (net)	114,742	(4,948)
Transfer to property, plant and equipment	50,920	-
Balance as at 31 December	**2,138,577**	**1,955,426**

During 2017 investment properties were re-measured at fair value on the basis of appraisals by a certified property appraisal expert, upon which is resulting from the change in the fair values in the amount of HRK 114,742 thousand (2016: loss of HRK 4,948 thousand) were included in the consolidated income statement.

19. OTHER FINANCIAL ASSETS

	31 Dec 2017	31 Dec 2016
	(in HRK '000)	(in HRK '000)
Current portion		
Held-to-maturity investments at amortised cost	65,533	107,459
	65,533	**107,459**
Long-term portion		
Held-to-maturity investments at amortised cost	116,187	114,493
Financial assets available for sale	14,760	17,938
Financial assets at fair value	897	933
Other current financial assets	20	-
	131,864	**133,364**

Financial assets at fair value

	31 Dec 2017	31 Dec 2016
	(HRK'000)	(HRK'000)
Investment in shares	**897**	**933**

Included in ***investment in shares*** are financial assets (shares) carried at fair value through profit or loss. The shares represent non-controlling interests held in Zagrebačka banka d.d. and Samoborska banka d.d. in which the Group has no significant influence.

Long-term deposit and other financial assets

	31 Dec 2017	31 Dec 2016
	(in HRK '000)	(in HRK '000)
Deposits with maturities over one year	116,187	114,493
Deposits with maturities of up to one year	56,722	96,535
Other held-to-maturity securities	8,811	10,924
	181,720	**221,952**
Current portion	*65,533*	*107,459*
Long-term portion	*116,187*	*114,493*

19. OTHER FINANCIAL ASSETS (CONTINUED)

Financial assets available for sale

	31 Dec 2017	31 Dec 2016
	(in HRK '000)	(in HRK '000)
Financial assets available for sale	**14,760**	**17,938**

Other financial assets

	31 Dec 2017	31 Dec 2016
	(in HRK '000)	(in HRK '000)
Other financial assets	**20**	**-**

20. NON-CURRENT RECEIVABLES

	31 Dec 2017	31 Dec 2016
	(in HRK '000)	(in HRK '000)
Long-term portion		
Amounts owed by related parties	1,296,196	1,305,211
Loan receivables	5,866	11,772
Receivables in respect of credit sales	7,246	9,133
Other receivables	329,451	340,777
	1,638,759	**1,666,893**
Current portion - Note 22		
Receivables from related parties (Note 22)	211,367	228,479
Receivables for loans (Note 22)	8,986	2,609
Receivables in respect of credit sales (Note 22)	1,343	1,415
Other receivables (Note 22)	11,332	11,742
	233,028	**244,245**

20. NON-CURRENT RECEIVABLES (CONTINUED)

Included in long-term receivables from related parties are amounts due for works and services delivered as well as loans provided to related parties.

Long-term receivables from related companies

	31 Dec 2017	31 Dec 2016
	(in HRK '000)	(in HRK '000)
Receivables from Company members	1,663,418	1,697,661
Discount of outstanding receivables from Company member	(146,692)	(151,276)
Impairment of receivables from Company members	(9,163)	(12,695)
	1,507,563	**1,533,690**
Current portion (Note 22)	211,367	228,479
Long-term portion	1,296,196	1,305,211

Receivables from Company member comprise amounts owed by the City of Zagreb under guarantees furnished for long-term loans of ZET Branch in the amount of HRK 23,849 thousand (2016: HRK 84,709 thousand), in respect of funding 50 percent of the lease costs for the sports facility Arena Zagreb in the amount of HRK 338,682 thousand (2016: HRK 351,503 thousand net), lease receivables from City of Zagreb in the amount of HRK 658,074 thousand for receivables for contracts in line with IFRIC 12 *Service Concession Arrangements* the amount of HRK 339,787 thousand (2016: HRK 322,284 thousand).

Loan receivables

	31 Dec 2017	31 Dec 2016
	(in HRK '000)	(in HRK '000)
Long-term loans to unrelated companies	17,115	16,690
Long-term loans to the Management and employees	12,188	12,160
Impairment allowance on given loans	(14,450)	(14,469)
	14,852	**14,381**
Current portion	8,986	2,609
Long-term portion	5,866	11,772

20. NON-CURRENT RECEIVABLES (CONTINUED)

Receivables for sale on credit

	31 Dec 2017	31 Dec 2016
	(in HRK '000)	(in HRK '000)
Receivables for flats sold	8,676	11,203
Value adjustment on discount	(87)	(655)
Discount rate in %	**2,2%**	**2,9%**
	8,589	**10,548**
Current portion	*1,343*	*1,415*
Long-term portion	*7,246*	*9,133*

Receivables for flats sold are discounted each year using the rate that reflects the yield rate on the Croatian government bonds, which was 2.2% in 2017 (2016: 2.9%)

Other non-current receivables

	31 Dec 2017	31 Dec 2016
	(in HRK '000)	(in HRK '000)
Receivables from the State	338,682	351,444
Other receivables	2,101	1,075
	340,783	**352,519**
Current portion	11,332	11,742
Long-term portion	329,451	340,777

Receivables from the state in the amount of HRK 338,628 thousand comprise amounts owed by the Croatian Government in respect of funding 50 percent of the Arena Sports Hall rental costs.

21. INVENTORIES

	31 Dec 2017	31 Dec 2016
	(in HRK '000)	(in HRK '000)
Raw material and supplies	126,943	117,308
Work in progress	168,307	165,000
Finished products	30,190	29,793
Merchandise (and property in circulation)	35,372	29,111
Prepayments for inventories	526	262
	361,338	**341,474**

Inventories are broken down into raw material and supplies, which are expensed immediately when put into use, work in progress, finished products, merchandise and prepayments for inventories.

22. TRADE RECEIVABLES AND OTHER RECEIVABLES

	31 Dec 2017	31 Dec 2016
	(in HRK '000)	(in HRK '000)
Receivables from related parties	539,900	381,742
Trade receivables-net	924,802	1,043,805
Receivables from the state for taxes and contributions	53,923	31,438
Amounts due from employees	4,630	2,531
Other receivables	168,343	83,902
	1,691,598	**1,543,418**

Receivables from related parties

	31 Dec 2017	31 Dec 2016
	(in HRK '000)	(in HRK '000)
Receivables from Company member (Note 32)	328,533	153,263
Current portion of long-term receivables from Company member (Note 20)	211,367	228,479
	539,900	**381,742**

22. TRADE RECEIVABLES AND OTHER RECEIVABLES (CONTINUED)

Trade receivables

	31 Dec 2017	31 Dec 2016
	(in HRK '000)	(in HRK '000)
Trade receivables	1,879,274	1,878,537
Impairment allowance on trade receivables	(954,472)	(834,732)
	924,802	**1,043,805**

Trade receivables are carried at amortised cost. Late-payment interest is charged on outstanding balances at rates prescribed by law. The Group recognises an allowance for all trade debtors past due beyond 365 days. Allowances for doubtful debts are recognised against trade receivables between 120 and 365 days based on estimated irrecoverable amounts determined by reference to past default experience of the counterparty and an analysis of the counterparty's current financial position.

Trade accounts receivable are reviewed at least twice annually, and reminders are sent for past due amounts, whereas forced collection proceedings are initiated for bad and doubtful accounts (distress and legal actions).

Receivables for delivered municipal services to individuals and businesses are not covered by any financial instruments. Receivables for other services delivered to commercial businesses are secured with various financial instruments (bills of exchange, debentures, bank guarantees and similar).

In determining the recoverability of a trade receivable, the Company considers the business segment (communal or market activities, because of different factors affecting the pricing and delivery of those services) and the type of customer (citizens or businesses because of different statutes of limitations). The communal operations are governed by separate laws, and the related receivables are not secured by financial instruments. Trade accounts receivable from other activities are secured by various instruments (bills of exchange, promissory notes, debentures, etc.).

Ageing of receivables past due but not impaired:

	31 Dec 2017	31 Dec 2016
	(in HRK '000)	(in HRK '000)
0-60 days	124,503	165,392
60-180 days	57,592	85,125
180-365 days	66,448	66,571
over 365 days	303,541	293,580
	552,084	**610,668**

Receivables past due beyond 365 days, but not impaired comprise receivables of the Group on its own behalf, but for the account of other parties (receivables for water treatment for the account of ZOV).

22. TRADE RECEIVABLES AND OTHER RECEIVABLES (CONTINUED)

Movement in impairment allowance for doubtful receivables

	2017	2016
	(in HRK '000)	(in HRK '000)
Balance as at 01 January	**834,732**	**861,245**
Impairment losses recognised	195,969	129,934
Amounts written-off as uncollectible	(6,936)	(5,609)
Amounts recovered during the year	(108,245)	(130,043)
Write-off of earlier impaired receivables	38,952	(20,795)
Balance as at 31 December	**954,472**	**834,732**

Ageing analysis of impaired trade receivables

	31 Dec 2017	31 Dec 2016
	(in HRK '000)	(in HRK '000)
120-180 days	4,549	9,671
180-365 days	21,384	13,698
over 365 days	928,539	811,363
	954,472	**834,732**

Other receivables

	31 Dec 2017	31 Dec 2016
	(in HRK '000)	(in HRK '000)
Prepaid expenses and accrued income	42,140	52,647
Current portion of long-term receivables (Note 20)	21,661	15,766
Prepayments - net	93,372	5,914
Receivables from insurance companies and other damages receivable	2,613	2,105
Other receivables	8,557	7,470
	168,343	**83,902**

Prepaid expenses and accrued income comprise amounts paid in advance that are chargeable to future periods, accrued income not yet billed and accrued interest.

23. CASH AND CASH EQUIVALENTS

	31 Dec 2017	31 Dec 2016
	(in HRK '000)	(in HRK '000)
Giro account – HRK	137,776	412,749
Giro account – foreign currency	12,728	639,102
Cash in hand – HRK	2,239	1,720
Cash in hand – foreign currency	7	7
Other cash	6,159	4,137
	158,909	**1,057,715**

24. EQUITY AND RESERVES

a) Share capital

The Company's sole owner is the City of Zagreb. At 31 December 2017, the share capital of the Company amounts to HRK 3,833,236 thousand (31 December 2016: HRK 3,833,236 thousand). See Note 4 Status change

b) Land revaluation reserve

Land revaluation reserve has been established on the revaluation of land and financial assets available for sale. On disposal of a revalued asset, the portion of the revaluation surplus attributable to the asset is transferred to retained earnings.

	31 Dec 2017	31 Dec 2016
	(in HRK '000)	(in HRK '000)
Property revaluation	2,873,636	2,873,636
Revaluation of investment in financial assets available for sale	11,295	13,901
	2,884,931	**2,887,537**

b-1) Reserves on property revaluation

	2017	2016
	(in HRK '000)	(in HRK '000)
Balance at the beginning of the year	**2,873,636**	**2,786,961**
Revaluation surplus / (deficit)	-	24,307
Increase resulting from changed profit tax rate	-	67,388
Deferred tax liabilities arising from revaluation	-	(5,020)
Balance at the end of the year	**2,873,636**	**2,873,636**

24. EQUITY AND RESERVES (CONTINUED)

b) Revaluation reserve (continued)

b-2) Reserve on revaluation of investments in available-for-sale financial assets

	2017	2016
	(in HRK '000)	(in HRK '000)
Balance at beginning of the year	**13,901**	**9,291**
Revaluation surplus	(2,606)	5,197
Increase resulting from changed profit tax rate	-	348
Deferred tax liabilities arising from revaluation	-	(935)
Balance at end of the year	**11,295**	**13,901**

Decrease of the profit tax rate from 20% to 18% (applicable since 1 January 2017) had an effect on the decrease in deferred tax liability due to a necessity to impair the deferred tax in line with the tax rate to be applied in the period when deferred tax liability will occur. At the same time, this caused the increase in revaluation reserves.

Other comprehensive income for the year ended 31 December 2017 amounts HRK 2,606thousand (as at 31 December 2016 other comprehensive income was realized in the amount of HRK 54,148 thousand).

c) Other reserves

Other reserves reported in the consolidated balance sheet / consolidated statement of financial position in the amount of HRK 322,618 thousand comprise to the net assets of two companies merged in 2001 (Grad mladih Granešina d.o.o. and Omladinski turistički centar d.o.o.) to a branch, without any share capital increase by HRK 15,125 thousand on the merger, as well as capital reserves formed under the Decision of the Assembly of 13 September 2011 regarding assets granted by the City of Zagreb in the amount of HRK 304,852 thousand and reserves from company Centar d.o.o. in the amount of HRK 2,641 thousand which as at 14 June 2016 continued with regular operating after ending the liquidation process.

24. EQUITY AND RESERVES (CONTINUED)

d) Retained earnings

	2017	2016
	(in HRK '000)	(in HRK '000)
Balance as at 1 January	**695,267**	**708,178**
Effects from earlier years	-	(43,353)
Other comprehensive income	-	(37,137)
Effects from the end of liquidation process of company Centar d.o.o.	-	(2,139)
Profit (loss) for the year	(334)	69,718
Balance as at 31 December	**694,933**	**695,267**

e) Non-controlling interests

	2017	2016
	(in HRK '000)	(in HRK '000)
Balance as at 1 January	**8,348**	**6,866**
Profit for the year	2,038	5,214
Profit payment to minority member	-	(3,732)
Balance as at 31 December	**10,386**	**8,348**

25. LOANS AND BORROWINGS

	31 Dec 2017	31 Dec 2016
	(in HRK '000)	(in HRK '000)
Long-term borrowings		
Loans and borrowings payable	975,778	797,551
Finance lease obligations	1,217,252	1,323,988
Liabilities from sales of receivables	-	8,560
	2,193,030	**2,130,099**
Short-term borrowings		
Loans and borrowings payable	446,452	325,426
Finance lease obligations	155,281	137,539
Liabilities from sales of receivables	8,849	15,600
Other	47,896	69,207
	658,478	**547,772**

On the Balance Sheet date, the average interest rate applied on loans and borrowings, as well as on financial lease, was 3.77% (2016: 3.59%).

25. LOANS AND BORROWINS (CONTINUED)

a) Movements in non-current loans and borrowings

	2017	2016
	(in HRK '000)	(in HRK '000)
Balance as at 1 January	1,122,898	1,469,642
New loans raised	480,375	26,953
Amounts repaid	(313,996)	(367,467)
Effect of exchange differences	(3,278)	(6,230)
Balance as at 31 December	**1,285,999**	**1,122,898**
Current portion	(310,221)	(325,347)
Long-term portion	**975,778**	**797,551**

<u>Repayment schedule of long-term loans and borrowings</u>

	31 Dec 2017	31 Dec 2016
	(in HRK '000)	(in HRK '000)
Within one year	310,221	325,347
In the second to inclusive the fifth year	783,556	639,122
After five years	192,222	158,429
	1,285,999	**1,122,898**

Analysis by currency

	31 Dec 2017	31 Dec 2016
	(in HRK '000)	(in HRK '000)
HRK	1,058,865	748,852
EUR	227,134	374,046
	1,285,999	**1,122,898**

25. LOANS AND BORROWINS (CONTINUED)

b) Finance lease obligations

(in HRK '000)	Minimum lease payments		Present value of minimum lease payments	
	31 Dec 2017	31 Dec 2016	31 Dec 2017	31 Dec 2016
Within one year	208,716	197,344	155,281	137,539
In the second to inclusive the fifth year	779,035	852,517	642,027	686,049
After five years	780,257	873,096	575,225	637,939
	1,768,008	**1,922,957**	**1,372,533**	**1,461,527**
Less: future finance charges	(395,475)	(461,430)		
Present value of minimum lease payments	**1,372,533**	**1,461,527**		

Included in the financial statements within:

Current liabilities (Note - Current borrowings)	155,281	137,539
Current liabilities (Note - Non-current loans and borrowings)	1,217,252	1,323,988
	1,372,533	**1,461,527**

Finance lease obligations relate to equipment (vehicles) and a building leased for a period of 5 - 28 years. Following the expiry of the lease, the Group has an option to purchase the leased items at contractually agreed values. The Group's liabilities under financial leases are secured by the title of the lessor to the leased assets.

Liabilities on lease for the rented hall are fully covered by claims from the owners and the State (Note 20 the consolidated financial statements).

25. LOANS AND BORROWINS (CONTINUED)

b) Finance lease obligations (continued)

Net carrying value of items under financial lease arrangements:

	Buildings	Tools and vehicles	Total
	(in HRK '000)	(in HRK '000)	(in HRK '000)
Cost	818,881	1,508,002	2,326,883
Accumulated depreciation	(81,888)	(445,341)	(527,229)
Net book value 31 Dec 2016	**736,993**	**1,062,661**	**1,799,654**
Cost	818,881	1,581,686	2,400,567
Accumulated depreciation	(92,124)	(523,287)	(615,411)
Net book value 31 Dec 2017	**726,757**	**1,058,399**	**1,785,156**

c) Short-term loans and borrowings

	31 Dec 2017	31 Dec 2016
	(in HRK '000)	(in HRK '000)
Short-term loans and borrowings	455,267	340,947
Short-term loans and borrowings	*145,046*	-
Current portion of long-term borrowings	*310,221*	*340,947*
Financial leases (current portion)	155,281	137,539
Other (interest on borrowings and bonds)	47,930	69,286
	658,478	**547,772**

25. LOANS AND BORROWINS (CONTINUED)

c) Short-term loans and borrowings (continued)

movement in short-term loans and borrowings

	2017	2016
	(in HRK '000)	(in HRK '000)
Balance as at 1 January	**340,947**	384,204
Proceeds from new loans	755,046	-
Repayment of current portion of non-current loans and borrowings	(340,947)	(384,204)
Current portion of long-term borrowings	310,221	340,947
Repayment of loans and borrowings	(610,000)	-
Balance as at 31 December	**455,267**	**340,947**

26. LIABILITIES UNDER ISSUED BONDS

	2017	2016
	(in HRK '000)	(in HRK '000)
Nominal value	2,300,000	2,961,632
Premium	9,286	-
Discount	(41,282)	(47,821)
Cost of issuance of bonds	(24,739)	(115,697)
Current value of bonds	**2,243,265**	**2,798,114**
Bonds with maturity within 1 year	-	(1,160,453)
Balance as at 31 December	**2,243,265**	**1,637,661**

In July 2007, the Company issued EUR 300 million bonds, with a coupon rate of 5.5% per annum with a one-time maturity in July 2017.

In July 2016, the Company issued bonds in the nominal amount of HRK 1,800,000 thousand at a fixed interest rate of 3,875% and an issuing price of 97,19%.

In July 2017, the Company issued bonds in the nominal amount of HRK 500,000 at a fixed interest rate of 3,875% and an issuing price of 102.00%.

In July 2017, the rest of the liability for issued Euro bonds matured in July 2017 was repaid in full.

The average annual interest rate on bonds at the balance sheet date was 3.875% (2016: 4.51%).

27. OTHER NON-CURRENT LIABILITIES

	31 Dec 2017	31 Dec 2016
	(in HRK '000)	(in HRK '000)
Liabilities to related parties	68,320	144,931
Trade payables	3,132	860
Other non-current liabilities	1,825	5,878
	73,277	**151,669**

Liabilities to related companies as at 31 December 2017 in the amount of HRK 16,655 thousand refer to utility fees. Compared to the previous year, the Company does not bear the obligation to guarantee the City on issued bonds in respect of the other long-term liabilities since the obligation is variable, it is stated as off-balance sheet item.

Other long-term liabilities in the consolidate statement of financial position (consolidated balance sheet) as of 31 December 2017 in the amount of HRK 1,825 thousand (31 December 2016: HRK 5,878 thousand) relate to the obligation towards the State for the sale of apartments to employees in accordance with the state program. According to the statutory regulations then in force, 65% of the proceeds realized by selling apartments to employees, were paid to the state upon receipt of funds, According to the Act, the Company has no obligation to allocate funds before collection from employees.

28. PROVISIONS

	31 Dec 2017	31 Dec 2016
	(in HRK '000)	(in HRK '000)
Litigation provisions	281,357	270,325
Provisions for employee benefits under	207,632	179,128
Provisions for the landfill restoration	56,238	48,726
Provision for other liabilities	5,588	2,738
	550,815	**500,917**
Current obligation (Note 30)	43,413	40,769
Long-term obligation	507,402	460,148
	550,815	**500,917**
Discount rate applied to employee benefits and landfill rehabilitation	2.2%	3.00%

The obligation to make provisions for employee benefits arises from the Collective Agreement, and the level of provisions was determined in accordance with IAS 19 "Employee Benefits". They consist of provisions for termination and retirement benefits, long-service benefits and solidarity support. They are measured at the present value of costs expected to be incurred to settle the obligation, using a discount rate of 2.2% (2016: 3.00%).

The landfill rehabilitation provision relates to the cost of maintenance and surveillance over the Jakuševac Landfill over the next 30 years from its wind-up for environmental protection purposes in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets. The provisions are discounted.

Litigation provision relates to provisions allocated for legal actions initiated against the Company and its subsidiaries following the knowledge of a claim being initiated and on the basis of the estimated final outcome of the litigation. In the opinion of the Management, the level of provisions is sufficient to cover any future potential liabilities.

29. DEFERRED INCOME

	31 Dec 2017	31 Dec 2016
	(in HRK '000)	(in HRK '000)
Deferred income	4,089,689	4,282,740
	4,089,689	**4,282,740**

Deferred income relates to assets received or financed by local self-government units, the owner and other legal entities, free of charge, which are reported in the consolidated balance sheet / consolidated statement of financial position under deferred income. The decrease in deferred income is recognised in the consolidated statement of comprehensive income proportionally over the useful life of respective assets to the extent of depreciation of the assets financed out of the budget, in line with IAS 20 Accounting for *Government Grants and Government Assistance*.

30. TRADE PAYABLES AND OTHER LIABILITIES

	31 Dec 2017	31 Dec 2016
	(in HRK '000)	(in HRK '000)
Trade payables	578,643	597,813
Liabilities to related parties (Note 32)	112,712	67,169
Amounts due to employees for net salaries and contributions	98,532	79,816
Prepayments, deposits and guarantees	15,700	16,223
Other liabilities	531,898	564,944
	1,337,485	**1,325,965**

Other liabilities

	31 Dec 2017	31 Dec 2016
	(in HRK '000)	(in HRK '000)
Liabilities under recharged services (VIO)	187,692	214,945
Accrued expenses not yet billed	91,450	100,793
Deferred sales	86,524	57,018
Payroll and benefit-related taxes and contributions	64,187	50,986
Current portion of long-term provisions (Note 28)	43,413	40,769
VAT	34,232	54,609
Other fees payable under decisions	18,839	19,980
Memberships, fees and taxes	5,561	8,889
Other fees and commissions	-	16,955
	531,898	**564,944**

31. OFF-BALANCE SHEET ITEMS

	31 Dec 2017	31 Dec 2016
	(in HRK '000)	(in HRK '000)
Off-balance sheet items	364,170	225,214
	364,170	**225,214**

As at 31 December 2017 off-balance sheet items comprise given guarantees and debentures in the amount of HRK 85,969 thousand (2016: HRK 47,056 thousand), received guarantees and debentures in the amount of HRK 268,768 thousand (2016: HRK 173,969 thousand HRK), assets received under operating leases in the amount of HRK 3,829 thousand (2016: 772 thousand) and other goods received or given under commission or consignment and liabilities to the bank for loan transferred to a subsidiary upon being issued.

32. BALANCES AND TRANSACTIONS WITH RELATED PARTIES

Parties are considered to be related if they, directly or indirectly, through one or several intermediaries, control, or are controlled by, have a significant influence in, or are under joint control with the reporting entity (which includes the parent, subsidiaries and branches). The City of Zagreb, being the sole owner of the Company, is the only having significant control over the operations of the Company and subsidiary companies.

Trading transactions

Summarised below are transactions between the Group entities and those related parties that are not members of the Group:

	Income from sales		Cost of purchased goods and services	
	2017	2016	2017	2016
	(in HRK '000)	(in HRK '000)	(in HRK '000)	(in HRK '000)
City of Zagreb	942,667	851,732	17,076	31,668
	942,667	**851,732**	**17,076**	**31,668**

32. BALANCES AND TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

Outstanding balances from trading transactions at the end of the reporting period (Note 22):

	Receivables from related parties		Liabilities to related parties	
	31 Dec 2017	31 Dec 2016	31 Dec 2017	31 Dec 2016
	(in HRK '000)	(in HRK '000)	(in HRK '000)	(in HRK '000)
City of Zagreb	328,533	153,263	112,712	67,169
	328,533	**153,263**	**112,712**	**67,169**

Sales from related-party transactions were made at standard market prices that are comparable with the prices charged to unrelated parties.

The outstanding balances are not secured by any security instrument (debentures, bills of exchange, bank guarantees) and will be settled in cash.

Other related-party transactions (Note 20):

	Amounts receivable under other related party transactions		Amounts payable under other related party transactions	
	31 Dec 2017	31 Dec 2016	31 Dec 2017	31 Dec 2016
	(in HRK '000)	(in HRK '000)	(in HRK '000)	(in HRK '000)
City of Zagreb	1,507,563	1,533,690	68,320	144,931
	1,507,563	**1,533,690**	**68,320**	**144,931**

32. BALANCES AND TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

Beside the City of Zagreb, the Group's related parties include the members of its Management and Supervisory Boards. The total remuneration paid to the members of the Management Board (the Management Board of Zagrebački holding, Directors of Branches and related companies) and members of the Supervisory Board were as follows:

	31 Dec 2017	31 Dec 2016
	(in HRK '000)	(in HRK '000)
Salaries of the Management Board and branch directors	10,572	10,115
Fees to the Supervisory and Audit Board members	991	774
	11,563	**10,889**

33. EMPLOYEE BENEFITS

As of 31 December 2016, provisions for employee benefits, which include long-service benefits and solidarity support, amount to HRK 207,632 thousand (31 December 2016: HRK 179,128 thousand).

Long-service and termination and solidarity support

According to the Collective Agreement, the Group has the obligation to pay long-service (jubilee awards) to its employees. The Group operates a defined benefit plan for qualifying employees. According to Appendix 5 to the Basic Collective Agreement long-service benefits (jubilee awards) have decreased. Until 31 December 2016 these depended on the average per-employee salary paid for the economic activities in the City of Zagreb according to the following tenure with the Group:

- HRK 700 for 5 years of continuous service
- 1 average monthly salary for 10 years of continuous service
- 1.5 average monthly salary for 15 years of continuous service
- 2 average monthly salaries for 20 years of continuous service
- 2.5 average monthly salaries for 25 years of continuous service
- 3 average monthly salaries for 30 years of continuous service
- 3.5 average monthly salaries for 35 years of continuous service
- 4 average monthly salaries for 40 years of continuous service

33. EMPLOYEE BENEFITS (CONTINUED)

According to Annex 5 to the Main Collective Agreement, the amounts of the long-service benefits were reduced to non-taxable amounts, as defined in the applicable tax regulations, and from 1 January 2015 they are determined as follows:

- HRK 1,500 for 10 years of continuous service
- HRK 2,000 for 15 years of continuous service
- HRK 2,500 for 20 years of continuous service
- HRK 3,000 for 25 years of continuous service
- HRK 3,500 for 30 years of continuous service
- HRK 4,000 for 35 years of continuous service
- HRK 4,500 for 40 years of continuous service

Under the Collective Agreement, the employees retiring at regular age are entitled to a one-off retirement allowance amounting to three average monthly salaries paid from the economic activities in the City of Zagreb over the past three months.

Solidarity support is based on the average salary paid to businesses in the territory of the City of Zagreb and is paid in the following cases:

- death of the employee or a member of his/her close family
- severe disability of the employee, his/her children or spouse
- sick leave of the employee beyond 90 days
- support to the children of employees who fell victims during the Homeland War
- purchases of medical aids, coverage of the participation component in purchasing necessary pharmaceuticals required in the opinion of the competent doctor
- restoration of damage resulting from an Act of God
- birth of a child
- severe occupational injury.

The present value of defined benefit obligations and the related current and past service costs have been determined using the Projected Credit Unit method and the discount rate of 2.2% (2016: 3.00%), which reflects the market yield on government bonds.

33. EMPLOYEE BENEFITS (CONTINUED)

Key assumptions underlying the actuarial estimates:

	2017	2016
Discount rate	2.2%	.,00%
Fluctuation rate	5%	4%
Average expected remaining service period (in years)	22	17

Is The amount included in the consolidated balance sheet / consolidated statement of financial position arising from the Group's obligation in respect of its defined long-service and retirement benefits is as follows:

Current value of liability for Employee benefits stated in the consolidated balance sheet / consolidated statement of financial position as at 31 December 2017 amounts HRK 207,632 thousand (2016: HRK 179,128 thousand).

	31 Dec 2017	31 Dec 2016
	(in HRK '000)	(in HRK '000)
Current liabilities	15,784	15,158
Non-current liabilities	191,848	163,970
	207,632	**179,128**

34. FINANCIAL INSTRUMENTS

34.1. Capital Risk Management

The ratio of net capital and debt

The capital structure is analysed by analysis of the capital cost and related risks.

The gearing ratio at the end of the reporting period amounted to:

	31 Dec 2017	31 Dec 2016
	(in HRK '000)	(in HRK '000)
Borrowings, loans and finance leases (long-term and short-term portion)	**4,393,560**	**4,666,418**
Liabilities for long-term securities	2,851,508	2,677,871
- Finance lease liabilities of Arena Hall (as stated and shown in the accounts of the City of Zagreb and the Croatian Government)	2,243,265	2,798,115
- borrowings of subsidiary ZET for which is also stated receivables from the City of Zagreb (due to issued guarantees of City of Zagreb for payments)	(677,364)	(724,859)
-"Upravljanje projektima" branch – agreements with the City of Zagreb	(23,849)	(84,709)
Cash and cash equivalents	***158,909***	***1,057,715***
Net debt	***4,234,651***	***3,608,703***
Equity	***7,746,104***	***7,747,006***
The ratio of net debt to equity	**54.67%**	**46.58%**

34. FINANCIAL INSTRUMENTS (CONTINUED)

34.2. Categories of financial instruments

	31 Dec 2017	31 Dec 2016
	(in HRK '000)	(in HRK '000)
Financial assets		
Cash and cash equivalents	158,909	1,057,715
Financial assets at fair value	897	933
Long-term deposits and other financial assets	181,740	221,952
Financial assets available for sale	14,760	17,938
Receivables from related parties and trade receivables	2,760,898	2,730,758
Receivables for loans and in respect of credit sales	23,441	24,928
Receivables from employees	4,630	2,531
Other receivables	541,386	452,094
Total	**3,686,661**	**4,508,849**
Financial liabilities		
Financial lease agreements	1,372,532	1,461,527
Loans and borrowings (long-term and short-term portion)	1,478,976	1,122,977
Liabilities under issued bonds	2,243,265	2,798,114
Liabilities to related companies and trade payables	762,805	810,773
Liabilities for advances, deposits and guarantees	15,700	16,223
Liabilities to employees	98,532	79,816
Other long-term and short-term liabilities	124,278	177,814
Total	**6,096,088**	**6,467,244**

34. FINANCIAL INSTRUMENTS (CONTINUED)

34.3. Objectives of management of financial risk

For the purpose of forecasting potential scenarios that may have a negative impact on the operations and achievement of the Group's objectives, the Group identifies financial risks, assesses their potential impact on the Group's future operations and manages those risks.

The various financial risks to which the Group is exposed in the course of its operations are sought to be minimised, avoided and rolled over in order to safeguard its operations. If economically feasible, certain financial risks are accepted.

The key risks comprise liquidity risk, foreign exchange risk and interest rate risk. They are described below, along with the methods applied to manage those risks. The Group did not use any derivative instruments to manage the risks. The Group does not use derivatives for speculative purposes.

34.4. Market risk

The communal service prices are proposed by the Management Board based on the market prices, and determined and approved by the City of Zagreb.

The activities of the Group expose it to the financial risks of changes in foreign exchange and interest rates (see below). The market risk exposure is supplemented by sensitivity analyses. There has been no change to the Group's exposure to market risks or the manner in which these risks are managed and measured.

34.5. Foreign currency risk management

The Group undertakes certain transactions denominated in foreign currencies. Hence, exposures to exchange rate fluctuations arise. The carrying amounts of the Group's foreign-currency denominated monetary assets and monetary liabilities at the reporting date are provided in the table below.

	Liabilities		Assets	
	31 Dec 2017	31 Dec 2016	31 Dec 2017	31 Dec 2016
	(in HRK '000)		(in HRK '000)	
EUR	1,469,690	3,027,662	1,440,248	1,479,613

34. FINANCIAL INSTRUMENTS (CONTINUED)

34.5. Foreign currency risk management (continued)

Foreign currency sensitivity analysis

Given that in 2017, the amount of foreign currency liabilities is almost equal to the amount of foreign currency assets, foreign exchange risk exposure was reduced to a minimum. The following table details the Group's sensitivity to a 1% increase in Croatian HRK against the relevant foreign currencies. Sensitivity rate of 1% is used when reporting foreign currency risk internally and represents the Group's assessment of the reasonably possible change of the Croatian HRK against euro. The sensitivity analysis includes monetary assets and monetary liabilities in foreign currencies. A negative number below indicates a decrease in profit where the Croatian HRK changes against the relevant currency for the percentage specified above. For a weakening of the Croatian HRK against the relevant currency, there would be an equal and opposite impact on the profit.

	EUR impact	
	31 Dec 2017	**31 Dec 2016**
	(in HRK '000)	
(Loss)/Profit	(294)	(15,481)

34.6. Interest rate risk management

Given that 26.07% of the Company's loan debt, leasing liabilities and liabilities for issued bonds bear interest at variable rates, the Group is exposed to interest rate risk. Set out below are the interest rates at 31 December 2017 and 31 December 2016 by type of liability:

	31 Dec 2017	**31 Dec 2016**
EURIBOR	15,25%	20,1%
Yield on Treasury bills of the Ministry of Finance	10,61%	13,26%
Fixed interest rate	73,93%	65,46%
Other	0,22%	1,18%
	100,00%	**100,00%**

Out of the total loan debt of the Group, 73.93% are agreed at fixed rates. The majority of the loan debt bearing fixed rates of interest comprises issued bonds with a fixed coupon rate of 3.875% p.a., and the liability for the finance lease obligation for Arena Zagreb with the interest rate of 4.7%.

34. FINANCIAL INSTRUMENTS (CONTINUED)

34.6. Interest rate risk management (continued)

EURIBOR, EUR LIBOR and ZIBOR tied loan debt accounts for 15.47% of the total loan debt, whereas 10.61% of the loan debt is tied to the yield on the Treasury Bills of the Croatian Ministry of Finance. Thus, 26.07% of the loan debt bears interest at variable rates, which has been acknowledged as a significant uncertainty in developing future cash flow projections

34.7. Credit risk management

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group obtains collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults.

Customers are classified into risk groupings based on the financial indicators and own trading records, and appropriate credit risk mitigation measures are taken for each risk class. Customers are classified mainly on the basis of their official financial statements and the Group's history of trading with each customer. The Group transacts with a large number of customers from various industries and of various size, as well as with citizens (individuals). Trade receivables are presented net of allowance for bad and doubtful accounts.

34.8. Liquidity risk management

Instruments used to monitor and mitigate liquidity risk are as follows: analysing and managing cash flows; analysing assets and the sources of financing those assets; analysing customer creditworthiness; collateral; credit and revolving facilities, and similar.

34. FINANCIAL INSTRUMENTS (CONTINUED)

34.8. Liquidity risk management

34.8.1. Liquidity and interest rate risk tables

The following tables detail the Group's remaining contractual maturity for its non-derivative financial liabilities.

The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The tables include both principal and interest cash flows.

(in HRK '000)	Interest rate	Up to 1 year	1-2-years	2-3 years	3-4 years	4-5 years	After 5 years	Total
	%	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
31 December 2017								
Interest free								
Liabilities to elated companies and trade creditors		693,354	5,132	2,000	2,000	2,000	58,320	762,806
Liabilities in respect of prepayments, deposits and guarantees		15,700	-	-	-	-	-	15,700
Liabilities to employees		98,532	-	-	-	-	-	98,532
Other current liabilities		122,453	365	365	365	365	365	124,278
Variable-rate instruments								
Finance lease liabilities	4,20%	155,281	439,672	73,622	65,533	63,199	575,225	1,372,532
Loans and borrowings	2,71%	399,192	165,614	77,340	67,751	68,412	90,000	868,309
Fixed-rate instruments								
Bonds issued	3,88%	-	-	-	-	2,243,265	-	2,243,265
Loans and borrowings	2,93%	103,956	77,822	275,556	25,556	25,556	102,222	610,688
TOTAL		**1,588,468**	**688,605**	**428,883**	**161,205**	**2,402,797**	**826,132**	**6,096,090**

34. FINANCIAL INSTRUMENTS (CONTINUED)

34.8. Liquidity risk management

34.8.1. Liquidity and interest rate risk tables

(in HRK '000)	Interest rate	Up to 1 year	1-2-years	2-3 years	3-4 years	4-5 years	After 5 years	Total
	%	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
31 December 2016								
Interest free								
Liabilities to elated companies and trade creditors		665,843	14,940	14,940	14,940	14,940	85,170	810,773
Liabilities in respect of prepayments,deposits and guarantees		16,223	-	-	-	-	-	16,223
Liabilities to employees		79,816	-	-	-	-	-	79,816
Other current liabilities		177,814	-	-	-	-	-	177,814
Variable-rate instruments								
Finance lease liabilities	4,20%	137,539	145,704	423,116	58,720	58,509	637,939	1,461,527
Loans and borrowings	3,17%	325,427	276,166	217,808	77,379	67,768	158,429	1,122,977
Fixed-rate instruments								
Bonds issued EUR	5,50%	1,160,453	-	-	-	-	-	1,160,453
Bonds issued HRK	3,88%	-	-	-	-	-	1,637,661	1,637,661
TOTAL		**2,563,115**	**436,810**	**655,864**	**151,039**	**141,217**	**2,519,199**	**6,467,244**

34. FINANCIAL INSTRUMENTS (CONTINUED)

34.8. Liquidity risk management

34.8.1. Liquidity and interest rate risk tables (continued)

The following tables detail the Group's remaining contractual maturity for its non-derivative financial assets. The tables have been drawn up based on the undiscounted cash flows of financial assets until contractual maturities, including interest to be earned on those assets.

(in HRK '000)	Interest rate	Up to 1 year	1-2-years	2-3 years	3-4 years	4-5 years	After 5 years	Total
31 December 2017	%	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
Non-interest bearing								
Cash and cash equivalents		158,909						158,909
Financial liabilities at fair value		897						897
Receivables from related companies and trade receivables		1,464,702	223,793	184,441	160,103	150,838	577,021	2,760,898
Receivable from employees		4,630						4,630
Other receivables		211,937	13,974	12,442	13,037	13,661	276,334	541,385
Variable-rate instruments								
Given deposits and other securities held to maturity	2%	1,120	1,120	1,120	1,120	1,120	71,880	77,480
Fixed-rate instruments								
Given deposits and other securities held to maturity		65,939	1,742	1,742	1,742	4,364	50,620	126,149
Loans given to related companies and accrued loan interest and interest	4%	8,986	4,459	735	735	735	3,161	18,811
Receivables from loans for apartments	1%	1,343	1,343	1,343	1,343	1,343	1,874	8,589
		1,918,463	**246,431**	**201,823**	**178,080**	**172,061**	**980,890**	**3,697,748**

34. FINANCIAL INSTRUMENTS (CONTINUED)

34.8. Liquidity risk management

34.8.1. Liquidity and interest rate risk tables (continued)

(in HRK '000)	Interest rate	Up to 1 year	1-2-years	2-3 years	3-4 years	4-5 years	After 5 years	Total
31 December 2016	%	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
Non-interest bearing								
Cash and cash equivalents		1,057,715						1,057,715
Financial assets at fair value		933						933
Receivables from related companies and trade receivables		2,106,964	34,867	10,879	10,879	10,879	556,290	2,730,758
Amounts due from employees		2,531						2,531
Other receivables		880	159	14	13	8	1	1,075
Prepayments made		5,914						5,914
Receivables from insurance companies and other damages receivable		2,105						2,105
Prepaid expenses and accrued income		52,647						52,647
Other current receivables		7,470						7,470
Variable-rate instruments								
Given loans and other held-to-maturity securities	2%	1,120	1,120	1,120	1,120	1,120	58,240	63,840
Fixed-rate instruments								
Given loans and other held-to-maturity securities		108,147	1,750	1,750	1,750	1,750	78,526	193,673
Given loans to related parties and accrued loan interest	4%	863	783	783	783	783	10,417	14,412
Receivables for given loans for flats	1%	1,530	1,368	1,369	1,370	1,181	3,159	9,977
Receivables from related parties								
		3,348,819	**40,048**	**15,915**	**15,915**	**15,721**	**706,632**	**4,143,050**

34. FINANCIAL INSTRUMENTS (CONTINUED)

34.9. Fair value of financial instruments

34.9.1. Fair value measurements recognised in the consolidated balance sheet / consolidated statement of financial position (balance sheet)

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 fair value measurements – those derived from data other than quoted prices from Level 1 for observable assets or liabilities (i.e. their prices) or indirectly (derived from the price)
- Level 3 fair value measurements – those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

				31 Dec 2017
(in HRK '000)	1, red	2, red	3, red	Total
Financial assets at fair value through profit or loss				
Investments in shares	411	-	486	897
	411	**-**	**486**	**897**

				31 Dec 2016
(in HRK '000)	1, red	2, red	3, red	Total
Financial assets at fair value through profit or loss				
Participating interests - investments in shares	421	-	512	933
	421	**-**	**512**	**933**

35. COMMITMENTS

The Group has entered into contracts that are still in progress, but not completed, and therefore conditions are not recognized for the recognition of these amounts in the accompanying consolidated financial statements. Costs to be incurred under those contracts have been estimated at HRK 9,242 thousand, whereas the estimated value of investments amounts to HRK 62,014 thousand. As at 31 Dec 2017 the Company has the total unused funds from open revolving loans in the amount of HRK 500,000 thousand with average interest rate of 2.00% and maturity in 2018 to 2020.

36. CONTINGENT LIABILITIES

36.1. Environmental matters

Included in the Group is Branch ZGOS, whose principal business is communal and other waste disposal and the rehabilitation of the Jakuševac landfill, as well as to assist the City of Zagreb in establishing a long-term communal waste management development strategy for the City of Zagreb.

36.2. Court litigations

The Group is exposed to different court litigations. Below is the detailed description of litigations considered to be a potential liability and for which provisions have not been made in the consolidated financial statements of the Group.

- Termoblok d.o.o. against ZGH - Subsidiary Zagrebačke ceste, the value of the litigation (VoL) being HRK 915,326 thousand, Number P-3292/15, damages, Commercial Court in Zagreb, probability of success very high;

- HŽ Putnički prijevoz against the City of Zagreb, ZGH-Subsidiary ZET, VoL: 7.174 thousand HRK + interest cca HRK 6,123 thousand, Commercial Court in Zagreb, Number P-1104/1, assets partly provided,

- Avtomontaža Cosmos against Subsidiary ZET – VoL + interest cca HRK 50,530 thousand, Commercial Court in Zagreb, Number P-1097/14,

- Fragaria d.o.o. against Zagrebački holding d.o.o., Subsidiary Tržnice Zagreb, Number P-3853/08, Commercial Court in Zagreb, VoL: HRK 10,126 thousand, filed for re-compensation of the profit lost, final court ruling already delivered, the claim was entirely dismissed, the plaintiff filed an appeal;

- Concordia namještaj d.o.o. against ZGH – Subsidiary Zagrebački velesajam, VoL: HRK 23,755 thousand, damages, law suit filed on 11 May 2016.

37. EVENTS AFTER THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION/(CONSOLIDATED BALANCE SHEET) DATE

After the consolidated statement of financial position/(consolidated balance sheet) date, there were no events relevant to be disclosed in the consolidated financial statements of the Company.

38. PENSION INSURANCE

The Group does not operate a separate retirement plan for its employees or management, either in Croatia or abroad. Thus, no provisions for those obligations have been made. The Group pays pension contributions on behalf of its employees in the Republic of Croatia in accordance with applicable legislative regulations. These contributions form the basis for the pensions payable out of the Croatian National Pension Fund to Croatian employees upon their retirement. Currently, there are no outstanding retirement benefit obligations, either for the Group's present or former employees.

38. LEGAL AND REGULATORY ENVIRONMENT

The operations of the Group and its revenue are regulated by several laws, the most significant ones being as follows:

- The Communal Management Act
- The Local Self-government Act
- The Waste Act
- The Institutions Act
- The Waters Act
- The Cemeteries Act
- The Building Maintenance Act
- The Act on Free Zones

40. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

These financial statements were adopted by the Management and authorized for issue 25 April 2018

Ana Stojić Deban
President of the Management Board

Daniela Franić
Member of the Management Board

Bernard Mršo
Member of the Management Board

ZAGREBAČKI HOLDING
d.o.o.
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