

gorenje

Gorenje, d.d.

3503 Velenje, p.p. 107
Phone: 03 899 28 33
Fax: 03 899 25 01
<http://www.gorenje.com>

Gorenje's second quarter performance a considerable improvement over the first

At today's meeting, Gorenje Supervisory Board was presented the Group's performance the highlights of the Group's performance in the first half of 2009. In the second quarter, result improved considerably despite somewhat lower sales. Successfully aligning its operations with the plans, the company managed to generate free cash flow, retain market shares, and see positive effects of cost slashing and process optimization measures. Aided by government anti-crisis support, productive jobs were maintained. The development in performance provides grounds for the forecast that Gorenje's free cash flow could reach EUR 25 million by the end of the year.

In the first half of 2009, consolidated revenues of Gorenje Group totalled at nearly EUR 568 million, of which three quarter strong was generated by sales of home appliances – which, however, were 33 percent below the figure from the first quarter of 2008. Demand for appliances has been in decline since last fall and this trend has extended into the second quarter of this year. However, the volume of orders has settled is showing signs of slight improvement till the end of the year. The drop in sales in the second quarter was again the most severe in Eastern and South-eastern Europe, while in some countries of the Western Europe, Gorenje has even seen a growth in demand. In Russia and Ukraine, household appliance market was halved as early as in the beginning of this year and the composition of sales slipped downmarket. Gorenje responded to the changes in demand by extending its offer to various segments and all price ranges; as a result, it succeeded in retaining, or indeed increasing, its market shares. Serbia, Czech Republic, Denmark, Germany, and Austria are among the markets where Gorenje has done well; in France, Croatia, Romania and the Baltic countries, operations were less successful and some sales activities were even suspended for the lack of liquidity in the market.

EBIT, amounting to EUR -7 million in the first quarter, came close to zero in the second quarter, indicating a notable improvement in returns from operations over the quarter before. Net profit/loss in the second quarter decreased only to EUR -3.2 million. Improvement in performance is mostly an effect of process optimization and cost-cutting measures that started to yield results in the second quarter, as well as the use of less expensive raw and processed materials. Pursuing the strategy of retaining productive jobs, Gorenje – contrary to most competitors, who resorted to layoffs – used all options provided by the government anti-crisis measures and only employed the soft approach to reducing the number of employees in order to bring the labour costs to an estimated level. As of July, Gorenje has employed the measure of temporary furloughs which is seen as another major step in the efforts to keep productive jobs and in bringing the labour cost index closer to sales trends.

Despite the crisis, Gorenje's investment is focused on new products and highly committed development activities. Innovation remains the main orientation as it is pursued in functional and technological advancement, with a strong accent on environment-friendly solutions endowed with outstanding design. In fall, several products will be premiered at the IFA consumer electronics and household appliance fair in Berlin. Awaiting its launch is the new collection of Gorenje Simplicity appliances which respond to consumer's desire for simple operation, even in appliances with cutting-edge technology and excellent design. This line of appliances will also deliver affordability, increasingly sought in the time of crisis. Highly successful line of Old Timer refrigerators was given a facelift with a rainbow of new colours; the resulting collection was named Gorenje Retro. Furthermore, Gorenje's team-up with one of the world's hottest industrial designers, still cloaked with a veil of secrecy, will infuse the brand with a new quality. Last but not least, the new generation of cooking appliances, already warmly welcomed in most European markets and crowned with several awards, including the international Plus X Award, will be put on display.

The Supervisory Board was also informed of the transfer of investments from the companies Atag Europe, Gorenje Beteiligung, and some of their subsidiaries outside the EU, to the company Gorenje Nederland, B.V., headquartered in the Netherlands. Such restructuring of investments is a part of the efforts to reap synergy effects between the companies in the Gorenje Group and the Atag Group acquired last year. Hence, control and management of the network of distribution companies for the home appliance division will be consolidated and coordinated within a single company (Gorenje Nederland, B.V.) in which the parent company Gorenje, d.d., holds a 100 percent interest. Another positive effect will be the improvement in the composition of Gorenje Group's financing sources: the long-term loans obtained in the Netherlands will shift the maturity of the Group's debt towards the long-term as the share of non-current liabilities increases relative to the current ones. Also notable is the option to take advantage of the tax treaty (double taxation avoidance agreement) signed by the Netherlands with many countries in Europe and elsewhere.

Considering the harsh economic conditions, Gorenje President and CEO Mr. **Franjo Bobinac** is pleased with the development of the Group's performance in the second quarter and with the positive impact delivered by the adopted measures: *"Development in the first half supports our forecasts of effective sales promotion and cost optimization activities which are expected to push the annual earnings before interest and taxes to a positive figure. In August, September, and October, orders appear to be picking up from the dull of the first half and Gorenje has already responded by increasing its output. In addition to maintaining an optimum level of inventory, improvement of sales composition and introduction of flagship product collections to the markets are currently among our key efforts."* Nevertheless, Mr. Bobinac shares the prudence of those analysts who note that second half performance will depend on the developments in September and October: *"Assuming the extension of the trends from the second quarter, and further activities of optimizing the net current assets, our free cash flow could reach EUR 25 million by the end of the year. However, although some markets are showing signs of recovery, this year will be a strenuous one throughout, and real recovery may not ensue sooner than in the middle of 2010."*

Supervisory Board found the effects of the said measures acceptable and appropriate, and supported the Management Board's efforts to provide the conditions for a positive development of the Group performance in the months to follow by focusing on securing free cash flow, increasing market shares, and keeping productive jobs.

Gorenje, d.d.
The Management Board