



## Business results of Varteks d.d. in the first quarter of 2012

*Based on data comparable to 2011, Varteks's business operations in the first quarter were characterized by positive trends in overall business results*

**Varaždin, 10.05.2012.** - The business operations of Varteks in the first three months of 2012 took place amidst negative trends in the environment. The continuation of the economic crisis, a further decline in personal consumption and rising insolvency marked the Croatian economy in the first quarter of this year.

For the business results of Varteks in the time period in question to be comparable with last year, it should be taken into account that the company operated as an integrated whole with its own production facilities in the first quarter of 2011 and that these facilities are currently operating as independent companies. When looking at the total business results of Varteks d.d. and its manufacturing companies in the first quarter of 2012, it is evident that the loss was reduced by HRK 0.5 million in relation to the same time period last year and that it amounted to HRK 14.4 million.

Export revenues were partly realized through the manufacturing companies, with total exports of HRK 31.5 million, which is HRK 2 million less in relation to the same time period in 2011. Problems in financing also led to the shift of contracted export deals to the second and third quarter.

The carried-out restructuring activities succeeded to partly mitigate the negative impact of the crisis on the expenditure side, which nevertheless did not suffice to lead to positive operations in the currently severe economic conditions.

If we look at the operations of Varteks d.d., the company operated with a loss of HRK 15.9 million in the first three months, which constitutes a loss increase by HRK 1 million in relation to the same time period last year. Total revenues amounted to HRK 64 million and were 6.6 percent lower than last year, while total expenditures decreased by 4.2 percent.

Under the influence of negative trends on the real estate market, which had been planned as an additional financing source for business activities, the company's liquidity did not stabilize in the first quarter. This led to difficulties in the procurement of raw materials, production materials and merchandise and the inability to supply the retail network and wholesale distribution channels with products and merchandise on time. With the decline in personal consumption, the inability to finance the season on time further adversely affected the realized revenues.

Despite initial announcements of measure to stimulate the Croatian economy, the negative trends in the environment indicate the continuation of negative trends, i.e. a delay in the anticipated positive effects.

In the remaining business year, risks related to the general lack of liquidity, the decline in personal consumption and the additional burden on the economy due to additional cost increases, especially for energy, continue to be present.





The tax burden, the increase in unemployment and the increase in the basic cost of living have had a further negative impact on customer demand for clothing and textile products, and this economic branch proved extremely sensitive to every additional burden.

In such circumstances it is essential that the Government initiates as soon as possible intervention measures in the textile industry as well as other necessary measures in relation to maintaining competitiveness in the overall manufacturing industry to stop the negative trends.

In 2012, Varteks is continuing with the objectives set by the Integral Business and Financial Restructuring Plan. Within the framework of the current crisis, activities are internally aimed at raising efficiency within the company and externally at an active adaptation to market trends. The maximum utilization and adaptation of the company's own resources along with the development and implementation of new approaches to sales and market conditions will constitute a priority in business activities until the end of the year. The aim is to stabilize liquidity, increase revenues and to continue cutting operating costs and thus to improve the efficiency of overall operations. In certain sales aspects, part of the activities planned for the beginning of the year was prolonged to the second and third quarter, which will certainly affect revenues.

Regarding the company's financial consolidation, activities are being carried out aimed at the use of the company's own assets as an additional financing source and the inclusion of the company in the Government's anti-recession measures aimed at economic recovery and development.

Varteks bases its suppositions for business stabilization and development primarily on stabilizing liquidity which is based, despite difficulties and unfortunately significant progress, on realistic possibilities and constitutes a key prerequisite for the implementation of further activities related to the system's restructuring, strengthening strategic sales aspects and raising the efficiency of overall operations.