

Summary

Gorenje Group and Gorenje, d.d., Business Plan for 2007



Gorenje Performed Well And On Target In 2006. Ambitious Two-digit Growth Set To Continue In 2007.

The **Supervisory Board of Gorenje d.d.** at its **7th Meeting held on 19 December 2006** discussed and adopted the business plan of Gorenje, d.d., and the Gorenje Group for 2007. The Supervisory Board assessed the performance of Gorenje in 2006 as good and with the plan for 2006 having been achieved in all vital categories. The plan for 2007 has been deemed ambitious, due to the fact that Gorenje Group plans also for 2007 double digit figure growth.

Business Climate

The purpose of the planning procedures, which have been underway since July, is to determine a clear, future-oriented focus, which will have a vital impact on the nature, direction and extent of our operations as well as on our ability to respond to the changes in our business-, political and social environment in terms of swiftness, manner, extent and duration. According to estimates by leading world analysts, the **key external factors** influencing the quality of our operation in 2006 are not expected to change i.e. improve to a significant extent in 2007.

The prices of commodities and raw materials, excluding extremely volatile prices of oil and oil derivatives, are expected to fall slightly in the coming year, but still remain on a high price level. The biggest drop is forecast for copper and aluminium while the prices of steel are anticipated to decrease only slightly. The average oil price in 2007 is expected to exceed the level set in 2006, in particular due to the price sensitivity of this energy product to one-off world events.

A vital element affecting business operation in 2007 will be the implementation of the **European directive on the recycling of electronic and electrical waste (WEEE)** applicable to the manufacturing and sales of household appliances. The ambiguity of the national legislation in individual countries in relation to the actual application and implementation of the provisions of the Directive in those national environments represents an additional risk factor.

Our long-term balance, performance and effectiveness of operation will depend primarily on the ability to create a **long-term, continuous growth of operation** coupled with the **optimisation** of all **principal cost generators** focusing on the cost of commodities and materials, labour costs, costs of logistics and the general costs of operation characterised as fixed costs. It follows that, due to the extent and ensuing significance of the impact of the Household Appliances Division and the Home Interior Division on company performance, a successful implementation of the abovementioned measures in relation to their core business activities is vital.

Key Projects and Objectives of the Gorenje Group in 2007

- 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.
- Continued **comprehensive restructuring of the organisation of the logistics, sales and after-sales service network**, and improving the efficiency of support systems in every way.
- **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

Actual 2005	Estimate 2006	Plan 2007	2006/2005	2007/2006
Consolidated Net Revenue (TEUR)				
1,014,669	1,073,634	1,201,170	105.8%	111.9%
Comparable Consolidated Net Revenue (TEUR) ¹				
988,770	1,073,634	1,201,170	108.6%	111.9%
Operating Profit Before Depreciation/Amortisation - EBITDA (TEUR)				
75,749	81,900	97,230	108.1%	118.7%
Operating Profit – EBIT (TEUR)				
26,956	32,362	44,108	120.1%	136.3%
Profit before tax (PBT) (TEUR)				

¹ Consolidated Net Revenue for 2005 does not include the revenue in the amount of EUR 25,899 thousand generated by the two Hyundai companies sold in 2006.

23,815	24,791	29,559	104.1%	119.2%
Net Profit (TEUR)				
21,368	22,128	23,035	103.6%	104.1%
Value Added (TEUR)				
264,381	274,799	299,501	103.9%	109.0%
Number of Employees as at Year's End				
10,509	10,530	10,853	100.2 %	103.1 %
Average Number of Employees				
10,492	10,380	10,736	98.9 %	103.4 %
Gross Operating Yield per Employee (EUR)				
99,419	106,179	113,954	106.8 %	107.3 %
Value Added per Employee (EUR)				
25,198	26,474	27,897	105.1 %	105.4 %
EBITDA Margin (as % of Gross Operating Yield)				
7.3 %	7.4 %	7.9 %	/	/
Return on Equity				
8.7 %	8.9 %	7.8 %	/	/
Assets (TEUR)				
816,068	896,967	928,144	109.9%	103.5%
Investment in Fixed Assets (TEUR)				
55,420	67,048	47,836	121.0%	71.3%
Equity (TEUR)				
245,101	250,186	337,058	102.1%	134.7%
Equity/Assets				
30.0%	27.9%	36.3%	/	/
Long-term Provisions (TEUR)				
57,336	60,247	63,787	105.1%	105.9%
Financial Liabilities (TEUR)				
259,689	339,806	267,685	130.9%	78.8%

- The consolidated net revenue from the **sales of products and services** generated by the companies of the Gorenje Group in 2007 is expected to reach **EUR 1,201.2 million**, which is EUR 127.5 million or **11.9 percent above** for 2006 estimate.
- 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 & Services Division.**

Consolidated Net Revenue by Division (000 EUR)

Division	Estimate 2006	%	Plan 2007	%	07/06
Household Appliances	916,755	82.9%	1,013,014	82.2%	110.5%
Home Interior	62,034	5.6%	65,742	5.3%	106.0%
Trade & Services	126,611	11.5%	154,249	12.5%	121.8%
Total Revenue – Divisions	1,105,400	100.0%	1,233,005	100.0%	111.5%
Interdivisional Sales	31,766		31,835		100.2%
Consolidated Net Revenue – Gorenje Group	1,073,634		1,201,170		111.9%

Net revenue from sales generated by the **Household Appliances Division** in 2007 is projected at **EUR 1,013 million**; projected structural share of the division in 2007 is set at **82.2 percent**.

- The planned **EBITDA** is **EUR 97,230 thousand**, which is **18.7 percent above** the 2006 estimate and represents 7.9 percent of the gross yield.
- **Targeted EBIT** in the amount of **EUR 44,108 thousand** accounts for 3.6 percent of the gross yield, which is an **18.7 percent increase** compared to the estimate for 2006.

- To sum up, the targeted **consolidated net profit of the Gorenje Group** is expected to reach **EUR 23,035 thousand**, which translates into net return on sales of **1.9 percent** for the Group. The planned **net profit of minority interests** has been set at EUR 4 thousand.
- The projected number of Gorenje Group employees as at the end of 2007 is **10,853 or 323 (3.1 percent) more** than at the end of 2006. For the most part, the increase will be due to the newly established companies **Gorenje aparati za domačinstvo, d.o.o.**, Valjevo, Serbia (**172** new employees) and Gorenje Tiki, d.o.o., Belgrade, Serbia (**70** new employees).
- The plan for 2007 also provides for **EUR 47,836 thousand worth of investment in tangible and intangible fixed assets**. The majority of the proposed investments in the amount of EUR 27,007 thousand will be undertaken by Gorenje, d.d., and will be aimed at **product development, expansion of production programs and technology** in all production programs. However, major investments are also planned by Gorenje Invest, d.o.o., (refurbishment of the business centre), Gorenje Tiki, d.o.o., Belgrade, Serbia (procurement of production equipment for the new plant), Gorenje Notranja oprema, d.o.o., Slovenia (construction of a new facility for the assembly of kitchen cabinets), Gorenje Zagreb, d.o.o., Croatia (construction of a warehouse facility in Zagreb).

Business Highlights – Gorenje d.d.

2005	Estimate 2006	Plan 2007	2006/2005	2007/2006
Net Revenue (TEUR)				
639,960	719,031	842,264	112.4 %	117.1 %
Operating Profit Before Depreciation/Amortisation - EBITDA (TEUR)				
44,481	51,932	58,614	116.7 %	112.9 %
Operating Profit - EBIT (TEUR)				
11,501	17,935	23,593	155.9 %	131.5 %
Profit before tax (TEUR)				
9,532	15,056	19,303	158.0 %	128.2 %
Net Profit (TEUR)				
10,213	15,100	15,403	147.9 %	102.0 %
Value Added (TEUR)				
145,666	155,154	167,439	106.5 %	107.9 %
Number of Employees as at Year's End				
5,630	5,448	5,434	96.8 %	99.7 %
Average Number of Employees				
5,674	5,863	5,575	103.3 %	95.1 %
Gross Operating Yield per Employee (EUR)				
114,825	124,545	152,973	108.5 %	122.8 %
Value Added per Employee (EUR)				
26,213	27,961	30,813	106.7 %	110.2 %
EBITDA Margin (as % of Gross Operating Yield)				
6.8 %	7.1 %	6.9 %	/	/
Return on Equity				
4.9 %	7.8 %	6.7 %	/	/
Assets (TEUR)				
568,446	618,979	651,462	108.9 %	105.2 %
Investment in Fixed Assets (TEUR)				
37,044	29,368	27,007	79.3 %	92.0 %
Equity (TEUR)				
210,558	206,826	286,065	98.2 %	138.3 %
Equity/Assets				
37.0 %	33.4 %	43.9 %	/	/

Long-term Provisions (TEUR)				
27,064	27,297	27,774	100.9 %	101.7 %
Financial Liabilities (TEUR)				
152,249	198,635	135,322	130.5 %	68.1 %

- Projected net revenue in 2007 is set at **EUR 842,264 thousand** representing a **17.1 percent increase** compared to the figure estimated for 2006 while gross profit (gross operating yield) is expected to reach **EUR 852,825 thousand** or **16.8 percent increase** compared to the figure estimated for 2006.
- Targeted **unit sales** of own household appliances production are set at **3,055,969 units**, which represents a **2.5 percent decrease** in comparison with the estimated volume for 2006 and is the result of a partial relocation of the production of refrigerators and freezers to the new plant in Valjevo, Serbia. By including the planned **unit sales volume** of the refrigerators and freezers manufactured at the Valjevo plant in Serbia, and the output of cooking appliances from the Mora Moravia plant in the Czech Republic, the sales of the Gorenje Group household appliances will nevertheless reach the targeted volume of **3,955,712 units sold (8.8 percent increase)** compared to the figure estimated for 2006).
- **EBITDA** is set to reach **EUR 58,614 thousand**, which is a **12.9 percent increase** in comparison with the 2006 estimate.
- **EBIT** is projected at **EUR 23,593 thousand** and has been set to exceed the estimated operating profit for 2006 by **31.5 percent**. It accounts for 2.8 percent of the gross operating yield, which is 0.4 percentage points more than in 2006.
- **Targeted net profit** in the amount of **EUR 15,403 thousand** accounts for 1.8 percent of the gross operating yield, which is **2.0 percent above** the estimated figure for 2006.
- The projected **number of employees** as at the end of 2007 is **5,434** or 14 (- 0.3 percent) less than the estimated number of employees at the end of 2006. This reduction is largely the result of corporate restructuring.
- Investments in the coming year will be **8.0 percent below** the 2006 estimate. The bulk of the proposed investments will be directed towards **product development, expansion of production programs** and **technology** in all production programs.

Conclusion

Sound performance in 2006, which was right on target or even above plan in all major categories, was the starting point for the development of our plans for 2007.

Once again we are planning double-digit growth, in line with the ambitious medium-term strategy adopted by Gorenje. The cost control, which has been identified as the key factor of performance and efficiency in mature industries, will largely depend on the steady growth of business operation – subject to cost optimisation. The keyword in 2007 is growth: organic growth as well as external growth. 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 point is, in 2007 eighty percent of household appliances will be manufactured in Velenje, ten percent in the Czech Republic and ten percent in Serbia. The main focus will be on the integration of our new plant for the production of refrigerators and freezers in Valjevo.

As far as external growth is concerned, the Management Board will be faced with decisions regarding strategic partnerships and takeovers of smaller manufacturing companies. At the General Meeting held in December 2006 the company owners effectively endorsed this strategic course by approving the increase of share capital. Shareholders can look forward to receiving the prospectus on the issue of additional shares in the first quarter of 2007 whereby the option of acquiring preferential shares will be provided to existing shareholders. The proposed increase of share capital is the basis of Gorenje's future growth.

The measures, which we have been implementing since the explosion of commodity prices, include a 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 and a continued restructuring of the organisation of the logistics- and sales network, and improved efficiency of all support systems.

In addition to our core business, in the coming year we will continue to diversify into the sectors where we can draw on Gorenje's wealth of experience, know-how, technology and production capacities. Furthermore, we will also concentrate on consolidating our position in the sectors of the environment and power generation. While it is true that the latter create no synergy with the core business, they do however generate superior returns on investment.

2007 will be selective when it comes to new investment projects. We will continue to develop new markets, products and services, in particular those with the potential for ensuring quality sales growth, improved market competitiveness, high-end product placement and higher value added, leading to improved performance in the future, while simultaneously seeking superior engineering-technological solutions.

In the opinion of the Management Board, a high volume of business activity, innovative products and cost control are the key to accomplishing our ambitious targets in 2007.

Gorenje, d.d., Management Board