

# SUMMARY

## OF THE BUSINESS PLAN FOR THE GORENJE GROUP AND GORENJE, D.D., FOR THE YEAR 2009



Velenje, Slovenia, December 2008

## INTRODUCTION

The preparation of the Business plan for the year 2009 was in the circumstances of **global financial crisis**, which has particularly **in the second half of the last quarter 2008 significantly influenced the cut out of the orders**, very **aggravating**. Specially the cut out or reduction of the major number of orders in November and in December regards to the planned volume has caused, that the estimation of the net profit was changing daily, and because of these **the net profit for the year 2008 deviates from the planned goals**.

Due to the matter of fact has been also **the presumptions, which are used in the process of preparation of the business plan, changed constantly**. The preparation of the every year plan is based upon the concept »bottom up«, that means that the business plan is the consolidated review of the parent company and of the daughter companies, which are also facing with the daily changes on the markets.

**The environment will still be changing**, but we will act in response with the **additional measures**, which are not yet consider in the plan.

## BUSINESS CLIMATE IN THE LAST QUARTER OF 2008

The nine months results of the listed peer companies, have already shown the signs of worsening of the business performance, while **Gorenje Group has concluded the performance for the first three quarters of 2008 successful and in the line with the planed goals**.

The fact is that the **Household appliances division** was already affected by the recession in the third quarter, namely in some **Western European markets** (Spain, Denmark, Norway, Finland, France, ...), but we were able to compensate these effects on the Eastern European markets. **In the last weeks of the year 2008 has been the circumstances of the crisis and of the recession fully transferred** also in some, for Gorenje very important, **East European markets** (Ukraine, Croatia, partly Russia, Czech Republic, ...). The effects of crisis has shown in **a higher uncertainty by the end consumers**, whom the household appliances is representing the **durable good**, which is the fist thing they renounce.

Additional has the crisis caused the **cancellations of consumer financing from the financial institutions side**. These was also the cause of **limitation of financing of the major retailer partners of Gorenje** in the markets of the Eastern Europe, and they consecutive started with the optimizing of the working capital (inventories and liabilities), what has been reflected and still will be reflected by the **orders called offs**. For the present **the basic mission of the financial institutions, regarding the financing of end consumers and economic entities, is not working effectively**. In the solving of these situation **the governments in several countries** are involved, but with not a great success in view of **huge liquidity shortage** on the market. Also Slovenia, with the country rating AA, has the planned emission of the bonds at the end of December, postponed due to the un-liquidity on the beginning of the second quarter 2009.

Beside the worsening of the **liquidity** by the several economic entities are the effects of the financial crisis reflecting on the oscillations of the exchange rates by some East European currencies (Serbian Dinar, Croatian Kuna, Czech Koruna, Polish Zloty, Hungarian Forint, ...), and these has an extra impact on the present business performance and is also aggravating

planning process for the year 2009, and because of these we will take special attention to the risk management.

Due to the **production over capacities** in the white goods industry and due to the **entering of the new – price aggressive competitors** is the Household division under much more stronger **pressure of further price decreasing**. The **prices of raw materials** are still very unknown, but we were able to dam them in the first nine months 2008 (strategic and term purchase of raw materials). **The trends on the commodity markets** and the last outlooks for the year 2009 are pointing out **the price decrease of the raw materials**, that will in some extent **neutralize the difficulties** from previous stated factors. By the preparation of the 2009 plan was the planned price level of the raw materials considered at the same level form the year 2008, and additional to these also the savings were included.

The effects of the global financial crisis also reflected on the worsening of the business conditions in the **Home interior and Trade and services division**. On the business area of the **ecology the orders for the disposal of the steel waste from the steel plant, ironworks and smelting-plant almost stopped**. In the same way also the steel prices on the metal exchange changed very much, and these was also additional impact on the worsening of the estimated results till the end of the year 2008.

## PRESUMPTIONS BY THE PREPARATION OF THE BUSINESS PLAN

In such a turbulent business conditions, it was necessary to act in a way of various scenarios for the Business Plan for the year 2009. In the same time we prepared different **activities**, to enable us to be **enough flexible**, to react on time in the case of material important **oscillations of orders**.

**The main focus of all measures** is to ensure the **positive free cash flow**, by the measures for preserving the most possible level of **revenue** regarding to the market conditions, by the cost management of all kind of **costs** and their adaption to the changes in sales, by decreasing of investments to the most need it level and by unfreeze assets, locked-up in working capital and with better turnover.

### Revenue

The companies of the Gorenje Group are planning to generate, in the circumstances of the global financial crisis, in the year 2008 by the sales of products and services **EUR 1,337,514<sup>1</sup> thousand** consolidated revenue. This is app. The level of estimated revenue for the year 2008. The planned revenue of the Gorenje Group is without taking into consideration acquired company ATAG Europe B.V., lower by 4.7 %. The company ATAG Europe B.V. is planning for the year 2009 the revenue in the amount of EUR 137,082 thousand (in the year 2008 were in the consolidated financial statements of Gorenje Group considered only ATAG revenue from the second half of the year in the amount of EUR 74,395 thousand).

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<sup>1</sup> This volume of activities already consider 16 % decrease regards to the first, November version of the 2009 business plan.

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

Division	Estimation 2008	Plan 2009	09/08
Household appliances	1,064,390	1,073,086 <sup>2</sup>	100.8
Household appliances ATAG	74,395	137,082	184.3
Household appliances without ATAG	989,995	936,004	94.5
Home interior	59,283	54,055	91.2
Trade and services	210,525	210,373	99.9
<b>Consolidated Revenue</b>	<b>1,334,198</b>	<b>1,337,514</b>	<b>100.2</b>
<b>Consolidated Revenue without ATAG</b>	<b>1,259,803</b>	<b>1,200,432</b>	<b>95.3</b>

The sales of household appliances from the own production is planned to be by 9.1 percentage lower regarding to the estimation 2008, that means in volume 2.4 million units produced in Velenje, Slovenia, 0.39 million units in Valjevo, Serbia and 0.38 million units in Mora Moravia, Czech Republic, or total 3.2 million units. In comparison with the plan for the year 2008, is the target volume 2009 regarding own production lower by 17 percent.

### COSTS OF BUSINESS OPERATION

In order to succeed and to assured the normal result by the lower sales in times of difficult conditions in the financial markets, we will carrying out several activities and measures.

The activities are containing several textual parts and they are relating to the **Cost management of:**

- **raw materials**, which will be able to reach only with the **favourable term purchase** of raw materials and also by the **further and faster development of the supply sources from Asia**, from the **other dollar based supply markets** and from the **SE European countries**;
- **services**, referring to the activities linked to the service management:
  - **costs of logistics**, will be in the major parts dependent on oil prices in the market and from the new negotiations with the performers of these kind of services,
  - **costs of marketing**, which will be limited only on activities of direct foster of sales,
  - **all general costs**, linked to the performing of administration activities;
- **work** – by better **organization of work** we will be able to reach **higher productivity and flexibility**, which will enable us within the frame of **social agreement better adaptation of the labour costs regarding to the level of orders**.

The Household division, in spite of high share of the costs of raw materials, which are entire variable costs and they are presenting in the cost structure over 60 %, has a **very high stake of fixed costs**. And that's why is successful **adaptation of costs to the range of production and sales, of key importance** to achieve the planned profitability of division.

<sup>2</sup> Household appliances division has without revenue form sales of the Group ATAG the planned volume of business activities lower by 5.5 % as from the estimated volume of business activities till the end of the year 2008.

## FREE CASH FLOW

Due to the very sharp liquidity situation in the financial markets, the criteria for the estimation by the business decision making will be very important and the impact to the cash flow and possibility of improvement.

Within the Gorenje Group at the same time with the costs optimization is also running several **projects**, which will enable faster **introduction of changes, process optimization, decrease of the working capital and complexity**. Outcomes of projects will be reflected in the planned **decrease of the working capital (inventories, receivables)**, what will contribute to the improvement of the free cash flow at least at the level of the planned net profit **and consecutive to the decrease of the financial liabilities level** of the Gorenje Group.

Gorenje has in the past years invested into development much more bigger portion of the revenue as competitors have, and due to this sharpened liquidity is able to make stronger reduction of investment cycle. Also the **investment policy** will be in the year 2009 **extra selective** and focused **exclusively in to the development of the new products and sales activities or just to those investments which are for the further development of the company the most need it**. The **planned share of the investments as % of the revenue** is lower than 3 %.

## THE POSSIBILITY OF THE BUSINESS PLAN REVISION AFTER THE FIRST QUARTER

**The year 2009** will be in many aspects **the turning year**. Also from the point of view of **the annual planning**. It happens, that some of the major European, but also global companies, will due to the **too many unknown facts**, which the **global financial crisis** is bringing, will not publish the official annual plans for the year 2009. By Gorenje we decided to **present one of the varieties of the plan**, which the details will be present further on. This variety of the business plan already includes defined decrease of the business activities volume and the fulfilment of some of the previous stated measures and in the case of further deepen of crisis, the additional measures will be need it for achievement of the planned objectives.

In advance we announce, that we will, if it will be need it and regards to the market conditions, to quarterly revised business plan, because of better **controlling of the current business performance** in the year 2009.

In spite of presented business circumstances, we by Gorenje are prepared to accept new challenges, which the year 2009 is bringing. We believe in further sound performance in line with the planned strategic goals and activities.

Velenje, Slovenia, December 2008

Gorenje, d.d.,  
The Management Board

## BUSINESS HIGHLIGHTS – GORENJE GROUP

2007	Estimate 2008	Plan 2009	2008/2007	Plan 2009/2008
<b>Consolidated Revenue (in EUR thousand)</b>				
1,293,438	1,334,198	1,337,514 <sup>3</sup>	103.2%	100.2%
<b>EBITDA (in EUR thousand)</b>				
89,444	94,200	101,269	105.3%	107.5%
<b>Operating profit - EBIT (in EUR thousand)</b>				
36,233	36,963	44,921	102.0%	121.5%
<b>Profit before tax - PBT (in EUR thousand)</b>				
29,400	24,547	19,894	83.5%	81.0%
<b>Income tax expense (in EUR thousand)</b>				
5,736	6,799	4,197	118.5%	61.7%
<b>Net profit (in EUR thousand)</b>				
23,664	17,748	15,697	75.0%	88.4%
<b>Free Cash Flow (in EUR thousand)<sup>4</sup></b>				
-32,222	-59,004	61,950	183.1%	/
<b>EBITDA Margin (as % of Gross Operating Yield)</b>				
6.8%	6.9%	7.5%		
<b>Assets (in EUR thousand)</b>				
999,715	1,250,434	1,203,989	125.1%	96.3%
<b>Investment in Fixed Assets (in EUR thousand)</b>				
74,106	81,588	38,970	110.1%	47.8%
<b>Equity (in EUR thousand)</b>				
350,985	394,754	404,135	112.5%	102.4%
<b>Equity/Assets</b>				
35.1%	31.6%	33.6%		
<b>Long-term provisions (in EUR thousand)</b>				
60,370	69,559	67,807	115.2%	97.5%
<b>Financial liabilities (in EUR thousand)</b>				
311,442	476,840	433,906	153.1%	91.0%

<sup>3</sup> 16 % decrease of the business activities regards to the optimistic scenario is already considered. Gorenje Group has without taking into account ATAG, the planned volume of business activities by 4.7 % lower as estimated volume till the year end 2008.

<sup>4</sup> Free Cash Flow = Net profit + Amortization + Current assets write-offs + changes of long-term provisions – Investments – Changes of NWC (Inventories + Receivables – Trade liabilities)

**BUSINESS HIGHLIGHTS – GORENJE, D.D.**

2007	Estimate 2008	Plan 2009	2008/2007	Plan 2009/2008
<b>Revenue (in EUR thousand)</b>				
831,273	767,027	727,629	92.3	94.9
<b>EBITDA (in EUR thousand)</b>				
53,724	51,595	49,528	96.0	96.0
<b>Operating profit - EBIT (in EUR thousand)</b>				
19,733	15,919	17,278	80.7	108.5
<b>Profit before tax - PBT (in EUR thousand)</b>				
15,339	15,510	7,798	101.1	50.3
<b>Income tax expense (in EUR thousand)</b>				
2,127	2,060	858	96.9	41.7
<b>Net profit (in EUR thousand)</b>				
13,212	13,450	6,940	101.8	51.6
<b>EBITDA Margin (as % of Gross Operating Yield)</b>				
6.3%	6.6%	6.8%	/	/
<b>Assets (in EUR thousand)</b>				
675,303	846,814	808,723	125.4	95.5
<b>Investment in Fixed Assets (in EUR thousand)</b>				
35,941	40,752	18,029	113.4	44.2
<b>Equity (in EUR thousand)</b>				
274,785	313,088	313,714	113.9	100.2
<b>Equity/Assets</b>				
40.7%	37.0%	38.8%	/	/
<b>Long-term provisions (in EUR thousand)</b>				
26,212	24,513	21,570	93.5	88.0
<b>Financial liabilities (in EUR thousand)</b>				
172,775	318,770	291,682	184.5	91.5

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