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*Press release*

## **OPERATIONS OF GORENJE AND THE INDUSTRY CHALLENGED BY HARSH ECONOMIC AND FINANCIAL CONDITIONS**

### **Gorenje Group performance in the period January – September 2011**

*Velenje, November 11<sup>th</sup> 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 nine months of this year. In the period, performance of the Group, as well as other major players in the home appliance industry, were negatively affected by high prices of raw and processed materials and hesitant demand for home appliances due to uncertain economic and financial conditions. Gorenje responded to the hostility of the business environment anticipated for the coming years by compiling a Strategic Plan for the period until 2015, which accommodates the recent internal changes in the company (Asko merger, Istrabenz Gorenje divestment) and lays down the path of stable growth of the Group revenue to approximately EUR 1.5 billion by 2015. The Group is also planning to strengthen its core activity of home appliance production, and to boost its presence in the markets beyond Europe, which allow higher sales volumes and returns.

In the first three quarters of the year, Gorenje Group revenue reached EUR 1.06 billion, which is an increase of 9.8 percent relative to the equivalent period last year. Sales were up at the Ecology, Energy, and Services division, and the Home Appliance division, the latter having done well in Scandinavia, Germany, Benelux, Russia, USA, Australia, and Middle and Far East. The Group's operating profit (EBIT) reached EUR 23.4 million and net income (profit after taxes) amounted to EUR 7.8 million.

### ***A highly challenging third quarter***

In the third quarter, Gorenje combated with the results of high prices of raw and processed materials which soared in the first half, and downward pressures on revenue due to lower sales and changes in the composition thereof in terms of products and geographic distribution. This bore a negative impact on all levels of the profitability of Gorenje operations. In comparable terms, after adjusting for the effects of Asko Group and the Istrabenz Gorenje divestment completed in July, sales revenue in the third quarter was 0.7 percent below the figure for the corresponding period of last year.

Profitability was also depressed by negative results at Asko in the first nine months of the year; however, Asko reached a positive result in the third quarter. This subsidiary is expected to fully neutralize its negative effects on Gorenje Group performance in the next year.

In the first nine months of the year, the Group made profit of EUR 7.8 million, which is lower than planned.

EBITDA, an approximate measure of cash flows from operating activities, amounted to EUR 62.1 million in the period January – September 2011. In comparable terms, i.e. adjusting for Asko and Istrabenz Gorenje, EBITDA was EUR 11.5 million lower than in 2010, while EBITDA margin

reached 6 percent. The decrease in EBITDA is a result of a drop in the contribution margin (gross margin) at the level of cost of goods and material.

Free cash flow in the first nine months of the year was negative at EUR –31.8 million. Nevertheless, free cash flow in the second and third period was positive at EUR 7.2 million and EUR 3.7 million, respectively.

Persistently severe conditions in the markets, extending into the last quarter, have rendered the attainment of a suitable level of returns very difficult. Gorenje is responding to such development by profit-generating activities. In addition, focusing on better working capital management and further divestment will generate positive free cash flow that will allow the Group to reduce its overall debt.

### ***New strategic plan for higher profitability and stable growth of operations***

This year, a new strategic plan was compiled at Gorenje for the period until 2015. The plan will be presented to the investors and the broad public on December 20th. In the strategic period at hand, revenue is planned to reach approximately EUR 1.5 billion with compound annual growth rate at above 4.5 percent, which is higher than the average market growth. Emphasis will be placed on driving up the profitability at the level of EBITDA margin to over 8.5 percent by focusing on sale of products with higher value added, and by further cost rationalization, including optimization of manufacturing sites. Plans also include consolidation of the market position in traditional markets and expanding the sales operations to BRIC and other overseas countries that allow for higher growth rates than Europe where for several years home appliance manufacturers have been facing overcapacity, stringent competition, and slow to stagnant market growth as consumers have cautiously postponed their purchases of durables.

In order to improve the financial position and to manage the risk of further aggravation of financial conditions, Gorenje will divest by 2015 their non-core assets and activities, normalize the cash flow consistently with the volume and quality of operations in order to increase the capacity of self-financing, and hence reduce their debt. These activities also include diversification of financing sources and along these lines, possibilities of share listing on a foreign stock exchange is also being examined. The ratio between net financial debt and EBITDA shall not exceed 2.5.

**Franjo Bobinac**, Gorenje president and CEO: *"In over sixty years, we have amassed vast knowledge and experience in development, production, and marketing of home products. By 2015, we shall be looking to further increase the share of our core activity sales in the overall revenue structure. We shall continue to build our distinctiveness on innovative solutions and product design to set ourselves apart from the fierce European and Asian competition in the industry."*

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