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*Press release*

## **GORENJE'S OPERATING RESULTS FOR THE FIRST QUARTER**

### **The industry is affected by mounting prices of raw and processed materials**

*Velenje, May 30<sup>th</sup> 2011* – **Gorenje Group sales revenues in the first three months of the year amounted to EUR 370.2 million which is 27.2% more than in the corresponding period last year. Thus, the Group completed nearly 24% of the annual plan for sales revenues. Russia and Ukraine were the best performing markets. Operations of the Group and the industry as a whole were challenged by escalating prices of raw materials.**

Adjusting for the company Asko, acquired by Gorenje last summer, sales revenues exceeded the figure from the first quarter of 2010 by 14.4 percent.

Two thirds of the Group's sales revenues were generated in the *Home Appliance* division, the Group's largest. Despite a nearly 1-percent slowdown in the white goods market by sales volume, Gorenje increased the number of units sold by 3.2 percent which positively affected market shares. Sales revenues were fuelled by higher sales volume and improved composition of sales by regions and products in Russia and Ukraine, Germany, Belgium, Greece, Slovakia, Hungary, and the Middle East. Growth rate in other markets was the same or similar to that of the last year's first quarter.

*Home Interior* division saw a 7.7-percent drop in sales revenues relative to the corresponding period last year. This is a result of harsh conditions in the furniture industry and the planned decrease of deliveries to particular customers with financial problems to whom credit insurance companies denied their services. The division which is currently in the process of restructuring contributed 2% of Gorenje Group's total consolidated sales revenues.

*Ecology, Energy and Services* division, contributing the remaining 32% of the Group's total revenues, boosted its sales by nearly 43% relative to the corresponding period last year.

Compared to the first quarter of 2010, Gorenje Group managed to improve labour cost efficiency by 12.8% in terms of value added per employee, despite the increase of labour costs by 21.6%. Eliminating the effect of the Asko Group, labour cost efficiency would have improved by 5.8 % despite the 5-percent increase of labour costs per employee.

In the first quarter, Gorenje's profitability was put under pressure by the soaring prices of raw and processed materials which represent the largest share in the cost of manufacturing home appliances. The Group sought to neutralize the effect of rising raw and processed material prices by changes in the composition of sales, consistent and ubiquitous cost management, and levying of the upstream price increases to downstream, sales prices; however, this was not entirely possible and not in all markets.

In the period from January to the end of March 2011, Gorenje Group's EBIT amounted to EUR 8.9 million, with EBIT margin at 2.4 percent. The figure topped the one from last year's first quarter by 14.2 %. Eliminating the effect of Asko, Gorenje EBIT amounts to EUR 10.6 million with EBIT margin of 3.2%. Increase of EBIT after the adjustment for the Swedish company is a result of quarterly loss from Asko operations, a consequence of historically low sales and manufacturing output, as well as intensive activities of integration of the business processes into the Gorenje Group. The outlook for Asko sales and production output in the second quarter is notably brighter.

Net profit for the first quarter of 2011, amounting to nearly EUR 1.9 million, is more than threefold higher than in first quarter of the year before. Adjusting for the effects of Asko, the Group's net profit amounts to EUR 4.5 million.

Gorenje Group's gross cash flow before depreciation and amortization (EBITDA) amounted to EUR 21.7 million and net cash flow for the first quarter stands at EUR 14.7 million. Free cash flow was negative at EUR 42.8 million or, adjusting for Asko, EUR 41.9 million. This figure is comparable to that of the first quarter last year when the negative cash flow was at EUR 42.7 million. Free cash flow was the most negatively affected by the change in net current assets (net working capital), particularly the drop in trade payables, as well as the purchase of strategic materials.

**Franjo Bobinac**, Gorenje President and CEO: *"Circumstances in downstream markets are still highly unpredictable and strongly affected by rampant unemployment and budget deficits in most countries. Moreover, raw material prices again hit their historical highs which afflicts the operations of all competitors in the industry. Gorenje is looking to counter these adverse trends by constant innovative development and introduction of new products and services in both existing and new markets."*

Gorenje Supervisory Board was presented the unaudited Business Report of the Gorenje Group and its parent company for the first quarter of the year at today's session.