

Varaždin, February 28<sup>th</sup>, 2020

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

## **MANAGEMENT INTERIM REPORT**

***For the fourth quarter of the year 2019 (cumulative period 01.01. – 31.12.2019/unaudited)***

### ***Indications of significant events that occurred during the reporting period and the impact of these events on the condensed set of financial statements***

In the fourth quarter of 2019, Varteks Group realized a normalized positive EBITDA of HRK 2.7m (before IFRS 16), thus achieving a total normalized EBITDA for 2019 of HRK 3m. Retail growth continues to be one of the most significant drivers of positive business trends. Despite a mild winter that significantly affects the sales of the fall winter collection, retail revenue was up 27% from last year.

A consolidated loss of HRK 1.9m was achieved in the 4<sup>th</sup> quarter (previous year loss of HRK 8.6m was recorded), which is a substantially less compared to the 4<sup>th</sup> quarter of 2018. Considering that in the 4<sup>th</sup> quarter adjustments of HRK 1.7m were made (out of which HRK 1.5m relates to inventory value adjustments) and accounting correction of club loan as a result of which the interest expense was increased by 2.5m (effect for the whole of 2019 is recorded in the 4<sup>th</sup> quarter), it is evident that in the 4<sup>th</sup> quarter Varteks Group operated with a profit.

As we have previously reported, Varteks' main business is once again becoming its own fashion and retail. Retail sales in the fourth quarter were HRK 27.2 million, while Gross Margin was HRK 12.7 million. Revenues were below the plan by HRK 1.0m but they were higher than the previous year by HRK 5.8m.

Revenues from services, i.e. production for others, were lower than the plan by HRK 3.2m in Q4 due to reduced orders, but also due to higher production for own requirements. However, Varteks was able to partially offset the effect of increased labor costs by increasing prices to major customers in services.

The production of special and workwear apparel (Varteks Pro) in Q4 generated HRK 1.8m less than planned, but HRK 4.2m more than in the same period last year.

IBAN račun:

HR19 2360 0001 1013 3948 3  
Zagrebačka banka d.d.  
Zagreb

HR62 2340 0091 1001 1083 9  
Privredna banka d.d.  
Zagreb

HR47 2484 0091 1004 1785 2  
Raiffeisenbank Austria d.d.  
Zagreb

For the first time in the fourth quarter, the new accounting standard IFRS 16 - Leases, was applied. The effects of applying this standard are:

- Increase in the right of use assets by HRK 16.7m in the balance sheet and increase of the lease liabilities by HRK 17.1m
- in the income statement a decrease in the rental cost by HRK 5m, an increase in the depreciation expense by HRK 4.3m and an increase in the financial cost by HRK 0.9m

Also, in the 4th quarter, adjustments were made to PPE by aligning Group's and Company's books with the Group's accounting policies and International Accounting Standards. The effects of applying these corrections are:

- decrease of PPE value by HRK 151.5m
- decrease of revaluation reserves by HRK 88.4m
- reduction of deferred tax liabilities by HRK 19.3m
- increase of accumulated losses by HRK 43.8m
- this change will reduce the annual depreciation by HRK 3.2m
- recognition of unused PPE on the position of investment property in the amount of HRK 75.8m.

Additionally, during 4th quarter following adjustments were made to the accounting of club loan which was reprogrammed in January 2018:

- reduction of accumulated losses by HRK 16m
- decrease in carrying amount of loans received by HRK 13.5m
- this change has increased financial expenses by HRK 2.5m in 2019.

A restatement note detailing all the changes will be published in the annual financial statements. The restatements in the TFI-POD report were made through the balances in 2019 and the intention is to have the final restatement carried out in accordance with IAS 8 starting from the beginning of the comparative period (January 1<sup>st</sup>, 2018), which will be published in the audited financial statements for 2019.

### ***The most significant risks and expectations for the future***

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

In 2019, primary focus is on business development processes. In the export business, the cooperation with the renowned business partners has continued, especially with Hugo Boss and J. Lindeberg. The most positive effects are expected through more efficient management and utilization of production processes and capacities.

The sales of special purpose apparel and corporate apparel are partly related to existing and partly to new contracts.

We are expecting continued growth in retail sales and the creation of new outlets.

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 wage costs with higher production efficiency and higher prices, both in production for others and in its own retail segment.

Significantly impaired liquidity remains the most significant risk, as indicated in the audited financial statements for 2018. The regularity of settlement of liabilities, among other things, is secured by the additional short-term loan of a new commercial bank. 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 the autumn-winter 2019 season. The largest shareholder of the Company additionally secured HRK 15.9m through additional interest-free loans in the first half of 2019 (as of December 31, 2018, it was HRK 30.1m), while the new commercial bank in the 4th quarter provided between 6 and 10 million HRK.

The Management Board is also working on the long-term resolution of the Company's liquidity and indebtedness through the monetization of the Company's real estate, primarily real estate at the Company's headquarters in Varaždin.

Overall, according to unaudited data, in 2019, for the first time after a long series of negative operating results, a positive normalized EBITDA of HRK 3m was achieved. In 2020, the Management Board expects to continue this positive trend and a significantly better result than last year. The main generator of change will continue to be the strengthening and growth of retail segment and our own brand.

### ***R&D activities***

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

### ***Information on redemption of own shares***

In the reporting period, the parent company did not repurchase its own shares.

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

As at December 31, 2019, the Parent Company has the following active subsidiaries:

- Varteks Pro d.o.o.
- V-projekt d.o.o.

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

Varteks Pro d.o.o. specializes 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 1.2 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 0.9 million). The number of employees was 32 (2018: 28). The director of the company is Ms. Natalija Vnucec.

## **V-projekt d.o.o.**

Company V-projekt d.o.o. is 100% owned by the Company.

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 Group's 2018 annual financial statements contain the required disclosures regarding the Group's management and exposure to financial risks. The management of liquidity risk and cash flow risk is described in the consolidated financial statements for 2018 in Note 38 b).

In this interim report, we would like to highlight liquidity risk as still the most significant business risk. As of December 31, 2019, the Group and the Company continue to have a significant amount of overdue liabilities. The management is undertaking financial restructuring measures to provide the means to meet these arrears. We expect that additional cash inflows from the sale of the Company's PPE (not used in production operations) could be generated during 2020, some of which should be used to reduce outstanding trade payables and financial debt.

***Tomislav Babić***  
***President of the Management Board***

***Damir Radmilović***  
***Member of the Management Board***

## Annex 1

## ISSUER'S GENERAL DATA

Reporting period: 01.01.2019 to 31.12.2019

Year: 2019

Quarter: 4

## Quarterly financial statements

Registration number (MB): 03747034 Issuer's home Member State code: HR

Entity's registration number (MBS): 070004039

Personal identification number (OIB): 00872098033 LEI: 74780000Q0LH0TDGEO80

Institution code: 1420

Name of the issuer: VARTEKS d.d.

Postcode and town: 42000 Varaždin

Street and house number: Zagrebačka 94

E-mail address: info@varteks.com

Web address: www.varteks.com

Number of employees (end of the reporting): 1.067

Consolidated report: KD (KN-not consolidated/KD-consolidated)

Audited: RN (RN-not audited/RD-audited)

Names of subsidiaries (according to IFRS):

Registered office:

MB:

VARTEKS PRO d.o.o. Varaždin, Hrvatska 1280611

V-PROJEKT d.o.o. Varaždin, Hrvatska 070093329

Bookkeeping firm: No (Yes/No)

(name of the bookkeeping firm)

Contact person: Radmilović Damir

(only name and surname of the contact person)

Telephone: 042 377319

E-mail address: dradmilovic@varteks.com

Audit firm:

(name of the audit firm)

Certified auditor:

(name and surname)

**BALANCE SHEET**  
balance as at 31.12.2019.

in HRK

Submitter: Varteks Group			
Item	ADP code	Last day of the preceding business year	At the reporting date of the current period
1	2	3	4
<b>A) RECEIVABLES FOR SUBSCRIBED CAPITAL UNPAID</b>	<b>001</b>	<b>0</b>	<b>0</b>
<b>B) FIXED ASSETS (ADP 003+010+020+031+036)</b>	<b>002</b>	<b>364.557.074</b>	<b>225.621.005</b>
<b>I INTANGIBLE ASSETS (ADP 004 to 009)</b>	<b>003</b>	<b>2.125.303</b>	<b>2.297.114</b>
1 Research and development	004	0	0
2 Concessions, patents, licences, trademarks, software and other rights	005	1.486.003	1.657.814
3 Goodwill	006	529.300	529.300
4 Advances for the purchase of intangible assets	007	110.000	110.000
5 Intangible assets in preparation	008	0	0
6 Other intangible assets	009	0	0
<b>II TANGIBLE ASSETS (ADP 011 to 019)</b>	<b>010</b>	<b>350.060.721</b>	<b>213.556.831</b>
1 Land	011	72.089.888	52.075.281
2 Buildings	012	255.018.050	60.721.780
3 Plant and equipment	013	21.325.356	22.968.340
4 Tools, working inventory and transportation assets	014	1.395.379	1.880.331
5 Biological assets	015	0	0
6 Advances for the purchase of tangible assets	016	0	0
7 Tangible assets in preparation	017	0	0
8 Other tangible assets	018	232.048	232.048
9 Investment property	019	0	75.678.051
<b>III FIXED FINANCIAL ASSETS (ADP 021 to 030)</b>	<b>020</b>	<b>9.483.198</b>	<b>9.546.364</b>
1 Investments in holdings (shares) of undertakings within the group	021	0	0
2 Investments in other securities of undertakings within the group	022	0	0
3 Loans, deposits, etc. to undertakings within the group	023	0	0
4 Investments in holdings (shares) of companies linked by virtue of participating interests	024	0	0
5 Investment in other securities of companies linked by virtue of participating interests	025	0	0
6 Loans, deposits etc. to companies linked by virtue of participating interests	026	0	0
7 Investments in securities	027	1.855.034	1.855.034
8 Loans, deposits, etc. given	028	7.622.264	7.685.430
9 Other investments accounted for using the equity method	029	0	0
10 Other fixed financial assets	030	5.900	5.900
<b>IV RECEIVABLES (ADP 032 to 035)</b>	<b>031</b>	<b>2.887.852</b>	<b>221.696</b>
1 Receivables from undertakings within the group	032	0	0
2 Receivables from companies linked by virtue of participating interests	033	0	0
3 Customer receivables	034	0	0
4 Other receivables	035	2.887.852	221.696
<b>V DEFERRED TAX ASSETS</b>	<b>036</b>	<b>0</b>	<b>0</b>
<b>C) CURRENT ASSETS (ADP 038+046+053+063)</b>	<b>037</b>	<b>48.631.989</b>	<b>58.688.864</b>
<b>I INVENTORIES (ADP 039 to 045)</b>	<b>038</b>	<b>29.169.974</b>	<b>43.522.554</b>
1 Raw materials and consumables	039	13.127.044	16.446.286
2 Work in progress	040	381.172	803.484
3 Finished goods	041	9.680.036	18.489.437
4 Merchandise	042	4.522.996	7.369.584
5 Advances for inventories	043	1.458.726	413.763
6 Fixed assets held for sale	044	0	0
7 Biological assets	045	0	0
<b>II RECEIVABLES (ADP 047 to 052)</b>	<b>046</b>	<b>15.982.373</b>	<b>13.600.519</b>
1 Receivables from undertakings within the group	047	0	0
2 Receivables from companies linked by virtue of participating interests	048	0	0
3 Customer receivables	049	15.290.404	12.937.593
4 Receivables from employees and members of the undertaking	050	49.272	46.096
5 Receivables from government and other institutions	051	421.147	384.290
6 Other receivables	052	221.550	232.540
<b>III CURRENT FINANCIAL ASSETS (ADP 054 to 062)</b>	<b>053</b>	<b>202.069</b>	<b>260.008</b>
1 Investments in holdings (shares) of undertakings within the group	054	0	0
2 Investments in other securities of undertakings within the group	055	0	0
3 Loans, deposits, etc. to undertakings within the group	056	0	0
4 Investments in holdings (shares) of companies linked by virtue of participating interests	057	0	0
5 Investment in other securities of companies linked by virtue of participating interests	058	0	0
6 Loans, deposits etc. to companies linked by virtue of participating interests	059	0	0
7 Investments in securities	060	0	0
8 Loans, deposits, etc. given	061	202.069	260.008
9 Other financial assets	062	0	0
<b>IV CASH AT BANK AND IN HAND</b>	<b>063</b>	<b>3.277.573</b>	<b>1.305.783</b>
<b>D) PREPAID EXPENSES AND ACCRUED INCOME</b>	<b>064</b>	<b>620.657</b>	<b>421.145</b>
<b>E) TOTAL ASSETS (ADP 001+002+037+064)</b>	<b>065</b>	<b>413.809.720</b>	<b>284.731.014</b>
<b>OFF-BALANCE SHEET ITEMS</b>	<b>066</b>	<b>8.902.889</b>	<b>6.452.409</b>

Submitter: Varteks Group			
Item	ADP code	Last day of the preceding business year	At the reporting date of the current period
1	2	3	4
<b>LIABILITIES</b>			
<b>A) CAPITAL AND RESERVES (ADP 068 to 075)</b>	<b>067</b>	179.037.450	47.948.084
I INITIAL (SUBSCRIBED) CAPITAL	068	41.066.860	41.066.860
II CAPITAL RESERVES	069	1.555.445	655.664
III RESERVES FROM PROFIT (ADP 071+072-073+074+075)	070	-72.737	-2.453.565
1 Legal reserves	071	0	0
2 Reserves for treasury shares	072	1.836.530	754.480
3 Treasury shares and holdings (deductible item)	073	-1.836.530	-3.371.478
4 Statutory reserves	074	0	0
5 Other reserves	075	72.737	163.453
IV REVALUATION RESERVES	076	166.675.683	78.638.521
V FAIR VALUE RESERVES (ADP 078 to 080)	077	0	0
1 Fair value of financial assets available for sale	078	0	0
2 Cash flow hedge - effective portion	079	0	0
3 Hedge of a net investment in a foreign operation - effective portion	080	0	0
VI RETAINED PROFIT OR LOSS BROUGHT FORWARD (ADP 082-083)	081	-5.843.601	-59.173.141
1 Retained profit	082	0	0
2 Loss brought forward	083	5.843.601	59.173.141
VII PROFIT OR LOSS FOR THE BUSINESS YEAR (ADP 085-086)	084	-24.489.674	-10.786.255
1 Profit for the business year	085	0	0
2 Loss for the business year	086	24.489.674	10.786.255
VIII MINORITY (NON-CONTROLLING) INTEREST	087	0	0
<b>B) PROVISIONS (ADP 089 to 094)</b>	<b>088</b>	5.691.259	5.458.556
1 Provisions for pensions, termination benefits and similar obligations	089	2.984.804	2.216.861
2 Provisions for tax liabilities	090	0	0
3 Provisions for ongoing legal cases	091	0	0
4 Provisions for renewal of natural resources	092	0	0
5 Provisions for warranty obligations	093	0	0
6 Other provisions	094	2.706.455	3.241.695
<b>C) LONG-TERM LIABILITIES (ADP 096 to 106)</b>	<b>095</b>	122.910.237	107.561.428
1 Liabilities to undertakings within the group	096	0	0
2 Liabilities for loans, deposits, etc. of undertakings within the group	097	0	0
3 Liabilities to companies linked by virtue of participating interests	098	0	0
4 Liabilities for loans, deposits etc. of companies linked by virtue of participating interests	099	0	0
5 Liabilities for loans, deposits etc.	100	0	0
6 Liabilities to banks and other financial institutions	101	86.315.202	74.743.956
7 Liabilities for advance payments	102	0	0
8 Liabilities to suppliers	103	16.690	416.301
9 Liabilities for securities	104	0	0
10 Other long-term liabilities	105	0	15.139.057
11 Deferred tax liability	106	36.587.345	17.262.114
<b>D) SHORT-TERM LIABILITIES (ADP 108 to 121)</b>	<b>107</b>	105.189.412	121.003.652
1 Liabilities to undertakings within the group	108	0	0
2 Liabilities for loans, deposits, etc. of undertakings within the group	109	0	0
3 Liabilities to companies linked by virtue of participating interests	110	0	0
4 Liabilities for loans, deposits etc. of companies linked by virtue of participating interests	111	0	0
5 Liabilities for loans, deposits etc.	112	30.475.186	48.987.900
6 Liabilities to banks and other financial institutions	113	20.226.113	14.623.083
7 Liabilities for advance payments	114	718.834	250.561
8 Liabilities to suppliers	115	38.834.361	32.401.720
9 Liabilities for securities	116	0	0
10 Liabilities to employees	117	4.312.518	4.662.580
11 Taxes, contributions and similar liabilities	118	6.913.726	10.662.132
12 Liabilities arising from the share in the result	119	0	0
13 Liabilities arising from fixed assets held for sale	120	0	0
14 Other short-term liabilities	121	3.608.654	9.415.696
<b>E) ACCRUALS AND DEFERRED INCOME</b>	<b>122</b>	972.362	2.759.294
<b>F) TOTAL = LIABILITIES (ADP 067+088+095+107+122)</b>	<b>123</b>	413.809.720	284.731.014
<b>G) OFF-BALANCE SHEET ITEMS</b>	<b>124</b>	8.902.889	6.452.409

**STATEMENT OF PROFIT OR LOSS**  
for the period 01.01.2019. to 31.12.2019.

in HRK

Submitter: Varteks Group

Item	ADP code	Same period of the previous year		Current period	
		Cumulative	Quarter	Cumulative	Quarter
1	2	3	4	5	6
<b>I OPERATING INCOME (ADP 126 to 130)</b>	<b>125</b>	<b>160.025.427</b>	<b>44.410.113</b>	<b>173.004.499</b>	<b>51.303.609</b>
1 Income from sales with undertakings within the group	126	0	0	0	0
2 Income from sales (outside group)	127	154.476.499	42.292.057	169.660.074	50.627.997
3 Income from the use of own products, goods and services	128	183.907	50.506	204.669	67.641
4 Other operating income with undertakings within the group	129	0	0	0	0
5 Other operating income (outside the group)	130	5.365.021	2.067.550	3.139.756	607.971
<b>II OPERATING EXPENSES (ADP 132+133+137+141+142+143+146+153)</b>	<b>131</b>	<b>180.446.271</b>	<b>51.469.381</b>	<b>175.589.670</b>	<b>47.621.061</b>
1 Changes in inventories of work in progress and finished goods	132	-2.804.722	-655.585	-9.641.158	-2.634.631
2 Material costs (ADP 134 to 136)	133	81.801.175	21.527.027	88.108.331	23.603.848
a) Costs of raw materials and consumables	134	47.529.087	11.736.916	50.236.668	14.978.705
b) Costs of goods sold	135	18.186.659	4.561.889	20.116.955	7.442.263
c) Other external costs	136	16.085.429	5.228.222	17.754.708	1.182.880
3 Staff costs (ADP 138 to 140)	137	67.004.201	15.926.531	63.921.310	16.465.494
a) Net salaries and wages	138	45.455.018	10.793.334	43.810.653	11.287.555
b) Tax and contributions from salary costs	139	13.439.700	3.189.630	12.770.949	3.297.058
c) Contributions on salaries	140	8.109.483	1.943.567	7.339.708	1.880.861
4 Depreciation	141	7.858.956	1.951.238	8.862.871	3.111.540
5 Other costs	142	18.540.695	5.061.344	20.035.812	4.911.710
6 Value adjustments (ADP 144+145)	143	6.420.072	6.411.209	1.657.613	1.657.613
a) fixed assets other than financial assets	144	0	0	0	0
b) current assets other than financial assets	145	6.420.072	6.411.209	1.657.613	1.657.613
7 Provisions (ADP 147 to 152)	146	812.644	812.644	220.469	220.469
a) Provisions for pensions, termination benefits and similar obligations	147	812.644	812.644	0	0
b) Provisions for tax liabilities	148	0	0	0	0
c) Provisions for ongoing legal cases	149	0	0	0	0
d) Provisions for renewal of natural resources	150	0	0	0	0
e) Provisions for warranty obligations	151	0	0	0	0
f) Other provisions	152	0	0	220.469	220.469
8 Other operating expenses	153	813.250	434.973	2.424.422	285.018
<b>III FINANCIAL INCOME (ADP 155 to 164)</b>	<b>154</b>	<b>3.456.147</b>	<b>183.463</b>	<b>1.845.477</b>	<b>486.381</b>
1 Income from investments in holdings (shares) of undertakings within the group	155	0	0	0	0
2 Income from investments in holdings (shares) of companies linked by virtue of participating interests	156	0	0	0	0
3 Income from other long-term financial investment and loans granted to undertakings within the group	157	0	0	0	0
4 Other interest income from operations with undertakings within the group	158	0	0	0	0
5 Exchange rate differences and other financial income from operations with undertakings within the group	159	0	0	0	0
6 Income from other long-term financial investments and loans	160	0	0	0	0
7 Other interest income	161	8.070	7.345	132.293	13.000
8 Exchange rate differences and other financial income	162	3.448.077	176.118	1.705.917	473.381
9 Unrealised gains (income) from financial assets	163	0	0	0	0
10 Other financial income	164	0	0	7.267	0
<b>IV FINANCIAL EXPENSES (ADP 166 to 172)</b>	<b>165</b>	<b>7.034.108</b>	<b>1.744.361</b>	<b>9.737.254</b>	<b>6.058.658</b>
1 Interest expenses and similar expenses with undertakings within the group	166	0	0	0	0
2 Exchange rate differences and other expenses from operations with undertakings within the group	167	0	0	0	0
3 Interest expenses and similar expenses	168	4.506.914	1.385.250	7.378.994	4.849.040
4 Exchange rate differences and other expenses	169	2.204.089	113.730	2.300.502	1.209.618
5 Unrealised losses (expenses) from financial assets	170	0	0	0	0
6 Value adjustments of financial assets (net)	171	0	0	0	0
7 Other financial expenses	172	323.105	245.381	57.758	0
<b>V SHARE IN PROFIT FROM UNDERTAKINGS LINKED BY VIRTUE OF PARTICIPATING INTERESTS</b>	<b>173</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>VI SHARE IN PROFIT FROM JOINT VENTURES</b>	<b>174</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>VII SHARE IN LOSS OF COMPANIES LINKED BY VIRTUE OF PARTICIPATING INTEREST</b>	<b>175</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>VIII SHARE IN LOSS OF JOINT VENTURES</b>	<b>176</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>IX TOTAL INCOME (ADP 125+154+173 + 174)</b>	<b>177</b>	<b>163.481.574</b>	<b>44.593.576</b>	<b>174.849.976</b>	<b>51.789.990</b>
<b>X TOTAL EXPENDITURE (ADP 131+165+175 + 176)</b>	<b>178</b>	<b>187.480.379</b>	<b>53.213.742</b>	<b>185.326.924</b>	<b>53.679.719</b>
<b>XI PRE-TAX PROFIT OR LOSS (ADP 177-178)</b>	<b>179</b>	<b>-23.998.805</b>	<b>-8.620.166</b>	<b>-10.476.948</b>	<b>-1.889.729</b>
1 Pre-tax profit (ADP 177-178)	180	0	0	0	0
2 Pre-tax loss (ADP 178-177)	181	-23.998.805	-8.620.166	-10.476.948	-1.889.729
<b>XII INCOME TAX</b>	<b>182</b>	<b>490.869</b>	<b>0</b>	<b>309.307</b>	<b>0</b>
<b>XIII PROFIT OR LOSS FOR THE PERIOD (ADP 179-182)</b>	<b>183</b>	<b>-24.489.674</b>	<b>-8.620.166</b>	<b>-10.786.255</b>	<b>-1.889.729</b>
1 Profit for the period (ADP 179-182)	184	0	0	0	0
2 Loss for the period (ADP 182-179)	185	-24.489.674	-8.620.166	-10.786.255	-1.889.729
<b>DISCONTINUED OPERATIONS (to be filled in by undertakings subject to IFRS only with discontinued operations)</b>					
<b>XIV PRE-TAX PROFIT OR LOSS OF DISCONTINUED OPERATIONS (ADP 187-188)</b>	<b>186</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
1 Pre-tax profit from discontinued operations	187	0	0	0	0
2 Pre-tax loss on discontinued operations	188	0	0	0	0
<b>XV INCOME TAX OF DISCONTINUED OPERATIONS</b>	<b>189</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>



**Submitter: Varteks Group**

Item	ADP code	Same period of the previous year		Current period	
		Cumulative	Quarter	Cumulative	Quarter
1	2	3	4	5	6
1 Discontinued operations profit for the period (ADP 186-189)	190	0	0	0	0
2 Discontinued operations loss for the period (ADP 189-186)	191	0	0	0	0
<b>TOTAL OPERATIONS (to be filled in only by undertakings subject to IFRS with discontinued operations)</b>					
XVI PRE-TAX PROFIT OR LOSS (ADP 179+186)	192	0	0	0	0
1 Pre-tax profit (ADP 192)	193	0	0	0	0
2 Pre-tax loss (ADP 192)	194	0	0	0	0
XVII INCOME TAX (ADP 182+189)	195	0	0	0	0
XVIII PROFIT OR LOSS FOR THE PERIOD (ADP 192-195)	196	0	0	0	0
1 Profit for the period (ADP 192-196)	197	0	0	0	0
2 Loss for the period (ADP 195-192)	198	0	0	0	0
<b>APPENDIX to the P&amp;L (to be filled in by undertakings that draw up consolidated annual financial statements)</b>					
XIX PROFIT OR LOSS FOR THE PERIOD (ADP 200+201)	199	0	0	0	0
1 Attributable to owners of the parent	200	0	0	0	0
2 Attributable to minority (non-controlling) interest	201	0	0	0	0
<b>STATEMENT OF OTHER COMPREHENSIVE INCOME (to be filled in by undertakings subject to IFRS)</b>					
I PROFIT OR LOSS FOR THE PERIOD	202	-24.489.674	-8.620.166	-10.786.255	-1.889.729
II OTHER COMPREHENSIVE INCOME/LOSS BEFORE TAX (ADP 204 to 211)	203	2.880.488	774.675	1.171.241	-1.009.612
1 Exchange rate differences from translation of foreign operations	204	0	0	0	0
2 Changes in revaluation reserves of fixed tangible and intangible assets	205	2.807.751	701.938	1.196.820	-908.993
3 Profit or loss arising from subsequent measurement of financial assets available for sale	206	0	0	0	0
4 Profit or loss arising from effective cash flow hedging	207	0	0	0	0
5 Profit or loss arising from effective hedge of a net investment in a foreign operation	208	0	0	0	0
6 Share in other comprehensive income/loss of companies linked by virtue of participating interests	209	0	0	0	0
7 Actuarial gains/losses on the defined benefit obligation	210	0	0	-116.295	-116.295
8 Other changes in equity unrelated to owners	211	72.737	72.737	90.716	15.676
III TAX ON OTHER COMPREHENSIVE INCOME FOR THE PERIOD	212	0	0	0	0
IV NET OTHER COMPREHENSIVE INCOME OR LOSS (ADP 203-212)	213	2.880.488	774.675	1.171.241	-1.009.612
V COMPREHENSIVE INCOME OR LOSS FOR THE PERIOD (ADP 202+213)	214	-21.609.186	-7.845.491	-9.615.014	-2.899.341
<b>APPENDIX to the Statement on comprehensive income (to be filled in by undertakings that draw up consolidated statements)</b>					
VI COMPREHENSIVE INCOME OR LOSS FOR THE PERIOD (ADP 216+217)	215	-21.609.186	-7.845.491	-9.615.014	-2.899.341
1 Attributable to owners of the parent	216	-21.609.186	-7.845.491	-9.615.014	-2.899.341
2 Attributable to minority (non-controlling) interest	217	0	0	0	0

**STATEMENT OF CASH FLOWS - indirect method**  
for the period 01.01.2019. to 31.12.2019

in HRK

Submitter: Varteks Group			
Item	ADP code	Same period of the previous year	Current period
1	2	3	4
<b>Cash flow from operating activities</b>			
1 Pre-tax profit	001	-23.998.805	-10.476.948
2 Adjustments (ADP 003 to 010):	002	11.252.302	16.882.301
a) Depreciation	003	7.855.850	8.862.871
b) Gains and losses from sale and value adjustment of fixed tangible and intangible assets	004	124.605	34.741
c) Gains and losses from sale and unrealised gains and losses and value adjustment of financial assets	005	0	209.615
d) Interest and dividend income	006	-8.071	-132.220
e) Interest expenses	007	4.524.717	7.378.809
f) Provisions	008	0	0
g) Exchange rate differences (unrealised)	009	-1.244.799	576.762
h) Other adjustments for non-cash transactions and unrealised gains and losses	010	0	-48.277
<b>I Cash flow increase or decrease before changes in working capital (ADP 001+002)</b>	<b>011</b>	<b>-12.746.503</b>	<b>6.405.353</b>
3 Changes in the working capital (ADP 013 to 016)	012	-51.395.733	-10.597.964
a) Increase or decrease in short-term liabilities	013	-26.981.853	2.809.212
b) Increase or decrease in short-term receivables	014	-14.168.554	2.626.105
c) Increase or decrease in inventories	015	-3.069.262	-15.800.578
d) Other increase or decrease in working capital	016	-7.176.064	-232.703
<b>II Cash from operations (ADP 011+012)</b>	<b>017</b>	<b>-64.142.236</b>	<b>-4.192.611</b>
4 Interest paid	018	-1.408.305	-1.279.706
5 Income tax paid	019	-67.150	-712.732
<b>A) NET CASH FLOW FROM OPERATING ACTIVITIES (ADP 017 to 019)</b>	<b>020</b>	<b>-65.617.691</b>	<b>-6.185.049</b>
<b>Cash flow from investment activities</b>			
1 Cash receipts from sales of fixed tangible and intangible assets	021	47.906	1.746.440
2 Cash receipts from sales of financial instruments	022	0	0
3 Interest received	023	0	119.844
4 Dividends received	024	0	0
5 Cash receipts from repayment of loans and deposits	025	0	0
6 Other cash receipts from investment activities	026	52.147	0
<b>III Total cash receipts from investment activities (ADP 021 to 026)</b>	<b>027</b>	<b>100.053</b>	<b>1.866.284</b>
1 Cash payments for the purchase of fixed tangible and intangible assets	028	-1.290.861	-4.841.795
2 Cash payments for the acquisition of financial instruments	029	0	0
3 Cash payments for loans and deposits for the period	030	0	0
4 Acquisition of a subsidiary, net of cash acquired	031	0	0
5 Other cash payments from investment activities	032	0	0
<b>IV Total cash payments from investment activities (ADP 028 to 032)</b>	<b>033</b>	<b>-1.290.861</b>	<b>-4.841.795</b>
<b>B) NET CASH FLOW FROM INVESTMENT ACTIVITIES (ADP 027 +033)</b>	<b>034</b>	<b>-1.190.808</b>	<b>-2.975.511</b>
<b>Cash flow from financing activities</b>			
1 Cash receipts from the increase in initial (subscribed) capital	035	17.449.058	0
2 Cash receipts from the issue of equity financial instruments and debt financial instruments	036	0	0
3 Cash receipts from credit principals, loans and other borrowings	037	61.603.857	50.013.714
4 Other cash receipts from financing activities	038	0	0

Submitter: Varteks Group

Item	ADP code	Same period of the previous year	Current period
1	2	3	4
<b>V Total cash receipts from financing activities (ADP 035 to 038)</b>	<b>039</b>	79,052,915	50,013,714
1 Cash payments for the repayment of credit principals, loans and other borrowings and debt financial instruments	040	-8,964,150	-42,837,578
2 Cash payments for dividends	041	0	0
3 Cash payments for finance lease	042	0	0
4 Cash payments for the redemption of treasury shares and decrease in initial (subscribed) capital	043	0	0
5 Other cash payments from financing activities	044	-743,107	0
<b>VI Total cash payments from financing activities (ADP 040 to 044)</b>	<b>045</b>	-9,707,257	-42,837,578
<b>C) NET CASH FLOW FROM FINANCING ACTIVITIES (ADP 039 +045)</b>	<b>046</b>	69,345,658	7,176,136
1 Unrealised exchange rate differences in respect of cash and cash equivalents	047	11,298	12,634
<b>D) NET INCREASE OR DECREASE IN CASH FLOWS (ADP 020+034+046+047)</b>	<b>048</b>	2,548,457	-1,971,790
<b>E) CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD</b>	<b>049</b>	729,116	3,277,573
<b>F) CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD(ADP 048+049)</b>	<b>050</b>	3,277,573	1,305,783

**STATEMENT OF CASH FLOWS - direct method**  
for the period \_\_\_\_ to \_\_\_\_

in HRK

Submitter:			
Item	ADP code	Same period of the previous year	Current period
1	2	3	4
<b>Cash flow from operating activities</b>			
1 Cash receipts from customers	001	0	0
2 Cash receipts from royalties, fees, commissions and other revenue	002	0	0
3 Cash receipts from insurance premiums	003	0	0
4 Cash receipts from tax refund	004	0	0
5 Cash payments to suppliers	005	0	0
6 Cash payments to employees	006	0	0
7 Cash payments for insurance premiums	007	0	0
8 Other cash receipts and payments	008	0	0
<b>I Cash from operations (ADP 001 to 008)</b>	<b>009</b>	<b>0</b>	<b>0</b>
9 Interest paid	010	0	0
10 Income tax paid	011	0	0
<b>A) NET CASH FLOW FROM OPERATING ACTIVITIES (ADP 009 to 011)</b>	<b>012</b>	<b>0</b>	<b>0</b>
<b>Cash flow from investment activities</b>			
1 Cash receipts from sales of fixed tangible and intangible assets	013	0	0
2 Cash receipts from sales of financial instruments	014	0	0
3 Interest received	015	0	0
4 Dividends received	016	0	0
5 Cash receipts from the repayment of loans and deposits	017	0	0
6 Other cash receipts from investment activities	018	0	0
<b>II Total cash receipts from investment activities (ADP 013 to 018)</b>	<b>019</b>	<b>0</b>	<b>0</b>
1 Cash payments for the purchase of fixed tangible and intangible assets	020	0	0
2 Cash payments for the acquisition of financial instruments	021	0	0
3 Cash payments for loans and deposits	022	0	0
4 Acquisition of a subsidiary, net of cash acquired	023	0	0
5 Other cash payments from investment activities	024	0	0
<b>III Total cash payments from investment activities (ADP 020 to 024)</b>	<b>025</b>	<b>0</b>	<b>0</b>
<b>B) NET CASH FLOW FROM INVESTMENT ACTIVITIES (ADP 019 + 025)</b>	<b>026</b>	<b>0</b>	<b>0</b>
<b>Cash flow from financing activities</b>			
1 Cash receipts from the increase in initial (subscribed) capital	027	0	0
2 Cash receipts the from issue of equity financial instruments and debt financial instruments	028	0	0
3 Cash receipts from credit principals, loans and other borrowings	029	0	0
4 Other cash receipts from financing activities	030	0	0
<b>IV Total cash receipts from financing activities (ADP 027 to 030)</b>	<b>031</b>	<b>0</b>	<b>0</b>
1 Cash payments for the repayment of credit principals, loans and other borrowings and debt financial instruments	032	0	0
2 Cash payments for dividends	033	0	0
3 Cash payments for finance lease	034	0	0
4 Cash payments for the redemption of treasury shares and decrease in initial (subscribed) capital	035	0	0
5 Other cash payments from financing activities	036	0	0
<b>V Total cash payments from financing activities (ADP 032 to 036)</b>	<b>037</b>	<b>0</b>	<b>0</b>
<b>C) NET CASH FLOW FROM FINANCING ACTIVITIES (ADP 031 +037)</b>	<b>038</b>	<b>0</b>	<b>0</b>
1 Unrealised exchange rate differences in respect of cash and cash equivalents	039	0	0
<b>D) NET INCREASE OR DECREASE IN CASH FLOWS (ADP 012+026+038+039)</b>	<b>040</b>	<b>0</b>	<b>0</b>
<b>E) CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD</b>	<b>041</b>	<b>0</b>	<b>0</b>
<b>F) CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD(ADP 040+041)</b>	<b>042</b>	<b>0</b>	<b>0</b>



NOTES TO FINANCIAL STATEMENTS - TFI  
(drawn up for quarterly reporting periods)

Name of the issuer: Varteks d.d. - Varaždin

Personal identification number (OIB): 00872098033

Reporting period: 01.01.2019 - 31.12.2019

Notes to financial statements for quarterly periods include:

a) an explanation of business events relevant to understanding changes in the statement of financial position and financial performance for the quarterly reporting period of the issuer with respect to the last business year: information is provided regarding these events and relevant information published in the last annual financial statement is updated

For the first time in the fourth quarter, the new accounting standard IFRS 16 - Leases, was applied. The effects of applying this standard are:

- Increase in the right of use assets by HRK 16.7m in the balance sheet and increase of the right of use liabilities by HRK 17.1m
- in the income statement a decrease in the rental cost by HRK 5m, an increase in the depreciation expense by HRK 4.3m and an increase in the financial cost by HRK 0.9m

Also, in the 4th quarter, adjustments were made to PPE by aligning Group's and Company's books with the Group's accounting policies and International Accounting Standards. The effects of applying these corrections are:

- decrease of PPE value by HRK 151.5m
- decrease of revaluation reserves by HRK 88.4m
- reduction of deferred tax liabilities by HRK 19.3m
- increase of accumulated losses by HRK 43.8m
- this change will reduce the annual depreciation by HRK 3.2m
- separation of unused PPE on the position of investment property in the amount of HRK 75.8m.

Additionally, during 4th quarter following adjustments were made to the accounting of club loan which was reprogrammed in January 2018:

- reduction of accumulated losses by HRK 16m
- decrease in carrying amount of loans received by HRK 13.5m
- this change has increased financial expenses by HRK 2.5m in 2019.

A restatement note detailing the changes that were made will be published in the annual financial statements. The restatements in the TFI-POD report were made through the balances in 2019 and the intention is to have the final restatement carried out in accordance with IAS 8 starting from the beginning of the comparative period (January 1st, 2018), which will be published in the audited financial statements for 2019.

b) information on the access to the latest annual financial statements, for the purpose of understanding information published in the notes to financial statements drawn up for the quarterly reporting period

Audited annual financial statements for 2018 have been published on the Zagreb Stock Exchange web page.

c) a statement explaining that the same accounting policies are applied while drawing up financial statements for the quarterly reporting period as in the latest annual financial statements or, in the case where the accounting policies have changed, a description of the nature and effect of the changes

We confirm the application of the same accounting policies, except for the restatement that was explained under point a).

d) a description of the financial performance in the case of the issuer whose business is seasonal.

The explanations of business results are available in the Interim Management Report for the 4th quarter of 2019.

Varaždin, 28.02.2020.

## STATEMENT OF LIABILITY FOR PREPARING FINANCIAL STATEMENTS OF ISSUER

**fourth quarter of 2019 and period from January 1<sup>st</sup> to December 31<sup>st</sup> 2019  
(unaudited, consolidated)**

With this statement, in accordance with the Capital Market Act, we declare that to the best of our knowledge:

- set of financial statements of the Varteks Group (hereinafter: the Group) for the 4th quarter of 2019 and period from January 1<sup>st</sup> to December 31<sup>st</sup> 2019 (unaudited, consolidated), have been prepared in accordance with International Financial Reporting Standards, and in accordance with the Croatian Accounting Law, provide a complete and fair view of the Group's assets and liabilities, profit and loss, financial position and operations, except for the correction of prior period errors which is currently disclosed through the current period, but will be properly applied in the final annual financial statements for 2019.
- The management interim report contains a fair presentation of development and results of the operations and position of the Group, with a description of most significant risks and uncertainties to which the Group is exposed.

\_\_\_\_\_  
Tomislav Babić  
/President of the Management Board/

\_\_\_\_\_  
Damir Radmilović  
/Member of the  
Management Board/

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/ VARTEKS d.d. / Zagrebačka 94 / HR-42000 VARAŽDIN / tel. + 385 42 377 105 / fax. + 385 42 377 395 / P.P. 32 / info@varteks.com  
/ Temeljni kapital 41.066.860,00 kn, uplaćen u cijelosti i podijeljen na 4.106.686 redovnih dionica, svaka nominalne vrijednosti 10 kn.  
/ Društvo je upisano u registar Trgovačkog suda u Varaždinu, poslovni broj iz upisnika Tt: 95/463-2 (MBS) 070004039 / M.B.3747034  
/ OIB:00872098033 / VAT:HR00872098033 / predsjednik Nadzornog odbora Nenad Bakić / predsjednik Uprave Tomislav Babić  
/ član Uprave Damir Radmilović