Annual report for the year ended 31 December 2021

This version of the Annual report is a translation from the original, which was prepared in the 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 the Annual report takes precedence over translation.

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Statement of Management's Responsibilities for the consolidated and unconsolidated financial statements

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

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

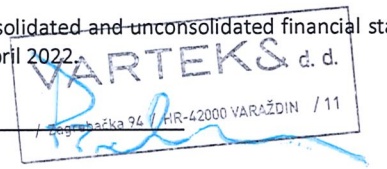
In preparing consolidated and unconsolidated financial statements, the responsibilities of the Management Board include ensuring that:

- 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 the consolidated and unconsolidated Annual Report comprising the consolidated and unconsolidated financial statements, the consolidated and unconsolidated Management Report, and the Statement on implementation of the corporate governance code. The consolidated and unconsolidated Management Report has been prepared in accordance with the requirements of Article 21 and Article 24 of the Accounting Act, and Statement on implementation of corporate governance code in accordance with Article 22 of the Accounting Act.

The consolidated and unconsolidated financial statements were approved for issuance by the Management Board on 29 April 2022.



Tomislav Babić
President of the Management Board

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INDEPENDENT AUDITOR'S REPORT

To the shareholders of Varteks d.d., Varaždin

Audit report on annual unconsolidated and consolidated financial statements

Qualified Opinion

We have audited the annual unconsolidated and consolidated financial statements of Varteks d.d., Zagrebačka 94, Varaždin ("the Company") and its subsidiaries ("the Group"), for the year ended 31 December 2021, which include the unconsolidated and consolidated Statements of Financial Position as at 31 December 2021, the unconsolidated and consolidated Statement of Comprehensive Income, the unconsolidated and consolidated Statement of Cash Flows and the unconsolidated and consolidated Statement of Changes in Equity for the year then ended, as well as the accompanying Notes to the unconsolidated and consolidated financial statements, including a summary of significant accounting policies.

In our opinion, except for the possible effects described in the section "Basis for Qualified Opinion", the accompanying annual unconsolidated and consolidated financial statements truly and fairly present the unconsolidated and consolidated financial position of the Company and the Group as at 31 December 2021, their unconsolidated and consolidated financial performance and unconsolidated and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards established by the European Commission and published in the Official Journal of the European Union ("IFRS").

Basis for Qualified Opinion

Recoverability of intangible assets, right-of-use assets, plant and equipment

As stated in Note 18 Intangible assets and Note 19 Property, plant and equipment, as of 31 December 2021, the Company and the Group have stated the value of intangible assets, right-of-use assets and plant and equipment in the total amount of HRK 32,429 thousand, i.e. HRK 32,746 thousand. Given the identified indicators of possible impairment of assets, the Company has not assessed the recoverability of the carrying amount of these intangible and tangible assets in accordance with International Accounting Standard 36 Impairment of Assets. Accordingly, during our audit, we were unable to obtain sufficient appropriate audit evidence to ascertain the recoverability of the said assets and potential impairment amounts and we are unable to determine the effects of adjustments, if any, on the annual unconsolidated and consolidated financial statements for 2021.

We conducted our audit in accordance with the International Auditing Standards (ISAs). Our responsibilities under those standards are further described in our Independent Auditors' report under section Auditors' responsibilities for the audit of the annual unconsolidated and consolidated financial statements. We are independent of the Company and the Group in accordance with the Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

INDEPENDENT AUDITOR'S REPORT (continued)

Audit report on annual unconsolidated and consolidated financial statements (continued)

Material uncertainty related to going concern

We draw attention to Note 2.2. to unconsolidated and consolidated financial statements - "Going concern assumption", which states that on 31 December 2021 current liabilities of the Company and the Group exceed the current assets of the Company and the Group by HRK 44,814 thousand and HRK 44,419 thousand, respectively. As of 31 December 2021, the loss carried forward for the Company and the Group amounted to HRK 78,891 thousand and HRK 76,683 thousand, respectively. These events as well as other circumstances described in Note 2.2. indicate the existence of material uncertainty that may cast significant doubt on the Company's and the Group's ability to continue as a going concern. Our opinion has not been modified on this issue.

Key Audit Matters

The key audit matters are those that, in our professional judgment, were of paramount importance in our audit of the annual unconsolidated and consolidated financial statements of the current period and include the identified significant risks of material misstatement due to error or fraud with the greatest impact on our audit strategy, available resources and the time spent by the audit team engaged.

We have addressed these issues in the context of our audit of the annual unconsolidated and consolidated financial statements as a whole and in forming our opinion on them, and we do not give a separate opinion on these matters.

We have determined that the matter below is a key audit matter to be disclosed in our Independent Auditor's Report.

INDEPENDENT AUDITOR'S REPORT (continued)

Audit report on annual unconsolidated and consolidated financial statements (continued)

Key Audit Matters

Key audit matter	How we addressed the key audit matter
Land, buildings and investment property In the Statement of Financial Position, the Company and the Group have disclosed the value of land and buildings in the amount of HRK 99,459 thousand at 31 December 2021. These are recorded in accordance with International Accounting Standard 16 - Property, Plant and Equipment. The Company and the Group have stated the value of investment property in the amount of HRK 86,492 thousand, which is recorded in accordance with International Accounting Standard 40 - Investment Property. Land and buildings are stated at revalued amount. The increase in the carrying amount due to revaluation is recorded directly in the revaluation surplus within equity with the allocation of the related deferred tax liability, if applicable. Investment property includes investments of the Company and the Group in property with the intention of earning rent or increasing market value. All investment property is initially measured at cost, plus transaction costs, and subsequent valuation is performed at fair value. Gains or losses arising from changes in the fair value of investment property are recognized in the statement of comprehensive income in the period in which they arise. Given the importance of land, buildings and investment property and the fact that defining the value of these properties requires the implementation of appropriate methodology and valuation models and to some extent depends on the judgments of the Management and engaged independent appraisers, we concluded that the classification and valuation of property should be key audit matter during our audit of the annual unconsolidated and consolidated financial statements for the year ended 31 December 2021. See Notes 2.12, 2.13 and 19 to the annual unconsolidated and consolidated financial statements.	Our audit procedures related to this area included, but were not limited to: - interview with the Management Board and other relevant persons in order to gain an understanding of the property valuation process - confirmation of the accuracy and completeness of the data from the analytical reviews of the Company and the Group and the harmonization of the said review with the general ledger; - assessment of the methodology used by external appraisers who were engaged to assess the property and comparison of the estimated values with the book values; - assessment of competencies, abilities and objectivity of external appraisers; - assessment of the accuracy of the presented effects of changes in the fair value of land, buildings and investment property; - assessment of the compliance of property recognition and measurement policy with International Accounting Standard 16 - Property, Plant and Equipment and International Accounting Standard 40 - Investment Property; and - assessment of the adequacy of disclosures related to the recognition and measurement of property in accordance with International Accounting Standard 16 - Property, Plant and Equipment and International Accounting Standard 40 - Investment Property.

INDEPENDENT AUDITOR'S REPORT (continued)

Audit report on annual unconsolidated and consolidated financial statements (continued)

Other matters

The audit of the annual unconsolidated and consolidated financial statements of the Company and the Group for the year ended 31 December 2020 was performed by the auditing company PricewaterhouseCoopers d.o.o. for Audit and Consulting, Zagreb, which expressed a qualified opinion on these annual unconsolidated and consolidated financial statements due to the lack of assessment of the recoverable amount of long-term non-financial assets (plant and equipment, intangible assets and right-of-use assets) in its Independent Auditor's Report of 29 June 2021.

Other information in the Annual Report

Management is responsible for other information. Other information includes the Management Report and the Statement on the Application of the Code of Corporate Governance, but does not include the annual unconsolidated and consolidated financial statements and our Independent Auditor's Report thereon.

Our opinion on the annual unconsolidated and consolidated financial statements does not include other information.

In connection with our audit of the annual unconsolidated and consolidated financial statements, it is our responsibility to read the other information above and to consider whether other information is materially inconsistent with the annual unconsolidated and consolidated financial statements or our findings or otherwise appear to be materially misstated.

Regarding the Management Report and the Statement on the Application of the Code of Corporate Governance, we also carried out the procedures required by the current Croatian Accounting Act (the "Accounting Act"). These procedures include considering:

- whether the Management Report has been prepared in all material respects in accordance with Articles 21 and 24 of the Accounting Act and whether the Management Report has been prepared in all significant respects in accordance with the attached financial statements;

- whether the specific information in the Statement on the Application of the Corporate Governance Code required in accordance with Article 22, paragraph 1, items 3 and 4 of the Accounting Act ("relevant parts of the Statement on the Application of the Corporate Governance Code") has been prepared in all relevant respect in accordance with the provisions of Article 22 of the Accounting Act;

- whether the Statement on the Application of the Code of Corporate Governance includes disclosures in accordance with Article 22, paragraph 1, items 2, 5. and 6 of the Accounting Act.

Based on the procedures required as part of our audit of the annual unconsolidated and consolidated financial statements and the above procedures, in our opinion:

- The information contained in the Management Report and relevant parts of the Statement on the Application of the Corporate Governance Code for the financial year for which the unconsolidated and consolidated financial statements were prepared is consistent, in all material respects, with the annual unconsolidated and consolidated financial statements of the Company and Group disclosed on pages 17 to 69; on which we have expressed an opinion as set out in the Qualified Opinion section above;

- The Management Report and the relevant parts of the Statement on the Application of the Code of Corporate Governance have been prepared, in all relevant respects, in accordance with Articles 21, 22 and 24 of the Accounting Act;

INDEPENDENT AUDITOR'S REPORT (continued)

Audit report on annual unconsolidated and consolidated financial statements (continued)

Other information in the Annual Report (continued)

- The Statement on the Application of the Code of Corporate Governance includes the information required by Article 22, paragraph 1, items 2, 5 and 6 of the Accounting Act.

Furthermore, taking into account the knowledge and understanding of the Company's and Group's operations and the environment in which they operate, which we acquired during our audit, we are required to report whether we have identified material misstatements in the Management Report obtained before this Independent Auditor's Report. In that sense, we have nothing to report.

Responsibilities of the Management Board and those charged with governance for the annual unconsolidated and consolidated financial statements

Management Board is responsible for the preparation of annual unconsolidated and consolidated financial statements that give a true and fair view in accordance with IFRSs, and for those internal controls that the Management Board determines are necessary to enable the preparation of annual unconsolidated and consolidated financial statements that are free from material misstatement due to fraud or error.

In preparing the annual unconsolidated and consolidated financial statements, Management Board is responsible for evaluation of the Company's and Group's ability to continue operations assuming going concern principle, disclosure, if applicable, issues related to going concern, and using accounting based on going concern principle, unless the Management Board intends to liquidate the Company or Group or discontinue their business or there is no realistic alternative but to do so.

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

Auditor's responsibility for the audit of annual unconsolidated and consolidated financial statements

Our goals are to obtain reasonable assurance about whether the annual unconsolidated and consolidated financial statements, as a whole, are free from material misstatement as a result of fraud or error, and to issue an Independent auditors' report that includes our opinion. Reasonable assurance is a higher level of assurance, but this is no guarantee that an audit performed in accordance with ISA will always detect a material misstatement when it exists. Misstatements may result from fraud or error and are considered as important, if it can reasonably be expected that, individually or in aggregate, they affect the economic decisions of users made based on these annual unconsolidated and consolidated financial statements.

As an integral part of the audit report in accordance with ISA, we make professional judgments and maintain professional scepticism throughout the audit process. In addition, we:

- identify and assess the risks of material misstatement of the annual unconsolidated and consolidated financial statements due to fraud or error, design and perform audit procedures in response to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of non-detecting a material misstatement of fraud is greater than the risk of error, as fraud may involve collusion, forgery, intentional omission, misrepresentation or circumvention of internal controls

INDEPENDENT AUDITOR'S REPORT (continued)

Audit report on annual unconsolidated and consolidated financial statements (continued)

Auditor's responsibility for the audit of annual unconsolidated and consolidated financial statements (continued)

- acquire an understanding of internal controls 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 controls.
- assess the appropriateness of the accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management Board.
- conclude on the appropriateness of the accounting basis used based on the going concern principle used by the Management Board and, based on the obtained audit evidence, we conclude on whether there is material uncertainty regarding events or circumstances that may create significant doubts about the Company's and Group's ability to continue operating for an indefinite period of time. If we conclude that there is material uncertainty, we are required to call our attention to related disclosures in the annual unconsolidated and consolidated financial statements in our Independent Auditor's Report or, if these are inappropriate, 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 discontinue their operations as a going concern.
- evaluate the overall presentation, structure and content of the annual unconsolidated and consolidated financial statements, including disclosures, as well as whether the annual unconsolidated and consolidated financial statements reflect the transactions and events which they are based on in a way that achieves a fair presentation.
- obtain sufficient appropriate audit evidence regarding financial information from individuals and business activities within the Group to express an opinion on the annual consolidated financial statements. We are responsible for directing, overseeing and performing the audit. We are solely responsible for expressing our opinion.

We communicate with those charged with governance, among other issues, the intended scope and timing of audit and important audit findings, including any significant deficiencies in internal controls identified during our audit.

We also provide a statement to those charged with governance that we have complied with the relevant independence requirements and that we will communicate with them on all relationships and other matters that may reasonably be considered to affect our independence, as well as, where applicable, on related safeguards.

Among the matters communicated to those charged with governance, we identify those matters that are of the utmost importance in the audit of the annual unconsolidated and consolidated financial statements of the current period and are therefore key audit matters. We describe these matters in our Independent Auditor's Report unless the law or regulation prevents the matter from being made public or when we decide, in extremely rare circumstances, that the matter should not be disclosed in our Independent Auditor's Report because it can be reasonably expected that the negative consequences of such disclosure would surpass public interest

INDEPENDENT AUDITOR'S REPORT (continued)

Audit report on annual unconsolidated and consolidated financial statements (continued)

Report on other legal requirements

On 28 September 2021, we were appointed by the General Assembly of the Company to audit the annual unconsolidated and consolidated financial statements of the Company for 2021.

We are engaged to perform a statutory audit of the annual unconsolidated and consolidated financial statements of the Company for the first time for 2021, which is a one-year commitment.

In the audit of the annual unconsolidated and consolidated financial statements of the Company and the Group for 2021, we determined the materiality of the unconsolidated and consolidated financial statements as a whole in the amount of HRK 680 thousand and HRK 742 thousand, respectively, representing approximately 0.7% of sales revenue for 2021.

We have chosen sales revenue as a measure of materiality because we believe that this is the most appropriate measure given the pre-tax losses incurred in the current and previous periods.

Our audit opinion is consistent with the additional report for the Company's audit committee prepared in accordance with the provisions of Article 11 of Regulation (EU) no. 537/2014.

During the period between the starting date of the audited unconsolidated and consolidated financial statements of the Company and the Group for 2021 and the date of this Report, we did not provide prohibited non-audit services to the Company and its subsidiaries and did not provide design and implementation of internal control or risk management procedures related to the preparation and/or control of financial information or design and implementation of technological systems for financial information, and we maintained our independence in relation to the Company and the Group.

Report based on the requirements of Delegated Regulation (EU) 2018/815 supplementing Directive 2004/109/EC of the European Parliament and of the Council with regard to regulatory technical standards on the specification of a single electronic reporting format

Auditor's report on the compliance of annual unconsolidated and consolidated financial statements (hereinafter: the financial statements), prepared pursuant to Article 462, paragraph 5 of the Capital Market Act (Official Gazette 65/18, 17/20 and 83/21) by applying the requirements of Delegated Regulation (EU) 2018/815 determining a single electronic reporting format for issuers (hereinafter: the ESEF Regulation).
We have performed an engagement and we give reasonable assurance that the financial statements prepared for public disclosure pursuant to Article 462 (5) of the Capital Market Act, which are contained in the electronic file *varteks-2021-12-31-hr*, are in all material respects, prepared in accordance with the requirements of the ESEF Regulation.

Responsibilities of the Management Board and those charged with governance

The Management Board is responsible for the preparation and content of the financial statements in accordance with the ESEF Regulation.

In addition, the Management Board is responsible for maintaining an internal control system that reasonably ensures the preparation of financial statements without significant non-compliance with the reporting requirements of the ESEF Regulation, whether due to fraud or error.

INDEPENDENT AUDITOR'S REPORT (continued)

Audit report on annual unconsolidated and consolidated financial statements (continued)

Report on the requirements of the ESEF Regulation (continued)

Responsibilities of the Management Board and those charged with governance (continued)

The Management Board of the Company is also responsible for:
- publishing the financial reports contained in the annual report in the valid XHTML format;
- selection and use of XBRL codes in accordance with the requirements of the ESEF Regulation.
Those charged with governance are responsible for overseeing the preparation of financial statements in the ESEF format as part of the financial reporting process.

Auditor's responsibilities

It is our responsibility to express a conclusion, based on the audit evidence gathered, as to whether the financial statements are free from significant non-compliance with the requirements of the ESEF Regulation. We conducted this reasonable assurance engagement in accordance with the International Standard on Assurance Engagements (ISAE) 3000 (revised) - Assurance engagements other than audits or reviews of historical financial information.

Procedures performed

The nature, timing and extent of the procedures selected depend on the auditor's judgment. Reasonable assurance is a high degree of assurance; however, it does not guarantee that the scope of testing will reveal any significant (material) non-compliance with the ESEF Regulation.

As part of the selected procedures, we performed the following activities:
- we have read the requirements of the ESEF Regulation,
- we have gained an understanding of the Company's internal controls relevant to the application of the requirements of the ESEF Regulation,
- we have identified and assessed the risks of significant non-compliance with the ESEF Regulation due to fraud or error; and
- based on that, devised and designed procedures to respond to the assessed risks and to obtain reasonable assurance for the purpose of expressing our conclusion.

The aim of our procedures was to assess whether:

- financial statements, which are included in the unconsolidated and consolidated annual report, are prepared in the valid XHTML format,
- the information contained in the unconsolidated and consolidated financial statements required by the ESEF Regulation is labelled and all labels meet the following requirements:
- XBRL markup language was used,
- the basic taxonomy elements listed in the ESEF Regulation with the closest accounting significance have been used; unless an additional taxonomy element has been created in accordance with Annex IV of ESEF Regulations,
- the labels comply with the common labelling rules under the ESEF Regulation.
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

INDEPENDENT AUDITOR'S REPORT (continued)

Audit report on annual unconsolidated and consolidated financial statements (continued)

Report on the requirements of the ESEF Regulation (continued)

Conclusion

In our opinion, based on the conducted procedures and obtained evidence, the financial statements presented in ESEF format, contained in the above electronic file and pursuant to Article 462 paragraph 5 of the Capital Market Act prepared for public disclosure, in all material respects are consistent with the requirements of Articles 3, 4 and 6 of the ESEF Regulation for the year ended 31 December 2021.

In addition to this conclusion, as well as the opinions contained in this Independent Auditor's Report for the accompanying unconsolidated and consolidated financial statements and the annual report for the year ended 31 December 2021, we do not express any opinion on the information contained in these presentations or other information contained in the previously specified file.

The partner engaged in the audit of the unconsolidated and consolidated annual financial statements of the Company and the Group for 2021, which results in this Independent Auditor's Report, is Vedrana Stipić, certified auditor.

Zagreb, 30 April 2021

BDO Croatia d.o.o.
Radnička cesta 180
10000 Zagreb

For signatures, please refer to the original Croatian auditor's report, which prevails.

Vedrana Stipić, Member of the Management Board

Vedrana Stipić, Certified Auditor

Consolidated and unconsolidated income statement and statement of other comprehensive income of VARTEKS d.d. Varaždin
for the year ended 31 December 2021

(in thousands of HRK)	Note	Group 2021	Group 2020	Company 2021	Company 2020
OPERATING INCOME		**157,523**	**119,277**	**145,456**	**102,870**
Income from sales with undertakings within the Group	4	-	-	10,754	5,358
Income from sales	5	106,038	113,638	82,978	91,500
Income from the use of own products, goods and services	6	3	19	2	19
Other operating income with undertakings within the Group	7	-	-	380	441
Other operating income	8	51,482	5,620	51,343	5,552
OPERATING EXPENSES		**(153,906)**	**(142,475)**	**(140,473)**	**(126,257)**
Changes in inventories of work in progress and finished goods		(7,408)	15,084	(7,260)	14,953
Material costs		(57,520)	(68,483)	(48,884)	(55,153)
a) Costs of raw materials and consumables	9	(35,069)	(45,908)	(28,100)	(37,055)
b) Cost of goods sold		(7,392)	(10,221)	(8,624)	(9,484)
c) Other external costs	10	(15,059)	(12,354)	(12,160)	(8,614)
Staff costs	11	(57,695)	(45,905)	(54,143)	(43,682)
a) Net salaries and wages		(38,399)	(31,076)	(36,083)	(29,645)
b) Taxes and contributions from salaries		(11,460)	(9,140)	(10,581)	(8,642)
c) Contributions on salaries		(7,836)	(5,689)	(7,479)	(5,395)
Depreciation	18, 19	(9,254)	(9,447)	(9,213)	(9,422)
Other costs	12	(18,534)	(19,255)	(17,685)	(18,637)
Impairment of non-financial assets	13	(728)	(8,470)	(589)	(8,360)
Impairment of financial and contract assets (net)	14	(393)	(115)	(393)	(115)
Other operating expenses	15	(2,374)	(5,884)	(2,305)	(5,841)
OPERATING PROFIT		**3,617**	**(23,196)**	**4,984**	**(23,387)**
NET (COSTS)/INCOME FROM FINANCIAL ACTIVITIES	16	**(8,475)**	**(8,009)**	**(8,289)**	**(8,513)**
LOSS BEFORE TAXATION		**(4,859)**	**(31,205)**	**(3,305)**	**(31,900)**
INCOME TAX	17	**5,343**	**358**	**5,343**	**431**
PROFIT FOR THE PERIOD		**485**	**(30,847)**	**2,038**	**(31,469)**
OTHER COMPREHENSIVE INCOME					
Items that will not be reclassified to profit or loss:					
Revaluation of land and buildings, net		29,235	918	29,235	918
Actuarial losses on termination benefits, net		(14)	(65)	(14)	(65)
Other changes in equity unrelated to owners		4	-	4	-
OTHER COMPREHENSIVE INCOME		**29,225**	**853**	**29,225**	**853**
COMPREHENSIVE LOSS FOR THE PERIOD		**29,710**	**(29,994)**	**31,263**	**(30,616)**
Loss for the period attributable to:					
Shareholders of the Company		485	(30,847)	-	-
Non-controlling interest			-		
Comprehensive loss attributable to:					
Shareholders of the Company		29,225	(29,994)	-	-
Non-controlling interest		-	-	-	-
Basic and diluted loss per share	28	0.11	(7.97)	-	-

Consolidated and unconsolidated statement of financial position of VARTEKS d.d. Varaždin
as at 31 December 2021

		Group		Company	
(in thousands of HRK)	Note	31 Dec 2021	31 Dec 2020	31 Dec 2021	31 Dec 2020
ASSETS					
NON-CURRENT ASSETS		**224,542**	**202,737**	**224,283**	**202,597**
INTANGIBLE ASSETS		1,288	1,337	1,288	1,337
Concessions, patents, licences, trademarks, software and other rights	18	1,155	1,337	1,155	1,337
Advances for the purchase of intangible assets	18	133	-	133	-
TANGIBLE ASSETS		217,409	196,216	217,092	196,075
Land	19	27,101	52,230	27,101	52,230
Buildings	19	72,358	44,397	72,358	44,398
Plant and equipment	19	14,107	17,084	13,989	16,961
Tools, working inventory and transportation assets	19	1,370	1,097	1,171	1,078
Advances for tangible assets	19	193	-	193	-
Tangible assets under construction	19	74	-	74	-
Other tangible assets	19	136	231	136	231
Right-of-use assets	19	15,578	12,386	15,578	12,386
Investment property	19	86,492	68,791	86,492	68,791
NON-CURRENT FINANCIAL ASSETS		5,807	4,996	5,865	4,997
Investments in holdings (shares) of undertakings within the Group	20	-	-	58	1
Loans, deposits, etc.	21	5,801	4,990	5,801	4,990
Other non-current financial assets	22	6	6	6	6
RECEIVABLES		38	188	38	188
Other receivables		38	188	38	188
CURRENT ASSETS		**83,772**	**62,114**	**80,621**	**54,882**
INVENTORIES	23	42,626	50,316	39,181	46,623
RECEIVABLES	24	31,926	10,354	33,792	7,429
Receivables from undertakings within the Group	39	-	-	5,228	-
Trade receivables		30,133	7,109	27,425	4,522
Receivables from employees and members of the undertaking		49	47	46	47
Receivables from government and other institutions		537	2,671	391	2,333
Other receivables		1,207	527	702	527
CURRENT FINANCIAL ASSETS		2,805	742	3,709	137
Loans given to undertakings within the Group		-	-	987	-
Loans, deposits, etc.		2,805	742	2,722	137
CASH AT BANK AND IN HAND	25	6,415	702	3,939	693
PREPAID EXPENSES AND ACCRUED INCOME	26	**628**	**305**	**614**	**290**
TOTAL ASSETS		**308,942**	**265,156**	**305,517**	**257,769**

Consolidated and unconsolidated statement of financial position of VARTEKS d.d. Varaždin
as at 31 December 2021

		Group		Company	
(in thousands of HRK)	Note	31 Dec 2021	31 Dec 2020	31 Dec 2021	31 Dec 2020
EQUITY AND LIABILITIES					
CAPITAL AND RESERVES		**57,116**	**15,859**	**56,462**	**13,651**
INITIAL (SUBSCRIBED) CAPITAL	27	50,267	41,067	50,267	41,067
CAPITAL RESERVES		386	656	387	656
RESERVES FROM PROFIT		174	(2,443)	174	(2,443)
REVALUATION RESERVES		82,487	77,594	82,487	77,594
ACCUMULATED LOSS		(76,683)	(70,168)	(78,891)	(71,754)
LOSS FOR THE YEAR		485	(30,847)	2,038	(31,469)
PROVISIONS	29	**5,225**	**5,855**	**5,225**	**5,855**
NON-CURRENT LIABILITIES		**117,782**	**101,581**	**117,782**	**101,581**
Liabilities for loans, deposits, etc.		21,136	-	21,136	-
Liabilities to banks and other financial institutions	32	63,073	73,469	63,073	73,469
Lease liabilities	36	12,159	9,224	12,159	9,224
Trade payables	33 a	2,444	-	2,444	-
Other non-current liabilities	37	863	1,855	863	1,855
Deferred tax liability	17	18,107	17,033	18,107	17,033
CURRENT LIABILITIES		**126,235**	**138,608**	**123,055**	**133,064**
Liabilities to undertakings within the Group	30	-	-	631	62
Liabilities for loans, deposits, etc. of undertakings within the Group	31	-	-	822	1
Liabilities for loans, deposits, etc.	32	48,550	58,811	48,550	58,811
Liabilities to banks and other financial institutions	33	30,499	28,011	27,846	23,832
Liabilities for advance payments		168	315	165	257
Trade payables	34	26,112	26,746	24,971	26,299
Liabilities to employees		4,290	4,386	3,982	4,223
Taxes, contributions and similar liabilities (other than income tax)	35	7,231	11,195	6,704	10,435
Income tax payable		-	76	-	76
Lease liabilities	36	4,421	4,062	4,421	4,062
Other current liabilities	37	4,964	5,006	4,963	5,006
ACCRUED EXPENSES AND DEFERRED INCOME	38	**2,584**	**3,253**	**2,994**	**3,618**
TOTAL EQUITY AND LIABILITIES		**308,942**	**265,156**	**305,517**	**257,769**

Unconsolidated statement of changes in equity of VARTEKS d.d. Varaždin
for the year ended 31 December 2021

(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 2020	**41,067**	**656**	**754**	**(3,371)**	**163**	**78,639**	**(74,194)**	**43,714**
Net loss for the year	-	-	-	-	-	-	(31,469)	(31,469)
Other comprehensive income/(loss):								
Revaluation of land and buildings	-	-	-	-	-	1,121	-	1,121
Deferred tax – revaluation of land and buildings	-	-	-	-	-	(203)	-	(203)
Changes in revaluation reserves – depreciation recognised on revalued amount	-	-	-	-	-	(846)	846	-
Changes in revaluation reserves – realisation of investment property reserves	-	-	-	-	-	(1,548)	1,548	**-**
Tax on realized revaluation reserve	-	-	-	-	-	431	(431)	**-**
Actuarial losses on termination benefits	-	-	-	-	-	-	(65)	**(65)**
Total comprehensive loss	-	-	-	-	-	**(1,045)**	**(29,571)**	**(30,616)**
Transactions with owners:								
Effects of merger (note 27)	-	-	-	-	-	-	542	542
Other	-	-	-	-	11	-	-	11
As at 31 December 2020	**41,067**	**656**	**754**	**(3,371)**	**174**	**77,594**	**(103,223)**	**13,651**
Net profit for the year	-	-	-	-	-		2,038	2,038
Other comprehensive income/(loss):								
Revaluation of land and buildings	-	-	-	-	-	35,652	-	35,652
Deferred tax – revaluation of land and buildings	-	-	-	-	-	(6,417)	-	(6,417)
Changes in revaluation reserves – depreciation recognised on revalued amount	-	-	-	-	-	(1,038)	1,038	-
Changes in revaluation reserves – sale	-	-	-	-	-	(26,121)	26,121	-
Changes in revaluation reserves – realisation of investment property reserves	-	-	-	-	-	(2,526)	2,526	-
Tax on realized revaluation reserve	-	-	-	-	-	5,343	(5,343)	-
Actuarial losses on termination benefits	-	-	-	-	-		(14)	(14)
Other	-	-	-	-	-		4	4
Total comprehensive loss	-	-	-	-	-	4,893	26,370	31,263
Transactions with owners:								
Issue of shares	9,200	-	-	-	-	-	-	9,200
Sale of shares	-	(269)	(754)	3,371	-	-	-	2,348
As at 31 December 2021	**50,267**	**387**	**-**	**-**	**174**	**82,487**	**(76,853)**	**56,462**

Consolidated statement of changes in equity of VARTEKS d.d. Varaždin
for the year ended 31 December 2021

(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 2020	**41,067**	**656**	**754**	**(3,371)**	**163**	**78,639**	**(71,538)**	**46,370**
Net loss for the year	-	-	-	-	-	-	(30,847)	(30,847)
Other comprehensive income/(loss):								
Revaluation of land and buildings	-	-	-	-	-	1,121	-	1,121
Deferred tax – revaluation of land and buildings	-	-	-	-	-	(203)	-	(203)
Changes in revaluation reserves – depreciation recognised on revalued amount	-	-	-	-	-	(846)	846	-
Changes in revaluation reserves – realisation of investment property reserves	-	-	-	-	-	(1,548)	1,548	-
Tax on realized revaluation reserve	-	-	-	-	-	431	(431)	-
Actuarial losses on termination benefits	-	-	-	-	-	-	(65)	(65)
Total comprehensive loss	**-**	**-**	**-**	**-**	**-**	**(1,045)**	**(28,949)**	**(29,994)**
Transactions with owners:								
Other	-	-	-	-	11		(528)	**(517)**
As at 31 December 2020	**41,067**	**656**	**754**	**(3,371)**	**174**	**77,594**	**(101,015)**	**15,859**
Net profit for the year	-	-	-	-	-	-	485	485
Revaluation of land and buildings	-	-	-	-	-	35,652	-	35,652
Deferred tax – revaluation of land and buildings	-	-	-	-	-	(6,417)	-	(6,417)
Changes in revaluation reserves – depreciation recognised on revalued amount	-	-	-	-	-	(1,038)	1,038	-
Changes in revaluation reserves – sale	-	-	-	-	-	(26,121)	26,121	
Changes in revaluation reserves – realisation of investment property reserves	-	-	-	-	-	(2,526)	2,526	-
Tax on realized revaluation reserve	-	-	-	-	-	5,343	(5,343)	-
Actuarial losses on termination benefits	-	-	-	-	-	-	(14)	(14)
Other	-	-	-	-	-	-	4	4
Total comprehensive loss	-	-	-	-	-	4,893	24,816	29,709
Transactions with owners:	-	-	-	-	-	-	-	-
Issue of shares	9,200	-	-	-	-			9,200
Other	-	(269)	(754)	3,371	-	-	-	2,348
As at 31 December 2021	**50,267**	**386**	**-**	**-**	**174**	**82,487**	**(76,199)**	**57,116**

Statement of cash flows of VARTEKS d.d. Varaždin
for the year ended 31 December 2021

	Group		Company	
(in thousands of HRK)	2021	2020	2021	2020
CASH FLOW FROM OPERATING ACTIVITIES				
Loss before tax	(4,859)	(31,205)	(3,305)	(31,900)
Depreciation	9,254	9,429	9,213	9,405
Impairment of inventories	520	1,652	382	1,542
Impairment of trade receivables	180	108	180	108
Changes in provisions	(630)	(432)	(630)	(432)
Net gains on sale of non-current tangible and intangible assets	(18,782)	(69)	(18,782)	(74)
Impairment of tangible assets – assessment	(27,901)	5,698	(27,901)	5,698
Write-off of non-current assets	1,754	3,801	1,754	3,801
Other non-cash expenses	-	17	-	(10)
Interest income	1	(24)	1	(24)
Interest expense	8,570	7,010	8,422	6,968
Net unrealised foreign exchange differences	(133)	1,572	(133)	1,562
Changes in the working capital:				
- (Increase)/decrease in trade receivables	(733)	5,741	(5,840)	4,944
- (Increase)/decrease in inventories	7,170	(8,493)	7,060	(8,043)
- Decrease/(increase) in other receivables	(1,608)	(751)	(1,293)	682
- Increase/(decrease) in trade payables	1,663	(7,353)	1,593	(4,383)
- Decrease in other liabilities	(28,700)	(5,098)	(28,224)	(4,430)
CASH FLOW USED IN OPERATING ACTIVITIES	**(54,235)**	**(18,397)**	**(57,503)**	**(14,586)**
Interest paid	(3,684)	(1,550)	(3,715)	(1,397)
Income tax paid	(76)	186	(76)	-
NET CASH FLOW USED IN OPERATING ACTIVITIES	**(57,994)**	**(19,761)**	**(61,294)**	**(15,983)**
CASH FLOW FROM INVESTING ACTIVITIES				
Cash receipts from sale of tangible assets	37,470	74	37,470	78
Net cash (used in)/ receipts from the cancellation of term deposits	(6)	4,708	(1,514)	2,819
Cash used for the purchase of tangible assets	(1,286)	(1,353)	(1,069)	(1,331)
NET CASH FLOW FROM INVESTING ACTIVITIES	**36,178**	**3,429**	**34,887**	**1,566**
CASH FLOW FROM FINANCING ACTIVITIES				
Receipts from the sale of treasury shares	2,348	-	2,348	-
Cash receipts from credit principals, loans and other borrowings	64,551	55,867	82,924	54,144
Cash used for repayments of credit principals, loans and other borrowings and debt financial instruments	(42,792)	(36,298)	(58,982)	(36,472)
Cash used for establishment of subsidiaries	-	-	(57)	-
Cash receipts for capital contribution	9,200	-	9,200	-
Cash used for repayment of leases	(5,778)	(3,841)	(5,778)	(3,841)
NET CASH FLOW FROM FINANCING ACTIVITIES	**27,529**	**15,728**	**29,655**	**13,831**
TOTAL NET CASH FLOW	**5,713**	**(604)**	**3,246**	**(586)**
Cash and cash equivalents at the beginning of the period	702	1,306	693	1,279
Cash and cash equivalents at the end of the period	6,415	702	3,939	693

1. Company profile

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

Core activities

The core activities of Varteks d.d. Varaždin are:
- manufacture/production of clothes,
- purchase and sale of goods;

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

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

As at 31 December 2021, the Company had a total of 861 employees, as at 31 December 2020 a total of 948 employees, and as at 31 December 2019 a total of 1,025 employees. As at 31 December 2021, the Group had a total of 901 employees, as at 31 December 2020 a total of 982 employees, and as at 31 December 2019 a total of 1,057 employees.

2. Summary of significant accounting policies

2.1. Basis of preparation of financial statements

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

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

Subsidiary	Country of incorporation	Share in ownership		Share in voting rights		Core activities
		2021	2020	2021	2020	
Varteks PRO d.o.o. Varaždin	Croatia	100%	100%	100%	100%	Trade, intermediation and clothes manufacture
Varteks SI d.o.o., Ljubljana	Slovenia	100%	100%	100%	100%	Trade and trade intermediation
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

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. The company Varteks Textiles Limited London was eliminated from the registry of companies in July 2019. The company Varteks SI d.o.o., Slovenia was established in March 2021.

2. Summary of significant accounting policies (continued)

2.2 Going concern assumption

(a) Business development of the Group and the Company in 2021

Processes related to the operational and financial restructuring of the Company, which began in 2020, continue in 2021. The main goal is to increase efficiency in the production process, but also at the level of the whole company with the rationalization and optimization of costs in all sectors. The Management Board successfully implemented and completed the process of selling part of the inactive real estate, which significantly reduced the debt to banks and provided the necessary level of liquidity to cover operating costs and employee salaries.

Rationalized use of premises was achieved through the relocation of all non-productive sectors within one property, thus reducing the amount of overhead costs and increasing business productivity.

The process of implementing a new ERP system has begun, which will digitalize and speed up processes within the Company, increase efficiency and speed of production. Simultaneously with the implementation of the new ERP, the reorganization of the Company's structure began.

Unfortunately, business in 2021 was still negatively affected by the emergence of new strains of COVID 19 virus and the continuation of the pandemic, which resulted in reduced sales and revenue especially in the first three quarters of the business year.

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

The Company and the Group generated a net profit of HRK 2,038 thousand, that is HRK 485 thousand for the year ended 31 December 2021, however, on that date current liabilities are higher than current assets by HRK 44,814 thousand and HRK 44,419 thousand, respectively

In 2021, business is primarily focused on maintaining continuity, reorganization and digitalization of operations. Despite the decline in demand, development continued in the production of own brands and the opening of new retail stores in the Republic of Croatia and return to the Slovenian market by opening two stores, in Ljubljana and Maribor.

In February 2021, at the session of the Commission for Evaluation and Determination of Strategic Project Proposals, the project proposal "Varteks block - urban regeneration" was unanimously accepted and the Commission sent the Decision on the proclamation of a strategic investment project to the Government of the Republic for adoption. The goal of this project is to maintain the business development of Varteks d.d. and preserving existing jobs, as well as improving citizens standard of living by bringing the real estate potential of the existing site to new public purposes and economic types of use through the process of urban transformation. At its session on 23 June 2021, the Government of the Republic of Croatia adopted the decision on declaring the "Varteks block - urban regeneration" project a strategic project of the Republic of Croatia.

Illiquidity is still one of the most significant problems in business. Daily monitoring of cash flow, at the level of planned expected values and operationally at the level of realized daily, weekly and monthly values are the basic tools used by the Management Board and management of the company. All deviations are regularly monitored and, in accordance with the needs, additional sources necessary for balancing inflows and liabilities are obtained, but problems are still present.

In 2021, additional funds were received from shareholders in the form of interest-free loans, which enabled the continuation of operations, payment of due trade payables and liabilities to employees.

During 2021, with the emergence of new strains of COVID-19 virus and the continuation of the pandemic, the Company faced major business problems that caused a decline in sales and revenue. The Company's Management Board promptly monitors and responds to any new information, especially taking into account employee health, socially responsible behaviour, jobs preservation and maintaining the liquidity of the Company and the Group in very difficult business conditions.

2. Summary of significant accounting policies (continued)

2.2. Going concern assumption (continued)

b) The Company's and the Group's going concern (continued)

From the above it can be concluded that there is still significant uncertainty regarding the continuation of the Company's operations.

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

- At the end of 2021, Varteks had 28 retail stores, 3 outlet retail stores, a tailoring salon and a web shop. Strong sales network with the opening of the market in Slovenia, where two sales units were opened in 2021, represents a major and significant growth potential for future periods
- Sales through the WEB shop in 2021 also recorded a growth in sales and revenue. In 2021, more than 12 thousand purchases were made through this sales channel
- Changes in the organizational structure, optimization and reorganization of operations, are expected to result in large savings, increase efficiency and productivity in production and thus achieve an increase in gross margin and profitability
- The sale of inactive real estate enabled the settlement of a large part of due liabilities, reduced credit exposure to financial institutions through the settlement of part of borrowings, and provided additional funds necessary for further investments and normal operations
- It is planned to develop a new brand (primarily for export markets in the EU and beyond) with great sales potential
- Due to the extension of delivery deadlines and uncertainty with respect to transport prices, primarily from China, there is a growing tendency to return production to the EU; this gives Varteks the opportunity to allocate part of the production and thus fill the capacity and provide additional sources of income

The effects of the actions that resulted in obtaining additional funds are described in detail in note 44.

2.3. Investments in subsidiaries

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

2.4. Consolidation

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

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

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

2. Summary of significant accounting policies (continued)

2.5. Business combinations

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

2.6. Revenue recognition

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

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

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

2.7. Financial instruments

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

2.8. Financial assets

Classification and measurement

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

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

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

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

2. Summary of significant accounting policies (continued)

2.8. Financial assets (continued)

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 2021 and 31 December 2020, 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.

2.9. Financial liabilities

Initial recognition and measurement

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

Subsequent measurement

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

Borrowings and loans

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

Trade and other payables

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

2. Summary of significant accounting policies (continued)

2.9. Financial liabilities (continued)

Derecognition

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

2.10. Fair value measurement

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

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

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

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

2.11. Intangible assets

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

2. Summary of significant accounting policies (continued)

2.11. Intangible assets (continued)

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 2021 and 2020, by types of assets:

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

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

2.12. Property, plant and equipment

Items of property, plant and equipment, other than land and buildings, are stated at cost less accumulated depreciation and permanent impairment losses. Revaluation refers to land and buildings and is based on valuations performed by an independent appraiser. Valuations are carried out in sufficient frequency to ensure that the present value of revalued assets does not significantly differ from their fair value. Valuations are made on the basis of comparable market prices. The increase in the carrying amount of the revaluation is recorded directly in the revaluation surplus within equity or appropriate obligations for deferred taxes, if applicable.
The corresponding part of revaluation reserves created from the earlier valuation is released from revaluation reserves directly to retained earnings upon the disposal of the assets and through amortisation in accordance with the use of revalued assets.
Items of property, plant and equipment that are disposed of or sold are eliminated from the statement of financial position together with the related accumulated depreciation. Any gain or loss arising from derecognising tangible assets (calculated as the difference between net sales receipts and the carrying value of the asset at the time of sale) is taken to the income statement in the year of derecognition.
When there is a periodic appearance of conditions in which significant elements of property, plant and equipment need to be replaced, the Company and the Group separately depreciate them on the basis of their specific useful life. Likewise, when major overhauls are carried out, their costs are recognised as the present value of property, plant and equipment as a replacement if the recognition criteria are met. All other repairs and maintenance costs are charged to the income statement when incurred.
Depreciation is recognised as an expense of the period and is calculated using the straight-line method over the expected useful lives of assets.
The expected useful lives, depreciation method and residual values are reviewed at the end of each business year, and if expectations differ from previous estimates, changes are recognised as changes in accounting estimates.
The Company and the Group use the following depreciation rates in 2021 and 2020, by types of assets:

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

2. Summary of significant accounting policies (continued)

2.13. Investment property

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

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

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

2.14. Impairment of non-financial assets

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

2.15. Leases

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

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

Right-of-use assets and lease liabilities

As of 1 January 2019, leased assets are classified as right-of-use assets. Simultaneously, a lease liability is recognised on the date the asset is ready for use.
Right-of-use assets and lease liabilities are initially recognised at the present value of the following lease payments: fixed payments less any incentives, variable index-based lease payments, initially measured by the index at the recognition date, amounts expected to be paid by the Company and the Group within residual value guarantees. Lease payments expected under certain contract extension options are also included in the measurement of the liability. Lease liabilities are discounted using the interest rate arising from the lease. If this rate cannot be determined directly, which is most often the case with the leases of the Company and the Group, the Company and Group apply an incremental borrowing rate. The incremental borrowing rate of the Company and the Group represents the rate that an individual lessee would have to pay if they borrowed the funds needed to purchase an asset of equal value as the right-of-use asset, in a similar economic environment with similar conditions and collateral.

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

2. Summary of significant accounting policies (continued)

2.15. Leases (continued)

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 2021 and 2020 for right-of-use assets:

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

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

The Company and the Group as the lessor

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

Exemption for Covid-19 and its effects

In 2021, there were no discounts granted by the lessors despite the continuation of the pandemic. In 2020, due to the COVID19 epidemic, the lessors approved discounts to the Company for some of the leases in the total amount of HRK 1,270 thousand, of which HRK 1,219 thousand relates to leases of buildings, HRK 20 thousand relates to leases of equipment, and HRK 30 thousand relates to leases of motor vehicles.

2.16. Government grants

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

2.17. Inventories

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

2. Summary of significant accounting policies (continued)

2.18. Cash and cash equivalents

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

2.19. Current and deferred income tax

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

2.20. Foreign currency transactions

The Company's financial statements are presented in the currency of the primary economic environment in which the Company operates (its functional currency). The Group's financial statements are presented in Croatian kuna (HRK). All subsidiaries have the same functional currency as the Company.

Transactions and balances:
Transactions in foreign currencies are initially recognised using the exchange rates prevailing on the transaction date. On the reporting date, monetary items denominated in foreign currencies are reported using the closing exchange rate. Non-monetary items measured at historical cost in a foreign currency are translated using the exchange rate at the date of the initial transaction. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined.
Foreign exchange differences arising from foreign currency transactions and translation of monetary and non-monetary assets and liabilities are recognised in the comprehensive income for the period in which they arise.
The official exchange rate published by the Croatian National Bank as at 31 December 2021 was HRK 7.517174 to EUR 1 (31 December 2020: HRK 7.536898), and HRK 6.643548 to USD 1 (31 December 2020: HRK 6.139039).
The amounts in the financial statements are presented in thousands of HRK, unless otherwise stated.

2.21. Pensions and employee benefits

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

2. Summary of significant accounting policies (continued)

2.22. Provisions

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

2.23. Contingent liabilities

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

2.24. Events after the balance sheet date

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

2.25. Earnings per share

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

2.26. Segment reporting

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

2.27. Changes in accounting policies

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

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

2.28. New accounting standards and interpretations

In the current reporting period, the following amendments to the existing standards are effective, which are issued by the International Accounting Standards Board (IASB) and adopted by the European Union:

- Covid 19 Related Rent Concessions after 30 June 2021 (Amendment to IFRS 16) – period of exemption prolonged until 30 June 2022 (effective for annual reporting periods beginning on or after 1 April 2021);
- Interest Rate Benchmark Reform – Phase 2 – IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 (Amendments) – not mandatory until annual periods beginning on or after 1 January 2021.

The adoption of these amendments to the existing standards did not lead to significant changes in the financial statement of the Group/Company.

2. Summary of significant accounting policies (continued)

2.29. Standards and interpretations not yet adopted

Standards and amendments to existing standards published by the IASB and adopted in the European Union, but not yet in force

At the date of issue of these financial statements, the following amendments to the existing standards issued by the International Accounting Standards Board are issued and adopted by the European Union, but not yet effective:

- Annual Improvements IFRS cycle 2018-2020 – effective for annual periods beginning on or after 1 January 2022;
- IAS 37 Provisions, Contingent Liabilities and Contingent Assets (Amendments – Onerous contracts – Cost of Fulfilling a Contract): The amendments specify which costs need to be included in determining whether a contract is onerous (effective for annual periods beginning on or after 1 January 2022);
- IAS 16 Property, Plant and Equipment (Amendments – Proceeds before intended use):The amendments prohibit an entity from deducting from the cost of plant and equipment amounts received from selling items produced while the entity is preparing the asset for its intended use. Instead, an entity will recognize such sales proceeds and related cost in profit or loss (effective for annual periods beginning on or after 1 January 2022);
- IFRS 3 Business Combinations – a reference to the Conceptual Framework for Financial Reporting (effective for annual periods beginning on or after 1 January 2022);

New standards and amendments to the existing standards published by the IASB but not yet adopted in the European Union

IFRSs currently adopted in the European Union do not differ significantly from the regulations adopted by the International Accounting Standards Board (IASB), except for the following new standards and amendments to the existing standards, the adoption of which has not yet been decided by the European Union as at 29 April 2022 (the effective dates listed below relate to IFRSs issued by the IASB):

- IFRS 17 – Insurance Contracts
- IAS 1 Presentation of Financial Statements (Amendment – Classification of liabilities as current or non-current)
- IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2 (Amendment – Disclosure of accounting policies)
- IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors (Amendment – Definition of accounting estimates)
- IAS 12 Income Taxes (Amendment – Deferred tax related to assets and liabilities arising from a single transaction)

The above amendments are effective for annual periods beginning on or after 1 January 2022.
The Group and the Company expect that the adoption of these new standards and amendments to the existing standards will not lead to significant changes in the financial statements of the Group and Company in the period of the first adoption.

2.30. Key accounting judgements and estimates, presumptions

The preparation of financial statements in conformity with IFRS requires the use of estimates and assumptions that affect the amounts reported in the financial statements and notes. Although these estimates are based on all available information of the Company about current events and actions, the actual results may deviate from these estimates.
In the ordinary course of business of the Company and the Group, the following estimates are also used, but not limited to: the assessment of property, plant and equipment, their service lives and residual values, provisions for employee benefits. Future events and their impact cannot be predicted with certainty.
Details of estimates and amounts are presented in the relevant accounting policies and notes to the financial statements.

2. Summary of significant accounting policies (continued)

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

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

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

Service life of property and equipment

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

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

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

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

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

	Increase/ decrease in %	Impact on post-tax loss in thousands of HRK	
		Group	Company
Year ended 31 December 2021	5%	(460)	(462)
	-5%	462	460
Year ended 31 December 2020	5%	(436)	(435)
	-5%	482	481

2.31. Comparative information, reclassification and aggregation of data

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

3. Segment information

Description of segments and primary activities

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

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

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

The structure of sales income and operating profit of the Group in 2021 is as follows:

(in thousands of HRK)	Income from sales of products and goods	Gross profit	Direct and other production costs	Operating profit/(loss) after allocated costs
Retail	70,464	27,234	(32,198)	(4,964)
Wholesale and dealership	2,720	740	(117)	623
Contract manufacturing	19,714	1,589	(280)	1,309
Varteks Pro d.o.o.	22,668	3,727	(3,000)	727
Varteks.si	1,548	605	(2,158)	(1,553)
Other	548	-	(13,238)	(13,238)
effect of consolidation:	(11,624)	-	666	666
Total	106,038	33,895	(50,325)	(16,430)

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

(in thousands of HRK)	Income from sales of products and goods	Gross profit	Direct and other production costs	Operating profit/(loss) after allocated costs
Retail	51,760	20,715	(26,916)	(6,201)
Wholesale and dealership	5,619	1,899	(157)	1,742
Contract manufacturing	38,090	2,645	(613)	2,032
Varteks Pro d.o.o.	22,405	4,277	(2,917)	1,360
Varteks.si	-	-	-	-
Other	1,389	-	(8,953)	(8,953)
effect of consolidation:	(5,625)	-	628	628
Total	113,638	29,536	(38,928)	(9,392)

3. Segment information (continued)

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

(in thousands of HRK)	2021	2020
Operating (loss)/profit after allocated costs	(16,430)	(9,392)
Other operating income	51,482	5,620
Other indirect costs	(31,421)	(19,420)
Gain/(Loss) on financial operations	(8,475)	(8,016)
Income tax	(5,343)	(358)
Loss for the period	485	(30,847)

Sales income of the Group by geographical segment: (in thousands of HRK)	2021	2020
Croatia	97,612	79,700
Export	20,050	39,563
Effect of consolidation:	(11,624)	(5,625)
Total	106,038	113,638

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

(in thousands of HRK)	Income from sales of products and goods	2021	2020
Customer 1	Retail	4,730	2,676
Customer 2	Contract manufacturing	10,119	17,885
Customer 3	Contract manufacturing	6,056	18,067
Customer 1	Special-purpose clothing	16,181	21,262
Other customers	-	80,576	59,373
effect of consolidation:		(11,624)	(5,625)
Total		106,038	113,638

4. Income from sales with undertakings within the Group

(in thousands of HRK)	2021	2020
Varteks Pro	8,547	5,353
Varteks Si	2,207	-
V-projekt	-	5
Total	10,754	5,358

Income from sales with undertakings within the Group by type:

(in thousands of HRK)	2021	2020
Income from sale of products and services	8,723	4,118
Income from sale of raw materials	83	46
Income from sale of goods	1,948	1,194
Total	10,754	5,358

5. Income from sales

Income by category

	Group		Company	
(in thousands of HRK)	2021	2020	2021	2020
Income from sale of products and services	87,302	96,473	71,629	78,005
Income from sale of raw materials and services	763	1,111	763	1,031
Income from sale of goods	17,973	16,054	10,586	12,464
Total	106,038	113,638	82,978	91,500

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

Company

	Group		Company	
(in thousands of HRK)	2021	2020	2021	2020
Income from use of goods for own purposes	3	19	2	19
Total	3	19	2	19

7. Other operating income with undertakings within the Group

(in thousands of HRK)	2021	2020
Varteks Pro	380	431
V-projekt	-	10
Total	380	441

8. Other operating income

	Group		Company	
(in thousands of HRK)	2021	2020	2021	2020
Income from rentals	576	564	576	564
Income from reversal of provisions	2,818	974	2,775	965
Surpluses	148	1,469	81	1,429
Income from write-off of liabilities	338	763	338	762
Income from collected receivables previously written off	47	65	47	65
Profit from the sale of real estate	18,782	-	18,782	810
Profit from the fair value change of investment properties	27,902	-	27,902	-
Other operating income	871	1,785	841	956
Total	51,482	5,620	51,343	5,552

The most significant income from reversal of provisions relates to the sale and disposal of inventories previously written off and to the decrease in provisions for employees resulting from the reduction in the number of employees.

9. Costs of raw materials and consumables

	Group		Company	
(in thousands of HRK)	2021	2020	2021	2020
Raw materials and consumables used	30,468	41,437	23,549	32,608
Energy used	3,664	3,550	3,653	3,550
Fuel	472	400	440	379
Spare parts used	179	296	176	294
Small inventory write-off	285	225	283	224
Total	35,069	45,908	28,100	37,055

10. Other external costs

	Group		Company	
(in thousands of HRK)	2021	2020	2021	2020
Marketing and promotion	5,989	2,876	5,899	2,875
Services on the product manufacturing	3,383	5,031	1,406	1,581
Maintenance services	919	950	906	934
Transportation and postal services	1,232	1,321	1,215	1,304
Rentals and leases	1,790	656	1,201	611
Utility services	371	331	352	326
Vehicle registration	30	30	29	29
Forwarding services	4	12	4	12
Other services	1,341	1,147	1,148	942
Total	15,059	12,354	12,160	8,614

11. Staff costs

	Grupa		Društvo	
(in thousands of HRK)	2021.	2020.	2021.	2020.
Wages and salaries	38,399	31,076	36,083	29,645
Income tax and contributions from salaries cost	11,460	9,140	10,581	8,642
Contribution on slaries cost	7,836	5,689	7,479	5,395
Ukupno	57,695	45,905	54,143	43,682

In 2021, the Company had on average a total of 921 employees, and in 2020, 991 employees.

In 2021, the Group had on average a total of 961 employees, and in 2020, 1,024 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 2021, total compensation paid to key personnel in the Company's Management Board amounted to HRK 303 thousand (2020: HRK 1,300 thousand). The Company's Management Board as at 31 December 2021 comprises of 2 persons (2020: the Company's Management Board comprised of two persons).

12. Other costs

	Group		Company	
(in thousands of HRK)	2021	2020	2021	2020
Transportation to work compensation	4,539	5,358	4,392	5,211
Other employee material rights	2,623	2,732	2,573	2,682
Other non-production services	4,271	2,831	4,141	2,759
Credit card fees	1,195	932	1,195	923
Taxes and contributions irrespective of result	1,246	1,074	1,240	1,058
Business trips	315	270	272	257
Banking services	533	530	413	432
Termination benefits	486	489	400	489
Legal and notary services	205	66	193	61
Audit and accounting services	349	359	264	273
Entertainment	182	154	161	137
Insurance premiums	373	335	368	330
Other provisions	-	1,931	-	1,931
Compensation to Supervisory Board members	164	153	164	153
Membership fees	77	85	69	64
Jubilee awards	283	336	282	330
Other expenses	1,693	1,620	1,558	1,547
Total	18,534	19,255	17,685	18,637

Auditors of the financial statements of the Company and the Group provided in 2021 services in the amount of HRK 264 thousand for the Company, and HRK 306 thousand for the Group (2020: HRK 273 thousand for the Company and HRK 359 thousand for the Group). Services provided in 2021 and 2020 relate to the audit of financial statements.

13. Impairment of non-financial assets

	Group		Company	
(in thousands of HRK)	2021	2020	2021	2020
Impairment cost				
- inventories	521	1,651	382	1,541
- non-current assets	207	23	207	23
- loss on fair value adjustment of investment property	-	6,796	-	6,796
Total	728	8,470	589	8,360

14. Impairment of financial and contract assets (net)

	Group		Company	
(in thousands of HRK)	2021	2020	2021	2020
- Trade receivables	180	108	180	108
- Other receivables	213	-	213	-
- Financial assets – deposits	-	7	-	7
Total	393	115	393	115

15. Other operating expenses

	Group		Company	
(in thousands of HRK)	2021	2020	2021	2020
Shortages	232	1,519	165	1,477
Damages and fines	179	203	179	203
Disposed tangible assets not written off	1,548	3,832	1,547	3,832
Subsequently granted discounts	7	14	7	14
Other expenses	407	316	407	315
Total	2,374	5,884	2,305	5,841

16. Net (loss)/gain on financial activities

	Group		Company	
(in thousands of HRK)	2021	2020	2021	2020
Other interest income	23	25	23	25
Interest income from related parties	-	-	22	-
Foreign exchange differences and other finance income from related parties	-	-	412	692
Foreign exchange differences and other finance income	2,412	4,317	2,391	4,313
Income from other long-term financial investments	-	548	-	-
Total finance income	2,435	4,890	2,848	5,030
Interest expense and similar expenses	(8,570)	(7,010)	(8,247)	(6,812)
Interest expense and similar expenses – related parties	-	-	(175)	(164)
Foreign exchange differences and other finance costs – related parties	-	-	(417)	(692)
Foreign exchange differences and other finance costs	(2,318)	(5,889)	(2,292)	(5,875)
Other finance costs	(23)	-	(6)	-
Total finance costs	(10,910)	(12,899)	(11,137)	(13,543)
Total (net)	(8,475)	(8,009)	(8,289)	(8,513)

17. Income tax

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

	Group		Company	
(in thousands of HRK)	2021	2020	2021	2020
Current income tax	-	(73)	-	-
Deferred income tax	5,343	431	5,343	431
Income tax (credit)/expense	5,343	358	5,343	431

17. Income tax (continued)

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

	Group		Company	
(in thousands of HRK)	2021	2020	2021	2020
Accounting loss before tax	(4,859)	(31,205)	(3,305)	(31,900)
Income tax at 18%	(875)	(5,617)	(595)	(5,742)
Items increasing tax base	403	193	377	162
Realised temporary differences for which deferred tax was recognised	(5,343)	(431)	(5,343)	(431)
Items decreasing tax base	(46)	(65)	(46)	(65)
Unrecognised deferred tax asset	5,377	5,562	3,569	5,645
Income tax	(5,343)	(358)	(5,343)	(431)

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

Tax losses available for carry forward are presented below:

(in thousands of HRK)

Year of incurrence	Amount	Year of expiry	Cumulative amount
2017	16,270	2022	16,282
2018	16,375	2023	32,657
2019	-	2024	32,657
2020	47,282	2025	79,927
2021	-	2026	-
Tax loss for carry forward to 2022			79,927

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

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

(in thousands of HRK)	2021	2020
Deferred tax liability at 1 January	17,033	17,262
Past due tax payable for realised revaluation reserves	(5,343)	(229)
Increase from valuation of non-current assets	6,417	-
Deferred tax liability at 31 December	18,107	17,033

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 2020	505	1,493	3,287	151	110	5,546
Transfer from tangible assets	-	-	(389)	-	-	(389)
Disposals	-	-	-	-	(110)	(110)
At 31 December 2020	**505**	**1,493**	**2,898**	**151**	**-**	**5,047**
ACCUMULATED AMORTISATION						
At 1 January 2020	(505)	(1,396)	(1,726)	(151)	-	(3,778)
Accumulated amortisation for 2020	-	(55)	(234)	-	-	(289)
Disposals	-	-	357	-	-	357
At 31 December 2020	**(505)**	**(1,451)**	**(1,603)**	**(151)**	**-**	**(3,710)**
NET BOOK AMOUNT						
31 December 2020	**-**	**42**	**1,295**	**-**	**-**	**1,337**
NET BOOK AMOUNT						
1 January 2020	**-**	**97**	**1,561**	**-**	**110**	**1,768**
COST						
At 1 January 2021	**505**	**1,493**	**2,898**	**151**	**-**	**5,047**
Additions (purchase)			137		133	**270**
Disposals	-	-	(447)	-	-	**(447)**
Transfer to liability	-	-	-	-	-	-
At 31 December 2021	**505**	**1,493**	**2,588**	**151**	**133**	**4,870**
ACCUMULATED AMORTISATION						
At 1 January 2021	(505)	(1,451)	(1,603)	(151)	-	(3,710)
Accumulated amortisation for 2021	-	-	(248)	-	-	(248)
Disposals	-	-	376	-	-	376
At 31 December 2021	**(505)**	**(1,451)**	**(1,475)**	**(151)**	**-**	**(3,582)**
NET BOOK AMOUNT						
31 December 2021	**-**	**42**	**1,113**	**-**	**133**	**1,288**
NET BOOK AMOUNT						
1 January 2021	**-**	**42**	**1,295**	**-**	**-**	**1,337**

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 2020	505	1,493	3,287	151	110	5,546
Transfer from tangible assets	-	-	(389)	-	-	(389)
Disposals	-	-	-	-	(110)	(110)
At 31 December 2020	**505**	**1,493**	**2,898**	**151**	**-**	**5,047**
ACCUMULATED AMORTISATION						
At 1 January 2020	(505)	(1,396)	(1,726)	(151)	-	(3,778)
Accumulated amortisation for 2020	-	(55)	(234)	-	-	(289)
Disposals	-	-	357	-	-	357
At 31 December 2020	**(505)**	**(1,451)**	**(1,603)**	**(151)**	**-**	**(3,710)**
NET BOOK AMOUNT						
31 December 2020	**-**	**42**	**1,295**	**-**	**-**	**1,337**
NET BOOK AMOUNT						
1 January 2020	**-**	**97**	**1,561**	**-**	**110**	**1,768**
COST						
At 1 January 2021	**505**	**1,493**	**2,898**	**151**	**-**	**5,047**
Additions			137		133	**270**
Disposal			(447)			**(447)**
Transfer to liability						-
At 31 December 2021	**505**	**1,493**	**2,588**	**151**	**133**	**4,870**
ACCUMULATED AMORTISATION						
At 1 January 2021	(505)	(1,451)	(1,603)	(151)	-	(3,710)
Accumulated amortisation for 2021			(248)			(248)
Disposals			376			376
At 31 December 2021	**(505)**	**(1,451)**	**(1,475)**	**(151)**	**-**	**(3,582)**
NET BOOK AMOUNT						
31 December 2021	**-**	**42**	**1,113**	**-**	**133**	**1,288**
NET BOOK AMOUNT						
1 January 2021	**-**	**42**	**1,295**	**-**	**-**	**1,337**

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	Advances	**Total**
COST/FAIR VALUE											
At 1 January 2020	52,075	247,305	20,212	157,889	281	22,789	490	-	232	-	**501,273**
Adjustment of initial balance for application of IFRS 16	-	16	-	-	-	-	-	-	-	-	**16**
Additions	-	-	1,029	203	-	16	78	-	-	-	**1,326**
Fair value adjustment – assessment	155	2,219	-	-	-	-	-	-	-	-	**2,374**
Sales	-	-	-	(49)	-	(67)	-	-	(1)	-	**(117)**
Disposals	-	-	(297)	(38,693)	-	(82)	-	-	-	-	**(39,072)**
At 31 December 2020	**52,230**	**249,540**	**20,944**	**119,350**	**281**	**22,656**	**568**	**-**	**231**	**-**	**465,800**
ACCUMULATED DEPRECIATION AND IMPAIRMENT											
At 1 January 2020	**-**	**(202,485)**	**(4,124)**	**(135,324)**	**(77)**	**(21,421)**	**(109)**	**-**	**-**	**-**	**(363,540)**
Adjustment of initial balance	**-**	**(16)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(16)**
Accumulated depreciation for 2020	**-**	(1,525)	(4,927)	(2,051)	(99)	(305)	(226)	-	-	-	**(9,133)**
Fair value adjustment – assessment	**-**	(1,117)	-	-	-	-	-	-	-	-	**(1,117)**
Sales	**-**	-	-	46	-	67	-	-	-	-	**113**
Disposals	**-**	-	155	34,940	-	82	-	-	-	-	**35,177**
At 31 December 2020	**-**	**(205,143)**	**(8,896)**	**(102,389)**	**(176)**	**(21,577)**	**(335)**	**-**			**(338,516)**
NET BOOK AMOUNT 31 December 2020	**52,230**	**44,397**	**12,048**	**16,961**	**105**	**1,079**	**233**	**-**	**231**	**-**	**127,284**
NET BOOK AMOUNT 1 January 2020	**52,075**	**44,820**	**16,088**	**22,565**	**204**	**1,368**	**381**	**-**	**232**	**-**	**137,733**
COST/FAIR VALUE											
At 1 January 2021	**52,230**	**249,540**	**20,944**	**119,350**	**281**	**22,656**	**568**	**-**	**231**	**-**	**465,800**
Transfer to /from inactive assets	**-**	(15,956)	-	-	-	-	-	-	-	-	**(15,956)**
Additions	**-**	-	8,543	223	4	309	392	74	-	193	**9,738**
Fair value adjustment – assessment	**4,194**	32,111	-	-	-	-	-	-	-	-	**36,305**
Sales	**(29,323)**	(12,235)	-	(171)	-	(151)	-	-	-	-	**(41,880)**
Disposals	**-**	-	(489)	(7,052)	-	(304)	-	-	(95)	-	**(7,940)**
At 31 December 2021	**27,101**	**253,460**	**28,998**	**112,350**	**285**	**22,510**	**960**	**74**	**136**	**193**	**446,067**
ACCUMULATED DEPRECIATION AND IMPAIRMENT											
At 1 January 2021	**-**	**(205,143)**	**(8,896)**	**(102,389)**	**(176)**	**(21,577)**	**(335)**	**-**	**-**	**-**	**(338,516)**
Transfer to /from inactive assets	**-**	15,319	-	-	**-**	-	-	**-**	**-**	**-**	**15,319**
Accumulated depreciation for 2021	**-**	(1,677)	(4,971)	(1,813)	(57)	(217)	(230)	**-**	**-**	**-**	**(8,965)**
Tangible assets value adjustment	**-**	(206)	-	-	-	-	-	**-**	**-**	**-**	**(206)**
Fair value adjustment – assessment	**-**	(653)	**-**	-	**-**	-	-	**-**	**-**	**-**	**(653)**
Sales	**-**	11,258	**-**	171	**-**	151	-	**-**	**-**	**-**	**11,580**
Disposals	**-**	-	-	5,670	**-**	304	-	**-**	**-**	**-**	**5,974**
At 31 December 2021	**-**	**(181,102)**	**(13,867)**	**(98,361)**	**(233)**	**(21,339)**	**(565)**	**-**	**-**	**-**	**(315,467)**
NET BOOK AMOUNT 31 December 2021	**27,101**	**72,358**	**15,131**	**13,989**	**52**	**1,171**	**395**	**74**	**136**	**193**	**130,600**
NET BOOK AMOUNT 1 January 2021	**52,230**	**44,397**	**12,048**	**16,961**	**105**	**1,079**	**233**	**-**	**231**	**-**	**127,284**

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

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

The value of borrowings and loans secured by mortgages at the balance sheet date amounts to EUR 11,017 thousand and HRK 42,620 thousand, while in 2020 it amounted to EUR 10,954 thousand and HRK 25,125 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 99.5 thousand, and in 2020 it amounted to HRK 96.6 thousand.

Cost of fully depreciated non-current assets in use as at 31 December 2021 amounts to HRK 121.493 thousand (31 December 2020: HRK 131,859 thousand).

Company:

Net gain on sale of non-current tangible assets

(in thousands of HRK)	2021	2020
Gain on sale of non-current tangible assets	59,918	78
Value of sold assets not written off	(41,136)	(5)
Net gain on sale of non-current assets	18,782	73

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

The value of assets under mortgage loans, classified as investment property, at the balance sheet date amounts to HRK 77,043 thousand, and in 2020 it amounted to HRK 54,437 thousand.

Company

(in thousands of HRK)	Investment property Land	Investment property Buildings	**Total**
COST			
At 1 January 2020	38,109	257,719	295,828
Additions	-	115	115
Fair value adjustment – assessment	118	253	371
Sales	-	(375)	(375)
At 31 December 2020	**38,227**	**257,712**	**295,939**
ACCUMULATED DEPRECIATION AND IMPAIRMENT			
At 1 January 2020	**-**	(220,150)	(220,150)
Fair value adjustment – assessment	-	(7,326)	(7,326)
Disposals	-	328	328
At 31 December 2020	**-**	**(227,148)**	**(227,148)**
NET BOOK AMOUNT 31 December 2020	**38,227**	**30,564**	**68,791**
NET BOOK AMOUNT 1 January 2020	**38,109**	**37,569**	**75,678**
COST			
At 1 January 2021	**38,227**	**257,712**	**295,939**
Transfer to/from active assets	-	15,956	15,956
Fair value adjustment – assessment	12,220	15,681	27,901
Sales	(932)	(137,675)	(138,607)
At 31 December 2021	**49,515**	**151,674**	**201,189**
ACCUMULATED DEPRECIATION AND IMPAIRMENT			
At 1 January 2021	**-**	**(227,148)**	(227,148)
Transfer to/from active assets	**-**	**(15,319)**	(15,319)
Fair value adjustment – assessment	-	127,770	127,770
At 31 December 2021	**-**	**(114,697)**	**(114,697)**
NET BOOK AMOUNT 31 December 2021	**49,515**	**36,977**	**86,492**
NET BOOK AMOUNT 1 January 2021	**38,227**	**30,564**	**68,791**

19. c) 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	Advances	**Total**
COST/FAIR VALUE											
At 1 January 2020	52,075	247,586	20,212	158,092	281	22,963	490	-	232	-	**501,931**
Adjustment of initial balance for application of IFRS 16	-	(265)	-	(4)	-	1	-	-	-	-	**(268)**
Additions	-	-	1,029	225	-	16	78	-	-	-	**1,348**
Fair value adjustment – assessment	155	2,219	-	-	-	-	-	-	-	-	**2,374**
Sales	-	-	-	(49)	-	(67)	-	-	(1)	-	**(117)**
Disposals	-	-	(297)	(38,694)	-	(82)	-	-	-	-	**(39,073)**
At 31 December 2020	**52,230**	**249,540**	**20,944**	**119,570**	**281**	**22,831**	**568**	**-**	**231**	**-**	**466,195**
ACCUMULATED DEPRECIATION AND IMPAIRMENT											
At 1 January 2020	**-**	**(202,766)**	**(4,124)**	**(135,404)**	**(77)**	**(21,573)**	**(109)**	**-**	**-**	**-**	**(364,053)**
Adjustment of initial balance	**-**	**265**	**-**	**4**	**-**	**(1)**	**-**	**-**	**-**	**-**	**268**
Accumulated depreciation for 2020	**-**	(1,525)	(4,927)	(2,072)	(99)	(309)	(226)	-	-	-	**(9,158)**
Fair value adjustment – assessment	**-**	(1,117)	-	-	-	-	-	-	-	-	**(1,117)**
Sales	**-**	-	-	45	-	67	-	-	-	-	**112**
Disposals	**-**	-	155	34,941	-	82	-	-	-	-	**35,178**
At 31 December 2020	**-**	**(205,143)**	**(8,896)**	**(102,486)**	**(176)**	**(21,734)**	**(335)**	**-**	**-**	**-**	**(338,770)**
NET BOOK AMOUNT 31 December 2020	**52,230**	**44,397**	**12,048**	**17,084**	**105**	**1,097**	**233**	**-**	**231**	**-**	**127,425**
NET BOOK AMOUNT 1 January 2020	**52,075**	**44,820**	**16,088**	**22,688**	**204**	**1,390**	**381**	**-**	**232**	**-**	**137,878**
COST/FAIR VALUE											
At 1 January 2021	**52,230**	**249,540**	**20,944**	**119,570**	**281**	**22,831**	**568**	**-**	**231**	**-**	**466,195**
Transfer to /from inactive assets	**-**	(15,956)	-	-	-	-					**(15,956)**
Additions	-	-	8,543	240	4	509	392	74	-	193	**9,955**
Fair value adjustment – assessment	**4,194**	32,111	-	-	-	-	-	-	-	-	**36,305**
Sales	**(29,323)**	(12,235)	-	(175)	-	(151)	-	-	(95)	-	**(41,979)**
Disposals	**-**	-	(489)	(7,055)	-	(304)	-	-	-	-	**(7,848)**
At 31 December 2021	**27,101**	**253,460**	**28,998**	**112,580**	**285**	**22,885**	**960**	**74**	**136**	**193**	**446,672**
ACCUMULATED DEPRECIATION AND IMPAIRMENT											
At 1 January 2021	**-**	**(205,143)**	**(8,896)**	**(102,486)**	**(176)**	**(21,734)**	**(335)**	**-**	**-**	**-**	**(338,770)**
Transfer to /from inactive assets	**-**	15,319	-	-	**-**	-	-	**-**	**-**	**-**	**15,319**
Accumulated depreciation for 2021	**-**	(1,677)	(4,971)	(1,835)	(57)	(236)	(230)	**-**	**-**	**-**	**(9,006)**
Tangible assets value adjustment	**-**	(206)	-	-	-	-	-	**-**	**-**	**-**	**(206)**
Fair value adjustment – assessment	**-**	(653)	**-**	-	**-**	-	-	**-**	**-**	**-**	**(653)**
Sales	**-**	11,258	**-**	175	**-**	151	-	**-**	**-**	**-**	**11,584**
Disposals	**-**	-	-	5,673	**-**	304	-	**-**	**-**	**-**	**5,977**
At 31 December 2021	**-**	**(181,102)**	**(13,867)**	**(98,473)**	**(233)**	**(21,515)**	**(565)**	**-**	**-**	**-**	**(315,755)**
NET BOOK AMOUNT 31 December 2021	**27,101**	**72,358**	**15,131**	**14,107**	**52**	**1,370**	**395**	**74**	**136**	**193**	**130,917**
NET BOOK AMOUNT 1 January 2021	**52,230**	**44,397**	**12,048**	**17,084**	**105**	**1,097**	**233**	**-**	**231**	**-**	**127,425**

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

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

The value of borrowings and loans secured by mortgages at the balance sheet date amounts to EUR 11,017 thousand and HRK 42,620 thousand, while in 2020 it amounted to EUR 10,954 thousand and HRK 25,125 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 99.5 thousand, and in 2020 it amounted to HRK 96.6 thousand.

Cost of fully depreciated non-current assets in use amounts to HRK 121,493 thousand (31 December 2020: HRK 132,016 thousand).

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

(in thousands of HRK)	2021	2020
Gain on sale of non-current tangible assets	59,918	74
Value of sold assets not written off	(41,136)	(5)
Net gain on sale of non-current assets	18,782	69

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

Group

(in thousands of HRK)	Investment property Land	Investment property Buildings	**Total**
COST			
At 1 January 2020	38,109	257,719	295,828
Additions	-	115	115
Fair value adjustment – assessment	118	253	371
Sales	-	(375)	(375)
At 31 December 2020	**38,227**	**257,712**	**295,939**
ACCUMULATED DEPRECIATION AND IMPAIRMENT			
At 1 January 2020	**-**	(220,150)	(220,150)
Fair value adjustment – assessment	-	(7,326)	(7,326)
Disposals	-	328	328
At 31 December 2020	**-**	**(227,148)**	**(227,148)**
NET BOOK AMOUNT 31 December 2020	**38,227**	**30,564**	**68,791**
NET BOOK AMOUNT 1 January 2020	**38,109**	**37,569**	**75,678**
COST			
At 1 January 2021	**38,227**	**257,712**	**295,939**
Additions	-	15,956	15,956
Fair value adjustment – assessment	12,220	15,681	27,901
Sales	(932)	(137,675)	(138,607)
At 31 December 2021	**49,515**	**151,674**	**295,939**
ACCUMULATED DEPRECIATION AND IMPAIRMENT			
At 1 January 2021	**-**	**(227,148)**	(227,148)
Fair value adjustment – assessment	-	(15,319)	(15,319)
Disposals	-	127,770	127,770
At 31 December 2021	**-**	**(114,697)**	**(114,697)**
NET BOOK AMOUNT 31 December 2021	**49,515**	**36,977**	**86,492**
NET BOOK AMOUNT 1 January 2021	**38,227**	**30,564**	**68,791**

The value of assets under mortgage loans, classified as investment property, at the balance sheet date amounts to HRK 59,342 thousand, and in 2020 it amounted to HRK 54,437 thousand.

20. Investments in holdings (shares)

Company (in thousands of HRK)	31 December 2021	31 December 2020
Varteks Pro d.o.o. Varaždin	1	1
Varteks SI d.o.o. Slovenia	56	-
Total	57	1

21. Loans, deposits, etc.

Loans, deposits, etc. comprise the following:

(in thousands of HRK)	Group		Company	
	31 December 2021	31 December 2020	31 December 2021	31 December 2020
Deposits for leases	351	287	351	287
Purpose-specific term deposits	5,447	4,701	5,447	4,701
Interest due and not due	2	2	2	2
Total	5,801	4,990	5,801	4,990

The item purpose-specific and term deposits includes a deposit in Zagrebačka banka in the amount of EUR 726 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		Company	
	31 December 2021	31 December 2020	31 December 2021	31 December 2020
Receivables from "old" foreign currency savings (repurchase of flats)	4,359	4,359	4,359	4,359
Impairment of receivables from "old" foreign currency savings	(4,359)	(4,359)	(4,359)	(4,359)
Receivables from "old" foreign currency savings (net)	-	-	-	-
Investments in holdings	160	160	160	160
Impairment of investments in holdings	(160)	(160)	(160)	(160)
Investments in holdings (net)	-	-	-	-
Shares	590	590	590	590
Impairment of shares	(584)	(584)	(584)	(584)
Shares (net)	6	6	6	6

23. Inventories

(in thousands of HRK)	Group		Company	
	31 December 2021	31 December 2020	31 December 2021	31 December 2020
Raw materials and consumables	11,450	11,369	9,575	8,431
Work in progress	1,741	1,396	1,714	1,010
Finished goods	26,061	33,923	25,711	33,528
Merchandise	4,641	6,291	3,290	6,194
Advances for inventories	372	85	336	52
Valuse adjustment of inventories	(1,639)	(2,748)	(1,445)	(2,592)
Total	42,626	50,316	39,181	46,623

Value adjustment of inventories movement:

(in thousands of HRK)	Group		Company	
	2021.	2020.	2021.	2020.
At 1 January	(2,748)	(1,573)	(2,592)	(1,527)
Value adjustment increase	(520)	(1,652)	(382)	(1,542)
Value adjustment decrease	1,629	477	1,529	477
Total	(1,639)	(2,748)	(1,445)	(2,592)

24. Receivables

(in thousands of HRK)	Group		Company	
	31 December 2021	31 December 2020	31 December 2021	31 December 2020
Receivables from undertakings within the Group				
Current:				
- Varteks PRO	-	-	3,025	-
- Varteks SI	-	-	2,203	-
Total receivables from undertak. within the Group	-	-	5,228	-
Domestic trade receivables	48,862	25,317	46,109	22,681
Foreign trade receivables	27,539	28,058	27,521	28,044
Impairment of doubtful receivables	(46,268)	(46,266)	(46,205)	(46,203)
Trade receivables (net)	30,133	7,109	27,425	4,522
Receivables from government and other institutions	3,886	6,020	3,740	5,682
Impairment of receivables from government	(3,349)	(3,349)	(3,349)	(3,349)
Receivables from government and other instit. (net)	537	2,671	391	2,333
Receivables from employees and members of the undertaking	49	47	46	47
Other current receivables /i/	1,207	527	702	527
Total receivables	31,926	10,354	33,792	7,429

/i/ Other current receivables include receivables for advances given and interest receivable from suppliers for which legal action has been initiated.

The total trade receivables are as follows:

(in thousands of HRK)	Group		Company	
	31 December 2021	31 December 2020	31 December 2021	31 December 2020
Trade receivables (undertakings within the Group)	-	-	5,228	-
Domestic and foreign trade receivables (undertakings outside the Group)	30,133	7,109	27,425	4,522
Total trade receivables	30,133	7,109	32,653	4,522

Total trade receivables are denominated in the following currencies:

(in thousands of HRK)	Group		Company	
	31 December 2021	31 December 2020	31 December 2021	31 December 2020
EUR	24,379	2,478	26,498	2,478
HRK	5,754	4,631	6,155	2,044
Total trade receivables	30,133	7,109	32,653	4,522

24. Receivables (continued)

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

(in thousands of HRK)	Group		Company	
	31 December 2021	31 December 2020	31 December 2021	31 December 2020
At 1 January	46,266	46,002	46,203	45,939
Increase in impairment of receivables recognised in the income statement during the period	180	108	180	108
Collected receivables previously written off	(47)	(65)	(47)	(65)
Foreign exchange differences	(23)	221	(23)	221
Write-off of previously impaired receivables	(108)	-	(108)	-
At 31 December	46,268	46,266	46,205	46,203

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 2021									
Gross amount	27,523	1,712	1,222	305	997	166	672	46,261	78,858
Impairment	-	-	-	-	-	-	-	(46,205)	(46,205)
Net amount	27,523	1,712	1,222	305	997	166	672	56	32,653
31 December 2020									
Gross amount	3,758	125	15	65	60	28	41	46,633	50,725
Impairment	-	-	-	-	-	-	-	(46,203)	(46,203)
Net amount	3,758	125	15	65	60	28	41	430	4,522

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 2021									
Gross amount	27,252	975	656	180	554	89	371	46,606	76,683
Impairment	-	-	-	-	-	-	-	(46,550)	(46,550)
Net amount	27,252	975	656	180	554	89	371	56	30,133
31 December 2020									
Gross amount	6,223	231	15	65	64	28	41	46,708	53,375
Impairment	-	-	-	-	-	-	-	(46,266)	(46,266)
Net amount	6,223	231	15	65	64	28	41	442	7,109

24. Receivables (continued)

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

	Group		Company	
(in thousands of HRK)	31 December 2020	31 December 2020	31 December 2021	31 December 2020
A	-	-	-	-
BB+	-	-	-	-
BB-	-	-	-	-
BB	-	-	-	-
Without rating	27,252	6,223	27,157	3,758
	27,252	6,223	27,157	3,758

25. Cash and cash equivalents

	Group		Company	
(in thousands of HRK)	31 December 2021	31 December 2020	31 December 2021	31 December 2020
Giro account	3,166	423	701	423
Foreign currency account	2,996	104	2,996	104
Cash in hand				
- HRK	10	21	2	11
- foreign currencies	4	11	2	6
Payments for shares	1	1	1	1
Transfer account for HRK	226	142	226	142
Transfer account for foreign currency	12	-	12	6
Total	6,415	702	3,939	693

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

	Group		Company	
(in thousands of HRK)	31 December 2021	31 December 2020	31 December 2021	31 December 2020
A	40	38	40	38
BBB+	26	-	26	-
BBB	256	645	256	645
BBB-	1,721	-	1,721	-
BB	-	-	-	-
Without rating	4,372	19	1,896	10
Total	6,415	702	3,939	693

26. Prepaid expenses and accrued income

	Group		Company	
(in thousands of HRK)	31 December 2021	31 December 2020	31 December 2021	31 December 2020
Accrued rentals	9	121	9	121
Accrued expenses that require adjustments	619	184	605	169
Total	628	305	614	290

27. Capital and reserves

Capital includes own non-current assets intended for business. It includes share capital together with the statutory reserves, revaluation reserves, accumulated loss and profit for the year. Subscribed (share) capital registered in the court registry amounts to HRK 50,267 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.
Revaluation reserves are part of equity arising from the revaluation of assets above the acquisition cost (of land and buildings).
Retained earnings or accumulated loss is the portion of profit from previous periods that remains to the entrepreneur after allocations to reserves, payments of dividends or shares in profit less any losses from prior periods.

The ownership structure of Varteks d.d.-Varaždin

	31 December 2021		31 December 2020	
	% share in ownership	Number of shares	% share in ownership	Number of shares
Bakić Nenad, Zagreb	38.14	1,917,403	46.69	1,917,403
Čajić Stjepan, Sovići	14.46	726,956	-	-
Čajić Mira, Zagreb	9.95	500,000	-	-
Other domestic natural persons	19.56	983,147	25.70	1,055,334
Košćec Zoran, Varaždin	8.52	428,382	10.43	428,382
ISSUER – TREASURY ACCOUNT, Varaždin	-	-	5.72	234,780
Igrec Stjepan, Varaždin	2.68	134,944	3.29	134,944
Košćec Dražen, Varaždin	1.45	72,717	1.77	72,717
Žonja Igor, Zagreb	1.25	62,759	1.53	62,759
Interkapital vrijednosni papiri/Joint custodian account for DF, 10000 Zagreb, Masarykova 1	1.12	56,524	1.38	56,524
OTP banka (Splitska banka d.d.)/Joint account – domestic investors, 21000 Split, R. Boškovića 16	0.57	28,449	0.69	28,449
Košćec Vladimir, Varaždin	0.51	25,835	0.63	25,835
Others	1.78	89,570	2.17	89,559
TOTAL:	100.00	5,026,686	100.00	4,106,686

28. Loss per share

(in thousands of HRK)	Group		Company	
	31 December 2021	31 December 2020	31 December 2021	31 December 2020
Total number of shares less treasury shares	4,549,658	3,871,906	4,549,658	3,957,421
Profit/ Loss for the period	485	(30,874)	2,038	(31,469)
Basic and diluted loss per share (HRK)	0.11	(7.97)	-	-

29. Provisions

The structure of provisions is set out below:

(in thousands of HRK)	Group		Company	
	31 December 2021	31 December 2020	31 December 2021	31 December 2020
Provisions for termination benefits	1,904	1,890	1,904	1,890
Provisions for jubilee awards	1,342	1,535	1,342	1,535
Other provisions	1,979	2,430	1,979	2,430
Total	5,225	5,855	5,225	5,855

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

Provisions for termination benefits are formed for compensations paid for retirement and jubilee awards (based on years of service). The amount of the termination benefit depends on whether the employee met all required conditions for retirement, and the amount of the jubilee award depends on the number of years of service in the Company. The compensation amount is determined based on the relevant monthly salaries. In 2021, the annual employee turnover rate of 10.56 % (2020: 10.06 %) was used for the calculation of the provision.

Movements in provisions:

(in thousands of HRK)	Group		Company	
	31 December 2021	31 December 2020	31 December 2021	31 December 2020
At 1 January	5,855	5,459	5,855	5,459
Income from reversal of provisions	(631)	(974)	(631)	(966)
Additions	1	1,370	1	1,362
At 31 December	5,225	5,855	5,225	5,855

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

	2021	2020
Discount rate (annual)	0.59%	0.64%
Employee turnover rate (annual)	10.56%	10.60%

30. Liabilities to undertakings within the Group

As at 31 December 2021, the Company has a liability to Varteks Pro d.o.o. in the amount of HRK 631 thousand, and a liability to Varteks SI d.o.o. in the amount of HRK 2 thousand. As at 31 December 2020, the Company had a liability to Varteks Pro d.o.o. in the amount of HRK 62 thousand.

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

(in thousands of HRK)	31 December 2020	31 December 2020
Varteks Pro	822	1
Total	822	1

32. Liabilities for loans, deposits, etc.

(in thousands of HRK)	Group		Company	
	31 December 2021	31 December 2020	31 December 2021	31 December 2020
Non-current				
Liabilities for loans	21,000	-	21,000	-
Liabilities for deposits received	136	-	136	-
Total	21,136	-	21,136	-
Current:				
Liabilities for loans	48,450	47,456	48,450	47,456
Interest payable	81	-	81	-
Liabilities for deposits received	19	11,355	19	11,355
Total	48,550	58,811	48,550	58,811

(in thousands of HRK)	Group		Company	
	31 December 2021	31 December 2020	31 December 2021	31 December 2020
EUR	-	1,506	-	1,506
HRK	69,450	45,950	69,450	45,950
Total	69,450	47,456	69,450	47,456

Non-current liabilities for loans by creditors:

(u tisućama kuna)	Kam.stopa	Group		Company	
	% god	31 December 2021	31 December 2020	31 December 2021	31 December 2020
Adriatic Osiguranje	3.75%	2,000	-	2,000	-
Stype CS	0.5%	6,000	-	6,000	-
Stype CS	7%	13,000	-	13,000	-
Ukupno		21,000	-	21,000	-

Current liabilities for loans by creditors:

(in thousands of HRK)	Interest rate	Group		Company	
	% p.a.	31 December 2021	31 December 2020	31 December 2021	31 December 2020
Nenad Bakić	0.0%	41,950	45,950	41,950	45,950
Nenad Bakić	3.0%	2,500	-	2,500	-
Stjepan Čajić	0.0%	4,000	-	4,000	-
Hugo Boss	0.5%	-	1,506	-	1,506
Total		48,450	47,456	48,450	47,456

33. Liabilities to banks and other financial institutions

(in thousands of HRK)	Group		Company	
	31 December 2021	31 December 2020	31 December 2021	31 December 2020
Long-term bank borrowings	75,576	82,662	75,576	82,662
Long-term lease liabilities	16	28	16	28
Refundable loan (Poreč)	-	166	-	166
Total	75,592	82,856	75,592	82,856
Current portion of long-term borrowings	(12,519)	(9,387)	(12,519)	(9,387)
Total long-term liabilities to financial institutions	63,073	73,469	63,073	73,469

Current liabilities:

(in thousands of HRK)	Group		Company	
	31 December 2021	31 December 2020	31 December 2021	31 December 2020
Bank borrowings	17,513	18,410	14,893	14,284
Interest payable	467	214	434	161
Current portion of long-term borrowings	12,519	9,387	12,519	9,387
Total	30,499	28,011	27,846	23,832

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

Creditor – Bank (in thousands of HRK)	Interest rate at year end % p.a..	Purpose	31 December 2021	31 December 2020
Zagrebačka banka d.d. Zagreb / CBRD (i)	3M EURIBOR + 3	working capital	64,449	70,016
Raiffeisen bank Austria d.d. (ii)	3M EURIBOR + 5.868	refinancing	2,233	2,975
Interest on borrowing ZABA /CBRD (i)		refinancing	8,894	9,670
Total:			75,576	82,661

Other financial institutions

Porsche Leasing d.o.o. Zagreb (iii)	7.79	vehicles	16	28
				-
Total:			16	28
Grand total:			75,592	82,689
Current portion of long-term borrowings			(12,519)	(9,373)
Current portion of long-term fin. lease liabilities			-	(13)
Total non-current portion:			63,073	73,303

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 (in thousands of HRK)	Interest rate at year end % p.a.	Purpose	31 December 2021	31 December 2020
Zagrebačka banka d.d. Zagreb / CBRD	3M EURIBOR + 3	working capital	64,449	70,016
Raiffeisen bank Austria d.d.	3M EURIBOR + 5.868	refinancing	2,233	2,975
Interest on borrowing ZABA /CBRD			8,894	9,670
Total:			75,576	82,661
Other financial institutions				
Porsche Leasing d.o.o. Zagreb	7.79	vehicles	16	28
Refundable loan (Poreč)			-	166
Total:			16	194
Grand total:			75,592	82,855
Current portion of long-term borrowings			(12,506)	(9,373)
Current portion of long-term fin. lease liabilities			(13)	(13)
Total non-current portion:			63,073	73,469

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

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

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

(ii) Raiffeisenbank Austria d.d.

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

(iii) Porsche leasing d.o.o.

Borrowing for the purchase of a company vehicle in 2017.

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

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

Creditor – Bank (in thousands of HRK)	Interest rate %	Purpose	31 December 2021	31 December 2020
Karlovačka banka d.d.(i)	4.7	export	1,919	2,284
PBZ CARD (iii)	0	working capital	975	-
Erste&Steiermarkische Bank d.d./CBRD (iv)	4.95	working capital	12,000	12,000
Total:			14,894	14,284
Interest payable			434	162
Current portion of long-term borrowings			12,518	9,386
Grand total:			27,846	23,832

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

Creditor – Bank (in thousands of HRK)	Interest rate %	Purpose	31 December 2021	31 December 2020
Karlovačka banka d.d. (i)	4.7	export	1,919	2,284
PBZ CARD (ii)	6	export	975	-
Zagrebačka banka d.d. (iii)	3.53	working capital	2,620	4,126
Erste&Steiermarkische Bank d.d./CBRD	4.95		12,000	12,000
Total:			17,514	18,410
Interest payable			468	215
Current portion of long-term borrowings			12,518	9,386
Grand total:			30,499	28,011

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 issuing 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) PBZ CARD d.o.o.

The borrowing approved for the payment of trade payables through VISA BUSINESS PLATINUM credit card in a way that PBZ Card pays the supplier the required amount entirely, and Varteks pays its liability to PBZ Card in instalments.

(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.

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

(iii) Erste & Steiermarkische Bank d.d.

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

(iv) Erste & Steiermarkische Bank d.d./CBRD

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

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

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

(in thousands of HRK)	Average weighted interest rate	31 December 2021	31 December 2020
Borrowings from banks and other financial institutions at variable interest rates	3.08%	76,987	82,586
Borrowings from banks and other financial institutions at fixed interest rates	5.79%	36,178	14,284

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

(in thousands of HRK)	Average weighted interest rate	31 December 2021	31 December 2020
Borrowings from banks and other financial institutions at variable interest rates	3.11%	82,586	81,858
Borrowings from banks and other financial institutions at fixed interest rates	4.60%	18,410	13,682

34. Trade payables

	Group		Company	
(in thousands of HRK)	31 December 2021	31 December 2020	31 December 2021	31 December 2020
Domestic suppliers	20,011	21,803	18,870	21,370
Foreign suppliers	6,101	4,943	6,101	4,929
Total	26,112	26,746	24,971	26,299

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

(in thousands of HRK)	Group		Company	
	31 December 2021	31 December 2020	31 December 2021	31 December 2020
Taxes, contributions, etc. payable	5,115	5,828	4,662	5,216
Contributions from salaries	1,138	3,112	1,101	3,033
Contributions on salaries	871	2,152	841	2,093
Taxes from salaries, wages and fees	108	103	100	93
Total	7,231	11,195	6,704	10,435

36. Lease liabilities

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

(in thousands of HRK)	Group		Company	
	31 December 2021	31 December 2020	31 December 2021	31 December 2020
Lease liabilities (IFRS 16)				
Current portion	4,421	4,062	4,421	4,062
Non-current portion	12,159	9,224	12,159	9,224
Total	16,580	13,286	16,580	13,286

Interest expense included in financial expenses in 2021 for the Company and the Group amounted to HRK 1,074 thousand (31 December 2020: HRK 993 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 1,754 thousand and are included in rental costs (2020: HRK 578 thousand)

37. Other non-current and current liabilities

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

(in thousands of HRK)	Group		Company	
	31 December 2021	31 December 2020	31 December 2021	31 December 2020
Non-current:				
Taxes and contributions payable to TA – Debt settlement agreement	-	657	-	657
Liabilities to RH CERP	505	823	505	823
Deferred income – grant for financing purchase of non-current tangible assets	358	375	358	375
Total	863	1,855	863	1,855
Current:				
Liabilities for sold flats	3,799	3,793	3,799	3,793
Liabilities to RH CERP	398	398	398	398
Compensation to Supervisory Board members payable	216	216	216	216
Other liabilities	552	599	551	599
Total	4,964	5,006	4,963	5,006

38. Accrued expenses and deferred income

(in thousands of HRK)	Group		Company	
	31 December 2021	31 December 2020	31 December 2021	31 December 2020
Liabilities for unused vacation days	2,265	2,880	2,265	2,880
Interest not yet due for housing loan	10	14	10	14
Deferred income – grant for financing purchase of non-current tangible assets	17	17	17	17
Other	292	342	702	707
Total	2,584	3,253	2,994	3,618

39. Related-party transactions

Operating income:

(in thousands of HRK)	2021	2020
Varteks Pro	8,547	5,353
Varteks Si	2,207	-
V-projekt	-	5
Total	10,754	5,358

Other operating income:

(in thousands of HRK)	2021	2020
Varteks Pro	380	431
V-projekt	-	10
Total	380	441

Material costs:

(in thousands of HRK)	2021	2020
Costs of raw materials and consumables		
Varteks SI	2	-
Varteks Pro	365	145
	367	145
Cost of goods sold		
Varteks Pro	784	50
	784	50
Other external expenses		
Varteks Pro	5	73
Varteks SI	-	-
Selectio d.o.o.	-	1
Tau on-line d.o.o.	14	9
Cifra usluge j.d.o.o.	431	347
	450	430
Total	1,601	625

39. Related-party transactions (continued)

Finance income and costs:

(in thousands of HRK)	2021	2020
Loan income from related parties - Varteks Si d.o.o. groups	17	-
Other interest income – Varteks Pro d.o.o. group	5	-
Varteks SI	15	-
Others	396	692
Total finance income from related parties	433	692
Foreign exchange differences and other finance cost from related parties		
Nenad Bakić	(42)	-
Stype CS d.o.o.	(27)	-
Stype Norway AS	(5)	-
V-projekt	-	(82)
Varteks Pro	(175)	(82)
Foreign exchange differences and other finance cost from related parties		
Varteks Si d.o.o.	(20)	-
Ostali	(396)	(692)
Total finance cost – related parties	(665)	(856)

Trade receivables:

(in thousands of HRK)	2021	2020
Varteks PRO	3,025	-
Varteks Si d.o.o.	2,203	-
Total	5,228	-

Borrowings:

Loans given

(in thousands of HRK)	Interest rate % p.a.	2021	2020
Varteks Si	3.00	970	-
Total		970	-

39. Related party transactions (continued)

Loans given:

(in thousands of HRK)	Interest rate % p.a.	2021	2020
Varteks Pro	3.00	678	1
Nenad Bakić, Zagreb	0.00	41,950	45,950
Nenad Bakić, Zagreb	3.00	2,500	-
Stype CS d.o.o.	7.00	19,000	-
Stjepan Čajić	0.00	4,000	-
Total		68,128	45,951

Trade payables:

(in thousands of HRK)	2021	2020
Varteks Pro	628	62
Tau on-line d.o.o.	3	6
Total	631	68

40. Financial instruments and risk management

(a) Financial instruments

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

Fair value of financial assets and liabilities

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

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

Loans, deposits, etc.

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

Non-current receivables

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

40. Financial instruments and risk management (continued)

a) Financial instruments (continued)

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.

b) Objectives and risk management policies

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

	Group		Company	
(in thousands of HRK)	2021	2020	2021	2020
Lease liabilities – current portion	4,421	4,062	4,421	4,062
Lease liabilities – non-current portion	12,159	9,224	12,159	9,224
Total borrowings	164,081	160,291	161,427	156,113
Less: Short-term deposits given and cash and cash equivalents	(6,415)	(702)	(3,939)	(693)
Net debt	174,246	172,875	174,068	168,706
Capital and reserves	57,116	15,859	56,462	13,651
Gearing ratio	305.07%	1090.08%	308.29%	1,235.85%

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 2021, credit risk is mainly concentrated on these assets. Credit quality of trade receivables not yet due by credit ratings is presented in note 24, the structure of cash and cash equivalents in banks by credit rating is presented in note 25.

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.

40. Financial instruments and risk management (continued)

b) Objectives and risk management policies (continued)

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 2021 and 31 December 2020 according to contractual undiscounted payments:

Company

31 December 2021	Contractual cash flows	0 – 12 months	1-2 years	2-5 years	More than 5 years
Long-term borrowings	84,209	-	11,316	62,545	10,348
Short-term borrowings and loans received	77,218	77,218	-	-	-
Long-term lease liabilities (IFRS 16)	12,159	-	4,256	6,354	1,549
Short-term lease liabilities (IFRS 16)	4,421	4,421	-	-	-
Current trade payables	24,971	24,971	-	-	-
Total	202,978	106,610	15,572	68,899	11,897

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

Group

31 December 2021	Contractual cash flows	0 – 12 months	1-2 years	2-5 years	More than 5 years
Long-term borrowings	82,409	-	11,316	62,545	10,348
Short-term borrowings and loans received	79,872	79,872	-	-	-
Long-term lease liabilities (IFRS 16)	12,159	-	4,256	6,354	1,549
Short-term lease liabilities (IFRS 16)	4,421	4,421	-	-	-
Current trade payables	26,112	26,112	-	-	-
Total	204,973	110,405	15,572	68,899	11,897

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

40. Financial instruments and risk management (continued)

The following overview presents the maturity structure of the Company's and the Group's current liabilities as at 31 December 2021 and 2020 in HRK:

Company

(in thousands of HRK)	0 - 180 days	180 – 270 days	> 270 days	Total
Short-term borrowings and loans received				
At 31 December 2021	20,701	3,133	52,561	76,395
At 31 December 2020	18,709	3,565	60,370	82,644

Group

(in thousands of HRK)	0 - 180 days	180 – 270 days	> 270 days	Total
Short-term borrowings and loans received				
At 31 December 2021	23,355	3,133	52,561	79,049
At 31 December 2020	22,888	3,565	60,369	86,822

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

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.

Company	Increase/decrease in basis points	Impact on pre-tax profit in thousands of HRK
2021		
HRK	+/- 50	393
2020		
HRK	+/- 50	488

Group	Increase/decrease in basis points	Impact on pre-tax profit in thousands of HRK
2021		
HRK	+/- 50	393
2020		
HRK	+/- 50	508

40. Financial instruments and risk management (continued)

Sensitivity analysis for foreign currency risk

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

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

Company	Long-term borrowings		Short-term borrowings and loans received		Trade receivables	
(in thousands of HRK)	31 December 2021	31 December 2020	31 December 2021	31 December 2020	31 December 2021	31 December 2020
HRK	21,136	166	61,570	70,973	6,155	2,044
EUR	63,073	73,303	14,826	11,671	26,498	2,478
Total	84,209	73,469	76,396	82,644	32,653	4,522

Group	Long-term borrowings		Short-term borrowings and loans received		Trade receivables	
(in thousands of HRK)	31 December 2021	31 December 2020	31 December 2021	31 December 2020	31 December 2021	31 December 2020
HRK	21,136	166	64,223	75,151	5,754	4,631
EUR	63,073	73,303	14,826	11,671	24,379	2,478
Total	84,209	73,469	79,049	86,822	30,133	7,109

Company	Increase/decrease in basis points	Impact on pre-tax profit in thousands of HRK
2021		
EUR	+/- 50	518
2020		
EUR	+/- 50	573

Group	Increase/decrease in basis points	Impact on pre-tax profit in thousands of HRK
2021		
EUR	+/- 50	518
2020		
EUR	+/- 50	573

41. Significant legal cases

Varteks as the Defendant

1. Plaintiff the City of Belgrade

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

Varteks d.d. as the Plaintiff

2. Defendant Kroko International d.o.o. Zagreb

Varteks d.d. as the plaintiff requires a compensation of damage arisen due to non-performance of contractual obligations by the plaintiff under the Agreement on the business and technical cooperation. The claim amount is HRK 5,204,170.00. The first-instance ruling was in favour of Varteks. The defendant filed a complaint. By the decision of the High Commercial Court, the case was returned to the first-instance court for a repeated procedure. In the repeated procedure, the first-instance ruling stated we are entitled to HRK 3,663,578.00 for damages. The verdict is final. Enforcement is underway, but the defendant is blocked and collection is not possible.

42. Contingent liabilities

a) Co-debtorship, guarantees

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

b) Estimate of financial impact of contingent liabilities

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

43. Changes in liabilities arising from financing activities

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

Group	31 December 2019	Cash flow	Foreign exchange differences	Other non-cash items	31 December 2020
Non-current					
Liabilities to banks and other financial institutions	76,315	5,234	1,238	(9,318)	73,469
Lease liabilities	12,155	-	-	(2,931)	9,224
Current					
Borrowings	48,988	9,823	-	-	58,811
Liabilities to banks and other financial institutions	14,623	-	-	13,388	28,011
Lease liabilities	4,972	-	-	(910)	4,062
Total	157,053	15,057	1,238	229	173,577

Group	31 December 2020	Cash flow	Foreign exchange differences	Other non-cash items	31 December 2021
Non-current					
Liabilities to banks and other financial institutions	73,469	11,839	(259)	(840)	84,209
Lease liabilities	9,224	-	257	2,678	12,159
Current					
Borrowings	58,811	20,548	6	(30,815)	48,550
Liabilities to banks and other financial institutions	28,011	(3,834)	6	6,317	30,500
Lease liabilities	4,062	-	-	374	4,436
Total	173,577	28,553	10	(22,286)	179,854

43. Changes in liabilities arising from financing activities (continued)

Company	31 December 2019 Restated	Cash flow	Foreign exchange differences	Other non-cash items	31 December 2020
Non-current					
Liabilities to banks and other financial institutions	76,315	5,234	1,238	(9,318)	73,469
Lease liabilities	12,155	-	-	(2,931)	9,224
Current					
Borrowings within the Group	2,897	2,297	-	(5,193)	1
Borrowings	48,988	9,823	-	-	58,811
Liabilities to banks and other financial institutions	14,601	-	-	9,231	23,832
Lease liabilities	4,972	-	-	(910)	4,062
Total	159,928	17,354	1,238	(9,121)	169,399

Company	31 December 2020 Restated	Cash flow	Foreign exchange differences	Other non-cash items	31 December 2021
Non-current					
Liabilities to banks and other financial institutions	73,469	11,839	(259)	(840)	84,209
Lease liabilities	9,224		257	2,678	12,159
Current					
Borrowings within the Group	1	821	-	-	822
Borrowings	58,811	20,548	6	(30,815)	48,550
Liabilities to banks and other financial institutions	23,832	(1,993)	6	6,001	27,846
Lease liabilities	4,062	-	-	374	4,436
Total	169,399	31,215	10	(22,602)	178,022

44. Events after the balance sheet date

On 2 March 2022, the Company entered into an Agreement on the sale of real estate in Novi Marof, Radnička cesta 3. The subject of the sale is plot no. 2349/1, registered in the land register file 2960 and 2349/2, registered in the land register file 2961 of the cadastral municipality Novi Marof, which is the plant in Novi Marof, with a total area of 33,389 m2. The purchase price achieved is in line with the fair market value of the property.

Proceeds from the sale were used in part to settle a portion of borrowings from banks, to settle a portion of the due trade payables and to pay the salaries to employees.

In April 2022, Varteks d.d. announced that it has information that negotiations are underway regarding the purchase of the claims that financial creditors have from Varteks d.d. with a potential buyer of those claims. To our knowledge, negotiations are still in progress and have not been finalised.

On 21 April 2022, an Agreement on the conditions of access and settlement of the debt was concluded with the shareholder Stjepan Čajić. The agreement regulates the conditions under which Mr. Stjepan Čajić will join Varteks' debt to creditors, the Croatian Bank for Reconstruction and Development and Zagrebačka banka d.d.

44. Events after the balance sheet date (continued)

On 24 February 2022, Russia launched a large-scale invasion of Ukraine, marking the escalation of the current Russian-Ukrainian war that began in 2014. The greatest impact of the war in Ukraine on the Croatian economy is visible through the increase in the price of energy, primarily oil and gas, but consequently on the price of electricity. During October 2021, the company's Management Board and management managed to agree on a fixed price for gas and electricity suppliers for the year in advance. In this way, a significant price increase was annulled and the risk of the impact of the increase in energy prices was minimized.
The company does not have active contracts with customers or suppliers from Russia or Ukraine, so the war there does not have a significant impact on regular business.

The Company and the Group are actively monitoring the situation and will take all necessary measures to minimize potential negative impacts in the event of deterioration.

45. Approval of the financial statements

The consolidated and unconsolidated financial statements were approved for issuance by the Management Board on 29 April 2022.

Signed on the behalf of the Management:

VARTEKS d. d.
Zagrebačka 94 / HR-42000 VARAŽDIN / 11

Tomislav Babić
President of the Management Board

Varteks d.d.
Zagrebačka ulica 94
42 000 Varaždin

VARTEKS

In Varaždin, 29th April 2022

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

MANAGEMENT REPORT

for 2021

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

The crisis caused by the COVID-19 pandemic continued in 2021, which significantly affected the overall business and financial results of the Varteks Group last year. Despite the reduction in orders from foreign customers and less revenue from sales compared to the plan, there were no layoffs.

In 2021, the Management Board of the Company focused on implementing the strategic decision that the future growth of the business is based on the development of its own fashion brand through the retail channel. The opening of new stores continued, with the renovation of existing ones while some stores were moved to new locations. At the beginning of 2021, a new company was founded in Slovenia, and during the year two retail stores were opened in Maribor and Ljubljana, which brought Varteks back to the Slovenian market after many years, which was recognized as a logical continuation of business growth.

Work on the monetization of the Company's inactive assets resulted in the decision of the Government of the Republic of Croatia to declare the project: "Varteks district - urban regeneration" a strategic investment project of the Republic of Croatia in the middle of the year. The goal of this project is to maintain the business development of Varteks d.d. and the preservation of existing jobs, as well as the improvement of the standards of the citizens of Varaždin in a way that the real estate potential of the existing location through the process of urban transformation is brought to new public purposes and economic uses. Varteks has no intention of investing in real estate projects on its own, but only to sell non-operating assets, preserving historically valuable real estate. The first signed contract on the sale of part of the real estate, and shortly afterwards the payment of the first installment of the purchase price, settled part of the debt to HBOR and Zagrebačka banka, and the second half was used to settle other existing liabilities and prepare and launch a new autumn collection. The activities of selling inactive assets will continue in the following period. The process of creating a new organizational structure has been completed, as well as a proposal for a new systematization of jobs, which will enable more transparent, simpler and fairer calculation of salaries, in order to increase business efficiency and increased employee satisfaction.

In 2021, the Varteks Group achieved an increase in operating revenues of 32.1% compared to 2020, generating HRK 106 million in sales revenues. Varteks d.d. generated operating revenues of HRK 145.4 million and an increase of 41.4% compared to last year, while sales revenues amounted to HRK 93.7 million. Other operating income was generated mainly from the sale of inactive assets (real estate).

Varteks Group

	2021 HRK thousand	**2020** HRK thousand
Profit/loss from operating activities	**3.617**	**(23.196)**
Depreciation	3.980	4.151
Depreciation of right of use (IFRS 16)	5.258	5.278
Depreciation in total	9.238	9.429

Invoiced rent (not an expense under IFRS 16 application from 1 January 2019)	(6.084)	(4.880)
EBITDA before IFRS 16 impact	**6.771**	**(18.647)**
One off items:		
Income from reversal of provisions	(2.775)	(965)
Income from one-off grants	(8.276)	(20.650)
Severance	78	169
Other provisions	-	1.931
Gain on change in fair value of investment property (IAS40)	(29.635)	-
Real estate sales	(18.823)	-
Spent property	1.295	-
Impairment of inventories	521	1.652
Impairment of non-current assets	1.940	6.819
Impairment of receivables	393	109
Normalised EBITDA before effects of IFRS 16	**(48.511)**	**(29.582)**
Effects of IFRS 16	6.084	4.880
Normalised EBITDA after effects of IFRS 16	**(42.427)**	**(24.702)**

In financial activities in 2021, a net cost of HRK 8.5 million was realized. The majority of financial expenses in 2021 relate to interest expenses in the amount of HRK 8.6 million.

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

The operations of the Varteks Group in 2021 are strongly influenced by the crisis caused by the pandemic virus COVID-19 through reduced demand for its own products as well as reduced orders from customers abroad. Part of the liabilities to workers was settled from the received state aid for the preservation of jobs - shortening of working hours, which mitigated the negative effects of the pandemic, ie retained jobs.

The Company's management continues to place great emphasis on all cost control and cash flow management. At the end of 2021, meetings were held with most suppliers in an effort to pre-define prices for the next period and for 2022, especially in relation to energy prices (electricity, gas) as well as prices of fabrics and materials.

The most significant burden and risk remains significantly impaired liquidity. The Management Board is working intensively on long-term liquidity and reducing the Company's indebtedness, primarily through the monetization of the Company's real estate. Activities for the sale of inactive assets will continue in 2022.

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

- strengthening the domestic brand while increasing the quality and breadth of the range and new creations
- the opening of two retail stores in Slovenia in 2021 in Maribor and Ljubljana represents the long-awaited return of Varteks to the Slovenian market, ie to foreign markets in general
- sales through the webshop still have a tendency to grow, which is a positive factor
- development of a new brand with its quality, price and new creations will give new impetus to expand into foreign markets of the EU and beyond, and positive feedback from new customers in the form of potential orders, are a strong impetus to new sales channels, new revenues and increasing the occupancy of production capacities
- the sale of inactive assets and the resulting inflows reduced credit indebtedness to financial institutions
- in the second half of 2021, preparations began with the implementation of the new ERP, which will enable computerization and automation of the production process, significant savings in production preparation and production itself. Also, through process automation it is expected that the finance system will be faster and more efficient which will lead to additional savings

- the process of negotiating with the union on defining new terms of the collective agreement, through a new systematization of jobs and fairer calculation of wages, which will provide a higher degree of transparency, greater employee satisfaction and is believed to increase labor productivity
- new trends in world markets and the tendency to return to production in the EU, is a strong "trump card" in negotiations with existing foreign partners (Hugo Boss) and potentially new customers who want to return production to the EU and ensure a high level of quality.

R&D activities

Research and development activities are mainly related to the development of new collections, the launch of a project to restructure the production process and the process of implementing a new ERP system. Management has initiated negotiations with the union on reorganization, new systematization, and the introduction of a new, fairer and more transparent payroll system.

Information on treasury shares

In the reporting period, the parent company did not repurchase its own shares. As at 31 December 2021, the parent Company has no own shares.

Information on existing subsidiaries of the parent company

As at 31 December 2021, the parent company has no active subsidiaries.

As at 31 December 2021, the parent company has the investment in the following dependent companies:

- Varteks Pro d.o.o.
- Varteks Si d.o.o., Republic of Slovenia

Varteks Pro d.o.o.
Varteks Pro d.o.o. is 100% owned by Varteks d.d. The main activity of the company is sewing special purpose clothing for special clients (most often the police and the army).
In 2021, the company generated HRK 22.8 million in revenue (HRK 22.6 million in 2020). The company made a profit of HRK 37 thousand (in 2020 a profit of HRK 83 thousand). The company's assets as at 31 December 2021 amounted to HRK 9.5 million (as at 31 December 2020, HRK 8 million). Net capital as at 31 December 2021 amounted to HRK 2.2 million (as at 31 December 2020, HRK 2.2 million). The Company employed 31 persons as at 31 December 2021 (as at 31 December 2020, 34). The director of the company is Mrs. Natalija Vnučec.

Varteks Si d.o.o.
Varteks Si d.o.o. is 100% owned by Varteks d.d. The main activity of the company is the sale of clothing.
In 2021, the company generated revenues in the amount of HRK 1.5 million (the company was established at the beginning of 2021). The company made a loss of HRK 1.6 million. The company's assets as at 31 December 2021 amounted to HRK 2,1 million. The company employed 10 people as of December 31, 2021. The director of the company is Mrs. Marjana Cedilnik.

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. Liquidity risk and cash flow risk management are described in the financial statements.

The Management Board continues to negotiate with the largest creditors, especially with credit institutions, and through the sale of inactive assets wants to reduce credit indebtedness but ensure that most of the inflows remain in the Company, which will allow further business continuity.

Tomislav Babić

President of the Management Board



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 and a Remuneration Committee, each of 3 members: President of the Committee, Deputy President, and Member. All members of the Audit Committee and the Remuneration Committee are members of the Supervisory Board.

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

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

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

- *The Company did not pay dividends in 2021, therefore no decisions were made on the payment of dividends.*

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

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

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

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

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

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

- *The Company does not actively work on creating a calendar of important events expected in the business year, but timely publishes all information related to changes in the date of publication of*

financial results in relation to legally defined deadlines, dates of the General Assembly, changes in ownership structure, risk factors and all other information that may be considered price sensitive or otherwise relevant to the Company, its financial position and management.

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

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

During 2021, the Management Board consisted of one member who is also the President of the Management Board. The Annual Report of the Management Board is an integral part of the Annual audited financial statements to be submitted to the General Assembly.

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

The General Assembly may make decisions if shareholders whose shares exceed 30% of the share capital participate in its work. Decisions are taken by public vote, by a majority vote and a three-quarters vote. All information regarding the General Assembly is published on the web pages of the Court Register, the Zagreb Stock Exchange, HANFA and HINA. In 2021, two regular Assembly of the Company 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 2021 owned the Company's shares as follows:

Name and surname	***Number of shares***	***% share***
Nenad Bakić - President of the Supervisory Board	*1.917.403*	*38.14*
Igor Žonja - Deputy President of the Supervisory Board	*62.759*	*1.25*
Božica Čićek Mutavdžić - Member of the Supervisory Board	*140*	*0.00*
Tomislav Babić - President of the Management Board	*4.170*	*0.08*
total:	***1.984.472***	***39.47***

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 2020**		
category	M	F	total
Supervisory Board	3	2	5
Management Board/ executive director	2	-	2
Total:	5	2	7

Varteks d.d.	**31 Dec 2021**		
category	M	F	total
Supervisory Board	3	2	5
Management Board/ executive director	1	-	1
Total:	4	2	6

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

Varteks Group	**31 Dec 2021**		
category	M	F	total
Supervisory Board	3	2	5
Management Board/ executive director	1	1	2
Total:	4	3	7

Varteks d.d.

President of the Management Board

Tomislav Babić

