FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

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Independent auditor's report

To the Shareholders of Varteks d.d.

Report on the audit of the separate and consolidated financial statements

Our opinion

In our opinion, 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 2019, and their separate and consolidated financial performance and their 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 24 April 2020.

What we have audited

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

- the separate and consolidated statements of comprehensive income for the year then ended 31 December 2019;
- the separate and consolidated statements of financial position as at 31 December 2019;
- the separate and consolidated statements of changes in equity for the year then ended;
- the separate and consolidated statements of cash flows for the year then ended; and
- the notes to the separate and consolidated financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

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 opinion.

Independence

We are independent of the Company and the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional 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 non-audit services that we have provided to the Company and the Group are in accordance with the applicable law and regulations in Croatia and that we have not provided non-audit services that are prohibited under Article 5(1) of Regulation (EU) No 537/2014.

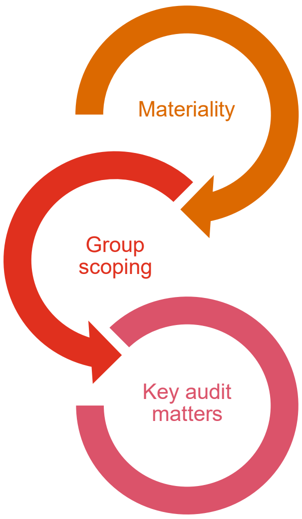
The non-audit services that we have provided to the Company and the Group, in the period from 1 January 2019 to 31 December 2019, are disclosed in note 12 to the separate and consolidated financial statements.

Material uncertainty relating to going concern

We draw attention to the fact that the Company and the Group incurred a net loss of HRK 11,059 thousand and HRK 9,732 thousand, respectively, in the year ended 31 December 2019 and, as of that date, current liabilities exceeded current assets by HRK 67,048 thousand and HRK 62,323 thousand, respectively. This, along with other matters as described in Note 2.3, indicate the existence of a 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 modified in respect of this matter.

Our audit approach

Overview



- Overall materiality for the financial statements of the Company as a whole: HRK 1,350 thousand, which represents 0,9% of total revenues.
- Overall materiality for the financial statements of the Group as a whole: HRK 1,520 thousand, which represents 0,9% of total revenues.

- The Group engagement team performed procedures at the Company and one subsidiary.
- Our audit scope addressed 100% of the Group's operating revenues and 100% of the Group's absolute value of loss for the year.

- Classification and valuation of property
- Lease accounting and adoption of IFRS 16

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 materiality	The Company: HRK 1,350 thousand The Group: HRK 1,520 thousand
How we determined it	The Company: 0,90% of total revenues The Group: 0,90 % of total revenues
Rationale for the materiality benchmark applied	We chose sales 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 profit/loss was volatile in previous years while sales revenues are a more consistent measure of performance.

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.

Key audit matter	How our audit addressed the key audit matter
Classification and valuation of property *See Note 2 to the separate and consolidated financial statements under the heading "Property, plant and equipment" and "Investment property" (accounting policies), and note 2 under the heading "Correction of prior period errors".* As described in Note 2 to the separate and consolidated financial statements, in 2011 the Company and the Group applied the revaluation model for the valuation of land and buildings, and thereafter no revaluation was made. Also, over time, certain properties were no longer used by the Company and the Group for operational activities but were not classified as Investment property. The Company and the Group corrected the prior period errors and recognized impairment of land and buildings in the amount of HRK 154,882 thousand by reducing revaluation reserves and retained earnings, and reclassified to Investment property the total amount of HRK 75,796 thousand as of 1 January 2018. 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 their valuation.	Management has prepared a detailed specification of the book value and revalued amounts of each property, and we have reconciled the above information with the general ledger and the valuations of independent appraisers. We have reviewed the valuations of independent appraisers to assess the reasonableness of the assumptions used in the valuation of property. In the valuations different appraisal methods where used (income, comparison and cost method) which were applied depending on the intended use of the property and the availability of data. We tested the assumptions used in the valuations (land market price, market rental price, property costs, etc.) by comparing the assumptions used with common practice, market data and other sources of data. Given that estimates were made on different dates, we checked the indexes and calculation used by the Company to determine the value at each balance sheet date, January 1, 2018, December 31, 2018, and December 31, 2019. We have held discussions with the Management to gain an understanding of the business intention and the related assumptions underlying the property reclassification to Investment property. We have verified the completeness and appropriateness of the disclosures in the notes to the separate and consolidated financial statements.

Key audit matter	How our audit addressed the key audit matter
Lease accounting and adoption of IFRS 16 *Refer to note 2.29 (First time adoption of new accounting standards), and Note 2 (Summary of accounting policies –Right-of-use asset and Lease liabilities) and note 19a (Property, plant and equipment) and Note 34 Lease liabilities.* The Company's and Group's statement of financial position includes right of use asset (RoUA) of HRK 16,673 thousand and lease liability of HRK 17,127 thousand. From 1 January 2019 new accounting standard "International Financial Reporting Standard 16 – Leases" (IFRS 16) came into force. The Company and the Group selected modified retrospective application of IFRS 16. Significant number of contracts previously recognised as operating lease have been recognised as rights of use asset. Significant amount of the RoUA and lease liabilities and the fact that in their measurement management used significant estimates and assumptions (incremental borrowing rate, lease term) made this area of particular importance for our audit.	In light of the fact that the high degree of estimates and assumptions give rise to an increased risk of accounting misstatements, we assessed the Company's and the Group's processes for recognising the RoUA and related lease liabilities as part of our audit. We obtained the list of all lease contracts and the calculation of the lease liability in accordance with IFRS 16. We confirmed that the leases included in the calculation satisfy the criteria for recognition in accordance with IFRS 16. We checked the completeness of the contract list by comparing it with information from previous year and other information obtained during the audit. We conducted a detailed test of a selected sample by verifying that the data used in the calculation was consistent with the contractual data. A mathematical re-calculation of assets and liabilities was also made for a selected sample of contracts. We analysed the assumptions (borrowing rate, rental duration) that were used in the calculation. We assessed accuracy and completeness of separate and consolidated financial statement presentation and disclosures.

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.

If based on the work we have performed on the other information that we obtained prior to the date of this auditor's report and in light of the knowledge and understanding of the Company and the Group and their environment obtained in the course of the audit, we conclude that there is a material misstatement in the other information, we are required to report that fact. We have nothing to report in this regard.

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 in 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 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 independent 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, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the 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 23 July 2019, representing a total period of uninterrupted engagement appointment of 2 years.

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

PricewaterhouseCoopers d.o.o.
Heinzelova 70, Zagreb
27 April 2020

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

Pursuant to the Croatian Accounting Act in force, the Management Board is responsible for ensuring that 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, changes in equity 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 unconsolidated and consolidated financial statements.

In preparing consolidated and unconsolidated 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 unconsolidated 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 an Annual Report comprising the financial statements and the Management Report. The Management Report has been prepared in accordance with the requirements of Article 21 and Article 24 of the Accounting Act.
The financial statements were approved for issuance by the Management Board on 27 April 2020.

Nenad Bakić	*Damir Radmilović*
President of the Management Board	*Member of the Management Board*
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Consolidated and unconsolidated income statement and statement of other comprehensive income of VARTEKS d.d. Varaždin
for the year ended 31 December 2019

		Group		Company	
	Note	2019	2018 Restated	2019	2018 Restated
OPERATING INCOME		**173,772**	**160,025**	**154,747**	**136,353**
Income from sales with undertakings within the Group	*4*	-	-	17,363	13,030
Income from sales	*5*	169,660	154,476	133,191	117,654
Income from the use of own products, goods and services	*6*	205	184	205	184
Other operating income with undertakings within the Group	*7*	-	-	152	166
Other operating income	*8*	3,907	5,365	3,836	5,319
OPERATING EXPENSES		**(175,590)**	**(177,537)**	**(158,160)**	**(156,261)**
Changes in inventories of work in progress and finished goods		9,641	2,804	9,534	2,945
Material costs		(88,109)	(81,801)	(73,950)	(64,018)
a) Costs of raw materials and consumables	*9*	*(50,237)*	*(47,529)*	*(40,431)*	*(38,617)*
b) Cost of goods sold		*(20,117)*	(18,187)	(17,982)	(13,105)
c) Other external costs	*10*	*(17,755)*	(16,085)	(15,537)	(12,296)
Staff costs	*11*	(63,921)	(67,004)	(61,300)	(64,615)
a) Net salaries and wages		*(43,810)*	(45,455)	(42,098)	(43,903)
b) Taxes and contributions from salaries		*(12,771)*	(13,439)	(12,191)	(12,917)
c) Contributions on salaries		*(7,340)*	(8,110)	(7,011)	(7,795)
Depreciation	*18, 19*	(8,863)	(5,014)	(8,822)	(4,675)
Other costs	*12*	(20,256)	(19,289)	(19,602)	(18,960)
Impairment of non-financial assets	*13*	(1,448)	(2,575)	(1,402)	(2,373)
Impairment of financial and contract assets (net)	*14*	(210)	(3,845)	(210)	(3,781)
Other operating expenses	*15*	(2,424)	(813)	(2,408)	(784)
OPERATING LOSS		**(1,818)**	**(17,512)**	**(3,413)**	**(19,908)**
NET (COSTS)/INCOME FROM FINANCIAL ACTIVITIES	*16*	**(7,597)**	**10,555**	**(7,646)**	**10,520**
LOSS BEFORE TAXATION		**(9,415)**	**(6,957)**	**(11,059)**	**(9,388)**
INCOME TAX	*17*	**(317)**	**(491)**	**-**	**-**
LOSS FOR THE PERIOD		**(9,732)**	**(7,448)**	**(11,059)**	**(9,388)**
OTHER COMPREHENSIVE INCOME					
Changes in revaluation reserves of non-current tangible and intangible assets		1,011	851	1,011	851
Actuarial losses on termination benefits		(116)	-	(116)	-
Other changes in equity unrelated to owners		90	73	90	73
OTHER COMPREHENSIVE INCOME		**985**	**924**	**985**	**924**
COMPREHENSIVE LOSS FOR THE PERIOD		**(8,747)**	**(6,524)**	**(10,074)**	**(8,464)**

Unconsolidated statement of financial position of VARTEKS d.d. Varaždin
as at 31 December 2019

(in thousands of HRK)	*Note*	*31 Dec 2019*	*31 Dec 2018 Restated*	*1 Jan 2018 Restated*
ASSETS				
NON-CURRENT ASSETS		**227,623**	**214,791**	**226,371**
INTANGIBLE ASSETS		1,768	1,596	1,702
Concessions, patents, licences, trademarks, software and other rights	*18*	1,658	1,486	1,592
Advances for the purchase of intangible assets	*18*	110	110	110
TANGIBLE ASSETS		213,411	198,128	201,492
Land	*19 a*	52,075	52,075	52,075
Buildings	*19 a*	44,820	47,480	48,940
Plant and equipment	*19 a*	22,565	21,193	22,563
Tools, working inventory and transportation assets	*19 a*	1,368	1,352	1,710
Tangible assets under construction	*19 a*	-	-	176
Other tangible assets	*19 a*	232	232	232
Right-of-use assets	*19 a*	16,673	-	-
Investment property	*19 b*	75,678	75,796	75,796
NON-CURRENT FINANCIAL ASSETS		12,222	12,179	20,182
Investments in holdings (shares) of undertakings within the Group	*20*	4,531	4,551	4,878
Loans, deposits, etc.	*21*	7,685	7,622	15,298
Other non-current financial assets	*22*	6	6	6
RECEIVABLES		222	2,888	2,995
Receivables from undertakings within the Group	*23*	-	2,617	2,617
Other receivables	*23*	222	271	378
CURRENT ASSETS		**54,384**	**41,211**	**42,751**
INVENTORIES		40,122	26,434	23,590
Raw materials and consumables		11,676	11,041	11,109
Work in progress		2,617	347	745
Finished goods		18,157	9,442	6,405
Merchandise		7,293	4,502	4,765
Advances for inventories		379	1,102	566
RECEIVABLES		12,814	12,624	18,286
Receivables from undertakings within the Group	*23*	2,601	398	118
Trade receivables	*23*	9,557	11,543	9,467
Receivables from employees and members of the undertaking	*23*	46	49	80
Receivables from government and other institutions	*23*	382	414	8,352
Other receivables	*23*	228	220	269
CURRENT FINANCIAL ASSETS		169	194	218
Loans, deposits, etc. to undertakings within the Group		-	-	-
Loans, deposits, etc.		169	194	218
CASH AT BANK AND IN HAND	*24*	1,279	1,959	657
PREPAID EXPENSES AND ACCRUED INCOME	*25*	**408**	**615**	**1,002**
TOTAL ASSETS		**282,415**	**256,617**	**270,124**

Unconsolidated statement of financial position of VARTEKS d.d. Varaždin
as at 31 December 2019

(in thousands of HRK)	*Note*	*31 Dec 2019*	*31 Dec 2018 Restated*	*1 Jan 2018 Restated*
EQUITY AND LIABILITIES				
CAPITAL AND RESERVES		**43,714**	**55,496**	**40,161**
INITIAL (SUBSCRIBED) CAPITAL	*26*	41,067	41,067	22,208
CAPITAL RESERVES	*26*	656	1,555	22,162
RESERVES FROM PROFIT		(2,454)	73	-
Reserves for treasury shares	*26*	754	1,837	1,837
Treasury shares and holdings (deductible item)	*26*	(3,371)	(1,837)	(1,837)
Other reserves	*26*	163	73	-
REVALUATION RESERVES		78,639	79,468	80,166
ACCUMULATED LOSS		(63,135)	(57,279)	(55,099)
LOSS FOR THE YEAR		(11,059)	(9,388)	(29,276)
PROVISIONS	*29*	**5,459**	**7,066**	**6,569**
NON-CURRENT LIABILITIES		**109,524**	**89,934**	**82,426**
Liabilities to banks and other financial institutions	*33*	76,315	72,172	60,588
Lease liabilities	*34*	12,155	-	-
Trade payables		416	17	3,728
Other non-current liabilities	*35*	3,376	409	620
Deferred tax liability	*17*	17,262	17,336	17,490
CURRENT LIABILITIES		**121,432**	**101,199**	**138,270**
Liabilities to undertakings within the Group	*30*	-	12	890
Liabilities for loans, deposits, etc. of undertakings within the Group	*31*	2,897	9,746	6,087
Liabilities for loans, deposits, etc.	*32*	48,988	30,475	7,238
Liabilities to banks and other financial institutions	*33*	14,601	10,480	55,443
Liabilities for advance payments		248	701	1,173
Trade payables		30,536	35,751	47,298
Liabilities to employees		4,507	4,178	5,125
Taxes, contributions and similar liabilities (other than income tax)		10,239	6,247	11,407
Income tax payable		-	-	-
Lease liabilities	*34*	4,972	-	-
Other current liabilities	*35*	4,444	3,609	3,609
ACCRUED EXPENSES AND DEFERRED INCOME	*36*	**2,286**	**2,922**	**2,698**
TOTAL EQUITY AND LIABILITIES		**282,415**	**256,617**	**270,124**

Consolidated statement of financial position of VARTEKS d.d. Varaždin
as at 31 December 2019

(in thousands of HRK)	*Note*	*31 Dec 2019*	*31 Dec 2018 Restated*	*1 Jan 2018 Restated*
ASSETS				
NON-CURRENT ASSETS		**225,621**	**210,200**	**221,796**
INTANGIBLE ASSETS		2,297	2,125	2,232
Goodwill	*18*	529	529	529
Concessions, patents, licences, trademarks, software and other rights	*18*	1,658	1,486	1,593
Advances for the purchase of intangible assets	*18*	110	110	110
TANGIBLE ASSETS		213,556	198,321	202,027
Land	*19 a*	52,075	52,075	52,075
Buildings	*19 a*	44,820	47,498	49,239
Plant and equipment	*19 a*	22,688	21,325	22,719
Tools, working inventory and transportation assets	*19 a*	1,390	1,395	1,790
Tangible assets under construction	*19 a*	-	-	176
Other tangible assets	*19 a*	232	232	232
Right-of-use assets	*19 a*	16,673	-	-
Investment property	*19 b*	75,678	75,796	75,796
NON-CURRENT FINANCIAL ASSETS		9,546	9,483	17,159
Investments in holdings (shares) of undertakings within the Group	*20*	1,855	1,855	1,855
Loans, deposits, etc.	*21*	7,685	7,622	15,298
Other non-current financial assets	*22*	6	6	6
RECEIVABLES		222	271	378
Other receivables	*23*	222	271	378
CURRENT ASSETS		**58,689**	**48,632**	**49,265**
INVENTORIES		43,522	29,170	26,101
Raw materials and consumables		14,497	13,127	13,093
Work in progress		2,752	381	767
Finished goods		18,489	9,680	6,895
Merchandise		7,370	4,523	4,780
Advances for inventories		414	1,459	566
RECEIVABLES		13,601	15,982	22,216
Trade receivables	*23*	12,938	15,290	13,443
Receivables from employees and members of the undertaking	*23*	46	49	80
Receivables from government and other institutions	*23*	384	421	8,423
Other receivables	*23*	233	222	270
CURRENT FINANCIAL ASSETS		260	202	219
Loans, deposits, etc.		260	202	219
CASH AT BANK AND IN HAND	*24*	1,306	3,278	729
PREPAID EXPENSES AND ACCRUED INCOME	*25*	**421**	**621**	**1,025**
TOTAL ASSETS		**284,731**	**259,453**	**272,086**

Consolidated statement of financial position of the VARTEKS Group

as at 31 December 2019

(in thousands of HRK)	*Note*	*31 Dec 2019*	*31 Dec 2018 Restated*	*1 Jan 2018 Restated*
EQUITY AND LIABILITIES				
CAPITAL AND RESERVES		**46,370**	**54,208**	**36,933**
INITIAL (SUBSCRIBED) CAPITAL	*26*	41,067	41,067	22,208
CAPITAL RESERVES	*26*	656	1,555	22,162
RESERVES FROM PROFIT		(2,454)	(2,544)	(2,617)
Reserves for treasury shares	*26*	754	1,837	1,837
Treasury shares and holdings (deductible item)	*26*	(3,371)	(4,454)	(4,454)
Other reserves	*26*	163	73	
REVALUATION RESERVES		78,639	79,468	80,166
ACCUMULATED LOSS		(61,806)	(57,890)	(55,788)
LOSS FOR THE YEAR		(9,732)	(7,448)	(29,198)
PROVISIONS	*29*	**5,459**	**7,066**	**6,569**
NON-CURRENT LIABILITIES		**109,524**	**89,944**	**82,459**
Liabilities to banks and other financial institutions	*33*	76,315	72,182	60,621
Lease liabilities		12,155	-	-
Trade payables	*34*	416	17	3,728
Other non-current liabilities	*35*	3,376	409	620
Deferred tax liability	*17*	17,262	17,336	17,490
CURRENT LIABILITIES		**121,011**	**105,187**	**143,288**
Liabilities for loans, deposits, etc.	*32*	48,988	30,475	7,238
Liabilities to banks and other financial institutions	*33*	14,623	20,226	62,336
Liabilities for advance payments		250	718	1,179
Trade payables		32,401	38,933	51,655
Liabilities to employees		4,663	4,313	5,277
Taxes, contributions and similar liabilities (other than income tax)		10,361	6,489	11,952
Income tax payable		309	424	42
Lease liabilities	*34*	4,972	-	-
Other current liabilities	*35*	4,444	3,609	3,609
ACCRUED EXPENSES AND DEFERRED INCOME	*36*	**2,367**	**3,048**	**2,837**
TOTAL EQUITY AND LIABILITIES		**284,731**	**259,453**	**272,086**

Unconsolidated statement of changes in equity of VARTEKS d.d. Varaždin
for the year ended 31 December 2019

(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 2018 published	***22,208***	***22,162***	***1,837***	***(1,837)***	***-***	***168,979***	***(34,388)***	***178,961***
Correction of previous years (Note 2)	-	-	-	-	-	*(88,813)*	*(49,987)*	*(138,800)*
As at 1 January 2018 restated	***22,208***	***22,162***	***1,837***	***(1,837)***	***-***	***80,166***	***(84,375)***	***40,161***
Loss for the year – restated	-	-	-	-	-	-	*(9,388)*	*(9,388)*
Changes in revaluation reserves – depreciation recognised on revalued amount (restated)	-	-	-	-	-	*(698)*	*698*	-
Tax on transactions recognised directly in equity (restated)	-	-	-	-	-	-	*153*	*153*
Issue of shares	*18,859*	*5,638*	-	-	-	-	-	*24,497*
Distribution of loss from 2017	-	*(26,245)*	-	-	-	-	*26,245*	-
Other	-	-	-	-	*73*	-	-	*73*
As at 31 December 2018 restated	***41,067***	***1,555***	***1,837***	***(1,837)***	***73***	***79,468***	***(66,667)***	***55,496***
Loss for the year	-	-	-	-	-	-	*(11,059)*	*(11,059)*
Changes in revaluation reserves – depreciation recognised on revalued amount	-	-	-	-	-	*(829)*	*829*	-
Tax on transactions recognised directly in equity	-	-	-	-	-	-	*182*	*182*
Sale of treasury shares	-	*656*	*(1,083)*	*1,083*	-	-	*1,082*	*1,738*
Merger of Varteks E d.o.o.	-	-	-	*(2,617)*	-	-	-	*(2,617)*
Actuarial losses on termination benefits	-	-	-	-	-	-	*(116)*	*(116)*
Coverage of a portion of loss from 2018	-	*(1,555)*	-	-	-	-	*1,555*	-
Other	-	-	-	-	*90*	-	-	*90*
As at 31 December 2019	***41,067***	***656***	***754***	***(3,371)***	***163***	***78,639***	***(74,194)***	***43,714***

Consolidated statement of changes in equity of the VARTEKS Group
for the year ended 31 December 2019

(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 2018 published	***22,208***	***22,162***	***1,837***	***(1,837)***	***-***	***168,979***	***(35,095)***	***178,254***	***178,254***
Correction of previous years (Note 2)	*-*	*-*	*-*	*(2,617)*	*-*	*(88,813)*	*(49,891)*	*(141,321)*	***(141,321)***
As at 1 January 2018 restated	***22,208***	***22,162***	***1,837***	***(4,454)***	***-***	***80,166***	***(84,986)***	***36,933***	***36,933***
Loss for the year – restated	*-*	*-*	*-*	*-*	*-*	*-*	*(7,448)*	*(7,448)*	*(7,448)*
Changes in revaluation reserves – depreciation recognised on revalued amount (restated)	*-*		*-*	*-*	*-*	*(698)*	*698*	*-*	*-*
Tax on transactions recognised directly in equity (restated)	*-*	*-*	*-*	*-*	*-*	*-*	*153*	*153*	*153*
Issue of shares	*18,859*	*5,638*	*-*	*-*	*-*	*-*	*-*	*24,497*	*24,497*
Distribution of loss from 2017	*-*	*(26,245)*	*-*	*-*	*-*	*-*	*26,245*	*-*	*-*
Other	*-*	*-*	*-*	*-*	*73*	*-*	*-*	*73*	*73*
As at 31 December 2018 restated	***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)*
Changes in revaluation reserves – depreciation recognised on revalued amount	*-*	*-*	*-*	*-*	*-*	*(829)*	*829*	*-*	*-*
Tax on transactions recognised directly in equity	*-*	*-*	*-*	*-*	*-*	*-*	*182*	*182*	*182*
Sale of treasury shares	*-*	*656*	*(1,083)*	*1,083*	*-*	*-*	*1,082*	*1,738*	*1,738*
Actuarial losses on termination benefits		*-*	*-*	*-*	*-*	*-*	*(116)*	*(116)*	*(116)*
Coverage of a portion of loss from 2018	*-*	*(1,555)*	*-*	*-*	*-*	*-*	*1,555*	*-*	*-*
Other	*-*	*-*	*-*	*-*	*90*	*-*	*-*	*90*	*90*
As at 31 December 2019	***41,067***	***656***	***754***	***(3,371)***	***163***	***78,639***	***(71,538)***	***46,370***	***46,370***

Statement of cash flows of VARTEKS d.d. Varaždin

for the year ended 31 December 2019

(in thousands of HRK)	*Note*	*Group 2019*	*Group 2018 Restated*	*Company 2019*	*Company 2018 Restated*
CASH FLOW FROM OPERATING ACTIVITIES					
(Loss)/profit before tax		*(9,415)*	*(6,957)*	*(11,059)*	*(9,388)*
Depreciation	*18,19*	*8,863*	*5,014*	*8,822*	*4,675*
Impairment of inventories	*13*	*1,449*	*2,575*	*1,402*	*2,373*
Impairment of trade receivables	*14*	*210*	*496*	*210*	*432*
Impairment of receivables from government	*14*	*-*	*3,349*	*-*	*3,349*
Changes in provisions		*(1,607)*	*216*	*(1,607)*	*216*
Net losses/(gains) on sale of non-current tangible and intangible assets		*(276)*	*(124)*	*(276)*	*(124)*
Write-off of non-current assets		*398*	*151*	*391*	*151*
Other non-cash expenses		*(8)*	*(185)*	*12*	*231*
Income from derecognising refinanced borrowing		*-*	*(14,133)*	*-*	*(14,133)*
Interest income	*16*	*(132)*	*(8)*	*(138)*	*(8)*
Interest expense	*16*	*7,332*	*4,506*	*7,149*	*4,507*
Net unrealised foreign exchange differences	*16*	*573*	*(1,244)*	*598*	*(1,244)*
Changes in the working capital:					
- *(Increase)/decrease in trade receivables*		*2,142*	*(30,827)*	*(18,311)*	*(31,255)*
- *(Increase)/decrease in inventories*		*(15,801)*	*(5,644)*	*(15,090)*	*(5,217)*
- *(Increase)/decrease in other receivables*		*521*	*5,339*	*314*	*5,260*
- *Increase/(decrease) in trade payables*		*(7,186)*	*(14,168)*	*(5,869)*	*(27,684)*
- *Increase/(decrease) in other liabilities*		*7,274*	*(12,794)*	*7,421*	*1,378*
- *Increase/(decrease) in provisions*		*-*	*281*	*-*	*281*
- *Other movements in the working capital*		*-*	*-*	*-*	*93*
CASH FLOW FROM OPERATING ACTIVITIES		(5,663)	(64,157)	(26,031)	(66,107)
Interest paid		*(2,118)*	*(1,408)*	*(2,290)*	*(1,410)*
Interest received		*120*	*17*	*132*	*23*
Income tax paid		*(721)*	*(67)*	*-*	*-*
NET CASH FLOW FROM OPERATING ACTIVITIES		***(8,382)***	***(65,615)***	***(28,189)***	***(67,494)***
CASH FLOW FROM INVESTING ACTIVITIES					
Cash receipts from sale of tangible assets		*1,655*	*48*	*1,655*	*48*
Net (outflows)/receipts from cancellation of term deposits		*(38)*	*52*	*(38)*	*52*
Cash used for the purchase of tangible assets		*(4,247)*	*(1,290)*	*(4,247)*	*(1,290)*
Cash used for the purchase of intangible assets		*(727)*	*-*	*(727)*	*-*
NET CASH FLOW FROM INVESTING ACTIVITIES		***(3,357)***	***(1,190)***	***(3,357)***	***(1,190)***
CASH FLOW FROM FINANCING ACTIVITIES					
Receipts from the issue of shares and holdings		*-*	*17,446*	*-*	*17,447*
Receipts from the sale of treasury shares		*1,738*	*-*	*1,738*	*-*
Cash receipts from credit principals, loans and other borrowings		*49,989*	*61,604*	*65,458*	*81,260*
Cash used for repayments of credit principals, loans and other borrowings and debt financial instruments		*(38,053)*	*(8,964)*	*(32,423)*	*(27,808)*
Cash used for repayment of leases		*(3,920)*	*-*	*(3,920)*	*-*
Net cash (used in)/from other financing activities		*-*	*(743)*	*-*	*(924)*
NET CASH FLOW FROM FINANCING ACTIVITIES		***9,754***	***69,343***	***30,853***	***69,975***
Unrealised foreign exchange differences on cash and cash equivalents		*13*	*11*	*13*	*11*
TOTAL NET CASH FLOW	*24*	***(1,972)***	***2,549***	***(680)***	***1,302***
Cash and cash equivalents at the beginning of the period		*3,278*	*729*	*1,959*	*657*
Cash and cash equivalents at the end of the period		*1,306*	*3,278*	*1,279*	*1,959*

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) Special clothing (production and sale of special-purpose clothing).

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

As at 31 December 2019, the Company had a total of 1,025 employees, and as at 31 December 2018 it had 1,027 employees. As at 31 December 2019, the Group had a total of 1,057 employees, and as at 31 December 2018 it had 1,055 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, apart from the policies resulting from the first adoption of IFRS 9 and IFRS 15. 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*
		2019	*2018*	*2019*	*2018*	
Vartex Textiles Limited London	*Great Britain*	*-*	*100%*	*-*	*100%*	*Trade, intermediation and dealership*
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%*	*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 2019, the subsidiary Varteks E 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. Correction of errors from previous periods and reclassification

a) Impairment of land and buildings – In 2011, the Company and the Group applied the model of fair valuation of land and buildings. After that, the Company and the Group should have, at least every 3 to 5 years, and if value significantly changes even more often, perform fair valuations and adjustments of the value of land and buildings.

b) Classification of assets to investment property – Since some properties ceased to be used for own purposes (mainly due to closing of production plants), the Company and the Group did not timely reclassify these properties to "Investment property" in accordance with IAS 40.

c) Valuation of joint borrowing – In January 2018, the Company and the Group did not adequately record the transaction of negotiated new terms and conditions of the joint borrowing. The change in terms and conditions of the borrowing should have been treated as derecognition of the previous borrowing and recognition of the borrowing under the new terms and conditions at fair value. The difference arisen should have been recognised in the income statement.

d) Accounting for the costs of unused vacation days of employees – In previous periods, the Company and the Group did not account for the cost of unused vacation days.

e) Provisions for costs and unused loyalty card points for retail customers – there is a significant certainty that the Group and the Company will have future outflows based on compensation for already earned income and for unused loyalty card points for retail customers. Management estimated possible future outflows and made provisions on this basis.

f) Reclassification of grants – non-current portion of grants for financing the purchase of non-current tangible assets is reclassified to other non-current liabilities.

g) Treasury shares – In the Varteks Group consolidation, the shares of the parent company that were owned by a subsidiary were incorrectly recorded in non-current receivables instead of as a deductible item in capital and reserves. The correction was made in these consolidated financial statements.

h) Reclassification of depreciation cost – for a better presentation of costs, HRK 280 thousand of costs was transferred from other expenses to depreciation costs.

The Company and the Group corrected certain errors from previous years in the current year. The corrections for the Company are presented in the table below:

Unconsolidated income statement – 2018

Company	*2018 published*	*Correction – land and buildings (a)*	*Correction – Joint borrowing (c)*	*Correction – provision for costs (e)*	*2018 Restated*
Income statement					
Depreciation	*(7,800)*	*3,125*	*-*	*-*	*(4,675)*
Other expenses	*(18,744)*	*-*	*-*	*(216)*	*(18,960)*
Net expenses from financial operations	*(3,613)*	*-*	*14,133*	*-*	*10,520*
Loss for the period	*(26,430)*	*3,125*	*14,133*	*(216)*	*(9,388)*
Other comprehensive income					
Changes in revaluation reserves of non-current tangible and intangible assets	*2,808*	*(1,957)*	*-*	*-*	*851*
Other comprehensive income	*2,881*	*(1,957)*	*-*	*-*	*924*
Comprehensive loss for the period	*(23,549)*	*1,168*	*14,133*	*(216)*	*(8,464)*

2.2. Correction of errors from previous periods and reclassification (continued)

Consolidated income statement – 2018

Group	*2018 published*	*Correction – land and buildings (a)*	*Correction – Joint borrowing (c)*	*Correction – provision for costs (e)*	*2018 Restated*
Income statement					
Depreciation	*(7,859)*	*3,125*	*-*	*-*	*(4,734)*
Other expenses	*(19,353)*	*-*	*-*	*(216)*	*(19,569)*
Net expenses from financial operations	*(3,578)*	*-*	*14,133*	*-*	*10,555*
Loss for the period	*(24,490)*	*3,125*	*14,133*	*(216)*	*(7,448)*
Other comprehensive income					
Changes in revaluation reserves of non-current tangible and intangible assets	*2,808*	*(1,957)*	*-*	*-*	*851*
Other comprehensive income	*2,881*	*(1,957)*	*-*	*-*	*924*
Comprehensive loss for the period	*(21,609)*	*1,168*	*14,133*	*(216)*	*(6,524)*

The published consolidated loss per share for 2018 was HRK 6.24 (the Company: HRK 6.73 per share). The restated loss per share for 2018 amounts to HRK 2.16 (restated for the Company: HRK 2.60 per share).

Unconsolidated statement of financial position – 1 January 2018

Company	*1 January 2018 published*	*Correction – land and buildings (a)*	*Correction-classification of assets to investment property*	*Correction – accrued expenses (c)*	*Correction – provision for costs (d)*	*Correction – reclassification of grants (f)*	*1 January 2018 Restated*
Land	*72,090*	*18,094*	*(38,109)*	*-*	*-*	*-*	*52,075*
Buildings	*259,603*	*(172,976)*	*(37,687)*	*-*	*-*	*-*	*48,940*
Investment property	*-*	*-*	*75,796*	*-*	*-*	*-*	*75,796*
Revaluation reserves	*168,979*	*(88,813)*	*-*	*-*	*-*	*-*	*80,166*
Accumulated loss and loss for the year	*(34,388)*	*(46,466)*	*-*	*(2,362)*	*(1,159)*	*-*	*(84,375)*
Provisions	*5,410*	*-*	*-*	*-*	*1,159*	*-*	*6,569*
Deferred tax liability	*37,093*	*(19,603)*	*-*	*-*	*-*	*-*	*17,490*
Accrued expenses and deferred income	*762*	*-*	*-*	*2,362*	*-*	*(426)*	*2,698*
Other non-current liabilities	*194*	*-*	*-*	*-*	*-*	*426*	*620*

2.2. Correction of errors from previous periods and reclassification (continued)

Consolidated statement of financial position – 1 January 2018

Group	*1 January 2018 published*	*Correction – land and buildings (a)*	*Correction-classification of assets to investment property (b)*	*Correction – accrued expenses (d)*	*Correction – provision for costs (e)*	*Correction – reclassification of grants (f)*	*Correction – treasury shares (g)*	*1 January 2018 Restated*
Land	*72,090*	*18,094*	*(38,109)*	-	-	-	-	*52,075*
Buildings	*259,686*	*(172,760)*	*(37,687)*	-	-	-	-	*49,239*
Investment property	-	-	*75,796*	-	-	-	-	*75,796*
Other non-current receivables	*2,995*	-	-	-	-	-	*(2,617)*	*378*
Treasury shares and holdings (deductible item)	*1,837*	-	-	-	-	-	*2,617*	*4,454*
Revaluation reserves	*168,979*	*(88,813)*	-	-	-	-	-	*80,166*
Accumulated loss and loss for the year	*(35,095)*	*(46,250)*	-	*(2,482)*	*(1,159)*	-	-	*(84,986)*
Provisions	*5,410*	-	-	-	*1,159*	-	-	*6,569*
Deferred tax liability	*37,093*	*(19,603)*	-	-	-	-	-	*17,490*
Accrued expenses and deferred income	*781*	-	-	*2,482*	-	*(426)*	-	*2,837*
Other non-current liabilities	*194*	-	-	-	-	*426*	-	*620*

Unconsolidated statement of financial position – 31 December 2018

Company	*31 December 2018 published*	*Correction – land and buildings (a)*	*Correction – classification of assets to investment property (b)*	*Correction – Joint borrowing (c)*	*Correction – accrued expenses (d)*	*Correction – provision for costs (e)*	*Correction – reclassification of grants (f)*	*31 December 2018 Restated*
Land	*72,090*	*18,094*	*(38,109)*	-	-	-	-	*52,075*
Buildings	*255,018*	*(169,851)*	*(37,687)*	-	-	-	-	*47,480*
Investment property	-		*75,796*	-	-	-	-	*75,796*
Revaluation reserves	*166,675*	*(87,207)*	-	-	-	-	-	*79,468*
Accumulated loss and loss for the year	*(31,764)*	*(45,299)*	-	*14,133*	*(2,362)*	*(1,375)*	-	*(66,667)*
Provisions	*5,691*	-	-	-	-	*1,375*	-	*7,066*
Liabilities to banks and other fin. institutions	*86,305*	-	-	*(14,133)*	-	-	-	*72,172*
Deferred tax liability	*36,587*	*(19,251)*	-	-	-	-		*17,336*
Accrued expenses and deferred income	*969*	-	-	-	*2,362*	-	*(409)*	*2,922*
Other non-current liabilities	-	-	-	-	-	-	*409*	*409*

Consolidated statement of financial position – 31 December 2018

Group	31 December 2018 published	Correction – land and buildings (a)	Correction-classification of assets to investment property (b)	Correction – Joint borrowing (c)	Correction – accrued expenses (d)	Correction-provision for costs (e)	Correction - reclassification of grants (f)	Correction – treasury shares (g)	31 December 2018 Restated
Land	72,090	18,094	(38,109)	-	-	-	-	-	52,075
Buildings	255,019	(169,834)	(37,687)	-	-	-	-	-	47,498
Investment property	-	-	75,796	-	-	-	-	-	75,796
Other non-current receivables	2,888	-	-	-	-	-	-	(2,617)	271
Treasury shares and holdings (deductible item)	1,837	-	-	-	-	-	-	2,617	4,454
Revaluation reserves	166,676	(87,208)	-	-	-	-	-	-	79,468
Accumulated loss and loss for the year	(30,333)	(45,281)	-	14,133	(2,482)	(1,375)	-	-	(65,338)
Provisions	5,691	-	-	-	-	1,375	-	-	7,066
Liabilities to banks and other fin. institutions	86,315	-	-	(14,133)	-	-	-	-	72,182
Deferred tax liability	36,587	(19,251)	-	-	-	-	-	-	17,336
Accrued expenses and deferred income	975	-	-	-	2,482	-	(409)	-	3,048
Other non-current liabilities	-	-	-	-	-	-	409	-	409

Unconsolidated statement of cash flows – 2018

Company	*2018 published*	*Correction – land and buildings (a)*	*Correction – Joint borrowing (c)*	*Correction – provision for costs (e)*	*2018 Restated*
CASH FLOW FROM OPERATING ACTIVITIES					
Loss before tax	*(26,430)*	*3,125*	*14,133*	*(216)*	*(9,388)*
Depreciation	*7,800*	*(3,125)*	*-*	*-*	*4,675*
Change in provisions	*-*	*-*	*-*	*216*	*216*
Significant difference in financing terms (refinancing of borrowings)	*-*	*-*	*(14,133)*	*-*	*(14,133)*

Consolidated statement of cash flows – 2018

Group	*2018 published*	*Correction – land and buildings (a)*	*Correction – Joint borrowing (c)*	*Correction – provision for costs (e)*	*Reclassification (h)*	*2018 Restated*
CASH FLOW FROM OPERATING ACTIVITIES						
Loss before tax	*(23,999)*	*3,125*	*14,133*	*(216)*	*-*	*(6,957)*
Depreciation	*7,859*	*(3,125)*	*-*	*-*	*280*	*5,014*
Change in provisions	*-*	*-*	*-*	*216*	*-*	*216*
Significant diff. in financing terms (refinancing of borrowings)	*-*	*-*	*(14,133)*	*-*	*-*	*(14,133)*
Other non-cash expenses	*94*				*(280)*	*(186)*

2.3. Going concern presumption

(a) Development of the Group's and the Company's operations in 2019

During 2019, the Company and the Group continued their business and financial restructuring and development projects and achieved the first positive results in operational terms.

The assumptions that made such a positive development possible were the capital contribution at the beginning of 2018. It has partially improved the liquidity situation, but this was still insufficient. Following the capital contribution, in the context of financial restructuring, in the first quarter of 2018, an agreement was signed with key banks on refinancing of debt, with a grace period of 39 months and interest rates lower by 3.54 b.p. from 6.54% to 3%. In addition, in the middle of 2018 and toward the year end, operational restructuring projects were implemented to reduce costs and improve efficiency. The most significant savings were achieved through restructuring of administrative and overhead staff, rationalisation of space utilisation and rationalisation in process management; primarily of procurement, sales and production.

Starting from the second quarter of 2019, excellent business results are recorded. They are primarily related to the strong growth in retail sales revenue, which increased by 59% compared to 2018 and ultimately led to an increase in EBITDA and brought the company to a positive operating result. In 2019, we achieved the first positive normalised EBITDA of HRK 3.5 million. Furthermore, much has also been done in terms of financial restructuring, where a project to sell inactive properties (former abandoned industrial buildings and surrounding land) is used as the main element of debt settlement.

Through borrowings from the major shareholder in 2018 and the first half of 2019, the Company and the Group were able to partly stabilise operations, secure better and faster financing of procurement of raw materials and consumables for the production of own products and the purchase of trade goods, which is a prerequisite for further revenue growth. Particularly important is the development in the production of own high-quality clothing brand, with an emphasis on classic style, premium fabrics and workmanship, and contemporary design.

Through sewing services, Varteks remains a significant exporter and continues its cooperation with renowned business partners, especially Hugo Boss. The production and sale of special-purpose clothing and corporate clothing is continued with a part of the already contracted work and partly through expected work for the business partners.

Further growth of revenues and better business results were consequently expected in 2020. We expected to continue a strong turn in the strategic guidelines of the Company and the Group operations, focused primarily on strengthening the production and sale of our own fashion brand, strengthening web sales and using highly dynamic contemporary forms of marketing.

Unfortunately, as for most companies in the Republic of Croatia and the world, our operations are seriously affected by the coronavirus pandemic that started to negatively impact our operations already at the beginning of March 2020. More detailed information about this impact are disclosed in Note 42.

2.3. Going concern presumption (continued)

(a) Continuation of the Company's and the Group's operations

The result of events described in note 42 and our expectations at the moment of issuing the financial statements are as follows:

- *A significant decrease in retail sales income was recorded in March, and this continued in April. In the rest of the year we expect reopening of retail stores in May or June and a total annual decrease in retail sales of more than 30%. The plan for 2020 was a 24% growth, which we believe was a realistic expectation following the 59% growth in 2019.*
- *As stated in Note 42, in the contract manufacturing segment we expect a decrease due to reduced orders by major customers, which should decrease the revenue of this segment on the annual level by more than 40%.*
- *The first package of measures in March by the Croatian government for job retention of HRK 9.5 million will only partly cover the losses we might have in 2020.*
- *The demand for washable cotton face masks is increasing and it could help the Company in the second quarter of 2020 to decrease negative effects of the coronavirus epidemic.*

In addition, at the balance sheet date, the Company has past due liabilities for borrowings from individuals of HRK 46.3m and past due trade payables of HRK 26.6m, which it plans to settle in part through the realization of inactive properties within one year (at the moment of issuing these financial statements, the sale of properties is in a high stage of negotiations), and for the rest to defer payment until the moment of additional inflows from the sale of properties and surplus inflows from operations.
We must emphasise that the pandemic situation is extremely unpredictable and the Company's Management Board promptly monitors and reacts to every new piece of information, especially taking into account the health of our employees, socially responsible behaviour, retaining jobs and maintaining the Company's and the Group's liquidity in fully aggravated business conditions.

In 2019, full effects of restructuring activities were realised and the extraordinary growth in retail sales income was a significant step forward in further development and stabilisation of operations. In March and April 2020, the operations of the Company and the Group were severely affected by the coronavirus pandemic.

Several possible scenarios for business development in 2020 have been made. According to the optimistic scenario (shorter pandemic period and faster recovery of the economy), the Company is able to have sufficient cash inflows for stable operations from the own operations and with the use of the government's job retention measures. According to the pessimistic scenario (longer pandemic period and slower economic recovery), additional liquid funds will be needed to preserve business liquidity, which is why we expect to have loans from CBRD and commercial banks available as part of the government's package of measures in April.

Despite management's efforts to implement the liquidity management measures described above, there is still significant uncertainty regarding the continuation of the Company's operations, as has been so far. This significant uncertainty largely depends on the successful sale of a portion of the property and in the event of a pessimistic scenario of coronavirus impact on additional funding from CBRD and commercial banks. In the event of a pessimistic scenario, and unless these transactions are successfully completed as planned during 2020, it is probable that the Company will not be able to continue in business on a going concern basis.

However, management believes in the sustainability and continuation of the Company's and the Group's operations taking into account the following facts:

- *although our retail sale is temporarily suspended, we received significant compensation measures of HRK 9.5m (granted salary payment measure for March, April and May; write-offs and granted delayed rent payments by some lessors, etc.);*
- *although orders by foreign customers decreased, at the same time we focused on the production of washable cotton face masks, for which there is great demand and our capacities are currently fully used;*
- *currently our webshop, as the only open store, records significantly higher sales than the last-year's, and we believe that this will strengthen our online position in the period after the crisis caused by the coronavirus pandemic;*
- *we still have buyers interested in non-operational properties at prices that are not below the estimated value, whose sale will allow a mid-term and long-term stabilisation of the company; and*
- *although it is probable that through the "post corona" crisis the fashion industry might be one of the most affected industries, as Varteks is one of the rare vertically integrated fashion companies (with own production, within the EU), in the long term we believe that the megatrend of returning the production to the EU will benefit our further development.*

2.4. 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.

2.5. 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.

2.6. 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.

2.7. 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 recognized as a decrease in revenue over the period in which the points are used.

2.8. 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.

2.9. 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 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.

2.10. 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.

2.10. Financial liabilities (continued)

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 current values is recognised in the income statement.

2.11. 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.

2.12. 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 2019 and 2018, 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.

2.13. 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 buildings, 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 buildings, 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.

2.13. Property, plant and equipment (continued)

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 2019 and 2018, by types of assets:

	%
Buildings	*1 – 3*
Equipment	*1 – 10*
Vehicles	*25*
Office equipment	*10*

2.14. 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.

2.15. 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 test of loss in value 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 costs of sales 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.

2.16. 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.

2.16. Leases (continued)

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 a 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 lease 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 2019 for right-of-use assets:

	%
Buildings	*10 – 50*
Equipment	*50*
Vehicles	*25*
Office equipment	*20*

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.

Accounting policies prior to 1 January 2019

The Company and the Group as the lesee
Assets leased under a contract transferring all the risks and rewards of ownership (finance lease) to the Company and the Group, are capitalised at the lower of the fair value of the asset or the present value of the minimum rent at the beginning of the lease period and are recorded as tangible assets under lease. Lease payments are recorded as a finance cost and a decrease in lease obligations to achieve a constant interest up to the end of the contract period. Finance costs are compensated by recognising finance costs in the income statements.
Capitalised assets under lease are amortised over the shorter of the lease term and the useful life.
Leases where the lessor effectively retains substantially all the risks and rewards of ownership of the leased asset are classified as operating leases. Payments made under operating leases are charged to the income statement over the period of the lease.
The accounting treatment of sales and lease transactions depends on the type of lease. If the transaction is a sale and lease resulting in a finance lease, any excess of sales proceeds over the carrying amount is deferred and amortised over the period of the lease. If the transaction is a sale and lease resulting in an operating lease, the transaction is carried at fair value and any profit or loss is recognised immediately.

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 are added to the present value of the leased asset and recognised as lease income over the lease term. Contingent rentals are recognised as income at the time in which they were earned.

2.17. Government grants

Government grants are recognized 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 recognized in the income statement on a straight-line basis over the expected useful life of the assets.

2.18. 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.

2.19. 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.

2.20. 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 reversed 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.

2.21. 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 2019 was HRK 7.44258 to EUR 1 (31 December 2018: HRK 7.417575), and HRK 6.649911 to USD 1 (31 December 2018: HRK 6.469192).
The amounts in the financial statements are presented in thousands of HRK, unless otherwise stated.

2.22. 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.

2.23. 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.

2.24. Contingent liabilities

Contingent liabilities are disclosed in the financial statements. They are disclosed in the notes except when there is a slight 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.

2.25. Events after the balance sheet date

Events after the balance sheet date, which provide additional information on the Company's position at the balance sheet 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.

2.26. 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.

2.27. 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.

2.28. 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.

2.29. First adoption of new accounting standards

IFRS 16 'Leases' (issued in January 2016 and effective for annual periods beginning on or after 1 January 2019) replaces IAS 17 Leases, IFRIC 4 Determining Whether an Arrangement Contains a Lease, SIC 15 Operating Leases and SIC-27 Evaluating the Substance of Transactions in the Legal Form of a Lease, setting the basis for recognition, measurement, presentation and disclosure of leases for both parties of the lease contract, the lesee and the lessor.

In the first adoption of IFRS 16, the Company and the Group used the following exemptions provided by the standard: applying a single discount rate to a portfolio of leases with similar characteristics, accounting for leases for which lease terms end within 12 months of the date of initial filing, and for leases of an asset of low value.

The Company and the Group have adopted the standard from the date of mandatory adoption, 1 January 2019, applying the simplified transition approach, and have not restated the comparative data for 2018, as permitted by the special provisions for transition relief. The reclassifications and adjustments resulting from the rules for the application of the new standard are therefore recognized in the opening balance sheet as at 1 January 2019. New accounting policies are disclosed in the Note 2.16.

Upon the adoption of IFRS 16, the Company and the Group recognized liabilities on the leases that were previously classified as operating leases under IAS 17.

Liabilities are measured at the present value of the remaining lease payments using the marginal lending rate at 1 January 2019. The weighted average incremental borrowing rate applied to the lease liabilities at 1 January 2019 was 6.5%. The right to use assets relating to the rental of the premises was valued as if the new rules had always been applied. The right to use assets related to the lease of other assets is measured in the amount of the lease liability after the adoption of the standard (adjusted for all prepaid or accrued lease expenses).

2.29. First adoption of new accounting standards (continued)

The change in accounting policy impacted the following items in the balance sheet as at 1 January 2019:

	Group	*Company*
HRK thousand	*1 January 2019*	*1 January 2019*
Right to use assets	9,548	9,548
Lease liabilities	9,458	9,458

The following amended standards are effective as of 1 January 2019, but did not have a significant impact on the Group:

- *IFRIC 23 "Uncertainty over Income Tax Treatments" (issued on 7 June 2017 and effective for annual periods beginning on or after 1 January 2019).*
- *Prepayment Features with Negative Compensation – Amendments to IFRS 9 (issued on 12 October 2017 and effective for annual periods beginning on or after 1 January 2019).*
- *Amendments to IAS 28 "Long-term interests in associates and joint ventures" (issued on 12 October 2017 and effective for annual periods beginning on or after 1 January 2019).*
- *Annual Improvements to IFRS Standards 2015–2017 Cycle – Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23 (issued on 12 December 2017 and effective for annual periods beginning on or after 1 January 2019).*
- *Amendments to IAS 19 "Plan Amendment, Curtailment or Settlement" (issued on 7 February 2018 and effective for annual periods beginning on or after 1 January 2019).*

2.30. Standards and interpretations not yet adopted

There are no other standards that are not yet effective, and that are expected to have a material impact on the entity in present or future reporting periods and on future transactions.

2.31. 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 Management about current events and actions, actual results may differ from these estimates.

In the ordinary course of the Company's and the Group's business, estimates are used but not limited to: valuation of property, plant and equipment, their useful lives and their residual values, provisions for employee benefits. Future events and their impact cannot be predicted with certainty.
Details of the estimates and amounts are presented in the appropriate accounting policies and notes to the financial statements.

In the process of applying accounting policies, the Company and the Group have made the following judgment, separate from those that include estimates, that have the most significant effect on the amounts presented in the financial statements:

The Company and the Group engage external, independent and qualified valuers to determine the fair value of investment land and buildings. Significant assumptions used in the estimates are the market value of the construction land, the estimation of the value of contributions and utility connections for the land.

Useful lives of property and equipment
The determination of useful lives of assets 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 appropriateness of the estimated useful lives is reviewed annually or whenever there is an indication of significant changes in the presumptions.

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

By using an asset, the Company and the Group consume the economic benefits contained in the asset, which are diminishing more intensively as a result of economic and technological ageing. Therefore, in determining the life of the asset, in addition to considering the expected use based on the physical use, it is necessary to also take into account the faster intensity of the development of new technologies.

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

The useful lives will be periodically reviewed in order to determine whether there are circumstances to change the estimate from the previously determined one. Changes in estimates, if any, will be reflected in future periods through the modified depreciation cost over the remaining, modified useful life.

The effect of changes to the expected useful lives of property, plant and equipment for the Company and the Group is presented in the table below:

	Increase/decrease in %	*Impact on loss after tax in thousands of HRK*	
		Group	*Company*
Year ended 31 December 2019	*+5%*	*180*	*179*
	-5%	*(180)*	*(179)*
Year ended 31 December 2018	*+5%*	*180*	*179*
	-5%	*(180)*	*(179)*

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 2019 is as follows:

HRK thousand	*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**

The structure of sales income and operating profit of the Group in 2018 is as follows:

HRK thousand	*Income from sales of products and goods*	*Gross profit*	*Direct and other production costs*	*Operating profit after allocated costs*
Retail	53,202	27,909	(25,435)	2,474
Wholesale and dealership	4,951	656	(791)	(135)
Contract manufacturing	67,323	4,972	(6,832)	(1,860)
Special-purpose clothing	28,044	5,541	(4,351)	1,190
Other – operating income not included in segment	956	918	-	918
Total	**154,476**	**39,996**	**(37,409)**	**2,587**

3. Segment information (continued)

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

HRK thousand	*2019*	*2018*
Operating profit after allocated costs	8,081	2,587
Other income not included in segment	4,112	5,549
Other indirect costs	(14,011)	(25,648)
Gain/(Loss) on financial operations	(7,597)	10,555
Income tax	(317)	(491)
Loss for the period	**(9,732)**	**(7,448)**

Sales income of the Group by geographical segment:

HRK thousand	*2019*	*2018*
Croatia	113,556	84,285
Export – Contract manufacturing	53,682	67,323
Export – Wholesale	2,422	2,868
Total	**169,660**	**154,476**

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

HRK thousand	*Income from sales of products and goods*	*2019*	*2018*
Customer 1	Retail	9,147	8,817
Customer 2	Contract manufact.	32,469	30,598
Customer 3	Contract manufact.	19,511	27,818
Customer 1	Special-purpose cloth.	21,475	18,291
Other customers	-	87,058	68,952
Total		**169,660**	**154,476**

4. Income from sales with undertakings within the Group

HRK thousand	*2019*	*2018*
Varteks Pro	17,357	13,022
V-projekt	6	8
Total	**17,363**	**13,030**

Income from sales with undertakings within the Group by type:

HRK thousand	*2019*	*2018*
Income from sale of products and services	10,909	7,030
Income from sale of raw materials	159	113
Income from sale of goods	6,295	5,887
Total	**17,363**	**13,030**

5. Income from sales

Income by category

	Group		*Company*	
HRK thousand	*2019*	*2018*	*2019*	*2018*
Income from sale of products and services	130,630	122,053	107,882	99,863
Income from sale of raw materials and services	636	691	636	692
Income from sale of goods	38,394	31,732	24,673	17,099
Total	**169,660**	**154,476**	**133,191**	**117,654**

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

Company

	Group		*Company*	
HRK thousand	*2019*	*2018*	*2019*	*2018*
Income from own transportation of raw materials and consumables	182	182	182	182
Income from use of goods for own purposes	23	2	23	2
Total	**205**	**184**	**205**	**184**

7. Other operating income with undertakings within the Group

HRK thousand	*2019*	*2018*
Varteks Pro	141	155
V-projekt	11	11
Total	**152**	**166**

8. Other operating income

	Group		*Company*	
HRK thousand	*2019*	*2018*	*2019*	*2018*
Income from one-off government grants	1,478	-	1,478	-
Income from rentals	821	1,119	821	1,119
Income from reversal of provisions	767	531	726	531
Surpluses	278	153	262	138
Income from write-off of liabilities	77	203	77	203
Income from collected receivables previously written off	56	21	56	21
Other operating income	430	3,338	416	3,307
Total	**3,907**	**5,365**	**3,836**	**5,319**

9. Costs of raw materials and consumables

	Group		*Company*	
HRK thousand	*2019*	*2018*	*2019*	*2018*
Raw materials and consumables used	44,532	41,227	34,770	32,344
Energy used	4,385	5,165	4,385	5,181
Fuel	655	522	626	486
Spare parts used	421	575	419	574
Small inventory write-off	244	40	231	32
Total	**50,237**	**47,529**	**40,431**	**38,617**

10. Other external costs

	Group		*Company*	
HRK thousand	*2019*	*2018*	*2019*	*2018*
Marketing and promotion	6,461	3,095	6,453	3,092
Services on the product manufacturing	5,508	4,655	3,624	1,146
Maintenance services	1,668	1,455	1,643	1,445
Transportation and postal services	1,348	846	1,324	844
Rentals and leases	1,344	4,927	1,306	4,927
Utility services	386	510	381	505
Vehicle registration	35	33	34	32
Forwarding services	13	38	13	23
Other services	992	526	759	282
Total	**17,755**	**16,085**	**15,537**	**12,296**

11. Staff costs

Taxes and contributions of the Company include HRK 10,911 thousand (2018: HRK 11,364 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 11,370 thousand (2018: HRK 11,801 thousand) of mandatory pension contributions paid to the mandatory pension fund. Contributions are calculated as a percentage of gross salaries.

In 2019, the Company had on average a total of 1,032 employees, and in 2018, 1,114 employees.

In 2019, the Group had on average a total of 1,064 employees, and in 2018, 1,148 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 2019, total compensation paid to key personnel in the Company's Management Board amounted to HRK 657 thousand (2018: HRK 1,295 thousand). The Company's Management Board comprises three persons (2018: the Company's Management Board comprised two persons).

12. Other costs

	Group		*Company*	
HRK thousand	*2019*	*2018*	*2019*	*2018*
Transportation to work compensation	6,013	6,476	5,854	6,325
Other employee material rights	3,577	896	3,500	872
Other non-production services	3,442	941	3,372	921
Credit card commissions	1,713	1,228	1,710	1,228
Taxes and contributions irrespective of result	1,281	1,788	1,258	1,765
Business trips	820	472	684	388
Banking services	555	760	490	591
Termination benefits	433	3,056	419	3,042
Legal and notary services	352	348	339	336
Audit services	332	307	293	256
Entertainment	257	191	236	166
Insurance premiums	255	263	251	259
Other provisions	220	216	220	216
Compensation to Supervisory Board members	168	250	168	250
Membership fees	101	110	79	86
Jubilee awards – per additional provision	-	813	-	813
Jubilee awards	(650)	367	(650)	367
Other expenses	1,387	807	1,379	1,079
	20,256	**19,289**	**19,602**	**18,960**

Auditors of the financial statements of the Company and the Group provided in 2019 services in the amount of HRK 293 thousand for the Company, and HRK 338 HRK thousand for the Group (2018: HRK 184 thousand for the Company and HRK 234 thousand for the Group). Services provided in 2019 and 2018 relate to the audit of financial statements and an overview of the effects of the first application of IFRS 9, IFRS 15 and IFRS 16 in relation to the 2018 financial statements.

13. Impairment of non-financial assets

	Group		Company	
HRK thousand	*2019*	*2018*	*2019*	*2018*
Impairment cost				
- inventories	1,449	2,575	1,402	2,373
Total impairment	**1,449**	**2,575**	**1,402**	**2,373**

14. Impairment of financial and contract assets (net)

	Group		Company	
HRK thousand	*2019*	*2018*	*2019*	*2018*
- Trade receivables	210	496	210	432
- Receivables from government	-	3,349	-	3,349
Total impairment	**210**	**3,845**	**210**	**3,781**

15. Other operating expenses

	Group		Company	
HRK thousand	*2019*	*2018*	*2019*	*2018*
Settlement costs – CERP (i)	1,593	-	1,593	-
Shortages	325	211	311	196
Damages and fines	248	195	248	195
Disposed tangible assets not written off	115	124	115	124
Subsequently granted discounts	9	20	9	7
Other expenses	29	63	27	62
Expenses from previous years	105	200	105	200
	2,424	**813**	**2,408**	**784**

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

16. Net (costs)/income from financial activities

HRK thousand	*Group* 2019	2018	*Company* 2019	2018
Other interest income	132	8	132	8
Interest income from related parties	-	-	6	-
Foreign exchange differences and other finance income from related parties	-	-	1,854	762
Significant difference in financing terms (refinancing of borrowings)	-	14,133	-	14,133
Foreign exchange differences and other finance income	1,706	3,448	1,703	3,440
Other finance income	7	-	7	-
Total finance income	**1,845**	**17,589**	**3,702**	**18,343**
Interest expense and similar expenses	(7,084)	(4,507)	(6,769)	(4,194)
Interest expense and similar expenses – related parties	-	-	(380)	(354)
Foreign exchange differences and other expenses – related parties	-	-	(1,854)	(762)
Foreign exchange differences and other expenses	(2,300)	(2,204)	(2,287)	(2,190)
Other finance costs	(58)	(323)	(58)	(323)
Total finance costs	**(9,442)**	**(7,034)**	**(11,348)**	**(7,823)**
Total (net)	**(7,597)**	**10,555**	**(7,646)**	**10,520**

17. Income tax

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

HRK thousand	*Group* 2019	2018 Restated	*Company* 2019	2018 Restated
Accounting loss before tax	(9,415)	(6,957)	(11,059)	(9,388)
Income tax at 18%	(1,695)	(1,252)	(1,991)	(1,690)
Items increasing tax base	391	314	300	256
Items decreasing tax base	(56)	(59)	(56)	(59)
Unrecognised deferred tax asset	1,360	997	1,747	1,493
Tax liability	-	-	-	-
Income tax	317	491	-	-
Tax loss for carry forward to following year	-	-	(60,798)	(74,279)

17. Income tax (continued)

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

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:

Year of incurrence	*Amount HRK thousand*	*Year of expiry*	*Cumulative amount HRK thousand*
2015	11,403	2020	11,403
2016	10,105	2021	21,508
2017	24,165	2022	45,673
2018	15,125	2023	60,798
2019	-	2024	0
Tax loss for carry forward to 2020			**60,798**

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:

HRK thousand	*2019*	*2018 Restated*
Deferred tax liability at 1 January Restated	17,336	17,490
Past due tax payable for realised revaluation reserves	(74)	(154)
Deferred tax liability at 31 December	17,262	17,336

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 2018	505	1,468	5,486	151	110	**7,720**
Transfer from tangible assets	-	5	302	-	-	**307**
Transfer to tangible assets	-	-	(99)	-	-	**(99)**
Merger of subsidiary – Varteks Logistic	-	25	-	-	-	**25**
Disposals	-	-	(692)	-	-	**(692)**
At 31 December 2018	**505**	**1,498**	**4,997**	**151**	**110**	**7,261**
IMPAIRMENT						
At 1 January 2018	(505)	(1,270)	(4,092)	(151)	-	**(6,018)**
Transfer to tangible assets	-	-	99	-	-	**99**
Accumulated amortisation for 2018	-	(51)	(241)	-	-	**(292)**
Merger of subsidiary – Varteks Logistic	-	(25)	-	-	-	**(25)**
Disposals	-	-	571	-	-	**571**
At 31 December 2018	**(505)**	**(1,346)**	**(3,663)**	**(151)**	**-**	**(5,665)**
NET BOOK AMOUNT 31 December 2018	**-**	**152**	**1,334**	**-**	**110**	**1,596**
NET BOOK AMOUNT 1 January 2018	**-**	**198**	**1,394**	**-**	**110**	**1,702**
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**
IMPAIRMENT						
At 1 January 2019	(505)	(1,346)	(3,663)	(151)	-	(5,665)
Transfer to tangible assets	-	-	-	-	-	-
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**

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 2018	1,034	1,468	5,485	151	110	**8,249**
Transfer from tangible assets	-	5	302	-	-	**307**
Transfer to tangible assets	-	-	(99)	-	-	**(99)**
Merger of subsidiary – Varteks Logistic	-	25	-	-	-	**25**
Disposals	-	-	(692)	-	-	**(692)**
At 31 December 2018	**1,034**	**1,498**	**4,996**	**151**	**110**	**7,790**
IMPAIRMENT						
At 1 January 2018	(505)	(1,270)	(4,092)	(151)	-	**(6,018)**
Transfer to tangible assets	-	-	99	-	-	**99**
Accumulated amortisation for 2018	-	(51)	(241)	-	-	**(292)**
Merger of subsidiary – Varteks Logistic	-	(25)	-	-	-	**(25)**
Disposals	-	-	571	-	-	**571**
At 31 December 2018	**(505)**	**(1,346)**	**(3,663)**	**(151)**		**(5,665)**
NET BOOK AMOUNT 31 December 2018	**529**	**152**	**1,334**	**-**	**110**	**2,125**
NET BOOK AMOUNT 1 January 2018	**529**	**199**	**1,393**	**-**	**110**	**2,231**
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**
IMPAIRMENT						
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**

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										
At 1 January 2018	**72,090**	**497,744**	**-**	**156,466**	**-**	**22,659**	**-**	**176**	**232**	**749,367**
Transfer to investment property	(38,109)	(258,270)	-	-	-	-	-	-	-	**(296,379)**
Fair valuation	18,094	9,613	-	-	-	-	-	-	-	**27,707**
At 1 January 2018 Restated	**52,075**	**249,087**	**-**	**156,466**	**-**	**22,659**	**-**	**176**	**232**	**480,695**
Additions	-	-	-	912	-	247	-	130	-	**1,289**
Transfer to intangible assets	-	-	-	-	-	-	-	(306)	-	**(306)**
Sales	-	-	-	(97)	-	(488)	-	-	-	**(585)**
Disposals	-	(253)	-	(1,816)	-	(10)	-	-	-	**(2,079)**
Correction of depreciation group	-	-	-	-	-	99	-	-	-	**99**
Merger of subsidiary – Varteks Logistic	-	129	-	65	-	84	-	-	-	**278**
At 31 December 2018	**52,075**	**248,963**	**-**	**155,530**	**-**	**22,591**	**-**	**-**	**232**	**479,391**
IMPAIRMENT										
At 1 January 2018	**-**	**(238,141)**	**-**	**(133,903)**	**-**	**(20,949)**	**-**	**-**	**-**	**(392,993)**
Transfer to investment property	-	220,583	-	-	-	-	-	-	-	**220,583**
Fair valuation	-	(182,589)	-	-	-	-	-	-	-	**(182,589)**
At 1 January 2018 Restated	**-**	**(200,147)**	**-**	**(133,903)**	**-**	**(20,949)**	**-**	**-**	**-**	**(354,999)**
Accumulated depreciation for 2018	-	(1,541)	-	(2,238)	-	(604)	-	-	-	**(4,383)**
Sales	-	-	-	78	-	487	-	-	-	**565**
Disposals	-	253	-	1,790	-	10	-	-	-	**2,053**
Correction of depreciation group	-	-	-	-	-	(99)	-	-	-	**(99)**
Merger of subsidiary – Varteks Logistic	-	(48)	-	(64)	-	(84)	-	-	-	**(196)**
At 31 December 2018 Restated	**-**	**(201,483)**	**-**	**(134,337)**	**-**	**(21,239)**	**-**	**-**	**-**	**(357,059)**
NET BOOK AMOUNT 31 December 2018	**52,075**	**47,480**	**-**	**21,193**	**-**	**1,352**	**-**	**-**	**232**	**122,332**
NET BOOK AMOUNT 1 January 2018	**52,075**	**48,940**	**-**	**22,563**	**-**	**1,710**	**-**	**176**	**232**	**125,696**
COST										
At 1 January 2019	52,075	248,963	-	155,530	-	22,591	-	-	232	**479,391**
Adjustment to opening balance from adop. 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**
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**

19. a) Property, plant and equipment

The Company's property and equipment under construction as at 31 December 2019 mainly relate to investments in buildings and equipment; mainly in production plants, energy plant, equipment for stores and electronic equipment.

The value of borrowings and loans secured by mortgages at the balance sheet date amounts to EUR 11,711 thousand and HRK 39,450 thousand, while in 2018 it amounted to EUR 12,532 thousand and HRK 24,650 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 158,276 thousand, and in 2018 it amounted to HRK 159,791 thousand.

Cost of fully depreciated non-current assets in use amounts to HRK 135,125 thousand.

The Company:

Net gain on sale of non-current tangible assets

(in thousands of HRK)	*2019*	*2018*
Gain on sale of non-current tangible assets	*1,655*	48
Value of sold assets not written off	*(1,379)*	(172)
	276	**(124)**

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

Company

(in thousands of HRK)	Investment property Land	Investment property Buildings	**Total**
COST			
At 1 January 2018	**-**	-	-
Transfer to investment property	38,109	258,270	**296,379**
At 1 January 2018 Restated	**38,109**	**258,270**	**296,379**
At 31 December 2018	**38,109**	**258,270**	**296,379**
IMPAIRMENT			
At 1 January 2018	**-**	-	-
Transfer to investment property	-	(220,583)	**(220,583)**
At 1 January 2018 Restated	**-**	**(220,583)**	**(220,583)**
At 31 December 2018 Restated	**-**	**(220,583)**	**(220,583)**
NET BOOK AMOUNT 31 December 2018	**38,109**	**37,687**	**75,796**
NET BOOK AMOUNT 1 January 2018	**38,109**	**37,687**	**75,796**
COST			
At 1 January 2019	38,109	258,270	**296,379**
Sales	-	(551)	**(551)**
At 31 December 2019	**38,109**	**257,719**	**295,828**
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**

In 2019, on the basis of investment property the Company recorded lease income of HRK 568 thousand, and in 2018 of HRK 935 thousand. At the same time, the Company had direct expenses in the amount of HRK 358 thousand in 2019 and HRK 548 thousand in 2018, relating to investment property not under leases.

The value of assets classified as investment property, which are under mortgage loans, at the balance sheet date amounts to HRK 61,349 thousand, and in 2018 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 2018	**72,090**	**497,744**	**-**	**156,658**	**-**	**22,832**	**-**	**176**	**232**	**749,732**
Transfer to investment property	(38,109)	(258,270)	-	-	-	-	-	-	-	**(296,379)**
Fair valuation	18,094	9,912	-	-	-	-	-	-	-	**28,006**
At 1 January 2018 Restated	**52,075**	**249,386**	**-**	**156,658**	**-**	**22,832**	**-**	**176**	**232**	**481,359**
Additions	-	-	-	913	-	247	-	130	-	**1,290**
Transfer to intangible assets	-	-	-	-	-	-	-	(306)	-	**(306)**
Sales	**-**	-	-	(97)	-	(488)	-	-	-	**(585)**
Disposals	-	(253)	-	(1,816)	-	(10)	-	-	-	**(2,079)**
Correction of depreciation group	-	-	-	-	-	99	-	-	-	**99**
Merger of subsidiary – Varteks Logistic	-	129	-	65	-	84	-	-	-	**278**
At 31 December 2018	**52,075**	**249,262**	**-**	**155,723**	**-**	**22,764**	**-**	**-**	**232**	**480,056**
IMPAIRMENT										
At 1 January 2018	**-**	**(238,141)**	**-**	**(133,939)**	**-**	**(21,042)**	**-**			**(393,122)**
Transfer to investment property	-	220,583	-	-	-	-	-	-	-	**220,583**
Fair valuation	-	(182,589)	-	-	-	-	-	-	-	**(182,589)**
At 1 January 2018 Restated	**-**	**(200,147)**	**-**	**(133,939)**	**-**	**(21,042)**	**-**	**-**	**-**	**(355,128)**
Accumulated depreciation for 2018	-	(1,822)	-	(2,259)	-	(641)	-	-	-	**(4,722)**
Sales	-	-	-	78	-	487	-	-	-	**565**
Disposals	-	253	-	1,786	-	10	-	-	-	**2,049**
Correction of depreciation group	-	-	-	-	-	(99)	-	-	-	**(99)**
Merger of subsidiary – Varteks Logistic	-	(48)	-	(64)	-	(84)	-	-	-	**(196)**
At 31 December 2018 Restated	**-**	**(201,764)**	**-**	**(134,398)**	**-**	**(21,369)**	**-**	**-**	**-**	**(357,531)**
NET BOOK AMOUNT 31 December 2018	**52,075**	**47,498**	**-**	**21,325**	**-**	**1,395**	**-**	**-**	**232**	**122,525**
NET BOOK AMOUNT 1 January 2018	**52,075**	**49,239**	**-**	**22,719**	**-**	**1,790**	**-**	**176**	**232**	**126,231**
COST										
At 1 January 2019	52,075	249,262	-	155,723	-	22,764	-	-	232	**480,056**
Adjustm. to opening balance from adop. 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**
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**

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

The Group's property and equipment under construction as at 31 December 2019 mainly relate to investments in buildings and equipment; mainly in production plants, energy plant, equipment for stores and electronic equipment.

The value of borrowings and loans secured by mortgages at the balance sheet date amounts to EUR 11,711 thousand and HRK 39,450 thousand, while in 2018 it amounted to EUR 12,532 thousand and HRK 24,650 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 158,276 thousand, and in 2018 it amounted to HRK 159,791 thousand.

Cost of fully depreciated non-current assets in use amounts to HRK 135,125 thousand.

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

The Group	*2019*	*2018*
	HRK thousand	*HRK thousand*
Income from sale of non-current tangible assets	*1,655*	48
Value of sold assets not written off	*(1,379)*	(172)
	276	**(124)**

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

Group

(in thousands of HRK)	Investment property Land	Investment property Buildings	**Total**
COST			
At 1 January 2018	**-**	**-**	**-**
Transfer to investment property	38,109	258,270	**296,379**
At 1 January 2018 Restated	**38,109**	**258,270**	**296,379**
At 31 December 2018	**38,109**	**258,270**	**296,379**
IMPAIRMENT			
At 1 January 2018	**-**	**-**	**-**
Transfer to investment property	-	(220,583)	**(220,583)**
At 1 January 2018 Restated	**-**	**(220,583)**	**(220,583)**
At 31 December 2018 Restated	**-**	**(220,583)**	**(220,583)**
NET BOOK AMOUNT 31 December 2018	**38,109**	**37,687**	**75,796**
NET BOOK AMOUNT 1 January 2018	**38,109**	**37,687**	**75,796**
COST			
At 1 January 2019	38,109	258,270	**296,379**
Sales	-	(551)	**(551)**
At 31 December 2019	**38,109**	**257,719**	**295,828**
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**

In 2019, on the basis of investment property, the Group recorded lease income of HRK 568 thousand, and in 2018 of HRK 935 thousand. The Group had direct expenses in the amount of HRK 358 thousand in 2019 and HRK 548 thousand in 2018, relating to investment property not under leases.

The value of assets classified as investment property, which are under mortgage loans, at the balance sheet date amounts to HRK 61,349 thousand, and in 2018 it amounted to HRK 61,349 thousand.

20. Investments in holdings (shares)

The Company (in thousands of HRK)	*31 December 2019*	*31 December 2018*
V-projekt d.o.o. Varaždin	4,530	4,530
Varteks E d.o.o. Varaždin (i)		20
Varteks Pro d.o.o. Varaždin	1	1
Total	**4,531**	**4,551**

(i) The subsidiary Varteks E d.o.o. Varaždin was legally merged with the parent company Varteks d.d. Varaždin in October 2019. The merger was performed at carrying values.

The Group (in thousands of HRK)	*31 December 2019*	*31 December 2018*
Čateks d.d.	1,855	1,855
Total	**1,855**	**1,855**

21. Loans, deposits, etc.

Loans, deposits, etc. comprise the following:

	Group		*Company*	
(in thousands of HRK)	*31 December 2019*	*31 December 2018*	*31 December 2019*	*31 December 2018*
Deposits for leases	242	204	242	204
Purpose-specific term deposits	7,442	7,418	7,442	7,418
Interest due and not due	1	-	1	-
Total	**7,685**	**7,622**	**7,685**	**7,622**

The item purpose-specific and term deposits includes a deposit in Zagrebačka banka in the amount of EUR 1,000 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 2019*	*Group* *31 December 2018*	*Company* *31 December 2019*	*Company* *31 December 2018*
Receivables from "old" foreign currency savings (repurchase of flats)	4,359	4,365	4,359	4,365
Impairment of receivables from "old" foreign currency savings	(4,359)	(4,365)	(4,359)	(4,365)
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
	6	**6**	**6**	**6**

23. Receivables

(in thousands of HRK)	Group 31 December 2019	Group 31 December 2018	Company 31 December 2019	Company 31 December 2018
Receivables from undertakings within the Group				
Non-current:				
- Varteks E	-	-	-	2,617
			-	**2,617**
Current:				
- Varteks PRO	-	-	2,601	396
- V-projekt	-	-	-	2
			2,601	**398**
Total receivables from undertak. within the Group			***2,601***	***3,015***
Domestic trade receivables	28,574	28,757	25,218	24,960
Foreign trade receivables	17,969	32,482	17,880	32,468
Impairment of doubtful receivables	(33,605)	(45,949)	(33,541)	(45,885)
Trade receivables (net)	**12,938**	**15,290**	**9,557**	**11,543**
Receivables from government and other inst.	3,733	3,770	3,731	3,763
Impairment of receivables from government	(3,349)	(3,349)	(3,349)	(3,349)
Receivables from government and other institutions (net)	**384**	**421**	**382**	**414**
Receivables from employees and members of the undertaking	46	49	46	49
Other non-current receivables /i/	222	271	222	271
Other current receivables /ii/	233	222	228	220
Total receivables	**13,368**	**15,760**	**9,985**	**12,006**

/i/ Other non-current receivables include receivables from sold flats and receivables from housing loans given.
/ii/ 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 2019	Group 31 December 2018	Company 31 December 2019	Company 31 December 2018
Trade receivables (undertakings within the Group)	-	-	2,601	398
Domestic and foreign trade receivables (undertakings outside the Group)	12,938	15,290	9,557	11,543
Total trade receivables	**12,938**	**15,290**	**12,158**	**11,941**

23. Receivables (continued)

Total trade receivables are denominated in the following currencies:

(in thousands of HRK)	*Group* 31 December 2019	*Group* 31 December 2018	*Company* 31 December 2019	*Company* 31 December 2018
EUR	4,936	7,254	4,936	7,254
HRK	8,002	8,036	7,222	4,687
Total trade receivables	**12,938**	**15,290**	**12,158**	**11,941**

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

(in thousands of HRK)	*Group* 31 December 2019	*Group* 31 December 2018	*Company* 31 December 2019	*Company* 31 December 2018
At 1 January	**45,949**	**45,758**	**45,885**	**45,754**
Increase in impairment of receivables recognised in the income statement during the period	103	479	103	415
Collected receivables previously written off	(49)	-	(49)	-
Write-off of previously impaired receivables	(12,398)	(288)	(12,398)	(284)
At 31 December	**33,605**	**45,949**	**33,541**	**45,885**

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 2019									
Gross amount	5,887	4,031	1,239	239	343	95	83	33,782	45,699
Impairment	-	-	-	-	-	-	-	(33,541)	(33,541)
Net amount	5,887	4,031	1,239	239	343	95	83	241	12,158
31 December 2018									
Gross amount	546	7,899	2,867	253	71	178	270	45,742	57,826
Impairment	-	(1)	(4)	(5)	(24)	(38)	(71)	(45,742)	(45,885)
Net amount	546	7,898	2,863	248	47	140	199	-	11,941

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 December 2019									
Gross amount	7,420	4,031	467	239	356	95	89	33,846	46,543
Impairment								(33,605)	(33,605)
Net amount	7,420	4,031	467	239	356	95	89	241	12,938
31 December 2018									
Gross amount	4,051	7,716	2,892	253	75	178	268	45,806	61,241
Impairment		(1)	(4)	(5)	(24)	(38)	(71)	(45,806)	(45,949)
Net amount	4,051	7,715	2,888	248	51	140	197	-	15,290

23. Receivables (continued)

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

(in thousands of HRK)	*Group* *31 December 2019*	*31 December 2018*	*Company* *31 December 2019*	*31 December 2018*
A	498	-	498	-
BB+	1,021	-	1,021	-
BB-	130	-	130	-
BB	3,362	3,383	1,636	-
Without rating	2,409	668	2,602	546
	7,420	**4,051**	**5,887**	**546**

24. Cash and cash equivalents

(in thousands of HRK)	*Group* *31 December 2019*	*31 December 2018*	*Company* *31 December 2019*	*31 December 2018*
Giro account	402	2,011	384	699
Foreign currency account	664	989	661	989
Cash in hand				
- HRK	34	25	30	20
- foreign currencies	4	10	2	9
Payments for shares	1	1	1	1
Transfer account for HRK	201	242	201	241
Total	**1,306**	**3,278**	**1,279**	**1,959**

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

(in thousands of HRK)	*Group* *31 December 2019*	*31 December 2018*	*Company* *31 December 2019*	*31 December 2018*
A	362	94	362	94
BB+	-	2,647	-	1,337
BBB+	6	118	6	116
BBB	14	115	1	115
BBB-	889	21	882	21
BB	25	277	25	270
Without rating	10	6	3	6
	1,306	**3,278**	**1,279**	**1,959**

25. Prepaid expenses and accrued income

Company

(in thousands of HRK)	*Group* *31 December 2019*	*31 December 2018*	*Company* *31 December 2019*	*31 December 2018*
Accrued rentals	34	406	34	401
Prepaid licences costs	12	9	12	9
Accrued expenses that require adjustments	363	196	352	196
Other	12	10	10	9
	421	**621**	**408**	**615**

26. Capital and capital 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 amount to HRK 163 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 non-current tangible and intangible assets and available-for-sale financial assets).
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 2019*		*31 December 2018*	
	% 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	24.66	1,012,674	22.46	922,372
Košćec Zoran, Varaždin	10.43	428,382	10.43	428,382
ISSUER – TREASURY ACCOUNT, Varaždin	5.72	234,780	4.47	183,653
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	0.02	865
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	1.55	63,671
Košćec Vladimir, Varaždin	0.63	25,835	0.63	25,835
Papić Franc	0.63	25,777	0.49	20,313
Varteks Esop d.o.o., 42000 Varaždin, Zagrebačka 94	-	-	3.88	159,334
Others	2.58	106,442	2.94	120,673
TOTAL:	**100**	**4,106,686**	**100**	**4,106,686**

27. Merger of subsidiary

The company VARTEKS E društvo s ograničenom odgovornošću za poslovno savjetovanje i upravljanje, Varaždin, the city of Varaždin, Zagrebačka 94, MBS: 070092385, OIB: 44358386138 as 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 29 August 2019 and the Decision of the acquiree's General Assembly of 2 October 2019.

28. Earnings per share

	Group		*Company*	
(in thousands of HRK)	*31 December 2019*	*31 December 2018 Restated*	*31 December 2019*	*31 December 2018*
Total number of shares less treasury account	3,837,920	3,449,386	3,957,421	3,608,720
Basic and diluted loss for the period/share (HRK)	-2.54	-2.16	-2.79	-2.60

29. Provisions

The structure of provisions is set out below:

	Group			*Company*		
(in thousands of HRK)	31 December 2019	31 December 2018 restated	1 January 2018 restated	31 December 2019	31 December 2018 restated	1 January 2018 restated
Provisions for termination benefits	2,217	2,985	2,294	2,217	2,985	2,294
Provisions for jubilee awards	1,635	2,706	3,116	1,635	2,706	3,116
Other provisions	1,607	1,375	1,159	1,607	1,375	1,159
Current portion	1,607	812	1,159	1,607	812	1,159
Non-current portion	3,852	6,254	5,410	3,852	6,254	5,410
Total	5,459	7,066	6,569	5,459	7,066	6,569

Other provisions mainly relate to provisions for compensations for 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 2019, the annual employee turnover rate of 10.6 % (2018: 8.85%) was used for the calculation of the provision.

29. Provisions (continued)

Movements in provisions:

	Group		Company	
(in thousands of HRK)	31 December 2019	31 December 2018 restated	31 December 2019	31 December 2018 restated
At 1 January	7,542	6,569	7,542	6,569
Income from reversal of provisions	(1,884)	(531)	(1,884)	(531)
Additions	1,652	1,504	1,652	1,504
At 31 December	7,310	7,542	7,310	7,542

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

	2019	*2018*
Discount rate (annual)	1.00%	1.70%
Employee turnover rate (annual)	10.60%	8.85%

30. Liabilities to undertakings within the Group

As at 31 December 2019, the Company had no liabilities to undertakings within the Group. As at 31 December 2018, the Company had a liability to Varteks Pro d.o.o. in the amount of HRK 12 thousand.

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

	31 December 2019	*31 December 2018*
	HRK thousand	*HRK thousand*
Current:		
Varteks Pro	212	7.124
V-projekt	2,685	2,622
Total	**2,897**	**9,746**

32. Liabilities for loans, deposits, etc.

(in thousands of HRK)	*Group* 31 December 2019	*Group* 31 December 2018	*Company* 31 December 2019	*Company* 31 December 2018
Current:				
Liabilities for loans	48,855	30,350	48,855	30,350
Interest payable	123	118	123	118
Liabilities for deposits received	10	7	10	7
Total	**48,988**	**30,475**	**48,988**	**30,475**

(in thousands of HRK)	*Group* 31 December 2019	*Group* 31 December 2018	*Company* 31 December 2019	*Company* 31 December 2018
EUR	2,605		2,605	
HRK	46,250	30,350	46,250	30,350
Total	**48,855**	**30,350**	**48,855**	**30,350**

Liabilities for loans by creditors:

(in thousands of HRK) *Creditors*	*Interest rate* % p.a.	*Group* 31 December 2019	*Group* 31 December 2018	*Company* 31 December 2019	*Company* 31 December 2018
Zoran Košćec, Varaždin	2.50%	300	300	300	300
Nenad Bakić, Zagreb	0.00%	45,950	30,050	45,950	30,050
Hugo Boss	0.50%	2,605	-	2,605	-
TOTAL:		**48,855**	**30,350**	**48,855**	**30,350**

33. Liabilities to banks and other financial institutions

(in thousands of HRK)	*Group*			*Company*		
	31 December 2019	31 December 2018 Restated	1 January 2018 Restated	31 December 2019	31 December 2018 Restated	1 January 2018 Restated
Long-term bank borrowings	77,111	73,049	85,224	77,111	73,047	85,224
Long-term lease liabilities	75	157	239	64	125	183
	77,186	**73,206**	**85,463**	**77,175**	**73,172**	**85,407**
Current portion of long-term borrowings	(871)	(1,024)	(24,842)	(860)	(1,000)	(24,819)
Total long-term liabilities to financial institutions	**76,315**	**72,182**	**60,621**	**76,315**	**72,172**	**60,588**
Current liabilities:						
Bank borrowings	13,605	8,975	30,541	13,605	8,975	23,726
Borrowings from other financial institutions	-	10,075	1,138	-	375	1,138
Interest payable	147	150	5,816	137	130	5,760
Current portion of long-term borrowings	871	1,026	24,841	859	1,000	24,819
	14,623	**20,226**	**62,336**	**14,601**	**10,480**	**55,443**

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

Creditor – Bank	**Interest rate at year end**	**Purpose**	**31 December 2019**	**31 December 2018 Restated**	**1 January 2018 Restated**
	% p.a.		HRK thousand	HRK thousand	HRK thousand
Zagrebačka banka d.d. Zagreb / CBRD (i)	3M EURIBOR + 3	working capital	66,688	64,190	79,338
Raiffeisen bank Austria d.d. (ii)	3M EURIBOR + 5,868	refinancing	3,270	3,948	5,397
Hrvatska poštanska banka d.d. Zagreb (iii)		refinancing	-	163	489
Interest on borrowing ZABA /CBRD (i)		refinancing	7,153	4,746	-
TOTAL:			**77,111**	**73,047**	**85,224**
Other financial institutions					
Porsche Leasing d.o.o. Zagreb (iv)	7,79	vehicles	35	45	55
PBZ-LEASING d.o.o. Zagreb (v)	5,62-5,8	vehicles	29	80	128
TOTAL:			64	125	183
GRAND TOTAL:			**77,175**	**73,172**	**85.407**
Current portion of long-term borrowings			(818)	(938)	(24.757)
Current portion of long-term fin. lease liabilities			(42)	(42)	(62)
TOTAL NON-CURRENT PORTION:			**76,315**	**72,192**	**60,588**

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

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

Creditor – Bank	***Interest rate at year end***	***Purpose***	**31 December 2019**	**31 December 2018 Restated**	***1 January 2018 Restated***
	% p.a.		HRK thousand	HRK thousand	*HRK thousand*
Zagrebačka banka d.d. Zagreb / CBRD	3M EURIBOR + 3	*working capital*	66,688	64,190	79,338
Raiffeisen bank Austria d.d.	3M EURIBOR + 5.868	*refinancing*	3,270	3,948	5,397
Hrvatska poštanska banka d.d. Zagreb		*refinancing*	-	163	489
Interest on borrowing ZABA /CBRD			7,153	4,746	
TOTAL:			**77,111**	**73,047**	**85,224**
Other financial institutions					
Porsche Leasing d.o.o. Zagreb	*7.79*	*vehicles*	35	45	55
PBZ-LEASING d.o.o. Zagreb	*5.62-5.8*	*vehicles*	29	80	128
PBZ-LEASING d.o.o. Zagreb (i)	*5.62-5.8*	vehicles	12	34	56
TOTAL:			76	159	239
GRAND TOTAL:			77,187	73,206	85,463
Current portion of long-term borrowings			(818)	(938)	(24,757)
Current portion of long-term fin. lease liabilities			(54)	(54)	(86)
TOTAL NON-CURRENT PORTION:			**76,315**	**72,214**	**60,620**

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

Creditor – Bank	**Interest rate**	**Purpose**	**31 December 2019**	**31 December 2018 Restated**	**1 January 2018 Restated**
	% p.a.		HRK thousand	HRK thousand	HRK thousand
Karlovačka banka d.d. (i)	4.7	export	2,307	3,101	5,260
Zagrebačka banka d.d. / CBRD (ii)	6	export	2,649	2,937	2,975
Zagrebačka banka d.d. (ii)	6	export	2,649	2,937	2,975
Zagrebačka banka d.d.	9.68-9.41	guarant. and let. of credit	-	-	12,516
Erste&Steiermarkische Bank d.d. (iv)	5.25	working capital	6.000	-	-
			13,605	8,975	23,726
Other financial institutions					
PBZ Card d.o.o. (iii)		working capital	-	375	1,138
TOTAL:			13,605	9,350	24,864
Interest payable			137	129	5,760
Current port. of long-term borrow.			859	1,000	24,819
TOTAL:			**14,601**	**10,479**	**55,443**

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

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

Creditor – Bank	Interest rate at year end	Purpose	31 December 2019	31 December 2018 Restated	1 January 2018 Restated
Karlovačka banka d.d.	4.7	export	2,307	3,101	5,260
Zagrebačka banka d.d. / CBRD	6	export	2,649	2,937	2,975
Zagrebačka banka d.d.	6	export	2,649	2,937	2,975
Zagrebačka banka d.d. (ii)	3.7	working capital	-	9,700	6,640
Zagrebačka banka d.d.	9.68-9.41	guar. & l. of cred.	-	-	12,515
Zagrebačka banka d.d.	9.68-9.41	guar. & l. of cred.	-	-	176
			6,000		
			13,605	18,675	30,541
Other financial institutions					
PBZ Card d.o.o. working capital				375	1,138
TOTAL:			13,605	19,050	31,679
Interest payable			147	152	5,816
Current portion of long-term borrowings			871	1,024	24,841
GRAND TOTAL:			**14,623**	**20,226**	**62,336**

(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) Hrvatska poštanska banka d.d.
The borrowing was formed based on total Company's liabilities in the amount of HRK 1,630 thousand as part of the pre-bankruptcy settlement agreement, defining the repayment of the entire debt in 60 monthly instalments, the first of which matured in July 2014, and the last in June 2019.

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

(v) 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 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.

(iii) PBZ Card d.o.o.
The borrowing granted for paying trade payables through American Express credit card in a way that PBZ Card pays one-off amount payable to the supplier, and Varteks repays its liability to PBZ Card in instalments.

(iv) Erste & Steiermarkische Bank d.d.
The borrowing for financing of working capital in the amount of HRK 10,000 thousand at an annual interest rate of 5.25%.

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.

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

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

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

(in thousands of HRK)	***Average weighted interest rate***	**31 December 2019**	**31 December 2018 Restated**	**1 January 2018 Restated**
		HRK thousand	HRK thousand	HRK thousand
Borrowings from banks and other financial institutions at variable interest rates	*3.11%*	81,858	82,272	85,223
Borrowings from banks and other financial institutions at fixed interest rates	*5.48%*	13,670	9,100	23,909

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

(in thousands of HRK)	***Average weighted interest rate***	**31 December 2019**	**31 December 2018 Restated**	**1 January 2018 Restated**
		HRK thousand	HRK thousand	HRK thousand
Borrowings from banks and other financial institutions at variable interest rates	*3.11%*	81,858	82,272	85,223
Borrowings from banks and other financial institutions at fixed interest rates	*5.48%*	13,682	18,834	30,779

34. Lease liabilities

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

(in thousands of HRK)	*Group*		*Company*	
	31 December 2019	*1 January 2019*	*31 December 2019*	*1 January 2019*
Lease liabilities (IFRS 16)				
Current portion	4.972	2.625	4.972	2.625
Non-current portion	12.155	6.923	12.155	6.923
Total	**17.127**	**9.548**	**17.127**	**9.548**

Interest expense included in financial expenses in 2019 for the Company and the Group amounted to 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 1,173 and are included in rental costs.

35. 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*		*Company*	
	31 December 2019	*31 December 2018*	*31 December 2019*	*31 December 2018*
Non-current:				
Taxes and contributions payable to TA – Debt settlement agreement	1,842	-	1,842	-
Liabilities to RH CERP	1,142	-	1,142	-
Deferred income – grant for financing purchase of non-current tangible assets	392	409	392	409
	3,376	**409**	**3,376**	**409**
Current:				
Liabilities for sold flats	3,297	3,059	3,297	3,059
Liabilities to RH CERP	319	-	319	-
Compensation to Supervisory Board members payable	216	289	216	289
Other liabilities	612	261	612	261
	4,444	**3,609**	**4,444**	**3,609**
Taxes and contributions payable to TA – Debt settlement agreement – current portion (i)	2,620	-	2,620	-
Total	**10,440**	**4,018**	**10,440**	**4,018**

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

36. Accrued expenses and deferred income

	Group			Company		
(in thousands of HRK)	31 December 2019	31 December 2018 Restated	1 January 2018 Restated	31 December 2019	31 December 2018 Restated	1 January 2018 Restated
Liabilities for unused vacation days	1,715	2,482	2,482	1,636	2,362	2,362
Interest not yet due for housing loan	22	28	35	22	28	35
Deferred income – grant for financing purchase of non-current tangible assets	17	17	17	17	17	17
Other	613	521	303	611	515	284
Total	**2,367**	**3,048**	**2,837**	**2,286**	**2,922**	**2,698**

37. Related-party transactions

Operating income:

	2019 HRK thousand	*2018 HRK thousand*
Varteks Pro	17,357	13,022
V-projekt	5	8
Total	17,362	13,030

Other operating income:

	2019 HRK thousand	*2018 HRK thousand*
Varteks Pro	141	155
V-projekt	11	11
Total	152	166

Material costs:

	2019 HRK thousand	*2018 HRK thousand*
Costs of raw materials and consumables		
Varteks Pro	7	10
	7	10
Cost of goods sold		
Varteks Pro	243	-
	243	0
Other external expenses		
Varteks Pro	19	48
Selectio d.o.o.	171	-
Paško Vela & Partners	362	-
Tau on-line d.o.o.	46	-
Cifra usluge j.d.o.o.	318	-
	916	48
Total	***1,166***	***58***

37. Related-party transactions (continued)

Finance income and costs:

	2019 HRK thousand	2018 HRK thousand
Foreign exchange differences and other finance income from related-party transactions		
Varteks Pro	*6*	*-*
Varteks Textiles	*1,632*	*245*
Other	*221*	*517*
Total finance income from related parties	***1,853***	***762***
Interest expense and similar expenses from related parties		
V-projekt	*(87)*	*(100)*
Varteks Pro	*(293)*	*(254)*
	(380)	*(354)*
Foreign exchange differences and other finance costs from related parties		
Varteks Textiles	*(1,632)*	*(245)*
Other	*(221)*	*(517)*
	(1,853)	*(762)*
Total finance costs – related parties	***(2,233)***	***(1,116)***

Trade receivables:

	2019 HRK thousand	2018 HRK thousand
Varteks PRO	2,601	396
V-projekt		2
Varteks E		2,617
	2,601	**3,015**

Borrowings:

	Int. rate % p.a.	*2019 HRK thousand*	*2018 HRK thousand*
Varteks Pro	4.55	212	7,124
V-projekt	3.96	2,685	2,622
Nenad Bakić, Zagreb	0	45,950	30,050
Total		**48,847**	**39,796**

Trade payables:

	2019 HRK thousand	*2018 HRK thousand*
Varteks Pro	-	*12*
Selectio d.o.o.	*39*	-
Tau on-line d.o.o.	*5*	*14*
Total	***44***	***26***

38. 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 rate does 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.

38. 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	
	2019	*2018*	*2019*	*2018*
Total borrowings	139,926	122,883	142,801	122,873
Less: Short-term deposits given, cash at bank and in hand and cash equivalents	-1,306	-3,278	-1,279	-1,959
Borrowings, net	138,620	119,605	141,521	120,914
Capital and reserves	46,369	54,207	43,714	55,496
Gearing ratio	298.95%	220.64%	323.74%	217.88%

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 2018, 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 ratings 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 2019 and 31 December 2018 according to contractual undiscounted payments:

Company

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)	12,155	-	6,231	4,340	1,584
Short-term lease liabilities (IFRS 16)	4,972	4,972	-	-	-
Non-current trade payables	416	-	416	-	-
Current trade payables	30,536	30,536	-	-	-
Total	**210,596**	**102,163**	**11,126**	**53,360**	**31,792**

38. Financial instruments and risk management (continued)

b) Objectives and risk management policies (continued)

31 December 2018 Restated	*Contractual cash flows*	*0 – 12 months*	*1-2 years*	*2-5 years*	*More than 5 years*
Long-term borrowings	91,823	-	961	40,634	50,227
Short-term borrowings and loans received	50,915	50,915	-	-	-
Long-term lease liabilities (IFRS 16)	-	-	-	-	-
Short-term lease liabilities (IFRS 16)	-	-	-	-	-
Non-current trade payables	17	-	17	-	-
Current trade payables	35,751	35,751	-	-	-
Total	**178,505**	**86,666**	**978**	**40,634**	**50,227**

Group

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)	12,155	-	6,231	4,340	1,584
Short-term lease liabilities (IFRS 16)	4,972	4,972	-	-	-
Non-current trade payables	416	-	416	-	-
Current trade payables	32,401	32,401	-	-	-
Total	**209,587**	**101,154**	**11,126**	**53,360**	**31,792**

31 December 2018 Restated	*Contractual cash flows*	*0 – 12 months*	*1-2 years*	*2-5 years*	*More than 5 years*
Long-term borrowings	91,833	-	971	40,634	50,227
Short-term borrowings and loans received	50,915	50,915	-	-	-
Long-term lease liabilities (IFRS 16)	-	-	-	-	-
Short-term lease liabilities (IFRS 16)	-	-	-	-	-
Non-current trade payables	17	-	17	-	-
Current trade payables	38,933	38,933	-	-	-
Total	**181,697**	**89,848**	**988**	**40,634**	**50,227**

38. Financial instruments and risk management (continued)

b) Objectives and risk management policies (continued)

The following overview presents the maturity structure of the Company's and the Group's current liabilities as at 31 December 2019 and 2018 in HRK:

Company	*0 - 180 days HRK thousand*	*180 – 270 days HRK thousand*	*> 270 days HRK thousand*	*Total HRK thousand*
Short-term borrowings and loans received				
At 31 December 2019	52,742	7,605	6,138	66,485
At 31 December 2018	47,791	210	2,700	50,701

Group	*0 - 180 days HRK thousand*	*180 – 270 days HRK thousand*	*> 270 days HRK thousand*	*Total HRK thousand*
Short-term borrowings and loans received				
At 31 December 2019	49,868	7,605	6,138	63,611
At 31 December 2018	47,797	216	2,688	50,701

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*
2019		
HRK	*+/- 50*	*477*
2018		
HRK	*+/- 50*	*411*

Group	*Increase/decrease in basis points*	*Impact on pre-tax profit in thousands of HRK*
2019		
HRK	*+/- 50*	*477*
2018		
HRK	*+/- 50*	*411*

38. 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 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 structure the Company's and the Group's assets and borrowings by currency of exposure:

Company	*Long-term borrowings*		*Short-term borrowings and loans received*		*Trade receivables*	
(in thousands of HRK)	*31 December 2019*	*31 December 2018*	*31 December 2019*	*31 December 2018*	*31 December 2019*	*31 December 2018*
HRK	7,153	4,746	56,171	40,894	4,673	4,369
EUR	69,162	67,426	10,314	9,807	4,884	7,174
Total	**76,315**	**72,172**	**66,485**	**50,701**	**9,557**	**11,543**

Group	*Long-term borrowings*		*Short-term borrowings and loans received*		*Trade receivables*	
(in thousands of HRK)	*31 December 2019*	*31 December 2018*	*31 December 2019*	*31 December 2018*	*31 December 2019*	*31 December 2018*
HRK	7,153	4,746	56,171	40,871	8,054	8,116
EUR	69,162	67,436	10,326	9,830	4,884	7,174
Total	**76,315**	**72,182**	**66,497**	**50,701**	**12,938**	**15,290**

b) Objectives and risk management policies (continued)

Company	*Increase/decrease in basis points*	*Impact on pre-tax profit in thousands of HRK*
2019		
EUR	*+/- 50*	*501*
2018		
EUR	*+/- 50*	*472*

Group	*Increase/decrease in basis points*	*Impact on pre-tax profit in thousands of HRK*
2019		
EUR	*+/- 50*	*501*
2018		
EUR	*+/- 50*	*472*

39. Significant legal cases

<u>Varteks as the Defendant</u>

1. ***Plaintiff Ateks Belgrade***

Plaintiff Ateks Belgrade initiated legal action against Varteks for the payment of HRK 3,171,076.04 for investment of funds under the concluded Self-governing agreement on joining of labour and resources between Ateks and the legal predecessor of Varteks for the production of Levis clothes from 1982. During the procedure, the statute of limitation complaint was filed, and was adopted by the court and it was argued that the invested funds had been returned to the plaintiff. The first-instance ruling was in favour of Varteks, and the plaintiff was ordered to settle to Varteks the legal procedure costs in the amount of HRK 312,587.00. The plaintiff Ateks filed a complaint to the high commercial court that was rejected, and the first-instance ruling in favour of Varteks was confirmed. The enforcement was made with the Commercial court in Belgrade and the procedure costs were collected. The final ruling of the dispute was in favour of Varteks. Ateks filed a revision to the Croatian Supreme Court that has not been ruled yet.

2. ***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 procedure is in progress.

<u>Varteks d.d. as the Plaintiff</u>

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 amounts is HRK 5,204,170.00. The first-instance ruling was in favour of Varteks. The defendant filed a complaint that has not been ruled yet. The second-instance decision of the High Commercial Court of the Republic of Croatia is expected.

40. 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.

41. Changes in liabilities arising from financing activities

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

Company	**31 December 2018 Restated**	**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	-	(4,862)	29	9,805	4,972
Total	**-**	**26,825**	**415**	**9,815**	**-**

Group	**31 December 2018 Restated**	**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	-	(4,862)	29	9,805	4,972
Total	**-**	**5,898**	**390**	**27,882**	**-**

42. The effect of coronavirus pandemic on the Company's and the Group's operations – event after the balance sheet date

The chronology of significant events caused by the coronavirus epidemic in 2020:

March and April 2020

- *9 March – from this date, a significant drop in turnover begins, compared to the previous week of as much as 32%, and later the decrease in turnover further increases up to between 50% and 80%*
- *19 March – we are forced to close all retail stores other than the webshop*
- *In mid and late March – negotiations of new bank arrangements for the purpose of working capital financing were not finalised due to the crisis that arose in the financial market, caused by the coronavirus epidemic*
- *23 March – we sent an online request for obtaining government subsidies in the form of 3 minimum monthly salaries for each employee for March, April and May. Receiving this support is of utmost importance for the Company's survival. As at 31 March, the job retention subsidies have been granted as follows: for Varteks d.d. a total of HRK 9.2m and for Varteks Pro d.o.o. a total of HRK 0.3m.*
- *In mid-March and early April – major customers in the contract manufacturing segment reduced orders by 50%*
- *24 March – contract manufacturing is suspended for safety reasons and from this date until 1 April we produced only washable cotton face masks with a significantly reduced number of production employees. First 70,000 masks were donated to the Civil Protection Service of the Republic of Croatia and the Ministry of the Interior.*
- *1 April – contract manufacturing was relaunched with partial capacities for safety reasons and significantly reduced orders*

The impact of the coronaviruss on the Company's and the Group's is explained in more details in Note 2.3 (b).

VARTEKS

In Varaždin, 24 April 2020

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

MANAGEMENT REPORT

for 2019

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

In 2019, the Varteks Group realised operating income of HRK 173.8 million, which is 8.6% higher than in 2018. Varteks d.d. realised operating income of HRK 154.7 million and a 13.5% growth compared to the previous year. In addition, the revenue structure was significantly improved in favour of a more profitable retail segment. Retail revenues grew from HRK 53.2 million in 2018 to HRK 84.4 million in 2019, which is a 59% growth.

The table below shows that the normalised EBITDA of the Varteks Group realised in 2019 was positive in the amount of HRK 3.5 million and that the operating result is by HRK 10.6 million better than the EBITDA realised in 2018. The positive result recorded in 2019 was realised for the first time after more than 10 years of the Company's and the Group's operations, and is a direct consequence of the development of retail that recorded a significant growth in the second and fourth quarters of 2019 and the restructuring process implemented during 2018.

	2019 HRK thousand	2018 HRK thousand
Loss from operating activities	(1,818)	(17,512)
Depreciation	4,553	5,014
Depreciation of right of use (MSFI 16)	4,310	-
Total depreciation	8,863	5,014
Invoiced rentals (not expense under IFRS 16 adopted as of 1 January 2019)	(5,041)	-
EBITDA excluding the effect of IFRS 16	*2,004*	*(12,498)*
One-off items:		
Income from reversal of provisions	(767)	(531)
Income from one-off grants	(1,478)	-
Other operating income	-	(3,338)
Termination benefits	433	3,056
Other provisions	220	216
Impairment of inventories	1,448	2,575
Settlement costs – CERP	1,593	-
Impairment of receivables	-	3,349
Normalised EBITDA before effects of IFRS 16	**3,453**	**(7,171)**
Effects of IFRS 16	5,041	-
Normalised EBITDA after effects of IFRS 16 for 2019 (adopted as of 1 January 2019)	8,494	(7,171)

With respect to financing activities, in 2019 net cost of HRK 7.6m was realised, and in 2018 net income of HRK 10.6m. Net income realised in 2018 is a consequence of refinancing of the joint borrowing in January 2018 that had an effect of HRK 16.1m profit (restatement of the borrowing is described below). The majority of the finance cost in 2019 and 2018 relates to interest expense in the amount of HRK 7.1m (2018: HRK 6.5m). Of this amount, HRK 4.6m (2018: HRK 4.4m) relates to accrued interest on the joint borrowing. In line with the contract, this interest is added to the principal until 30 April 2021 and from then it will be paid in instalments until 31 October 2028.

Changes in accounting standards

Leases – IFRS 16

In 2019, the new accounting standard IFRS 16 – Leases was adopted for the first time. The effects of the adoption of this standard are as follows:

- in the balance sheet: an increase in the amount of right-of-use-assets of HRK 16.7m (within property, plant and equipment) and an increase in right-of-use liabilities of HRK 17.1m (of which HRK 12.2m is included in other non-current liabilities, and HRK 4.9m in other current liabilities)
- in the income statement: a decrease in lease cost of HRK 5m (within other external expenses), an increase in depreciation cost of HRK 4.3m and an increase in finance costs of HRK 0.9m.

Significant restatements

Property

In the financial statements for 2019, with respect to properties, we made corrections to adjust balances in the records of the Group and the Company with the accounting policies of the Group and the Company, and with the reporting framework (International Financial Reporting Standards). The effects of applying these corrections are as follows:

- decrease in the value of properties of HRK 154.6m
- decrease in revaluation reserves of HRK 88.8m
- decrease in deferred tax liability of HRK 19.6m
- increase in accumulated loss of HRK 46.3m
- this change decreased annual depreciation by HRK 3.1m
- classifying properties that are not used to investment property in the amount of HRK 75.8m.

Liabilities to banks

In addition, in 2019, corrections were also made to the accounting treatment of the joint borrowing from commercial banks, which was refinanced in January 2018. The following corrections were made:

- decrease in accumulated loss of HRK 14.1m
- decrease in the carrying amount of borrowings of HRK 14.1m
- this change in 2019 increased finance costs by HRK 2.2m.

The restatement note detailing the changes we made is disclosed in Note 2 to the accompanying financial statements. The restatements were made in accordance with IAS 8, starting from the initial balance of the comparative period (1 January 2018).

Based on these corrections to property and liabilities to banks in the financial statements for 2019, the auditor's qualifications to the financial statements for previous years were resolved.

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

Cost reduction restructuring projects were implemented in 2018, with the most significant effects related to restructuring of administrative and overhead staff, rationalisation of space utilisation and rationalisation in process management; primarily of procurement, sales and production.

In 2019, the primary focus was on business development processes, with a special focus on the development of own brand in the retail sales segment. In the export business, the cooperation with the renowned business partners was continued, especially with Hugo Boss and J. Lindeberg.

The sales of special-purpose clothing and corporate clothing are partly related to the existing and partly to new contracts.

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.

Significantly impaired liquidity remains the most significant risk, as indicated in these financial statements. The relatively regular settlement of liabilities was secured, among other things, by the additional short-term borrowing from a new commercial bank in September 2019. Liquidity was significantly impaired for two reasons: the continued maturity of short-term liabilities from previous periods and the working capital requirements necessary to generate income and profit in retail and preparation for new seasons. The major shareholder of the Company additionally secured HRK 15.9m through additional interest-free loans in the first half of 2019 (as at 31 December 2018 the balance was HRK 30.1m), while a new commercial bank in the 4th quarter provided between 6 and 10 million HRK, and in the 1st quarter of 2020 this amount decreased to between 4 and 6 million HRK.

The Management Board is also working on the long-term resolution of the Company's liquidity and debt through the monetisation of the Company's properties, primarily properties at the Company's headquarters in Varaždin, for which several parties showed interest.

In 2020, until March 2020, the Management Board expected this positive trend to continue and a significantly better result than the last-year's (EBITDA for 2020 of HRK 11.2m was planned). The main generator of the change was planned to be the strengthening and growth of own retail sales, especially of our own brand.

In March 2020, the Group and the Company (as well as the overall Croatian and global economy) were affected by impacts of the coronavirus. More detailed developments are described in Note 41 to these financial statements.

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

- *although our retail sale has been suspended from 19 March 2020 (except for the webshop), we received significant compensation measures (Croatian Employment Service grants related to payment of salaries for March, April and May; write-offs and granted delayed rent payments by some lessors, etc.);*
- *although orders by foreign customers decreased, at the same time we focused on the production of washable cotton face masks, for which there is great demand and our capacities are currently fully used;*
- *currently our webshop, as the only open store, records significantly higher sales than the last-year's, and we believe that this will strengthen our online position in the period after the crisis caused by the coronavirus pandemic;*
- *we still have buyers interested in non-operational properties at prices that are not below the estimated value, whose sale will allow a mid-term and long-term stabilisation of the company; and*
- *although it is probable that through the "post corona" crisis the fashion industry might be one of the most affected industries, as Varteks is one of the rare vertically integrated fashion houses (with own production, within the EU), in the long term we believe that the megatrend of returning the production to the EU will 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 2019, 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 2019, the Parent Company has the following active subsidiaries:

- Varteks Pro d.o.o.
- V-projekt 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 2019, the company generated HRK 37.1 million in revenue (2018: HRK 37.2 million). The Company generated HRK 1.3 million in profit (2018: HRK 1.6 million). The Company's assets as at 31 December 2019 amounted to HRK 7.3 million (31 December 2018: HRK 15.1 million). Net capital at 31 December 2019 amounted to HRK 2.1 million (31 December 2018: HRK 1 million). The number of employees was 32 (2018: 31). The director of the company is Ms. Natalija Vnučec.

V-projekt d.o.o.
The company V-projekt d.o.o. is wholly owned by the Company.
The company V-projekt d.o.o. has no operational activities.
In 2019, the company generated HRK 87 thousand in revenue (2018: HRK 100 thousand). The Company generated a profit of HRK 56 thousand (2018: profit of HRK 69 thousand). The Company's assets as at 31 December 2019 amounted to HRK 4.5 million (31 December 2018: HRK 4.5 million). Net capital at 31 December 2019 amounted to HRK 4.5 million (2018: HRK 4.5 million). The Company has no employees (2018: 0). The director of the company is Mr. Damir Rizman.

__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 38 b).

In this report, we would like to highlight liquidity risk as still the most significant business risk. As at 31 December 2019, the Group and the Company continue to have a significant amount of past due liabilities that are to some extent lower than at 31 December 2018. The management is undertaking financial restructuring measures to ensure funds to meet these arrears. 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.

__Tomislav Babić__	*__Damir Radmilović__*
__President of the Management Board__	*__Member of the Management Board__*

VARTEKS

DOSLJEDNI KVALITETI

Non-Financial Report 2019

VARTEKS

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VARTEKS

I. General standards

STRATEGY

Introductory word by the President of the Management Board

Dear stakeholders and readers,

below we attach the third Non-financial report for the Varteks Group relating to 2019. The report presents the most significant changes in the overall operations during the year and the company's relationship with all interested stakeholders from the wider social community. This relationship continues to be proactive and socially responsible. The report presents business and social activities of the company and the related integral process.

After a period of aggravated business in 2018, during 2019 Varteks significantly improved and stabilized its operations. Best Italian and global materials were introduced, business processes were additionally improved, and management was refreshed by a new team. According to the announcement from the previous year, in September it retrospectively marked a 100 years of its existence with a large exhibition entitled: "Stories that Tailor Varteks" at the Museum of Arts and Crafts in Zagreb. The century-old tradition of creating high quality clothing has influenced many generations who are related to Varteks in various ways. Varteks' former and present employees, customers who recognize Varteks' quality consistency, new customers who have recognized us, numerous business partners we have cooperated with for many years, as well as those with whom we have just started cooperation, and all other stakeholders with whom we build socially responsible relationships. The development and sustainability of these relationships is a goal that Varteks daily pursues in its operations.

In 2019, the Company and the Group operated with significant positive changes compared to previous periods. The strategic decision to base future business growth on the development of our own fashion brand through the retail channel proved to be a step in the positive direction. Retail revenue grew at high rates compared to the previous year. With the launch of the webshop in late 2018, a new retail channel has been created that recorded great results throughout 2019. Customers' 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.

In 2019, the retail network of stores was being developed. Varteks has reopened stores in several cities in which it had already operated, but due to poor business performance in previous years, was forced to close them. Five new stores and one new outlet store were opened. In addition to the opening of new stores, several stores have been renovated and some have been relocated to larger premises, which significantly increased the total sales space. Fashion bus – Modabus was also launched, an innovative solution that enabled Varteks to be present in many places across Croatia where it once operated, as well as in those that simply do not offer high quality clothing items because of their geographical location, such as Croatian islands. Retail of own brand grew at a 59% rate compared to 2018.

Throughout 2019, relationships were strengthened and mutual trust and cooperation enhanced with various stakeholders: employees, the local community and significant business partners. Of course, as in any process, there are opportunities for upgrade and development, as well as for improvements in understanding and developing the economic, social and environmental aspects of cooperation with wider community.

Following the capital contribution to the Company in 2018, fresh working capital was still required. Therefore, during 2019, the largest single shareholder of the Company, Nenad Bakić, provided personal loans to the Company for ensuring regular payments of salaries and timely financing of the seasons, which was crucial for business growth.

The name Varteks is well-known all over the country and the region and has been returned to the market as an umbrella brand. Re-establishing our own brand through modern design, top quality fabrics and workmanship is the key to Varteks' success.

All the retained internal values of the company, as well as the new power brought about by changes, provide synergies aimed at further sustainable business development, which also ensures prerequisites for corporate social responsibility.

Sincerely,

Tomislav Babić

President of the Management Board of Varteks d.d.

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>

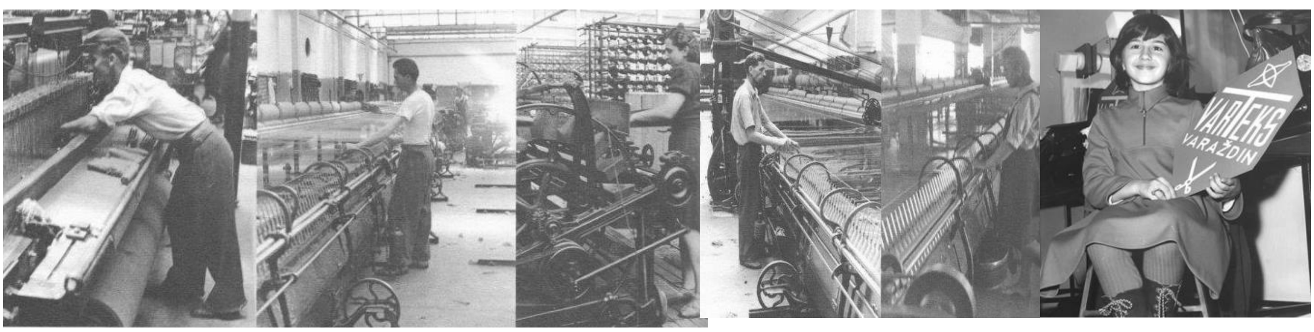
1918 Textile Factory Varaždin – Tivar founded

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. 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 2019, business is primarily focused on business development processes. Especially important is the development in the production of own brands and retail. In 2019, Varteks continued to modernize its portfolio:

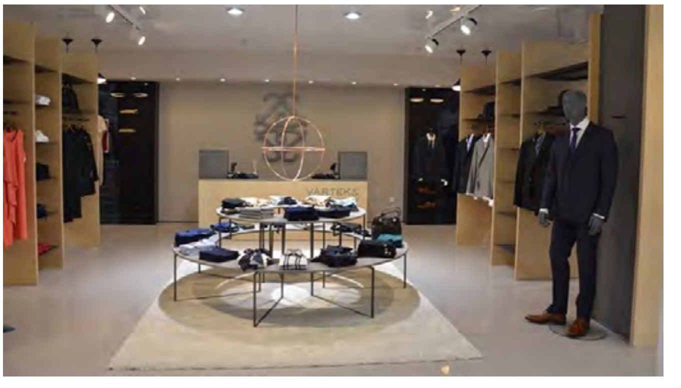
- Varteks Limited is a collection of the highest quality, which clearly expresses ambitions to improve the quality of the entire portfolio, but also contributes to profitability
- the most exclusive line of Varteks tailor made sewing continues to grow significantly in volume but also in the average price 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 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
- the suit portfolio available in stores is the widest and the most dynamic in Varteks' recent and possibly entire history.

Products on the market

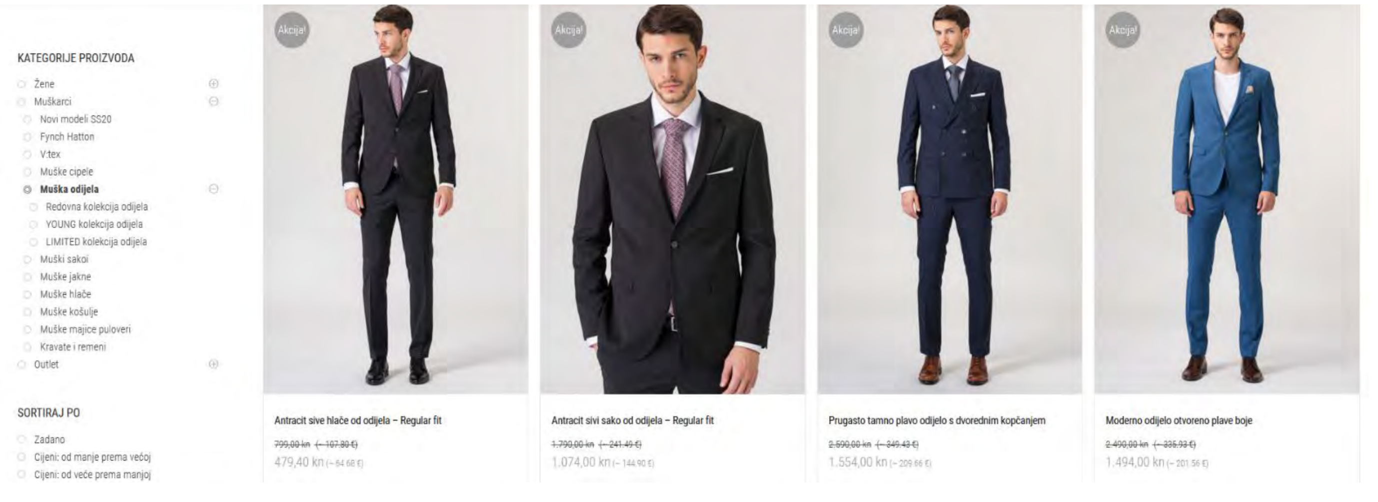
Varteks mainly markets its products to the domestic market through its own retail network, the result of investments in own design and development.

With a better pricing strategy that capitalizes on the power of increasingly high quality products and the use of better and more modern forms of digital marketing, and an expanding portfolio of own products, retail revenue, but even more retail profitability, continue to grow at high rates during 2019.

At the end of 2019, the retail network consisted of 26 Varteks stores, 2 outlet centers, 4 tailoring salons and a web shop. Varteks wholesale partner stores are located in 1 location in Croatia and 13 in Bosnia and Herzegovina.



Adapting to the needs of the market and customers, Varteks launched a web shop in the summer of 2018. The new sales channel was very well received by the customers and in 2019 **more than 11 thousand** items were delivered through online sales.

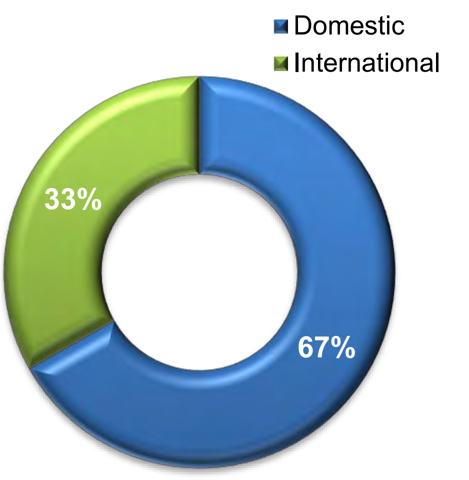


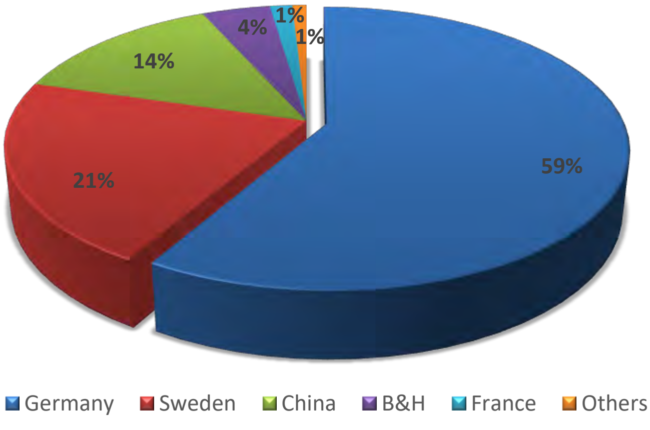
In early 2019, Varteks also launched a unique project, the **Fashion Bus** (traveling store), which combines physical and mobile stores. It is a bus turned into a showroom where customers can try on clothes and generate an online order. Through 2019, it visited more than 120 places in Croatia, and its presence on Croatian islands was of particular importance. The project continued in 2020, with the first international trips to the neighboring Republic of Slovenia.

Geographic revenue distribution

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 century-old tradition of Varteks is also recognized by the renowned global brands that Varteks cooperated with – Hugo Boss, J. Lindeberg etc.

In 2019, the business was primarily focused on continuing the process of developing the own brand. In the field of export, the cooperation with the renowned business partners has continued, especially with Hugo Boss. This long-standing business cooperation has resulted in further enhancement of relationships with this key partner, reflected in greater trust, financial support and understanding for the increase in Varteks' costs.

Positive effects in this segment are still most expected through more efficient management and use of production processes and capacities.

BOSS HUGO BOSS

Varteks has been manufacturing for Hugo Boss since 1994 and has been at the top of the best contractors of this fashion house for the last fifteen years.

J.LINDEBERG

Varteks has been manufacturing 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.

VARTEK& :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 business 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 holds the ISO 9001:2015 certificate for the quality management system.


QS

QUALITY SERVICE

CERTIFIKAT

Certifikat br. 13691

VARTEKS PRO d.o.o.

Zagrebačka 94

HR - 42000 Varaždin, Hrvatska

QS Zürich AG potvrđuje da je sustav upravljanja u gore navedenoj organizaciji provjeren i da zadovoljava zahtjeve sljedećih normi:

ISO 9001: 2015

Opseg primjene sustava:

Razvoj, proizvodnja i distribucija osobnih, zaštitnih i balističkih proizvoda

U razdoblju valjanosti ovog certifikata, sustav upravljanja u organizaciji uvijek mora biti u skladu sa zahtjevima certificiranih normi.

Za sve izmjene i dopune unutar područja primjene ovog certifikata, molimo Vas obratite se http://www.quality-service.ch/

SWISS

Datum audita:	06.07.2017
Novi datum izdavanja:	27.07.2017
Rok valjanosti:	06.07.2020

Pod uvjetom uspješnih nadzornih audita

QS ZÜRICH AG
P.O. Box 6335
CH-8050 Zürich
info@quality-service.ch

IAF

Uprava

Also, the certification of the environmental management system ISO:14001 is in progress.

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 2019, the Company's share capital 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 registered with the Commercial Court in Varaždin, No. 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.

Top 10 shareholders with the largest number of shares:

Name and surname	Number of shares VART	% of total shares
Bakić Nenad	1.917.403	46,69%
Koščec Zoran	428.382	10,43%
Varteks d.d. (1/1)	234.780	5,72%
Igrec Stjepan	134.944	3,29%
Koščec Dražen	72.717	1,77%
Žonja Igor	62.759	1,53%
Interkapital vrijednosni papiri d.o.o.	56.524	1,38%
OTP banka Hrvatska d.d.	28.449	0,69%
Koščec Vladimir	25.835	0,63%
Papić Franc	25.777	0,63%

Scale of the organization

- The total number of employees in the Varteks Group as at 31 Dec 2019 was 1,057.
- Group's total oper. income in 2019 amounts to HRK 173.8 mil, and sales revenue to HRK 169.7 mil.
- Share of own products and services in the sales revenue is 77%.
- In 2019, the company has the share of capital in financing sources of 16.3%.
- Total of 22 registered activities.

Employees

87% of employees are women.

96% of employees are covered by the Collective Agreement.

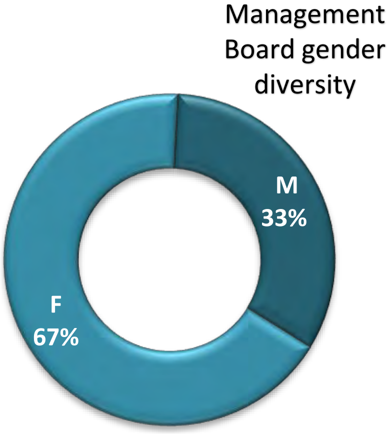
There were no significant changes in the number of employees during the reporting period. Of the total number of employees, 681 (or 64%) work in manufacturing facilities, mostly as seamstresses.

Gender	Fixed term contract		Contract for an indefinite period		Total	
	31 December 2018	31 December 2019	31 December 2018	31 December 2019	31 December 2018	31 December 2019
M	2	6	140	134	**142**	**140**
F	34	91	879	826	**913**	**917**
Σ	36	97	1019	960	1055	1057

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	7	41	**48**
30 - 39	11	90	**101**
40 - 49	32	378	**410**
> 50	90	408	**498**
Σ	**140**	**917**	**1057**

The average age of employees is 48.



Supply chain

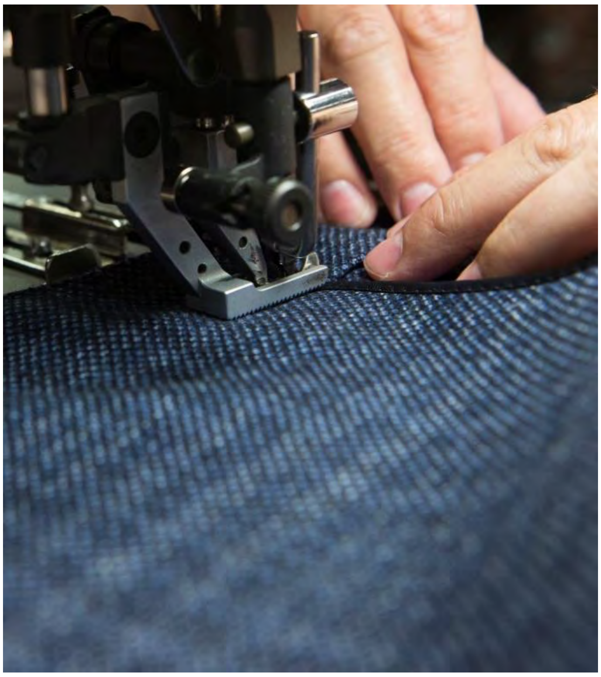
During the reporting year 2019, the Varteks Group cooperated with 1,558 suppliers in the total amount of approximately HRK 128 million, which can be classified into four main groups:

- fabric suppliers – 78 suppliers totaling approx. HRK 35.9 million;
- suppliers of goods – 61 suppliers totaling approx. HRK 24.3 million;
- suppliers of sewing tools and other textile consumables – 25 suppliers totaling approx. HRK 8.5 million;
- suppliers of other non-textile materials and services – 1,394 suppliers totaling approx. HRK 59.5 million.

Geographically, 80% of suppliers are from the domestic market. Since Croatia does not have a domestic fabric manufacturer, the focus is on suppliers that are geographically close to the factory, which, in addition to the quality and fashion factors, is the key reason why the largest share is taken by suppliers from Italy.

In terms of quality control, 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. The procurement department has developed a methodology for evaluating all key fabric suppliers, with high importance given to the quality factor.

Emphasis is placed on reputable fabric suppliers who, in addition to quality, reliability and speed, pay close attention to environmental protection, and responsibly approach energy and water savings, in a way that chemicals used in the manufacturing process meet the prescribed standards.



1,558 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 prerequisites for adhering to delivery terms, sustainable and fair prices, and product and service excellence. Also, partnerships with suppliers is a prerequisite for sustainable supply chain management, which directly affects the company’s savings and profitability.

Significant changes to the organization

Share conversion

At the end of 2019, a corporate share conversion was conducted by the issuer VARTEKS d.d., Varaždin under the ticker symbol VART-R-2. This was the listing of shares subscribed in 2018. The conversion of shares was carried out in such a way that 1,885,879 ordinary shares with the symbol VART-R-2, ISIN: HRVARTR20004 were converted into 1,885,879 ordinary shares with the symbol VART-R-1, ISIN: HRVARTR10005. Following the conversion of shares, a total of 4,106,686 ordinary shares with the symbol VART-R-1, ISIN: HRVARTR10005 are included.

Changes in the Supervisory Board

Supervisory Board of Varteks d.d. - Members -	31 December 2018	Changes in 2019	31 March 2020
Nenad Bakić	President of the Supervisory Bord	President of the Management Board from 15 January 2019 to 31 December 2019	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 Bord(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 December 2018	Changes in 2019	31 March 2020
Nenad Bakić		President of the Management Board from 15 January 2019 to 31 December 2019	
Paško Vela	Member of the Management Board from 31 December 2018	Member of the Management Board until 30 June 2019	
Damir Radmilović		Member of the Management Board from 15 July 2019	Member of the Management Board
Tomislav Babić		Member of the Management Board from 23 July 2019	President of the Management Board from 1 January 2020
Ivan Perković	Elected President of the Management Board	Resignation on 14 January 2019	

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 Joint borrowing 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 Joint borrowing 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.

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

Merger of Varteks E d.o.o.

Varteks d.d., as the acquirer and Varteks E d.o.o., as the acquiree, concluded the Merger Agreement, which was submitted to the Commercial Court in Varaždin on 30 August 2019. Given that Varteks d.d. held all interests in Varteks E d.o.o., this was a merger in special cases referred to in Article 531 of the Companies Act. Consequently, the approval of the General Assembly of the Acquirer was not required for the merger.

On 18 October 2019, 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 interests of Varteks E d.o.o. performed.

The precondition for the merger was the resolution of a dispute over the non-implementation of the ESOP program that arose in 2017 between Varteks d.d. and Varteks ESOP d.o.o. and CERP. By signing the agreement in 2019, the dispute was resolved. Varteks bought the shares that were the subject of the dispute and committed to repay them through 60 installments.

Staff restructuring

During 2018, Varteks d.d. completed the staff restructuring process, which began in the second half of 2017.

In the process, jobs and number of employees were defined in the administrative and overhead part of the staff and a redundancy management program was launched. The program was implemented within the framework of all statutory rights of employees (severance pay, notice periods, procedures and other). The effects and savings are visible in 2019.

The restructuring was also carried out through the recruitment and selection of the necessary new staff in sales, production and corporate support, the re-evaluation of the content and responsibility of part of the jobs and their optimization, and the development activities of human resources management with the identification of key employee positions with a focus on their development and remuneration.

Other restructuring elements

The company's business in 2019 was heavily influenced by the implementation of development projects.

In a part of the regular business activities, a review of the efficiency of sales and the efficiency of production processes and of all types of sales and their further development were carried out. The processes, frameworks and further development of the business model have been identified and initiated within each business unit and at the company level:

- 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)
- strengthening digital marketing as the main promotional tool
- optimization of production efficiency by monitoring operational efficiency and investment in production technology

Thus, along with the development of basic business processes, projects for investments in new technology, sales tools, continued implementation of IT support and further improving the energy efficiency of the system were initiated.

Precautionary approach

In order to protect human and environmental health, 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 an environmental point of view. Both areas 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 across processes and activities. They have been implemented in project activities, development of new products, introduction of production equipment, organization of space, change management, production processes and distribution to the market.

External initiatives

Varteks adopts and implements legal standards and principles, guidelines, good practices and recommendations that contribute to higher quality products, work and production process, and to 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 2019:

Nenad Bakić, President

Damir Radmilović, Member

Tomislav Babić, Member

As of 1 January 2020 there is a change to the Management Board and as of that date it comprises:

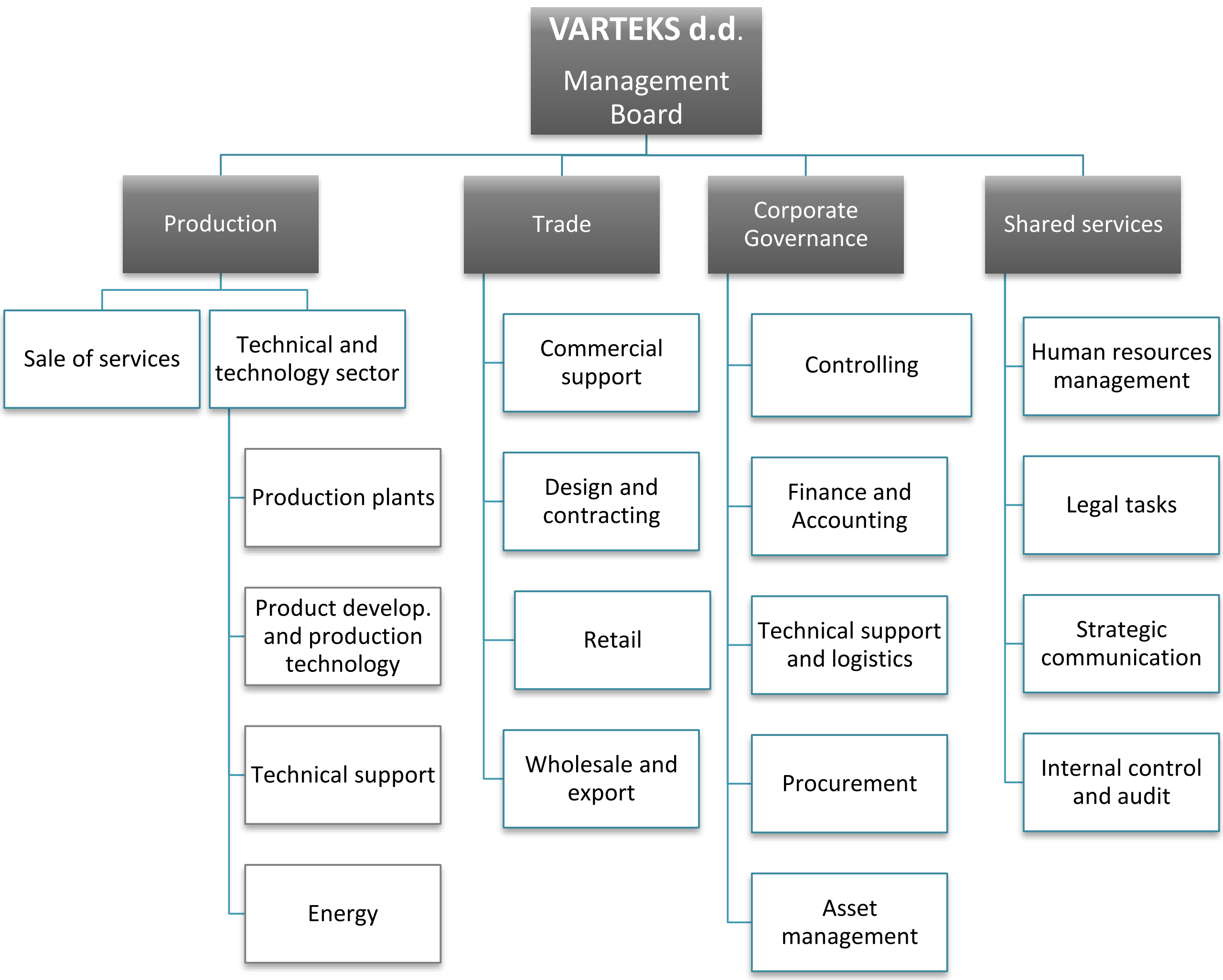
Tomislav Babić, President

Damir Radmilović, Member

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

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

The top organizational structure at the end of 2019 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 2019, members of the Supervisory Board of Varteks d.d. were:

Nenad Bakić – President of the Supervisory Board (until 15 Jan 2019)

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 2019 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	46,69%
Igor Žonja - Vice president of the Supervisory Board	62.759	1,53%
Tomislav Babić - President of the Management Board	4.170	0,10%
Božica Čićek Mutavdžić - Member of the Supervisory Board	140	0,00%

Corporate governance

The Company applies the Corporate Governance Code drafted jointly 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 Corporate Governance Code Statement is an integral part of the 2019 Annual Report.

STAKEHOLDER ENGAGEMENT

Identifying and selecting stakeholders

The Varteks Group has a clearly defined business strategy in which corporate social responsibility is implemented, which implies 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 influence or are influenced by the Group's operations.

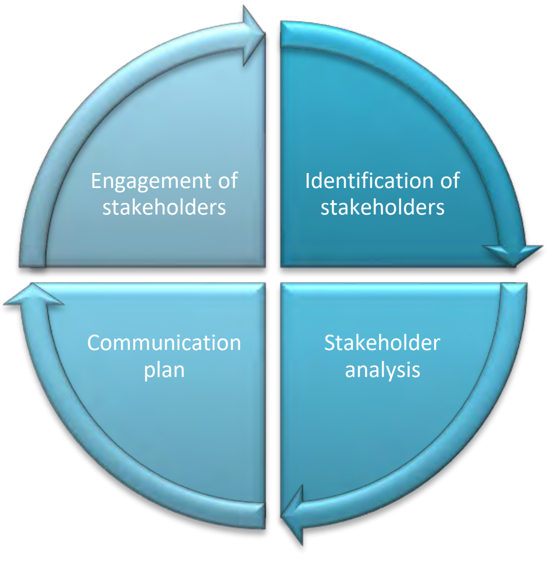
The stakeholders involved in the preparation of this part of the Report are: employees, end consumers, partners and suppliers, shareholders and investors, trade unions, the local community, business and professional associations, the financial community, the public and the media, and government bodies.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

Given that the employees are the key value of a company who plan, implement, prepare, report, and communicate our sustainable development goals to other stakeholders, they are a 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, stakeholder engagement as well as activites during the reporting period 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.

Official website and social networks

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

The posts 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.

Web shop

Our web shop, 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 web shop with all its features and contents is expanding strongly.

Varteks Loyalty Club

The 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 throughout 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).

Stories that Tailor Varteks Exhibition

An important project in 2019 was the *Stories that Tailor Varteks* exhibition held in September at the Museum of Arts and Crafts in Zagreb. The exhibition referred to the century-old Varteks history from which the basis for the company future was taken: tradition, precision in production and top quality of products, which shows our credibility and responsibility to every customer.
The exhibition was jointly prepared by the Faculty of Textile Technology (TTF) of the University of Zagreb, Museum of Arts and Crafts, and Varteks, thus creating a chain of cooperation: educational institutions, the private sector and cultural institutions. TTF students participated in the project and were given the opportunity to work and realize their own ideas through workshops and side events.

The century-old history is told with an emphasis on the fashion, aesthetic and advertising role of Varteks. Visitors were able to see numerous archive materials, clothing items, textile equipment and tailoring tools, and to get acquainted with the importance and significance of Varteks for Varaždin and the Republic of Croatia. The exhibition was accompanied by a catalogue and numerous workshops for children and adults through which certain periods of Varteks life were reinterpreted.

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. In 2019, we dressed high school graduates without appropriate parental care for proms, assisted students in travelling to various competitions, and participated in many other projects that promote lasting values in society.

Media

In 2019, 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.

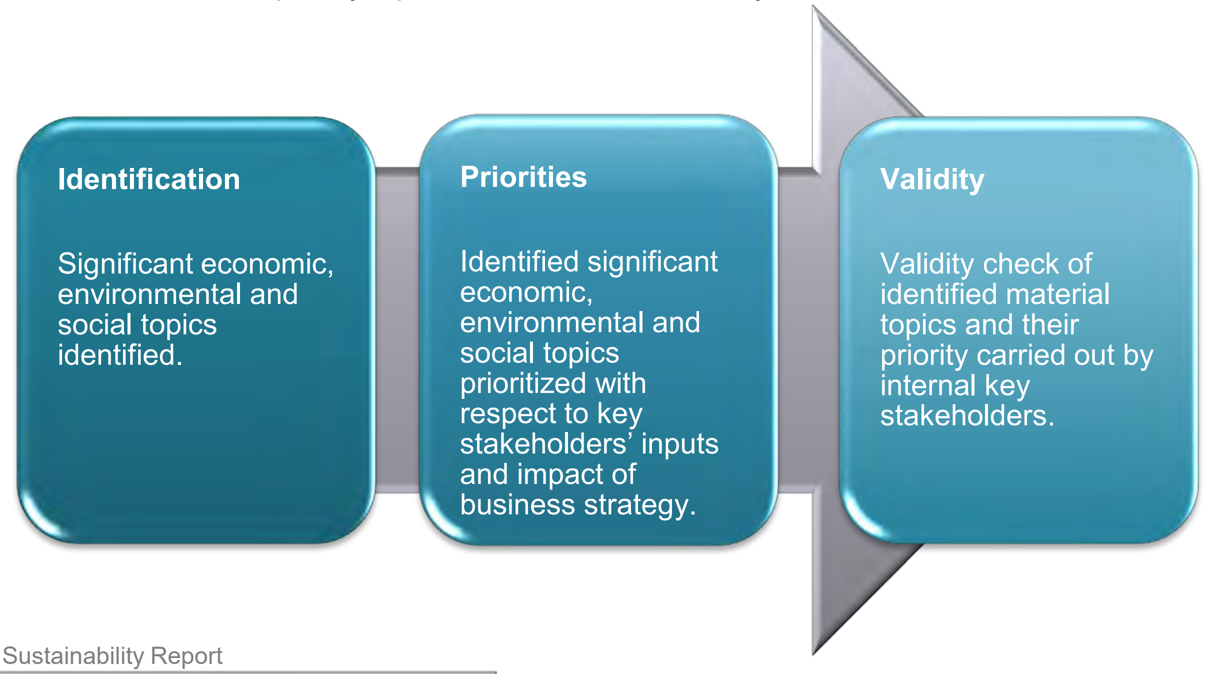
Companies subject to consolidation as at 31 December 2019 are: Varteks d.d., Varteks Pro d.o.o. and V-projekt d.o.o.

The consolidated financial statements are available on the Company's website 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

Although this is only the second 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.

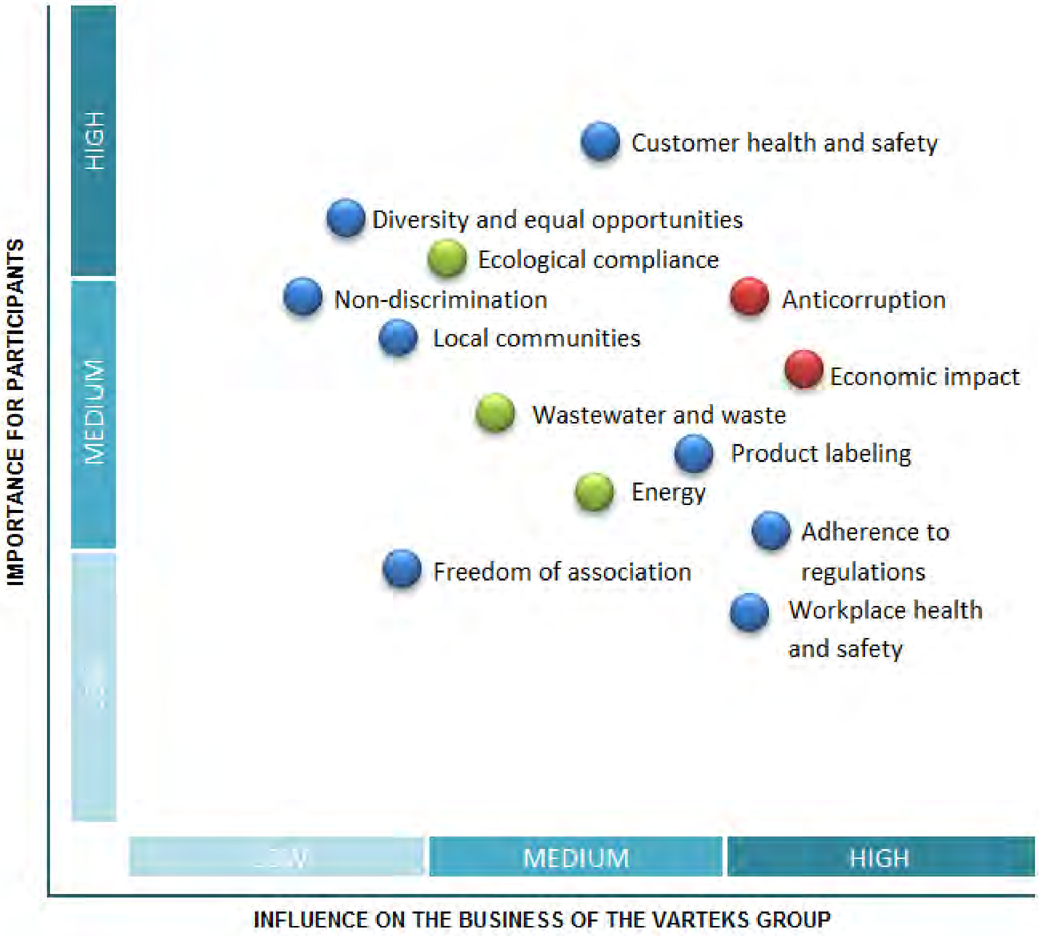
An analysis of economic, environmental and social impacts was performed on the basis of feedback from stakeholders involved, and above all on the basis of market indicators and own strategic determinants, and priority topics relevant to sustainability have been identified.



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 2019 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 2019. This is the second published Report so far. As at 30 April 2019, the previous Non-Financial Report on the operations of the Varteks Group was published.

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

No external assurance of the Report has been carried out.

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VARTEKS

II. Specific standards

ECONOMIC TOPICS

Economic impact

in 000 kn

Elements	2019
Direct economic value generated	**173.772**
Sales revenue	169.660
Other revenue	4.112
Distributed economic value	**183.504**
Employee salaries and benefits	43.810
Payments to government	21.709
Operating cost	110.388
Financing cost(neto)	7.597
Economic value retained	**-9.732**
EBITDA(before the impact of IFRS 16)	**2.002**
Normalized EBITDA*(before the impact of IFRS 16)	**3.451**

* without one-time costs and the costs of provision

In 2019, the Varteks Group generated operating income of HRK 173.8 million, which is 8.6% more than in 2018. The above overview shows that the realized normalized EBITDA of the Varteks Group in 2019 was positive HRK 3.5 million, which is HRK 10.6 million more than in 2018. The positive operating result in 2019 was achieved for the first time after more than 10 years of operations, which is the result of strong retail growth, especially in the second and fourth quarters of 2019 and the restructuring process carried out during 2018.

In 2019, net cost from financial activities of HRK 7.6m was realized, the majority of which relates to interest expense of HRK 7.1m, which is HRK 0.6 million more than in 2018.

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 environmental protection legislation, in 2019 the Varteks Group continued to invest resources and efforts in environmental protection. The employees' awareness of environmental protection issues is continuously being raised as well as the importance of managing energy efficiency.

Changes that have taken place in 2019 are related to the continued energy efficiency improvement in Varteks' production facilities, which is directly related to the environmental impact.

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 2019 was 9,151,892 kWh*, or **≈36% less** than in 2018.

Type of energy	Unit of measure	Consumption in 2018	Consumption in 2019	Percentage change
Fuel(gas)	**kWh**	**8.222.872**	**5.423.884**	**-34%**
Electricity	**kWh**	**4.186.760**	**3.728.008**	**-11%**
Steam	**t**	**9.349**	**5.559**	**-41%**

** 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. Estimated savings amount to 8%. 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.

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.

Wastewater 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.

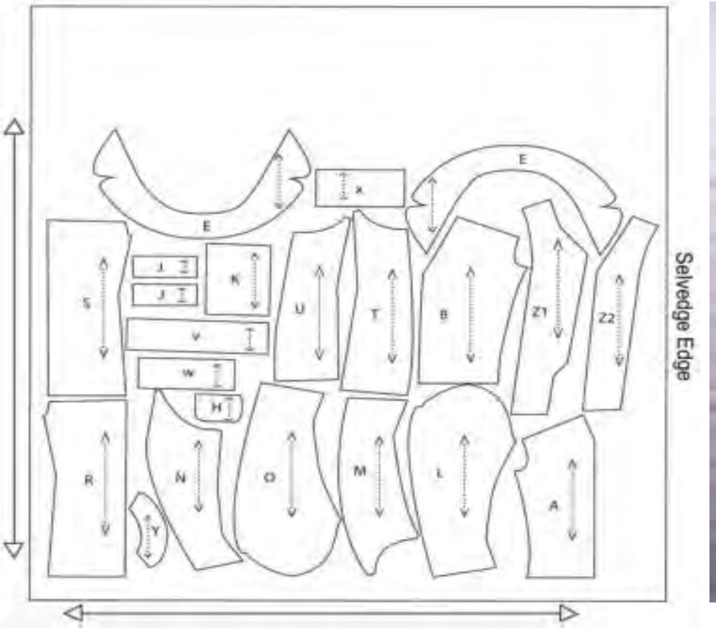
During 2019, there were no emergencies associated with wastewater discharges.

Amount of wastewater released in 2019 (m^3) per month*

Month	INDUSTRIAL WATER	INDUSTRIAL WASTEWATER	COOLING WATER	STORMWATER	PERCOLATED WATER	OTHER WASTEWATER	Total
January	417,00	410,00	0,00	594,08	0,00	0,00	**1.421,08**
February	440,00	445,00	0,00	503,84	0,00	0,00	**1.388,84**
March	604,00	605,00	0,00	810,28	0,00	0,00	**2.019,28**
April	630,00	631,00	0,00	1.331,04	0,00	0,00	**2.592,04**
May	665,00	664,00	0,00	3.931,08	0,00	0,00	**5.260,08**
June	610,00	618,00	0,00	1.962,72	0,00	0,00	**3.190,72**
July	802,00	823,00	0,00	2.679,00	0,00	0,00	**4.304,00**
August	589,00	603,00	0,00	1.752,16	0,00	0,00	**2.944,16**
September	700,00	715,00	0,00	1.346,08	0,00	0,00	**2.761,08**
October	650,00	651,00	0,00	614,76	0,00	0,00	**1.915,76**
November	1.014,00	1.020,00	0,00	2.714,72	0,00	0,00	**4.748,72**
December	725,00	731,00	0,00	2.256,00	0,00	0,00	**3.712,00**
Σ	**7.846,00**	**7.916,00**	**0,00**	**20.495,76**	**0,00**	**0,00**	**36.257,76**

**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.



__An example of good practice in the tailoring phase:__

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 related 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 0.7% of total waste and is disposed of in accordance with best available market practices.

In 2019, 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 2019	COLLECTOR*
Key number	Name		
04 02 22	Waste from processed textile fibers	33,0	Unimer d.o.o., Proting Horvat d.o.o.
04 02 99	Waste not otherwise specified	42,70	Lotus 91 d.o.o.
08 03 17*	Waste toner cartridges containing dangerous substances	0,002	Duma Elektronika EE-Eko Tim
12 01 01	Scrap aluminum	0,2	Unimer d.o.o.
15 01 01	Paper and cardboard packaging	35,3	Univerzal d.o.o.
15 01 03	Wooden packaging	0,9	Unimer d.o.o.
15 01 06	Mixed packaging	32,2	Lotus 91 d.o.o.
16 02 13*	Discarded equipment containing dangerous components not listed in 16 02 09 * to 16 02 12 *	0,8	Duma Elektronika EE-Eko Tim
17 04 05	Iron and steel	5,6	Unimer d.o.o.
20 01 11	Textile	0,02	Lotus 91 d.o.o.
20 01 21*	Flat fluorescent bulbs and compact fluorescent bulbs	0,28	Duma Elektronika EE-Eko Tim
	Total hazardous waste:	**1,1**	
	Total non-hazardous waste:	**149,9**	

* 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 2019, three Occupational Safety and Health Committee meetings were held.

Supervision in the field of occupational safety and health was carried out on 18 September 2019. There were no detected omissions in the implementation of occupational safety and health measures.

In 2019, the Varteks Group had on average a total of 1,064 employees. The total number of injured workers was ten, six of which were injured in the workplace and during job tasks, while four 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 2019. One occupational disease was recognized.

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 57 employees works on jobs with special working conditions, of which 10 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 a 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 organizational skills, equipment and professional competence of the evacuation team members.

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

- confirm the organizational skills, 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 2019 was carried out 4 times, 3 drills were carried out in production facilities for all production workers (two in the morning shift and one in the afternoon 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 2019			2019	
	M	F	Total	% M	% F
Supervisory Board	3	2	**5**	60%	40%
Management Board /Executive Directors	3	1	**4**	75%	25%
Senior and middle management	13	29	**42**	31%	69%
Σ	**19**	**32**	**51**	**37%**	**63%**

Non-discrimination

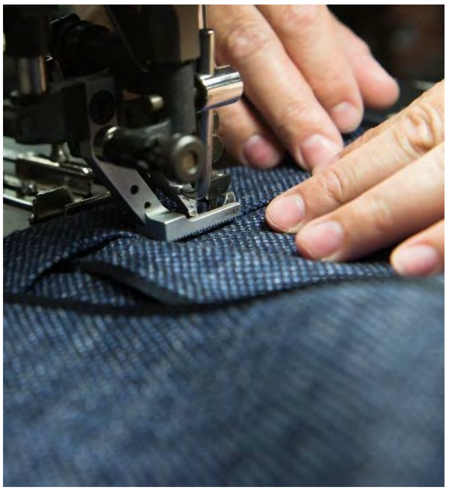
Numerous acts, charters, universal and regional treaties and other documents on the protection and exercise of human rights and freedoms which proclaim the principle of non-discrimination have been adopted in the international community. The basic principle of the modern system of protection of human 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 enjoy the right to freedom of association and collective bargaining. By their own choice, employees can be members of: Varteks Outerwear Union, Varteks Production of Suits Union, Varteks Koni Union, Varteks Varaždin Union, Varteks Shared Services Union and all of them are members of the higher level Union – the Union of Textile, Footwear, Leather, and Rubber Industries of Croatia.

Pursuant to Article 192 of the Labor Act of the Republic of Croatia, the representative trade unions and the employer concluded on 14 December 2015 the Collective Agreement on the Rights and Obligations of Employees and Employer. 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.

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 society into 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 to 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 2019, 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.

VARTEKS

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 minimize 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 2019 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 the year, the Company received funds to cover short-term liquidity needs from a new commercial bank.

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. In March 2020, due to the coronavirus pandemic in Croatia and the world, Varteks started producing washable cotton face masks, which it offered on the market, thus strongly influencing their supply and price.

The Group continuously performs analysis and research activities, 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.

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 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 did not set up an Appointment Committee. The General assembly of shareholders proposes members of the Supervisory Board, and the Supervisory Board evaluates the composition, size, membership and quality of work of the Management Board and makes decisions on appointments in accordance with the assessment.*
- *The Company did not set up a Remuneration Committee. The Supervisory Board directly decides on the amounts of remuneration for individual members of the Management Board in accordance with the Company's remuneration policy and the performance evaluation for each member of the Management Board.*

- *The Company plans to ensure the efficiency of internal control system processes. There is an internal control and audit function in the company that does not fully perform internal audit tasks in accordance with best practices.*
- *The senior management accepts recommendations of the external auditor and takes actions with regard to those recommendations.*
- *The Company discloses the total remuneration to key personnel in the Management Board in the annual financial statements.*
- *The Company is not actively working on the calendar of important events that are expected in the business year, but timely publishes all key information.*

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 2019, the Company had certain changes in the Management Board, which occurred due to the expiry of the term and resignation of some members of the Management Board, and the appointment of new members of the Management Board. All changes were made in accordance with the provisions of the Companies Act and the provisions of the Company's Articles of Association. Consequently, in 2019, the President of the Management Board resigned, and in January 2019 the Supervisory Board appointed the President of the Supervisory Board to the position of the President of the Management Board until 31 December 2019, all in accordance with Article 261, paragraph 2 of the Companies Act.

During 2019, 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. In December 2018, the term of two Supervisory Board members expired and two Supervisory Board members were appointed in January 2019.

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 2019, 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 2019 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 2018**		
category	M	F	total
Supervisory Board	4	1	5
Management Board/ executive director	2	-	2
Total:	6	1	7

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 Group	**31 Dec 2018**		
category	M	F	total
Supervisory Board	4	1	5
Management Board/ executive director	2	1	3
Total:	6	2	8

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 d.d.

President of the Management Board

Tomislav Babić

Member of the Management Board

Damir Radmilović