

MANAGEMENT BOARD COMMENT ON GORENJE GROUP OPERATIONS AND PERFORMANCE IN THE FIRST NINE MONTHS OF 2017, AND THE 2017 END-OF-YEAR ESTIMATE

Gorenje Group's revenue and profits increase in the first nine months of the year despite a challenging third quarter

Velenje, November 9, 2017 – With challenging conditions in both downstream and upstream markets, as well as the labour market, Gorenje's performance remains stable as the Group generated nearly EUR 944 million of sales revenue in the first nine months of the year, or 4.8 percent more than in the same period last year. Comparable operating profit before depreciation and amortisation (EBITDA) was higher by good five percent as it nearly reached EUR 59 million. Net profit at EUR 4.6 million was 12.1% higher than in the equivalent period of the year before. We increased our sales of major domestic appliances, including the premium brands, and small domestic appliances. We also improved our geographical structure of sales and increased our revenue from other businesses. Performance in the third quarter was negatively affected by slower sales that fell short of the budget, especially in the markets of Germany and Great Britain; rising prices of materials and components; labour cost pressures; and decrease of productivity as a result of mass production launch for new generations of products. Considering the typical dynamics within the year, we expect to see the largest share of revenue in the last quarter, which in turn will also affect the overall performance. In view of the said negative circumstances, we find that all key objectives laid down for 2017 are not attainable, despite the many measures introduced to mitigate them.

A challenging third quarter

Third quarter performance was negatively affected by lower sales of home appliances relative to the dynamic plan, harsh competition in the Western European markets, labour cost pressures, upward trend in procurement prices, and higher production costs related to the launch of mass production of new generation products.

In the nine months of 2017, we generated operating profit (EBIT) of EUR 18 million. This is EUR 2.5 million less than in the equivalent period of the year before, especially on account of higher depreciation and amortization resulting from high investments into update and development of product platforms for all product categories in recent periods.

Improved product structure, and steeper growth of premium brands and sales beyond Europe

With higher and structurally more favourable sales of domestic appliances in the first nine months of 2017, Gorenje Group revenue for the period grew by 4.8 percent. Our performance was successful in other activities as well, where our revenue increased by 26 percent.

The highest growth rate, at nearly 20 percent, was seen in markets beyond Europe, which account for good 12 percent of total domestic appliance sales. Domestic appliance sales growth in the Eastern European markets was at 3.3 percent. In Western Europe, our sales increased in the markets of Benelux, Austria, Scandinavia and France, while sales in Germany and Great Britain declined following price repositioning.

Further investment into R&D

We invested good 3 percent of domestic appliance sales revenue into product development. A large part of the investments, or EUR 46.5 million, was allocated for new product development and completion of new product platforms.

In 2017, we launched mass production and sales of new generation freestanding cookers, new generation premium washing machines and dryers, and new generation premium dishwashers. New built-in fridge freezers and connectible appliances are in the closing stage of development. By the end of the year, we will start the deliveries of connectible appliances under the Atag brand to our partners for installation in smart homes in the Netherlands.

Intensive measures to attain the planned performance to the greatest extent possible

Our key challenges for the last quarter of 2017 remain attaining the planned sales and budgeted profitability as we witness further concentration of retail chains in our key markets, business efficiency with regard to growing prices of key raw materials and components, and labour cost pressures, efficient mass production of new generation products, and improvement of inventory management that will lead to appropriate deleveraging by the end of the fiscal year.

In order to mitigate the effects of these negative circumstances on the accomplishment of the annual plans, we are investing intensive efforts to improve our sales, cost efficiency, and process productivity; we are intensifying our supply chain financing activities to improve working capital turnover; and we have stepped up our deleveraging efforts. At the same time, we are diligently managing our inventories with projects and activities focused on the supply chain, complexity, and production coordination. We also continue the process of our digital transformation.

With respect to the worsened business economics in the third quarter and the described challenges or negative factors that are expected also in the last quarter of 2017, we will, based on the stated activities attend to achieve, to the maximum extent possible, the key planned objectives for 2017 which, however, will not be completely fulfilled. The Budget for the year 2018 together with the estimated financial results for 2017 will be published after the Supervisory Board meeting on 11th of January, 2018.

Focusing on the core activity

Consistently with the strategic policy of focusing on our core activity, we are examining the possibilities of divesting the operations and companies in Other Businesses, and we continue to divest our non-operating assets. In this light, we continue in the last quarter of 2017 the divestment procedures for companies in the ecology business. Following the successfully completed divestment transactions for the companies Publicus and Ekogor in 2016, and Erico in 2017, we started in October 2017 the process of divesting the company Surovina and its subsidiaries, which will be managed in cooperation with an acclaimed international financial advisor. We shall duly inform the public about the progress of divestment in accordance with Ljubljana and Warsaw Stock Exchange rules and relevant legislation.