VARTEKS

ANNUAL REPORT OF THE COMPANY VARTEKS D.D. FOR 2010

Varaždin, May 2011

Content

1. IN GENERAL ABOUT THE COMPANY

Varteks, Varaždinska tekstilna industrija d.d. Varaždin (hereinafter referred to as: Company) came about through a transformation pursuant to the Decision on the Transformation of the Social Company Varteks Holding into a Stock Company from June 17, 1992 and according to a resolution by the Croatian Agency for Restructuring and Development No. 01-01-02/92-06/94 from April 9, 1993 and the Decision on the Transfer of Varteks Shares to Varazdin Funds 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 market

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

The Company is the founder and full owner of the following affiliated companies:

- 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 Company's business results for 2010 are related to general economic developments both on the domestic and the global market. The continuation of the crisis and the drop in personal spending have caused additional problems to the Company's liquidity and the economy as a whole and led to further slow-downs in investments.

With such negative conditions in its surroundings, the Company operated with a loss of HRK 96.7 million in 2010, while a loss of HRK 98.8 million had been realized in the same time period in 2009.

In this connection it has to be pointed out that the Company marked a HRK 37 million lower loss from ordinary business activities in 2010 in relation to 2009, if the sale of long-lived assets is excluded.

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

Business revenues amounted to HRK 308.7 million, which is 13.6 percent less than in 2009. In the business revenue structure, growth is evident in sales revenues, which constituted 93.6 percent of the business revenues in 2010, while their share had amounted to 88.5 percent in 2009. In comparison to 2009 and in relation to sales revenues it is important to point out that in accordance with the restructuring and reorganization plans as well as activities in relation to these plans, the B2B segment (sales aspect related to corporate clothing and the production of special-purpose clothing) was detached to an affiliated company owned by Varteks d.d. Looking at the overall impact of this sales aspect, total sales revenues amounted to HRK 346.2 million, hence total sales revenues were 9.4 percent higher in relation to 2009.

In the Company's cost structure, almost all business expenditures marked a drop in relation to 2009. This development is primarily the result of the carried-out restructuring measures. Overall payroll costs were reduced by HRK 28 million or 17 percent, and within this segment, gross wage expenses were 13.7 percent or HRK 19.2 million lower.

The overall reduction in stock, which was reduced by 11.5 percent in relation to the beginning of the year, is significant. This development is the result of activities aimed towards the more rational utilization of the Company's current own resources and the targeted optimization of all stock types.

The negative result was significantly influenced by higher financing costs in 2010, and expenditures on the grounds of interest and other financing costs went up 30 percent in relation to 2009.

In 2010, the policy in regards to the declaration of effects on the basis of long-lived assets was changed, i.e. it was changed from the gross entry method to the net entry method, hence all 2009 data in relation to this segment have been adapted to the new declaration manner and are comparable.

On the basis of extraordinary activities in the sale of long-lived assets in 2010, a negative effect on the overall result was marked due to additional expenses of HRK 13.2 million, while business revenues in 2009 had been increased on the basis of such activities, which led to a positive impact on the overall results by HRK 21.7 million.

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

3. MOST SIGNIFICANT BUSINESS RISKS IN 2010

Market developments in 2010 cumulated certain risks in the Company's business operations, thus risks are still pronounced on the basis of reduced personal spending, which directly affected the Company's revenues and liquidity. In the costs segment, the most significant risks were related to higher costs on the basis of further increases in energy prices and other costs in relation to production and sales activities (raw materials, production materials, services, etc.). Risks on the basis of the financing of business activities and liquidity in general were markedly present throughout the year.

The basic direction 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 includes the sale of real estate assets. Considering the extremely negative trends on the real estate market, sales have largely not been realized, which had a significant effect not only on the implementation of activities from the Integral Plan, but also on the Company's liquidity and the efficiency of operations.

During the business year, activities also focused on reducing operating costs, the closure of unprofitable parts of the system, growth in certain sales aspects (particularly the B2B segment) and the reorganization of the retail segment as one of the key sales aspects. In connection with this, unavoidable one-time restructuring costs were cumulated, which put an additional strain on the system in terms of liquidity and costs, but which created the prerequisites for the realization of development goals when looking at the upcoming period.

4. THE COMPANY'S EXPECTED FUTURE DEVELOPMENT

Varteks continues to focus its activities on eliminating potential negative effects on the basis of market developments, and in line with the current market conditions, it aims for targeted growth and higher sales in certain sales aspects. Continuous growth in business revenues and results is present in the segment which pertains to the production and sale of special-purpose clothing and corporate clothing.

In line with the Integral Business and Financial Restructuring Plan, further operating cost cuts are planned, while activities are being carried out in relation to the Company's financial consolidation through the utilization of its own assets as an additional financing source, as well as activities aimed towards the inclusion of the Company in the Government's anti-recession measures which focus on economic recovery and development.

The closure of unprofitable parts of the system in the production and trade business segments is underway, while activities are being carried out with the aim to further cut administrative costs. We will continue with the reorganization which was initiated in 2010, and in line with this, we will detach our production facilities to three separate legal entities in the second quarter of 2011, with the aim to simplify the management structure, to transform the

Company from a production-oriented to a market-oriented company, to increase the operating efficiency of responsibility centers, and thus to increase competitiveness on the market.

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

President of the Management Board of Varteks d.d.

Zoran Košćec

VARTEKS d.d.

/ Zagrebačka 94 / HR-42000 VARAŽDIN /9

VARTEKS

Varteks d.d.
Zagrebačka 94
42000 Varaždin

Varaždin, 25.05.2011

STATEMENT BY THE PERSON RESPONSIBLE FOR THE COMPILATION OF THE REPORT FOR I-XII 2010

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

- the set of financial reports for Varteks d.d. for I-XII 2010 (hereinafter: Company) 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 Company.

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

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):	00872098033	
Issuing company:	VARTEKS D.D.	
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)	2.329	
Consolidated report:	no	
NKD code:	1413	

Companies of consolidation subjects (according to IFRS)	Seat:	Reg.No.:

Accounting service:

Contact person: Svetec Zvonimir
(only last name and name of contact person is entered)

Phone: 042/377124 Fax: 042/377089

E-mail address: zsvetec@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	416.212.641	413.403.383
I. INTANGIBLE ASSETS (004 to 009)	003	5.928.386	7.707.235
1. Development expenses	004		
2. Concessions, patents, licenses, trademarks, service marks, software and other rights	005	5.928.386	7.707.235
3. Goodwill	006		
4. Advance payments for the procurement of intangible assets	007		
5. Intangible assets in preparation	008		
6. Other intangible assets	009		
II. TANGIBLE ASSETS (011 to 019)	010	381.395.261	394.123.657
1. Property	011	49.123.233	54.753.233
2. Buildings	012	247.540.893	265.285.847
3. Machinery and equipment	013	69.215.482	61.118.313
4. Tools, facility inventory and transportation assets	014	11.998.164	11.762.520
5. Biological assets	015	0	0
6. Advance payments for tangible assets	016	0	0
7. Tangible assets in preparation	017	3.286.191	972.446
8. Other tangible assets	018	231.298	231.298
9. Investments in real estate	019	0	0
III. LONGTERM FINANCIAL ASSETS (021 to 027)	020	5.130.035	7.636.279
1. Shares (stocks) in affiliated bussineses	021	327.248	2.374.551
2. Loans granted to affiliated businesses	022	0	0
3. Participating interests (shares)	023	165.900	165.900
4. Investments in securities	024	0	0
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	0	3.216.364
2. Receivables arising from sales on credit	030	0	0
3. Other receivables	031	23.758.959	719.848
V. DEFERRED TAX ASSETS	032	0	0
C) CURRENT ASSETS (034+042+049+057)	033	287.150.994	220.151.828
I. INVENTORY (035 to 041)	034	160.256.854	141.849.108
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	29.191.115	26.745.463
6. Advances for inventory	040	386.908	754.769
7. Other assets intended for sale	041	45.356.057	45.322.333
II. RECEIVABLES (043 to 048)	042	110.142.061	66.646.833
1. Receivables from affiliated undertakings	043	32.720.617	31.409.378
2. Receivables from buyers	044	71.752.634	29.331.251
3. Receivables from participating businesses	045		
4. Receivables from employees and members of the entrepreneur	046	349.311	466.308
5. Receivables from the state and other institutions	047	4.841.177	5.295.879
6. Other receivables	048	478.322	144.017
III. CURRENT FINANCIAL ASSETS (050 to 056)	049	12.773.213	9.386.655
1. Shares (stocks) in associated undertakings	050		
2. Loans to associated undertakings	051	4.471.224	3.994.632
3. Participating interests (shares)	052		
4. Investments in securities	053	5.562.303	3.235.314
5. Loans, deposits and the like	054	2.739.686	2.156.709
6. Own stocks and shares	055		
7. Other financial assets	056		
IV. CASH AT BANK AND IN HAND	057	3.978.866	2.269.232
D) PREPAID EXPENSES AND COMPUTED INCOME	058	996.881	971.279
E) LOSS OVER CAPITAL	059		
F) TOTAL ASSETS (001+002+033+058+059)	060	704.360.516	634.526.490
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**	207.927.385	113.788.581
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**	83.565.147	184.131.093
VII. FISCAL YEAR PROFIT	**074**		
VIII. FISCAL YEAR LOSS	**075**	98.904.114	96.670.097
IX. MINORITY INTEREST	**076**		
B) PROVISIONS (078 to 080)	**077**	6.628.648	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**	307.623	307.623
C) LONGTERM LIABILITIES (082 to 089)	**081**	157.971.096	153.402.629
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	153.380.129
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**	329.116.385	366.187.655
1. Amounts due to related undertakings	**091**	415.121	1.577.733
2. Commitments for loans, deposits, etc.	**092**	22.500.017	12.980.957
3. Liabilities to banks and other financial institutions	**093**	148.127.697	147.066.615
4. Liabilities for advances	**094**	6.591.335	2.484.304
5. Trade payables	**095**	86.382.943	101.187.371
6. Commitments on securities	**096**		
7. Employment benefit obligations	**097**	17.135.422	14.328.878
8. Taxes, contributions and similar charges	**098**	37.384.358	79.146.173
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**	10.579.492	7.415.624
E) ACCRUED CHARGES AND DEFERRED REVENUE	**102**	2.717.002	403.544
F) TOTAL –LIABILITIES (062+077+081+090+102)	**103**	704.360.516	634.526.490
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**		
2. Attributed to minority interests	**106**		

PROFIT AND LOSS ACCOUNT

time period from 1.1.2010 to 31.12.2010.

Position	AOP mark	Previous year	Current year
1	2	3	4
I. OPERATING INCOME (108 to 110)	107	357.650.623	308.697.260
1.Revenues from sales	108	316.464.094	288.855.431
3. Other operating income	110	41.186.529	19.841.829
II. OPERATING EXPENSES (112-113+114+118+122+123+124+127+128)	111	421.046.895	373.941.301
1. Decrease in value of intermediate production inventory	112	9.007.248	17.669.188
2. Increase in value of intermediate production inventory	113	0	0
3. Material costs (115 to 117)	114	169.966.441	155.780.101
a) Costs of raw materials and supplies	115	72.831.178	66.098.113
b) Costs of goods sold	116	68.667.225	61.074.908
c) Other external costs	117	28.468.038	28.607.080
4. Payroll costs (119 to 121)	118	140.009.075	120.800.250
a) Net wages and salaries	119	89.807.204	77.699.260
b) Costs of taxes and contributions paid	120	29.574.346	25.300.122
c) Contributions on salaries	121	20.627.525	17.800.868
5. Amortization	122	13.182.748	14.082.389
6. Other expenses	123	44.332.338	36.722.192
7. Revaluation (125+126)	124	30.285.460	7.873.501
a) of longterm assets (except financial assets)	125		
b) of current assets (except financial assets)	126	30.285.460	7.873.501
8. Provisions	127	6.321.025	436.458
9. Other operating expenses	128	7.942.560	20.577.222
III. FINANCIAL INCOME (130 to 134)	129	3.610.831	5.948.491
1. Interest, exchange rate differences, dividends and similar income from relations	130	595.373	1.615.711
2. Interest, exchange rate differences, similar income from relations with unaffiliated	131	3.015.458	4.332.780
3. Part of income from affiliated businesses and participating interests	132		
4. Unrealized gains (income)	133		
5. Other financial income	134		
IV. FINANCIAL EXPENSES (136 to 139)	135	39.118.673	37.374.547
1. Interest, exchange rate differences and other expenses from affiliated businesses	136	862.938	909.146
2. Interest, exchange rate differences and other expenses from relations with unaffiliated	137	23.731.994	36.352.000
3. Unrealized losses (expenses) of financial assets	138	12.468.857	
4. Other financial expenses	139	2.054.884	113.401
V. EXTRAORDINARY - OTHER INCOME	140		
VI. EXTRAORDINARY - OTHER EXPENSES	141		
VII. TOTAL INCOME (107+129+140)	142	361.261.454	314.645.751
VIII. TOTAL EXPENSES (111+135+141)	143	460.165.568	411.315.848
IX. PROFIT BEFORE TAXATION (142-143)	144	0	0
X. LOSS BEFORE TAXATION (143-142)	145	98.904.114	96.670.097
XI. INCOME TAX	146		
XII. PROFIT FOR THE PERIOD (144-146)	147	0	0
XIII. LOSS OF THE PERIOD (145+146) or (146-144)	148	98.904.114	96.670.097
ADDITION TO PROFIT AND LOSS ACCOUNT (only for consolidated financial statements)			
XIV.*PROFIT ASSIGNED TO PARENT COMPANY EQUITY HOLDERS	149		
XV.* PROFIT ASSIGNED TO MINORITY INTEREST	150		
XVI.* LOSS ASSIGNED TO PARENT COMPANY EQUITY HOLDERS	151		
XVII.*LOSS ASSIGNED TO MINORITY INTEREST	152		

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	-98.904.114	-96.670.097
2. Amortization	002	13.182.748	14.082.389
3. Increase in current liabilities	003	23.982.073	47.651.412
4. Decrease in shortterm receivables	004	0	43.495.228
5. Decrease in inventories	005	42.801.878	18.407.746
6. Other increases in cash flow	006	32.755.792	1.111.300
I. Total increase in cash flow from operating activities (001 to 006)	007	13.818.377	28.077.978
1. Decrease in current liabilities	008	21.397.717	0
2. Increase in shortterm receivables	009	0	0
3. Increase in inventories	010	0	0
4. Other dicreases in cash flow	011	0	0
II. Total decrease in cash flow from operating activities (008 to 011)	012	21.397.717	0
A1) NET INCREASE IN CASH FLOW FROM OPERATING ACTIVITIES (007-012)	013	0	28.077.978
A2) NET DECREASE IN CASH FLOW FROM OPERATING ACTIVITIES (012-007)	014	7.579.340	0
CASH FLOW FROM INVESTING ACTIVITIES			
1. Proceeds from the sale of longterm tangible and intangible assets	015	33.432.401	19.363.806
2. Proceeds from the sale of equity and debt instruments	016	0	0
3. Proceeds from interest	017	0	0
4. Proceeds from dividends	018	0	0
5. Other proceeds from investing activities	019	0	0
III. Total proceeds from investing activities (015 to 019)	020	33.432.401	19.363.806
1. Cash expenditures for the purchase of longterm tangible and intangible assets	021	0	5.690.920
2. Cash expenditures for the acquisition of equity and debt instruments	022	0	2.047.303
3. Other cash expenditures from investing activities	023	22.609.561	22.911.312
IV. Total cash expenditures from investing activities (021 to 023)	024	22.609.561	30.649.535
B1) NET INCREASE IN CASH FLOW FROM INVESTING ACTIVITIES (020-024)	025	10.822.840	0
B2) NET DECREASE IN CASH FLOW FROM INVESTING ACTIVITIES (024-020)	026	0	11.285.729
CASH FLOW FROM FINANCING ACTIVITIES			
1. Proceeds from issuance of equity and debt instruments	027	0	0
2. Proceeds from equity loans, debentures, loans and other borrowings	028	0	0
3. Other proceeds from financing activities	029	0	-3.353.274
V. Total proceeds from financing activities (027 to 029)	030	0	-3.353.274
1. Cash expenditures for principal repayments of loans and bonds	031	4.366.103	15.148.609
2. Cash expenditures for the payment of dividends	032	0	0
3. Cash expenditures on finance leases	033	0	0
4. Cash expenditures for the purchase of own shares	034	14.611	0
5. Other cash expenditures from financing activities	035	0	0
VI. Total cash expenditures from financing activities (031 to 035)	036	4.380.714	15.148.609
C1) NET INCREASE IN CASH FLOW FROM FINANCING ACTIVITIES (030-036)	037	0	0
C2) NET DECREASE IN CASH FLOW FROM FINANCING ACTIVITIES (036-030)	038	4.380.714	18.501.883
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	1.137.214	1.709.634
Cash and cash equivalents at beginning of period	041	5.116.811	3.978.866
Increase in cash and cash equivalents	042		
Decrease in cash and cash equivalents	043	1.137.945	1.709.634
Cash and cash equivalents at end of period	044	3.978.866	2.269.232

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	0	0
3. Reserves from profit	003	6.235.246	10.428.371
4. Retained profit or loss carried forward	004	-83.565.147	-184.131.093
5. Profit or loss of current year	005	-98.904.114	-96.670.097
6. Revaluation of longterm tangible assets	006		
7. Revaluation of intangible assets	007	0	0
8. Revaluation of financial assets available for sale	008	0	0
9. Other revaluations	009	0	0
10.Total equity and reserves (AOP 001 to 009)	010	207.927.385	113.788.581
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		
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

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

IN VARAŽDIN, APRIL 2011

AUDITOR'S REPORT ON FINANCIAL STATEMENTS FOR 2010

CONTENTS

RESPONSIBILITY OF MANAGEMENT FOR FINANCIAL STATEMENTS

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

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

Regarding the preparation of financial statements, the Management Board 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 indefinite duration of business, unless it should be inappropriate to assume that the Company will continue with its business.*

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

The attached financial statements presented on pages 6-74 have been approved by the Management on 29 April 2011 and are signed by:

For and in behalf of the Management Board:

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

Varteks d.d. Varaždin
Zagrebačka 94
42000 Varaždin
Republic of Croatia

TO SHAREHOLDERS OF VARTEKS d.d. VARAŽDIN

INDEPENDENT AUDITOR'S REPORT

We performed the audit of these non-consolidated financial statements of VARTEKS d.d. Varaždin company, specifically: Financial standing report as at 31 December 2010, All-inclusive Profit Account for 2010, Cash Flow Report for 2010, Changes in Capital for 2010 and Notes to financial statements, including significant accounting policies.

Financial statements of the Company 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, parallel amounts of previous periods, value adjustment of dependent company claims, sale of long-term tangible assets, state subsidies, violations of credit agreements, and publishing in accordance with the conditions of ISFR 7- Financial Instruments: Publishing and ISFR -8 Segment Information. Special accent, without qualifying the auditor's opinion, is placed on the uncertainty which represents doubt in the ability of the Company to continue with indefinite duration of business operations and the need to read, in order to gain better understanding of the VARTEKS Group as a whole, the consolidated financial reports dated 18 May 2010.

Management responsibilities

The Bank 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 Company's internal controls. Audit also includes assessment of pertinence of accounting policies used and of prudency of accounting estimates/assessments of the Management Board, 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 3.20.- Provisioning, the Company 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 Company did not determine the current value of the employee anniversary awards liabilities in accordance with the ISFR 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 Company, as at 31 December 2010 declared real property, plants and equipment, and assets for sale as investment costs. The Company 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 ISFR 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.

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 ISFR 8- Accounting Policies, Changes of Accounting Estimates and Mistakes. The Company loss is thus undervalued for the above amount as at 31 December 2009, and is not comparable to the same item declared as at 31 2010.

The Company declares investments in dependent companies using the fair value model, in accordance with the ISFR 27- Consolidated and Individual Financial Statements. During 2009, the company fully value-adjusted investments into dependent companies, burdening transferred losses (carried forward). As is described in Notes 3.3.- Shares in Associated Companies, the Company in 2010declared investments in the dependent company Varteks Plus d.o.o. Belgrade, Serbia using recapitalisation and transferring receivables into share/stake in the amount of HRK 2,027,303. We could not ascertain the factual state of declared investments in the financial statements based on investment fair value calculations.

As is stated in Note 3.9. - Inventory , the Company as at 31 December 2010 declared the value of inventory in the amount of HRK 96,526,775. 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 Notes 3.11. and 3.14. the Company on 31 December 2010 declared receivables from dependent companies in the amount of HRK 9,484,392 and loans placed to dependent companies in the amount of HRK 3,994,632, but did not value-adjust them, and the collection of which is not certain. In accordance with the above, receivables from dependent companies as at 31 December 2010, as well as the business result for 2010 have been declared as HRK 13,479,024 over the actual amount.

The Company 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 Company 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 Company must present some data in accordance with the IRFS 7 - Financial Instruments: Reporting and the ISFR 8 - Business Segments which as at 31 December 2010 the Company 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 d.d. Varaždin as at 31 December 2010, business results, cash flow report and changes in capital in 2010, in accordance with the International Standards of Financial Reporting.

Special considerations

Without qualifying our opinion, we turn your attention to the fact that the Company realised a business loss for 2010 in the amount of HRK 96,438,216 (HRK 98,686,867 the previous year), and that the total short-term liabilities of the company as at 31 December 2010 are higher than short-term assets for HRK 146,212,173.

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

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

Without qualifying our opinion, we are pointing out the fact that the Company also drafted the consolidated financial statements for VARTEKS d.d. and dependent companies, dated 29 April 2011, which users, in order to better understand the VARTEKS Group, should read along with the non-consolidated financial statements.

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

HLB Revidicon
DRUŠTVO ZA REVIZIJU, RAČUNOVODSTVENO I POREZNO SAVJETOVANJE d.o.o.
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

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.	316,464,094	288,855,431
Other income	2.1.1.2.	41,186,529	19,841,829
Total income from general activities	1.d.,2.1.1.	**357,650,623**	**308,697,260**
Purchase value of sold goods		(68,667,225)	(61,074,908)
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.	(67,205,185)	(61,488,780)
Depreciation	2.2.1.2.	(13,182,748)	(14,082,389)
Other material expenses	2.2.1.3.	(5,625,992)	(4,609,333)
Non-material expenses	2.2.1.4.	(80,742,936)	(85,906,493)
Staff expenses	2.2.1.5.	(140,009,076)	(120,800,250)
Value-adjustment of short-term assets	2.2.1.6.	(30,285,460)	(7,873,501)
Provision costs	1.v.,3.20.	(6,321,025)	(436,459)
Total liabilities from general activities	1.f.,2.2.1.	**(421,046,895**	**(373,941,301)**
Profit / (loss) from general activities		**(63,396,272)**	**(65,244,041)**
Financial income	2.1.2.	3,610,831	5,948,491
Financial expenses/liabilities	2.2.2.	(39,118,673)	(37,374,547)
Net profit / (loss) from financial activities		**(35,507,842)**	**(31,426,056)**
TOTAL INCOME	2.1.	**361,261,454**	**314,645,751**
TOTAL EXPENSES/LIABILITIES	2.2.	**(460,165,568)**	**(411,315,848)**
Profit/(loss) before taxation		**(98,904,114)**	**(96,670,097)**
Profit/company tax	1.i.,2.3.	-	-
Profit/ (loss) after taxation		**(98,904,114)**	**(96,670,097)**
Other all-inclusive profit			
Revaluation reserves based on revaluation of flats		217,247	231,881
TOTAL ALL-INCLUSIVE PROFIT / (LOSS) OF CURRENT YEAR		**(98,686,867)**	**(96,438,216)**

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

Zoran Koščec
Chairman of the Board

Nenad Davidović
Board Member for Financial Transactions

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		**416,212,641**	**413,403,383**
INTANGIBLE ASSETS	1.k.,1.l.,3.1.	5,928,386	7,707,235
Concessions, licences, patents, trademarks, software and other rights		5,928,386	7,707,235
TANGIBLE ASSETS		381,395,261	394,123,657
Real estate, plants and equipment	1.k.,1.l.,3.2.	381,395,261	394,123,657
LONG-TERM FINANCIAL ASSETS	1.r.	5,130,035	7,636,279
Stakes (shares) in associated companies	1.m.,3.3.	327,248	2,374,551
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		**287,150,994**	**220,151,828**
INVENTORY	1.o.,3.9.	114,900,797	96,526,775
LONG-TERM ASSETS FOR SALE	1.n.,3.10.	45,356,057	45,322,333
RECEIVABLES	1.p.	110,142,061	66,646,833
Receivables from associated companies	3.11.,3.31.	32,720,617	31,409,378
Accounts receivable	3.12.	71,752,634	29,331,251
Other receivables	3.13.	5,668,810	5,906,204
SHORT-TERM FINANCIAL ASSETS	1.r.	12,773,213	9,386,655
Loans/credits placed to associated companies	3.14.	4,471,224	3,994,632
Investments in securities	3.15.	5,562,303	3,235,314
Placed loans, deposits, etc.	3.16.	2,739,686	2,156,709
CASH ON ACCOUNTS AND IN HAND	1.s.,3.17.	3,978,866	2,269,232
PAID EXPENSES OF FUTURE PERIOD AND CALCULATED INCOME	3.18.	**996,881**	**971,279**
TOTAL ASSETS		**704,360,516**	**634,526,490**

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 - in HRK -	2010 - in HRK -
CAPITAL AND RESERVES	3.19.	**207,927,385**	**113,788,581**
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.	(83,565,147)	(184,131,093)
LOSS OF FISCAL YEAR		(98,904,114)	(96,670,097)
PROVISIONING	1.v.,3.20.	**6,628,648**	**744,081**
Provisions for retirement, severance pay and similar liabilities		6,321,025	436,458
Other provisions		307,623	307,623
LONG-TERM LIABILITIES	1.f.,3.21.	**157,971,096**	**153,402,629**
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	153,380,129
Accounts payable	3.21.3.	812,465	22,500
SHORT-TERM LIABILITIES		**329,116,385**	**366,187,655**
Liabilities toward associated companies	3.22.,3.31.	415,121	1,577,733
Liabilities for loans/credits, deposits and other	1.f.,3.23.1.	22,500,017	12,980,957
Liabilities toward banks and other financial institutions	1.f.,3.23.2.	148,127,697	147,066,615
Liabilities for advance payments	3.24.	6,591,335	2,484,304
Accounts payable	3.25.	86,382,943	101,187,371
Liabilities toward employees	3.26.	17,135,422	14,328,878
Taxes, contributions and similar fees	3.27.	37,384,358	79,146,173
Other short-term liabilities	3.28.	10,579,492	7,415,624
DEFERRED PAYMENT OF EXPENSES AND INCOME OF FUTURE PERIOD	3.29.	**2,717,002**	**403,544**
TOTAL CAPITAL AND LIABILITIES		**704,360,516**	**634,526,490**

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

Zoran Koščec Chairman of the Board	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	Loss of current year	TOTAL
Position as at 31 Dec. 2008	384,161,400	(97,671,600)	103,007,428	696,781	(44,636,851)	2,373,024	347,930,182
Adjustment burdening retained earnings					(41,301,320)	-	(41,301,320)
Position as at 1 Jan. 2009	384,161,400	(97,671,600)	103,007,428	696,781	(85,938,171)	2,373,024	306,628,862
Share buy-out		(45,000)	30,390	-	-	-	(14,610)
Current year loss	-	-	-	-		(98,904,114)	(98,904,114)
Other all-inclusive profit	-	-	-	217,247	-	-	217,247
Transfers	-	-	-	-	2,373,024	(2,373,024)	-
Position as at 31 Dec. 2009	384,161,400	(97,716,600)	103,037,818	914,028	(83,565,147)	(98,904,114)	207,927,385

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 31 Dec. 2009	384,161,400	(97,716,600)	103,037,818	914,028	(83,565,147)	(98,904,114)	207,927,385
Adjustment burdening retained earnings	-	-	-	-	(1,661,832)	-	(1,661,832)
Position as at 1 Jan. 2010	384,161,400	(97,716,600)	103,037,818	914,028	(85,226,979)	(98,904,114)	206,265,553
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	-	-	-	-	-	(96,670,097)	(96,670,097)
Other all-inclusive profit	-	-	-	231,881	-	-	231,881
Transfers					(98,904,114)	98,904,114	
Position as at 31 Dec. 2010	384,161,400	(36,730,600)	46,013,062	1,145,909	(184,131,093)	(96,670,097)	113,788,581

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

Zoran Košćec
Chairman of the Board

Nenad Davidović
Board Member for Financial Transactions

The following notes are an integral part of these financial statements

CASH FLOW REPORT
FOR 2010
Indirect method

	2009 - in HRK -	2010 - in HRK -
Current year loss	(98,904,114)	(96,670,097)
Adjusted for:		
Depreciation	13,182,748	14,082,389
Net profit from sale of tangible assets	(21,468,164)	13,165,941
Client receivables and other receivables - adjustment expense	17,793,412	4,235,554
Client receivables and other receivables - cancellation income	(408,105)	(178,711)
Inventory decrease expense	11,310,574	3,637,947
Inventory decrease cancellation income	(3,190,518)	(11,429,581)
Currency rate differentials	(615,690)	1,269,935
Income from interest	(44,294)	(49,269)
Interest expenses	21,158,309	30,094,930
Decrease of financial assets - expense	12,468,857	-
Financial assets decrease cancellation - income	(30,389)	-
Material asset expenses	-	22,386,529
Adjustment of receivables	-	1,661,832
Net income before changes in working capital	**(48,747,374)**	**(17,792,602)**
Decrease of inventory	34,284,554	26,165,656
Decrease of other receivables	689,952	1,073,845
Decrease of long-term receivables	262,420	19,822,747
Decrease of accounts receivable	2,990,483	372,305
Increase of accounts payable and other liabilities	22,939,442	52,065,417
Increase of provisioning	6,321,025	(5,884,567)
(decrease / increase of deferred expenses and calculated income)	1,066,736	(2,313,458)
Increase of expenses paid in advance	(229,919)	25,602
Cash through business	**19,577,319**	**73,534,945**
Paid interest	(26,219,456)	(25,813,276)
Net money (cash) realised / (used) in investment activities	**(6,642,137)**	**47,721,669**

CASH FLOW REPORT FOR 2010
Indirect method
- Continued

	2009	2010
	- in HRK -	- in HRK -
Acquisition of long-term tangibles and intangibles	(6,106,224)	(5,690,920)
Assets return	-	(42,015,182)
Income from sales of tangible assets	397,268	9,220,588
Received interest	44,294	49,269
Change in of short-term financial asset, net	14,934,581	3,386,558
Investments in branches	-	(2,506,244)
Net cash assets spent for investment activities	9,269,919	(37,555,931)
Treasury share buy-out	(14,611)	3,961,244
Loans and credits taken	11,445,551	41,381,459
Loan and credit payments	(16,226,207)	(56,180,021)
Provisions for flats	-	231,881
Net cash assets gained from financial activities	**(4,795,267)**	**(10,605,437)**
Decrease of cash and cash equivalents	(2,167,485)	(439,699)
Position of cash as at 1 January	**5,116,811**	**3,978,866**
Effect of currency rate changes on the position of cash in foreign currency	1,030,271	(1,269,935)
Position of cash as at 31 December	**3,978,866**	**2,269,232**

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

Zoran Košćec
Chairman of the Board

Nenad Davidović
Board Member for Financial Transactions

The following notes are an integral part of these financial statements

NOTES TO FINANCIAL STATEMENTS

GENERAL COMPANY INFORMATION

VARTEKS, Varaždin textile industry d.d. Varaždin (hereinafter: the Company) was established through transformation, pursuant to the Decision on Transformation of 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-Stork Company to Funds as of 16 July 1993. The abbreviated Company name is VARTEKS d.d.

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

Core activities

The core activities of Varteks d.d. are:

- *Manufacture 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 seat of the Company is in the Republic of Croatia, Varaždin, Zagrebačka 94.

The number of employees in the Company as at 31 Dec. 2010 was 2,329 (2,504 in 2009).

VARTEKS d.d. Varaždin - Official bodies

Supervisory Board

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

Management

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

General Assembly Chairman

Stjepan Igrec

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. Adjustment report

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

1.b. Basis for preparation of financial statements

Financial statements of the Company were prepared using the historical cost principle, in accordance with the IFRS and Croatian law and regulations. These financial statements are presented in Croatian Kuna (HRK).

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 Company or the amount of assets, capital or liabilities.

Preparation of the financial statements in accordance with the International Financial Reporting Standards demands from the Management giving assessments/estimates and suppositions which have a bearing on entered amounts of assets and liabilities, and the entry of unforeseen assets and liabilities on the day of the financial statements, as well as on income and expenses entered during the reporting period. Estimates are based on information accessible on the day of completion of financial statements; therefore, the actual amounts can differ from the estimated amounts.

The Company prepared these non-consolidated financial statements in accordance with Croatian law and regulations. The Company also prepared consolidated financial statements as at 31 December 2010 for the year ending, in accordance with the ISFR for the Company and its dependent companies (Group), which were approved by the Management on 29 April 2011. In the consolidated financial statements, the dependent companies, which represent all the companies the Company, directly or indirectly, has more than half of voting rights in, or is in some other way exerting the control over business, have been fully consolidated. Users of these non-consolidated financial statements should read them together with the consolidated financial statements if the Group as at 31 December 2010 and for the year then ending, in order to gain the full measure of information on the financial position of the Group, results of its business and financial changes of the Group as a whole.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

1.c. Report currency

Financial statements are shown in Croatian Kuna (HRK). 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.d. Recognition of income

Income is recognised when it is probable that economic-based benefits will flow to the Company, 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.e. State aid

State aid where the base condition is that the Company 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

1.f. Liabilities/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.g. Foreign currencies

Business events not in Croatian Kuna are initially recorded by currency rate calculation using the valid exchange date on the day of the transaction. Monetary assets and liabilities declared in foreign currencies are re-calculated on the date of the financial position report using the valid exchange rate on that date. Gains or losses through currency exchange shall be included in the net profit or loss of the period.

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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 Company 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.

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 Company 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 property, 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 straight-line 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 are 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 Company 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 Company 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.m. Investments in dependent companies

Dependent companies are companies in which the Company has the control, i.e. power of managing financial and business policies through taking part in enactment of financial and business policy decisions in the dependent company. Investments in dependent companies shall be declared in the financial position report using the fair value model, in accordance with the IFRS 27, and the changes of investment values shall be declared in the all-inclusive profit account for the current period.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

1.n. Long-term assets intended for sale

Long-term assets intended 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.o. Inventory/reserves

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.p. 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.r. 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 Company manages jointly, even in cases of the Company lately maintaining the model of realising profit within a short time period; or*
- *If the asset is a derivative not determined nor 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

Bolls of exchange and promissory notes with fixed or determinable payment schedule and fixed maturity which the Company 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 Company 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 Company 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 are 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 Company 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

The Company 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 Company 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 Company 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.s. 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.t. Financial liabilities and principal/equity instruments issued by the Company

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 Company 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 equity instruments issued by the Company (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 Company 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 Company 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

The Company shall cease to recognise financial liabilities only when the obligations of the Company have been settled, retracted or have expired.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

1.u. 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 Company 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 straight-line 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.v. Provisions

Provisioning shall be recognised only when the Company 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.z. 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.x. 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 the Company 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.y. Management estimate on business conditions in 2010 and on the application of the premise of indefinite duration of business in preparation of financial statements

Company 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 Company and are connected to the decrease of income, liquidity/solvency problems and further stoppage of investment activities.

In such negative environment, the Company 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 un-collectable 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 Company 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 Company'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 Company with respect to the indefinite duration of business of the Company 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 Company 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 Company 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 initiated measures of HR restructuring in 2010 and through the continuation of the implementation of HR restructuring measures in 2011 (through termination of non-profitable parts of the system and higher quality relationship between the administration and production/sales 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 the Company plans to reorganise the business area of production into separate legal entities 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 the Company.

2. NOTES TO THE PROFIT AND LOSS ACCOUNT

2.1. Income

Total income in 2010:

	2009 - in HRK -	2010 - in HRK -
Income from genera/core activities	357,650,623	308,697,260
Financial income	3,610,831	5,948,491
TOTAL:	361,261,454	314,645,751

2.1.1. Structure of income from general activities

	2009 - in HRK -	2010 - in HRK -
Income from sales	316,464,094	288,855,431
Other income	41,186,529	19,841,829
TOTAL:	357,650,623	308,697,260

2.1.1.1. Income from sales

	2009	2010
	- in HRK -	- in HRK -
Income from product sales		
Domestic market	81,207,288	74,438,493
- wholesale	16,500,300	22,781,007
- retail	64,706,988	51,657,486
Foreign market	56,953,383	44,529,277
TOTAL:	138,160,671	118,967,770
Income from sales of goods		
Domestic market	86,377,858	79,199,007
- wholesale	10,544,435	18,058,703
- retail	75,833,423	61,140,304
Foreign market	17,437,575	14,286,701
TOTAL:	103,815,433	93,485,708
TOTAL PRODUCTS AND GOODS	241,976,104	212,453,478
Domestic market	167,585,146	153,637,500
Foreign market	74,390,958	58,815,978
Income from services		
Domestic market	16,613,273	12,899,636
Foreign market	57,874,717	63,502,317
TOTAL:	74,487,990	76,401,953
GRAND TOTAL:	316,464,094	288,855,431
Domestic market	184,198,419	166,537,136
Foreign market	132,265,675	122,318,295

2.1.1.2. Other income

	2009	2010
	- in HRK -	- in HRK -
Net income from sale of long-term assets	21,668,430	-
Income from lease	9,472,662	8,973,992
State aid/grants	5,958,146	-
Surplus	2,434,415	1,155,552
Income from collection of written-off receivables	226,407	178,710
Income from subsequently approved discounts	194,881	115,365
Income from collection of damages	171,510	156,071
Income from sale of materials, spare parts	164,889	162,040
Income from write-off of liabilities toward suppliers	11,554	895,766
Income from cancelling provisions	-	6,321,025
Other income	883,635	1,883,308
TOTAL:	41,186,529	19,841,829

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	2010
	- in HRK -	- in HRK -
Positive currency rate differentials	3,566,537	5,896,282
Income from interest	44,294	52,209
TOTAL:	3,610,831	5,948,491

2.2. Liabilities/Expenses

Total liabilities in 2010:

	2009 - in HRK -	2010 - in HRK -
Liabilities from general/core activities	421,046,895	373,941,301
Financial expenses/liabilities	39,118,673	37,374,547
TOTAL:	460,165,568	411,315,848

2.2.1. Structure of liabilities from general/core activities

	2009 - in HRK -	2010 - in HRK -
Purchase value of sold goods	68,667,225	61,074,908
Change of state of finished product inventory and unfinished production inventory	9,007,248	17,669,188
Raw material, material and energy expenses	67,205,185	61,488,780
Depreciation	13,182,748	14,082,389
Other material expenses	5,625,992	4,609,333
Non-material expenses	80,742,936	85,906,493
Staff expenses	140,009,076	120,800,250
Value-adjustment of short-term assets	30,285,460	7,873,501
Provision costs	6,321,025	436,459
TOTAL:	421,046,895	373,941,301

2.2.1.1. Raw material and material expenses

These expenses include:

	2009 - in HRK -	2010 - in HRK -
Raw material and material expenses	53,374,325	47,560,123
Energy	13,830,860	13,928,657
TOTAL:	67,205,185	61,488,780

2.2.1.2. Depreciation

Depreciation of long-term assets is performed individually for each asset. Depreciation costs in 2010 amount to HRK 14,082,389 (HRK 13,182,748 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	2,426,488	2,241,679
Vehicle expenses	1,150,105	1,197,808
Office materials used	687,947	515,546
License	585,428	-
Spare parts used	523,740	565,683
Write-off of small inventory	252,284	88,617
TOTAL:	5,625,992	4,609,333

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	13,032,243	11,545,358
Rent/lease	12,993,343	15,367,798
Severance pay and anniversary awards	12,296,405	6,229,119
Non-production services	5,432,478	4,744,783
Advertising and sponsorships	4,422,310	3,760,183
Taxes and contributions not depending on result	3,834,250	3,961,837
Other material rights	3,771,648	2,415,329
Banking services	2,853,881	3,806,696
Shortages	2,681,906	1,690,697
Maintenance services	2,502,029	2,112,642
Transport and forwarding	2,235,005	1,512,039
Credit card fees	1,924,494	1,724,517
Public, graphical and external trade services	1,883,045	2,184,701
Insurance premiums	1,502,480	1,424,943
Production services	1,206,003	1,219,866
Write-off of short-term assets	1,170,603	75,552
Other production services	1,026,349	744,086
Representation costs	487,858	428,916
Other expenses	5,486,606	7,791,490
TOTAL:	80,742,936	85,906,493

2.2.1.5. *Staff expenses*

	2009	2010
	- in HRK -	- in HRK -
Net salaries	89,807,205	77,699,260
Taxes and contributions on salaries and other staff expenses	50,201,871	43,100,990
TOTAL:	140,009,076	120,800,250

At the end of the year the Company had 2,329 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	11,310,574	3,637,947
Expense of value adjustment of:		
- Accounts receivable and consumer loans	17,793,412	1,908,630
- Receivables from associated companies	-	2,326,924
Total value adjustment expenses	29,103,986	7,873,501
Direct inventory write-off	1,072,930	-
Direct receivables write-off	108,544	-
Total direct write-offs	1,181,474	-
TOTAL:	30,285,460	7,873,501

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	2,274,062	9,141,078
Negative currency rate differentials	2,950,846	7,166,216
Other financial liabilities	2,540,661	113,402
Cost of value adjustment of financial assets	12,468,857	-
TOTAL:	39,118,673	37,374,547

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).

Since the Company declared tax losses the previous years, it is not obligated to pay profit tax in the current year.

Tax effect of accounting loss and transferred tax losses:

	2009	2010
	- in HRK -	- in HRK -
Loss before taxes	(98,904,114)	(96,670,097)
Loss decrease		
- 70% representation costs	364,692	329,040
- 30% personal transport expenses	392,605	411,541
- Asset shortages above permitted levels	170,112	187,755
- Misdemeanour and infringement expenses	5,000	2,300
- Awards above permitted amounts	-	4,864
- Value adjustment and receivables write-off	17,901,957	4,246,695
- Value adjustment of inventory	12,303,503	3,637,952
- Value adjustment of financial assets	12,468,857	-
- Increase of tax basis for other liabilities and increases	-	1,918,906
TOTAL:	43,686,727	10,739,053
Loss increase		
- Income from collection of written-off receivables	(226,407)	(178,711)
- Other liabilities of earlier periods	(3,190,518)	(2,915,910)
TOTAL:	(3,416,925)	(3,094,621)
Tax base	(58,634,312)	(89,025,665)
Tax loss carried forward	(95,544,076)	(100,436,373)
Tax loss to be carried forward	(154,178,388)	(189,462,038)
Profit/company tax	-	-

Tax losses of the Company may be used in consequent periods (2010 is the last year of tax loss from 2005 in the amount of HRK 32,566,219), and they expire 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 2009 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	Total
PURCHASE VALUE						
Position as at 1 Jan. 2009	504,663	1,185,703	6,517,753	151,083	4,646,148	13,005,350
Adjustment of initial position	-	-	-	-	(4,646,148)	(4,646,148)
Direct increase (purchase)	-	-	3,012,889	-	-	3,012,889
Liabilities and sale	-	-	(14,538)	-	-	(14,538)
Position as at 31 December 2009	504,663	1,185,703	9,516,104	151,083	-	11,357,553
VALUE ADJUSTMENT						
Initial position as at 1 January 2009	(504,663)	(591,409)	(3,636,407)	(15,144)	(419,361)	(5,166,984)
Adjustment of initial position	-	-	-	-	419,361	419,361
Current year depreciation	-	(130,532)	(530,830)	(30,217)	-	(691,579)
Liabilities and sale	-	-	10,035	-	-	10,035
Position as at 31 December 2009	(504,663)	(721,941)	(4,157,202)	(45,361)	-	(5,429,167)
CURRENT VALUE intangible assets 31December 2009	-	463,762	5,358,902	105,722	-	5,928,386
CURRENT VALUE intangible assets 1 January 2009	-	594,294	2,881,346	135,939	-	3,611,579
CURRENT VALUE intangible assets 31 December 2008		594,294	2,881,346	135,939	4,226,787	7,838,366

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	Total
PURCHASE VALUE					
Position as at 1 Jan. 2010	504,663	1,185,703	9,516,104	151,083	11,357,553
Direct increase (purchase)	-	46,605	2,777,291	-	2,823,896
Liabilities and sale	-	-	(858,209)	-	(858,209)
Position as at 31 December 2010	504,663	1,232,308	11,435,186	151,083	13,323,240
VALUE ADJUSTMENT					
Initial position as at 1 Jan. 2010	(504,663)	(721,941)	(4,157,202)	(45,361)	(5,429,167)
Current year depreciation	-	(127,532)	(820,112)	(30,217)	(977,861)
Liabilities and sale	-	-	791,023	-	791,023
Position as at 31 December 2010	(504,663)	(849,473)	(4,186,291)	(75,578)	(5,616,005)
CURRENT VALUE intangible assets 31 December 2010	-	382,835	7,248,895	75,505	7,707,235
CURRENT VALUE intangible assets 1 January 2010	-	463,762	5,358,902	105,722	5,928,386

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	378,602,704	259,363,424	32,850,997	4,034,732	231,298	732,376,388
Direct increase (purchase)	-	-	-	235,042	5,871,384	-	6,106,426
Transfer from assets in preparation	-	1,150,913	1,159,109	1,309,820	(3,619,842)	-	-
Transfer to intangible assets	-	-	-	(12,806)	(3,000,083)	-	(3,012,889)
Liabilities and sale	(8,170,000)	(35,861,034)	(2,484,453)	(751,720)	-	-	(47,267,207)
Position as at 31 December 2009	49,123,233	343,892,583	258,038,080	33,631,333	3,286,191	231,298	688,202,718
VALUE ADJUSTMENT							
Position as at 1 Jan. 2009	-	(97,547,645)	(184,597,674)	(19,903,849)	-	-	(302,049,168)
Current year depreciation	-	(3,637,548)	(6,590,457)	(2,263,164)	-	-	(12,491,169)
Liabilities and sale	-	4,833,503	2,365,533	533,844	-	-	7,732,880
Position as at 31 December 2009	-	(96,351,690)	(188,822,598)	(21,633,169)	-	-	(306,807,457)
CURRENT VALUE real estate, plants and equipment 31 December 2009	49,123,233	247,540,893	69,215,482	11,998,164	3,286,191	231,298	381,395,261
CURRENT VALUE real estate, plants and equipment 1 January 2009	57,293,233	281,055,059	74,765,750	12,947,148	4,034,732	231,298	430,327,220

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	343,892,583	258,038,080	33,631,333	3,286,191	231,298	688,202,718
Direct increase (purchase)	-	-	-	-	2,867,024	-	2,867,024
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
Liabilities and sale	(3,070,000)	(15,490,015)	(8,376,797)	(178,360)	-	-	(27,115,172)
Position as at 31 December 2010	54,753,233	368,395,639	251,297,623	35,598,117	972,446	231,298	711,248,356
VALUE ADJUSTMENT							
Position as at 1 Jan. 2010	-	(96,351,690)	(188,822,598)	(21,633,169)	-	-	(306,807,457)
Current year depreciation	-	(3,825,289)	(6,717,948)	(2,561,291)	-	-	(13,104,528)
Termination of sales agreement	-	(5,278,604)	-	-	-	-	(5,278,604)
Liabilities and sale	-	2,345,791	5,361,236	358,863	-	-	8,065,890
Position as at 31 December 2010	-	(103,109,792)	(190,179,310)	(23,835,597)	-	-	(317,124,699)
CURRENT VALUE real estate, plants and equipment 31 December 2010	54,753,233	265,285,847	61,118,313	11,762,520	972,446	231,298	394,123,657
CURRENT VALUE real estate, plants and equipment 1 January 2010	49,123,233	247,540,893	69,215,482	11,998,164	3,286,191	231,298	381,395,261

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

3.3. Stakes (shares) in associated companies

Investments in branch offices are declared as follows:

	2009 - in HRK -		2010 - in HRK -	
Varteks Trgovina d.o.o., Varaždin	4,000,000		4,000,000	
Investment value adjustment		(4,000,000)		(4,000,000)
Varteks Esop d.o.o. Varaždin	-	-	20,000	
Varteks Logistic d.o.o. Varaždin	327,248		327,248	
Vartimpex-Italia SRL, Florence, Italy	541,093		541,093	
Investment value adjustment		(541,093)		(541,093)
Varteks (Textiles) Limited, London, Great Britain	3,502,343		3,502,343	
Investment value adjustment		(3,502,343)		(3,502,343)
Burgtrade Eisenstadt, Austria	5,001,628		5,001,628	
Investment value adjustment		(5,001,628)		(5,001,628)
Varteks Trgovina d.o.o., Široki Brijeg, Bosnia and Herzegovina	106,720		106,720	
Investment value adjustment		(106,720)		(106,720)
Varteks D.o.o.e.l., Skopje, Macedonia	887,359		887,359	
Investment value adjustment		(887,359)		(887,359)
Varteks Plus d.o.o., Belgrade, Serbia	4,312,862		6,340,165	
Investment value adjustment		(4,312,862)		(4,312,862)
Varteks Trade d.o.o. Ljubljana, Slovenia	36,808,369		36,808,369	
Investment value adjustment		(36,808,369)		(36,808,369)
Varteks Mont d.o.o., Podgorica, Montenegro	41,780		41,780	
Investment value adjustment		(41,780)		(41,780)
TOTAL INVESTMENTS	55,529,402		57,576,705	
TOTAL VALUE ADJUSTMENT		(55,202,154)		(55,202,154)
TOTAL NET INVESTMENTS	327,248		2,374,551	

3.3. Stakes (shares) in associated companies - continued

Changes during the year:

	2009 - in HRK -	2010 - in HRK -
Position as at 1 January	*37,401,781*	*327,248*
Increase		
- Recapitalisation of Varteks Plus d.o.o., Belgrade, Serbia	*-*	*2,027,303*
- Establishment of Varteks Esop d.o.o. Varaždin	*-*	*20,000*
Decrease		
- Value adjustment of investments in associated companies (affiliates) burdening transferred losses (carried forward)	*(37,074,533)*	*-*
Position as at 31 December	*327,248*	*2,374,551*

In 2009 value adjustment of investments in dependent companies was performed in the amount of HRK 37,074,533, burdening previous years' losses, specifically: Varteks Trade Ljubljana in the amount of HRK 32,761,671 and Varteks Plus Belgrade in the amount of HRK 4,312,862.

In 2010 Varteks d.d. performed recapitalisation of the associated company Varteks Plus d.o.o. Belgrade, Serbia through transformation of receivables into a share in the amount of HRK 2,027,303.

Varteks d.d. established Varteks Esop d.o.o. Varaždin with a HRK 20,000 stake (Decision of the Commercial Court in Varaždin No. Tt-10/526-2 as of 19 April 2010).

3.4. Participating interests (stakes)

Position includes investments in:

	2009 - in HRK -	2010 - 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 - in HRK -	2010 - 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.

	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

	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 from associated companies

	2009	*2010*
	- in HRK -	*- in HRK -*
Receivables from Varteks Esop d.o.o. Varaždin	*-*	*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) of Varteks Esop d.o.o. are declared 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		*694,133*
- Short-term receivables		*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

	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/reserves

	2009	2010
	- in HRK -	- in HRK -
Raw materials and materials	30,780,502	30,216,420
Value adjustment	(5,761,546)	(706,047)
	25,018,956	29,510,373
Spare parts	4,702,616	3,135,692
Value adjustment	(1,467,087)	-
	3,235,529	3,135,692
Current production	8,786,485	7,701,697
Value adjustment	(966,068)	-
	7,820,417	7,701,697
Products	54,236,787	33,470,720
Value adjustment	(4,988,915)	(4,791,939)
	49,247,872	28,678,781
Trade goods		
- in preparation/delivered	-	2,582,288
- in stores	27,809,737	23,215,265
- in warehouse	2,809,401	2,317,519
Value adjustment	(1,428,023)	(1,369,609)
	29,191,115	26,745,463
Advance payments for inventory	386,908	754,769
GRAND TOTAL:	114,900,797	96,526,775

Changes in value adjustment during the year:

	2009	2010
	- in HRK -	- in HRK -
Position as at 1 January	(6,491,583)	(14,611,639)
New value adjustments	(11,310,574)	(3,637,947)
Cancellation of value adjustment	3,190,518	11,429,581
Adjustments	-	(47,590)
Position as at 31 December	(14,611,639)	(6,867,595)

3.10. Long-term 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 includes 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. Receivables from associated companies

Position includes receivables from:

	2009 - in HRK -	2010 - in HRK -
Varteks Trgovina d.o.o. Varaždin	9,490,058	14,704,581
Varteks Logistic d.o.o. Varaždin	2,557	3,036
Varteks Esop d.o.o. Varaždin	-	407,551
Varteks Trade d.o.o. Ljubljana	1,655,999	542,110
Varteks Plus d.o.o. Belgrade	13,239,843	9,589,029
Varteks Textiles, Bristol	8,332,160	6,163,071
TOTAL:	32,720,617	31,409,378

Receivables by type

	2009 - in HRK -	2010 - in HRK -
Receivables from sale of goods and services	9,398,224	14,573,670
Receivables for shares (stocks)	-	407,551
Receivables from rent/lease	-	39,556
Interest receivables	669,617	675,835
Receivables from sale of goods and services abroad	23,228,003	16,294,210
Suspect and disputed receivables from affiliates	22,606,123	27,207,318
Adjustment of suspect and disputed receivables	(23,181,350)	(27,788,762)
TOTAL:	32,720,617	31,409,378

Changes to value adjustment of these receivables:

	2010 - in HRK -
Position as at 1 January	(23,181,350)
New value adjustment	
- burdening current year's result	(2,326,924)
- burdening retained losses	(1,661,832)
Currency rate differentials	(618,656)
Position as at 31 December	(27,788,762)

3.12. *Accounts receivable*

	2009	2010
	- in HRK -	- in HRK -
Receivables from domestic clients for goods and services	73,422,805	31,147,086
Receivables from foreign clients for goods and services	23,748,296	24,898,005
Receivables from domestic clients for interest	3,093,086	3,092,838
TOTAL:	100,264,187	59,137,929
Value adjustment of suspect and disputed domestic client receivables	(16,710,965)	(17,648,756)
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:	(28,511,553)	(29,806,678)
GRAND TOTAL:	71,752,634	29,331,251

Changes in value adjustment during the year:

	2009	2010
	- in HRK -	- in HRK -
Position as at 1 January	(25,197,073)	(28,511,553)
Increase of value adjustment burdening costs of of current period	(3,565,846)	(1,271,287)
Cancellation of value adjustment recognised as income	223,867	134,751
Other adjustments	-	7,942
Currency rate differentials	27,499	(166,531)
Position as at 31 December	(28,511,553)	(29,806,678)

3.13. Other receivables

	2009 - in HRK -	2010 - in HRK -
Receivables from the state	*4,841,177*	*5,295,879*
Receivables from employees	*349,311*	*466,308*
Other receivables	*478,322*	*144,017*
TOTAL:	*5,668,810*	*5,906,204*

3.13.1. Receivables from the state

	2009 - in HRK -	2010 - in HRK -
VAT receivables	*4,517,766*	*4,987,245*
Receivables from the Croatian Health Insurance (HZZO)	*323,411*	*308,634*
TOTAL:	*4,841,177*	*5,295,879*

3.14. Loans/credits placed to associated companies

Loans have been approved to the following dependent companies:

	2009	2010
	- in HRK -	- in HRK -
Burgtrade Eisenstadt Austria	12,081,496	12,182,492
Varteks Dooel, Skopje	6,668,566	6,740,648
Varteks Trgovina d.o.o., Varaždin	4,471,224	3,994,632
Varteks Mont d.o.o., Podgorica	3,602,736	3,641,678
Varteks Trgovina d.o.o., Široki Brijeg BH	1,985,493	2,006,954
Varteks Plus d.o.o., Belgrade	387,360	391,547
Varteks Trade d.o.o., Ljubljana	-	-
Malved d.o.o., Maribor	-	-
Value adjustment of placed loans	(24,725,651)	(24,963,319)
TOTAL:	4,471,224	3,994,632

Changes during the year:

	2010
	- in HRK -
Position as at 1 January	4,471,224
New placed loans	505,381
Collected	(981,973)
Position as at 31 December	3,994,632

Changes in value adjustment during the year:

	2010
	- in HRK -
Position as at 1 January	(24,725,651)
Increase of value adjustment burdening costs of current period	(267,263)
Cancellation of value adjustment recognised as income	29,595
Position as at 31 December	(24,963,319)

3.15. Investments in securities

	2009	2010
	- in HRK -	- in HRK -
Retail checks	1,567,051	1,567,051
Value adjustment – retail checks	(1,553,378)	(1,553,378)
Credit card receivables	5,547,900	3,220,902
Other	730	739
TOTAL:	5,562,303	3,235,314

3.16. Placed loans, deposits, etc.

	2009	2010
	- in HRK -	- in HRK -
Placed deposits	142,771	70,029
Placed credits/loans		
- consumer	3,620,784	3,702,573
- financial	511,218	511,218
Value adjustment	(1,543,430)	(2,135,454)
TOTAL:	2,731,343	2,148,366
Credit interest receivables	288,052	288,052
Value adjustment of credit interest receivables	(279,709)	(279,709)
TOTAL:	2,739,686	2,156,709

3.17. Cash on accounts and in hand

	2009	2010
	- in HRK -	- in HRK -
Business account	1,252,160	1,143,375
On hand	2,154,766	32,754
Foreign currency account	526,076	120,533
Other cash assets	45,864	972,570
TOTAL:	3,978,866	2,269,232

3.18. Paid expenses of future period and calculated income

	2009	2010
	- in HRK -	- 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	62	62
TOTAL:	996,881	971,279

3.19. 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).

3.19. Capital and reserves (continued)

Capital and reserves as at 31 Dec. 2010 amounted to HRK 113,788,581 (HRK 207,927,385 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	(83,565,147)	(184,131,093)
- Loss of fiscal year	(98,904,114)	(96,670,097)
TOTAL:	207,927,385	113,788,581

Company 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
Skrbnička banka – Raiffeisenbank	15.53	298,498	9.08	174,516
Skrbnička banka – Splitska banka	4.02	77,252	8.48	162,746
Varteks Esop d.o.o.	-	-	7.76	149,068
Igrec Stjepan	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
Košćec Zoran	2.39	45,958	2.55	48,897
Košćec Dražen	1.91	36,657	2.05	39,467
Košćec Vladimir	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

3.20. Provisions

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

In accordance with the Collective Agreement, the Company has the obligation of paying out anniversary awards, severance pay and other compensations to its employees. The Company 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 in 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 Company 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	Total
Position as at 1 Jan. 2010	6,321,025	307,623	6,628,648
New reserve provisions	436,458	-	436,458
Cancellation for benefit of income	(6,321,025)	-	(6,321,025)
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 Company 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 the Company and each dispute which the Company initiated.

3.21. Long-term liabilities

Long-term liabilities contain:

	2009 - in HRK -	2010 - in HRK -
Liabilities for loans/credits, deposits and other	212,330	172,282
Liabilities toward banks and other Financial institutions	201,985,084	185,949,131
Accounts payable	812,465	114,577
TOTAL:	203,009,879	186,235,990
Current maturity of long-term liabilities		
- loan/credit	(141,521)	(172,282)
- bank credits/loans	(44,897,262)	(31,775,809)
- leasing	-	(793,193)
- suppliers (accounts payable)	-	(92,077)
TOTAL:	(45,038,783)	(32,833,361)
TOTAL LONG-TERM PORTION:	157,971,096	153,402,629

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

- in HRK -

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

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

- in HRK -

Creditor - banks	*Purpose*	*Interest - annual %*	*2009*	*2010*
Croatian Reconstruction and Development Bank, Zagreb	*investments*	*3.00-4.00*	*89,549,759*	*81,532,766*
CRDB, Development and Employment Fun 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*	*-*
TOTAL:			*1,572,239*	*969,234*
TOTAL CREDIT LIABILITIES			*201,985,084*	*185,949,131*
Current maturity of long-term banking liabilities			*(44,897,262)*	*(31,775,809)*
Current maturity of long-term leasing liabilities			*-*	*(793,193)*
TOTAL LONG-TERM PORTION OF LIABILITIES			*157,087,822*	*153,380,129*

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*	*161,915,540*
TOTAL:	*201,985,084*	*185,949,131*

Equity changes during the year:

- in HRK -

	2010		
	Banks	Company leasing	Total
Position as at 1 January	200,412,845	1,572,239	201,985,084
Increase			
- New debt	5,000,000	-	5,000,000
- 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)	(603,899)	(15,345,981)
- 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	969,234	185,949,131

Remaining maturity, per annum:

	HRK
Matured as at the Balance date	5,167,674
2011	27,401,328
2012	31,912,994
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:	185,949,131

3.21.3. 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*	*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*

3.22. Short-term liabilities toward associated companies

	2009	2010
	- in HRK -	- in HRK -
Varteks Trgovina d.o.o. Varaždin	-	1,055,047
Varteks Logistic d.o.o. Varaždin	305,131	345,823
Varteks Mont d.o.o. Podgorica	16,804	16,986
Varteks Plus d.o.o. Belgrade	93,186	155,683
Varteks Textiles, Bristol	-	4,194
TOTAL:	415,121	1,577,733

3.23. Short-term liabilities by credit/loan

Short-term liabilities by credit/loan include:

	2009	2010
	- in HRK -	- in HRK -
Liabilities for loans/credits, deposits and other	22,028,872	12,313,367
Liabilities toward banks and other financial institutions	96,581,847	109,977,242
TOTAL EQUITY	118,610,719	122,290,609
Interest liabilities	6,978,212	4,923,602
Current maturity of long-term liabilities	45,038,783	32,833,361
TOTAL SHORT-TERM PORTION:	170,627,714	160,047,572

Currency structure of equity

	2009	2010
EUR	29,575,208	28,881,909
HRK	89,035,511	93,408,700
TOTAL EQUITY:	118,610,719	122,290,609

Equity changes during the year:

	- in HRK -
Position as at 1 January	118,610,719
Increase	
- New debt	34,962,443
Decrease	
- payments	(31,159,106)
- Net currency differentials	(123,447)
Position as at 31 December	122,290,609

Maturity of total short-term credit liabilities in 2011

	- in HRK -
Matured as at the Balance date	23,863,238
-Up to 1 month	6,222,986
- Up to 2 months	41,171,256
- Up to 3 months	52,215,929
- Up to 4 months	2,732,420
- Up to 5 months	2,128,384
- Up to 6 months	4,891,715
- Up to 7 months	1,499,563
- Up to 8 months	1,499,563
- Up to 9 months	4,556,390
- Up to 10 months	1,499,563
- Up to 11 months	1,499,563
- Up to 12 months	16,267,002
TOTAL:	160,047,572

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

Creditor	Interest rate at the end of year	2009 - in HRK -	2010 - 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	-
TOTAL:		21,993,361	12,277,856
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:		22,500,017	12,980,957

3.23.2. 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*
TOTAL:		*96,581,847*	*109,977,242*
Interest liabilities		*6,648,588*	*4,520,371*
Current maturity		*44,897,262*	*32,569,002*
GRAND TOTAL:		*148,127,697*	*147,066,615*

As at the Balance date, the Company 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.

3.24. Liabilities for advance payments

Liabilities for advance payments pertain to:

	2009	*2010*
	- in HRK -	*- in HRK -*
- Domestic client advance payments	*474,621*	*13,898*
- Foreign client advance payments	*6,116,714*	*2,470,406*
TOTAL:	*6,591,335*	*2,484,304*

3.25. Accounts payable

	2009	2010
	- in HRK -	- in HRK -
Domestic accounts payable	54,650,799	63,537,965
Foreign accounts payable	30,387,098	35,388,169
Liabilities for non-invoiced goods	51,444	51,941
Supplier interest	1,293,602	2,209,296
TOTAL:	86,382,943	101,187,371

The 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).

3.26. Liabilities toward employees

Liabilities toward employees contain:

	2009	2010
	- in HRK -	- in HRK -
- Net salary and fee liabilities	7,650,846	9,042,816
- Severance pay liabilities	8,601,053	4,625,912
- Other liabilities toward employees	815,122	659,630
- Crisis tax	68,401	520
TOTAL:	17,135,422	14,328,878

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

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

Liabilities for severance pay for conditional termination of employment and retirement pertain to the period of 2009 and 2010.

3.27. Taxes, contributions and similar fees

	2009	2010
	- in HRK -	- in HRK -
VAT liabilities	9,751,795	15,343,434
Contributions on salaries	10,701,656	25,549,087
Contributions from salaries	12,439,825	27,360,913
Salary taxes	479,358	401,956
Forest contributions	3,084,056	3,282,316
Customs liabilities (customs and VAT)	549,119	1,053,179
Other taxes and contributions	378,549	734,720
Taxes and contributions - interest	-	5,420,568
TOTAL:	37,384,358	79,146,173

3.28. Other short-term liabilities

As at 31 Dec 2010 other short-term liabilities contained:

	2009	2010
	- in HRK -	- 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	770	1,704
TOTAL:	10,579,492	7,415,624

3.29. Deferred payment of expenses and income of future periods

	2009 - in HRK -	2010 - in HRK -
Income of future periods - securities	2,120,520	-
Deferred recognition of income - collection of inventory shortages	397,230	397,230
Other deferred income	199,252	6,314
TOTAL:	2,717,002	403,544

3.30. Liabilities/obligations taken over

As at the Balance date, The Company 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

3.31. Position and transactions with associated companies

Business transactions of the Company with dependent companies within the Varteks Group pertain to items of the all-inclusive profit account and the position in the financial position report for the years ended 31 December 2009 and 2010, shown as follows:

Positions of liabilities and receivables with respect to associated companies: (via Notes 3.7., 3.11. and 3.22.)

- in HRK -

	Receivables Position		Liabilities Position	
	2009	2010	2009	2010
Varteks ESOP d.o.o. Varaždin - long-term part	-	3,216,364	-	-
- short-term part	-	407,551	-	-
Varteks Trgovina d.o.o. Varaždin	9.490.058	14,704,581	-	1,055,047
Varteks Mont d.o.o. Podgorica, Montenegro	-	-	16,804	16,986
Burgtrade Eisenstadt Austria	-	-	-	4,194
Varteks Textiles Great Britain	8.332.160	6,163,071	-	-
Varteks Trade d.o.o. Ljubljana Slovenia	1.655.999	542,110	-	-
Varteks Plus d.o.o. Beograd, Serbia	13.239.843	9,589,029	93,186	155,683
Varteks Logistic d.o.o. Varaždin	2.557	3,036	305,131	345,823
TOTAL:	32.720.617	34,625,742	415,121	1,577,733

Income and liabilities from relations with associated companies:

	Income		Liabilities/Expenses	
	2009	2010	2009	2010
Varteks Trgovina d.o.o. Varaždin	129,747	30,711,527	-	-
Varteks Trgovina d.o.o., Široki Brijeg, Bosnia and Herzegovina	22,897	93,867	96,801	93,867
Varteks D.o.o.e.l., Skopje, Macedonia	19,839	85,962	19,839	85,962
Varteks Mont d.o.o., Podgorica, Montenegro	10,068	40,743	58,441	49,100
Burgtrade Eisenstadt Austria	48,956	179,189	4,496,016	179,527
Varteks Textiles Great Britain	11,440,928	4,298,531	6,787,286	1,230,364
Varteks Trade d.o.o. Ljubljana, Slovenia	737,999	332,345	12,056	1,003,112
Varteks Plus d.o.o., Belgrade, Serbia	7,254,829	5,121,076	3,234,105	1,041,522
Vartimpex Italy	-	-	363,488	-
Varteks Logistic d.o.o. Varaždin	523,181	523,015	-	-
TOTAL:	20,188,444	41,386,255	15,068,032	3,683,454

Income and liabilities include currency rate differentials.

3.31. Position and transactions with associated companies (continued)

Credit transactions

Positions of credit transactions with associated companies during the year:
(via Note 3.14.)

- in HRK -

	Receivables		Liabilities	
	Position		Position	
	2009	2010	2009	2010
Varteks Trgovina d.o.o. Varaždin	4,471,224	3,994,632	-	-
TOTAL:	4,471,224	3,994,632	-	-

Transactions during the year

	2010.
	- in HRK -
Position as at 1 January	4.471.224
New loans	505.381
Collected	981.973
Position as at 31 December	3.994.632

3.32. Position and transactions with associated companies

- in HRK -

Liabilities	Position as at 1 Jan. 2010	Current transaction amount		Position 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		
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*

3.33. Significant court disputes

The Company 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 disputes 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*

3.34. Correction of errors from the previous period

In the current year the Company performed the correction which the accounting treated as error of previous periods, and adjusted the amount of loss carried forward for that amount in 2010:

- *Value adjustment of receivables from Varteks Plus d.o.o. Belgrade in the total amount of HRK 1,661,832*

In 2009 the Company also performed corrections which the accounting treated as errors of previous periods, and adjusted the amount of loss carried forward for that amount in 2009:

- *Value adjustment of investment in affiliates in the total amount of HRK 37,074,533. Adjustments pertain to the following investments: Varteks Trade, Ljubljana HRK 32,761,671 and Varteks Plus, Belgrade HRK 4,312,862;*
- *Value adjustment of investment in internally developed brand in the total amount of HRK 4,226,787.*

3.35. Events after the date of the financial position report

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

3.36. 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 Košćec *Chairman of the Board*	*Nenad Davidović* *Board Member for Financial Transactions*