

# Annual report

Ljubljana Stock Exchange



2016



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# Introduction



## Ljubljana Stock Exchange 2016 highlights

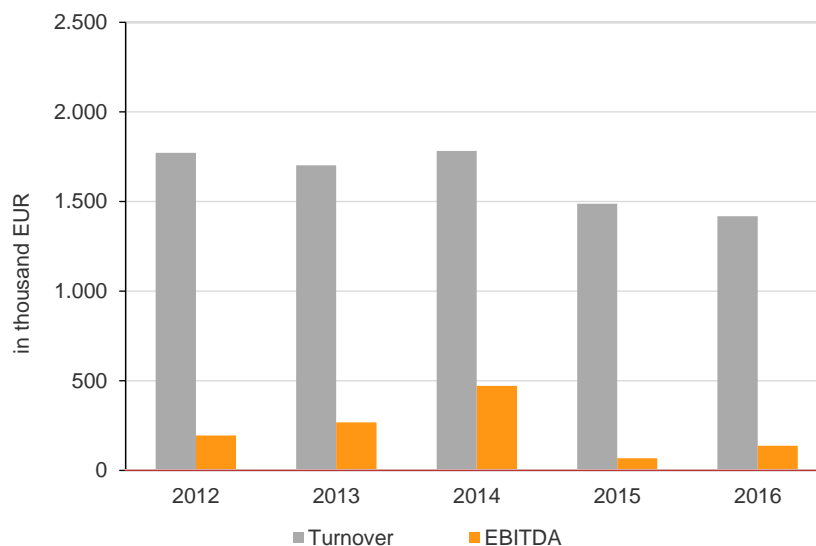
**1,418,572 EUR**

SALES REVENUE

**137,390 EUR**

EARNINGS BEFORE  
INTEREST, TAXES  
DEPRECIATION AND  
AMORTIZATION (EBITDA)  
IN 2016

Turnover and EBITDA



(in EUR)	Key financial figures for the company Ljubljana Stock Exchange				
	2016	2015	2014	2013	2012
Called-up capital	1,400,893	1,400,893	1,400,893	1,400,893	1,400,893
Equity	2,376,378	2,286,827	2,662,479	2,382,999	2,598,176
Assets	2,654,468	2,642,682	2,896,847	2,595,175	3,058,854
Revenues (total)	1,421,246	1,493,896	1,793,547	1,716,686	1,788,277
- revenues from trading fees	502,011	516,571	731,374	458,472	450,062
- other revenues	919,235	977,325	1,062,173	1,258,215	1,338,215
Costs (total)	1,355,835	1,579,384	1,498,910	1,751,676	1,852,297
- labour costs	546,430	758,576	572,227	675,001	717,812
- other costs	809,405	820,808	926,683	1,076,675	1,134,485
EBITDA	137,390	68,830	470,768	166,017	194,787
Operating profit / loss (EBIT)	63,427	-90,445	285,292	-48,297	-78,836
Profit / loss before tax	65,411	-85,488	294,637	-34,990	-64,020
Taxes	24,140	-10,684	-15,157	3,952	-5,556
Net profit / loss for the period	89,551	-96,172	279,480	-31,039	-69,576
Nr. of shares	33,571	33,571	33,571	33,571	33,571
Book value on 31 Dec. (capital / no. of shares)	70.79	68.12	79.31	70.98	77.39
Dividend payment per share in EUR	-	-	-	-	-
Number of employees by man-hours	9.73	10.05	10.08	12.27	13
Number of employees on 31 <sup>th</sup> Dec	11	10	10 (+1*)	12	16

## Ljubljana Stock Exchange company profile

### Company ID

Name	Ljubljanska borza, d. d., Ljubljana (English: Ljubljana Stock Exchange Inc., short: LJSE)
Registered office	Slovenska cesta 56, 1000 Ljubljana, Slovenia
Telephone	+386 1 471 02 11
Fax	+386 1 471 02 13
E-mail	info@ljse.si
Website	www.ljse.si
Incorporated on	26 December 1989
Share capital	EUR 1,400,893.01
Shareholders	Zagrebačka burza d.d. – 100% owner
Core business	Regulated securities market operator
Business activity code	67.110
Registration no.	5316081
VAT identification no.	59780061
Size	Small company
Companies register entry	1/04218/00, District Court of Ljubljana

### Business

The Ljubljana Stock Exchange (hereinafter: LJSE or company) is a joint stock company founded to foster the matching of supply and demand in securities trading and in trading in other financial instruments. It ensures that transactions in securities and other financial instruments are carried out in a regulated, transparent, liquid and efficient manner, in line with the law and other regulations.

The company's objective is to maximise company value for shareholders in the long-term, parallel to ensuring the development, stability and safety of the Slovenian regulated market and complying with the regulations governing the market in financial instruments.

Transactions in securities and other financial instruments are organised pursuant to the law, the LJSE Articles of Association, the LJSE Rules, the LJSE Instructions and other LJSE acts adopted by the LJSE Management Board.

The company's Articles of Association stipulate the following as its business activities:

- Operating the stock exchange market in financial instruments for which it had obtained the Securities Market Agency's authorisation;
- Publishing securities prices;
- Providing information on the supply, demand and market value of securities, and other information on securities;
- Analytic research work in the financial market;
- Providing IT services to support trading;

- Operating the Slovenian multilateral trading facility (MTF);
- Operating the Slovenian officially appointed mechanism (OAM);
- Selling and maintaining the software developed for the purposes of providing its services.

## Report from the Management Board

The Ljubljana Stock Exchange's operations in 2016 were very successful. Total revenue amounted to EUR 1,421,246 and total expenses were EUR 1,355,835. The total revenues are by EUR 131.059 or 10% higher than planned.

The result for 2016 is therefore positive and substantially surpassed the planned result. Good business results are a reflection of better macroeconomic position of Slovenian economy, increased activity on the stock exchange market and internal cost optimisation of the Exchange. The 2016 EBITDA cash flow was positive at EUR 137,390. This is a decrease by 103% compared to 2015. The LJSE made no major investments in 2016, as the Exchange switched to the majority use of external service providers instead of investing in its own IT systems. This enabled us to run stable day-to-day operations with practically no external indebtedness.

The LJSE business result depends to a great extent on the trading fees revenue; these amounted to EUR 502,011 in 2016, down 3% from 2015. Listing fees revenue and listing maintenance fees revenue amounted to EUR 348,242, down 12% from 2015. Information-communication (ICT) services related to the Xetra® and SEO systems generated EUR 183,184, which is 13% less than in 2016. Revenues from market data vending remained stable in 2016 and generated EUR 249,787.

At the end of the year the LJSE had 11 employees. Despite the reduction in the number of employees, the LJSE successfully performed all tasks, which is a reflection of good internal organisation and a high level of employee efficiency and motivation. As every year also in 2016 the LJSE devoted special attention to operations compliance and in-house corporate governance, which we try to continuously upgrade according to the changing external circumstances or changed internal LJSE processes. We received no extraordinary measures from the Securities Market Agency in 2016. The LJSE is also not facing any pending complaints or legal actions filed in 2016 by capital market stakeholders.

In 2016 there was also a change in the management Board of the Exchange. On 1 September 2016 a new Management Board, composed of Mr Aleš Ipavec, MSc, as President, and Ms Nina Vičar, MSc, as Member, began their new four-year term of office.

The change in the ownership of the Exchange had an important impact on the Exchange's operations in 2016. The Zagreb Stock Exchange successfully concluded the takeover process at the end of the year 2015, by which it bought a 100% share in the Ljubljana Stock Exchange from the CEESEG AG. After takeover cooperation and harmonisation in many areas, such as corporate policies and potential synergies in joint development and promotion projects of both markets, took place.




Movements on the Slovenian regulated capital market brought about a slight growth of the SBI TOP index, which was up 3%. Total turnover on the LJSE in 2016 amounted to EUR 333,7 million, down 10,5% compared to 2015. However, in the second half of the year 2016 a considerable increase in turnover and in the number of transactions was observed. For several years now the LJSE can be defined as an international market, as international investors represent the most important group of active investors on the Prime Market, generating 29.3% of turnover.

Similarly as in previous years also in 2016 the decreasing trend of member firms and listed companies continued. On the other hand, it is very encouraging that in 2016 three new bonds and five issues of commercial papers were listed on the Exchange.

The Exchange's operations in the following years will predominantly depend on the level of activity on the stock exchange market which in turn depends on the general economic status of Slovenia, state asset management and successful operations of listed companies. The Ljubljana Stock Exchange will, together with other capital market stakeholders, continue to carry out many activities aimed at encouraging further development and promotion of the capital market.

Ljubljana, 28 February 2017

Ljubljana Stock Exchange

 Mrs Nina Vičar, MSc Member of the Management Board		 Mr Aleš Ipavec, MSc President of the Management Board
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## Report from the Supervisory Board

Within its powers and competences, the Ljubljana Stock Exchange Supervisory Board (hereinafter: Supervisory Board) monitored in 2016 the work of the Management Board and the company's operations as well as periodically examined the company's results set out in its financial statements.

In accordance with the Ljubljana Stock Exchange, Inc. Articles of Association and the resolution adopted by the General Meeting, the LJSE Supervisory Board has four members. The current composition of the Supervisory Board members and their functions are:

- **Mrs Ivana Gažić, MSc**, President of the Supervisory Board,
- **Mrs Patricia Bakšaj**, Deputy President of the Supervisory Board,
- **Mr Tomislav Gračan**, Member of the Supervisory Board,
- **Mrs Darja Jermaniš, MSc**, Member of the Supervisory Board – employee representative.

In 2016, the Supervisory Board met at five regular and four correspondence meetings.

### Work of the Supervisory Board in 2016

The Supervisory Board focused most on strengthening the company's international competitiveness. The Supervisory Board closely monitored the corporate governance as well as rationalisation and compliance of company's operations. The Supervisory Board supervised changes in the company's organisational setup, human resources and risk management. It also adopted the Business and Financial Plan for 2016 and 2017.

The following highlights can be singled out to illustrate the work of the Supervisory Board in 2016:

- Corporate governance:
  - The Supervisory Board set up a Nomination Committee in order to appoint the Management Board of the Ljubljana Stock Exchange;
  - On the basis of the Nomination Committee's proposal the Supervisory Board appointed the Management Board of the Ljubljana Stock Exchange for a four-year period. The Management Board is composed of Ms Nina Vičar, MSc, as Member, and Mr Aleš Ipavec, MSc, as President of the Management Board;
  - The Supervisory Board reviewed and adopted the Ljubljana Stock Exchange 2015 Annual Report as well as materials for the General Meetings;
- Monitoring the compliance of company's operations:
  - At each meeting the Supervisory Board looked at recent financial reports, compliance reports, trading, listing and delisting reports and reports on members firms. The Management Board also promptly informed the Supervisory Board of its risk management strategy, internal controls and other significant events relevant for the company's operations;
- The Supervisory Board monitored the rationalisation and optimisation of the company's operations due to changes in the external environment.



## **Self-evaluation of the Supervisory Board**

The Ljubljana Stock Exchange used equal or comparable concepts of corporate governance and supervision of operations and similar approaches to its clients and stakeholders as its parent company, i.e. the Zagreb Stock Exchange, which has a 100% ownership stake in the Ljubljana Stock Exchange. This was also reflected in the representation in the Supervisory Board, which comprised three representatives of the Zagreb Stock Exchange.

All Supervisory Board members had years of experience in the field of stock exchanges and capital markets, had good knowledge of the situation in the Slovene capital market, some members were licenced subjects. One member of the Supervisory Board is also an employee representative. In light of the above, Supervisory Board assesses that the composition of the Supervisory Board with regards to representativeness, experience and professional competence was adequate.

Members regularly attended the meetings and actively participated in discussions on all items on the agenda.

We also consider the cooperation of the Management and Supervisory Boards to have been good. Good cooperation between both bodies was also the result of appropriate planning, which is also reflected in the successful achievement of operational and strategic objectives.

In cases where business issues were related to cooperation with the parent company, the resolutions of the Supervisory Board were appropriate and cost-effective and were not adopted to the detriment of the Ljubljana Stock Exchange or the Slovenian capital market. The Supervisory Board did not address issues regarding the regulation of the organized market, which, according to the Financial Instruments Market Act, falls under the responsibility of the Ljubljana Stock Exchange Management Board.

## **Annual Report**

The Supervisory Board reviewed the 2016 Ljubljana Stock Exchange Annual Report, together with the Auditor's Report, at its periodic meeting on 26 April 2017.

Pursuant to the resolution adopted at the company's General Meeting in June, the financial statements for 2016 were audited by KPMG Slovenia, d. o. o.

The Annual Report that the Management Board presented to the Supervisory Board for review and approval is well drawn-up and contains all the relevant components, supplements and disclosures stipulated by the Slovenian Companies Act and accounting standards.

The unqualified opinion of auditors KPMG Slovenia, d. o. o., Ljubljana, the fact that the company's operation results and movement of cash flows are compliant with the Slovenian Accounting Standards, along with the statements of the company's management saying that all significant facts related to the operations of the Ljubljana Stock Exchange in 2016 have been disclosed and adequately argued, ensure that the financial statements are in all respects a true and fair reflection of the financial position of the Ljubljana Stock Exchange as at 31 December 2016. The Supervisory Board had no comments to the Auditor's Report and content of the Annual Report.

We have studied the content of the Annual Report and the Auditor's Report with due diligence and decided at our meeting on 26 April 2017 to formally adopt the 2016 Ljubljana Stock Exchange Annual Report.

## **Report and Explanations with Respect to Relations between the Ljubljana Stock Exchange and Controlling Company Zagreb Stock Exchange or its affiliate company**

The Management Board submitted a Report and Explanations with Respect to Relations between the Ljubljana Stock Exchange and Controlling Company the Zagreb Stock Exchange or its affiliate company and ensured that no deprivation was caused to the Ljubljana Stock Exchange in these relations.

The Supervisory Board discussed the auditor's conclusion about the limited assurance for the report on relations between the Ljubljana Stock Exchange and controlling company the Zagreb Stock Exchange and its affiliate company for 2016 (hereinafter: Report on relations with the Zagreb Stock Exchange) together with the auditor's report on the financial statements on its regular meeting held on 26 April 2017.

Report on relations with the Zagreb Stock Exchange was audited by auditors from KPMG Slovenija, d. o. o.

Report on relations with the Zagreb Stock Exchange is appropriately prepared and contains all components, explanations and disclosures prescribed by the Companies Act. The auditing company KPMG Slovenija, d. o. o. issued an unqualified opinion on the Report, in which it stated that, based on the procedures they have performed and the evidence they have obtained, nothing has come to their attention that causes them to believe that the statements in the report on relations with affiliated companies for the financial year that ended 31 December 2016, are not accurate in all material respects, that the LJSE's execution of legal transactions stated in the Report was disproportionately high in view of circumstances that were known at the time when these transactions were performed, and that circumstances exist that would in view of other actions mentioned in the Report indicate a significantly different assessment of the disadvantage from the one given by the management.

The Supervisory Board has no additional comments to the statement of the management that in relations with the controlling company the Zagreb Stock Exchange or its affiliate companies no transactions were entered into which would cause deprivation to the Ljubljana Stock Exchange.

### **Settlement of profit for 2016**

The net profit for the 2016 financial year amounts to EUR 89,551. It consists of EUR 65,411 of net profit for the period, EUR 24,586 of newly formed deferred tax assets and EUR 446 of consumption of deferred tax assets. Pursuant to the resolution adopted by the LJSE Management Board and the consent given by the Supervisory Board the net profit remains unallocated and makes up accumulated profit. The accumulated profit for the financial year thus amounts to EUR 89,551. The Management Board and the Supervisory Board propose that the accumulated profit for 2016 remains unallocated.

The Supervisory Board unanimously adopted its report for 2016 at its periodic meeting on 26 April 2017.

Mrs Ivana Gažić, MSc  
President of the Supervisory Board



## Business report



## Corporate Governance Statement

The Ljubljana Stock Exchange (hereinafter: LJSE or company) is a private joint-stock company, which complies with and implements the corporate governance principles arising out of legal norms, the company's internal acts and established best practices. Being one of the authors of the Slovenian Corporate Governance Code, the LJSE has actively striven to implement corporate governance principles into business practice as well as improved and supplemented its own system of governance by applying the relevant principles of best practice.

The company is operated by a two-tier system of governance, where the Management Board runs the business and is monitored by the Supervisory Board.

The LJSE has the following corporate bodies:

- The General Meeting,
- The Management Board, and
- The Supervisory Board.

The company's Articles of Association also provide for two additional bodies, the Board of Members and the Board of Issuers, which have no direct influence on the LJSE governance but make indirect contributions to its reaching its objectives and strategy through their counselling functions.

### General Meeting

The General Meeting is the company's highest body. It is composed of LJSE shareholders. The right to take part and vote at a GM goes to all shareholders that are recorded as holders in the central registry of dematerialized securities (Central Securities Clearing Corporation or "KDD") at the end of the fourth day prior to the General Meeting (record date).

The GM is convened by the LJSE Management Board at least once a year, usually after having drawn up the annual report. The general meeting at which appropriation of distributable profit and the discharge of liability are decided shall be held within eight months of the end of the financial year. The GM constitutes a quorum if at least one half of all shareholders with voting rights are represented at the meeting. Each ordinary no par value share carries one vote. The exercise of voting rights is stipulated in the LJSE Articles of Association.

There were four General Meetings held in 2016.

The 33<sup>rd</sup> GM as at 12 January 2016:

- Informed themselves of the resignation statement of the supervisory board members – representatives of the shareholder CEESEG AG;
- Elected new supervisory board members – representatives of the shareholder Zagreb Stock Exchange.

The 34<sup>th</sup> GM as at 11 February 2016:

- Adopted amendments to the Ljubljana Stock Exchange Articles of Association;
- Decided on the remuneration of the Supervisory Board members.

The 35<sup>th</sup> GM as at 17 June 2016:

- Reviewed the Annual Report for 2015 and decided on discharging the Management Board and Supervisory Board from responsibility;
- Informed themselves with appointment of a new Supervisory Board member – employee representative;
- Appointed the auditor for 2016.

The 36<sup>th</sup> GM as at 15 December 2016:

- Decided on the remuneration of the Supervisory Board members;
- Adopted amendments to the Ljubljana Stock Exchange Articles of Association;
- Repealed the Rules of Procedure of the General Meeting of the Ljubljana Stock Exchange.

## **Supervisory Board**

The Supervisory Board is composed of four to seven members, of which all except one are elected by the GM and one represents LJSE employees. All Supervisory Board members have equal rights and obligations unless otherwise specified by the Articles of Association, and are appointed for a four-year term.

Their course of action is stipulated in the Supervisory Board Rules of Procedure.

The main task of the Supervisory Board is to supervise the company's operations and conduct of business. The Board also appoints the Management Board, the Board of Issuers and the Board of Members.

Supervisory Board remuneration does not directly depend on the company's performance, and it is disclosed under Supervisory Board Remuneration in 2016, in the Notes to the Financial Statements.

## **Shareholder representatives**

Until 12 January 2016 the shareholder representatives were the following members:

- Mr Petr Koblic (President), President of the Prague Stock Exchange Management Board and Joint CEO of CEESEG AG;
- Mr Michael Buhl (Deputy President), Joint CEO of Wiener Börse AG and CEESEG;
- Mr Bernhard Stamm (member), Head of Finance, HR & Facility Management at Wiener Börse AG

Due to change of ownership, the composition of the Supervisory Board changed on 13 January 2016. Membership in the Supervisory Board terminated for three members, shareholder representatives.

The General Meeting appointed new members of the Supervisory Board – shareholder representatives, as of 13 January 2016. Thus, the current composition and the functions of the members of the Supervisory Board – shareholder representatives, are the following:

- Mrs Ivana Gažić, MSc, President of the Supervisory Board,
- Mrs Patricia Bakšaj, Deputy President of the Supervisory Board,
- Mr Tomislav Gračan, Member of the Supervisory Board.

### **LJSE employees' representative**

- Mrs Urška Podboršek, Member of the Supervisory Board – employee representative (until 31 March 2016),
- Mrs Darja Jermaniš, Member of the Supervisory Board – employee representative (as at 1 April 2016).

The Supervisory Board may establish special Supervisory Board committees, either for the entire term of the Board or to account for difficult issues that call for efficient solutions. The types of such committees, their composition and nomination of committee members are stipulated in the Supervisory Board Rules of Procedure. In 2016 a Nomination Committee for the appointment of the new Management Board was set up.

### **Management Board**

The LJSE Management Board consists of the President and Member, and is appointed by the Supervisory Board. The Management Board is elected for a maximum of five-year renewable term.

The LJSE Management Board has the following main tasks:

- Management and representation of the LJSE,
- Implementation of the company's development and operations strategy,
- Ensuring compliance with the provisions of the Markets in Financial Instruments Act,
- Organising and providing for a smooth workflow at the LJSE,
- Preparing programme and financial objectives of the Exchange's operations, etc.

### **Members of the Management Board**

- Andrej Šketa, President of the Management Board

Andrej Šketa had been on the Ljubljana Stock Exchange Management Board since 2004, during which time he had gained valuable experience in the operations and development of the LJSE. He began his first term-of-office as President of the Management Board on 14 February 2009. From 1994, when he joined the company's expanded management, he had worked in practically all LJSE business areas, with special emphasis on day-to-day management and supervision of the regulated market, development of trading infrastructure, managing development projects in Slovenia and regional development projects within South East Europe, as well as managing the company's operations. His last term of office as President of the Management Board began on 1 September 2013 and ended with the expiration of the mandate and termination of Employment Agreement on 31 August 2016.

- Aleš Ipavec, MSc, President of the Management Board

Aleš Ipavec has been an employee of the Ljubljana Stock Exchange since August 2016. He began his term-of-office as President of the Ljubljana Stock Exchange on 1 September 2016 for a four-year term, i.e. until 31 August 2020. Before becoming President of the Ljubljana Stock Exchange, Aleš Ipavec, Master of Economic Sciences, worked for Hypo Alpe-Adria Bank where he held various management positions, such as Head of Treasury Sales and Director of Financial Markets and Balance Sheet Management. In 2015 he became the Director of Financial Controlling, Treasury and Balance Sheet Management. He has rich experience predominantly from the field of banking and trading in securities,

which he obtained in his more than 12-year-long career, which he began in Abanka Vipava and continued in Hypo Alpe-Adria Bank.

■ Nina Vičar, MSc, Member of the Management Board

She has been with the Ljubljana Stock Exchange since 2005. After having joined the senior management team in 2008 she has mainly been in charge of trading, market operation, relations with trading members, market surveillance, development of LJSE services and attracting new remote members, as well as running marketing activities, and event management. She worked on several development projects and coordinated the implementation of the then new trading system, Xetra® and she also covers the area of compliance of the Exchange's operations. She is a member of the expert committee for amendments to legislation at the Ministry of Finance and a member of the expert group for T2S implementation. She initially took office as Member of the Management Board on 15 May 2013, while her current four-year term started on 1 September 2016 and will end on 31 August 2020.

The payments, reimbursements and other benefits received by the LJSE Management Board are stipulated in their employment contracts as entered into between the Supervisory Board and each Management Board member, and in a small part directly depend on the company's performance. All payments, reimbursements and other benefits are disclosed in the Notes to the Financial Statements under Management Board Remuneration in 2016.

On the basis of Article 321 of the Slovenian Financial Instruments Market Act (ZTFI) and with reference to the mutatis mutandis application of the provisions of Articles 73 and 74 of the Slovenian Banking Act (Z-Ban 1), the Supervisory Board adopted in 2011 the General Principles on the LJSE Remuneration Policy, which stipulate the remuneration policy for the Management Board.

## **Board of Members and Board of Issuers**

The Board of Members and Board of Issuers are the Ljubljana Stock Exchange counselling bodies composed to discuss significant expert and development matters related to the Ljubljana Stock Exchange member firms and listed companies as well as the regulated securities market in Slovenia. They cooperate with the Ljubljana Stock Exchange Supervisory Board and Management Board.

The two Boards are composed of at least five but not more than eight members each and are appointed by the Supervisory Board at the proposal of the Management Board among representatives of the Ljubljana Stock Exchange member firms and listed companies as well as renowned capital market experts.

### **Composition of the Board of Members:**

- France Arhar (President), PhD, Director, The Bank Association of Slovenia,
- Simon Mastnak, MSc, Executive Director, ALTA Skupina, upravljanje družb, d. d., (from 8 November 2016)
- Igor Štemberger, President of the Management Board, Ilirika BPH, d. d.,
- Boštjan Herič, Executive Director, Financial Markets, Abanka Vipava, d. d.,
- Andrej Meža, Executive Director for Transactions in Financial Instruments for Clients, NLB, d. d.,

- Aleš Škerlak (Deputy President), Executive Director, ALTA Skupina, upravljanje družb, d. d., (until 7 November 2016),
- Mladen Kaliterna, President of the Management Board, Perspektiva d. d., (until 8 November 2016).

#### **Composition of the Board of Issuers:**

- Uroš Ivanc (President), MSc, Member of the Management Board, Zavarovalnica Triglav, d. d.,
- Tadeja Šteharik, MSc, Business Support Director, Petrol d. d.,
- Brane Kastelec, MSc, Director of Finance, Krka, d. d.,
- Peter Groznik, PhD, Member of the Management Board, Gorenje, d. d.,
- Mateja Treven, MSc, Member of the Management Board, Pozavarovalnica Sava, d. d.,
- Aleš Aberšek, Member of the Management Board, Telekom Slovenije, d. d., (from 8 November 2016),
- Zoran Janko, Member of the Management Board, Telekom Slovenije, d. d., (until 8 November 2016),
- Dean Čerin, Executive Director of Finance and Risk Management, Mercator, d. d. (until 8 November 2016).

#### **Corporate governance in the Group**

As at 30 December 2015 the Ljubljana Stock Exchange is in 100% ownership of the Zagreb Stock Exchange.

In addition to being the 100% owner of the Ljubljana Stock Exchange in 2016, the Zagreb Stock Exchange was also a 33.33% owner of the Company SEE link d. o. o., which was founded in May 2014 in cooperation with the Bulgarian and Macedonian Stock Exchange, which have the same share of ownership in the company.

#### **Statement on Compliance with the Corporate Governance Code**

The LJSE is a private joint-stock company whose core business is operating the regulated securities market, for which it had obtained authorization from the Agency. LJSE operates the regulated securities market in compliance with the Slovenian Financial Instruments Market Act and other regulations.

In accordance with Article 70 (5) of Companies Act (hereafter ZGD-1), as part of the business report the Ljubljana Stock Exchange also includes the Statement on Compliance with the Code.

As at 31 December 2016, the LJSE had one shareholder (100%), namely the company Zagrebačka burza, d.d., Ivana Lučića 2a, 10000 Zagreb, Croatia (hereafter: Zagreb Stock Exchange), which acquired its share from CEESEG AG on 30 December 2015. The change in ownership has an effect on the corporate governance of the Ljubljana Stock Exchange.

The Exchange as a co-signatory of the Corporate Governance Code (hereafter: Code) actively strives to encourage compliance with the Code and its corporate governance principles in business practice and also improves its own corporate governance system according to the best practices principle. Therefore, the Exchange decided to voluntarily apply the Code, which was adopted on 8 December 2009 and entered into use on 1 January 2010 and based on which the Corporate Governance Statement is drawn up. The Code is publicly available on the Exchange's website in the Slovenian and English languages.



The Exchange has no substantial deviations from the Code, whereas certain minor deviations are mainly a result of its special status. Under individual items of the Code below, the reasons for certain minor deviations from the Code's recommendations in 2016 are listed with which the Exchange's corporate governance system was not compliant in the period from 1 January 2016 until the adoption of this 2016 Annual Report.

On 1 January 2017 a new renovated Corporate Governance Code entered into use, which was jointly drawn up and adopted by the Ljubljana Stock Exchange Inc. and the Slovenian Directors' Association and includes certain substantive and structural amendments, which the Exchange will strive to implement in 2017 in accordance with its special status.

## **Item 2.**

### Recommendation:

The management board works together with the supervisory board in drawing up and adopting a Corporate Governance Policy ("CG Policy"), thereby laying down the major guidelines of corporate governance as compliant with the company's long-term objectives. The CG Policy is communicated to the stakeholders by being published on the corporate website.

### Explanation of deviation:

In 2016 the Management Board did not adopt a Corporate Governance Policy as it underwent a change in ownership at the beginning of the year and the new Management Board was appointed in September 2016, hence, main corporate governance guidelines need to be adjusted to new business challenges identified by the new Management Board, which will also be aligned with the regional development of the Zagreb Stock Exchange group.

## **Items 8. (paragraph 2) and 17.2.**

### Recommendation:

These two items refer to supervisory board's signing of a special statement, disclosing their meeting of the criteria of independence from Section C.3 of Appendix C of this Code. Such signed statements are then posted on the company's website.

### Explanation of deviation:

The Exchange has not yet complied with the provision of the Code, which refers to the signing and publishing of the statement on complying with individual indents regarding conflict of interest from Attachment C.3, due to which it discloses potential conflicts of interest of certain Supervisory Board members below.

Upon the Zagreb Stock Exchange's 100% ownership takeover, representatives of the Zagreb Stock Exchange were appointed as members of the Supervisory Board – capital representatives. There are no more supervisory board members who would be linked to either member firms or issuers and one member is an employee representative. The composition can be seen in the below table.

### Ljubljana Stock Exchange Supervisory Board members in 2016

Ivana Gažić, MSc (President)	President of the Management Board of the Zagreb Stock Exchange, which is a 100% owner of the Ljubljana Stock Exchange
Patricia Bakšaj (Deputy President)	Director of Legal and General Affairs Department on the Zagreb Stock Exchange, which is a 100% owner of the Ljubljana Stock Exchange
Tomislav Gračan, MSc	Member of the Management Board of the Zagreb Stock Exchange, which is a 100% owner of the Ljubljana Stock Exchange
Urška Podboršek (until 1 April 2016)	Head of Legal Affairs on the Ljubljana Stock Exchange (employee representative)
Darja Jermaniš, MSc (from 1 April 2016)	Director of Market Operations on the Ljubljana Stock Exchange (employee representative)

In the process of appointing new Supervisory Board members all conditions and criteria stipulated for members of a management body by ZGD-1 and Banking Act were abided by and fit & proper assessment was carried out. In addition, the Securities Market Agency also supervises the adequacy and suitability of the Supervisory Board members.

The manner of avoiding conflicts of interest is stipulated in the Rules of Procedure of the Supervisory Board, which includes a provision on exclusion of an individual Supervisory Board member due to a conflict of interest. A possible conflict of interest is determined upon the adoption of each individual Supervisory Board resolution.

#### Item 9

##### Recommendation:

Once a year, the supervisory board assesses its composition, operations and potential conflicts of interests of its individual members, as well as the board's functioning – collectively and of its individual members – and its cooperation with the management board.

##### Explanation of deviation:

With respect to the nature and specific ownership structure of the Exchange as an unlisted/non-public joint-stock company and due to the fact that the Supervisory Board has operated in this composition for only a year, a decision on assessing its composition, operations and other circumstances of its operation according to the recommendation of the Code was not made.

#### Item 11

##### Recommendation:

At the proposal of the management board, the supervisory board appoints a supervisory board secretary, who takes minutes, attends to the archives, offers organizational support to the board and provides advice on

governance matters. Members of the board can also consult the secretary outside supervisory board meetings.

Explanation of deviation:

With respect to the size and organisation of the Exchange, the Supervisory did not appoint its own secretary. The tasks of the secretary, related to the attendance and preparation of minutes, are performed by the Member of the Management Board, whereas the President of the Management Board of the Exchange is responsible for communication between the Exchange and the Supervisory Board with regards to corporate matters.

## **Items 20 – 23: Transparency of Operations**

Explanation of deviation:

Of the matters from items 20 – 23 of the Code, which refer to joint stock company's disclosure and informing the public, the Ljubljana Stock Exchange as a non-public joint-stock company mainly informs its shareholder directly and Securities Market Agency. The Exchange provides information to the public in accordance with the provisions of Financial Instruments Market Act and executive acts, which mainly refer to regular operations of the Exchange as a securities market operator.

## **Diversity Policy**

In 2016 the Ljubljana Stock Exchange Inc. did not adopt its Diversity Policy and did not begin with its implementation.

## **Internal controls and risk management**

Pursuant to the provisions of the Markets in Financial Instruments Act and the Securities Market Agency's Resolution on Detailed Organisational Requirements for Operating a Stock Exchange Market, the LJSE as the Slovenian stock market operator meets all the requirements with respect to the general organisational standards and its governance system.

The LJSE had covered its business areas in its internal acts and processes adopted pursuant to the criteria stipulated in the Agency Resolution on Quality Standards for Operating the Stock Market. In this respect the LJSE has implemented a reliable governance system and pursues, in line with the annual plan, activities to enhance the organisational structure of the company as well as to develop and implement improvements in the area of efficient risk management processes and internal controls.

With respect to process control and internal control the LJSE has documented all its relevant processes, responsibilities and risks. The key processes are clustered into a special Process, Source and Risk Model, which provides an integral insight into LJSE operations according to a selected dimension and a quick understanding of the competences and organisation of the LJSE, as well as offers an insight into its processes for internal and external stakeholders. The model may be upgraded for the purposes of systematic valuations and risk reporting. All this facilitates prompt and more transparent internal auditing.

Risk management at the LJSE is related to strategic, financial, operational and IT risks related to the use of information technology.

The LJSE manages risk at two levels: the Management Board makes general assessments and assumes the main strategic and financial risks as well as operational and IT risks, while the agents of the main LJSE processes make more detailed assessments and further assume the key operational risks.

To this end the Management Board prepared a special document "Instructions for Risk Management" in 2014, and presented it to the Supervisory Board for review. The document recognizes the following main risks facing the LJSE: operational non-compliance, inadequacy of operation and regulatory non-compliance. The main strategic risks in the event of a major decrease in the number of listed companies and members include the long-term risk of the adequacy of the company's existing business model, with respect to which we are drawing up the requisite strategic and operational plans and making sure they are being implemented.

The agents of the main LJSE processes make detailed assessments of the main operational risks and react to them by managing 12 important areas, which in turn consist of 10 key processes with which the LJSE functions as the market operator of a regulated, orderly and efficient securities market, and 2 key IT systems. The LJSE also devotes a lot of attention to employee training and awareness-raising, an adequate and efficient organisation of work, division of competences, well-defined and documented decision-making procedures, as well as closely monitors compliance with regulations.

Thus recognised and assessed operational risks are appropriate basis for drawing up the LJSE's mid-term and annual internal audit plan. In 2016 the LJSE performed its services in a distributed environment, thus on external locations (VSE, KDD, SRC). The emphasis was on:

- Optimisation of work, transparency of documentation storage and custody when using web solution SharePoint, and on supplementing and verifying documentation, especially that pertaining to business continuity;
- Amending Security Policies from the point of view of ensuring business continuity according to the changed architecture and
- Adequacy of security policy performance plan, management of information systems and knowledge and capacity of employees to perform the needed procedures.

No significant deviations from the expected practices and thus no increased operational risk were detected.

The LJSE activities in the field of corporate governance include adoption of the Code of Ethics and Professional standards in 2012 and new Rules of Procedure of the LJSE Management Board in 2016, which regulate in detail the management of potential conflicts of interest and relations with the parent company.

The system of internal controls and risk management in the financial accounting field is tailored to the size and organisation of the company where there is little division of labour and many functions are combined. The company has established an effective system of internal controls to ensure that the financial information is timely, complete, truthful and credible, which is defined by the Accounting Rules and Instructions and Procedures of Internal Control (hereafter: Rules) in the financial accounting field. Financial monitoring is performed as financial monitoring of data during their entry and processing. Internal controls are performed before each recording of business events in such a way as to verify the accuracy and completeness of the disclosed events.

Individual control processes and procedures are, for example, various control activities carried out in the fields of:

- development and adoption of bookkeeping documents;
- recording of business events in the books;
- payroll and other employee benefits;
- cash register operations;
- documentation preparation for the execution of the annual inventory of assets and liabilities;
- implementation and monitoring of payment transactions and reporting on the state of liquidity to the Management Board.

Basic control procedures, which relate primarily to the control of the correctness of business events and data, comprise:

- initial recording of business events, powers and responsibilities of persons who initiate and authorise business events (powers and responsibilities are clearly defined by the Rules);
- completeness of capturing and processing of business events and data;
- accuracy of business events monitoring.

In addition to preventive (direct) controls, which are carried out in advance, also ex-post controls (indirect) are carried out.

For the purpose of risk management in the financial and accounting field, the company has established a register of risks. Due to the established effective system of internal controls, which ensures that financial information is timely, complete, truthful and credible, the probability that individual risks occur is small.

### **Internal audit**

Pursuant to the provisions of the Charter on Internal Audit, confirmed by the Management and Supervisory Boards, the LJSE organizes its internal audit by contracting two external experts in internal auditing and by engaging the in-house Chief Audit Executive.

Internal audit was based on the adopted Internal Audit Midterm Plan for the current and following year, which is in turn based on the Risk Assessment and the Internal Audit Annual Plan for the period.

Within the framework of internal audit LJSE looks especially at the processes of market operations and trading (focusing on the stock exchange trading system Xetra® software solutions) and at the process of ensuring business continuity. Internal audit also regularly examines whether the recommendations are being implemented, and assesses the Management Board's measures to mend the established deficiencies and improve operations. All these activities are promptly communicated to the Management and Supervisory Boards and aggregately presented in the Annual Internal Audit Plan at the end of the year.

### **External audit**

Our financial statements for 2016 are being audited by the auditor KPMG Slovenija, d. o. o.. Our company complies with the Corporate Governance Code, and with the Securities Market Agency's recommendations to hire another auditor every five years.

## **Other information (as at 31 December 2016)**

### **Substantial direct and indirect holding of securities**

The Zagreb Stock Exchange Inc., Ivana Lučića 2a, 10000 Zagreb, Croatia, holds 100% of all Ljubljana Stock Exchange shares.

### **Holders of securities with special control rights**

The Ljubljana Stock Exchange shares have no special control rights attached to them.

### **Limited voting rights**

The Ljubljana Stock Exchange shares with ticker symbol LSER have no limitations on voting rights.

### **Explanation of relations of the Ljubljana Stock Exchange with controlling company CEESEG AG**

In the financial year 2016 the Ljubljana Stock Exchange did not enter into any transactions with the controlling company Zagreb Stock Exchange nor has it acted or failed to act at the initiative and in the interest of this company in a way that could cause deprivation to the Ljubljana Stock Exchange.

### **LJSE rules on amendments of its Articles of Association**

Amendments and supplements of the Ljubljana Stock Exchange Articles of Association are subject to the Ljubljana Stock Exchange General Meeting, pursuant to the law. Articles of Association stipulate that a GM resolution on amendments and supplements can be adopted provided it is supported by a two-thirds majority of the share capital present.

### **Powers of members of the company management (especially issue or purchase of own shares)**

As stipulated by the Ljubljana Stock Exchange Articles of Association, the Management Board consists of the President and Member of the Management Board, who jointly represent the Ljubljana Stock Exchange in legal transactions. Neither of them may be authorised to individually represent the Ljubljana Stock Exchange and the entirety of its business operations and activities. The Management Board adopts resolutions unanimously and is not authorised to acquire or dispose of own shares.

## **Mission, vision and strategic objectives**

### **Mission**

The mission of the Ljubljana Stock Exchange is to ensure a secure, transparent, efficient and successful operation of the regulated segment of the Slovene capital market.

## Vision

Being a modern and efficient operator of the Slovene regulated capital market as part of the Central and East European regional market.

## Strategy and strategic objectives

Upon taking office the Management Board set the following strategic goals:

- maintaining a high level of quality, organization and regulation of the market;
- for further growth of the capital market and increase of liquidity of the local market:
  - establishing a “LJSE partner program” for systematic acquisition of new products on the stock exchange;
  - establishing a new market – SI ENTER for trading in unlisted securities;
  - listing new securities on the stock exchange market;
  - development and establishment of infrastructure for small enterprises (Funderbeam) and start-ups;
  - finding new financial resources through the promotion of long-term saving schemes;
  - joint activities for the development and promotion of the capital market with all market stakeholders;
- achieving international comparability and recognition of the market through regional integration with the Zagreb Stock Exchange as the new 100% owner of the LJSE;
- enhancing the LJSE's reputation;
- supporting the development of the primary market;
- increasing the efficiency and performance of the LJSE's operations.

## Basic macroeconomic indicators for Slovenia

	2012	2013	2014	2015	forecast		
					2016	2017	2018
Real GDP growth (%)	-2.7	-1.1	3.1	2.3	2.3	2.9	2.6
GDP per capita (PPS EU27=100) <sup>1</sup>	81	80	82	no data			
Government debt (% of GDP)	53.9	71.0	80.9	83.1			
Current deficit (% of GDP)	-4.1	-15.0	-5.0	-2.7			
Inflation (year-end) <sup>2</sup>	2.7	0.7	0.2	-0.5	1.1	1.4	1.5
Registered unemployment	12.0	13.1	13.1	12.3	11.2	10.2	9.5

Notes: <sup>1</sup>Measured in Purchasing Power Standard (PPS) <sup>2</sup>Measure of inflation is consumer price index

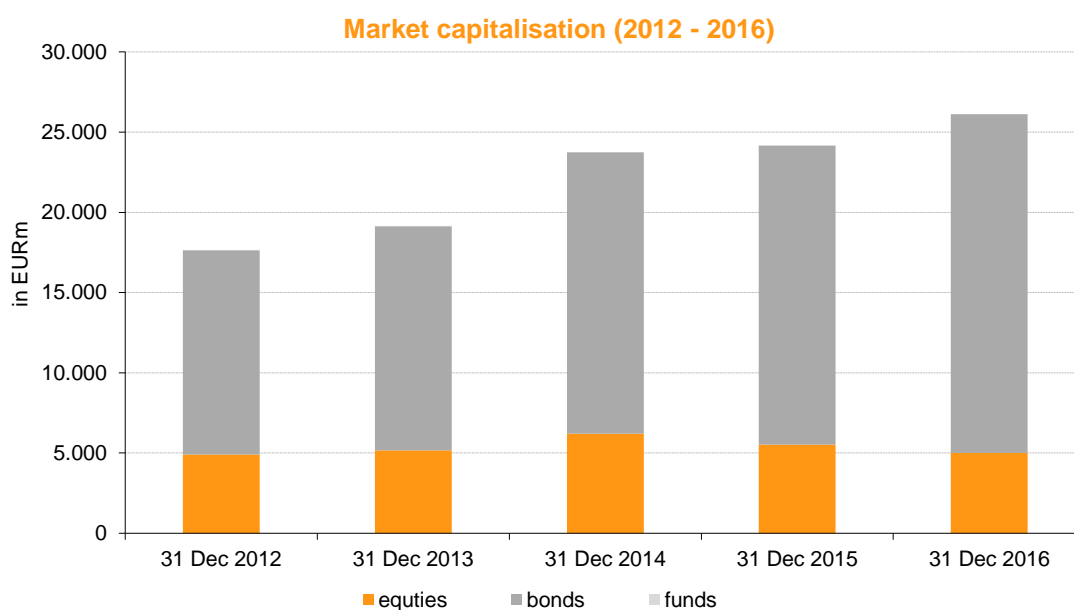
Sources: Institute of Macroeconomic Analyses and Development (IMAD), Statistical Office of the Republic of Slovenia (SORS)

## Ljubljana Stock Exchange operations in 2016

After a modest start of 2016, the second half of the year on the Ljubljana Stock Exchange saw a return of optimism as there was a considerable increase in turnover compared to the first half of the year as well as a significant increase in the number of trades. Moreover, the LJSE benchmark index SBI TOP was up 3.1% year-to-date.

### Market capitalisation

Share market capitalisation was down 9.5% from 2016 and amounted to EUR 4,999.8 million at the end of December, representing 12.7% of Slovenia's 2015 GDP (Q4 2015 - Q3 2016: EUR 39,503.0 million, according to SORS). The decrease is a result of delistings from the regulated market. Due to a transfer to a new segment, delisting from the regulated market, sale of state ownership or restructuring six companies were delisted from the Standard Market and five companies were delisted from the Entry Market. There were no changes in the total number of listed companies on the Prime Market in 2016. Bond market capitalisation was up 13.3% from 2015.

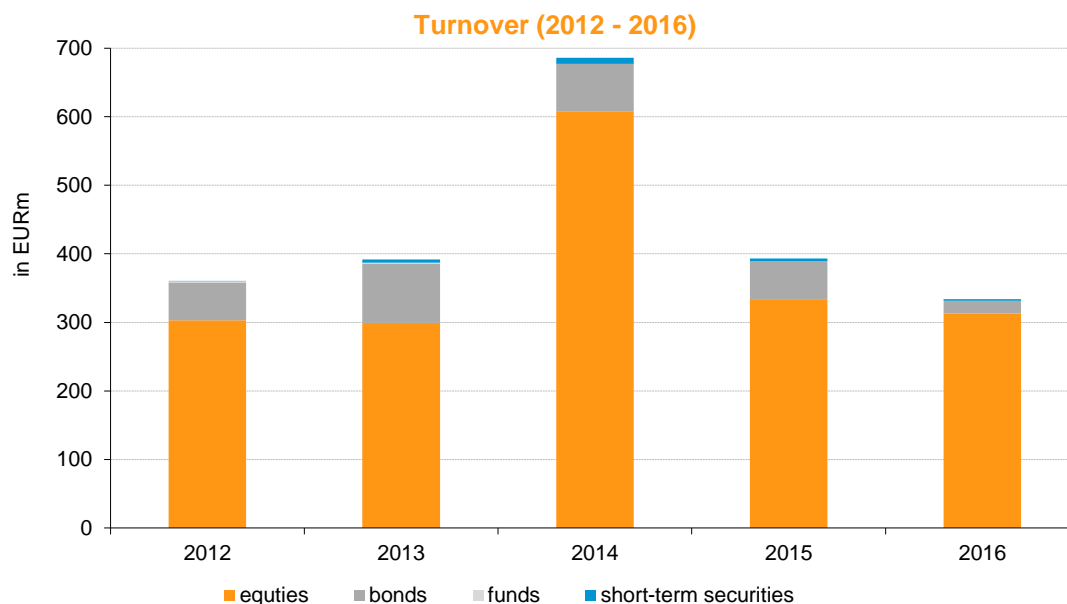


Source: Ljubljana Stock Exchange

### Turnover on the Ljubljana Stock Exchange

In 2016 the total LJSE turnover amounted to EUR 333.7 million and turnover without blocks amounted to EUR 263.4 million, down 10.5% from 2015. The majority of turnover comprised equity deals, EUR 313.0 million (93.8% of the total turnover), followed by bonds with 5.6% share and short-term debt securities with 0.6% share in the total turnover.





Source: Ljubljana Stock Exchange

In 2016 the share of trades in equities experienced the most substantial change in the total turnover structure and was up 8.9 percentage points. In 2016 ordinary trades represented 78.9% of all on-exchange deals (74.8% in 2015). Average daily turnover totalled EUR 1.3 million (EUR 1.6 million in 2015), with 339 recorded trades per day on average (197 in 2015).

### Turnover of LJSE Member Firms in 2016

The trading member with the highest turnover in 2016 was ALTA Invest, d. d., which contributed 27.9% of the total turnover, followed by Raiffeisen Centrobank AG, contributing 16.6% and Ilirika borzno posredniška hiša, d. d. and WOOD & Company Financial Services, a.s, both contributing 9.3%. The turnover structure of member firms remains similar to 2015, as top 5 member firms generated 71.2% of the total turnover. At the end of 2016 the LJSE had 15 member firms, which includes 4 remote members, which generated 29.3% of all stock exchange turnover in 2016.

Member	Turnover in 000 EUR	Share
ALTA INVEST	186,481,964	27.9%
RAIFFEISEN CENTROBANK	110,688,264	16.6%
ILIRIKA BORZNO POSREDNIŠKA HIŠA	62,104,331	9.3%
WOOD & COMPANY FINANCIAL SERVICES	61,843,709	9.3%
NLB	54,222,591	8.1%
OTHERS	192,009,196	28.8%
<b>TOTAL</b>	<b>667,350,055</b>	<b>100.00%</b>

Source: Ljubljana Stock Exchange

### Most traded equities on the LJSE in 2016

The most traded stock in 2016 was again pharmacist Krka (KRKG) from the Prime Market, which generated 34.9% of all equity turnover. The runner-up in terms of turnover was the oil and gas provider Petrol d. d. (PETG), which generated 19.5% of all equity turnover, while insurer Zavarovalnica Triglav (ZVTG) came third generating 9.2%. On the bond market it was Triglav Slovenije 1<sup>st</sup> issue (TLS1) that had the highest turnover.

Most traded equities	Turnover in 000 EUR	Number of transactions	Market capitalisation in EURm as of 31 Dec 2016
KRKA	109,144	15,164	1,735
PETROL	60,895	10,824	678
ZAVAROVALNICA TRIGLAV	28,826	15,303	527
GORENJE	23,029	7,195	146
POZAVAROVALNICA SAVA	19,073	2,423	228
OTHERS	72,011	30,685	1,686
<b>TOTAL</b>	<b>312,978</b>	<b>81,594</b>	<b>5,000</b>

Source: Ljubljana Stock Exchange

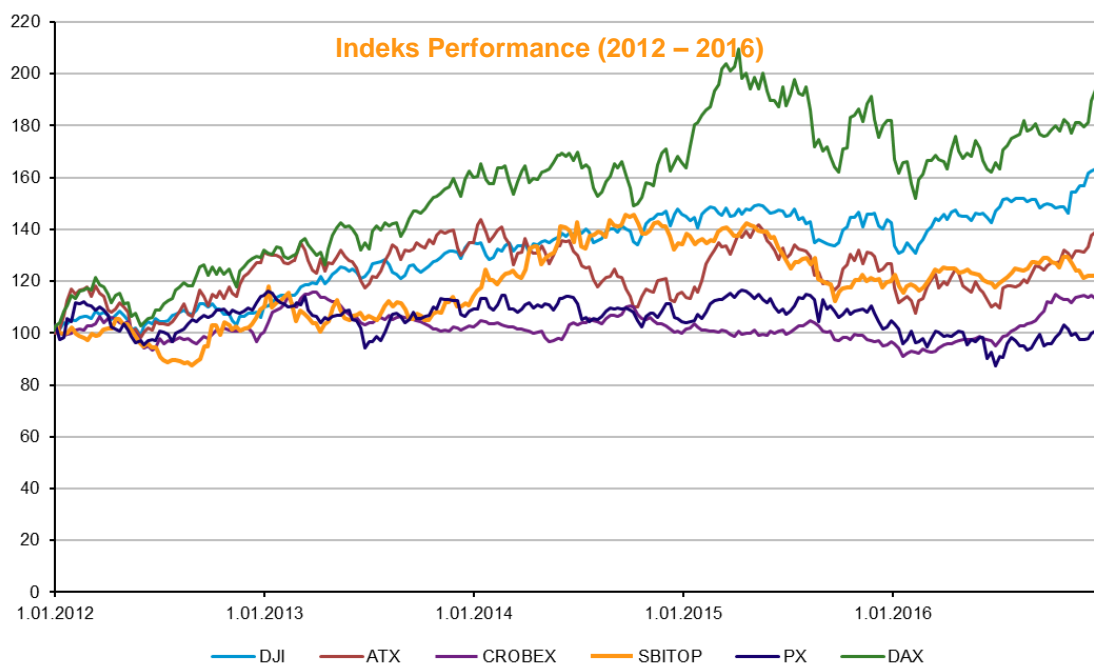
### LJSE turnover structure according to markets in 2016

Market	Turnover	Share
EQUITIES - PRIME MARKET	280,227,193	84.0%
EQUITIES - STANDARD MARKET	7,955,256	2.4%
EQUITIES - ENTRY MARKET	24,795,845	7.4%
BONDS	18,575,324	5.6%
TREASURY BILLS	0	0.0%
COMMERCIAL PAPERS	2,121,410	0.6%
<b>TOTAL</b>	<b>333,675,028</b>	<b>100.00%</b>

Source: Ljubljana Stock Exchange

### The LJSE blue chip index SBI TOP

The LJSE blue chip index SBI TOP was up 3.1% in 2016, standing at 717.59 points on the last trading day. The graph below gives the performance of SBI TOP against selected world indices in EUR (31 Dec 2010 = 100).



Source: Ljubljana Stock Exchange

## Important LJSE activities in 2016

### Ljubljana Stock Exchange development and promotion activities in 2016

Quarter	Activity
1Q2016	Appointment of new Supervisory Board Members
	Sponsorship of LSEG & CEE Conference in London organised by the London Stock Exchange and InterCapital
	Support and sponsorship of the Moje Finance project: 'Financial Literacy of Youth'
	Issuing of LJSE promotional publications
2Q2016	Investor Day of the Ljubljana and Zagreb Stock Exchanges
	33 <sup>rd</sup> Financial Conference in Portorož
3Q2016	Appointment of the new Management Board
	Wood's Frontier Investor Day
4Q2016	Upgrade of SEOnet and INFO STORAGE systems
	Change in SBI TOP methodology
	Prolongation of trading hours on the Ljubljana Stock Exchange

Quarter	Activity
4Q2016	New segmentation of securities into continuous and auction trading
	Analysis of compliance with the Corporate Governance Code for 2015
	Renovation of the Corporate Governance Code
	Joining the SEE Link platform
	Sponsorship and participation in the Investors' Conference of the Erste Group Bank in Stegersbach
	Participation in the Belgrade Stock Exchange and Wood & Co. Upgrade in Belgrade 2015 – Regional Investor Conference
	New LJSE Rules and Instructions
	Mid-term and Annual Plan of Internal Auditing Activity in 2017 and in the period from 2017 – 2019
	Investor Day of the Ljubljana Stock Exchange
	Pre-New Year's networking event in co-organisation with KDD – Bowling
	Investment Conference of Wood & Co. in Prague
	Pre-New Year's reception for members of the Slovene financial markets' senior management
	Conferring of Ljubljana Stock Exchange awards to the best listed companies and member firms

## Domestic and international market promotion and international cooperation

In 2016 the Ljubljana Stock Exchange successfully carried out or cooperated in a series of promotion activities.

### The basic programme included the following:

- One investment conference in Ljubljana, Slovenia;
- One investment conference in Zagreb in cooperation with the Zagreb Stock Exchange;
- Five roadshows abroad (London, Bucharest, Stegersbach, Belgrade, Prague);
- General promotion of the Slovenian capital market and our blue chips in local as well as international media;
- Conferral of awards to the best issuers and member firms;
- Issuing capital market promotion publications;
- Supporting international analyses by providing market trading data.

### Investment conferences in 2016 where the Ljubljana Stock Exchange listed companies participated

Event	Venue and date	Organised by
LSEG & CEE Conference	London, England, 11 March 2016	London Stock Exchange and InterCapital
Investor Day of the Ljubljana and Zagreb Stock Exchanges	Zagreb, Croatia, 24 May 2016	Ljubljana and Zagreb Stock Exchanges
Erste Group Bank Investor Conference	Stegersbach, Austria, 10 - 14 October 2016	Erste Group Bank
Wood's Frontier Investor Day	Bucharest, Romania, 8 - 9 September 2016	Wood & Co.
Upgrade in Belgrade 2015, Regional Investor Conference	Belgrade, Serbia, 3 November 2016	Belgrade Stock Exchange and Wood & Co.
Investment Conference of the Ljubljana Stock Exchange	Ljubljana, Slovenia, 24 November 2016	Ljubljana Stock Exchange
Investment Conference of Wood & Co.	Prague, Czech Republic, 29 November – 2 December 2016	Wood & Co.

### Other events in 2016 organised by the Ljubljana Stock Exchange

Event	Venue and date
Financial Conference in co-organisation with Finance Daily	Portorož, 10 - 11 May 2016
Pre-New Year's networking event in co-organisation with KDD – Bowling	Ljubljana, 1 December 2016
Pre-New Year's reception for members of the Slovene financial markets' senior management in co-organisation with KDD and with an awards ceremony for issuers and member firms	Ljubljana, 8 December 2016

### Other activities, media promotion and publications

- In 2016 the following publications were updated or issued anew with a view to promoting the capital market and our listed companies:
  - Guide for Investors 2016 (publication in Slovene);
  - Slovenian Capital Market;
  - Monthly and annual statistical reports.

- We also strive to continuously educate the youth about the Slovenian capital market. If approached by educational establishments, we give students free educational seminars about the Ljubljana Stock Exchange at our premises.
- We supported and sponsored the Moje Finance project: 'Financial Literacy of Youth'.

## **Market surveillance and best market practices**

### **Monitoring member firms and trades**

Pursuant to the Slovenian Financial Instruments Market Act, the LJSE monitors member firms and trades with the intention of detecting breaches of the LJSE Rules (disorderly market conditions, market abuses). In 2016 the LJSE reviewed 35 trading supervision examination reports and, based on these examinations, it issued 22 reports on completed examinations or notices on suspicious trades, and forwarded them to the Securities Market Agency.

### **Support to trading members**

The LJSE cooperates closely with its trading members, both in regular daily market operations as well as in implementing changes and novelties to securities trading.

### **Counselling and support to listed companies**

In 2016 the Ljubljana Stock Exchange offered counselling and support to issuers of securities listed on the stock exchange market on how to ensure compliance with the Rules and other Ljubljana Stock Exchange Acts and legislation concerning financial instruments market. Besides that the Ljubljana Stock Exchange also counsels Prime and Standard Market companies with respect to disclosure and corporate governance. At the special request of several issuers the Ljubljana Stock Exchange organized individual one-on-one sessions with them.

## **Human Resource management**

The primary objective, which the Exchange strives to achieve in the field of human resource management, is forming an optimal personnel and educational structure of employees. The basic areas of human resource management, aside from a prudent employment policy, include the provision of efficient remuneration and promotion system, concern for continuing education, training and development of employees and monitoring employee satisfaction.

### **Employees**

At the end of 2016 the Exchange had 11 employees, which is one more than in the previous year.

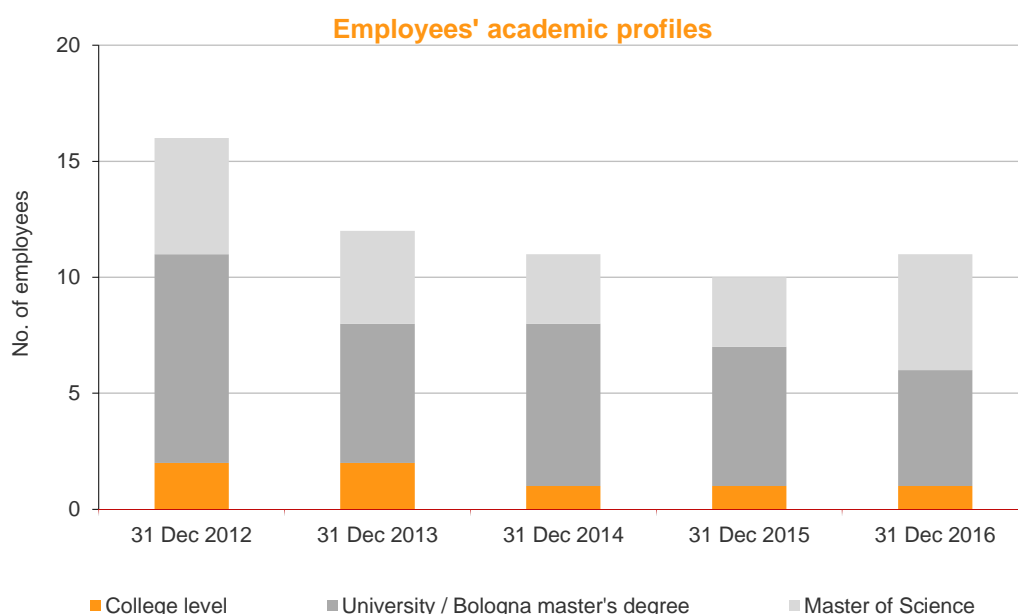
In 2016 the term of office of the President of the Management Board expired and his employment relationship ended, and one employee sought challenge elsewhere. The new President of the Management Board, who

took office on 1 September 2016, was selected from outside candidates. In the course of internal restructuring certain members of staff with the requisite skills and motivation took the opportunity to grow personally and professionally by taking on new assignments, which is why we did not hire a new employee to replace the employee from Market Operations that had left but regularly employed the employee, whose employment contract for a fixed period expired at the end of 2015. We employed two new employees: one employee for a fixed period due to increased workload of an employee in the legal field and one expert for business development for an indefinite period.

### Demographics, and employees' academic profiles

The average age of the company's staff is 39.6 years, whereby 73.0% are women and 27.0% men.

At the end of 2016, the employees' educational profiles were as follows: 1 employee (10%) had a college-equivalent degree, 5 employees (45%) had a bachelor's degree or bologna master's degree, and 5 employees (45%) had a master's degree.



### Staff training and development

Fast development in all areas requires employees to constantly upgrade their expertise. Since there is no development without knowledge we try to offer our staff training and education in accordance with the business process needs and therefore give them the opportunity to grow and advance both personally and professionally. The LJSE has spent 0.3% of operating revenue on staff training.

An important tool that enables efficient leadership and personal development of our employees is the semi-annual and annual interview, at which each employee and their superior define the objectives for the following year, set the priorities and discuss mutual expectations both with respect to the employee's work and personal development. On the basis of these discussions they plan future trainings and upgrades of expertise and skills. All Exchange employees conduct annual interviews with their superiors.

### **Staff motivation**

The Exchange has been providing for the quality of life of all its employees for several years. We have been promoting a healthy lifestyle and bonding at sports and social events.

Since 2001 the Exchange has been investing additional optional pension insurance premiums on behalf of its employees with the Skupna pokojninska družba d. d. pension fund, thereby increasing the long-term social security of its employees.

### **A safe and healthy environment**

The Exchange considers a safe and healthy working environment for its employees to be of great importance. We realise that such an environment is a prerequisite for efficient and quality work, and we have therefore worked toward further reducing all risks resulting from work processes that our staff are faced with. Consistent with our Health and Safety Statement and Risk Assessment, the LJSE regularly sends its employees to health inspections, while it also provides them with good working conditions and periodically (once a year) carries out lighting and microclimate readings along with potential dangerous airborne substance measurements.

### **Communicating with employees**

The Exchange invests special efforts into communicating with employees. We regularly inform them of the company's strategy and development activities both inside the company and in the capital markets. Since we are a small team, communication is personal and efficient. We hold assemblies with employees several times a year and discuss daily matters on a daily basis. Employees at the LJSE also confide in the employees' representative, who is a member of the LJSE Supervisory Board.

### **Social corporate responsibility**

The Exchange acknowledges its responsibility toward the environment in which it operates. Each year we receive numerous requests to sponsor sports, humanitarian and education programmes, and we always support some of them. At the end of the year we provide donations mainly to societies cooperating with institutions in an effort to help children with special needs and the underprivileged. We also fund projects that raise awareness about the capital markets in Slovenia.

In addition, the Exchange has been a year-long active supporter of projects and activities aimed at improving corporate governance in Slovenia, as this promotes one of the key strategic objectives of the company and the entire capital market, i.e. working towards a high quality regulated market.

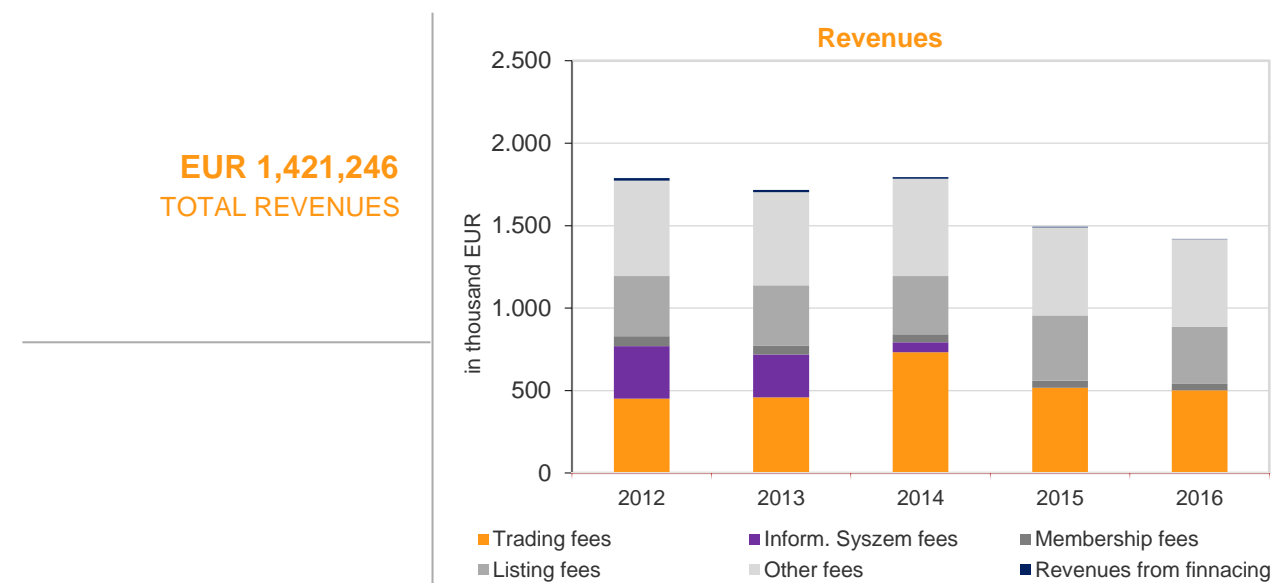
## **Business operations analysis**

### **Ljubljana Stock Exchange operations in 2016**



In 2016 macroeconomic exposure and risks stabilised in Slovenia, which, also due to the expected privatisation and termination of registry accounts, increased the activity on the capital market. Thus in 2016 the LJSE recorded an increase in turnover on the stock exchange market. The LJSE generated a gross profit in the amount of EUR 65,411 in the period from January – December 2016.

## Revenue



Compared to the same period in 2015, total revenue was down 4.9% and amounted to EUR 1,421,246.

As much as EUR 888,377 of total revenue comes from the company's core business, i.e. trading fees, membership fees and listing fees.

Over the past five years the share of revenue from our core business has ranged from 63.9% in 2015 to 66.8% in 2012, when it reflected the high income from trading fees. In 2016 revenue from our core business represents 62.5% of operating revenue.

### ■ Revenue from trading fees

Compared to previous years, with the exception of 2014 when the turnover was considerably higher compared to previous years, turnover in 2016 was relatively good. Revenue from trading fees thus amounted to EUR 502,011, which is 35.2% of total revenue and represents a decrease by EUR 14,560, or 2.8%, from 2015.

### ■ Membership fees

They amounted to EUR 38,125 and represent 2.7% of total revenue. In 2016 membership status terminated for three member firms. On 31 December 2016 the LJSE thus had 14 members. On 1 January 2017 one remote member was admitted to membership on the LJSE.

■ *Revenue from listing fees*

Listing fees generated EUR 348,242 of revenue. In addition to new listings, which generated EUR 13,240, this also includes annual maintenance fees for listed securities (Prime Market, Standard Market and Entry Market shares and bonds) in the amount of EUR 314,202; revenue from fees for adopting decisions on listing expansions, on delistings and on suspensions of trading, which contributed EUR 20,800. Compared to 2015 revenues, the revenues in 2016 are 12.0% lower or EUR 47,348 lower.

■ *Revenue from SEOnet and INFO STORAGE services*

Revenue from SEOnet and INFO STORAGE services amounts to EUR 183,184, representing 12.8% of total revenue, which is a decrease of 13.2% compared to 2015.

■ *Revenue from trade publication*

Revenue from the publication of trades in listed shares executed off-exchange amounted to EUR 7,618 in 2016.

■ *Revenue from the co-organisation of the Conference*

The co-organization of the Financial Conference with the Business Daily Finance, generated EUR 11,578 of revenue, which in the total revenue structure represents a 0.8% share.

■ *Revenue from data dissemination*

Data dissemination generated 4.6% of total revenue, totalling EUR 65,400.

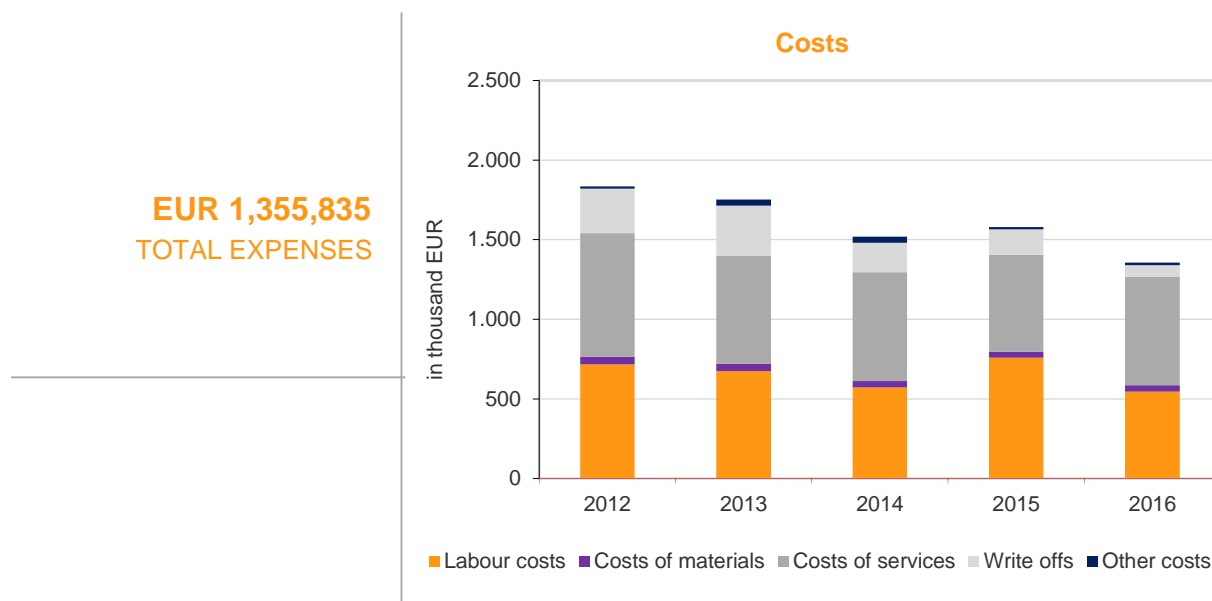
■ *Revenue sharing with the Vienna Stock Exchange*

Under the agreement on sharing revenue, the LJSE transferred data dissemination and index licensing to the Vienna Stock Exchange on 1 April 2010. In 2014 the LJSE also agreed on reporting corporate actions. Thus, its share of data dissemination revenue in 2016 amounted to EUR 184,387 and corporate actions reporting revenue to EUR 957.

■ *Other operating revenue*

The LJSE generated EUR 77,060 of other revenue in 2016.

## **Expenses**



Total expenses amounted to EUR 1,355,835, down 14.2% compared to 2015.

Most of the expenses are operating expenses, while financing expenses and extraordinary expenses represent only a small segment.

In recent years the employee benefits cost ranged from representing 38.2% of total expenses in 2014, when it reflected further layoffs and wage decreases, to representing 48.0% of total expenses in 2015 due to one-off expenses of forming provisions for severance pays. In 2016 labour costs represent 40.3% of all costs.

Costs of materials and services represent 53.0% and write-offs 5.5%.

#### ■ *Employee benefits cost*

On 31 December 2016, the Ljubljana Stock Exchange had 11 employees or 9.73 employees considering the hours worked. The company's costs of salaries for 2016 amount to EUR 548,573, which is 40.3% of total expenses.

Salaries include bonus payments. Variable remuneration paid for business performance in 2016 amounted to EUR 32,217. In addition, the employee benefits cost also includes EUR 4,105 of unspent 2016 annual leave costs and EUR 10,759 of unpaid bonuses to the Management Board for 2016.

#### ■ *Costs of materials*

Costs of materials amount to EUR 39,842 and include EUR 21,933 of energy costs, EUR 4,169 of expert literature and subscription costs, EUR 9,603 of stationery costs and EUR 4.138 of other costs of materials.

#### ■ *Costs of services*

Costs of services amount to EUR 679,575. The largest items are the costs of business premises maintenance (EUR 37,036), leases and rents (EUR 34,785), advertising and entertainment costs (EUR 26,543), the costs of services by natural persons (EUR 20,232), counselling services (EUR 68,826), the costs of IT services (EUR 350,124), postal and telephone costs (EUR 17,279), and the costs of surveillance over stock exchange operations (EUR 72,000).

#### ■ Depreciation and amortisation

Depreciation and amortisation cost amounts to EUR 58,775. It refers to EUR 13,310 of amortization of intangible fixed assets, EUR 34,832 of depreciation of the building and EUR 10,633 of depreciation of equipment and other tangible assets. On average, the proportion of written off intangible fixed assets is 98.0%, thus the proportion of carrying intangible assets is 2.0%. On average, the proportion of written off equipment and other tangible assets is 84.5%, thus the proportion of carrying equipment and other tangible assets is 15.5%.

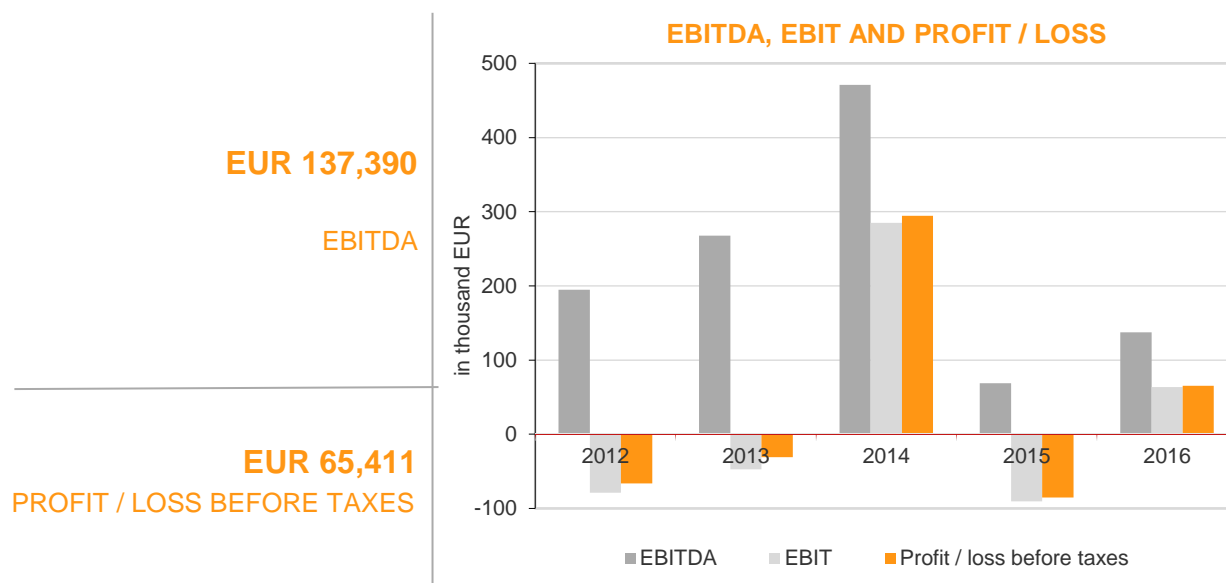
#### ■ Other operating costs

Other operating costs amounted to EUR 15,335.

#### ■ Revaluatory operating expenses

Revaluatory operating expenses in the amount of EUR 15,188 refer to expenses from allowances for bad receivables.

### Profit or loss for the period



EBITDA was substantially up compared to 2015, amounting to EUR 137,390.

EBIT was EUR 63,427, and profit before taxes amounts to EUR 65,411.

## Assets

**EUR 2,654,468**

**ASSETS**

(in thousand EUR)	31 Dec 2016	31 Dec 2015
Non-current assets	1,408	1,352
Current assets	1,189	1,230
Deferred costs and accrued revenue	58	60
<b>Total assets</b>	<b>2,654</b>	<b>2,643</b>
Equity	2,376	2,287
Non-current liabilities	18	0
Current liabilities	197	119
Short term accrued costs and deferred revenue	63	237
<b>Total equity and liabilities</b>	<b>2,654</b>	<b>2,643</b>

## Performance indicator

Ratio	2016	2015	2014	2013	2012
<b>Financing state ratios</b>					
Equity financing rate	89.52	86.52	91.94	91.82	85.02
Long-term liabilities rate	8.11	4.49	6.59	6.58	10.80
Long-term financing rate	90.22	86.52	92.82	92.86	89.51
Equity rate	58.95	61.31	52.80	58.79	53.57
<b>Investments ratios</b>					
Operating fixed assets rate	51.40	50.48	50.36	61.42	69.48
Long-term assets rate	53.04	51.14	50.70	62.49	70.30
Short-term assets rate	46.96	48.86	49.30	35.28	29.70
<b>Horizontal financial structure ratios</b>					
Equity to operating fixed assets	1.74	1.71	1.83	1.50	1.22
Immediate solvency ratio	5.14	9.12	6.25	4.58	2.37
Quick ratio	6.04	10.38	7.23	5.36	3.00
Current ratio	6.04	10.38	7.23	5.36	3.00
<b>Operating efficiency ratios</b>					
Operating efficiency ratio	1.05	0.94	1.17	0.97	0.96
Total efficiency ratio	1.05	0.95	1.18	0.98	0.97
<b>Profitability ratios</b>					
Net return on equity - ROE	3.84	0.00	11.45	0.00	0.00

## Objectives and plans for 2017

The Ljubljana Stock Exchange's main objective in 2017 will again be stable management and operations of the stock exchange market and operation compliance in all areas of the Exchange's operations. In addition, the Exchange's objectives will be oriented towards various activities aimed at encouraging further development and promotion of the capital market, which will be carried out in broader and close cooperation with capital market stakeholders.

It is expected that in 2017 the activity on the stock exchange will be positive, mainly due to improved macroeconomic conditions in Slovenia, successful operations of listed companies and expectations regarding further privatisation processes. On the basis of State Assets Management Strategy listing of new products on the regulated market can be expected in the following years, which could additionally stimulate activity on the market due to a wider range of available products. On the other hand, continuation of consolidation in the local and international financial industry can be expected, resulting in further decrease in the number of listed companies and member firms.

The Exchange sees the main potential for further capital market growth and development in searching for new financial resources by encouraging long-term savings schemes and in the sale of the existing state stakes through the market, especially in those instances where the state will sell smaller stakes or where the state will keep a major share in the ownership and search for new financial investors among institutional investors. Furthermore, the Exchange sees the potential also in joint activities with all market stakeholders for the development and promotion of the capital market.

In 2017, within the Exchange's infrastructure, the Exchange intends to intensify activities for acquisition of new issuers to the stock exchange market by systematically approaching potential issuers through implementing a special new programme "LJSE Partner Programme". The Exchange also wishes to encourage the liquidity providing services on the part of member firms, which would, through continuous supply, enhance the quality of the stock exchange market. The Exchange will continue with promotional activities of the capital market and promotion of individual listed companies, which it will upgrade with additional marketing approaches and new educational and marketing events for the public and market participants. Moreover, in 2017 the Exchange will establish a new SI ENTER market where trading with non-marketable securities will be enabled. This will provide transparency and quality in trading with these securities.

Positive effects can also be expected from new regional cooperation with the Zagreb Stock Exchange, which is the new 100% owner of the Ljubljana Stock Exchange. The new regional cooperation can bring certain new synergistic effects and possibilities for further development of the market resulting in positive Exchange's operations. In 2016 the cooperation between stock exchanges already saw the launch of many development and promotional projects (e.g. joining the SEE Link platform, inclusion into the Funderbeam SEE platform, sale of LEI Codes, joint investment conferences, etc.), which have already shown positive effects and which we will continue to perform also in the following year.

Our main activities planned for 2017 are:

- Stable and efficient day-to-day operation of the market;
- Establishment of "LJSE Partner Programme" for a systematic acquisition of new products on the Exchange;
- Establishment of the SI ENTER market for non-marketable securities;
- Promotion of performing activities of liquidity provision;
- Local and international market promotion (roadshows);

- Cooperation in development and promotion projects with the Zagreb Stock Exchange;
- Promotion of measures for further Slovenian capital market development (sale of state's ownership share through the market; encouraging long-term savings, etc.).

# Financial Statements and Disclosures





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## Management responsibility for the financial statements

The Management Board hereby endorses the financial statements of the Ljubljana Stock Exchange for the financial year ended 31 December 2016, with notes thereto, along with the accounting guidelines of the annual report.

We hereby reaffirm our responsibility for a fair presentation of the financial statements in accordance with the Slovenian Accounting Standards. The Management Board confirms that suitable accounting policies were adhered to and that accounting valuations were conducted sensibly and according to the precautionary principle. The financial statements have been produced on the basis of going concern.

The Management Board is responsible for the appropriate management of accounts, for the adoption of the measures required to safeguard company assets, and for the prevention of exposure to fraud and other irregularities.

Ljubljana Stock Exchange

  
Nina Vičar, MSc  
Member of the Management Board



  
Aleš Ipavec, Msc,  
President of the Management Board

## Financial statements for the financial year 2016

### Balance sheet as at 31 Dec 2016

(in EUR)		31 Dec 2016	31 Dec 2015
<b>ASSETS</b>		<b>2,654,468</b>	<b>2,642,682</b>
<b>Non-current assets</b>		<b>1,407,843</b>	<b>1,352,242</b>
Intangible assets and long-term deferred and accrued items	1.1	78,872	55,947
Property, plant and equipment	1.2	1,285,457	1,276,921
Deferred tax assets	1.3	43,514	19,374
<b>Current assets</b>		<b>1,188,894</b>	<b>1,230,150</b>
Current investments	1.4	600,383	383
Current operating receivables	1.5	177,563	149,384
Cash and cash equivalents	1.6	410,947	1,080,383
<b>Short-term deferred costs and accrued revenues</b>	1.7	<b>57,731</b>	<b>60,290</b>
<b>EQUITY AND LIABILITIES</b>		<b>2,654,468</b>	<b>2,642,682</b>
<b>Equity</b>	1.8	<b>2,376,378</b>	<b>2,286,827</b>
Called-up capital		1,400,893	1,400,893
Capital surplus		462,775	462,775
Revenue reserves		423,159	423,159
Retained earnings		0	0
Net profit or loss for the period		89,551	0
<b>Provisions and long-term accrued costs and deferred revenues</b>	1.9	<b>0</b>	<b>0</b>
Provisions for terminal leave pay or long-service benefits		0	0
<b>Non-current liabilities</b>	1.10	<b>18,375</b>	<b>0</b>
Non-current financial liabilities		18,375	0
<b>Current liabilities</b>	1.11	<b>196,880</b>	<b>118,557</b>
Current financial liabilities		8,038	0
Short-term trade payables		188,842	118,557
<b>Short-term accrued costs and deferred revenues</b>	1.12	<b>62,835</b>	<b>237,299</b>

Notes to the financial statements are an integral part of the financial statements and should be read in conjunction with them.

## Income statement for the year ended 31 Dec 2016

(in EUR)		2016	2015
<b>Sales revenues</b>	2.1	<b>1,380,295</b>	<b>1,477,439</b>
Sales revenues from domestic market		1,054,235	1,147,016
Sales revenues from abroad		326,059	330,423
<b>Other operating revenue</b>	2.1.1.	<b>38,278</b>	<b>10,568</b>
<b>OPERATING EXPENSES</b>	2.2		
<b>Costs of goods, material and services</b>	2.2.1	<b>719,417</b>	<b>646,369</b>
Costs of materials used		39,842	38,670
Costs of services		679,575	607,699
<b>Labour costs</b>	2.2.2	<b>546,430</b>	<b>758,576</b>
Costs of wages and salaries		439,178	423,967
Pension insurance costs		10,737	9,438
Other social insurance costs		65,583	70,565
Other labour costs		30,932	32,854
Provisions		0	221,751
<b>Write-downs</b>	2.2.3	<b>73,963</b>	<b>159,274</b>
Depreciation and amortisation		58,775	143,756
Revaluatory operating expenses associated with intangible assets and property, plant and equipment		0	0
Revaluatory operating expenses associated with operating current assets		15,188	15,518
<b>Other operating expenses</b>	2.2.4	<b>15,335</b>	<b>15,148</b>
<b>OPERATING PROFIT OR LOSS</b>		<b>63,427</b>	<b>-91,359</b>
Financial revenue from investments		1,079	2,350
Financial revenue from trade receivables		1,591	2,621
Financial expenses for financial liabilities		562	0
Financial expenses for trade payables		125	14
<b>PROFIT OR LOSS FROM ORDINARY ACTIVITIES</b>		<b>65,411</b>	<b>-86,402</b>
Other revenue		3	919
Other expenses		3	4
<b>PROFIT OR LOSS BEFORE INCOME TAXES</b>		<b>0</b>	<b>915</b>
Income tax	2.3	0	-9,249
Deferred taxes		24,140	-1,435
<b>NET PROFIT OR LOSS FOR THE PERIOD</b>	<b>2.4</b>	<b>89,551</b>	<b>-96,172</b>

Notes to the financial statements are an integral part of the financial statements and should be read in conjunction with them.

## Statement of comprehensive income for the year ended 31 Dec 2016

<i>(in EUR)</i>		2016	2015
Net profit or loss for the period		89,551	-96,172
Changes of intangible assets and property, plant and equipment revaluation surplus		0	0
Changes of short-term investment revaluation surplus		0	0
Profit or loss of result from translation of financial statement in foreign currencies		0	0
Other components of comprehensive income		0	0
<b>Total comprehensive income for the period</b>	<b>2.5</b>	<b>89,551</b>	<b>-96,172</b>

Notes to the financial statements are an integral part of the financial statements and should be read in conjunction with them.

## Cash flow statement for the year ended 31 Dec 2016

(in EUR)	2016	2015
<b>A. Cash flows from operating activities</b>		
<b>a) Income Statement items</b>	<b>206,666</b>	<b>286,217</b>
Operating revenue	1,418,403	1,486,487
Financial revenue from trade payables	-28	2,621
Operating expenses excluding depreciation and amortisation	-1,235,849	-1,192,207
Income taxes and other taxes not included in operating expenses	24,140	-10,684
<b>b) Changes of net operating assets in Balance Sheet items</b>	<b>-216,335</b>	<b>-96,421</b>
Change in trade receivables	-41,155	21,721
Change in deferred costs and accrued revenue	-307	-13,798
Change in deferred tax assets	-24,140	1,435
Change in operating debts	70,286	-73,474
Change in accrued items and provisions	-221,019	-32,305
Change in deferred tax liabilities	0	0
<b>c) Net cash from operating activities (a + b)</b>	<b>-9,669</b>	<b>189,796</b>
<b>B. Cash flows from investing activities</b>		
<b>a) Cash receipts from investing activities</b>	<b>630</b>	<b>3,622</b>
Interest received	487	2,015
Proceeds from disposal of intangible assets	0	0
Proceeds from sale of property, plant and equipment	143	1,607
Proceeds from disposal of non-current assets	0	0
Proceeds from disposal of current assets	0	0
<b>b) Cash disbursements from investing activities</b>	<b>-660,958</b>	<b>-22,867</b>
Purchase to acquire intangible assets	-32,798	-14,440
Purchase of property, plant and equipment	-28,160	-8,427
Payments in connection with non-current investments	0	0
Payments in connection with current investments	-600,000	0
<b>c) Net cash from investing activities (a + b)</b>	<b>-660,328</b>	<b>-19,245</b>
<b>C. Cash flows from financing activities</b>		
<b>a) Cash receipts from financing activities</b>	<b>0</b>	<b>0</b>
Capital increase	0	0
Proceeds from increase in financial liabilities	0	0
<b>b) Cash disbursements from financing activities</b>	<b>562</b>	<b>-279,480</b>
Interest paid	0	0
Repayment of equity	0	0
Repayment of financial liabilities	562	0
Dividends paid	0	-279,480
<b>c) Net cash from financing activities (a + b)</b>	<b>562</b>	<b>-279,480</b>
<b>D. Net cash and cash equivalents as at end of period</b>	<b>410,948</b>	<b>1,080,383</b>
Net increase in cash and cash equivalents (Ac+Bc+Cc)	-669,435	-108,929
Cash and cash equivalents as at beginning of period	1,080,383	1,189,312

Notes to the financial statements are an integral part of the financial statements and should be read in conjunction with them.

## Statement of changes in equity for 2016

(in EUR)	Called-up capital	Capital surplus			Revenue reserves	Retained earnings	Net profit / loss	Total equity
	Share capital	Payments over carrying amount in redemption of shares	Amounts from simplified capital decrease	General equity revaluation adjustment	Statutory reserves		Net profit / loss for the period	
<b>A.1. Balance at 31 Dec 2015</b>	1,400,893	143	364,570	98,063	423,159	0	0	<b>2,286,827</b>
Backward calculations								
Retrospective adjustments								
<b>A.2. Balance at 1 Jan 2016</b>	1,400,893	143	364,570	98,063	423,159	0	0	<b>2,286,827</b>
<b>Total comprehensive income for 2016</b>								
<b>B.2. Profit / loss for the period</b>							89,551	<b>89,551</b>
Changes in revaluation surplus related to intangible assets								0
Changes in revaluation surplus related to investments								0
Other components of comprehensive income								0
<b>B.3. Changes in equity</b>								
Capital decrease (settlement of loss for 2015 from other components of equity)								0
<b>C. Balance at 31 Dec 2016</b>	<b>1,400,893</b>	<b>143</b>	<b>364,570</b>	<b>98,063</b>	<b>423,159</b>	<b>0</b>	<b>89,551</b>	<b>2,376,378</b>
<b>ACCUMULATED PROFIT FOR 2016</b>	-	-	-	-	-	-	89,551	89,551

## Statement of changes in equity for 2015

(in EUR)	Called-up capital	Capital surplus			Revenue reserves	Retained earnings	Net profit / loss	Total equity
	Share capital	Payments over carrying amount in redemption of shares	Amounts from simplified capital decrease	General equity revaluation adjustment	Statutory reserves		Net profit / loss for the period	
<b>A.1. Balance at 31 Dec 2014</b>	1,400,893	143	364,570	98,063	519,331	0	279,480	<b>2,662,479</b>
<b>A.2. Balance at 1 Jan 2015</b>	1,400,893	143	364,570	98,063	519,331	279,480	0	<b>2,662,479</b>
<b>Changes in equity - transactions</b>								
<b>B.1. with owners</b>								
Payment of dividends						-279,480		
<b>Total comprehensive income for 2015</b>								
<b>B.2. Profit / loss for the period</b>							0	<b>0</b>
Changes in revaluation surplus related to intangible assets								0
Changes in revaluation surplus related to investments								0
Other components of comprehensive income								0
<b>B.3. Changes in equity</b>								
Capital decrease (settlement of loss for 2015 from other components of equity)					-96,172		0	0
<b>C. Balance at 31 Dec 2015</b>	<b>1,400,893</b>	<b>143</b>	<b>364,570</b>	<b>98,063</b>	<b>423,159</b>	<b>0</b>	<b>0</b>	<b>2,286,827</b>
<b>ACCUMULATED PROFIT FOR 2015</b>	-	-	-	-	-	0	0	0

Notes to the financial statements are an integral part of the financial statements and should be read in conjunction with them.

## Notes to financial statements

### Taxation

The company is a taxable person:

- Under the Corporate Income Tax Act (Official Gazette RS No 40/04, 139/04, 17/05, 108/05, 117/06, 90/07, 56/08, 76/08, 92/08, 5/09, 96/09, 110/09, 43/10, 59/2011, 30/2012, 24/2012, 94/2012, 81/2013, 50/2014, 23/2015 in 82/2015),
- Under the Value Added Tax Act (Official Gazette RS No 89/98, 17/00, 30/01, 103/01, 67/02, 114/04, 108/05, 21/06, 117/06, 52/07, 33/09, 85/09, 85/2010, 18/2011, 78/2011, 38/2012, 40/2012, 83/2012, 14/2013, 46/2013-ZIPRS1314-A, 101/2013-ZIPRS1415, 86/2014 and 90/2015),
- Under the Rules on the Implementation of the Value Added Tax Act (Official Gazette RS No 4/99, 45/99, 59/99, 110/99, 17/00, 19/00, 27/00, 22/01, 28/01, 54/01, 106/01, 79/02, 54/04, 122/04, 60/05, 117/05, 1/06, 10/06, 141/06, 120/07, 21/08, 123/08, 105/09, 27/10, 104/2010, 110/2010, 82/2011, 108/2011, 106/2011, 102/2012, 54/2013, 85/2014, 95/2014, 39/2016 and 45/2016),
- Under the Financial Administration Act (and Official Gazette RS No 25/2014) and
- Under the Tax Procedure Act (Official Gazette RS No 54/04, 139/04, 56/05, 96/05, 100/05, 21/06, 117/06, 24/08, 125/08, 85/09, 110/09, 1/10, 43/10, 97/2010, 32/2012, 94/2012, 101/2013, 111/2013, 22/2014, 25/2014, 40/2014, 90/2014, 95/2014, 23/2015 in 91/2015).

### Basis of presentation

In compiling the Financial Statements were considered:

- Basic accounting principles:
  - Adherence to the principle of accounting on an accrual basis, and
  - Going concern;
- The qualitative characteristics of financial statements (understandability, relevance, reliability and comparability).

### Relations with other companies

The company has no participating interests in other companies, neither directly nor through other entities acting on behalf of the company.

As at 31 December 2016, the LJSE had one shareholder (100%), namely Zagrebačka burza, d.d., Ivana Lučića 2a, 10000 Zagreb, Hrvatska. Joint Annual Report for 2016 can be obtained at the registered office of the owner.

### Recording items

In preparing the enclosed financial statements and notes to financial statements, the historical cost convention was adhered to, except for the building with associated land, which was valued according to the principle of fair value.



## Accounting principles

In recognizing and valuating items, the provisions of the SAS were adhered to as a rule, except in valuating items for which the SAS allow for different valuation methods, where the company used the principles described below.

### Intangible assets and long-term deferred costs and accrued revenues

The company's intangible assets include long-term property rights and long-term deferred costs and accrued revenue.

After initial recognition intangible assets are recognised at cost value. These assets are measured at cost value less accumulated amortization.

Amortization of intangible assets is provided on a straight-line basis.

Amortization rates:

Amortization rate	Rate in % for start of amortization before 1 Jan 2003	Rate in % for start of amortization after 1 Jan 2003	Rate in % for start of amortization after 1 Jan 2007
Intangible assets	33.3	20.0	
Software			20.0
Licences			20.0

The amortization period and amortization method for an intangible asset with finite useful life is reviewed at least at each financial year-end. If the asset's expected useful life differs significantly from previous estimates, the amortisation period changes accordingly.

The value of an intangible asset is also estimated on the reporting date to assess whether there are objective indications of impairment. For an intangible asset with indefinite useful life and/or for an intangible asset not yet in use, its recoverable amount is calculated once a year irrespective of whether indications of impairment exist or not.

Impairment losses are recognised in the Income Statement as revaluation operating expenses associated with intangible assets.

Reversed impairment losses for intangible assets are only recognised if their recoverable amount increases and this increase can be objectively related to an event after the recognition of loss. Impairment losses are reversed only up to the carrying amount that would be recognised after deducting accumulated depreciation if no impairment losses had been recognised in previous periods.

Long term deferred costs and accrued revenues refer to long-term deferred costs.

## Property, plant and equipment

The company's property, plant and equipment item includes: building and associated land, equipment and small tools with useful lives of over a year and cost values of up to EUR 500 each.

Property, plant and equipment that meet the criteria for recognition are initially recognised at cost value, composed of the purchase price and all costs of preparing the asset for its intended use.

After initial recognition, items of property, plant and equipment are measured at cost value, apart from the building and associated land, which are measured at fair value. If subsequently incurred costs related to property, plant or equipment increase the asset's future benefits as compared to previous evaluations, they increase its cost value.

As at 1 July 2007 the company, for the purpose of real presentation of assets, presents the building with its associated land after the initial recognition in accordance with the revaluation model, i.e. the second version of revaluated carrying value on the basis of SAS 1.33.

Each item of property, plant and equipment is depreciated separately, using the straight-line depreciation method.

Land is not depreciated.

Depreciation rates:

Depreciation rate	Rate in % for start of amortization before 1 Jan 2003	Rate in % for start of amortization after 1 Jan 2003	Rate in % for start of amortization after 1 Jan 2007	Changed rate (%) due to new valuation method from 1 Jul 2007	Changed rate (%) due to revaluation of buildings from 1 Oct 2012	Changed rate (%) due to revaluation of buildings from 1 Dec 2013
Buildings	2.0	2.0	2.0	2.685	3.038	3.150
Computers	20.0 – 40.0	40.0	40.0			
Furniture and other equipment	30.0 – 40.0	25.0	25.0			
Vehicles	30.0	12.5	20.0			

Depreciation of an item of property, plant and equipment obtained in the current year begins on the first day of the following month after it has become available for use. Assets in the course of construction or manufacturing are not depreciated until they are available for use.

An asset's residual value and remaining useful life are examined on the reporting date, and adjusted accordingly if expectations differ from previous estimates.

Property, plant and equipment are examined every year for indications of impairment. If any such indications exist, an estimate of the recoverable amount is made, which is the higher of its net selling price less the cost of selling, and value in use. If an asset's recoverable amount exceeds its carrying amount, the asset is not impaired.

If the carrying amount of an asset or a group of assets exceeds their recoverable amount, the company reduces the recognised cost values of its property, plant and equipment as well as proportionately reduces the relevant impairment loss.

Reversed impairment losses for property, plant and equipment are only recognised if their recoverable amount increases and this increase can be objectively related to an event after the recognition of loss. Impairment losses are reversed only up to the carrying amount that would be recognised after deducting accumulated depreciation if no impairment losses had been recognised in previous periods.

Property, plant and equipment disposed of or destroyed are no longer recorded on books of account, since no benefits can be expected of them. Any incurred profits increase operating revenues and any incurred losses increase operating expenses.

#### Revaluation of the building with associated land

More important assets are assessed for impairments separately. At least every five years or, in case of external indications of impairment, even more often, the company commissions a certified appraiser to appraise its property.

If the revaluation increases the building's carrying amount, the increase is credited directly to Equity, under the item revaluation surplus. It is transferred to the Income Statement gradually or when the asset is derecognised. The decrease of carrying amount to fair value is recognised in the Income Statement. The decrease of carrying amount due to revaluation is debited directly to Equity, under the item revaluation surplus, to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

In 2013 the company examined the fair value of its building and associated land.

On the basis of the appraisal prepared by a certified appraiser, the company adjusted as at 30 November 2013 the carrying amount of its building to fair value, by eliminating accumulated depreciation and reducing revaluation surplus; the difference between the formed revaluation surplus and fair value was recognised in the Income Statement.

In 2016 the principles from the appraisal prepared in 2013 were examined. Market conditions in 2016 show no major changes from the appraisal prepared in 2013. Therefore, no indications of further impairment exist in 2016.

#### **Receivables**

Receivables of all types are initially recognised at amounts stipulated in the relevant documents, under the assumption they will be collected. Receivables denominated in foreign currency are converted at the Bank of Slovenia middle exchange rate at the end of the period, and any translation difference is recognised as financial revenue or expenditure.

Subsequent increases or decreases of receivables increase the relevant operating (or financial) revenue or expenses.

Allowances for bad receivables are formed when their collection is doubtful, if we have information of the poor financial condition of the buyer or of the compulsory settlement or liquidation of the buyer. As dictated by

experience from previous accounting periods and considering expectations, allowances for bad receivables are mandatorily formed at the end of each financial year. Allowances for bad receivables are formed for the entire amount of outstanding receivables, for all receivables not settled within 90 days after they were due.

### **Cash and cash equivalents**

Cash and cash equivalents include cash on bank accounts and cash in hand.

Cash and cash equivalents denominated in the national currency are recognised at nominal value. Foreign currency and foreign exchange is converted into the national currency as at the day received, applying the exchange rate as of that day. The foreign currency account balance is converted at the middle exchange rate as at the day of the Balance Sheet. The exchange rate difference is recorded under financial revenue or expenses.

### **Equity**

Total equity is distributed into share capital, share premium amount, amounts from the simplified decrease of share capital, general equity revaluation adjustment, reserves, retained net profit from previous periods, undistributed profit for the financial year, revaluation surplus and revaluation surplus adjustment, and retained revaluation surplus. Share capital is recognised in the national currency.

### **Provisions and long-term accrued costs and deferred revenues**

Provisions and long-term accrued costs and deferred revenues include long-term deferred revenue that will cover the anticipated expenses within a period longer than one year. When services are charged, therefore, they are not included into the Income Statement, since at the time there is no need to settle those expenses.

Provisions are defined for present liabilities which stem from obligating past events and are expected to be settled at a time period which is not certain and in the amount which can be reliably estimated. The purpose of provisions is to collect amounts in the form of accrued costs or expenses, which will in the future enable the company to cover the then incurred costs or expenses.

### **Liabilities**

Current and non-current liabilities of all types are initially recognised in the amounts stipulated by the relevant documents, assuming that creditors will demand their execution.

Current liabilities may subsequently increase or decrease, directly or independently of executed payment, by an amount agreed with the creditor. Subsequent increases of current liabilities increase the relevant operating (or financing) expenses (costs).

### **Short-term accrued and deferred items**

Active short-term accrued and deferred items include short-term deferred costs (expenses) and temporarily accrued revenue. Short-term deferred costs include amounts that do not upon incurrence burden the

company's activity and do not affect the Income Statement. Temporarily accrued revenue is incurred when the Income Statement recognises revenue that has not yet been received or charged for. The recognition of short-term accrued revenue and deferred costs in the books of account and the Balance Sheet is reversed when their possible incurrence no longer exists or when short-term accruals and deferrals are no longer needed. Short-term deferred costs (expenses) are converted into accrued costs (expenses) when they are recognised in the Income Statement.

Accrued expenses extinguish when the relevant liability is recognised or payment is made. Short-term accrued revenue extinguishes when the relevant receivable is recognised or payment is received.

Accrued costs, accrued expenses and deferred revenue include accrued costs (expenses) and short-term deferred revenue. Accrued costs include costs expected but not yet incurred and refer to the period of the Income Statement. Short-term deferred revenue is incurred when the company's services had been charged for but not yet rendered. Revenue can also be deferred for a short term when at the time of sale it is still doubtful whether it will be received. The recognition of short-term accrued costs and deferred revenue in the books of account and the Balance Sheet is reversed when their possible incurrence no longer exists or when short-term deferrals and accruals are no longer needed. Short-term accrued costs (expenses) subsequently take the place of the actual incurred costs (expenses) of the same type, and are thus no longer included in the Income Statement for the relevant financial year. Short-term deferred revenue is transformed into accrued revenue when the relevant services have been rendered, or when they become eligible for inclusion into the Income Statement and the relevant costs have to be covered.

During the year and upon drawing up the financial statements, the company verifies whether it is justified and necessary to recognise short-term accruals and deferrals. In estimating the accuracy of their value, we take into account the potential changes caused by events after their recognition.

### **Recognition of revenue**

Operating revenue is sales revenue and other operating revenue related to products and services.

Operating revenue is composed of the disposable value of rendered services in the accounting period in which the services are rendered by reference to the stage of completion of the transaction assessed on the basis of the actual service provided as a proportion of total services to be provided.

Financial revenue is revenue from investments. It is incurred from non-current and current investments. It consists of accrued interest, exchange differences related to investments, surplus of disposal price over their carrying amount in disposals of non-current and current investments, as well as revaluatory financial revenue. Interest income is recognised upon incurrence, i.e. when charged, using the effective interest rate method. They are only recognised when there is no doubt about their amount or recoverability.

Other revenue consists of exceptional items that increase the company's revenue for the period.

### **Recognition of expenses**

Expenses include costs and expenses of commercial, administrative and other tasks, along with costs related to the sale of products and services, as well as operating expenses from revaluation of fixed and current assets. Expenses are fully recognised as operating expenses in the period in which they are incurred. Upon

initial recognition, expenses are categorised according to type, as costs of materials, costs of services, depreciation costs, employee benefits cost and costs of amounts due, irrespective of income.

Financial expenses include expenses for financial activities and expenses for investment. They consist of exchange differences, shortage of disposal price compared to their carrying amounts in disposals of non-current investments, as well as financial expenses from revaluation.

Other expenses consist of exceptional items that decrease the company's revenue for the period.

## **Taxes**

Tax expense includes accrued income tax and deferred tax.

Income tax is charged on the basis of revenues and expenses given in the Income Statement pursuant to the temporary tax legislation.

Deferred tax is provided on all temporary differences arising between the tax bases of assets and liabilities, and their carrying amounts. Deferred tax assets or liabilities are recognised as revenues or expenses in the Income Statement.

The company forms deferred tax assets for all deductible temporary differences – arising from asset impairment, temporarily non tax deductible amortisation and unused tax loss - to the extent that it is probable that taxable profit will be available.

## **Cash flow statement**

Based on Balance Sheet data as at 31 December 2014 and as at 31 December 2015, and based on the Income Statement for 2015 as well as considering other relevant data from internal sources, relating to revenue and expenses, the Cash Flow Statement was drawn up under version II of SAS 2006.

## **Transition to the Slovenian Accounting Standards (SAS) 2016**

When transitioning to the SAS 2016 the company had no adjustments which would have an impact on profit and loss.

## 1. Balance sheet

### 1.1. Intangible assets

EUR 78,872

(in EUR)	31 Dec 2016	31 Dec 2015
Long-term property rights	1,152,262	1,151,710
Intangible assets under construction	32,245	0
Long-term deferred costs	23,504	20,638
Accumulated amortization of intangible assets	-1,129,140	-1,116,401
<b>Carrying amount</b>	<b>78,872</b>	<b>55,947</b>

Intangible assets as at 31 December 2016 include recognised rights for the use of software for the computerized processing of data with a carrying amount of EUR 23,122, intangible assets in production in the amount of EUR 32,245 and long-term deferred costs (expenses) and accrued revenues in the amount of EUR 23,504.

All intangible assets have finite useful lives.

Movements of intangible assets in 2016:

(in EUR)	Long-term property rights	Long-term deferred costs	Intangible assets under construction	Total
<b>Cost of purchase</b>				
Balance as at 31 Dec 2015	1,151,710	20,638	0	1,172,348
Additional	553	2,866	32,798	36,216
Disposals	0	0	553	553
Balance as at 31 Dec 2016	1,152,262	23,504	32,245	1,208,012
<b>Accumulated amortisation</b>				0
Balance as at 31 Dec 2015	1,116,401			1,116,401
Annual amortisation	12,739			12,739
Disposals				0
Balance as at 31 Dec 2016	1,129,140			1,129,140
<b>Carrying amount</b>				0
Balance as at 31 Dec 2015	35,309	20,638	0	55,947
Balance as at 31 Dec 2016	23,123	23,504	32,245	78,872

Additions in long-term property rights in 2016 refer to the upgrade of software for issuers' announcements, which cost EUR 32,798, and BorzaNet software, which cost EUR 553.

As at the Balance Sheet date the company has liabilities from purchases to acquire intangible assets in the amount of EUR 6,442.

Long-term deferred costs (expenses) and accrued revenues include deferred costs of rent of digital certificates and brand patent in the total amount of EUR 1,181, and payments to reserve fund in the amount of EUR 22,323.

## 1.2. Property, plant and equipment

EUR 1,285,457

(in EUR)	31 Dec 2016	31 Dec 2015
Building	1,274,258	1,272,456
Accumulated depreciation of building	-106,757	-71,925
Other property, plant and equipment	699,624	728,139
Property, plant and equipment under construction	9,687	0
Accumulated depreciation of property, plant and equipment	-591,355	-651,748
<b>Carrying amount</b>	<b>1,285,457</b>	<b>1,276,921</b>

As at 31 December 2016, the item property, plant and equipment (PPE) included the current value of the building (EUR 1,167,501) and the current value of other PPE (EUR 108,269) and PPE in preparation (EUR 9,687).

In 2016 the principles from the appraisal prepared in 2013 were examined. Market conditions in 2016 show no major changes from the appraisal prepared in 2013. Therefore, no indications of further impairment exist.

If the building and associated land were recognised at the cost model, the carrying amount of the building and associated land as at 31 December 2016 would have totalled EUR 1,225,525.

Movements of property, plant and equipment (PPE) in 2016:

(in EUR)	Buildings	Equipment	Equipment under preparation	Total PPE
<b>Cost of purchase</b>				
Balance as at 31 Dec 2015	1,272,456	728,139	0	2,000,594
Additions	1,802	43,083	52,770	97,656
Disposals	0	71,598	43,083	114,681
Balance as at 31 Dec 2016	1,274,258	699,624	9,687	1,983,569
<b>Accumulated depreciation</b>				
Balance as at 31 Dec 2015	71,925	651,748	0	723,674
Annual depreciation	34,832	11,205	0	46,036
Disposals	0	71,598	0	71,598
Balance as at 31 Dec 2016	106,757	591,355	0	698,112
<b>Carrying amount</b>				
Balance as at 31 Dec 2015	1,200,531	76,390	0	1,276,921
Balance as at 31 Dec 2016	1,167,501	108,269	9,687	1,285,457

New purchases of PPE include purchase of a company car in the amount of EUR 36,575, IT equipment in the amount of EUR 8,945, office equipment in the amount of EUR 2,750 and other equipment in the amount of EUR 4,500.

Eliminations refer to the sale of PPE and elimination of operating fixed assets from bookkeeping records pursuant to the resolution adopted by the inventory commission.

None of the assets from this group have legal restrictions imposed or are pledged as a guarantee.



As at the Balance Sheet date the company has liabilities from purchases to acquire property, plant and equipment in the amount of EUR1,620.

### 1.3. Deferred tax assets

**EUR 43,514**

Deferred tax assets in the amount of EUR 43,514 are recognised on all deductible temporary differences arising from the difference between the depreciation charge for property rights, in the amount of 20%, and tax-deductible depreciation, in the amount of 10%, and from the difference between the depreciation charge for the building, in the amount of 3.15%, and tax-deductible amortisation, in the amount of 3.00%, as well as for impairments of trade receivables, and unused tax loss.

Deferred taxes are charged at the rate of 19% at which it is expected that the deferred tax assets will also be settled.

Movement of long term deferred tax assets in 2016

(in EUR)	Difference between depreciation charged (20%) and tax-deductible depreciation (10%)	Impairment of trade receivables	Unused tax loss	Total
As at 31 December 2015	955	8,854	9,565	19,374
Newly formed in 2016	422	3,914	20,251	24,587
Used in 2016	-303	-144		-446
<b>As at 31 December 2016</b>	<b>1,074</b>	<b>12,624</b>	<b>29,816</b>	<b>43,514</b>

### 1.4. Current investments

**EUR 600,383**

(in EUR)	31 Dec 2016	31 Dec 2015
Investments into precious metals	383	383
Short-term banks deposits	600,000	0
<b>Total</b>	<b>600,383</b>	<b>383</b>

The short-term bank deposit in the amount of EUR 600,000 is deposited at a commercial bank in Slovenia for a limited period and an interest rate of 0.4% in nominal terms.

Investments into precious metals refer to two gold bars the Exchange received as a gift.

## 1.5. Short-term trade receivables

EUR 177,563

(in EUR)	31 Dec 2016	31 Dec 2015
Trade receivables	166,446	131,481
Receivables due from other entities	11,117	17,904
<b>Total</b>	<b>177,563</b>	<b>149,384</b>

### ■ Trade receivables

EUR 166,446

(in EUR)	31 Dec 2016	31 Dec 2015
Trade receivables due from residents	90,996	62,916
Doubtful and disputable trade receivables from residents	62,464	50,151
Trade receivables due from non-residents	75,879	68,564
Doubtful and disputable trade receivables from non-residents	220	220
Allowance for bad receivables	-63,114	-50,371
<b>Total</b>	<b>166,446</b>	<b>131,481</b>

### ■ Receivables due from other entities

EUR 11,117

(in EUR)	31 Dec 2016	31 Dec 2015
Short-term advanced paid	0	0
Interest receivables	3,966	2,940
Default interest receivable	-3,328	-1,709
Receivables due from other entities	10,480	16,673
<b>Total</b>	<b>11,117</b>	<b>17,904</b>

Other short-term receivables refer to input VAT in the amount of EUR 152, namely to VAT receivables from invoices for December 2016, to receivables from advances paid for the income tax of legal entities in the amount of EUR 8,479, and to other receivables, in the amount of EUR 1,849.

The company has no claims with its Management Board members, employees with special powers or Supervisory Board members.

#### ■ Short-term receivables by maturity

(in EUR)	Non past due	Past due 30 days	Past due 60 days	Past due 90 days	Past due 120 days	More than 120 days	Total
Trade receivables due from residents – trading fees	59,197						59,197
Trade receivables due from residents – other	29,389	1,537	317	0	48	305	31,596
Trade receivables due from residents – doubtful						62,464	62,464
Trade receivables due from non-residents	75,879						75,879
Trade receivables due from non-residents – doubtful						220	220
Other short-term advances and overpayments	202						202
Interest receivable	208						208
Default interest receivable	0						0
Default interest receivable – doubtful	1,511				190	2,058	3,759
<b>Total</b>	<b>166,386</b>	<b>1,537</b>	<b>317</b>	<b>0</b>	<b>238</b>	<b>65,047</b>	<b>233,526</b>

The majority of receivables, both trade receivables and interest receivables, are non-past due receivables, which represent 71.3% of all receivables. For claims overdue by over 90 days and for doubtful claims and for claims in cases of compulsory settlement or bankruptcy, we formed allowances. In forming allowances, we considered all claims not settled within 90 days and all payments received by the end of January 2017.

In the field of credit risk, the company follows the established procedure of collecting trade receivables, which ensures that the majority of our outstanding receivables are settled.

The company does not hedge its receivables.

#### 1.6. Cash and cash equivalents

**EUR 410,947**

(in EUR)	31 Dec 2016	31 Dec 2015
Cash in hand	233	42
Bank balance:	410,714	1,080,341
Current account	22,345	13,121
Redeemable EUR deposit	388,369	1,067,220
<b>Total</b>	<b>410,947</b>	<b>1,080,383</b>

We have redeemable deposits placed in commercial banks in Slovenia at the interest rate of 0.04% to 0.08% at the beginning of the year. The interest rate later gradually decreased and amounted at the end of 2016 from 0.01% to 0.05%.

#### 1.7. Short-term deferred costs and accrued revenue EUR 57,731

<i>(in EUR)</i>	31 Dec 2016	31 Dec 2015
Short-term deferred costs	30,606	30,032
Short-term accrued revenues	27,125	30,258
- listing maintenance fees for bonds	27,125	23,622
- other accrued revenues	0	6,637
<b>Total</b>	<b>57,731</b>	<b>60,290</b>

Short-term deferred costs refer to the lease of the licenses in the amount of EUR 18,914, costs of the company's property insurance in the amount of EUR 5,434 and other in the amount of EUR 6,258. These costs relate to financial year 2017.

Accrued revenue refers to listing maintenance fees for government bonds (issuer Republika Slovenija) for 2016, in the amount of EUR 27,125. The listing maintenance fees will be charged in 2016 after one year of listing. Other issuers are charged with listing maintenance fees (for shares and bonds) for the term of each calendar year.

#### 1.8. Equity EUR 2,376,378

<i>(in EUR)</i>	31 Dec 2016	31 Dec 2015
Called-up capital	1,400,893	1,400,893
Capital surplus	462,775	462,775
Revenue reserves	423,159	423,159
- statutory reserves	423,159	423,159
- other reserves	0	0
Retained earnings	0	0
Net profit or loss for the period	89,551	0
<b>Total</b>	<b>2,376,378</b>	<b>2,286,827</b>

##### ■ Share capital EUR 1,400,893

Share capital consists of 33,571 regular no par value shares.

##### ■ Capital surplus EUR 462,775

<i>(in EUR)</i>	31 Dec 2016	31 Dec 2015
Payments over carrying amount in disposal of own shares	143	143
Amount from simplified decrease of share capital	364,570	364,570
General equity revaluation adjustment	98,063	98,063
<b>Total</b>	<b>462,775</b>	<b>462,775</b>

The general equity revaluation adjustment refers to the revaluation of share capital back to 2001.

■ **Revenue reserves** **EUR 423,159**

<i>(in EUR)</i>	<b>31 Dec 2016</b>	<b>31 Dec 2015</b>
Statutory reserves	423,159	423,159
Other revenue reserves	0	0
<b>Total</b>	<b>423,159</b>	<b>423,159</b>

**1.9. Provisions, and long-term accrued costs and deferred revenue** **EUR 0**

The company formed no provisions for terminal leave pay or long-service benefits, because it estimated their amount to be insignificant. Payable discount values of terminal leave pays and long-service benefits namely amount to less than 5 per cent of company capital.

**1.10. Long-term financial liabilities** **EUR 18,375**

<i>(in EUR)</i>	<b>31 Dec 2016</b>	<b>31 Dec 2015</b>
Long-term financial liabilities	18,375	0
<b>Total</b>	<b>18,375</b>	<b>0</b>

Long-term financial liabilities in the amount of EUR 18,375 refer to the purchase of a company car on the basis of a financial lease.

**1.11. Trade payables** **EUR 196,880**

<i>(in EUR)</i>	<b>31 Dec 2016</b>	<b>31 Dec 2015</b>
Short-term financial liabilities	8,038	0
Payables to suppliers	140,425	67,590
Payables from advances	317	317
Other trade payables	48,100	50,649
<b>Total</b>	<b>196,880</b>	<b>118,557</b>

Short-term financial liabilities in the amount of EUR 8,038 refer to current portion of finance lease for the purchase of a company car.

■ **Payables to employees include:**

**41.613 EUR**

<i>(in EUR)</i>	<b>31 Dec 2016</b>	<b>31 Dec 2015</b>
Payables from net wages and wage compensations	18,500	17,502
Payables from contributions for gross wages and wage compensations	8,534	8,196
Payables from taxes for gross wages and wage compensations	6,888	7,404
Payables from other earnings from employment	1,474	1,366
Payables for contributions on other earnings	0	0
Payables from payer's contributions	6,216	5,975
<b>Total</b>	<b>41,613</b>	<b>40,444</b>

■ **Payables to the government and other institutions include:**

**9.239 EUR**

<i>(in EUR)</i>	<b>31 Dec 2016</b>	<b>31 Dec 2015</b>
Payables from VAT	4,711	6,511
Payables from income tax	0	1,953
Other payables to the government and other institutions	961	787
<b>Total</b>	<b>5,672</b>	<b>9,251</b>

**1.12. Short-term accrued costs and deferred revenue**

**EUR 62,835**

<i>(in EUR)</i>	<b>31 Dec 2016</b>	<b>31 Dec 2015</b>
Accrued costs	59,835	237,299
Short-term deferred revenue	3,000	
<b>Total</b>	<b>62,835</b>	<b>237,299</b>

Accrued costs refer to the costs of the financial statements audit for 2016, which amount to EUR 3,514, to the costs of a risk management audit and audit of compliance with the Code of Conduct, in the amount of EUR 4,511, to the costs of the review report on affiliated subjects, in the amount of EUR 1,612, to the costs of unused annual leave for 2016, in the amount of EUR 4,105, to the obligations arising from bonuses to the employees and the Management Board for 2016, in the amount of EUR 42,976, and other accrued costs in the amount of EUR 3,117.

**1.13. Off-balance-sheet liabilities and receivables**

As at 31 December 2016 the company recognised no off-balance-sheet liabilities or receivables. No company's assets are used for insurance and are free from all charges

## 2. Income statement

### 2.1. Revenues

EUR 1,421,246

	2016		2015	
	in EUR	%	in EUR	%
<b>I. Operating revenue</b>	<b>1,418,572</b>	<b>99.8</b>	<b>1,488,008</b>	<b>99.6</b>
a. Revenue from core business	888,377	62.5	954,661	63.9
- Trading fees	502,011	35.3	516,571	34.6
- Membership fees	38,125	2.7	42,500	2.8
- Listing fees	348,242	24.5	395,590	26.5
b. Other revenue	530,195	37.3	533,347	35.7
- SEOnet and INFO STORAGE services	183,184	12.9	211,137	14.1
- Trade publication	7,618	0.5	9,638	0.6
- Seminars	11,578	0.8	12,582	0.8
- Data dissemination	65,400	4.6	67,200	4.5
- Revenues sharing with WBAG	185,345	13.0	187,437	12.5
- IT services	0	0.0	25,200	1.7
- Revenues from organizing events	1,000	0.1	0	-
- Other	76,070	5.4	20,154	1.3
<b>II. Financial revenue</b>	<b>2,670</b>	<b>0.2</b>	<b>4,971</b>	<b>0.3</b>
<b>III. Extraordinary revenue</b>	<b>3</b>	<b>0.0</b>	<b>919</b>	<b>0.1</b>
<b>Total</b>	<b>1,421,246</b>	<b>100.0</b>	<b>1,493,897</b>	<b>100.0</b>

#### 2.1.1. Other operating revenues

EUR 38,278

(in EUR)	2016	2015
Revenues from dissolved provisions	37,349	0
Revenues from sale of fixed assets	143	1,607
Other revenues	786	8,961
<b>Total</b>	<b>38,278</b>	<b>10,568</b>

## 2.2. Expenses

EUR 1,355,835

	2016		2015	
	in EUR	%	in EUR	%
<b>I. Operating expenses</b>	<b>1,355,145</b>	<b>99.9</b>	<b>1,579,367</b>	<b>100.0</b>
- Costs of material	39,842	2.9	38,670	2.4
- Costs of services	679,575	50.1	607,699	38.5
- Labour costs	546,430	40.3	758,576	48.0
- Write-offs	73,963	5.5	159,274	10.1
- Other operating expenses	15,335	1.1	15,148	1.0
<b>II. Financial expenses</b>	<b>687</b>	<b>0.1</b>	<b>14</b>	<b>0.0</b>
<b>III. Extraordinary expenses</b>	<b>3</b>	<b>0.0</b>	<b>4</b>	<b>0.0</b>
<b>Total</b>	<b>1,355,835</b>	<b>100.0</b>	<b>1,579,385</b>	<b>100.0</b>

All expenses for financial year 2016 refer to operating expenses.

### 2.2.1. Costs of material and services

EUR 719,417

(in EUR)	2016	2015
<b>Costs of material</b>	<b>39,842</b>	<b>38,670</b>
Power supply	21,933	24,083
Office supplies, expert literature and publications	13,772	11,046
Costs of LJSE publications	1,090	1,609
Drugi stroški materiala	3,048	1,932
<b>Costs of services</b>	<b>679,575</b>	<b>607,699</b>
Transportation	2,402	1,224
Maintenance costs	152,416	144,440
Leases and rents	275,939	231,221
Reimbursements of labour-related costs	4,910	6,011
Payment transactions and insurance premiums	10,865	8,077
Intellectual and personal services	72,669	72,100
Advertising and entertainment	29,258	22,353
Services by individuals without a registered business	20,232	20,751
Costs of other services	110,884	101,522
<b>Total</b>	<b>719,417</b>	<b>646,369</b>



### 2.2.2. Employee benefits cost

EUR 546,430

(in EUR)	2016	2015
<b>Wages and salaries</b>	<b>439,178</b>	<b>423,967</b>
<b>Pension insurance</b>	<b>46,782</b>	<b>51,411</b>
- Pension and disability insurance contributions	36,045	41,973
- Additional pension insurance	10,737	9,438
<b>Social security</b>	<b>32,834</b>	<b>31,604</b>
- Health insurance, employment and parental protection contributions	29,539	28,592
- Voluntary health insurance	3,295	3,011
<b>Other labour costs</b>	<b>27,636</b>	<b>29,843</b>
- Commuting, meals allowance, holiday allowance, benefits	27,636	29,843
<b>Provisions</b>	<b>0</b>	<b>221,751</b>
<b>Total</b>	<b>546,430</b>	<b>758,576</b>

The company employed a total of 11 people in 2016. This equals 9.73 people considering hours worked. The total costs of wages and salaries (gross wages and wage contributions) amount to EUR 546,430.

### 2.2.3. Write-offs

EUR 73,963

(in EUR)	2016	2015
Depreciation and amortisation	58,775	143,756
Revaluatory operating expenses associated with intangible assets and property, plant and equipment	0	0
Revaluatory operating expenses associated with operating current assets	15,188	15,518
<b>Total</b>	<b>73,963</b>	<b>159,274</b>

#### ■ Depreciation and amortization

EUR 58,775

(in EUR)	2016	2015
Amortisation of intangible assets	12,739	99,983
Building amortisation	34,832	34,832
Depreciation of property, plant and equipment	11,205	8,941
<b>Total</b>	<b>58,775</b>	<b>143,756</b>

#### ■ Revaluation operating expenses associated with current assets

EUR 15,188

Revaluation operating expenses associated with current assets refer to allowances for bad receivables which are formed for receivables overdue by 90 days and for doubtful receivables, both in the total amount of EUR 15,188.

#### 2.2.4. Other operating expenses

EUR 15,335

(in EUR)	2016	2015
Other operating expenses	11,855	11,412
- Membership fees	1,632	1,330
- Tax paid for using building land	7,858	7,891
- Cost of court and administrative fees	215	191
- Humanitarian contributions	2,150	2,000
- Other expenses	3,479	3,736
<b>Total</b>	<b>15,335</b>	<b>15,148</b>

#### 2.2.5. Expenses by function

All expenses refer to the expenses incurred in the course of general activities.

#### 2.3. Income tax

0 EUR

Income tax is levied on the basis of revenue and expenses in the Income Statement, which are pursuant to the Slovenian regulations reduced by deduction items and increased by addition items.

The established tax base for 2016 was negative and amounts to EUR 100,661, thus the company does not claim other tax reliefs and does not show income tax.

In establishing net profit for the year, EUR 24,586 worth of deferred tax assets were recognised in the books of account, along with EUR 446 of deferred tax assets for temporary differences, both of which increased net profit for the financial year.

Income tax charged:

(in EUR)	2016	2015
Profit / loss before tax	65,411	-85,488
Tax incentives and premiums	-166,071	214,160
- Tax relief	0	-19,858
- Tax premiums	-173,224	250,874
deductions relief	7,153	-16,856
Tax loss covering	0	-74,264
Tax base	-100,661	54,408
Tax rate	17%	17%
Tax charged	0	9,249

#### 2.4. Net profit for the year

EUR 89,551

The net profit for the 2016 financial year amounts to EUR 89,551. It consists of EUR 65,411 net profit for the period, EUR 24,586 of newly formed deferred tax assets and EUR 446 of the use of deferred tax assets.

Pursuant to the resolution adopted by the LJSE Management Board and the consent given by the Supervisory Board the net profit for 2016 remains unallocated.

**Accumulated profit:**

(in EUR)	2016	2015
A. Net profit or loss of the financial year	89,551	-96,172
1. Net profit or loss	89,551	-96,172
B. Retained earnings	0	0
C. Reversal of revenue reserves	0	96,172
1. Statutory reserves	0	96,172
<b>E. Accumulates profit or loss</b>	<b>89,551</b>	<b>0</b>

**2.5. Total comprehensive income for the period**

**EUR 89,551**

Total comprehensive income for financial year 2016 amounts to EUR 89,551 and consists of net profit for the financial year.

**3. Management Board remuneration in 2016**

In 2016 the Management Board received remuneration in the following amounts:

(in EUR)	Mr Andrej Šketa, President (until 31 Aug 2016)		Mr Aleš Ipavec, Msc President (as at 1 Sep 2016)		Mrs Nina Vičar, Msc Member	
	gross	net	gross	net	gross	net
Fixed pay	52,000	26,674	26,000	13,037	60,291	30,102
Variable pay	12,500	6,296	0	0	3,500	1,789
Bonuses and compensation	102,333	41,681			10,000	4,393
Fringe benefits	3,652		2,747		4,699	
Other earnings and reimbursements	1,092	2,824	456	1,803	1,092	2,746
Additional pension insurance	1,879		940		2,819	
Severance pay	32,022	30,226				
<b>Total</b>	<b>205,478</b>	<b>107,701</b>	<b>30,143</b>	<b>14,840</b>	<b>82,402</b>	<b>39,030</b>

#### 4. Supervisory Board remuneration in 2016

In 2016 the Supervisory Board received remuneration in the following amounts:

(in EUR)	Fee for holding office	
	gross	net
- Mrs Ivana Gažić, Msc, President	1,800	1,395
- Patricija Bakšaj, Deputy President	1,500	1,163
- other members:		
Mr Tomislav Gračan, Msc	1,500	1,163
Mrs Urška Podboršek (until 31 March 2016)	375	273
Mrs Darja Jermaniš, Msc (as at 1 Apr 2016)	1,125	818
<b>Total</b>	<b>6,300</b>	<b>4,811</b>

#### 5. Audit costs

The financial statements audit for financial year 2016 amounted to EUR 7+,015 – inclusive of VAT, the audit of the company's risk management and compliance with the Code of Conduct totalled EUR 4,274, and the costs of audit of the Report on Relations with Affiliated Parties amounted to EUR 3,231. Internal audit costs for financial year 2016 amounted to EUR 16,771, and the tax counselling costs amounted to EUR 269.

#### 6. Related party transactions

The company undertook business with the controlling company on the basis of concluded contracts by using market prices for services.

Statement of receivables from and liabilities to related parties as at 31 December 2016:

(in EUR)	31 Dec 2016	31 Dec 2015
<b>Receivables from companies in the group</b>		
ZSE	/	/
SEE Link	/	/
<b>Liabilities to companies in the group</b>		
ZSE	/	/
SEE Link	6.726	/

In 2016 the actual revenues and actual expenses were realised in the amount of:

<i>(in EUR)</i>	2016	2015
<b>Sales revenues in the group</b>		
ZSE	/	/
SEE Link	/	/
<b>Purchase of materials and services</b>		
ZSE	/	/
SEE Link	8.884	/

## 7. Events after the reporting period

There were no events after the reporting period that would require a revision of the financial statements or special disclosures.

## Independent Auditor's Report



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### Independent Limited Assurance Report

To the owner of LJUBLJANSKA BORZA d.d. Ljubljana

Based on the contract concluded with the company LJUBLJANSKA BORZA d.d. Ljubljana (hereinafter also 'Company') as at 14 October 2016, we have reviewed the accompanying report on relations with affiliated companies that was prepared by Company's management on 10 February 2017, and shows all legal transactions which were entered into by LJUBLJANSKA BORZA d.d. Ljubljana and the controlling company or its affiliated companies in the financial year that ended 31 December 2016 on the initiative or the interest of these companies, and all other actions that were executed or abandoned on the initiative or the interest of these companies in the previous financial year (hereinafter 'Report') as required by Paragraphs 3, 4 and 5, Article 545 of the Companies Act (ZGD-1).

#### *Management's Responsibility for the Report*

Management is responsible for the statements and findings in the Report, prepared in compliance with Article 545 of the Companies Act and for such internal control as management determines is necessary to enable the preparation of the Report that is free from material misstatement, whether due to fraud or error.

#### *Auditor's Responsibility*

Our responsibility is to express a conclusion about the limited assurance for the report on relations with affiliated companies based on the procedures performed and the evidence we have obtained. We performed our work in accordance with the International Standard on Assurance Engagements 3000 – *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information* (hereinafter: ISAE 3000), issued by the International Auditing and Assurance Standards Board. This standard requires that we plan and perform the engagement to obtain limited assurance that nothing has come to our attention that causes us to believe that the report on relations with affiliated companies contains material misstatements, among others in view of compliance with provisions of Article 545 of the Companies Act, the accuracy of stated transactions or indications on Company's disproportionately high execution with respect to circumstances known at the time when these transactions were performed, and the compensation for disadvantages, or other actions and references on the existence of circumstances that indicate a significantly different judgement as expressed by the management in the report, all by taking into account the following criteria.

#### *Definition of Criteria*

While verifying the accuracy or adequacy of disclosures relating to transactions with the controlling company or its affiliated companies or transactions carried out on the initiative or interest of these companies, and other actions, we have observed the definition for the controlling company and its affiliated companies as laid down in Article 527 of ZGD-1. The adequacy of disclosures was compared also with disclosures in the annual report of LJUBLJANSKA BORZA d.d. Ljubljana for the period hereunder.





Individual transactions with the controlling company or its related entities were in terms of the suitability of transfer prices not examined. We have though established that the company observes the Rules on transfer prices, which comprises a description of the system used for determining the transfer prices and a description of the methods selected for identifying transfer prices in the company.

As for transactions and other actions that were concluded on the initiative or interest of the controlling company or its affiliated companies, or carried out with third parties, we have in order to examine the adequacy of values of executed transactions, disclosed in the report or to assess the accuracy of stated transactions or indications on Company's disproportionately high execution, taken into account market conditions that would apply during the transaction's conclusion for similar or comparable products or services and would be achieved in voluntary transactions.

As for other actions that were carried out on the initiative or interest of the controlling company and its related affiliates, and these actions are not considered a legal transactions but solely an inconsistency of financial statements with the financial reporting standards, or circumstances exist for indications in the report that imply a significantly other judgement that provided by the management, we have observed provisions of the Slovene Accounting Standards and International Financial Reporting Standards.

#### *Limitations*

In order to establish transactions and other actions that were concluded or conducted on the initiative or interest of the controlling company and its related affiliates and the counterparty to the transaction is not the controlling company or its affiliated company, or whether circumstances exists in connection with statements made in the report that indicate a substantially different judgement than expressed by the management, we have made inquiries with LJUBLJANSKA BORZA d.d. Ljubljana and obtained written confirmations from the management of LJUBLJANSKA BORZA d.d. Ljubljana.

#### *Our Independence and Quality Control*

We have acted in compliance with independence and ethical requirements as provided by the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants. The respective Code is based on the principles of integrity, objectivity, professional competence and the due diligence, confidentiality and professional conduct.

Our company acts in compliance with the International Standard on Quality Control (ISOQ 1) and accordingly maintains an overall management control system, including documented policies and procedures regarding the compliance with ethical requirements, professional standards and applicable legal and statutory requirements.

#### *Summary of Work Performed*

Considering the assurance procedures, our work included, among others:

- Based on interviews with the management and other key staff, we have been acquainted with procedures in place for recognising Company's contracts and transactions with affiliated companies, which are required to be included in the report, and the manner of determining the amount of compensations and refunds relating to transactions that are outlined in the Report, and the manner of establishing the possible disadvantage.
- We have conducted analytical procedures to establish the compliance of statements made in the Report with the Company's books and records.



- We have undertaken inquiries at the managing bodies of the company LJUBLJANSKA BORZA d.d. Ljubljana (or managing bodies) regarding the statements made in the Report, and related risks.

The nature and scope of our procedures were defined with respect to the risk assessment and our professional judgement in order to obtain limited assurance and does not include an opinion on the adequacy of the transfer price policy.

The work performed in a limited assurance engagement is less in the extent of collecting evidence than for a reasonable assurance engagement. Consequently, the level of assurance obtained in a limited assurance engagement is lower than the assurance that would have been obtained had an audit or a reasonable assurance engagement been performed. We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our conclusion.

#### *Conclusion*

Based on the procedures we have performed and the evidence we have obtained, nothing has come to our attention that causes us to believe that the:

- statements in the report on relations with affiliated companies for the financial year that ended 31 December 2016 are not accurate in all material respects;
- that the Company's execution of legal transactions stated in the Report was disproportionately high in view of circumstances that were known at the time when these transactions were performed;
- that circumstances exist that would in view of other actions mentioned in the Report indicate a significantly different assessment of the disadvantage from the one given by the management,

all by taking into account the above-mentioned criteria.

#### *This Report's Intended Use*

This assurance report is prepared solely for the owners of LJUBLJANSKA BORZA d.d. Ljubljana and is not to be distributed or provided for use to third parties.

On behalf of the audit company

**KPMG SLOVENIJA,**  
podjetje za revidiranje, d.o.o.

Katarina Gašperin  
*Certified Auditor*

Katarina Sitar Šuštar, MBA  
*Certified Auditor*  
*Partner*

Ljubljana, 28 February 2017

*KPMG Slovenija, d.o.o.*

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The Independent Limited Assurance Report hereof is a translation of the original Independent Limited Assurance Report in Slovene, issued on the report on relations with affiliated companies thereto in Slovene and is not to be signed. This translation is provided for reference purposes only.



## CONTACT INFO

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