

THE ZAGREB STOCK EXCHANGE, INC.

Annual report and separate financial statements for the year ended 31 December 2015 together with independent auditors' report

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ZAGREBAČKA BURZA
THE ZAGREB STOCK EXCHANGE

ANNUAL REPORT

ON THE STATE OF THE COMPANY AND ITS OPERATIONS IN 2015

Zagreb, March 2016

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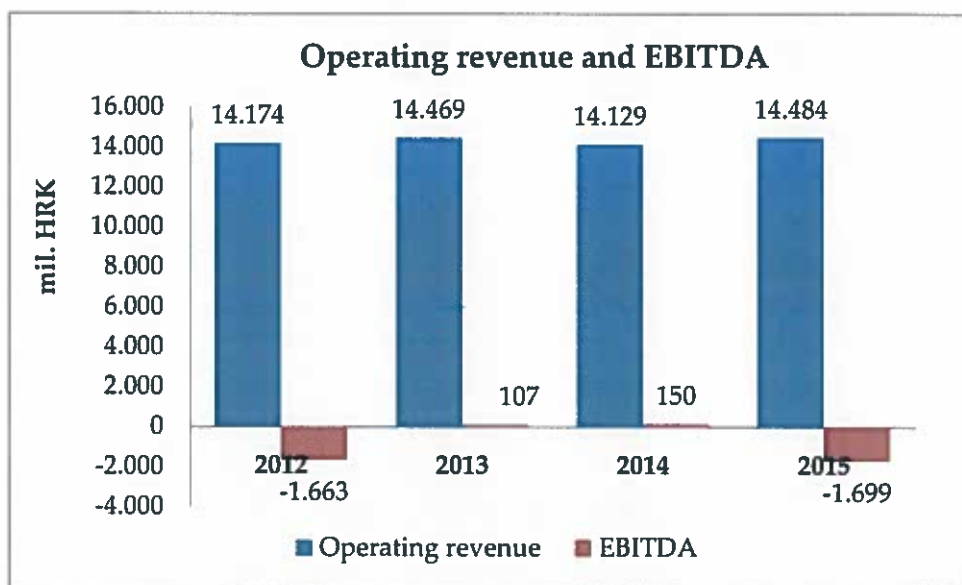
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2. Introduction

2.1. Key Performance Indicators of the Zagreb Stock Exchange in 2015

Operating revenue rose 2.51% in 2015 year-on-year to HRK 14.5 mil.

The 2015 operating loss before interest, taxes, depreciation and amortisation stood at HRK -1,699 thousand, compared to earnings before interest, taxes, depreciation and amortisation of HRK 150 thousand in 2014.



HRK 000	2012	2013	2014	2015
Issued share capital	40,408	40,408	40,408	46,357
Total equity	36,793	35,878	34,775	46,520
Total assets	44,012	42,448	38,669	54,140
Operating revenue	14,174	14,469	14,129	14,484
-sales revenue	9,707	10,287	10,052	10,446
-other operating income	4,467	4,182	4,077	4,038
Expenses	15,837	14,362	13,979	16,183
-staff costs	5,713	5,647	5,555	5,958
-other operating expenses	10,124	8,715	8,424	10,225
EBITDA	-1,663	107	150	-1,699
EBIT	-4,533	-1,538	-1,624	-3,484
(Loss) before tax	-3,473	-915	-1,103	-3,127
Income tax expense	0	0	0	0
(Loss) for the year	-3,473	-915	-1,103	-3,127
Number of shares issued	140,408	140,408	140,408	46,357
Nominal value as at 31 December	1,000	1,000	1,000	1,000
Cash dividend	0	0	0	0
Number of employees	22	21	23	22

2.2. Company information – Zagreb Stock Exchange, Inc.

2.2.1. General information about the Zagreb Stock Exchange

Company name:	Zagreb Stock Exchange, Inc.
Registered address:	Ivana Lučića 2a, 22 Zagreb
Telephone:	+385 1 4686 800
Fax:	+385 1 4677 680
Official website:	www.zse.hr
E-mail:	pitanja@zse.hr
Share capital:	HRK 46,357 mil.
Shareholders (31/12/2015):	56 shareholders
MB:	3749606
OIB:	84368186611

Number of financial instruments listed on the regulated market (31/12/2015): 254

Number of financial instruments admitted to trading on the MTF (31/12/2015): 44

Official equity indices: CROBEX, CROBEX10, CROBEXindustrija, CROBEXkonstrukt, CROBEXnutris, CROBEXplus, CROBEXtr, CROBEXtransport, CROBEXturist

Official debt indices: CROBIS, CROBIStr

Total turnover in 2015: HRK 3.526 billion

Total market capitalisation on 31/12/2015 amounted to HRK 208.855 billion.

External audit of the Company for the year 2015 performed by Ernst&Young, Ltd.

2.2.2. Registered business activity of the Zagreb Stock Exchange

The Company is registered to perform the following business activities:

- o Regulated market management;
- o Collection, processing and dissemination of trading data;
- o Multilateral Trading Facility (MTF) management;

- Development, maintenance and disposal of software for the regulated market management, collection, processing and dissemination of trading data, organisation and implementation of education for capital market participants;
- Services related to the organisation and implementation of education for capital market participants;
- Publishing activity;
- Legal Entity Identifier (LEI) assignment and administration.

The publishing activity is performed by the Exchange exclusively in relation to the services of organisation and implementation of education for capital market participants.

3. Report of the Management Board

3.1. Trading information

The 2015 trading statistics were marked by a 10% decline in order book trading turnover (-11.5% in the share and -9% in total turnover). However, trading was quite lively taking into account the increase in order book volume by 50% in total.

The CROBEX index experienced a -3.2% correction, while the average for the ten most liquid stocks represented in the CROBEX10 index recorded slightly better performance (-1.8%). The performance of the CROBEXindustrija (+6%) and CROBEXturist (+23,7%) indices testifies to some solid investment opportunities and, in view of the peaks tested in the course of 2015, all the indices have traded above their end-2014 levels.

Market capitalisation grew by a total of +3.3%. The most significant expansion occurred in the structured products segment (+180%), but with continued concentration in a small number of shares: the five largest accounted for approximately half of the market value while the top five by the free float capitalisation size represented 44% of the total market capitalisation.

Hrvatski Telekom d.d. (Croatian Telecom, Inc.), accounting for 15% of the total turnover, was the most liquid share once again in 2015 (in 2014, it had a 23% share in the turnover), with the five most actively traded (HT-R-A, ADRS-P-A, RIVP-R-A, PODR-R-A i ADRS-R-A) representing 46% of the turnover.

3.2. Financial results and business operations

The 2015 operating revenue was HRK 355 thousand or 2.51% higher than in 2014. The largest increase in revenue came from listing fees, up 69.2%.

Total operating expenses amounted to HR 17.9 mil. in 2015, up 14% on the previous year. The costs of professional services rose the most, by HRK 1,369 thousand, largely on account of the services related to the acquisition of the Ljubljana Stock Exchange and the HRK 418 thousand impairment of trade receivables due to difficult economic environment and bankruptcies of listed companies. Compared to 2014, cost reductions involved travel expenses (-42.2%), lease of equipment (-25.3%), utilities (-6.9%) and office space lease (-3.7%).

Consequently, the Company still had a negative net result of HRK -3,127 thousand in 2015. As in previous years, the depreciation charge was quite high, amounting to HRK 1,785 thousand or 14.8% of total expenses.

During 2015, the Zagreb Stock Exchange has invested its available cash funds in conservative instruments, such as deposits at commercial banks and money market funds, in order to preserve the value of its assets.

On 31 August 2015, the Annual General Meeting of the Exchange adopted a resolution on the Company's capital increase by participation in cash, new share issuance and amendments to the Articles of Association. The capital increase was conducted in two rounds and completed in December 2015. In the first round of the capital increase, 28.5% of existing shareholders subscribed for HRK 4.27 million in new capital. Qualified investors, subscribing for HRK 10.63 million in new capital, participated in the second round, which in total amounts to HRK 14.9 million.

The capital increase was followed by the takeover of the Ljubljana Stock Exchange (LJSE) by acquiring 100% of its shares from the CEE Stock Exchange Group (CEESEG); hence, the amount of available funds decreased compared to 2014 and amounted to HRK 25,270 thousand (units in investment funds, deposits and cash in bank).

3.3. Significant events after the end of the year

There were no significant events after the end of the financial year which might affect the reported result.

3.4. Expected development of the Company

The key event of 2015 was the acquisition of the Ljubljana Stock Exchange. The transaction was completed on 30 December 2015 and, as soon as the organisational consolidation goes through, synergies will be tapped to maximise the value foreseen by the Exchange in taking over the Ljubljana Stock Exchange.

Acquisition synergies may be divided into positive effects of the acquisition itself and positive effects of transition to a new trading system. While the effects of synergies of the acquisition itself may be felt in 2016 already, those resulting from the introduction of a new trading system on the Zagreb Stock Exchange may only be expected late in 2017 and thereafter since any savings achieved will be dictated by the trading system introduction, which typically takes around 18 months.

Some positive effects expected in 2016, however, will come from income side synergies, as a result of joint presentation and inclusion of the Croatian and Slovenian market into SEE LINK, growth in trading data dissemination fees, creation of an SME market, joint education efforts, provision of the LEI service to Slovenian companies, reduced lease costs, and synergies related to the organisation of joint events for investors and member firms.

In 2016, the Zagreb Stock Exchange will press on with the projects embarked on in previous years, putting most emphasis on the launch of the SEE LINK order exchange platform and involvement of other exchanges by the end of the year. The interest in this project by member firms and exchanges has exceeded initial expectations, and the inclusion of each new market serves to increase attractiveness of the platform itself and the possibility for each exchange involved to generate additional income. In addition to the founding exchanges (in Bulgaria, Macedonia and Croatia), three other exchanges — the Belgrade, the Banja Luka and the Ljubljana Stock Exchange — also expressed an interest to join SEE LINK by the time of writing this report.

In April 2015, the Exchange became 30th institution in the world authorised to issue LEI identifiers. While its market share is relatively small for now, the potential of additional earnings from this service is indeed substantial. Currently, there are more than 405,000 LEIs issued globally, of which the Zagreb Stock Exchange issued 71 in 2015 while another 83 LEIs were transferred. Since Croatia has the only institution authorised for the LEI assignment in the immediate neighbourhood, there is considerable potential for the provision of this service in the region as well. However, as the LEI assignment system is still at a relatively early stage of development, in 2016, the Exchange will have to undergo a complex certification process with GLEIF and will also introduce a system to ensure continuous service quality control. New regulations are expected to significantly expand the number of entities subject to having a LEI, so it is realistic to expect that the LEI may become a material revenue source in the future.

Therefore, further organisational structure and marketing efforts related to the LEI assignment will be among the strategic goals of the Zagreb Stock Exchange in 2016.

To increase liquidity and revenue, the Zagreb Stock Exchange plans to expand its product offering by introducing a new type of financial instruments — Exchange Traded Funds (ETFs).

By their form, ETFs are investment fund units which differ from other units by the possibility of being traded on the regulated market.

The Zagreb Stock Exchange already implemented the X-stream trading system configuration, enabling ETFs to be listed on the Regulated Market; the proposal of new Regulated Market Rules, setting out the legal framework necessary to enable trading in that instrument, has been submitted to the Croatian Financial Services Supervisory Agency.

The Zagreb Stock Exchange operates both the regulated market and the multilateral trading facility (MTF).

The criteria for admission to trading and delisting, transparency requirements and no application of the Takeover Act to financial instruments traded on the MTF are less stringent than those in the regulated market, so the risk of investing on MTF-traded financial instruments is higher than that of investing in those traded in the regulated market.

To emphasise the risk-related differences between the regulated market and MTF, the Exchange decided in 2015 to separate the two in an organisational, commercial and presentation sense. The operational implementation of this decision, subject to prior approval of the regulator which has already been applied for, is expected in the course of 2016.

On 31 August 2015, the Company's Annual General Meeting adopted a resolution to list all Exchange shares on the regulated market of the Zagreb Stock Exchange.

Under the the said resolution, the share listing on the regulated market must be done within 12 months of the day of its adoption.

In the first half of 2016, the Management Board will undertake all steps necessary under the applicable regulations to implement the AGM resolution and list all Exchange shares on the regulated market. In doing so, the Exchange will concentrate in particular on preparing a listing prospectus and obtaining a special approval of the Croatian Financial Services Supervisory Agency for admission to trading on a regulated market, pursuant to Article 285(4) of the Capital Market Act (CMA).

It will also consider additional activities, such as the share split and nomination of a market maker to make its stock as attractive as possible.

The publication of a corporate governance manual on which work has been in progress since 2015 is also envisaged in 2016. This publication is expected to be a reference point for a number of companies, as well as pupils and students.

The project of migration to the Xetra trading system is also due for launch early in 2016. The project is foreseen to take some 18 months, with a projected go live date on 1 July 2017, so 2016 is to see numerous activities according to the general time reference of its implementation.

3.5. Research and Development

The Company invests constant efforts into developing and improving the trading platform and associated services.

3.6. Acquisition of own shares

As at 31 December 2015, the Exchange held no own shares. It did not acquire own shares in 2015.

3.7. Subsidiaries of the Company

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

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

On 30 December 2015, the Zagreb Stock Exchange took over a 100% participation in the company *Ljubljanska Borza d.d.* (Ljubljana Stock Exchange, Inc.). The issued share capital of the Ljubljana Stock Exchange is EUR 1,401,000, and the Zagreb Stock Exchange participates with 100%.

3.8. Financial instruments

The Zagreb Stock Exchange is fully funded by its own capital and, except trade receivables and payables, the majority of its financial instruments relates to investments in investment funds and deposits.



Ivana Gazić

President of the Management Board



Tomislav Gračan

Member of the Management Board



4. Report on the Zagreb Stock Exchange business operations

4.1. Statement on Corporate Governance

The Zagreb Stock Exchange creates value by taking on a series of social roles and tasks. In that respect, it conducts its business activities in accordance with legal regulations, in a transparent, fair and honest fashion, professionally, conscientiously and responsibly, with the aim of promoting ethical values of corporate governance to all stakeholders and the community at large. The corporate governance plan of the Zagreb Stock Exchange has its foundations on the business principles based on the Capital Market Act, the Companies Act and subordinate regulations.

Corporate governance of the Zagreb Stock Exchange includes the following:

- clear organisational structure with well-defined powers and responsibilities;
- effective procedures to identify, measure and monitor risk, and reporting on the risks to the Company is or may be exposed;
- appropriate internal control mechanisms, including reasonable administrative and accounting procedures, strategies and procedures for ongoing assessment and review of the amount, composition and distribution of internal capital needed to cover current and future risks;
- performance of its obligations and responsibilities discharged to shareholders, employees and other stakeholders;
- safe and stable operations in accordance with the laws and regulations.

High standards of corporate governance and transparency form an essential part of the identity of the Zagreb Stock Exchange, and are considered an essential element of stable and safe operations of the Company.

The basic principles of corporate governance of the Company are:

- legality of work and business;
- business transparency;
- public relations;
- clearly detailed work procedures;
- professionalism, expertise, objectivity and work independence;
- confidentiality and secrecy in business operations and data protection;
- avoiding conflicts of interest;
- efficiency of internal control;
- effective system of responsibilities;
- fairness in work business,

- respect for human rights and environmental protection, for the purpose of accomplishing the objectives of corporate governance in accordance with the highest professional standards and core ethical values.

The Zagreb Stock Exchange carries out corporate governance by applying a process approach to management, according to the requirements of the ISO 9001:2008 standard so as to continuously improve the quality of business processes established.

Process approach requires continuous measurements, analysis and improvements of processes in the organisation, continuous investment into employees and their maximum involvement in the improvement of process steps for the purpose of transformation in the intellectual capital of the company, with a timely interpretation of the requirements of users and the community, permanent alignment of business with applicable regulations in order to minimise business risk, reduce costs of omissions and increase organisational competitiveness.

4.2. Organisation of the Zagreb Stock Exchange

4.2.1. Shareholder Assembly

Shareholders of the Zagreb Stock Exchange are investment firms, credit institutions and individuals; on 31 December 2015, the Exchange had 56 shareholders.

Any persons who are recorded as Company shareholders in the depository of the Central Depository and Clearing Company Inc. no later than six days prior to the AGM (record date) are entitled to participate at its AGM.

The Shareholder Assembly is competent to decide on the following matters:

- election and dismissal of Supervisory Board members elected at its general meeting;
- award for the work of Supervisory Board members;
- grant of discharge to the members of the Company's Management and Supervisory Board;
- amendments to the Articles of Association;
- appointment of the Company's auditors;
- Company's capital increase and reduction;
- status changes and cessation of the Company;
- adoption of the Rules of Procedure governing its work, if it finds this to be appropriate;
- other matters which, by law and the provisions of these Articles, have been expressly entrusted to it as the competent body.

There were three AGMs of the Zagreb Stock Exchange in 2015. The AGM held on 27 May adopted the following resolutions: 2015 loss coverage, grant of discharge for the year 2014 to the Exchange Supervisory Board and Management Board and appointment of the auditor for 2015.

On 31 August 2015, the second AGM was held and adopted a resolution on the Company's capital increase by participation in cash, new ordinary share issuance and amendments to the Articles of Association, as well as a resolution on the listing of Company shares on the regulated market of the Zagreb Stock Exchange.

The third AGM of the Exchange, held on 27 November 2015, adopted a resolution on the election of members of the Supervisory Board and a resolution on amendments to the Articles of Association.

4.2.2. Supervisory Board of the Zagreb Stock Exchange

The Supervisory Board of the Exchange is governed by the Rules of Procedure of the Supervisory Board. The main role of the Supervisory Board is to supervise the conduct of the Company's affairs and other tasks defined by the provisions of the Companies Act, the Capital Market Act, the founding document of the Company and the Rules of Procedure of the Supervisory Board.

The Exchange Supervisory Board consists of nine members who meet once in a quarter, as a rule, but its meetings may be convened more often where necessary.

The composition of the Supervisory Board was as follows:

- Dubravko Štimac, Chairman of the Supervisory Board
- Domagoj Hruška, Member of the Supervisory Board
- Nina Tepeš, Member of the Supervisory Board
- Marijan Cingula, Member of the Supervisory Board
- Željko Perić, Member of the Supervisory Board
- Ivan Tadin, Member of the Supervisory Board
- Borislav Centner, Member of the Supervisory Board
- Igor Tepšić, Member of the Supervisory Board
- Patricia Bakšaj (as of 28/11/2015 – Iva Galić), representative of employees.

By resolution of the Annual General Meeting of 28 November 2015, the mandate of all members of the Supervisory Board was extended, and the employees of the Zagreb Stock Exchange elected Iva Galić to replace Patricia Bakšaj as their representative on the Supervisory Board.

In 2015, 10 meetings of the Supervisory Board were held on the following dates: 11 March, 16 April, 27 May, 15 July, 9 October, 20 October, 13 November, 25 November, 9 December and 29 December 2015.

4.2.3. Management Board

The Company's Management Board decides about the running of the Company at Board meetings and Board College meetings.

The Management Board:

- adopt general, special and individual acts of the Company, except those which have by law or Articles of Association been explicitly delegated to other bodies of the Company;
- compiles and submits annual financial statements and proposes a resolution on the allocation of profits;
- proposes to other bodies of the Company to adopt the acts which fall within their competence;
- submits reports on the Company's business to the Supervisory Board;
- decides on admission of Exchange members and suspension of membership;
- appoints members of standing or temporary bodies of the Exchange (committees, commissions etc.), except those whose election or appointment under the law or Articles falls within the competence of the AGM or Supervisory Board;
- takes care of due and timely preparation of the Exchange's financial statements and other reports;
- decides on any other matters which, by law, Articles of Association or other general act of the Company, have not been delegated to other bodies of the Company.

Management Board of the Zagreb Stock Exchange

- Ivana Gažić, President of the Management Board,

President of the Management Board of the Zagreb Stock Exchange since May 2010; responsible for the management of business development, markets, finance and corporate communications affairs. In May 2014, her mandate as President of the Management Board was extended until 2 May 2018.

- Tomislav Gračan, Member of the Management Board

Member of the Management Board of the Zagreb Stock Exchange since May 2010; responsible for IT and technology development, surveillance, legal affairs and compliance, and the ZSE Academy. In May 2014, his mandate as Member of the Management Board was extended until 2 May 2018.

4.3. Committee for Market Protection Measures and Conflict of Interest Committee

4.3.1. Committee for Market Protection Measures

The Committee for Market Protection Measures is an advisory body with the following responsibilities:

- suggestions on surveillance actions of issuers or member firms;
- issuing opinion on whether a particular action of the issuers or member firms is a violation of the Exchange Rules;
- issuing recommendations on the pronouncement of protection measures against issuers of member firms;
- preparation of guidelines to improve the market surveillance procedure of issuers and member firms, and the very system of market protection measures.

The Committee discusses and decides on the issues within its competence at the request of the Exchange.

As of 25 September 2013, the Committee for Market Protection Measures consisted of the following members:

- Tomislav Gračan, Member of the Exchange Management Board,
- Nina Tepeš, representative of the academic community in teaching and research at the Faculty of Law,
- Josipa Jurinić, representative from the ranks of arbitrators listed with the Permanent Arbitration Court of the Croatian Chamber of Economy,
- Alen Stojanović, representative of the academic community in teaching and research at the Faculty of Economics and Business,
- Blaženka Eror Matić, representative of professional investors,
- Katarina Mindoljević, representative of the issuers whose financial instruments are listed on the Official or Prime Market,
- Libor Weiser, representative of Exchange members.

Members of the Committee for Market Protection Measures are appointed for a term of three years.

In 2015, one Committee meeting was held on 11 September 2015.

4.3.2. Conflict of Interest Committee

The Committee is an advisory body which issues recommendations or opinions to advise the Exchange Management Board with regard to measures and procedures to preventing and/or solve conflicts of interest; at the Exchange request, it may issue opinions on specific conflict of interest cases.

The Committee's recommendations and opinions are published on the Exchange website.

The Conflict of Interest Committee consists of five members who are appointed by the Management Board in accordance with the Exchange Rules.

As of 17 January 2014, the Conflict of Interest Committee consisted of the following members:

- Latica Dolić, representative of Exchange shareholders,
- Tomislav Laušin, representative of Exchange members,
- Mario Staroselčić, representative of professional investors,
- Miki Huljić, representative of the issuers whose financial instruments are listed on the Official or Prime Market,
- Ivana Gažić, representative of Exchange.

Committee members are appointed for a term of two years.

In 2015, three Committee meetings were held on the following dates: 24 April, 19 October and 1 December 2015.

4.4. Operational risks

Interest rate risk – the Company has no substantial amounts of assets earning a variable interest income. Its major interest-bearing assets are short-term bank deposits. The Company has no interest-paying liabilities, therefore the impact of changes in market interest rates is not material to its P&L. Also, the term of deposits earning a fixed interest rate income is 6-8 months, so the Management Board believes that the fair value of such deposits does not differ considerably from their book value.

Currency risk – In addition to foreign currency account assets equivalent to HRK 2,711 thousand (in 2014: HRK 162 thousand), there are no other financial assets or liabilities denominated or indexed to other currencies. Therefore, the Company is not materially exposed to the exchange rate risk of financial instruments.

Credit risk – Except deposits with local banks, the Company had no material concentration of credit risk on the reporting date. The Company's maximum credit risk amount is equal to the nominal value of deposits, investments, trade receivables, and other assets.

Market risk – Market risk is the risk of fluctuations in the value of financial instruments which may occur as a result of changes in market prices, whether those caused by the specific characteristics of individual investments, issuers or all factors which have an impact on all instruments traded on the market. Investments of the Company in open-end investment funds are carried at fair value, where any changes in fair value are recognised in the P&L. Accordingly, such changes in market conditions have a direct impact on gains or losses from financial instruments which are recognised in profits or losses. The Company mitigates that risk by diversifying its portfolio open-end investment funds it invests in, according to different types of funds managed by different fund management companies, and by investing in money market funds.

Liquidity risk – The Company has no loans received. Cash and cash equivalents, as well as current financial assets of the Company, on the reporting date exceeded its liabilities substantially. The Company maintained a satisfactory liquidity position during the year.

4.5. Internal controls and risk management

The internal control system involves a set of procedures and processes for monitoring business efficiency of the Zagreb Stock Exchange, the reliability of financial reports and compliance with legal regulations and subordinate legislation.

All employees, including the Management and Supervisory Board, are involved in the implementation of the internal control system.

The Exchange's internal control system is implemented in particular through two mutually independent control functions: monitoring of compliance with relevant regulations and internal audit function.

These control functions process and monitor the work of all organisational units, Company activities and support services.

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

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

- Strategic Internal Audit Plan

- Annual Internal Audit Plan,
- Risk management policy,
- Service provision contract management procedure.

Risk assessment involves identification and analysis of relevant risks affecting the accomplishment of the Company's objectives with the view to successfully managing 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. The list of risks is by no means exhaustive and includes only higher-level risks while other more detailed (lower-level) risks are identified during the internal audit of business processes.

Risks are grouped by those with an impact on the organisational units which perform specific business processes within the Company, and by other risks associated with the Exchange's overall business operations.

Considering the previously defined core business processes within the Company and risks identified, an assessment has been made of the materiality of risks with regard to their impact on business processes.

Risk assessment encompasses inherent risks of every process, so the very nature of such processes and best practices are taken into consideration.

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

Risk monitoring is not a separate function entrusted to a particular organisational unit of the Company, but is undertaken by one or several departments, depending on the type of risk. Therefore, every employee of the Exchange is included in the Company's risk management.

In dependence on the risks identified and the risk management system, each organisational unit is in charge of risk monitoring within the scope of its activities and cooperates with other organisational units, especially with the Management Board as the key decision-maker on the management of particular risks and their control.

In addition, the risk management system involves two other, mutually independent control functions, namely the one in charge of compliance with relevant regulations (within the Legal Affairs and Compliance Department) and the internal audit function performed by the audit company *Antares Revizija d.o.o.*

4.6. Internal and external audit

Independent auditors perform an annual audit of financial statements and business reports to ensure independent, objective opinion on the method of preparation and presentation of financial statements.

Independent auditor's report to the Annual General Meeting forms an integral part of the Annual Report.

The internal audit function was established in accordance with the provisions of the Capital Market Act; it is outsourced and entrusted to the company *Antares Revizija d.o.o.*

The internal audit function reports directly to the Supervisory Board.

Internal Audit, as an independent function, is tasked with independent and objective monitoring of the Company's overall business activities to ensure that the Company conducts its business according to external regulations, internal rules governing it, as well as professional norms and standards. Also, the internal audit function supervises the Company's overall business operations in order to assess the system of internal controls built into all work processes for the purpose of assessing the safety, effectiveness and efficiency in the use of material and human resources.

The internal audit functions within the framework of the Strategic Plan adopted by the Exchange for a period of three years and the Annual Plan, which describes the planned audit content in particular areas.

In addition, extraordinary audits may also be undertaken on the explicit orders of the Management Board, Supervisory Board or by assessment of the internal audit function.

5. Mission, vision and strategic goals

5.1. Mission

Ensure the integrity, efficiency and development of capital markets.

Provide a reliable fund-raising mechanism to stimulate Croatia's economic development.

5.2. Vision

Be a regional leader in the capital market development and services.

5.3. Strategic goals

Continuous business development while maintaining the current leading position in the immediate region and meeting the requirements of the market, members and regulators.

Focus on the development of transparency and corporate governance standards of the issuers.

Communication with all market participants and business development in accordance with their requirements.

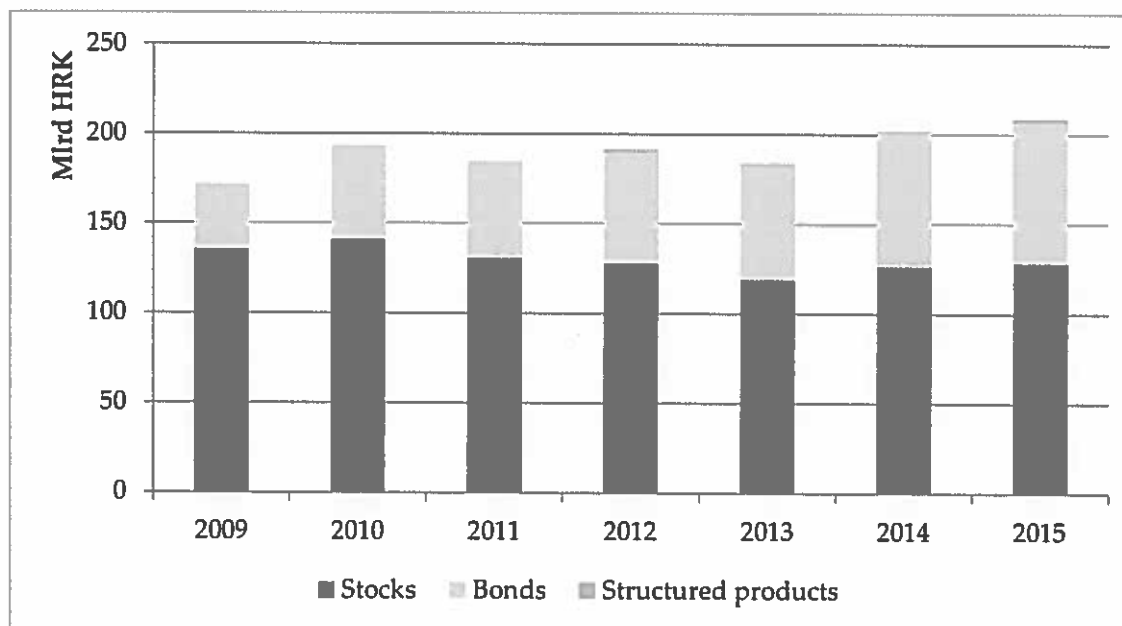
Regional integration.

Education of market participants.

6. Operations of the Zagreb Stock Exchange in 2015

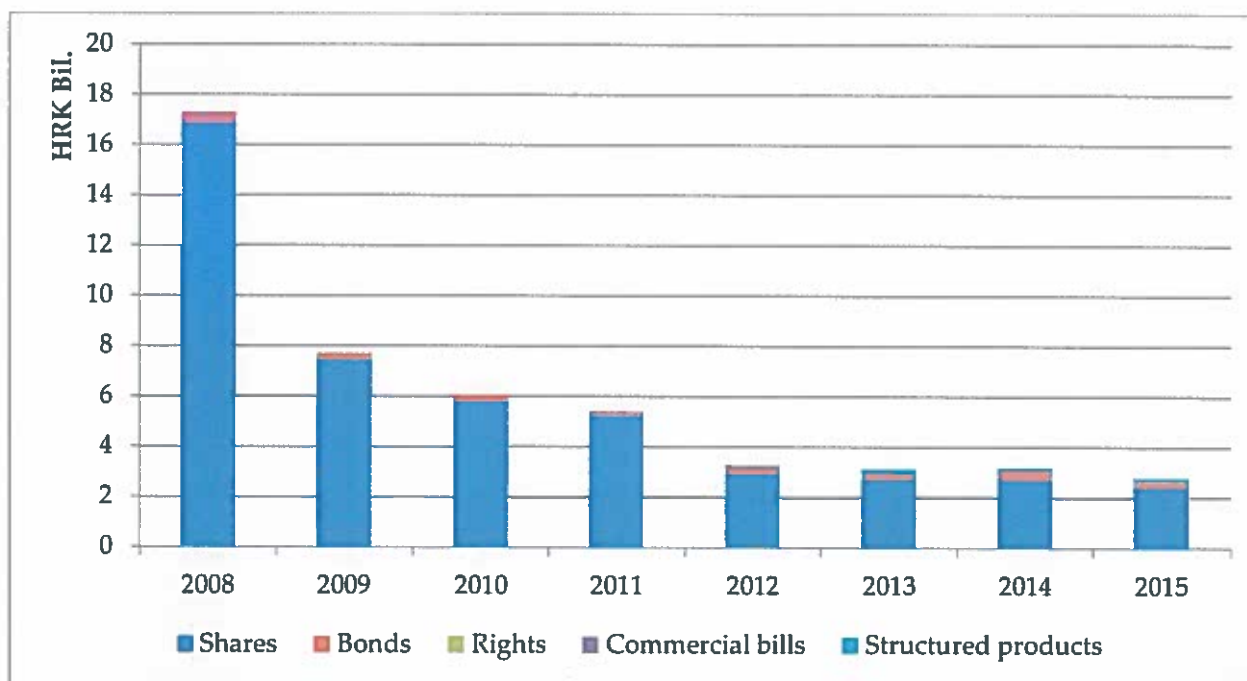
Total market capitalisation in 2015 stood +3% higher than in 2014. This was largely due to an increase in bond market capitalisation by 4.9%, while market capitalisation of shares increased by +1.5%.

Market capitalisation (2009 – 2015)



Total turnover in 2015 amounted to HRK 3,536,513,535 after a decline by -9.3% against 2014. A turnover decline was recorded in most order book traded financial instruments: share turnover was down -12%, while structured product turnover decreased by -17% and bond turnover by -1% compared to 2014.

Turnover 2008 – 2015



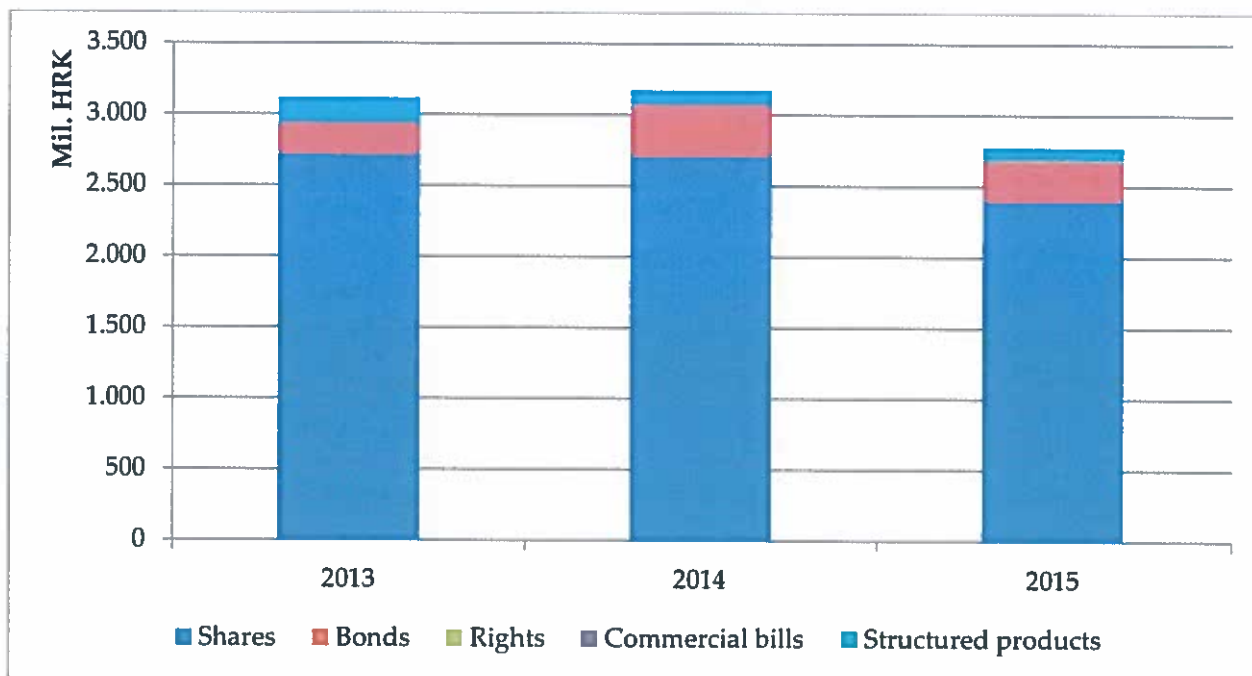
Over the past eight year, the Exchange has seen a drastic turnover decline as a result of a number of factors, not the least of which were the following: poor economic situation, privatisation method resulting in a low free float of listed companies, low market capitalisation to gross domestic product (GDP) ratio, few privatisation deals, absence of private listings.

Croatia main macroeconomic data & forecast

	2009	2010	2011	2012	2013	2014.F	2015.E	2016.F
Real GDP (%)	-7.4	-1.7	-0.3	-2.2	-1.1	-0.4	1.5	1.0
GDP per capita (EUR)	10,480	10,495	10,452	10,301	10,220	1,157	10,293	10,501
GDP per capita (HRK)	76,614	77,136	77,567	77,670	77,979	8,863	78,844	80,123
Public debt (% GDP)	48.0	57.0	63.7	69.2	80.8	85.1	89.9	93.1
Current account balance (% GDP)	-5.1	-1.1	-0.7	-0.1	1.0	0.8	4.7	1.5
CPI inflation (% average, yoy)	2.4	1.1	2.3	3.4	2.2	-0.2	-0.5	1.1
Unemployment rate (%)	14.9	17.4	18.0	19.1	20.3	19.7	17.7	17.4

Source: Raiffeisen RESEARCH, Issue 02/2016, 15 January 2016

Turnover 2013 – 2015



Shares account for most Exchange turnover, while other financial instruments traded represented 13.7% of total turnover in 2015.

At the end of 2015, the Exchange had 19 member firms; the top five member firms by total turnover are shown in the table below:

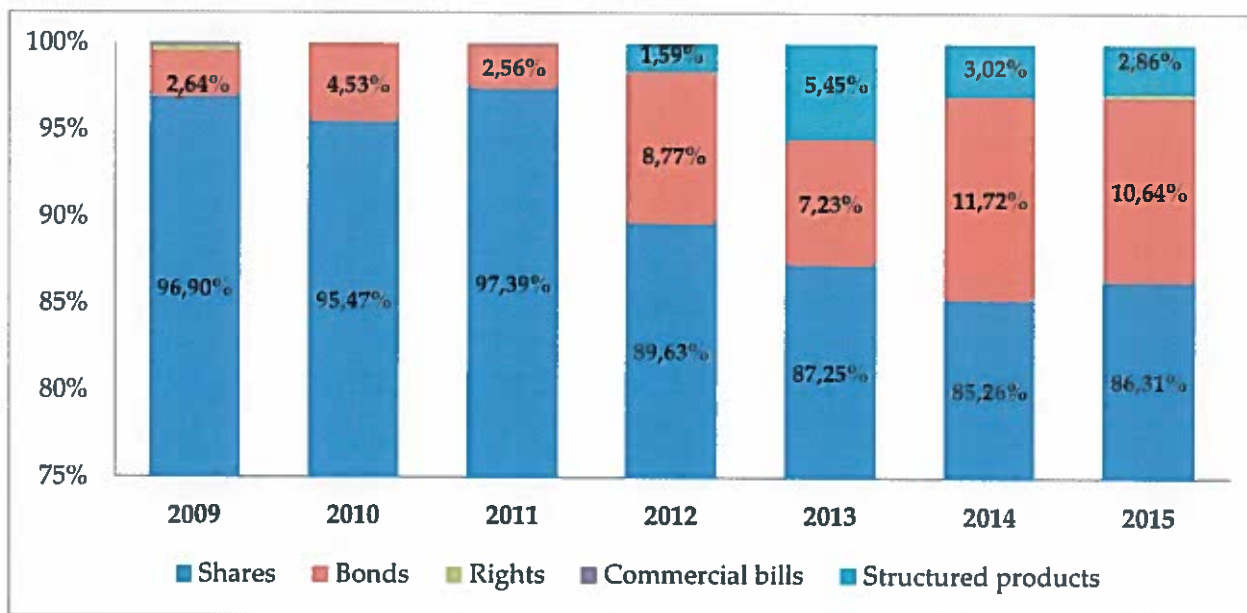
Member firms by total turnover in 2015			
Rank	Member firm	Total turnover (HRK)	Market share (%)
1	Interkapital vrijednosni papiri d.o.o.	1,955,858,016	27.65%
2	Erste&Steiermarkische Bank d.d.	1,155,403,108	16.34%
3	Privredna banka Zagreb d.d.	691,487,404	9.78%
4	HITA vrijednosnice d.d.	582,540,303	8.24%
5	Fima vrijednosnice d.o.o.	544,471,475	7.70%
6	Others*	2,143,266,764	30.30%

Almost 70% of total Exchange turnover came from top five member firms.

The most actively traded stock in 2015 was *Hrvatski Telekom* with 14.7% of total turnover. *Adris grupa d.d.* preferred stock, accounting for 13% of total turnover.

Most active stocks by turnover in 2015			
Ticker	Issuer	Turnover (HRK)	Market capitalization (HRK mil.)
HT-R-A	HT d.d.	351,608,149	11,824.7
ADRS-P-A	Adris grupa d.d.	310,308,270	2,476.2
RIVP-R-A	VALAMAR RIVIERA d.d.	201,614,786	3,033.5
PODR-R-A	Podravka d.d.	134,130,619	2,378.2
ADRS-R-A	Adris grupa d.d.	108,525,207	5,288.7
	Others	1,286,608,237	103,135.8
TOTAL		2,392,795,268	128,137.1

Total turnover by type of securities (2009 – 2015)



As shown on the turnover structure graph above, there were no major changes in the share of particular securities in the 2015 total turnover. Shares increased their share in total turnover by 1%, while the share of bonds decreased by as much.

The CROBEX experienced a -3.2% correction, while the average for the ten most liquid constituents of the CROBEX10 index recorded a slightly better result (-1.8%). The performance of the CROBEXindustrija (+6 %) and CROBEXturist (+23,7 %) indices testifies to some solid

investment opportunities and, in view of the peaks tested in the course of 2015, all the indices have traded above their end-2014 levels.

6.1. The Zagreb Stock Exchange activities in 2015

In 2015, the Zagreb Stock Exchange completed a number of development activities and those aimed at promoting the Croatian market at the local and international level.

Promotion and development activities in 2015
The 2015 Annual Corporate Governance Report was issued as a result of analysis of the questionnaires filled in by issuers with regard to the Code of Corporate Governance.
Adjustment and improvement of the Issuers' Intranet and drafting of the Issuers' Intranet Manual.
Amendments to the Exchange Service Price List approved by the Agency (April 2015).
On 22 April 2015, the Exchange status as a local operating unit was approved by the International Regulatory Committee. The Agency approved its request for an extension of the operating licence for the assignment and administration of Legal Entity Identifiers (LEI) on 24 April 2015. The Exchange embarked on LEI assignment and administration on 12 May 2015.
In July 2015, the Exchange for an extension of the operating licence/facilitation of trade in other financial instruments – units in collective investment undertakings on the Regulated Market and the MTF.
In June 2015, the Exchange submitted the new Rules to the Agency for approval.
In July 2015, the Exchange applied to the Agency for approval of its intended acquisition of participation exceeding 25% of the voting rights or participation in the share capital in other legal entity: <i>Ljubljanska Borza d.d.</i>
In October 2015, the Exchange applied for approval of amendments to the Exchange Service Price List.
Participation in a range of consultations with the interested public related to adopting new regulations in the areas relevant for the activities of the Exchange and the capital market.
Work on the first edition of the Corporate Governance Manual, in cooperation with International Finance Corporation.
Project on data dissemination on the Vienna Stock Exchange was implemented with the Vienna Stock Exchange. Further to the Cooperation Agreement with the Vienna Stock Exchange on the sale of trading data, Exchange trading data became available via the ADH data feed on 3 August 2015.
Amendment to the provision of the Resolution on the method of CROBEX index calculation by reducing the number of trading days from 90% to 80%.
Trading system upgrades.
Implementation of surveillance system – ANCOA.
Process of Ljubljana Stock Exchange (LJSE) takeover completed by the acquisition of 100% shares from the CEE Stock Exchange Group (December 2015).

Domestic and international market promotion, and international cooperation
Sixth joint education conference of the Croatian Financial Services Supervisory Agency, the Central Depository and Clearing Company and the Zagreb Stock Exchange (15 May 2015).
The ZSE Academy organised 26 courses involving 250 participants, training courses for the OMX trading system and specialist activities. More than 520 participants took part in 17 education events with free-of-charge attendance.
A certified Investor Relations Manager programme was also organised, with six third-generation participants graduating successfully.
Cooperation Agreements with the Association of Pension Fund Management and Pension Insurance Companies and the Croatian Association of Credit Unions were signed.
Ongoing cooperation with student unions, e.g. organisation of the Summer School in Financial Literacy and Entrepreneurship, in cooperation with the Finance Club.
The 2nd Zagreb and Ljubljana Stock Exchange joint investment conference was organised in May 2015; 24 investment companies and banks participated, while 48 analysts and investors as well as companies held 142 one-on-one and group meetings.
The 4th joint conference of the Exchange and investment fund industry entitled "The Challenge of Change", gathering more than 350 participants and 40 speakers, also featured the 6th presentation of the award by daily <i>Poslovni Dnevnik</i> and the Exchange to companies with best investor relations (October 2015).
The Zagreb Stock Exchange award ceremony organised for the third time (December 2015), continuing a new award concept to strengthen the recognition of the capital market and its active participants among the financial and general public.
Work on the project of trade integration of regional markets – SEE Link.

6.2. Market surveillance and market participant support

6.2.1. Market surveillance

The Exchange conducts surveillance of trading on the regulated market and the MTF and in respect of all financial instruments.

Such activity involves:

- monitoring and analysing order entry and conclusion of any transactions via the Exchange trading system on the regulated market and in respect of all financial instruments;
- monitoring and analysing other data and information which may be relevant to the creation of deals and the terms under which they are done;
- temporary trading suspensions when it becomes evident that trading can no longer be done on equal terms or that is not founded on disclosed information;
- monitoring and analysing requests for trade cancellation;
- monitoring and analysing the initiation of volatility interruptions;

- taking action to prevent and detect market abuse in accordance with these Rules and any procedures stipulated by the Rules, provisions of the CMA and other regulations.

Trading surveillance is conducted by using a computer surveillance system which systematically collects and evaluates trading data, facilitating the necessary investigative action.

6.2.2. Member support

The Zagreb Stock Exchange regularly provides support to member firms regarding the Exchange trading process. This support includes the preparation and maintenance of the trading system itself, as well as other associated trading applications. The Exchange actively communicates with member firms during the implementation of new trading system functionality or other changes which might reflect on their business. It devotes special to member support in relation to own applications developed using the X-stream native API/FIX protocol interface. The Exchange also provides application development and testing environments, as well as conducting certification processes for the applications developed by members.

Furthermore, it also provides other forms of technical support; 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 IT and Technology Development Department.

6.2.3. Issuer support

The Zagreb Stock Exchange has an advisory and support role with regard to all issuers of securities listed on the regulated market, and works closely with issuers to ensure compliance with the Rules of the Exchange and the Capital Market Act. It also monitors whether issuers having financial instruments listed on the regulated market follow the procedures and recommendations, and whether they apply the Code of Corporate Governance.

Each year, the Exchange organises joint education for regulated market issuers in cooperation with the Croatian Financial Services Supervisory Agency and the Central Depository and Clearing Company.

Also, the Exchange has an advisory role and provides support to issuers whose financial instruments are admitted to trading on the MTF while also monitoring their actions and compliance with post-admission requirements.

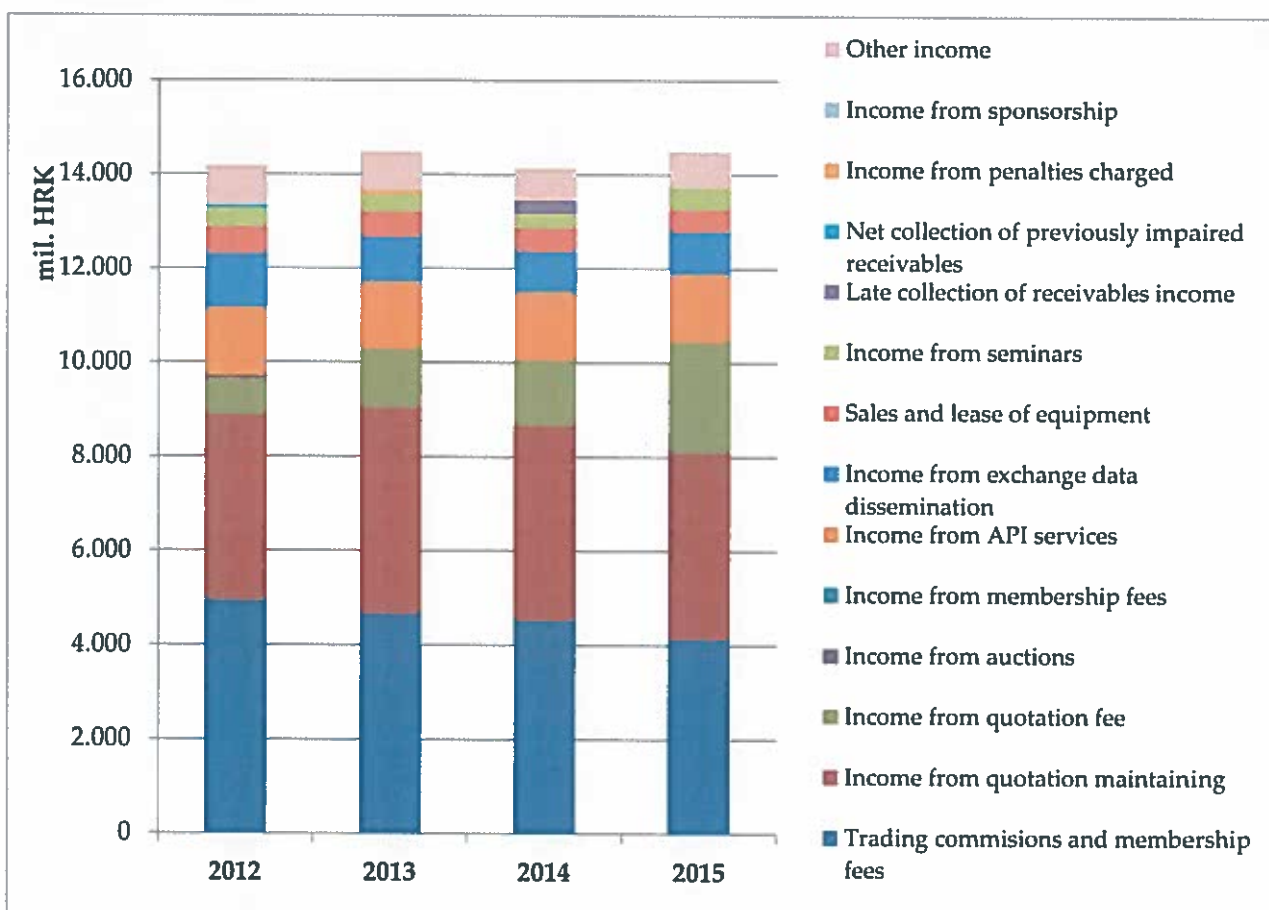
7. Business analysis of the Zagreb Stock Exchange

7.1. Total operating revenue

Total operating revenue increased 2.51% in 2015 compared to the previous year to stand at HRK 14.5 mil. The largest increase in revenue came from listing fees, up 69.2%.

Sales revenue had the largest share (72.1%) in the total operating revenue. A comparison of the revenue flows over the past four years shows that the sales revenue accounted for most of the total revenue, with their share expanding by 3.64% in 2015 compared with 2012.

Total operating revenue (2012 – 2015)



Commissions and membership fees

In 2015, income from commissions and membership fees decreased by HRK -399 thousand or - 8.8% compared to the previous year. The number of member firms declined from 20 to 19 and no new members were admitted during the year.

API membership fees

The 2015 API membership fee income came in at HRK 1.5 million, showing no increase over 2014.

Lease of equipment

Income from lease of equipment decreased by HRK 20 thousand (-4.0%) compared to the previous year.

Maintenance of quotations fees

In 2015, revenue from maintenance of quotations (listing maintenance fees) declined by -4.1% compared to 2014 and amounted to HRK 4.0 mil. The reason for it lies in delisting from the regulated market of 10 shares, seven of which by AGM resolution and three due to bankruptcy of their issuers. The year 2015 ended with 152 shares listed on the regulated market, representing a decrease by -5% over the previous year.

Listing fees

Income from listing fees rose +69.2% to HRK 2.4 million in 2015. The listing of shares in *Granolio d.d.* and *Tankerska Next Generation d.d.* companies on the Official Market early on in the year was a substantial contribution. In addition, the transition of *Luka Rijeka*, *Ilirija* and *HPB* from the Regular to the Official Market is also worth mentioning.

Exchange data dissemination fees

The 2015 data dissemination fees rose by HRK 21 thousand compared to 2014.

Academy and conference revenue

Revenue from the ZSE Academy and conferences organised by the Exchange amounted to HRK 464,000 in 2015, having increased by 51.1% over the previous year.

Other operating revenue

The 2015 other operating revenue reached HRK 755 thousand, up 15.1% compared to 2014.

Net collection of previously impaired receivables

Net collection of previously impaired receivables amounted to HRK 276 thousand in 2014, against a net loss from impairment of receivables in 2015, so no net collection of previously impaired receivables is shown.

Penalties charged

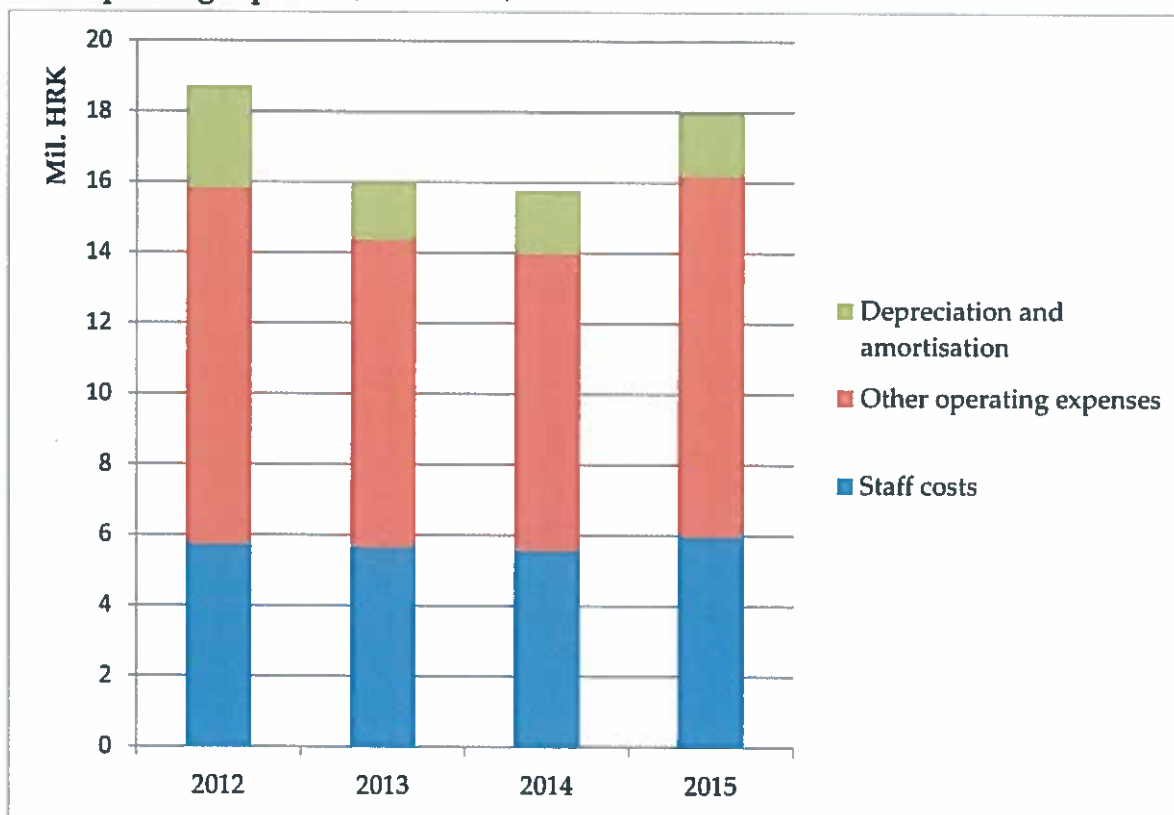
Income from penalties charged was HRK 5 thousand in 2015, down 80% on the previous year.

7.2. Total operating expenses

Total 2015 operating expenses amounted to HR 17.9 mil., up +14% compared to 2014. Staff costs increased by HRK 403 thousand, or 7% to HRK 6 mil. The single largest increase in other operating expenses was due to the costs of professional services, recording an increase by HRK 1,369 thousand (related to the transaction of the Ljubljana Stock Exchange acquisition) and the HRK 418 thousand impairment of trade receivables. The biggest reductions were those in the costs of equipment lease (-25.3%) and business travels (-51%).

The 2015 costs of depreciation and amortisation stood at HRK 1.8 mil., the same level they stood at in 2014.

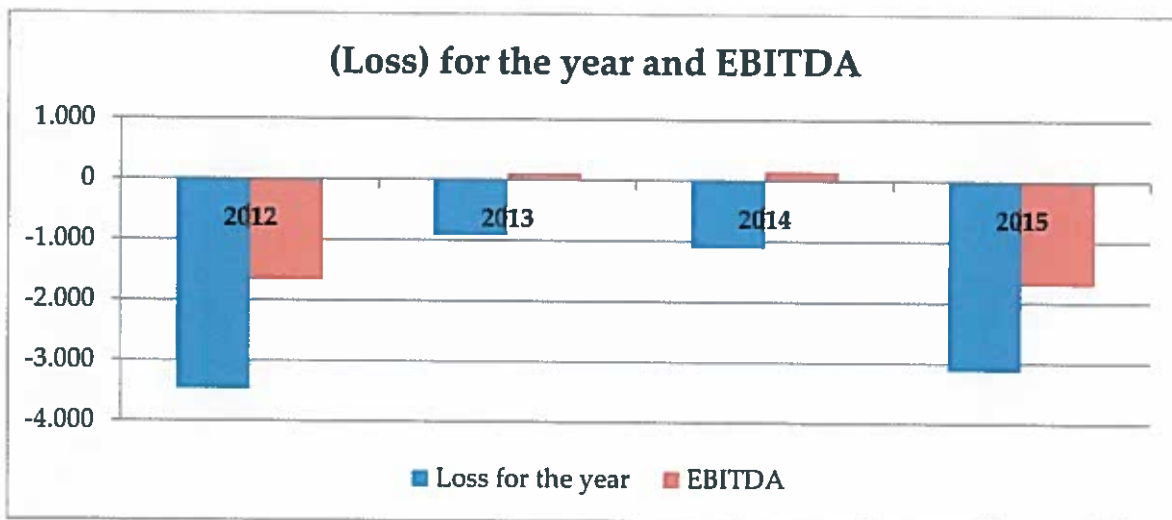
Total operating expenses (2012 – 2015)



7.3. Net loss for the year

In 2015, the net result for the year remained negative and amounted to HRK -3,217 thousand, which is an 183% increase over 2014.

Negative earnings before interest, taxes, depreciation and amortisation of HRK -1,699 thousand were posted in 2015, after ending positive at HRK 150 thousand in 2014.



7.4. Zagreb Stock Exchange assets

On 31 December 2015, total assets of the Zagreb Stock Exchange amounted to HRK 54.1 mil HRK, which is an increase by 40% compared to 2014. This is a result of the capital increase of the Exchange, raising HRK 14.9 mil. in December 2015, and acquisition of the Ljubljana Stock Exchange which followed immediately afterwards.

		2015	2014
		HRK 000	HRK 000
ASSETS			
Total non-current assets		24,103	5,908
Total current assets		30,037	32,761
Total assets		54,140	38,669
EQUITY AND LIABILITIES			
Total equity		46,520	34,775
Total current liabilities		7,620	3,894
Total equity and liabilities		54,140	38,669

Zagreb Stock Exchange, Inc.

**Separate financial statements for the year ended 31 December 2015
together with the independent auditor's report**

Responsibility for the financial statements

The Croatian Accounting Act requires the Management Board to ensure that the financial statements for each financial year are prepared in accordance with accounting regulations applicable in the Republic of Croatia, and that they give a true and fair view of the state of affairs of the Company at the end of the financial year and its profit or loss for the financial year.

The Management Board has a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Therefore, the Management Board continues to adhere to the going concern principle in preparing the financial statements.

In preparing these financial statements, the Management Board is responsible for ensuring that:

- suitable accounting policies are selected and then applied consistently;
- judgements and estimates are reasonable and prudent;
- applicable accounting standards are followed, and
- the financial statements are prepared on the going concern basis, unless assuming that the Company will continue in operational existence is considered to be inappropriate.

The Management Board is responsible for ensuring that the Company keeps proper accounting records to disclose with reasonable accuracy at any time the financial position of the Company and ensure that the financial statements comply with the Croatian Accounting Act. The Management Board is also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Signed on behalf of the Management Board:


Ivana Gažić
President of the Management Board

Zagreb, 31 March 2016


Tomislav Gračan
Member of the Management


ZAGREBAČKA BURZA d.d.
Zagreb

Independent Auditor's report

Independent auditor's report to the shareholders of Zagrebačka burza d.d.

We have audited the accompanying financial statements ("the financial statements") of Zagreb Stock Exchange d.d., which comprise the statement of financial position as at 31 December 2015, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information (as set out on pages 36 to 68).

Management Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted in the European Union, 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risk of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independent Auditor's report (continued)

Opinion

In our opinion the financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2015 and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted in the European Union.

Report on Other Legal Reporting Requirements

Management Board of the Company has prepared Annual report as set out on pages 1 to 31. The Management Board is responsible for the preparation of the Annual report in accordance with the Croatian Accounting Law and for its accuracy. Our responsibility is to perform procedures we consider necessary to reach a conclusion on whether the Annual report is consistent with the audited financial statements. Our work as auditors was confined to checking the annual report with the aforementioned scope and did not include a review of any information other than that drawn from the audited accounting records of the Company. In our opinion, the accounting information presented in the Annual report of the Company for the year 2015 is consistent, in all material respects, with the audited financial statements for that year which are presented on pages 36 to 68.



Slaven Đuroković
Member of the Board and certified auditor

Ernst & Young d.o.o.
Zagreb, 31 March 2016

Separate statement of financial position
as at 31 December 2015

	Notes	2015 HRK'000	2014 HRK'000
Assets			
Non-current assets			
Equipment and motor vehicles	4	554	709
Intangible assets	5	3,613	4,686
Investment in subsidiary and joint venture	6	19,293	27
Financial assets available for sale	7a	394	237
Guarantee deposits		249	249
Total non-current assets		24,103	5,908
Current assets			
Trade receivables and other assets	8	1,708	2,097
Prepaid expenses		3,059	112
Financial assets at fair value through profit or loss	7b	5,280	14,647
Short term deposits	20	16,966	15,165
Cash and cash equivalents	20	3,024	740
Total current assets		30,037	32,761
Total assets		54,140	38,669
Equity and liabilities			
Equity			
Issued share capital	9	46,357	40,408
Share premium		13,860	4,937
Legal reserves		141	141
Retained (loss)		(13,838)	(10,711)
Total equity		46,520	34,775
Current liabilities			
Trade payables and other liabilities	11	5,037	1,454
Deferred income and accrued expenses	12	2,583	2,440
Total current liabilities		7,620	3,894
Total equity and liabilities		54,140	38,669

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

Separate statement of comprehensive income
for the year ended 31 December 2015

	Notes	2015 HRK'000	2014 HRK'000
Sales revenue	13	10,446	10,052
Other operating income	14	4,038	4,077
Staff costs	15	(5,958)	(5,555)
Depreciation and amortization	4,5	(1,785)	(1,774)
Other operating expenses	16	(10,225)	(8,424)
Financial income	17a	378	526
Financial expense	17b	(21)	(5)
(Loss) before tax		<u>(3,127)</u>	<u>(1,103)</u>
Income tax expense	18a	-	-
(Loss) for the year		<u>(3,127)</u>	<u>(1,103)</u>
Other comprehensive income, net of tax		-	-
Total comprehensive (loss) for the year		<u>(3,127)</u>	<u>(1,103)</u>

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

Separate statement of changes in equity

	Issued share capital HRK'000	Share premium HRK'000	Legal reserves HRK'000	Retained earnings HRK'000	Total HRK'000
As at 1 January 2014	40,408	4,937	141	(9,608)	35,878
Total comprehensive (loss) for the year	-	-	-	(1,103)	(1,103)
As at 31 December 2014	40,408	4,937	141	(10,711)	34,775
As at 1 January 2015	40,408	4,937	141	(10,711)	34,775
Issue of share capital	5,949	8,923	-	-	14,872
Total comprehensive (loss) for the year	-	-	-	(3,127)	(3,127)
As at 31 December 2015	46,357	13,860	141	(13,838)	46,520

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

Separate statement of cash flows
for the year ended 31 December 2015

	Notes	2015 HRK'000	2014 HRK'000
Net inflows from operating activities before tax	19	(700)	(937)
Decrease of income tax prepayments		-	-
Net cash from operating activities		<u>(700)</u>	<u>(937)</u>
Investing activities			
Investment in associate and joint venture		(19,266)	-
Net (purchases)/disposals of units in open investment funds		9,455	1,672
Net (purchases)/disposals of assets available for sale		-	(27)
Purchase of equipment and intangible assets		(557)	(623)
Interest received from deposits	17a	281	371
Investment in short term deposits		(1,801)	(566)
Net cash (outflows)/inflows from investment activities		<u>(11,888)</u>	<u>827</u>
Financing activities			
Issue of share capital		14,872	-
Net cash inflows/(outflows) from financing activities		<u>14,872</u>	<u>-</u>
Net (decrease)/increase in cash and cash equivalents		2,284	(110)
Cash and cash equivalents at the beginning of the year		740	850
Cash and cash equivalents at the end of the year	20	<u>3,024</u>	<u>740</u>

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

Notes to the separate financial statements

1 Reporting entity

Zagreb Stock Exchange 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 56 shareholders (2014: 51 shareholders). The Company does not have an ultimate parent company.

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

At 31 December 2015 Zagreb Stock Exchange d.d. is owner of foreign subsidiary Ljubljana Stock Exchange d.d. Ljubljana, Slovenia and foreign joint venture SEE Link d.o.o., Skopje, Republic of Macedonia.

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

2 Basis of preparation

a) Statement of compliance

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

b) Basis of measurement

Financial statements are prepared on a historical cost basis, unless requested or permitted otherwise, in accordance with Croatian Accounting Law and International Financial Reporting Standards as adopted in EU.

c) Functional and presentation currency

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

Notes to the separate financial statements (continued)

2 Basis of preparation (continued)

d) Use of estimates and judgments

The preparation of financial statements 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 23.

e) Foreign currency translations

Transactions in foreign currencies are translated into functional currency using the exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated into the functional currency using the foreign exchange rate ruling at that date.

Financial statements are presented in HRK which is the functional and reporting currency.

In addition to HRK, the most significant currency in which the Company has assets and liabilities is Euro. The exchange rate used for translation on 31 December 2015 was EUR 1=HRK 7.635047 (31 December 2014: EUR 1=HRK 7.661471).

Income and expenses arising from transactions in foreign currencies are translated to HRK using the official exchange rates on the transaction date. Assets and liabilities denominated in foreign currencies are translated to HRK at the exchange rate ruling at the date of the statement of financial position. Gains and losses resulting from the foreign currency translation are included in the income statement for the year.

3 Significant accounting policies

a) Equipment and intangible assets

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

Recognition and measurement

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

Subsequent costs

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

Depreciation and amortization

Depreciation is recognised 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 put into use are not depreciated.

Notes to the separate financial statements (continued)

3 Significant accounting policies (continued)

a) Equipment and intangible assets (continued)

The estimated useful economic lives are as follows:

	2015	2014
Computer and office equipment	2-10 years	2-10 years
Office furniture and equipment	5 years	5 years
Telephone lines	2 years	2 years
Computer software	2-5 years	2-5 years
Trading system software	10 years	10 years
Motor vehicles	5 years	5 years
Leasehold improvements	period of lease	period of lease

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

Notes to the separate financial statements (continued)

3 Significant accounting policies (continued)

b) Financial instruments

Classification and recognition

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

Financial assets at fair value through profit or loss

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

Trading assets and liabilities are those assets and liabilities that the Company acquires or incurs principally for the purpose of sale or repurchase in the near term, or holds as a part of a portfolio which is managed for the purpose of making profit in the short term.

Financial assets at fair value through profit or loss include investments in open-ended investment funds.

Loans and receivables

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

Loans and receivables in the Statement of financial position of the Company which comprise guarantee deposits with banks classified as "cash and cash equivalents" and "trade receivables and other assets".

Available-for-sale financial assets

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

Notes to the separate financial statements (continued)

3 Significant accounting policies (continued)

b) Financial instruments (continued)

Recognition and de-recognition

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

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

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

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

Initial and subsequent measurement

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

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

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

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

Notes to the separate financial statements (continued)

3 Significant accounting policies (continued)

b) Financial instruments (continued)

Gains and losses from subsequent measurement

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

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

Fair value measurement principles

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

Fair value levels

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

1. Level 1: quoted (unadjusted) prices in active markets
2. Level 2: other techniques for which all inputs which have significant effect on the recorded fair value are observable, either directly or indirectly.
3. Level 3: techniques which use inputs which have a significant effect on the determination of fair value and which are not based on observable market data.

Impairment of financial assets

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

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

Notes to the separate financial statements (continued)

3 Significant accounting policies (continued)

b) Financial instruments (continued)

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

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

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

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

Trade receivables, other assets and deposits with banks

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

Investments in funds

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

Trade payables and other liabilities

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

Notes to the separate financial statements (continued)

3 Significant accounting policies (continued)

c) Impairment of non-financial assets

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

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

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

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

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

d) Leases

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

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

e) Cash and cash equivalents

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

f) 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.

Notes to the separate financial statements (continued)

3 Significant accounting policies (continued)

g) 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.

The Company provides for tax liabilities in accordance with Croatian law. The current income tax rate is 20% (2014: 20%).

h) 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.

i) 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.

Dividends on ordinary share capital are recognized as a liability after they are declared.

Notes to the separate financial statements (continued)

3 Significant accounting policies (continued)

j) Revenue

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

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

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

Finance income

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

Financial income also includes net positive foreign exchange differences resulting from translation of monetary assets and liabilities using the relevant exchange rate at the reporting date.

k) Investment in associates and joint ventures

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

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

l) Adoption of new and amended International Financial Reporting Standards

New and amended accounting standards and interpretations adopted in European Union

The accounting policies adopted are consistent with those of the previous financial year except for the following amended IFRSs which have been adopted by the Company as of 1 January 2015:

Notes to the separate financial statements (continued)

3 Significant accounting policies (continued)

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

Annual Improvements to IFRSs 2011 - 2013 Cycle

When the adoption of the standard or interpretation is deemed to have an impact on the financial statements or performance of the Company, its impact is described below.

The IASB has issued the Annual Improvements to IFRSs 2011 - 2013 Cycle, which is a collection of amendments to IFRSs. The amendments are effective for annual periods beginning on or after 1 January 2015. Management has assessed the impact of these improvements and concluded that there is no impact on the Company's financial statements as of 31 December 2015 and for the year then ended. Amended standards are listed below:

- IFRS 3 Business Combinations
- IFRS 13 Fair Value Measurement
- IAS 40 Investment Properties

New and amended standards issued but not yet effective and not early adopted

IFRS 9 Financial Instruments: Classification and Measurement

The standard is effective for annual periods beginning on or after 1 January 2018, with early application permitted. The final version of IFRS 9 Financial Instruments reflects all phases of the financial instruments project and replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. The amendment has not yet been endorsed by the EU. Management is currently assessing the impact of the new pronouncements on the Company's financial reporting and plans to adopt standard when it becomes effective.

IFRS 15 Revenue from Contracts with Customers

The standard is effective for annual periods beginning on or after 1 January 2018. IFRS 15 establishes a five-step model that will apply to revenue earned from a contract with a customer (with limited exceptions), regardless of the type of revenue transaction or the industry. The standard's requirements will also apply to the recognition and measurement of gains and losses on the sale of some non-financial assets that are not an output of the entity's ordinary activities (e.g., sales of property, plant and equipment or intangibles). Extensive disclosures will be required, including disaggregation of total revenue; information about performance obligations; changes in contract asset and liability account balances between periods and key judgments and estimates. The standard has not been yet endorsed by the EU. Management is currently assessing the impact of the new pronouncements on the Company's financial reporting and plans to adopt standard when it becomes effective.

Notes to the separate financial statements (continued)

3 Significant accounting policies (continued)

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

New and amended standards issued but not yet effective and not early adopted (continued)

IAS 1: Disclosure Initiative (Amendment)

The amendments to IAS 1 Presentation of Financial Statements further encourage companies to apply professional judgment in determining what information to disclose and how to structure it in their financial statements. The amendments are effective for annual periods beginning on or after 1 January 2016. The narrow-focus amendments to IAS clarify, rather than significantly change, existing IAS 1 requirements. The amendments relate to materiality, order of the notes, subtotals and disaggregation, accounting policies and presentation of items of other comprehensive income (OCI) arising from equity accounted Investments. Management has assessed that adoption of the new amendment should not have significant impact on the Company's financial statements and related disclosures.

The IASB has issued the Annual Improvements to IFRSs 2010 - 2012 Cycle, which is a collection of amendments to IFRSs. The amendments are effective for annual periods beginning on or after 1 February 2015. Management has assessed that adoption of these amendments doesn't have significant impact on the Company's financial reporting. Amended standards are listed below:

- IFRS 2 Share-based Payment
- IFRS 3 Business combinations
- IFRS 8 Operating Segments
- IFRS 13 Fair Value Measurement
- IAS 16 Property Plant & Equipment
- IAS 24 Related Party Disclosures
- IAS 38 Intangible Assets

The IASB has issued the Annual Improvements to IFRSs 2012 - 2014 Cycle, which is a collection of amendments to IFRSs. The amendments are effective for annual periods beginning on or after 1 January 2016. Management has assessed that adoption of these amendments doesn't have significant impact on the Company's financial reporting. Amended standards are listed below:

- IFRS 5 Non-current Assets Held for Sale and Discontinued Operations
- IFRS 7 Financial Instruments: Disclosures
- IAS 19 Employee Benefits
- IAS 34 Interim Financial Reporting

Notes to the separate financial statements (continued)

3) Significant accounting policies (continued)

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

New and amended standards issued but not yet effective and not early adopted (continued)

IFRS 16: Leases

The standard is effective for annual periods beginning on or after 1 January 2019. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer ('lessee') and the supplier ('lessor'). The new standard requires lessees to recognize most leases on their financial statements. Lessees will have a single accounting model for all leases, with certain exemptions. Lessor accounting is substantially unchanged. The standard has not been yet endorsed by the EU. Management is currently assessing the impact of the new pronouncements on the Company's financial reporting and plans to adopt standard when it becomes effective.

Notes to the separate financial statements (continued)

4 Equipment and motor vehicles

	Computers	Motor vehicles	Furniture and other equipment	Investments in assets	Asset under construction	Total
	HRK'000	HRK'000	HRK'000		HRK'000	HRK'000
Cost						
At 1 January 2014	6,066	23	2,300	1,118	39	9,546
Additions	71	-	9	-	-	80
Transfers	39	-	-	-	(39)	-
Disposals	(126)	(23)	-	-	-	(149)
At 31 December 2014	6,050	-	2,309	1,118	-	9,477
At 1 January 2015	6,050	-	2,309	1,118	-	9,477
Additions	15	-	15	-	-	30
Transfers	-	-	-	-	-	-
Disposals	-	-	-	-	-	-
At 31 December 2015	6,065	-	2,324	1,118	-	9,507
Accumulated depreciation						
At 1 January 2014	(5,525)	(5)	(2,158)	(986)	-	(8,674)
Charge for the period	(141)	-	(33)	(51)	-	(225)
Disposal	126	5	-	-	-	131
At 31 December 2014	(5,540)	-	(2,191)	(1,037)	-	(8,768)
At 1 January 2015	(5,540)	-	(2,191)	(1,037)	-	(8,768)
Charge for the period	(99)	-	(38)	(48)	-	(185)
Disposal	-	-	-	-	-	-
At 31 December 2015	(5,639)	-	(2,229)	(1,085)	-	(8,953)
Net book value at 31 December 2014	510	-	118	81	-	709
Net book value at 31 December 2015	426	-	95	33	-	554

Notes to the separate financial statements (continued)

5 Intangible assets

	Software	Total
	HRK'000	HRK'000
Cost		
At 1 January 2014	18,777	18,777
Additions	560	560
At 31 December 2014	<u>19,337</u>	<u>19,337</u>
At 1 January 2015		
Additions	527	527
At 31 December 2015	<u>19,864</u>	<u>19,864</u>
Accumulated amortisation		
At 1 January 2014	(13,104)	(13,104)
Charge for the period	(1,547)	(1,547)
At 31 December 2014	<u>(14,651)</u>	<u>(14,651)</u>
At 1 January 2015		
Charge for the period	(1,600)	(1,600)
At 31 December 2015	<u>(16,251)</u>	<u>(16,251)</u>
Net book value		
At 31 December 2014	4,686	4,686
At 31 December 2015	<u>3,613</u>	<u>3,613</u>

Notes to the separate financial statements (continued)

6 Investment in subsidiary and joint venture

	31 December 2015 HRK'000	31 December 2014 HRK'000
Investment in Ljubljana Stock Exchange d.d.	19,089	-
Investment in SEE Link d.o.o. (33.33%)	204	27
	<u>19,293</u>	<u>27</u>

Zagreb Stock Exchange acquired the Ljubljana Stock Exchange by taking over 100% of its shares from the CEE Stock Exchange Group (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 Zagreb Stock Exchange 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 Ljubljana Stock Exchange is as follows:

	31 December 2015 HRK'000	31 December 2014 HRK'000
Total assets	20,177	22,194
<i>Out of which Cash and cash equivalents</i>	8,249	9,112
Total liabilities	2,717	1,796
Total revenues	11,368	13,685
Profit/loss of period	(732)	2,132

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

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

	31 December 2015 HRK'000	31 December 2014 HRK'000
Total assets	1,225	305
<i>Out of which Cash and cash equivalents</i>	590	149
Total liabilities	614	232
Total revenues	16	-
Profit/loss of period	(17)	(7)

Notes to the separate financial statements (continued)

7 Financial assets

	31 December 2015 HRK'000	31 December 2014 HRK'000
a) Financial assets available for sale		
Investment in shares	197	237
Investment in bonds	197	-
	<u>394</u>	<u>237</u>

The investment in shares is carried at cost.

	31 December 2015 HRK'000	31 December 2014 HRK'000
b) Financial assets at fair value through profit or loss		
<i>Shares in open-ended investment funds</i>	5,280	14,647
	<u>5,280</u>	<u>14,647</u>

Shares in open-ended investment funds are classified as fair value level 2 as at 31 December 2015 and 31 December 2014.

Notes to the separate financial statements (continued)

8 Trade receivables and other assets

	31 December 2015 HRK'000	31 December 2014 HRK'000
Trade receivables	2,693	2,609
Advances placed	17	21
Other assets	6	7
Impairment allowance	(1,008)	(540)
	<u>1,708</u>	<u>2,097</u>

Movement in impairment allowance for trade receivables

	2015 HRK'000	2014 HRK'000
Balance at 1 January	(540)	(1,034)
Impairment loss	(588)	(293)
Write off	28	201
Collection of previously impaired receivables	64	296
Decrease in impairment allowance	28	290
	<u>(1,008)</u>	<u>(540)</u>

Overdue receivables which are not impaired amount to HRK 493 thousand as at 31 December 2015 (as at 31 December 2014: HRK 979 thousand). The Management holds these receivables to be fully recoverable.

Overdue receivables not impaired as at 31.12.2015 ('000 HRK):

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

Overdue receivables not impaired as at 31.12.2014 ('000 HRK):

< 90 days	91-120 days	121-180 days	180-360 days	>360 days
295	48	280	134	222

Notes to the separate financial statements (continued)

9 Issued share capital and reserves

Issued share capital

	31 December 2015 HRK'000	31 December 2014 HRK'000
Authorized, issued and fully paid in 46,357 (2014: 40,408) ordinary shares, each at HRK 1,000 par value	46,357	40,408

As at 31 December 2015 the Company had 56 shareholders (2014: 51 shareholders) with ownership interests in the Company ranging between 0.01% and 9.95%,

10 Loss per share

Calculation of loss per share as at 31 December 2015 was based on the loss of HRK 3,127 thousand and a weighted average number of ordinary shares outstanding of 40,441, calculated as follows:

	2015	2014
Net loss for the period (HRK'000)	(3,127)	(1,103)
Weighted average number of ordinary shares during the period	40,441	40,408
Basic loss per share (in HRK)	(77,34)	(27,29)

Diluted earnings per share are the same as undiluted.

11 Trade payables and other payables

	31 December 2015 HRK'000	31 December 2014 HRK'000
Trade payables	3,631	795
VAT liability	516	-
Other short-term payables	890	659
	5,037	1,454

Notes to the separate financial statements (continued)

12 Deferred income and accrued expenses

	31 December 2015 HRK'000	31 December 2014 HRK'000
Deferred income from quotation maintaining	2,293	2,166
Other deferred income	290	274
	<u>2,583</u>	<u>2,440</u>

Notes to the separate financial statements (continued)

13 Sales revenue

	2015 HRK'000	2014 HRK'000
Commissions and membership fees	4,126	4,525
Income from quotation maintaining	3,963	4,134
Income from quotation fee	2,357	1,393
	<u>10,446</u>	<u>10,052</u>

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

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 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.

14 Other operating income

	2015 HRK'000	2014 HRK'000
Income from API services	1,456	1,456
Income from the supply of information	876	855
Sale and lease of equipment	482	502
Income from seminars	464	307
Income from penalties charged	5	25
Collection of previously impaired receivables (net)	-	276
Other income	755	656
	<u>4,038</u>	<u>4,077</u>

Notes to the separate financial statements (continued)

15 Staff costs

	2015 HRK'000	2014 HRK'000
Salaries		
Net salaries	3,105	2,801
Payroll deductions and contributions	2,814	2,718
	<u>5,919</u>	<u>5,519</u>
 Other staff costs	 39	 36
	<u>5,958</u>	<u>5,555</u>

The number of employees at the end of 2015 was 22 (2014: 23). Staff costs include HRK 962 thousand (2014: HRK 914 thousand) of defined pension contributions paid into obligatory pension funds. Contributions are calculated as a percentage of employees' gross salaries. In 2015 total bonus payments amounted to HRK 222 thousand (2014: 0 HRK).

Notes to the separate financial statements (continued)

16 Other operating expenses

	2015 HRK '000	2014 HRK '000
Maintenance of software	3,502	3,508
Professional services	1,840	471
Rent of premises	1,146	1,190
Post and telephone services	786	764
Utility expenses	620	666
Fees paid to Croatian Financial Services Supervisory Agency	455	462
Net value adjustment of trade receivables	418	-
Rent of equipment	236	316
Entertainment	217	133
Disposals and write-offs of assets	206	95
Maintenance of phone lines, equipment and leased premises	155	147
Business travel	73	124
Other expenses	571	548
	<u>10,225</u>	<u>8,424</u>

Notes to the separate financial statements (continued)

17 Financial income and expense

	2015 HRK'000	2014 HRK'000
a) Financial income		
Net gains from financial assets at fair value through profit or loss	92	130
Interest income	281	371
Other	5	25
Total financial income	<u>378</u>	<u>526</u>
b) Financial expense		
Net foreign exchange losses	(20)	(4)
Other	(1)	(1)
Total financial expense	<u>(21)</u>	<u>(5)</u>
Net financial result	<u>357</u>	<u>521</u>

18 Income tax expense

a) Income tax expense

	2015 HRK'000	2014 HRK'000
Current income tax expense	-	-
Deferred income tax	-	-
Total income tax expense	<u>-</u>	<u>-</u>

Notes to the separate financial statements (continued)

18 Income tax expense (continued)

b) Reconciliation of accounting profit and current income tax liability

	2015 HRK'000	2014 HRK'000
Profit before tax	(3,127)	(1,103)
Tax calculated at 20%	—	—
Tax non-deductible expenses	993	297
Non-taxable income	(135)	(200)
Income tax expense	—	—
	—	—
Effective income tax rate	n/a	n/a
	—	—

c) Tax losses carried forward

Gross tax losses amounting to HRK 7,958 thousand are available for offset against the future taxable profits of the Company at the end of 2015. A tax loss may be carried forward by the Company for five years subsequent to the year in which it arose, subject to review by the Ministry of Finance. At the end of 2014 the Company had HRK 13,128 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 2015 the Company did not recognize deferred tax assets in respect of temporary differences (unused vacation days) 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 2015 the, gross tax losses available to be carried forward are as follows:

	2015 HRK'000	2014 HRK'000
Up to 1 year	567	7,499
Up to 2 years	3,364	567
Up to 3 years	692	3,364
Up to 4 years	1,006	692
Up to 5 years	2,329	1,006
	—	—
Total tax loss available to be carried forward	7,958	13,128
	—	—

Notes to the separate financial statements (continued)

19 Reconciliation of profit before tax to net cash inflow/(outflow) from operating activities before taxation

	2015 HRK'000	2014 HRK'000
(Loss) before tax	(3,127)	(1,103)
Depreciation and amortization	1,785	1,774
Net financial (income)	(369)	(526)
Net impairment loss on trade receivables	418	(276)
(Loss)/profit from operating activities before working capital changes	(1,253)	(131)
(Increase) in trade receivables and other assets	(186)	(101)
(Increase)/Decrease in deferred expenses	(2,947)	1,971
Increase/(decrease) in accrued expenses and deferred income	143	(215)
Increase/(decrease) in trade and other payables	3,583	(2,461)
Net cash (outflow) from operating activities before taxation	(700)	(937)

20 Short term deposits and cash and cash equivalents

	31 December 2015 HRK'000	31 December 2014 HRK'000
Short term deposits with maturity over 3 months	16,966	15,165
	16,966	15,165

	31 December 2015 HRK'000	31 December 2014 HRK'000
Gyro account in foreign currency	2,711	162
Gyro account in domestic currency	307	573
Cash in hand	4	3
Interest receivable with maturity less than 3 months	2	2
Cash and cash equivalents	3,024	740

Notes to the separate financial statements (continued)

21 Financial instruments - risk exposures

Interest rate risk

The Company does not have significant amount of variable interest-bearing assets. The most significant interest-earning assets are short term deposits in banks. The Company does not have interest-bearing liabilities. The impact of changes in market interest rates on income statement is therefore assessed as not significant. Remaining maturity of deposits with fixed interest rate is between 6 and 8 month and therefore the Management of the Company believes that fair values of these deposits is the close to their book values.

Foreign currency risk

Except for HRK 2,711 thousand (2014: HRK 162 thousand) of the funds on the gyro account denominated in foreign currency, 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:

Total credit risk exposure	31 December 2015 HRK'000	31 December 2014 HRK'000
Cash and cash equivalents (excluding cash in hand)	3,020	737
Short term deposits	16,966	15,165
Trade receivables and other assets	1,708	2,097
Guarantee deposits	249	249
Financial assets available-for-sale	197	-
	<u>22,140</u>	<u>18,248</u>

Notes to the separate financial statements (continued)

21 Financial instruments - risk exposures (continued)

The Company generally does not take collateral due to the nature of its operations.

The Company did not have significant concentration of credit risk at the reporting date (except credit risk arising from deposits in domestic banks, as stated in Note 20).

Concentration of trade receivables' credit risk:

	31 December 2015		31 December 2014	
	HRK'000	%	HRK'000	%
Corporate	882	52	1,167	56
Institutional investors and brokers	758	44	923	44
State	68	4	7	-
	<u>1,708</u>	<u>100</u>	<u>2,097</u>	<u>100</u>

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 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 53 thousand (2014: HRK 146 thousand).

Liquidity risk

The Company does not have interest-bearing borrowings. Cash and cash equivalents at the reporting date significantly exceed liabilities. The Company maintained a satisfactory liquidity position throughout the year.

22 Related parties

Remuneration to Management Board throughout the year was HRK 1,736 thousand (2014: HRK 1,569 thousand). The total remuneration of Supervisory Board members amounted to HRK 0 (2014: HRK 0).

As significant amounts of transactions of the Company are carried out under controlled and regulated conditions which are equal for owners of the Company as well as for other participants on the market, further related party disclosures are not practical to identify and disclose.

Notes to the separate financial statements (continued)

23 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, collateral available and estimated probability of collection of the outstanding amount. The management holds that trade receivables are stated at their recoverable amount at the reporting date.

Income tax

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

24 Events after the Reporting Period

No other events or transactions have occurred since 31 December 2015 or are pending that would have a material effect on the financial statements at that date or for the period then ended, or that are of such significance in relation to the Company's affairs to require mention in a note to the financial statements