



ZAGREBAČKA BURZA
Zagreb Stock Exchange



LJUBLJANSKA BORZA
LJUBLJANA Stock Exchange

ANNUAL REPORT

ON STATUS AND BUSINESS ACTIVITIES OF THE GROUP IN 2019

Zagreb, April 2020

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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1 MANAGEMENT REPORT

1.1 Introduction

In 2019, the Zagreb Stock Exchange Group (hereinafter: the Group) recorded the following significant business events:

- On January 2, 2019, the Zagreb Stock Exchange successfully implemented the Cross Request functionality in the trading system.
- On January 2, 2019, the Zagreb Stock Exchange made a decision on termination the listing of DUBROVAČKO PRIMORJE d.d. because of the transformation of a joint stock company DUBROVAČKO PRIMORJE d.d. into a limited liability company which led to terminating the Issuer and the financial instrument.
- On January 3, 2019, the BC Institute was admitted to the Progress market.
- On January 29, 2019, the Croatian Financial Services Supervisory Agency approved the registration of the Zagreb Stock Exchange's Progress Market as an SME growth market, making Progress among the few SME growth markets in Europe.
- On February 1, 2019, the Company InterCapital started performing the business of market maker on the Ljubljana Stock Exchange for stocks of Krka and Triglav osiguranje. By the end of 2019, InterCapital had become a market maker for the shares of Petrol, Sava osiguranje and Telekom Slovenije.
- On February 12, 2019, the Zagreb Stock Exchange made a decision on termination the listing of HUP-ZAGREB d.d. for failure to comply with the conditions for listing on the regulated market.
- On February 18, 2019, the Zagreb Stock Exchange has started to release a new share index, the index of Prime market CROBEXprime. CROBEXprime presents the so-called free float market capitalization weighted index, in which the weight of each share will be determined in accordance with its free float market capitalization.
- On March 22, 2019, the Zagreb Stock Exchange made a decision on termination the listing of Dalma d.d., Imunološki zavod d.d., Jadran film d.d. and Tankerkomerc d.d. for non-fulfillment of obligations.
- On March 22, 2019, the Ljubljana Stock Exchange hosted a webcast called "Slovenian Listed Companies Online"
- In the period from 25 to 27 March 2019, the Ljubljana Stock Exchange had Open doors days.

- On April 26, 2019, the Zagreb Stock Exchange and Valamar Riviera signed a contract for the transfer of Valamar Riviera from the Official to the PRIME Market.
- On May 16, 2019, the Company Lux investment was admitted to trading on the Progress market.
- At the end of May, the 6th Zagreb and Ljubljana Stock Exchange Investor Days were held, attended by fifteen issuers from the Zagreb and Ljubljana Stock Exchange, who held 255 meetings with investors from nine countries in two days.
- On June 7, 2019, the 10th annual education of the Zagreb Stock Exchange, the Croatian Financial Services Supervisory Agency and the Central Depository & Clearing Company was held. The education was intended for companies whose financial instruments are listed on the regulated market of the Zagreb Stock Exchange.
- On June 13, 2019, the Ljubljana Stock Exchange General Assembly was held, whereby the Annual Financial Statements of the Ljubljana Stock Exchange for 2018 were presented, decisions made on the payment of dividends, on the release of the members of the Management Board and the Supervisory Board for 2018 and on the appointing of the auditor for 2019.
- On June 19, 2019, the first joint Zagreb and Ljubljana stock exchange Prime market index – ADRIAprime, was published.
- On June 27, 2019, the Zagreb Stock Exchange General Assembly was held, whereby the Annual Financial Statements and Consolidated Financial Statements of the Exchange for 2018 were presented, decisions made on the use of the profit realized in 2018, on the release of the members of the Management Board and the Supervisory Board for 2018 and on the appointing a stock exchange auditor for 2019.
- On July 1, 2019, the Zagreb Stock Exchange made a decision on termination the listing of Hoteli Makarska d.d. because the merger of HOTELI MAKARSKA d.d. to IMPERIAL RIVIERA d.d. led to terminating the Issuer and the financial instrument.
- On July 25, 2019, the Zagreb Stock Exchange made a decision on termination the listing of Metalska industrija Varaždin d.d. for the purpose of carrying out the corporate action of transferring shares of minority shareholders of Metalska industrija Varaždin d.d. to the major shareholder HAWLE d.o.o. by which the financial instrument ceases to be eligible for listing on the Regular Market.
- On July 25, 2019, the Zagreb Stock Exchange made a decision on termination the listing of Questus nekretnine d.d. in liquidation because of termination of the Issuer and the financial instrument.

- In July 2019, HANFA acknowledged the Zagreb Stock Exchange as a provider of appropriate education and exams for the relevant functions defined by the Ordinance on Qualifications and Personnel Requirements for the Investment Services as providing information to clients about financial instruments and investment services. This qualification has been included in the list of recognized qualifications on the HANFA site as a "ZSE L1 certificate". The request concerned the recognition of a qualification for the first level competencies - 'Information', which, in accordance with the provisions of the Qualifications Regulations, includes competences for providing services (providing information to users regarding investment services and activities and ancillary services of the company) and informing about instruments (providing information to users related to financial instruments or structured deposits).
- On August 27, 2019, the Zagreb Stock Exchange made a decision for the transfer of Uljanik d.d. from Official to Regular Market of the Exchange for failure to fulfil the conditions and / or obligations after listing on the Official Market on 2 (two) consecutive periodic reviews.
- On August 30, 2019, the Zagreb Stock Exchange made a decision on termination the listing of Pounje d.d. for failure to fulfil obligations prescribed by the Rules of the Exchange after 2 (two) consecutive periodic reviews have been carried out, as well as multiple and repeated violations of the Rules and other acts of the Exchange.
- On September 3, 2019, the Ljubljana Stock Exchange hosted a second webcast called "Slovenian Listed Companies Online" in partnership with NLB and Wood & Co.
- On September 4, 2019, the Warsaw Stock Exchange, in cooperation with the stock exchanges from the Czech Republic, Slovakia, Hungary, Romania, Croatia and Slovenia, launched the calculation of the new CEEplus stock index, which includes four shares from the Ljubljana Stock Exchange and two shares from the Zagreb Stock Exchange.
- In September 2019, the Ljubljana Stock Exchange started an education for the second generation of participants in the Partner Program.
- On October 3, 2019, the Zagreb Stock Exchange held the first Investment Webcast for Prime Market.
- On October 9, 2019, the Zagreb Stock Exchange made a decision on termination the listing of ULJANIK d.d. upon the bankruptcy administrator's request for delisting from the regulated market and the final decision on opening the bankruptcy proceedings against the issuer.
- On October 15, 2019, at the conference "Quality of Corporate Governance", the new Code of Corporate Governance of the Croatian Financial Services Supervisory Agency and the Zagreb Stock Exchange was officially adopted.
- At the end of October 2018, the eighth joint conference of the Zagreb Stock Exchange and investment fund industry entitled "Challenge of Change" was held in Rovinj. The Conference

represents a central event of the entire Croatian financial community, as well as that of the region.

- On November 25, 2019, the Croatian Financial Services Supervisory Agency approved the new Exchange Rules, which entered into force on December 9, 2019. The new Rules regulate stock market operations after the transition to the new version of the Xetra T7 trading platform and regulate in detail the post-listing eligibility check for all issuers, with the aim of increasing transparency on the Zagreb Stock Exchange.
- On November 25, 2019, the Zagreb Stock Exchange made a decision on termination the listing of RIZ-ODAŠILJAČI d.d. upon the bankruptcy administrator's request for delisting from the regulated market and the final decision on opening the bankruptcy proceedings against the issuer.
- On December 9, 2019, a new version of the Xetra T7 trading platform was implemented on the Zagreb and Ljubljana Stock Exchange.
- On December 10, 2019, the first winter investment day of the Zagreb and Ljubljana Stock Exchange was held in Ljubljana.
- On December 10, 2019, the Ljubljana Stock Exchange celebrated 30 years of business with a gala conference.
- On December 12, 2019, the Zagreb Stock Exchange Awards were officially presented.
- On December 12, 2019, the Croatian Financial Services Supervisory Agency issued a decision on the registration of the Zagreb Stock Exchange as an administrator of insignificant benchmarks based on regulated data in accordance with Regulation (EU) 2016/1011 of the European Parliament and of the Council on indices used as benchmarks in financial instruments and financial contracts or for measuring the performance of investment funds and amending Directives 2008/48 / EC and 2014/17 / EU and Regulation (EU) No 1095/2010. 596/2014.
- On December 18, 2019, the Zagreb Stock Exchange acquired 5.3% of the Macedonian Stock Exchange's ownership.
- On December 19, 2019, the Zagreb Stock Exchange made a decision on termination the listing of OLYMPIA VODICE d.d. based on the decision of the General Assembly to withdraw the shares of the issuer from listing on the regulated market.
- On December 23, 2019, the Zagreb Stock Exchange made a decision on termination the listing of EXCELSA NEKRETNINE d.d. based on the decision of the General Assembly to withdraw the shares of the issuer from listing on the regulated market.
- In 2018, Corporate Communications took over the organization of education and exams in relation to the Ordinance on Qualifications and Personnel Requirements for the Investment

Services, following HANFA's approval. By the end of 2019, education and/or exams were conducted for almost 400 employees of two banks in 4 regional centres.

- In 2019, the Price List of the Exchange has been amended twice. The First Amendments to the Price List came into force on January 23, 2019. As part of these amendments, the amount of membership fee was reduced and a number of new fees were introduced, namely fees for changing the designation of a financial instrument, for termination of listing on the regulated market, for data vendors who redistribute data on transactions reported through ZSE APA service, fees for issuing certificates on the status of a member and/or the market maker, and prescribes general principles or types of discounts that the Exchange may grant to its users. On August 15, 2019, the Second Amendments to the Price List entered into force. These Amendments have changed the methodology for determining the listing price of shares and bonds on the regulated market and the listing maintenance fee in such a way that the respective fee is calculated on the basis of market capitalization, which is a standard accepted among comparable European stock exchanges. The alignment of the business and legal regulation of the Exchange with the standards of other exchanges in the European Union is, among other things, one of the reasons for the changes in the Price List.
- In 2019, four new Bonds (Republic of Croatia - Ministry of Finance, February 5, two on November 27, and Jadran – Galenski laboratorij d.d., December 18) and two new Shares (Meritus ulaganja d.d., August 6, and Professio Energia d.d., October 4) were listed.
- During 2019, four campaigns were carried out on the Funderbeam SEE platform, for the TDA-Top Digital Agency Company, where the amount of EUR 416,000 was collected, for the OmoLab Company, which raised the amount of EUR 240,000, for Include, where the amount of nearly EUR 1.5 million was raised, and for Fresh Island, which had raised over EUR 700,000.

1.2 Group's Key Performance Indicators in 2019

Operating revenues in 2019 amounted to HRK 24,986 thousand, up +4.6% compared to the 2018. The increase in operating revenues is largely the result of an increase in other operating income (income from the supply of information, income from seminars and other income).

In 2019, operating profit before interest, taxes, depreciation and amortization is positive and amounted to HRK 1,458 thousand, which is a slight decrease of HRK -35 thousand or -2.3% compared to 2018.

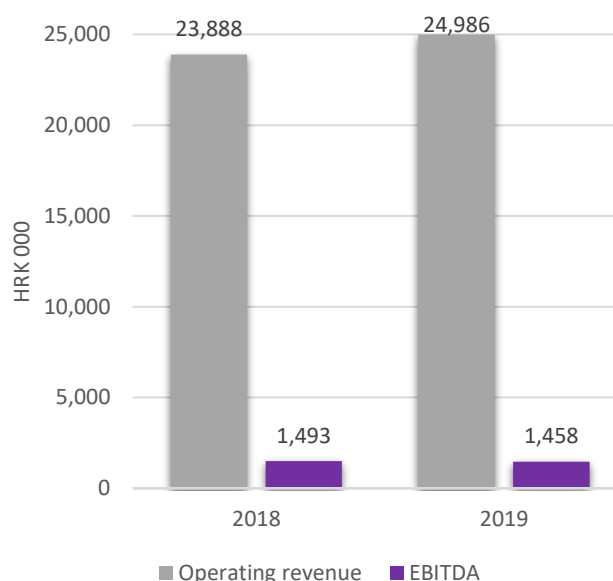


Figure 1: Operating revenue and EBITDA

HRK 000	2018	2019	change
Operating revenue	23,888	24,986	4.60%
<i>Sales revenue</i>	15,421	15,079	-2.22%
<i>Other operating income</i>	8,467	9,907	17.01%
Operating expenses	-22,395	-23,528	5.06%
<i>Staff costs</i>	-10,853	-11,160	2.83%
<i>Software costs and licences</i>	-3,564	-3,635	1.99%
<i>Professional services</i>	-1,497	-1,696	13.29%
<i>Rental expenses</i>	-1,380	-351	-74.57%
<i>Fees and charges</i>	-787	-1,343	70.65%
<i>Utility expenses</i>	-506	-512	1.19%
<i>Other costs</i>	-3,808	-4,831	26.86%
EBITDA	1,493	1,458	-2.34%
Depreciation and amortization	-1,134	-1,873	65.17%
EBIT	359	-415	
Net finance income	54	1,373	2442.59%
Share of loss of equity - accounted investees	-124	75	
EBT	289	1,033	257.44%
Income tax credit	-99	-94	0.00%
Profit for the year	190	939	394.21%
Foreign operations – foreign currency translation differences	-241	59	
Total comprehensive profit / loss for the year	-51	998	

Table 1: Main business indicators

1.3 Financial results and business operations of the Group in 2019

In 2019, the Group realized a total of HRK 24,986 thousand of operating revenues, which is HRK +1,098 thousand or +4.6% more than in 2018 when they amounted to HRK 23,888 thousand.

Compared to 2018, sales revenues decreased from HRK 15,421 to HRK 15,079 thousand, HRK -342 thousand or -2.2%. Despite the increased volume of securities trading on the Zagreb Stock Exchange from September to the end of 2019, the Group's most important source of revenue, commissions and membership fees fell from HRK 7,573 to HRK 7,454 thousand, HRK -119 thousand or -1.6%. The increase in total operating income was most influenced by the increase in other operating income by a significant HRK +1,440 thousand or +17%, from HRK 8,467 to HRK 9,907 thousand. The increase in other operating income resulted from the increase in income from the supply of information from HRK 5,609 to HRK 6,002 thousand (HRK +393 thousand or +7%), income from seminars from HRK 1,461 to HRK 1,687 thousand (HRK +226 thousand or +15.5%), and other income from HRK 1,201 to HRK 2,215 thousand (HRK +1,014 thousand or +84.4%). Other income also includes revenue that was not generated in 2018, which most influenced the increase in other revenue. These are revenues from collected receivables in the amount of HRK 533 thousand and revenues from the sale of part of the building in the amount of HRK 364 thousand. In addition, revenues from OTC services increased significantly (from HRK 392 to HRK 490 thousand, HRK +98 thousand or +25%), and invoiced costs (from HRK 3 to HRK 62 thousand, or HRK +59 thousand).

Income from quotation maintaining fell from HRK 6,819 to HRK 6,645 thousand (HRK -174 thousand or -2.6%) and income from quotation fee decreased from HRK 1,029 to HRK 980 thousand (HRK -82 thousand or -15.7%) as a result of delisting securities from the regulated market (in 2019, 18 stocks and 7 bonds were delisted on both exchanges). The shortfall in income from quotation maintaining and income from quotation fee was partially offset by price increases.

The Group's total operating expenses in 2019 amounted to HRK 25,401 thousand, which represents an increase of HRK +1,872 thousand or +7.9% compared to 2018 when operating expenses amounted to HRK 23,529 thousand. Other expenses, which include post and telephone services, entertainment, seminar and marketing expenses, business trips, write-offs of intangible assets, impairment losses on financial assets, value adjustments and other expenses, have the largest impact on aforementioned increase and they increased from HRK 3,808 to HRK 4,831 thousand (HRK +1,023 thousand or +28.9%). In addition to other expenses, a significant increase in depreciation from HRK 1,134 to HRK 1,873 thousand (+65.2%) and a decrease in the cost of office space rent from HRK 1,380 to HRK 351 thousand (-74.6%) are related to the application of IFRS 16. In accordance with IFRS 16, office space and cars rent are now shown through an overview of the total rental value recognized in the balance sheet and is presented as an amortization and financial expense in the Income statement. Applying this standard has a negligible impact on the overall result; the only difference is the change in the positions where the cost is shown. The increase in depreciation was also influenced by the implementation of cross request functionality at the beginning of 2019. The increase in other operating expenses was also

influenced by a significant increase in fees and charges, which increased from HRK 787 to HRK 1,343 thousand (HRK +556 thousand or +70.6%).

The Group's operating loss in 2019 is HRK -415 thousand, while in the previous year the operating profit was HRK 359 thousand. In 2019, financial revenues amounted to HRK 1,453 thousand, which is a significant HRK +1,387 thousand more than the financial revenues generated the year before when they amounted to only HRK 66 thousand. Financial expenses in 2019 amount to HRK 80 thousand, which is an increase of HRK +68 thousand compared to 2018. Accordingly, the Group's net financial result in 2019 is HRK 1,373 thousand, an increase of HRK +1,319 thousand compared to 2018. The share in the loss on investments calculated by the share method amounted to HRK 75 thousand and the income tax to HRK 94 thousand.

Considering all the above, the net profit of the period amounts to HRK 939 thousand, which is an increase of HRK +749 thousand or +394.2% compared to the previous year when net profit amounted to HRK 190 thousand. In 2019, operating profit before interest, taxes, depreciation and amortization is positive and amounts to HRK 1,458 thousand, which represents a decrease of HRK -35 thousand compared to 2018.

During 2019, the Group invested its available cash funds in investment bond funds in order to preserve the value of its assets. At the end of 2019, the Group's free assets amounted to HRK 28,665 thousand (units in investment funds and cash in bank).

1.4 Business analysis

1.4.1 Total operating revenues

In 2019, total operating revenues amounted to HRK 24,986 thousand and increased by HRK +1,098 thousand or +4.6% compared to 2018 when they amounted to HRK 23,888 thousand. Other operating income increased the most (HRK +1,440 thousand or +84.4%).

As in the previous year, in 2019, the largest share of operating income was generated by commissions (28%) and income from quotation maintaining (27%).

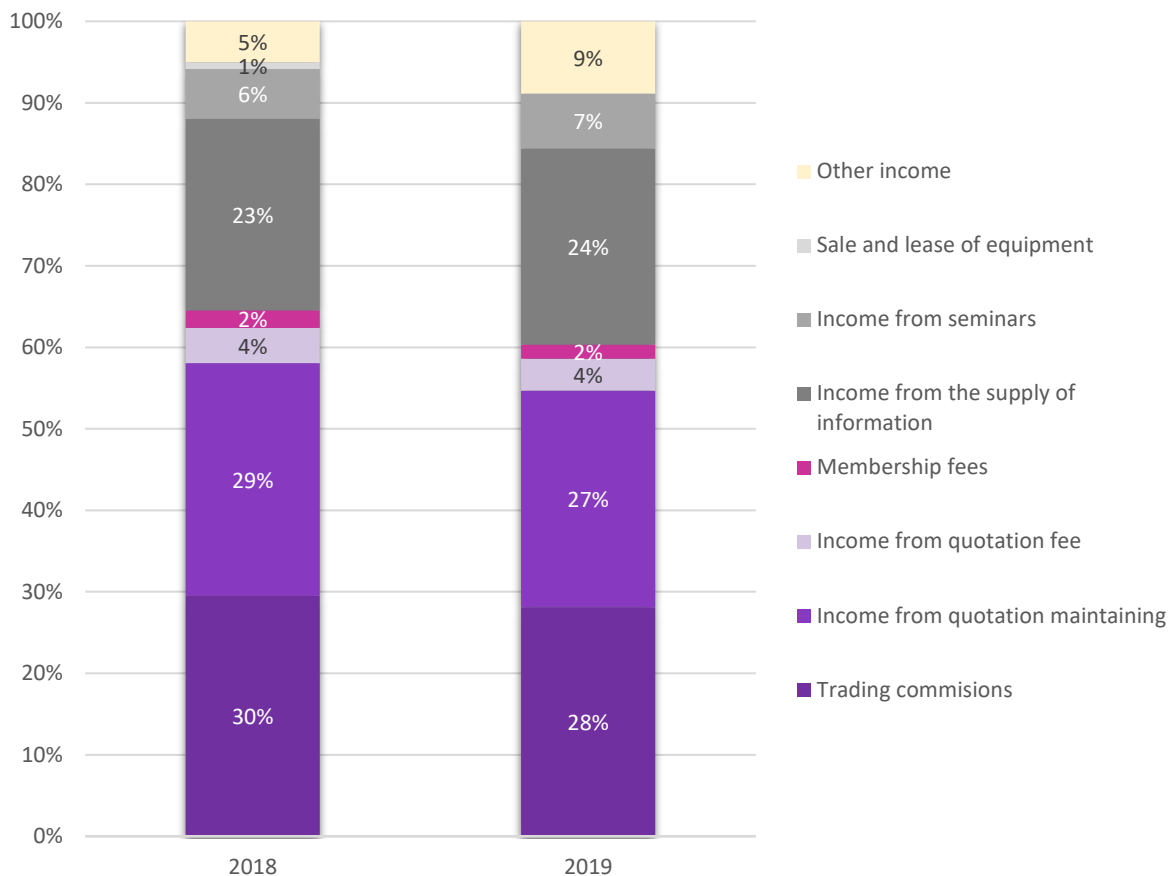


Figure 2: Total operating revenues structure

Trading commissions and membership fees

Despite the increased volume of securities trading on the Zagreb Stock Exchange from September until the end of 2019, commissions and membership fees in 2019 did not exceed the 2018 amount. Income from commissions and membership fees in 2019 decreased by HRK -119 thousand or -1.6% (down from HRK 7,573 to HRK 7,454 thousand). At the end of 2019, the Zagreb Stock Exchange had a total of 14 members and the Ljubljana Stock Exchange had 11 members.

Income from quotation maintaining

Income from quotation maintaining decreased from HRK 6,819 to HRK 6,645 thousand (HRK -174 thousand HRK or -2.6%), which is a consequence of delisting securities from the regulated market. At the end of 2019, there were 119 shares listed on the Zagreb Stock Exchange, -13 or -9.85% less, while on the Ljubljana Stock Exchange 29 shares were listed, -2 or -6.4% less than in the previous year. The loss in revenue on this basis was partially amortized by an increase in listing prices in August 2019.

Income from quotation fee

In 2019, income from quotation fee fell from HRK 1,029 to HRK 980 thousand (HRK -49 thousand or -4.8%). The loss in revenue on this basis was also partially amortized by an increase in listing prices in August 2019.

Other operating income

Other operating income increased by a significant HRK +1,440 thousand or +17% compared to 2018 (from HRK 8,467 to HRK 9,907 thousand). The largest share in other operating income was generated by income from the supply of information (61%), which increased by HRK +393 thousand or +7% (from HRK 5,609 to HRK 6,002 thousand). Included in this is revenue from the right to distribute real-time data paid by members. In addition, other income increased from HRK 1.201 to HRK 2.215 thousand (HRK +1.014 thousand or +84.4%), and income from seminars which in 2019 amounted to HRK 1.687 thousand, an increase of HRK +226 thousand or +15,5% versus 2018 when they were HRK 1,461 thousand. Other revenues include revenues that were not generated in 2018, which most affect their increase. These include revenue from collected receivables (HRK 533 thousand) and income from the sale of part of the building (HRK 364 thousand). OTC service revenue increased significantly from HRK 392 to HRK 490 thousand (HRK +98 thousand or +25%) and invoiced costs from HRK 3 to HRK 62 thousand (HRK +59 thousand). However, a major decrease in other revenues was recorded in revenue from LEI services which fell from HRK 457 to HRK 396 thousand (HRK -61 thousand or -13.4%) and license sales which fell from HRK 59 to 17 thousand (HRK -42 thousand or -71.4%).

1.4.2 Total operating expenses

In 2019, total operating expenses amounted to HRK 25,401 thousand, an increase of HRK +1,872 thousand or +7.9% (in 2018 they were HRK 23,529 thousand).

As mentioned before, a significant increase in depreciation from HRK 1,134 to HRK 1,873 thousand (+65.2%) is related to the application of IFRS 16 and the implementation of cross request functionality in early 2019. Other operating expenses increased by HRK +826 thousand or +7.2%, from HRK 11,542 to HRK 12,368 thousand, while staff costs increased from HRK 10,853 to HRK 11,160 thousand (HRK +307 thousand or +2.8%).

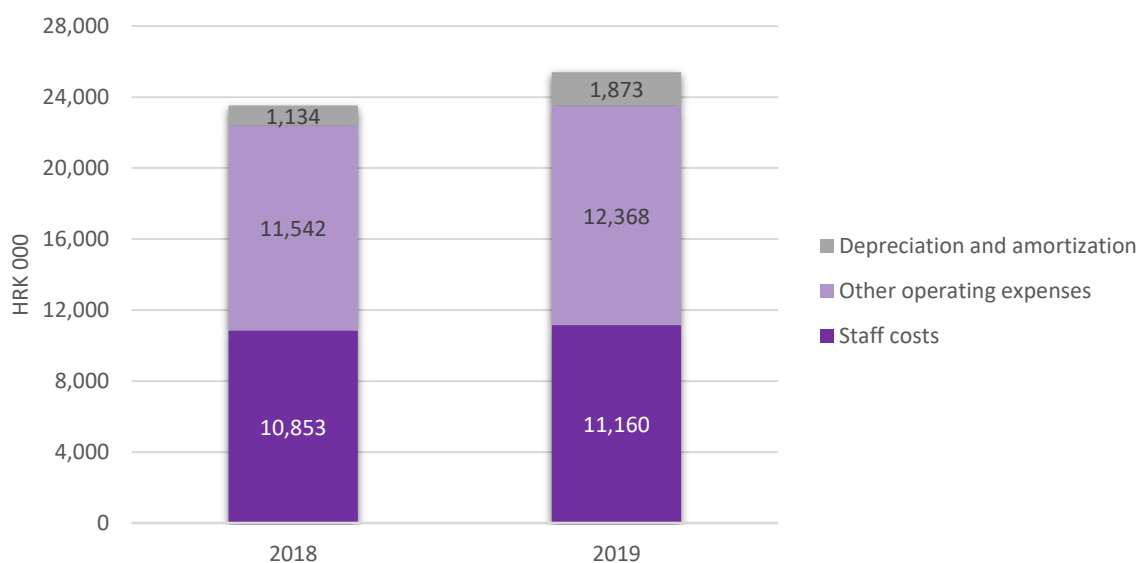


Figure 3: Total operating costs

The increase in other operating expenses (+7.2%) in 2019 compared to the previous year was largely influenced by the increase in other expenses by HRK +1,023 thousand or +26.9% (from HRK 3,808 to HRK 4,831 thousand), and they include post and telephone services (HRK +16 thousand), entertainment (HRK -14 thousand), seminar and marketing expenses (HRK +151 thousand), business trips (HRK -9 thousand), write-offs of intangible assets (HRK +6 thousand), impairment losses on financial assets (HRK +468 thousand), value adjustments (HRK +127 thousand) and other expenses (HRK +278 thousand). The high impairment losses on financial assets are the result of the adjustment of the value of the shares acquired by the Company in the course of the pre-bankruptcy settlement during 2019 and are stated in the position of unrealized losses on financial assets. As the investments in share capital were in the nominal value, it appeared that all receivables were fully paid and therefore the revenue from the receivables was recognized on that basis. However, since there are indications that the value of the shares is not equal to the nominal value, an adjustment was made to the value of those financial assets. The rest of the financial expenses relate to interest on operating leases. This is a consequence of the application of IFRS 16 under which long-term operating leases are treated as long-term liabilities and the lease payment is divided into principal and interest. In previous years, the entire amount of leasing paid was charged to the rental cost. In addition to these costs, a significant increase was also recorded in fees and charges which increased from HRK 787 to HRK 1,343 thousand (HRK +556 thousand or +70.6%), professional services which increased from HRK 1,497 to HRK 1,696 thousand (HRK +199 thousand or +13.3%) and the cost of software and licences that increased from HRK 3,564 to HRK 3,635 thousand (HRK +71 thousand or +2%).

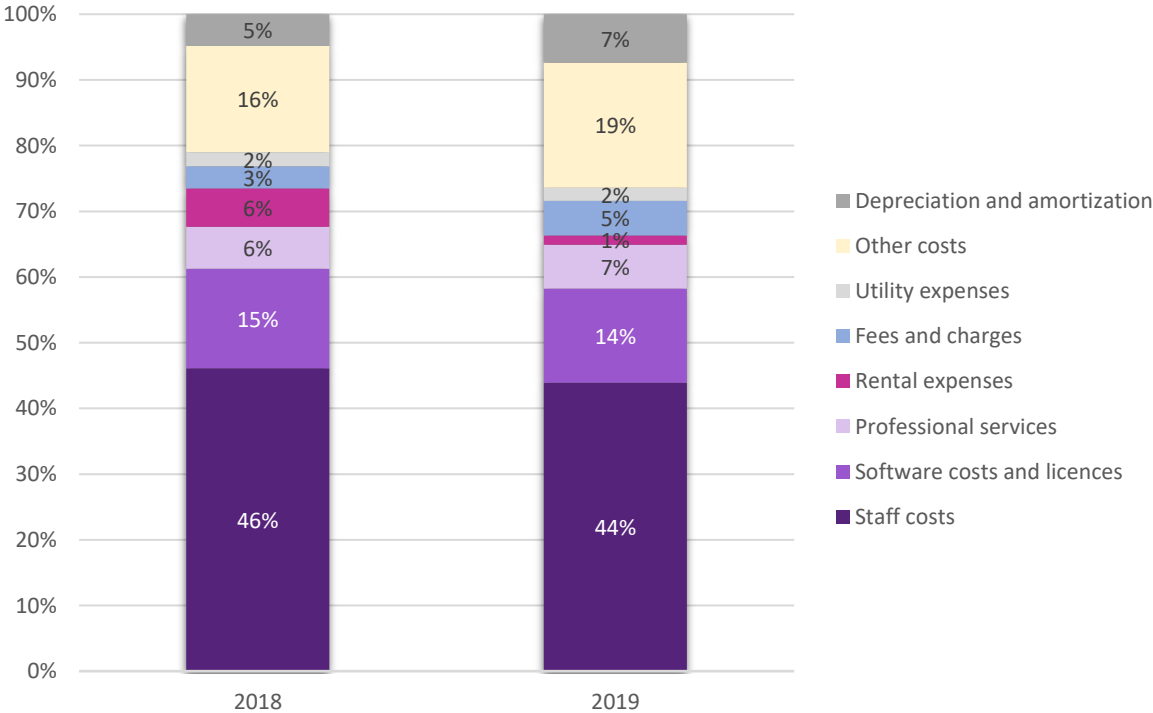


Figure 4: Operating costs structure

1.4.3 Net profit for the period

In 2019, the net profit for the period amounted to HRK 939 thousand; an increase of HRK +749 thousand or +394.2% compared to the previous year when net profit was HRK 190 thousand. Adding to that the foreign currency translation differences in the amount of HRK 96 thousand, the total profit in 2019 amounts to HRK 1,035 thousand. Although at the consolidated level, traditionally the most important revenues, accounting for about 60% of total revenues, have underperformed (sales revenues fell by HRK -342 thousand), the Group has significantly increased other operating revenues. It is necessary to point out the increase in revenues from seminars (HRK +226 thousand), income from the supply of information (HRK +393 thousand), and other income (HRK +1,014 thousand). Certainly, the increase in the net financial result by HRK +1,319 thousand is ultimately extremely responsible for the large increase in annual net profit.

Operating profit before interest, taxes, depreciation and amortization is positive and in 2019 amounts to HRK 1,458 thousand, which is a slight decrease of HRK -35 thousand compared to 2018.

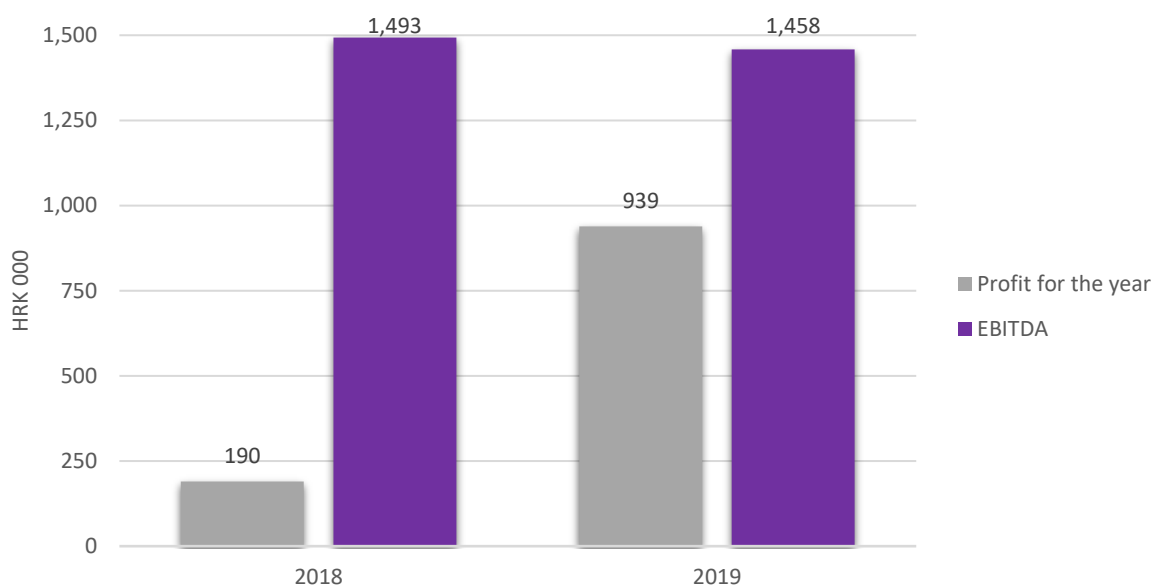


Figure 5: Net profit for the period and EBITDA

1.4.4 The Group's Assets

As of December 31, 2019, the Group's total assets amounted to HRK 48,707 thousand, which is +5.8% more than in 2018.

HRK 000	2018	2019	change
Non-current assets	17,258	14,982	-13.2%
Current assets	28,764	33,725	17.2%
<i>Inventories</i>	7	7	0.0%
<i>Trade receivables</i>	4,007	4,414	10.2%
<i>Prepaid expenses</i>	530	635	19.8%
<i>Financial assets</i>	17,693	19,583	10.7%
<i>Short-term deposits</i>	4,083	1,492	-63.5%
<i>Cash and cash equivalents</i>	2,444	7,594	210.7%
Total assets	46.022	48.707	5,8%
Equity	39.505	40.540	2,6%
Long term obligations	254	756	197,6%
Current liabilities	6.263	7.411	18,3%
Total equity and liabilities	46.022	48.707	5,8%

Table 2: Balance Sheet on 31 December

The asset structure has changed in favor of current assets whose share has increased by +6% compared to 2018. On the liabilities side, there was a slight increase in the proportion of long-term and short-term liabilities versus equity and reserves.

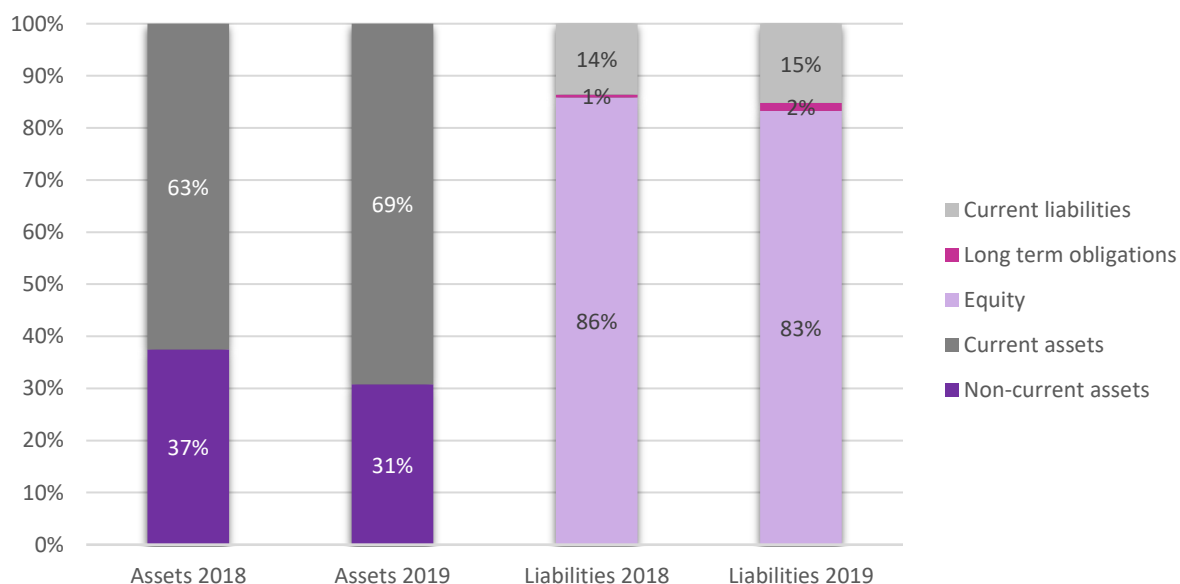


Figure 6: Assets and Liabilities Structure

1.5 Significant events after the end of the financial year

There were no significant events after the end of the financial that would affect the result for 2019.

The emergence and spread of Covid-19 virus in the Republic of Croatia and the Republic of Slovenia and the measures taken to stop the spread and suppression of the virus will certainly have negative effects on the entire Croatian economy. To mitigate these effects, governments of both countries have introduced a series of measures to support the economy.

However, given the recent developments, the uncertainty over how long prevention measures will be in place, and the fact that measures are being developed to support the economy, it is not currently possible to reliably assess their effects.

In view of the development of the situation with the presence of the Covid-19 virus, the Management Boards of both Zagreb and Ljubljana Stock Exchange have decided that both companies will operate out of the office as of March 16, 2020. The offices of the companies are closed until further notice, and business is regularly carried out at secondary locations. The goal of management is to ensure continuous trading of securities throughout the trading day.

With its infrastructure and working procedures, the Group is fully trained and ready to ensure business continuity so that trading can proceed smoothly. Infrastructure and work processes are adapted to work in crisis situations, employees are on standby, and tests related to work in such circumstances have been successfully carried out, ensuring that trading and business are carried out without difficulty even in emergency situations. The Group will continue to closely monitor the development of the situation to ensure the orderly functioning of the market, financial stability and protection of investors.

1.6 Expected development of the Group

In 2020, the Group will continue to focus on restoring confidence and raising Corporate Governance standards and reporting on a regulated market. The Group will also focus on greater promotion of existing issuers, with a focus on Prime Market.

The Group will press on with previously initiated projects, placing the greatest emphasis on the project of regional SME capital market development (Progress), and further activities related to financing and investing in start-ups (Funderbeam SEE).

In 2020, the Group plans to launch new websites, common to the Zagreb and Ljubljana Stock Exchange, for the first time since 2007.

1.7 Research & Development activities

The Group is continuously working on developing and improving its own services and expanding its service provision to the Slovenian market as well.

At the beginning of 2019, after 10 years, the service of the market maker reinstated to the Ljubljana Stock Exchange with a Croatian member.

During the second half of 2019, the Zagreb Stock Exchange began migrating the Ljubljana Stock Exchange's downstream system to the internally developed data warehouse system of the Zagreb Stock Exchange.

1.8 Information on repurchase of own shares

As of December 31, 2019, the companies in the Group held no own shares.

The companies in the Group did not acquire own shares between 1 January 2019 and 31 December 2019.

1.9 Zagreb Stock Exchange Group

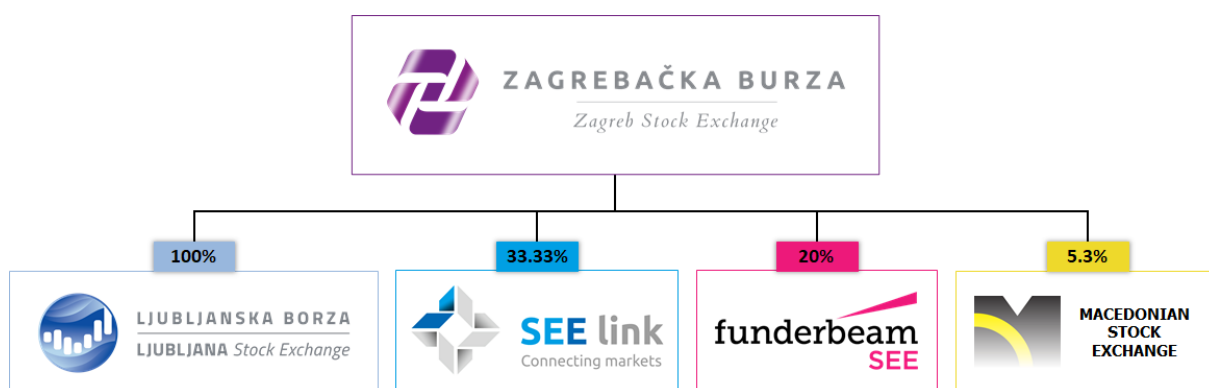


Figure 7: Subsidiaries of the Company

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 2019 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 as of 31 December 2020.

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%.

Ivan Steriev, CEO of the Macedonian Stock Exchange is the President of the Supervisory Board of SEE LINK. Ivana Gažić, CEO of the Zagreb Stock Exchange, and Manyu Moravenov, CEO of the Bulgarian Stock Exchange are the members of the Supervisory Board of SEE LINK.

Funderbeam South-East Europe d.o.o. is a company that the Zagreb Stock Exchange founded in 2016 together with company Funderbeam Ventures OÜ. The issued share capital of the company on 31 December 2019 is 244,000 HRK, and the Exchange participates with 20%.

On December 18, 2019, the Zagreb Stock Exchange acquired 148 shares, or 5.3% of the Macedonian Stock Exchange's share capital.

1.10 Financial instruments

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

1.11 Business operation risks

The Group's Business operation risks are detailed in the notes to the financial statements (Note 22).

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:

- Risk management policy,
- Information system risk management,
- Self-assessment procedure for compliance with Art. 48. MIFID II,
- The procedure for admission to membership and termination of membership, which contains the annual evaluation of the members of the Exchange,
- Service agreements management procedure.

The internal auditor, Antares revizija d.o.o., compiles the following documents:

- Strategic internal audit plan,
- Annual internal audit plan.

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 (Compliance Department within the Sector of Legal and General Affairs) 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 and 120/16, hereinafter: AA), the Management Board of company ZAGREB STOCK EXCHANGE Inc., Zagreb, Ivana Lučića 2a (hereinafter: the Company), on 21 April 2020, 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 2019 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 2019

	Shareholder	No. of shares	Ownership share
1	EUNEX-C d.o.o. ¹	463,106	9.9900%
2	FINA	463,106	9.9900%
3	PBZ CO OMF	462,800	9.9834%
4	ICAM OUTFOX MACRO INCOME FUND	399,500	8.6179%
5	BAKTUN, LLC	364,957	7.8727%
6	EBRD	240,000	5.1772%
7	SZAIF d.d.	228,000	4.9184%
8	OTP BANKA d.d.	211,800	4.5689%
9	HPB d.d.	184,600	3.9821%
10	ERSTE & STEIRMARKISCHE BANK d.d.	152,800	3.2962%
	Others	1,465,031	31.6032%
	Total	4,635,700	100.0000%

Pursuant to the Articles of Association of the Company, shareholder's voting rights are 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 2019 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:

- Borislav Centner, President
- Tomislav Jakšić, Deputy President
- Dunja Babić
- Matko Maravić
- Enrique Bernardo Mariano
- Mislav Ante Omazić
- Ivan Sardelić
- Ivan Tadin

¹ From 21 January 2020 entered into the Court Register under the name RR ONE CAPITAL d.o.o.

6. There are several boards / committees of the Supervisory Board in the Company which provides expert support to the Supervisory Board and the Management board. The members of these boards / committees are appointed and recalled by the Supervisory Board.

The Supervisory Board has established Audit Committee composed of three members, namely:

- Matko Maravić,
- Enrique Bernardo Mariano,
- Ivan Tadin.

The Supervisory Board has established Remuneration Committee composed of three members, namely:

- Dubravko Štimac²,
- Borislav Centner,
- Enrique Bernardo Mariano.

The Supervisory Board has established Strategy Committee composed of five members, namely:

- Matko Maravić,
- Borislav Centner,
- Enrique Bernardo Mariano,
- Ivana Gažić,
- Tomislav Gračan.


The Supervisory Board has established Commission for assessment of compliance with criteria for management board members composed of three members, namely:

- Ivan Tadin,
- Tomislav Jakšić,
- Mislav Ante Omazić.

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 2019.


Ivana Gažić
President of the Management Board


ZAGREBAČKA BURZA d.d.
Zagreb


Tomislav Gračan
Member of the Management Board

² On June 18, 2019, Dubravko Štimac resigned as Chairman of the Supervisory Board of the Zagreb Stock Exchange d.d. thereby terminating his membership of the Remuneration Committee.

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 (Official Gazette 78/15, 134/15, 120/16), and the rest of other information (together "other information").

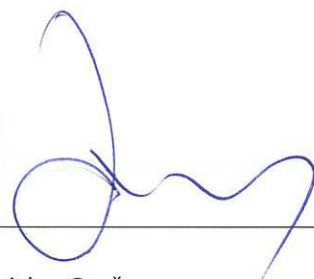
The Management Board is responsible for the submission of the Annual report to the Supervisory Board which includes the financial statements and other information for acceptance, following which the Supervisory Board is required to consider, and if appropriate approve the annual financial statements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

The financial statements set on pages 29 to 70 and other information, set out on pages 1 to 22, are approved by the Management Board on 27 April 2020 and are signed and verified for the Supervisory Board.

Signed on behalf of the Zagreb Stock Exchange, Inc.:



Ivana Gažić
President of the
Management Board



Tomislav Gračan
Member of the
Management Board

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Zagrebačka burza d.d. group

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Zagrebačka burza d.d. („Company“) and its subsidiary („Group“) which comprise the consolidated statement of financial position as at 31 December 2019, consolidated statement of comprehensive income, consolidated statement of changes in equity and reserves and consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies (hereinafter „financial statements“).

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2019, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs).

Basis for Opinion

We conducted our audit in accordance with the Audit Act and International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and we have fulfilled our ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

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

This version of the auditor's report is a translation from the original, which was prepared in the 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 of the auditor's report takes precedence over translation.

The company was registered at Zagreb Commercial Court: MBS 030022053; paid-in initial capital: Kn 44,900.00; Directors: Marina Tonžetić and Dražen Nimčević; Bank: Zagrebačka banka d.d., Trg bana Josipa Jelačića 10, 10 000 Zagreb, bank account no. 2360000-1101896313; SWIFT Code: ZABHR2X IBAN: HR2723600001101896313; Privredna banka Zagreb d.d., Radnička cesta 50, 10 000 Zagreb, bank account no. 2340009-1110098294; SWIFT Code: PBZGHR2X IBAN: HR3823400091110098294; Raiffeisenbank Austria d.d., Petrinjska 59, 10 000 Zagreb, bank account no. 2484008-1100240905; SWIFT Code: RZBHR2X IBAN: HR1024840081100240905.

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INDEPENDENT AUDITOR'S REPORT (continued)

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

Key Audit Matters (continued)

Key Audit Matter

Revenue recognition

According to the disclosures made in Note 4, the total revenue of the Group for the financial year amount to HRK 15,079 thousand (2018: HRK 15,421 thousand). Accounting policies for revenue recognition are disclosed in Note 3 I).

Revenue is important for assessing the Group's performance. The Group generates revenue from trading commissions, fees for maintenance of quotations, quotations fees and membership fees. Revenue is recognized in accordance with IFRS 15 "Revenue from Contracts with Customers", according to performance obligations at point in time and performance obligations over time.

Process of revenue recognition is highly automated and is it mainly based on the application of published fees to trading volume or number of quoted securities.

Given the high degree of reliance on information systems, implemented automatic controls in revenue recognition and possible impact of inaccurate revenue calculation, we have concluded that revenue recognition is a key audit matter.

Description of audit procedures performed and their results

We assessed whether Management applied the requirements of IFRS 15 by performing the following audit procedures:

- We reviewed and verified whether the accounting policies for revenue recognition have been applied in accordance with IFRS 15 „Revenue from Contracts with Customers“. We evaluated the disclosures in the Annual Report and compliance with IFRS 15;
- We gained an understanding of the process, control environment and internal controls established by the Management in the revenue recognition business process;
- We assessed the structure and effectiveness of the automatic and manual internal controls established by the Management in the revenue recognition business process, including assessments of design and implementation of identified internal controls relevant to the revenue recognition process. Based on the results of internal control tests, we determined the scope and types of tests to verify accuracy and period of revenue recognition;
- We have conducted audit procedures of testing, ie testing the details of data used in revenue recognition to verify accuracy, occurrence and recognition in an adequate period.

We have determined that the applicable accounting policies and the revenue recognition policies were appropriate, applied in accordance with IFRS 15 "Revenue from Contracts with Customers" and that revenue is accurately accounted and recognized.

INDEPENDENT AUDITOR'S REPORT (continued)

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

Key Audit Matters (continued)

Key Audit Matter

Valuation of goodwill

As at 31 December 2019, the stated amount of goodwill in relation to the acquisition of Ljubljanska borza d.d was HRK 1,168 thousand. Relevant accounting standards require that goodwill is tested, at least annually, for impairment. Accounting policies for goodwill are disclosed in Note 3 a) and Note 3 b).

The assessment of the recoverability of goodwill is performed using the discounted cash flow method. It requires use of significant estimates in determining the future business performance of cash-generating units to which goodwill is allocated.

Management's recoverability assessment includes significant estimates that primarily relate on key assumptions regarding revenue growth rates, market trends, operating margins, terminal growth rate, and discount rate used in future cash flow projections. The main assumptions used by Management are explained in detail in Note 25 "Key accounting estimates and assumptions".

Accordingly, we have concluded that valuation of goodwill is a key audit matter.

Description of audit procedures performed and their results

In testing recoverability of goodwill, we assessed the appropriateness of identifying cash-generating units in the allocation of goodwill and focused on key Management assumptions. In the process of verifying the credibility of the assumptions underlying the calculation of the recoverable amount of goodwill, we have critically reviewed, assessed and concluded on the assumptions underlying the assessment that the Group applies.

The audit procedures we have applied include:

- Critical assessment of the compliance of the model applied by management in calculating the recoverable amount of individual cash-generating units with the requirements of IAS 36 „Impairment of Assets“;
- Validation of input assumptions for calculating discount rates and then recalculating discount rates and terminal growth rate;
- Analyzing projections of future cash flows embedded in models to confirm their feasibility, justification and sustainability with respect to the macroeconomic environment and expected future results of cash-generating units;
- Testing the accuracy of Management's projections by comparing cash flow projections, which included assumptions about revenue growth and operating margins, with results from prior periods;
- Assessment of a Group analysis of the sensitivity of the impairment test to the assumptions that have the greatest possible effect on the test results;
- Assessment of the Group's disclosures regarding cash-generating units and key assumptions used in testing goodwill recoverability.

Other Matter

The consolidated financial statements of the Group for the year ended on 31 December 2018 were audited by another auditor who expressed an unqualified opinion about these financial statements on 26 April 2019.

INDEPENDENT AUDITOR'S REPORT (continued)

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

Other Information

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

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

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 the Corporate Governance Statement, which are included in the Annual Report, we have also performed the procedures prescribed by the Accounting Act. These procedures include examination of whether the Management Report and Corporate Governance Statement includes required disclosures as set out in the Articles 21, 22 and 24 of the Accounting Act and whether the Corporate Governance Statement includes the information specified in the Article 22 and 24 of the Accounting Act.

Based on the procedures performed during our audit, to the extent we are able to assess it, we report that:

1. Information included in the other information is, in all material respects, consistent with the attached financial statements.
2. Management Report has been prepared, in all material respects, in accordance with the Article 21 and 24 of the Accounting Act.
3. Corporate Governance Statement has been prepared, in all material aspects, in accordance with the Article 22, paragraph 1, items 3 and 4 of the Accounting Act, and includes also the information from the Article 22, paragraph 1, point 2, 5, 6 and 7 and the Article 24, paragraph 2.

Based on the knowledge and understanding of the Group and its environment, which we gained during our audit of the financial statements, we have not identified material misstatements in the other information.

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs and for such internal control as Management determines is necessary to enable the preparation of 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 Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless Management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

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

INDEPENDENT AUDITOR'S REPORT (continued)

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

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

As part of an audit in accordance with ISAs, 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 control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.
- Conclude on the appropriateness of Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's 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 auditor's report. However, future events or conditions may cause the Group 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 consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

INDEPENDENT AUDITOR'S REPORT (continued)

Report on Other Legal and Regulatory Requirements

Other reporting obligations as required by Regulation (EU) No. 537/2014 of the European Parliament and the Council and the Audit Act

We were appointed as the statutory auditor of the Group by the General Assembly of the Company on 27 June 2019 to perform audit of accompanying financial statements. Our total uninterrupted engagement has lasted 1 year and covers period 1 January 2019 to 31 December 2019.

We confirm that:

- our audit opinion on the accompanying financial statements is consistent with the additional report issued to the Audit Committee of the Group on 27 April 2020 in accordance with the Article 11 of Regulation (EU) No. 537/2014 of the European Parliament and the Council;
- no prohibited non-audit services referred to in the Article 5(1) of Regulation (EU) No. 537/2014 of the European Parliament and the Council were provided.

There are no services, in addition to the statutory audit, which we provided to the Company and its controlled undertakings, except for those mentioned within the annual report.

The engagement partner on the audit resulting in this independent auditor's report is Domagoj Vuković.

Marina Tonžetić
Director

Domagoj Vuković
Certified auditor

For signature please refer to the original Croatian version.

Deloitte d.o.o.

27 April 2020

Radnička cesta 80,

10 000 Zagreb,

Croatia

Consolidated Statement of comprehensive income

	Note	<u>2019</u> <u>'000 HRK</u>	<u>2018</u> <u>'000 HRK</u>
Income statement			
Sales revenue	4	15,079	15,421
Other operating income	5	9,907	8,467
Staff costs	6	(11,160)	(10,853)
Depreciation and amortization	10,11,12	(1,873)	(1,134)
Other operating expenses	7	(12,368)	(11,542)
		<u>(415)</u>	<u>359</u>
Operating (loss)/profit			
Financial income	8a	1,453	66
Financial expense	8b	(65)	(7)
Net foreign exchange loss		(15)	(5)
		<u>1,373</u>	<u>54</u>
Net finance income			
Share of loss of equity - accounted investees		75	(124)
		<u>1,033</u>	<u>289</u>
Profit before tax			
Income tax	9a	(94)	(99)
		<u>939</u>	<u>190</u>
Profit for the period			
Other comprehensive income			
Foreign operations – foreign currency translation differences		96	(241)
		<u>1,035</u>	<u>(51)</u>
Total comprehensive profit/ (loss) for the year			
Basic and diluted profit per share (in HRK)	19	0.20	0.04

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

Consolidated Statement of financial position

	Note	<u>31.12.2019</u>	<u>31.12.2018</u>
		'000 HRK	'000 HRK
Assets			
Non-current assets			
Property and equipment	10	8,578	12,275
Intangible assets and goodwill	11	2,950	2,520
Assets with right of use	12	1,305	-
Investment in associate and joint venture	13	117	42
Financial assets at fair value through other comprehensive income	14a	1,302	197
Guarantee deposits		250	250
Long-term deposits		-	1,484
Loans given to related parties		217	216
Deferred tax assets	9	263	274
Total non-current assets		<u>14,982</u>	<u>17,258</u>
Current assets			
Trade receivables and other assets	15	4,414	4,007
Prepaid expenses		635	530
Financial assets at fair value through profit or loss	14b	19,583	17,693
Short-term deposits		1,492	4,083
Cash and cash equivalents	17	7,594	2,444
Inventories		7	7
Total current assets		<u>33,725</u>	<u>28,764</u>
Total assets		<u>48,707</u>	<u>46,022</u>
Equity, reserves and liabilities			
Equity and reserves			
Issued share capital	18	46,357	46,357
Share premium		13,860	13,860
Legal reserves		141	141
Accumulated loss		(20,360)	(21,448)
Revaluation reserves		947	1,096
Translation reserves		(405)	(501)
Total equity and reserves		<u>40,540</u>	<u>39,505</u>
Non-current liabilities			
Lease liabilities		568	-
Long-term financial liabilities		-	31
Provisions for bonuses and severance pay for the Ljubljanska borza d.d. and other provisions		103	-
Deferred tax liability	9	188	223
Total non-current liabilities		<u>859</u>	<u>254</u>
Current liabilities			
Trade and other payables	20	2,553	1,946
Short-term maturity of long-term liabilities		768	-
Short-term financial liabilities		-	60
Income tax liability		-	81
Contractual liabilities and provisions	21	3,987	4,176
Total current liabilities		<u>7,308</u>	<u>6,263</u>
Total equity, reserves and liabilities		<u>48,707</u>	<u>46,022</u>

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

Consolidated Statement of changes in equity and reserves

	Issued share capital HRK '000	Share premium HRK '000	Legal reserves HRK '000	Accumulated loss HRK '000	Revaluation reserve HRK '000	Translation reserve HRK '000	Total HRK '000
As at 1 January 2018	46,357	13,860	141	(21,698)	1,156	(260)	39,556
Profit for the year	-	-	-	190	-	-	190
<i>Other comprehensive income</i>	-	-	-	-	-	-	-
Foreign operations – foreign currency translation differences	-	-	-	-	-	(241)	(241)
Revaluation of land and property, net of deferred tax	-	-	-	60	(60)	-	-
Total comprehensive loss for the year	-	-	-	250	(60)	(241)	(51)
As at 31 December 2018	46,357	13,860	141	(21,448)	1,096	(501)	39,505
Profit for the year	-	-	-	939	-	-	939
<i>Other comprehensive income</i>	-	-	-	-	-	-	-
Foreign operations – foreign currency translation differences	-	-	-	-	-	96	96
Revaluation of land and property, net of deferred tax	-	-	-	149	(149)	-	-
Total comprehensive loss for the year	-	-	-	1,088	(149)	96	1,035
As at 31 December 2019	46,357	13,860	141	(20,360)	947	(405)	40,540

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

Consolidated Statement of cash flows

	<i>Note</i>	2019	2018
		HRK '000	HRK '000
Cash flow from operating activities			
Profit/(loss) for the period		939	190
<i>Adjustments</i>			
Depreciation and amortization	10, 11, 12	1,873	1,134
Net gains/(losses) from financial assets at fair value through profit or loss	8	(1,210)	31
Unrealised loss from financial assets at fair value through other comprehensive income		468	-
Impairment allowance for trade receivables		(144)	(261)
Interest income	8	(221)	(72)
Interest expense	8	65	7
Net foreign exchange loss		15	5
Income from sale of tangible fixed assets		(364)	(196)
Write-offs		33	27
Profit/(loss) from investment in joint venture		(75)	124
Tax expense	9	94	99
Other adjustments		55	-
		1,528	1,088
Cash flow before changes in operating assets and liabilities			
Changes in operating assets and liabilities			
Increase in trade receivables		(192)	(569)
Increase in prepaid expenses		(174)	(21)
Decrease in inventories		-	3
Increase/(decrease) in trade and other payables		63	(997)
Increase in deferred income and accrued expenses and contractual liabilities and provisions		272	611
		(31)	(973)
Change in operating assets and liabilities			
Income tax		-	-
Net cash inflow from operating activities		1,497	115
Cash flow from investing activities			
Purchase of equipment		(138)	(541)
Proceeds from sale of property and equipment		3,353	1,730
Purchase of intangible assets		(788)	(62)
Purchase of financial instruments		(2,573)	(1,056)
Proceeds from the sale of financial instruments		320	-
Proceeds from investments in short-term deposits		2,590	487
Proceeds from investments in long-term deposits		1,549	-
Investments in associates and joint ventures		-	(45)
Interest paid		(65)	(7)
Interest received		221	72
Net cash inflow from investing activities		4,469	578
Cash flow from financing activities			
Repayment of lease liability		(760)	-
Granted loans		-	(43)
Long term loan repayment		(56)	(55)
Net cash inflows from financing activities		(816)	(98)
Net increase in cash and cash equivalents		5,150	595
Cash and cash equivalents at the beginning of the year		2,444	1,849
Changes in exchange rates on cash and cash equivalents		-	-
Cash and cash equivalents at the end of the year	16	7,594	2,444

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

Notes to the consolidated financial statements

1 Reproting 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 208 shareholders (2018: 217 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 2017.

At 31 August 2017 all of the 4,635,700 issued ordinary shares were listed to the Official Market of Zagreb Stock Exchange.

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

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

These financial statements comprise consolidated financial statements of the Group as defined in International Financial Reporting Standard 10 Consolidated Financial Statements. Zagrebačka burza d.d. prepares separate financial statements, which are published as a separate document.

2 Basis of preparation

a) Statement of compliance

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

These financial statements were authorised for issue by the Management Board on 27 April 2020 for approval by the Supervisory Board.

b) Adoption of new and amended International Financial Reporting Standards

Standards and Interpretations effective for the current period

The following new standards and amended existing standards issued by the International Accounting Standards Board and interpretations published by the International Accounting Standards Board ("IASB") and adopted by the European Union are effective for the current reporting period:

- **IFRS 16 „Leases”**, adopted in the European Union on 31 October 2017 (effective for annual periods beginning on or after 1 January 2019),
- **Amendments to IFRS 9 „Financial instruments”** - Advance payments with a negative fee, adopted in the European Union on 22 March 2018 (effective for annual periods beginning on or after 1 January 2019),

Notes to the consolidated financial statements

2 Basis of preparation (continued)

b) Adoption of new and amended International Financial Reporting Standards (continued)

- **Amendments to IAS 19 “Employee Benefits”** - Plan Amendment, Curtailment or Settlement – adopted by the EU on 13 March 2019 (effective for annual periods beginning on or after 1 January 2019),
- **Amendments to IAS 28 “Investments in Associates and Joint Ventures”** - Long-term Interests in Associates and Joint Ventures – adopted by the EU on 8 February 2019 (effective for annual periods beginning on or after 1 January 2019),
- **Amendments to various standards due to “Improvements to IFRSs (cycle 2015 -2017)”** resulting from the annual improvement project of IFRS (IFRS 3, IFRS 11, IAS 12 and IAS 23) primarily with a view to removing inconsistencies and clarifying wording – adopted by the EU on 14 March 2019 (effective for annual periods beginning on or after 1 January 2019),
- **IFRIC 23 “Uncertainty over Income Tax Treatments”** – adopted by the EU on 23 October 2018 (effective for annual periods beginning on or after 1 January 2019.).

The adoption of the amendments to the existing standards and interpretations has not led to any significant changes in the financial statements of the Company except in application of IFRS 16. As at January 1, 2019, the Group recognized assets with a right of use and lease liabilities in the amount of HRK 2,062 thousand.

c) Impact of initial application of IFRS 16 Leases

Impact of the new definition of a lease

The Group has made use of the practical expedient available on transition to IFRS 16 not to reassess whether a contract is or contains a lease. Accordingly, the definition of a lease in accordance with IAS 17 and IFRIC 4 will continue to be applied to those leases entered or changed before 1 January 2019.

The change in definition of a lease mainly relates to the concept of control. IFRS 16 determines whether a contract contains a lease on the basis of whether the customer has the right to control the use of an identified asset for a period of time in exchange for consideration. This is in contrast to the focus on ‘risks and rewards’ in IAS 17 and IFRIC 4.

The Group applies the definition of a lease and related guidance set out in IFRS 16 to all lease contracts entered into or changed on or after 1 January 2019 (whether it is a lessor or a lessee in the lease contract). In preparation for the first-time application of IFRS 16, the Group has carried out an implementation project. The project has shown that the new definition in IFRS 16 will not significantly change the scope of contracts that meet the definition of a lease for the Company.

Impact on Lessee Accounting

(i) Former operating leases

IFRS 16 changes how the Group accounts for leases previously classified as operating leases under IAS 17, which were off balance sheet. Applying IFRS 16, for all leases (except as noted below), the Group:

- Recognises right-of-use assets and lease liabilities in the consolidated statement of financial position, initially measured at the present value of the future lease payments, with the right-of-use asset adjusted by the amount of any prepaid or accrued lease payments in accordance with IFRS 16:C8(b)(ii)

Notes to the consolidated financial statements (continued)

2 Basis of preparation (continued)

c) Impact of initial application of IFRS 16 Leases (continued)

- Recognises depreciation of right-of-use assets and interest on lease liabilities in the consolidated statement of profit or loss;
- Separates the total amount of cash paid into a principal portion (presented within financing activities) and interest (presented within financing activities) in the consolidated statement of cash flows.

Lease incentives (e.g. rent-free period) are recognised as part of the measurement of the right-of-use assets and lease liabilities whereas under IAS 17 they resulted in the recognition of a lease incentive, amortised as a reduction of rental expenses on a straight-line basis.

Under IFRS 16, right-of-use assets are tested for impairment in accordance with IAS 36.

For short-term leases (lease term of 12 months or less) and leases of low-value assets, the Group has opted to recognise a lease expense on a straight-line basis as permitted by IFRS 16. This expense is presented within 'Other operating expenses' in profit or loss.

The Group has used the following practical expedients when applying the cumulative catch-up approach to leases previously classified as operating leases applying IAS 17.

- The Group has applied a single discount rate to a portfolio of leases with reasonably similar characteristics.
- The Group has adjusted the right-of-use asset at the date of initial application by the amount of provision for onerous leases recognised under IAS 37 in the statement of financial position immediately before the date of initial application as an alternative to performing an impairment review.
- The Group has elected not to recognise right-of-use assets and lease liabilities to leases for which the lease term ends within 12 months of the date of initial application.
- The Group has excluded initial direct costs from the measurement of the right-of-use asset at the date of initial application.
- The Group has used hindsight when determining the lease term when the contract contains options to extend or terminate the lease.
- The Group recognised amounts of right-to-use assets and lease liabilities to the same amount on the date of first application.

(i) Former finance leases

For leases that were classified as finance leases applying IAS 17, the carrying amount of the leased assets and obligations under finance leases measured applying IAS 17 immediately before the date of initial application is reclassified to right-of-use assets and lease liabilities respectively without any adjustments, except in cases where the Group has elected to apply the low-value lease recognition exemption. The right-of-use asset and the lease liability are accounted for applying IFRS 16 from 1 January 2019.

Leases

The Group has applied IFRS 16 using the cumulative catch-up approach and therefore comparative information has not been restated and is presented under IAS 17. The details of accounting policies under both IAS 17 and IFRS 16 are presented separately in note 3 e).

Notes to the consolidated financial statements (continued)

2 Basis of preparation (continued)

d) Standards and amendments to existing standards issued by IASB and adopted by the EU but not yet effective

At the date of authorisation of these financial statements, the following amendments to the existing standards were issued by IASB and adopted by the EU and which are not yet effective:

- **Amendments to IAS 1 “Presentation of Financial Statements” and IAS 8 “Accounting Policies, Changes in Accounting Estimates and Errors”** - Definition of Material - adopted by the EU on 29 November 2019 (effective for annual periods beginning on or after 1 January 2020),
- **Amendments to IFRS 9 “Financial Instruments”, IAS 39 “Financial Instruments: Recognition and Measurement” and IFRS 7 “Financial Instruments: Disclosures”** - Interest Rate Benchmark Reform - adopted by the EU on 15 January 2020 (effective for annual periods beginning on or after 1 January 2020),
- **Amendments to References to the Conceptual Framework in IFRS Standards** adopted by the EU on 29 November 2019 (effective for annual periods beginning on or after 1 January 2020).

The Group has chosen not to apply the new standards, amendments to existing standards and interpretations prior to their effective date.

The Group anticipates that the adoption of these new standards and amendments to the existing standards will have no material impact on the financial statements of the Group in the period of initial application.

e) New standards and amendments to the existing standards issued by IASB but not yet adopted by the EU

At present, IFRS as adopted by the EU do not significantly differ from regulations adopted by the International Accounting Standards Board (IASB) except for the following new standards and amendments to the existing standards, which were not endorsed for use in EU at the date of issue of financial statements:

- **IFRS 14 “Regulatory Deferral Accounts”** (effective for annual periods beginning on or after 1 January 2016) - the European Commission has decided not to launch the endorsement process of this interim standard and to wait for the final standard,
- **IFRS 17 “Insurance Contracts”** (effective for annual periods beginning on or after 1 January 2021),
- **Amendments to IFRS 3 “Business Combinations”** - Definition of a Business (effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2020 and to asset acquisitions that occur on or after the beginning of that period),
- **Amendments to IFRS 10 “Consolidated Financial Statements” and IAS 28 “Investments in Associates and Joint Ventures”** - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture and further amendments (effective date deferred indefinitely until the research project on the equity method has been concluded).

Notes to the consolidated financial statements (continued)

2 Basis of preparation (continued)

f) Basis of measurement

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

g) Functional and presentation currency

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

h) Use of estimates and judgments

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

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

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

Information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have a significant effect on the amounts disclosed in the financial statements are described in Note 25.

i) Foreign currency

i) Foreign currency translations

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

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

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 Group has assets and liabilities is Euro. The exchange rate used for translation on 31 December 2019 was EUR 1 = HRK 7.44258 (31 December 2018: EUR 1 = HRK 7.41758). Exchange rate used for translation of Group's share in joint venture loss on 31 December 2019 was MKD 1 = HRK 0.1025 (31 December 2018: MKD 1 = HRK 0.1193).

Notes to the consolidated financial statements (continued)

2 Basis of preparation (continued)

i) Foreign currency (continued)

ii) Foreign operations

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

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

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

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

3 Significant accounting policies

a) Basis of consolidation

i) Business combinations

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

The Group measures goodwill at the acquisition date as:

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

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

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

Notes to the consolidated financial statements (continued)

3 Significant accounting policies (continued)

a) Basis of consolidation (continued)

ii) Subsidiaries

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

iii) Interests in equity accounted investees

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

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

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

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

iv) Loss of control

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

v) Transactions eliminated on consolidation

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

Notes to the consolidated financial statements (continued)

3 Significant accounting policies (continued)

b) Property, equipment and intangible assets

Property and equipment are stated at historical cost or deemed cost less accumulated depreciation and impairment losses, except for property and land which have been measured according to the revaluation method. The latter method requires that property, whose fair value can be measured reliably, to be recognized at a revalued amount, being its fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. The fair value of land and buildings is measured on the basis of market benchmarks, in an appraisal that is normally prepared by professionally qualified appraisers.

Subsequent cost is included in the asset's carrying amount or is recognised as a separate asset as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the period in which they have incurred. Depreciation is provided on all assets except land and assets not yet brought into use on a straight-line basis at prescribed rates designed to write-off the cost over the estimated useful life of the asset.

The estimated useful lives are as follows:

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

When an item of property is revalued, the carrying value of that asset is adjusted to the revalued amount so that the accumulated depreciation is decreased against the gross carrying amount of the asset.

After initial recognition of property:

- if an asset's carrying amount is increased as a result of revaluation, the increase is recognized in Other comprehensive income and accumulated in equity under the revaluation reserve caption;
- if the carrying amount is decreased as a result of revaluation, the decrease is recognized in Profit or loss;
- if an asset's carrying amount is increased as a result of revaluation, the increase is recognized in Profit or loss to the extent that it reverses a revaluation decrease of the same property previously recognized in Profit or loss;
- if the carrying amount is decreased as a result of revaluation, the decrease is recognized in Other comprehensive income to the extent of any credit balance existing in the revaluation reserve in respect of that asset.

The useful life, the residual value and amortization methods are revalued and corrected, if necessary, at each reporting date.

Goodwill

According to IFRS 3 Business Combinations, any excess of the cost of the acquisition over the acquirer's interest in the fair value of the identifiable assets and liabilities acquired on the date of the acquisition is presented as goodwill and recognised as an asset. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment at least annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (or the group of cash-generating units) to which the goodwill relates.

Notes to the consolidated financial statements (continued)

3 Significant accounting policies (continued)

b) Property, equipment and intangible assets (continued)

Goodwill (continued)

Where the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then pro-rata to the other assets of the unit on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

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

c) Financial instruments

Classification

Classification categories

After initial recognition, financial assets are classified as assets at amortized cost, assets at fair value through other comprehensive income (FVOCI) and assets at fair value through profit and loss (FVTPL).

Financial assets at amortized cost

Financial assets are measured at amortized cost if they meet both of the following conditions and if they are not valued at fair value through profit and loss (FVTPL):

- The purpose of a business model is to hold assets in order to collect contractual cash flows;
- The contractual terms of a financial asset represent cash flows that are solely principal and interest payments (SPPI), at specific dates.

This category includes: loans to related parties, receivables from customers, cash and cash equivalents and placements with banks.

Financial assets at fair value through other comprehensive income

A debt instrument is measured at fair value through other comprehensive income if it meets both of the following conditions and if it is not valued at fair value through profit and loss account (FVTPL):

- the purpose of the business model is the holding of assets for the purpose of collecting contractual cash flows and the sale of financial assets; and
- contractual terms of financial assets represent cash flows that are solely principal and interest repayment (SPPI), at specific dates.

In the initial recognition of an investment in equity instruments that are not held for trading, the Company may irrevocably decide to recognize subsequent changes in fair value through other comprehensive income. This choice is made on the basis of a particular investment.

Notes to the consolidated financial statements (continued)

3 Significant accounting policies (continued)

c) Financial instruments (continued)

Financial assets at fair value through profit or loss

All other financial assets are classified as financial assets at fair value through profit or loss.

In addition, at initial recognition, the Group may irrevocably designate financial assets at fair value through profit or loss, although it meets the measurement requirements at amortized cost or at fair value through other comprehensive income, if this eliminates or substantially reduces the accounting mismatch that would arise.

As at 31 December 2019, financial assets at fair value through profit or loss refer to investments in open-end investment funds.

Financial liabilities

Group's financial liabilities that are not measured at fair value through profit or loss are measured at amortized cost, which includes liabilities for loans, guarantee deposits and other liabilities.

Reclassification

Financial assets are not reclassified after initial recognition, except in the period after the change in the business model for the financial asset management.

Business Model Assessment

Business models determines how to manage a group of financial assets as a whole (portfolio) in order to achieve a specific business goal and define the way in which financial assets are expected to generate cash flows. Financial assets held for trading and whose performance is assessed on the basis of fair value are measured at fair value through profit and loss account, as it is not held for the purpose of collecting the contracted cash flows nor for collecting contractual cash flows and for sale.

Recognition and derecognition

Financial assets and financial liabilities at fair value through profit or loss are recognized at the trading date, ie the date on which the Group assumes the obligation to buy or sell the assets. Loans and receivables and other financial liabilities that are valued at amortized cost are recognized at the time the financial asset is transferred to the borrowers or liabilities received from the lender.

The Group ceases to recognise financial assets (in whole or in part) when the right to receive cash flows from a financial asset expires or when it loses control of the contractual rights over such a financial asset. This occurs when the Group substantially transfers all the risks and rewards of ownership to another business entity or when the rights have been exercised, ceded or expired. The Group ceases to recognize financial liabilities only when they cease to exist, ie when they are met, cancelled, expired or significantly modified (10 per cent test). If the terms of the financial liability change, the Group will cease to recognize this obligation and start recognizing the new financial liability with the new terms.

From 1 January 2018, any cumulative gain or loss recognized in the comprehensive income from equity securities under FVOCI option shall not be recognized in the income statement upon termination of recognition of such securities. All interest on transferred financial assets that meets the conditions for cessation of recognition is recognized as a separate asset or liability.

Notes to the consolidated financial statements (continued)

3 Significant accounting policies (continued)

c) Financial instruments (continued)

The Group measures investments in the shares (described in note 14 a)) by FVOCI option. In accordance with IFRS 9, the Group has decided to value these investments in shares under the FVOCI option since it does not hold such shares for trading. The fair values of those investments are disclosed within note 14 a).

Početno i naknadno mjerenje

Financial assets and liabilities are initially recognized at fair value increased by, in case of financial assets and financial liabilities not at fair value through profit or loss, transaction costs that are directly related to the acquisition or issuance of a financial asset or a financial liability. Transaction costs of financial assets at fair value through profit or loss are recognized immediately in profit or loss, while other financial instruments are amortized. All financial assets at fair value through profit or loss are subsequently carried at fair value. Loans to related parties and receivables from customers are valued at amortized cost less impairment losses and other financial liabilities at amortized cost. The amortized cost is calculated using the effective interest method. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortized based on the effective interest rate of the instrument.

Fair value measurement principles

The fair value of financial assets at fair value through profit or loss is quoted bid market price at the reporting date, without any deduction for selling costs. The Group assesses separately each financial instrument to determine if there is an active or inactive market for the instrument.

Fair value hierarchy

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

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities,

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 recorded fair value that are not based on observable market data.

31 December 2019

	Level 1	Level 2	Level 3	Total
Assets				
Financial assets at fair value through other comprehensive income (note 14)	-	-	1,302	1,302
Financial assets at fair value through profit or loss (note 14)	19,583	-	-	19,583
Total	19,583	-	1,302	20,885

31 December 2018

	Level 1	Level 2	Level 3	Total
Assets				
Financial assets at fair value through other comprehensive income (note 14)	-	-	197	197
Financial assets at fair value through profit or loss (note 14)	17,693	-	-	17,693
Total	17,693	-	197	17,890

Notes to the consolidated financial statements (continued)

3 Significant accounting policies (continued)

c) *Financial instruments (continued)*

Impairment of financial assets

Financial instruments

For credit exposures for which there has been no significant increase in credit risk from initial recognition, expected credit losses are recognized for credit losses arising from the probability of default in the next 12 months. For credit exposures with a significant increase in credit risk from initial recognition, a correction is required for expected credit losses throughout the life of the facility, regardless of the time of borrowing. For customer and contractual receivables, Group applies a simplified approach to calculating expected credit losses and therefore does not monitor credit risk changes but recognizes a value adjustment based on expected life-long expected credit loss at the end of each reporting period.

A financial asset is impaired when there is information indicating that debtor is in serious financial difficulty, that there is no realistic prospect of recovery, or that the debtor is likely to enter bankruptcy or other form of financial reorganization or restructuring. Impaired financial assets may still be subject to the Group's collection activities.

Expected credit losses on trade receivables are estimated on the basis of the maturity date matrix, taking into account the historical experience of the debtor's default status and an analysis of the debtor's current financial position. The Group recognized a loss of 100% on all claims over 120 days because historical experience indicates that these claims are generally not recoverable.

When estimating expected credit losses, the Group considers reasonable and substantiated information that is relevant and available. This includes quantitative and qualitative information and analysis, based on the Group's historical experience and credit rating assessment, including information related to the future.

The Company considers that financial assets are not recoverable if it is unlikely that the borrower will pay its obligations to the Group in full without the Group needing to initiate actions such as the activation of the collateral (if any). The maximum period taken into account in estimating the expected credit loss is the maximum contractual period during which the Group is exposed to credit risk.

The Group recognizes any gain or loss on the income statement for all financial instruments with a corresponding adjustment to the carrying amount through the provision for expected credit losses.

Measurement of Expected credit losses

ECL are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive). ECL are discounted at the instrument's effective interest rate.

There were no changes in valuation techniques or significant assumptions during the current reporting period.

Notes to the consolidated financial statements (continued)

3 Significant accounting policies (continued)

c) *Financial instruments (continued)*

Trade receivables, other assets, short-term deposits with banks and loans to related parties

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

Investments in funds

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.

Trade payables and other liabilities

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

d) *Impairment of non-financial assets*

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

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

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

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

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

Notes to the consolidated financial statements (continued)

3 Significant accounting policies (continued)

e) Leases (accounting policy until 31 December 2018)

At the reporting date the Group does not have any finance leases. All other leases are operating leases, and assets leased by the Group as lessee are not recorded in the Group'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) Leases (accounting policy from 1 January 2019)

The Group assesses whether a contract is or contains a lease, at inception of the contract. The Group recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets, below HRK 30 thousand (such as tablets and personal computers, small items of office furniture and telephones). For these leases, the Group recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the lessee uses its incremental borrowing rate. Lease payments included in the measurement of the lease liability comprise:

- Fixed lease payments (including in-substance fixed payments), less any lease incentives receivable;
- Variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- The amount expected to be payable by the lessee under residual value guarantees;
- The exercise price of purchase options, if the lessee is reasonably certain to exercise the options;
- Payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease.

The lease liability is presented as a separate line in the consolidated statement of financial position.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

The Group remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- The lease term has changed or there is a significant event or change in circumstances resulting in a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate
- The lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using an unchanged discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used).
- A lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

Notes to the consolidated financial statements (continued)

3 Significant accounting policies (continued)

e) Leases (accounting policy from 1 January 2019)

The Group did not make any such adjustments during the periods presented. The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day, less any lease incentives received and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

Right-of-use assets are depreciated over the shorter lease period term and useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Group expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

The right-of-use assets are presented as a separate line in the consolidated statement of financial position. The Group applies IAS 36 to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss.

Variable rents that do not depend on an index or rate are not included in the measurement of the lease liability and the right-of-use asset. The related payments are recognised as an expense in the period in which the event or condition that triggers those payments occurs.

f) Cash and cash equivalents

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

g) 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.

h) Employee benefits

Defined contribution pension plans

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

i) Termination benefits

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

ii) Short-term employee benefits

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

Notes to the consolidated financial statements (continued)

3 Significant accounting policies (continued)

i) Taxation

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

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

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

j) Provisions

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

Restructuring

A provision for restructuring is recognized when the Group has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. The Group makes no provision for future operating costs.

k) Issued share capital, share premium and reserves

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

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

l) Revenue

Revenue is measured based on the consideration specified in a contract with a customer and excludes amounts collected on behalf of third parties. The Group recognises revenue when it transfers control of a product or service to a customer. The Group recognizes the following revenues: 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.

Income from initial listing fees is deferred to the period in which the client has a substantive right to service.

Notes to the consolidated financial statements (continued)

3 Significant accounting policies (continued)

m) Financial 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.

n) Segment reporting

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

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

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

The Group does not specify any additional reportable segments per product or service type in this moment, given that it is sufficient for CODM to assess the performance and make resource allocation decision on the level of the entire group. Segment reporting analysis is presented in Note 26.

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

o) Investments in associates and joint ventures

Associates are entities in which the Group has significant influence but not control. A significant influence is the power to participate in the financial and operating policies of entity in which the investment is made, but does not constitute control or joint control of those policies.

Joint ventures are companies in which two or more parties have joint control.

The Company's investments in associates and joint ventures are accounted for in the consolidated financial statements using the equity method.

Notes to the consolidated financial statements (continued)

4 Sales revenue

	2019	2018
	'000 HRK	'000 HRK
Commissions	7,015	7,052
Income from quotation maintaining	6,507	6,819
Income from quotation fee	1,118	1,029
Membership fees	439	521
Total sales revenue	15,079	15,421

Commissions are charged from members based on value of realized transactions at the time of execution of the transaction. 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 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. Income from quotation maintenance is deferred over the period of duration of the relevant quotation.

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. Income from membership fees is deferred to the period in which the client has a substantive right to service.

5 Other operating income

	2019	2018
	'000 HRK	'000 HRK
Income from the supply of information	6,002	5,609
Sale and lease of equipment	3	196
Income from seminars	1,687	1,461
Other income	2,215	1,201
Total other operating income	9,907	8,467

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

Other revenues include subsequently collected receivables, income from various fees, revenue from penalties and other income.

Total recognized revenue in accordance with International Financial Reporting Standard 15 is HRK 22,771 thousand (2018: HRK 22,687 thousand).

Total recognized revenue from performance obligations at point in time is HRK 8,702 thousand (2018: HRK 8,513 thousand). Total recognized revenue from performance obligations over time is HRK 14,069 thousand (2018: HRK 14,174 thousand). An overview of the maturity of all accounts receivable is disclosed in note 15.

Notes to the consolidated financial statements (continued)

6 Staff costs

	2019	2018
	'000 HRK	'000 HRK
Salaries		
Net salaries	7,028	6,444
Payroll deductions	1,013	1,393
Payroll contributions	2,578	2,535
Total salaries	10,619	10,372
Other staff cost	541	481
Total staff cost	11,160	10,853

The number of employees at the end of 2019 was 39 (2018: 37). Staff costs include HRK 1,671 thousand (2018: HRK 1,008 thousand) of defined pension contributions paid into obligatory pension funds. Contributions are calculated as a percentage of employees' gross salaries. In 2019 bonus payments in Ljubljanska borza d.d. amounted to HRK 298 thousand (2018: HRK 298 thousand). In 2019, HRK 220 thousand bonus was paid to the Zagrebačka burza d.d. (2018: HRK 0 thousand).

7 Other operating expenses

	2019	2018
	'000 HRK	'000 HRK
Software and licences	3,635	3,564
Professional services	1,696	1,497
Rental expenses	351	1,380
Post and telephone services	298	282
Utility expenses	512	506
Fees and charges	1,343	787
Entertainment	185	199
Business travel	245	254
Write off of software	33	27
Seminar and marketing costs	151	-
Impairment financial assets	468	-
Impairment of trade receivables	388	261
Other expenses	3,063	2,785
Total other operating expenses	12,368	11,542

Other expenses in the amount of HRK 3,063 thousand relate to the costs of lecturers (natural persons) and other fees to those persons, maintenance costs, costs of materials and energy, insurance costs, and other expenses.

Notes to the consolidated financial statements (continued)

8 Financial income and expense

	<u>2019</u>	<u>2018</u>
	<u>'000 HRK</u>	<u>'000 HRK</u>
a) Financial income		
Net gain/(losses) from financial assets at fair value through profit or loss	1,210	(31)
Interest income	221	72
Other financial income	22	25
Total financial income	<u>1,453</u>	<u>66</u>
b) Financial expenses		
Interest expense	(65)	(7)
Total financial expenses	<u>(65)</u>	<u>(7)</u>
Net financial result	<u>1,388</u>	<u>59</u>

9 Income tax

a) Income tax

	<u>2019</u>	<u>2018</u>
	<u>'000 HRK</u>	<u>'000 HRK</u>
Current income tax expense	118	86
Deferred income tax	(24)	13
Total income tax credit	<u>94</u>	<u>99</u>

b) Reconciliation of accounting profit and current income tax liability

	<u>2019</u>	<u>2018</u>
	<u>'000 HRK</u>	<u>'000 HRK</u>
Profit before tax	<u>1,033</u>	<u>289</u>
Tax calculated at 18% (2018.: 18%)	186	52
Effects of different tax rates	2	14
Tax non-deductible expenses	104	117
Non-taxable income	(128)	(362)
Use of tax losses	-	40
Tax losses from Zagrebačka burza d.d. not recognised as deferred tax assets	(153)	24
Consolidation adjustments	83	214
Income tax	<u>94</u>	<u>99</u>
Effective income tax rate	<u>9.10%</u>	<u>34.26%</u>

Notes to the consolidated financial statements (continued)

c) Tax losses carried forward

Gross tax losses arising from Zagrebačka burza d.d. amounting to HRK 9,357 thousand are available for offset against the future taxable profits of the Company at the end of 2019. A tax loss may be carried forward by the Company and is subject to review by the Ministry of Finance. At the end of 2018 the Company had HRK 10,363 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 2019 the Group did not recognize deferred tax assets in respect of temporary differences (receivables impairment allowances) and carried forward tax losses on Zagrebačka burza d.d., as it is uncertain if taxable profits will be available against which the deferred tax assets can be utilised. For the next reporting date, the Group will re-evaluate assumptions for the recognition of deferred tax assets.

Tax losses can't be transferred and used within group members. Despite the existence of tax losses from previous periods, Ljubljanska borza d.d. had a current income tax expense of 94 thousand kuna, since tax losses in Slovenia can only be used up to 50% of the profit. Therefore, Ljubljanska borza d.d. took advantage of tax losses of HRK 47 thousand kuna.

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

	<u>2019</u>	<u>2018</u>
	<u>'000 HRK</u>	<u>'000 HRK</u>
Up to 1 year	2,329	1,006
Up to 2 years	3,672	2,329
Up to 3 years	3,221	3,672
Up to 4 years	135	3,221
Up to 5 years	-	135
Total tax loss available to be carried forward	<u>9,357</u>	<u>10,363</u>

Notes to the consolidated financial statements (continued)

c) Tax losses carried forward (continued)

Deferred tax assets/liabilities

At 31 December 2019 the Group recognised deferred tax assets arising from temporary differences (trade receivables, depreciation and tax losses carried forward) from Ljubljanska borza d.d.

Deferred tax assets

	Trade receivables	Depreciation	Tax losses carried forward	Provisions	Total
1 January 2018	66	11	220	-	297
IFRS 15 adoption	-	-	7	-	7
(Decrease) / increase in deferred tax assets recognized in the income statement	14	-	(44)	-	(30)
31 December 2018	80	11	183	-	274
1 January 2019	80	11	183	-	274
(Decrease) / increase in deferred tax assets recognized in the income statement	10	3	(34)	10	(11)
31 December 2019	90	14	149	10	263

Deferred tax liabilities

	Fair value adjustment of property
1 January 2018	240
Decrease of deferred tax liability recognized through other comprehensive income	(17)
31 December 2018	223
Decrease of deferred tax liability recognized through other comprehensive income	(35)
31 December 2019	188

Notes to the consolidated financial statements (continued)

10 Property and equipment

	Land and property HRK '000	Computers HRK '000	Furniture and other equipment HRK '000	Leasehold improvements HRK '000	Under construction HRK '000	Total HRK '000
Cost						
As at 1 January 2018	12,318	5,587	3,224	1,272	-	22,401
Additions	43	26	215	-	257	541
Disposals	(1,331)	(1,104)	(988)	-	(203)	(3,626)
Effects of movements in exchange rate	(155)		(39)		-	(194)
As at 31 December 2018	10,875	4,509	2,412	1,272	54	19,122
As at 1 January 2019	10,875	4,509	2,412	1,272	54	19,122
Additions	-	30	88	-	20	138
Disposals	(2,859)	-	(420)	-	(74)	(3,353)
Effects of movements in exchange rate	(311)	-	(11)	-	-	(322)
As at 31 December 2019	7,705	4,539	2,069	1,272	-	15,585
Accumulated depreciation						
As at 1 January 2018	-	(5,236)	(1,860)	(1,111)	-	(8,207)
Charge for the period	(345)	(111)	(268)	(35)	-	(759)
Disposals	-	1,104	988	-	-	2,092
Effects of movements in exchange rate	-	-	27	-	-	27
As at 31 December 2018	(345)	(4,243)	(1,113)	(1,146)	-	(6,847)
As at 1 January 2019	(345)	(4,243)	(1,113)	(1,146)	-	(6,847)
Charge for the period	(338)	(136)	(260)	(32)	-	(766)
Disposals	247	-	420	-	-	667
Effects of movements in exchange rate	(59)	-	(2)	-	-	(61)
As at 31 December 2019	(495)	(4,379)	(955)	(1,178)	-	(7,007)
Net book value at						
31 December 2018	10,530	266	1,299	126	54	12,275
31 December 2019	7,210	160	1,114	94	-	8,578

Notes to the consolidated financial statements (continued)

11 Intangible assets and goodwill

	Software	Long-term deferred costs	Goodwill	Imovina u pripremi	Total
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
Cost					
At 1 January 2018	3,248	192	1,183	-	4,623
Additions	47	15	-	-	62
Write-offs	(996)	(4)	-	-	(1,000)
Effect of movements in exchange rate	(114)	(2)	(15)	-	(131)
At 31 December 2018	2,185	201	1,168	-	3,554
At 1 January 2019	2,185	201	1,168	-	3,554
Additions	548	21	-	219	788
Write-offs	-	(3)	-	-	(3)
Effect of movements in exchange rate	(7)	-	-	(1)	(8)
At 31 December 2019	2,726	219	1,168	218	4,331
Accumulated amortization					
At 1 January 2018	(1,732)	-	-	-	(1,732)
Charge for the period	(375)	-	-	-	(375)
Write-offs	973	-	-	-	973
Effect of movements in exchange rate	100	-	-	-	100
At 31 December 2018	(1,034)	-	-	-	(1,034)
At 1 January 2019	(1,034)	-	-	-	(1,034)
Charge for the period	(349)	-	-	-	(349)
Write-offs	-	-	-	-	-
Effect of movements in exchange rate	2	-	-	-	2
At 31 December 2019	(1,381)	-	-	-	(1,381)
Net book value					
At 31 December 2018	1,151	201	1,168	-	2,520
At 31 December 2019	1,345	219	1,168	218	2,950

Notes to the consolidated financial statements (continued)

12 Right-of-use assets

	Buildings	Land	Equipment	Total
	HRK '000	HRK '000	HRK '000	HRK '000
Cost				
At 31 December 2018	-		-	-
Initial recognition on 1 January 2019	1,542	292	228	2,062
At 1 January 2019	1,542	292	228	2,062
Additions	-	-	-	-
Revaluation	-	-	-	-
Write-offs	-	-	-	-
Effects of movements in exchange	-	1	-	1
At 31 December 2019	1,542	293	228	2,063
Accumulated amortization				
At 1 January 2019	-	-	-	-
Charge for the period	(661)	(29)	(68)	(758)
Write-offs	-	-	-	-
Effects of movements in exchange	-	-	-	-
At 31 December 2019	(661)	(29)	(68)	(758)
Net book value at				
31 December 2018	-	-	-	-
31 December 2019	881	264	160	1,305

The lease of right-of-use assets refers to several personal vehicles leased for the period of 3 to 5 years and property leased to 5 years. The weighted average incremental borrowing rate applied to lease liabilities recognised in the statement of financial position at the date of initial application is 4.2%. The total cash outflow for lease of right-of-use assets in 2019 amounts to HRK 760 thousand.

Amounts recognised in profit and loss:	2019.
Depreciation expense on right-of-use assets	758
Interest expense on lease liabilities	56
Expense relating to short-term leases	760

Notes to the consolidated financial statements (continued)

12 Assets with right of use (continued)

Lease liabilities are due and payable as follows:

	31.12.2019
Within a year	822
In the second year	384
In the third year	128
In the fourth year	2
In the fifth year	-
After fifth year	-
Total	1,336

As of 1 January 2019, the Company initially recognised lease liabilities to the amount of HRK 2,062 thousand.

Difference between operating lease commitments at the end of the annual reporting period, immediately preceding the date of initial application, discounted using the incremental borrowing rate at the date of initial application and lease liabilities recognised in the statement of financial position at the date of initial application:

	1.1.2019
	'000 HRK
Operating lease commitment as 31.12.2018 as disclosed in the Group's financial statements	1,916
Discounted using the incremental borrowing rate at 1.1.2019	1,096
Finance lease liabilities recognized as at 31.12.2018	91
Recognition exemption for:	
- short term leases	(110)
- leases of low value assets	(188)
Extention and termination options reasonably certain to be exercised	1,173
Lease liabilities recognised at 1.1.2019	2,062

Notes to the consolidated financial statements (continued)

13 Investment in associate and joint venture

	<u>31.12.2019</u>	<u>31.12.2018</u>
	'000 HRK	'000 HRK
Investment in SEE Link d.o.o. (33.33 %)	117	42
Investment in Funderbeam South-East Europe d.o.o. (20 %)	-	-
Total investment in associates and joint venture	<u>117</u>	<u>42</u>

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

	Company	Country	Native of business	Holding	
				2019	2018
				%	%
Joint venture	SEE Link d.o.o.	Makedonija	stock-exchange order routing	33.3	33.3
Associate	Funderbeam SEE d.o.o.	Hrvatska	finance intermediary	20	20

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

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

	<u>2019</u>	<u>2018</u>
	'000 HRK	'000 HRK
Share in ownership	33%	33%
Non-current assets	571	1,018
Current assets	506	504
<i>Of which cash and cash equivalents</i>	237	197
Total assets	<u>1,077</u>	<u>1,522</u>
Non-current liabilities	-	-
Current liabilities	731	1,405
<i>Of which current financial liabilities</i>	-	-
Total liabilities	<u>1,405</u>	<u>1,405</u>
Total income	1,273	735
Depreciation and amortization	457	452
Net interest income / (cost)	-	(1)
Income tax	26	-
Profit / loss for the year	<u>229</u>	<u>(239)</u>

Notes to the consolidated financial statements (continued)

13 Investment in associate and joint venture (continued)

Funderbeam South-East Europe d.o.o. is an associate established in 2017, while in 2018 it started operations. During 2018 the Company paid HRK 44.8 thousand on behalf of the Funderbeam South-East Europe d.o.o. as an increase in the Associate's share capital. Share ownership after increasing the amount of investment remained at 20%.

Summary of financial data for Funderbeam South-East Europe d.o.o. is as follows:

	<u>2019</u>	<u>2018</u>
	'000 HRK	'000 HRK
Share in ownership	20%	20%
Non-current assets	148	151
Current assets	136	263
<i>Of which cash and cash equivalents</i>	136	239
Total assets	284	414
Non-current liabilities	225	225
Current liabilities	1,030	1,005
<i>Of which current financial liabilities</i>	917	914
Total liabilities	1,405	1,230
Total income	743	358
Net interest income / (cost)	3	(34)
Income tax	26	-
Loss for the year	(146)	(890)

14 Financial assets

	<u>31.12.2019</u>	<u>31.12.2018</u>
	'000 HRK	'000 HRK
a) Financial assets at fair value through other comprehensive income		
Investments in bonds	197	197
Expected credit losses for bonds	(197)	197
Investments in shares	1,302	(197)
Ukupno	1,302	197

Movement in expected credit losses of bonds (stage 3):

	<u>2019</u>	<u>2018</u>
	'000 HRK	'000 HRK
Balance at 1 January	197	158
Expected credit losses	-	39
Total	197	197

Notes to the consolidated financial statements (continued)

14 Financial assets (continued)

Investment in bonds relate to bond acquired for uncollected receivables. In 2017 the Group recognised impairment on these bonds, which was recorded directly in profit or loss account (Note 7), given the significant decline in value of investment.

Investments in equity instruments relate to shares acquired for uncollected receivables, acquired for HRK 541 thousand. Fair value of these equity instruments as at 31.12.2019 is 0 (31.12.2018:0). Investments in equity instruments in amount of HRK 1,302 thousand (31.12.2018: HRK 197 thousand) relate to investments that Company intends to hold long-term.

At 18 December 2019. The Group acquired shares of Macedonian Stock Exchange A.D. The share price was HRK 1,105 thousand. From 18 December 2019 to 31 December 2019 there was no trading in shares of the Macedonian Stock Exchange A.D. therefore, the Management Board considers that the quoted price reflects the fair value of the said investment.

Shares in the amount of HRK 197 thousand relate to the share capital of the Središnje klirinško deponitarno društvo d.d. The Group 's management concluded that there was no change in the fair value of the said shares in 2019.

As permitted by IFRS 9, the Group has decided, upon initial recognition, to classify these instruments as financial assets at fair value through other comprehensive income. Unlike IAS 39, the accumulated fair value reserve of these investments will never be reclassified to profit or loss.

	31.12.2019	31.12.2018
	'000 HRK	'000 HRK
b) Financial assets at fair value through profit or loss		
Shares in open-ended investment funds	19,583	17,693
	19,583	17,693

Open-end investment funds are classified as level 1 fair value as at 31 December 2019 and 31 December 2018.

Notes to the consolidated financial statements (continued)

15 Trade receivables and other assets

	<u>31.12.2019</u>	<u>31.12.2018</u>
	'000 HRK	'000 HRK
Trade receivables	5,696	5,607
Given advances	13	41
Other assets	722	533
Impairment allowance	<u>(2,017)</u>	<u>(2,174)</u>
Total	<u>4,414</u>	<u>4,007</u>

The movement of the impairment of trade receivables:

	<u>2019</u>	<u>2018</u>
	'000 HRK	'000 HRK
Balance at 1 January	(2,174)	(1,929)
Impairment losses recognized during the year	(388)	(469)
Write of	8	16
Impairment of receivable	<u>537</u>	<u>208</u>
Total	<u>(2,017)</u>	<u>(2,174)</u>

At the reporting date, the Group had overdue receivables not impaired in the amount of HRK 1,221 thousand (31 December 2018: HRK 644 thousand). The Management considers that receivables are fully recoverable.

	Not past due	< 90	90 - 120	> 120
Trade receivables and other assets - gross amount	2,670	1,863	363	1,535
Expected credit loss	27	112	359	1,520
Trade receivables and other assets - net amount	2,643	1,751	4	15
Expected credit loss rate	1%	6%	99%	99%

Notes to the consolidated financial statements (continued)

16 a Short term deposits

	<u>31.12.2019</u>	<u>31.12.2018</u>
	'000 HRK	'000 HRK
Short-term deposits with maturity over 3 months	1,492	4,083
Total short-term deposits	<u>1,492</u>	<u>4,083</u>

16 b Long-term deposits

	<u>31.12.2019</u>	<u>31.12.2018</u>
	'000 HRK	'000 HRK
Long-term deposits	-	1,484
Total long-term deposits	<u>-</u>	<u>1,484</u>

Long-term deposit as at 31 December 2018 refers to a deposit in the amount of EUR 250 thousand in one business bank in Slovenia approved for 2 years at an interest rate of 0.45%.

17 Cash and cash equivalents

	<u>31.12.2019</u>	<u>31.12.2018</u>
	'000 HRK	'000 HRK
Gyro account in foreign currency (EUR)	7,308	1,045
Gyro account in domestic currency	282	1,396
Cash in hand	4	3
Total cash and cash equivalents	<u>7,594</u>	<u>2,444</u>

18 Issued share capital

Share number movement:

	Number of shares	Nominal value of share capital in HRK	Issued share capital in HRK '000
1 January 2018	4,635,700	10	46,357
31 December 2018	<u>4,635,700</u>	<u>10</u>	<u>46,357</u>
1 January 2019	4,635,700	10	46,357
31 December 2019	<u>4,635,700</u>	<u>10</u>	<u>46,357</u>

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 2019 the Company had 208 shareholders (31 December 2018: 217 shareholders) with ownership interests in the Company ranging between 0.01% and 9.99%.

Notes to the consolidated financial statements (continued)

19 Earnings per share

Calculation of profit per share as at 31 December 2019 was based on the profit of HRK 939 thousand and a weighted average number of ordinary shares outstanding of 46,357,000 calculated as follows:

	<u>31.12.2019</u>	<u>31.12.2018</u>
	'000 HRK	'000 HRK
Net profit/(loss) for the period (HRK'000)	939	190
Weighted average number of ordinary shares during the period	4,635,700	4,635,700
Basic and diluted profit/(loss) per share (in HRK)	<u>0.20</u>	<u>0.04</u>

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

20 Trade and other payables

	<u>31.12.2019</u>	<u>31.12.2018</u>
	'000 HRK	'000 HRK
Trade payables	1,383	979
VAT liability	191	72
Other short-term payables	979	895
Total trade and other payables	<u>2,553</u>	<u>1,946</u>

21 Contractual liabilities

	<u>31.12.2019</u>	<u>31.12.2018</u>
	'000 HRK	'000 HRK
Contractual liabilities from quotation maintaining	3,574	1,922
Contractual liabilities from initial listing fees	11	572
Other contractual liabilities	18	431
Total contractual liabilities	<u>3,603</u>	<u>2,925</u>

Provisions for expenses for which no invoice has been received	384	-
Provisions for bonuses and severances of Ljubljanska borza d.d.	-	1,251
Total provisions	<u>384</u>	<u>1,251</u>
Total contractual liabilities and provisions	<u>3,987</u>	<u>4,176</u>

Notes to the consolidated financial statements (continued)

22 Financial instruments - risk exposures

Interest rate risk

The Group does not have significant amount of variable interest-bearing assets. The most significant interest-earning assets are short-term deposits in banks. The Group has no financial obligations on which it pays interest. The impact of changes in market interest rates on income statement is therefore assessed as not significant.

Foreign currency risk

Except for HRK 32 thousand (2018: HRK 683 thousand) of the funds on the gyro account denominated in euro, trade receivables in amount of HRK 242 thousand and HRK 29 thousand of trade payable denominated in euro, there are no other financial assets and liabilities denominated in foreign currency. Thus, the Group is not significantly exposed to foreign currency risk.

Credit risk

The maximum net exposure to credit risk is as follow:

	31.12.2019	31.12.2018
	HRK '000	HRK '000
Cash and cash equivalents (excluding cash in hand)	7,590	2,441
Short-term deposits	1,492	4,083
Trade receivables and other assets	6,431	6,181
Guarantee deposits	250	250
Long-term deposits	-	1,484
Loans given to related party	217	216
	<hr/>	<hr/>
Total	15,980	14,655
	<hr/> <hr/>	<hr/> <hr/>

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

Notes to the consolidated financial statements (continued)

22 Financial instruments – risk exposures (continued)

Price risk

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

Price risk is mitigated by the Group through diversification of its portfolio of investments in open-ended investment funds to various types of funds, managed by different investment companies, and investing in cash funds. Assuming all other variables unchanged, a decrease/increase in the market price of units in investment funds by $\pm 1\%$ at the reporting date would result in decrease/increase of profit before tax by HRK 177 thousand (2018: HRK 177 thousand).

Liquidity risk

The Group does not have interest-bearing borrowings. All trade payables are due in range of 0 to 3 months. Lease liabilities refers to several personal vehicles leased for the period of 3 to 5 years and property and plant leased to 5 years. Undiscontinued payments for lease liabilities are disclosed in note 12. Cash and cash equivalents and financial assets at the reporting date significantly exceed liabilities. Financial liabilities which include trade and other payables, deferred income and accrued expenses have maturity up to one year.

23 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).

During 2019, the Zagreb Stock Exchange d.d. generated revenues from the Ljubljana Stock Exchange d.d. in the amount of HRK 241 thousand (2018: HRK 105 thousand) and expenses in the amount of HRK 42 thousand (2018: HRK 5 thousand). Receivables from Ljubljana Stock Exchange d.d. on 31.12.2019 amounts to HRK 200 thousand (31 December 2018: HRK 5 thousand). Liabilities to Ljubljana Stock Exchange d.d. on 31.12.2019 amounts to HRK 2 thousand (31 December 2018: HRK 0 thousand).

During 2019, the Zagreb Stock Exchange d.d. generated revenue from Funderbeam South-East Europe d.o.o. in the amount of HRK 6 thousand (2018: HRK 5 thousand). Receivables from Funderbeam South-East Europe d.o.o. on 31.12.2019 amounts to HRK 226 thousand (31 December 2018: HRK 221 thousand).

During 2019, the Zagreb Stock Exchange had expenditures from SEE link d.o.o. in the amount of HRK 87 thousand (2018: HRK 0 thousand). Liabilities to SEE link d.o.o. on 31.12.2019 amounts to HRK 22 thousand (31 December 2018: HRK 6 thousand).

Remuneration to Management Board throughout the year was (both Zagrebačka burza d.d. i Ljubljanska borza d.d.) HRK 3,173 thousand (2018: HRK 3,149 thousand). The total remuneration of Supervisory Board members amounted to HRK 47 thousand (2018: HRK 47 thousand).

Notes to the consolidated financial statements (continued)

24 Segment reporting

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

HRK '000			2018		Consolidation totals
	Croatia	Slovenia	Reportable segments total	Adjustments	
External revenue	13,351	10,768	24,119	(231)	23,888
Staff costs	(6,274)	(4,579)	(10,853)	-	(10,853)
Depreciation and amortization	(368)	(766)	(1,134)	-	(1,134)
Other operating expenses	(6,693)	(4,958)	(11,651)	109	(11,542)
Financial income	1,299	12	1,311	(1,245)	66
Financial expense	-	(7)	(7)	-	(7)
Net foreign exchange loss	(5)	-	(5)	-	(5)
Segment (loss)/profit before tax	1,310	470	1,780	(1,491)	289
Segment income tax	-	(122)	(122)	23	(99)
Segment (loss)/profit for the year	1,310	348	1,658	(1,468)	190

Capital expenditure	39	564	603	-	603
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HRK '000			2019		Consolidation totals
	Croatia	Slovenia	Reportable segments total	Adjustments	
External revenue	14,250	10,880	25,130	(144)	24,986
Staff costs	(6,760)	(4,400)	(11,160)	-	(11,160)
Depreciation and amortization	(1,077)	(796)	(1,873)	-	(1,873)
Other operating expenses	(7,004)	(5,461)	(12,465)	97	(12,368)
Financial income	1,855	19	1,874	(421)	1,453
Financial expense	(54)	(11)	(65)	-	(65)
Net foreign exchange loss	(15)	-	(15)	-	(15)
Segment (loss)/profit before tax	1,195	231	1,426	(393)	1,033
Segment income tax	-	(68)	(68)	(26)	(94)
Segment (loss)/profit for the year	1,195	163	1,358	(419)	939

Capital expenditure	76	837	913	-	603
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Notes to the consolidated financial statements (continued)

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. As stated in Note 15, the value adjustment on 31 December 2019 amounts to HRK 2,017 thousand (31 December 2018: HRK 2,174 thousand).

Income tax

The Group provides for tax liabilities in accordance with the tax laws of the Republic of Croatia. Tax returns are subject to the approval of the tax authorities who are entitled to carry out subsequent inspections of taxpayers' records. There are different possible interpretations of tax laws; therefore, amounts in the financial statements may be changed subsequently depending on the decision of the tax authorities. Income tax expense is disclosed in Note 9 and amounts to HRK 94 thousand (2018: HRK 99 thousand).

Useful life of property and equipment and intangible assets

The Group reviews the estimated useful lives of property and equipment and intangible assets at the end of each reporting period. The useful lives of equipment and intangible assets are stated in the note 3 b).

Classification of investment in joint venture

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

Impairment of goodwill

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

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

Notes to consolidated financial statements (continued)

25 Key accounting estimates and assumptions (continued)

Goodwill

Goodwill relates entirely to goodwill arising on acquisition of the subsidiary Ljubljanska borza d.d. The Group annually performs an impairment test in order to assess whether the recoverable amount of goodwill indicates potential impairment of its carrying amount. The calculation of the recoverable amount of goodwill is based on five-year plans for revenue on the Slovenian market and business plans of the subsidiary developed by the Group bearing in mind its corporate and marketing strategy, relevant markets trends.

The calculation of the recoverable amount implies a terminal growth rate for cash flows after the projected five-year period amounting to 2%. Cash flows created from such plans are discounted using the discount rate which reflects the return of the underlying asset, which is defined for the purposes of the goodwill impairment test as a weighted cost of capital for the Slovenian market.

The calculations of value in use for the cash-generating unit is most sensitive to the following assumptions:

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

Growth rates - The business plan terminal growth rates are based on market outlook. Average revenue growth rate for business plan period is 6.17%.

Discount rates - Discount rates represent the current market assessment of the risks specific to the CGU. This is the benchmark used by the Group to assess operating performance and to evaluate future investment proposals.

Borrowings to related parties

The Group believes that the loans granted are fully recoverable and that there are no indicators of impairment at the reporting date.

Recognition of deferred tax assets

At the balance sheet date, the Group did not recognise deferred tax assets related to carry forward tax losses in the amount of HRK 9,357 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. Deferred tax assets and liabilities are stated in Note 9 c).

Notes to the consolidated financial statements (continued)

25 Equity management

The Group's objectives in managing capital are to preserve the Group's ability to continue in business on a going concern basis to enable return on investment to shareholders and benefit other stakeholders, and to maintain an optimal capital structure to minimize cost of capital.

The Group monitors capital by monitoring its own finance ratios in its financial statements. This indicator is calculated as the ratio of total capital to total assets.

Equity to assets is as follows:

	31.12.2019	31.12.2018
	'000 HRK	'000 HRK
Total equity (equity and reserves)	40,540	39,505
Total assets	48,707	46,022
Equity to assets	83%	86%

83% of the total assets of the Group is financed from own resources. Accordingly, 17% of the assets are financed from foreign sources (2018: 14%).

26 Audit fees

The audit fee for the financial statements of the Group amounted to HRK 159 thousand (2018: HRK 160 thousand). During the year, the external auditor has provided services, other than legally obligatory, related to compliance verification. In accordance with the EU Regulation, services provided during 2019 are permitted non-audit services.

27 Events after the balance sheet date

Emergence and spread of Covid-19 virus

Management is aware that the emergence and spread of coronavirus (Covid - 19) in Croatia and Slovenia and the measures undertaken to stop the spread of the virus and to suppress it will certainly have negative effects on the entire economy. To mitigate these effects as much as possible, governments have introduced a series of measures to support the local economy.

However, given that these are recent developments, the existence of uncertainty over how long these prevention measures will be in place as well as the fact that measures are still being developed, the Management is not able to currently assess their effects on Company's business activity and results in the upcoming period.

Observing the development of the situation with the presence of the Covid-19 virus in the Republic of Croatia, Management of the Zagreb Stock Exchange d.d. decided that the Zagreb Stock Exchange d.d. as of March 16, 2020 operates outside the office.

The offices of the Zagreb Stock Exchange are closed further, and business is regularly carried out at secondary locations.

Managements' goal was to ensure continuous trading of securities throughout the trading day.

With its infrastructure and operating procedures, the Group is fully trained and ready to ensure business continuity so that trading can proceed smoothly. Infrastructure and work processes are adapted to work in crisis situations, employees are on standby, and tests related to work in such circumstances have been successfully carried out, ensuring that trading and business activities can continue without difficulty even in emergency situations. Zagreb Stock Exchange d.d. will continue to closely monitor developments to ensure the orderly functioning of the market, financial stability and investor protection.