

MANAGEMENT BOARD COMMENT ON GORENJE GROUP SECOND QUARTER PERFORMANCE AND OUTLOOK FOR THE SECOND HALF OF 2016

Sales and profits continue upward trend

We are stepping up our high-margin sales of innovative and premium products to be presented at the industry's largest tradeshow IFA in Berlin in early September. Nearly 500 new hirings in Slovenia this year.

Velenje, August 23, 2016 – Gorenje Group continued its successful performance in the second quarter of the year. Thus, we wrapped up the first half of 2016 with revenue of EUR 581.3 million, operating profit (EBIT) of EUR 16.7 million, and net profit of EUR 2.1 million. Positive impacts in the period included further growth of small and major domestic appliance sales, favourable geographic distribution of sales, and higher sales and market shares for premium and innovative appliances in all product categories. Adjusting for currency translation differences, our core activity saw 8-percent organic revenue growth relative to the first half of 2015.

In the second quarter of 2016, we generated nearly 59 percent more operating profit than in the corresponding period of the year before.

In the second quarter of 2016, Gorenje Group generated EUR 295.8 million of revenue, which is 2.1 percent more than in the second quarter of 2015. Operating profit (EBIT) reached EUR 9.9 million, which is 58.7 percent more than in last year's equivalent period. EBIT margin increased to 3.4 percent.

Net financial debt of EUR 411.4 million is on a par with the figure from 2015. Especially on account of better profitability, the net financial debt to EBITDA ratio improved by 0.6 in comparison to the first half of 2015.

Core activity revenue growth

In the first half of 2016, domestic appliance sales rose by 10.6 percent in the Eastern Europe (Slovenia, Hungary, Slovakia, Czech Republic, Romania, Bulgaria, Croatia, Montenegro, and Macedonia), and by over 25 percent in Russia and Ukraine. We also boosted the market shares of the Group's brands, particularly in the CIS region where they rose by 0.8 percentage point to 4.8 percent in value terms.

In Western Europe, our sales grew by more than 5 percent in the profitable markets of Benelux, especially the Netherlands. In Germany and Great Britain, we succeeded in increasing the sales relative to the comparable period of last year. Lower sales under the Gorenje brand persisted in Scandinavia and France.

Stepping up our sales beyond Europe, we are mitigating our reliance on the European markets and improving the sales structure as we are increasing the share of premium appliances and our premium brand Asko. However, sales in overseas markets were down slightly in the first half of the year. In addition to the change in currency exchange rates, lower sales were a result of different dynamics of orders from industrial/OEM deal partners, and lower sales in the markets of Middle and Far East (especially Saudi Arabia). Adjusting for the effect of currency fluctuation, organic revenue growth would have amounted to 1.3 percent in these markets.

Market shares boosted in Europe

In the first half of the year, Gorenje Group brands increased their market share in the 28 EU markets by 7 percent, or 0.2 percentage points. Growth was recorded in all key product categories, and the pricing index remained stable. The company holds a 3-percent market share in volume terms.

Innovative and premium appliances now account for over one quarter of total sales

Revenue growth from sales of Asko brand products boosted our premium segment that accounts for a 10.3 percent share. Sales under the Asko brand were up in the markets of Scandinavia, France, USA, Russia, and Asia.

Sales of innovative appliances were up 20.5 percent and premium appliance sales were up more than 7 percent; hence, the combined share of these two segments in our total sales now amounts to 25.4 percent.

Costs adjusted to our sales volume

Also contributing to solid performance in the first half of the year was sound management of costs and currency risks. Raw and processed material costs were successfully adjusted to our sales and production volume. Major savings were reaped by optimizing our supply chain and logistics, and by reducing the warranty repairs on account of better appliance quality. Consistently with our strategic goal, we increased our product development and marketing investments. Total expenses for the two fields were increased by EUR 3.4 million in the first half. It is important to note that cost of labour and services grew at a slower rate than revenue.

Optimistic sales forecast for the second half of the year

Market conditions at the start of the second half of 2016 are stable, which is also reflected in the increased sales volume. This, in turn, has led to higher manufacturing workload and

therefore, we will hire more than 250 new workers as of September 1 at the Velenje plant. As a result, the total number of hirings in Slovenia this year will reach 500.

At IFA, the largest consumer electronics and home appliance tradeshow taking place early in September in Berlin, we will unveil the latest appliances under the Gorenje and Asko brand, which stand out with smart technology and carefully thought-out design.

In order to further deleverage, we shall continue to generate free cash flow and carefully manage our working capital. To ensure we are competitive and to generate value for our stakeholders, we shall continue to conduct our activities aimed at promoting further sales growth and improvement of sales structure. These activities include in particular the development of new products and services for our customers and users, supply chain and complexity optimization, and careful planning.

Based on the current market conditions and sales forecasts, it is our estimate that we will reach the key parameters of our business plan for 2016.