Zagreb holding group

ANNUAL REPORT

2016.

ZAGREBAČKI
HOLDING

Content

About us

"The activities of Zagreb Holding are of vital importance to the City of Zagreb, which makes us particularly responsible for the quality of life in the community we operate in."

Zagreb Holding was incorporated in 2006 in line with the Companies Act and is 100% owned by the City of Zagreb. The Holding is the product of the transfer of interests in 22 companies owned by the City of Zagreb to the company City Utility Company Ltd., which assumed the Holding role, and changed its name to Zagreb Holding Ltd. In 2007.

After further status changes, the Zagreb Holding Group today comprises the Company Zagreb Holding Ltd., which in turn comprises 16 subsidiaries, eight affiliates and one institution.

THE HOLDING'S ACTIVITES ARE GROUPED INTO FOUR AREAS:

- **utility services**
- **transport services**
- **commercial services**
- **energy services**

Utility services include drinking water supply, wastewater drainage and treatment, cleaning, municipal waste disposal, public area maintenance, unclassified road maintenance, retail markets, cemetery and crematoria maintenance, and funereal transport services.

Transport services include public passenger transport services and organisation of stationary traffic.

Commercial services include building management and maintenance, sale of apartments and commercial properties, publishing and gallery services, bus terminal services, travel organisation, vacations for children and youth, catering and tourism, warehousing and storage of goods, freight vehicle parking and Zagreb Free Zone services, outdoor advertising, show and congress organisation, construction, design, supervision and more.

As a healthcare institution, Zagreb City Pharmacy is a separate unit to which special regulations apply.

The Holding also comprises companies that provide energy services and the services of gas distribution and supply, as well as electricity generation from landfill gas.

The basic role of Zagreb Holding is to efficiently and continually provide public utility services while striving for maximal environmental protection, as well as protection of the public interest of the local community. The basic standards for providing these services are regulated by the law and other regulations. Aware of our responsibility to the citizens of Zagreb, we continually invest in improving the quality of the public services while respecting the principles of sustainable development, which makes the standards of living in the City of Zagreb much higher than in other Croatian cities.

We also promote social dialogue within the Company and help our workers gain new, advanced knowledge and skills. By improving the quality and the scope of the public services to the benefit of the citizens, the businesses and the local governments and self-governments in the City of Zagreb, by improving the standard of living for the citizens, the competitiveness of the Croatian economy, and the reputation of the City of Zagreb in comparison with other cities, we realise the vision of the City of Zagreb as a place of pleasant, organised and healthy living, where Zagreb Holding serves as an example of excellence in public service delivery and the driver of business development of Zagreb and Croatia.

At the service of
the citizens
24 HOURS A DAY





2016 in numbers

57.018.467 m³

of water delivered to consumers

15.512.385

tickets sold by Zagreb Electric Tram

276

trams

403

buses

11.747.256 m²

of park area maintained

40.448.929

travelled by buses, trams, funicular railway, vehicles for the transportation of persons with disabilities and school buses

3.921.476.993 kWh

of natural gas distributed

44.538

containers for separate collection of recyclable waste

19.006.584 kWh

of electricity generated from landfill gas at mTEO plant

245.000

tonnes of asphalt produced

10.394

employees

2.500

of roads maintained

Key financial performance indicators

Sales 3.842.428.098 kn
2015
3.911.030.153 kn

EBIT 193.663.267 kn
2015
217.296.846 kn

EBITDA 741.803.437 kn
2015
765.501.768 kn

Net Debt/Equity Ratio 46,6%
2015
55,2%

Income/Expenses Ratio 102,1%
2015
102,7%

Self-Financing Ratio 40,9%
2015
39,7%

Staff Costs to Total Operating Expenses 33,2%
2015
30,3%

An example of savings with a positive environmental impact

By recycling construction waste, the Subsidiary Zagreb Roads produced 170,876 tonnes of granular material satisfying all quality requirements in 2016, which had a positive impact on the environment and saved natural resources. In the same period, 26,580 tonnes of asphalt mix containing recycled material was produced at the Subsidiary's Asphalt Plant Rakitje (in the photo), generating considerable savings on the cost of raw materials and supplies, and lowering the costs of milled mass disposal.

A letter by the President of the Management Board

The past business year was in many ways a turning point in a number of segments of the Zagreb Holding Group's operations.

The completion of the bond refinancing was the most important business event for the Group. Investor interest in the bond backed by a guarantee issued by the City of Zagreb was strong, with interest exceeding the offered HRK 1.8 billion and generating a demand higher than HRK 3 billion. This success of Zagreb Holding was a historical transaction in the Croatian capital market, acclaimed by the Croatian investment community. The renowned international rating agency Standard & Poor's confirmed that the Zagreb Holding was on a good course by upgrading its outlook on three successive occasions.

Our operations, however, are centred on people: our customers, whose number exceeds one million, on the one hand, and our employees, who are at the service of the citizens and visitors of Zagreb for 24 hours a day, 365 days a year, in all weather, on the other. Our many departments and their employees help the city to live a full life year round, accomplishing the Group's main strategic objective: to provide reliable high-quality services and goods. The services we provide are of public interest, and their quality directly impacts the standard of living for our fellow citizens, which gives us a special responsibility. We continued the processes that were already under way and started some new ones in 2016. As of 1 September, our Call Centre is available 24 hours a day, 365 days a year. The citizens can get answers to their questions about all services provided by the Group by calling a single number. To make our services more accessible, we approved the legalisation of all illegal connections to water supply and sewerage networks, and promoted the connection of new users with the City's support. We allowed social welfare recipients to repay their debts in instalments, proving that we are truly at the service of the citizens.

We put in special efforts in developing and promoting environmental awareness, offering the service of bulky waste removal from households twice a year based on prior applications, and increasing the number of "recycling islands" by 151% (from 242 to 607). The number of containers for separate collection of recyclable waste was increased by 382% to 35,296. We opened five mobile recycling centres this year and began working on building one more. All of these measures resulted in a 25% increase in the amount of separately collected waste compared to 2015.

In 2016, the company Water Supply and Drainage signed a Grant Agreement for the construction of the main water supply pipeline

Aleja Bologne-Lisičina, worth HRK 22.7 million, 64.4% of which will be provided by EU funds, 10% by Water Supply and Drainage, and 25.6% by Croatian Waters. HRK 13.7 million was realised from the Cohesion Fund and HRK 5.5 million was realised from Croatian Waters by 31 December.

The swimming pool complex Svetice, one of our top projects, was successfully completed and handed over to the City for management, and the first phase of the construction of 608 apartments in the estate Podbrežje was started. The international Auto Show was held at the Zagreb Fair for the first time after eight years, along with a number of other respectable events, and the attendance of the traditional show Floraart was again very high.

This year, the Company Zagreb Holding Ltd. will voluntarily publish an independent non-financial statement, or a statement of corporate responsibility and the impact of its operations on the society and the environment, for the first time. The Company's dedication to corporate responsibility and sustainability is a result of many years of efforts put in by our employees and the strategic focus of our management. We have ambitious plans for the year ahead and remain dedicated to fulfilling our mission: provide healthy, pleasant and safe urban living to the citizens of Zagreb and the local community. Every day. Because the quality of the services we provide is the best presentation of Zagreb holding.

PRESIDENT OF THE BOARD

Ana Stojić Deban

Introduction

Zagreb Holding Group (hereinafter: the Group), composed of Zagreb Holding Ltd. and its affiliates and institution, posted HRK 74.9 million of profit after tax in 2016, a result lower by HRK 46.1 million compared to 2015. This is the result of the decision of the Croatian Energy Regulatory Agency (HERA) from December 2015 to decrease the tariff items for the distributed quantity of natural gas (Ts1) by 38% as of 1 January 2016. Also, the HERA's decision on the amounts of tariff items for public service obligation gas supply (for the customer category "households") for the period from 1 April to 31 December 2016 entered into force on 1 April 2016. This decision lowered the cost of gas supply for public service obligation by 25%, which lowered the end price of gas by about 20%.

The Code of Corporate Governance adopted by the Company Assembly in May 2016 after previous adoption by the Management and Supervisory Board sets forth the obligation to establish, maintain and advance high corporate governance and transparency standards. The Code aims to introduce even more efficient operations and responsible management of resources in service of the development of the organisation and in the interest of the users of municipal and public services, the citizens of Zagreb in general, and all other influence and interest groups. The Code defines integral management of mechanisms ensuring strategic planning and realisation of objectives, including decision-making processes, procedures and tools used in responsible business, as well as an evaluation system. The principles of action under the Code are considered to be guidelines for all components of the Group.

In 2016, the Group adopted a medium-term plan spanning a period of five years. The plan identifies the objectives and the priorities in the development of the Company by 2021, and the development strategy defines the measures that will be implemented by 2021 to ensure the improvement of the quality of our services, stronger development and growth, and establishment of sustainable long-term operations.

Fulfilling its mission, the Group has intensively built its reputation of a service for the citizens and an organisation of proactive action in 2016, getting more involved in the life in the community, developing interactive communication principles, and modelling its services to fit the needs of its users. The single point of contact centre ensures continues informational and prompt operational support to the users, thus establishing a platform for modern customer relations management.

The most important developments in 2016 occurred in our activities focused on:

Customer relations management

Management of relations with the City of Zagreb

Management of relations with the business community

Financial restructuring

Investments

Employee relations

Zagreb Holding Subsidiary Zagreb Roads added three new asphalt laying machines and five rollers to its fleet in 2016.

Customer relations management

■ As of 1 November 2015, the Subsidiary City Waste Disposal introduced a new method of calculating the charges for the public service of mixed municipal waste removal and disposal based on bin volume instead of floor area of the customer's household. The charges are calculated according to the formula total bin volume (in litres) x number of monthly pickups x per litre charge (0,09622 HRK/litre) = the amount of the bill (in HRK, VAT not included). All customers were granted a discount on the total amount of the charge as an extra incentive for quicker attainment of the waste management objectives in the City of Zagreb. The new calculation method lowered the charges for the customers while retaining the same quality standard for the services provided.

As of 1 August 2016, Waste Disposal modified its mixed municipal waste pickup schedule of in the City of Zagreb. Mixed municipal waste is now picked up twice a week in 84% of the City, once a week in 7% of the City and three times a week, same as before, in 9% of the City (downtown).

In 2016, Zagreb Holding Ltd. enforced the Decision on the Public Service of Collection of Mixed Municipal Waste and Biodegradable Waste, and Separate Collection of Waste Paper, Metal, Glass, Plastic and Textile, and Bulky Municipal Waste in the City of Zagreb (Official Gazette of the City of Zagreb 23/2016) by:

- Increasing the number of the "recycling islands" (in 2016, their number was increased by 365 compared to 2015),
- Introducing five mobile recycling centres, starting the construction of another one (in Klara) and preparing for the construction of two more classic recycling centres (in Žitnjak and Sesvete),
- Handing out separate waste collection bins to the mixed municipal waste removal customers, which increased the amount of separately collected waste in 2016 by 25% compared to the year before.

■ To improve our communication with the citizens and customers, the Call Centre of the Zagreb Holding is available 24 hours a day, 365 days a year as of 1 September. The Call Centre was set up in August 2015 to make information about the new method of calculating the charges for the public service or removal and disposal of mixed municipal waste, which was introduced at the time, more accessible to the citizens. The Call Centre also provided information about the services related to the One Utility Bill and about public transport. The communication of most subsidiaries and affiliates of the Zagreb Holding was integrated in the Call Centre in 2016 to make all our services accessible to the citizens at a single number: 072 500 400.

+5
mobile recycling centres

+365
"recycling islands"
one new "recycling island" a day

+35.296
containers for separate collection of recyclable waste

25%
more separately collected waste

072 500 400
Single number providing all information about Zagreb Holding 24/7

Management of relations with the City of Zagreb

The City of Zagreb is the founder and the 100% owner of the Zagreb Holding. Accordingly, our operations are primarily focused on improving the quality and extending the scope of the public services to the benefit of the citizens, the businesses and the local government and self-governments in the City of Zagreb. The ultimate objectives are to improve the standard of living for the citizens and the competitiveness of the city's economy, as well as to positively impact the reputation of the City of Zagreb compared to other cities. To attain these objectives, the City of Zagreb strongly supported the activities of the Group in 2016, for instance, by sponsoring and by providing direct financial support to the organisation of the Zagreb Auto Show and other events of significance for the tourism promotion of the City and for its economy.

Management of relations with the business community

In addition to the aforementioned Zagreb Auto Show, an event organised by the Subsidiary Zagreb Fair, which had a very strong impact on the economy of the City of Zagreb and on the motor vehicles market, in 2016 the Subsidiary Zagreb Freight Station put in operation the container terminal in Jankomir. The introduction of container reception, storage and dispatch as a new market service put the City of Zagreb and the Republic of Croatia on the continental container terminal map.

Financial restructuring

Bond refinancing with a low interest rate, started in November 2015 and concluded in July 2016, was the most important business event for the Group. The bond refinancing was a result of the long-term deleveraging strategy that included refinancing at a lower interest rate and reduction of currency risk exposure. Investor interest in the new 7-year HRK bond issued by Zagreb Holding and backed by a guarantee provided by the City of Zagreb strongly exceeded the offer, resulting in a total demand higher than HRK 3 billion, compared to HRK 1.8 billion that was offered.

The success of the bond issue is reflected also in the premium Zagreb Holding got on the reference yield of the state bond, which is significantly lower than the premiums of other European cities. The financial strength and the economic development of the City of Zagreb, which supported the new issue of Zagreb Holding with a solidarity guarantee, had the crucial impact on the success of the issue.

A total of as many as 59 investors participated in the HRK bond issue of Zagreb Holding: 29 mandatory and voluntary pension funds, 11 banks, and six investment funds, with insurance companies, legal and physical entities, and an international financial institution comprising the rest of the demand. The structure of the investors is even more satisfying when we consider that contributing to the development of the Croatian capital market had been one of the objectives of the issue.

The transaction of early redemption of the old euro bonds of Zagreb Holding was carried out simultaneously with the new bond issue. The Company Zagreb Holding Ltd. was able to redeem approximately 48.8% of the old euro bonds in this process and will redeem the remaining amount in 2017.

In 2016, the Subsidiary Zagreb Freight Station put in operation a container terminal, which put the City of Zagreb and the Republic of Croatia on the continental container terminal map.

One of our top projects, the Svetice Swimming Pool Complex, was completed in 2016 and turned over to the City for management. Three swimming pools, a wellness centre and a number of sports courts are the citizens' service in an area of almost 10,000 m2.

Zagreb Auto Show was held 5-10 April 2016 under the auspices of the President of the Republic of Croatia and with the support of the City of Zagreb and City of Zagreb Tourism Board.

All available Zagreb Fair capacities were put to use during the Zagreb Auto Show. 440 exhibitors from 33 countries occupied 70,000 m2 in 14 pavilions and outside. The attractive contents and novelties aroused a great public interest

141,555 visitors saw the show in six days, and some dealers sold all their demo vehicles.

428 accredited journalists from Croatia and abroad covered the Show.

The next Zagreb Auto Show will take place in 2018.

The President of the Republic of Croatia Kolinda Grabar Kitarović visited the show too. (photographed with Mayor of Zagreb Milan Bandić and the President of the Management Board of Zagreb Holding Ana Stojić Deban in the booth of the company Rimac Automobili next to the hypersports electric car Concept_S)

Investments

The Group realised a total of HRK 251 million of investments in 2016, 16.5% of which were funded by EU funding instruments.

Employee relations

The Management Board of the Company Zagreb Holding Ltd. proposed a new collective agreement to the trade unions active in the Company in 2015. The new agreement was supposed to contain the provisions of the existing Fundamental Collective Agreement with all annexes in form of consolidated text, and its content was supposed to be modernised and adjusted to the present needs of the Company's operations and the legal regulations. The Company Zagreb Holding Ltd. also developed a unified job catalogue in order to rationalise staff costs and increase worker mobility. Since the trade unions active in the Company failed to deliver their opinion about their preparedness and willingness to start the collective bargaining procedure by delivering a written representativeness agreement signed by all trade unions active in the Company, and a decision on the representativeness of the trade unions, and that they also failed to deliver a written notice about their bargaining committees, the Management Board of the Company Zagreb Holding Ltd. made the decision to terminate the Fundamental Collective Agreement on 22 April 2016.

However, since the Supreme Court of the Republic of Croatia validly ruled that the termination of the Fundamental Collective Agreement was illegal, in order to realise its objective stated above, the Company again invited all trade unions active in the Company to notify the Company about their bargaining committees in order for the collective bargaining to begin. The negotiations are supposed to reduce staff costs, among other things, which rose considerably in 2016 due to the expiry of Annex V to the Fundamental Collective Agreement, where Christmas and holiday bonuses were defined in tax exempt amounts, resulting in the payment of HRK 2,884.87 for each of these rights in 2016.

In course of the collective bargaining process, Zagreb Holding Ltd. will strive to find a solution that will suit both parties, maintaining the existing level of workers' rights, including material rights, while simultaneously reducing the Company's staff costs to acceptable levels

The success of the Company's operations confirmed

Two rating agencies, Standard & Poor's and Moody's, assessed the Zagreb Holding Group's credit rating in 2016.

Moody's published its credit rating report for Zagreb Golding Group on 14 March 2016, downgrading Zagreb Holding's rating from Ba2 to Ba3 with a negative outlook, which was in line with the downgrading of the credit rating of the Republic of Croatia and the City of Zagreb. In its latest report from 16 March 2017, Moody's confirmed Zagreb Holding's Ba3 rating, changing the outlook from negative to stable.

Standard & Poor's laid a special emphasis on improved liquidity in its report from 22 July 2016, upgrading Zagreb Holding's credit rating from B+ to BB-, recognising its efforts aimed at improving its financial position and liquidity. On 29 December 2016, Standard & Poor's upgraded Zagreb Holding's outlook to stable, maintaining the BB- rating. This was the third successive upgrade of the credit rating, which serves as an additional confirmation of the good business course of the Zagreb Holding. The outlook was upgraded, among other reasons, dues to the successful bond refinancing, the stabilisation of the credit debt to net operating profit ratio, and the continued support of the City of Zagreb, whose outlook was also deemed stable along with the outlook of the Republic of Croatia.

PBZ And ZABA, Agents Issuing HRK 1.8 Billion In Bonds Of Zagrebački Holding

20/07/2016 | Press release | Distributed by Public on 21/07/2016 08:06

Zagreb, 19 July 2016 - Zagrebački holding issued the first series of bonds in the amount of HRK 1.8 billion maturing in 2023 and with an interest rate of 3.875%, which is the lowest interest rate at which a company or a city got indebted on the domestic capital market, it was emphasized at the press conference of Zagrebački holding.

This extraordinary business success and the achievements of the City of Zagreb and Zagrebački holding were commented on by Milan Bandić, the Mayor of the City of Zagreb and Ana Stojić Deban, the President of the Management Board of Zagrebački holding, as well as by Božo Prka, the President of the Management Board of Privredna banka Zagreb, and Miljenko Živaljić, the President of the Management Board of Zagrebačka banka, on behalf of the banks-agents. Moreover, Ivana Gažić, the President of the Management Board of the Zagreb Stock Exchange also spoke of the importance of this issue of bonds on the domestic capital market.

The refinancing of the bonds of Zagrebački holding is a result of a long-term strategy of deleveraging which included the refinancing at a lower interest rate and a reduction in the currency risk exposure. The interest in the new seven-year kuna bond of Zagrebački holding, ensured through a guarantee of the City of Zagreb, largely exceeded the offer resulting in a total demand of more than HRK 3 billion even though only HRK 1.8 billion were offered.

The funds collected by this new issue will be used for an early redemption and redemption upon maturity of the existing Eurobond, issued in 2007 in the amount of EUR 300 million. The new bond will have an interest rate of 3.875%, which is considerably less than the 5.5% interest rate of the existing Eurobonds of Zagrebački holding.

The success in this issue also lies in the premium which the Holding achieved on the reference yield of the state bond which is significantly lower compared to the premiums of other European cities (cities have an even lower risk than city-owned companies, such as Zagrebački holding). The key contributor to the success of the issue is the financial power and economic development of the City of Zagreb, which supported this new issue of Zagrebački holding with a solidary guarantee. Altogether, there were as many as 59 investors participating in the issuing of the HRK bonds of Zagrebački holding, of which 29 were obligatory and voluntary pensions funds, 11 banks, 6 investment funds, while the remainder of the demand was comprised of insurance companies, legal and natural persons and one international financial institution. The next series in the amount of HRK 500 million has also been announced that will be aimed at citizens; the issue is expected in three to four months.

Publicnow.com

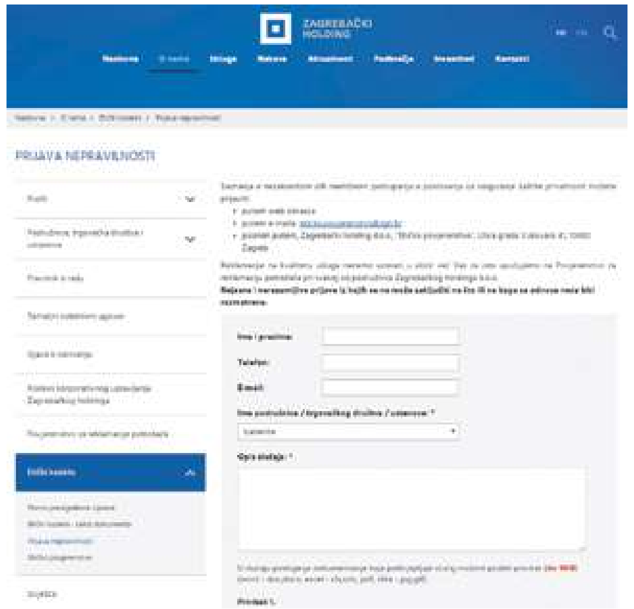
The policy of zero tolerance for corrupt behaviour

The Group implemented the policy of zero tolerance for corrupt behaviour in 2016 by strengthening its internal inspection system, by continually implementing the audit recommendations of the Internal Audit and Control Department of Zagreb Holding Ltd., 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 2015, whose task is to implement institutional business processes of identifying and permanently eliminating possible irregular, unprofessional or illegal activities in the Company.

The Company Zagreb Holding Ltd. 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. In the Statement on Fiscal Responsibility, the President of the Management Board of the Company guarantees the efficiency of the internal audit system and ensures continual methodological risk management and removal of internal weaknesses and irregularities.

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 subsidiaries of Zagreb Holding Ltd. and the other companies 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.



All Zagreb Holding Group customers, business partners and employees can report any illegal and/or unethical actions in Holding operations to the Ethics Committee in written or in electronic form. Protection of privacy is guaranteed. The form is available on our website, where we also publish all information, business and all other statements, regulations and everything else.

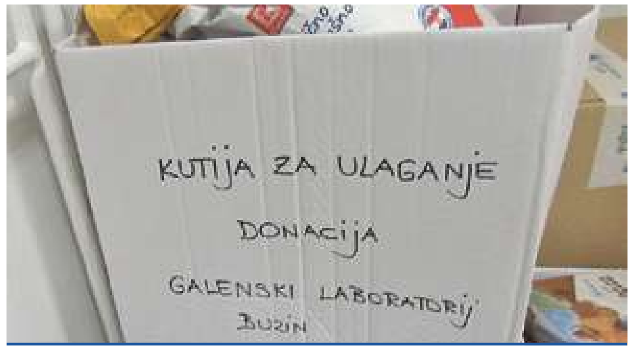
Our employees

Corporate social responsibility

The Group pays special attention to corporate social responsibility and to 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 in the long term in order to realise the plans that the Group has set and adopted.

Zagreb Holding helping

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



Support to UNICEF programmes

The Company invests substantial funds in the realisation of projects of common interest through its donation and sponsorship programmes. Among other programmes, we support the activities of UNICEF Croatia as a project partner, mailing UNICEF flyers calling for donations to UNICEF's programmes together with our utility bills. During our four years of cooperation, UNICEF raised HRK 740,000 in citizens donations in this way, HRK 370,000 of which was raised in 2016 alone.

Zagreb Holding at the Museums at Night event

The Company traditionally supports the event Museums at Night by organising public transport on special so-called Museum Routes for the duration of the event. Celebrating the 10th anniversary of its establishment, Zagreb Holding actively joined the event by organising the exhibition "Zagreb kakav je negdar bil" ("Zagreb As It Used to Be") in 2016. We presented the history of all our services to the citizens and the public for the first time in one place somewhat more than 2,500 m2 at the Zagreb Fair on 29 January. The exhibition was prepared with much love and dedication by Zagreb Holding employees with the support of the Company's Management Board. Zagreb Holding estimates that 7,000 citizens saw the exhibition in one night

Group profile

The Company Zagreb Holding Ltd. was incorporated under the Croatian Companies Act in 2006 as City Municipal Services Company Ltd. In January 2007, it changed its name to Zagreb Holding Ltd. The Company is 100% owned by the City of Zagreb. On 31 December 2016, the Company comprised 16 subsidiaries that took over the activities of the former city-owned companies. Zagreb Holding Ltd. is based in Zagreb, Ulica grada Vukovara 41. On 31 December 2016, the Company owned eight companies and one institution, which together comprised Zagreb Holding Group.

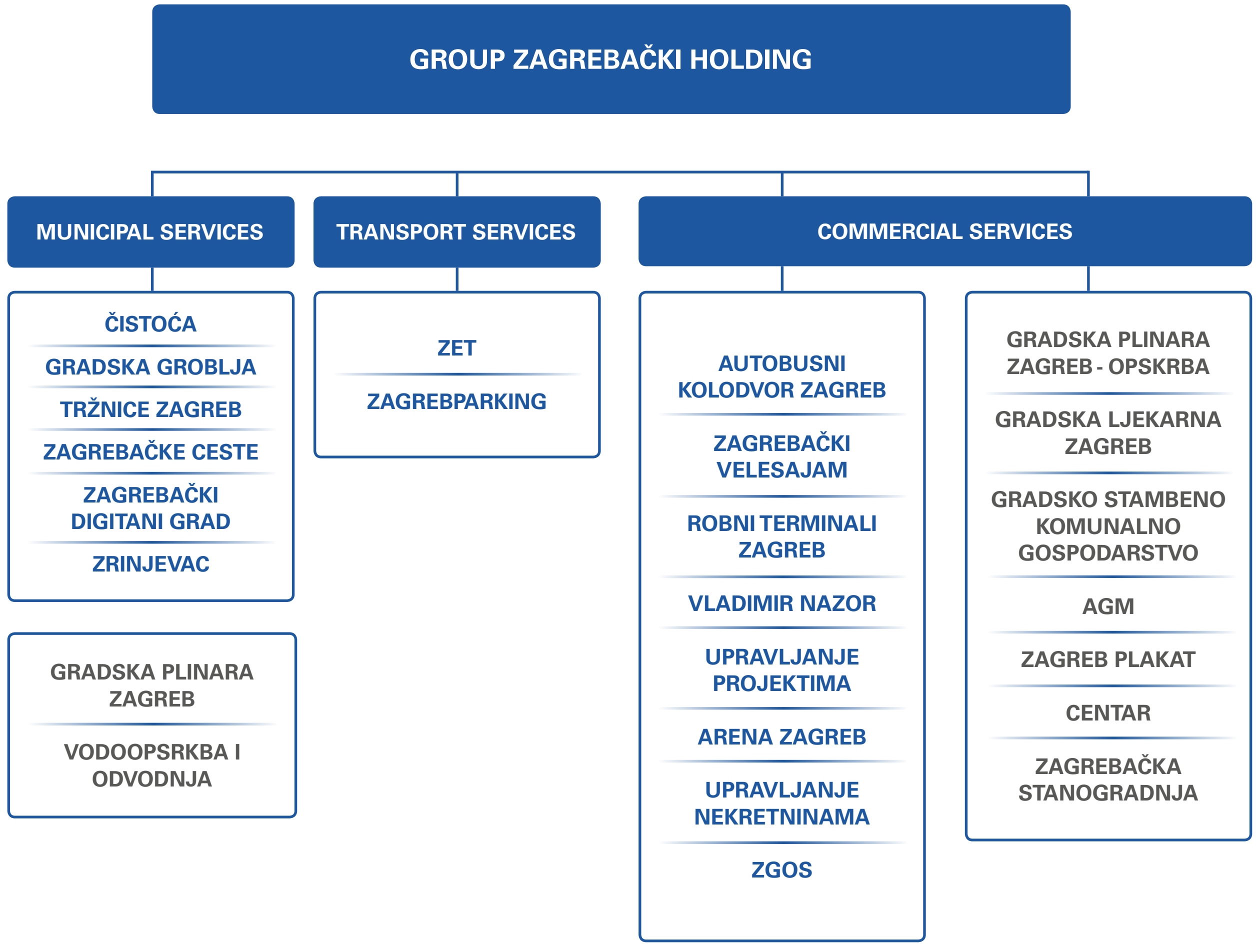
The table and the flowchart below provide an overview of the components, organisation forms and activities of the Group.

No.	Name	Description
	Branches of Zagrebački holding d.o.o.	
1.	City Cemeteries	Funerary and related services
2.	City Waste Disposal	Cleaning and waste disposal
3.	Zagreb Electric Tram (ZET)	Public transport of passengers
4.	Zrinjevac	Green space landscaping and maintenance
5.	Zagreb Roads	Management, maintenance and construction of regional and local roads
6.	Zagrebparking	Public parking lot and garage services
7.	Zagreb Bus Terminal	Bus terminal services
8.	Zagreb Markets	Wholesale and retail markets, storage
9.	ZGOS (Landfill Management)	Waste collection and removal
10.	Zagreb Digital City	Telecommunication ducts and network leasing
11.	Project Management	Apartment construction and sales
12.	Arena Zagreb	Sports buildings management and maintenance
13.	Zagreb Freight Station (RTZ)	Goods storage
14.	Vladimir Nazor	Organised vacations for young people, travel agency
15.	Zagreb Fair (ZV)	Organisation of fairs, conferences, consultations
16.	Real Estate Property Management	Real estate property services
	Companies and institutions 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.	Zagreb City Pharmacy, 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. (GSKG), 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	Apartment construction and sales
9.	Centre Ltd., 100% owned by Zagreb Holding	Organisation of sports vacations for young people

The subsidiary Real Estate Management was entered into the Court Registry of the Commercial Court in Zagreb on 5 April 2016 and was established in order to unite the management of all real estate properties owned by the Company that are not used in the Company's core business in order to ensure the long-term economic profitability of the real estate properties through organised and planned management, reduce the existing maintenance costs, and accomplish optimal market utilisation and functionality of the properties while maximizing the operating profit for the Company Zagreb Holding Ltd.

The Group's activities are grouped into three business areas: municipal, traffic and commercial activities. Investments in investment projects are managed through centralised business functions in order to develop and advance the Company's activities, the city infrastructure, and the municipal and service activities.

Organisation structure of the Group on 31 December 2016



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 living in Zagreb, and example of excellence in providing public services, and the driver, promoter and backbone of economic development of the City of Zagreb and the Republic of Croatia.

Continual focus on corporate responsibility and business excellence in order to accomplish an optimal combination of price and service quality and operating efficiency, and advance the comfort of urban living and the satisfaction of its customers, workers, owners and the social and the business communities, are the Group's core values.

The mission and vision statements were written in accordance with the strategic framework elements.

mission statement

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

vision statement

Be a reliable member of the Zagreb families and a positive energy in city life.

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

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 the owner of the Institution Zagreb City Pharmacy.

The Company Zagreb Holding Ltd. conducts its core business 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, ZGOS, Zrinjevac and Real Estate Property Management. The association of subsidiaries, related undertakings and institution comprises Zagreb Holding Group, with Zagreb Holding Ltd. as its leading company in the creation of business policies.

In accordance with the Companies Act, the related undertakings have their company organs monitoring and supervising 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 components of 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 positive acts governing institutions.

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

There is an Ethics Committee and a Consumer Protection Committee operating at Group level.

The Group's organs

MANAGEMENT BOARD

The following persons served as Members of the Management Board of Zagreb Holding Ltd. in 2016 and 2015:

	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

	2015
1.	Daniela Franić, temporary manager from 31 October 2014 to 5 March 2015; Dejan Fičko, President of the Management Board from 6 March 2015 to 15 June 2015; 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.	Marija Cvrlje, Member of the Management Board from 6 March to 15 June 2015
4.	Denis Nikola Kulišić, Member of the Management Board from 6 March to 15 June 2015
5.	Krešimir Kvaternik, Member of the Management Board from 6 March to 15 June 2015

SUPERVISORY BOARD

The following persons served as Members of the Supervisory Board of Zagreb Holding Ltd. in 2016 and 2015:

	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 Župan, Member (from 8 August 2016)

	2015
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)
9.	Mirko Herak, Member (from 28 May 2015)
10.	Vladimir Ferdelji, Member (from 8 December 2014 to 1 July 2015)

GROUP ASSEMBLY

The City of Zagreb is the only member of the Assembly of the Company Zagreb Holding Ltd. In 2016 and 2015, the member was represented by:

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

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

AFFILIATE COMPANIES AND PUBLIC INSTITUTION

The following persons served as the directors of the affiliate companies and the public institution owned by Zagreb Holding Ltd. in 2016:

AFFILIATE	COMPANY DIRECTOR
Zagreb City Gasworks Ltd.	Bruno Lacković until 22 March 2016 Tihana Colić from 23 March 2016
Zagreb City Gasworks-Supply Ltd.	Miroslav Jerković until 20 March 2016, Igor Pirija from 21 March 2016
Zagreb plakat Ltd.	Bosiljka Grbašić, Kruno Ian Bodegray
Zagreb City Pharmacy	Nadica Jambrek, Director
City Housing and Municipal Services Company Ltd.	Joško Jakelić
Water Supply and Drainage Ltd.	Štefica Mihalic
AGM Ltd.	Svjetlana Dizdar until 1 November 2016, Dinko Čutura from 2 November 2016
Zagreb Housing Construction Ltd.	Renata Šoprek, Zdravko Juć until 27 June 2016 Željko Horvat from 28 June 2016
Centre Ltd.	Milan Kanjer (bankruptcy estate manager) until 7 June 2016, Tomislav Bilić from 8 June 2016

Zagreb Holding Subsidiary Zagreb Electric Tram was the first in Croatia to buy gas-fuelled public transport buses. Annual CO_2 emissions were cut by approximately 3,500 tonnes through the use of alternative fuels, which is an impressive figure considering the distance travelled by ZET's vehicles

Statement of Compliance with the Code of Corporate Governance

TPursuant to Article 22 of the Accounting Act (Official Gazette of the Republic of Croatia 78/15, 120/16), the Management Board of the Company Zagreb Holding Ltd., based in Zagreb, Ulica Grada Vukovara 41 (hereinafter: the Company), makes the following

STATEMENT

of Compliance with the Code of Corporate Governance

1. The Company voluntarily applies the Code of Corporate Governance of the Company Zagreb Holding Ltd., enacted by the following Company organs: the Management Board, on 23 December 2015; the Supervisory Board, on 11 May 2016; and the Company Assembly, on 12 May 2016. The Code is publicly available on the Company's website.

2. In the business year 2016, the Company essentially complied with and implemented the recommendations set forth by the Code, publishing all information whose publication is required under the positive regulations, and whose publication is in the best interest of the investors and all stakeholders.

There were some minor deviations from some of the recommendations made by the Code. A comprehensive calendar of important events was not published on the Company's website. Instead, individual calendars were published on the websites of individual subsidiaries. A framework plan of the activities of the Supervisory Board was not adopted, since the meetings of the Supervisory Board are called as needed in accordance with everyday information about the Company's activities, operations and problems received by the Management Board, the Company Assembly and the public, including information that has been brought to the attention of the Supervisory Board and that affects the activities of the Company directly or indirectly. Supervisory Board meetings are therefore called often to discuss different topics, and are not limited to the topics set forth by the Articles of Association and the legislation. Members of the Audit Committee are not Members of the Supervisory Board because the Supervisory Board has got the discretion right to decide about the composition of the Audit Committee. The Audit Committee has not prepared 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, since 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 Zagreb Holding Group have also essentially complied with and implemented 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 to the Assembly of the related undertakings. The affiliate companies fulfilled this obligation by submitting monthly consolidation packages comprising the basic financial statements (profit and loss statement, balance sheet, cash flow etc) instead of the quarterly reports.

The directors of the subsidiaries comprising the Company and the Members of the Management Boards of the related undertakings largely kept their operations within the confines of the approved annual plans. Deviations from the plans were for the most part related to operating items that were impossible to plan, 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 statement of business events, and compilation of reliable financial statements.
The Internal Audit Department is in charge of reviewing the efficiency of the internal audit system organising and supervising 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. Between 1 January and 7 August 2016, the Management Board of the Company was composed of Ana Stojić Deban, President of the Management Board, and Daniela Franić, Member of the Management Board. By virtue of the Company Assembly's Decision, Bernard Mršo was appointed Member of the Management Board effective 8 August 2016, and the Management has been composed of three members from this date. The Members of the Management Board are appointed for a term of four years.

The Management Board manages the operations of the Company in line with the Articles of Association and the legal regulations. Members of the Management Board represent the Company individually and independently, unless a special decision by a 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 is appointed, one Member is appointed President. The scopes of authority of the Members of the Management Board are defined by a special decision of the Management Board.

The Management is under obligation to make sure that the Company maintains business and other books and business documentation, prepares bookkeeping documents, makes realistic evaluations of its assets and liabilities, writes financial and other reports in line with accounting regulations and standards and the valid laws and regulations. The Management Board submitted reports about the Company's operations in course of the business year to the Supervisory Board in accordance with the Companies Act.

The Supervisory Board supervises the management of the Company's operations in accordance with the Companies Act, the Articles of Association, the Standing Orders on the Activities of the Supervisory Board, and the other valid regulations. Company Assembly elects and recalls the Members of the Supervisory Board, who are appointed for a four year term. One Member serves as a representative of the workers and is elected and recalled in line with the regulations of the Croatian Labour Act. The Members of the Supervisory Board regularly receive detailed information and reports about the state of the Company, its management and activities, to be able to fulfil their obligation to supervise the management of the Company's operations. Also, the Supervisory Board performs internal audit and supervision 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 about the performed supervision of the Company management is a constituent part of the Company's annual statements that are submitted to the Company Assembly.

The Members of the Supervisory Board are:

- Mirna Šitum, Member (from 1 July 2013), Deputy President (from 2 July 2013), President (from 8 December 2014)
- Davor Štern, Member (from 1 July 2013), Deputy President (from 8 December 2014)
- van Šikić, Member (from 1 July 2013)
- Gojko Bežovan, Member (from 1 July 2013)
- Mirsad Srebreniković, Member (from 28 May 2015)
- Jelena Pavičić Vukičević, Member (from 28 May 2015)
- Andrea Šulentić, Member (from 28 May 2015)
- Grgo Jelinić, Member (from 28 May 2015 to 8 August 2016)
- Mirko Herak, Member (from 28 May 2015 to 8 August 2016)
- Ivan Ćelić, Member (from 8 August 2016 to 21 November 2016)
- Nikola Mijatović, Member (from 8 August 2016)
- Mario Župan, Member (from 8 August 2016)

Company Assembly 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. They are:

- Milan Bandić, Mayor of the City of Zagreb,
- Vesna Kusin, Deputy Mayor,
- Slavko Kojić, Head of the City Finance Office.

Company Assembly usually meets once a year and is required to meet in all cases when it is so required the Company's interests, or in cases defined by the law and the Articles of Association.

Company Assembly decides about the Company's financial statements, the utilisation of profit and the coverage of losses; alienation and encumbrance of real estate properties; investments in the development and construction of new facilities and investments in other companies; the Company's annual operations plan; increase and decrease of the capital stock; appointment and recall of the Members of the Supervisory Board; status changes, amendments to the Statement and winding up of the Company. In addition to these matters, the Assembly decides about all other matter included in its scope of authority under the law, Articles of Association and other internal acts.

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 part of decision-making in everyday practice. The implementation of anti-discrimination measures, ensuring equality irrespective of belonging to a particular age, gender, ethnic, national etc group, and establishment of an inclusive working environment is of special significance. For the purposes of implementation of the diversity policy as one of the elements of corporate social responsibility, the Company enacted 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.

Particular attention is paid to the protection and promotion of the rights of persons with disability. Many employees with varying degrees of disability successfully participate in the performance of activities of all subsidiaries of the Company every day. Zagreb Institution for the Rehabilitation of Persons with Disability by Professional Rehabilitation and Employment (URIHO) is one of the Company's most important partners.

Under Article 22 of the Accounting Act, this Statement constitutes a separate section and a constituent part of the Company's Annual Statement for 2016.

In Zagreb, 31 March 2017

President of the Management Board
Ana Stojić Deban

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

Corporate sustainability and responsibility

Management Report and Business Analysis

SPursuant to the Accounting Act (Official Gazette of the Republic of Croatia 78/15, 134/15, 120/16), we hereby present the Management Report for the year ended 31 December 2016.

Corporate responsibility and sustainability

As the largest urban municipal services operator, Zagreb Holding Group is aware of its considerable impact on the environment and the society. Even though the Group's main task is to provide high-quality public municipal services and goods to the citizens of the City of Zagreb, the Group also performs other activities of public interest, and is characterised by strong interconnection of financial and nonfinancial objectives with the interests of the broader social community that it operates in. The Group not only contributes to local development with its financial results, but also influences the economic and social developments in the Croatian economy. Employing a substantial number of workers and working with suppliers, contractors and other stakeholders, the Group contributes to the local community by building stable partnerships. In line with city policies, aiming to avoid potential negative impacts on the environment and the society, and to increase long-term value in public interest, the Group is dedicated to the implementation of sustainable development principles in its daily business processes.

Fulfilling its mission, the Group strives for maximal protection of the environment and public interest of the City of Zagreb, and its long-term strategic orientation is focused on business excellence in combination with sustainable action in order to satisfy the needs of all existing and future users of the Group's services.

The broader responsibility perspective of the Zagreb Holding entails responsible corporate action, including economic, social and environmental responsibility. Economic, social and environmental responsibility is a constituent part of the business objectives of the Group, based on 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 impact of the Group's operations, products and services, such as production technology and efficiency of exploitation of natural resources.

Zagreb Holding Ltd. will voluntarily publish its nonfinancial statement, or the corporate social responsibility statement on the impact of its operations on the society and the environment, for the first time this year. All information about the impact on the society and the environment is collected within the Company Zagreb Holding Ltd. as of 2016. New business challenges will be successfully mastered, minimising the identified business risks through efficient management of the company's resources, by using regular and public reporting about the impact of Zagreb Holding Ltd. on the society and the environment. The Group's dedication to corporate social responsibility is the result of many years of efforts invested by our employees. This advantage will be presented in quantitative form (and in narrative form where there are no figures) for the first time in the nonfinancial statement to help the Group accomplish sustainable long-term growth in the future through more efficient management.

The Asphalt Plant operated by the Subsidiary Zagreb Roads in Rakitje

Corporate responsibility

Economic responsibility

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

Social responsibility

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

Environmental responsibility

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

Relationship with the interest and influence groups

Considering the municipal activities and services that the companies of Zagreb Holding Group provide to the citizens of the City of Zagreb, the Group's operations are of pivotal importance for the functioning of the City, which gives the Group an even greater responsibility to the community.

The main interest and influence groups that the Group's companies are linked with and interact with are: the citizens of the City of Zagreb – users of its services; employees; the City of Zagreb; suppliers; financial institutions; trade union organisations active in the Group's companies; and the media. These are our key activities in the relations with the interest and influence groups: providing quality services by the Group's companies to all users and communication with the users; professional training and education of the workers; ensuring occupational health and safety; and trade union activity. Conflict of interest and other important issues related to acceptable professional behaviour 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 to improve the visibility and accessibility of all information related to the citizens and its users on a daily basis, thus contributing to the transparency of its own operations and ultimately increasing the trust of the citizens and the other interest and influence groups in the public administration system. The importance of the relations with all interest and influence groups is recognised through the interactive, formal and informal communication that we have established, directly or by web form. Such communication allows them to ask questions, voice their opinions, and discuss topics of relevance for them. The Customer Centre located at the address Ulica grada Vukovara 41, the web interface Customer Zone, and the Call Centre of the Zagreb Holding have a special part in this. By introducing the single number 072 500 400, we made information on all charges contained in the One Utility Bill and other services provided by the Group's companies much more accessible to the citizens.

The Group influences its reputation in dealings with all interest groups by opting for information transparency. We therefore devote a special attention to regular corporate reporting, including accessibility and full compliance of the reporting with the requirements of the Accounting Act, Public Procurement Act, and the Anticorruption Programme

Impact on the society

The nature of the operations and activities of Zagreb Holding Group puts a substantial economic, social and environmental responsibility on the Group, reflected in its impact on the society and the environment. The Group therefore implements the principles of good and responsible management of all its resources to make its operations efficient and sustainable. The Group's responsible activities are recognised in voluntary practices going above and beyond the minimum proscribed by the law in the following areas: economic sustainability, incorporation of corporate social responsibility in the business strategy, dialogue with the community, human rights, and responsibility for products and services.

Since the Group's activities have a crucial significance for the City of Zagreb, the quality of the products and services it provides and its choice of technologies has 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.

We therefore invest systematic efforts in upgrading the standards of responsible social development and abidance by human rights within the Group, and in expanding social dialogue, acquisition of skills, equal opportunities, and change prediction and management. In addition to respecting human rights, we devote maximum attention to respecting labour standards and labour law.

The Group devotes special attention to the development of services focused on the promotion of rights of persons with disabilities, for instance, by adapting its low-floor vehicles that are used in public transport to persons with disabilities, and by involving persons with disabilities in its work processes as employees who participate in challenging and diverse activities in all companies belonging to the Group on a daily basis. We would also like to underline our important business partnership with the Institution for the Rehabilitation of Persons with Disability by Professional Rehabilitation and Employment (URIHO).

Applying the internal and the external dimension of corporate social responsibility in dealings with all its stakeholders, in combination with zero tolerance for all forms of unethical and corrupt behaviours, the Group devotes special attention to two of its largest interest groups, the users of its services, and its workers.

The practice of increasing the transparency and publicity of its operations and strengthening personal responsibility is promoted as a part of corporate social responsibility, in combination with increasingly intensive cooperation with civil society organisations, aimed at balancing out the demands for an improved quality of life and the well-being of the broader social community.

The operations of the Zagreb Holding Group follow the laws and ethical standards, as well as principles of sustainable development and social responsibility, enforcing the Code of Conduct and the Anticorruption Programme in full, with the objective of responsible, professional, ethical and transparent operation.

Since the Group works in the interest of the public, the Management Board of the Company Zagreb Holding Ltd. has enacted the Code of Conduct, which lays out the basic guidelines and rules of ethical behaviour for all employees. The Ethics Committee, set up in 2011, was very active in 2016. All users of the Group's services,

To promote and protect the rights of persons with disabilities, we predominantly buy low-floor buses and trams for public transport, and we have introduced audio announcements of the stops into our vehicles. We also organise transport for persons with disabilities and children with developmental difficulties, and we operate school buses for primary schools.

business partners and employees can report illegal and/or unethical actions in the Group's operations to the Ethics Committee in written or electronic form, and their privacy is fully protected in the process. The Committee investigates all received reports and notifies the person who submitted the report about its final conclusion. If the Committee discovers infringement of the Code of Conduct, it notifies the Management Board of the Company Zagreb Holding Inc. The Irregularities Committee was set up to investigate memorandums and complaints, and to notify the Management Board of the Company Zagreb Holding Ltd. about its findings.

The Customer Centre, located at the address of the Directorate of the Company Zagreb Holding Ltd., has a special role in ensuring direct communication with the users. The Centre is a single point of contact where users can obtain all information about the Group's services and pay their utility bills free of transaction charges. The Centre has a separate complaints area, where users are able to submit written or oral complaints against their bills or the services provided by the companies comprising the Group.

The citizens and the users of municipal services can access and pay their bills online using three independent systems, which are, each in its own domain, used to communicate with users, deliver bills and present information about municipal services: web app MOJ VIO ("My Water Supply and Drainage"), operated by Water Supply and Drainage Ltd.; web and mobile app MOJ RAČUN ("My Bill"), operated by Zagreb City Gasworks-Supply Ltd.; and the system for the delivery of utility bills and One Utility Bill into the Personal User Mailbox and mobile app mPretinac, operated by the e-Citizens service provided by the Central State Portal.

The Consumer Complaints Committee ensures the protection of consumer rights of the Group's customers. In the first instance, consumer complaints are investigated by special committees set up at subsidiaries and affiliates, which look into the complaints against the services provided by the particular subsidiary or affiliate. When the Consumer Complaints Regulations were adopted, a Committee was set up at Group level as a second-instance body to decide about consumer complaints related to services from the Group's registered activities as per the Consumer Protection Act (Official Gazette of the Republic of Croatia 41/14, 110/15). This Committee raised the protection of consumers from possible malfeasance to a higher level. Impartiality was ensured by appointing representatives of consumer protection associations into the Committee in addition to Group employees. The Committee met 40 times in 2016 and reviewed 752 complaints, more than 50% of which were resolved in the applicant's favour.

In line with its long-standing practice of corporate social responsibility, the Group strives to be a reliable partner to the community that it operates in, investing a systematic effort in recognising the specific needs of the society, and supporting quality humanitarian, cultural, educational, environmental, healthcare, scientific and sports projects through its sponsorships and donations programme. The principles, the criteria and the procedure for awarding sponsorship and donations in the Zagreb Holding Ltd. are defined by the Regulations on Sponsorship and Donations, which were adopted in early 2016. All approved sponsorships and donations are publicly available on the website of the Company Zagreb Holding Ltd., which contributes to transparency and promotes trust in our users. The system of financial supports and supports in kind to civil society organisations as permitted by our capacities is a part of the Group's efforts to contribute to the well-being of the community that we live and work in. In collaboration with the local self-governments and civil society organisations, the Group strives to balance out the demands for an improved quality of life, social well-being, and efficient and profitable operations of the municipal service providers

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

CUSTOMER CENTRE
All information in one place
Submit applications and complaints
Pay utility bills free of transaction fees
Check the balance of your bills

CALL CENTRE
Direct communication with customers
24 hours a day, 365 days a year

CONSUMER PROTECTION COMMITTEE
A second-instance body available to customers who are unhappy with the decisions of first-instance bodies at subsidiaries and affiliates

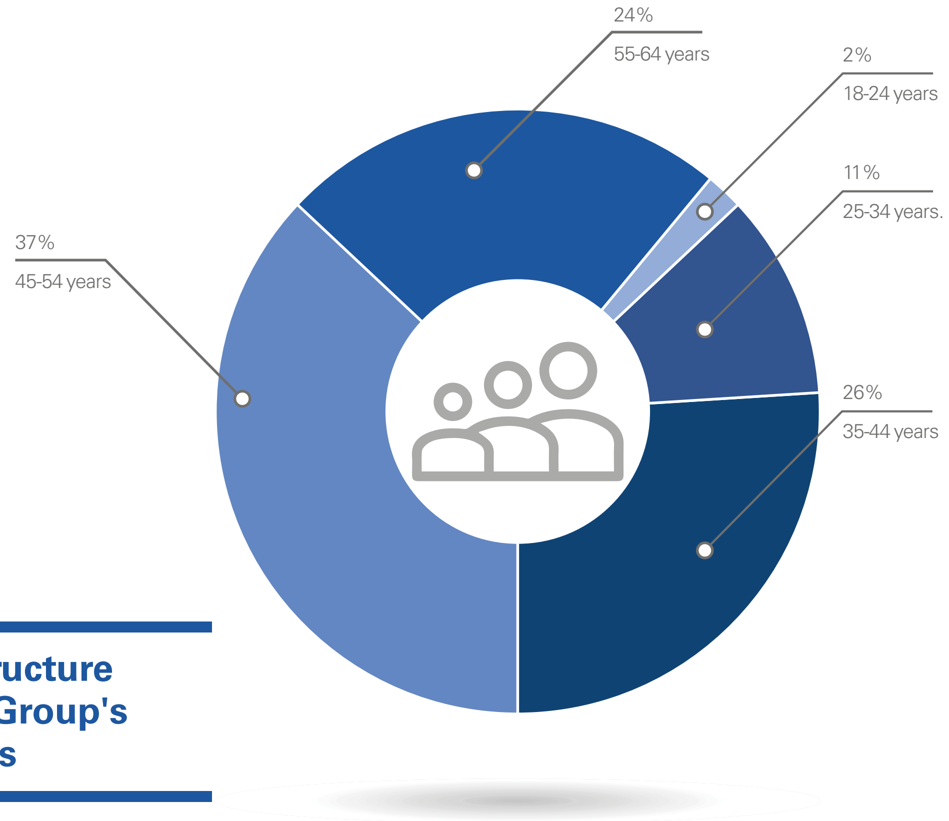
ETHICS COMMITTEE
Resolves complaints about illegal and/or unethical actions in our operations.

IRREGULARITIES COMMITTEE
Reviews memos and complaints and notifies the Company's Management Board to help permanently eliminate possible irregular, unprofessional or illegal activities

3.1.3. Responsibility to the Group's workers

In addition to devoting efforts to its impact on the society as a whole and the satisfaction of the users of its services, the Group devotes special attention to the well-being of its workers. Our workers are our most valuable asset, and they play a pivotal role in building an efficient system with potentials to deliver a quality service to the citizens and the businesses of the City of Zagreb. On 31 December 2016, the Group employed 10,394 workers or 252 workers fewer than on 31 December 2015, when it employed 10,646 workers.

Description	31 Dec 2016	31 Dec 2015
Number of workers	10,394	10,646
% women in the total number	23	23
% women in management positions	57	64
Number of active trade unions	31	31



Age structure of the Group's workers

On 31 December 2016, the Group employed 2,527 older than 55 (24% of all employees):

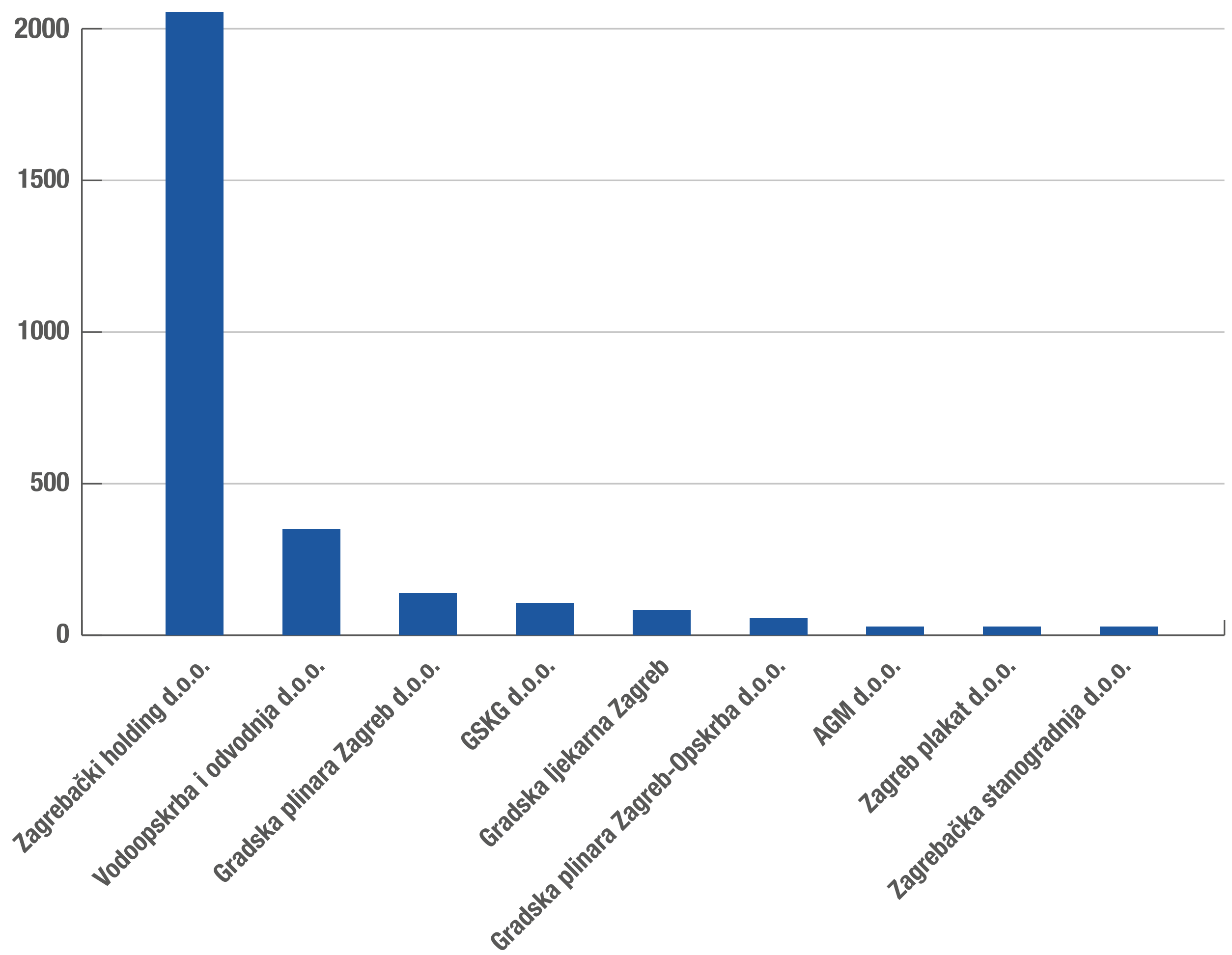
DESCRIP.	TOTAL	AGE						
		under 19 years	20-24	25-34	35-44	45-54	55-64	65 and older
Total	10.394	1	155	1.173	2.689	3.849	2.525	2

The Group enforces the provisions of the Labour Act requiring companies to inform the workers about all issues of particular relevance for their economic and social positions, and to consult the workers before making decisions of relevance for their position, or to make such decisions jointly in cooperation with the worker's council or the trade union commissioner. Some of these provisions have been incorporated in the internal acts of the Group's companies, fostering a partnership with the trade unions and the workers' councils set up and active at the Group's companies.

Special attention is paid to the protection and promotion of the rights of persons with disabilities. Hundreds of Group employees with varying degrees of disability successfully participate in challenging and diverse activities at all of the Group's companies on a daily basis.

To increase efficiency, the Group strives to provide continuous training and education to its workers. 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

Structure of workers over 55 years of age in the Group's companies



Research, development and environmental protection activities

Grupa kroz svoju svakodnevnu djelatnost te usluge koje pruža graIn line with the principles of sustainable development, the Group makes an effort to help improve the relationship toward the environment through its everyday activities and the services it provides to the citizens of the City of Zagreb.

Following its corporate guidelines and the legal regulations in environmental protection, the Zagreb Holding Group makes an effort to contribute to increasing energy efficiency, reducing carbon dioxide emissions, optimizing fuel consumption, and constantly improving its services and the quality of life in the social community that it operates in through its activities.

To ensure the implementation of the latest sustainability principles in environmental protection at all times, the Green Office of the Zagreb Holding has been systematically facilitating training workshops for the employees since 2011. The Office works to raise the awareness and the knowledge of the employees of Zagreb Holding Group about energy efficiency and to thus save money by conserving energy.

Some of the Group's business processes are linked with the generation of emissions. All relevant environmental protection regulations are applied in these processes, which are monitored by management systems. The Group's companies follow all relevant environmental protection regulations, and their activities are likewise monitored by management systems. The Group continually works to establish and maintain international environment management standards (ISO 14001), energy management standards (ISO 50001), food/drinking water safety management standards (ISO 22000), and information safety management standards (ISO 27001) as the best tools to attain corporate social responsibility. It is important to underline that the ISO 50001 standard will have the most important influence on reducing greenhouse gas emissions. Following the standards of environmental and social responsibility, the Group aligns its operations with the National Green Public Procurement Action Plan 2015-2017, With a View on 2020. 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 carbon 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. The so-called standards that we introduced apply to several priority categories: printing and copying paper, motor vehicles, electrical power, cleaning services, telecommunications services, and office and IT equipment. Such public procurement is characterised by lower greenhouse gas emissions, use of recycled materials, lower consumption of electrical power, use of electrical power generated from renewable sources, and restriction of the use of agents that have a negative impact on the environment.

In addition to making environmental protection a part of the everyday activities of the Zagreb Holding employees, the Group also implements various measures and activities to encourage the local community to be responsible in its behaviour toward the environment. The Group thus strives to involve the other stakeholders and work together with them to achieve a much stronger positive environmental protection impact.

Encouraging citizens to sort waste is the first of our objectives. To accomplish this, we set up containers for separate collection of different types of waste, provided the service of bulky and other waste removal, and built new recycling centres and "recycling islands". All of these measures reflect the principles implemented in the Group's environmental protection strategy.

Until the end of 2016, the mTEO plant had been the only facility in Croatia generating electricity from landfill gas.

The number of "green islands" was increased from 242 to 607 in 2016. As of August 2016, we intensified the distribution of separate waste paper bins to our customers. A total of 37,000 individual customers had bins for separate collection of waste paper at the end of 2016. We reduced the amount of waste deposited at the landfill and increased the amounts of usable waste that gets recovered by introducing the service of bulky waste removal at customer request only, along with manual sorting of the collected bulky waste and the waste from illegal dumps.

To fulfil our legal obligation to ensure that there is a minimum of one functional recycling centre in each district of the City of Zagreb, we acquired five mobile recycling centres in early 2016 – mobile units that provide recycling centre services to the citizens in the districts Podsljeme, Trnje, Brezovica, Trešnjevka-South and Upper Town-Medveščak.

We also started the construction of a new recycling centre in Klara (Sisačka Street) and started the preparations for the construction of new recycling centres in Žitnjak (Čulinečka Street) and Sesvete (Sopnica Jelkovec estate) in 2016.

The Group had continually and actively implemented environmental protection measures in 2016 through its subsidiary ZGOS by ensuring proper functioning of the Prudinec/Jakuševec Landfill, built based on the construction permit and the approved amendments to the main project design. A certificate of occupancy was obtained for the closed section of the Landfill in 2014.

The activity of waste disposal using the D1 procedure is performed at the Prudinec/Jakuševec Landfill in line with the permit for the performance of waste management activities from July 2015.

The subsidiary ZGOS monitors the state of the environment in line with the Decision on Integrated Environmental Protection Conditions for the Prudinec/Jakuševec Landfill from September 2016.

In July 2016, the Ministry of Environmental Protection and Energy initiated the procedure of reopening the procedure of establishing the environmental permit for the Prudinec/Jakuševec Landfill. We expect the procedure of reopening the procedure of establishing the environmental permit to be concluded in 2017 and a new environmental permit to be issued, possibly with new conditions proscribed by the relevant authorities.

A detailed monitoring of the state of the environment is conducted at the landfill. The monitoring includes air quality monitoring, meteorological parameter measurement, measurements of landfill gas composition, measurement of leachate, surface water and ground water quality, 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.

To avoid harmful emission into the environment and to use gas for energy generation purposes, landfill gas is collected and processed in a controlled manner at the Prudinec/Jakuševec Landfill. The small thermal power plant mTEO had been the only plant in Croatia to generate electrical power from landfill gas by the end of 2016. The plant for the generation of electrical power from landfill

gas protects the ozone layer, avoids greenhouse effect, and produces electrical power and heat from the collected landfill gas.
mTEO extracted 12,955,585 m3 of landfill gas from the landfill body in 2016 and generated 19,006,584 kWh of electrical power, which constitutes an increase of 1,482,440 kWh compared to 2015. With respect to the generation of electrical power and the exploitation of landfill gas, this is a substantial reduction of greenhouse gas emissions.
The subsidiary ZGOS generates electrical power in line with the licence issued by the Croatian Energy Regulatory Agency in May 2013 and the Decision Granting Privileged Electrical Power Generator Status from December 2014. The generated electrical power is marketed in line with the Power Purchase Agreement from a Facility Using a Renewable Energy Source signed with the Croatian Energy Market Operator Ltd.
In 2016, the Group continued to apply the results and experiences obtained during the projects Civitas Elan and Clean Fleets by using environmentally friendly fuels in accordance with sustainable development principles: biodiesel fuel in City Waste Disposal and natural gas in Zagreb Electric Tram (ZET). This is in line with the "Clean Vehicles Directive", which aims to support public authorities and companies providing public transport services in orientation on the use of environmentally friendly and energy efficient vehicles. Natural gas is almost an ideal fuel in environmental terms because its combustion in the vehicle engine produces hardly any particle emissions, and the exhaust gases are odourless. By using regulated exhausts, the buses running on compressed natural gas minimize the emission of harmful gasses into the atmosphere. Most importantly, nitrogen oxide (NOx) emissions are cut by 95% and carbon dioxide (CO_2) emissions by 25%. ZET confirms its title of alternative fuels ambassador with these figures, having cut annual CO_2 emissions by approximately 3,500 tonnes through the use of alternative fuels, which is an impressive figure considering the distance travelled by ZET's vehicles.
The Group continued its environmental protection activities in 2016 through two projects co-financed by the European Union's programmes in the Horizon 2020 programme. City Waste Disposal is the coordinator and initiator of the Bin2Grid Project, aimed at implementing and promoting the possibility of sustainable management of food waste and its exploitation in the production of biofuels. Statistics show that approximately 40% of the food waste ends up at landfills, and that almost 90 million tonnes of food waste is generated in the EU every year. Considering these amounts of waste and the EU's 2020 objectives, it is possible to use biofuels produced from food waste to cover a third of the renewable energy needs for transport purposes. Eight partners from EU member states are participating in the project, and Zagreb, Skopje, Malaga and Paris are the target cities. Planned project duration is three years (by the end of 2017).
PPI4Waste (Public Procurement of Innovation for Waste), aimed at identifying advanced technologies and processes in the waste management sector and developing green public procurement capacities, is the second project that City Waste Disposal is involved in as a partner. Eight partners from different EU member states participate in this project, and planned project duration is 2.5 years.
In addition to these two projects, environmental protection related projects REEF2W (Increased Renewable Energy and Energy Efficiency by Integrating, Combining and Empowering Urban Wastewater and Organic Waste Management Systems) and SIM4Urban (Sustainable and Integrated Management of utility infrastructure for functional urban areas) applied for the EU programme Interreg Central Europe II.
REEF2W deals with increasing the utilisation of renewable energy sources and improving energy efficiency through the implementation of a sustainable waste management system for various types of organic waste. SIM4Urban aims to establish an infrastructure service network interoperable in planning, installation, documentation and operation, which should minimize the negative impact on the environment and influence the consumption by the end consumers through the prices of energy resources.
The proposed projects are very important for the Group because continual advancement of the waste management system and responsible treatment of the environment are among the Group's priorities.
To conserve our environment and make sure that the City of Zagreb can "breathe at full capacity", Zagreb Holding Ltd. plants new seedlings at public parks and tree avenues every year. We planted 1,755 seedlings in 2016. Having in mind that every tree has the capacity to absorb almost 22 kg of CO_2 in one year, we can conclude that the new seedlings alone will absorb almost 38,610 kg of CO_2 per year.
Always keeping the City of Zagreb clean and tidy for our citizens and tourists is another one of our important principles. To make this happen, our hardworking employees manually cleaned almost 782,321,600 m^2 of public traffic areas in the City of Zagreb in 2016..
In addition to all of the above activities, the Group initiates and participates in a number of educational campaigns aimed at 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, work with the relevant city authorities, the relevant ministry, the Environmental Protection Agency, and the Environmental Protection and Energy Efficiency Fund, collect information for the Environmental Pollution Register and deliver it to the City of Zagreb Environmental Protection Office and the Environmental Protection Agency on an annual basis, and implement the Environmental Management Project in the Group by keeping an inquest register about the generation and course of waste, and its disposal.

Projects financed through funds and EU funding instruments

Preparation of projects eligible for co-funding through the ESI funds continued in 2016.
The team for the preparation and management of projects co-funded with grants from EU funds and state aids was established at Zagreb Holding Group level. One of the priority tasks of the team members is to propose and prepare projects from their own domains. A project database was established based on their input.
The possibility of project co-funding through the so-called ITI mechanism (Integrated Territorial Investments) as an extra source of funding in addition to the ESI funds and the Environmental Protection and Energy Efficiency Fund was presented to the team and to the directors of Holding subsidiaries and affiliates in late 2016. The following project ideas were subsequently sent to the City Office for Programmes and Projects for EU Funds in December 2016: Branimir Market, Centralised Public Garage Management System, Investment in Electrical Vehicle Charging Stations, Electrical Bicycles for the Public Garage System, Installation of Parking Sensors for Parking Spot Control, Energy Efficient and Environmentally Friendly Lighting at Public Garages, Improvement of Tram Efficiency in Zagreb-PoTEZ, Revitalisation of the Funicular Railway, Major Tram Line Maintenance, Track Reconstruction on the Line Mihaljevac-Dolje, Bus and Tram Vehicles, Assessment of the State of the Electrical Energy Network, Reconstruction of the Electrical Energy Network, Traffic Monitoring and Management System, Tram Depot Reconstruction, Passenger Counting System, Energy Efficiency of Buildings, Computerisation and Digitalisation of the Existing Blueprint Database, Construction of New Tram Storages, Construction of Electrical Vehicles Charging Stations in the Subsidiary Zagreb Freight Station, Business Unit Žitnjak – Production of Strategic Expansion Project, Youth City Granešina Revitalisation Project, Zagreb City Gasworks Ltd. – Redevelopment of Buildings 28 and 29 (former workshop and washroom) and Redevelopment of Building 24 (former carpentry workshop). Thematic workshops and decisions about the ideas that will be further developed and the projects prepared for application to calls for tenders are expected in 2017.
Several projects with potential for co-funding from EU funding instruments were identified in transport and city public transport: Advancement of Tram Traffic in Zagreb (TRAM Project), Tram Electrical Energy System (TRES Project), Procurement of Electrical Buses (EL_BUS Project), Revitalisation of the Funicular Railway, New Tram Depot, New Mini Tram Storage, Trešnjevka Tram Repair Shop Hall, Tram Workshop Hall, Bus Vehicle Procurement Project, Tram Vehicle Procurement Project, Major Tram Line Repairs.
Pursuant to an agreement with the JASPERS (European Commission's technical assistance instrument created in cooperation with the European Investment Bank (EIB) and the European Bank for Reconstruction and Development (EBRD), offering support to infrastructural projects (Joint Assistance in Supporting Projects in European Regions), two sets of activities to be undertaken were identified in 2015, and work on these activities continued in 2016 for the purpose of obtaining co-funding for the aforementioned public transport projects from European Structural and Investment Funds:

1] Production of a technical analysis of the current situation and identification of the most critical problems in the City of Zagreb public transport system that will be able to obtain funding as projects that have no alternative (so-called 'No regret' projects), i.e. projects that can be implemented independently of the implementation of the Traffic Masterplan.

2] The technical analysis will be followed by the production of the ZET Development Strategy as a supplement to the Traffic Masterplan prepared for the wider city area, whose purpose is to improve the sustainability of ZET's operations and to ensure the sustainability of public transport in the City of Zagreb. The strategy is supposed to comprise two sections, an analytical section and a development section. The development section needs to identify ZET's systematic needs and priorities, ways to improve ZET's operations, and ways to maintain the stability of public city transport.

Pursuant to the above, the preparation of the "No Regret" project Procurement of 15 Bus Vehicles, which will be realised in 2017, started in 2016. A project feasibility study was produced and approved by the JASPERS mission and the Ministry of the Sea, Transport and Infrastructure.

Zagreb Holding Ltd. and its subsidiaries ZET and Zagrebparking continued their participation in the production of the Traffic Masterplan for the Zagreb Metropolitan Area. The company Integrated Traffic in Zagreb Area ("Integrirani promet zagrebačkog područja-IPZP") is the project leader. The Masterplan encompasses the transport projects of the Zagreb Holding with a medium-term and long-term perspective, such as Development of Infrastructure and Parking System Complementing Public Transport (Park&ride system), and related introduction of the Single Public Transport and Parking Ticket System. The Traffic Masterplan, which serves as the basis for project application for EU funding, also has to be aligned with the Traffic Strategy of the Republic of Croatia, which maps Croatia into six regions (Zagreb and five surrounding counties are grouped in one region).

The potential for applying for EU funding from the Operating Programme Competitiveness and Cohesion 2014-2020 (Priority Axis 6: Environment and Resource Efficiency) with waste disposal and management projects in subsidiaries City Waste Disposal, ZGOS and Zrinjevac is much greater than has been realised so far, but it depends on the alignment of the City Waste Management Plan with the Waste Management Plan of the Republic of Croatia, which is in production. Realisation of bigger projects in the City of Zagreb can start only after the new Waste Management Plan has been adopted.

The Group started the preparation of "No regret" projects in waste management, such as procurement of bins for separate waste collection, containers, trash cans and supporting machinery/vehicles, as well as the construction of mobile recycling centres, through the subsidiary City Waste Disposal.

The Group has continued the implementation of projects Bin2Grid and PPI4Waste, which are co-funded through EU programmes.

Bin2Grid applied for funding directly to the European Commission in the Horizon 2020 programme. It deals with the possibility of separate collection of food waste for the purpose of biomethane production and its use as a fuel through a local network of filling stations. Increasing the production of energy from renewable sources through sustainable waste management in four cities, Zagreb, Skopje, Malaga and Paris, is the expected result of the project. The project started in 2015 and its planned duration is three years. City Waste Disposal is the project coordinator. Total project budget is EUR 800,000, of which the share of the City Waste Disposal is EUR 95,000 or HRK 712,500.

Two other environmental protection projects, REEF2W and SIM4Urban, applied for funding in 2016.

REEF2W (Increased Renewable Energy and Energy Efficiency by Integrating, Combining and Empowering Urban Wastewater and Organic Waste Management Systems) applied for funding in the Interreg Central Europe II programme. It aims to increase the utilisation of renewable energy sources and improve energy efficiency by implementing a sustainable management system for various types of organic waste. The proposed project is important because continual advancement of the waste management system and responsible treatment of the environment is one of the Group's priorities. Italian national agency ENEA is the project coordinator, and City Waste Disposal is one of 11 project partners. Total project budget is EUR 2,384,000, of which the share of the City Waste Disposal is EUR 200,000.

SIM4Urban (Sustainable and Integrated Management of utility infrastructure for functional urban areas) applied for funding in the Interreg Central Europe II, aimed at creating a utility infrastructure network interoperable in planning, installation, documentation and operations, which should reduce the negative impact on the environment and influence the demand by end consumers through the prices of energy resources. The project develops the tools for a joint approach to the spatial modelling of different networks and for online management of the networks. University of Ljubljana is the project coordinator, and Zagreb Holding is one of 12 project partners. Total project budget is EUR 2,700,000, of which the share of Zagreb Holding is EUR 188,000.

Other projects were identified in subsidiaries Zrinjevac, Zagreb Markets and Zagreb Freight Station that are expected to have the potential for co-funding through the Environmental Protection and Energy Efficiency Fund or through Operational Programmes, and the preparations for these projects were launched. The projects of the subsidiary Zrinjevac are: Reconstruction of Jankomir Boiler Plant, including a transfer from natural gas to wood biomass, with a power of 500kW; Reconstruction of Remetinečka Boiler Plant, including a transfer from natural gas to wood biomass, with a power of 2MW, and construction of the Regional Biomass Logistic Centre for energy needs in Jankomir. Zagreb Markets project pertains to the Reconstruction of the Office Building of the Branimir Market, for which the possibility of co-funding through the ITI mechanism was identified, and the project was entered into the project database of the City of Zagreb as such. Zagreb Freight Station has the project of Strategic Expansion of Business Unit Žitnjak, including container terminals and goods and cargo traffic.

The Group continued to work on reinforcing human resources for the preparation and implementation of EU projects in 2016.

The implementation of two projects co-funded through EU funds is in progress in the Company Water Supply and Drainage Ltd.:

1. Preparation of project and study documentation and application package for EU co-funding for Agglomeration Zagreb and Agglomeration Glavničica - co-funded in two ways: through the Ministry of Agriculture (now the Ministry of Environmental Protection and Energy) and through the Ministry of Regional Development and EU Funds.

The project applied for funding to the Restricted Call for the Delivery of Project Proposals EN.2.1.11. for grants from the Cohesion Fund in the Operational Programme "Environmental Protection", designed for projects of preparation of infrastructural projects in water management, which supports efficient and timely implementation of the Operational Programme "Environmental Protection" and helps the preparation for the use of funds from the EU financial perspective 2014-2020. The Grant Agreement between the Ministry of Agriculture (now the Ministry of Environmental Protection and Energy), Croatian Waters ("Hrvatske vode") and Water Supply and Drainage Ltd. as the beneficiary was signed on 23 December 2014 (EU co-funding 85%, own funds 15%). Project Co-Funding Agreement was signed by the Ministry of Agriculture, Hrvatske vode, City of Zagreb (partner) and Water Supply and Drainage Ltd. on 15 June 2015.

The project also applied for co-funding through the Ministry of Regional Development and EU Funds for the share of funding by own funds amounting to 40% through the Fund for the Co-Financing of the Implementation of EU Projects on Local and Regional Level for 2015. The Grant Agreement between the Ministry of Regional Development and EU Funds and Water Supply and Drainage Ltd was signed on 7 January 2016.

According to the applied project, implementation is planned through two secondary agreements:

- 1. Secondary Agreement "Production of project documentation (preliminary and main designs) for the reconstruction and construction of the drainage system in agglomeration Zagreb – drainage network of the eastern area of the district Sesvete (Črnec Creek confluence); expansion of the drainage network in the estates Mikulići, Fraterščica, Lukšić and Bijenik; construction of II Parallel Collector; and agglomeration Glavničica (north-eastern section of District Sesvete) and the production of tender documentation for the procurement of works".

HRK 21.6 million of grants was approved and paid for the above from the Cohesion Fund by 31 December 2016.

- 2. Planned Secondary Agreement "Preparation of Conceptual Design for the Construction of the 3rd degree of treatment at the existing central wastewater treatment facility of the city of Zagreb" – within the scope of authority of the City of Zagreb.

2. Second project – Planned construction of main water supply pipeline Aleja Bologne-Lisičina is worth HRK 22.7 million.

The project applied to the Restricted Call EN.2.1.16 for grants from the Cohesion Fund in the Operational Programme "Environmental Protection" for the realisation of investment projects pertaining to minor parts of public water supply/drainage systems aimed at contributing to integral agglomeration solution and integral solution in the water supply area as per the Implementation Plan for Water Utility Directives. The Grant Agreement between the Ministry of Agriculture (PT1), Croatian Waters (PT2) and Water Supply and Drainage Ltd. (beneficiary) was signed on 3 March 2016 (EU co-funding 64.4%, Water Supply and Drainage Ltd. 10%, Croatian Waters 25.6%). Project Co-Funding Agreement between the Ministry of Agriculture, Croatian Waters and Water Supply and Drainage Ltd. was signed on 3 March 2016.

HRK 13.7 million was realised from the Cohesion Fund and HRK 5.5 was realised from the Croatian Waters funds by 31 December 2016.

The Company Water Supply and Drainage Ltd. also participated in the preparation of the project "Advanced Energy Management in Buildings and Infrastructure (CEKOM GEZI)" in 2016. The project will be implemented in Operational Programme Competitiveness and Cohesion, Priority Axis 1 – Strengthening the Economy by Applying Research and Innovation, Investment Priority 1b – Promotion of business investments in innovation and research, and development of connections and synergies between companies, research and development centres, and higher education, Specific Objective 1.b.2. Increasing the activities of research and development in the business sector by creating a favourable investment environment. In November 2016, the project applied to the Call for Expressions of Interest in the Fulfilment of Criteria for the Application to the Restricted Call for the Delivery of Project Proposals supporting the development of Competence Centres. 21 partners are participating in the project. The project of preparation of the project for the application to the Restricted Call for the Delivery of Project Proposals for the project CEKOM is in progress.

3.2.2. Establishment of highly efficient, reliable and safe IT and telecommunications support to the Group's operations

The standardisation of software for different business areas remains our priority that we continued to work on intensively, implementing the following activities in business year 2016:

A Expansion of utilisation of the documentation management system

The programming system was upgraded in the archive management segment and a single archive system was set up for the Company Zagreb Holding Ltd.

B Uniform programming system for human resources management and salary calculation – advancement 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.

C Registry and One Utility Bill ("JUP")

The work on the alignment of data in the Registry and the upgrade of One Utility Bill continued throughout 2016.

The following results were accomplished through active support to the activities One Utility Bill Team:

- The Registry was linked with the Personal Identification Number ("OIB") system and automatic Personal Identification Number check was made possible,
- Zagreb Holding Ltd. was linked with the e-Citizens system and bill delivery in PDF format to the Personal User Mailbox was made possible,
- A digital archive of bills and forms in PDF format was created,
- A web service for the consolidation of registry information with the Company Water Supply and Drainage Ltd. was developed,
- Buyer cards accessible through the e-Citizens system were developed,
- Proposals for activities designed to further improve the project "Registry of Facilities and Users" were prepared,
- Users were offered the possibility to opt out of receiving printed bills using authorisation through the e-Citizens system.

Major capital infrastructural projects

In May 2016, the Company Zagreb Holding Ltd. completed the construction of the Svetice Swimming Pool Complex, and in September 2016 it completed the swimming pool and gym of the Iver Primary School in Sesvetski Kraljevec, turning over both facilities to the City of Zagreb for use.

The Company Zagreb Holding Ltd. started working on the project of reconstruction and construction of the Day Stay Hospital and Garage at the Sveti Duh Clinical Hospital in 2016.

The Company Zagreb Housing Construction Ltd. started working on the construction of the 1st Phase of the Podbrežje Project, which encompasses the construction of 608 apartments, whose completion is planned for December 2017. Out of the total of 608 apartments, the City of Zagreb will take over 400 for the housing needs of the citizens of the City of Zagreb, and 208 apartments are reserved for junior researchers in a project implemented by the City of Zagreb and the University of Zagreb, whose objective is to satisfy the housing needs of the University's junior research staff. In the Zagreb Housing Construction Model, a programme designed for the University, the City of Zagreb will subsidize interest rates for apartment buyers, and the housing loans and the apartments encompassed by the programme will be more affordable than the market prices.

According to the Urban Plan, the Podbrežje project comprises the following facilities:

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

Plans for the future development of the Group

Business transformation

The demerger and the incorporation of the first group of subsidiaries of the Company Zagreb Holding Ltd. in the commercial services segment in November 2013 (City Housing and Municipal Services Company Ltd., AGM, Zagreb Housing Construction and Water Supply and Drainage), and the demerger of a segment of the subsidiary Sports Facilities Management into an institution owned by the City of Zagreb in January 2014 started the transformation of Zagreb Holding Ltd. in a holding company in the true sense of the word.

The Group faces the challenges of advancing the operations of all its constituent parts in response to the requirements of competitive business while promoting technological advancement and improving the overall quality of its services. A carefully designed and implemented medium-term development strategy is one of the ways to address these challenges and a tool ensuring an active role in restructuring. For this purpose, the Management Board of the Company Zagreb Holding Ltd. adopted the Draft Development Strategy of Zagreb Holding in 2015, defining the development framework and the medium-term implementation action plan for the Company Zagreb Holding Ltd. and for the entire Group.

The development strategy was prepared based on a strategic analysis of the environment and of our capacities with the following objectivesa:

- To establish the strategic directions of organisational changes in the Group,
- To define priority areas for investments in advancement of operations, and
- To speed up the process of development of human resources in terms of education, skills and motivation, including management, control and excellence recognition and rewarding systems.

The Development Strategy of the Zagreb Holding 2014-2020 is vertically aligned with parent development documents and with one of the four proposed basic areas of financing for Croatia from the ESI funds for the period 2014-2020: "strengthening institutional capacities and fostering efficient public administration", which a number of strategic documents at the national level in the Republic of Croatia refer to. Also, an investment priority was identified under Priority Axis "Smart Administration" of the Operational Programme for Human Resources, which requires "investments in institutional capacities and efficient public administration and public services at the national, regional and local level in order to help reforms and good government". Finally, one of the priorities in the Strategic Objective "Advancement of the Development Management System", a part of the Development Strategy of the City of Zagreb – Zagrebplan, is "to improve the operations of the city administration, institutions and public companies.

The Group's development orientations

Going forward in the medium-term period, the Group's vision will be fulfilled by implementing activities and projects contributing to the realisation of three key strategic objectives:

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

The definition of strategic objectives and strategy as the instruments 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 governments and self-governments in the City of Zagreb, 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 the said objectives, the Group is also guided by the need to satisfy public interests and by sustainable profitability, the key elements being efficient cost management, advancement of business processes, and the development of an integrated information system on the reporting, management and operational level, alongside with carefully considered investments in the development of new and the improvement of quality of the existing services.

In line with the City's development guidelines, the corporate strategy envisages a strategic orientation on organic growth, a strategy of expansion for the municipal service portfolio, with an emphasis on efficiency and marginal profitability, and attainment of competitiveness and the industry leader position, or handover of the activity to the private sector if the cost of investments required to achieve an adequate level of operational efficiency is too high for the Group's companies, is planned for a selected portfolio of commercial services.

Going forward, we will continue to consolidate our operations in order to maintain a positive business result through stronger focus on income growth, cost control, and further improvements of business and management processes.

After several years of channelling investments in real estate properties and the renewal of the public transport system, which required substantial investments that were financed with credits, in the current conditions the investments are adjusted to real funding sources and should result, based on justifiability parameters, in more efficient allocation and more secure returns. Investments in municipal activities and human resources were chosen as the priorities and make up the foundation on whose efficiency the future development of the Group depends.

Planned future development of the Group

Measures for the planned future development of the Group

The Group's development measures are a specific framework for the definition of development projects and activities, project leaders, and framework funds required to implement each measure. They contribute to the fulfilment of strategic objectives underlined in the previous chapters and represent the 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.

The table below presents the objectives, priorities and planned measures for the Group's development in the period before 2020:

	Specific objectives	Planned measures
	Strategic objective 1: High-quality reliable public service	
1.1.	Advancement of the existing products, services and utility services	■ Improving quality standards in the existing way of providing services ■ Innovative solutions within existing products and services
1.2.	Development and integration of new products and services	■ New products and services directly linked with the existing market segments ■ Development in new market segments
	Strategic objective 2: Growth and development	
2.1.	Stable positive results	■ Preparation and implementation of bond refinancing ■ Lowering operating expenses ■ Increasing operating income ■ Asset, risk and financial liability management
2.2.	Organisation and corporate development	■ Status transformation and 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 users and citizens ■ Cooperation with local communities and civil society organisations
3.2.	Environmental conservation	■ Improvement of environmental parameters in the production of existing products and provision of services ■ Introduction of green technologies in business

Business analysis

Business result and financial position

In 2016 the Group posted a profit after tax amounting to HRK 74,932 thousand. The profit was lower by HRK 46,059 thousand compared to the result from 2015.

Description	2016	2015	Indexes 2016/2015
1	2	3	4 = 2/3
Operating income	5,045,106	5,208,768	96.9
Operating expenses	(4,851,443)	(4,991,471)	97.2
Financial income	237,116	224,863	105.4
Financial expenses	(320,469)	(298,863)	107.2
Total income	**5.282.222**	**5.433.631**	**97,2**
Total expenses	**(5.171.912)**	**(5.290.334)**	**97,8**
Profit before tax	110.310	143.297	77,0
Tax expenses	*(35.378)*	*(22.306)*	*158,6*
Profit after tax	74.932	120.991	61,9
Profit from operating activities	*193.663*	*217.297*	*89,1*
Loss from financial activities	*(83.353)*	*(74.000)*	*112,6*

The Group's business result in 2016 was lower compared to the result in 2015 as the result of changes in the Group's operations. The most important changes were:

■ Lower profit from gas sales and distribution resulting from lower tariff items for the distributed quantity of natural gas (Ts1) in 2016 (lowered by 38% compared to 2015). Tariff items were lowered by virtue of the decision of the Croatian Energy Regulatory Agency from December 2015. Also, the decision of the Croatian Energy Regulatory Agency on the amounts of tariff items for public service obligation gas supply (for the customer category "households") for the period from 1 April to 31 December 2016 entered into force on 1 April 2016. This Decision lowered the cost of gas supply for the public service obligation substantially (by 25%), which lowered the end price of gas by about 20%.

■ The introduction of the new billing system for the service of waste disposal in November 2015. Unlike the old system, which had been based on the floor area of the real estate property, the new system is based on collected waste volume. Lowering the charges for all users, we allowed them to pay less while maintaining the standard and the quality of the services we provide. The number of pickups was reduced from three to two a week as of 1 August 2016, which lowered the Group's income in the segment of cleaning and waste disposal even further.

■ Lower income from passenger transport resulting from the lower prices of transport services for secondary school students, all full-time students, unemployed persons, pensioners and social welfare beneficiaries as of 1 November 2015.

■ Higher staff costs resulting from the enforcement of Annex V to the Fundamental Collective Agreement for the employees of the Company Zagreb Holding Ltd., under which the caps on Christmas and holiday bonuses restricting them to the total amount of HRK 2,500.00 (tax exempt amount) ceased to apply as of 1 January 2016, and the employees received HRK 2,884.87 for each bonus.

■ Lower income from water distribution resulting from the lower variable charge contained in the water supply price introduced on 1 November 2015 and lower prices of water delivery to the public supplier Komunalac Vrbovec Ltd.

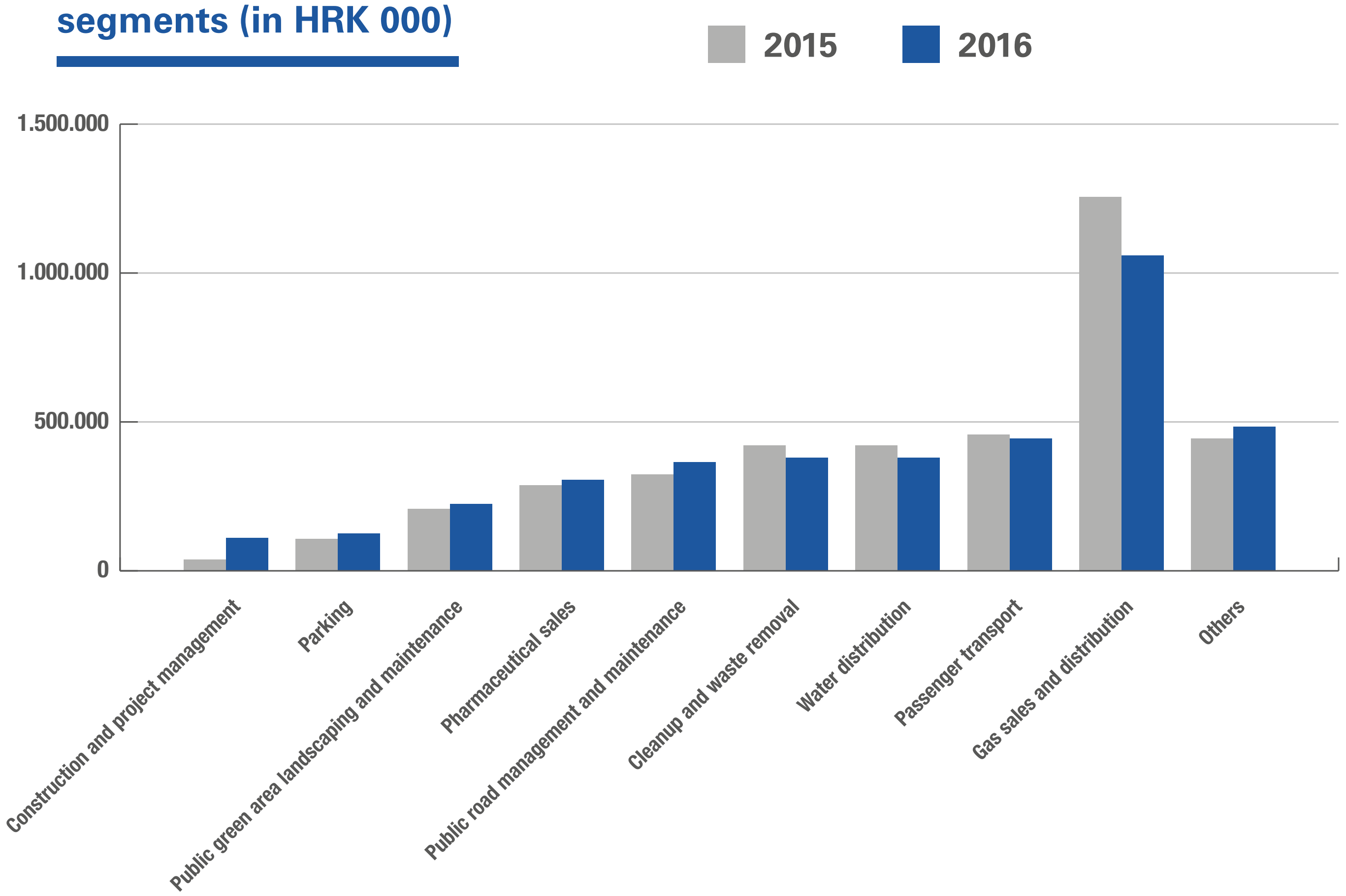
Profit and loss account and other comprehensive profit report

Description	2016 in 000 kn	2015 in 000 kn	Indexes 2016/2015
1	2	3	4 = 2/3
OPERATING INCOME			
Sales income	3.842.428	3.911.030	98,2
Other operating income	1.202.678	1.297.738	92,7
Total operating income	**5.045.106**	**5.208.768**	**96,9**
OPERATING EXPENSES			
Cost of material and services	(2.273.534)	(2.226.015)	102,1
Staff costs	(1.609.351)	(1.512.561)	106,4
Depreciation	(548.140)	(548.205)	100,0
Value adjustments	(167.283)	(461.319)	36,3
Provisioning	(107.998)	(141.617)	76,3
Other operating expenses	(145.137)	(101.754)	142,6
Total operating expenses	**(4.851.443)**	**(4.991.471)**	**97,2**
FINANCIAL INCOME	**237.116**	**224.863**	**105,4**
FINANCIAL EXPENSES	**(320.469)**	**(298.863)**	**107,2**
TOTAL INCOME	**5.282.222**	**5.433.631**	**97,2**
TOTAL EXPENSES	**(5.171.912)**	**(5.290.334)**	**97,8**
PROFIT BEFORE TAX	**110.310**	**143.297**	**77,0**
Tax (expense)	*(35.378)*	*(22.306)*	*158,6*
PROFIT FOR YEAR	**74.932**	**120.991**	**61,9**
Other comprehensive profit			
Profit from revaluation less taxes	*86.675*	*88.541*	*97,9*
Profit from valuation of available-for-sale financial assets	*4.610*	-	-
Other changes in comprehensive profit	*(37.137)*	-	-
Total comprehensive profit for year	**129.080**	**209.532**	**61,6**

Total sales in 2016 amounted to HRK 3,842,428 thousand and were lower by HRK 68,602 thousand or 1.8% compared to 2015, mainly as the result of the following changes occurring in some segments of the Group's operations:

- Income from gas sales and distribution was lower by HRK 200,075 thousand as the result of lower tariff items for the distributed quantity of natural gas (Ts1) from 1 January 2016 and the lower prices of gas for households from 1 April 2016.
- Income from construction and project management was higher by HRK 105,739 thousand as the result of declaring income from the construction of public purpose facilities for the City of Zagreb according to IFRIC 12 Service Concession Agreements, under which the Group registers the construction phase as an expense for the period and simultaneously recognises the income according to the degree of completion of the project (IAS 11 Construction Contracts), which is the reason for the increase in the cost of materials and services in the materially most substantial amount.
- Income from water distribution was lower by HRK 11,980 thousand as the result of the fact that the variable charge contained in the water supply price was lowered as of 1 November 2015 from HRK 4.68/m³ to HRK 4,21/m³ for retail customers, from HRK 2.808/m³ to HRK 2.526/m³ for social welfare recipients, and to 4.68/m3 for other customers. The decrease is also the result of the lower water supply price for the public supplier Komunalac Vrbovec Ltd. (under the Temporary Measure ordered by the Water Services Council in July 2016).
- Income from cleaning and waste disposal was lower by HRK 54,041 thousand as the result of the new method of calculating the charges for the public service of removal and disposal of mixed municipal waste introduced on 1 November 2015, and as the result of reducing the number of weekly waste pickups from three to two as of 1 August 2016.
- Income from passenger transport was lower by HRK 32,220 thousand as the result of lower ticket prices introduced on 1 November 2015.
- Income from pharmacy sales was higher by HRK 16,881 thousand.
- Income from the landscaping and maintenance of public green spaces was higher by HRK 35,569 thousand and income from public road management and maintenance was higher by HRK 40,538 thousand as the result of more work for the City of Zagreb.

A breakdown of revenue by business segments (in HRK 000)

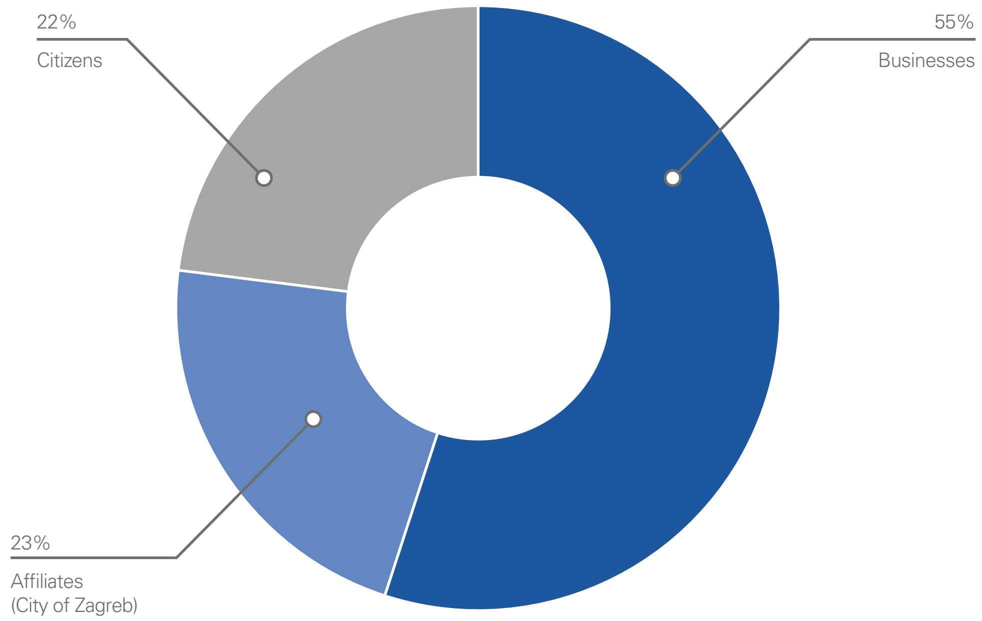


Business analysis

Considering that gas sales and distribution, water distribution, passenger transport and cleaning and waste removal accounted for a total of 60.5% of the Group's sales in 2016, the natural indicators of the company Zagreb City Gasworks Ltd, Zagreb City Gasworks-Supply Ltd., Water Supply and Drainage Ltd., Zagreb Electric Tram and City Waste Disposal are shown in the table below:

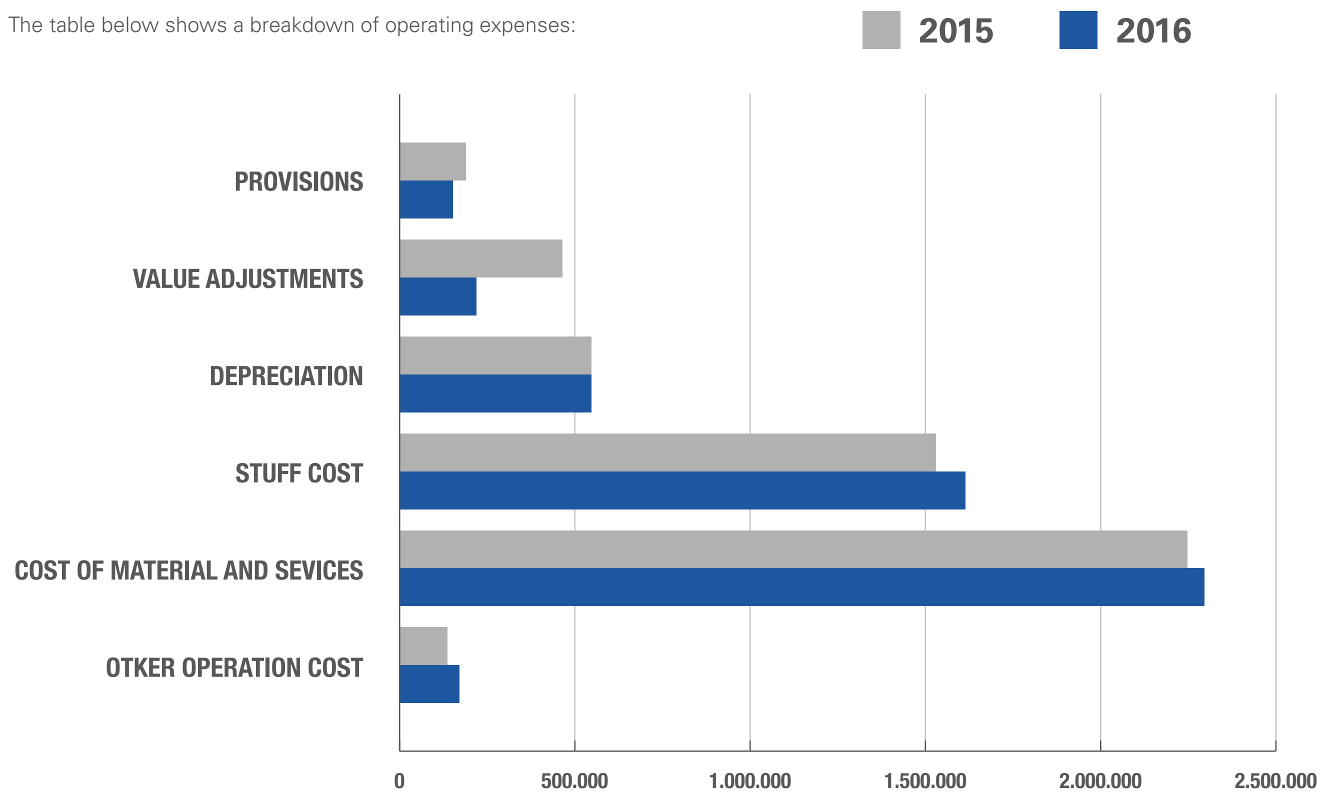
Company/Subsidiary	Basic types of services	Unit of measurement	Realised I - XII 2016	Realised I - XII 2015	Index
			4	5	6 = 4/5
Zagreb City Gasworks Ltd.	Quantities of natural gas distributed	kWh	3.921.476.993	3.784.420.222	103,6
	Number of distribution system users	piece	280.091	278.342	100,6
Zagreb City Gasworks-Supply Ltd	Natural gas supply	kWh	3.842.501.293	3.764.158.844	102,1
	Number of users	piece	291.061	291.389	99,9
Water Supply and Drainage Ltd.	Delivered water	m³	57.018.467	56.330.160	101,2
	Water consumption for business activities	m³	1.354.832	1.322.053	102,5
Zagreb Electric Tram	Single trip tickets – bought in the vehicle	piece	7.263.208	6.712.368	108,2
	Single trip tickets – bought outside of the vehicle	piece	4.160.614	5.159.088	80,6
	Day passes	piece	130.589	129.372	100,9
	Monthly passes – City of Zagreb	piece	773.140	728.856	106,1
	Yearly passes – City of Zagreb	piece	164.692	165.638	99,4
	Monthly passes – separate cities and municipalities	piece	79.718	80.700	98,8
	Yearly passes- separate cities and municipalities	piece	3.970	4.170	95,2
	E- wallet	piece	2.730.166	3.194.726	85,5
	Tickets – Funicular Railway	piece	168.750	197.616	85,4
	Tourist tickets	piece	11.947	6.901	173,1
	Tickets to Sljeme	piece	16.136	15.470	104,3
	Multiday coupons	piece	9.455	7.684	123,0
City Waste Disposal	Municipal waste collection and removal				
	a) Average monthly occupied floor area:	m2	2.650.000	29.671.000	8,9
	- households	m2	-	26.671.000	-
	- businesses	m2	2.650.000	3.000.000	88,3
	b) Average monthly bin volume for households	l	156.900.000	-	-
	Public traffic area maintenance	m2	1.117.823.455	1.048.859.214	106,6
	- Manual public traffic area cleaning	m2	782.321.600	723.290.214	108,2
	- Public traffic area cleaning using machinery	m2	152.920.000	150.801.400	101,4
	- Public traffic area washing	m2	182.581.855	174.767.600	104,5
	Collected waste:	t	265.126	251.651	105,4
	- Municipal mixed waste	t	229.726	223.300	102,9
	- Separately collected waste	t	35.400	28.351	124,9

Breakdown of the Group's sales by customer categories in 2016:



Other operating income amounted to HRK 1,202,678 thousand and was lower by 7.3% or HRK 95,060 thousand compared to 2015 as the result of the decrease in unrealised gains from the change in the fair value of investment properties (by HRK 168,340 thousand) based on the appraisal by a qualified and authorised real estate appraiser. Loss from the change in the fair value amounted to HRK 4,948 thousand, compared to profit from the fair value of investment properties amounting to HRK 10,913 thousand in 2015. Income from the reversal of provisions in the two compared periods was higher by HRK 60,823, thousand as the result of higher income from the reversal of provisions for material rights of the employees, and higher income from the reversal of provisions for litigations in line with an estimate by an attorney-at-law.

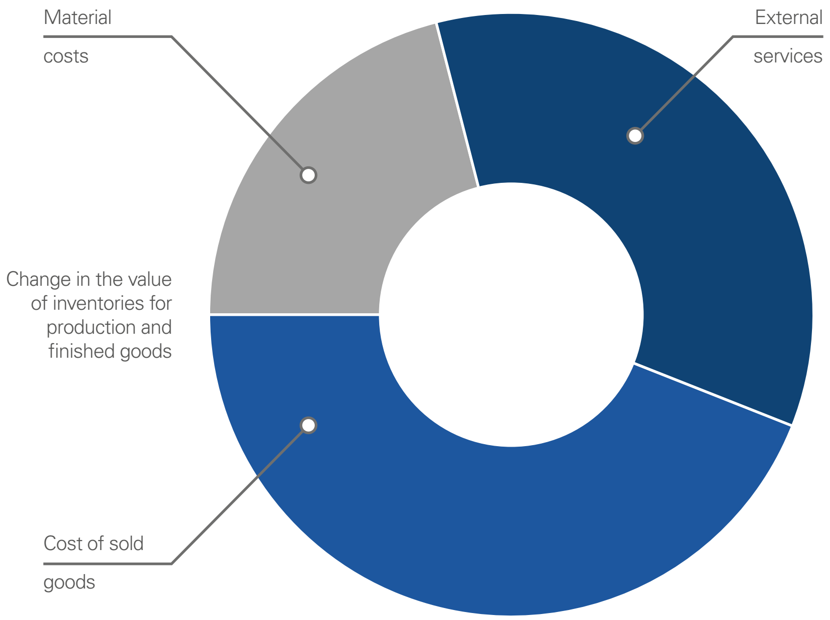
The table below shows a breakdown of operating expenses:



Business analysis

The cost of material and services in 2016 amounted to HRK 2,273,534 thousand and was higher by 2.1% or HRK 47,519 thousand compared to 2015 as the result of higher cost of raw materials and supplies (by HRK 19,871 thousand) and higher subcontractor service costs by HRK 132,389 thousand), which is the result of more work for the City of Zagreb. The cost of goods sold is lower by HRK 149,918 thousand as the result of the lower supply price of gas.

The breakdown of the cost of material is given in the table below:



Staff costs in 2016 were higher by HRK 96,790 thousand compared to 2015 as the result of higher gross salaries costs (by HRK 89,743 thousand), higher reimbursement of employee expenses, and higher expenses for other material rights of the workers (by HRK 7,047 thousand). Gross salaries costs were higher as the result of the higher average number of employees of the Group, as well as enforcement of Annex V to the Collective Agreement for the employees of the Company Zagreb Holding Ltd., which terminated the cap on Christmas and holiday bonuses, restricting them to a total of HRK 2,500.00 (tax exempt amount) as of 1 January 2016, and HRK 2,884.87 was paid to the workers for each of the two bonuses. The reimbursement of employee expenses and the expenses for the other material rights of the workers are higher mainly as the result of higher termination benefit costs (by HRK 4,048 thousand) and higher commuter benefits (by HRK 1,249 thousand).

Value adjustment costs in 2016 were lower by HRK 294,036 thousand compared to the result in 2015, mainly as the result of lower losses from investments in real estate properties (by HRK 152,479 thousand) and lower costs of value adjustments of current assets (by HRK 118,757 thousand). The most substantial decreases of current asset value adjustment costs were recorded in Zagreb Holding Ltd. (by HRK 49,608 thousand), Zagreb City Gasworks-Supply Ltd. (by HRK 31,285 thousand) and Water Supply and Drainage Ltd. (by 40,593 thousand). The decrease in current asset value adjustments of Zagreb Holding Ltd. is mainly tied to the lower sales of the subsidiary City Waste Disposal, lower current asset value adjustment costs of the company Zagreb City Gasworks-Supply Ltd., resulting from lower gas prices and better collection of regular receivables, and lower value adjustment costs of the company Water Supply and Drainage Ltd. are tied to lower sales and the absence of value adjustment of the receivables from the Company Dukom Ltd. (which was present in 2015.)

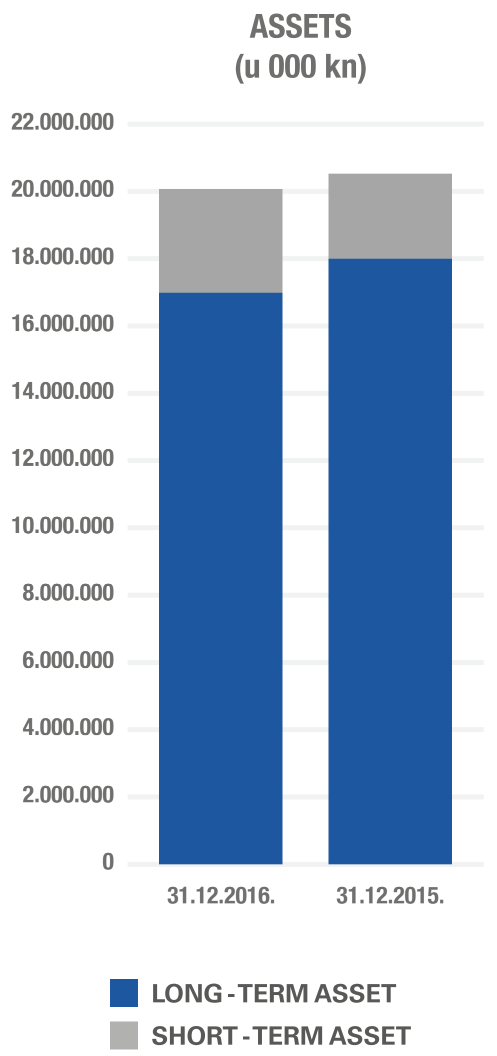
Provisioning costs in 2016 amounted to HRK 107,998 thousand and were lower by HRK 33,619 in the two compared periods as the result of lower provisions for material rights of the workers (by HRK 44,431 thousand), including provisions for termination benefits, long-service benefits and solidarity supports. Other provisioning for 2016 includes the costs of provisioning related to the difference between the feed-in tariffs and reference tariffs for kWh of electrical power delivered to the Croatian Energy Market Operator Ltd. by the subsidiary ZGOS due to the failure of the plant mTeo to achieve the 50% energy efficiency in instances when the use of the feed-in tariffs is permitted.

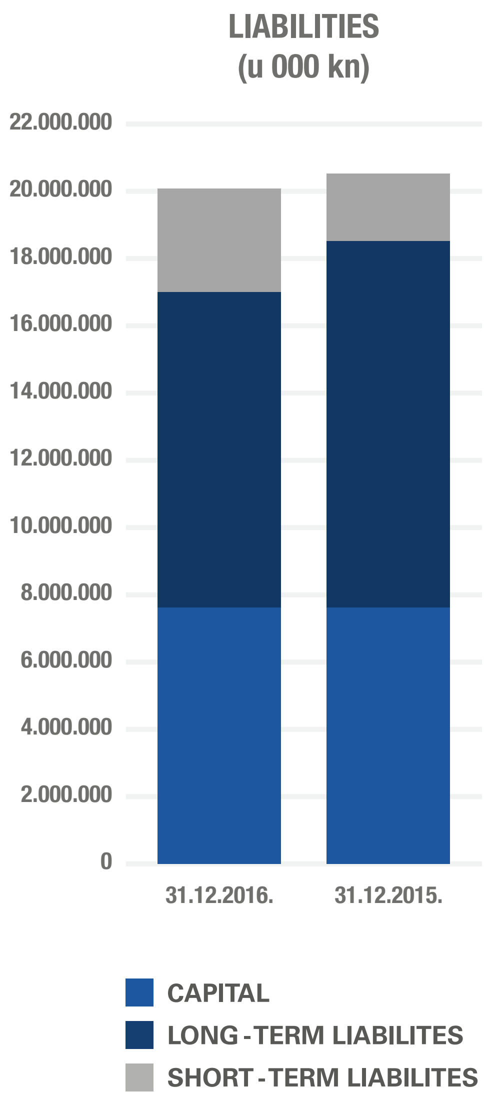
Other operating expenses in 2016 were higher by HRK 43,383 thousand compared to 2015, mainly as the result of higher costs of fines, penalties and damages (by HRK 32,930 thousand) and higher other expenses (by HRK 5.340 thousand). The largest amount of expenses for damages was incurred by the subsidiary ZGOS with the environmental tax amounting to HRK 65 per ton of municipal waste deposited at the Jakuševac Landfill, and the financial compensation paid to the residents of settlements near the Prudinec/Jakuševac waste disposal facility for the negative effect on their quality of life as per the conclusion of the City Assembly of the City of Zagreb from 5 June 2014. Other expenses include additionally found expenses, shortages, costs of inventories sold, and other expenses not elsewhere specified.

The Group's loss from financial activities in 2016 was higher by HRK 9,353 thousand in spite of higher profit from the ratio of positive and negative foreign exchange rate differences and lower interest expenses due to lower interest income, higher bond issue discount expenses and the declared expense from the early redemption of euro bonds.

Statement of financial position/balance sheet

Description	31/12/2016 In HRK 000	31/12/2015 In HRK 000	Index
1	2	3	4 = 2/3
NON-CURRENT ASSETS			
Property, plant and equipment	13.191.970	13.848.712	95,3
Investment property	1.955.426	1.958.298	99,9
Intangible assets	22.828	31.839	71,7
Other financial assets	133.364	140.134	95,2
Non-current receivables	1.666.893	2.015.997	82,7
Deferred tax assets	37.746	43.576	86,6
Total non-current assets	**17.008.227**	**18.038.556**	**94,3**
CURRENT ASSETS			
Inventories	341.474	301.796	113,1
Trade receivables and other receivables	1.543.418	1.544.157	100,0
Other financial assets	107.459	230.188	46,7
Cash and cash equivalents	1.057.715	421.642	250,9
Total current assets	**3.050.066**	**2.497.783**	**122,1**
TOTAL ASSETS	**20.058.293**	**20.536.339**	**97,7**
Off-balance sheet items	*225.214*	*235.799*	*95,5*
EQUITY AND LIABILITIES			
Share capital	3.833.236	3.833.236	100,0
Revaluation reserve	2.887.537	2.796.252	103,3
Other reserve	322.618	319.977	100,8
Retained earning	695.267	708.178	98,2
Non-controlling interests	8.348	6.866	121,6
Total equity	**7.747.006**	**7.664.509**	**101,1**
NON-CURRENT LIABILITIES			
Loans payable	2.130.099	2.606.065	81,7
Liabilities under issued bonds	1.637.661	2.290.514	71,5
Other non-current liabilities	151.669	91.424	165,9
Provisions	460.148	481.704	95,5
Deferred income	4.282.740	4.847.409	88,4
Deferred tax liability	614.780	677.143	90,8
Total non-current liabilities	**9.277.097**	**10.994.259**	**84,4**
CURRENT LIABILITIES			
Trade payables and other liabilities	1.309.033	1.281.103	102,2
Loans and borrowings	547.772	581.912	94,1
Liabilities for issued bonds	1.160.453	-	-
Current corporate income tax liability	16.933	14.556	116,3
Total current liabilities	**3.034.191**	**1.877.571**	**161,6**
TOTAL EQUITY AND LIABILITIES	**20.058.293**	**20.536.339**	**97,7**
Off-balance sheet items	*225.214*	*235.799*	*95,5*





On 31 December 2016, the Group's total assets amounted to HRK 20.058.293 thousand and were lower by 2.3% compared to 31 December 2015. In 2016, the Group's total investments in property, plant and equipment amounted to HRK 246.101 and HRK 4,886 thousand of investments in intangible assets (a total of HRK 250,987 thousand of new acquisitions). The biggest investments in 2016 pertain to investments in the water supply (water supply network, main pipelines, water reservoirs and pumping stations) amounting to HRK 60,502 thousand, drainage (drainage network, collectors, collector canals and drainage excavation repairs) amounting to HRK 55,361 thousand, reconstruction of existing and installation of new gas pipelines in the amount of HRK 15,603 thousand, acquisition of new gas meters and replacement of gas meters in the amount of HRK 10,202, tram line maintenance in the amount of HRK 8,673 thousand etc.

HRK 254,412 thousand worth of property, plant and equipment was written over to receivables from the City of Zagreb in 2016 under IFRIC 12 Concession Agreements for public purpose facilities.

Equity was increased on 31 December 2016 due to higher revaluation reserve compared to 31 December 2015. Revaluation reserve in the two periods compared increased mainly as the result of amendments to corporate income tax law changing the corporate income tax rate (from 20% to 18%), which entered into force on of 1 January 2017.

In July 2007, the Company Zagreb Holding Ltd. issued EUR 300 million of euro bonds that carried a 5.5% annual coupon, with maturity in July 2017. In July 2016, the Company Zagreb Holding Ltd. issued HRK bonds in the nominal amount of HRK 1,800,000 at a fixed interest rate of 3.875% and a redemption price of 97.19%. The proceeds from this issue were used for early redemption of 48.8% of the euro bonds, and the remaining proceeds were deposited in the Company's foreign currency account to repay the remainder of the euro bonds when they mature in July 2017. This was the main reason for the increase in the cash balance on 31 December 2016 compared to the same period of 2015.

The lower corporate income tax rate (from 20% to 18%), which entered into force on 1 January 2017, influenced the lowered deferred tax liability resulting from the necessity to adjust the deferred tax to the tax rate that will apply in the period when the deferred tax liability will be realised.

Retained profit declared in the Statement of Financial Position on 31 December 2016 was adjusted in comparison with the profit attributable to the Group's capital from the previous year as the result of the reclassification effect arising from the new accounting treatment of the recognition of non-current tangible assets by the subsidiary Zagreb Fair by HRK 43,353 thousand (which reduced the retained profit and increased the revaluation reserve), for other comprehensive profit in the amount of HRK 37,137 thousand (with regard to adjustments from previous years) and effects of the liquidation of the company Centre Ltd. in the amount of HRK 2,139 thousand.

The increase in other non-current liabilities on 31 December 2016 compared to 31 December 2015 is mainly associated with the declared liability of the Company Zagreb Holding Ltd. to the City of Zagreb for the guarantee provided for the HRK bond issue.

HRK 2.290.514 thousand of non-current liabilities under issued bonds was declared in the Statement of Financial Position (Balance Sheet) of the Group on 31 December 2015. This pertains to the liability under EUR 300 million of euro bonds issued by the Company Zagreb Holding Ltd. 48.8% of this issue was redeemed in July 2016 simultaneously with the issue of the new HRK bonds in the amount of HRK 1,800,000 thousand. The Group thus declared current liabilities under euro bonds in the amount of HRK 1,160,453 thousand (because they will mature in July 2017) and HRK 1,637,661 of non-current liabilities under issued bonds, which pertains to the liability under issued HRK bonds (HRK 1,800,000 of the nominal bond issue minus the discount cost and other costs of the bond issue amounting to HRK 162,339 thousand) on 31 December 2016.

The Group's net debt was lower by HRK 621,567 thousand and amounted to HRK 3,608,703 on 31 December 2016 (compared to HRK 4,230,270 on 31 December 2015). The net debt/equity ratio on 31 December 2016 was 47% (compared to 55% on 31 December 2015).

Business risk statement

Financial risk management objectives

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

The Group makes an effort to reduce, avoid and pass on various forms of financial risks that it encounters in its operations in order to increase business security. Certain financial risks are accepted when they are judged to be 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.

	Liabilities		Assets	
Currency	31 Dec 2016 in HRK 000	31 Dec 2015 in HRK 000	31 Dec 2016 in HRK 000	31 Dec 2015 in HRK 000
EUR	3.027.662	4.507.050	1.479.613	1.596.591
USD	-	-	-	-
Other currencies	-	-	-	-

The Group is mainly exposed to the currency risk of fluctuation of the HRK to EUR exchange rate under the liabilities under non-current loans, 35% of which are tied to EUR. The Group's exposure to currency risk was reduced considerably in 2016 because some of the euro bonds maturing in July 2017 were redeemed early and HRK bonds were issued.

Interest risk

The Group is exposed to the risk of interest rate fluctuations because 34.54% of its total loans payable under leasing and issued bonds is tied to variable interest rates. Out of the Group's total loans payable, a fixed interest rate was contracted for 65.46%. The issued euro bonds with a fixed annual coupon of 5.5% and HRK bonds with an annual coupon of HRK 3.875%, as well as the liability under the financial leasing of Arena Zagreb with an interest rate of 4.7%, account for the majority of the Group's loans payable with a fixed interest rate.

21.28% of loans payable are linked to EURIBOR, LIBOR and ZIBOR, and 13% of loans payable are linked to the yield on the Treasury Bills issued by the Croatian Ministry of Finance. Accordingly, 35% of loans payable is linked to a variable interest rate, which has been recognised as a substantial uncertainty in future interest cash flows.

The Group's interest risk was reduced in 2016 by bond refinancing, i.e. issuing a new tranche of bonds at a lower coupon than the previous issue (average annual bond coupon was 4.51% in 2016 compared to 5.5% in 2015).

Liquidity risk

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

Credit risk management

Credit risk is the risk of the buyers' failure to pay or to fulfil contractual obligations that impacts the Group's possible financial loss. In its dealings with the buyers, the Group collects guarantees in order to protect itself from possible financial risks and losses arising from failure to pay or fulfil contractual obligations.

Buyers are grouped into risk groups in accordance with their financial indicators and their past dealings with the Group, and adequate measures of protection against credit risk are enforced for each group. To assign buyers to group, we mostly use the information from their official financial statements and the Group's information about our past transactions. The Group deals with a large number of buyers from different industries and of different sizes and with a large number of retail customers as well. Trade receivables 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 under Article 403 of the Capital Market Act

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

- International Financial Reporting Standards were followed in the preparation of the audited financial statements of Zagreb Holding Group for the period from 1 January 2016 to 31 December 2016 (consolidated). The statements fully and truthfully represent assets and liabilities, profits and losses, financial position and 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 from 1 January 2016 to 31 December 2016 (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, 31 March 2017

Ana Stojić Deban
President of the Management Board
Zagreb Holding Ltd.

Bernard Mršo
Member of the Management Board
Zagreb Holding Ltd.

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

Slobodan Ljubičić
Director of Economic Affairs Sector
Zagreb Holding Ltd.

Investor information

Zagreb Holding Ltd.
Ulica grada Vukovara 41
10000 Zagreb

Investor relations
E-mail: tomislav.juric@zgh.hr
ured.uprave@zgh.hr
Phone: +385 1 6420 010
Website: http://www.zgh.hr/investitori/2370

Consolidated financial statements for the year ended 31 December 2016 together with Independent Auditor's Report

Table of Contents

REPONSIBILITY FOR THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

The Management of Zagrebački holding d.o.o., Zagreb, (''the Company'') is responsible for ensuring that the annual financial statements 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 financial performance and its cash flows and its changes on equity of the Company for that period.

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

In preparing the annual financial statements, management 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 is responsible for keeping the proper accounting records, which at any time with reasonable certainty present the financial position and the financial performance of the Company, and also their compliance with the Accounting Act and the International Financial Reporting Standards. The Management 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

Zagrebački holding d.o.o., Zagreb
Avenija grada Vukovara 41
10000 Zagreb
Croatia

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

31 March 2017

Tel: +385 1 2395 741
Fax: +385 1 2303 691
E-mail: bdo-croatia.hr

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

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 2016, which comprise the consolidated Statement of financial position (Balance sheet) as at 31 December 2016, 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 2016, 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").

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 16 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 the key audit matter
Evaluating investments in property	
Description of key estimates and judgements regarding the evaluation of investment in property is shown in Notes: 3. f), 3. x) and 17 to the consolidated financial statements. As at 31 December 2016, in its consolidated Statement of Financial Position (Consolidated Balance Sheet), the Group stated the amount of HRK 1,955,426 thousand of investment in property in the process of which, due to new evaluation of investment in property, loss was determined in the net amount of HRK 4,948 thousand (2015: HRK 10,913 thousand in gains). 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.
Key audit matter	**How we addressed the key audit matter**
Recoverability of trade receivables	
Description of key estimates and judgements regarding trade receivables is shown in Notes: 3. i), 3. x), 9. and 21. to the consolidated financial statements. As at 31 December 2016, in its consolidated Statement of Financial Position (Consolidated Balance Sheet), the Group stated net trade receivables in the amount of HRK 1,043,805 thousand. Furthermore, the consolidated Income Statement for 2016 shows loss due to decrease of receivables in the amount of HRK 834,732 thousand (2015: HRK 861,245 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 *Income recognition*	How we addressed the key audit matter
Description of key estimates and judgements regarding income recognition is shown in Notes: 3. t), 5, and 12. to the consolidated financial statements. In the consolidated Income Statement for 2016, the Group stated income from sales in the amount of HRK 3,842,428 thousand HRK. Income from sales mostly include high span 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: - integrity 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 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.

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 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 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, 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 Group'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 annual financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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.

76

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

The Management is responsible for the preparation of the Management report as part of the Annual report of the Company. 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 the year ended 31 December 2016, are in accordance with the financial information stated in the consolidated annual financial statements of the Company set out on pages 8 to 88 on which we expressed our opinion as stated in the Opinion section above.

In our opinion, based on the work that we performed during the audit, the Company's Management report for 2016, which is an integral part of the Annual report for 2016 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 2016, which is an integral part of the Company's Annual report for 2016.

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 2016, is in accordance with the requirements of article 22, paragraph 1, points 3 and 4 of the Accounting act.

77

The Statement that code of corporate governance is applied, included in the Annual report for 2016, includes information from article 22, paragraph 1, points 2, 5 and 6 of the Accounting act.

The Management is responsible for the preparation of consolidated annual financial statements for the year ended 31 December 2016 in prescribed form based on the Statute of structure and content of consolidated annual financial statements (Official Gazette 95/16) and in accordance with other regulations governing the operations of the Company ("Standard consolidated annual financial statements"). Financial information presented in Company's standard consolidated annual financial statements are in accordance with the information presented in the Company's consolidated annual financial statements given on pages 8 to 88 on which we expressed our opinion as stated in the Opinion section above.

The engagement partner on the audit resulting in this Independent auditor's report is Zdenko Balen, certified auditor.

Zagreb, 3 April 2017

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

Zdenko Balen, Member of the Management Board

Zdenko Balen, certified auditor

	Note	2016	2015
		(HRK`000)	(HRK`000)
OPERATING INCOME			
Sales	4	3.842.428	3.911.030
Other operating income	5	1.202.678	1.297.738
Total		**5.045.106**	**5.208.768**
OPERATING EXPENSES			
Cost of material and services	6	(2.273.534)	(2.226.015)
Staff costs	7	(1.609.351)	(1.512.561)
Depreciation and amortisation	8	(548.140)	(548.205)
Impairment allowance on current and non-current assets	9	(167.283)	(461.319)
Provisions for risks and charges	10	(107.998)	(141.617)
Other operating expenses	11	(145.137)	(101.754)
Total		**(4.851.443)**	**(4.991.471)**
FINANCIAL INCOME	12	**237.116**	**224.863**
FINANCIAL EXPENSES	13	**(320.469)**	**(298.863)**
TOTAL INCOME		**5.282.222**	**5.433.631**
TOTAL EXPENSES		**(5.171.912)**	**(5.290.334)**
PROFIT BEFORE TAX		**110.310**	**143.297**
INCOME TAX EXPENSE	14	(35.378)	(22.306)
PROFIT FOR THE YEAR		**74.932**	**120.991**
Attributable to:		**74.932**	**120.991**
The equity holders of the Company		69.718	117.250
Non-controlling interests		**5.214**	**3.741**
Other comprehensive income			
Items that will not be reclassified to profit or loss			
Revaluation surplus, net of taxes		86.675	88.541
Profit from evaluating financial assets available for sale		4.610	-
Other changes in comprehensive gain		(37.137)	-
Total comprehensive gain for the year		**129.080**	**209.532**
Total comprehensive gain attributable to:		**129.080**	**209.532**
Equity holders of the Company		123.866	205.791
Non-controlling interests		5.214	3.741

	Note	31 December 2016	31 December 2015
		(HRK`000)	(HRK`000)
NON-CURRENT ASSETS			
Property, plant and equipment	16	13.191.970	13.848.712
Investment property	17	1.955.426	1.958.298
Intangible assets	15	22.828	31.839
Other financial assets	18	133.364	140.134
Non-current receivables	19	1.666.893	2.015.997
Deferred tax assets	14	37.746	43.576
Total non-current assets		**17.008.227**	**18.038.556**
CURRENT ASSETS			
Inventories	20	341.474	301.796
Trade receivables and other receivables	21	1.543.418	1.544.157
Other financial assets	18	107.459	230.188
Cash and cash equivalents	22	1.057.715	421.642
Total current assets		**3.050.066**	**2.497.783**
TOTAL ASSETS		**20.058.293**	**20.536.339**
Off-balance sheet items	30	225.214	235.799

	Note	31 December 2016	31 December 2015
		(HRK`000)	(HRK`000)
EQUITY	23		
Share capital	23a	3.833.236	3.833.236
Revaluation reserve	23b	2.887.537	2.796.252
Other reserves	23c	322.618	319.977
Retained earnings	23d	695.267	708.178
Non-controlling interests	23e	8.348	6.866
Total equity		**7.747.006**	**7.664.509**
NON-CURRENT LIABILITIES			
Loans payable	24	2.130.099	2.606.065
Liabilities under issued long-term securities	25	1.637.661	2.290.514
Other non-current liabilities	26	151.669	91.424
Provisions	27	460.148	481.704
Deferred income	28	4.282.740	4.847.409
Deferred tax liability	14	614.780	677.143
Total non-current liabilities		**9.277.097**	**10.994.259**
CURRENT LIABILITIES			
Trade payables and other liabilities	29	1.309.033	1.281.103
Loans and borrowings	24	547.772	581.912
Liabilities for issued securities	25	1.160.453	-
Corporate income tax		16.933	14.556
Total current liabilities		**3.034.191**	**1.877.571**
TOTAL EQUITY AND LIABILITIES		**20.058.293**	**20.536.339**
Off-balance sheet items	30	225.214	235.799

	Share capital	Revaluation reserves	Capital and reserves created from rofpit	Retained earnigs / accumulated losses accumulated	Equity attributable to the owner to the Parent	Non-controlling interest	Total
	(HRK`000)	(HRK`000)	(HRK`000)	(HRK`000)	(HRK`000)		
Balance as at 31 December 2014	**3.833.236**	2.707.711	319.977	590.928	7.451.852	8.706	7.460.558
Profit for the year	-	-	-	117.250	117.250	3.741	120.991
Profit payment to non-controlling interests	-	-	-	-	-	(5.581)	(5.581)
Other comprehensive profit	-	88.541	-	-	88.541	-	88.541
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

	2016	2015
	(HRK`000)	(HRK`000)
Cash flows from operating activities		
Profit for the year	**74.932**	**120.991**
Tax expense recognised in the income statement	35.378	22.306
Finance cost recognised in profit or loss	254.298	267.836
Investment income recognised in profit or loss	(165.849)	(180.882)
Impairment allowance on current assets	138.558	257.315
Change in the fair value of investment property	4.948	(10.914)
Impairment allowance on non-current assets	858	18.012
Depreciation and amortisation	548.140	548.205
Profit from sale of assets	(5.410)	(3.233)
Increase / (decrease) in long-term provisions	(21.555)	70.010
Decrease in deferred income on assets financed by others	(179.448)	(95.881)
Foreign exchange losses	(55.568)	(12.954)
Effect of liquidating a subsidiary	2.640	-
Other non-monetary items	2.514	-
Changes in working capital:		
Increase in inventories	(40.825)	(18.955)
Increase in trade receivables	(187.960)	(195.501)
(Increase) / decrease in receivables from related companies	(102.445)	23.598
Decrease / (increase) in amounts due from employees	405	(471)
Decrease / (increase) in receivables from the State	18.507	(93)
(Increase) / decrease in other receivables	(144.148)	38.734
Decrease /increase in liabilities to suppliers and related parties	(28.734)	134.627
(Decrease) / increase in advances received	1.056	(56.857)
Decrease in liabilities for taxes and contributions	5.051	(16.567)
Decrease in amounts due to employees	2.359	(5.233)
(Decrease) / increase in other non-current liabilities	60.245	(15.364)
(Decrease) / increase in other current liabilities	173.264	(74.545)
Profit payment to non-controlling interests	(3.732)	(5.581)
Net cash generated from operations	**387.479**	**808.603**

	2016.	2015.
	(u tisućama kuna)	(u tisućama kuna)
Cash flows from operating activities		
Cash generated from operations	387.479	809.022
Income taxes paid	(23.436)	(12.136)
Interest paid	(248.325)	(269.750)
Net cash generated from operating activities	**115.718**	**527.136**
Cash flows from investing activities		
Purchases of tangible and intangible assets	(250.987)	(274.706)
Expense of investment property	(2.077)	-
Decrease in advances for fixed assets	113	419
Proceeds from sale of tangible assets	1.752	9.028
Receipts from collection of long-term receivables	325.600	270.501
Income from dividends	1.743	-
Purchase costs for financial assets	141.506	(174.146)
Interest paid	158.702	183.800
Net cash used in investing activities	**376.352**	**14.896**
Cash flows from financing activities		
Received loans and borrowings	-	26.383
Repayments of loans and borrowings	(486.131)	(535.254)
Received issued bonds	1.734.948	-
Repayment of bonds	(1.104.814)	-
Net cash generated from financing activities	**144.003**	**(508.871)**
Net cash increase	**636.073**	**32.742**
Cash as at 1 January	**421.642**	**388.900**
Cash as at 31 December	**1.057.715**	**421.642**

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 2016, the Company comprised the following business units/branches:

	Name of the branch:	Headquarters	Form of organization	Principal activity	Ownership interest 2016	Ownership interest 2015
	Zagrebački holding	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	100% Grad 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 (merged in 10/2015	Ul. V. Vukova 8	branch	Sports facility management and maintenance	-	100%
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	podružnica	Organisation of fairs, congresses, seminars	100 % Zg.holding	100% Zg.holding
16.	Upravljanje nekretninama	Jankomir 25	podružnica	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 organization	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.	Zagreb arena d.o.o.	Ul.grada Vukovara 41	d.o.o.	Managing sport facilities an organizing sport events	-	100% Zg.holding
6.	Gradsko stambeno komunalno gospodarstvo d.o.o.	Savska cesta 1	d.o.o.	Facility management	100% Zg.holding	100% Zg.holding
7.	Vodoopskrba i odvodnja d.o.o.	Folnegovićeva 1	d.o.o.	Water collection, treatment and supply	100% Zg.holding	100% Zg.holding
8.	AGM d.o.o.	Mihanovićeva 28	d.o.o.	Publishing	100% Zg.holding	100% Zg.holding
9.	Zagrebačka stanogradnja d.o.o.	Bukovačka cesta 4	d.o.o.	Flat construction and sale	100% Zg.holding	100% Zg.holding
10.	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.

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 2016, the Group had 10,394 employees (31 December 2015: 10,646 employees), as presented below:

The Group	No. of staff 31 Dec 2016.	No. of staff 31 Dec 2015
The Company	8.196	8.331
Subsidiaries	2.198	2.315
	10.394	10.646

1. GENERAL INFORMATION (CONTINUED)

Directors and the Management

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

	2016		2015
1.	Ana Stojić Deban, President of the management Board since 16 June 2015	1.	temporary director Daniela Franić from 31 October 2014 until 6 March 2015; Dejan Fičko, President from 6 March 2015 until 15 June 2015; Ana Stojić Deban, President 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.	Marija Cvrlje, Member from 6 March 2015 until 15 June 2015
		4.	Krešimir Kvaternik, Member from 6 March 2015 until 15 June 2015
		5.	Denis Nikola Kulišić, Member from 6 March 2015 until 15 June 2015

	Subsidiaries	Director as at 31 December 2016
1.	Gradska plinara Zagreb d.o.o.	Bruno Lacković until 22 March 2016,Tihana Colić since 23 March 2016
2.	Gradska plinara Zagreb Opskrba d.o.o.	Miroslav Jerković until 20 March 2016, Igor Pirija since 21 March 2016
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.	Svjetlana Dizdar until 1 November 2016, Dinko Čutura since 02 November 2016
8.	Zagrebačka Stanogradnja d.o.o.	Renata Šoprek, Zdravko Juć until 27 June 2016, Željko Horvat since 28 June 2016
9.	Centar d.o.o.	Milan Kanjer (liquidator) until 07 June 2016, Tomislav Bilić since 08 June 2016

1. GENERAL INFORMATION (CONTINUED)

The Supervisory Board

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)

The members of the **Supervisory Board** of the Company during 2015 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. Vladimir Ferdelji, Member (from 8 December 2014 until 1 July 2015)

1. GENERAL INFORMATION (CONTINUED)

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)

The only member of the **Assembly** is City of Zagreb, and representatives of member during 2015 were as follows

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

ZAGREBAČKI HOLDING d.o.o. and its subsidiaries
Notes to the Consolidated Financial Statements- continued
For the year ended 31 December 2016

2. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

Standards and Interpretations effective in the current period

- Amendments to IAS 19 Defined Benefit Plans: Employee Contributions – IAS 19 requires subjects to consider employee or third party contributions in accounting defined earning
- Annual Improvements to IFRSs 2012–2014 Cycle:
  - IFRS 5 Non-current Assets Held for Sale and Discontinued Operations
  - IFRS 7 Financial Instruments: Disclosures (with consequential amendments to IFRS 1)
  - IAS 19 Employee Benefits
  - IAS 34 Interim Financial Reporting

  The effective date of the amendments is 1 January 2016. Earlier application is allowed.
- Annual Improvements 2010-2012 Cycle, these amendments are effective in EU for accounting periods beginning on or after 1 February 2015, with earlier application permitted. They include:
  - IFRS 2 Share-based Payment,
  - IFRS 3 Business Combinations,
  - IFRS 8 Operating Segments,
  - IFRS 13 Fair Value Measurement,
  - IAS 16 Property, Plant and Equipment and IAS 38 Intangible assets,
  - IAS 24 Related Party Disclosures;
- Amendments to IFRS 10, IFRS 12 and IAS 28 Investment Entities: Applying the Consolidation Exception (issued in December 2014)
- Amendments to IFRS 11 Accounting for Acquisitions of Interests in Joint Operations (issued in May 2014)
- Amendments to IAS 1 Disclosure Initiative (issued in December 2014)
- Amendments to IAS 16 and IAS 38 Clarification of Acceptable Methods of Depreciation and Amortisation (issued in May 2014)
- Amendments to IAS 16 and IAS 41 Agriculture: Bearer Plants (issued in June 2014)
- Amendments to IAS 27 Equity Method in Separate Financial Statements (issued in August 2014)

The application of the above-mentioned standards had no influence on the consolidated financial statements of the Company for 2016.

New and revised IFRSs issued by the IASB but not effective

- IFRS 9 Financial Instruments – in July 2014, IASB issued a final version of IFRS 9 Financial Instruments which reflects all phases of the financial instruments replacing IAS 39 Financial Instruments: Recognition and measurement and all other preceding versions IFRS 9. IFRS 9 is effective for the annual period beginning on or after 1 January 2018, earlier applications are permitted. The application of this standard will have negligible affect the classification and measurement of financial instruments.
- IFRS 15 Revenue from Contracts with Customers- IFRS 15 was issued in May 2014 and represents a new model in five steps that relate to revenue that results from contracts with customers. Th Standard replaces IAS 11 and IAS 18. Standard is effective for the annual period beginning on or after 1 January 2018, earlier applications are permitted.

The Standard allows a modified transfer model which does not require retroactive modifications. The Management performs detailed analysis on its possible effects on the Company`s consolidated financial statements.

2. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

(CONTINUED)

New and revised IFRSs issued by the IASB but not yet adopted by the EU

The following standards and amendments to the existing standards have not been adopted by the EU yet:

- IFRS 14 Regulatory Deferral Accounts – this standard relates to subjects that operate on regulated markets and are applying IFRS for the first time. IFRS 14 is effective for the annual period beginning on or after 1 January 2016. The European Commission has decided not to implement this standard due to the fact that only small number of companies was within the scope of the standard.

- IFRS 16 Leases – the standard brings a new comprehensive model of identification of arrangements which have leases and their accounting treatment on the side of lessor and lessee. The standard will replace IAS 17 and interpretations of IFRIC 4, SIC 15 and SIC 27. IFRS 16 is effective for the annual period beginning on or after 1 January 2019. Earlier applications are permitted, but this is conditioned with the application of IFRS 15 unless already adopted. This standard brings significant changes to the accounting model of the lessee. Consequently, assets and liabilities will be recognised in the financial statements of the lessee in most contract that were formerly recognised as operating lease. This will result in an increase of assets and liabilities. The Management Board plans detailed analysis in the coming periods to determine effects on the consolidated financial statements of the Company.

- Amendments to IFRS 2 – classification and measurement of share based payment transactions (issued in June 2016).

- Amendments to IFRS 4 – Application of IFRS 9 Financial instruments with IFRS 4 Insurance agreements (issued in June 2016).

92

- Amendments to IFRS 10 and IAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (issued in September 2014).

- Clarifications to IFRS 15 Revenue from Contracts with Customers (issued in April 2016).

- Amendments to IAS 7 – part of its disclosure initiative (issued in January 2016)

- Amendments to IAS 12 – Recognition of Deferred Tax Assets for Unrealised Losses (issued in January 2016).

- Amendments to IAS 40 – Transfer of real estate investments (issued December 2016.)

- Annual Improvements 2014-2016 Cycle (issued December 2016). They include:
  - IFRS 1 First application of IFRS,
  - IFRS 12 Disclosure of interests in other entities,
  - IFRS 28 Investments in associates and joint ventures

Amendments which relate to IFRS 12 are effective for periods starting 1 January 2017, while amendments to IFRS 1 and IAS 28 are effective for the annual period beginning on or after 1 January 2018.

- IFRIC 22 Foreign currency transactions and advance considerations (issued December 2016).

Except where otherwise stated, the Company's management anticipates that the application of the above standards, amendments and interpretations will have no material impact on the consolidated financial statements in the period of initial application.

3. 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 31 March 2017 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. 93

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

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 2016, the official exchange rate of the Croatian HRK against 1 euro and 1 US dollar was HRK 7,557787 and HRK 7,168536 respectively (31 December 2015: HRK 7,635047 for 1 EUR and HRK 6,991801 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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

d) Intangible assets (continued)

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.

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:

	2016	2015
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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

f) Investment properties (continued)

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 2016 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 2016 (Note 17 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.

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.

g) Non-current financial assets (continued)

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.

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

g) Non-current financial assets (continued)

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 impair-

ment 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.

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..

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

k) Foreign currencies (continued)

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

m) Income tax (continued)

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.

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.

Financial liabilities at fair value through consolidated income statement

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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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. .

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.

i. 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.

ii. 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.

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.

t) Revenue recognition (continued)

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

u) Leases (continued)

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

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.

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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.

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 2016, 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 benefitsa

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 2016 provisions for employee benefits amounted to HRK 179,128 thousand (as at 31 December 2015 the total provisions amounted to HRK 216,011 thousand) (see Note 27 to the consolidated financial statements).Posljedice odredenih sudskih sporova

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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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. SEGMENT INFORMATION

SALES

	2016	2015
	(HRK`000)	(HRK`000)
Croatian market	3.840.475	3.909.918
EU market	1.953	1.112
	3.842.428	**3.911.030**

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

4. ISEGMENT 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.

	2016	2015
	(HRK`000)	(HRK`000)
Gas distribution and sale	1.049.625	1.249.700
Passenger transport	484.169	516.389
Water distribution revenue	418.135	430.115
Cleaning and waste removal	369.332	423.373
Public road maintenance and management	345.979	305.441
Pharmaceutical sales	267.078	250.197
Parking services	116.312	107.505
Income from construction and projects management	105.739	-
Income from projects management	91.616	91.552
Warehousing and rentals	76.266	72.398
Waste disposal and management	25.450	25.571
Other income	492.727	438.789
	3.842.428	**3.911.030**

Other revenue comprises the following:

	2016	2015
	(HRK`000)	(HRK`000)
Landscaping and plant growing	200.446	164.877
Markets revenue	74.640	74.314
Funeral services	55.839	59.172
Trade fairs and congresses	48.380	39.939
Bus station	42.465	43.013
Travel agencies	29.230	28.642
Lease of telecom cable and network systems	16.177	14.787
Publishing	6.472	6.226
Sports facility management and maintenance	2.090	-
Other income	16.988	7.819
	492.727	**438.789**

4. SEGMENT INFORMATION (CONTINUED)

2016 segment revenue and results

2016	Facility magagement	Watter distribution	Passanger transport	Cleaning and waste removal	Public road management	Flat construct. and sale	Parking services	warehousing and rental	Waste collection and removal	Gas sale and distribution	Drugstore	Other	Eliminated	Total
(HRK`000)														
Revenue from third parties	91.616	418.136	484.169	369.332	345.979	105.739	116.312	76.266	25.450	1.049.625	267.078	514.261	(21.535)	3.842.428
Inter-segment sales	209.208	4.765	1.947	22.808	28.163	1.571	12.670	2.537	102.361	160.636	-	12.232	(558.898)	-
Total sales	**300.824**	**422.901**	**486.116**	**392.140**	**374.142**	**107.310**	**128.982**	**78.803**	**127.811**	**1.210.261**	**267.078**	**526.493**	**(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 operations	**63.983**	**2.308**	**(109.282)**	**34.355**	**79.366**	**(4.277)**	**30.961**	**2.490**	**25.396**	**67.036**	**7.935**	**15.655**	**(22.263)**	**193.663**
Financial income	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)
Gain / (loss) before taxation	**2.351**	**1.052**	**(135.265)**	**39.055**	**78.562**	**59.686**	**32.323**	**2.772**	**25.396**	**80.835**	**12.157**	**(12.738)**	**(75.876)**	**110.310**
Income tax (expense)	**(13.937)**	**(978)**	-	-	-		-	-	-	**(16.167)**	**(1.560)**	**(2.736)**	-	**(35.378)**
Net gain / (loss)	**(11.586)**	**74**	**(135.265)**	**39.055**	**78.562**	**59.686**	**32.323**	**2.772**	**25.396**	**64.668**	**10.597**	**(15.474)**	**(75.876)**	**74.932**

4. SEGMENT INFORMATION (CONTINUED)
2015 segment revenue and results

2016	Facility magagement	Watter distribution	Passanger transport	Cleaning and waste removal	Public road management	Flat construct. and sale	Parking services	warehousing and rental	Waste collection and removal	Gas sale and distribution	Drugstore	Other	Eliminated	Total
(HRK`000)														
Revenue from third parties	91.552	430.115	516.389	423.373	305.441	-	107.505	72.398	25.572	1.249.700	250.197	466.954	(28.166)	3.911.030
Inter-segment sales	206.773	7.337	1.774	16.063	22.378	2.703	10.672	2.268	100.396	214.656	-	10.970	(595.990)	-
Total sales	**298.325**	**437.452**	**518.163**	**439.436**	**327.819**	**2.703**	**118.177**	**74.666**	**125.968**	**1.464.356**	**250.197**	**477.924**	**(624.156)**	**3.911.030**
Expenses from other operations, net of other ordinary income	**(312.275)**	**(431.851)**	**(621.572)**	**(376.666)**	**(293.889)**	**(18.466)**	**(105.648)**	**38.868**	**(71.409)**	**(1.359.505)**	**(252.172)**	**(482.653)**	**593.505**	**(3.693.733)**
Profit/(loss) from operations	**(13.950)**	**5.601**	**(103.409)**	**62.770**	**33.930**	**(15.763)**	**12.529**	**113.534**	**54.559**	**104.851**	**(1.975)**	**(4.729)**	**(30.651)**	**217.297**
Financial income	180.734	14.077	8.176	7.292	415	1.360	1.939	617	6	14.906	5.235	26.403	(36.297)	224.863
Financial expenses	(155.169)	(17.482)	(50.993)	(1.863)	(2.575)	(20.483)	(1.525)	(190)	-	(190)	(147)	(56.341)	8.095	(298.863)
Net financial result	25.565	(3.405)	(42.817)	5.429	(2.160)	(19.123)	414	427	6	14.716	5.088	(29.938)	(28.202)	(74.000)
Gain / (loss) before taxation	**11.615**	**2.196**	**(146.226)**	**68.199**	**31.770**	**(34.886)**	**12.943**	**113.961**	**54.565**	**119.567**	**3.113**	**(34.667)**	**(58.853)**	**143.297**
Income tax (expense)	**6.412**	**(2.158)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(23.856)**	**(747)**	**(1.957)**	**-**	**(22.306)**
Net gain / (loss)	**18.027**	**38**	**(146.226)**	**68.199**	**31.770**	**(34.886)**	**12.943**	**113.961**	**54.565**	**95.711**	**2.366**	**(36.624)**	**(58.853)**	**120.991**

4. SEGMENT INFORMATION (CONTINUED)
Segment assets and liabilities at 31 December 2016

2016	Facility magagement	Watter distribution	Passanger transport	Cleaning and waste removal	Public road management	Flat construct. and sale	Parking services	warehousing and rental	Waste collection and removal	Gas sale and distribution	Drugstore	Other	Eliminated	Total
(HRK`000)														
Property, plant and equipment	675.658	4.209.379	2.637.733	238.184	149.341	39	113.360	310.061	52.264	1.040.744	37.414	3.414.307	313.486	**13.191.970**
Intangible assets	553	3.690	8.800	1.632	28	-	-	602	17	5.484	785	1.237	-	**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	12.464	180	867	-	7.718	26.654	184.895	-	**341.474**
Trade receivables, net	16.194	538.444	66.704	43.884	3.686	1.499	10.994	8.663	3.121	247.515	63.922	39.179	-	**1.043.805**
Unallocated	7.568.920	33.276	196.386	315.321	339.800	905.209	264.660	3.653	665.724	286.410	118.091	1.731.177	(8.925.837)	**3.502.790**
Total assets	**8.994.689**	**4.802.063**	**2.954.831**	**606.871**	**531.194**	**919.211**	**389.194**	**1.408.464**	**721.126**	**1.587.871**	**246.866**	**5.878.342**	**(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	2.714	3.192	2.880	17.869	172.837	13.038	77.346	-	**597.813**
Amounts due to employees	3.415	7.096	29.783	10.811	3.400	226	2.814	1.654	287	5.430	3.784	11.116	-	**79.816**
Equity and unallocated liabilities	7.178.375	4.618.918	2.874.717	578.197	476.999	916.271	383.188	1.403.930	702.970	1.409.604	230.044	5.789.880		**17.743.003**
Total equity and liabilities	**8.994.689**	**4.802.063**	**2.954.831**	**606.871**	**531.194**	**919.211**	**389.194**	**1.408.464**	**721.126**	**1.587.871**	**246.866**	**5.878.342**	**(8.982.429)**	**20.058.293**
31/12/2016 Other segment														
Capital expenditure:	**1.007**	**140.458**	**10.751**	**4.598**	**17.597**	**2**	**2.620**	**4.957**	**1.225**	**50.082**	**4.322**	**13.368**	**-**	**250.987**
Tangible assets	987	140.458	9.255	3.618	17.597	2	2.620	4.857	1.225	48.653	3.810	13.019	-	246.101
Intangible assets	20	-	1.496	980	-	-	-	100	-	1.429	512	349	-	4.886
Depreciation and impairment	4.531	173.422	165.604	16.196	13.346	34	7.398	3.128	4.491	118.085	2.326	38.587	992	548.140

4. SEGMENT INFORMATION (CONTINUED)

Segment assets and liabilities at 31 December 2015

Assets and liabilities as at 31 Dec 2015	Facility magagement	Watter distribution	Passanger transport	Cleaning and waste removal	Public road management	Flat construct. and sale	Parking services	warehousing and rental	Waste collection and removal	Gas sale and distribution	Drugstore	Other	Eliminated	Total
(HRK`000)														
Property, plant and equipment	706.813	4.252.747	2.789.998	250.641	148.611	297.030	118.137	310.288	55.530	1.108.652	35.731	3.438.381	336.153	13.848.712
Intangible assets	1.596	8.596	11.398	1.213	21	807	1	627	17	5.402	486	1.675	-	31.839
Investment property	715.298	-	-	-	-	-	-	1.084.206	-	-	-	505.311	(346.517)	1.958.298
Inventories	34	15.588	40.416	8.544	40.744	13.453	289	883	-	7.693	21.566	152.586	-	301.796
Trade receivables, net	2.650	527.517	29.811	48.418	4.779	90	14.071	6.955	2.470	248.614	49.165	52.630	-	987.170
Unallocated	6.441.375	59.693	357.063	243.365	245.561	149.687	236.510	4.138	606.817	302.347	123.269	3.325.882	(8.687.183)	3.408.524
Total assets	**7.867.766**	**4.864.141**	**3.228.686**	**552.181**	**439.716**	**461.067**	**369.008**	**1.407.097**	**664.834**	**1.672.708**	**230.217**	**7.476.465**	**(8.697.547)**	**20.536.339**
Issued bonds	2.290.514	-	-	-	-	-	-	-	-	-	-	-	-	**2.290.514**
Trade payables	10.992	153.749	45.733	13.099	28.333	6.320	3.304	2.013	4.481	180.775	12.621	37.926	-	**499.346**
Amounts due to employees	1.657	7.378	29.766	9.075	3.818	161	2.856	1.740	262	4.019	3.482	13.266	-	**77.480**
Equity and unallocated liabilities	5.564.603	4.703.014	3.153.187	530.007	407.565	454.586	362.848	1.403.344	660.091	1.487.914	214.114	7.425.273	(8.697.547)	**17.668.999**
Total equity and liabilities	**7.867.766**	**4.864.141**	**3.228.686**	**552.181**	**439.716**	**461.067**	**369.008**	**1.407.097**	**664.834**	**1.672.708**	**230.217**	**7.476.465**	**(8.697.547)**	**20.536.339**
31 Dec 2015 restated 0ther segment information														
Capital expenditure:	**5.435**	**115.912**	**30.737**	**15.933**	**2.364**	**44.593**	**1.317**	**2.322**	**3.261**	**41.273**	**1.261**	**10.481**	**-**	**274.889**
Tangible assets	5.310	115.912	29.441	15.884	2.364	43.785	1.317	2.134	3.261	40.014	1.239	10.282	-	270.943
Intangible assets	125	-	1.296	49	-	808	-	188	-	1.259	22	199	-	3.946
Depreciation and impairment	8.815	162.607	168.611	15.286	13.705		7.238	3.326	10.360	121.129	2.557	34.571	-	548.205

5. OTHER OPERATING INCOME

SALES

	2016	2015
	(HRK`000)	(HRK`000)
Grant and subsidy income	597.196	582.113
Reversal of deferred income	233.349	241.149
Recovery of amounts previously written off	130.259	136.643
Income from reversal of provisions	113.477	52.654
Unrealised gains from change in fair value of investment property	22.919	191.259
Damages collected	16.057	9.266
Income from sale of non-current assets, surpluses and upon revaluation	3.400	3.233
Other operating income	86.021	81.421
	1.202.678	**1.297.738**

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).

	2016			2015		
	City of Zagreb	Others	**Total**	City of Zagreb	Others	**Total**
	(HRK`000)	(HRK`000)	(HRK`000)	(HRK`000)	(HRK`000)	(HRK`000)
ZET	502.736	-	502.736	515.076	17.592	**532.668**
Others	72.665	21.795	94.460	42.964	6.481	**49.445**
	575.401	**21.795**	**597.196**	**558.040**	**24.073**	**582.113**

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 2016 based on the estimate made by court appointed expert. At the same time unrealised loss in the amount of HRK 27,867 thousand (2015: HRK 180,346 thousand) were recognized for those property whose fair value decreased. The net effect from the movement in fair value of investment property resulted with the HRK 4.948 thousand of unrealized loss (2015: HRK 10,913 thousand of unrealised gains) (see Note 17 to the consolidated financial statements). (see note 17 with consolidate report).

5. OTHER OPERATING INCOME (CONTINUED)

Income from reversal of provisions relates mainly to the following:

	2016	2015
	(HRK`000)	(HRK`000)
a) Employee benefit provisions	37.203	6.005
b) Litigation provisions, as per the attorney's assessment	39.283	12.294
c) Accrued vacation and other benefits	36.991	34.355
	113.477	**52.654**

Income from collection of damages, liquidated damages and other income comprise principally the following:

	2016	2015
	(HRK`000)	(HRK`000)
Collected damages and liquidated damages	10.377	5.982
Other income (debt write-off, approved discounts and similar)	5.680	3.284
	16.057	**9.266**

Income from collection of damages and liquidated damages comprises principally on the subsidiary ZET in the amount of HRK 3,426 thousand (2015: HRK 2,715 thousand) for collection of damages from insurance companies and on the subsidiary VIO d.o.o. in the amount of HRK 4,337 for liquidating damages on subcontractors who failed to meet the deadlines on time.

Other operating incomes comprise i*nternal sales, surplus and other unspecified income.*

6. COST OF MATERIALS AND SERVICES

	2016	2015
	(HRK`000)	(HRK`000)
Cost of raw material and supplies	242.299	222.428
Energy costs	219.723	225.183
Expensed small items	22.184	15.666
a) Total material costs	484.206	463.277
b) Changes in the value of inventories of work in progress and finished products	(7.806)	(1.168)
c) Cost of goods sold	996.233	1.146.151
Subcontractor service costs	185.280	52.891
Maintenance	160.037	167.244
Municipal utility fees and charges	106.227	97.868
Rental and lease costs	62.475	39.151
Transportation costs	45.353	42.954
Intellectual services	42.846	26.059
Data processing and software maintenance services	37.915	37.337
Insurance premiums	28.709	30.551
Bank and payment operation charges	12.018	11.662
Advertising and promotion	4.489	2.446
Other external services	115.552	109.592
d) Total external services	800.901	617.755
	2.273.534	**2.226.015**

In 2016 the audit expenses amount HRK 689 thousand HRK (2015: HRK 1,145 thousand) and are stated within the expense of intellectual services as well as indirect costs connected to early repurchase of 48.77% of euro bonds from July 2016.

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 8th 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%.

7. STAFF COSTS

	2016	2015
	(HRK`000)	(HRK`000)
Net wages and salaries	888.700	841.436
Taxes and contributions	599.691	557.212
Reimbursement of costs to employees and other employee benefits	120.960	113.913
	1.609.351	**1.512.561**
Number of staff as at 31 December	**10.394**	**10.646**

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.

116

8. DEPRECIATION AND AMORTISATION

	2016	2015
	(HRK`000)	(HRK`000)
Depreciation (Note 16)	535.023	534.938
Amortisation (Note 15)	13.117	13.267
	548.140	**548.205**

9. IMPAIRMENT OF ASSETS

	2016	2015
	(HRK`000)	(HRK`000)
Impairment allowance on current assets	138.558	257.315
Loss from investments into property	27.867	180.346
Impairment allowance on non-current assets	858	23.658
	167.283	**461.319**

10. PROVISIONS FOR RISKS AND CHARGES

	2016	2015
	(HRK`000)	(HRK`000)
Litigation provisions	48.850	48.613
Provisions for disposal of bulky waste	6.287	10.848
Provisions under IAS 19 Employee Benefits	5.297	49.728
Provisions for the restoration of natural resources	7.255	2.488
Provisions for expenses in the guarantee period	2.738	-
Other provisions	37.571	29.940
	107.998	**141.617**

Other provisions for the year 2016 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.

11. OTHER OPERATING EXPENSES

	2016	2015
	(HRK`000)	(HRK`000)
Administrative fees and court costs	22.419	21.175
Taxes and contributions independent of operating results	6.426	6.182
Professional organisation membership fees	5.657	5.753
Entertainment	1.779	1.407
Cultural monument fees and environmental protection costs	1.123	969
Professional literature	1.052	903
Fees to Supervisory Board members	1.029	973
Other expenses	2.613	603
Fines, penalties, damages	63.634	30.704
Net book value of assets sold or otherwise disposed of	2.463	2.262
Written-off receivables	2.563	1.678
Grants, donations and sponsorships	3.250	3.356
Other operating expenses	31.129	25.789
	145.137	**101.754**

117

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.

12. FINANCIAL INCOME

	2016	2015
	(HRK`000)	(HRK`000)
Financial income- unrelated entities	112.287	83.930
Financial income- related entities	119.244	134.362
Other financial income	5.585	6.571
	237.116	**224.863**

Financial income comprises the following:

	2016	2015
	(HRK`000)	(HRK`000)
Interest income	149.058	159.445
Foreign exchange gains	69.524	43.981
Other financial income	18.534	21.437
	237.116	**224.863**

The net exchange gains for 2016 amount to HRK 39,599 thousand (2015: HRK 12,594 thousand).

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

13. FINANCIAL EXPENSES

	2016	2015
	(HRK`000)	(HRK`000)
Financial expense- unrelated entities	279.785	292.055
Financial expense- related entities	492	-
Other financial expenses	40.192	6.808
	320.469	**298.863**

Financial expenses comprise the following:

	2016	2015
	(HRK`000)	(HRK`000)
Interest expense	249.542	260.925
Foreign exchange losses	29.925	31.027
Expenses from early repurchase of bonds	27.620	-
Discounted issued bonds	5.228	-
Other	8.154	6.911
	320.469	**298.863**

In June 2016, the Group made early repurchase of 48.77% of Euro bonds by issuing new bonds having the nominal value of HRK 1,800,000 thousand with 3.875% coupon.

Other financial expense mostly refers to the discount from the sale of receivables.

14. CORPORATE 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. As at 1 January 2017, due to legislative changes, the rate applied will be 18%.

Tax expense recognised in profit or loss

	2016	2015
	(HRK`000)	(HRK`000)
Income tax expense comprises the following:		
Current tax	28.173	(30.371)
Deferred tax expense on the origination and reversal of temporary differences	7.205	8.065
Total tax (income)/expense	**35.378**	**22.306**

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

	2016	2015
	(HRK`000)	(HRK`000)
Profit before taxation	110.310	143.296
Income tax at the rate of 20% (2015: 20%)	22.062	28.659
Effect of permanent differences, net	14.381	(14.418)
Effect of unrecognised and unused tax losses brought forward	(8.270)	-
Effect of reversal of temporary differences previously recognized as deferred tax assets	7.205	-
Effect of temporary differences recognised as deferred tax assets	-	8.065
Tax expense recognised in profit or loss	**35.378**	**22.306**

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.

14. CORPORATE INCOME TAX (CONTINUED)

Deferred taxes - deferred tax assets and deferred tax liabilities

2016	Opening balance	Recognised in profit or loss	Recognised in other comprehensive income	Recognised directly in equity	Closing balance
	(HRK`000)	(HRK`000)	(HRK`000)	(HRK`000)	(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**

14. CORPORATE INCOME TAX (CONTINUED)

Deferred taxes - deferred tax assets and deferred tax liabilities (continued)

2015	Opening balance	Recognised in profit or loss	Recognised in other comprehensive income	Recognised directly in equity	Closing balance
	(HRK`000)	(HRK`000)	(HRK`000)	(HRK`000)	(HRK`000)
Temporary differences					
Provisions	35.269	8.065	-	-	43.334
Receivables stated at fair value	12	-	-	-	12
Value adjustment of inventory	45	-	-	-	45
Value adjustment of land					
Revaluation of land	648.941	-	22.046	-	670.987
Property, plant and equipment	259	-	-	(30)	229
Revaluation of financial assets	2.224	-	89	-	2.313
Deferred income	3.614	-	-	-	3.614
Unused tax losses and tax credits					
Tax losses	185	-	-	-	185
Deferred tax assets	**35.511**	**8.065**	**-**	**-**	**43.576**
Deferred tax liabilities	**655.038**	**-**	**22.135**	**(30)**	**677.143**

15. INTANGIBLE ASSETS

	31 Dec 2016	31 Dec 2015
	(HRK`000)	(HRK`000)
Cost or valuation	210.503	212.465
Accumulated amortisation	(187.675)	(180.626)
	22.828	**31.839**

The structure of intangible assets is as follows:

	31.12.2016.	31.12.2015.
	(HRK`000)	(HRK`000)
Patents, concessions and similar rights	13.745	17.393
Intangible assets under development	5.382	6.178
Other intangible assets	3.701	8.268
	22.828	**31.839**

15. INTANGIBLE ASSETS (CONTINUED)

	Patents, licences ans other rights	Other intangible assets	Intangible assets under developmenti	Total intangible assets
(HRK`000)				
NABAVNA VRIJEDNOST				
Balance as at 31 Dec 2014	**88.261**	**114.081**	**10.827**	**213.169**
Additions	915	188	2.843	**3.946**
Transfer from assets under development	1.397	336	(1.589)	**144**
Retirement, disposal, sale	(3.804)	(3)	(988)	**(4.795)**
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 (transfers 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**
ACCUMULATED DEPRECIATION AND IMPAIRMENT				
Balance as at 31 Dec 2014	**65.146**	**100.838**	**4.917**	**170.901**
Amortisation	8.016	5.499	-	**13.515**
Retirement, disposal, sale	(3.789)	(2)	-	**(3.791)**
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)**
Reversal of impairment	-	-	(4.917)	**(4.917)**
Balance as at 31 Dec 2016	**76.233**	**111.442**	**-**	**187.675**
CARRYING AMOUNT				
Balance as at 31 Dec 2014	**23.115**	**13.243**	**5.910**	**42.268**
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**

16. PROPERTY, PLANT AND EQUIPMENT

	31 Dec 2016	31 Dec 2015
	(HRK`000)	(HRK`000)
Cost or valuation	22.295.425	22.452.192
Accumulated depreciation or impairment	(9.106.799)	(8.606.938)
	13.188.626	**13.845.254**
Prepayments made	**3.344**	**3.458**
Total	**13.191.970**	**13.848.712**

Structure of property, plant and equipment:

	31 Dec 2016	31 Dec 2015
	(HRK`000)	(HRK`000)
Buildings	6.128.571	6.389.023
Land	4.570.097	4.637.417
Tools and vehicles	1.605.905	1.728.091
Tangible assets under construction	632.130	811.649
Plant and equipment	201.887	229.042
Other tangible assets	50.036	50.032
	13.188.626	**13.845.254**

During 2016, the Group stop recognizing property, plant and equipment in the total amount of HRK 254,412 thousand HRK and in line with IFRIC 12 Service Concession Arrangements acknowledged receivables from the City of Zagreb for leasing venues for public use.

Movements in prepayments:

	2016	2015
	(HRK`000)	(HRK`000)
Opening balance	**3.458**	**3.877**
Additions	-	-
Disposals	(114)	(419)
Closing balance	**3.344**	**3.458**

16. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	Land	Buildings and housing blockse	Plant and equipment	Tools and vehicles	Other tangible assetsa	Assets under developmenti	Total tangible assets
(HRK`000)							
COST OR VALUATION							
Balance as at 31 Dec 2014	**4.473.046**	**12.225.164**	**1.317.374**	**3.205.885**	**50.236**	**849.761**	**22.121.466**
Additions	46	22.309	20.240	14.529	12	213.807	**270.943**
Transferred to inventories	-	-	-	-	-	(65.000)	**(65.000)**
Transfer from assets under development	80	68.284	29.545	15.872	19	(113.944)	**(144)**
Reclassifications (transfers from/to)	-	708	108	47.007	-	(47.823)	-
Revaluation	110.665	-	-	-	-	-	**110.665**
Retirement, disposal, sale	-	(4.771)	(22.969)	(16.802)	(107)	(3.754)	**(48.403)**
Reclassification from / to property investments	72.244	(5.526)	-	-	-	(4.053)	**62.665**
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**
Transferred to inventories	(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**
Earlier impairments	(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**
ACCUMULATED DEPRECIATION							
Balance as at 31 Dec 2014	**225**	**5.652.313**	**1.054.519**	**1.406.964**	**128**	**16.386**	**8.130.535**
Depreciation	-	303.936	82.557	147.238	-	959	**534.690**
Impairment	18.009	-	-	-	-	-	**18.009**
Revaluation	430	-	-	-	-	-	**430**
Reclassifications (transfers from/to)	-	(37)	127	(90)	-	-	-
Retirement, disposal, sale	-	(5.757)	(21.947)	(15.712)	-	-	**(43.416)**
IAS 40 reclassification	-	(33.310)	-	-	-	-	**(33.310)**
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)**
Reclassifications (transfers from/to)	-	-	7	(1.724)	1.717	-	-
Retirement, disposal, sale	-	(3.224)	(35.594)	(30.223)	-	-	**(69.041)**
Earlier impairments	-	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**
CARRYING AMOUNT							
Balance as at 31 Dec 2014	**4.472.821**	**6.572.851**	**262.855**	**1.798.921**	**50.108**	**833.375**	**13.990.931**
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**

16. 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 (at revalued amount)

	31 Dec 2016	31 Dec 2015
	(HRK`000)	(HRK`000)
Registered	3.254.683	2.691.543
Unregistered	1.315.414	1.645.640
	4.570.097	**4.337.183**

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.

Assets pledged as collateral

	31 Dec 2016	31 Dec 2015
	(HRK`000)	(HRK`000)
Real estate	49.915	58.840
	49.915	**58.840**

Capitalised borrowing costs under IAS 23

In 2016, the Group did not capitalise borrowing (2015: HRK 316 thousand).

17. INVESTMENT PROPERTIES

	31 Dec 2016	31 Dec 2015
	(HRK`000)	(HRK`000)
Balance as at 1 January	**1.958.298**	**2.043.359**
Sales	-	-
Increase of the value for new investments	2.076	4.053
Increase in fair value through profit or loss (net)	(4.948)	10.913
Transfer to property, plant and equipment	-	(100.027)
Balance as at 31 December	**1.955.426**	**1.958.298**

During 2016 investment properties were re-measured at fair value on the basis of appraisals by a certified property appraisal expert, upon which losses resulting from the change in the fair values in the amount of HRK 4,948 thousand (2015: profit of HRK 10,913 thousand) were included in the consolidated income statement.

18. OTHER FINANCIAL ASSETS

	31 Dec 2016	31 Dec 2015
	(HRK`000)	(HRK`000)
Current portion		
Held-to-maturity investments at amortised cost	107.459	230.188
	107.459	**230.188**
Long-term portion		
Held-to-maturity investments at amortised cost	114.493	126.517
Financial assets available for sale	17.938	12.741
Financial assets at fair value	933	876
	133.364	**140.134**

Financial assets at fair value

	31 Dec 2016	31 Dec 2015
	(HRK`000)	(HRK`000)
Investment in shares	**933**	**876**

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.

18. OTHER FINANCIAL ASSETS (CONTINUED)

Long-term deposit and other financial assets

	31 Dec 2016	31 Dec 2015
	(HRK`000)	(HRK`000)
Deposits with maturities over one year	114.493	126.517
Deposits with maturities of up to one year	96.535	222.137
Other held-to-maturity securities	10.924	8.051
	221.952	**356.705**
Current portion	107.459	230.188
Long-term portion	114.493	126.517

Financial assets available for sale

	31 Dec 2016	31 Dec 2015
	(HRK`000)	(HRK`000)
Financial assets available for sale	**17.938**	**12.741**

19. NON-CURRENT RECEIVABLES

	31 Dec 2016	31 Dec 2015
	(HRK`000)	(HRK`000)
Long-term portion		
Amounts owed by related parties	1.305.211	1.437.091
Loan receivables	11.772	17.316
Receivables in respect of credit sales	9.133	11.077
Other receivables	340.777	550.513
	1.666.893	**2.015.997**
Current portion - Notes 21		
Receivables from related parties (Note 21)	228.479	221.943
Receivables for loans (Note 21)	2.609	958
Receivables in respect of credit sales (Note 21)	1.415	1.099
Other receivables (Note 21)	11.742	28.620
	244.245	**252.620**

19. 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 2016	31 Dec 2015
	(HRK`000)	(HRK`000)
Receivables from Company members	1.697.661	1.681.438
Discount of outstanding receivables	(151.276)	(22.405)
Impairment of receivables from Company members	(12.695)	-
	1.533.690	**1.659.033**
Current portion (Note 21)	228.479	221.943
Long-term portion	1.305.211	1.437.090

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 84,709 thousand (2015: HRK 192,102 thousand), in respect of funding 50 percent of the lease costs for the sports facility Arena Zagreb in the amount of HRK 351,503 thousand (2015: HRK 365,620 thousand net), lease receivables from City of Zagreb in the amount of HRK 769,564 thousand for receivables for contracts in line with IFRIC 12 Service Concession Arrangements the amount of HRK 322,284 thousand while the remaining part refers to receivables for tripartite agreements.

Receivables for loans

	31 Dec 2016	31 Dec 2015
	(HRK`000)	(HRK`000)
Long-term loans to unrelated companies	16.690	20.992
Long-term loans to the Management and employees	12.160	11.786
Impairment allowance on given loans	(14.469)	(14.504)
	14.381	**18.274**
Current portion	2.609	958
Long-term portion	11.772	17.316

19. NON-CURRENT RECEIVABLES (CONTINUED)

Receivables in respect of credit sales

	31 Dec 2016	31 Dec 2015
	(HRK`000)	(HRK`000)
Receivables for flats sold	11.203	13.554
Value adjustment on discount	(655)	(1.377)
Discount rate in %	**2,9%**	**3,9%**
	10.548	**12.177**
Current portion	1.415	1.099
Long-term portion	9.133	11.078

PReceivables for flats sold are discounted each year using the rate that reflects the yield rate on the Croatian government bonds, which was 2.9% in 2016 (2015: 3.9%)

Other non-current receivables

	31 Dec 2016	31 Dec 2015
	(HRK`000)	(HRK`000)
Receivables from the State	351.444	577.210
Other receivables	1.075	1.922
	352.519	**579.132**
Current portion	11.742	28.620
Long-term portion	340.777	550.512

Receivables from the state in the amount of HRK 351,444 thousand comprise amounts owed by the Croatian Government in respect of funding 50 percent of the Arena Sports Hall rental costs.

20. INVENTORIES

	31 Dec 2016	31 Dec 2015
	(HRK`000)	(HRK`000)
Raw material and supplies	117.308	113.580
Work in progress	165.000	133.755
Finished products	29.793	30.066
Merchandise (and property in circulation)	29.111	24.276
Prepayments for inventories	262	119
	341.474	**301.796**

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.

21. TRADE RECEIVABLES AND OTHER RECEIVABLES

	31 Dec 2016	31 Dec 2015
	(HRK`000)	(HRK`000)
Receivables from related parties	381.742	384.384
Trade receivables-net	1.043.805	987.170
Receivables from the state for taxes and contributions	31.438	46.362
Amounts due from employees	2.531	2.936
Other receivables	83.902	123.305
	1.543.418	**1.544.157**

Receivables from related parties

	31 Dec 2016	31 Dec 2015
	(HRK`000)	(HRK`000)
Receivables from Company member (Note 31)	153.263	162.441
Current portion of long-term receivables from Company member (Note 19)	228.479	221.943
	381.742	**384.384**

21. TRADE RECEIVABLES AND OTHER RECEIVABLES (CONTINUED)

Trade receivables

	31 Dec 2016	31 Dec 2015
	(HRK`000)	(HRK`000)
Trade receivables	1.878.537	1.848.415
Impairment allowance on trade receivables	(834.732)	(861.245)
	1.043.805	**987.170**

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 2016	31 Dec 2015
	(HRK`000)	(HRK`000)
0-60 days	165.392	140.934
60-180 days	85.125	66.179
180-365 days	66.571	34.613
Over 365 days	293.580	348.011
	610.668	**589.737**

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).

21. TRADE RECEIVABLES AND OTHER RECEIVABLES (CONTINUED)

Movement in impairment allowance for doubtful accounts

	2016	2015
	(HRK`000)	(HRK`000)
Balance as at 01 January	**861.245**	**748.545**
Impairment losses recognised	129.934	251.021
Amounts written-off as uncollectible	(5.609)	(1.678)
Amounts recovered during the year	(130.043)	(136.643)
Write-off earlier impaired receivables	(20.795)	-
Balance as at 31 December	**834.732**	**861.245**

Ageing analysis of impaired trade receivables

	31 Dec 2016	31 Dec 2015
	(HRK`000)	(HRK`000)
120-180 days	9.671	19.786
180-365 days	13.698	32.031
Over 365 days	811.363	809.428
	834.732	**861.245**

Other receivables

	31 Dec 2016	31 Dec 2015
	(HRK`000)	(HRK`000)
Prepaid expenses and accrued income	52.647	74.752
Current portion of long-term receivables (Note 19)	15.766	30.677
Prepayments- net	5.914	5.625
Receivables from insurance companies and other damages receivable	2.105	1.561
Other receivables	7.470	10.690
	83.902	**123.305**

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

22. CASH AND CASH EQUIVALENTS

	31 Dec 2016	31 Dec 2015
	(HRK`000)	(HRK`000)
Current account balance- HRK denominated	412.749	402.553
FX current account balance	639.102	7.728
Cash in hand	1.720	1.544
Foreign-currency cash in hand	7	10
Other cash (court ordered deposits and similar)	4.137	9.807
	1.057.715	**421.642**

23. EQUITY

a) Share capital

The Company's sole owner is the City of Zagreb. At 31 December 2016, the share capital of the Company amounts to HRK 3,833,236 thousand (31 December 2015: HRK 3,833,236 thousand).

b) Revaluation reserve

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 2016	31 Dec 2015
	(HRK`000)	(HRK`000)
Property revaluation	2.873.636	2.786.961
Revaluation of investment in financial assets available for sale	13.901	9.291
	2.887.537	**2.796.252**

b-1) Reserves on property revaluation

	2016	2015
	(HRK`000)	(HRK`000)
Balance at the beginning of the year	**2.786.961**	**2.698.773**
Revaluation surplus / (deficit)	24.307	110.234
Increase resulting from changed profit tax rate	67.388	-
Deferred tax liabilities arising from revaluation	(5.020)	(22.046)
Balance at the end of the year	**2.873.636**	**2.786.961**

23. EQUITY (CONTINUED)

b) Revaluation reserve (continued)

b-1) Reserve on revaluation of investments in available-for-sale financial assets

	2016	2015
	(HRK`000)	(HRK`000)
Balance at beginning of the year	**9.291**	**8.938**
Revaluation surplus	5.197	442
Increase resulting from changed profit tax rate	348	-
Deferred tax liabilities arising from revaluation	(935)	(89)
Balance at end of the year	**13.901**	**9.291**

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 2016 amounts HRK 54,148 thousand (as at 31 December 2015 other comprehensive income was realized in the amount of HRK 88,541 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.

d) (Accumulated losses) / retained earnings

	2016	2015
	(HRK`000)	(HRK`000)
Balance as at 1 January	**708.178**	**590.928**
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 for the year	69.718	117.250
Balance as at 31 December	**695.267**	**708.178**

23. EQUITY (CONTINUED)

e) Non-controlling interests

	2016	2015
	(HRK`000)	(HRK`000)
Balance as at 1 January	**6.866**	**8.706**
Profit for the year	5.214	3.741
Profit payment to minority member	(3.732)	(5.581)
Balance as at 31 December	**8.348**	**6.866**

24. LOANS AND BORROWINGS

	31 Dec 2016	31 Dec 2015
	(HRK`000)	(HRK`000)
Long-term borrowings		
Loans and borrowings payable	797.551	1.106.038
Finance lease obligations	1.323.988	1.475.805
Liabilities from sales receivables	8.560	24.222
	2.130.099	**2.606.065**
Short-term borrowings		
Loans and borrowings payable	325.426	368.748
Finance lease obligations	137.539	129.253
Liabilities from sales receivables	15.600	15.600
Other	69.207	68.311
	547.772	**581.912**

On the Balance Sheet date, the average interest rate applied on loans and borrowings, as well as on financial lease, was 3.59% (2015: 3.8%).

24. LOANS AND BORROWINGS (CONTINUED)

a) Movements in non-current loans and borrowings

	2016	2015
	(HRK`000)	(HRK`000)
Balance as at 1 January	**1.469.642**	**1.842.334**
New loans raised	26.953	-
Amounts repaid	(367.467)	(369.761)
Effect of exchange differences	(6.230)	(2.931)
Balance as at 31 December	**1.122.898**	**1.469.642**
Current portion	(325.347)	(363.604)
Long-term portion	**797.551**	**1.106.038**

Repayment schedule of long-term loans and borrowings

	31 Dec 2016	31 Dec 2015
	(HRK`000)	(HRK`000)
Within one year	325.347	363.604
In the second to inclusive the fifth year	639.122	879.699
After five years	158.429	226.339
	1.122.898	**1.469.642**

Analysis by currency

	31 Dec 2016	31 Dec 2015
	(HRK`000)	(HRK`000)
HRK	748.852	918.908
Euro	374.046	550.734
	1.122.898	**1.469.642**

24. LOANS AND BORROWINGS (CONTINUED)

b) Finance lease obligations

	Minimum lease payments		Present value of minimum lease payments	
	31 Dec 2015	**31 Dec 2015**	**31 Dec 2015**	**31 Dec 2015**
(HRK`000)				
Within one year	197.344	199.057	137.539	129.253
In the second to inclusive the fifth year	852.517	979.264	686.049	770.771
After five years	873.096	971.711	637.939	705.034
	1.922.957	**2.150.032**	**1.461.527**	**1.605.058**
Less: future finance charges	**(461.430)**	**(544.974)**		
Present value of minimum lease payments	**1.461.527**	**1.605.058**		
Included in the financial statements within:				
Current liabilities (Note- Current borrowings)	137.539	129.253		
Current liabilities (Note- Non-current loans and borrowings)	1.323.988	1.475.805		
	1.461.527	**1.605.058**		

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 19 and 30 to the consolidated financial statements).

24. LOANS AND BORROWINGS (CONTINUED)

b) Finance lease obligations (continued)

Net carrying value of items under financial lease arrangements:

	Buildings	Tools and vehicles	Total
	(HRK`000)	(HRK`000)	(HRK`000)
Cost	818.881	1.522.095	2.340.976
Accumulated depreciation	(71.652)	(374.898)	(446.550)
Net book value 31 Dec 2015	**747.229**	**1.147.197**	**1.894.426**
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**

c) Short-term loans and borrowings

	31 Dec 2016	31 Dec 2015
	(HRK`000)	(HRK`000)
Short-term loans and borrowings	340.947	384.204
Short-term loans and borrowings	-	5.000
Current portion of long-term borrowings	340.947	379.204
Financial leases (current portion)	137.539	129.253
Other (interest on borrowings and bonds)	69.286	68.455
	547.772	**581.912**

Movements in short-term loans and borrowings

	2016	2015
	(HRK`000)	(HRK`000)
Balance as at 1 January	**384.204**	**367.298**
Proceeds from new loans	-	5.000
Repayment of current portion of non-current loans and borrowings	(384.204)	(367.298)
Current portion of long-term borrowings	340.947	379.204
Balance as at 31 December	**340.947**	**384.204**

24. LOANS AND BORROWINGS (CONTINUED)

Analysis by currency in short-term loans and borrowings

	31 Dec 2016	31 Dec 2015
	(HRK`000)	(HRK`000)
HRK	-	5.000
Euro	-	-
	-	**5.000**

25. LIABILITIES UNDER ISSUED BILLS OF EXCHANGE

	2016	2015
	(HRK`000)	(HRK`000)
Balance as at 1 January 2016	**2.290.514**	**2.290.514**
Issued bonds- nominal	1.800.000	-
Repurchase of bonds	(1.128.882)	-
Expense of discount and other issuing expense	(163.518)	-
	2.798.114	**2.290.514**
Bonds that mature within 1 year	(1.160.453)	-
Balance as at 31 December 2016	**1.637.661**	**2.290.514**

In July 2007, the Company issued bonds in the amount of EUR 300,000,000, with the effective coupon rate of 5.5 percent annually, which mature on a one-off basis in July 2017.

In July 2016, the Company issued bonds in the nominal amount of HRK 1,800,000 thousand at the fixed interest rate of 3.875% and the issuing price of 97.19%.

Average annual interest rate on bonds was 4.51% (2015: 5.5%).

26. OTHER NON-CURRENT LIABILITIES

	31 Dec 2016	31 Dec 2015
	(HRK`000)	(HRK`000)
Amounts owed to related parties	144.931	71.841
Trade payables	860	11.708
Other non-current liabilities	5.878	7.875
	151.669	**91.424**

Liabilities to related parties reported in the consolidated balance sheet / consolidated statement of financial position at 31 December 2016 refers to the guarantee of the City of Zagreb for issued HRK bonds in the amount of HRK 74,700 thousand, utility charges in the amount of HRK 18,566 thousand, and liability for joint projects with the City of Zagreb in the amount of HRK 51,665 thousand.

Trade payables reported in the consolidated balance sheet / consolidated statement of financial position as at 31 December 2016 in the amount of HRK 860 thousand relate entirely to advances received.

Other non-current liabilities reported in the consolidated balance sheet / consolidated statement of financial position at 31 December 2016 in the amount of HRK 5,878 thousand (2015: HRK 7,875 thousand), relate entirely to an amount owed to the State for flats sold to employees in accordance with the underlying government programme. According to the then applicable regulations, 65 percent of the income from the sale of flats to employees was to be transferred to the state upon collection. Based on the Law, the Company has no obligation to remit the funds before they have been collected from the employees.

27. PROVISIONS

	31 Dec 2016	31 Dec 2015
	(HRK`000)	(HRK`000)
Litigation provisions	270.325	262.969
Provisions for employee benefits under IAS 19	179.128	216.011
Provisions for the landfill restoration	48.726	41.471
Provision for other liabilities	2.738	-
	500.917	**520.451**
Current obligation (Note 29)	40.769	38.747
Long-term obligation	460.148	481.704
	500.917	**520.451**
Discount rate applied to employee benefits and landfill rehabilitation	**3,00%**	**3,85%**

ZAGREBAČKI HOLDING d.o.o. and its subsidiaries
Notes to the Consolidated Financial Statements- continued
For the year ended 31 December 2016

27. PROVISIONS (CONTINUED)

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 3 percent (2015: 3.85%).

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.

28. DEFERRED INCOME

	31 Dec 2016	31 Dec 2015
	(HRK`000)	(HRK`000)
Deferred income	4.282.740	4.847.409
	4.282.740	**4.847.409**

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.

29. TRADE PAYABLES AND OTHER LIABILITIES

	31 Dec 2016	31 Dec 2015
	(HRK`000)	(HRK`000)
Trade payables	597.813	499.346
Liabilities to related parties (Note 31)	67.169	194.370
Amounts due to employees for net salaries and contributions	79.816	77.480
Prepayments, deposits and guarantees	16.223	15.167
Other liabilities	548.012	494.740
	1.309.033	**1.281.103**

29. TRADE PAYABLES AND OTHER LIABILITIES (CONTINUED)

Other liabilities

	31 Dec 2016	31 Dec 2015
	(HRK`000)	(HRK`000)
Liabilities under recharged services (VIO)	214.945	178.324
Accrued expenses not yet billed	100.793	70.866
Deferred sales	57.018	74.161
Payroll and benefit-related taxes and contributions	50.986	51.630
Current portion of long-term provisions (Note 27)	40.769	38.747
VAT	54.609	39.888
Other fees payable under decisions	19.980	21.583
Memberships, fees and taxes	8.889	19.521
Accrued VAT on prepayments	23	20
	548.012	**494.740**

30. OFF-BALANCE SHEET ITEMS

	31 Dec 2016	31 Dec 2015
	(HRK`000)	(HRK`000)
Off-balance sheet items	225.214	235.799
	225.214	**235.799**

As at 31 December 2016 off-balance sheet items comprise given guarantees and debentures in the amount of HRK 47,056 thousand (2015: HRK 50,647 thousand), received guarantees and debentures in the amount of HRK 173,969 thousand (2015: HRK 175,522 thousand HRK), assets received under operating leases in the amount of HRK 772 thousand (2015: 5,123 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.

31. 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.

31. BALANCES AND TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

Trading transactions

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

	Sales		Purchases of goods and services	
	2016	**2015**	**2016**	**2015**
	(HRK`000)	(HRK`000)	(HRK`000)	(HRK`000)
City of Zagreb	851.732	698.385	31.668	32.822
	851.732	**698.385**	**31.668**	**32.822**

Outstanding balances from trading transactions at the end of the reporting period:

	Amounts owed by related parties		Amounts owed to related parties	
	31 Dec 2016	**31 Dec 2015**	**31 Dec 2016**	**31 Dec 2015**
	(HRK`000)	(HRK`000)	(HRK`000)	(HRK`000)
City of Zagreb	153.263	162.442	67.169	194.370
	153.263	**162.442**	**67.169**	**194.370**

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

	Amounts receivable under other related party transactions		Amounts payable under other related party transactions	
	31 Dec 2016	**31 Dec 2015**	**31 Dec 2016**	**31 Dec 2015**
	(HRK`000)	(HRK`000)	(HRK`000)	(HRK`000)
City of Zagreb	1.533.690	1.659.033	144.931	71.841
	1.533.690	**1.659.033**	**144.931**	**71.841**

31. 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 2016	31 Dec 2015
	(HRK`000)	(HRK`000)
Salaries of the Management Board and branch directors	10.115	9.278
Fees to the Supervisory Board members	774	973
	10.889	**10.251**

32. EMPLOYEE BENEFITS

As of 31 December 2016, provisions for employee benefits, which include long-service benefits and solidarity support, amount to HRK 179,128 thousand (31 December 2015: HRK 213,821 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 2015 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

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.

32. EMPLOYEE BENEFITS (CONTINUED)

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 3.85% (2014: 4%), which reflects the market yield on government bonds.

Key assumptions underlying the actuarial estimates:

	2016	2015
Discount rate	3,00%	3,85%
Fluctuation rate	4%	3%
Average expected remaining service period (in years)	**17**	**20**

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 2016 amounts HRK 179,128 thousand (2015: HRK 213,821 thousand).

Of which by maturity:

	31 Dec 2016	31 Dec 2015
	(HRK`000)	(HRK`000)
Current liabilities	15.158	14.067
Non-current liabilities	163.970	199.754
	179.128	**213.821**

33. FINANCIAL INSTRUMENTS

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 2016	31 Dec 2015
	(HRK`000)	(HRK`000)
Debt	**4.666.418**	**4.651.912**
Borrowings, loans and finance leases (long-term and short-term portion)	2.677.871	3.187.977
Liabilities for long-term securities	2.798.115	2.290.514
- Finance lease liabilities of Arena Hall (as stated and shown in the accounts of the City of Zagreb and the Croatian Government)	(724.859)	(577.197)
- 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)	(84.709)	(192.101)
-project management – agreements with the City of Zagreb	-	(57.281)
Cash and cash equivalents	**1.057.715**	**(421.642)**
Net debt	**3.608.703**	**4.230.270**
Equity	**7.747.006**	**7.664.509**
The ratio of net debt to equity	**46,58%**	**55,19%**

33. FINANCIAL INSTRUMENTS (CONTINUED)

Financial instruments categories

	31 Dec 2016	31 Dec 2015
	(HRK`000)	(HRK`000)
Financial assets		
Cash and cash equivalents	1.057.715	421.642
Financial assets at fair value	933	876
Long-term deposits and other financial assets	221.952	356.705
Financial assets available for sale	17.938	12.741
Receivables from related parties and trade receivables	2.730.758	2.808.645
Receivables for loans and in respect of credit sales	24.928	28.393
Receivables from employees	2.531	2.936
Other receivables	452.094	718.121
Total	**4.508.849**	**4.350.059**
Financial liabilities		
Financial lease agreements	1.461.527	1.605.058
Loans and borrowings (long-term and short-term portion)	1.122.977	1.582.919
Liabilities under issued bills of exchange	2.798.114	2.290.514
Liabilities to related companies and trade payables	810.773	777.265
Liabilities for advances, deposits and guarantees	16.223	15.167
Liabilities to employees	79.816	77.480
Other long-term and short-term liabilities	177.814	478.423
Total	**6.467.244**	**6.826.826**

Financial risk management objectives

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.

33. FINANCIAL INSTRUMENTS (CONTINUED)

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.

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 2016.	31 Dec 2015.	31 Dec 2016.	31 Dec 2015.
		(HRK`000)		(HRK`000)
EUR	3.027.662	4.507.050	1.479.613	1.596.591
USD	-	-	-	-
Other currencies	-	-	-	-

Foreign currency sensitivity analysis

The Group is mainly exposed to the fluctuations in the exchange rate of Croatian HRK to euro (EUR), since most of its debt i.e. 35% is tied to that currency. 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		Impact of other currencies
	31 Dec 2016.	31 Dec 2015.	31 Dec 2016.	31 Dec 2015.
		(HRK`000)		(HRK`000)
(Loss) / profit	(15.481)	(29.105)	-	-

33. FINANCIAL INSTRUMENTS (CONTINUED)

Interest rate risk management

Given that 34.54% 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 2016 and 31 December 2015 by type of liability:

	2016	2015
EURIBOR	20,1%%	24,02%
LIBOR	1,02%	2,53%
ZIBOR	0,16%	0,19%
Yield on Treasury bills of the Ministry of Finance	13,26%	16,93%
Fixed rate of interest	65,46%	56,33%
	100,00%	**100,00%**

Out of the total loan debt of the Group, 65.46% 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 5.50% p.a., i.e. bonds in HRK with the annual coupon rate of 3.875% and the liability for the finance lease obligation for Arena Zagreb with the interest rate of 4.7%.

EURIBOR and EUR LIBOR tied loan debt accounts for 21.28% of the total loan debt, whereas 13% of the loan debt is tied to the yield on the Treasury Bills of the Croatian Ministry of Finance. Thus, 35% of the loan debt bears interest at variable rates, which has been acknowledged as a significant uncertainty in developing future cash flow projections

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.

Liquidity risk management

Because of the liquidity problems prevailing in the Croatian economy, the liquidity risk has a highly negative impact on the Group's operations. 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.

33. FINANCIAL INSTRUMENTS (CONTINUED)

Liquidity risk management (continued)

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.

(HRK`000)	Rate	Up to 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	After 5 years	Total
31 December 2016	%							
Interest free								
Liabilities to related companies and trade creditors		665.843	14.940	14.940	14.940	14.940	85.170	810.773
Liabilities in respect of loans, deposits and similar		16.223						16.223
Amounts due to employees		79.816						79.816
Other current liabilities		177.814						177.814
Variable-rate instruments								
Finance lease obligations	4,20%	137.539	145.704	423.116	58.720	58.509	637.939	1.461.527
Loans and borrowings payable	3,17%	325.427	276.166	217.808	77.379	67.768	158.429	1.122.977
Fixed-rate instruments								
Finance lease obligations	4,70%							
Issued bonds EUR	5,50%	1.160.453						1.160.453
Issued bonds 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**

33. FINANCIAL INSTRUMENTS (CONTINUED)

Liquidity risk management (continued)

TLiquidity and interest rate risk tables (continued)

(HRK`000)	Rate	Up to 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	After 5 years	Total
31 Dec 2015.	%							
Interest free								
Liabilities to related companies and trade creditors		696.387	2.671	2.671	2.612	2.551	70.372	777.264
Liabilities in respect of loans, deposits and similar		15.167	-	-	-	-	-	15.167
Amounts due to employees		77.480	-	-	-	-	-	77.480
Other current liabilities		478.423	-	-	-	-	-	187.510
Variable-rate instruments								
Finance lease obligations	5,50%	144.084	147.286	147.447	422.494	38.727	95.575	995.613
Loans and borrowings payable	4,85%	414.002	355.681	293.891	226.999	87.624	242.571	1.620.768
Fixed-rate instruments								
Finance lease obligations	4,70%	54.972	55.087	56.024	56.074	56.126	876.137	1.154.420
Issued bonds	5,50%	125.000	2.290.514	-	-	-	-	2.415.514
TOTAL		**2.005.515**	**2.851.239**	**500.033**	**708.179**	**185.028**	**1.284.655**	**7.534.649**

33. FINANCIAL INSTRUMENTS (CONTINUED)
Liquidity risk management (continued)
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.

(HRK`000)	Rate	Up to 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	After 5 years	Total
31 December 2016	%							
Interest free								
Cash and cash equivalents		1.057.715						1.057.715
Financial assets at fair value		933						933
Receivables from related companies and trade debtors		2.106.964	34.867	10.879	10.879	10.879	556.289	2.730.758
Amounts due from employees		2.531						2.531
Other receivables		880	159	14	13	8	1	1.057
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
Instrumenti s fiksnom kamatnom stopom								
Fixed-rate instruments		108.147	1.750	1.750	1.750	1.750	78.526	193.673
Given deposits and other held-to-maturity securities	4%	863	783	783	783	783	10.417	14.412
Given loans, loans to related companies and accrued interests	1%	1.530	1.368	1.369	1.370	1.181	3.159	9.977
Receivables for given loans for flats								
Receivables from related companies		**3.348.819**	**40.048**	**15.915**	**15.915**	**15.721**	**706.632**	**4.143.050**

33. FINANCIAL INSTRUMENTS (CONTINUED)
Liquidity risk management (continued)
Liquidity and interest rate risk tables (continued)

(HRK`000)	Rate	Up to 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	After 5 years	Total
31 December 2016	%							
Interest free								
Cash and cash equivalents		421.642	-	-	-	-	-	421.642
Financial assets at fair value		876	-	-	-	-	-	876
Receivables from related companies and trade debtors		1.976.192	-	-	-	-	-	1.976.192
Amounts due from employees		2.936	-	-	-	-	-	2.936
Other receivables		337	317	317	317	317	317	1.922
Prepayments made		8.004						8.004
Receivables from insurance companies and other damages receivable		1.561						1.561
Prepaid expenses and accrued income		74.752						74.752
Other current receivables		10.687						10.687
Variable-rate instruments								
Given loans and other held-to-maturity securities	4,00%	1.792	1.792	1.792	1.792	1.792	63.168	72.128
Fixed-rate instruments								
Given deposits and other held-to-maturity securities	3,20%	244.952	2.167	1.932	1.898	10.110	57.785	318.844
Given loans, loans to related companies and accrued interests	7,00%	110.000	1.897	1.889	1.888	1.888	10.063	127.625
Receivables for given loans for flats	1,30%	688	1.420	1.419	1.418	1.415	5.979	12.339
Receivables from related companies		211.809	211.809	211.809	211.809	172.401	822.733	1.842.370
		3.066.228	**219.402**	**219.158**	**219.122**	**187.923**	**960.045**	**4.871.878**

33. FINANCIAL INSTRUMENTS (CONTINUED)

Fair value of financial instruments

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 2016
(HRK`000)	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss				
Investments in shares	421	-	512	933
	421	**-**	**512**	**933**

				31 Dec 2015
(HRK`000)	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss				
Participating interests- investments in shares	288	-	588	876
	288	**-**	**588**	**876**

34. 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 10,979 thousand, whereas the estimated value of investments amounts to HRK 191,405 thousand.

35. CONTINGENT LIABILITIES

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.

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.

36. 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.

37. 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 Law on Communal Management
- The Law on Local Self-government
- The Law on Waste
- The Institutions Act
- The Law on Waters
- The Cemeteries Act
- The Building Maintenance Act
- The Act on Free Zones

39. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

These financial statements were adopted by the Management and authorized for issue 31 March 2017

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.
ZAGREB, Ulica grada Vukovara 41