



ZAGREBAČKA  
BURZA

*Zagreb Stock Exchange*

# **ANNUAL REPORT**

**ON COMPANY STATUS AND BUSINESS ACTIVITIES IN 2016**

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Zagreb, April 2017

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## Management report

### 1.1 A word by the Management Board

Year 2016 ended with very good trading indicators and this was mainly reflected in the two-digit increase of almost all indices; however, the year will be remembered as an intensive one from the aspect of numerous events and projects.

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

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.

Zagreb Stock Exchange Academy, education department of the ZSE, celebrated its sixth anniversary in May. More than 5600 individuals participated in different educational activities organised by the Academy which held in excess of 320 events and initiated first certified program aimed at manager investor relations, a unique program in Croatia and closer region. Third generation of participants finished the program in 2016. In recent years, the Academy has been significantly focused on financial literacy of young people and in 2016 nearly 1,000 young people from different parts of Croatia and abroad visited the Academy. The Academy also cooperates with student associations and provides different benefits to associations' members by organising visits to the Academy, lectures, financial knowledge quizzes, visiting universities and higher education institutions and providing other means of support to student associations. In addition, the Academy manages the simulation of stock exchange trading titled Virtual stock exchange. This simulation was devised and initiated in cooperation with eStudent association. Over 19,000 'investors' 'invested' on the Virtual stock exchange and it is also used in classes of several education institutions such as the Faculty of Economics and Business in Zagreb. In mid-March the Academy marked Global and European Money Week by organising an array of activities for over 200 pupils and students. Global Money Week is an international event aimed at raising awareness in younger population about importance of financial literacy. Over 7 million children and youth participate in the event worldwide.

Third joint Investment Day of Zagreb and Ljubljana stock exchanges was held in May in Zagreb. It was the most successful one so far and 13 Slovenian and Croatian issuers presented themselves to investors. Interest of the investors for the meetings with companies increased by 25% compared to previous year, and number of participating foreign investors was largest ever: 28 investment companies and banks represented by 55 analysts and investors from Croatia, Estonia, Czech Republic, Hungary, Slovenia and the USA participated in the event. Investors submitted total of 186 meeting requests, and ultimately, companies held 160 individual and group meetings.

June was marked by the separation of the regulated market from Multilateral Trading Facility (MTF) which was given a new name – CE Enter. Provisions relating to CE Enter market are provided within separate CE Enter Market Rules and new website for CE Enter Market was designed. CE Enter Market is an alternative market managed by the Stock Exchange, and the purpose of the separation was to additionally emphasize the difference between the regulated market and CE Enter which is characterised by lower demands in terms of issuer transparency and financial instruments that are traded.

In June, Croatian Financial Services Supervisory Agency, Central Depository and Clearing Company and Zagreb Stock Exchange held seventh educational activity intended for companies with securities listed on the ZSE regulated market. The activity gathered 120 representatives of the listed companies.

Also in June a publication „Corporate Governance: Manual“ was finished and promoted. It is a first publication in the edition of the Zagreb Stock Exchange which was published in cooperation with the International Finance Corporation (IFC) and with the support of the Croatian Financial Services Supervisory Agency and four mandatory pension funds and investment company Intercapital. The manual is a comprehensive edition of 500 pages and the first publication in Croatia that in practical manner deals with legal and regulatory framework in which Croatian companies operate and it emphasizes best international practices and offers guidelines to companies that seek to improve corporate governance. It is intended for companies listed on the Zagreb Stock Exchange, companies that plan to be listed but also all companies that want to keep up with the highest standards of governance so as to ensure sustainability and attract investment.

In July, Zagreb Stock Exchange initiated the process of regional capital market development intended for small and medium-sized enterprises. The process is supported by the European Bank for Reconstruction and Development that via its donors (TaiwanBusiness – EBRD Technical Cooperation Fund – TWTC) is co-financing the study on the establishment of such a market. Process of development of a market for small and medium-sized enterprises is also strongly supported by the European Union in its regulation (Markets in Financial Instruments Directive 2 - MiFID2) by which multilateral trading facilities, such as CE Enter of the Zagreb Stock Exchange, would be places intended for small and medium-sized enterprises to facilitate their access to capital needed for growth and development.

Since the end of July ZSE has been applying the new name for LEI service. In addition to the name change from LEI into zseLEI, visual identity was redesigned with the intention of strengthening recognisability of this ZSE service and general awareness raising of the importance of global LEI system. After ZSE was granted the status of local operator by the Regulatory Oversight Committee, (ROC) in 2015 making ZSE one of the first organisation in the closer region that provides its participants this type of service, in the end of the year an Agreement on providing LEI services was signed with Global Legal Entity Identifier Foundation (GLEIF) and thus the ZSE concluded the first phase of accreditation and acquired candidate status. Currently there are 20 organisations worldwide that have signed Agreements on providing LEI services with GLEIF and none has yet underwent complete accreditation procedure. ZSE is currently one of only 28 local operators in the world that have clearance to assign LEI codes, and all local operators previously approved by ROC have to undergo GLEIF accreditation procedure. Successful conclusion of accreditation process is a confirmation of service quality.

Listing of ZSE shares in August in lesser but significant extent brought certain vibrancy to the market making ZSE the first regional stock exchange to have shares listed on the regulated market thus setting new standards of transparency and corporate governance criteria and taking the next step in further regionalisation, but also paving the way for collecting new capital for growth and development.

In October a traditional ZSE and fund industry annual conference was held in October and it attracted a record number of more than 430 participants. Poslovni dnevnik and ZSE awards were presented for the seventh time to companies that achieved best investor relations.

During the conference ZSE also 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.

In December, fifth awards of the Zagreb Stock Exchange were presented. The ceremony was founded in 2012 with the aim of awarding best financial market participants based on objective, statistical criteria, but also overall contribution to education and development of domestic capital market. Laureates were Hrvatski telekom d.d. in the category of Top turnover stock, AD Plastik d.d. in the category of Top price gainer, Atlanska plovidba d.d. as Top turnover gainer, and investment company Interkapital vrijednosni papiri d.d. was the winner in the category Member of the Year. ZSE Academy Award for Extraordinary Contribution to Capital Market Education was received by a mathematician and educator Toni Milun, and EBRD received Award for Extraordinary Contribution to the Capital Market Development. Valamar Riviera d.d. stock was declared Stock of the year, selected by the public.

Aforementioned actions and projects which were either initialised or implemented in just one year, ZSE has grown from a local to regionally important organisation with the aim of becoming an organisation that provides support to companies throughout all stages of their development – from the idea i.e. *startup* stage to transfer into the world of joint stock companies in the form of small or medium-sized businesses and finally listing on the regulated market. Moreover, ZSE has been working intensively on different activities that provide support to regulated market and all our members and issuers. In the referenced process it is of extreme importance for our goals to be complementary with the most important goals of Croatian economy: stronger reliance on the private sector, number of jobs increase, retaining young and qualified work force in their most productive period in the country and positioning of Croatia as a country that has the strength and will to change things for the better.

Economic indicators show recovery and we hope the trend will continue. ZSE was and remains an integral part of the financial system, and we will continue to improve efficiency of capital market through our project so that it is an active participants in country's economy and one of the growth generators.

## 1.2 ZSE Key Performance Indicators in 2016

Operating revenue in 2016 amounted to 13.5 mil HRK, down -6.8% compared to the same period last year.

Operating loss before interest, taxes, depreciation and amortization in 2016 amounted to -3,460 thousand HRK while in 2015 it amounted to -1,698 thousand HRK.

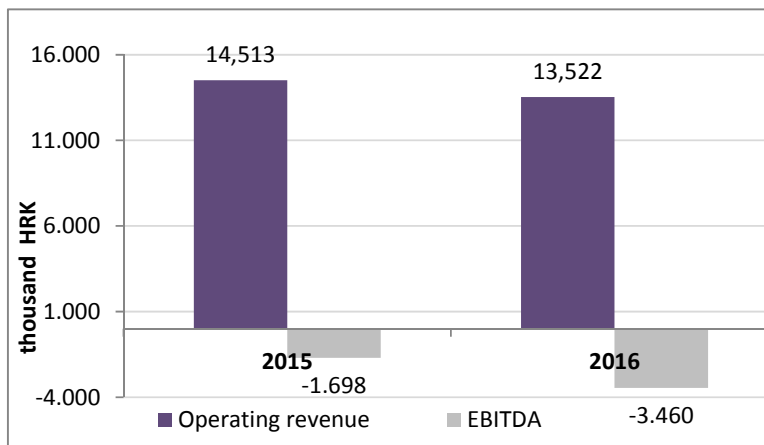


Figure 1. Operating revenue and EBITDA in the period from 2015 to 2016

	2015	2016
<b>Issued share capital (thousands HRK)</b>	46,357	46,357
<b>Total equity</b>	46,520	42,116
<b>Total assets</b>	54,140	50,778
<b>Operating revenues</b>	14,513	13,522
<i>-revenue</i>	10,446	8,757
<i>-other operating income</i>	4,067	4,765
<b>Operating expenses</b>	16,211	16,982
<i>-staff costs</i>	5,958	5,717
<i>-other operating expenses</i>	10,253	11,265
<b>EBITDA</b>	-1,698	-3,460
<b>EBIT</b>	-3,483	-4,817
<b>Loss before tax</b>	-3,127	-4,404
<b>Income tax expense</b>	0	0
<b>Loss for the year</b>	-3,127	-4,404
<b>Issued shares</b>	4.635.700	4.635.700
<b>Nominal value on 31 December</b>	10,00	10,00
<b>Cash dividend</b>	0	0
<b>Number of employees</b>	22	22

### 1.2.1 Trading and price of ZB-R-A stock of issuer Zagreb Stock Exchange, Inc.

Zagreb Stock Exchange stocks were listed on the regulated market (Official market segment) in August 2016. Issued share capital of Zagreb Stock Exchange amounts to 46,357,000 and it is divided into 4,635,700 ordinary shares. From 1 September 2016 to 30 December 2016 orderbook turnover in the amount of 10 million HRK was reached and the average daily price change of -9.48%. Price of ZB-R-A stock peaked on 2 September 2016 in the amount of 43.99 HRK, while the lowest price occurred on 16 November 2016 in the sum of 15.00 HRK. Total of 303 shareholders were noted in the ownership structure of the Zagreb Stock Exchange on 30 December 2016.

<b>Total turnover (HRK)</b>	<b>10,189,346.66</b>
<b>Total trading volume</b>	550,878
<b>Highest price (HRK)</b>	43.99
<b>Lowest prices (HRK)</b>	15.00
<b>Last price (HRK)</b>	16.00
<b>Average daily turnover (HRK)</b>	130,632.65
<b>Average daily number of transactions</b>	28

### 1.3 Financial results and business operations in 2016

Income from operating activities in 2016 was -991 thousand HRK lower (by -6.8%) compared to 2015. The largest decrease in revenues was visible in revenues generated from listing fees (-65.9% due to decreased activity of collecting capital via Stock Exchange in 2016 in comparison with the previous year). Despite the increase of total turnover, revenue from commissions in 2016 is lower by -6.5% due to the large share of commissions from block-transactions for which the Stock Exchange charges much lower commissions.

Total operating expenses in 2016 amounted to 18.3 million HRK, up by 2% in comparison to 2015. The biggest increase in operating expenses was due to software costs (+17.5%). In the referenced period staff costs were reduced (-4%) as well as the cost of amortisation of longterm material and non-material assets (-24%). The biggest decrease in other operating expenses was evident in the decrease of the premises rent (-15.5%) and postal and telephone services (-22%).

Furthermore, in 2016 the company still had a negative net result in the amount of -4,404 thousand HRK. As in previous years, the depreciation charge was quite high and amounted to -1,357 thousand HRK and represented 7.4% of total costs.

In 2016, Zagreb Stock Exchange has invested its free funds in conservative instruments such as deposits at commercial banks and money market funds, in order to preserve the value of assets. At the end of 2016, the sum of free funds amounted to 22,080 thousand HRK (shares in funds, deposits and cash in bank).

## 1.4 Business analysis

### Total operating revenues

Total operating revenues in 2016 amounted to 13.5 mil HRK, which is a -6.8% decrease compared to the previous year. The largest decrease in revenues was visible in revenues generated from quotation fees (-65.9%).

Largest stake in operating revenues stems from income from quotation maintaining (30%) which surpassed income from commissions which up to now made up the largest part of total operating revenues (26.5% in 2016).

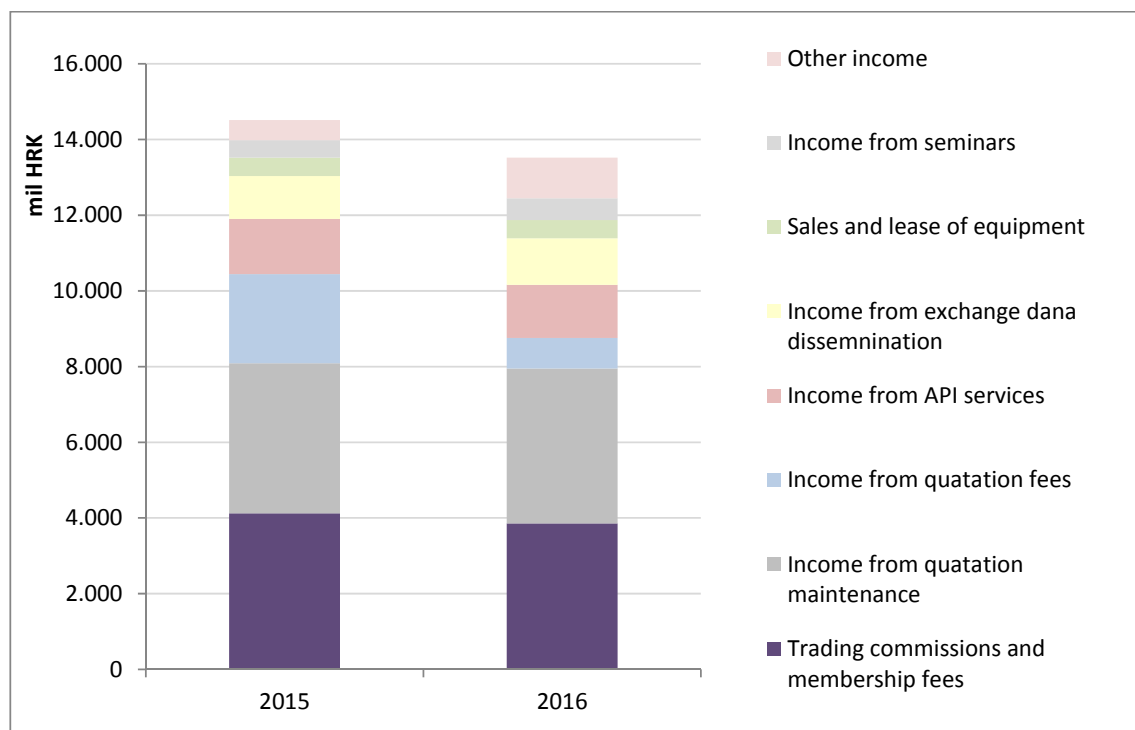


Figure 7. Total operating revenues in the period from 2015 to 2016

### **Commissions and membership fees**

Comparing 2016 with 2015, revenues from commissions and membership fees decreased by -267 thousand HRK, i.e. -6.5%. Number of members dropped from 19 to 17, and there were no new members. In July and August 2016, companies Rast d.o.o. and Banka Splitsko-Dalmatinska ceased to be members of the Stock Exchange.

### **API membership fees**

Income from API membership fees in 2016 amounted to 1.4 million HRK, which is a -3.6% decrease in comparison to previous year.

### **Lease of equipment**

Income from lease of equipment in 2016 remained at the same level as in 2015.



**Quotations maintenance fees**

In 2016, revenues from maintenance of quotations fees increased by +3.3% compared to 2015 and amounted to 4 mil HRK. At the end of 2016, total of 147 stocks were listed on the regulated market which is -3.2% less in comparison to previous year. Reason for the increased revenue is the change in the Stock Exchange Services Price List according to which the maintenance of quotation fees was increased from 16 000 HRK to 20 000 HRK per year for companies listed on the regulated market.

**Listing fees**

A decline of -65.9% in revenues from listing fees which amounted to 804 thousand HRK was recorded in 2016.

**Exchange data dissemination fees**

The 2016 exchange data dissemination fees rose by +95 thousand HRK, i.e. +8.4% compared to 2015. This is the result of signing the Agreement on cooperation in the exchange of trading data with Vienna Stock Exchange based on which Zagreb Stock Exchange gained new trading information distributors.

**Academy and conference revenues**

Revenues from the Zagreb Stock Exchange Academy and organized conferences amounted to 576 thousand HRK in 2016 which is a +24% increase compared to the previous year.

**Other operating revenues Ostali poslovni prihod**

Total other operating revenues in 2016 have reached 1,074 thousand HRK, up +102% compared to 2015. Main reason is the increase of revenues from grants (EBRD), revenues from the collection of court costs, revenues relating to the assignment of LEI codes and revenues from penalties charged.

**Total operating expenses**

Total operating expenses amounted to 18.3 mil HRK in 2016, up +2% compared to the same period last year. Staff costs have decreased by -4% and totalled to 5.7 mil HRK, i.e. they were lower by 241 thousand HRK. By observing other operating expenses (+9%), the biggest increase was due to software costs (+17.5%). Structure of the fee for the referenced expense was progressively contracted resulting with the increase in 2016. The largest decrease is visible in the cost of premises rent (-15.5%), as a result of a new contract with more favourable rent price, and in postal and telephone services (-22%). In the referenced period the cost of amortisation of longterm material and non-material assets was also reduced (-24%).

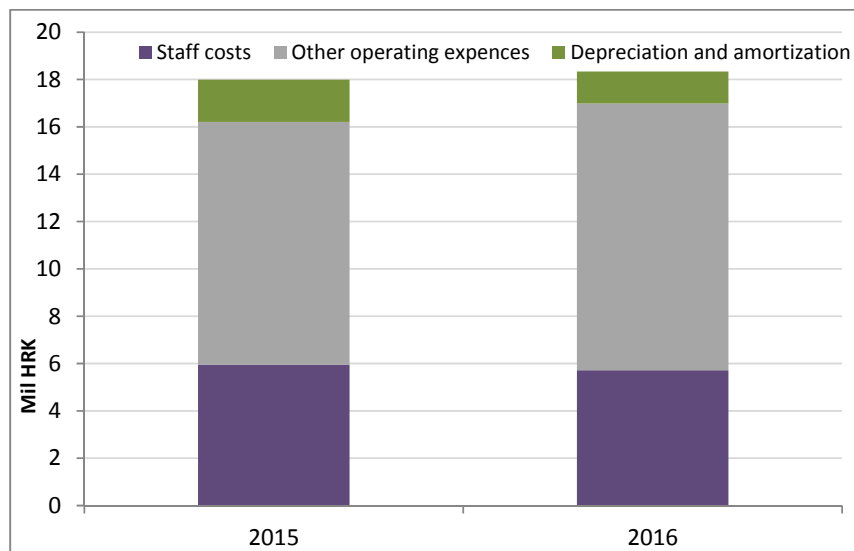


Figure 8. Total operating expenses in the period from 2015 to 2016

Net profit/loss for the year

In 2016, the net result was negative and amounted to -4,404 thousand HRK, which is a +41% increase to the year before.

Negative earnings before interest, taxes, depreciation and amortization of -3,460 thousand HRK were posted in 2016, and in 2015 it amounted to -1,698 thousand HRK.

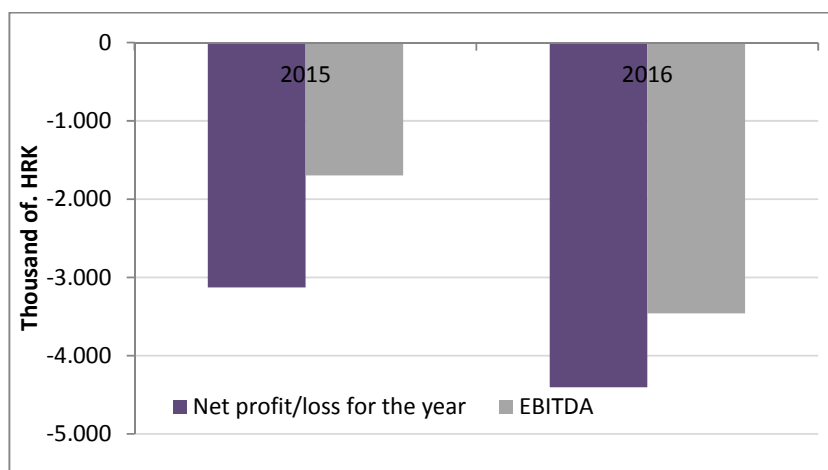


Figure 9. Net profit/loss for the year and EBITDA in the period from 2015 to 2016

## Zagreb Stock Exchange Assets

On 31 December 2016, total assets of the Zagreb Stock Exchange amounted to 50.8 mil HRK, which is a decrease of -6.2% compared to the previous year.

	2016	2015
	'000 HRK	'000 HRK
<b>ASSETS</b>		
Total non-current assets	22,580	24,103
Total current assets	28,198	30,037
<b>Total assets</b>	<b>50,778</b>	<b>54,140</b>
<b>EQUITY AND LIABILITIES</b>		
Total equity	42,116	46,520
Current liabilities	8,662	7,620
<b>Total equity and liabilities</b>	<b>50,778</b>	<b>54,140</b>

### 1.5 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.

### 1.6 Expected development of the company

In 2017, Zagreb Stock Exchange will continue projects initiated in previous years with greatest emphasis on the project of new trading system Xetra implementation which is the integral part of the Exchange's strategy and was one of the elements based on which a decision on the acquisition of Ljubljana Stock Exchange was made. Namely, in 2015 the Exchange reached a decision regarding the change of the trading system. Decision was made so as to decrease the cost of the system, due to lesser dependence on the supplier with regard to the system upgrade and due to consistency of trading systems on both markets managed by the Exchange, alignment of trading with other central European markets and greater probability of remote memberships and thereby arrival of new investors to the market.

In the first half of 2017 the Exchange plans to implement system preparation for the production *set up*, conduct pre-production testing with members and draft a final market model that will be retested with members and clearing and settlement system. To do the above referenced it will be necessary to completely amend the Rules of the *Exchange* and the Exchange Service Price List.

Apart from activities relating to the transfer to Xetra trading system, activities aimed at the preparation of internal Exchange applications for the transfer to Xetra trading system will be also implemented (ZTM, [www.zse.hr](http://www.zse.hr), setting up the new *reporting*, setting up *warehouse* database, etc.).

Reaching a decision on the date when Xetra trading system will enter into production is expected in May 2017. Desired start date of trading in Xetra trading system is 7 July 2017.

Zagreb Stock Exchange recognized that small and medium-sized enterprises (SME) are the chief driving force behind not only Croatian and Slovenian economies, but also of all other European economies. Consequently, we have noticed the possibility to form a new SME market that would serve to finance SMEs in the entire region and therefore represent a potential source of additional revenue in the future.

EBRD granted non-refundable funds in the amount of 170,000 EUR to Zagreb Stock Exchange for the purpose of establishing SME markets in Croatia and Slovenia. Funds are derived from – TaiwanBusiness - EBRD Technical Cooperation Fund (TWTC).

The aim of the project is to establish SME markets for Croatia and Slovenia but also the region in accordance with EU Regulations (MiFID II) that would facilitate access of small enterprises to financing. Zagreb Stock Exchange wishes to be the driving force behind the growth of small enterprises by providing a comprehensive financing framework, providing support in the process and ensuring continuous flow of new issuers to the Exchange.

Zagreb Stock Exchange and its advisors are currently working on the referenced project and its implementation is expected at the end of 2017.

In addition to the mentioned project, Zagreb Stock Exchange in cooperation with Estonian company Funderbeam is working on setting up the database for regional *startup* financing via Funderbeam SEE platform. Organisation of financing of no less than four *startup* projects via Funderbeam SEE platform is planned in 2017. First campaign was carried out in March 2017 raising funds for company Include from Solin.

Moreover, SEE will organise and conduct meetings with regional *startups*, investors and investment clubs so as to present Funderbeam SEE concept. Marketing events for all projects participant will be organised.

In 2017 Funderbeam SEE intends to enter into partnerships with regional players in the field of *startups*.

Further, in May 2016 Zagreb Stock Exchange started the accreditation process for LEI platform with GLEIF (Global Legal Entity Identifier Foundation). All local operators previously approved by ROC, the Exchange included, have to finish the accreditation process in GLEIF by the end of 2017 otherwise they will not be able to issue LEI codes. Currently there are 29 local operators that have the approval for issuing LEI codes.

It is a quite an extensive procedure and the majority of work in that regard is expected in the second accreditation phase in the first half of 2017.

At the end of the first quarter of 2017 there are 330 LEI codes under ZSE management, and it is estimated that numerous new entities will request LEI codes upon the implementation of MiFID II.

In 2017, Zagreb Stock Exchange intends to continue its work on the development project of SEE Link platform by promoting the SEE Link during a regional investment conference, work on harmonisation of clearing and settlement and attracting additional Exchanges to SEE Link platform.

## **1.7 Research and Development activities**

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

## **1.8 Acquisition of own shares**

Zagreb Stock Exchange was not the owner of its own shares on 31 December 2016. In 2016, the Exchange did not acquire its own shares.

## **1.9 The existence of company subsidiary**

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 setting 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 issued share capital of Ljubljana Stock Exchange on 31 December 2016 is EUR 1,401,000, 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 members 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 Exchange participates with 20%.

## **1.10 Financial instruments**

Zagreb Stock Exchange is fully funded by its own capital. Financial instruments that company invests in are investment funds and deposits.

### **1.11 Business operation risks**

Business operation risks are detailed in the notes to the financial statements (Note 23).

### **1.12 Internal controls and risk management system**

Zagreb Stock Exchange internal controls system consists of procedures and processes for monitoring of business efficiency, financial reports reliability and legal compliance.

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

The Exchange enforces 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, assessing, controlling and monitoring risks and also reporting on the risks to which the Exchange is or might be exposed in its operations.

The Exchange has adopted the following procedures related to risk management:

- Strategic internal audit plan,
- Annual internal audit plan,
- Risk management policy,
- Service agreements management procedure.

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

Considering the Company's determined objectives and defined core processes, the Exchange has identified and determined risks that could influence the company's business processes. List of risks doesn't encompass all risks but only those on higher level. Other, more detailed risks (lower level risks) are identified during the internal audit of business processes.

The risks are grouped by those that influence the Exchange's organizational units that perform specific business processes within the company and by other risks that are connected with the Exchange's business in general.

Considering the previously defined company's core business processes and determined risks, the Exchange has adopted Risk assessment with regard to their impact on business processes.

Risk assessment encompasses every process's inherent risk and during the assessment, the very nature of those processes and best practice were taken into consideration.

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.

Risk monitoring is not separated and entrusted to Company's independent organizational unit, but to one or more Company's departments, depending on the type of risk. Therefore, every employee of the Exchange is included in Company's risk management.

Each organizational unit, depending on the identified risks and risk management system, is in charge of risk monitoring and cooperation with other organizational units, especially with the Management Board who makes decisions on individual risk management and its control.

In addition, two mutually independent control functions are involved in Company's risk management system: compliance with relevant regulations function (within the Department of Legal Affairs and Compliance) and internal audit performed by the independent company Antares revizija d.o.o.

  
Ivana Gašić  
President of the Management Board

  
Tomislav Gračan  
Member of the Management Board

  
ZAGREBAČKA BURZA d.d.  
Zagreb 1

## 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](http://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
	<b>Total</b>	<b>4,635,700</b>	<b>100.00</b>



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

Members of Audit Committee are appointed and dismissed by 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  
President of the Management Board

  
Tomislav Gračan  
Member of the Management Board

  
ZAGREBAČKA BURZA d.d.  
Zagreb

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### 3 Zagreb Stock Exchange in 2016

Relatively low turnovers marked the first half of 2016 which were most likely the result of the introduction of capital gains tax. A recovery of certain extent marked the second half of 2016 which was mainly visible in indices values: according to the analysis of the Financial Times and Bloomberg, at one point the Zagreb Stock Exchange was one of the top 10 Exchanges in the world by indices growth.

Total turnover in 2016 amounted to 3,953,616,077 HRK, up by +11.8% from 2015. The orderbook turnover of shares was down -13.4% compared to previous year, however, good bond turnover and shares block-turnover resulted in the total growth of turnover by +16%, while the growth of total volume of +34% indicates the increase of trading intensity.

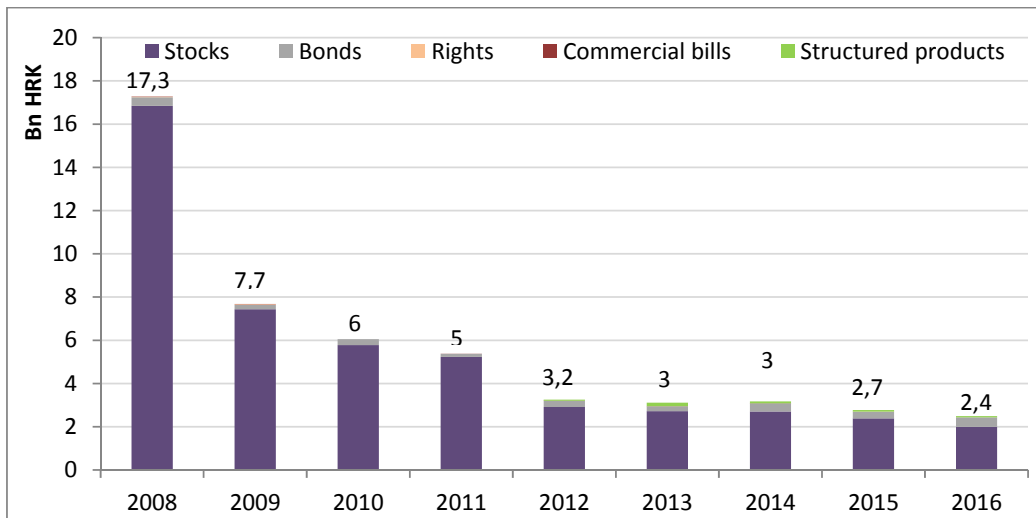


Figure 4. Turnover in the period from 2008 to 2016

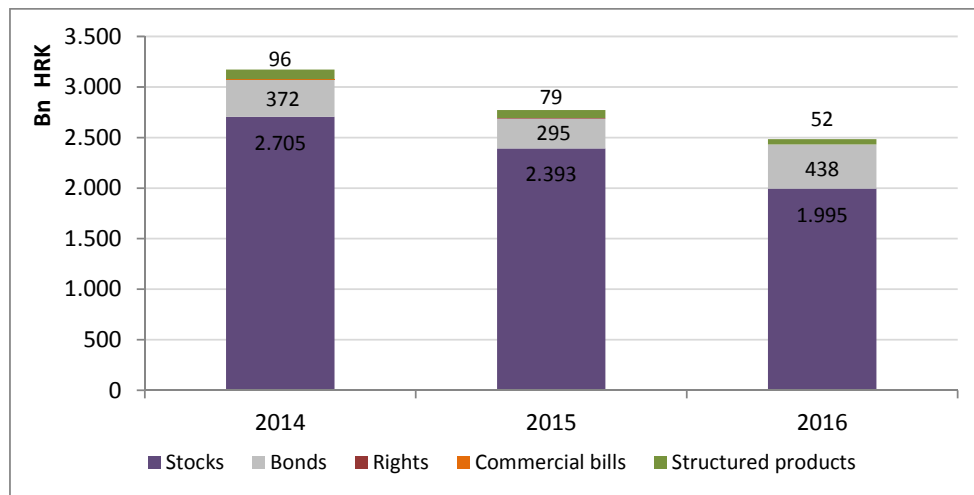


Figure 5. Turnover in the period from 2014 to 2016

Analysis of the total turnover on the Exchange in 2016 indicates that the shares were the most actively traded instruments, while other financial instruments represented 19.3% of total turnover. Shares turnover decreased by -6%, while turnover of bonds increased by +7%.

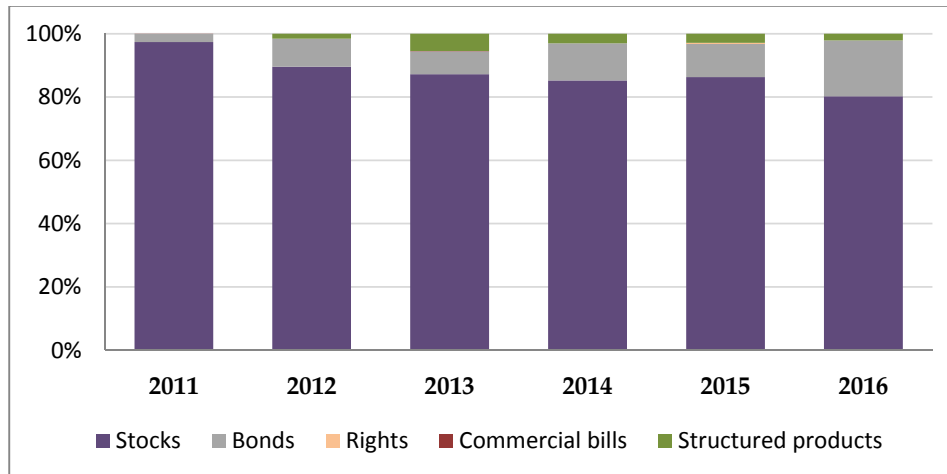


Figure 6. Total turnover by type of securities (2011 – 2016)

Total market capitalization in 2016 was +11% higher compared with the same period last year. Bond market capitalization increased, up +12.9%, while market capitalization of shares increased by +11.7%.

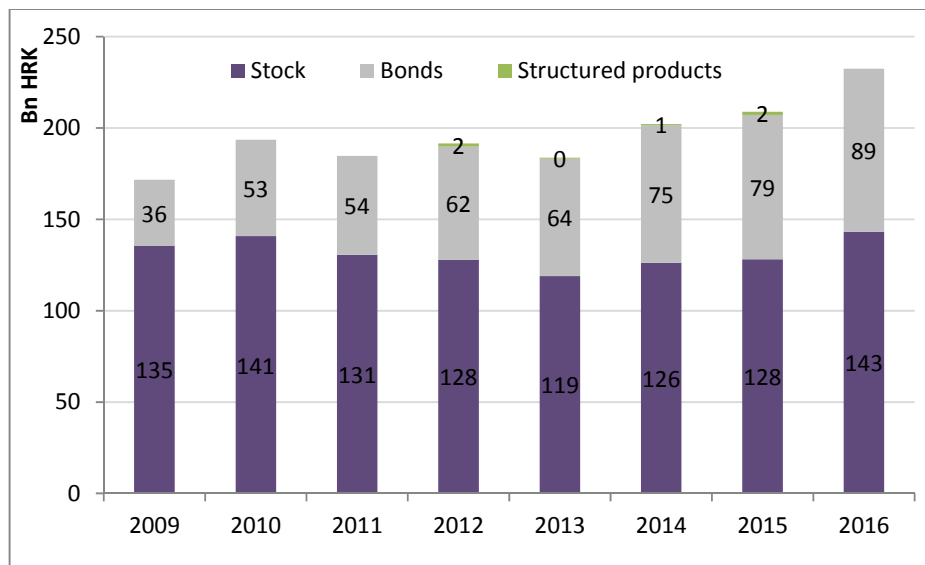


Figure 3. Market capitalization in the period from 2009 to 2016

All indices, without any exception, finished the year with positive results. Of nine stock indices as much as seven recorded two-digit increase. CROBEXturist rose the most, as much as +28%, and it is followed by CROBEXindustrija (+23.6%), CROBEXplus and CROBEXtransport with approx. +21% growth. CROBEX

strengthened +18%, and in 2016, first time after five years it concluded a trading day above its psychological limit of 2,000 points. Return on investment viewed through dividend yield indicated by CROBEXtr index performed even better (+21.1%).

	2015	2016	% changes
<b>CROBEX®</b>	1.689,63	1.994,84	18,10%
<b>CROBEX10®</b>	989,28	1.158,18	17,10%
<b>CROBEXplus®</b>	969,58	1.181,83	21,90%
<b>CROBEXindustrija®</b>	965,06	1.192,90	23,60%
<b>CROBEXkonstrukt®</b>	480,09	517,7	7,80%
<b>CROBEXnutris®</b>	782,23	856,31	9,50%
<b>CROBEXtr®</b>	1.010,22	1.222,89	21,10%
<b>CROBEXtransport®</b>	889,38	1.077,12	21,10%
<b>CROBEXturist®</b>	2.559,02	3.271,93	27,90%
<b>CROBIS®</b>	105,08	108,82	3,60%
<b>CROBIStr®</b>	144,61	157,08	8,60%

The most liquid stock in 2016 was the stock of Hrvatski Telekom d.d., with almost 19% of total turnover (15% in 2015) while five most traded stocks count for 49% of turnover (HT-R-A, RIVP-R-A, ADRS-P-A, PODR-R-A i ADRS-R-A).

Most active stocks by turnover in 2016			
Symbol	Issuer	Turnover (HRK)	Market capitalization (HRK mil.)
HT-R-A	HT d.d.	356,689,146	13,839.20
RIVP-R-A	VALAMAR RIVIERA d.d.	233,599,222	4,393.30
ADRS-P-A	Adris grupa d.d.	168,052,920	3,033.50
PODR-R-A	Podravka d.d.	96,179,100	2,687.80
ADRS-R-A	Adris grupa d.d.	81,765,009	5,769.50
	Ostali	973,205,460	103,135.80
TOTAL		1,909,490,857.00	132,859.1

At the end of 2016, the Exchange had 17 members and top five members by total turnover are shown in the following table:

Members by total turnover in 2016			
Rank	Member	Total turnover (HRK)	Market share (%)
1.	Interkapital vrijednosni papiri d.o.o.	2,069,180,422	26.17%
2.	Erste&Steiermarkische Bank d.d.	1,375,251,013	17.39%
3.	Zagrebačka banka d.d.	857,246,500	10.84%
4.	Fima vrijednosnice d.o.o.	545,091,876	6.89%
5.	ADDIKO BANK d.d.	520,218,969	6.58%
6.	Others*	2,540,243,374	32.13%

Almost 70% of total turnover came from top five members.

### **3.1 Support for the members and issuers**

#### Support for the members

Zagreb Stock Exchange regularly provides support to its members regarding trading process on the Exchange. This support includes maintenance of the trading system as well as preparation of trading applications. The Exchange actively communicates with members during the implementation of new trading system functionality and also during the other changes that could have influenced their business activities on the Exchange. Additional attention is placed on members support related with applications developed using X-stream native API/FIX protocol interface. The Exchange also provides number of development and testing environments as well as conducting certification processes for applications developed by members.

In 2016 the Exchange initiated the migration process into new trading system – WBAG Xetra. In cooperation with Vienna Stock Exchange, the Exchange is managing the migration project which includes members of the ZSE. Start of the new trading system is expected in July 2017.

The Exchange also provides other forms of technical support and for that purpose it introduced collaboration website (<http://it.zse.hr>) where users can submit their requests for support directly to IT and Technology Development Department.

#### Support for the issuers

Zagreb Stock Exchange has an advisory role and supports all issuers listed on the regulated market while ensuring that everyone follow the Rules of the Exchange and the provisions of the Capital Market Act. It also monitors if mentioned issuers act in accordance with the procedures and recommendations and also practise the Code of Corporate Governance.

The Exchange organizes annually a joint education for the issuers on the regulated market in cooperation with the Croatian Financial Services Supervisory Agency and the Central Depository and Clearing Company.

The Exchange also has an advisory role and supports issuers whose financial instruments are admitted to trading on the MTF. It also monitors if mentioned issuers act in accordance with procedures and meet their obligations after admittance to trading.

## **Responsibilities of the Management Board for the Annual report**

The Management Board of the Company is required to prepare financial statements for each financial year, which give a true and fair view of the financial position of the Company 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 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 Company and to prevent and detect fraud and other irregularities.

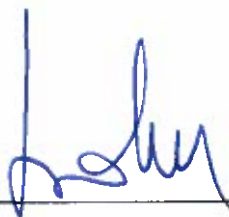
The Management Board is responsible for selecting suitable accounting policies to conform to applicable accounting standards and then applying them consistently; making judgments and estimates that are reasonable and prudent; and preparing the financial statements on a going concern basis unless it is inappropriate to presume that the Company 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 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 financial statements set on pages 26 to 55 and other information, set out on pages 1 to 19, are approved by the Management Board on 20 April 2017 and are signed and verified for the Supervisory Board.

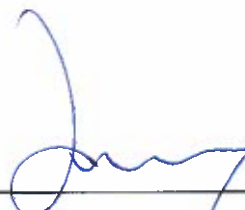
Signed on behalf of the Zagrebačka burza d.d.:



Ivana Gažić  
President of the  
Management Board



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Tomislav Gračan  
Member of the  
Management Board



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

## Opinion

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

In our opinion, the accompanying separate financial statements give a true and fair view of the separate financial position of the Company as at 31 December 2016, and of its separate financial performance and its separate 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 Separate Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the separate 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 separate financial statements of the current period. These matters were addressed in the context of our audit of the separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

<b>Intangible assets – impairment and useful lives</b>	
<p>Refer to page 32 (Significant accounting policies), page 54 (Key accounting estimates and assumptions), and page 45 (Intangible assets). As at 31 December 2016, the carrying amount of intangible assets: HRK 2,229 thousand (31 December 2015: HRK 3,613 thousand), and write-offs recognized in 2016: HRK 688 thousand (2015: nil).</p>	
<b>The key audit matter</b>	<b>How the matter was addressed in our audit</b>
<p>Intangible assets, stated at HRK 2,229 thousand as at 31 December 2016 (31 December 2015: HRK 3,613 thousand), include primarily software and other licenses, used by the Company in its core operating process.</p> <p>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,</p>	<p>Our audit procedures included the following:</p> <ul style="list-style-type: none"> <li>- Evaluating the appropriateness of the Company's allocation of assets to cash generating units;</li> <li>- Evaluating the appropriateness of the Company'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</li> </ul>



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

<p>measurement of the related recoverable amounts.</p> <p>Estimated useful lives of intangibles are reviewed by the Company annually taking into consideration various contractual and market factors which may affect the life expectancy of these assets.</p> <p>In addition, significant management judgment is required in the process of determining whether or not indicators of impairment exist in respect of intangible assets.</p> <p>Due to the factors presented above, this area is considered by us to be a key audit matter.</p>	<p>plans exist to dispose of or permanently discontinue using any of these assets before the previously expected date of disposal or discontinuation;</p> <ul style="list-style-type: none"> <li>- Challenging the reasonableness of the estimates made in respect of asset lives by means of inquiries of the Company'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.</li> </ul>
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<b>Revenue recognition</b>	
<p>Refer to page 38 (Significant accounting policies) and page 41 (Sales revenue). Sales revenue for 2016: HRK 8,757 thousand (2015: HRK 10,446 thousand).</p>	
<b>The key audit matter</b>	<b>How the matter was addressed in our audit</b>
<p>The Company 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.</p> <p>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 Company are of limited complexity and variety. However, there are a large number of transactions to be processed by the Company's IT systems. As such revenue recognition is an area of audit focus.</p>	<p>Our audit procedures included the following:</p> <ul style="list-style-type: none"> <li>- Understanding of the processes and controls associated with the revenue cycle;</li> <li>- Assisted by our own IT specialists, testing selected automated controls over the integrity of transfers of transaction volumes between the Company's trading and reporting systems, as well as general IT controls;</li> <li>- Assessing the Company's revenue recognition policies against the requirements of relevant financial reporting standards;</li> <li>- 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;</li> <li>- 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;</li> <li>- For all clients newly listed in 2016, independently recalculating the amount of quotation fees revenue by applying the published tariff;</li> <li>- Inspecting manual journal entries posted to revenue accounts focusing on unusual and irregular items, or entries modified subsequent to the balance sheet date.</li> </ul>





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

### *Other Matter*

The separate financial statements of the Company 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 separate financial statements and our auditors' report thereon.

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

In connection with our audit of the separate financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the separate 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 separate 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 separate financial statements are prepared, is consistent, in all material respects, with the separate 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.

### *Responsibilities of Management and Those Charged with Governance for the Separate Financial Statements*

Management is responsible for the preparation and fair presentation of the separate 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 separate financial statements that are free from material misstatement, whether due to fraud or error.



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

In preparing the separate financial statements, management is responsible for assessing the Company'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 Company or to cease operations, or has no realistic alternative but to do so.

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

### *Auditors' Responsibilities for the Audit of the Separate Financial Statements*

Our objectives are to obtain reasonable assurance about whether the separate 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 separate 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 separate 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 Company'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 Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the separate 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 Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the separate financial statements, including the disclosures, and whether the separate 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 separate financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.



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

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal 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 separate 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  
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**Separate Statement of comprehensive income**  
*for the year ended 31 December*

	<i>Notes</i>	<b>2016</b> <b>HRK'000</b>	<b>2015</b> <b>HRK'000</b>
<b>Income statement</b>			
Sales revenue	4	8,757	10,446
Other operating income	5	4,765	4,067
Staff costs	6	(5,717)	(5,958)
Depreciation and amortization	10,11	(1,357)	(1,785)
Other operating expenses	7	(11,265)	(10,253)
		<u><b>(4,817)</b></u>	<u><b>(3,483)</b></u>
<b>Operating loss</b>			
Financial income	8	380	376
Financial expense	8	(1)	(1)
Net foreign exchange gain/(loss)		34	(19)
		<u><b>413</b></u>	<u><b>356</b></u>
<b>Net finance income</b>			
		<u><b>(4,404)</b></u>	<u><b>(3,127)</b></u>
<b>Loss before tax</b>			
Income tax expense	9a	-	-
		<u><b>(4,404)</b></u>	<u><b>(3,127)</b></u>
<b>Loss for the year</b>			
		<u><b>(4,404)</b></u>	<u><b>(3,127)</b></u>
<b>Other comprehensive income, net of tax</b>			
		<u><b>-</b></u>	<u><b>-</b></u>
<b>Total comprehensive loss for the year</b>			
		<u><u><b>(4,404)</b></u></u>	<u><u><b>(3,127)</b></u></u>
Basic and diluted loss per share (in HRK)	19	<b>(0.95)</b>	<b>(0.74)</b>

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

**Separate Statement of financial position**  
*as at 31 December*

	<i>Notes</i>	<b>2016</b>	<b>2015</b>
		<b>HRK'000</b>	<b>HRK'000</b>
<b>Assets</b>			
<b><i>Non-current assets</i></b>			
Property and equipment	<i>10</i>	535	554
Intangible assets	<i>11</i>	2,229	3,613
Investment in subsidiary	<i>12</i>	19,125	19,089
Investment in associate and joint venture	<i>13</i>	206	204
Financial assets available for sale	<i>14a</i>	236	394
Guarantee deposits		249	249
<b>Total non-current assets</b>		<b><u>22,580</u></b>	<b><u>24,103</u></b>
<b><i>Current assets</i></b>			
Trade receivables and other assets	<i>15</i>	2,670	1,710
Prepaid expenses		3,434	3,059
Financial assets at fair value through profit or loss	<i>14b</i>	8,084	5,280
Short-term deposits	<i>16</i>	2,005	16,966
Cash and cash equivalents	<i>17</i>	11,991	3,022
Inventories		14	-
<b>Total current assets</b>		<b><u>28,198</u></b>	<b><u>30,037</u></b>
<b>Total assets</b>		<b><u>50,778</u></b>	<b><u>54,140</u></b>
<b>Equity and liabilities</b>			
<b><i>Equity</i></b>			
Issued share capital	<i>18</i>	46,357	46,357
Share premium		13,860	13,860
Legal reserves		141	141
Accumulated loss		(18,242)	(13,838)
<b>Total equity</b>		<b><u>42,116</u></b>	<b><u>46,520</u></b>
<b><i>Current liabilities</i></b>			
Trade and other payables	<i>20</i>	4,994	5,037
Deferred income and accrued expenses	<i>21</i>	3,668	2,583
<b>Total current liabilities</b>		<b><u>8,662</u></b>	<b><u>7,620</u></b>
<b>Total equity and liabilities</b>		<b><u>50,778</u></b>	<b><u>54,140</u></b>

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

**Separate Statement of changes in equity**

	<b>Issued share capital HRK'000</b>	<b>Share premium HRK'000</b>	<b>Legal reserves HRK'000</b>	<b>Accumulated loss HRK'000</b>	<b>Total HRK'000</b>
<b>As at 1 January 2015</b>	<b>40,408</b>	<b>4,937</b>	<b>141</b>	<b>(10,711)</b>	<b>34,775</b>
Total comprehensive loss for the year	-	-	-	(3,127)	<b>(3,127)</b>
Issue of share capital	5,949	8,923	-	-	<b>14,872</b>
<b>As at 31 December 2015</b>	<b>46,357</b>	<b>13,860</b>	<b>141</b>	<b>(13,838)</b>	<b>46,520</b>
<b>As at 1 January 2016</b>	<b>46,357</b>	<b>13,860</b>	<b>141</b>	<b>(13,838)</b>	<b>46,520</b>
Total comprehensive loss for the year	-	-	-	(4,404)	<b>(4,404)</b>
<b>As at 31 December 2016</b>	<b>46,357</b>	<b>13,860</b>	<b>141</b>	<b>(18,242)</b>	<b>42,116</b>

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

**Separate Statement of cash flows**  
*for the year ended 31 December*

	Notes	2016 HRK '000	2015 HRK '000
<b>Cash flow from operating activities</b>			
<b>Loss before tax</b>		<b>(4,404)</b>	<b>(3,127)</b>
<i>Adjustments:</i>			
Depreciation and amortization	10, 11	1,357	1,785
Unrealised gains from financial assets at fair value through profit or loss	8	(37)	(88)
Movement in impairment allowance for trade receivables	7	405	496
Impairment of available for sale bond	7	158	-
Dividend income	8	(49)	-
Interest income	8	(294)	(284)
Net foreign exchange (gains)/losses		(34)	19
Provisions for unused holidays		44	(11)
Write-offs		688	40
Other adjustments		(221)	(79)
<b>Cash flow before changes in operating assets and liabilities</b>		<b>(2,387)</b>	<b>(1,249)</b>
<b>Changes in operating assets and liabilities</b>			
Increase in trade receivables		(368)	(274)
Increase in prepaid expenses		(375)	(2,947)
Increase in inventories		(14)	-
Increase in trade and other payables		135	3,595
Increase in deferred income and accrued expenses		57	143
<b>Change in operating assets and liabilities</b>		<b>(565)</b>	<b>517</b>
Income tax		-	-
<b>Net cash (outflow) from operating activities</b>		<b>(2,952)</b>	<b>(732)</b>
<b>Cash flow from investing activities</b>			
Investment in subsidiary		-	(19,089)
Investment in associate		(4)	-
Increase in investment in joint venture		-	(177)
Purchase of equipment	10	(146)	(30)
Purchase of software	11	(496)	(527)
Purchase of units in open investment funds		(5,800)	(2,730)
Disposal of units in open investment funds		3,032	12,185
Proceed from investments in short-term deposits		21,147	13,345
Investments in short-term deposits		(6,430)	(15,045)
Dividends received		49	-
Interest received		538	183
<b>Net cash inflow / (outflow) from investing activities</b>		<b>11,890</b>	<b>(11,885)</b>
<b>Cash flow from financing activities</b>			
Proceeds from issue of share capital		-	14,872
<b>Net cash inflows from financing activities</b>		<b>-</b>	<b>14,872</b>
<b>Net increase in cash and cash equivalents</b>		<b>8,938</b>	<b>2,255</b>
Cash and cash equivalents at the beginning of the year		3,022	738
Changes in exchange rates on cash and cash equivalents		31	29
<b>Cash and cash equivalents at the end of the year</b>	17	<b>11,991</b>	<b>3,022</b>

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

## **Notes to the separate 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, 22<sup>nd</sup> 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.

At 31 December 2015 and 31 December 2016 Zagrebačka burza d.d. is owner of foreign subsidiary Ljubljanska Borza d.d. Ljubljana, Slovenia, and has investments in joint venture SEE Link d.o.o., Skopje, Republic of Macedonia. At 31 December 2016 Zagrebačka burza d.d. has investment in associate Funderbeam South-East Europe d.o.o., Zagreb, Croatia.

The activities of the Company are regulated by Croatian Agency for Supervision of Financial Services ("HANFA").

These financial statements comprise separated financial statements of the Company as defined in International Accounting Standards 27 *Separate Financial Statements*. Zagrebačka burza Group prepares consolidated financial statements, which are published as a separate document.

### **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 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"). 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 25.

#### ***e) 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 or loss.

In addition to HRK, the most significant currency in which the Company 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).

**Notes to the financial statements (continued)**

**3 Significant accounting policies**

**a) 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 Company 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:

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.

## **Notes to the financial statements (continued)**

### **3 Significant accounting policies (continued)**

#### **b) Financial instruments**

##### *Classification and recognition*

The Company 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 Company as at fair value through profit or loss. The Company does not apply hedge accounting.

Trading assets are those that the Company 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 Company 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 Company 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 Company.

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 Company will cease recognizing the liability and will immediately recognize a new financial liability, with new terms and conditions.

## **Notes to the financial statements (continued)**

### **3 Significant accounting policies (continued)**

#### **b) 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 Company 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 Company takes into consideration every financial instrument separately in order to determine whether financial instrument quotes in an active market.

##### *Fair value levels*

The Company 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 financial statements (continued)**

### **3 Significant accounting policies (continued)**

#### **b) Financial instruments (continued)**

##### *Impairment of financial assets*

At each reporting date the Company 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 Company 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 Company under the terms which the Company 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 Company of assets, such as adverse changes in the payment status of borrowers or issuers in the Company, or economic conditions that correlate with defaults in the Company 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 financial statements (continued)**

**3 Significant accounting policies (continued)**

**c) Impairment of non-financial assets**

The carrying amounts of the Company'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 Company 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.

**d) Leases**

At the reporting date the Company does not have any finance leases.

All other leases are operating leases, and assets leased by the Company as lessee are not recorded in the Company's statement of financial position. Payments made under operating leases are recognized in income statement on a straight-line basis over the term of the lease.

**e) Cash and cash equivalents**

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

**f) Earnings per share**

The Company 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 financial statements (continued)**

### **3 Significant accounting policies (continued)**

#### **g) 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 Company 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 Company 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 Company 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.

#### **h) 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. No deferred tax assets or liabilities were recognised at the reporting date.

The Company provides for tax liabilities in accordance with Croatian law. Income tax rate for 2016 is 20% (2015: 20%).

## **Notes to the financial statements (continued)**

### **3 Significant accounting policies (continued)**

#### ***j) Provisions***

A provision is recognized if, as a result of a past event, the Company 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 Company 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 Company.

#### ***j) 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.

#### ***k) Revenue***

Revenue comprises the fair value of the consideration received or receivable for the sale of the services in the ordinary course of the Company'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.

#### ***l) Investment in associates and joint ventures***

The Company's investment in its associates and joint ventures is accounted for in separate financial statements using cost method.

After initial recognition, the Company determines whether it is necessary to recognize an additional impairment loss on the Company's investment. The Company determines at each reporting date whether there is any objective evidence that the investment in the associate or joint venture is impaired. If this is the case the Company calculates the amount of impairment as the difference between the recoverable amount of the associate or joint venture and its carrying value and recognises the amount in the statement of comprehensive income.



## Notes to the financial statements (continued)

### 3 Significant accounting policies (continued)

#### ***m) 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 Company is assessing the potential impact on its financial statements resulting from the amendments. So far, the Company does not expect any significant impact.

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

*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.

## Notes to the financial statements (continued)

### 3 Significant accounting policies (continued)

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

##### *i) IFRS 9 Financial Instruments (continued)*

###### *Classification of financial assets and financial liabilities (continued)*

Based on the Company's initial assessment, this standard is not expected to have a material impact on the classification of financial assets and financial liabilities of the Company. 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 Company'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 Company does not apply hedge accounting; therefore, IFRS 9 hedge accounting-related changes do not have an impact on the financial statements of the Company.

**Notes to the financial statements (continued)**

**4 Sales revenue**

	<b>2016</b>	<b>2015</b>
	<b>HRK '000</b>	<b>HRK '000</b>
Commissions	3,581	3,832
Income from quotation maintaining	4,094	3,963
Income from quotation fee	804	2,357
Membership fees	278	294
	<b>8,757</b>	<b>10,446</b>
<b>Total sales revenue</b>	<b>8,757</b>	<b>10,446</b>

Commissions are charged from members based on value of realized 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.

**5 Other operating income**

	<b>2016</b>	<b>2015</b>
	<b>HRK '000</b>	<b>HRK '000</b>
Income from application programming interface services	1,404	1,456
Income from the supply of information	1,229	1,134
Sale and lease of equipment	482	482
Income from seminars	576	464
Other income	1,074	531
	<b>4,765</b>	<b>4,067</b>
<b>Total other operating income</b>	<b>4,765</b>	<b>4,067</b>

**6 Staff costs**

	<b>2016</b>	<b>2015</b>
	<b>HRK '000</b>	<b>HRK '000</b>
<b>Salaries</b>		
Net salaries	2,961	3,105
Payroll deductions	955	1,002
Payroll contributions	1,755	1,812
	<b>5,671</b>	<b>5,919</b>
<b>Total salaries</b>	<b>5,671</b>	<b>5,919</b>
Other staff costs	46	39
	<b>5,717</b>	<b>5,958</b>
<b>Total staff costs</b>	<b>5,717</b>	<b>5,958</b>

The number of employees at the end of 2016 was 23 (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 there were no bonus payments (2015: HRK 222 thousand).

**Notes to the financial statements (continued)**

**7 Other operating expenses**

	<b>2016</b>	<b>2015</b>
	<b>HRK '000</b>	<b>HRK '000</b>
Software and licences	4,182	3,559
Professional services	1,839	1,846
Rent of premises	969	1,147
Post and telephone services	610	786
Utility expenses	536	567
Fees and charges	609	629
Rent of equipment	290	248
Entertainment	225	217
Business travel	129	81
Write off of intangible assets	688	-
Impairment of debt securities classified as available for sale	158	-
Impairment of trade receivables	405	496
Other expenses	625	677
<b>Total other operating expenses</b>	<b><u>11,265</u></b>	<b><u>10,253</u></b>

**8 Financial income and expense**

	<b>2016</b>	<b>2015</b>
	<b>HRK '000</b>	<b>HRK '000</b>
<b>a) Financial income</b>		
Net gains from financial assets at fair value through profit or loss	37	92
Interest income	294	284
Dividend income	49	-
<b>Total financial income</b>	<b><u>380</u></b>	<b><u>376</u></b>
<b>b) Financial expense</b>		
Interest expense	(1)	(1)
<b>Total financial expense</b>	<b><u>(1)</u></b>	<b><u>(1)</u></b>
<b>Net financial result</b>	<b><u>379</u></b>	<b><u>375</u></b>

**Notes to the financial statements (continued)**

**9 Income tax expense**

**a) Income tax expense**

	<b>2016</b>	<b>2015</b>
	<b>HRK '000</b>	<b>HRK '000</b>
Current income tax expense	-	-
Deferred income tax	-	-
	<hr/>	<hr/>
Total income tax expense	-	-
	<hr/>	<hr/>

**b) Reconciliation of accounting profit and current income tax liability**

	<b>2016</b>	<b>2015</b>
	<b>HRK '000</b>	<b>HRK '000</b>
Loss before tax	<b>(4,404)</b>	<b>(3,127)</b>
	<hr/>	<hr/>
Tax calculated at 20% (2015: 20%)	(881)	(625)
Tax non-deductible expenses	219	199
Non-taxable income	(73)	(27)
Tax losses not recognised as deferred tax assets	661	453
Effects of tax rate change on tax losses not recognised as deferred tax assets	74	-
	<hr/>	<hr/>
Income tax expense	-	-
	<hr/>	<hr/>
Effective income tax rate	n/a	n/a
	<hr/>	<hr/>

**c) Tax losses carried forward**

Gross tax losses 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 Company did not recognize deferred tax assets in respect of temporary differences (unused holiday provisions, receivables impairment allowances) and carried forward tax losses, 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 Company will re-evaluate assumptions for the recognition of deferred tax assets.

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

	<b>2016</b>	<b>2015</b>
	<b>HRK '000</b>	<b>HRK '000</b>
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
	<hr/>	<hr/>
<b>Total tax loss available to be carried forward</b>	<b>11,062</b>	<b>7,958</b>
	<hr/>	<hr/>

**Notes to the financial statements (continued)**

**10 Property and equipment**

	<b>Computers</b>	<b>Furniture and other equipment</b>	<b>Leasehold improvements</b>	<b>Total</b>
	<b>HRK '000</b>	<b>HRK '000</b>	<b>HRK '000</b>	<b>HRK '000</b>
<b>Cost</b>				
<b>At 1 January 2015</b>	<b>6,050</b>	<b>2,309</b>	<b>1,118</b>	<b>9,477</b>
Additions	15	15	-	30
<b>At 31 December 2015</b>	<b>6,065</b>	<b>2,324</b>	<b>1,118</b>	<b>9,507</b>
<b>At 1 January 2016</b>	<b>6,065</b>	<b>2,324</b>	<b>1,118</b>	<b>9,507</b>
Additions	146	-	-	146
Disposals	(10)	(28)	-	(38)
<b>At 31 December 2016</b>	<b>6,201</b>	<b>2,296</b>	<b>1,118</b>	<b>9,615</b>
<b>Accumulated depreciation</b>				
<b>At 1 January 2015</b>	<b>(5,540)</b>	<b>(2,191)</b>	<b>(1,037)</b>	<b>(8,768)</b>
Charge for the period	(99)	(38)	(48)	(185)
<b>At 31 December 2015</b>	<b>(5,639)</b>	<b>(2,229)</b>	<b>(1,085)</b>	<b>(8,953)</b>
<b>At 1 January 2016</b>	<b>(5,639)</b>	<b>(2,229)</b>	<b>(1,085)</b>	<b>(8,953)</b>
Charge for the period	(111)	(39)	(15)	(165)
Disposal	10	28	-	38
<b>At 31 December 2016</b>	<b>(5,740)</b>	<b>(2,240)</b>	<b>(1,100)</b>	<b>(9,080)</b>
<b>Net book value at 31 December 2015</b>	<b>426</b>	<b>95</b>	<b>33</b>	<b>554</b>
<b>Net book value at 31 December 2016</b>	<b>461</b>	<b>56</b>	<b>18</b>	<b>535</b>

**Notes to the financial statements (continued)**

**11 Intangible assets**

	<b>Software</b>	<b>Total</b>
	<b>HRK '000</b>	<b>HRK '000</b>
<b>Cost</b>		
<b>At 1 January 2015</b>	<b>19,337</b>	<b>19,337</b>
Additions	527	527
<b>At 31 December 2015</b>	<b>19,864</b>	<b>19,864</b>
<hr/>		
<b>At 1 January 2016</b>	<b>19,864</b>	<b>19,864</b>
Additions	496	496
Write-offs	(2,885)	(2,885)
<b>At 31 December 2016</b>	<b>17,475</b>	<b>17,475</b>
<hr/>		
<b>Accumulated amortization</b>		
<b>At 1 January 2015</b>	<b>(14,651)</b>	<b>(14,651)</b>
Charge for the period	(1,600)	(1,600)
<b>At 31 December 2015</b>	<b>(16,251)</b>	<b>(16,251)</b>
<hr/>		
<b>At 1 January 2016</b>	<b>(16,251)</b>	<b>(16,251)</b>
Charge for the period	(1,192)	(1,192)
Write-offs	2,197	2,197
<b>At 31 December 2016</b>	<b>(15,246)</b>	<b>(15,246)</b>
<hr/>		
<b>Net book value</b>		
<b>At 31 December 2015</b>	<b>3,613</b>	<b>3,613</b>
<hr/>		
<b>At 31 December 2016</b>	<b>2,229</b>	<b>2,229</b>
<hr/>		

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

**Notes to the financial statements (continued)**

**12 Investment in subsidiary**

	<b>31 December 2016 HRK '000</b>	<b>31 December 2015 HRK '000</b>
Investment in Ljubljanska borza d.d.	19,125	19,089
<b>Total investment in subsidiary</b>	<b>19,125</b>	<b>19,089</b>

Zagrebačka burza d.d. acquired the Ljubljanska borza d.d. by taking over 100% of its shares from the CEE Stock Exchange Company (CEESEG) for purchase price of EUR 2,500 thousand paid in cash. The process started with exclusive negotiations with CEESEG in June 2015, continued with capital increase of the Zagrebačka burza d.d. and was completed with the approval by regulatory authorities of both countries. The process ended on 30 December 2015.

Summary of financial data for the Ljubljanska borza d.d. is as follows:

	<b>31 December 2016 HRK '000</b>	<b>31 December 2015 HRK '000</b>
Non-current assets	10,640	10,324
Current assets	9,422	9,853
<i>Out of which Cash and cash equivalents</i>	3,109	8,249
<b>Total assets</b>	<b>20,062</b>	<b>20,177</b>
Non-current liabilities	139	-
Current liabilities	1,963	2,717
<i>Out of which Current financial liabilities</i>	61	-
<b>Total liabilities</b>	<b>2,102</b>	<b>2,717</b>
<b>Total revenues</b>	<b>10,682</b>	<b>11,368</b>
Interest income	20	38
Interest expense	5	-
Income tax	(182)	81
<b>Profit / (loss) for the year</b>	<b>674</b>	<b>(732)</b>



**Notes to the financial statements (continued)**

**13 Investment in associate and joint venture**

	<b>31 December 2016 HRK '000</b>	<b>31 December 2015 HRK '000</b>
Investment in SEE Link d.o.o. (33.33 %)	202	204
Investment in Funderbeam South-East Europe d.o.o. (20 %)	4	-
<b>Total investment in associates and joint venture</b>	<b>206</b>	<b>204</b>

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:

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

The Company 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 financial statements (continued)**

**14 Financial assets**

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

*Movement in impairment allowance for bonds*

	<b>2016 HRK '000</b>	<b>2015 HRK '000</b>
Balance at 1 January	-	-
Impairment loss	(158)	-
<b>Total</b>	<b>(158)</b>	<b>-</b>
	<b>(158)</b>	<b>-</b>

Investment in bonds relate to bond acquired for uncollected receivables. In 2016 the Company recognised impairment on this bond, which was recorded directly in profit or loss account (Note 7), 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.

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

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 financial statements (continued)**

**15 Trade receivables and other assets**

	<b>31 December 2016 HRK '000</b>	<b>31 December 2015 HRK '000</b>
Trade receivables	2,989	2,693
Advances placed	47	17
Other assets	1,047	8
Impairment allowance	<u>(1,413)</u>	<u>(1,008)</u>
<b>Total</b>	<b><u>2,670</u></b>	<b><u>1,710</u></b>

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 consultancy services for feasibility study for SME market stock exchange. As part of the project the Company recognised amount granted by the EBRD into other assets and into deferred income in the same amount.

*Movement in impairment allowance for trade receivables*

	<b>2016 HRK '000</b>	<b>2015 HRK '000</b>
Balance at 1 January	(1,008)	(540)
Impairment loss	(503)	(588)
Write off	-	28
Collection of previously impaired receivables	98	64
Release of impairment allowance	<u>-</u>	<u>28</u>
<b>Total</b>	<b><u>(1,413)</u></b>	<b><u>(1,008)</u></b>

At the reporting date the Company 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):**

<i>&lt; 90 days</i>	<i>91-120 days</i>	<i>121-180 days</i>	<i>181 - 360 days</i>	<i>&gt;360 days</i>
215	154	8	17	2

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

<i>&lt; 90 days</i>	<i>91-120 days</i>	<i>121-180 days</i>	<i>181 - 360 days</i>	<i>&gt;360 days</i>
370	5	44	34	40

**Notes to the financial statements (continued)**

**16 Short-term deposits**

	<b>31 December 2016 HRK '000</b>	<b>31 December 2015 HRK '000</b>
Short-term deposits with maturity over 3 months	<u>2,005</u>	<u>16,966</u>
<b>Total short-term deposits</b>	<b><u>2,005</u></b>	<b><u>16,966</u></b>

**17 Cash and cash equivalents**

	<b>31 December 2016 HRK '000</b>	<b>31 December 2015 HRK '000</b>
Gyro account in foreign currency (EUR)	2,810	2,711
Gyro account in domestic currency	9,174	307
Cash in hand	<u>7</u>	<u>4</u>
<b>Total cash and cash equivalents</b>	<b><u>11,991</u></b>	<b><u>3,022</u></b>

**18 Issued share capital**

Share number movement:

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

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 Company had 303 shareholders (2015: 56 shareholders) with ownership interests in the Company ranging between 0.01% and 9.95%.

**Notes to the financial statements (continued)**

**19 Loss per share**

Calculation of loss per share as at 31 December 2016 was based on the loss of HRK 4,404 thousands and a weighted average number of ordinary shares outstanding of 46,357,000, calculated as follows:

	<b>31 December 2016</b>	<b>31 December 2015</b>
Net loss for the period (HRK'000)	(4,404)	(3,127)
Weighted average number of ordinary shares during the period	<u>4,635,700</u>	<u>4,239,643</u>
Basic and diluted loss per share (in HRK)	<u><b>(0.95)</b></u>	<u><b>(0.74)</b></u>

Diluted loss 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:

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

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.

**20 Trade and other payables**

	<b>31 December 2016 HRK '000</b>	<b>31 December 2015 HRK '000</b>
Trade payables	3,812	3,631
VAT liability	488	516
Other short-term payables	<u>694</u>	<u>890</u>
<b>Total trade and other payables</b>	<u><b>4,994</b></u>	<u><b>5,037</b></u>

**21 Deferred income and accrued expenses**

	<b>31 December 2016 HRK '000</b>	<b>31 December 2015 HRK '000</b>
Deferred income from quotation maintaining	2,307	2,293
Deferred income from grant agreement	1,028	-
Other deferred income	<u>333</u>	<u>290</u>
<b>Total deferred income and accrued expenses</b>	<u><b>3,668</b></u>	<u><b>2,583</b></u>

**Notes to the financial statements (continued)**

**22 Operating leases**

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

	31 December 2016			31 December 2015		
	HRK '000			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	-	-	-	-	-	-
<b>Total operating leases</b>	<b>1,678</b>	<b>62</b>	<b>1,740</b>	<b>313</b>	<b>288</b>	<b>601</b>

**23 Financial instruments – risk exposures**

*Interest rate risk*

The Company does not have significant amount of variable interest-bearing assets. The most significant interest-earning assets are short-term deposits in banks. The Company does not have interest-bearing liabilities. 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 Company 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 Company is not significantly exposed to foreign currency risk.

*Credit risk*

The maximum net exposure to credit risk is as follows:

	31 December 2016	31 December 2015
	HRK '000	HRK '000
Cash and cash equivalents (excluding cash in hand)	11,984	3,018
Short-term deposits	2,005	16,966
Trade receivables and other assets	2,670	1,710
Guarantee deposits	249	249
Financial assets available-for-sale	39	197
	<b>16,947</b>	<b>22,140</b>

**Notes to the financial statements (continued)**

**23 Financial instruments – risk exposures (continued)**

*Credit risk (continued)*

The Company generally does not take collateral due to the nature of its operations. Other than short-term deposit and cash in domestic banks (Note 16, 17), the Company did not have significant concentration of credit risk at the reporting date.

Concentration of net trade receivables' credit risk:

	<b>31 December 2016</b>		<b>31 December 2015</b>	
	HRK '000	%	HRK '000	%
Corporate	1,997	75	882	52
Institutional investors and brokers	32	1	758	44
State	641	24	68	4
	<b>2,670</b>	<b>100</b>	<b>1,708</b>	<b>100</b>

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

## **Notes to the financial statements (continued)**

### **24 Related parties**

The Company considers that it has an immediate related party relationship with its key shareholders, its subsidiary, 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 Company has no obligation to key shareholders that relates to funds on transactions accounts and no obligation for rendered services.

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

Remuneration to Management Board throughout the year was HRK 1,551 thousand (2014: HRK 1,736 thousand). The total remuneration of Supervisory Board members amounted to HRK 0 (2015: HRK 0).

### **25 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 Company 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 equipment and intangible assets*

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

#### *Investment in subsidiary, associate and joint venture*

The Company carries the investment in subsidiary, associate and joint venture at cost less impairment allowance in these separate financial statements. If the recoverable amount of investment in subsidiary is below its carrying value, the impairment is recognised. The Management considers that there are no indications of impairment at the balance sheet date based on the analysis performed.

#### *Recognition of deferred tax assets*

At the balance sheet date the Company did not recognise deferred tax assets related to carry forward tax losses in the amount of HRK 11,062 thousand, as the Management has assessed that it is not probable that sufficient taxable profits will be available to utilise the deferred tax assets. This will be reassessed at the next balance sheet date.



**Notes to the financial statements (continued)**

**25 Key accounting estimates and assumptions (continued)**

*Classification of investment in joint venture*

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

**26 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.