

**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 (MRS): **070004039**

Personal identification number (OIB): **00872099033**

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: **624**  
(at year end)

Consolidated report: **no** NKD code: **1413**

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

Accounting service: **[redacted]**

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


Phone: **042/377124** Fax: **042/377089**

E-mail address: **zsvetec@varteks.com**

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

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



  
\_\_\_\_\_  
(Signature of person authorized for representation)

## BALANCE SHEET

as of

31.12.2012.

Position	AOP mark	Previous year	Current year
1	2	3	4
<b>ASSETS</b>			
A) RECEIVABLES FOR SUBSCRIBED BUT UNPAID CAPITAL	001		
B) LONGTERM ASSETS (003+010+020+028+032)	002	804.779.368	780.973.966
I. INTANGIBLE ASSETS (004 to 009)	003	6.561.023	5.611.683
1. Development expenses	004		
2. Concessions, patents, licenses, trademarks, service marks, software and other rights	005	6.561.023	5.611.683
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	770.487.589	750.079.612
1. Property	011	187.556.077	185.830.699
2. Buildings	012	516.916.998	505.420.384
3. Machinery and equipment	013	55.961.564	50.788.026
4. Tools, facility inventory and transportation assets	014	8.996.790	6.966.466
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	231.298	231.298
9. Investments in real estate	019		
III. LONGTERM FINANCIAL ASSETS (021 to 027)	020	24.122.545	22.148.995
1. Shares (stocks) in affiliated businesses	021	18.860.817	16.834.814
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	2.710.458	2.579.386
2. Receivables arising from sales on credit	030		
3. Other receivables	031	897.753	554.290
V. DEFERRED TAX ASSETS	032		
C) CURRENT ASSETS (034+042+049+057)	033	145.199.498	94.441.932
I. INVENTORY (035 to 041)	034	82.166.314	38.686.495
1. Raw materials and supplies	035	33.291.404	14.190.529
2. Production in progress	036	2.554.909	545.413
3. Unfinished and intermediate products	037		
4. Finished products	038	23.482.387	12.362.516
5. Merchandise	039	22.388.018	11.054.563
6. Advances for inventory	040	449.596	533.474
7. Other assets intended for sale	041	0	0
II. RECEIVABLES (043 to 048)	042	53.282.373	51.452.392
1. Receivables from affiliated undertakings	043	21.215.471	19.442.740
2. Receivables from buyers	044	21.195.449	15.241.025
3. Receivables from participating businesses	045		
4. Receivables from employees and members of the entrepreneur	046	434.180	202.127
5. Receivables from the state and other institutions	047	10.424.361	16.218.825
6. Other receivables	048	12.912	347.675
III. CURRENT FINANCIAL ASSETS (050 to 056)	049	8.656.751	2.772.605
1. Shares (stocks) in associated undertakings	050		
2. Loans to associated undertakings	051		713.808
3. Participating interests (shares)	052		
4. Investments in securities	053	6.800.926	1.057.888
5. Loans, deposits and the like	054	1.855.825	1.000.909
6. Own stocks and shares	055		
7. Other financial assets	056		
IV. CASH AT BANK AND IN HAND	057	1.094.060	1.530.440
D) PREPAID EXPENSES AND COMPUTED INCOME	058	376.361	507.369
E) LOSS OVER CAPITAL	059		
F) TOTAL ASSETS (001+002+033+058+059)	060	950.355.227	875.923.267
G) OFF-BALANCE SHEET ITEMS	061	20.171.005	15.056.729

<b>LIABILITIES</b>			
<b>A) CAPITAL AND RESERVES (063+064+065+071+072-073+074-075+076)</b>	<b>062</b>	<b>331.962.607</b>	<b>200.008.698</b>
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		42.975.527
VII. FISCAL YEAR PROFIT	074		
VIII. FISCAL YEAR LOSS	075	60.328.044	126.613.324
IX. MINORITY INTEREST	076		
<b>B) PROVISIONS (078 to 080)</b>	<b>077</b>	<b>239.775</b>	<b>86.622</b>
1. Provisions for pensions, severance pays and similar obligations	078		
2. Provisions for tax liabilities	079		
3. Other provisions	080	239.775	86.622
<b>C) LONGTERM LIABILITIES (082 to 089)</b>	<b>081</b>	<b>204.324.407</b>	<b>174.473.856</b>
1. Amounts due to related undertakings	082		
2. Commitments for loans, deposits, etc.	083	4.702.795	3.288.461
3. Liabilities to banks and other financial institutions	084	130.057.769	102.838.440
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
<b>D) CURRENT LIABILITIES (091 to 101)</b>	<b>090</b>	<b>413.352.366</b>	<b>500.614.490</b>
1. Amounts due to related undertakings	091	29.854.553	56.767.277
2. Commitments for loans, deposits, etc.	092	5.404.955	6.784.305
3. Liabilities to banks and other financial institutions	093	157.873.666	179.177.310
4. Liabilities for advances	094	1.948.936	1.919.672
5. Trade payables	095	93.373.151	91.711.020
6. Commitments on securities	096		
7. Employment benefit obligations	097	5.482.194	9.402.771
8. Taxes, contributions and similar charges	098	111.549.535	140.584.102
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	7.865.376	14.268.033
<b>E) ACCRUED CHARGES AND DEFERRED REVENUE</b>	<b>102</b>	<b>476.072</b>	<b>739.601</b>
<b>F) TOTAL –LIABILITIES (062+077+081+090+102)</b>	<b>103</b>	<b>950.355.227</b>	<b>875.923.267</b>
<b>G) OFF-BALANCE SHEET ITEMS</b>	<b>104</b>	<b>20.171.005</b>	<b>15.056.729</b>
<b>APPENDIX TO BALANCE SHEET (filled out by the person who puts together the consolidated annual financial report)</b>			
<b>CAPITAL AND RESERVES</b>			
1. Attributed to parent company equity holders	105		
2. Attributed to minority interests	106		

**PROFIT AND LOSS ACCOUNT**

time period from 1.1.2012. to 31.12.2012.

Position	AOP mark	Previous year	Current year
1	2	3	4
<b>I. OPERATING INCOME (108 to 110)</b>	<b>107</b>	327.124.483	258.762.289
1. Revenues from sales	108	296.890.704	227.135.540
3. Other operating income	110	30.233.779	31.626.749
<b>II. OPERATING EXPENSES (112-113+114+118+122+123+124+127+128)</b>	<b>111</b>	352.914.197	336.080.935
1. Decrease in value of intermediate production inventory	112	7.691.667	5.135.625
2. Increase in value of intermediate production inventory	113		
3. Material costs (115 to 117)	114	219.583.183	198.046.806
a) Costs of raw materials and supplies	115	67.682.800	44.765.815
b) Costs of goods sold	116	57.080.052	43.747.968
c) Other external costs	117	94.800.331	109.533.023
4. Payroll costs (119 to 121)	118	70.934.719	44.707.046
a) Net wages and salaries	119	45.058.795	28.298.442
b) Costs of taxes and contributions paid	120	15.428.752	10.218.940
c) Contributions on salaries	121	10.447.172	6.189.664
5. Amortization	122	15.340.912	16.245.832
6. Other expenses	123	27.125.915	19.142.803
7. Revaluation (125+126)	124	6.581.142	37.544.419
a) of longterm assets (except financial assets)	125	773.840	183.793
b) of current assets (except financial assets)	126	5.807.302	37.360.626
8. Provisions	127		
9. Other operating expenses	128	5.676.659	15.258.604
<b>III. FINANCIAL INCOME (130 to 134)</b>	<b>129</b>	2.667.652	3.321.466
1. Interest, exchange rate differences, dividends and similar income from relations	130	1.624.039	448.253
2. Interest, exchange rate differences, similar income from relations with unaffiliated	131	1.043.613	2.841.352
3. Part of income from affiliated businesses and participating interests	132		
4. Unrealized gains (income)	133		
5. Other financial income	134		31.861
<b>IV. FINANCIAL EXPENSES (136 to 139)</b>	<b>135</b>	37.205.982	52.616.144
1. Interest, exchange rate differences and other expenses from affiliated businesses	136	1.400.741	658.627
2. Interest, exchange rate differences and other expenses from relations with unaffiliated	137	35.805.241	49.916.366
3. Unrealized losses (expenses) of financial assets	138		2.041.151
4. Other financial expenses	139		
<b>V. EXTRAORDINARY - OTHER INCOME</b>	<b>140</b>		
<b>VI. EXTRAORDINARY - OTHER EXPENSES</b>	<b>141</b>		
<b>VII. TOTAL INCOME (107+129+140)</b>	<b>142</b>	329.792.135	262.083.755
<b>VIII. TOTAL EXPENSES (111+135+141)</b>	<b>143</b>	390.120.179	388.697.079
<b>IX. PROFIT BEFORE TAXATION (142-143)</b>	<b>144</b>	0	0
<b>X. LOSS BEFORE TAXATION (143-142)</b>	<b>145</b>	60.328.044	126.613.324
<b>XI. INCOME TAX</b>	<b>146</b>		
<b>XII. PROFIT FOR THE PERIOD (144-146)</b>	<b>147</b>	0	0
<b>XIII. LOSS OF THE PERIOD (145+146) or (146-144)</b>	<b>148</b>	60.328.044	126.613.324
<b>ADDITION TO PROFIT AND LOSS ACCOUNT (only for consolidated financial statements)</b>			
XIV.*PROFIT ASSIGNED TO PARENT COMPANY EQUITY HOLDERS	149		
XV.* PROFIT ASSIGNED TO MINORITY INTEREST	150		
XVI.* LOSS ASSIGNED TO PARENT COMPANY EQUITY HOLDERS	151		
XVII.*LOSS ASSIGNED TO MINORITY INTEREST	152		

### CASH FLOW STATEMENT - Indirect method

time period from 1.1.2012. to 31.12.2012.

Position	AOP mark	Previous year	Current year
1	2	3	4
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>			
1. Profit before tax	001	-60.328.044	-126.613.324
2. Amortization	002	15.340.912	16.245.632
3. Increase in current liabilities	003	65.719.106	93.594.052
4. Decrease in shortterm receivables	004	13.959.378	1.829.981
5. Decrease in inventories	005	14.360.461	43.479.819
6. Other increases in cash flow	006	4.186.793	2.268.161
<b>I. Total increase in cash flow from operating activities (001 to 006)</b>	<b>007</b>	<b>53.238.606</b>	<b>30.804.321</b>
1. Decrease in current liabilities	008		
2. Increase in shortterm receivables	009		
3. Increase in inventories	010		
4. Other decreases in cash flow	011	21.229.955	32.805.603
<b>II. Total decrease in cash flow from operating activities (008 to 011)</b>	<b>012</b>	<b>21.229.955</b>	<b>32.805.603</b>
<b>A1) NET INCREASE IN CASH FLOW FROM OPERATING ACTIVITIES (007-012)</b>	<b>013</b>	<b>32.008.651</b>	
<b>A2) NET DECREASE IN CASH FLOW FROM OPERATING ACTIVITIES (012-007)</b>	<b>014</b>	<b>0</b>	<b>2.001.282</b>
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>			
1. Proceeds from the sale of longterm tangible and intangible assets	015	5.056.562	5.462.691
2. Proceeds from the sale of equity and debt instruments	016	505.906	
3. Proceeds from interest	017		
4. Proceeds from dividends	018		
5. Other proceeds from investing activities	019		2.500.538
<b>III. Total proceeds from investing activities (015 to 019)</b>	<b>020</b>	<b>5.562.468</b>	<b>7.963.229</b>
1. Cash expenditures for the purchase of longterm tangible and intangible assets	021	3.246.368	326.482
2. Cash expenditures for the acquisition of equity and debt instruments	022	20.051.878	
3. Other cash expenditures from investing activities	023	1.120	76.977
<b>IV. Total cash expenditures from investing activities (021 to 023)</b>	<b>024</b>	<b>23.299.366</b>	<b>403.459</b>
<b>B1) NET INCREASE IN CASH FLOW FROM INVESTING ACTIVITIES (020-024)</b>	<b>025</b>	<b>0</b>	<b>7.559.770</b>
<b>B2) NET DECREASE IN CASH FLOW FROM INVESTING ACTIVITIES (024-020)</b>	<b>026</b>	<b>17.736.898</b>	<b>0</b>
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>			
1. Proceeds from issuance of equity and debt instruments	027		
2. Proceeds from equity loans, debentures, loans and other borrowings	028	30.162.490	22.264.449
3. Other proceeds from financing activities	029		5.884.146
<b>V. Total proceeds from financing activities (027 to 029)</b>	<b>030</b>	<b>30.162.490</b>	<b>28.148.595</b>
1. Cash expenditures for principal repayments of loans and bonds	031	45.431.510	33.270.703
2. Cash expenditures for the payment of dividends	032		
3. Cash expenditures on finance leases	033		
4. Cash expenditures for the purchase of own shares	034		
5. Other cash expenditures from financing activities	035	177.905	
<b>VI. Total cash expenditures from financing activities (031 to 035)</b>	<b>036</b>	<b>45.609.415</b>	<b>33.270.703</b>
<b>C1) NET INCREASE IN CASH FLOW FROM FINANCING ACTIVITIES (030-036)</b>	<b>037</b>	<b>0</b>	<b>0</b>
<b>C2) NET DECREASE IN CASH FLOW FROM FINANCING ACTIVITIES (036-030)</b>	<b>038</b>	<b>15.446.925</b>	<b>5.122.108</b>
Total increase in cash flow (013 – 014 + 025 – 026 + 037 – 038)	039	0	436.380
Total decrease in cash flow (014 – 013 + 026 – 025 + 038 – 037)	040	1.175.172	0
Cash and cash equivalents at beginning of period	041	2.269.232	1.094.060
Increase in cash and cash equivalents	042		436.380
Decrease in cash and cash equivalents	043	1.175.172	
Cash and cash equivalents at end of period	044	1.094.060	1.530.440

**STATEMENT OF CHANGES IN EQUITY**

for period from	1.1.2012.	31.12.2012.	
Position	1	2	
	AOP mark	Previous year	
	3	4	
1. Subscribed capital	001	96.040.350	96.040.350
2. Capital reserves	002	17.748.231	
3. Reserves from profit	003	246.700	475.381
4. Retained profit or loss carried forward	004	0	-42.975.527
5. Profit or loss of current year	005	-60.328.044	-126.613.324
6. Revaluation of longterm tangible assets	006	278.255.370	273.081.818
7. Revaluation of intangible assets	007	0	0
8. Revaluation of financial assets available for sale	008	0	0
9. Other revaluations	009	0	0
<b>10. Total equity and reserves (AOP 001 to 009)</b>	<b>010</b>	<b>331.962.607</b>	<b>200.008.698</b>
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		
<b>17. Total increase or decrease in equity (AOP 011 to 016)</b>	<b>017</b>	<b>0</b>	<b>0</b>
17 a. Attributed to parent company equity holders	018		
17 b. Attributed to minority interest	019		

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

Varteks d.d.

Zagrebačka 94  
42000 Varaždin

Varaždin, June 27, 2013

## STATEMENT BY PERSONS RESPONSIBLE FOR THE COMPILATION OF THE REPORT FOR I-XII 2012

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

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

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

Person responsible:

Nenad Davidović

Board member responsible for finances

Contact person:

Marina Bradarić - Šlujo

Phone 042 / 377-230



# VARTEKS

*ANNUAL MANAGEMENT BOARD REPORT  
ON SITUATION IN THE COMPANY VARTEKS D.D. FOR 2012  
(revised)*

*Varaždin, June 2013*



## IN GENERAL ABOUT THE COMPANY

Varteks, *Varaždinska tekstilna industrija d.d. Varaždin* (hereinafter referred to as: *Company*) came about through a transformation pursuant to the Decision on the Transformation of the Social Company Varteks Holding into a Stock Company of June 17, 1992 and pursuant to a resolution by the Croatian Agency for Restructuring and Development No. 01-01-02/92-06/94 of April 9, 1993 and the Decision on the Transfer of Varteks Shares to Varaždin Funds of July 16, 1993.

### Main activities

Varteks's main activities are:

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

### Company seat

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

### Supervisory Board and Management Board

#### Supervisory Board

Milan Horvat	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:*

- *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 Varteks Textiles Limited, Bristol, Great Britain are inactive in terms of business activities.*

## 2. BASIC BUSINESS CHARACTERISTICS IN 2012, BUSINESS RISKS AND ANTICIPATED FUTURE COMPANY 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 the Company, Varteksa d.d. endured a loss of HRK 126.6 million in 2012.*

*The primary influence on the business conditions and results is further growing lack of liquidity having an effect on the Croatian economy as a whole, especially work-intensive industries, such as the textiles industry, which the Company belongs to.*

*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 Company 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 39.7 million, and financial liabilities in the amount of HRK 52.6 million, which contain interest expenses in the amount of HRK 46.4 million. Such as profit and loss structure points to the necessity for comprehensive and immediate realization of the proposed Operative and Financial Restructuring Plan for the Company, which defines the means of consolidating business.*

*At the end of 2012 Varteks d.d., 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 company financial restructuring plan offers an all-inclusive solution and business consolidation. 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 Varteks employs approximately 2000 people and is an export-oriented company that realized HRK 98.4 million of income on foreign markets in 2012.*

*Continuation of Company operations 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, which appears to be "Zoran Košćec", written over a light grey background.

*VARTEKS D.D. VARAŽDIN*

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

*VARAŽDIN, JUNE 2013*

**REPORT ON PERFORMED AUDIT OF  
NON-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, the Management Board shall be responsible for the financial statements of VARTEKS d.d. Varaždin (hereinafter: the Company) prepared for each fiscal year 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 its business results for the above period.*

*After the performed insight, the Management realistically expects that the Company shall have the necessary assets to continue with its business for the foreseeable future. Therefore, the Management Board still accepts the principle of going concern 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 going concern, unless it should be inappropriate to assume that the Company will continue with its business.*

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

*The attached financial statements presented on pages 4-82 have been approved by the Management on 13 April 2013 and are signed by:*

*For and in behalf of the Management:*

*Zoran Košćec*

*Nenad Davidović*

*Chairman of the  
Management Board*

*Board Member for Financial  
Transactions*



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

**TO SUPERVISORY BOARD AND SHAREHOLDERS OF VARTEKS d.d. VARAŽDIN****INDEPENDENT AUDITOR'S REPORT**

*We performed the audit of these non-consolidated financial statements of VARTEKS d.d. Varaždin company, specifically: Financial standing report as at 31 December 2012, All-inclusive Profit Account for 1 Jan.-31. Dec. 2012, Cash Flow Report for 1 Jan.-31. Dec. 2012, Changes in Capital for 1 Jan.-31. Dec. 2012 and Notes to financial statements, including significant accounting policies.*

**Management Board responsibilities**

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

**Responsibility of the auditor**

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

*Audit includes performing activities and obtaining auditing proof on amounts and releases in financial statements. Choice of activities, including the risk assessment for significant erroneous accounts in financial statements due to errors or fraud lies exclusively with the auditor. When assessing risk, the auditor takes into consideration the internal controls relevant for preparation and fair presentation of financial statements in order to determine auditing activities applicable under the circumstances, but not also for giving opinion on effectiveness of the Company's internal controls. 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. *The Company declares investments in dependent companies using the fair value model, in accordance with the ISFR 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 16,426,266. 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.*

2. *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 Company does not have the right to declare deferred liabilities for at least 12 months from the end of the reporting period; such liabilities must be declared as short-term liabilities.*

3. *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 Item 1-3 which qualify the opinion, the attached financial statements are a true and fair representation, in all materially significant determinants, of the financial position of VARTEKS d.d. Varaždin as at 31 December 2012, business results, cash flow report and changes in capital for the period from 1 January to 31 December 2012, in accordance with the International Standards of Financial Reporting as published in the Official Gazette (OG) of the Republic of Croatia.*

### **Emphasis of matter**

1. Without qualifying our opinion, we turn your attention to Note 3.34.I. – Pre-bankruptcy Settlement Procedure, in which the Company challenges claims in the amount of HRK 9,792,693 which have not been declared in business ledgers of the Company, and which predominately pertain to court case claims whose outcome is foreseen to be for the Company, and claims whose statute of limitations has run out (connection: Note 3.33. 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 Company, as well as Note 1.c. to these financial statements, which describes the conditions of performing business in the Company during 2012, liquidity risk, marking 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 of the Company.

Circumstances stated in Note 1.c. point to the existence of possible uncertainty with respect to further ongoing concern of Varteks d.d. Varaždin and associated companies if the 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 Company should not be able to continue with indefinite duration of business.

Authorized auditor:  
Grozdana Šimpović - Brlek, B.Sc.  
(Econ.)



Managing Director:  
Stjepan Šargač, B.Sc. (Econ.)



Varaždin, 13 June 2013

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

NON-CONSOLIDATED FINANCIAL STATEMENTS

ALL-INCLUSIVE PROFIT STATEMENT  
from 1 Jan. to 31 Dec. 2012

	Note	2011 - in HRK -	2012 - in HRK -
Income from sales	2.1.1.1.	296,890,704	227,135,540
Other income	2.1.1.2.	30,233,779	31,626,749
<b>Total income from core activities</b>	<b>2.1.1.</b>	<b>327,124,483</b>	<b>258,762,289</b>
Value adjustment / change of inventory of current production and finished products		(7,691,667)	(5,135,625)
Purchase value of sold goods		(57,080,052)	(43,747,968)
Raw material, material and energy expenses	2.2.1.1.	(64,652,358)	(42,487,457)
Other material expenses	2.2.1.2.	(3,030,442)	(2,278,358)
Depreciation	2.2.1.3.	(15,340,912)	(16,245,632)
Non-material expenses	2.2.1.4.	(127,602,905)	(143,934,430)
Staff costs	2.2.1.5.	(70,934,719)	(44,707,046)
Value adjustment	2.2.1.6.	(6,581,142)	(37,544,419)
<b>Total liabilities from core Company activities</b>	<b>2.2.1.</b>	<b>(352,914,197)</b>	<b>(336,080,935)</b>
<b>Profit / (loss) from core activities</b>		<b>(25,789,714)</b>	<b>(77,318,646)</b>
Financial income	2.1.2.	2,667,652	3,321,466
Financial liabilities	2.2.2.	(37,205,982)	(52,616,144)
<b>Net profit / (loss) from financial activities</b>		<b>(34,538,330)</b>	<b>(49,294,678)</b>
<b>TOTAL INCOME</b>	<i>1.f., 2.1.</i>	<b>329,792,135</b>	<b>262,083,755</b>
<b>TOTAL LIABILITIES</b>	<i>1.g., 2.2.</i>	<b>(390,120,179)</b>	<b>(388,697,079)</b>
<b>Profit/(loss) before taxation</b>		<b>(60,328,044)</b>	<b>(126,613,324)</b>
Profit/company tax	<i>1.j., 2.3.</i>	-	-
<b>Profit / (loss) of period</b>		<b>(60,328,044)</b>	<b>(126,613,324)</b>
Loss per share		(34.73)	(72.88)
<b>Other all-inclusive profit</b>			
Revaluation reserves based on reval. of flats	3.18.	246,700	228,681
Realized revaluation reserves	3.18.	-	5,173,552
Taxes on real. reval. reserves	3.18., 3.20.4.	-	1,293,388
<b>TOTAL ALL-INCLUSIVE PROFIT / (LOSS) OF PERIOD</b>		<b>(60,081,344)</b>	<b>(119,917,703)</b>
Loss per share:		(34.59)	(69.03)

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

The following notes are an integral part of these financial statements



**FINANCIAL POSITION REPORT**  
*as at 31 December 2012*

**ASSETS**

	Notes	31 Dec. 2011 - in HRK -	31 Dec. 2012 - in HRK -
<b>LONG-TERM ASSETS</b>		<b>804,779,368</b>	<b>780,973,966</b>
<b>INTANGIBLE ASSETS</b>			
<i>Concessions, licences, patents, trademarks, software and other rights</i>	1.1., 3.1.	6,561,023	5,611,683
		6,561,023	5,611,683
<b>TANGIBLE ASSETS</b>		770,487,589	750,079,612
<i>Real estate, plants and equipment</i>	1.k., 3.2.	770,487,589	750,079,612
<b>LONG-TERM FINANCIAL ASSETS</b>		24,122,545	22,148,995
<i>Stakes (shares) in related companies</i>	1.m., 3.3.	18,860,817	16,834,814
<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
<b>RECEIVABLES</b>		3,608,211	3,133,676
<i>Receivables from related companies</i>	3.7., 3.32.	2,710,458	2,579,386
<i>Other receivables</i>	3.8.	897,753	554,290
<b>SHORT-TERM ASSETS</b>		<b>145,199,498</b>	<b>94,441,932</b>
<b>INVENTORY</b>	1.n., 3.9.	82,166,314	38,686,495
<b>RECEIVABLES</b>		53,282,373	51,452,392
<i>Receivables from related companies</i>	1.v., 3.10., 3.32.	21,215,471	19,442,740
<i>Accounts receivable</i>	1.o., 3.11.	21,195,449	15,241,025
<i>Other receivables</i>	3.12.	10,871,453	16,768,627
<b>SHORT-TERM FINANCIAL ASSETS</b>	1.p.	8,656,751	2,772,605
<i>Loans/credits placed to related companies</i>	3.13., 3.32.	-	713,808
<i>Investments in securities</i>	3.14.	6,800,926	1,057,888
<i>Placed loans, deposits, etc.</i>	3.15.	1,855,825	1,000,909
<b>CASH ON ACCOUNTS AND IN HAND</b>	1.r., 3.16.	1,094,060	1,530,440
<b>PAID EXPENSES OF FUTURE PERIOD AND CALCULATED INCOME</b>	3.17.	376,361	507,369
<b>TOTAL ASSETS</b>		<b>950,355,227</b>	<b>875,923,267</b>
<b>OFF-BALANCE ENTRIES</b>	3.30.	20,171,005	15,056,729

*The following notes are an integral part of these financial statements*

**FINANCIAL POSITION REPORT**  
**as at 31 December 2012**  
**- Continued**

**CAPITAL AND LIABILITIES**

	Notes	31 Dec. 2011 - in HRK -	31 Dec. 2012 - in HRK -
<b>CAPITAL AND RESERVES</b>	3.18.	<b>331,962,607</b>	<b>200,008,698</b>
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 (deductible entry)		(9,182,650)	(9,182,650)
Other reserves		246,700	475,381
REVALUATION RESERVES		278,255,370	273,081,818
LOSS CARRIED FORWARD		-	(42,975,527)
LOSS OF FISCAL YEAR		(60,328,044)	(126,613,324)
<b>PROVISIONING</b>	1.u., 3.19.	<b>239,775</b>	<b>86,622</b>
Other provisions		239,775	86,622
<b>LONG-TERM LIABILITIES</b>	1.s., 3.20.	<b>204,324,407</b>	<b>174,473,856</b>
Liabilities for loans/credits, deposits and other	3.20.1.	4,702,795	3,288,461
Liabilities toward banks and other financial institutions	3.20.2.	130,057,769	102,838,440
Accounts payable	3.20.3.	-	76,500
Deferred tax obligation	1.j., 3.20.4.	69,563,843	68,270,455
<b>SHORT-TERM LIABILITIES</b>	1.s.	<b>413,352,366</b>	<b>500,614,490</b>
Liabilities toward related companies	1.v., 3.21., 3.32.	29,854,553	56,767,277
Liabilities for loans/credits, deposits and other	3.22.	5,404,955	6,784,305
Liabilities toward banks and other financial institutions	3.23..	157,873,666	179,177,310
Liabilities for advance payments	3.24.	1,948,936	1,919,672
Accounts payable	3.25.	93,373,151	91,711,020
Liabilities toward employees	1.i., 3.26.	5,482,194	9,402,771
Taxes, contributions and similar fees	1.i., 1.j., 3.27.	111,549,535	140,584,102
Other short-term liabilities	3.28.	7,865,376	14,268,033
<b>DEFERRED PAYMENT OF EXPENSES AND INCOME OF FUTURE PERIOD</b>	3.29.	<b>476,072</b>	<b>739,601</b>
<b>TOTAL CAPITAL AND LIABILITIES</b>		<b>950,355,227</b>	<b>875,923,267</b>
<b>OFF-BALANCE ENTRIES</b>	3.30.	<b>20,171,005</b>	<b>15,056,729</b>

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



The following notes are an integral part of these financial statements

**CHANGES IN CAPITAL**  
**from 1 Jan. to 31 Dec. 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	-	(184,131,093)	(96,670,097)	113,788,581
Decision of the Assembly – simplified capital decrease	(288,121,050)	17,748,231	-	-	-	-	184,131,093	86,241,726	-
Allocation of other reserves	-	-	27,547,950	(36,830,412)	(1,145,909)	-	-	10,428,371	-
Loss of fiscal year	-	-	-	-	-	-	-	(60,328,044)	(60,328,044)
Revaluation of tangible assets	-	-	-	-	-	278,255,370	-	-	278,255,370
Other all-inclusive profit	-	-	-	-	246,700	-	-	-	246,700
Position as at 31 Dec. 2011	96,040,350	17,748,231	(9,182,650)	9,182,650	246,700	278,255,370	-	(60,328,044)	331,962,607

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 Jan. 2012	96,040,350	17,748,231	(9,182,650)	9,182,650	246,700	278,255,370	-	(60,328,044)	331,962,607
Assembly Decision:									
- Allocation of losses	-	-	-	-	-	-	(60,328,044)	60,328,044	-
- Coverage of losses	-	(17,748,231)	-	-	-	-	17,748,231	-	-
Loss of fiscal year	-	-	-	-	-	-	-	(126,613,324)	(126,613,324)
Adjustment for realized reval. reserves	-	-	-	-	-	(5,173,552)	5,173,552	-	-
Real. deferred tax liabilities	-	-	-	-	-	-	1,293,388	-	1,293,388
Tax oversight	-	-	-	-	-	-	(6,862,654)	-	(6,862,654)
Other all-inclusive profit	-	-	-	-	228,681	-	-	-	228,681
Position as at 31 Dec. 2012	96,040,350	-	(9,182,650)	9,182,650	475,381	273,081,818	(42,975,527)	(126,613,324)	200,008,698

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



The following notes are an integral part of these financial statements

**CASH FLOW REPORT**  
**from 1 Jan. to 31 Dec. 2012**  
**Indirect method**

	2011 - in HRK -	2012 - in HRK -
<b>CASH FLOW FROM BUSINESS ACTIVITIES</b>		
Loss of fiscal year	(60,328,044)	(126,613,324)
Depreciation	15,340,912	16,245,632
Increase of short-term liabilities	65,719,106	93,594,052
Decrease of short-term receivables	13,959,378	1,829,981
Decrease of inventory	14,360,461	43,479,819
Currency rate differentials	3,166,253	746,092
Other increases of cash flow	1,020,540	1,522,069
<b>Total increase of cash flow from business activities</b>	<b>53,238,606</b>	<b>30,804,321</b>
Paid interest	(20,725,649)	(24,365,400)
Other decreases of cash flow	(504,306)	(8,440,203)
<b>Total decrease of cash flow from business activities</b>	<b>(21,229,955)</b>	<b>(32,805,603)</b>
<b>NET INCREASE OF CASH FLOW FROM BUSINESS ACTIVITIES</b>	<b>32,008,651</b>	<b>-</b>
<b>NET DECREASE OF CASH FLOW FROM BUSINESS ACTIVITIES</b>	<b>-</b>	<b>(2,001,282)</b>
<b>CASH FLOW FROM INVESTMENT ACTIVITIES</b>		
Cash receivables from the sale of long-term tangible and intangible assets	5,056,562	5,462,691
Cash receivables from sale of equity (owner) and debt instruments	505,906	-
Other cash receivables from investment activities	-	2,500,538
<b>Total cash receivables from investment activities</b>	<b>5,562,468</b>	<b>7,963,229</b>
Cash liabilities/expenses for purchase of long-term tangible and intangible assets	(3,246,368)	(326,482)
Cash liabilities/expenses for acquisition of equity (owner) and debt financial instruments	(20,051,878)	-
Other cash liabilities/expenses from investment activities	(1,120)	(76,977)
<b>Total cash liabilities/expenses from investment activities</b>	<b>(23,299,366)</b>	<b>(403,459)</b>
<b>NET INCREASE OF CASH FLOW FROM INVESTMENT ACTIVITIES</b>	<b>-</b>	<b>7,559,770</b>
<b>NET DECREASE OF CASH FLOW FROM INVESTMENT ACTIVITIES</b>	<b>(17,736,898)</b>	<b>-</b>

**CASH FLOW REPORT**  
**from 1 Jan. to 31 Dec. 2012**  
**Indirect method**  
 - Continued

	2011 - in HRK -	2012 - in HRK -
<b>CASH FLOW FROM FINANCIAL ACTIVITIES</b>		
Cash receivables from credit equity, debenture notes, loans, etc.	30,162,490	22,264,449
Other receivables from financial activities	-	5,884,146
<b>Total cash receivables from financial activities</b>	<b>30,162,490</b>	<b>28,148,595</b>
Cash liabilities/expenses for payment of credit equity and bonds	(45,431,510)	(33,270,703)
Cash liabilities/expenses for purchase of own shares	-	-
Other cash liabilities/expenses from financial activities	(177,905)	-
<b>Total cash liabilities/expenses from financial activities</b>	<b>(45,609,415)</b>	<b>(33,270,703)</b>
<b>NET DECREASE OF CASH FLOW FROM FINANCIAL ACTIVITIES</b>	<b>(15,446,925)</b>	<b>(5,122,108)</b>
<b>Total increase of cash flow</b>	<b>-</b>	<b>436,380</b>
<b>Total decrease of cash flow</b>	<b>(1,175,172)</b>	<b>-</b>
<b>Cash and cash equivalents at the beginning of period</b>	<b>2,269,232</b>	<b>1,094,060</b>
<b>Increase of cash and cash equivalents</b>	<b>-</b>	<b>436,380</b>
<b>Decrease of cash and cash equivalents</b>	<b>(1,175,172)</b>	<b>-</b>
<b>Cash and cash equivalents at the end of period</b>	<b>1,094,060</b>	<b>1,530,440</b>

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

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

The following notes are an integral part of these financial statements



**NOTES TO FINANCIAL STATEMENTS**

**GENERAL COMPANY INFORMATION**

VARTEKS, Varaždin textile industry d.d. Varaždin (hereinafter: the Company) was established through transformation, pursuant to the Decision on Transformation of Public Company Varteks Holding Varaždin into Joint-Stock Company as of 17 June 1992, and in accordance with the Resolution of the Restructuring and Development Agency of the Republic of Croatia No.: 01-01-02/92-06/94 as of 9 April 1993 and the Decision on Transfer of Shares of Varteks Varaždin Joint-Stock Company to Funds as of 16 July 1993. The abbreviated Company name is VARTEKS d.d. Varaždin.

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

**Core activities**

The main/core activities of Varteks d.d. Varaždin 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 seat of the Company is in the Republic of Croatia, Varaždin, Zagrebačka 94.

The number of employees in the Company as at 31 December 2012 was 659 (720 on 31 Dec. 2011).

The Company founded the following associated companies in 2011, owning 100% of these companies, with the goal being allocation of business production fields:

Company	Seat	Capital stock	Number of employees at the end of 2011	Number of employees at the end of 2012
VARTEKS ODJEĆA d.o.o. Varaždin for production of clothing	Varaždin Zagrebačka 94	20.000	1.022	977
VARTEKS LUDBREG d.o.o. Ludbreg for production of clothing	Ludbreg Frankopanska 87	20.000	239	234
VARTEKS BEDNJA d.o.o. Bednja for production of clothing	Bednja Trakošćanska 21	20.000	182	182

Companies began operations on 1 May 2011 and continued until 7 January 2013, when they were again merged with the parent company Varteks d.d. Varaždin. Merger was performed in the court register of the Commercial Court in Varaždin unred Reg. No. Tt-12/3031-2, under joint name VARTEKS varaždinska tekstilna industrija d.d. Varaždin, Zagrebačka 94.

**VARTEKS d.d. Varaždin - Official bodies**

**Supervisory Board**

Milan Horvat

Chairman

Stjepan Igrac

Vice-chairman

Artur Gedike

Board member until 29 August 2012

Neven Maruševac

Board Member

Božica Čiček – Mutavdžić

Board Member

Krešimir Dragić

Board Member

Marijan Mitrović

Board Member

Igor Žonja

Board member from 7 September 2012

**Management (Board)**

Zoran Košćec

Chairman of the Management Board

Nenad Davidović

Board Member for Financial Transactions

Miljenko Vidaček

Board Member for Manufacture

**General Assembly Chairman**

Stjepan Igrac

## **1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The following is the overview of significant accounting policies adopted for the preparation of the financial statements for the period from 1 January to 31 December 2012:

### **1a. Conformance statement**

The financial statements of the Company were drafted in accordance with the International Financial Reporting Standards - IFRS (published in the Official Gazette of the Republic of Croatia). For needs of these financial statements i.e. preparation of this Report, the prescribed annual financial statements of Varteks d.d. Varaždin 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**

Financial statements of the Company 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.

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

### **1.c. Management estimate on business conditions in 2012 and on the application of the premise of ongoing concern in 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 the Company, Varteks d.d. endured a loss of HRK 126.6 million in 2012.

The primary influence on the business conditions and results is further growing lack of liquidity having an effect on the Croatian economy as a whole, especially work-intensive industries, such as the textiles industry, which the Company belongs to.

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 Company 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 39.7 million, and financial liabilities in the amount of HRK 52.6 million, which contain interest

expenses in the amount of HRK 46.4 million. Such as profit and loss structure points to the necessity for comprehensive and immediate realization of the proposed Operative and Financial Restructuring Plan for the Company, which defines the means of consolidating business.

At the end of 2012 Varteks d.d., 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 company financial restructuring plan offers an all-inclusive solution and business consolidation. 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 Varteks employs approximately 2000 people and is an export-oriented company that realized HRK 98.4 million of income on foreign markets in 2012.

Continuation of Company operations 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.d. Report currency**

Financial statements of the Company are shown in Croatian Kuna (HRK). The currency rate of Kuna with respect to other currencies was:

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.e. 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 Company Management 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 the period from 1 January to 31 December 2012. Financial information in the forms were extracted from the financial statements of the Company shown on pages 4-9 in accordance with the Accounting Act of the RC and the IFRS published in the OG of the RH.

**1.f. Recognition of income**

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

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

**1.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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**1.h. Foreign currencies**

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

**1.i. 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 Company 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.j. Taxation

Taxes and contributions and other legal obligations are paid according to Croatian regulations 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 Company is calculated using interest rates in force, or those interest rates valid on the date of the financial position report.

#### Deferred tax

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

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

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

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

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****1.j. Taxation - 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.k. Real property, 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>
Structures/buildings	1 – 4
Equipment	1 – 20
Vehicles	10 - 25
Office equipment	10

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



**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**1.1. 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 5-20%.*

**1.m. Investments in dependent companies**

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

**1.n. Inventory**

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

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

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

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

**1.o. Accounts receivable and advance payments**

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

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****1.p. Financial assets**

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:

1. Classified as assets intended for sale
2. The Company 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 investor 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)****1.p. Financial assets - 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 Company ceases to recognise a financial asset only if the contractual right to that asset cash flow has expired, if the financial asset is transferred, and if all the risks and rewards linked to the ownership over that asset are in majority transferred to another subject. If the Company should not transfer nor keep the risks and awards linked to ownership, and if it still has control over the transferred asset, it shall declare its retained stake in the asset and its linked liability in the amounts it must eventually pay. If the Company should keep the majority of all the risks and awards linked to ownership over the transferred financial asset, that asset shall keep being recognised, along with the recognition of the loan for which collateral was given, for income received.

**1.r. Cash and cash equivalents**

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

**1.s. Financial liabilities**

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

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****1.t. 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 Company assets at fair value at the start of the lease, or at current value of minimal lease/rent payment if that amount is smaller. Linked obligation toward the lessor shall be declared in the financial position report as liability of financial lease.*

*Fees paid within business leases shall be recognised as liabilities using the 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.u. Provisions**

*Provisioning shall be recognised only when the Company has a current liability (legal or derivative) as a result of previous event, if it is probable 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.*

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**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)*****1.v. Associated/related parties***

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

*An 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****1.z. 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.x. 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 Company shall adjust the amounts which it recognised 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 contains:

	<u>2011</u>	<u>2012</u>
	- in HRK -	- in HRK -
Income from core activities	327,124,483	258,762,289
Financial income	<u>2,667,652</u>	<u>3,321,466</u>
<b>TOTAL:</b>	<u><u>329,792,135</u></u>	<u><u>262,083,755</u></u>

#### 2.1.1. Structure of income from core activities

	<u>2011</u>	<u>2012</u>
	- in HRK -	- in HRK -
Income from sales	296,890,704	227,135,540
Other income	<u>30,233,779</u>	<u>31,626,749</u>
<b>TOTAL:</b>	<u><u>327,124,483</u></u>	<u><u>258,762,289</u></u>

2.1.1.1. Income from sales

	2011 - in HRK -	2012 - in HRK -
<i>Income from product sales</i>		
<i>Domestic market</i>	81,235,708	65,673,514
- wholesale	38,110,366	28,515,434
- retail	43,125,342	37,158,080
<i>Foreign market</i>	60,133,385	26,968,872
<i>TOTAL:</i>	<u>141,369,093</u>	<u>92,642,386</u>
<i>Income from sales of goods</i>		
<i>Domestic market</i>	76,505,868	55,969,851
- wholesale	15,210,144	10,459,068
- retail	61,295,724	45,510,783
<i>Foreign market</i>	11,969,479	8,921,070
<i>TOTAL:</i>	<u>88,475,347</u>	<u>64,890,921</u>
<i>TOTAL PRODUCTS AND GOODS</i>	<u>229,844,440</u>	<u>157,533,307</u>
<i>Domestic market</i>	157,741,576	121,643,365
<i>Foreign market</i>	72,102,864	35,889,942
<i>Income from services</i>		
<i>Domestic market</i>	9,274,897	7,104,407
<i>Foreign market</i>	57,771,367	62,497,826
<i>TOTAL:</i>	<u>67,046,264</u>	<u>69,602,233</u>
<i>TOTAL INCOME FROM SALES</i>	<u>296,890,704</u>	<u>227,135,540</u>
<i>Domestic market</i>	167,016,473	128,747,772
<i>Foreign market</i>	129,874,231	98,387,768



2.1.1.2. Other income

	2011	2012
	- in HRK -	- in HRK -
Net income from sale of long-term assets	8,490,576	473,027
Income from lease	14,398,686	18,222,208
Surplus	1,501,414	872,967
Income from collection of written-off receivables	601,894	582,024
Income from subsequently approved discounts	35,691	17,668
Income from collection of damages	332,686	1,071,782
Income from sale of materials, spare parts	260,040	2,131,406
Income from write-off of liabilities toward suppliers	1,640,624	7,287,791
Income from cancelling provisions	436,459	144,152
Other income	2,535,709	823,724
<b>TOTAL:</b>	<b>30,233,779</b>	<b>31,626,749</b>

2.1.2. Structure of financial income

*Income from relations with associated/related companies:*

	2011	2012
	- in HRK -	- in HRK -
Positive currency exchange rate differentials	1,624,039	448,253
<b>TOTAL:</b>	<b>1,624,039</b>	<b>448,253</b>

*Financial income from relations with non-associated/related companies*

Positive currency exchange rate differentials	995,975	2,790,129
Income from interest	47,638	51,223
Other financial income	-	31,861
<b>TOTAL:</b>	<b>1,043,613</b>	<b>2,873,213</b>
<b>GRAND TOTAL:</b>	<b>2,667,652</b>	<b>3,321,466</b>

## 2.2. Liabilities

Total Liabilities contain:

	2011 - in HRK -	2012 - in HRK -
Liabilities from core activities	352,914,197	336,080,935
Financial expenses/liabilities	37,205,982	52,616,144
<b>TOTAL:</b>	<b>390,120,179</b>	<b>388,697,079</b>

### 2.2.1. Structure of liabilities from core activities

	2011 - in HRK -	2012 - in HRK -
Value adjustment / change of inventory of current production and finished products	7,691,667	5,135,625
Purchase value of sold goods	57,080,052	43,747,968
Raw material, material and energy expenses	64,652,358	42,487,457
Other material expenses	3,030,442	2,278,358
Depreciation	15,340,912	16,245,632
Non-material expenses	127,602,905	143,934,430
Staff costs	70,934,719	44,707,046
Value adjustment	6,581,142	37,544,419
<b>TOTAL:</b>	<b>352,914,197</b>	<b>336,080,935</b>

#### 2.2.1.1. Raw material, material and energy expenses

These expenses include:

	2011 - in HRK -	2012 - in HRK -
Raw material and material expenses	51,750,353	31,517,475
Spent energy	12,902,005	10,969,982
<b>TOTAL:</b>	<b>64,652,358</b>	<b>42,487,457</b>

2.2.1.2. Other material expenses

	2011	2012
	- in HRK -	- in HRK -
Other materials used	1,145,222	708,293
Vehicle expenses	1,343,040	1,354,148
Office materials used	358,645	178,680
Spare parts used	123,463	4,792
Write-off of small inventory	60,072	32,445
<b>TOTAL:</b>	<b>3,030,442</b>	<b>2,278,358</b>

2.2.1.3. Depreciation

Depreciation of long-term assets is performed individually for each asset. Depreciation costs in 2012 amount to HRK 16,245,632 (HRK 15,340,912 the previous year). Notes 1.k., 1.l., 3.I. and 3.2 contain the overview of rates used and calculated depreciation per asset group.

2.2.1.4. Non-material expenses

	2011	2012
	- in HRK -	- in HRK -
Employee transport	6,607,134	3,193,290
Rent/lease	13,926,417	12,667,825
Severance pay and anniversary awards	4,687,864	2,309,423
Non-production services	4,551,598	3,616,793
Advertising and sponsorships	3,397,112	3,269,140
Taxes and contributions not depending on result	3,282,216	3,040,163
Other material rights	1,857,108	1,207,323
Banking services	2,063,750	2,236,418
Shortages	2,193,316	1,038,883
Maintenance services	1,952,225	2,256,985
Transport and forwarding	1,318,378	1,195,101
Credit card fees	1,741,319	1,328,369
Public, graphical and external trade services	1,654,533	1,488,839
Insurance premiums	1,498,969	1,324,672
Production services	69,887,613	86,425,512
Write-off of short-term assets	261,967	149,307
Other production services	840,202	666,202
Representation costs	355,376	224,838
Purchase value of sold materials	1,145,565	3,593,611
Later approved discounts	1,003,289	874,820
Other expenses	3,376,954	11,826,916
<b>TOTAL:</b>	<b>127,602,905</b>	<b>143,934,430</b>

2.2.1.5. Staff costs

	2011	2012
	- in HRK -	- in HRK -
Net salaries	45,058,795	28,298,442
Taxes and contributions from and on salaries	25,875,924	16,408,604
<b>TOTAL:</b>	<b>70,934,719</b>	<b>44,707,046</b>

At the end of the current year the Company employed 693 persons (701 the previous year).

2.2.1.6. Value adjustment

	2011 - in HRK -	2012 - in HRK -
- Long-term assets (except financ. assets)	773,840	183,793
- Short-term assets (except financ. assets)	5,807,302	37,360,626
<b>TOTAL:</b>	<b>6,581,142</b>	<b>37,544,419</b>

2.2.1.6.1. Value-adjustment of long-term assets (except financial)

	2011 - in HRK -	2012 - in HRK -
<i>Cost of value adjustment based on:</i>		
- Estimate of individual long-term assets to a lower amount	773,840	-
- Long-term receivables from Tiskara d.o.o. Varaždin	-	174,659
- Other	-	9,134
<b>TOTAL:</b>	<b>773,840</b>	<b>183,793</b>

2.2.1.6.2. Value-adjustment of short-term assets (except financial)

	2011 - in HRK -	2012 - in HRK -
<i>Expense of inventory value adjustment</i>	2,920,474	8,952,300
<i>Expense of value adjustment of:</i>		
- Accounts receivable and consumer loans	1,930,739	760,359
- Receivables from associated companies	360,878	13,753,006
<i>Total value adjustment expenses</i>	5,212,091	23,465,665
<i>Direct inventory write-off</i>	595,211	13,894,961
<b>GRAND TOTAL:</b>	<b>5,807,302</b>	<b>37,360,626</b>

2.2.2. *Structure of financial expenses*

*Financial liabilities (expenses) from relations with associated/related companies:*

	<u>2011</u>	<u>2012</u>
	- in HRK -	- in HRK -
<i>Negative currency exchange rate differentials</i>	1,250,673	453,716
<i>Other financial liabilities</i>	150,068	204,910
<i>Value adjustment of stake in Varteks Plus d.o.o., Belgrade</i>	-	2,027,303
	-----	-----
<b>TOTAL:</b>	<u>1,400,741</u>	<u>2,685,929</u>

*Financial liabilities from relations with non-associated/related companies:*

<i>Credit/loan interest liabilities</i>	18,504,360	22,334,212
<i>Other interest liabilities (expenses)</i>	12,765,286	24,051,396
<i>Negative currency exchange rate differentials</i>	4,535,595	3,530,759
<i>Other financial liabilities</i>	-	13,848
	-----	-----
<b>TOTAL:</b>	<u>35,805,241</u>	<u>49,930,215</u>
<b>GRAND TOTAL:</b>	<u><u>37,205,982</u></u>	<u><u>52,616,144</u></u>

### 2.3. Profit/company tax

The Company is a profit/company tax payer for the amount being legally taxed in the Republic of Croatia. Profit tax is 20% of the taxable Company profit (same as the previous year).

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

As at 31 Dec. 2012, the Company is carrying forward a tax loss in the amount of HRK 265,225,340.

Tax effect of accounting loss and transferred tax losses:

	2011	2012
	- in HRK -	- in HRK -
Loss before taxes	(60.328.044)	(126.613.324)
Loss decrease		
- 70% representation costs	266,434	152,390
- 30% personal transport expenses	427,970	422,884
- Asset shortages above permitted levels	642,853	44,025
- Liabilities ascertained during inspection	-	1,040,852
- Misdemeanour and infringement expenses	16,323	-
- Penalty interest between associated companies:	3,894,420	-
- Unrealized losses	-	2,027,303
- Value adjustment and receivables write-off	2,291,617	14,628,748
- Value adjustment of inventory	3,515,685	22,847,261
- Value adjustment of financial assets	-	13,848
- Increase of tax basis for other liabilities and increases	3,104,942	11,016,552
- Profit increase for other income and other profit increases	-	6,466,940
<b>TOTAL:</b>	<b>14,160,244</b>	<b>58,660,803</b>
Loss increase		
- Income from collection of written-off receivables	(601,894)	(582,024)
- Other liabilities of earlier periods	(2,127,381)	(3,382,120)
<b>TOTAL:</b>	<b>(2,729,275)</b>	<b>(3,964,144)</b>
Tax base	(48,897,075)	(71,916,665)
Tax loss carried forward	(156,895,819)	(205,792,894)
Correction of tax loss carried forward	-	12,484,219
Tax loss to be carried forward	(205,792,894)	(265,225,340)
Profit/company tax	-	-

2.3. Profit/company tax - continued

Overview of Company tax losses that can be used in future periods:

<i>Year</i>	<i>Amount</i>	<i>Cumulative</i>
2014.	55,385,936	55,385,936
2015.	89,025,665	144,411,601
2016.	48,897,074	193,308,675
2017.	71,916,665	265,225,340

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

	<i>2011</i>	<i>2012</i>
	<i>- in HRK -</i>	<i>- in HRK -</i>
<i>Deferred tax assets from tax losses (20%)</i>	<i>41,158,579</i>	<i>53,045,068</i>
<i>Position as at 31 December</i>	<i>41,158,579</i>	<i>53,045,068</i>

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. NOTES TO THE FINANCIAL POSITION REPORT

3.1. Intangible assets

					2011 - in HRK -
	Goodwill	Software	Investments in other party assets	Rights to model and trademark	Total
<u>PURCHASE VALUE</u>					
Position as at 1 Jan. 2011	504,663	1,232,308	11,435,186	151,083	13,323,240
Direct increase (purchase)	-	-	2,077,688	-	2,077,688
Liabilities and sale	-	-	(2,246,124)	-	(2,246,124)
Position as at 31 Dec. 2011	504,663	1,232,308	11,266,750	151,083	13,154,804
<u>VALUE ADJUSTMENT</u>					
Position as at 1 Jan. 2011	(504,663)	(849,473)	(4,186,291)	(75,578)	(5,616,005)
Current year depreciation	-	(96,011)	(1,609,826)	(30,216)	(1,736,053)
Liabilities and sale	-	-	758,277	-	758,277
Position as at 31 December 2011	(504,663)	(945,484)	(5,037,840)	(105,794)	(6,593,781)
<u>CURRENT VALUE</u>					
of intangible assets as at 31 Dec. 2011	-	286,824	6,228,910	45,289	6,561,023
<u>CURRENT VALUE</u>					
of intangible assets as at 1 Jan. 2011	-	382,835	7,248,895	75,505	7,707,235

3.1. Intangible assets - continued

	2012 - in HRK -				
	Goodwill	Software	Investments in other party assets	Rights to model and trademark	Total
<u>PURCHASE VALUE</u>					
Position as at 1 Jan. 2012	504,663	1,232,308	11,266,750	151,083	13,154,804
Direct increase (purchase)	-	-	63,572	-	63,572
Liabilities and sale	-	-	(327,711)	-	(327,711)
Position as at 31 Dec. 2012	504,663	1,232,308	11,002,611	151,083	12,890,665
<u>VALUE ADJUSTMENT</u>					
Position as at 1 Jan. 2012	(504,663)	(945,484)	(5,037,840)	(105,794)	(6,593,781)
Current year depreciation	-	(76,320)	(851,828)	(30,217)	(958,365)
Liabilities and sale	-	-	273,164	-	273,164
Position as at 31 Dec. 2012	(504,663)	(1,021,804)	(5,616,504)	(136,011)	(7,278,982)
<u>CURRENT VALUE</u>					
of intangible assets as at 31 Dec. 2012	-	210,504	5,386,107	15,072	5,611,683
<u>CURRENT VALUE</u>					
of intangible assets as at 1 Jan. 2012	-	286,824	6,228,910	45,289	6,561,023

3.2. Real property, 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	368,395,639	251,297,623	35,598,117	972,446	231,298	711,248,356
Reclassification of assets	-	45,322,333	-	-	-	-	45,322,333
Direct increase (purchase)	669,174	139,281	360,225	-	-	-	1,168,680
Transfer from assets in preparation	-	-	147,584	-	(147,584)	-	-
Adjustments	-	1,120	305,667	(305,667)	-	-	1,120
Revaluation	132,852,307	396,978,002	-	-	-	-	529,830,309
Liabilities and sale	(718,637)	(4,599,134)	(9,697,064)	(674,066)	-	-	(15,688,901)
Position as at 31 Dec. 2011	187,556,077	806,237,241	242,414,035	34,618,384	824,862	231,298	1,271,881,897
<u>VALUE ADJUSTMENT</u>							
Position as at 1 Jan. 2011	-	(103,109,792)	(190,179,310)	(23,835,597)	-	-	(317,124,699)
Current year depreciation	-	(5,340,406)	(5,829,162)	(2,435,291)	-	-	(13,604,859)
Revaluation	-	(182,784,936)	-	-	-	-	(182,784,936)
Liabilities and sale	-	1,914,891	9,556,000	649,295	-	-	12,120,186
Position as at 31 Dec. 2011	-	(289,320,243)	(186,452,472)	(25,621,593)	-	-	(501,394,308)
<u>CURRENT VALUE</u>							
o real estate, plants and equipment as at 31 Dec. 2011	187,556,077	516,916,998	55,961,563	8,996,791	824,862	231,298	770,487,589
<u>CURRENT VALUE</u>							
o real estate, plants and equipment as at 1 Jan. 2011	54,753,233	265,285,847	61,118,313	11,762,520	972,446	231,298	394,123,657

In 2011 the Company 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 Company 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 3.18., 3.20.4.),
- 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 2.2.1.6.1.).

3.2. Real property, plants and equipment -continued

2012  
- in HRK -

	Land	Structures/buildings	Plants and equipment	Tools, inv. and means of transport	Advance payments	Tangible assets in preparation	Other assets	Total
<u>PURCHASE VALUE</u>								
Position as at 1 Jan. 2012	187,556,077	806,237,241	242,414,035	34,618,384	-	231,298	824,862	1,271,881,897
Direct increase (purchase)	-	91,931	119,458	51,521	-	-	-	262,910
Transfer from preparation	-	-	-	15,780	-	-	(15,780)	-
Adjustments	-	-	-	(19,190)	-	-	-	(19,190)
Advance payments given	-	-	-	-	33,657	-	-	33,657
Liabilities and sale	(1,725,378)	(4,330,664)	(509,973)	(1,058,373)	-	-	-	(7,624,388)
Position as at 31 Dec. 2012	185,830,699	801,998,508	242,023,520	33,608,122	33,657	231,298	809,082	1,264,534,886
<u>VALUE ADJUSTMENT</u>								
Position as at 1 Jan. 2012	-	(289,320,243)	(186,452,472)	(25,621,593)	-	-	-	(501,394,308)
Current year depreciation	-	(8,082,326)	(5,278,455)	(1,926,486)	-	-	-	(15,287,267)
Adjustments	-	-	-	10,057	-	-	-	10,057
Liabilities and sale	-	824,445	495,433	896,366	-	-	-	2,216,244
Position as at 31 Dec. 2012	-	(296,578,124)	(191,235,494)	(26,641,656)	-	-	-	(514,455,274)
<u>CURRENT VALUE</u> of real estate, plants and equipment as at 31 Dec. 2012								
	185,830,699	505,420,384	50,788,026	6,966,466	33,657	231,298	809,082	750,079,612
<u>CURRENT VALUE</u> of real estate, plants and equipment as at 1 Jan. 2012								
	187,556,077	516,916,998	55,961,563	8,996,791	-	231,298	824,862	770,487,589

As at 31 December 2012., Company assets (land and structures) were mortgaged to creditors as insurance for coverage of liabilities in the book amount of HRK 636,929,033 (via Notes 3.20.2., 3.23., 3.25.).

3.2. *Real property, plants and equipment -continued*

*Book value of burdened and non-burdened assets:*

	<u>2012</u>
	<i>- in HRK -</i>
<i>Book value of land and structures/objects</i>	691,251,083
<i>Book value of mortgaged assets</i>	617,904,033
<i>Book value of assets on which the right to cash claim has been recorded in case of sale</i>	<u>19,024,970</u>
<i>Book value of unburdened assets</i>	54,322,080
<i>Declared mortgage value</i>	485,290,477
<i>Liabilities of Varteks d.d. Varaždin based on which mortgage has been declared</i>	
<i>Loans</i>	261,359,667
<i>Insurance premiums</i>	4,227,943
<i>Tax liability</i>	140,584,102
<i>Warranties/guarantees</i>	10,150,710
<i>Letters of credit</i>	<u>71,642</u>
<i>TOTAL:</i>	<u><u>416,394,064</u></u>
<i>Varteks Bednja d.o.o. Bednja</i>	4,166,512
<i>Varteks Ludbreg d.o.o. Ludbreg</i>	6,774,027
<i>Varteks Odjeća d.o.o. Varaždin</i>	<u>37,764,146</u>
<i>TOTAL:</i>	<u><u>48,704,685</u></u>
<i>GRAND TOTAL LIABILITIES:</i>	<u><u>465,098,749</u></u>

### 3.3. Stakes (shares) in related companies

Stakes/shares, i.e. investments are as follows:

	31 Dec. 2011 - in HRK -	31 Dec. 2012 - in HRK -
Varteks Odjeća d.o.o. Varaždin	20,000	20,000
Varteks Bednja d.o.o. Bednja	20,000	20,000
Varteks Ludbreg d.o.o. Ludbreg	20,000	20,000
Varteks Esop d.o.o. Varaždin	20,000	20,000
Varteks Logistic d.o.o. Varaždin	327,248	327,248
Corrodo Nekretnine d.o.o. Rijeka	16,426,266	16,426,266
Varteks Plus d.o.o., Belgrade, Serbia	6,340,165	6,340,165
Investment value adjustment	(4,312,862)	(6,340,165)
Varteks Pro d.o.o., Varaždin	4,000,000	4,001,300
Investment value adjustment	(4,000,000)	(4,000,000)
Vartimpex-Italia SRL, Florence, Italy	541,093	541,093
Investment value adjustment	(541,093)	(541,093)
Vartex Textiles Limited, London	3,502,343	3,502,343
Investment value adjustment	(3,502,343)	(3,502,343)
Burgtrade Eisenstadt Austria	5,001,628	5,001,628
Investment value adjustment	(5,001,628)	(5,001,628)
Varteks Trgovina d.o.o., Široki Brijeg, Bosnia and Herzegovina	106,720	106,720
Investment value adjustment	(106,720)	(106,720)
Varteks D.o.o.e.l., Skopje, Macedonia	887,359	887,359
Investment value adjustment	(887,359)	(887,359)
Varteks Trade d.o.o. Maribor, Slovenia	36,808,369	36,808,369
Investment value adjustment	(36,808,369)	(36,808,369)
Varteks Mont d.o.o., Podgorica, Montenegro	41,780	41,780
Investment value adjustment	(41,780)	(41,780)
<b>TOTAL INVESTMENTS:</b>	<b>74,062,971</b>	<b>74,064,271</b>
<b>TOTAL VALUE ADJUSTMENT:</b>	<b>(55,202,154)</b>	<b>(57,229,457)</b>
<b>TOTAL NET INVESTMENTS:</b>	<b>18,860,817</b>	<b>16,834,814</b>

Net value investments per company:

	- in HRK -	
	2011	2012
Varteks Odjeća d.o.o. Varaždin	20,000	20,000
Varteks Bednja d.o.o. Bednja	20,000	20,000
Varteks Ludbreg d.o.o. Ludbreg	20,000	20,000
Varteks Esop d.o.o. Varaždin	20,000	20,000
Varteks Logistic d.o.o. Varaždin	327,248	327,248
Corrodo Nekretnine d.o.o. Rijeka	16,426,266	16,426,266
Varteks Plus d.o.o., Belgrade, Serbia	2,027,303	-
Varteks Pro d.o.o. Varaždin	-	1,300
<b>TOTAL:</b>	<b>18,860,817</b>	<b>16,834,814</b>

3.3. *Stakes (shares) in associated companies - continued*

*Changes during the year:*

	<u>- in HRK -</u>
<i>Position as at 1 Jan. 2011</i>	2,374,551
<i>Increase</i>	
<i>- Company establishment</i>	
- <i>Varteks Odjeća d.o.o. Varaždin</i>	20,000
- <i>Varteks Bednja d.o.o. Bednja</i>	20,000
- <i>Varteks Ludbreg d.o.o. Ludbreg</i>	20,000
<i>- Transfer of business share</i>	
- <i>Corrodo Nekretnine d.o.o. Rijeka</i>	16,426,266
<i>Position as at 31 December 2011</i>	<u>18,860,817</u>
<i>Increase</i>	
<i>- Recapitalization of Varteks Pro d.o.o. Varaždin</i>	1,300
<i>Decrease</i>	
<i>- Value correction of share of Varteks Plus d.o.o., Belgrade</i>	(2,027,303)
<i>Position as at 31 December, 2012</i>	<u>16,834,814</u>

*Pursuant to the Founding statement as of 14 January 2011, Varteks d.d. founded companies for production of clothing: Varteks Odjeća d.o.o. Varaždin, Varteks Bednja d.o.o. Bednja, Varteks Ludbreg d.o.o. Ludbreg, with a HRK 20,000 stake in each.*

*Pursuant to the Agreement on the transfer of business shares of Corrodo Nekretnine d.o.o. Rijeka as of 15 June 2011, Varteks d.d. took over the stake from Varteks Trgovine d.o.o., paying HRK 16,426,266, obtaining 50% ownership in the capital of the company Corrodo Nekretnine d.o.o. Rijeka.*

*Varteks d.d., as the sole founder, recapitalized Varteks Trgovina d.d. for the amount of HRK 1,300 as per the Decision as of 12 April 2012, and renamed the company to Varteks Pro d.o.o. Varaždin as per the Decision as at 16 October 2012.*

3.4. Participating interests (stakes)

Position includes investments in:

	<u>31 Dec. 2011</u>	<u>31 Dec. 2012</u>
	- in HRK -	- in HRK -
<i>Stake:</i>		
Luvar d.o.o. Varaždin	205,810	205,810
Radio Varaždin	140,000	140,000
NAMA Zagreb d.o.o.	20,000	20,000
Value adjustment of stake	<u>(205,810)</u>	<u>(205,810)</u>
<b>TOTAL:</b>	<u>160,000</u>	<u>160,000</u>
	<u>31 Dec. 2011</u>	<u>31 Dec. 2012</u>
	- in HRK -	- in HRK -
<i>Shares (stocks):</i>		
Croatia banka d.d. Zagreb	560,730	560,730
Hrvatska gospodarska banka	22,951	22,951
Croatia airlines d.d.	5,900	5,900
Value adjustment of shares	<u>(583,681)</u>	<u>(583,681)</u>
<b>TOTAL:</b>	<u>5,900</u>	<u>5,900</u>
<b>GRAND TOTAL:</b>	<u>165,900</u>	<u>165,900</u>



3.5. *Placed loans, deposits, etc.*

	<u>31 Dec. 2011</u>	<u>31 Dec. 2012</u>
	<i>- in HRK -</i>	<i>- in HRK -</i>
<i>Pledge deposits</i>	595,543	619,295
<i>Deposit in Privredna banka d.d. Zagreb</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
<b>TOTAL:</b>	<u>730,375</u>	<u>782,828</u>

3.6. *Other long-term financial assets*

	<u>31 Dec. 2011</u>	<u>31 Dec. 2012</u>
	<i>- in HRK -</i>	<i>- in HRK -</i>
<i>Receivables from the state based on old foreign currency savings – purchase of flats</i>	4,365,453	4,365,453
<b>TOTAL:</b>	<u>4,365,453</u>	<u>4,365,453</u>

3.7. Long-term receivables from associated companies

	31 Dec. 2011 - in HRK -	31 Dec. 2012 - in HRK -
Receivables from Varteks Esop d.o.o. Varaždin	2,710,458	2,579,386
<b>TOTAL:</b>	<b>2,710,458</b>	<b>2,579,386</b>

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) of Varteks Esop d.o.o. are declared as follows:

2010

	Number of shares	Amount - in HRK -
Shares sold in the first cycle of the ESOP programme - collected	155,937	1,443,029 (341,345)
TOTAL - uncollected		1,101,684
- Long-term receivables		694,133
- Short-term receivables		407,551
Shares for sale (2 <sup>nd</sup> and 3 <sup>rd</sup> cycle)	149,068	2,522,231
GRAND TOTAL as at 31 December 2010	305,005	3,623,915
Long-term receivables		3,216,364
Short-term receivables		407,551

2011

	Number of shares	Amount - in HRK -
- Collected shares		(400,777)
GRAND TOTAL as at 31 December 2011	305,005	3,223,138
Long-term receivables		2,710,458
Short-term receivables		512,680

2012	Number of shares	Amount - 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>	

### 3.8. Other long-term receivables

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

3.9. Inventory

	31 Dec. 2011	31 Dec. 2012
	- in HRK -	- in HRK -
Raw materials and materials	30,846,044	15,141,892
Value adjustment	(651,686)	(1,188,826)
	30,194,358	13,953,066
Spare parts	3,097,046	248,903
Value adjustment	-	(11,440)
	3,097,046	237,463
Current production	2,554,909	678,056
Value adjustment	-	(132,643)
	2,554,909	545,413
Finished products		
- in warehouse	13,463,736	11,285,032
- in stores	14,070,147	10,125,030
Value adjustment	(4,051,496)	(9,047,546)
	23,482,387	12,362,516
Trade goods		
- in preparation/delivered	1,697,987	908,645
- in stores	19,785,747	10,287,696
- in warehouse	2,486,917	1,037,024
Value adjustment	(1,582,633)	(1,178,802)
	22,388,018	11,054,563
Advance payments for inventory	449,596	533,474
GRAND TOTAL:	82,166,314	38,686,495

Changes in value adjustment during the year:

	2011	- in HRK - 2012
Position as at 1 January	(6,867,595)	(6,285,815)
New value adjustments	(2,920,474)	(22,847,261)
Cancellation of value adjustment		
- Direct write-off	595,211	13,894,961
- Sales	2,944,018	3,678,858
Adjustments	(36,975)	-
Position as at 31 December	(6,285,815)	(11,559,257)

3.10. *Receivables from related companies*

*Receivables from related companies:*

	<u>31 Dec. 2011</u>	<u>31 Dec. 2012</u>
	<i>- in HRK -</i>	<i>- in HRK -</i>
<i>Varteks Pro d.o.o. Varaždin</i>	4,855,118	1,856,022
<i>Varteks Logistic d.o.o. Varaždin</i>	3,047	-
<i>Varteks Esop d.o.o. Varaždin</i>	512,680	227,796
<i>Varteks Trade d.o.o. Maribor</i>	441,375	318,158
<i>Varteks Plus d.o.o., Belgrade</i>	9,893,888	553,471
<i>Vartex Textiles Limited, London</i>	4,552,653	-
<i>Varteks Odjeća d.o.o. Varaždin</i>	551,788	12,823,641
<i>Varteks Ludbreg d.o.o. Ludbreg</i>	70,233	2,062,247
<i>Varteks Bednja d.o.o. Bednja</i>	334,689	1,601,405
<b>TOTAL:</b>	<u>21,215,471</u>	<u>19,442,740</u>

*Receivables by transaction type:*

	<u>31 Dec. 2011</u>	<u>31 Dec. 2012</u>
	<i>- in HRK -</i>	<i>- in HRK -</i>
<i>Receivables from sale of goods and services</i>	5,651,953	13,855,232
<i>Receivables for shares (stocks)</i>	512,680	227,506
<i>Receivables from rent/lease</i>	162,922	4,226,690
<i>Other receivables from associated/related companies</i>	-	261,683
<i>Receivables from sale of goods and services abroad</i>	14,887,916	871,629
<i>Suspect and disputed receivables from affiliates</i>	28,886,889	43,026,191
<i>Adjustment of suspect and disputed receivables</i>	(28,886,889)	(43,026,191)
<b>TOTAL:</b>	<u>21,215,471</u>	<u>19,442,740</u>

3.10. *Receivables from associated companies - continued*

*Changes to value adjustment of these receivables:*

	<u>2011</u>	<u>- in HRK - 2012</u>
<i>Position as at 1 January</i>	(27,788,762)	(28,886,889)
<i>New value adjustment - burdening current year's result</i>	(360,878)	(13,753,006)
<i>Currency rate differentials</i>	(737,249)	(386,296)
<i>Position as at 31 December</i>	<u>(28,886,889)</u>	<u>(43,026,191)</u>

3.11. *Accounts receivable*

	<u>31 Dec. 2011</u>	<u>31 Dec. 2012</u>
	<u>- in HRK -</u>	<u>- in HRK -</u>
<i>Domestic accounts receivable</i>		
- for goods and services	26,636,281	23,028,049
- for interest	3,092,838	2,519,710
<i>Foreign accounts receivable</i>	23,067,541	19,075,621
<i>TOTAL:</i>	<u>52,796,660</u>	<u>44,623,380</u>
<i>Value adjustment of suspect and disputed accounts receivable</i>		
- domestic	(19,133,100)	(17,469,473)
- for interest	(3,092,262)	(2,519,710)
- foreign	(9,375,849)	(9,393,172)
<i>TOTAL:</i>	<u>(31,601,211)</u>	<u>(29,382,355)</u>
<i>GRAND TOTAL:</i>	<u>21,195,449</u>	<u>15,241,025</u>

3.11. *Accounts receivable - continued*

*Changes in value adjustment during the year:*

	<i>- in HRK -</i>	
	<u>2011</u>	<u>2012</u>
<i>Position as at 1 January</i>	(29,806,678)	(31,601,211)
<i>Increase of value adjustment burdening costs of current period</i>	(1,786,438)	(645,317)
<i>Cancellation of value adjustment recognised as income</i>	195,159	582,024
<i>Write-off of adjusted receivables</i>	-	2,291,347
<i>Other adjustments</i>	(802)	-
<i>Currency rate differentials</i>	(202,452)	(9,198)
<i>Position as at 31. December</i>	<u>(31,601,211)</u>	<u>(29,382,355)</u>

3.12. *Other receivables*

	<u>31 Dec. 2011</u>	<u>31 Dec. 2012</u>
	<i>- in HRK -</i>	<i>- in HRK -</i>
<i>Receivables from the state</i>	10,424,361	16,218,825
<i>Receivables from employees</i>	403,673	175,192
<i>Other receivables</i>	12,912	347,675
<i>TOTAL:</i>	----- 10,840,946	----- 16,741,692
<i>Current maturity of long-term receivables</i>	<u>30,507</u>	<u>26,935</u>
<i>TOTAL:</i>	<u>10,871,453</u>	<u>16,768,627</u>

3.12.1. Receivables from the state

	<u>31 Dec. 2011</u>	<u>31 Dec. 2012</u>
	<i>- in HRK -</i>	<i>- in HRK -</i>
VAT receivables	10,424,361	16,081,818
Receivables from the Croatian Institute for refunds	<u>-</u>	<u>137,007</u>
TOTAL:	<u>10,424,361</u>	<u>16,218,825</u>

3.12.2. Receivables from employees

	<u>2011</u>	<u>2012</u>
	<i>- in HRK -</i>	<i>- in HRK -</i>
Receivables for advances on travel expenses	38,651	72,004
Receivables for cash in hand	19,700	19,400
Other receivables (shortages and other)	<u>345,322</u>	<u>83,788</u>
TOTAL:	<u>403,673</u>	<u>175,192</u>
Current maturity of long-term receivables	<u>30,507</u>	<u>26,935</u>
GRAND TOTAL:	<u>434,180</u>	<u>202,127</u>

3.12.3. Other receivables

	<u>2011</u>	<u>2012</u>
	<i>- in HRK -</i>	<i>- in HRK -</i>
Receivables for given advance payments	-	83,578
Receivables for assets sold in dispute	-	264,097
Other receivables	<u>12,912</u>	<u>-</u>
TOTAL:	<u>12,912</u>	<u>347,675</u>



3.13. Loans/credits placed to related companies

	<u>31 Dec. 2011</u> - in HRK -	<u>31 Dec. 2012</u> - in HRK -
<i>Varteks Bednja d.o.o. Bednja</i>	-	713,808
<i>Burgtrade Eisenstadt Austria</i>	12,413,070	12,437,387
<i>Varteks Dooel, Skopje</i>	6,873,218	6,887,095
<i>Varteks Mont d.o.o., Podgorica</i>	3,713,301	3,720,798
<i>Varteks Trgovina d.o.o., Široki Brijeg, Bosnia and Herzegovina</i>	2,046,426	2,050,558
<i>TOTAL:</i>	<u>25,046,015</u>	<u>25,809,646</u>
<i>Value adjustment of placed loans</i>	<u>(25,046,015)</u>	<u>(25,095,838)</u>
<i>TOTAL:</i>	<u>-</u>	<u>713,808</u>

*Changes in value adjustment of placed loans during the year:*

	<u>2011</u>	<u>2012</u> - in HRK -
<i>Position as at 1 January</i>	(24,963,319)	(25,046,015)
<i>Cancellation of value adjustment recognised as income</i>	402,276	-
<i>Currency rate differentials</i>	<u>(484,972)</u>	<u>(49,823)</u>
<i>Position as at 31 December</i>	<u>(25,046,015)</u>	<u>(25,095,838)</u>

3.14. Investments in securities

	<u>31 Dec. 2011</u> - in HRK -	<u>31 Dec. 2012</u> - in HRK -
Retail checks	1,567,051	204,217
Value adjustment – retail checks	(1,553,378)	(204,217)
Credit card receivables	6,786,500	1,057,150
Miscellaneous	753	738
<b>TOTAL:</b>	<u>6,800,926</u>	<u>1,057,888</u>

3.15. Placed loans, deposits, etc.

	<u>31 Dec. 2011</u> - in HRK -	<u>31 Dec. 2012</u> - in HRK -
Placed deposits	70,029	-
Placed credits/loans		
- consumer	3,541,531	998,234
- financial	511,218	511,218
<b>TOTAL:</b>	<u>4,122,778</u>	<u>1,509,452</u>
Value correction of placed credits/loans	<u>(2,275,296)</u>	<u>(532,042)</u>
<b>TOTAL:</b>	<u>1,847,482</u>	<u>977,410</u>
Credit interest receivables	288,052	303,208
Value adjustment of credit interest	<u>(279,709)</u>	<u>(279,709)</u>
<b>GRAND TOTAL:</b>	<u>1,855,825</u>	<u>1,000,909</u>

3.15. *Placed loans, deposits, etc. - continued**Changes in value adjustment of credit/loan principal:**- in HRK -*

	<u>2011</u>	<u>2012</u>
<i>Position as at 1 January</i>	<i>(2,135,454)</i>	<i>(2,275,296)</i>
<i>Increase</i>		
<i>- new adjustment burdening business liabilities</i>	<i>(144,301)</i>	<i>(110,848)</i>
<i>Decrease</i>		
<i>- cancellation of value adjustment recognised as income</i>	<i>4,459</i>	<i>-</i>
<i>- write-off of adjusted receivables</i>	<i>-</i>	<i>1,854,102</i>
<i>Position as at 31 December</i>	<u><u><i>(2,275,296)</i></u></u>	<u><u><i>532,042</i></u></u>

**3.16. Cash on accounts and in hand**

	<u>31 Dec. 2011</u> <i>- in HRK -</i>	<u>31 Dec. 2012</u> <i>- in HRK -</i>
<i>Business account</i>	568,382	1,183,314
<i>On hand</i>		
- HRK	28,055	-
- Foreign currency	5,373	-
<i>Receivables for shares (stocks)</i>	-	2,075
<i>Foreign currency account</i>	98,371	1,029
<i>Transfer account</i>	393,879	312,400
<i>Foreign currency transfer account</i>	-	31,622
<b>TOTAL:</b>	<u>1,094,060</u>	<u>1,530,440</u>

*During 2012, the Company had its giro accounts in business banks blocked twice:*

- *From 23 January to 17 February, i.e. for 25 days; and*
- *From 6 to 11 April, i.e. for 5 days.*

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

	<u>31 Dec. 2011</u> <i>- in HRK -</i>	<u>31 Dec. 2012</u> <i>- in HRK -</i>
<i>Rent calculated in advance</i>	376,293	486,329
<i>Miscellaneous</i>	68	21,040
<b>TOTAL:</b>	<u>376,361</u>	<u>507,369</u>

### 3.18. Capital and reserves

- i) *The Company entered into the Court Register the adjustment of general Acts with the Companies Act on 20 November 1995. Capital stake on that date was DEM 153,576,300 divided into 1,535,763 ordinary shares of DEM 100 nominal value each.*
- ii) *Pursuant to the Decision of the General Assembly dated 5 June 1998, capital stock of the Company in the amount of DEM 153,576,300 shall be adjusted for subsequently found and assessed public assets in the amount of DEM 153,809,700 or HRK 540,487,286, and shall be decreased using a simple method for HRK 232,867,886 to HRK 307,619,400. Decrease of capital stock shall be performed by decreasing the nominal amount of 1,538,097 issued ordinary name shares from DEM 100, i.e. HRK 351.40 to HRK 200.*
- 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 the Company 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. 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 the Company 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.*

**3.18. 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:

	<u>HRK</u>
Coverage of:	
- Loss carried forward	184,131,093
- Loss of 2010	96,670,097
Forming of:	
- Capital reserves	17,748,231

Pursuant to the Decision of the General Assembly as of 7 September 2012, the Company used its capital reserves in the amount of HRK 17,748,231 to cover the loss realized in 2011.

- vii) As at 31 December 2012, the total portfolio of own shares was 9.56% of capital stock, or 183,653 shares of HRK 50 nominal per-share value (same as in 2011).
- viii) In 2011, the Company 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>- in HRK -</u>
Position as at 1 Jan. 2011	-
Increase	
- Asset revaluation	347,819,213
Decrease	
- Deferred tax obligation (rate = 20%)	<u>(69,563,843)</u>
Position as at 31 December 2011	<u>278,255,370</u>
Decrease	
- Realized revaluation reserves	<u>(5,173,552)</u>
Position as at 31 December, 2012	<u>273,081,818</u>

3.18. 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 (connection: Note 2.3.).

Total capital and reserves as at 31 Dec. 2012 amount to HRK 200,008,698 (HRK 331,962,607 the previous year).

	31 Dec. 2011	31 Dec. 2012
	- 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	-	(42,975,527)
- Loss of fiscal year	(60,328,044)	(126,613,324)
<b>TOTAL:</b>	<b>331,962,607</b>	<b>200,008,698</b>

3.18. 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 Igrec	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
<b>TOTAL:</b>	<b>100.00</b>	<b>1,920,807</b>	<b>100.00</b>	<b>1,920,807</b>



3.19. Provisions

	<u>31 Dec. 2011</u> - in HRK -	<u>31 Dec. 2012</u> - in HRK -
Provisions for court cases (litigation costs)	239,775	86,622
TOTAL:	<u>239,775</u>	<u>86,622</u>

Changes during the year:

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

3.20. Long-term liabilities

Long-term liabilities contain:

	31 Dec. 2011 - in HRK -	31 Dec. 2012 - in HRK -
Liabilities for loans/credits, deposits and other	6,492,692	5,998,615
Liabilities toward banks and other financial institutions	181,202,828	169,900,758
Accounts payable	9,487	130,500
<b>TOTAL:</b>	<b>187,705,007</b>	<b>176,029,873</b>
Current maturity of long-term liabilities		
- loan/credit	(1,789,897)	(2,710,154)
- bank credits/loans	(50,944,731)	(67,010,692)
- financial leasing	(200,328)	(51,626)
- suppliers (accounts payable)	(9,487)	(54,000)
<b>TOTAL:</b>	<b>(52,944,443)</b>	<b>(69,826,472)</b>
<b>TOTAL LONG-TERM PORTION:</b>	<b>134,760,564</b>	<b>106,203,401</b>

Current matured payables include:

	Unpaid matured liabilities as at 31 Dec. 2012	Current maturity in 2013	TOTAL
- Loans	1,295,820	1,414,334	2,710,154
- Bank loans	34,059,666	32,951,026	67,010,692
- Financial leasing	-	51,626	51,626
- Suppliers	-	54,000	54,000
<b>TOTAL:</b>	<b>35,355,486</b>	<b>34,470,986</b>	<b>69,826,472</b>

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

Lender	Purpose	Interest at the end of year Annual %	- in HRK -	
			31 Dec. 2011	31 Dec. 2012
Croatia osiguranje d.d. Varaždin	reprogramming co-financing	10.00	6,480,000	5,983,058
Hrvatske vode Zagreb			12,692	15,557
TOTAL:			6,492,692	5,998,615
Current maturity			(1,789,897)	(2,710,154)
TOTAL LONG-TERM PORTION:			4,702,795	3,288,461

Current matured payables include:

	Kuna		
	Unpaid matured liabilities as at 31 Dec. 2012	Current maturity in 2013	TOTAL
Croatia osiguranje d.d. Varaždin	1,280,263	1,414,334	2,694,597
Hrvatske vode Zagreb	15,557	-	15,557
TOTAL:	1,295,820	1,414,334	2,710,154

Changes during the year:

	- in HRK -	
	2011	2012
Position as at 1 January	172,282	6,492,692
Increase		
- Reprogramming of short-term liabilities into long-term liabilities	6,480,000	-
- Adjustment	-	2,865
Decrease		
- Paid	(159,590)	(496,942)
Position as at 31 December	6,492,692	5,998,615

Maturity per annum:

	- in HRK -
Matured as at the Balance date	1,295,820
2013	1,414,334
2014	1,562,427
2015	1,726,034
TOTAL:	5,998,615

**3.20.2. 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>31 Dec. 2011</i>	<i>31 Dec. 2012</i>
Croatian Reconstruction and Development Bank, Zagreb	investments	3.00-4.00	82,933,027	83,085,735
State Agency for Savings Insurance and Bank Recovery Zagreb	takeover of liabilities	4.60	-	18,546,548
CRDB, Development and Employment Fund, Zagreb	investments	4.60	18,546,548	-
Zagrebačka banka d.d. Zagreb	refinancing	7.61	41,082,401	38,565,520
VABA d.d. Banka Varaždin	refinancing	11.00	10,077,498	7,012,392
Privredna banka Zagreb d.d.	reprogramming	2.821	5,954,560	4,283,706
Raiffeisenbank Austria d.d.	reprogramming	15.00*	8,208,533	6,187,195
Hrvatska poštanska banka d.d., Zagreb	refinancing	11.00	3,333,333	1,346,108
Jugobanka d.d. Belgrade	Suspended		10,754,504	10,754,504
<b>TOTAL:</b>			<b>180,890,404</b>	<b>169,781,708</b>
<b>Other financial institutions - financial leasing sources</b>				
Porsche Leasing d.o.o. Zagreb	vehicles	9.38	159,500	119,050
OTP Leasing d.d. Zagreb	vehicle		26,787	-
Hypo-Leasing Kroatien d.o.o. Varaždin			126,137	-
<b>TOTAL:</b>			<b>312,424</b>	<b>119,050</b>
<b>GRAND TOTAL:</b>			<b>181,202,828</b>	<b>169,900,758</b>
Current maturity of long-term liabilities toward banks			(50,944,731)	(67,010,692)
Current maturity of financial leasing long-term liabilities			(200,328)	(51,626)
<b>TOTAL LONG-TERM PORTION OF LIABILITIES</b>			<b>130,057,769</b>	<b>102,838,440</b>

\* Due to non-adherence to the contract, the creditor pronounced the entire principal amount due and calculated penalty interest

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

Currency structure of these liabilities:

	<i>31 Dec. 2011</i>	<i>31 Dec. 2012</i>
HRK	31,957,379	26,079,851
EUR	149,245,449	143,820,907
<b>TOTAL:</b>	<b>181,202,828</b>	<b>169,900,758</b>

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

Changes to principal amount during the year:

	- in HRK -		
	2011		Total
	Bank	Leasing companies	
Position as at 1 January	184,979,897	969,234	185,949,131
<i>Increase</i>			
- New debt	-	147,999	147,999
- Reprogramming of matured liabilities into long-term	9,956,889	-	9,956,889
- Net currency differentials	2,582,514	-	2,582,514
<i>Decrease</i>			
- Payments during the year	(16,262,463)	(804,809)	(17,067,272)
- Transfer of the short-term part of liabilities	(366,433)	-	(366,433)
Position as at 31 December	<u>180,890,404</u>	<u>312,424</u>	<u>181,202,828</u>

	- in HRK -		
	2012		Total
	Banks	Leasing companies	
Position as at 1 January	180,890,404	312,424	181,202,828
<i>Increase</i>			
- Net currency differentials	399,154	28,352	427,506
- Adjustments	92,268	-	92,268
<i>Decrease</i>			
- Payments during the year	(11,600,118)	(221,726)	(11,821,844)
Position as at 31 December	<u>169,781,708</u>	<u>119,050</u>	<u>169,900,758</u>

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

*Maturity of loan principal and financial leasing, per year*

	<i>Kuna</i>		
	<i>Bank loans</i>	<i>Leasing</i>	<i>Total</i>
<i>Matured as at the Balance date</i>	34,059,666	-	34,059,666
2013	32,951,026	51,626	33,002,652
2014	33,442,724	37,642	33,480,366
2015	28,546,881	18,810	28,565,691
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
<i>Suspended</i>	10,754,504	-	10,754,504
<b>TOTAL:</b>	<b>169,781,708</b>	<b>119,050</b>	<b>169,900,758</b>

3.20.3. Long-term accounts payable

Creditor	Purpose	31 Dec. 2011 - in HRK -	31 Dec. 2012 - in HRK -
Ivanka Braz, Slatina	Rent of facilities	-	130,500
IBM Hrvatska d.o.o. Zagreb	IBM equipment	9,487	-
<b>TOTAL:</b>		<b>9,487</b>	<b>130,500</b>
Current maturity		(9,487)	(54,000)
<b>TOTAL LONG-TERM PORTION:</b>		<b>-</b>	<b>76,500</b>

Changes during the year:

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

Maturity per annum:

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

3.20.4. Deferred tax obligation

	<u>31 Dec. 2011</u>	<u>31 Dec. 2012</u>
	<i>- in HRK -</i>	<i>- in HRK -</i>
Deferred tax obligation	<u>69,563,843</u>	<u>68,270,455</u>
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., 3.18.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>
		<i>- in HRK -</i>
Position as at 1 January	-	69,563,843
Increase		
- Singled-out tax obligation	69,563,843	-
Decrease		
- Matured tax obligation on	-	(1,293,388)
- 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>



**3.21. Short-term liabilities toward associated companies**

	<u>31 Dec. 2011</u>	<u>31 Dec. 2012</u>
	- in HRK -	- in HRK -
<i>Varteks Pro d.o.o. Varaždin</i>	1,241,046	-
<i>Varteks Logistic d.o.o. Varaždin</i>	210,632	35,838
<i>Varteks Odjeća d.o.o. Varaždin</i>	22,143,547	50,522,903
<i>Varteks Bednja d.o.o. Bednja</i>	1,661,312	71,756
<i>Varteks Ludbreg d.o.o. Ludbreg</i>	3,998,337	5,529,122
<i>Varteks Mont d.o.o., Podgorica</i>	17,320	-
<i>Varteks Plus d.o.o., Belgrade</i>	480,085	589,944
<i>Vartex Textiles Limited, London</i>	4,378	17,714
<i>Burgtrade Eisenstadt Austria</i>	97,896	-
<b>TOTAL:</b>	<u>29,854,553</u>	<u>56,767,277</u>

**3.22. Short-term liabilities for loans, credits and deposits**

<i>Lender</i>	<i>Interest rate at the end of year Annual %</i>	<u>31 Dec. 2011</u>	<u>31 Dec. 2012</u>
		- in HRK -	- in HRK -
<i>Croatia osiguranje d.d. Varaždin</i>	10.00	1,520,000	1,520,000
<i>Erste Card Club d.d. Zagreb</i>	10.00	604,073	1,221,939
<i>City of Varaždin</i>		887,924	887,924
<b>TOTAL:</b>		<u>3,011,997</u>	<u>3,629,863</u>
<i>Liabilities for received deposits</i>		95,511	149,884
<i>Interest liabilities</i>		498,063	294,404
<i>Current maturity of long-term liabilities</i>		1,799,384	2,710,154
<b>GRAND TOTAL:</b>		<u>5,404,955</u>	<u>6,784,305</u>

HRK 3,703,744 of total declared loan maturity as at 31 December 2012 matured.

Currency structure of total loan principal amount:

	<u>2011</u>	<u>2012</u>
	- in HRK -	- in HRK -
HRK	2,407,924	2,407,924
EUR	604,073	1,221,939
<b>TOTAL:</b>	<u>3,011,997</u>	<u>3,629,863</u>

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

*Principal changes of received loans during the year:*

	<u>2011</u>	<u>2012</u>
		<i>- in HRK -</i>
<i>Position as at 1 January</i>	12,277,855	3,011,997
<i>Increase</i>		
- <i>New debt</i>	1,471,513	1,872,487
- <i>Net currency differentials</i>	-	46,955
<i>Decrease</i>		
- <i>Payments</i>	(4,257,371)	(1,301,576)
- <i>Reprogramming into long-term liabilities</i>	(6,480,000)	-
<i>Position as at 31 December</i>	<u>3,011,997</u>	<u>3,629,863</u>

**3.23. Short-term liabilities toward banks and other financial institutions**

Creditor	Interest rate at the end of year	31 Dec. 2011	31 Dec. 2012
	Annual %	- in HRK -	- in HRK -
Privredna banka d.d.Zagreb	15.00	-	1,520,927
Privredna banka d.d. Zagreb	8.00 - 8.50	13,333,779	13,108,980
Zagrebačka banka d.d. Zagreb	6.50 – 15.00	74,736,869	74,378,176
Hrvatska poštanska banka d.d., Zagreb	10.00	3,011,207	811,210
Ministry of Finance of the Rep. of Croatia	15.00	10,255,482	10,255,482
VABA d.d. Banka Varaždin		-	1,833,132
<b>TOTAL:</b>		<b>101,337,337</b>	<b>101,907,907</b>
Interest liabilities		5,391,270	10,207,085
Current maturity of long-term liabilities		51,145,059	67,062,318
<b>GRAND TOTAL:</b>		<b>157,873,666</b>	<b>179,177,310</b>

Of the above, the following matured on 31 December 2012:

	- in HRK -
- Principal amount	92,025,462
- Interest	9,842,129
<b>TOTAL:</b>	<b>101,867,591</b>

Currency structure of loan principal amount

	2011	2012
	- in HRK -	- in HRK -
HRK	84,992,351	84,933,658
EUR	16,344,986	15,976,038
USD	-	998,211
<b>TOTAL:</b>	<b>101,337,337</b>	<b>101,907,907</b>

**3.23. Short-term liabilities toward banks and other financial institutions - continued**

*Principal changes of received loans during the year:*

	2011	- in HRK - 2012
<i>Position as at 1 January</i>	109,977,242	101,337,337
<i>Increase</i>		
- <i>New debt for:</i>		
- <i>loans</i>	24,603,395	16,626,533
- <i>sold receivables</i>	-	1,833,132
- <i>letters of credit</i>	-	1,654,833
- <i>Currency rate differentials</i>	605,275	45,468
<i>Decrease</i>		
- <i>Payments</i>	(23,891,686)	(19,557,138)
- <i>Reprogramming into long-term liabilities</i>	(9,956,889)	-
- <i>Adjustments</i>	-	(32,258)
<i>Position as at 31 December</i>	<u>101,337,337</u>	<u>101,907,907</u>

**3.24. Liabilities for advance payments**

*Liabilities for advance payments pertain to:*

	31 Dec. 2011	- in HRK - 31 Dec. 2012
- <i>Domestic client advance payments</i>	31,985	128,903
- <i>Foreign client advance payments</i>	1,916,951	1,790,769
<b>TOTAL:</b>	<u>1,948,936</u>	<u>1,919,672</u>

**3.25. Accounts payable**

	<u>31 Dec. 2011</u>	<u>31 Dec. 2012</u>
	<i>- in HRK -</i>	<i>- in HRK -</i>
<i>Accounts payable</i>		
- domestic	62,739,706	63,352,126
- foreign	27,398,688	19,047,982
<i>Liabilities for non-invoiced goods</i>	36,542	26,889
<i>Interest liabilities(suppliers)</i>	<u>3,198,215</u>	<u>9,284,023</u>
<b>TOTAL:</b>	<u><u>93,373,151</u></u>	<u><u>91,711,020</u></u>

The Company 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 10,222,352 by 31 December 2012 (connection: Note 3.30.). Pursuant to this, the Company had to issue instruments of repayment insurance (co-debtors -related companies, mortgage, promissory and debenture notes).

**3.26. Liabilities toward employees**

*Liabilities toward employees contain:*

	<u>31 Dec. 2011</u>	<u>31 Dec. 2012</u>
	<i>- in HRK -</i>	<i>- in HRK -</i>
- Net salary and fee liabilities	4,180,061	7,040,978
- Severance pay liabilities	857,934	1,525,170
-Other liabilities toward employees	443,679	836,103
- Crisis tax	<u>520</u>	<u>520</u>
<b>TOTAL:</b>	<u><u>5,482,194</u></u>	<u><u>9,402,771</u></u>
<i>Number of employees at the end of period</i>	720	659

*Liabilities for net salaries pertain to liabilities for Oct., Nov. and Dec. 2012.*

*Liabilities for severance pay for conditional termination of employment and retirement 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.*

3.27. Taxes, contributions and similar fees

	<u>31 Dec. 2011</u>	<u>31 Dec. 2012</u>
	<i>- in HRK -</i>	<i>- in HRK -</i>
VAT liabilities	14,800,004	14,051,386
Contributions from salaries	36,086,120	36,879,306
Contributions on salaries	35,978,845	38,571,805
Profit tax liabilities	246,734	1,109,008
Forest contributions	2,221,481	2,447,510
Customs liabilities (customs and VAT)	7,159,993	14,458,751
Other taxes and contributions	1,046,442	885,876
Post-tax inspection obligations	-	3,870,258
Taxes and contributions - interest	14,009,916	28,310,202
<b>TOTAL:</b>	<u>111,549,535</u>	<u>140,584,102</u>

Maturity of taxes and contributions on 31 December 2012:

	<u>- in HRK -</u>
Matured taxes and contributions	109,396,411
Taxes and contributions not yet matured	2,877,489
<b>TOTAL:</b>	<u>112,273,900</u>
Matured calculated interest for:	
- VAT	6,295,785
- Contributions from salaries	11,424,274
- Contributions on salaries	9,260,176
- Interest for other taxes and contributions	1,329,967
<b>TOTAL:</b>	<u>28,310,202</u>
<b>GRAND TOTAL:</b>	<u>140,584,102</u>

**3.28. Other short-term liabilities**

	<u>31 Dec. 2011</u>	<u>31 Dec. 2012</u>
	<i>- in HRK -</i>	<i>- in HRK -</i>
- Liabilities toward the Republic of Croatia based on sold flats	7,663,853	4,365,453
- Liabilities toward the Republic of Croatia based on state grants	-	9,687,921
- Supervisory Board member fees and temporary service contracts	199,792	211,941
- Other liabilities	<u>1,731</u>	<u>2,718</u>
<b>TOTAL:</b>	<u>7,865,376</u>	<u>14,268,033</u>

**3.29. Deferred payment of expenses and income of future period**

	<u>31 Dec. 2011</u>	<u>31 Dec. 2012</u>
	<i>- in HRK -</i>	<i>- in HRK -</i>
<i>Deferred recognition of income based on:</i>		
- Receivables for inventory shortages	397,230	50,392
- Housing loan interest not matured	72,528	667,232
- Other	<u>6,314</u>	<u>21,977</u>
<b>TOTAL:</b>	<u>476,072</u>	<u>739,601</u>

3.30. *Off-balance entries*

	<u>31 Dec. 2011</u> - in HRK -	<u>31 Dec. 2012</u> - in HRK -
<i>Commission-based goods expenses</i>	5,314,717	4,133,208
<i>Guarantees</i>		
- <i>Privredna banka d.d. Zagreb</i>	3,459,478	3,297,248
- <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>
<b>TOTAL:</b>	<u><u>20,171,005</u></u>	<u><u>15,056,729</u></u>

3.31. *Liabilities taken over as per operative leasing*

*As at 31 December 2012, the Company has several vehicle operative leasing contracts open.*

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

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

*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).*



**3.32. Position and transactions with related entities**

Entities/parties shall be considered to be associated with/related to the Company if one of the entities/parties has the ability to control the other, or can have a significant influence on the other entity/party in reaching financial and business decisions.

During the report period, the Company performed transactions and/or has declared receivables and liabilities toward the associated/related entities below.

**3.32.1. Dependent companies**

*Sale of goods and services  
(connection: Notes 3.7., 3.10. and 3.21.)*

- in HRK -

	Receivables		Liabilities	
	31 Dec. 2011	31 Dec. 2012	31 Dec. 2011	31 Dec. 2012
Varteks ESOP d.o.o. Varaždin - long-term part	2,710,458	2,579,386	-	-
- short-term part	512,680	227,796	-	-
Varteks Pro d.o.o. Varaždin	4,855,118	1,856,022	1,241,046	-
Varteks Mont d.o.o., Podgorica, Montenegro	-	-	17,320	-
Burgtrade Eisenstadt Austria	-	-	97,896	-
Vartex Textiles Limited, London	4,552,653	-	4,378	17,714
Varteks Trade d.o.o. Maribor, Slovenia	441,375	318,158	-	-
Varteks Plus d.o.o., Belgrade, Serbia	9,893,888	553,471	480,085	589,944
Varteks Logistic d.o.o. Varaždin	3,047	-	210,632	35,838
Varteks Odjeća d.o.o. Varaždin	551,788	12,823,640	22,143,547	50,522,903
Varteks Ludbreg d.o.o. Ludbreg	70,233	2,062,247	3,998,337	5,529,122
Varteks Bednja d.o.o. Bednja	334,689	1,601,406	1,661,312	71,756
<b>TOTAL:</b>	<b>23,925,929</b>	<b>22,022,126</b>	<b>29,854,553</b>	<b>56,767,277</b>

	Income		Liabilities	
	2011	2012	2011	2012
Varteks Pro d.o.o. Varaždin	2,940,191	13,404,818	-	-
Varteks Odjeća d.o.o. Varaždin	19,073,806	25,280,671	52,597,195	69,508,605
Varteks Ludbreg d.o.o. Ludbreg	3,513,472	4,181,611	10,483,597	11,394,640
Varteks Bednja d.o.o. Bednja	2,532,782	2,991,275	6,405,808	5,991,016
Varteks Trgovina d.o.o., Široki Brijeg, Bosnia and Herzegovina	182,474	19,101	172,638	19,101
Varteks D.o.o.e.l., Skopje, Macedonia	158,099	16,549	158,099	16,549
Varteks Mont d.o.o., Podgorica, Montenegro	80,133	8,388	90,303	8,423
Burgtrade Eisenstadt Austria	339,162	35,947	480,011	148,896
Vartex Textiles Limited, London	541,776	332,494	372,330	4,972,690
Varteks Trade d.o.o. Maribor, Slovenia	458,707	45,717	380,576	76,131
Varteks Plus d.o.o., Belgrade, Serbia	5,046,687	2,943,042	107,662	11,197,145
Varteks Logistic d.o.o. Varaždin	745,576	774,882	-	-
<b>TOTAL:</b>	<b>35,612,865</b>	<b>50,034,495</b>	<b>71,248,219</b>	<b>103,333,196</b>

3.32. Position and transactions with related entities - continued

3.32.1. Dependent companies - continued

Financial transactions  
(connection: Note 3.13.)

- in HRK -

	<u>Receivables</u> 31 Dec. 2011	<u>Receivables</u> 31 Dec. 2012
Varteks Bednja d.o.o. Bednja	-	713,808
Burgtrade Eisenstadt Austria	12,413,070	12,437,387
Varteks Dooel, Skopje	6,873,218	6,887,095
Varteks Mont d.o.o., Podgorica	3,713,301	3,720,798
Varteks Trgovina d.o.o., Široki Brijeg, Bosnia and Herzegovina	2,046,426	2,050,558
TOTAL:	<u>25,046,015</u>	<u>25,809,646</u>
Value adjustment of placed loans	<u>(25,046,015)</u>	<u>(25,095,838)</u>
TOTAL:	<u>-</u>	<u>713,808</u>

3.32.2. Key management

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

	<u>31 Dec. 2011</u> - in HRK -	<u>31 Dec. 2012</u> - in HRK -
<i>Management (Board)</i>		
Net salaries	1,123,048	1,121,634
Taxes and contributions	<u>1,390,666</u>	<u>1,418,849</u>
TOTAL:	<u>2,513,714</u>	<u>2,540,483</u>
<i>Supervisory Board</i>		
Net fees	190,287	172,517
Taxes and contributions	<u>185,353</u>	<u>169,372</u>
TOTAL:	<u>375,640</u>	<u>341,889</u>
GRAND TOTAL:	<u>2.889.354</u>	<u>2.882.372</u>

## 3.32. Position and transactions with related entities - continued

## 3.32.3. Other related entities

- in HRK -

	<i>Position as at 31 Dec. 2011</i>	<i>Turnover 2011</i>	<i>Position 31 Dec. 2012</i>	<i>Turnover 2012</i>
<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

### 3.33. Significant court proceedings

The Company 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 *	577,534
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 3.34.1. 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.

**3.33. 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 with 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 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.*

### 3.34. Events after the date of the financial position report

#### 3.34.1. 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 business 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.;
  - 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.*

**3.34.2. 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.

**3.34.3. Recapitalization 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.



**3.35. 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*

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





Pursuant to articles 300.a to 300.d of the Companies Act, the Supervisory Board of **VARTEKS d.d.**, Zagrebačka 94, Varaždin,(OIB 00872098033), passed at a session on 5<sup>th</sup> of July, 2013 the following **DRAFT**

## DECISION

### on 2012 loss coverage

- 1) It is hereby established that Varteks d.d. Varaždin generated a loss of 126,613,324.38 HRK in 2012 which shall be covered with the profits of coming business years.
- 2) This Decision shall come into effect on the day of its passing.

Varaždin, 05th July, 2013

Management Board Chairman  
Varteks d.d.

-----  
Zoran Koščec

Supervisory Board Chairman  
Varteks d.d.

-----  
Milan Horvat

/  
Žiro račun:  
2360000-1101339483  
Zagrebačka banka d.d.  
Zagreb  
2340009-1100110839  
Privredna banka d.d.  
Zagreb  
2484008-1100417652  
Raiffeisenbank Austria d.d.  
Zagreb

VARTEKS d.d. / Zagrebačka 94 / HR-42000 VARAŽDIN / tel. +385 42 377 105 / fax. +385 42 377 284 / P.P. 32 / info@varteks.com / www.varteks.com

/ Temeljni kapital 96.040.350,00 kn, uplaćen u cijelosti i podjeljen na 1.920.807 redovnih dionica, svaka nominalne vrijednosti 50 kn

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

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



Pursuant to articles 300.a to 300.d of the Companies Act, the Supervisory Board of **VARTEKS d.d.**, Zagrebačka 94, Varaždin, (OIB 00872098033), passed at a session on 5<sup>th</sup> of July, 2013. the following

## DECISION

### on Basic Financial Statements for 2012

A) The Supervisory Board hereby establishes and gives its consent to the annual financial statements of Varteks d.d. for 2012 as follows:

1. Balance Sheet with assets amounting to 875.923.266,45 HRK
2. Profit and Loss account with realised losses in the amount of 126.613.324,38 HRK
3. Cash Flow Statement (indirect method)
4. Statement of Changes in Equity
5. Notes to Basic Financial Statements

B) This Decision shall come into effect on the day of its passing.

Varaždin, 05th July, 2013

Supervisory Board Chairman

Milan Horvat

Žiro račun:

2360000-1101339483

Zagrebačka banka d.d.

Zagreb

2340009-1100110839

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/ Temeljni kapital 96.040.350,00 kn, uplaćen u cijelosti i podjeljen na 1.920.807 redovnih dionica, svaka nominalne vrijednosti 50 kn.

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

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