



Despite the adverse conditions in its surroundings, Varteks managed to retain a positive direction in its business operations

Varaždin, 27.07.2012. - The business operations of Varteks continued to take place under negative trends in its surroundings in the second quarter of 2012. The continuation of the economic crisis, a further decline in personal spending and growing illiquidity continue to mark the Croatian economy.

The results realized in the monitored period were significantly impacted by dropping sales as a result of difficulties caused by illiquidity and market conditions which are extremely difficult for the textile, clothing and leather industry sector.

Despite above negative influences on business operations, Varteks managed to maintain a positive direction in its operations in the first half of 2012.

Although operating with losses, the result was better by HRK 1.5 million in relation to the same time period last year, and when looking at the company's business activities, the result is better by close to HRK 2 million. The loss in the examined time period amounted to HRK 29.7 million.

Total revenues amounted to HRK 130.2 million and were 10 percent lower than last year. In certain sales aspects, some of the activities planned for the first half of the year were prolonged to the second half, which will affect revenues by the end of the year. Total expenditures were 9.1 percent lower.

For Varteks's business results to be comparable to last year's results in the same time period, it should be taken into consideration that the company operated as a complete entity with its own production facilities in the first four months of 2011; these facilities are currently operating as independent companies. Looking at the results while bearing this in mind, the loss in the examined time period is higher by HRK 3.3 million in relation to the same time period last year. Given the illiquidity problems and market conditions, as well as the previously mentioned prolongation of some of the planned activities, it was a lot more difficult to fill production capacities, which directly affected the total result.

Export revenues were partially realized through the production companies, and a total of HRK 56.1 million was realized in exports.

The further implementation of restructuring activities partially mitigated the negative effects of the crisis on the expenditure side, which did not suffice to lead to positive results in the current, difficult economic conditions.

The negative trends on the real estate market, where additional sources to finance business activities had been planned, failed to yield results in the first half year and to thus stabilize the company's liquidity. This led to difficulties in the procurement of raw materials, production materials and merchandise and rendered impossible the timely delivery of goods and merchandise to the retail network and wholesale distribution channels. The inability to finance the season on time and the decline in personal spending primarily affected the realized revenues.





Tax burdens, higher unemployment and higher basic living costs further adversely affected customer demand for clothing and textile products, and this economic branch has proven to be extremely sensitive to any additional burden.

In the second half of the business year, risks related to general illiquidity, a decline in personal spending and additional burdens on the economy through higher costs, especially energy costs, and the continued implementation of a strict national fiscal policy will continue to be present. Unless the state initiates the announced intervention measures in the textile industry in such conditions, parallel with the implementation of the fiscal policy as well as other essential measures in relation to maintaining competitiveness in the overall processing industry, the continuation of negative trends in the real sector can be expected.

In the remainder of 2012, Varteks will continue implementing the set objectives of the Integral Business and Financial Restructuring Plan. The company's financial consolidation is an essential prerequisite for stabilizing overall business operations. On this basis, activities aimed at the use of the company's own property as an additional financing source and activities for the company's inclusion in the Government's anti-recession measures aimed at economic recovery and development are being carried out.

