ITX ALBANIA SHPK

Independent Auditors' Report and
Financial Statements
as at and for the year ended December 31, 2019

CONTENTS

Deloitte.

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders and Management of ITX Albania SHPK

Opinion

We have audited the financial statements of ITX Albania SHPK ("the Company"), which comprise the statement of financial position as at December 31, 2019, and the statement of profit or loss and other comprehensive income, statement of changes in equity and cash flows statement for the year ended, and a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2019, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISA"s). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants ("IESBA Code") and with the ethical requirements that are relevant to our audit of the financial statements in Albania, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter

We draw attention to Note 26 "Events after the reporting date" in the financial statements describing management's evaluation of the actual or potential impact of the effects of the COVID-19 coronavirus on the entity. Our opinion is not modified in respect of this matter.

Other Information

Management is responsible for other information. Other Information contains information provided in the Performance Activity Report and Internal Management Report, prepared by the Management in accordance to Article 17 and 19 of Law 25/2018, date January 19, 2019 "On Accounting and Financial Statements", changed, but do not contain financial statements and our auditor report on these statements. The Performance Activity Report and Internal Management Report are expected to be available after the date of the auditors` report. Our opinion over financial statements does not contain other information and we do not convey any conclusion that provides assurance about this information. In relation to the audit of financial statements we have the responsibility to read other information, identified as above when they are available to us and assess whether these information have material inaccuracy with financial statements or the acknowledgement we have received during audit or otherwise, if they appear to be material misstatement. After reading of the Performance Activity Report and Internal Management Report, if we conclude that there are material misstatement, we are required to communicate the issue with those charged with governance.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so. Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

Auditor’s Responsibilities for the Audit of the Financial Statements (continued)

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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Engagement Partner
Statutory Auditor
Enida Cara

June 16, 2020
Tirana, Albania

(Amounts are expressed in thousand LEK)

	Note	As at December 31, 2019	As at December 31, 2018
ASSETS			
Current Assets			
Cash and cash equivalents	**5**	553,803	402,536
Inventory	**6**	205,774	273,456
Other current assets	**7**	13,852	23,937
Total Current Assets		**773,429**	**699,929**
Non - Current Assets			
Right of use assets	**8**	60,437	-
Plant and equipment	**9**	839,161	964,399
Deferred tax assets	**10**	30,622	27,544
Total non-current assets		**930,219**	**991,943**
Total assets		**1,703,649**	**1,691,872**
LIABILITIES			
Current liabilities			
Trade payables	**11**	119,428	146,462
Deferred revenue	**12**	96,666	32,269
Lease liability	**14**	44,406	-
Other liabilities	**13**	107,008	78,234
Total current liabilities		**367,508**	**256,965**
Non - current liabilities			
Deferred revenue	**12**	129,619	310,180
Total non - current liabilities		**129,619**	**310,180**
Total liabilities		**497,127**	**567,145**
Equity			
Share capital		400,000	400,000
Profit of the year		806,522	724,727
Total equity		**1,206,522**	**1,124,727**
Total liabilities and equity		**1,703,649**	**1,691,872**

The financial statements have to be read in conjunction with the notes set out on pages 10 to 36, forming an integral part of the financial statements.

(Amounts are expressed in thousand LEK)

	Note	For the year ended December 31, 2019	For the year ended December 31, 2018
Sales	**15**	3,609,865	3,294,850
Other income	**17**	117,980	31,539
Cost of goods sold	**16**	(1,862,287)	(1,659,552)
Gross profit		**1,865,558**	**1,666,837**
Expenses			
Personnel expenses	**18**	(183,973)	(175,127)
Depreciation	**9**	(142,862)	(115,113)
Depreciation for ROU assets	**8**	(21,933)	-
Other operating expenses	**19**	(563,927)	(518,097)
Profit from operations		**952,863**	**858,500**
Gain from foreign exchange, net	**20**	4,879	(4,249)
Interest expense for Lease Liability	**14**	(2,166)	**-**
Profit before tax		**955,576**	**854,251**
Income tax expenses	**21**	(149,054)	(129,524)
Net Profit		**806,522**	**724,727**
Other comprehensive income		**-**	**-**
Total comprehensive income		**806,522**	**724,727**

The financial statements have to be read in conjunction with the notes set out on pages 10 to 36, forming an integral part of the financial statements

(Amounts are expressed in thousand LEK)

	Equity	Retained earning	Total
As at January 1, 2018	**400,000**	**637,165**	**1,037,165**
Dividends paid	-	(637,165)	**(637,165)**
Profit of the year	-	724,727	**724,727**
Total comprehensive income for the year ended as at December 31, 2018	-	**724,727**	**724,727**
As at December 31, 2018	**400,000**	**724,727**	**1,124,727**
As at January 1, 2019	**400,000**	**724,727**	**1,124,727**
Dividends paid	-	(724,727)	**(724,727)**
Profit of the year	-	806,522	**806,522**
Total comprehensive income for the year ended as at December 31, 2019	**400,000**	**806,522**	**1,206,522**
As at December 31, 2019	**400,000**	**806,522**	**1,206,522**

The financial statements have to be read in conjunction with the notes set out on pages 10 to 36, forming an integral part of the financial statements.

The financial statements have been approved and signed on June 15, 2020 by:

Ana Rogic
Administrator

ITX Albania
NIPT: L32326015U
SH.P.K

Nertila Cepa
Accountant

ITX Albania SHPK
Statement of Cash Flow for the year ended December 31, 2019
(Amounts are expressed in thousand LEK)

	For the year ended December 31, 2019	For the year ended December 31, 2018
Cash flows from operating activities		
Net profit before income taxes	**955,576**	**854,251**
Adjustments for:		
Depreciation and amortization of non-current assets	164,796	115,113
Financial expenses for lease liability	2,166	
Losses on disposed assets	1,411	26
Foreign exchange effect on cash and cash equivalents held in foreign currency	(4,879)	(4,249)
Movements in working capital:		
Decrease / (Increase) in Trade and Other Receivables	7,006	(16,271)
(Increase) in ROU	(82,371)	-
Decrease / (Increase) in inventories	67,682	(64,119)
(Decrease) / Increase in deferred revenue	(116,163)	8,661
Increase in trade and other payables	1,740	19,332
Increase in Lease Liabilities	44,406	-
Income tax paid	(148,992)	(135,512)
Net cash flows generated from operations	**892,377**	**777,232**
Cash flows from investing activities		
Acquisition of plant and equipment	(21,263)	(405,727)
Net cash used in investing activities	**(21,263)**	**(405,727)**
Cash flows from financing activities		
Payment of dividends	(724,727)	(637,165)
Net cash flows used in financing activities	**(724,727)**	**(637,165)**
Net increase /(decrease)in cash and cash equivalents	**146,387**	**(265,660)**
Cash and cash equivalents at the beginning of the year	**402,536**	**663,947**
Foreign exchange effect on cash and cash equivalents held in foreign currency	4,879	4,249
Cash and cash equivalents at the end of the year	**553,803**	**402,536**

The financial statements have to be read in conjunction with the notes set out on pages 10 to 36, forming an integral part of the financial statements.

1. GENERAL INFORMATION

ITX-Albania SHPK ("the Company") was incorporated as a company with limited liability on November 27, 2013. The Company main office is located in Tirana, Albania. The Company is 100% owned by Zara Holding BV ("or the immediate parent company"). The Ultimate Beneficial Owners is Amancio Ortega Gaona. The capital of the Company is compound of 100 quotes of 4000 thousand LEK each. The legal representative of the Company as at December 31, 2019 is Ana Rogic.

The Company's main activity is the sales of fashion and home products through retails stores. The Company is currently managing eight stores for six different brands: Zara, Zara Home, Bershka, Stradivarius, Pull & Bear and Massimo Dutti. Six of these stores are located in Tirana East Gate ("TEG") shopping center in Lunder, Tirana, Albania. Five stores are opened since 16^{th} of April 2014. Three new stores are opened in September 2018: Zara Home at Tirana East Gate ("TEG") and Bershka and Stradivarius at Universe Shopping Center ("QTU").

Registered address of the Company is Street "Dervish Hima", Building "Ambassador 3".

As at December 31, 2019 the Company had 249 employees (December 31, 2018: 271 employees).

2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

2.1 Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS).

a) Functional and presentation currency

These financial statements are presented in Albanian Lek ("Lek"), which is the Company's functional and presentation currency.

b) Going Concern

The financial statements have been prepared on a going concern basis, which assumes the Company will be able to realize its assets and discharge its liabilities in the normal course business. The Company is based on this assumption taking into account the parent company's financial position, current objectives, profitability of operations and access to financial resources.

The appearance of the Coronavirus (COVID-19) in January 2020 and its recent global expansion to a large number of countries caused the viral outbreak to be classified as a pandemic by the World Health Organization on 11 March 2020.

Since then, the measures that are being adopted to combat the virus are having a significant effect, not only on people but also on economic activity in general. In view of the course that events have taken, at the date of the preparation of these financial statements it was still premature to make a detailed evaluation or quantification of the possible impacts that COVID-19 may have on the Company, due to the uncertainty of its consequences in the short and medium term.

The directors of the Company have conducted a preliminary assessment of the current situation based on the best available information at the date of preparation of the financial statements. In this regard, although the Company closed its stores following the restrictions imposed by the authorities, these restrictions will foreseeably be lifted in the short term, and, therefore, the Company would be able to continue its operations normally.

2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS (CONTINUED)

2.1 Statement of compliance (continued)

b) Going Concern (continued)

Additionally, the Company is analyzing several measures to minimize its impacts through cost management initiatives and the Company has sufficient liquidity, as well as the ability, if it were to become necessary, to obtain funding through the mechanisms established by the Group to which it belongs.

Although there is significant uncertainty surrounding future events, the Company's directors are constantly monitoring the evolution of the situation in order to successfully address any possible impacts, both financial and non-financial, that may arise.

Taking into account all the aforementioned factors and the robust equity position of the Company and of the Group to which it belongs, we consider that the use of the going concern basis of accounting is appropriate.

Taking into account the potential impact of the above-described situation on the financial information of the Company as of 31 December 2019, Directors and Management have assessed the situation based upon the best information available to date, not being necessary to book any adjustment in the Financial Statements.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The main accounting policies are set out below.

a. Plant and equipment

(i) Recognition and measurement

Items of plant and equipment are measured at cost less accumulated depreciation and impairment losses, if any. Cost includes expenditure that is directly attributable to the acquisition of the asset.

The cost of self-constructed assets includes the cost of materials and direct labor, any other costs directly attributable to bringing the assets to a working condition for their intended use, the costs of dismantling and removing the items and restoring the site on which they are located.
Gains and losses on disposal of an item of plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of plant and equipment, and are recognized net within other income in income statement.

(i) *Improvements, repairs and maintenance*

The cost of subsequent improvements and the cost of replacing part of an item of plant and equipment is recognized in the carrying amount of the item if they fulfill definition criteria of plant and equipment and the recognition criteria of an asset (including their ability to participate in the generation of future economic benefits). The costs of continuous repair and maintenance are recognized as expense during the accounting period.

(ii) Depreciation

Depreciation is charged to the income statement by using the straight-line method for all tangible assets, over the estimated useful lives of each part of an item of plant and equipment from the first day of the month following the month of acquisition.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

a. Plant and equipment (continued)

(ii) Depreciation (continued)

The depreciation rates used by the company are as follows:

Asset category	Depreciation method	Useful Life 2019
Furniture and fixtures	Linear method	11
Electronic equipment's	Linear method	8
Other fixed assets	Linear method	10
Leasehold improvements related to shops	Linear method	11
Leasehold improvements related to the office	Linear method	11

The asset's residual values, useful life and depreciation methods are reviewed, and adjusted if appropriate, at each reporting date. Any changes in depreciation methods or periods will be considered as changes in accounting estimates.

b. Impairment of non-current assets

The carrying amount of plant and equipment is reduced to their recoverable amount, if that is lower than the carrying amount. To determine if an asset is impaired, a test is performed, where the asset's recoverable amount is estimated.

An impairment test is performed at each balance sheet for assets with an indication of impairment. The purpose of the impairment test is to determine the asset's recoverable amount, which is the higher of its fair value (less costs to sell) and value in use. The carrying amount of the asset is reduced if both its fair value (less costs to sell) and value in use are lower than its carrying amount.

If there is indication that the recoverable amount of an item of plant and equipment is increased to more than its carrying amount, the previous impairment loss is reversed and the carrying amount of the asset increased. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

The reversal of impairment loss is recognized in the income statement of the current period as an impairment loss reduction.

c. De-recognition

Any item of plant and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising from de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement in the year the asset is derecognized.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

d. Inventory

Inventory is measured at the lower of cost and net realizable value. Cost of direct materials include, except purchase cost, all other costs incurred to bring inventories to their present location and condition. Net realizable value is the estimated selling price for the inventories in the ordinary, less all the estimated costs for complication of business.

e. Financial instruments

Non-derivative financial instruments comprise trade and other receivables, cash and cash equivalents, and trade and other payables. Non-derivative financial instruments are recognized initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs, except as described below. Subsequent to initial recognition, non-derivative financial instruments are measured as described below.

A financial instrument is recognized if the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognized if the Company's contractual rights to the cash flows from the financial assets expire or if the Company transfers the financial asset to another party without retaining control or substantially all risks and rewards of the asset.

Normal purchases and sales of financial assets are accounted for at trade date, i.e., the date that the Company commits itself to purchase or sell the asset. Financial liabilities are derecognized if the Company's obligations specified in the contract expire or are discharged or cancelled.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances, current bank accounts, cash in hand and unrestricted deposits with maturity of three months or less from the origination date. Cash and cash equivalents include short-term highly liquid investments, which are easily converted in cash and subject to insignificant risk of changes in their fair value.

Trade and other receivable

Trade and other receivables are initially recognized at fair value and subsequently measured at cost less impairment losses, if any. Impairment of trade receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terns of the receivables. The amortized cost of the short term of trade and other receivable, in general is equal to their nominal value (less allowance for impairment losses).

Financial liabilities

Financial liabilities are initially recognized at the fair value of the amount to be paid, including liabilities to for the interest payable in future periods, using the effective interest method. Financial liabilities are subsequently measured at amortized cost.

(Amounts are expressed in thousand LEK)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

e. Financial instruments (continued)

Effective interest method

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Impairment of financial assets

The Company assesses at each balance sheet date whether there is indication that a financial asset or group of financial assets is impaired. If that is the case, then the financial asset measured at amortized cost is reduced to the present value of future cash flows (discounted at the original effective interest rate). Impairment losses on financial assets are recognized as expense in the income statement.
Objective evidence that financial assets or group of financial assets are impaired include observable information on events such as: significant financial difficulties of the debtor; noncompliance with agreed contractual terms (for example default or delinquency in payment of interest and principal); bankruptcy and other financial restructuring of the debtor.
Impairment of individually significant financial assets is assessed on an individual basis. The remaining financial assets which are not individually significant and for which there is no indication of impairment, are collectively assessed for impairment.
An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized. The reversal is recognized in the income statement.

Derecognition
The Company derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. The difference between the carrying amount of the financial asset and the amount received is recognized as profit or loss in the income statement.
The Company derecognizes a financial liability when its contractual obligations are discharged, cancelled or expire. A financial liability is discharged when it is paid or contractually transferred to another party. A financial liability is cancelled if the other party cancelled it. A financial liability expires on the dates disclosed in the respective legislation. The difference between the carrying amount of the financial liability and the amount paid is recognized as profit or loss in the income statement.

f. Foreign currency transactions

The foreign currency gain or loss on monetary items is the difference resulting from translating a given number of units of a foreign currency into the LEK at different exchange rates. Non-monetary assets and liabilities denominated in foreign currencies are translated to LEK at the exchange rate at the dates of the transaction whereas those that are measured at fair value are retranslated to LEK at the exchange rate at the date the fair value was determined. Foreign currency differences arising on retranslation are recognized presented on net basis in the income statement.

Official exchange rates for major currencies used in the translation of the balance sheet items denominated in foreign currencies as of December 31, 2019 and 2018 were as follows (LEK to the foreign currency unit):

	December 31, 2019	**December 31, 2018**
1 EUR	121.77	123.42
1 USD	108.64	107.82

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

g. Provisions

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

h. Revenue and Expenses

Revenue from the sale of goods is measured at the fair value of the consideration received or receivable, net of discounts and sales related taxes. Revenue from the sale of goods is recognized when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, and there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably.
Transfer usually occurs when the product is passed to the customer at the sales point.
The Company recognizes as an expense any additions to reserves for provisions against risks, losses, physical damage or potential returns that are known as at the financial statements' date.

i. Financial income and expenses

Finance income comprises interest income on funds invested in bank deposits and foreign currency gains. Interest income is recognized as it accrues, using the effective interest method.
Finance expenses comprise interest expense on borrowings, foreign currency losses, changes in the fair value of financial assets at fair value through profit or loss (if any), and impairment losses recognized on financial assets. All borrowing costs are recognized in income statement using the effective interest method.

j. Income tax expenses

Current tax is the expected tax payable or receivable on the taxable income/(loss) of the year, using tax rates enacted at the reporting date, and any adjustment to tax payable in respect of previous years. The Company has elected to apply SKK 11 "Income tax" with respect to recognition of deferred taxes.

k. Lease payments

Payments made under operating leases are recognized as expense on a straight-line basis over the term of the lease. Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

3.1 SIGNIFICANT ACCOUNTING ESTIMATES

The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected.

3.1 SIGNIFICANT ACCOUNTING ESTIMATES (CONTINUED)

In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amount recognized in the financial statements are described in the respective notes to the financial statements. The use of accounting estimates is minimal in the current financial statements given the simplicity of the nature of the operations the Company carries out.
Estimates are used for, but not limited to:

• Depreciable lives and residual values of plant and equipment and intangible assets,

• Allowances for inventories and doubtful debts and

• Legal claims.

Future events and their effects cannot be perceived with certainty.
Accordingly, the accounting estimates made require the exercise of judgment and those used in the preparation of the financial statements will change as new events occur, as more experience is acquired, as additional information is obtained and as the Group's operating environment changes. Actual results may differ from those estimates.
The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

4. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

4.1 STANDARDS AND INTERPRETATIONS EFFECTIVE IN THE CURRENT PERIOD

The following new standards, amendments to the existing standards and interpretation issued by the International Accounting Standards Board (IASB) are effective for the current reporting period:

- **IFRS 9 "Financial Instruments"** (effective for annual periods beginning on or after 1 January 2018),

  IFRS 9 "Financial Instruments" replaces IAS 39 as of 1 January 2018, with respect to which there are very significant differences concerning the classification and measurement of financial instruments, the impairment model of financial assets and in hedge accounting. In this sense, it has introduced changes in the following aspects:

  Classification and measurement of financial instruments: In relation to financial assets, the Company's Investment Policy defines that the general objective of the Company's business model in relation to financial assets is the preservation of the principal through the mitigation of the risk of loss of the invested capital derived from any type of risk. Therefore, the company's business model aims to collect the contractual cash flows of financial assets that are exclusively the principal and interest. Consequently, with IFRS 9, the Company's financial assets within the scope of this standard are classified as valued at their amortized cost, with the exception of sureties, which are valued at their fair value. In relation to financial liabilities, the bases adopted with IAS 39 continue to be measured on the same basis.
  Therefore, the application of IFRS 9 has not had a significant impact on the measurement of financial assets and liabilities.
  The Company has not renegotiated its financial liabilities; therefore this aspect of IFRS 9 has no impact on the statutory financial statements.

  Impairment: The measurement of impairment of financial assets at amortized cost with IFRS 9 is based on the expected loss. To this end, the Company has defined a model to periodically evaluate, first, whether there have been significant changes in the credit risk of the counterparties of the financial assets for, subsequently, provided that the credit risk is low or has not increased, determine the expected loss at 12 months.

  At the date of preparation of these financial statements for the financial assets that are within the scope of this expected loss model, the Group Management considers that the credit risk is low at the date of the evaluation or it has not increased significantly since the date of initial recognition, therefore, credit losses expected at 12 months have been recognized.
  As a result of applying this methodology, the impairment amount for estimated loss of financial assets measured at amortized cost is not significant or differs significantly from the amount that would have been recognized if the impairment loss model incurred established in IAS 39 had been applied.

  Hedge accounting: The application of the new requirements for hedge accounting has had no effect on the statutory financial statements of 2019 as the Group has not defined new hedge relationships that were not possible under IAS 39, and hedge ratios defined under IAS 39 continue to meet the requirements for hedge accounting.

  The Company applies IFRS 9 as of 1 January 2018 without restating the comparative figures.

4. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) (CONTINUED)

4.1 STANDARDS AND INTERPRETATIONS EFFECTIVE IN THE CURRENT PERIOD (CONTINUED)

- **IFRS 15 "Revenue from Contracts with Customers**" and further amendments (effective for annual periods beginning on or after 1 January 2018),

  IFRS 15 "Revenue from Contracts with Customers" is the comprehensive standard for the recognition of income with customers and establishes an income recognition approach based on the transfer of control, for which it defines a 5-step model:
  Step 1: identify the contract or contracts with customers
  Step 2: Identify the obligations of such contracts
  Step 3: Determine the transaction price
  Step 4: Allocate the transaction price to the obligations in the contract
  Step 5: Recognize income as the entity meets each of the obligations

  The Company has applied the standard retroactively, without restating comparative information, as of 1 January 2018.

  The Company's revenues come from almost all retail sales through its own stores and online stores. The obligations contracted in these activities correspond, fundamentally, to the delivery of certain goods to customers. These obligations are separate from each other, that is, there are no contracts where the performance obligations are related to each other. Therefore, the price assigned to each of the obligations matches its independent selling price. On the other hand, in practically all of the Company's income transactions, the obligations are met in a single moment (when the goods are delivered to the customer), so there are no obligations that are satisfied over time. For all of the above, the Company's pattern of recognition of income under the IFRS 15 does not differ significantly from the income pattern under the IAS 18, and the effect in the statutory financial statements derived from the application of the IFRS 15 is not relevant. On the other hand, the Company has not recognized assets or liabilities derived from contracts with customers for the application of IFRS 15.

- **Amendments to IFRS 2 "Share-based Payment" -** Classification and Measurement of Share-based Payment Transactions (effective for annual periods beginning on or after 1 January 2018),

- **Amendments to IFRS 4 "Insurance Contracts" -** Applying IFRS 9 "Financial Instruments" with IFRS 4 "Insurance Contracts" (effective for annual periods beginning on or after 1 January 2018 or when IFRS 9 "Financial Instruments" is applied first time),

- **Amendments to IAS 40 "Investment Property" -** Transfers of Investment Property (effective for annual periods beginning on or after 1 January 2018),

- **Amendments to IFRS 1 and IAS 28 due to "Improvements to IFRSs (cycle 2014-2016)"** resulting from the annual improvement project of IFRS (IFRS 1, IFRS 12 and IAS 28) primarily with a view to removing inconsistencies and clarifying wording (amendments to IFRS 1 and IAS 28 are to be applied for annual periods beginning on or after 1 January 2018),

- **IFRIC 22 "Foreign Currency Transactions and Advance Consideration"** (effective for annual periods beginning on or after 1 January 2018).

- **Amendments to IAS 19 "Employee Benefits" -** Plan Amendment, Curtailment or Settlement (effective for annual periods beginning on or after 1 January 2019),

4 APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) (CONTINUED)

4.1 STANDARDS AND INTERPRETATIONS EFFECTIVE IN THE CURRENT PERIOD (CONTINUED)

- **Amendments to IAS 28 "Investments in Associates and Joint Ventures" -** Long-term Interests in Associates and Joint Ventures (effective for annual periods beginning on or after 1 January 2019),

- **Amendments to various standards due to "Improvements to IFRSs (cycle 2015-2017)"** resulting from the annual improvement project of IFRS (IFRS 3, IFRS 11, IAS 12 and IAS 23) primarily with a view to removing inconsistencies and clarifying wording (effective for annual periods beginning on or after 1 January 2019),

- **IFRIC 23 "Uncertainty over Income Tax Treatments"** (effective for annual periods beginning on or after 1 January 2019).

- **IFRS 16 "Leases"** (effective for annual periods beginning on or after 1 January 2019),

The IFRS 16 "Leases", replaces the IAS 17 as well as all related interpretations. The IFRS 16 shall take effect for the Company as of 1st January 2019.

The IFRS 16 establishes the principles to recognize, measure, present and disclose leases. Under the IFRS 16, lessees must record all leases under a single model similar to the accounting of financial leases in the IAS 17. Lessees will recognize a liability for the net present value of the lease payments and an asset for the right-of-use of the underlying asset during the lease term.

Likewise, the nature of the expenses related to said leases will change, since the IFRS 16 replaces the straight-line expenses of operating leases for expenses derived from the depreciation of the recognized asset and an interest expense associated with the liability.

The lessee may choose not to apply the general criteria of the IFRS 16 to short-term leases and leases whose underlying assets are considered to be of low value. The Company will only apply the exemption for leases whose underlying asset is considered to be of low value.

The application of the IFRS 16 requires significant judgments regarding certain key estimates, such as the determination of the lease term and the discount rate.

To determine the lease term, it must be assessed if the lessee has reasonable certainty that he will exercise the option to extend a lease, or that he will not exercise the option to terminate the lease. The Company will determine the lease term as the non-revocable period of the lease plus those unilateral options for extensions over which there is a reasonable certainty of execution, for which the following aspects are considered:

- The costs related to contract termination,
- The importance of the leased asset for the Company's operations,
- The conditions that need to be met so that options may or not be exercised,
- Historical experience and business plans approved by the management of the Group which the Company belongs.

4 APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) (CONTINUED)

4.1 STANDARDS AND INTERPRETATIONS EFFECTIVE IN THE CURRENT PERIOD (CONTINUED)

- **IFRS 16 "Leases"** (effective for annual periods beginning on or after 1 January 2019), (continued)

The present value of the leased liability is determined using the interest rate implicit in the lease, and if this cannot be easily determined, the lessee will use its incremental borrowing rate. Given the difficulty to determine the implicit interest rate of each lease, the Company will use its incremental borrowing rate by term and currency.

On the other hand, the IFRS 16 allows its application through two different transition methods, a retrospective approach for each comparative period presented or, a retrospective approach with the cumulative effect of the initial application of the standard recognized as an adjustment to the opening balances of retained earnings at the date of initial application. The Company has decided to adopt this second transition method, therefore, it will recognize the cumulative effect of the initial application as an adjustment against reserves as of 1st January 2019, and will not restate comparative information.

This transition method allows, in turn, to choose to evaluate the asset retroactively as if the standard had applied since the beginning of the lease or for an amount equal to the liabilities adjusted for prepaid or accrued payments.

In addition, the Company will apply some of the simplifications associated with the transition method adopted. The most relevant are:

- the exclusion of the initial direct costs of the measurement of the right-of-use asset on the date of transition;
- the application of a single discount rate for each portfolio of similar leases, by term and currency;
- the determination of the lease term using hindsight;
- the non-revision of the value impairment on the date of the transition.

IAS 17 did not require the recognition of any assets or liabilities for right of use for future payments for operating leases; however, it did require disclosure of lease commitments. The difference between this information on lease commitments (IAS 17) and the lease liability (IFRS 16) lies in the different periods considered, the non-cancellable period versus the lease term determined in accordance with IFRS 16, and the fact that the commitments disclosed in Note 21 of the financial statements for 2018 correspond to the nominal amounts of expected payments while the lease liability in IFRS 16 is determined by applying a discount rate to the expected payments.

Leases (recognition and measurement)

The leases recognized in which the Company acts as the lessee relate mainly to the premises where the stores and head offices are located.

At the start date of each contract, the company assesses whether a contract is or contains a lease.
The company recognizes a liability for the present value of the lease payments and an asset for the right to use the underlying asset during the term of the lease. Assets for rights of use are measured at cost (which includes initial direct costs incurred, any lease payments made before or at the inception of the lease less incentives received) less accumulated depreciation and impairment losses, and are adjusted for any re-measurement of lease liabilities. The rights of use are amortized on a straight-line basis over the term of the lease.

4 APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) (CONTINUED)

4.1 STANDARDS AND INTERPRETATIONS EFFECTIVE IN THE CURRENT PERIOD (CONTINUED)

- **IFRS 16 "Leases"** (effective for annual periods beginning on or after 1 January 2019), (continued)

The right to use is presented under the "rights of use" heading in the balance sheet.
The present value of the lease liability is determined using the implicit interest rate in the lease, and if this cannot be easily determined the lessee will use its incremental debt interest rate. Given the difficulty of determining the implicit interest rate of each lease, the group uses its incremental borrowing rate by market, term and currency, based on the type of assets leased.
The contingent rents, common expenses and other expenses related to the lease do not form part of the determination of the lease liability and of the right of use, and the same accounting criteria are used as under ias 17. Fixed-rent payments are replaced by the depreciation of the right of use and the interest recognised over the lease liability.

The lease liability is presented in two separate lines on the balance sheet, "long-term lease liability" for the liability to be settled over a period exceeding 12 months and "short-term lease liability" for the portion to be settled in the next 12 months.
After the commencement date, the lease liability is measured by increasing the carrying amount to reflect interest on the lease liability and reducing the carrying amount to reflect the lease payments made.
At the commencement date as per management estimation the right of use asset and lease liability amounted to ALL 65,765 thousand.

The Company remeasures the lease liability (and makes the corresponding adjustment to the right of use) when:

- There is a change in the term of the lease or a significant change in facts and circumstances that results in a change in the assessment of the exercise of a purchase option, in which case the lease liability is measured by discounting the revised payments at the revised discount rate.
- A change in future lease payments results from a change in an index or a change in the expected payables related to a residual value guarantee, in which case the lease liability is measured by discounting the changed payments at the discount rate before the change.
- A lease is amended and the amendment is not accounted for as a separate lease, in which case the lease liability is remeasured by discounting the revised lease payments at a revised discount rate.

The Company applies IAS 36 to determine whether the right to use the asset is impaired, following the procedures described in section 3.a "Impairment of non-current assets" of this note on accounting principles. In particular, the right of use arising under a lease agreement is deemed to be an asset of the cash-generating unit with which it is associated and the associated lease liability is deemed to be an asset of the cash-generating unit. Application of IFRS 16 requires significant judgements regarding certain key estimates, such as determination of the lease term and the discount rate.
To determine the lease term there is an assessment of whether the lessee has reasonable certainty that he will exercise the lease extension option, or that he will not exercise the option to terminate the lease. The Company determines the lease term as the non-revocable period of the lease plus those unilateral options for extensions over which there is reasonable certainty of execution, and for which the following aspects are considered:

- The costs related to contract termination;
- The importance of the leased asset for the Group's operations;
- The conditions to be complied with in order to exercise or not exercise the options;
- Business plans approved by Group's management.
- Broader economic terms of the contracts.

4. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) (CONTINUED)

4.2 STANDARDS AND INTERPRETATIONS IN ISSUE NOT YET ADOPTED

At the date of authorization of these financial statements, the following standards, revisions and interpretations were in issue but not yet effective:

- **IFRS 17 "Insurance Contracts"** (effective for annual periods beginning on or after 1 January 2021),

- **Amendments to IFRS 3 "Business Combinations"** - Definition of a Business (effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2020 and to asset acquisitions that occur on or after the beginning of that period).

- **Amendments to IFRS 9 "Financial Instruments",** IAS 39 "Financial Instruments: Recognition and Measurement" and IFRS 7 "Financial Instruments: Disclosures" - Interest Rate Benchmark Reform (effective for annual periods beginning on or after 1 January 2020),

- **Amendments to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures"** - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture and further amendments (effective date deferred indefinitely until the research project on the equity method has been concluded),

- **Amendments to IAS 1 "Presentation of Financial Statements"** and IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors" - Definition of Material (effective for annual periods beginning on or after 1 January 2020),

- **Amendments to References to the Conceptual Framework in IFRS Standards** (effective for annual periods beginning on or after 1 January 2020).

The Company has chosen not to adopt these new standards, changes to existing standards, and new interpretations prior to the effective date. The Company anticipates that the adoption of these standards, changes to existing standards and new interpretations will not have a material impact on the Company's separate financial statements in the period of initial application.

(Amounts are expressed in thousand LEK)

5. CASH AND CASH EQUIVALENTS

Cash and cash equivalents are comprised as follows:

	As at December 31, 2019	As at December 31, 2018
Cash on hand	**860**	**9,576**
Lek	860	8,149
Eur	-	1,427
Cash at banks	**535,885**	**372,135**
Lek	523,218	355,237
Eur	12,667	16,898
Cash in Transit	**17,058**	**20,825**
TOTAL	**553,803**	**402,536**

Cash in transit relates to cash collected from the sales of the last days of 2019, which are reflected in bank statement in the first days of 2020.

6. INVENTORY

Inventory as at December 31, 2019 and 2018 is comprised as follows:

	As at December 31, 2019	As at December 31, 2018
Finished goods	250,865	348,244
Provision for impairment	(42,768)	(73,133)
Provision for returns	(2,358)	(1,656)
TOTAL	**205,774**	**273,456**

Inventory is stated at the lowest of cost and net realizable value.

	As at December 31, 2019	As at December 31, 2018
Movements in allowance		
Opening Balance	(74,788)	(69,469)
Impairment charge for the year	(4,545)	(3,624)
Release of impairment	34,207	-
TOTAL	**(45,126)**	**(73,093)**

The most significant variation on the allowance movements, comes from the release on the provision related to net realizable value.

(Amounts are expressed in thousand LEK)

7. OTHER CURRENT ASSETS

Other current assets as at December 31, 2019 and 2018 are comprised as follows:

	As at December 31, 2019	As at December 31, 2018
Receivables from GOA Invest	-	17,304
Other prepayments	13,852	6,633
TOTAL	**13,852**	**23,937**

The receivable amount from GOA Invest in 2018 is related to some payments made by the Company to custom authorities in favor of GOA Invest ("Group company") in relation to the works done for some stores. For the current year this balance has been paid in full.

The other prepayments instead are related mostly to prepayments done to custom agent for services related to custom clearance for inventory purchase.

8. RIGHT OF USE ASSETS

Assets for rights of use are measured at cost (which includes initial direct costs incurred, any lease payments made before or at the inception of the lease less incentives received) less accumulated depreciation and impairment losses, and are adjusted for any remeasurement of lease liabilities. The rights of use are amortized on a straight-line basis over the term of the lease. Being the first year of IFRS 16 adoption of this financial statements, the accumulated depreciation for the right of use asset equals the depreciation charge in profit and loss.

	As at December 31, 2019	As at December 31, 2018
Right of use assets	82,371	-
Accumulated Depreciation ROU	(21,934)	-
TOTAL	**60,437**	-

The Company's lease agreements relate to eight stores and head office, and meet the criteria to be identified as a lease for which the lessee recognizes a fair use asset. These contracts relate to leases that are different from short-term and low-value leases, which is why the Company has recognized a leasehold asset and the corresponding lease liability for all of these leases.

(Amounts are expressed in thousand LEK)

9. PROPERTY, PLANT AND EQUIPMENT

	Leasehold Improvements	Furniture and Fittings	Electronic Equipment	Other	Assets in Progress	Total
Cost						
As at December 31, 2018	**1,053,518**	**362,509**	**65,064**	**9,768**	**4,823**	**1,495,682**
Additions	7,409	7,644	4,126	2,084	1,185	**22,448**
Disposals	-	-	-	-	4,823	**4,823**
As at December 31, 2019	**1,060,927**	**370,153**	**69,190**	**11,852**	**1,185**	**1,513,306**
Accumulated Depreciation						
As at December 31, 2018	**370,658**	**125,876**	**33,240**	**1,509**	**-**	**531,283**
Depreciation charge for the year	97,486	34,481	8,935	1,961	**-**	142,863
Disposals	-	-	-	-	**-**	-
As at December 31, 2019	**468,145**	**160,357**	**42,175**	**3,470**	**-**	**674,146**
Net book value						
As at December 31, 2018	**682,860**	**236,633**	**31,824**	**8,259**	**4,823**	**964,399**
As at December 31, 2019	**592,783**	**209,795**	**27,015**	**8,380**	**1,185**	**839,161**

Values related to leasehold improvements are mainly related to the workings performed by the Company in the rented shops where the activity is performed. Furniture and fittings are related to the new furniture purchased for the shops and the office. The asset disposals of assets are related to assets in progress that have meet the criteria to be capitalized during 2019.

No plant and equipment have been pledged as collaterals as at December 31, 2019 (2018: none).

(Amounts are expressed in thousand LEK)

10. DEFERRED TAX ASSETS

The Company has a deferred tax asset from the temporary differences resulting from the application of different depreciation rates for statutory and fiscal purposes for the fixed assets. Movement in temporary differences during the year are recognized in the statement of profit or loss and other comprehensive income. The enacted tax rate as at December 31, 2019 and 2018 is 15%. For further details please refer to note 17. With regards to the IFRS 16 implementation no deferred tax has been calculated, being that the two treatments between fiscal and statutory purpose give rise to permanent differences.

	As at December 31, 2019	As at December 31, 2018
Deferred tax asset	30,622	27,544
Total	**30,622**	**27,544**

	As at December 31, 2019	As at December 31, 2018
Opening balance as at December 31, 2018	**27,544**	**21,556**
Depreciation in excess of reference tax rates	20,519	39,920
Deferred tax arising from temporary differences on depreciation	3,078	5,988
Closing balance as at December 31, 2019	**30,662**	**27,544**

11. TRADE PAYABLES

Values related to trade payables are towards companies of the group and other suppliers and are related to the purchase of finished products the Company has performed for its activity.

	As at December 31, 2019	As at December 31, 2018
ITX Group suppliers	41,820	45,248
ITX Group suppliers - Invoices to be received	3,027	6,836
Trade payables ITX Group suppliers	**44,847**	**52,084**
Domestic suppliers	74,468	93,549
Foreign suppliers	112	829
Trade payables - Third parties	**74,580**	**94,378**
Total Trade Payables	**119,428**	**146,462**

12. DEFERRED REVENUE

Deferred revenue is related to entry fee for the leasing of the shops. The amount was initially recorded as a deferred revenue and is amortized throughout the lease terms reassessed from the group.

The deferred revenue short term vs long term can be detailed as follows:

	As at December 31, 2019	As at December 31, 2018
Current deferred revenue	96,666	32,269
Non-current deferred revenue	129,619	310,180
TOTAL	**226,285**	**342,449**

(Amounts are expressed in thousand LEK)

13. OTHER LIABILITIES

Other liabilities as at December 31, 2019 and 2018 are as follow:

	As at December 31, 2019	**As at December 31, 2018**
VAT Payable	54,900	33,605
Income tax payable	20,053	16,914
Due to employees	14,318	13,757
Tax payable	7,981	7,820
Other payables	9,756	6,138
TOTAL	**107,008**	**78,234**

The most significant variation is noted in the increase on VAT payables mainly due to the sales performed during the last month of 2019.

14. LEASE LIABILITIES

The lease liability breakdown is the following:

	As at December 31, 2019	**As at December 31, 2018**
Short-term lease liability	-	-
Long-term lease liability	44,406	-
TOTAL	**44,406**	**-**

After the commencement date, the lease term is reassessed upon the occurrence of either a significant event or a significant change in circumstances that is within the control of the lessee and affects whether the lessee is reasonably certain to exercise an option not previously included in its determination of the lease term, or not to exercise an option previously included in its determination of the lease term.

The lease term policy sets the lease term for each lease as the non-cancellable period or the period over which Inditex has not ability to terminate the contract without a monetary penalty and the period over which Inditex is reasonable certain not to exercise a break option. This period is generally 3 years.

Inditex has defined a model to determine the IBR based on the risk-free rate of a sovereign bond equivalent to the duration of the lease term and the corporate risk premium. This model considers that the distribution of the contractual payments of a risk-free sovereign bond differs from the distribution of the lease payments over the lease term. The formula has been used to determine the duration of the risk-free bond equivalent to the three-year lease term. The IBR used for lease liability calculation is 5,31% for Zara Home premises and 2,31% for Administration office premises.

As per IFRS 16, variable lease payments that are linked to the future performance or use of an underlying asset are excluded from the definition of lease payments. Consequently, no liability is recognized for those variable lease payments as presented below. Since for ITX Albania most of the stores have variable rents depending on a certain percentage on net sales (i.e commissions), there are two lease contracts that fall in the scope of IFRS 16: Zara Home premises and Administration office premises.
Minimum undiscounted lease payments for fixed rents are as follows:

	As at December 31, 2019	**As at December 31, 2018**
Within 1 Year	23,147	11,883
Between 1 and 2 years	23,147	23,147
Between 2 and 3 years	18,923	23,147
Latter than 3 years	5,731	24,654

(Amounts are expressed in thousand LEK)

14. LEASE LIABILITIES (CONTINUED)

Other payments not included in leases liabilities represented under operating expenses:

	As at December 31, 2019	As at December 31, 2018
Variable rent payments	197,463	-
Low value of underlying assets	4,616	-
TOTAL	**202,079**	**-**

Furthermore, financial interest recognized during the year amounts to ALL 2,165,782 for the year ended December 31, 2019.

15. SALES

Income from sale is comprised as follows:

	For the year ended December 31, 2019	For the year ended December 31, 2018
Clothes, Perfumes and Cosmetics Sales	3,323,992	2,920,837
Footwear Sales	333,149	323,844
Home Sales	50,123	57,615
Other sales	94,910	8,718
Employee Discounts	(13,178)	(12,366)
TOTAL	**3,609,865**	**3,298,648**

During 2019 there is a slight increase in sales compared with previous year of 9%.

16. MATERIAL EXPENDITURE

	For the year ended December 31, 2019	For the year ended December 31, 2018
Material Expenditure	1,832,833	1,603,160
Custom Tax	42,822	40,958
Other expenses	17,845	17,711
NBV provision	(30,365)	3,665
Return provision	(848)	(2,143)
TOTAL	**1,862,287**	**1,663,351**

The increase in material expenditure of 12% followed the same trend in sales for the year ended December 31, 2019. The custom taxes and other expenses are in line with the previous year.

17. OTHER INCOME

Other income is comprised as follows:

	For the year ended December 31, 2019	For the year ended December 31, 2018
Occupancy cost-lease incentives	116,163	30,320
Other operating income	1,817	1,219
TOTAL	**117,980**	**31,539**

Occupancy cost-lease incentives relates to revenues recognized from deferred revenue in the current year. The increase is due to the reassessment management performed to the remaining maturity of deferred revenue by shortening from 15 years to 3 years.

(Amounts are expressed in thousand LEK)

18. PERSONNEL EXPENSES

	For the year ended December 31, 2019	For the year ended December 31, 2018
Gross Salaries	159,423	152,463
Social Securities	24,550	22,664
Total	**183,973**	**175,127**

The average number of employees during 2019 is 239 (2018: 245).

19. OTHER OPERATING EXPENSES

Other operating expenses are comprised as follows:

	For the year ended December 31, 2019	For the year ended December 31, 2018
Royalties	211,857	199,801
Rent Expenses	197,468	197,265
Electricity/energy/water	42,177	32,850
Other professional services	31,637	27,112
Bank Fees	15,258	14,303
Group corporative services	9,275	6,992
Decoration	3,359	2,773
Insurance Premiums	2,527	2,251
Other	50,368	34,750
Total	**563,927**	**518,097**

Royalties are related with variable fees that the Company has to pay to ITX Merken B.V, with regard to each brand based on net sales for the month. This royalty shall bell paid for all brands beside for Zara Home. The increase followed the same trend in sales increase for the year ended December 31, 2019.

Rent expenses are related to variable rent that the Company pays in relation to the eight stores it owns, six stores in TEG and two stores in QTU. During 2018, three new stores have been opened, Zara Home in TEG and Stradivarius and Bershka in QTU. The other stores have been opened since April 2014. No new shops have been opened during 2019.

With regards to the other expenses they are mainly composed from unloading services, asset maintenance, stationary expenses and staff uniforms. The main increase is related to unloading services following the increase trend in material expenditures.

(Amounts are expressed in thousand LEK)

20. LOSS FROM FOREIGN EXCHANGE, NET

	For the year ended December 31, 2019	For the year ended December 31, 2018
Gain from foreign exchange	25,561	18,554
Loss from foreign exchange	(20,682)	(22,803)
Loss from foreign exchange, net	**4,879**	**(4,249)**

21. INCOME TAX EXPENSE

Income tax in Albania is assessed at the rate of 15% (2018: 15%) of taxable income. The following is a reconciliation of income taxes calculated at the applicable tax rate to income tax expense.

	For the year ended December 31, 2019	For the year ended December 31, 2018
Profit of the year	955,576	854,251
Non-deductible expenses	58,637	49,161
Taxable profit	1,014,213	903,412
Income Tax Rate	15%	15%
Income tax expense	**152,132**	**135,512**
Deferred tax arising from temporary differences on depreciation	(3,078)	(5,988)
Income tax expense	**149,054**	**129,524**
Effective tax rate	**15%**	**15%**

The Company's uncertain tax positions are reassessed by management at the end of each reporting period. Liabilities are recorded for income tax positions that are determined by management as more likely than not to result in additional taxes being levied if the positions were to be challenged by the tax authorities. The assessment is based on the interpretation of tax laws that have been enacted or substantively enacted by the end of the reporting period, and any known court or other rulings on such issues. Liabilities for penalties, interest and taxes other than on income are recognized based on management's best estimate of the expenditure required to settle the obligations at the end of the reporting period.

(Amounts are expressed in thousand LEK)

22. RELATED PARTIES

A related party transaction is a transfer of resources, services or obligations between related parties, regardless of whether a price is set. A party is related to an entity if it controls, is controlled by, or is under common control with the entity, has an interest in the entity that gives it significant influence over the entity, or party exercises joint control over unit; party is an associate of the entity; party is a joint venture in which the entity is an entrepreneur, or a member of management personnel of the entity or its parent (including close relatives of any of the individuals referred to above).

The following are the related parties and the respective outstanding balances as at December 31, 2019 and 2018:

Balance sheet	**As at December 31, 2019**	**As at December 31, 2018**
Accounts payable		
Itx Merken B.V	18,299	12,173
Industria De Diseno Textil Sa	8,883	19,116
Grupo Massimo Dutti Sa	2,395	4,218
Bershka Bsk Espana Sa	4,842	5,208
Stradivarius Espana Sa	1,443	5,402
Tempe Sa	2,096	3,557
Pull & Bear Espana, S.A.	3,463	2,604
Zara Croatia, L.T.D	-	101
Zara Home Espana S.A.	1,566	858
ITX Merken B.V. Fribourg Branch	67	67
ITXR Macedonia Dooel Skopje	79	-
INDITEX S.A. Lelystad Branch	1,712	-
ITX Kosovo L.L.C	-	969
Bershka BH D.O.O.	-	251
Total	**44,847**	**52,084**

Income statement	**For year ended December 31, 2019**	**For year ended December 31, 2018**
Sales toward related parties		
"ITX Kosovo" L.L.C.	(828)	-
Purchase of Goods For Sale		
Industria De Diseno Textil S.A.	822,473	890,155
Bershka Bsk Espana S.A.	243,472	184,831
Tempe S.A	168,209	183,536
Grupo Massimo Dutti S.A.	144,641	154,922
Pull & Bear Espana, S.A.	134,368	127,197
Stradivarius Espana S.A.	123,909	102,803
Zara Home Espana S.A.	63,059	19,907
Inditex S.A., Lelystad Branch	66,203	-
ITX Merken Bv. Fribourg Branch	207,762	-
ITXR Macedonia Dooel Skopje	93	-
Zara Croatia, L.T.D	5,663	-
Zara Holding, B.V. – Immediate Parent	724,727	-
Zara Serbia, D.O.O. Belgrade	2,150	-
Total	**2,705,902**	**1,663,351**

(Amounts are expressed in thousand LEK)

23. RELATED PARTIES (CONTINUED)

No transactions have been performed with the ultimate beneficial owner. Transactions with the immediate parent amount to KALL 724,727.

Key management Compensation	**As at December 31, 2019**	**As at December 31, 2018**
Short-term benefits		
Salary	571	587
Total	**571**	**587**

24. FINANCIAL RISK MANAGEMENT

a) Liquidity risk

The Company does not have a significant exposure to the liquidity risk. Financial liabilities are limited to the accounts payable related to the normal activity of the Company and payable to related parties which are short-term.

The following tables show the discounted cash flows from the Company's assets and liabilities on the basis of their earliest possible remaining periods to repayment. The undiscounted effect is not material because liabilities are short-term.

Exposure to liquidity risk as at December 31, 2019 is presented as below:

	Carrying value	**Up to 6 months**	**6-12 months**	**More than 1 year**
As at December 31, 2019				
Financial assets				
Cash and cash equivalent	553,803	553,803	-	-
Other assets	13,852	7,680	(338)	6,510
Total	**567,655**	**561,483**	**(338)**	**(6,510)**
Financial liabilities				
Trade payables	(119,428)	(119,428)	-	-
Deferred revenue	(226,285)	-	(96,666)	(129,619)
Lease Liability	(44,406)	-	-	(44,406)
Total	**(390,119)**	**(119,428)**	**(96,666)**	**(174,025)**
Net Liquidity Position	**177,536**	**442,055**	**(97,004)**	**(180,535)**

(Amounts are expressed in thousand LEK)

24. FINANCIAL RISK MANAGEMENT (CONTINUED)

a) Liquidity risk (continued)

Exposure to liquidity risk as at December 31, 2018 is presented as below:

	Carrying Value	Up to 6 months	6-12 months	More than 1 year
As at December 31, 2018				
Financial assets				
Cash and cash equivalent	**402,536**	402,536	-	-
Other assets	**23,937**	6,632	17,304	-
Total	**426,473**	**409,168**	**17,304**	-
Financial liabilities				
Trade payables	**(150,260)**	(150,260)	-	-
Deferred revenue	**(342,449)**	-	(32,269)	(310,180)
Total	**(492,709)**	**(150,260)**	**(32,269)**	**(310,180)**
Net Liquidity Position	**(66,236)**	**258,908**	**(14,964)**	**(310,180)**

b) Foreign exchange risk

Exposure to exchange rate risk at December 31, 2019 is presented below:

	Carrying value	Euro	Lek
As at December 31, 2019			
Financial assets			
Cash and cash equivalent	**553,803**	12,667	541,136
Other current assets	**13,852**	-	13,852
Total	**567,655**	**12,667**	**554,988**
Financial liabilities			
Trade payables	**(119,428)**	(50,309)	(69,119)
Deferred revenue	**(226,285)**	-	(226,285)
Lease liability	**(44,406)**	(517)	(43,889)
Total	**(390,119)**	**(50,826)**	**(339,293)**
Net position	**177,536**	**(38,159)**	**215,695**

Exposure to exchange rate risk at December 31, 2018 is presented below:

	Carrying value	Euro	Lek
As at December 31, 2018			
Financial assets			
Cash and cash equivalent	**402,536**	18,325	384,211
Other current assets	**23,937**	-	23,937
Total	**426,473**	**18,325**	**408,148**
Financial liabilities			
Trade payables	**(150,260)**	(56,711)	(93,549)
Deferred revenue	**(342,449)**	-	(342,449)
Total	**(492,709)**	**(56,711)**	**(435,998)**
Net position	**(66,236)**	**(38,386)**	**(27,850)**

(Amounts are expressed in thousand LEK)

24. FINANCIAL RISK MANAGEMENT (CONTINUED)

b) Foreign exchange risk

Analysis of sensitivity to changes in exchange rates

The sensitivity analysis, presented below is determined based on the foreign currency exposure at the reporting date and the stipulated change occurred at the beginning of the financial year and held constant throughout the reporting period. Below is an overview of the effects of exchange rate changes on net profit, considering all other variables constant:

	As at December 31, 2019	**As at December 31, 2018**
EUR appreciated by 10%	3,839	3,839
EUR depreciates by 10%	(3,839)	(3,839)

c) Credit Risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to financial instruments fails to meet its contractual obligations, and arises principally from the Company's cash and cash equivalents.

The Company's maximum exposure to credit risk is represented by the carrying amount of each financial asset in the statement of financial position, as stated in the following table:

Classes of financial assets- carrying amounts:	**As at December 31, 2019**	**As at December 31, 2018**
Cash and cash equivalents	553,803	402,536
Other Current assets	13,852	23,937
Net Book Value	**567,655**	**426,473**

The table below presents credit risk exposure by counterparty (country) and related delinquency or impairment, if any:

	As at December 31, 2019		**As at December 31, 2018**	
Neither past due nor impaired	**Gross**	**Impairment**	**Gross**	**Impairment**
Cash and Cash equivalents	553,803	-	402,536	-
Other current assets	13,852	-	23,937	-
Total	**567,655**	**-**	**426,473**	**-**

(Amounts are expressed in thousand LEK)

24. FINANCIAL RISK MANAGEMENT (CONTINUED)

d) Fair value estimation

Fair value measurements are analyzed from the level in the fair value hierarchy as follows: the first level is a measured (not adjusted) price measurement at active markets for the same assets or liabilities, (ii) the second level measurements valuation techniques with all material assets directly attributable to the asset or liability (ie, as prices) or indirectly (ie, derived from prices), and (iii) the level of the three measurements are estimates not based on observable market data (ie, not observable inputs). Management applies judgment to the categorization of financial instruments using the fair value hierarchy.

Fair values analyzed from the level in the fair value hierarchy and the carrying amounts of assets not measured at fair value are as follows:

	December 31, 2019			
	Fair Value Level 1	**Fair Value Level 2**	**Fair Value Level 3**	**Total**
Cash and cash equivalents	553,803	-	-	**553,803**
Other current assets	-	13,852	-	**13,852**
Trade and other payables	-	119,428	-	**119,428**

	December 31, 2018			
	Fair Value Level 1	**Fair Value Level 2**	**Fair Value Level 3**	**Total**
Cash and cash equivalents	402,536	-	-	**402,536**
Other current assets	-	-	23,937	**23,937**
Trade and other payables	-	-	150,260	**150,260**

Cash and cash equivalents
The fair value of monetary assets that includes cash and cash equivalents is considered to approximate their respective carrying values due to their maturity of less than 3 months.

Trade and other receivables
Trade and other receivables and other current assets are carried at amortized cost, minus the provisions for impairment. Their fair value corresponds to their carrying value due to their short-term maturity

Trade and other payables
Carrying value of trade and other payables approximates their fair value due to their short-term maturity.

25. COMMITIMENTS AND CONTINGENCIES

During the normal course of its business, the Company may be involved in legal claims or actions of third parties as well as from tax authorities. Based on the opinion of the management of the Company, the final conclusion about these matters will not have an effect on the financial position of the Company or would not bring changes in assets. As at December 31, 2019 the Company has operating lease agreements in place for all the stores and the office. There are no other commitments and contingencies as at December 31, 2019.

26. EVENTS AFTER THE REPORTING DATE

The appearance of the Coronavirus (COVID-19) in January 2020 and its recent global expansion to a large number of countries caused the viral outbreak to be classified as a pandemic by the World Health Organization on 11 March 2020.For further details please refer to note 2 b) "Going Concern".

There are no other events after the reporting date that require adjustments or additional disclosures in the financial statements of the Company.