

Varaždin, 15.11.2010

Varteks d.d.  
Zagrebačka 94  
42000 Varaždin

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

**INTERIM MANAGEMENT REPORT**  
**on the business results of Varteks Group**  
**for the time period from January 1 to September 30, 2010**

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

In the first nine months of 2010 Varteks Group operated with a loss of HRK 45.6 million, while a loss of HRK 43.2 million had been realized in the same time period last year.

Total revenues of HRK 279.3 million were realized, which represents an increase of 1.4 percent in relation to the revenues realized in the same time period last year. Total expenditures of HRK 324.9 million were realized. On the foreign market, revenues of HRK 110.5 million were realized, which constitutes 40 percent of the Group's total revenues. The majority of exports continue to be realized in countries in the European Union.

The Group's business result is directly linked to the deepening of the economic crisis, which led to a further drop in general spending and higher insolvency, and to the Group's restructuring which was continued in 2010, as well as one-time costs that arose through the implementation of restructuring activities. Negative trends are particularly visible in the first nine months of 2010 in the results related to sales activities, which have still not shown any significant signs of recovery.

However, looking at the third quarter of 2010, a slow-down in the drop in revenues is noticeable, as well as a partial compensation of revenues from the previous period considering that total revenues in the third quarter marked an increase of 19 percent in relation to revenues from the same time period last year.

In the Group's cost structure, almost all costs from business activities marked a drop in relation to last year, which is mainly the result of the carried-out restructuring crisis measures. Total payroll costs have been reduced by HRK 18.2 million or 14.4 percent.

A significant drop in all kinds of stock was marked, with a reduction of 11.5 percent in relation to the beginning of the year. This is the result of activities directed towards the more rational use of the company's existing own resources as well as stock optimization.

An increase in financing costs in 2010 also contributed to the negative result, with financing expenditures up 30 percent in relation to last year.



## Most significant risks and expectations for the remainder of the business year

Considering developments in the region's economy and within the context of potential expectations within the framework of market developments, certain risks in the Group's operations continue to exist. Until the end of the year, risks on the basis of reduced personal spending continue to be present, which directly affects revenues. Within the cost sphere, risks still exist on the basis of higher costs from further energy price increases. Risks in regards to the financing of business activities and solvency generally have a tendency to increase further by the end of the year.

Varteks Group continues to direct its activities towards the implementation of objectives set through restructuring plans with the aim to stabilize the system and its liquidity position. The system's reorganization and the implementation of crisis measures through the implementation of the Integral Business and Financial Restructuring Plan will be continued in 2010. Further activities in regards to the closure of unprofitable parts of the system on the level of the entire Group, in regards to the reduction of operating costs and higher revenues as well as higher efficiency will be continued until the end of the year. Through the reorganization of the retail segment and the assortment offer on the domestic and international market, and through development activities on markets in countries in the region, basic prerequisites for higher revenues in upcoming periods will be created.

The brand development strategy with the strengthening of the company's own brands, but also the selection and standardization of other brands in its sales portfolio has already generated positive results in the third quarter of 2010.

Development activities also aim towards the planned conclusion of new agreements, the realization of agreed-on and the expansion of existing agreements related primarily to foreign markets.

Until the end of the year problems in the realization of revenues in certain sales aspects are expected, particularly on the basis of a further drop in personal spending, but also stabilization and strengthening in revenues from the B2B program and sales on foreign markets. Significantly higher revenues and better business results in relation to the same time period last year are expected in the last quarter of the current year through already agreed-on deals.

Board Chairman of Varteks d.d.

Zoran Košćec

**VARTEKS** d. d.

/ Zagrebačka 94 / HR-42000 VARAŽDIN / 10

Varteks d.d.  
Zagrebačka 94  
42000 Varaždin

Varaždin, 12.11.2010

## **STATEMENT BY PERSONS RESPONSIBLE FOR THE MAKING OF THE REPORT OF VARTEKS GROUP FOR I – IX 2010**

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

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

RESPONSIBLE PERSON:

  
\_\_\_\_\_  
Nenad Davidović

Board member responsible for finances

VARTEKS  
/ Zagrebačka 94 / HR-42000 VARAŽDIN / 10

Contact person:  
Marina Bradarić  
Phone 042 / 377-230



**ATTACHMENT 1**

Reporting period:

01.01.2010

to

30.09.2010

**Quarterly financial statement of the entrepreneur-TFI-POD**

Tax number (MB): 3747034

Company registration number (MBS): 070004039

Personal identification number (OIB): 00872098033

Issuing company: VARTEKS d.d. VARAŽDIN

Postal code and place: 42000 VARAŽDIN

Street and house number: ZAGREBAČKA 94

E-mail address: info@varteks.com

Internet address: www.varteks.com

Municipality/city code and name: 472 Varaždin

County code and name: 5 City of Varaždin

Number of employees: 2.446

(quarter end)

Consolidated report: YES

NKD code: 1413

Companies of the consolidation subject (according to IFRS)

Seat:

MB:

Burgtrade G.m.b.h.	Eisenstadt, Austrija	00128280Y
VARTEKS (TEXTILES) Ltd.	London, Velika Britanija	00970382
VARTEKS TRADE d.o.o.	Ljubljana, Slovenija	5351944
VARTEKS PLUS d.o.o.	Beograd, Srbija	100824354
VARTEKS LOGISTIC d.o.o.	Varaždin, Hrvatska	1038133
VARTEKS TRGOVINA d.o.o.	Varaždin, Hrvatska	1280511
VARTEKS TRGOVINA BIH d.o.o.	Široki Brijeg, Bosna i Hercegovina	

Bookkeeping service:

Contact person: Bošec Vlado

(please enter only contact person's family name and name)

Telephone: 042 377 005

Facsimile: 042/377-205

E-mail address: vbošec@varteks.com

Family name and name: Davidović Nenad

(person authorized to represent the company)

Documents to be published.

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



(signature of the person authorized to represent the company)

## BALANCE SHEET

as of

30.09.2010

HRK

Position	AOP	Previous period	Current period
1	2	3	4
<b>ASSETS</b>			
<b>A) RECEIVABLES FOR SUBSCRIBED NOT PAID CAPITAL</b>	<b>001</b>	0	0
<b>B) NON-CURRENT ASSETS</b>	<b>002</b>	436.788.420	393.793.382
I. INTANGIBLE ASSETS	<b>003</b>	7.856.441	7.758.829
II. PROPERTY, PLANT AND EQUIPMENT	<b>004</b>	400.670.234	357.615.765
III. NON-CURRENT FINANCIAL ASSETS	<b>005</b>	4.802.786	4.796.362
IV. RECEIVABLES	<b>006</b>	23.758.959	23.622.426
V. DEFERRED TAX ASSET	<b>007</b>	0	0
<b>C) CURRENT ASSETS</b>	<b>008</b>	279.166.288	286.668.114
I. INVENTORIES	<b>009</b>	179.266.154	157.412.461
II. RECEIVABLES	<b>010</b>	85.979.306	116.716.388
III. CURRENT FINANCIAL ASSETS	<b>011</b>	8.513.199	8.247.306
IV. CASH AND CASH EQUIVALENTS	<b>012</b>	5.407.628	4.291.959
D) PREPAYMENTS AND ACCRUED INCOME	<b>013</b>	2.221.583	4.467.409
E) LOSS ABOVE SUBSCRIBED CAPITAL	<b>014</b>	0	0
<b>F) TOTAL ASSETS</b>	<b>015</b>	718.176.290	684.928.905
<b>G) OFF BALANCE SHEET ITEMS</b>	<b>016</b>	49.950.242	48.319.430
<b>EQUITY AND LIABILITIES</b>			
<b>A) ISSUED CAPITAL AND RESERVES</b>	<b>017</b>	206.656.390	163.768.957
I. SUBSCRIBED SHARE CAPITAL	<b>018</b>	384.161.400	384.161.400
II. CAPITAL RESERVES	<b>019</b>	0	0
III. LEGAL RESERVES	<b>020</b>	6.235.246	6.867.212
IV. REVALUATION RESERVES	<b>021</b>	0	0
V. RETAINED EARNINGS	<b>022</b>	0	0
VI. LOSS CARRIED FORWARD	<b>023</b>	98.983.092	183.740.256
VII. NET PROFIT FOR THE PERIOD	<b>024</b>	0	0
VIII. LOSS FOR THE PERIOD	<b>025</b>	84.757.164	43.519.399
IX. MINORITY INTEREST	<b>026</b>	0	0
<b>B) PROVISIONS</b>	<b>027</b>	44.254	0
<b>C) NON-CURRENT LIABILITIES</b>	<b>028</b>	157.971.097	132.219.664
<b>D) CURRENT LIABILITIES</b>	<b>029</b>	351.160.045	386.528.278
<b>E) ACCRUED EXPENSES AND DEFERRED INCOME</b>	<b>030</b>	2.344.504	2.412.006
<b>F) TOTAL EQUITY AND LIABILITIES</b>	<b>031</b>	718.176.290	684.928.905
<b>G) OFF BALANCE SHEET ITEMS</b>	<b>032</b>	49.950.242	48.319.430
<b>ADDITION TO BALANCE SHEET (only for consolidated financial statements)</b>			
<b>ISSUED CAPITAL AND RESERVES</b>			
1. Attributable to majority owners	<b>033</b>		0
2. Attributable to minority interest	<b>034</b>		



**PROFIT AND LOSS STATEMENT**

for period **01.01.2010** to **30.09.2010**

HRK

Position	AOP oznaka	Previous period		Current period	
		Cummulative	Periodical	Cummulative	Periodical
1	2	3	4	5	6
<b>I. OPERATING INCOME</b>	<b>035</b>	<b>272.020.209</b>	<b>76.435.910</b>	<b>275.802.525</b>	<b>91.147.243</b>
1. Rendering of services	036	259.367.821	72.310.413	225.995.840	87.432.872
2. Income from usage of own products, merchandise and services	037	321.982	90.136	309.038	45.048
3. Other operating income	038	12.330.406	4.035.361	49.497.647	3.669.323
<b>II. OPERATING COSTS</b>	<b>039</b>	<b>303.015.988</b>	<b>99.753.217</b>	<b>306.285.156</b>	<b>112.677.939</b>
1. Decrease of work in progress and merchandise	040			0	
2. Increase of work in progress and merchandise	041	-3.786.962	-824.148	19.119.714	9.007.416
3. Material expenses	042	147.072.254	48.570.510	130.462.971	56.640.560
4. Employee benefits expenses	043	108.759.281	34.872.188	95.478.885	31.860.830
5. Depreciation and amortisation	044	11.545.966	3.844.624	10.185.130	3.389.495
6. Other expenses	045	32.099.067	11.528.551	27.380.693	9.266.504
7. Write down of assets	046	1.016.714	326.118	0	0
8. Provisions	047	0	0	0	0
9. Other operating costs	048	6.309.668	1.435.374	23.657.763	2.513.134
<b>III. FINANCIAL INCOME</b>	<b>049</b>	<b>3.400.407</b>	<b>131.732</b>	<b>3.546.245</b>	<b>-66.684</b>
1. Interest, foreign exchange differences, dividends and similar income from subsidiaries	050	0		0	
2. Interest, foreign exchange differences, dividends and similar income from third parties	051	3.399.595	131.459	3.434.044	-64.646
3. Income from investments in associates and joint ventures	052	0		0	
4. Unrealised gains (income)	053	0		0	
5. Other financial income	054	812	273	112.201	-2.038
<b>IV. FINANCIAL EXPENSES</b>	<b>055</b>	<b>15.590.056</b>	<b>4.897.862</b>	<b>18.651.319</b>	<b>7.634.296</b>
1. Interest, foreign exchange differences and similar expenses from subsidiaries	056	0		0	
2. Interest, foreign exchange differences and similar expenses from third parties	057	13.565.119	4.868.926	18.607.968	7.634.268
3. Unrealised losses (expenses) from financial assets	058	0	0	0	0
4. Other financial expenses	059	2.024.937	28.936	43.351	28
<b>V. EXTRAORDINARY - OTHER INCOME</b>	<b>060</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>VI. EXTRAORDINARY - OTHER EXPENSES</b>	<b>061</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>VII. TOTAL INCOME</b>	<b>062</b>	<b>275.420.616</b>	<b>76.567.642</b>	<b>279.348.770</b>	<b>91.080.559</b>
<b>VIII. TOTAL EXPENSES</b>	<b>063</b>	<b>318.606.044</b>	<b>104.651.079</b>	<b>324.936.475</b>	<b>120.312.235</b>
<b>IX. PROFIT BEFORE TAXES</b>	<b>064</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>X. LOSS BEFORE TAXES</b>	<b>065</b>	<b>-43.185.428</b>	<b>-28.083.437</b>	<b>-45.587.705</b>	<b>-29.231.676</b>
<b>XI. TAXATION</b>	<b>066</b>	<b>0</b>	<b>0</b>	<b>35.412</b>	<b>-830</b>
<b>XII. NET PROFIT FOR THE PERIOD</b>	<b>067</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>XIII. LOSS FOR THE PERIOD</b>	<b>068</b>	<b>-43.185.428</b>	<b>-28.083.437</b>	<b>-45.623.117</b>	<b>-29.230.846</b>
<b>ADDITION TO PROFIT AND LOSS ACCOUNT (only for consolidated financial statements)</b>					
<b>XIV.* NET PROFIT ATTRIBUTABLE TO MAJORITY OWNERS</b>	<b>069</b>				<b>0</b>
<b>XV.* NET PROFIT ATTRIBUTABLE TO MINORITY INTEREST</b>	<b>070</b>				<b>0</b>
<b>XVI.* LOSS ATTRIBUTABLE TO MAJORITY OWNERS</b>	<b>071</b>	<b>-43.185.428</b>	<b>-28.083.437</b>	<b>-45.623.117</b>	<b>-29.230.846</b>
<b>XVII.* LOSS ATTRIBUTABLE TO MINORITY INTEREST</b>	<b>072</b>				<b>0</b>



## CASH FLOW STATEMENT - Indirect method

period 01.01.2010 to 30.09.2010

HRK

Position	AOP oznaka	Previous period	Current period
1	2	ž	4
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
1. Profit before tax	073	-84.733.964	-45.587.704
2. Depreciation and amortisation	074	14.156.309	10.185.130
3. Increase of current liabilities	075	11.340.021	25.807.755
4. Decrease of current receivables	076	0	0
5. Decrease of inventories	077	46.167.794	21.853.692
6. Other cash flow increases	078	4.070.059	0
<b>I. Total increase of cash flow from operating activities</b>	<b>079</b>	<b>-8.999.781</b>	<b>12.258.873</b>
1. Decrease of current liabilities	080	0	0
2. Increase of current receivables	081	16.154.043	30.737.082
3. Increase of inventories	082	0	0
4. Other cash flow decreases	083	0	1.912.432
<b>II. Total decrease of cash flow from operating activities</b>	<b>084</b>	<b>16.154.043</b>	<b>32.649.514</b>
<b>A1) NET INCREASE OF CASH FLOW FROM OPERATING ACTIVITIES</b>	<b>085</b>		
<b>A2) NET DECREASE OF CASH FLOW FROM OPERATING ACTIVITIES</b>	<b>086</b>	<b>25.153.824</b>	<b>20.390.641</b>
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>			
1. Proceeds from sale of non-current assets	087	36.344.994	32.666.952
2. Proceeds from sale of non-current financial assets	088	0	0
3. Interest received	089	0	0
4. Dividend received	090	0	0
5. Other proceeds from investing activities	091	0	162.957
<b>III. Total cash inflows from investing activities</b>	<b>092</b>	<b>36.344.994</b>	<b>32.829.909</b>
1. Purchase of non-current assets	093	0	0
2. Purchase of non-current financial assets	094	0	20.000
3. Other cash outflows from investing activities	095	21.568.010	
<b>IV. Total cash outflows from investing activities</b>	<b>096</b>	<b>21.568.010</b>	<b>20.000</b>
<b>B1) NET INCREASE OF CASH FLOW FROM INVESTING ACTIVITIES</b>	<b>097</b>	<b>14.776.984</b>	<b>32.809.909</b>
<b>B2) NET DECREASE OF CASH FLOW FROM INVESTING ACTIVITIES</b>	<b>098</b>		
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>			
1. Proceeds from issue of equity securities and debt securities	099	0	0
2. Proceeds from loans and borrowings	100	9.688.120	0
3. Other proceeds from financing activities	101	0	2.656.017
<b>V. Total cash inflows from financing activities</b>	<b>102</b>	<b>9.688.120</b>	<b>2.656.017</b>
1. Repayment of loans and bonds	103	0	16.190.955
2. Dividends paid	104	0	0
3. Repayment of finance lease	105	0	0
4. Purchase of treasury shares	106	0	0
5. Other cash outflows from financing activities	107	0	0
<b>VI. Total cash outflows from financing activities</b>	<b>108</b>	<b>0</b>	<b>16.190.955</b>
<b>C1) NET INCREASE OF CASH FLOW FROM FINANCING ACTIVITIES</b>	<b>109</b>	<b>9.688.120</b>	
<b>C2) NET DECREASE OF CASH FLOW FROM FINANCING ACTIVITIES</b>	<b>110</b>		<b>13.534.938</b>
Total increases of cash flows	111		
Total decreases of cash flows	112	688.720	1.115.669
Cash and cash equivalents at the beginning of period	113	6.096.348	5.407.628
Increase of cash and cash equivalents	114		
Decrease of cash and cash equivalents	115	688.720	1.115.669
Cash and cash equivalents at the end of period	116	5.407.628	4.291.959

## STATEMENT OF CHANGES IN EQUITY

from 01.01.2010 to 30.09.2010

HRK

Position	AOP	Previous period	Increase	Decrease	Current period
ž	2	31.12. previous year		3	4
1. Subscribed share capital	117	384.161.400	0	0	384.161.400
2. Capital reserves	118				
3. Net income reserves	119	6.235.246	631.966		6.867.212
4. Retained earnings or loss carried forward	120	-98.983.092	-84.757.164		-183.740.256
5. Net profit (loss) for the period	121	-84.757.164	39.127.908		-43.519.399
6. Revaluation of property, plant and equipment	122				
7. Revaluation of intangible assets	123				
8. Revaluation of available for sale financial assets	124				
9. Other revaluation	125				
10. Foreign exchange differences from investments abroad	126				
11. Current and deferred taxes (part)	127				
12. Hedging	128				
13. Change of accounting policies	129				
14. Change of prior period error	130				
15. Other changes in equity	131				
<b>16. Total increase or decrease of equity</b>	<b>132</b>	<b>206.656.390</b>	<b>-44.997.290</b>	<b>0</b>	<b>163.768.957</b>
16a. Attributable to majority owners	133	206.656.390	-44.997.290	0	163.768.957
16b. Attributable to minority interest	134				