

*Press release*

## **GORENJE ADOPTS NEW STRATEGIC PLAN TO BOOST PROFITABILITY**

### **Emphasis on the Group's core activity of products and services for the home**

*Velenje, December 20<sup>th</sup> 2011* – **Responding to the new business circumstances and the changes in the Group's composition after recent M&A activity, Gorenje Group devised a new strategic plan for the period from 2012 to 2015. The plan includes a stronger focus on the core activity of products and services for the home which is planned to represent approximately 90 percent of total operations in 2015. Key performance goals include improved operating profitability in terms of EBIT margin for which a target of over 5 percent was set for the year 2015, and an increase in sales revenue to about EUR 1.5 billion by maintaining a compound annual growth rate of 3.8 percent. This would mean that the Group's growth would outpace the European market. In order to improve the robustness to the impacts of the financial crises, increase in free cash flow to at least EUR 40 million is planned by 2015, along with a decrease in overall debt.**

**With the new strategy, Gorenje is effectively adapting to the new operating conditions and the internal changes in the Group.**

Gorenje laid down a new strategic plan this year. After first confirming the plan in late August this year, the Supervisory Board was presented the final version at the session held yesterday, complete with amendments and additions pertaining to finance and organization.

Since the announcement of the previous strategy early in 2010, the unstable economic environment gave rise to a drastically different set of markets conditions which are particularly challenging for the home appliance industry. In addition, previous strategic plan did not account for the key internal changes that bear a notable effect on further development of the Gorenje Group. These changes include the acquisition of the Scandinavian company Asko, and commencement of divestment activities which involved disposing of the interest in the energy engineering company Istrabenz Gorenje earlier this year.

In devising its strategy, Gorenje also sought to accommodate the so-called consumer megatrends such as the demographic change, higher ecological or environmental awareness, focus on a healthy lifestyle, technological advances (smart appliances etc.), and changes in the rankings of the most promising economies for the home appliance industry.

Gorenje President and CEO, Mr. **Franjo Bobinac**: *"The new strategy maps out our way to the creation of permanent value for our customers, shareholders, and employees. However, even the best strategy on paper falls short of being anything more than a piece of fiction if it is not*

*implemented. Therefore, we are launching the implementation activities to reach the goals laid down. Attainment of the key strategic goals will be monitored on a monthly basis and the strategic plan will be updated if required once per year to adapt to any further changes in the circumstances."*

### **New Gorenje Group organization as a measure to attain strategic goals**

In order to reach the strategic goals, Gorenje revised the Group's organizational structure. The revised model defines "Home" as the core activity which includes products (major and small appliances, HVAC equipment) and services for the home, and kitchen furniture which is assigned a support role as an important channel for the placement of the former. In 2015, core activity is expected to represent approximately 90 percent of total Gorenje Group operations.

Business field "Ecology" in which Gorenje will continue to develop services for comprehensive waste management in Slovenia and South-eastern Europe is seen as a supplementary activity in the new strategy. All other activities of the Gorenje Group will be considered portfolio investments.

### **Switch to functional organizational structure at the start of 2012**

Change in the organization by key business fields and greater focus on the core activity will be followed in the course of the strategic period by a revision of the organizational model and corporate governance, which are essential for the improvement of operating efficiency and attainment of the strategic goals. This includes redistribution of Management Board member responsibilities as of January 1<sup>st</sup> 2012, which effectively introduces a shift from divisional to functional organizational structure.

Pursuant to the Supervisory Board resolution adopted at the session held on December 19<sup>th</sup>, Mr. Branko Apat, currently the Management Board member in charge of the Home Appliance Division, will assume responsibility for home appliance and heating equipment operations; Mr. Uroš Marolt, currently the Management Board member in charge of the Home Interior Division, will be responsible for the field of corporate services and the kitchen program; Mr. Drago Bahun, currently the Management Board member in charge of human resources and education, and the worker representative, will perform the role of worker representative in the Management Board as of January 1<sup>st</sup> 2012; and Mr. Marko Mrzel, currently Management Board member in charge of finance and economics (CFO), will be in charge of sales of major and small appliances; for the time being, Mr. Mrzel will also remain in charge of finance and economics. The Supervisory Board requested that Mr. Franjo Bobinac, Gorenje president and CEO, proposes a new CFO by the end of February 2012.



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## **Core activity of products and services for the home to drive Gorenje's growth and generate value for all stakeholders**

Gorenje's key strategic goals include improvement in operating profitability in terms of EBIT margin which is planned to exceed 5 percent in 2015. Sales revenue will rise to approximately EUR 1.5 billion by 2015 at compound annual growth rate of 3.8 percent. Hence, Gorenje Group growth will outpace the estimated 2.1-percent growth of the European home appliance market.

Products and services for the home as the core activity, based on a new business model, are expected to be the central generator of growth both in terms of volume and profitability. In addition, Gorenje is planning an expansion from pan-European to global presence. Sales in the promising or emerging markets beyond Europe, such as China and Brazil, which allow higher volumes and returns, are thus planned to rise to a total of EUR 150 million. In these markets, Gorenje will build up its presence in the megacities where purchasing power is stronger than average.

Profitable growth of sales volume will also be promoted by increasing the share of upmarket brands and concepts to over 25 percent of total sales by volume. Emphasis will be placed on products with higher value added, such as built-in appliances. Gorenje will continue to rely on design and product innovation to build distinction from the competition.

In order to cover all price segments, a multi-brand strategy will be put in place with clear delineation of market placement of each brand.

## **Reducing the debt and beefing up free cash flow to improve robustness to financial crises**

In order to improve the financial position and to hedge the risk of further aggravation of financial conditions, Gorenje will divest by 2015 the Group's non-core assets and activities, as well as normalize the cash flow consistently with the volume and quality of operations and thus generate at least EUR 40 million of free cash flow in 2015. This will improve the Group's self-financing capacity and reduce the overall amount of debt to a level at which the ratio between net financial debt and EBITDA will not exceed 3.0; this is expected in 2014 and beyond.

## **Operations challenged by exacting conditions expected to persist in the coming year**

In addition to the strategic plan, Gorenje also announced today the business plan for the coming year, which was confirmed by the Supervisory Board at their session, held on December 19<sup>th</sup>.

Similarly to its key competitors in the industry, Gorenje Group faced a very hostile business environment beset by the euro debt crisis, negative impact of exchange rates of the Serbian, Czech, Polish, Russian, and Scandinavian currencies, commodity shocks that could not be levied on the downstream prices, high unemployment, conservative stance of consumers, and



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payment defaults. These conditions fostered a slip in the return on sales as the composition thereof by territory and products shifted in a less favourable direction. Lower returns are also a result of transitory negative effects brought about by the commencement of restructuring activities at the company Asko and Gorenje Home Interior.

The Group is estimated to generate good EUR 1.4 billion of sales revenue this year; EBIT is estimated at EUR 38.1 million, and the estimate for net profit is at EUR 9.2 million, which is less than planned. At the year end, free cash flow will be positive at EUR 11.4 million.

Gorenje Group will continue to face severe challenges next year as the harsh economic and financial conditions seen this year are expected to persist. The Group is planning revenue of nearly EUR 1.4 billion. In comparable terms (i.e. adjusting for the effects of Istrabenz Gorenje), revenue growth in 2012 will amount to 7.4 percent. Operating profit (EBIT) in the amount of EUR 50 million will exceed this year's estimate by good 31 percent and net profit is planned at EUR 13.4 million, which is 45.6 percent more than estimated for 2011.

Key goals for the coming year include improving the operating profitability, increasing the free cash flow to EUR 28.6 million, and reducing overall debt.

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