



Annual report with financial statements for 2019

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CONTENTS	page
BUSINESS REPORT	3
FINANCIAL STATEMENTS	10
CONTENTS OF ANNEXES TO FINANCIAL STATEMENTS	10
DISCLOSURES IN FINANCIAL STATEMENTS	21
CORPORATE GOVERNANCE STATEMENT	37

1. BUSINESS REPORT

Halcom in the world of banking

In 2019, Halcom maintained its position as Slovenia's leading provider of digital banking and digital identity solutions. To the flagship product Hal E-Bank, which has been used by a large proportion of legal entities for more than 20 years, we have added a new product Halcom MultiPay, which will enable end users to conduct banking transactions through accounts at several banks at a technologically higher level. Halcom MultiPay is a modern, user-friendly solution, available as a mobile and web application.

Halcom certificates have maintained their market share, especially among users from the business world. All Halcom products are constantly upgraded, supplemented and developed to meet our customers' wishes and comply with the eIDAS, ISO / IEC, GDPR and PSD2 directives.

In 2019, Halcom launched a new product - Halcom OneSign, a digital certificate in the cloud. The company is determined to establish the product within and outside the banking segment. The OneSign digital certificate in the cloud will also enable Halcom to expand its business in the retail segment, where it is currently present with its mBank Retail and eBank Retail solutions. The OneSign digital certificate in the cloud is the first qualified digital certificate available via a mobile application. As such, it allows the user to authenticate, sign and access various applications in the most secure way, anywhere and anytime.

In Serbia, Halcom upgraded eBank Business and mBank Business for the SME segment, expanding the number of users and meeting the needs of Serbian banks in the area of digital banking.

In Bosnia, in addition to eBank Business and mBank Business, we also upgraded eBank Retail and mBank Retail for the SME segment, thus covering all customer segments. In addition, Halcom was the first to offer the Bosnian market a qualified digital signature compliant with all EU directives.

The excellence of Halcom's products and solutions is also reflected in the growth in the number of users and the number of transactions. The growth trend is also expected in the coming periods, as the banking business continues to move from classic branch visits to digital channels.

Successes on the market

Halcom is currently a recognized European provider of technology solutions for payment systems on three continents. Present in eight markets in Central and South-Eastern Europe, Africa and the Middle East, Halcom has sold its solutions to more than 54 banks and one central bank and one clearing house. As Halcom operates as a group of companies, with a parent company in Slovenia and subsidiaries in Serbia and Bosnia, we provide an overview of growth by markets for our consolidated revenues, and the financial data below for the parent company Halcom d.d.

In 2019, the Halcom Group achieved the highest sales revenues on the Slovenian market, 43.9%, and slightly less on the Serbian market, 36.2%, while Bosnia and Herzegovina was still in third place in the overall structure, with a 12.8% share. Other markets, i.e. Kosovo, Albania, Qatar and Morocco, accounted for 7.1% of sales revenue.

In Slovenia, we generated a high growth of 8.8% YoY by developing new functionalities and adapting to legal changes at individual banks, as well as by increasing the number of transactions at practically all banks.

The main lever of 7.6% YoY revenue growth in Serbia is the result of developing new functionalities for our key customers and consequently a larger number of transactions.

In Bosnia and Herzegovina revenues were lower by 10.3% this year. The drop in revenue is due to lower revenue from maintenance services resulting from the product updates in 2018, as well as a smaller number of projects.

In the remaining markets, there was a slight drop in sales revenues of 0.3% YOY, mainly due to lower sales of licenses.

Data pursuant to paragraph 6 of Article 70 of the Companies Act (ZGD-1)

The data are disclosed in point 2.2.1. of the accounting section of the annual report.

Financial position of the company

in EUR	2019	2018	Index 2019/2018
Net revenues from sales	8,896,906	8,944,982	99
Costs of goods, material and services	1,735,921	1,624,617	107
Labor costs	4,399,085	4,454,564	99
EBIT	2,202,118	2,362,509	93
EBITDA	2,699,284	2,875,142	94
Net profit	2,267,693	2,477,291	92
Profitability of operating revenues (in %) (net profit/net sales)	25.5%	27.7%	92
Added value per employee	76,683	77,504	99
Return on equity in %	59.8%	67.6%	88
Net earnings per share	113	124	92
Average number of employees based on working hours	92.65	94.64	98
Employees on 31 December	97	97	100

Net sales revenue of Halcom d.d. decreased by 0.5% in 2019 compared to 2018. The decrease in sales revenue is mainly attributable to lower sales of certificates to Serbia and Bosnia and Herzegovina and lower sales of licenses on the EU market.

Costs of goods, materials and services increased by 6.9% in 2019. The reasons for the increase in costs are mainly related to the purchase of licenses and maintenance, mobile banking services and higher costs of external contractors.

Despite the higher payment of holiday allowance for 2019, labor costs as a whole decreased by 1.2%, which can be attributed to a lower provision for performance bonuses.

EBIT decreased in 2019 compared to 2018 by 6.8% or by approx. EUR 160 thousand. The reason for the decrease can be attributed to both lower revenues and, on the other hand, higher costs.

EBITDA in 2019 compared to 2018 decreased by 6.1% or by approx. EUR 176 thousand.

Net profit in 2019 compared to 2018 decreased by 8.5% or in absolute terms by approx. EUR 210 thousand. The difference between the change of EBIT and net profit in the amount of approximately EUR 66 thousand was mainly due to lower financial income from dividends of the companies in the group.

The company's assets consist of long-term assets (40%), short-term assets (57%) and short-term accrued revenue and deferred costs (3%). A significant part of short-term assets is represented by short-term loans to group companies in the amount of EUR 1,944 million.

On the liabilities side, equity represents 69.9%, provisions and long-term accrued costs and deferred revenue are 3.3%, long-term liabilities are 1%, short-term liabilities are 14.0% and short-term accrued costs and deferred revenue are 11.8%. Other short-term operating liabilities represent liabilities for December salaries and liabilities to the state for VAT.

As at 31 December 2019 Halcom d.d. had EUR 55 thousand of financial liabilities.

Risk management

Geographic dispersion

Halcom is currently present on eight markets in Europe, the Middle East and North Africa. In the future, our approach to expanding into new markets will be based on a general trend, i.e. the provision of cloud services.

Product dispersion

Halcom offers its products to banks as well as end users. Thus, the CA agency offers certificates to companies and individual users. In addition, we also offer Hal-eBank B2B and Corporate solutions intended for smaller and larger companies.

At Halcom, we also strive to focus on a specialized business area, within which we develop a diverse range of products in the field of:

- digital banking
- interbank clearing systems,
- secure distribution of electronic invoices,
- digital identities

The diversity of our products makes it much easier for us to respond to the different needs of the market on the one hand and the rapidly evolving needs of end users on the other.

Diversification by type of revenue

Halcom's revenues are divided into the following groups:

- revenues from the sale of cloud services (EBB) to banks and end users,
- revenues from the sale of security elements (CA),
- revenues from sold SW licenses,
- revenues from maintenance of sold SW licenses,
- revenues from projects related to the integration of specific requirements of banks that do not yet use our cloud services into the SW product.

Dispersion by type of target customers

To the three basic types of risk diversification, we added diversification by type of target customers. If in the past the target customers were mainly banking or financial institutions, the new policy also opens the range of products to end registered users, who are natural persons for certain services and legal entities for others, to whom our services for physical persons provide additional income. Of course, we also offer new target customers services from a niche market in which Halcom has been accumulating knowledge for over 20 years, i.e. payment systems.

In addition to the aforementioned diversifications, we also reduce competitive risk with the reputation of a trusted partner, by obtaining and maintaining important certificates in the field of business organization (ISO 9001) and in the field of information security (ISO 27001). Halcom's goal, which we have pursued in the past and want to continue to pursue in the future, is to create products and services that help connect the interests of different market players into a single platform. Our slogan, known for more than a decade, is ONE FOR ALL. Thus, in the past, we have encouraged the use of the same digital certificates for different purposes, not only for digital banking, but our electronic bank for companies connects a company with accounts to most banks in the markets.

Research and development

In 2019, we improved agile software development methods by adapting practices and development methods to the dynamics of product development of Halcom's products and deliveries to the market for Halcom's customers. We started by adapting the architecture, quality assurance and delivery method of the e-banking solution in order to adapt to the latest OWASP security requirements and the regulatory requirements of PSD2 / RTS and GDPR. We expanded the development department in Serbia with two goals: raising the development capacity for faster and more frequent deliveries to customers and reducing the risk of dependence on development capacities in Slovenia. In addition to expanding development in Serbia, we were also preparing to open additional development centers in other regions, with which we want to further increase development capacities.

Corporate social responsibility

In addition to financial indicators, the company's success is also determined by its ability to fulfill its broader social mission. Therefore, at Halcom, we understand sensitivity and responsiveness to the challenges posed primarily by sudden changes in the natural and social environment as part of our mission. Therefore, we exercise social responsibility firstly towards our employees, and then also towards the external environment in which we operate. Halcom fulfills its role as a socially responsible company in several ways:

- with environmentally and socially responsible actions inside and outside the company,
- a family-friendly company policy and other non-monetary benefits for employees (e.g. kitchen, cultural and sports activities),
- a commitment to ethical business based on mutual trust and respect inside and outside the company; e.g. by transparent and fair dealings with clients/business partners, by respecting intellectual property (e.g. photographs, software licenses), by accepting the diversity of cultures and religious beliefs of employees and clients and/or business partners.

Since a socially responsible company is not just the activity of one group in charge of a single project but an integrated operation and philosophy of the company, coordination and marketing implementation of the philosophy at the company level are required.

Work environment

A company is socially responsible only if its role is understood and its employees identify with it. At Halcom, we are aware that satisfied employees are the foundation of business success, which we strengthen, among other things, by providing a family-friendly policy. Through various measures, we try to ensure a balance between reconciling work and leisure activities with the family, and to raise awareness of a healthy approach to life.

Communicating with employees

We communicate with Halcom employees through various communication channels. Employees access the intranet - Halportal through which we communicate about all relevant events, activities and news in the company and about the mission and values. Halportal is an important tool for communicating with employees and enables up-to-date transfer of current information, access to manuals, rules, instructions, etc. In addition to the intranet, we use other methods of communication with employees, such as monthly meetings with employees from individual areas, quarterly meetings with all employees, workshops, e-mail, Microsoft Teams.

The company also conducts annual appraisal interviews, the aim of which is to acquaint all employees with the goals at the level of the company, specific area, and individual employee. The purpose of annual appraisal interviews is to give feedback to employees on their performance in achieving goals and competencies, and to discuss their personal and professional development.

Care for the environment

We at Halcom strive for quality and care for the environment as one of our basic duties and responsibilities of all employees. The company encourages economy in the use of natural resources. With the system for remote switching of computer equipment, we have reduced energy consumption; we collect waste batteries, printer cartridges, waste packaging, reusable paper and waste paper. We also separate waste in common areas. We also take care to save electricity by following the rules about switching off electrical appliances. For the company and employees, we also organize the removal of used electrical equipment for recycling.

Education and training

The industry in which we operate is dynamic, competitive and rapidly evolving. We follow the changes in the company Halcom by acquiring new knowledge and strengthening the competencies that we share with our employees and implement in our daily work. We are aware that only in this way can we follow the common values and goals of the company and continue to create new business opportunities, products and services.

In 2019, employees trained in professional areas, attended conferences and, within the framework of Health Week, raised awareness of the importance of caring for the body and mind. We gained expertise by participating in trainings on REST API, WebServices, CSOPO, MCSA Windows server, DMS, DB2 LUW, Utimaco HSM, ISO and security standards. We attended various conferences relating to project management of financial challenges, B2B conference, Management Congress, Zeides, ITL foundation, DIGIBOX, VMware, Spring & Hibernate. We attended a consultation on payment services and on WAN network planning. As part of caring for employees, we attended training in the field of cognitive neuroscience and stress, as well as raising awareness about breast and prostate cancer.

As Halcom is aware that the transfer and use of knowledge is most important for achieving optimal results, we regularly conduct internal workshops and knowledge transfers within individual areas.

At Halcom, we enable the practical training of students who can prove themselves in the process and are potential candidates for employment in the future. In 2019, we also enabled students of various educational institutions to develop competencies by participating in real projects or developing the ideas of Halcom employees.

Employees

In 2019, the company HALCOM, d.d., Ljubljana had an average (based on working hours) of 92.65 employees. As at 31 December 2019, the company has 97 employees.

Structure of employees by education as at 31 December 2019:

Level of education	I.	II.	III.	IV.	V.	VI.	VII.	VIII.	IX.	Total
Number of employees	0	1	0	0	34	27	21	11	3	97

We do not pursue a special diversity policy in the company.

Looking ahead

Halcom continues its journey optimistically and with great momentum. We have the knowledge of the people and the ability to adapt to market demands. We are constantly improving our products with new functionalities, which gives us a competitive advantage, and at the same time we constantly follow the legal requirements and in this way we ensure that our products will continue to comply with the legislation in the markets where Halcom is present.

Halcom's strategy includes the development of sustainable revenue products that will not be significantly affected by economic fluctuations. Halcom is focused on developing product partnerships that will complement our existing products and thus offer our customers the widest range of products they need for their business. Halcom continues to strive to maintain customer satisfaction and gain new ones in all existing and new markets.

Events after the balance sheet date

After the end of the financial year, the company did not have any significant business events that would affect the financial statements of 2019.

The impact of COVID-19 on the company's operations

The outbreak of the COVID-19 pandemic has no significant impact on Halcom's operations due to the nature of its activities.

Halcom came prepared in the period of tightening measures to curb the spread of the new coronavirus, as we prepared and adopted a business continuity plan in February. At the outset, the emphasis was on employee safety, working from home, and communicating with all key customers and suppliers. Later, we assessed the impacts and potential risks on our business. Based on the analyses, we found that our business and pricing models are resistant to such threats and that the pandemic will not negatively affect the company's profit or cash flow.

A few months after the start of the pandemic, our business results showed that our analyses were correct, as since the initial drop in the number of transactions, we are now recording an average two percent monthly increase in the number of transactions carried out through our EBB center. At the same time, we have experienced an increased demand for custom software development, which stems from the need to digitize the business processes of our business partners. In other areas, such as ensuring the availability of services for banks, ensuring the availability of services for companies and software maintenance, we do not expect a decrease in revenues due to COVID-19 this year.

2 FINANCIAL REPORT

2.1. STATEMENTS

2.1.1. STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2019

			in €	
S	Assets	Note	31/12/19	31/12/18
			5,275,016	5,787,378
S.A	Long-term assets		2,107,140	1,618,158
S.A.I	Intangible assets and long-term accrued revenue and deferred costs	2.3.1	1,416,348	1,049,863
<i>S.A.I.1</i>	<i>Long-term property rights</i>		158,946	148,825
<i>S.A.I.2</i>	<i>Long-term accrued revenue and deferred costs</i>		901,037	1,120,612
S.A.II	Tangible fixed assets	2.3.2	321,962	189,532
<i>S.A.II.3</i>	<i>Other plant and equipment</i>		321,963	189,532
S.A.IV	Long-term investments	2.3.3	366,615	376,548
<i>S.A.IV.1</i>	<i>Long-term investments, excluding loans</i>		366,615	366,615
<i>S.A.IV.1.A</i>	<i>Shares and interests in group companies</i>		366,615	366,615
<i>S.A.IV.2</i>	<i>Long-term loans</i>		0	9,933
<i>S.A.IV.2.B</i>	<i>Other long-term loans</i>		0	9,933
S.A.V	Long-term operating receivables	2.3.4	2,215	2,215
S.B	Current assets		3,005,622	3,997,922
S.B.II	Inventories	2.3.5	50,640	42,768
<i>S.B.II.3</i>	<i>Products and merchandise</i>		50,640	42,768
S.B.III	Short-term investments	2.3.7	1,943,604	2,772,957
<i>S.B.III.2</i>	<i>Short-term loans</i>		1,943,604	2,772,957
<i>S.B.III.2.A</i>	<i>Short-term loans to group companies</i>		1,943,604	2,772,957
<i>S.B.III.2.B</i>	<i>Short-term loans to others</i>		0	5,976
S.B.IV	Short-term operating receivables	2.3.6	836,671	1,148,093
<i>S.B.IV.1</i>	<i>Short-term operating receivables from group companies</i>		223,116	510,175
<i>S.B.IV.2</i>	<i>Short-term operating trade receivables</i>		475,862	608,836
<i>S.B.IV.3</i>	<i>Short-term operating receivables to others</i>		137,693	29,082
S.B.V	Cash	2.3.8	174,707	34,104
S.C	Short-term accrued revenue and deferred costs	2.3.9	162,254	171,298

O Liabilities		Note	31/12/19	31/12/18
			5,275,016	5,787,378
O.A	Equity	2.1.4	3,684,822	3,901,768
O.A.I	Called-up capital		321,733	107,244
<i>O.A.I.1</i>	<i>Nominal capital</i>		321,733	107,244
O.A.II	Capital reserves		57,603	57,603
O.A.III	Revenue reserves		107,244	107,244
<i>O.A.III.1</i>	<i>Statutory reserves</i>		107,244	107,244
O.A.IV	Reserves from valuation at fair value		29,513	31,774
O.A.V	Retained net profit		901,037	1,120,612
O.A.VI	Net profit or loss for the period		2,267,693	2,477,291
O.B	Provisions and long-term accrued costs and deferred revenue	2.3.10	178,543	407,508
O.B.1	Provisions for pensions and similar liabilities		178,543	165,008
O.B.2	Long-term accrued costs and deferred revenue	2.3.11	0	242,500
O.C	Long-term liabilities		55,000	0
O.C.I.1	Long-term financial liabilities to group companies		55,000	0
O.Č	Short-term liabilities		735,984	858,332
O.Č.II	Short-term financial liabilities	2.3.13	0	125,000
<i>O.Č.II.1</i>	<i>Short-term liabilities to group companies</i>		0	125,000
O.Č.III	Short-term operating liabilities	2.3.12	735,984	733,332
<i>O.Č.III.1</i>	<i>Short-term operating liabilities to group companies</i>		161,774	88,464
<i>O.Č.III.2</i>	<i>Short-term operating liabilities to suppliers</i>		92,302	60,394
<i>O.Č.III.3</i>	<i>Other short-term operating liabilities</i>		481,909	584,474
O.Č	Short-term accrued costs and deferred revenue	2.3.14	620,667	619,770

The Statement of Financial Position is prepared in accordance with the Slovenian Accounting Standard SRS 20.4.

The accompanying notes are an integral part of the financial statements and should be read in conjunction with the statements.

2.1.2. INCOME STATEMENT FOR THE PERIOD FROM 1 January to 31 December 2019

		in €	
	Note	2019	2018
1 Net sales revenue	2.3.16	8,896,906	8,944,982
3 Capitalised own products and services	2.3.16		
4 Other operating income (including revaluation operating revenue)	2.3.16	3,480	95,208
5 Costs of goods, materials and services	2.3.17, 2.3.18	1,735,921	1,624,617
<i>5.A Costs of goods and materials sold and costs of materials used</i>		<i>352,871</i>	<i>354,580</i>
<i>5.B Costs of services</i>		<i>1,383,049</i>	<i>1,270,037</i>
6 Labor costs	2.3.17, 2.3.18	4,399,085	4,454,564
<i>6.A Payroll costs</i>		<i>3,442,474</i>	<i>3,488,019</i>
<i>6.B Social security costs</i>		<i>322,838</i>	<i>607,046</i>
<i>of which pension insurance costs</i>		<i>241,914</i>	<i>343,604</i>
<i>6.C Other labor costs</i>		<i>391,860</i>	<i>359,499</i>
7 Write-downs	2.3.17, 2.3.18	503,433	517,914
<i>7.A Depreciation and amortization</i>		<i>497,167</i>	<i>512,633</i>
<i>7.B Revaluation operating expenses associated with tangible and intangible assets</i>		<i>14</i>	<i>4488</i>
<i>7.C Revaluation operating expenses associated with current assets</i>		<i>6,252</i>	<i>793</i>
8 Other operating expenses	2.3.17, 2.3.18	59,830	80,586
9 Financial income from shares	2.3.19	403,498	630,233
<i>9.A Financial income from shares in group companies</i>		<i>403,498</i>	<i>630,233</i>
10 Financial income from loans given	2.3.19	24,786	44,648
<i>10.A Financial income from loans given to group companies</i>		<i>24,734</i>	<i>43,880</i>
<i>10.B Financial income from loans given to others</i>		<i>52</i>	<i>768</i>
11 Financial income from operating receivables	2.3.19	2,531	2,620
<i>11.B Financial income from operating receivables to others</i>		<i>2,531</i>	<i>2,620</i>
12 Financial expenses for impairments and write-offs of investments	2.3.20		

13 Financial expenses for financial liabilities		4.095	118.493
<i>13.A Financial expenses for loans received from group companies</i>		<i>4.095</i>	<i>118.493</i>
14 Financial expenses for operating liabilities	2.3.20	4.861	12.985
<i>14.B Financial expenses for liabilities to suppliers and for liabilities related to bills of exchange</i>		<i>268</i>	<i>6,82</i>
<i>14.C Financial expenses for other operating liabilities</i>		<i>4.592</i>	<i>12.979</i>
15 OTHER INCOME	2.3.21	67.766	
<i>15.A Subsidies, donations and other similar income not associated with business effects</i>		<i>60.576</i>	
<i>15.B Other income</i>		<i>7.190</i>	
16 OTHER EXPENSES	2.3.22	<i>2.959</i>	
17 Corporate income tax	2.3.23	421.091	431.241
18 Deferred taxes			
19 Net profit or loss for the period	2.3.24	2.267.693	2.477.291

The accompanying notes are an integral part of the financial statements and should be read in conjunction with the statements.

Statement of Comprehensive Income for the period from 1 January to 31 December 2019

		podatki so v €	
		2019	2018
19	Net profit or loss for the period	2.267.693	2.477.291
23	Other components of comprehensive income	-2.261	59.429
24	Total comprehensive income for the period	2.265.432	2.536.720

The Income Statement is prepared in accordance with the Slovenian Accounting Standard SRS 21.6., and the Statement of Comprehensive Income is prepared in accordance with the Slovenian Accounting Standard SRS 21.8., both version I.

The accompanying notes are an integral part of the financial statements and should be read in conjunction with the statements.

2.1.3. STATEMENT OF CASH FLOWS FOR THE PERIOD FROM 1 JANUARY TO 31 DECEMBER 2019

	2019	2018
A. Cash flow from operating activities		
a) Items of the income statement	2,285,585	2,433,536
a.1 Operating income (excl. Revaluation income) and financial income from operating receivables	8,902,917	9,042,810
a.2 Operating expenses excl. depreciation (except for revaluation) and financial expenses for operating liabilities	-6,196,241	-6,178,033
a.3 Corporate income tax and other taxes not included in operating expenses	-421,091	-431,241
b) Changes in net operating assets (and deferred tax assets/liabilities) of operating items of the statement of financial position	-680,074	-1,070,602
b.1 Change in operating receivables	-311,423	-298,645
b.2 Change in deferred costs and accrued revenues	9,044	-83,713
b.3 Change in deferred tax liabilities	-2,215	-2,215
b.5. Change in inventories	-7,873	26,467
b.6 Change in business/operating debt	-139,539	-967,411
b.7 Change in accrued costs and deferred revenues and provisions	-228,068	254,915
c) Net cash from/used in operating activities (a+b)	1,605,511	1,362,934
B. Cash flows from investing activities		
a) Cash receipts from investing activities	5,993,540	5,042,746
a.1 Interest received from investing activities and dividends	403,540	674,881
a.3 Cash receipts from disposal of property, plant and equipment	2,972	4,571
a.5 Cash receipts from disposal of long-term investments	9,933	4,717
a.6 Cash receipts from disposal of short-term investments	5,577,094	4,358,577
b) Cash disbursements for investing activities	-5,153,248	-3,494,139
b.1 Cash disbursements to acquire intangible assets	-87,934	-231,715
b.2 Cash disbursements to acquire property, plant and equipment	-291,581	-141,707
b.5. Cash disbursements to acquire short-term investments	-4,773,734	-3,120,717
c) Net cash from investing activities (a+b)	840,292	1,548,607
C. Cash flows from financing activities		
a) Cash receipts from financing activities	0	1,140,000
a.3 Cash proceeds from increase in short-term financial liabilities	0	1,140,000
b) Cash disbursements for financing activities	-2,620,511	-4,088,261
b.1 Interest paid on financing activities	-4,095	-118,493
b.2 Cash repayments of capital	0	0
b.4 Cash repayments of long-term financial liabilities	-134,039	-1,902,408
b.5. Dividends and other profit shares paid	-2,482,377	-2,067,360
c) Net cash from financing activities (a+b)	-2,620,511	-2,948,261
Č. Closing balance of cash	174,707	34,104
<i>X) Net cash flow for the period (sum of Ac, Bc, Cc) +</i>	<i>-174,707</i>	<i>-36,721</i>

The Statement of Cash Flows is prepared in accordance with the Slovenian Accounting Standard SRS 22.9., version II.

The accompanying notes are an integral part of the financial statements and should be read in conjunction with the statements.

2.1.4. STATEMENT OF CHANGES IN EQUITY IN 2019

in €

	Nominal capital	Capital reserves	Revenue reserves – statutory reserves	Reserves for valuation at fair value	Retained net profit	Net profit or loss for the year	Total equity
A.1. Balance carried forward for the previous period	107,244	57,603	107,244	31,774	1,120,612	2,477,291	3,901,768
b) Correction of prior period							0
A.2. Adjusted opening balance	107,244	57,603	107,244	31,774	1,120,612	2,477,291	3,901,768
B.1. Transactions with owners	0	0	0	0	-2,482,377	0	-2,482,377
g) Dividends paid					-2,482,377		-2,482,377
č) Additional paid-in capital							
B.2. Total comprehensive income for the period	0	0	0	-2,261	0	2,267,693	2,265,432
a) Net profit or loss for the period						2,267,693	2,267,693
č) Revaluation surplus				-2,261			-2,261
B.3. Changes in equity	214,489	0	0	0	2,262,802	-2,477,291	0
a) Distribution of net profit for a comparative period to other components of equity					2,477,291	-2,477,291	0
b) Distribution of net profit for the period as a component of equity in accordance with management board and supervisory board decision	214,489				-214,489		0
C. Closing balance for the period	321,733	57,603	107,244	29,513	901,037	2,267,693	3,684,823
Accumulated profit as at 31 Dec 2019					901,037	2,267,693	3,168,730

The changes in equity refer to the distribution of net profit or loss, formation of reserves for fair value and dividends paid to the parent company.

The Statement of Changes in Equity is prepared in accordance with Slovenian Accounting Standards SRS 23.4. in SRS 23.5.

STATEMENT OF CHANGES IN EQUITY FOR 2018

podatki so v €

	Nominal capital	Capital reserves	Revenue reserves – statutory reserves	Reserves for valuation at fair value	Retained net profit	Net profit or loss for the year	Total equity
A.1. Balance carried forward for the previous period	107,244	57,603	107,244	-27,655	1,420,246	1,767,726	3,432,408
b) Correction of prior period							0
A.2. Adjusted opening balance	107,244	57,603	107,244	-27,655	1,420,246	1,767,726	3,432,408
B.1. Transactions with owners	0	0	0	0	-2,067,360	0	-2,067,360
g) Dividends paid					-2,067,360		-2,067,360
B.2. Total comprehensive income for the period	0	0	0	59,429	0	2,477,291	2,536,720
a) Net profit or loss for the period						2,477,291	2,477,291
č) Revaluation surplus				59,429			59,429
B.3. Changes in equity	0	0	0	0	1,767,726	-1,767,726	0
a) Distribution of net profit for the comparative period to other components of equity					1,767,726	-1,767,726	0
C. Closing balance for the period	107,244	57,603	107,244	31,774	1,120,612	2,477,291	3,901,768
Accumulated profit as at 31 Dec 2018					1,120,612	2,477,291	3,597,903

Distribution of net profit for the year:

	2019	2018
Total comprehensive income for the year	2,267,693	2,477,291
+ retained net profit	901,037	1,120,612
- dividends paid by resolution of the General Meeting		
- deferred development costs	-1,257,402	-901,038
NET PROFIT as at 31 December 2019	1,911,328	2,696,865

As at 31 December 2019 total equity without the net profit or loss for the current year was EUR 1,417,130. The net profit for 2019 is EUR 2,267,693.

Deferred development costs are explained in note 2.2.12.2.

For Halcom d.d. the financial year corresponds with the calendar year.

2.2. CONTENTS OF NOTES TO FINANCIAL STATEMENTS

2.2.1. Data about the entity

Full company name:	HALCOM sistemi za plačilne storitve, elektronsko bančništvo in varno elektronsko poslovanje, d.d.	
Abbreviated company name:	HALCOM, d.d.	
Registered office:	Tržaška cesta 118, 1000 Ljubljana.	
Legal form of organization:	Public limited company	
Company registration:	Basic Court in Ljubljana, Ljubljana Unit, No. of register entry 1/15769/00, date of entry 20 February 1992.	
Primary business activity:	- 62090 – Other information technology and computer service activities	
Share capital:	EUR 107,244.20	
Ownership structure:	Shareholders	No. of shares
	CONSTELLATION	20,000
	SOFTWARE UK	
	HOLDCO LTD	
	Total of (1) shareholder	20,000
Members of the Board of Directors:	Marko Valjavec – Member of the Board and Executive Director Michael David Byrne and John Edward Billowits – Members of the Board	
Manner of representation and restrictions:	The company is represented by the Executive Director, without restrictions.	
Company bodies:	Single-tier management system Board of Directors	
Subsidiaries:	Halcom d.o.o., Sarajevo	98.12% share
	Halcom a.d., Beograd	10.00% share
Controlling company:	CONSTELLATION SOFTWARE UK HOLDCO LTD	

Unit A1, Methuen Park, Chippenham, SN14 0GT,
Great Britain

Data pursuant to paragraph 6 of Article 70 of the Companies Act (ZGD-1)

The share capital of the parent company is divided into 20,000 ordinary no-par value registered shares. Ordinary shares give their holders:

- the right to participate in the management of the company,
- rights to a share of the profit (dividend),
- the right to an appropriate part of the remaining assets after the liquidation or bankruptcy of the company.

The controlling company CONSTELLATION SOFTWARE UK HOLDCO LTD owns all 20,000 shares or 100% of the company's share capital.

The company's rules regarding the appointment and replacement of members of management or supervisory bodies and the rules regarding amendments to the Articles of Association are defined in the Articles of Association of Halcom d.d. The Board of Directors has at least three members, one of whom is the Chairman of the Board. The members of the Board of Directors are appointed by the General Meeting of the company for a period of at least two to a maximum of three years, with the possibility of reappointment. The General Meeting may recall an individual member of the Board of Directors before the expiration of the term of office and may replace him with another member. Amendments to the Articles of Association are decided by the General Meeting.

2.2.2. Data about subsidiaries

Subsidiary	Share in %	Profit in 2019	
		in EUR	in foreign currency
HALCOM A.D. Beograd	100.00%	332,144	39,058 thousand RSD
Beogradska 39, Beograd			
Halcom d.o.o., Sarajevo	98.12%	14,430	28,222 BAM
Fra. Anđela Zvizdovića br. 1			

2.2.3. Authorized capital

The company had no authorized capital in 2019.

2.2.4. Breakdown and explanation of the amount of provisions

The information is disclosed in point 2.3.10. Disclosures in financial statements, which is part of this report.

2.2.5. Amount of all liabilities with a maturity of more than five years

In 2019, the company did not disclose liabilities with a maturity of more than five years.

2.2.6. The amount of all liabilities secured by collateral guarantee

The company does not have its liabilities secured by collateral guarantee.

2.2.7. Breakdown of sales revenues by business area

The information is disclosed in point 2.3.16. Disclosures in financial statements, which is part of this report.

2.2.8. Total amount of all remuneration for the performance of the function or tasks in the company in the financial year received by members of the management board, other employees of the company employed on the basis of a contract to which the tariff part of the collective agreement does not apply, and members of the Supervisory Board

For 2019, the company paid gross remuneration in the total amount of EUR 862,675 to members of the management board on the basis of contracts for which the tariff part of the collective agreement does not apply.

A more detailed breakdown of payments by type is as follows:

	Total
Salary	832,950
Fixed part of salary	611,499
Variable part of salary*	221,451
Holiday allowance	7,500
Bonuses	554
Voluntary supplementary pension insurance – premium	2,075
Reimbursement of expenses	19,596
	862,675

2.2.9. Information on advances, loans and guarantees granted by the company to members of the Board of Directors and other employees of the company employed on the basis of a contract to which the tariff part of the collective agreement does not apply

In 2019, the company did not grant loans, pay advances or provide guarantees to members of the Board of Directors and employees on the basis of a contract to which the tariff part of the collective agreement does not apply.

2.2.10. Information on the contractual value of the audit and other audit consulting services

The contractual value of auditing services for the company's financial statements for 2019 is EUR 11,000; this amount does not include VAT.

In 2019, the company did not use consulting services provided by the auditing company.

2.2.11. The fully company name and registered office of the controlling company compiling the consolidated annual report

The information is disclosed in point 2.2.12. Valuation methods, which is part of this report.

2.2.12. Valuation methods and accounting policies

The financial statements in this report have been prepared in accordance with Slovenian Accounting Standards 2016 (hereinafter SAS), issued by the Slovenian Institute of Auditors.

The basic accounting assumptions are to take into account the occurrence of business events and to take into account the indefinite duration of operations.

The qualitative characteristics of financial statements are: comprehensibility, relevance, reliability and comparability.

Changes in accounting estimates, changes in accounting policies and corrections of errors

Accounting policies are the principles, fundamentals, arrangements, rules and practices that a company follows when preparing its financial statements. They are changed if required by accounting standards and positions or explanations. In such a case, the company calculates the effects of the change in the accounting policy resulting from the initial application of the standard, position or interpretation in accordance with the special transitional provisions of the standard; if there are no special transitional provisions, it applies the change retroactively.

In preparing the financial statements for 2019, the same accounting policies were used as in the previous year, except in the area of revenues and leases, where there were changes in SAS, and we took into account the latest standards.

2.2.12.1. Consolidated financial statements

A group of companies is an economic but not a legal entity and is not a holder of rights and duties. The consolidated financial statements, which are prepared on the basis of the original statements of subsidiaries with appropriate consolidation adjustments, are prepared by the parent company.

In 2019, the Halcom Group comprises, in addition to the parent company HALCOM, d.d., the subsidiaries Halcom a.d., Belgrade and Halcom d.o.o., Sarajevo.

The Halcom Group is not obliged to prepare consolidated financial statements for 2019, because it is not classified as a large group under the Companies Act. According to Article 56 of the Companies Act (ZGD-1), the Halcom Group is also not obliged to prepare a consolidated annual report.

2.2.12.2 Intangible assets and long-term accrued revenue and deferred costs

Intangible assets include long-term deferred development costs, investments in acquired industrial property rights and other rights, and the goodwill of the acquired company.

An intangible asset is recognized in the books and the balance sheet if it is probable that the economic benefits associated with the asset will flow to the entity and its cost can be measured reliably.

The item of long-term accrued revenue and deferred costs is represented by long-term deferred costs. In the company, long-term deferred costs are long-term deferred development costs.

Development costs are the costs of transferring research findings or knowledge to a plan or project for the production of new or substantially improved products or services before their production or sale begins. Development activities include, for example, the design, construction and testing of prototypes and models before regular operation and use, the design of tools, patterns, moulds and dies, and new technologies.

The development costs incurred by the company are recognized as an intangible asset if it is possible to prove:

- the feasibility of professional completion of the project so that it will be available for use or sale;
- the intention to complete the project and use or sell it;
- the ability to use or sell the project;
- the likelihood of the economic benefits of the project, including the existence of a market for or for its effects or, if the project will be used in a company, its usefulness;
- the availability of technical, financial and other factors to complete the development and to use or sell the project; and
- the ability to reliably measure the costs attributable to an intangible asset during its development.

In the years 2014 to 2019, the company deferred costs for the development of a new generation of products for electronic, mobile banking, E-invoices, interbank clearing, so called "Antifraud" product and certificate in the cloud. In 2019, the costs of developing five new products were additionally deferred, namely Antifraud, Ebank, Fallback, Onesign and Prodsi. The estimated useful life is five years.

The company owns computer licenses and programs.

Amortization of an intangible asset begins when the asset with a definite useful life is available for use.

The company uses the straight-line method of amortization of intangible fixed assets.

The applied amortization rates are the same as in the previous financial year and did not change during the year:

Computer programs and licenses	50%
Long-term deferred development costs	20%

2.2.12.3. Tangible fixed assets

Tangible fixed asset is an asset group owned or controlled by an organization or otherwise managed and used in the creation of products or the provision of services or rental or for office use and is expected to be used for these purposes in more than one accounting period.

Tangible fixed assets include:

- land,
- buildings,
- production equipment,
- other equipment,
- biological assets.

In the case of buildings and equipment, assets that are still under construction must be distinguished from assets that are already ready for use.

Assets given on financial lease are not or do not belong to tangible fixed assets, but are an integral part of long-term financial receivables.

Advances given for tangible fixed assets, which are disclosed under tangible fixed assets in the statement of financial position are accounted for as receivables.

Shares in the joint activity of controlled tangible fixed assets are treated separately and disclosed and classified according to the type of jointly controlled assets.

Initial accounting measurement and depreciation of tangible fixed assets

A tangible fixed asset that qualifies for capitalization is stated at cost upon initial recording. The cost also includes import and non-refundable purchase taxes after deducting discounts and all directly attributable costs of preparing the asset for its intended use, in particular transport and installation costs and an estimate of decommissioning, removal and restoration costs.

If the purchase value of a tangible fixed asset is significant, it is divided into individual parts with different useful lives.

Subsequent costs increase the cost if they increase their future benefits; the costs associated with extending the useful life reduce the value of the adjustment already formed.

The depreciable amount is allocated over the estimated useful life.

The net book value of the tangible fixed assets must be reduced if it exceeds the recoverable amount. Tangible fixed assets whose individual cost does not exceed EUR 500 may be classified as Material. To measure tangible fixed assets after recognition, a company shall choose a cost model or a fair value model. The company has chosen a cost model.

The carrying amount of tangible fixed assets is reduced by depreciation.

Depreciation of tangible fixed assets begins on the first day of the month following the month in which it is used to perform the activity for which it is intended.

The decrease in the value of fixed assets due to impairment is not a depreciation expense, but a revaluation operating expense related to fixed assets.

The depreciation rates used remained the same as in the previous financial year and did not change during the year:

Buildings	3.0%, 5.0%, 10.0%
Computer equipment	50.0%, 20.0%
Other equipment and vehicles	20.0%
Investment in foreign fixed assets	10.0%

Halcom d.d. applies for short-term leases guidance from SAS 16 (separately by individual account) but does not recognize them because they have a notice period of less than one year.

The company's policy is the cost model and the chosen policy is used for all categories of tangible fixed assets.

2.2.12.4. Financial investments

Financial investments may include:

- investments in the capital of other companies,
- investments in loans,
- operating receivables held for trading,
- derivative financial instruments.

The company owns investments in the capital of other companies and investments in deposits.

Investments in deposits were classified in the group of loans on initial recognition.

Investments in equity of other companies relate to investments in subsidiaries. Investments in subsidiaries are valued at cost less any impairment. The amount of impairments is reviewed by management once a year. In the event that signs of impairment are identified, an estimate of the recoverable amount of the investment in the subsidiary is prepared. Impairment of the investment to its recoverable amount is recognized in the income statement as a revaluation financial expense.

Financial investments in subsidiaries, associates and jointly controlled companies are disclosed separately.

The purchase value of an investment is increased by the transaction costs arising directly from the purchase or issue of a financial instrument.

Upon disposal of a financial investment in equity, financial income or expense is recognized if the net proceeds for it are higher or lower than its book value.

For financial assets denominated in foreign currency, exchange differences are accounted for according to their nature.

2.2.12.5. Inventories

The company owns inventories of merchandise. Upon initial recognition, they are recorded at cost and on sale at the FIFO method.

Inventories are not revalued due to strengthening. In the case of impairment, however, if the carrying amount exceeds their net realizable value, adjustment is made.

Non-current (slow moving) inventories are disclosed separately in quantity, their recoverable amount is determined at the end of the business period.

2.2.12.6. Receivables

Receivables include:

- the right to demand payment of a debt, the supply of goods or the provision of services,
- receivables related to financial income,
- receivables relating to customers, suppliers, employees, the state, etc.
- deferred tax assets

According to the due date, they are divided into short-term (due within one year) and long-term. Receivables are divided into those relating to customers at home and abroad.

Receivables from subsidiaries, associates and jointly controlled entities are disclosed separately.

Initial accounting measurement

Receivables are disclosed in the amounts arising from the relevant documents.

Receivables denominated in foreign currency are translated into domestic currency on the balance sheet date, this difference represents operating income or expenses.

A part of long-term receivables that fall due within one year after the day of the accounting period is disclosed in the balance sheet as short-term receivables.

Adjustments to receivables

The book value of receivables should be reduced by restatement in the revaluation account. Doubtful receivables are those for which it is assumed that they will not be settled within the due date or in full, and disputed receivables are those for which court proceedings have already been initiated. Adjustments to doubtful and disputed receivables are made on an individual receivable basis and are charged to revaluation operating expenses related to receivables, while their elimination is subject to revaluation operating revenues.

Receivables from group companies, associates and other companies must be disclosed separately.

2.2.12.7. Cash

Cash includes:

- cash,
- cash at bank
- cash in transit.

Cash in domestic and foreign currency is disclosed separately. Current account borrowings are not cash.

On the balance sheet date, cash in foreign currency is converted at the middle exchange rate of the Bank of Slovenia or at the exchange rate of the ECB.

Deposits with a maturity on call are also an integral part of cash.

2.2.12.8. Long-term debts

Liabilities can be financial or from operations.

Long-term debts refer to liabilities that fall due for payment over a period of more than one year.

Upon initial recognition, debts are disclosed in the amounts arising from the relevant documents and on the assumption that creditors demand their repayment.

Long-term liabilities include:

- long-term loans obtained,
- long-term debt securities,
- deposits with a maturity of more than one year,
- debts to lessors in the case of finance lease,
- long-term liabilities to suppliers for purchased goods or services,
- liabilities to customers for advance payments,
- long-term deferred tax liabilities.

Long-term debts to consolidated and other companies are disclosed separately.

Liabilities to banks, other legal entities and individuals, and liabilities to domestic and foreign creditors are disclosed separately.

Interest is calculated in accordance with the contracts.

Long-term debts denominated in foreign currency are converted into domestic currency on the balance sheet date.

2.2.12.9. Short-term debts

Short-term debts are financial and from operations.

Short-term debts relate to liabilities that fall due within a period of less than one year.

Upon initial recognition, debts are disclosed in the amounts arising from the relevant documents and on the assumption that creditors demand their repayment.

Short-term debts include:

- short-term loans obtained,
- issued short-term securities other than cheques,
- short-term liabilities to suppliers for goods or services,
- liabilities to employees,
- liabilities for interest,
- liabilities to the state,
- liabilities related to the distribution of profit,
- liabilities for advances and securities received.

Short-term debts to consolidated and other companies are disclosed separately.

Liabilities to banks, other legal entities and individuals, and liabilities to domestic and foreign creditors are disclosed separately.

Interest is calculated in accordance with the contracts.

Short-term debts denominated in foreign currencies are converted into domestic currency at the balance sheet date.

2.2.12.10. Short-term accruals and deferrals

Short-term accruals and deferrals are formed for receivables and other assets and liabilities that are expected to arise in less than a year and whose occurrence is probable and the amount of which can be reliably estimated. Accrued revenues and deferred costs include short-term deferred costs or expenses and short-term accrued revenues. Accrued costs and deferred revenues include short-term accrued costs or expenses and short-term deferred revenues.

2.2.12.11. Provisions and long-term accrued costs and deferred revenues

Provisions are formed for current liabilities arising from binding past events. Long-term accrued costs and deferred revenue include deferred revenues that will cover anticipated expenses for a period longer than one year.

In the long-term provisions, the company discloses long-term provisions for severance pay and jubilee awards.

Among long-term accrued costs and deferred revenues, the company discloses revenues already charged and relating to periods longer than one year.

2.2.12.12. Exchange differences

Assets and liabilities denominated in foreign currencies are converted into the domestic currency at the mean exchange rate of the Bank of Slovenia or at the exchange rates of the ECB on the balance sheet date. Exchange differences are included in the income statement as financial income or expense.

2.2.12.13. Corporate income tax

Corporate income tax is calculated on the basis of income and expenses included in the income statement in accordance with Slovenian accounting standards, taking into account the specific tax arrangements of taxable and unrecognized income and expenses and tax reliefs. Corporate income tax for 2019 is calculated at the rate of 19 percent of the tax base.

2.2.12.14. Revenue

Revenue is the increase in economic benefits during the accounting period in the form of an increase in assets or a decrease in debt. Through profit or loss, revenue affects the size of capital.

Revenue is broken down into operating revenue, financial revenue and other revenue. Operating revenue and financial revenue are types of regular revenue.

Operating revenue is sales revenue and other operating revenue related to operating results. Revenue from sales arises from contracts with customers for the sale of goods and services. Revenue from sales reflects transfers (deliveries) of contractually agreed goods and services to customers, in the amount of expected compensation to which the organization will be entitled in exchange for these goods or services. Sales revenue is broken down into revenue from the sale of own effects (products

and services) and revenue from the sale of merchandise and materials. Amounts collected for the benefit of third parties, such as value added tax and other duties levied on sales, are not a component of sales revenue. Similarly, the amounts collected in favour of the representative are not a component of sales revenue (sales revenue is only that part of the compensation due to the agent for the representation service provided).

Other operating revenues related to business effects are subsidies, grants, recourses, compensations, premiums and similar.

Revaluation operating revenue is generated on the disposal of tangible fixed assets and intangible assets as surpluses of their sales value over their book value.

Financial income is investment income. Financial income is connected with financial investments and receivables. Financial income comprises accrued interest and shares in the profits of others, as well as revaluation financial revenue. Financial income is broken down into financial income that does not depend on the profit or loss of others (for example, interest received) and financial income that depends on the profit or loss of others (for example, dividends received).

Revaluation financial revenue is generated when the fair value of financial assets measured at fair value through profit and loss increases; when financial investments recognition is eliminated and in the event of elimination of the impairment, if the reversal of the impairment is permissible in accordance with SAS 3.

Operating revenue and financial revenue are broken down into revenue relating to subsidiaries in the group, associates and joint ventures and others.

Other revenue comprises non-ordinary items and other revenue that increases profit or loss.

2.2.12.15. Expenses

Expenses are classified into operating expenses, financial expenses and other expenses. Operating expenses and financial expenses are regular expenses. Operating expenses represent material costs and the purchase value of merchandise sold, service costs, labor costs, write-offs and other operating expenses.

Revaluation operating expenses arise in respect of property, plant and equipment, intangible assets and current assets due to their impairment, if the decrease in their value is not covered by capital revaluation surplus from previous increases.

Financial expenses are financing expenses and investment expenses.

Revaluation financial expenses arise in connection with financial investments due to their impairment, if the decrease in value is not covered by the capital revaluation surplus.

Other expenses comprise non-ordinary items and other expenses.

2.2.12.16 Deferred taxes

The accounting treatment of deferred tax assets and liabilities is the result of accounting for current and future tax consequences.

Significant deferred tax assets and liabilities related to business events in the income statement are also recognized in the income statement as tax expense or as tax revenue. All significant deferred tax assets and liabilities related to transactions recognized directly in equity are also recognized directly in equity.

2.2.12.17 Contingent liabilities

Contingent liabilities are disclosed as a result of the guarantee issued by Unicredit Bank under contract G5340/2017 in the amount of EUR 39,012 with a maturity of 31 March 2020. The guarantee was issued in favor of the Central Bank of BiH.

Halcom d.d. has no contingent liabilities other than those listed.

2.3. DISCLOSURES IN FINANCIAL STATEMENTS

2.3.1. Intangible assets

Table of balances and changes in intangible assets with advances

	in EUR			
	Long-term deferred costs	Long-term accrued costs	Computer programs and licences	Total
Balance at 31 Dec 2018	2,185,175	3,416	581,570	2,770,161
Increases	712,251	0	166,763	879,014
Reductions		-1,367	-143,144	-144,511
Assets under construction or preparation			19,776	19,776
Balance at 31 Dec 2019	2,897,426	2,049	624,964	3,524,439
Value adjustment				
Balance at 31 Dec 2018	1,287,554	0	432,744	1,732,135
Amortization in 2019	354,518		33,274	387,793
Increases		0		-
Reductions			0	0
Balance at 31 Dec 2019	1,642,072	0	466,019	2,108,091
Net book value				
Balance at 31.12.2018	897,621	3,416	148,826	1,049,863
Balance at 31 Dec 2019	1,255,353	2,049	158,945	1,416,348

New purchases of intangible assets in the amount of EUR 166,763 relate entirely to the purchase of new software. As at 31 December 2019, the company does not disclose advances for intangible assets.

Long-term development costs in the amount of EUR 1,255,353 relate to the costs of developing a new generation of electronic and mobile banking products and E-invoices, interbank clearing, cloud certification and Antifraud. The increase in 2019 relates to the cost of developing new products, namely Antifraud, Ebank, Fallback, Onesign and Prodsi.

Amortization of costs in 2019 in the amount of EUR 354,518 was charged in accordance with the business plan for drawing costs according to the accumulated economic benefits.

Intangible assets are not encumbered for the benefit of others.

Intangible assets are not financed through credit nor through finance or operating lease.

2.3.2. Tangible fixed assets

Table of balances and changes in property, plant and equipment:

Purchase and/or revalued value	Other equipment	Small inventory	Equipment under construction	in EUR
				Total
Balance at 31 Dec 2018	1,585,331	25,100	0	1,610,431
Increase	236,986	5,360		242,346
Reduction	-101,081	-2,176		-103,257
Revaluation				0
Balance at 31 Dec 2019	1,721,236	28,284	0	1,749,520
Value adjustment				
Balance at 31 Dec 2018	1,403,095	17,804	0	1,420,899
Depreciation in 2019	103,305	6,069		109,374
Increase				0
Reduction	-100,926	-1,789		-102,715
Revaluation				0
Balance at 31 Dec 2019	1,405,474	22,084	0	1,427,558
Net book value				
Balance at 31 Dec 2018	182,236	7,296	0	189,532
Balance at 31 Dec 2019	315,762	6,200	0	321,962

The increase in other equipment in the 2019 financial year of EUR 242,346 is mainly represented by investments in computer equipment, and to a lesser extent by purchase of office and other equipment.

The decrease in other equipment is represented by sales of equipment in 2019 and write-offs of equipment in accordance with the inventory of fixed assets as at 31 December 2019. Most of the written-off equipment includes computer equipment that is obsolete and no longer in use.

Fixed assets are not encumbered for the benefit of others.

Fixed assets are not purchased on credit, nor on finance or operating leases.

2.3.3. Long-term financial investments

	in EURO	
	31.12.2019	31.12.2018
Investments in shares of group companies	366,615	366,615
Long-term loans	0	9,933
Long - term financial investments	366,615	376,548

Table of trends in long-term investments in the shares of companies in the group for 2019:

	(in EUR)
Balance 31 Dec 2018	366,615
Increases	0
Reductions	0
Impairments	0
Balance 31 Dec 2019	366,615

Table of changes in long-term loans granted for 2019:

	(in EURO)
Balance 31 Dec 2018	9,933
Increases	0
Reductions	9,993
Balance 31 Dec 2019	0

Long-term financial investments in shares in group companies refer to investments in the following subsidiaries:

<i>Investment in companies within the group</i>	<i>ownership share in %</i>	<i>100% share of the subsidiary at 31 Dec 2019</i>	<i>100% profit or loss in 2019</i>	<i>Investment in subsidiary at 31 Dec 2019</i>
HALCOM AD BEOGRAD Beogradska 39, Beograd	100.00%	RSD 53,772 thousand or EUR 454,040	profit of RSD 39,058 thousand	253,489 EUR
Halcom d.o.o., Sarajevo. Fra. Anđela Zvizdovića br. 1	98,12%	BAM 478,222 or EUR 244,511	profit of BAM 28,222	113,126 EUR
Total investments in the companies in the group				366,615 EUR

There were no reasons for impairment in the valuation of subsidiaries and therefore no reduction to the value was made. The accounting policy of their measurement has not changed compared to the previous year.

Shares and stakes are not pledged as collateral.

Risk exposure and hedging instruments are disclosed in point 2.3.25.

The long-term loan refers to a loan given to an employee of Halcom d.d., which was repaid in full in 2019.

According to the definition of business secrets, the company does not disclose interest rates.

2.3.4. Long-term operating receivables

As at 31 December 2019, the company discloses long-term operating receivables in the amount of EUR 2,215, which relate entirely to a given security.

2.3.5. Inventories

	31 Dec 2019	31 Dec 2018
Merchandise	50,640	42,768
Total inventories	50,640	42,768

Total inventories of merchandise comprise SIM card readers in the amount of EUR 24,986, smart cards for USB sticks in the amount of EUR 12,276 and protection kits on smart cards in the amount of EUR 6,408, the rest is mainly packaging, ribbons and PIN codes. The physical inventory count did not show any surpluses or deficits.

Inventories are not encumbered or pledged for the benefit of others.

The carrying amount of inventories does not exceed the net realizable value.

2.3.6. Short-term receivables

	31.12.2019	structure	in EURO 31.12.2018
Short - term operating receivables from group companies	223,116	26.7%	510,175
Short-term operating receivables from other domestic customers	345,278	41.3%	473,502
Short-term operating receivables from other export customers	130,584	15.6%	135,334
Short - term receivables from employees	0	0.0%	3,431
Short - term operating receivables from the state and other institutions	126,031	15.1%	24,550
Short - term receivables from securities and advances	11,662	1.4%	0
Other short - term operating receivables	0	0.0%	1,101
Total short-term operating receivables	836,671	100.0%	1,148,093

Short-term operating receivables from companies in the group mostly relate to receivables from deliveries to Halcom a.d. Belgrade in the amount of EUR 48,446, Halcom d.o.o., Sarajevo in the amount of EUR 84,957, and the accrued interest on a loan to Constellation Software UK in the amount of EUR 89,713.

Short-term receivables from domestic customers in the amount of EUR 345,278 relate mainly to receivables from domestic banks and domestic legal entities.

Short-term receivables from customers abroad in the amount of EUR 130,584 relate mainly to receivables from foreign banks and foreign legal entities.

Of the total amount of trade receivables in the amount of EUR 475,862, EUR 25,466 are overdue by more than 90 days, EUR 23,162 are overdue for up to 90 days, EUR 44,076 are overdue for up to 30 days, and other trade receivables are not overdue as at 31 December 2019. The company has no provisions for value adjustments of receivables.

Trade receivables are not secured. The related risk exposure and hedging instruments are disclosed in point 2.3.25.

Among short-term operating receivables from the state and state institutions, the company discloses receivables for value added tax in the amount of EUR 74 and receivables for sick pay in the amount of EUR 14,116.

Other short-term operating receivables in the amount of EUR 1,548 represent other smaller receivables.

2.3.7. Short-term financial investments

	in EURO	
	31.12.2019	31.12.2018
Short-term deposits given to others	0	1,259
Short-term group loans	1,943,604	2,766,981
Short-term loans to others	0	4,717
Total short-term financial investments	1,943,604	2,772,957

Table of changes in short-term financial investments:

	in EUR
Balance at 31 Dec 2018	2,772,957
Increases	0
Reductions	829,353
Balance at 31 Dec 2019	1,943,604

The short-term loan granted within the group in the amount of EUR 1,943,604 relates entirely to the loan granted to the parent company Constellation Software UK. The loan is unsecured and partially falls due in 2019.

In accordance with tax legislation, the company uses a recognized interest rate between related parties at the time of drawing the loan.

2.3.8. Cash

	in EUR	
	31.12.2019	31.12.2018
Total cash	174,707	34,104

The largest part of cash in the amount of EUR 173,652 is represented by cash in accounts. The balance refers to cash in hand.

2.3.9. Deferred costs and accrued revenue

	in EUR	
	31 Dec 2019	31 Dec 2018
Short-term deferred costs	97,287	84,924
Short-term accrued revenue	64,780	81,646
Deferred tax assets at source	186	4,728
Total deferred costs and accrued revenue	162,254	171,298

Among short-term deferred costs, the largest item is deferred license costs, other costs relate to other deferred operating costs, of which the largest deferred cost is insurance premiums. Deferred tax assets represent tax receivables at source in unpaid accounts by foreign banks and are calculated in accordance with the rate from the intergovernmental agreement on the avoidance of double taxation applicable to each country of source, i.e. Morocco 10%.

Short-term unbilled revenues refer to projects in progress, i.e. projects that were not completed in 2019. In accordance with the stage of completion of the project, in December 2019 we calculated the revenues accordingly.

2.3.10. Provisions and long-term accrued costs and deferred revenue

Provisions for severance pay and jubilee awards

On 1 January 2019, the company had provisions for severance pay upon retirement and jubilee awards in the amount of EUR 165,008. The amount of calculated severance pay and jubilee awards for employees in 2019 in the amount of EUR 13,535 increased the profit for the year. The total amount of provisions for severance pay and jubilee awards as at 31 December 2019 amounts to EUR 178,543.

The actuarial calculation as at 31 December 2019 was made by the certified actuary Miha Abrahamsberg.

The following assumptions were used in the calculation of the required amount of provisions for jubilee awards and severance pay upon retirement as at 31 December 2019 (as per actuarial proxy):

- The growth of the average salary in the Republic of Slovenia is assumed at:
 - 2.5% p.a. in 2020 and
 - 2.5% p.a. in subsequent years, which is the long-term wage growth estimate.

(source: UMAR: Autumn Forecast of Economic Trends 2019, Ljubljana, September 2019 and own assessment).

- The calculation takes into account the growth of the amounts of severance pay upon retirement and jubilee awards from the Decree on Tax Treatment of Reimbursements of Expenses and Other Employment Income, in the amount assumed in the previous indent for the growth of the average salary in the Republic of Slovenia (assumption that the bases will change with the assumed growth of the average salary in the Republic of Slovenia, as we do not know the actual intentions of the legislator regarding the amounts from the Decree on tax treatment of reimbursements of costs and other income from employment).
- The calculation of severance pay liabilities is linked to the pension period of an individual employee.

The selected discount rate is 1.26% per annum, which was the yield on high-rated 15-year corporate bonds at the end of November 2019.

Assumptions about employment trends and related liabilities of the company:

- We assume that the fluctuation of employees depends mainly on their age (a table of the probability of termination of employment at the will of the employee is given in the item Employee turnover);
- Employee mortality is taken into account by using mortality tables of the Slovenian population in 2007;
- The distribution of workers among permanently redundant workers brings other obligations to the company. Given that I do not have this information and do not specifically exclude these cases, nor do I treat them in any other way, I (implicitly) assume that the present value of the employer's obligations in allocating workers to redundancies is equal to the current value of severance pay obligations;
- I consider cases where the reason is regular retirement in the calculation by taking into account the accumulated and future length of service, taking into account the conditions for old-age retirement, which are stated in the data received;
- I assume that employees will exercise their right to old-age retirement and therefore the employer will not be obliged to pay the jubilee bonus, which would be paid later according to the projection.

Table of changes in provisions for severance pay and jubilee awards:

	in EUR
Balance at 31 Dec 2018	165,008
Increases (formation)	16,681
Reductions (elimination)	3,146
Balance at 31 Dec 2019	178,543

Long-term accrued costs and deferred revenue refer to long-term deferred operating revenues from accrued royalties for a period longer than one year.

2.3.11. Long-term financial liabilities

	in EUR	
	31.12.2019	31.12.2018
Long - term loans received in a group	55,000	0
Total long - term financial liabilities	55,000	0

As at 31 December 2019, the company discloses EUR 55,000 in liabilities to its subsidiary Halcom d.o.o. Sarajevo from a loan. In accordance with the Law on Foreign Exchange Operations of BIH, this loan is secured by a bill of exchange. The interest rate was set in accordance with the policy of the Central Bank of Bosnia and Herzegovina when the loan was granted.

Table of movements in long-term financial liabilities for 2019:

	in EUR
Balance at 31.12.2018	0
Increases	55.000
Reductions	0
Balance at 31.12.2019	55.000

2.3.12. Short-term operating liabilities

	in EUR		
	31.12.2019	structure	31.12.2018
Short - term liabilities to group companies	161,774	21.98%	88,464
Short - term liabilities to other domestic suppliers	75,085	10.20%	51,718
Short - term liabilities to other foreign suppliers	17,217	2.34%	8,676
Short - term liabilities for advances and deposits	1,548	0.21%	1,096
Short-term liabilities to state and other institutions	63,658	8.65%	197,794
Short - term liabilities to employees	416,703	56.62%	385,581
Other current liabilities		0.00%	3
Total short - term operating liabilities	735,984	100.00%	733,332

Short-term liabilities to the companies in the group refer to the liability to the supplier IN2 d.o.o. in the amount of EUR 9,377, to the liability to Contour in the amount of EUR 3,220, to Halcom BG in the amount of EUR 145,081 and to the interest liability for the loan received from Halcom d.o.o. Sarajevo in the amount of EUR 4,095.

Short-term liabilities to domestic suppliers in the amount of EUR 75,085 relate to current trade payables.

Short-term liabilities to foreign suppliers in the amount of EUR 17,217 relate to legal services in the amount of EUR 5,747 and a royalty in the amount of EUR 11,470.

Out of a total of EUR 92,302 of trade payables, EUR 21,466 of payables are overdue for up to 30 days, while other liabilities were not overdue as at 31 December 2019.

Short-term liabilities to the state and other institutions in the amount of EUR 63,658 relate to liabilities for value added tax.

2.3.13. Short-term financial liabilities

	in EUR	
	31.12.2019	31.12.2018
Short-term loans from group companies	0	125,000
Total short - term financial liabilities	0	125,000

Table of changes in short-term financial liabilities for 2019:

	in EUR
Balance at 31 Dec 2018	125,000
Increases	0
Reductions	125,000
Balance at 31 Dec 2019	0

The short-term loan from group companies refers to the loan received from the subsidiary Halcom Sarajevo d.o.o. At the end of 2019, EUR 70,000 was repaid and the liability was reduced accordingly. At the end of 2019, the remaining liabilities in the amount of 55,000 were transferred to long-term loans to companies in the group. In accordance with the Law on Foreign Exchange Operations of BIH, this loan is secured by a bill of exchange. The interest rate was set in accordance with the policy of the Central Bank of Bosnia and Herzegovina during the loan period.

2.3.14. Accrued costs and deferred revenues

	in EUR		
	31.12.2019	structure	31.12.2018
Accrued costs and expenses	497,711	80.19%	427,256
Short - term deferred revenues	122,956	19.81%	192,514
Total accrued costs and deferred revenue	620,667	100.00%	619,770

Accrued costs and expenses in the amount of EUR 427,256 refer to accrued costs of salaries for performance bonuses in 2019 in the amount of EUR 294,282, to accrued costs of unpaid employee leave in the amount of EUR 130,679 and to other accrued operating expenses for 2019.

Short-term deferred revenues refer entirely to services charged in 2019, which will be performed in 2020.

Table of movements in short-term accrued costs and deferred revenue:

	in EUR
Balance at 31 Dec 2018	619,770
Increases	1,884,610
Reductions	1,883,713
Balance at 31 Dec 2019	620,667

2.3.15. Contingent assets and liabilities

Halcom d.d. has issued a guarantee in favor of the Central Bank of BiH, namely: -contract G5340/2017 in the amount of EUR 39,012, maturing on 31 March 2020.

2.3.16. Operating revenue

Type of revenue	in EUR		
	year 2019	% in Total Income	year 2018
Net revenues from the sale of services to group companies	2,244,872	25.22%	1,981,676
Net revenue from the sale of services to others on the domestic market	3,919,320	44.04%	3,963,005
Net revenue from the sale of services to others on a foreign market	1,137,000	12.77%	1,332,150
Net revenues from the sale of goods to group companies	430,950	4.84%	820,015
Net revenues from the sale of goods and materials to others on the domestic market	1,114,109	12.52%	823,093
Net revenues from sales of goods and materials to others on foreign markets	50,655	0.57%	25,043
Net revenues from sales	8,896,906	99.96%	8,944,982
Capitalized own products and services	0	0.00%	0
Other business income	3,480	0.04%	95,208
Total operating revenues	8,900,386	100.00%	9,040,190

Net revenues from the sale of services to companies in the group in the amount of EUR 2,170,582 are mainly generated by maintenance services provided to subsidiaries Halcom doo, Sarajevo (EUR 738,398) and Halcom a.d., Belgrade (EUR 1,432,184), revenues from the sale of goods to companies in the group in the amount of EUR 505,240 mainly relate to the sale of smart cards, USB sticks, readers and other goods to the company Halcom d.o.o. Sarajevo in the amount of EUR 82,580 and to the company Halcom a.d. Belgrade in the amount of EUR 422,660.

Revenues from sales of services to others on the domestic market in the amount of EUR 3,919,320 represent revenues from sales of software products in the amount of EUR 549,094, revenues from maintenance of own software in the amount of EUR 738,958, revenues from sales of IDD transactions in the amount of EUR 198,356, revenues from support services (Help-Desk) in the

amount of EUR 67,073, the EBB Ljubljana service in the amount of EUR 1,771,349 and revenues from custom services in the amount of EUR 594,490.

Revenues from the sale of services to others on foreign markets in the amount of EUR 1,137,000 mainly relate to the sale of software products in the amount of EUR 51,645, revenues from maintenance of own software in the amount of EUR 434,752, revenues from EBB Ljubljana services in the amount of EUR 555,930, revenues from sales and maintenance of PKI in the amount of EUR 1,329, revenues from services on order EUR 89,222, revenues from sales of CA services in the amount of EUR 3,872 and other revenues from sales of services on foreign markets in the amount of EUR 250.

Revenues from the sale of goods and materials to others on the domestic market in the amount of EUR 1,114,109 relate mainly to the sale of smart cards in the amount of EUR 345,343, the sale of other goods in the amount of EUR 759,167 and readers in the amount of EUR 9,597.

Revenues from the sale of goods and materials to others on the foreign market in the amount of EUR 50,655 relate mainly to the sale of smart cards.

Other operating revenues in the amount of EUR 3,480 relate to profit from the sale of fixed assets in the amount of EUR 2,282, pre-invoicing of operating costs in the amount of EUR 856, and other operating revenues of smaller values.

The distribution of net sales revenues by individual geographic markets is as follows:

Geographic market	year 2019	structure	year 2018
Slovenia, BIH, Serbia, Montenegro, Kosovo and Albania	8,637,022	97.08%	8,763,957
Middle East	154,412	1.74%	58,016
Others	105,472	1.19%	123,009
Total	8,896,906	100,00%	8,944,982

2.3.17. Costs by functional types

Type of cost	year 2019	structure	indeks	in EUR
				year 2018
Cost of goods sold	352,871	5.27%	99.52	354,580
Management costs	306,714	4.58%	118.33	259,198
Sales costs	6,032,417	90.06%	99.57	6,058,622
Revaluation operating expenses	6,266	0.09%	118.65	5,281
Total cost	6,698,269	100.0%	100.31	6,677,681

2.3.18. Costs by nature

Type of cost	in EUR			
	year 2019	structure	indeks	year 2018
Costs of material	64,093	0.96%	101.99	62,845
Costs of services	1,383,049	20.65%	108.90	1,270,037
Depreciation costs	497,167	7.42%	96.98	512,633
Labor costs	4,399,085	65.67%	98.75	4,454,564
Other operating expenses	59,830	0.89%	74.24	80,586
Cost of goods sold	288,778	4.31%	98.99	291,735
Revaluation operating expenses	6,266	0.09%	118.65	5,281
Total cost	6,698,268	100.0%	100.31	6,677,681

Other operating expenses in the amount of EUR 59,830 relate to donations in the amount of EUR 19,260, membership fees in the amount of EUR 2,252, costs of contributions for disability quotas in the amount of EUR 16,075, costs of compensation for the use of building land in the amount of EUR 16,836 and similar.

2.3.19. Financial income

	in EUR		
	Year 2019	Structure	Year 2018
Income from dividends and other shares in profit from investments in shares of group companies	403,498	93.7%	630,233
Interest income from group companies	24,734	5.7%	43,881
Interest income	52	0.0%	789
Financial revenues from operating receivables	2,531	0.6%	2,600
Total financial income	430,815	100.00%	677,503

Income from dividends and other shares in profit from investments in shares of group companies in the amount of EUR 403,498 refer to the dividend received from the subsidiary Halcom a.d., Belgrade in the amount of EUR 303,498 and to the dividend received from the subsidiary Halcom d.o.o., Sarajevo in the amount of EUR 100,000.

Interest income from group companies in the amount of EUR 24,734 relates to a loan granted to Constellation Software UK.

Interest income of EUR 52 mainly relates to interest on bank deposits.

Financial revenues from operating receivables in the amount of EUR 2,531 principally relate to accrued exchange rate differences from transactions denominated in foreign currencies.

2.3.20. Financial expenses

	Year 2019	Structure	Year 2018
Interest expenses from group companies	4,095	45.7%	9,040
Interest expenses	0	0.0%	5,601
Financial expenses from operating liabilities	4,861	54.3%	116,837
Total financial expenses	8,956	100.00%	131,478

Financial interest expenses from companies in the group in the amount of EUR 4,095 relate entirely to the loan received from Halcom d.o.o. Sarajevo.

Interest expenses in the amount of EUR 5,601 relate to interest on provisions for severance pay and jubilee awards.

Financial expenses related to operating liabilities in the total amount of EUR 4,861 principally, i.e. in the amount of EUR 2,164, relate to negative exchange rate differences and from provisions for jubilee awards and severance pay for a total of EUR 2,697.

2.3.21. Other income

	Year 2019	Structure	Year 2018
Subsidies, grants and similar revenues not related to operation	60,576	89.4%	0
Other income	7,190	10.6%	0
Total other income	67,766	100.00%	0

Other income of the company in 2019 for a total amount of EUR 67,766 are comprised of received subsidies and grants in the amount of EUR 60,576 and the elimination of provisions and accrued costs in the amount of EUR 7,190.

2.3.22. Other expenses

Other expenses of the company in 2019 relate to expenses from corporate income tax and VAT in the total amount of EUR 2,959.

2.3.23. Corporate income tax

The calculated effective tax rate for the calculation of corporate income tax for 2019 is 15.7%.

Calculation of the corporate income tax for year 2019:

	in EUR
1. Revenues under accounting regulations	9,398,967
2. Taxable income	8,996,840
3. Expenditure under accounting regulations	6,710,183
4. Tax deductible expenses	6,620,010
5. Tax relief	180,668
6. Tax base	2,216,269
7. Calculated tax (19%)	421,091
Effective rate	15.7%

2.3.24. Net business result

The net profit for 2019 amounts to EUR 2,267,693 and is 8.46% lower than the net profit for the previous year.

2.3.25. Risk management

Credit risk

The company's large customers who regularly pay their liabilities are mainly banks and large companies with excellent credit ratings, so the company assesses the risk as small in this respect. The risk has been slightly higher in recent years due to the general economic and financial crisis, which has particularly affected banks as our largest customers, charging for services in the case of major projects for an individual customer and linking payments to subcontractors to the customer's advance payment. In the case of transactions with partners whose creditworthiness is unknown, the company requires payment before delivering the goods (mainly the sale of goods such as certificates, readers, etc.).

Liquidity risk

The company manages liquidity risk through appropriate short-term and long-term cash flow planning and adequate liquidity reserves in the form of cash in a transaction account or short-term deposits with banks.

Currency risk

For Halcom, which generates a large part of its revenue in foreign markets, currency risk can be significant. So far, the company has managed this type of risk by agreeing most sales prices in foreign markets in euros. In the case of significant transactions concluded in foreign currency, the company also has the option of managing risks through futures contracts, which it has not used until now.

Interest rate risk

The company has a high credit rating with banks, as a result no real guarantees are required to obtain loans, and the interest rates achieved are low. At the end of the financial year, the company had no open financial liabilities at all.

Competitive risk

Halcom's business model is based on four elements that make it easier to manage competitive risks:

- geographic dispersion,
- product dispersion,
- diversification by type of revenue,
- dispersion by type of target customers.

2.3.26. Related party transactions

	2019	in EUR 2018
Income without dividends	2,700,556	2,849,879
Dividend income from group companies	403,498	630,233
Expenses	214,868	9,927
Balance		
Intangible assets	23,619	104,397
Short-term loans to group companies	-753,377	-1,238,019
Short-term liabilities to group companies	0	683,222
Dividends paid	2,482,377	2,067,360
Balance as at	31 Dec 2019	31 Dec 2018
Short-term operating receivables from group companies	223,116	510,175
Short-term loans to group companies	1,943,604	2,766,981
Short-term operating liabilities to group companies	161,774	88,464
Short-term loans to group companies	0	125,000
Long-term loans to group companies	55,000	0

Report on relations with the controlling company in accordance with paragraph 3 of Article 545 of Companies Act (ZGD-1)

Halcom d.d. is 100% owned by the controlling company CONSTELLATION SOFTWARE UK HOLDCO LTD.

Related parties with which the company did business in 2019:

- Halcom d.o.o. Sarajevo

- Halcom AD Belgrade
- Constellation Software UK Holdco Ltd.
- Emphasys Software USA
- IN2 Zagreb
- Contour, Karachi.

Halcom d.d. in the circumstances known to it at the time when the legal transaction was performed or the act was committed or omitted, received an appropriate refund for any legal transaction with the controlling company, in other words, all transaction were carried out at arm's length conditions.

The management of Halcom d.d. declares that the effects of intercompany transactions are not reflected in the disadvantage of Halcom d.d. and that they have not caused harm to the future operations and development of the company.

Also, the management of Halcom d.d. declares that in 2019, at the initiative of the controlling company or at the initiative of its related companies, it did not commit or omit any act that would constitute a disadvantage for Halcom d.d.

2.3.27. Events after the balance sheet date

After the end of the financial year, the company did not have any significant business events that would affect the financial statements for 2019.

The impact of COVID-19 on the company's operations

The outbreak of the COVID-19 pandemic has no significant impact on Halcom's operations due to the nature of its activities.

Halcom came prepared in the period of tightening measures to curb the spread of the new coronavirus, as we prepared and adopted a business continuity plan in February. At the outset, the emphasis was on employee safety, working from home, and communicating with all key customers and suppliers. Later, we assessed the impacts and potential risks on our business. Based on the analyses, we found that our business and pricing models are resistant to such threats and that the pandemic will not negatively affect the company's profit or cash flow.

A few months after the start of the pandemic, our business results showed that our analyses were correct, as since the initial drop in the number of transactions, we are now recording an average two percent monthly increase in the number of transactions carried out through our EBB center. At the same time, we have experienced an increased demand for custom software development, which stems from the need to digitize the business processes of our business partners.

In other areas, such as ensuring the availability of services for banks, ensuring the availability of services for companies and software maintenance, we do not expect a decrease in revenues due to COVID-19 this year.

Corporate governance statement

The company respects the provisions of the Corporate Governance Code for non-public companies (the Code) issued by the Chamber of Commerce of Slovenia, the Ministry of Economic Development and Technology and the Association of Supervisors of Slovenia in May 2016, and is available on the websites of these organizations, including www.gzs.si.

The management of the company is carried out in accordance with the provisions of the Companies Act (ZGD-1), the Company's Articles of Association and within the framework of the Code.

In terms of its organization and size, Halcom respects the basic level of the Corporate Governance Code for non-public companies.

In accordance with the principle of "respect or explain", we provide the following explanations:

with regard to point 2.5.4. - Before taking office, the members of the Board of Directors submit declarations of independence, in which they also disclose all possible conflicts of interest and the manner in which they will manage them in their work. During the term of office, they do so again on their own initiative (if circumstances change significantly) or at the request of a shareholder.

with regard to point 4.3.2 - Given the fact that the company has a single shareholder, there is no justified need to appoint an independent expert to the supervisory body, who is not related to the company and shareholders.

with regard to point 5.1.1 - As the company is highly international and digitally oriented, the Board of Directors performs its functions digitally and remotely. Board members communicate digitally (videoconference) on a monthly basis, meeting in person twice a year.

with regard to point 5.5. - Minutes of the meetings of the Board of Directors are kept for meetings in person, with regard to regular digital communication of the members of the Board of Directors, digital records are kept on essential issues and possible problematic issues.

with regard to point 5.6.3 - Given the fact that the company has a single shareholder and one-tier management, there is no justified need to limit the remuneration policy of the members of the board of directors.

with regard to point 6.3.1 - Management rules of the shareholder allow for quick replacement of members of the board of directors and therefore there is no need for a larger board of directors (currently there are 3 members) or make advance appointment of deputies.

The company's management is responsible for keeping appropriate books and establishing and ensuring the operation of internal control and internal accounting controls, the selection and application of accounting policies and the protection of the company's assets. Halcom pursues three principal objectives in establishing its internal control system:

- the accuracy, reliability and completeness of the financial records and the truthfulness and fairness of the financial reporting,
- compliance with legislation and other regulations, and
- efficiency and effectiveness of operations.

The company's Board of Directors is responsible for preparing the company's financial statements for 2019 with related policies and explanations, which in its best opinion include a fair presentation of the development and results of the company's operations and its financial position, including a description of significant risks to the company as a whole is exposed.

The Board of Directors confirms that appropriate accounting policies have been consistently applied in the preparation of the financial statements, that the financial estimates have been prepared on the basis of fair value, prudence and good management and that the financial statements present a true and fair view of the company's assets and results of operations for the year 2019.

The Board of Directors of the company accepts and approves the financial statements with the corresponding policies and explanations.

Person responsible for compiling the financial part of the annual report:
Eveline Židov

Executive Director
Andreja Pongračič

Member of the Board of Directors
Michael David Byrne

Member of the Board of Directors
John Edward Billowits

Date of approval (acceptance) of the annual report:
