VARTEKS

Varteks d.d.
Zagrebačka 94
42000 Varaždin

Varaždin, June 30, 2011

STATEMENT BY THE PERSON RESPONSIBLE FOR THE COMPILATION OF THE REPORT FOR 2010

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

- the set of financial reports for Varteks Group for 2010 (hereinafter: Group) which was compiled according to International Financial Reporting Standards and pursuant to the Croatian Accounting Act offers a comprehensive and truthful account of the assets and liabilities, losses and profits, the financial position and business activities of the Group.

- The management report contains the truthful account of the development of the Group's operations and position, along with a description of the most significant risks and uncertainties the Group is exposed to.

PERSON RESPONSIBLE:

VARTEKS d.d.
/ Zagrebačka 94 / HR-42000 VARAŽDIN /9

Nenad Davidović
Board Member Responsible for Finances

Contact Person:
Marina Bradarić-Šlujo
Phone 042 / 377-230

VARTEKS

GROUP

ANNUAL REPORT FOR VARTEKS GROUP FOR 2010

Varaždin, June 2011

Content

1. IN GENERAL ABOUT VARTEKS GROUP

Varteks Group (hereinafter: Group) consists of companies which are mainly owned by the company Varteks d.d. (hereinafter: Company) which derived from Varaždinska tekstilna industrija d.d. Varaždin and came about through a conversion pursuant to the Decision on the Conversion of the Social Enterprise Varteks Holding into a Stock Company from June 17, 1992, according to Resolution No. 01-01-02/92-06/94 by the Croatian Agency for Restructuring and Development from April 9, 1993 and the Decision on the Transfer of Shares of the Stock Company Varteks to Varaždin Fondovi from July 16, 1993.

Main activities

Varteks's main activities are:

- clothing production, fur processing and dyeing
- textile production
- merchandise procurement and sale
- trade mediation on the domestic and foreign markets

Company Seat

The seat of the Company is located in Varaždin, Zagrebačka 94.

Supervisory Board and Management Board

Supervisory Board

Milan Horvat	President
Stjepan Igrec	Vice president
Artur Gedike	Board member
Boris Santo	Board member
Neven Maruševec	Board member
Božica Čiček - Mutavdžić	Board member
Krešimir Dragić	Board member

Management Board

Zoran Košćec	President of the Management Board
Nenad Davidović	Board member responsible for finances
Miljenko Vidaček	Board member responsible for production

Affiliated Companies of Varteks Group

The Company is the founder and full owner of the following affiliated companies which constitute Varteks Group:

- Varteks Logistic d.o.o., Varaždin
- Varteks Trgovina d.o.o., Varaždin
- Varteks Trgovina d.o.o., Široki Brijeg, Bosnia-Herzegovina
- Varteks D.o.o.e.l., Skopje, Macedonia
- Varteks Trade d.o.o., Ljubljana, Slovenia
- Varteks Mont d.o.o., Podgorica, Montenegro
- Burgtrade Eisenstadt, Austria
- Varteks Textiles Limited, Bristol, Great Britain
- Varteks Plus d.o.o. Beograd, Serbia
- Varteks ESOP d.o.o. Varaždin

The companies Varteks D.o.o.e.l, Skopje, Macedonia and Varteks Mont d.o.o. Podgorica, Montenegro are inactive in terms of business activities.

2. BASIC BUSINESS CHARACTERISTICS IN 2010

The business results of Varteks Group in 2010 are linked to general economic developments on the local and global markets. The continuation of the crisis and the drop in personal spending in 2010 have led to additional liquidity problems and a further slowdown in investments, which was also reflected in the Group's business operations.

Under such negative conditions, the Group operated with a loss of HRK 102.8 million in 2010, while a loss of HRK 84.6 million had been generated in the same time period in 2009. The negative difference in relation to 2010 primarily arises from the cost structure of value corrections in 2009, which mainly pertained to affiliated companies, which reduced the 2009 loss on the level of the Group.

The realized sales revenues amounting to HRK 350.3 million are 3.5 percent higher in relation to the year before. Total revenues amounted to HRK 378.9 million, which constitutes a reduction of 2.5 percent in relation to the revenues realized in the same time period in 2009. Excluding HRK 21.7 million in revenues on the basis of real estate sales, which do not constitute regular business activities of the Group, from the total revenues realized in 2009, the Group's total revenues were HRK 11.9 million or 3.3 percent higher in relation to 2009. Total expenditures amounted to HRK 481.8 million. On the foreign market, revenues of HRK 141.3 million were realized, which constitutes 40.3 percent of the Group's sales revenues. The majority of exports were realized in the European Union.

Within the Group, a significant increase is evident in the business activities of the affiliated company Varteks Trgovine, to which the B2B segment (sales aspect pertaining to corporate clothing and special-purpose clothing) was detached in line with the restructuring and reorganization plan and related activities, and the affiliated company partakes in the total consolidated revenues in 2010 with 11.5 percent.

In the Group's cost structure, almost all costs from business activities marked a drop in relation to 2009, which is mainly the result of carried-out restructuring measures. Personnel costs (net wages plus taxes and contributions from wages and contributions on wages) were reduced by HRK 17.7 million or 12.2 percent.

The total reduction inventory, which was 12.7 percent lower in relation to the beginning of the year, is significant. The reduction is the result of activities aimed towards the more rational utilization of the company's own resources and the targeted optimization of all inventory types.

The increase in financing costs in 2010 also had a significant effect on the negative results, and expenditures on the basis of taxes and other financing expenditures went up 28 percent in relation to 2009.

From the business elements outline for 2010 it is evident that progress was achieved in regular business activities. On this basis, the Group already marked better business results through higher revenues in 2010 (particularly in the 2nd half of the year), particularly when excluding results in relation to extraordinary activities on the basis of real estate sales, which had generated a positive effect of HRK 21.7 million in 2009 and a negative effect of HRK 13.2 million in 2010.

3. MOST SIGNIFICANT BUSINESS RISKS IN 2010

Market developments in 2010 cumulated certain risks in the Group's business operations, so that risks on the basis of lower personal spending, which directly affected revenues and liquidity, continue to be pronounced. In terms of costs, the most significant risks were related to higher costs on the basis of further increases in energy prices and other production costs in connection to production and sales activities (raw materials, production materials, services, etc.). Risks on the basis of business activity financing and liquidity in general were markedly present through the entire year.

The basic direction of the development of the business policy in 2010 was the implementation of the Integral Business and Financial Restructuring Plan, which relies on the company's own resources and thus also includes the sale of real estate assets. Due to extremely negative trends on the real estate market, sales have mostly not been realized, which significantly affected not only the implementation of activities from the Integral Plan, but also the liquidity and efficiency of the Group's overall business operations.

4. ANTICIPATED FUTURE DEVELOPMENT OF THE GROUP

The Group continues to direct all its activities towards eliminating potential negative effects on the basis of market developments, and it is developing new sales aspects in line with the current market conditions.

Business activities continue to be directed towards cutting operating costs, the closure of unprofitable segments within the Group, increasing certain sales aspects (particularly the B2B segment – the manufacturing and sale of special-purpose and corporate clothing) and retail reorganization as one of the key sales aspects.

Activities are currently being carried out which aim to further cut all administrative costs. The reorganization which was initiated in 2010 is being continued and in line with this, production facilities in Croatia were detached in the second quarter of 2011 to three separate legal entities which will continue to operate as new companies within Varteks Group. The aim is to simplify the management structure, to increase the operative efficiency of responsibility centers and thus to increase the competitiveness of the business operations of the entire Group.

The prerequisites for the stabilization and the development of the Group's business operations are primarily based on stabilizing liquidity as a key prerequisite for the implementation of all activities in relation to the restructuring, the further reorganization of the system and the strengthening of strategic sales aspects.

President of the Management Board of Varteks d.d.

Zoran Košćec

VARTEKS d.d.
/ Zagrebačka 94 / HR-42000 VARAŽDIN / 9

Annex 1

Reporting period: 01.01.2010. to 31.12.2010.

Annual financial report of GFI-POD

Registration number (MB): 3747034

Subject's 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

website: www.varteks.com

District/twon code and name: 472 VARAŽDIN

County code and name: 5 VARAŽDINSKA

Number of employees: (at year end) 2.419

Consolidated report: YES

NKD code: 1413

Companies of consolidation subjects (according to IFRS)	Seat:	Reg.No.:
BURGTRADE G.m.b.h.	Eisenstadt, Austrija	00128280Y
VARTEKS (TEXTILES) Ltd.	Bristol, Velika Britanija	00970382
VARTEKS TRADE d.o.o.	Ljubljana, Slovenija	5351944
VARTEKS PLUS d.o.o.	Beograd, Srbija	100824354
VARTEKS LOGISTIC d.o.o.	Varaždin, Hrvatska	01038133
VARTEKS BIH d.o.o.	Široki Brijeg, Bosna i Hercegovina	
VARTEKS TRGOVINA d.o.o.	Varaždin, Hrvatska	1280511
VARTEKS ESOP d.o.o.	Varaždin, Hrvatska	070092385

Accounting service:

Contact person: Bolšec Vlado
(only last name and name of contact person is entered)

Phone: 042/377-005

Fax: 042/377-005

E-mail address: vbolsec@varteks.com

Last name and name: Davidović Nenad
(person authorized for representation)

Documentation for publication:

1. Revised annual financial reports
2. Statement by persons responsible for the making of financial reports
3. Management report

M.P.

VARTEKS d.d.
/ Zagrebačka 94 / HR-42000 VARAŽDIN / 9

(Signature of person authorized for representation)

BALANCE SHEET

as of 31.12.2010.

Position	AOP mark	Previous year	Current year
1	2	3	4
ASSETS			
A) RECEIVABLES FOR SUBSCRIBED BUT UNPAID CAPITAL	001		
B) LONGTERM ASSETS (003+010+020+028+032)	002	436.788.419	434.246.587
I. INTANGIBLE ASSETS (004 to 009)	003	7.856.441	9.392.192
1. Development expenses	004		
2. Concessions, patents, licenses, trademarks, service marks, software and other rights	005	7.856.441	9.246.966
3. Goodwill	006		
4. Advance payments for the procurement of intangible assets	007		
5. Intangible assets in preparation	008		145.226
6. Other intangible assets	009		
II. TANGIBLE ASSETS (011 to 019)	010	400.370.232	397.189.543
1. Property	011	49.123.233	54.753.233
2. Buildings	012	248.094.476	266.509.862
3. Machinery and equipment	013	71.463.595	62.745.404
4. Tools, facility inventory and transportation assets	014	11.998.164	11.762.520
5. Biological assets	015		
6. Advance payments for tangible assets	016		
7. Tangible assets in preparation	017	19.458.716	1.186.476
8. Other tangible assets	018	232.048	232.048
9. Investments in real estate	019	0	0
III. LONGTERM FINANCIAL ASSETS (021 to 027)	020	4.802.787	23.728.640
1. Shares (stocks) in affiliated bussineses	021		18.466.912
2. Loans granted to affiliated businesses	022		
3. Participating interests (shares)	023	165.900	165.900
4. Investments in securities	024		
5. Loans, deposits and the like	025	271.434	730.375
6. Own stocks and shares	026		
7. Other longterm financial assets	027	4.365.453	4.365.453
IV. RECEIVABLES (029 to 031)	028	23.758.959	3.936.212
1. Receivables from affiliated undertakings	029		3.216.364
2. Receivables arising from sales on credit	030		
3. Other receivables	031	23.758.959	719.848
V. DEFERRED TAX ASSETS	032		
C) CURRENT ASSETS (034+042+049+057)	033	279.165.375	221.155.823
I. INVENTORY (035 to 041)	034	179.670.199	156.463.146
1. Raw materials and supplies	035	28.254.485	32.646.065
2. Production in progress	036	7.820.417	7.701.697
3. Unfinished and intermediate products	037		
4. Finished products	038	49.247.872	28.678.781
5. Merchandise	039	48.471.818	41.214.564
6. Advances for inventory	040	519.550	899.706
7. Other assets intended for sale	041	45.356.057	45.322.333
II. RECEIVABLES (043 to 048)	042	85.467.658	55.811.648
1. Receivables from affiliated undertakings	043		
2. Receivables from buyers	044	79.364.385	47.941.993
3. Receivables from participating businesses	045		
4. Receivables from employees and members of the entrepreneur	046	365.231	566.906
5. Receivables from the state and other institutions	047	5.245.089	6.733.485
6. Other receivables	048	492.953	569.264
III. CURRENT FINANCIAL ASSETS (050 to 056)	049	8.619.890	5.874.930
1. Shares (stocks) in associated undertakings	050		
2. Loans to associated undertakings	051		
3. Participating interests (shares)	052		
4. Investments in securities	053	5.732.761	3.581.349
5. Loans, deposits and the like	054	2.887.129	2.293.581
6. Own stocks and shares	055		
7. Other financial assets	056		
IV. CASH AT BANK AND IN HAND	057	5.407.628	3.006.099
D) PREPAID EXPENSES AND COMPUTED INCOME	058	2.222.496	1.013.523
E) LOSS OVER CAPITAL	059		
F) TOTAL ASSETS (001+002+033+058+059)	060	718.176.290	656.415.933
G) OFF-BALANCE SHEET ITEMS	061	49.950.242	48.637.632

LIABILITIES			
A) CAPITAL AND RESERVES (063+064+065+071+072-073+074-075+076)	062	206.656.390	110.624.206
I. BASIC (REGISTERED) CAPITAL	063	384.161.400	384.161.400
II. CAPITAL RESERVES	064		
III. RESERVES FROM PROFIT (066+067-068+069+070)	065	6.235.246	10.428.371
1. Legal reserves	066		
2. Reserves for own shares	067	103.037.818	46.013.062
3. Own stocks and shares (deductible item)	068	97.716.600	36.730.600
4. Statutory reserves	069		
5. Other reserves	070	914.028	1.145.909
IV. REVALUATION RESERVES	071		
V. RETAINED EARNINGS	072		
VI. LOSS CARRIED FORWARD	073	98.983.092	181.079.603
VII. FISCAL YEAR PROFIT	074		
VIII. FISCAL YEAR LOSS	075	84.757.164	102.885.962
IX. MINORITY INTEREST	076		
B) PROVISIONS (078 to 080)	077	6.672.902	744.081
1. Provisions for pensions, severance pays and similar obligations	078	6.321.025	436.458
2. Provisions for tax liabilities	079		
3. Other provisions	080	351.877	307.623
C) LONGTERM LIABILITIES (082 to 089)	081	157.971.096	153.450.111
1. Amounts due to related undertakings	082		
2. Commitments for loans, deposits, etc.	083	70.809	
3. Liabilities to banks and other financial institutions	084	157.087.822	153.427.611
4. Liabilities for advances	085		
5. Trade payables	086	812.465	22.500
6. Commitments on securities	087		
7. Other longterm liabilities	088		
8. Deferred tax liabilities	089		
D) CURRENT LIABILITIES (091 to 101)	090	344.531.399	391.046.349
1. Amounts due to related undertakings	091		
2. Commitments for loans, deposits, etc.	092	23.397.502	13.878.442
3. Liabilities to banks and other financial institutions	093	153.024.751	152.019.557
4. Liabilities for advances	094	6.865.311	2.724.304
5. Trade payables	095	94.903.749	119.683.137
6. Commitments on securities	096		
7. Employment benefit obligations	097	17.487.066	14.781.997
8. Taxes, contributions and similar charges	098	37.957.269	80.207.967
9. Liabilities arising from share in the result	099		
10. Liabilities arising from non-current assets held for sale	100		
11. Other shortterm liabilities	101	10.895.751	7.750.945
E) ACCRUED CHARGES AND DEFERRED REVENUE	102	2.344.503	551.186
F) TOTAL –LIABILITIES (062+077+081+090+102)	103	718.176.290	656.415.933
G) OFF-BALANCE SHEET ITEMS	104	49.950.242	48.637.632
APPENDIX TO BALANCE SHEET (filled out by the person who puts together the consolidated annual financial report)			
CAPITAL AND RESERVES			
1. Attributed to parent company equity holders	105	206.656.390	110.624.206
2. Attributed to minority interests	106		

PROFIT AND LOSS ACCOUNT
for period 01.01.2010. to 31.12.2010.

Position	AOP	Previous year	Current year
1	2	3	4
I. OPERATING REVENUES (112+113)	111	384.229.199	372.398.846
1. Sales revenues	112	338.372.007	350.290.016
2. Other operating revenues	113	45.857.192	22.108.830
II. OPERATNG EXPENSES (115+116+120+124+125+126+129+130)	114	447.222.830	441.773.362
1. Changes in the value of work in progress and finished goods	115	9.007.248	17.669.188
2. Material costs (117 to 119)	116	155.047.732	175.585.713
a) Raw material and material costs	117	65.918.718	61.593.818
b) Costs of goods sold	118	80.106.118	108.838.739
c) Other external costs	119	9.022.896	5.153.156
3. Staff costs (121 to 123)	120	145.632.240	127.918.847
a) Net salaries and wages	121	93.604.154	84.817.857
b) Costs for taxes and contributions from salaries	122	30.697.051	25.429.982
c) Contributions on gross salaries	123	21.331.035	17.671.008
4. Amortization	124	14.156.309	15.026.236
5. Other costs	125	100.287.924	96.606.077
6. Impairment (127+128)	126	16.770.352	8.530.842
a) Impairment of long-term assets (excluding financial assets)	127		
b) Impairment of short-term assets (excluding financial assets)	128	16.770.352	8.530.842
7. Provisions	129	6.321.025	436.459
8. Other operating expenses	130		
III. FINANCIAL INCOME (132 to 136)	131	4.463.105	6.522.531
1. Interest income, foreign exchange gains, dividends and similar income from related parties	132		
2. Interest income, foreign exchange gains, dividends and similar income from non-related	133	4.463.105	6.404.147
3. Share in income from affiliated entrepreneurs and participating interests	134		
4. Unrealized gains (income) from financial assets	135		
5. Other financial income	136		118.384
IV. FINANCIAL EXPENSES (138 to 141)	137	26.203.438	39.982.643
1. Interest expenses, foreign exchange losses and similar expenses from related parties	138		
2. Interest expenses, foreign exchange losses and similar expenses from non - related parties	139	24.081.584	39.869.241
3. Unrealized losses (expenses) on financial assets	140		
4. Other financial expenses	141	2.121.854	113.402
V. INCOME FROM INVESTMENT SHARE IN PROFIT OF ASSOCIATED ENTREPRENEURS	142		
VI. LOSS FROM INVESTMENT SHARE IN LOSS OF ASSOCIATED ENTREPRENEURS	143		
VII. EXTRAORDINARY - OTHER INCOME	144		
VIII. EXTRAORDINARY - OTHER EXPENSES	145		
IX. TOTAL INCOME (111+131+142 + 144)	146	388.692.304	378.921.377
X. TOTAL EXPENSES (114+137+143 + 145)	147	473.426.268	481.756.005
XI. PROFIT OR LOSS BEFORE TAXATION (146-147)	148	-84.733.964	-102.834.628
1. Profit before taxation (146-147)	149	0	0
2. Loss before taxation (147-146)	150	84.733.964	102.834.628
XII. PROFIT TAX	151	23.200	51.334
XIII. PROFIT OR LOSS FOR THE PERIOD (148-151)	152	-84.757.164	-102.885.962
1. Profit for the period(149-151)	153	0	0
2. Loss for the period (151-148)	154	84.757.164	102.885.962
APPENDIX TO PROFIT AND LOSS ACCOUNT (only for consolidated financial statements)			
XIV. PROFIT OR LOSS FOR THE PERIOD			
1. Attributed to equity holders of parent company	155	-84.757.164	-102.885.962
2. Attributed to minority interests	156		
STATEMENT OF COMPREHENSIVE INCOME (IFRS)			
I. PROFIT OR LOSS FOR THE PERIOD (= 152)	157	-84.757.164	-102.885.962
II. OTHER COMPREHENSIVE INCOME / LOSS BEFORE TAX (159 to 165)	158	-103.935	-766.940
1. Exchange differences on translation of foreign operations	159	-321.182	-998.821
2. Movements in revaluation reserves of long-term tangible and intangible assets	160	217.247	231.881
3. Profit or loss from revaluation of financial assets available for sale	161		
4. Gains or losses on efficient cash flow hedging	162		
5. Gains or losses on efficient hedge of a net investment in foreign countries	163		
6. Share in other comprehensive income / loss of associated companies	164		
7. Actuarial gains / losses on defined benefit plans	165		
III. TAX ON OTHER COMPREHENSIVE INCOME FOR THE PERIOD	166		
IV. NET OTHER COMPREHENSIVE INCOME/ LOSS FOR THE PERIOD (158-166)	167	-103.935	-766.940
V. COMPREHENSIVE INCOME OR LOSS FOR THE PERIOD (157+167)	168	-84.861.099	-103.652.902
APPENDIX to Statement of comprehensive income (only for consolidated financial statements)			
VI. COMPREHENSIVE INCOME OR LOSS FOR THE PERIOD			
1. Attributed to equity holders of parent company	169	-84.861.099	-103.652.902
2. Attributed to minority interests	170		

CASH FLOW STATEMENT - Indirect method

time period from 1.1.2010 to 31.12.2010.

Position	AOP mark	Previous year	Current year
1	2	3	4
CASH FLOW FROM OPERATING ACTIVITIES			
1. Profit before tax	001	-84.733.964	-102.834.628
2. Amortization	002	14.156.309	15.026.236
3. Increase in current liabilities	003	11.340.021	57.039.204
4. Decrease in shortterm receivables	004		29.656.010
5. Decrease in inventories	005	46.167.794	23.207.053
6. Other increases in cash flow	006	4.070.059	2.160.616
I. Total increase in cash flow from operating activities (001 to 006)	007	-8.999.781	24.254.491
1. Decrease in current liabilities	008		
2. Increase in shortterm receivables	009	16.154.043	
3. Increase in inventories	010		
4. Other dicreases in cash flow	011		
II. Total decrease in cash flow from operating activities (008 to 011)	012	16.154.043	0
A1) NET INCREASE IN CASH FLOW FROM OPERATING ACTIVITIES (007-012)	013	0	24.254.491
A2) NET DECREASE IN CASH FLOW FROM OPERATING ACTIVITIES (012-007)	014	25.153.824	0
CASH FLOW FROM INVESTING ACTIVITIES			
1. Proceeds from the sale of longterm tangible and intangible assets	015	36.344.994	-13.381.298
2. Proceeds from the sale of equity and debt instruments	016		
3. Proceeds from interest	017		
4. Proceeds from dividends	018		
5. Other proceeds from investing activities	019		896.894
III. Total proceeds from investing activities (015 to 019)	020	36.344.994	-12.484.404
1. Cash expenditures for the purchase of longterm tangible and intangible assets	021		
2. Cash expenditures for the acquisition of equity and debt instruments	022		
3. Other cash expenditures from investing activities	023	21.568.010	
IV. Total cash expenditures from investing activities (021 to 023)	024	21.568.010	0
B1) NET INCREASE IN CASH FLOW FROM INVESTING ACTIVITIES (020-024)	025	14.776.984	0
B2) NET DECREASE IN CASH FLOW FROM INVESTING ACTIVITIES (024-020)	026	0	12.484.404
CASH FLOW FROM FINANCING ACTIVITIES			
1. Proceeds from issuance of equity and debt instruments	027		
2. Proceeds from equity loans, debentures, loans and other borrowings	028	9.688.120	
3. Other proceeds from financing activities	029		924.957
V. Total proceeds from financing activities (027 to 029)	030	9.688.120	924.957
1. Cash expenditures for principal repayments of loans and bonds	031		15.045.239
2. Cash expenditures for the payment of dividends	032		
3. Cash expenditures on finance leases	033		
4. Cash expenditures for the purchase of own shares	034		0
5. Other cash expenditures from financing activities	035		0
VI. Total cash expenditures from financing activities (031 to 035)	036	0	15.045.239
C1) NET INCREASE IN CASH FLOW FROM FINANCING ACTIVITIES (030-036)	037	9.688.120	0
C2) NET DECREASE IN CASH FLOW FROM FINANCING ACTIVITIES (036-030)	038	0	14.120.282
Total increase in cash flow (013 – 014 + 025 – 026 + 037 – 038)	039	0	0
Total decrease in cash flow (014 – 013 + 026 – 025 + 038 – 037)	040	688.720	2.350.195
Cash and cash equivalents at beginning of period	041	6.096.348	5.407.628
Increase in cash and cash equivalents	042		0
Decrease in cash and cash equivalents	043	688.720	2.401.529
Cash and cash equivalents at end of period	044	5.407.628	3.006.099

STATEMENT OF CHANGES IN EQUITY

for period from | 1.1.2010 | 31.12.2010.

Position	AOP mark	Previous year	Current year
1	2	3	4
1. Subscribed capital	001	384.161.400	384.161.400
2. Capital reserves	002		
3. Reserves from profit	003	6.235.246	10.428.371
4. Retained profit or loss carried forward	004	-98.983.092	-181.079.603
5. Profit or loss of current year	005	-84.757.164	-102.885.962
6. Revaluation of longterm tangible assets	006		
7. Revaluation of intangible assets	007		
8. Revaluation of financial assets available for sale	008		
9. Other revaluations	009		
10.Total equity and reserves (AOP 001 to 009)	010	206.656.390	110.624.206
11. Foreign exchange differences arising from the titles of net investment in foreign operations	011		
12. Current and deferred taxes (part)	012		
13. Cash flow protection	013		
14. Changes in accounting policies	014		
15. Correction of significant errors in the previous period	015		
16. Other changes in equity	016		
17. Total increase or decrease in equity (AOP 011 to 016)	017	0	0
17 a. Attributed to parent company equity holders	018	206.656.390	110.624.206
17 b. Attributed to minority interest	019		

Positions that decrease equity are entered with a negativesign. Data under AOP marks 001 to 009 are entered as the balance as of the balance sheet date.

HLB Revidicon

Revizija, računovodstveno i porezno savjetovanje

VARTEKS D.D. VARAŽDIN GROUP

CONSOLIDATED FINANCIAL STATEMENTS AND THE INDEPENDENT AUDITOR'S REPORT FOR 2010

IN VARAŽDIN, APRIL 2011

AUDITOR'S REPORT ON CONSOLIDATED FINANCIAL STATEMENTS FOR 2010

CONTENTS

RESPONSIBILITY OF MANAGEMENT FOR FINANCIAL STATEMENTS

In accordance with the Accounting Act of the Republic of Croatia, Management of Varteks d.d. Varaždin shall make sure that financial statements of of Varteks d.d. Varaždin (hereinafter: the Company) and the Varteks Group Varaždin (hereinafter: the Group) for each fiscal year be prepared in accordance with International Financial Reporting Standards (IFRS) as published by the Financial Reporting Standards Board, and present a true and fair insight into the Company and Group financial and business results for the above period.

After the performed research, the Management realistically expects that the Group companies shall have the necessary assets to continue with its business for the foreseeable future. Therefore, the Management still accepts the principle of continuation of business for the preparation of financial statements.

Regarding the preparation of financial statements, the Management shall be responsible for the following:

- *Choice and consistent application of appropriate accounting policies;*
- *Reasonable and cautious deliberations and estimates;*
- *Application of valid accounting standards, and reporting and explaining of all significant deviations in the financial statements;*
- *Preparation of financial statements based on the principle of unlimited duration of business, unless it should be inappropriate to assume that the Group companies will continue with its business.*

The Management shall be responsible for correct management of accounting records, which shall at any moment with acceptable accuracy show the financial position of the Company and the Group, as well as its conformance with the Croatian Accounting Act. The Management shall bear the general responsibility for undertaking steps for the purpose of preserving the assets of the Company and the Group, and preventing and determining and wrong-doing/illegalities.

The attached financial statements presented on pages 4-71 have been approved by the Management on 29 April 2011 and are signed by:

For and in behalf of the Management:

Zoran Koščec		*Nenad Davidović*
Chairman of the Board:		*Board Member for Financial Transactions*
Varteks d.d. Varaždin *Zagrebačka 94* *42000 Varaždin* *Republic of Croatia*	VARTEKS d. d. / Zagrebačka 94 / HR-42000 VARAŽDIN / 10	

HLB Revidicon

Revizija, računovodstveno i porezno savjetovanje

TO SHAREHOLDERS OF VARTEKS d.d. VARAŽDIN

INDEPENDENT AUDITOR'S REPORT

We have performed the audit of attached consolidated financial statements of VARTEKS d.d. Varaždin (hereinafter: the Company) and its dependent companies (hereinafter jointly: the Group), as follows: Consolidated Financial Position Report as at 31 December 2010, Consolidated All-inclusive Profit Account for 2010, Consolidated Cash Flow Report for 2010, Consolidated Changes in Capital for 2010 and Notes to consolidated financial statements, including significant accounting policies.

Financial statements of the Group as at 31 December 2009 were audited by another auditing company, whose report dated 18 May 2010 contains the opinion and the features influencing the opinion, pertaining to provisions for severance pay, anniversary awards, value decrease of real property, plants and equipment, assets for sale, consolidated financial statements, parallel amounts of previous periods, sale of long-term tangible assets, state subsidies, violations of credit agreements, and publishing in accordance with the conditions of IFRS 7- Financial Instruments: Publishing and IFRS -8 Segment Information. Special accent, without qualification to the opinion of the auditor, is given to the existence of uncertainty which represents doubt in the ability of the Group to continue with indefinite duration of business operations.

Management responsibilities

The Management bears the responsibility for preparation and objective account of these financial statements in accordance with International Financial Reporting Standards and Croatian law. Management responsibilities include: determination, introduction and maintenance of internal controls relevant for preparation and fair presentation of financial statements in which there will not be any significant erroneous representations caused by mistake or deliberate deceit, choice and use of applicable accounting policies and making reasonable accounting estimates in given circumstances.

Responsibility of the auditor

Our responsibility is to give our opinion on these financial statements based on the published audit. Except in part where we stated the Facts influencing our opinion, we have conducted the audit in accordance with International Auditing Standards. These standards demand from the auditor adherence to ethical rules and planning and conducting of the audit in order to gain reasonable conviction on financial statements not having significant erroneous accounts.

Audit includes performing activities and obtaining auditing proof on amounts and releases in financial statements. Choice of activities, including the risk assessment for significant erroneous accounts in financial statements due to errors or fraud lies exclusively with the auditor. When assessing risk, the auditor takes into consideration the internal controls relevant for preparation and fair presentation of financial statements in order to determine auditing activities applicable under the circumstances, but not also for giving opinion on effectiveness of the Group's internal controls. The audit also includes assessment of pertinence of accounting policies used and of prudence of accounting estimates/assessments of the Management, as well as the assessment of the total presentation of financial statements. We believe that obtained proof is sufficient and appropriate for ensuring the basis for stating our opinion.

Facts qualifying the opinion

As is stated in Note 3.18. - Provisioning, the Group registered as income the provisions for retirement compensations to workers, which have been provisioned in 2009 in the amount of HRK 6,321,025. Same item provisions in 2010 (burdening the result) amount to HRK 436,458. As at 31 December 2010 the Group did not determine the current value of the employee anniversary awards liabilities in accordance with the IFRS 19 - Employee Salaries. Using auditing procedures we are unable to ascertain the factual state of the noted amount for severance pay, the amount of current liabilities for anniversary awards, nor the effect of the above on the financial statements for 2010.

In Notes 3.2. and 3.10. the Group, as at 31 December 2010 declared real property, plants and equipment, and assets for sale as investment costs. The Group did not, although there are signs of it due to negative business results, estimate the current coverable amount of the above assets in accordance with IFRS 36 - Assets Decrease. Due to the above we are unable to determine the possible difference between the coverable and book value of assets and the effect the same may have on the financial statements for 2010.

Consolidated financial statements do not include the dependent companies Varteks D.o.o.e.l. Skopje and Varteks Mont d.o.o. Podgorica although the Company has a controlling interest in those companies. Financial statements of those companies are not presented; therefore, we are not able to estimate the effect of the same on the financial statements of Varteks Group.

As is stated in Note 3.9 . - Inventory , the Group as at 31 December 2010 declared the value of inventory in the amount of HRK 111,140,813. Value adjustment (in percentages) of inventory of finished products and trade goods has been defined and processed, while for other inventory values the net saleable value has not been ascertained. Due to the above we are unable to determine the possible difference in view of the above, nor the effect the same may have on the financial statements for 2010.

In 2010 the Company value-adjusted receivables from associated companies in the amount of HRK 1,661,832, burdening transferred losses, which is not in accordance with the IFRS 8- Accounting Policies, Changes of Accounting Estimates and Mistakes. The Group loss is thus overvalued for the above amount as at 31 December 2009, and is not comparable to the same item declared as at 31 2010.

The Group has certain contractual conditions for a part of their credit liabilities, whereby the non-fulfilment of those conditions means the credit becomes due at request. Since as at 31 December 2010 all set conditions have not been fulfilled, the Group does not have the right to declare deferred liabilities for at least 12 months from the end of the reporting period; such liabilities must be declared as short-term liabilities.

The Group must present some data in accordance with the IFRS 7 - Financial Instruments: Reporting and the IFRS 8 - Business Segments which as at 31 December 2010 the Group failed to publish.

Opinion

According to our opinion, except the effects and possible effects of facts above, the attached financial statements are a true and fair representation, in all significant determinants, of the financial position of VARTEKS Group Varaždin as at 31 December 2010, business results, cash flow report and changes in capital in 2010, in accordance with the International Financial Reporting Standards.

Special considerations

Without qualifying our opinion, we turn your attention to the fact that Varteks Group realised a business loss for 2010 in the amount of HRK 102,885,962 (HRK 84,757,164 the previous year), and that the total short-term liabilities of the Group as at 31 December 2010 are higher than total short-term assets for HRK 170,172,270.

The above circumstances point toward uncertainty, which placed doubt in the ability of the Group to continue with indefinite duration of business (via Note 1.y.).

These financial statements do not contain and adjustments tied to evaluation and classification of assets and liabilities which would be necessary in case the Group should not be able to continue with indefinite duration of business.

Authorized auditor:
Grozdana Šimpović - Brlek, B.Econ.
Brlek

HLB Revidicon
VARAŽDIN Ankice Opolski 2

Managing Director:
Stjepan Šargač, B.Econ.

In Varaždin, 29 April 2011

HLB Revidicon d.o.o.
42000 Varaždin
Ankice Opolski 2

CONSOLIDATED FINANCIAL STATEMENTS

ALL-INCLUSIVE PROFIT STATEMENT
for the period from 1 January to 31 December 2010

	Note	2009	2010
		- in HRK -	- in HRK -
Income from sales	2.1.1.1.	338,372,007	350,290,016
Other income	2.1.1.2.	45,857,192	22,108,830
Total income from general activities	1.e.,2.1.1.	**384,229,199**	**372,398,846**
Purchase value of sold goods		(80,106,118)	(108,838,739)
Change of inventory of non-finished and finished products		(9,007,248)	(17,669,188)
Raw material, material and energy expenses	2.2.1.1.	(65,918,718)	(61,593,818)
Depreciation	2.2.1.2.	(14,156,309)	(15,026,236)
Other material expenses	2.2.1.3.	(9,022,896)	(5,153,156)
Non-material expenses	2.2.1.4.	(100,287,924)	(96,606,077)
Staff expenses	2.2.1.5.	(145,632,240)	(127,918,847)
Value-adjustment of short-term assets	2.2.1.6.	(16,770,352)	(8,530,842)
Provision costs	1.u.,3.20.	(6,321,025)	(436,459)
Total liabilities from general activities	1.g.,2.2.1.	**(447,222,830)**	**(441,773,362)**
Profit / (loss) from general activities		**(62,993,631)**	**(69,374,516)**
Financial income	2.1.2.	4,463,105	6,522,531
Financial expenses/liabilities	2.2.2.	(26,203,438)	(39,982,643)
Net profit / (loss) from financial activities		**(21,740,333)**	**(33,460,112)**
TOTAL INCOME		**388,692,304**	**378,921,377**
TOTAL EXPENSES/LIABILITIES	2.2.	**(473,426,268)**	**(481,756,005)**
Profit/(loss) before taxation		**(84,733,964)**	**(102,834,628)**
Profit/company tax	1.i.,2.3.	(23,200)	(51,334)
Profit/ (loss) after taxation		**(84,757,164)**	**(102,885,962)**
Loss per share		(59,16)	(59,23)
Other all-inclusive profit			
Currency rate differentials		(321,182)	(998,821)
Revaluation reserves based on reval. of flats		217,247	231,881
TOTAL ALL-INCLUSIVE PROFIT / (LOSS) OF CURRENT YEAR		**(84,861,099)**	**(103,652,902)**

Signed for and on behalf of the Group on 29 April 2011:

Zoran Koščec
Chairman of the Board

Nenad Davidović
Board Member for Financial Transactions

VARTEKS d. d.
Zagrebačka 94 / HR-42000 VARAŽDIN / 10

The following notes are an integral part of these financial statements

FINANCIAL POSITION REPORT
AS AT 31 DECEMBER 2010

ASSETS

	Notes	2009 - in HRK -	2010 - in HRK -
LONG-TERM ASSETS		**436,788,419**	**434,246,587**
INTANGIBLE ASSETS	1.k.,1.l.,3.1.	7,856,441	9,392,192
Concessions, licences, patents, trademarks, software and other rights		7,856,441	9,392,192
TANGIBLE ASSETS		400,370,232	397,189,543
Real estate, plants and equipment	1.k.,1.l.,3.2.	400,370,232	397,189,543
LONG-TERM FINANCIAL ASSETS	1.p.	4,802,787	23,728,640
Stakes (shares) in associated companies	3.3.	-	18,466,912
Participating interests (stakes)	3.4.	165,900	165,900
Placed loans, deposits, etc.	3.5.	271,434	730,375
Other long-term financial assets	3.6.	4,365,453	4,365,453
RECEIVABLES		23,758,959	3,936,212
Receivables from associated companies	3.7.,3.31.	-	3,216,364
Other receivables	3.8.	23,758,959	719,848
SHORT-TERM ASSETS		**279,165,375**	**221,155,823**
INVENTORY	1.n.,3.9.	134,314,142	111,140,813
LONG-TERM ASSETS FOR SALE	1.m.,3.10.	45,356,057	45,322,333
RECEIVABLES	1.o.	85,467,658	55,811,648
Accounts receivable	3.12.	79,364,385	47,941,993
Other receivables	3.13.	6,103,273	7,869,655
SHORT-TERM FINANCIAL ASSETS	1.p.	8,619,890	5,874,930
Investments in securities	3.15.	5,732,761	3,581,349
Placed loans, deposits, etc.	3.16.	2,887,129	2,293,581
CASH ON ACCOUNTS AND IN HAND	1.r.,3.17.	5,407,628	3,006,099
PAID EXPENSES OF FUTURE PERIOD AND CALCULATED INCOME	3.18.	**2,222,496**	**1,013,523**
TOTAL ASSETS		**718,176,290**	**656,415,933**

The following notes are an integral part of these financial statements

FINANCIAL POSITION REPORT AS AT 31 DECEMBER 2010 - Continued

CAPITAL AND LIABILITIES

	Notes	2009	2010
		- in HRK -	- in HRK -
CAPITAL AND RESERVES	3.19.	***206,656,390***	***110,624,206***
ISSUED (NOMINAL) CAPITAL		384,161,400	384,161,400
RESERVES FROM REVENUE		6,235,246	10,428,371
Reserves for own shares		103,037,818	46,013,062
Own shares and stakes		(97,716,600)	(36,730,600)
Other reserves		914,028	1,145,909
LOSS CARRIED FORWARD	3.34.	(98,983,092)	(181,079,603)
LOSS OF FISCAL YEAR		(84,757,164)	(102,885,962)
PROVISIONING	1.u.,3.20.	***6,672,902***	***744,081***
Provisions for retirement, severance pay and similar liabilities		6,321,025	436,458
Other provisions		351,877	307,623
LONG-TERM LIABILITIES	1.s.,3.21.	***157,971,096***	***153,450,111***
Liabilities for loans/credits, deposits and other	3.21.1.	70,809	-
Liabilities toward banks and other financial institutions	3.21.2.	157,087,822	153,427,611
Accounts payable	3.21.3.	812,465	22,500
SHORT-TERM LIABILITIES		***344,531,399***	***391,046,349***
Liabilities for loans/credits, deposits and other	1.s.,3.23.1.	23,397,502	13,878,442
Liabilities toward banks and other financial institutions	1.s.,3.23.2.	153,024,751	152,019,557
Liabilities for advance payments	3.24.	6,865,311	2,724,304
Accounts payable	3.25.	94,903,749	119,683,137
Liabilities toward employees	3.26.	17,487,066	14,781,997
Taxes, contributions and similar fees	3.27.	37,957,269	80,207,967
Other short-term liabilities	3.28.	10,895,751	7,750,945
DEFERRED PAYMENT OF EXPENSES AND INCOME OF FUTURE PERIOD	3.29.	***2,344,503***	***551,186***
TOTAL CAPITAL AND LIABILITIES		***718,176,290***	***656,415,933***

Signed for and on behalf of the Group on 29 April 2011:

Zoran Koščec
Chairman of the Board

VARTEKS d. d.
/ Zagrebačka 94 / HR-42000 VARAŽDIN / 10

Nenad Davidović
Board Member for Financial Transactions

The following notes are an integral part of these financial statements

REPORT ON CHANGES IN CAPITAL FOR 2010

2009
- in HRK -

	Initial Capital	Own (treasury) shares	Reserves for own shares	Other reserves	Loss carried forward		TOTAL
Position as at 1 Jan. 2009	384,161,400	(97,671,600)	103,007,428	696,781	(98,661,910)		291,532,099
Share buy-out		(45,000)	30,390	-	-		(14,610)
Current year loss	-	-	-	-		(84,757,164)	(84,757,164)
Other all-inclusive profit	-	-	-	217,247	-		217,247
Currency rate differentials	-	-	-	-	(321,182)		-
Position as at 31 Dec. 2009	384,161,400	(97,716,600)	103,037,818	914,028	(98,983,092)	(84,757,164)	206,656,390

2010
- in HRK -

	Initial Capital	Own (treasury) shares	Reserves for own shares	Other reserves	Loss carried forward	Loss of current year	TOTAL
Position as at 1 Jan. 2010	384,161,400	(97,716,600)	103,037,818	914,028	(183,740,256)		206,656,390
Adjustments					1,661,832		1,661,832
Buyout of shares in ESOP d.o.o.	-	61,001,000	(57,035,740)	-	-	-	3,965,260
Share adjustment	-	(15,000)	10,984	-	-	-	(4,016)
Current year loss	-	-	-	-		(102,885,962)	(102,885,962)
Other all-inclusive profit	-	-	-	231,881	-	-	231,881
Currency rate differentials					998,821	-	998,821
Position as at 31 Dec. 2010	384,161,400	(36,730,600)	46,013,062	1,145,909	(181,079,603)	(102,885,962)	110,624,206

Signed for and on behalf of the Group on 29 April 2011:

Zoran Koščec
Chairman of the Board

Nenad Davidović
Board Member for Financial Transactions

VARTEKS d.d.
/ Zagrebačka 94 / HR-42000 VARAŽDIN / 10

The following notes are an integral part of these financial statements

CASH FLOW REPORT FOR 2010
Indirect method

	2009	2010
	- in HRK -	- in HRK -
Current year loss	(84,757,164)	(102,885,962)
Profit tax	23,200	51,334
Depreciation	14,156,309	15,026,236
(Profit)/loss from sale of tangible assets	(21,678,566)	13,165,941
Value adjustment of client receivables and other receivables, net	3,101,536	3,750,011
Value adjustment of inventory (net)	8,293,866	(6,602,584)
Currency rate differentials	(321,530)	998,821
Value adjustment of financial assets	(9,865)	-
Changes in provisions	(95,115)	(5,928,821)
Interest liabilities	21,507,441	30,146,846
Income from interest	(45,133)	(280,932)
Other non-cash entries	963,000	1,375,583
Net loss before changes in working capital	(58,862,021)	(51,183,527)
Decrease of inventory	37,477,015	29,775,913
Increase of other receivables	823,236	(1,766,382)
Decrease / (increase) of accounts receivable	(20,079,463)	27,672,381
Increase of accounts payable	25,672,133	51,109,121
Decrease of deferred expenses and calculated income	533,101	1,208,973
Decrease of expenses paid in advance	(729,058)	(1,793,317)
Paid profit/company tax	(23,200)	(51,334)
Paid interest	(21,711,466)	(26,271,373)
Net money (cash) used in business activities	**(36,899,723)**	**28,700,455**

CASH FLOW REPORT
FOR 2010
Indirect method
- Continued

	2009	2010
	- in HRK -	- in HRK -
Income from interest	45,133	280,932
Acquisition of long-term tangibles and intangibles	(3,939,866)	6,799,209
Increase of long-term investments	(74,827)	(18,925,853)
Decrease of long-term receivables	(22,751,853)	19,822,747
Decrease of short-term financial asset, net	5,773,160	2,744,960
Assets return		(42,015,182)
Income from sales of tangible assets	61,615,750	9,220,588
Net cash assets spent for investment activities	**40,667,497**	**(22,072,599)**
Treasury share buy-out	(14,880)	3,961,244
Paid issued short-term debt securities	(48,004,127)	-
Loans and credits taken	72,424,866	43,378,502
Loan and credit payments	(28,862,353)	(56,369,131)
Net cash assets gained from financial activities	**(4,456,494)**	**(9,029,385)**
Position of cash as at 1 January	**6,096,348**	**5,407,628**
Cash decrease	(689,720)	(2,401,529)
Position of cash as at 31 December	**5,407,628**	**3,006,099**

Signed for and on behalf of the Group on 29 April 2011:

Zoran Koščec	*Nenad Davidović*
Chairman of the Board	*Board Member for Financial Transactions*

VARTEKS d. d.
/ Zagrebačka 94 / HR-42000 VARAŽDIN / 10

The following notes are an integral part of these financial statements

NOTES TO FINANCIAL STATEMENTS

GENERAL COMPANY AND GROUP INFORMATION

VARTEKS, Varaždinska tekstilna industrija d.d. Varaždin (hereinafter: the Company) is a majority owner of all the associated companies comprising the Varteks Group (hereinafter: the Group), and it was established through transformation of the public company Varteks Holding Varaždin into Joint-Stock Company as of 17 June 1992, and in accordance with the Resolution of the Restructuring and Development Agency of the Republic of Croatia No.: 01-01-02/92-06/94 as of 9 April 1993 and the Decision on Transfer of Shares of Varteks Varaždin Joint-Stock Company to Funds as of 16 July 1993. The abbreviated name of the Company is VARTEKS d.d., and the seat of the Company is in the Republic of Croatia, Varaždin, Zagrebačka 94.

The Company is entered with the Commercial Court in Varaždin under tax No. (MBS) 070004039, nat. ID No. (OIB) 00872098033.

Core activities

The core activities of the Group are:

- *Manufacture/production of clothes, fur processing and colouring;*
- *Manufacture of textiles;*
- *Purchase and sale of goods;*
- *Trade intermediation on the domestic and foreign markets;*
- *Leather processing, manufacture of accessories and footwear*

The number of employees in the Group as at 31 December 2010 was 2,419 (2,504 in 2009).

Company bodies

Supervisory Board of VARTEKS d.d. Varaždin

Milan Horvat	*Chairman*
Stjepan Igrec	*Vice-chairman*
Artur Gedike	*Member*
Boris Santo	*Member*
Neven Maruševec	*Member*
Božica Čiček – Mutavdžić	*Member*
Krešimir Dragić	*Member*

Management Board (or: the Management; or: the Board) of VARTEKS d.d Varaždin

Zoran Košćec	*Chairman of the Board*
Nenad Davidović	*Board Member for Financial Transactions*
Miljenko Vidaček	*Board Member for Manufacture*

General Assembly Chairman

Stjepan Igrec

NOTES TO FINANCIAL STATEMENTS (continued)

Management of dependent companies

Burgtrade G.m.b.h. Eisenstadt	*Damir Rizman*
Vartex Textiles Ltd. Bristol	*Karen Tanner*
Varteks Trade d.o.o. Ljubljana	*Miroslav Sardelić*
Varteks Plus d.o.o. Beograd	*Dragomir Meničanin*
Varteks Logistic d.o.o. Varaždin	*Josip Posavec*
Varteks Trgovina d.o.o. Varaždin	*Natalija Vnučec*
Varteks Trgovina d.o.o. Široki Brijeg	
Varteks ESOP d.o.o. Varaždin	*Marijan Mitrović*
Varteks D.o.o.e.l. Skopje	
Varteks Mont d.o.o. Podgorica	

The parent company VARTEKS d.d. Varaždin is the owner of the following dependent companies:

Name or dependent company / affiliate	*Country of establishment*	*Stake in ownership (%)*		*Stake in voting rights*		*Core activity*
		2009	*2010*	*2009*	*2010*	
Burgtrade G.m.b.h. Eisenstadt	*Austria*	*100%*	*100%*	*100%*	*100%*	*Trade, mediation and representation*
Vartex Textiles Ltd. Bristol	*Great Britain*	*100%*	*100%*	*100%*	*100%*	*Trade, mediation and representation*
Varteks Trade d.o.o. Ljubljana	*Slovenia*	*100%*	*100%*	*100%*	*100%*	*Trade, mediation and representation*
Varteks Plus d.o.o., Belgrade	*Serbia*	*100%*	*100%*	*100%*	*100%*	*Trade, mediation and representation*
Varteks Logistic d.o.o. Varaždin	*Croatia*	*100%*	*100%*	*100%*	*100%*	*International forwarding*
Varteks Trgovina d.o.o. Varaždin	*Croatia*	*100%*	*100%*	*100%*	*100%*	*Trade, mediation and clothes manufacture*
Varteks Trgovina d.o.o., Široki Brijeg	*Bosnia and Herzegovina*	*100%*	*100%*	*100%*	*100%*	*Trade and trade mediation*
Varteks ESOP d.o.o. Varaždin	*Croatia*	*100%*	*100%*	*100%*	*100%*	*Business and management consulting*
Varteks D.o.o.e.l. Skopje	*Macedonia*	*100%*	*100%*	*100%*	*100%*	*Trade and trade mediation*
Varteks Mont d.o.o. Podgorica	*Montenegro*	*100%*	*100%*	*100%*	*100%*	*Trade and trade mediation*

Varteks Trgovina d.o.o. Varaždin is the owner of 50% stake and has 50% voting rights in Corrodo nekretnine d.o.o. Rijeka.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following is the overview of significant accounting policies adopted for the preparation of these financial statements. These accounting policies have been consistently applied on all periods included in these reports, except in cases where stated otherwise.

1a. Conformance statement

The consolidated financial statements were drafted in accordance with the International Financial Reporting Standards - IFRS.

1.b. Basis for preparation of financial statements

Consolidated financial statements of the Company were prepared using the historical cost principle, in accordance with the IFRS and Croatian law and regulations.

The preparation of these financial statements, in accordance with the IFRS, demanded certain reclassifications of positions in the financial statements for 2009, but this had no effect on the net loss of the Group or the amount of assets, capital or liabilities.

The Group's accounting is done in Croatian language, in Kuna (HRK) and in accordance with the Croatian laws and regulations and accounting principles and practices which Croatian companies adhere to. Accounting records of dependent companies in Croatia and abroad are kept in accordance with valid regulations in pertinent countries. When necessary, adjustments of financial statements of dependent companies have been made in order to conform the accounting policies of dependent companies to that of the parent company.

Preparation of consolidated financial statements in accordance with the IFRS demands the use of certain key accounting estimates. It is also requested from the Management to use their judgement during the process of the application of the Group's accounting policies.

The Group prepared these consolidated financial statements in accordance with Croatian laws and regulations and in accordance with the IFRS, which have been approved by the Management on 29 June 2011.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

1.c. Consolidation basis

Consolidated financial statements contain the financial statements of the parent company Varteks d.d. (the Company) and subjects under controlling influence of the Company (dependent companies) as at 31 December of each year. Controlling influence is present if the Company can manage financial and business policies of the individual company in order to realise benefits of that company's business.

Assets, liabilities and unforeseen liabilities of dependent companies shall be measured when being acquired using fair value as at the acquisition/purchase date. The surplus of the purchase/acquisition cost above the share in fair value of acquired recognisable net assets and liabilities shall be recognised as goodwill. The difference in acquisition cost lower than the fair value of acquired recognisable net assets (i.e. the acquisition/purchase discount) shall be declared in the all-included profit account for the period in which the acquisition was made. Stakes/shares of minority owners shall be declared up to their share in fair value of recognised assets and liabilities. After that all the losses linked to minority owner stakes/shares above the stake itself shall be allocated as liabilities to the stake of the parent company, except in cases when the minority owners have the obligation and are in position to make additional investments in order to cover their losses.

1.d. Report currency

Individual financial statements of each subject within the Group shall be presented in the currency of the primary economic environment the subject is doing business in – its functional currency. Consolidated financial statements contain the results and the financial position of each subject within the Group in Croatian Kuna (HRK), which is the functional currency of the company and presentational currency for the consolidated financial statements.

Transactions in foreign currencies not nominated in the functional currency of the subject shall initially be declared using the currency rate valid on the transaction date. Monetary assets and liabilities declared in foreign currencies shall be re-calculated at the end of every reporting period using the valid exchange rates on that date. Profits and losses stemming from the re-calculation shall be burdened or approved in the PLA for the period which they were made.

For being declared in the consolidated financial statements, assets and liabilities of the foreign currency business of the Group is recalculated into HRK using currency rates valid at the end of the reporting period. The items of income and liabilities are recalculated using the mean exchange rate for the period, unless there were significant fluctuations of the currency exchange rate, in which case the exchange rate valid on the transaction date shall be used. Possible currency rate differentials from the recalculation shall be recognised as other all-inclusive profit and accumulated in the equity. Sale of the foreign part of business transfers the cumulative currency exchange rate differentials pertaining to that part of foreign business belonging to the Group into profit or loss.

The currency rate of Kuna (HRK) as at 31 December was, in relation to other currencies:

31 December 2009	*EUR 1 = HRK 7.306199*	*1 USD = HRK 5.089300*	*CHF 1 = HRK 4.909420*
31 December 2010	*EUR 1 = HRK 7.385173*	*1 USD = HRK 5.568252*	*CHF 1 = HRK 5.929961*

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

1.e. Recognition of income

Income shall be recognised when it is probable that economic-based benefits will flow to the Group, and when the income amount can be measured with certainty. Income from sales shall be recognised, less taxes and discounts, when the goods have been delivered or services rendered, and when a significant portion of the risk and benefits has been transferred. Income from interest shall be calculated based on non-settled principal and applicable interest rate, and shall be declared in the all-inclusive profit account as financial income.

1.f. State aid

State aid where the base condition is that the Group should acquire, build, or in some other way gain long-term assets shall be adopted in the financial position report as income of future periods, and shall be transferred into profit or loss systematically and rationally during the useful life of pertinent assets.

Other state aid are systematically recognised as income through as many periods as needed in order to be used for coverage of expenses which it is meant for. Receivables based on state aid, i.e. the item of expenses or losses incurred, or for giving momentary financial support to the Group without linked future expenses shall be recognised as profit or loss for the period in which the related receivable arises.

1.g. Expenses

Manufacturing/production costs

Production costs contained in realised products and services contain used raw materials and additional materials and costs of inventory conversion.

Non-manufacturing/non-production costs

Non-production costs contain costs of common and general purpose departments and all other costs.

Loan expenses

Loan expenses which could be tied directly to acquisition, construction or manufacture of qualified asset, and this asset is such that it demands a significant period of time to be ready for its intended use or sale shall be added to the expense of said asset until the asset is predominately ready for its intended use or sale. Income from investments earned by temporary investment of special purpose loan assets until their spending for qualified assets shall be subtracted from the loan expenses which can be capitalised.

All other loan expenses shall burden the all-inclusive profit report for the period in which they are made.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

1.h. Retirement (severance) pay expenses

Defined contributions to retirement plans with defined income shall be recognised as liabilities when the employees have rendered services based on which they realised their right to said contributions.

With pension plans with defined income, income (salary) expenses shall be determined using the method of projected credit unit, where actuary estimates shall be performed at the end of each reporting period. Actuary gains or losses 10% above the current value of Group liabilities based on defined income or the fair value of planned assets at the end of the previous year, if that amount is higher, shall be depreciated during the average expected left-over working life of the employee contained in the plan. Expenses of previous work shall be recognised immediately up to the amount of income/salaries for which the conditions have already been met. Conversely, they shall be depreciated using the straight line method during the remaining time until the moment in which the conditions for receipt of the above shall be met.

The liability based on pension recognised in the financial position report represents the current value of the liability based on defined salaries and adjusted for non-recognised actuary gains and losses, as well as non-recognised expenses of previous work , decreased by the fair value of planned assets. Each asset arising from this calculation shall be limited to the amount of non-recognised actuary losses and expenses of previous work, plus the current value of available returns and decrease of future contributions being paid into the plan.

1.i. Taxation

Tax liabilities based ion the profit/company tax is the sum of current tax obligation and deferred taxes.

Current tax

Current tax liabilities are based on taxable profit for the year. Taxable profit differs from net profit before taxation shown in the all-inclusive profit account because it does not contain the items of income and expenses which are taxable or non-taxable in other years, nor does it contains items which are never taxable nor deductible. The current tax liability of the Group is calculated using interest rates in force, or those interest rates valid on the date of the financial position report.

Deferred tax

Deferred tax is the amount expected to result in liability or return, based on the difference between the asset book value and liabilities in financial statements and the linked tax basis used to calculate the taxable income, and shall be calculated using the balance liability method. Deferred tax liabilities are recognized for all taxable temporary differentials, and deferred tax assets is recognized in so far it is probable that the taxable profit will be available based on which rebatable temporary differentials could be used. Deferred tax liabilities and tat assets shall not be recognised based on temporary differences stemming from goodwill, or through initial recognition of other assets and liabilities, except in business mergers, in transactions not influencing taxable or accounting profit.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The book amount of deferred tax assets is checked every date of the financial position report and is decreased to the extent in which it is no longer probable that the necessary amount of taxable profit for return of the entire or partial tax assets would be available.

Deferred tax shall be calculated using those tax rates in force for which it is expected that they shall be used in the period in which the liability shall be settled or asset realised (and tax laws), or which are in the process of being enacted until the date of the financial position report. Calculation of deferred tax liabilities and assets reflects the amount which is expected to bring about the liability or return, as at the reporting date.

Deferred tax liabilities and assets shall be offset if there should exist a legal right allowing coverage of current tax liabilities using current tax assets, and when they pertain to tax income determined by the same tax office, and the Group intends to adjust (equate) its current tax assets with its tax liabilities/obligations.

Current and deferred taxes for the period

Deferred taxes shall be declared as burden or benefit in the all-inclusive profit account, unless it pertains to items being recorded/declared directly for the benefit or burdening the equity, in which case deferred taxes shall also be declared within the equity amount, or when the tax stems from the initial account management concerning business merger.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

1.j. Real estate, plants and equipment

Land and buildings used in production or for delivery of goods and services, or for administrative purposes, are declared in the financial position report at acquisition cost less each subsequent value adjustment and subsequent accumulated loss from value decrease. Acquisition cost includes all expenses which can directly be attributed to bringing the assets to the location and in the state necessary for intended use

Expenses which arose after putting real property, plants and equipment to use, such as repairs and maintenance, shall be recognised as liabilities in the all-inclusive profit account for the period in which they were made.

In situations where it is clear that the expenses resulted in the increase of future expected economic gains, which shall be realised through the use of real property, plants and equipment above their initially estimated abilities, shall be capitalised as additional real property, plants and equipment expense. Expenses of periodic, previously planned larger, more significant checks necessary for further business should be capitalised.

Real property being constructed intended for manufacture/production, rent/lease or as management facilities, or for yet undetermined purpose, shall be declared at cost less recognised losses from value decrease. Depreciation of these assets, which is applied using the same basis as for other real property, shall begin at the moment in which the asset is ready for intended purpose.

Inventory and equipment shall be declared at cost less value correction and subsequently recognised losses due to value decrease.

Depreciation is calculated by writing-off the purchase value of real property, except land and buildings in construction, during the estimated useful life of assets using the linear method and the following rates:

	%
Structures/buildings	*1 – 4*
Equipment	*1 – 20*
Vehicles	*25*
Office equipment	*10*

Gains or losses made through abandonment or write-off of a certain asset are calculated as a difference between sales income and the book amount of that asset and shall be declared as income.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

1.k. Intangible assets

Intangible assets are initially declared at purchase cost.
Intangible assets is depreciated using the straight line method during the estimated useful life at the rate of 20%.

1.l. Decreased asset value

On the date of the financial position report the Group shall check book values of its tangible and intangible assets in order to ascertain whether there are any indications of losses due to the decrease in value of the same. If there are such indications, the coverable amount shall be estimated in order to determine the possible loss due to the decrease. If the coverable amount for the asset cannot be determined, the Group shall estimate the coverable amount of the unit generating money to which the asset belongs.

The coverable amount is higher than the net sale price less acquisition costs and the value of assets in use. In order to estimate the value of assets in use, estimated future cash flows are discounted to current value using the discount rate before taxation, which mirrors the current market estimate of the time-related value of money and risks specific to the pertinent asset.

If the coverable amount of some asset (or money-making unit) is estimated at the value lower than the book value, the book value of that asset/unit shall be decreased down to the coverable amount. Losses from the value decrease shall be recognised immediately as liability.

With coverable cancellation of the value-decreasing loss, the book amount of the asset (money-generating unit) shall be increased to the audited estimated coverable amount of that asset, where the higher book value does not surpass the book value which would have been determined if there were no recognised losses for that asset/unit due to value decrease from previous years. Cancellation of the value decrease loss shall be recognised immediately in the all-inclusive profit account.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

1.m. Long-term assets for sale

Long-term assets for sale are classified as assets intended for sale if their book value will be covered primarily through sale, and not continuous usage. This condition shall be considered fulfilled only if there is a significant possibility of sale and if the asset (or group of assets for sale) shall be eligible for immediate sale in its present state. The Management must show its strict obligation of sale, through the expectancy that the sale shall acquire its conditions for being recognised as finalised sale within one year of the date of classification.

Long-term assets (and groups for sale) classified as assets intended for sale shall be measured at their previous book value or their fair value less sales costs, whichever is lower.

1.n. Inventory

Inventory of raw materials and spare parts is entered under purchase cost or net realized value, whichever is lower. Expense shall be determined using the FIFO method. Net realisable value represents the estimate of the sale price during regular business less variable sales costs.

The expense of current production and finished products includes raw materials, direct work costs, other direct expenses and the pertinent part of general production costs (based on regular production capacity).

Trade goods are declared at sales price less taxes and margins.

Small inventory and equipment are fully written off when being placed into service/use.

1.o. Accounts receivable and advance payments

Accounts receivable and advance payments are declared at nominal value less pertaining value correction for estimated non-coverable amounts. The Management is conducting the adjustment of suspect and debatable receivables based on the overview of the total age structure of all receivables and significant individual receivable amounts.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

1.p. Financial assets

Investments shall be recognised or cease to be recognised on the day of trading/transaction, which is the date on which the investment is purchased or sold based on an agreement/contract the conditions of which stipulate the delivery of the investment within a certain time frame determined at the pertinent market, and shall initially be measured at fair value plus expenses of transaction costs, except for those financial assets which has been classified in a category where changes in fair value are declared in the all-inclusive profit account, which are initially calculated at fair value.

Financial assets are classified into the following categories: financial assets at fair value through the all-inclusive profit account, investments held to maturity, financial assets available for sale and placed loans and receivables. Classification depends on the type and the purpose of the financial asset and shall be determined at first recognition.

Effective interest methods

The effective interest method is the method used to calculate depreciated cost of financial asset and allocated income from interest during the relevant period. The effective interest rate is the rate used to estimate future cash yield (including all fees from paid and received points which are an integral part of the effective interest rate, transaction costs and other premiums and discounts), discounted during the expected life of the financial asset , or shorter if applicable.

Income from debt instruments, except financial assets determined to be declared at fair value through the all-inclusive profit account, shall be recognised at effective rate basis.

Financial assets where the changes in fair value are declared in the all-inclusive profit account

Financial asserts are placed in the category of assets where changes in fair value are declared in the all-inclusive profit account (i.e. at fair value through profit or loss) if held for trade or if determined to be declared in such a way.

Financial asset shall be classified in the category of assets intended for sale:

- *If the asset was acquired primarily for purpose of being sold in the near future;*
- *If the asset is a part of identified portfolio of financial instruments which the Varteks Group manages jointly, even in cases of the Company lately maintaining the model of realising profit within a short time period; or*
- *If it is a derivative not determined or effectual as an instrument of protection.*

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets (continued)

Financial asset not intended for sale may at first recognition be determined for declaration of changes in fair value in the all-inclusive profit account:

- *If such determination should cancel or significantly reduce any discrepancies in the measurement or recognition in order to be shown otherwise; or*
- *If the financial asset is grouped as financial assets or financial liabilities, or both, managed and assessed based on fair value, in accordance with documented policy of the Group for risk management or its investment strategy and if internal grouping information are presented on that basis; or*
- *If the integral part of the agreement containing one or more built-in derivatives and the IFRS 39 Financial Instruments: Recognition and Measurement allows that the entire combination-based agreement (asset or liability) shall be determined to be presented at fair value by declaring the fair value changes in the all-inclusive profit account.*

Financial assets at fair value where the changes in fair value are declared in the all-inclusive profit account shall be declared at fair value, where each profit or loss item shall be recognised in the all-inclusive profit account. Net profit or loss recognised in the all-inclusive profit account shall include dividends and interest earned on the financial asset.

Investments held to maturity

Bills of exchange and promissory notes with fixed or determinable payment schedule and fixed maturity which the Varteks Group is explicitly intending to hold to maturity shall be classified as investments held to maturity. Investments held to maturity shall be declared at the value of depreciated expense using the effective interest rate less subsequent losses due to value decrease, where income shall be recognised at effective yield rate.

Financial assets available for sale

Non-quoted shares (stocks) and quoted buyable notes owned by the Varteks Group being trade on an active market are classified as assets available for sale and declared at fair value. Gains and losses emerging from changes of fair value shall be recognised directly in the principal amount within revaluation investment reserves, except losses due to value decrease, interest calculated using the effective interest method, and currency rate differentials of monetary assets all recognised directly in the all-inclusive profit account. With sold investments or those that have determined value decrease, the cumulative profit or loss previously recognised within revaluation investment reserves shall be included in the all-inclusive profit account for the period.

Dividends on principal instruments classified in the portfolio of assets available for sale shall be recognised in the all-inclusive profit account when the right of the Group to receive dividends has been determined.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets (continued)

Fair value of monetary assets available for sale denominated in foreign currency shall be determined in the same currency, and then recalculated at spot rate as at the day of the financial position report. Change in fair value linked to currency rate differentials which are due to changes in depreciated expense shall be recognised in the all-inclusive profit account, while other changes shall be recognised as part of the principal amount.

Placed loans and receivables

Client receivables, loan receivables and other receivables with fixed or determined payments not quoted on an active market have been classified as placed loans and receivables. Loans and receivables are measured at depreciated cost using the effective interest rate less possible losses due to decrease. Income from interest is recognised using the effective interest rate, except short-term receivables where interest recognition would not be materially significant.

Decrease of financial assets

Financial assets, except assets at fair value with declaration of changes in fair value in the all-inclusive profit account shall be exposed to estimation of existence of indicators of the possible decrease at every financial position report date. Financial assets are decreased if there should exist objective proof, as a result of one or more events after the initial re4cognition of the financial asset in question, that there had been an influence on future estimated investment cash flow.

With non-completed shares (stocks) categorised as assets available for sale, significant or longer-term decre4ase of fair value of the security below its purchase value shall be considered an objective proof of decrease.

With all other financial assets, including buyable notes categorised as assets available for sale and receivables based on financial lease, objective proof of decrease may include:

- *Significant financial difficulties of the issuer or other contractual party; or*
- *Late payment or non-payment of interest or principal amount; or*
- *Chances that bankruptcy proceedings shall be initiated against the debtor, or that the debtor will initiate them himself, or that financial restructuring shall take place.*

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets (continued)

Decrease of financial assets

With certain categories of financial assets, such as client receivable, assets where it has been estimated that they have not been individually decreased shall later be checked for decrease on collective basis. Objective proof of decrease of receivables portfolio may include the experience of the Varteks Group in collecting receivables in previous periods, increased number of receivables with late repayment above 60 days on average, as well as significant changes in national or economic conditions in correlation with late payments/collection.

With financial assets at depreciated cost, the decrease amount is the difference between the book amount of the asset and the current value of estimated future cash flow discounted through the application of the original effective interest rate on the financial asset.

The book amount of the financial asset shall be directly decreased for losses due to the decrease of all financial assets, except for accounts receivable, where the book value shall be decreased through the value adjustment account. Account receivable believed to be uncollectable shall be written off from the value adjustment account, and later collection of previously written-off amount shall be entered in the value adjustment account. Changes of the book amount in the value adjustment account shall be recognised in the all-inclusive profit account.

Except for principal instruments being declared at fair value with declaration of fair value changes through the all-inclusive profit account, if during future periods the amount of loss should decrease, the decrease may objectively be linked to the event after recognition of the decrease, the previously recognised losses due to decrease shall be cancelled through the all-inclusive profit account op to the book amount of investments on the day of cancellation of the decrease not larger than the depreciated cost which would stand if there were not for the recognised decrease.

As far as ownership shares (stocks) being declared at fair value with declaration of changes in fair value through the all-inclusive profit account is concerned, losses due to decrease previously recognised in the all-inclusive profit account shall not be cancelled through the all-inclusive profit account. Any increase of fair value after loss due to decrease shall be recognised directly in the principal amount.

Cessation of recognition of financial assets

Varteks Group ceases to recognise a financial asset only if the contractual right to that asset cash flow has expired, if the financial asset is transferred, and if all the risks and rewards linked to the ownership over that asset are in majority transferred to another subject. If the Group should not transfer nor keep the risks and awards linked to ownership, and if it still has control over the transferred asset, it shall declare its retained stake in the asset and its linked liability in the amounts it must eventually pay. If the Group should keep the majority of all the risks and awards linked to ownership over the transferred financial asset, that asset shall keep being recognised, along with the recognition of the loan for which collateral was given, for income received.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

1.r. Cash and cash equivalents

Cash and cash equivalents contain the positions on bank accounts and cash on hand and sight deposits and term deposits with up to three-month maturity.

1.s. Financial liabilities and principal/equity instruments issued by Varteks Group

Classification as liabilities or equity

Debt and equity instruments shall be declared as financial liabilities or equity, in accordance with the principal part of the agreement.

Equity instruments

An equity (principal) instrument is the agreement offering proof of the remainder of the share in the subject's assets after subtracting all his liabilities. Equity instruments issued by the Group shall be recorded in the amount of realised income less direct issue costs.

Liabilities based on financial guarantee agreement

Liabilities based on financial guarantee agreement shall initially be measured at fair value, and later in higher amounts through matching the following:

- *The amount of liability based on the agreement, as determined in accordance with IRS 37: Provisions, Unforeseen Liabilities and Unforeseen Assets, and*
- *Initially recognised decrease amount, if applicable, for cumulative depreciation recognised in accordance with policies of income recognition.*

Financial liabilities

Financial liabilities shall be classified as financial liabilities at fair value through the changes in fair value in the all-inclusive profit account, or as other financial liabilities.

Financial liabilities at fair value through showing changes in fair value in the all-inclusive profit account

Financial liabilities shall be classified as liabilities at fair value through showing changes in fair value in the all-inclusive profit account if they are kept for trade or determined to be declared as such.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities and principal/equity instruments issued by Varteks Group (continued)

Financial liability shall be classified as liability intended for sale:

- *If it was created primarily for purpose of being repurchased in the near future;*
- *If it is a part of identified portfolio of financial instruments which the Group manages jointly, even in cases of the Company lately maintaining the model of realising short-term profit; or*
- *If it is a derivative not determined or effectual as an instrument of protection.*

Financial liability not intended for trade may at first recognition be determined for declaration at fair value with showing changes in fair value in the all-inclusive profit account:

- *If such determination should cancel or significantly reduce any discrepancies in the measurement or recognition in order to be shown otherwise; or*
- *If the financial liability is grouped as financial assets or financial liabilities, or both, managed and assessed based on fair value, in accordance with documented policy of the Group for risk management or its investment strategy and if internal grouping information are presented on that basis; or*
- *If the integral part of the agreement containing one or more built-in derivatives and the IAS 39 Financial Instruments: Recognition and Measurement allows that the entire combination-based agreement (asset or liability) shall be determined to be presented at fair value by declaring the fair value changes in the all-inclusive profit account.*

Financial liabilities at fair value where the changes in fair value are declared in the all-inclusive profit account shall be declared at fair value, where each profit or loss item shall be recognised in the all-inclusive profit account. Net profit or loss recognised in the all-inclusive profit account shall include interest earned on the financial liability.

Other financial liabilities

Other financial liabilities, including loan and credit liabilities, shall initially be measured at fair value less transaction costs.

Other financial liabilities shall later be measured at depreciated cost using the effective interest method, where the interest expenses shall be recognised as effective yield.

The effective interest method is the method used to calculate depreciated cost of financial liability and interest expenses during the relevant period. The effective interest rate is the rate used to discount the estimated future cash outflow during the expected life expectancy of the financial liability, or shorter, if applicable.

Cessation of recognition of financial liabilities

Varteks Group shall cease to recognise financial liabilities only when the obligations have been settled, retracted or have expired.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

1.n. Leasing

Rent/lease is classified as financial rent/lease when, according to the lease, virtually all risks and rewards tied to the ownership of the asset are transferred to the tenant. All other rents/leases are considered business rent/lease.

Assets being the subject of financial lease shall be recognised as Group assets at fair value at the start of the lease, or at current value of minimal lease/rent payment if that amount is smaller. Linked obligation toward the lessor shall be declared in the financial position report as liability of financial lease.

Fees paid within business leases shall be recognised as liabilities using the linear method during the entire lease, unless some other basis should better serve the time-dynamic of expenditure of economic benefits presented by the leased asset. Unforeseen rent/lease amounts based on business leases shall be recognised as liabilities for the period in which they were made.

1.u. Provisions

Provisioning shall be recognised only when the Group has a current liability (legal or derivative) as a result of previous event, if it is probable (i.e. more probable that it will happen than not) that the settlement of the liability shall demand an outflow of resources with economic benefits and when the amount of the liability may be correctly ascertained. Provisions shall be checked on every date of the financial position report and shall be changed in order to reflect the best current estimate. When the effect of time-value of money is significant, the amount of provisions is the current value of expected expenditures which will be necessary in order to cover the liabilities.

1.v. Potential liabilities

Potential liabilities are not declared in financial statements. They are published, unless the probability of outflow of marginal economic benefits from the Company is small. Potential assets are not recognised in financial statements, but shall be published when the inflow of economic benefits is favourable.

1.z. Events after the date of the financial position report

Events after the date of the financial position report which offer additional information on the position of Varteks Group on that date (book adjustments) are noted in the financial statements. Events after the date of the financial position report which are not recorded in the book shall be issued in Notes when the amounts are significant.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

1.x. Management estimate on business conditions in 2010 and on the application of the premise of indefinite duration of business in preparation of financial statements

Varteks Group business results in 2010 are connected to general economic trends, on the Croatian and foreign markets. The continuation of the economic crisis and the decrease of personal spending ability have caused additional problems to the economy at large and within the Group and are connected to the decrease of income, liquidity/solvency problems and further stoppage of investment activities.

In such negative environment, the parent company Varteks d.d. in 2010 posted losses in the amount of HRK 96.7 million. Values connected to the sale of long-term assets have had an effect on the total result of the Company in 2010, with HRK 13.2 million of liabilities, which are mainly the result of the termination of the agreement on the sale of Robna kuća Rijeka, realised during 2009; subsequent determination of uncollectable payment led to the agreement being terminated in 2010.

A portion of the loss through regular business activities is one-time only, and it pertains to the execution of business restructuring measures which the Group is performing itself, and which burdened the business result in 2010, but which shall have positive effects in the future. The severance pay cost has an effect on future decrease of employee costs, thereby on raising the efficacy and work productivity; decrease of one part of income through closing non-profitable parts of the system decreases potential business losses on that basis; value adjustment of receivables and inventory bring down the Group's short-term assets to a more realistic Balance sheet levels and market levels, and eliminate future potential losses.

During 2010, as one of the restructuring measures, reorganization of the system was performed, the goal being construction of basic premises for raising business efficiency. Significant organisational change was made through transferring the B2B business segment (sale connected to the area of corporate clothing and special purpose garments) to the daughter-company whose main development focus shall be the development of B2B segment.

The estimation of the Group with respect to the indefinite duration of business of the Group is based on accessible information and is linked to the business period of 12 months after the Balance date. It includes all estimated significant external and internal risk factors and all the counter-measures and activities estimated to be having an effect on eliminating said risks.

The estimate of basic risks for continuation of business is defined mostly by external effects:

- *Continuation of the economic crisis in 2011*
- *Further spending decrease*
- *Insufficient state activity in the segment of executing anti-recession measures*
- *Further non-execution of measures of the textile industry development measures*
- *Lack of realisation of public procurement jobs*
- *Additional taxes and other state deductions*
- *Further price hike of energy sources*

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The above may have a bearing on internal, financial, business and other factors in the Group business through:

- *Income decrease*
- *Liquidity/solvency problems*
- *Increase of certain expense groups*
- *Increase of financing costs*
- *Negative cash flow*
- *Negative key financial indicators*

Through several planned measures and activities, the Group continues to have an effect on estimated risks, through:

- *Ensuring additional sources of financing through the sale of a portion of assets for the purpose of strengthening liquidity, ensuring regular business activities and further realisation of financial restructuring*

Sale of 8 properties in Croatia and 3 in the area of former Yugoslavia is being planned. Lease of smaller, auxiliary business units is being planned in order to keep income and raise efficiency of sale per m2 and sale per employee

- *1/3 of credit liabilities is being planned to be returned in this manner*
- *The goal is lowering the credit debt for HRK 108 million*
- *Normalization of regular business activities*
- *Improvement of the balance structure through decrease of short-term liabilities*
- *Raising business efficiency through key financial indicators*

- *Continuation of the execution of the integral restructuring plan with special accent on lowering operative costs*
    - *Further savings on employee expenses are planned on that basis*
    - *Partly as a result of already implemented measures of human resource restructuring in 2010 and the continuation of implementation of measures of human resource restructuring in 2011 (through the termination/cancellation of unprofitable parts of the system and higher quality relationship between administrative and production staff)*
    - *Further savings on all other service costs (services connected to product production, marketing, presentation, non-production services)*

- *Further implementation of organisational changes for the purpose of more transparent measuring of operations/work in individual parts of the system aimed at raising business and market efficiency*
    - *On that basis, in 2011 reorganisation of the business area of production into separate legal entities is planned, which would operate within the Varteks Group*

The Management assesses that the activities being undertaken or planned for the purpose of lowering the above risks are sufficient as an adequate response to potentially negative effects, for ensuring preconditions for positive business effects and ensuring indefinite business operations of Varteks Group.

2. NOTES TO THE PROFIT AND LOSS ACCOUNT

2.1. Income

Total income in 2010:

	2009 - in HRK -	2010 - in HRK -
Income from general activities	384,229,199	372,398,846
Financial income	4,463,105	6,522,531
TOTAL:	388,692,304	378,921,377

2.1.1. Structure of income from general activities

	2009 - in HRK -	2010 - in HRK -
Income from sales	338,372,007	350,290,016
Other income	45,857,192	22,108,830
TOTAL:	384,229,199	372,398,846

2.1.1.1. Income from sales

	2009	2010
	- in HRK -	- in HRK -
Income from product sales		
Domestic market	81,062,383	126,322,287
- wholesale	16,355,395	74,664,801
- retail	64,706,988	51,657,486
Income from sales of goods		
Domestic market	86,282,809	68,524,130
- wholesale	10,544,435	7,383,826
- retail	75,738,374	61,140,304
Income from sales of products and services on the foreign market	98,650,485	77,773,739
TOTAL PRODUCTS AND GOODS	265,995,677	272,620,156
Domestic market	167,345,192	194,846,417
Foreign market	98,650,485	77,773,739
Income from services		
Domestic market	17,908,488	14,167,543
Foreign market	54,467,842	63,502,317
TOTAL:	72,376,330	77,669,860
GRAND TOTAL:	338,372,007	350,290,016
Domestic market	185,253,680	209,013,960
Foreign market	153,118,327	141,276,056

2.1.1.2. Other income

	2009 - in HRK -	2010 - in HRK -
Net income from sale of long-term assets	*21,678,566*	*-*
Income from lease	*10,013,988*	*8,885,895*
Surplus	*2,434,415*	*1,155,552*
Income from collection of written-off receivables	*299,923*	*178,710*
Income from subsequently approved discounts	*194,881*	*115,365*
Income from collection of damages	*3,554,949*	*156,071*
Income from sale of materials, spare parts	*304,183*	*162,040*
Income from write-off of liabilities toward suppliers	*-*	*704,434*
Income from cancelling provisions	*-*	*6,321,025*
Other income	*7,376,287*	*4,429,738*
TOTAL:	*45,857,192*	*22,108,830*

During 2009 the Company entered into the Sales Agreement for the sale of real property in Rijeka in the amount of HRK 61,006,762, or EUR 8,350,000 (net income of HRK 21,503,233). The Agreement was terminated in 2010.

2.1.2. Structure of financial income

	2009 - in HRK -	2010 - in HRK -
Positive currency exchange rate differentials	*4,400,396*	*6,123,215*
Income from interest	*62,709*	*280,932*
Other income	*-*	*118,384*
TOTAL:	*4,463,105*	*6,522,531*

2.2. Liabilities

Total liabilities in 2010:

	2009 - in HRK -	2010 - in HRK -
Liabilities from general activities	487,160,060	441,773,362
Financial expenses/liabilities	26,203,438	39,982,643
TOTAL:	513,363,498	481,756,005

2.2.1. Structure of liabilities from general activities

	2009 - in HRK -	2010 - in HRK -
Purchase value of sold goods	80,106,118	108,838,739
Change of state of finished product inventory and unfinished production inventory	9,007,248	17,669,188
Raw material, material and energy expenses	65,918,718	61,593,818
Depreciation	14,156,309	15,026,236
Other material expenses	9,022,896	5,153,156
Non-material expenses	100,287,924	96,606,077
Staff expenses	145,632,240	127,918,847
Value-adjustment of short-term assets	16,770,352	8,530,842
Provision costs	6,321,025	436,459
TOTAL:	447,222,830	441,773,362

2.2.1.1. Raw material and material expenses

These expenses include:

	2009 - in HRK -	2010 - in HRK -
Raw material and material expenses	51,477,974	47,665,161
Energy	14,440,744	13,928,657
TOTAL:	65,918,718	61,593,818

2.2.1.2. Depreciation

Depreciation of long-term assets is performed individually for each asset.

Depreciation costs in 2010 amount to HRK 15,026,236 (HRK 14,156,309 the previous year).

Notes 1.j. and 1.k. contain the overview of rates used and calculated depreciation per asset group.

2.2.1.3. Other material expenses

	2009	2010
	- in HRK -	- in HRK -
Other materials used	2,977,467	2,780,116
Vehicle expenses	886,558	1,197,808
Office materials used	687,947	515,546
License	585,429	-
Spare parts used	527,135	565,683
Write-off of small inventory	277,774	94,003
Other expenses	3,080,586	-
TOTAL:	9,022,896	5,153,156

2.2.1.4. Non-material expenses

	2009	2010
	- in HRK -	- in HRK -
Value of disposed and sold assets not written off	-	13,165,941
Employee transport	13,400,817	12,252,112
Rent	16,837,885	18,902,782
Severance pay and anniversary awards	14,257,299	6,250,073
Non-production services	5,817,579	9,162,286
Advertising and sponsorships	5,042,656	3,889,582
Taxes and contributions not depending on result	3,959,558	4,010,369
Other material rights		2,629,306
Banking services	5,285,587	4,250,314
Shortages	2,717,694	1,690,697
Maintenance services	2,866,418	2,579,458
Transport and forwarding	2,503,131	818,798
Credit card fees		1,724,517
Public, graphical and external trade services	4,600,883	2,806,511
Insurance premiums	1,602,510	1,567,172
Production services	1,206,003	1,219,866
Write-off of short-term assets		75,552
Other production services	1,177,805	744,086
Representation costs	646,914	553,119
Other expenses	18,365,186	8,313,536
TOTAL:	100,287,924	96,606,077

2.2.1.5. Staff expenses

	2009	2010
	- in HRK -	- in HRK -
Net salaries	93,604,154	84,817,857
Taxes and contributions on salaries and other staff expenses	52,028,086	43,100,990
TOTAL:	145,632,240	127,918,847

At the end of the year the Group had 2,419 employees (2,504 the previous year).

2.2.1.6. Value-adjustment of short-term assets

	2009	2010
	- in HRK -	- in HRK -
Expense of inventory value adjustment	12,824,926	4,780,831
Expense of value adjustment of accounts receivable and consumer loans	3,945,426	3,750,011
TOTAL:	16,770,352	8,530,842

2.2.2. Structure of financial expenses

	2009	2010
	- in HRK -	- in HRK -
Credit/loan Interest liabilities	18,884,247	20,953,851
Other interest liabilities/expenses	2,623,194	9,192,995
Negative currency exchange rate differentials	2,574,143	9,722,395
Other financial liabilities	2,121,854	113,402
TOTAL:	26,203,438	39,982,643

2.3. Current year loss

Current year loss for Varteks Group amounts to HRK 102,885,962 (HRK 84,757,164 the previous year).

Group profit/loss after taxation, by company, amounts to:

		HRK
	2009	*2010*
Varteks d.d. Varaždin	*(78,905,436)*	*(94,343,173)*
Varteks Trgovina d.o.o. Varaždin	*12,376*	*191,457*
Burgtrade G.m.b.h. Eisenstadt	*697,662*	*(337,974)*
Vartex Textiles Ltd. Bristol	*(3,768,425)*	*(1,969,203)*
Varteks Trade d.o.o. Ljubljana	*(2,667,785)*	*(1,555,004)*
Varteks Plus d.o.o. Belgrade	*13,516*	*(4,884,147)*
Varteks Logistic d.o.o. Varaždin	*15,521*	*26,683*
Varteks Trgovina d.o.o. Široki Brijeg	*(154,593)*	*(132,985)*
Corrodo nekretnine d.o.o.Rijeka		*118,384*
TOTAL:	*(84,757,164)*	*(102,885,962)*

2.3. Profit/company tax

The Company is a profit/company tax payer for the amount being legally taxed in the Republic of Croatia. Profit tax is 20% of the taxable Company profit (same as the previous year). Foreign dependent companies are also profit tax payers in their respective countries.

Total tax liability (obligation) amounts to HRK 51,334 (HRK 23,204 the previous year), of which HRK 34,676 in the Republic of Croatia and HRK 16,658 abroad.

Tax losses of the parent company which may be used in future periods are as follows:

Year	*Amount*	*Cumulative*
2013	*9,235,842*	*9,235,842*
2014	*58,634,313*	*67,870,155*
2015	*89,025,665*	*156,895,820*

The amount of deferred taxes as at 31 December 2010 was calculated using the 20% rate, as shown below:

	2009	*2010*
	- in HRK -	*- in HRK -*
Deferred tax assets from transferred tax losses	*20,087,274*	*31,379,164*
Position as at 31 December (20%)	*20,087,274*	*31,379,164*

Deferred tax asset was not recognised in books due to uncertainty of future tax gains.

3. NOTES TO THE BALANCE SHEET

3.1. Intangible assets

2009
- in HRK -

	Goodwill	Software	Investments on another's assets	Rights to model and trademark	Brand development	Assets in preparation	Total
PURCHASE VALUE							
Position as at 1 Jan. 2009	504,663	1,197,670	10,537,594	151,083	4,646,148	29,760	17,066,918
Adjustment of initial position	-	-	-	-	(4,646,148)	-	(4,646,148)
Direct increase (purchase)	-	-	3,684,900	-	-	-	3,684,900
Increase by preparatory transfer	-	-	29,760	-	-	(29,760)	-
Currency rate differentials	-	-	(126,371)	-	-	-	(126,371)
Liabilities and sale	-	-	(58,302)	-	-	-	(58,302)
Position as at 31 December 2009	504,663	1,197,670	14,067,581	151,083	-	-	15,920,997
VALUE ADJUSTMENT							
Initial position as at 1 January 2009	(504,663)	(601,276)	(5,930,667)	(15,144)	(419,361)	-	(7,471,111)
Adjustment of initial position	-	-	-	-	419,361	-	419,361
Current year depreciation	-	(131,332)	(975,560)	(30,217)	-	-	(1,137,109)
Currency rate differentials	-	-	71,866	-	-	-	71,866
Liabilities and sale	-	-	52,437	-	-	-	52,437
Position as at 31 December 2009	(504,663)	(732,608)	(6,781,924)	(45,361)	-	-	(8,064,556)
CURRENT VALUE intangible assets 31 December 2009	-	465,062	7,285,657	105,722	-		7,856,441
CURRENT VALUE intangible assets 1 January 2009	-	594,294	2,881,346	135,939	-	-	3,611,579
CURRENT VALUE intangible assets 31 December 2008		596,394	4,606,927	135,939	4,226,787	29,760	9,595,807

During 2009 the Company performed the adjustment of capitalized costs of internally developed brands, burdening transferred losses (carried forward), in the amount of HRK 4,226,787.

3.1. Intangible assets - continued

2010
- in HRK -

	Goodwill	Software	Investments on another's assets	Rights to model and trademark	Assets in preparation	Total
PURCHASE VALUE						
Position as at 1 Jan. 2010	504,663	1,197,670	14,067,581	151,083	-	15,920,997
Direct increase (purchase)	-	46,605	2,793,767	-	145,226	2,985,598
Currency rate differentials	-	-	(133,505)	-	-	(133,505)
Liabilities and sale	-	-	(858,209)	-	-	(858,209)
Position as at 31 December 2010	504,663	1,244,275	15,869,634	151,083	145,226	17,914,881
VALUE ADJUSTMENT						
Initial position as at 1 Jan. 2010	(504,663)	(732,608)	(6,781,924)	(45,361)	-	(8,064,556)
Current year depreciation	-	(128,332)	(1,159,171)	(30,217)	-	(1,317,720)
Currency rate differentials	-	-	68,564	-	-	68,564
Liabilities and sale	-	-	791,023	-	-	791,023
Position as at 31 December 2010	(504,663)	(860,940)	(7,081,508)	(75,578)	-	(8,522,689)
CURRENT VALUE intangible assets 31 December 2010	-	383,335	8,788,126	75,505	145,226	9,392,192
CURRENT VALUE intangible assets 1 January 2010	-	465,062	7,285,657	105,722	-	7,856,441

3.2. Real property, plants and equipment

2009.
- in HRK -

	Land	Structures/buildings	Plants and equipment	Tools, inv.and means of transport	Tangible assets in preparation	Other assets	Total
PURCHASE VALUE							
Position as at 1 Jan. 2009	57,293,233	379,366,359	265,495,036	32,850,997	20,216,081	232,048	755,453,754
Direct increase (purchase)	-	15,774	818,369	235,042	5,871,384	-	6,940,569
Transfer from assets in preparation	-	1,150,913	1,167,9333	1,309,820	(3,628,066)	-	-
Transfer to intangible assets	-	-	-	(12,806)	(3,000,083)	-	(3,012,889)
Currency rate differentials	-	(1,638)	(92,743)	-	-	-	(94,381)
Liabilities and sale	(8,170,000)	(35,861,034)	(2,699,027)	(751,720)	-	-	(47,281,781)
Position as at 31 December 2009	49,123,233	344,670,374	264,689,568	33,631,333	19,458,716	232,048	711,805,272
VALUE ADJUSTMENT							
Position as at 1 Jan. 2009	-	(97,761,947)	(188,650,163)	(19,903,849)	-	-	(306,315,959)
Current year depreciation	-	(3,647,964)	(7,106,347)	(2,263,164)	-	-	(13,017,475)
Currency rate differentials	-	510	34,407	-	-	-	34,917
Liabilities and sale	-	4,833,503	2,496,130	533,844	-	-	7,863,477
Position as at 31 December 2009	-	(96,575,898)	(193,225,973)	(21,633,169)	-	-	(311,435,040)
CURRENT VALUE real estate, plants and equipment 31 December 2009	49,123,233	248,094,476	71,463,595	11,998,164	19,458,716	232,716	400,370,232
CURRENT VALUE real estate, plants and equipment 1 January 2009	57,293,233	281,604,412	76,844,873	12,947,148	20,216,081	232,048	449,137,795

3.2. Real property, plants and equipment (continued)

2010
- in HRK -

	Land	Structures/buildings	Plants and equipment	Tools, inv.and means of transport	Tangible assets in preparation	Other assets	Total
PURCHASE VALUE							
Position as at 1 Jan. 2010	49,123,233	344,670,374	264,689,568	33,631,333	19,458,716	232,048	711,805,272
Direct increase (purchase)	-	679,025	53,532	-	3,081,054	-	3,813,611
Transfer from assets in preparation	-	1,399,285	1,636,340	2,145,144	(5,180,769)	-	-
Termination of sales agreement	8,700,000	38,593,786	-	-	-	-	47,293,786
Currency rate differentials	-	7,098	(68,552)	-	-	-	(61,454)
Liabilities and sale	(3,070,000)	(15,490,015)	(9,630,483)	(178,360)	(16,172,525)	-	(44,541,383)
Position as at 31 December 2010	54,753,233	369,859,553	256,680,405	35,598,117	1,186,476	232,048	718,309,832
VALUE ADJUSTMENT							
Position as at 1 Jan. 2010	-	(96,575,898)	(193,225,973)	(21,633,169)	-	-	(311,435,040)
Current year depreciation	-	(3,838,686)	(7,308,539)	(2,561,291)	-	-	(13,708,516)
Currency rate differentials	-	(2,294)	(10,448)	-	-	-	(12,742)
Termination of sales agreement	-	(5,278,604)	-	-	-	-	(5,278,604)
Liabilities and sale	-	2,345,791	6,609,959	358,863	-	-	9,314,613
Position as at 31 December 2010	-	(103,349,691)	(193,935,001)	(23,835,597)	-	-	(321,120,289)
CURRENT VALUE real estate, plants and equipment 31 December 2010	54,753,233	266,509,862	62,745,404	11,762,520	1,186,476	232,048	397,189,543
CURRENT VALUE real estate, plants and equipment 1 January 2010	49,123,233	248,094,476	71,463,595	11,998,164	19,458,716	232,048	400,370,232

Company assets pledged as at 31 Dec. 2010 has the book value of HRK 301,961,995.

3.3. Stakes (shares) in associated companies

Varteks trgovina d.o.o. Varaždin is the owner of 50% stake in Corrodo Nekretnine d.o.o. Rijeka. The investment value is HRK 18,466,912.

3.4. Participating interests (stakes)

Position declared in the parent company Varteks d.d. includes investments in:

	2009	2010
	- in HRK -	- in HRK -
Stake:		
Luvar d.o.o. Varaždin	205,810	205,810
Radio Varaždin	140,000	140,000
NAMA Zagreb d.o.o.	20,000	20,000
Investment value adjustment	(205,810)	(205,810)
TOTAL:	160,000	160,000

	2009	2010
	- in HRK -	- in HRK -
Shares (stocks):		
Croatia Airlines d.d. Zagreb	560,730	560,730
Hrvatska gospodarska banka	22,951	22,951
Coning Holding	5,900	5,900
Share value adjustment, Croatia bank	(560,730)	(560,730)
Share value adjustment, HGB	(22,951)	(22,951)
TOTAL:	5,900	5,900
GRAND TOTAL:	165,900	165,900

3.5. Placed loans, deposits, etc.

Placed loans and deposits are declared in the parent company Varteks d.d. and include:

	2009	2010
	- in HRK -	- in HRK -
Lease deposits	136,602	595,543
Deposit to Privredna bank	116,702	116,702
Hypo Leasing	15,980	15,980
Volksbank leasing	2,150	2,150
TOTAL:	271,434	730,375

3.6. Other long-term financial assets

Position is declared in Varteks d.d. and includes:

	2009	2010
	- in HRK -	- in HRK -
Receivables based on old foreign currency savings	4,365,453	4,365,453
TOTAL:	4,365,453	4,365,453

3.7. Long-term receivables based on sale of own shares

	2009	2010
	- in HRK -	- in HRK -
Long-term receivables based on sale of own shares	-	3,216,364
TOTAL:	-	3,216,364

Pursuant to the Decision of the government of the Republic of Croatia dated 14 February 2008, Varteks d.d. realised in 2010 the first (of 3 planned) entry-sale share (stock) emission in accordance with the Esop programme (worker shareholding). In order to realise the programme, in 2010 the Company established Varteks Esop d.o.o. Varaždin. In accordance with the Agreement on the sale ad transfer of shares of Varteks d.d. to Varteks Esop d.o.o. as of 21 October 2010, 305,005 Varteks d.d. shares of HRK 200 per-share nominal value (total nominal value HRK 61,001,000) were sold and transferred.

In the first entry-sale cycle, 155,937 shares were realised at the initial market price of HRK 16.92 per share, i.e. total sale value after discount of HRK 1,443,029.

Receivables based on the sale and transfer of shares (stocks) were declared in Varteks Esop d.o.o. as follows:

	Number of shares	Amount
		- in HRK -
Shares sold in the first cycle of the ESOP programme	155,937	1,443,029
- collected		(341,345)
TOTAL - uncollected		1,101,684
- Long-term receivables from employees		694,133
- Short-term receivables from employees		407,551
Shares for sale (2nd and 3rd cycle)	149,068	2,522,231
GRAND TOTAL:	305,005	3,623,915
- Long-term receivables		3,216,364
- Short-term receivables		407,551

3.8. Other long-term receivables

Other long-term receivables were declared in Varteks d.d. and include:

	2009	2010
	- in HRK -	- in HRK -
Receivables based on sale of real property	23,014,527	-
Receivables based on sold flats	199,924	175,311
Placed property loans/credits	369,849	369,878
Other long-term receivables – Tiskara d.o.o.	174,659	174,659
TOTAL:	23,758,959	719,848

During 2009 the Company entered into the Sales Agreement for the sale of real property in Rijeka in the amount of HRK 61,006,762, or EUR 8,350,000.

During 2010 the above Agreement was terminated.

3.9. Inventory

The position of inventory as at the Balance date, per company:

	2009 - in HRK -	2010 - in HRK -
Varteks d.d. Varaždin	114,900,797	96,526,775
Vartex Textiles Ltd Bristol	5,706,372	3,667,727
Varteks Plus d.o.o., Belgrade	8,398,976	7,113,443
Varteks Trade d.o.o. Ljubljana	5,307,997	3,832,868
TOTAL:	134,314,142	111,140,813

Inventory includes:

	2009 - in HRK -	2010 - in HRK -
Raw materials and materials	30,780,502	30,216,420
Spare parts	4,702,616	3,135,692
Current production	8,786,485	7,701,697
Finished products	54,236,787	33,470,720
Trade goods	50,339,260	44,165,052
TOTAL:	148,845,650	118,689,581
Adjustment of inventory value	(15,051,058)	(8,448,474)
GRAND TOTAL:	133,794,592	110,241,107
Advance payments for inventory	519,550	899,706
GRAND TOTAL:	134,314,142	111,140,813

Value adjustment changes:

	2009 - in HRK -	2010 - in HRK -
Position as at 1 January	(6,489,577)	(15,051,058)
New value adjustments	(11,751,999)	(4,780,831)
Cancellation of value adjustment	3,190,518	11,451,275
Adjustments	-	(67,860)
Position as at 31 December	15,051,058	(8,448,474)

3.10. Assets intended for sale

	2009	*2010*
	- in HRK -	*- in HRK -*
Assets intended for sale	*45,356,057*	*45,322,333*
TOTAL:	*45,356,057*	*45,322,333*

Changes during the year:

	- in HRK -
Position as at 1 Jan. 2009	*45,753,325*
Sales	*(397,268)*
Position as at 31 December 2009	*45,356,057*
Increase	*446,854*
Sales	*(480,578)*
Position as at 31 December 2010	*45,322,333*

Assets intended for sale declared in the parent company include real property in Serbia, Montenegro and Bosnia and Herzegovina, entered in the Company books through recapitalisation (see Note 3.19.). When recognising the assets in the category of assets intended for sale and on the Balance date, no losses due to decrease were recognised.

3.11. Accounts receivable

Accounts receivable (receivables from clients) per company:

	2009 - in HRK -	2010 - in HRK -
Varteks d.d. Varaždin	71,752,634	29,331,251
Varteks Trgovina d.o.o. Varaždin	-	14,873,210
Varteks Logistic d.o.o. Varaždin	165,528	254,990
Vartex Textiles Ltd Bristol	3,085,633	1,765,860
Burgtrade G.m.b.h. Eisenstadt	1,702	3,120
Varteks Plus d.o.o., Belgrade	4,171,794	1,573,485
Varteks Trade d.o.o. Ljubljana	187,079	140,055
Varteks Trgovina d.o.o., Široki Brijeg	15	22
TOTAL:	79,364,385	47,941,993

Accounts receivable include:

	2009 - in HRK -	2010 - in HRK -
Receivables from domestic clients for goods and services	91,249,505	62,869,335
Receivables from foreign clients for goods and services	26,843,932	26,673,868
Receivables from domestic clients for interest	3,093,086	3,092,838
TOTAL:	121,186,523	92,636,041
Value adjustment of suspect and disputed domestic client receivables	(30,021,550)	(32,536,126)
Value adjustment of foreign client receivables	(8,708,078)	(9,065,660)
Value adjustment of accounts receivable for interest	(3,092,510)	(3,092,262)
TOTAL:	(41,822,138)	(44,694,048)
GRAND TOTAL:	79,364,385	47,941,993

Changes in value adjustment during the year:

	2010 - in HRK -
Position as at 1 January	(41,822,138)
Value adjustment increase	(3,112,668)
Cancellation of value adjustment	147,411
Other	93,347
Position as at 31 December	(44,694,048)

3.12. Other receivables

Other receivables declared in the companies:

	2009	2010
	- in HRK -	- in HRK -
Varteks d.d. Varaždin	5,668,810	5,906,204
Varteks Trgovina d.o.o. Varaždin	-	1,000,902
Varteks Logistic d.o.o. Varaždin	4,342	3,004
Varteks ESOP d.o.o. Varaždin	-	407,551
Varteks Plus d.o.o., Belgrade	397,529	505,920
Varteks Trade d.o.o. Ljubljana	27,376	40,439
Varteks Trgovina d.o.o., Široki Brijeg	5,216	5,635
TOTAL:	6,103,273	7,869,655

This position in the balance sheet includes:

	2009	2010
	- in HRK -	- in HRK -
Receivables from the state	5,245,089	6,733,485
Receivables from employees	365,231	566,906
Other receivables	492,953	569,264
TOTAL:	6,103,273	7,869,655

3.13. Investments in securities

Investments in securities are declared in the companies as follows:

	2009	2010
	- in HRK -	- in HRK -
Varteks d.d. Varaždin	5,526,671	3,235,314
Varteks Logistic d.o.o. Varaždin	280	150
Burgtrade G.m.b.h. Eisenstadt	-	4,923
Varteks Plus d.o.o., Belgrade	91,901	208,898
Varteks Trade d.o.o. Ljubljana	113,909	132,064
TOTAL:	5,732,761	3,581,349

Position/item contains:

	2009	2010
	- in HRK -	- in HRK -
Retail checks	1,772,861	1,908,013
Value adjustment – retail checks	(1,553,378)	(1,553,378)
Credit card receivables	5,512,268	3,220,902
Other	1,010	5,812
TOTAL:	5,732,761	3,581,349

3.14. Placed loans, deposits, etc.

Placed loans and deposits are declared in the companies as follows:

	2009	2010
	- in HRK -	- in HRK -
Varteks d.d. Varaždin	2,739,686	2,156,709
Varteks Plus d.o.o., Belgrade	132,114	121,378
Varteks Trgovina d.o.o., Široki Brijeg	15,329	15,494
TOTAL:	2,887,129	2,293,581

Position/item contains:

	2009	2010
	- in HRK -	- in HRK -
Placed deposits	274,885	191,407
Placed credits/loans:		
- consumer	3,636,113	3,718,067
- financial	511,218	511,218
Value adjustment	(1,543,430)	(2,135,454)
TOTAL:	2,878,786	2,285,238
Credit interest receivables	288,052	288,052
Value adjustment of credit interest receivables	(279,709)	(279,709)
TOTAL:	2,887,129	2,293,581

3.15. Cash on accounts and in hand

The following cash positions are declared for the companies on the Balance date:

	2009	2010
	- in HRK -	- in HRK -
Varteks d.d. Varaždin	4,025,550	2,269,232
Varteks Trgovina d.o.o. Varaždin	144	154,454
Varteks Logistic d.o.o. Varaždin	168,600	89,709
Varteks ESOP d.o.o. Varaždin	-	20,000
Vartex Textiles Ltd Bristol	926,789	345,873
Burgtrade G.m.b.h. Eisenstadt	35,574	1,004
Varteks Plus d.o.o., Belgrade	162,534	63,391
Varteks Trade d.o.o. Ljubljana	85,456	62,333
Varteks Trgovina d.o.o., Široki Brijeg	2,981	103
TOTAL:	5,407,628	3,006,099

Position/item contains:

	2009	2010
	- in HRK -	- in HRK -
Business account	2,665,619	1,865,019
On hand	2,161,383	39,246
Foreign currency account	534,762	129,264
Other cash assets	45,864	972,570
TOTAL:	5,407,628	3,006,099

3.16. *Paid expenses of future period and calculated income*

The position, declared in the companies:

	2009 - in HRK -	2010 - in HRK -
Varteks d.d. Varaždin	996,881	971,279
Varteks Plus d.o.o., Belgrade	1,225,615	28,890
Varteks Trade d.o.o. Ljubljana	-	13,354
TOTAL:	2,222,496	1,013,523

Position/item contains:

	2009 - in HRK -	2010 - in HRK -
Rent calculated in advance	536,318	763,841
Credit/loan interest calculated in advance	14,425	207,376
Import transfer account - foreign	446,076	-
Other	1,225,677	42,306
TOTAL:	2,222,496	1,013,523

3.17. Capital and reserves

The Company entered into the Court Register the adjustment of general Acts with the Companies Act on 20 November 1995. Capital stake on that date was DEM 153,576,300 divided into 1,535,763 ordinary shares of DEM 100 nominal value each.

Pursuant to the Decision of the General Assembly dated 5 June 1998, capital stock of the Company in the amount of DEM 153,576,300 shall be adjusted for subsequently found and assessed public assets in the amount of DEM 153,809,700 or HRK 540,487,286, and shall be decreased using a simple method for HRK 232,867,886 to HRK 307,619,400. Decrease of capital stock shall be performed by decreasing the nominal amount of 1,538,097 issued ordinary name shares from DEM 100, i.e. HRK 351.40 to HRK 200.

Pursuant to the Decision of the General Assembly of the issuer dated 28 June 2001, capital stock of the issuer was increased for HRK 1,552,400, or 7,762 shares of HRK 200 per-share nominal value, all pursuant to the Decision of the Croatian Privatisation Fund dated 25 September 2001, representing the last change of capital stock.

As at 31 December 2007 the capital stock of the Company amounted to HRK 309,171,800 divided into 1,545,859 ordinary shares of HRK 200 per-share nominal value.

In 2008, recapitalisation of Varteks d.d. was performed in accordance with Decisions of the CPF dated 30 October 2006 and the Decision of the General Assembly of the Company dated 13 July 2007.

Capital stock was increased from HRK 309,171,800 (1,545,859 shares of HRK 200 per-share nominal value)to the amount of HRK 384,161,400 (1,920,807 shares of HRK 200 per-share nominal value).

The recapitalisation decision was enacted based on the return of assets/property in Serbia, Montenegro, B&H and Croatia. Recapitalisation was performed by entering the above assets to the Company in the amount of HRK 51 million and by cancelling the liability for sale of the remaining part of the above assets during previous periods in the amount of HRK 24 million.

As at 31 December 2010 the total own (treasury) share portfolio made up 9.56% of capital stock (25.43% in 2009).

3.17. Capital and reserves (continued)

Capital and reserves as at 31 Dec. 2010 amounted to HRK 110,624,206 (HRK 206,656,390 the previous year).

	2009	2010
	- in HRK -	- in HRK -
- Capital stock (initial capital)	384,161,400	384,161,400
- Reserves from profit	6,235,246	10,428,371
- Reserves for own shares	103,037,818	46,013,062
- Treasury/own shares	(97,716,600)	(36,730,600)
- Other reserves	914,028	1,145,909
- Loss carried forward	(98,983,092)	(181,079,603)
- Loss of fiscal year	(84,757,164)	(102,885,962)
TOTAL:	206,656,390	110,624,206

Ownership structure:

	2009		2010	
	% stake in ownership	Number of shares	% stake in ownership	Number of shares
Karlovačka banka d.d.	9.19	176,566	9.19	176,566
Custodial bank – Raiffeisenbank	15.53	298,498	9.08	174,516
Custodial bank – Splitska bank	4.02	77,252	8.48	162,746
Varteks Esop d.o.o.	-	-	7.76	149,068
Stjepan Igrec	7.03	134,944	7.03	134,944
Validus d.d.	8.05	154,604	6.04	116,076
Custodial account of Zagrebačka bank	-	-	5.73	110,000
Custodial bank – PBZ	3.85	73,881	3.32	63,771
Zoran Košćec	2.39	45,958	2.55	48,897
Dražen Košćec	1.91	36,657	2.05	39,467
Vladimir Košćec	1.34	25,835	1.34	25,835
Custodial bank – Erste&Steiermarkische bank	0.43	8,164	0.43	8,164
Custodial bank – HPB	0.13	2,420	0.38	7,453
Avorato d.o.o.	-	-	0.37	7,000
Other companies	0.80	15,433	0.27	5,129
Croatian Privatization Fund	4.65	89,245	0.18	3,430
FIMA vrijednosnice d.o.o.	-	-	0.16	2,990
Other custodial banks	0.03	580	0.13	2,607
Foreign persons	0.08	1,458	0.08	1,595
Custodial bank – Hypo Alpe	0.09	1,795	0.08	1,546
Stog d.o.o.	-	-	0.05	1,000
Other financial institutions	0.54	10,337		
Other domestic private entities (individuals)	14.51	278,597	25.74	494,354
Own/treasury shares	25.43	488,583	9.56	183,653
TOTAL:	100.00	1,920,807	100.00	1,920,807

3.18. Provisions

In 2010, in accordance with legal provisions on adjustment with the Labour Law, the new Collective Labour Agreement was signed valid for Varteks d.d.

In accordance with the Collective Agreement, Varteks d.d. has the obligation of paying out anniversary awards, severance pay and other compensations to its employees. Varteks d.d. has a plan of defined salaries for employees who fulfil certain criteria. This plan foresees severance pay (without stimulants) for retirement in the amount of HRK 8,000 .

There are no other compensations/salaries after retirement. Anniversary awards are paid out in the following fixed amounts according to years worked for the company:

HRK 1,000 for 10 years of constant employment
HRK 1,300 for 15 years of constant employment
HRK 1,700 for 20 years of constant employment
HRK 2,000 for 25 years of constant employment
HRK 2,200 for 30 years of constant employment
HRK 2,500 for 35 years of constant employment
HRK 3,000 for 40 years of constant employment

Pension insurance contributions are obligatory for Group employees, as prescribed by law. These contributions form the basis of pension which the Croatian Pension Fund pays out to employees in Croatia after they retire.

Changes during the year

- in HRK -

	Severance pay	Court disputes	Other provisions	Total
Position as at 1 Jan. 2010	6,321,025	307,623	44,254	6,672,902
New reserve provisions	436,458	-	-	436,458
Cancellation for benefit of income	(6,321,025)	-	(44,254)	(6,365,279)
Position as at 31 December 2010	436,458	307,623	-	744,081
Short-term part	436,458	307,623	-	744,081

In the current year the parent company Varteks d.d. realised income from provisions for compensations paid out to employees when they retire, in the amount of HRK 6,321,025 and made new provisioning on that basis in the amount of HRK 436,458.

Provisions based on the risk estimate were made for each dispute initiated against Varteks d.d. and each dispute which Varteks d.d. initiated.

3.19. Long-term liabilities

Other long-term liabilities declared in the companies:

	2009	2010
	- in HRK -	- in HRK -
Varteks d.d. Varaždin	157,971,096	153,402,629
Varteks Plus d.o.o., Belgrade	-	47,482
TOTAL:	157,971,096	153,450,111

Position/item contains:

	2009	2010
	- in HRK -	- in HRK -
Liabilities for loans/credits, deposits and other	212,330	172,282
Liabilities toward banks and other financial institutions	201,985,084	186,052,501
Accounts payable	812,465	114,577
TOTAL:	203,009,879	186,339,360
Current maturity of long-term liabilities		
- loan/credit	(141,521)	(172,282)
- bank credits/loans	(44,897,262)	(31,775,809)
- leasing	-	(849,081)
- suppliers (accounts payable)	-	(92,077)
TOTAL:	(45,038,783)	(32,889,249)
TOTAL LONG-TERM PORTION:	157,971,096	153,450,111

3.19.1. Long-term liabilities for loans/credits, deposits and other

- in HRK -

Creditor	Purpose	Annual interest	2009	2010
Hrvatske vode Zagreb	co-financing	2.95	212,330	172,282
Current maturity			(141,521)	(172,282)
TOTAL:			70,809	-

3.19.2. Long-term liabilities toward banks and other financial institutions

- in HRK -

Creditor - banks	Purpose	Annual interest	2009	2010
Croatian Reconstruction and Development Bank, Zagreb	investments	3.00-4.00	89,549,759	81.532.766
CRDB, Development and Employment Fund, Zagreb	investments	4.60	17,614,526	19.033.591
Zagrebačka banka d.d. Zagreb	refinancing	8.23	56,657,710	50.805.208
Privredna banka Zagreb d.d.	reprogramming	3.486	15,079,299	8.360.840
Raiffeisenbank Austria d.d.	reprogramming	6.986	11,012,539	9.658.368
Hrvatska poštanska banka d.d., Zagreb	refinancing	11.00	-	5.000.000
Suspended credits/loans			10,499,012	10.589.124
TOTAL:			200,412,845	184.979.897
Creditor - other financial institutions				
Raiffeisen Leasing d.o.o. Zagreb	all-terrain vehicle	9.38	118,623	97.542
OTP Leasing d.d. Zagreb	vehicle	8.75	76,250	58.787
Hypo-Leasing Kroatien d.o.o. Varaždin	Machinery		1,375,474	812.905
Others			1,892	103.370
TOTAL:			1,572,239	1.072.604
TOTAL CREDIT LIABILITIES			201,985,084	186.052.501
Current maturity of long-term banking liabilities			(44,897,262)	(31.775.809)
Current maturity of long-term leasing liabilities			-	(849.081)
TOTAL LONG-TERM PART OF LIABILITIES			157.087.822	153,427,611

Creditors, in the name of securing the repayment of credits/loans, entered in the land registry ledgers pledges/mortgage on assets owned by the Company (via Note 3.2.) and contracted other means of security (bonds, promissory noted, guarantees).

Currency structure of these liabilities

	2009	2010
HRK	17,614,526	24,033,591
EUR	184,370,558	162,018,910
TOTAL:	201,985,084	186,052,501

Equity changes during the year:

- *in HRK* -

	2010		
	Bank	*Leasing companies*	*Total*
Position as at 1 January	*200,412,845*	*1,572,239*	*201,985,084*
Increase			
- New debt	*5,000,000*	*214,030*	*5,214,030*
- Reprogramming of matured liabilities into long-term	*19,908,292*	*-*	*19,908,292*
- Net currency differentials	*1,642,435*	*894*	*1,643,329*
Decrease			
- Payments during the year	*(14,742,082)*	*(714,559)*	*(15,456,641)*
- Collection from the Ministry of Finance of the RC guarantees	*(8,752,366)*	*-*	*(8,752,366)*
- Transfer of the short-term part of liabilities	*(18,489,227)*	*-*	*(18,489,227)*
Position as at 31 December	*184,979,897*	*1,072,604*	*186,052,501*

Remaining maturity, per annum:

	HRK
Matured as at the Balance date	*5,167,674*
2011	*27,457,216*
2012	*31,960,476*
2013	*30,978,490*
2014	*31,460,824*
2015	*24,706,388*
2016	*11,725,905*
2017	*5,382,642*
2018	*2,649,508*
2019	*2,649,508*
2020	*1,324,746*
Suspended	*10,589,124*
TOTAL:	*186,052,501*

3.19.3. Long-term accounts payable

Creditor	*Purpose*	*2009*	*2010*
		- in HRK -	*- in HRK -*
IBM Hrvatska d.o.o. Zagreb	*IBM equipment*	*668,465*	*94,500*
Ivanka Braz, Slatina	*Rent of facilities*	*144,000*	*20,077*
TOTAL:		*812,465*	*114,577*
Current maturity		*-*	*(92,077)*
TOTAL:		*812,465*	*22,500*

Changes during the year

	2010
	- in HRK -
Position as at 1 January	*812,465*
Increase	
- Net currency differentials	*179,683*
Decrease	
- payments	*(877,571)*
Position as at 31 December	*114,577*

Remaining maturity, per annum:

	- in HRK -
Matured as at the Balance date	*36,914*
2011.	*55,163*
2012.	*22,500*
TOTAL:	*114,577*

3.20. Short-term liabilities by credit/loan

Per company:

	2009	2010
	- in HRK -	- in HRK -
Varteks d.d. Varaždin	170,627,714	160,047,572
Varteks Trgovina d.o.o. Varaždin	5,794,539	5,794,539
Varteks Plus d.o.o., Belgrade	-	55,888
TOTAL:	176,422,253	165,897,999

Short-term liabilities by credit/loan include:

	2009	2010
	- in HRK -	- in HRK -
Liabilities for loans/credits, deposits and other	22,926,357	13,210,852
Liabilities toward banks and other financial institutions	101,478,901	114,874,296
TOTAL EQUITY	124,405,258	128,085,148
Interest liabilities	6,978,212	4,923,602
Current maturity of long-term liabilities	45,038,783	32,889,249
TOTAL SHORT-TERM PORTION:	176,422,253	165,897,999

Currency structure of equity

	2009	2010
EUR	29,575,208	28,881,909
HRK	89,035,511	99,203,239
TOTAL EQUITY:	118,610,719	128,085,148

Equity changes during the year:

	- in HRK -
Position as at 1 January	*124,405,258*
Increase	
- New debt	*34,962,443*
Decrease	
- Payments	*(31,159,106)*
- Net currency differentials	*(123,447)*
Position as at 31 December	*128,085,148*

Maturity of total short-term credit liabilities in 2011

	- in HRK -
Matured as at the Balance date	*29,657,777*
-Up to 1 month	*6,227,643*
- Up to 2 months	*41,175,913*
- Up to 3 months	*52,220,586*
- Up to 4 months	*2,737,077*
- Up to 5 months	*2,133,041*
- Up to 6 months	*4,896,372*
- Up to 7 months	*1,504,220*
- Up to 8 months	*1,504,220*
- Up to 9 months	*4,561,047*
- Up to 10 months	*1,504,220*
- Up to 11 months	*1,504,220*
- Up to 12 months	*16,271,663*
TOTAL:	*165,897,999*

3.20.1. Short-term liabilities for loans/credits, deposits, etc.

Creditor	Interest rate at the end of year	2009	2010
		- in HRK -	- in HRK -
Croatia osiguranje d.d. Varaždin	10.00	8,000,000	8,000,000
Erste Card Club d.d. Zagreb	10.00	1,820,061	3,139,931
City of Varaždin	discount	2,000,000	1,137,925
Croatia Factoring d.o.o. Zagreb		10,173,300	-
Other		897,485	897,485
TOTAL:		22,890,846	13,175,341
Liabilities for received deposits		35,511	35,511
Interest liabilities		329,624	403,231
Current maturity of long-term liabilities		141,521	264,359
GRAND TOTAL:		23,397,502	13,878,442

3.20.2. Short-term liabilities toward banks and other Financial institutions

Creditor	Interest rate at the end of year	2009	2010
		- in HRK -	- in HRK -
Privredna banka d.d. Zagreb	8.00	10,886,062	10,486,944
Zagrebačka banka UniCredit Group Zagreb	5.97-6.83	80,695,785	76,239,051
VABA Banka Varaždin	11.00	-	10,043,835
Hrvatska poštanska banka d.d.	10.00	5,000,000	2,951,930
Ministry of Finance of the Rep. of Croatia		-	10,255,482
Others		4,897,054	4,897,054
TOTAL:		101,478,901	114,874,296
Interest liabilities		6,648,588	4,520,371
Current maturity		44,897,262	32,624,890
GRAND TOTAL:		153,024,751	152,019,557

As at the Balance date, the parent company Varteks d.d. has remaining rights to unused credit lines – revolving credits/loans in Privredna banka Zagreb d.d. up to EUR 191,170, with contracted final repayment date of 31 December 2011.

3.21. Liabilities for advance payments

Liabilities for advance payments declared in the companies:

	2009	2010
	- in HRK -	- in HRK -
Varteks d.d. Varaždin	6,602,387	2,484,304
Varteks Logistic d.o.o. Varaždin	240,000	240,000
Varteks Trade d.o.o. Ljubljana	22,924	-
TOTAL:	6,865,311	2,724,304

Position/item contains:

	2009	2010
	- in HRK -	- in HRK -
- Domestic client advance payments	748,597	253,898
- Foreign client advance payments	6,116,714	2,470,406
TOTAL:	6,865,311	2,724,304

3.22. Accounts payable

Liabilities for accounts payable declared in the companies:

	2009 - in HRK -	2010 - in HRK -
Varteks d.d. Varaždin	89,844,240	104,204,357
Varteks Trgovina d.o.o. Varaždin	66,194	13,830,427
Varteks Logistic d.o.o. Varaždin	48,682	68,220
Burgtrade G.m.b.h. Eisenstadt	1,147	-
Varteks Plus d.o.o., Belgrade	1,682,744	1,405,592
Varteks Trade d.o.o. Ljubljana	2,831,627	2,662,195
Varteks Trgovina d.o.o., Široki Brijeg	14,137	17,835
TOTAL:	94,903,749	119,683,137

Position/item contains:

	2009 - in HRK -	2010 - in HRK -
Domestic accounts payable	59,754,610	78,716,835
Foreign accounts payable	33,804,093	38,705,065
Liabilities for non-invoiced goods	51,444	51,941
Supplier interest	1,293,602	2,209,296
TOTAL:	94,903,749	119,683,137

The parent company has entered into agreements with business banks (ZABA and PBZ) on the issuing of active and payment guarantees (in HRK and foreign currencies) in the name of securing the payment of obligations toward individual suppliers, valid as of 31 Dec. 2010, up to the amount of approx. HRK 8 million. The Company also obligated itself (via the same agreements) to giving banks other security instruments (mortgage, bonds, promissory notes).

3.23. Liabilities toward employees

Liabilities toward employees declared in the companies:

	2009	2010
	- in HRK -	- in HRK -
Varteks d.d. Varaždin	17,135,422	14,328,878
Varteks Trgovina d.o.o. Varaždin	4,109	99,264
Varteks Logistic d.o.o. Varaždin	49,295	56,382
Burgtrade G.m.b.h. Eisenstadt	394	7,628
Varteks Plus d.o.o., Belgrade	67,631	81,543
Varteks Trade d.o.o. Ljubljana	228,447	186,826
Varteks Trgovina d.o.o., Široki Brijeg	1,768	21,476
TOTAL:	17,487,066	14,781,997

The position contains:

	2009	2010
	- in HRK -	- in HRK -
- Net salary and fee liabilities	8,000,455	9,492,590
- Severance pay liabilities	8,601,053	4,625,912
-Other liabilities toward employees	817,157	662,975
- Crisis tax	68,401	520
TOTAL:	17,487,066	14,781,997

Liabilities for net salaries pertain to liabilities for Nov. and Dec. 2010.

Liabilities for severance pay for conditional termination of employment and retirement declared in the parent company Varteks d.d. pertain to the period of 2009 and 2010.

Other liabilities mostly pertain to compensations for transport to and from work for December 2010.

3.24. Taxes, contributions and similar fees

Liabilities for taxes and contributions per company:

	2009	2010
	- in HRK -	- in HRK -
Varteks d.d. Varaždin	37,384,358	79,146,173
Varteks Trgovina d.o.o. Varaždin	94,176	564,872
Varteks Logistic d.o.o. Varaždin	42,622	34,601
Burgtrade G.m.b.h. Eisenstadt	15,314	6,793
Varteks Plus d.o.o., Belgrade	46,605	51,123
Varteks Trade d.o.o. Ljubljana	371,439	398,608
Varteks Trgovina d.o.o., Široki Brijeg	2,755	5,797
TOTAL:	37,957,269	80,207,967

These liabilities include:

	2009	2010
	- in HRK -	- in HRK -
VAT liabilities	9,767,837	15,695,495
Liabilities for taxes and contributions from and on salaries	24,089,592	53,857,200
Forest contributions	3,084,056	3,282,316
Customs liabilities (customs and VAT)	549,119	1,053,179
Other taxes and contributions	466,665	899,209
Taxes and contributions - interest	-	5,420,568
TOTAL:	37,957,269	80,207,967

3.25. Other short-term liabilities

Other short-term liabilities per company:

	2009 - in HRK -	2010 - in HRK -
Varteks d.d. Varaždin	10,579,492	7,415,624
Varteks Trgovina d.o.o. Varaždin	262,476	262,476
Varteks Logistic d.o.o. Varaždin	2,951	549
Burgtrade G.m.b.h. Eisenstadt	4,062	5,080
Varteks Plus d.o.o., Belgrade	5,881	5,421
Varteks Trade d.o.o. Ljubljana	35,848	47,601
Varteks Trgovina d.o.o., Široki Brijeg	5,041	14,194
TOTAL:	10,895,751	7,750,945

Position/item contains:

	2009 - in HRK -	2010 - in HRK -
- Liabilities toward the Republic of Croatia based on sold flats	6,793,069	7,221,574
- Liabilities based on sold receivables/claims	3,280,457	-
- Supervisory Board member fees and temporary service contracts	205,196	192,346
- Liabilities for issued bills of exchange/bonds	300,000	-
- Other liabilities	317,029	337,025
TOTAL:	10,895,751	7,750,945

3.26. Deferred payment of expenses and income of future periods

The position, declared in the companies:

	2009 - in HRK -	2010 - in HRK -
Varteks d.d. Varaždin	*2,183,803*	*403,544*
Varteks Plus d.o.o., Belgrade	*160,700*	*147,642*
TOTAL:	*2,344,503*	*551,186*

Position/item contains:

	2009 - in HRK -	2010 - in HRK -
Income of future periods		
- Securities	*1,587,321*	-
Deferred recognition of income		
- Collection of inventory shortages	*397,230*	*397,230*
Other deferred income	*359,952*	*153,956*
TOTAL:	*2,344,503*	*551,186*

3.27. Liabilities taken over

As at the Balance date, the parent company Varteks d.d. has several concluded operative leasing agreements/contracts, from which stem non-matured liabilities in the amount of HRK 1,854,029.

Maturity of these liabilities:

	- in HRK -
- Up to 1 year	*1,012,240*
- Over 1 year	*841,789*

3.28. Position and transactions with associated companies

- in HRK -

Liabilities	*Position as at 1 Jan. 2010*	*Current transaction amount*		*Position as at 31 Dec. 2010*
		Owing	*Claiming*	
Stari orah d.o.o.	*4,319*	*12,303*	*9,007*	*1,023*
Forma d.o.o.	*723,792*	*1,534,370*	*1,668,738*	*858,160*
TOTAL:	*728,111*	*1,546,673*	*1,677,745*	*859,183*

Management and Supervisory Board member compensations/fees

Calculated fees for members of the Management Board and the Supervisory Board were as follows:

	2009	*2010*
	- in HRK -	*- in HRK -*
Management (Board)		
Net salaries	*1,149,144*	*1,129,785*
Taxes and contributions	*1,418,580*	*1,380,065*
TOTAL:	*2,567,724*	*2,509,850*
Supervisory Board		
Net salaries	*220,589*	*226,316*
Taxes and contributions	*220,604*	*226,331*
TOTAL:	*441,193*	*452,647*
TOTAL:	*3,008,917*	*2,962,497*

3.29. Significant court disputes

The Group is involved in a number of court disputes both as the plaintiff and as the defendant. Majority of the cases are of lesser value. Significant court cases which the parent company Varteks d.d. is involved in are as follows:

Varteks d.d. as the defendant:

- *Plaintiff Ateks Belgrade, damage compensation, claims in the amount of HRK 3,171,076.04, probability of success for the Company is high*
- *Plaintiff Nagob Aziri Osijek, determination of invalidity of the real property exchange agreement in the amount of HRK 800,000.00, probability of success for the Company is high*
- *Plaintiff Hrvatske šume d.o.o. Zagreb, claims in the amount of HRK 1,573,218.66, probability of success for the Company is partial*

Varteks d.d. as the plaintiff:

- *Defendant Luje d.o.o. Rijeka, claim for unlawful use of bank guarantee and promissory notes, amount of HRK 1,561,899.82, probability of success for the Company is high*

3.30. Events after the date of the financial position report

After the date of the financial position report, reorganisation of Varteks Group continued, with the goal being increase of efficiency and transparency of business through singling out the parent company business area/department "Production" and establishing it as separate legal entities.

3.31. Approval of financial statements

The Company Management Board adopted and approved the issue of these financial statements on 29 April 2011.

Signed for and on behalf of the Company on 29 April 2011:

Zoran Koščec	*Nenad Davidović*
Chairman of the Board	*Board Member for Financial Transactions*

VARTEKS d. d.
Zagrebačka 94 / HR-42000 VARAŽDIN / 10