

Annex 1

Reporting period:

01.01.2012.

to

31.12.2012.

Annual financial report of GFI-POD

Registration number (MB): 3747034

Subject's registration number (MBS): 070004039

Personal identification number (OIB): 00072098033

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: 2.155
(at year end)

Consolidated report: yes

NKD code: 1413

Companies of consolidation subjects (according to IFRS)	Seat:	Reg.No.:
BURGTRADE G.m.b.h.	Eisenstadt, Austrija	00128280Y
VARTEKS TRADE d.o.o.	Ljubljana, Slovenija	5351944
VARTEKS PLUS d.o.o.	Beograd, Srbija	100824354
VARTEKS LOGISTIC d.o.o.	Varaždin, Hrvatska	01038133
VARTEKS PRO d.o.o.	Varaždin, Hrvatska	1280511
VARTEKS ESOP d.o.o.	Varaždin, Hrvatska	070092385
VARTEKS ODJEĆA VARAŽDIN d.o.o.	Varaždin, Hrvatska	16891232411
VARTEKS LUDBREG d.o.o.	Ludbreg, Hrvatska	20533712419
VARTEKS BEDNJA d.o.o.	Bednja, Hrvatska	71501150619

Accounting service:

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

Phone: 042/377-005

Fax: 042/377-005

E-mail address: ybolsec@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



(Signature of person authorized for representation)

BALANCE SHEET

Varteks Group - Varaždin

as of

31.12.2012.

Position 1	AOP mark 2	Previous year 3	Current year 4
ASSETS			
A) RECEIVABLES FOR SUBSCRIBED BUT UNPAID CAPITAL	001		
B) LONGTERM ASSETS (003+010+020+028+032)	002	805.664.625	781.778.733
I. INTANGIBLE ASSETS (004 to 009)	003	7.942.676	6.796.816
1. Development expenses	004		
2. Concessions, patents, licenses, trademarks, service marks, software and other rights	005	7.942.676	6.796.816
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	772.690.389	751.711.415
1. Property	011	187.556.145	185.830.699
2. Buildings	012	517.868.425	506.321.128
3. Machinery and equipment	013	57.169.175	51.492.499
4. Tools, facility inventory and transportation assets	014	9.039.734	6.992.292
5. Biological assets	015		
6. Advance payments for tangible assets	016		33.657
7. Tangible assets in preparation	017	824.862	809.082
8. Other tangible assets	018	232.048	232.058
9. Investments in real estate	019		
III. LONGTERM FINANCIAL ASSETS (021 to 027)	020	21.423.349	20.136.826
1. Shares (stocks) in affiliated bussineses	021	16.161.621	14.822.645
2. Loans granted to affiliated businesses	022		
3. Participating interests (shares)	023	165.900	165.900
4. Investments in securities	024		
5. Loans, deposits and the like	025		
6. Own stocks and shares	026	730.375	782.828
7. Other longterm financial assets	027	4.365.453	4.365.453
IV. RECEIVABLES (029 to 031)	028	3.608.211	3.133.676
1. Receivables from affiliated undertakings	029		
2. Receivables arising from sales on credit	030		
3. Other receivables	031	3.608.211	3.133.676
V. DEFERRED TAX ASSETS	032		
C) CURRENT ASSETS (034+042+049+057)	033	142.611.105	92.868.091
I. INVENTORY (035 to 041)	034	91.311.157	44.339.905
1. Raw materials and supplies	035	33.330.637	14.782.748
2. Production in progress	036	3.416.655	1.112.161
3. Unfinished and intermediate products	037	23.482.388	12.466.999
4. Finished products	038	30.631.843	15.443.737
5. Merchandise	039		
6. Advances for inventory	040	449.634	534.260
7. Other assets intended for sale	041		
II. RECEIVABLES (043 to 048)	042	40.069.367	40.675.078
1. Receivables from affiliated undertakings	043		
2. Receivables from buyers	044	26.483.372	21.927.121
3. Receivables from participating businesses	045		
4. Receivables from employees and members of the entrepreneur	046	558.491	175.158
5. Receivables from the state and other institutions	047	12.497.085	17.899.925
6. Other receivables	048	530.419	672.874
III. CURRENT FINANCIAL ASSETS (050 to 056)	049	9.298.507	2.729.327
1. Shares (stocks) in associated undertakings	050		
2. Loans to associated undertakings	051		
3. Participating interests (shares)	052	1.978.131	1.099.112
4. Investments in securities	053	7.320.376	1.630.215
5. Loans, deposits and the like	054		
6. Own stocks and shares	055		
7. Other financial assets	056		
IV. CASH AT BANK AND IN HAND	057	1.932.074	5.123.781
D) PREPAID EXPENSES AND COMPUTED INCOME	058	445.538	1.727.943
E) LOSS OVER CAPITAL	059		
F) TOTAL ASSETS (001+002+033+058+059)	060	948.721.268	876.374.767
G) OFF-BALANCE SHEET ITEMS	061	21.171.005	16.125.523

LIABILITIES			
A) CAPITAL AND RESERVES (063+064+065+071+072-073+074-075+076)	062	316.703.078	181.976.069
I. BASIC (REGISTERED) CAPITAL	063	96.040.350	96.040.350
II. CAPITAL RESERVES	064	17.748.231	
III. RESERVES FROM PROFIT (066+067-068+069+070)	065	246.700	475.381
1. Legal reserves	066		
2. Reserves for own shares	067	9.182.650	9.182.650
3. Own stocks and shares (deductible item)	068	9.182.650	9.182.650
4. Statutory reserves	069		
5. Other reserves	070	246.700	475.381
IV. REVALUATION RESERVES	071	278.255.370	273.081.818
V. RETAINED EARNINGS	072		
VI. LOSS CARRIED FORWARD	073	4.906.751	45.942.412
VII. FISCAL YEAR PROFIT	074		
VIII. FISCAL YEAR LOSS	075	70.680.822	141.679.068
IX. MINORITY INTEREST	076		
B) PROVISIONS (078 to 080)	077	239.775	86.622
1. Provisions for pensions, severance pays and similar obligations	078		
2. Provisions for tax liabilities	079		
3. Other provisions	080	239.775	86.622
C) LONGTERM LIABILITIES (082 to 089)	081	204.431.050	174.631.076
1. Amounts due to related undertakings	082		
2. Commitments for loans, deposits, etc.	083	4.802.795	3.388.461
3. Liabilities to banks and other financial institutions	084	130.064.412	102.895.660
4. Liabilities for advances	085		
5. Trade payables	086		76.500
6. Commitments on securities	087		
7. Other longterm liabilities	088		
8. Deferred tax liabilities	089	69.563.843	68.270.455
D) CURRENT LIABILITIES (091 to 101)	090	426.721.970	518.792.298
1. Amounts due to related undertakings	091	17.320	17.714
2. Commitments for loans, deposits, etc.	092	6.414.281	6.896.145
3. Liabilities to banks and other financial institutions	093	158.923.445	181.130.187
4. Liabilities for advances	094	1.948.936	1.920.580
5. Trade payables	095	102.701.466	102.563.036
6. Commitments on securities	096		
7. Employment benefit obligations	097	11.998.383	21.494.231
8. Taxes, contributions and similar charges	098	136.546.089	190.212.916
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	8.172.050	14.557.509
E) ACCRUED CHARGES AND DEFERRED REVENUE	102	625.395	888.702
F) TOTAL –LIABILITIES (062+077+081+090+102)	103	948.721.268	876.374.767
G) OFF-BALANCE SHEET ITEMS	104	21.171.005	16.125.523
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	316.703.078	181.976.069
2. Attributed to minority interests	106		

PROFIT AND LOSS ACCOUNT

Varteks Group - Varaždin

time period from

1.1.2012

to

31.12.2012.

Position	AOP mark	Previous year	Current year
1	2	3	4
I. OPERATING INCOME (108 to 110)	107	347.698.221	270.851.585
1.Revenues from sales	108	319.332.947	249.190.347
3. Other operating income	110	28.365.274	21.661.238
II. OPERATING EXPENSES (112-113+114+118+122+123+124+127+128)	111	381.047.224	361.198.268
1. Decrease in value of intermediate production inventory	112	6.829.921	5.326.140
2. Increase in value of intermediate production inventory	113		
3. Material costs (115 to 117)	114	191.825.024	145.881.713
a) Costs of raw materials and supplies	115	68.840.040	46.720.944
b) Costs of goods sold	116	87.625.732	72.618.811
c) Other external costs	117	35.359.252	26.541.958
4. Payroll costs (119 to 121)	118	120.241.111	109.194.770
a) Net wages and salaries	119	78.067.266	72.780.507
b) Costs of taxes and contributions paid	120	24.882.958	21.484.751
c) Contributions on salaries	121	17.290.887	14.929.512
5. Amortization	122	16.303.323	16.972.726
6. Other expenses	123	32.281.939	30.124.300
7. Revaluation (125+126)	124	7.087.985	36.960.778
a) of longterm assets (except financial assets)	125	773.840	183.793
b) of current assets (except financial assets)	126	6.314.145	36.776.985
8. Provisions	127		
9. Other operating expenses	128	6.477.921	16.737.841
III. FINANCIAL INCOME (130 to 134)	129	3.041.561	5.344.015
1. Interest, exchange rate differences, dividends and similar income from relations	130		
2. Interest, exchange rate differences, similar income from relations with unaffiliated	131	3.041.561	5.344.015
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	40.142.716	56.251.142
1. Interest, exchange rate differences and other expenses from affiliated businesses	136		
2. Interest, exchange rate differences and other expenses from relations with unaffiliated	137	40.142.716	56.251.142
3. Unrealized losses (expenses) of financial assets	138		
4. Other financial expenses	139		
V. EXTRAORDINARY - OTHER INCOME	140		
VI. EXTRAORDINARY - OTHER EXPENSES	141		
VII. TOTAL INCOME (107+129+140)	142	350.739.782	276.195.600
VIII. TOTAL EXPENSES (111+135+141)	143	421.189.940	417.449.410
IX. PROFIT BEFORE TAXATION (142-143)	144	0	0
X. LOSS BEFORE TAXATION (143-142)	145	70.450.158	141.253.810
XI. INCOME TAX.	146	230.664	425.258
XII. PROFIT FOR THE PERIOD (144-146)	147	0	0
XIII. LOSS OF THE PERIOD (145+146) or (146-144)	148	70.680.822	141.679.068
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	70.680.822	141.679.068
XVII.*LOSS ASSIGNED TO MINORITY INTEREST	152		

CASH FLOW STATEMENT - Indirect method

Varteks Group - Varaždin

time period from

1.1.2012.

to

31.12.2012.

Position	AOP mark	Previous year	Current year
1	2	3	4
CASH FLOW FROM OPERATING ACTIVITIES			
1. Profit before tax	001	-70.450.158	-141.253.810
2. Amortization	002	16.303.323	16.972.726
3. Increase in current liabilities	003	68.691.071	97.511.424
4. Decrease in shortterm receivables	004	16.310.266	0
5. Decrease in inventories	005	19.829.656	46.971.252
6. Other increases in cash flow	006	3.073.843	14.073.446
I. Total increase in cash flow from operating activities (001 to 006)	007	53.758.001	34.275.038
1. Decrease in current liabilities	008		153.153
2. Increase in shortterm receivables	009	32.111.362	1.888.116
3. Increase in inventories	010		
4. Other decreases in cash flow	011	734.970	32.378.668
II. Total decrease in cash flow from operating activities (008 to 011)	012	32.846.332	34.419.937
A1) NET INCREASE IN CASH FLOW FROM OPERATING ACTIVITIES (007-012)	013	20.911.669	0
A2) NET DECREASE IN CASH FLOW FROM OPERATING ACTIVITIES (012-007)	014	0	144.899
CASH FLOW FROM INVESTING ACTIVITIES			
1. Proceeds from the sale of longterm tangible and intangible assets	015	5.676.031	5.505.658
2. Proceeds from the sale of equity and debt instruments	016		20.000
3. Proceeds from interest	017		
4. Proceeds from dividends	018		
5. Other proceeds from investing activities	019	2.633.292	5.817.076
III. Total proceeds from investing activities (015 to 019)	020	8.309.323	11.342.734
1. Cash expenditures for the purchase of longterm tangible and intangible assets	021	3.566.911	581.030
2. Cash expenditures for the acquisition of equity and debt instruments	022	3.739.027	0
3. Other cash expenditures from investing activities	023	1.120	33.657
IV. Total cash expenditures from investing activities (021 to 023)	024	7.307.058	614.687
B1) NET INCREASE IN CASH FLOW FROM INVESTING ACTIVITIES (020-024)	025	1.002.265	10.728.047
B2) NET DECREASE IN CASH FLOW FROM INVESTING ACTIVITIES (024-020)	026	0	0
CASH FLOW FROM FINANCING ACTIVITIES			
1. Proceeds from issuance of equity and debt instruments	027	27.757.671	35.170.824
2. Proceeds from equity loans, debentures, loans and other borrowings	028		
3. Other proceeds from financing activities	029		2.672.530
V. Total proceeds from financing activities (027 to 029)	030	27.757.671	37.843.354
1. Cash expenditures for principal repayments of loans and bonds	031	45.920.417	45.182.342
2. Cash expenditures for the payment of dividends	032	0	
3. Cash expenditures on finance leases	033	0	
4. Cash expenditures for the purchase of own shares	034	0	
5. Other cash expenditures from financing activities	035	4.825.213	52.453
VI. Total cash expenditures from financing activities (031 to 035)	036	50.745.630	45.234.795
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	22.987.959	7.391.441
Total increase in cash flow (013 – 014 + 025 – 026 + 037 – 038)	039	0	3.191.707
Total decrease in cash flow (014 – 013 + 026 – 025 + 038 – 037)	040	1.074.025	0
Cash and cash equivalents at beginning of period	041	3.006.099	1.932.074
Increase in cash and cash equivalents	042		3.191.707
Decrease in cash and cash equivalents	043	1.074.025	
Cash and cash equivalents at end of period	044	1.932.074	5.123.781

STATEMENT OF CHANGES IN EQUITY

Varteks Group - Varaždin

for period from

1.1.2012

31.12.2012.

Position	AOP mark	Previous year	Current year
1	2	3	4
1. Subscribed capital	001	96.040.350	96.040.350
2. Capital reserves	002	17.748.231	0
3. Reserves from profit	003	246.700	475.381
4. Retained profit or loss carried forward	004	-4.906.751	-45.942.412
5. Profit or loss of current year	005	-70.680.822	-141.679.068
6. Revaluation of longterm tangible assets	006	278.255.370	273.081.818
7. Revaluation of intangible assets	007		
8. Revaluation of financial assets available for sale	008		
9. Other revaluations	009		
10. Total equity and reserves (AOP 001 to 009)	010	316.703.078	181.976.069
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	316.703.078	181.976.069
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.

Varteks d.d.
Zagrebačka 94
42000 Varaždin

Varaždin, July 17, 2013

STATEMENT BY THE PERSON RESPONSIBLE FOR THE COMPILATION OF THE REPORT FOR 2012

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 2012 (hereinafter: Group) which was compiled according to International Financial Reporting Standards and pursuant to the Croatian Accounting Act offers a comprehensive and truthful account of the assets and liabilities, losses and profits, the financial position and business activities of the Group.
- The management report contains the truthful account of the development of the Group's operations and position, along with a description of the most significant risks and uncertainties the Group is exposed to.



Person responsible:

Nenad Davidović
Board Member Responsible for Finances

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



VARTEKS

GROUP

*ANNUAL MANAGEMENT BOARD REPORT
ON SITUATION IN VARTEKS GROUP FOR 2012
(revised)*

Varaždin, July 2013

I. IN GENERAL ABOUT VARTEKS GROUP

Varteks Group, (hereinafter referred to as: Group), consists of affiliated companies which are majority-owned by Varteks d.d. (hereinafter: Company), which originated from the company Varaždinska tekstilna industrija d.d. Varaždin and came about pursuant to the Decision on the Transformation of the Social Enterprise Varteks Holding into a Stock Company of June 17, 1992, pursuant to Resolution No. 01-01-02/92-06/94 of the Croatian Agency for Restructuring and Development of April 9, 1993 and the Decision on Transferring Shares of the Stock Company Varteks Varaždin to Funds of July 16, 1993

0Main 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	Chairman
Stjepan Igrec	Deputy chairman
Artur Gedike	Board member until August 29, 2012
Neven Maruševac	Board member
Božica Čiček – Mutavdžić	Board member
Krešimir Dragić	Board member
Marijan Mitrović	Board member
Igor Žonja	Board member since September 7, 2012

Management Board

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

Affiliated Companies

Varteks d.d. is the founder and full owner of the following affiliated companies that make Varteks Group:

- *Varteks Odjeća d.o.o., Varaždin, Croatia (merged into the parent company on January 7, 2013)*
- *Varteks Ludbreg d.o.o., Ludbreg, Croatia (merged into the parent company on January 7, 2013)*
- *Varteks Bednja d.o.o., Bednja, Croatia (merged into the parent company on January 7, 2013)*
- *Varteks PRO d.o.o., Varaždin, Croatia*
- *Varteks Logistic d.o.o., Varaždin, Croatia*
- *Varteks ESOP d.o.o. Varaždin, Croatia*
- *Varteks Trgovina d.o.o., Široki Brijeg, Bosnia-Herzegovina*
- *Varteks D.o.o.e.l., Skopje, Macedonia*
- *Varteks Trade d.o.o., Ljubljana, Slovenia (bankruptcy proceedings initiated on March 19, 2013)*
- *Varteks Mont d.o.o., Podgorica, Montenegro*
- *Burgtrade G.m.b.H., Eisenstadt, Austria*
- *Varteks Textiles Limited, Bristol, Great Britain*
- *Varteks Plus d.o.o. Belgrade, Serbia*

The Company also holds a 50 percent share in the company Corrodo nekretnine d.o.o. Rijeka.

The affiliated companies Varteks D.o.o.e.l, Skopje, Macedonia and Varteks Mont d.o.o. Podgorica, Montenegro, Varteks Trgovina d.o.o., Široki Brijeg, Bosnia-Herzegovina, and Vartex Textiles Limited, Bristol, Great Britain are inactive in terms of business activities.

2. BASIC BUSINESS CHARACTERISTICS IN 2012, BUSINESS RISKS AND ANTICIPATED FUTURE GROUP DEVELOPMENT

Due to the conditions of the economic crisis which lasted several years, as well as the lack of new sources of financing, having to rely on own resources which were not sufficient for full restructuring and financial consolidation of Varteks Group, the Group endured a loss of HRK 141.3 million in 2012.

General influence on company business is ever more intensive non-liquidity that has hit the entire Croatian economy, especially work-intensive industries, such as the textiles industry, which Varteks d.d. belongs to. Non-liquidity hit the European markets as well, especially those of countries around Croatia, which had an additional negative effect on Group business.

Lack of liquidity had an effect on several elements: impossibility of purchasing new goods, raw and production materials, decreasing of the market position and loss of some already contracted jobs, which prevented realization of planned income and influenced the business result. Since this lack of liquidity kept growing during the economic crisis, the Group was not able to adapt to new market conditions and perform the necessary restructuring.

The greatest portion of the loss is one-time restructuring expenses in the amount of HRK 37 million, and financial liabilities in the amount of HRK 56.3 million, which contain interest expenses in the amount of HRK 50.6 million. Such as profit and loss structure points to the necessity for comprehensive and immediate realization of the proposed Operative and Financial Restructuring Plan, which defines the means of consolidating business.

At the end of 2012 Varteks d.d. and its related production companies, in accordance with the new Financial Operations and Pre-bankruptcy Settlement Act, based on the criteria of non-liquidity, requested the procedure of pre-bankruptcy settlement, which was officially initiated 5 February 2013. At the beginning of 2013, new production companies were merged to Varteks d.d., and the pre-bankruptcy proceedings for all companies were joined into a single proceeding.

The financial restructuring plan of Varteks d.d. offers an all-inclusive solution and consolidation of Company business, and is tied to business success of the entire Group. The plan contains several legally-foreseen measures of financial restructuring: transfer of assets for the purpose of covering claims, debt release (partial and whole), interest release, payment in instalments, transforming creditor claims into capital, and changing maturity dates/deadlines.

The operative and financial restructuring is being realized with significant means being put up by Varteks d.d., through ceding and sale of one part of real property in order to cover larger creditors, with additional significant compensatory measures which the Company is performing parallel with the restructuring process.

The financial restructuring plan within the pre-bankruptcy proceedings, has been coordinated with the Ministry of Finance as the largest creditor taking part in the proceedings. The mutually accepted proposal was accepted with 77.77% of votes, i.e. more than the needed 2/3 majority, at the voting hearing held 4 June 2013. In accordance with the agreed-upon financial restructuring plan, the Creditor Agreement is also nearing completion. The Agreement contains the means of covering claims, defines the new credit source in the amount of EUR 10 million, which is essential for stabilizing liquidity and business processes, as well as realizing other restructuring elements.

At the moment the Group employs approximately 2000 people and is an export-oriented company that realized HRK 105.1 million of income on foreign markets in 2012.

Continuation of Group operations/business is tied to successful realization of the entire restructuring plan, in accordance with the elements of the agreed-upon Financial Restructuring Plan, which also assumes successful completion of the Creditors Agreement.

Varteks d.d.

Board Chairman

Zoran Košćec

A handwritten signature in black ink, appearing to read 'Zoran Košćec', written over a light grey rectangular background.



Revizija, računovodstveno i porezno savjetovanje

*VARTEKS D.D. VARAŽDIN
GROUP*

*CONSOLIDATED FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITOR'S REPORT FOR 2012*

VARAŽDIN, JUNE 2013

**REPORT ON PERFORMED AUDIT OF
CONSOLIDATED FINANCIAL STATEMENTS FOR 2012**

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RESPONSIBILITY OF MANAGEMENT FOR FINANCIAL STATEMENTS

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

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

Regarding the preparation of financial statements, the Management 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 Group companies will continue with their business.*

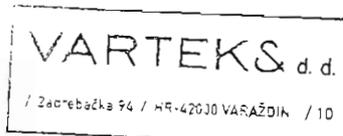
The Management Board shall be responsible for correct management of accounting records, which shall at any moment with acceptable accuracy show the financial position of the Company and the Group, as well as their conformance with the Croatian Accounting Act. The Management Board shall bear the general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

The attached financial statements presented on pages 4-85 have been approved by the Management on 13 April 2013 and are signed by:

For and in behalf of the Management:

Zoran Košćec

*Chairman of the
Management Board*



*Board Member for Financial
Transactions*

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



Revizija, računovodstveno i porezno savjetovanje

TO SUPERVISORY BOARD AND SHAREHOLDERS OF VARTEKS d.d. VARAŽDIN

INDEPENDENT AUDITOR'S REPORT

We have performed the audit of attached consolidated financial statements of VARTEKS d.d. Varaždin (hereinafter: the Company) and its dependent companies (hereinafter jointly: the Group), as follows: Consolidated Financial Position Report as at 31 December 2012, Consolidated All-inclusive Profit Account for 2012, Consolidated Cash Flow Report for 2012, Consolidated Changes in Capital for 2012 and Notes to consolidated financial statements, including significant accounting policies.

Management Board responsibilities

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

Responsibility of the auditor

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

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

Facts qualifying the opinion

1. Consolidated financial statements do not include dependent companies Varteks D.o.o.e.l. Skopje, Varteks Mont d.o.o. Podgorica, Varteks Textiles Limited London and Varteks Trgovina d.o.o. Široki Brijeg, although the parent company has control over these companies. Financial statements of the above dependent companies are not presented; therefore, we are not in position to ascertain their influence on the financial statements of Varteks Group.

2. The parent company Varteks d.d. declares investments in dependent companies using the fair value model, in accordance with the IFRS 27- Consolidated and Individual Financial Statements. As is noted in Note 3.3.: - Stakes in associated companies represent investments in Corrado Nekretnine d.o.o. Rijeka in the amount of HRK 14,822,645. The Company did not include the calculation of fair value of investments through which we could ascertain the actuality of investments declared in the financial statements.

3. 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 2012 all set conditions have not been fulfilled, the Group does not have the right to declare deferred liabilities for at least 12 months from the end of the reporting period; such liabilities must be declared as short-term liabilities.

4. The dependent company Varteks Plus d.o.o. Belgrade, Republic of Serbia, delimited the calculated negative currency rate differentials on future periods, thus underestimating the liabilities/loss amount for the current year for the amount of HRK 1,211,716 (connection: Note 3.14).

5. The Company must publish certain information in accordance with IFRS 7 – Financial instruments: publishing, and IFRS 8 – Business segments, which the Company did not do as at 31 December 2012.

Qualified opinion

According to our opinion, except the effects and possible effects of facts in items 1-5 of Facts qualifying the opinion, the attached financial statements are a true and fair representation, in all significant determinants, of the financial position of VARTEKS Group Varaždin as at 31 December 2012, business results, cash flow report and changes in capital in 2012, in accordance with the International Financial Reporting Standards.

Emphasis of matter

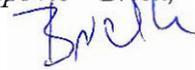
1. Without qualifying our opinion, we turn your attention to Note 3.30.1. – Pre-bankruptcy Settlement Procedure, in which the parent company challenges claims in the amount of HRK 9,792,693 which have not been declared in business ledgers of the parent company, and which predominately pertain to court case claims whose outcome is foreseen to be for the parent company, and claims whose statute of limitations has run out (connection: Note 3.29. Significant court claims).

2. Without qualifying our opinion, we turn your attention to the amount of accumulated losses and the amount of liabilities of the Group, as well as Note 1.v. to these financial statements, which describes the conditions of performing business in the Group during 2012, liquidity risk, merging dependent companies to the parent company Varteks d.d. Varaždin, and the measures which the Management of the parent company is undertaking in accordance with provisions of the Financial Operations and Pre-bankruptcy Settlement Act concerning the ongoing concern.

Circumstances stated in Note 1.v. point to the existence of possible uncertainty with respect to further ongoing concern of Group if the parent company should not realize activities pursuant to the pre-bankruptcy settlement, and the entire restructuring plan which foresees ensuring new sources of financing necessary for continuation of Company operations.

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

Authorized auditor:
Grozdana Šimповić - Brlek,
M.Sc.(Econ.)



Varaždin, 13 June 2013



Managing Director:
Stjepan Šaraga, M.Sc.(Econ.)



HLB Revidicon d.o.o.
42000 Varaždin
Ankice Opolski 2
Republic of Croatia

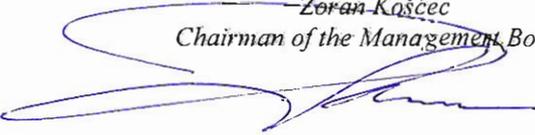
CONSOLIDATED FINANCIAL STATEMENTS

ALL-INCLUSIVE PROFIT STATEMENT
for the period from 1 January to 31 December 2012

	Note	2011 - in HRK -	2012 - in HRK -
Income from sales	2.1.1.1.	319,332,947	249,190,347
Other income	2.1.1.2.	28,365,274	21,661,238
Total income from core activities	1.f.,2.1.1.	347,698,221	270,851,585
Value adjustment / change of inventory of current production and finished products		(6,829,921)	(5,326,140)
Purchase value of sold goods		(87,625,732)	(72,618,811)
Raw material, material and energy expenses	2.2.1.1.	(65,597,830)	(44,193,868)
Other material expenses	2.2.1.2.	(3,242,210)	(2,522,076)
Depreciation	2.2.1.3.	(16,303,323)	(16,972,726)
Non-material expenses	2.2.1.4.	(74,119,112)	(73,409,099)
Staff costs	2.2.1.5.	(120,241,111)	(109,194,770)
Value adjustment of long-term assets	2.2.1.6.	(773,840)	(183,793)
Value-adjustment of short-term assets	2.2.1.7	(6,314,145)	(36,776,985)
Total liabilities from core activities	1.g.,2.2.1.	(381,047,224)	(361,198,268)
Profit / (loss) from core activities		(33,349,003)	(90,346,683)
Financial income	2.1.2.	3,041,561	5,344,015
Financial expenses/liabilities	2.2.2.	(40,142,716)	(56,251,142)
Net profit / (loss) from financial activities		(37,101,155)	(50,907,127)
TOTAL INCOME	2.1.	350,739,782	276,195,600
TOTAL LIABILITIES	2.2.	(421,189,940)	(417,449,410)
Profit/(loss) before taxation		(70,450,158)	(141,253,810)
Profit/company tax	1.i.,2.4.	(230,664)	(425,258)
Profit / (loss) of period	2.3.	(70,680,822)	(141,679,068)
Loss per share		(40.69)	(81.56)
Other all-inclusive profit			
Currency rate differentials		(1,742,376)	506,747
Realized revaluation reserves		-	5,173,552
Deferred tax obligation		-	1,293,388
Revaluation reserves based on revaluation of flats		246,700	228,681
TOTAL ALL-INCLUSIVE PROFIT / (LOSS) OF PERIOD		(72,176,498)	(134,476,700)
Loss per share		(41.55)	(77.41)

Signed for and on behalf of the Group on 13 June 2013:

Zoran Koščec
Chairman of the Management Board



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

Nenad Davidović
Board Member for Financial Transactions



The following notes are an integral part of these financial statements

**FINANCIAL POSITION REPORT
AS AT 31 DECEMBER 2012**

ASSETS

	Notes	2011 - in HRK -	2012 - in HRK -
LONG-TERM ASSETS		805,664,625	781,778,733
<i>INTANGIBLE ASSETS</i>			
<i>Concessions, licences, patents, trademarks, software and other rights</i>	1.j.,3.1.	7,942,676	6,796,816
		7,942,676	6,796,816
<i>TANGIBLE ASSETS</i>		772,690,389	751,711,415
<i>Real estate, plants and equipment</i>	1.k.,3.2.	772,690,389	751,711,415
<i>LONG-TERM FINANCIAL ASSETS</i>		21,423,349	20,136,826
<i>Stakes (shares) in related companies</i>	3.3.	16,161,621	14,822,645
<i>Participating interests (stakes)</i>	3.4.	165,900	165,900
<i>Placed loans, deposits, etc.</i>	3.5.	730,375	782,828
<i>Other long-term financial assets</i>	3.6.	4,365,453	4,365,453
<i>RECEIVABLES</i>		3,608,211	3,133,676
<i>Other receivables</i>	3.7.	3,608,211	3,133,676
SHORT-TERM ASSETS		142,611,105	92,868,091
<i>INVENTORY</i>	1.l.,3.8.	91,311,157	44,339,905
<i>RECEIVABLES</i>		40,069,367	40,675,078
<i>Accounts receivable</i>	3.9.	26,483,372	21,927,121
<i>Other receivables</i>	3.10.	13,585,995	18,747,957
<i>SHORT-TERM FINANCIAL ASSETS</i>		9,298,507	2,729,327
<i>Investments in securities</i>	3.11.	7,320,376	1,630,215
<i>Placed loans, deposits, etc.</i>	3.12.	1,978,131	1,099,112
<i>CASH ON ACCOUNTS AND IN HAND</i>	1.o.,3.13.	1,932,074	5,123,781
PAID EXPENSES OF FUTURE PERIOD AND CALCULATED INCOME		445,538	1,727,943
	3.14.	445,538	1,727,943
TOTAL ASSETS		948,721,268	876,374,767
OFF-BALANCE ENTRIES		21,171,005	16,125,523
	3.26.	21,171,005	16,125,523

The following notes are an integral part of these financial statements

FINANCIAL POSITION REPORT
AS AT 31 DECEMBER 2012
- Continued

CAPITAL AND LIABILITIES

	Notes	2011 - in HRK -	2012 - in HRK -
CAPITAL AND RESERVES	3.15.	316,703,078	181,976,069
ISSUED (NOMINAL) CAPITAL		96,040,350	96,040,350
CAPITAL RESERVES		17,748,231	-
RESERVES FROM REVENUE		246,700	475,381
Reserves for own shares		9,182,650	9,182,650
Own shares and stakes		(9,182,650)	(9,182,650)
Other reserves		246,700	475,381
REVALUATION RESERVES		278,255,370	273,081,818
LOSS CARRIED FORWARD		(4,906,751)	(45,942,412)
LOSS OF FISCAL YEAR		(70,680,822)	(141,679,068)
PROVISIONING	1.s., 3.16.	239,775	86,622
Other provisions		239,775	86,622
LONG-TERM LIABILITIES	1.p., 3.17.	204,431,050	174,631,076
Liabilities for loans/credits, deposits and other	3.17.1.	4,802,795	3,388,461
Liabilities toward banks and other financial institutions	3.17.2.	130,064,412	102,895,660
Accounts payable	3.17.3.	-	76,500
Deferred tax obligation	3.17.4.	69,563,843	68,270,455
SHORT-TERM LIABILITIES		426,721,970	518,792,298
Liabilities toward related companies	3.18.	17,320	17,714
Liabilities for loans/credits, deposits and other	1.p., 3.19.1.	6,414,281	6,896,145
Liabilities toward banks and other financial institutions	1.p., 3.19.2.	158,923,445	181,130,167
Liabilities for advance payments	3.20.	1,948,936	1,920,580
Accounts payable	3.21.	102,701,466	102,563,036
Liabilities toward employees	3.22.	11,998,383	21,494,231
Taxes, contributions and similar fees	3.23.	136,546,089	190,212,916
Other short-term liabilities	3.24.	8,172,050	14,557,509
DEFERRED PAYMENT OF EXPENSES AND INCOME OF FUTURE PERIOD	3.25.	625,395	888,702
TOTAL CAPITAL AND LIABILITIES		948,721,268	876,374,767
OFF-BALANCE ENTRIES	3.26.	21,171,005	16,125,523

Signed for and on behalf of the Group on 13 June 2013:

Zoran Košćec
 Chairman of the Management 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 2012

2011
- in HRK -

	Initial capital	Capital reserves	Own treasury shares	Reserves for own shares	Other reserves	Revalu reserves	Loss carried forward	Loss of fiscal year	TOTAL
Position as at 1 January 2011	384,161,400	-	(36,730,600)	46,013,062	1,145,909	-	(181,079,603)	(102,885,962)	110,624,206
Transfers	-	-	-	-	-	-	(102,885,962)	102,885,962	-
Decision of the Assembly - simplified capital decrease	(288,121,050)	17,748,231	-	-	-	-	270,372,819	-	-
Allocation of other reserves	-	-	27,547,950	(36,830,412)	(1,145,909)	-	10,428,371	-	-
Loss of fiscal year	-	-	-	-	-	-	-	(70,680,822)	(70,680,822)
Revaluation of tangible assets	-	-	-	-	-	278,255,370	-	-	278,255,370
Other all-inclusive profit	-	-	-	-	246,700	-	-	-	246,700
Currency rate differentials	-	-	-	-	-	-	(1,742,376)	-	(1,742,376)
Position as at 31 Dec. 2011	96,040,350	17,748,231	(9,182,650)	9,182,650	246,700	278,255,370	(4,906,751)	(70,680,822)	316,703,078

2012
- in HRK -

	Initial capital	Capital reserves	Own (treasury) shares	Reserves for own shares	Other reserves	Revalu reserves	Loss carried forward	Loss of fiscal year	TOTAL
Position as at 1 January 2012	96,040,350	17,748,231	(9,182,650)	9,182,650	246,700	278,255,370	(4,906,751)	(70,680,822)	316,703,078
Transfers	-	-	-	-	-	-	(70,680,822)	70,680,822	-
Exclusion from consolidation (Varteks Textiles London, Varteks Trgovina Široki Brijeg)	-	-	-	-	-	-	11,785,897	-	11,785,897
Loss coverage	-	(17,748,231)	-	-	-	-	17,748,231	-	-
Loss of fiscal year	-	-	-	-	-	-	-	(141,679,068)	(141,679,068)
Realized revaluation reserves	-	-	-	-	-	(5,173,552)	5,173,552	-	-
Realized deferred tax obligation	-	-	-	-	-	-	1,293,388	-	1,293,388
Tax oversight	-	-	-	-	-	-	(6,862,654)	-	(6,862,654)
Other profit	-	-	-	-	228,681	-	-	-	228,681
Currency rate differentials	-	-	-	-	-	-	506,747	-	506,747
Position as at 31 Dec 2012	96,040,350	-	(9,182,650)	9,182,650	475,381	273,081,818	(45,942,412)	(141,679,068)	181,976,069

Signed for and on behalf of the Group on 13 June 2013:

Zoran Košćec
Chairman of the Management Board

Nenad Davidović
Board Member for Financial Transactions

VARTEKS d. d.

The following notes are an integral part of these financial statements

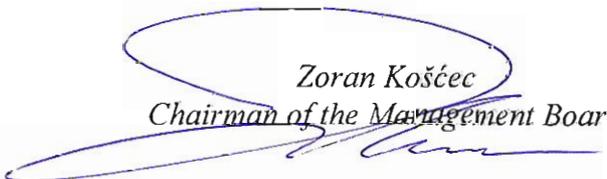
**CASH FLOW REPORT
FOR 2012
Indirect method**

	<u>2011</u> - in HRK -	<u>2012</u> - in HRK -
<i>Cash flow from business activities</i>		
<i>Loss before taxes</i>	(70,450,158)	(141,253,810)
<i>Depreciation</i>	16,303,323	16,972,726
<i>Increase of short-term liabilities</i>	68,691,071	97,511,424
<i>Decrease of short-term receivables</i>	16,310,266	-
<i>Decrease of inventory</i>	19,829,656	46,971,252
<i>Currency rate differentials</i>	2,827,143	765,480
<i>Other increases of cash flow</i>	246,700	13,307,966
<i>Total increase of cash flow from business activities</i>	53,758,001	34,275,038
<i>Decrease of short-term liabilities</i>	-	(153,153)
<i>Increase of short-term receivables</i>	-	(1,888,116)
<i>Paid interest</i>	(32,111,362)	(25,090,756)
<i>Other decreases of cash flow</i>	(734,970)	(7,287,912)
<i>Total decrease of cash flow from business activities</i>	(32,846,332)	(34,419,937)
NET INCREASE OF CASH FLOW FROM BUSINESS ACTIVITIES	20,911,669	-
NET DECREASE OF CASH FLOW FROM BUSINESS ACTIVITIES	-	(144,899)
CASH FLOW FROM INVESTMENT ACTIVITIES		
<i>Cash receivables from the sale of long-term tangible and intangible assets</i>	5,676,031	5,505,658
<i>Cash receivables from sale of equity (owner) and debt instruments</i>	-	20,000
<i>Other cash receivables from investment activities</i>	2,633,292	5,817,076
<i>Total cash receivables from investment activities</i>	8,309,323	11,342,734
<i>Cash liabilities/expenses for purchase of long-term tangible and intangible assets</i>	(3,566,911)	(581,030)
<i>Cash liabilities/expenses for acquisition of equity (owner) and debt financial instruments</i>	(3,739,027)	-
<i>Other cash liabilities/expenses from investment activities</i>	(1,120)	(33,657)
<i>Total cash liabilities/expenses from investment activities</i>	(7,307,058)	(614,687)
NET INCREASE OF CASH FLOW FROM INVESTMENT ACTIVITIES	1,002,265	10,728,047

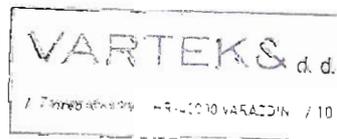
**CASH FLOW REPORT
FOR 2012
Indirect method
- Continued**

	2011 - in HRK -	2012 - in HRK -
CASH FLOW FROM FINANCIAL ACTIVITIES		
Cash receivables from credit equity, debenture notes, loans, etc.	27,757,671	35,170,824
Other receivables from financial activities	-	2,672,530
Total cash receivables from financial activities	27,757,671	37,843,354
Cash liabilities/expenses for payment of credit equity and bonds	(45,920,417)	(45,182,342)
Other cash liabilities/expenses from financial activities	(4,825,213)	(52,453)
Total cash liabilities/expenses from financial activities	(50,745,630)	(45,234,795)
NET DECREASE OF CASH FLOW FROM FINANCIAL ACTIVITIES		
	(22,987,959)	(7,391,441)
Total increase of cash flow	-	3,191,707
Total decrease of cash flow	(1,074,025)	-
Cash and cash equivalents at the beginning of period	3,006,099	1,932,074
(Decrease) / increase of cash and cash equivalents	(1,074,025)	3,191,707
Cash and cash equivalents at the end of period	1,932,074	5,123,781

Signed for and on behalf of the Group on 13 June 2013:


Zoran Košćec
Chairman of the Management 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 AND GROUP INFORMATION

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

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

Core activities

The core activities of the Group are:

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

The number of employees in the Group as at 31 December 2012 was 2,155 (2,249 in 2011).

Company bodies

Supervisory Board of VARTEKS d.d. Varaždin

<i>Milan Horvat</i>	<i>Chairman</i>
<i>Stjepan Igrac</i>	<i>Vice-chairman</i>
<i>Artur Gedike</i>	<i>Board member until 29 August 2012</i>
<i>Neven Maruševac</i>	<i>Board Member</i>
<i>Božica Čiček – Mutavdžić</i>	<i>Board Member</i>
<i>Krešimir Dragić</i>	<i>Board Member</i>
<i>Marijan Mitrović</i>	<i>Board Member</i>
<i>Igor Žonja</i>	<i>Board member from 7 September 2012</i>

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

<i>Zoran Košćec</i>	<i>Chairman of the Management Board</i>
<i>Nenad Davidović</i>	<i>Board Member for Financial Transactions</i>
<i>Miljenko Vidaček</i>	<i>Board Member for Manufacture</i>

General Assembly Chairman

Stjepan Igrac

NOTES TO FINANCIAL STATEMENTS (continued)

Management of dependent companies

<i>Varteks Odjeća d.o.o. Varaždin</i>	<i>Miljenko Vidaček</i>
<i>Varteks Bednja d.o.o. Bednja</i>	<i>Miljenko Vidaček</i>
<i>Varteks Ludbreg d.o.o. Ludbreg</i>	<i>Miljenko Vidaček</i>
<i>Burgtrade G.m.b.h. Eisenstadt</i>	<i>Damir Rizman</i>
<i>Vartex Textiles Limited, London</i>	<i>Damir Rizman</i>
<i>Varteks Trade d.o.o. Maribor</i>	<i>Tihomir Škoda</i>
<i>Varteks Plus d.o.o., Belgrade</i>	<i>Jasmina Žerađanin</i>
<i>Varteks Logistic d.o.o. Varaždin</i>	<i>Josip Posavec</i>
<i>Varteks Pro d.o.o. Varaždin</i>	<i>Natalija Vnučec</i>
<i>Varteks Trgovina d.o.o., Široki Brijeg</i>	
<i>Varteks ESOP d.o.o. Varaždin</i>	<i>Jelena Stankus - Tkalec</i>
<i>Varteks D.o.o.e.l. Skopje</i>	
<i>Varteks Mont d.o.o., Podgorica</i>	

NOTES TO FINANCIAL STATEMENTS (continued)

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

Name or dependent company	Country of establishment	Stake in ownership (%)		Stake in voting rights		Core activity
		2011	2012	2011	2012	
Varteks Odjeća d.o.o. Varaždin	Croatia	100%	100%	100%	100%	Production of clothing
Varteks Bednja d.o.o. Bednja	Croatia	100%	100%	100%	100%	Production of clothing
Varteks Ludbreg d.o.o. Ludbreg	Croatia	100%	100%	100%	100%	Production of clothing
Burgtrade G.m.b.h. Eisenstadt	Austria	100%	100%	100%	100%	Trade, mediation and representation
Vartex Textiles Limited, London	Great Britain	100%	100%	100%	100%	Trade, mediation and representation
Varteks Trade d.o.o. Maribor	Slovenia	100%	100%	100%	100%	Trade, mediation and representation
Varteks Plus d.o.o., Belgrade	Serbia	100%	100%	100%	100%	Trade, mediation and representation
Varteks Logistic d.o.o. Varaždin	Croatia	100%	100%	100%	100%	International forwarding
Varteks Pro d.o.o. Varaždin	Croatia	100%	100%	100%	100%	Trade, mediation and clothes manufacture
Varteks Trgovina d.o.o., Široki Brijeg	Bosnia and Herzegovina	100%	100%	100%	100%	Trade and trade mediation
Varteks ESOP d.o.o. Varaždin	Croatia	100%	100%	100%	100%	Business and management consulting
Varteks D.o.o.e.l. Skopje	Macedonia	100%	100%	100%	100%	Trade and trade mediation
Varteks Mont d.o.o. Podgorica	Montenegro	100%	100%	100%	100%	Trade and trade mediation

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following is the overview of significant accounting policies adopted for the preparation of the financial statements for 2012.

1a. Conformance statement

The consolidated financial statements were drafted in accordance with the International Financial Reporting Standards - IFRS. For needs of these financial statements i.e. preparation of this Report, the prescribed financial statements of Group companies were re-classified, and contents and the form adjusted to better represent reporting according to the IFRS.

1.b. Basis for preparation of financial statements

Consolidated financial statements of the Group have been prepared using the principle of historical expense, except certain long-term tangible and financial assets, which were declared at revalued amounts in accordance with the IFRS and Croatian law.

The preparation of these financial statements, in accordance with the IFRS, demanded certain reclassifications of positions in the financial statements for 2010, but this had no effect on the net loss of the Group or the amount of assets, capital or liabilities.

The Group's accounting is done in Croatian language, in Kuna (HRK) and in accordance with the Croatian laws and regulations and accounting principles and practices which Croatian companies adhere to. Accounting records of dependent companies in Croatia and abroad are kept in accordance with valid regulations in pertinent countries. Preparation of the consolidated financial statements have been drafted using same accounting policies for same transactions and other business events for all Group members. Regardless of the varied legal framework of financial reporting for the parent company Varteks d.d. Varaždin and other Group members that applied Croatian Financial Reporting Standards (CFRS) and foreign members doing business in accordance with regulations of valid accounting policies did not have a material effect on consolidated amounts declared for the current year and the previous year. When necessary, adjustments of financial statements of dependent companies have been made in order to conform the accounting policies of dependent companies to that of the parent company.

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

The Group prepared these consolidated financial statements in accordance with Croatian laws and regulations and in accordance with the IFRS, which have been approved by the Management on 13 June 2013.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

1.c. Other regulatory demands

Pursuant to the Regulations on Structure and Contents of Annual Financial Statements (OG RC Nos. 38/2008, 12/2009 and 130/2010) enacted by the Ministry of Finance of the Republic of Croatia, the Management Board of Varteks d.d. drafted the annual financial statements, which contain the financial position report as at 31 December 2012, the all-inclusive profit account, the cash flow report and the report on changes in capital for 2012. Financial information in the forms were extracted from the consolidated financial statements of the Company shown on pages 4-9 in accordance with the Accounting Act of the RC and the IFRS.

1.d. Consolidation basis

Due to the need of users of financial reports in the parent company for information on the financial position, business results and changes in financial position of the parent company and the dependant companies (i.e. the Group), the consolidated financial reports were made based on the International Accounting Standard 27 – Consolidated and Separate Financial Reports, offering information on the mother company and the associated companies as one entity (i.e. as the Group), and the amounts pertaining to receivables, liabilities, income, expenses, profit and loss mirror transaction values and positions of certain positions in the balance which are a result of external changes only.

The consolidation comprises the parent company Varteks d.d. Varaždin and dependent companies owned by Varteks d.d. Varaždin.

- Varteks PRO d.o.o. Varaždin, Republic of Croatia
- Varteks Logistic d.o.o. Varaždin, Republic of Croatia
- Varteks ESOP d.o.o. Varaždin, Republic of Croatia
- Varteks Trade d.o.o. Maribor, Republic of Slovenia
- Varteks Plus d.o.o., Belgrade, Republic of Serbia
- Varteks Odjeća d.o.o. Varaždin, Republic of Croatia
- Varteks Ludbreg d.o.o. Ludbreg, Republic of Croatia
- Varteks Bednja d.o.o. Bednja, Republic of Croatia
- Burgtrade G.m.b.H. Eisenstadt, Republic of Austria

The consolidation also includes the associated company Corrodo Nekretnine d.o.o. Rijeka, which is 50% owned by the parent company Varteks d.d. Varaždin

Business of the companies in the Varteks Group in 2012 was performed in difficult conditions, mainly connected to all-encompassing non-liquidity, which finally resulted in the parent company Varteks d.d. and three dependent production LLC companies: Varteks Odjeća d.o.o., Varteks Ludbreg d.o.o. and Varteks Bednja d.o.o., to be entered in the pre-bankruptcy settlement proceedings. Surrounded by the economic crisis and non-liquidity, the scope of business decreased for the Group itself. Business activities of several companies within the Group were already suspended during previous periods, and did not play a part in consolidated business results of the Group (Varteks Mont d.o.o. Montenegro and Varteks Do.o.e.l Macedonia).

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

In 2012, Vartex Textiles Ltd. Great Britain and Varteks Trgovina d.o.o. B&H are also in suspended mode, and do not contribute to the consolidated business results of Varteks Group for 2012. After the execution of the Pre-bankruptcy Settlement Procedure of Varteks d.d. Varaždin, as the founder and 100% owner of all related companies, decisions on future status of said companies will be reached at a later date.

The consolidation of separate financial reports of the parent Varteks d.d. Varaždin company and the dependent companies was performed through:

- Elimination of the book amount of the investment of the parent company in each dependent company and the stake of the parent company in their equity;
- Elimination within group accounts of receivables and liabilities;
- Elimination of in-Group transactions including income and expenses. As the internal goods transactions are performed using the principal in which the income amount is equal to the purchase cost, without burdening inventory of such transactions, the above has no materially significant unrealized profit or losses within the Group.

1.e. Report currency

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

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

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

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

31 December 2011	1 EUR = HRK 7.530420	1 USD = HRK 5.819940	1 CHF = HRK 6.194817
31 December 2012	1 EUR = HRK 7.545624	1 USD = HRK 5.726794	1 CHF = HRK 6.245343

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

1.f. Recognition of income

Income shall be recognised when it is probable that economic-based benefits will flow to the Group, and when the income amount can be measured with certainty. Income from sales shall be recognised, less taxes and discounts, when the goods have been delivered or services rendered, and when a significant portion of the risk and benefits has been transferred.

Income from interest shall be calculated based on non-settled principal and applicable interest rate, and shall be declared in the all-inclusive profit account as financial income.

1.g. Liabilities

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 made based on current business obligations and loans/credits burden the all-inclusive profit account for the period in which they were made.

1.h. Staff salaries

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.

Liability for pensions declared in the financial position report represents the current value of the liability based on defined salaries.

The severance pay liability is made when the working relationship with the employee is severed before the regularly scheduled retirement date and shall be adopted as an expense when the Group has accepted, without realistic chance of retraction, a formal detailed plan, or when the employee should accept voluntary retirement in return for the severance pay.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

1.i. Taxation

Taxes and contributions and other legal obligations are paid according to valid regulations of the country in which the companies do business, and the base of the payment is usually the amount of product, goods and services realization, that of paid-out salaries and profit.

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

Current tax

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

Deferred tax

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

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

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.j. Real estate, plants and equipment

Real estate (real property), plants and equipment are declared in the financial position report at purchase cost or at revaluated value less each subsequent value correction and subsequent accumulated losses from value decrease. The effect of realised revaluation of real property is declared directly in the principal amount, the position of revaluated reserves and deferred tax liability. 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.

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:

	<u>%</u>
<i>Structures/buildings</i>	<i>1 – 4</i>
<i>Equipment</i>	<i>1 – 20</i>
<i>Vehicles</i>	<i>25</i>
<i>Office equipment</i>	<i>10</i>

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

1.k. Intangible assets

Intangible assets are initially declared at purchase cost.

Intangible assets is depreciated using the straight line method during the estimated useful life at the rate of 20%.

1.l. Inventory

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

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

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

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

1.m. 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.n. Financial assets

Financial assets shall be recognised in the financial position report when the Company becomes one of the contractual sides on which the contractual conditions of the instrument apply.

At initial recognition, the Management allocates fin. assets into one of the foll. categories:

- 1. Financial assets whose adjustment of fair value shall be recognised in the all-inclusive profit account*
- 2. Investments held to maturity*
- 3. Credits/loans and receivables, or*
- 4. Financial assets available for sale.*

Financial assets shall initially be measured at fair value (purchase cost) increased for transaction costs, except assets whose adjustment of fair value is declared in the all-inclusive profit account. Initial calculation of this asset does not include transaction costs; they are included in current period liabilities.

Financial assets whose adjustment of fair value shall be recognised in the all-inclusive profit account are those that fulfil one of the following conditions:

- Classified as assets intended for sale*
- The Group classified it into this item/group at initial recognition.*

These financial assets are measured at fair value as at the date of the financial position report, without a decrease for the amount of transaction costs. The change in fair value is recognised as financial income or liability in the all-inclusive profit account.

Investments held to maturity represent non-derivative financial assets with fixed or determinable payment amount and fixed maturity for which the Group intends and has the ability to keep to the maturity date, and shall be declared at depreciated amount using the effective interest rate method. Effects realised through consequent calculation of these assets shall be declared in the AIPA.

Credits and receivables represent non-derivative financial assets with fixed or determined payment not quoted on the active market. As at the date of the financial position report, they shall be measured at depreciation cost using the effective interest rate method. Effects realised through consequent calculation of these assets shall be declared in the AIPA.

Financial assets available for sale represents financial investments which cannot be declared within one of the previously noted groups. These financial assets are measured at fair value as at the date of the financial position report, without a decrease for the amount of transaction costs. The change in fair value is recognised directly as capital, i.e. as revaluation reserve.

Investments in owner securities whose price is not quoted on an active market and whose fair value cannot be ascertained with a good degree of certainty shall be declared at purchase cost.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Value decrease shall be estimated for all financial assets measured at purchase cost or depreciated expense on each date of the financial position report. If there is any objective proof of value decrease, the loss from decrease shall be recognised as financial liability in the AIPA.

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

1.o. 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.p. Financial liabilities

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.

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

1.r. Leasing/rent

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

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

Fees paid within business leases shall be recognised as liabilities using the a 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.s. Provisions

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

1.1. Associated/related parties

In accordance with the IAC 24 – Publishing associated parties, an associated/related person/entity/party is a person/entity/party associated with the subject of the report. A person or a member of the immediate family is considered a related party to the subject of the report if he/she:

- i) Has control or joint control over the subject of the report*
- ii) Has significant influence over the subject of the report*
- iii) Is a member of key managerial staff of the subject or its parent company*

A person/entity/party is associated with the subject of the report if any of the following is true:

- i) The party and the subject of the report belong to the same Group*
- ii) One of these parties/entities is dependent on the other or a joint entity of another entity*
- iii) Both entities are joint ventures of the same third party*
- iv) One entity is a joint venture of a third party, and the other entity is a joined entity to the third party*
- v) The party is an employee pension fund in the subject of the report or in an entity associated with the subject of the report*
- vi) The entity is controlled or jointly controlled by a person or a member of the immediate family of the person/entity who/which is associated with the subject of the report*
- vii) A person or a member of the immediate family of the person controlling or jointly controlling the subject of the report has significant influence in the subject or is a member of key management of the subject or his parent company.*

Transaction between associated parties is a transfer of resources, services or liabilities between the subject of the report and the associated party, regardless of whether the price has been charged.

1.u. Potential liabilities

Potential liabilities are not recognised in the financial statements because it is not probable that settling these liabilities will demand outflow of resources. They shall be reported in Notes.

Potential assets are not recognised in financial statements, but shall be published when the inflow of economic benefits is favourable.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

1.v. The Management Board's assessment of business conditions in 2012 and the use of assumed ongoing concern in the preparation of financial statements

Due to the conditions of the economic crisis which lasted several years, as well as the lack of new sources of financing, having to rely on own resources which were not sufficient for full restructuring and financial consolidation of Varteks Group, the Group endured a loss of HRK 141.3 million in 2012.

General influence on company business is ever more intensive non-liquidity that has hit the entire Croatian economy, especially work-intensive industries, such as the textiles industry, which Varteks d.d. belongs to. Non-liquidity hit the European markets as well, especially those of countries around Croatia, which had an additional negative effect on Group business.

Lack of liquidity had an effect on several elements: impossibility of purchasing new goods, raw and production materials, decreasing of the market position and loss of some already contracted jobs, which prevented realization of planned income and influenced the business result. Since this lack of liquidity kept growing during the economic crisis, the Group was not able to adapt to new market conditions and perform the necessary restructuring.

The greatest portion of the loss is one-time restructuring expenses in the amount of HRK 37 million, and financial liabilities in the amount of HRK 56.3 million, which contain interest expenses in the amount of HRK 50.6 million. Such as profit and loss structure points to the necessity for comprehensive and immediate realization of the proposed Operative and Financial Restructuring Plan, which defines the means of consolidating business.

At the end of 2012 Varteks d.d. and its related production companies, in accordance with the new Financial Operations and Pre-bankruptcy Settlement Act, based on the criteria of non-liquidity, requested the procedure of pre-bankruptcy settlement, which was officially initiated 5 February 2013. At the beginning of 2013, new production companies were merged to Varteks d.d., and the pre-bankruptcy proceedings for all companies were joined into a single proceeding.

The financial restructuring plan of Varteks d.d. offers an all-inclusive solution and consolidation of Company business, and is tied to business success of the entire Group. The plan contains several legally-foreseen measures of financial restructuring: transfer of assets for the purpose of covering claims, debt release (partial and whole), interest release, payment in instalments, transforming creditor claims into capital, and changing maturity dates/deadlines.

The operative and financial restructuring is being realized with significant means being put up by Varteks d.d., through ceding and sale of one part of real property in order to cover larger creditors, with additional significant compensatory measures which the Company is performing parallel with the restructuring process.

The financial restructuring plan within the pre-bankruptcy proceedings, has been coordinated with the Ministry of Finance as the largest creditor taking part in the proceedings. The mutually accepted proposal was accepted with 77.77% of votes, i.e. more than the needed 2/3 majority, at the voting hearing held 4 June 2013. In accordance with the agreed-upon financial restructuring plan, the Creditor Agreement is also nearing completion. The Agreement contains the means of covering claims, defines the new credit source in the amount of EUR 10 million, which is essential for stabilizing liquidity and business processes, as well as realizing other restructuring elements.

At the moment the Group employs approximately 2000 people and is an export-oriented company that realized HRK 105.1 million of income on foreign markets in 2012.

Continuation of Group operations/business is tied to successful realization of the entire restructuring plan, in accordance with the elements of the agreed-upon Financial Restructuring Plan, which also assumes successful completion of the Creditors Agreement.

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

Events after the date of the financial position report are those events which have positive or negative effects and which emerged between the financial position report date and the date of approving the issue of the financial statements.

The Group shall adjust the amounts which it recognised (declared) in its financial statements with events after the financial position report date which confirm the circumstances existing on the financial position report date (i.e. which need adjusting).

Amounts recognised in the financial statements are not adjusted with events after the financial position report date confirming the circumstances emerging after the financial position report date (i.e. which do not need adjusting). Such events, if significant, shall be presented in Notes.

2. NOTES TO THE ALL-INCLUSIVE PROFIT ACCOUNT

2.1. Income

Total income in 2012:

	<u>2011</u>	<u>2012</u>
	- in HRK -	- in HRK -
Income from core activities	347,698,221	270,851,585
Financial income	<u>3,041,561</u>	<u>5,344,015</u>
TOTAL:	<u><u>350,739,782</u></u>	<u><u>276,195,600</u></u>

2.1.1. Structure of income from core activities

	<u>2011</u>	<u>2012</u>
	- in HRK -	- in HRK -
Income from sales	319,332,947	249,190,347
Other income	<u>28,365,274</u>	<u>21,661,238</u>
TOTAL:	<u><u>347,698,221</u></u>	<u><u>270,851,585</u></u>

2.1.1.1. Income from sales

	<u>2011.</u>	<u>2012.</u>
	<i>- in HRK -</i>	<i>- in HRK -</i>
<i>Income from product sales</i>		
<i>Domestic market</i>	<u>104,926,476</u>	<u>66,883,855</u>
- wholesale	61,801,134	29,725,775
- retail	43,125,342	37,158,080
<i>Income from sales of goods</i>		
<i>Domestic market</i>	<u>79,478,968</u>	<u>70,078,739</u>
- wholesale	18,183,244	24,567,956
- retail	61,295,724	45,510,783
<i>Income from sales of products and services on the foreign market</i>	65,780,563	42,625,520
TOTAL PRODUCTS AND GOODS	<u>250,186,007</u>	<u>179,588,114</u>
<i>Domestic market</i>	184,405,444	136,962,594
<i>Foreign market</i>	65,780,563	42,625,520
<i>Income from services</i>		
<i>Domestic market</i>	11,375,573	7,104,407
<i>Foreign market</i>	<u>57,771,367</u>	<u>62,497,826</u>
TOTAL:	<u>69,146,940</u>	<u>69,602,233</u>
GRAND TOTAL:	<u>319,332,947</u>	<u>249,190,347</u>
<i>Domestic market</i>	195,781,017	144,067,001
<i>Foreign market</i>	123,551,930	105,123,346

2.1.1.2. Other income

	<u>2011</u>	<u>2012</u>
	- in HRK -	- in HRK -
<i>Net income from sale of long-term assets</i>	8,490,576	473,027
<i>Income from lease</i>	7,311,101	8,110,659
<i>Surplus</i>	1,501,414	872,967
<i>Income from collection of written-off receivables</i>	391,066	619,624
<i>Income from subsequently approved discounts</i>	35,691	17,668
<i>Income from collection of damages</i>	332,686	1,071,782
<i>Income from sale of materials, spare parts</i>	260,040	1,273,914
<i>Income from write-off of liabilities toward suppliers</i>	6,465,837	8,190,296
<i>Income from cancelling provisions</i>	436,459	144,152
<i>Other income</i>	<u>3,140,404</u>	<u>887,149</u>
TOTAL:	<u><u>28,365,274</u></u>	<u><u>21,661,238</u></u>

2.1.2. Structure of financial income

	<u>2011</u>	<u>2012</u>
	- in HRK -	- in HRK -
<i>Positive currency exchange rate differentials</i>	2,982,746	3,306,940
<i>Income from interest</i>	58,815	124,987
<i>Other income</i>	<u>-</u>	<u>1,912,088</u>
TOTAL:	<u><u>3,041,561</u></u>	<u><u>5,344,015</u></u>

2.2. Liabilities*Total liabilities in 2012:*

	<u>2011</u>	<u>2012</u>
	<i>- in HRK -</i>	<i>- in HRK -</i>
<i>Liabilities from core activities</i>	381,047,224	361,198,268
<i>Financial expenses/liabilities</i>	40,142,716	56,251,142
TOTAL:	<u>421,189,940</u>	<u>417,449,410</u>

2.2.1. Structure of liabilities from core activities

	<u>2011</u>	<u>2012</u>
	<i>- in HRK -</i>	<i>- in HRK -</i>
<i>Value adjustment / change of inventory of current production and finished products</i>	6,829,921	5,326,140
<i>Purchase value of sold goods</i>	87,625,732	72,618,811
<i>Raw material, material and energy expenses</i>	65,597,830	44,193,868
<i>Other material expenses</i>	3,242,210	2,522,076
<i>Depreciation</i>	16,303,323	16,972,726
<i>Non-material expenses</i>	74,119,112	73,409,099
<i>Staff costs</i>	120,241,111	109,194,770
<i>Value adjustment of long-term assets</i>	773,840	183,793
<i>Value-adjustment of short-term assets</i>	6,314,145	36,776,985
TOTAL:	<u>381,047,224</u>	<u>361,198,268</u>

2.2.1.1. Raw material and material expenses*These expenses include:*

	<u>2011</u>	<u>2012</u>
	<i>- in HRK -</i>	<i>- in HRK -</i>
<i>Raw material and material expenses</i>	51,798,648	31,581,186
<i>Energy</i>	13,799,182	12,612,682
TOTAL:	<u>65,597,830</u>	<u>44,193,868</u>

2.2.1.2. *Other material expenses*

	<u>2011</u>	<u>2012</u>
	<i>- in HRK -</i>	<i>- in HRK -</i>
<i>Other materials used</i>	1,339,603	847,107
<i>Vehicle expenses</i>	1,348,426	1,403,625
<i>Office materials used</i>	358,645	228,230
<i>Spare parts used</i>	130,326	7,919
<i>Write-off of small inventory</i>	<u>65,210</u>	<u>35,195</u>
TOTAL:	<u><u>3,242,210</u></u>	<u><u>2,522,076</u></u>

2.2.1.3. *Depreciation*

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

Depreciation costs in 2012 amount to HRK 16,972,726 (HRK 16,303,323 the previous year).

Notes 1.k., 1.l., 3.1. and 3.2 contain the overview of rates used and calculated depreciation per asset group.

2.2.1.4. Non-material expenses

	<u>2011</u>	<u>2012</u>
	- in HRK -	- in HRK -
<i>Employee transport</i>	11,754,143	10,731,923
<i>Rent</i>	17,506,964	16,303,704
<i>Severance pay and anniversary awards</i>	6,098,145	2,658,459
<i>Non-production services</i>	5,319,575	2,480,729
<i>Advertising and sponsorships</i>	3,917,272	3,796,140
<i>Taxes and contributions not depending on result</i>	3,510,625	3,139,238
<i>Other material rights</i>	2,573,916	3,830,827
<i>Banking services</i>	2,539,860	2,775,996
<i>Shortages</i>	2,198,258	1,073,124
<i>Maintenance services</i>	2,703,982	2,454,390
<i>Transport and forwarding</i>	1,674,898	1,524,576
<i>Credit card fees</i>	1,741,319	1,328,369
<i>Public, graphical and external trade services</i>	1,958,167	952,250
<i>Insurance premiums</i>	1,657,813	1,488,427
<i>Production services</i>	690,533	464,499
<i>Write-off of short-term assets</i>	261,967	149,307
<i>Other production services</i>	965,031	1,050,964
<i>Representation costs</i>	568,723	468,336
<i>Other expenses</i>	6,477,921	16,737,841
TOTAL:	<u>74,119,112</u>	<u>73,409,099</u>

2.2.1.5. Staff costs

	<u>2011</u>	<u>2012</u>
	- in HRK -	- in HRK -
Net salaries	78,067,266	72,780,507
Taxes and contributions on salaries and other staff expenses	<u>42,173,845</u>	<u>36,414,263</u>
TOTAL:	<u><u>120,241,111</u></u>	<u><u>109,194,770</u></u>

At the end of the year the Group had 2,155 employees (2,249 the previous year).

2.2.1.6. Value adjustment of long-term assets

Value adjustment of long-term assets amounts to HRK 183,793.

2.2.1.7. Value-adjustment of short-term assets

	<u>2011</u>	<u>2012</u>
	- in HRK -	- in HRK -
Expense of inventory value adjustment	4,150,473	23,789,841
Expense of value adjustment of accounts receivable and consumer loans	2,163,672	1,138,045
Expense of value adjustment of receivables from Varteks – Textiles Limited, London	-	<u>11,849,099</u>
TOTAL:	<u><u>6,314,145</u></u>	<u><u>36,776,985</u></u>

2.2.2. Structure of financial liabilities/expenses

	<u>2011</u>	<u>2012</u>
	- in HRK -	- in HRK -
Credit/loan interest liabilities	18,504,360	22,334,212
Other interest liabilities/expenses	13,607,002	28,306,672
Negative currency exchange rate differentials	5,809,889	4,072,420
Other financial liabilities	<u>2,221,465</u>	<u>1,537,838</u>
TOTAL:	<u><u>40,142,716</u></u>	<u><u>56,251,142</u></u>

2.3. Loss of fiscal year

Current year loss for Varteks Group amounts to HRK 141,679,068 (HRK 70,680,822 the previous year).

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

	HRK	
	2011	2012
<i>Varteks d.d. Varaždin</i>	(59,147,266)	(115,381,176)
<i>Varteks Odjeća d.o.o. Varaždin</i>	414,604	(4,131,169)
<i>Varteks Bednja d.o.o. Bednja</i>	(2,878,761)	(6,194,144)
<i>Varteks Ludbreg d.o.o. Ludbreg</i>	(2,247,077)	(5,722,696)
<i>Varteks ESOP d.o.o. Varaždin</i>	(2,029)	(1,269)
<i>Varteks Pro d.o.o. Varaždin</i>	403,539	1,629,535
<i>Burgtrade G.m.b.h. Eisenstadt</i>	(184,857)	(7,174,211)
<i>Vartex Textiles Limited, London</i>	(3,259,184)	-
<i>Varteks Trade d.o.o. Maribor</i>	(1,278,195)	(1,093,258)
<i>Varteks Plus d.o.o., Belgrade</i>	(2,132,926)	(2,294,235)
<i>Varteks Logistic d.o.o. Varaždin</i>	14,039	2,531
<i>Varteks Trgovina d.o.o., Široki Brijeg</i>	(98,064)	-
<i>Corrodo Nekretnine d.o.o. Rijeka</i>	(284,645)	(1,318,976)
TOTAL:	(70,680,822)	(141,679,068)

2.4. Profit/company tax

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

Total tax liability (obligation) amounts to HRK 425,258 (HRK 230,664 the previous year), of which HRK 412,103 in the Republic of Croatia and HRK 13,155 abroad.

Overview of tax losses for companies in the Republic of Croatia that can be used in future periods:

Year	Amount	Cumulative
2014	55,385,936	55,385,936
2015	89,025,665	144,411,601
201	54,021,006	198,432,607
2017.	87,947,924	286,380,531

The amount of deferred tax assets as at 31 December 2012 was calculated using the 20% rate, as shown below:

	2011	2012
	- in HRK -	- in HRK -
Deferred tax assets from tax losses (20%)	41,158,579	57,276,106
Position as at 31 December	41,158,579	57,276,106

Deferred tax assets were not declared in the financial position report because it is not certain that sufficient taxable profit tax will be achieved in order to use the deferred tax assets.

3. FINANCIAL POSITION REPORT

3.1. Intangible assets

						2011 - in HRK -
	Goodwill	Software	Investments in third party assets	Rights to model and trademark	Assets in preparation	Total
<u>PURCHASE VALUE</u>						
Position as at 1 Jan. 2011	504,663	1,244,275	15,869,634	151,083	145,226	17,914,881
Direct increase (purchase)	-	12,278	2,141,674	-	-	2,153,952
Increase by preparatory transfer	-	-	145,226	-	(145,226)	-
Currency rate differentials	-	-	104,186	-	-	104,186
Liabilities and sale	-	-	(2,494,507)	-	-	(2,494,507)
Position as at 31 December 2011	504,663	1,256,553	15,766,213	151,083	-	17,678,512
<u>VALUE ADJUSTMENT</u>						
Position as at 1 Jan. 2011	(504,663)	(860,940)	(7,081,508)	(75,578)	-	(8,522,689)
Current year depreciation	-	(97,534)	(1,952,350)	(30,216)	-	(2,080,100)
Currency rate differentials	-	-	(66,630)	-	-	(66,630)
Liabilities and sale	-	-	933,583	-	-	933,583
Position as at 31 December 2011	(504,663)	(958,474)	(8,166,905)	(105,794)	-	(9,735,836)
<u>CURRENT VALUE</u> of intangible assets as at 31 December 2011						
	-	298,079	7,599,308	45,289	-	7,942,676
<u>CURRENT VALUE</u> of intangible assets as at 1 Jan. 2011						
	-	383,335	8,788,126	75,505	145,226	9,392,192

3.1. Intangible assets - continued

	2012 - in HRK -				
	Goodwill	Software	Investments in third party assets	Rights to model and trademark	Total
<u>PURCHASE VALUE</u>					
Position as at 1 Jan. 2012	504,663	1,256,553	15,766,213	151,083	17,678,512
Adjustment of initial position	-	-	(586,055)	-	(586,055)
Direct increase (purchase)	-	-	194,413	-	194,413
Currency rate differentials	-	-	(154,187)	-	(154,187)
Liabilities and sale	-	-	(327,711)	-	(327,711)
Position as at 31 December, 2012	504,663	1,256,553	14,892,673	151,083	16,804,972
<u>VALUE ADJUSTMENT</u>					
Position as at 1 Jan. 2012	(504,663)	(958,474)	(8,166,905)	(105,794)	(9,735,836)
Adjustment of initial position	-	-	586,055	-	586,055
Current year depreciation	-	(78,776)	(1,122,724)	(30,217)	(1,231,717)
Currency rate differentials	-	-	100,178	-	100,178
Liabilities and sale	-	-	273,164	-	273,164
Position as at 31 December, 2012	(504,663)	(1,037,250)	(8,330,232)	(136,011)	(10,008,156)
<u>CURRENT VALUE</u>					
of intangible assets as at 31 Dec. 2012	-	219,303	6,562,441	15,072	6,796,816
<u>CURRENT VALUE</u>					
of intangible assets as at 1 Jan. 2012	-	298,079	7,599,308	45,289	7,942,676

Intangible assets per company:

	2011 - in HRK -	2012 - in HRK -
Varteks d.d. Varaždin	6,561,023	5,611,683
Varteks Logistic d.o.o. Varaždin	11,255	8,799
Varteks Plus d.o.o., Belgrade	697,136	506,499
Varteks Trade d.o.o. Maribor	673,262	669,835
TOTAL:	7,942,676	6,796,816

3.2. Real estate, plants and equipment

2011
- in HRK -

	Land	Structures/buildings	Plants and equipment	Tools, inv. and means of transport	Tangible assets in preparation	Other assets	Total
<u>PURCHASE VALUE</u>							
Position as at 1 Jan. 2011	54,753,233	369,859,553	256,519,613	35,758,909	1,186,476	232,048	718,309,832
Reclassification of assets	-	45,322,333	-	-	-	-	45,322,333
Direct increase (purchase)	669,174	139,281	570,036	34,468	-	-	1,412,959
Increase by preparatory transfer	-	-	147,584	-	(147,584)	-	-
Adjustments	-	1,120	305,667	(305,667)	-	-	1,120
Revaluation	132,852,307	396,978,002	-	-	-	-	529,830,309
Currency rate differentials	-	31,858	111,755	-	-	-	143,613
Liabilities and sale	(718,637)	(4,872,305)	(9,914,931)	(678,245)	(214,030)	-	(16,398,148)
Position as at 31 December 2011	187,556,077	807,459,842	247,739,724	34,809,465	824,862	232,048	1,278,622,018
<u>VALUE ADJUSTMENT</u>							
Position as at 1 Jan. 2011	-	(103,349,691)	(193,776,929)	(23,993,669)	-	-	(321,120,289)
Current year depreciation	-	(5,367,172)	(6,416,147)	(2,439,904)	-	-	(14,223,223)
Currency rate differentials	-	(4,509)	(81,713)	-	-	-	(86,222)
Revaluation	-	(182,784,936)	-	-	-	-	(182,784,936)
Liabilities and sale	-	1,914,891	9,714,676	653,474	-	-	12,283,041
Position as at 31 December 2011	-	(289,591,417)	(190,560,113)	(25,780,099)	-	-	(505,931,629)
<u>CURRENT VALUE</u>							
o real estate, plants and equipment as at 31 Dec. 2011	187,556,077	517,868,425	57,179,611	9,029,366	824,862	232,048	772,690,389
<u>CURRENT VALUE</u>							
o real estate, plants and equipment as at 1 Jan. 2011	54,753,233	266,509,862	62,742,684	11,765,240	1,186,476	232,048	397,189,543

As at 31 December 2011, Group assets (land and structures) were mortgaged to creditors as insurance for coverage of liabilities in the book amount of HRK 630,673,481 (via Notes 3.17., 3.19., 3.21.).

In 2011 the Group performed reclassification of assets for sale into assets in use, and treated these as all other assets in use.

3.2. Real property, plants and equipment - continued

	2012 - in HRK -							
	Land	Structures/buildings	Plants and equipment	Tools, inv. and means of transport	Tangible assets in preparation	Advance payments	Other assets	Total
<u>PURCHASE VALUE</u>								
Position as at 1 Jan. 2012	187,556,077	807,459,842	247,739,724	34,809,465	824,862	-	232,048	1,278,622,018
Exclusion from consolidation	-	-	(1,337,870)	-	-	-	-	(1,337,870)
Direct increase (purchase)	-	91,931	243,165	51,521	-	-	-	386,617
Increase by preparatory transfer	-	-	-	15,780	(15,780)	-	-	-
Adjustments	-	-	-	(19,190)	-	-	-	(19,190)
Advance payments	-	-	-	-	-	33,657	-	33,657
Currency rate differentials	-	(31,117)	(104,721)	-	-	-	-	(135,838)
Liabilities and sale	(1,725,378)	(4,330,664)	(564,141)	(1,058,373)	-	-	-	(7,678,556)
Position as at 31 December, 2012	185,830,699	803,189,992	245,976,157	33,799,203	809,082	33,657	232,048	1,269,870,838
<u>VALUE ADJUSTMENT</u>								
Position as at 1 Jan. 2012	-	(289,591,419)	(190,560,111)	(25,780,099)	-	-	-	(505,931,629)
Exclusion from consolidation	-	-	1,220,088	-	-	-	-	1,220,088
Current year depreciation	-	(8,102,859)	(5,703,700)	(1,934,450)	-	-	-	(15,741,009)
Currency rate differentials	-	970	54,655	-	-	-	-	55,625
Adjustments	-	-	-	10,057	-	-	-	10,057
Liabilities and sale	-	824,445	506,634	896,366	-	-	-	2,227,445
Position as at 31 December, 2012	-	(296,868,863)	(194,482,434)	(26,808,126)	-	-	-	(518,159,423)
<u>CURRENT VALUE</u>								
o real estate, plants and equipment as at 31 Dec. 2012	185,830,699	506,321,129	51,493,723	6,991,077	809,082	33,657	232,048	751,711,415
<u>CURRENT VALUE</u>								
o real estate, plants and equipment as at 1 Jan. 2012	187,556,077	517,868,423	57,179,613	9,029,366	824,862	-	232,048	772,690,389

As at 31 Dec. 2012, Group assets (land and structures) were mortgaged to creditors as insurance for coverage of liabilities in the book amount of HRK 637,376,582 (via Notes 3.17., 3.19., 3.21.).

3.2. Real property, plants and equipment - continued

In 2011 the Group performed reclassification of assets for sale into assets in use, and treated these as all other assets in use.

As at 31 December 2011 the Group recorded the estimate of the value of long-term tangible assets (land and structures) as calculated by official estimators, and declared:

- Increase of the value of assets whose estimated (fair) value is higher than the book value, revaluation reserves in the amount of HRK 278,255,370 and deferred tax liabilities in the amount of HRK 69,563,843 (Notes 3.15., 3.17.4.),
- Decrease of the value of assets whose estimated (fair) value is lower than the book value, and burdened current year liabilities with these losses from the decrease in the amount of HRK 773,840 (Note 2.2.1.6.).

Real property, plants and equipment per company:

	<u>2011</u>	<u>2012</u>
	- in HRK -	- in HRK -
Varteks d.d. Varaždin	770,487,589	750,079,612
Varteks Logistic d.o.o. Varaždin	151,197	129,936
Varteks Textiles Limited, London	1,573	-
Burgtrade G.m.b.h. Eisenstadt	7,342	1,419
Varteks Trgovina d.o.o., Široki Brijeg	116,209	-
Varteks Plus d.o.o., Belgrade	1,029,299	751,879
Varteks Trade d.o.o. Maribor	897,180	748,569
TOTAL:	<u>772,690,389</u>	<u>751,711,415</u>

3.2. Real property, plants and equipment - continued

Book value of burdened and non-burdened assets:

	<u>2012</u>
	- in HRK -
Book value of land and structures/objects	692,151,828
Book value of mortgaged assets	618,351,612
Book value of assets on which the right to cash claim has been recorded in case of sale	<u>19,024,970</u>
Book value of unburdened assets	54,775,246
Declared mortgage value	487,158,194
Liabilities of Varteks d.d. Varaždin based on which mortgage has been declared	
Loans	261,359,667
Insurance premiums	4,227,943
Tax liability	140,584,102
Warranties/guarantees	10,150,710
Letters of credit	<u>71,642</u>
TOTAL:	<u><u>416,394,064</u></u>
Related company tax liabilities:	
Varteks Bednja d.o.o. Bednja	4,166,512
Varteks Ludbreg d.o.o. Ludbreg	6,774,027
Varteks Odjeća d.o.o. Varaždin	<u>37,764,146</u>
TOTAL:	<u><u>48,704,685</u></u>
GRAND TOTAL LIABILITIES:	<u><u>465,098,749</u></u>

3.3. Stakes (shares) in related companies

Investments in stakes declared by the following companies:

	<u>- in HRK -</u>
Varteks d.d. Varaždin	<u>14,822,645</u>
TOTAL:	<u>14,822,645</u>

Investments were performed in stakes of the following companies:

	<u>Ownership</u>	<u>2011</u>	<u>2012</u>
	%	- in HRK -	- in HRK -
Corrado Nekretnine d.o.o. Rijeka	50	16,426,266	16,426,266
Pothodnik d.o.o. Varaždin	100	20,000	-
TOTAL:		<u>16,446,266</u>	<u>16,426,266</u>
Results taken over - profit / (loss)		<u>(284,645)</u>	<u>(1,603,621)</u>
TOTAL:		<u>16,161,621</u>	<u>14,822,645</u>

Changes during the year:

	<u>2012</u>
	- in HRK -
Position as at 1 January	16,446,266
Decrease:	
- Sale of business stake in Pothodnik d.o.o.	(20,000)
Position as at 31 December	16,426,266

3.4. Participating interests (stakes)

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

	<u>2011</u>	<u>2012</u>
	- in HRK -	- in HRK -
<i>Stake:</i>		
<i>Luvar d.o.o. Varaždin</i>	205,810	205,810
<i>Radio Varaždin</i>	140,000	140,000
<i>NAMA Zagreb d.o.o.</i>	20,000	20,000
<i>Investment value adjustment</i>	<u>(205,810)</u>	<u>(205,810)</u>
<i>TOTAL:</i>	<u>160,000</u>	<u>160,000</u>
	<u>2011</u>	<u>2012</u>
	- in HRK -	- in HRK -
<i>Shares (stocks):</i>		
<i>Croatia banka d.d. Zagreb</i>	560,730	560,730
<i>Hrvatska gospodarska banka</i>	22,951	22,951
<i>Croatia airlines d.d.</i>	5,900	5,900
<i>Value adjustment of shares</i>	<u>(583,681)</u>	<u>(583,681)</u>
<i>TOTAL:</i>	<u>5,900</u>	<u>5,900</u>
<i>GRAND TOTAL:</i>	<u>165,900</u>	<u>165,900</u>

3.5. *Placed loans, deposits, etc.*

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

	<u>2011</u>	<u>2012</u>
	<i>- in HRK -</i>	<i>- in HRK -</i>
<i>Pledge/rent deposits</i>	595,543	619,295
<i>Deposit in Privredna bank</i>	116,702	-
<i>Lease deposits</i>		
<i>- Hypo Leasing</i>	15,980	15,980
<i>- Volksbank leasing</i>	2,150	-
<i>- PBZ Leasing</i>	-	147,553
	<u>730,375</u>	<u>782,828</u>
<i>TOTAL:</i>		

3.6. *Other long-term financial assets*

	<u>2011</u>	<u>2012</u>
	<i>- in HRK -</i>	<i>- in HRK -</i>
<i>Receivables from the state based on old foreign currency savings – takeover of flats</i>	4,365,453	4,365,453
<i>TOTAL:</i>	<u>4,365,453</u>	<u>4,365,453</u>

3.7. Other long-term receivables

Other long-term receivables declared toward the following companies:

	<u>2011</u>	<u>2012</u>
	<i>- in HRK -</i>	<i>- in HRK -</i>
<i>Varteks ESOP d.o.o. Varaždin</i>	2,710,458	2,579,386
<i>Varteks d.d. Varaždin</i>	<u>897,753</u>	<u>554,290</u>
TOTAL:	<u><u>3,608,211</u></u>	<u><u>3,133,676</u></u>

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

	<u>2011</u>	<u>2012</u>
	<i>- in HRK -</i>	<i>- in HRK -</i>
<i>Long-term receivables based on sale of own shares</i>	<u>2,710,458</u>	<u>2,579,386</u>
TOTAL:	<u><u>2,710,458</u></u>	<u><u>2,579,386</u></u>

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 and transfer of shares of Varteks d.d. to Varteks Esop d.o.o. as of 21 October 2010, 305,005 Varteks d.d. shares of HRK 200 per-share nominal value (total nominal value HRK 61,001,000) were sold and transferred.

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

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

2010	<u>Number of shares</u>	<u>Amount</u> - in HRK -
Shares sold in the first cycle of the ESOP programme	155,937	1,443,029
- collected		(341,345)
TOTAL - uncollected		<u>1,101,684</u>
- Long-term receivables		694,133
- Short-term receivables		407,551
Shares for sale (2 nd and 3 rd cycle)	<u>149,068</u>	<u>2,522,231</u>
GRAND TOTAL as at 31 December 2010	<u>305,005</u>	<u>3,623,915</u>
- Long-term receivables		3,216,364
- Short-term receivables		407,551
2011	<u>Number of shares</u>	<u>Amount</u> - in HRK -
- Collected shares		(400,777)
GRAND TOTAL as at 31 December 2011	<u>305,005</u>	<u>3,223,138</u>
- Long-term receivables		2,710,458
- Short-term receivables		512,680
2012	<u>Number of shares</u>	<u>Amount</u> - in HRK -
- Collected shares		(416,246)
- Agreement termination	(5,433)	(57,155)
GRAND TOTAL as at 31 December 2012	<u>305,005</u>	<u>2,806,892</u>
- Long-term receivables		2,579,386
- Short-term receivables		227,506
Position of shares in the ESOP programme as at 31 December 2012		
Shares sold to employees in the first cycle	155,937	
Termination of sales agreement	(5,433)	
Shares for sale	<u>154,501</u>	
GRAND TOTAL as at 31 December 2012	<u>305,005</u>	

3.7.2. *Other long-term receivables*

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

	<u>31 Dec. 2011</u> - in HRK -	<u>31 Dec. 2012</u> - in HRK -
<i>Receivables based on:</i>		
- <i>Sold flats</i>	376,471	205,975
- <i>Placed property loans/credits</i>	377,130	375,250
<i>Other long-term receivables – Tiskara d.o.o.</i>	174,659	174,659
	-----	-----
<i>TOTAL:</i>	928,260	755,884
	-----	-----
<i>Value adjustment of other long-term receivables</i>	-	(174,659)
 <i>Current maturity of long-term receivables based on sold flats</i>		
	(30,507)	(26,935)
	-----	-----
<i>TOTAL:</i>	897,753	554,290
	=====	=====

3.8. *Inventory**Inventory, per company:*

	<u>2011</u>	<u>2012</u>
	- in HRK -	- in HRK -
<i>Varteks d.d. Varaždin</i>	82,166,314	38,686,495
<i>Varteks Odjeća d.o.o. Varaždin</i>	579,527	418,846
<i>Varteks Bednja d.o.o. Bednja</i>	92,058	172,605
<i>Varteks Ludbreg d.o.o. Ludbreg</i>	190,161	57,390
<i>Varteks Pro d.o.o. Varaždin</i>	-	772,438
<i>Varteks Plus d.o.o., Belgrade</i>	5,900,685	3,146,464
<i>Varteks Trade d.o.o. Maribor</i>	2,382,412	1,188,281
TOTAL:	<u>91,311,157</u>	<u>44,339,905</u>

Inventory includes:

	<u>2011</u>	<u>2012</u>
	- in HRK -	- in HRK -
<i>Raw materials and materials</i>	30,846,044	15,734,111
<i>Spare parts</i>	3,097,046	248,903
<i>Current production</i>	3,416,655	1,244,807
<i>Finished products</i>	27,533,883	21,514,544
<i>Trade goods</i>	33,397,045	17,629,758
TOTAL:	----- 98,290,673	----- 56,372,123
<i>Adjustment of inventory value</i>	----- (7,468,380)	----- (12,566,476)
TOTAL:	----- 90,822,293	----- 43,805,647
<i>Advance payments for inventory</i>	<u>488,864</u>	<u>534,258</u>
GRAND TOTAL:	<u>91,311,157</u>	<u>44,339,905</u>

Value adjustment changes:

	<u>2011</u>	<u>2012</u>
	- in HRK -	- in HRK -
<i>Position as at 1 January</i>	(8,448,474)	(7,468,380)
<i>New value adjustments</i>	(5,057,854)	(23,789,841)
<i>Cancellation of value adjustment</i>	6,112,739	18,650,454
<i>Adjustments</i>	----- (74,791)	----- 41,291
<i>Position as at 31 December</i>	<u>(7,468,380)</u>	<u>(12,566,476)</u>

3.9. Accounts receivable

Accounts receivable (receivables from clients) per company:

	<u>2010</u>	<u>2011</u>
	- in HRK -	- in HRK -
Varteks d.d. Varaždin	21,195,449	15,241,025
Varteks Odjeća d.o.o. Varaždin	5,598	498
Varteks Bednja d.o.o. Bednja	23,285	-
Varteks Pro d.o.o. Varaždin	3,734,940	5,579,339
Varteks Logistic d.o.o. Varaždin	415,471	356,838
Vartex Textiles Limited, London	268,910	-
Varteks Plus d.o.o., Belgrade	767,476	700,489
Varteks Trade d.o.o. Maribor	72,221	48,932
Varteks Trgovina d.o.o., Široki Brijeg	22	-
TOTAL:	<u>26,483,372</u>	<u>21,927,121</u>

Accounts receivable include:

	<u>2011</u>	<u>2012</u>
	- in HRK -	- in HRK -
Domestic accounts receivable		
- for goods and services	47,146,183	33,044,562
- for interest	3,092,838	2,519,710
Foreign accounts receivable	23,347,584	24,479,264
TOTAL:	<u>73,586,605</u>	<u>60,043,536</u>
Value adjustment of suspect and disputed accounts receivable		
- for goods and services, domestic	(34,635,122)	(21,549,311)
- for interest	(3,092,262)	(2,519,710)
- foreign	(9,375,849)	(14,047,394)
TOTAL:	<u>(47,103,233)</u>	<u>(38,116,415)</u>
GRAND TOTAL:	<u>26,483,372</u>	<u>21,927,121</u>

Changes in value adjustment during the year:

	<u>2011</u>	<u>2012</u>
	- in HRK -	- in HRK -
Position as at 1 January	(44,694,048)	(47,103,233)
Value adjustment increase	(2,370,316)	(1,136,630)
Cancellation of value adjustment	404,336	10,447,758
Miscellaneous	(443,205)	(324,310)
Position as at 31 December	<u>(47,103,233)</u>	<u>(38,116,415)</u>

3.10. Other receivables

Other receivables declared in the companies:

	<u>2011</u>	<u>2012</u>
	- in HRK -	- in HRK -
<i>Varteks d.d. Varaždin</i>	10,871,453	16,768,627
<i>Varteks Odjeća d.o.o. Varaždin</i>	250,084	473,286
<i>Varteks Bednja d.o.o. Bednja</i>	82,947	102,614
<i>Varteks Ludbreg d.o.o. Ludbreg</i>	49,049	91,295
<i>Varteks Pro d.o.o. Varaždin</i>	1,413,756	910,430
<i>Varteks Logistic d.o.o. Varaždin</i>	1,890	18,426
<i>Varteks ESOP d.o.o. Varaždin</i>	512,680	227,506
<i>Varteks Plus d.o.o., Belgrade</i>	365,968	135,656
<i>Varteks Trade d.o.o. Maribor</i>	32,859	20,117
<i>Varteks Trgovina d.o.o., Široki Brijeg</i>	5,309	-
TOTAL:	<u>13,585,995</u>	<u>18,747,957</u>

Position/item contains:

	<u>2011</u>	<u>2012</u>
	- in HRK -	- in HRK -
<i>Receivables from the state</i>	12,497,085	17,920,808
<i>Receivables from employees</i>	557,030	241,460
<i>Other receivables</i>	530,419	585,689
TOTAL:	<u>13,585,995</u>	<u>18,747,957</u>

3.10.1. Receivables from the state

	<u>2011</u>	<u>2012</u>
	<i>- in HRK -</i>	<i>- in HRK -</i>
<i>VAT receivables</i>	11,892,034	17,063,565
<i>Receivables from the state for other compensations</i>	605,051	857,243
TOTAL:	<u>12,497,085</u>	<u>17,920,808</u>

3.10.2. Receivables from employees

	<u>2011</u>	<u>2012</u>
	<i>- in HRK -</i>	<i>- in HRK -</i>
<i>Receivables for advances on travel expenses</i>	42,041	74,767
<i>Receivables for cash in hand</i>	19,700	19,400
<i>Other receivables (shortages and other)</i>	464,782	120,358
TOTAL:	<u>526,523</u>	<u>214,525</u>
<i>Current maturity of long-term receivables</i>	<u>30,507</u>	<u>26,935</u>
GRAND TOTAL:	<u>557,030</u>	<u>241,460</u>

3.10.3. Other receivables

	<u>2011</u>	<u>2012</u>
	<i>- in HRK -</i>	<i>- in HRK -</i>
<i>Receivables for given advance payments</i>	3,848	83,578
<i>Receivables for assets sold in dispute</i>	-	264,097
<i>Receivables for shares sold to employees</i>	512,680	227,506
<i>Other receivables</i>	13,891	10,508
TOTAL:	<u>530,419</u>	<u>585,689</u>

3.11. Investments in securities

Investments in securities are declared in the companies as follows:

	<u>2011</u>	<u>2012</u>
	- in HRK -	- in HRK -
Varteks d.d. Varaždin	6,800,926	1,057,888
Varteks Logistic d.o.o. Varaždin	100	-
Burgtrade G.m.b.h. Eisenstadt	2,840	211
Varteks Plus d.o.o., Belgrade	335,841	413,462
Varteks Trade d.o.o. Maribor	180,669	158,654
	<u>7,320,376</u>	<u>1,630,215</u>
TOTAL:	<u>7,320,376</u>	<u>1,630,215</u>

Position/item contains:

	<u>2011</u>	<u>2012</u>
	- in HRK -	- in HRK -
Retail checks	1,902,892	204,217
Value adjustment – retail checks	(1,553,378)	(204,217)
Credit card receivables	6,967,169	1,629,266
Miscellaneous	3,693	949
	<u>7,320,376</u>	<u>1,630,215</u>
TOTAL:	<u>7,320,376</u>	<u>1,630,215</u>

3.12. *Placed loans, deposits, etc.*

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

	<u>2011</u>	<u>2012</u>
	<i>- in HRK -</i>	<i>- in HRK -</i>
<i>Varteks d.d. Varaždin</i>	1,855,825	1,000,909
<i>Varteks Plus d.o.o., Belgrade</i>	106,507	98,203
<i>Varteks Trgovina d.o.o., Široki Brijeg</i>	15,799	-
TOTAL:	<u>1,978,131</u>	<u>1,099,112</u>

Position/item contains:

	<u>2011</u>	<u>2012</u>
	<i>- in HRK -</i>	<i>- in HRK -</i>
<i>Placed deposits</i>	176,536	98,203
<i>Placed credits/loans:</i>		
<i>- consumer</i>	3,557,330	998,234
<i>- financial</i>	511,218	511,218
TOTAL:	<u>4,245,084</u>	<u>1,607,655</u>
<i>Value adjustment</i>	<u>(2,275,296)</u>	<u>(532,042)</u>
TOTAL:	<u>1,969,788</u>	<u>1,075,613</u>
<i>Credit interest receivables</i>	288,052	303,208
<i>Value adjustment of credit interest receivables</i>	<u>(279,709)</u>	<u>(279,709)</u>
TOTAL:	<u>1,978,131</u>	<u>1,099,112</u>

Changes in value adjustment of credit/loan principal:

	<u><i>- in HRK -</i></u>
<i>Position as at 1 Jan. 2012</i>	(2,275,296)
<i>Increase</i>	(110,848)
<i>- new adjustment burdening business liabilities</i>	
<i>Decrease</i>	
<i>- cancellation of value adjustment</i>	<u>1,854,102</u>
<i>Position as at 31 December, 2012</i>	<u>(532,042)</u>

3.13. Cash on accounts and in hand

The following cash positions in the following companies are declared as at 31 Dec. 2012:

	<u>2011</u>	<u>2012</u>
	- in HRK -	- in HRK -
<i>Varteks d.d. Varaždin</i>	1,094,060	1,530,440
<i>Varteks Odjeća d.o.o. Varaždin</i>	34,093	-
<i>Varteks Bednja d.o.o. Bednja</i>	11,260	-
<i>Varteks Ludbreg d.o.o. Ludbreg</i>	1,907	1,500
<i>Varteks Pro d.o.o. Varaždin</i>	30,393	2,934,107
<i>Varteks Logistic d.o.o. Varaždin</i>	95,348	133,309
<i>Varteks ESOP d.o.o. Varaždin</i>	18,796	16,992
<i>Vartex Textiles Limited, London</i>	11,053	-
<i>Burgtrade G.m.b.h. Eisenstadt</i>	1,159	-
<i>Varteks Plus d.o.o., Belgrade</i>	168,109	186,781
<i>Varteks Trade d.o.o. Maribor</i>	465,188	320,652
<i>Varteks Trgovina d.o.o., Široki Brijeg</i>	708	-
TOTAL:	<u>1,932,074</u>	<u>5,123,781</u>

Cash (money) includes:

	<u>2011</u>	<u>2012</u>
	- in HRK -	- in HRK -
<i>Business (giro) account</i>	1,297,972	4,236,330
<i>Cash on hand</i>	77,311	7,198
<i>Foreign currency account</i>	131,247	520,348
<i>Other cash assets</i>	31,665	15,883
<i>Transfer account</i>	393,879	344,022
TOTAL:	<u>1,932,074</u>	<u>5,123,781</u>

During 2012, the following companies had their business accounts blocked:

Varteks d.d.

- From 24 February to 1 March and 26 to 30 May 2012 (for these instances the Company asked for returns due to FINA's double processing of payment orders)
- From 9 to 14 June 2012

Varteks Odjeća d.o.o. Varaždin, 29-30 November 2012

Varteks Ludbreg d.o.o. Ludbreg, 30 August to 7 September 2012

3.14. Paid expenses of future period and calculated income

The position, declared in the companies:

	<u>2011</u>	<u>2012</u>
	- in HRK -	- in HRK -
<i>Varteks d.d. Varaždin</i>	376,361	507,369
<i>Varteks Plus d.o.o., Belgrade</i>	46,775	1,211,716
<i>Varteks Trade d.o.o. Maribor</i>	22,402	4,900
<i>Varteks Logistic d.o.o. Varaždin</i>	-	3,958
	<u>445,538</u>	<u>1,727,943</u>
TOTAL:		

Position/item contains:

	<u>2011</u>	<u>2012</u>
	- in HRK -	- in HRK -
<i>Rent calculated in advance</i>	376,293	486,329
<i>Miscellaneous</i>	69,245	1,241,614
	<u>445,538</u>	<u>1,727,943</u>
TOTAL:		

3.15. Capital and reserves

- i) *Varteks d.d. Varaždin 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.*
- ii) *Pursuant to the Decision of the General Assembly dated 5 June 1998, capital stock of Varteks d.d. Varaždin 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.*
- iii) *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.*
- iv) *As at 31 December 2007 the capital stock of Varteks d.d. Varaždin amounted to HRK 309,171,800 divided into 1,545,859 ordinary shares of HRK 200 per-share nominal value.*
- v) *In 2008, recapitalisation of Varteks d.d. Varaždin 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.*
- vi) *On 9 September 2011 the General Assembly reached the Decision on simplified decrease of capital stock, by which the nominal share value was decreased from HRK 200 for HRK 150, i.e. issued capital stock of Varteks d.d. Varaždin was decreased from HRK 384,161,400 to HRK 96,040,350. Pursuant to the above, the capital stock was divided into 1,920,807 shares of HRK 50 nominal per-share value.*

3.15. Capital and reserves - continued

The effects arising from the decrease of issued capital stock, own shares and reserves for own shares and the use of other reserves on the Group level:

	<u>HRK</u>
Coverage of:	
- Losses	280,801,190
Forming of:	
- Capital reserves	17,748,231
vii) As at 31 December 2011, the total portfolio of own shares was 9.56% of capital stock, or 183,653 shares of HRK 50 nominal per-share value (in 2010 it was 183,653 and HRK 200).	
viii) As at 31 December 2011, the parent company Varteks d.d. Varaždin estimated the increased value of tangible assets (land and structures) and declared the effects of revaluation within revaluation reserves (Note 3.2.).	

In 2012 these reserves were decreased for the amount of depreciation calculated on the revaluated part of assets in current year and realized revaluation reserves based on the sale of long-term tangible assets.

Changes in revaluation reserves during the year:

	<u>2012</u>
	- in HRK -
Position as at 1 January	
Increase	
- Asset revaluation	347,819,213
Decrease	
- Deferred tax obligation (rate = 20%)	<u>(69,563,843)</u>
Position as at 31 December	<u><u>278,255,370</u></u>

3.15. Capital and reserves - continued

ix) *The following tax obligations have been ascertained through tax inspection performed by the Ministry of Finance, Varaždin Tax Administration, covering the period from 2006 to 2009, and for which an attestation has been issued on 27 March 2012:*

- *Calculated interest and tax obligations up to 31 December 2011 in the amount of HRK 6,862,543 for earlier losses*
- *Interest until the date of the attestation in the amount of HRK 291,451 for financial liabilities of the current year*
- *Decrease of tax loss carried forward, in the amount of HRK 12,484,219.*

Total capital and reserves as at 31 Dec. 2012 amounts to HRK 181,976,069 (HRK 316,703,078 the previous year).

	<u>2011</u>	<u>2012</u>
	- in HRK -	- in HRK -
- Capital stock (initial capital)	96,040,350	96,040,350
- Capital reserves	17,748,231	-
- Reserves from profit	246,700	475,381
- Reserves for own shares	9,182,650	9,182,650
- Treasury/own shares	(9,182,650)	(9,182,650)
- Other reserves	246,700	475,381
- Revaluation reserves	278,255,370	273,081,818
- Loss carried forward	(4,906,751)	(45,942,412)
- Loss of fiscal year	(70,680,822)	(141,679,068)
TOTAL:	<u>316,703,078</u>	<u>181,976,069</u>

3.15. Capital and reserves - continued

Company ownership structure:

	31 Dec. 2011		31 Dec. 2012	
	% stake in ownership	Number of shares	% stake in ownership	Number of shares
Karlovačka banka d.d.	9.19	176,566	9.19	176,566
Custodial bank – Raiffeisenbank	9.08	174,516	9.08	174,516
Custodial bank – Splitska bank	8.48	162,746	8.43	161,910
Varteks Esop d.o.o.	7.76	149,068	8.04	154,501
Bakić Nenad	7.09	136,181	7.80	149,792
Stjepan Igrac	7.03	134,944	7.03	134,944
Validus d.d.	6.04	116,076	-	-
Custodial account of Zagrebačka bank	1.14	21,869	0.29	5,530
Custodial bank – PBZ	3.20	61,714	3.13	60,318
Zoran Košćec	2.55	48,897	2.55	48,897
Dražen Košćec	2.05	39,467	2.05	39,467
Vladimir Košćec	1.34	25,835	1.34	25,835
Custodial bank – Erste&Steiermarkische bank	0.43	8,164	0.43	8,164
Custodial bank – HPB	0.38	7,453	0.39	7,453
Avorato d.o.o.	0.42	8,000	-	-
Čakovečki mlinovi d.d.	-	-	0.26	5,000
Centar banka d.d. Zagreb	-	-	0.13	2,472
Other companies	0.25	4,650	0.21	3,840
State Property Management Agency	0.18	3,515	0.17	3,368
FIMA vrijednosnice d.o.o.	0.16	2,990	0.16	2,990
Other custodial banks	0.11	1,947	0.09	1,694
Foreign persons	0.08	1,595	0.08	1,549
Custodial bank – Hypo Alpe-Adria	0.08	1,546	-	-
Stog d.o.o.	0.05	1,000	0.05	1,000
Other domestic private entities (individuals)	23.35	448,415	29.54	567,348
Own/treasury shares	9.56	183,653	9.56	183,653
TOTAL:	100.00	1,920,807	100.00	1,920,807

3.16. Provisions

Provisions are declared in the parent company Varteks d.d. and include:

	<u>2011</u>	<u>2012</u>
	- in HRK -	- in HRK -
Provisions for court cases (litigation costs)	<u>239,775</u>	<u>86,622</u>
TOTAL:	<u>239,775</u>	<u>86,622</u>

Changes during the year

	<u>2011</u>	<u>2012</u>
		in HRK
Position as at 1 January	744,081	239,775
<i>Decrease</i>		
- Payout – completed disputes	(67,848)	(9,000)
- Elimination benefiting income	<u>(436,458)</u>	<u>(144,153)</u>
Position as at 31 December	<u>239,775</u>	<u>86,622</u>

The above provisions have been declared based on risk assessment as per the court proceedings initiated against the Company.

3.17. Long-term liabilities

Other long-term liabilities declared in the companies:

	<u>2011</u>	<u>2012</u>
	- in HRK -	- in HRK -
Varteks d.d. Varaždin	204,324,407	174,473,856
Varteks Logistic d.o.o. Varaždin	106,643	100,000
Varteks Trade d.o.o. Maribor, Slovenia	-	57,220
TOTAL:	<u>204,431,050</u>	<u>174,631,076</u>

Position/item contains:

	<u>2011</u>	<u>2012</u>
	- in HRK -	- in HRK -
Liabilities for loans/credits, deposits and other	6,592,692	6,098,615
Liabilities toward banks and other		
financial institutions	181,272,188	170,002,921
Accounts payable	9,487	130,500
Deferred tax liabilities	69,563,843	68,270,455
TOTAL:	<u>257,438,210</u>	<u>244,502,491</u>

Current maturity of long-term liabilities as per:

- loans	(1,789,897)	(2,710,154)
- bank credits/loans	(50,944,731)	(67,010,692)
- leasing	(263,045)	(96,569)
- suppliers (accounts payable)	(9,487)	(54,000)
TOTAL:	<u>(53,007,160)</u>	<u>(69,871,415)</u>
TOTAL LONG-TERM PORTION:	<u>204,431,050</u>	<u>174,631,076</u>

Current matured payables include:

	<i>Unpaid matured liabilities as at 31 Dec. 2012</i>	<i>Maturing in 2013</i>	<i>TOTAL</i>
- Loans	1,295,820	1,414,334	2,710,154
- Bank loans	34,059,666	32,951,026	67,010,692
- Leasing	-	96,569	96,569
- Suppliers	-	54,000	54,000
TOTAL:	<u>35,355,486</u>	<u>34,515,929</u>	<u>69,871,415</u>

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

- in HRK -

<i>Lender</i>	<i>Purpose</i>	<i>Interest at the end of year Annual %</i>	<i>2011</i>	<i>2012</i>
<i>Croatia osiguranje d.d. Varaždin Hrvatske vode Zagreb</i>	<i>reprogramming co-financing</i>	<i>10.00</i>	<i>6,480,000 12,692</i>	<i>5,983,058 15,557</i>
<i>TOTAL:</i>			<i>6,492,692</i>	<i>5,998,615</i>
<i>Deposits</i>			<i>100,000</i>	<i>100,000</i>
<i>TOTAL LOANS AND DEPOSITS</i>			<i>6,592,692</i>	<i>6,098,615</i>
<i>Current maturity</i>			<i>(1,789,897)</i>	<i>(2,710,154)</i>
<i>TOTAL LONG-TERM PORTION:</i>			<i>4,802,795</i>	<i>3,388,461</i>
			<i>2011</i>	<i>2012</i>
			<i>- in HRK -</i>	<i>- in HRK -</i>

Loan principal changes during the year:

<i>Position as at 1 January</i>	<i>172,282</i>	<i>6,492,692</i>
<i>Increase</i>		
<i>- Reprogramming of short-term liabilities into long-term liabilities</i>	<i>6,480,000</i>	<i>-</i>
<i>- Adjustment</i>	<i>-</i>	<i>2,865</i>
<i>Decrease</i>		
<i>- Paid</i>	<i>(159,590)</i>	<i>(496,942)</i>
<i>Position as at 31 December</i>	<i>6,492,692</i>	<i>5,998,615</i>

Maturity per annum:

	<i>- in HRK -</i>
<i>Matured as at 31 Dec. 2012</i>	<i>1,295,820</i>
<i>2013</i>	<i>1,414,334</i>
<i>2014</i>	<i>1,562,427</i>
<i>2015</i>	<i>1,726,034</i>
<i>TOTAL:</i>	<i>5,998,615</i>

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

- in HRK -

<i>Creditor - banks</i>	<i>Purpose</i>	<i>Interest at end of year Annual %</i>	<i>2011</i>	<i>2012</i>
<i>VABA d.d. Banka Varaždin</i>	<i>refinancing</i>	<i>11.00</i>	<i>10,077,498</i>	<i>7,012,392</i>
<i>Croatian Reconstruction and Development Bank, Zagreb</i>	<i>investments</i>	<i>3.00-4.00</i>	<i>82,933,027</i>	<i>83,085,735</i>
<i>CRDB, Develop. and Employ. Fund, Zagreb</i>	<i>investments</i>	<i>4.60</i>	<i>18,546,548</i>	<i>-</i>
<i>State Agency for Savings Insurance and Bank Recovery Zagreb</i>	<i>takeover of liabilities</i>	<i>4.60</i>	<i>-</i>	<i>18,546,548</i>
<i>Zagrebačka banka d.d. Zagreb</i>	<i>refinancing</i>	<i>7.61</i>	<i>41,082,401</i>	<i>38,565,520</i>
<i>Privredna banka Zagreb d.d.</i>	<i>reprog.</i>	<i>2.821</i>	<i>5,954,560</i>	<i>4,283,706</i>
<i>Raiffeisenbank Austria d.d.</i>	<i>reprog.</i>	<i>15.00</i>	<i>8,208,533</i>	<i>6,187,195</i>
<i>Hrvatska poštanska banka d.d., Zagreb</i>	<i>refinancing</i>	<i>11.00</i>	<i>3,333,333</i>	<i>1,346,108</i>
<i>Jugobanka d.d. Belgrade</i>	<i>Suspended</i>		<i>10,754,504</i>	<i>10,754,504</i>
TOTAL:			<u>180,890,404</u>	<u>169,781,708</u>
Other financial institutions - leasing sources				
<i>Raiffeisen Leasing d.o.o. Zagreb</i>	<i>vehicles</i>	<i>9.38</i>	<i>159,500</i>	<i>119,050</i>
<i>OTP Leasing d.d. Zagreb</i>	<i>vehicle</i>		<i>49,372</i>	<i>-</i>
<i>Hypo-Leasing Kroatien d.o.o. Varaždin</i>	<i>machinery</i>		<i>126,137</i>	<i>-</i>
<i>Others</i>			<i>46,775</i>	<i>102,163</i>
TOTAL:			<u>381,784</u>	<u>221,213</u>
TOTAL CREDIT LIABILITIES			<u>181,272,188</u>	<u>170,002,921</u>
<i>Current maturity of long-term banking liabilities</i>			<i>(50,944,731)</i>	<i>(67,010,692)</i>
<i>Current maturity of long-term liabilities as per leasing</i>			<i>(263,045)</i>	<i>(96,569)</i>
TOTAL LONG-TERM LIABILITIES - PART			<u>130,064,412</u>	<u>102,895,660</u>

Creditors, in the name of securing the repayment of credits/loans, entered in the land registry ledgers pledges/mortgage on assets owned by the parent company (via Note 3.2.) and contracted other means of security (co-debtors – associated companies, bonds, promissory notes, guarantees).

Currency structure of the principal amount of these liabilities

	<u>2011</u>	<u>2012</u>
HRK	31,957,379	26,079,851
EUR	149,314,809	143,923,070
TOTAL:	<u>181,272,188</u>	<u>170,002,921</u>

3.17.2. Long-term liabilities toward banks and other financial institutions - continued

Changes in principal amount during the year:

	- in HRK -		
	Banks	2012 Leasing companies	Total
<i>Position as at 1 Jan. 2012</i>	180,890,404	381,784	181,272,188
<i>Increase</i>			
- New debt	-	101,624	101,624
- Net currency differentials	399,154	28,352	427,506
- Adjustments	92,268	-	92,268
<i>Decrease</i>			
- Payments during the year	(11,600,118)	(290,547)	(11,890,665)
<i>Position as at 31 December, 2012</i>	<u>169,781,708</u>	<u>221,213</u>	<u>170,002,921</u>

	- in HRK -		
	Banks	2011 Leasing companies	Total
<i>Position as at 1 Jan. 2011</i>	184,979,897	1,072,604	186,052,501
<i>Increase</i>			
- New debt	-	186,913	186,913
- Reprogramming of matured liabilities into long-term	9,956,889	-	9,956,889
- Net currency differentials	2,582,514	50	2,582,564
<i>Decrease</i>			
- Payments during the year	(16,262,463)	(877,783)	(17,140,246)
- Transfer of the short-term part of liabilities	(366,433)	-	(366,433)
<i>Position as at 31 December 2011</i>	<u>180,890,404</u>	<u>381,784</u>	<u>181,272,188</u>

3.17.2. Long-term liabilities toward banks and other financial institutions - continued

Maturity per annum:

	<u>Bank loans</u>	<u>Leasing</u>	<u>Total</u>
Matured as at 31 Dec. 2012	34,059,666	-	34,059,666
2013	32,951,026	96,569	33,047,595
2014	33,442,724	75,701	33,518,425
2015	28,546,881	37,971	28,584,852
2016	17,961,117	10,972	17,972,089
2017	5,442,021	-	5,442,021
2018	2,649,507	-	2,649,507
2019	2,649,507	-	2,649,507
2020	1,324,755	-	1,324,755
Suspended	10,754,504	-	10,754,504
TOTAL:	<u>169,781,708</u>	<u>221,213</u>	<u>170,002,921</u>

3.17.3. Long-term accounts payable

Creditor	<u>Purpose</u>	<u>2011</u>	<u>2012</u>
		- in HRK -	- in HRK -
Ivanka Braz, Slatina	Rent of facilities	-	130,500
IBM Hrvatska d.o.o. Zagreb	IBM equipment	9,487	-
TOTAL:		<u>9,487</u>	<u>130,500</u>
Current maturity		(9,487)	(54,000)
TOTAL:		<u>-</u>	<u>76,500</u>

3.17.3. Long-term accounts payable - continued*Changes during the year*

	<u>2011</u>	<u>2012</u>
	<i>- in HRK -</i>	<i>- in HRK -</i>
<i>Position as at 1 January</i>	114,577	9,487
<i>Increase</i>		
- <i>New debt</i>	-	162,000
<i>Decrease</i>		
- <i>payments</i>	(55,590)	(27,000)
- <i>transfers</i>	(49,500)	(13,987)
<i>Position as at 31 December</i>	<u>9,487</u>	<u>130,500</u>

Maturity per annum:

	<u><i>- in HRK -</i></u>
2013	54,000
2014	54,000
2015	<u>22,500</u>
TOTAL:	<u>130,500</u>

3.17.4. Deferred tax obligation

	<u>31 Dec. 2011</u> - in HRK -	<u>31 Dec. 2012</u> - in HRK -
Deferred tax obligation	69,563,843	68,270,455
TOTAL:	<u>69,563,843</u>	<u>68,270,455</u>

In 2011, the Company, based on the Official Estimation, recorded increased revaluation of long-term tangible assets (land and structures) and effect of revaluation in the amount of HRK 347,819,213 and declared this as revaluation reserves. Using the current tax rate of 20% on this principal amount, the Company singled out deferred tax obligation in the amount of HRK 69,563,843 (Notes 3.2., 3.15.viii.).

In 2012, depreciation was calculated on revaluated base (current assets and those sold during the year), and revaluation reserves were cut in adequate amounts, retained losses were decreased and the tax obligation was deferred.

Changes during the year:

	<u>2011</u>	<u>2012</u> - in HRK -
Position as at 1 January	-	69,563,843
Increase		
- Singled-out tax obligation	69,563,843	-
Decrease	-	(1,293,388)
- Matured tax obligation on:		
- real. rev. current asset reserves	-	(795,569)
- real. rev. reserves of assets sold	-	(497,819)
Position as at 31 December	<u>69,563,843</u>	<u>68,270,455</u>

3.18. Short-term liabilities toward associated companies

	<u>2011</u> - in HRK -	<u>2012</u> - in HRK -
Varteks Mont d.o.o., Podgorica	17,320	-
Vartex Textiles Limited, London	-	17,714
TOTAL:	<u>17,320</u>	<u>17,714</u>

3.19. Short-term liabilities for loans, credits and deposits

Short-term liabilities for loans, credits and deposits have been declared for companies:

	<u>2011</u>	<u>2012</u>
	- in HRK -	- in HRK -
Varteks d.d. Varaždin	163,278,621	185,961,615
Varteks Pro d.o.o. Varaždin	1,956,388	1,979,754
Varteks Logistic d.o.o. Varaždin	55,942	46,884
Varteks Plus d.o.o., Belgrade	46,775	-
Varteks Trade d.o.o. Maribor, Slovenia	-	38,059
TOTAL:	<u>165,337,726</u>	<u>188,026,312</u>

Position/item contains:

	<u>2011</u>	<u>2012</u>
	- in HRK -	- in HRK -
Loan liabilities	3,981,323	3,701,703
Deposit liabilities	135,511	189,884
Liabilities toward banks and other financial institutions	<u>102,317,737</u>	<u>103,784,036</u>
TOTAL PRINCIPAL AMOUNT	<u>106,434,571</u>	<u>107,675,623</u>
Interest liabilities	5,895,995	10,533,274
Current maturity of long-term liabilities	<u>53,007,160</u>	<u>69,817,415</u>
TOTAL SHORT-TERM PORTION:	<u>165,337,726</u>	<u>188,026,312</u>

Currency structure of principal

	<u>2011</u>	<u>2012</u>
HRK	87,667,062	89,329,551
EUR	18,767,509	17,347,861
USD	-	998,211
TOTAL PRINCIPAL AMOUNT:	<u>106,434,571</u>	<u>107,675,623</u>

3.19. Short-term liabilities for loans, credits and deposits - continued

Principal changes of received loans/credits and deposits during the year:

	<u>2011</u>	<u>2012</u>
	- in HRK -	- in HRK -
<i>Position as at 1 January</i>	128,085,148	106,434,571
<i>Increase</i>		
- <i>New debt for – loans and deposits</i>	27,155,308	31,419,235
- <i>sold receivables</i>	-	1,833,132
- <i>letters of credit</i>	-	1,654,833
- <i>Net currency differentials</i>	605,275	92,423
<i>Decrease</i>		
- <i>Payments</i>	(28,149,058)	(32,767,735)
- <i>Reprogramming into long-term liabilities</i>	(16,436,889)	-
- <i>Adjustments</i>	-	(93,350)
- <i>Write-off of receivables</i>	(4,825,213)	(897,486)
<i>Position as at 31 December</i>	<u>106,434,571</u>	<u>107,675,623</u>

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

<i>Lender</i>	<i>Interest rate at the end of year Annual %</i>	<i>2011 - in HRK -</i>	<i>2012 - in HRK -</i>
<i>Croatia osiguranje d.d. Varaždin</i>	<i>10.00</i>	<i>1,520,000</i>	<i>1,520,000</i>
<i>Erste Card Club d.d. Zagreb</i>	<i>10.00</i>	<i>604,073</i>	<i>1,221,939</i>
<i>City of Varaždin</i>	<i>discount</i>	<i>887,924</i>	<i>887,924</i>
<i>Miscellaneous</i>		<i>969,326</i>	<i>71,840</i>
TOTAL:		<u>3,981,323</u>	<u>3,701,703</u>
<i>Liabilities for received deposits</i>		<i>135,511</i>	<i>189,884</i>
<i>Interest liabilities</i>		<i>498,063</i>	<i>294,404</i>
<i>Current maturity of long-term liabilities</i>		<i>1,799,384</i>	<i>2,710,154</i>
GRAND TOTAL:		<u>6,414,281</u>	<u>6,896,145</u>

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

<i>Creditor</i>	<i>Interest rate at the end of year Annual %</i>	<i>2011 - in HRK -</i>	<i>2012 - in HRK -</i>
<i>Privredna banka d.d. Zagreb</i>	<i>15.00</i>	<i>-</i>	<i>1,520,927</i>
<i>Privredna banka d.d. Zagreb</i>	<i>8.00-8.50</i>	<i>14,314,179</i>	<i>14,985,109</i>
<i>Zagrebačka banka d.d. Zagreb</i>	<i>6.50-15.00</i>	<i>74,736,869</i>	<i>74,378,176</i>
<i>VABA d.d. Banka Varaždin</i>	<i>-</i>	<i>-</i>	<i>1,833,132</i>
<i>Hrvatska poštanska banka d.d.</i>	<i>10.00</i>	<i>3,011,207</i>	<i>811,210</i>
<i>Ministry of Finance of the Rep. of Croatia</i>	<i>15.00</i>	<i>10,255,482</i>	<i>10,255,482</i>
TOTAL:		<u>102,317,737</u>	<u>103,784,036</u>
<i>Interest liabilities</i>		<i>5,397,932</i>	<i>10,238,870</i>
<i>Current maturity</i>		<i>51,207,776</i>	<i>67,107,261</i>
GRAND TOTAL:		<u>158,923,445</u>	<u>181,130,167</u>

3.20. Liabilities for advance payments

Liabilities for advance payments declared in the companies:

	<u>2011</u>	<u>2012</u>
	- in HRK -	- in HRK -
Varteks d.d. Varaždin	1,948,936	1,919,672
Varteks Trade d.o.o. Maribor	-	908
TOTAL:	<u>1,948,936</u>	<u>1,920,580</u>

Position/item contains:

	<u>2011</u>	<u>2012</u>
	- in HRK -	- in HRK -
- Advance payments from clients		
- domestic	31,985	128,903
- foreign	<u>1,916,951</u>	<u>1,791,677</u>
TOTAL:	<u>1,948,936</u>	<u>1,920,580</u>

Declared liabilities for advance payments were mostly closed through deliveries made during the first quarter of 2013.

3.21. Accounts payable

Liabilities for accounts payable declared in the companies:

	<u>2011</u>	<u>2012</u>
	- in HRK -	- in HRK -
Varteks d.d. Varaždin	93,373,150	91,711,020
Varteks Odjeća d.o.o. Varaždin	1,993,705	1,643,030
Varteks Bednja d.o.o. Bednja	401,423	423,390
Varteks Ludbreg d.o.o. Ludbreg	491,077	505,476
Varteks ESOP d.o.o. Varaždin	825	-
Varteks Pro d.o.o. Varaždin	2,274,858	5,157,262
Varteks Logistic d.o.o. Varaždin	41,146	18,196
Burgtrade G.m.b.h. Eisenstadt	126,675	35,344
Varteks Plus d.o.o., Belgrade	1,416,726	1,427,856
Varteks Trade d.o.o. Maribor	2,176,120	1,641,462
Varteks Trgovina d.o.o., Široki Brijeg	18,159	-
Vartex Textiles Limited, London	387,602	-
	<u>102,701,466</u>	<u>102,563,036</u>
TOTAL:	<u>102,701,466</u>	<u>102,563,036</u>

Position/item contains:

	<u>2011</u>	<u>2012</u>
	- in HRK -	- in HRK -
<i>Accounts payable</i>		
- domestic	69,068,649	71,699,772
- foreign	30,398,056	21,552,352
<i>Liabilities for non-invoiced goods</i>	36,542	26,889
<i>Interest liabilities(suppliers)</i>	3,198,219	9,284,023
	<u>102,701,466</u>	<u>102,563,036</u>
TOTAL:	<u>102,701,466</u>	<u>102,563,036</u>

The parent company Varteks d.d. has payment guarantee contracts concluded with business banks (ZABA and PBZ, HRK and foreign currency) and open non-covered letters of credit, both for the purpose of covering liabilities toward suppliers, and has used them to the amount of HRK 11,291,146 by 31 December 2012. Pursuant to this, the Company had to issue instruments of repayment insurance (co-debtors -related companies, mortgage, promissory and debenture notes).

3.22. Liabilities toward employees

Liabilities toward employees declared in the companies:

	<u>2011</u>	<u>2012</u>
	- in HRK -	- in HRK -
<i>Varteks d.d. Varaždin</i>	5,482,194	9,402,771
<i>Varteks Odjeća d.o.o. Varaždin</i>	3,664,293	8,342,513
<i>Varteks Bednja d.o.o. Bednja</i>	959,757	1,528,611
<i>Varteks Ludbreg d.o.o. Ludbreg</i>	1,385,553	1,735,481
<i>Varteks Pro d.o.o. Varaždin</i>	198,384	137,911
<i>Varteks Logistic d.o.o. Varaždin</i>	50,817	49,705
<i>Burgtrade G.m.b.h. Eisenstadt</i>	5,045	32,808
<i>Varteks Plus d.o.o., Belgrade</i>	91,834	82,199
<i>Varteks Trade d.o.o. Maribor</i>	138,608	182,232
<i>Varteks Trgovina d.o.o., Široki Brijeg</i>	21,898	-
TOTAL:	<u>11,998,383</u>	<u>21,494,231</u>

Position/item contains:

	<u>2011</u>	<u>2012</u>
	- in HRK -	- in HRK -
<i>- Net salary and fee liabilities</i>	9,823,545	17,133,461
<i>- Severance pay liabilities</i>	857,934	1,525,170
<i>- Other liabilities toward employees</i>	1,316,384	2,835,080
<i>- Crisis tax</i>	520	520
TOTAL:	<u>11,998,383</u>	<u>21,494,231</u>

<i>Number of employees at the end of the year</i>	2,249	2,155
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Liabilities for net salaries pertain to liabilities for 10/11/12/ 2012.

Liabilities for severance pay for conditional termination of employment and retirement declared in the parent company Varteks d.d. pertain to the period 2009-2011.

Other liabilities mostly contain compensations for transport to and from work for October, November and December 2012, and anniversary bonuses and other employee rights.

3.23. Taxes, contributions and similar fees

Liabilities for taxes and contributions per company:

	<u>2011</u>	<u>2012</u>
	<i>- in HRK -</i>	<i>- in HRK -</i>
<i>Varteks d.d. Varaždin</i>	111,549,535	140,584,102
<i>Varteks Odjeća d.o.o. Varaždin</i>	17,872,701	37,764,146
<i>Varteks Bednja d.o.o. Bednja</i>	2,365,449	4,166,512
<i>Varteks Ludbreg d.o.o. Ludbreg</i>	3,683,776	6,774,027
<i>Varteks Pro d.o.o. Varaždin</i>	308,021	535,065
<i>Varteks Logistic d.o.o. Varaždin</i>	197,774	39,615
<i>Burgtrade G.m.b.h. Eisenstadt</i>	10,681	-
<i>Varteks Plus d.o.o., Belgrade</i>	93,140	141,891
<i>Varteks Trade d.o.o. Maribor</i>	463,491	207,558
<i>Varteks Trgovina d.o.o., Široki Brijeg</i>	1,521	-
TOTAL:	<u>136,546,089</u>	<u>190,212,916</u>

These liabilities include:

	<u>2011</u>	<u>2012</u>
	<i>- in HRK -</i>	<i>- in HRK -</i>
<i>Profit tax liabilities</i>	193,264	106,452
<i>VAT liabilities</i>	25,040,978	37,921,778
<i>Liabilities for taxes and contributions from and on salaries</i>	86,012,249	97,964,125
<i>Forest contributions</i>	2,221,481	2,577,578
<i>Customs liabilities (customs and VAT)</i>	7,318,189	14,458,751
<i>Other taxes and contributions</i>	1,209,772	4,829,625
<i>Taxes and contributions - interest</i>	14,550,156	32,354,607
TOTAL:	<u>136,546,089</u>	<u>190,212,916</u>

3.23. *Taxes, contributions and similar fees - continued**Maturity of taxes and contributions on 31 December 2012:*

	<u>- in HRK -</u>
<i>Matured taxes and contributions</i>	152,709,780
<i>Taxes and contributions not yet matured</i>	<u>5.148.529</u>
TOTAL:	<u><u>157,858,309</u></u>
 <i>Matured calculated interest for:</i>	
<i>- VAT</i>	8,544,484
<i>- Contributions from salaries</i>	12,768,834
<i>- Contributions on salaries</i>	9,675,653
<i>- Interest for other taxes and contributions</i>	<u>1.365.636</u>
TOTAL:	<u><u>32,354,607</u></u>
 GRAND TOTAL:	 <u><u>190,212,916</u></u>

3.24. *Other short-term liabilities**Other short-term liabilities per company:*

	<u>2011</u>	<u>2012</u>
	- in HRK -	- in HRK -
<i>Varteks d.d. Varaždin</i>	7,865,376	14,268,033
<i>Varteks Pro d.o.o. Varaždin</i>	262,476	266,585
<i>Varteks Logistic d.o.o. Varaždin</i>	-	-
<i>Burgtrade G.m.b.h. Eisenstadt</i>	3,579	10,941
<i>Varteks Plus d.o.o., Belgrade</i>	607	-
<i>Varteks Trade d.o.o. Maribor</i>	18,604	11,950
<i>Varteks Trgovina d.o.o., Široki Brijeg</i>	21,408	-
TOTAL:	<u><u>8,172,050</u></u>	<u><u>14,557,509</u></u>

Position/item contains:

	<u>2011</u>	<u>2012</u>
	- in HRK -	- in HRK -
- <i>Liabilities toward the Republic of Croatia based on sold flats</i>	7,663,853	4,365,453
- <i>Liabilities toward the Republic of Croatia based on state grants</i>	-	9,687,921
- <i>Supervisory Board member fees and temporary service contracts</i>	199,792	211,941
- <i>Other liabilities</i>	308,405	292,194
TOTAL:	<u><u>8,172,050</u></u>	<u><u>14,557,509</u></u>

Other short-term liabilities are decreased in the current year, mostly based on the decrease of liabilities toward the state (connection: Note 3.6.).

3.25. Deferred payment of expenses and income of future periods

The position, declared in the companies:

	<u>2011</u>	<u>2012</u>
	- in HRK -	- in HRK -
<i>Varteks d.d. Varaždin</i>	476,072	739,601
<i>Varteks Plus d.o.o., Belgrade</i>	149,323	137,681
<i>Varteks Trade d.o.o. Maribor</i>	-	9,352
<i>Varteks Pro d.o.o. Varaždin</i>	-	2,068
TOTAL:	<u>625,395</u>	<u>888,702</u>

Position/item contains:

	<u>2011</u>	<u>2012</u>
	- in HRK -	- in HRK -
<i>Deferred recognition of income</i>		
- <i>Inventory shortages</i>	397,230	50,392
- <i>Housing loan interest not matured</i>	-	667,232
<i>Other deferred income</i>	<u>228,165</u>	<u>171,078</u>
TOTAL:	<u>625,395</u>	<u>888,702</u>

3.26. *Off-balance entries**Off-balance entries declared in the companies:*

	<u>2011</u>	<u>2012</u>
	<i>- in HRK -</i>	<i>- in HRK -</i>
<i>Varteks d.d. Varaždin</i>	20,171,005	15,056,729
<i>Varteks Pro d.o.o. Varaždin</i>	-	168,794
<i>Varteks Logistic d.o.o. Varaždin</i>	<u>1,000,000</u>	<u>900,000</u>
TOTAL:	<u><u>21,171,005</u></u>	<u><u>16,125,523</u></u>

Position/item contains:

	<u>31 Dec. 2011</u>	<u>31 Dec. 2012</u>
	<i>- in HRK -</i>	<i>- in HRK -</i>
<i>Commission-based goods expenses</i>	5,314,717	4,133,208
<i>Guarantees</i>		
<i>- Privredna banka d.d. Zagreb</i>	4,459,478	4,366,042
<i>- Zagrebačka banka d.d. Zagreb</i>	6,840,460	6,853,462
<i>Letters of credit</i>		
<i>- Privredna banka d.d. Zagreb</i>	2,056,420	71,642
<i>- Zagrebačka banka d.d. Zagreb</i>	1,610,721	-
<i>Liabilities taken over as per operative leasing</i>	<u>889,209</u>	<u>701,169</u>
TOTAL:	<u><u>21,171,005</u></u>	<u><u>16,125,523</u></u>

3.27. Liabilities taken over as per operative leasing

Liabilities taken over as per the operative leasing stem from the vehicle operative leasing agreement entered into with the lessors for Varteks d.d. Varaždin.

Maturity of net liabilities with respect to the above (without VAT) are as follows:

	PBZ Leasing (EUR)	Porsche Leasing (EUR)	VB Leasing (CHF)
2013	27,374	5,009	1,580
2014	24,894	-	-
2015	24,894	-	-
2016	9,445	-	-
TOTAL:	86,607	5,009	1,580

Declared non-matured liabilities do not contain remainders of lease after the leasing ends, as determined by the leasing agreement, nor additional costs calculated after the leasing ends (return of the object of lease and other).

3.28. Position and transactions with related entities

	- in HRK -			
	Position as at 31 Dec. 2011	Turnover 2011	Position 31 Dec. 2012	Turnover 2012
<i>Forma d.o.o. Varaždin</i>				
- Rent receivables	2,769	42,107	-	33,755
- Service receivables	-	-	-	17,506
- Investment work liabilities	747,015	1,100,800	22,342	-
<i>Stari orah d.o.o, Varaždin</i>				
- Service liabilities	379	6,417	1,673	2,000

Management and Supervisory Board member compensations/fees

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

	2011 - in HRK -	2012 - in HRK -
Management (Board)		
Net salaries	1,123,048	1,121,634
Taxes and contributions	1,390,666	1,418,849
TOTAL:	2,513,714	2,540,483
Supervisory Board		
Net fees	190,287	172,517
Taxes and contributions	185,353	169,372
TOTAL:	375,640	341,889
GRAND TOTAL:	2,889,354	2,882,372

3.29. Significant court proceedings

The Group is involved in a number of court disputes both as the plaintiff and as the defendant. The most significant court disputes:

a) Significant court disputes in which Varteks d.d. is the defendant:

- Disputes with liabilities not declared

	in HRK
<u>Plaintiff</u>	<u>Claim amount</u>
Ateks, Belgrade *	3,171,076
Nagib Aziri and Saćip Aziri, Osijek *	1,704,902
Luje d.o.o. Lovran *	<u>577,534</u>
TOTAL:	<u>5,453,512</u>
Others	<u>717,544</u>
GRAND TOTAL:	<u><u>6,171,056</u></u>

No expense provisioning has been performed pursuant to the above since, according to the Company legal department, chances of winning the cases are high.

- Disputes with liabilities declared

	in HRK
<u>Plaintiff</u>	<u>Claim amount</u>
Hrvatske šume d.o.o. Zagreb *	1,426,719
Varkom d.d., Varaždin	1,469,492
Wollfarberei Mönchengladbach, Germany	1,297,919
Termoplin d.d., Varaždin	769,371
TTM Graf d.o.o., Zagreb	874,193
Others	<u>1,541,284</u>
TOTAL:	<u><u>7,378,978</u></u>

* Plaintiffs whose claims are HRK 6,880,231 declared their claims in the pre-bankruptcy proceedings in the amount of HRK 8,900,831. The Company is contesting the claims in the amount of HRK 6,367,789 (connection: Note 3.31.1. Events after the financial position report – Pre-bankruptcy settlement procedure), with explanation of high probability of winning the case and statute of limitations passing on the claim.

3.29. Significant court cases/proceedings - continued

b) Court disputes in which Varteks d.d. is the plaintiff:

in HRK

<i>Plaintiff</i>	<i>Claim amount</i>	<i>Reason</i>
<i>Kroko International d.o.o., Zagreb</i>	<i>5,260,161.00</i>	<i>- Damage compensations</i>
<i>Luje d.o.o., Rijeka</i>	<i>1,561,899.82</i>	<i>- Illegal use of bank guarantee and debenture note – appeal lodged to the High Commercial Court of the RC since the claim has been rejected in full with expense compensation ruling in the legal proceedings</i>
<i>Bujan Hasani, Prizren</i>	<i>EUR 72,000</i>	<i>- Moving out and handing over the business premises</i>
<i>Fides Company, Belgrade</i>	<i>EUR 62,607.60</i>	<i>- Collecting receivables</i>

Since appeals have been lodged by all sides, and due to objections and additional expertise having to be done, the outcomes of the above cases cannot be ascertained with certainty.

3.30. Events after the date of the financial position report

3.30.1. Pre-bankruptcy settlement procedure

A new Financial Operations and Pre-bankruptcy Settlement Act came into force in 2012, which set the legal basis and obligations for entering entities concerned (companies) in the procedure of pre-bankruptcy settlement in case of non-liquidity or insolvency. On that basis, Varteks d.d. and associated/related production companies Varteks Odjeća d.o.o., Varteks Ludbreg d.o.o. and Varteks Bednja d.o.o., using the criteria of non-liquidity in Article 15 of the Act, have fulfilled the condition for submitting the request for initiating pre-bankruptcy settlement proceedings.

In order to facilitate a more efficient execution of pre-bankruptcy settlement proceedings, the Decision of the Assembly of the production as of 7 November 2012 and the Merger Contract, it has been determined that Varteks Odjeća d.o.o. Varaždin, Varteks Bednja d.o.o. Bednja and Varteks Ludbreg d.o.o. Ludbreg would be merged with, i.e. to the takeover company Varteks d.d. Varaždin.

Entry of the merger was made in court register of the Commercial Court in Varaždin on 7 January 2013, Reg. No. Tt-12/3031-2; MBS 070004039, and the name VARTEKS varaždinska tekstilna industrija d.d., Varaždin, Zagrebačka 94.

Pre-bankruptcy settlement procedure - chronology

- *On 20 November 2012 the Company submitted to the FINA in Zagreb the Proposal for initiating pre-bankruptcy settlement;*
- *On 14 December 2012, the Settlement Panel reached the Decision whereby all debtors are called to do the following: Varteks d.d., Varteks Odjeća d.o.o., Varteks Ludbreg d.o.o. and Varteks Bednja d.o.o. should amend their proposal with respect to lacking documentation;*
- *On 11 January 2013, the Settlement Panel reached the Decision on a temporary measure whereby FINA is tasked with stopping the enforcement and seizure proceedings which have been initiated against the debtor VARTEKS d.d. / and a temporary measure has been requested in accordance with Article 48 Item 3 Financial Operations and Pre-bankruptcy Settlement Act;*
- *On 11 January 2013 the Settlement Panel reached the Decision on naming the trustee for the pre-bankruptcy settlement, i.e. Antun Mišanović;*
- *On 11 January 2013 the Settlement Panel reached the Decision on determining administrative costs of pre-bankruptcy settlement and the amount of appertaining fee and compensation for the trustee;*
- *On 5 February 2013, the Settlement Panel reached the Decisions on merging the procedural cases of pre-bankruptcy settlement; Varteks Odjeća d.o.o., Varteks Ludbreg d.o.o., Varteks Bednja d.o.o. and Varteks d.d. shall be merged into one proceeding held under a joint case with Varteks d.d, Class: UP-I/110/07/12-01/106;*
- *Varteks d.d. submitted the necessary documents within the prescribed deadline, and the Settlement Panel reached the Decision on initiating pre-bankruptcy settlement proceedings on 5 February 2013;*
- *On 5 February 2013 the Settlement Panel also publishes the Notice of calling on the creditors for the purpose of entering into the pre-bankruptcy settlement, and the first hearing of the proceedings was set for Varteks d.d.;*

3.30. Events after the date of the financial position report - continued

3.30.2. Pre-bankruptcy settlement procedure - continued

- *On 19 March 2013, the first hearing was held, during which the amounts claimed by the creditors were read out from the debtors' files, based on the table stating the entered, contested and determined claims. The Settlement Panel reaches the Decision on postponing the hearing for determination of claims and the hearing for voting on the Financial and Operative Restructuring Plan.*
- *Pursuant to the Decision as at 5 April 2013, the Settlement Panel sets the hearing for 30 April 2013, at which the claims should be determined and the Financial and Operative Restructuring Plan voted on.*
- *On 29 April 2013, the Settlement Panel reached the Decision on the hearing set for 30 April 2013 and sets the next hearing for determination of any claims left over, and voting on the Financial and Operative Restructuring Plan, for 13 May 2013.*
- *On 15 May 2013, the Settlement Panel reached the Decision from the hearing held on 13 May 2013, in accordance with which the total amount of determined claims is HRK 374,239,086.15, the total amount of contested claims is HRK 9,792,692.89, and the total amount of entered claims is HRK 335,796,137.52. The total amount of counter-claims is HRK 2,378,418.18, so the total amount of all claims is HRK 371,860,667.97.*
- *On 16 May 2013, the Settlement Panel reached the Decision on determining the deadline of 5 days to the creditor Ministry of Finance to submit to the Panel and the debtor the amended financial restructuring plan, and the debtor was given 8 days to make a written statement to the Panel about the amended financial restructuring plan. At the hearing on 15 May 2013, the Financial Restructuring Plan was not adopted, since the necessary majority of creditors did not vote on it in accordance with Article 63 Financial Restructuring Act.*
- *On 29 May 2013, the Settlement Panel reached the Decision on setting the hearing for 4 June 2013 for voting on the amended Financial Restructuring Plan, which was published on FINA web pages on 28 May 2013 under the name Amended Financial Restructuring Plan, Reg. No.: 04-06-13-106-382.*
- *On 4 June 2013, the Settlement Panel reached the Decision on determining that those creditors whose claims surpass 2/3 of all determined claims voted for the Financial Restructuring Plan; therefore, in accordance with Article 63 of the Act, the Financial Restructuring Plan shall be deemed to be adopted.*

After adopting the Financial Restructuring Plan of Varteks d.d., execution of activities prescribed by law for the purpose of realizing the pre-bankruptcy settlement before the competent commercial court in the seat of the debtor is presently under way.

3.30. Events after the date of the financial position report - continued

3.30.2. Contract with the business partner Levi Strauss & Co. Europe

After the financial position statement date, with respect to significant liquidity problems, the distribution contract between Varteks d.d. and Levi Strauss & Co Europa has been terminated. However, regardless of the loss of this very significant contract, Varteks still has a maintainable model for successful continuation of operations through redefining brands and focusing on Varteks' own fashion brand and corporation contracts; this model also foresees successful realization of the pre-bankruptcy settlement.

The contract with Levi Strauss & Co Europa covered the Croatian market and markets of ex-Yugoslavia countries. The termination of the contract had a serious bearing on the conditions and abilities of Varteks Trade d.o.o. Slovenia to continue with operations. As the cooperation with the company Levi Strauss & Co Europa has not continued in early 2013, Varteks Trade d.o.o. did not fulfil the necessary conditions for ongoing concern any longer; therefore, bankruptcy proceedings against this company were initiated on 19 March 2013.

Since Levi's also had a huge bearing on the operations of the daughter-company Varteks Plus d.o.o. in Serbia, operations of this company were also significantly decreased after the termination of the contract, and the decision on the future status of this company will be made after assessing the possibilities of such future operations.

3.30.3. Recapitalization and bankruptcy of Varteks Trade d.o.o. Maribor

On 4 December 2012, the Company reached the Decision on the increase of capital stock of Varteks Trade d.o.o. Maribor for the amount of EUR 208,666.30 through entry of a part of matured cash receivables as goods and services delivered/rendered, with the goal being financial restructuring by correcting Balance loss, and extension of bank guarantees necessary for the continuation of facility leases/rents, which is a precondition for further cooperation with the supplier Levi Strauss & Co Europa.

The District Court in u Maribor entered the above increase of capital on 10 January 2013.

As the cooperation with the company Levi Strauss & Co Europa has not been continued in early despite the recapitalization, Varteks Trade d.o.o., whose operations were almost exclusively tied to distribution and sale of Levi's products on the Slovenian market, did not fulfil the necessary conditions for ongoing concern any longer. Bankruptcy proceedings over the company Varteks Trade d.o.o. Maribor were initiated on 19 March 2013 pursuant to the Decision of the District Court in Maribor.

3.30.4. Operations of Varteks Plus d.o.o., Belgrade

As the distribution contract with the supplier Levi Strauss & Co Europa was terminated in early 2013, Varteks Plus d.o.o. Belgrade, whose core activity was retail sale of Levi's products, the company had to close all its outlet stores on 30 April 2013, and the employees were let go as redundant.

3.31. Approval of financial statements

The Company Management Board adopted and approved the issue of these financial statements on 13 June 2013

Signed for and on behalf of the Company on 13 June 2013:

Zoran Košćec

Chairman of the Management Board

Nenad Davidović

Board Member for Financial Transactions



A handwritten signature in blue ink, consisting of a stylized 'N' followed by a wavy line and a small '2' at the end.