GORENJE GROUP PERFORMANCE IN THE FIRST QUARTER OF 2015

Performance affected by Russia and Ukraine, revenue up in Eastern Europe, the Netherlands, and Australia

A number of activities to improve the profit margin in Europe and to minimize the effects of adverse conditions

Velenje, May 15, 2015 – Gorenje Group operations in the first quarter of the year were met with more difficulties than in the first quarter of the year before. Particularly in Russia and Ukraine, two very important markets for the Group, macroeconomic conditions worsened which led to a decline in the Group's revenue there. Conversely, revenue elsewhere in Eastern Europe was higher than last year and above the figures planned for the first quarter of 2015. Revenue was also up in the Netherlands and Australia where the Group mostly markets is premium appliances. Thus, Group revenue in the first quarter of the year totalled at EUR 266.4 million, which is consistent with the budget. The share of innovative appliances rose to 8.2% of total sales.

First-quarter revenue consistent with the plans

Gorenje Group revenue in the first quarter of 2015 amounted to EUR 266.4 million, which is 8.4 percent less than in the comparable period of the year before, but consistent with the budget for the period. Revenue was higher than in the last year's first quarter in the Netherlands and Australia, especially due to upmarket sales, as well as in many markets of Eastern Europe (the Czech Republic, Slovakia, Hungary, Poland, Bulgaria, Romania, Bosnia and Herzegovina, and Slovenia).

On the other hand, considerably worse macroeconomic conditions compared to last year resulted in lower revenue in Russia and Ukraine. Decline in the Russian white goods market exceeded the forecasts in the first quarter of the year, also as a result of exceptionally high consumption in December of last year when consumers increased their spending dramatically as a response to rapid rouble depreciation. As a result, Gorenje Group's sales in December 2014 were one hundred percent higher than in December 2013.

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Revenue planned by the Group for 2015 is lower than the 2014 figure, especially because of the effect of the Russian market. Considering the uncertain development of conditions there, several scenarios were drawn up. Uncertainty of conditions is also manifest in the fact that some Russian retailers have postponed their previously confirmed orders of home appliances due to a very conservative stance by their customers. Moreover, several competitors with local manufacturing operations have made their pricing very aggressive. Nevertheless, Gorenje Group maintains a solid market position in Russia and its brands are highly reputable. In order to maintain its position and improve its sales, the Group is conducting additional sales and promotional activities. Downstream prices are being adjusted to the rouble which has appreciated in this year, and the offer of products is being expanded with a new generation of cooking appliances.

Activities to improve the profit margin
The Group is looking to improve its profit margin in Eastern Europe in order to boost its profitability. Therefore, it is repositioning its products in terms of pricing by increasing the prices and improving the range of products offered. A short-term result of price hikes and abandonment of special offers for low-priced appliances that failed to attain an adequate profit margin is a temporary decrease in revenue in Western Europe, which was expected. At the same time, the share of innovative appliances in total sales rose to 8.2 percent, or 0.8 percentage point more than in the corresponding period of last year.

Profitability challenged by macroeconomic decline and appreciation of the US dollar
EBITDA amounted to EUR 16.2 million, which is 22 percent less than in the comparable period of last year. At EUR 4.9 million, EBIT was lower precisely because the heavy aggravation of macroeconomic conditions in Russia and Ukraine, as well as the appreciation of the US dollar relative to the euro, which had a negative impact on the profitability of the small domestic appliance program, and to some extent on the prices of raw and processed materials. The Group thus ended the first quarter with a loss of EUR 2.1 million.

The Group sought to alleviate these negative effects by cutting the costs of services, especially logistics, sound management of energy costs, optimization of euro-denominated upstream prices of raw and processed materials, and partial hedging from net currency exposure to the US dollar on the supply side. The rigid labour legislation in Slovenia does not allow adjusting the labour costs to lower revenue in such short period of time, although the number of employees in the Group did decrease by 209 real to the first quarter of last year. Measures to adjust the labour costs in Slovenia were introduced in May when 136 employees were sent on a temporary furlough. This means that the workers keep their employment while still allowing the Group to partly adjust the labour costs to the actual manufacturing volume in Slovenia.

The Group is also relieving the negative effects by optimizing its material costs in production, optimizing all types of inventories, boosting productivity, decreasing the complexity of finished products and purchasing, currency hedging, and adjusting investment to revenue. Investment funds are mostly allocated to new product development, which is one of the motors of sales growth. Thus, new product development funds accounted for 3 percent of revenue in the first quarter, which is 0.6 percentage point more than in the corresponding period of last year. Starting with the second half of the year, operating profitability will be positively affected by the effects of price repositioning.

Improvement of debt maturity profile
In comparison to the first quarter of 2014, debt maturity profile improved by nearly 14 percentage points as long-term borrowings accounted for good 60 percent of total borrowings. By drawing on the previously approved long-term loan in the amount of EUR 65 million from an existing banking partner in the first half of May 2015, the Group will additionally improve its maturity profile. Moreover, the new loan allows further decrease of finance expenses, which is – in addition to deleveraging and improvement of debt maturity profile – one of the key goals in the field of finance.

Gorenje President and CEO **Franjo Bobinac** comments on the development of operations: *"Conditions in Ukraine and Russia have worsened dramatically in one year. We succeeded in alleviating the negative effect of these changes on our performance in the first quarter of the year by a number of activities. In addition, we exceeded the budgeted figure for our revenue by increasing our sales in a number of markets in Eastern Europe, the Netherlands, and Australia. Further development of events in Russia is difficult to predict. Conditions remain challenging in other markets as well, especially in the first half of the year. Therefore, we are intensifying a variety of activities that will allow us to cut our costs on the one hand and to develop new deals and markets on the other. Substantial effects for the following period are also expected from price repositioning in Europe."*