

GORENJE IS CONTINUING THE POSITIVE BUSINESS PERFORMANCE TREND IN THE FIRST QUARTER

Velenje, 26 May 2010 – At today's meeting, Gorenje Supervisory Board was presented the Group's performance in the first quarter 2010. In the first three months of the year, consolidated sales revenue of the Gorenje Group amounted to EUR 290.95 million, i.e. 1.5% more than in the first quarter of the previous year. An operating profit (EBIT) amounted to EUR 7.8 million.

The global economy has partly managed to emerge from the grip of recession, but despite optimism, we continue to operate in adverse market conditions that require continued measures which we have adopted in 2009 and the main objectives of which are the following: market share growth, generating positive free cash flow and preservation of productive workplaces.

Liquidity still remains the key problem in the company's operations. It is due to the impaired consumer purchasing capacity, a decreased ability of the entities' cost recovery, lack of eligible financing sources (maturity, structure, price) as well as a very cautious lending attitude of banks. In spite of this, compared to the same period last year, the volume of business activities of the Gorenje Group in the first quarter of the year has increased in the Ecology, Energy and Services Division, to the extent which has replaced the decrease in the volume in the other two divisions.

The Home Appliances Division has achieved a significant improvement of net profitability of sales due to improved sales structure both from the geographic aspect (market aspect) and the product aspect (product structure by programmes and price placement). There has been a gradual downward trend in the sale of lower-priced products and sale in markets with lower profitability ratios. The largest increase in the sales volume was in some countries of the Eastern Europe and most countries of the South-Eastern Europe. The sales volume was behind schedule in Slovenia, Croatia, in Mediterranean countries (except Turkey and Greece), in Austria, in Eastern EU countries and in Russia. In Western Europe we mostly managed to maintain the upward trend from the second half of the previous year. The hedging in the trade receivables segment still significantly limits the growth of sales volumes, as the terms of hedging are still far more rigid and limited and the sale above the hedged levels would result in direct risk of non-payment.

The largest decrease in sale revenue was generated by the washing appliances programme, while the programmes of cooking and freezing appliances experienced an upward trend. An increase of the cooking appliance programme was of great importance from the aspect of strengthening the net profitability of sales. Supplementary programme, with the company Atag as the main holder, successfully continues with the realisation of planned sale volumes and profitability.

The profitability was strengthened also due to successful retaining of price increases of raw materials and materials, as well as development and technical activities (adaptations of the existing products, introduction of new ones). We have achieved a significant reduction of costs of services, despite the growth in the volume of business activities. Compared to the first quarter of the year 2009, the labour costs have increased with a number of employees lower by 390 (on 31st March 2010, the number of employees was 10,560). However, it should be taken into consideration that in the first quarter of the last year, we switched to a 36-hour working week and to a limited extent, to a 32-hour working week as well. In the first quarter of this year, labour costs were increased due to effects of the agreement concluded with the employees following the work interruption in September 2009 and rise of the minimum wage. The effects of both have a direct impact on the labour cost growth rate. From the aspect of their effectiveness, their share in the added value has decreased (improved productivity) from 88.0 % to 72.4 %.

In the first quarter of the year, the level of inventories of finished products and merchandise was at the level of the comparable period of the previous year, which means that the structural changes in production and sales have not nullified the optimisation activities carried out in 2009.

As for financial management, the Gorenje Group once again concentrated its endeavours mainly on activities hedging the risks associated with the financial crisis. The attention paid to effective management of credit risks has been concentrated due to the adverse macro-economic situation, i.e. by increased control over credit overdrafts granted by credit insurance companies and an intensified debt collection.

Currency risks are hedged and minimised by natural adjustment of cash flows in individual trading currencies, and derivatives are used as an upgrade of this type of hedging, mainly in the markets of Eastern and South-Eastern Europe.

In the first quarter, the Group generated a net cash flow of EUR 13.8 million and a negative free cash flow in the amount of EUR 42.7 million, resulting from the seasonal influence on movements in net operating current assets. Despite the negative cash flow, which is within planned framework, the short-term solvency risk of the Group has been successfully managed by using the granted revolving credit lines.

Based on the described circumstances of business operations, the Gorenje Group incurred an operating profit (EBIT) of EUR 7.8 million in the first quarter of this year, after generating an operating loss of EUR 7.0 million in the same period in 2009. Compared to the first quarter of the previous year, EBITDA has tripled, from 7 to EUR 21 million. A net profit amounted to EUR 517.000 thousand.

President of the Gorenje Management Board **Mr. Franjo Bobinac:** *»Uncertain circumstances on the labour market, unemployment growth and rather difficult access to the bank financing remain significant for European markets. However, we are estimating to enable the future strengthening of Gorenje Group's profitability with good cost management, development of innovative products and services and quality growth of volume of our business activities.«*

Gorenje, d.d.
The Management Board