ANNUAL REPORT

ON STATUS AND BUSINESS ACTIVITIES OF THE GROUP IN 2016

Zagreb, April 2017

Contents

MANAGEMENT REPORT

1.1 Introduction

The Zagreb Stock Exchange started 2016 as 100% owner of the Ljubljana Stock Exchange upon the acquisition that was concluded at the very end of 2015, and by which the Zagreb Stock Exchange distinguished itself as the initiator of consolidation processes in the region.

Among significant events which had an impact on Group operations, we outline the following:

At the end of March, SEE LINK, regional platform for trading of securities founded by Bulgaria, Macedonia and Zagreb stock exchanges, supported by the European Bank for Reconstruction and Development, became fully operational. By the end of the year Belgrade and Ljubljana stock exchanges joined the network and thus SEE Link enabled integration of regional capital market with capitalization higher than $35 billion contained in almost 500 securities listed on five stock exchanges so as to positively affect liquidity and enable simpler and more efficient approach for investors and local brokers. Three stock exchanges that have signed agreements on joining are preparing for the operational joining to SEE Link network – stock exchanges from Athens, Banja Luka and Montenegro – while certain other regional stock exchanges expressed interest in joining. On the day this report was prepared 27 investment companies i.e. brokerage companies from Bulgaria, Croatia and Macedonia were included, while 7 of them, members of the Belgrade Stock Exchange are in the process of joining the SEE Link.

A four-year mandate of the new Management Board of the Ljubljana Stock Exchange, consisting of Mr Aleš Ipavec as President of the Management Board and Ms Nina Vičar as Member of the Management Board, began to run early in September 2016.

The Ljubljana Stock Exchange adopted a new price list of its services, increasing fees for member firms and issuers, as well as the new Rules to regulate the status of members enjoying unlimited trading privileges.

In October, 2016, during the ZSE and fund industry annual conference, ZSE presented Funderbeam SEE – a new model of *startup* financing. Funderbeam is a *crowdfunding* platform for *startup* companies where investors immediately after initial investment stage can trade their stakes due to innovative system based on bitcoin technology. With the aim of providing legal framework for the project, ZSE together with Funderbeam Ventures, partners from Estonia, founded a company Funderbeam South-East Europe Ltd. seated in Zagreb and ZSE has 20% share in the company. In its first stage, Funderbeam SEE will be focusing on companies from Croatia, Slovenia and Serbia and in the future it is planned to expand business operations of Funderbeam SEE to broader region. Investors from the entire world will have access to the market from the very start. Funderbeam SEE has been examining the interest of Croatian *startups* for financing, receiving applications, and conducting assessments of *startups*' quality and their ideas, and assessing applicants with the aim of determining their readiness for the initiation of capital collecting activities. In the first quarter of 2017 first Croatian funding campaign was conducted.

1.2 Financial results and business operations of the Group in 2016

The 2016 operating revenue of the Group amounted to HRK 24.2 mil. Sales revenue came in at HRK 15.4 mil., with the greatest contribution by commissions (47.6%) and listing maintenance fees (42.8%). Other operating income stood at HRK 8.7 mil., of which data dissemination (representing 51.3%) and API fee income (at 16%) had the largest share.

The 2016 operating expenses of the Group amounted to HRK 28.6 mil. Staff costs of HRK 9.8 mil. in 2016 accounted for 34.4% of the total. Other operating expenses stood at HRK 16.9 mil. Software and licences (HRK 6.8 mil.) and professional services (HRK 2.4 mil.) had the largest share in other operating expenses. Depreciation and amortisation charges amounted to HRK 1.8 mil. in 2016 or 6% of the total expenses.

The Group had a negative net result of HRK -3,775 thousand in 2016.

1.3 Significant events after the end of the financial year

There were no significant events after the end of the financial year that affected the reported results.

1.4 Expected development of the Group

In 2017, the Group will press on with the following projects initiated in earlier years:

- implementation of the new Xetra trading system on the Zagreb Stock Exchange;
- accreditation of the Zagreb Stock Exchange with GLEIF for the status of entity assigning LEI codes;
- implementation of MiFID II regulation on the Zagreb and Ljubljana Stock Exchanges;
- upgrade of the Ljubljana Stock Exchange market maker system;
- licensing of the Zagreb Stock Exchange for the Approved Publication Arrangement (APA) status;
- development of a regional capital market for small and medium-sized enterprises;
- launch of new campaigns to raise funding via the Funderbeam SEE platform;
- work on the SEE Link platform development project through marketing promotion by organising a regional investment conference, work on clearing and settlement harmonisation, and attracting other exchanges to join the SEE Link platform.

1.5 Research and Development activities

The company constantly works on development and improvement of the trading platform and associated services.

1.6 Acqusition of own shares

The Group was not the owner of its own shares on 31 December 2016.
In 2016, the Group did not acquire its own shares.

1.7 Zagreb Stock Exchange Group

SEE Link d.o.o. is a company seated in Skopje established by the Bulgarian, Macedonian and Zagreb Stock Exchanges in May 2014 with the aim of seeting up the regional infrastructure for trading in securities listed in those three exchanges, holding equal equity participations. The issued share capital of SEE LINK is 80,000 EUR and Zagreb Stock Exchange participates with 33.33%.

Ivana Gažić is a member of the Supervisory Board of SEE LINK. Ivan Takev, CEO of the Bulgarian Stock Exchange is the President of the Supervisory Board and Ivan Steriev, CEO of the Macedonian Stock Exchange is a member of the Supervisory Board.

On 30 December 2015, the Zagreb Stock Exchange took over a 100% participation in company Ljubljana Stock Exchange Inc. The isued share capital of Ljubljana Stock Exchange on 31 December 2016 is EUR 1,401 thousand and the Zagreb Stock Exchange participates with 100%.

Ivana Gažić is the President of the Supervisory Board, while Patricia Bakšaj, Director of Legal Affairs and Compliance, Zagreb Stock Exchange, Tomislav Gračan, Member of the Management Board, Zagreb Stock Exchange, and Darja Jermaniš, Director of Market Operations, Ljubljana Stock Exchange are the memebers of the Supervisory Board.

Funderbeam South-East Europe d.o.o. is a company that the Exchange founded in 2016 together with company Funderbeam Ventures OÜ. The issued share capital of the company on 31 December 2016 is 20,000 HRK, and the Exchage participates with 20%.

1.8 Financial instruments

The Group is fully funded by its own capital. Financial instruments that the Group invests in are investment funds and deposits.

1.9 Business operation risks

Business operation risks of the Group are detailed in the notes to the financial statements (Note 25).

1.10 Internal controls and risk management system of the Group

Internal controls system consists of procedures and processes for monitoring of business efficiency, financial reports reliability and legal compliance of the Group.

All employees, including the Management and Supervisory Board, are included in internal controls system enforcement.

Zagreb Stock Exchange and Ljubljana Stock Exchange enforce the internal controls system through two independent control functions: compliance with the relevant regulations function and internal audit function.

These control functions process and monitor the work of all organizational units, company activities and support services in their internal documents.

Risk management is a set of procedures and methods for determining, measuring, assesing, controlling and monitoring risks and also reporting on the risks to which the Exchange is or might be exposed in its operations.

In order to successfully manage risks that affect completion of Group's objectives, the Group assesses risks by identifying and analysing them.

Based on the risk assessment results, main areas that will be covered by internal audit procedures and measures that will prevent the occurrence of risky events have been established.

Ivana Gažić
President of the Management Board

ZAGREBAČKA BURZA d.d.
Zagreb
1

Tomislav Gračan
Member of the Management Board

2 Statement on the application of the Corporate Governance Code

Pursuant to provision of Article 272, paragraph, in conjunction with provision of Article 250a, paragraph 4 of the Companies Act (Official Gazette no. 111/93, 34/99, 52/00, 118/03, 107/07, 148/08, 137/09, 125/11, 152/11, 111/12, 68/13, 110/15, hereinafter: CA) and provision of Article 22 of the Accounting Act (Official Gazette no. 78/15, 134/15 i 120/16, hereinafter: AA), the Management Board of company ZAGREB STOCK EXCHANGE Inc., Zagreb, Ivana Lučića 2a (hereinafter: the Company), on 20 April 2017, issued the following

STATEMENT
on the application of the Corporate Governance Code

1. The Company implements the Corporate Governance Code prescribed by the Croatian Financial Services Supervisory Agency and the Zagreb Stock Exchange Inc. Zagreb. The Code is published in Zagreb Stock Exchange website, www.zse.hr.
2. In financial year 2016 the Company essentially complied with and implemented recommendations established by the Code, publishing all information as envisaged by the positive regulations as well as information that are in the interest of Company's shareholders. Detailed explanations regarding minor deviations from the recommendations of the Code are presented by the Company in the Annual Questionnaire that is provided.
3. In accordance with Code requests, and pursuant to provisions of the Companies Act and Capital Market Act, the Supervisory Board conducts internal supervision of the Company by conducting regular controls of prepared reports. Members of the Supervisory Board receive on regular basis detailed information on management and work of the Company. All issues under the competence of the Supervisory Board, as prescribed by the CA, Capital Market Act and Articles of Association of the Company, are discussed and decided upon in the Supervisory Board meetings. Supervisory Board Report is part of the Company's Annual Report presented to the General Assembly. In addition, the Supervisory Board performs internal controls and supervision through Audit Board that provides expert support to the Supervisory Board and the Management Board in the efficient execution of obligations relating to corporate governance, risk management, financial reporting and control of the Company. The Management Board is bound to monitor that the Company keeps business books and other books and business documents, prepares book-keeping documents, provides realistic assessments of the assets and liabilities, drafts financial and other reports in accordance with accounting regulations and standards and applicable laws and regulations.
4. Top ten shareholders on 31 December 2016.

	Shareholder	No. of shares	Equity in %
1.	Investco d.o.o.	461,400	9.9532
2.	EBRD	240,000	5.1772
3.	Interkapital d.d.	235,500	5.0801
4.	PBZ CO OMF	232,800	5.0219
5.	SZAIF d.d.	228,000	4.9184
6.	Chromos Agro d.d.	193,700	4.1784
7.	Euro jezici d.o.o.	178,900	3.8592
8.	Auctor d.o.o.	174,600	3.7664
9.	Erste&Steiermarkische bank d.d.	152,800	3.2962
10.	HPB d.d.	133,800	2.8863
	Others	2,404,200	51.8627
	Total	**4,635,700**	**100.00**

Pursuant to the Articles of Association of the Company, shareholder's voting right is not limited to certain percentage or number of votes nor are there time limitations to acquire voting right. Each ordinary share provides a right to one vote in the General Assembly.

Rights and obligations of the Company deriving from the acquisition of own shares are met in accordance with the provision of the CA.

In 2016 the Company did not acquire own shares.

5. Management Board of the Company consists of two members. Mrs Ivana Gažić performs duties of the President of the Management Board, and Mr Tomislav Gračan performs duties of the member of the Management Board.

The Management Board runs Company business operations in line with the Articles of Association and legal regulations.

The Management Board is appointed and dismissed by the Supervisory Board that consists of the following members:

- Dubravko Štimac, President
- Borislav Centner, Deputy President
- Nina Tepeš
- Ljiljana Blažev
- Dunja Babić
- Iva Galić
- Enrique Bernardo Mariano
- Daniel Nevidal
- Ivan Tadin

6. Audit Board as a body of the Supervisory Board which provides expert support to the Supervisory Board and the Management board operates within the Company.

Audit Board appoints and dismisses the Supervisory Board, and it consists of the following members:

- Domagoj Hruška, President
- Daniel Nevidal
- Enrique Bernardo Mariano.

Pursuant to provisions of Article 250a, paragraph 4 and Article 272, paragraph of the CA, and Article 22 of the AA, this Statement is a special section and integral part of the Company's Annual Report for 2016.

Ivana Gažić	Tomislav Gračan
President of the Management Board	Member of the Management Board

ZAGREBAČKA BURZA d.d.
Zagreb

Responsibilities of the Management Board for the Annual report

The Management Board of the Group is required to prepare consolidated financial statements for each financial year, which give a true and fair view of the consolidated financial position of the Group and of the results of its operations and cash flows, in accordance with International Financial Reporting Standards as adopted by the European Union. The Management Board is responsible for implementing and maintaining proper accounting records relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

The Management Board has a general responsibility for taking such steps as are reasonably available to it to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

The Management Board is responsible for selecting suitable accounting policies to conform to applicable accounting standards and then applying them consistently; making judgments and estimates that are reasonable and prudent; and preparing the consolidated financial statements on a going concern basis unless it is inappropriate to presume that the Group will continue in business.

The Management Board is also responsible for the preparation and content of the Management report and the statement of implementation of Corporate Governance Code, as required by the Croatian Accounting Act, and the rest of other information (together "other information").

The Management Board is responsible for the submission of the Annual report to the Supervisory Board which includes the consolidated financial statements and other information for acceptance, following which the Supervisory Board is required to consider, and if appropriate approve the annual financial statements for submission to the General Assembly for adoption.

The consolidated financial statements set on pages 15 to 49 and other information, set out on pages 1 to 6, are approved by the Management Board on 20 April 2017 and are signed and verified for the Supervisory Board.

Signed on behalf of the Zagrebačka burza d.d. Group:

ZAGREBAČKA BURZA d.d.
Zagreb

Ivana Gažić
President of the
Management Board

Tomislav Gračan
Member of the
Management Board

Independent auditors' report to the shareholders of Zagrebačka burza d.d.

Opinion

We have audited the consolidated financial statements of Zagrebačka burza d.d. and its subsidiary ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2016, the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes to the consolidated financial statements, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union ("EU IFRS").

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Croatia, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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Independent auditors' report to the shareholders of Zagrebačka burza d.d. (continued)

<table>
<tr><td colspan="2">Impairment of goodwill</td></tr>
<tr><td colspan="2">Refer to page 23 (Group accounting policies), page 49 (Key accounting estimates and assumptions), page 39 (Intangible assets).
As at 31 December 2016, the carrying amount goodwill: HRK 1,190 thousands (31 December 2015: HRK 1,202 thousands) and no impairment losses recognized in 2016.</td></tr>
<tr><td>The key audit matter</td><td>How the matter was addressed in our audit</td></tr>
<tr><td>As at 31 December 2016, the stated amount of goodwill in relation to the acquisition of Ljubljanska borza d.d., further discussed in Note 5, was HRK 1,190 thousand. Relevant accounting standards require that goodwill is tested, at least annually, for impairment.

The assessment of the recoverability of goodwill requires significant judgment in determining the forecast future performance of the cash generating units (CGUs) to which goodwill is allocated.

Management's impairment assessment involves significant estimation, primarily relating to the key assumptions for revenue growth rates, terminal growth rates and discount rates. The key assumptions applied by management are further described in Note 13 Intangible assets.

The subjectivity of the principal assumptions required an application of a significant amount of audit judgment and effort. Accordingly, we consider this area to be our key audit matter.</td><td>Our audit procedures included the following:

- Evaluating the appropriateness of the Group's determination of CGUs to which goodwill is allocated;
- Assisted by our own valuation specialists, critically assessing the Group's assumptions and estimates used in value-in-use calculations to determine the recoverable amount of goodwill. This included, but was not limited to:
  - assessing the Group's discounted cash flow model for compliance with the relevant accounting standards;
  - assessing the reasonableness of key assumptions applied in the model (including those relating to revenue growth rate and discount rate) against market data ;

- Comparing the Group's forecast for the current year made as of 31 December 2015 to the current year's outcomes to assess the quality of management's forecasting process;
- Evaluating the Group's analysis of the sensitivity of the impairment tests' results, in particular in respect of the assumptions with the greatest potential effect on the test results, e.g. those relating to discount rates and operating profit adjusted by depreciation and amortization.
- Assessing whether the Group's disclosures about the CGU's, the key assumptions used and sensitivity of the outcome of the impairment assessment to changes in key assumptions reflected the risks inherent in the valuation of goodwill.</td></tr>
</table>

Intangible assets – impairment and useful lives	
Refer to page 23 (Group accounting policies), page 48 (Key accounting estimates and assumptions), and page 39 (Intangible assets). As at 31 December 2016, the carrying amount of intangible assets: HRK 2,825 thousand (31 December 2015: HRK 4,040 thousand), and write-offs recognized in 2016: HRK 688 thousand (2015: nil).	
The key audit matter	**How the matter was addressed in our audit**
Intangible assets, stated at HRK 2,825 thousand as at 31 December 2016 (31 December 2015: HRK 4,040 thousand), include primarily software and other licenses, used by the Group in its core operating process. The key aspects of accounting for intangibles include the determination of the useful lives of these assets, the identification of potential impairment indicators and, if necessary, measurement of the related recoverable amounts. Estimated useful lives of intangibles are reviewed by the Group annually taking into consideration various contractual and market factors which may affect the life expectancy of these assets. In addition, significant management judgment is required in the process of determining whether or not indicators of impairment exist in respect of intangible assets. Due to the factors presented above, this area is considered by us to be a key audit matter.	Our audit procedures included the following: - Evaluating the appropriateness of the Group's allocation of assets to cash generating units; - Evaluating the appropriateness of the Group's judgments regarding identification of intangibles which may be impaired. This included primarily assessing whether all of the software applications are currently in use as well as evaluating whether any management plans exist to dispose of or permanently discontinue using any of these assets before the previously expected date of disposal or discontinuation; - Challenging the reasonableness of the estimates made in respect of asset lives by means of inquiries of the Group's management and based on the analysis of contractual terms, where appropriate, and inquiries of the management's plans on the remaining use of the existing software.

Independent auditors' report to the shareholders of Zagrebačka burza d.d. (continued)

Revenue recognition	
Refer to page 29 (Group accounting policies) and page 34 (Sales revenue). Sales revenue for 2016: HRK 15,447 thousand (2015: HRK 10,446 thousand)	
The key audit matter	**How the matter was addressed in our audit**
The Group earns sales revenues from service fees, which primarily include trading commissions, quotation maintenance, as well as quotation and membership fees. These revenues are generally recognised as the related services are performed, generally when the underlying transactions occur, or, in the case of the quotation maintenance or membership fees, on a systematic basis over the year. The process of revenue recognition is highly automated as it is mainly based on the application of fees from the published tariff on the underlying trading volumes or a number of quoted securities. Contracts entered into by the Group are of limited complexity and variety. However, there are a large number of transactions to be processed by the Group's IT systems. As such revenue recognition is an area of audit focus.	Our audit procedures included the following: - Understanding of the processes and controls associated with the revenue cycle; - Assisted by our own IT specialists, testing selected automated controls over the integrity of transfers of transaction volumes between the Group's trading and reporting systems, as well as general IT controls; - Assessing the Group's revenue recognition polices against the requirements of relevant financial reporting standards; - For trading commissions, testing the recognition of related revenue by reference to the appropriate fees derived from the published tariff and the number of underlying transactions or volumes of quoted securities derived from the stock exchange trading system; - For a sample of customer contracts, testing the revenue from membership fees by inspecting contractual terms and independently recalculating the amount of revenue by reference to those terms; - For all clients newly listed in 2016, independently recalculating the amount of quotation fees revenue by applying the published tariff; - Inspecting manual journal entries posted to revenue accounts focusing on unusual and irregular items, or entries modified subsequent to the balance sheet date.

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Independent auditors' report to the shareholders of Zagrebačka burza d.d. (continued)

Other Matter

The consolidated financial statements of the Group as at and for the year ended 31 December 2015 were audited by other auditors who expressed an unmodified opinion on those financial statements on 13 April 2016.

Other information

Management is responsible for the other information. The other information comprises the information included in Annual Report, but does not include the consolidated financial statements and our auditors' report thereon.

Our opinion on the consolidated financial statements does not cover the other information.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work that we have performed, we conclude that there is a material misstatement of this other information, then we are required to report that fact.

With respect to the Management Report and the Statement of implementation of corporate governance code, we have also performed the procedures required by the Article 20 of the Croatian Accounting Act. These procedures include considering whether the Management Report and the Statement of implementation of corporate governance code include the disclosures required by Articles 21, 24 and 22 of the Croatian Accounting Act and obtaining evidence regarding specified information provided in the Statement of implementation of corporate governance code.

Based solely on the work required to be undertaken in the course of the audit of the consolidated financial statements and the procedures above, we have not identified any material misstatements in the other information, and in our opinion:

- the information given in the Management Report and the parts of the Statement of implementation of corporate governance code, containing the information referred to in Article 22, paragraph 1, items 3 and 4 of the Croatian Accounting Act and Article 24 paragraph 2 (hereinafter, "extracts of Statement of implementation of corporate governance code) for the financial year for which the consolidated financial statements are prepared, is consistent, in all material respects, with the consolidated financial statements; and

- the Management Report and the extracts of the Statement of implementation of corporate governance have been prepared, in all material respects, in accordance with the applicable legal requirements of the Croatian Accounting Act.

- the Statement on implementation of corporate governance code includes information required by Article 22 paragraph 1, items 2,5, 6 and 7 of the Croatian Accounting Act.

Independent auditors' report to the shareholders of Zagrebačka burza d.d. (continued)

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements that give a true and fair view in accordance with EU IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, 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 management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' 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 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 financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of 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 Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated 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 auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.

Independent auditors' report to the shareholders of Zagrebačka burza d.d. (continued)

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements (continued)

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' 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 report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditors' report is Katarina Kecko.

KPMG Croatia d.o.o. za reviziju — Zagreb, 20 April 2017

Croatian Certified Auditors
Eurotower, 17th floor
Ivana Lučića 2a
10000 Zagreb

Croatia

For and on behalf of KPMG Croatia d.o.o. za reviziju:

Katarina Kecko
Director, Croatian Certified Auditor

KPMG Croatia
d.o.o. za reviziju
Eurotower, 17. kat
Ivana Lučića 2a, 10000 Zagreb

Consolidated Statement of comprehensive income
for the year ended 31 December

	Notes	**2016 HRK'000**	**2015 HRK'000**
Income statement			
Sales revenue	*6*	15,447	10,446
Other operating income	*7*	8,758	4,067
Staff costs	*8*	(9,832)	(5,958)
Depreciation and amortization	*12,13*	(1,815)	(1,785)
Other operating expenses	*9*	(16,912)	(10,253)
Operating loss		**(4,354)**	**(3,483)**
Financial income	*10*	400	376
Financial expense	*10*	(6)	(1)
Net foreign exchange gain/(loss)		22	(19)
Net finance income		**416**	**356**
Share in joint venture loss		(21)	(6)
Loss before tax		**(3,959)**	**(3,133)**
Income tax credit	*11a*	184	-
Loss for the year		**(3,775)**	**(3,133)**
Other comprehensive income			
Items that may be reclassified to profit or loss			
Foreign operations – foreign currency translation differences		(217)	-
Total comprehensive loss for the year		**(3,992)**	**(3,133)**
Basic and diluted loss per share (in HRK)	*20*	**(0.81)**	**(0.74)**

The accounting policies and other notes set form an integral part of these consolidated financial statements.

Consolidated Statement of financial position
as at

	Notes	**31 December 2016 HRK'000**	**Restated 31 December 2015 HRK'000**	**1 January 2015 HRK'000**
Assets				
Non-current assets				
Property and equipment	*12*	10,741	10,816	709
Intangible assets	*13*	4,015	5,242	4,686
Investment in associate and joint venture	*14*	177	196	25
Financial assets available for sale	*15a*	236	394	237
Guarantee deposits		249	249	249
Deferred tax assets	*11d*	329	148	-
Total non-current assets		**15,747**	**17,045**	**5,906**
Current assets				
Trade receivables and other assets	*16*	3,948	2,851	2,097
Prepaid expenses		3,870	3,519	112
Financial assets at fair value through profit or loss	*15b*	8,084	5,280	14,647
Short-term deposits	*17*	6,543	16,969	15,165
Cash and cash equivalents	*18*	15,097	11,271	740
Inventories		14	-	-
Income tax receivable		64	-	-
Total current assets		**37,620**	**39,890**	**32,761**
Total assets		**53,367**	**56,935**	**38,667**
Equity and liabilities				
Equity				
Issued share capital	*19*	46,357	46,357	40,408
Share premium		13,860	13,860	4,937
Legal reserves		141	141	141
Accumulated loss		(17,621)	(13,846)	(10,713)
Translation reserve		(217)	-	-
Total equity		**42,520**	**46,512**	**34,773**
Non-current liabilities				
Long-term financial liabilities	*21*	139	**-**	**-**
Deferred tax liability	*11d*	84	86	**-**
Total non-current liabilities		**223**	**86**	-
Current liabilities				
Trade and other payables	*22*	6,538	6,044	1,454
Income tax liability		-	15	-
Short-term financial liabilities	*21*	61	-	-
Deferred income and other liabilities	*23*	4,025	4,278	2,440
Total current liabilities		**10,624**	**10,337**	**3,894**
Total equity and liabilities		**53,367**	**56,935**	**38,667**

The accounting policies and other notes form an integral part of these consolidated financial statements.

Consolidated Statement of changes in equity

	Issued share capital HRK'000	Share premium HRK'000	Legal reserves HRK'000	Accumulated loss HRK'000	Translation reserve HRK'000	Total HRK'000
As at 1 January 2015	**40,408**	**4,937**	**141**	**(10,713)**	**-**	**34,773**
Total comprehensive loss for the year	-	-	-	(3,133)	-	**(3,133)**
Issue of share capital	5,949	8,923	-	-	-	**14,872**
As at 31 December 2015	**46,357**	**13,860**	**141**	**(13,846)**	**-**	**46,512**
As at 1 January 2016	**46,357**	**13,860**	**141**	**(13,846)**	**-**	**46,512**
Loss for the year	-	-	-	(3,775)	-	(3,775)
Other comprehensive income						
Foreign operations – foreign currency translation differences	-	-	-	-	(217)	(217)
Total comprehensive loss for the year				**(3,775)**	**(217)**	**(3,992)**
As at 31 December 2016	**46,357**	**13,860**	**141**	**(17,621)**	**(217)**	**42,520**

The accounting policies and other notes form an integral part of these consolidated financial statements.

Consolidated Statement of cash flows
for the year ended 31 December

	Notes	2016 HRK '000	2015 HRK '000
Cash flow from operating activities			
Loss before tax		**(3,959)**	**(3,133)**
Adjustments:			
Depreciation and amortization	*12,13*	1,815	1,785
Unrealised gains from financial assets at fair value through profit or loss	*10*	(37)	(88)
Movement in impairment allowance for trade receivables		509	496
Impairment of available for sale bond		158	-
Dividend income	*10*	(49)	-
Interest income	*10*	(314)	(284)
Interest expense	*10*	6	-
Net foreign exchange (gains)/losses		(22)	19
Provisions for unused holidays		44	(11)
Write-offs		688	40
Loss from investment in joint venture		21	6
Other adjustments		(222)	(79)
Cash flow before changes in operating assets and liabilities		**(1,362)**	**(1,249)**
Changes in operating assets and liabilities			
Increase in trade receivables		(566)	(274)
Increase in prepaid expenses		(351)	(2,947)
Increase in inventories		(14)	-
Increase in trade and other payables		672	3,595
(Decrease)/Increase in deferred income and accrued expenses		(1,281)	143
Change in operating assets and liabilities		**(1,540)**	**517**
Income tax		(78)	-
Net cash (outflow) from operating activities		**(2,980)**	**(732)**
Cash flow from investing activities			
Investment in subsidiary		-	(10,840)
Investment in associate		(4)	-
Increase in investment in joint venture		-	(177)
Purchase of equipment	*12*	(697)	(30)
Proceeds from disposal of equipment		326	-
Purchase of software	*13*	(754)	(527)
Purchase of units in open investment funds		(5,800)	(2,730)
Disposal of units in open investment funds		3,033	12,185
Proceed from investments in short-term deposits		21,142	13,345
Investments in short-term deposits		(10,965)	(15,045)
Dividends received		49	-
Interest received		563	183
Net cash inflow from investing activities		**6,893**	**(3,636)**
Cash flow from financing activities			
Proceeds from issue of share capital		-	14,872
Net cash inflows from financing activities		**-**	**14,872**
Net increase in cash and cash equivalents		**3,913**	**10,504**
Cash and cash equivalents at the beginning of the year		11,271	738
Changes in exchange rates on cash and cash equivalents		(87)	29
Cash and cash equivalents at the end of the year	*18*	**15,097**	**11,271**

The accounting policies and other notes form an integral part of these consolidated financial statements.

Notes to the consolidated financial statements

1 Reporting entity

Zagrebačka burza d.d. ("the Company") is a company domiciled in Republic of Croatia and was registered at the Commercial Court in Zagreb on 5 July 1991. The address of the Company's registered office is Eurotower, 22nd floor, Ivana Lučića 2a/22, Zagreb, Croatia.

The business activities of the Company include: management of the regulated market; collection, processing and publishing of trading data; management of Multilateral Trading Facility; development, maintenance and disposition of computer software used for management of the regulated market and for collection, processing and publishing of the data on securities trading; organizing and providing professional trainings for participants of capital markets.

At the year end the Company was owned by 303 shareholders (*2015: 56 shareholders*). The Company does not have an ultimate parent company.

At 1 January 2015 share capital of the Company amounted to HRK 40,408 thousand. At 31 August 2015 General Assembly made a decision to increase share capital of the Company by payments in cash. Based on this decision the Company issued 5,949 new ordinary registered shares and share capital of the Company was increased by nominal value of issued shares. Consequently, the share capital of the Company increased from HRK 40,408 thousand to HRK 46,357 thousand.

At 29 July 2016 General Assembly made a decision to split 46,357 ordinary shares of nominal value of HRK 1,000 into 4,635,700 ordinary shares of nominal value of HRK 10. The decision was effective as of 11 August 2016.

At 31 August 2016 all of the 4,635,700 issued ordinary shares were listed to the Official Market of Zagreb Stock Exchange.

The activities of the Company are regulated by Croatian Agency for Supervision of Financial Services ("HANFA") and the activities of the Ljubljanska borza d.d. are regulated by the Slovenian Securities Market Agency (“ATVP”).

The Zagrebačka burza d.d. Group (“the Group”) consists of Zagrebačka burza d.d., Zagreb, Republic of Croatia, foreign subsidiary Ljubljanska borza d.d.,Ljubljana, Republic of Slovenia, foreign joint venture SEE Link d.o.o., Skopje, Republic of Macedonia and associate Funderbeam South-East Europe d.o.o., Zagreb, Republic of Croatia.

These financial statements comprise consolidated financial statements of the Group as defined in International Financial Reporting Standard 10 *Consolidated Financial Statements*. Zagrebačka burza d.d. prepares separate financial statements, which are published as a separate document. The Group statement of comprehensive income does not include the results of Ljubljanska borza d.d. prior to the acquisition on 30 December 2015 and comparative information for the year ended as at 31 December 2015 has not been restated to include profit and loss of Ljubljanska borza d.d.

2 Basis of preparation

a) Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by European Union (“IFRS”).

These financial statements were authorised for issue by the Management Board on 20 April 2017 for approval by the Supervisory Board.

b) Basis of measurement

Financial statements are prepared on a historical cost basis, except for financial assets at fair value through profit or loss which are measured at fair value.

Notes to the consolidated financial statements (continued)

2 Basis of preparation (continued)

c) Functional and presentation currency

The financial statements are presented in the local currency, Croatian kuna (“HRK”), which is the currency of the primary economic environment in which the Company operates (“the functional currency”). The functional currency of Slovenian subsidiary is euro. All financial information presented in HRK has been rounded to the nearest thousand.

d) Use of estimates and judgments

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses.

The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, and given the information available at the date of preparation of the financial statements, the results of which form the basis of making judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in future periods affected.

Information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have a significant effect on the amounts disclosed in the financial statements are described in Note 28.

e) Foreign currency

i) Foreign currency translations

Transactions in foreign currencies are translated into respective functional currency at the spot exchange rate at the date of transactions.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated into the functional currency at the spot exchange rate at that date. The foreign currency gain or loss on monetary items is difference between the amortized cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year, and amortized cost in foreign currency translated at the spot exchange rate at the end of the year.

Non-monetary assets and liabilities that are measured at fair value in foreign currency are translated into the functional currency at the spot exchange rate at the date on which the fair value is determined. Non-monetary items are measured based on historical cost in a foreign currency are translated using the spot exchange rate at the date of the transaction.

Foreign currency differences arising on translation are recognised in profit of loss.

In addition to HRK, the most significant currency in which the Group has assets and liabilities is Euro. The exchange rate used for translation on 31 December 2016 was EUR 1=HRK 7.557787 (31 December 2015: EUR 1=HRK 7.635047). Exchange rate used for translation of Group’s share in joint venture loss on 31 December 2016 was MKD 1 = HRK 0.122928 (31 December 2015: MKD 1= HRK 0.123956).

Notes to the consolidated financial statements (continued)

2 Basis of preparation (continued)

e) Foreign currency (continued)

ii) Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated into HRK at the spot exchange rates at the reporting date. The income and expenses of foreign operations are translated into HRK at the annual average exchange rates.

Foreign currency differences are recognised in other comprehensive income, and accumulated in the foreign currency translation reserve (translation reserve).

When a foreign operation is disposed of such that control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal. If the Group disposes of only part of its interest in a subsidiary that includes a foreign operation while retaining control, then the relevant proportion of the cumulative amount is reattributed to NCI.

If the settlement of a monetary item receivable from or payable to a foreign operation is neither planned nor likely in the foreseeable future, then foreign currency differences arising on the item form part of the net investment in the foreign operation and are recognised in OCI, and accumulated in the translation reserve within equity.

f) Restatement of previously presented amounts

Details of the restatement of previously presented amounts are disclosed in Note 4 of these financial statements.

3 Significant accounting policies

a) Basis of consolidation

i) Business combinations

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group. The Group controls an entity if it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

The Group measures goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interests in the acquiree; plus
- if the business combination is achieved in stages, the fair value of the pre-existing equity interest in the acquiree; less
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the total is negative, a bargain purchase gain is recognised immediately in profit or loss.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss. Transaction costs related to the acquisition, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

Notes to the consolidated financial statements (continued)

3 Significant accounting policies (continued)

a) Basis of consolidation (continued)

ii) Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

iii) Interests in equity-accounted investees

The Group's interests in equity-accounted investees comprise interests in a joint venture and associate. A joint venture is an arrangement in which the Group has joint control, whereby the Group has rights to the net assets of the arrangement, rather than rights to its assets and obligations for its liabilities.

Interest in joint venture is accounted for using the equity method. It is initially recognised at cost, which includes transaction costs. Subsequent to initial recognition, the consolidated financial statements include the Group's share of the profit or loss and OCI of equity accounted investees, until the date on which joint control ceases.

Associates are entities over which the Group has significant influence but no control. Investments in associates are accounted for using the equity method of accounting in the consolidated financial statements and are initially recognised at cost.

The Group's share of its associates' post-acquisition gains or losses is recognised in the income statement and its share of their post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise any further losses, unless it has incurred obligations or made payments on behalf of the associate.

iv) Loss of control

Upon the loss of control, the Group derecognises the assets and liabilities of the subsidiary, any non-controlling interest and other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognised in the income statement. If the Group retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently it is accounted for as an equity-accounted investee or in accordance with the Group's accounting policy for financial instruments (refer to accounting policy 3 c) Financial instruments) depending on the level of influence retained.

v) Transactions eliminated on consolidation

Intra-group balances, and income and expenses (except for foreign currency transaction gains or losses) arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

Notes to the consolidated financial statements (continued)

3 Significant accounting policies (continued)

b) Equipment and intangible assets

Equipment mainly comprises computer and office equipment, furniture and telephone equipment. Intangible assets comprise purchased computer software licenses capitalized in the amount which is equal to the costs incurred to purchase and bring the software item to use.

Recognition and measurement

Equipment and intangible assets are stated at cost net of accumulated depreciation, amortization and impairment losses. Costs include expenditure that is directly attributable to the acquisition of these assets.

Subsequent costs

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and can be measured reliably. All other repairs and maintenance represent the cost of the financial period in which they incurred.

Depreciation and amortization

Depreciation is recognized in income statement on a straight-line basis over the estimated useful lives of each part of an item of equipment. Assets acquired but not brought into use are not depreciated.

The estimated useful economic lives are as follows:

Buildings	31 years
Computer and office equipment	4-7 years
Office furniture and equipment	5-7 years
Computer software	2-5 years
Trading system software	6-18 years
Leasehold improvements	period of lease

The depreciation and amortization methods and useful lives are reviewed, and adjusted if appropriate, at each reporting date. An asset's carrying amount is written down to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. Gains and losses on disposals are determined by comparing proceeds with carrying amount, and are included in income statement.

Goodwill

According to IFRS 3 *Business Combinations*, any excess of the cost of the acquisition over the acquirer's interest in the fair value of the identifiable assets and liabilities acquired on the date of the acquisition is presented as goodwill and recognised as an asset. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Goodwill is reviewed for impairment at least annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (or the group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then pro-rata to the other assets of the unit on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Notes to the consolidated financial statements (continued)

3 Significant accounting policies (continued)

c) Financial instruments

Classification and recognition

The Group classifies financial assets in the following categories: financial assets and liabilities at fair value through profit or loss; loans and receivables; and financial assets available for sale. The classification depends on the purpose for which the financial instruments were acquired. Management determines the classification of its financial instruments at initial recognition and re-evaluates this designation at every reporting date.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets which are classified as held for trading or, on initial recognition, designated by the Group as at fair value through profit or loss. The Group does not apply hedge accounting.

Trading assets are those that the Group acquires or incurs principally for the purpose of sale and repurchase in the near term, or held as part of a portfolio which is managed for the purpose of making profit in the short term. Those include investments in open-ended investment funds.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

Loans and receivables comprise guarantee deposits with banks classified as “guarantee deposits”, “short-term deposits” and “trade receivables and other assets”.

Available-for-sale financial assets

Available-for-sale assets relate to equity and debt securities. Available for sale financial assets are initially recognized at fair value plus directly related transaction costs. They are subsequently measured at fair value, unless there is no reliable measure of fair value.

Recognition and de-recognition

Purchases and sales of financial assets at fair value through profit or loss and available-for-sale financial assets are recognized on the settlement date. Loans and receivables and other financial liabilities carried at amortized cost are recognized when financial assets are placed with borrowers or received from lenders.

The Group derecognizes financial assets when the contractual rights to receive cash flows from the financial asset have expired or when it loses control over the contractual rights on those financial assets. This occurs when the Group transfers substantially all the risks and rewards of ownership to another entity or when the rights are realized, surrendered or have been expired.

Financial assets at fair value through profit or loss and financial assets available-for-sale cease to be recognized at the settlement date. Loans and receivables are derecognized on the date of the transfer of funds by the Group.

Financial liabilities are derecognized when the financial liability ceases to exist, i.e. when obligations per liability have been fulfilled, cancelled or the liability has expired. If the terms of a financial liability change, the Group will cease recognizing the liability and will immediately recognize a new financial liability, with new terms and conditions.

Notes to the consolidated financial statements (continued)

3 Significant accounting policies (continued)

c) Financial instruments (continued)

Initial and subsequent measurement

Financial assets and liabilities are initially recognized at fair value plus, in the case of a financial asset and liabilities not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issuing of the financial asset or financial liability.

After initial recognition the Group measures financial instruments at fair value through profit or loss and financial assets available for sale at their fair value, without any deduction for selling costs. Equity securities classified as available-for-sale that are not quoted on an active market and whose fair value cannot be reliably determined are stated at cost less impairment.

Loans and receivables are measured at amortized cost less impairment losses, financial liabilities other than those at fair value through profit or loss are measured at amortized cost. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and they are amortized using the effective interest rate of the instrument.

Gains and losses from a change in the fair value of financial assets at fair value through profit or loss are recognized in the income statement.

Gains and losses from subsequent measurement

Gains and losses from a change in the fair value of available-for-sale financial assets are recognized in other comprehensive income. For monetary assets which are available for sale, impairment losses, foreign exchange rate gains and losses, interest income and amortization of premium or discount using the effective interest method are recognized in income statement.

Gains or losses arising from financial assets and financial liabilities carried at amortized cost are included in profit or loss over the period of amortization, using the effective interest rate method. Gains or losses may also be recognized in profit or loss when the financial instrument is derecognized or when its value is impaired.

Fair value measurement principles

The fair value of financial assets at fair value through profit or loss is quoted bid market price at the reporting date, without any deduction for selling costs. The Group takes into consideration every financial instrument separately in order to determine whether financial instrument quotes in an active market.

Fair value levels

The Group uses following levels for determining the fair value of financial instruments:

Level 1: quoted (unadjusted) prices in active markets,

Level 2: other techniques for which all inputs which have significant effect on the recorded fair value are observable, either directly or indirectly,

Level 3: techniques which use inputs which have a significant effect on the determination of fair value and which are not based on observable market data.

Notes to the consolidated financial statements (continued)

3 Significant accounting policies (continued)

c) Financial instruments (continued)

Impairment of financial assets

At each reporting date the Group assesses whether there is objective evidence that the financial assets which are not classified as financial assets at fair value through profit or loss have been impaired. Financial assets are impaired when objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event has an adverse impact on estimated future cash flows.

The Group considers evidence of impairment on an asset-by-asset basis.

Objective evidence that financial assets are impaired include default or delinquency of a borrower, restructuring of a loan, or an advance received by the Group under the terms which the Group would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a Group of assets, such as adverse changes in the payment status of borrowers or issuers in the Group, or economic conditions that correlate with defaults in the Group of the similar assets.

Impairment losses on assets carried at amortized cost are measured as the difference between the carrying amount of the financial assets and the present value of estimated cash flows discounted at the assets' original effective interest rate. Losses are recognized in profit or loss and recorded in an allowance account against relating asset. Interest income on the impaired asset continues to be recognized as unwinding of discount. When a subsequent event causes the decrease of the amount of impairment loss, the loss is reversed in income statement.

For investments classified as assets available for sale, a significant or prolonged decline in the fair value of the investment below its cost is considered in determining whether the assets are impaired. If any such indication exists for available-for-sale investments, the cumulative loss, measured as the difference between the acquisition cost and the current fair value on that financial asset is removed from other comprehensive income and recognized in income statement.

If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in income statement, the impairment loss is reversed through income statement. Any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognized in other comprehensive income, not in income statement.

Trade receivables, other assets and short-term deposits with banks

Trade receivables, other assets and short-term deposits with banks are initially recognized at fair value plus transaction costs, and subsequently carried at amortized cost less any impairment losses.

Investments in funds

Investments in open and close ended funds are classified as financial assets at fair value through profit or loss and are carried at fair value.

Trade payables and other liabilities

Trade and other payables are initially recognized at fair value, and subsequently measured at amortized cost.

Notes to the consolidated financial statements (continued)

3 Significant accounting policies (continued)

d) Impairment of non-financial assets

The carrying amounts of the Group's assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is re-estimated.

The recoverable amount is estimated at each reporting date for intangible assets that have an indefinite useful life (at the reporting date the Group did not have such assets) and intangible assets that are not yet available for use.

Assets that are subject to amortization or depreciation are reviewed for impairment when events or changes in circumstances indicate that the carrying amounts may not be recoverable.

An impairment loss is recognized whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognized in income statement.

The recoverable amount of equipment and intangible assets is the higher of the asset's fair value less costs to sell and value in use. For the purpose of assessing the amount of impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows available (cash-generating units). 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 or cash-generating unit. Non-financial assets that have been impaired are reviewed for reversals of the impairment at each reporting date. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount and to the extent that the carrying amount of the assets does not exceed the carrying amount that would have been determined, net of depreciation, if no impairment loss had been recognized.

e) Leases

Payments made under operating leases are recognized in income statement on a straight-line basis over the term of the lease.

Leases where all the risks and rewards incidental to ownership of an asset are transferred to the lessee are classified as finance leases. A liability at an amount equal to the present value of the future lease payments, including any guaranteed residual value, is recognised. Finance expense is recognised in profit or loss over the term of the lease using the effective interest rate method.

f) Cash and cash equivalents

Cash and cash equivalents for the purpose of preparation of cash flow statements and the statement of financial position comprise gyro accounts, cash in hand and short term deposits with banks with original maturity up to three months.

g) Earnings per share

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS are calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS are determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares.

Notes to the consolidated financial statements (continued)

3 Significant accounting policies (continued)

h) Employee benefits

Defined contribution pension plans

Obligations for contributions to defined contribution pension plans are recognized as an expense in income statement of the period in which they have been incurred.

i) Termination benefits

Termination benefits are recognised as an expense when the Group is committed demonstrably, without realistic possibility of withdrawal, to a formal detailed plan either to terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognised if the Group has made an offer of voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably. If benefits are payable more than 12 months after the reporting date, then they are discounted to their present value.

ii) Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

i) Taxation

Income tax charge is based on taxable profit for the year and comprises current and deferred tax. Income tax is recognized in profit or loss except to the extent that it relates to items in other comprehensive income. Current tax is the expected tax payable on the taxable income for the year, using the tax rates enacted or substantially enacted at the reporting date, and considering the adjustments to tax payable in respect of positions from previous years.

Deferred taxes are calculated using the balance sheet method. Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Deferred tax assets and liabilities are measured using the tax rates expected to apply to taxable profit in the years in which those temporary differences are expected to be realized, or settled, based on tax rates enacted or substantially in force at the reporting date.

Deferred tax assets and liabilities are not discounted and are classified as non-current assets and/or liabilities in the statement of financial position. Deferred tax assets are recognized when it is probable that sufficient taxable profits will be available against which the deferred tax assets can be utilized.

Notes to the consolidated financial statements (continued)

3 Significant accounting policies (continued)

j) Provisions

A provision is recognized if, as a result of a past event, the Group has a present legal or constructive obligation which can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting of the expected future cash flows at a pre-tax rate that reflects current assessment of the time value of money and the risks specific to the liability.

Restructuring

A provision for restructuring is recognized when the Group has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. Future operating costs are not provided by the Group.

k) Issued share capital, share premium and reserves

Share capital represents the nominal value of paid-in shares classified as equity and it is denominated in HRK. Share premium represents the excess of the paid-in amount (net of transaction costs) and nominal value of the issued shares upon initial issue of shares. Any profit for the year after appropriations is transferred to retained earnings.

A legal reserve has been created in accordance with Croatian law, which requires 5% of the profit for the year to be transferred to the reserve until the total of legal reserves and capital reserves reaches 5% of issued share capital. The legal reserve can be used for covering current and prior period losses in the amount of up to 5% of issued share capital.

l) Revenue

Revenue comprises the fair value of the consideration received or receivable for the sale of the services in the ordinary course of the Group's activities, as follows: trading commissions, membership fees, fees for the maintenance of quotations and other fees.

Commission income is recognized when the service is provided. Income from fees is deferred over the relevant period to which the fees relate.

Income from maintenance of quotations, subscriptions for information and subscriptions for the real time monitoring of trade is deferred over the period of duration of the relevant quotation or subscription.

Finance income

Interest income is recognized in income statement in the corresponding time period for all interest-bearing financial instruments measured at amortized cost using the effective interest rate method.

Notes to the consolidated financial statements (continued)

3 Significant accounting policies (continued)

m) Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components, whose operating results are reviewed regularly by the Management Board of the Bank (being the chief operating decision maker) to make decisions about resources allocated to each segment and assess its performance, and for which discrete financial information is available.

The owners and the management (Chief operating decision makers –"CODM")) for the purpose of assessing performance and making resource allocations decisions identified operating segments on a geographical basis. Geographical segmentation is based on the domicile of the group subsidiaries.

The geographical information analyses the Group's revenue and non-current assets by the Group's country of domicile and other countries.

The Group does not specify any additional reportable segments per product or service type in this moment, given that it is sufficient for CODM to assess the performance and make resource allocation decision on the level of the entire group. Segment reporting analysis is presented in Note 27.

The Group has identified two primary segments: Croatia and Slovenia. The primary segmental information is based on the geographical location of business segments. Segmental results are measured at reported amounts in the financial statements.

n) Standards, interpretations and amendments to published standards that are not yet effective and were not used in preparation of these financial statements

Several new and altered Standards and Interpretations have been issued by the International Accounting Standards Board ("IASB") and its International Financial Reporting Interpretations Committee, but are not applicable to entities reporting under IFRS as adopted by EU, for the year ended 31 December 2016, and have not been applied in preparation of these financial statements.

i) IFRS 15 Revenue from Contracts with Customers

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including IAS 18 Revenue, IAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programmes. IFRS 15 is effective for annual periods beginning on or after 1 January 2018. The Group is assessing the potential impact on its financial statements resulting from the amendments. So far, the Group does not expect any significant impact.

The Group plans to adopt IFRS 15 in its financial statements for the year ending 31 December 2018, using the retrospective approach. As a result, the Group will apply all of the requirements of IFRS 15 to each comparative period presented and adjust its financial statements.

Notes to the consolidated financial statements (continued)

3 Significant accounting policies (continued)

o) Standards, interpretations and amendments to published standards that are not yet effective and were not used in preparation of these financial statements (continued)

ii) IFRS 9 Financial Instruments

IFRS 9, published in July 2014, replaces the existing guidance in IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, a new expected credit loss model for calculating impairment on financial assets and new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39. IFRS 9 is effective for annual reporting periods beginning on or after 1 January 2018.

Classification of financial assets and financial liabilities

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). IFRS 9 classification is generally based on the business model in which a financial asset is managed and its contractual cash flows. The standard eliminates the existing IAS 39 categories of held-to-maturity, loans and receivables and available-for-sale. Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never bifurcated. Instead, the whole hybrid instrument is assessed for classification.

IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities. However, although under IAS 39 all fair value changes of liabilities designated under the fair value option are recognised in profit or loss, under IFRS 9 fair value changes are generally presented as follows:

- the amount of change in the fair value that is attributable to changes in the credit risk of the liability is presented in OCI; and
- the remaining amount of change in the fair value is presented in profit or loss.

Based on the Group's initial assessment, this standard is not expected to have a material impact on the classification of financial assets and financial liabilities of the Group. This is because:

- the financial instruments classified as held-for-trading under IAS 39 will continue to be classified as such under IFRS 9;
- and financial instruments currently measured at amortized cost are: cash balances, short-term deposits, guarantee deposit and trade receivables. These instruments meet the solely principal and interest criterion and are held in a held-to-collect business model. Accordingly, they will continue to be measured at amortized cost under IFRS 9.

Impairment of financial assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' model. The new impairment model also applies to certain loan commitments and financial guarantee contracts but not to equity investments. Under IFRS 9, credit losses are recognised earlier than under IAS 39.

Based on the Group's initial assessment, changes to the impairment model are not expected to have a material impact on the financial assets of the Fund. This is because the financial assets at amortized cost are short-term (i.e. no longer than 12 months). Accordingly, the expected credit losses on such assets are expected to be small.

Hedge accounting

The Group does not apply hedge accounting; therefore, IFRS 9 hedge accounting-related changes do not have an impact on the financial statements of the Group.

Notes to the consolidated financial statements (continued)

4 Restatement of previously reported amounts

On 30 December 2015 Zagrebačka burza d.d. acquired 100% of ownership in Ljubljanska borza d.d.

In the financial statements for the year ended 31 December 2015, the Company accounted for the acquisition of investment in subsidiary provisionally at their carrying values.

The Group has during 2016 performed the valuation of fair values of assets and liabilities acquired in accordance with IFRS 3 *Business combination*. Adjustments made are recognised retrospectively and comparative information restated as if the business combination had been completed at the date of acquisition. This resulted in an increase of property and equipment by HRK 513 thousand, decrease of goodwill on 31 December 2015 by HRK 427 thousand and recognition of deferred tax liability in the amount of HRK 86 thousand.

Considering that the acquisition took place as at 30 December 2015, the above adjustments did not have any impact on the balances as at 1 January 2015.

HRK '000	As previously presented	Fair value adjustment	As restated
Assets			
Property and equipment	10,303	513	10,816
Intangible assets	5,669	(427)	5,242
Investment in associate and joint venture	196	-	196
Financial assets available for sale	394	-	394
Guarantee deposits	249	-	249
Deferred tax assets	148	-	148
Trade receivables and other assets	2,851	-	2,851
Prepaid expenses	3,519	-	3,519
Financial assets at fair value through profit or loss	5,280	-	5,280
Short-term deposits	16,969	-	16,969
Cash and cash equivalents	11,271	-	11,271
Total assets	**56,849**	**86**	**56,935**
Equity			
Issued share capital	46,357	-	46,357
Share premium	13,860	-	13,860
Legal reserves	141	-	141
Accumulated loss	(13,846)	-	(13,846)
Total equity	**46,512**	**-**	**46,512**
Liabilities			
Deferred tax liability	-	86	86
Trade and other payables	6,044	-	6,044
Income tax liability	15	-	15
Deferred income and accrued expenses	4,278	-	4,278
Total liabilities	**10,337**	**86**	**10,423**
Total equity and liabilities	**56,849**	**86**	**56,935**

Notes to the consolidated financial statements (continued)

5 Acquisition of subsidiary

In order to strengthen its regional position on 30 December 2015 Zagrebačka burza d.d. acquired 100% ownership of Ljubljanska burza d.d., non-listed company registered in Ljubljana, Republic of Slovenia, which provides similar services as the parent. The acquisition is complementary to the Group's existing business model. The goodwill relates to expected synergies and other benefits from combining the acquiree's net assets with those of the acquirer.

Fair values of identifiable net assets of Ljubljanska borza d.d. at 30 December 2015

	Restated
	Fair value on acquisition date
	HRK '000
Assets	
Property and equipment	10,262
Intangible asset	427
Deferred tax assets	148
Receivables from customers and other assets	1,141
Prepaid expenses	460
Short term deposits	3
Cash and cash equivalents	8,249
	20,690
Liabilities	
Trade payables and other liabilities	(1,022)
Deferred income and accrued expenses	(1,695)
Deferred tax liabilities	(86)
	(2,803)
Total net assets	**17,887**
Goodwill	**1,202**
Acquisition cost	**19,089**

Notes to the consolidated financial statements (continued)

6 Sales revenue

	2016 HRK '000	2015 HRK '000
Commissions	7,362	3,832
Income from quotation maintaining	6,616	3,963
Income from quotation fee	904	2,357
Membership fees	565	294
Total sales revenue	**15,447**	**10,446**

Commissions are charged from members based on value of realised transactions at the time of execution of the transaction.

Income from quotation maintenance represents an annual commission for the continuation of inclusion of the securities in the Official and Regular Market quotations.

Quotation fees are collected from issuers of securities on the Official and Regular Market.

Membership fees include one-time admission fee payable for acquiring the status of Exchange Member, as well as fees charged to existing members on a quarterly basis.

7 Other operating income

	2016 HRK '000	2015 HRK '000
Income from application programming interface services	1,404	1,456
Income from the supply of information	4,495	1,134
Sale and lease of equipment	483	482
Income from seminars	671	464
Other income	1,705	531
Total other operating income	**8,758**	**4,067**

8 Staff costs

	2016 HRK '000	2015 HRK '000
Salaries		
Net salaries	5,753	3,105
Payroll deductions	1,470	1,002
Payroll contributions	2,249	1,812
Total salaries	**9,472**	**5,919**
Other staff costs	360	39
Total staff costs	**9,832**	**5,958**

The number of employees at the end of 2016 was 34 (2015: 22). Staff costs include HRK 943 thousand (2015: HRK 962 thousand) of defined pension contributions paid into obligatory pension funds. Contributions are calculated as a percentage of employees' gross salaries. In 2016 bonus payments in Ljubljanska borza d.d. amounted to HRK 259 thousand (2015: HRK 222 thousand).

Notes to the consolidated financial statements (continued)

9 Other operating expenses

	2016 HRK '000	2015 HRK '000
Software and licences	6,818	3,559
Professional services	2,357	1,846
Rental expenses	1,458	1,395
Post and telephone services	728	786
Utility expenses	836	567
Fees and charges	633	629
Entertainment	251	217
Business travel	147	81
Write off of software	688	-
Impairment of debt securities classified as available for sale	158	-
Impairment of trade receivables	509	496
Other expenses	2,329	677
Total other operating expenses	**16,912**	**10,253**

10 Financial income and expense

	2016 HRK '000	2015 HRK '000
a) Financial income		
Net gains from financial assets at fair value through profit or loss	37	92
Interest income	314	284
Dividend income	49	-
Total financial income	**400**	**376**
b) Financial expense		
Interest expense	(6)	(1)
Total financial expense	**(6)**	**(1)**
Net financial result	**394**	**375**

Notes to the consolidated financial statements (continued)

11 Income tax

a) Income tax credit

	2016 HRK '000	2015 HRK '000
Current income tax expense	-	-
Deferred income tax	184	-
Total income tax credit	**184**	-

b) Reconciliation of accounting profit and current income tax liability

	2016 HRK '000	2015 HRK '000
Loss before tax	**(3,959)**	**(3,133)**
Tax calculated at 20% (2015: 20%)	(792)	(627)
Effects of different tax rates	(15)	-
Tax non-deductible expenses	219	199
Non-taxable income	(338)	(27)
Tax losses from Zagrebačka burza d.d. not recognised as deferred tax assets	735	453
Consolidation adjustments	7	2
Income tax credit	**(184)**	**-**
Effective income tax rate	n/a	n/a

c) Tax losses carried forward

Gross tax losses arising from Zagrebačka burza d.d. amounting to HRK 11,062 thousand are available for offset against the future taxable profits of the Company at the end of 2016. A tax loss may be carried forward by the Company for five years subsequent to the year in which it arose, subject to review by the Ministry of Finance. At the end of 2015 the Company had HRK 7,958 thousand of tax loss available to be carried forward to subsequent years. At both reporting dates the Company did not recognise deferred tax assets in respect of tax losses carried forward, as it is uncertain when sufficient taxable profits will be available against which the deferred tax assets can be utilised.

At 31 December 2016 the Group did not recognize deferred tax assets in respect of temporary differences (unused holiday provisions, receivables impairment allowances) and carried forward tax losses on Zagrebačka burza d.d., as it is uncertain if taxable profits will be available against which the deferred tax assets can be utilised. For the next reporting date, the Group will re-evaluate assumptions for the recognition of deferred tax assets.

Notes to the consolidated financial statements (continued)

11 Income tax (continued)

c) Tax losses carried forward (continued)

At 31 December the gross tax losses available to be carried forward are as follows:

	2016 HRK '000	2015 HRK '000
Up to 1 year	3,364	567
Up to 2 years	692	3,364
Up to 3 years	1,006	692
Up to 4 years	2,329	1,006
Up to 5 years	3,671	2,329
Total tax loss available to be carried forward	**11,062**	**7,958**

d) Deferred tax assets/liabilities

At 31 December 2016 the Group recognised deferred tax assets arising from temporary differences (trade receivables, depreciation and tax losses carried forward) from Ljubljanska borza d.d.

Deferred tax assets

as at	Trade receivables	Depreciation	Tax losses carried forward	Total
1 January 2015	-	-	-	-
Ljubljanska borza d.d. acquisition	68	7	73	148
31 December 2015 (restated)	**68**	**7**	**73**	**148**
1 January 2016 (restated)	68	7	73	148
Newly formed in 2016	28	3	153	184
Used in 2016	(2)	-	-	(2)
Effects of changes in exchange rate	-	-	(1)	(1)
31 December 2016	**94**	**10**	**225**	**329**

Deferred tax liabilities

as at	Fair value adjustment of property	Total
1 January 2015	**-**	**-**
Arising on acquisition of Ljubljanska borza d.d.	86	86
31 December 2015 (restated)	**86**	**86**
1 January 2016 (restated)	86	86
Deferred tax credit	(2)	(2)
31 December 2016	**84**	**84**

Notes to the consolidated financial statements (continued)

12 Property and equipment

	Land and building	Computers	Furniture and other equipment	Leasehold improvements	Under construction	Total
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
Cost						
At 1 January 2015	**-**	**6,050**	**2,309**	**1,118**	**-**	**9,477**
Additions	-	15	15	-	-	30
Ljubljanska borza d.d. acquisition	9,679	-	583	-	-	10,262
At 31 December 2015 (restated)	**9,679**	**6,065**	**2,907**	**1,118**	**-**	**19,769**
At 1 January 2016 (restated)	**9,679**	**6,065**	**2,907**	**1,118**	**-**	**19,769**
Additions	14	146	326	-	399	885
Disposals	-	(10)	(569)	-	(326)	(905)
Effects of movements in exchange rate	(104)	-	(56)		-	(160)
At 31 December 2016	**9,589**	**6,201**	**2,608**	**1,118**	**73**	**19,589**
Accumulated depreciation						
At 1 January 2015	**-**	**(5,540)**	**(2,191)**	**(1,037)**	**-**	**(8,768)**
Charge for the period	-	(99)	(38)	(48)	-	(185)
At 31 December 2015 (restated)	**-**	**(5,639)**	**(2,229)**	**(1,085)**	**-**	**(8,953)**
At 1 January 2016 (restated)	**-**	**(5,639)**	**(2,229)**	**(1,085)**	**-**	**(8,953)**
Charge for the period	(277)	(111)	(124)	(15)	-	(527)
Disposal	-	10	569	-	-	579
Effects of movements in exchange rate	3	-	50	-	-	53
At 31 December 2016	**(274)**	**(5,740)**	**(1,734)**	**(1,100)**	**-**	**(8,848)**
Net book value at 31 December 2015 (restated)	**9,679**	**426**	**678**	**33**	**-**	**10,816**
Net book value at 31 December 2016	**9,315**	**461**	**874**	**18**	**73**	**10,741**

Notes to the consolidated financial statements (continued)

13 Intangible assets

	Software	**Long-term deferred costs**	**Goodwill**	**Total**
	HRK '000			**HRK '000**
Cost				
At 1 January 2015	**19,337**	**-**	**-**	**19,337**
Additions	527	-	-	527
Ljubljanska borza d.d. acquisition	270	157	1,202	1,629
At 31 December 2015 (restated)	**20,134**	**157**	**1,202**	**21,493**
At 1 January 2016 (restated)	**20,134**	**157**	**1,202**	**21,493**
Additions	744	22	-	766
Write-offs	(2,885)	-	-	(2,885)
Effect of movements in exchange rates	(89)	(2)	(12)	(103)
At 31 December 2016	**17,904**	**177**	**1,190**	**19,271**
Accumulated amortization				
At 1 January 2015	**(14,651)**	**-**	**-**	**(14,651)**
Charge for the period	(1,600)	-	-	(1,600)
At 31 December 2015 (restated)	**(16,251)**	**-**	**-**	**(16,251)**
At 1 January 2016 (restated)	**(16,251)**	**-**	**-**	**(16,251)**
Charge for the period	(1,288)	-	-	(1,288)
Write-offs	2,197	-	-	2,197
Effect of movements in exchange rates	86	-	-	86
At 31 December 2016	**(15,256)**	**-**	**-**	**(15,256)**
Net book value				
At 31 December 2015 (restated)	**3,883**	**157**	**1,202**	**5,242**
At 31 December 2016	**2,648**	**177**	**1,190**	**4,015**

Write-off of HRK 688 thousand relates to software which was not longer in use by the Group in 2016.

Notes to the consolidated financial statements (continued)

14 Investment in associate and joint venture

	31 December 2016 HRK '000	Restated 31 December 2015 HRK '000
Investment in SEE Link d.o.o. (33.33 %)	173	196
Investment in Funderbeam South-East Europe d.o.o. (20 %)	4	-
Total investment in associates and joint venture	**177**	**196**

As at 31 December the Group's associate and joint venture were as follows:

	Company	Country	Native of business	Holding 2016 %	2015 %
Joint venture	SEE Link d.o.o.	Macedonia	stock-exchange order routing	33.3	33.3
Associate	Funderbeam SEE d.o.o.	Croatia	finance intermediary	20	-

SEE Link d.o.o. is a joint venture (Zagrebačka burza d.d. has 1/3 ownership) that was founded in 2014. During 2015, all three owners paid in additional HRK 177 thousand in order to increase share capital of SEE Link d.o.o.

Funderbeam South-East Europe d.o.o. is an associate that was founded in 2016. As at 31 December 2016 Funderbeam South-East Europe d.o.o. has not yet started its' operations and other than initial capital payments there were no other transactions in 2016. Consequently, the summarised financial information for Funderbeam South-East Europe d.o.o. has not been presented.

Summary of financial data for SEE Link d.o.o. is as follows:

	31 December 2016 HRK '000	Restated 31 December 2015 HRK '000
Non-current assets	1,960	552
Current assets	739	673
Out of which Cash and cash equivalents	459	590
Total assets	**2,699**	**1,225**
Non-current liabilities	-	-
Current liabilities	2,180	637
Out of which Current financial liabilities	-	-
Total liabilities	**2,180**	**637**
Total revenues	749	98
Net interest (expense)/income	(1)	1
Income tax	-	-
Loss for the year	**(62)**	**(16)**

The Group has assessed that it does not have control over SEE Link d.o.o. and Funderbeam South-East Europe d.o.o. in accordance with the requirement of IFRS 10.

Notes to the consolidated financial statements (continued)

15 Financial assets

	31 December 2016 HRK '000	Restated 31 December 2015 HRK '000
a) Financial assets available for sale		
Investment in equity instruments	197	197
Investment in bonds	197	197
Impairment allowance for bonds	(158)	-
	236	**394**

Movement in impairment allowance for trade receivables

	2016 HRK '000	2015 HRK '000
Balance at 1 January	-	-
Impairment loss	(158)	-
Total	**(158)**	**-**

Investment in bonds relate to bond acquired for uncollected receivables. In 2016 the Group recognised impairment on this bond, which was recorded directly in profit or loss account (Note 9), given significant decline in value of investment.

The investment in equity instruments is carried at cost, given that they do not have quoted price and its fair value cannot be reliably measured.

	31 December 2016 HRK '000	Restated 31 December 2015 HRK '000
b) Financial assets at fair value through profit or loss		
Shares in open-ended investment funds	8,084	5,280
	8,084	**5,280**

Shares in open-ended investment funds are classified as fair value level 1 as at 31 December 2016 and 31 December 2015.

Notes to the consolidated financial statements (continued)

16 Trade receivables and other assets

	31 December 2016 HRK '000	Restated 31 December 2015 HRK '000
Trade receivables	4,371	3,834
Advances placed	47	17
Other assets	1,047	8
Impairment allowance	(1,517)	(1,008)
Total	**3,948**	**2,851**

In 2016 the Company launched SME Growth Market Project in cooperation with the European Bank for Reconstruction and Development ("EBRD"). The purpose of the grant is for consulting services for feasibility study of SME market stock exchange. As part of the project the Group recognised amount granted by the EBRD into other assets and into deferred income in the same amount.

Movement in impairment allowance for trade receivables

	2016 HRK '000	Restated 2015 HRK '000
Balance at 1 January	(1,008)	(540)
Impairment loss	(509)	(524)
Write off	-	28
Release of impairment allowance	-	28
Total	**(1,517)**	**(1,008)**

At the reporting date the Group had overdue receivables which were not impaired of HRK 396 thousand (31 December 2015: HRK 493 thousand). The Management holds these receivables to be fully recoverable.

Overdue receivables not impaired as at 31 December 2016 (HRK '000):

< *90* days	*91-120* days	*121-180* days	*181 - 360* days	>*360* days
215	154	8	17	2

Overdue receivables not impaired as at 31 December 2015 (restated) (HRK '000):

< *90* days	*91-120* days	*121-180* days	*181 - 360* days	>*360* days
370	5	44	34	40

Notes to the consolidated financial statements (continued)

17 Short-term deposits

	31 December 2016 HRK '000	Restated 31 December 2015 HRK '000
Short-term deposits with maturity over 3 months	6,543	16,969
Total short-term deposits	**6,543**	**16,969**

18 Cash and cash equivalents

	31 December 2016 HRK '000	Restated 31 December 2015 HRK '000
Gyro account in foreign currency (EUR)	5,914	10,960
Gyro account in domestic currency	9,174	307
Cash in hand	9	4
Total cash and cash equivalents	**15,097**	**11,271**

19 Issued share capital

Share number movement:

	Number of shares	Nominal value of share capital in HRK	Issued share capital in HRK '000
1 January 2015	40,408	1,000	40,408
Issue of share capital	5,949	1,000	5,949
31 December 2015	**46,357**	**1,000**	**46,357**
1 January 2016	46,357	1,000	46,357
Share split	4,635,700	10	46,357
31 December 2016	**4,635,700**	**10**	**46,357**

All of the issued shares are authorized and fully paid in ordinary shares. On 31 August 2016, all of the issued shares were listed to the Official Market of Zagreb Stock Exchange.

As at 31 December 2016 the Group had 303 shareholders (2015: 56 shareholders) with ownership interests in the Group ranging between 0.01% and 9.95%.

Notes to the consolidated financial statements (continued)

20 Loss per share

Calculation of loss per share as at 31 December 2016 was based on the loss of HRK 3,775 thousands and a weighted average number of ordinary shares outstanding of 46,357,000, calculated as follows:

	31 December 2016	**Restated 31 December 2015**
Net loss for the period (HRK'000)	(3,775)	(3,133)
Weighted average number of ordinary shares during the period	4,635,700	4,239,643
Basic and diluted loss per share (in HRK)	**(0.81)**	**(0.74)**

Diluted earnings per share are the same as basic given there is no potential dilution effect from any instruments.

Weighted average number of ordinary shares during the period:

	2016	**Restated 2015**
Issued ordinary shares at January 1	4,635,700	4,040,800
Effect of shares issued in 2015	-	198,843
Weighted average number of ordinary shares at 31 December	**4,635,700**	**4,239,643**

Considering the share split which occurred during 2016, the weighted average number of ordinary shares is adjusted as if the event had occurred at the beginning of the earliest period presented.

21 Financial liabilities

	31 December 2016 HRK '000	**Restated 31 December 2015 HRK '000**
Long-term financial liability	139	-
Short-term financial liability	61	-
Total financial liabilities	**200**	**-**

Financial liabilities relate to the finance lease of a motor vehicle acquired in 2016.

Notes to the consolidated financial statements (continued)

22 Trade and other payables

	31 December 2016 HRK '000	Restated 31 December 2015 HRK '000
Trade payables	4,873	3,921
VAT liability	524	566
Other short-term payables	1,141	1,557
Total trade and other payables	**6,538**	**6,044**

23 Deferred income and other liabilities

	31 December 2016 HRK '000	Restated 31 December 2015 HRK '000
Deferred income from quotation maintaining	2,307	2,293
Deferred income from grant agreement	1,028	-
Provisions for bonuses and severances of Ljubljanska borza d.d.	357	1,695
Other deferred income	333	290
Total deferred income and accrued expenses	**4,025**	**4,278**

24 Operating leases

Total future minimum lease payments under non-cancellable operating leases are as follows:

	31 December 2016 HRK '000			31 December 2015 HRK '000		
	Office space	Motor vehicles	Total	Office space	Motor vehicles	Total
Less than one year	735	44	**779**	313	226	**539**
Between one and five years	943	18	**961**	-	62	**62**
More than five years	-	-	-	-	-	-
Total operating leases	**1,678**	**62**	**1,740**	**313**	**288**	**601**

Notes to the consolidated financial statements (continued)

25 Financial instruments – risk exposures

Interest rate risk

The Group does not have significant amount of variable interest-bearing assets. The most significant interest-earning assets are short-term deposits in banks. Interest-bearing liabilities relate to finance lease which outstanding amount of HRK 200 thousand does not represent significant interest rate risk. The impact of changes in market interest rates on income statement is therefore assessed as not significant. As at 31 December 2016 remaining maturity of deposit with fixed interest rate is short-term and therefore the Management of the Group believes that fair value of this deposit is close to its carrying value.

Foreign currency risk

Except for HRK 2,810 thousand (2015: HRK 2,711 thousand) of the funds on the gyro account denominated in euro, trade receivables in amount of HRK 295 thousand and HRK 3,113 of trade payable denominated in euro, there are no other financial assets and liabilities denominated in foreign currency. Thus the Group is not significantly exposed to foreign currency risk.

Credit risk

The maximum net exposure to credit risk is as follows:

	31 December 2016 HRK '000	Restated 31 December 2015 HRK '000
Cash and cash equivalents (excluding cash in hand)	15,088	11,267
Short-term deposits	6,543	16,969
Trade receivables and other assets	3,948	2,851
Guarantee deposits	249	249
Debt securities available-for-sale	39	197
	25,867	**31,533**

The Group generally does not take collateral due to the nature of its operations. Other than short-term deposit and cash in domestic banks (Note 17, 18), the Group did not have significant concentration of credit risk at the reporting date.

Notes to the consolidated financial statements (continued)

25 Financial instruments – risk exposures (continued)

Price risk

Price risk is the risk that the value of financial instrument will fluctuate as a result of changes in market prices, whether caused by factors specific to an individual investment, its issuer, or by factors affecting all instruments traded in the market. The Group's investment in open-ended investment funds (cash funds) are carried at fair value with fair value changes recognized in income statement. Accordingly, such changes in market conditions will directly affect gains or losses on financial instruments recognized in income statement.

Price risk is mitigated by the Group through diversification of its portfolio of investments in open-ended investment funds to various types of funds, managed by different investment companies, and investing in cash funds. Assuming all other variables unchanged, a decrease/increase in the market price of units in investment funds by -/+1% at the reporting date would result in decrease/increase of profit before tax by HRK 81 thousand (2015: HRK 53 thousand).

Liquidity risk

The Group does not have interest-bearing borrowings. Cash and cash equivalents and financial assets at the reporting date significantly exceed liabilities. During the year the Group had satisfactory liquidity position. Financial liabilities which include trade and other payables and deferred income and accrued expenses have maturity up to one year.

26 Related parties

The Group considers that it has an immediate related party relationship with its key shareholders, joint venture and associate, the Supervisory and Management Board members and other executive management (together "key management"); close family members of key management; and jointly controlled by Management Board members and their close family members, in accordance with definitions contained in International Accounting Standard 24 "Related Party Disclosures" ("IAS 24").

As at 31 December 2016, the Group has no obligation to key shareholders that relates to funds on transactions accounts and no obligation for rendered services.

Also during 2016, the Group did not have any transactions with its subsidiary, associate and joint venture.

Remuneration to key management (together Zagrebačka burza d.d. and Ljubljanska borza d.d.) throughout the year was HRK 3,968 thousand (2015: HRK 1,736 thousand). The total remuneration of Supervisory Board members (of Ljubljanska borza d.d.) amounted to HRK 48 thousand (2015: HRK 0).

Notes to the consolidated financial statements (continued)

27 Segment reporting

In presenting the geographic information, segment revenue has been based on the geographic location of customers and segment assets were based on the geographic location of the assets.

HRK '000	2016				
	Croatia	**Slovenia**	**Reportable segments total**	**Adjustments**	**Consolidation totals**
External revenues	13,522	10,682	**24,204**	**-**	**24,204**
Staff costs	(5,717)	(4,115)	**(9,832)**	**-**	**(9,832)**
Depreciation and amortization	(1,357)	(443)	**(1,800)**	**(15)**	**(1,815)**
Other operating expenses	(11,265)	(5,647)	**(16,912)**	**-**	**(16,912)**
Financial income	380	20	**400**	**-**	**400**
Financial expense	(1)	(5)	**(6)**	**-**	**(6)**
Net foreign exchange gain/(loss)	34	-	**34**	**(12)**	**22**
Segment (loss)/profit before tax	**(4,404)**	**492**	**(3,912)**	**(49)**	**(3,961)**
Segment income tax credit	**-**	184	**184**	**-**	**184**
Segment (loss)/profit for the year	**(4,404)**	**674**	**(3,730)**	**(45)**	**(3,775)**
Capital expenditure	642	1,009	**1,651**	**-**	**1,651**

Considering that the acquisition took place as at 30 December 2015, amounts for 2015 have not been presented.

28 Key accounting estimates and assumptions

The Management Board uses estimates and assumptions concerning the future events. The resulting accounting estimates will therefore, by definition, seldom equal the actual results. The estimates and judgments which have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Impairment of trade receivables

Trade receivables are estimated at each reporting date and are impaired according to the estimate of probability of collection. Each customer is evaluated individually based on the expected date of collection of the amount due and estimated probability of collection of the outstanding amount. The Management holds that trade receivables are stated at their recoverable amount at the reporting date.

Income tax

The Group provides for tax liabilities in accordance with the tax laws of the Republic of Croatia. Tax returns are subject to the approval of the tax authorities who are entitled to carry out subsequent inspections of taxpayers' records. There are different possible interpretations of tax laws; therefore amounts in the financial statements may be changed subsequently depending on the decision of the tax authorities.

Useful life of property and equipment and intangible assets

The Group reviews the estimated useful lives of property and equipment and intangible assets at the end of each reporting period.

Notes to the consolidated financial statements (continued)

28 Key accounting estimates and assumptions (continued)

Classification of investment in joint venture

The Group has assessed that investment in SEE Link d.o.o. represents investment in joint venture considering that the Group has rights to the net assets of the arrangement.

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis, in accordance with accounting policy 3b. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

The recoverable amount of cash generating units is determined based on value-in-use calculations. These calculations use cash flow projections from financial budgets approved by management and cover a period of five years.

Goodwill

Goodwill relates entirely to goodwill arising on acquisition of the subsidiary Ljubljanska borza d.d. The Group annually performs an impairment test in order to assess whether the recoverable amount of goodwill indicates potential impairment of its carrying amount. The calculation of the recoverable amount of goodwill is based on five year plans for revenue on the Slovenian market and business plans of the subsidiary developed by the Group bearing in mind it's corporate and marketing strategy, relevant markets trends. The calculation of the recoverable amount implies a terminal growth rate for cash flows after the projected five year period amounting to 2%. Cash flows created from such plans are discounted using the discount rate which reflects the return of the underlying asset.

The sensitivity analysis indicates that an impairment loss in respect of goodwill arising on acquisition of Ljubljanska borza d.d. would arise in case of increase of the weighted average cost of capital by 300 basis points (assuming an unchanged terminal growth rate) an impairment loss would arise in the amount of HRK 260 thousand.

The calculations of value in use for the CGU is most sensitive to the following assumptions:

Revenue and gross margins - Revenue and gross margins are based on average values achieved in the recent years preceding to the start of the business plan period. These are increased over the business plan period for anticipated expansion in business, synergies and efficiency improvements.

Growth rates - The business plan terminal growth rates are based on market outlook. Average revenue growth rate for business plan period is 5.95%.

Discount rates - Discount rates represent the current market assessment of the risks specific to the CGU. This is the benchmark used by the Group to assess operating performance and to evaluate future investment proposals. In determining appropriate discount rates for CGU, consideration has been given to Slovenian country risk premium of 3%.

29 Events after the Reporting Period

No other events or transactions have occurred since 31 December 2016 or are pending that would have a material effect on these separated financial statements at that date or for the period then ended, or that are of such significance in relation to the Company's affairs to require mention in a note to the separate financial statements.