ANNUAL STATEMENT 2018

ZAGREB HOLDING

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OUR VISION

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

ZAGREB HOLDING

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The Group's main task is efficient and continual conduct of services of public interest in the City of Zagreb with maximum environmental protection and maximum protection of interests of the local community in which we operate.

ZAGREB HOLDING GROUP IN BRIEF

Zagreb Holding Ltd. (hereinafter: the Company) is a company wholly owned by the City of Zagreb. Its core business operations are carried out through 14 subsidiaries and it also owns 8 companies and 1 institution. Together, the subsidiaries, related companies and the institution form the Zagreb Holding Group (hereinafter: the Group), with Zagreb Holding Ltd. as its leading company in the creation of business policies. The Group has a total of 7,529 employees – 5,038 working at Zagreb Holding Ltd. and 2,462 working at related companies and at the institution, whereas 29 employees work at Elektrometal-Gas Distribution Ltd., a subsidiary of the related company Zagreb City Gasworks Ltd.

ACTIVITIES OF THE GROUP

The Group offers a wide range of services grouped under the following business areas – municipal, energy-related and commercial activities. Its portfolio also includes public water supply and drainage activities and pharmaceutical activities.

Business area of municipal activities includes, among other things, regular maintenance of 114 hectares of public green spaces and 2,589 kilometres of unclassified roads, daily cleaning of public areas and public surface runoff drainage facilities and maintenance of 28 cemeteries, a crematorium and public areas where the use of motor vehicles is prohibited. The Group also offers the following services: bus terminal, public retail markets, parking and public parking lots and garages, distribution telecommunications ducts ("DTK") and other municipal infrastructure services in the City of Zagreb. Furthermore, it also maintains public passages, underpasses, fountains, public toilets and one of the symbols of the City of Zagreb – the Grič Cannon.

Business area of commercial activities comprises management and maintenance of buildings and sports facilities, apartment construction and sale, publishing and exhibition activities, organisation of field trips and vacations for children and young people, catering services and tourism, warehousing services, safekeeping of goods, freight vehicles parking, Zagreb Free Zone services, outdoor advertising and wholesale market services.

This area also includes waste disposal services, collection of waste from natural persons (households), maintenance, protection, management, reconstruction and construction of regional and local roads and other public traffic areas and road furniture maintenance.

Public water supply and drainage activities comprise water collection, treatment and distribution services, waste water drainage and related services and construction and maintenance of the water supply and drainage network.

Some of the companies operating within the Group conduct energy-related activities, provide gas distribution and supply services and generate electricity from renewable energy sources. Also, activities carried out by the galenic and the analytical laboratory are regarded as a separate group of activities, which include the provision and production of medications, provision of medicinal products, baby food, cosmetics and other health care products.

The Group's main task is efficient and continual conduct of services of public interest with maximum environmental protection and maximum protection of interests of the local community in which we operate. The main standards governing the provision of such services have been defined by the law and numerous other documents. As we are aware of the responsibility that we have toward the citizens of the City of Zagreb, we constantly strive to improve the quality of public services, while also respecting the principles of sustainable development. Thus, the standard of living in the City of Zagreb is visibly higher than in other cities in the Republic of Croatia. At the same time, the Company promotes social dialogue and allows its employees to acquire new advanced knowledge and skills.

By increasing the quality and scope of public services to the benefit of the citizens, businesses and local government and self-government of the City of Zagreb, thus improving the standard of living, competitiveness of the city's economy and the reputation of the City of Zagreb in comparison with other cities, the Group's main objective becomes a reality: we secure a healthy, pleasant and safe urban life for the citizens of Zagreb and the local community – day in and day out.

A LETTER BY THE PRESIDENT OF THE MANAGEMENT BOARD

Zagreb Holding Group primarily provides services of public interest and all our efforts are therefore directly related to investments in the urban development of the City of Zagreb.

When we look back at all the investments that we have realised, analyse the level of quality of the services that we provide and evaluate our financial results, which were even better than in 2017, it can be concluded that the main task of the Zagreb Holding Group – namely the efficient and continual conduct of services of public interest in the City of Zagreb with maximum environmental protection and maximum protection of interests of the local community in which we operate – was fulfilled in 2018 as well.

As in the previous year, in 2018, the Group focused once again on the investments in the overground and underground infrastructure, machinery and municipal equipment, the establishment of an efficient waste management system and the digitalisation of business operations. In 2018, investments realised at the Group level amounted to a total of HRK 424.7 million and HRK 110.5 million was invested in the construction of public purpose facilities developed by the Group's companies for the City of Zagreb (day-care hospital and underground garage within the Sveti Duh Clinical Hospital, Hrvatski Leskovac Primary School and extension of the Jelkovec Primary School) and in the construction of the city area Podbrežje.

During the year, the water supply network was extended by constructing 22 kilometres of new pipelines, whereas the drainage network was extended by constructing 10 kilometres of new canals. Also, with the aim of reducing water losses and protecting the environment, 5.4 kilometres of water pipelines and 1.5 kilometres of canals and canal facilities were repaired. In addition to the improvement in the quality of the water supply and drainage system, the extension of fundamental water supply and drainage capacities resulted in 1,614 new water supply connections and 1,060 new canal connections. Significant amounts of resources were invested in the reconstruction of the gas distribution network and the construction of 26 kilometres of a new gas distribution network with the aim of increasing security and reducing losses. Also, 3,534 new end-user connections were established and 25,000 gas meters were replaced.

One of the major infrastructural projects completed in 2018 was the construction of the main sewer with Sesvete pumping station and the construction of a relief facility with a retention canal at the site of the Sesvete main sewer of the Sesvete Waste Water Treatment Centre. By completing this project, among other things, waste water management has been improved due to a decrease in the pollution of the receiving water. The ultimate objective is to protect the Vuger stream and the Sava river as the final receiving water in Zagreb. We have also met the prerequisites for the planned connection of Sesvete-East to the facility, where 40% of waste water from Sesvete will eventually be treated, totalling to approximately 8,000 facilities, or 25,000-30,000 users connected to the facility.

During 2018, the Group started the activities within the project named "Water for All Households", which includes an extension of the water supply network by 80 kilometres. The project was started in cooperation with the City of Zagreb and includes primarily the outskirts of the city, as this ensures a balanced urban development.

Significant amounts of resources were also invested in the implementation of the Decision on the Manner of Providing the Public Service of Collecting Mixed Municipal Waste and Biodegradable Municipal Waste and Activities Related to Public Services in the City of Zagreb, which entered into force on 1 February 2018. Total amount of HRK 63.5 million was invested in establishing a waste management system in the City of Zagreb.

Number of containers for separate recyclable waste collection was increased by 26.2%, i.e. from 85,831 to 108,326 containers. Also, 325 new recycling islands were set up and their total number at the end of 2018 was 1,008, representing an increase by 48% in comparison with 2017. Moreover, 3 new recycling centres were opened and at the end of the year, there were 9 fixed and 8 mobile recycling centres. We also continued the process of distributing home composters to households and their number increased by 6,511 (from 11,531 to 18,042).

All these measures eventually resulted in an increase in the share of separately collected waste in the total amount of collected municipal waste, which increase amounted to 16.8%. Also, the fact that the amount of separately collected waste in 2018 increased by 33.9% in comparison with 2017 is particularly encouraging. However, in order to ensure that the objectives related to waste management in the City of Zagreb are fulfilled, the Zagreb Holding Group and the subsidiary City Waste Disposal have to make great investments in infrastructure, human resources and machinery in the following period.

In addition to investments in infrastructure and service quality, the Group has been constantly investing in improving customer relations as well. Over the past several years, the process of digitalising business operations has been intensified. Among other things, digitalisation allows that services be designed according to the customers' needs. Besides the e-Citizens system, which we joined in 2014, the Group has also developed its own applications – Moj račun ("MyBill") and Moj VIO ("My Water Supply and Drainage"). In 2018, we also made a step forward in the service digitalisation process by adding the e-Zahtjevi ("e-Requests") service to the e-Citizens system. It is a separate service on this page which allows users to fill out digital forms for modifying their registry and accounting data, change their bill delivery address and repost information in their user cards. This way, service users can now receive the majority of requests related to the ordinary course of business via e-mail and such requests were usually the main reason why citizens had to visit our offices in person. Also, the application ZgPark has been available since May 2018. It is a bilingual mobile app for paying parking permits for public parking lots and three public parking garages.

Changes in the Group's status

The Group started 2018 without the subsidiaries ZET and Zagreb Fair due to the fact that they were demerged from the Group and now operate as separate city-owned companies. This status change had multiple effects on the Group's operations during 2018. Among other things, the share capital decreased by HRK 656.2 million, sales revenue decreased by HRK 476.8 million in comparison with 2017 and non-current liabilities decreased by HRK 1.9 billion. In sum, total equity and liabilities decreased by HRK 3.9 billion. Considering that both of these segments usually incurred loss from the ordinary course of business, the demerger of these companies from the Group created a space for new investments, particularly in improving the waste management system in the City of Zagreb.

Also, in March last year, Zagreb City Gasworks Ltd. bought the company Elektrometal-Gas Distribution Ltd., the main activity of which is natural gas distribution in the Bjelovar-Bilogora County.

The sum of all business results in 2018 shows the following: the Group's total revenue amounted to HRK 4 billion, total expenses amounted to HRK 3.9 billion and profit before tax amounted to HRK 101 million, whereas Zagreb Holding Ltd.'s total revenue amounted to HRK 2.1 billion, total expenses amounted to HRK 2 billion and profit before tax amounted to HRK 106.3 million.

Sustainability at the heart of the company

The Group's business operations are based on the principles of sustainable development. Therefore, the activities and investments pertaining to environmental protection were increased in 2018. Among other things, with the aim of increasing the level of environmental protection and use of renewable energy sources, the Group constantly invests its resources in the retrofitting of the mTEO plant – a small thermal power plant for utilising landfill gas as an energy source at the Prudinec/Jakuševec Landfill. Construction of the fourth set of generators, together with the required infrastructure, plateau extensions and a noise barrier, which is legally required under the requirements for environmental noise measurements, was started in 2018. It is expected that the construction will be completed and the generator commissioned in 2019. Due to this upgrade, the total power of all generators will be increased, consequently increasing the amount of gas extracted from the landfill from 1,500 m^3/h to between 1,800 and 2,000 m^3/h. Retrofitting of the gas plant also includes the construction of the landfill gas treatment system and, besides that, a system for purifying air for combustion in gas engines is currently under construction as well. Both upgrades to the system will have a positive impact on both the lifespan of the generators and the amount of electricity generated from renewable energy sources (RES).

At the same time, utilising landfill gas to generate electricity using gas generators or through thermal processing using high-temperature flares leads to a significant reduction in the emission of methane, which is utilised as a RES. In the period between December 2004 and December 2018, a total of 133,603 thousand m^3 of landfill gas was extracted and processed at the mTEO plant. Also, during 2018, a total of 18,297,660 kWh of electricity was generated from landfill gas, which is an amount sufficient to cover the average annual electricity consumption of approximately 6,100 households.

All of the above-mentioned represents only some of our efforts to minimise the negative impact that our business operations may have on the environment. A more detailed overview of the impact of our business operations on the society and the environment, as well as the description of our risk management methods, will be presented in the Group's non-financial report for 2017, which will be published separately for the third consecutive year.

By fulfilling the strategic objectives of our business operations, the vision of the City of Zagreb as a place of pleasant, organised and healthy lifestyle becomes a reality in which Zagreb Holding serves as an example of excellence in providing public services, as well as the initiator, promoter and agent of business development of the City of Zagreb and the Republic of Croatia.

President of the Management Board

Ana Stojić Deban

2018 WE INVEST IN URBAN DEVELOPMENT

7,529 employees

5,038	Zagreb Holding Ltd.
2,462	Subsidiaries and the institution
29	Elektrometal – Gas Distribution Ltd.

WASTE MANAGEMENT (in HRK)

Total investments realised

2018	63,502,971
2017	42,573,757
2016	4,597,586

Number of containers for separate paper collection

2018	100,124
2017	78,597
2016	39,304

Number of recycling islands

2018	1,008
2017	683
2016	607

HRK 535.2 million of realised investments

- **HRK 35.1 mil** for procurement of vehicles for providing public service of waste collection and public area cleaning
- **HRK 71.7 mil** for construction of Hrvatski Leskovac Primary School and reconstruction of Sveti Duh Clinical Hospital
- **HRK 50.7 mil** for installation of new and reconstruction of the existing gas pipelines, household connections and other devices in the distribution system
- **HRK 22.5 mil** for modernisation of public service of unclassified road maintenance and for winter maintenance services
- **HRK 75.3 mil** for constructing new and reconstructing the existing water supply network, installing connections, carrying out repairs and constructing water pumping stations and main pipelines
- **HRK 56.1 mil** for expanding the drainage network, installing new connections, constructing new collectors and collector canals, reconstructing the network and repairing drainage excavations
- **HRK 21 mil** for modernising public service of green surface maintenance
- **HRK 18.7 mil** for procurement of municipal equipment (bins, containers, 5 mobile and 1 movable recycling centre, etc.)

2016 Svetice swimming pool complex and sports gym at the Iver Primary School handed over to the City for management

2017 Completed construction of the sports gym and swimming pool in the Novi Jelkovec Secondary School

2018 608 apartments constructed in the city area Podbrežje

2019 Construction of the day-care hospital and underground garage at the Sveti Duh Hospital continued

Hrvatski Leskovac Primary School with a sports gym handed over to the City for management

Construction of the Markuševec Nursing Home started

HRK 58 million investments realised for upgrading the vehicle fleet and machinery used for maintenance activities

2,589 km of unclassified roads

235,175 m of avenues

11,913,909 m² of park surfaces

12,215,000 m² of public traffic areas

PUBLIC DRAINAGE

2,125 km Total length of canals

73,912 Total number of canal connections

95.05% Population connected to the public drainage system

New drainage canals / km

2016	2017	2018
19	30	10.3

New connections to the drainage network / unit

2016	2017	2018
516	916	1,060

PUBLIC WATER SUPPLY

3,199 km Total pipeline length

99,659 Total number of connections

99.26% Population connected to the public water supply system

New pipelines / km

2016	2017	2018
9	12	22

New connections to the water supply network / unit

2016	2017	2018
769	1,008	1,614

OUR BUSINESS OPERATIONS IN 2018

In 2018, we focused on investments in the overground and underground city infrastructure, machinery and municipal equipment, the establishment of an efficient waste management system and the digitalisation of business operations with the aim of improving service quality and customer relations. Also, in 2018, the Group was exposed to dynamic changes in legal regulations, some of which caused an increase in operating costs and lower-than-expected revenue.

In accordance with the strategic aims of its business operations, the Group's activities in 2018 were focused primarily on the investments related to extending and reconstructing the existing infrastructure, modernising business operations, improving customer relations and establishing an efficient waste management system. Some of the activities carried out in 2018 and a brief overview of impacts of regulatory and climate changes on business operations are presented below.

STATUS CHANGES DUE TO DEMERGER OF SUBSIDIARIES ZET AND ZAGREB FAIR

As of 1 January 2018, the status changes in the company Zagreb Holding Ltd., specifically the demerger of the subsidiaries ZET and Zagreb Fair into independent companies, yielded a business result. Decision on Initiating Procedures of Status Change by Demerger was adopted by the Company's Assembly on 18 October 2017. Demerger with establishment of new limited liability companies – Zagreb Electric Tram Ltd. and Zagreb Fair Ltd. – which included the transfer of the branches of activity public transport and organisation of fairs, conferences and consulting to newly-founded companies and a decrease in the share capital, was carried out on 29 December 2017 by virtue of a Decision of the Commercial Court in Zagreb. Shares in newly-founded companies were acquired by the City of Zagreb, which upon the implementation of the Demerger Plan became the sole member, i.e. the sole owner of their shares.

This status change had multiple effects on the Group's operations during 2018. Among other things, due to the transfer of public transport and organisation of fairs and conferences to independent companies, the share capital decreased by HRK 656.2 million, sales revenue decreased by HRK 476.8 million in comparison with 2017 and non-current liabilities decreased by HRK 1.9 billion. In sum, total equity and liabilities decreased by HRK 3.9 billion. Considering that both of these segments usually incurred loss from the ordinary course of business, the demerger of these companies from the Group created a space for new investments, particularly in improving the waste management system in the City of Zagreb.

In 2018, as a part of the asphalting programme and due to increased road maintenance work in accordance with the minor municipal actions plan for each local community centre, Zagreb Roads asphalted 41.7 km, i.e. 238,300 m² of roads (109 streets) and developed 41.2 km, i.e. 169,500 m² of roads (266 streets) as a part of the municipal actions plan.

EXPANSION OF GAS DISTRIBUTION MARKET TO BJELOVAR-BILOGORA COUNTY

In accordance with the development plan for expanding the gas distribution area to neighbouring counties, on 8 March 2018, the subsidiary Zagreb City Gasworks Ltd. bought the company Elektrometal-Gas Distribution Ltd. from Bjelovar. Through this acquisition, the distribution area covered by Zagreb City Gasworks Ltd. was increased by 496 kilometres of gas network, which covers the City of Bjelovar and the 9 following municipalities: Rovišće, Nova Rača, Severin, Berek, Ivanska, Štefanje, Kapela, Veliki Grđevac and Velika Pisanica, i.e. 60% of the Bjelovar-Bilogora County. Number of end users connected to the distribution system also increased by 14,120 users. Subsidiary Zagreb City Gasworks-Supply Ltd. was already providing the public service of gas distribution in this area since 2013, i.e. since this service was taken over from Elektrometal Plc. Bjelovar.

IMPACT OF REGULATORY CHANGES ON BUSINESS OPERATIONS

As a provider of services of public interest, the Group is exposed to dynamic changes in legal regulations, particularly in the segment of municipal waste collection and removal and energy-related activities of gas distribution and supply. Decision on the Manner of Providing the Public Service of Collecting Mixed Municipal Waste and Biodegradable Municipal Waste and Activities Related to Public Services in the City of Zagreb (Official Gazette of the City of Zagreb 2/18) entered into force on 1 February 2018. Said Decision was adopted by the Zagreb City Assembly on 30 January 2018 within the time-limit prescribed in the Municipal Waste Management Regulation, which entered into effect on 1 November 2017 (Official Gazette 50/17). This Decision represents key regulations governing the business operations of the Zagreb Holding Group and the subsidiary City Waste Disposal as a provider of public services in the City of Zagreb. Adoption and implementation of the municipal waste management system as prescribed by said Regulation and Decision will have a lasting impact on the Subsidiary's business operations. Among other things, the costs will increase due to procuring required municipal equipment, upgrading the existing information system and increasing the number of employees. In 2018, staff costs increased by HRK 14.1 million, or 7.1%, cost of material increased by HRK 21.6 million, or 30.2%, and realised investments amounted to HRK 63.5 million, representing a 49.2% increase in comparison with 2017. As a result of activities carried out for the purpose of implementing the Municipal Waste Management Regulation, in 2018, City Waste Disposal incurred loss in the amount of HRK 51.7 million.

The new Utility Management Act entered into force in August 2018 and introduced changes related primarily to the classification of the Group's activities. Namely, prior to entry into force of this Act, numerous Group's activities from the area of municipal services were governed by provisions from several acts and regulations. The new Utility Management Act complies with the laws governing water supply and drainage activities, waste management activities, funerary activities, concessions, physical planning and public procurement. Also, according to the new Act, parking services in developed public areas and in public garages are classified as a service utility activity. Pursuant to the Decision on Specifying the Activities Regarded as Utility Activities (Official Gazette of the City of Zagreb 10/95, 15/97, 12/07, 21/08, 22/13, 8/14 and 6/16), utility activities comprise bus terminal services, distribution telecommunications duct services ("DTK") and other related distribution telecommunications duct services ("DTK") as well as other municipal infrastructure services in the City of Zagreb.

DISRUPTION OF GAS SUPPLY MARKET DUE TO CLIMATE CHANGE

Besides dynamic changes arising from energy-related regulations (the new Gas Market Act (Official Gazette 18/2018) entered into force in 2018) and various legal documents and subordinate legislation, in the past few years, Zagreb City Gasworks-Supply Ltd. has also been dealing with extremely negative consequences of climate change on its business operations. According to the data obtained from the Croatian Meteorological and Hydrological Service, 2018 was yet another extremely warm year and the thermal conditions of the entire territory of the Republic of Croatia were classified under the extremely warm category. Such deviations in the temperature disrupted the dynamics of contracted purchase during 2018, due to which Zagreb City Gasworks-Supply Ltd. paid penalties to its suppliers in the amount of HRK 5.7 million. Penalties were due to taking more/less gas than initially contracted. Since Zagreb City Gasworks-Supply Ltd. provides public services under regulated terms and conditions, which include gas supply under the obligation of public service and last resort gas supply, due to an increase in the gas purchase price for the gas year 2018/2019, gas procurement costs increased despite a decrease in the quantity of supplied gas by approximately 3.6% in comparison with 2017. Also, the regulatory reduction in the supply margin by 35%, which was introduced in 2017, was a direct cause of the decrease in operating results in 2018. It is important to mention that the increase in the gas price for end users under the category of households in 2018 was insignificant and that the overall risk of regulatory changes was incurred entirely by the subsidiary, which ended the business year 2018 with a HRK 13.2 million loss.

On the other hand, Zagreb City Gasworks Ltd., which carries out the regulated energy activity of gas distribution, increased its operating result by HRK 6.4 million (23.7%). Also, during 2018, investments in non-current tangible and intangible assets of this company amounted to HRK 69.1 million and were funded primarily from its own funds.

New Ordinance on the Use of Public Parking Lots and Public Garages (Official Gazette of the City of Zagreb 17/18) entered into force in late July 2018 and it modified the prices for using public parking lots and public garages. Prices of hourly parking permits for parking lots and public garages were increased, whereas the prices of daily, commercial and privileged parking permits did not change. This change had a direct impact on the sale of commercial parking permits (weekly, monthly and annual). Namely, the sale of parking permits in 2018 increased by 35.6% in comparison with the same period of 2017. It is important to mention that persons buying commercial parking permits receive numerous benefits. Some of those are a 5% discount for buying 5 monthly garage parking permits with the same validity period (4+1 free), up to 50% lower fees for parking hybrid and electric vehicles in all garages and all-day free parking during the weekend for persons who buy monthly overnight parking permits.

OVER HRK 535 MILLION OF THE GROUP'S REALISED INVESTMENTS

In addition to the changes mentioned above, 2018 also saw the resumption of the investment cycle from 2017, primarily in the segment of water supply and drainage, waste management and gas distribution activities. Investments realised at the Group level amounted to a total of HRK 424.7 million and HRK 110.5 million was invested in the construction of public purpose facilities developed by the Group's companies for the City of Zagreb (day-care hospital and underground garage within the Sveti Duh Clinical Hospital, Hrvatski Leskovac Primary School and extension of the Jelkovec Primary School) and in the construction of the city area Podbrežje.

The most significant investments, amounting to a total of HRK 177.3 million, were realised by Water Supply and Drainage Ltd., followed by Zagreb City Gasworks Ltd. (HRK 69.1 million) and City Waste Disposal (HRK 63.5 million).

22 kilometres of new water supply network and 10 kilometres of new water drainage network

In 2018, Water Supply and Drainage Ltd. constructed 22 kilometres of water pipelines (of different sizes) and 10 kilometres of canals. Also, with the aim of reducing water losses and protecting the environment, 5.4 kilometres of water pipelines and 1.5 kilometres of canals and canal facilities were repaired. In addition to the improvement in the quality of the water supply and drainage system, the extension of fundamental water supply and drainage capacities resulted in 1,614 new water supply connections and 1,060 new canal connections. As at 31 December 2018, 99.26% of the citizens of the City of Zagreb had connections to the water supply system and 95.06% of them had connections to the water drainage system.

One of the major projects completed in 2018 was the completion of the 4th stage of the reconstruction of Radnička Cesta street, which included the construction of two main water supply pipelines, each of 1.2 kilometres in length, and a water supply pipeline of the same length on the west side of the street.

In December 2018, the construction of the main sewer with Sesvete pumping station and the construction of a relief facility with a retention canal at the site of the Sesvete main sewer of the Sesvete Waste Water Treatment Centre was completed as well. Total project value amounted to HRK 46.9 million and its completion resulted in approximately 40% of waste water from Sesvete being treated at the facility, totalling to approximately 8,000 facilities, or 25,000-30,000 users. Also, by completing this project, the prerequisites for the planned connection of Sesvete-East to the facility have been met and it is now possible to manage waste water more efficiently, thus decreasing the pollution of the receiving water. The ultimate objective is to protect the Vuger stream and the Sava river as the final receiving water in Zagreb.

During 2018, the Group started the activities within the project named "Water for All Households", which includes construction (extension) of the water supply network by 80 kilometres. Currently, the project documentation is being prepared. The project was started in cooperation with the City of Zagreb and includes primarily the outskirts of the city, i.e. the following city areas: Brezovica, Sesvete, Novi Zagreb West, Podsused, Vrapče, Gornja Dubrava, Črnomerec, Maksimir, Podsljeme, Stenjevec and Trešnjevka South.

Over 26 kilometres of new gas pipelines

With total investments in 2018 amounting to over HRK 69 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 amounts of resources were invested in the reconstruction of the gas distribution network and the construction of 26 kilometres of a new gas distribution network (2 kilometres of high-pressure gas pipelines, 20 kilometres of medium-pressure pipelines and 4 kilometres of low-pressure pipelines) for the purpose of increasing security and reducing losses. Also, 3,534 new end-user connections were established and 25,000 gas meters were replaced. Activities related to further improvements in the gas system safety and reliability are carried out on a regular basis 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.

In 2018, for the purpose of modernising the gas distribution system, 6 new telemetry stations were constructed and sensors for detecting the status of safety shut-off valves were installed at 10 stations. With the aim of constantly improving the safety of the gas distribution system and increasing the reliability of natural gas distribution, in addition to regular maintenance activities and investments, almost HRK 1 million was invested in the maintenance of gas regulation stations in the distribution system. This investment included the replacement of the existing control and safety equipment at the Grana, Dumovec, Držićeva and Čulinečka gas regulation stations.

Modernisation of parking services at public garages and public parking lots

By investing in the automatic parking payment and central management system at public garages, as well as in 100 new parking machines, the prerequisites for a further optimisation of business processes and development of new services of the subsidiary Zagrebparking have been met. The most significant investment, amounting to HRK 5.7 million, pertains to the automatic parking payment and central management system at public garages, whereas HRK 5 million was invested in the procurement of 100 parking machines (permit dispensers). Automatic parking payment and central management system was installed in 3 out of 8 public garages managed by the subsidiary – Langov Trg, Rebro and Petrinjska. This system allows better work surveillance and control, monitoring of all connected systems from one point, better flow of vehicles when entering and exiting public garages, quicker interventions and potential system error fixes and payment of parking permits for public garages and parking lots via a mobile app. The system also allows paying parking permits via credit cards and SMS and it includes a mobile app – ZgPark – which has been available in Croatian and English since May 2018.

The app allows purchase of any type of parking permits for non-automated and automated parking lots, payment of daily parking permits without any fees and purchase of hourly and daily parking permits for the Langov Trg, Rebro and Petrinjska public garages.

New parking machines are also connected to the central server application, which allows real-time surveillance and management of parking machines. Unlike the existing ones, the new parking machines allow purchase of various types of parking permits, such as hourly/several-hour permits, commercial, privileged and daily parking permits, as well as payment of daily parking permit payment order.

The subsidiary also expanded its vehicle fleet by procuring 4 new tow trucks in the value of HRK 2.4 million.

In July, Zagrebparking opened 500 new parking spaces at the premises of the Gredelj Rolling Stock Factory and on 2 October, it opened an underground parking garage in Novi Jelkovec – Jelkovec 2, which has 237 parking spaces.

Vehicle fleet modernisation

In 2018, the Group invested significant resources in upgrading its vehicle fleet and machinery. For the purpose of carrying out its main activities, the Group used 1,008 different types of vehicles in 2018. These were primarily freight vehicles and machinery and tractors, the number of which as at 31 December 2018 was 626 and 113, respectively. Besides the above-mentioned investment of City Waste Disposal amounting to HRK 35.1 million and the investment of Zagrebparking amounting to HRK 2.4 million, the subsidiary Zagreb Roads invested HRK 19.9 million in the procurement of equipment, machinery and freight vehicles, whereas the subsidiary Zrinjevac invested HRK 12.2 million in the procurement of machinery, tractors and transport vehicles.

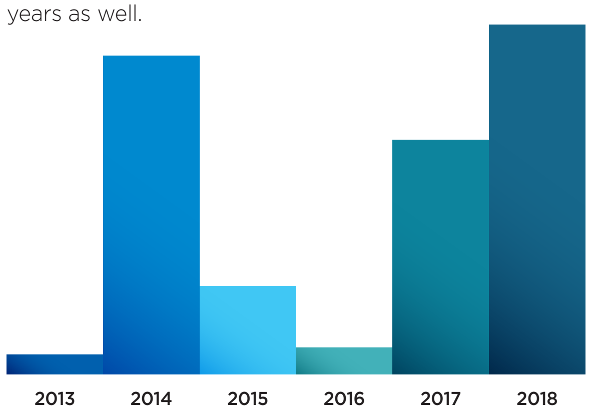
In accordance with the Air Quality Action Plan of the City of Zagreb and green public procurement guidelines, purchased vehicles meet the latest version of the Euro 6 standard and have the latest filtering and exhaust gas processing technologies, which contributes to the continual environmental protection efforts in the city.

In 2018, Zagreb Roads invested HRK 19.9 million in the procurement of equipment, machinery and freight vehicles.

ACTIVITIES FOR ESTABLISHING AN EFFICIENT WASTE MANAGEMENT SYSTEM

Through the subsidiary City Waste Disposal, the Group carries out public area cleaning and waste management activities. In 2018, all activities were focused on establishing such a waste management system that will, upon implementation of adequate measures and actions, stop the constant increase in the amount of municipal waste, stop the constant decrease in the amount of deposited biodegradable waste and simultaneously increase the degree of separate collection and recycling of recyclable waste. Namely, this process concerns a shift from a linear to a circular economy, in which waste is not regarded as a "problem", but rather a raw material for another technological process. Implementation guidelines are prescribed in the Municipal Waste Management Regulation and the Decision on the Manner of Providing the Public Service of Collecting Mixed Municipal Waste and Biodegradable Municipal Waste and Activities Related to Public Services in the City of Zagreb.

The procedures for initiating crucial investments for procurement of the required infrastructure were started in early 2018 with the aim of implementing the Regulation. By the end of 2018, total investments realised for this purpose amounted to HRK 63.5 million. It is important to mention that in the period between the adoption of the Act on Sustainable Waste Management (Official Gazette 94/2013) in 2013 and 31 December 2018, City Waste Disposal invested a total of HRK 187 million in vehicles, equipment and facilities required for establishing an efficient waste management system in the City of Zagreb. A large investment cycle was started in 2017 and it yielded investments in the total amount of HRK 42.6 million. Large investments are planned to be realised in the following years as well.



Overview of the dynamics of the investments made by City Waste Disposal in the period between 2013 and 2018

In 2018, new sets of underground containers with a hydraulic platform for separate waste collection were procured.

During April and May 2018, 78 public discussions were held at the local community centres in 17 city districts.

SUBSIDIARY CITY WASTE DISPOSAL

MUNICIPAL WASTE COLLECTION	PUBLIC AREA CLEANING
389,276 users	12,215,000 m²

PRIMARY SERVICES

- implementing and developing a comprehensive waste management system in the City of Zagreb
- collecting and removing municipal waste from households and other service users
- separate collection of recyclable waste in containers located in public traffic areas and at recycling centres
- establishing regular communication with the public
- improving the municipal waste management system

- cleaning public traffic areas (roads, sidewalks, squares, underpasses, public stairs and passages)
- setting up and maintaining bins and urban equipment in car-free zones
- during the winter, snowploughing and de-icing car-free zones, snow cleaning and de-icing public stairs, pedestrian passageways, access areas leading to stairs and wheelchair ramps and delivering salt in containers for city districts

Municipal infrastructure installed as at 31 December 2018

NUMBER OF CONTAINERS DISTRIBUTED TO HOUSEHOLDS

CONTAINER VOLUME / litres	MIXED MUNICIPAL WASTE / unit	PAPER / unit
1,100	13,239	337
240	25,459	4,394
120	78,717	42,787
80	12,557	50,288
TOTAL	**129,972**	**97,806**

18,042 biowaste containers

SEPARATE WASTE COLLECTION

RECYCLING CENTRES

Installed:
9 fixed and 8 mobile

Planned for 2019:
2 mobile: city district Črnomerec and city district Donji Grad
2 fixed: Čulinečka Ulica street and Sopnica Jelkovec

RECYCLING ISLANDS
1,008 set up in total

CONTAINERS IN PUBLIC AREAS	NUMBER / unit
PAPER	2,336
PLASTIC	1,972
GLASS	1,870
TEXTILE	637
TOTAL	**6,815**

BULKY WASTE DISPOSAL AND ILLEGAL DUMPS

In the period between **1 January and 31 December 2018**, a total of 3,463 requests for services were received via the e-Redar online service, **3,412 (98.53%) of which were completed.**

Public area cleaning and washing

Realised in the period 1 January to 31 December 2018 by work technology

WORK TECHNOLOGY	REALISED / m²
MANUAL WASHING	715,482,400
ROAD WASHING TRUCK	164,692,562
LARGE ROAD SWEEPER	119,670,000
SMALL ROAD SWEEPER	34,489,600
TOTAL	**1,034,334,562**

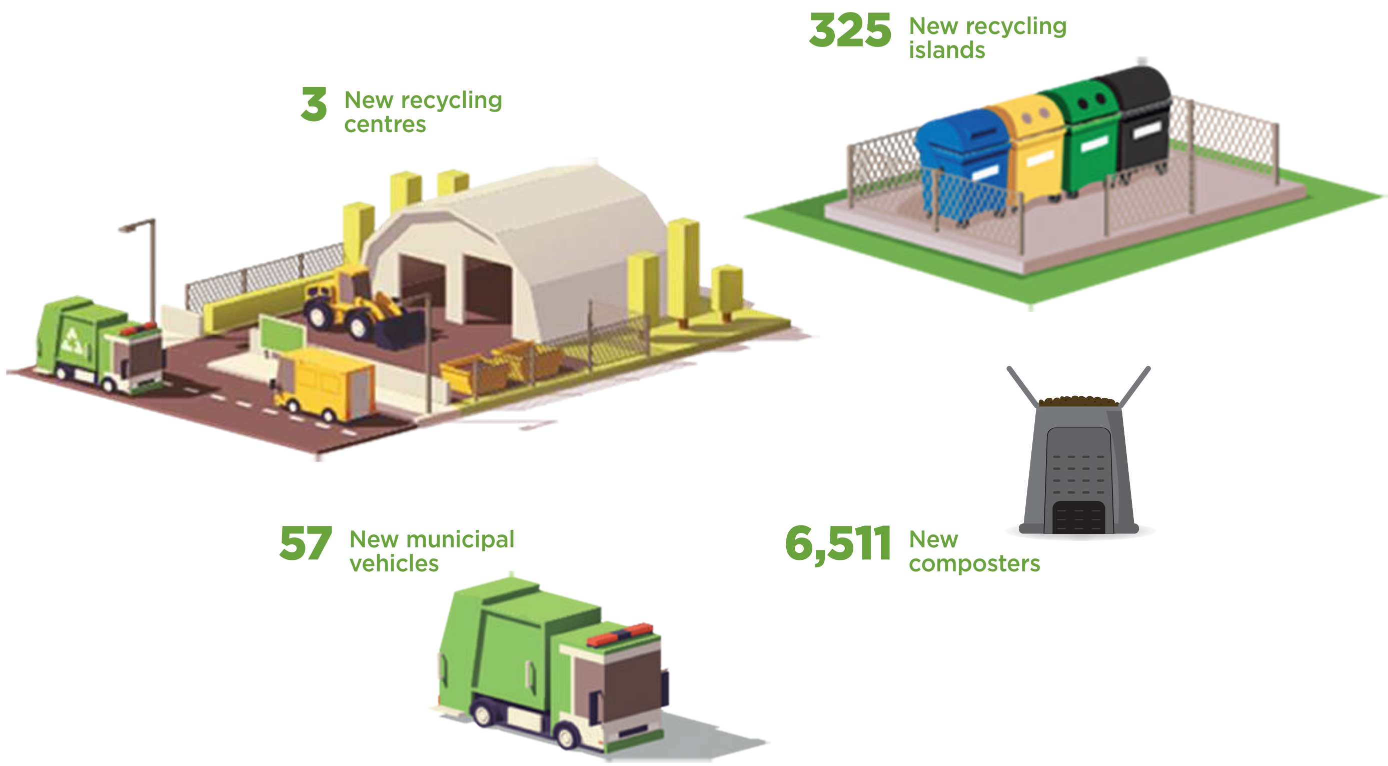
Number of bins set up by City Waste Disposal

TYPE OF BIN	NUMBER / kom.
BINS FOR DOG WASTE	300
WALL-MOUNTED BINS	479
FREE-STANDING BINS	3,432
PLASA	64
TOTAL	**4,275**

Fulfilment of waste management objectives in 2018

In 2018, for the purpose of fulfilling waste management objectives, the subsidiary City Waste Disposal realised the following infrastructure investments and activities:

- HRK 18.7 million was invested in the procurement of municipal equipment, primarily in containers for separate waste collection, skips, large bins and underground containers with a hydraulic platform for separate waste collection. The subsidiary also procured 5 mobile and 1 fixed recycling centre.
- The subsidiary procured a total of 57 various municipal vehicles in a total value of HRK 35.1 million, which are required for providing public services and separate collection of recyclable waste at recycling centres and at registered addresses of service users.
- Total number of all containers for recyclable waste was increased by 26.2%, i.e. from 85,831 to 108,326 containers (a detailed overview of the number of containers from 2015 to 2018 by year is presented in the table below).
- In that category, the number of containers for paper collection in households was increased by 21,527 containers, i.e. from 78,597 (as at 31 December 2017) to 100,124 containers.
- 325 new recycling islands were set up and their total number at the end of 2018 was 1,008, representing an increase by 48% in comparison with 2017, when there were 683 recycling islands in total.
- 3 new recycling centres were opened and the Stenjevec recycling centre was closed on 30 November 2018. At the end of the year, there were 9 fixed and 8 mobile recycling centres in operation.
- Process of distributing home composters to households was continued in 2018 and their number increased by 6,511 (from 11,531 to 18,042) in comparison with their number as at 31 December 2017.



Total number of all types of containers for recyclable waste (households, companies, public areas) by year in the period from 2015 to 2018

	CONTAINER TYPE				
YEAR	PAPER	GLASS	BIOWASTE	PLASTIC	TEXTILE
2015	4,712	2,124	1,920	2,392	125
2016	39,304	2,157	1,971	2,566	132
2017	78,597	2,204	2,036	2,651	343
2018	100,124	2,531	2,076	2,948	647

Implementation of action plan for business activity municipal waste collection and removal

- For the purpose of municipal waste collection and removal, the subsidiary developed 274 work programmes for which it engaged approximately 92 vehicles per day. Of those 274 work programmes, 21 pertained to weekly waste removal, 227 to semi-weekly waste removal and 26 to removal of waste three times a week.
- Regarding the service of biodegradable municipal waste (waste paper and cardboard) removal, the subsidiary developed 148 work programmes pertaining to semi-monthly waste removal, for which approximately 12 vehicles were engaged every day.
- Service of collecting bulky waste is provided at service users' request. Service users receive request forms at their home address and the service can also be requested using an online form. In 2018, the number of users using this service increased by 40%.
- Operational delays in the removal of recyclable waste (primarily plastic) from public areas occurred on two occasions in 2018. Delays were eliminated as quickly as possible by implementing a more intensive recyclable waste removal programme.

Waste management objectives that must be fulfilled by 2022*

- Separate collection of 60% of municipal waste
- Separate collection of 40% of biowaste from municipal waste
- Disposal of under 25% of municipal waste at landfills
- Separate collection of 75% of construction waste
- Improvement of management system for other special categories of waste
- Conduct of educational and informative activities on a regular basis.

Sort Waste – Change Habits!

To fulfil waste management objectives, besides investing in municipal equipment and vehicles, in 2018, the subsidiary carried out a series of educational and informative activities under the project named "Sort Waste – Change Habits!", in which over HRK 870,000 was invested. In addition to informing service users about the changes arising from the adoption of the Decision on the Manner of Providing the Public Service of Collecting Mixed Municipal Waste and Biodegradable Municipal Waste and Services Related to Public Services in the City of Zagreb, the primary objective of all activities was to raise the citizens' awareness of the importance of responsible waste management in accordance with the waste management hierarchy. Another important aspect of the activities was the importance of proper waste sorting using adequate containers.

/ Leaflets – in 2018, citizens received two leaflets accompanying their bills (total circulation amounted to 760,000 leaflets). The first leaflet was delivered in early March and it contained a simple overview of key changes relevant for service users arising from the adoption of the Decision on the Manner of Providing the Public Service of Collecting Mixed Municipal Waste and Biodegradable Municipal Waste and Activities Related to Public Services in the City of Zagreb. The second leaflet contained a Notice on the Collection of Mixed, Biodegradable and Recyclable Municipal Waste, in accordance with the Municipal Waste Management Regulation and said Decision.

Public discussions on waste sorting – in the period between 9 April and 16 May 2018, 78 public discussions were held in 17 city districts at local community centres. The aim was to educate citizens on the new waste collection system and proper waste management. About 3,000 citizens of the City of Zagreb attended the discussions. They also discussed the adjustments related to the Municipal Waste Management Regulation, waste mismanagement, recycling islands and centres, bulky waste removal and other topics of their interest.

/ Free infoline and other information for citizens – in April, a free infoline was opened for the purpose of accelerating the process of removing waste from those locations where waste removal must be performed outside of the planned schedule. A special page with an overview of key information for service users was also created at the website zgh.hr. The content is updated depending on the activities, particularly with regard to the implementation of the infrastructure and availability of containers, as well as to the changes that have a direct impact on service users. Furthermore, the subsidiary also introduced more educational and informational activities to draw the citizens' attention to the importance of disposing waste to containers provided for that purpose, taking into account that they do not mix different types of waste. During the year, the contents on the City Waste Disposal's webpage were regularly updated. For the purpose of achieving compliance with the applicable acts and obligations, information about separate waste collection, schedule for removal of different types of waste, FAQ, legal regulations and other relevant contents were updated. The website also contains the schedule for removal of all types of waste,

* Waste management objectives defined in the 2018-2023 Waste Management Plan for the City of Zagreb for which Zagreb Holding is either the activity leader or participant.

as well as reports explaining why the services were not carried out at particular locations.

/ Eco-picnic – on 17 June 2018, at the Bundek park, the City of Zagreb and Zagreb Holding organised a recreational and educational event named "Eco-picnic". This event also marked the start of the educational and informational campaign "Put the Right Thing in the Right Place", which aims to increase the citizens' awareness of the importance of environmental protection and responsible waste disposal and sorting. At the event, the attendees had the opportunity to see over 60 new vehicles of different types and purpose procured by City Waste Disposal during 2017 and 2018, as well as inform themselves about how recycling and mobile centres work and how to properly dispose of waste. At the same time, the subsidiary held an exhibition titled "History of City Waste Disposal" at Bundek to celebrate 95 years of existence.

/ Games for a better tomorrow – in 2018, two educational games were completed – the board game Ekodrom and the computer game Ekoforija, which the subsidiary developed in cooperation with its contract partners. The games were presented in December 2018 at the Eco Meeting conference organised by the City of Zagreb for the directors of city kindergartens and primary schools. Prior to that, the board game Ekodrom had been approved by the Education and Teacher Training Agency and sufficient number of gameboard and playpiece sets had been ensured for Zagreb kindergartens and primary schools had been ensured. EKOFORIJA is an interactive game available through a web interface by means of which primary school children can gain first-hand experience of how waste sorting protects the environment. The purpose of the game is to draw the children's attention to healthy habits based on what must be implemented in the waste management system and what we want to pass down to future generations. The game is available at the web page of both City Waste Disposal and Zagreb Holding.

/ Cooperation with the media – all activities carried out during the year were also covered by the media. In March, prior to public discussions held at local community centres, the City of Zagreb, in cooperation with Zagreb Holding and Zagreb Waste Management Centre, organised a presentation for presidents of local committee councils, local committee presidents and media representatives.

Besides intensive PR activities and advertising, a brochure titled "Zagreb Recycling Guide" was published in daily newspapers on two occasions. The brochure was printed on recycled paper and is also available online. Furthermore, in July, in cooperation with media partners, a round-table discussion was organised regarding the manner in which Zagreb Holding and City Waste Disposal respond to challenges related to waste management in the city. In addition to Subsidiary and media representatives, representatives of local committee councils and the Croatian Chamber of Economy also participated in the discussion. In Q4 2018, in cooperation with media partners, service users in individual city districts were surveyed about which waste-related problems concern them the most. Based on those surveys, a series of reports was published under the title "Waste Disposal in My City District".

Results of activities

All these measures eventually resulted in an increase in the share of separately collected waste in the total amount of collected municipal waste, which increase amounted to 16.8%. As presented in the following diagram, the share of separately collected waste tends to increase, as does the total amount of collected municipal waste.

Share of separately collected waste in total municipal waste collected / in tonnes

One of the reasons for this tendency is an increase in the number of users in 2018 by 0.4% (1,709 users) in comparison with 2017, when the number of users also increased by 0.9% (3,617 users) when compared to 2016.

The second and far more significant reason is an increase in the number of tourists visiting the city and the number of overnight stays. Statistical data available at the City of Zagreb's website shows that the number of overnight stays increased from 2,016,107 in 2016 to 2,511,817 in 2018.

Also, the fact that the amount of separately collected waste in 2018 increased by 33.9% in comparison with 2017 is particularly encouraging. However, in order to ensure that the objectives related to waste management in the City of Zagreb are fulfilled, the Zagreb Holding Group and the subsidiary City Waste Disposal have to make great investments in infrastructure, human resources and machinery in the following period.

In this regard, an investment for establishing an IT system for municipal waste management, valued at almost HRK 47 million, was initiated in 2018. Introduction of a central IT system for municipal waste management will lead to significant improvements in IT support for business processes. Also, a system of tracking the amounts of collected waste and service charges for collecting mixed municipal waste will be introduced by using containers with RFID tags.

Potential of co-financing by EU funds

Furthermore, Zagreb Holding also intensified the activities related to the preparation of projects eligible for co-funding within the Operational Programme Competitiveness and Cohesion 2014 -2020, Specific Objective 6i1 – Decreased amount of waste being landfilled. Through the subsidiary City Waste Disposal, Zagreb Holding participated in the preparation of the project "Procurement of Containers for Separate Collection of Waste". City of Zagreb applied the project to an open invitation by the Environmental Protection and Energy Efficiency Fund. It is expected that 66,400 containers of various volumes for different types of recyclable waste will be procured through this project. Estimated total sum to be covered by the Environmental Protection and Energy Efficiency Fund for the procurement of containers is HRK 77 million.

At the same time, Zagreb Holding, in cooperation with the City of Zagreb, participated in the preparation of the document titled "Programme of Educational and Informative Activities for Sustainable Waste Management in the City of Zagreb". This document was a prerequisite for applying to the Call for Proposals – Implementation of the Programme of Educational and Informative Activities for Sustainable Waste Management announced by the Ministry of Environment and Energy. Local self-government units and the City of Zagreb successfully applied the project and a decision on project funding was adopted.

Waste Management Plan of the Republic of Croatia (Croatian WMP) for the Period 2017-2022 (Official Gazette 3/2017), under the measures for fulfilling Objective 1.4 – Disposal of under 25% of municipal waste at landfills – stipulates the Emergency Measure for reducing municipal waste disposal volumes generated in the City of Zagreb, which must be implemented by 2020. Therefore, in 2018, City Waste Disposal prepared the Programme for Reducing Municipal Waste Disposal Volumes in the City of Zagreb as a basis for applying to the call announced by the Ministry of Environment and Energy, measure M1.4.3. – Emergency measure for reducing municipal waste disposal volumes produced in the City of Zagreb.

The Programme complies with the applicable EU regulations and the aforementioned Croatian WMP, as well as with the 2018 Waste Management Plan for the City of Zagreb. Said measure is defined in the Croatian 2017-2022 WMP and its implementation is funded as a part of the Operational Programme Competitiveness and Cohesion 2014-2020. All activities were carried out in cooperation with the competent City Offices of the City of Zagreb.

CUSTOMER RELATIONS MANAGEMENT

Zagreb Holding's customer relations management is a corporate function of the Head Office's Joint Affairs Department. The Department is in charge of the tasks related to the operations of the call centre and contact centre, as well as to providing support for the users of the Company's IT system. It was established in 2017 by adoption of the new Rules on Organisation of Zagreb Holding Ltd. and represents the main centre for managing overall communication with users of services provided by the Zagreb Holding Group (holding centre). It is thus ensured that the transformation of Zagreb Holding into a proper service for the citizens – users of services provided by Zagreb Holding – is sustained.

761,135

Calls received on the number 072 500 400

129,331

Messages and other interactions via digital communication channels

Call Centre

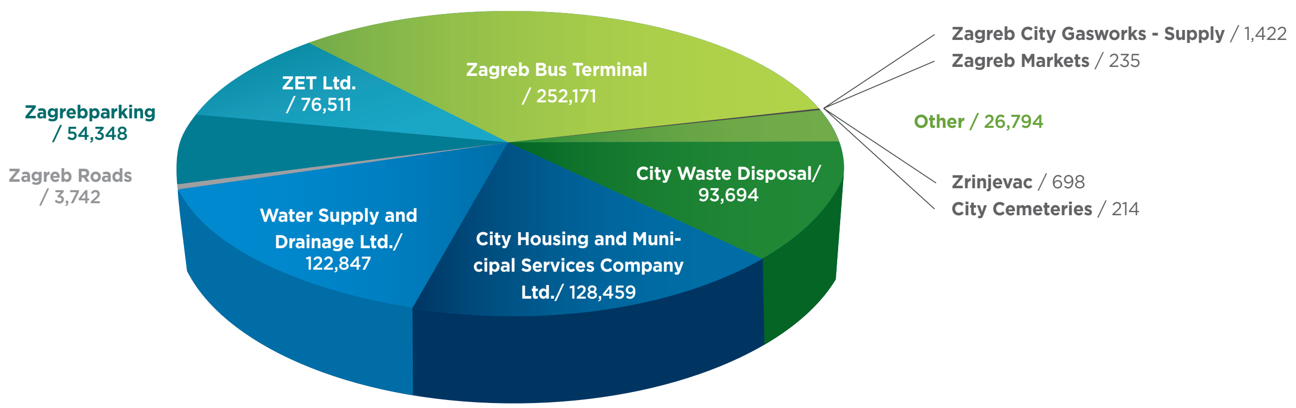
Zagreb Holding's Call Centre integrates telephone communication with users of services provided by Zagreb Holding Ltd. and related companies via the single phone number 072 500 400. Service users can access all services 24 hours a day, 365 days a year by calling the Call Centre, without incurring any additional charges, at a rate charged for a local call to landline. If for any reason callers are not able to connect with the Call Centre, agents will call them back to provide them with information they request, which makes this Call Centre special in comparison with other similar centres.

Since its establishment in 2015, the Call Centre has been transformed into the main centre of digital communication of the Zagreb Holding Group. In addition to contacting the Call Centre via the single phone number, service users can also reach the Call Centre agents online – directly at the website holdingcentar.zgh.hr or via WhatsApp, Viber, chat and Facebook Messenger. Service users can also follow information about services on all social networks.

During 2018, the Call Centre received a total of 761,135 calls to the number 072 500 400 and had 129,331 interactions through digital services (WhatsApp, Viber, chat, Facebook Messenger, e-mail and e-Citizens).

As presented in the following diagram, the largest number of inquiries submitted to the Call Centre related to the subsidiary Zagreb Bus Terminal and information about arrivals and departures, ticket booking, complaints and general information about the subsidiary. All information and phone booking services provided by the Zagreb Bus Terminal were integrated in the Call Centre in 2017, including information which had been previously available on a phone line with additional charges. This resulted in increased availability of information about the services the Subsidiary provides.

Number of calls to the Call Centre



An almost equal number of inquiries in 2018 pertained to services provided by Water Supply and Drainage Ltd. and City Housing and Municipal Services Company Ltd. In both cases, inquiries related mostly to information about debts, modifying user data, bill delivery, reposting of payment data. Regarding Water Supply and Drainage Ltd., customers also reported malfunctions, ruptures and water meter readings.

Inquiries related to City Waste Disposal pertained to information about debts, payment obligations, modifying user data, reposting of payment data, information about waste removal, distribution of containers, composting, biowaste, recycling and general information about the subsidiary. Call Centre also provides information about public transport and other services provided by the company ZET Ltd., as well as all other information about city services relevant for service users.

Current information about the status of services provided by the Group and other services provided in the City of Zagreb is published by the Call Centre on the website holdingcentar.zgh.hr. If necessary, this information may be updated every minute. Following the same principle, notices are published on the MojZagreb app as well. During 2018, approximately 15,000 items of information relevant for service users at that time were published by the Call Centre on the website holdingcentar.zgh.hr and the MojZagreb app.

Call Centre agents are available 24 hours a day and they initiate all actions of competent services immediately upon receiving a report of any irregularities in municipal services.

In addition, since 2017, the digital platform on the website holdingcentar.zgh.hr allows file sharing, so this communication channel can be used not only for asking questions and responding, but also for sharing files.

Main centre for obtaining information and communicating with on-call services in the City of Zagreb

In early 2018, specialised work units for internal information and communication in the event of unforeseen, specific, unfortunate or other similar situations in the City of Zagreb were established within the Call Centre. Events and occurrences that require emergency interventions or operational actions of on-call services, or events and occurrences that are of particular importance for the City of Zagreb, especially if they directly affect the functioning of city infrastructure, quality of life or the general public, are to be reported on the number 0800 911 811. From this line, regardless of the hour, all competent and responsible persons of the City Administration, city services and Zagreb Holding are promptly informed about such events and situations, depending on the type of event and required actions. By using a specialised IT and telecommunications platform, the Centre is connected to the City Office of Emergency Management, National Protection and Rescue Directorate, Public Fire Department, Zagreb Holding's subsidiaries and related companies, Croatian Mountain Rescue Service, ZET and amateur radio.

EXTENSION OF SERVICE PORTFOLIO IN THE E-CITIZENS SYSTEM

Since 2014, service users can access Zagreb Holding's invoices via the e-Citizens system. In 2018, we also made a step forward in the service digitalisation process by adding the e-Zahtjevi ("e-Requests") service to the existing e-Citizens service portfolio. It is a separate service on this page which allows users to fill out digital forms for modifying their registry and accounting data, change their bill delivery address and repost their user card information. This way, service users can now receive the majority of requests related to the ordinary course of business via e-mail and such requests were usually the main reason why citizens had to visit our offices in person.

e-Requests

- Overview and management of the single utility bill
- Modifying user data and bill delivery address
- Requests for reposting of overpaid bills
- Cancelling paper billing

Web and mobile apps:

Moj račun ("My Bill") – gas bill management

Moj VIO ("My Water Supply and Drainage") – water bill management

ePK and ZgPark – purchase of all types of parking permits

24/7 customer support at 072 500 400.
holdingcentar.zgh.hr

MOBILE OFFICE

On 29 May 2017, Zagreb Holding introduced a new service for the citizens – the Mobile Office. 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 monthly schedule, which is available on Zagreb Holding's website. Furthermore, through the Call Centre, service users are also able to appoint individual visits, especially visits to the homes of elderly and disabled citizens, as 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 modifying personal information, file petitions, obtain information and effect payments of Zagreb Holding's invoices without any transaction fees.

During 2018, 16,155 citizens' requests of various types were processed in the Mobile Office. Interest for this service grows month by month and Zagreb Holding will continue to modify the service to meet the service users' requirements.

PROFILE OF ZAGREB HOLDING

PROFILE OF ZAGREB HOLDING 1

Business activities of Zagreb Holding are extremely important for life in the city of Zagreb, which is why we have an immense responsibility when it comes to the quality of life of the community in which we operate.

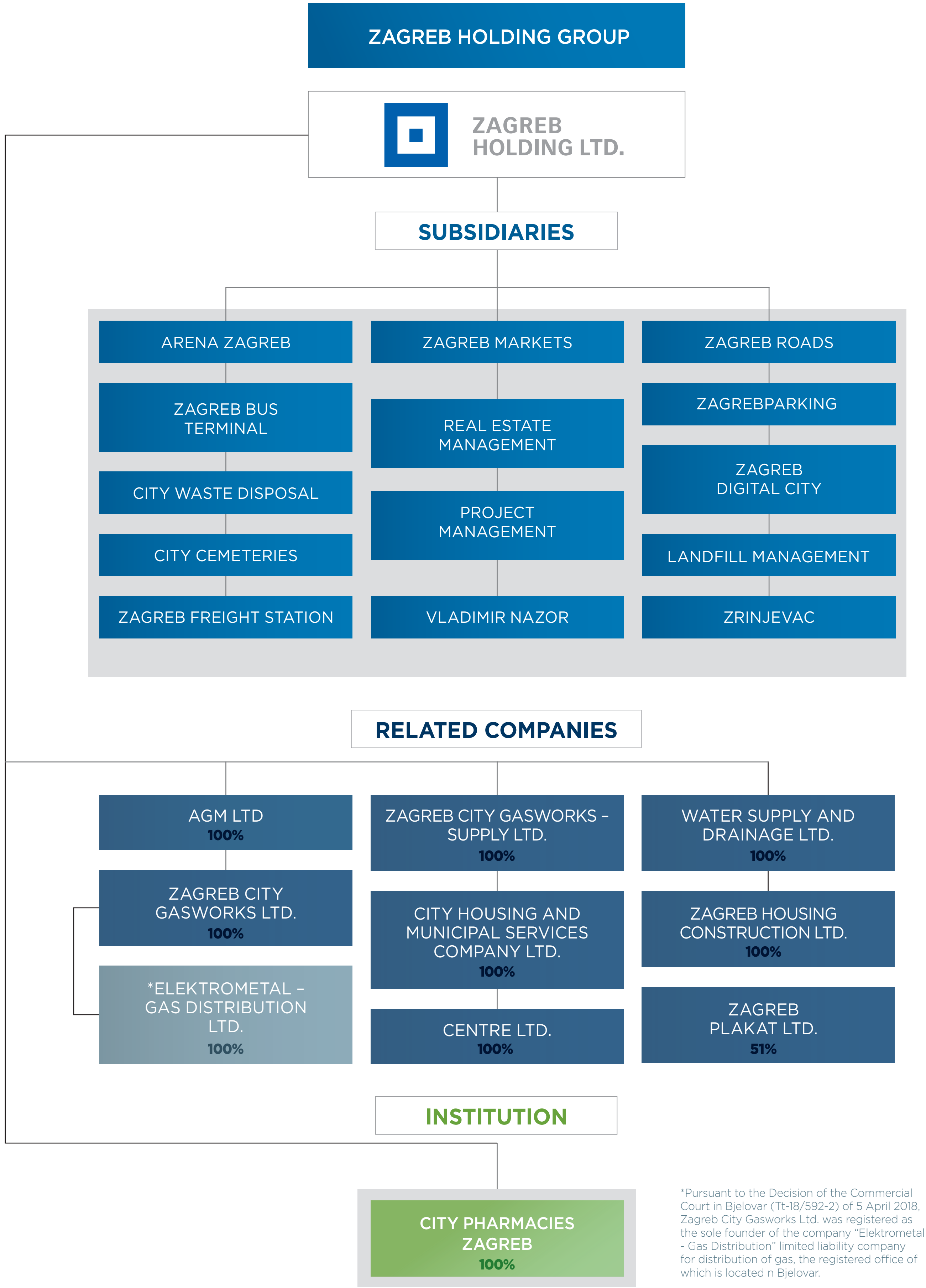
The Company Zagreb Holding Ltd. was incorporated in 2006 under the Croatian Companies Act. It is fully owned by the City of Zagreb, which is also the sole founder of the Company. The Company was created when business shares of 21 companies owned by the City of Zagreb were transferred to the company City Municipal Services Company Ltd., which at the same time took over the role of a holding company. In 2007, the company name changed to Zagreb Holding Ltd. Following further status changes, Zagreb Holding started to operate in its present form. Today, Zagreb Holding consists of related companies and one institution, which together compose the Zagreb Holding Group (hereinafter: Group).

The Group comprises the company Zagreb Holding Ltd. with its 14 subsidiaries, eight related companies and one institution. The company that is responsible for the creation of business policies is Zagreb Holding Ltd.

ZAGREB HOLDING GROUP

- An association of subsidiaries, related companies and one institution
- Zagreb Holding Ltd. is the leading creator of the Group's business policies
- The related companies and the institution within the Zagreb Holding Group have their own bodies in accordance with the Companies Act and in accordance with legal regulations governing institutions.

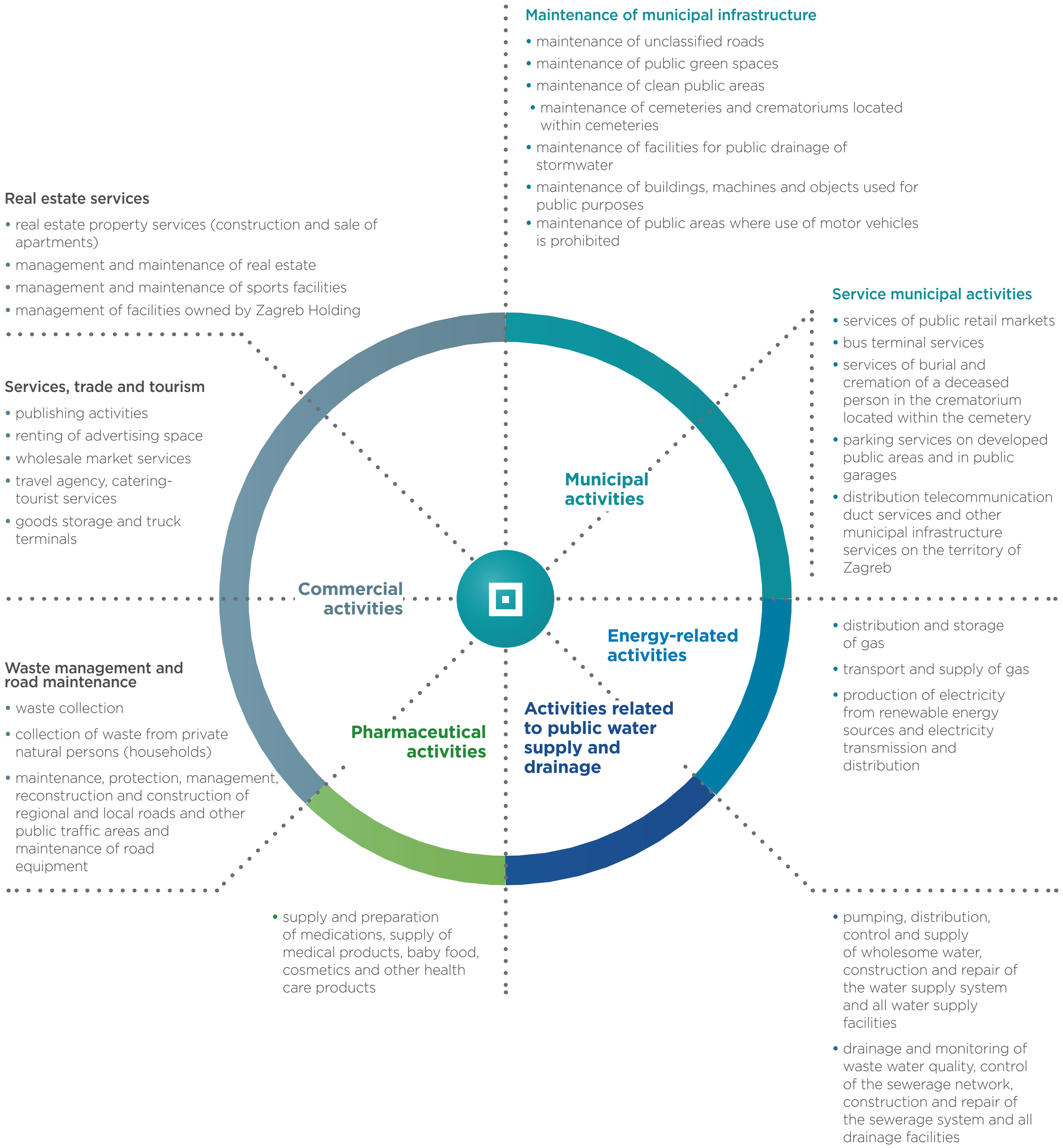
ORGANISATIONAL STRUCTURE OF THE GROUP AS ON 31 DECEMBER 2018



*Pursuant to the Decision of the Commercial Court in Bjelovar (Tt-18/592-2) of 5 April 2018, Zagreb City Gasworks Ltd. was registered as the sole founder of the company "Elektrometal - Gas Distribution" limited liability company for distribution of gas, the registered office of which is located n Bjelovar.

ACTIVITIES OF THE GROUP

Zagreb Holding's primary activity is to provide services of general (public) interest in line with the principles governing the public service. Provision of such services is regulated by the following legislation: Utilities Management Act (municipal activities), Water Act (public water supply and drainage activities) and the Act on Pharmaceutical Activities (practice of pharmacy). In addition, pursuant to the Gas Market Act, energy-related activities of gas distribution and gas supply fall under the category of provision of public services. All other activities are classified as commercial activities.



Given that certain members of the Group provide services from two different categories, below is a table containing an overview of companies and primary services that each of them provides.

	NAME	PRIMARY SERVICES
	Subsidiaries of Zagreb Holding Ltd.	
1.	**Arena Zagreb**	Management and maintenance of sports facilities
2.	**Zagreb Bus Terminal**	Bus terminal services
3.	**City Waste Disposal**	Collection of waste from private households and public areas; maintenance of clean public areas
4.	**City Cemeteries**	Funerary and related activities
5.	**Zagreb Freight Station**	Storage of goods
6.	**Vladimir Nazor**	Organised vacations for young people and travel agency
7.	**Zagreb Markets**	Wholesale and retail markets; storage
8.	**Real Estate Management**	Management of facilities owned by Zagreb Holding
9.	**Project Management**	Construction and project management
10.	**Zagreb Roads**	Maintenance of unclassified roads; maintenance and construction of regional and local roads
11.	**Zagreb Digital City**	Construction and management of electronic communication infrastructure and electronic communication networks
12.	**Zagrebparking**	Public parking lot and garage services
13.	**Landfill Management**	Waste collection
14.	**Zrinjevac**	Maintenance of public green spaces
	Related companies owned by Zagreb Holding Ltd.	
1.	**AGM Ltd.**	Publishing activity
2.	**Centre Ltd.**	Management of sports facilities
3.	**Zagreb City Gasworks Ltd.**	Distribution of gas
	3.1. **Elektrometal – Gas Distribution Ltd.***	Distribution of gas
4.	**Zagreb City Gasworks-Supply Ltd.**	Supply of gas
5.	**City Housing and Municipal Services Company - Ltd.**	Real estate management and maintenance
6.	**Water Supply and Drainage Ltd.**	Water collection, treatment and distribution
7.	**Zagreb Housing Construction Ltd.**	Construction and sale of apartments
8.	**Zagreb Plakat Ltd.** **	Renting of advertising space
	Institution owned by the Company	
1.	**City Pharmacies Zagreb**	Pharmaceutical services, officinal formula laboratory and analytical laboratory

* Elektrometal – Gas Distribution Ltd. is a company 100% owned by the related company Zagreb City Gasworks Ltd.

** Share of Zagreb Holding in all companies as well as in the institution is 100%, with the exception of the company Zagreb Plakat Ltd., in which it holds a 51% share.

STRATEGIC FRAMEWORK ELEMENTS

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

The Group's vision is to become a synonym for pleasant, organised and healthy living in Zagreb, an example of excellence in provision of public services, and the driver, promoter and backbone of economic development of the City of Zagreb and the Republic of Croatia.

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

The Company's core value is its continual focus on corporate responsibility and business excellence aimed at achieving an optimal combination of price and service quality together with operational efficiency, and advancing the comfort of urban life and the satisfaction of the Company's customers, workers and owners as well as of the wider social and business community.

MISSION STATEMENT

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

VISION STATEMENT

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

KEY VALUES

Social responsibility – The aim of business operations of Zagreb Holding is to justify the expectations of public services users, the Company's business partners, the local community as well as the expectations of the Group's employees, and to make a positive impact on the society as a whole and the quality of life in the city of Zagreb.

Reliability – Our reliability is reflected in due fulfilment of our obligations and in the treatment of our colleagues, customers, partners as well as of the community as a whole. The basis of our reliability is trust, open and sincere communication and respect.

Corporate ethics – Zagreb Holding promotes fundamental ethical values in business relationships, duly fulfils its obligations toward customers, business partners and employees of the Group and uncompromisingly adheres to the principles of equal opportunity and diversity in all processes and with respect to all functions.

Cooperative organizational climate – Zagreb Holding encourages mutual cooperation at all levels and between all subsidiaries, related companies and institutions that form the Group, which cooperation is based on trust, adoption of clear and quick decisions as well as on assumption of responsibility.

Development – Special attention is devoted to the achievement of sustainable long-term development by investing in advancement of technologies and by encouraging innovations in order to ensure the best possible services for the citizens.

2

CORPORATE GOVERNANCE

CORPORATE GOVERNANCE 2

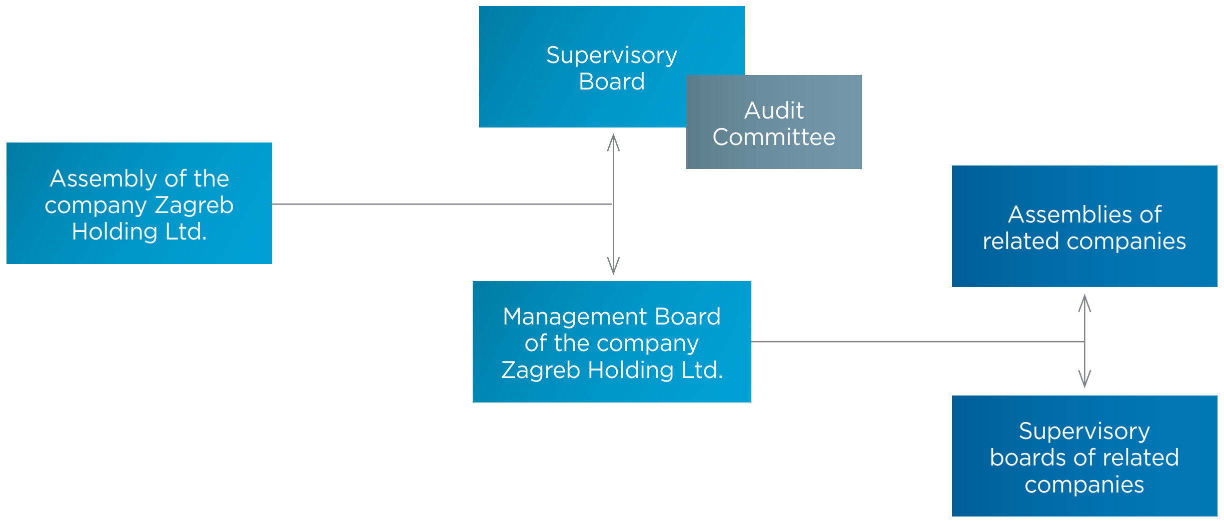
Modes of operation and conduct of Zagreb Holding Group are defined by its Code of Corporate Governance. The aim of the Code is to establish, maintain and develop high standards of corporate governance and business transparency in order to ensure efficient business operations and responsible management of resources 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.

As a provider of services of public interest, the Group performs its business operations in such a way that it adheres to high standards of corporate governance that are based on the OECD principles, corporate responsibility and transparency. Modes of operation and conduct for each member of the Group are prescribed by the Code of Corporate Governance of Zagreb Holding. The Code was adopted in May 2016 with the aim of improving the efficiency of business operations and maintaining responsibility of resource management, which in turn contributes to organizational development of the Company and is in the interest of all users of municipal and public services, the citizens of Zagreb in general, and all other influence and interest groups. The Code provides for an integral management of mechanisms that are aimed at ensuring strategic planning and realisation of objectives, which includes various decision-making processes, procedures, and tools that are used in responsible business operations, as well as an assessment and evaluation system.

GOVERNANCE STRUCTURE 2.1

The structure of corporate governance is prescribed by the Companies Act, the fundamental document of the Company and its Articles of Association. Zagreb Holding Ltd. has established a two-way corporate governance system, which is characteristic of all the companies of Zagreb Holding Group. The Management Board is authorised to independently control the business activities of Zagreb Holding and is responsible for them. Activities of the Management Board are supervised by the Supervisory Board, which performs its tasks with the assistance of the Audit Committee as an advisory body. The supreme body of Zagreb Holding is the Assembly.

Related companies have their own bodies that supervise and control their work (with the exception of the companies AGM Ltd., Zagreb Housing Construction Ltd. and Centre Ltd., which are not legally obligated to have supervisory boards). The components of Zagreb Holding Group thus practice a closed corporate governance system, with mechanisms characteristic of limited liability companies being active, whereas the institution is managed pursuant to the currently valid legal acts on institutions. Assemblies of the related companies that were founded by Zagreb Holding Ltd. as the sole founder and whose business shares are owned by Zagreb Holding Ltd. as the sole holder, are composed of Zagreb Holding Ltd. as the sole member.



Supervisory boards of the related companies founded by Zagreb Holding Ltd. are appointed by the assemblies of those companies, whereas the representative of workers is appointed or elected by workers themselves.

Heads of subsidiaries, directors of related companies and the director of the institution are responsible for carrying out operational activities, implementing decisions and ensuring accuracy of financial data and together with the Management Board of Zagreb Holding are responsible for adopting decisions on economic, environmental and social impact.

ASSEMBLY OF THE COMPANY

The Company's Assembly is composed of the City of Zagreb as the sole member of the Company, which is represented by three members-representatives, 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 Company's Assembly normally convenes once a year. However, the Assembly must also convene whenever this is required by the Company's interests as well as in cases prescribed by the law or the Company's Articles of Association.

In 2018, the following persons acted as representatives of the Company's Member in the Assembly:

1. Milan Bandić (from 22 April 2015), Mayor of the City of Zagreb, agent of the representatives of the Member of the Company
2. Slavko Kojić (from 28 June 2013), representative of the Company's Member
3. Olivera Majić (from 14 June 2017), representative of the Company's Member

SUPERVISORY BOARD OF THE COMPANY

The Supervisory Board is a professional body composed of prominent representatives of the academic and business community. It may consist of 11 members in total, one of whom is a representative of workers. Ten members of the Supervisory Board are elected by the Assembly of the Company for a four-year term. The Supervisory Board supervises realization of business policy goals and measures. It represents the Company before the Management Board when it comes to any issues that pertain to the Management Board itself or issues prescribed by the Companies Act, the Articles of Association and/or Rules of Procedure, and in particular when it comes to issues pertaining to high-risk business decisions or the management of the Company's total assets. The Supervisory Board supervises the management of the Company's business operations and it must submit to the Company's Assembly a report on the performed supervision activities.

In 2018, pursuant to the Decision of the Company's Assembly, Mr Dražen Hrkač was elected as the new member of the Supervisory Board. His four-year term began on 2 May 2018. On 28 December 2018, Mr Domagoj Bešker was removed from the position of Member of the Supervisory Board by the Company's Assembly.

In 2018, representatives of workers again failed to appoint a member of their own to the Supervisory Board.

The following persons served as Members of the Supervisory Board of Zagreb Holding Ltd. in 2018:

1. Ljubo Jurčić, Member (from 21 September 2017), President (from 27 September 2017)
2. Nikola Mijatović, Member (from 8 August 2016), Deputy President (from 27 September 2017)
3. Andrea Šulentić, Member (from 28 May 2015)
4. Gojko Bežovan, Member (from 1 July 2013 to 1 July 2017), Member (from 21 September 2017)
5. Ivan Šikić, Member (from 1 July 2013 to 1 July 2017), Member (from 21 September 2017)
6. Mario Župan, Member (from 8 August 2016)
7. Josip Budimir, Member (from 21 September 2017)
8. Mihaela Grubišić Šeba, Member (from 21 September 2017)
9. Domagoj Bešker, Member (from 21 September 2017 to 28 December 2018)
10. Dražen Hrkač, (Member from 2 May 2018)

AUDIT COMMITTEE

The Audit Committee is an expert advisory body of the Supervisory Board. It is composed of members of the Supervisory Board and certain other members appointed by the Supervisory Board. It assists the Supervisory Board in the performance of its duties and pursuant to the applicable regulations and by-laws, performs tasks related to financial reporting, internal audit and internal control. In addition to the foregoing, the Audit Committee also supervises the efficiency of operations performed by an external auditor, its independence and objectivity. The manner in which the Audit Committee performs its duties is prescribed by the Rules of Procedure of the Audit Committee of Zagreb Holding.

COMPANY'S MANAGEMENT BOARD

Business activities of Zagreb Holding Ltd. are managed independently by the company's Management Board, which also bears full responsibility for these activities. The Management Board may have from one to nine members (directors) in total. Members are appointed by the Assembly of the Company for a four-year term. Acting in the capacity of Assembly of subsidiaries of Zagreb Holding and exercising control over the related companies through their respective supervisory boards, the Management Board of Zagreb Holding monitors business operations and investments of the Group. Therefore, the Management Board of Zagreb Holding must ensure an adequate level of cooperation within the Group, at the same time taking care of timely and high-quality information flow between different companies of the Group.

The following changes in the composition of the Management Board of Zagreb Holding took place in 2018: pursuant to the Decision of the Company's Assembly, on 28 December 2018, Ms Marica Dusper was appointed member of the Company's Management Board.

The following persons served as members of the Management Board of Zagreb Holding Ltd. in 2018:

1. Ana Stojić Deban, President of the Management Board from 16 June 2015
2. Daniela Franić, Member of the Management Board from 6 March 2015
3. Bernard Mršo, Member of the Management Board from 8 August 2016
4. Marica Dusper, Member of the Management Board from 2 January 2019

MANAGEMENT OF RELATED COMPANIES

Responsibilities and obligations of members of related companies are stipulated by the Articles of Association of each related company. Members of the management boards of related companies and directors of related institutions are obligated to draw up quarterly reports on the realisation of annual plans of business operations and provision of services in the current year and send them to the assemblies of those companies.

The following persons served as directors of related companies or as director of the institution owned by Zagreb Holding Ltd. in 2018:

Zagreb City Gasworks Ltd.
Tihana Colić until 30 December 2018 and Ana Stojić Deban from 31 December 2018 - Directors

Zagreb City Gasworks-Supply Ltd.
Igor Pirija – Director

Zagreb Plakat Ltd.
Bosiljka Grbašić and Kruno Ian Bodegray – Members of the Management Board

City Pharmacies Zagreb
Nadica Jambrek – Director

City Housing and Municipal Services Company Ltd.
Joško Jakelić – Director

Water Supply and Drainage Ltd.
Štefica Mihalic until 30 September 2018 and Marin Galijot from 1 October 2018 – Directors

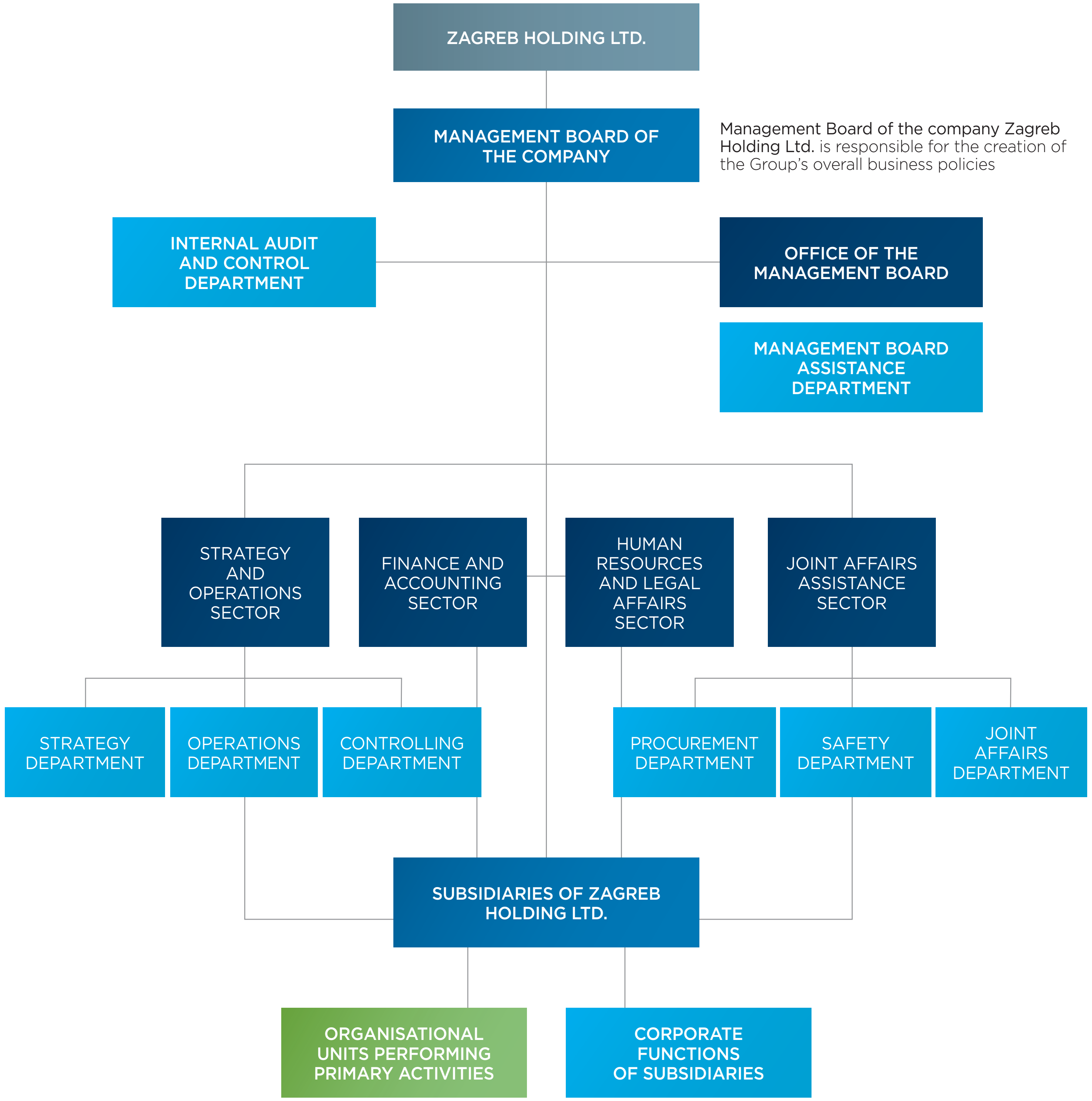
AGM Ltd.
Stjepan Bekavac – Director

Zagreb Housing Construction Ltd.
Željko Horvat – Director

Centar Ltd.
Tomislav Bilić – Director

Elektrometal – Gas Distribution Ltd.
(company 100% owned by the related company Zagreb City Gasworks Ltd.)
Srećko Ezgeta – Director

GOVERNANCE STRUCTURE OF ZAGREB HOLDING Ltd.



Corporate sectors - direct primary business activities carried out by the subsidiaries and plan and monitor the execution of their individual business plans, as well as of the Company's joint business plan.

Corporate functions - represent joint organisational units at the level of the Company and perform executive functions for the Company's Management Board in accordance with the rules on the organisation of subsidiaries and heads of subsidiaries.

Functions of the subsidiary - organisational units performing primary activities of the subsidiary.

HEAD OFFICE

Core business activities of the company Zagreb Holding Ltd. are performed by the subsidiaries. The Head Office is an organisational unit of the Company that through corporate sectors directs primary business activities carried out by the subsidiaries, plans and monitors the execution of their individual business plans as well as of the Company's joint business plan.

SUBSIDIARIES	HEAD OFFICE
Main organisational units of the Company	Carries out corporate and supporting functions
Performers of core business activities of the Company	Corporate functions (departments and sectors) represent the central governance system for the Company as a whole
Subsidiaries are managed by heads of subsidiaries	A set of rights, obligations and authorisations related to determining, monitoring and carrying out policies, plans and strategies as well as aligning the manners of proceeding within all components of the Company
Heads of subsidiaries are authorised to represent subsidiaries independently and unlimitedly, unless otherwise prescribed by other by-laws of the Company's Management Board	It provides support to the Company's Management Board and acts as a tool for the performance of management functions
Heads of subsidiaries are appointed for a four-year term and they may be removed from the post whether or not there is a justifiable reason	Supporting functions play the role of operational support for the organizational unit to which they belong

2.2

STATEMENT OF COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE

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

STATEMENT

of Compliance with the Code of Corporate Governance in 2018

1. The Company voluntarily applies the Code of Corporate Governance of the Company Zagreb Holding Ltd., enacted by the following Company organs: the Management Board, on 23 December 2015; the Supervisory Board, on 11 May 2016; and the Company Assembly, on 12 May 2016. The Code is publicly available on the Company's website.
2. In the business year 2018, the Company essentially complied with and implemented the recommendations set forth by the Code, publishing all information the publication of which is required under the applicable regulations, and the publication of which is in the best interest of the investors and all stakeholders.
   The following minor deviations from the recommendations prescribed by the Code took place: the meetings of the Supervisory Board are called as needed in accordance with everyday information about the Company's activities, operations and problems received from the Management Board, the Company's Assembly and the public, including information that has been brought to the attention of the Supervisory Board and that affects the activities of the Company directly or indirectly, due to which Supervisory Board meetings are called to discuss different topics and are not limited to the topics set forth by the Articles of Association and the legislation. For this reason, the framework plan of the activities of the Supervisory Board was not adopted. Members of the Audit Committee are not Members of the Supervisory Board. Supervisory Board has the discretion to decide about the composition of the Audit Committee. The Audit Committee has not prepared the rules prescribing the services that an external audit company and its affiliates are not allowed to provide to the Company, services that they are allowed to provide only with previous approval of the Committee, and services that they are allowed to provide without the approval of the Committee, all this considering that the Audit Committee supervises the activities of the external audit company and all extra services that the external auditor may provide to the company, as regulated by the Audit Act and the EU Regulation on specific requirements regarding the statutory audit of public interest entities.
   The subsidiaries and related companies of Zagreb Holding Group have also essentially complied with and implemented the recommendations set forth by the Code. Minimal deviations from the implementation of the Code are related to the obligation to quarterly submit written reports to the Management Board and to the Assembly of the related company. Instead of a quarterly-based approach, this obligation was fulfilled by submitting monthly consolidation packages comprising the basic financial statements (profit and loss statement, balance sheet, cash flow etc.).
   Heads of the Company's subsidiaries and members of the management boards of the related companies largely kept their operations within the confines of the approved annual plans, whereas deviations from the plans mostly pertain to those operational items that were impossible to foresee, such as provisioning costs and value adjustment costs.
3 The Company ensures the efficiency of the internal audit system in financial reporting, consisting of different records and methods implemented to initiate, identify, analyse, classify and record business events, including all measures and procedures to be implemented in connection with the accounting statement of business events, and compilation of reliable financial statements.
   The Internal Audit Department is in charge of reviewing the efficiency of the internal control system which organises and supervises the flow of accurate, concrete and integral information about the Company.
   The Company is under the obligation to engage independent external auditors as an important corporate governance instrument, in order to ensure that the financial reports adequately reflect the actual state of the Company as a whole.
4. In 2018, the Management Board of the Company had the following structure: Ana Stojić Deban – President of the Management Board, Daniela Franić – Member of the Management Board, Bernard Mršo – Member of the Management Board. Members of the Management Board normally serve for a term of four years.
   The Management Board manages the operations of the Company in line with the Articles of Association and the legal regulations. Members of the Management Board represent the Company individually and independently, unless a special decision by a Member of the Company requires a Member of the Management Board to represent the Company jointly with the other Members of the Management Board or jointly with one other Member who is authorized to represent the Company independently and individually. If more than one member of the Management Board is appointed, one of them shall act as president. The scopes of authority of the Members of the Management Board are defined by a special decision of the Management Board.
   The Management Board is under the obligation to make sure that the Company maintains business and other books and business documentation, prepares bookkeeping documents, makes realistic evaluations of its assets and liabilities, writes financial and other reports in line with accounting regulations and standards and the valid laws and regulations. In course

of the business year, the Management Board submitted reports about the Company's operations to the Supervisory Board in accordance with the Companies Act.
The Supervisory Board supervises the management of the Company's operations in accordance with the Companies Act, the Articles of Association, the Rules of Procedure of the Supervisory Board, and other applicable regulations. The Company's Assembly elects and recalls the members of the Supervisory Board, who are appointed for a four year term. One member of the Supervisory Board serves as a representative of the workers and is elected and recalled in line with the regulations of the Croatian Labour Act. The Members of the Supervisory Board regularly receive detailed information and reports about the state of the Company, its management and activities, all this in order to be able to fulfil their obligation of supervising the management of the Company's operations. In addition, the Supervisory Board performs internal audit and supervision through the Audit Committee, which provides expert support to the Supervisory and Management Boards in efficient fulfilment of the obligations of corporate governance, risk management, financial reporting and control of the Company. The Supervisory Board's report about the performed supervision of the Company management is a constituent part of the Company's annual statements that are submitted to the Company's Assembly.

Members of the Supervisory Board are as follows:

- Ljubo Jurčić
- Nikola Mijatović
- Gojko Bežovan
- Ivan Šikić
- Josip Budimir
- Mihaela Grubišić Šeba
- Andrea Šulentić
- Mario Župan
- Dražen Hrkač (from 2 May 2018)

The Company's Assembly is composed of the City of Zagreb as the sole member of the Company, which is represented by representatives who have been appointed pursuant to the Conclusion on the Representatives of the City of Zagreb in the Assemblies of the Companies Zagreb Holding Ltd., Development Agency Zagreb-Technological Park Zagreb Ltd. and Zagreb Centre for Waste Management Ltd. These representatives are:

- Milan Bandić, Mayor of the City of Zagreb,
- Olivera Majić, Deputy Mayor of the City of Zagreb,
- Slavko Kojić, special senior advisor of the Mayor for investments and foreign financing-expert.

The Company's Assembly normally convenes once a year. However, the Assembly must also convene whenever this is required by the Company's interests as well as in cases prescribed by the law or the Company's Articles of Association. The Company's Assembly decides about the Company's financial statements; the utilisation of generated profit and the coverage of losses; sale and encumbrance of the Company's real estate properties; investments in the development and construction of new facilities and investments in other companies; the Company's annual operations plan; increase or reduction of the Company's share capital; appointment and dismissal of Supervisory Board members; status changes, amendments to the Articles of Association and winding up of the Company. In addition to these matters, the Assembly also decides upon all other matters that fall under its scope of authority pursuant to the applicable laws, the Company's Articles of Association and other by-laws.

5. As regards implementation of the diversity policy, the primary objective of the Company is to ensure the application of the principles of equal opportunities and diversity in all processes and functions, and to make these principles a constituent part of decision-making in everyday practice. In this context, special importance is attached to the implementation of anti-discrimination measures, maintenance of equality among people irrespective of the age, gender, ethnic, national, etc. group to which they belong, and establishment of an inclusive working environment. In order to ensure implementation of the diversity policy as one of the elements of corporate social responsibility, the Company enacted the Code of Conduct as a legal framework and established the Ethics Committee and the Irregularities Committee, which committees within their respective scopes of authority have the task to identify actions that represent discrimination on any basis and to propose sanctions for such behaviour.
   Special attention is devoted to the protection and promotion of the rights of persons with disabilities. The Company is one of the entities responsible for implementation of measures and activities as prescribed by the Zagreb Strategy for Creating Equal Opportunities for Persons with Disabilities 2017 - 2020. The aim of these measures and activities is to ensure complete integration of persons with disabilities through their integration into important public spheres of life by allowing them to participate on equal terms in political, public and cultural life; through their integration into educational processes; into labour market; health and rehabilitation system; social protection; legal protection and protection against violence; into research, development, etc. One of the elements identified in the Strategy – vocational rehabilitation and employment – is a key factor for ensuring social inclusion and economic independence of persons with disabilities, whereas any form of work or employment is a precondition for their integration into ordinary life routine. The result of implementation of these measures is the fact that the Company employs 139 persons with disabilities, which is 2.8 % of the Company's work force. They successfully participate in the Company's business operations.

Pursuant to Article 22 of the Accounting Act, this Statement constitutes a separate section and a constituent part of the Company's Annual Statement for 2018.

In Zagreb, 24 April 2019

President of the Management Board

Ana Stojić Deban

3

MANAGEMENT REPORT AND BUSINESS ANALYSIS

MANAGEMENT REPORT AND BUSINESS ANALYSIS

3

Pursuant to the Accounting Act (Official Gazette of the Republic of Croatia 78/15, 134/15, 120/16), the Management Board of the Company hereby presents the Management Report for the year that ended as on 31 December 2018.

Pursuant to Article 21.a, paragraph 8, item (b) of the Accounting Act, the Company will publish a separate non-financial report on its website no later than six months following the date on the Company's balance sheet.

CORPORATE RESPONSIBILITY AND SUSTAINABILITY

3.1

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

When fulfilling its mission, the Group strives to ensure maximum protection of the environment and public interest of the City of Zagreb, whereas its long-term strategic orientation is focused on achieving business excellence and ensuring sustainability of activities, in order to satisfy the needs of all existing and future users of services provided by the Group's companies. The broader responsibility perspective of Zagreb Holding entails responsible corporate action, including economic, social and environmental responsibility. Economic, social and environmental responsibility is a constituent part of the business objectives of the Group, based on principles of sustainable development and responsible behaviour.

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

RELATIONSHIP WITH THE INTEREST AND INFLUENCE GROUPS

Considering the municipal activities that the Group performs and services that it provides to the citizens of the city of Zagreb, the Group's operations are of pivotal importance for the functioning of the city, which implies an even greater responsibility of the Group towards the community.

The main interest and influence groups that the Group is linked to and with which it normally interacts are the following: citizens of the city of Zagreb – users of its services; employees; the City of Zagreb; suppliers; financial institutions; trade union organisations active within the Group; and the media. From relations with these interest and influence groups arise the following key activities: providing quality services of the Group to all users and communication with the users; professional training and education of the workers; ensuring occupational health and safety; and activities related to the trade union. Conflict of interest and other important issues related to acceptable professional behaviour of the employees and the management are regulated by the Code of Conduct, and there is an independent internal audit unit that contributes to increased personal and professional responsibility.

The Group works to improve the visibility and accessibility of all information related to citizens and users of services on a daily basis, thus contributing to the transparency of its own operations and ultimately increasing the trust of citizens and other interest and influence groups in the public administration system. The importance of the relations with all interest and influence groups is recognised through the interactive, formal and informal communication that we have established and that is realized either directly or indirectly through digital communication channels. Such communication allows interest and influence groups to ask questions, voice their opinions and discuss topics of relevance for them. A special contribution aimed at strengthening these relationships is the Customer Centre located at the address Ulica Grada Vukovara 41, the web platform holdingcentar.zgh.hr and the Call Centre of the Zagreb Holding. By introducing the general-purpose helpline number 072 500 400, we made it easier for citizens to access information on all charges contained in the single utility bill as well as on other services provided by Zagreb Holding.

The Group's decision to opt for information transparency has certainly influenced its reputation in its dealings with all interest groups. Special attention is therefore devoted to regular corporate reporting, which implies accessibility and full compliance of the reporting with the requirements of the Accounting Act and Public Procurement Act.

IMPACT ON THE SOCIETY

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

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

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

The Group devotes special attention to the development of services focused on the promotion of rights of persons with disabilities and inclusion of persons with disabilities in its work processes as employees who participate in challenging and diverse activities in all companies belonging to the Group on a daily basis. We would also like to underline our important business partnership with the Institution for Vocational Rehabilitation and Employment of Persons with Disabilities (URIHO).

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

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

Business operations of Zagreb Holding are performed in line with the applicable laws and ethical standards and is based on the principles of sustainable development and social responsibility, all of which is accompanied by full implementation of the Code of Conduct, with the ultimate objective of achieving responsible, professional, ethical and transparent operation.

Ethics Committee and Irregularities Committee

Given that Zagreb Holding conducts business in the interest of the public, the company adheres to and fosters certain fundamental values such as equity, honesty, responsibility, integrity, quality of services, transparency, entrepreneurship, team work and other similar values. In order to specify and promote fundamental ethical values that form the basis of the Company's business relationships and in order to determine the manner of handling potential infringements of such values, the Management Board of the company Zagreb Holding adopted the Code of Conduct and set up the Ethics and Irregularities Committees.

The two committees have the task to determine whether a situation that falls within the scope of their respective competences gives rise to infringement of the Code of Conduct and to propose further measures, if necessary.

Fundamental principles that each employee is obligated to comply with regardless of their positions and tasks are the following: trust and collegiality; lawfulness and professional approach to 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.

Pursuant to the Rules of Procedure, a report to the Ethics Committee must contain an explanation and be substantiated. In addition, if sent by post, the report must contain a handwritten signature of the applicant and if sent by e-mail, it must indicate the name of the applicant. In case of an anonymous report, it shall normally not be processed by the Ethics Committee. However, if members of the Ethics Committee conclude that the received anonymous report is relevant and that the reported situation constitutes a particularly serious infringement of the Code of Conduct, such report is then forwarded to the Internal Audit and Control Department.

The Code of Conduct entered into force in December 2010. The Croatian and English versions of the Code of Conduct are available on the intranet or the Company's website.

All service users, business partners and employees of Zagreb Holding can report illegal and/or unethical conduct in the Group's operations to the Ethics Committee in written or electronic form, and we guarantee to protect their privacy in the process. Reports are normally investigated by the Ethics Committee. 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 shall notify the Management Board of Zagreb Holding thereupon.

Activities of the Ethics and Irregularities Committees in 2018

In 2018, the Ethics Committee held four meetings, at which it reviewed seven reports. One of the received reports was submitted by an employee and it pertained to the classification of a job position within the framework of the subsidiary Zrinjevac. The other six reports were submitted by citizens and most of them pertained to business operations conducted by the subsidiary Zrinjevac and those conducted by the related companies City Housing and Municipal Services Company Ltd. and Water Supply and Drainage Ltd. In all those cases, in accordance with the manner of proceeding prescribed by the Rules of Procedure, after it received and completed the analysis of the statements made by the relevant subsidiaries/related companies, the Ethics Committee informed the applicants and the Company's Management Board about its final conclusion on the submitted reports.

In 2018, the Irregularities Committee received eight petitions. The Committee found that one of the submitted petitions was unfounded and it was therefore not reviewed. However, the remaining seven petitions were reviewed and in two cases certain irregularities were unequivocally established. As for the other five reviewed petitions, the Committee did not detect any irregularities that would be caused by a specific employee. However, it did detect certain latent irregularities that entail the risk of recurrence and of transformation into over irregularities. The Committee sent a written answer to all petitioners who disclosed their identity and it prepared reports that have been entered into the relevant files. In all cases where irregularities were unequivocally established, the Committee sent a recommendation to the management of the relevant member of the Group, proposing removal of the established irregularity and adoption of measures that will prevent recurrence of such irregularities. The discovered irregularities pertain mostly to aberrations in the work performed by a certain employee or by the management, followed by irregularities in business processes.

In previous years, the largest number of reports of potential irregularities were submitted by employees, trade unions and users of our services. In 2018, the largest number of reports were submitted by members of the management across hierarchical levels.

In comparison with 2017, the number of submitted reports decreased by 85%, i.e. the committee received 46 reports less than in the previous year. This considerable drop in the number of reported irregularities is a consequence of the separation of the subsidiaries ZET and Zagreb Fair from the Zagreb Holding Group. Namely, in the previous years, the largest number of reports came from these two subsidiaries and were submitted by representatives of trade unions.

Consumer protection

In the first instance, consumer complaints are investigated by special committees set up by subsidiaries and related companies, which committees look into complaints submitted against services provided by a particular subsidiary or related company. Until 27 July 2018, the second-instance body responsible for investigation of received consumer complaints for all subsidiaries and related companies as well as consumer complaints against activities of the Group in general, was the Group's joint Consumer Protection Committee. However, as from 27 July 2018, on which date the new Rules of Procedure of the Committee for Consumer Complaints of the companies Zagreb Holding Ltd., Zagreb City Gasworks-Supply Ltd., Zagreb City Gasworks Ltd. and Water Supply and Drainage Ltd. entered into force, the Committee is authorised to investigate only those consumer complaints that pertain to public services as defined pursuant to the Consumer Protection Act (distribution of natural gas, public water supply and drainage, public service of gas supply and collection of mixed municipal waste and biodegradable municipal waste (Article 7, paragraph 4 of the Ordinance)).

In 2018, the Committee held 24 meetings (18 of which were held prior to adoption of the new Rules of Procedure).

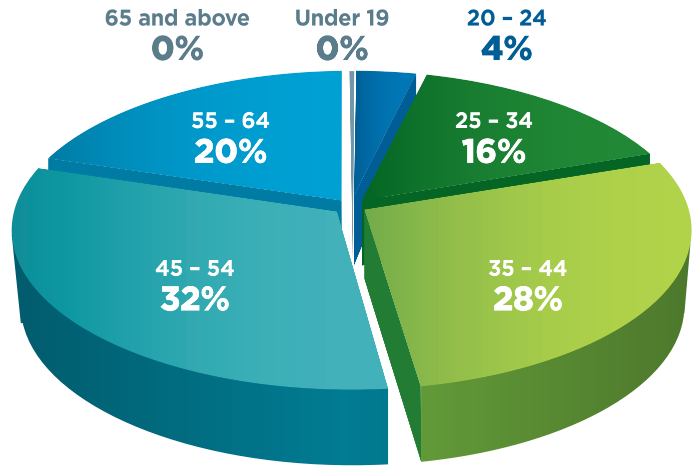
All meetings were held in the presence of the member of the Committee who acts as the representative of consumer associations. From 1 January to 31 December, the Committee investigated a total of 345 complaints, 125 of which pertained to public services. Out of 125 complaints pertaining to public services, for 28 complaints (22.4%) the Committee reached a decision in favour of the petitioner, for 67 complaints (53.6%) the Committee confirmed the first-instance decision of the relevant subsidiary/related company, and for 15 complaints (12%) the Committee decided that it lacked competence. Out of the total number of received complaints, 10 complaints had to be supplemented and reviewed at two or more meetings.

The majority of complaints pertains to the following companies: Water Supply and Drainage Ltd. (73), Zagreb City Gasworks Ltd. (21), Zagreb City Gasworks – Supply Ltd. (19) and to the subsidiary City Waste Disposal (12).

RESPONSIBILITY TOWARD EMPLOYEES

In addition to devoting attention to our impact on the society as a whole and to the satisfaction of the users of our services, the Group also takes special care of the well-being of its employees. Our workers are our most valuable asset, and they play a pivotal role in building an efficient system with potentials to deliver a quality service to the citizens and the businesses of the City of Zagreb. As at 31 December 2018, the Company had 5,038 employees, whereas the Group had 7,529 employees. In comparison with 31 December 2017, the number of employees dropped by 3,787 at the level of the Company and by 3,575 at the level of the Group. The main reason for this reduction in the number of employees is the separation of the subsidiaries ZET and Zagreb Fair from the company Zagreb Holding Ltd.

	Zagreb Holding Ltd.		Group	
DESCRIPTION	31/12/2018	31/12/2017	31/12/2018	31/12/2017
NUMBER OF WORKERS	5,038	8,825	7,529	11,286
% OF WOMEN IN THE TOTAL NUMBER	20	19	26	23
% OF WOMEN IN SENIOR MANAGEMENT POSITIONS	53	63	46	54
NUMBER OF TRADE UNIONS	20	26	25	31
NUMBER OF EMPLOYED PERSONS WITH DISABILITIES	139	346	220	419



Age structure of the Group's employees

As at 31 December 2018, the Company had 997 employees above 55 (19.8% of employees) and the Group had 1,531 of employees of this age (20.3% of employees).

		AGE						
	TOTAL	Under 19	20 - 24	25 - 34	35 - 44	45 - 54	55 - 64	65 and above
COMPANY	5,038	13	163	751	1,497	1,617	994	3
GROUP	7,529	13	267	1,206	2,113	2,399	1,526	5

In 2018, City Waste Disposal hired 190 new employees, primarily due to the increased volume of work.

In 2018, employment relationship ended for 104 employees of the company Zagreb Holding Ltd. (natural wastage - 79 employees, personally initiated termination of employment contract - 25 employees) and for 168 employees of the Group (natural wastage - 131 employees, personally initiated termination of employment contract - 37 employees).
From May 2017, Zagreb Holding has been planning and providing employment in accordance with a special instruction document adopted by the Company's Management Board. This instruction stipulates, among other things, that all recruitment and hiring processes shall adhere to ethical principles that eliminate all forms of discrimination on any ground whatsoever. In accordance with the said instruction, Zagreb Holding has published public calls for submission of applications for job vacancies within all members of the Group on its official website. From 1 January to 31 December 2018, 103 public calls for submission of applications for job vacancies were published.
In 2018, the company Zagreb Holding Ltd. hired 374 new employees, whereas the Group hired a total of 476 new employees. The largest portion of new workforce (325 employees) was recruited by the subsidiary City Waste Disposal. The reason for this is a considerable increase in the volume of work.
Of the total number of the Group's employees, 7,370 employees (97.9%) are employed under open-ended employment contracts, whereas 159 employees (2.1%) are employed on a fixed-term basis. In 2018, 19 employees worked based on a part-time employment contract.
All material rights of employees of the company Zagreb Holding Ltd. are stipulated by the Basic Collective Agreement of Employees of the company Zagreb Holding Ltd., whereas the material rights of employees of related companies are stipulated by the collective agreements of these related companies. Collective agreements apply to all employees, regardless of whether their employment contracts are concluded on a full-time or a part-time basis or under open-ended or fixed employment contracts.
The Group enforces the provisions of the Labour Act requiring companies to inform the workers about all issues of particular relevance for their economic and social positions, and to consult the workers before making decisions of relevance for their position, or to make such decisions jointly in cooperation with the workers' council or trade union commissioners who have assumed the rights and obligations of the workers' council. The said provisions are also a constituent part of the Company's by-laws, which allows for formation of a partnership-based relationship between the Company and trade unions active within it.
Special attention is devoted to the protection and promotion of the rights of persons with disabilities.
Since 2003, the City of Zagreb has used its key strategic document Zagreb Strategy for Creating Equal Opportunities for Persons with Disabilities in order to develop policies aimed at helping persons with disabilities. The currently applicable Strategy stipulates a set of priorities in the form of measures and activities organized into 13 areas of action that are to be achieved in the period from 2016 to 2020. The strategy was prepared in cooperation with representatives of persons with disabilities, taking into account the present needs of this vulnerable group and the currently available opportunities. The promoter of the measures and activities prescribed by the Strategy is, among others, Zagreb Holding.
In 2018, the subsidiary Zagreb Roads within the framework of its ordinary road maintenance activities, performed rearrangement works on concrete kerbstones and granite kerbstones. In addition, concrete pedestrian ramps were also constructed in order to improve traffic safety and facilitate mobility of disabled persons.
Furthermore, after successful realisation of the project for procurement of specialized computer equipment for blind persons, which project was launched in 2017 and which was co-funded by the Institute for Expertise, Professional Rehabilitation and Employment of People with Disabilities, in 2018, the subsidiary Zagrebparking concluded an agreement on provision of professional support and supervision services in the workplace and working environment.
The goal is to acquaint and train the employee (a person with a disability) to work independently using the installed computer equipment. In this process, the employee is provided with professional assistance and supervision of a therapist from the Centre for Professional Rehabilitation Zagreb. The training includes 84 hours of classes over a period of ten months (from September 2018 until June 2019).
Furthermore, in 2018, within the scope of works performed on playgrounds, parks and other recreational spaces intended for children with special needs and persons with disabilities, a polyvalent exercise instrument, 5 nest swings and a mini fitness apparatus for persons in a wheelchair were installed.
Entrances to playgrounds for children and other green spaces intended for recreation are at ground level and usually feature no raised kerbs or stairs. In case such obstacles do exist in spaces of this type, they are either removed or adapted as part of reconstruction works, in order to allow access to persons with disabilities.
When it comes to hiring people with disabilities, pursuant to the Act on Professional Rehabilitation and Employment of Persons with Disabilities, the Company is subject to a mandatory employment quota for disabled persons. Therefore, as at 31 December 2018, the Company employed a total of 139 persons with disabilities, 73 of whom are registered in the register of employed persons with disabilities. In addition, the Company has concluded several cooperation agreements with an institution in which people with disabilities make up more than 50% of the personnel. The Company plans to use these contracts as an alternative form of fulfilment of the disability employment quota.
To increase efficiency, the Group strives to provide its workers with continuous training and educational programmes. We also regularly implement occupational health and safety measures in order to minimize or completely eliminate risks that threaten the workers and the working environment during performance of work-related activities.
In 2018, the Group also launched several initiatives aimed at helping employees whose bank accounts have been frozen. In October, the Group saw the establishment of a support team for employees of Zagreb Holding Group whose bank accounts have been frozen. The team is composed of representatives of all members of the Group who thanks to their expert knowledge and relevant experience are able to propose adequate assistance measures in line with the applicable regulations of the Republic of Croatia, analyse proposals and suggest implementation of adequate measures aimed at providing assistance to employees with frozen bank accounts. In addition, the team also includes representatives of trade unions of the relevant employers, who are familiar with the problems of this group of employees. The team has the task to prepare a proposal of measures and related implementation methods that will provide assistance to the affected workers.

In 2018, 5 wheelchair-accessible swings were set up at playgrounds.

Playground for children with disabilities at the Bundek Park

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 offering membership in the closed voluntary pension fund and by providing various financial incentives, Zagreb Holding encourages its employees to build up their long-term retirement savings. Membership in the fund is voluntary for all employees. As at the last day of 2018, 965 employees of the Group were members of the closed voluntary pension fund AZ Zagreb. In 2018, through contributions to the pension fund, Zagreb Holding Group performed a payment in the total amount of HRK 1,794,271 in respect of premiums for the benefit of the voluntary pension insurance fund.

RESEARCH, DEVELOPMENT AND ENVIRONMENTAL PROTECTION ACTIVITIES

3.2

In line with the recent technological trends, the Group's efforts are primarily focused on digitalisation of its business operations and establishment of a service that on the one hand will enable users to manage all services from a single platform and on the other hand, will ensure improvement of operational efficiency and business safety.

Encouraged by numerous opportunities for development and improvement of digital services, the Group launched a project aimed at upgrading the management of the Group's services portfolio and master data, modernising the existing IT system and setting-up the so-called e-Platform. e-Platform represents a new centralized IT system that will enable management of services and users of services, development of new digital communication channels, as well as improved data presentation and interactive communication with all users of municipal, energy and other services provided by the Group, at the same time taking into account the existing e-systems and portals used by some Group members or the City of Zagreb.

At the moment, data on users/customers/buyers and their respective outstanding liabilities are stored and updated by several different IT systems that are active within the Group. Led by the wish to improve the quality of their services and to adapt to the needs of their users/customers, some subsidiaries/related companies have already invested efforts into development of e-services ("My Bill" developed by Zagreb City Gasworks-Supply Ltd. and "My Water Supply and Drainage" developed by Water Supply and Drainage Ltd.). In addition, the Company has introduced an additional option enabling users to receive their monthly single utility bills in electronic form via the e-Citizens service, which option has so far been activated by 54,000 users.

The benefits that the e-Platform will bring to users of the Group's services are the following: a single access and management portal for all digital services of the Group, single access point for all necessary information on services provided by ZGH, subsidiaries and related companies, activation and deactivation of certain services (if applicable) and insight into the status of all services as well as into the payment balance of due liabilities, all this by using modern digital technologies and communication channels. Besides the foregoing, introduction of MDM registers and e-Platform will make it easier for the Group to keep their operations compliant with the regulations governing personal data protection. In addition, e-Platform will offer the possibility of payment by credit/debit card.

It is important to note that digitalisation of Zagreb Holding Group's business operations will not only contribute to reduction of costs but will also have a considerable positive impact on the environment. After introduction of digital channels for receipt of bills and payment documents and elimination of printed paper bills sent by post, the Group's environmental protection potential will increase significantly, especially when one takes into account all members of the Group and the number of their users/customers.

Apart from the above-mentioned positive environmental impact of digital bills used instead of paper bills, implementation of modern digital solutions will also contribute to control and savings of energy and prevent occurrence of energy losses in energy supply networks. In late 2018, Zagreb City Gasworks Ltd. launched a project for installation of ultrasonic "smart" gas meters with the aim of improving consumption management: these high-accuracy gas meters enable important distribution savings, which then has an impact on end-users and reduces negative effects on the environment.

ENVIRONMENTAL PROTECTION ACTIVITIES

Pursuant to its corporate guidelines and legal regulations on environmental protection, through its activities, Zagreb Holding Group strives to improve energy efficiency, reduce carbon dioxide emissions, optimize fuel consumption, and constantly work on improvement of its services and the quality of life in the social community where it operates. The Group continually works to establish and maintain international environment management standards (ISO 14001), energy management standards (ISO 50001), food/drinking water safety management standards (ISO 22000), as the best tools to attain corporate social responsibility.

One of the structural elements of Zagreb Holding Group is its Central Department for Energy Efficiency. The department was formed at the very end of 2016 with the aim of systematic management of energy and water. 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. One of the strategies aimed at realization of the said objectives was organization of a free-of-charge expert educational programme for 2 energy advisers and 10 energy associates.

In 2018, members of the Group undertook many different initiatives aimed at reduction of energy consumption. The subsidiary Zagreb Freight Station continued to pursue implementation of the project for more efficient lighting system in the Subsidiary; a feasibility study on energy retrofit programme for the administration building in the Business Unit Jankomir was prepared; replacement of lighting devices was performed in the office building Jankomir (fluorescent lighting was replaced by a system of LED lights); a system for remote water consumption reading was introduced for water meters Jankomir, Žitnjak and Sesvete; in addition, all gas meters were connected to a system for remote gas consumption reading. Furthermore, Ordinance on Maintenance of Power Facilities was drawn up.

In 2018, the subsidiary Zrinjevac completed the construction works on the third boiler room fuelled by wood chips. The boiler room will generate thermal energy for heating purposes of plastic and glass greenhouses for growing ornamental plants and for heating buildings of the Zrinjevac Garden Centre located at the address Remetinečka Cesta 15. Besides the new biomass-fuelled boiler, the subsidiary also plans to install a heat storage tank (120 m^3) in order to increase the total heating capacity and ensure satisfaction of peak-level demand for heating services. The new boiler room uses wood chips as the source of energy. The wood chips are produced by the subsidiary Zrinjevac from wood biomass residues collected in urban green areas of the city of Zagreb.

The related company Zagreb City Gasworks Ltd. continued to pursue its project of modernisation of the lighting system in the immediate surroundings of the company (old public lightning system is replaced by a new LED lighting system). In the subsidiary Zagrebparking, the trend toward reduced consumption of electricity continues, which is the result of the environmentally friendly and energy efficient lighting system that was introduced into the public garages in 2016. The following figures indicate the electricity consumption levels: 1,750,000 kWh (2016), 1,498,971 kWh (2017), and 1,372,418 kWh (2018). In comparison with 2017, electricity consumption in 2018 dropped by 377,582 kWh.

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

On 17 April 2018, the subsidiary Zagreb Freight Station was awarded the certificate ISO 50001 2011 in recognition of a successfully established system for efficient energy management in the processes of receipt and storage of goods in domestic and international traffic, forwarding and in the Free Zone.

In addition to making environmental protection a part of the everyday activities of the employees of Zagreb Holding, the Group also implements various measures and activities to encourage employees to act in a responsible manner when handling resources and waste. In 2018, employees could attend an educational programme on responsible waste management in the workplace on two different occasions during the course of the year. A total of 2,763 employees completed the course. At one point during the educational programme, employees had to take a general knowledge quiz on waste sorting. The answers showed that majority of employees was not sufficiently familiar with the topic. After the educational programme ended, it was established that employees acquired almost 90% of the taught material. In accordance with one of the implemented measures for responsible waste management in the workplace, information bulletins were distributed across business premises, whereas all offices were equipped with separate bins for sorting of reusable waste.

As a part of the implementation of responsible waste management measures in the workplace, the Group's business premises were equipped with educational and informative posters.

Functioning of the Prudinec/Jakuševec Landfill

The Group had continually and actively implemented environmental protection measures in 2018 through its subsidiary Landfill Management by ensuring proper functioning of the Prudinec/Jakuševec Landfill, built based on the construction permit and the approved amendments to the main project design. A usage permit was obtained for the closed section of the Landfill in 2014. Approximately 600 tons of non-hazardous waste is brought to the landfill on a daily basis, which results in a yearly quantity of about 250,000 tons of waste.

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

To avoid harmful emission into the environment and to use gas for energy generation purposes, landfill gas is collected and processed in a controlled manner at the Prudinec/Jakuševec Landfill. The plant used for this purpose is a small thermal power plant mTEO, which at the beginning of 2017 was the only plant in Croatia for generation of electricity from landfill gas. The plant for the generation of electrical power from landfill gas protects the ozone layer, avoids greenhouse effect, and produces electrical power and heat from the collected landfill gas. In the period between December 2004 and December 2018, a total of 133,603 thousand m^3 of landfill gas was extracted and processed by the mTEO plant. In the same period, 110,826 MWh of electricity was produced and transmitted into the system of the Croatian National Electricity Company. In 2018, the mTEO plant generated a total of 18,297,660 kWh of electricity from landfill gas, which is an amount sufficient to cover the average annual electricity consumption of approximately 6,100 households.

The subsidiary Landfill Management generates electricity from renewable energy sources pursuant to the licence issued by the Croatian Energy Regulatory Agency as well as pursuant to the Decision on Acquiring the Status of Eligible Electricity Producer, which decision was valid until December 2018. The generated electrical power is marketed in line with the Power Purchase Agreement from a Facility Using a Renewable Energy Source concluded with the Croatian Energy Market Operator Ltd.

In order to improve the level of environmental protection and usage of renewable energy sources, the subsidiary constantly invests in the modernization of the plant. In 2018, construction works began on the fourth motor-generator set of 1.2 MW capacity with all necessary infrastructure, including extension of the plateau and construction of noise barriers within the framework of the legal obligation of measuring the level of noise in the surrounding environment. It is expected that all works will be completed and that the new motor-generator set will be put into operation in the first half of the next year, which means that the total power of all motor-generator sets will increase from 3 to at least 4.2 MW. This upgrade of the gas network will increase the quantity of the gas extracted from the landfill from 1,500 m^3/h to 1,800-2,000 m^3/h. In addition, retrofitting of the gas plant will also include construction of a landfill gas clean-up system. Besides extending the life of gas motors, the landfill gas clean-up system will also improve efficiency of the motors and will contribute to the reduction of maintenance costs.

In 2018, 18,297,660 kWh of electricity was generated from landfill gas at the mTEO plant, which is sufficient to cover the average annual electricity consumption of approximately 6,100 households.

Prudinec/Jakuševec Landfill is a modern plant for construction waste recycling, compost production and landfill gas processing, where ground waters, leachates, air, composition of waste and state of fauna are constantly monitored.

In addition, installation of a combustion air cleaning system in the gas engine is currently underway. Both upgrades to the system will have a positive impact on both the lifespan of the motor-generators and the amount of electricity generated from renewable energy sources (RES). At the same time, utilising landfill gas to generate electricity using gas motor-generators or through thermal processing using high-temperature flares leads to a significant reduction in the emission of methane, which is utilised as a RES. In addition, in order to ensure that landfill gas is collected and processed by the gas plant during construction of each cell, which process takes up 3 to 4 years on average, since 2014 cells under construction have been regularly subjected to the process of temporary degassing. This prevents landfill gas from entering the atmosphere in an uncontrolled manner and thus polluting the environment.

Thanks to undertaken restoration works, investments and different business activities, Prudinec/Jakuševec Landfill is not simply a place where nearly one million citizens of Zagreb leave everything that is no longer necessary or harmful. It also represents a modern plant for construction waste recycling, compost production and landfill gas processing, at the same time monitoring ground waters, leachates, air, composition of waste and state of fauna.

Compliance with statutory regulations

In addition to all of the above activities, the Group initiates and participates in a number of educational campaigns aimed at raising awareness about the significance of environmental values and sustainable development. We continually align our internal acts with environmental protection regulations as they are amended, work with the relevant city authorities, the relevant ministry, the Environmental Protection Agency, and the Environmental Protection and Energy Efficiency Fund, collect information for the Environmental Pollution Register and deliver it to the City of Zagreb Environmental Protection Office and the Environmental Protection Agency on an annual basis, and implement the Environmental Management Project in Zagreb Holding by keeping an inquest register about the generation and course of waste, and its disposal.

PROJECTS FINANCED THROUGH FUNDS AND EU FUNDING INSTRUMENTS

The team for the preparation and management of projects co-funded with grants from EU funds and state aids was established at Zagreb Holding Group level. 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, communication between subsidiaries/related companies and the Management Board of Zagreb Holding Ltd. regarding preparations for decision-making and definition of priorities.

In addition to the previously mentioned activities on the preparation of projects that can be co-financed within the framework of the Operational Programme Competitiveness and Cohesion 2014 - 2020, Specific Objective 6i1 (Decreased amount of waste being landfilled), the subsidiary City Waste Disposal continued to implement the project REEF 2W within the framework of the EU Interreg Central Europe Programme. 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. It started in June 2017 and lasts for three years, which means that it ends in mid-2012. 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 is EUR 2,300,000, of which the share of the City Waste Disposal is EUR 191,000.

Furthermore, in 2018, the Company participated in two more EU projects as a partner:

- The project COLLECTORS, which is funded under the EU Horizon 2020 programme and is focused on sustainable management of several types of waste: paper and packaging, waste electrical and electronic equipment, and construction and demolition waste. The Company's participation in the project is based on activities performed in working groups.

- Project Zero waste education initiative: Educating Future Waste Citizens, the objective of which is to implement educational activities related to waste management. The project is coordinated transnationally and includes the following cities: Manchester, Hamburg, Tallinn, Bucharest and Zagreb. It is funded under EU Erasmus+ programme.

In 2018, the Company has participated in the preparation and tendering process for three EU projects:

- Project BIOGAS BEYOND under EU Horizon 2020 programme tender for the topic: "Building a low carbon, carbon resilient future". Zagreb Holding is one of 8 partners involved in the Project, whereas the Project coordinator is the Zagreb Faculty of Mechanical Engineering and Naval Architecture. Partners from Austria, Germany, France and Turkey also participate in 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.
- Project INTENSE is currently undergoing the application process for funding under the Interreg ADRION programme. The Project is focused on sustainable waste management and implementation of EU guidelines in connection with circular economy and industrial symbiosis of different processes in the environmental protection sector. The Project includes development of a web platform that will provide the possibility to analyse the proposed methods and opportunities for improvement of waste management in the targeted cities. One of the results of the Project will be an action plan defining all measures and activities to be implemented in order to ensure compliance with legal obligations related to waste management and nature protection. The project consortium consists of 12 partners from different European countries: Italy, Slovenia, Serbia, Albania and Greece. Besides Zagreb Holding, there is one more Project partner from Croatia, namely the Faculty of Mechanical Engineering and Naval Architecture.

ZG KOMPAS

In 2018, implementation of the Project ZGKOMPAS also started. The leader of the Project, Open Public College Zagreb, in cooperation with project partners including Zagreb Holding, City Office for Social Protection and People with Disabilities, trade union New Trade Union and association Are You Serious, applied for funding of the European Social Fund in 2017 within the framework of the European Social Fund tender "Local Employment Initiatives – Phase III Component 1". The objective of the project proposal is to develop and implement tailor-made training programmes for unemployed persons that belong to vulnerable groups of society and to encourage them to become active and enter the labour market. The project will have a particular focus on offering unemployed persons retraining programmes for the following professions: cook, waiter, confectioner, pizza maker, gardener, caregiver, gerontology housekeeper, nanny. Three subsidiaries of Zagreb Holding (Vladimir Nazor, City Cemeteries and Zrinjevac) will organize practice courses for 10 gardeners, 10 waiters and 10 cooks. The Company also participates in the development of a communication platform and preparation of the Manual for Unemployed.

Besides the foregoing, the Company participates in the Project submitted under the call CEF-Telecom-2017-3: eInvoicing within the framework of a CEF Telecom programme, the objective of which is to provide support to the units of local and regional self-government and public sector institutions in ensuring technical and operational prerequisites for the implementation of EU Directive 2014/55/EU on electronic invoicing in public procurement. Besides Zagreb Holding, the Project also includes the Croatian Ministry of Economy, Entrepreneurship and Crafts as coordinator, Croatian Financial Agency as partner i.e. the central point for receiving invoices in a structured electronic format from institutions under the obligation to carry out public procurement, and about eighty more units of local and regional self-government.

In 2018, the Company continued to work on the Project SmartImpact - Local Impact from Smart City Planning, co-funded by the EU programme URBACT III 2014-2020. Whereas the City of Zagreb is the Project's partner, Zagreb Holding acts as associated partner. The main task of the project was to prepare the so-called Local Action Plan. Within the framework of the Project, Zagreb Holding focused on the following topic: development of a project for improvement of management processes for the portfolio of services and master data, improvement of the existing IT system and development of the so-called e-Platform.

The Group also actively participates in the development of Zagreb Smart City Strategy in cooperation with the competent city authorities as well as in the development of the action plan for sustainable energy efficiency and adaptation to climate change impacts, the so-called SECAP.

The related company Water Supply and Drainage Ltd. successfully implemented 2 projects: a) Preparation of project and study documentation and application package for EU co-funding for Agglomeration Zagreb and Agglomeration Glavničica - the purpose of which project was to prepare project and tender documentation in order to apply for co-funding from EU funds during the programming period 2014-2020, and b) Construction of Main Water Supply Pipeline Aleja Bologne-Lisičina. In 2018, the said related company worked on preparation of the project Zagreb 2018, an overall project the purpose of which is extension and reconstruction of the water supply and sewerage network of the city of Zagreb.

In 2018, the subsidiary Vladimir Nazor submitted an application for funding of a project aimed at revitalisation and reconstruction of the resort Grad Mladih Granešina in Zagreb in response to a tender published by the Ministry of Culture within the framework 2019 Programme for Protection and Preservation of Immovable Cultural Property. The project includes installation of a fence and video surveillance system with a narrow field of coverage, preparation of project documentation for restoration and reconstruction works, issuance of building permits, performance of restoration and reconstruction works, organisation of a urban-architectural tender for the purpose of designing new amenities and buildings, preparation of project documentation for new buildings and construction of new buildings.

MAJOR INFRASTRUCTURAL PROJECTS

Besides investing in the underground and above-ground infrastructure of the city, another form of Group's engagement is realisation of capital projects for public purposes of the City of Zagreb (schools, kindergartens, nursing homes, hospitals, etc.).

Addition of a day-care hospital with an underground garage

In 2018, works on reconstruction of the complex of the Clinical Hospital Sveti Duh through addition of a day-care hospital and underground garage, were resumed. The main investors are the City of Zagreb and Zagreb Holding Ltd. The investment is worth nearly HRK 200 million. Zagreb Holding is the investor and is responsible for realisation and funding of the project. The project involves reconstruction of the hospital complex through construction of a new day-care hospital, construction of a new building for the hospital's management department, pharmacy and technical service and construction of an underground garage as a solution to one of the long-lasting and crucial problems of the hospital, namely lack of parking capacity of the hospital itself and the surrounding area (there are two schools, two kindergartens and a church in the immediate vicinity of the hospital). The building is designed as a multi-storey building consisting of two underground levels, two levels more than 50% of which is positioned underground and three above-ground levels. It is expected that works will be completed in 2019.

Construction of the city area Podbrežje

The related company Zagreb Housing Construction Ltd. is responsible for implementation of the project of the first phase of construction of the city area Podbrežje, which includes construction of four apartment buildings with 608 apartments and construction of the elementary school and kindergarten. In June 2018, the neighbourhood saw the arrival of its fist inhabitants. In addition, a large park with a playground for children and several recreational spaces were completed. From September 2019, there is a regular bus service operating on the route Zagreb Main Railway Station-Podbrežje.

Construction works on the elementary school and kindergarten are expected to start in 2019. The kindergarten will have a capacity for 200 children divided into 10 groups (5 groups for babies and 5 groups for children) and the elementary school will have a capacity for 560 students in either the morning or afternoon session (divided into 20 classes). Both buildings are expected to be completed within 12 months from the construction start date.

The first residents moved to the city district in June 2018. Previously, Zagreb Digital City constructed the optical fibre distribution network for four completed residential buildings, ensuring ultrafast broadband internet access for the residents.

Hrvatski Leskovac Primary School

In October 2018, construction of the primary school in Hrvatski Leskovac was completed and the procedure for issuing a usage permit was initiated. Hrvatski Leskovac Primary School is one of the most state-of-the-art schools in Zagreb and in Croatia. It was constructed on a land plot covering 11,954 m^2. It consists of the ground floor, first floor, a two-section gym and an outdoor area. Besides 14 classrooms, the school disposes of additional spaces, and it has the capacity for 320 students divided into 16 classes.

- 5 classrooms for class-based teaching with teachers' offices and collections of didactic materials (first-fourth grade)
- 9 classrooms for subject-based teaching with teachers' offices and storerooms for teaching materials and equipment (fifth-eighth grade)

In addition, the school provides several additional multi-purpose spaces, a library with a reading room, a lunchroom, a two-section gym accompanied by ancillary rooms, including dressing room, washing room, infirmary, teachers' offices, storeroom for gym equipment and outdoor playgrounds.

Construction works started on 12 October 2017 and were completed within the project deadline. In line with the city policy of reducing energy consumption and implementing renewable energy sources, this educational institution has the A energy class label.

PLANS FOR FUTURE DEVELOPMENT OF THE GROUP 3.3

BUSINESS TRANSFORMATION

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

The Group's development orientations

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

STRATEGIC OBJECTIVE 1 / High-quality and reliable public service

STRATEGIC OBJECTIVE 2 / Growth and development

STRATEGIC OBJECTIVE 3 / Corporate sustainability (corporate social responsibility, social, economic and environmental aspect)

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

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

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

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

Measures for planned future development of the Group

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

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

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

SPECIFIC OBJECTIVES	PLANNED MEASURES
STRATEGIC OBJECTIVE 1 / High-quality reliable public service	
Advancement of the existing products, services and utility services	/ Improving quality standards in the existing way of providing services / Innovative solutions within the framework of existing products and services
Development and integration of new products and services	/ New products and services directly linked with the existing market segments / Development in new market segments
STRATEGIC OBJECTIVE 2 / Growth and development	
Stable positive results	/ Preparation and implementation of bond refinancing / Reduction of operating expenses / Increasing operating income / Asset, risk and financial liability management
Organisation and corporate development	/ Strategic planning / Advancement of corporate governance and communication / Development of a process repository and business certification / Introduction of an integrated information system
Human resources development	/ Development of personal professional competences / Strengthening of the management and excellence promotion system
STRATEGIC OBJECTIVE 3 / Corporate sustainability	
Participative management – cooperation with citizens, associations and local communities	/ Cooperation with service users and citizens / Cooperation with local communities and civil society organisations
Environmental conservation	/ Improvement of environmental parameters in the production of existing products and provision of services / Introduction of new green technologies in business

3.4

BUSINESS ANALYSIS

3.4.1 BUSINESS RESULT AND FINANCIAL POSITION

Description	Zagreb Holding Ltd. 2018 in HRK 000	Zagreb Holding Ltd. 2017 in HRK 000	Zagreb Holding Ltd. Index	Zagreb Holding Group 2018 in HRK 000	Zagreb Holding Group 2017 in HRK 000	Zagreb Holding Group Index
1	2	3	4=2/3	5	6	7=5/6
Operating income	2,004,701	3,362,732	59.6	3,847,177	5,221,257	73.7
Operating expenses	(1,761,700)	(3,121,356)	56.4	(3,690,372)	(5,118,880)	72.1
Financial income	88,070	105,971	83.1	170,433	207,487	82.1
Financial expenses	(224,752)	(292,734)	76.8	(226,235)	(294,438)	76.8
Total income	**2,092,771**	**3,468,703**	**60.3**	**4,017,610**	**5,428,744**	**74.0**
Total expenses	**(1,986,452)**	**(3,414,090)**	**58.2**	**(3,916,607)**	**(5,413,318)**	**72.4**
Profit before tax	**106,319**	**54,613**	**194.7**	**101,003**	**15,426**	**654.8**
Tax (expenses)/income	*(13,389)*	*1,000*	*(1,338.9)*	*(28,493)*	*(13,722)*	*207.6*
Profit after tax	**92,930**	**55,613**	**167.1**	**72,510**	**1,704**	**4,255.3**
EBIT	*243,001*	*241,376*	*100.7*	*156,805*	*102,377*	*153.2*
EBITDA	*421,559*	*575,854*	*73.2*	*533,940*	*632,044*	*84.5*
Loss from financial activities	*(136,682)*	*(186,763)*	*73.2*	*(55,802)*	*(86,951)*	*64.2*

The following important events took place in the business operations of the Company and Group in 2018:

- Pursuant to the Decision of the Commercial Court in Zagreb of 29 December 2017, demerger of the Company by split-off and incorporation of new companies Zagreb Electric Tram Ltd. and Zagreb Fair Ltd. was performed. Business effects of the Company's demerger entered into force as on 1 January 2018. Shares in the newly-founded companies were acquired by the City of Zagreb, which is also the sole holder of business shares in the newly-incorporated companies.
- Decision on the Manner of Providing the Public Service of Collecting Mixed Municipal Waste and Biodegradable Municipal Waste and Services Related to Public Services in the City of Zagreb (Official Gazette of the City of Zagreb 2/18), governing the business of the subsidiary City Waste Disposal as the provider of the public service on the territory of Zagreb, entered into force. In order to implement the municipal waste management system in compliance with the Decision, it is necessary to ensure considerable investments in the infrastructure (bins, containers, vehicles, IT solutions) and hire more workers due to an increase in the volume of work processes. In 2018, the number of employees of the subsidiary City Waste Disposal increased and important investments in the purchase of municipal equipment and transportation vehicles were realised.
- The new Ordinance on the Use of Public Parking Lots and Public Garages (Official Gazette of the City of Zagreb 17/18) entered into force on 30 July 2018, prescribing an adjustment of prices for the services provided by the public parking lots and public garages. Parking per hour in the 1st zone shall be charged HRK 12.00 instead of HRK 6.00. Parking per hour in the 2nd and 3rd zones shall be charged HRK 5.00 (previously HRK 3.00) and HRK 2.00 (previously HRK 1.50), respectively. The prices of daily, commercial and privileged parking permits are the same.
- On 8 March 2018, following an auction held on 28 February 2018 before the Commercial Court in Bjelovar, Zagreb City Gasworks Ltd. and the company Elektrometal Plc. in bankruptcy concluded an agreement on purchase and sale of 100% business share in the company Elektrometal-Gas Distribution Ltd. By virtue of the said agreement, the company Zagreb City Gasworks Ltd. acquired 100% ownership of the said company, the main business activity of which is distribution of natural gas. Gas distribution system managed by the company Elektrometal-Gas Distribution Ltd. Bjelovar covers more than 60% of the territory of the Bjelovar-Bilogora County.
- As regards gas distribution, in December 2017, the Croatian Energy Regulatory Agency (hereinafter: HERA) passed a Decision on the Amount of Tariff Items for Gas Distribution (Official Gazette 122/2016) for the second regulation period between 2018 and 2021. These Tariff Items are valid as of 1 January 2018, and they apply to all distribution system operators in the Republic of Croatia. Pursuant to the above-mentioned Decision, tariff items for all tariff models (Ts1) for 2018 were, on average, 6% higher compared to the 2017 tariff items.

By purchasing the company Elektrometal - Gas Distribution Ltd. from Bjelovar, Zagreb City Gasworks Ltd. expanded its distribution area by 496 kilometres of gas network.

3.4.1.1 Profit and loss account and other comprehensive income statement

Description	Zagreb Holding Ltd. 2018 in HRK 000	Zagreb Holding Ltd. 2017 in HRK 000	Index	Zagreb Holding Group 2018 in HRK 000	Zagreb Holding Group 2017 in HRK 000	Index
1	2	3	4=2/3	5	6	7=5/6
OPERATING INCOME						
Sales income	1,666,814	2,131,669	78.2	3,263,744	3,793,578	86.0
Other operating income	337,887	1,231,063	27.4	583,433	1,427,679	40.9
Total	**2,004,701**	**3,362,732**	**59.6**	**3,847,177**	**5,221,257**	**73.7**
OPERATING EXPENSES						
Cost of material and services	(678,455)	(968,760)	70.0	(1,931,273)	(2,244,894)	86.0
Staff costs	(675,069)	(1.306,018)	51.7	(1,057,120)	(1,678,606)	63.0
Depreciation	(178,558)	(334,478)	53.4	(377,135)	(529,667)	71.2
Value adjustment	(102,933)	(333,511)	30.9	(152,475)	(423,624)	36.0
Provisioning	(46,524)	(71,561)	65.0	(67,037)	(106,342)	63.0
Other operating expenses	(80,161)	(107,028)	74.9	(105,332)	(135,747)	77.6
Total	**(1,761,700)**	**(3,121,356)**	**56.4**	**(3,690,372)**	**(5,118,880)**	**72.1**
FINANCIAL INCOME	**88,070**	**105,971**	**83.1**	**170,433**	**207,487**	**82.1**
FINANCIAL EXPENSES	**(224,752)**	**(292,734)**	**76.8**	**(226,235)**	**(294,438)**	**76.8**
TOTAL INCOME	**2,092,771**	**3,468,703**	**60.3**	**4,017,610**	**5,428,744**	**74.0**
TOTAL EXPENSES	**(1,986,452)**	**(3,414,090)**	**58.2**	**(3,916,607)**	**(5,413,318)**	**72.4**
PROFIT BEFORE TAX	**106,319**	**54,613**	**194.7**	**101,003**	**15,426**	**654.8**
Tax income / (expenses)	*(13,389)*	*1,000*	*(1,338.9)*	*(28,493)*	*(13,722)*	*207.6*
PROFIT FOR YEAR	**92,930**	**55,613**	**167.1**	**72,510**	**1,704**	**4,255.3**
OTHER COMPREHENSIVE INCOME						
Income from real estate revaluation (net)	*4,945*	-	-	*4,945*	-	-
Income (loss) from revaluation of financial assets (net)	-	-	-	*1,008*	*(2,606)*	*(38.7)*
TOTAL COMPREHENSIVE INCOME/ (LOSS) FOR YEAR	**97,875**	**55,613**	**176.0**	**78,463**	**(902)**	**(8,698.8)**

ZAGREB HOLDING Ltd.

Total income from sales realised in 2018 amount to HRK 1,666,814 thousand (which is 22% less in comparison with income from sales realised in 2017), primarily because in 2018 the companies responsible for passenger transportation and organisation of fairs and congresses separated from the Group (reduction by HRK 477,018 thousand for 2017). In addition, income from the business segment (activities) related to landscaping and maintenance of green spaces was also significantly reduced (reduction by HRK 23,675 thousand in comparison with 2017), because of reduced volume of work for the City of Zagreb.

In 2018, there was an increase in income from sales in comparison with 2017 in almost all business segments, the most important of which are emphasized below.

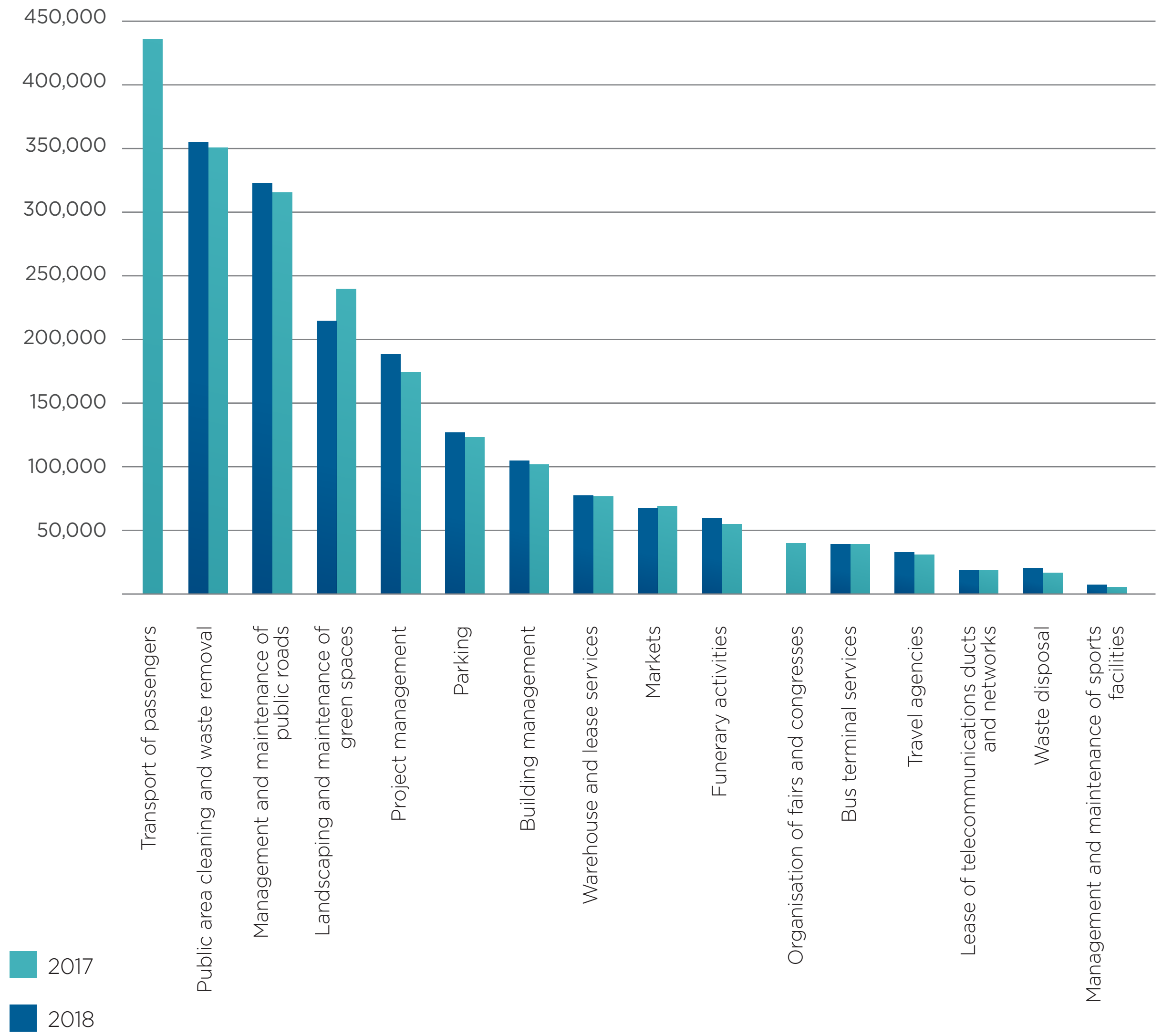
Income from sales in the segment of management and maintenance of public roads increased by HRK 7,340 thousand in comparison with 2017, this is due to an increase in income realised from sales of asphalt mixture on the market and increase in income from sales performed toward related companies.

Increase in the income from sales in the segment of construction and project management (by HRK 6,967 thousand) is the result of higher declared income from construction of public-purpose facilities for the City of Zagreb in accordance with IFRIC interpretation 12 *Service Concession Arrangements*, pursuant to which the Company registers the construction phase as an expense for the year and simultaneously recognises income in accordance with the level of project completion.

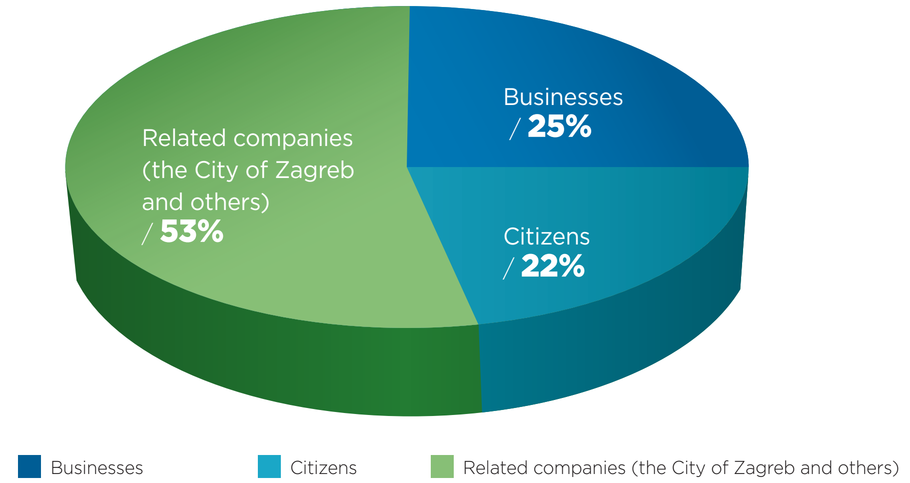
Income from sales in the segment of funerary services increased by HRK 4,547 thousand, which is the result of an increase in the income realised from sales of new graves and columbarium wall niches on the city cemetery Mirogoj. Increase in the come from sales in the segment of parking services (by HRK 4,059 thousand) is the result of higher prices for parking services introduced in July 2018 as well as of the rise in the number of sold commercial parking permits and daily parking permits.

Increase in the income in the segment of waste disposal services (by HRK 3,966 thousand) is the result of the fact that there was a rise in the sold quantity of electricity generated from landfill gas.

Income from sale based on business segments / in HRK 000

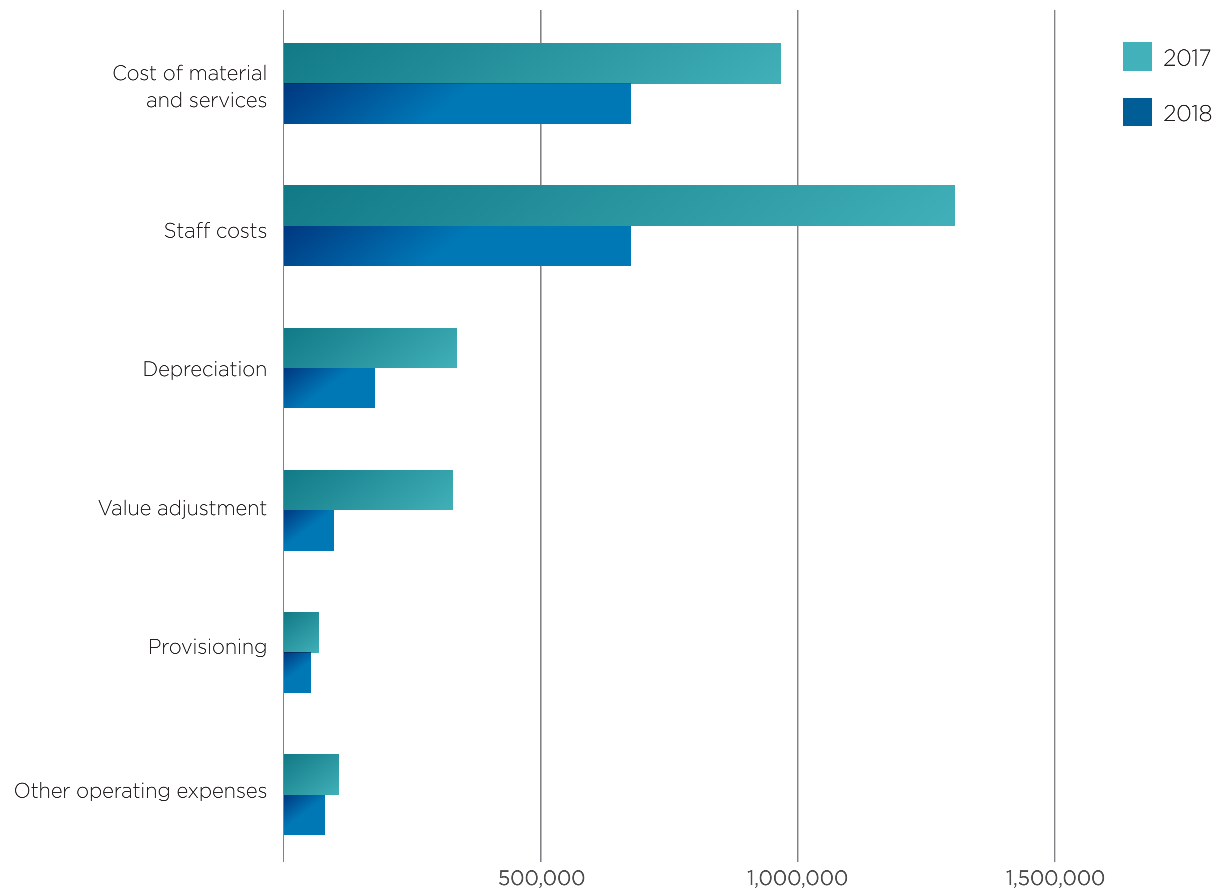


Breakdown of the Company's sales by customer categories in 2018:



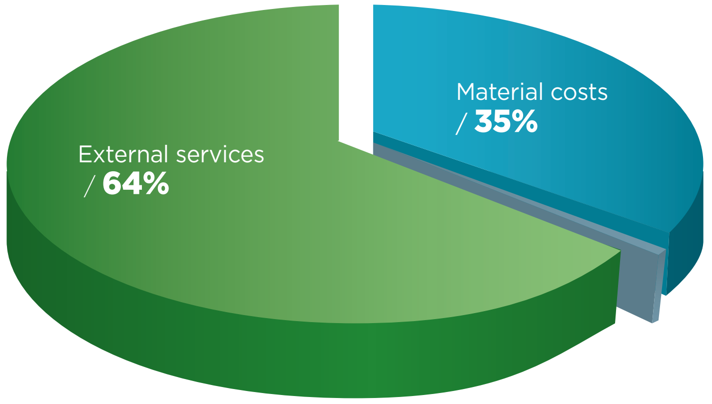
In 2018, other operating income was realised in the amount of HRK 337,887 thousand, which is 73% or HRK 893,176 thousand less than in 2017. This reduction is primarily due to lower income from state aids and supports (reduction by HRK 558,733 thousand), which in turn is the result of the fact that as on 1 January 2018, there was a separation of business segments related to passenger transportation and organisation of fairs and congresses. In addition, it is also due to decrease in unrealised gains from the change in the fair value of investment property (by HRK 259,600 thousand). In addition, separation of the segment responsible for passenger transportation had an impact on significant decrease in the income from deferred income recognition (by HRK 70,762 thousand), which is also reflected in the decrease of depreciation costs.

Operating expenses / in HRK 000



In 2018, the cost of material and services amounts to HRK 678,455 thousand, which is 30% or HRK 290,305 thousand less than in 2017, which is the result of the fact that as on 1 January 2018, there was a separation of business segments related to passenger transportation and organization of fairs and congresses.

The structure of costs of material and services is presented below:



In 2018, staff costs amount to HRK 675,069 million. There was a reduction of staff costs (by HRK 630,949 thousand) because of a decrease in the average number of workers, which is the result of separation of business segments related to passenger transportation and organisation of fairs and congresses (in 2017, the two business segments incurred staff costs in the amount of HRK 658,379 thousand). If the effect of separation of the said business segments from the Company's structure is eliminated, the costs of gross salaries increased in 2018 in comparison with 2017, as there was an increase in the average number of employees, because in 2017 agency-leased workers who worked for more than six months were employed by some of the Company's subsidiaries and because additional workers were employed by the subsidiary City Waste Disposal, which increase in the number of employees was necessary due to a considerably larger number of containers for separate collection of reusable waste.

Value adjustment costs in 2018 were lower by HRK 230,578 thousand compared to the result in 2017, in the materially most substantial amount, mainly as the result of lower losses from change in the fair value of investment property (by HRK 172,005 thousand) and lower costs of value adjustments of current assets (by HRK 58,586 thousand). The costs of value adjustment of current assets were higher in 2017, primarily due to the value adjustment of receivables from the companies of the Agrokor Group as a result of entry into force of the Act on Extraordinary Administration for Companies with Systemic Importance for the Republic of Croatia.

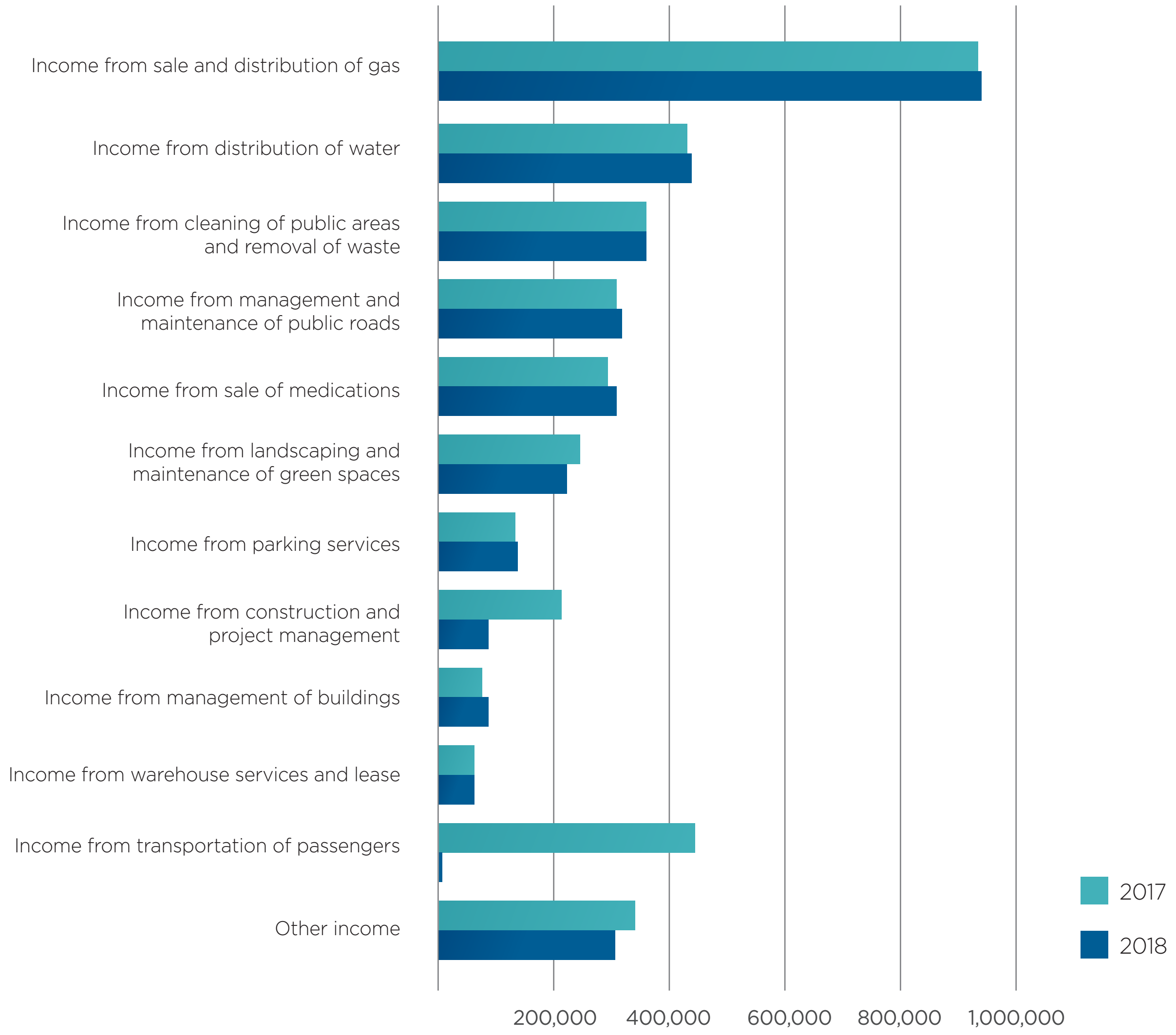
Despite a lower profit from the ratio of positive and negative exchange rate differences (the Group made a profit of HRK 15,980 thousand in 2017 from the ratio of positive and negative exchange rate differences, whereas in 2018, it made a profit of HRK 460 thousand), the Company's loss from financial activities in 2018 was lower by HRK 50,081 thousand. Decrease in the loss from financial activities was influenced by a reduction in the costs of interest (by HRK 36,146 thousand) and increase in the income from interest on loans provided to related companies (by HRK 20,947 thousand).

ZAGREB HOLDING GROUP

Total income from sales in 2018 amounted to HRK 3,263,744 thousand and was lower by HRK 529,834 thousand or 14% compared to 2017, mainly as the result of the following changes occurring in segments of the Group's operations:

- demerger of the Group's segments responsible for passenger transportation and organisation of fairs and congresses by split-off and incorporation of separate companies (reduction by HRK 476,800 thousand with respect to 2017);
- reduced income from construction and project management (by HRK 94,912 thousand), as the result of declaring income from the construction of public-purpose facilities for the City of Zagreb in accordance with IFRIC 12 *Service Concession Agreements*, under which the Group registers the construction phase as an expense for the period and simultaneously recognises the income according to the degree of completion of the project. This income was higher in 2017 because the major part of the first phase of the Podbrežje construction project had been completed;
- reduced income from landscaping and maintenance of green spaces (by HRK 23,571 thousand), as the result of decreased volume of work for the City of Zagreb;
- increase in the income realised from sale of medications by HRK 14,979 thousand, which is the result of higher income from sale of over-the-counter medications and pharmaceutical preparations;
- increase in the income realised from management of buildings by HRK 14,233 thousand, primarily because of increase in income from collection of the water management fee of the City Housing and Municipal Services Company Ltd.;
- increase in the income from management and maintenance of public roads by HRK 9,141 thousand, which is the result of an increase in the income from sales of asphalt mixture on the market and increase in the income from sales performed toward related companies;
- increase in the income from funerary services by HRK 4,547 thousand, which is the result of the income realised from sales of new graves and columbarium wall niches on the city cemetery Mirogoj;
- increase in the income from parking services by HRK 4,012 thousand, which is the result of higher prices of parking services valid from July 2018; and
- increase in the income from waste disposal services by HRK 3,966 thousand, which is the result of an increase in the quantity of sold electricity generated from the landfill gas.

Income from sale based on business segments (in HRK 000)

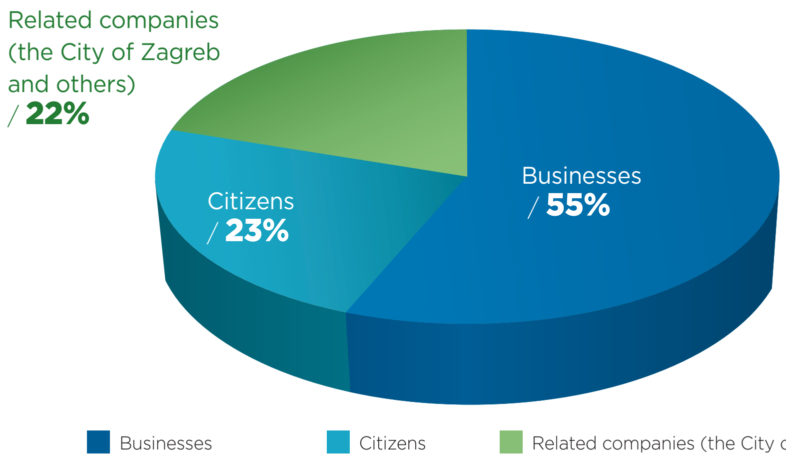


Considering that gas sales and distribution, water distribution, cleaning and waste removal accounted for a total of 52% of the Group's sales in 2018, the natural indicators of the companies Zagreb City Gasworks Ltd., Zagreb City Gasworks-Supply Ltd., Water Supply and Drainage Ltd., and of the subsidiary City Waste Disposal are shown in the table below:

Company/Subsidiary	Basic types of services	Unit of measurement	Result 2018	Result 2017	Index
1	2	3	4	5	6=4/5
Zagreb City Gasworks Ltd.	Quantities of natural gas distributed	kWh	3,832,605,918	3,904,146,274	98.2
	Number of distribution system users		284,453	282,047	100.9
Zagreb City Gasworks-Supply Ltd.	Natural gas supply	kWh	3,665,779,901	3,801,891,530	96.4
	Number of users		290,195	289,663	100.2
Water Supply and Drainage Ltd.	Delivered water	m^3	57,323,428	57,885,402	99.0
	Water consumption for business activities	m^3	1,305,139	1,410,806	92.5
City Waste Disposal	Municipal waste collection and removal				
	a) Average monthly occupied floor of businesses	m^2	2,100,000	2,000,000	105.0
	b) Average monthly bin volume for households	l	179,000,000	178,000,000	100.6
	Number of users		389,276	387,567	100.4
	/ households		375,613	374,281	100.4
	/ businesses - m^2		8,256	8,618	95.8
	/ businesses - contracts		5,407	4,668	115.8
	Public traffic area maintenance	m^2	1,034,334,562	1,106,869,100	93.4
	/ Manual public traffic area cleaning	m^2	715,482,400	766,872,000	93.3
	/ Public traffic area cleaning using machinery	m^2	154,159,600	165,002,000	93.4
	/ Public traffic area washing	m^2	164,692,562	174,995,100	94.1
	Collected waste:	t	287,057	266,043	107.9
	/ Municipal mixed waste	t	238,950	230,104	103.8
	/ Separately collected waste	t	48,107	35,939*	133.9

* The quantity of separately collected waste in 2017 was reduced by the quantity of mixed municipal waste extracted from bulk waste, i.e. by 8,854 tons.

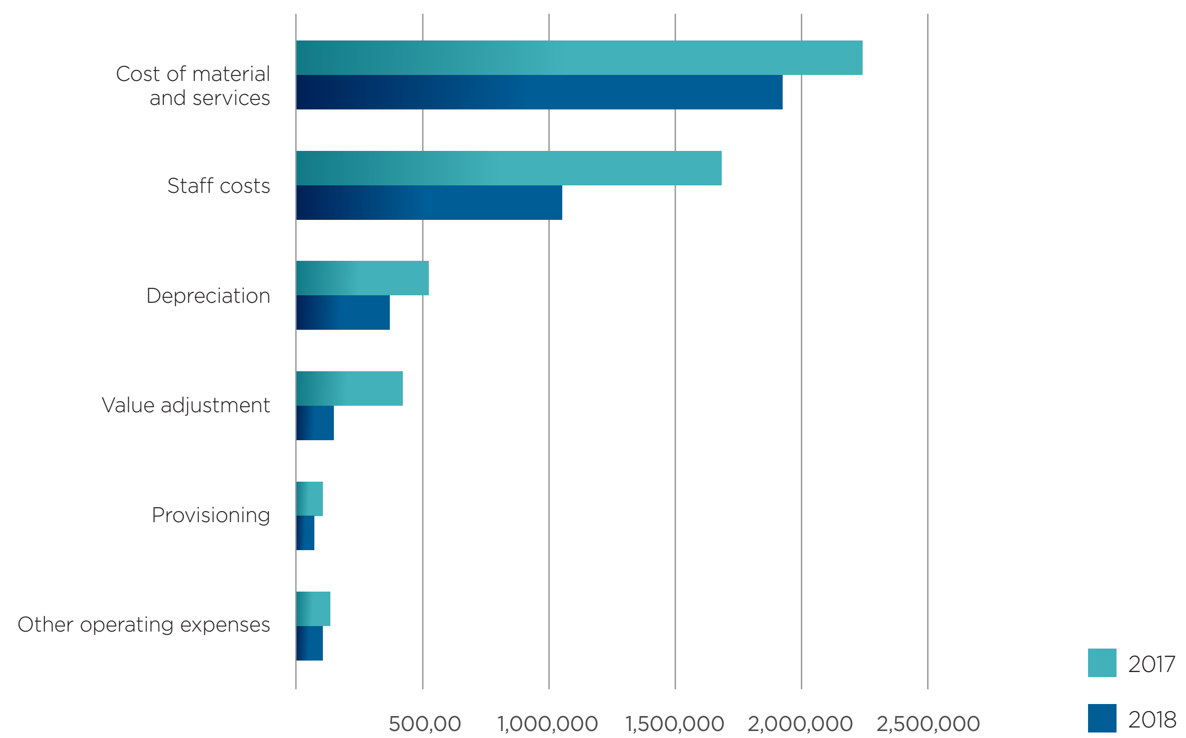
Breakdown of the Group's sales by customer categories in 2018:



Other operating income amounts to HRK 583,433 thousand, which is 59% or HRK 844,246 thousand less than in 2017, which is the result of lower income from state aids and supports (by HRK 559,049 thousand), decrease in unrealised gains from the change in the fair value of investment properties (by HRK 199,845 thousand), lower income from the reversal of deferred income recognition (by HRK 58,024 thousand) and lower income from collected written-off receivables (by HRK 27,186 thousand).

Income from state aids and supports and income from reversal of deferred income recognition (which are evidenced in the Group's business books in accordance with IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*) are lower because on 1 January 2018, the segments related to passenger transportation and organisation of fairs and congresses separated from the Group. Structure of operating expenses is presented below:

Operating expenses / in HRK 000



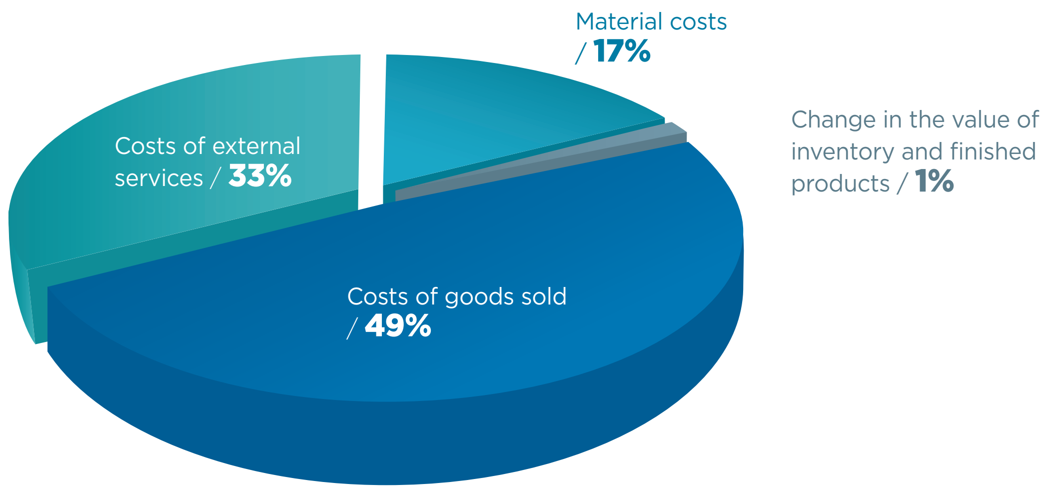
In 2018, costs of material and services amount to HRK 1,931,273 thousand and are lower by 14% or HRK 313,621 thousand in comparison with 2017, which is primarily due to lower material costs (by HRK 160,606 thousand) and lower costs of external services (by HRK 221,146 thousand). On the other hand, the Group incurred higher costs of goods sold (by HRK 44,011 thousand) as well as higher costs of changes in the value of inventories and finished products (by HRK 24,220 thousand).

Higher costs of goods sold are related to the increase in the costs of gas supply, whereas higher costs of changes in the value of inventories and finished products are connected to the sale of apartments and business premises in Podbrežje on the market.

Material costs were reduced in two successive periods because of separation of business segments related to passenger transportation and organisation of fairs and congresses on 1 January 2018.

Reduction in the costs of external services results from the following: lower costs of subcontractor services (by HRK 113,260 thousand) because of a smaller volume of works carried out for the project of the 1st phase construction of the city area Podbrežje, registered in the Group's financial records under IFRIC 12 *Service Concession Agreements* (for the part of the project carried out for the benefit of the City of Zagreb), for which income and costs are declared according to the degree of completion of construction of the facilities (in 2017, majority of works included in the first phase of construction were completed); lower maintenance costs (by HRK 67,316 thousand), which are the result of separation of segments related to passenger transportation and organisation of fairs and congresses; and lower costs of hiring employment agency-leased workers (by HRK 20,680 thousand), due to the fact that Group companies' work organisation required employees who had been temporarily hired through employee-leasing agencies for a period longer than six months and who performed tasks related to primary business activity of the Companies, to be employed permanently.

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



In 2018, staff costs were lower by HRK 621,486 thousand in comparison with 2017. Staff costs were lower because of a decrease in the average number of workers, which is the result of separation of business segments related to passenger transportation and organisation of fairs and congresses (in 2017, these two business segments of the Company incurred staff costs in the amount of HRK 658,379 thousand). If the effect of separation of the said business segments from the Group's structure is eliminated, the costs of gross salaries increased in 2018 in comparison with 2017, as there was an increase in the average number of employees, because in 2017 agency-leased workers who worked for more than six months were employed by some companies of the Group and because additional workers were employed by the subsidiary City Waste Disposal, which increase in the number of employees was necessary due to a considerably larger number of containers for separate collection of reusable waste.

In 2018, depreciation costs amount to HRK 377,135 thousand and are lower by HRK 152,532 thousand in comparison with 2017, which is the result of separation of business segments related to passenger transportation and organisation of fairs and congresses on 1 January 2018.

Value adjustment costs in 2018 were lower by HRK 271,149 thousand compared to the result in 2017, mainly as the result of lower losses from change in the fair value of investment property (by HRK 175,956 thousand) and lower costs of value adjustments of current assets (by HRK 95,206 thousand), because in 2017, value adjustment of receivables from the companies of the Agrokor Group was performed as a result of entry into force of the Act on Extraordinary Administration for Companies with Systemic Importance for the Republic of Croatia.

In 2018, provisioning costs amount to HRK 67,037 thousand and are lower by HRK 39,305 thousand in the two compared periods. As for the structure of provisioning costs, provisioning costs for employee benefits under IAS 19 are lower by HRK 15,304 thousand, provisioning costs for initiated court procedures are lower by HRK 14,801 thousand and provisioning costs for rehabilitation of natural resources are lower by HRK 6,275 thousand.

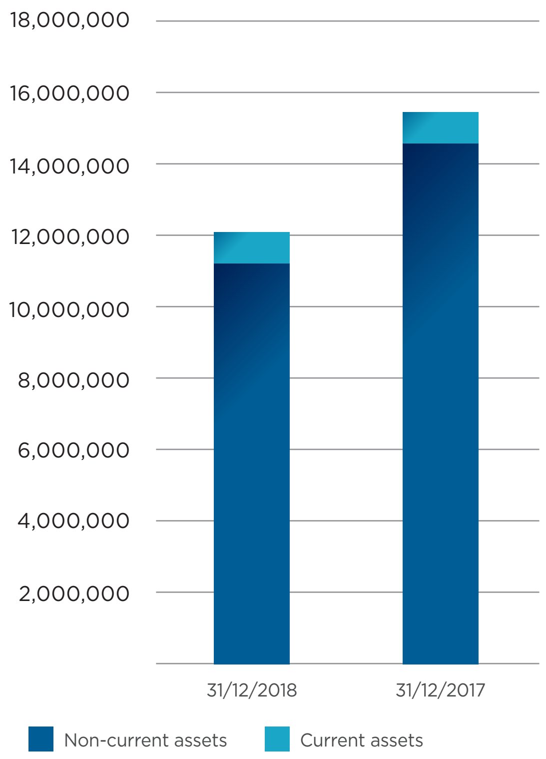
In 2018, other operating expenses are lower by HRK 30,415 thousand in comparison with 2017, which is the result of lower taxes and contributions not depending on the result (by HRK 16,107 thousand), lower costs of fines, penalties, and damages (by HRK 2,955 thousand) and a reduction in other operating expenses (by HRK 7,385 thousand).

Despite a lower result in terms of the ratio of positive and negative exchange rate differences (in 2017, the Group made a profit from the ratio of positive and negative exchange rate differences in the amount of HRK 17,366 thousand, whereas in 2018, it made a profit of HRK 2,044 thousand), the Group's loss from financial activities in 2018 was lower by HRK 31,149 thousand. Decrease in the loss from financial activities was the result of lower interest expenses (by HRK 36,411 thousand) and higher income from interest on loans issued to related companies (by HRK 8,107 thousand).

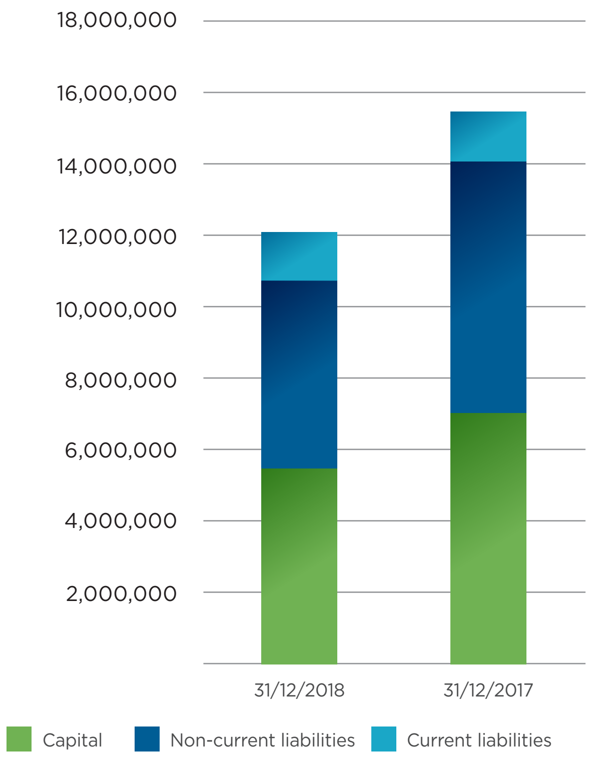
3.4.1.2 Statement of financial position/balance sheet

	Zagreb Holding Ltd.			Zagreb Holding Group		
	31/12/2018	31/12/2017		31/12/2018	31/12/2017	
Description	in HRK 000	in HRK 000	Index	in HRK 000	in HRK 000	Index
1	2	3	4=2/3	5	6	7=5/6
NON-CURRENT ASSETS						
Property, plant and equipment	4,916,138	8,206,456	59.9	10,016,198	13,221,975	75.8
Investment property	2,156,050	2,528,951	85.3	1,752,655	2,138,577	82.0
Intangible assets	4,815	9,064	53.1	23,194	15,392	150.7
Investments in affiliated companies	2,407,666	2,407,666	100.0	-	-	-
Financial assets	124,835	108,446	115.1	154,940	131,864	117.5
Non-current receivables	1,567,479	1,262,745	124.1	1,820,679	1,638,759	111.1
Deferred tax assets	15,777	30,710	51.4	38,517	38,964	98.9
Total non-current assets	**11,192,760**	**14,554,038**	**76.9**	**13,806,183**	**17,185,531**	**80.3**
CURRENT ASSETS						
Inventories	88,281	138,883	63.6	316,346	361,338	87.5
Trade receivables and other receivables	696,552	659,187	105.7	1,692,880	1,691,598	100.1
Financial assets	3,659	6,706	54.6	26,453	65,533	40.4
Cash and cash equivalents	78,795	46,027	171.2	310,461	158,909	195.4
Total current assets	**867,287**	**850,803**	**101.9**	**2,346,140**	**2,277,378**	**103.0**
TOTAL ASSETS	**12,060,047**	**15,404,841**	**78.3**	**16,152,323**	**19,462,909**	**83.0**
Off-balance sheet items	*161,722*	*356,403*	*45.4*	*185,275*	*364,170*	*50.9*
EQUITY AND LIABILITIES						
Share capital	3,177,044	3,833,236	82.9	3,177,044	3,833,236	82.9
Revaluation reserves	1,702,990	2,730,718	62.4	1,858,212	2,884,931	64.4
Other reserves	319,977	319,977	100.0	322,618	322,618	100.0
Retained earnings	299,456	174,654	171.5	711,489	694,933	102.4
Non-controlling interests	-	-	-	11,484	10,386	110.6
Total equity	**5,499,467**	**7,058,585**	**77.9**	**6,080,847**	**7,746,104**	**78.5**
NON-CURRENT LIABILITIES						
Loans payable	1,483,869	2,125,359	69.8	1,495,246	2,193,030	68.2
Liabilities under issued bonds	2,251,358	2,243,265	100.4	2,251,357	2,243,265	100.4
Other non-current liabilities	14,698	19,786	74.3	69,297	73,277	94.6
Provisioning	226,879	364,052	62.3	360,758	507,402	71.1
Deferred income	911,521	1,637,826	55.7	3,479,199	4,089,689	85.1
Deferred tax liability	351,090	576,715	60.9	385,164	614,179	62.7
Total non-current liabilities	**5,239,415**	**6,967,003**	**75.2**	**8,041,021**	**9,720,842**	**82.7**
CURRENT LIABILITIES						
Trade payables and other liabilities	488,069	803,160	60.8	1,153,182	1,337,485	86.2
Loans payable	819,073	576,093	142.2	877,273	658,478	133.2
Current corporate income tax liability	14,023	-	-	-	-	-
Total current liabilities	**1,321,165**	**1,379,253**	**95.8**	**2,030,455**	**1,995,963**	**101.7**
TOTAL EQUITY AND LIABILITIES	**12,060,047**	**15,404,841**	**78.3**	**16,152,323**	**19,462,909**	**83.0**
Off-balance sheet items	*161,722*	*356,403*	*45.4*	*185,275*	*364,170*	*50.9*

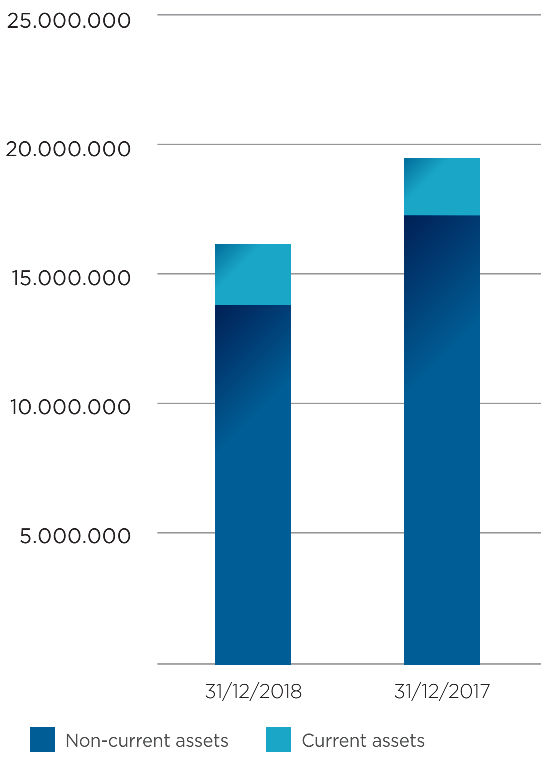
Zagreb Holding Ltd.
Assets / in HRK 000



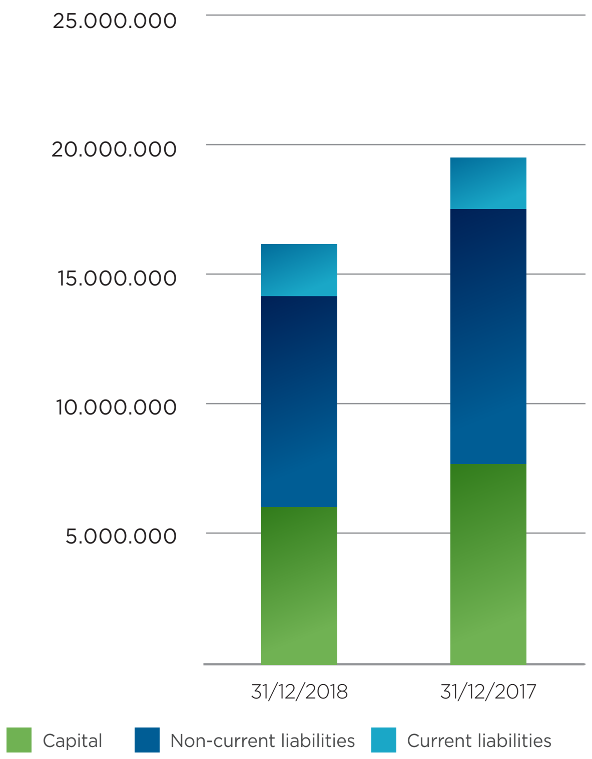
Zagreb Holding Ltd.
Equity and liabilities / in HRK 000



Zagreb Holding Group
Assets / in HRK 000



Zagreb Holding Group
Equity and liabilities / in HRK 000



The demerger with establishment of new companies from late 2017 yielded their effect on the business result as of 1 January 2018. Said demerger resulted in a decrease in the share capital of Zagreb Holding Ltd. to the amount of HRK 3,177 million. Assets of transferred branches of activity (effective as of 1 January 2018) are presented below:

Description	Public transport services	Organisation of fairs, conferences and consultations	Total
	in HRK 000	in HRK 000	in HRK 000
NON-CURRENT ASSETS			
Property, plant and equipment	2,351,453	838,600	3,190,053
Investment property	-	492,418	492,418
Non-current receivables	12,536	6,917	19,453
Deferred tax assets	16,521	648	17,169
Total non-current assets	**2,380,510**	**1,338,583**	**3,719,093**
CURRENT ASSETS			
Inventories	52,379	1,547	53,926
Trade receivables and other receivables	89,164	12,874	102,038
Cash and cash equivalents	721	85	806
Total current assets	**142,264**	**14,506**	**156,770**
TOTAL ASSETS	**2,522,774**	**1,353,089**	**3,875,863**
Off-balance sheet items	*140,152*	*87,251*	*227,403*
EQUITY			
Share capital	95,951	560,242	656,193
Revaluation reserves	418,348	614,324	1,032,672
Loss carryforward	(2,547)	(29,325)	(31,872)
Total equity	**511,752**	**1,145,241**	**1,656,993**
NON-CURRENT LIABILITIES			
Loans payable	546,066	-	546,066
Other non-current liabilities	93,871	135,077	228,948
Provisioning	98,537	10,377	108,914
Liabilities towards related companies	314,654	32,122	346,776
Deferred income	700,757	3,962	704,719
Total non-current liabilities	**1,753,885**	**181,538**	**1,935,423**
CURRENT LIABILITIES			
Loans payable	132,763	-	132,763
Liabilities towards related companies	3,811	12,770	16,581
Trade payables and other current liabilities	120,563	13,540	134,103
Total current liabilities	**257,137**	**26,310**	**283,447**
TOTAL EQUITY AND LIABILITIES	**2,522,774**	**1,353,089**	**3,875,863**
Off-balance sheet items	*140,152*	*87,251*	*227,403*

Demerger of the Company had a significant impact on the decrease in assets, equity and liabilities.

ZAGREB HOLDING Ltd.

As at 31 December 2018, the Company's total assets amounted to HRK 12,060,047 thousand and were lower by 22% in comparison with 31 December 2017. In 2018, the Company's total investments in property, plant and equipment amounted to HRK 160,687 thousand, investments in intangible assets amounted to HRK 2,738 thousand and investments in investment property amounted to HRK 1,013 thousand (a total of HRK 164,438 thousand of new acquisitions).

As at 31 December 2018, investment property amounted to HRK 2,156,050 thousand and, in comparison with 2017, was lower by 15% due to a part of investment property being split up as the result of the demerger with establishment of new companies (in the amount of HRK 492,418 thousand) and due to an increase in the market value of investment property in 2018 by HRK 103,875 thousand.

Non-current receivables pertained to receivables from the City of Zagreb and the Government of the Republic of Croatia for financing the costs of leasing the Zagreb Arena hall, receivables from the City of Zagreb under contracts in accordance with IFRIC 12 – *Service Concession Arrangements*, receivables under loans and receivables under credit sales. In 2018, the Company invested HRK 71,671 thousand in the construction of public purpose facilities for the City of Zagreb (construction of the day-care hospital and garage within the Sveti Duh Clinical Hospital and of the Hrvatski Leskovac Primary School). These are registered in the Company's books under IFRIC 12 – *Service Concession Arrangements*, which increased non-current receivables.

Increase in current receivables pertained primarily to current maturity of non-current receivables under loans granted to related companies.

As at 31 December 2018, in comparison with the same period of the previous year, non-current liabilities under loans payable were lower by HRK 224,534 thousand due to loan repayment (as well as due to the impact of the demerger of public transport from the Company in accordance with the Demerger Plan). On the other hand, in 2018, the Company assumed new non-current liabilities in the amount of HRK 125,000 thousand for financing initiated investments.

Decrease in current trade payables and other liabilities pertain to a decrease in liabilities towards related companies under loans payable, decrease in liabilities towards the City of Zagreb, decrease in trade payables and a decrease in liabilities towards employees for salaries (due to a decrease in the costs of salaries resulting from the demerger of public transport and organisation of fairs and conferences from the Company).

Between the two compared periods, current liabilities under loans increased because in 2018, a part of the investment cycle was financed by short-term loans due to unfavourable interest rates for long-term loans, and as a result of repayment of loans received and extension of repayment term for loans granted. Considering that more favourable interest rates on the money market are expected, the Company's plan for 2019 is to exchange a part of short-term loans by long-term loans for investments made in 2018 and for investments planned to be made during 2019.

ZAGREB HOLDING GROUP

As at 31 December 2018, the Group's total assets amounted to HRK 16,152,323 thousand and were lower by 17% in comparison with 31 December 2017. In 2018, the Group's total investments in property, plant and equipment amounted to HRK 417,583 thousand, investments in intangible assets amounted to HRK 6,124 thousand and investments in investment property amounted to HRK 1,013 thousand (a total of HRK 424,720 thousand of new acquisitions).

As at 31 December 2018, investment property amounted to HRK 1,752,655 thousand and, in comparison with 2017, was lower by 18% due to a part of investment property being split up as the result of the demerger with establishment of new companies (in the amount of HRK 492,418 thousand) and due to an increase in the market value of investment property in 2018 by HRK 90,853 thousand.

Non-current receivables pertained to receivables from the City of Zagreb and the Government of the Republic of Croatia for financing the costs of leasing the Zagreb Arena hall, receivables from the City of Zagreb under lease contracts, receivables from the City of Zagreb under contracts in accordance with IFRIC 12 – *Service Concession Arrangements*, receivables under loans and receivables under credit sales. In 2018, the Group invested HRK 87,907 thousand in the construction of public purpose facilities for the City of Zagreb (construction of the day-care hospital and garage within the Sveti Duh Clinical Hospital, construction of the Hrvatski Leskovac Primary School and the construction of apartments in Podbrežje, which were leased on a long-term basis to the City of Zagreb upon construction). These are registered in the Group's books under IFRIC 12 – *Service Concession Arrangements*, which increased non-current receivables. In addition to the aforementioned, receivables for loans granted to related companies also increased non-current receivables as at 31 December 2018 in comparison with the balance as at 31 December 2017.

Furthermore, the Group invested HRK 22,584 thousand in the construction of apartments in Podbrežje intended for the market (recognised under the Group's inventories). However, since a portion of apartments with garages and garage parking spaces in Podbrežje were sold on the market during 2018, and since the inventories pertaining to public transport and organisation of fairs and conferences were not recognised under the Group's inventories as at 31 December 2018, the Group's inventories decreased by HRK 44,992 thousand in the two compared periods.

Decrease in current financial assets pertained primarily to a decrease in the amount of under-1-year term deposits.

As at 31 December 2018, in comparison with the same period of the previous year, non-current liabilities under loans payable were lower by HRK 286,067 thousand due to loan repayment (as well as due to the impact of the demerger of public transport from the Group in accordance with the implemented Demerger Plan of the company Zagreb Holding Ltd.). On the other hand, in 2018, the Group assumed new non-current liabilities in the amount of HRK 127,762 thousand for financing initiated investments.

Decrease in current trade payables and other liabilities pertained to a decrease in liabilities of Zagreb Holding Ltd. towards the City of Zagreb, decrease in trade payables and a decrease in liabilities towards employees for salaries (due to a decrease in the costs of salaries resulting from the demerger of public transport and organisation of fairs and conferences from the Group).

In the two compared periods, current liabilities under loans increased because in 2018, a part of the investment cycle of Zagreb Holding Ltd. was financed by short-term loans due to unfavourable interest rates for long-term loans, and as a result of repayment of loans received by Zagreb Holding Ltd. and an extension of repayment term for loans granted by Zagreb Holding Ltd. Considering that more favourable interest rates on the money market are expected, Zagreb Holding Ltd.'s plan for 2019 is to exchange a part of short-term loans by long-term loans for investments made in 2018 and for investments planned to be made during 2019.

3.4.2 BUSINESS RISK STATEMENT

Financial risk management objectives

To be able to predict potential situations that could have a negative impact on its operations and fulfilment of its objectives, the Group identifies financial risks, determines their potential impact on the Group's future operations and manages financial risks.

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

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

Market risk

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

The Group's activities are primarily exposed to the financial risk of fluctuations of foreign currency exchange rates and interest rates. Exposure to market risk is supplemented by a sensitivity analysis. There were no changes in the Group's exposure to market risk or the methods used to manage and measure risk.

Currency risk

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

	Zagreb Holding Ltd.				**Zagreb Holding Group**			
	LIABILITIES		ASSETS		LIABILITIES		ASSETS	
	31/12/2018	31/12/2017	31/12/2018	31/12/2017	31/12/2018	31/12/2017	31/12/2018	31/12/2017
CURRENCY	In HRK 000	In HRK 000	In HRK 000	In HRK 000	In HRK 000	In HRK 000	In HRK 000	In HRK 000
EUR	866,413	1,469,690	1,086,982	786,639	933,218	1,469,690	1,087,119	1,440,248
USD	-	-	-	-	-	-	-	-
OTHER CURRENCIES	-	-	-	-	-	-	-	-

Zagreb Holding Ltd. is mainly exposed to the currency risk of fluctuation of the HRK to EUR exchange rate arising from the liabilities under non-current loans, 20% of which are tied to EUR.

The Group is mainly exposed to the currency risk of fluctuation of the HRK to EUR exchange rate arising from the liabilities under non-current loans, 21% of which are tied to EUR.

The Group's exposure to currency risk was reduced considerably in 2017 due to redemption of eurobonds and issuing of HRK bonds.

Interest risk

The Company is not significantly exposed to the risk of interest rate fluctuations due to the fact that 11% of its total loans payable are tied to variable interest rates, whereas 89% of the total amount of the Company's loans payable were contracted at a fixed interest rate.

The Group is not significantly exposed to the risk of interest rate fluctuations due to the fact that 12% of its total loans payable are tied to variable interest rates, whereas 88% of the total amount of the Group's loans payable were contracted at a fixed interest rate. Issued HRK bonds with a fixed annual coupon of 3.875%, as well as the liability under the financial leasing of the Zagreb Arena with an interest rate of 4.7%, account for the majority of the Group's loans payable with a fixed interest rate.

Given the considerable share of fixed interest rates pertaining to its indebtedness, the Group deems the risk of interest rate fluctuations insignificant.

Liquidity risk

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

Credit risk management

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

Buyers are grouped into risk groups in accordance with their financial indicators and their past dealings with the Group. Adequate measures of protection against credit risk are enforced for each group. To assign buyers to a particular group, the Group uses mostly the information from official financial statements and the Group's data about our past transactions. The Group deals with a large number of buyers from various industries of different sizes and with a large number of retail customers. Trade receivables are adjusted for the value of doubtful and bad debts.

INVESTOR INFORMATION

Number of bonds quoted on the official market of the Zagreb Stock Exchange: 2,300,000,000
Date of issue: 15 July 2016
Maturity date: 15 July 2023
Interest rate: 3.8750%

Zagreb Holding Ltd.
Ulica Grada Vukovara 41
10000 Zagreb

Investor relations
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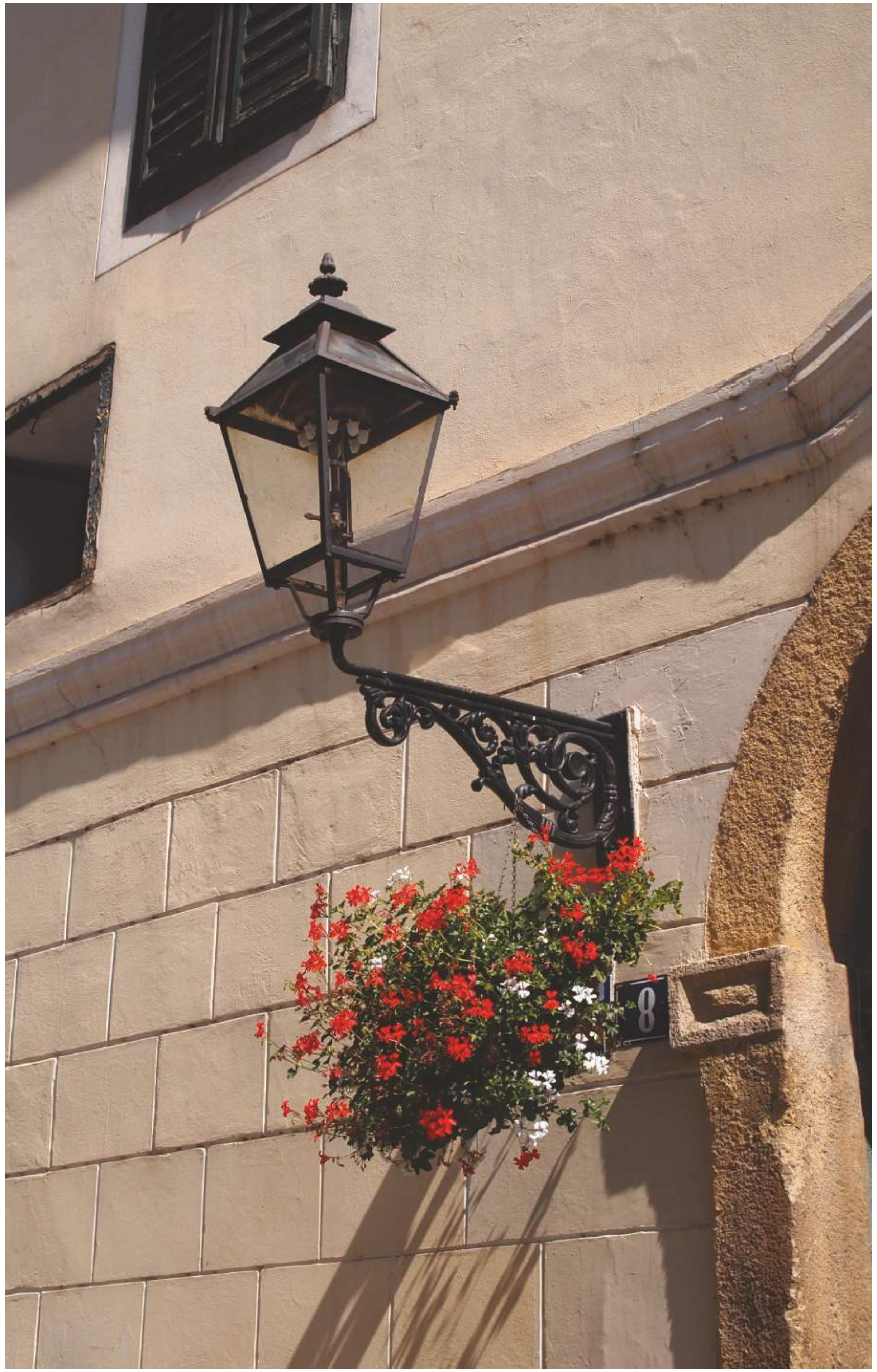
Website: http://www.zgh.hr/investitori/2370



Statement of persons responsible for preparation of statements of Zagreb Holding Ltd. under Article 403 of the Capital Market Act

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

- International Financial Reporting Standards were followed in the preparation of the audited financial statements of Zagreb Holding Ltd. for the period from 1 January 2018 to 31 December 2018 (non-consolidated). The statements fully and truthfully represent assets and liabilities, profits and losses, financial position and operations of the issuer.
- Management Report of Zagreb Holding Ltd. for the period from 1 January 2018 to 31 December 2018 (non-consolidated) truthfully represents the development, business results and the position of the issuer, along with a description of the major risks to which the issuer is exposed.

In Zagreb, 24 April 2019

Ana Stojić Deban

President of the Management Board
Zagreb Holding Ltd.

Bernard Mršo

Member of the Management Board
Zagreb Holding Ltd.

Daniela Franić

Member of the Management Board
Zagreb Holding Ltd.

Marica Dusper

Member of the Management Board
Zagreb Holding Ltd.

ZAGREBAČKI HOLDING D.O.O AND ITS SUBSIDIARIES, ZAGREB

CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

for the year ended 31 December 2018
together with the Independent Auditor's Report

RESPONSIBILITY FOR THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

The Management of Zagrebački holding d.o.o., Zagreb, ("the Company") is responsible for ensuring that the consolidated annual financial statements of the Company for 2018 are prepared in accordance with the Accounting Act (Official Gazette No 78/15, 120/16, 116/18) and the International Financial Reporting Standards to give a true and fair view of its consolidated financial position, consolidated financial performance, consolidated cash flows and consolidated changes on equity for that period.

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

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

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

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

For and on behalf of the Management Board:

Ana Stojić Deban,
President of the Management Board

Daniela Franić,
Member of the Management Board

Bernard Mršo,
Member of the Management Board

Marica Dusper,
Member of the Management Board

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

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

24 April 2019

INDEPENDENT AUDITOR'S REPORT

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

Report on the audit of consolidated annual financial statements

Opinion

We have audited the consolidated annual financial statements of the company Zagrebački holding d.o.o., Avenija grada Vukovara 41, Zagreb (hereinafter "the Company") and its subsidiaries (hereinafter "the Group") for the year ended 31 December 2018, which comprise the consolidated Statement of financial position (Balance sheet) as at 31 December 2018, consolidated Statement of profit or loss, consolidated Statement of other comprehensive income, consolidated Statement of changes in equity and consolidated Statement of cash flows for the year then ended, including accompanying notes, a summary of principal accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with the Accounting Act and the International Financial Reporting Standards ("IFRS"), determined by the European Commission and published in the Official Journal of the EU.

Basis for opinion

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

Emphasis of matter

We draw attention to Note 16 of the consolidated annual financial statements, in which it is stated that certain municipal land registers have not been entirely organized. The Group has been undergoing the process of entering the title over land and construction sites into appropriate land registries, which would confirm their ownership. Even though the Group is in possession of documents confirming its ownership, there is uncertainty regarding the resolving of the status of these properties. Our opinion has not been modified in this respect.

Key audit matters

Key audit matters are those matters that, in our professional judgment, are of most significance in our audit of the consolidated annual financial statements for the current period, and include the most significant recognized risks of significant misstatement due to error or fraud with the greatest impact on our audit strategy, the allocation of our available resources, and the time spent by the engaged audit team. These matters were addressed in the context of our audit of the consolidated annual financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. We have determined the matters described below to be the key audit matters to be communicated in our Independent Auditor's report:

Key audit matter *Valuation of property investments*	How we addressed the key audit matter
Description of key estimates and judgements regarding investment property is shown in Notes: 3f, 3w, 3x and 18 of the consolidated financial statements. As at 31 December 2018, in its consolidated Statement of Financial Position (Consolidated Balance Sheet), the Group stated the amount of HRK 1,752,655 thousand of investment property and, due to new evaluation of investment in property, gains were determined in the net amount of HRK 90,853 thousand (2017: HRK 114,742 thousand gain). The valuation of investment property is based on the estimate by the authorised appraiser The appraiser assessed the property in line with the Property Valuation Act (OG 78/2015) and the Ordinance on Property Appraisal Methods (OG 105/2015). The property mostly includes business venues and construction land in the area of the City of Zagreb. In line with the afore stated, due its significance and using judgements in assessing the fair value, we hold that the assessment of the Company`s investment is a key audit matter.	We estimated the competence and abilities of the appraiser and confirmed their qualifications. Furthermore, we estimated their independence and the scope of their work and inspected the signed contract for unusual conditions set therein and/or agreed fee. In line with the above stated, we confirmed that the appraisers are independent and competent and that the scope of their activity is appropriately determined. We tested the accuracy of the qualification of investment property, including new investments, lease revenue and related expenses, confirming all of these with the balances stated in business records of the Group. We examined the appraiser`s reports to confirm they were made in line with the prescribed methods. On a sample, we analysed the adequacy of the appraiser's selection of a specific appraisal method and related explanations. We examined the adequacy of recording the changes determined in a revaluation in the consolidated financial statements of the Group. Furthermore, we estimated the adequacy of disclosures in the consolidated financial statements.

Key audit matter *Revenue recognition*	How we addressed the key audit matter
Description of key estimates and judgements regarding income recognition is shown in Notes 3t), 5, 6, and 13 of the consolidated financial statements. In the consolidated Statement of profit or loss for 2018, the Group stated sales revenues in the amount of HRK 3,263,744 thousand. Sales revenues mostly include a high volume of transactions of low individual value. We identified the following types of transactions and statements regarding the revenue recognition which we hold to represent a significant risk and thus also a key audit matter: - completeness of revenue recorded based on the collection system, accuracy and integrity of revenues recognized based on transactions and allocation appropriateness of the total transaction value between more elements within the transaction package.	We estimated the design and the implementation of key controls in the invoicing system. We analysed the adequacy and consistency of adopted Company policies of revenue recognition. Our IT auditors implemented further procedures, which included the control of transaction integrity and the overview of applicative controls. In subsidiaries using outsourced billing service (GSKG, ViO and Čistoća) we examined the contracts and held meetings with service provider representatives with the objective to understand the system of internal controls, IT security and control procedures of data transaction integrity. We implemented evidence testing on a sample of non-systematic adjustments outside of the normal collectability process. Through independent customers' receipts on a reference sample, we confirmed calculated balances and cash flows. On a sample, we checked the adequacy of revenue recognition in related periods. Furthermore, we estimated the adequacy of the data published in the consolidated financial statements

Other matters
We draw attention to the chapter *"Management Report and Business Analysis"* in the Company's Annual Report for 2018, where, in accordance with point (b), paragraph 8, Article 21, of Labour Act, is stated the web page where the separate non-financial report of the Company will be published no later than 6 months from the balance sheet date. Our opinion has not been modified in this regard.

Other Information in the Annual Report
The Management is responsible for other information. Other information include information included in the Annual report, but do not include the consolidated annual financial statements and our Independent auditor's report on them.

Our opinion on the consolidated annual financial statements does not include other information, except to the extent explicitly stated in the part of our Independent auditor's report, entitled Report on compliance with other legal or regulatory requirements, and we do not express any form of assurance conclusion thereon.
In connection with our audit of the consolidated annual financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated annual financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. In this sense, we do not have anything to report.
When we read a separate nonfinancial report, if we find that there is a significant misstatement in it, we are required to inform those charged with governance of the Company.

Responsibilities of the Management and Those Charged with Governance for the consolidated annual financial statements

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

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

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

Auditor's responsibilities for the audit of the consolidated annual financial statements

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

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

- Identify and assess the risks of material misstatement of the consolidated annual financial statements, whether due to fraud or error; design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal controls relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal controls.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management.

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

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

- Obtain enough audit evidence related to financial information from individuals or business activities within the Group to express our opinion on the consolidated financial statements. We are responsible for routing, monitoring, and performing group auditing. We are solely responsible for expressing our opinion.

Auditor's responsibilities for the audit of the consolidated annual financial statements (continued)

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

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

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

Report on Compliance with Other Legal or Regulatory Requirements

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

On 11 September 2018, we were appointed by the General Assembly of the Company, to audit the consolidated annual financial statements for 2018.

At the date of this Report, we have been continuously engaged in carrying out the Company's statutory audits since audit of the Company's annual financial statements from 2015, up to the audit of the Company's annual financial statements for 2018, total of four years.

In addition to the matters we have mentioned in our Independent Auditor's Report as Key Audit Matters, we do not have anything to report in relation with point (c) of Article 10 of Regulation (EU) No. 537/2014.

Through our statutory audit of the Company's consolidated annual financial statements for the year 2018, we are able to detect irregularities, including fraud in accordance with Section 225, Responding to non-compliance with laws and regulations of the IESBA Code of Conduct, which requires us to, during our audit engagements, see if the Company has complied with laws and regulations which are generally recognized to have a direct impact on the determination of significant amounts and disclosures in consolidated annual financial statements, as well as other laws and regulations that do not have a direct effect on the determination of significant amounts and disclosures in the consolidated annual financial statements, but compliance with which may be crucial for operational aspects of the Company's business, its ability to continue as a going concern, or to avoid significant penalties.

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

Except where we encounter or gain knowledge about the non-compliance of any of the aforementioned laws or regulations that is apparently insignificant, in our judgment of its content and its influence, financially or otherwise, for the Company, its stakeholders and the general public; we are obliged to inform the Company and ask it to investigate this case and take appropriate measures to resolve the irregularities and to prevent the reappearance of these irregularities in the future. If the Company, at the audited consolidated balance sheet date, does not correct any irregularities that result in misstatements in the audited consolidated annual financial statements that are cumulatively equal to or greater than the amount of significance for the consolidated financial statements as a whole, we are required to modify our opinion in an Independent Auditor's Report.

During the audit of the annual financial statements of the Company for the year 2018, we have determined the significance for the annual financial statements, as a whole, in the amount of HRK 38,000 thousand, which represents about 1.00% of the total sales revenues of the Group for 2018. We believe that total revenue is an important indicator and represents the most frequently used benchmark for the Group's performance.

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

During the period between the initial date of the audited consolidated annual financial statements of the Company for the year 2018 and the date of this report, we did not provide the Company with prohibited non-scheduled services, and in the business year prior to the aforementioned period, did not provide services for the design and implementation of internal control procedures or risk management related to preparation and/or control of financial information or the design and implementation of technological systems for financial information, and we have maintained independence in relation to the Company.

Report pursuant to the requirements of the Accounting Act

The Management is responsible for the preparation of the Management report as part of the Annual report of the Company and we are obliged to express an opinion on the compliance of the Management report as part of the Annual report of the Company with the consolidated annual financial statements of the Company. In our opinion, based on the work that we performed during the audit, information in the Management report for 2018, as part of the Annual report of the Company for the year 2018, are in accordance with the financial information stated in the consolidated annual financial statements of the Company set out on pages 10 to 82 on which we expressed our opinion as stated in the Opinion section above.

In our opinion, based on the work we performed during the audit, the Company's Management report for 2018, which is an integral part of the Company's Annual report for 2018, is prepared in accordance with the Accounting act.

Based on the knowledge and understanding of the Company and its environment obtained while performing the audit, we have not found that there are material misstatements in the Company's Management report for 2018 which is an integral part of the Company's Annual report for 2018.

BDO Croatia d.o.o.

In our opinion, based on the work that we performed during the audit, the Corporate governance statement, included in the Annual report for 2018, is prepared in accordance with the requirements of article 22, paragraph 1, points (3) and (4) of the Accounting Act.

The Corporate governance statement, included in the Annual report for 2018, includes information from the article 22, paragraph 1, and points (2), (5), (6) and (7) of the Accounting Act.

The Management is responsible for the preparation of consolidated annual financial statements for the year ended 31 December 2018 in prescribed form based on the Statute of structure and content of annual financial statements (OG 95/16) and in accordance with other regulations governing the operations of the Company ("Standard consolidated annual financial statements"). Financial information presented in the Company's standard consolidated annual financial statements are in accordance with the information presented in the Company's annual financial statements given on pages 10 to 82 on which we expressed our opinion as stated in the section Opinion above.

Engagement partner in the audit of the annual financial statements of the Company for 2018, which has resulted in this Independent Auditor's Report, is Ivan Štimac, certified auditor.

Zagreb, 24 April 2019

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

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

Vedrana Stipić, Member of the Management Board

Ivan Štimac, Certified Auditor

ZAGREBAČKI HOLDING d.o.o. and its subsidiaries

Consolidated Statement of profit or loss and Statement of other comprehensive income

For the year ended 31 December 2018

	Notes	2018	2017
		(in '000 HRK)	(in '000 HRK)
OPERATING REVENUE			
Sales revenue	5	3,263,744	3,793,578
Other operating revenue	6	583,433	1,427,679
Total		**3,847,177**	**5,221,257**
OPERATING EXPENSES			
Material expenses and services	7	(1,931,273)	(2,244,894)
Employee benefit expenses	8	(1,057,120)	(1,678,606)
Depreciation and amortisation	9	(377,135)	(529,667)
Impairment of assets	10	(152,475)	(423,624)
Provisions	11	(67,037)	(106,342)
Other operating expenses	12	(105,332)	(135,747)
Total		**(3,690,372)**	**(5,118,880)**
FINANCE INCOME	13	**170,433**	**207,487**
FINANCE EXPENSES	14	**(226,235)**	**(294,438)**
TOTAL INCOME		**4,017,610**	**5,428,744**
TOTAL EXPENSES		**(3,916,607)**	**(5,413,318)**
PROFIT BEFORE TAX		**101,003**	**15,426**
Tax expense	15	(28,493)	(13,722)
PROFIT FOR THE YEAR		**72,510**	**1,704**
Attributable to:		**72,510**	**1,704**
Owners of the Company		**68,910**	**(334)**
Owners of non-controlling interest		**3,600**	**2,038**
Other comprehensive income			
Profit / (loss) from financial asset valuation, net	**15, 26**	**1,008**	**(2,606)**
Profit from property revaluation, net	**15, 26**	**4,945**	**-**
Total comprehensive income (loss) for the year		**78,463**	**(902)**
Total comprehensive income attributable to:		**78,463**	**(902)**
Owners of the Company		**74,863**	**(2,940)**
Owners of non-controlling interest		**3,600**	**2,038**

ZAGREBAČKI HOLDING d.o.o.

Consolidated Statement of financial position / Balance sheet

At 31 December 2018

	Notes	31 Dec 2018	31 Dec 2017
		(in '000 HRK)	(in '000 HRK)
NON-CURRENT ASSETS			
Property, plant and equipment	16	10,016,198	13,221,975
Investment property	18	1,752,655	2,138,577
Intangible assets	17	23,194	15,392
Financial assets	19	154,940	131,864
Non-current receivables	20	1,820,679	1,638,759
Deferred tax assets	15	38,517	38,964
Total non-current assets		**13,806,183**	**17,185,531**
CURRENT ASSETS			
Inventories	21	316,346	361,338
Trade and other receivables	22	1,692,880	1,691,598
Financial assets	23	26,453	65,533
Cash and cash equivalents	24	310,461	158,909
Total current assets		**2,346,140**	**2,277,378**
TOTAL ASSETS		**16,152,323**	**19,462,909**
Off-balance sheet items	32	185,275	364,170

ZAGREBAČKI HOLDING d.o.o.

Consolidated Statement of financial position / Balance sheet

At 31 December 2018

	Notes	31 Dec 2018	31 Dec 2017
		(in '000 HRK)	(in '000 HRK)
EQUITY			
Share capital	25	3,177,044	3,833,236
Revaluation reserves	25	1,858,212	2,884,931
Other reserves	25	322,618	322,618
Retained earnings	25	711,489	694,933
Non-controlling interest	25	11,484	10,386
Total capital and reserves		**6,080,847**	**7,746,104**
NON-CURRENT LIABILITIES			
Loans and borrowings	26	1,495,246	2,193,030
Bonds	27	2,251,357	2,243,265
Other non-current liabilities	28	69,297	73,277
Provisions	29	360,758	507,402
Deferred income	30	3,479,199	4,089,689
Deferred tax liability	15	385,164	614,179
Total non-current liabilities		**8,041,021**	**9,720,842**
CURRENT LIABILITIES			
Trade and other payables	31	1,153,182	1,337,485
Loans and borrowings	26	877,273	658,478
Total current liabilities		**2,030,455**	**1,995,963**
TOTAL EQUITY		**16,152,323**	**19,462,909**
Off-balance sheet items	32	185,275	364,170

ZAGREBAČKI HOLDING d.o.o.

Consolidated Statement of changes in equity

For the year ended 31 December 2018

	Share capital	Other reserves	Revaluation reserves	Retained earnings / (carried loss)	Share of owner of the parent	Non-controlling interest	Total
	(in '000 HRK)	(in '000 HRK)	(in '000 HRK)	(in '000 HRK)	(in '000 HRK)	(in '000 HRK)	(in '000 HRK)
Balance at 31 December 2016	**3,833,236**	**322,618**	**2,887,537**	**695,267**	**7,738,658**	**8,348**	**7,747,006**
Other comprehensive income	-	-	(2,606)	-	**(2,606)**	-	**(2,606)**
Profit for the year	-	-	-	(334)	**(334)**	2,038	**1,704**
Balance at 31 December 2017	**3,833,236**	**322,618**	**2,884,931**	**694,933**	**7,735,718**	**10,386**	**7,746,104**
Profit for the year	-	-	-	68,910	**68,910**	3,600	**72,510**
Profit payment to non-controlling interests	-	-	-	-	-	(484)	**(484)**
Company division (separation)	(656,192)	-	(1,032,672)	31,872	**(1,656,992)**	-	**(1,656,992)**
Reconciliation of consolidation	-	-	-	-	-	(2,018)	**(2,018)**
Adjustment of opening balance due to application of IFRS 15	-	-	-	(84,226)	**(84,226)**	-	**(84,226)**
Other comprehensive income	-	-	5,953	-	**5,953**	-	**5,953**
Balance at 31 December 2018	**3,177,044**	**322,618**	**1,858,212**	**711,489**	**6,069,363**	**11,484**	**6,080,847**

ZAGREBAČKI HOLDING d.o.o.

Consolidated Statement of cash flows

For the year ended 31 December 2018

	2018	2017
	(in '000 HRK)	(in '000 HRK)
Profit for the year	***72,510***	***1,704***
Tax expense recognised in profit or loss	(1,782)	13,722
Finance expenses recognised in profit or loss	218,828	272,317
Investment revenue recognised in profit or loss	(122,036)	(122,036)
Impairment of current assets	106,816	227,248
Change in fair value if investment property	(90,853)	(114,742)
Impairment of other non-current assets	-	731
Depreciation and amortisation of non-current tangible and intangible assets	377,135	529,667
Gains from sale of assets	-	(4,358)
Decrease in deferred income for assets financed by others	7,501	(193,051)
Increase / (decrease) in non-current provisions	(37,730)	47,254
Other non-monetary items	828	(2,606)
Losses from foreign exchange translations	(4,687)	17,366
Changes in working capital:		
Increase in inventories	(8,934)	(19,864)
Increase in trade receivables	(81,058)	(108,245)
(Increase)/decrease in receivables from related parties	(111,647)	(158,158)
(Increase)/decrease in receivables from employees	(1)	(2,099)
Decrease in receivables from the state	7,342	(22,485)
Decrease / (increase) of other receivables	(22,360)	(84,405)
Decrease in trade payables and liabilities to related parties	379,778	25,849
(Increase)/decrease in liabilities for taxes and contributions	8,922	(32,474)
Decrease in employee benefits liabilities	(9,040)	18,716
(Decrease)/increase of other non-current liabilities	(41,800)	(74,599)
(Decrease)/increase of other current liabilities	(4,849)	(19,726)
Net cash flows from operating activities	**642,883**	**195,726**

	2018	2017
	(in '000 HRK)	(in '000 HRK)
Cash flows from operating activities		
Cash flows from operating activities	642,883	195,726
Interests paid	(170,651)	(209,873)
Net cash flows from operating activities	**472,232**	**(14,147)**
Cash flows from investing activities		
Expenses for procurement of tangible and intangible assets	(424,720)	(621,755)
Decrease in advances for non-current assets	(998)	379
Gains from sale of non-current tangible assets	870	4,358
Decrease (increase) of non-current receivables	(201,374)	28,134
Gains from sale of current financial assets	39,080	-
Expenses for procurement of financial assets	(23,076)	43,426
Interests collected	125,996	122,000
Separation of subsidiary, net of cash	(806)	-
Expenses for procurement of equity	(41,000)	-
Net cash flows from investing activities	**(526,028)**	**(423,458)**
Cash flows from financing activities		
Loans and borrowings received	981,548	1,300,470
Repayment of loans and borrowings	(776,200)	(1,122,641)
Proceeds from bonds issued	-	500,000
Repayment of bonds	-	(1,139,030)
Net cash (used in)/from financing activities	205,348	**(461,201)**
Net increase/(decrease) in cash and cash equivalents	**151,552**	**(898,806)**
Cash and cash equivalents at 1 January	**158,909**	**1,057,715**
Cash and cash equivalents at 31 December	**310,461**	**158,909**

1 / GENERAL INFORMATION

History, incorporation and statutory changes

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

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

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

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

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

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

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

1 / GENERAL INFORMATION / CONTINUED

Company activities

As at 31 December 2018, the Company comprised the following subsidiaries:

NAME OF THE COMPANY/SUBSIDIARY		ADDRESS	PRINCIPAL ACTIVITIES	OWNERSHIP INTEREST 2018	OWNERSHIP INTEREST 2017
Zagrebački holding		Avenija grada Vukovara 41	public transport; water supply; cleaning, waste management; travel agency; sports, facility and real estate management	100% the City of Zagreb	100% the City of Zagreb
1/	Gradska groblja	Mirogoj 10	funeral and related services	100% Zagrebački holding	100% Zagrebački holding
2/	Čistoća	Radnička 82	waste collection, cleaning services	100% Zagrebački holding	100% Zagrebački holding
3/	Zrinjevac	Remetinečka 92	landscaping services	100% Zagrebački holding	100% Zagrebački holding
4/	Zagrebparking	Šubićeva 40/III	services of public parking and public garage management	100% Zagrebački holding	100% Zagrebački holding
5/	Zagrebačke ceste	Donje Svetice 48	regional and local road management, maintenance and construction	100% Zagrebački holding	100% Zagrebački holding
6/	Autobusni kolodvor Zagreb	Avenija Marina Držića 4	bus station sevices	100% Zagrebački holding	100% Zagrebački holding
7/	Tržnice Zagreb	Šubićeva 40/V	wholesale and retail markets, warehousing	100% Zagrebački holding	100% Zagrebački holding
8/	ZGOS	Zeleni trg 3	waste management	100% Zagrebački holding	100% Zagrebački holding
9/	Zagrebački digitalni grad	Av.Dubrovnik 15	lease of telecommunication cables and network	100% Zagrebački holding	100% Zagrebački holding
10/	Upravljanje projektima	Jankomir 25	construction and project management	100% Zagrebački holding	100% Zagrebački holding
11/	Arena Zagreb	Ul. V. Vukova 8	sports facility management	100% Zagrebački holding	100% Zagrebački holding
12/	Robni terminali Zagreb	Jankomir 25	warehousing	100% Zagrebački holding	100% Zagrebački holding
13/	Vladimir Nazor	Maksimir 52	travel agency and organised youth travel	100% Zagrebački holding	100% Zagrebački holding
14/	Upravljanje nekretninama	Jankomir 25	real-estate management	100% Zagrebački holding	100% Zagrebački holding

1 / GENERAL INFORMATION / CONTINUED

Companies and institutions owned by the Company, which comprise Zagrebački holding Group (hereinafter: the Group):

NAME OF THE AFFILIATED COMPANY		ADDRESS	LEGAL FORM	PRINCIPAL ACTIVITY	OWNERSHIP INTEREST 2018	OWNERSHIP INTEREST 2017
1/	Gradska plinara Zagreb d.o.o.	Radnička 1	limited liability company	gas distribution	100% Zagrebački holding	100% Zagrebački holding
2/	Gradska plinara Zagreb - Opskrba d.o.o.	Radnička 1	limited liability company	gas supply	100% Zagrebački holding	100% Zagrebački holding
3/	Zagreb plakat d.o.o.	Savska cesta 1	limited liability company	lease of advertising space	51% Zagrebački holding	51% Zagrebački holding
4/	Gradska ljekarna Zagreb	Kralja Držislava 6	institution	pharmacy services	100% Zagrebački holding	100% Zagrebački holding
5/	Gradsko stambeno komunalno gospodarstvo d.o.o.	Savska cesta 1	limited liability company	facility management	100% Zagrebački holding	100% Zagrebački holding
6/	Vodoopskrba i odvodnja d.o.o.	Folnegovićeva 1	limited liability company	collection, purification and distribution of water	100% Zagrebački holding	100% Zagrebački holding
7/	AGM d.o.o.	Mihanovićeva 28	limited liability company	publishing	100% Zagrebački holding	100% Zagrebački holding
8/	Zagrebačka stanogradnja d.o.o.	Bukovačka cesta 4	limited liability company	construction and sale of apartments	100% Zagrebački holding	100% Zagrebački holding
9/	Centar d.o.o.	Palmotićeva 22-2	limited liability company	organisation of youth sports events	100% Zagrebački holding	100% Zagrebački holding
10/	Elektrometal distribucija plina d.o.o.	F. Rusana 21	limited liability company	gas distribution	100% Gradska plinara Zagreb d.o.o.	

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

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

By the Decision of the Commercial Court in Zagreb (Tt-17 / 49954-2) of 29 December 2017, the division of the Company was carried out by separation with the establishment of new limited liability companies - Zagrebački električni tramvaj d.o.o., and Zagrebački velesajam d.o.o. With the division of economic units into newly formed companies, the Company's share capital was reduced by HRK 656,193 thousand to the amount of HRK 3,177,044 thousand while the business effects of the Plan entered into force on 1 January 2018. The shares were acquired by the City of Zagreb, which, after the implementation of the Plan, was the only member, i.e. the only holder of business shares in the new companies Zagrebački električni tramvaj d.o.o., and Zagrebački velesajam d.o.o. In 2018, Gradska plinara Zagreb acquired 100% share of Elektrometal distribucija plina d.o.o. Bjelovar, and recorded goodwill in the amount of HRK 11,811 thousand, stated in the intangible asset position (Note 17).

1 / GENERAL INFORMATION / CONTINUED

Principal activities

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

a/ Cleaning and waste removal services
b/ Water collection, treatment and supply
c/ Landscaping services
d/ Management, maintenance, construction and protection of regional and local roads
e/ Parking services
f/ Gas supply and distribution
g/ Pharmacy services
h/ Warehousing and rental services
i/ Waste disposal and management
j/ Project management and construction
k/ Other services

Employees

The Group, as at 31 December 2018 employed 7,529 employees (31 December 2017: 11 286 employees), as hereinafter indicated:

Group	Number of employees 31 Dec 2018	Number of employees 31 Dec 2017
Company	5,038	8,825
Subsidiaries	2,491	2,461
	7,529	**11,286**

ZAGREBAČKI HOLDING d.o.o. and its subsidiaries
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2018

1 / GENERAL INFORMATION / CONTINUED

Management and directors

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

2018

1. Ana Stojić Deban, President of the Management Board since 16 June 2015
2. Daniela Franić, Member of the Management Board since 6 March 2015
3. Bernard Mršo, Member of the Management Board since 8 August 2016
4. Marica Dusper, Member of the Management Board since 2 January 2019

2017

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

Subsidiaries	Director of the Subsidiary
1. Gradska plinara Zagreb d.o.o.	Tihana Colić until 30 December 2018, Ana Stojić Deban since 31 December 2018
2. Gradska plinara Zagreb Opskrba d.o.o.	Igor Pirija
3. Zagreb plakat d.o.o.	Bosiljka Grbašić, Kruno Ian Bodegray
4. Gradska ljekarna Zagreb	Nadica Jambrek, principal
5. Gradsko stambeno komunalno gospodarstvo d.o.o.	Joško Jakelić
6. Vodoopskrba i odvodnja d.o.o.	Štefica Mihalic until 30 September 2018, Marin Galijot since 1 October 2018
7. AGM d.o.o.	Stjepan Bekavac since 11 September 2017
8. Zagrebačka Stanogradnja d.o.o.	Željko Horvat
9. Centar d.o.o.	Tomislav Bilić
10. Elektrometal distribucija plina d.o.o.*	Srećko Ezgeta

Elektrometal distribucija plina d.o.o. Bjelovar is a 100% owned subsidiary of Gradska plinara Zagreb d.o.o.

1 / GENERAL INFORMATION / CONTINUED

Supervisory Board

The members of **the Supervisory Board** of the Company during 2018 were as follows

1. Ivan Šikić, member (from 1 July 2013 to 1 July 2017), member (since 21 September 2017)
2. Gojko Bežovan, member (from 1 July 2013 to 1 July 2017), member (since 21 September 2017)
3. Andrea Šulentić, member (since 28 May 2015)
4. Nikola Mijatović, member (since 8 August 2016), deputy president (since 27 September 2017)
5. Mario Župan, member (since 8 August 2016)
6. Ljubo Jurčić, member (since 21 September 2017), president (since 27 September 2017)
7. Josip Budimir, member (since 21 September 2017)
8. Mihaela Grubišić Šeba, member (since 21 September 2017)
9. Domagoj Bešker, member (from 21 September 2017 to 28 December 2018)
10. Dražen Hrkač, member (since 2 May 2018)

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

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

1 / GENERAL INFORMATION / CONTINUED

The only member of **the Assembly** is City of Zagreb, and its representatives during 2018 were as follows:

1. Milan Bandić (since 22 April 2015)
2. Slavko Kojić (since 28 June 2013)
3. Olivera Majić (since 14 June 2017)

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

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

2 / ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

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

- IFRS 9 Financial Instruments: Classification and Measurement

The standard is effective for annual periods beginning on or after 1 January 2018, with early application permitted. The final version of IFRS 9 Financial Instruments reflects all phases of the financial instruments project and replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, hedge accounting. The Group adopted the standard on its effective date, and the application had no significant impact on Group's financial statements.

- IFRS 15 Revenue from Contracts with Customers

The standard is effective for annual periods beginning on or after 1 January 2018. IFRS 15 establishes a five-step model that will apply to revenue earned from a contract with a customer (with limited exceptions), regardless of the type of revenue transaction or the industry. The standard's requirements will also apply to the recognition and measurement of gains and losses on the sale of some non-financial assets that are not an output of the Groups' ordinary activities (e.g., sales of property, plant and equipment or intangibles). IFRS 15 requires from the Group the application of judgments, and all relevant facts and circumstances must be taken into account in applying the 5-step model to the contracts it has with its customers. The Standard also specifically defines the accounting treatment of incremental costs of acquiring contracts and costs that can be directly linked to the performance of the contract. In addition, the standard requires specific disclosure.

The Management Board adopted this standard on 1 January 2018 and did not correct comparative information. The Group has carried out an analysis of the effect of applying this Standard and the Board's conclusion that the adoption has no significant impact on the Group's financial statements. The main difference relates to the reduction in deferred income and the recognition of contractual obligations in the Group's balance sheet instead.

Details on the impact of IFRS 15 are given below:

IFRS 15 - *Revenue from Contracts with Customers*

IFRS 15 - *Revenue from Contracts with Customers* replaced by IAS 18 - *Revenue* and IAS 11 - *Construction Contracts* as well as related interpretations including IFRIC 18 - *Transfer of Assets from Customers*. The replacement of IFRIC 18 - *Transfer of Assets from Customers* with IFRS 15 - *Revenue from Contracts with Customers* had the following effect on the Company:

Connection fees received from customers for contracts concluded until 30 June 2009 have been recognized as deferred income and recognized as income for the period, together with the amortization of the related assets (connections). After the entry into force of IFRIC 18, connection fees received from customers as from 1 July 2009 were recorded as revenue in the amount of money received from the buyer at the time the customer joined the network or was provided permanent access to service delivery. The Company applied IFRIC 18 prospectively, that is, to contracts that were concluded after July 1, 2009, while retaining prior accounting for contracts concluded prior to that date. In accordance with the provisions of IFRS 15, the scope of which are the network connection agreements, the network connection fee is associated with distribution, transmission and electricity supply services and cannot be considered as a separate execution obligation. In accordance with IFRS 15, the network connection is considered to be a reimbursement for future network use and water and gas supplies and will therefore be recognized as revenue after providing these future services. Furthermore, by providing network and water and gas services, the customer simultaneously receives and uses the benefits arising from the Group's performance, which means that the IFRS 15 criterion for recognition of revenue during the execution of the service has been met. An acceptable approach to determining the service provision period is the lifetime of a terminal asset as the connections become part of the distribution network and relate to the Group's obligation to provide the customer with access to the network over the entire useful life of the connections.

2 / ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS / CONTINUED

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

Therefore, revenue should be systematically allocated over the period of useful life of the constructed asset or transferred asset used for the provision of fixed services, and the fees received from the customers to be recorded as deferred income and recognized as the income of the period simultaneously with the amortization of the assets (connections).

The Group has elected not to restate comparative periods and apply this standard retroactively with the cumulative effect of the initial application on 1 January 2018. The cumulative effect of initial application of IFRS 15 is recognized as a reduction in the initial balance of retained earnings, an increase in the initial amount of deferred income and an increase in the initial amount of deferred tax asset for the remaining amount of recognized higher income than the related fee that required accounting treatment in accordance with IFRIC 18. The above impact on the Group's balance sheet position as at 31 December 2018 is as follows:

- Reduction of retained earnings in the amount of HRK 84,226 thousand
- Increase in deferred income in the amount of HRK 74,637 thousand
- Increase in deferred tax assets in the amount of HRK 13,203 thousand
- Decrease in deferred tax liabilities in the amount of HRK 3,614 thousand

- Interpretation of IFRIC 22: Foreign Currency Transactions and Advance Consideration

The Interpretation clarifies the accounting for transactions that include the receipt or payment of advance consideration in a foreign currency. The Interpretation covers foreign currency transactions when an entity recognizes a non-monetary asset or a non-monetary liability arising from the payment or receipt of advance consideration before the entity recognizes the related asset, expense or income. The Interpretation states that the date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary prepayment asset or deferred income liability. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration.

The Management Board has made the assessment of the effects of the application of the said standards and believes that it has no significant impact on the Group's financial statements.

The adoption of these amendments to standards had no significant impact on the Group's financial statements.

- IFRS 16 Leases

The standard is effective for annual periods beginning on or after 1 January 2019. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer ('lessee') and the supplier ('lessor'). The new standard requires lessees to recognize most leases on their financial statements. Lessees will have a single accounting model for all leases, with certain exemptions. Lessor accounting is substantially unchanged. The Group decided not to apply the new lease standard retroactively, but the exemption for the lessee will be used. When converting to the new standard, liabilities based on existing operating leases will be discounted using the appropriate incremental borrowing rate and will be recognized as a lease liability. Assets with the right to use property will be recognised in the amount of lease liability adjusted to the amount of prepaid or calculated lease payments.

The Group's Management estimates that the application of the new standard will have approximately the following effects:

- Increase of assets with right to use for approximately HRK 20,675thousand
- Increase in liabilities by approximately HRK 20,675 thousand

Most of the Group's leases relate to rental of business premises, cars, and partly equipment rental. .

3 / PRINCIPAL ACCOUNTING POLICIES

a/ Statement of compliance

These consolidated financial statements have been prepared in accordance with the Accounting Act (OG 78/15, 120/16 and 116/18) and International Financial Reporting Standards ("IFRS") as adopted by the EU and are in line with the Statute of structure and content of annual financial statements (OG 95/16).

The consolidated financial statements were approved by the Management Board on 24 April 2019 for submission to the General Assembly of Stakeholders.

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

b/ Basis of preparation of consolidated financial statements

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

The consolidated financial statements of the Group have been prepared under the historical cost basis, except for certain non-current assets, which are stated at revalued amounts, as disclosed in Notes 16 and 18 to the consolidated financial statements, and using the basing principle of going concern..

The preparation of the consolidated financial statements in accordance with IFRS requires from Management to make estimates and assumptions that affect the application of accounting policies and reported amounts of assets and liabilities, and revenues and expenses. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 3.

Consolidation obligation
The Company owns other entities - subsidiaries, which are entities controlled. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to these activities achieve benefits.
Consolidated financial statements present the results of the Company and its subsidiaries ("the Group") as if they were one entity.
The individual financial statements have been prepared because there is a legal obligation of the Company to draw them. However, for a fuller understanding of the Group's operations, separate financial statements should be read together with the unconsolidated financial statements that the Company prepares and publishes.

c/ Reporting currency

The consolidated financial statements of the Group are prepared in Croatian Kuna (HRK), which is the Groups functional currency. All amounts disclosed in these consolidated financial statements are presented in thousands of HRK unless otherwise stated. As at 31 December 2018, the official exchange rate of the Croatian HRK against 1 euro and 1 US dollar was HRK 7.417575 and HRK 6.469192 respectively (31 December 2017: HRK 7.5136478 for 1 EUR and HRK 6.269733 for 1 USD).

d/ Intangible assets

Computer software

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

Internally generated intangible assets – research and development expenditure

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

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;

3 / PRINCIPAL ACCOUNTING POLICIES / CONTINUED

d/ Intangible assets / continued

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

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

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

e/ Property, plant and equipment

Buildings held for use in the production or supply of goods or services, or for administrative purposes, are stated in the consolidated balance sheet / consolidated statement of financial position at cost, and land is carried at revalued amount representing their fair value at the date of revaluation, less any accumulated impairment losses. Revaluations are performed with sufficient regularity (every 3-5 years) so that the carrying amounts do not differ materially from those that would be determined using fair values at the end of each reporting period. The last revaluation was performed in 2015.

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

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

Freehold land is not depreciated. Installations and equipment are recognised initially at cost, less accumulated depreciation and accumulated impairment losses.

Depreciation is calculated so as to write off the cost or revalued amount of an asset over the estimated useful life of the asset using the straight-line method, with the exception of land and assets under construction. The estimated useful life, residual value and and depreciation method are reviewed at the end of each annual reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, if shorter, the term of the relevant lease.

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

3 / PRINCIPAL ACCOUNTING POLICIES / CONTINUED

e/ Property, plant and equipment / continued

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

	2018	2017
Buildings	20-80 years	20-80 years
Commercial buildings made of concrete, stone and	*60-80 years*	*60-80 years*
Commercial buildings made of wood and other material	*40-60 years*	*40-60 years*
Other commercial buildings	*20-40 years*	*20-40 years*
Vehicles	4-20 years	4-20 years
Plant and equipment	4-10 years	4-10 years
Office equipment	5 years	4-5 years

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

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

Impairment of tangible and intangible assets

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

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

If the recoverable amount of an asset (or a cash-generated unit) is estimated to be less that its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately as an expense, unless the relevant asset is land or a building not used as an investment property, i.e. other than an investment property carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

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

f/ Investment property

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

3 / PRINCIPAL ACCOUNTING POLICIES / CONTINUED

f/ Investment property / continued

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

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

During 2018 investment properties were re-measured at fair value on the basis of appraisals by a certified property appraisal expert, upon which the gains resulting from the change in the fair values were determined in the amount of HRK 90,853 thousand (2017: 114,742) and were included in the statement of comprehensive income for the year 2018 (Note 18).

g/ Financial assets

The Group adopted IFRS 9 - Financial Instruments as at 1 January 2018 and its application did not have a significant impact on the Group's financial statements.

The Group recognizes financial assets in its financial statements when it becomes party to the contractual provisions of the instrument. Depending on the business model for asset management and contractual cash flow characteristics, the Group measures financial assets at amortized cost, fair value through other comprehensive income or fair value through profit or loss.

The Group classifies assets as shown below:

:

DESCRIPTION	Classification / measurement
Non-current assets	
Financial assets through other comprehensive income	Equity instruments / fair value through other comprehensive income
Financial assets through statement of profit or loss	Financial assets through statement of profit or loss
Loans and deposits	Held for collection /amortised cost
Non-current receivables	Held for collection /amortised cost
Current assets	
Cash and cash equivalents	Held for collection /amortised cost
Trade and other receivables	Held for collection /amortised cost
Loans, deposits and other financial assets	Held for collection /amortised cost

Financial assets at fair value through profit or loss

This category includes financial assets held for trading.

The Group's business models reflect the way the Group manages assets in order to achieve cash flows.

Financial assets through other comprehensive income

Initial Recognition

The Group recognizes a financial asset or liability when and only when it becomes a party to the contractual provisions of the instrument.

The Group initially recognizes financial assets at fair value plus transaction costs that can be attributed directly to the acquisition or issue of a financial asset.

Subsequent measurement

After initial recognition, the Group measures financial assets at fair value through other comprehensive income.

3 / PRINCIPAL ACCOUNTING POLICIES / CONTINUED

g/ Financial assets / continued

Loans and deposits

Loans granted by Group are held within a business model whose purpose is to hold a financial asset in order to charge contractual cash flows. Contractual terms on a specific date generated cash flows represented only payments of principal and interest. At that, the principal is the fair value of the asset at initial recognition.

Based on the above, the given loans were measured at amortized cost.

Measurement at amortized cost implies the following:

- Interest income is calculated using the effective interest rate and applied to the gross book value of the asset at the calculation.

Trade receivables

Trade receivables that do not have a significant financial component at initial recognition have been measured in accordance with IFRS 15 at their transaction price.

Impairment

The Group, on the basis of expected credit losses, recognizes impairment of financial assets. At each reporting date, the Group measures expected credit losses and recognizes the same in the financial statements. Expected credit losses from financial instruments are measured in a manner that reflects:

Impartial and weighted sum of probability, which is determined by assessing the range of possible outcomes,

The time value of money,

Reasonable and acceptable data on past events, current conditions and predictions of future economic conditions.

With regard to trade receivables The Group applies a simplified approach of IFRS 9 measurement of expected credit losses using the expected provision for credit losses of trade receivables.

For the measurement of expected credit losses of trade receivables, the Group is grouped customers and analysed the age structure and historical data identifying potential future losses.

The Group has applied the new standard as follows:

Trade receivables in the country were analysed on a sample of 100% of total receivables in the country,

Receivables from affiliated companies were considered as a whole.

By analysing the age structure, it has been established that the Group has no significant due receivables, the most significant part of the receivables is not yet due and the Group estimates they will be fully collected. No significant credit losses were identified.

Derecognition of financial assets

The Group ceases to recognize financial assets when;

- Contractual rights to cash flows from financial assets expire,

It transfers financial assets and the transfer is subject to conditions for derecognition.

3 / PRINCIPAL ACCOUNTING POLICIES / CONTINUED

g/ Financial assets / continued

The Group transfers financial assets only if, either:

(a) transfers the contractual rights to receive cash flows from the asset, or

(b) retains the contractual rights to receive cash flows from the asset, but assumes a contractual obligation to pay the cash flows to one or more recipients in the arrangement.

When the Group transfers financial assets it is required to estimate the extent to which it retains the risks and rewards of ownership of the financial asset. In this case, when all risks and rewards of ownership are transferred, the Group ceases to recognize financial assets and recognizes separately as assets or liabilities all rights and obligations that have arisen or are retained in the transfer.

If almost all the risks and rewards of ownership of financial assets are retained, the Group continues to recognize financial assets.

If the Group neither transfers nor retains virtually all of the risks and rewards of ownership of the financial asset, the Group determines whether or not it has control over the financial assets. If no control over financial assets is retained, the Group ceases to recognize financial assets and recognizes separately as assets or liabilities all rights and obligations that have arisen or are retained in the transfer.

If control is retained, the Group continues to recognize financial assets to the extent that it continues to participate in that financial asset.

h/ Cash and cash equivalents

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

i/ Inventories

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

j/ Foreign currencies

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

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

3 / PRINCIPAL ACCOUNTING POLICIES / CONTINUED

k/ Severance payments, jubilee awards and solidarity support

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

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

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

l/ Tax expense

Tax expense represents the sum of the current tax liability and deferred tax.

Current tax

The current tax liability is based on taxable profit for the year. Taxable profit differs from the net profit reported in the consolidated statement of profit or loss because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's current tax liability is calculated using tax rates that have been enacted or substantively enacted by the reporting date.

Deferred tax

Deferred tax is the amount expected to arise under a liability or return on the basis of the difference between the carrying amount of assets and liabilities in the consolidated financial statements and the related tax base used to calculate the taxable profit and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences, and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available on the basis of which temporary discontinued differences can be utilized.

Deferred tax liabilities and tax assets are not recognized under temporary differences arising from goodwill or initial recognition of other assets and liabilities, except for business combinations, in transactions that do not affect either tax or accounting profit. Deferred tax liabilities are recognized on the basis of taxable temporary differences arising on investments in subsidiaries and associates, i.e. shares in joint ventures, unless the Group is unable to control the cancellation of temporary differences and if the temporary difference is unlikely to be cancelled in the foreseeable future . The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available for the full or part of the tax asset. Deferred tax is calculated at the tax rates that are expected to be applied in the period in which settlement of a liability or asset realization will arise, based on tax laws that are in effect or in the process of adoption to the reporting date. The measurement of deferred tax liabilities and assets reflects the amount for which is expected to be payable or recoverable, on the reporting date. Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes as determined by the same tax authority and the Group intends to settle its current tax assets with tax obligations.

Current and deferred tax for the period

Deferred tax is charged or credited in the consolidated statement of profit or loss, except when it relates to items credited directly to or in equity, in which case the deferred tax is also recorded within equity; or when the tax arises from the initial accounting of a business combination.

3 / PRINCIPAL ACCOUNTING POLICIES / CONTINUED

m/ Provisions

Provisions are recognized when the Group has a present legal or constructive liability as a result of a past event and it is probable that an outflow of resources will be required to settle the liability, and a reliable estimate can be made of the amount of the liability. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate.

When there are a number of similar liabilities, the likelihood that resource outflow will need to be settled is determined by their consideration as a whole. Provisions are measured at the present value of expenditures expected to be required to settle the liability by using a discount pre-tax rate that reflects current market valuations of the time value of money as well as risks that are specific to the liability. The effect of an increase in provisions, as a reflection of the lapse of time, is reflected in interest expense.

n/ Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

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

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

o/ Financial liabilities and equity instruments issued by the Group

Classification as debt or equity

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

Equity instruments

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

Obligations under financial guarantee contracts

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

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

Financial liabilities

Financial liabilities are classified either as financial liabilities at fair value through profit or loss or as other financial liabilities.

Financial liabilities at fair value through recognition of fair value changes through profit or loss. Financial liabilities are classified as liabilities at fair value through profit or loss if they are held for trading or are designated for such disclosure.

3 / PRINCIPAL ACCOUNTING POLICIES / CONTINUED

o/ Financial liabilities and equity instruments issued by the Group / continued

A financial liability is classified as held for trading if:

- it has been acquired principally for the purpose of repurchase in the near future or
- it is a part of an identified portfolio of financial instruments that the Group manages jointly and has a recent actual pattern of short-term profit-making or
- it is a derivative that is neither designated nor effective as a hedging instrument.

A financial liabilities not held for trading may be stated as at fair value with disclosing changes in value through other comprehensive income, upon their initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise, or
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis, or
- if it is an integral part of a contract containing one or more embedded derivatives Financial liabilities at fair value where fair value changes are recognized through profit or loss, and any gain or loss is recognized in the statement of profit or loss

The net gain or loss recognized in the statement of profit or loss includes interest paid on a financial liability. Fair value is determined in the manner described in Note 35 to the Financial Statements - Financial Instruments.

Other financial liabilities

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

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

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

Derecognition of financial liabilities

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

p/ Operating segment reporting

In accordance with IFRS 8, the Group has identified its operating segments on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segments and to assess their performance. Details of individual operating segments are disclosed in Note 5 of the consolidated financial statements.

The Group specifically monitors and presents the results of its major business segments. The business segments are the basis upon which the Group reports its primary segment information. Certain financial information, analysed by business and geographical segments, are presented in Note 5 of the consolidated financial statements.

3/ PRINCIPAL ACCOUNTING POLICIES / CONTINUED

q/ Contingent assets and liabilities

Contingent liabilities are not recognized in the consolidated financial statements. They are published unless the likelihood of the outflow of economic benefits is small. Contingent assets are not recognized in the consolidated financial statements, but are disclosed when an inflow of economic benefits is probable.

r/ Events after the reporting date

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

s/ Revenue recognition

In accordance with the new IFRS 15, the Company applies a five-step model for recognizing a contract with customer:

1) Identification of the contract with the customer(s)
2) Identification of the separate performance obligations in the contract
3) Determination of the transaction price
4) Allocation of the transaction price to the separate performance obligations
5) Recognition of revenue as each performance obligation is satisfied

Revenue is recognized for each separate contractual obligation in the transaction price amount. The transaction price is the amount of contractual remuneration that the Group expects to be entitled to in return for the delivery of the promised goods or services.

Revenues are stated in amounts that are net of refunds, discounts, bonuses and premiums, and taxes directly related to the sale of products and services rendered

The new standard had no significant impact on the Group's accounting policies.

Revenue description:

- Water supply service income comprises income from, water meter installation, as well as from permanent monthly fees, increased by actual consumption based on the assessed consumption level, as adjusted at the end of the reporting period to reflect the actual consumption based on the readings;
- Revenue from waste removal and cleaning contain income from the provided waste removal and cleaning services at rates determined in the applicable price list of the City of Zagreb;
- Public road management and maintenance revenue is recognised to the extent of the services and works delivered, in accordance with the underlying contracts with customers;
- Income from the sale of flats is recognised when the significant risks and rewards of the ownership are passed onto the buyer, together with the related costs of selling (constructing) the flats;
- Warehousing and operating lease income is recognised in accordance with IAS 17 on a straight-line basis over the relevant lease term.
- Revenues from contracted time and material are recognized at agreed unit prices for hours used or direct costs incurred.

iii. Income from government grants comprises the following:

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

3 / PRINCIPAL ACCOUNTING POLICIES / CONTINUED

s/ Revenue recognition / continued

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

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

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

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

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

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

t/ Leases

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

The Group as lessor

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

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

The Group as lessee

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

Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability.

Finance expenses are charged directly to profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing cost capitalisation. Contingent rentals are expensed in the period in which they arise.

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

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

3 / PRINCIPAL ACCOUNTING POLICIES / CONTINUED

u/ Derivative financial instruments

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

Embedded derivatives

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

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

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

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

v/ Comparative information

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

w/ Using estimates in preparation of consolidated financial statements

Critical judgements in applying accounting policies

In the application of the Group's accounting policies, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on past experience and other factors that are considered to be relevant. Actual results may differ from those estimates. The estimates and underlying assumptions are continually reviewed. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of revision and future periods if the revision affects both current and future periods.

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

3 / PRINCIPAL ACCOUNTING POLICIES / CONTINUED

w/ Using estimates in preparation of consolidated financial statements / continued

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

Useful life of property, plant and equipment and intangible assets

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

Impairment of non-current assets

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

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

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

A deferred tax asset is recognised for all unused tax losses only to the extent that it is probable that the related tax benefit will be realised. Significant judgements are required in determining the amount of deferred taxes that can be recognised. They are based on the probable quantification of time and level of future taxable profits, together with the future tax planning strategy. In 2018, deferred tax assets on available tax differences were recognised. The carrying amount of deferred tax assets is disclosed in Note 15 of the consolidated financial statements.

Actuarial estimates used in determining employee benefits

The cost of defined benefits is determined using actuarial estimates. Actuarial estimates involve assumptions about discount rates, future salary increases and the mortality or fluctuation rates. Because of the long-term nature of those plans, there is uncertainty surrounding those estimates. As at 31 December 2018, provisions for employee benefits amounted to HRK 126,885 thousand (as at 31 December 2017, the total provisions amounted to HRK 207,632 thousand) (Note 34).

Consequences of certain legal actions

The Company and its subsidiaries are involved in legal actions which have arisen from the regular course of operations. The management makes estimates when the probable outcome of a legal action has been assessed, and the provisions are recognised on a consistent basis (Note 29).

Fair value measurement and valuation process

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

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

3 / PRINCIPAL ACCOUNTING POLICIES / CONTINUED

x/ Fair value measurement

The Group applies IFRS 13 as a single source of guidance for measuring fair value and disclosing information on fair value measures. IFRS 13 has a wide scope. Fair value measurement requirements apply to both financial instruments and non-financial instruments for which other IFRSs prescribe or permit to measure and disclose fair value, except for share-based payment transactions falling within the scope of IFRS 2 „Share-based Payment", leasing transactions falling under IAS 17 "Leases" and measures that are somewhat similar to fair values but are not fair value (e.g. net sales / realizable value in inventory measurement or value in use in impairment estimates).

IFRS 13 defines fair value as a price that would, under existing market conditions, be achieved by selling an item of property or paid for the transfer of a liability in an orderly transaction on the main (or most favourable) market at the measurement date. According to IFRS 13, fair value is the exit price, regardless of whether the price is directly visible or is estimated by another valuation method.

4/ STATUTORY CHANGES

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

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

The results achieved from activities extracted from the Group are as follows:

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

4/ STATUTORY CHANGES / CONTINUED

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

	Public transportation (in '000 HRK)	Organisation of fairs, congresses and consulting (in '000 HRK)
NON-CURRENT ASSETS		
Property, plant and equipment	2,351,453	838,600
Investment property	-	492,418
Long-term receivables	12,536	6,917
Deferred tax assets	16,521	648
Total non-current assets	**2,380,510**	**1,338,583**
CURRENT ASSETS		
Inventories	52,379	1,547
Current receivables	89,164	12,874
Cash in hand and in register	721	85
Total current assets	**142,264**	**14,506**
TOTAL ASSETS	**2,522,774**	**1,353,089**
CAPITAL AND RESERVES		
Share capital	95,951	560,242
Transferred loss	(2,547)	(29,325)
Revaluation reserves	418,348	614,324
Total capital and reserves	**511,752**	**1,145,241**
NON-CURRENT LIABILITIES		
Provisions	98,537	10,377
Loans and borrowings	546,066	-
Liabilities to related companies	314,653	32,122
Other non-current liabilities	93,872	135,077
Deferred income	700,757	3,962
Total non-current liabilities	**1,753,885**	**181,538**
CURRENT LIABILITIES		
Liabilities to related companies	3,811	12,770
Loans and borrowings	132,763	-
Trade payables	55,983	10,026
Other current liabilities	64,580	3,514
Total current liabilities	**257,137**	**26,310**
TOTAL EQUITY	**2,522,774**	**1,353,089**
Off-balance sheet items	140,152	87,251

5/ SEGMENT INFORMATION

SALES REVENUES

	2018	2017
	(in '000 HRK)	(in '000 HRK)
Croatia	3,263,606	3,792,247
European union	138	1,331
	3,263,744	**3,793,578**

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

Operating segments are as follows:

1/ Water collection, treatment and supply
2/ Cleaning and waste removal services
3/ Management, maintenance, construction and protection of regional and local roads
4/ Parking services
5/ Warehousing and rental services
6/ Landscaping services
7/ Facility management
8/ Project management and construction
9/ Gas supply and distribution
10/ Pharmacy services
11/ Other services

The segment of public transport was separated from the Company by the statutory change of the division of the Company with effect from 1 January 2018 (note 4).

5/ SEGMENT INFORMATION / CONTINUED

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

	2018	2017
	(in '000 HRK)	(in '000 HRK)
Gas sales and distribution	920,868	917,639
Water distribution	428,621	420,892
Cleaning and waste removal	353,854	351,487
Management and maintenance of public roads	310,188	301,047
Pharmacy	300,588	285,609
Landscaping	215,429	239.000
Parking	132,353	128,341
Construction and project management	111,558	206,470
Facility management	111,294	97,061
Lease and warehousing	80,638	79,778
Passenger transport	-	433,926
Other revenues	298,353	332,328
	3,263,744	**3,793,578**

Other revenues comprise the following:

	2018	2017
	(in '000 HRK)	(in '000 HRK)
Market revenues	70,993	72,774
Funeral services	63,099	58,552
Bus station services	41,325	42,076
Maintenance and facility management	39,185	39,066
Travel agency	35,072	32,579
Waste disposal	22,130	18,164
Telecommunication lines and network lease	20,747	20,021
Publishing	5,802	6,222
Organisation of fairs and congresses	-	42,874
	298,353	**332,328**

The segment of fair and congress organisation was separated from the Company by the statutory change of the division of the Company with effect from 1 January 2018 (note 4).

5/ SEGMENT INFORMATION / CONTNUED

Segment revenues and results 2018

1-12/2018 (in '000 HRK)	Facility management	Water distribution	Cleaning and waste collection	Public roads management and maintenance	Construction and project management	Parking	Lease and warehousing	Landscaping	Gas sales and distribution	Pharmacy	Other	Elimination	Total
Sales revenue – external customers	111,294	428,622	353,854	310,188	111,558	132,353	80,637	215,429	920,868	300,588	298,353	-	3,263.744
Intersegmental sales	81,010	4,083	10,200	23,164	673	1,088	2,809	5,837	188,149	143	81,375	(398,531)	-
Total sales revenue	**192,304**	**432,705**	**364,054**	**333,352**	**112,231**	**133,441**	**83,446**	**221,266**	**1,109,017**	**300,731**	**379,728**	**(398,531)**	**3,263.744**
Expenses of other operations, net other revenue from primary operations	**(142,362)**	**(434,393)**	**(417,860)**	**(333,397)**	**(130,737)**	**(99,330)**	**(19,702)**	**(215,143)**	**(1,092,503)**	**(290,068)**	**(323,928)**	**392,484**	**(3,106,939)**
Profit /(loss) from operating activities	49,942	(1,688)	(53,806)	(45)	(18,506)	34,111	63,744	6,123	16,514	10,663	55,800	(6,047)	156,805
Finance income	71,193	10,383	4,387	1,013	81,585	1,668	411	76	9,477	2,745	20,473	(32,978)	170,433
Finance expense	(152,464)	(7,494)	(2,245)	(699)	(16,670)	(677)	(10)	(10)	(458)	(42)	(55,428)	9,962	(226,235)
Net finance result	(81,271)	2,889	2,142	314	64,915	991	401	66	9,019	2,703	(34,955)	(23,016)	(55,802)
Profit / (loss) before tax	(31,329)	1,201	(51,664)	269	46,409	35,102	64,145	6,189	25,533	13,366	20,845	(29,063)	101,003
Tax expense	(15,148)	(1,097)	-	-	-	-	-	-	(7,425)	(2,640)	(2,183)	-	(28,493)
Net profit (loss)	**(46,477)**	**104**	**(51,664)**	**269**	**46,409**	**35,102**	**64,145**	**6,189**	**18,108**	**10,726**	**18,662**	**(29,063)**	**72,510**

5/ SEGMENT INFORMATION / CONTINUED

Segment revenues and results 2018

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

5/ SEGMENT INFORMATION / CONTINUED

Segment assets and liabilities as at 31 December 2018

31 Dec 2018 (in '000 HRK)	Facility management	Water distribution	Cleaning and waste collection	Public roads management and maintenance	Construction and project management	Parking	Lease and warehousing	Landscaping	Gas sales and distribution	Pharmacy	Other	Elimination	Total
Property, plant and equipment	1,037,692	4,201,753	304,207	146,867	93	114,987	310,530	238,012	980,143	37,081	2,389,133	255,700	**10,016,198**
Intangible assets	1,205	600	1,969	151	-	176	358	29	4,824	1,141	930	11,811	**23,194**
Investment property	920,443	-	-	-	-	-	1,235,607	-	-	-	-	(403,395)	**1,752,655**
Inventories	15	20,616	6,496	41,031	173,798	932	900	20,099	8,669	34,032	9,758	-	**316,346**
Trade receivables, net	16,737	525,602	46,739	9,808	1,056	10,543	8,630	1,829	190,033	34,165	22,381	-	**867,523**
Unallocated assets	4,317,902	90,509	56,550	175,390	1,020,931	20,074	4,946	95,614	325,935	170,613	1,419,176	(4,521,233)	**3,176,407**
Total assets	**6,293,994**	**4,839,080**	**415,961**	**373,247**	**1,195,878**	**146,712**	**1,560,971**	**355,583**	**1,509,604**	**277,032**	**3,841,378**	**(4,657,117)**	**16,152,323**
Bonds issued	2,273,206	-	-	-	-	-	-	-	-	-	-	(21,849)	**2,251,357**
Trade payables	11,180	175,054	21,406	58,649	9,498	4,132	3,813	25,095	157,037	21,494	41,656	-	**529,014**
Employee benefits liabilities	3,888	7,769	10,340	4,752	267	2,747	1,670	4,629	5,192	3,763	6,222	-	**51,239**
Capital and unallocated liabilities	4,005,721	4,656,257	384,215	309,846	1,186,113	139,833	1,555,488	325,859	1,347,375	251,774	3,793,500	(4,635,268)	**13,320,713**
Total equity	**6,293,995**	**4,839,080**	**415,961**	**373,247**	**1,195,878**	**146,712**	**1,560,971**	**355,583**	**1,509,604**	**277,031**	**3,841,378**	**(4,657,117)**	**16,152,323**
31 Dec 2018 Other segmental information													
Capital expenditure:	**11,649**	**177,303**	**63,503**	**22,542**	**4**	**15,029**	**4,685**	**21,026**	**71,274**	**3,130**	**33,562**	**-**	**423,707**
Property, plant and equipment	10,366	177,303	62,469	22,393	4	14,853	4,685	21,026	68,651	2,427	33,406	-	**417,583**
Intangible assets	1,283	-	1,034	149	-	176	-	-	2,623	703	156	-	**6,124**
Depreciation and impairment	4,746	166,710	23,372	14,176	43	7,054	3,019	6,893	111,781	3,038	35,581	722	**377,135**

5/ SEGMENT INFORMATION / CONTINUED

Segment assets and liabilities as at 31 December 2018

31 Dec 2017 (in '000 HRK)	Facility management	Water distribution	Passenger transport	Cleaning and waste collection	Public roads management and maintenance	Construction and project management	Parking	Lease and warehousing	Landscaping	Gas sales and distribution	Pharmacy	Other	Elimination	Total
Property, plant and equipment	866,842	4,189,939	2,599,711	264,403	138,672	134	107,178	308,739	223,905	998,869	37,362	3,229,799	256,422	**13,221,975**
Intangible assets	244	1,007	5,824	1,649	4	-	-	478	56	4,546	771	813	-	**15,392**
Investment property	839,474	-	-	-	-	-	3,750	1,193,309	-	-	-	492,418	(390,374)	**2,138,577**
Inventories	4	16,589	52,379	8,252	39,943	174,564	622	836	17,711	8,547	31,334	10,557	-	**361,338**
Trade receivables, net	16,620	537,305	25,621	44,911	3,739	664	9,193	11,709	2,313	189,775	52,252	30,700	-	**924,802**
Unallocated assets	7,230,924	70,948	136,119	277,514	361,109	1,029,613	296,623	1,620	99,554	330,012	135,087	2,332,324	(9,500,62)	**2,800,825**
Total assets	**8,954,108**	**4,815,788**	**2,819,654**	**596,729**	**543,467**	**1,204,975**	**417,366**	**1,516,691**	**343,539**	**1,531,749**	**256,806**	**6,096,611**	**(9,634,57)**	**19,462,909**
Bonds issued	2,268,004	-	-	-	-	-	-	-	-	-	-	-	(24,739)	**2,243,265**
Trade payables	13,472	203,508	55,983	17,870	37,011	24,793	5,273	3,059	19,528	140,936	14,492	42,718	-	**578,643**
Employee benefits liabilities	4,021	10,035	36,849	12,807	5,807	290	3,665	2,039	5,961	4,266	3,444	9,348	-	**98,532**
Capital and unallocated liabilities	6,668,611	4,602,245	2,726,822	566,052	500,649	1,179,892	408,428	1,511,593	318,050	1,386,547	238,870	6,044,545	(9,609,83)	**16,542,469**
Total equity	**8,954,108**	**4,815,788**	**2,819,654**	**596,729**	**543,467**	**1,204,975**	**417,366**	**1,516,691**	**343,539**	**1,531,749**	**256,806**	**6,096,611**	**(9,634,57)**	**19,462,909**
31 Dec 2017 Other segmental information														
Capital expenditure:	**185,733**	**145,777**	**116,950**	**42,574**	**4,119**	**119**	**5,118**	**3,665**	**13,451**	**71,552**	**3,159**	**14,596**	**-**	**606,813**
Property, plant and equipment	185,733	145,777	116,574	41,876	4,119	119	5,118	3,665	13,451	70,610	2,913	14,411	-	**604,366**
Intangible assets	-	-	376	698	-	-	-	-	-	942	246	185	-	**2,447**
Depreciation and impairment	3,971	167,837	157,919	16,262	14,748	25	7,537	3,084	6,017	114,088	3,187	34,360	632	**529,667**

6/ OTHER REVENUES

	2018	2017
	(in '000 HRK)	(in '000 HRK)
Revenue from reversal of deferred revenue recognition	162,554	220,578
Unrealized gains from changes in fair value of investment property	139,098	338,943
Revenue from reversal of provisions	85,945	58,906
Amounts recovered	81,059	108,245
Revenue from subsidies and grants	41,262	600,311
Other (total items not materially significant)	73,515	100,696
	583,433	**1,427,679**

Income from grants and subsidies was largely provided by the City of Zagreb and includes:

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

Revenues from deferred revenue recognition are stated in accordance with IAS 20 Accounting for Government Grants and Disclosure of Government Assistance during the period of use and are systematically linked to the related costs (depreciation) - see note 3(t).

Unrealized gains from changes in fair value of investment property are recognized for the property which in 2018 had an increase in fair value according to an expert witness in. At the same time, HRK 48,245 thousand of unrealized losses from the change in fair value of investment property for which fair value was decreased (see note 10) were recognized. The net change in fair value of investment property was HRK 90,853 thousand (see note 18).

7/ MATERIAL AND SERVICE EXPENSES

	2018	2017
	(in '000 HRK)	(in '000 HRK)
Raw material and supplies	210,636	242,237
Energy	106,685	227,506
Write-off of small inventory	17,077	25,261
a) Total material expenses	334,398	495,004
b) Change in inventories of production and finished products	22,440	(1,780)
c) costs of goods sold	940,884	896,873
Subcontractors	189,637	302,897
Maintenance services	93,964	161,280
Utility services and fees	84,866	93,158
Transportation	56,822	51,277
Intellectual services	51,531	30,235
Lease and rentals	37,049	42,228
Data processing and software maintenance	33,733	40,283
Insurance premiums	11,750	29,299
Banking services and payment transaction costs	10,132	10,634
Advertising	3,825	4,773
Other external services	60,242	88,733
d) total external services	633,551	854,797
	1,931,273	**2,244,894**

Auditing expenses in 2018 amount to HRK 787 thousand (2017: 608 thousand) and are disclosed in this note in the framework of intellectual services.

8/ EMPLOYEE BENEFITS EXPENSES

	2018	2017
	(in '000 HRK)	(in '000 HRK)
Net salaries and fees	584,789	944,350
Taxes and contributions	357,862	607,528
Employee reimbursements and other material rights	114,469	126,728
	1,057,120	**1,678,606**
Number of employees at 31 December	**7,529**	**11,286**

The average number of employees on the basis of realized working hours paid by the Group in 2018 amounted to 7,327 (2017: 10,851 employees).

Employee compensation and other material rights include benefits that are governed by the Collective Agreement of the Company and by separate acts of subsidiaries such as reimbursement of costs of transport to and from work to the extent of public transport costs, commemorative prizes and gifts to employees (jubilee awards, Christmas Easter, vacation bonus, etc.), costs of education and professional training, and other.

9/ DEPRECIATION AND AMORTISATION

	2018	2017
	(in '000 HRK)	(in '000 HRK)
Depreciation of tangible assets (Note 16)	373,352	520,408
Amortization of intangible assets (Note 17)	3,783	9,259
	377,135	**529,667**

10/ IMPAIRMENT OF ASSETS

	2018	2017
	(in '000 HRK)	(in '000 HRK)
Losses from change in fair value of investment property	48,245	224,201
Value adjustment of current assets	104,107	199,313
Impairment of other fixed assets	123	110
	152,475	**423,624**

ZAGREBAČKI HOLDING d.o.o. and its subsidiaries
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11/ PROVISIONS

	2018	2017
	(in '000 HRK)	(in '000 HRK)
Provisions for initiated court disputes	23,671	38,472
Provisions for employee benefits under IAS 19	18,154	33,458
Provisions for bulk waste disposal costs	1,500	2,630
Provisions for the repair of natural resources	1,237	7,512
Other provisions (for unused vacation days, warranty, etc.)	22,475	24,270
	67,037	**106,342**

12/ OTHER OPERATING EXPENSES

	2018	2017
	(in '000 HRK)	(in '000 HRK)
Fines, penalties and damage compensation	44,006	46,961
Administrative and court costs	15,695	17,770
Gifts, donations and sponsorships	11,219	11,772
Taxes and contributions independent of the result	9,728	25,835
Write-offs	5,475	6,936
Entertainment expenses	2,114	1,993
Other (deficits, net book value of disposed assets, technical literature and magazines, fees AB and SB, etc.)	17,095	24,480
	105,332	**135,747**

Damage compensation expenses largely relate to the ZGOS branch for eco-rent paid at a cost of HRK 65 per ton of decommissioned municipal waste at the Jakuševac landfill and the compensation for reduced quality of living in the area of the construction site for waste management Prudinec/Jakuševec in accordance with the conclusion of the City of Zagreb Assembly from 05 June 2014.

Other operating expenses relate to deficits, purchase cost of inventories and fixed assets, subsequently recognized costs and other not previously mentioned expenses.

13/ FINANCE INCOME

	2018	2017
	(in '000 HRK)	(in '000 HRK)
Interest income on loans to related companies	107,893	99,786
Interest income on deposits and loans to non-affiliated entities	20,068	22,251
Other financial income	21,588	20,458
Foreign exchange gains	20,884	64,992
	170,433	**207,487**

14/ FINANCE EXPENSES

	2018	2017
	(in '000 HRK)	(in '000 HRK)
Interest expense	167,376	209,873
The cost of the bond discount and issue	31,384	34,390
Interest expense from related parties	2,687	2,203
Other interest expense	5,948	346
Foreign exchange losses	18,840	47,626
	226,235	**294,438**

Net effect of foreign exchange

	2018	2017
	(in '000 HRK)	(in '000 HRK)
Foreign exchange gains	20,884	64,992
Foreign exchange losses	(18,840)	(47,626)
	2,044	**17,366**

In July 2016, the Company prematurely purchased 48.77% of Euro bonds by issuing new bonds with a nominal value of 1,800,000 thousand with a coupon of 3.875%. In July 2017, it repaid the remaining 51.23% of Euro bonds and issued another bond tranche of a nominal value of HRK 500,000,000 with a coupon of 3,875%.

Other financial expense is mainly related to the discount from the sale of receivables.

15/ TAX EXPENSE

The group is not a taxpayer but its members are. Income tax expense for 2018 is calculated by applying an 18% tax rate to a pre-tax profit. Tax rate changed on 1 January 2017 by amendments to the Income Tax Act.

Income tax recognized in profit or loss

	2018	2017
	(in '000 HRK)	(in '000 HRK)
Tax expense includes:		
Current tax for the year	22,520	(20,524)
Deferred tax expenses based on the origin and reversals of temporary differences	(3,519)	1,218
Effect of tax losses not recognized as tax assets	9,492	33,028
Tax (income) / expense recognized in profit or loss	**28,493**	**13,722**

The relationship between the accounting profit and tax expense of the current year:

	2018	2017
	(in '000 HRK)	(in '000 HRK)
Profit before tax	101,003	15,426
Income tax at a rate of 18%	18,180	2,777
Effect of permanent differences (net)	4,340	(23,301)
The effect of previously recognized and unused tax losses	9,492	33,028
he effect of temporary differences recognized as deferred tax assets	(3,519)	1,218
Tax revenue recognized in profit or loss	**28,493**	**13,722**

15/ TAX EXPENSE / CONTINUED

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

2018	Opening balance	Profit tax recognised in profit or loss	Stated in other comprehensive income	Credited directly to equity	Company division (separation)	Closing balance
	(in '000 HRK)	(in '000 HRK)	(in '000 HRK)	(in '000 HRK)	(in '000 HRK)	(in '000 HRK)
Temporary differences						
Provisions	38,767	3,519	-	-	(17,169)	25,117
Value adjustment of inventories	12	-	-	-	-	12
Application of IFRS 15	-	-	-	13,203	-	13,203
Land	666,522	-	1,085	-	(226,684)	440,923
Property, plant and equipment	9,119	-	-	(24)	-	9,095
Revaluation of financial assets	2,677	-	222	-	-	2,899
Application of IFRS 15	3,614	-	-	(3,614)	-	-
Effect of tax rate change	*(67,753)*	-	-	-	-	*(67,753)*
Unused tax losses and deductibles						
Tax losses	185	-	-	-	-	185
Deferred tax assets	**38,964**	**3,519**	**-**	**13,203**	**(17,169)**	**38,517**
Deferred tax liabilities	**614,179**	**-**	**1,307**	**(3,638)**	**(226,684)**	**385,164**

15/ TAX EXPENSE / CONTINUED

Deferred taxes – deferred tax assets and deferred tax liabilities

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

The decrease in profit tax rate from 20% to 18% (effective from 1 January 2017) has affected the reduction of deferred tax assets and deferred tax liabilities due to the need to adjust the deferred tax rate to the tax rate expected to be applied in the realization period.

16/ PROPERTY, PLANT AND EQUIPMENT

(in '000 HRK)	Land	Buildings	Plant and equipment	Tools and vehicles	Other tangible assets	Assets under construction	Total tangible assets
COST							
Balance at 31 December 2016	**4,588,758**	**12,370,535**	**1,358,566**	**3,255,113**	**51,881**	**670,572**	**22,295,425**
New purchases	423	54,006	19,751	26,721	-	503,465	**604,366**
Transfer from assets under construction	87	427,360	24,869	55,938	-	(511,458)	**(3,204)**
Reclassifications (transfers from / to)	(47,919)	(91)	4,745	1,502	(1,717)	(7,650)	**(51,130)**
Expenditure, alienation and sales	(422)	(2,545)	(33,146)	(41,243)	-	(76)	**(77,432)**
Balance at 31 December 2017	**4,540,927**	**12,849,265**	**1,374,785**	**3,298,031**	**50,164**	**654,853**	**22,768,025**
New purchases	300	48,350	26,945	6,061	-	335,927	**417,583**
Company merger	-	30,180	4,637	1,278	-	15	**36,110**
Transfer from assets under construction	30	143,406	59,701	67,866	-	(271,720)	**(717)**
Reclassifications (transfers from / to)	(3,971)	(11,678)	177	36	-	(584)	**(16,020)**
Revaluation	(3,632)	9,662	-	-	-	-	**6,030**
Expenditure, alienation and sales	-	(2,312)	(30,466)	(15,479)	-	(80,801)	**(129,058)**
Previously disposed assets	-	-	-	-	-	18	**18**
The division of the company	(1,295,146)	(1,338,962)	(221,943)	(2,668,604)	(3,682)	(8,392)	**(5,536,729)**
Balance at 31 December 2018	**3,238,508**	**11,727,911**	**1,213,836**	**689,189**	**46,482**	**629,316**	**17,545,242**
IMPAIRMENT							
Balance at 31 December 2016	**18,661**	**6,241,964**	**1,156,679**	**1,649,208**	**1,845**	**38,442**	**9,106,799**
Depreciation	-	325,531	60,767	146,373	-	(12,263)	**520,408**
Reclassifications (transfers from / to)	-	(1,442)	1	1,717	(1,717)	-	**(1,441)**
Expenditure, alienation and sales	(422)	(2,497)	(32,680)	(41,152)	-	-	**(76,751)**
Balance at 31 December 2017	**18,239**	**6,563,556**	**1,184,767**	**1,756,146**	**128**	**26,179**	**9,549,015**
Depreciation	-	283,572	57,902	32,876	-	(998)	**373,352**
Company merger	-	10,331	1,915	1,068	-	-	**13,314**
Value adjustment	-	17	-	-	-	79	**96**
Reclassifications (transfers from / to)	-	(2,269)	18	-	-	(18)	**(2,269)**
Expenditure, alienation and sales	-	(2,270)	(30,201)	(15,409)	-	(100)	**(47,980)**
Previously disposed assets	-	-	-	-	-	18	**18**
The division of the company	-	(897,788)	(213,500)	(1,241,250)	-	-	**(2,352,538)**
Balance at 31 December 2018	**18,239**	**5,955,149**	**1,000,901**	**533,431**	**128**	**25,160**	**7,533,008**
NET BOOK VALUE							
Balance at 31 December 2016	**4,570,097**	**6,128,571**	**201,887**	**1,605,905**	**50,036**	**632,130**	**13,188,626**
Balance at 31 December 2017	**4,522,688**	**6,285,709**	**190,018**	**1,541,885**	**50,036**	**628,674**	**13,219,010**
Balance at 31 December 2018	**3,220,269**	**5,772,762**	**212,935**	**155,758**	**46,354**	**604,156**	**10,012,234**

16/ PROPERTY, PLANT AND EQUIPMENT / CONTINUED

	31 Dec 2018	31 Dec 2017
	(in '000 HRK)	(in '000 HRK)
Property, plant and equipment	10,012,234	13,219,010
Advances for property, plant and equipment	3,964	2,965
Total	**10,016,198**	**13,221,975**

Ownership over land and buildings

The group is in the process of entering land and buildings into appropriate registers proving property ownership. As some municipal land registers are not fully arranged, the registration process lasts longer than for the newly constructed facilities. The owner of the Group, the City of Zagreb, provided a significant part of the assets to the Group for management. The property status has not yet been fully regulated. Part of the assets has been registered since the establishment of the Group and the process for solving the current status is ongoing for the remaining assets.

The structure of land ownership (revalued value) is shown below:

	31 Dec 2018	31 Dec 2017
	(in '000 HRK)	(in '000 HRK)
Registered ownership	2,399,751	3,283,354
Unregistered ownership	820,518	1,239,334
	3,220,269	4,522,688

Review of the residual value

In accordance with the requirements of IAS 16 (Property, plant and equipment), effective for the current accounting period, the Group has reviewed the residual value for depreciation. The review has not identified the need to align the residual value for the current and prior periods.

Impairment of assets

In accordance with IAS 36, when there are indications of impairment of an asset, the stated value should be compared with the recoverable amount and the recoverable amount should be written off. The recoverable amount is a higher amount by comparing the (i) net selling price if the asset can be sold and (ii) the "value in use of that asset", which represents the net present value of future cash flows based on reasonable and substantiated assumptions and best management knowledge of the future economic business conditions and plans. The Company's management believes that the stated amount of tangible assets in the previous table can be recovered over the future period.

Assets pledged as collateral

	31 Dec 2018	31 Dec 2017
	(in '000 HRK)	(in '000 HRK)
Real estate collateral	32,552	41,397

Capitalised borrowing costs under IAS 23

Neither in 2018 nor in 2017 did the Company capitalise borrowing expenses.

17/ INTANGIBLE ASSETS

(in '000 HRK)	Patent, licences and other rights	Goodwill	Other intangible assets	Intangible assets Under construction	Total intangible assets
COST					
Balance at 31 December 2016	**89,978**	-	**115,143**	**5,382**	**210,503**
New purchases	1,598	-	161	688	**2,447**
Transfer from assets under construction	372	-	24	(115)	**281**
Reclassifications (transfers from / to)	-	-	-	(855)	**(855)**
Expenditure, alienation and sales	(478)	-	(8)	-	**(486)**
Balance at 31 December 2017	**91,470**	-	**115,320**	**5,100**	**211,890**
New purchases	1,440	-	507	4,177	**6,124**
Company merger	68	11,811	10	-	**11,889**
Transfer from assets under construction	4,033	-	356	(3,672)	**717**
Reclassifications (transfers from / to)	-	-	-	(878)	**(878)**
Expenditure, alienation and sales	(421)	-	(78)	(355)	**(854)**
The division of the company	(34,187)	-	(9,300)	(3,222)	**(46,709)**
Balance at 31 December 2018	**62,403**	**11,811**	**106,815**	**1,150**	**182,179**
ISPRAVAK VRIJEDNOSTI					
Balance at 31 December 2016	**76,233**		**111,442**	-	**187,675**
Amortisation	6,907		2,352	-	**9,259**
Expenditure, alienation and sales	(428)		(8)	-	**(436)**
Balance at 31 December 2017	**82,712**		**113,786**	-	**196,498**
Amortisation	3,340		443	-	**3,783**
Company merger	51		6	-	**57**
Expenditure, alienation and sales	(421)		(77)	-	**(498)**
The division of the company	(32,057)		(8,798)	-	**(40,855)**
Balance at 31 December 2018	**53,625**		**105,360**	-	**158,985**
NET BOOK VALUE					
Balance at 31 December 2016	**13,745**		**3,701**	**5,382**	**22,828**
Balance at 31 December 2017	**8,758**		**1,534**	**5,100**	**15,392**
Balance at 31 December 2018	**8,778**	**11,811**	**1,455**	**1,150**	**23,194**

18/ INVESTMENT PROPERTY

	2018	2017
	(in '000 HRK)	(in '000 HRK)
Balance at 1 January	**2,138,577**	**1,955,426**
Increase in value for new investments	1,013	17,489
Increase in fair value through profit or loss (net)	90,853	114,742
Transfer to / from property, plant and equipment	14,630	50,920
Division of the Company	(492,418)	-
Balance at 31 December	**1,752,655**	**2,138,577**

During 2018, a fair valuation of real estate investments was carried out on the basis of a valuation performed by qualified appraiser authorized to estimate the value of the property. The gains attributable to the change in the fair value of HRK 90,853 thousand (2017: gains of HRK 114,742 thousand) were determined and included in the consolidated statement of profit or loss

Fair Value Hierarchy	Level 2	Level 3	Fair value as at 31 December 2018
	(in '000 HRK)	(in '000 HRK)	(in '000 HRK)
Warehouses in operating leases	-	1,231,972	1,231,972
Other premises in operating leases	6,445	78,727	85,172
Other real estate held for capital appreciation or for use in an undetermined future	194,463	241,048	435,511
	200,908	**1,551,747**	**1,752,655**

19/ FINANCIAL ASSETS

Financial assets are stated as follows:

	31 Dec 2018	31 Dec 2017
	(in '000 HRK)	(in '000 HRK)
Financial assets at fair value through profit or loss		
Investment in equity	**1,332**	**897**
Current portion	-	-
Non-current portion	*1,332*	*897*
Financial assets at amortised cost		
Deposits with over 1 year maturity	137,618	116,187
Deposits with under 1 year maturity	20,753	56,722
Other securities held until maturity	5,700	8,811
	164,071	**181,720**
Current portion (Note 23)	*26,453*	*65,533*
Non-current portion	*137,618*	*116,187*
Financial assets at fair value through other comprehensive income	**15,990**	**14,780**
Current portion	-	-
Non-current portion	*15,990*	*14,780*
Financial assets total – current portion	**26,453**	**65,533**
Financial assets total – non-current portion	**154,940**	**131,864**

Within equity investments, financial assets (shares) are recorded at fair value with fair value changes recognized through profit or loss. Quoted shares refer to the minority interest owned by banks and other business entities to which the Group has no significant impact.

Deposits with maturities of more than one year are mostly related to the guarantee for repayment of loans and obligations from the lease agreement, due upon the final payment of the obligation..

20/ NON-CURRENT RECEIVABLES

	31 Dec 2018	31 Dec 2017
	(in '000 HRK)	(in '000 HRK)
Non-current portion		
Receivables from related parties	1,497,730	1,296,196
Receivables from loans	7,676	5,866
Receivables from sales on credit	3,173	7,246
Other receivables	312,100	329,451
	1,820,679	**1,638,759**
Current portion – note 23		
Receivables from related parties – note 23	262,165	211,367
Receivables from loans	*6,920*	*8,986*
Receivables from sales on credit	*614*	*1,343*
Other receivables	*12,222*	*11,332*
Other receivables total – current portion – note 23	19,756	21,661
	281,921	**233,028**

Receivables from related parties

	31 Dec 2018	31 Dec 2017
	(in '000 HRK)	(in '000 HRK)
Receivables from a member of the company	1,611,800	1,663,418
Loans to affiliated companies outside the Group	376,597	-
Discontinued receivables from a member of the company	(219,340)	(146,692)
Value adjustment of receivables from a member of the company	(9,162)	(9,163)
	1,759,895	**1,507,563**
Current portion	*262,165*	*211,367*
Non-current portion	*1,497,730*	*1,296,196*

Receivables from owners relate to receivables from the City of Zagreb to finance 50% of the cost of renting sports facility Arena Zagreb in the amount of HRK 323,164 thousand net (2017:HRK 338,682 thousand net), on receivables from the contracts in accordance with IFRIC 12 - Service Concession Arrangements in the amount of HRK 520,736 thousand (2017: HRK 339,787 thousand) and a receivable from the City of Zagreb on lease contracts in the amount of HRK 538,398 thousand (2017: HRK 658,074 thousand).

Loans to affiliated companies relate to long-term loans under the Plan after the statutory change has been made with the establishment of newly created companies (Note 4). Loans to affiliated companies have the same interest as market loans at the time the loan is granted.

20/ NON-CURRENT RECEIVABLES / CONTINUED

Loan receivables

	31 Dec 2018	31 Dec 2017
	(in '000 HRK)	(in '000 HRK)
Long-term loans to third parties	24,011	17,115
Long-term loans to management and employees	1,152	12,188
Impairment of loans receivable	(10,567)	(14,450)
	14,596	**14,852**
Current portion	*6,920*	*8,986*
Non-current portion	*7,676*	*5,866*

Receivables from sales on credit

	31 Dec 2018	31 Dec 2017
	(in '000 HRK)	(in '000 HRK)
Receivables for apartments sold	3,842	8,676
Impairment after discount	(55)	(87)
Discount rate in%	***2.40%***	***2.20%***
	3,787	**8,589**
Current portion	*614*	*1,343*
Non-current portion	*3,173*	*7,246*

Receivables for sold apartments are discounted at a rate corresponding to market yields on government bonds, which in 2018 amounted to 2.4% (in 2017: 2.2%).

Other non-current receivables

	31 Dec 2018	31 Dec 2017
	(in '000 HRK)	(in '000 HRK)
Receivables from the state	323,164	338,682
Other claims	1,158	2,101
	324,322	**340,783**
Current portion	*12,222*	*11,332*
Non-current portion	*312,100*	*329,451*

Receivables from the state in the amount of HRK 323,164 thousand net (31 Dec 2017: HRK 338,682 thousand net) relates to receivables from the Croatian government to finance 50% for Arena sports facility rental.

21/ INVENTORIES

	31 Dec 2018	31 Dec 2017
	(in '000 HRK)	(in '000 HRK)
Raw material and supplies	90,683	126,943
Finished products	153,866	30,190
Work in progress	32,091	168,307
Merchandise (and property in circulation)	37,890	35,372
Prepayments for inventories	1,816	526
	316,346	**361,338**

22/ TRADE AND OTHER RECEIVABLES

	31 Dec 2018	31 Dec 2017
	(in '000 HRK)	(in '000 HRK)
Receivables from related parties	596,341	539,900
Trade receivables	867,523	924,802
Receivables from the state and other institutions	45,482	53,923
Receivables from employees	430	4,630
Other receivables	183,104	168,343
	1,692,880	**1,691,598**

Receivables from related parties

	31 Dec 2018	31 Dec 2017
	(in '000 HRK)	(in '000 HRK)
Receivables from company members - Note 33	334,176	328,533
Current portion of non-current receivables from member companies - Notes 20 and 33	239,702	211,367
Loans to affiliated companies (maturity within 1 year) - Note 20 and 33	22,463	-
	596,341	**539,900**

Trade receivables

	31 Dec 2018	31 Dec 2017
	(in '000 HRK)	(in '000 HRK)
Trade receivables	1,688,827	1,879,274
Impairment of trade receivables	(821,304)	(954,472)
	867,523	**924,802**

22/ TRADE AND OTHER RECEIVABLES / CONTINUED

Trade receivable / continued

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

Trade receivables are reviewed at least twice annually, and reminders are sent for past due amounts, whereas forced collection proceedings are initiated for bad and doubtful accounts (distress and legal actions). Receivables for delivered municipal services to individuals and businesses are not covered by any financial instruments. Receivables for other services delivered to commercial businesses are secured with various financial instruments (bills of exchange, debentures, bank guarantees and similar).

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

The Group also applied the new IFRS 9 standard in a way that customer claims in the country were analysed on a sample of 100% of total receivables in the country. By analysing the age structure, the Company's Management estimates that the receivables will be fully collected

Ageing of receivables past due but not impaired:

	31 Dec 2018	31 Dec 2017
	(in '000 HRK)	(in '000 HRK)
0-60 days	97,255	124,503
60-180 days	35,647	57,592
180-365 days	46,950	66,448
over 365 days	313,156	303,541
	493,008	**552,084**

Movement in impairment allowance for doubtful receivables

	2018	2017
	(in '000 HRK)	(in '000 HRK)
Balance as at 1 January	**954,472**	**834,732**
Impairment losses recognised	100,537	195,969
Amounts written-off as uncollectible	(5,475)	(6,936)
Amounts recovered during the year	(81,058)	(108,245)
Write-off of earlier impaired receivables	(113,461)	38,952
Division of the Company	(33,711)	-
Balance as at 31 December	**821,304**	**954,472**

22/ TRADE AND OTHER RECEIVABLES / CONTINUED

Trade receivables / continued

Ageing analysis of impaired trade receivables

	31 Dec 2018	31 Dec 2017
	(in '000 HRK)	(in '000 HRK)
120-180 days	14,547	4,549
180-365 days	16,898	21,384
over 365 days	789,859	928,539
	821,304	**954,472**

Other receivables

	31 Dec 2018	31 Dec 2017
	(in '000 HRK)	(in '000 HRK)
Prepaid expenses and accrued income	48,626	42,140
Current maturity of non-current receivables - note 20	19,756	21,661
Advances	101,739	93,372
Receivables from insurance companies for damages	4,059	2,613
Impairment of advances	(2,294)	-
Other receivables	11,218	8,557
	183,104	**168,343**

23/ FINANCIAL ASSETS

	31 Dec 2018	31 Dec 2017
	(in '000 HRK)	(in '000 HRK)
Investments to maturity stated at amortized cost	25,700	55,795
Other financial assets	753	9,738
	26,453	**65,533**

24/ CASH AND CASH EQUIVALENTS

	31 Dec 2018	31 Dec 2017
	(in '000 HRK)	(in '000 HRK)
Giro account – HRK	264,737	137,776
Giro account – foreign currency	6,996	12,728
Cash in hand – HRK	1,758	2,239
Cash in hand – foreign currency	1	7
Other cash (court deposits and other cash)	36,969	6,159
	310,461	**158,909**

25/ CAPITAL AND RESERVES

Share capital

The sole owner is the City of Zagreb. As at 31 December 2018, the Company's share capital amounts to HRK 3,177,044 thousand (31 Dec 2017: HRK 3,833,236 thousand), see note 4. Statutory changes.

Revaluation reserves

a/ Reserves from revaluation of property and land	***2018***	***2017***
	(in '000 HRK)	(in '000 HRK)
Opening balance	**2,873,636**	**2,873,636**
Increase (Decrease) from revaluation	4,945	-
Division of the Company	(1,032,672)	-
Closing balance	**1,845,909**	**2,873,636**

b/ Reserves from changes in fair value of financial assets through other comprehensive income :	**2018**	**2017**
	(in '000 HRK)	(in '000 HRK)
Opening balance	**11,295**	**13,901**
Increase (Decrease) from revaluation	1,008	(2,606)
Closing balance	**12,303**	**11,295**

Total revaluation reserves	**1,858,212**	**2,884,931**

Other reserves

Other reserves reported in the statement of financial position (balance sheet) as at 31 December 2018 in the amount of HRK 322,618 thousand (31 December 2017: HRK 322,618 thousand) refer to the share capital of the affiliated companies 2001 (Grad mladih Granešina d.o.o. and Omladinski turistički centar d.o.o.) in the amount of HRK 15,125 thousand and the assets entered in the 2011 by the Assembly Decision in the amount of HRK 304,852 thousand.

Retained earnings

	2018	**2017**
	(in '000 HRK)	(in '000 HRK)
Opening balance	**694,933**	**695,267**
Application of IFRS 15	(84,226)	-
Division of the company	31,872	-
Profit (loss) for the current year	68,910	(334)
Closing balance	**711,489**	**694,933**

26/ LOAN LIABILITIES

	31 Dec 2018	**31 Dec 2017**
	(in '000 HRK)	(in '000 HRK)
Long term loans		
Loans and borrowings	846,339	975,778
Financial lease	648,907	1,217,252
	1,495,246	**2,193,030**
Short term loans		
Loans and borrowings	780,219	446,452
Financial lease	49,712	155,281
Liabilities from financing through the sale of receivables	-	8,849
Other	47,342	47,896
	877,273	**658,478**
Total loans	**2,372,519**	**2,851,508**

The average annual interest rate on bank loans received and financial lease on the balance sheet date is 3.13% (2017: 3.77%).

a / Movement of long-term loans

	2018	**2017**
	(in '000 HRK)	(in '000 HRK)
Balance at 1 January	**1,285,999**	**1,122,898**
Increase for new loans	127,762	480,375
Decrease – loan repayment	(286,065)	(313,996)
Division of the company	(23,849)	-
Effect of foreign exchange differences	(2,641)	(3,278)
Balance at 31 December	**1,101,206**	**1,285,999**
Current maturity	*(254,867)*	*(310,221)*
Long-term portion of the loan	**846,339**	**975,778**

Repayment schedule of long-term loans and borrowings

	31 Dec 2018	**31 Dec 2017**
	(in '000 HRK)	(in '000 HRK)
Within one year	254,867	310,221
From the second to inclusive the fifth year	725,619	783,556
After five years	120,720	192,222
	1,101,206	**1,285,999**

26/ LOAN LIABILITIES / CONTINUED

Financial lease

	Minimal lease payments		Present value of minimal lease payments	
(in '000 HRK)	31 Dec 2018	31 Dec 2017	31 Dec 2018	31 Dec 2017
Within one year	81,486	208,716	49,712	155,281
From the second to inclusive the fifth year	240,496	779,035	131,568	642,027
After five years	694,285	780,257	517,339	575,225
	1,016,267	**1,768,008**	**698,619**	**1,372,533**
Less: future finance expenses	***(317,648)***	***(395,475)***		
Present value of minimal payments	**698,619**	**1,372,533**		
In financial statements under:				
Current liabilities	*49,712*	*155,281*		
Non-current liabilities	*648,907*	*1,217,252*		

Finance lease liabilities relate to the equipment (means of transport) and building (Arena) that were leased for a period of 5-28 years. Upon expiration of the lease agreement, the Group may redeem the asset at the agreed value. Group's liabilities under finance leases are secured by the property of the lessor over the subject of the lease.

in the same amount of total financial lease obligations for the sports hall the Group has recorded receivables from the owner and the state (notes 20 and 33).

The present value of assets under finance leases is as follows:

	Buildings	Vehicles	Total
	(in '000 HRK)	(in '000 HRK)	(in '000 HRK)
Purchase value	818,881	1,581,686	2,400,567
Impairment	(92,124)	(523,287)	(615,411)
Net book value 31 December 2017	**726,757**	**1,058,399**	**1,785,156**
Purchase value	818,881	118,285	937,166
Impairment	102,360	(41,563)	(60,797)
Net book value 31 December 2018	**716,521**	**76,722**	**876,369**

26/ LOAN LIABILITIES / CONTINUED

Short-term loans and borrowings

	31 Dec 2018	31 Dec 2017
	(in '000 HRK)	(in '000 HRK)
Short term loans and borrowings	780,219	455,267
Short term loans and borrowings	*525,352*	*145,046*
Current maturity of long-term loans	*254,867*	*310,221*
Current maturity of financial lease	49,712	155,281
Other (interests on loans and bonds)	47,342	47,930
	877,273	**658,478**

Movement in short term loans and borrowings

	2018	2017
	(in '000 HRK)	(in '000 HRK)
Balance at 1 January	**455,267**	**340,947**
Increase for new loans and borrowings	810,500	755,046
Decrease for repayment of current maturity of long-term loans (see note „Movements in long-term loans")	(310,221)	(340,947)
Current maturity of long-term loans	254,867	310,221
Decrease for repayment of loans and borrowings	(430,194)	(610,000)
Balance at 31 December	**780,219**	**455,267**

27/ BOND LIABILITIES

	2018	2017
	(in '000 HRK)	(in '000 HRK)
Nominal value	2,300,000	2,300,000
Premium	7,752	9,286
Discount	(34,545)	(41,282)
Cost of issuance of bonds	(21,850)	(24,739)
Current value of bonds	**2,251,357**	**2,243,265**

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

In July 2017, the Company issued bonds in the nominal amount of HRK 500,000 at a fixed interest rate of 3.875% and an issuing price of 102.00%. In July 2017, the rest of the liability for issued Euro bonds matured in July 2017 was repaid in full.

The average annual interest rate on bonds at the balance sheet date was 3.875% (2017: 3.875%).

28/ OTHER NON-CURRENT LIABILITIES

	31 Dec 2018	31 Dec 2017
	(in '000 HRK)	(in '000 HRK)
Liabilities to related parties (note 33)	65,857	68,320
Trade payables	506	3,132
Other non-current liabilities	2,934	1,825
	69,297	**73,277**

Liabilities to related parties as of 31 Dec 2018 refer to the liability towards the owner of the land and the liability for municipal contribution.

Other long-term liabilities in the statement of financial position (balance sheet) as at 31 December 2018 in the amount of HRK 2,934 thousand (31 Dec 2017: HRK 1,825 thousand) relate to liability towards the State for the sale of apartments to employees in accordance with the state program. According to the then statutory regulations, 65% of the income realized from the sale of apartments to employees was paid to the state upon receipt of funds. According to the Act, the Company has no obligation to allocate funds before collection from employees.

29/ PROVISIONS

	31 Dec 2018	31 Dec 2017
	(in '000 HRK)	(in '000 HRK)
Provisions for employee benefits under IAS 19	126,885	207,632
Provisions for legal disputes	236,741	281,357
Provisions for landfill reparation	49,964	56,238
Provisions for other liabilities	132	5,588
	413,722	**550,815**
Current liability (note 31)	*52,964*	*43,413*
Non-current liability	*360,758*	*507,402*

Changes in provisions during the year (in '000 HRK)	Employee benefits	Legal disputes	Landfill reparation and other	Provisions total
Balance at 31 December 2016	**179,128**	**270,325**	**51,464**	**500,917**
New provisions	33,037	35,580	10,362	**78,979**
Reversal of provisions / payments	(4,533)	(24,548)	-	**(29,081)**
Balance at 31 December 2017	**207,632**	**281,357**	**61,826**	**550,815**
New provisions	16,804	22,049	1,370	**40,223**
Reversal of provisions / payments	(2,168)	(53,135)	(13,100)	**(68,403)**
Division of the company	(95,383)	(13,530)	-	**(108,913)**
Balance at 31 December 2018	**126,885**	**236,741**	**50,096**	**413,722**

29/ PROVISIONS / CONTINUED

Provisions for employee benefits arise from the Collective Agreement, and the level of provisions was determined in accordance with IAS 19 "Employee Benefits". They consist of provisions for severance payments and retirement benefits, long-service benefits and solidarity support. They are measured at the present value of costs expected to be incurred to settle the obligation, using a discount rate of 2.4%.

The landfill restauration provision relates to the cost of maintenance and surveillance over the Jakuševac Landfill over the next 30 years from its closing for environmental protection purposes in accordance with IAS 37 "Provisions, Contingent Liabilities and Contingent Assets". The provisions are discounted. Provisions for legal disputes relate to provisions allocated for legal actions initiated against the Group, following the knowledge of a claim being initiated and on the basis of the estimated final outcome of the litigation. In the opinion of the Management, the level of provisions is sufficient to cover any future potential liabilities.

30/ DEFERRED INCOME

	31 Dec 2018	31 Dec 2017
	(in '000 HRK)	(in '000 HRK)
Deferred income	3,479,199	4,089,689

Deferred income relates to assets received or financed by local self-government units and other legal entities, free of charge, which are reported in the balance sheet / statement of financial position under deferred income. The decrease in deferred income is recognised in the statement of profit or loss proportionally over the useful life of respective assets as revenue in the amount of calculated depreciation of assets in accordance with IAS 20

31/ TRADE AND OTHER PAYABLES

	31 Dec 2018	31 Dec 2017
	(in '000 HRK)	(in '000 HRK)
Liabilities to affiliated companies (Note 33)	29,777	112,712
Accounts payable	529,014	578,643
Liabilities to employees for net salaries and fees	51,239	98,532
Liabilities for advances, deposits and guarantees	17,737	15,700
Other liabilities	525,415	531,898
	1,153,182	**1,337,485**

Other liabilities

	31 Dec 2018	31 Dec 12.2017
	(in '000 HRK)	(in '000 HRK)
Liabilities under recharged services	214,341	187,692
Deferred income from sale	50,459	86,524
Taxes and contributions on salaries and fees	29,784	64,187
Accrued expenses that are not invoiced and charged to the current period	122,249	91,450
Current portion of long-term provisions (Note 29)	52,964	43,413
VAT liability	26,096	34,232
Deferred VAT in advance	8	-
Other liabilities for compensation under arrangements	10,018	18,839
Obligation for membership, fees and taxes	19,496	5,561
	525,415	**531,898**

32/ OFF-BALANCE SHEET ITEMS

	31 Dec 2018	31 Dec 2017
	(in '000 HRK)	(in '000 HRK)
Off-balance sheet items	185,275	364,170

Off-balance sheet items as at 31 December 2018 refer to guarantees and debentures, received guarantees and debentures, received equipment in operating leases, City guarantee and other materially less significant.

33/ RELATED PARTY TRANSACIONS

Trading transactions:

	Sales revenue		Goods and service expenses	
	2018	2017	2018	2017
	(in '000 HRK)	(in '000 HRK)	(in '000 HRK)	(in '000 HRK)
City of Zagreb	702,706	942,667	18,367	17,076
	702,706	**942,667**	**18,367**	**17,076**

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

	Receivables from related parties		Liabilities to related parties	
	2018	2017	2018	2017
	(in '000 HRK)	(in '000 HRK)	(in '000 HRK)	(in '000 HRK)
City of Zagreb	334,176	328,533	29,434	112,712
	334,176	**328,533**	**29,434**	**112,712**

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

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

33/ RELATED PARTY TRANSACTIONS / CONTINUED

Other non-current liabilities

	31 Dec 2018	31 Dec 2017
	(in '000 HRK)	(in '000 HRK)
Loans to related parties outside of Group	376,597	-
City of Zagreb (note 20)	1,383,298	1,507,563
	1,759,895	**1,507,563**

other non-current liabilities

	31 Dec 2018	31 Dec 2017
	(in '000 HRK)	(in '000 HRK)
City of Zagreb (note 28)	65,857	68,320

Loans to related parties outside the Group relate to long-term loans to newly established entities under the Plan after the statutory change with the maturity of 10 years. Contracted interest rates can be compared with market interest rates by which the Group can borrow money on the market. Loans are secured by means of debentures.

Apart from the City of Zagreb, the Group's related parties are the Management Board and the members of the Supervisory Board. The members of the Management Board (the Company's Management, Branch Managers and Directors of Affiliated Companies) and the Supervisory Board received the following remuneration:

	2018	2017
	(in '000 HRK)	(in '000 HRK)
Salaries of Management Board and Branch Directors	9,330	10,572
Fees of Supervisory and Auditing Board	1,102	991
	10,432	**11,563**

34/ EMPLOYEE BENEFITS

As of 31 December 2018, provisions for employee benefits, which include jubilee awards, severance payments and solidarity support, amount to HRK 126,885 thousand (31 December 2017: HRK 207,632 thousand).

Jubilee awards, severance payments and solidarity support

According to the Collective Agreement, the Group has the obligation to pay jubilee awards to its employees. These companies have a defined benefit plan for employees who meet certain criteria. Under the Annex 5 of basic collective agreement, as of 1 January 2019 jubilee awards are paid in the event of profit after taxation in amounts related to the average salary paid per employee in the Zagreb, according to the following years of working life in the Company:

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

34/ EMPLOYEE BENEFITS / CONTINUED

Given that companies are not in a position to assess all the conditions required to calculate the present value of the provisions for jubilee awards resulting from the Annex 5 to the CA, the financial statements at 31 December 2018 include a current undiscounted liability for jubilee awards for the total number of employees who will be entitled to a jubilee award in the following business year.

At the time of regular retirement, the employee under the Collective Agreement is entitled to compensation in the amount of 3 average monthly salaries paid out in the Zagreb in the previous three months.

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

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

The present value of defined benefit obligations and the related current and past service costs have been determined using the Projected Credit Unit method and the discount rate of 2.4% (2017: 2.2%), which reflects the market yield on government bonds.

Actuarial estimates are made based on the following key assumptions:

	2018	2017
Discount rate	2.40%	2.20%
Fluctuation rate	average 4%	average 5%
Average expected remaining service period (in years)	19	22

The amount reported in the statement of financial position (balance sheet) in respect of defined retirement payments and jubilee awards:

	31 Dec 2018	31 Dec 2017
	(in '000 HRK)	(in '000 HRK)
The present value of the liability for employee benefits reported in the statement of financial position (balance sheet)	126,885	207,632

35/ FINANCIAL INSTRUMENTS

Capital risk management

Net capital to debt ratio

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

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

	31 Dec 2018	31 Dec 2017
	(in '000 HRK)	(in '000 HRK)
Debt	***3,977,548***	***4,393,560***
Borrowings, loans and finance leases (long-term and short-term portion)	2,372,519	2,851,508
Liabilities for long-term securities	2,251,357	2,243,265
-based on the financial lease of the Arena Hall (also shown as a receivable from the City of Zagreb and the Government of the Republic of Croatia)	(646,328)	(677,364)
- liabilities for ZET branch loan; for which there is simultaneously the receivable from the City of Zagreb (because of the guarantees given by the City of Zagreb for the payment of the above liabilities)	-	(23,849)
Cash on hand and balances with banks	***310,461***	***158,909***
Net debt	***3,667,087***	***4,234,651***
Capital	***6,080,847***	***7,746,104***
Net debt and equity ratio	**60.30%**	**54.67%**

35/ FINANCIAL INSTRUMENTS / CONTINUED

Categories of financial instruments

	31 Dec 2018	31 Dec 2017
	(in '000 HRK)	(in '000 HRK)
Financial assets		
Cash on hand and balances with banks	310,461	158,909
Financial assets carried at fair value	1,332	897
Long-term deposits and other financial assets	164,071	181,740
Financial assets available for sale	15,990	14,760
Receivables from affiliated companies and trade receivables	2,961,594	2,760,898
Receivables from loans and sale on credit	18,383	23,441
Receivables from employees	430	4,630
Other receivables	487,670	541,386
Financial liabilities		
Finance lease agreements	698,919	1,372,532
Received loans and borrowings (long-term and short-term maturity)	1,626,568	1,478,976
Liabilities for issued non-current securities	2,251,357	2,243,265
Liabilities to affiliated companies and trade payables	625,154	762,805
Liabilities for advances, deposits and guarantees	17,737	15,700
Liabilities for employee benefits	51,239	98,532
Other current liabilities	402,550	124,278

Objectives of management of financial risk

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

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

The key risks and methods of their management are described below. The Group did not use any derivative instruments to manage the risks. The Group does not use derivatives for speculative purposes.

Market risk

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

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

Foreign currency risk management

The Group undertakes certain transactions denominated in foreign currencies. Hence, exposures to exchange rate fluctuations arise.

35/ FINANCIAL INSTRUMENTS / CONTINUED

Foreign currency risk management

The carrying amounts of the Group's foreign-currency denominated monetary assets and monetary liabilities at the reporting date are provided in the table below.

	Liabilities		Assets	
	31 Dec 2018	31 Dec 2017	31 Dec 2018	31 Dec 2017
	(in '000 HRK)	(in '000 HRK)	(in '000 HRK)	(in '000 HRK)
EUR	933,218	1,469,690	1,087,119	1,440,248

Foreign currency sensitivity analysis

The Group is predominantly exposed to foreign currency risk of exchange rate fluctuations in relation to EUR based on long-term loan liabilities, of which 21% are related to EUR, while the issue of the HRK bonds and repurchase of Eurobonds significantly reduced the Group's exposure to currency risk. The following table analyses the Group's sensitivity to an 1% increase in the HRK exchange rate relative to the relevant foreign currencies. The 1% sensitivity rate is the rate used in the internal currency risk reporting and represents the Group's estimate of the realistic possible exchange rate movements of the HRK against the EUR. Sensitivity analysis includes monetary assets and monetary liabilities in the currency. The negative figure shows a decrease in the profit if HRK to the relevant currency is changed for the above percentages. In the case of a reverse proportional change in the value of HRK relative to the relevant currency, there would be an equal and opposite impact on the profit.

	EUR effect	
	31 Dec 2018	31 Dec 2017
	(in '000 HRK)	(in '000 HRK)
Profit / (loss)	3,552	(294)

Interest rate risk management

The Group is not significantly exposed to interest rate risk since 12% of total loan liabilities are related to floating interest rates. Of the total loan liabilities of the Group 88% were contracted with a fixed interest rate. The largest portion of fixed-interest credit liabilities refers to issued HRK bonds with a coupon rate of 3,875% per annum.

Credit risk management

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

Customers are classified into risk groups based on the financial indicators and own trading records, and appropriate credit risk mitigation measures are taken for each risk class. Customers are classified mainly on the basis of their official financial statements and the Group's history of trading with each customer.

The Group transacts with a large number of customers from various industries and of various size, as well as with citizens (individuals). Trade receivables are presented net of allowance for bad and doubtful receivables

Liquidity risk management

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

35/ FINANCIAL INSTRUMENTS / CONTINUED

Liquidity risk management / continued

Liquidity and interest rate risk tables

The following tables detail the Group's remaining contractual maturity for its non-derivative financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The tables include both principal and interest cash outflows.

(in '000 HRK)	Average weighted interest rate	Up to 1 year	1-2-years	2-3 years	3-4 years	4-5 years	After 5 years	Total
31 December 2018	%							
Interest free								
Liabilities to associates and trade payables		562,257	2,960	2,960	2,960	2,352	51,665	625,154
Liabilities for advances, deposits and guarantees		17,737	-	-	-	-	-	17,737
Employee benefit liabilities		51,239	-	-	-	-	-	51,239
Other current liabilities		399,616	-	-	-	-	-	399,616
Instruments with floating interest rate								
Financial lease	4.68%	81,487	73,988	59,693	53,407	53,407	694,285	1,016,267
Loans and borrowings	3.02%	170,534	86,353	74,716	73,229	62,809	32,403	500,044
Instruments with fixed interest rate								
Bonds	3.88%	89,125	89,125	89,125	89,125	2,389,125	-	2,745,625
Loans and borrowings	2.66%	646,582	63,636	307,020	55,582	54,146	94,440	1,221,406
		2,018.577	**316,062**	**533,514**	**274,303**	**2,561,839**	**872,793**	**6,577,088**

35/ FINANCIAL INSTRUMENTS / CONTINUED

Liquidity risk management / continued

Liquidity and interest rate risk tables

	Average weighted interest rate	Up to 1 year	1-2-years	2-3 years	3-4 years	4-5 years	After 5 years	Total
31 December 2017	%							
Interest free								
Liabilities to associates and trade payables		693,354	5,132	2,000	2,000	2,000	58,320	762,806
Liabilities for advances, deposits and guarantees		15,700	-	-	-	-	-	15,700
Employee benefit liabilities		98,532	-	-	-	-	-	98,532
Other current liabilities		122,453	365	365	365	365	365	124,278
Instruments with floating interest rate								
Financial lease	4.20%	155,281	439,672	73,622	65,533	63,199	575,225	1,372,532
Loans and borrowings	2.71%	399,192	165,614	77,340	67,751	68,412	90,000	868,309
Instruments with fixed interest rate								
Bonds	3.88%	-	-	-	-	2,243,265	-	2,243,265
Loans and borrowings	2.93%	103,956	77,822	275,556	25,556	25,556	102,222	610,688
		1,588,468	**688,605**	**428,883**	**161,205**	**2,402,797**	**826,132**	**6,096,090**

35/ FINANCIAL INSTRUMENTS / CONTINUED

Liquidity risk management / continued

Liquidity and interest rate risk tables

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

	Average weighted interest rate	Up to 1 year	1-2-years	2-3 years	3-4 years	4-5 years	After 5 years	Total
(in '000 HRK)	%							
31 December 2018								
Interest free								
Cash and cash equivalents		310,461	-	-	-	-	-	310,461
Financial liabilities at fair value		17,322	-	-	-	-	-	17,322
Receivables from associates and trade receivables		1,202,891	-	-	-	-	-	1,202,891
Receivables from employees		430	-	-	-	-	-	430
Other receivables		190,551	27,192	26,828	26,708	26,708	347,180	645,167
Instruments with floating interest rate								
Deposits and other securities	1.56%	874	873	874	874	874	56,436	60,805
Instruments with fixed interest rate								
Deposits and other securities	2.33%	33,091	2,298	2,298	2,298	4,956	67,492	112,433
Loans	5%	7,412	4,372	-	-	-	-	11,784
Receivables from housing loans	1%	195	272	249	235	128	96	1,175
Loans to associates	3.88%	32,230	52,688	51,162	49,637	48,112	217,692	451,521
Receivables from associates		278,358	301,613	253,031	237,075	232,061	695,477	1,997,615
		2,073,815	**389,308**	**334,442**	**316,827**	**312,839**	**1,384,373**	**4,811,604**

35/ FINANCIAL INSTRUMENTS / CONTINUED

Liquidity risk management / continued

Liquidity and interest rate risk tables

	Average weighted interest rate	Up to 1 year	1-2-years	2-3 years	3-4 years	4-5 years	After 5 years	Total
(in '000 HRK)								
31 December 2017	%							
Interest free								
Cash and cash equivalents		158,909	-	-	-	-	-	158,909
Financial liabilities at fair value		897	-	-	-	-	-	897
Receivables from associates and trade receivables		1,464,702	223,793	184,441	160,103	150,838	577,021	2,760,898
Receivables from employees		4,630	-	-	-	-	-	4,630
Other receivables		211,937	13,974	12,442	13,037	13,661	276,334	541,385
Other current receivables								
Instruments with floating interest rate								
Deposits and other securities	2.00%	1,120	1,120	1,120	1,120	1,120	71,880	77,480
Instruments with fixed interest rate								
Deposits and other securities		65,939	1,742	1,742	1,742	4,364	50,620	126,149
Loans	4.00%							
Receivables from housing loans	1.00%	1,343	1,343	1,343	1,343	1,343	1,874	8,589
Loans to associates	4.00%	8,986	4,459	735	735	735	3,161	18,811
		1,918,463	**246,431**	**201,823**	**178,080**	**172,061**	**980,890**	**3,697,748**

35/ FINANCIAL INSTRUMENTS / CONTINUED

Fair value of financial instruments

Fair value measurements recognized in the statement of financial position / (balance sheet)

The table below analyses the financial instruments subsequently measured at fair value, classified within 3 groups according to availability of fair value indicators:

Level 1 indicators – indicators are derived from quoted prices in active market for identical assets or liabilities

Level 2 indicators – are indicators other than quoted market prices included within Level 1, that are observable directly (i.e. their prices) or indirectly (i.e. derived from prices), and

Level 3 indicators – indicators derived using valuation methods in which asset data or liabilities that are not based on available market data (unavailable input data) are used as input data.

(in '000 HRK)	Level 1	Level 2	Level 3	31 Dec 2018 Total
Financial assets at fair value through profit or loss				
– equity investment	-	-	1,332	1,332
	-	**-**	**1,332**	**1,332**

(in '000 HRK)	Level 1	Level 2	Level 3	31 Dec 2017 Total
Financial assets at fair value through profit or loss				
– equity investment	411	-	486	897
	411	**-**	**486**	**876**

36/ COMMITMENTS

The Group has concluded contracts whose execution has begun but has not been completed. The value of the investment to be incurred under these contracts is estimated at HRK 210,441 thousand.

37/ LEGAL DISPUTES

The group is exposed to various court disputes. The Management believes that provision for legal disputes that was made in the amount of HRK 236,741 thousand (31 December 2017: HRK 281,357 thousand) is sufficient for possible liabilities that could be incurred (Note 29).

38/ CONTINGENT LIABILITIES

Environmental Protection

Within the Group is the ZGOS subsidiary, whose main activity is the disposal of municipal and other waste, as well as the rehabilitation of the Jakuševac landfill and the assistance to the City of Zagreb in the establishment of a long-term strategy for the development of a municipal waste management system in the City of Zagreb. The impact of these activities on the environment is monitored by local authorities and state-level environmental protection bodies. In accordance with IAS 37 "Provisions, Contingent Liabilities and Contingent Assets", the Group (ZGOS subsidiary) booked the amount of HRK 49,964 thousand (31 Dec 2017: HRK 56,238 thousand) (Note 29) in respect of future costs of maintenance and control over the landfill.

39/ EVENTS AFTER THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION / BALANCE SHEET DATE

There were no events after the consolidated statement of financial position / (balance sheet) that require disclosure in the financial statements.

40/ PENSION INSURANCE

The Group does not have any special model of pension insurance for its employees or the Management Board. Consequently, no provision for these expenses has been entered.

For employees of the Group employed in the Republic of Croatia, statutory contributions to pension insurance are paid. These contributions form the basis for pensions paid by the Croatian Pension Fund to Croatian workers after their retirement. Currently the Group has no outstanding liabilities for unpaid pensions, either for current or former employees.

41/ LEGAL AND REGULATORY FRAMEWORK

The Group's operations, as well as revenue recovery, are the subject of several laws of which the most significant are:

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

42/ APPROVAL OF CONSOLIDATED FINANCIAL STATEMENTS

These financial statements were adopted by the Management and authorized for issue on 24 April 2019

Ana Stojić Deban,
President of the Management Board

Daniela Franić,
Member of the Management Board

Bernard Mršo,
Member of the Management Board

Marica Dusper,
Member of the Management Board

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