ANNUAL REPORT

ON COMPANY STATUS AND BUSINESS ACTIVITIES 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.

Content

1 MANAGEMENT REPORT

1.1 A word by the Management Board

Most of the year behind us was marked by various challenges which shaped a rather diverse market environment. It most certainly did not lack activities, events or projects aimed at strengthening the capacity of the capital market and creating new opportunities for investors, listed companies and all stakeholders.

At the very beginning of the year, the Zagreb Stock Exchange Progress Market was registered as one of the first and very few SME growth markets in Europe. The Progress Market is a multilateral trading facility which may be used by small and medium-sized enterprises as a vehicle for the implementation of their investment plans. It is part of a development strategy of the Zagreb Stock Exchange focused on creating the conditions to provide growth capital to companies in all stages of their development, fostering a positive environment for entrepreneurs that also will be conducive to economic growth and employment. By the end of 2019, a total of five issuers had their shares admitted to trading on the Progress Market.

The ZSE Academy has once again taken active part in marking the World and European Money Week, as one of 53,300 global organisations seeking to raise awareness of the importance of financial literacy among young people and spur them to think about financial planning of their future, investment and entrepreneurship. It also hosted the 14th ZSE Academy round table entitled “2019 – what will it bring to the capital market and economy?” which gathered a record number of participants. The Academy, which celebrated its 9th anniversary in May, closed the year with more than 9,000 individuals who have completed one of its education and training programmes. In July, the Croatian Financial Services Supervisory Agency issued a positive opinion on the course programme for the ZSE L1 Certificate, which is considered to be a recognised qualification for the providers of information on services and financial instruments under the Ordinance on qualifications and HR requirements for the provision of investment services, so this programme was placed on a list of recognised professional qualifications.

February saw the launch of the new share index of the Zagreb Stock Exchange – the CROBEXprime, whose constituents include shares listed in the Exchange’s top tier. In April, the shares of Valamar Riviera d.d. were admitted to trading, thus expanding the CROBEXprime index. It was the fifth company to adopt the highest standards of corporate governance and transparency required for the Prime Market.

A joint index of the Zagreb and the Ljubljana Stock Exchange began to be published under the name of ADRIAprime in June. Its constituents are the shares admitted to trading on the Prime Market of the two exchanges, making ADRIAprime the first joint index and the eleventh share index of the Zagreb Stock Exchange.

The Zagreb Stock Exchange was among the 84 exchanges worldwide to mark the International Women’s Day in March by symbolically ringing the bell for the start of trading in a bid to draw attention to the vital role of the business sector in enhancing gender equality, as one of the goals to be attained on a path of sustainable development.

In June, the Croatian Financial Services Supervisory Agency, the Central Depository and Clearing Company and the Zagreb Stock Exchange held their 10th round of annual education for the approximately 100 representatives of the issuers whose shares are traded on the Exchange's regulated market.

In April, the Zagreb and the Ljubljana Stock Exchange held a first presentation of their markets and issuers in the United States. The event was held at NASDAQ, the second biggest world stock exchange, in New York in cooperation with the internationally renowned investment firm Auerbach Grayson and was very well attended by investors. Zagreb was the venue of the 6th annual Slovenian and Croatian Investment Days in May, while both exchanges organised their first joint winter Investment Day in Ljubljana in December. Also, the Zagreb Stock Exchange held its first ever investor-oriented webcast for Prime Market issuers. The event, supported by Erste & Steiermärkische Bank d.d. and Interkapital vrijednosni papiri d.o.o., was aimed at opening a new communication channel between investors and issuers to present the companies trading on the Prime Market, as the most demanding market segment, to a wider investment circle. Thanks to the Zagreb and the Ljubljana Stock Exchange backing, listed companies were able to hold more than 360 meetings with investors in the course of 2019, and the two exchanges plan to press on with both individual and joint efforts at maintaining an open dialogue between the two sides in the investment process.

The new, revised Croatian Financial Services Supervisory Agency and Zagreb Stock Exchange, Inc. Code of Corporate Governance, to be applied as of 2020, was adopted at a ceremony in October. The intention was to create a more concise and simple Code, which will clearly indicate good practices while reducing the necessary reporting time for companies. The new Code focuses particularly on the responsibility of management and supervisory boards, the diversity of their members, especially as regards gender diversity, and the independence of the supervisory board and its committees, as well as a simplified and easier reporting on the status of corporate governance for the companies bound by the Code. The 8th joint Zagreb Stock Exchange and investment fund industry Challenge of Change conference was held traditionally in Rovinj late in October. As the central event of the Croatian and regional financial community, this year's conference attracted 40-odd speakers and some 450 participants from all branches of the financial industry from Croatia, its region and the world. Its co-organisers are the Zagreb Stock Exchange and the Association of Pension Fund Management and Pension Insurance Companies.

The Zagreb Stock Exchange LEI Service, as one of no more than 34 globally accredited LEI assignment entities, managed a total of 1,037 LEIs at the end of the year. According to the performance criteria of the Global LEI Foundation, the quality of the ZSE LEI Service scored an exceptionally high 99-100%.

In November, the Croatian Financial Services Supervisory Agency issued a decision approving the new Exchange Rules. Most of the amendments refer to a harmonisation with the technical capabilities of the new version of the XETRA T7 trading system and to the alignment of terminology with the provisions of the Capital Market Act. Some of the amendments reflect the introduction of the new low liquidity trading procedure and the criteria of distribution to the public as a prerequisite for admission to trading on the Official Market. In addition, the issuers with shares admitted to trading on the Official Market are required to put in place an investor relations function as an element aimed, among other things, at improving the issuer reporting quality. These Exchange Rules have laid down in detail the method of checking compliance with post-admission requirements in all segments for the purpose of raising the level of transparency by the issuers with financial instruments admitted to trading on the regulated market.

Based on the decisions of the Management Board, a total of 14 shares were delisted in 2019.

The new version of the XETRA T7 trading system was successfully implemented early in December.

At the very close of the year, the Zagreb Stock Exchange acquired a 5.3% share in the Macedonian Stock Exchange (MSE) as a step towards active participation in its development. As the Zagreb and the Macedonian Stock Exchange have had a successful collaboration in various projects focused on strengthening local capital markets and the regional economy as a whole, this is a further effort at fostering joint activities in that field.

Earlier this year, MSE signed an exclusive cooperation agreement with the Croatian Funderbeam South-East Europe Ltd. company (Funderbeam SEE), in which the Zagreb Stock Exchange has a 20% interest.

Funderbeam SEE is part of the Estonian Funderbeam Group, which operates a start-up financing facility. To date, Funderbeam SEE has enabled Croatian start-ups and SMEs to raise more than EUR 5 million in capital via 10 campaigns. 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.

In December, the Capital Financial Services Supervisory Agency authorised the registration of the Zagreb Stock Exchange as a benchmark administrator for its CROBEX, CROBEXtr, CROBEX10, CROBEXprime and ADRIAprime indices. As a result, the Zagreb Stock Exchange was entered in the register of administrators and benchmarks complied and maintained by the European Securities and Markets Authority (ESMA). This was a further endorsement of the high level of transparency and quality of ZSE indices also with regard to compliance with European regulatory standards.

In 2019, the Zagreb Stock Exchange fully justified its position as a regional leader by continuing to provide superior quality products and services in a bid to strengthen the very market capacity and provide for the needs of shareholders, investors, issuers, member firms and all other stakeholders for efficient, transparent and cost-effective capital market services.

Exchange activities in the coming year will maintain the pace set in this year, striving to enhance the level of knowledge and expertise of all capital market participants through the ZSE Academy, as well as through continued work with the regulator, issuers and other stakeholders to create an environment conducive to excellence, the highest ethical standards in business and corporate governance. This is aimed indirectly at helping to increase the value of the market as a whole, create better investment opportunities for companies and investors and strengthen the Prime Market, as a paragon of corporate governance good practices, and bolster the efforts to facilitate the access to local and international investors by listed companies, thus improving their visibility and liquidity and raising general investor interest in the Croatian capital market.

1.2 ZSE Key Performance Indicators in 2019

Operating revenues in 2019 increased by +5.1% compared to 2018, amounting to HRK 14,250 thousand. The operating revenues increase is largely due to an increase in revenues from trading fees and other operating income (revenue from sales of information, revenue from seminars, income from affiliated companies and other income).

Operating profit before interest, taxes, depreciation and amortization in 2019 amounted to HRK 486 thousand, an increase by HRK +102 thousand or +26.6% in comparison with 2018.

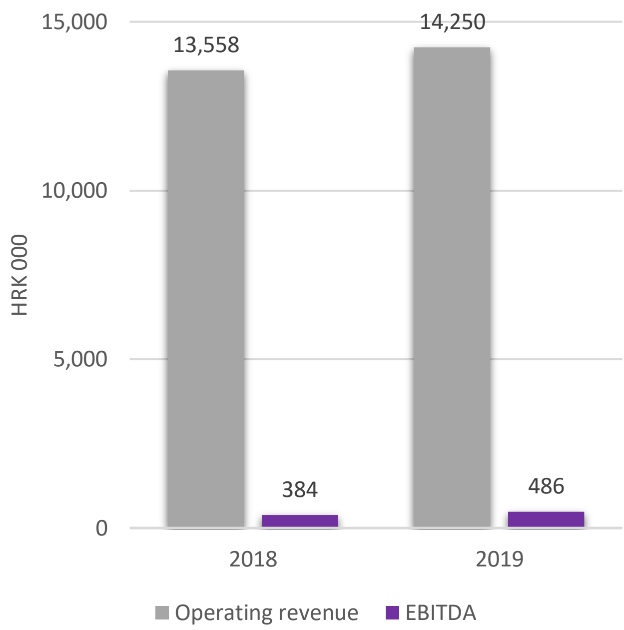

Figure 1: Operating revenue and EBITDA

HRK 000	2018	2019	change
Operating revenue	**13,558**	**14,250**	**5.10%**
Sales revenue	*8,673*	*8,820*	*1.69%*
Other operating income	*4,885*	*5,430*	*11.16%*
Operating expenses	**-13,174**	**-13,764**	**4.48%**
Staff costs	*-6,274*	*-6,760*	*7.75%*
Software costs and licences	*-1,649*	*-1,712*	*3.82%*
Professional services	*-1,137*	*-1,209*	*6.33%*
Rental expenses	*-815*	*-110*	*-86.50%*
Fees and charges	*-645*	*-815*	*26.36%*
Utility expenses	*-447*	*-457*	*2.24%*
Rent of equipment	*-264*	*-188*	*-28.79%*
Other costs	*-1,943*	*-2,513*	*29.34%*
EBITDA	**384**	**486**	**26.56%**
Depreciation and amortization	-368	-1,077	192.66%
EBIT	**16**	**-591**	
Net finance income	1,294	1,786	38.02%
EBT	**1,310**	**1,195**	**-8.78%**
Income tax credit	0	0	0.00%
Profit for the year	**1,310**	**1,195**	**-8.78%**

Table 1: Main business indicators

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

Zagreb Stock Exchange stocks were listed on the regulated market (Official market segment) in August 2016. Issued share capital of Zagreb Stock Exchange amounts to HRK 46,357,000 and it is divided into 4,635,700 ordinary shares. From 1 January 2019 to 31 December 2019 orderbook turnover in the amount of HRK 705,607.00 was reached.

Symbol	ZB-R-A
ISIN	HRZB00RA0003
Number of listed shares	4,635,700
Total turnover (HRK)	705,607.00
Total trading volume	46,869
Highest price (HRK)	16.40
Lowest prices (HRK)	13.29
Last price (HRK)	15.90
Average daily turnover (HRK)	19,070.45

Table 2: ZB-R-A stock in 2019

The ZB-R-A stock price reached its peak on October 24, 2019 in the amount of HRK 16.40, while the lowest price was reached on March 26, 2019 at HRK 13.29.

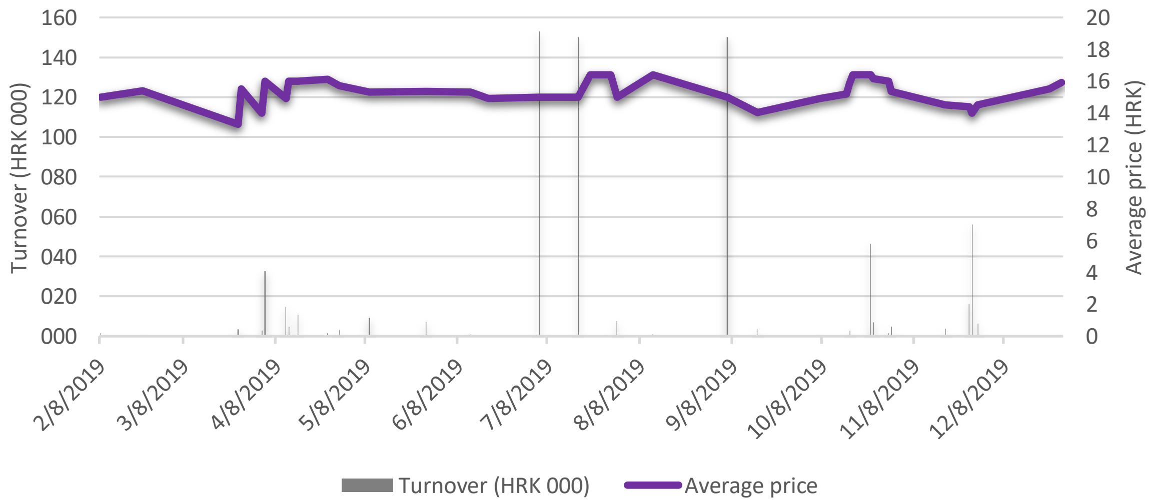

Figure 2: Turnover and average price ZB-R-A stock in 2019

Total of 208 shareholders were noted in the ownership structure of the Zagreb Stock Exchange on 31 December 2019.

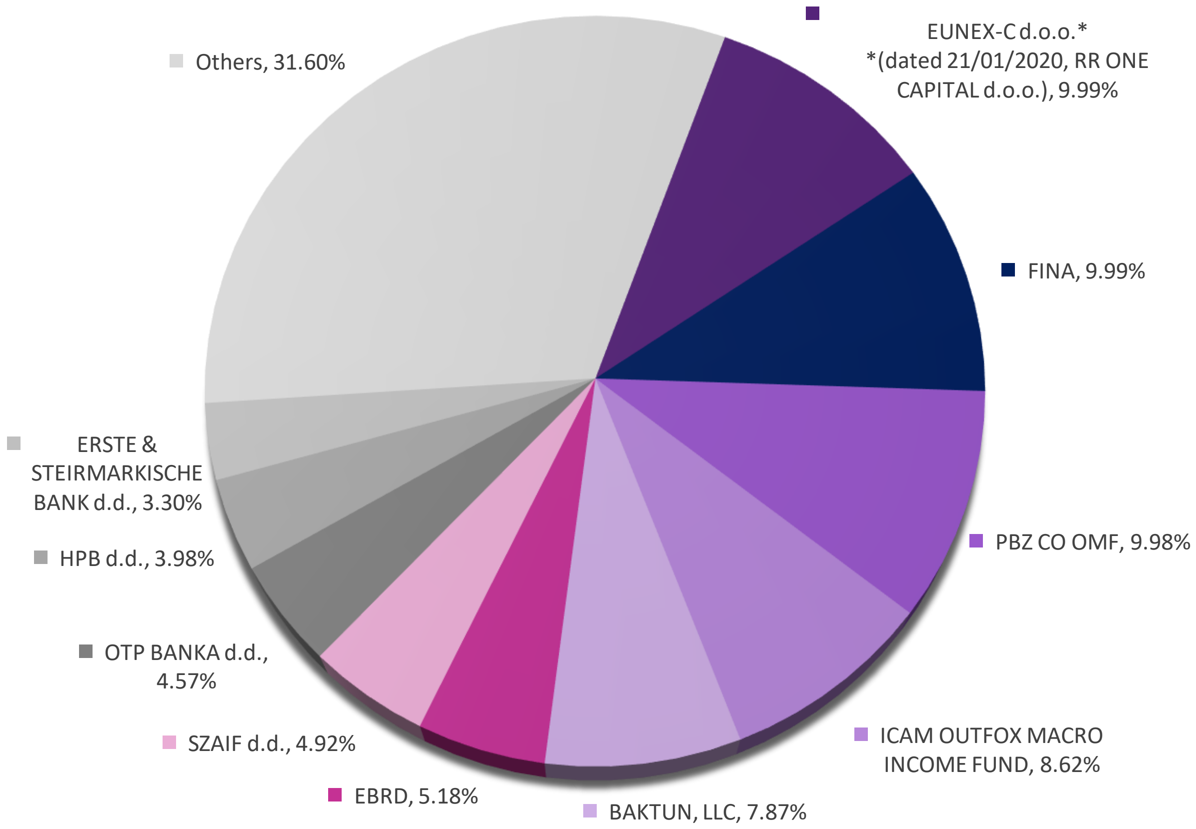

Figure 3: Ownership structure on 31 December 2019

1.3 Financial results and business operations in 2019

In 2019, the Company realized a total of HRK 14,250 thousand of operating income, which is HRK +692 thousand or +5.1% more than in 2018 when they amounted to HRK 13,558 thousand.

Compared to 2018, sales revenues increased from HRK 8,673 to HRK 8,820 thousand, HRK +147 thousand or +1.7%. Trading commisions and membership fees, as the most important source of revenue, increased from HRK 3,539 to HRK 4,005 thousand, HRK +466 thousand or +13.2%, which is a consequence of the increased volume of securities trading from September untill the end of 2019. The increase in total operating income was most influenced by the increase in other operating income by significant HRK +545 thousand or +11.2%, from HRK 4,885 to HRK 5,430 thousand. The increase in other operating income is the result of the increase in exchange data dissemination fees from HRK

2,240 to HRK 2,350 thousand (HRK +110 thousand or +4.9%), income from affiliated companies from HRK 104 to HRK 241 thousand (HRK +137 thousand or +131.7%), and other revenues from HRK 1,288 to HRK 1,712 thousand (HRK +424 thousand or +32.9%). Other operating income includes revenues from seminars in the amount of HRK 1,127 thousand, which, although significant, are lower by HRK -126 thousand or -10.1% compared to 2018. Revenues from quotation maintaining decreased from HRK 4,204 to HRK 3,932 thousand (HRK -272 thousand or -6.5%), and revenues from quotation fees decreased from HRK 929 to HRK 883 thousand (HRK -46 thousand or -5%) as a result of securities delisting on the regulated market (in 2019, 14 shares and 4 bonds were delisted). The shortfall in revenues from quotation maintaining and quotation fees was partially offset by price increases.

The Company's total operating expenses in 2019 amounted to HRK 14,841 thousand, which is an increase of HRK +1,299 thousand or +9.6% compared to 2018 when operating expenses amounted to HRK 13,542 thousand. The biggest impact on the increase in total operating expenses has the increase of depreciation. A significant increase in depreciation from HRK 368 to HRK 1,077 thousand (+192.7%) and a decrease in the office space rent from HRK 816 to HRK 110 thousand (-706 thousand HRK or -86.5%) 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. Depreciation cost growth was also influenced by the implementation of cross request functionality in early 2019.

Excluding depreciation, the Company's total operating expenses in 2019 amount to HRK 13,764 thousand, an increase of HRK +590 thousand or + 4,5% compared to 2018 when operating expenses amounted to HRK 13,174 thousand. The biggest impact on aforementioned increase have other costs, which include postal and telephone services, representation, seminar and marketing expenses, business trips, write-offs of intangible assets, impairment losses on financial assets, value adjustments and other expenses, and have increased by HRK +570 thousand or +29.3%, from HRK 1,943 to HRK 2,513 thousand. In addition to other costs, the increase in total costs is attributable to the increase in staff costs, which increased from HRK 6,274 to HRK 6,760 thousand (HRK +486 thousand or +7.7%) and administrative fees which increased from HRK 645 to HRK 815 thousand (HRK +170 thousand or +26.4%).

Operating loss of the Company in 2019 amounts to HRK -591 thousand, while in the previous year oprating profit amounted to HRK 16 thousand. In 2019, financial revenues amounted to HRK 1,855 thousand, HRK +556 thousand or +42.8% more than the financial revenues generated the year before when they amounted to HRK 1,299 thousand. Financial expenses in 2019 amount to HRK 69 thousand which is an increase of HRK +64 thousand compared to 2018. Accordingly, the Company's net financial result in 2019 is HRK 1,786 thousand, an increase of HRK +492 thousand or + 38% compared to 2018.

Considering all the above, the net profit of the period amounts to HRK 1,195 thousand which is a decrease of HRK -115 thousand or -8.8% compared to the previous year when the net profit amounted to HRK 1,310 thousand. Operating profit before depreciation is positive and amounts to HRK 486 thousand in 2019, an increase of HRK +102 thousand compared to 2018.

During 2019, the Company was investing its available cash in investment bond funds in order to preserve the value of its assets. At the end of 2019, the Company's free assets amounted to HRK 19,889 thousand (units in investment funds and cash in bank).

1.4 Business analysis

1.4.1 Total operating revenues

Total operating revenues in 2019 amounted to HRK 14,250 thousand and they are HRK +692 thousand higher or +5,1% compared to 2018 when they amounted to HRK 13,558 thousand. The largest increase in revenues was recorded in trading commissions (HRK +482 thousand or +14.6%).

As in the previous year, in 2019, the largest share in operating revenues was attributable to revenues from quotation maintaining (28%) and trading commissions (27%).

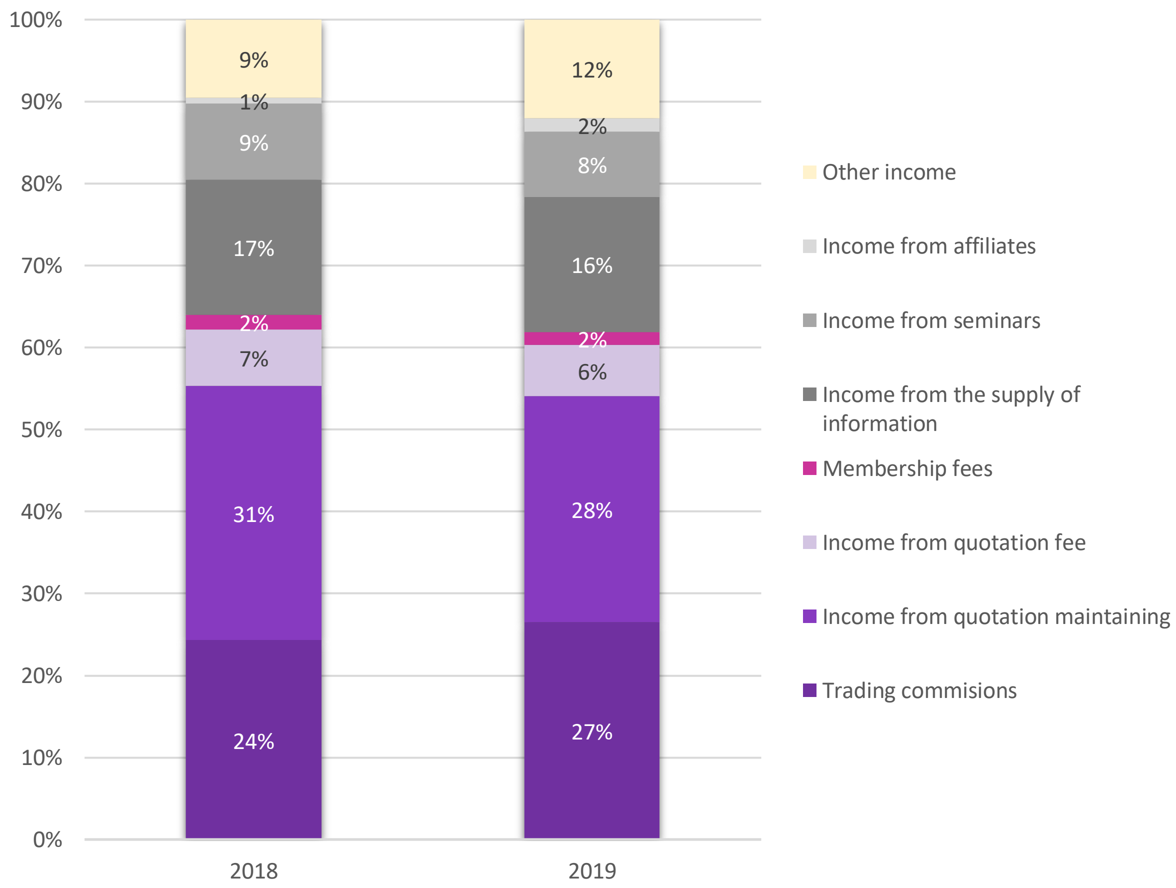

Figure 4: Total operating revenues structure

Trading commissions and membership fees

Influenced by the increased volume of securities trading from September untill the end of 2019, trading commission and membership fees in 2019 increased from HRK 3,539 to HRK 4,005 thousand, HRK +466 thousand or +13.2% compared to 2018. At the end of 2019, there were a total of 14 members on the Exchange.

Quotation maintenance fees

Quotation maintenance fees fell from HRK 4,204 to HRK 3,932 thousand (HRK -272 thousand or -6.5%), which is a consequence of delisting 15 shares and 4 bonds from the regulated market. At the end of 2019, there were 119 shares listed on the Regulated Market, -13 or -9.85% 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.

Quotation fees

In 2019 quotation fees fell from HRK 929 to HRK 883 thousand (HRK -46 thousand or -5%). In 2019, two new shares were listed (Meritus ulaganja d.d., 6 August, and Professio Energia d.d., 4 October) and four new bonds (Ministry of Finance of the Republic of Croatia, 5 February, and two bonds on 27 November, and Jadran - Galenski laboratorij d.d., December 18).

Other operating revenues

Other operating revenues increased a significant HRK +545 thousand or +11.2% compared to 2018 (from HRK 4,885 to HRK 5,430 thousand). The largest share in other operating revenues was generated by exchange data dissemination fees (43.28%), which increased by HRK +110 thousand or +4.9% (from HRK 2,240 to HRK 2,350 thousand). Included in this is revenue from the right to distribute real-time data paid by members. In addition, other revenues increased from HRK 1,288 to HRK 1,712 thousand (HRK +424 thousand or +32.9%). Other revenues include revenues from receivables, which most influenced their increase, amounting to HRK 533 thousand (HRK +326 thousand or +157.5% compared to 2018). In addition to collected receivables, revenues from affiliates, which were realized in the amount of HRK 241 thousand, increased significantly, HRK +137 thousand higher than in 2018 when they amounted to HRK 104 thousand, revenues from OTC services (from HRK 392 to HRK 490 thousand, HRK +98 thousand or +25%), while revenues from the LEI service decreased from HRK 457 to HRK 396 thousand (HRK -61 thousand or -13.4%). Revenues from seminars account for one fifth of other operating revenues, amounting to HRK 1,127 thousand in 2019, down HRK -126 thousand or -10.1% compared to 2018 when they amounted to HRK 1,253 thousand.

1.4.2 Total operating expenses

Total operating expenses in 2019 were HRK 14,841 thousand, an increase of HRK +1,299 thousand or +9.6% (in 2018 they were HRK 13,542 thousand).

As mentioned before, a significant increase in depreciation expense from HRK 368 to HRK 1,077 thousand (+192.7%) is related to the application of IFRS 16 and the implementation of cross request functionality in early 2019. Other operating expenses increased by HRK +104 thousand or +1.5%, from

HRK 6,900 to HRK 7,004 thousand, while staff costs increased from HRK 6,274 to HRK 6,760 thousand (HRK +486 thousand or +7.7%).

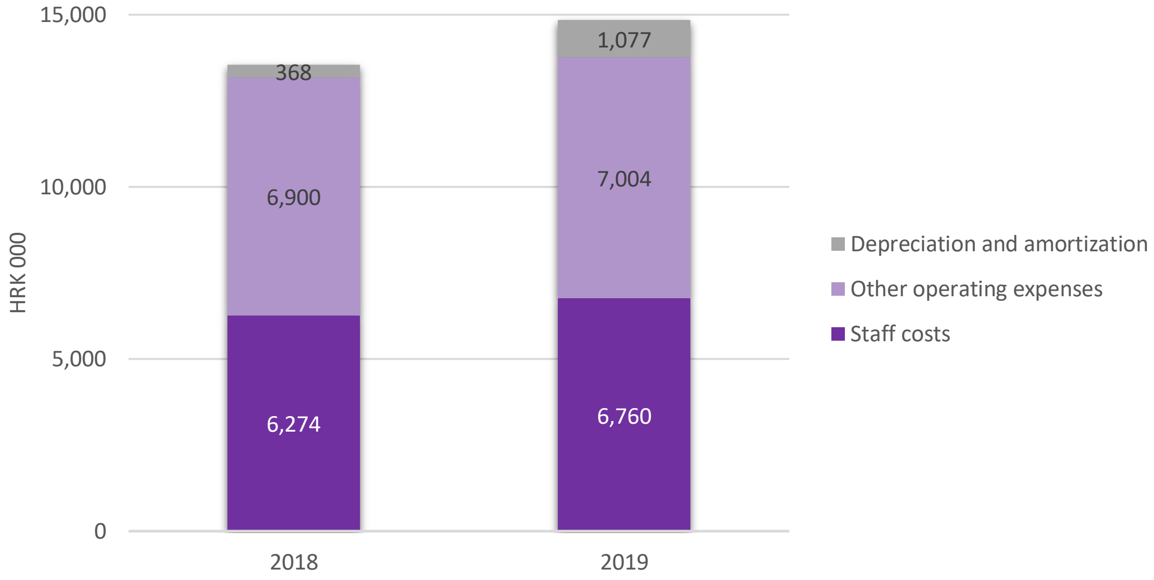

Figure 5: Total operating costs

The increase in other operating expenses (+1.5%) in 2019 compared to the previous year was largely influenced by the increase in other expenses by HRK +570 thousand or +29.3% (from HRK 1,943 to HRK 2,513 thousand), which include postal and telephone services (HRK +11 thousand), representation (HRK -8 thousand), seminar and marketing expenses (HRK +151 thousand), business trips (HRK -4 thousand), intangible assets write-offs (HRK -19 thousand), impairment losses on financial assets (HRK +468 thousand), value adjustments (HRK +49 thousand) and other expenses (HRK -78 thousand). 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 administrative fees, which increased from HRK 645 to HRK 815 thousand (HRK +170 thousand or +26.4%), professional services which increased from HRK 1,137 to HRK 1,209 thousand (HRK +72 thousand or +6.3%) and the cost of computer programs and licenses, which increased from HRK 1,649 to HRK 1,712 thousand (HRK +63 thousand or +3.8%).

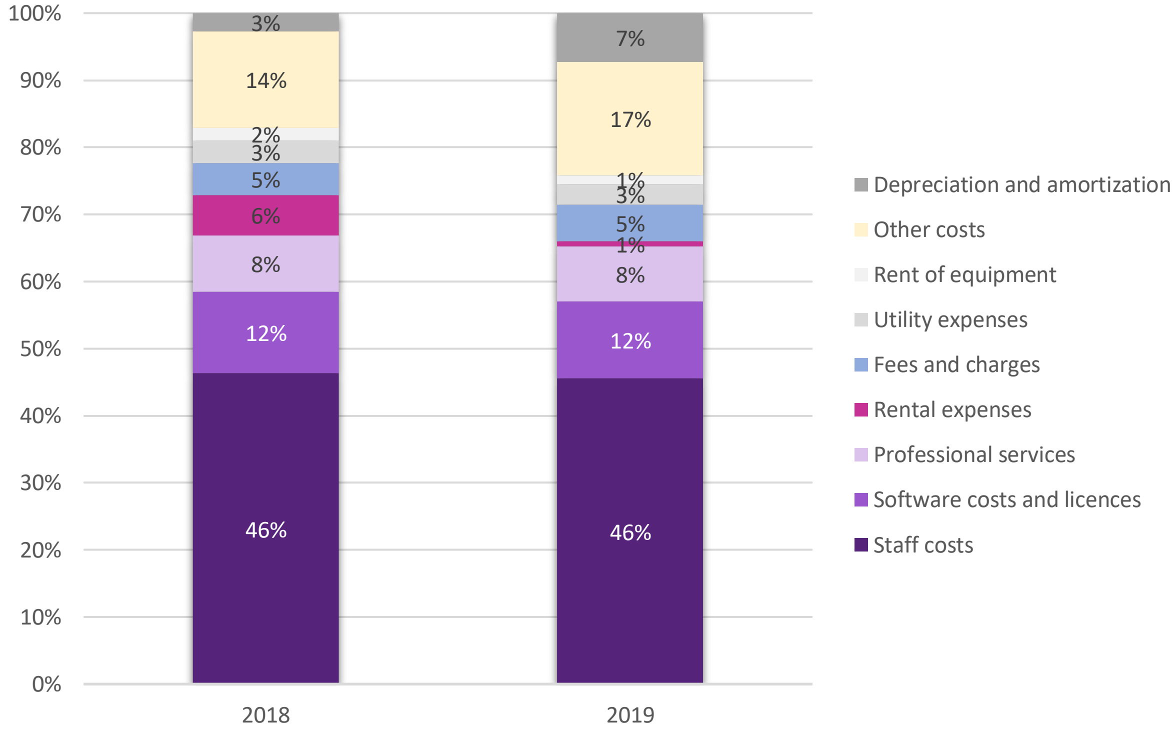

Figure 6: Operating costs structure

1.4.3 Net profit for the period

In 2019, the net profit for the period amounted to HRK 1,195 thousand; decrease by HRK -115 thousand or -8,8% compared to the previous year when net profit amounted to HRK 1,310 thousand. In addition to the increase in the most important revenue, that of trading commissions (+14.6%), which traditionally accounts for about 40% of sales revenues and about 25% of total revenues, the Company increased revenues from other bases. It is necessary to emphasize revenues from affiliates in the amount of HRK 241 thousand and increase in financial income by HRK +556 thousand (+42.8%).

Operating profit before depreciation is positive and amounts to HRK 486 thousand in 2019, an increase by HRK +102 thousand compared to 2018 and is largely a result of the application of IFRS-16.

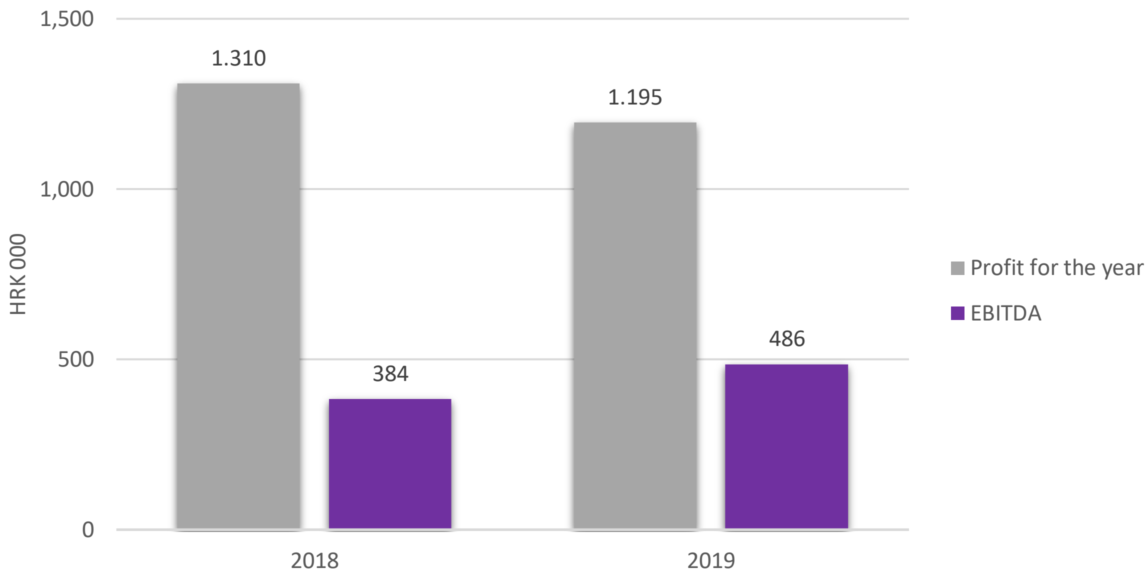

Figure 7: Net profit for the period and EBITDA

1.4.4 The Company's Assets

As of December 31, 2019, the Company's total assets amounted to HRK 46,619 thousand, which is +7.1% more than in 2018.

HRK 000	2018	2019	change
Non-current assets	**21,071**	**23,522**	**11.6%**
Current assets	**22,456**	**23,097**	**2.9%**
Inventories	*7*	*7*	*0.0%*
Trade receivables	*2,588*	*3,123*	*20.7%*
Financial assets	*17,693*	*19,583*	*10.7%*
Cash and cash equivalents	*2,081*	*319*	*-84.7%*
Prepaid expenses	*87*	*65*	*-25.3%*
Total assets	**43,527**	**46,619**	**7.1%**
Equity	**39,386**	**40,581**	**3.0%**
Long term obligations	**-**	**302**	**-**
Current liabilities	**4,141**	**5,736**	**38.5%**
Total equity and liabilities	**43,527**	**46,619**	**7.1%**

Table 3: Balance Sheet on 31 December

The structure of assets and liabilities has not changed significantly compared to 2018. On the assets side, the share of fixed and current assets is uniform, while the share of long-term and short-term liabilities versus equity and reserves is slightly increased.

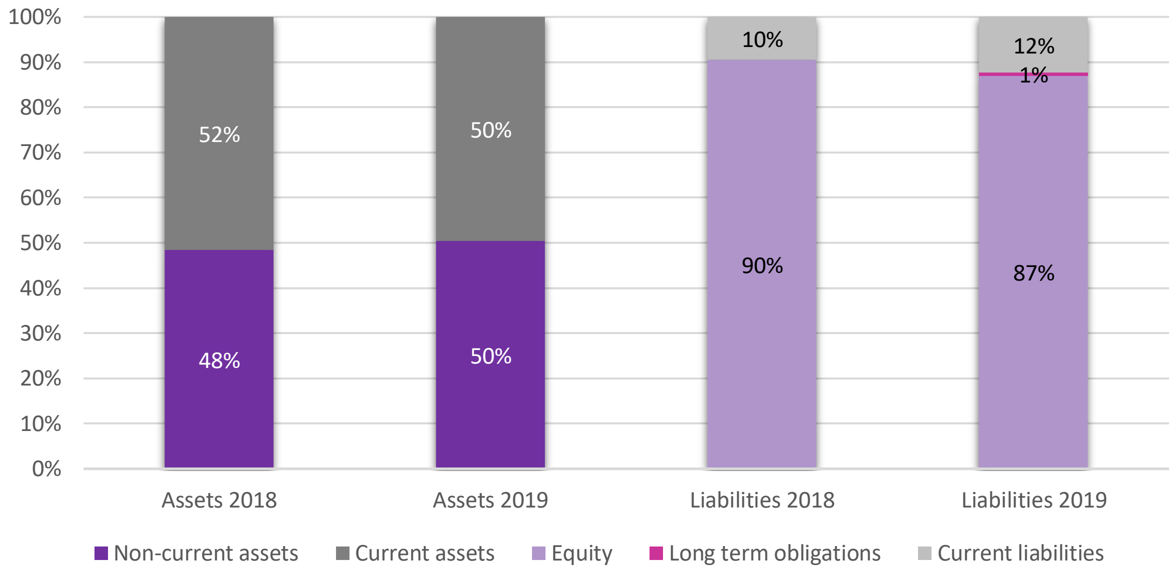

Figure 8: Assets and Liabilities Structure

1.5 Significnt 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 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, the Government of the Republic of Croatia has 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 in the Republic of Croatia, the Company's Management Board has decided that the Company will operate out of the office as of March 16, 2020. The Company's offices 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 Company 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 Company 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 Company

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

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

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

1.7 Research and Development activities

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

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

1.8 Information on repurchase of own shares

As of December 31, 2019, the Company held no own shares.

The Company did not acquire own shares between 1 January 2019 and 31 December 2019.

1.9 Subsidiaries of the Company

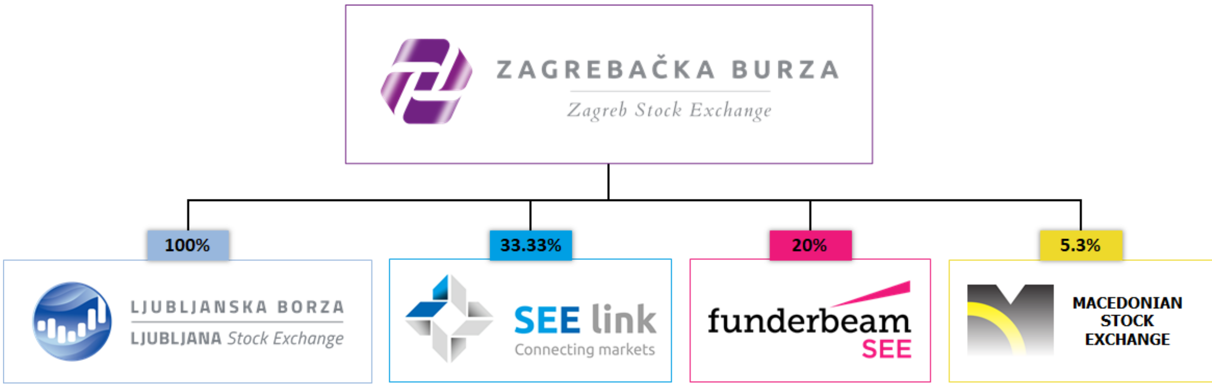

Figure 9: Subsidiaries of the Company

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 memebers of the Supervisory Bord as of 31 December 2019.

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

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 Bord 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 Exchage 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 Company is fully funded by its own capital. The financial instruments the Company invests in are investment funds (money market and bond funds).

1.11 Business operation risks

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

1.12 Internal controls and risk management system

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

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

The Exchange enforces the internal controls system through two independent control functions: compliance with the relevant regulations function and internal audit function.

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

Risk management is a set of procedures and methods for determining, measuring, assesing, 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.

ZAGREBAČKA BURZA d.d.
Zagreb
1

Ivana Gažić	Tomislav Gračan
President of the Management Board	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 Štimac[2],
- 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.

ZAGREBAČKA BURZA d.d.
Zagreb

Ivana Gažić	Tomislav Gračan
President of the Management Board	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.

3 Zagreb Stock Exchange in 2019

The year behind us was marked by considerable trading volatility but its second half recorded a mostly positive trend, primarily as a result of increased investor interest in the shares of confectioner Kraš d.d. This also benefited the rest of the market to a certain extent, so trading indicators improved: order book trading turnover rose 9%, with share trading growing 38%. Overall, trading was almost 5% stronger than a year earlier.

HRK m	**2015**	**2016**	**2017**	**2018**	**2019**
Orderbook turnover	2,580	2,400	2,989	2,266	2,472
Stocks	*2,206*	*1,909*	*2,621*	*1,579*	*2,179*
Bonds	*295*	*438*	*368*	*686*	*293*
Structured products	*79*	*52*	*-*	*-*	*-*
Total Block Turnover	749	1,465	670	588	523
Equity Block Turnover	*541*	*1,209*	*589*	*542*	*523*
Debt Block Turnover	*208*	*255*	*81*	*46*	*0*
Total Turnover	**3,330**	**3,864**	**3,660**	**2,854**	**2,994**

Table 4: ZSE turnover (2015 - 2019)

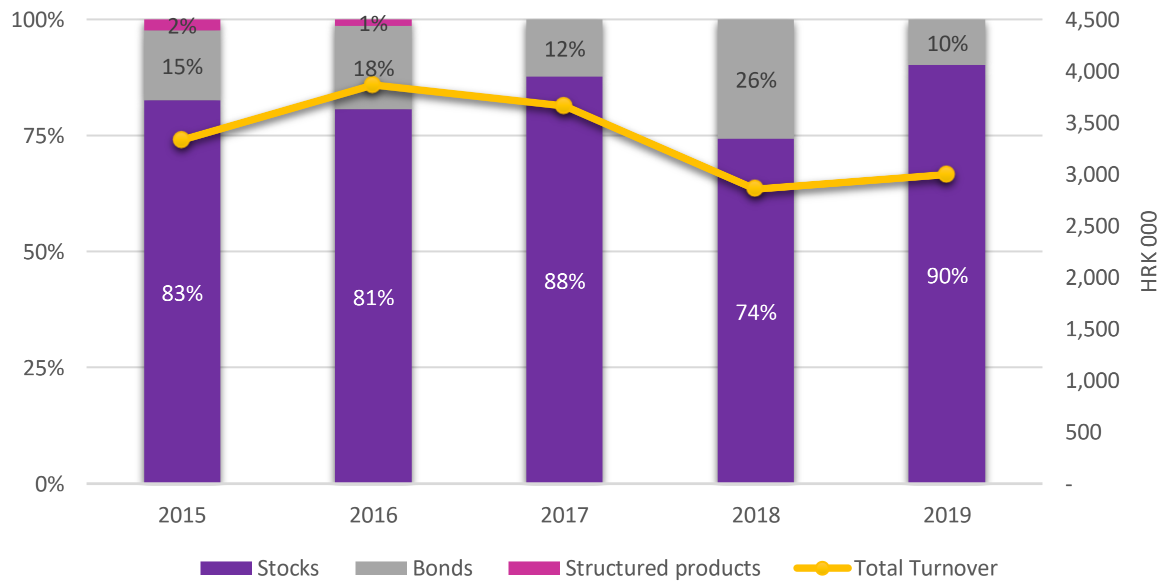

Figure 9: ZSE turnover by type of security (2015 - 2019)

Market value as measured by market capitalisation increased by a sizeable 13% in total, with share market capitalisation up 11.5% while Prime Market trading recorded the strongest increase by as much as 70.6%.

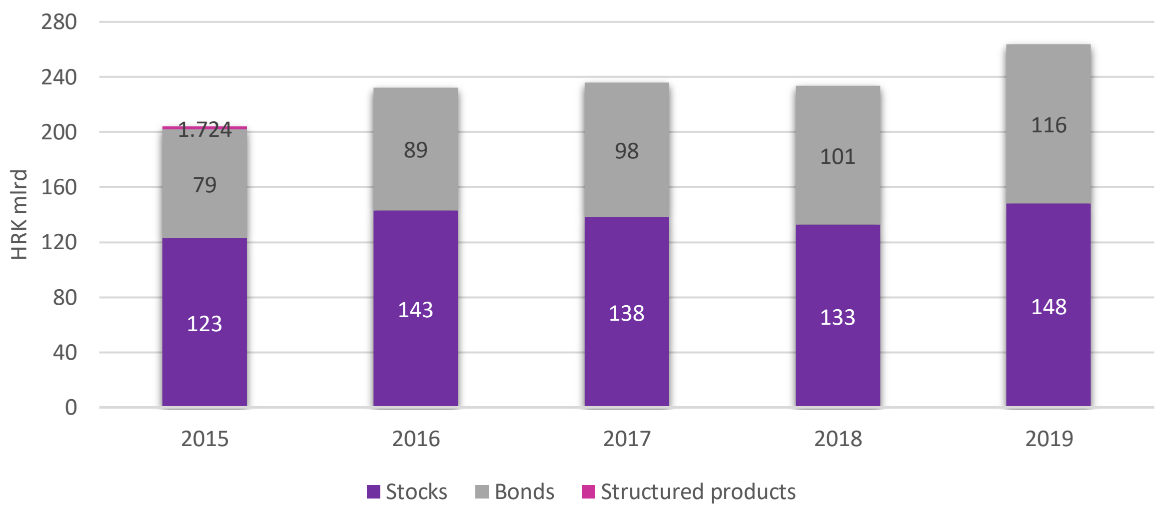

Figure 10: Market capitalization (2015 – 2019)

Some indices retreated (CROBEXkonstrukt, CROBEXturist and CROBEXtransport) while others advanced at a two-digit pace: CROBEXnutris (+38.18%) led the way, with CROBEXtr (+19.42%), which reflects an excellent dividend yield, CROBEX10 (+18%), CROBEXplus (+17%), CROBEXprime (+16.42%) and CROBEX (+15.36%) following suit. The new regional ADRIAprime index rose almost 11%.

Index	2018	2019	change
CROBEX	1,748.81	2,017.43	15.36%
CROBEXtr	1,129.13	1,348.37	19.42%
CROBEX10	1,017.07	1,199.89	17.98%
CROBEXprime	1,000.00	1,164.17	16.42%
CROBEXplus	947.63	1,108.73	17.00%
CROBEXindustrija	853.81	870.48	1.95%
CROBEXkonstrukt	496.32	432.14	-12.93%
CROBEXnutris	498.62	689.01	38.18%
CROBEXtransport	791.07	1,280.65	61.89%
CROBEXturist	3,538.52	3,456.83	-2.31%
CROBIS	110.99	115.59	4.15%
CROBIStr	174.21	187.18	7.45%
ADRIAprime	1,000.00	1,109.27	10.93%

Table 5: Indices

The most heavily traded shares were those of Kraš d.d., followed by hotelier Valamar Riviera d.d. and Hrvatski Telekom d.d. (Croatian Telecom Inc.). Approximately one half of the turnover was concentrated in the 10 most liquid shares.

Rank	Ticker	Issuer	Turnover (HRK)	Share
1	KRAS	KRAŠ d.d.	478,770,916	21.97%
2	RIVP	VALAMAR RIVIERA d.d.	233,206,427	10.70%
3	HT	HRVATSKI TELEKOM d.d.	216,779,512	9.95%
4	ADRS2	ADRIS GRUPA d.d.	186,611,930	8.56%
5	OPTE	OT-OPTIMA TELEKOM d.d.	123,192,892	5.65%
		Others	940,563,095	43.16%
	TOTAL		**2,179,124,772**	**100.00%**

Table 6: Turnover of the 5 most liquid stocks in 2019

The year 2019 also saw two new listings (Meritus ulaganja d.d. and Professio Energia d.d.) while Valamar Riviera d.d. made a transition to the Prime Market, the most demanding market segment.

At the end of 2019, the Exchange had 14 members and top five members with the biggest turnover in 2018 are shown in the following table:

Rank	Member	Turnover (HRK)	Share
1	INTERKAPITAL VRIJEDNOSNI PAPIRI d.o.o.	1,733,078,396	28.93%
2	ERSTE&STEIERMARKISCHE d.d.	684,569,038	11.43%
3	RAIFFEISENBANK AUSTRIA d.d.	657,767,567	10.98%
4	ZAGREBAČKA BANKA d.d.	572,182,473	9.55%
5	FIMA-VRIJEDNOSNICE d.o.o.	562,930,637	9.40%
	Others	1,780,484,501	29.72%
	TOTAL	**5,991,012,612**	**100.00%**

Table 7: Turnover of the first 5 members of the Stock Exchange in 2019

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

3.1 Support for members and issuers

3.1.1 Support for members

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

At the beginning of 2019, January 2, the Zagreb Stock Exchange successfully implemented Cross Request functionality in the trading system, while on December 9, 2019, a new version of the Xetra T7 trading platform was implemented on the Zagreb and Ljubljana Stock Exchange. One of the significant developments regarding the new version of the Xetre T7 is the introduction of a new trading modality for low-liquid stocks with continuous trading stages, but with different duration of each trading phase and balancing auctions.

The Exchange also provides other forms of technical support and, for that purpose, it has made available a dedicated collaboration website (http://it.zse.hr) for users to submit their support requests directly to the Information and Technology Development Department.

3.1.2 Support for issuers

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

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

The Exchange licences authorized advisors on the Progress Market and monitors the entire application process for trade listing on the Progress Market. It also handles trade supervision and ensures that issuers fulfill their obligations towards the Exchange after they have listed on the Progress Market.

In December 2019, the Zagreb Stock Exchange substantially amended its Rules regarding the supervision of issuers in terms of fulfilling post-listing obligations. These changes are part of the stock market's strategy of continuously working to increase the level of transparency and corporate governance of issuers across all market segments.

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 31 to 69 and other information, set out on pages 1 to 25, 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.:

ZAGREBAČKA BURZA d.d.
Zagreb
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Ivana Gažić	Tomislav Gračan
President of the Management Board	Member of the Management Board

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Zagrebačka burza d.d.

Report on the Audit of the Financial Statements

Opinion

We have audited the unconsolidated financial statements of Zagrebačka burza d.d. („Company"), which comprise the unconsolidated statement of financial position as at 31 December 2019, unconsolidated statement of comprehensive income, unconsolidated statement of changes in equity and reserves and unconsolidated 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 unconsolidated financial statements present fairly, in all material respects, the unconsolidated financial position of the Company as at 31 December 2019, and its unconsolidated financial performance and its unconsolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union (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 Company 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.

Emphasis of matter

We draw attention to the fact that consolidated financial statements for the Zagrebačka burza d.d. its subsidiary, prepared in accordance with the International Financial Reporting Standards adopted by the European Union (IFRSs), have been issued separately. Consolidated financial statements have been approved for issue at the date of this report and for a better understanding of Zagrebačka burza d.d. group as a whole, users should read consolidated financial statements related to these financial statements.

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.

INDEPENDENT AUDITOR'S REPORT (continued)

Report on the Audit of the Financial Statements (continued)

Key Audit Matter

Revenue recognition

According to the disclosures made in Note 4, the total revenue of the Company for the financial year amount to HRK 8,820 thousand (2018: HRK 8,673 thousand). Accounting policies for revenue recognition are disclosed in Note 3 k).

Revenue is important for assessing the Company's performance. The Company 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 it is 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.

<u>Description of audit procedures performed and their results</u>

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.

Other Matter

The unconsolidated financial statements of the Company 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 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 include required disclosures as set out in the Articles 21 and 22 of the Accounting Act and whether the Corporate Governance Statement includes the information specified in the Article 22 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 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.

Based on the knowledge and understanding of the Company 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 Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless Management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

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

INDEPENDENT AUDITOR'S REPORT (continued)

Report on the Audit of the 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 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 Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.
- Conclude on the appropriateness of Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our 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 Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters 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.

Deloitte.

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 Company 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 Company 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, and which have not been disclosed in 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

Unconsolidated statement of comprehensive income

	Note	2019	2018
		‘000 HRK	**‘000 HRK**
Sales revenue	4	8,820	8,673
Other operational income	5	5,430	4,885
Staff costs	6	(6,760)	(6,274)
Depreciation and amortization	10,11,12	(1,077)	(368)
Other operating costs	7	(7,004)	(6,900)
(Loss)/profit from operations		**(591)**	**16**
Financial income	8	1,855	1,299
Financial expenses	8	(54)	-
Net loss from foreign exchange		(15)	(5)
Net financial income		**1,786**	**1,294**
Profit before tax		**1,195**	**1,310**
Income tax expenses	9a	-	-
Profit for the year		**1,195**	**1,310**
Other coprehensive profit, net of income taxes		-	-
Total coprehensive profit for the year		**1,195**	**1,310**
Basic and diluted profit per share	20	0.26	0.28

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

Unconsolidated statement of financial position

	Note	31.12.2019	31.12.2018
		'000 HRK	**'000 HRK**
Assets			
Non-current assets			
Equipment	10	256	400
Intangible assets	11	1,080	631
Assets with right of use	12	1,041	-
Investments in subsidiaries	13	19,125	19,125
Investments in associates and joint venture	14	251	251
Financial assets at fair value through other comprehensive income	15 a	1,302	197
Guarantee deposits		250	250
Loans given to related parties	18	217	217
Total non-current assets		**23,522**	**21,071**
Current assets			
Trade receivables and other assets	16	3,123	2,588
Financial assets at fair value through profit or loss	15 b	19,583	17,693
Cash and cash equivalents	17	319	2,081
Inventories		7	7
Prepaid expenses		65	87
Total current assets		**23,097**	**22,456**
Total assets		**46,619**	**43,527**
Equity, reserves and liabilities			
Equity and reserves			
Issued share capital	19	46,357	46,357
Share premium		13,860	13,860
Legal reserves		141	141
Accumulated loss		(19,777)	(20,972)
Total equity and reserves		**40,581**	**39,386**
Non-current liabilities			
Lease liabilities		**302**	**-**
Current liabilities			
Trade and other payables	21	1,569	1,373
Lease liabilities		734	-
Contractual liabilities	22	3,433	2,768
Total current liabilities		**5,736**	**4,141**
Total equity, reserves and liabilities		**46,619**	**43,527**

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

Unconsolidated statement of changes in equity and reserves

	Issued share equity	Share premium	Legal reserves	Accomulates loss	Total
	'000 HRK	**'000 HRK**	**'000 HRK**	**'000 HRK**	**'000 HRK**
Balance at 1 January 2018	**46,357**	**13,860**	**141**	**(22,282)**	**38,076**
Profit for the year	-	-	-	1,310	**1,310**
Total comprehensive income of the period	**-**	**-**	**-**	1,310	**1,310**
Balance at 31 December 2018	**46,357**	**13,860**	**141**	**(20,972)**	**39,386**
Profit for the year	-	-	-	1,195	**1,195**
Total comprehensive profit for the year	**-**	**-**	**-**	1,195	**1,195**
Balance at 31 December 2019	**46,357**	**13,860**	**141**	**(19,777)**	**40,581**

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

Unconsolidated statement of cash flows

	Note	2019	2018
		'000 HRK	**'000 HRK**
Cash flow from operating activities		-	-
Profit before tax		**1,195**	**1,310**
Adjustments		-	-
Depreciation and amortization	10,11,12	1,077	368
Unrealised (profit)/loss from financial assets at fair value through profit and loss	8	(1,210)	24
Unrealised loss from financial assets at fair value through other comprehensive income	7	467	-
Decrease in short term receivables	7	388	132
Dividends received	8	(421)	(1,245)
Interest received	8	(202)	(55)
Net foreign exchange loss/(profit)		15	5
Provisions		-	26
Writte-offs		23	33
Other adjustments		(32)	(23)
Cash flow before changes in operating assets and liabilities		**1,300**	**575**
Changes in operating assets and liabilities			
Increase in trade receivable		(928)	(858)
Decrease in prepaid expenses		22	5
Decrease in invetories		-	3
Increase in short trade and other payables		197	90
Increase/(decrease) in contractual obligations and accrued expenses		665	(289)
Change in operating assets and liabilities		**(778)**	**(1,049)**
Income tax		-	-
Net cash inflow/(outflow) from operating activities		**522**	**(474)**
Cash flow from investing activities			
Investment in joint ventures		-	(45)
Purchase of equipment	10	(31)	(39)
Purchase of financial instruments		(2,573)	-
Purchase of intangible assets	11	(623)	-
Proceeds from the sale of financial instruments		320	500
Dividends income		421	1,245
Interest income		202	55
Net cash (outflow) / inflow from investing activities		**(2,284)**	**1,716**
Cash flow from financing activities			
Repayment of of lease liabilities		(734)	-
Granted loans		-	(44)
Net expenditure on financing activities		**(734)**	**(44)**
Net (decrease) / increase in cash and cash equivalents		**(1,762)**	**1,198**
Cash and cash equivalents at the beginning of the year		2,081	883
The impact of changes in exchange rates on cash and cash equivalents		-	-
Cash and cash equivalents at the end of the year	17	**319**	**2,081**

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

Notes to the financial statements

1 Reporting entity

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

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

At the year end the Company was owned by 208 shareholders (31 December 2018: 217 shareholders). The Company does not have an ultimate parent company.

As at 31 December 2019 and 31 December 2018 the Zagreb Stock Exchange d.d. is the owner of Ljubljanska borza d.d. Ljubljana, Slovenia and has an investment in a joint venture SEE Link d.o.o. Skopje, Republic of Macedonia. As at 31 December 2019, the Zagreb Stock Exchange d.d. has an investment in the associate company Funderbeam South-East Europe d.o.o., Zagreb, Croatia.

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

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

2 Basis of preparation

a) Statement of compliance

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

These financial statements were authorised for issue by the Management Board on 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 amendments to the existing standards and new interpretation issued by the International Accounting Standards Board (IASB) and adopted by the EU are effective for the current reporting period:

- **IFRS 16 "Leases"** – adopted by the EU on 31 October 2017 (effective for annual periods beginning on or after 1 January 2019),
- **Amendments to IFRS 9 "Financial Instruments"** - Prepayment Features with Negative Compensation – adopted by the EU on 22 March 2018 (effective for annual periods beginning on or after 1 January 2019),
- **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),

Notes to financial statements (continued)

2 Basis of preparation (continued)

b) Adoption of new and amended International Financial Reporting Standards

- **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 these new standards, amendments to the existing standards and interpretation has not led to any material changes in the Company's financial statements except in application of IFRS 16. As at January 1, 2019, the Company recognized assets with a right of use and lease liabilities in the amount of HRK 1,770 thousand.

c) Impact of initial application of IFRS 16 Leases

Impact of the new definition of a lease

The Company 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 Company 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 Company 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 Company 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 Company:

- 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)
- 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.

Notes to financial statements (continued)

2 Basis of preparation (continued)

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

Impact on Lessee Accounting (continued)

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

- The Company has applied a single discount rate to a portfolio of leases with reasonably similar characteristics.
- The Company 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 Company 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 Company has excluded initial direct costs from the measurement of the right-of-use asset at the date of initial application.
- The Company has used hindsight when determining the lease term when the contract contains options to extend or terminate the lease.
- The Company 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 Company 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 Company 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 d).

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

The Company 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 Company 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 financial statements (continued)

2 Basis for 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"). 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 26.

i) Foreign currency

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 of loss.

In addition to HRK, the most significant currency in which the Group has assets and liabilities is Euro. The exchange rate used for translation on 31 December 2019 was EUR 1 = HRK 7.44258 (31 December 2018: EUR 1 = HRK 7.41758).

Notes to the financial statements (continued)

3 Significant accounting policies (continued)

a) Equipment and intangible assets

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

Recognition and measurement

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

Subsequent costs

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

Depreciation and amortization

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

The estimated useful economic lives are as follows:

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

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

Notes to the financial statements (continued)

3 Significant accounting policies (continued)

b) Financial instruments

Classification

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.

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 Company 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.

Notes to financial statements (continued)

3 Significant accounting policies (continued)

b) Financial instruments (continued)

Financial liabilities

Company'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 Company 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 Company 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 Company substantially transfers all the risks and rewards of ownership to another business entity or when the rights have been exercised, ceded or expired. The Company 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 Company 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.

The Company measures investments in the shares (described in note 15 a) by FVOCI option. In accordance with IFRS 9, the Company 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 15 a).

Notes to the financial statements (continued)

3 Significant accounting policies (continued)

b) Financial instruments (continued)

Initial and subsequent measurements

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 Company assesses separately each financial instrument to determine if there is an active or inactive market for the instrument.

Fair value hierarchy

The Company 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 15)	-	-	1,302	1,302
Financial assets at fair value through profit or loss (note 15)	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 15)	-	-	197	197
Financial assets at fair value through profit or loss (note 15)	17,693	-	-	17,693
Total	**17,693**	**-**	**197**	**17,890**

Notes to the financial statements (continued)

3 Significant accounting policies (continued)

b) 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, Company 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 Company'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 Company 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 Company considers reasonable and substantiated information that is relevant and available. This includes quantitative and qualitative information and analysis, based on the Company'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 Company in full without the Company 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 Company is exposed to credit risk.

The Company 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 Company 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 financial statements (continued)

3 Significant accounting policies (continued)

b) 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.

c) Impairment of non-financial assets

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

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

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

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

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

Notes to the financial statements (continued)

3 Significant accounting policies (continued)

d) Leases (accounting policy until 31 December 2018)

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

d) Leases (accounting policy from 1 January 2019)

The Company assesses whether a contract is or contains a lease, at inception of the contract. The Company 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 Company 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 Company 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 financial statements (continued)

3 Significant accounting policies (continued)

d) Leases (accounting policy from 1 January 2019)

The Company 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 Company 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 Company 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.

e) Cash and cash equivalents

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

f) Earnings per share

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

g) Employee benefits

Defined contribution pension plans

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

i) Termination benefits

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

ii) Short-term employee benefits

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

Notes to financial statements (continued)

3 Significant accounting policies (continued)

h) Taxation

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

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

Deferred tax assets and liabilities are not discounted and are classified as non-current assets and/or liabilities in the statement of financial position. Deferred tax assets are recognized when it is probable that sufficient taxable profits will be available against which the deferred tax assets can be utilized. No deferred tax assets or liabilities were recognised at the reporting date.

The Company provides for tax liabilities in accordance with Croatian law. Income tax rate for 2019 is 18% (2018: 18%).

i) Provisions

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

Restructuring

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

j) Issued share capital, share premium and reserves

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

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

Notes to financial statements (continued)

3 Significant accounting policies (continued)

k) 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 Company recognises revenue when it transfers control of a product or service to a customer. The Company 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.

l) 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.

m) Dividend income

Dividends on equity instruments are recognized in profit or loss when the Company's right to receive a dividend is established.

n) Investments in subsidiaries

Subsidiaries are entities in which the Company, directly or indirectly, has control over their activities. An investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The Company's investment in subsidiary is measured in the non-consolidated financial statements using the cost method.

o) Investments in associates and joint ventures

Associates are entities in which the Company 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 measured in the non-consolidated financial statements using the cost method.

Notes to financial statements (continued)

4 Sales revenue

	2019	2018
	'000 HRK	**'000 HRK**
Commissions	3,777	3,295
Income from quotation maintaining	3,932	4,204
Income from quotation fee	883	929
Membership fees	228	245
Total sales revenue	**8,820**	**8,673**

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 Operating income

	2019	2018
	'000 HRK	**'000 HRK**
Income from the supply of information	2,350	2,240
Income from seminars	1,127	1,253
Income from related parties	241	104
Other income	1,712	1,288
Total other operating income	**5,430**	**4,885**

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.

All revenue of the company is generated in the Republic of Croatia. Total recognized revenue in accordance with International Financial Reporting Standard 15 is 12,538 thousand HRK (2018: 12,166 thousand HRK).

Total recognized revenue from performance obligations at point in time is HRK 4,904 thousand (2018: HRK 4,548 thousand). Total recognized revenue from performance obligations over time is HRK 7,634 thousand (2018: HRK 7,618 thousand). An overview of the maturity of all accounts receivable is disclosed in note 16.

Notes to financial statements (continued)

6 Staff costs

	2019	2018
	'000 HRK	**'000 HRK**
Net salaries	3,617	3,359
Payroll deductions	1,013	944
Payroll contributions	1,971	1,897
Other staff costs	159	74
Total staff costs	**6,760**	**6,274**

The number of employees at the end of 2019 was 26 (2018: 24). Staff costs include HRK 1,063 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 bonuses were paid in amount of 220 thousand HRK (2018: HRK 359 thousand HRK).

7 Other operating expenses

	2019	2018
	'000 HRK	**'000 HRK**
Software and licences	1,712	1,649
Professional services	1,209	1,137
Rental expenses	110	815
Post and telephone services	179	168
Utility expenses	457	447
Fees and charges	815	645
Equipment rental	188	264
Entertainment	121	129
Seminar and marketing costs	151	-
Business travel	193	197
Intangible assets write-off	23	42
Financial assets impairment	468	-
Impairment of trade receivables	388	339
Other expenses	990	1,068
Total other operating expenses	**7,004**	**6,900**

Other expenses in the amount of HRK 990 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 financial statements (continued)

8 Financial income and expense

a) Financial income

	2019 '000 HRK	2018 '000 HRK
Net gain/(losses) from financial assets at fair value through profit or loss	1,210	(24)
Interest income	202	55
Dividend income from subsidiary	421	1,245
Other financial income	22	23
Total financial income	**1,855**	**1,299**

b) Financial expenses

	2019 '000 HRK	2018 '000 HRK
Interest expense	54	-
Total financial expenses	**54**	**-**
Net financial income	**1,801**	**1,299**

9 Income tax

a) Income tax expense	2019 '000 HRK	2018 '000 HRK
Current income tax expense	-	-
Deferred income tax	-	-
Total income tax expense	**-**	**-**

b) Reconciliation of accounting profit and current income tax liability	2019 '000 HRK	2018 '000 HRK
Tax calculated at 18% (2018: 18%)	215	236
Tax non-deductible expenses	34	36
Non-taxable income	(96)	(296)
Tax losses not recognised as deferred tax assets	-	24
Losses from previous years that were not recognised as deferred tax assets	(153)	-
Total income tax expense	**-**	**-**

Notes to financial statements (continued)

9 Income tax (continued)

c) Tax losses carried forward

Gross tax losses 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 it is subjected 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 Company did not recognize deferred tax assets in amount of HRK 1,650 thousand HRK in respect of temporary differences (impairment claims) and carried forward tax losses, as it is uncertain if taxable profits will be available against which the deferred tax assets can be utilised. For the next reporting date, the Company will re-evaluate assumptions for the recognition of deferred tax assets.

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

c) Tax losses carried forward

	2019	**2018**
	‘000 HRK	**‘000 HRK**
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	**9,357**	**10,363**

Notes to financial statements (continued)

10 Equipment

	Computer equipment	Furniture and other equipment	Leasehold improvements	Total
	‘000 HRK	**‘000 HRK**	**‘000 HRK**	**‘000 HRK**
Cost				
At 1 January 2018	**5,587**	**2,293**	**1,272**	**9,152**
Additions	26	13	-	39
Write-offs	(1,104)	(121)	-	(1,225)
At 31 December 2018	**4,509**	**2,185**	**1,272**	**7,966**
At 1 January 2019	**4,509**	**2,185**	**1,272**	**7,966**
Increase	30	-	-	30
Write-offs	-	(10)	-	(10)
At 31 December 2019	**4,539**	**2,175**	**1,272**	**7,986**
Accumulated depreciation				
At 1 January 2018	**(5,236)**	**(2,273)**	**(1,111)**	**(8,620)**
Charge for the period	(111)	(25)	(35)	(171)
Write-offs	1,104	121	-	1,225
At 31 December 2018	**(4,243)**	**(2,177)**	**(1,146)**	**(7,566)**
At 1 January 2019	**(4,243)**	**(2,177)**	**(1,146)**	**(7,566)**
Charge for the period	(136)	(6)	(32)	(174)
Write-offs	-	10	-	10
At 31December 2019	**(4,379)**	**(2,173)**	**(1,178)**	**(7,730)**
Net book value				
At 31 December 2018	**266**	**8**	**126**	**400**
At 31 December 2019	**160**	**2**	**94**	**256**

Notes to financial statements (continued)

11 Intangible assets

	Software	Assets in preparation	Total
	'000 HRK	**'000 HRK**	**'000 HRK**
Cost			
At 1 January 2018	**2,475**	**-**	**2,475**
Additions	-	-	-
Write-offs	(843)	-	**(843)**
At 31 December 2018	**1,632**	**-**	**1,632**
At 1 January 2019	**1,632**	**-**	**1,632**
Increase	404	219	623
Write-offs	-	-	-
AT 31 December 2019	**2,036**	**219**	**2,255**
Accumulated depreciation			
At 1 January 2018	**(1,625)**	**-**	**(1,625)**
Charge for the period	(197)	-	(197)
Write-offs	821	-	821
At 31 December 2018	**(1,001)**	**-**	**(1,001)**
At 1 January 2019	**(1,001)**	**-**	**(1,001)**
Charge for the period	(174)	-	(174)
Write-offs	-	-	-
At 31 December 2019	**(1,175)**	**-**	**(1,175)**
Net book value			
At 31 December 2018	**631**	**-**	**631**
At 31 December 2019	**861**	**219**	**1,080**

Notes to financial statements (continued)

12 Assets with right of use

	Buildings	Equipment	Total
	'000 HRK	**'000 HRK**	**'000 HRK**
Cost			
At 31 December 2018.	**-**	**-**	**-**
Initial recognition January 1, 2019	1,542	228	1,770
At 1 January 2019	**1,542**	**228**	**1,770**
Additions	-	-	-
Revaluations	-	-	-
Write-offs	-	-	-
At 31 December 2019	**1,542**	**228**	**1,770**
Accumulated depreciation			
At 1 January 2019	**-**	**-**	**-**
Charge for the period	(661)	(68)	(729)
Write-offs	-	-	-
At 31 December 2019	**(661)**	**(68)**	**(729)**
Net book value			
At 31 December 2018	**-**	**-**	**-**
At 31 December 2019	**881**	**160**	**1,041**

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 754 thousand.

Amounts recognised in profit and loss:	**2019**
Depreciation expense on right-of-use assets	729
Interest expense on lease liabilities	53
Expense relating to short-term leases	754

Notes to financial statements (continued)

12 Assets with right of use (continued)

Lease liabilities are due and payable as follows:

	31.12.2019
Within a year	811
In the second year	289
In the third year	46
In the fourth year	2
In the fiffth year	-
After fifth year	-
Total	**1,148**

As of 1 January 2019, the Company initially recognised lease liabilities to the amount of HRK 1,770 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 comitment as 31.12.2018 as disclosed in the Company's financial statements	1,916
Discounted using the incremental borowing rate at 1.1.2019	1,096
Finance lease liabilities recognized as at 31.12.2018	-
Recognition exemption for:	
- short term leases	(110)
- leases of low value assets	(188)
Extention and termination options reasonably certain to be excercised	972
Lease liabilities recognised at 1.1.2019	1,770

Notes to financial statements (continued)

13 Investment in subsidiaries

	31.12.2019 '000 HRK	31.12.2018 '000 HRK
Investment in Ljubljana Stock Exchange d.d.	19,125	19,125
Total investment in subsidiaries	**19,125**	**19,125**

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

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

	2019 '000 HRK	2018 '000 HRK
Non-current assets	9,664	14,257
Current assets	10,824	6,298
Of which cash and cash equivalents	7275	363
Total assets	**20,488**	**20,555**
Non-current libilities	455	252
Current liabilities	1,754	1,966
Of wich current financial liabilities	34	59
Total liabilities	**2,209**	**2,218**
Total income	**10,903**	**10,763**
Interest income	19	15
Interest expense	10	7
Income tax	95	126
Profit for the year	**166**	**349**

Notes to financial statements (continued)

14 Investments in associates and joint venture

	31.12.2019 '000 HRK	31.12.2018 '000 HRK
Investment in the SEE Link d.o.o.	202	202
Investment in Funderbeam South-East Europe d.o.o.	49	49
Total investments in associates and joint venture	**251**	**251**

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:

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

Notes to financial statements (continued)

14 Investment in associate and joint venture (continued)

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

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

	2019 '000 HRK	2018 '000 HRK
Share in ownership	**20%**	**20%**
Non-current assets	148	151
Current assets	136	263
Of which cash and cash equivalents	136	239
Total assets	**284**	**414**
Non-current liabilities	225	225
Current liabilities	1,030	1,005
Of which current financial liabilities	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)**

Notes to financial statements (continued)

15 Financial assets

	31.12.2019 '000 HRK	31.12.2018 '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
Total	**1.302**	**197**

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

	2019 '000 HRK	2018 '000 HRK
Balance at 1 January	197	158
Expected credit losses	-	39
Total	**197**	**197**

Investment in bonds relate to bond acquired for uncollected receivables. In 2017 the Company 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 investmnents that Company intends to hold long-term.

At 18 December 2019. The Company 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 depozitarno društvo d.d. The Company's management concluded that there was no change in the fair value of the said shares in 2019.

As permitted by IFRS 9, the Company 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 '000 HRK	31.12.2018 '000 HRK
b) Financial assets at fair value through profit or loss		
Shares in open-ended investment funds	19,583	17,693
Total	**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 financial statements (continued)

16 Trade receivables and other assets

	31.12.2019 '000 HRK	31.12.2018 '000 HRK
Trade receivables	3,927	3,723
Given advances	7	35
Other assets	744	533
Impairment allowance	(1,555)	(1,703)
Total	**3,123**	**2,588**

Movement in impairment allowance for trade receivables

	2019 '000 kn	2018 '000 kn
Balance at 1 January	(1,703)	(1,582)
Impairment losses recognized during the year	(388)	(340)
Writte of	8	11
Collection of previously impaired receivables	528	208
Total	**(1,555)**	**(1,703)**

At the reporting date, the Company had overdue receivables not impaired in the amount of HRK 1,198 thousand (31 December 2018: HRK 540 thousand). The Management Board considers that receivables are fully recoverable.

	Not past due	< 90	90 - 120	> 120
Trade receivables and other assets - gross amount	1,947	1,236	60	1,435
Expected credit loss	22	72	60	1,401
Trade receivables and other assets - net amount	1,925	1,164	-	34
Expected credit loss rate	1%	6%	99%	99%

Notes to the financial statements (continued)

17 Cash and cash equivalents

	31.12.2019 '000 HRK	31.12.2018 '000 HRK
Gyro account in foreign currency (EUR)	34	683
Gyro account in local currency	282	1,396
Cash on hand	3	2
Total cash and cash equivalents	**319**	**2,081**

18 Borrowings to related parties

Borrowings to related parties refer to loans granted to Funderbeam South-East Europe d.o.o. in the amount of HRK 217 thousand (2018: HRK 217 thousand), with a one-time repayment upon maturity.

19 Issued share capital

Share number movement:

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

All of the issued shares are authorized and fully paid in ordinary shares. On 31 August 2016, , all of the issued shares were listed to the Official Market of Zagreb Stock Exchange. As at 31 December 2019 the Company had 208 shareholders (2018: 217 shareholders) with ownership interests in the Company ranging between 0.01% i 9.99%.

Notes to the financial statements (continued)

20 Earnings per share

Calculation of loss per share as at 31 December 2019 was based on the profit of HRK 1,195 thousand and a weighted average number of ordinary shares outstanding of 4,635,700 calculated as follows:

	31.12.2019	31.12.2018
Net profit for the year ('000 HRK)	1,195	1,310
Weighted average number of ordinary shares over the period	4,635,700	4,635,700
Basic and diluted earnings per share (HRK)	**0.26**	**0.28**

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

21 Trade and other payables

	31.12.2019 '000 HRK	31.12.2018 '000 HRK
Trade payables	722	501
VAT liability	62	72
Other short-term payables	785	800
Total trade and other payables	**1.569**	**1.373**

22 Contractual liabilities

	31.12.2019 '000 HRK	31.12.2018 '000 HRK
Contractual liabilities from quotation maintaining	3.422	1.922
Contractual liabilities from initial listing fees	11	415
Other contractual liabilities	-	431
Total contractual liabilities	**3.433**	**2.768**

Notes to the financial statements (continued)

23 Financial instruments – risk exposures

Interest rate risk

The Company does not have significant amount of variable interest-bearing assets. The most significant interest-earning assets are borrowings to related parties in 2018 in amount of 217 thousand HRK. The Company does not have interest-bearing liabilities. The impact of changes in market interest rates on income statement is therefore assessed as not significant.

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 of trade payables denominated in euro, there are no other financial assets and liabilities denominated in foreign currency. Thus, the Company is not significantly exposed to foreign currency risk.

Credit risk

The maximum exposure to credit risk is as follows

	31 December 2019 HRK '000	**31 December 2018 HRK '000**
Cash and cash equivalents (excluding cash in hand)	316	2,079
Trade receivables and other assets	4,678	4,291
Guarantee deposits	250	250
Borrowings to related parties	217	217
	5,461	**6,837**

Credit risk (continued)

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

Concentration of net trade receivables' credit risk:

	31 December 2019		**31 December 2018**	
	HRK '000	**%**	**HRK '000**	**%**
Corporate	1,736	73	1,183	59
Institutional investors and brokers	636	27	883	41
	2,372	**100**	**2,016**	**100**

Notes to the financial statements (continued)

23 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 Company's investment in open-ended investment funds (cash funds) are carried at fair value with fair value changes recognized in income statement. Accordingly, such changes in market conditions will directly affect gains or losses on financial instruments recognized in income statement.

Price risk is mitigated by the Company through diversification of its portfolio of investments in open-ended investment funds to various types of funds, managed by different investment companies, and investing in cash funds. Assuming all other variables unchanged, a decrease/increase in the market price of units in investment funds by -/+1% at the reporting date would result in decrease/increase of profit before tax by HRK 196 thousand (2018: HRK 177 thousand).

Liquidity risk

The Company 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 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.

24 Related parties

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

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 financial statements (continued)

25 Segment reporting

As the only geographical market of the Zagreb Stock Exchange is d.d. Republic of Croatia and considering that all of the Company's revenue is generated on the basis of one business activity and in the Republic of Croatia, the Management Board considers the entire Company presents one reporting segment.

26 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 disclosed in note 16, the value adjustment on 31.12.2019 amounts to HRK 1,555 thousand (31 December 2018: HRK 1,703 thousand).

Income tax

The Company provides for tax liabilities in accordance with the tax laws of the Republic of Croatia. Tax returns are subject to the approval of the tax authorities who are entitled to carry out subsequent inspections of taxpayers' records. There are different possible interpretations of tax laws; therefore, amounts in the financial statements may be changed subsequently depending on the decision of the tax authorities. Income tax expense is disclosed in Note 9 and amounts to HRK 0 thousand (2018: HRK 0 thousand).

Useful life of equipment and intangible assets

The Company reviews the estimated useful lives of equipment and intangible assets at the end of each reporting period. The useful lives of equipment and intangible assets are disclosed in note 3 a).

Investment in subsidiary, associate and joint venture

The Company carries the investment in subsidiary, associate and joint venture at cost less impairment allowance in these separate financial statements. After initial recognition, the Company determines whether it is necessary to recognize the additional impairment of investments in an associate or joint venture. At the reporting date, the Company determines whether there is objective evidence of impairment of an investment in an associate or joint venture. If an impairment loss exists, the Company calculates the amount of the impairment loss as the difference between the recoverable amount and the carrying amount of the associate or joint venture and discloses it in the statement of comprehensive income. If the recoverable amount of the investment is lower than its carrying amount, the Company recognizes impairment. Management believes that there are no indications of impairment at the reporting date based on the analysis performed. Investments in subsidiaries, associates and joint ventures are disclosed in notes 13 and 14. In 2019 and 2018, the Management Board estimated that the recoverable amount of the investment was not lower than its carrying amount and therefore there was no impairment loss.

Recognition of deferred tax assets

At the balance sheet date the Company did not recognise deferred tax assets related to carry forward tax losses in the amount of HRK 9,357 thousand (31.12.2018: HRK 10,363 thousand), as the Management has assessed that it is not probable that sufficient taxable profits will be available to utilise the deferred tax assets. This will be reassessed at the next balance sheet date.

Notes to the financial statements (continued)

26 Significant accounting estimates and assumptions (continued)

Borrowings to related parties

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

Classification of investment in joint venture

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

27 Capital management

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

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

The self-financing indicator is as follows:

	31.12.2019 '000 HRK	31.12.2018 '000 HRK
Total equity (share capital and reserves)	40,581	39,386
Total assets	46,619	43,527
Indicator of own financing	**87%**	**90%**

The Company finances 87% of its total assets from its own sources. Accordingly, 13% of the assets are financed from foreign sources (2018: 10%).

28 Audit fees

The audit fees for the Company's financial statements amounted to HRK 99 thousand (2018: HRK 90 thousand).

In addition to the legal obligations, the external auditor provided other services related to the agreed procedures in order to check compliance. In accordance with the EU Regulation, the services provided during 2019 represent no prohibited non-audited services.

Notes to the financial statements (continued)

29 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 the measures undertaken to stop the spread of the virus and to suppress it will certainly have negative effects on the entire Croatian economy. To mitigate these effects as much as possible, the Croatian Government has 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.

Zagreb Stock Exchange d.d. is with its infrastructure and working procedures fully capacitated and ready to ensure business continuity so that trading can proceed smoothly. Infrastructure and working procedures are adapted to work in crisis situations, employees are in preparation, and successfully conducted tests related to work in such circumstances are performed. Taken measures ensure business activities even in emergency situations. Zagreb Stock Exchange d.d. will closely monitor development of the situation to ensure the orderly functioning of the market, financial stability and protection of investors.