# *CONSOLIDATED AND SEPARATE ANNUAL REPORT FOR THE YEAR ENDED 31 DECEMBER 2020 TOGETHER WITH THE INDEPENDENT AUDITOR'S REPORT*

Contents

# Independent Auditor's Report

To the Shareholders of Varteks d.d.

## Report on the audit of the separate and consolidated financial statements

### Our qualified opinion

In our opinion, except for the possible effects of the matter described in "Basis for qualified opinion" section, the separate and consolidated financial statements present fairly, in all material respects, the separate and consolidated financial position of Varteks d.d. (the "Company") and its subsidiaries (together - the "Group") as at 31 December 2020, and the Company's and the Group's separate and consolidated financial performance and separate and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Our opinion is consistent with our additional report to the Audit Committee dated 28 June 2021.

**What we have audited**

The Group's and the Company's consolidated and separate financial statements comprise:

- the consolidated and separate statements of profit or loss and other comprehensive income for the year ended 31 December 2020;
- the consolidated and separate statements of financial position as at 31 December 2020;
- the separate statement of changes in equity for the year ended 31 December 2020;
- the consolidated statement of changes in equity for the year ended 31 December 2020;
- the consolidated and separate statements of cash flows for the year ended 31 December 2020; and
- the notes to the consolidated and separate financial statements, which include significant accounting policies and other explanatory information.

### Basis for qualified opinion

*Recoverable amount of non-current non-financial assets (plant and equipment, intangible assets and right-of-use assets)*

The Company's and Group's financial results along with COVID-19 conditions are impairment indicators in accordance with the International Accounting Standard 36. However, management has not performed an impairment assessment of the plant and equipment, intangible assets and right-of-use assets of the Company and the Group with the total carrying amount of HRK 31,994 thousand and HRK 32,135 thousand, respectively, as at 31 December 2020 (12% of the total assets of the Company and the Group). In the absence of management's assessment of the recoverable amount of these assets or the cash generating unit(s) to which they belong, it was impracticable for us to quantify the amount of impairment  loss, if any, and we were unable to satisfy ourselves as to the carrying amount of plant and equipment, intangible assets and right-of-use assets and the related effects on the separate and consolidated financial statements as at and for the year ended 31 December 2020.

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the separate and consolidated financial statements section of our report.

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

**Independence**

We are independent of the Company and the Group in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (IESBA Code). We have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

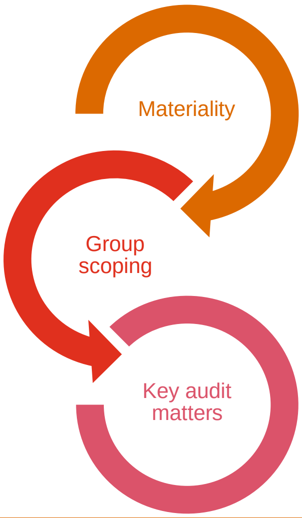
To the best of our knowledge and belief, we declare that we have not provided non-audit services that are prohibited under Article 5(1) of Regulation (EU) No 537/2014, and furthermore, we have not provided any non-audit services to the Company and the Group in the period from 1 January 2020 to 31 December 2020.

## Material uncertainty relating to going concern

We draw attention to Note 2.2. in the separate and the consolidated financial statements, which indicates that the Company and the Group incurred a net loss of HRK 31,469 thousand and HRK 30,847 thousand, respectively, in the year ended 31 December 2020 and, as of that date, current liabilities exceed current assets by HRK 81,510 thousand and HRK 79,442 thousand, respectively. As stated in Note 2.2., these events or conditions, along with other matters as described in Note 2.2 to the separate and the consolidated financial statements, indicate the existence of material uncertainty, which may cast significant doubt about the ability of the Company and the Group to continue as a going concern. Our opinion is not further modified in respect of this matter.

## Our audit approach

**Overview**




- Overall Company materiality: HRK 1,134 thousand, which represents 0.9% of average revenues over the last three years.
- Overall Group materiality: HRK 1,313 thousand, which represents 0.9% of average revenues over the last three years.

- We conducted audit work at 2 reporting units in Croatia.
- Our audit scope addressed 100% of the Group's revenues and 100% of the Group's absolute value of underlying loss before tax.

- Classification and valuation of property

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the separate and consolidated financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

**Materiality**

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the separate and consolidated financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the separate and consolidated financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall materiality for the separate and consolidated financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, if any, both individually and in aggregate on the separate and consolidated financial statements as a whole.

| | |
|---|---|
| **Overall Company [Group] materiality** | The Company: HRK 1,134 thousand<br>The Group: HRK 1,313 thousand |
| **How we determined it** | The Company: 0.9% of average revenues over the last three years<br>The Group: 0.9% average revenues over the last three years |
| **Rationale for the materiality benchmark applied** | We chose revenue as the benchmark because the Company and the Group are currently in a restructuring phase with emphasis of growth, in terms of both their market share and customer base. In addition, net loss for previous years was volatile while revenues are a more consistent measure of performance. Due to one-off effects of COVID-19 pandemic on the Company's and Group's operating results, we have used an average of the chosen benchmark for the last three years |

**Key audit matters**

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

In addition to the matters described in the *Basis for qualified opinion* section and in the *Material uncertainty related to going concern* section, we have determined the matters described below to be the key audit matters to be communicated in our report.

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| *Classification and valuation of property*<br><br>*See Notes 2 under the heading "Property, plant and equipment" and "Investment property" (accounting policies) and note 19 to the separate and consolidated financial statements*<br><br>As described in Note 2 to the separate and consolidated financial statements, the Company and the Group apply the revaluation model for the valuation of land and buildings classified as Property, plant and equipment (PPE) and Investment property is carried at fair value. Carrying amount of land and buildings within Property, plant and equipment of the Company and the Group amounts to HRK 96,627 thousand while the carrying amount of investment property of the Company and the Group amounts to HRK 68,791 thousand as at 31 December 2020.<br><br>Management engaged independent appraisers to perform valuation of most significant properties and on the basis of these valuations recognised revaluation gains in the net amount of HRK 1 million for PPE and recognised a fair value adjustment (loss) to investment property amounting to HRK 6.8 million in 2020.<br><br>We focused on this area because of the significance of the amount of land, buildings and investment property as well as the fact that management used different appraisal methods and assumptions in the valuation. | Management has prepared a detailed specification of the book value and revaluated amounts of each property and we have reconciled such analysis with the general ledger and the valuations of independent appraisers.<br><br>We have reviewed the valuation reports of independent appraisers to assess the reasonableness of the methods and assumptions used. We assessed the reasonableness of the appraisal methods used (income, comparison and cost method) against the intended use of the property and availability of data. We tested the significant assumptions used in the selected valuations (land market price, market rental price, property costs, etc) by comparison to market and other observable data. We tested the mathematical accuracy of the calculations in the valuation reports.<br><br>We have updated our understanding (from prior year) of the business intention and the related assumptions underlying the property classification as Investment property.<br><br>We reviewed the completeness and appropriateness of the related disclosures in the notes to the separate and consolidated financial statements. |

### How we tailored our Group audit scope

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

## Reporting on other information including the Management Report

Management is responsible for the other information. The other information comprises the Management Report and Corporate Governance Statement, but does not include the separate and consolidated financial statements and our auditor's report thereon.

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

In connection with our audit of the separate and consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the separate and consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

With respect to the Management Report and Corporate Governance Statement, we also performed procedures required by the Accounting Act in Croatia. Those procedures include considering whether the Management Report is prepared in accordance with the requirements of Article 21 and 24 of the Accounting Act, and whether the Corporate Governance Statement includes the information specified in Article 22 of the Accounting Act.

Based on the work undertaken in the course of our audit, in our opinion:

- the information given in the Management Report and the Corporate Governance Statement for the financial year for which the separate and consolidated financial statements are prepared is consistent, in all material respects, with the separate and consolidated financial statements;
- the Management Report has been prepared in accordance with the requirements of Article 21 and 24 of the Accounting Act; and
- the Corporate Governance Statement includes the information specified in Article 22 of the Accounting Act.

In addition, in light of the knowledge and understanding of the Company and the Group and their environment obtained in the course of the audit, we are required to report if we have identified material misstatements in the Management Report and Corporate Governance Statement and other information that we obtained prior to the date of this auditor's report. As described in the "Basis for qualified opinion" section above, we were unable to obtain sufficient appropriate audit evidence about the carrying amount of the portion of non-financial assets as at 31 December 2020. Therefore, we were unable to conclude whether or not the Management Report is materially misstated with respect to this matter.

## Responsibilities of management and those charged with governance for the separate and consolidated financial statements

Management is responsible for the preparation and fair presentation of the separate and consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and for such internal control as management determines is necessary to enable the preparation of separate and consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the separate and consolidated financial statements, management is responsible for assessing the Company's and Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company and the Group or to cease operations, or has no realistic alternative but to do so.

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

## Auditor's responsibilities for the audit of the separate and consolidated financial statements

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

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the separate and consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's and Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's and Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our independent auditor's report to the related disclosures in the separate and consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our independent auditor's report. However, future events or conditions may cause the Company and the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the separate and consolidated financial statements, including the disclosures, and whether the separate and consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

## Report on other legal and regulatory requirements

### Appointment

We were first appointed as auditors of the Company on 28 September 2018. Our appointment has been renewed annually by shareholder resolution with the most recent reappointment on 28 August 2020, representing a total period of uninterrupted engagement appointment of 3 years.

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

PricewaterhouseCoopers d.o.o.
Heinzelova 70, Zagreb
29 June 2021

This version of our report is a translation from the original, which was prepared in Croatian language. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.

## Statement of Management's Responsibilities for the consolidated and separate annual report

Pursuant to the Croatian Accounting Act in force, the Management Board is responsible for ensuring that the consolidated and separate financial statements are prepared for each financial year in accordance with the Accounting Act (Official Gazette of the Republic of Croatia 78/15, 120/16) and International Financial Reporting Standards (IFRS) as endorsed by the European Union, in order to give a true and fair view of the financial position, operating results of operations, and cash flows of the Company and the Group for that period.

After making enquiries, the Management Board has a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. For this reason, the Company's Management Board continues to adopt the going concern basis in preparing the separate and consolidated financial statements.

In preparing consolidated and separate financial statements, the responsibilities of the Management Board include ensuring that:

- suitable accounting policies are selected and then applied consistently;
- judgements and estimates are reasonable and prudent;
- applicable accounting standards are followed, subject to any material departures disclosed and explained in the financial statements; and
- the consolidated and separate financial statements are prepared on a going concern basis unless it is inappropriate to presume that the Group and the Company will continue in business.

The Management Board is responsible for keeping proper accounting records, which disclose with reasonable accuracy at any time the financial position, operating results of operations, changes in equity and cash flows of the Company and the Group and must also ensure that the financial statements comply with the Croatian Accounting Act in force and International Financial Reporting Standards (IFRS) as adopted by the EU. The Management Board is also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Moreover, in accordance with the Accounting Act, the Management Board is obliged to prepare the consolidated and separate Annual Report comprising the consolidated and separate financial statements, the consolidated and separate Management Report, and the Statement on implementation of the corporate governance code. The consolidated and separate Management Report has been prepared in accordance with the requirements of Article 21 and Article 24 of the Accounting Act, and Statement on implementation of corporate governance code in accordance with Article 22 of the Accounting Act.

The consolidated and separate Annual Report were approved for issuance by the Management Board on June 29th, 2021.

Tomislav Babić
President of the Management Board

Denis Smolar
Member of the Management Board

VARTEKS d.d.
/ Zagrebačka 94 / HR-42000 VARAŽDIN / 16

*Consolidated and Separate Statement of Profit or Loss and Other Comprehensive Income of VARTEKS d.d. Varaždin*

*for the year ended 31 December 2020*

| | | Group | | Company | |
|---|---|---|---|---|---|
| (in thousands of HRK) | Note | 2020 | 2019 | 2020 | 2019 |
| **OPERATING INCOME** | | **119,261** | **172,294** | **102,853** | **153,269** |
| Revenue from sales with undertakings within the Group | 4 | - | - | 5,358 | 17,363 |
| Revenue from sales | 5 | 113,638 | 169,660 | 91,500 | 133,191 |
| Revenue from the use of own products, goods and services | 6 | 19 | 205 | 19 | 205 |
| Other operating income with undertakings within the Group | 7 | - | - | 441 | 152 |
| Other operating income | 8 | 5,604 | 2,429 | 5,535 | 2,358 |
| **OPERATING EXPENSES** | | **(142,457)** | **(174,112)** | **(126,240)** | **(156,682)** |
| Changes in inventories of work in progress and finished goods | | 15,084 | 9,641 | 14,953 | 9,534 |
| Material costs | | (68,483) | (88,109) | (55,153) | (73,950) |
| a) Costs of raw materials and consumables | 9 | (45,908) | (50,237) | (37,055) | (40,431) |
| b) Cost of goods sold | | (10,221) | (20,117) | (9,484) | (17,982) |
| c) Other external costs | 10 | (12,354) | (17,755) | (8,614) | (15,537) |
| Staff costs | 11 | (45,905) | (62,443) | (43,682) | (59,822) |
| a) Net salaries and wages | | (31,076) | (43,188) | (29,645) | (41,476) |
| b) Taxes and contributions from salaries | | (9,140) | (12,185) | (8,642) | (11,605) |
| c) Contributions on salaries | | (5,689) | (7,070) | (5,395) | (6,741) |
| Depreciation | 18, 19 | (9,429) | (8,863) | (9,405) | (8,822) |
| Other costs | 12 | (19,255) | (20,256) | (18,637) | (19,602) |
| Fair value adjustments of non-financial assets | 13 | (8,470) | (1,448) | (8,360) | (1,402) |
| Impairment of financial and contract assets (net) | 14 | (115) | (210) | (115) | (210) |
| Other operating expenses | 15 | (5,884) | (2,424) | (5,841) | (2,408) |
| **OPERATING LOSS** | | **(23,196)** | **(1,818)** | **(23,387)** | **(3,413)** |
| Financial income | | 4,890 | 1,845 | 5,030 | 3,702 |
| Financial expenses | | (12,899) | (9,442) | (13,543) | (11,348) |
| **NET (COSTS)/INCOME FROM FINANCIAL ACTIVITIES** | 16 | **(8,009)** | **(7,597)** | **(8,513)** | **(7,646)** |
| **LOSS BEFORE TAXATION** | | **(31,205)** | **(9,415)** | **(31,900)** | **(11,059)** |
| **INCOME TAX** | 17 | **358** | **(317)** | **431** | **-** |
| ***LOSS FOR THE PERIOD*** | | **(30,847)** | **(9,732)** | **(31,469)** | **(11,059)** |
| ***OTHER COMPREHENSIVE INCOME*** | | | | | |
| Items that will not be reclassified to profit or loss: | | | | | |
| Revaluation of land and buildings, net | | 918 | 1,011 | 918 | 1,011 |
| Actuarial losses on termination benefits | | (65) | (116) | (65) | (116) |
| Other changes in equity unrelated to owners | | - | 90 | - | 90 |
| **OTHER COMPREHENSIVE INCOME** | | **853** | **985** | **853** | **985** |
| **COMPREHENSIVE LOSS FOR THE PERIOD** | | **(29,994)** | **(8,747)** | **(30,616)** | **(10,074)** |
| *Loss for the period attributable to:* | | | | | |
| Shareholders of the Company | | (30.847) | (9.732) | | |
| Non-controlling interest | | - | - | | |
| *Comprehensive loss attributable to:* | | | | | |
| Shareholders of the Company | | (29.994) | (8.747) | | |
| Non-controlling interest | | - | - | | |
| Basic and diluted loss per share | 28 | (7,97) | (2,54) | (8,13) | (2,79) |

*Consolidated and Separate Statement of Financial Position of VARTEKS d.d. Varaždin*
*as at 31 December 2020*

| (in thousands of HRK) | Note | *Group* 31 Dec 2020 | *Group* 31 Dec 2019 | *Company* 31 Dec 2020 | *Company* 31 Dec 2019 |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| **NON-CURRENT ASSETS** | | **202,737** | **225,621** | **202,597** | **227,623** |
| INTANGIBLE ASSETS | | 1,337 | 2,297 | 1,337 | 1,768 |
| Goodwill | | - | 529 | - | - |
| Concessions, patents, licences, trademarks, software and other rights | 18 | 1,337 | 1,658 | 1,337 | 1,658 |
| Advances for the purchase of intangible assets | 18 | - | 110 | - | 110 |
| TANGIBLE ASSETS | | 196,216 | 213,556 | 196,075 | 213,411 |
| Land | 19 a | 52,230 | 52,075 | 52,230 | 52,075 |
| Buildings | 19 a | 44,397 | 44,820 | 44,397 | 44,820 |
| Plant and equipment | 19 a | 17,084 | 22,688 | 16,961 | 22,565 |
| Tools, working inventory and transportation assets | 19 a | 1,097 | 1,390 | 1,079 | 1,368 |
| Other tangible assets | 19 a | 231 | 232 | 231 | 232 |
| Right-of-use assets | 19 a | 12,386 | 16,673 | 12,386 | 16,673 |
| Investment property | 19 b | 68,791 | 75,678 | 68,791 | 75,678 |
| NON-CURRENT FINANCIAL ASSETS | | 4,996 | 9,546 | 4,997 | 12,222 |
| Investments in holdings (shares) of undertakings within the Group | 20 | - | 1,855 | 1 | 4,531 |
| Loans, deposits, etc. | 21 | 4,990 | 7,685 | 4,990 | 7,685 |
| Other non-current financial assets | 22 | 6 | 6 | 6 | 6 |
| RECEIVABLES | | 188 | 222 | 188 | 222 |
| Other receivables | 23 | 188 | 222 | 188 | 222 |
| **CURRENT ASSETS** | | **62,114** | **58,689** | **54,882** | **54,384** |
| INVENTORIES | | 50,316 | 43,522 | 46,623 | 40,122 |
| Raw materials and consumables | | 10,594 | 14,497 | 7,731 | 11,676 |
| Work in progress | | 1,396 | 2,752 | 1,010 | 2,617 |
| Finished goods | | 32,381 | 18,489 | 32,050 | 18,157 |
| Merchandise | | 5,860 | 7,370 | 5,780 | 7,293 |
| Advances for inventories | | 85 | 414 | 52 | 379 |
| RECEIVABLES | | 10,354 | 13,601 | 7,429 | 12,814 |
| Receivables from undertakings within the Group | 23 | - | - | - | 2,601 |
| Trade receivables | 23 | 7,109 | 12,938 | 4,522 | 9,557 |
| Receivables from employees and members of the undertaking | 23 | 47 | 46 | 47 | 46 |
| Receivables from government and other institutions | 23 | 2,671 | 384 | 2,333 | 382 |
| Other receivables | 23 | 527 | 233 | 527 | 228 |
| CURRENT FINANCIAL ASSETS | | 742 | 260 | 137 | 169 |
| Loans, deposits, etc. | | 742 | 260 | 137 | 169 |
| CASH AT BANK AND IN HAND | 24 | 702 | 1,306 | 693 | 1,279 |
| **PREPAID EXPENSES AND ACCRUED INCOME** | 25 | **305** | **421** | **290** | **408** |
| **TOTAL ASSETS** | | **265,156** | **284,731** | **257,769** | **282,415** |

*Consolidated and Separate Statement of Financial Position of VARTEKS d.d. Varaždin*
*as at 31 December 2020*

| (in thousands of HRK) | Note | Group<br>31 Dec 2020 | Group<br>31 Dec 2019 | Company<br>31 Dec 2020 | Company<br>31 Dec 2019 |
|---|---|---|---|---|---|
| **EQUITY AND LIABILITIES** | | | | | |
| **CAPITAL AND RESERVES** | | **15,859** | **46,370** | **13,651** | **43,714** |
| INITIAL (SUBSCRIBED) CAPITAL | 26 | 41,067 | 41,067 | 41,067 | 41,067 |
| CAPITAL RESERVES | 26 | 656 | 656 | 656 | 656 |
| RESERVES FROM PROFIT | | (2,443) | (2,454) | (2,443) | (2,454) |
| Reserves for treasury shares | 26 | 754 | 754 | 754 | 754 |
| Treasury shares and holdings (deductible item) | 26 | (3,371) | (3,371) | (3,371) | (3,371) |
| Other reserves | 26 | 174 | 163 | 174 | 163 |
| REVALUATION RESERVES | | 77,594 | 78,639 | 77,594 | 78,639 |
| ACCUMULATED LOSS | | (70,168) | (61,806) | (71,754) | (63,135) |
| LOSS FOR THE YEAR | | (30,847) | (9,732) | (31,469) | (11,059) |
| **PROVISIONS** | 29 | **5,855** | **5,459** | **5,855** | **5,459** |
| **NON-CURRENT LIABILITIES** | | **101,581** | **109,524** | **101,581** | **109,524** |
| Liabilities to banks and other financial institutions | 33 | 73,469 | 76,315 | 73,469 | 76,315 |
| Lease liabilities | 36 | 9,224 | 12,155 | 9,224 | 12,155 |
| Trade payables | 34 | - | 416 | - | 416 |
| Other non-current liabilities | 37 | 1,855 | 3,376 | 1,855 | 3,376 |
| Deferred tax liability | 17 | 17,033 | 17,262 | 17,033 | 17,262 |
| **CURRENT LIABILITIES** | | **138,608** | **121,011** | **133,064** | **121,432** |
| Liabilities to undertakings within the Group | 30 | - | - | 62 | - |
| Liabilities for loans, deposits, etc. of undertakings within the Group | 31 | - | - | 1 | 2,897 |
| Liabilities for loans, deposits, etc. | 32 | 58,811 | 48,988 | 58,811 | 48,988 |
| Liabilities to banks and other financial institutions | 33 | 28,011 | 14,623 | 23,832 | 14,601 |
| Liabilities for advance payments | | 315 | 250 | 257 | 248 |
| Trade payables | 34 | 26,746 | 32,401 | 26,299 | 30,536 |
| Liabilities to employees | | 4,386 | 4,663 | 4,223 | 4,507 |
| Taxes, contributions and similar liabilities (other than income tax) | 35 | 11,195 | 10,361 | 10,435 | 10,239 |
| Income tax payable | | 76 | 309 | 76 | - |
| Lease liabilities | 36 | 4,062 | 4,972 | 4,062 | 4,972 |
| Other current liabilities | 37 | 5,006 | 4,444 | 5,006 | 4,444 |
| **ACCRUED EXPENSES AND DEFERRED INCOME** | 38 | **3,253** | **2,367** | **3,618** | **2,286** |
| **TOTAL EQUITY AND LIABILITIES** | | **265,156** | **284,731** | **257,769** | **282,415** |

*Separate Statement of Changes in Equity of VARTEKS d.d. Varaždin*
*for the year ended 31 December 2020*

| (in thousands of HRK) | Subscribed capital | Capital reserves | Reserves for treasury shares | Treasury shares (deductible item) | Other reserves | Revaluation reserves | Accumulated loss | Total capital and reserves |
|---|---|---|---|---|---|---|---|---|
| **As at 1 January 2019** | **41,067** | **1,555** | **1,837** | **(1,837)** | **73** | **79,468** | **(66,667)** | **55,496** |
| Loss for the year | - | - | - | - | - | - | (11,059) | (11,059) |
| Other comprehensive income/(loss): | | | | | | | | |
| Changes in revaluation reserves – depreciation recognised on revalued amount | - | - | - | - | - | (829) | 829 | - |
| Tax on realized revaluation reserve | - | - | - | - | - | - | 182 | 182 |
| Actuarial losses on termination benefits | - | - | - | - | - | - | (116) | (116) |
| Other | - | - | - | - | 90 | - | - | 90 |
| **Total comprehensive loss** | **-** | **-** | **-** | **-** | **90** | **(829)** | **(10,164)** | **(10,903)** |
| Transactions with owners: | | | | | | | | |
| Sale of treasury shares | - | 656 | (1,083) | 1,083 | - | - | 1,082 | 1,738 |
| Merger of Varteks E d.o.o. | - | - | - | (2,617) | - | - | - | (2,617) |
| Coverage of a portion of loss from 2018 | - | (1,555) | - | - | - | - | 1,555 | - |
| **As at 31 December 2019** | **41,067** | **656** | **754** | **(3,371)** | **163** | **78,639** | **(74,194)** | **43,714** |
| Loss for the year | - | - | - | - | - | - | (31,469) | (31,469) |
| Other comprehensive income/(loss): | | | | | | | | |
| Revaluation of land and buildings | - | - | - | - | - | 1,121 | - | 1,121 |
| Deferred tax-revaluation of land and buildings | - | - | - | - | - | (203) | - | (203) |
| Changes in revaluation reserves – depreciation recognised on revalued amount | - | - | - | - | - | (846) | 846 | - |
| Changes in revaluation reserves – realisation of investment property reserves | - | - | - | - | - | (1,548) | 1,548 | - |
| Tax on realized revaluation reserve | - | - | - | - | - | 431 | (431) | - |
| Actuarial losses on termination benefits | - | - | - | - | - | - | (65) | (65) |
| **Total comprehensive loss** | - | - | - | - | - | (1,045) | (29,571) | (30,616) |
| Transactions with owners: | | | | | | | | |
| Effects of merger (note 27) | - | - | - | - | - | - | 542 | 542 |
| Other | - | - | - | - | 11 | - | - | 11 |
| **As at 31 December 2020** | **41,067** | **656** | **754** | **(3,371)** | **174** | **77,594** | **(103,223)** | **13,651** |

*Consolidated Statement of Changes in Equity of VARTEKS d.d. Varaždin*
*for the year ended 31 December 2020*

| (in thousands of HRK) | Subscribed capital | Capital reserves | Reserves for treasury shares | Treasury shares (deductible item) | Other reserves | Revaluation reserves | Accumulated loss | Total transactions with owners of the parent | Total capital and reserves |
|---|---|---|---|---|---|---|---|---|---|
| **As at 1 January 2019** | **41,067** | **1,555** | **1,837** | **(4,454)** | **73** | **79,468** | **(65,338)** | **54,208** | **54,208** |
| Loss for the year | - | - | - | - | - | - | (9,732) | (9,732) | (9,732) |
| Other comprehensive income/(loss): | | | | | | | | | |
| Changes in revaluation reserves – depreciation recognised on revalued amount | - | - | - | - | - | (829) | 829 | - | - |
| Tax on realized revaluation reserve | - | - | - | - | - | - | 182 | 182 | 182 |
| Actuarial losses on termination benefits | | - | - | - | - | - | (116) | (116) | (116) |
| Other | - | - | - | - | 90 | - | - | 90 | 90 |
| **Total comprehensive loss** | - | - | - | - | **(90)** | **(829)** | **(8,837)** | **(9,576)** | **(9,576)** |
| Transactions with owners: | | | | | | | | | |
| Sale of treasury shares | - | 656 | (1,083) | 1,083 | - | - | 1,082 | 1,738 | 1,738 |
| Coverage of a portion of loss from 2018 | - | (1,555) | - | - | - | - | 1,555 | - | - |
| **As at 31 December 2019** | **41,067** | **656** | **754** | **(3,371)** | **163** | **78,639** | **(71,538)** | **46,370** | **46,370** |
| Loss for the year | - | - | - | - | - | - | (30,847) | (30,847) | (30,847) |
| Other comprehensive income/(loss): | | | | | | | | | |
| Revaluation of land and buildings | - | - | - | - | - | 1,121 | - | 1,121 | 1,121 |
| Deferred tax-revaluation of land and buildings | - | - | - | - | - | (203) | - | (203) | (203) |
| Changes in revaluation reserves – depreciation recognised on revalued amount | - | - | - | - | - | (846) | 846 | - | - |
| Changes in revaluation reserves – realisation of investment property reserves | - | - | - | - | - | (1,548) | 1,548 | - | - |
| Tax on realized revaluation reserve | - | - | - | - | - | 431 | (431) | - | - |
| Actuarial losses on termination benefits | - | - | - | - | - | | (65) | (65) | (65) |
| **Total comprehensive loss** | - | - | - | - | - | (1,045) | (28,949) | (29,994) | (29,994) |
| Transactions with owners: | | | | | | | | | |
| Other changes | - | - | - | - | 11 | - | (528) | (517) | (517) |
| **As at 31 December 2020** | **41,067** | **656** | **754** | **(3,371)** | **174** | **76,594** | **(101,015)** | **15,859** | **15,859** |

## *Consolidated and Separate Statement of Cash Flows of VARTEKS d.d. Varaždin*
*for the year ended 31 December 2020*

| | | Group | | Company | |
|---|---|---|---|---|---|
| (in thousands of HRK) | Note | 2020 | 2019 | 2020 | 2019 |
| **CASH FLOW FROM OPERATING ACTIVITIES** | | | | | |
| (Loss)/profit before tax | | (31,205) | (9,415) | (31,900) | (11,059) |
| Depreciation | 18,19 | 9,429 | 8,863 | 9,405 | 8,822 |
| Impairment of inventories | 13 | 1,652 | 1,449 | 1,542 | 1,402 |
| Impairment of trade receivables | 14 | 108 | 210 | 108 | 210 |
| Changes in provisions | | (432) | (1,607) | (432) | (1,607) |
| Net losses/(gains) on sale of non-current tangible and intangible assets | | (69) | (276) | (74) | (276) |
| Impairment of tangible assets as estimated | | 5,698 | - | 5,698 | - |
| Write-off of non-current assets | | 3,801 | 398 | 3,801 | 391 |
| Other non-cash expenses | | 17 | (8) | (10) | 12 |
| Interest income | 16 | (24) | (132) | (24) | (138) |
| Interest expense | 16 | 7,010 | 7,332 | 6,968 | 7,149 |
| Net unrealised foreign exchange differences | 16 | 1,572 | 573 | 1,562 | 598 |
| Changes in the working capital: | | | | | |
| - (Increase)/decrease in trade receivables | | 5,741 | 2,142 | 4,944 | (18,311) |
| - (Increase)/decrease in inventories | | (8,493) | (15,801) | (8,043) | (15,090) |
| - (Increase)/decrease in other receivables | | (751) | 521 | 682 | 314 |
| - Increase/(decrease) in trade payables | | (7,353) | (7,186) | (4,383) | (5,869) |
| - Increase/(decrease) in other liabilities | | (5,098) | 7,274 | (4,430) | 7,812 |
| **CASH FLOW USED IN OPERATING ACTIVITIES** | | **(18,397)** | **(5,663)** | **(14,586)** | **(26,031)** |
| Interest paid | 43 | (1,550) | (2,118) | (1,397) | (2,290) |
| Interest received | | - | 120 | - | 132 |
| Income tax paid | | 186 | (721) | - | - |
| **NET CASH FLOW USED IN OPERATING ACTIVITIES** | | **(19,761)** | **(8,382)** | **(15,983)** | **(28,189)** |
| **CASH FLOW FROM INVESTING ACTIVITIES** | | | | | |
| Cash receipts from sale of tangible assets | | 74 | 1,655 | 78 | 1,655 |
| Net cash (used in)/ receipts from the cancellation of term deposits | | 4,708 | (38) | 2,819 | (38) |
| Cash used for the purchase of tangible assets | | (1,353) | (4,247) | (1,331) | (4,247) |
| Cash used for the purchase of intangible assets | | - | (727) | - | (727) |
| **NET CASH FLOW FROM INVESTING ACTIVITIES** | | **3,429** | **(3,357)** | **1,566** | **(3,357)** |
| **CASH FLOW FROM FINANCING ACTIVITIES** | | | | | |
| Receipts from the sale of treasury shares | | - | 1,738 | - | 1,738 |
| Cash receipts from credit principals, loans and other borrowings | 43 | 55,867 | 49,989 | 54,144 | 65,458 |
| Cash used for repayments of credit principals, loans and other borrowings and debt financial instruments | 43 | (36,298) | (38,053) | (36,472) | (32,423) |
| Cash used for repayment of leases | 43 | (3,841) | (3,920) | (3,841) | (3,920) |
| **NET CASH FLOW FROM FINANCING ACTIVITIES** | | **15,728** | **9,754** | **13,831** | **30,853** |
| Unrealised foreign exchange differences on cash and cash equivalents | | - | 13 | - | 13 |
| **TOTAL NET CASH FLOW** | | **(604)** | **(1,972)** | **(586)** | **(680)** |
| Cash and cash equivalents at the beginning of the period | 24 | 1,306 | 3,278 | 1,279 | 1,959 |
| Cash and cash equivalents at the end of the period | 24 | 702 | 1,306 | 693 | 1,279 |

### 1. Company profile

VARTEKS, Varaždinska tekstilna industrija d.d. Varaždin (hereinafter: the "Company") was established through transformation of the public company Varteks Holding Varaždin into a Joint-Stock Company as of 17 June 1992, and in accordance with the Resolution of the Restructuring and Development Agency of the Republic of Croatia No.: 01-01-02/92-06/94 of 9 April 1993 and the Decision on Transfer of Shares of Varteks Varaždin Joint-Stock Company to Funds as of 16 July 1993. The abbreviated name of the Company is VARTEKS d.d. Varaždin.
The Company is entered with the Commercial Court in Varaždin under tax No. (MBS) 070004039, nat. ID No. (OIB) 00872098033.

**Core activities**

The core activities of Varteks d.d. Varaždin are:

- manufacture/production of clothes,
- purchase and sale of goods;

Varteks has four main operating segments: Retail (development, production and sale of own brands), Wholesale and dealership, Contract manufacturing (contracted engagements, mainly export) and Special-purpose clothing (production and sale of clothing for special purposes).

The Company's registered address is in the Republic of Croatia, Varaždin, Zagrebačka 94.

As at 31 December 2020, the Company had a total of 948 employees, and as at 31 December 2019 a total of 1,025 employees. As at 31 December 2020, the Group had a total of 982 employees, and as at 31 December 2019 a total of 1,057 employees.

## 2. Summary of significant accounting policies

### 2.1. Basis of preparation of financial statements

The financial statements of the Company have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union ("EU IFRS"). The Company's financial statements have been prepared on a historical cost basis, except for buildings and land which are recorded based on fair value as described in the following notes on accounting policies. The accounting policies have been consistently applied and are identical to policies applied in the previous year. The new policies are described in the First adoption of new accounting standards section. The financial statements are presented in Croatian kuna (HRK), which is also the Company's functional currency.

The Company is required to prepare consolidated financial statements. The Company has control over the following subsidiaries which, together with the Company, make the VARTEKS Group:

| Subsidiary | Country of incorporation | Share in ownership | | Share in voting rights | | Core activities |
|---|---|---|---|---|---|---|
| | | 2020 | 2019 | 2020 | 2019 | |
| Varteks PRO d.o.o. Varaždin | Croatia | 100% | 100% | 100% | 100% | Trade, intermediation and clothes manufacture |
| Varteks Trgovina d.o.o. Široki Brijeg | Bosnia and Herzegovina | 100% | 100% | 100% | 100% | Trade and trade intermediation |
| Varteks D.o.o.e.l. Skopje | Macedonia | 100% | 100% | 100% | 100% | Trade and trade intermediation |
| Varteks Mont d.o.o. Podgorica | Montenegro | 100% | 100% | 100% | 100% | Trade and trade intermediation |
| V-projekt d.o.o. Varaždin | Croatia | - | 100% | 100% | 100% | Trade and services |

The companies Varteks Trgovina d.o.o. Široki Brijeg, Varteks D.o.o.e.l. Skopje and Varteks Mont d.o.o. Podgorica are not active and do not perform business activities, so they are not consolidated. During 2020, the subsidiary V-projekt d.o.o. Varaždin was legally merged with the parent company, Varteks d.d. Varaždin. The merger was performed at carrying values. The company Varteks Textiles Limited London was eliminated from the registry of companies in July 2019.

### 2.2. Going concern assumption

#### (a) Business development of the Group and the Company in 2020

In 2020, the Management Board continued with the started processes related to operational restructuring, increasing efficiency and streamlining the prolific processes of procurement, sales and production. The assumptions that enabled such a positive development were a recapitalization in early 2018. As part of the financial restructuring, in the first quarter of 2018, an agreement was signed with key banks on debt rescheduling, with a grace period of 39 months and a reduction in the interest rate by 3.54 percentage points, from 6.54% to 3% related to the agreed long-term loan. In October 2020, the Company and the Group concluded a club loan with HBOR and Erste Bank as a commercial bank, according to the risk-sharing model in the amount of HRK 12 million - from the Covid-19 program, in order to improve liquidity. The loan was approved with a repayment period of March 31, 2021, and extended by an annex until March 31, 2022.

An additional important factor in reducing indebtedness are the activities of selling inactive real estate (classified as real estate investments), on which the current Management Board gives a special focus (expected inflows from this sale amount to HRK 70.8 million). The most significant savings were achieved through staff restructuring of administrative and overhead staff, rationalization of space use and rationalization in process management; primarily procurement, sales and production.

In 2020, it was expected to continue a strong turn in the strategic determinants of the Company and the Group, which are primarily aimed at strengthening the production and sales of its own fashion brand, strengthening web sales and the use of highly dynamic modern forms of marketing, which would strengthen the Company's market position, increased consumer awareness of the brand and ultimately resulted in higher revenues and better business results. Unfortunately, as for most companies in the Republic of Croatia and in the world, our business is strongly affected by the coronavirus pandemic, which began to have a negative impact on business in early March 2020. (Decreased income by segment is disclosed in Note 3).

Varteks continues to be a significant exporter through sewing services and continues to cooperate with its renowned business partners (collaboration with Hugo Boss was contracted until September 2021). In the part of production and sale of clothes for special purposes and corporate clothing, it continues with a part of already contracted jobs, and partly through expected jobs for well-known business partners.

#### (b) The Company's and Group's going concern

The Company and the Group realized a net loss in the amount of HRK 31,469 thousand and HRK 30,847 thousand for the year ended 31 December 2020, respectively, and as of that date current liabilities exceed current assets by HRK 81,510 thousand and HRK 79,442 thousand, respectively.

On the balance sheet date, the Company and the Group have due liabilities for loans from individuals of HRK 46.3 m (note 31) and due liabilities to suppliers of HRK 26.6 m, which it plans to settle partially by selling inactive (non-operating) real estates within one year, and defer payment for the rest until additional inflows from the sale of real estate and surplus inflows from operating activities.

In February 2021, at the session of the Commission for Evaluation and Determination of Strategic Project Proposals, the project proposal “Varteks block – urban regeneration” was unanimously accepted and the Commission sent the Decision on declaring a strategic investment project to the Government of the Republic of Croatia. The goal of this project is to maintain the business development of Varteks d.d. and the preservation of existing jobs, as well as the improvement of the standards of the citizens of Varaždin in such a way that the real estate potential of the existing location is brought to new public purposes and economic types of use through the process of urban transformation. On 23 June 2021, the Government of the Republic of Croatia, at its session, adopted the Decision on declaring the “Varteks block – urban regeneration” project a strategic investment project of the Republic of Croatia.

Significant liquidity risk was present in the Company and the Group in 2020, and activities were undertaken aimed at improving liquidity and reducing such risks. Liquidity was continuously monitored through the movement of cash flow at the level of planned values and operationally at the level of realized and estimated daily, weekly and monthly values. Based on that, additional activities are undertaken in order to provide the necessary financial resources. All discrepancies are regularly monitored and, as needed, efforts are made to provide additional resources necessary to balance inflows and liabilities, but problems remain. Partially positive effects in terms of reducing liquidity risk were realized through the recapitalization carried out at the beginning of 2018, and subsequently through the restructuring of loans from key banks in the first quarter of 2018. Given the strong growth of retail sales during 2019, it was necessary to provide additional liquidity especially in the part of new stocks of products and goods.

For this purpose, through the first half of 2019, funds obtained through interest-free loans of the largest individual shareholder were additionally used. In the second half of 2020, the Company and the Group received funds in the amount of HRK 12 million to cover short-term liquidity needs from the commercial bank and HBOR.

We must emphasize that the situation with the pandemic is extremely unpredictable and that the Company's and Group’s Management promptly monitors and responds to all new information, especially taking into account employees' health, socially responsible behavior, maintaining business and maintaining liquidity of the Company and the Group in completely difficult business conditions.

Despite the efforts of the Management Board in the implementation of the described liquidity management measures, which are described above, a significant uncertainty still exists related to the Company's and Group’s going concern. This significant uncertainty largely depends on the successful implementation of all of the following: timely sale of inactive real estate (expected value of sales transactions is HRK 70.8 million), government compensation measures for Covid-19 (the amount of aid in the first 5 months of 2021 amounted to HRK 5.3 million), successful restructuring (which should result in increased revenues and reduced costs) and on additional financial funds from the banks (the Management Board is in continuous contact with the banks regarding obtaining additional funds and / or prolongation of existing banking arrangements, and based on these negotiations has positive expectations that the financing that will be necessary in the current conditions to support the Company and the Group will be adequately addressed). If these transactions are not successfully completed as planned during 2021, it is likely that the Company and the Group will not be able to continue on a going concern basis and, therefore, that it may be unable to realize its assets and discharge its liabilities in the normal course of business.

Based on unaudited data as at 31 May 2021, the Company’s and the Group’s cash position is significantly more favorable compared to the end of the previous business year, amounting to HRK 4.8 million (31 December 2020: HRK 0.7 million), however the Company's current liabilities exceed current assets by HRK 104 million as of that date.

The largest shareholder of the Company and the Group (holding 46.69% of the shares at the balance sheet date) continues to provide the necessary financial support to the Company and the Group, further information about the support already obtained after the balance sheet date is described in Note 44 Events after the balance sheet date.

However, the Management Board believes in the sustainability and continued operation of the Company and the Group, taking into account the following facts:

- in 2020, significant state compensatory measures were obtained for the purpose of measures to help companies affected by business problems due to the COVID-19 virus pandemic in the amount of HRK 20,135 thousand, in order to preserve jobs
- currently, sales through the web shop are doing significantly better than last year and recorded sales growth of 55% compared to last year (net retail sales amounted to HRK 6 million in 2020), and we believe that this will strengthen the online position in the post-crisis times caused by the corona virus pandemic
- the sale of inactive real estate as described above will allow the medium and long-term stabilization of the company, debt settlement and will enable investments in business development, procurement of new production lines
- strengthening the sales range and investing in retail stores (standardization and expansion of the new shop concept) which should result in a higher level of retail revenue;
- in March 2021, the first store in Slovenia was opened with the desire to further expand its business and we can say a return to foreign markets and markets around the Republic of Croatia which should also result in a higher level of retail revenue; and

- taking all actions related to the sale of assets that are not necessary for operating operations as well as providing additional sources of funds (additional financing by banks and related parties).

The effects of the activities performed for obtaining additional funds are described in detail in Note 44.

**2.3. Investments in subsidiaries**

Subsidiaries are all entities over which the Company and the Group have the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Company and the Group control another entity. Investments in subsidiaries are carried at cost less impairment losses, if any.

**2.4. Consolidation**

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group and are de-consolidated from the date that control ceases. Inter-company transactions, unrealised gains and losses and balances of liabilities and receivables on transactions between group companies are eliminated in consolidation.

Shares in subsidiaries are eliminated in consolidation. The counterpart to the elimination of a share is the fair value of net assets of subsidiaries at the date the Company and the Group acquired control over them. These adjustments result in the recognition of goodwill or gain on favourable purchase in the consolidated financial statements. Goodwill is presented as an intangible asset and tested for impairment at the end of each reporting period if there are any indicators of impairment.

The accounting policies of subsidiaries are adjusted where necessary to be consistent with the accounting policies of the Company.

**2.5. Business combinations**

The predecessor carrying amount method is used for business combinations. The present value of assets and liabilities of the predecessor company are transferred to the successor company from the date of the merger. On the date of merger, transactions and balances between the companies, as well as gains and losses in the transactions between them, are cancelled.

**2.6. Revenue recognition**

Revenue comprises the fair value of the consideration received or receivable for the sale of products, goods and services in the ordinary course of the Company's and the Group's activities. Revenue is recognised, net of value added tax, estimated returns, rebates and discounts. Revenue is recognised when the performance obligations are satisfied by the transfer of control over promised goods or services to a customer.

Revenues are generated from the Company's ordinary operations. The following is a five-step model that applies to recognising revenue from contracts with customers:
Step 1: identify the contract(s) with a customer
Step 2: identify the performance obligations in the contract
Step 3: determine the transaction price
Step 4: allocate the transaction price to each performance obligation in the contract
Step 5: recognise revenue when (or as) an entity satisfies the performance obligation

Revenue is recognised for each separate performance obligation in the contract in the amount of the transaction price. The transaction price is the amount of compensation in the contract to which the Company and the Group expect to be entitled in exchange for the transfer of the promised goods or services to the customer. In retail sales, goods are usually paid in cash or by credit card. The Group operates a loyalty programme in which customers are given the opportunity to collect points when purchasing products. After collecting a certain number of points, customers can use them for discounts in the following purchase, subject to the minimum number of points collected. The percentage of the points that can be used is estimated based on historical data and on this basis the provision is made, and then recognised as a decrease in revenue over the period in which the points are used.

**2.7. Financial instruments**
A financial instrument is any contract that results in the creation of financial assets of one entity and a financial liability or equity of another entity.

**2.8. Financial assets**

Classification and measurement
The Company and the Group classify their financial assets as assets measured at amortised cost using the effective interest method, as part of a business model that seeks to collect contractual cash flows and under which the cash inflow is realised solely on the basis of repayment of principal and interest on the outstanding principal amount.

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. Amortised cost of a financial asset is the amount by which a financial instrument is measured at initial recognition less principal repayments and increased by cumulative amortisation using the effective interest method of any difference between the initial amount and the maturity amount adjusted for any loss. The gross carrying amount of a financial asset is the amortised cost of the financial asset before adjusting for any loss.

The classification of financial instruments is presented in the following table:

| Item | Measurement under IFRS 9 |
|---|---|
| Loans given, deposits, etc. | Amortised cost |
| Receivables | Amortised cost |

Impairment of financial instruments
The expected credit loss (ECL) measurement is based on reasonable and founded information that is available without undue expense and effort, which includes information on past events, current and foreseeable future conditions and circumstances. When estimating the expected credit loss, historical probabilities of difficulties in collection are usually used, supplemented by future parameters relevant to credit risk.

For trade receivables, the Company and the Group apply a simplified approach in calculating ECLs, i.e. the measurement on a collective basis, depending on the type of customer, and it is monitored by ageing structure. For example, ageing groups may be defined as follows: not past due, 0-90 days past due, 90-180 days past due, and so on. The ageing groups are determined according to the steps in the collection process.

At 31 December 2018 and 31 December 2019, the Company and Group did not apply the effects of the first adoption of IFRS 9 to trade receivables, deposits and cash and cash equivalents because the amounts are not material for the financial statements. The adoption of the new standard did not have a significant impact on other financial instruments, including derivative financial instruments.

**2.9. Financial liabilities**

Initial recognition and measurement
Financial liabilities are classified as financial liabilities at fair value through profit or loss, borrowings and loans, trade and other payables or as derivatives classified as hedging instruments in an effective hedge, whichever is applicable. The Company and the Group determine the classification of their financial instruments at initial recognition.
All financial liabilities are initially recognised at fair value and in the case of borrowings and loans, less directly attributable transaction costs.
Financial liabilities of the Company and the Group include trade payables and other liabilities as well as borrowings and loans.

Subsequent measurement
The measurement of financial liabilities depends on their classification and is described below:

Borrowings and loans
After initial recognition at fair value, interest-bearing borrowings and loans are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the amortisation process using the effective interest rate.
Amortised cost is calculated taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation method is included as interest expense in the income statement. Impairment and difficulties in collection of financial assets are determined after each reporting period and if there is objective evidence of impairment resulting from one or more events arising after the initial recognition, the impairment loss is measured as the difference between the carrying amount of the asset and the present value of the future cash flows. The carrying amount is impaired using the impairment calculation and the loss amount is recognised in the income statement. Borrowings are classified as current liabilities unless the Company and the Group have an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

Trade and other payables
After initial recognition at fair value, trade and other payables are subsequently measured at amortised cost. As these are current liabilities, the impact of the effective interest rate is not material and trade and other payables at the reporting date are not discounted to their present value.

Derecognition
A financial liability is derecognised when the consideration linked to the liability is discharged or cancelled or expires. When an existing financial liability is replaced by a new form of the same creditor with substantially different terms, or the terms of existing obligations are substantially modified, such replacement or modification is considered a derecognition of the original liability and the recognition of a new liability. The difference in the respective present values is recognised in the income statement.

**2.10. Fair value measurement**

The Company and the Group measure financial instruments and other non-financial assets (if required by other standards) at fair value on each reporting date.
Fair value is the price that could be received for assets sold or paid to settle the liabilities in an arm's length transaction between market participants at the value measurement date. Fair value is based on the assumption that the transaction for the sale of assets and transfer of liabilities is carried on: the primary market for the assets and liabilities or in the absence of the primary market, the most favourable market for the sale of assets or liabilities. The primary or most favourable market must be available to the Company.

The fair value of an asset or liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants are working in their best economic interest.
Fair valuation of non-financial assets takes into account the ability of a market participant to generate benefits in such a way that it realises the greatest and best use of that asset or from selling the asset to another market participant that will use that asset in the best possible way.
The Company and the Group use valuation techniques that are appropriate in the circumstances and for which there is sufficient data available to measure fair value, maximising the use of relevant publicly available inputs and minimising the use of inputs that are not publicly available.
All assets and liabilities that are measured at fair value or for which it has been published in the financial statements are categorised within the fair value hierarchy, as described below, assuming that the lowest category input is the one that is significant for the fair value measurement in its entirety:

- Level 1: Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2: Valuation techniques for which the lowest level of input that is significant for evaluating fair value is directly or indirectly publicly available
- Level 3: Valuation techniques for which the lowest level of input that is significant for evaluating fair value is not publicly available.

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Company and the Group determine whether there has been a transfer in hierarchy levels by re-categorisation (based on the lowest level of input that is significant to the fair valuation as a whole) at the end of each reporting period.

## 2.11. Intangible assets

Individually purchased intangible assets are stated at cost. The cost of intangible assets acquired in a business combination is its fair value at the acquisition date. After initial recognition, intangible assets are measured at cost less accumulated amortisation and any accumulated impairment losses. Internally developed intangible assets, excluding development costs, are not capitalised and the amount of expenditures is recorded in the income statement when they are incurred. The useful lives of intangible assets are assessed to be either limited or unlimited. Intangible assets with limited useful lives are amortised over their useful lives and any impairment of the assets is assessed whenever there is an indication that the value of such assets may be impaired, as described in the accounting policy Impairment of assets. Intangible assets with a limited useful life are amortised using the straight-line amortisation method over the expected useful life of the asset not exceeding ten years. The amortisation period and the amortisation method for an intangible asset with a limited useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or model of utilising future economic benefits embodied in the assets are recorded as a change in the amortisation period or method, whichever is applicable, and is treated as a change in the accounting estimate.

The Company and the Group use the following amortisation rates in 2020 and 2019, by types of assets:

| | % |
|---|---|
| Software | 20 |
| Lease improvements | 1 – 10 |
| Right to model and trademark | 20 |

Intangible assets with unlimited useful lives are not amortised, but are tested for impairment at least annually, either individually or at the cash-generating unit level. The rating of unlimited useful life is checked once a year to determine whether it is still possible to support such unlimited useful life. If this is not the case then the useful life is changed from unlimited to limited from the moment of such determination onwards.
Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net proceeds realised and the present value of assets and are recognised in the income statement at the time of recognition of the asset.

## 2.12. Property, plant and equipment

Items of property, plant and equipment, other than land and buildings, are stated at cost less accumulated depreciation and permanent impairment losses. Revaluation refers to land and buildings and is based on valuations performed by an independent appraiser. Valuations are carried out in sufficient frequency to ensure that the present value of revalued assets does not significantly differ from their fair value. Valuations are made on the basis of comparable market prices. The increase in the carrying amount of the revaluation is recorded directly in the revaluation surplus within equity or appropriate obligations for deferred taxes, if applicable.
The corresponding part of revaluation reserves created from the earlier valuation is released from revaluation reserves directly to retained earnings upon the disposal of the assets and through amortisation in accordance with the use of revalued assets.
Items of property, plant and equipment that are disposed of or sold are eliminated from the statement of financial position together with the related accumulated depreciation. Any gain or loss arising from derecognising tangible assets (calculated as the difference between net sales receipts and the carrying value of the asset at the time of sale) is taken to the income statement in the year of derecognition.
When there is a periodic appearance of conditions in which significant elements of property, plant and equipment need to be replaced, the Company and the Group separately depreciate them on the basis of their specific useful life. Likewise, when major overhauls are carried out, their costs are recognised as the present value of property, plant and equipment as a replacement if the recognition criteria are met. All other repairs and maintenance costs are charged to the income statement when incurred.

Depreciation is recognised as an expense of the period and is calculated using the straight-line method over the expected useful lives of assets.

The expected useful lives, depreciation method and residual values are reviewed at the end of each business year, and if expectations differ from previous estimates, changes are recognised as changes in accounting estimates.

The Company and the Group use the following depreciation rates in 2020 and 2019, by types of assets:

| | % |
|---|---|
| Buildings | 10 – 50 |
| Equipment | 50 |
| Vehicles | 25 |
| Office equipment | 20 |

**2.13. Investment property**

The investment property category mainly includes properties that are not used (abandoned industrial buildings and surrounding land). These assets are held in the Company's and the Group's balance sheet for the purpose of subsequent lease or sale when possible.

Investment property is initially measured at cost, plus any transaction costs, and subsequently carried at fair value. The fair value of investment property is determined based on the certified independent valuer's assessment.

Gain or loss arising from the change in the fair value of investment property is recognised in the statement of comprehensive income when incurred.

**2.14. Impairment of non-financial assets**

The Company and the Group assess at each balance sheet date whether there are any indicators of impairment of assets. If any such indication exists, or when an annual impairment test is required, the Company and the Group estimate the recoverable value of assets.
The recoverable amount is estimated as the higher of fair value less cost to sell of an asset or cash-generating unit to which the asset belongs and the value of the property in use. The recoverable amount is estimated for each individual asset or, if this is not possible, for the cash-generating unit to which the asset belongs. Cash-generating units are determined on the Company basis. Where the carrying amount exceeds the estimated recoverable amount, the asset is impaired to its recoverable amount.

**2.15. Leases**

The Company and the Group chose to apply IFRS 16 using a modified retrospective approach as of 1 January 2019, which recognises the cumulative effects of initial application of the standard at the date of initial application and accordingly they did not restate comparative data for 2018, as permitted by the standard.

The Company and the Group lease properties and vehicles. The contracts are concluded for a term of 1 to 5 years or indefinitely and have the extension option. Determining whether or not a certain transaction contains elements of a lease is based on the substance of the transaction at the date of its inception. A contract is a lease contract or contains elements of a lease in case when the fulfilment of the contract depends on the use of a specific asset and the contract holds the right to use assets even if this right is not specifically defined in the contract.

**Right-of-use assets and lease liabilities**
As of 1 January 2019, leased assets are classified as right-of-use assets. Simultaneously, a lease liability is recognised on the date the asset is ready for use.
Right-of-use assets and lease liabilities are initially recognised at the present value of the following lease payments: fixed payments less any incentives, variable index-based lease payments, initially measured by the index at the

recognition date, amounts expected to be paid by the Company and the Group within residual value guarantees. Lease payments expected under certain contract extension options are also included in the measurement of the liability. Lease liabilities are discounted using the interest rate arising from the lease. If this rate cannot be determined directly, which is most often the case with the leases of the Company and the Group, the Company and Group apply an incremental borrowing rate. The incremental borrowing rate of the Company and the Group represents the rate that an individual lessee would have to pay if they borrowed the funds needed to purchase an asset of equal value as the right-of-use asset, in a similar economic environment with similar conditions and collateral.

Lease payments are allocated to principal repayments and interest expense. Interest expense is recognised in the income statement over the lease term. The right to use assets is recognised at cost, consisting of the following: the amount of the initial measurement of the lease liability, all payments made before or at the date of the lease inception less any received lease incentives, any initial direct costs and renovation costs.

Right-of-use assets are usually depreciated on a straight-line basis over the shorter of the useful life of the asset and the lease term. If it is reasonably certain that the Company and the Group will exercise the option to purchase the asset, depreciation is calculated over the useful life of the asset.

The Company and the Group use the following depreciation rates in 2020 and 2019 for right-of-use assets:

| | % |
|---|---|
| Buildings | 1 – 3 |
| Equipment | 1 – 10 |
| Vehicles | 25 |
| Office equipment | 10 |

All leases that mature within 12 months and leases of low value assets are recognized in the income statement on a straight-line basis over the lease term.

The Company and the Group as the lessor
Leases where the Company and the Group do not transfer substantially all the risks and rewards of ownership of the asset are classified as operating leases. Initial direct costs incurred during the negotiating of an operating lease were added to the present value of the leased asset and recognised as rental income over the lease term. Contingent rentals were recognised as income at the time in which they were earned.

Exemption for Covid-19 and its effects
In 2020, due to the COVID19 epidemic, the lessors approved discounts to the Company for some of the leases in the total amount of HRK 1,270 thousand, of which HRK 1,219 thousand relates to leases of buildings, HRK 20 thousand relates to leases of equipment, and HRK 30 thousand relates to leases of motor vehicles.

### 2.16. Government grants

Government grants are recognised at fair value when there is a reasonable level of assurance that the grant will be received and that the Company will comply with all relevant conditions. Government grants related to property, plant and equipment are included in long-term liabilities as deferred government grants and are recognised in the income statement on a straight-line basis over the expected useful life of the assets. Government measures include employment grants that were paid by the Croatian Employment Service. The amounts relating to the grants for preserving jobs in COVID-19 pandemic are recorded as decrease in salaries (note 11).

### 2.17. Inventories

Inventories are stated at the lower of cost or net realisable value.
Costs incurred in bringing each product to its present location and condition are stated as follows:
The costs of acquiring raw materials and consumables are stated at the lower of cost or net realisable value. Cost is determined using the FIFO method. The FIFO method assumes that items in stock that are first purchased or manufactured are first sold.
Finished products and work in progress are stated at the value which includes the cost of direct materials and labour and attributable production overheads based on normal production capacity.
Inventories of trade goods are stated at the lower of cost or net realisable value. Cost is determined using the FIFO method.
Net realisable value is the estimated net selling price in the normal course of business decreased by estimated cost of completion and estimated costs needed to complete the sale.

### 2.18. Cash and cash equivalents

Cash and cash equivalents in the statement of financial position comprise cash in hand, deposits held at call with banks, short-term bank deposits with original maturities of 3 months or less and balances with banks.

### 2.19. Current and deferred income tax

The tax calculation is based on the accounting profit for the year and is adjusted for permanent and temporary differences between the taxable and accounting income. Corporate income tax is accounted for in accordance with the Croatian tax regulations. The tax returns of companies are subject to tax control by the tax authorities. Management periodically evaluates certain items in tax returns with respect to situations in which the applicable tax provisions are subject to interpretations and considers the formation of provisions, where appropriate, based on the expected amount to be paid to the tax authorities.
Deferred taxes are calculated using the liability method for all temporary differences at the date of preparation of the financial statements due to temporary differences of recognising income and expenses whose inclusion in the taxable profit does not match the inclusion in the taxable profit within the financial statements. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to taxable profit in the years in which the temporary differences are expected to be utilised or settled.
Deferred tax assets are recognised when it is probable that sufficient taxable profits will be generated against which they can be utilised. At each reporting date, the Company and the Group reassess unrecognised deferred tax assets and the appropriateness of the present value of the tax asset.

### 2.20. Foreign currency transactions

The Company’s financial statements are presented in the currency of the primary economic environment in which the Company operates (its functional currency).

The Group’s financial statements are presented in Croatian kuna (HRK). All subsidiaries have the same functional currency as the Company.

Transactions and balances:
Transactions in foreign currencies are initially recognised using the exchange rates prevailing on the transaction date. On the reporting date, monetary items denominated in foreign currencies are reported using the closing exchange rate. Non-monetary items measured at historical cost in a foreign currency are translated using the exchange rate at the date of the initial transaction. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined.
Foreign exchange differences arising from foreign currency transactions and translation of monetary and non-monetary assets and liabilities are recognised in the comprehensive income for the period in which they arise.
The official exchange rate published by the Croatian National Bank as at 31 December 2020 was HRK 7.536898 to EUR 1 (31 December 2019: HRK 7.44258), and HRK 6.139039 to USD 1 (31 December 2019: HRK 6.649911).
The amounts in the financial statements are presented in thousands of HRK, unless otherwise stated.

### 2.21. Pensions and employee benefits

In the normal course of business, the Company and the Group make fixed contributions to mandatory pension funds on behalf of their employees. The Company and the Group do not participate in any other pension plans, and consequently, there are no legal or other obligations to make further contributions if the funds do not contain sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.
The Company and the Group pay benefits to employees including termination benefits and jubilee awards. Liabilities and expenses of termination benefits and jubilee awards are determined using the projected unit credit method per employee. The projected unit credit method per employee considers each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation.
Past service costs for employees are calculated on a straight-line basis over the average period until certain employee benefits become vested. Gains or losses on the curtailment or settlement of pension benefits are recognised when the curtailment or settlement occurs. The termination benefit obligation is measured at the present value of estimated future cash flows using a discount rate that is similar to the interest rate on government bonds where the terms of the government bonds are consistent with the currency and estimated terms of the benefit obligation.

### 2.22. Provisions

Provisions are recognized when the Company has a legal obligation as a result of a past event and it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. When the Company and the Group expect that a part or the entire amount of provisions will be collected, for example, under a contract of insurance, such collection is recognised as a separate asset but only when the payment is certain. Costs associated with the provision are presented in the income statement net of all charges.

### 2.23. Contingent liabilities

Contingent liabilities are disclosed in the financial statements. They are disclosed in the notes except when there is a high probability of an outflow of resources embodying economic benefits.
A contingent asset is not recognised in the financial statements but is disclosed in the notes when an inflow of economic benefits is probable.

### 2.24. Events after the balance sheet date

Events after the balance sheet date, which provide additional information on the Company's position at the reporting date (adjusting events), are reflected in the financial statements. Events after the balance sheet date that are not adjusting events are presented in the notes when material.

### 2.25. Earnings per share

Earnings per share are calculated by dividing the profit attributable to the shareholders of the Company and the Group by the weighted average number of ordinary shares issued during the year, excluding ordinary shares purchased by the Company and the Group and held as treasury shares.

### 2.26. Segment reporting

A business segment is an integral part of an entity that performs revenue-generating and cost-generating activities and whose business results are regularly reviewed by the entity's chief business decision maker to make decisions about resources to be allocated to the segment and evaluate its operations and for which there is separate financial information. Segment information is monitored at the Group level. The Group's business model is organised through four strategic segments. The Management Board of the Company and the Group does not monitor assets and liabilities by individual segments, so this information is not presented in note 3 Segment information.

### 2.27. Changes in accounting policies

The adopted accounting policies are in conformity with the previous year's, unless otherwise stated and disclosed.

During the year, the Company and the Group adopted the following new and amended IFRSs and IFRIC guidelines approved by the EU. When assessing whether the adoption of a standard or an interpretation has an impact on the financial statements or results of the Company and the Group, their impact is described below.

### 2.28. First adoption of new accounting standards

COVID-19-Related Rent Concessions Amendment to IFRS 16 issued on 28 May 2020 and effective for annual periods beginning on or after 1 June 2020.

The amendment provides lessees with relief in the form of an optional exemption from assessing whether a rent concession related to COVID-19 is a lease modification. Lessees can elect to account for rent concessions in the same way as if they were not lease modifications. The practical expedient only applies to rent concessions occurring as a direct consequence of the COVID-19 pandemic and only if all of the following conditions are met: the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change; any reduction in lease payments affects only payments due on or before 30 June 2021; and there is no substantive change to other terms and conditions of the lease.

The Company/the Group negotiated various rent concessions with lessors for leases of properties and concluded that some of these concessions qualified for applying the practical expedient in the IFRS 16 amendment. As a result, the Company/the Group reduced the lease liability as of 31 December 2020 by HRK 1,220 thousand and recognised the following amounts in the income statement:

i) forgiveness of rent payments in the amount of HRK 1,220 thousand recognised as a gain on partial derecognition of the lease liability in Other income.

The following amended standards became effective from 1 January 2020, but did not have any material impact on the Company/the Group:

- Amendments to the Conceptual Framework for Financial Reporting (issued on 29 March 2018 and effective for annual periods beginning on or after 1 January 2020).
- Definition of a business – Amendments to IFRS 3 (issued on 22 October 2018 and effective for acquisitions from the beginning of annual reporting period that starts on or after 1 January 2020).
- Definition of materiality – Amendments to IAS 1 and IAS 8 (issued on 31 October 2018 and effective for annual periods beginning on or after 1 January 2020).
- Interest rate benchmark reform - Amendments to IFRS 9, IAS 39 and IFRS 7 (issued on 26 September 2019 and effective for annual periods beginning on or after 1 January 2020).

### 2.29. Standards and interpretations not yet adopted

Certain new standards and interpretations have been issued that are mandatory for the annual periods ending on 31 December 2020, and which the Company has not early adopted:

**Classification of liabilities as current or non-current – Amendments to IAS 1 (issued on 23 January 2020 and effective for annual periods beginning on or after 1 January 2023)** – These narrow scope amendments clarify that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. Liabilities are non-current if the entity has a substantive right, at the end of the reporting period, to defer settlement for at least twelve months. The guidance no longer requires such a right to be unconditional. Management's expectations whether they will subsequently exercise the right to defer settlement do not affect classification of liabilities. The right to defer only exists if the entity complies with any relevant conditions as of the end of the reporting period. A liability is classified as current if a condition is breached at or before the reporting date even if a waiver of that condition is obtained from the lender after the end of the reporting period. Conversely, a loan is classified as non-current if a loan covenant is breached only after the reporting date. In addition, the amendments include clarifying the classification requirements for debt a company might settle by converting it into equity. 'Settlement' is defined as the extinguishment of a liability with cash, other resources embodying economic benefits or an entity's own equity instruments. There is an exception for convertible instruments that might be converted into equity, but only for those instruments where the conversion option is classified as an equity instrument as a separate component of a compound financial instrument. The amendment has not yet been endorsed by the European Union. The Company and the Group are currently assessing the impact of the amendment on their financial statements.

**Proceeds before intended use, Onerous contracts – cost of fulfilling a contract, Reference to the Conceptual Framework – narrow scope amendments to IAS 16, IAS 37 and IFRS 3, and Annual Improvements to IFRSs 2018-2020 – amendments to IFRS 1, IFRS 9, IFRS 16 and IAS 41 (issued on 14 May 2020 and effective for annual periods beginning on or after 1 January 2022)** – The amendment to IAS 16 prohibits an entity from deducting from the cost of an item of PPE any proceeds received from selling items produced while the entity is preparing the asset for its intended use. The proceeds from selling such items, together with the costs of producing them, are now recognised in profit or loss. An entity will use IAS 2 to measure the cost of those items. Cost will not include depreciation of the asset being tested because it is not ready for its intended use. The amendment to IAS 16 also clarifies that an entity is 'testing whether the asset is functioning properly' when it assesses the technical and physical performance of the asset. The financial performance of the asset is not relevant to this assessment. An asset might therefore be capable of operating as intended by management and subject to depreciation before it has achieved the level of operating performance expected by management.

The amendment to IAS 37 clarifies the meaning of 'costs to fulfil a contract'. The amendment explains that the direct cost of fulfilling a contract comprises the incremental costs of fulfilling that contract; and an allocation of other costs that relate directly to fulfilling. The amendment also clarifies that, before a separate provision for an onerous contract is established, an entity recognises any impairment loss that has occurred on assets used in fulfilling the contract, rather than on assets dedicated to that contract.

IFRS 3 was amended to refer to the 2018 Conceptual Framework for Financial Reporting, in order to determine what constitutes an asset or a liability in a business combination. Prior to the amendment, IFRS 3 referred to the 2001 Conceptual Framework for Financial Reporting. In addition, a new exception in IFRS 3 was added for liabilities and contingent liabilities. The exception specifies that, for some types of liabilities and contingent liabilities, an entity applying IFRS 3 should instead refer to IAS 37 or IFRIC 21, rather than the 2018 Conceptual Framework. Without this new exception, an entity would have recognised some liabilities in a business combination that it would not recognise under IAS 37. Therefore, immediately after the acquisition, the entity would have had to derecognise such liabilities and recognise a gain that did not depict an economic gain. It was also clarified that the acquirer should not recognise contingent assets, as defined in IAS 37, at the acquisition date.

The amendment to IFRS 9 addresses which fees should be included in the 10% test for derecognition of financial liabilities. Costs or fees could be paid to either third parties or the lender. Under the amendment, costs or fees paid to third parties will not be included in the 10% test.

Illustrative Example 13 that accompanies IFRS 16 was amended to remove the illustration of payments from the lessor relating to leasehold improvements. The reason for the amendment is to remove any potential confusion about the treatment of lease incentives.

IFRS 1 allows an exemption if a subsidiary adopts IFRS at a later date than its parent. The subsidiary can measure its assets and liabilities at the carrying amounts that would be included in its parent's consolidated financial statements, based on the parent's date of transition to IFRS, if no adjustments were made for consolidation procedures and for the effects of the business combination in which the parent acquired the subsidiary. IFRS 1 was amended to allow entities that have taken this IFRS 1 exemption to also measure cumulative translation differences using the amounts reported by the parent, based on the parent's date of transition to IFRS. The amendment to IFRS 1 extends the above exemption to cumulative translation differences, in order to reduce costs for first-time adopters. This amendment will also apply to associates and joint ventures that have taken the same IFRS 1 exemption.
The requirement for entities to exclude cash flows for taxation when measuring fair value under IAS 41 was removed. This amendment is intended to align with the requirement in the standard to discount cash flows on a post-tax basis. The interpretation has not yet been endorsed by the European Union. The Company and the Group are currently assessing the impact of the amendments on their financial statements.

**Interest rate benchmark (IBOR) reform – phase 2 amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 (issued on 27 August 2020 and effective for annual periods beginning on or after 1 January 2021)** – The Phase 2 amendments address issues that arise from the implementation of the reforms, including the replacement of one benchmark with an alternative one. The amendments cover the following areas relevant for the Company's operations:

- Accounting for changes in the basis for determining contractual cash flows as a result of IBOR reform: For instruments to which the amortised cost measurement applies, the amendments require entities, as a practical expedient, to account for a change in the basis for determining the contractual cash flows as a result of IBOR reform by updating the effective interest rate using the guidance in paragraph B5.4.5 of IFRS 9. As a result, no immediate gain or loss is recognised. This practical expedient applies only to such a change and only to the extent it is necessary as a direct consequence of IBOR reform, and the new basis is economically equivalent to the previous basis. Insurers applying the temporary exemption from IFRS 9 are also required to apply the same practical expedient. IFRS 16 was also amended to require lessees to use a similar practical expedient when accounting for lease modifications that change the basis for determining future lease payments as a result of IBOR reform.
- Additional IFRS 7 disclosures related to IBOR reform: The amendments require disclosure of: (i) how the entity is managing the transition to alternative benchmark rates, its progress and the risks arising from the transition; (ii) quantitative information about derivatives and non-derivatives that have yet to transition, disaggregated by significant interest rate benchmark; and (iii) a description of any changes to the risk management strategy as a result of IBOR reform. The Company is currently assessing the impact of the amendments on its financial statements.

Unless otherwise described above, the new standards and interpretations are not expected to affect significantly the Company's and the Group's financial statements.

### 2.30. Key accounting judgements and estimates, presumptions

The preparation of financial statements in conformity with IFRS requires the use of estimates and assumptions that affect the amounts reported in the financial statements and notes. Although these estimates are based on all available information of the Company about current events and actions, the actual results may deviate from these estimates.

In the ordinary course of business of the Company and the Group are also used estimates, but are not limited to: the assessment of property, plant and equipment, their service life and residual value, provisions for employee benefits. Future events and their impact cannot be predicted with certainty.
Details of estimates and amounts are presented in the relevant accounting policies and notes to the financial statements.

In the process of applying accounting policies, Company and Group have made the following judgments, apart from those involving estimations, which have the most significant effect on the amounts presented in the financial statements:

The Company and the Group include external, independent and qualified appraisers to determine the fair value of investment land and facilities. The more significant assumptions used in the assessments are: market value of construction land, assessment of the value of contributions and land connections.

Service life of property and equipment
Determining the service life of an asset is based on historical experience with similar assets, as well as projected changes in the economic environment and factors related to the industry in which the Company and the Group operate. The adequacy of the estimated service lives is reviewed annually or whenever there is an indication of significant changes in assumptions.

### 2.31. Key accounting judgements and estimates, presumptions (continued)

By using an asset, the Company and the Group consume the economic benefits contained in that asset, which are reduced more intensively due to economic and technological aging. Therefore, in determining the service life of the asset, in addition to assessing the expected physical utilization, should be taken into account and more intense development of new technologies.

The service life of buildings from 33 to 100 years was assessed as suitable for the smooth functioning of the business in accordance with the opinions of the technical department. The service lives have also been reviewed for equipment and other assets.

The service lives will be reviewed periodically to determine whether there are circumstances to change the estimate from those previously determined. Changes in the estimate, if any, will be recognized in future periods through the changed depreciation expense over the remaining, changed service life.

The effect of changes in the expected service lives of property, plant and equipment for the Company and the Group is shown in the following table:

| | Increase / decrease in % | Impact on post-tax loss in thousands of HRK | |
|---|---|---|---|
| | | Group | Company |
| Year ended 31 December 2020 | +5% | (436) | (435) |
| | -5% | 482 | 481 |
| Year ended 31 December 2019 | +5% | (335) | (334) |
| | -5% | 371 | 369 |

### 2.32. Comparative information, reclassification and aggregation of data

Where required, comparative data have been reclassified to achieve consistency in presentation of data with the current financial year data and other data.

## 3. Segment information

Description of segments and primary activities

The Group management, comprising the President of the Management Board and a Member of the Management Board for finance and general affairs, monitors the Group's business performance by products and geographical regions, and it organised operations in four separate operating segments:

**Retail** – development, production and sale of own brands and distribution through own retail network of 30 stores. Management receives separate performance reports from stores that are aggregated into one segment due to the nature of their revenues.
**Wholesale and dealership** – wholesale of own fashion brands to customers abroad and in smaller part to domestic customers. Management receives separate performance reports per each customer.
**Contract manufacturing** – manufacturing for renowned partners Hugo Boss and J. Lindeberg. Revenue and realisation are monitored separately per each client.
**Special-purpose clothing** – production and sale of clothing for special purposes and corporate clothing. Revenue is mainly realised through public procurement agreements, and in smaller part through contractual production for domestic business partners.

Management primarily uses the measure of adjusted earnings before interest, taxes, depreciation and amortisation (EBITDA, see below) for the assessment of performance of operating segments.

The structure of sales income and operating profit of the Group in 2020 is as follows:

| (in thousands of HRK) | Income from sales of products and goods | Gross profit | Direct and other production costs | Operating profit/(loss) after allocated costs |
|---|---|---|---|---|
| Retail | 51,760 | 18,052 | (28,443) | (10,391) |
| Wholesale and dealership | 5,619 | 1,228 | (156) | 1,072 |
| Contract manufacturing | 35,957 | (2,819) | (3,370) | (6,189) |
| Special-purpose clothing | 20,089 | 3,749 | (2,957) | 792 |
| Other – operating income not included in segment | 213 | 209 | - | 209 |
| Total | 113,638 | 20,419 | (34,926) | (14,507) |

The structure of sales income and operating profit of the Group in 2019 is as follows:

| (in thousands of HRK) | Income from sales of products and goods | Gross profit | Direct and other production costs | Operating profit after allocated costs |
|---|---|---|---|---|
| Retail | 84,388 | 41,547 | (35,486) | 6,061 |
| Wholesale and dealership | 4,559 | 469 | (872) | (403) |
| Contract manufacturing | 53,682 | 4,655 | (4,723) | (68) |
| Special-purpose clothing | 26,407 | 6,798 | (4,905) | 1,893 |
| Other – operating income not included in segment | 624 | 598 | - | 598 |
| Total | 169,660 | 54,067 | (45,986) | 8,081 |

**Segment information (continued)**

Reconciliation of the Group's operating profit after direct costs with the net result is given below:

| (in thousands of HRK) | 2020 | 2019 |
|---|---|---|
| Operating (loss)/profit after allocated costs | (14,507) | 8,081 |
| Other income not included in segment | 6,433 | 4,112 |
| Other indirect costs | (15,122) | (14,011) |
| Gain/(Loss) on financial operations | (8,009) | (7,597) |
| Income tax | 358 | (317) |
| Loss for the period | (30,847) | (9,732) |

Sales income of the Group by geographical segment:

| (in thousands of HRK) | 2020 | 2019 |
|---|---|---|
| Croatia | 74,230 | 113,556 |
| Export – Contract manufacturing | 35,957 | 53,682 |
| Export – Wholesale | 3,451 | 2,422 |
| Total | 113,638 | 169,660 |

Sales income of the Group by customers that exceed 10% of total income:

| (in thousands of HRK) | Income from sales of products and goods | 2020 | 2019 |
|---|---|---|---|
| Customer 1 | Retail | 2,676 | 9,147 |
| Customer 2 | Contract manufacturing | 17,885 | 32,469 |
| Customer 3 | Contract manufacturing | 18,067 | 19,511 |
| Customer 1 | Special-purpose clothing | 18,586 | 21,475 |
| Other customers | - | 56,424 | 87,058 |
| Total | | 113,638 | 169,660 |

## 4. Income from sales with undertakings within the Group

| (in thousands of HRK) | 2020 | 2019 |
|---|---|---|
| Varteks Pro | 5,353 | 17,357 |
| V-projekt | 5 | 6 |
| Total | 5,358 | 17,363 |

Income from sales with undertakings within the Group by type:

| (in thousands of HRK) | 2020 | 2019 |
|---|---|---|
| Income from sale of products and services | 4,118 | 10,909 |
| Income from sale of raw materials | 46 | 159 |
| Income from sale of goods | 1,194 | 6,295 |
| Total | 5,358 | 17,363 |

## 5. Revenue

Revenue by category

| | Group | | Company | |
|---|---|---|---|---|
| (in thousands of HRK) | 2020 | 2019 | 2020 | 2019 |
| Revenue from sale of products and services | 96,473 | 130,630 | 78,005 | 107,882 |
| Revenue from sale of raw materials and services | 1,111 | 636 | 1,031 | 636 |
| Revenue from sale of goods | 16,054 | 38,394 | 12,464 | 24,673 |
| Total | 113,638 | 169,660 | 91,500 | 133,191 |

## 6. Income from the use of own products, goods and services

**Company**

| | Group | | Company | |
|---|---|---|---|---|
| (in thousands of HRK) | 2020 | 2019 | 2020 | 2019 |
| Income from own transportation of raw materials and consumables | - | 182 | - | 182 |
| Income from use of goods for own purposes | 19 | 23 | 19 | 23 |
| Total | 19 | 205 | 19 | 205 |

## 7. Other operating income with undertakings within the Group

| (in thousands of HRK) | 2020 | 2019 |
|---|---|---|
| Varteks Pro | 431 | 141 |
| V-projekt | 10 | 11 |
| Total | 441 | 152 |

## 8. Other operating income

| | Group | | Company | |
|---|---|---|---|---|
| (in thousands of HRK) | 2020 | 2019 | 2020 | 2019 |
| Income from rentals | 564 | 821 | 564 | 821 |
| Income from reversal of provisions | 974 | 767 | 966 | 726 |
| Surpluses | 1,469 | 278 | 1,429 | 262 |
| Income from write-off of liabilities | 763 | 77 | 762 | 77 |
| Income from collected receivables previously written off | 65 | 56 | 65 | 56 |
| Other operating income | 1,769 | 430 | 1,749 | 416 |
| Total | 5,604 | 2,429 | 5,535 | 2,358 |

## 9. Costs of raw materials and consumables

| | Group | | Company | |
|---|---|---|---|---|
| (in thousands of HRK) | 2020 | 2019 | 2020 | 2019 |
| Raw materials and consumables used | 41,437 | 44,532 | 32,608 | 34,770 |
| Energy used | 3,550 | 4,385 | 3,550 | 4,385 |
| Fuel | 400 | 655 | 379 | 626 |
| Spare parts used | 296 | 421 | 294 | 419 |
| Small inventory write-off | 225 | 244 | 224 | 231 |
| Total | 45,908 | 50,237 | 37,055 | 40,431 |

The costs of sold products and goods of the Group amounted to HRK 98,457 thousand in 2020 (in 2019 amounted to HRK 123,167 thousand). Costs of products and goods sold of the Company amounted to HRK 84,536 thousand in 2020 (in 2019 amounted to HRK 108,776 thousand).

**10. Other external costs**

| | Group | | Company | |
|---|---|---|---|---|
| (in thousands of HRK) | 2020 | 2019 | 2020 | 2019 |
| Marketing and promotion | 2,876 | 6,461 | 2,875 | 6,453 |
| Services on the product manufacturing | 5,031 | 5,508 | 1,581 | 3,624 |
| Maintenance services | 950 | 1,668 | 934 | 1,643 |
| Transportation and postal services | 1,321 | 1,348 | 1,304 | 1,324 |
| Rentals and leases | 656 | 1,344 | 611 | 1,306 |
| Utility services | 331 | 386 | 326 | 381 |
| Vehicle registration | 30 | 35 | 29 | 34 |
| Forwarding services | 12 | 13 | 12 | 13 |
| Other services | 1,147 | 992 | 942 | 759 |
| Total | 12,354 | 17,755 | 8,614 | 15,537 |

**11. Staff costs**

Taxes and contributions of the Company include HRK 11,171 thousand (2019: HRK 10,911 thousand) of mandatory pension contributions paid to the mandatory pension fund. Contributions are calculated as a percentage of gross salaries.

Taxes and contributions of the Group include HRK 11,645 thousand (2019: HRK 11,370 thousand) of mandatory pension contributions paid to the mandatory pension fund. Contributions are calculated as a percentage of gross salaries.

In 2020, the Company had on average a total of 997 employees, and in 2019, 1,032 employees.

In 2020, the Group had on average a total of 1,030 employees, and in 2019, 1,064 employees.

Other staff costs, termination benefits and jubilee awards, costs of transportation to work and other employee material rights are recorded in note 12 – Other expenses.

In the year ended 31 December 2020, total compensation paid to key personnel in the Company's Management Board amounted to HRK 1,300 thousand (2019: HRK 657 thousand). The Company's Management Board as at 31 December 2020 comprises 2 persons (2019: the Company's Management Board comprised three persons).

**12. Other costs**

| (in thousands of HRK) | Group 2020 | Group 2019 | Company 2020 | Company 2019 |
|---|---|---|---|---|
| Transportation to work compensation | 5,358 | 6,013 | 5,211 | 5,854 |
| Other employee material rights | 2,732 | 3,577 | 2,682 | 3,500 |
| Other non-production services | 2,831 | 3,442 | 2,759 | 3,372 |
| Credit card fees | 932 | 1,713 | 923 | 1,710 |
| Taxes and contributions irrespective of result | 1,074 | 1,281 | 1,058 | 1,258 |
| Business trips | 270 | 820 | 257 | 684 |
| Banking services | 530 | 555 | 432 | 490 |
| Termination benefits | 489 | 433 | 489 | 419 |
| Legal and notary services | 66 | 352 | 61 | 339 |
| Audit services | 359 | 332 | 273 | 293 |
| Entertainment | 154 | 257 | 137 | 236 |
| Insurance premiums | 335 | 255 | 330 | 251 |
| Other provisions | 1,931 | 220 | 1,931 | 220 |
| Compensation to Supervisory Board members | 153 | 168 | 153 | 168 |
| Membership fees | 85 | 101 | 64 | 79 |
| Jubilee awards | 336 | (650) | 330 | (650) |
| Other expenses | 1,620 | 1,387 | 1,547 | 1,379 |
| Total | 19,255 | 20,256 | 18,637 | 19,602 |

Auditors of the financial statements of the Company and the Group provided in 2020 services in the amount of HRK 273 thousand for the Company, and HRK 359 thousand for the Group (2019: HRK 293 thousand for the Company and HRK 332 thousand for the Group). Services provided in 2020 and 2019 relate to the audit of financial statements.

**13. Fair value adjustments of non-financial assets**

| (in thousands of HRK) | Group 2020 | Group 2019 | Company 2020 | Company 2019 |
|---|---|---|---|---|
| Impairment cost | | | | |
| - inventories | 1,651 | 1,448 | 1,541 | 1,402 |
| - non-current assets | 23 | - | 23 | - |
| - loss on fair value adjustment of investment property | 6,796 | - | 6,796 | - |
| Total | 8,470 | 1,448 | 8,360 | 1,402 |

**14. Impairment of financial and contract assets (net)**

| (in thousands of HRK) | Group 2020 | Group 2019 | Company 2020 | Company 2019 |
|---|---|---|---|---|
| - Trade receivables | 108 | 210 | 108 | 210 |
| - Financial assets – deposits | 7 | - | 7 | - |
| Total | 115 | 210 | 115 | 210 |

**15. Other operating expenses**

| | Group | | Company | |
|---|---|---|---|---|
| (in thousands of HRK) | 2020 | 2019 | 2020 | 2019 |
| Settlement costs – CERP (i) | - | 1,593 | - | 1,593 |
| Shortages | 1,519 | 325 | 1,477 | 311 |
| Damages and fines | 203 | 248 | 203 | 248 |
| Disposed tangible assets not written off | 3,832 | 115 | 3,832 | 115 |
| Subsequently granted discounts | 14 | 9 | 14 | 9 |
| Other expenses | 316 | 134 | 315 | 132 |
| Total | 5,884 | 2,424 | 5,841 | 2,408 |

(i) In July 2019, the settlement with CERP was concluded related to the transfer of treasury shares.

**16. Net (loss)/gain on financial activities**

| | Group | | Company | |
|---|---|---|---|---|
| (in thousands of HRK) | 2020 | 2019 | 2020 | 2019 |
| Other interest income | 25 | 132 | 25 | 132 |
| Interest income from related parties | - | - | - | 6 |
| Foreign exchange differences and other finance income from related parties | - | - | 692 | 1,854 |
| Foreign exchange differences and other finance income | 4,317 | 1,706 | 4,313 | 1,703 |
| Income from other long-term financial investments | 548 | - | - | - |
| Other finance income | - | 7 | - | 7 |
| Total finance income | 4,890 | 1,845 | 5,030 | 3,702 |
| Interest expense and similar expenses | (7,010) | (7,084) | (6,812) | (6,769) |
| Interest expense and similar expenses – related parties | - | - | (164) | (380) |
| Foreign exchange differences and other expenses – related parties | - | - | (692) | (1,854) |
| Foreign exchange differences and other expenses | (5,889) | (2,300) | (5,875) | (2,287) |
| Other finance costs | - | (58) | - | (58) |
| Total finance costs | (12,899) | (9,442) | (13,543) | (11,348) |
| Total (net) | (8,009) | (7,597) | (8,513) | (7,646) |

**17. Income tax**

Reconciliation of tax expenses and accounting profit is presented as follows:

| | Group | | Company | |
|---|---|---|---|---|
| (in thousands of HRK) | 2020 | 2019 | 2020 | 2019 |
| Current income tax | (73) | (317) | - | - |
| Deferred income tax | 431 | - | 431 | - |
| Income tax (credit)/expense | 358 | (317) | 431 | - |

Reconciliation of tax expenses and accounting loss for the Group and the Company is presented as follows:

| | Group | | Company | |
|---|---|---|---|---|
| (in thousands of HRK) | 2020 | 2019 | 2020 | 2019 |
| Accounting loss before tax | (31,205) | (9,415) | (31,900) | (11,059) |
| Income tax at 18% | (5,617) | (1,695) | (5,742) | (1,991) |
| Items increasing tax base | 193 | 391 | 162 | 300 |
| Realised temporary differences for which deferred tax was recognised | (431) | - | (431) | - |
| Items decreasing tax base | (65) | (56) | (65) | (56) |
| Unrecognised deferred tax asset | 5,562 | 1,677 | 5,645 | 1,747 |
| Income tax | (358) | 317 | (431) | - |

Permanent tax differences arise from permanent non-recognition of certain expenses and non-taxation of certain income.
Temporary tax differences arise on temporary differences in taxation of profit in line with tax regulations and accounting profit.
The tax loss of the Company and the Group may be used as an item deductible from the base for the calculation of tax liability over a period of 5 (five) years from the year in which the tax loss arose.

Tax losses available for carry forward are presented below:

(in thousands of HRK)

| Year of incurrence | Amount | Year of expiry | Cumulative amount |
|---|---|---|---|
| 2016 | 10,105 | 2021 | 10,106 |
| 2017 | 24,165 | 2022 | 34,271 |
| 2018 | 16,375 | 2023 | 50,646 |
| 2019 | - | 2024 | 50,646 |
| 2020 | 47,713 | 2025 | 98,359 |
| Tax loss for carry forward to 2021 | | | 98,359 |

For the amount of realised deferred tax liability, tax credit of HRK 431 thousand is recorded. The Company and the Group did not recognise deferred tax asset based on tax losses realised, due to the uncertainty of its utilisation within 5 years.
Tax Authority may initiate the control within three years from the end of the year in which the income tax liability was determined for a certain financial period.

Movements in deferred tax liability for the Company and the Group:

| (in thousands of HRK) | 2020 | 2019 |
|---|---|---|
| Deferred tax liability at 1 January | 17,262 | 17,336 |
| Past due tax payable for realised revaluation reserves | (229) | (74) |
| Deferred tax liability at 31 December | 17,033 | 17,262 |

Deferred tax liability for revalued buildings and land arose due to the fact that according to the effective tax regulations, the revaluation surplus is taxable in the year of realisation, and not in the year of performing revaluation.

## 18. Intangible assets

### Company

Balances and changes in intangible assets are presented below:

| (in thousands of HRK) | Goodwill | Software | Lease improvements | Right to model and trademark | Advances for the purchase of intangible assets | **Total** |
|---|---|---|---|---|---|---|
| COST | | | | | | |
| At 1 January 2019 | 505 | 1,498 | 4,997 | 151 | 110 | 7,261 |
| Transfer from tangible assets | - | - | 727 | - | - | 727 |
| Disposals | - | (5) | (2,437) | - | - | (2,442) |
| At 31 December 2019 | **505** | **1,493** | **3,287** | **151** | **110** | **5,546** |
| ACCUMULATED AMORTISATION | | | | | | |
| At 1 January 2019 | (505) | (1,346) | (3,663) | (151) | - | (5,665) |
| Accumulated amortisation for 2019 | - | (52) | (220) | - | - | (272) |
| Disposals | - | 2 | 2,157 | - | - | 2,159 |
| At 31 December 2019 | **(505)** | **(1,396)** | **(1,726)** | **(151)** | **-** | **(3,778)** |
| **NET BOOK AMOUNT 31 December 2019** | **-** | **97** | **1,561** | **-** | **110** | **1,768** |
| **NET BOOK AMOUNT 1 January 2019** | **-** | **152** | **1,334** | **-** | **110** | **1,596** |
| COST | | | | | | |
| At 1 January 2020 | **505** | **1,493** | **3,287** | **151** | **110** | **5,546** |
| Disposals | - | - | (389) | - | - | **(389)** |
| Transfer to liability | - | - | - | - | (110) | **(110)** |
| At 31 December 2020 | **505** | **1,493** | **2,898** | **151** | **-** | **5,047** |
| ACCUMULATED AMORTISATION | | | | | | |
| At 1 January 2020 | **(505)** | **(1,396)** | **(1,726)** | **(151)** | **-** | **(3,778)** |
| Accumulated amortisation for 2020 | - | (55) | (234) | - | - | **(289)** |
| Disposals | - | - | 357 | - | - | **357** |
| At 31 December 2020 | **(505)** | **(1,451)** | **(1,603)** | **(151)** | **-** | **(3,710)** |
| **NET BOOK AMOUNT 31 December 2020** | **-** | **42** | **1,295** | **-** | **-** | **1,337** |
| **NET BOOK AMOUNT 1 January 2020** | **-** | **97** | **1,561** | **-** | **110** | **1,768** |

## 18. Intangible assets (continued)

**Group**

Balances and changes in intangible assets are presented below:

| (in thousands of HRK) | Goodwill | Software | Lease improvements | Right to model and trademark | Advances for the purchase of intangible assets | **Total** |
|---|---|---|---|---|---|---|
| COST | | | | | | |
| At 1 January 2019 | 1,034 | 1,498 | 4,997 | 151 | 110 | 7,790 |
| Transfer from tangible assets | - | - | 727 | - | - | 727 |
| Disposals | - | (5) | (2,437) | - | - | (2,442) |
| At 31 December 2019 | **1,034** | **1,493** | **3,287** | **151** | **110** | **6,075** |
| ACCUMULATED AMORTISATION | | | | | | |
| At 1 January 2019 | (505) | (1,346) | (3,663) | (151) | - | (5,665) |
| Accumulated amortisation for 2019 | - | (52) | (220) | - | - | (272) |
| Disposals | - | 2 | 2,157 | - | - | 2,159 |
| At 31 December 2019 | **(505)** | **(1,396)** | **(1,726)** | **(151)** | **-** | **(3,778)** |
| **NET BOOK AMOUNT 31 December 2019** | **529** | **97** | **1,561** | **-** | **110** | **2,297** |
| **NET BOOK AMOUNT 1 January 2019** | **529** | **152** | **1,334** | **-** | **110** | **2,125** |
| COST | | | | | | |
| At 1 January 2020 | **1,034** | **1,493** | **3,287** | **151** | **110** | **6,075** |
| Disposals | - | - | (389) | - | | (389) |
| Transfer to liability | - | - | - | - | (110) | (110) |
| Disposals and write-off | (529) | - | - | - | - | (529) |
| At 31 December 2020 | **505** | **1,493** | **2,898** | **151** | **-** | **5,047** |
| ACCUMULATED AMORTISATION | | | | | | |
| At 1 January 2020 | (505) | (1,396) | (1,726) | (151) | - | **(3,778)** |
| Accumulated amortisation for 2020 | | (55) | (234) | - | - | (289) |
| Disposals | - | - | 357 | - | - | 357 |
| At 31 December 2020 | **(505)** | **(1,451)** | **(1,603)** | **(151)** | **-** | **(3,710)** |
| **NET BOOK AMOUNT 31 December 2020** | **-** | **42** | **1,295** | **-** | **-** | **1,337** |
| **NET BOOK AMOUNT 1 January 2020** | **529** | **97** | **1,561** | **-** | **110** | **2,297** |

## 19. a) Property, plant and equipment

| **Company** (in thousands of HRK) | Land | Buildings | Right-of-use buildings | Plant and equipment | Right-of-use plant and equipment | Tools, working inventory and transportation assets | Right-of-use tools, working inventory and transportation assets | Tangible assets under construction | Other tangible assets | **Total** |
|---|---|---|---|---|---|---|---|---|---|---|
| COST/FAIR VALUE | | | | | | | | | | |
| At 1 January 2019 | 52,075 | 248,963 | - | 155,530 | - | 22,591 | - | - | 232 | **479,391** |
| Adjustment of initial balance for application of IFRS 16 | - | - | 9,548 | - | 153 | - | 169 | - | - | **9,870** |
| Additions | - | - | 10,664 | 3,713 | 128 | 489 | 321 | 727 | - | **16,042** |
| Transfer to intangible assets | - | - | - | - | - | - | - | (727) | - | **(727)** |
| Sales | - | (1,658) | - | (52) | - | (23) | - | - | - | **(1,733)** |
| Disposals | - | - | - | (1,302) | - | (268) | - | - | - | **(1,570)** |
| At 31 December 2019 | **52,075** | **247,305** | **20,212** | **157,889** | **281** | **22,789** | **490** | **-** | **232** | **501,273** |
| ACCUMULATED DEPRECIATION AND IMPAIRMENT | | | | | | | | | | |
| At 1 January 2019 | **-** | **(201,483)** | **-** | **(134,337)** | **-** | **(21,239)** | **-** | - | - | **(357,059)** |
| Accumulated depreciation for 2019 | - | (1,549) | (4,124) | (2,239) | (77) | (452) | (109) | - | - | **(8,550)** |
| Sales | - | 547 | - | 40 | - | 23 | - | - | - | **610** |
| Disposals | - | - | - | 1,212 | - | 247 | - | - | - | **1,459** |
| At 31 December 2019 | - | **(202,485)** | **(4,124)** | **(135,324)** | **(77)** | **(21,421)** | **(109)** | - | - | **(363,540)** |
| **NET BOOK AMOUNT 31 December 2019** | **52,075** | **44,820** | **16,088** | **22,565** | **204** | **1,368** | **381** | **-** | **232** | **137,733** |
| **NET BOOK AMOUNT 1 January 2019** | **52,075** | **47,480** | **-** | **21,193** | **-** | **1,352** | **-** | **-** | **232** | **122,332** |
| COST/FAIR VALUE | | | | | | | | | | |
| At 1 January 2020 | **52,075** | **247,305** | **20,212** | **157,889** | **281** | **22,789** | **490** | **-** | **232** | **501,273** |
| Adjustment of initial balance | - | 16 | - | - | - | - | - | - | - | **16** |
| Additions | - | - | 1,029 | 203 | - | 16 | 78 | - | - | **1,326** |
| Fair value adjustment appraisal | 155 | 2,219 | - | - | - | - | - | - | - | **2,374** |
| Sales | - | - | - | (49) | - | (67) | - | - | (1) | **(117)** |
| Disposals | - | - | (297) | (38,693) | - | (82) | - | - | - | **(39,072)** |
| At 31 December 2020 | **52,230** | **249,540** | **20,944** | **119,350** | **281** | **22,656** | **568** | **-** | **231** | **465,800** |
| ACCUMULATED DEPRECIATION AND IMPAIRMENT | | | | | | | | | | |
| At 1 January 2020 | - | **(202,485)** | **(4,124)** | **(135,324)** | **(77)** | **(21,421)** | **(109)** | - | - | **(363,540)** |
| Adjustment of initial balance | - | (16) | - | - | - | - | - | - | - | **(16)** |
| Accumulated depreciation for 2020 | - | (1,525) | (4,927) | (2,051) | (99) | (305) | (226) | - | - | **(9,133)** |
| Fair value adjustment – appraisal | - | (1,117) | - | - | - | - | - | - | - | **(1,117)** |
| Sales | - | - | - | 46 | - | 67 | - | - | - | **113** |
| Disposals | - | - | 155 | 34,940 | - | 82 | - | - | - | **35,177** |
| At 31 December 2020 | - | **(205,143)** | **(8,896)** | **(102,389)** | **(176)** | **(21,577)** | **(335)** | - | - | **(338,516)** |
| **NET BOOK AMOUNT 31 December 2020** | **52,230** | **44,397** | **12,048** | **16,961** | **105** | **1,079** | **233** | **-** | **231** | **127,284** |
| **NET BOOK AMOUNT 1 January 2020** | **52,075** | **44,820** | **16,088** | **22,565** | **204** | **1,368** | **381** | **-** | **232** | **137,733** |

**19. a) Property, plant and equipment (continued)**

Investments mainly relate to investments in right-of-use buildings and equipment.

The value of borrowings and loans secured by mortgages at the balance sheet date amounts to EUR 10,954 thousand and HRK 25,125 thousand, while in 2019 it amounted to EUR 11,711 thousand and HRK 39,450 thousand. The borrowing in the amount of HRK 2,000 thousand is secured by pledge on the Varteks trademark.

The total present value of assets under mortgage loans at the balance sheet date amounts to HRK 96,627 thousand, and in 2019 it amounted to HRK 96,895 thousand.

Cost of fully depreciated non-current assets in use as at 31 December 2020 amounts to HRK 131,859 thousand (31 December 2019: HRK 135,125 thousand).

Company:

Net gain on sale of non-current tangible assets

| (in thousands of HRK) | 2020 | 2019 |
|---|---|---|
| Gain on sale of non-current tangible assets | 78 | 1,655 |
| Value of sold assets not written off | (5) | (1,379) |
| Net gain on sale of non-current assets | 73 | 276 |

## 19. b) Property, plant and equipment – Investment property

**Company**

| (in thousands of HRK) | Investment property Land | Investment property Buildings | **Total** |
|---|---|---|---|
| COST | | | |
| At 1 January 2019 | 38.109 | 258.270 | 296.379 |
| Sales | - | (551) | (551) |
| At 31 December 2019 | **38,109** | **257,719** | **295,828** |
| ACCUMULATED DEPRECIATION AND IMPAIRMENT | | | |
| At 1 January 2019 | - | (220,583) | (220,583) |
| Sales | - | 433 | 433 |
| At 31 December 2019 | - | **(220,150)** | **(220,150)** |
| **NET BOOK AMOUNT 31 December 2019** | **38,109** | **37,569** | **75,678** |
| **NET BOOK AMOUNT 1 January 2019** | **38,109** | **37,687** | **75,796** |
| COST | | | |
| At 1 January 2020 | **38,109** | **257,719** | **295,828** |
| Additions | - | 115 | 115 |
| Fair value adjustment – appraisal | 118 | 253 | 371 |
| Sales | - | (375) | (375) |
| At 31 December 2020 | **38,227** | **257,712** | **295,939** |
| ACCUMULATED DEPRECIATION AND IMPAIRMENT | | | |
| At 1 January 2020 | - | **(220,150)** | (220,150) |
| Fair value adjustment – appraisal | - | (7,326) | (7,326) |
| Disposals | - | 328 | 328 |
| At 31 December 2020 | - | **(227,148)** | **(227,148)** |
| **NET BOOK AMOUNT 31 December 2020** | **38,227** | **30,564** | **68,791** |
| **NET BOOK AMOUNT 1 January 2020** | **38,109** | **37,569** | **75,678** |

The value of assets under mortgage loans, classified as investment property, at the balance sheet date amounts to HRK 54,437 thousand, and in 2019 it amounted to HRK 61,349 thousand.

## a) Property, plant and equipment (continued)

**Group**

| (in thousands of HRK) | Land | Buildings | Right-of-use buildings | Plant and equipment | Right-of-use plant and equipment | Tools, working inventory and transportation assets | Right-of-use tools, working inventory and transportation assets | Tangible assets under construction | Other tangible assets | **Total** |
|---|---|---|---|---|---|---|---|---|---|---|
| COST | | | | | | | | | | |
| At 1 January 2019 | **52,075** | **249,262** | **-** | **155,723** | **-** | **22,764** | **-** | **-** | **232** | **480,056** |
| Adjustment of initial balance for application of IFRS 16 | - | - | 9,548 | - | 153 | - | 169 | - | - | **9,870** |
| Additions | - | - | 10,664 | 3,719 | 128 | 490 | 321 | 727 | - | **16,049** |
| Transfer to intangible assets | - | - | - | - | - | - | - | (727) | - | **(727)** |
| Sales | - | (1,676) | - | (52) | - | (23) | - | - | - | **(1,751)** |
| Disposals | - | - | - | (1,298) | - | (268) | - | - | - | **(1,566)** |
| At 31 December 2019 | **52,075** | **247,586** | **20,212** | **158,092** | **281** | **22,963** | **490** | **-** | **232** | **501,931** |
| ACCUMULATED DEPRECIATION AND IMPAIRMENT | | | | | | | | | | |
| At 1 January 2019 | **-** | **(201,764)** | **-** | **(134,398)** | **-** | **(21,369)** | **-** | **-** | **-** | **(357,531)** |
| Accumulated depreciation for 2019 | - | (1,549) | (4,124) | (2,258) | (77) | (474) | (109) | - | - | **(8,591)** |
| Sales | - | 547 | - | 40 | - | 23 | - | - | - | **610** |
| Disposals | - | - | - | 1,212 | - | 247 | - | - | - | **1,459** |
| At 31 December 2019 | **-** | **(202,766)** | **(4,124)** | **(135,404)** | **(77)** | **(21,573)** | **(109)** | **-** | **-** | **(364,053)** |
| **NET BOOK AMOUNT 31 December 2019** | **52,075** | **44,820** | **16,088** | **22,688** | **204** | **1,390** | **381** | **-** | **232** | **137,878** |
| **NET BOOK AMOUNT 1 January 2019** | **52,075** | **47,498** | **-** | **21,325** | **-** | **1,395** | **-** | **-** | **232** | **122,525** |
| COST | | | | | | | | | | |
| At 1 January 2020 | **52,075** | **247,586** | **20,212** | **158,092** | **281** | **22,963** | **490** | | **232** | **501,931** |
| Adjustment of initial balance | - | (265) | - | (4) | - | 1 | - | - | - | **(268)** |
| Additions | - | - | 1,029 | 225 | - | 16 | 78 | - | - | **1,348** |
| Fair value adjustment – assessment | 155 | 2,219 | - | - | - | - | - | - | - | **2,374** |
| Transfer to intangible assets | - | - | - | - | - | - | - | - | - | **-** |
| Sales | - | - | - | (49) | - | (67) | - | | (1) | **(117)** |
| Disposals | - | - | (297) | (38,694) | - | (82) | - | | - | **(39,073)** |
| At 31 December 2020 | **52,230** | **249,540** | **20,944** | **119,570** | **281** | **22,831** | **568** | | **231** | **466,195** |
| ACCUMULATED DEPRECIATION AND IMPAIRMENT | | | | | | | | | | |
| At 1 January 2020 | **-** | **(202,766)** | **(4,124)** | **(135,404)** | **(77)** | **(21,573)** | **(109)** | | **-** | **(364,053)** |
| Adjustment of initial balance | - | 265 | - | 4 | - | (1) | - | | - | **268** |
| Accumulated depreciation for 2020 | - | (1,525) | (4,927) | (2,072) | (99) | (309) | (226) | | - | **(9,158)** |
| Fair value adjustment – assessment | - | (1,117) | - | | - | - | - | | - | **(1,117)** |
| Sales | - | | - | 45 | - | 67 | - | | - | **112** |
| Disposals | - | - | 155 | 34,941 | - | 82 | - | | - | **35,178** |
| At 31 December 2020 | **-** | **(205,143)** | **(8,896)** | **(102,486)** | **(176)** | **(21,734)** | **(335)** | | **-** | **(338,770)** |
| **NET BOOK AMOUNT 31 December 2020** | **52,230** | **44,397** | **12,048** | **17,084** | **105** | **1,097** | **233** | | **231** | **127,425** |
| **NET BOOK AMOUNT 1 January 2020** | **52,075** | **44,820** | **16,088** | **22,688** | **204** | **1,390** | **381** | | **232** | **137,878** |

**19. a) Property, plant and equipment (continued)**

Investments mainly relate to investments in right-of-use buildings and equipment.

The value of borrowings and loans secured by mortgages at the balance sheet date amounts to EUR 10,954 thousand and HRK 25,125 thousand, while in 2019 it amounted to EUR 11,711 thousand and HRK 39,450 thousand. The borrowing in the amount of HRK 2,000 thousand is secured by pledge on the Varteks trademark.

The total value of assets under mortgage loans at the balance sheet date amounts to HRK 96,627 thousand, and in 2019 it amounted to HRK 96,895 thousand.

Cost of fully depreciated non-current assets in use amounts to HRK 132,016 thousand (31 December 2019: HRK 135,125 thousand).

Net gain on sale of non-current tangible assets for the Group:

Group

| (in thousands of HRK) | 2020 | 2019 |
|---|---|---|
| Gain on sale of non-current tangible assets | 74 | 1,655 |
| Value of sold assets not written off | (5) | (1,379) |
| Net gain on sale of non-current assets | 69 | 276 |

**19. b) Property, plant and equipment – Investment property**

**Group**

| (in thousands of HRK) | Investment property Land | Investment property Buildings | **Total** |
|---|---|---|---|
| COST | | | |
| At 1 January 2019 | 38,109 | 258,270 | **296,379** |
| Sales | - | (551) | **(551)** |
| At 31 December 2019 | **38,109** | **257,719** | **295,828** |
| ACCUMULATED DEPRECIATION AND IMPAIRMENT | | | |
| At 1 January 2019 | - | (220,583) | (220,583) |
| Sales | | 433 | 433 |
| At 31 December 2019 | - | (220,150) | (220,150) |
| **NET BOOK AMOUNT 31 December 2019** | **38,109** | **37,569** | **75,678** |
| **NET BOOK AMOUNT 1 January 2019** | **38,109** | **37,687** | **75,796** |
| COST | | | |
| At 1 January 2020 | **38,109** | **257,719** | **295,828** |
| Additions | - | 115 | 115 |
| Fair value adjustment – assessment | 118 | 253 | 371 |
| Sales | - | (375) | (375) |
| At 31 December 2020 | **38,227** | **257,712** | **295,939** |
| ACCUMULATED DEPRECIATION AND IMPAIRMENT | | | |
| At 1 January 2020 | - | **(220,150)** | **(220,150)** |
| Fair value adjustment – assessment | - | (7,326) | (7,326) |
| Disposals | - | 328 | 328 |
| At 31 December 2020 | - | **(227,148)** | **(227,148)** |
| **NET BOOK AMOUNT 31 December 2020** | **38,227** | **30,564** | **68,791** |
| **NET BOOK AMOUNT 1 January 2020** | **38,109** | **37,569** | **75,678** |

The value of assets under mortgage loans, classified as investment property, at the balance sheet date amounts to HRK 54,437 thousand, and in 2019 it amounted to HRK 61,349 thousand.

### 20. Investments in holdings (shares)

| **Company**<br>(in thousands of HRK) | 31 December 2020 | 31 December 2019 |
|---|---|---|
| V-projekt d.o.o. Varaždin (i) | - | 4,530 |
| Varteks Pro d.o.o. Varaždin | 1 | 1 |
| Total | 1 | 4,531 |

(i) The subsidiary V-projekt d.o.o. Varaždin was legally merged with the parent company Varteks d.d. Varaždin in November 2020. The merger was performed at carrying values, as presented in note 27.

| **Group**<br>(in thousands of HRK) | 31 December 2020 | 31 December 2019 |
|---|---|---|
| Čateks d.d. | - | 1,855 |
| Total | - | 1,855 |

### 21. Loans, deposits, etc.

Loans, deposits, etc. comprise the following:

| | Group | | Company | |
|---|---|---|---|---|
| (in thousands of HRK) | 31 December 2020 | 31 December 2019 | 31 December 2020 | 31 December 2019 |
| Deposits for leases | 287 | 242 | 287 | 242 |
| Purpose-specific term deposits | 4,701 | 7,442 | 4,701 | 7,442 |
| Interest due and not due | 2 | 1 | 2 | 1 |
| Total | 4,990 | 7,685 | 4,990 | 7,685 |

The item purpose-specific and term deposits includes a deposit in Zagrebačka banka in the amount of EUR 624 thousand. The deposit is placed with the interest rate of 0.01% annually. It has been placed for the purpose of securing the Bank's collection on the basis of the Revolving loan agreement. The term of the deposit is from 20 December 2019 to 30 June 2021 with or until the final settlement of all payables on the basis of the placement. The deposit is classified as non-current asset as the Company and the Group keep it for several years as security for the revolving loan.

**22. Other non-current financial assets**

| (in thousands of HRK) | Group 31 December 2020 | Group 31 December 2019 | Company 31 December 2020 | Company 31 December 2019 |
|---|---|---|---|---|
| Receivables from “old” foreign currency savings (repurchase of flats) | 4,359 | 4,359 | 4,359 | 4,359 |
| Impairment of receivables from “old” foreign currency savings | (4,359) | (4,359) | (4,359) | (4,359) |
| Receivables from “old” foreign currency savings (net) | - | - | - | - |
| | | | | |
| Investments in holdings | 160 | 160 | 160 | 160 |
| Impairment of investments in holdings | (160) | (160) | (160) | (160) |
| Investments in holdings (net) | - | - | - | - |
| | | | | |
| Shares | 590 | 590 | 590 | 590 |
| Impairment of shares | (584) | (584) | (584) | (584) |
| Shares (net) | 6 | 6 | 6 | 6 |

**23. Receivables**

| (in thousands of HRK) | Group 31 December 2020 | Group 31 December 2019 | Company 31 December 2020 | Company 31 December 2019 |
|---|---|---|---|---|
| Receivables from undertakings within the Group | | | | |
| Current: | | | | |
| - Varteks PRO | - | - | - | 2,601 |
| Total receivables from undertakings within the Group | - | - | - | 2,601 |
| Domestic trade receivables | 25,317 | 28,574 | 22,681 | 25,218 |
| Foreign trade receivables | 28,058 | 30,366 | 28,044 | 30,278 |
| Impairment of doubtful receivables | (46,266) | (46,002) | (46,203) | (45,939) |
| Trade receivables (net) | 7,109 | 12,938 | 4,522 | 9,557 |
| Receivables from government and other institutions | 6,020 | 3,733 | 5,682 | 3,731 |
| Impairment of receivables from government | (3,349) | (3,349) | (3,349) | (3,349) |
| Receivables from government and other instit. (net) | 2,671 | 384 | 2,333 | 382 |
| Receivables from employees and members of the undertaking | 47 | 46 | 47 | 46 |
| Other non-current receivables /i/ | 188 | 222 | 188 | 222 |
| Other current receivables /ii/ | 527 | 233 | 527 | 228 |
| Total receivables | 10,542 | 13,823 | 7,617 | 13,036 |

/i/ Other non-current receivables include receivables from sold flats and receivables from housing loans given.
/i/ Other current receivables include receivables for advances given and interest receivable from suppliers for which legal action has been initiated.

The total trade receivables are as follows:

| (in thousands of HRK) | Group 31 December 2020 | Group 31 December 2019 | Company 31 December 2020 | Company 31 December 2019 |
|---|---|---|---|---|
| Trade receivables (undertakings within the Group) | - | - | - | 2,601 |
| Domestic and foreign trade receivables (undertakings outside the Group) | 7,109 | 12,938 | 4,522 | 9,557 |
| Total trade receivables | 7,109 | 12,938 | 4,522 | 12,158 |

Total trade receivables are denominated in the following currencies:

| (in thousands of HRK) | Group 31 December 2020 | Group 31 December 2019 | Company 31 December 2020 | Company 31 December 2019 |
|---|---|---|---|---|
| EUR | 2,478 | 4,936 | 2,478 | 4,936 |
| HRK | 4,631 | 8,002 | 2,044 | 7,222 |
| Total trade receivables | 7,109 | 12,938 | 4,522 | 12,158 |

Movements in the impairment of trade receivables for the Company and the Group are as follows:

| (in thousands of HRK) | Group 31 December 2020 | Group 31 December 2019 | Company 31 December 2020 | Company 31 December 2019 |
|---|---|---|---|---|
| At 1 January | 46,002 | 58,346 | 45,939 | 58,283 |
| Increase in impairment of receivables recognised in the income statement during the period | 108 | 103 | 108 | 103 |
| Collected receivables previously written off | (65) | (49) | (65) | (49) |
| Foreign exchange differences | 221 | - | 221 | - |
| Write-off of previously impaired receivables | - | (12,398) | - | (12,398) |
| At 31 December | 46,266 | 46,002 | 46,203 | 45,939 |

The ageing structure of current receivables from undertakings within the Group and trade receivables is given below:

| Company (in thousands of HRK) | Not past due | 0-30 days | 31 -60 days | 61 – 90 days | 91 – 180 days | 181-270 days | 271-365 days | >365 days | Total |
|---|---|---|---|---|---|---|---|---|---|
| **31 December 2020** | | | | | | | | | |
| Gross amount | 3,758 | 125 | 15 | 65 | 60 | 28 | 41 | 46,633 | 50,725 |
| Impairment | - | - | - | - | - | - | - | (46,203) | (46,203) |
| Net amount | 3,758 | 125 | 15 | 65 | 60 | 28 | 41 | 430 | 4,522 |
| **31 December 2019** | | | | | | | | | |
| Gross amount | 5,887 | 4,031 | 1,239 | 239 | 343 | 95 | 83 | 46,180 | 58,097 |
| Impairment | - | - | - | - | - | - | - | (45,939) | (45,939) |
| Net amount | 5,887 | 4,031 | 1,239 | 239 | 343 | 95 | 83 | 241 | 12,158 |

**23. Receivables (continued)**

The ageing structure of trade receivables is given below:

Group

| (in thousands of HRK) | Not past due | 0-30 days | 31 -60 days | 61 – 90 days | 91 – 180 days | 181-270 days | 271-365 days | >365 days | Total |
|---|---|---|---|---|---|---|---|---|---|
| **31 Dec 2020** | | | | | | | | | |
| Gross amount | 6,223 | 231 | 15 | 65 | 64 | 28 | 41 | 46,708 | 53,375 |
| Impairment | - | - | - | - | - | - | - | (46,266) | (46,266) |
| Net amount | 6,223 | 231 | 15 | 65 | 64 | 28 | 41 | 442 | 7,109 |
| **31 Dec 2019** | | | | | | | | | |
| Gross amount | 7,420 | 4,031 | 467 | 239 | 356 | 95 | 89 | 46,243 | 58,940 |
| Impairment | - | - | - | - | - | - | - | (46,002) | (46,002) |
| Net amount | 7,420 | 4,031 | 467 | 239 | 356 | 95 | 89 | 241 | 12,938 |

The structure of receivables not past due, by credit ratings:

| | Group | | Company | |
|---|---|---|---|---|
| (in thousands of HRK) | 31 December 2020 | 31 December 2019 | 31 December 2020 | 31 December 2019 |
| A | - | 498 | - | 498 |
| BB+ | - | 1,021 | - | 1,021 |
| BB- | - | 130 | - | 130 |
| BB | - | 3,362 | - | 1,636 |
| Without rating | 6,223 | 2,409 | 3,758 | 2,602 |
| | 6,223 | 7,420 | 3,758 | 5,887 |

**24. Cash and cash equivalents**

| | Group | | Company | |
|---|---|---|---|---|
| (in thousands of HRK) | 31 December 2020 | 31 December 2019 | 31 December 2020 | 31 December 2019 |
| Giro account | 423 | 402 | 423 | 384 |
| Foreign currency account | 104 | 664 | 105 | 661 |
| Cash in hand | | | | |
| - HRK | 21 | 34 | 17 | 30 |
| - foreign currencies | 11 | 4 | 6 | 2 |
| Payments for shares | 1 | 1 | 1 | 1 |
| Transfer account for HRK | 142 | 201 | 142 | 201 |
| Total | 702 | 1,306 | 693 | 1,279 |

The structure of cash and cash equivalents in banks, by Standard's and Poor's credit ratings:

| (in thousands of HRK) | Group | | Company | |
|---|---|---|---|---|
| | 31 December 2020 | 31 December 2019 | 31 December 2020 | 31 December 2019 |
| A | 38 | 362 | 38 | 362 |
| BBB+ | - | 6 | - | 6 |
| BBB | 645 | 14 | 645 | 1 |
| BBB- | - | 889 | - | 882 |
| BB | - | 25 | - | 25 |
| Without rating | 19 | 10 | 10 | 3 |
| Total | 702 | 1,306 | 693 | 1,279 |

**25. Prepaid expenses and accrued income**

**Company**

| (in thousands of HRK) | Group | | Company | |
|---|---|---|---|---|
| | 31 December 2020 | 31 December 2019 | 31 December 2020 | 31 December 2019 |
| Accrued rentals | 121 | 34 | 121 | 34 |
| Prepaid licences costs | - | 12 | - | 12 |
| Accrued expenses that require adjustments | 184 | 363 | 169 | 352 |
| Other | - | 12 | - | 10 |
| Total | 305 | 421 | 290 | 408 |

**26. Capital and reserves**

Capital includes own non-current assets intended for business. It includes share capital together with the statutory reserves, revaluation reserves, accumulated loss and profit for the year. Subscribed (share) capital registered in the court registry amounts to HRK 41,067 thousand and has been fully paid in.

Capital reserves are part of the capital that an entrepreneur realises through the realisation of shares, i.e. holdings above the nominal value of subscribed capital or above the cost of acquiring treasury shares (holdings), as well as additional paid-in capital and other according to the provisions of the Companies Act. Capital reserves were used in 2019 to cover part of the accumulated loss in the amount of HRK 1,555 thousand.

Reserves from the revaluation of repayments of flats in 2020 amount to HRK 174 thousand and are generated by the collection of monthly instalments, amounting to 35% of the revalued amount.

Revaluation reserves are part of equity arising from the revaluation of assets above the acquisition cost (of land and buildings).

Retained earnings or accumulated loss is the portion of profit from previous periods that remains to the entrepreneur after allocations to reserves, payments of dividends or shares in profit less any losses from prior periods.

| **The ownership structure of Varteks d.d. – Varaždin** | 31 December 2020 | | 31 December 2019 | |
|---|---|---|---|---|
| | % share in ownership | Number of shares | % share in ownership | Number of shares |
| Bakić Nenad, Zagreb | 46.69 | 1,917,403 | 46.69 | 1,917,403 |
| Other domestic natural persons | 25.70 | 1,055,334 | 24.66 | 1,012,674 |
| Košćec Zoran, Varaždin | 10.43 | 428,382 | 10.43 | 428,382 |
| ISSUER – TREASURY ACCOUNT, Varaždin | 5.72 | 234,780 | 5.72 | 234,780 |
| Igrec Stjepan, Varaždin | 3.29 | 134,944 | 3.29 | 134,944 |
| Košćec Dražen, Varaždin | 1.77 | 72,717 | 1.77 | 72,717 |
| Žonja Igor, Zagreb | 1.53 | 62,759 | 1.53 | 62,759 |
| Interkapital vrijednosni papiri/Joint custodian account for DF, 10000 Zagreb, Masarykova 1 | 1.38 | 56,524 | 1.38 | 56,524 |
| OTP banka (Splitska banka d.d.)/Joint account – domestic investors, 21000 Split, R. Boškovića 16 | 0.69 | 28,449 | 0.69 | 28,449 |
| Košćec Vladimir, Varaždin | 0.63 | 25,835 | 0.63 | 25,835 |
| Papić Franc | - | - | 0.63 | 25,777 |
| Others | 2.17 | 89,559 | 2.58 | 106,442 |
| **TOTAL:** | 100 | 4,106,686 | 100 | 4,106,686 |

## 27. Merger of subsidiary

The company V-projekt, društvo s ograničenom odgovornošću, Varaždin, Zagrebačka 94, MBS: 070093329, OIB: 65657916431 as the acquiree was merged with the company VARTEKS varaždinska tekstilna industrija d.d., Varaždin, the city of Varaždin, Zagrebačka 94, MBS: 070004039, OIB: 00872098033 as the acquirer, based on the Merger Agreement of 17 September 2020 and the Decision of the acquiree's General Assembly of 26 October 2020.

The effects of merger of V-projekt d.o.o. on the retained earnings of Varteks d.d.:

| (in thousands of HRK) | Carrying amount |
|---|---|
| Property, plant and equipment | - |
| Intangible assets | - |
| Financial assets | 5,141 |
| Trade and other receivables | 4 |
| Cash and cash equivalents | 2 |
| Trade and other payables | (76) |
| **Net assets acquired** | **5,071** |
| Elimination of share | (4,529) |
| Effect on retained earnings | 542 |

## 28. Loss per share

| | Group | | Company | |
|---|---|---|---|---|
| (in thousands of HRK) | 31 December 2020 | 31 December 2019 | 31 December 2020 | 31 December 2019 |
| Total number of shares less treasury shares | 3,871,906 | 3,837,920 | 3,871,906 | 3,957,421 |
| Loss for the period | (30,874) | (9,732) | (31,469) | (11,059) |
| Basic and diluted loss per share (HRK) | (7.97) | (2.54) | (8.13) | (2.79) |

**29. Provisions**

The structure of provisions is set out below:

| (in thousands of HRK) | Group 31 December 2020 | Group 31 December 2019 | Company 31 December 2020 | Company 31 December 2019 |
|---|---|---|---|---|
| Provisions for termination benefits | 1,890 | 2,217 | 1,890 | 2,217 |
| Provisions for jubilee awards | 1,535 | 1,635 | 1,535 | 1,635 |
| Other provisions | 2,430 | 1,607 | 2,430 | 1,607 |
| Total | 5,855 | 5,459 | 5,855 | 5,459 |

Other provisions mainly relate to provisions for damages on already earned income and to Loyalty points awarded to customers for purchases in the Company's retail stores.

Provisions for termination benefits are formed for compensations paid for retirement and jubilee awards (based on years of service). The amount of the termination benefit depends on whether the employee met all required conditions for retirement, and the amount of the jubilee award depends on the number of years of service in the Company. The compensation amount is determined based on the relevant monthly salaries. In 2020, the annual employee turnover rate of 10.06 % (2019: 10.6 %) was used for the calculation of the provision.

Movements in provisions:

| (in thousands of HRK) | Group 31 December 2020 | Group 31 December 2019 | Company 31 December 2020 | Company 31 December 2019 |
|---|---|---|---|---|
| At 1 January | 5,459 | 4,879 | 5,459 | 4,879 |
| Income from reversal of provisions | (974) | (1,072) | (966) | (1,072) |
| Increase | 888 | 1,652 | 888 | 1,652 |
| Additions | 482 | - | 474 | - |
| At 31 December | 5,855 | 5,459 | 5,855 | 5,459 |

Main actuarial presumptions used to determine liabilities as at 31 December for the Company and the Group are as follows:

| | 2020 | 2019 |
|---|---|---|
| Discount rate (annual) | 0.64% | 1.00% |
| Employee turnover rate (annual) | 10.60% | 10.60% |

**30. Liabilities to undertakings within the Group**

As at 31 December 2020, the Company has a liability to Varteks Pro d.o.o. in the amount of HRK 62 thousand. As at 31 December 2019, the Company had no liabilities to undertakings within the Group.

### 31. Liabilities for loans, deposits, etc. of undertakings within the Group

| (in thousands of HRK) | 31 December 2020 | 31 December 2019 |
|---|---|---|
| Varteks Pro | 1 | 212 |
| V-projekt | - | 2,685 |
| Total | 1 | 2,897 |

### 32. Liabilities for loans, deposits, etc.

| | Group | | Company | |
|---|---|---|---|---|
| (in thousands of HRK) | 31 December 2020 | 31 December 2019 | 31 December 2020 | 31 December 2019 |
| Current: | | | | |
| Liabilities for loans | 47,456 | 48,855 | 47,456 | 48,855 |
| Interest payable | - | 123 | - | 123 |
| Liabilities for deposits received | 11,355 | 10 | 11,355 | 10 |
| Total | 58,811 | 48,988 | 58,811 | 48,988 |

| | Group | | Company | |
|---|---|---|---|---|
| (in thousands of HRK) | 31 December 2020 | 31 December 2019 | 31 December 2020 | 31 December 2019 |
| EUR | 1,506 | 2,605 | 1,506 | 2,605 |
| HRK | 45,950 | 46,250 | 45,950 | 46,250 |
| Total | 47,456 | 48,855 | 47,456 | 48,855 |

Liabilities for loans by creditors:

| (in thousands of HRK) | | Group | | Company | |
|---|---|---|---|---|---|
| Creditors | Interest rate % p.a. | 31 December 2020 | 31 December 2019 | 31 December 2020 | 31 December 2019 |
| Zoran Košćec, Varaždin | 2.50% | - | 300 | - | 300 |
| Nenad Bakić, Zagreb | 0.00% | 45,950 | 45,950 | 45,950 | 45,950 |
| Hugo Boss | 0.50% | 1,506 | 2,605 | 1,506 | 2,605 |
| Total: | | 47,456 | 48,855 | 47,456 | 48,855 |

### 33. Liabilities to banks and other financial institutions

| | Group | | Company | |
|---|---|---|---|---|
| (in thousands of HRK) | 31 December 2020 | 31 December 2019 | 31 December 2020 | 31 December 2019 |
| Long-term bank borrowings | 82,662 | 77,111 | 82,662 | 77,111 |
| Long-term lease liabilities | 28 | 75 | 28 | 64 |
| Refundable loan (Poreč) | 166 | - | 166 | - |
| Total | 82,856 | 77,186 | 82,856 | 77,175 |
| Current portion of long-term borrowings | (9,387) | (871) | (9,387) | (860) |
| Total long-term liabilities to financial institutions | 73,469 | 76,315 | 73,469 | 76,315 |

Current liabilities

| (in thousands of HRK) | Group 31 December 2020 | Group 31 December 2019 | Company 31 December 2020 | Company 31 December 2019 |
|---|---|---|---|---|
| Bank borrowings | 18,410 | 13,605 | 14,284 | 13,605 |
| Interest payable | 214 | 147 | 161 | 137 |
| Current portion of long-term borrowings | 9,387 | 871 | 9,387 | 859 |
| Total | 28,011 | 14,623 | 23,832 | 14,601 |

Non-current liabilities to banks and other institutions by creditor for the Company:

| Creditor - Bank<br>(in thousands of HRK) | Interest rate at year end<br>% p.a. | Purpose | 31 December 2020 | 31 December 2019 |
|---|---|---|---|---|
| Zagrebačka banka d.d. Zagreb / CBRD (i) | 3M EURIBOR + 3 | working capital | 70,016 | 66,688 |
| Raiffeisen bank Austria d.d. (ii) | 3M EURIBOR + 5.868 | refinancing | 2,975 | 3,270 |
| Interest on borrowing ZABA /CBRD (i) | | refinancing | 9,670 | 7,153 |
| Total: | | | 82,661 | 77,111 |
| **Other financial institutions** | | | | |
| Porsche Leasing d.o.o. Zagreb (iii) | 7.79 | vehicles | 28 | 35 |
| PBZ-LEASING d.o.o. Zagreb (iv) | 5.62-5.8 | vehicles | - | 29 |
| Refundable loan (Poreč) | | | 166 | - |
| Total: | | | 194 | 64 |
| Grand total: | | | 82,855 | 77,175 |
| Current portion of long-term borrowings | | | (9,373) | (818) |
| Current portion of long-term fin. lease liabilities | | | (13) | (42) |
| Total non-current portion: | | | 73,469 | 76,315 |

Non-current liabilities to banks and other financial institutions by creditor for the Group:

| Creditor – Bank<br>(in thousands of HRK) | Interest rate at year end<br>% p.a. | Purpose | 31 December 2020 | 31 December 2019 |
|---|---|---|---|---|
| Zagrebačka banka d.d. Zagreb / CBRD | 3M EURIBOR + 3 | working capital | 70,016 | 66,688 |
| Raiffeisen bank Austria d.d. | 3M EURIBOR + 5.868 | refinancing | 2,975 | 3,270 |
| Interest on borrowing ZABA /CBRD | | | 9,670 | 7,153 |
| Total: | | | 82,661 | 77,111 |
| Other financial institutions | | | | |
| Porsche Leasing d.o.o. Zagreb | 7.79 | vehicles | 28 | 35 |
| PBZ-LEASING d.o.o. Zagreb | 5.62-5.8 | vehicles | - | 29 |
| PBZ-LEASING d.o.o. Zagreb | 5.62-5.8 | vehicles | - | 12 |
| Refundable loan (Poreč) | | | 166 | - |
| Total: | | | 194 | 76 |
| Grand total: | | | 82,855 | 77,187 |
| Current portion of long-term borrowings | | | (9,373) | (818) |
| Current portion of long-term fin. lease liabilities | | | (13) | (54) |
| Total non-current portion: | | | 73,469 | 76,315 |

Non-current liabilities to banks and other financial institutions by creditor for the Company:

(i) Zagrebačka banka d.d./CBRD
The borrowing was initially granted in 2014 in the amount of EUR 10,900 thousand, in HRK countervalue, for financing permanent working capital at the interest rate of 3 M EURIBOR+6.70 p.p. annually with a grace period of 24 months and repayment term of 120 months – repayment in 32 equal quarterly instalments. The share of CBRD was EUR 5,000 thousand, and of ZABA EUR 5,900 thousand. The first instalment was paid in line with the repayment plan and the borrowing difference was refinanced by the annex to the Agreement from 3/2018, regulating the new repayment term of 129 months, including the grace period of 36 months. The repayment of the borrowing is in 31 equal quarterly instalments, the first instalment matures as at 30 April 2021.

The same annex to the Agreement reduced the regular interest rate to 3M EURIBOR + 3 p.p. During the grace period, the interest is calculated at regular interest rate, and matures in 31 equal quarterly instalments after the end of the grace period, together with the principal. The new interest rate was also used for the recalculation of past due interest until the date of the annex to the Agreement.

(ii) Raiffeisenbank Austria d.d.
The borrowing was granted in 2014 as a HRK borrowing with foreign currency clause in the amount of EUR 840 thousand, for the purpose of closing the past due principal of the former borrowing. The agreement granted a grace period until 31 March 2016 and after the expiry of the grace period, the repayment of the total borrowing amount in 96 equal monthly instalments, the first of which matured as at 30 April 2016, and the last on 31 March 2024. The regular interest is 3M EURIBOR + 6.28 p.p.

(iii) Porsche leasing d.o.o.
Borrowing for the purchase of a company vehicle in 2017.

(iv) PBZ leasing
The agreement was concluded for the purchase of a company vehicle.

**33. Liabilities to banks and other financial institutions (continued)**

Current liabilities to banks and other financial institutions by creditor for the Company

| Creditor – Bank (in thousands of HRK) | Int. rate % | Purpose | 31 December 2020 | 31 December 2019 |
|---|---|---|---|---|
| Karlovačka banka d.d.(i) | 4.7 | export | 2,284 | 2,307 |
| Zagrebačka banka d.d. / CBRD (ii) | 6 | export | - | 2,649 |
| Zagrebačka banka d.d. (ii) | 3.53 | working capital | - | 2,649 |
| Erste&Steiermarkische Bank d.d. (iii) | 5.25 | working capital | - | 6,000 |
| Erste&Steiermarkische Bank d.d./CBRD (iv) | 4.95 | | 12.000 | - |
| Total: | | | 14,284 | 13,605 |
| Interest payable | | | 162 | 137 |
| Current portion of long-term borrowings | | | 9,386 | 859 |
| Grand total: | | | 23,832 | 14,601 |

Current liabilities to banks and other institutions by creditor for the Group:

| Creditor – Bank (in thousands of HRK) | Interest rate % | Purpose | 31 December 2020 | 31 December 2019 |
|---|---|---|---|---|
| Karlovačka banka d.d. | 4.7 | export | 2,284 | 2,307 |
| Zagrebačka banka d.d. / CBRD | 6 | export | - | 2,649 |
| Zagrebačka banka d.d. | 6 | export | - | 2,649 |
| Zagrebačka banka d.d. | 3.53 | working capital | 4,126 | - |
| Erste&Steiermarkische Bank d.d. | 5.25 | working capital | - | 6,000 |
| Erste&Steiermarkische Bank d.d./CBRD | 4.95 | | 12,000 | - |
| Total: | | | 18,410 | 13,605 |
| Interest payable | | | 215 | 147 |
| Current portion of long-term borrowings | | | 9,386 | 871 |
| Grand total: | | | 28,011 | 14,623 |

Current liabilities to banks and other institutions by creditor for the Company:

(i) Karlovačka banka d.d. short-term
The framework agreement for up to EUR 700 thousand was concluded, based on which individual borrowings are granted, related to issued invoices to foreign customers in a way that the Bank grants a borrowing with a repayment term of 60 days in the same amount as the invoice issued, and the customer pays its liability directly to the bank, whereby the borrowing liability is closed. The contracted interest rate is 4.7% annually.

(ii) Zagrebačka banka/CBRD
The borrowing for financing the preparation of export in the countervalue of EUR 712 thousand at an interest rate of 6% annually. The share of ZABA amounts to EUR 356 thousand, and the share of CBRD is EUR 356 thousand. The loan was repaid in 2020.

(iii) Erste & Steiermarkische Bank d.d.
The borrowing for financing of working capital in the amount of HRK 6,000 thousand at an annual interest rate of 5.25% was repaid in 2020.

**33. Liabilities to banks and other financial institutions (continued)**

(iv) Erste & Steiermarkische Bank d.d./CBRD
The borrowing for financing working capital in the amount of HRK 12,000 thousand at an annual interest rate of 4.95%. The share of Erste & Steiermarkische Bank d.d amounts to HRK 6,000 thousand, and the share of CBRD is HRK 6,000 thousand.

The Group's note of liabilities to banks and financial institutions includes borrowings received by Varteks d.d. and Varteks Pro. The borrowings of Varteks d.d. have been previously described below the table of liabilities to banks and financial institutions by creditor relating to the Company. The remaining borrowings (of the company Varteks Pro) are described below.

Exposure of the Company's borrowings to changes in interest rates:

| (in thousands of HRK) | Average weighted interest rate | 31 December 2020 | 31 December 2019 |
|---|---|---|---|
| Borrowings from banks and other financial institutions at variable interest rates | 3.11% | 82,586 | 81,858 |
| Borrowings from banks and other financial institutions at fixed interest rates | 4.91% | 14,284 | 13,670 |

Exposure of the Group's borrowings to changes in interest rates:

| (in thousands of HRK) | Average weighted interest rate | 31 December 2020 | 31 December 2019 |
|---|---|---|---|
| Borrowings from banks and other financial institutions at variable interest rates | 3.11% | 82,586 | 81,858 |
| Borrowings from banks and other financial institutions at fixed interest rates | 4.60% | 18,410 | 13,682 |

**34. Trade payables**

| | Group | | Company | |
|---|---|---|---|---|
| (in thousands of HRK) | 31 December 2020 | 31 December 2019 | 31 December 2020 | 31 December 2019 |
| Domestic suppliers | 21,803 | 24,242 | 21,370 | 22,410 |
| Foreign suppliers | 4,943 | 8,159 | 4,929 | 8,126 |
| Total | 26,746 | 32,401 | 26,299 | 30,536 |

**35. Taxes, contributions and similar liabilities (other than income tax)**

| (in thousands of HRK) | Group | | Company | |
|---|---|---|---|---|
| | 31 December 2020 | 31 December 2019 | 31 December 2020 | 31 December 2019 |
| Taxes, contributions, etc. payable | 5,828 | 7,427 | 5,216 | 7,381 |
| Contributions from salaries | 3,112 | 1,723 | 3,033 | 1,684 |
| Contributions on salaries | 2152 | 1,094 | 2,093 | 1,067 |
| Taxes from salaries, wages and fees | 103 | 117 | 93 | 107 |
| Total | 11,195 | 10,361 | 10,435 | 10,239 |

**36. Lease liabilities**

Ageing structure of the Company's and the Group's lease liabilities:

| (in thousands of HRK) | Group | | Company | |
|---|---|---|---|---|
| | 31 December 2020 | 31 December 2019 | 31 December 2020 | 31 December 2019 |
| Lease liabilities (IFRS 16) | | | | |
| Current portion | 4,062 | 4,972 | 4,062 | 4,972 |
| Non-current portion | 9,224 | 12,155 | 9,224 | 12,155 |
| Total | 13,286 | 17,127 | 13,286 | 17,127 |

Interest expense included in financial expenses in 2020 for the Company and the Group amounted to HRK 993 thousand (31 December 2019: HRK 939 thousand).
Total leases of low value, short-term leases with maturities of up to 12 months for the Company and the Group amount to HRK 578 thousand and are included in rental costs (2019: HRK 1,173 thousand).

## 37. Other non-current and current liabilities

Other non-current and current liabilities of the Company and the Group relate to the following:

| (in thousands of HRK) | Group 31 December 2020 | Group 31 December 2019 | Company 31 December 2020 | Company 31 December 2019 |
|---|---|---|---|---|
| Non-current: | | | | |
| Taxes and contributions payable to TA – Debt settlement agreement | 657 | 1,842 | 657 | 1,842 |
| Liabilities to RH CERP | 823 | 1,142 | 823 | 1,142 |
| Deferred income – grant for financing purchase of non-current tangible | 375 | 392 | 375 | 392 |
| Total | 1,855 | 3,376 | 1,855 | 3,376 |
| Current: | | | | |
| Liabilities for sold flats | 3,793 | 3,297 | 3,793 | 3,297 |
| Liabilities to RH CERP | 398 | 319 | 398 | 319 |
| Compensation to Supervisory Board members payable | 216 | 216 | 216 | 216 |
| Other liabilities | 599 | 612 | 599 | 612 |
| Total | 5,006 | 4,444 | 5,006 | 4,444 |
| Taxes and contributions payable to TA – Debt settlement agreement – current portion (i) | 3,729 | 2,620 | 3,729 | 2,620 |
| Total | 10,590 | 10,440 | 10,590 | 10,440 |

(i) The liability is included in line item Taxes, contributions and similar liabilities (other than income tax).

## 38. Accrued expenses and deferred income

| (in thousands of HRK) | Group 31 December 2020 | Group 31 December 2019 | Company 31 December 2020 | Company 31 December 2019 |
|---|---|---|---|---|
| Liabilities for unused vacation days | 2,880 | 1,715 | 2,880 | 1,636 |
| Interest not yet due for housing loan | 14 | 22 | 14 | 22 |
| Deferred income – grant for financing purchase of non-current tangible assets | 17 | 17 | 17 | 17 |
| Other | 342 | 613 | 707 | 611 |
| Total | 3,253 | 2,367 | 3,618 | 2,286 |

**39. Related-party transactions**

Operating income:

| (in thousands of HRK) | 2020 | 2019 |
|---|---|---|
| Varteks Pro | 5,353 | 17,357 |
| V-projekt | 5 | 5 |
| Total | 5,358 | 17,363 |

Other operating income:

| (in thousands of HRK) | 2020 | 2019 |
|---|---|---|
| Varteks Pro | 431 | 141 |
| V-projekt | 10 | 11 |
| Total | 441 | 152 |

Material costs:

| (in thousands of HRK) | 2020 | 2019 |
|---|---|---|
| Costs of raw materials and consumables | | |
| Varteks Pro | 145 | 7 |
| | 145 | 7 |
| Cost of goods sold | | |
| Varteks Pro | 50 | 243 |
| | 50 | 243 |
| Other external expenses | | |
| Varteks Pro | 73 | 19 |
| Selectio d.o.o. | 1 | 171 |
| Paško Vela & Partners | - | 362 |
| Tau on-line d.o.o. | 9 | 46 |
| Cifra usluge j.d.o.o. | 347 | 318 |
| | 430 | 916 |
| Total | 625 | 1,166 |

**39. Related-party transactions (continued)**

Finance income and costs:

| (in thousands of HRK) | 2020 | 2019 |
|---|---|---|
| Foreign exchange differences and other finance income from related parties | | |
| Varteks Pro | - | 6 |
| Varteks Textiles | - | 1,632 |
| Others | 692 | 221 |
| Total finance income from related parties | 692 | 1,859 |
| Interest expense and similar expenses from related parties | | |
| V-projekt | (82) | (87) |
| Varteks Pro | (82) | (293) |
| | (164) | (380) |
| Foreign exchange differences and other expenses from related parties | | |
| Varteks Textiles | - | (1,632) |
| Others | (692) | (221) |
| | (692) | (1,853) |
| Total finance costs – related parties | (856) | (2,233) |

Trade receivables:

| (in thousands of HRK) | 2020 | 2019 |
|---|---|---|
| Varteks PRO | - | 2,601 |
| Total | - | 2,601 |

Borrowings:

| (in thousands of HRK) | Interest rate % p.a. | 2020 | 2019 |
|---|---|---|---|
| Varteks Pro | 3.42 | 1 | 212 |
| V-projekt | 3.42 | - | 2,685 |
| Nenad Bakić, Zagreb | 0 | 45,950 | 45,950 |
| Total | | 45,951 | 48,847 |

Trade payables:

| (in thousands of HRK) | 2020 | 2019 |
|---|---|---|
| Varteks Pro | 62 | - |
| Selectio d.o.o. | - | 39 |
| Tau on-line d.o.o. | 6 | 5 |
| Total | 68 | 44 |

**40. Financial instruments and risk management**

**(a) Financial instruments**

The Company and the Group have no derivative financial instruments or any financial instruments that could potentially subject them to concentrations of credit risk. The Company's and the Group's policy is to enter into financial instruments with a diversity of creditworthy counterparties. Consequently, the Company and the Group do not expect to be exposed to material credit losses on financial instruments.

Fair value of financial assets and liabilities
Fair value represents the amount at which an asset could be exchanged or a liability settled on an arm's length basis. As it is not possible to reach the reference market prices of a significant part of the Company's and the Group's assets and liabilities, fair values are based on Management estimates with respect to the type of assets and liabilities. Management believes that the fair values of assets and liabilities (except if otherwise stated in this note) are not significantly different from their carrying values.

The Company and the Group used the following methods and assumptions in estimating the fair value of financial instruments:

Loans, deposits, etc.
For assets that mature within 3 months, the carrying value approximates their fair value due to the short maturities of these instruments. For longer-term assets, the interest rates do not deviate significantly from the current market rates and, consequently, the fair value approximates the carrying value.

Non-current receivables
For non-current receivables, contractual interest rates do not significantly differ from current market rates, and accordingly, their fair value approximates their carrying amount.

Current receivables
For current receivables, the carrying amount approximates their fair value due to the short-term nature of these instruments.

Cash
The fair value of cash equals its carrying amount.

Non-current liabilities
For non-current liabilities, contractual interest rates do not significantly differ from current market rates, and accordingly, their fair value approximates their carrying amount.

Current liabilities
For current liabilities, the carrying amount approximates their fair value due to the short-term nature of these instruments.

**40. Financial instruments and risk management (continued)**

**b) Objectives and risk management policies**

The main risks arising from the Company's and the Group's financial instruments are credit risk, foreign currency risk, interest rate risk and liquidity risk. Management reviews and implements policies for managing each of these risks which are listed below. The Company and the Group are exposed to international markets. As a result, the Company and the Group may be affected by changes in foreign exchange rates. The Company and the Group also extend credit terms to their customers and are exposed to a risk of default. The significant risks, together with the methods used to manage these risks, are described below. The Company and the Group do not use derivative instruments either to manage risk or for speculative purposes.

| | Group | | Company | |
|---|---|---|---|---|
| (in thousands of HRK) | 2020 | 2019 | 2020 | 2019 |
| Lease liabilities short-term part | 4,062 | 4,972 | 4,062 | 4,972 |
| Lease liabilities long-term part | 9,224 | 12,155 | 9,224 | 12,155 |
| Total borrowings | 160,291 | 139,926 | 156,113 | 142,801 |
| Less: Short-term deposits given and cash and cash equivalents | (702) | (1,306) | (693) | (1,279) |
| Borrowings, net | 172,875 | 155,747 | 168,706 | 158,649 |
| Capital and reserves | 15,859 | 46,370 | 13,651 | 43,714 |
| Gearing ratio | 1090.08% | 335.88% | 1235.85% | 362.92% |

**Credit risk**
The Company and the Group are exposed to credit risk, which is the risk that counterparty will default on its contractual obligations.
The Company's and the Group's assets with credit risk mainly consist of trade and other receivables and deposits. Therefore, as at 31 December 2020, credit risk is mainly concentrated on these assets. Credit quality of trade receivables not yet due by credit ratings is presented in note 23, the structure of cash and cash equivalents in banks by credit rating is presented in note 24.

The Company and the Group manage the risk level by determining limits to credit risk exposure toward a single debtor or a group of debtors.

**Liquidity risk**
Liquidity risk, also referred to as funding risk, is the risk that the Company and the Group will encounter difficulty in raising funds to meet commitments associated with financial instruments. The Company and the Group closely monitor their cash flows, and plan short-term inflows and outflows of cash.

The tables below present maturities of the Company's and the Group's borrowings as at 31 December 2020 and 31 December 2019 according to contractual undiscounted payments:

**Risk of lease change**
The risk of changes in the lease value represents the risk of a change in the EUR/HRK exchange rate since the majority of leases are denominated in EUR and translated at the middle exchange rate of the CNB at the date of payment.

**40. Financial instruments and risk management (continued)**

**b) Objectives and risk management policies (continued)**

**Company**

| 31 December 2020 | Contractual cash flows | 0 – 12 months | 1-2 years | 2-5 years | More than 5 years |
|---|---|---|---|---|---|
| Long-term borrowings | 93,319 | - | 16,698 | 52,773 | 23,848 |
| Short-term borrowings and loans received | 82,644 | 82,644 | - | - | - |
| Long-term lease liabilities (IFRS 16) | 10,499 | - | 3,748 | 2,998 | 3,753 |
| Short-term lease liabilities (IFRS 16) | 4,787 | 4,787 | - | - | - |
| Current trade payables | 26,299 | 26,299 | - | - | - |
| Total | 217,548 | 113,730 | 20,446 | 55,771 | 27,601 |

| 31 December 2019 | Contractual cash flows | 0 – 12 months | 1-2 years | 2-5 years | More than 5 years |
|---|---|---|---|---|---|
| Long-term borrowings | 95,862 | - | 10,710 | 53,360 | 31,792 |
| Short-term borrowings and loans received | 66,655 | 66,655 | - | - | - |
| Long-term lease liabilities (IFRS 16) | 14,019 | - | 7,461 | 4,846 | 1,712 |
| Short-term lease liabilities (IFRS 16) | 5,965 | 5,965 | - | - | - |
| Non-current trade payables | 416 | - | 416 | - | - |
| Current trade payables | 30,536 | 30,536 | - | - | - |
| Total | 213,453 | 103,156 | 18,587 | 58,206 | 33,504 |

**Group**

| 31 December 2020 | Contractual cash flows | 0 – 12 months | 1-2 years | 2-5 years | More than 5 years |
|---|---|---|---|---|---|
| Long-term borrowings | 93,319 | - | 16,698 | 52,773 | 23,848 |
| Short-term borrowings and loans received | 86,822 | 86,822 | - | - | - |
| Long-term lease liabilities (IFRS 16) | 10,499 | - | 3,748 | 2,998 | 3,753 |
| Short-term lease liabilities (IFRS 16) | 4,787 | 4,787 | - | - | - |
| Current trade payables | 26,746 | 26,746 | - | - | - |
| Total | 222,173 | 118,355 | 20,446 | 55,771 | 27,601 |

| 31 December 2019 | Contractual cash flows | 0 – 12 months | 1-2 years | 2-5 years | More than 5 years |
|---|---|---|---|---|---|
| Long-term borrowings | 95,862 | - | 10,710 | 53,360 | 31,792 |
| Short-term borrowings and loans received | 63,781 | 63,781 | - | - | - |
| Long-term lease liabilities (IFRS 16) | 14,019 | - | 7,461 | 4,846 | 1,712 |
| Short-term lease liabilities (IFRS 16) | 5,965 | 5,965 | - | - | - |
| Non-current trade payables | 416 | - | 416 | - | - |
| Current trade payables | 32,401 | 32,401 | - | - | - |
| Total | 212,444 | 102,147 | 18,587 | 58,206 | 33,504 |

The following overview presents the maturity structure of the Company's and the Group's current liabilities as at 31 December 2020 and 2019 in HRK:

Company

| (in thousands of HRK) | 0 - 180 days | 180 – 270 days | > 270 days | Total |
|---|---|---|---|---|
| Short-term borrowings and loans received | | | | |
| At 31 December 2020 | 18,709 | 3,565 | 60,370 | 82,644 |
| At 31 December 2019 | 52,742 | 7,605 | 6,138 | 66,485 |

Group

| (in thousands of HRK) | 0 - 180 days | 180 – 270 days | > 270 days | Total |
|---|---|---|---|---|
| Short-term borrowings and loans received | | | | |
| At 31 December 2020 | 22,888 | 3,565 | 60,369 | 86,822 |
| At 31 December 2019 | 49,868 | 7,605 | 6,138 | 63,611 |

**Interest rate risk**

The majority of interest-bearing assets and liabilities of the Company and the Group represent borrowings received. Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates relative to the interest rates which apply to the financial instrument. Interest rate risk related to cash flow is the risk that the financial instrument interest expense will fluctuate over time.

The overview below presents sensitivity of the Company's and the Group's pre-tax profit to possible changes in interest rates, with other variables unchanged (through the impact of variable interest rate on borrowings):

| Company | Increase/decrease in basis points | Impact on pre-tax profit in thousands of HRK |
|---|---|---|
| 2020 | | |
| HRK | +/- 50 | 488 |
| 2019 | | |
| HRK | +/- 50 | 477 |

| Group | Increase/decrease in basis points | Impact on pre-tax profit in thousands of HRK |
|---|---|---|
| 2020 | | |
| HRK | +/- 50 | 508 |
| 2019 | | |
| HRK | +/- 50 | 477 |

**40. Financial instruments and risk management (continued)**

**b) Objectives and risk management policies (continued)**

**Sensitivity analysis for foreign currency risk**
The majority of the Company's and the Group's assets are denominated in HRK. A certain portion of the Company's and the Group's trade payables is denominated in foreign currencies (primarily EUR), as bank borrowings. Accordingly, the Company and the Group are exposed to the risk of changes in exchange rates. Taking into account the long-term policy of the Republic of Croatia related to maintaining stable the exchange rate with the EUR, the Company does not consider it is significantly exposed to further negative effect of this exposure.

The table below presents the Company's and the Group's structure of credit assets and liabilities by the currency of exposure:

| Company<br>(in thousands of HRK) | Long-term borrowings | | Short-term borrowings and loans received | | Trade receivables | |
|---|---|---|---|---|---|---|
| | 31 December 2020 | 31 December 2019 | 31 December 2020 | 31 December 2019 | 31 December 2020 | 31 December 2019 |
| HRK | 166 | 7,153 | 70,973 | 56,171 | 2,044 | 4,673 |
| EUR | 73,303 | 69,162 | 11,671 | 10,314 | 2,478 | 4,884 |
| Total | 73,469 | 76,315 | 82,644 | 66,485 | 4,522 | 9,557 |

| Group<br>(in thousands of HRK) | Long-term borrowings | | Short-term borrowings and loans received | | Trade receivables | |
|---|---|---|---|---|---|---|
| | 31 December 2020 | 31 December 2019 | 31 December 2020 | 31 December 2019 | 31 December 2020 | 31 December 2019 |
| HRK | 166 | 7,153 | 75,151 | 56,171 | 4,631 | 8,054 |
| EUR | 73,303 | 69,162 | 11,671 | 10,326 | 2,478 | 4,884 |
| Total | 73,469 | 76,315 | 86,822 | 66,497 | 7,109 | 12,938 |

**b) Objectives and risk management policies (continued)**

| Company | Increase/decrease in basis points | Impact on pre-tax profit in thousands of HRK |
|---|---|---|
| 2020 | | |
| EUR | +/- 50 | 573 |
| 2019 | | |
| EUR | +/- 50 | 501 |

| Group | Increase/decrease in basis points | Impact on pre-tax profit in thousands of HRK |
|---|---|---|
| 2020 | | |
| EUR | +/- 50 | 573 |
| 2019 | | |
| EUR | +/- 50 | 501 |

**41. Significant legal cases**

**Varteks as the Defendant**

**1. Plaintiff the City of Belgrade**

The plaintiff the City of Belgrade initiated legal action against Varteks d.d., the Republic of Serbia and the Municipality of Zemun for the purpose of determining the ownership rights over a property in Zemun , Gospodska 3. The complaint stated the lack of active legitimation by the City of Belgrade, since Varteks acquired the property based on the Purchase and Sale Agreement concluded with the Municipality of Zemun on 28 August 1980. The first-instance partial ruling was in our favour. The plaintiff filed a complaint. The complaint was rejected, after which they filed a motion for revision. The procedure is in progress.

**Varteks d.d. as the Plaintiff**

**1. Defendant Kroko International d.o.o. Zagreb**

Varteks d.d. as the plaintiff requires a compensation of damage arisen due to non-performance of contractual obligations by the plaintiff under the Agreement on the business and technical cooperation. The claim amount is HRK 5,204,170.00. The first-instance ruling was in favour of Varteks. The defendant filed a complaint. By the decision of the High Commercial Court, the case was returned to the first-instance court for a repeated procedure. In the repeated procedure, the first-instance ruling stated we are entitled to HRK 3,663,578.00 for damages. The procedure is in progress.

**42. Contingent liabilities**

a) Co-debtorship, guarantees

   Co-debtorship – Varteks d.d. is a co-debtor to Zagrebačka banka for granted short-term borrowings following the cession of contractual receivables of the related party Varteks Pro d.o.o., while Varteks Pro d.o.o. is a co-debtor to Varteks for a bank borrowing granted for the preparation of export.
   Guarantees – Varteks d.d. is a guarantor to a supplier for the delivery of fabrics to the related company Varteks Pro.

b) Estimate of financial impact of contingent liabilities

   It is estimated that contingent liabilities will have no financial impact.

**43. Changes in liabilities arising from financing activities**

Changes in liabilities from financing activities for the Group and the Company:

| **Group** (in thousands of HRK) | **31 December 2019** | **Cash flow** | **Foreign exchange differences** | **Other non-cash items** | **31 December 2020** |
|---|---|---|---|---|---|
| **Non-current** | | | | | |
| *Liabilities to banks and other financial institutions* | 76,315 | (469) | (1,124) | (1,253) | 73,469 |
| *Lease liabilities* | 12,155 | - | - | (2,931) | 9,224 |
| **Current** | | | | | |
| *Borrowings* | 48,988 | 9,819 | (33) | (37) | 58,811 |
| *Liabilities to banks and other financial institutions* | 14,623 | 9,662 | (114) | 3,838 | 28,009 |
| *Lease liabilities* | 4,972 | (4,834) | - | 3,924 | 4,062 |
| Total | 157,053 | 14,178 | (1,271) | 3,615 | 173,575 |

| **Group** (in thousands of HRK) | **31 December 2018** | **Cash flow** | **Foreign exchange differences** | **Other non-cash items** | **31 December 2019** |
|---|---|---|---|---|---|
| **Non-current** | | | | | |
| *Liabilities to banks and other financial institutions* | 72,182 | (949) | 301 | 4,781 | 76,315 |
| *Lease liabilities* | - | - | 35 | 12,120 | 12,155 |
| **Current** | | | | | |
| *Borrowings* | 30,475 | 18,513 | - | - | 48,988 |
| *Liabilities to banks and other financial institutions* | 20,226 | (6,804) | 25 | 1,176 | 14,623 |
| *Lease liabilities (including interest)* | - | (4,862) | 29 | 9,805 | 4,972 |
| Total | 122,883 | 5,898 | 390 | 27,882 | 157,053 |

| **Company** (in thousands of HRK) | **31 December 2019** | **Cash flow** | **Foreign exchange differences** | **Other non-cash items** | **31 December 2020** |
|---|---|---|---|---|---|
| **Non-current** | | | | | |
| *Liabilities to banks and other financial institutions* | 76,315 | (457) | (1,124) | (1,265) | 73,469 |
| *Lease liabilities* | 12,155 | - | - | (2,931) | 9,224 |
| **Current** | | | | | |
| *Borrowings within the Group* | 2,897 | 2,216 | - | (5,112) | 1 |
| *Borrowings* | 48,988 | 9,819 | (33) | 37 | 58,811 |
| *Liabilities to banks and other financial institutions* | 14,601 | 5,690 | (114) | 3,655 | 23,832 |
| *Lease liabilities (including interest)* | 4,972 | (4,834) | - | 3,924 | 4,062 |
| Total | 159,928 | 12,434 | (1,271) | (1,692) | 169,399 |

| **Company** (in thousands of HRK) | **31 December 2018** | **Cash flow** | **Foreign exchange differences** | **Other non-cash items** | **31 December 2019** |
|---|---|---|---|---|---|
| **Non-current** | | | | | |
| *Liabilities to banks and other financial institutions* | 72,172 | (939) | 301 | 4,781 | 76,315 |
| *Lease liabilities* | - | - | 35 | 12,120 | 12,155 |
| **Current** | | | | | |
| *Borrowings within the Group* | 9,746 | 10,642 | 25 | (17,516) | 2,897 |
| *Borrowings* | 30,475 | 18,513 | - | - | 48,988 |
| *Liabilities to banks and other financial institutions* | 10,480 | 3,471 | 25 | 625 | 14,601 |
| *Lease liabilities (including interest)* | - | (4,862) | 29 | 9,805 | 4,972 |
| Total | 122,873 | 26,825 | 415 | 9,815 | 159,928 |

**44. Events after the balance sheet date**

In an effort to financially stabilize and ensure the long-term viability of the business, the Management Board of the company, with the consent of the Supervisory Board, initiated the sale of inactive properties and active negotiations with potential buyers. In order to speed up and facilitate to a certain extent the purchase and development of the sites for potential investors, the Company submitted a proposal to the Government of the Republic of Croatia on the proclamation of a strategic project. In February 2021, at the session of the Commission for evaluation and determination of strategic project proposals, the project proposal "Varteks block – urban regeneration" was unanimously accepted and the Commission will send the Decision on declaring a strategic investment project to the Government of the Republic of Croatia for adoption. The goal of this project is to maintain the business development of Varteks d.d. and to preserve the existing jobs. On 23 June 2021, at its session, the Government of the Republic of Croatia adopted the Decision on declaring the "Varteks block – urban regeneration" project a strategic investment project of the Republic of Croatia.

In order to increase revenues and expand to the surrounding markets, on 1 March 2021, the Company established a subsidiary in Slovenia under the name Varteks.si d.o.o. based in Maribor. On 31 March, the first Varteks store was opened in Maribor.

In order to ensure the necessary level of liquidity that would enable normal and uninterrupted business operations, and relieve the pressure on cash flow, the Management Board is intensively negotiating with banks during 2021 on the extension of liabilities for borrowings which on 31 December 2020. amount to HRK 28 million for the Group and HRK 24 million for the Company. On 31 March 2021, the Annex to the Club Loan Agreement was concluded with CBRD and Erste & Steiermarkische Bank d.d. according to the risk-sharing model. The Annex extended the borrowing repayment period for an additional year, i.e. until 31 March 2022.

On 15 April 2021 the Company released 234,780 treasury shares at a nominal value of HRK 10 per share for the amount of HRK 2.84 million. After the said release, the balance of the Company's treasury account amounts to 0 treasury shares, ie 0% of the Company's share capital.

On 31 May 2021 a loan was received from Stype Norway AS owned by Mr. Čajić in the amount of EUR 600,000, with the intention of converting the said loan into share capital. On 2 June 2020 a loan in the amount of HRK 1m was received from the holder of the largest number of shares. This points to the fact that the existing shareholders contribute to the stabilization of the financial condition of the Company and the Group in the challenging business period with additional loans or investments in share capital. This confirms their belief in the Company's potential in achieving business continuity.

Pursuant to the decision of the Commercial Court in Varaždin Tt-21 / 2377-2 of 2 June 2021, the share capital was increased by entering rights - monetary claims in the amount of HRK 5 million from HRK 41,066,860.00 to HRK 46,066,860.00.

On 9 June 2021 the Company concluded a Preliminary Agreement on the sale of part of the real estate in Varaždin, Zagrebačka 94. The subject of the sale is a part of the real estate registered in the Land Register, street 15393 k.o. Varaždin. The conclusion of the main sales agreement will follow the fulfillment of the conditions from the Preliminary Agreement, and the achieved sales price in the amount of 4 million euros is higher than the price kept in the Company's business books.

VARTEK&

*In Varaždin, 29th June 2021*

*In accordance with the provisions of the Capital Market Act, the Management Board of Varteks d.d. based in Varaždin submits:*

***MANAGEMENT REPORT***

***for 2020***

***Overview of the development and results of the Company's and the Group's business and financial position***

Despite the positive business results in 2019, and thus the positive expectations in the coming period, the coronavirus pandemic had a strong impact on the overall business and financial results in 2020.

In 2020, the Company's Management Board continued with the started processes of operational and financial restructuring, with a special focus on the development of retail and optimization of business processes within the procurement and production sector, expecting market recovery and continued positive results. However, the decision of the Government of the Republic of Croatia to partially close the economy (the so-called "lock-down") in order to curb the epidemic, had an extremely unfavorable effect on business results.

In the circumstances of difficult operations, the Varteks Group in 2020 achieved a decrease in operating revenues by 44.47% compared to 2019, achieving operating revenues of HRK 119.26 million. Varteks d.d. generated operating revenues of HRK 102.85 million and a decrease of 49.02% compared to last year. Normalized EBITDA of the Varteks Group in 2020 is negative and amounts to HRK -28.77 million

| | ACT | ACT |
|---|---|---|
| | **2020** | **2019** |
| | HRK thousand | HRK thousand |
| Loss from operating activities | (23,196) | (1,818) |
| Depreciation | 4,151 | 4,553 |
| Depreciation of right of use (IFRS 16) | 5,278 | 4,310 |
| Depreciation in total | 9,429 | 8,863 |
| Invoiced rent (not an expense under IFRS 16 application from 1 January 2019) | (4,880) | (5,041) |
| *EBITDA before IFRS 16 impact* | *(18,647)* | *2,004* |
| *One off items:* | | |
| Income from reversal of provisions | (965) | (767) |
| Income from one-off grants | (20,650) | (1,478) |
| Severance | 169 | 433 |
| Other provisions | 1,931 | 220 |
| Impairment of inventories | 1,652 | 1,448 |
| Settlement costs – CERP | - | 1,593 |
| Impairment of non-current assets | 6,819 | - |
| Impairment of receivables | 109 | - |
| **Normalised EBITDA before effects of IFRS 16** | **(29,582)** | **3,453** |
| Effects of IFRS 16 | 4,880.0 | 5,041 |
| **Normalised EBITDA after effects of IFRS 16** | **(24,702)** | **8,494** |

Regarding financial activities in 2020, a net cost of HRK 7.60 million was realized. The majority of financial expenses in 2020 relate to interest expenses in the amount of HRK 7.01 m and to foreign exchange losses in the amount of HRK 5.89 million. Of this amount, HRK 4.76 million relates to the accrued interest on the club loan. According to the contract, this interest is added to the principal until April 30, 2021. year and since then it is repaid in installments until 31.10.2028. years.

**Principal risks and overview of probable future business development for the Company and the Group**

After a significant improvement and stabilization of operations in 2019, which was marked by growth and development, Varteks' operations in 2020 are strongly influenced by the crisis caused by the COVID-19 pandemic. Although retail stores (except web stores) were closed for 6-7 weeks during the spring, compensatory measures by the CES for the payment of salaries enabled normal business operations and job retention, and the negative effects of the pandemic were mitigated. The decline in demand for own products, as well as the reduction in orders from foreign customers, was partially offset by a reorientation towards the production of washable cotton face masks.

By changing how business is conducted and how workers are being treated, Varteks has managed to slow down the outflow of workforce and offset the rise in salary costs with higher production efficiency and higher prices, both in contract manufacturing and in own retail segment.

In 2020, the Company and the Group operated under the impact of the pandemic with significantly less revenue than planned, as well as compared to the previous period. The strategic decision to base the future business growth on the development of own fashion brand through the retail channel remains the direction of business in the future. The webshop, which generated revenue throughout 2020, achieved a strong growth of 55% compared to the previous year. Customer habits are changing rapidly, so we strive for changes that will bring stability and prosperity to the company, which will be felt by all stakeholders associated with Varteks as well as the wider community.

Significantly impaired liquidity remains the most significant burden and risk. Management is working intensively on ensuring long-term liquidity and reducing the Company's debt, first of all through monetisation of the Company's properties, primarily of the property at the site of the Company's headquarters in Varaždin, for which several parties are interested. Work on the monetisation of the Company's inactive assets resulted in the first signed pre-agreement on the sale of part of the property in Varaždin in May. The completion of this transaction and the continuation of the initiated monetisation of properties is expected during 2021.

Present expectations of the Management Board with respect to future development of the Group's and the Company's operations are as follows:

- although retail sales have been suspended since 19 March 2020 (excluding web sales), we have received significant compensatory measures (award of a CES measure regarding the payment of salaries, write-offs and deferrals of rent payments from certain landlords, etc.);
- although our orders from foreign customers have been reduced, at the same time we have reoriented ourselves to the production of the necessary washable cotton face masks for which we have a high demand and currently filled capacities;
- increase the number of retail units during 2021 in the country;
- pening of retail units in Slovenia, the first was opened in April 2021 in Maribor and in July 2021 it is planned to open a retail unit in Ljubljana;
- At the moment, our sales through the webshop are doing much better than last year, and we believe that this will strengthen our online position in the times after the crisis caused by the corona virus pandemic;
- we still have a strong interest of interested buyers for the purchase of non-operating real estate at values that are not less than estimated, whose sale will enable the medium and long-term stabilization of the company; which was also confirmed by the signing of the pre-sale agreement during the month of June;
- although it is likely that through the "post corona" crisis the fashion industry will be one of the most affected, since Varteks is one of the few vertically integrated fashion houses (with its own production,

within the EU), in the long run we believe that megatrend return production to the EU to benefit our further development,

***R&D activities***

R&D activities mainly relate to the development of new collections.

***Information on treasury shares***

In the reporting period, the parent company did not repurchase its own shares. As at 31 December 2020, the parent company holds 234,780 treasury shares with the nominal value of HRK 2,348 thousand.

***Information on existing subsidiaries of the parent company***

As at 31 December 2020, the parent company has the following active subsidiaries:

- Varteks Pro d.o.o.

**Varteks Pro d.o.o.**

The company Varteks Pro d.o.o. is wholly owned by the Company.
The company Varteks Pro d.o.o. specialises in sewing special-purpose clothing for special customers (most notably the police and military).

In 2020, the company generated revenue of HRK 22.7 million (2019: HRK 37.1 million). The Company generated HRK 153 thousand in profit (2019: HRK 1.3 million). The Company's assets as at 31 December 2020 amounted to HRK 7.5 million (31 December 2019: HRK 7.3 million). Net capital at 31 December 2020 amounted to HRK 2.28 million (31 December 2019: HRK 2.1 million). The number of employees was 34 (2019: 32). The director of the company is Ms. Natalija Vnučec.

The company V-projekt, društvo s ograničenom odgovornošću, Varaždin, Zagrebačka 94, MBS: 070093329, OIB: 65657916431 as the acquiree was merged with the company VARTEKS varaždinska tekstilna industrija d.d., Varaždin, the city of Varaždin, Zagrebačka 94, MBS: 070004039, OIB: 00872098033 as the acquirer, based on the Merger Agreement of 17 September 2020 and the Decision of the acquiree's General Assembly of 26 October 2020.

***Description of the financial risk management policies and exposure of the Group and the Company to those risks***

The financial statements contain the required disclosures regarding the Group's and the Company's management and exposure to financial risks. The Group and the Company are not significantly exposed to price risk. The management of liquidity risk and cash flow risk is described in the financial statements in Note 40 b).

In this report, we would like to highlight liquidity risk as still the most significant business risk. Management is undertaking financial restructuring measures to ensure funds for the settlement of past due liabilities. We expect that additional cash inflows from the sale of the Company's properties (not used in production operations) could be generated during 2020, some of which should be used to reduce past due debt to creditors and to reduce financial debt.

VARTEKS d.d. / Zagrebačka 94 / HR-42000 VARAŽDIN / 16

| | |
|---|---|
| ***Tomislav Babić*** | ***Denis Smolar*** |
| ***President of the Management Board*** | ***Member of the Management Board*** |

# Non-Financial Report 2020

VARTEKS

# Contents



# I. General standards

# STRATEGY

## Introductory word by the President of the Management Board

*Dear stakeholders and readers,*

*below we attach the fourth Non-financial report for the Varteks Group relating to 2020. The report presents the most significant events and changes in the overall operations during the year and the company's relationship with all interested stakeholders from the wider social community. The crisis caused by the COVID-19 pandemic did not affect this relationship and it is still socially responsible, and in time of need we have put additional effort to help community. The report presents business and social activities of the company and the related integral process.*

*After a significant improvement and stabilization of operations in 2019, which was marked by growth and development, Varteks' operations in 2020 are strongly affected by the crisis caused by the COVID-19 pandemic. Although retail stores (except the webshop) were closed for 6-7 weeks during the spring, we received significant CES compensation measures for the payment of salaries, which enabled the company to survive and maintain business continuity. Although under the influence of a significant decline in demand for our own products and a decrease in orders from foreign customers in the contract manufacturing segment, we quickly reoriented to the production of washable cotton face masks for which there was great demand. Varteks donated the first 70,000 masks to the Civil Protection and the Ministry of the Interior of the Republic of Croatia.*

*Varteks' business, despite very challenging market disruptions in supply and demand, is still based on a century-old tradition of creating quality garments that has influenced many generations associated with Varteks in various ways. Varteks former and current employees, customers for whom Varteks' consistency of quality has been and remains recognizable, new customers who have recognized us, numerous business partners with whom we have been cooperating for many years, as well as those with whom we have just started cooperation and all other stakeholders with whom we build socially responsible relations. The development and sustainability of these relationships is the goal that Varteks pursues in its business on a daily basis.*

*In 2020, the Company and the Group operated under the impact of the pandemic with significantly less revenue than planned, as well as compared to the previous period. The strategic decision to base the future business growth on the development of own fashion brand through the retail channel remains the direction of business in the future. The webshop, which was the only one to generate revenue throughout 2020, achieved a strong growth of 55% compared to the previous year. Customer habits are changing rapidly, so we strive for changes that will bring stability and prosperity to the company, which will be felt by all stakeholders associated with Varteks as well as the wider community. Work on the monetization of the Company's inactive assets resulted in the first signed pre-agreement on the sale of part of the property in Varaždin in May. The completion of this transaction and the continuation of the initiated monetization of properties is expected during 2021.*

*In 2020, the work on the development of the retail network of stores was continued. In addition to the preparations for the opening of new stores that opened in 2021, several stores have been renovated while some have been relocated to new locations. Fashion bus – Modabus, an innovative solution that has enabled Varteks to be present in many places throughout Croatia where it once operated, as well as in those that due to geographical location do not offer quality clothing (Croatian islands), continued its travels in 2020. With its first trips to the Republic of Slovenia, to the cities of Ljubljana and Maribor, it announced the return of Varteks to the Slovenian market, which followed in 2021.*

*During 2020, with various stakeholders: workers, the local community as well as significant business partners, we invested additional efforts in maintaining and improving relationships and mutual trust and cooperation. Of course, as in any process, there are opportunities for upgrading and development, as well as improvements in understanding and developing economic, social and environmental aspects of cooperation with the wider community in the future. In order to protect the health of our employees, customers and business partners, we implement all prescribed epidemiological measures since the beginning of the pandemic.*

*The name Varteks is known throughout the country and the region and has been brought back to the market as an umbrella brand. Re-establishing our own brand through modern design, top quality materials and workmanship is the key to Varteks' success.*

*All the preserved internal values of the company, as well as the new strength brought by changes, provide synergies aimed at further sustainable business development, which also ensures the preconditions for corporate socially responsibility.*

*Sincerely,*

*Tomislav Babić*

*President of the Management Board of Varteks d.d.*

VARTEKS d.d.

/ Zagrebačka 94 / HR-42000 VARAŽDIN / 16

# ORGANIZATIONAL PROFILE

## The Company

Varteks d.d., a fashion and textile company founded in 1918, in its century-old tradition has been changing and evolving, going from the convincingly most significant fashion and textile industry in the (former) country, through the pre-bankruptcy and failed return, to the current resurgence in the fashion field..


Although it had over 10,000 employees at its peak, now with over 1,000 employees it is still among the largest employers in northwestern Croatia.

In its 100 years of existence and business, Varteks has been creating fashion. With extraordinary collections in terms of style and workmanship, it has taught generations to recognize and choose beautiful and quality clothing. For decades, Varteks has been created by generations of residents of the Varaždin County, and beyond, who have incorporated their lives into what the company is today.

There are no generations unrelated to Varteks: as employees, grantees, suppliers, business partners, ambassadors or customers. Throughout history, the Varteks family has consisted of its own brands Varteks, Phillipe Vartin, Luis Fabre, Edora, Focus, Varteks International, Di Caprio by Varteks. Today Varteks is again integrating its offer through the umbrella brand Varteks.

Varteks reached its peak about fifty years ago, and was on a downward path until recently. Sewing for third parties became the basis of operations and even a widely celebrated business like the one with Levi Strauss & Co. was of this type. Over the last decade and a half, Varteks was declining rapidly and was saved from bankruptcy by a pre-bankruptcy settlement, the rapid dismissal of employees, and the intensive sale of assets. In short, Varteks did not fulfill its fundamental social function – creating value for its stakeholders and therefore was not a socially responsible company. Unfortunately, as the business deteriorated steadily and quickly, and there were no more assets available for sale, at the beginning of 2018, on its 100th birthday, Varteks was on the verge of bankruptcy, and scraped through by capital contribution.

Nevertheless, today's market orientation of Varteks opens the space for re-establishing leadership in the fashion and textile industry. Openness to new ideas and advanced technologies, cooperation with relevant institutions and timely monitoring of market trends are recognized in the market. Varteks is once again opening new retail stores across Croatia, creating attractive and desirable fashion, and selling its own brands at high rates. At the same time, the production and sale of special-purpose clothing and corporate clothing is stabilized and ready for the development to new, higher, levels.

## Tradition


*<u>Varteks history milestones:</u>*

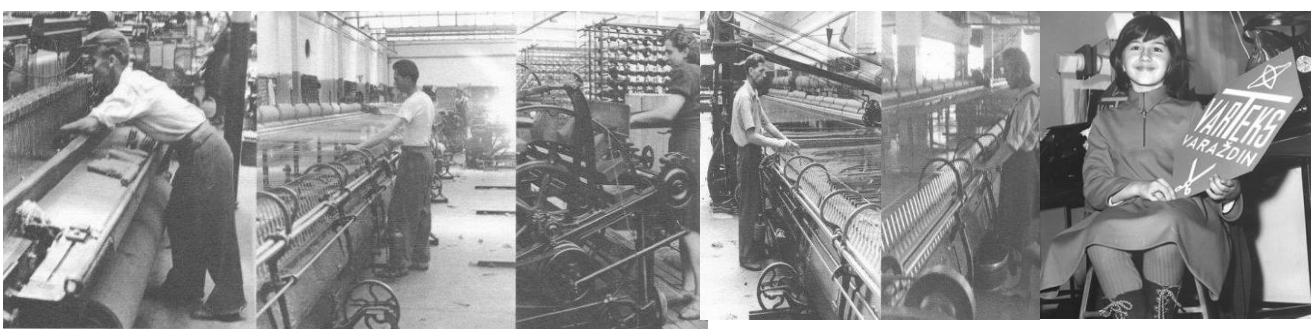
1918 Textile Factory Varaždin – Tivar founded

1922 Production of woolen yarn and fabric began

1926 Production of clothing items started

1929 The establishment of a network of sales facilities began

1948 Tekstilna industrija d.d. Varaždin is nationalized and becomes Varteks




1972 The fashion brand Varteks International was created

1983 Varteks starts cooperation with Levi Strauss & Co.

1994 The fashion brand Di Caprio was created

1994 The production for Hugo Boss began,

2003 Beginning of development and production of men's clothing for J.Lindeberg

2008 Start of men's clothing production for The Kooples

2013 Successful pre-bankruptcy settlement of Varteks

2018 Successful capital contribution to Varteks, which enabled a partial stabilization of operations and initiated revitalization of the brand

2019 Successfully implemented web shop which becomes one of the main retail channels

## Activities, brands, products, and services

Varteks has four main operating segments: Retail (development, production and sale of its own brands), Wholesale and dealership, Contract manufacturing (contracted work, mostly export) and Special clothing (production and sale of special-purpose clothing).

The largest part of the sales range is produced at Varteks plants, while the other, smaller part of the sales portfolio, is the goods of the manufacturers with whom the company has partnerships.

The key to the Varteks' turnaround was the re-establishment of its own high-quality clothing brand, and in the second half of 2018, the Supervisory Board paid particular attention to the turnaround in that part of the business and established its Development and Strategy Committee.

In March 2020, due to the pandemic of the coronavirus in Croatia and the world, Varteks started producing washable cotton face masks sold through retail stores, the webshop and wholesale. Due to the situation, Varteks donated the first 70,000 masks to the Civil Protection Service and the Ministry of the Interior of the Republic of Croatia.

## Own brands

In 2020, business is primarily focused on maintaining business continuity. Despite the decline in demand, development continued in the production of own brands and retail stores. Varteks' portfolio consists of the following brands:

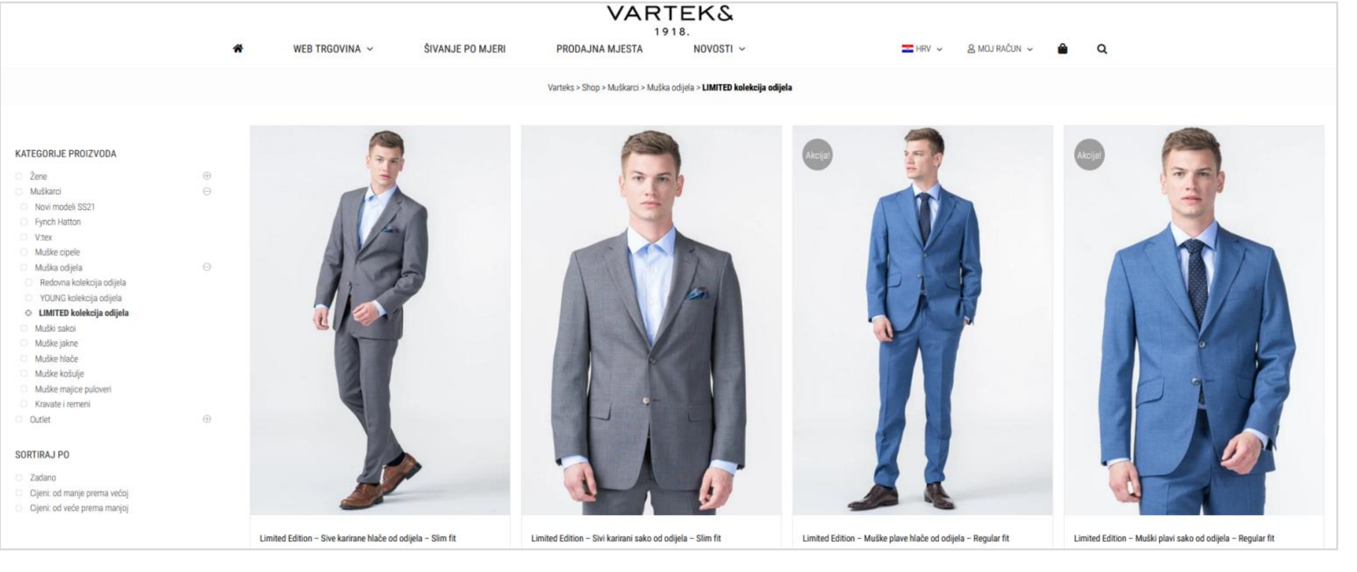
- Varteks Limited is a collection of the highest quality, which clearly expresses ambitions to improve the quality of the entire portfolio, but also contributes to profitability
- the most exclusive line of Varteks tailor made sewing continues to grow significantly in volume but also in the average price of items, given the wishes of clients to choose fabrics of increasingly high quality. The custom tailored sewing service is the highlight of Varteks' expertise in making suits, jackets, trousers and coats. Fabrics from the most famous Italian manufacturers such as **Loro Piana**, **Marzotto** and **Marlane**, **Angelico** and **Vitale Barberis Canonico** are used
- Varteks Man is the main line of suits, made of quality imported fabrics, with modern cuts and top workmanship
- Varteks Young is a brand that addresses first-time suit buyers (proms, confirmations, graduations, etc.) in the lower price category; thus abandoning the strategy of discounting the main line of suits to match competition in that segment
- V:TEX is a series of outdoor products of the highest quality for retail, arising from the expertise of Varteks Pro that produces the most demanding uniforms to high standards
- Varteks Woman is the business elegance collection for women. It includes various sets, jackets, trousers and suits made of woolen fabrics from top manufacturers
- the suit portfolio available in stores is the widest and the most dynamic in Varteks' recent and possibly entire history.

# Product distribution

Varteks mainly markets its products on the domestic market through its own retail stores, and they are the result of investments in own design and development. With a better pricing strategy that capitalizes on the strength of increasingly high-quality products and the use of better and more modern forms of digital marketing, and an ever-expanding portfolio of own products, Retail revenues and even more profitability continue to be the main profit center.

At the end of 2020, Varteks' retail network of stores consisted of 26 sales units, 2 outlet centers, 4 tailoring salons and a webshop. Varteks wholesale partners' points of sale are located at 1 location in Croatia and 12 in Bosnia and Herzegovina.


Adapting to the needs of the market and customers, Varteks launched a webshop in the summer of 2018. The new sales channel has been very well received by customers. In 2020, during the months in which physical business units were closed due to the corona virus pandemic, it was the most important retail sales channel. During 2020, **more than 15 thousand purchases** were recorded.



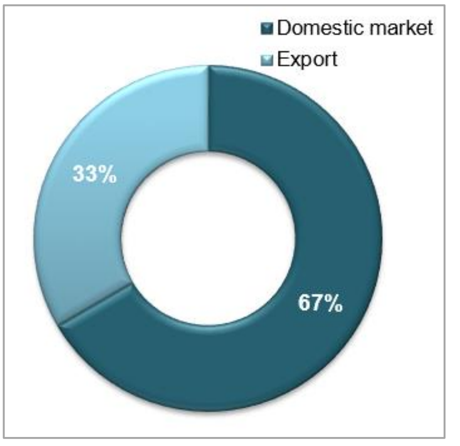


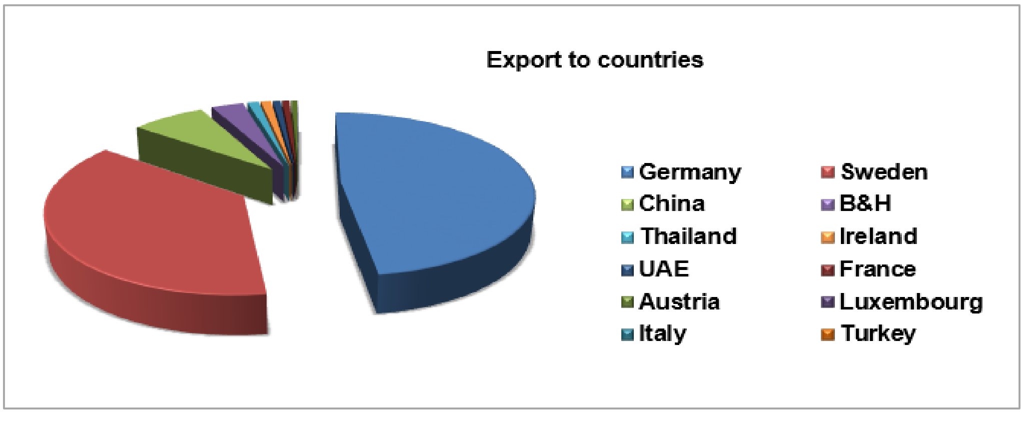
**Fashion bus** (traveling shop) – a bus that combines physical and mobile store, turned into a showroom where customers can try on clothes and generate an online order. The project, launched in 2019 when it visited **more than 120 places** in the Republic of Croatia, and of particular importance was its presence on the Croatian islands, continued its travels in 2020, with first international trips to Ljubljana and Maribor in the neighbouring Republic of Slovenia.

## Geographical structure of income

In addition to covering the domestic market, the company also pursues an active export policy and generates about 33% of its sales revenue in foreign markets.

Varteks is one of Croatia's largest apparel exporters, exporting its garments to more than 10 countries, mostly to the European Union countries.




## Contract manufacturing

The quality and almost a century-old tradition of Varteks is recognized by renowned world brands with which Varteks cooperates – Hugo Boss, J. Lindeberg and others.

In 2020, business was primarily focused on maintaining business continuity. In the area of export operations, the cooperation with existing renowned business partners continued, with reduced orders from contracted ones as a result of a decreased demand due to the COVID-19 pandemic.

Orders from one of the two significant customers in the contract manufacturing segment are certain by the end of September 2021.

BOSS HUGO BOSS

Varteks has been producing for Hugo Boss since 1994, and for the last fifteen years it has been at the top of the list of the best contractors of that fashion house.

J.LINDEBERG

Varteks has been producing and developing men's clothing for J. Lindeberg since 2003. J. Lindeberg is a Scandinavian fashion house founded in 1996 in Stockholm with a vision of creating an international brand.

VARTEKS :PRO

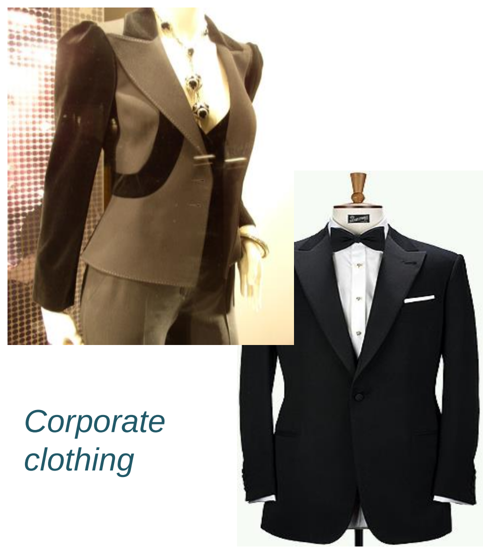
## Corporate clothing and special-purpose clothing

In the development and expansion of the Varteks Group's business, the production and sale of corporate and special-purpose clothing holds an important place. It is a business model that is partly related to public procurement contracts and partly to contractual work for domestic business partners.

These programs are based on recognizable quality, which is complemented by continuous monitoring of the technical development of clothing for use in special conditions and for special purposes. This type of sales records continuous growth and development, both in terms of volume and in the development of quality that meets the specific needs of the target market segment.

The clothing is designed and adapted to the needs of different forms of corporate dress and all forms of uniforms and other special clothing.

Varteks Pro also offers a line of heavy duty outdoor clothing under the brand V:TEX. The collection includes top-quality heavy duty jackets and trousers for adrenaline junkies and those who spend time outdoors, to whom protection from water and wind is important.



*Corporate clothing*

*Special-purpose clothing*

*Formal and regular uniforms*

Varteks Pro d.o.o. is the holder of the ISO 9001:2015 quality management system and ISO 14001:2015 environmental management system certificates.

# CERTIFICATE

## VARTEKS PRO d.o.o.

Zagrebačka 94, HR-42000 VARAŽDIN

Adria Norma certifies that the Management System of the above mentioned company has been evaluated and meets the requirements estabilished by the following rules:

**ISO 9001:2015**
**ISO 14001:2015**

The management system includes
**Development, production and distribution of personal, protective and ballistic products**

Certification is conducted according to Adria Norma audit and certification procedures and is a subject of annual audits.

Certification service Adria Norma

Certificate no.: 13691
Audit date: 19.02.2020
Date of issue: 20.02.2020
Expiration date: 19.02.2023.

## Location of headquarters

Zagrebačka 94, 42 000 Varaždin, Republic of Croatia

## Ownership and legal form

Shares of Varteks d.d. with the VART ticker symbol are listed on the Official market of the Zagreb Stock Exchange.

As at 31 December 2020, the share capital of the Company amounts to HRK 41,066,860.00 and is divided into 4,106,686 ordinary shares, each with a nominal value of HRK 10.00.

The company is entered in the register of the Commercial Court in Varaždin, business number from the register Tt: 95/463-2 (MBS) 070004039, M.B. 3747034, OIB: 00872098033 VAT: HR00872098033.

In accordance with effective regulations, the Company ensures regular access to information on its operations and activities, as well as information on facts and circumstances that may affect the price of shares (price sensitive information).

The Company treats all shareholders equally and under the same conditions regardless of the number of shares in their possession, their country of origin, and other characteristics. Voting rights cover all shareholders in such a way that the number of votes belonging to them in the General Assembly is equal to the number of their shares.

Overview of top 10 shareholders with the largest number of shares as at 31 December 2020:

| Ordinal number | Name and surname | Number of shares VART | % of total shares |
|---|---|---|---|
| 1 | Bakić Nenad | 1.917.403 | 46,7% |
| 2 | Košćec Zoran | 428.382 | 10,4% |
| 3 | Varteks d.d. | 234.780 | 5,7% |
| 4 | Igrec Stjepan | 134.944 | 3,3% |
| 5 | Košćec Dražen | 72.717 | 1,8% |
| 6 | Žonja Igor | 62.759 | 1,5% |
| 7 | Interkapital vrijednosni papiri d.o.o. | 56.524 | 1,4% |
| 8 | OTP banka Hrvatska d.d. | 28.449 | 0,7% |
| 9 | Košćec Vladimir | 25.835 | 0,6% |
| 10 | Čajić Stjepan | 22.176 | 0,5% |

## The size of the organization

- The total number of employees in the Varteks Group as at 31 December 2020 was 982.
- Group's total operating income in 2020 amounts to HRK 119 mil., and sales revenue to HRK 114 mil.
- The share of own products and services in sales revenue is 68%.
- In 2020, the company has the share of capital in the sources of financing of 6%.
- Total of 22 registered activities.

## Employees

*86% of employees are women.*

*96% of employees are covered by the Collective Agreement.*

During the reporting period, the number of employees decreased by 7%. Of the total number of employees, 601 (or 61%) work in production facilities, mostly as seamstresses.

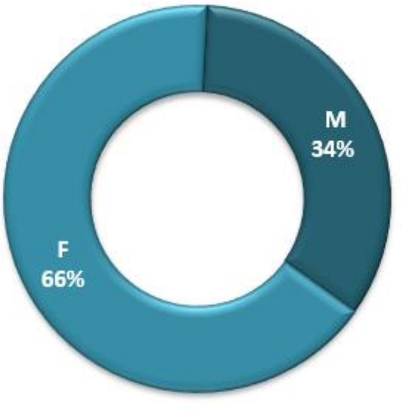
| Fixed term contract | | Contract for an indefinite period | | Total | |
|---|---|---|---|---|---|
| 31 Dec 2019 | 31 Dec 2020 | 31 Dec 2019 | 31 Dec 2020 | 31 Dec 2019 | 31 Dec 2020 |
| **97** | **50** | **960** | **932** | **1.057** | **982** |

The structure of Varteks Group employees includes mostly women. By the employment contract type, most employees have indefinite term full-time (40 hours per week) contracts.

| Age | M | F | Total |
|---|---|---|---|
| **< 29** | 4 | 26 | **30** |
| **30 - 39** | 11 | 73 | **84** |
| **40 - 49** | 28 | 332 | **360** |
| **> 50** | 92 | 416 | **508** |
| **Σ** | **135** | **847** | **982** |

*The average age of employees is 49.*

The Management board gender diversity



## Supply chain

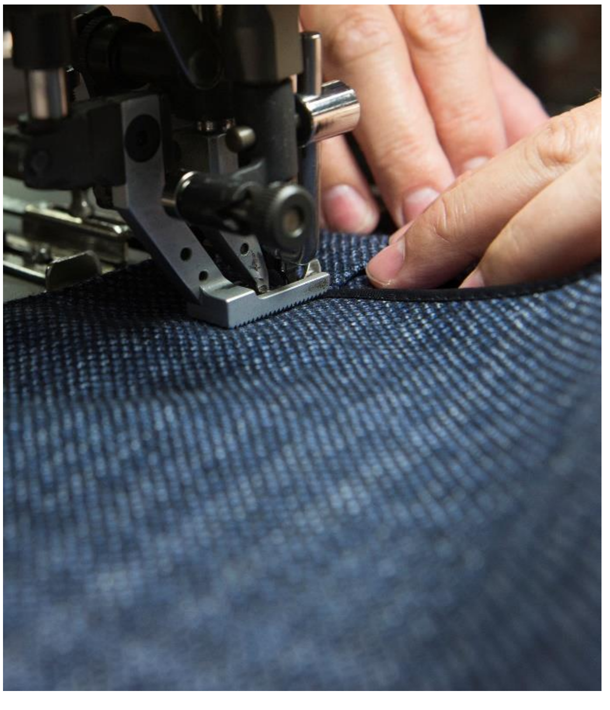
During the reporting year 2020, the Varteks Group cooperated with 775 suppliers in the total amount of around HRK 96 million:

- domestic suppliers - 578 suppliers in the total amount of HRK 41.4 million;
- foreign suppliers - 197 suppliers in the total amount of HRK 54.8 million.

Geographically, 75% of suppliers are from the domestic market with a share of 43% of procurement turnover. As Croatia does not have a domestic fabric manufacturer, the focus is on suppliers that are geographically closer to the factory, which, in addition to the quality and fashion factors, is the key reason why the largest share is held by suppliers from Italy..

In terms of quality control, the greatest attention is paid to fabric suppliers, for whom detailed procedures for receipt and possible complaints have been developed. Upon receipt, the fabric is subject to a quality control that takes place in own laboratory. The Procurement Department has developed a methodology for evaluating all key fabric suppliers, with high importance being given to the quality factor.

The emphasis is on renowned fabric suppliers, who, in addition to quality, reliability and speed, pay attention to environmental protection, and responsibly approach energy and water savings, in a way that the chemicals they use in the manufacturing process meet the prescribed standards.



*775 suppliers worked with the Varteks Group in the reporting period.*

We build relationships with partners on trust, mutual understanding and mutual respect for agreements and needs. Building a quality partnership creates the preconditions for meeting delivery deadlines, sustainable and fair prices, and product and service excellence. Also, partnering with suppliers is a prerequisite for sustainable supply chain management, which directly affects the company’s savings and profitability.

In 2020, the Procurement Department implemented a project to improve the procurement process. During the period of the reorganization and optimization process, the most important adjustments were made in accordance with the standard and the company's existing resources and expectations. As of 15 February 2021, Varteks d.d. met all the parameters that are a prerequisite for obtaining the *PAM©standard-Excellence in Procurement* certificate with the right to use it for two years.

CRONATA d.o.o.

Vaš partner u nabavi i upravljanju zalihama

Certifikat

EXCELLENCE IN PROCUREMENT

PAM© STANDARD

Potvrđuje se da je tvrtka:

**Varteks d.d. Varaždin**

provela projekt unapređenja procesa nabave i lanca dobave u skladu sa PAM©standardom za područje

proizvodnja modne odjeće

Varaždin, 15.02.2021.

Cronata d.o.o.

Broj certifikata: PAM 01-2021
Datum izdavanja certifikata: 15.02.2021.
Datum važenja certifikata: 15.02.2023.

Certifikacija je provedena u skladu sa PAM©standard-Excellence in Procurement koje je u vlasništvu tvrtke Cronata d.o.o. ovlaštene za provođenje implementacije, kontrole i izdavanje certifikata.

# Significant changes in the organization

## Changes in the Supervisory Board

| Supervisory Board of Varteks d.d. - Members - | 31 Dec 2019 | Changes in 2020 | 31 Mar 2021 |
|---|---|---|---|
| Nenad Bakić | President of the Supervisory Board | President of the Supervisory Board from 1 January 2020 | President of the Supervisory Board |
| Igor Žonja | Vice president of the Supervisory Board | | Vice president of the Supervisory Board |
| Božica Čićek Mutavdžić | Member of the Supervisory Board (employee representative) | | Member of the Supervisory Board |
| Ivo Šulenta | Member of the Supervisory Board | | Member of the Supervisory Board |
| Mirjana Droptina | Member of the Supervisory Board | | Member of the Supervisory Board |

## Changes in the Management Board

| Management Board of Varteks d.d. - Members - | 31 Dec 2019 | Changes in 2020 | 31 Mar 2021 |
|---|---|---|---|
| Nenad Bakić | President of the Management Board | President of the Supervisory Board from 1 January 2020 | President of the Supervisory Board |
| Tomislav Babić | Member of the Management Board | President of the Management Board from 1 January 2020 | President of the Management Board |
| Damir Radmilović | Member of the Management Board | | Resignation on 15 January 2021 |
| Denis Smolar | | | Member of the Management Board from 5 February 2021 |

## Debt restructuring

With the aim of restructuring the financial debt, negotiations with possible investors regarding the capital contribution to the Company were held during 2017, with negotiations with key banks ZABA / CBRD on the refinancing of the Club loan and the manner of settlement of past due liabilities.

At the beginning of 2018, in parallel with the implementation of the capital contribution, an Appendix to the Club loan was signed in which new, more favorable financing conditions were agreed with a lower interest rate, loan rescheduling with a grace period of 36 months, for both the principal and accrued regular interest during the grace period and interest due by the date of the Annex to the Agreement. This made operations significantly financially facilitated during the grace period, which was a prerequisite for carrying out further activities regarding balancing the company’s liquidity position.

In October 2020, the Company concluded a club loan with CBRD and Erste banka as commercial bank, according to the risk-sharing model, in the amount of HRK 12 million – from the Covid-19 program, in order to improve liquidity. The borrowing was granted with a repayment period until 31 March 2021, and extended by an annex until 31 March 2022.

An additional important factor in reducing debt is the sale of inactive properties, which is the focus of the present Management Board.

## The merger of V-projekt d.o.o.

Varteks d.d., as the acquirer and V-projekt d.o.o., as the acquiree, entered into the Merger Agreement, which was submitted to the court register of the Commercial Court in Varaždin on 18 September 2020. Given that Varteks d.d. held all business shares in V-projekt d.o.o., this was a merger in special cases from Article 531 of the Companies Act. Consequently, the approval of the General Assembly of the Acquirer was not required for the merger.

On November 11, 2020, the Commercial Court in Varaždin announced the merger. The merger did not result in an increase in the share capital of Varteks d.d. nor was the share exchange for the business shares of V-project d.o.o. performed.

## Other elements of restructuring

The company's operations in 2020 were heavily affected by the COVID-19 pandemic. In the regular business activities, numerous epidemiological measures have been introduced to protect the health of employees, customers and business partners.

The processes, frameworks and further development of the business model within each individual business area and at the level of the entire company, initiated in the previous year, were continued:

- re-establishing the market position of own brand
- strengthening the sales range and investing in the retail network (standardization and expansion of the new shop concept)
- training of sales consultants in retail stores
- strengthening digital marketing as the main promotional tool
- optimization of production efficiency through monitoring of operational efficiency and investment in production technology

In addition to the development of basic business processes, a project to restructure the production process and invest in a new ERP system, which was initiated in 2020, continued in 2021.

## Precautionary approach

In order to protect human health and the environment, Varteks is guided by a precautionary approach, in accordance with the Environmental Protection Act.

The approach is aimed at avoiding all possible risks, especially when applying new technology or improving existing technology from the aspect of environmental protection. Both directions of application are oriented towards the acquisition, disposal and use of knowledge about its impact on the environment and human health, and it is used only after full and complete knowledge of these impacts.

Risk management is appropriately applied in various processes and activities. They have been implemented in project activities, new product development, introduction of production equipment, space organization, change management, production processes and distribution to the market.

## External initiatives

Varteks accepts and implements legal norms and principles, guidelines, good practices and recommendations that contribute to higher quality products, work and production process and the preservation and improvement of the natural and social environment.:

- Act on the Environmental Protection and Energy Efficiency Fund (OG 107/03, 144/12)
- Environmental Protection Act (OG 80/13, 153/13, 78/15, 118/18)
- Act on Sustainable Waste Management (OG 94/13, 73/17,14/19, 98/19)
- Air Protection Act (OG 127/19)
- Act on Climate Change and Ozone Layer Protection (OG 127/19)
- Occupational Safety and Health Act (OG 71/14, 118/14, 94/18, 96/18)
- Corporate Governance Code (HANFA, Zagreb Stock Exchange)

## Membership of associations

Croatian Chamber of Commerce

Croatian Employers' Association - Textile and Leather Industry Association

Croatian Competitiveness Cluster for Textile, Leather Goods and Footwear Industry

Croatian Competitiveness Cluster for Defense Industry

Croatian Exporters

# ETHICS AND INTEGRITY

## Values, principles, standards, and norms of behavior

In all aspects of its socially responsible operations, Varteks has taken an active and open approach in identifying and monitoring the relevant indicators by which these aspects affect all stakeholders connected by internal and external relationships. In line with our knowledge and capabilities, adjustments are made aimed at improving quality in the application of our social responsibility, which is recognized as a valuable component of the company's business processes.

As a joint stock company whose securities are listed on the regulated market of the Zagreb Stock Exchange, Varteks applies the Corporate Governance Code. This is a set of rules and principles that lays the foundation for building sophisticated corporate relationships within an organization with the aim of establishing high standards of governance, transparency of operations and enhancing the corporate governance culture of joint stock companies. The Code is in line with the regulatory framework and principles of European directives in the area of corporate governance.


The basic principles of this Code are:

- business transparency
- clearly defined procedures for the work of the Supervisory Board, the Management Board and other bodies and structures that make important decisions
- avoiding conflicts of interest
- effective internal control; and
- effective accountability system

The Code is an extremely valuable guideline for joint stock companies in increasingly challenging business circumstances and is a kind of guide to establishing a healthy corporate culture to achieve the optimum balance between a company's need for competitiveness, growth and development on the one hand, and the interests of all stakeholders involved on the other.

# GOVERNANCE

## Governance structure

The Management Board of Varteks d.d. as at 31 December 2020 comprises:

Tomislav Babić, President of the Management Board

Damir Radmilović, Member of the Management Board

At the beginning of 2021, there was a change to the Management Board and as of that date it consists of:

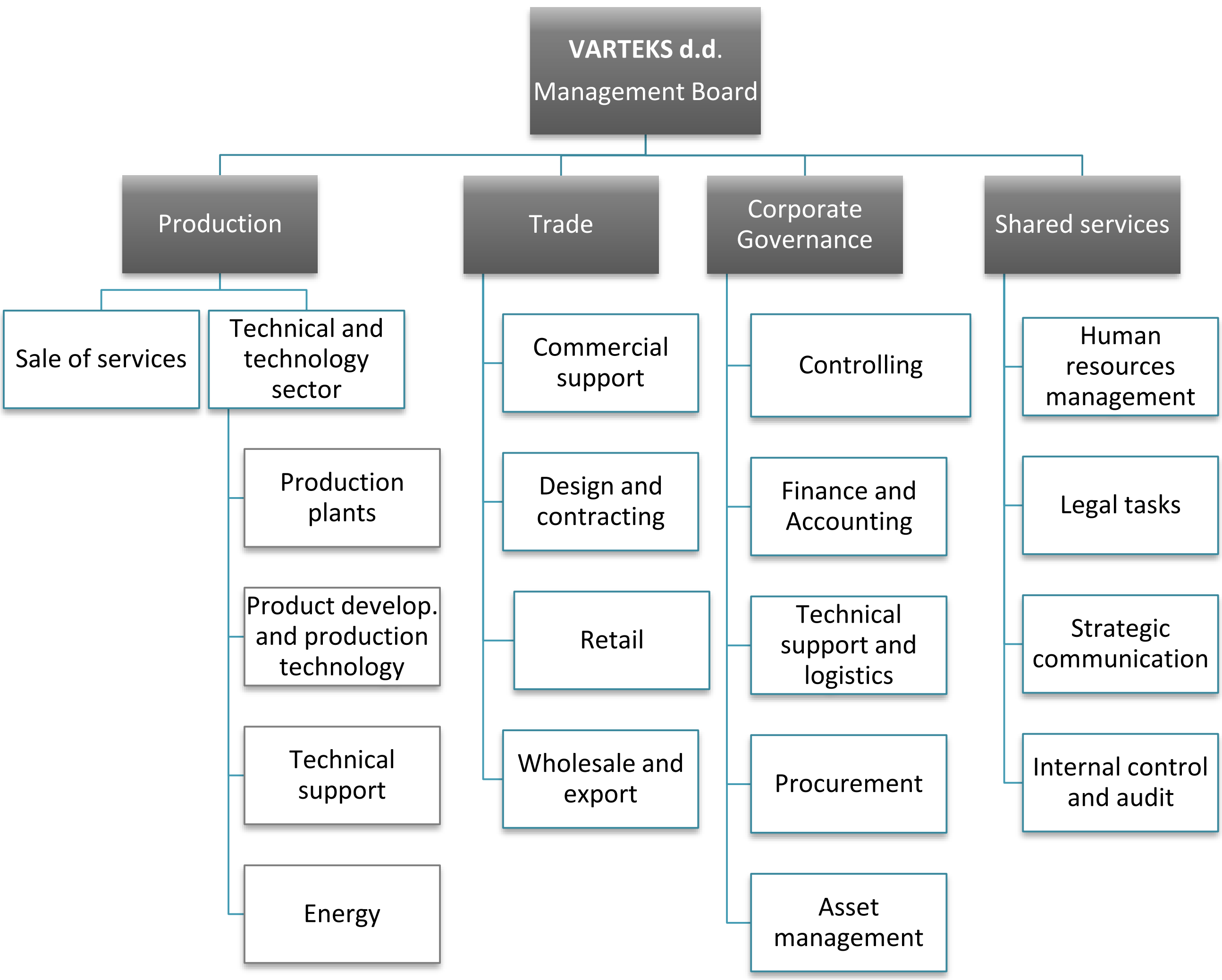
Tomislav Babić, President of the Management Board

Denis Smolar, Member of the Management Board

There is no conflict of interest regarding the functions and activities they perform and personal interests, or their functions and activities outside the Company.

In terms of economic, environmental and social impacts, departmental responsibilities relate to the Finance and Accounting Sector, the Controlling Sector, Technical Support, Energy, Strategic Communications and Human Resources Management Sector.

The top organizational structure at the end of 2020 is shown below.



Pursuant to the provisions of the Companies Act, the Supervisory Board is responsible for appointing and recalling members of the Management Board and for supervising the management of the Company's business. Significant transactions and business decisions require the approval of the Supervisory Board.

In 2020, the Supervisory Board of Varteks d.d. consists of the following members:

Nenad Bakić - President of the Supervisory Board

Igor Žonja - Deputy President

Božica Čićek-Mutavdžić

Mirjana Droptina

Ivo Šulenta

The decisions on appointing and recalling the Supervisory Board are made by the Company's General Assembly.
Members of the Management Board and the Supervisory Board as at 31 December 2020 owned the Company's shares as follows:

| Name and surname | Number of shares | % of total shares |
|---|---|---|
| Nenad Bakić - President of the Supervisory Board | 1.917.403 | 46,7% |
| Igor Žonja - Vice president of the Supervisory Board | 62.759 | 1,5% |
| Tomislav Babić - President of the Management Board | 4.170 | 0,1% |
| Božica Čićek-Mutavdžić - Member of the Supervisory Board | 140 | 0,0% |

## Corporate governance

The Company applies the Corporate Governance Code jointly developed by the Croatian Financial Services Supervisory Agency (HANFA) and the Zagreb Stock Exchange d.d. Zagreb and publishes it on the official website of the Zagreb Stock Exchange.

The statement on the application of the corporate governance code is an integral part of the annual report for 2020.

# STAKEHOLDER ENGAGEMENT

## Identifying and selecting stakeholders involved

The Varteks Group has a clearly defined business strategy in which corporate social responsibility is implemented, which includes economic, environmental and social responsibility. One of the important areas for implementing the business strategy is the segmentation of all stakeholders (individuals, communities and organizations) that affect or are affected by the Group's operations.

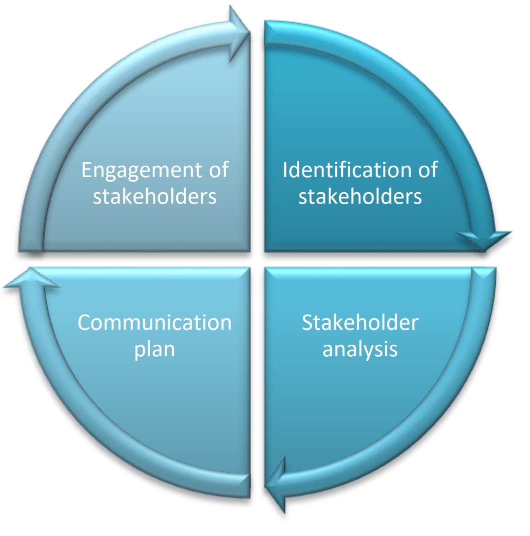
The stakeholders involved in the preparation of this part of the Report are: employees, end consumers, partners and suppliers, shareholders and investors, trade unions, the local community, business and professional associations, the financial community, the public and the media, and government bodies. We are communicating with them throughout the year, continuously and when needed.

Given that employees are the key value of the company who plan, implement, prepare, report and communicate our sustainable development goals to other stakeholders, they are the key link in this process. The company has a Collective Agreement with representative trade unions covering 96% of employees.

## Approach to stakeholder engagement

By engaging stakeholders and discussing with them topics of common interest, we build mutual trust and gain insight into topics that are key to our business. In constant contact with our stakeholders, in various ways, we continuously discuss and agree on a number of common topics.

Communication involves numerous activities of our employees, joint projects and initiatives, meetings with customers and investors, surveys, participation in branch meetings. We also gain insight into stakeholders' opinions in other ways as well, such as individual meetings, consultations, research collaboration with academia, institutions, members of different groups and others. We use social media to extend two-way communication.




Our engaging approach helps us identify stakeholders, topics, and ways of engagement with the goal of receiving feedback that is relevant to the current and future development of ourselves, our customers, and the entire society. We engage our stakeholders, carefully consider all topics relevant to them, and, based on the feedback we receive during each step of the process, we seek to create positive impact and reduce potential risk.

| Stakeholders | Type of communication | Frequency | Key topics and interests (stimulate by involving stakeholders) |
|---|---|---|---|
| **Employees** | E-mail | Weekly | Good and safe working conditions |
| | Notice | Weekly | Need for more frequent and focused education |
| | Intranet/internal portal | Continuously | Investments in research and development |
| | Newsletter | Monthly | Constant environmental care |
| | Website | Continuously | Debt management |
| | Annual talks | Yearly | |
| **Trade union** | Regular meetings | Quarterly | Good and safe working conditions |
| | Letters | When necessary | Promoting and rewarding employees |
| | E-mail | When necessary | Need for more frequent and focused education |
| | Business reports | Quarterly | |
| | Intranet/internal portal | kontinuirano | |
| **Consumers** | Satifaction surveys | Yearly | Value for money |
| | Specialized sections of the official website | Continuously | Use of natural materials (fabrics) when making clothes |
| | Social networks (Facebook, Instagram) | Continuously | |
| | The newspaper (magazines etc.) | Continuously | Design and size selection of clothes |
| | Shops | Continuously | Product availability |
| | Web shop | Continuously | Service and additional shopping benefits |
| | Varteks club (obavijesti, e-mail, newsletter i dr.) | Continuously | Consumer protection |
| **Partners and suppliers** | Direct (visits, audits, meetings) | When necessary | A product that fully meets the set requirements |
| | Website | Continuously | Timely delivery |
| | Agreements | Continuously | Long-term cooperation |
| | Letters | When necessary | Regular payment |
| | E-mail | Continuously | Environmental and social sustainability |
| | Fairs | A few times a year | |
| **Shareholders and investors** | Regular and extraordinary assemblies | Yearly | Development in accordance with the set plans and goals |
| | Letters | When necessary | Company Liquidity |
| | E-mail | When necessary | Debt management |
| | Specialized sections of the official website | Continuously | Risk management |
| | Business reports | Quarterly | Environmental and social sustainability |
| | Zagreb stock exchange, HANFA | Continuously | Compliance with regulations |
| **Local community** | Direct (visits, meetings) | When necessary | Involvement in local development projects |
| | Common activities | According to the occasion | Collaboration with local entrepreneurs |
| | Website | Continuously | Supporting and participating in local events |
| | Letters | When necessary | Investments in environmental care |
| | E-mail | When necessary | |
| **Business and professional associations** | Conferences, seminars | When necessary | Sustainable growth and development |
| | Thematic meetings | When necessary | Business Ethics and Corporate Governance |
| **Financial community** | Direct (visits, meetings) | When necessary | The business of the Company |
| | E-pošta | Continuously | Payment of interest and fees |
| | Izvješća o poslovanju | Continuously | |
| **The public and the media** | Press releases, interviews, reports, releases | When necessary | Good and fast communication in specific situations |
| | Website | Continuously | Investments in environmental care |
| | HINA | Continuously | Social Responsibility |
| **Goverment institutions, inspection etc.** | Direct (visits, meetings) | Periodically | Compliance with regulations |
| | Letters | When necessary | Timely reporting |
| | E-mail | When necessary | Environmental and social sustainability |

Some of the important means of communication and stakeholder engagement are described below.

## Channels of communication within the company

The Varteks' internal portal was replaced at the end of 2019 with more modern means of communication within the company. For this purpose, we use direct mailing, business groups on social networks: WhatsApp, Viber, Messenger, direct communication with employees, short meetings, written notices at busy points in the factory, etc.

This way of communication is more accessible to everyone and ensures that every employee is informed very quickly about all important events and activities. These channels of communication ensure strengthening teamwork and a sense of belonging to the company among employees.

In 2019, for the first time, a Christmas party for all Varteks employees was held to strengthen the sense of belonging to the company and care for the satisfaction of each employee. In 2020, given the epidemiological constraints, a Christmas raffle was organized for employees.

## Official website and social networks

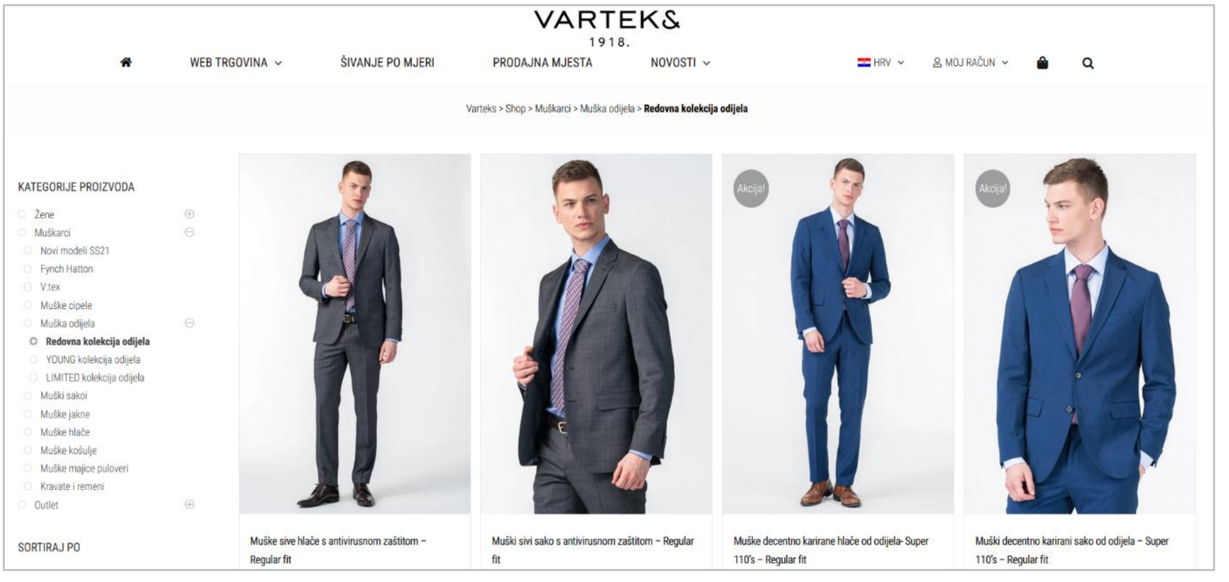
Basic communication with the target public is carried out continuously through our website www.varteks.com and through Varteks pages on social networks: Facebook, Instagram, YouTube, LinkedIn

The announcements are intended for end consumers, partners and suppliers, the business public, the media, shareholders and investors. .


Varteks uses social networks, as an indispensable channel of communication between the company and the users, for the purpose of promoting the products, but also as channels for promoting lasting social values. An example of this is the "Imperfect Men in Perfect Suits" campaign, which highlights the people who, through their work and engagement, create a better and more acceptable society as a whole..

## Webshop

Webshop, as an integral part of our website, is a new meeting place of Varteks and its customers. Fast, precise and up-to-date information about all the news from the Varteks offer saves their time, and with the support of mail and chat, provides additional information and leads customers to making right decisions. Due to the great interest of the customers, the webshop with all its features and contents is expanding strongly.




## Varteks Loyalty Club

Varteks card is a Varteks loyalty club benefit card that gives its members additional benefits they can use when shopping at Varteks retail stores. Club membership is free of charge and stimulating.


Elegantno ostvarite veće pogodnosti

Postanite član **Varteks KLUBA**, skupljajte kune, saznajte prvi o svim akcijama i novostima i budite pozvani na naše evente!

**Elegantno ostvarite veće pogodnosti** na kupovinu Varteksovih proizvoda, dopustite da vas razmazimo poklonima za rođendan i učlanjenje, te ostalim pogodnostima skrojenim samo za članove kluba.

- Već prilikom registracije član dobiva kune dobrodošlice.
- Član prilikom svake kupnje, uz predočenu karticu, skuplja kune na kartici Varteks card.
- Besplatno članstvo.
- Jednostavan postupak dobivanja kartice.
- Redovito obavještavanje članova o najnovijim trendovima i ekskluzivnim ponudama.
- Pozivnice na razne događaje.
- Razne druge pogodnosti koje Varteks d.d. može odrediti naknadno.
- U svakom trenu moguća je provjera stanja kartice na prodajnim mjestima.
- I više od toga...

## Local community and community activities

Due to the prevalence of retail sale units across Croatia, the Varteks Group actively participates throughout the year in local events in all major cities in the country. Promotional and sales campaigns are tailored to local communities, interests, needs (town days, local events, international and local holidays).


### Costume design in the series The Diary of Big Perica

An important project for Varteks in epidemiologically limited circumstances in 2020 is the production of costumes for the series The Diary of Big Perica, a sequel to the classic film One Song a Day Takes Mischief Away (Tko pjeva zlo ne misli). Varteks' creative team led by the creative director Martina Ranilović Vrdoljak worked on the costume design, in cooperation with the main costume designer of the series Željka Franulović.

## Events, sponsorships and donations

In addition to regular commercial type events, which aim to present new collections, models and offerings, Varteks regularly, throughout the year, participates in humanitarian sponsorship events, in cooperation with associations and organizations promoting such values.


## Media

In 2020, the Varteks Group was present in the print media, radio and television stations and on Internet portals, in over 1,000 publications related to business, new projects and products, activities related to sponsorships and donations, and giveaways.

# REPORTING PRACTICE

## Entities included in the consolidated financial statements

Varteks d.d. as the parent company has expanded its offer and activities by operations through related companies and together with them operates in the market as the Varteks Group.

Given that Varteks d.d. is the issuer of shares listed on the regulated market, the content and structure of interim financial statements are prescribed by HANFA by its acts, and are published annually, semi-annually and quarterly.

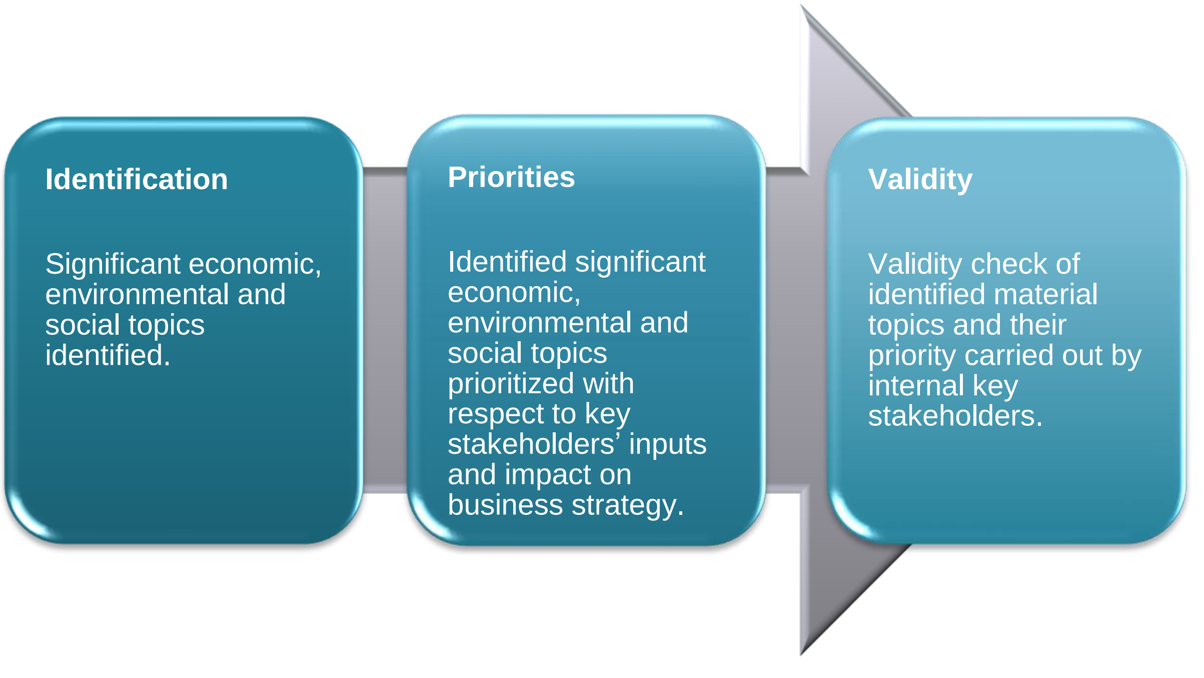
Companies subject to consolidation in 2020 are: Varteks d.d., Varteks Pro d.o.o. and V-projekt d.o.o. (merged with Varteks d.d. on 11 November 2020).

The consolidated financial statements are available on the Company's website at www.varteks.com, on the website of the Zagreb Stock Exchange d.d., and submitted to the Official registry of regulatory information with the Croatian Financial Services Supervisory Agency.

## Defining report content and topic boundaries

Varteks Group's report, sustainability and social responsibility have been continuously integrated into the company's strategy. The identification of key material economic, social and environmental topics related to the Group's operations was conducted in accordance with the principles of the internationally recognized Global Reporting Initiative (GRI) framework and aligned with production and overall operations. Identification priority is given to areas that have an impact on stakeholders, as well as areas where the Varteks Group has significant effects and can improve its efficiency.

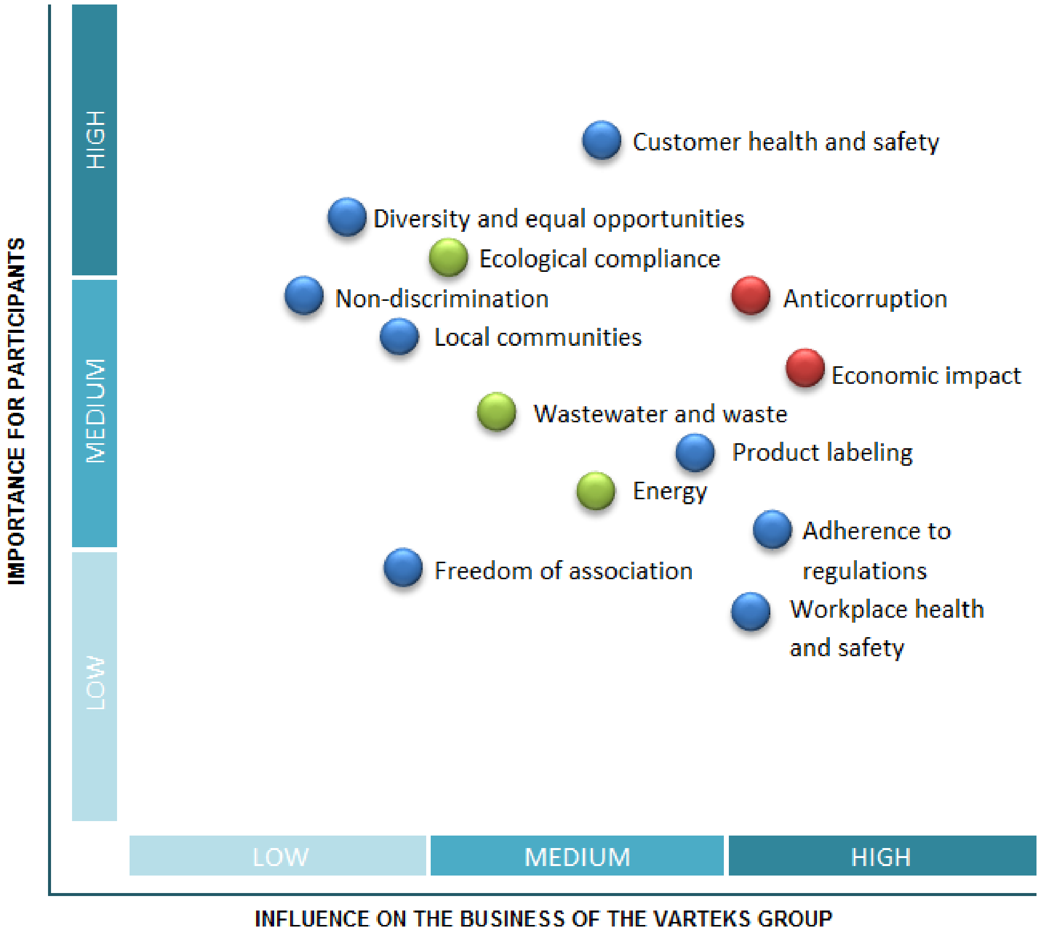
The analysis of economic, environmental and social impacts was made on the basis of feedback from stakeholders involved, and above all on the basis of market indicators and own strategic determinants, and priority topics relevant to sustainability have been identified.



## List of material topics

13 material topics were included in the Report with appropriate qualitative and quantitative indicators. Material topics that we will report on are determined on the basis of internal and external factors.

The following is a visual representation of the prioritization of identified significant economic, environmental and social topics.




**ECONOMIC TOPICS**
Economic impact
Anticorruption

**ENVIRONMENTAL TOPICS**
Energy
Wastewater and waste
Ecological compliance

**SOCIAL TOPICS**
Workplace health and safety
Diversity and equal opportunity
Non-discrimination
Freedom of association and collective negotiations
Local communities
Customer health and safety
Product and service labeling
Adherence to regulations

## Report information and data

The 2020 Non-Financial report of the Varteks Group applies to all companies within the Group. The report was prepared in accordance with the GRI (Global Reporting Initiative) Standards, core option.

The reporting cycle is one year long and covers the period from 1 January to 31 December 2020. This is the fourth published Report so far. Previous Non-Financial Report on the operations of the Varteks Group was published as at 27 April 2020.

The contact person in charge of all questions regarding the Report and its contents is the Director of the Finance and Controlling Sector.

No external assurance of the Report has been carried out.

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| 417 | Product and service labeling | 49 |
| 419 | Adherence to regulations | 49 |


II. Specific
standards

# ECONOMIC TOPICS

## Economic impact

| | in 000 kn |
|---|---|
| Elements | 2020 |
| **Direct economic value generated** | **119.261** |
| **Sales revenue** | 113.638 |
| **Other revenue** | 5.623 |
| **Distributed economic value** | **143.267** |
| **Employee salaries and benefits** | 31.076 |
| **Payments to government** | 14.829 |
| **Operating cost** | 89.353 |
| **Financing cost(neto)** | 8.009 |
| **Economic value retained** | **-24.006** |
| **EBITDA(before the impact of IFRS 16)** | **-18.647** |
| **Normalized EBITDA*(before the impact of IFRS 16)** | **-28.772** |
| * without one-time costs and the costs of reservation | |

In 2020, in the challenging business times, Varteks Group achieved a decrease in operating revenues by 30.8% compared to 2019, achieving operating revenues of HRK 119.26 million. Varteks d.d. generated operating revenues of HRK 102.85 million and a decrease of 32.9% compared to last year. Normalized EBITDA of Varteks Group in 2020 is negative and amounts to HRK 28.7m.

In 2020, net cost from financial activities of HRK 8m was realized, the majority of which relates to interest expense of HRK 7m and to foreign exchange losses in the amount of HRK 1m. Of this amount, HRK 4.6m refers to the accrued interest on the club loan. This interest is added to the principal in accordance with the contract until 30 April 2021 and from then on will be repaid in installments until 31 October 2028. years.

## Anti-corruption

Due to the fact that the Varteks Group is a company publicly listed on the Zagreb Stock Exchange, the Company also applies the Corporate Governance Code issued by the Croatian Financial Services Supervisory Agency (HANFA) and the ZSE.

The Code prescribes guidelines for the ethical conduct of business entities in the Croatian economy, contributing to more transparent and efficient business operations and quality relations between economic entities in Croatia and the business environment in which they operate. The general principles of good governance and organization, which imply accountability, efficiency, transparency, openness, participation, sensitivity and fairness, are guidelines for effective prevention and the way to prevent corruption.

The implementation of the Code contributes to the achievement of well-being for the company and the community through the transparency of business, expertise and independence of the bodies of the company, prevention of conflicts of interest, fight against corruption and concern for employees as well as for the environment.

The Company has an internal control system in place in which an Internal Control Service is established. The Service provides expert opinion on the quality of management, risk management and internal control systems and makes recommendations in order to create added value for the Company.

Based on the set principles, the Company publishes the Annual Corporate Governance Code Questionnaire for each financial year, confirming its operations and development in accordance with good corporate governance practices in all business segments. The questionnaire can be found on the Company's website (www.varteks.com) as well as on the official website of the ZSE (www.zse.hr).

# ENVIRONMENTAL TOPICS

In accordance with corporate guidelines and compliance with legal regulations in the field of environmental protection, through 2020 the Varteks Group continued to invest funds and efforts in caring for the environment. We are also continuously working on increasing employees' self-awareness about environmental protection and the importance of energy efficiency management.

## Environmental compliance

Records were maintained for all relevant environmental indicators and required reports were prepared and submitted to the competent authorities. The successful implementation and compliance with environmental protections laws and regulations is evidenced by the absence of any lawsuits, fines or sanctions in the reporting period.

Laws and regulations under which we act are as follows: Act on the Environmental Protection and Energy Efficiency Fund, Environmental Protection Act, Act on Sustainable Waste Management, Air Protection Act, Ordinance on the Management of Construction Waste and Waste Containing Asbestos, Ordinance on Waste Management, Ordinance on Packaging and Packaging Waste, Ordinance on the Management of Waste Oils, Ordinance on the Management of Waste Electrical and Electronic Appliances and Equipment, Ordinance on the Management of Waste Electrical and Electronic Equipment.

## Energy

Total energy consumption within the Varteks Group in 2020 was 7,725,630 kWh*, or **≈16% less** than in 2019.

| Type of energy | Unit of measure | Consumption in 2019 | Consumption in 2020 | Percentage change |
|---|---|---|---|---|
| **Fuel(gas)** | **kWh** | **5.423.884** | **4.906.582** | **-10%** |
| **Electricity** | **kWh** | **3.728.008** | **2.819.048** | **-24%** |
| **Steam** | **t** | **5.559** | **4.394** | **-21%** |

** Total energy consumption without double fuel/energy consumption (calculated once within fuel consumption), excluding self-produced energy*

Non-renewable fuel (natural gas) is used for combustion in boilers to generate heat. There was no consumption of fuel from renewable sources, but fuel from renewable sources used by the electricity supplier is not included. Quantities of energy are taken from invoices of authorized suppliers according to certified meters.

The reduction of energy consumption was partly achieved by the implementation of an electrical engineering project related to the improvements in energy efficiency of lighting, which began in 2017. At that time, in one of our two production facilities, 639 fluorescent lamps (2*FC 58W) were replaced by new LED lighting (Forceled 40.5 W and Julie led 60 W lamps) to reduce electricity consumption and $CO_2$ emissions. In 2019, the replacement of old lamps with new ones continued according to the main project No. 1905-01 of 30 May 2019, and additional 756 lamps in another facility were replaced. The savings effects are visible from 2018 to the present.

Also, activities related to rational and better use of office space were carried out in order to optimize the costs of heating according to the existing boiler capacities and the optimum needs of users. One part of the activities involved moving parts of the system from the buildings within the heating system via the steam boiler room to empty spaces of the building with hot water heating, which reduced the heated area by approximately 10%. The second part is related to the switching of a separate office building from the steam boiler to the hot water boiler, as there was sufficient unused capacity of the hot water boiler. Energy savings of these activities are visible also in 2020.

In the future, continuous monitoring and improvement of the energy system is expected to additionally save energy, reduce emissions of harmful substances into the environment and further educate employees on ecology and energy management.

## Water and effluents

During the reporting period, wastewater tests and analyses were carried out for the Varteks Group by Bioinstitut d.o.o. Čakovec in line with the Water Permit, twice a year for discharge. The results confirmed that the Group companies responsibly comply with all laws and regulations of the Republic of Croatia.

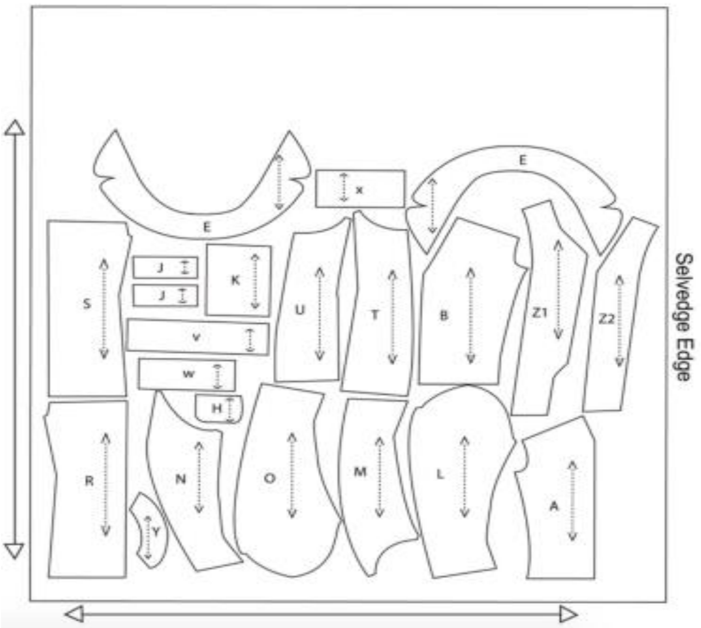
Based on the results of the physicochemical analysis, current water samples meet the requirements of the Water Permit.

During 2020, there were no emergencies associated with wastewater discharges.

| Amount of wastewater released in 2020 ($m^3$) per month* | | | | | | | |
|---|---|---|---|---|---|---|---|
| Month | INDUSTRIAL WATER | INDUSTRIAL WASTEWATER | COOLING WATER | STORMWATER | PERCOLATED WATER | OTHER WASTEWATER | Total |
| **January** | 750 | 852 | 0 | 545 | 0 | 0 | **2.147** |
| **February** | 610 | 576 | 0 | 487 | 0 | 0 | **1.673** |
| **March** | 490 | 505 | 0 | 788 | 0 | 0 | **1.783** |
| **April** | 320 | 355 | 0 | 436 | 0 | 0 | **1.111** |
| **May** | 560 | 517 | 0 | 938 | 0 | 0 | **2.015** |
| **June** | 290 | 329 | 0 | 3.299 | 0 | 0 | **3.918** |
| **July** | 420 | 440 | 0 | 3.858 | 0 | 0 | **4.718** |
| **August** | 350 | 372 | 0 | 2.350 | 0 | 0 | **3.072** |
| **September** | 450 | 487 | 0 | 2.209 | 0 | 0 | **3.146** |
| **October** | 428 | 505 | 0 | 2.900 | 0 | 0 | **3.833** |
| **November** | 442 | 504 | 0 | 746 | 0 | 0 | **1.692** |
| **December** | 403 | 470 | 0 | 1.893 | 0 | 0 | **2.766** |
| **Σ** | **5.513** | **5.912** | **0** | **20.449** | **0** | **0** | **31.874** |

**Source: Form A1 – Discharged wastewater register submitted to the Water Management Department of Hrvatske vode*

All members of the Varteks Group take a responsible approach to the disposal of waste produced through regular activities. This waste arises during production processes that take place at the locations of companies or places of work (stores). We also encourage the re-use or recycling of products, if possible, and the prevention of waste generation before the substance, material or product becomes waste.




*<u>An example of good practice in the tailoring phase:</u>*

*Fitting of patterns is a stage in the preparation of clothing production in which pattern pieces are fit into a predetermined width of material. The aim of this phase is to fit patterns for the production according to the work order, that is, according to the ordered quantities of a specific model, with as little material consumption per unit of product as possible. Likewise, at the stage of tailoring, textile waste (accounting for 60% of the total waste of that phase) and non-specific waste (nylon, paper; 40%) are separated.*

In addition to reducing the amount of waste, our main goal is to increase separately collected waste in all operation phases. Therefore, in addition to raising environmental protection awareness with employees and projects for improving business processes in manufacturing, we have also introduced the practice of sorting waste at the point where it is generated.

The generated waste is disposed of in designated places, in appropriate designated containers, separated by type and characteristics of waste. The waste is handed over to authorized companies that have permits from the competent authorities for waste management. By handing the waste over to an authorized waste collector, the waste enters the national waste management system until it is finally disposed of. The selection of disposal method depends on the type and characteristics of the waste, and it is carried out by authorized companies in accordance with the obtained permits.

Hazardous waste accounts for 0.4% of total waste and is disposed of in accordance with best available market practices.

Environmental protection inspection on 16 March 2020 determined there are no non-compliances with any obligations prescribed by the Environmental Protection Act .

In 2020, none of the Varteks Group member companies was fined or sanctioned for non-compliance with environmental protection laws and regulations, including waste management.

**Total waste amount by type and disposal method:**

| Type of waste | | Amount of waste(t) generated in 2020 | COLLECTOR* |
|---|---|---|---|
| Key number | Name | | |
| 04 02 22 | Waste from processed textile fibers | 4,75 | Proting Horvat d.o.o. |
| 04 02 99 | Waste not otherwise specified | 40,08 | Lotus 91 d.o.o. |
| 13 02 05* | Non-chlorinated mineral-based motor oils | 0,10 | Univerzal d.o.o. |
| 15 01 01 | Paper and cardboard packaging | 36,84 | Univerzal d.o.o. |
| 15 01 02 | Waste nylon | 6,50 | Unimer d.o.o. |
| 15 01 06 | Mixed packaging | 28,66 | Lotus 91 d.o.o. |
| 15 01 10* | Packaging that contains residues of hazardous substances or is contaminated with hazardous substances | 0,01 | Univerzal d.o.o. |
| 16 01 07* | Waste filters | 0,03 | Univerzal d.o.o. |
| 16 02 13* | Discarded equipment containing dangerous components not listed in 16 02 09 * to 16 02 12 * | 1,54 | Duma Elektronika EE-Eko Tim |
| 17 04 01 | Copper | 0,69 | Eko-obrada d.o.o. |
| 17 04 02 | Aluminum | 0,16 | Eko-obrada d.o.o. |
| 17 04 05 | Iron and steel | 330,00 | Eko-obrada d.o.o. |
| | Total hazardous waste: | 1,67 | |
| | Total non-hazardous waste: | 447,68 | |

* The waste is handed over to an authorized collector, who holds a valid permit for a particular waste management activity.

# SOCIAL TOPICS

## Occupational health and safety

Pursuant to Article 34 of the Occupational Safety and Health Act, Varteks d.d. established the Occupational Safety and Health Committee as an advisory body for enhancing occupational safety and health.

The Occupational Safety and Health Committee of Varteks d.d. has 11 members: four employer representatives, three occupational safety and health workers' commissioners, three occupational safety and health professionals and one occupational health medical specialist selected in accordance with special regulations. The Chairman of the Committee is the employer or its representative.

The employer makes a written decision on the appointment of the Committee. The Committee meets at least once every three months and keeps minutes of the meetings and in the event of a fatal or serious injury, diagnosed occupational disease, or upon the findings of an authorized inspector, is obliged to convene a meeting within 2 working days of the occurrence of the event. The authorized inspector may attend the extraordinary session.

For the purpose of continuous improvement of occupational safety and health, the Committee plans and supervises the implementation of the employer’s occupational safety and health rules, the organization of occupational safety and health tasks, providing information and training related to occupational safety and health, prevention of occupational safety and health risks, and its effects on health and safety of workers. Injury prevention is aimed at identifying potential hazards and health and safety risks, eliminating and replacing them, implementing technical control measures, setting prescribed warning signs, and using appropriate and prescribed personal protective equipment.

In 2020, two Occupational Safety and Health Committee meetings were held.

The average number of employees in 2020 was 990. The total number of injured workers was eighteen, fifteen of which were injured in the workplace and during job tasks, while three injuries occurred on the way to the workplace or vice versa.

The first part of the registration of the workplace injury is filled out by the employer and the second part by the contracted doctor of general/family medicine. The registration is submitted to the competent regional office of the CIHI.

No fatal injuries were reported during 2020.  In 2020, there were no occupational diseases.

*According to the risk assessments of the group members, there are no identified jobs, places of work or work tasks that would present a high risk or high incidence of certain diseases.*

A total of 49 employees works on jobs with special working conditions, of which 6 are women.

The Ordinance on jobs with special working conditions prescribes jobs that can only be performed by workers who, along with general requirements, also fulfill special requirements regarding age, gender, professional ability, health, physical or psychological condition, and psychophysiological and psychological abilities.

The Collective Agreement in force (entered into on 14 December 2015) includes the following chapters:

- Protection of dignity
- Occupational safety and health protection
- Occupational safety and health commissioners (and obligation to conduct risk assessment; formation of the Occupational Safety and Health Committee)
- Protecting the privacy of employees
- Maternity protection
- Protection of employees who are temporarily or permanently unable to work and employees with reduced working ability


The employer is required to establish an emergency evacuation and rescue plan and present it to all employees. On the basis of this plan, drills have to be carried out at least once every two years.

The drill should be planned and performed in a manner similar to the actual situation, which is a good indicator for action in potential future interventions. Also, the drill identifies the organization, equipment and professional competence of the evacuation team members.

The objectives of conducting emergency evacuation and rescue drills are to:

- confirm the organization, equipment and professional competence of the evacuation team members,
- check communications, access options and availability of fire extinguishing equipment and supplies and first aid,
- train employees and other persons in the facility on how to act in case of emergency evacuation.

The emergency evacuation and rescue drill in 2020 was carried out 3 times, 2 drills were carried out in production facilities for all production workers in the morning shift and 1 drill for all warehouse workers.

## Diversity and equal opportunity

Diversity is used as an advantage, while respecting the necessary expertise, competence and other specific skills and personalities that are considered necessary for particular positions within the bodies.

Diversity in these conditions is an important factor that gives additional quality to the performance of the highest bodies of the Company in several aspects during the reporting period:

- Age / different age groups are represented in the bodies
- Gender / women and men are represented in the bodies
- Education / since these are responsible and professional positions of leading, managing or supervising, mostly highly qualified personnel is represented, but of different professions, which ensures adequate diversity that acts as added value

The Varteks Group adheres to the principle of equal pay for work of equal value (work remuneration depends on the work position, not gender) and there are no recorded inequalities in remuneration, position, promotion or any status in the workplace related to gender.

*The Company and the Group apply a diversity policy regarding executive, management and supervisory bodies and their committees, to the maximum extent possible.*

.

Considering that this is a textile company which predominantly employs women, the following is an overview of employee categories for higher functions in the Group's bodies and business by gender:

| Category | 31 December 2020 | | | 2020 | |
|---|---|---|---|---|---|
| | M | F | Total | % M | % F |
| Supervisory Board | 3 | 2 | **5** | 60% | 40% |
| Management Board /Executive Directors | 2 | 1 | **3** | 67% | 33% |
| Senior and middle management | 13 | 28 | **41** | 32% | 68% |
| **Σ** | **18** | **31** | **49** | **37%** | **63%** |

## Non-discrimination

Numerous acts, charters, universal and regional treaties and other documents on the protection and exercise of human rights and freedoms which proclaim the principle of non-discrimination have been adopted in the international community. The basic principle of the modern system of protection of human rights and freedoms is the principle of non-discrimination, freedom from discrimination, the principle of equality. The principle is legal, political and moral.

The Varteks Group acts pursuant to all of the above, and in particular to the law of the Republic of Croatia, which prohibits direct or indirect discrimination in the field of work and working conditions. Under the effective Collective Agreement (Chapter: Protection of Dignity), the employer undertakes to protect the dignity of employees while performing the work and to provide them with working conditions in which they are not exposed to any form of harassment by superiors, associates or other persons with whom they contact during the performance of the tasks. In doing so, the "Equal Treatment Principle" is applied, which means that there must be no direct or indirect discrimination on any grounds of race or ethnic origin, color, sex, language, religion, political or other belief, national or social origin, financial status, trade union membership, education, social status, marital or family status, age, health status, disability, genetic heritage, gender identity, expression or sexual orientation.

Complaints regarding the protection of dignity are received and resolved by a corporate lawyer. No discrimination complaints were recorded during the reporting period.

## Freedom of Association and Collective Bargaining

At the level of the Varteks Group, all employees have the right to freedom of association and collective bargaining. Workers may join the Union voluntarily, with free will and must not be discriminated against on any grounds. In 2020, there were some changes related to the activities of the Union.

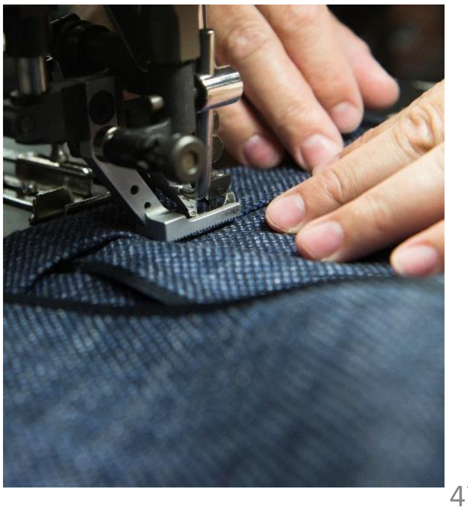
Namely, the Varteks Outerwear Trade Union, the Varteks Suit Production Trade Union, the Varteks Joint Services Trade Union, the Koni Varteks Trade Union and the Varteks Varaždin Trade Union ceased to operate at the end of 2020.

One Trade Union was established – Independent Trade Union Varteks, with headquarters in Varaždin, Zagrebačka 94, which operates within our company – Varteks d.d. Varaždin and Varteks Pro d.o.o.

Pursuant to Article 192 of the Labor Act of the Republic of Croatia, the *Collective Agreement on the Rights and Obligations of Employees and Employer* concluded on 14 December 2015 is in effect. In 2019, the employer and the representative trade unions concluded two Annexes to the Collective Agreement: on 24 January 2019 Annex I and on 28 February 2019 Annex II to the Collective Agreement on the Rights and Obligations of Employees and Employer Varteks d.d. On May 29, 2020, an Agreement was concluded between the Trade Union and the employer establishing the rules for the incentive part of the salary in retail, which were improved compared to the rules from the Collective Agreement and Annex I and Annex II.

This Collective Agreement regulates salaries, procedures and measures for the protection of the dignity of employees, and measures for the protection against discrimination and other issues of concern to employees, and more specifically:

- concluding employment contracts and conducting work
- prohibition of employees competing with the employer
- education and training for work
- working hours
- breaks and vacation
- protection of life, health and privacy of employees
- maternity protection
- protection of employees who are temporarily or permanently unable to work
- control of employees' behavior during temporary inability to work
- rules on order
- salaries, wages and other cash and non-cash employee benefits
- other material rights of employees
- inventions and technical improvements
- termination of employment contracts
- exercise of employment rights and obligations
- indemnity
- conditions for the work of unions
- social peace
- peaceful dispute resolution and strike
- mediation in individual labor disputes
- duration and application of contracts



## Local communities

The Varteks Group is aware of the importance and the need to integrate the society and the environment in which it operates, not only by securing jobs and paying taxes, but by actively engaging in the life of the local community, helping to protect the environment, hiring people with special needs, sponsoring sports clubs and cultural events, by donations to charities, etc. We are aware that by participating in joint projects and initiatives aimed at creating a successful and productive society, we are also realizing a return on profits through investment in social capital.

A more detailed description of community involvement is on page 26 of this Report.

## Customer health and safety

Of particular importance for the textile industry is the quality of operations, the quality of equipment and machinery, the quality of education and training of employees, and in particular the quality of the products manufactured.

In order to ensure the production of high-quality and reliable products and to meet standards, an important part of production and development is quality control, which is conducted through testing during product development, during regular production, and inter-stage testing. This ensures uniform quality, monitors the stability of technological processes and determines the parameters that need to be changed in order to achieve better results.

In addition, the input control of raw materials is carried out, where the greatest attention is paid to the suppliers of fabrics, for which detailed procedures for receipt and possible complaints have been elaborated. Upon receipt, the fabric is subjected to quality control in own laboratory, and high importance is given to quality and safety. Varteks' products are free of harmful substances and chemicals and meet a number of European standards.

The Group continuously carries out the activities of analysis and research necessary for the further development of own business processes, as a prerequisite for the continued successful implementation of changes and improvements regarding the improvement of the overall business.

During the reporting period, no cases of non-compliance with regulations and voluntary codes regarding the effects of products and services on the health and safety of customers were recorded.

## Labeling of products and services

During 2020, no cases of non-compliance with regulations and voluntary codes regarding product labeling data were recorded.

The Group operates in accordance with legal regulations (Textile and Footwear Labeling Regulations; the Consumer Protection Act) and the requirements of its own quality system, which require rigorous checks on the labeling of products and services. All product labels include: product (item) type, manufacturer or supplier name, country of origin, material composition (name, description and composition details of textile fibers), size, maintenance and shrinkage information (symbols and care labels – washing, bleaching, dry cleaning, drying and ironing), minimum color fastness, product disposal and environmental impact.

## Compliance

During the reporting period, no cases of non-compliance with laws and regulations concerning the supply and use of products and services were recorded.

VARTEK&

# III. Key impacts, risks and opportunities

## Operating risks and risk management

The Group's operations are exposed to risks, particularly those of financial nature related to credit, currency, interest and liquidity risks. Risks are monitored and controlled and efforts are made to mitigate their impact through various protective measures and activities.

The Management Board manages the Company's risks and coordinates risk management in related companies together with the managing bodies of those companies. Risk control is carried out by continuous review of business results, monitoring the implementation of business plans, taking into account changes in the market and the environment in general.

Credit risk is related to all types of receivables, and especially to a portion of trade receivables. The assessment of potential credit risk is linked to the estimation of the collectability of receivables. Receivables are mostly related to direct sales to customers in foreign markets (significant export share), and to a lesser extent to direct sales to customers in the domestic market. As sales in foreign markets are sales to known customers and internationally renowned brands, the risk is significantly reduced and collection is regular. In the domestic market, most of the sales and receivables are related to own retail network, which receives direct payment in stores from the end consumers/customers, thus significantly reducing the credit risk of collection.

Receivables are reviewed and monitored throughout the year, and at the end of the year, doubtful receivables are identified and their value is impaired.

Significant liquidity risk was present in the Company and the Group as a whole in 2020 and activities aimed at improving liquidity and reducing this type of risk were undertaken. Liquidity was continuously monitored through cash flow movements at the level of planned values and operationally at the level of realized and estimated daily, weekly and monthly values. On this basis additional activities are undertaken in order to secure the necessary financial resources. All discrepancies are monitored on a regular basis and, as required, efforts are made to provide additional resources necessary to balance the inflows and liabilities, but certain problems remain. Partially positive effects on liquidity risk mitigation were realized through the capital contribution carried out at the beginning of 2018, and subsequently through the restructuring of key bank borrowings in the first quarter of 2018. Given the large retail growth, it was also necessary to provide additional liquidity, especially in the part of new inventories of products and goods. For this purpose, through the first half of 2019, additional funds obtained from interest-free loans from the largest single shareholder were used. In the second half of 2020, the Company received funds to cover short-term liquidity needs from a commercial bank and CBRD.

The Company's and the Group's currency risk is related to possible significant changes in foreign currency exchange rates. The risk is primarily related to the movement of the EUR exchange rate. This change is related to the purchase and sale of goods and services in foreign markets and the use of borrowings contracted in EUR. The Group has a positive balance in its import-export relations, as it is one of the major exporters, while in terms of debt and repayment of borrowings, it was exposed to the effects of EUR movements during the accounting period. For the time being, changes in the movement of the EUR are not so significant as to have a significant impact on operations.

Interest rate risk is present in the debt of the Company and the Group. The risk was partly mitigated by a reduction in the interest rate with key creditors as part of the refinancing of borrowings through debt restructuring.

## Opportunities and development

The Group's R&D activities are focused on reviewing and developing several key segments:

- production processes in terms of ensuring and developing the technical conditions necessary to continuously maintain high quality standards in the production of products (for own needs and for the needs of key foreign partners) and special-purpose clothing (primarily for the needs of long-term business partners in the country)
- sales processes that are researched, reviewed, developed and adapted to market needs. Changes and needs of end customers are studied and monitored, applying primarily the principle of consistency of quality retention and development. Changes in the purchasing habits of end customers are continuously analyzed and monitored, and the data obtained is applied to further development of approach to sales and arrangement of shop concept and offer within own stores, where the customer feels comfortable and satisfied during the purchase
- development is extremely important in designing and developing own brands, in a way that, along with the basic characteristics of the brand, specific fashion elements on clothing offered at our own stores are constantly monitored and adapted, and in the use of own technical preparation and development in the production of products for key customers and partners. In 2019, the company focused heavily on the development and growth of the own brand business through the retail channel. The same continued in 2020 with the opening of several new stores and the renovation of existing ones, which further improved the shopping experience. The plan is to continue expanding sales units in 2021 in the domestic market, but also in new markets in the region. At the beginning of the year, a subsidiary was established in the Republic of Slovenia, under the name Varteks.si d.o.o. This was followed by the opening of the first retail unit in Maribor, thus beginning a return to the Slovenian market. The plan is to open a sales unit in Ljubljana. After returning to the Slovenian market, the expansion of retail to the market of the Republic of Serbia is being considered.

The Group continuously performs the activities of analysis and research, necessary for the further development of own business processes and operations, which are a prerequisite for the continued successful implementation of changes and a positive turn in the overall business.

In February 2021, at the session of the Commission for Evaluation and Determination of Strategic Project Proposals, the project proposal "Varteks District - urban regeneration" was unanimously accepted. The goal of this project is to maintain the business development of Varteks d.d. and the preservation of existing jobs, as well as the improvement of the standards of the citizens of Varaždin in such a way that the real estate potential of the existing location is brought to new public purposes and economic types of use through the process of urban transformation.

## CORPORATE GOVERNANCE STATEMENT

*The Company applies the Corporate Governance Code (hereinafter: the Code), jointly drafted by the Croatian Financial Services Supervisory Agency (HANFA) and the Zagreb Stock Exchange d.d. Zagreb, published on the official website of the Zagreb Stock Exchange.*

*The Company applies the provisions of the Corporate Governance Code to the greatest extent technically possible. The Company has an Audit Committee of 3 members: President of the Committee, Deputy President, and Member. All members of the Audit Committee are members of the Supervisory Board.*

*The following departures from the Corporate Governance Code have been identified with the following explanations:*

- *The Company has so far not received a request to provide proxies to shareholders who are not able to vote at the general assembly meeting or a request to use modern communication technology which would enable them to participate without attending the general assembly. The Company will certainly consider such use of the means of modern communication technology and, if necessary, will enable shareholders to use it for the purposes of participation and voting at the General Assembly.*

- *The Company did not receive a lawsuit to challenge the decisions of the General Assembly, therefore no information on possible lawsuits was made public or published.*

- *The company did not pay dividends in 2020, therefore no decisions were made on the payment of dividends.*

- *The Supervisory Board did not decide on the master plan of its work. The Supervisory Board meets as necessary and in accordance with law, and according to the topics of sessions, the necessary data is made available to the members of the Supervisory Board as well as other prescribed or requested reports.*

- *The Company does not have a long-term succession plan as stated in the Code, but various staff training measures are in place to ensure business continuity in the event of departures of key personnel.*

- *The amount of remuneration received by the members of the Supervisory Board is not determined by the Company's business performance, but is determined in a fixed monthly amount.*

- *In the annual report, all transactions involving members of the Supervisory Board or their related parties and the Company and its related parties are stated in the note on transactions with related parties, while important elements of such agreements or contracts are not presented in the report because these transactions are not material to the Company. This also applies to activities in which the members of the Management Board and their related parties and the Company and its related persons participated.*

- *The Company plans to ensure the processes of ensuring the effectiveness of the internal control system, and in particular by making recommendations on the selection, appointment and removal of the head of the Internal Audit Department and the resources available to it.*

- *The external auditor did not make any recommendations regarding the effectiveness of senior management.*

- *The Company does not actively work on creating a calendar of important events expected in the business year, but timely publishes all information related to changes in the date of publication of financial results in relation to legally defined deadlines, dates of the General Assembly, changes in ownership structure, risk factors and all other information that may be considered price sensitive or otherwise relevant to the Company, its financial position and management.*

*The Company has an internal control system in place so that an Internal Control Service is established. Financial reporting risk assessment is performed through analyses aimed at managing internal and external risks in the preparation of realistic and objective financial statements in accordance with the Company's accounting policies.*

*Supervision of how the Company is managed is carried out by the Supervisory Board in accordance with the provisions of the Companies Act and the Company's Articles of Association. The report of the Supervisory Board on the performed supervision of management is part of the Annual Report, which is submitted to the General Assembly.*

*During 2020, the Management Board consisted of two to three members, one of whom is the President of the Management Board. The Annual Report of the Management Board is an integral part of the Annual audited financial statements to be submitted to the General Assembly.*

*The Supervisory Board of the Company consists of five members, one of whom is at the same time the employee representative appointed by the Workers' Council of the Company.*

*The General Assembly may make decisions if shareholders whose shares exceed 30% of the share capital participate in its work. Decisions are taken by public vote, by a majority vote and a three-quarters vote. All information regarding the General Assembly is published on the web pages of the Court Register, the Zagreb Stock Exchange, HANFA and HINA. In 2020, one regular Assembly of the Company and one extraordinary Assembly were held.*
*Information on significant shareholders is available on the official websites of the Central Depository and Clearing Company (www.skdd.hr), the Zagreb Stock Exchange (www.zse.hr) and websites of the Company (www.varteks.hr).*

*The Company does not have holders of securities with special control rights, nor holders of securities with limitations of voting rights to a certain percentage or number of votes.*

*The Company has no special rules on the appointment and dismissal of members of the Management Board and the Supervisory Board and amendments to the Articles of Association. The Management Board of the Company is authorized, with the consent of the Supervisory Board, to make decisions on the increase in share capital (authorized share capital Article 323 of the Companies Act) up to half of the amount of share capital for a period of three years. The Company does not have any special rules* *under which the Supervisory Board and the Management Board have special powers to acquire treasury shares. The provisions of the Companies Act and the Company's Articles of Association apply to all these relations.*

*Members of the Management Board and the Supervisory Board as at 31 December 2020 owned the Company's shares as follows:*

| **Name and surname** | **Number of shares** | **% share** |
|---|---|---|
| *Igor Žonja – deputy President of the Supervisory Board* | *62,759* | *1.53* |
| *Božica Čićek Mutavdžić – member of the Supervisory Board* | *140* | *0.00* |
| *Nenad Bakić – President of the Supervisory Board / President of the Management Board* | *1,917,403* | *46.69* |
| *Tomislav Babić – member of the Management Board* | *4,170* | *0.10* |
| ***total:*** | ***1,984,472*** | ***48.32*** |

*The Company and the Group apply a diversity policy regarding executive, management and supervisory bodies and their committees, to the maximum extent possible. Diversity is used as an advantage, while respecting the necessary expertise, competence and other specific skills and personalities that are considered necessary for particular positions within the bodies. Diversity in these conditions is an important factor that gives additional quality in the performance of the highest bodies of the Company in several aspects during the reporting period:*

- *Age / different age groups are represented in the bodies*
- *Gender / women and men are represented in the bodies*

*Education / since these are responsible and professional positions of leading, managing or supervising, mostly highly qualified personnel are represented, but of different professions, which ensures adequate diversity that acts as added value.*

*An overview of management and supervisory bodies by gender for the Company and the Group is provided below:*

| **Varteks d.d.** | **31 Dec 2019** | | |
|---|---|---|---|
| category | M | F | total |
| Supervisory Board | 3 | 2 | 5 |
| Management Board/ executive director | 3 | - | 3 |
| Total: | 6 | 2 | 8 |

| **Varteks d.d.** | **31 Dec 2020** | | |
|---|---|---|---|
| category | M | F | total |
| Supervisory Board | 3 | 2 | 5 |
| Management Board/ executive director | 2 | - | 2 |
| Total: | 5 | 2 | 7 |

| **Varteks Group** | **31 Dec 2019** | | |
|---|---|---|---|
| category | M | F | total |
| Supervisory Board | 3 | 2 | 5 |
| Management Board/ executive director | 3 | 1 | 4 |
| Total: | 6 | 3 | 9 |

| **Varteks Group** | **31 Dec 2020** | | |
|---|---|---|---|
| category | M | F | total |
| Supervisory Board | 3 | 2 | 5 |
| Management Board/ executive director | 2 | 1 | 3 |
| Total: | 5 | 3 | 8 |

*Varteks d.d.*

*President of the Management Board*

*Tomislav Babić*

*Member of the Management Board*

*Denis Smolar*

VARTEKS d.d.
/ Zagrebačka 94 / HR-42000 VARAŽDIN / 16