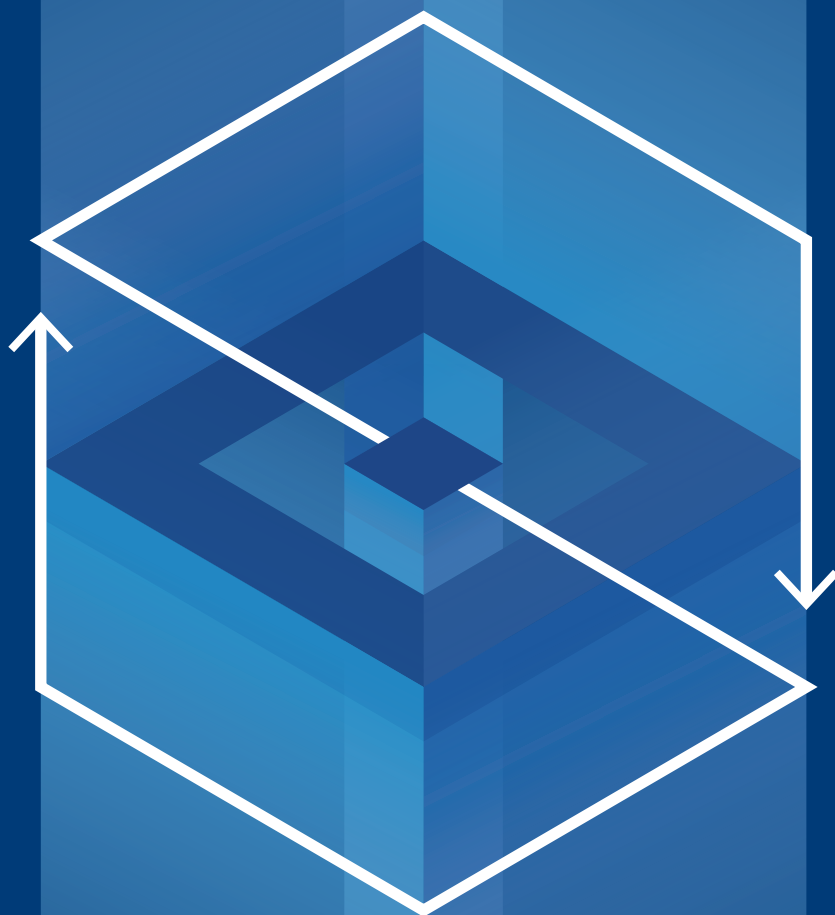


*Sustainability at the Heart
of the Company*



Sustainability Report



**ZAGREBAČKI
HOLDING**

**NON-FINANCIAL REPORT FOR 2017
ZAGREB HOLDING GROUP**

Publishing Details

Publisher

Zagreb Holding Ltd.
Ulica grada Vukovara 41, 10000 Zagreb
www.zgh.hr

For the Publisher

Management Board Assistance Department

This Report was compiled with the participation of work teams from professional services of the Head Office and all members of Zagreb Holding Group.

Reporting Advisors

Hauska & Partner

Graphic Design

Bestias

Print

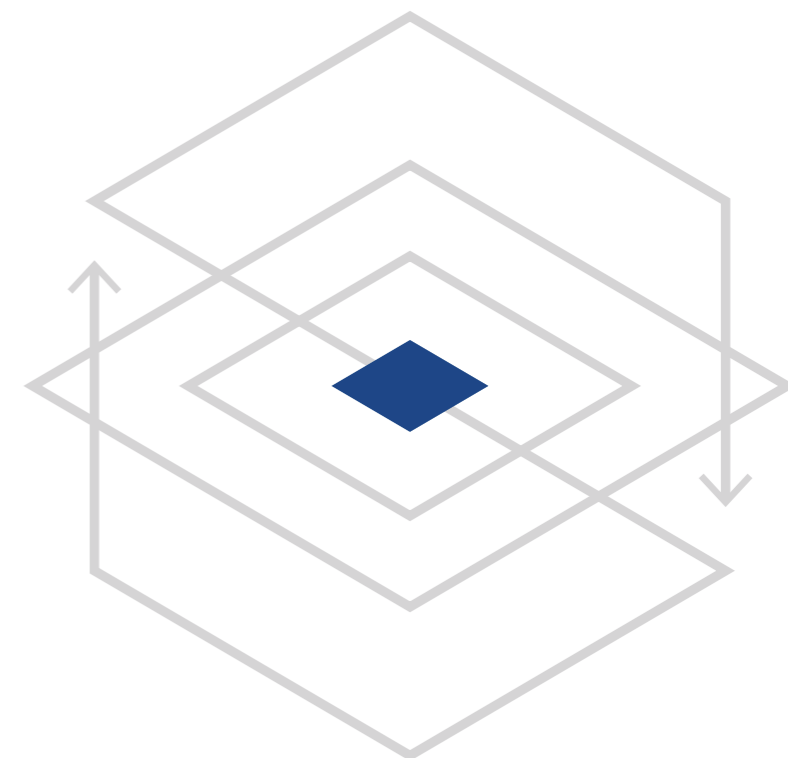
Institution for Vocational Rehabilitation and
Employment of Persons with Disabilities - URIHO Zagreb

Contact person for inquiries about the Report

Ksenija Pešl
Management Board Assistance Department
E-mail: ksenija.pesl@zgh.hr

This Report may be found at
www.zgh.hr

*Sustainability at the Heart
of the Company*



Sustainability Report

**NON-FINANCIAL REPORT FOR 2017
ZAGREB HOLDING GROUP**

Table of Contents

1.

2017 in Review

>10

2.

Letter by the President of the Management Board

>14

3.

Zagreb Holding Profile

>18

4.

Governance

>32

Ethical Conduct and Transparency >37

Anti-corruption Efforts >40

Governance Systems in Subsidiaries and Affiliates >41

Projects We Participate in, Follow and Support... >41

Voluntary External Initiatives >42

Memberships >43

5.

Strategy and Objectives

>46

Analysis of Sustainability in the Foundation of Business Strategy >47

6.

Relevant Issues

>54

Material Issues >56
Stakeholders of Zagreb Holding >57

7.

Value Creation

>64

Main Financial Indicators for 2017 >65

Project Planning, Financing and Management >66

Capital Projects >66

Financial Sustainability >67

Co-funded Projects and Activities >67

Other Subsidised Activities >68

Competition >69

Modern Infrastructure and Services >69

Projects Implemented by Subsidiaries >71

Cooperation with Suppliers >75

Development of Services and Communication with Customers >78

Customer Satisfaction >83

8.

Challenges of Urban Environmental Protection

>88

Identified Environmental Risks >90

Sustainable Waste Management >91

Water Pumping and Discharge >97

Energy Consumption and Initiatives for Energy Consumption Reduction >101

Fuel Consumption and Emissions >104

9.

Inside Zagreb Holding

>108

Collective Bargaining >110

Employment Policy and Equal Rights >111

Salaries and Remunerations >114

Employees' Health and Safety >115

Professional Development and Education >118

Zagreb Holding Group in Numbers >120

10.

Projects and Innovations for Zagreb

>124

Partnerships and Socially Relevant Projects >125

Culture and Urban Development >130

11.

Report Profile and List of Indicators

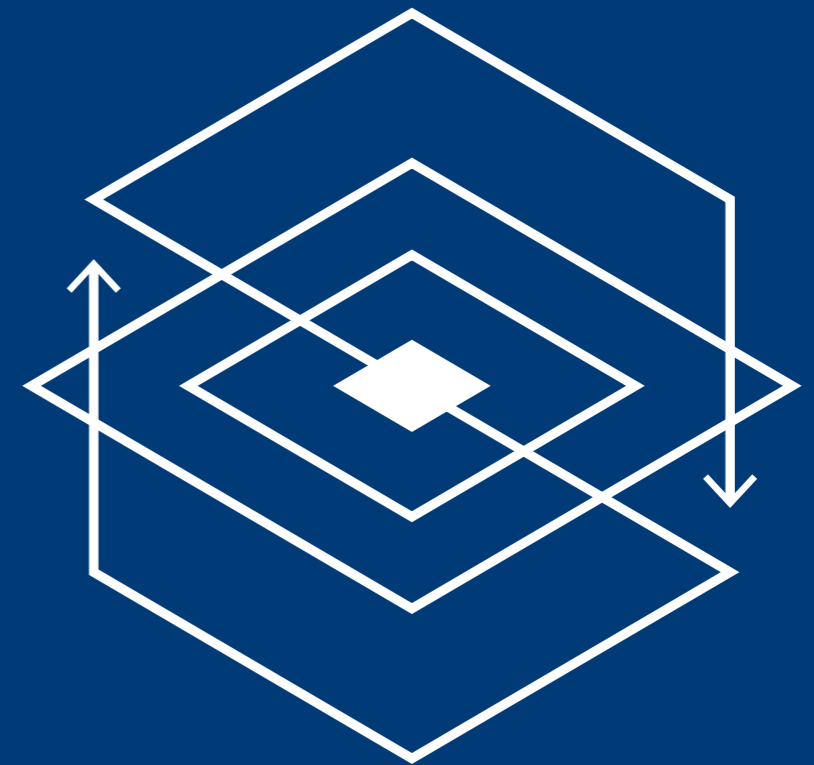
>136

Daily Analyses of Sustainability Requirements

Zagreb Holding recognises continuity and acceptable prices and aims to provide as many additional advantages to service users as possible, as those are some of the key issues for achieving positive and eliminating negative influence. Value creation is analysed not only in the financial, but also in the environmental and social dimension.

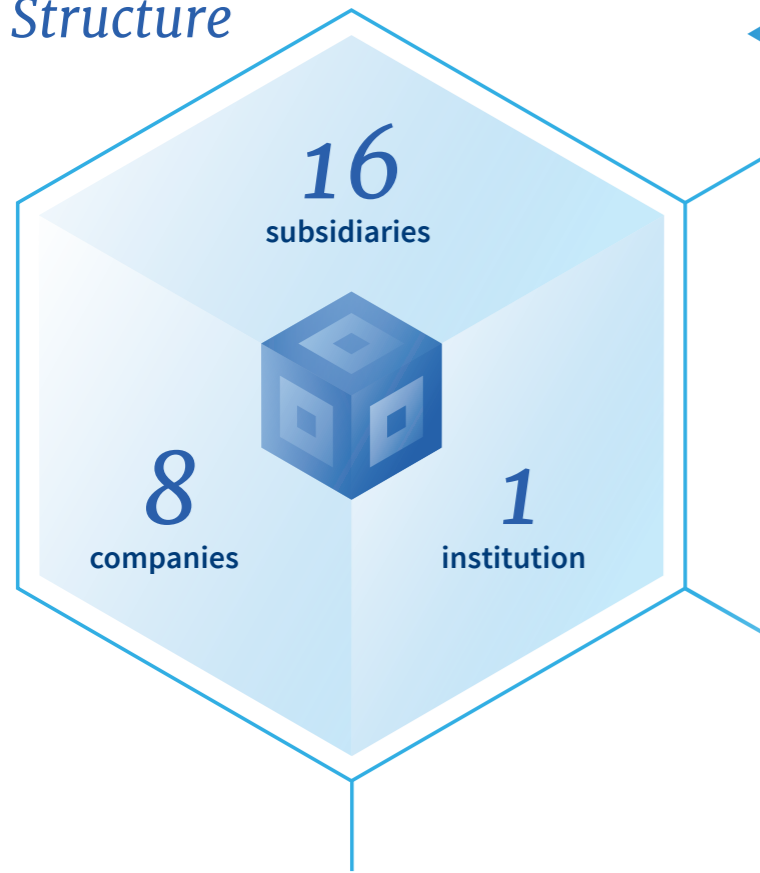


1 / *2017 in Review*



2017 in Review

Structure



1.1 million

Number of service users

Quantity of water distributed

57,885,402 m³

Number of sold ride tickets

31,180,587

Number of containers for separate waste collection

85,515

Number of "recycling islands"

683

Number of recycling centres

15

Kilometres of maintained roads

2,500

Number of maintained playgrounds

735

Surface area of maintained park areas

11,705,855 m²

11,286

Number of employees (ZGH Group)

2017

Surface area of cleaned public traffic areas

1,106,869,100 m²

Quantity of distributed natural gas

3,904,146,274 kWh

2 / *Letter by the President
of the Management
Board*





2 / Dear readers,

Sustainability Report of Zagreb Holding Group represents a comprehensive insight into our company, its influences and practices, business challenges, objectives and results, as well as potential areas for further advancements. This is our second non-financial report and it includes a larger number of GRI Standard indicators, which we have chosen based on a significantly improved process for identifying material issues that was carried out prior to compiling this Report. We have described it in detail so that readers could assess the extent to which this Report reflects key influences of our business on society and environment.

Business strategy of Zagreb Holding Group is based on the three following pillars: high-quality and reliable public services for citizens of Zagreb; growth and development, be it financial, non-financial, technological or investment-related, including strengthening of human potential; and corporate sustainability and management, which, besides the “health” of the organization’s balance sheet, also includes sound natural resource management and a positive impact on the community.

We are a company that primarily provides services of public interest. Thus, we have a great responsibility towards the community, but to us, such responsibility is also of great importance. Therefore, this Report comprises information about visible components of our operations, such as daily potable water supply and drainage, natural gas distribution and supply, organisation of public transportation, waste collection and management, infrastructure maintenance and numerous other services important for the lives of our fellow citizens. However, this Report also reflects the context in which we operate and areas of our operations that may be invisible to our service users, but that are of equal importance for understanding our business processes and governance practices.

Our aim was to show that Zagreb Holding Group analyses value creation in each of the three following dimensions: financial, environmental and social, which also includes risk identification. Some of the Group’s components have also identified climate change risks, which indicates their increasing impact on business. Also, it is visible that management of the environmental impact of our activities significantly affects the sustainability of the City of Zagreb and Zagreb Holding Group. However, we do not see this only as a great challenge, but also as an opportunity to address several significant environmental protection issues in the City of Zagreb, such as waste management.

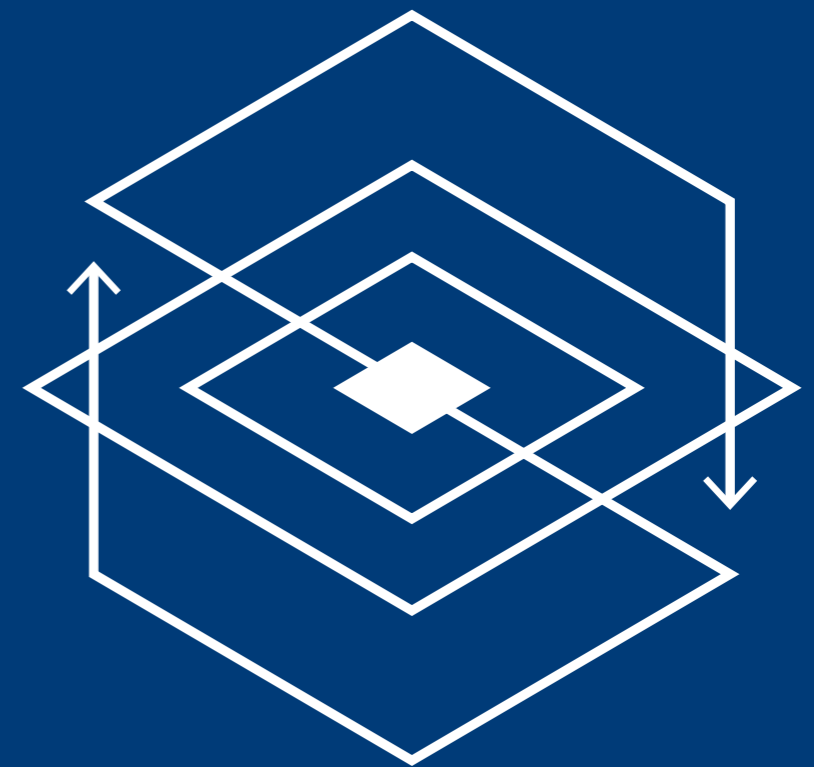
Although many activities were carried out in 2017, especially in relation to the improvement of the quality of infrastructure for separate waste collection, we are aware of the major changes in work organization and technology ahead of us. These changes will allow us to successfully respond not only to new regulations, but also to the growing expectations of the citizens of Zagreb. We have been extremely dedicated in carrying out activities related to systematic energy and water management in all of the Group’s components. Results of these activities, among which is the introduction of the energy management system in accordance with the HR EN ISO 50001 standard, will be presented in more detail in the next report.

Everything that we do revolves around people - our fellow citizens (service users) and our employees. This Report offers a wealth of information about all activities carried out by Zagreb Holding Group with the aim of improving the quality of communication with the citizens of Zagreb. For those purposes, we use all available communication channels, especially social media and digital applications which allow a prompt reaction in any situation that may arise.

We have also described numerous projects and investments aimed at increasing the quality of public services, aware that the City is a complex mechanism, with high demands that may not all be fulfilled over the course of only one year. We would like to point out that this Report itself constitutes a governance tool, one that has raised many questions in relation to the quality of current processes and thus put an entirely different perspective on potential and continuous future improvements. To widen this new perspective even further, we invite you to read and comment on this Report.

Sincerely,
Ana Stojić Deban

3 / Zagreb Holding
Profile



Zagreb Holding as we know it today was founded in 2006, after 21 companies owned by the City of Zagreb were merged to the company City Municipal Services Company Ltd., which then took over the role of a holding company. Since 2007, the company has been operating under the name of Zagreb Holding Ltd. It is fully owned by the City of Zagreb.

3 / Zagreb Holding Profile

Zagreb Holding Group consists of the company Zagreb Holding Ltd., which performs its primary operations through 16 subsidiaries, 8 affiliates and 1 institution. The Group operates in the territory and on the market of the Republic of Croatia. Its head office is located in Zagreb.

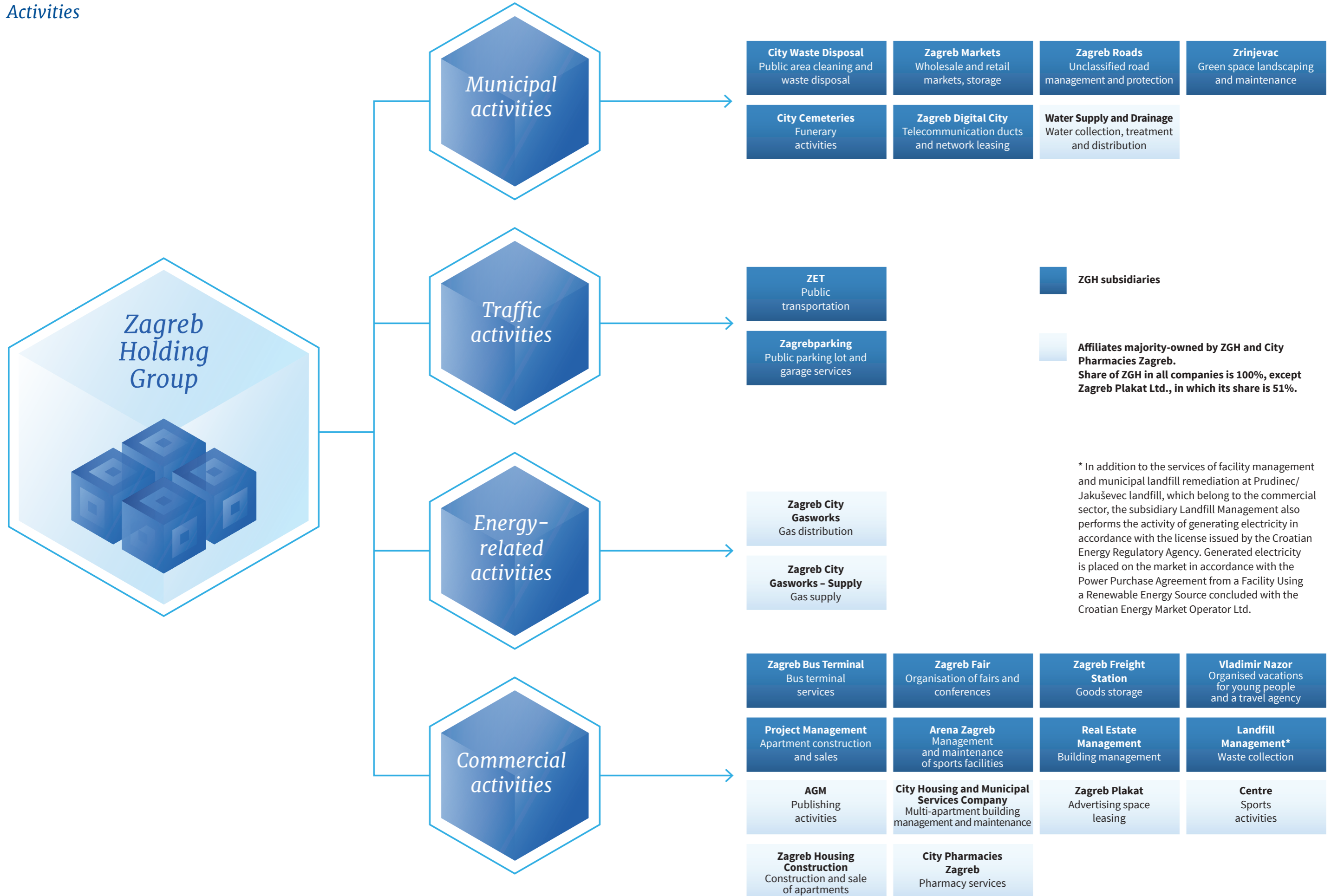
The history of Zagreb Holding dates back to 1862 and the foundation of the first municipal service company in Zagreb - Gasworks. At that point, Zagreb started the process of modernising municipal services which has continued to the present day, albeit to a much larger extent and in a more demanding environment. Zagreb Holding as we know it today was founded in 2006, after 21 companies owned by the City of Zagreb were merged to the company City Municipal Services Company Ltd., which then took over the role of a holding company. Since 2017, the company has been operating under the name of Zagreb Holding Ltd. It is fully owned by the City of Zagreb.

Zagreb Holding Group

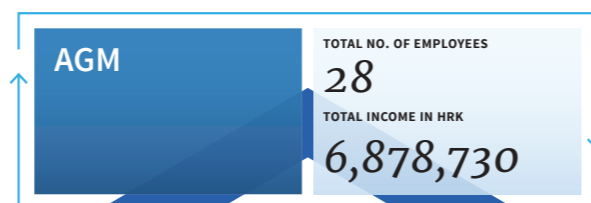
- Community of subsidiaries, affiliates and the institution City Pharmacies Zagreb.
- Management Board of Zagreb Holding Ltd. is the leading creator of the Group's business policies.
- Affiliates of Zagreb Holding Group have their own bodies in accordance with the Companies Act and other regulations on institutions.

Heads of subsidiaries, directors of affiliates and the director of the institution are responsible for carrying out operational activities, adopting decisions and ensuring accuracy of financial data.

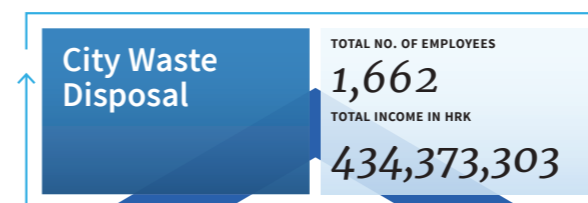
Activities



Description of Activities



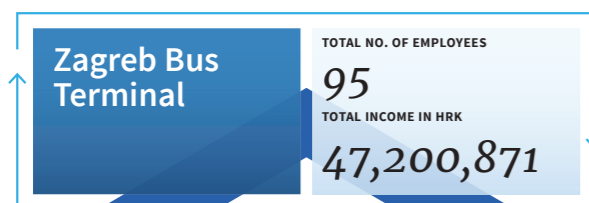
AGM Ltd. was founded in 1967 as the Centre for Cultural Activities. Today, it is focused primarily on publishing and gallery and exhibition-related activities. About 10 specialised libraries represent the basis of the AGM's publishing programme. They comprise publications related to humanities, fiction, opinion journalism, monographs and children's and youth literature.



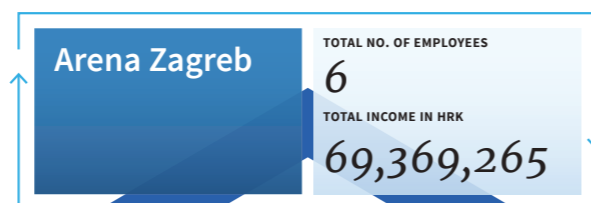
City Waste Disposal was founded in 1947 and it implements and develops a comprehensive waste management system in the City of Zagreb. It provides municipal waste collection and disposal services and maintains cleanliness of public and traffic areas.



Primary activities of the company Zagreb Holding Ltd. are carried out in its subsidiaries. Head Office is the Company's organisational unit which through corporate sectors regulates primary business activities carried out by the subsidiaries and plans and monitors the execution of their individual business plans, as well as of the Company's joint business plan.



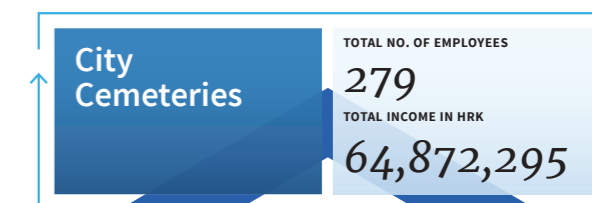
Bus Terminal is located in the centre of the City and was founded in 1961. For the purposes of the 1987 Universiade, a new bus terminal building and stations were built. Bus lines connect Zagreb with other parts of Croatia and most European capitals, there are 44 bus platforms in total and tickets may be purchased either at one of the 15 ticket offices in the bus terminal building or online.



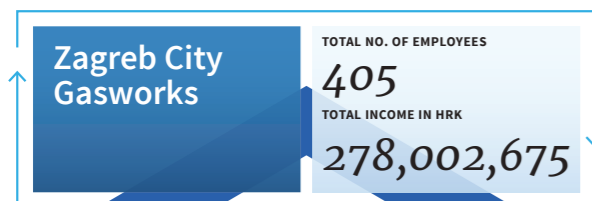
Arena Zagreb - the primary activity of this subsidiary is management of the Arena Zagreb sports hall and organisation of promotional events, concerts, fairs and sports recreation events. The hall was built in 2008 for the purposes of hosting the 21st World Handball Championship. Due to its beauty, functionality and significance, this object has become a new architectural symbol of Zagreb. Arena is used as a music venue for concerts of some of the most prestigious musicians and for organising major sports events.



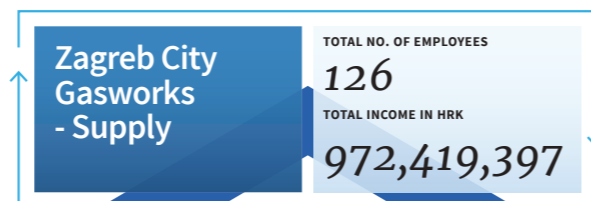
City Pharmacies Zagreb was founded in 1966 and it has been operating under Zagreb Holding since 2006. Its system comprises 39 pharmacies, one of which is adapted for direct access to pharmaceutical services from the car (drive-in pharmacy) and a galenic and analytical laboratory. It is a health institution of the Croatian Health Insurance Fund. This health institution also includes the oldest pharmacy in Zagreb named "K Crnom Orlu", located at 9 Kamenita Ulica street, which has been a part of the pharmaceutical tradition ever since 1355 and recognised as a significant cultural and tourist attraction.



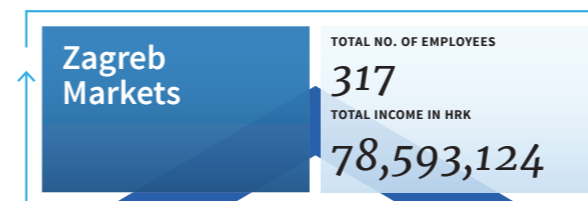
City Cemeteries - its history dates back to 1873, when the central city cemetery "Mirogoj" was built. Its tasks relate to maintaining cemeteries and crematorium and providing full funerary services. It manages 28 cemeteries in the City of Zagreb, of which 26 are active.



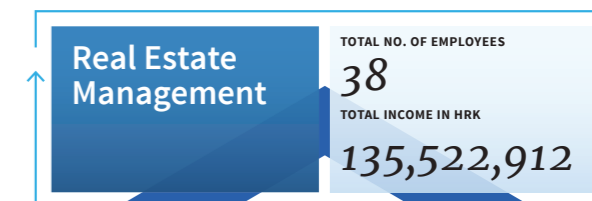
Zagreb City Gasworks Ltd. was founded in 1862. It is a distribution system operator responsible for maintaining, managing and developing a safe and reliable gas distribution system and for monitoring the design and construction thereof. It also manages the ductwork register, conducts technical examinations and analyses and certifies metering and regulation equipment and devices in the distribution system.



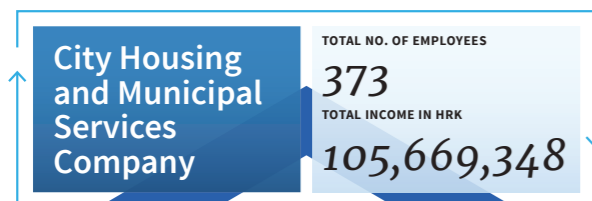
Zagreb City Gasworks-Supply Ltd. has been working since 2008, when it was founded under the legally prescribed obligation of separating natural gas supply from natural gas distribution activities. It is the leading natural gas supplier in Croatia. Its end-users are provided with safe, reliable and continuous natural gas supply.



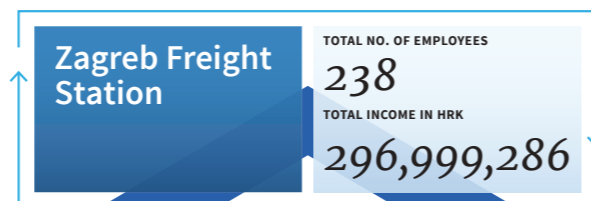
Zagreb Markets was founded in 1930, but the tradition of organising markets dates back to 1242, when Gradec was granted the free royal city status, thus acquiring also the right to organise its own marketplace. The company's tasks are related to organising open-air sales of fresh and locally grown plant and animal products at 23 so-called "green surfaces" in the City of Zagreb. It also offers the service of storing fresh fruit, vegetables and their products on the wholesale market and storing food in deep-freezers.



Real Estate Management was founded in 2016 and its main task is to ensure optimal and long-term sustainability of real estate planning and management, which involves regulating all pertinent issues governed by property law and by investing in, re-adapting and developing property owned by the Company. Subsidiary also designs the entire real estate management strategy at the level of the Company.



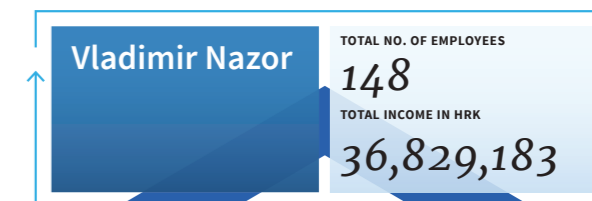
City Housing and Municipal Services Company Ltd. was founded in 1990 and primarily performs the tasks related to residential building management. It is the leading property management company in Zagreb and Croatia. It offers legal and technical assistance to co-owners and also offers the possibility of financing major building repairs. It also maintains public passages, underpasses, fountains, public toilets and one of the symbols of the City of Zagreb - the Grič Cannon.



Zagreb Freight Station - its main tasks are the following: renting of production and storage areas, renting of offices, loading and transshipment of goods and providing shipment services. It was founded in 1953 as Zagreb Public Warehouses. This subsidiary also includes truck terminals used for receiving national and international road cargo at the main city entrances - Jankomir, Žitnjak and Zagreb Free Zone. The only secure cargo parking for trucks in the Republic of Croatia certified in accordance with the EU safe and secure truck parking standard is located at Jankomir.



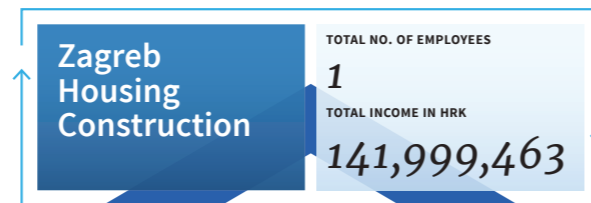
Project Management was founded in 2006. It provides consulting services and obtains, analyses and provides information from the area of construction, geodetic surveys, project design and comprehensive product documentation, as well as the services of constructing and monitoring buildings, apartments and business venues.



Vladimir Nazor subsidiary maintains the tradition of the former Institution for Organised Children Vacation, which was founded by the City of Zagreb in 1962 with the aim of organising field trips for children and youth between 6 and 17 years of age. It owns hostels and camps in the coastal area, Zagreb and high-end facilities at Sljeme.



Water Supply and Drainage Ltd. provides public water supply and drainage services in the City of Zagreb and Zagreb region. In 1878, the water supply system was opened and it supplied water to 11,500 people. Today, over 900,000 households are connected to the water supply system.



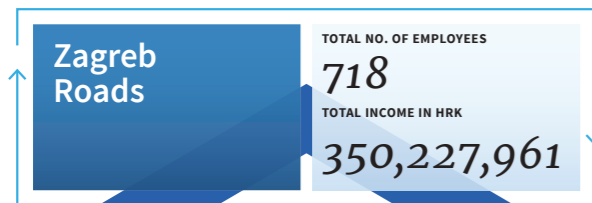
Zagreb Housing Construction Ltd. was founded in 2013. Its tasks are related to construction and advisory services, obtaining, analysing and providing information from the area of civil engineering, hydraulic engineering and traffic, as well as conducting studies of permanent geodetic points for the purposes of basic geodetic works.



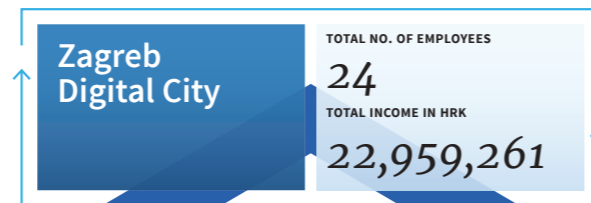
Zagreb Fair has been organising fairs and business and social events since 1909. In addition to activities related to fairs, it offers full organisation of various types of conferences and events. It is also a member and one of the 10 founders of the Global Association of Exhibition Industry.



Zagrebparking offers parking services in the City of Zagreb since 1965, when it was founded as the Centre. This subsidiary pays special attention to finding high-quality solutions for stationary traffic and it has been working on improving parking conditions in Zagreb, especially in terms of developing the traffic culture.



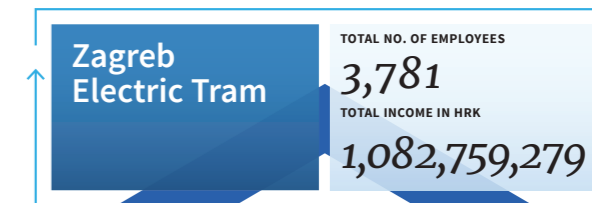
Zagreb Roads was founded in 1947. The subsidiary's tasks are related to management, maintenance and protection of unclassified roads in the City of Zagreb. Besides that, it also works on maintaining and implementing traffic signalization and traffic lights. It also manages the Winter Road Maintenance Department and maintains all road structures and bridges. The subsidiary has two asphalt facilities, one of which is a recycling facility, as well as a construction waste recycling facility.



Zagreb Digital City is a subsidiary founded in 2006 as a response to the increased development of communication technologies with the aim of managing and renting cable ducts and constructing and managing FTTH networks in the City of Zagreb. It has participated in and led the project for constructing modern optical electronic communication infrastructure and electronic communication networks in Novi Jelkovec, Vrbani III and Podbrežje.



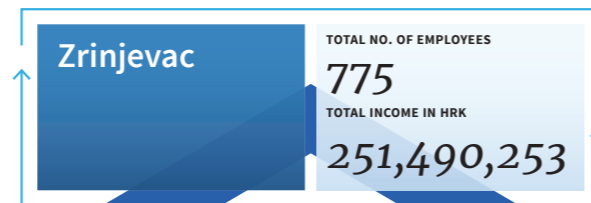
Zagreb Plakat Ltd. was founded in 2008 with the aim of improving the quality of outdoor advertising in the City of Zagreb. It is highly specialised for providing outdoor advertising services on billboards, citylight boxes, bigboards and lamppost banners at public areas and property owned by the City of Zagreb.



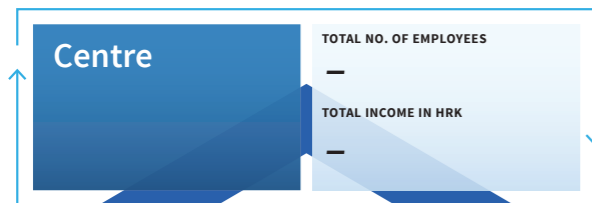
Zagreb Electric Tram (ZET) organises public transportation in the City of Zagreb and in one part of the Zagreb County. Vehicle fleet for public transportation consists of buses (413), trams (276, of which 142 are low-floor trams), vehicles for disabled persons, children with developmental issues and schoolchildren, funicular, tour trams, tour buses and tour trains.



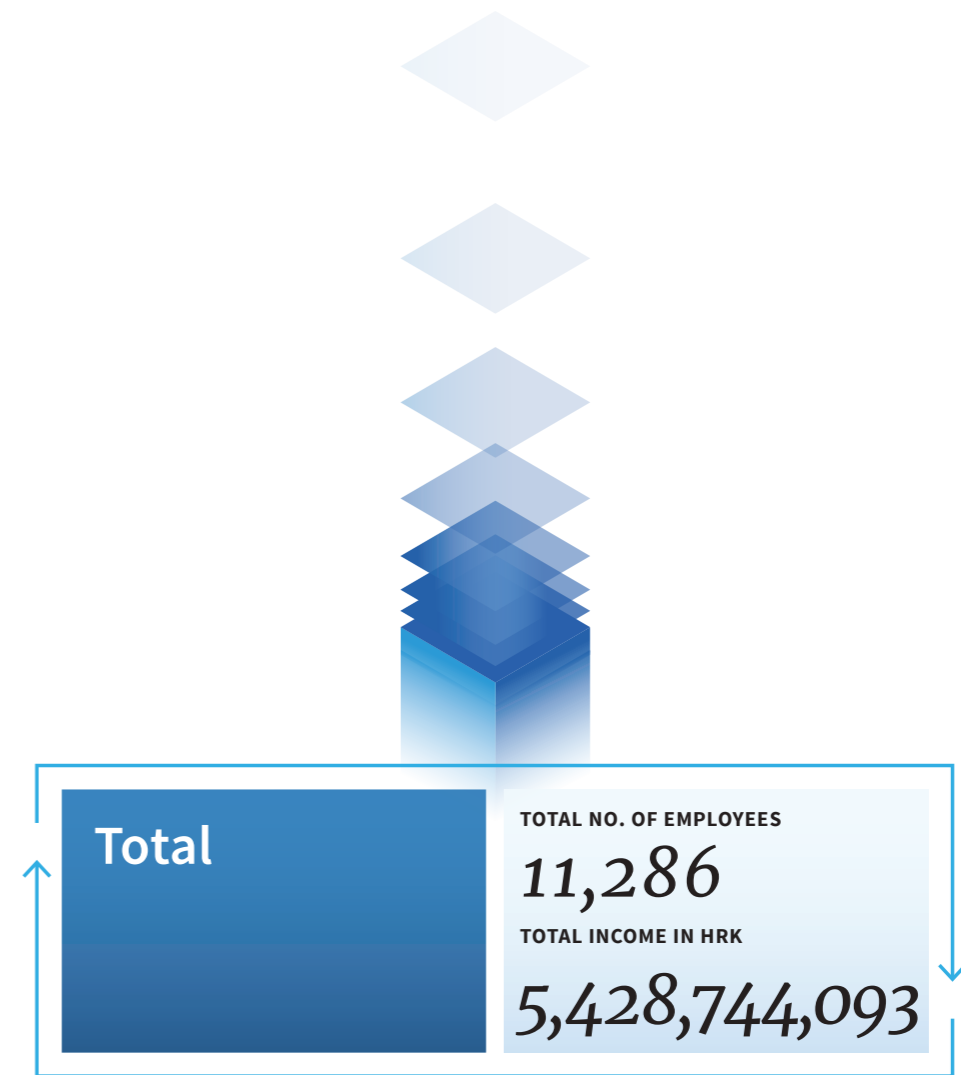
Landfill Management was founded in 1998 with the aim of remediating the neglected Jakuševac Landfill to prevent potential health hazards and water pollution in Zagreb and adopting and implementing the development strategy for municipal waste management in the City of Zagreb. The subsidiary also generates electricity from landfill gas at the mTEO facility (small thermal power plant).



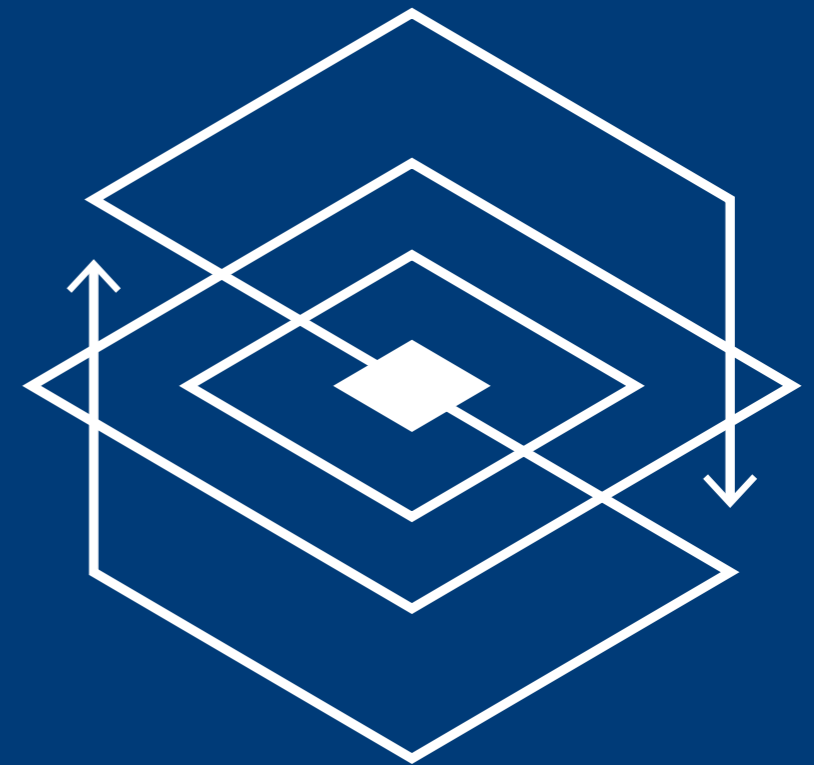
Zrinjevac was founded in 1893. It designs, develops and maintains public and other green areas, as well as playgrounds and sports and recreation facilities. It also produces and sells tree, shrub and fruit seedlings, potted plants and cut flowers, bulbs and grass seeds, garden soil, compost and gardening tools, machines and equipment. It also organises the International Garden Exhibition Floraart. The subsidiary also manages three composting facilities.



Centre Ltd. owns the vacation facility named "Mirta". It is located on the island of Silba and has 135 beds.



4 / *Governance*



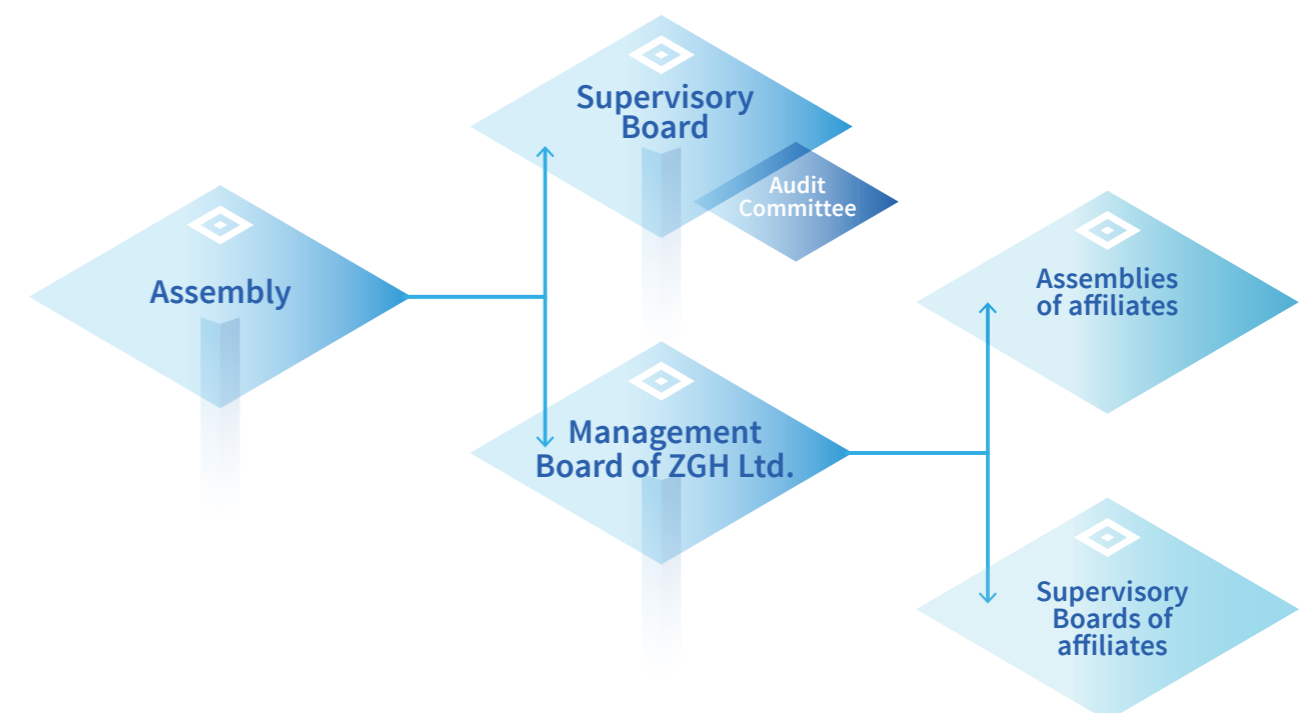
The structure of corporate governance is stipulated by the Companies Act and the Company's Articles of Association. Therefore, affiliates have their own bodies supervising and monitoring their work to verify that each component implements the closed corporate governance system.

4 / Governance

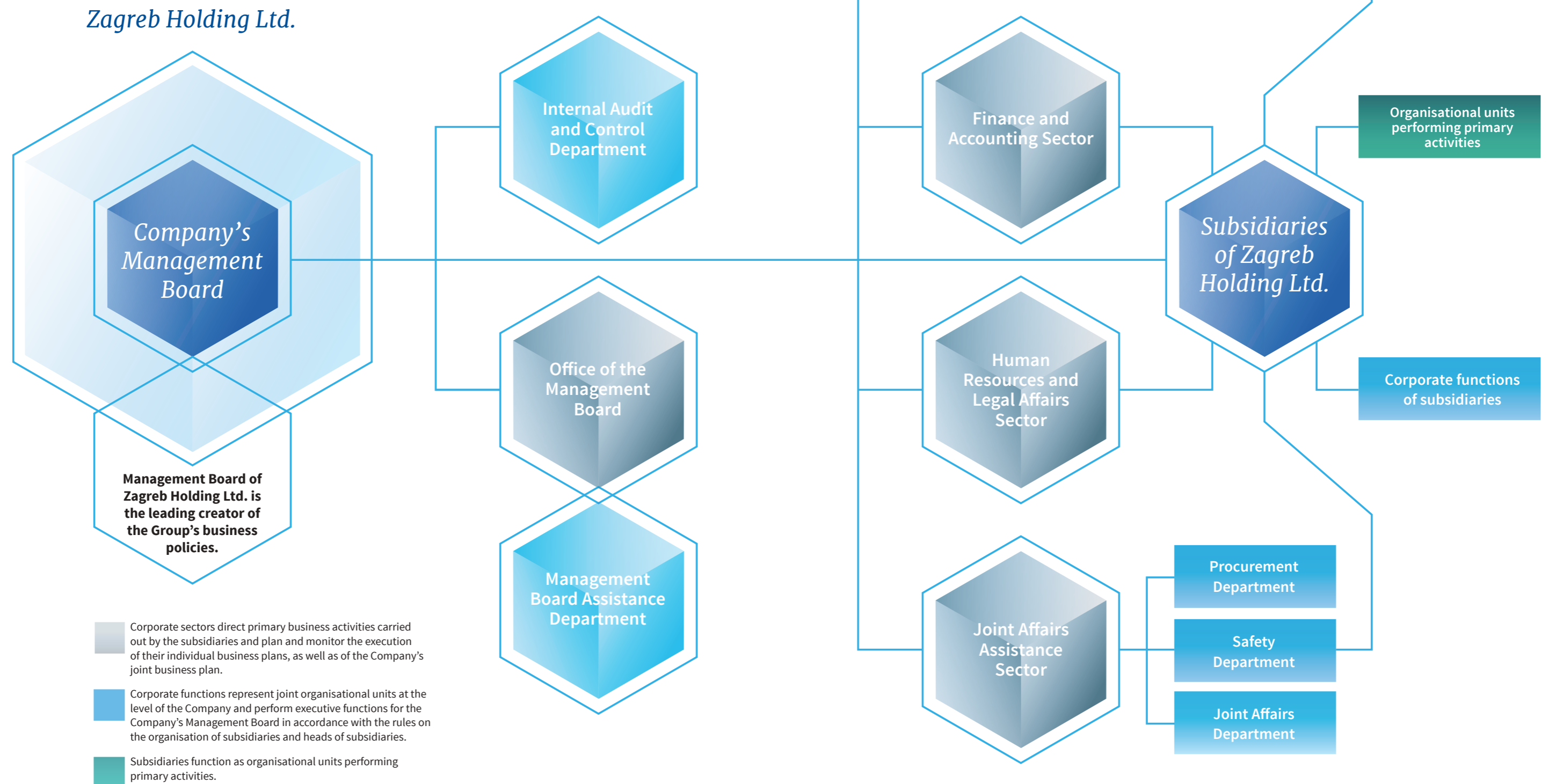
Zagreb Holding Ltd. has established a two-way corporate governance system, which is characteristic for all the companies of Zagreb Holding Group.

Management Board governs the business affairs of the companies of Zagreb Holding and also functions as the Company representative. The Management Board may consist of 9 members in total – those are the Directors appointed by the Assembly of the Company for a four-year term. Work of the Management Board, i.e. governance of the Company's business is supervised by the Supervisory Board, a professional body of prominent representatives of the academic and business community. It may consist of 11 members in total, one of whom is a representative of the workers. Supervisory Board is assisted in its work by the Audit Committee, which serves as an advisory body. The supreme body of Zagreb Holding is the Assembly. It is composed of the City of Zagreb as the sole member of the Company, which is represented by three members, one of whom is the Mayor of the City of Zagreb. Through the Assembly of the Company, the City of Zagreb, as the sole founder, carries out its function and business policies as the owner.

The Assembly of affiliates founded by Zagreb Holding Ltd. as the sole owner of their business shares is composed of Zagreb Holding Ltd. as the sole member. The Supervisory Board of affiliates founded by Zagreb Holding Ltd. is appointed by the Assembly of those companies, whereas the representative of the workers is appointed by the workers themselves.



ZGH Ltd. Governance Structure



Mission

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

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

Vision

Our vision is to be a reliable member of Zagreb's families and a positive energy in urban life.

We wish to become a synonym for pleasant, organised and healthy lifestyle in Zagreb, an example of excellence in providing public services and the initiator, promoter and agent of business development of the City of Zagreb.

**Member of the
Management Board**
(as at 31 December 2017)

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

**Members of the
Supervisory Board**
(as at 31 December 2017)

Ljubo Jurčić	President of the Supervisory Board
Nikola Mijatović	Deputy President of the Supervisory Board
Gojko Bežovan	Member of the Supervisory Board
Ivan Šikić	Member of the Supervisory Board
Josip Budimir	Member of the Supervisory Board
Mihaela Grubišić Šeba	Member of the Supervisory Board
Domagoj Bešker	Member of the Supervisory Board
Andrea Šulentić	Member of the Supervisory Board
Mario Župan	Member of the Supervisory Board

**Assembly of the
Company**
(as at 31 December 2017)

Milan Bandić	Mayor of the City of Zagreb, Joint Representative of the Company Member
Olivera Majić	Deputy Mayor of the City of Zagreb, Member Representative
Slavko Kojić	Member Representative

Structure of corporate governance is determined by the Companies Act, the Company's fundamental documents and the Articles of Association. Affiliates have their own bodies that supervise and monitor their work (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, whereas the Institution is managed in accordance with the currently valid acts on institutions. The Management Board of Zagreb Holding defines the Company's and the Group's business objectives by adopting the Business Plan, which serves to define the objectives and activities for their fulfilment. Business analyses for the Management Board of Zagreb Holding are drawn up by the Head Office's Controlling Department.

Together with the Management Board of Zagreb Holding, the heads of subsidiaries and company directors are responsible for adopting decisions on economic, environmental and social impact.

Mode of operation and conduct is defined by the Code of Corporate Governance of Zagreb Holding Group. Its aim is to establish, maintain and develop high corporate governance standards and transparency for the purposes of achieving efficient business and responsible resource management in the best interest of the citizens of the City of Zagreb as service users. The Code was drawn up based on the OECD Principles of Corporate Governance.

Ethical Conduct and Transparency

Ethics Committee and the Consumer Complaints Committee also operate at the Group level. Consumer Complaints Committee operates as a body for processing complaints on the quality of any of the services provided by Zagreb Holding Group.

Basic rules for ethical conduct of all employees of Zagreb Holding, fundamental ethical values in business relations and actions that must be undertaken if such rules and values are violated are defined by the Code of Conduct. Fundamental principles that each employee is obligated to comply with regardless of their positions and tasks are the following: trust and collegiality, lawfulness and professionalism in work, teamwork and professional communication, respect for the needs of service users, avoidance and prevention of conflict of interest, responsible asset management, business finance management and procurement management, confidentiality of personal data and business information and avoidance of bribery. Any service user, business partner and employee of Zagreb Holding can report illegal and/or unethical actions in the Group's operations to the Ethics Committee in written or electronic form and we guarantee to protect their privacy in the process.

The Committee investigates all submitted reports and notifies the applicant about the final conclusion. If the Committee discovers infringement of the Code of Conduct, it notifies the Management Board of the Company Zagreb Holding Ltd. For that purpose, the Irregularities Committee has also been established. Its task is to identify and eliminate potential irregular, unprofessional or unlawful operations within the Group.

In 2017, the Irregularities Committee received 54 petitions, which represents an insignificant increase compared to 2016, when 51 petitions were received. Of 54 petitions in total, 39 petitions were resolved, 13 petitions were rejected and 2 petitions are still being resolved. Most petitions were submitted by employees, followed by trade unions and service users. Fewest petitions were submitted by the management. Most petitions were related to suspicious business procedures, followed by petitions related to irregular activities of employees and management. The largest number of petitions pertained to potential irregularities in ZET (over 60%) and Water Supply and Drainage Ltd. Of 39 petitions that were resolved, irregularities were confirmed in 8 cases.

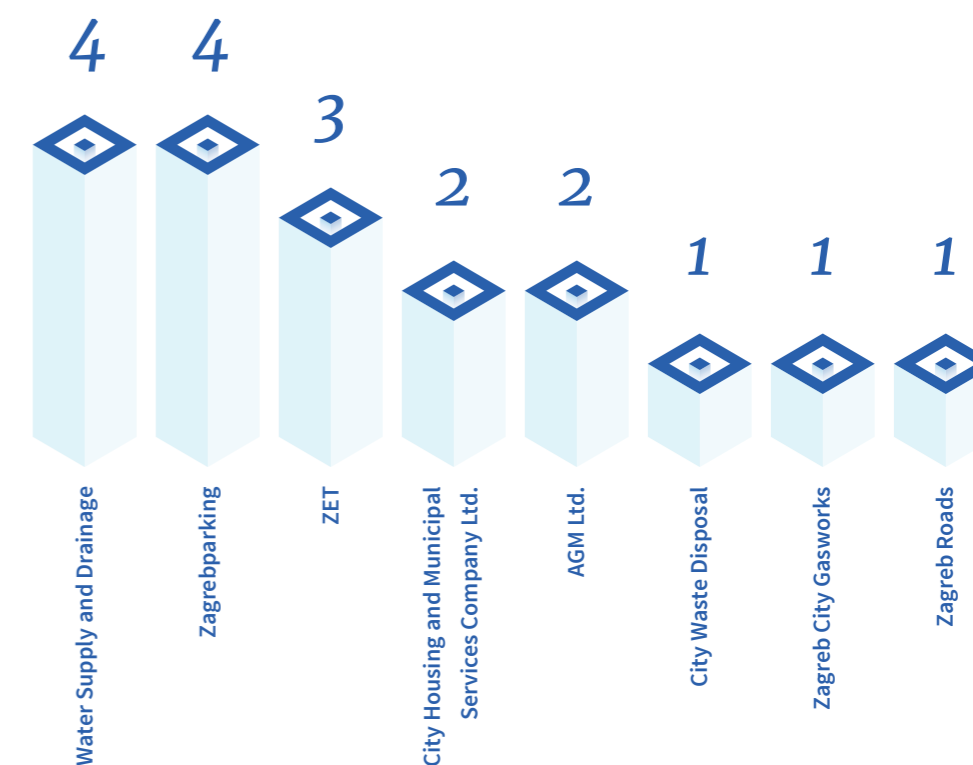
Component	No.	Applicant			Subject			Status			Substantiation		Completion		
		Anonymous	Pseudo	Signed	Management	Workers	Processes	Completed	Dismissed	Pending	Yes	No	Response	Report	Recommendation
ZET	33	9		24	7	3	23	18	13	2	4	16	8	9	1
Zagreb Digital City	1			1			1	1				1		1	
Zrinjevac	1			1			1	1				1	1		
Zagrebparking	1		1				1	2				1		1	
Vladimir Nazor	2	1		1		1	1	1				2	1	1	
Zagreb Roads	2		1	1	1	1		2			1	1		1	1
City Waste Disposal	1	1					1	1				1		1	
Water Supply and Drainage	4			4			4	4				4	2	2	
Zagreb Fair	1	1					1	1				1		1	
Zagreb City Gasworks	1			1		1	1	1				1	1		
Management Board	1			1		1	1	1		1				1	
City Housing and Municipal Services Company Ltd.	1			1			1	1				1	1		
AGM Ltd.	1	1				1	1	1				1	1		
Landfill Management	2			2		1	1	2			2		2		
Zagreb Markets	2			2			2	2				2	1	1	
Total	54	13	2	39	8	8	38	40	13	2	8	33	18	16	5

In 2017, the Ethics Committee held 7 meetings, at which 18 reports were discussed. Compared to 2016, when 21 reports were submitted, the number of reports was reduced by 14%.

Overview of reports by applicants

APPLICANTS	NO. OF REPORTS
Employees	10
Business partners	0
Citizens/service users	5
Anonymous	3
TOTAL IN 2017	18

No. of received reports by subsidiaries and affiliates



Reports on employees were mostly related to inappropriate behaviour in the workplace and lack of professionalism and collegiality in the subsidiary. In all those cases, the heads of relevant subsidiaries of Zagreb Holding Ltd., the Directors of relevant affiliates and the Director of the Internal Audit and Control Department were asked to state their opinion on said matter. Based on their statements, most of the reports turned out to be unsubstantiated. Ethics Committee informed each applicant (and the Management Board when necessary) about the resolution of the report. There were also 5 reports by the citizens related to

business operations of the affiliates City Housing and Municipal Services Company and AGM and the subsidiaries ZET, Zagreb Roads and Zagrebparking. In all those cases, upon analysing the statements of relevant subsidiaries/affiliates, the Ethics Committee informed the applicants and the Company's Management Board about the final conclusion on the report in accordance with the mode of operation prescribed by the Rules of Procedure.

In accordance with the Rules of Procedure, if the report to the Ethics Committee is sent by mail, it must be explained and signed. If a report is sent by e-mail, it must have the name of the applicant indicated. The Ethics Committee was not able to process the anonymous reports as they did not indicate the applicant's contact information, which is required for sending a reply. However, if the Ethics Committee concludes that an anonymous report is relevant, it is forwarded to the Internal Audit and Control Department. There were no such reports in 2017.

Anti-corruption Efforts

Policy of zero tolerance for corruption has been referred to in several documents of Zagreb Holding - Code of Corporate Governance and Code of Conduct, the implementation of which is monitored by the Ethics Committee. In accordance with the Act on the Right of Access to Information, Zagreb Holding has defined the right to access information and the right to re-use information. Also, the principles, criteria and the procedure for awarding sponsorship and donations in the companies Zagreb Holding Ltd. and Zagreb City Gasworks Ltd. are defined by the relevant rules.

Mechanisms for control by the owner, the City of Zagreb, have also been developed and implemented in all business areas of Zagreb Holding, from employment to financial affairs and procurement procedures. Among others, Zagreb Holding was also included in the Corruption Prevention Programme in the City of Zagreb for 2016 and 2017. The Programme encompasses 12 priority areas, such as financing of political parties, exercising the right to access information, public procurement, raising awareness of the harm caused by corruption, issues involving media and surveys of public opinion on corruption. The Anti-corruption Committee of the City of Zagreb is in charge of implementing and monitoring of the realisation of the Corruption Prevention Programme for the City of Zagreb, about which it submits a report to the City Assembly of the City of Zagreb. Report for 2016 also included Zagreb Holding. As at the moment of publishing this non-financial statement, the report of the Anti-corruption Committee of the City of Zagreb for 2017 is not yet available.

Governance Systems in Subsidiaries and Affiliates

Focus on quality, environmental protection and prevention of natural resources are only some of the Group's priorities, which is reflected by numerous quality certificates awarded to the subsidiaries and affiliates of Zagreb Holding: ISO 9001, ISO 14001, ISO 50001, OHSAS 18001, ISO 22000 and other special certificates and standards for various activities carried out by the Group.

Certificates implemented in Zagreb Holding Group

GROUP'S SUBSIDIARIES AND AFFILIATES	CERTIFICATES
City Pharmacies Zagreb	ISO 9001:2008
Zagreb City Gasworks-Supply Ltd.	ISO 9001:2015
Zagreb City Gasworks Ltd.	ISO 9001:2015, ISO 14001:2015, ISO 50001:2011
City Housing and Municipal Services Company Ltd.	ISO 9001:2008
City Waste Disposal	ISO 9001:2015, ISO 14001:2015, OHSAS 18001:2007
City Cemeteries	ISO 9001, ISO 14001
Zagreb Freight Station	ISO 9001:2015
Zagreb Markets	ISO 9001:2008, CODEX ALIMENTARIUS, certified in accordance with TUV NORD CERT procedures (HACCP control system)
Zagreb Roads	ISO 9001:2008
Landfill Management	ISO 9001: 2008, ISO 14001:2008
Zrinjevac	ISO 9001, ISO 14001
Water Supply and Drainage Ltd.	ISO 9001:2015, ISO 22000:2005, HRN EN ISO/IEC 17025:2007
Vladimir Nazor	In 2017, the subsidiary continued implementing the system of quality management standards (ISO 9001), environmental management standards (ISO 14001:2004) and food safety standards (ISO 22000:2005 - HACCP) adopted in 2006, although their re-certification has not yet been completed.

Projects We Participate in, Follow and Support...

- Development strategy of the City of Zagreb for the period until 2020
- Strategy for development of urban agglomeration Zagreb for the period until 2020
- Europe 2020 digital agenda
- Strategy for development of public administration for the period 2015-2020
- E-Croatia 2020 strategy
- Zagreb strategy for creating equal opportunities for disabled persons
- Drawing up of the Master Plan of the City of Zagreb, Zagreb County and Krapina-Zagorje County
- Action plan for energy-related sustainable development of the City of Zagreb and the Action plan for energy efficiency in the City of Zagreb for the period 2017-2019

Voluntary External Initiatives

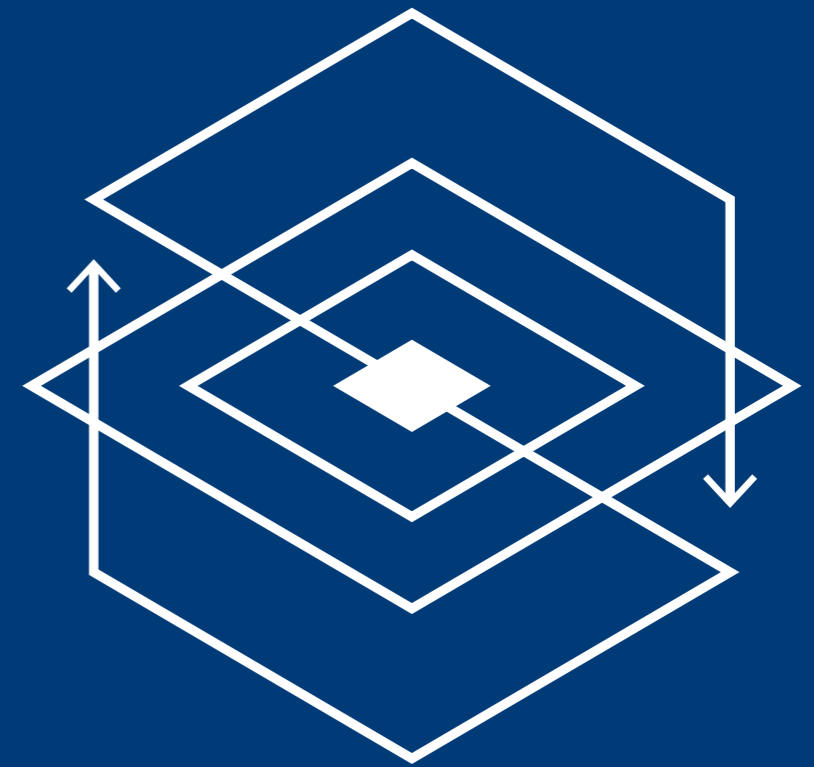
- OECD Guidelines for Corporate Governance
- ecoDa Principles of Corporate Governance for Unlisted Companies
- Through voluntary public health initiatives organised by the City Pharmacies Zagreb, we follow the guidelines of the WHO on reducing the number of premature deaths from chronic noncommunicable diseases by 2025.

In November 2017, the Management Board of Zagreb Holding issued a decision on adopting the Plan for demerging the Company with establishment of new limited liability companies for the subsidiaries Zagreb Electric Tram and Zagreb Fair. By virtue of this Demerger Plan, the restructuring process of the Company, which had started in 2013, was continued in accordance with the adopted business policies. Individual business operations were separated into individual companies with the aim of increasing the efficiency of asset management and internal organisation in the Company, while rationalising costs at the same time.

Memberships

- Croatian Employers' Association
- Croatian Chamber of Economy
- Croatian Chamber of Civil Engineers
- Croatian Chamber of Mechanical Engineers
- Croatian Chamber of Chartered Geodetic Engineers
- Croatian Gas Association
- Croatian Standards Institute
- Measurement Society Croatia
- Croatian Society for Quality
- Association for the Advancement of Safety - Croatian Engineering Association
- Healthy Workplace Association Croatia
- Croatian Water and Waste Water Association
- Croatian Water Pollution Control Society
- CROLAB - Croatian Laboratories
- UFI - Global Association of the Exhibition Industry
- EAA - European Arenas Association
- Association of Significant Cemeteries of Europe
- Croatian Health Employers' Association
- ESPORG - European Secure Parking Organisation
- Association of Croatian Markets
- Association of Croatian Travel Agencies
- Croatian Camping Union
- Association of Employers in Croatian Hospitality
- Croatian Parking Association
- Croatian Cluster of Competitiveness of Creative and Cultural Industries
- Croatian Association of Publishers and Booksellers

5 / *Strategy and Objectives*



In an extremely demanding regulatory and social environment, **Zagreb Holding** focuses its efforts on achieving long-term sustainability. In doing so, it strives to continuously provide high-quality services and ensure as many additional advantages to the citizens of the City of Zagreb as possible.

5 / Strategy and Objectives

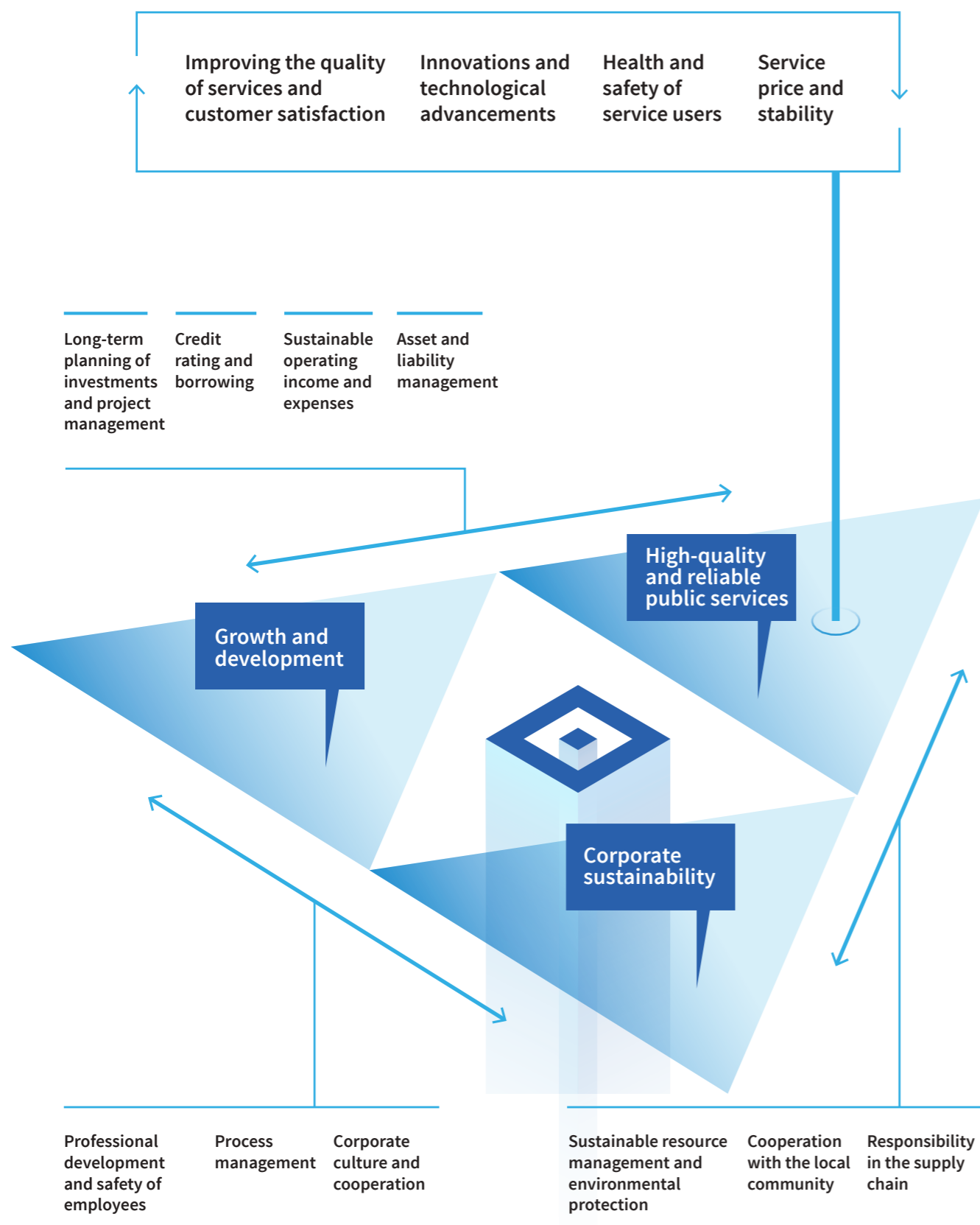
Analysis of Sustainability in the Foundation of Business Strategy

Zagreb Holding's business strategy relies on everyday analyses of sustainability requirements - financial, environmental and social. Each of the three key business aspects also relates to Zagreb Holding's influence on the sustainable development of the city and of the Republic of Croatia, which is analysed beyond establishing financial sustainability and providing services. In an extremely demanding regulatory and social environment, besides a complex internal governance system, Zagreb Holding also focuses its efforts on achieving long-term sustainability. In doing so, it strives to continuously provide high-quality services and ensure as many additional advantages to the citizens of the City of Zagreb as possible, especially for vulnerable groups of citizens.

Economic aspect of the strategy includes focusing on achieving financial stability of the Group with reasonable indebtedness. The strategy also focuses on investing in technological advancements and encouraging innovations to ensure the best possible services for the citizens of Zagreb. Although the definition of the best possible service is largely defined by the law, it definitely implies the coordination of efforts put into their continual development throughout the value chain with the aim of achieving an adequate ratio of the price and quality of services.

Social aspect includes cooperation with external stakeholders on the development of said services, additional investments aimed at improving the quality of life in the community, with a particular emphasis on providing assistance in solving social issues and contributing to vulnerable groups of people. The other side of this "social coin" relates to investments in personal development of the employees of Zagreb Holding, including their professionalism, health and safety.

Environmental aspect relates to the efficient use of natural resources, reduction of negative influences, such as climate changes and pollution, and investments in eco-friendly technologies that will ensure adequate user and environmental protection. This may be achieved by improving organizational efficiency, simplifying business operations, increasing transparency and implementing the processes of monitoring and managing non-financial business aspects.



Zagreb Holding Group has identified various risks, some of which are financial (market, currency, interest, credit, liquidity risks), while others are climate risks and regulatory risks arising from the activities of particular subsidiaries and companies providing natural resource management services, potable water supply and drainage services, gas distribution and supply services and public waste collection, transport and processing services.

Political risks - include all risks related to potential political instability, which eventually affects the economy, integrity and the actual existence of the state. Membership in the EU ensures numerous privileges for all member states, including the Republic of Croatia. However, EU membership also entails the obligation to abide by EU regulations. By adapting to these regulations, countries reduce the systemic risks and ensure their integrity and existence. Political and general social risks are inherent in all parts of the society and they usually cannot be affected on an individual level.

Financial risks - in 2017, the Group's exposure to currency risk was reduced significantly as the result of the issuance of HRK bonds and redemption of eurobonds. Also, the Group is not significantly exposed to the risk of interest rate fluctuations due to the fact that 26% of its total loans payable and lease liabilities are tied to variable interest rates, whereas 74% of the total amount of the Group's loans payable were contracted at a fixed interest rate. The Group's interest risk was reduced in 2017 as the result of bond refinancing, i.e. by issuing a new tranche of bonds at a lower interest rate compared to the previous indebtedness.

Risk of change in tax regulations - due to the fact that the Group is fully owned by the City of Zagreb, the Group depends on properly structured fiscal policies of the City of Zagreb and of the Republic of Croatia. In relation to that, there is a possibility that the City of Zagreb could generate less income from tax and surtax due to changes in tax regulations. Such circumstances could have a negative impact on the ability of the City of Zagreb to fulfil its obligations (including subsidising particular services provided by the Group) and to make new business arrangements with the Group. Consequently, such events could also have a negative impact on the Group's income generated from the City of Zagreb.

Risk of change of status - should there be any changes in relevant regulations, it is possible that the status, business activities and market position of the Group's companies will change as well. Also, it is possible that laws or other regulations requiring similar status-related or other changes will be adopted in the future and such regulations might affect the Group's companies, their business or market position.

Litigation risks - members of the Group are parties in various court, administrative and similar proceedings, both as claimants and respondents.

Risk of business environment and the influence of regulators and the City of Zagreb on the pricing of particular services - prices of particular activities of the Group depend on the regulators and the City of Zagreb as a local self-government unit. Some of the activities of the Group, including the pricing of services based on such activities, are managed by regulatory bodies of the Republic of Croatia (such as HERA - Croatian Energy Regulatory Agency), whereas the City of Zagreb significantly affects other activities. Besides municipal and energy-related activities, which are classified as public services, the business segment of the Group also

includes market activities. Every day, companies face risks arising from particular business trends, dynamic business environment and changes in the regulatory environment.

Risk of decrease of the Group's operating income - some of the Group's markets are opened to competition, whereas other markets are currently closed to competition. This is a consequence of complying with legal requirements, applicable regulations and long-term agreements concluded between the City of Zagreb and the Group, which are significant for providing services of particular importance to the City of Zagreb. Although the Group is not aware of any intentions of the City of Zagreb to open such markets, there can be no guarantee that the City of Zagreb will not be required to open such markets due to the provisions of applicable regulations, including EU regulations, or that it will not decide to open such markets on its own. Also, the Group currently has a strong or a very strong status on most of the significant markets on which it conducts business, or it is the sole market participant.

Risk of inability to determine and register ownership rights on real estate entered into financial records - the Group has a large number of real estate items entered into its financial records, most of which have their status under property law settled. However, the status under property law of the remaining properties has not yet been completely settled. Namely, these are real estate items which the members of the Group hold in their possession, but for which they are not entered into Land Registry as owners due to insufficient documentation, inability to determine legal succession, generally unsettled status of land register records, question of return, etc. Risk related to the ability to implement the registration of ownership rights and finally resolve the property relationship in regard to the real estate items is not specific only for the Group, but is related to the generally complex and chaotic situation with regard to property status of real estate in the land registries of the Republic of Croatia. In relation to that, the independent auditor noted that there was some uncertainty in regard to settling the property status of such assets.

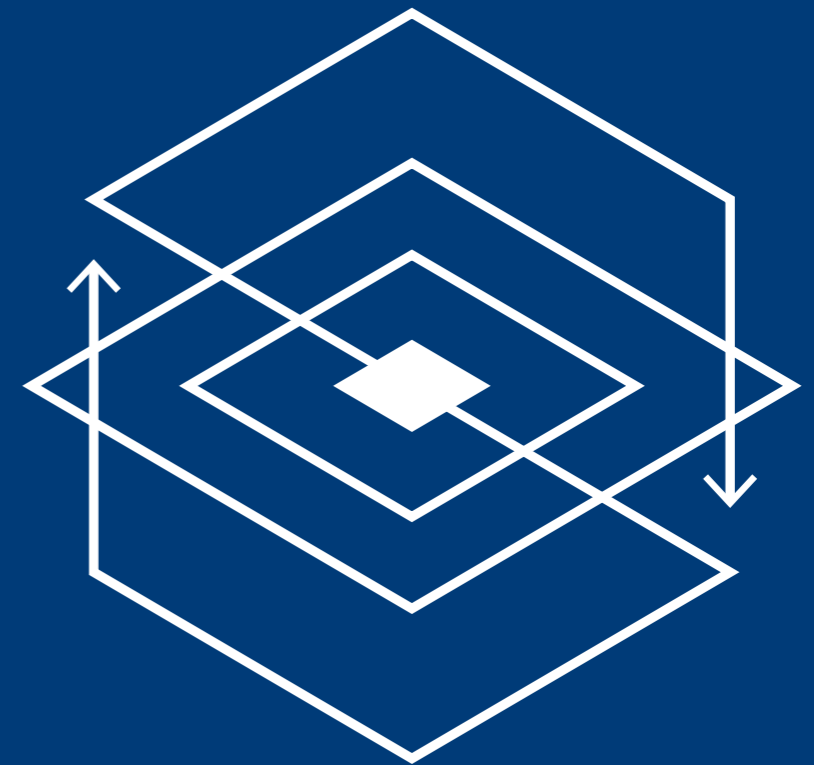
Ecological risks - ecological risks may primarily affect the safety and continuity in the supply of products and provision of services by the Group, as well as the demand for those products and services. Group's activities in the area of waste management include, among other things, waste collection, transport and processing. To the best of its knowledge, the Group believes that it currently fulfils all requirements prescribed by special regulations in terms of holding special licenses required for performing particular activities. However, the Group cannot guarantee that, at some point in the future, it will not incur significant costs for potential violation of such regulations, as well as the costs of remedying such violations or costs arising from potential changes in legislative framework governing particular activities.

Direct financial consequences of climate change primarily affect the requirement of increasing investments in high-efficiency energy systems, such as energy renovations, introduction of renewable energy sources and other technological innovations. Zagreb Holding expects that its investments will reduce energy costs and thus save money.

In the event of natural disasters (floods, earthquakes and similar), emergency services and other resources will be at the highest emergency preparedness level to ensure that the citizens of Zagreb have all services of public interest at their disposal.

Most of the identified risks are beyond the control of Zagreb Holding. However, by taking into consideration their potential influence on current and future business operations, the identified risks are included in all business planning procedures aimed at reducing their actual or potential impact and achieving sustainable long-term development.

6 / *Relevant Issues*



The process of determining

material topics for 2017 included several consulting stages and joint efforts of the reporting team. With the aim of conducting a comprehensive analysis of the material influences of Zagreb Holding Group, the list of stakeholders was extended, which enabled a more precise identification of individual and group influence within the Group.

6 / Relevant Issues

Zagreb Holding carefully analyses its influence on the sustainability of the environment in which it operates, as well as potential long-term effects of that environment and any stakeholders on business, with the aim of recognising potential problems and finding solutions in a timely manner. For Zagreb Holding, the identification of key (material) influences was a process which included over 50 members of the reporting team, participation and strategic management of the Management Board of Zagreb Holding and several consulting stages and joint efforts of the team in charge of drawing up the Sustainability Report.

With the aim of conducting a comprehensive analysis of the material influences of Zagreb Holding Group, the list of stakeholders and interest and influence groups was extended in comparison with the list specified in the previous reporting period. Consequently, Zagreb Holding Group was able to identify more precisely its individual and group influences on the environment, potential effects of the environment on business sustainability and the limits of said influences and effects.

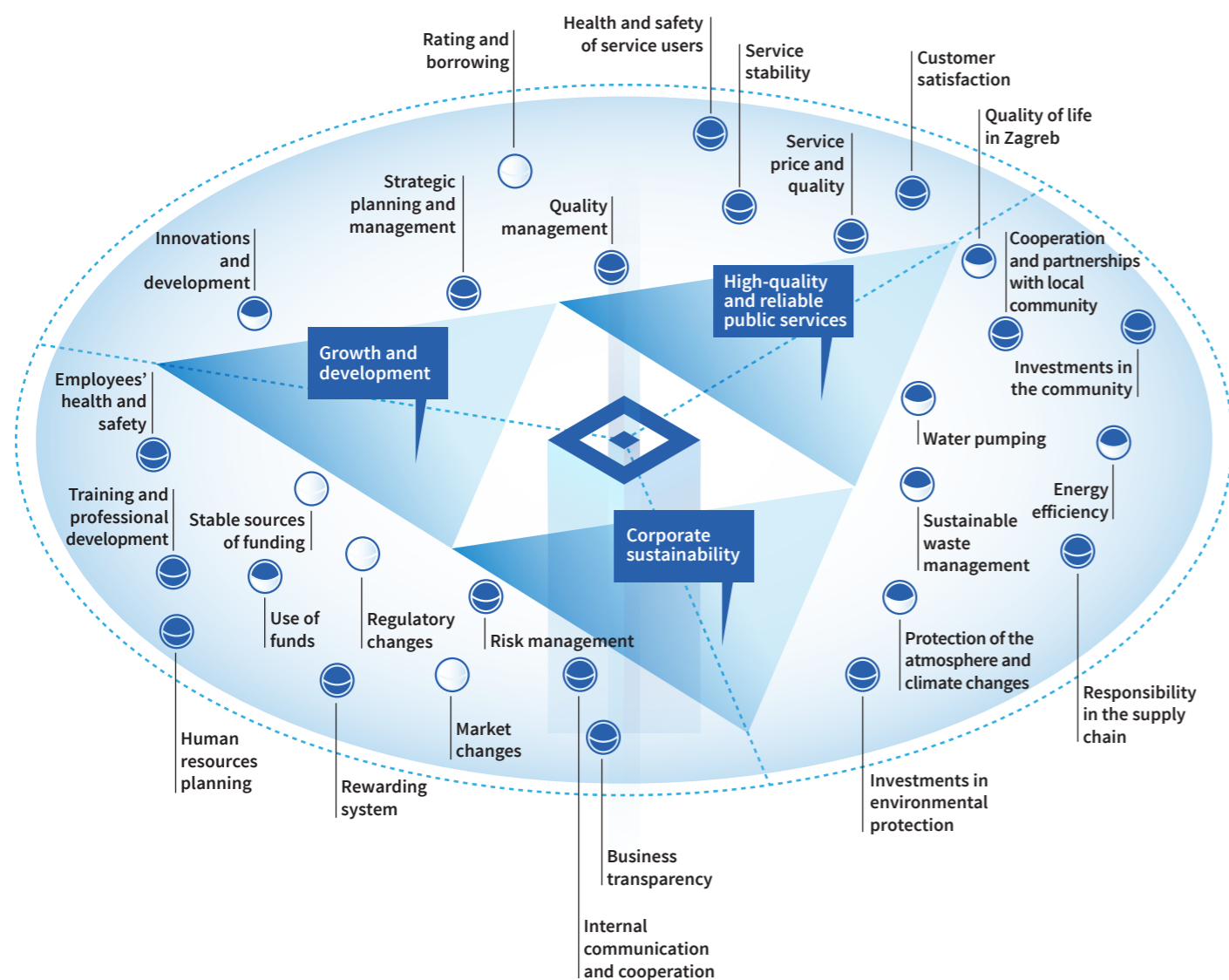
The process began with a joint workshop where, apart from the stakeholders, the Group also identified broad topics and specific issues related to the 5 spheres of influence: economy, market, work environment, natural environment and society. Then, the Group analysed in more detail particular specific issues pertaining to these spheres, such as financial stability, various environmental influences, investments in professional development, cooperation with users of services provided by the Holding, business transparency, impact on the value chain and other.

By applying various dialogue techniques, the participants identified 31 key issues, as well as their limits. In other words, they identified their spheres of influence: intraorganisational or extraorganisational. These issues were then sorted into the 4 following categories: economic, financial and market-related issues, environmental issues, organisational issues and social issues.

The next stage of the process included the assessment of the significance of identified issues for the purposes of categorising them in the materiality matrix. Participants were required to evaluate the significance of each issue on a scale from 1 to 5 (with 1 indicating the lowest and 5 indicating the highest significance) based on the 4 following criteria: financial and developmental impact on Zagreb Holding's business; regulatory and political impact; social

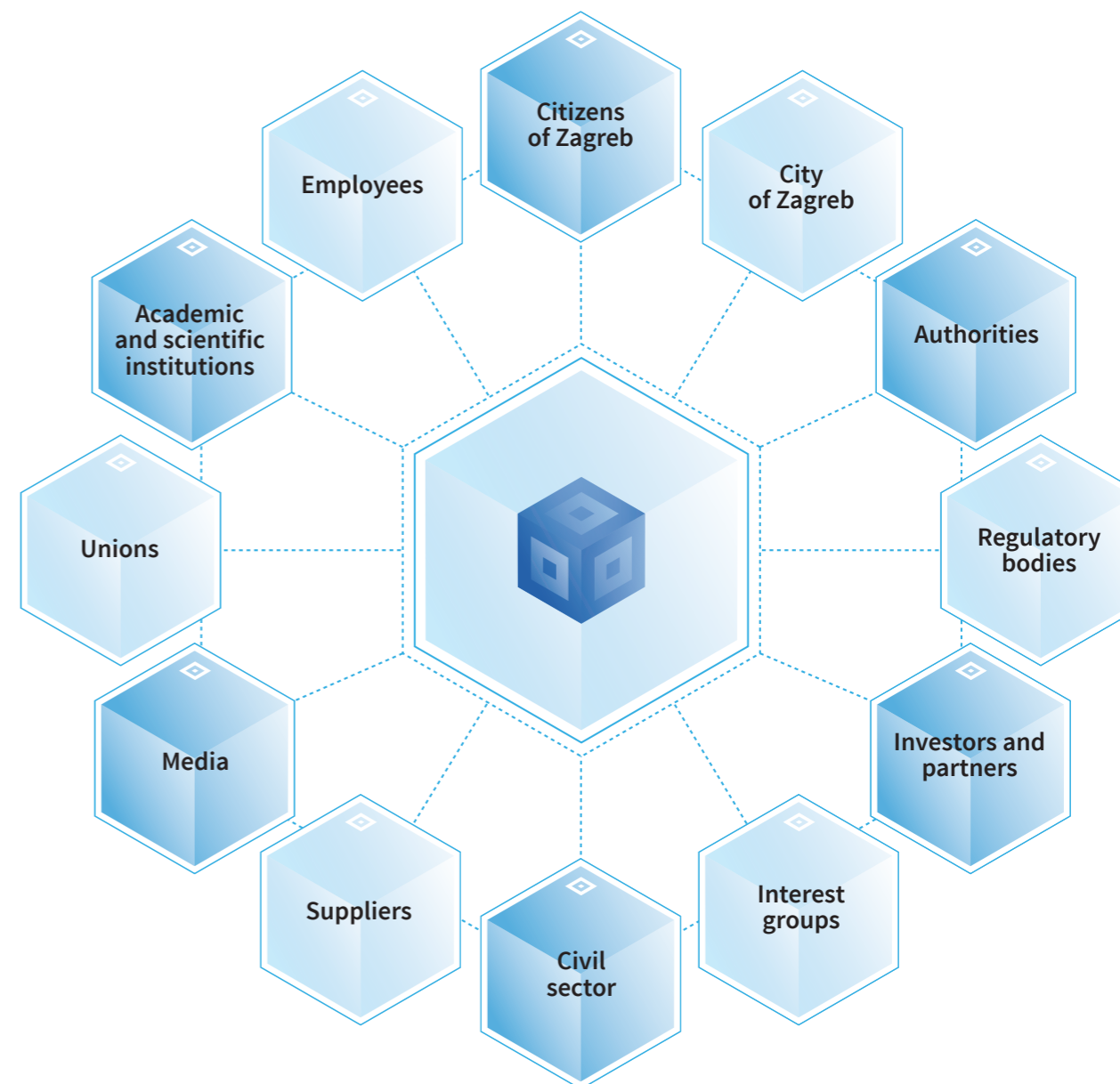
trends and stakeholders' expectations; and the impact of innovations and technological advancements. Based on the identified material issues, the Group also determined relevant impact indicators in accordance with the GRI Standards, as well as the contents of the Report.

The scheme below presents the most important influences on the sustainability of Zagreb Holding Group's business in the form of a 3D model where the influences are positioned around the fundamental pillars of the Company's business strategy. It includes all market-related, economic, intraorganisational, social and environmental influences relevant for Zagreb Holding. Filled circles indicate primarily intraorganisational influences that must be actively managed by Zagreb Holding. Empty circles indicate extraorganisational influences and half-filled circles indicate influences originating both within and outside of the organisation. Significance of influences is indicated by their proximity to the centre of the model.



Stakeholders of Zagreb Holding

Considering the complexity and significance of Zagreb Holding Group, it affects a large number of stakeholders and vice versa. These are mostly users of services provided by the subsidiaries and companies, City of Zagreb in the capacity of the owner, employees, unions, project regulators and partners, as well as civil society organisations and media. Their opinion and perception of positive and negative effects of Zagreb Holding on society, the economy and environment are essential for continual establishment and/or development of the processes aimed at achieving sustainable development. Also, opinions expressed in various procedures for inclusion of stakeholders during the reporting period were taken into consideration while identifying and determining the significance of material issues. The Group includes stakeholders in the dialogue in various ways.



In 2017, Zagreb Holding organised numerous informational, communication and educational activities, thematic meetings and interviews with particular groups of stakeholders and events at which we were able to engage in a dialogue with the citizens. Representatives of Zagreb Holding also participated at conferences and in discussions about various topics relevant for its operations.

Citizens of the City of Zagreb, who are also users of services provided by the members of the Group, are in constant dialogue with the Company for the purposes of receiving feedback. Feedback serves as the basis for improving business processes and operations and eliminating negative influences. Citizens may use various communication channels, such as customer centres of the affiliates, as well as the main Customer Centre, which encompasses all services provided by Zagreb Holding Group. Other communication channels include the Call Centre, web pages of the Group's components and the web page of Zagreb Holding, as well as the "single utility bill" of Zagreb Holding, which also provides information about the possibilities of connection and often includes other educational and informative contents. Subsidiaries and affiliates perform annual customer satisfaction surveys on a regular basis, the results of which are taken into consideration in investment planning and service improvement procedures.

In accordance with the corporate culture of Zagreb Holding, the employees are welcome to state their opinions and proposals on a daily basis through various communication channels and mechanisms. At the level of the Holding, employees also may use various mechanisms for participating through unions and communicating with professional services in charge of human resources management. Employee benefits and status are guaranteed by the Basic Collective Agreement of the company Zagreb Holding and collective agreements of affiliates. There are 31 unions operating in Zagreb Holding Group, some of which are national associations, while others are exclusively intraorganisational unions. Regular meetings are held with union representatives, they are involved in the decision-making processes either by participating or through consultancy and they are timely informed about any business-related changes.

City of Zagreb is the founder and full owner of Zagreb Holding. Considering the interest of the City as the owner, Zagreb Holding continuously participates in the realisation of the City's development strategy and it is involved in all areas related to the development of the economy, the City as an urban organism and its reputation. The Mayor directly participates in the management of Zagreb Holding through its Assembly.

Cooperation with *suppliers* is established in the manner that potential suppliers are included in prior consulting procedures in accordance with the Public Procurement Act.

As the issuer of bonds on the capital market, Zagreb Holding publishes all prescribed information on its website, as well as on the website of the Zagreb Stock Exchange and HANFA. Communication with *investors and partners* is established by obtaining information about business activities and results in a timely manner and in accordance with the principles of corporate governance.

Through the *media and other channels*, the public is timely informed about any important business aspects related to Zagreb Holding and its services. Thus, social media is used more frequently as a means of connecting with service users, especially with younger persons. In cooperation with regulators and competent ministries, Zagreb Holding actively participates in the development of relevant policies and legal regulations.

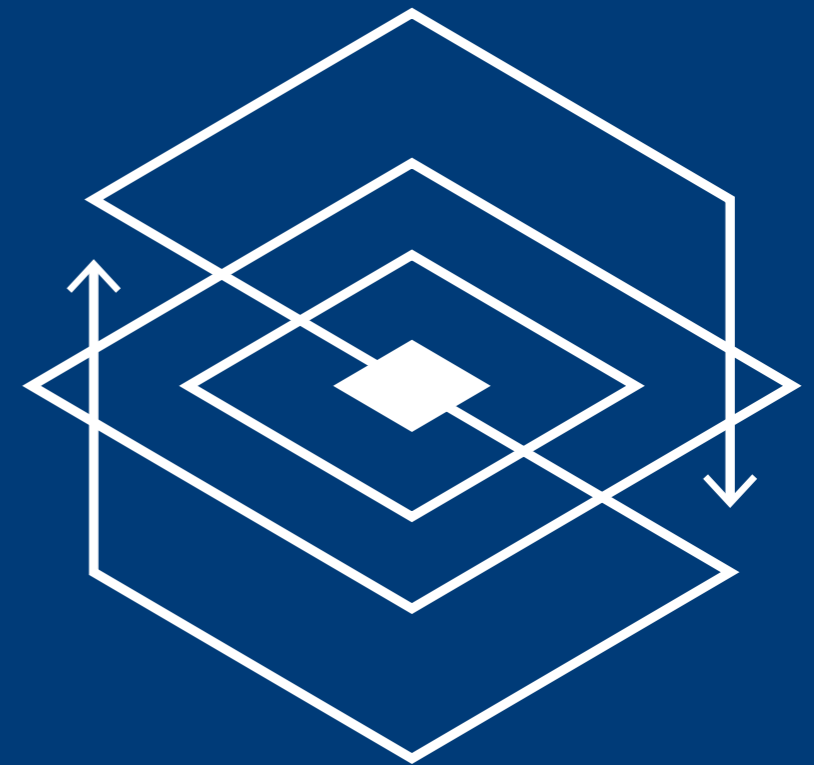


Swimming pool complex at Jelkovec Secondary School was opened in May 2017.



Technological Park Zagreb, opened in April 2017 at the Zagreb Fair, is divided into 118 separate modular work units.

7/ *Value Creation*



Most business activities of the Group may be regarded as services of general economic interest crucial for the City of Zagreb and its citizens. Subsidiaries and companies initiate and conduct numerous projects to ensure that the services they provide on a daily basis allow the citizens of Zagreb to lead a healthy, pleasant and safe life.

7 / Value Creation

Financial sustainability, investment and project planning and management, stability, continuity, acceptable service pricing and customer satisfaction are only some of the issues that Zagreb Holding recognises as the most significant for achieving a positive influence on its sustainability and the sustainability of the City of Zagreb. Subsidiaries and companies initiate and conduct numerous projects, either individually or in cooperation with other organisations, institutions and the City of Zagreb, to ensure that the services they provide on a daily basis allow the citizens of Zagreb and the local community to lead a healthy, pleasant and safe life. This mission involves various challenges, from those related to management to those related to organisation.

Main Financial Indicators for 2017

Zagreb Holding Group	AMOUNT
Operating income	HRK 5,221,257 thousand
Operating expenses	HRK 5,118,880 thousand
Salaries and employee benefits	HRK 1,678,606 thousand
Payments to the providers of capital	HRK 209,873 thousand
Payments to the state	HRK 924,256 thousand
Investments in the community	HRK 8,339 thousand

Business operations of Zagreb Holding are based on the three following medium-term strategic objectives: ensuring high-quality and reliable public services, growth and development and corporate sustainability.

Project Planning, Financing and Management

Most business activities of the Group may be regarded as services of general economic interest that are crucial for the City of Zagreb and its citizens. The Group is the only provider of water supply and drainage services and public transportation services in the City of Zagreb. The Group is also the only provider of services in the business segment of public (county and local) and unclassified road management and maintenance in the City of Zagreb (Zagreb Roads), landscaping and maintenance of green spaces (Zrinjevac) and removal and disposal of mixed municipal waste (City Waste Disposal). The Group's business benefits from the long-term nature of agreements concluded with the City of Zagreb, as well as from other types of significant financial and direct or indirect support of the City of Zagreb, the sole member of the Group.

Capital Projects

City of Zagreb and Zagreb Holding are the main investors for the project of construction of a day-care hospital and garage as a part of the *reconstruction of the Clinical Hospital "Sveti Duh"*. Construction began in May 2017 and it is expected to be completed in May 2019.

In 2017, the *construction of the sports gym* with a swimming pool, which seats 700 people, was completed at Jelkovec Secondary School. The facility with a surface area of 6,300 m² comprises a large swimming pool, recreation pool and children's pool, with additional rooms located in the basement and a gallery with seating that also has a hospitality facility and business venues. The three-section sports hall with additional rooms and equipment on the ground floor and an exercise room, a gym, a gymnastics room and changing rooms located in the basement cover a surface area of 4,600 m².

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

Technological Park Zagreb was opened in April 2017 at the Zagreb Fair and it occupies a surface area of 7,313 m². Its value amounts to HRK 17 million and it will include 110 start-ups with approximately 350 employees. It is intended for the development of start-ups and creation of innovative and highly-advanced technologies. The area is divided into 118 separate modular work units, meeting rooms, common rooms and laboratories. It also includes the Computer Forensics Centre and the Centre for Development of Interfaces, Electronics and Environmental Protection Technology.

Financial Sustainability

In June 2017, potential investors were informed of the issuance of the second tranche of bonds in the nominal amount of up to HRK 500 million. Combined with the bonds of the first tranche from 2016, they represent a single bond issuance in the total nominal amount of HRK 2.3 billion at a fixed annual interest rate of 3.875% due for payment by 2023. In this manner, the eurobonds issued in 2007 on the foreign capital market in the total amount of EUR 300 million were fully repaid. Interest of national investors in HRK bonds of Zagreb Holding was significantly higher than the amount issued. Total demand amounted to almost HRK 4 billion, which indicates the amount of trust that investors have in the future of Zagreb Holding.

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

In 2017, Zagreb Holding Group realised investments in a total amount of HRK 620.8 million, of which HRK 26.91 million was financed by EU funds.

Co-funded Projects and Activities

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

Based on the call for proposals announced by the Ministry of Construction and Physical Planning, City Housing and Municipal Services Company Ltd. submitted 37 project proposals for *energy renovation of multi-apartment buildings* on behalf of the buildings co-owners. For each of the 37 project proposals (buildings), the Ministry adopted a decision on funding projects with a total value of HRK 111,307,090.85, of which HRK 61,215,450.70 is co-funded by EU from the European Regional Development Fund as a part of the Operational Programme Competitiveness and Cohesion 2014-2020 (OPCC). Regarding the following call for co-funding of energy renovation of multi-apartment buildings, which is announced for the end of 2019, City Housing and Municipal Services Company Ltd. plans to submit proposals for over 60 buildings.

In 2017, through the subsidiary ZET, Zagreb Holding continued its participation in drafting *the Traffic Master Plan in Zagreb Metropolitan Area*, which was a project carried out by the company Integrated Traffic of Zagreb Area. Traffic Master Plan will serve as the foundation for submitting project proposals for EU funding. Projects that are being prepared by Zagreb Holding Ltd. for potential co-funding by OPCC, under priority axis 7 - Connectivity and Mobility, and by the so-called ITI mechanisms (Integrated Territorial Investments) include the procurement of new buses and trams, reconstruction of tram Infrastructure, traffic surveillance and management system, video surveillance and passenger counting system.

In October 2017, the agreements on grants for the project Procurement of 15 Buses for ZET were concluded. Restricted grant procedure was carried out by the Ministry of the Sea, Transport and Infrastructure as a part of the OPCC. The grant will cover all eligible costs, of which 85% will be financed by resources from the Cohesion Fund, and the remaining 15% from the national budget.

The remaining costs will be covered by Zagreb Holding, i.e. the subsidiary ZET. We have also started preparing the documentation for obtaining a grant for procurement of new buses in the amount of HRK 45 million.

Other Subsidised Activities:

- ZET - subsidy of the City of Zagreb for a portion of operating costs arising from the public transportation service in the city in the amount of HRK 535,442,792.
- Zagreb Fair - subsidies of the City of Zagreb in the amount of HRK 1,877,474, of which HRK 785,600 for Interliber Fair, HRK 1,000,000 for Ambienta Fair, HRK 36,000 for Infogamer Fair, HRK 20,000 for the Boat Show, HRK 35,874 for the Right Age fair and subsidy of the Ministry of Agriculture in the amount of HRK 100,000 for the organisation of the Ambienta Fair.

- Arena Zagreb - subsidies for financial lease of the Arena sports hall in the amount of HRK 39,748,480 and subsidies for operating costs in the amount of HRK 2,299,677.

Competition

Regarding the activities for which Zagreb Holding, its subsidiaries and affiliates are not the only service providers, the Company is guided by the principles of fair competition. In the reporting period, action was taken before the arbitration commission of the Croatian Chamber of Economy against City Housing and Municipal Services Company Ltd. in relation to the conditions pertaining to change of building manager. The relevant commission concluded that, in this case, City Housing and Municipal Services Company Ltd. has not violated the Code of Conduct for Property Management issued by the Croatian Chamber of Economy.

Namely, based on the inspection of the signatures on the consent form for the termination of the agreement on management of the residential building located in the Ulica Braće Domany street, it has been concluded that there is reasonable doubt that particular signatures have been falsified. Therefore, City Housing and Municipal Services Company, as the property manager, has initiated a criminal procedure based on written and oral statements from co-owners whose signatures have allegedly been falsified. Furthermore, excerpts from the Book of Deposited Contracts have shown that the persons who have signed the list for termination of property management agreement are not co-owners of the residential building, that there is a county ruling ordering the land registry department to remove relevant entries of ownership rights and that there are signed statements of co-owners confirming that signatures on the relevant list are not theirs and that they were not in Zagreb at the moment of signing the list. The procedure is currently in progress.

Also, in 2014, one procedure was initiated against Zagreb City Gasworks Ltd. in relation to the interpretation of the legal framework for opening the market for construction of household connections. However, a first-instance ruling has not been issued as of yet.

Modern Infrastructure and Services

Water

In 2017, Water Supply and Drainage Ltd. constructed 12 kilometres of water pipelines (of various sizes) and 30 kilometres of canals. Also, with the aim of reducing water losses and protecting the environment, 6.5 kilometres of water pipelines and 1.8 kilometres of canals and canal facilities were repaired. In addition to the improvement in the quality of water supply and drainage system, the extension of fundamental water supply and drainage capacities resulted in 1,008 new water supply connections and 916 new canal connections. In accordance with the regular programme of maintenance of water drains and canals in the City of Zagreb, 224,665 meters of canals and 21,680 water drains were cleaned during 2017. Also, 23,108 water meters were replaced after their certification period had expired and 19,615 water meters were calibrated. In 2017, a total of 2,774 new users were connected to the water supply and canal network. Currently, 0.74% or 5,830 households of Zagreb are awaiting water supply network construction, whereas 4.95% or 39,100 households are not connected to the water drainage network.

The main objectives regarding the extension of public water supply and drainage capacities have been accomplished through the completion of already started works and the start of works in the areas where urgent construction of water supply and sewerage infrastructure was required. Total investments in 2017 amounted to HRK 145.78 million.

Construction of a transport collector of Sesvete Waste Water Treatment Centre with Sesvete pumping station and construction of a relief facility with a retention canal at the site of Sesvete collector, which was started in January 2017, is currently in progress. Investment amounts to HRK 46.9 million and its realisation will enable the treatment of approximately 40% of waste water from Sesvete at the facility.

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

Gas

With total investments in 2017 amounting to over HRK 70 million, Zagreb City Gasworks Ltd. has completely fulfilled its mission of safe and reliable gas distribution to calculation and metering points, i.e. to end customers. Significant resources were invested in the reconstruction of 12 kilometres of gas distribution network, construction of 51 kilometres of new gas distribution network with the aim of increasing security and reducing losses and in the construction of 1,000 household connections. Also, 27,000 gas meters were replaced. Activities related to further improvements in the gas system safety and reliability are continually carried out as well. Among other things, gas odorisation is regularly carried out before the heating season with the aim of detecting even the smallest leaks and repairing them in time. It was concluded that the entire gas distribution system was impermeable.

Public transportation

In 2017, the subsidiary ZET invested HRK 66.7 million in repairing 10 kilometres of tram lines. Among other things, during the summer, 4,820 metres of tram lines at the busiest parts of the tram line network were repaired. Also, 5,180 metres of tram lines were repaired as a part of the preparations for the construction of the new cable car "Sljeme".

A total of 19 new buses were procured and their value amounted to a total of HRK 40 million. Of those 19 buses, 15 buses (5 standard city buses and 10 articulated city buses) were funded by the Cohesion Fund. The remaining 4 buses are intended for the transport of primary school students. All these low-floor and air-conditioned buses are powered by engines built in accordance with EURO 6 emission standards - engines with the lowest CO₂ emissions available on the market. Also, 5 new vehicles for transportation of disabled persons in a total value of HRK 2.5 million were procured and agreements for procurement of 2 specialised vehicles for tram track and network maintenance (vehicle with an elevating platform for repairing the tram catenary and a vehicle for tram track cleaning) in a total value of HRK 10 million were concluded. These vehicles are expected to be delivered in 2018.

Roads and green infrastructure

In 2017, as a part of the asphaltting programme and increased road maintenance, the subsidiary Zagreb Roads asphalted 198,027 m² of roads (149 streets). Also, as a part of the municipal services plan, the subsidiary repaired and asphalted 273,225 m² of roads (463 streets) in various city districts. Total works, including emergency interventions, cost over HRK 267 million. In 2017, the subsidiary invested HRK 767,957 in new devices and machinery and procured 6 welding machines, 3 high-pressure cleaners and vehicle attachments for the Winter Road Maintenance Department.

Significant amount of resources were also invested in the infrastructure for separate waste collection. During 2017, City Waste Disposal set up **39,109 new** containers for paper, glass, plastic and textile, increasing the total number of containers to 85,515 by the end of 2017. As a part of the pilot project of home composting, the subsidiary City Waste Disposal provided citizens with 11,531 home composters in just over a month. By far the largest increase relates to the number of containers for paper. A total of 38,690 containers for paper were set up and City Waste Disposal had 78,267 containers for paper at the end of 2017. Also, 76 new "recycling islands" were established and "Klara" recycling centre was opened in September. At the end of 2017, the City of Zagreb had a total of 15 recycling centres (both fixed and mobile). Investments of the subsidiary City Waste Disposal in 2017 amounted to over HRK 42.6 million.

Projects Implemented by Subsidiaries

ZET: 2017 – the Year of Many New Advantages

In 2017, ZET introduced various advantages for users of its services, the most important of which was the introduction of single-ride tickets priced at HRK 4.00, which are valid for 30 minutes and can be used in the first and the second tariff zone. Introduction of significantly cheaper ride tickets for short distance transportation by ZET was done as an acceptance of the proposals of the citizens of Zagreb. Also, for the purpose of further popularisation of public transportation, ZET has modified the previous tariff model which divided the traffic network into 4 zones. The traffic network is now divided into 2 zones and includes the cities Velika Gorica and Zaprešić and the municipalities Bistra, Klinča Sela, Luka and Stupnik. Prices of combined tickets of ZET and Croatian Railways for suburban transportation have also been reduced. The price of all types of combined monthly and annual passes (regular, student, pensioner and low-income passes) has been reduced by 33%.

In January, ZET initiated a pilot project for introducing free Wi-Fi in public transportation vehicles. Initially, free Wi-Fi was introduced in 3 trams, after which it was introduced in 3 buses in March. By upgrading the existing automatic fare collection system, ZET will be able to provide new services, such as the mobile app for tickets and online ticket sale.

Furthermore, ZET's traffic network was extended by introducing new bus routes, the most important of which is the bus route 290 Kvaternikov Trg – Airport (Pleso) – Velika Gorica. This bus route has created a direct traffic connection for all passengers travelling to and from the recently built International Airport and enabled better-quality transport service for the citizens of Velika Gorica. Also, the tram routes 5 and 7 were extended to Dubrava and Dubec respectively.



Zagreb City Gasworks: Development Projects

Zagreb City Gasworks Ltd. affects the development of the local community through its natural gas distribution. The project Competency Centre for Advanced Management of Energy in Buildings and Infrastructure (CEKOM GEZI) includes the Innovation Centre Nikola Tesla (ICENT) as the applicant and 20 partners, one of which is Zagreb City Gasworks Ltd., which has been participating in the preparation and implementation on the Project as a Project partner since signing the Agreement on 5 October 2017. The Project includes 15 research and development activities carried out within the Competency Centre for Advanced Management of Energy in Buildings and Infrastructure and covers the costs of said activities. Zagreb City Gasworks Ltd. participates in the two following thematic areas: communication and management system, i.e. a platform for real-time energy management in buildings and infrastructure, and the advanced management system in hydraulic distribution networks.

Information and communication systems will be integrated in advanced networks with the aim of ensuring efficient management and maintenance of the distribution network, which eventually should contribute to the improvements in the efficiency of resources from the European Structural and Investment Funds available to the Republic of Croatia in the period 2014–2020.

These funds represent a significant potential for the development of the economy and improvement of the quality of life in the Republic of Croatia.

Zagreb Digital City: Improvements in Network Construction

Zagreb Digital City carries out the project of constructing an optical fibre network in Vrbani III, which began in 2014. As an infrastructure operator, the subsidiary has been constructing an open network which enables a single operator to set up, maintain and manage the optical fibre infrastructure in buildings. That operator is then obligated to enable network access to any other operators and allow end users to select their operators freely. In that manner, all operators are provided with network access under equal and non-discriminatory conditions, which consequently prevents operators from installing their infrastructure in the buildings, i.e. from unnecessary and economically unjustified multiplication of optic fibre installations. Such open access is also supported by the EU, whereas the construction of such open infrastructure directly contributes to the fulfilment of the Digital Agenda for Europe. This primarily relates to fulfilling infrastructural prerequisites for achieving general broadband coverage at a minimum speed of 30 Mbit/s and fulfilling the objective that 50% of households uses broadband access at a minimum speed of 100 Mbit/s. The project includes approximately 2,200 end users. In the technical aspect, it is divided into four distribution nodes and its value is estimated at HRK 4,000,000.

Furthermore, the City of Zagreb and Zagreb Holding are joint project investors for a project carried out in Podbrežje, which is similar to the project for Vrbani III. Subsidiary Zagreb Digital City is included in the project of constructing the electronic communication infrastructure in Podbrežje (telecommunication operators' shared area for storing equipment and establishing optic fibre network from said area to each newly built apartment and business venue in the area). In 2017, financial resources for making this investment were approved and technical documentation for designing and constructing the network was drawn up. Said project is planned to be realised for 608 apartments in the first implementation stage.

Cooperation with Suppliers

Zagreb Holding procures all goods and arranges all works and services in accordance with the Public Procurement Act and by implementing public procurement procedures. In 2017, Zagreb Holding concluded agreements with 635 suppliers, most of which have their head offices in Zagreb or near Zagreb. A small number of suppliers are not from the Zagreb County. In public procurement procedures, suppliers from Croatia submit their tenders, even though some of the offered goods are of foreign origin. In 2017, total realised procurement of Zagreb Holding with foreign suppliers (exclusively EU countries) was <1%. Contracted procurement of Zagreb Holding Group in 2017 amounted to HRK 1,710,050,111.

In accordance with the new Public Procurement Act, a particular tender is selected based on the criterion of being the most favourable one in economic terms. Price also remains a criterion for selecting the best tenders, together with additional criteria defined by the contracting authority. However, price may account for no more than 90% of the total structure of value of individual criteria. Suppliers are not evaluated based on social criteria.

Following the Guidelines for the Implementation of Green Public Procurement, adopted by the Management Board of Zagreb Holding Ltd. in 2016 and defined as a voluntary initiative, certain new suppliers (i.e. their products) are evaluated based on environmental criteria (for instance, procurement of electric vehicles, freight vehicles, delivery vehicles and buses also involves taking into consideration the Euro 6 standard). However, the share of green procurement in total procurement is still insignificant. Plans for popularisation of green procurement are realised through user instructions which advise users to follow the green procurement guidelines when preparing technical specifications and to include environmental criteria in the technical specifications of the tender documentation.

As a part of EU programmes, Zagreb Holding has also applied for the 2017 CEF Telecom call for proposals – eInvoicing (CEF-TC-2017-3) aimed at fulfilling technical and operational requirements for the implementation of e-invoices in public procurement.

Digital Advancement

By providing each operator with open network access under equal and non-discriminatory conditions, multiplication of optic fibre installations is prevented. The vision of Zagreb Digital City is fulfilled by constructing an open infrastructure, which directly contributes to the fulfilment of the Digital Agenda for Europe.



Development of Services and Communication with Customers

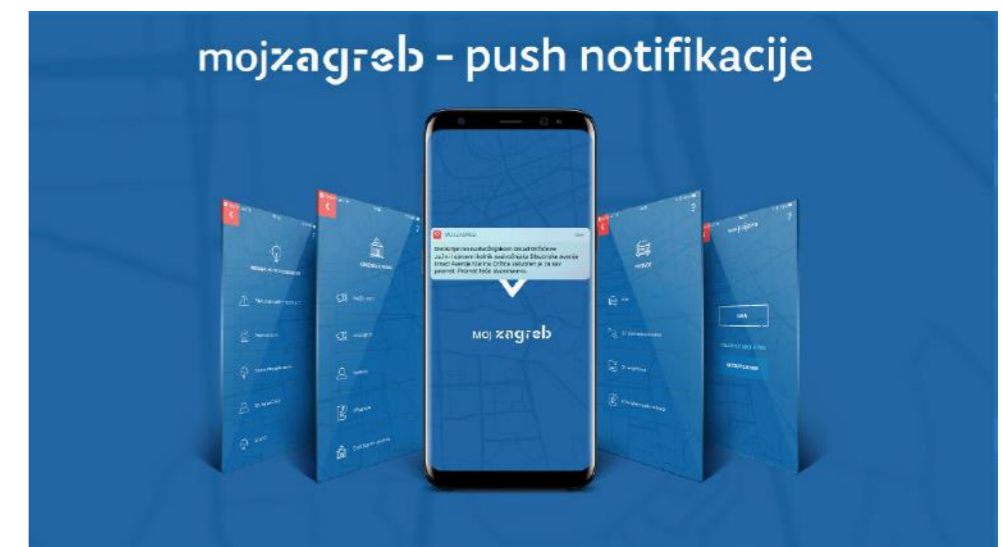
In 2017, Zagreb Holding created a new service website for citizens - sada.zgh.hr - which provides all important information about the Group's operations in real time. If necessary, the information may be updated every minute. This service enables users to communicate directly with the agents of the Call Centre and online. It is an additional platform for communicating with users of the services provided by Zagreb Holding, which uses more and more communication channels to stay connected with the citizens 24 hours a day.

Users may ask their questions via WhatsApp, Viber, chat and Facebook Messenger and they can follow information about services on all social networks. In addition, this digital platform allows file sharing, so this communication channel can be used not only for asking questions and responding, but also for sharing files. Therefore, citizens are no longer required to visit an office to file a certain request or check its status, except in those situations where legal acts require personal identification and verification.

Zagreb Holding actively works on improving the app “Moj Zagreb”, an internet service by the City of Zagreb through which users may report problems with municipal services, to which the City and Zagreb Holding respond in a timely and coordinated manner. In 2017, the app was upgraded to contain additional links to the following internet services of Zagreb Holding: reporting gas meter readings, logging into the application “mojRačun” (“My Bill”) of Zagreb City Gasworks–Supply Ltd., “MojVIO” (“My Water Supply and Drainage” of Water Supply and Drainage Ltd. and “e-Gradani” (“e-Citizens”), an informational system by Zagreb Holding.

Additional links to the web page of the subsidiary City Cemeteries (“find a grave” search engine), ZET (planning trips and electronic excuse letter for traffic delay) and Zagrebparking (portal for purchasing parking permits). Mobile version of the app now also has “Moj ZG Info”, where Zagreb Holding publishes information and notices about services in real time, about which service users receive notifications on their mobile devices.

Also, we continually use social media to inform the citizens about all news, municipal and other services and events related to Zagreb Holding. In communication with our citizens, we use our recognisable pictograms in accordance with our new communication standards so that our service users may establish a consistent visual connection with Zagreb Holding.



Service users may access information about all services provided by the Group through 26 web pages and 2 subpages. In 2017, we continued with the modernisation of our web pages, which started in 2016, when 4 web pages and 2 subpages were redesigned and made compatible with all internet browsers. In 2017, another 5 web pages were redesigned and 3 web pages are still being developed. Contents of all web pages are also available in at least one foreign language.

Prior to and during major infrastructure works in Zagreb, in the summer of 2017, an information campaign was conducted on web portals and search engines with the aim of providing citizens and visitors with real-time traffic information during traffic disruption at particular roads.

Pilot project named “Zagreb – the City of Innovation” relies on Facebook and it is based on innovative ideas published by the citizens of the City of Zagreb on a web page created for the purposes of the project under the name of “Nove Ideje” (“New Ideas”). Zagreb Holding participated in this project by responding to the citizens’ questions and ideas and such direct communication with the citizens has enabled us to implement various new ideas.

Zagreb Holding’s Call Centre is the main centre of digital communication with service users and citizens of Zagreb. It was established in 2015 by integrating communication by telephone into a single platform which has been available 24 hours a day, 365 days a year ever since 1 September 2016. Since its establishment, the Call Centre has been connected with operational services of the subsidiaries and affiliates. Thus, the Centre has integrated all significant information about public transportation, traffic and municipal infrastructure, energy-related activities and our market offer.

What made this Call Centre different even before the introduction of new communication channels was the practice of calling users back in cases when they called the Centre, but for some reason were unable to wait for a response.

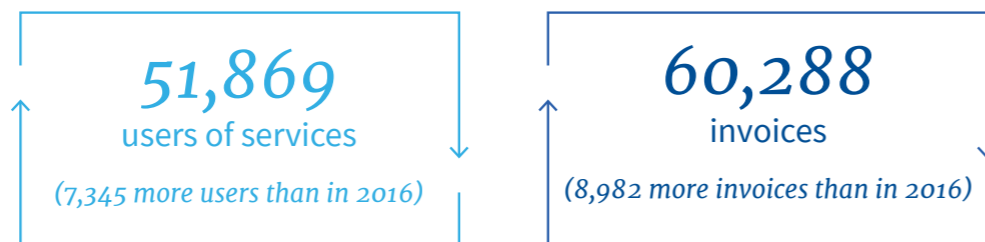
Mobile office of Zagreb Holding. This specialised vehicle enables service users to manage the services they use in a more accessible manner, following the “all services at one place” principle. Mobile office visits all city districts according to a prearranged schedule, which is available on Zagreb Holding’s website. Furthermore, through the Call Centre, service users are able to appoint individual visits, especially visits to the homes of elderly and disabled citizens since the vehicle is adapted for persons with mobility impairments and for disabled persons. In the mobile office, service users may sign a contract for any of the services offered by Zagreb Holding, file requests for changing personal information, file petitions, obtain information and effect payments of Zagreb Holding’s invoices without transaction fees.

Go cyclists! From March to November, the project named “Bring a Bike on the Bus” was carried out on three ZET’s routes passing through hilly areas. Buses driving on the routes Britanski Trg – Mihaljevac, Britanski Trg – Kraljevec and Mihaljevac – Sljeme were equipped with bike racks which passengers may use to transport their bicycles free of charge.

Subsidiary Zagrebparking has introduced the next part of the project named “Bicycle Garages”. The garage “Langov Trg” is the third public garage which, by providing bicycle parking, encourages people to use bicycles as the most efficient and ecologically most acceptable means of transport in the city. The ultimate objective is to provide free parking for cyclists in all eight public garages.

In mid-May 2017, *Zagreb City Gasworks Ltd.* introduced the “e-Bill” (“e-Račun”) – a service which saves paper and reduces costs. Users may choose not to receive paper bills for services of gas distribution, connection, pipeline inspection and other non-standard services. Besides that, users of municipal services had already been able to check consumption, calculation, and payment status online through three independent systems - the desktop application MOJ VIO (My Water Supply and Drainage) created by Water Supply and Drainage Ltd., desktop and mobile application MOJ RAČUN (My Bill), created by Zagreb City Gasworks-Supply Ltd., and the system of delivering one single utility bill of Zagreb Holding to the mPretinac (Mobile Mailbox) of the e-građani (e-citizens) service.

“MOJRAČUN” (“MY BILL”) FREE INTERNET AND MOBILE APP



Water Supply and Drainage Ltd. has continued to increase the availability of its services and since 2012, the availability of water supply services to low-income citizens has been increased. Also, the City of Zagreb is currently in the process of implementing a decision on connecting a water facility by virtue of which the City of Zagreb is financing the construction of water supply and canal connections, reconstructing, separating and relocating of connections and regulating illegal connections for the citizens of the City of Zagreb. Such water facilities are, for instance, water reservoirs, wells, water tanks, pumping stations, waste water collection and drainage canals and other.

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

Customer Satisfaction

Citizens' complaints are submitted to user centres by direct contact forms published on the web pages of all of the Group's components, by calling the Call Centre or by using the digital communication platform that may be accessed through the web page sada.zgh.hr. Complaints submitted to the Call Centre the subject-matter of which falls under the domain of Zagreb Holding are resolved as quickly as possible and statistics and analyses of types of submitted information are made on a weekly basis.

In 2017, the Call Centre received 534,231 calls, most of which - over 130,000 - were addressed at the subsidiary City Waste Disposal, followed by Zagreb Bus Terminal with over 100,000 calls. Customers' inquiries relate mostly to questions about planned works, construction of infrastructure and information about particular services, whereas complaints relate mostly to debts and other issues pertaining to invoices, repairs of damages in infrastructure and dissatisfaction with rendered services. Any inquiry submitted to the Call Centre is forwarded to competent subsidiaries and companies and resolved in due time.

COMMUNICATION WITH USERS OF SERVICES IN 2017



In 2017, Zagrebparking received a total of 51,360 inquiries, of which 28,320 were received by letter and e-mail and 23,040 by phone. 36,768 inquiries were related to complaints, whereas the remaining 14,598 to other questions regarding the subsidiary's work. Company Water Supply and Drainage received 71,363 inquiries and complaints by letters and e-mail and there were 26,500 inquiries and resolved complaints at its offices. Users of the services provided by Zagreb City Gasworks-Supply Ltd. submitted 223,495 written requests, of which 98,811 were submitted at its offices. The main Customer Centre received and resolved approximately 24,000 inquiries and complaints by service users.

Consumer Complaints Committee ensures consumer protection. In the first instance, consumer complaints are resolved by professional services of subsidiaries and affiliates. At the level of the Group, a special commission represents the body competent for resolving consumer complaints related to services from the Group's registered activities. In this manner, the protection of consumers from potential malfeasance is raised to a higher level. Impartiality of this Committee has been ensured further by appointing representatives of consumer protection associations into the Committee in addition to Group employees.

During 2017, the Committee held 38 meetings and reviewed 581 complaints, of which 277, or 48%, were resolved in the applicant's favour. In 252 cases, or 43%, a first-instance decision made by particular components of Zagreb Holding Group was confirmed, whereas in 35 cases, or 6%, it was concluded that the Committee was not competent to confirm a first-instance decision.

Most complaints, 374 of them, i.e. 64%, were related to Zagrebparking, followed by Water Supply and Drainage Ltd., which received 112 complaints, i.e. 19% of the total number of complaints. In the past years, the largest number of complaints was related to the quality of services provided by these two companies, although the number of complaints has been significantly decreasing since 2015.

	2015	2016	2017
Zagrebparking	504	461	374
Water Supply and Drainage Ltd.	163	180	112

Regarding customer protection, there was one case of non-compliance with relevant regulations. This case was brought against Zagreb City Gasworks Ltd., which was sued for damages arising from non-compliance with time limits for performing regular pipeline inspection. The procedure is being handled by a second instance court and it has not been settled as of yet.

Information about Services and Consumer Privacy

Components of Zagreb Holding Group, which offer various services from the segment of municipal, traffic, energy-related and commercial activities, analyse the effect of their services on customers' and employees' health and safety. Besides activity risk assessments, Zagreb Holding Group also carries out assessments prescribed by the law, such as assessments of the work environment, electrical installations, lighting and noise, and it implements safety measures, such as fire safety measures.

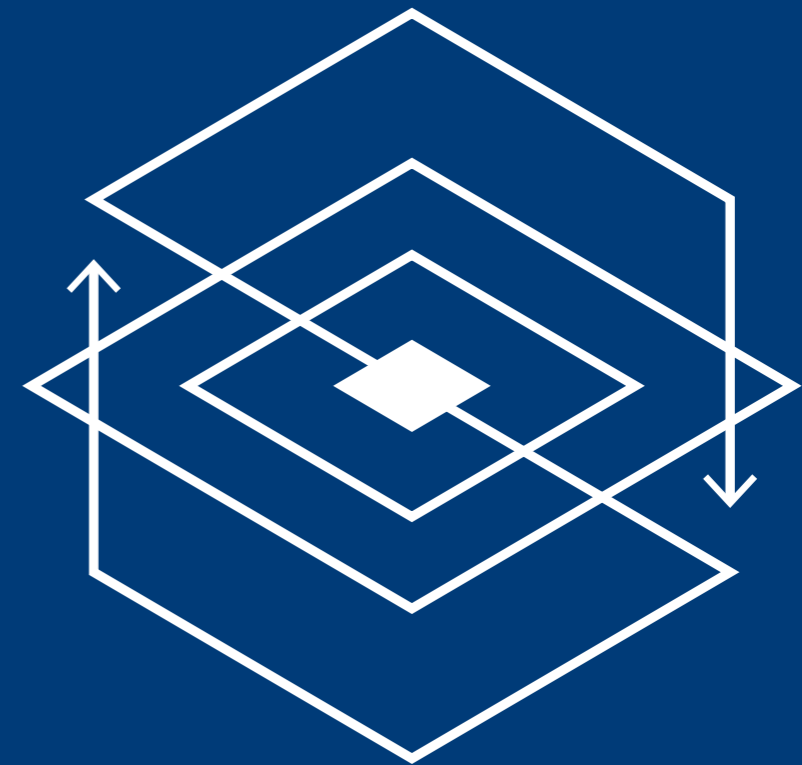


Information about these services is available to service users on the web pages of relevant companies and subsidiaries – such as information about the transport timetable, the quality of potable water, roadworks, activities of the Winter Road Maintenance Department – as well as on the web page sada.zgh.hr.

The number of complaints regarding customer personal data protection was fairly insignificant. Submitted reports relate mostly to data accuracy (customers' name or PIN). Personal Data Protection Agency supervised two cases related to personal data protection. One was related to mistaken identity pertaining to the business of Zagreb City Gasworks-Supply Ltd., which was resolved successfully, whereas the other was related to an infringement of the Personal Data Protection Act by Water Supply and Drainage Ltd. The latter case was resolved in favour of the applicant.

City Pharmacies Zagreb started cooperating with the Agency for Quality and Accreditation in Health Care and Social Welfare. The aim of this cooperation is to analyse the possibilities of monitoring the quality of pharmaceutical practices in the Republic of Croatia due to the fact that the applicable legal regulations on the quality and accreditation in health institutions do not cover pharmaceutical activities. At present, health institutions may monitor the following criteria defined for their pharmaceutical practices: patient and staff safety, patient and staff satisfaction and side effect monitoring. Patient satisfaction monitoring will also be realised through a pilot project conducted by the University Hospital Dubrava, Zagreb East Health Centre and City Pharmacies Zagreb. If necessary, general practitioners will participate in the project as well. The aim of this project is to analyse treatment coordination, monitor patients and record potential medication errors over the course of one year.

8 / *Challenges of
Urban Environmental
Protection*



Central Department for Energy Efficiency operates in Zagreb Holding Group with the aim of systematic energy and water management. It carries out and organises activities related to energy and water management at the level of the Group for the purposes of improving the efficiency of energy and water use.

8 / Challenges of Urban Environmental Protection

Zagreb Holding Group has recognised sustainable waste management and water pumping and protection as the two key issues of environmental protection, followed by the protection of the atmosphere, climate change and investments in environmental protection.

Central Department for Energy Efficiency operates in Zagreb Holding Group. It was formed at the very end of 2016 with the aim of systematic energy and water management. In accordance with the Energy Efficiency Act, the Central Department carries out and organises activities related to energy and water management at the level of the Group. The aim of such activities is to improve the efficiency of energy and water use and consequently reduce greenhouse gas emission. One of the most important objectives of the Central Department for Energy Efficiency is the introduction of an energy management system based on the HR ISO 50001 standard in all components of the Group.

Some subsidiaries and companies have developed an integrated approach to resolving environmental issues. Active approach is especially visible in Zagreb City Gasworks Ltd., City Cemeteries, City Pharmacies Zagreb, Water Supply and Drainage Ltd., Zrinjevac and Landfill Management. Zagreb City Gasworks Ltd. and City Cemeteries have introduced an integrated quality and environmental impact management system in accordance with the ISO 9001 and ISO 14001 standards. Similarly, Zrinjevac and Landfill Management have adjusted their practices in accordance with the ISO 14001 standard, whereas Water Supply and Drainage Ltd. has introduced an integrated risk management system (at the level of Zagreb Holding), as well as quality, environment, occupational health and safety management systems, with particularly specified measures for reducing the amount of waste. ZET actively tackles the issue of the protection of the atmosphere and climate change and it acts responsibly in waste management activities by implementing its own environmental management programme. City Waste Disposal has implemented the ISO 14001 standards. City Pharmacies Zagreb has introduced a quality management system and in 2017, it started preparing the documentation and implementing the ISO 22716, ISO 14001 and ISO 50001 standards with the aim of integrating the requirements of good manufacturing practices for cosmetic products with

other aspects of environmental protection and energy-efficient governance. Also, in January 2017, Zagreb City Gasworks Ltd. was granted a subsidy by the Environmental Protection and Energy Efficiency Fund, which covered 40% of the costs of implementing and certifying the ISO 50001 Energy Management System. Said system was certified at the very end of 2016.

Identified Environmental Risks

City Waste Disposal has recognised the risk posed by a new business framework related to the implementation of the Municipal Waste Management Regulation, which was adopted by the Government of the Republic of Croatia in May 2017. This regulation requires changes in the organisation of work and technologies, which will significantly increase operating costs. Strategic plans of Zagreb Holding Group have also been greatly affected by this particular risk. City Waste Disposal has also recognised the risk posed by potential future market developments, i.e. the possibility of granting concessions for public services provided by said company. Changes in the organisation of work and technology demand large investments in waste management infrastructure (bins, containers, vehicles and IT solutions), require more employees due to the expansion of the physical volume of business processes and cause additional costs for procurement and distribution of bags for biodegradable waste disposal, as well as of bags for separate collection of plastic waste. On the other hand, income from sales of secondary raw materials is not high enough to cover the new costs, which inevitably raises the question of increasing the price of public services.

Several subsidiaries and affiliates have recognised climate change as a long-term business risk that bears financial consequences.

Companies Zagreb City Gasworks Ltd. and Zagreb City Gasworks-Supply Ltd. consider warm winters with higher temperatures a risk because they may cause reduced consumption of natural gas, thus exposing them to penalties for taking less natural gas than initially contracted. Such reduction may directly affect income from the primary business activity of natural gas distribution, which accounts for 88% of total income of these companies. Regarding the possibility of managing this risk, Zagreb City Gasworks-Supply Ltd. points out that climate change is a risk that lies beyond its control.

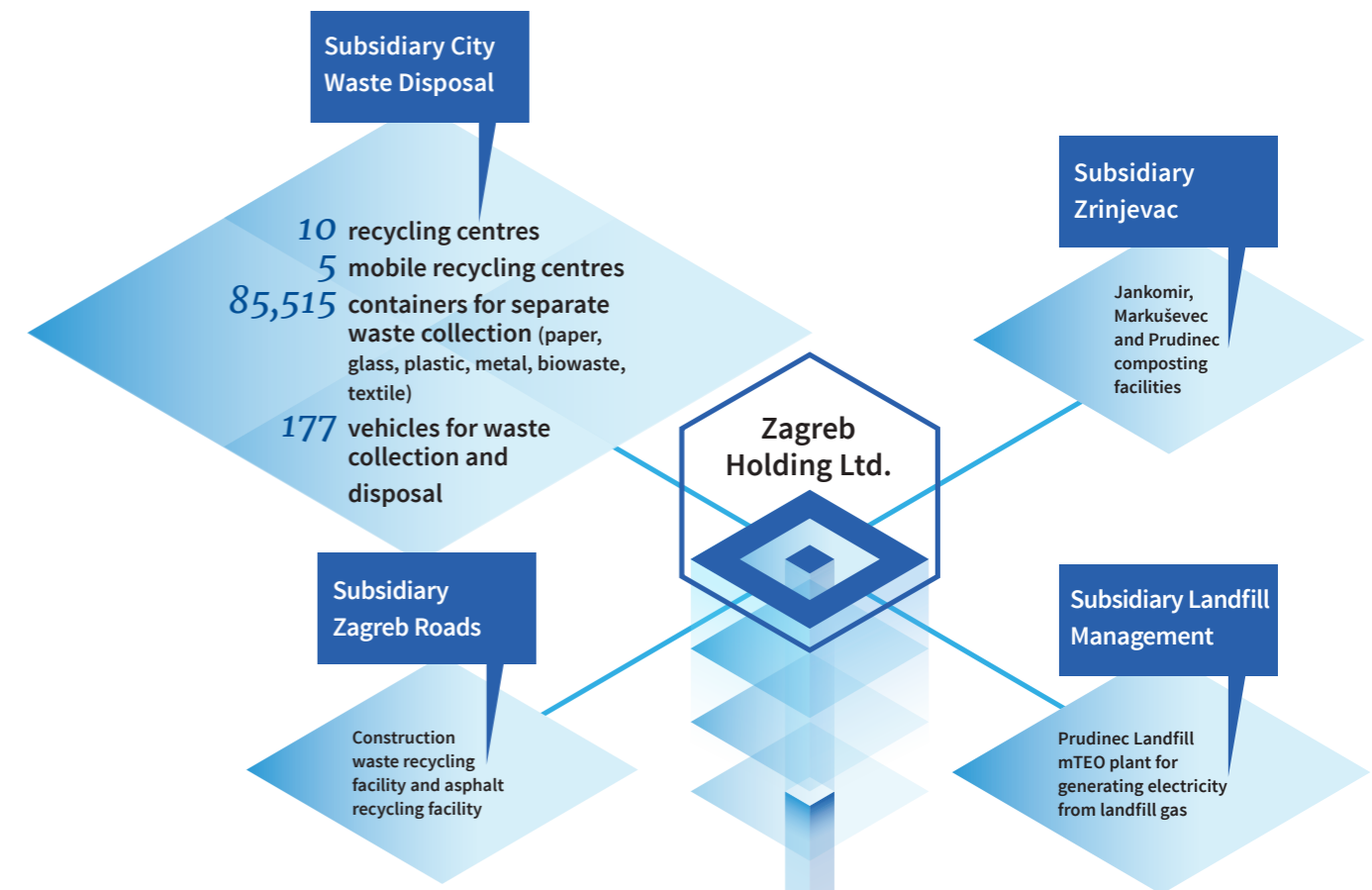
For the company Water Supply and Drainage Ltd., the greatest risk is also posed by climate change, i.e. rainy periods and droughts. Namely, rainy periods cause significant damage to sewer collectors in cases of hydraulic overload of collectors, especially in sanitary protection zones around water-supply points. At the same time, during droughts, the level of ground waters is lower, which is why it is necessary to ensure that water pumps have sufficient capacities for safe water supply. In terms of managing this risk, Water Supply and Drainage Ltd. plans to invest a considerable amount of financial resources to redirect all waste water that has been drained into the Sava River to a waste water treatment device, which will consequently reduce the pollution of the Sava River and the costs of maintaining both systems.

Zagrebparking has recognised the risk of forbidding vehicles from entering the centre of the City of Zagreb because it may affect the reduction in sales income. Costs arising from activities carried out with the aim of managing this risk have not been identified.

Sustainable Waste Management

Sustainable waste management is one of the two key issues of environmental protection for Zagreb Holding and the City of Zagreb. Furthermore, assessments by individuals and organisations directly affected by waste management on a daily basis represent an extremely important factor for this issue. This is also reflected in the level of attention paid to this issue by the media, citizens and associations. This factor is present not only in each component of Zagreb Holding Group, but also in the City of Zagreb as a whole.

Waste management system in the City of Zagreb, which is performed by relevant subsidiaries of Zagreb Holding, includes various structures, facilities and waste management methods.



Waste Management as a Challenge and an Opportunity

New regulation on municipal waste management has a great influence on the organisation of work, technology, operating costs and price of public services. Waste management is one of the two key influences of Zagreb Holding with the strongest effect on strategic plans of Zagreb Holding Group.



Great Public Interest in Waste Management in the City of Zagreb

During 2017, various media reported on the distribution of containers and timely provision of information with clear instructions on waste separation (which container should be used for various types of waste) and waste collection timetable. In the second half of the year, the media's attention was drawn by the initiation of a composting project and by the manner of implementing the Municipal Waste Management Regulation in the City of Zagreb, as well as by the costs arising from said implementation. Citizens were informed about the importance of separate collection of waste via brochures that accompanied the single utility bill, information printed on the back of the single utility bill, Zagreb Holding Ltd.'s website, platform sada.zgh.hr and social networks. Citizens could also obtain information from the Call Centre.

In 2017, the subsidiary City Waste Disposal collected 2,229.70 tonnes of non-hazardous waste from the subsidiaries and affiliates, excluding mixed municipal waste. City Waste Disposal does not collect hazardous waste from other subsidiaries. Rather, it is handed over to other competent waste management companies to be disposed by them. In 2017, 54 organisational units of Zagreb Holding produced 141,899.90 tonnes of non-hazardous waste and 609.54 tonnes of hazardous waste. Namely, these are organisational units that produce over 20 tonnes of non-hazardous and about 0.5 tonnes of hazardous waste and that also submit their data to the Environmental Pollution Register in accordance with the Environmental Protection Act and the Ordinance on the Environmental Pollution Register.

- Zagreb City Gasworks Ltd. handed over 130,329 kilograms of non-hazardous and 35,772 kilograms of hazardous waste to competent waste management companies. The Company collects and disposes of the waste by separating it by type and characteristics, in order to simplify its management and preserve its beneficial properties. In 2017, the company produced a larger amount of non-hazardous and hazardous waste: due to the reconstruction of the Head Office building, the company produced 52,140 kilograms of construction waste, whereas 26,460 kilograms of hazardous waste were produced due to disposal of vehicles. In 2018, the Gasworks started the preparations for the construction of a recycling centre exclusively for its own purposes.
- Water Supply and Drainage Ltd. has established a system of recording the quantities of produced waste according to EWC codes and disposed waste. The company disposed of 8,090 kilograms of non-hazardous and 2,003 kilograms of hazardous waste, whereas 32,550 kilograms of produced non-hazardous waste were handed over for recovery.
- City Pharmacies Zagreb disposed of 22,750 kilograms of waste in total, of which 20,000 kilograms of old paper, 2,250 kilograms of old medications and other pharmaceutical waste, 350 kilograms of laboratory chemicals, 560 kilograms of old IT equipment and 150 kilograms of dangerous packaging.
- Zagreb Markets disposed of 1,620,810 kilograms of non-hazardous and 3,960 kilograms of hazardous waste.
- In 2017, ZET produced 47 types of hazardous and non-hazardous waste in total, which amounted to a total of 2,546,809 kilograms, of which 2,352,356 kilograms of non-hazardous waste (28 types) and 194,453 kilograms of hazardous waste (19 types).
- Zagreb Roads produced 154,105 kilograms of hazardous and 102,396,779 kilograms of non-hazardous waste and handed it over to competent waste collection companies for disposal.

In 2017, from the total amount of collected non-hazardous material, City Waste Disposal disposed of 229,998.238 tonnes of waste, whereas 37,191.699 tonnes of waste were handed over for recovery. Also, 1,138 tonnes of hazardous waste were collected and handed over for recovery.

In 2017, City Waste Disposal carried out various activities to improve the waste management infrastructure, such as:

- Construction of the Recycling Centre Klara, which was an investment amounting to HRK 2.1 million;
- Procurement of waste containers, which was an investment amounting to HRK 13.8 million;
- Procurement of and works on the installation of 6 sets of underground waste collection containers with a hydraulic platform on three different locations, which was an investment amounting to almost HRK 492,000;
- Procurement of 26 waste collection vehicles financed by leases and loans, which was an investment amounting to HRK 24.2 million.

In 2017, users of the services provided by the subsidiary City Waste Disposal submitted numerous inquiries and complaints - 15,853 in total. Besides complaints related to service charge, they mostly asked questions about bulky and municipal waste disposal, infrastructure for separate waste collection - installation, relocation and replacement of faulty containers, notices on containers being completely full, cleaning and washing of containers and hazardous waste disposal. Particular users also requested a temporary suspension of the waste disposal service because they had stopped using their property.

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

Finding High-quality Waste Management Solutions through EU projects

The main objective of the *Bin2Grid* project, in which City Waste Disposal participated from the beginning of 2015 to the end of 2017, was to promote separate collection of food waste from various waste producers (industries, catering services and households) with the aim of producing biofuel (biomethane) and using it in the local network of filling stations. Four European cities implemented the proposed project concept - Zagreb, Skopje, Málaga and Paris - and the project was conducted as a part of Horizon 2020. Subsidiary City Waste Disposal was the project coordinator, whereas the project consortium consisted of 8 partners from various European countries (Croatia, Germany, Austria, Spain, Macedonia and France).

During the project, the participants used the experience of all stakeholders involved in the project and analysed the potential of generating energy from food and drink waste in countries that adopted various waste management practices (separate collection or separation of food waste). Many workshops, promotional campaigns and working group meetings were held and the waste management models that have been proposed should lead to an increase in biogas production by anaerobic fermentation. This will ultimately decrease CO₂ emissions related with the current consumption of fossil fuels and encourage biogas use. Total project budget amounted to EUR 790,000, whereas the share of City Waste Disposal amounted to EUR 120,000.

The project *PPI4Waste* was carried out within Horizon 2020 and it dealt with EU waste management guidelines, with an emphasis on sustainability and innovation. It comprised various measures and activities related to green public procurement in the waste management sector. The project, which lasted from January 2015 to July 2017, was coordinated by the Technical Institute of Seville with City Waste Disposal as one of eight project partners. The project was defined in 5 work packages, which included various activities and measures (definition of requirements, innovativeness in waste management, dissemination and other). Main activities of City Waste Disposal were aimed at defining the requirements and drawing up the guidelines for implementing innovative solutions in the waste management sector, with a particular emphasis on municipal waste. Total project budget amounted to EUR 1 million, whereas the share of City Waste Disposal amounted to EUR 70,000.

Project REEF 2W is related to renewable energy sources and their integration with energy efficiency, as well as with combining and enhancing urban waste water and organic waste management systems through sustainable management of municipal waste water and organic waste. The project is carried out as a part of the EU programme Interreg Central Europe. It started in June 2017 and will last for 3 years, i.e. until mid-2020. There are 13 partners participating in the project, which are coordinated by the Italian National Agency for New Technologies, Energy and Sustainable Economic Development. Zagreb Holding, i.e. the subsidiary City Waste Disposal, participates in the project as a project partner. Its task is to achieve efficient resource management through an integrated approach in resolving the issues of energy inefficiency and efficient waste water and organic waste management.

The project REEF 2W aims to offer specific technical and educational solutions in analysing and planning of processes for optimisation of waste water treatment facilities, municipal waste management system and reduction in local energy consumption. Total project budget amounts to EUR 2,300,000, whereas the share of the City Waste Disposal amounts to EUR 191,000.

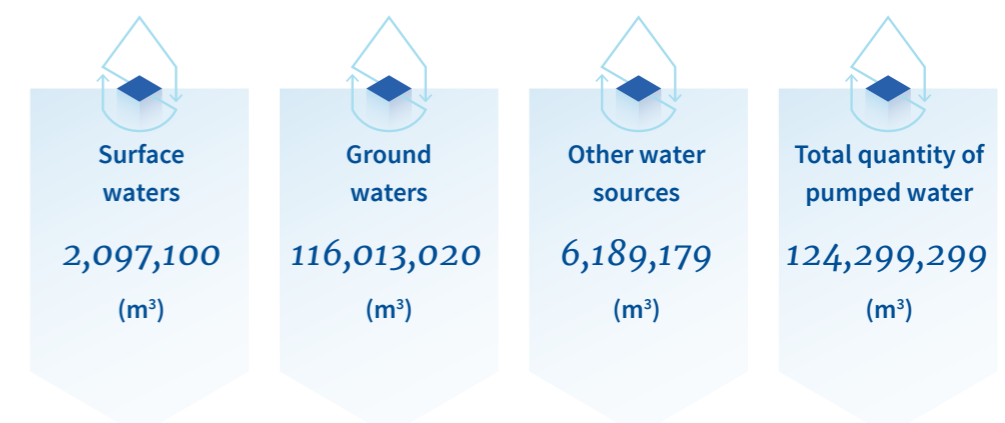
Zagreb Holding has also prepared and submitted proposals for various other projects the results of which will be presented in the future. The project *REVEAL* is related to designing various measures and activities with the aim of shifting from linear to circular economy. The project focuses on innovativeness in waste management practices, particularly on the sustainability of textile waste management. It was prepared in cooperation with partners from Austria, Slovenia, Hungary, Serbia and Montenegro as a part of the Danube 2014-2020 Transnational Programme, which funds projects contributing to the development of a more innovative, accessible and sustainable Danube Region.

Zagreb Holding is one of eight partners for the project *BIOGAS BEYOND*, which is coordinated by the Faculty of Mechanical Engineering and Naval Architecture Zagreb. Partners from Austria, Germany, France and Turkey have also participated in the preparation of this project. It is related to waste management aimed at producing biogas as a renewable energy source, particularly in terms of recovering various types of municipal waste.

In 2017, City Waste Management also participated in the consortium for the preparation of the project *PlasTex*, which is funded by the EU LIFE Programme. The aim of the project was to increase the quality and quantity of separated plastic and textile waste collection and help municipal services companies to successfully sell collected waste on the market, primarily to national industries. Various activities were defined for this project, such as separate collection and processing of plastic and textile materials and their use in urban areas or the development of a national platform as the first step in the development of a future useful waste market (so-called waste exchange market). Croatian Chamber of Economy coordinated the project consortium, while the project participants were municipal services companies from Zadar, Prelog, Čakovec and Krapina, companies that process plastic and textile waste (ISE, Tehnix, Stražaplastika and Regeneracija), the municipal services company Snaga from Ljubljana and the Chamber of Commerce and Industry of Slovenia.

Water Pumping and Discharge

In accordance with its primary business activity, in 2017, the largest quantities of water were pumped by Water Supply and Drainage Ltd., which pumped water from various water sources. However, none of them have been significantly affected by water pumping.



Water for Life

Regular water quality assessments have shown that water supplied to the citizens of the City of Zagreb is safe for use and of high quality. In 2017, 8,449 water samples were examined and 184,225 water quality indicators were specified.



Following the processing at the central waste water treatment facility of the city of Zagreb (CUPOVZ), as at the last day of 2017, 146,552,674 m³ of waste water from the City of Zagreb was discharged from Hruščica measuring station. This water was mixed with water from the streams Bliznec and Vugrov Potok, which currently also receive water from Sesvete West and rainfall runoff. Quality of all water discharged into the Sava River is controlled at the laboratory of Water Supply and Drainage Ltd., as well as in a certified external laboratory.

Water quality is regularly tested in accordance with the Act on Water for Human Consumption and the Ordinance on Compliance Parameters and Methods for Analysis of Water for Human Consumption. In 2017, 8,449 samples were analysed and 184,225 water quality indicators were specified. Also, systematic control of water sources (wells, spring-water intakes) and the water distribution system (collective waters from water pumping stations, water reservoirs and water supply network) of Zagreb and Samobor was carried out by analysing 7,340 water samples. Of those 7,340 samples, 1,858 were samples of raw water from water sources (before processing and disinfection) and 5,482 were samples of water for human consumption supplied to consumers. Values of water quality indicators for water from the pumping stations in the City of Zagreb and water sources in Samobor were significantly lower than the allowed maximum, confirming that consumers were supplied with high-quality water safe for use.

In 2017, Zagreb Markets pumped 3,000 m³ of water from ground wells, which was used in the technological process of cooling compressor heads in engine rooms at the Wholesale Market and in the Deep-Freezer, which reduced water supply costs. Zagreb Fair pumped 132,250 m³ of water from its own well. ZET pumped water from two sources - 101,052 m³ of water from a local water supply network and 12,780 m³ from its own well. Water pumped from ZET's own well was used for washing vehicles and then recirculated so that 30% of the amount of pumped water was reused.

City Waste Disposal pumped water from process water wells at two locations - Jakuševac Service and Operational Centre, where 201 m³ of water was pumped, and at the company's Head Office at 82 Radnička Cesta street, where it pumped 35,179 m³ of water. Also, it discharged 7,284 m³ and 23,638 m³ of waste water at the Jakuševac Service and Operational Centre and at the Head Office respectively. For cleaning public areas, in 2017, City Waste Disposal used water from the well at 82 Radnička Cesta street, Horvaćanska Cesta street and Aleja Bologne street in a total quantity of 34,307 m³.

Public area cleaning - use of wells (m³)

Radnička cesta 82	Horvaćanska cesta	Aleja Bologne
25,389	7,624	1,294

Landfill Management pumped ground water from the wells of the hydrant network to collect water for technological and other purposes in a total quantity of 67,736 m³.

Zagreb City Gasworks Ltd. does not pump water from its own sources, but it controls the amount of discharged water by obtaining readings at four water meters. In 2017, 5 water meters were installed at the company for monitoring purposes and further installation of water meters is planned with the aim of increasing the efficiency of water consumption in individual facilities. In 2017, water consumption costs were halved in comparison with 2016 due to a new water supply network and the separation of the water supply and hydrant networks. At Zagreb City Gasworks Ltd., waste water quality is inspected two times a year by analysing waste water from the last sewer pit before discharge into the public sewer system. The Company also owns a separator for waste water treatment. Sludge and oily water from the separator are analysed in a certified laboratory.

Energy Consumption and Initiatives for Energy Consumption Reduction

Energy Consumption

Most components of Zagreb Holding monitor energy consumption individually. In 2017, most of them introduced the Energy Management Information System (EMIS), whereas Landfill Management, AGM and Zagreb City Gasworks plan to implement it in 2018.

Energy Management Information System (EMIS) is an online application for monitoring and analysing energy and water consumption in public sector buildings. EMIS greatly facilitates the process of systematic energy management in public buildings because it simplifies accessing data on energy consumption and costs, provides simple graphic and table overviews, allows printing of data and results of analyses and simplifies the process of preparing data required for designing local plans for increasing energy efficiency, as well as related reports.

Use of EMIS ensures and provides transparent energy consumption overviews, control and costs in all public sector buildings.

The largest consumers of electricity in Zagreb Holding Group were ZET and Water Supply and Drainage Ltd., with ZET being by far the largest consumer of electricity due to the nature of its activity. Thus, in 2017, ZET consumed a total of 66,423 MWh of electricity on running the electrical tram subsystem and other technological processes. The largest portion of electricity consumed by Water Supply and Drainage (about 96%) was consumed for collecting (pumping) water from the water supply network. Other large consumers of electricity in the Group are Zagreb Markets, due to their large deep-freeze facility at Žitnjak, and Zagreb Freight Station.

ELECTRICITY (MWH)	
ZET	66,423
Water Supply and Drainage Ltd.	60,152
Zagreb Markets	12,036
Zagreb Freight Station	10,250
Zagreb Fair	8,439
Zagreb Bus Terminal	2,706
Arena Zagreb	2,091

Through the subsidiary Landfill Management, Zagreb Holding also generates electricity. Thus, in 2017, 13,609.66 MWh of electricity were generated by Landfill Management from renewable energy sources, i.e. landfill gas, and transmitted into the HEP system.

ZET, Zagreb Fair and Zagreb Freight Station were the largest consumers of heat in 2017. ZET consumed a total of 25,020 MWh of heat, i.e. 9,756 MWh of natural gas for heating and 15,264 MWh of heat from the district heating plant. In terms of consumption of heat, ZET is followed by Zagreb Fair, which consumed 12,019 MWh of heat, and Zagreb Freight Station, which consumed 8,108 MWh of heat.

Initiatives for Energy Consumption Reduction

In 2017, the Group's components introduced various initiatives for reducing energy consumption and increasing energy efficiency.

Zagreb City Gasworks Ltd.

In 2017, energy renovation of the Head Office building of Zagreb City Gasworks was carried out. Exterior joinery was replaced, as well as the old heating and cooling system, which was replaced with a more efficient one (heat pump). The structure of the building was strengthened and the building was fully waterproofed, ceilings and walls were repaired and the lighting system was modernised in the manner that it reduces electricity consumption, increases energy efficiency, reduces CO₂ emission, etc. Considering that the period of monitoring energy consumption after the reconstruction was very short, we can only say that it is expected that this energy renovation will reduce the consumption of heat for heating by 33,615 kWh/a, i.e. by 37%, in comparison with the consumption before the renovation. The Head Office building, which had the D energy class label, is now certified with the C energy class label. Therefore, CO₂ emission should be reduced by 7.93 tonnes per year.

City Pharmacies Zagreb

As a part of the project for implementing the ISO 50001 standard for energy management system, all data in the EMIS system for all areas of the Institution's activities has been updated. Also, four persons have completed training programmes for energy consultants and energy efficiency associates. Said data will be used as input data in energy management system documentation for the process of planning energy efficiency improvements in accordance with ISO 50001:2011. Also, ISO 50001:2011 certification is planned for the end of 2018.

Water Supply and Drainage Ltd.

In 2017, Water Supply and Drainage Ltd. was not able to implement the initiative for reducing the consumption of electricity. This was a consequence of constructing new water supply facilities, which also included the introduction of new metering points for recording the consumption of electricity. This increased the consumption of electricity by 4% in comparison with 2016. The cost of electricity also increased due to the correction in the price of this energy source, i.e. due to larger compensations for promoting generation of energy from renewable sources (since September 2017), green energy (since December 2017) and excise duties for business use (since September 2017).

Zagrebparking

By installing eco-friendly and energy-efficient lighting systems in public garages in 2017 (PG Petrinjska, PG Tuškanac, PG Langov Trg, PG Kvaternikov Trg and PG Gorica), electricity consumption was reduced by as much as 40%. Savings were identified based on the electricity bills for garages.

Zagreb Plakat Ltd.

In December 2017, the project of installing advanced LED lighting at 10x5-meter and 12x5-meter bigboards was carried out, which will reduce the consumption of electricity by 132 MWh in 2018, while the quality of lighting will remain the same. Calculations of savings are based on the project documentation, extensive metering and incoming electricity bills. Also, test projects for reducing energy consumption in offices were carried out, according to which, in 2018, the consumption of electricity should be reduced by 2,000 kWh in comparison with 2017.

ZET

Preparations for implementing a public lighting project began in the first quarter of 2017. This project includes the replacement of the existing lighting with ecologically efficient LED lighting. Preparations consisted of conducting a study, project analysis and analysis of requirements for the realisation of said project, based on which the value of investment was estimated. The aim is to reduce costs, save electricity and reduce emission of harmful gases by replacing current light sources and lighting fixtures with state-of-the-art lighting technologies. The planned value of the investment is HRK 4 million.

Zrinjevac

In 2017, the reconstruction of the gas boiler room fuelled by biomass (woodchips) at the Jankomir plant nursery was completed. The value of the investment amounted to HRK 1.1 million. This is the second boiler room of that kind in the subsidiary, which allowed the utilisation of biomass produced by tree pruning and resulted in financial savings.

Fuel Consumption and Emissions

Fossil fuel consumption in Zagreb Holding Group mostly relates to transportation and generation of heat. The largest consumers of fossil fuel in 2017 were the subsidiaries Zagreb Roads, Zrinjevac, City Waste Disposal and ZET and the company Zagreb City Gasworks Ltd.

	Fuel consumption in MWh				
	Gasoline	Diesel	Ultra-light fuel oil	Natural gas	Compressed natural gas
Zagreb City Gasworks Ltd.	158	128		87,848	641
Zagreb Roads	399	12,139	190,692	8,237	
ZET		116,903	415	9,756	23,370
Zrinjevac	220	1,846			
City Cemeteries	152	530	6,334		

CO₂ Emissions

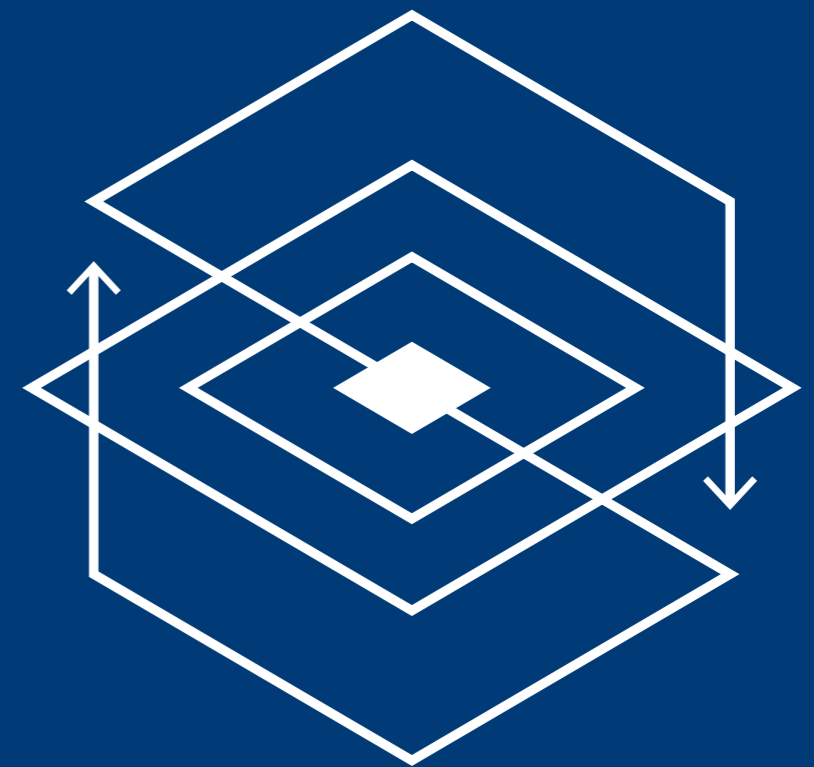
As with monitoring energy consumption, each subsidiary and affiliate individually monitors greenhouse gas emission and emission of other gaseous pollutants, during which they utilise available calculation methodologies.

The largest amounts of greenhouse gases were emitted by ZET, Landfill Management and City Waste Disposal. ZET emitted 35,525 tonnes of CO₂ for the purposes of fuelling buses and 1,980 tonnes of CO₂ for other operational procedures, followed by Landfill Management with 13,931 tonnes and City Waste Disposal with 4,204 tonnes of emitted CO₂.

mTEO plant for generating electricity from landfill gas



9 / *Inside Zagreb*
 Holding



9 / Inside Zagreb Holding

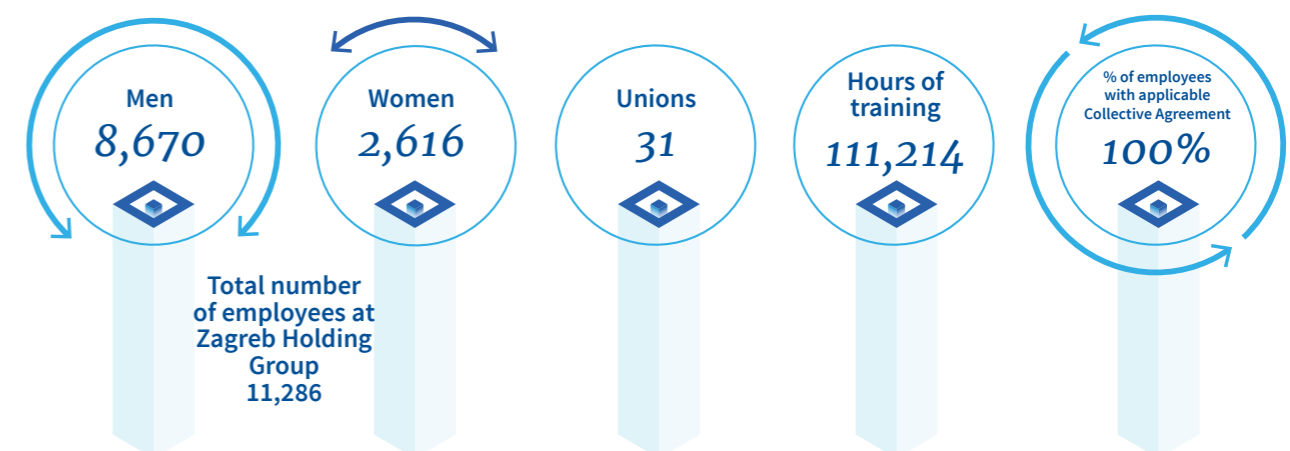
Employee benefits and status

are guaranteed by the Basic Collective Agreement and collective agreements of individual companies. Zagreb Holding does not tolerate any form of discrimination and the corporate culture is built on the principles of equality and inclusion.

Thanks to our employees, all activities of Zagreb Holding may function smoothly and thus ensure that the Company continually provide high-quality services. Our employees represent important stakeholders who affect the development and future of the organisation. At Zagreb Holding, they have adequate conditions for work and professional development, as well as a safe workplace. Training and professional development, health and safety, equal opportunities, high-quality internal communication and cooperation represent the most important aspects of sustainability on which Zagreb Holding constantly works to ensure that all its employees are satisfied.

Employees are welcome to give their opinion and proposals on a daily basis through various communication channels and mechanisms. Their opinion about any influences of Zagreb Holding on society, economy and environment, as well as their proposals on how to change and improve them, are essential for continual improvement of the processes of achieving sustainable development.

Some subsidiaries and companies regularly conduct employee satisfaction surveys, whereas at the level of the Group, Zagreb Holding has provided employees with mechanisms for participating in union activities and communicating with professional services in charge of human resources management. As at 31 December 2017, 11,286 workers were employed at the Group, which represents an increase by 892 workers in comparison with 31 December 2016, when 10,394 workers were employed at the Group. In 2017, 882 workers who had previously been temporarily hired through employee-leasing agencies for a period longer than six months, primarily to perform tasks related to the subsidiaries' and affiliates' primary business activities, were employed on a full-time basis. Also, 635 workers who had previously been employed on a fixed-term basis were employed on a full-time basis in 2017.



Collective Bargaining

In 2017, 31 unions were active at the level of the Group and 26 unions were active at the level of Zagreb Holding Ltd., some of which are national associations, while others are exclusively intraorganisational unions. Regular meetings are held with union representatives, they are involved in the decision-making processes either through consultancy or co-decision procedures and they are timely informed about any business-related changes.

Employer's bargaining committee and unions' bargaining committee, which consists of representatives of the employer's unions, participate in collective bargaining procedures. Minimum period during which significant business-related changes must be reported in advance is specified in the Labour Act. Pursuant to the Labour Act, employers are obligated to report to the workers' council at least every 3 months and have consultations prior to adopting decisions relevant for the workers' status. In such cases, the workers' council, i.e. the union commissioner(s) exercising the rights and assuming the obligations of the workers' council, is obligated to submit its statement on the decision to be adopted within 8 days, or within 5 days in the event of extraordinary termination of employment.

Basic Collective Agreement and the Labour Act also stipulate compulsory consultations with the union commissioner prior to adopting decisions relevant for the workers' status. Any information relevant for adopting such decision and interpreting its effect on the workers' status must be submitted on time. Particularly important decisions are the following: decisions on adopting rules of procedure, planning and developing policies on employment and terminating of employment, transferring companies, parts of companies, economic activities, parts of economic activities or employee's employment contracts to other employers and the effect of such transfer of contracts on affected employees, decisions on the protection of health and safety at work, introduction of new technologies and changes in the organisation and mode of operation, annual leave plans, work schedule, night shifts, compensations for innovations and technological advancements, redundancy, as well as the adoption of other decisions for which the Labour Act or the Basic Collective Agreement prescribe that the workers' council must participate in.

All employees of Zagreb Holding, be it full-time, temporary or part-time workers, have equal rights.

AZ Zagreb – Closed Voluntary Pension Fund for Employees of the Group

In cooperation with the coordination of unions operating within the Company, a closed voluntary pension fund for employees of Zagreb Holding named AZ Zagreb was introduced in 2008. By establishing the fund and providing financial incentives, Zagreb Holding encourages employees to invest in long-term retirement savings plans. Membership in the fund is voluntary for all employees.

As at 31 December 2017, 1,379 of the Group's employees were members of the closed voluntary pension fund AZ Zagreb. In 2017, through contributions to the pension fund, the company Zagreb Holding paid premiums for voluntary pension insurance in a total amount of HRK 2,562,858.50.

Employment Policy and Equal Rights

Since May 2017, Zagreb Holding has been planning and providing employment in accordance with a special instruction document adopted by the Company's Management Board. Among other things, the instruction also specifies that ethical principles, particularly those against discrimination on any basis and in any form, must be applied when hiring employees. In accordance with this instruction, since May 2017, Zagreb Holding has also been announcing public calls for applying for vacancies at its web page. By 31 December, 86 public calls for applying for vacancies were announced, based on which 253 employees were hired.

Employee benefits and status are guaranteed by the Basic Collective Agreement and collective agreements of individual companies. Zagreb Holding does not tolerate any form of discrimination and the corporate culture is built on the principles of equality and inclusion. Zagreb Holding Ltd., its affiliates and the institution adopted their own rules of procedure, which, among other things, define the procedures and measures for preserving workers' dignity and preventing discrimination.

Regarding gender equality, 16 female employees were hired at senior management positions at the Group, 2 of which are members of the Management Board, 10 are heads of subsidiaries, 3 are company managers and 1 is the director of the institution.

Female members of the Management Board of Zagreb Holding are among the most powerful businesswomen in Croatia.

On 7 December, President of the Management Board of Zagreb Holding, Ana Stojić Deban, was granted an award for the second most powerful Croatian businesswoman. It is the award granted by the Lider magazine as a part of the conference named *300 Most Powerful Croatian Businesswomen*. What won her this award, among other things, were her successful use of EU funds and the refinancing of bonds of Zagreb Holding under the best conditions so far. Ana Stojić Deban was also declared the most powerful female management board president.

Both lists are compiled by Lider and Bisnode and the basic ranking criterion is the power of control of the companies in which these most powerful businesswomen are members of management or supervisory boards. Power of control is measured by total income in 2017. Lider and Bisnode rank 50 most powerful female management board presidents, 150 female members/authorized signatories of management boards and 100 female presidents and members of supervisory boards. In the selection of top 10 most powerful female businesswomen, in addition to the power of control, another criterion is the amount of influence that the most prominent Croatian female business managers have on business operations and adoption of key decisions in their companies, as well as the extent of their power in relation to the entire economy.

Also, Tihana Colić, the director of Zagreb City Gasworks Ltd., was ranked 22nd on the list of top 50 most powerful female presidents of management boards, whereas Daniela Franić, member of the Management Board of Zagreb Holding Ltd., holds the 5th place on the list of top 150 most powerful female management board members.

A Non-discriminating Employer

Zagreb Holding takes special care of persons with disabilities and recognises them as persons with an extremely valuable working potential. A total of 419 disabled persons are employed at Zagreb Holding Group. Also, when hiring new employees, we apply ethical principles that eliminate discrimination on any basis and in any form.



Employees, both male and female, who are starting their own families and exercising their right to parental leave are fully protected by their labour rights and they always return to their positions after their leave expires. In 2017, 49 women and 6 men exercised their right to parental leave. 35 of them have returned to work, while others are still exercising this right. All persons who have returned to work are still holding their positions 12 months later, meaning that the employee retention rate after their return from parental leave is 100%.

Job description of employees temporarily hired through employee-leasing agencies depends on the sector, service or department at which they work. At Zagreb Holding Ltd.'s Head Office, these are mostly administrative positions related to performing administrative tasks, sorting relevant information and data, i.e. inputting, sorting and delivering documents, and administration. Also, some of the employees temporarily hired through employee-leasing agencies perform their tasks at the Call Centre Department of the Joint Affairs Department of Zagreb Holding Ltd. At the subsidiaries, employees temporarily hired through employee-leasing agencies mostly perform tasks related to primary business activities of the subsidiaries.

Salaries and Remunerations

All material rights are defined in the Basic Collective Agreement for employees of the company Zagreb Holding Ltd. and collective agreements of affiliates, which are applicable to all employees, regardless of whether their employment contracts are concluded on a full-time or a part-time basis or for an indefinite or a fixed period of time.

Components of Zagreb Holding have made use of the possibility of exemption from the obligation of paying contributions for first-time employees and employees under 30 years of age hired for an indefinite period of time, as well as the possibility of hiring persons for professional training without establishing an employment relationship. In 2017, members of the Group that used such possibilities of employment achieved savings in a total amount of HRK 5,352,311.

At Zagreb Holding, male and female employees have equal base salaries. Employee rights and material rights are defined by collective agreements of Zagreb Holding and are equal for male and female employees. The Group currently does not have a defined employee reward system, but plans to introduce and implement it in the future reporting periods. No instances of discrimination at work have been recorded.

Employees' Health and Safety

Health and safety issues are defined in the Basic Collective Agreement for employees of Zagreb Holding Ltd. and collective agreements of affiliates, which comply with applicable legal regulations governing this matter. These legal regulations govern protection and safety at work, as well as the protection of workers with temporary or permanent incapacity for work.

Central Occupational Health and Safety Department is a body in charge of planning, analysing and encouraging activities related to health and safety issues, which consists of 4 members, 3 of whom are employees of the Group's components and 1 is an occupational medicine specialist from the competent health centre. Particular subsidiaries and companies also have their own safety-at-work committees.

With the aim of improving employee protection, Zagreb Holding is working on internal methodology of monitoring occupational injuries and meanwhile, until implementation of such methodology, procedures of defining and reporting occupational injuries as prescribed by the law are followed. In the reporting period, 307 occupational injuries were recorded in total, of which 195 occurred during work and 112 outside of work. From the total number of occupational injuries, 44 of them were defined as serious occupational injuries. There have been no cases of diseases caused by the occupational environment.

No.	Subsidiaries	Injuries					
		Total number of employees*	Number of injuries	At workplace	On the way to work	Serious injuries	Inspected
1	Arena Zagreb	6	-	-	-	-	-
2	Zagreb Bus Terminal	92	-	-	-	-	-
3	City Waste Disposal	1,553	71	55	16	12	12
4	City Cemeteries	266	2	2	-	2	1
5	Zagreb Freight Station	232	-	-	-	-	-
6	Zagreb Markets	300	7	6	1	1	1
7	Real Estate Management	34	-	-	-	-	-
8	Project Management	24	-	-	-	-	-
9	Vladimir Nazor	170	4	4	-	1	1
10	Zagreb Roads	668	30	22	8	1	1
11	Zagreb Digital City	23	-	-	-	-	-
12	Zagreb Electric Tram	3,709	82	21	61	3	3
13	Zagreb Fair	151	2	2	-	1	-
14	Zagrebparking	389	15	11	4	1	1
15	Landfill Management	34	1	1	-	-	-
16	Zrinjevac	729	25	17	8	6	1
	TOTAL	8,380	239	141	98	28	21
Affiliates		Injuries					
		Total number of employees*	Number of injuries	At workplace	On the way to work	Serious injuries	Inspected
17	AGM Ltd.	27	-	-	-	-	-
18	Centre Ltd.	0	-	-	-	-	-
19	Zagreb City Gasworks Ltd.	385	12	9	3	1	-
20	Zagreb City Gasworks-Supply Ltd.	116	3	3	-	-	-
21	City Housing and Municipal Services Company Ltd.	328	9	8	1	2	1
22	Water Supply and Drainage Ltd.	1,156	34	26	8	12	7
23	Zagreb Housing Construction Ltd.	1	-	-	-	-	-
24	Zagreb Plakat Ltd.	11	-	-	-	-	-
	TOTAL	2,024	58	46	12	15	8
Institution		Total number of employees*	Number of injuries	At workplace	On the way to work	Serious injuries	Inspected
25	City Pharmacies Zagreb	317	10	8	2	1	1
26	Head Office of Zagreb Holding	130	-	-	-	-	-
	TOTAL	10,851*	307	195	112	44	30

*Average number of workers in 2017 based on paid working hours

For the following reporting periods, Zagreb Holding plans to start recording the number of working days and hours lost due to occupational injuries and other types of absences from work.

Voluntary Blood Donors

In 2017, 15 voluntary blood donation initiatives were organised at Zagreb Holding. Initiatives were carried out at the subsidiaries City Waste Disposal and ZET and the companies Zagreb City Gasworks Ltd. and Zagreb City Gasworks-Supply Ltd. in cooperation with the City Red Cross Branch of Zagreb and the Croatian Institute of Transfusion Medicine.

Approximately 300 employees participated in voluntary blood donation initiatives and they donated over 1,080 blood units. Many employees of Zagreb Holding also donate blood in voluntary initiatives organised by the City Red Cross Branch of Zagreb in certain city districts, local community centres and at the Institute of Transfusion Medicine.

Apart from the above-mentioned initiatives, some of the employees of the companies Water Supply and Drainage Ltd. and City Housing and Municipal Services Company Ltd. and of the subsidiaries Zrinjevac and City Cemeteries have been included in other blood donation initiatives organised by the Red Cross near their workplaces or homes.

Every year, on National Blood Donor Day, frequent donors receive awards for donating blood. In 2017, 20 employees of Zagreb Holding received such awards. 3 employees were awarded for donating blood 35 times, 11 employees for 50 donations, 5 for 75 donations and 1 for 100 donations.

We Lend a Helping Hand

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

Professional Development and Education

Continual professional development, which is achieved through targeted, systematic and tailor-made professional training programmes for employees, represents one of the models of lifelong learning. The aim of continual professional training is to acquire relevant knowledge, skills and competencies. It can also be directed at and adapted for specific work requirements. Employee training includes acquisition of new knowledge and work methods with the aim of continuous improvement of work methods and business efficiency.

Zagreb Holding Group does not have a specially designed skill acquisition and lifelong learning programme that would support continued employability of its employees and assists them in managing career endings. However, a training process has been developed and any investments in training may be regarded as investments for achieving that objective. The manner of enrolling employees in training programmes, whether formal or informal, is defined in the Rules on Training of Workers of Zagreb Holding Ltd., which were adopted in September 2008.

Also, the possibility of switching to another position within the Group may be regarded as further motivation for retraining of employees and acquisition of new knowledge and skills. Recruitment of employees, be it internal or external, is regulated by the Group's internal documents. In 2017, 213 internal calls for applying for vacancies were announced. Internal calls are announced on the Group's noticeboards and intranet pages. Employees may also use unpaid leave for the purposes of studying, with guaranteed return to their positions.

Regarding training programmes and acquisition of knowledge and skills, employees were sent to training programmes legally required by their positions, as well as to training programmes aimed at professional development. In 2017, 17% of employees (1,883 employees; 1,456 men and 427 women) completed mandatory training programmes. Such programmes relate mostly to safety at work, i.e. training employees to work safely and renewing required licenses and work permits.

A total of 28,885 hours were spent on obligatory training programmes, whereas 82,329 hours were spent on professional training of employees. A total of 799 employees - 506 men and 293 women - attended training programmes, university and professional studies, conferences and seminars. In 2017, a total of 111,214 hours were spent on training and education, which is approximately 10 hours per employee.

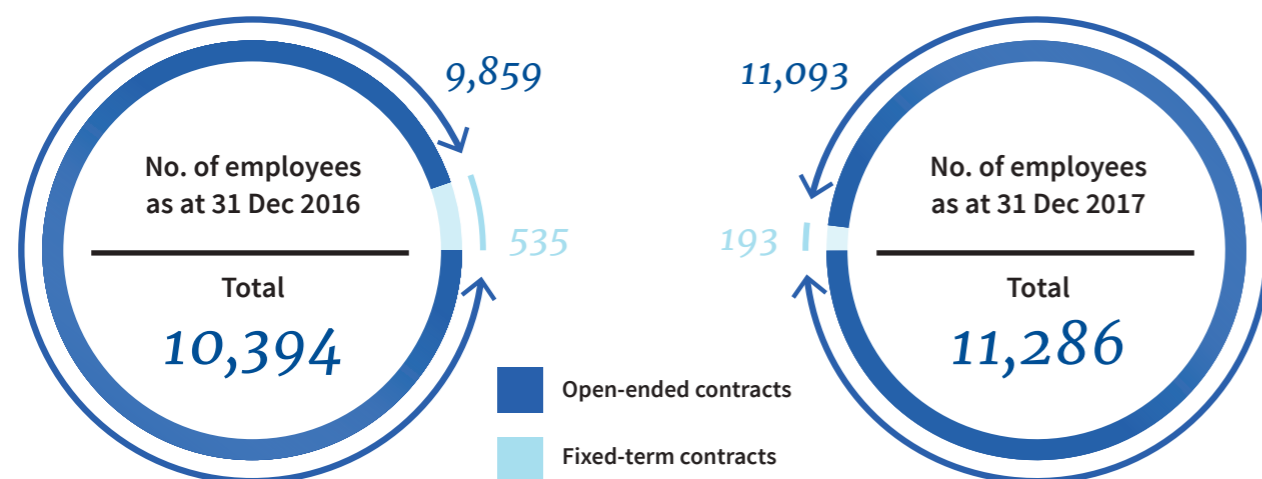
Cooperation with Educational, Scientific and Professional Institutions

Through professional practice programmes and mentorships, components of Zagreb Holding greatly contribute to increasing the level of professionalism and education of young people and improving the labour market. Educational institutions are welcome to show their interest for cooperating with Zagreb Holding. Therefore, in 2017, Zagreb Holding cooperated with the Faculty of Transport and Traffic Sciences, Faculty of Agriculture, Faculty of Organization and Informatics, University of Applied Health Sciences and the Faculty of Pharmacy and Biochemistry, as well as with agricultural, industrial and other vocational secondary schools, which resulted in 133 students completing their professional practice programmes. Also, 3 foreign students completed their professional practice programme at City Pharmacies Zagreb. Moreover, in cooperation with vocational secondary schools, the subsidiaries and affiliates organise practical classes and apprenticeship in accordance with licenses issued by the Croatian Chamber of Trades and Crafts and agreements concluded with particular schools. In 2017, a total of 21 students attended practical classes at components of Zagreb Holding.

Employees of Zagreb Holding share their knowledge outside of the organisation as well. In 2017, approximately 50 workshops, lectures and professional papers related to the employees' area of activity were presented at various professional and scientific conferences and seminars. Approximately 20 papers were published in various conference proceedings and professional journals.

Zagreb Holding Group in Numbers

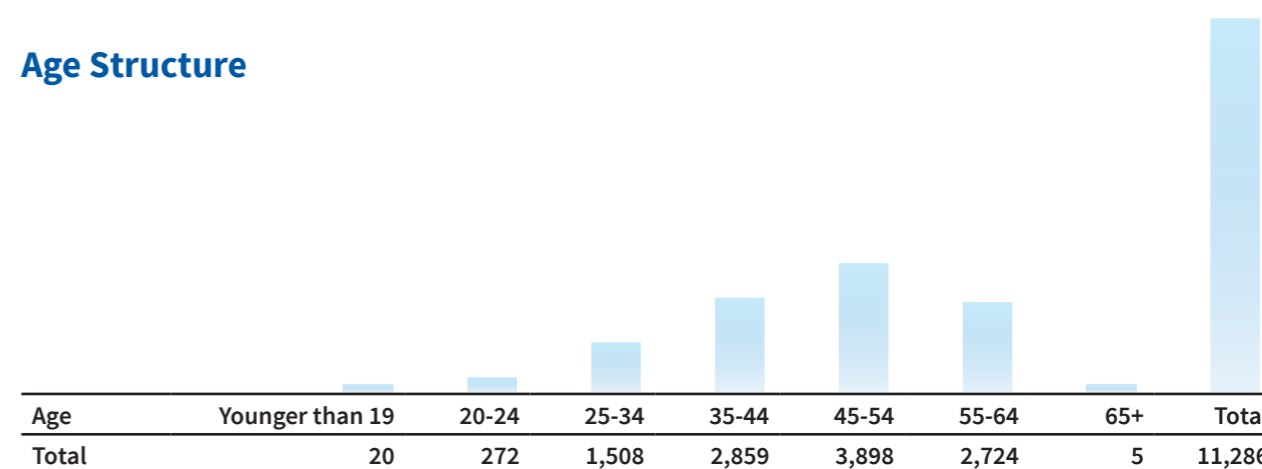
Employee Turnover in 2017



Changes in the Period between 1 January and 31 December 2017



Age Structure



Educational Structure

Professional qualifications	No. of employees	Share in total no. of employees (%)
PhD	11	0.1
MSc	52	0.5
Higher Education Qualifications	1,216	10.8
Post-Secondary	618	5.5
Highly Skilled	541	4.8
Secondary Education Qualifications	5,872	52.0
Skilled	1,326	11.7
Semi-Skilled	255	2.3
Primary	629	5.6
Unskilled	766	6.8
Total	11,286	100.0



*10 / Projects and Innovations
for Zagreb*



In addition to regular business operations, which are aimed at constant improvements in the quality of services, Zagreb Holding also provides resources and time of its employees to increase its presence in the community life.

10 / Projects and Innovations for Zagreb

As an organisation that directly affects the quality of life, Zagreb Holding finds it extremely important to participate in the life of the community of the City of Zagreb. In addition to regular business operations, which are aimed at constant improvements in the quality of services, Zagreb Holding also provides resources and time of its employees to increase its presence in the community life.

Principles, criteria and procedures for awarding sponsorships and donations in Zagreb Holding are defined in the Rules on Sponsorships and Donations, which were adopted in 2016 and are available to the public. Resources are granted for various types of projects, such as humanitarian projects, culture and art projects, scientific and educational projects, environmental protection projects, health and sports projects and publishing activities. All resources and donations that have been granted are published on the Company's web page.

In 2017, total investments in the community amounted to HRK 8.3 million, mostly related to supporting initiatives of public and general interest, for which works and other services with a total value of over HRK 6.8 million were provided pro bono.

Partnerships and Socially Relevant Projects

Special Care for the Most Vulnerable Groups of People

Zagreb Holding is extremely proud of its cooperation with the City Red Cross Branch of Zagreb on the project named "Social Grocery Store". Since 2016, humanitarian initiatives have been organised at the level of the Group in cooperation with the City Red Cross Branch of Zagreb and employees of Zagreb Holding have been regularly participating in them. In 2017, two such initiatives resulted in the collection of food and hygiene products valued at almost HRK 20,000. At the end of the year, the Company's Management Board approved the donation of food products valued at approximately HRK 48,000. This involved the procurement of groceries for 240 families using the services of the Social Grocery Store.

Subsidiaries of Zagreb Holding pay special attention to the most vulnerable groups of citizens, such as children, the elderly and the disabled. Thus, by improving the services provided by the ePK portal, the subsidiary Zagrebparking has enabled persons with disabilities to purchase disabled driver stickers online, which made the purchasing process significantly easier for this group of service users.

In March 2017, ZET expanded the transportation service for disabled persons by changing its former work schedule and introducing a 24-hour service. Therefore, vans specialised for transporting disabled persons are now available 24 hours a day. Also, in April 2017, the first low-floor tram with a movable aluminium ramp for disabled persons was also introduced and its practical use is currently being tested.

In May 2017, ZET introduced 4 new specialised buses for transporting primary school students who live more than 3 kilometres away from their schools. These 53-seaters will modernise student transport and make it more efficient and eco-friendlier.

In October 2017, five new specialised vans were introduced, two of which are intended for transporting children with developmental disorders and three for transporting disabled persons. Specialised vehicles are available to service users 24 hours a day and disabled persons and children with developmental disabilities use them on a daily basis to get to work, faculties, schools and kindergartens and to attend recreation activities and therapy sessions. More than 1,200 persons use ZET's specialised van service at least once a year, while approximately 50 children and young persons with developmental disabilities and 100 disabled elderly persons use the transportation service on a daily basis.

Partnership with UNICEF

Cooperation between Zagreb Holding and the UNICEF Office for Croatia includes support to the implementation of UNICEF's programmes for helping the most vulnerable groups of people. For these purposes, Zagreb Holding makes its resources available for use. According to the data of the UNICEF Office for Croatia, 4,736 citizens (users of the services provided by Zagreb Holding) responded to a joint invitation by the UNICEF Office for Croatia and Zagreb Holding and supported UNICEF's activities by donating HRK 256,458, which was achieved by sending 2 brochures in 2017.

In September 2017, Zagreb Holding also started participating in UNICEF's humanitarian run named "Milky Way". In addition to supporting the realisation of the project by providing services of Zagreb Holding's subsidiaries, the project was also supported by our employees, who participated in the running event for establishing the first human milk bank in Croatia.

As a part of celebration of the International Children's Day at the end of November, Zagreb Holding joined the global initiative named *#KidsTakeOver Day - a Day for Children, by Children*. Besides spending time with their parents at their workplace, our employees' children also had the chance to participate in a symbolic meeting of the Children's Management Board and say what they think our company should do for children, where they adopted a decision that the toys collected for this event would be donated to children living at St. Theresa's Orphanage in Zagreb. The first *#KidsTakeOver Day* was also celebrated by the City Pharmacies Zagreb, which organised a visit for the school children from St. Joseph's Home for Children. St. Joseph's Home for Children in Hrvatski Leskovac is one of the orphanages of the Order of Carmelites. It currently takes care of approximately 30 school children and students, some of whom visited the Galenic Laboratory of City Pharmacies Zagreb, where they spent an afternoon interacting with laboratory employees.

Health Comes First

Although pharmaceutical practices are traditionally related to prescribing medications, the pharmacists' role evolves every day and it is becoming more and more important for providing advice on treatment, self-treatment, self-care and disease prevention. For those purposes, City Pharmacies Zagreb undertook the initiative of recognising the significance of pharmaceutical care and familiarised citizens with pharmaceutical care through a public health initiative launched as a part of the project named *"Pharmacists Outside of Pharmacies"*.

In June 2017, a breastfeeding bench was set up in front of a recently renovated pharmacy in Podsused. Prior to that, a baby changing table was set up at the City Pharmacy at Trg Bana Josipa Jelačića square as a part of the project named *"Dojenje je zakon"* ("Breastfeeding is Awesome"), which was implemented in cooperation with the City Office for Health.

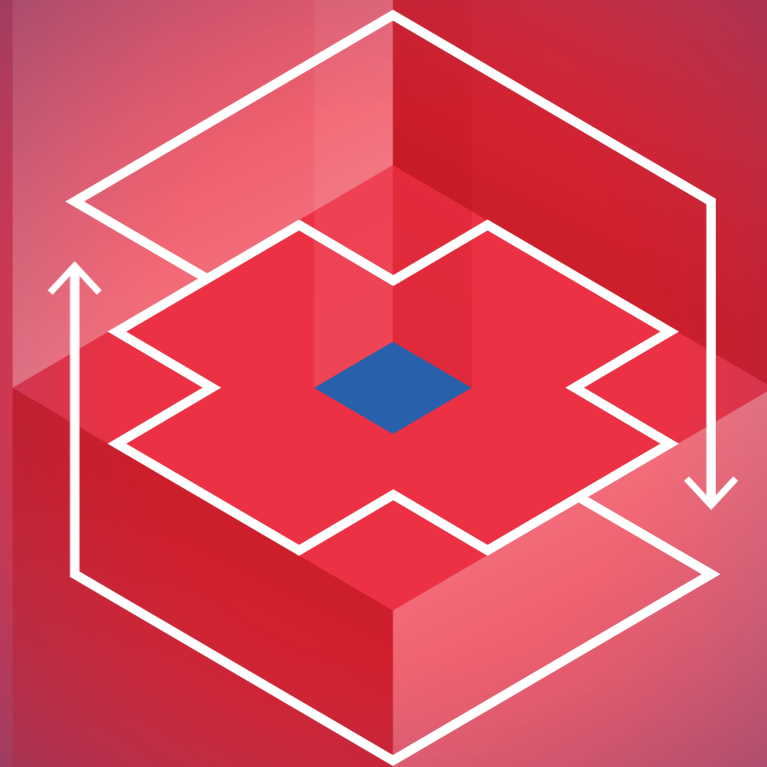
City Pharmacies Zagreb constantly carries out public health activities such as: determining plasma glucose levels and diabetes screening, providing therapy education for diabetics, conducting training on and monitoring of therapy adherence of asthmatics and persons suffering from chronic obstructive pulmonary disease, providing advice on healthy diet, carrying out weight loss programmes or providing advice on quitting smoking. By carrying out these and many other activities, City Pharmacies Zagreb contributes to maintaining public health and improving healthcare in Zagreb.

In addition to the public health initiative which was organised at Floraart for the third consecutive year, masters of pharmacy celebrated the World Health Day with another public health initiative, which consisted of visiting homes for the elderly, where they held professional lectures and measured the home users' blood pressure and blood sugar levels.

In September 2017, the subsidiary Zagrebparking presented the project named *"Defibrillators"*. As a part of this project, which was carried out in cooperation with the City Office for Health, AEDs were set up in the garages *"Kvaternikov Trg"* and *"Tuškanac"*. On 25 November, in cooperation with the Student Association StePP and the City Office for Health, the foundation Croatian Heart House conducted an educational training about cardiopulmonary resuscitation for 26 employees of Zagrebparking, which was organised as a part of the campaign *"Bring Me Back to Life"* (*"Oživi me"*).

Health, Always and Everywhere

The role of pharmacists in providing advice on treatment, self-treatment, self-care and disease prevention is becoming increasingly important. City Pharmacies Zagreb familiarises citizens of the City of Zagreb with the significance of pharmaceutical care through public health initiatives organised as a part of the Project “Pharmacists Outside of Pharmacies”.



Projects for the European Social Fund

For the purposes of applying to the call for proposals of the European Social Fund *Local Employment Initiative – Phase III – Component 1*, the Open Public College Zagreb, in cooperation with Zagreb Holding, City Office for Social Protection and People with Disabilities and the New Union, submitted a proposal for the project named *Zagreb Compass* with the aim of developing and implementing tailor-made training programmes and retraining of unemployed persons belonging to vulnerable groups of people and encouraging them to become active and enter the labour market. Croatian Employment Service will also participate in the project as a supporting institution, i.e. as a mediator for unemployed persons on the labour market.

In 2017, the proposal for the project named *“Through Education to Employment” (“EDUBIZ – Edukacijom do zaposlenja”)* was submitted in answer to the call for proposals of the Local Employment Initiative - Phase III, under the ESF Operational Programme Efficient Human Resources. Office for EU Programs and Projects, Development Agency Zagreb, Croatian Employment Services and the Adult Education Institution “EU Projects” are Zagreb Holding’s partners on this project. The general objective of the project is to increase the efficiency of using EU funds through fulfilling the objectives of the Human Resources Development Strategy of the City of Zagreb. The specific objective is to strengthen the capacities of young people belonging to the vulnerable groups in the segment of EU funds for the purposes of facilitating their integration in the labour market.

Culture and Urban Development

As a part of the traditional event *Night of Museums*, Zagreb Holding organised an exhibition at the Zagreb Fair. This was the second occasion on which the entire history of the Group’s activities was presented in a single interactive programme. According to our estimations, the exhibition named *“Stari Zagreb od vugla do vugla” (“Through the Streets of the Old Zagreb”)*, which was held by Zagreb Holding Ltd. on 27 January 2017, was visited by approximately 5,700 people. The theme of the event was *Music and Music Greats* and ZET’s Wind Orchestra, which celebrated 90 years of its existence in 2017, also participated in the organisation of the exhibition.

In 2017, the largest and the most beautiful flower show in this part of Europe, the international garden exhibition “Floraart”, was organised for the 52nd consecutive year. It was held at the Bundek park and, according to our estimations, attended by approximately 350,000 visitors from all parts of the Republic of Croatia between 8 May and 14 May 2017. Floraart also includes various competitions, such as the Croatian Cup for Florists, International Competition of Secondary School Students and Competition for the Most Beautiful Garden. Zrinjevac has been the exhibition organiser since 1992.

The 52nd international flower show was also marked by other interesting figures:

- *Exhibition was organised at a surface area of approximately 300,000 m² at the Bundek park*
 - *During preparations, approximately 150,000 seedlings were planted*
 - *In addition to approximately 200 presenters from Croatia, 18 foreign presenters from 10 different countries participated at the exhibition as well.*
 - *18 children’s plays and 15 workshops were held during the event*
-

City Pharmacies Zagreb is at the forefront of the great tradition of pharmaceutical activity in Zagreb. This is also confirmed by old records, where it is stated that the oldest component of the institution - the old-city-centre pharmacy located at 9 Kamenita Ulica street - has existed and been working continuously ever since 1355. Historical sources state that in the 14th century, the free royal city Gradec flourished in terms of both commercial and medical activities. With the aim of protecting, preserving and handing down pharmaceutical heritage to future generations as a part of the cultural heritage of the City of Zagreb, City Pharmacies Zagreb, in cooperation with the City Institute for Conservation of Cultural and Natural Heritage and the Croatian Academy of Sciences and Arts, has registered the furnishings of the pharmacies located at Zrinjevac, 301 Ilica street and 79 Ilica street as movable cultural property at the Ministry of Culture.

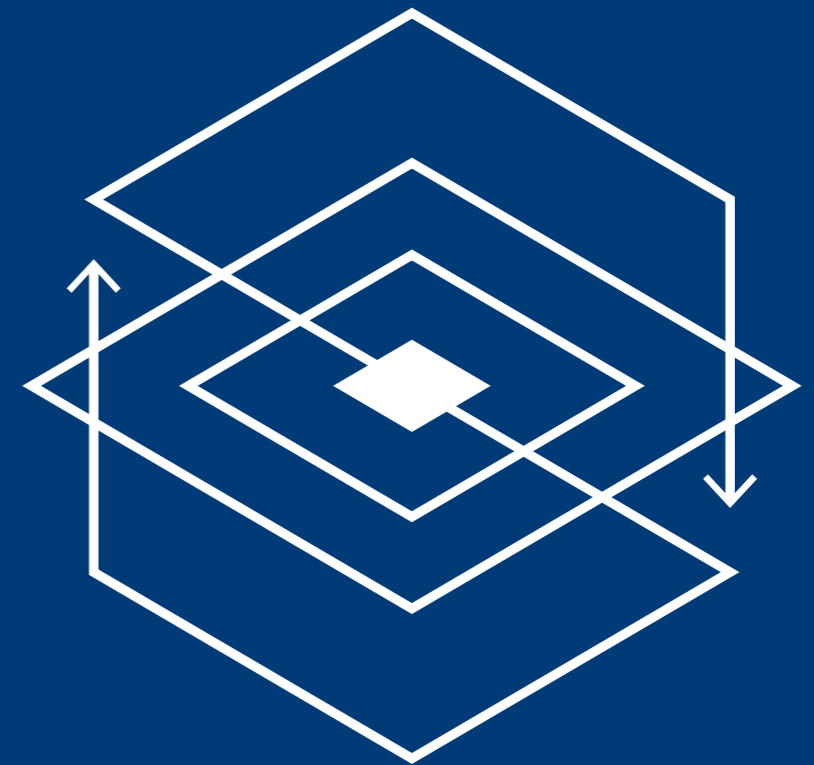
In addition to the first “souvenir from Zagreb” - a lip balm in a packaging decorated with the motif of the Stone Gate, City Pharmacies Zagreb has also started developing a new line of products for facial and body care named *“Dora Krupičeva”*. Besides following traditional recipes, using exclusively natural ingredients and highlighting the story behind the name of the product line, City Pharmacies Zagreb will also create an original souvenir marked by the centuries-long pharmaceutical tradition of the City of Zagreb.

Zagreb City Gasworks Ltd. pays special attention to investing in the community. Thus, in 2017, it participated in and realised numerous projects for increasing the quality of life. Regarding investments in education, in addition to donations for equipping Petar Preradović Primary School in Zagreb and Ivan Perkovac Primary School in Šenkovec, Zagreb City Gasworks granted funds to the Student Consulting Centre “Economics Clinic” in Zagreb for developing a web page for students in support of the project for emphasising the significance of educating early school-age children. Moreover, Zagreb City Gasworks Ltd. participates in Zagreb Energy Week by holding presentations and talking to citizens about improving energy efficiency and environmental protection by utilising natural gas and new technologies. Numerous other projects were supported as well, such as the project *1987 Universiade – 30 Years Later*, organised by the association Random, *Children – Friends of Animals*, organised by Children’s Hospital Zagreb and participation of the Croatian national team in the 49th International Chemistry Olympiad.



As a part of the celebration of the global initiative #KidsTakeOver Day - a Day for Children, by Children - besides spending time with parents at their workplace, our employees' children also briefly switched places with tram ticket inspectors.

11 / *Report Profile*



11 / Report Profile

The aim of this Report is to present the manner in which Zagreb Holding Group manages its social, environmental and economic influences and the relationship with its stakeholders. It also represents an invitation to any interested parties to read it, comment on it and give suggestions on how to improve the Report, practices and consequently the entire business of Zagreb Holding.

This non-financial report, i.e. the Sustainability Report of Zagreb Holding Group for 2017, is the second non-financial report of the Group, which started reporting on non-financial aspects of its performance in 2016. The Report has been drawn up in accordance with the core option of the GRI Standards. In comparison with the previous year, the Report has been extended and includes more indicators.

The aim of this Report is not only to present the manner in which Zagreb Holding manages its social, environmental and economic influences and the relationship with its stakeholders, but also to invite any interested parties to read it, comment on it and give suggestions on how to improve the Report and consequently the entire business of Zagreb Holding.

If you have any questions about the non-financial report or about corporate social responsibility of Zagreb Holding, feel free to contact us at the address:

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

GRI Indicators List

GRI 102: General Disclosures		
<i>Organisational Profile</i>		
102-1	Name of the organization	19
102-2	Main activities, brands, products and services	22-28
102-3	Location of headquarters	19
102-4	Location of operations	22-28
102-5	Ownership and legal form	19
102-6	Markets served	19
102-7	Scale of the organization	20-29
102-8	Information on employees and other workers	109, 120
102-9	Supply chain	75
102-10	Significant changes to the organisation's ownership or supply chain	75
102-11	Precautionary principle or approach	49
102-12	External initiatives	42
102-13	Membership in associations	43
<i>Strategy</i>		
102-14	Statement from the President of the Management Board	14-15
102-15	Key impacts, risks and opportunities	47-51
<i>Ethics and Integrity</i>		
102-16	Values, principles, standards and norms of behaviour	36-37
102-17	Mechanisms for advice and concerns about ethics	37-40
<i>Governance</i>		
102-18	Governance structure	34-36
<i>Stakeholder Engagement</i>		
102-40	List of stakeholder groups	57
102-41	Collective bargaining	110
102-42	Identifying and selecting stakeholders	57
102-43	Approach to stakeholder engagement	58-59
102-44	Key topics and concerns raised	55-56

<i>Reporting Practice</i>		
102-45	Entities included in the consolidated financial statements	20-21
102-46	Defining report content and topic boundaries	55-56
102-47	List of material topics	56
102-48	Restatements of information	42
102-49	Changes in reporting	55-56
102-50	Reporting period	137
102-51	Date of the most recent report	137
102-52	Reporting cycle	137
102-53	Contact point for questions related to the Report	137
102-54	Claims of reporting in accordance with the GRI Standards	137
102-55	GRI content index	138
102-56	External assurance	137
GRI 201: Economic Performance		
201-1	Direct economic value generated and distributed	65
201-2	Financial implications and other risks and opportunities due to climate change	50, 90
201-3	Defined benefit plan obligations and other retirement plans	110
201-4	Financial assistance received from government	67-69
GRI 202: Market Presence		
202-1	Ratios of standard entry level wage by gender compared to local minimum wage	114
202-2	Proportion of senior management hired from the local community	36
GRI 203: Indirect Economic Impacts		
203-1	Development and effect of supported investments in infrastructure and services	66-67
203-2	Significant indirect economic impacts, including the volume of impacts	69-71
GRI 204: Procurement Practices		
204-1	Proportion of spending on local suppliers	75
GRI 205: Anti-corruption		
205-3	Confirmed incidents of corruption and actions taken	40
GRI 206: Anti-competitive Behaviour		
206-1	Legal actions for anti-competitive behaviour, anti-trust and monopoly practices and their outcomes	69

GRI 301: Materials		
301-1	Materials used by weight or volume	104
GRI 302: Energy		
302-1	Energy consumption within the organization	101
302-4	Reduction in energy consumption	101-103
302-5	Reduction in energy requirements of products and services	102-103
GRI 303: Water and Effluents		
303-1	Water withdrawal by source	97-101
303-3	Volume of water recycled and reused	104
GRI 305: Emissions		
305-2	Indirect (Scope 2) GHG emissions	104
GRI 306: Effluents and Waste		
306-1	Total water discharge by quality and destination	100
306-2	Total weight of waste by type and disposal method	94-95
GRI 308: Supplier Environmental Assessment		
308-1	New suppliers assessed by environmental criteria	75
GRI 401: Employment		
401-1	New employee hires and employee turnover	111, 120
401-2	Benefits provided to full-time employees that are not provided to temporary or part-time employees	110
401-3	Parental leave	114
GRI 402: Labour/Management Relations		
402-1	Minimum notice periods regarding significant operational changes, including information whether these periods are defined in collective agreements	110
GRI 403: Occupational Health and Safety		
403-1	Workers representation in formal joint management-worker health and safety committees	115
403-2	Types of injury and rates of injury, occupational diseases, lost days and absenteeism and number of work-related fatalities	115-116
403-3	Workers with high incidence or high risk of diseases related to their occupation	115
403-4	Health and safety topics covered in formal agreements with trade unions	115

GRI 404: Training and Education		
404-1	Average hours of training per year per employee	118
404-2	Programs for skills management and lifelong learning that support the continued employability of employees	118
GRI 405: Diversity and Equal Opportunity		
405-1	Composition of governance bodies and employee structure	36, 120-121
405-2	Ratio of basic salary and remuneration of women to men	114
GRI 406: Non-discrimination		
406-1	Incidents of discrimination and corrective actions taken	114
GRI 413: Local Communities		
413-1	Operations with local community engagement, impact assessments and development programmes	66-67
GRI 416: Customer Health and Safety		
416-1	Assessment of the health and safety impacts of product and service categories	84-85
416-2	Incidents of non-compliance concerning the health and safety impacts of products and services	85
GRI 417: Marketing and Labelling		
417-1	Requirements for product and service information and labelling	78
417-2	Incidents of non-compliance concerning product and service information and labelling	84
417-3	Incidents of non-compliance concerning marketing communications	84
GRI 418: Customer Privacy		
418-1	Substantiated complaints regarding breaches of customer privacy and losses of customer data	85



