



**ZAGREBAČKA
BURZA**

Zagreb Stock Exchange

ANNUAL REPORT

ON COMPANY STATUS AND BUSINESS ACTIVITIES IN 2017

Zagreb, April 2018

This version of the Annual report is a translation from the original, which was prepared in Croatian language. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version takes precedence over this translation

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Management report

1.1 A word by the Management Board

The year 2017 on the Zagreb Stock Exchange began on an optimistic note, with the CROBEX index climbing to the highest level in the last five years at one point. While unfavourable circumstances slowed down the upward trend further on in the year, it was still marked by several significant events and major projects.

September 2016 had seen the establishment of Funderbeam South-East Europe (abbreviated as: Funderbeam SEE), a company with its registered office in Zagreb, in which the Zagreb Stock Exchange has a 20 % share and which is supported by the European Bank for Reconstruction and Development through its Shareholders Special Fund. Funderbeam is a global platform enabling start-ups to raise funding and investors to trade in their shares after the initial investment phase thanks to an innovative system, based on blockchain technology. In just 10 months of 2017, more than EUR 2 million in capital was raised for Croatian start-ups in four campaigns via the Funderbeam SEE.

In mid-February, the Zagreb Stock Exchange signed a Memorandum of Understanding with the Taipei Exchange – TPEX. The importance of cooperation in the process of SME market development was especially emphasised in mutual communication. Signing of a Memorandum of Cooperation was part of the programme of a visit to Taiwan by a joint delegation of the Zagreb Stock Exchange, Ljubljana Stock Exchange and the European Bank for Reconstruction and Development aimed at gathering experience and exchanging ideas related to the development of regional capital markets within the scope of the SME Growth Market project. It is a joint project of the Zagreb Stock Exchange and the European Bank for Reconstruction and Development, which has financed a study on the establishment of an SME market in the region with the help of its donors (TaiwanBusiness – EBRD Technical Cooperation Fund – TWTC) to facilitate SME access to capital. In connection with that project, the Zagreb Stock Exchange held an SME Growth Market Conference late in June to present results of said study and also announce Progress – a new trading facility to help SMEs to finance their growth with equity capital, instead of debt financing.

The second half of the year saw the launch of intensive preparations related to the Progress platform: a new website was created and the legal framework established by adopting the Progress Market Rules, other acts and documents, with a tender for the grant of Progress Market adviser status also published. In just a month from its launch, a large number of applications for the grant of Progress Market adviser status was received, testifying to the interest in new capital market product development in Croatia as well as in the parallel forming of a new branch in the area of business and financial advisory services. A total of nine companies were found to meet the criteria required for the role of advisers to prospective issuers, and the platform is expected to be put into operation during 2018.

Funderbeam and Progress projects are part of the development-oriented strategy of the Zagreb Stock Exchange aimed at creating such conditions in the market of Croatia and Slovenia as to allow companies in all growth stages to secure capital necessary for further growth, thus helping to foster an environment favourable for entrepreneurs, economic growth and employment.

The second SEE Link international conference was held in Belgrade in April. It was co-organised by the Zagreb Stock Exchange and the stock exchanges from Macedonia and Bulgaria, as joint co-founders with the Zagreb Stock Exchange of the SEE Link d.o.o. company based in Skopje. The conference gathered more than 70 participants from Bosnia and Herzegovina, Bulgaria, Montenegro, Croatia, Macedonia, Slovenia, and Serbia. The SEE Link system for order routing among stock exchanges currently supports trading on seven regional exchanges; it boasts total market capitalisation in excess of USD 38.5 billion and more than 500 securities available for trading.

According to a quality report published by the Global Legal Entity Identifier Foundation (GLEIF) during 2017, the Zagreb Stock Exchange was assessed in six monthly reports as one of the five best LEI issuers in the world. The Zagreb Stock Exchange has been authorised to assign and administer LEIs since April 2015. Late in 2017, it was accredited by GLEIF following a lengthy and comprehensive procedure as the Local Operating Unit (LOU), becoming the 17th organisation in the world to be granted this status. The close of 2017 saw the Zagreb Stock Exchange administering 668 LEIs.

The ZSE Academy celebrated the 7th anniversary of its work in 2017. It has developed and delivered some 60 education and training programmes to date, including several of longer duration and more comprehensive in their scope, such as the investor relations programme – which has produced six generations of investor relations experts so far – as well as the compliance programme, completed by the first generation of participants in December 2017. The ZSE Academy programmes have been attended by more than 6,600 participants, of whom almost 70 % received their training free of charge. A special emphasis is placed on the education of the young, particularly secondary school and university students, and the ZSE Academy delivered education programmed to almost 2,500 of them in 2016 and 2017 alone.

Late in May, Zagreb was the venue of the 4th Ljubljana and Zagreb Stock Exchange Investment Days – the most successful such event to date by the number of registered investors, as well as by the number of meetings requested and held. Thanks to strong interest, the event stretched to two days for the first time, enlisting participation of eight Slovenian and seven Croatian issuer companies, 30 investment firms and banks as well as 56 analysts and investors from Austria, Hungary, the Czech Republic, Estonia, China, Croatia and Slovenia. A total of 198 one-on-one and group meetings was held. The Zagreb and the Ljubljana Stock Exchange will continue to undertake individual and joint activities aimed at increasing interest and bolstering the confidence of both local and foreign investors.

Early in June, in cooperation with the Croatian Financial Services Supervisory Agency and the Central Depository and Clearing Company, the Zagreb Stock Exchange held the 8th round of annual education for regulated market issuers, gathering some 100 representatives of listed companies.

In July, the Zagreb Stock Exchange successfully migrated to a new trading platform, switching after 10 years to the Xetra Deutsche Börse trading system, distributed and operated in this part of Europe by the Vienna Stock Exchange. The trading system change achieved several strategically important goals: both markets managed by the Zagreb Stock Exchange (i.e. Croatia and Slovenia) now operate on the same platform as a number of other European markets, preconditions for savings have been created and, very importantly, the Xetra trading platform was automatically made compliant with new EU regulations, thus considerably reducing the Zagreb Stock Exchange's regulatory risk.

October was the month in which the 6th joint conference of the Zagreb Stock Exchange and the Association of Pension Fund Management and Pension Insurance Companies entitled "Challenge of Change: New Challenges" was held. As the most successful such conference to date, it attracted more than 450 participants from all branches of the financial industry in Croatia, its region and the world.

The Zagreb Stock Exchange was recertified under ISO 9001:2008 quality management standard, first adopted in 2011, thus confirming quality management as the centre of its strategic interest, along with a readiness to continually enhance and upgrade the quality of its business processes.

The Zagreb Stock Exchange Awards, established with a view to strengthening the recognition of the capital market and its active participants among the financial and general public, were presented in December for the sixth time running.

The new Exchange Rules, harmonised with MiFID II and other regulations, delegated and implementing acts, were approved late in 2017 and amendments to the CE Enter Market Rules were also introduced. The new Xetra 17.0 trading system version, which is fully harmonised with the new regulations, was successfully implemented as well. It is a very demanding project that took the Zagreb Stock Exchange, as well as all other European markets, two years to prepare for.

Building onto the new regulatory framework for the capital market (MiFID II and MiFIR), which provides for the obligation to report any transactions concluded outside a trading venue (so-called OTC transactions) in financial instruments traded on a trading venue (regulated market or MTF), towards the end of 2017 the Zagreb Stock Exchange embarked on preparations for the introduction of the approved publication arrangement or APA service. In the first days of 2018, the Croatian Financial Services Supervisory Agency authorised the provision of this service, which is aimed at improving the quality of trading transparency information and also contributes significantly to ensuring that such data is published in a way that facilitates consolidation with other data.

The 2017 financial market environment was highly challenging, marked by increasingly strict regulatory requirements, with the local market characterised by Agrokor concern situation. Nevertheless, the Zagreb Stock Exchange managed to launch and complete several major innovative projects, relevant for the future of both the local and the regional market, while maintaining its position of the regional leader and filling the role as one of several mechanisms that foster economic growth. Meanwhile, it has continued to provide a high product and service quality level to satisfy the needs of its shareholders, investors, issuers, members and all other stakeholders.

1.2 ZSE Key Performance Indicators in 2017

Operating revenue in 2017 amounted to 14 mil HRK, up 3.55% compared to the same period last year.

Operating loss before interest, taxes, depreciation and amortization in 2017 amounted to -3,079 thousand HRK while in 2016 it amounted to -3,460 thousand HRK.

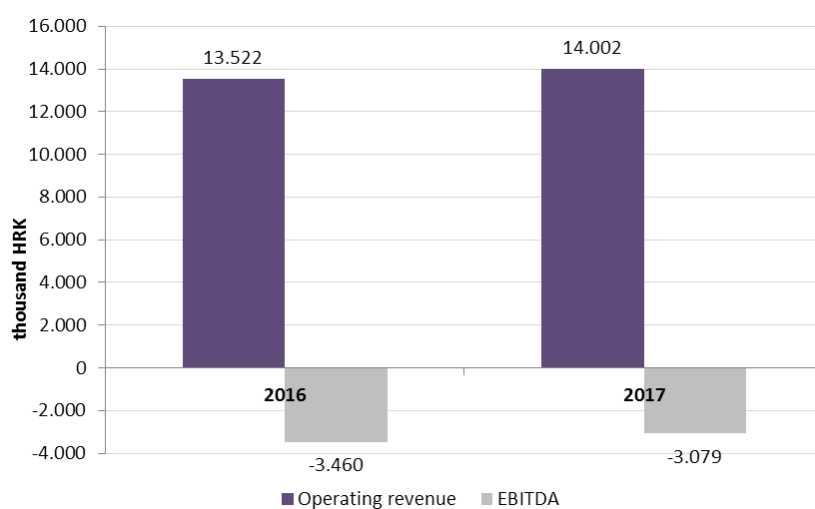


Figure 1. Operating revenue and EBITDA in the period from 2016 to 2017

	2016	2017
Issued share capital (thousands HRK)	46,357	46,357
Total equity	42,116	38,363
Total assets	50,778	42,390
Operating revenues	13,522	14,002
<i>-revenue</i>	8,757	9,351
<i>-other operating income</i>	4,765	4,651
Operating expenses	16,982	17,081
<i>-staff costs</i>	5,717	6,348
<i>-other operating expenses</i>	11,265	10,733
EBITDA	-3,460	-3,079
EBIT	-4,817	-4,324
Loss before tax	-4,404	-3,753
Income tax expense	0	0
Loss for the year	-4,404	-3,753
Issued shares	4,635,700	4,635,700
Nominal value on 31 December	10.00	10.00
Cash dividend	0	0
Number of employees	23	24

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 January 2017 to 31 December 2017 orderbook turnover in the amount of 9,365,603.52 HRK was reached and the average daily price change of -34%. Price of ZB-R-A stock peaked on 20 March 2017 in the amount of 19.75 HRK, while the lowest price occurred on 22 December 2017 in the sum of 10.00 HRK. Total of 273 shareholders were noted in the ownership structure of the Zagreb Stock Exchange on 31 December 2017.

Total turnover (HRK)	9,392,199.44
Total trading volume	624,217
Highest price (HRK)	19.75
Lowest prices (HRK)	10.00
Last price (HRK)	10.88
Average daily turnover (HRK)	60,423.25
Average daily number of transactions	7

1.3 Financial results and business operations in 2017

The 2017 operating income was HRK 480 thousand or 3.55 % higher than in 2016. In view of turnover growth and a price increase implemented early in July 217, the biggest contribution to income growth came from commissions and membership fees (+17.9 %). Exchange data dissemination fees also grew at a rate of (+25.5 %) and so did other income (+55 %). Growth in other income is largely attributable to technical assistance funding of the European Bank for Reconstruction and Development for the Progress SME Growth Market and LEI assignment income.

The steepest decline was of that in the API services income (-50 %) and equipment rental income (-50 %), as expected in view of the migration to the new trading system and changes in the member billing method. An income decline was also evident in listing fees (-18 %) due to fewer new listings compared to a year earlier.

Total 2017 operating expenses amounted to HRK 18.3 mil., remaining at roughly the same level as in 2016. Staff costs increased by 11 % to HRK 6.3 mil. Depreciation charge was down 8 % in the year under review, while other operating expenses decreased by 4.7 %.

Consequently, the Company had a negative net result of HRK -3,753 thousand in 2017. As in previous years, the depreciation charge was relatively high and amounted to HRK 1,245 thousand accounting for 6.8 % of total expenses. That charge includes a substantial one-time OMX write-off.

During 2017, the Zagreb Stock Exchange invested its available cash funds in investment funds (money market and bond funds) and deposits (sight and fixed-term) in order to preserve the value of its assets. The available cash funds of the Exchange stood at HRK 19,100 thousand (units in investment funds, deposits and cash in bank) at the end of 2017.

1.4 Business analysis

Total operating revenues

Total operating revenues in 2017 amounted to 14 mil HRK, which is a +3.55% increase compared to the previous year. The largest decrease in revenues was visible in revenues generated from trading commissions and membership fees (+18%).

Largest stake in operating revenues stems from income from commissions and membership fees (32.5%), which surpassed income from quotation maintaining which made up the largest part of total operating revenues in 2016 (30 % in 2017).

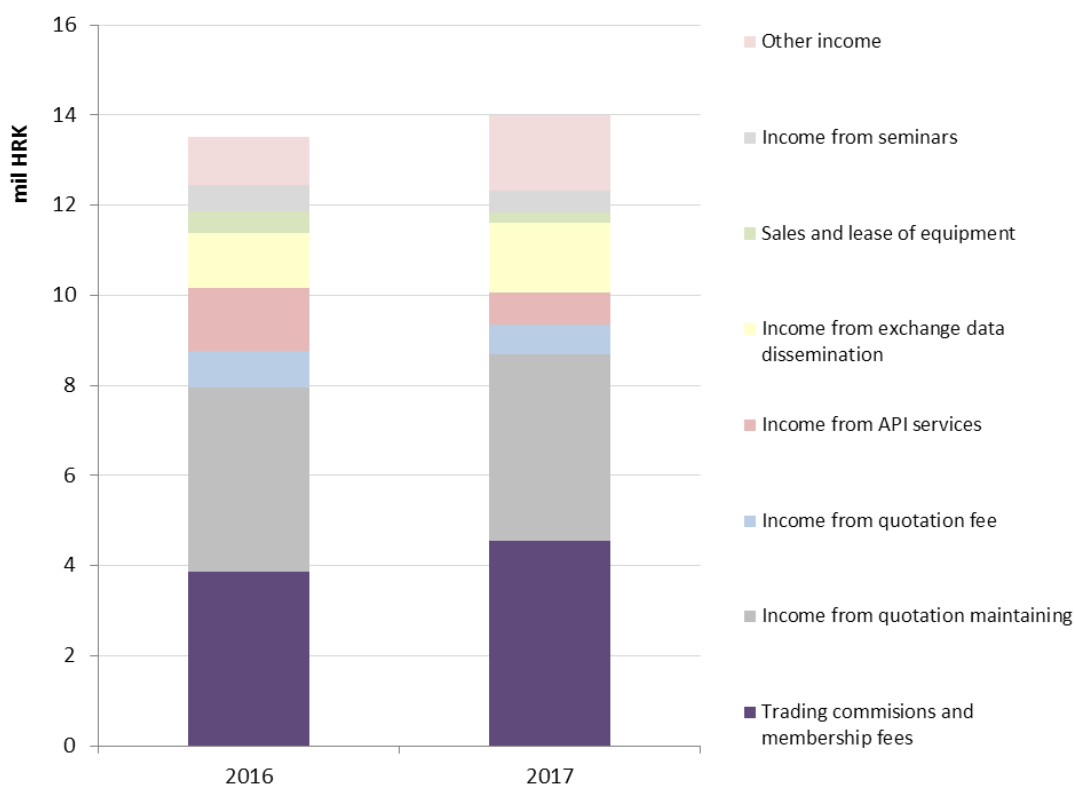


Figure 2. Total operating revenues in the period from 2016 to 2017

Commissions and membership fees

Comparing 2017 with 2016, revenues from commissions and membership fees increased by +693 thousand HRK, i.e. +18%. During 2017, company Addiko Bank d.d. ceased to be ZSE member, so number of members dropped from 16.

API membership fees

Income from API membership fees in 2017 amounted to 704 thousand HRK, which is a -49.86% decrease in comparison to previous year.

Lease of equipment

Income from lease of equipment in 2017 amounted to 243 thousand HRK, down -50% compared to 2016.

Quotations maintenance fees

In 2017, revenues from maintenance of quotations fees increased by +1% compared to 2016 and amounted to 4.13 mil HRK. At the end of 2017, total of 137 stocks were listed on the regulated market which is 7% less in comparison to previous year.

Listing fees

A decline of -17.8% in revenues from listing fees which amounted to 661 thousand HRK was recorded in 2017.

Exchange data dissemination fees

The 2017 exchange data dissemination fees rose by +314 thousand HRK, i.e. +25.5% compared to 2016.

Academy and conference revenues

Revenues from the Zagreb Stock Exchange Academy and organized conferences amounted to 486 thousand HRK in 2017 which is a -15.6% decrease compared to the previous year.

Other operating revenues

Total other operating revenues in 2017 have reached 1,675 thousand HRK, up +55% compared to 2016. Main reason is the increase of revenues from grants (EBRD), revenues from OTC service and revenues relating to the assignment of LEI codes.

Total operating expenses

Total 2017 operating expenses amounted to HRK 18.3 mil., remaining at roughly the same level as in 2016. Staff costs increased by 11 % to HRK 6.3 mil. As to other operating expenses (-4.7%), the biggest decline was recorded in postal and telephone services (-42.5 %), lease of equipment and office space (-12 %), professional services (-5.8 %) and entertainment (-45.8 %). The cost of application software and licences rose 4 %, as did fees and charges (+16.9 %) as well as other expenses (+32.6 %). An increase in software costs was as expected because of the Nasdaq and Xetra trading system overlap for a part of the year, resulting in the payment of double costs. Other expenses are a counter-item of the income from the Progress SME Growth Market. The depreciation charge was down 8 % in the year under review.

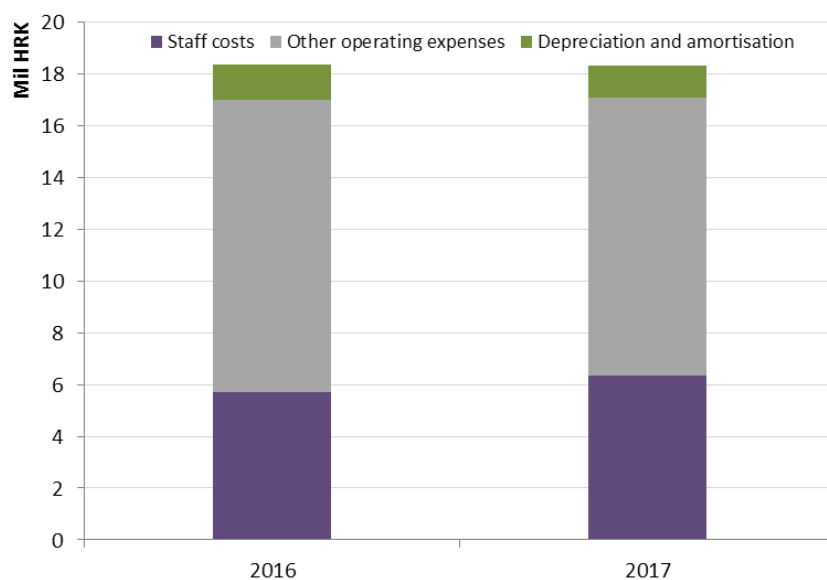


Figure 3. Total operating expenses in the period from 2016 to 2017

Net profit/loss for the year

In 2017, the net result was negative and amounted to -3,753 thousand HRK, which is a 14.8% decrease to the year before.

Negative earnings before interest, taxes, depreciation and amortization of -3,079 thousand HRK were posted in 2017, and in 2016 it amounted to -3,460 thousand HRK.

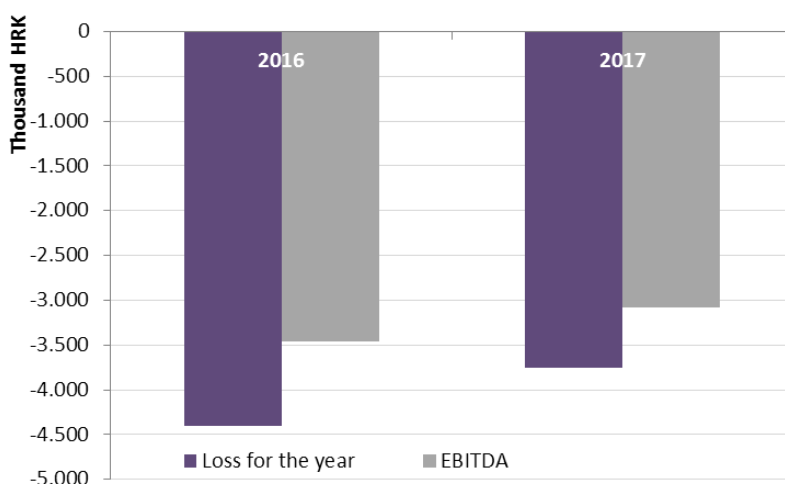


Figure 4. Net profit/loss for the year and EBITDA in the period from 2016 to 2017

Zagreb Stock Exchange Assets

On 31 December 2017, total assets of the Zagreb Stock Exchange amounted to 42.2 mil HRK, which is a decrease of -16.5% compared to the previous year.

	2017	2016
	'000 HRK	'000 HRK
ASSETS		
Total non-current assets	21,332	22,580
Total current assets	21,058	28,198
Total assets	42,390	50,778
EQUITY AND LIABILITIES		
Total equity	38,363	42,116
Current liabilities	4,027	8,662
Total equity and liabilities	42,390	50,778

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, the Company will press on with previously initiated projects, placing the greatest emphasis on the project of regional SME capital market development, project of further development of the platform aimed at fund-raising and investment into start-ups (Funderbeam SEE), as well as further development of the approved publication arrangement (APA) and further development of the SEE Link regional trading platform.

Activities related to MiFID II implementation on the Zagreb Stock Exchange, as well as a harmonisation of business with the General Data Protection Regulation (GDPR), will be undertaken in H1 2018.

1.7 Research and Development activities

The Company has pressed on with continuous efforts at developing and improving its own service offering and at expanding service provision to the Slovenian market as well.

1.8 Acquisition of own shares

Zagreb Stock Exchange was not the owner of its own shares on 31 December 2017. In 2017, 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 Steriev, CEO of the Macedonian Stock Exchange is the President of the Supervisory Board and Ivan Takev, CEO of the Bulgarian 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

The Company is fully funded by its own capital. The financial instruments the Company invests in are investment funds (money market and bond funds) and deposits (a vista and fixed-term deposits).

1.11 Business operation risks

Business operation risks are detailed in the notes to the financial statements (Note 24).

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.

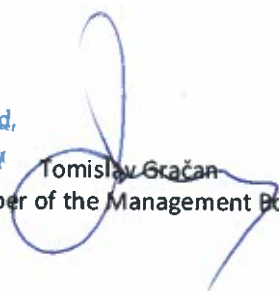
Risk monitoring is not separated and entrusted to Company's independent organizational unit, but to one or more Company's departments, depending on the type of risk. Therefore, every employee of the Exchange is included in Company's risk management.

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 Gažić
President of the Management Board


ZAGREBAČKA BURZA d.d.
Zagreb


Tomislav Gračan
Member of the Management Board

2 Statement on the application of the Corporate Governance Code

Pursuant to provision of Article 272, paragraph, in conjunction with provision of Article 250a, paragraph 4 of the Companies Act (Official Gazette no. 111/93, 34/99, 52/00, 118/03, 107/07, 148/08, 137/09, 125/11, 152/11, 111/12, 68/13, 110/15, hereinafter: CA) and provision of Article 22 of the Accounting Act (Official Gazette no. 78/15, 134/15 i 120/16, hereinafter: AA), the Management Board of company ZAGREB STOCK EXCHANGE Inc., Zagreb, Ivana Lučića 2a (hereinafter: the Company), on 25 April 2017, issued the following

STATEMENT on the application of the Corporate Governance Code

1. The Company implements the Corporate Governance Code prescribed by the Croatian Financial Services Supervisory Agency and the Zagreb Stock Exchange Inc. Zagreb. The Code is published in Zagreb Stock Exchange website, www.zse.hr.
2. In financial year 2016 the Company essentially complied with and implemented recommendations established by the Code, publishing all information as envisaged by the positive regulations as well as information that are in the interest of Company's shareholders. Detailed explanations regarding minor deviations from the recommendations of the Code are presented by the Company in the Annual Questionnaire that is provided.
3. In accordance with Code requests, and pursuant to provisions of the Companies Act and Capital Market Act, the Supervisory Board conducts internal supervision of the Company by conducting regular controls of prepared reports. Members of the Supervisory Board receive on regular basis detailed information on management and work of the Company. All issues under the competence of the Supervisory Board, as prescribed by the CA, Capital Market Act and Articles of Association of the Company, are discussed and decided upon in the Supervisory Board meetings. Supervisory Board Report is part of the Company's Annual Report presented to the General Assembly. In addition, the Supervisory Board performs internal controls and supervision through Audit Board that provides expert support to the Supervisory Board and the Management Board in the efficient execution of obligations relating to corporate governance, risk management, financial reporting and control of the Company. The Management Board is bound to monitor that the Company keeps business books and other books and business documents, prepares book-keeping documents, provides realistic assessments of the assets and liabilities, drafts financial and other reports in accordance with accounting regulations and standards and applicable laws and regulations.
4. Top ten shareholders on 31 December 2017.

	Shareholder	No. of shares	Equity in %
1.	PBZ CO OMF	392,800	8.4734
2.	ICAM OUTFOX MACRO INCOME	277,100	5.9775
3.	INVESTCO D.O.O.	251,264	5.4202
4.	EBRD	240,000	5.1772
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	2,412,736	52.0468
	Total	4,635,700	100.00

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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 (mandate expired on November, 28th, 2017)
- 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 2017.


Ivana Gažić
President of the Management Board


ZAGREBAČKA BURZA d.d.
Zagreb


Tomislav Gračan
Member of the Management Board

3 Zagreb Stock Exchange in 2017

The year 2017 got off to an optimistic start, with growth in all key trading indicators, as early as in Q1 uncertainties related to further developments of the shares issued by members of the Agrokor concern clouded the prospects for the remaining part of the year.

Finally, order book share turnover stood 37.3 % higher than in 2016, with total order book trading up 24.6 % on the year earlier. While trading in Agrokor members was blocked for six months, substantial turnover in these shares were recorded the periods in which they were traded.

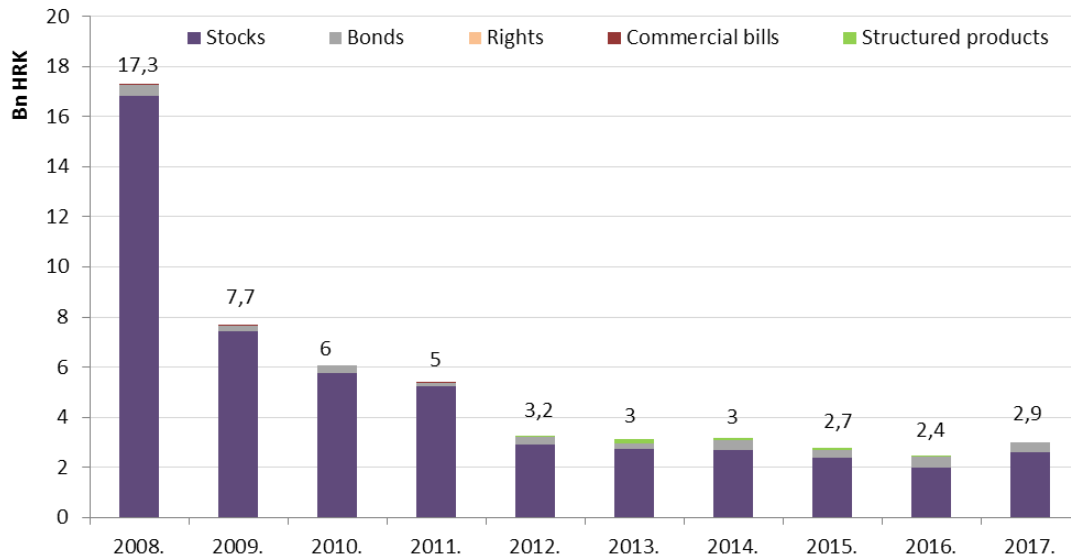


Figure 5. Turnover in the period from 2008 to 2017

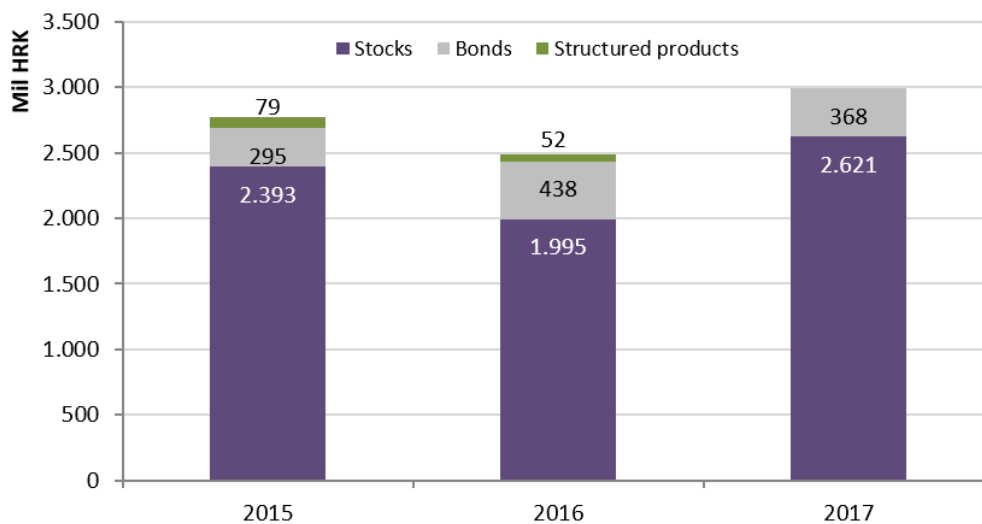


Figure 6. Turnover in the period from 2015 to 2017

Analysis of the total turnover on the Exchange in 2017 indicates that the shares were the most actively traded instruments, while other financial instruments represented 12.3% of total turnover. Shares turnover increased by +7.42%, while turnover of bonds decreased by -5.34%.



Figure 7. Total turnover by type of securities (2014 – 2017)

While market capitalisation in shares weakened 3.4 %, growth in bond market capitalisation led to total market capitalisation growth at a rate of 1.6 %.

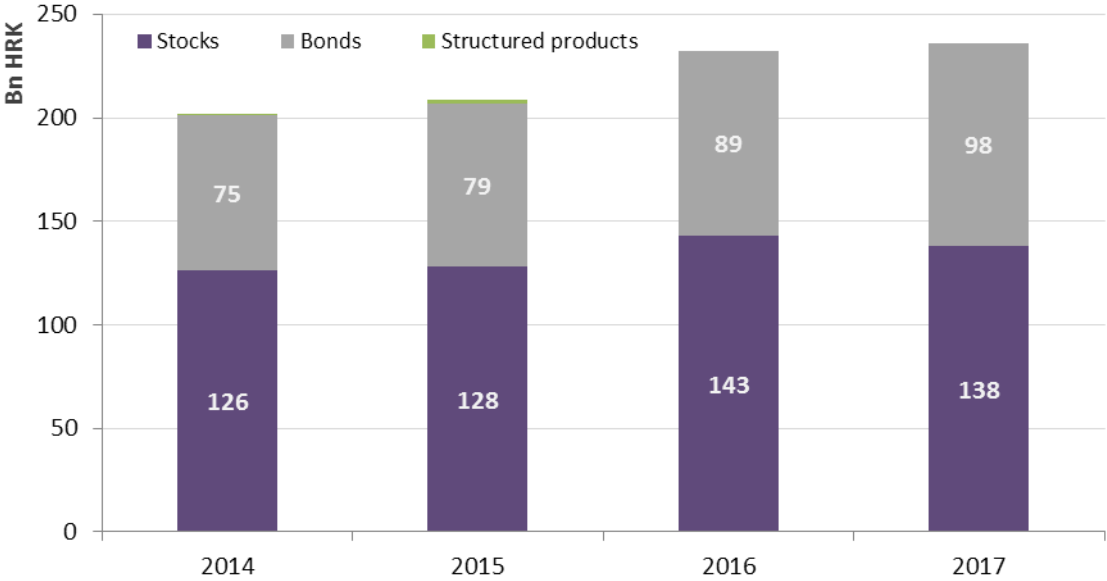


Figure 8. Market capitalization in the period from 2014 to 2017

Indices had a mixed close: while CROBEX and CROBEX10 saw a correction by about -7 % and CROBEXtr by -5 %, CROBEXnutris suffered a substantial, 45.1 % loss. Meanwhile, CROBEXkonstrukt rose 3.4 %, while CROBEXturist added 10.75 % and CROBEXtransport as much as 18.9 %. The Zagreb Stock Exchange was the only exchange in the region to have recorded a decline in index values in an otherwise optimistic trade atmosphere marking most global markets.

Index	2016	2017	%
CROBEX	1,994.84	1,842.87	-7.62%
CROBEXtr	1,222.89	1,161.71	-5.00%
CROBEX10	1,158.18	1,076.86	-7.02%
CROBEXplus	1,181.83	1,082.17	-8.43%
CROBEXindustrija	1,192.90	1,130.91	-5.20%
CROBEXkonstrukt	517.70	535.23	3.39%
CROBEXnutris	856.31	470.10	-45.10%
CROBEXtransport	1,077.12	1,280.65	18.90%
CROBEXturist	3,271.93	3,623.65	10.75%
CROBIS	108.82	110.98	1.98%
CROBIstr	157.08	167.25	6.47%

The most liquid stock in 2017 was the stock of Valamar Riviera d.d., with almost 12.8% of total turnover while five most traded stocks (table below) count for 49% of turnover (RIVP, HT, LEDO, ADRS2, JMNC).

Symbol	Issuer	Turnover (HRK)
RIVP	Valamar Riviera d.d.	336,451,155
HT	HT d.d.	280,179,564
LEDO	LEDO d.d.	278,918,954
ADRS2	ADRS GRUPA d.d.	215,004,671
JMNC	JAMNICA d.d.	177,436,473
	Ostali	1,333,449,220
TOTAL		2,621,440,038

At the end of 2017, the Exchange had 16 members and top five members by total turnover are shown in the following table:

Rank	Member	Total turnover (HRK)	Market share (%)
1.	INTERKAPITAL VRIJEDNOSNI PAPIRI D.O.O.	1,977,234,056	26.47
2.	ERSTE&STEIERMARKISCHE D.D.	1,162,379,734	15.56
3.	FIMA-VRIJEDNOSNICE D.O.O.	608,632,801	8.15
4.	HITA VRIJEDNOSNICE D.D.	588,007,948	7.87
5.	PRIVREDNA BANKA ZAGREB D.D.	768,492,209	10.29
6.	Ostali	2,363,606,608	31.66

Around 68% of total turnover came from top five members.

3.1 Support for the members and issuers

Support for the members

The Zagreb Stock Exchange regularly provides support to member firms regarding the Exchange trading process. This includes both the preparation and maintenance of the trading system itself, and the preparation of various support applications used for trading. In that respect, the Exchange actively communicates with member firms during the implementation of new trading system functionalities and other changes which might reflect on the members' business. It focuses especially on own member-side applications, developed using the FIX (a Vienna Stock Exchange version – CEESEG FIX) protocol interface. In cooperation with the Vienna Stock Exchange, the Exchange provides support to member firms when developing their own applications and conducts initial certification of their software solutions.

In 2017, the Exchange completed a migration to the new WBAG Xetra trading system; since 7 July 2017, Exchange members have used the new trading platform, supplied by the Vienna Stock Exchange, for trading. The Exchange has actively managed all processes in the project of migration from the former to the new trading system.

It also provides other forms of technical support and, for that purpose, it has made available a dedicated collaboration website (<http://it.zse.hr>) for users to submit their support requests directly to the Information 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 addmitance 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 25 to 55 and other information, set out on pages 1 to 18, are approved by the Management Board on 25 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



Tomislav Gračan
Member of the
Management Board



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

Report on the Audit of the Financial Statements

Opinion

We have audited the separate financial statements of Zagrebačka burza d.d. ("the Company"), which comprise the separate statement of financial position of the Company as at 31 December 2017, and the separate statements of comprehensive income, cash flows and changes in equity of the Company for the year then ended, and notes, comprising significant accounting policies and other explanatory information (further referred to as "the financial statements").

In our opinion, the accompanying financial statements give a true and fair view of the unconsolidated financial position of the Company as at 31 December 2017 and of its unconsolidated financial performance and its unconsolidated 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. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the 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 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 financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.



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

Report on the Audit of the Financial Statements (continued)

Key Audit Matters (continued)

Revenue recognition

Sales revenue for 2017: HRK 9,351 thousand (2016: HRK 8,757 thousand).

Refer to page 37 (Significant accounting policies) and page 40 (Sales revenue).

Key audit matter	How our audit addressed the matter
<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">- Understanding of the processes and controls associated with the revenue cycle;- Assisted by our own IT specialists, testing selected automated controls over the integrity of transfers of transaction volumes between the Company's trading and reporting systems, as well as general IT controls;- Assessing the Company's revenue recognition policies against the requirements of relevant financial reporting standards;- For a sample of trading commission transactions, testing the recognition of related revenue by reference to the appropriate fees derived from the published tariff and the number of underlying transactions or volumes of quoted securities derived from the stock exchange trading system;- For a sample of customer contracts, testing the revenue from membership fees by inspecting contractual terms and independently recalculating the amount of revenue by reference to those terms;- For all clients newly listed in 2017, independently recalculating the amount of quotation fees revenue by applying the published tariff.- Inspecting manual journal entries posted to revenue accounts focusing on unusual and irregular items, or entries modified subsequent to the balance sheet date.

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

Report on the Audit of the Financial Statements (*continued*)

Other Information

Management is responsible for the other information. The other information comprises the Management Report and Corporate Governance Statement included in the Annual Report of the Company, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

With respect to the Management Report and Corporate Governance Statement, we also performed procedures required by the Accounting Act in Croatia ("Accounting Act"). Those procedures include considering whether:

- the Management Report has been prepared in accordance with the requirements of Article 21 of the Accounting Act,
- the specific information in the Corporate Governance Statement required by Article 22, paragraph 1, items 3 and 4 of the Accounting Act ("relevant sections of the Corporate Governance Statement") has been prepared in accordance with the requirements of Article 22 of the Accounting Act; and
- the Corporate Governance Statement includes the information specified in Article 22, paragraph 1, items 2, 5, 6 and 7 of the Accounting Act.

Based solely on the work required to be undertaken in the course of the audit of the financial statements and procedures above, in our opinion:

- the information given in the Management Report and the relevant sections of the Corporate Governance Statement for the financial year for which the financial statements are prepared, is consistent, in all material respects, with the financial statements;
- the Management Report and the relevant sections of the Corporate Governance Statement have been prepared, in all material respects, in accordance with the requirements of Articles 21 and 22 of the Accounting Act, respectively;
- the Corporate Governance Statement includes the information specified in Article 22 paragraph 1, items 2, 5, 6 and 7 of the Accounting Act.

In addition, in light of the knowledge and understanding of the entity and its environment obtained in the course of the audit, we are also required to report if we have identified material misstatements in the Management Report and Corporate Governance Statement. We have nothing to report in this respect.

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

Report on the Audit of the Financial Statements (continued)

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

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

In preparing the 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 financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the 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 International Standards on Auditing 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 financial statements.

As part of an audit in accordance with International Standards on Auditing, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the 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 controls.
- 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 controls.
- 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 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 financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

Report on the Audit of the Financial Statements (continued)

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

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and 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 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.

Report on Other Legal and Regulatory Requirements

We were appointed by those charged with governance on 12 June 2017 to audit the financial statements of Zagrebačka burza d.d. for the year ended 31 December 2017. Our total uninterrupted period of engagement is 2 years, covering the periods ending 31 December 2016 to 31 December 2017.

We confirm that:

- our audit opinion is consistent with the additional report presented to the Audit Committee of the Company dated 18 April 2018;
- we have not provided any prohibited non-audit services (NASs) referred to in Article 44 of the Audit Act. Further, we have not provided any non-audit services to the Company and its controlled entities which are not reported in the Management report and the financial statements. We also remained independent of the Company in conducting the audit.

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

KPMG Croatia d.o.o. za reviziju
Croatian Certified Auditors
Eurotower, 17th floor
Ivana Lučića 2a
10000 Zagreb
Croatia

25 April 2018

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>	2017 HRK'000	2016 HRK'000
Income statement			
Sales revenue	4	9,351	8,757
Other operating income	5	4,651	4,765
Staff costs	6	(6,348)	(5,717)
Depreciation and amortization	10,11	(1,245)	(1,357)
Other operating expenses	7	(10,733)	(11,265)
Operating loss		<u>(4,324)</u>	<u>(4,817)</u>
Financial income	8	568	380
Financial expense	8	(1)	(1)
Net foreign exchange gain		4	34
Net finance income		<u>571</u>	<u>413</u>
Loss before tax		<u>(3,753)</u>	<u>(4,404)</u>
Income tax expense	9a	-	-
Loss for the year		<u>(3,753)</u>	<u>(4,404)</u>
Other comprehensive income, net of tax		<u>-</u>	<u>-</u>
Total comprehensive loss for the year		<u><u>(3,753)</u></u>	<u><u>(4,404)</u></u>
Basic and diluted loss per share (in HRK)	20	(0.81)	(0.95)

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>	2017	2016
		HRK'000	HRK'000
Assets			
<i>Non-current assets</i>			
Property and equipment	<i>10</i>	532	535
Intangible assets	<i>11</i>	850	2,229
Investment in subsidiary	<i>12</i>	19,125	19,125
Investment in associate and joint venture	<i>13</i>	206	206
Financial assets available for sale	<i>14a</i>	197	236
Guarantee deposits		249	249
Borrowings to related parties	<i>18</i>	173	-
Total non-current assets		<u>21,332</u>	<u>22,580</u>
<i>Current assets</i>			
Trade receivables and other assets	<i>15</i>	1,856	2,670
Financial assets at fair value through profit or loss	<i>14b</i>	18,217	8,084
Short-term deposits	<i>16</i>	-	2,005
Cash and cash equivalents	<i>17</i>	883	11,991
Inventories		10	14
Prepaid expenses		92	3,434
Total current assets		<u>21,058</u>	<u>28,198</u>
Total assets		<u><u>42,390</u></u>	<u><u>50,778</u></u>
Equity and liabilities			
<i>Equity</i>			
Issued share capital	<i>19</i>	46,357	46,357
Share premium		13,860	13,860
Legal reserves		141	141
Accumulated loss		(21,995)	(18,242)
Total equity		<u>38,363</u>	<u>42,116</u>
<i>Current liabilities</i>			
Trade and other payables	<i>21</i>	1,316	4,994
Deferred income and accrued expenses	<i>22</i>	2,711	3,668
Total current liabilities		<u>4,027</u>	<u>8,662</u>
Total equity and liabilities		<u><u>42,390</u></u>	<u><u>50,778</u></u>

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

Separate Statement of changes in equity

	Issued share capital HRK'000	Share premium HRK'000	Legal reserves HRK'000	Accumulated loss HRK'000	Total HRK'000
As at 1 January 2016	46,357	13,860	141	(13,838)	46,520
Total comprehensive loss for the year	-	-	-	(4,404)	(4,404)
As at 31 December 2016	46,357	13,860	141	(18,242)	42,116
As at 1 January 2017	46,357	13,860	141	(18,242)	42,116
Total comprehensive loss for the year	-	-	-	(3,753)	(3,753)
As at 31 December 2017	46,357	13,860	141	(21,995)	38,363

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

	<i>Notes</i>	2017	2016
		HRK '000	HRK '000
Cash flow from operating activities			
Loss before tax		(3,754)	(4,404)
<i>Adjustments:</i>			
Depreciation and amortization	10,11	1,245	1,357
Unrealised gains from financial assets at fair value through profit or loss	8	(557)	(37)
Movement in impairment allowance for trade receivables	7	230	405
Impairment of available for sale bond	7	44	158
Dividend income	8	-	(49)
Interest income	8	(11)	(294)
Net foreign exchange (gains)/losses		2	(34)
Provisions for unused holidays		(7)	44
Write-offs		674	688
Other adjustments		(36)	(221)
Cash flow before changes in operating assets and liabilities		(2,173)	(2,387)
Changes in operating assets and liabilities			
Increase in trade receivables		1,551	(368)
Increase in prepaid expenses		3,342	(375)
Increase in inventories		4	(14)
Increase in trade and other payables		(4,118)	135
Increase in deferred income and accrued expenses		(1,509)	57
Change in operating assets and liabilities		(730)	(565)
Income tax		-	-
Net cash (outflow) from operating activities		(2,903)	(2,952)
Cash flow from investing activities			
Investment in associate		-	(4)
Purchase of equipment	10	(183)	(146)
Purchase of software	11	(293)	(496)
Purchase of units in open investment funds		(23,474)	(5,800)
Disposal of units in open investment funds		13,902	3,032
Proceed from investments in short-term deposits		2,000	21,147
Investments in short-term deposits		-	(6,430)
Dividends received		-	49
Interest received		16	538
Net cash inflow / (outflow) from investing activities		(8,032)	11,890
Cash flow from financing activities			
Borrowings of loan principal		(173)	-
Net cash inflows from financing activities		(173)	-
Net increase in cash and cash equivalents		(11,108)	8,938
Cash and cash equivalents at the beginning of the year		11,991	3,022
Changes in exchange rates on cash and cash equivalents		-	31
Cash and cash equivalents at the end of the year	17	883	11,991

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, 22nd floor, Ivana Lučića 2a/22, Zagreb, Croatia.

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

At the year end the Company was owned by 273 shareholders (*31 December 2016: 303 shareholders*). The Company does not have an ultimate parent company.

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 2016 and 31 December 2017 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 2017 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 25 April 2018 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 24.

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 2017 was EUR 1=HRK 7.513648 (31 December 2016: EUR 1=HRK 7.557787).

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", "trade receivables and other assets" and "borrowings to related parties".

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 2017 is 18% (2016: 20%).

Notes to the financial statements (continued)

3 Significant accounting policies (continued)

i) 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 2017, 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. IFRS 9 largely retains the existing requirements of IAS 39 for classification of financial liabilities.

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)

ii) 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 Company. 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.

Notes to the financial statements (continued)

4 Sales revenue

	2017	2016
	HRK '000	HRK '000
Commissions	4,294	3,581
Income from quotation maintaining	4,138	4,094
Income from quotation fee	661	804
Membership fees	258	278
	<u> </u>	<u> </u>
Total sales revenue	<u>9,351</u>	<u>8,757</u>

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

	2017	2016
	HRK '000	HRK '000
Income from application programming interface services	704	1,404
Income from the supply of information	1,543	1,229
Sale and lease of equipment	243	482
Income from seminars	486	576
Income from subsidies	1,021	264
Other income	654	810
	<u> </u>	<u> </u>
Total other operating income	<u>4,651</u>	<u>4,765</u>

6 Staff costs

	2017	2016
	HRK '000	HRK '000
Salaries		
Net salaries	3,385	2,961
Payroll deductions	1,020	955
Payroll contributions	1,867	1,755
	<u> </u>	<u> </u>
Total salaries	<u>6,272</u>	<u>5,671</u>
Other staff costs	76	46
	<u> </u>	<u> </u>
Total staff costs	<u>6,348</u>	<u>5,717</u>

The number of employees at the end of 2017 was 24 (2016: 23). Staff costs include HRK 989 thousand (2016: HRK 943 thousand) of defined pension contributions paid into obligatory pension funds. Contributions are calculated as a percentage of employees' gross salaries. In 2017 bonus payments amounted to HRK 359 thousand (2016: HRK 0 thousand).

Notes to the financial statements (continued)

7 Other operating expenses

	2017	2016
	HRK '000	HRK '000
Software and licences	4,349	4,182
Professional services	1,732	1,839
Rent of premises	849	969
Post and telephone services	351	610
Utility expenses	510	536
Fees and charges	712	609
Rent of equipment	260	290
Entertainment	122	225
Business travel	129	129
Write off of intangible assets	613	688
Impairment of debt securities classified as available for sale	44	158
Impairment of trade receivables	230	405
Other expenses	832	625
	<u>832</u>	<u>625</u>
Total other operating expenses	<u>10,733</u>	<u>11,265</u>

8 Financial income and expense

	2017	2016
	HRK '000	HRK '000
a) Financial income		
Net gains from financial assets at fair value through profit or loss	557	37
Interest income	11	294
Dividend income	-	49
	<u>-</u>	<u>49</u>
Total financial income	<u>568</u>	<u>380</u>
b) Financial expense		
Interest expense	(1)	(1)
	<u>(1)</u>	<u>(1)</u>
Total financial expense	<u>(1)</u>	<u>(1)</u>
Net financial result	<u>567</u>	<u>379</u>

Notes to the financial statements (continued)

9 Income tax expense

a) Income tax expense

	2017	2016
	HRK '000	HRK '000
Current income tax expense	-	-
Deferred income tax	-	-
	<hr/>	<hr/>
Total income tax expense	<u>-</u>	<u>-</u>

b) Reconciliation of accounting profit and current income tax liability

	2017	2016
	HRK '000	HRK '000
Loss before tax	<u>(3,753)</u>	<u>(4,404)</u>
Tax calculated at 18% (2016: 20%)	(676)	(881)
Tax non-deductible expenses	56	219
Non-taxable income	(7)	(73)
Tax losses not recognised as deferred tax assets	627	661
Effects of tax rate change on tax losses not recognised as deferred tax assets	-	74
	<hr/>	<hr/>
Income tax expense	<u>-</u>	<u>-</u>
	<hr/>	<hr/>
Effective income tax rate	<u>n/a</u>	<u>n/a</u>

c) Tax losses carried forward

Gross tax losses amounting to HRK 11,182 thousand are available for offset against the future taxable profits of the Company at the end of 2017. 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 2016 the Company had HRK 11,062 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 2017 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:

	2017	2016
	HRK '000	HRK '000
Up to 1 year	692	3,364
Up to 2 years	1,006	692
Up to 3 years	2,329	1,006
Up to 4 years	3,672	2,329
Up to 5 years	3,483	3,671
	<hr/>	<hr/>
Total tax loss available to be carried forward	<u>11,182</u>	<u>11,062</u>

Notes to the financial statements (continued)

10 Property and equipment

	Computers	Furniture and other equipment	Leasehold improvements	Total
	HRK '000	HRK '000	HRK '000	HRK '000
Cost				
At 1 January 2016	6,065	2,324	1,118	9,507
Additions	146	-	-	146
Write-offs	(10)	(28)	-	(38)
At 31 December 2016	6,201	2,296	1,118	9,615
At 1 January 2017	6,201	2,296	1,118	9,615
Additions	8	21	154	183
Write-offs	(622)	(24)	-	(646)
At 31 December 2017	5,587	2,293	1,272	9,152
Accumulated depreciation				
At 1 January 2016	(5,639)	(2,229)	(1,085)	(8,953)
Charge for the period	(111)	(39)	(15)	(165)
Write-offs	10	28	-	38
At 31 December 2016	(5,740)	(2,240)	(1,100)	(9,080)
At 1 January 2017	(5,740)	(2,240)	(1,100)	(9,080)
Charge for the period	(118)	(33)	(11)	(162)
Write-offs	622	-	-	622
At 31 December 2017	(5,236)	(2,273)	(1,111)	(8,620)
Net book value at 31 December 2016	461	56	18	535
Net book value at 31 December 2017	351	20	161	532

Write-off in amount 24 thousand HRK refers on computer equipment which was no longer in use in 2017.

Notes to the financial statements (continued)

11 Intangible assets

	Software	Total
	HRK '000	HRK '000
Cost		
At 1 January 2016	19,864	19,864
Additions	496	496
Write-offs	(2,885)	(2,885)
At 31 December 2016	17,475	17,475
At 1 January 2017	17,475	17,475
Additions	293	293
Write-offs	(15,293)	(15,293)
At 31 December 2017	2,475	2,475
Accumulated amortization		
At 1 January 2016	(16,251)	(16,251)
Charge for the period	(1,192)	(1,192)
Write-offs	2,197	2,197
At 31 December 2016	(15,246)	(15,246)
At 1 January 2017	(15,246)	(15,246)
Charge for the period	(1,083)	(1,083)
Write-offs	14,704	14,704
At 31 December 2017	(1,625)	(1,625)
Net book value		
At 31 December 2016	2,229	2,229
At 31 December 2017	850	850

Write-off of HRK 589 thousand relates to software OMX X-stream which was not longer in use by the Company in 2017.

Notes to the financial statements (continued)

12 Investment in subsidiary

	31 December 2017 HRK '000	31 December 2016 HRK '000
Investment in Ljubljanska borza d.d.	<u>19,125</u>	<u>19,125</u>
Total investment in subsidiary	<u>19,125</u>	<u>19,125</u>

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 2016, 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:

	31 December 2017 HRK '000	31 December 2016 HRK '000
Non-current assets	16,628	10,640
Current assets	5,462	9,422
<i>Out of which Cash and cash equivalents</i>	969	3,109
Total assets	<u>22,090</u>	<u>20,062</u>
Non-current liabilities	323	139
Current liabilities	2,284	1,963
<i>Out of which Current financial liabilities</i>	60	61
Total liabilities	<u>2,607</u>	<u>2,102</u>
Total revenues	10,820	10,682
Interest income	45	20
Interest expense	8	5
Income tax	105	(182)
Profit / (loss) for the year	<u>594</u>	<u>674</u>

Notes to the financial statements (continued)

13 Investment in associate and joint venture

	31 December 2017 HRK '000	31 December 2016 HRK '000
Investment in SEE Link d.o.o. (33.33 %)	202	202
Investment in Funderbeam South-East Europe d.o.o. (20 %)	4	4
Total investment in associates and joint venture	206	206

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.

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

	31 December 2017 HRK '000	31 December 2016 HRK '000
Non-current assets	1,490	1,960
Current assets	445	739
<i>Out of which Cash and cash equivalents</i>	406	459
Total assets	1,935	2,699
Non-current liabilities	-	-
Current liabilities	361	2,180
<i>Out of which Current financial liabilities</i>	-	-
Total liabilities	361	2,180
Total revenues	979	749
Net interest (expense)/income	(1)	(1)
Income tax	-	-
Loss for the year	(156)	(62)

Notes to the financial statements (continued)

13 Investment in associate and joint venture

Funderbeam South-East Europe d.o.o. is an associate that was founded in 2016 and started its operations in 2017.

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

	31 December 2017 HRK '000
Non-current assets	-
Current assets	676
<i>Out of which Cash and cash equivalents</i>	627
Total assets	676
Non-current liabilities	-
Current liabilities	1,001
<i>Out of which Current financial liabilities</i>	924
Total liabilities	1,001
Total revenues	554
Net interest (expense)/income	-
Income tax	-
Loss for the year	(344)

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

	31 December 2017 HRK '000	31 December 2016 HRK '000
a) Financial assets available for sale		
Investment in equity instruments	202	197
Investment in bonds	197	197
Impairment allowance for bonds	(197)	(158)
Impairment allowance for shares	(5)	-
	197	236

Movement in impairment allowance for bonds

	2017 HRK '000	2016 HRK '000
Balance at 1 January	(158)	-
Impairment loss	(44)	(158)
Total	(202)	(158)

Investment in bonds relate to bond acquired for uncollected receivables. In 2017 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.

	31 December 2017 HRK '000	31 December 2016 HRK '000
b) Financial assets at fair value through profit or loss		
Shares in open-ended investment funds	18,217	8,084
	18,217	8,084

Shares in open-ended investment funds are classified as fair value level 1 as at 31 December 2017 and 31 December 2016.

Notes to the financial statements (continued)

15 Trade receivables and other assets

	31 December 2017 HRK '000	31 December 2016 HRK '000
Trade receivables	3,371	2,989
Advances placed	44	47
Other assets	23	1,047
Impairment allowance	<u>(1,582)</u>	<u>(1,413)</u>
Total	<u>1,856</u>	<u>2,670</u>

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

	2017 HRK '000	2016 HRK '000
Balance at 1 January	(1,413)	(1,008)
Impairment loss	(379)	(503)
Write off	61	-
Collection of previously impaired receivables	<u>149</u>	<u>98</u>
Total	<u>(1,582)</u>	<u>(1,413)</u>

At the reporting date the Company had overdue receivables which were not impaired of HRK 396 thousand (31 December 2016: HRK 493 thousand). The Management holds these receivables to be fully recoverable.

Overdue receivables not impaired as at 31 December 2017 (HRK '000):

<i>< 90 days</i>	<i>91-120 days</i>	<i>121-180 days</i>	<i>181 - 360 days</i>	<i>>360 days</i>
498	-	-	33	-

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

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

Notes to the financial statements (continued)

16 Short-term deposits

	31 December 2017 HRK '000	31 December 2016 HRK '000
Short-term deposits with maturity over 3 months	-	2,005
Total short-term deposits	-	2,005

17 Cash and cash equivalents

	31 December 2017 HRK '000	31 December 2016 HRK '000
Gyro account in foreign currency (EUR)	740	2,810
Gyro account in domestic currency	137	9,174
Cash in hand	6	7
Total cash and cash equivalents	883	11,991

18 Borrowings to related parties

Borrowings to related parties refer to two loans granted to Funderbeam South-East Europe d.o.o. during 2017 in the amount of HRK 150 thousand and EUR 3 thousand, with a one-time repayment upon maturity in 2020.

19 Issued share capital

Share number movement:

	Number of shares	Nominal value of share capital in HRK	Issued share capital in HRK '000
1 January 2016	46,357	1,000	46,357
Share split	4,635,700	10	46,357
31 December 2016	4,635,700	10	46,357
1 January 2017	4,635,700	10	46,357
Share split	-	-	-
31 December 2017	4,635,700	10	46,357

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

As at 31 December 2017 the Company had 273 shareholders (2016: 303 shareholders) with ownership interests in the Company ranging between 0.01% and 8.47%.

Notes to the financial statements (continued)

20 Loss per share

Calculation of loss per share as at 31 December 2017 was based on the loss of HRK 3,745 thousands and a weighted average number of ordinary shares outstanding of 4,635,700 calculated as follows:

	31 December 2017	31 December 2016
Net loss for the period (HRK'000)	(3,753)	(4,404)
Weighted average number of ordinary shares during the period	<u>4,635,700</u>	<u>4,635,700</u>
Basic and diluted loss per share (in HRK)	<u>(0.81)</u>	<u>(0.95)</u>

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

21 Trade and other payables

	31 December 2017 HRK '000	31 December 2016 HRK '000
Trade payables	535	3,812
VAT liability	30	488
Other short-term payables	<u>751</u>	<u>694</u>
Total trade and other payables	<u>1,316</u>	<u>4,994</u>

22 Deferred income and accrued expenses

	31 December 2017 HRK '000	31 December 2016 HRK '000
Deferred income from quotation maintaining	2,297	2,307
Deferred income from grant agreement	-	1,028
Other deferred income	<u>414</u>	<u>333</u>
Total deferred income and accrued expenses	<u>2,711</u>	<u>3,668</u>

Notes to the financial statements (continued)

23 Operating leases

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

	31 December 2017			31 December 2016		
	HRK '000			HRK '000		
	Office space	Motor vehicles	Total	Office space	Motor vehicles	Total
Less than one year	710	18	728	735	44	779
Between one and five years	234	-	234	943	18	961
More than five years	-	-	-	-	-	-
Total operating leases	944	18	962	1,678	62	1,740

24 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 2017 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 740 thousand (2016: HRK 2,810 thousand) of the funds on the gyro account denominated in euro, trade receivables in amount of HRK 31 thousand and HRK 12 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 2017 HRK '000	31 December 2016 HRK '000
Cash and cash equivalents (excluding cash in hand)	877	11,984
Short-term deposits	-	2,005
Trade receivables and other assets	1,856	2,670
Guarantee deposits	249	249
Financial assets available-for-sale	-	39
	2,982	16,947

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 and 18), the Company did not have significant concentration of credit risk at the reporting date.

Concentration of net trade receivables' credit risk:

	31 December 2017		31 December 2016	
	HRK '000	%	HRK '000	%
Corporate	854	46	1,997	75
Institutional investors and brokers	971	52	32	1
State	31	2	641	24
	1,856	100	2,670	100

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 182 thousand (2016: HRK 81 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 2017, the Company has no obligation to key shareholders that relates to funds on transactions accounts and no obligation for rendered services. During 2017 the Company granted to Funderbeam South-East Europe d.o.o. two loans in the amount of HRK 150 thousand and EUR 3 thousand, with a one-time repayment upon maturity in 2020 (2016: HRK 0). Also during 2017 the Company had HRK 31 thousand expenses towards SEE link d.o.o. (2016: HRK 0).

Remuneration to Management Board throughout the year was HRK 1,658 thousand (2016: HRK 1,551 thousand). The total remuneration of Supervisory Board members amounted to HRK 0 (2016: 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 reporting 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 11,182 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)

Borrowings to related parties

The Company's management believes that the loans granted are fully recoverable and that there are no indicators of impairment at the reporting date.

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 Audit fees

The audit fee for the financial statements of the Company amounted to HRK 90 thousand (2016: HRK 83 thousand). KPMG has provided other consulting services which mainly related to the launch of SME Growth Market Project. The project consulting services were financed by the grant from European Bank for Reconstruction and Development ("EBRD").

27 Events after the Reporting Period

No other events or transactions have occurred since 31 December 2017 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.