# Varteks Group reduces loss in 2011

*Varteks Group has managed to reduces its loss by HRK 32.2 million, but business stabilization requires support by the Government and banks and the urgent passing of a package of measures announced by the Croatian Government for the recovery and for raising the competitiveness of the processing industry*

**Varaždin, 21.06.2012.** – In 2011, Varteks Group reduced its loss by HRK 32.2 million in relation to 2010. The Group operated with a loss before tax of HRK 70.5 million in 2011, while the loss had amounted to HRK 102.8 million in 2010.

Business results are linked to economic developments, primarily on the Croatian market, which is still significantly affected by the negative effects of the global crisis, but also to markets in the region, where negative effects of the crisis are pronounced as well.

Despite the adverse conditions in its surroundings, the loss was reduced by 31.4 percent in relation to 2010 through the implementation of activities related to business and financial restructuring. In terms of regular business activities, business results marked further progress since the loss from core activities amounted to HRK 33.3 million in 2011, while it had amounted to HRK 69.4 million in 2010, which constitutes a reduction of 51.9 percent.

Total revenues amounted to HRK 350.7 million, which constitutes a reduction of 7.4 percent in relation to the revenues realized in the same time period in 2010. Total expenditures amounted to HRK 421.2 million, which constitutes a reduction of 12.6 percent in relation to 2010. Export revenues amounted to HRK 123.6 million, which constitutes 35.2 percent of the total revenues. The majority of exports were realized on markets in the European Union.

Pursuant to the elements of the Integral Business and Financial Restructuring Plan, the Group continued to implement objectives in 2011 aimed at raising business and management efficiency and the implementation of defined savings measures. On this basis, the Group's production segment started operating through three separate limited liability companies in May 2011, while the B2B segment (sales aspect associated with corporate clothing and the production of special purpose clothing) was detached through the affiliated company Varteks Trgovina d.o.o., which is owned by Varteks d.d., after the first quarter of 2010.

In order to mitigate the negative impact of the crisis on liquidity, additional financing sources were planned through the sale of property, but given the negative trend on the real estate market, we were not able to realize the planned property sales and thus significantly affect the stabilization of the Group's liquidity. Given above business circumstances, the timely acquisition of raw materials, production materials and merchandise was not possible. The delays caused problems in the supply of production facilities and in the timely supply of the retail and wholesale networks, with partial cancellations. Under such circumstances, above delays, i.e. process disturbances, further negatively impacted business efficiency. The negative results continued to be significantly affected by high financing costs

Special measures continue to be aimed at financial consolidation through the use of the Group's own assets as a financing source. For a clearer view of the Company's balance sheet items, and thus also the Group's, a simplified share capital reduction was carried out in 2011 on the basis of a General Assembly decision, and in order to cover the total carried-over losses and the 2010 loss, reserves were used as well as share capital, which was reduced to HRK 113.8 million, and by rounding the value of shares, a share capital of HRK 96.1 million was established and capital reserves of HRK 17.7 million. For a clearer and more realistic balance sheet view with an emphasis on the total assets value, an asset reevaluation was carried out as of December 31, 2011 through the determination of the fair market value of land and property owned by the Company, with a net positive effect of HRK 347 million.

Regardless of the continuation of the crisis, the business indicated positive trends in 2011, although the realization of the set objectives is made more difficult through the slow implementation of property sales and measures announced by the Croatian Government to strengthen the competitiveness of labor-intensive processing industries.

The most significant business risks in 2011 were related to the general illiquidity. The main causes of the increased illiquidity which continued to be present in economies in the region and Europe, and thus also in the Group, are related to: the continued economic crisis, significant delays in the implementation and a lack of anti-recession measures by the Government, a further decline in private consumption and changed consumer habits, expensive financing sources, a lack of new investment and growth in outstanding liabilities.

The risks were particularly related to additional tax burdens and higher energy prices.

The negative effects of the crisis continue to strongly affect the Croatian economy and economies in the region, and they carry further risks arising from growing illiquidity. The timely procurement of merchandise and the financing of business activities continue to remain a priority issue for the Group.

The Group is continuing the further implementation of activities pursuant to the Integral Business and Financial Restructuring Plan. Consequently, set activities are carried out in order to: raise the efficiency of all existing sales aspects and thus to raise overall business efficiency and results, implement new sales aspects, maximize the use of own available resources primarily in order to stabilize liquidity, further reduce administrative costs and more efficient variable cost management, carry out further restructuring in order to manage business processes and to measure the efficiency of certain parts of the system more transparently.

In 2012, it is expected that the Group’s own assets will have a larger share in the Group’s financial consolidation as well as the quicker resolution of packages of measures announced by the new Government which are primarily related to stabilization, recovery and increasing the competitiveness of the processing industry. Aforementioned measures have a positive effect on the business operations of the entire Group given than the timely procurement of production materials, merchandise and goods in the parent Company are directly linked to the timely supply of other Group companies.

The Management Board holds that the Group owns significant resources and that under above circumstances it is successfully implementing the set objective of the business restructuring and development strategy. Support by the Croatian Government and banks is of great significance for the full implementation of the Group’s Integral Business and Financial Restructuring Plan. The activities which are carried out or are planned to be carried out in order to reduce risks are sufficient to stabilize business operations, while creating the preconditions for raising overall business efficiency.

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