

Ambitious plan for the Year 2005 and solid business performance in the Year 2004

On its 18th regular meeting held on Dec. 16, 2004 the Supervisory Board discussed and approved the 2005 Business Plan of Gorenje d.d. and Gorenje Group. The Supervisory Board evaluated business operations in view of extremely difficult circumstances and assessed the results for the year 2004 as satisfactory. Considering the anticipated poor state of future economic environment, the business plan is conceived as ambitiously.

Business circumstances

Business year 2004 saw quite a few unexpected occurrences which considerably affected the economy of operations in Gorenje Group. Major challenge in the year 2004 came in form of unexpected huge increase in prices of strategic reproduction and raw materials, especially steel plates and plastics. Other negative elements included relatively poor economic environment in developed EU Member States, reintroduction of customs duties for our products in certain West Balkan markets, union pressures on salary increments in Slovenia, weak dollar against euro, aggressive appearance of Asian competition to the European markets, relatively high domestic inflation, and early fixation of tolar to euro. All these negative tendencies made the year 2004 undoubtedly one of the most challenging periods in Gorenje Group history. Only very wide range of prompt measures provided partial neutralization of these unplanned negative movements in business environment, so that it is now possible to estimate that business operations in 2004 were rather solid in spite of the circumstances.

In regard to the conditions of business operations in 2005 no substantial improvements are expected. Major uncertainty will still come from prices of strategic raw materials, especially steel plate, other metals, plastics, and components made from these raw materials. Business Plan includes anticipated increase of cost prices as they may be currently assessed in respect of forecast trends at supply markets, but it is worth mentioning that the reliability of these forecasts is rather poor. Plans anticipate stabilization of supply markets during the first quarter of 2005, although different movements are also possible, especially in relation to the economic activities of China and other Asian countries, as well as in respect to the oil price movements.

Second major element affecting the realization of planned business results in the year 2005 is the implementation of EU Waste Electrical and Electronic Equipment Directive in regard to its recycling, which becomes executable in August 2005. This Directive defines that manufacturers of household appliances are responsible for the recycling

of all household appliances, both those sold prior the implementation of the Directive, and those sold following its execution. Since the provisions of the Directive are somewhat vague in certain key aspects, and the prevailing number of Member States still has not approved the relevant executable legislation, it was impossible to reliably estimate the scope of costs for Gorenje Group, associated with the compulsory recycling of appliances. In any case Gorenje will exercise every effort to transfer recycling costs as much as possible to the buyers of products, but this will probably be impossible to attain completely. To what extent and under which terms and conditions this will be feasible is impossible to forecast in this moment due to the already mentioned ambiguities related to the implementation of the Directive at particular markets.

In view of the risk elements listed above the following groups of activities are expected to be crucial for the realization of planned business results in the year 2005:

- quality increase of sales in terms of relatively poor economic activities and severe competition on key markets, especially by the introduction of new products and related marketing activities;
- continued development of new generation of refrigerator and freezer appliances, and implementation of the first stage of new appliances belonging to this generation to the key markets;
- management of supply prices of reproduction material, raw materials, and components by searching alternative supply channels and sources and rationalization of existing ones;
- limited investment activities, concentrated mostly on investments in development of new products and services, new technologies, development of new markets, erecting production facilities outside Slovenia, and selective diversification of business activities;
- increasing the exploitation rate of technical and technological capacities, increasing work productivity, and increasing business effectiveness by adequately organized business processes and cost rationalization;
- continued internal consolidation of all divisions within the Group and increasing the effectiveness of their operation;
- management of business and financial risks and operational risks.

Gorenje Group business plan for the Year 2005, according to IFRS

Some key items in figures:

in bn SIT	A 2003	E 2004	Plan 2005	04/03	05/04
Consolidated net revenues from sales	196.2	211.9	235.2	108.0	111.0
EBITDA	16.3	17.5	18.6	107.5	106.2
PBT	4.8	5.7	5.6	119.6	98.2
Net profit for the Year	4.8	5.3	4.8	109.3	90.6
Average Number of employees	9,146	9,478	10,581	103.6	111.6

- Gorenje Group companies are planning to realize the sale of goods and services in a forecast figure of SIT 235.2 bn of **consolidated net revenues from sales** for the year 2005, which represents SIT 23.3 bn (11.0%) more than the year 2004 estimates. Important impact on the growth of consolidated net revenues from sales (7.0 percentage points) is associated with the takeover of Mora Moravia a.s., whose plans for the year 2005 including subsidiaries amount to SIT 14.8 bn of consolidated net revenues. In current business plans the company will have been considered as a member of the Group since January 2005 onwards. On July 1, 2004 Gorenje, d.d., signed a contract for the acquisition of 100% ownership share of Mora Moravia, a.s. For the final realization of the acquisition, Gorenje is waiting for the relevant approval from the Czech competition protection office.
- Gorenje Group consists of five business divisions, with Household Appliances division being the basic activity which in the year 2004 realized 79.6% share of net revenues from sales. In the year 2005 the Household Appliances division plans to realize SIT 187.3 bn of net revenues from sales, which is 79.6% share in the structure of total sales of all divisions, while 20.4% of net revenues from sales will be realized by other divisions: 7.5% share Home Interior division, 4.2% share Thermal and Machinery Equipment, 7.3% share Services, and 1.4% share Energy and Environment Protection division.
- **Earnings before Interest, Taxes, Depreciation and Amortization (EBITDA)**, calculated as profit from operations, increased by depreciation and amortization costs, representing a measure of cash flow generated by operations, is planned at SIT 18.6 bn, which is 6.2% more than estimated for 2004 and 7.5% more than in 2003 (SIT 16.3 bn).
- **Profit before taxes** is planned at SIT 5.6 bn, which is 2.4% of gross operating yield structure and 1.8% less than the 2004 estimation.
- The Gorenje Group is planning to realize SIT 4.5 bn of **consolidated net profit** in 2005, which is 90.6% of the 2004 estimation. The main reason for lower planned net profit is first of all increased taxes from the profit due to the changed tax legislation in Slovenia.
- Gorenje Group plans 10,589 **employees** at the end of 2005, which is 1,103 (11.6%) employees more than at the end of 2004. The increase in the number of employees is mainly the consequence of merging Mora companies in the Gorenje Group (1,195 employees).
- Planned investments in tangible assets and intangible long-term assets for the year 2005 amount to SIT 11.3 bn. Largest part of investment amounting to SIT 6.4 bn is related to Gorenje, d.d. The planned investments are intended for new products, technology modernization in all production programs and for the sales network development.

- The main company **Gorenje, d.d.**, is planning to realize the sale of goods and services in a forecast figure of SIT 153.6 bn of **net revenues from sales** for the year 2005, which represents 6.4% more than the year 2004 estimates.
- **Production** of household appliances from the own production is planned at volume of 3.1 m pieces, which is 1.9% more than the 2004 estimates. With additional planned production of the company Mora Moravia, will Gorenje Group produce 3.5 m pieces of large household appliances, which represents 14.8% increase than the 2004 estimates.
- The Gorenje, d.d. is planning 5,312 **employees** in 2005, which is 192 employees less (3.5%) than the estimated for 2004.
- **Investment** level in the following year shall be significantly lower than in preceding years, amounting to SIT 6.4 bn.
- The company Gorenje, d.d., is planning in the year 2005 to buy 466,150 Treasury shares from the Slovenska odškodninska družba, d.d. (Compensation fund), on the option contract base.

Conclusion

The Gorenje Group business results for 2005 are planned in line with the strategic guidelines adopted by the Group. By realizing these plans the Gorenje Group will continue to contribute to further growth and a long-term realization of its strategic policies to increase its competition level and to improve its capability of meeting its obligations towards all partakers involved in a socially responsible manner.

Bearing in mind the exceptionally adversary and unpredictable business environment in 2005, the Board of Directors finds the business plan for 2005 quite ambitious, yet attainable. The Board will carry out all business measures that will contribute to the accomplishment of planned business results, within the framework of actual business conditions, making every effort to increase the long-term capability of growth, development and business success of the Gorenje Group.

The Management Board of Gorenje, d.d.

In Velenje, on December 16th 2004