

Press release

GORENJE'S PERFORMANCE IN THE FIRST HALF 2011

Gorenje steps up its sales revenue. Profitability challenged by raw and processed material prices. Nevertheless, net profit exceeds last year's figure.

Velenje, August 29th 2011 – **At today's session, Gorenje Supervisory Board was presented the unaudited business report of the Gorenje Group and its parent company for the first half of this year.**

In the first six months of this year, Gorenje Group sales revenues rose by 22.1 compared to the first half last year, to a total of EUR 744.6 million. Eliminating for the Scandinavian company Asko acquired last summer, sales revenues rose by 9.7%. *Home Appliance Division*, dealing with Gorenje's core activity, saw a 20.1 percent growth resulting from both increased volume, partly an effect of the Asko merger, and improved composition by products and markets. Compared to the equivalent period last year, Asko merger resulted in higher sales in Western Europe, USA, and Australia, mostly through upmarket products. In Eastern European markets where returns are higher, Gorenje succeeded in retaining or beefing up the sales. With sales up 29.6 percent over the first half last year, *Ecology, Energy, and Services* recorded the highest increase among the three Gorenje divisions. Recessionary circumstances in the furniture industry which were even harsher than last year in some segments, and deliberate withdrawal from deliveries to some customers with financial problems to whom credit insurance companies had denied coverage, led to another slip in sales at *Home Interior*, the Group's smallest division. Relative to the period January-June 2010, revenue was down 6.4%.

Performance of the Gorenje Group and indeed of the entire home appliance industry in the first six months of the year was beset by record-breaking prices of raw and processed materials which exerted a downward pressure on the profitability. For example, the EUR price of crude oil Brent was 10% higher at the end of the first half than it was at the end of 2010; steel sheet price was up almost 11%; and plastics a good 11%. Gorenje countered the negative effects of

the raw material price shocks by hiking up sales in Scandinavia, Germany, Italy, Belgium, Russia, and Ukraine, and by improving the composition of sales in terms of products.

EBITDA, also a rough measure of cash flows from operating activities, amounted to EUR 43.6 million. Comparably, i.e. adjusting for the effect of Asko, EBITDA stands at EUR 45.2 million which is on a par with the figure from last year's first half.

EBIT of EUR 17.9 million, with EBIT margin (share in sales) at 2.4%, is 9.1% lower than in the first half of 2010. Lower operating profit is a result of the anticipated loss at Asko in the first half, resulting from low sales and production in the first quarter and intense activities of integrating the company into the Gorenje Group.

Net income (profit after taxes) in the amount of EUR 6.4 million is 30.6% higher than the figure for the corresponding period last year. Without Asko, net income would have amounted to EUR 12.4 million. In Gorenje's estimate, the negative effect of the Scandinavian company on the Group's results will be fully neutralized in next year by which time Asko performance is expected to rebound to positive figures. Asko restructuring activities were also discussed by the Supervisory Board in today's session. To date, Gorenje has already restructured the organization of sales in Scandinavian and Baltic markets, which are now run centrally for all brands offered by Gorenje in these markets.

In the first half, the Group generated EUR 32.1 million of net cash flow; free cash flow was, as commonly in this part of the year, negative at EUR -35.9 million. This, however, is an improvement of EUR 13.1 million over the comparable period last year. The main source of this improvement was the EUR 7 million of positive free cash flow generated in the second quarter, mostly through optimization of net working capital.

Group's investments totalled at EUR 23.9 million. The majority of this sum (EUR 19.7 million) was allocated to the Home Appliance Division where investments include refrigerator and freezer projects, heat pumps, and solar power plants.

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Gorenje President and CEO, Mr. **Franjo Bobinac**, finds the semi-annual results solid given the business circumstances, adding: *"After the raw material price shocks seen in the first half of this year, the prices seem to have steadied; however, the circumstances in both upstream and downstream markets remain unpredictable. As thus far, we shall seek to manage them by activities in product and services development, and by improvement of sales in terms of volume and return in the roughly 70 markets where we are present. In addition, the Strategic Plan for the period until 2015 will play a key role. The plan, scheduled for completion in September, lays down the guidelines for a stable and successful development of the Gorenje Group in the global markets in the years to come."*