

Varteks d.d.
Zagrebačka 94
42000 Varaždin

Varaždin, 06.04.2011

STATEMENT BY PERSONS RESPONSIBLE FOR THE MAKING OF THE REPORT FOR I-XII 2010

With this statement, pursuant to the Capital Market Act, we state that to our best knowledge,

- the set of interim financial reports for Varteks d.d. for I-IX 2010 (hereinafter: company) that was made according to International Financial Reporting Standards and pursuant to the Croatian Accounting Act gives a comprehensive and truthful account of the assets and liabilities, losses and profits, the financial position and business activities of the company.
- The management report contains the truthful account of the development of the business and the position of the company, along with a description of the most significant risks and uncertainties the company is exposed to.



RESPONSIBLE PERSON:


Nenad Davidović

Board member responsible for finances

Contact person:
Marina Bradarić
Phone 042 / 377-230

Varazdin, April 6, 2011

Varteks d.d.
Zagrebačka 94
42000 Varazdin

Pursuant to the provisions of the Capital Market Act, the Management of Varteks d.d. with headquarters in Varazdin submits the following:

MANAGEMENT REPORT

on the business results of Varteks d.d. for the time period from 01.01. – 31.12.2010

Outline of significant events that took place during reporting period in the business year 2010 and the effects of these events on the abridged set of financial reports

The results of the company's business operations in 2010 are linked to general economic trends both on domestic and global markets. The continuation of the crisis and a drop in personal spending have caused additional problems in the company's liquidity and the overall economy, as well as a further slow-down in investments.

Amidst such negative conditions in its surroundings, the company operated with a loss of HRK 96.7 million in 2010, while a loss of HRK 98.9 million had been realized in 2009.

In this connection it has to be pointed out that if the effects of the sale of long-term assets are excluded, the company's operations on the basis of regular activities mark a HRK 37 million lower loss in 2010 in relation to 2009.

Total revenues amounted to HRK 314.6 million, which constitutes a drop of 12.9 percent in relation to the revenues realized in the same time period in 2009. Total expenditures amounted to HRK 411.3 million. On the foreign market, revenues of HRK 122.3 million were realized, which constitutes 40 percent of the company's business revenues. The majority of exports was realized in countries in the European Union.

Business revenues amounted to HRK 308.7 million, which is 13.6 percent less than in 2009. In the business revenue structure an increase can be noticed in sales revenues, which constitute 93.6 percent of business revenues in 2010, while their share had amounted to 88.5 percent in 2009. In comparison to 2009 it is important to point out in view of sales revenues that in accordance with the restructuring and reorganization plan and the activities related to these processes, the B2B segment was detached via an affiliated company that is the property of Varteks d.d. (sales aspect related to corporate clothing and the manufacturing of special purpose clothing). When looking at the overall effects of this sales aspect, total sales revenues amounted to HRK 346.2 million and thus total sales revenues were 9.4 percent higher than in 2009.

In the company's cost structure, almost all costs from business activities marked drops in relation to 2009. This trend is mainly the result of carried-out restructuring measures. Total payroll costs were reduced by HRK 28 million or 17 percent, and within these costs, gross wage costs went down 13.7 percent or HRK 19.2 million.

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Žiro račun:
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Privredna banka d.d.
Zagreb
2484008-1100417652
Raiffeisenbank Austria d.d.
Zagreb

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/ Temeljni kapital 384.161.400 kn, uplaćen u cijelosti i podjeljen na 1.920.807 redovnih dionica, svaka nominalne vrijednosti 200 kn.

Društvo je upisano u registar Trgovačkog suda u Varaždinu, poslovni broj iz upisnika Tt: 95/463-2 (MBS) 070004039, M.E. 3747034, OIB: 00872098033.

Uprava: predsjednik Zoran Koščec, članovi Miljenko Vidaček, Nenad Davidović. Predsjednik Nadzornog odbora: Milan Horvat.

The overall reduction in stock is significant, which amounted to 11.5 percent less than at the beginning of the year. This trend is the result of activities aimed at the rational utilization of the company's current own resources, and the targeted optimization of all stock types.

An increase in financing costs in 2010 also had a significant effect on the negative results, and expenditures on the basis of interest and other financing expenditures went up 30 percent in relation to 2009.

In 2010, the policy in regards to displaying effects on the basis of long-term asset sales was changed, i.e. the company switched from gross accounting entries to net accounting entries in regards to effects from long-term asset sales, so that all data for 2009 have been adapted to the new display manner and are comparable.

On the basis of extraordinary activities in relation to the sale of long-term assets in 2010, a negative effect on the overall result was noted through additional costs of HRK 13.2 million, while business revenues had been increased in 2009 on the basis of such activities and thus also a positive effect on the overall result by HRK 21.7 million.

From the outline of business elements in 2010 it is evident that there has been progress in the regular business activities segment. On this basis, the company marked better business results through higher revenues in 2010 (particularly in the second half of the year), whereby part of the revenues was realized through the business operations of an affiliated company to which the B2B segment had been detached in line with the restructuring and reorganization plan, and on the basis of business results, particularly when excluding results related to extraordinary activities on the basis of the sale of long-term assets.

Most significant business risks in 2010

Market developments in 2010 cumulated certain risks in the company's business operations so that risks still exist on the basis of reduced personal spending, which directly affected the company's revenues and liquidity. In terms of costs, the most significant risks were linked to higher costs on the basis of further increases in energy prices and other production costs related to production and sales activities (raw materials, production materials, services, etc.). Risks on the basis of financing business activities and liquidity in general were extremely present during the entire year.

The basic direction of the company's business policy in 2010 was the implementation of the Integral Business and Financial Restructuring Plan which relies on the company's own resources, and in line with this, it also includes the sale of real estate. Considering the extremely negative trends on the real estate market, such sales have largely not been realized, which significantly affected not only the implementation of activities from the Integral Plan, but also the company's liquidity and business effectiveness.

During the business year, activities also aimed to cut operating costs, shut down unprofitable parts of the system, increase certain sales aspects (particularly the B2B segment) and to reorganize retail as one of the key sales aspects. In doing so, unavoidable one-time restructuring costs were cumulated, which put an additional liquidity and cost strain on the system, but bearing in mind the future period, they create the preconditions for the realization of development goals.

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The preconditions for the stabilization and development of the company's business operations are primarily based on stabilizing liquidity as a key precondition for the implementation of all activities related to restructuring, the further reorganization of the system and strengthening strategic sales aspects.

President of the Management Board of Varteks d.d.

Zoran Košćec

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/ Zagrebačka 94 / HR-42000 VARAŽDIN / 3

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ATTACHMENT 1

Reporting period:

1.1.2010.

to

31.12.2010

Quarterly financial statement of the entrepreneur-TFI-POD

Tax number (MB): 3747034

Company registration number (MBS): 070004039

Personal identification number (OIB): 872098033

Issuing company: VARTEKS d.d. VARAŽDIN

Postal code and place: 42000 VARAŽDIN

Street and house number: ZAGREBAČKA 94

E-mail address: info@varteks.com

Internet address: www.varteks.com

Municipality/city code and name: 472 VARAŽDIN

County code and name: 5 VARAŽDINSKA

Number of employees: 2.326

(quarter end)

Consolidated report: NOT

NKD code: 1413

Companies of the consolidation subject (according to IFRS)

Seat:

MB:

Bookkeeping service:

Contact person: Zvonimir Svetec
(please enter only contact person's family name and name)

Telephone: 042/377-124 Facsimile: 042/377-089

E-mail address: zsvelec@varteks.com

Family name and name: Davidović Nenad
(person authorized to represent the company)

Documents to be published.

1. Financial statements (balance sheet, profit and loss statement, cash flow statement, statement of changes in equity, and notes to financial statements)
2. Statement of persons responsible for the drawing-up of financial statements
3. Report of the Management Board on the Company Status



(signature of the person authorized to represent the company)

BALANCE SHEET

as of

31.12.2010.

HRK

Position	AOP	Previous period	Current period
1	2	3	4
ASSETS			
A) RECEIVABLES FOR SUBSCRIBED NOT PAID CAPITAL	001		
B) NON-CURRENT ASSETS	002	416.212.641	413.403.383
I. INTANGIBLE ASSETS	003	5.928.386	7.707.235
II. PROPERTY, PLANT AND EQUIPMENT	004	381.395.261	394.123.657
III. NON-CURRENT FINANCIAL ASSETS	005	5.130.035	7.636.279
IV. RECEIVABLES	006	23.758.959	3.936.212
V. DEFERRED TAX ASSET	007		
C) CURRENT ASSETS	008	287.150.994	220.151.828
I. INVENTORIES	009	160.256.854	141.849.108
II. RECEIVABLES	010	110.142.061	66.646.833
III. CURRENT FINANCIAL ASSETS	011	12.773.213	9.386.655
IV. CASH AND CASH EQUIVALENTS	012	3.978.866	2.269.232
D) PREPAYMENTS AND ACCRUED INCOME	013	996.881	971.279
E) LOSS ABOVE SUBSCRIBED CAPITAL	014		
F) TOTAL ASSETS	015	704.360.516	634.526.490
G) OFF BALANCE SHEET ITEMS	016	49.950.242	48.637.632
EQUITY AND LIABILITIES			
A) ISSUED CAPITAL AND RESERVES	017	207.927.385	113.788.581
I. SUBSCRIBED SHARE CAPITAL	018	384.161.400	384.161.400
II. CAPITAL RESERVES	019		
III. LEGAL RESERVES	020	6.235.246	10.428.371
IV. REVALUATION RESERVES	021		
V. RETAINED EARNINGS	022		
VI. LOSS CARRIED FORWARD	023	83.565.147	184.131.093
VII. NET PROFIT FOR THE PERIOD	024		
VIII. LOSS FOR THE PERIOD	025	98.904.114	96.670.097
IX. MINORITY INTEREST	026		
B) PROVISIONS	027	6.628.648	744.081
C) NON-CURRENT LIABILITIES	028	157.971.096	153.402.629
D) CURRENT LIABILITIES	029	329.116.385	366.187.655
E) ACCRUED EXPENSES AND DEFERRED INCOME	030	2.717.002	403.544
F) TOTAL EQUITY AND LIABILITIES	031	704.360.516	634.526.490
G) OFF BALANCE SHEET ITEMS	032	49.950.242	48.637.632
ADDITION TO BALANCE SHEET (only for consolidated financial statements)			
ISSUED CAPITAL AND RESERVES			
1. Attributable to majority owners	033		
2. Attributable to minority interest	034		

PROFIT AND LOSS STATEMENT

for period

01.01.2010

to

31.12.2010

HRK

HRK					
Position	AOP oznaka	Previous period		Current period	
		Cumulative	Periodical	Cumulative	Periodical
1	2	3	4	5	6
I. OPERATING INCOME	035	357.650.623	0	308.697.260	0
1. Rendering of services	036	316.464.094		288.855.431	
2. Income from usage of own products, merchandise and services	037				
3. Other operating income	038	41.186.529		19.841.829	
II. OPERATING COSTS	039	421.046.895	0	373.941.300	0
1. Decrease of work in progress and merchandise	040	9.007.248		17.669.188	
2. Increase of work in progress and merchandise	041	0		0	
3. Material expenses	042	169.966.441		155.780.101	
4. Employee benefits expenses	043	140.009.075		120.800.249	
5. Depreciation and amortisation	044	13.182.748		14.082.389	
6. Other expenses	045	44.332.338		36.722.192	
7. Write down of assets	046	30.285.460		7.873.501	
8. Provisions	047	6.321.025		436.458	
9. Other operating costs	048	7.942.560		20.577.222	
III. FINANCIAL INCOME	049	3.610.831	0	5.948.491	0
1. Interest, foreign exchange differences, dividends and similar income from subsidiaries	050	595.373		1.615.711	
2. Interest, foreign exchange differences, dividends and similar income from third parties	051	3.015.458		4.332.780	
3. Income from investments in associates and joint ventures	052	0		0	
4. Unrealised gains (income)	053	0		0	
5. Other financial income	054	0		0	
IV. FINANCIAL EXPENSES	055	39.118.673	0	37.374.548	0
1. Interest, foreign exchange differences and similar expenses from subsidiaries	056	862.938		909.146	
2. Interest, foreign exchange differences and similar expenses from third parties	057	23.731.994		36.352.000	
3. Unrealised losses (expenses) from financial assets	058	12.468.857			
4. Other financial expenses	059	2.054.884		113.402	
V. EXTRAORDINARY - OTHER INCOME	060				
VI. EXTRAORDINARY - OTHER EXPENSES	061				
VII. TOTAL INCOME	062	361.261.454	0	314.645.751	0
VIII. TOTAL EXPENSES	063	460.165.568	0	411.315.848	0
IX. PROFIT BEFORE TAXES	064				
X. LOSS BEFORE TAXES	065	98.904.114	0	96.670.097	0
XI. TAXATION	066				
XII. NET PROFIT FOR THE PERIOD	067	0	0	0	0
XIII. LOSS FOR THE PERIOD	068	98.904.114	0	96.670.097	0
ADDITION TO PROFIT AND LOSS ACCOUNT (only for consolidated financial statements)					
XIV.* NET PROFIT ATTRIBUTABLE TO MAJORITY OWNERS	069				
XV.* NET PROFIT ATTRIBUTABLE TO MINORITY INTEREST	070				
XVI.* LOSS ATTRIBUTABLE TO MAJORITY OWNERS	071				
XVII.* LOSS ATTRIBUTABLE TO MINORITY INTEREST	072				

CASH FLOW STATEMENT - Indirect method

period 01.01.2010 to 31.12.2010

HRK

Position	AOP oznaka	Previous period	Current period
1	2	3	4
CASH FLOWS FROM OPERATING ACTIVITIES			
1. Profit before tax	073	-98.904.114	-96.670.097
2. Depreciation and amortisation	074	13.182.748	14.082.389
3. Increase of current liabilities	075	23.982.073	47.651.412
4. Decrease of current receivables	076	0	43.495.228
5. Decrease of inventories	077	42.801.878	18.407.746
6. Other cash flow increases	078	32.755.792	1.111.300
I. Total increase of cash flow from operating activities	079	13.818.377	28.077.978
1. Decrease of current liabilities	080	21.397.717	0
2. Increase of current receivables	081	0	0
3. Increase of inventories	082	0	0
4. Other cash flow decreases	083	0	0
II. Total decrease of cash flow from operating activities	084	21.397.717	0
A1) NET INCREASE OF CASH FLOW FROM OPERATING ACTIVITIES	085	0	28.077.978
A2) NET DECREASE OF CASH FLOW FROM OPERATING ACTIVITIES	086	7.579.340	0
CASH FLOW FROM INVESTING ACTIVITIES			
1. Proceeds from sale of non-current assets	087	33.432.401	19.363.806
2. Proceeds from sale of non-current financial assets	088	0	0
3. Interest received	089	0	0
4. Dividend received	090	0	0
5. Other proceeds from investing activities	091	0	0
III. Total cash inflows from investing activities	092	33.432.401	19.363.806
1. Purchase of non-current assets	093	0	5.690.920
2. Purchase of non-current financial assets	094	0	2.047.303
3. Other cash outflows from investing activities	095	22.609.561	22.911.312
IV. Total cash outflows from investing activities	096	22.609.561	30.649.535
B1) NET INCREASE OF CASH FLOW FROM INVESTING ACTIVITIES	097	10.822.840	0
B2) NET DECREASE OF CASH FLOW FROM INVESTING ACTIVITIES	098	0	11.285.729
CASH FLOW FROM FINANCING ACTIVITIES			
1. Proceeds from issue of equity securities and debt securities	099	0	0
2. Proceeds from loans and borrowings	100	0	0
3. Other proceeds from financing activities	101	0	-3.353.274
V. Total cash inflows from financing activities	102	0	-3.353.274
1. Repayment of loans and bonds	103	4.366.103	15.148.609
2. Dividends paid	104	0	0
3. Repayment of finance lease	105	0	0
4. Purchase of treasury shares	106	14.611	0
5. Other cash outflows from financing activities	107	0	0
VI. Total cash outflows from financing activities	108	4.380.714	15.148.609
C1) NET INCREASE OF CASH FLOW FROM FINANCING ACTIVITIES	109	0	0
C2) NET DECREASE OF CASH FLOW FROM FINANCING ACTIVITIES	110	4.380.714	18.501.883
Total increases of cash flows	111	0	0
Total decreases of cash flows	112	1.137.214	1.709.634
Cash and cash equivalents at the beginning of period	113	5.116.811	3.978.866
Increase of cash and cash equivalents	114	0	0
Decrease of cash and cash equivalents	115	1.137.945	1.709.634
Cash and cash equivalents at the end of period	116	3.978.866	2.269.232

STATEMENT OF CHANGES IN EQUITY

from **01.01.2010** to **31.12.2010**

HRK

Position	AOP	Previous period	Increase	Decrease	Current period
ž	2	31.12. previous year		3	4
1. Subscribed share capital	117	384.161.400			384.161.000
2. Capital reserves	118				
3. Net income reserves	119	6.235.246	4.193.125		10.428.371
4. Retained earnings or loss carried forward	120	-83.565.147	-100.565.946		-184.131.093
5. Net profit (loss) for the period	121		-96.670.097		-96.670.097
6. Revaluation of property, plant and equipment	122				
7. Revaluation of intangible assets	123				
8. Revaluation of available for sale financial assets	124				
9. Other revaluation	125				
10. Foreign exchange differences from investments abroad	126				
11. Current and deferred taxes (part)	127				
12. Hedging	128				
13. Change of accounting policies	129				
14. Change of prior period error	130				
15. Other changes in equity	131				
16. Total increase or decrease of equity	132	306.831.499	-193.042.918	0	113.788.181
16a. Attributable to majority owners	133				0
16b. Attributable to minority interest	134				

Notes to financial reports