



**Varteks d.d. business results for Q1 2011
better in relation to the same time period last year**

To stabilize and develop business operations, liquidity has to be stabilized, strategic sales aspects have to be further strengthened, restructuring has to be completed and the company has to be reorganized

Varaždin, May 6, 2011 – The Management Board of Varteks d.d. held a press briefing today, at which it presented the business results of Varteks d.d. for Q1 2011, with reference to the current situation, key challenges and strategically important projects whose realization is of extraordinary importance to stabilize business operations, sustainable growth and the company's future development.

In relation to the same time period last year, Varteks marked progress in the first three months of 2011 in terms of overall business results despite the still unresolved liquidity issue and the continuation of negative trends in the Croatian economy and on markets in the region.

According to data by the National Statistics Institute, industrial production was 4.9 percent lower in the first three months this year in comparison to the same time period last year. In accordance with institute data, the drop in retail sales continued in 2011, whereby a significant drop was marked in February, when the largest nominal drop on a monthly basis (26.5 percent) was realized in textile, clothing and shoe sales.

The drop in spending, growing illiquidity and an extremely negative trend on the real estate market caused additional difficulties in the implementation of activities to stabilize the company's liquidity, which directly caused the impossibility to acquire raw materials and production materials on time, procure and deliver products and goods to the retail network, which significantly affected the business results of Varteks d.d. in the end.

In the first three months of this year, the company operated with a loss of HRK 14.9 million, while a loss of HRK 18.6 million had been realized in the same time period last year. Sales revenues amounted to HRK 65 million, which constitutes a 3 percent increase in relation to last year.

Despite the negative trends in its surroundings, the business results of Varteks d.d. in Q1 2011 were HRK 3.7 million better than in the same time period last year.

Overall revenues amounted to HRK 68.6 million, which is 4.5 percent less than the revenues realized in the same time period last year, while overall expenditures amounted to HRK 83.5 million or 7.7 percent less than the year before.

In comparison to 2010 and in relation to revenues it is important to point out that the B2B segment (sales aspect related to corporate clothing and the production of specialized clothing) was detached after Q1 2011 in accordance with the restructuring and reorganization plan to an affiliated company owned by Varteks d.d. If we compare overall sales data in this segment from I-III 2011, overall sales revenues amounted to HRK 12.8 million or 20.3 percent more than in the same time period last year.



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On the foreign market, exports worth HRK 33.6 million were realized, which constitutes an increase of 15.1 percent in relation to last year. The majority of exports continue to go to countries in the European Union.

Export results indicate a mild recovery amidst the negative trends in Europe's economy.

Due to the problems in the economy and the effects of the crisis, certain risks are arising on the basis of a potential further illiquidity increase, which could additionally hamper the timely procurement of goods and the financing of business activities. There is also a risk of a further drop in personal spending, the development of which directly affects revenues, as well as a risk of higher costs on the basis of further energy price increases.

Varteks continues to aim all of its activities towards eliminating potential negative effects on the basis of market developments, and in line with current market conditions it actively focuses on targeted development and sales increases in certain sales aspects. Significant growth in business revenues and results is continuously present in the segment dealing with the production and sale of specialized clothing and corporate clothing.

In line with the Integral Business and Financial Restructuring Plan, operating costs were further cut in the first quarter, while activities are being carried out in relation to the company's financial consolidation through the utilization of the company's own assets as an additional financing source and activities aimed towards the company's inclusion in the Government's anti-recession measures which aim towards economic recovery and development.

The shut-down of unprofitable parts of the system within the production and sales segments is currently underway, as well as activities aimed towards further cutting administrative costs. We are continuing the reorganization we initiated in 2010, and in line with this, we will detach our production facilities to three separate legal entities in the second quarter of 2011 with the aim to simplify our management structure and to transform the company from a production-oriented into a market-oriented company, to increase the operating efficiency of responsibility centers, and to thus increase competitiveness on the market.

The prerequisites for the company's stabilization and development are primarily based on stabilizing liquidity as a key precondition for the implementation of all activities in relation to restructuring, the system's further reorganization and strengthening strategic sales aspects.

"The positive trends in sales revenues which continued in the first quarter of 2011 are the result of measures carried out within the framework of the Integral Business and Financial Restructuring Plan. To continue the measures, the company's liquidity has to be stabilized as a key prerequisite for the further implementation of activities in relation to the restructuring, the further reorganization of the system and to strengthen strategic sales aspects. For that purpose, we are carrying out activities that are imperative to further stabilize and develop business operations, and we also expect the urgent realization of programs within the framework of Model C.", concluded Management Board president Zoran Košćec.

Corporate Communications Department