

## S u m m a r y

### Gorenje Group and Gorenje, d.d., Business Plan for 2008



## **Gorenje Performed Well And On Target In 2007. Ambitious two-digit net profit growth set to continue in 2008.**

The **Supervisory Board of Gorenje, d.d.**, at its **15<sup>th</sup> Meeting held on 18 December 2007** discussed and adopted the business plan of Gorenje, d.d., and the Gorenje Group for 2008. The Supervisory Board assessed the performance of Gorenje in 2007 as good and with the plan for 2007 having been achieved in all vital categories. The plan for 2008 has been deemed ambitious, due to the fact that Gorenje Group plans also for 2008 double digit net profit growth.

### **Business Climate**

In accordance with the estimation will Gorenje Group finish the business year 2007 with good results. The major planned targets will be reached and by the revenue also 14.3 % growth in comparison with the year 2006 and also surpassed for the year 2007 planned net profit.

**The Household appliances division** was in the year 2007 under strong pressure by **the high price level of commodities and raw materials**, which are above second half 2006 price level. Direct negative impact of higher prices amounted to more than EUR 10 million, and that means that the profitability of the Gorenje Group could be much better, if the prices staid on the year 2006 level.

In the majority, for sales of household appliances important European markets, the **moderate growth of sales** was recorded. **The strongest growth in sales was recorded by the refrigerator and freezer program and by the cooking appliances**, while the sales of washing machines and dryers dropped. In spite of the growth, **supply, due to the overcapacity and entering of the new – price aggressive competitors, surpassed the demand** of household appliances. The result of this was a **price pressure**. Additional price pressures were followed by the **concentration of the major retailers with the global brands**, which are present on the different markets. The refrigerator and freezer program was the most under price pressure. On the effectiveness of this program within the Gorenje Group, the major impact contributed also the **activities for optimizing the operation in the new factory in Valjevo, Serbia**, which has been reached in a second half of the year the break even point from profitability standpoint.

The implementation of the **European directive on the recycling of electronic and electrical waste (WEEE)** has on some markets additional increased the producers costs, due to the obligation for the recycling and removal of old household appliances.

In such a circumstances **some of the European manufacturers from the industry, already making losses**. Gorenje Group has the major part of the negative impact within the household appliances division neutralized by:

- **Larger extent of business activities**, which is very important, due to the relatively large part of the fixed costs, what is characteristic of the white goods industry,
- **Development and introduction of the new products**, followed by improved sales structure and by increased stake of the appliances with higher margins,
- Continued **optimisation of the supply chain** and seeking alternative and/or new sources of global supply in Far East and in the countries of Eastern Europe and South Eastern Europe,
- **Development of all for home business activities** - complementary, supplementary and heating program (opening of the new production capacity for heating program in Stara Pazova, Serbia).

Partly we managed to neutralize the negative pressure also by the **increase of prices**. By such activities, due to the supply surplus in most of the markets, the selective accession to price increase is needed.

**Management of the inventory level, trade receivables and trade payables**, was also our focus. In the mid-year we started with the project of cutting down the current assets within the whole Group. Our attention was very much dedicated to the **control of the general business costs**.

**The home interior division** was in the year 2007 marked by the **fire of the production facility in the factory in Czech Republic**. In spite of this fire, we managed, with a **good organization of production activities** at other locations of division, to **neutralize the shifts in the production**.

Additional impact on the division performance was also the **economic situation of the production facility in Austria**, where we decided to **transfer this production to Maribor, Slovenia**. The positive effect of this transfer will be seen in the year 2008.

The negative pressures by both above mentioned divisions, we have partly managed to neutralize by the development of the **new activities in the trade and services division, with higher revenue growth potential and profitability**.

In January this year we became a **51 % owner of the company Surovina**, which together with the companies **Kemis in Slovenia, in Croatia and Bosnia, are the holder of the future development on the area of environmental protection** and of hazardous waste. To the company Kemis Zagreb, Croatia, we merged with success the company Termoclean Zagreb, Croatia.

Further on we have proceeded **with the development of the energetic business, which is performing by the companies of Istrabenz Gorenje**. The company Istrabenz Gorenje has in the **August 2007 sold the company for trading of power supply APC, which had relatively high share of the revenue**. The planned revenue is due to this lower, but we don't plan lower **profitability of the company Istrabenz Gorenja for the next year**.

Above mentioned circumstances for the year 2007 are going to be present also in the year.

### **Key Projects and Objectives of the Gorenje Group in 2008**

- Achieving **quality growth of sales and profitability** while ensuring a balanced utilisation of all production capacities and maximising profit margin as the key criteria of economic performance;
- Continued **development of new products and services**, which will increase our market competitiveness, enable high-end product placement and higher value added, and consequently lead to improved business performance in the future, while simultaneously seeking engineering-technological solutions to lower the cost of production and the cost of distribution of existing products;
- Continued **optimisation of the supply chain** and seeking alternative and/or new sources of supply in Asia, on other US dollar supply markets and in the countries of East Europe and SE Europe so as to ensure the price competitiveness of our products;
- Ensuring **manufacturing productivity and efficiency of operation in manufacturing** by (as far as possible) even utilization of production capacities throughout the financial year with a view of maximising production economy and cost efficiency;
- **Selective implementation of new investment projects** and ensuring that they stay within the planned volume; priority will be given to investments in new products and markets;

- Improving the **management of current assets**, in particular of receivables and inventories, due to their considerable impact on the level of debt and consequently the cost of financing of the Gorenje Group;
- Ensuring the **effective management of all types of risk**, which the company is exposed to due to the highly changeable business environment in which we operate, with the focus on credit (payment) risks, in particular in the high-risk markets and the markets characterised by lower liquidity.

### Business Highlights – Gorenje Group

| 2006   | Estimate 2007 | Plan 2008           | 2007/2006 | 2008/2007          |
|--|---------------|---------------------|-----------|--------------------|
| <b>Consolidated Revenue (in EUR thousand)</b>        |               |                     |           |                    |
| 1,111,035  | 1,270,052     | 1,300,352           | 114.3     | 102.4 <sup>1</sup> |
| <b>EBITDA (in EUR thousand)</b>                      |               |                     |           |                    |
| 80,404   | 87,981        | 98,078              | 109.4     | 111.5              |
| <b>Operating profit - EBIT (in EUR thousand)</b>     |               |                     |           |                    |
| 30,822   | 35,179        | 42,502              | 114.1     | 120.8              |
| <b>Profit before tax - PBT (in EUR thousand)</b>     |               |                     |           |                    |
| 27,843   | 30,294        | 31,503              | 108.8     | 104.0              |
| <b>Income tax expense (in EUR thousand)</b>          |               |                     |           |                    |
| 5,527  | 6,318         | 5,000               | 114.3     | 79.1               |
| <b>Net profit (in EUR thousand)</b>                  |               |                     |           |                    |
| 22,316   | 23,976        | 26,503              | 107.4     | 110.5              |
| <b>Value Added (in EUR thousand)</b>                 |               |                     |           |                    |
| 274,709  | 307,397       | 326,362             | 111.9     | 106.2              |
| <b>Number of Employees as at Year's End</b>          |               |                     |           |                    |
| 10,816   | 11,601        | 11,563              | 107.3     | 99.7               |
| <b>Average Number of Employees</b>                   |               |                     |           |                    |
| 10,556   | 11,469        | 11,522              | 108.6     | 100.5              |
| <b>Gross Operating Yield per Employee (in EUR)</b>   |               |                     |           |                    |
| 107,434  | 112,698       | 114,513             | 104.9     | 101.6              |
| <b>Value Added per Employee (in EUR)</b>             |               |                     |           |                    |
| 26,024   | 26,802        | 28,325              | 103.0     | 105.7              |
| <b>EBITDA Margin (as % of Gross Operating Yield)</b> |               |                     |           |                    |
| 7.1%   | 6.8%          | 7.4%                |           |                    |
| <b>Return on Equity</b>                              |               |                     |           |                    |
| 8.9%   | 7.8%          | 7.3%                |           |                    |
| <b>Assets (in EUR thousand)</b>                      |               |                     |           |                    |
| 904,610  | 991,600       | 1,020,108           | 109.6     | 102.9              |
| <b>Investment in Fixed Assets (in EUR thousand)</b>  |               |                     |           |                    |
| 71,109   | 65,453        | 67,066 <sup>2</sup> | 92.0      | 102.5              |
| <b>Equity (in EUR thousand)</b>                      |               |                     |           |                    |
| 254,433  | 352,528       | 371,151             | 138.6     | 105.3              |

1 - The planned revenues are not entirely comparable with estimated ones, due to the sale of the company Austrian Power Vertriebs GmbH (APC). On the comparable basis the planned revenues are higher by 8.3 %.

2 - In regard to the elimination of the equipment co-financing in amount of EUR 3,500 thousand from industrial partner side and the elimination of the investment real estate in amount of EUR 2,728 thousand, the planned investments in fixed assets amounted to EUR 60,838 thousand.

| Equity/Assets                           |         |         |       |       |
|---|---------|---------|-------|-------|
| 28.1%                                   | 35.6%   | 36.4%   |       |       |
| Long-term provisions (in EUR thousand)  |         |         |       |       |
| 56,361                                  | 63,686  | 68,418  | 113.0 | 107.4 |
| Financial liabilities (in EUR thousand) |         |         |       |       |
| 314,683                                 | 307,259 | 317,571 | 97.6  | 103.4 |

- The consolidated revenue from the **sales of products and services** generated by the companies of the Gorenje Group in 2008 is expected to reach **EUR 1,300,532 thousand**, which is EUR 30,300 thousand or **2.4 percent above** for 2007 estimate. The planned revenues are not entirely comparable with estimated ones, due to the sale of the company Austrian Power Vertriebs GmbH (APC). On the comparable basis the planned revenues are higher for **EUR 100,097 thousand** or **8.3 %**.
- The operations of the Gorenje Group will be streamlined as provided by the divisional structure of the Group: **Household appliances division, Home interior division, and Trade and services division.**

#### Consolidated Revenue by Division (in EUR thousand)

| Division                    | Estimation<br>2007 | Plan<br>2008     | 08/07             |
|-----------------------------|--------------------|------------------|-------------------|
| Household appliances        | 1,013,878          | 1,081,545        | 106.7             |
| Home interior               | 58,485             | 61,994           | 106.0             |
| Trade and services          | 197,689            | 156,813          | 79.3 <sup>1</sup> |
| <b>Consolidated Revenue</b> | <b>1,270,052</b>   | <b>1,300,352</b> | <b>102.4</b>      |

<sup>1</sup> The reason for the lower growth is in elimination of the company Austrian Power Vertriebs GmbH from the Gorenje Group in August 2007. The comparable growth of the division is 22.6 %.

- The planned **EBITDA** is **EUR 98,078 thousand**, which is **11.5 percent above** the 2007 estimate and represents 7.4 percent of the gross yield.
- **Targeted EBIT** in the amount of **EUR 42,502 thousand** accounts for 3.2 percent of the gross yield, which is an **20.8 percent increase** compared to the estimate for 2007.
- To sum up, the targeted **consolidated net profit of the Gorenje Group** is expected to reach **EUR 26,503 thousand**, which translates into net return on sales of **2 percent** for the Group. The planned **net profit of minority interests** has been set at EUR 1,044 thousand.
- The projected number of Gorenje Group employees as at the end of 2008 is **11,563 or 38 (0.3 percent) less** than at the end of 2007. For the most part, the decrease will be due to the company **Gorenje aparati za domačinstvo, d.o.o.**, Valjevo, Serbia (**121** less employees) and **Gorenje, d.d.** (**74** less employees). The increased number of employees are planned to be in the companies: **Gorenje, d.o.o. Beograd**, Serbia (**19** new employees) and **Surovina, d.d., Maribor**, Slovenia (**19** new employees).
- The plan for 2007 also provides for **EUR 67,066 thousand worth of investment in property, plant and equipment**. The majority of the proposed investments in the amount of EUR 31,185 thousand will be undertaken by Gorenje, d.d.. However, major investments are also planned by Gorenje Invest, d.o.o., - EUR 7,176 thousand (refurbishment of the business centre and 9 franchising shops), Gorenje Tiki, d.o.o., Ljubljana and in Stara Pazova, Serbia – EUR 2,989 thousand (procurement of production capacity and of equipment for the new plant), Gorenje TOV, Kiev, Ukraine – EUR 2,719 thousand and Mora Moravia, s r.o., - EUR 1,797 thousand.

## Business Highlights – Gorenje d.d.

| 2006   | Estimate 2007 | Plan 2008 | 2007/2006 | 2008/2007 |
|--|---------------|-----------|-----------|-----------|
| <b>Revenue (in EUR thousand)</b>                     |               |           |           |           |
| 731,761  | 828,569       | 868,556   | 113.2     | 104.8     |
| <b>EBITDA (in EUR thousand)</b>                      |               |           |           |           |
| 50,074   | 52,576        | 58,541    | 105.0     | 111.3     |
| <b>EBIT (in EUR thousand)</b>                        |               |           |           |           |
| 16,306   | 18,844        | 22,879    | 115.6     | 121.4     |
| <b>Profit before Tax - PBT (in EUR thousand)</b>     |               |           |           |           |
| 13,539   | 14,366        | 16,645    | 106.1     | 115.9     |
| <b>Income tax expense (in EUR thousand)</b>          |               |           |           |           |
| 1,426  | 1,841         | 1,992     | 129.1     | 108.2     |
| <b>Net profit (in EUR thousand)</b>                  |               |           |           |           |
| 12,113   | 12,525        | 14,653    | 103.4     | 117.0     |
| <b>Value Added (in EUR thousand)</b>                 |               |           |           |           |
| 154,169  | 166,847       | 175,207   | 108.2     | 105.0     |
| <b>Number of Employees as at Year's End</b>          |               |           |           |           |
| 5,631  | 5,554         | 5,480     | 98.6      | 98.7      |
| <b>Average Number of Employees</b>                   |               |           |           |           |
| 5,591  | 5,598         | 5,480     | 100.1     | 97.9      |
| <b>Gross Operating Yield per Employee (in EUR)</b>   |               |           |           |           |
| 132,718  | 150,816       | 160,355   | 113.6     | 106.3     |
| <b>Value Added per Employee (in EUR)</b>             |               |           |           |           |
| 27,574   | 29,805        | 31,972    | 108.1     | 107.3     |
| <b>EBITDA Margin (as % of Gross Operating Yield)</b> |               |           |           |           |
| 6.7%   | 6.2%          | 6.7%      | /         | /         |
| <b>Return on Equity</b>                              |               |           |           |           |
| 5.8%   | 5.2%          | 5.3%      | /         | /         |
| <b>Assets (in EUR thousand)</b>                      |               |           |           |           |
| 629,431  | 672,106       | 689,848   | 106.8     | 102.6     |
| <b>Investment in Fixed Assets (in EUR thousand)</b>  |               |           |           |           |
| 29,003   | 29,622        | 31,185    | 102.1     | 105.3     |
| <b>Equity (in EUR thousand)</b>                      |               |           |           |           |
| 209,230  | 275,204       | 282,462   | 131.5     | 102.6     |
| <b>Equity/Assets</b>                                 |               |           |           |           |
| 33.2%  | 40.9%         | 40.9%     | /         | /         |
| <b>Long-term Provisions (in EUR thousand)</b>        |               |           |           |           |
| 26,661   | 27,848        | 29,025    | 104.5     | 104.2     |
| <b>Financial liabilities (in EUR thousand)</b>       |               |           |           |           |
| 185,794  | 178,383       | 190,106   | 96.0      | 106.6     |

- Projected net revenue in 2008 is set at **EUR 868,556 thousand** representing a **4.8 percent increase** compared to the figure estimated for 2007 while gross profit (gross operating yield) is expected to reach **EUR 878,744 thousand** or **4.1 percent increase** compared to the figure estimated for 2007.
- Targeted **unit sales** of own household appliances production in Velenje, Slovenia are set at **3,015,889 units**, which represents **1.3 percent increase** in comparison with the estimated volume for 2007. By including the planned **unit sales volume** of the refrigerators and freezers manufactured at the Valjevo plant in Serbia (382,612 units), and the output of cooking appliances from the Mora Moravia plant in the Czech Republic (452,153 units), the sales of the Gorenje Group household appliances will nevertheless reach the targeted volume of **3,850,654 units sold** (**1.2 percent increase** compared to the figure estimated for 2007).
- **EBITDA** is set to reach **EUR 58,541 thousand**, which is **11.3 percent increase** in comparison with the 2007 estimate.
- **EBIT** is projected at **EUR 22,875 thousand** and has been set to exceed the estimated operating profit for 2007 by **21.4 percent**. It accounts for 2.6 percent of the gross operating yield, which is 0.3 percentage points more than in 2007.
- **Targeted net profit** in the amount of **EUR 14,653 thousand** accounts for 1.7 percent of the gross operating yield, which is **17 percent over** the estimated figure for 2007.
- The projected **number of employees** as at the end of 2008 is **5,480** or 74 (- 1.3 percent) less than the estimated number of employees at the end of 2007.
- Investments in the coming year will be **5.3 percent higher** as for the 2007. The bulk of the proposed investments will be directed towards **product development, expansion of production programs** and **technology** in all production programs. Within this frame of investments is also equipment investment in amount of EUR 3,500 thousand, which will be co-financed by industrial partner.

## Conclusion

The year 2007 was marked by consolidation of different production locations, and beside this also very good accomplished capital increase, what gives us a good groundwork also for growth and development of the business system for the future.

Sound performance in 2007, which was right on target or even above plan in all major categories, was the starting point for the development of our plans for 2008. Once again we are planning double-digit net profit growth, in line with the ambitious medium-term strategy adopted by Gorenje.

We will continue with the **growth of business activities within the household appliances division**, which is and will be Gorenje Group core business. The growth volume of division will be very selective, with the main stress on **the improvement of the sales structure - appliances with higher margins** – considering also the **structure of production programs**, as well as **sales structure by countries**.

Key importance of the supply chain will be the **optimisation of the supply chain and seeking low-priced alternative and/or new sources of supply in Asia, on other US dollar supply markets and in the countries of East Europe and SE Europe**. In relation

to the former we are planning on increasing the volume of production as well as sales, where even utilization of production capacities throughout the year will be vital to maximising productivity and economy of production.

**The investment activities** within the household appliances division **will be focused on the development of new products** (modernization of the cooking appliances program) and **on the development of sales activities** (developing and strengthening the position on the strong developing existing and new markets). Potential M&A are not included in the investment plan 2008, in this respect all shareholders, investors and other financial community, will be informed in the proper way.

We will continue to **develop wide range of products – all for Home**, in particular those with the potential for growth - **complementary, supplementary and heating program**.

**Home interior division** will continue with the **internal consolidation**, particularly in the **optimizing of the international production capacities**. We will also continue with the **synergy utilization with the core business – household appliances division**, on the supply and sales side.

The **trade and services division** will speed up **further development of the new – fast growing activities**, especially **ecology, waste management and energy**, and they will economically justify the larger extend of investments.

In all three divisions will be in the year 2008 attention focused on the **working capital controlling**, above all on **inventories, trade receivables and trade payables**, what will be for the balanced and long term performance of the Gorenje Group, of key importance.

In spite of very difficult business environment, we by Gorenje are prepared and we are looking forward to accept new challenges, which the year 2008 is bringing. We believe in further sound performance of the Group in line with the planned strategic goals and activities.

Gorenje, d.d.,

The Management Board

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