



Summary of the Strategic plan 2010 - 2013

Gorenje Group

Velenje, Slovenia, January 2010

Letter by the CEO and President of the Management Board

Gorenje is one of the keenest European home appliance manufacturers, headquartered in Slovenia (EU). We are focused on the development of technologically innovative, superiorly designed and energy efficient products; 85 percent of these are sold under our own brand. In addition to our core activity, we are developing auxiliary operations within our divisions of home interior, and ecology, energy, and services. Owing to our export oriented operations, boasting a tradition of nearly half a century, we have the status of the most internationalized among the Slovenian companies: over 95 percent of our total revenues are generated in foreign markets.

Gorenje is focused on the end consumer, therefore, reputation and brand recognition, which was evaluated by the independent European Brand Institute for the year 2009 to the brand value of EUR 458 million, are of key importance for our performance. In a mature industry where growth is moderate at best and reaping the economies of scale is a vital source of competitiveness, innovation is a must, as are distinctiveness, uniqueness, and a constantly evolving brand.

In order to deal successfully with constant changes introduced into our business, social, and political environment by the processes of globalization, consolidation within the industry, lifestyle trends, and particularly the global economic crisis, Gorenje must continuously improve. We are aware that in a situation of global business and economic hardship, performance of each of us, more than ever, takes on a sense of mutuality. Therefore, we are working together to respond promptly, flexibly, and efficiently to every new challenge we are faced with.

As a part of the turbulent global industry, Gorenje, too, is in a delicate situation. However, based on the analysis of the current condition, circumstances, trends, and potentials, we have laid out an ambitious Strategic Plan for the Gorenje Group for the period 2010 – 2013: relying on efficient management of business processes, it is setting up solid foundations upon which we shall build our future.

We have laid out the guidelines and policies that will ensure long-term stability of operations and development of both the parent company and the Gorenje Group as a whole, and I am convinced that our persistence, responsibility, and excellence in the implementation stage of the plan, driven by our common efforts, will lead us to the goals we are determined to attain: improving customer satisfaction and living up to the expectations of the shareholders, employees, and other stakeholders, in a socially accountable manner.

Mr. Franc Bobinac, MBA

CEO and President of the Management Board

Planned organization and composition of the Gorenje Group in 2010 and in the strategic period

- **HOME APPLIANCE DIVISION:** Production and sale of home appliances of own production, sale of home appliance products of complementary program by other manufacturers, supplementary program of consumer electronics and small home appliances, production and sale of heating equipment, tool making, machine building, and production of mechanical components.
- **HOME INTERIOR DIVISION:** Manufacture and sale of kitchen and bathroom furniture, bathroom fixtures, and ceramic tiles.
- **ECOLOGY, ENERGY, AND SERVICES DIVISION:** Energy engineering and environment protection, trade, engineering, agency services, and tourism.

In 2009 the structure of revenues by division was: 78.2% HA; 3.6% HI and 18.2% EES. HA Division remains core activity of the Gorenje Group also in the strategic period.

Starting points for strategic planning

The strategic plan is based on particular strategic plans devised by individual companies, further expanded with strategic policies and goals at the level of respective divisions and the Gorenje Group as a whole. Thus, we combined both **basic approaches to strategic planning:** bottom-up and top-down. The base period for strategic planning was the first year of the strategic period, i.e. 2010, since 2009 was not an appropriate base year due to the atypical operation urged by the economic crisis.

Consolidation was carried out at the level of particular divisions and at the level of Gorenje Group as a whole.

The strategic plan **does not include** the positive or negative **effects** of the following processes and activities:

- **disinvestment** of material and financial assets (property and activities of lesser to nonexistent strategic relevance, which have failed to deliver required synergy effects or returns);
- **mergers and acquisitions** (for a high-quality expansion of the volume of business activities in all strategically relevant segments of our operations, providing synergy effects, required returns, and increase, expansion, or a certain level of the use of know-how already acquired and of key importance to the long-term development of the Gorenje Group);
- **transfers of** (parts of) **business activities** from the parent company to low cost countries and
- **equity increase** at the parent company (as a necessary element of financing a stable medium- and long-term business growth of the Gorenje Group as a whole).

The projection of the Strategic plan is prepared under presumption of self-financing and a lower level of investments compared to the depreciation, and the free cash flow is mainly for redemption of debts, enabling higher financial stability of operation in the future. Investments are focused mainly for the development of the new products and are ensuring the competitive position and organic growth of sales according to the outlook. In the outlook the effects of the equity increase are not included. The company is planning to realise equity increase in the first half of 2010 and will be used as a source for M&A, restructuring of the current business activities and production and for the new activities within division of ecology and energy, providing that new projects create higher returns than the established average hurdle rate for investments within the Group.

Vision, mission, and key strategic policies of the Gorenje Group

VISION

To become the most **original design minded** home appliance **creator** devoted to **sustainable development** and able to **flexibly adapt** to **customer** needs.

Attainment of these goals shall be fully consistent with our **MISSION** of creating original, technologically perfected, superiorly designed, and user- and environmentally friendly products for a cosy and comfortable home. Staying aware of the key global trends and challenges, we shall develop rapidly growing fields with above-average returns. We shall be focused on increasing customer satisfaction while creating value for the shareholders, employees, and other stakeholders of the Gorenje Group companies, in a socially accountable manner.

In order to successfully pursue our vision and mission, our business activities shall comply with the following five **BASIC STRATEGIC POLICIES**:

- **boosting sales of upmarket** (high-end) products and services, and products and services with high profit margins within our core activity (home appliances and home interior), through systematic approach to **brand management, innovation, and design**;
- attaining **process excellence** and the resulting **cost efficiency** in all fields of our operations;
- increasing sourcing activities in **low cost countries or environments**, decreasing the share of **administrative labour costs** (work outside direct manufacturing) in added value of the core activity, and improving the **economies of scale** while reducing product complexity;
- intensive expansion to business segments with **higher returns** within the strategic activities;
- developing sales on markets where **growth rate** is at least twice as that of the average global **gross domestic product** growth.

An important aspect of the pursuit of our vision, mission, and strategic policies, are the **VALUES** championed throughout our operations and observed consistently when conducting our activities: honesty, openness, loyalty, creativity, and ambition. The changes to the strategic plan include the addition of two more values: **responsibility** and **efficiency**.

Summary of Gorenje Group human resource strategy

Key human resource strategy **policies** by 2013 are as follows:

- improving the efficiency of **management systems**;
- development of **global** managers, internal **entrepreneurs** and **talents**;
- managing the **employee reward system** and **labour costs**;
- increasing **value added** per employee;
- introduction of **differentiated human resource strategy** by applying the cost-benefit principle;
- introduction of **standardized HRM tools** at the Gorenje Group companies;
- enabling and stimulating **innovative culture environment**.

Key elements of business strategy, directly affecting the human resource management strategy:

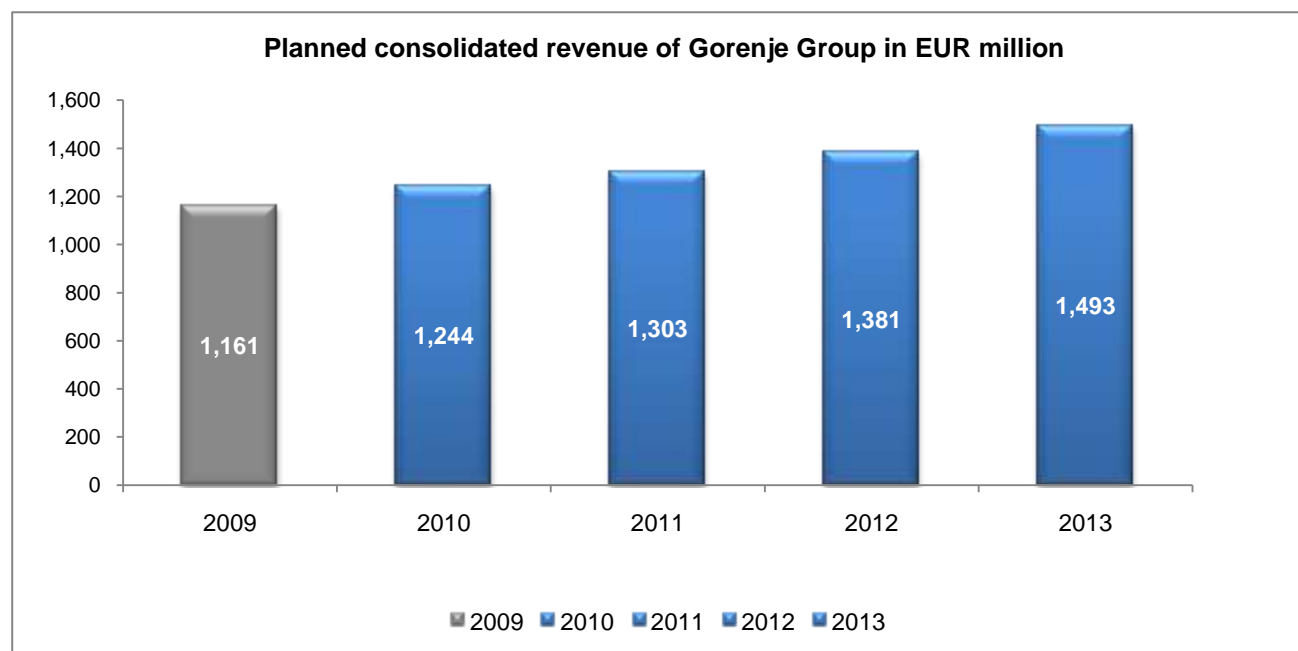
- reaching a breakthrough in the **value added** per employee (systematization of innovation, promotion of managers – entrepreneurs, key target for labour cost pre value added, growth of value added volume);
- Operations in an industry with extremely high **cost pressures** (managing labour costs, high level of administrative / overhead labour, relocation to low cost countries);
- **revision of management system** is of critical importance (clear, measurable goals, variable rewards, development of motivators, key personnel development, strategic role of human resource management field);
- long-term provision of **labour force flexibility**;
- short-term **counter-crisis measures** (strong increase in cost effectiveness);
- **operative excellence** of the human resource management field (development and use of efficient and standardized human resource management tools, more powerful IT and analytical support).

Gorenje Group dividend policy

Dividend policy of the Gorenje Group and the parent company in the years of the strategic period at hand will remain consistent with the policy effective before 2009. Thus, up to one third of Gorenje Group net income (profit) for each year will be allocated for dividend payment.

Key operative goals of the Gorenje Group by 2013:

- **Operating profit (EBIT)** at the level of at least 5 - 6 % margin;
- **Value added** per employee of at least EUR 40 thousand;
- Achieving higher basic **financial ratios** than competitor average;
- A positive **economic profit** (premium above weighted average cost of capital).



Home Appliance Division (HA)

Key assumptions for implementation of the Home Appliance Division Strategy:

- Growth of **business activity** above the average level of our competitors;
- Value growth through increase in **profitability** and **free cash flow**;
- Through high **focus on innovation** establish a **higher overall brand positioning**;
- **Business excellence** (in terms of clarity and efficiency of processes, quality of products and services, and excellence of after sales services);
- By creating **attractive value proposition to the customer** increase overall **stakeholder satisfaction** (employees / customers / suppliers / shareholders).

Performing of business activities related to:

- **products** (covering all price segments, establishing powerful product management, optimizing product platforms and codes, further development of complementary and supplementary program, product quality must follow the design story),
- **distribution** (Intensify cooperation with international retail chains and the entry into kitchen studios, making use of the internet as a sales channel and development of new markets),
- **pricing policy** (Increasing the average price index in Western and Eastern European countries, increasing the value market share in Western and Eastern European countries) and
- **promotion** (different sales stories by markets relative to market share and brand position, key differentiators - design, innovation and technological competency, comprehensive service for the retailers, quality after sales services).

Home Interior Division (HI)

The strategic key goal of the HI Division is to become the **leading** supplier of the **kitchen furniture** and one of the **top three** suppliers of **other three business programs** in the region of Western Balkan.

Division of Ecology, Energy, and Services (EES)

The field of **Ecology** is the core activity of the division EES, in which Gorenje Group holds a long-term strategic-business interest. Gorenje Group holds at least controlling interest in the companies of this field. **The strategic key goal** for ecology is to become the **largest** company offering a **comprehensive range of waste management services** in South-eastern Europe.

Companies of the **Energy** field are considered financial, portfolio investments in which Gorenje Group defines required returns, controlled by governance through Supervisory Boards and the appropriate ownership share, except for those fields of energy engineering that are developed by Gorenje within the parent company.

Companies (activities) of the **Services** field are seen as investments (equity participations) for which the return on invested capital (ROIC) must exceed the weighted average cost of capital (WACC) in the medium term.

Factors affecting forward-looking statements

This public announcement of the Summary of the Strategic plan for the period 2010 - 2013 contains “forward-looking” statements and information – that is, statements related to future, not past, events, within the meaning of the Securities Market Act and the Rules and Regulations of the Ljubljana Stock Exchange. These statements may be identified by words such as “expects,” “looks forward to,” “anticipates,” “intends,” “plans,” “believes,” “seeks,” “estimates,” “will,” “project” or words of similar meaning. Such statements include, among others, the financial goals and targets of parent company Gorenje, d.d., and Gorenje Group for future periods and future business and financial plans. These statements are based on current expectations and are subject to risks and uncertainties that could cause actual results to differ materially due to a variety of factors. A variety of factors, many of which are beyond Gorenje's control, affect Gorenje's operations, performance, business strategy and results and could cause the actual results, performance or achievements of Gorenje to be materially different from any future results, performance or achievements that may be expressed or implied by such forward-looking statements. These factors include, but may not be limited to the following: consumer demand and market conditions in the geographical areas and industries in which Gorenje Group operates, effects of currency fluctuations, competitive pressures to reduce prices, significant loss of business from major retailers, the possibility that customers may delay the conversion of booked orders into revenue or that prices will decline as a result of continued adverse market conditions to a greater extent than currently anticipated by Gorenje's management, the success in developing new products and marketing initiatives, developments in product liability litigation, progress in achieving operational and capital efficiency goals, the success in identifying growth opportunities and acquisition candidates and the integration of these opportunities with existing businesses, continued volatility and a further deterioration of the capital markets, progress in achieving structural and supply-chain reorganization goals. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those described in the relevant forward-looking statement as expected, anticipated, intended, planned, believed, sought, estimated or projected. Gorenje does not intend or assume any obligation to update or revise these forward-looking statements in light of developments which differ from those anticipated.