

Ambitious plan for the year 2006 and successful business operations in 2005

On its 25th regular meeting held on Dec. 16, 2005 the Supervisory Board of Gorenje, d.d., discussed and approved the 2006 Business Plan of Gorenje, d.d., and Gorenje Group. The Supervisory Board reviewed the business results for the year 2005 and the forecast till the year end, and given the extremely difficult business circumstances assessed them as successful since the all the major categories of the 2005 Plan were accomplished, and the extent of business operations has been approaching the figure of EUR one billion. In view of the anticipated poor state of economy next year, the Business Plan for the year 2006 is conceived very ambitiously.

Business environment

Planning business operations for the new business period is always based on thorough analysis of events and features of current business year, along with considerations and anticipated future circumstances, strategic policies, and expectations of owners and other company partakers. Preparation of 2006 Business Plan was extremely difficult due to important changes that have happened in the economic environment, and that are expected to continue in the year 2006, but whose scope and extent is extremely difficult to assess reliably because of their high unpredictability.

According to the estimations by expert analysts no major changes are expected in the business environment in the year 2006. The largest uncertainty is still expected to come from prices of strategic raw materials, especially steel plates, other metals and plastics, and components manufactured from these materials. Business Plan includes the anticipated growth of purchase prices which can be currently estimated in view of expected trends upon supply markets. However, the reliability of such forecasts is highly doubtful considering the uncertain circumstances.

Second major element affecting the realization of planned business results in the year 2006 is the implementation of EU Waste Electrical and Electronic Equipment Directive (WEEE) in regard to its recycling, which became executable in Slovenia in August 2005. This Directive defines that manufacturers of household appliances are responsible for recycling of their products, thereby inflicting considerable extent of extra operational expenses. It is, however, impossible to forecast reliably the actual impacts of the implementation of the Directive in this moment due to the existing ambiguities related to the national legislations in the countries of our operations and the actual date of implementation of the Directive at particular markets.

In view of the risk elements in the year 2005 listed above and their forecasts for the year 2006, the following groups of activities are expected to be crucial **for the realization of efficient business operations** in the year 2006:

- **Quality growth of sales and its increased profitability** in terms of balanced occupation of all production capacities and realization of high integral coverage.
- Continued **development of new products and services**, resulting in greater market competitiveness, higher pricing levels, realization of higher added value and consequently better financial returns, with parallel activities on the development of technical and technological solutions for reducing manufacturing and distribution costs of existing products.

- Continued **optimization of supply chain**, and search for alternative and/or new supply channels and sources to improve pricing competitiveness of our products.
- Enhancement of **manufacturing productivity and efficient execution of production activities** by evenly balanced occupation of production capacities during the entire business year, with the purpose of attaining economical and cost effective production.
- Continued **internationalization of production capacities** (realization of *Valjevo* Project for the manufacture of refrigerator-freezer appliances, and continuation of *Russia* Project for the manufacture of laundry washing and drying machines), for obtaining the status of local manufacturer, thereby optimizing tax and customs duties, with parallel reduction of labour costs and activation of supply sources in the area.
- Comprehensive **rationalization in the organization of logistic, sales and after sales activities** of Gorenje Group, with enhanced efficiency of support functions in all their segments.
- **Selective investment activities** and their consistent limitation to the planned extent; New investments to be concentrated mostly on new products and new markets.
- Increased efficiency in the **management of working capital**, especially the extent of receivables and inventories, as the extent of working capital directly affects the level of borrowing and consequently the costs of financing Gorenje Group.
- **Efficient management of all kinds of risks** that the Company is exposed to in its operations, resulting from high volatile level of business environment the Company has been operating in, with special emphasis on credit exposures (payments), especially at risky and less liquid markets.

Gorenje Group Business Plan for the year 2006

Summary of Profit and Loss Statement ¹

in million SIT	2004	Estimated 2005	Plan 2006	05/04	06/05
Consolidated net revenues from sales	213,589	238,015	243,244	111.4%	102.2%
Gross operating yield	222,853	243,323	248,094	109.2%	102.0%
EBITDA	17,049	18,626	21,322	109.3%	114.5%
Profit from operations	6,203	6,820	8,359	109.9%	122.6%
Total PBT	5,464	5,664	6,118	103.7%	108.0%
Net profit for the Year	4,915	4,961	5,079	100.9%	102.4%
Number of employees (year end)	9,568	10,493	10,406	109.7%	99.2%

- **In the year 2006** Gorenje Group companies are planning to realize the **sale of goods and services in a forecast figure of SIT 243,243.8 million of consolidated net revenues from sales** which represents **SIT 5,228.4 million (2.2%) more** than the year 2005 estimation. Planned figures for the year 2006 are not entirely comparable with the figures from the 2005 estimation due to the disposal of both Hyundai companies in July 2005. Considering only the comparable figures, the planned extent of sales for the Group is increased for **SIT 11,436.2 million, or 4.9 %**.

Comparison of data for the year 2005 with the same data from the year 2004 was achieved by withdrawing the net revenues from sales of the company Mora Moravia,

¹ *Due to important changes in equity structure of Gorenje Group the absolute figures for the displayed years are not completely comparable. Calculation of comparable figures is given in the text below.*

Czech Republic for the year 2005 (the company joined the Gorenje Group on Jan. 01, 2005), and by the withdrawal of net revenues for the companies Hyundai operating in Croatia and Serbia and Montenegro, in the year 2004 and 2005 (disposal of these companies in July 2005).

Comparison of data for the year 2006 with the comparable data for the year 2005 net revenues from sales were reduced for the amount of sales realized in the year 2005 by the companies Hyundai, sold during the year 2005.

Comparable data for net revenues from sales and gross revenues from operations (in million SIT)

Comperison	2005	2004	2005/2004
Net revenues from sales	217,411	203,144	107.0%
Gross operating yield	222,718	212,408	104.9%
Comperison	2006 Plan	2005	2006/2005
Net revenues from sales	243,244	231,808	104.9%
Gross operating yield	248,094	237,115	104.6%

- Operations of Gorenje Group will be associated in accordance with corporate organization of the Group in three Divisions: **Household Appliances, Home Interior, and Trade and Services.**

Consolidated net revenues by Divisions (in million SIT)

Division	Estimated 2005	Plan 2006	2006/2005
Household Appliances	212,885.6	219,263.5	103.0%
Home Interior	15,515.4	16,411.0	105.8%
Trade and Services	16,488.2	14,545.2	88.2%
Total revenues all divisions	244,889.2	250,219.7	102.2%
Internal sale among divisions	-6,873.8	-6,975.9	101.5%
Consolidated net revenues for the Group	238,015.4	243,243.8	102.2%

In the year 2006 the **Household Appliances Division** plans to realize **SIT 219,263.5 million** of net revenues from sales. The planned **share in the structure** of total sales of all divisions in the year 2006 would thus amount to **87.6%**.

- **Earnings before Interest, Taxes, Depreciation and Amortization (EBITDA)**, calculated as profit from operations, increased by depreciation costs and net changes in long-term provisions, representing a rough estimation of cash flow generated by operations, is **planned at SIT 21,321.6 million**, which is **14.5% more** than the 2005 estimation and represents **8.6%** share in the structure of gross yield from operations.
- **Planned profit from operations before taxes** of **SIT 6,119.4 million** represents 2.5% of gross operating yield structure and **supersedes** the 2005 estimation for **9.4%**.
- The 2006 plan for Gorenje Group includes **SIT 5,079.3 million** of **consolidated net profit**, which is 2.1% in net returns of Group sales. **Net profit for the minority interest** is planned at **SIT 4.7 million**.
- A total number of **10,406 employees** are planned in Gorenje Group at the end of 2006, which is as much as **87 employees (0.8%) less** than at the end of 2005. The decrease in the number of employees is mainly the consequence of rationalization measures implemented by the Group within the cost optimization project carried out jointly with the consultancy company A.T.Kearney, while the increase results from the commencement of operations in the Valjevo subsidiary **Gorenje aparati za**

domaćinstvo, d.o.o., Valjevo (Gorenje Household Appliances Valjevo Ltd.) - 250 employees at the beginning of operations).

- In the year 2006, a total of **SIT 16,224.9 million** is planned for investments in **tangible assets and intangible long-term assets**. Largest part of investment, amounting to SIT 6,610.0 million, is planned to be realized by the Gorenje, d.d., company, intended for research and development of new products, technological improvements, expansion of sales network, and the amount of SIT 4,707.2 million is planned for the new company *Gorenje aparati za domaćinstvo, d.o.o., Valjevo* for the construction of new factory for the manufacture of the line 500 mm free-standing refrigerator-freezer appliances.

Parent Company Gorenje, d.d., Business Plan for the year 2006

Summary of Profit and Loss Statement

in million SIT	2004	Estimated 2005	Plan 2006	05/04	06/05
Net revenues from sales	144,150	152,792	168,486	106.0 %	110.3 %
Gross operating yield	147,297	155,736	170,620	105.7 %	109.6 %
EBITDA	10,315	11,128	12,485	107.9 %	112.2 %
Profit from operations	3,006	3,699	4,165	123.1 %	112.6 %
Total PBT	2,707	2,744	2,982	101.4 %	108.7 %
Net profit for the Year	2,707	2,725	2,455	100.7 %	90.1 %
Final number of employees	5,600	5,561	5,393	99.3 %	97.0 %

- **Net revenues from sales** and consequently all other profit and loss items of the parent company **are not entirely comparable to the business year 2005**, because starting with Jan. 1, 2006 we plan to transfer the consignment businesses for transport machinery, medical equipment, and heating equipment from the GTI, d.o.o., subsidiary to the parent company. Plan for the year 2006 includes **SIT 168,485.8 million** of net revenues from sales, which is **10.3% growth** compared to net revenues from sales in the year 2005. Of these, **SIT 135,236.0 million** or **80.3%** of net revenues from sales refer to the sales of large household appliances by particular production lines, and the plan includes **1.9% growth of sales in terms of value** compared to the year 2005 sales.
- **Manufacture of household appliances of own production** is planned at **3,065,632 units**, representing **2.5% growth** compared to the 2005 production estimation. Including the planned production on Mora Moravia and Valjevo locations, Gorenje Group plans to manufacture **3,513,674 units of large household appliances** in the year 2006, representing **3.8% growth** in comparison with the year 2005.
- **Earnings before Interest, Taxes, Depreciation and Amortization (EBITDA)**, is planned at **SIT 12,485 million**, which is **12.2% more** than the 2005 estimation.
- **Planned profit from operations before taxes** of **SIT 2,982.4 million** represents 1.7% of gross operating yield structure and **supersedes** the 2005 estimation for **8.4%**.
- The 2006 **planned net profit from operations** amounts to **SIT 2,455.4 million**, which is 1.4% share in gross operating yield and represents **9.9% decrease** compared to the year 2005 estimation. The major reason for this decrease is the higher planned extent of tax on profit.

- A total number of **5,393 employees** is planned **at the end of 2006**, which is as much as **168 employees (-3.0%) less** than the estimation for the end of 2005. The decrease in the number of employees is mainly the consequence of rationalization measures in the organizational structure and consequent transfer of consignment business operations from the *Gorenje GTI, d.o.o.*, subsidiary (45 employees).
- In the year 2006 a total of **SIT 6,610 million**, planned for investments **in tangible assets and intangible long-term assets**, is considerably **lower** than in the preceding several years. Major portion of investments is intended for the **research and development of new products and technologies** in all production ranges.
- In accordance with the forwards agreement, in the year 2006 the Company plans to **purchase 466,150 own shares** from the National Compensation Agency (*Slovenska odškodninska družba, d.d.*)

Conclusion

The Gorenje Group financial figures for the year 2006 are planned **in accordance with the adopted Gorenje Group strategic guidelines and policies**. By realizing these plans in the year 2006 Gorenje Group will continue its long-term realization of strategic objectives and policies in order to increase its competitive level and in a socially responsible manner maintain the capacity to satisfy all its obligations towards all partakers involved.

Notwithstanding the adverse and unpredictable business environment in 2006, the Management Board is confident to be able to carry out all planned tasks, and **by ambitious and goal-oriented activities accomplish the set business objectives** for the following year despite the challenges it is expected to bring along, making every effort **to realize the long-term strategic policy** of the Gorenje Group.

**The Management Board
of Gorenje, d.d.**