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**Bajo, Anto; Primorac, Marko**

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# Zagreb Holding: Time for restructuring

ANTO BAJO Institute of Public Finance

MARKO PRIMORAC Faculty of Economics and Business Zagreb

*Zagreb Holding needs to be restructured, relieved of its supporting activities and organised as a pure utility company. Some of the Holding's current activities constitute an obstacle to market development, market competition and entrepreneurship. The company's market-related activities produce losses which further weaken its financial position that can be seriously damaged unless radical restructuring is undertaken.*

## 1 INTRODUCTION

Zagrebački holding d.o.o. (Zagreb Holding) is the largest local unit-owned company in Croatia. Its financial performance is controversial, and its actual financial position has been unknown to the general public. The main goal of this article is to establish and evaluate the financial position of the Holding and to identify the main financial risks in its operation. An analysis of the Company's business has been made in the 2006-2011 period, based on its financial statements. The assessment of movements in bond yields was based on the Bloomberg system information. The City Assembly of Zagreb on 20 December adopted a Report on the Zagreb Holding's business operations for the January-December 2012 period. Unfortunately, the report is not publicly available and could therefore not be used in this analysis.<sup>1</sup>

## 2 THE CORE BUSINESS OF THE HOLDING

Zagreb Holding was founded on 1 January 2007 by transferring the stakes and shares of 22 companies from the City of Zagreb to the Gradsko komunalno gospodarstvo

d.o.o. (City Utility Services) company. Pursuant to the transfer agreement (of 27 December 2005), the City of Zagreb, through a debt conversion, increased the Company's share capital to over 4 billion kuna. Since its foundation, the Company has undergone numerous status changes. In 2012, it comprised 18 branches and owned six companies and one institution, which together constitute the Zagreb Holding Group. The Company has holdings in six profit and non-profit institutions. The City is the 100-percent owner of 25 companies; it has a 51-percent holding in one company (Zagreb plakat d.o.o.) and 50-percent holdings in two companies (Terme Zagreb and Apis d.o.o.). It further has holdings of about 35% in two companies (Water Supply and Zagreb Airport) and a 13% stake in one company (Bicro biocentar d.o.o.). Interestingly, the Water Management Company (Vodoprivreda d.d.), in which the Holding currently holds a 30.1-percent stake, was privatised in 2006. The privatisation was carried out under the Water Act (Official Gazette 107/95), which envisages the privatisation of at least 51% of the water management companies' capital. Pursuant to Amendments to the Water Act (Official Gazette 150/05), the privatisation should have been completed by the end of 2006.

The Holding's activities generally include three business areas: municipal, transport and market-related

<sup>1</sup> According to the 2009 Rules on Company Organisation, the Directorate embodies corporate and management functions (State Audit Office, 2012).

**Table 1***Employees of the Holding, 2007-2010*

Activities	2007	2008	2009	2010
Market-related	1,841	2,317	2,358	2,346
Municipal	5,411	5,729	5,771	5,682
Transport	4,644	4,749	4,839	4,873
<b>Total number of employees in activities</b>	<b>11,896</b>	<b>12,795</b>	<b>12,968</b>	<b>12,901</b>
Directorate	n/a	n/a	n/a	133
<b>Total: Directorate + activities</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>	<b>13,034</b>

Source: Zagreb Holding.

Note: n/a – not available.

activities, with about 12 thousand employees. Including the Directorate, the Holding has about 13 thousand employees. The bulk of employees work in municipal activities (about 5,700), followed by those in transport (4,900) and market-related activities (2,300).

It is worth noting that the companies classified by the Holding as transport companies are treated as utility companies under the Utilities Act. The main mission of utility companies is to provide public services and ensure the coverage of their expenses by revenues. However, the companies within the Holding significantly monopolise the market in part of their operations and, by receiving subsidies from the City, directly distort market competition. The provisions of the Utilities Act should not apply to the Holding-owned companies pursuing market-related activities, but they should rather be subject to the Competition Act (Official Gazette 79/09). For example, the City of Zagreb is the founder of the Zagreb plakat d.o.o. company, operating on the external advertising market (billboards), but it is also the „regulator“, deciding on the allocation of and terms of leasing

the advertising space. This is an undesirable situation discouraging market competition and market economy development (CCA, 2007).

The existence of companies engaged in market-related activities within the Holding is also dubious. The Holding's 2011 Annual Report clearly shows that these are not profit-making activities, and should therefore be excluded from the Company's core business during its restructuring. On the other hand, it is questionable why the Water Management Company was privatised in 2006.

### 3 FINANCIAL PERFORMANCE

The Holding's operating revenues are sufficient to regularly cover its operating expenses. This shows that the Company's operation is regular and stable. Operating revenues have largely been stable, with a relatively sizeable increase (21%) recorded in 2009, as a result of higher receipts from the sale and distribution of gas and income from the construction and sale of flats. However, material costs rose by 40% in 2009 (due to in-

**Table 2***Financial performance of Zagreb Holding, 2006-2011 (in million HRK)*

	2006	2007	2008	2009	2010	2011
Operating revenues		5,329	4,960	5,750	5,403	5,375
Operating expenses	4,460	5,244	4,930	5,495	5,509	5,315
Financial revenues	125	193	302	212	125	112
Financial expenses	122	229	286	403	479	499
Total revenues	4,683	5,522	5,262	5,962	5,528	5,486
Total expenses	4,582	5,473	5,216	5,898	5,988	5,814
Profit/loss before tax	100	49	46	64	-461	-328
Corporate income tax	-18	-11	-17	-25	-8	-6
Profit/loss of the current year	82	38	29	39	-469	-334

Source: Zagreb Holding.

creased sales of flats and business premises, i.e. higher costs of sold inventories that are booked as costs only at the time of sale of the real estate). In 2010, operating revenues declined, so that the Holding reported an operating loss and a total net loss. In 2010 and 2011, the Company reported losses of 469 million and 334 million kuna respectively, due to large financial expenses resulting from imprudent financial management and high costs of borrowing.

Total financial expenses rose to 499 million kuna in 2011, mainly due to growing interest expenses and negative exchange rate differentials. Interest on lease contracts, relating to equipment (transportation facilities) and real estate (Arena Zagreb) also represented a heavy burden. The Company's liabilities arising from leasing contracts were collateralised by the lessor's ownership of the property. The weighted average effective interest rates on variable interest rate instruments were falling.

**Table 3**  
Financial expenses of Zagreb Holding, 2006-2011 (in million HRK)

No	Item	2006	2007	2008	2009	2010	2011
1	Interest expenses	93.7	160.1	233.1	270.4	284.2	298.2
2	Negative exchange rate differentials	27.5	67.1	30.2	27.0	82.9	137.3
3	Interest on lease contracts			9.9	73.8	58.3	60.0
4	Other	0.6	2.0	2.5	2.6	9.2	0.0
5	<b>Total (1+2+3+4)</b>	<b>121.8</b>	<b>229.2</b>	<b>275.7</b>	<b>373.9</b>	<b>434.6</b>	<b>495.5</b>
6	Related companies			0.8	2.4	1.7	1.6
7	Other expenses			9.7	28.0	42.9	1.8
8	<b>Total</b>	<b>121.8</b>	<b>229.2</b>	<b>286.2</b>	<b>403.4</b>	<b>479.3</b>	<b>498.9</b>

Note: Since 2008, the first five items in the Table have only related to financial expenses arising from transactions with unrelated companies, whereas item 8 (total financial expenses) has comprised total financial expenses arising from both related and unrelated companies. Such classification (into financial expenses arising from transactions with related and with unrelated companies) is not available for the years before 2008, but the amounts of individual items are presented in aggregate form (including transactions with both related and unrelated companies).

Source: Zagreb Holding.

**Table 4**  
Weighted average effective interest rates, 2008-2011 (in %)

	2008	2009	2010	2011
<b>Variable interest rate instruments</b>				
Liabilities arising from finance lease	7.50	5.16	3.84	4.16
Credit and loans	7.51	5.30	4.64	5.08
<b>Fixed interest rate instruments</b>				
Credit and loans	6.82	6.87	6.92	7.00
Bonds issued	5.50	5.50	5.50	5.50

Source: Zagreb Holding Consolidated Financial Statements with an Independent Auditor's Report for 2009, 2010 and 2011.

## FINANCIAL EXPENSES AND FINANCIAL MANAGEMENT

In early 2006, financial revenues exceeded financial expenses, so that the Company made a financial profit. However, by 2011, financial revenues dropped by 10%, while financial expenses increased four times. The main source of the negative financial performance was the uncontrolled growth of financial expenses (Table 3).

<sup>2</sup> The surplus of financial revenues over financial expenses in 2008 was exclusively due to the reporting of proceeds from the sale of a 49% stake in Zagreb plakat d.o.o. in an amount of 109 million kuna.

However, new borrowing increases the weighted average effective interest rates on fixed interest rate instruments (except of issued bonds which have a fixed interest rate because it applies to only one bond issue). Interest expenses on debt instruments are exceptionally high, despite the high-quality debt collateral instruments including the City of Zagreb guarantees.

## PROBLEMS WITH LEASE CONTRACTS

Since 2009, the Holding has received qualified auditor's opinions, due to incorrect classification of lease

**Table 5***Potential outcomes of a correct classification of lease contracts (in million HRK)*

Item	2009	2010	2011
Receivables from financial lease contracts (+)	1,039	899	773
Property, plant and equipment (-)	1,140	1,066	982
Retained earnings (-)	15	99	164
Profit(-)/loss(+)	85	69	45

Source: Zagreb Holding Consolidated Financial Statements with an Independent Auditor's Report for 2009, 2010 and 2011.

contracts entered into by the Holding during 2008 and 2009, which were reported as operating leases. The initial classification of these contracts was not in compliance with the International Accounting Standard 17 "Leases", which classifies a lease as a finance lease if the current value of minimum future payments under the contract is approximately equal to the fair value of the leased asset (as was the case with the leases entered into by the Holding). Had the Holding recorded its lease contracts in accordance with IAS 17, i.e. as finance leases, receivables from financial lease contracts (in net terms, against earned future income) would have increased, while the values of real property, plant and equipment, as well as retained earnings would have decreased. Had the Holding recorded the lease con-

tracts (entered into in 2008 and 2009) correctly, it would have made a loss of 46 billion kuna, instead of a profit of 39 billion kuna in 2009. In 2010 and 2011, the loss would have increased by 69 million kuna and 45 million kuna respectively (Table 5).

The bulk of the Holding's losses were due to the operating losses of the Zagreb Electric Transport (ZET) branch (to which the lease contracts related) and of the branches pursuing market-related activities. This confirms the need for the ZET restructuring and excluding the companies engaged in market-related activities from the Holding. Additional causes of growth in financial expenses can be established by examining the size and structure of financial liabilities.

**Table 6***Financial liabilities of the Holding, 2006-2011 (in million HRK and %)*

No	Item	2006	2007	2008	2009	2010	2011
million HRK							
1	Lon-term liabilities (2+3)	1,299	3,683	5,126	5,970	5,673	5,431
2	to credit institutions	1,299	1,485	2,923	3,754	3,457	3,172
3	for own bonds issued		2,198	2,203	2,216	2,216	2,259
4	Short-term liabilities (5+6+7+8)	224	498	537	545	995	1,270
5	credit, loans and finance leases	68	69	92	176	637	849
6	for securities issued	21	10	2			
7	other (interest payable)		64	87	92	85	97
8	short-term portion of long-term credit	135	356	355	277	273	325
9	Total financial liabilities	1,523	4,181	5,663	6,516	6,668	6,701
as a % of total financial liabilities							
1	Lon-term liabilities (2+3)	85.3	88.1	90.5	91.6	85.1	81.0
2	to credit institutions	85.3	35.5	51.6	57.6	51.8	47.3
3	for own bonds issued		52.6	38.9	34.0	33.2	33.7
4	Short-term liabilities (5+6+7+8)	14.7	11.9	9.5	8.4	14.9	19.0
5	credit, loans and finance leases	4.5	1.6	1.6	2.7	9.6	12.7
6	for securities issued	1.4	0.2	0.0			
7	other (interest payable)		1.5	1.5	1.4	1.3	1.4
8	short-term port. of long-term cred.	8.9	8.5	6.3	4.3	4.1	4.8
9	Total financial liabilities	100	100	100	100	100	100

Source: Zagreb Holding.

## THE SIZE AND STRUCTURE OF FINANCIAL LIABILITIES

Total (long-term and short-term) financial liabilities of the Holding (loans, leases, financial leases, bonds and interest) grew from HRK 1.5bn in 2006 to HRK 6.7bn in 2011. The upsurge in liabilities was the consequence of a 300 million euro bond issue in 2007 and a substantial increase in credit liabilities. According to the financial statement data, the funds raised by borrowing were initially placed with banks, but then spent by the end of 2009, mainly on the purchases of land and construction facilities.

In addition to the bond issue, an interest rate swap was agreed, so that, instead of paying a fixed interest of 5.5% on the bond, the Holding paid a lower fixed rate (3.0% in 2008 and 3.5% in 2009 and 2010). For the remaining years, 2011-2017, the Company should pay a variable interest rate (set according to a predetermined formula), that can range from a minimum of 0% (the contracted floor) to a maximum of 6.4% (the contracted cap). However, due to the lowering of the Holding's credit rating, the swap was terminated in 2010, which led to an outflow of about HRK 65.2 million (of which HRK 24.5 million represents the costs in 2009 and HRK 40.6 million in 2010).

Additionally surprising and worrying is the present currency structure of the Company's liabilities. As much as 88% of the debt is euro-denominated (the rest is in kuna), even though all the revenues have been raised in kuna. Such a currency mismatch results in the exposure of the Holding to currency risk. Due to a poorly structured debt portfolio, financial expenses for negative exchange rate differentials climbed from HRK 27.5m in 2006 to as much as HRK 137.3m in 2011 (Table 3). In addition, the Holding is exposed to interest rate risk, because about 57% of its credit liabilities are subject to variable interest rates.

Another problem is the surging growth of short-term loans. Only in 2011, the Company borrowed a new one billion kuna, and used the funds for the refinancing of current long-term liabilities. This has further aggravated the problem with liabilities, as the interest and principals of new (short-term) loans have become the cost of debt (although it may not seem so, in accounting terms). At the end of 2011, of a total of HRK 2.3bn in long-term loans, 14% had a maturity up to one year, 48% from 1 to 5 years and 37% over 5 years.

3 According to the data from Notes to Consolidated Financial Statements of the Zagreb Holding for the year 2011.

The main problem is that a bond worth 300 million euro (over 2.23bn kuna), issued by the Holding, matures in less than five years. These liabilities will probably be financed by new borrowing. However, the question is by what instruments and under what terms, as it is already uncertain whether the Holding can finance such high liabilities without being restructured. The analysis of the Holding's financial performance shows that this will not be possible without a turnaround in the Company's business logic.

## 4 SELECTED FINANCIAL INDICATORS

Financial indicators show the need for urgent streamlining of the Holding's operations in order to prepare it for the bond's maturity in 2017 and to provide for its refinancing under favourable terms.

Let us be more specific. The share of current assets (inventories, receivables, financial assets, accrued expenses and deferred income and cash and cash equivalents) in total assets of the Holding has trended downwards, thus undermining liquidity. In addition, the share of capital in the liabilities decreased, while the shares of long-term liabilities and short-term liabilities went up until 2009 and until 2011 respectively. Debt predominates in the capital structure (70%), which is extremely unfavourable (a favourable debt-to-equity ratio would be 60:40, or, for non-profit-oriented companies, even 50:50). Let us now analyse the Holding's operations based on indicators of liquidity, leverage, activity, cost-effectiveness, profitability and financial distress.

Liquidity is the ability of an enterprise to pay its short-term liabilities from its current assets. The Company's cash ratio (the percentage of short-term liabilities that can be met with its most current assets, i.e. cash) mainly decreased, due to a decline in cash at bank and in hand, and an increase in short-term liabilities. Only in 2007, the current ratio (the ratio between current assets and short-term liabilities) was higher than 2, which is an appropriate liquidity level. However, it decreased over the other reference years, falling below 1 at the end of the period, which was extremely low, showing that the Holding was insolvent. The financial stability ratio (the ratio between fixed assets and capital, increased by long-term liabilities) exceeded 1 during the last two years, indicating that the Holding has financed a portion of its fixed assets by short-term sources (instead of vice versa).

Leverage ratios of the Holding are also negative. The debt factor (ratio between total liabilities and retained earnings increased by amortisation) surged from 12.97 in

2006 to as much as 35.29 in 2011. This growth was due to borrowing and the negative net performance.

Turnover ratios are unstable. As a result of growing turnover ratios for total short-term receivables, the average collection period was reduced from 205 days in 2005 to 150 days in 2011, while the average time of payment of total short-term liabilities increased from 153 to 223 days. The cash gap (a difference between the average time of payment of liabilities and average collection period for receivables) increased from - 53 to +73, showing that the poor liquidity of the Holding has not been caused by debt collection problems.

Until 2011, the indicators of effectiveness (revenue-to-expense ratio) of the sales and overall Holding's operations were satisfactory. However, the effectiveness of the overall operations diminished in 2010 and 2011, as a result of extremely low financing efficiency.

Profitability ratios (showing a company's ability to achieve a certain level of profit in relation to its revenues, assets and capital) suggest that the Holding's net profit margin grew until 2009, but dropped abruptly afterwards. A similar situation is present with other profitability ratios. The Company has lately incurred net loss and has become unprofitable.

Return on equity (ROE – profit per kuna of invested capital) is crucial for the owners of shareholding companies. Relatively low values of this indicator for the Holding (between 0.56% and 2.62%) are not surprising and can be accounted for by high operating costs and over-indebtedness.

Despite the weak financial position of the Holding, thanks to the support from the City of Zagreb, the continuity of its operation and, to some extent, the confidence of creditors are preserved. However, this confidence might be shaken due to obvious operational difficulties and deterioration in the Company's relationship with the City of Zagreb.

## 5 THE ASSESSMENT OF CREDIT RISK AND OF THE BOND YIELD

In assessing the credit risk we will also rely on the Holding's risk assessment made by credit rating agencies, primarily Standard & Poor's. Briefly, a higher credit rating means more security for debtors, i.e. a lower credit risk and a lower expected yield for creditors, and lower borrowing costs for the debtor. Below we present the ratings assigned to the Holding by the rating agencies Standard & Poor's and Moody's.

Credit risk of institutions is usually slightly higher than the country's credit risk. This is also true for Croatia. The country's credit rating decreased in the reference period, as did the credit ratings of the City of Zagreb and of the Holding. The credit rating of the City of Zagreb is not higher than that of the country, neither does the credit rating of the Holding exceed that of the City of Zagreb.

The first credit rating was assigned to the Holding by S&P in 2007. The initial BBB rating indicated an adequate ability to pay. The same rating was assigned to the City of Zagreb, while the Republic of Croatia had a higher rating (BBB+). The Holding maintained this rating until 2009, when it was downgraded to BBB-, as a result of debt growth and poor liquidity caused by the economic crisis. As early as 2010, S&P cut its rating on the Holding to BB (with a negative outlook). The credit rating of the Holding is actually a combination of the Company's own credit profile (rated by the S&P as 'B') and a „very high likelihood“ that the City of Zagreb, as the owner of the Holding, will provide timely support in case of financial difficulties. In 2011, the rating of the holding was further reduced (from BB to BB-), due to the heavy indebtedness, inadequate liquidity and unpredictable financial policy of the Holding. For example, the Company does not have a long-term financial strategy.

In November 2012, the rating was again cut from BB- to B+, just one grade above the „substantial risk of de-

**Table 7**

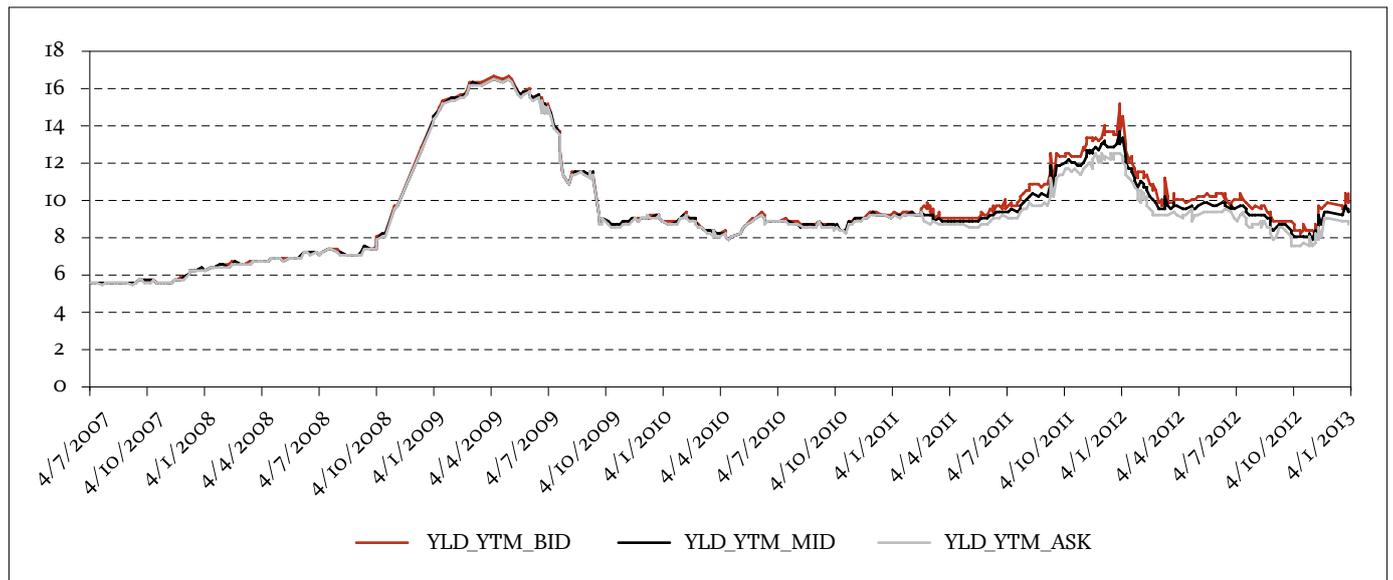
*Credit ratings of the Holding, City of Zagreb and the Republic of Croatia*

Year	Holding		City of Zagreb		RC	
	Moody's	S&P	Moody's	S&P	Moody's	S&P
2007	Baa2	BBB	Baa1	BBB	Baa1	BBB+
2008	Baa2, Baa3	BBB	Baa1, Baa2	BBB	Baa1, Baa2	BBB+
2009	Baa3	BBB, BBB-	Baa2, Baa3	BBB, BBB-	Baa2, Baa3	BBB+, BBB
2010	Baa3	BBB-, BB	Baa3	BBB-	Baa3	BBB, BBB-
2011	Baa3	BB, BB-	Baa3	BBB-	Baa3	BBB-
2012	Baa3	BB-, B+	Baa3	BBB-	Baa3	BBB-
2013	Baa3, Ba2	BB-, B+	Baa3, Ba1	BBB-	Baa3, Ba1	BBB-

Source: Authors' compilation based on reports by Moody's and S&P.

## Chart 1

Movements in yield to maturity on the Holding's bond, 2007-2013 (in %)



Source: Bloomberg, 2013.

fault". The deterioration in the credit profile of the Holding was caused by illiquidity growth, a decline in the quality of the debt portfolio, with the growing share of the short-term debt, and a drop in real estate prices. These unfavourable financial developments and financial indicators have also influenced movements in yields on the Holding's bonds listed in the international capital markets.

Yield to maturity on the Holding's bonds was unstable. A slight increase until mid-2008 was followed by an upsurge in the yield, probably due to the credit rating downgrades. After that, the yield declined, fluctuating around 9% from the end of 2009 to mid-2011.

An interesting thing to note is the significant variation in yields and an increase in the bid-ask spread from the beginning of 2011 till the end of the reference period, signalling the illiquidity of the bond in the secondary market. The bid-ask spread is the consequence of a lack of consensus among investors on the Holding's credit risk due to information asymmetry. Current creditors value the bonds much higher than the potential ones. The fact that the Holding's bond is illiquid makes it impossible to draw reliable conclusions on trends in the bond price or yield.

## 6 CONCLUSION

The Holding's financial performance is weak and its financial position deteriorated sharply over the last two reference years. The financial position of the City of Zagreb has been exposed to high maturity risk of the Hol-

ding's financial liabilities. The principal of the bonds issued falls due in mid-2017, which further aggravates the financial position of the City and is sufficient motivation for the necessary restructuring of the Holding.

The Holding's operating revenues are sufficient to cover the operating expenses. However, imprudent borrowing and inefficient finance management resulted in huge liabilities threatening the financial stability of the Company. Due to the poor business performance and grim financial prospects, the role of the Holding as a provider of public goods and services must be redefined. The mission of the Holding and vision of its future development must be clearly outlined and focused primarily on the provision of public goods and services.

The Company's market-related operations must be separated from those related to the provision of local public goods and services, which may be eligible for subsidies from the City budget. Within the liabilities structure, the share of the kuna-denominated debt should be increased by new borrowings with fixed interest rates and maturities as long as possible. Part of the market-related activities should definitely be privatized. The privatisation should be well prepared in order to avoid unfavourable market conditions. In view of the poor financial management, it is necessary to reassess the internal corporate governance of the Holding and examine the possibilities for its improvement.

	2006	2007	2007/06	2008	2008/07	2009	2009/08	2010	2010/09	2011	2011/10
<b>Fixed assets</b>	12,707	13,414	1.06	16,310	1.22	19,707	1.21	19,490	0.99	20,095	1.03
Intangible assets	62	215	3.47	57	0.26	28	0.49	20	0.74	22	1.06
Property, plant and equipment	12,461	12,916	1.04	15,299	1.18	17,359	1.13	16,321	0.94	17,014	1.04
Advance payments for fixed assets	79	184	2.31		0.00						
Investments in real estate	1		0.00					953		976	1.02
Other financial assets	30	37	1.23	73	1.98	123	1.69	121	0.98	122	1.01
Long-term receivables	74	61	0.83	817	13.33	2,148	2.63	2,018	0.94	1,903	0.94
Deferred tax assets				64		49	0.77	57	1.15	59	1.04
<b>Current assets</b>	2,852	5,971	2.09	4,397	0.74	2,998	0.68	2,827	0.94	2,713	0.96
Inventories	276	830	3.01	1,368	1.65	922	0.67	838	0.91	840	1.00
Receivables from customers	1,100	896	0.82	901	1.01	938	1.04	1,086	1.16	1,020	0.94
Receivables from related parties	847	1,335	1.58	394	0.29	665	1.69	597	0.90	505	0.85
Receivables from government and gov. institutions	40	35	0.88	25	0.70	29	1.19	18	0.60	18	1.02
Receivables from employees				2		2	0.96	2	0.95	2	1.11
Other receivables	10	9	0.98	187	20.00	183	0.97	138	0.75	126	0.91
Financial assets	165	2,141	13.00	1,349	0.63	105	0.08	23	0.22	57	2.43
Prepaid expenses and accrued income	116	175	1.51		0.00						
Cash at bank and in hand	298	548	1.84	171	0.31	153	0.90	125	0.82	144	1.15
<b>Total assets</b>	15,559	19,385	1.25	20,708	1.07	22,705	1.10	22,317	0.98	22,808	1.02
<b>Equity</b>	7,206	7,205	1.00	7,089	0.98	7,128	1.01	6,638	0.93	7,192	1.08
Share capital	4,293	4,209	0.98	4,209	1.00	4,209	1.00	4,209	1.00	4,209	1.00
Revaluation reserves	2,602	2,603	1.00	2,591	1.00	2,590	1.00	2,592	1.00	3,397	1.31
Other reserves		15		15	1.00	15	1.00	15	1.00	97	6.43
Retained earnings	228	340	1.49	274	0.81	315	1.15	291	0.93	-177	-0.61
Current year profit	82	38	0.46		0.00			-468		-335	0.72
Minority interests				0		0	1.74	-1	-1.98	1	-1.91

Long-term liabilities	6,459	9,442	1,46	10,956	1,16	13,141	1,20	12,716	0,97	12,329	0,97
Provisions	234	180	0,77	311	1,73	301	0,97	398	1,32	356	0,89
Credits and loans received	1,299	1,485	1,14	2,923	1,97	3,754	1,28	3,457	0,92	3,172	0,92
Liabilities for long-term securities issued		2,198		2,203	1,00	2,216	1,01	2,216	1,00	2,259	1,02
Deferred tax assets	630	628	1,00	625	0,99	628	1,01	626	1,00	827	1,32
Other long-term liabilities	72	260	3,60	174	0,67	223	1,28	225	1,01	228	1,01
Deferred income	4,223	4,691	1,11	4,720	1,01	6,018	1,28	5,794	0,96	5,487	0,95
Short-term liabilities	1,895	2,739	1,45	2,663	0,97	2,436	0,91	2,963	1,22	3,287	1,11
Liabilities for securities issued	21	10	0,47	2	0,18		0,00				
Liabilities for credits and loans	204	489	2,40	535	1,10	545	1,02	995	1,83	1,270	1,28
Liabilities for advances received, deposits and guarantees	82	269	3,27	258	0,96	87	0,34	24	0,28	26	1,07
Liabilities to suppliers	975	1,095	1,12	827	0,76	921	1,11	1,080	1,17	1,075	1,00
Liabilities to related parties	279	215	0,77	277	1,29	131	0,47	60	0,46	60	1,01
Liabilities to employees				84		89	1,07	94	1,05	97	1,03
Liabilities for taxes and contributions				110		85	0,78	105	1,23	137	1,30
Other short-term liabilities	334	662	1,98	571	0,86	577	1,01	604	1,05	621	1,03
Total equity and liabilities	15,559	19,385	1,25	20,708	1,07	22,705	1,10	22,317	0,98	22,808	1,02

Source: Zagreb Holding Consolidated Financial Statements with an Independent Auditor's Reports for 2007, 2008, 2009, 2010 and 2011.

## Annex 2

### An analysis of the financial indicators for Zagrebački holding d.o.o., 2006-2011

Financial indicators	2006	2007	2008	2009	2010	2011
<b>Liquidity ratios</b>						
Cash ratio	0.16	0.20	0.06	0.06	0.04	0,04
Quick ratio	1.36	1.88	1.14	0.85	0.67	0,57
Current ratio	1.51	2.18	1.65	1.23	0.95	0,83
Financial stability ratio	0.93	0.81	0.90	0.97	1.01	1,03
<b>Leverage ratios</b>						
Debt ratio	0.54	0.63	0.66	0.69	0.70	0,68
Own financing ratio	0.46	0.37	0.34	0.31	0.30	0,32
Debt factor	12.97	16.18	17.56	17.50	17.10	35,29
Cover ratio	1.08	1.24	1.11	1.03	0.99	0,97
<b>Activity ratios</b>						
Total asset turnover ratio	0.30	0.28	0.25	0.26	0.25	0,24
Current asset turnover ratio	1.64	0.92	1.20	1.99	1.96	2,02
Receivable turnover ratio	1.75	1.47	2.41	2.43	2.22	2,40
Collection period	205.48	244.79	149.43	148.10	161.87	149,76
Payment period	152.92	188.02	194.45	159.62	193.62	222,65
<b>Cost effectiveness ratios</b>						
Total activity efficiency	1.02	1.01	1.01	1.01	0.92	0,94
Sales efficiency	1.02	1.02	1.01	1.05	0.98	1,01
Financing efficiency	1.03	0.84	1.06	0.53	0.26	0,22
<b>Profitability ratios</b>						
Net profit margin	0.04	0.05	0.06	0.07	0.00	0,03
ROA	0.01	0.00	0.00	0.00	-0.02	-0,01
ROE	0.01	0.01	0.00	0.01	-0.07	-0,05
<b>Altman financial distress ratio</b>						
X1	0.06	0.17	0.08	0.02	-0.01	-0,03
X2	0.01	0.02	0.01	0.01	0.01	-0,01
X3	0.01	0.01	0.02	0.02	0.00	0,01
X4	0.86	0.59	0.52	0.46	0.42	0,46
X5	0.01	0.00	0.00	0.01	0.00	0,00

Source: Zagreb Holding Consolidated Financial Statements with an Independent Auditor's Reports for 2007, 2008, 2009, 2010 and 2011.

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