



Varteks d.d. reduces loss and generates growth in total revenues and exports in the first nine months of 2011

The stabilization and development of business operations requires liquidity stabilization, the further strengthening of strategic sales aspect as well as the completion of the company's reorganization

Varaždin, November 4, 2011 – A brief press meeting was held at Varteks d.d. today with the aim to present the company's business results with the significant positive developments realized in the first nine months of 2011 and the activities carried out in line with the conditions in the surroundings with the aim to stabilize business as a basis for sustainable growth and the company's future development.

Varteks d.d. has achieved significant progress in the overall business result despite the still present impact of the crisis and illiquidity, and despite the continuation of negative trends in Croatia's economy and markets in the region as well as the still unresolved application for Model C.

A drop in personal spending continues to be present in the textile and clothing garment sales segment, which is evident from latest data by the National Statistics Institute which indicate a 17.8 percent drop in sales of aforementioned products in August in relation to July this year, while textile and clothing garment sales dropped 5.2 percent in relation to August last year.

With such negative conditions in its surroundings, the company managed to increase total revenues by HRK 8.2 million or 3.6 percent in relation to the same time period last year, with total revenues amounting to HRK 235.2 million in the time period concerned. In regards to revenue structure it is important to point out that sales revenues were up HRK 16 million or 8.2 percent.

Exports have been on the rise as well. Exports worth HRK 98.7 million were realized on the foreign market, which is 8.9 percent or HRK 8.1 million more than in the same time period last year. The majority of exports was realized in countries in the European Union.

Total expenditures in the first nine months of 2011 amounted to HRK 272.2 million.

In the first nine months of this year the company operated with a loss of HRK 37 million, while the loss generated in the same time period last year had amounted to HRK 45.6 million. The positive difference of HRK 8.6 million in relation to the same time period last year is the result of the fact that along with realizing the targeted expenditure cuts the company managed to generate higher revenues, particularly in exports and the B2B segment. Excluding the effects from the sale of assets which are not part of regular business activities, the positive difference in the time period from January to September 2011 amounted to HRK 13 million in relation to the same time period in 2010.

It is important to point out that the positive business-related changes were mostly realized in the third quarter of this year, so that the total business result for the third quarter, although down HRK 5.8 million in relation to the third quarter loss in 2010 which had amounted to HRK 27.7 million, was better by HRK 21.9 million this year.

For the business results for 1-9/2011 to be comparable to the same time period in 2010, the results of new companies whose scope of work belonged to Varteks d.d. organizationally and in terms of results in 2010 need to be included as well. On this basis, the total result in 2011 was better by an additional HRK 1.3 million, i.e. the loss amounted to HRK 35.7 million, which only confirms the positive developments in business results for 1-9/2011. In order to increase business efficiency and to reduce the negative impact of the crisis, Varteks is continuously implementing set objectives in line with the Integral Business and Financial Restructuring



Plan. On this basis, the manufacturing part started operating through three separate limited liability companies.

It is important to point out that in accordance with the objectives of the Integral Plan and the reorganization, the B2B segment (sales aspect pertaining to corporate clothing and the manufacturing of special-purpose clothing) was detached after the first quarter of 2010 through an affiliate company owned by Varteks d.d. If we examine the effects of the total realization of revenues from this sales aspect, the revenues were HRK 12 million higher in relation to the same time period last year, thus total sales revenues were 10.8 percent higher. Although business results show positive developments in terms of regular business activities, the total business result continues to be negative. A significant negative effect from the drop in personal spending and general economic illiquidity continues to be present, which is particularly prominent in business operations related to the domestic market.

The negative trend present on the real estate market led to additional difficulties in the implementation of activities in relation to stabilizing the company's liquidity, which directly led to the impossibility to procure raw materials and production materials in a timely manner, to procure and deliver products and brands to the retail network and for wholesale needs, which ultimately had a significant effect on the business result of Varteks d.d.

Effects of the crisis continue to be present in the economy, particularly in terms of risks from higher illiquidity, which further hinders the timely procurement of goods and the funding of business activities. The most significant other risks for the remainder of the business year are linked to a potential further drop in personal consumption, which directly affects revenues, and a risk of higher costs (particularly costs for energy, living, etc.).

In accordance with the Integral Business and Financial Restructuring Plan we continue to carry out activities and additional measures in terms of expenditure cuts by closing unprofitable parts of the system and by further cutting administrative costs with an unfortunately significantly slowed down dynamic which is linked to the illiquidity problem. Special measures are aimed at the company's financial consolidation through the utilization of the company's own assets as an additional source of funding and at activities in relation to taking advantage of Government measures aimed at economic recovery and development. Given the current situation and the problems on the real estate market and in relation to managing measures for economic recovery and development, the realization of the planned dynamic has been unfortunately slowed down and become more difficult.

The stabilization and development of the company's business is primarily based on financial consolidation and liquidity stabilization as essential prerequisites for the implementation of all activities in relation to restructuring, the system's further reorganization and strengthening strategic sales aspects.

"The positive developments in business are the result of measures carried out within the framework of the Integral Business and Financial Restructuring Plan. Higher sales and export revenues as well as better business results indicate that Varteks managed to partially alleviate the negative impact of the crisis on the company's operations through its own activities. It has to be pointed out that crisis management in the real sector was significantly slowed down and does not sufficiently follow the necessary economic recovery dynamic, which also slowed down the planned effects of the company's business restructuring. Our plans for the future are aimed at completing the restructuring but also at development, and in line with this we expect the realization of Model C, which is very important for the company's financial consolidation and further business development", said Zoran Koščec, the president of the Management Board of Varteks d.d.