

WHIRLPOOL CORPORATION: ENTERING SLOVAKIA

This case study was prepared by Sonia Ferencikova, Associate Professor of International Business, University of Economics, Bratislava, and Vladimir Pucik, Professor, IMD, Lausanne, as a basis for class discussion rather than to illustrate either effective or ineffective handling of a business situation.

All investors will doubtless be fully aware that the economy of Czechoslovakia remains in a period of transition. As a result, it is difficult to anticipate future conditions which may have a significant impact on Tatramat's operations, including the cost of labor, the cost and availability of energy and the rate (the possibility of convertibility) of the Czechoslovak crown, as well as future legislative developments particularly in the labor and tax areas.

CS First Boston, Prague, 1991

Throughout the second half of 1991, the members of the board of directors of Tatramat--the leading Czechoslovak manufacturer of washing machines, located in Poprad, the winter sport center--often sat in the office of managing director Martin Ciran. They paid little attention to the beautiful scenery of the High Tatra mountains, which were clearly visible through the panoramic office windows. They heatedly discussed how to proceed in their negotiations to form an alliance with a company about 50 times their size: the US-based Whirlpool Corporation.

About 1,000 kilometers away, a small cosmopolitan team of Whirlpool managers led by Han Arets, the managing director for the Eastern European region, the Middle East and Africa, met in the little, northern Italian town of Comerio, the site of Whirlpool's European headquarters. The team had spent a number of months examining all the options for expanding into Eastern Europe. To remain in step with Whirlpool corporate strategy, they soon had to decide whether or not to proceed with the Tatramat deal.

Potential Partners

Whirlpool Corporation: Global Expansion

Based in Benton Harbor, Michigan, the Whirlpool Corporation, parent company of Whirlpool Europe, is one of the world's leading manufacturers of large home appliances: washing machines, refrigerators, and kitchen ranges (*refer to Exhibit 1*). Whirlpool's growth, from basically a US-based manufacturer to one of the world leaders, was the result of a globalization strategy formulated in the mid-1980s by David R. Whitwam, the CEO of Whirlpool Corporation since 1986.

In the 1980s, four US manufacturers, including Whirlpool, accounted for almost all large home appliance sales in the US, a market where about 40 million appliances are sold annually. Each was a tough competitor fighting for greater sales in a market expected to grow only a little in the decade ahead. Unable to find growth potential in the US appliance market, Whirlpool embarked on global expansion (*refer to Exhibit 2*). CEO Whitwam's vision was rapid global expansion through acquisitions, in effect, to forge a truly global competitive advantage by integrating the strengths of various international operating entities. In his words, "We want to be able to take the best capabilities we have and leverage them in all operations worldwide."

The beginning of Whirlpool's European operations dated back to the 1986 acquisition of a 65% interest in Aspera, a subsidiary of Fiat S.p.A., for US\$161 million (Whirlpool acquired full ownership in 1990). Then, after three years of negotiations, Whirlpool paid \$361 million for a 53% interest in a struggling major domestic appliance division of N.V. Philips, which was transformed into a joint venture company, Whirlpool Europe B.V. (WEBV). In 1991, Whirlpool became the sole owner for an additional \$610 million. Within five years of its initial entry, Whirlpool had thus become the third biggest household appliance producer in Europe. Holding approximately 10% of the European market, Whirlpool was only behind Europe's number one--the Swedish company AB Electrolux--and the German joint venture Bosch-Siemens Hausgeräte GmbH (*refer to Exhibits 3 and 4*).

At the time of the acquisitions, competitive pressures in the West European appliance market were growing. Compared to North America, where operating margins were reaching 6-7%, European margins in 1990 reached only 2.9%. WEBV's European strategy was to rationalize manufacturing by creating "focused" factories that would produce a single product line for multiple markets. Whirlpool's factories were expected to be low-cost production centers, producing a minimum of 600,000 pieces of home appliances per year. Economies of scale would provide a competitive advantage.

Concurrently, WEBV began to explore opportunities in regions made newly accessible by the fall of the Berlin Wall and the wave of revolution in Central and Eastern Europe. Han Arets recalls:

In refrigerators, we were confronted with highly saturated markets with high penetration. But in washing machines, to some extent, the penetration of automatic washing machines, the ones we were making in Western Europe, was still very low. We figured that if there was an opportunity, it was probably going to be more in washing machines than in refrigerators.¹

However, the political and economic development of Central and Eastern Europe was uncertain. And it was unclear how best to operate in the new markets. Exporting, joint ventures, acquisitions, greenfield investments--Whirlpool evaluated the many arguments for and against each one.

Whirlpool first contacted washing machine manufacturers in Hungary and Poland. In Central and Eastern Europe, Hungary offered the most attractive environment for foreign investment. However, bringing an inefficient local firm even close to Western European productivity standards would require massive lay-offs; Whirlpool's management feared that this would hurt the company's image in the region. So, Whirlpool moved its negotiation with the Polish appliance conglomerate Polar to center stage. After all, Poland was by far the largest market in Central Europe.

During most of 1990 and in 1991, Arets and his team tried to reach a joint venture agreement with Polar. A letter of intent was signed early in the negotiations, but the discussion eventually bogged down. Polar's management, it seemed, was opposed to losing its independence--they were confident they could survive without a foreign partner. At Whirlpool, some managers also feared undue influence from the strong "Solidarity" labor union. The negotiations with Polar had just about reached a stalemate when the investment bank CS First Boston approached Whirlpool with a proposition--a Slovak washing machine manufacturer called Tatramat wanted to explore a possible collaboration.

Tatramat: Threshold of a New Era

Tatramat's head office and its sole manufacturing plant sits in a mountainous region near the High Tatras in the Slovak town of Poprad, some ten kilometers south of the Polish border, 150 kilometers west of the border with the Ukraine and about 100 kilometers north of Hungary. Poprad itself is located on the main east-west highway that traverses the lengths of Slovakia and the Czech Republic, on a north-south highway that provides access to Poland, and on the main rail line between the Slovak capital Bratislava and Ukraine. An international airport is also close by.

The predecessor of modern Tatramat was founded in 1845 to produce nails and currycombs for grooming horses. After World War I, during which the output of the factory had shifted to military supplies, the company refocused on production of domestic kitchen goods: utensils, enamel-coated kitchenware, and galvanized steel containers. In the period shortly after World War II, all Slovak industrial firms including Tatramat were nationalized and put under the state control.

¹ S. Ferencikova and H. Brechbuhl. *How to Enter Emerging Markets in Central and Eastern Europe*. William Davidson Institute, University of Michigan, 1998.

In the following 40 years, the state-owned Tatramat expanded to produce zinc-coated and painted barrels, water heaters, electrical ovens, and finally, automatic washing machines. In 1969, Tatramat began producing automatic top-loading washing machines (under license with VIVA of France), and in 1972, front-loading washing machines in cooperation with the Yugoslav company Elektronska Industrija.

In the late 1980s, the penetration level for washing machines in Czechoslovakia was 58%. It was expected to rise to Western European levels (approximately 90%) within the decade. As the first major manufacturer of automatic washing machines in Czechoslovakia, Tatramat established a dominant market position and brand recognition. It was producing about 200,000 washing machines each year: 100,000 top-loading washing machines (the so-called MINI, of which 95% was for the Czechoslovak market) and 100,000 front-loading machines (25% for the Czechoslovak market; 75% for export primarily to Poland, Bulgaria, Yugoslavia, and East Germany, only 5,000 units for Western markets). Tatramat products accounted for 88% of the automatic washing machine market in Czechoslovakia. Its closest domestic competitor, Romo Fulnek, produced approximately 15,000 automatic washing machines per annum for the domestic market only. (However, Fulnek's yearly production of non-automatic and semi-automatic washing machines reached 250,000 to 300,000 units).

Tatramat's washing machines were designed to satisfy the requirements of the Czechoslovak market--at that time. Western brands were often too expensive, too complicated, or simply too large to appeal to the average local buyer. Tatramat also benefited from a well-established distribution and service network in Czechoslovakia. This, along with a high penetration of the brand, meant lower distribution costs, lower servicing costs, and lower advertising costs relative to imported brands.

In 1989, just prior to the Velvet Revolution, Tatramat's managing director Ciran (appointed to his position in 1986) began looking for partners to supply technology for next-generation top-loading washing machine manufacturing:

From 1988 on, state export subsidies covering the difference between the domestic production cost and prices on export markets [were] gradually abolished. This hit exports of our main export article--front-loaded washing machines--very hard. We realized that our products [were] not competitive on an open European market. We therefore concentrated on top-loaded washing machines, because our main customers were all interested in top-loaders and we were able to focus the production on only one, not two products. Obviously, top-loaders and front-loaders were produced by different technology... First, we considered a purchase of technology or a licensed production. In 1989, we began to look for foreign partners to supply technology for top-loading washing machine production. We received bids from Philips, Electrolux, Thompson and Zanussi.

In 1990, Tatramat was the largest producer of automatic washing machines in Czechoslovakia (202,500 units in 1990) and domestic water heaters (146,900). It's sales reached 962 million Czechoslovak crowns (Kcs) or about \$48 million at the then exchange rate. The operating profit was about Kcs65 million (*refer to Exhibit 5*). Washing machines accounted for approximately 75% of Tatramat's revenues, water heaters, 20% (*refer to Exhibit 6*). The company derived about

12% of its revenues from exports of washing machines and water heaters to various countries in Central and Eastern Europe. It employed just over two thousand people.

New legislative acts, introduced soon after the 1989 Revolution, enabled the transformation of state-owned companies such as Tatramat into joint stock companies with 100% state ownership, to prepare for a subsequent privatization. Tatramat became the second Slovak firm to take advantage of this opportunity. In May 1990, Tatramat employees elected the pre-1989 management team, headed by Ciran, to lead the new state-owned joint-stock company.

In late 1990, Tatramat's "new" management retained CS First Boston to represent them in another search for an alliance partner. Not long after Whirlpool's acquisition of Philips, Whirlpool emerged as another potential suitor. But unfortunately, since none of Tatramat's top managers spoke English, direct communications were difficult.

Getting to Know Each Other

Whirlpool: Exploring Low Risk Alternatives

The possibility of gaining new markets in Central and Eastern Europe attracted Whirlpool's top management. Generally, analysts expected the demand for major consumer appliances to increase gradually in Czechoslovakia and its neighboring countries as the region re-oriented towards a market economy. According to Arets:

We wanted to get a foothold in Central and Eastern Europe. We wanted to introduce our Whirlpool brand there, and we saw the opportunity to export from existing Western European factories into Central Europe. But, we also [seriously] considered the possibility of manufacturing operations there: to build a manufacturing capability in the region to serve the region, but also, given the fact that the labor costs there were lower, as an alternative capacity for Western Europe.²

The idea of collaborating with Tatramat jelled quickly. The Slovak company offered many of the ingredients WEBV was looking for in their potential partner in the region: it had the expertise in washing machines and a skilled labor force, and both, compared to Western Europe, were available at very low cost. In comparison to the Polish and Hungarian competitors, Tatramat, with its location between Poland and Hungary and near to Ukraine, had a better geographical position, and good access to basic raw materials (a proximity to steel mills).

The company was already well positioned in the local market of 15 million consumers, and, because of its location, had additional export potential in the other Central and Eastern Europe countries. It had access to additional land, so it

² Ibid.

could expand its facilities as necessary, although there was a possibility that some of this land would have to be returned to its former private owners in the process of dismantling the heritage of socialism.

Another plus, Tatramat's management seemed to be convinced of the necessity of cooperating with a foreign partner. As Arets put it:

The gentleman at the top of Tatramat, Martin Ciran, had the foresight (one of the few at that time) to see what was coming. He knew that basically, for his factory to survive, he needed updated technology and he needed capital. We wanted to provide that technology, and we had the capital base.³

Also, Tatramat's management had already implemented the first steps in a radical rationalization of the manufacturing process, so the threat that a foreign investor might be attacked for mass firing of local workers seemed unlikely.

According to reports that appeared in the European business press, Whirlpool expected its venture with Tatramat to begin production of Whirlpool's latest top-loading design in 1992. The company anticipated that production volume would reach 400,000 units by 1993. A significant proportion of this volume would be exported to Hungary, Poland and the former Soviet Union. Whirlpool's plans also called for Tatramat to introduce, under Whirlpool's brand name, a full line of other appliances imported from manufacturing sites in Western Europe.

Tatramat: Searching for a Safe Harbor

Ciran described Tatramat's situation in the beginning of 1991:

In 1990, we introduced our new top-loaded washing machine MINI, fully designed by Tatramat. It was a failure because of its low quality and high price. It was simply an old concept--new machine, but old concept. Afterwards, we started to think about how to increase the competitiveness of our products. We intended to improve the technical standard of our production as well as to increase production capacity. We realized that it was not enough to produce only 200,000 per year, because the studies showed us that we had to produce more than 300,000 per year to cover the fixed investment costs and to be effective.

Tatramat's economic condition was further complicated by the fallout from the economic turmoil in Eastern Europe following the collapse of the communist regimes in the region. The COMECON⁴ market in the USSR and Eastern Europe disintegrated. Demand in the domestic market tumbled as the new government implemented a restrictive economic policy. The devaluation of the Czechoslovak

³ Ibid.

⁴ COMECON (Council for Mutual Economic Assistance) was an economic association of communist countries formed in 1945 and disbanded in 1991.

crown in 1990 tripled production costs. The unit sales in washing machines in 1991 declined by one third as export markets for front-loaded machines were hit particularly hard. With an additional drop of over 40% in water heater production, Tatramat was forced to lay-off 100 people in 1990, and an additional 900 in 1991 (from its 1990 workforce of 2,300).

Still, the post-1989 economic transition brought not only threats, but also many new opportunities. The new ownership form brought more independence for management and supervisory boards, which was essential for negotiations with foreign partners. Because of the novelty of this “ownership change,” the real negotiation power really rested in the hands of management (not in the government bureaucracy represented in the supervisory boards).

By early 1991, the Tatramat management realized that a single purchase of technology would not solve their problem. They also needed market access and a partner who could guarantee it. Their idea of purchasing technology or licensing production slowly shifted to the idea of capital investment and a joint venture. The aim of Tatramat’s management was to maintain both washing machine production and jobs for the people in the factory, even under difficult, transitory conditions. In addition to working with CS First Boston as their investment advisor, they retained Skadden, Arp as their counsel in the ongoing negotiations.

During the search for the right alliance partner, Tatramat management negotiated with a number of Western companies interested in expanding into Central and Eastern Europe (e.g., Thompson, Merloni, Bosch-Siemens, Philips and later Whirlpool). They came to the conclusion that Whirlpool was the most committed to collaborating in the improvement of their company and in providing opportunities to enter global markets.

Negotiating Positions: The Final Round

Whirlpool’s Perspective

With its proposed capital participation in Tatramat, Whirlpool planned to enter Eastern Europe with a significant investment to start local manufacturing. Because of the perceived economic and cultural differences between the Western and Eastern Europe, this participation was a quantum jump in WEBV’s enlargement of its European operations. Its managers were concerned about the safety of their investments and tried to structure the deal in the safest way possible.

Ownership: A Clear Path to Full Control

In accordance with Whirlpool’s global strategy, WEBV approached joint venture negotiations with Tatramat with a long-term intention to move from minority to majority, and finally to full 100% ownership. As Arets recalls:

We wanted for a certain time to have a local partner, for all the benefits that a local partner can bring, especially for operating in a foreign environment. Certainly, even in the new

environment, the linkages to the authorities were very important... existing relationships determined the approval process for certain things... So it was important to keep in touch. The partner could provide that connection... We also knew that, in time, we wanted to have full ownership. We wanted to clear the road to full ownership... from a minority, to a majority, and finally to full ownership.⁵

Whirlpool did not put much value on Tatramat's brand or manufacturing technology. However, it deemed critical that the joint venture secures a clear title to adjoining land to facilitate possible future expansion.

Product: Leveraging Front-Loading Technology

Whirlpool wanted the new joint-venture entity "Whirlpool-Tatramat" to produce at least 200,000 front-loaded washing machines a year for the European market. Although production of these models had already been established in Whirlpool/Philips joint venture manufacturing sites in Italy and Germany, management deemed capacity insufficient to cover the expected demand. In addition, low-cost/low-priced front-loaded washing machines were missing in Whirlpool's European product line.

Investment Protection: Fear of Political Risks

As negotiations progressed, the political environment in Czechoslovakia worsened, with an increasing probability that the country might split into two parts: a Czech one and a Slovak one (just like the multinational states of the former Soviet bloc). This would not only add to political instability, but also shrink Tatramat's home market, as Slovakia accounted for only a third of the Czechoslovak economy. In addition to growing political risks, Whirlpool/Tatramat management had to take major economic risks into account: Czechoslovakia had started an uneasy economic transition from a planned to a market economy. This process had no historical parallel. Nobody knew how long it would last, and what its consequences on the business environment would be. In the short term, a serious economic downturn was quite likely.

To minimize its exposure, Whirlpool insisted on the insertion of an exit clause in the JV agreement that provided for its expiration in the case of the division of the country. It also resisted demands for a major infusion of capital investments into the new venture.

Market Protection: Temporary Shield from Competition

To gain the time necessary to upgrade the efficiency of Tatramat's manufacturing processes and the quality of its products, Whirlpool requested government guarantees of market protection. Specifically, it asked for the introduction of quantitative restrictions on the import of front-loaded and top-loaded washing

⁵ S. Ferencikova and H. Brechbuhl. *How to Enter Emerging Markets in Central and Eastern Europe*. William Davidson Institute, University of Michigan, 1998.

machines to Czechoslovakia. The implementation of the proposed agreement was, in Whirlpool's view, conditioned upon receiving such guarantees. Whirlpool also insisted on a non-competition clause in the JV contract that required Tatramat to give up any activity in washing machine production. Further, Whirlpool did not want the JV to participate in the existing manufacturing of water heaters.

Tatramat's Perspective

The vision and the main interest of Tatramat's management, led by Ciran, was "to preserve the washing machine production in Poprad till the year 2000." They had chosen Whirlpool as a potential partner which could not only supply the needed new technology, but which could also guarantee access to foreign markets by integrating the Poprad factory into Whirlpool's global production network. As negotiations progressed, Tatramat's management focused on four areas.

Equity Contributions: Beyond Ownership

The Slovak side was willing to contribute land, buildings, equipment, technology, and intellectual property rights to the new joint venture firm. It requested that Whirlpool purchase an equity interest in the new firm for cash, commit to a significant capital investment, and further contribute its know-how and technology. It also asked that the joint venture products have access to Whirlpool's global sales and distribution network. Although the Tatramat management insisted on being a majority owner at the beginning of the joint venture, in principle, it was not opposed to Whirlpool becoming a majority owner, or even taking over the full ownership at some point.

Product Strategy: Stick to the Knitting

Tatramat's management disagreed with Whirlpool's product-strategy focus on front-loaded models. Given their poor experience with the technology, they feared they might not be able to produce competitive products for export markets immediately. If the products weren't competitive abroad, how and where else could they be sold? The sales and distribution potential of the Czechoslovak market where Tatramat had the competitive advantage was far below the proposed capacity. As a result, Tatramat insisted on the production of top-loaded washing machines in the joint venture, as there was a bigger domestic demand for top-loaders (close to 100,000 units a year). Alternatively, Tatramat's management proposed including water heater manufacturing as a part of the joint venture deal.

Capital Investment: Guarantee of Commitment

Tatramat's flagship product, the MINI, was an obsolete top-loaded washing machine. Tatramat's management wanted to get new technology and know-how from Whirlpool so their top-loader would become competitive on export markets. Some members of the management team feared that Western companies entering into JVs in Central Europe mainly wanted to gain control so they could eliminate local competitors and shut down surplus capacity. Tatramat saw Whirlpool capital investment as the best, safest guarantee for retaining and expanding washing

machine production in the Poprad factory.

However, in the Poprad plant, extensive investment in washing machine assembly was unnecessary. As Ciran recalls:

Our aim was not only to establish an assembly plant, but also to build from scratch a contiguous facility producing large plastic washing machine components. We were very stubborn in this aspect, because we saw that all of the biggest European producers had such component manufacturing close to their main factories... Also, for us, capital commitment (from Whirlpool) was the only guarantee that the deal would happen and succeed.

Employment Stability: A Key Concern

The Slovak side insisted on stabilizing the level of employment in the joint venture. At the end of 1991, Tatramat still employed some 1,300 employees. This was one of the most important requirements of the Slovak side, because maintaining employment was a sensitive issue in the ongoing economic and political transformation. Tatramat management proposed dividing the staff (as well as buildings and machinery) in half between the joint venture and the Slovak parent company, and including a de facto “no lay-off” clause in the JV contract.

November 1991

In November 1991, as economic projections for Tatramat grew increasingly alarming, the Tatramat negotiating team traveled to Prague, the country capital, hoping to finalize a joint venture agreement that would help the company to recover. From Whirlpool’s side, the prospect of failed negotiations that would require starting the process all over again with another East European partner was not very appealing. And there was always a danger that Tatramat would join with another competitor. Both parties had a stake in bringing the discussion to a successful conclusion.

Exhibit 1
WHIRLPOOL CORPORATION
Consolidated Income Statements
Years Ended December 31
(\$ Million)

	<u>1987</u>	<u>1988</u>	<u>1989</u>	<u>1990</u>	<u>1991</u>
Net sales	4,115	4,314	6,153	6,434	6,550
Cost of products sold	3,265	3,506	4,820	5,009	4,967
Selling, admin. expenses	583	581	948	1,103	1,181
Business dispositions, consolidations	--	--	9	22	22
Amortization of goodwill	--	--	11	14	27
	<u>3,848</u>	<u>4,087</u>	<u>5,788</u>	<u>6,148</u>	<u>6,197</u>
Operating profit	267	227	365	286	353
Interest, other income	14	26	28	26	33
Interest expense	(23)	(43)	(112)	(135)	(130)
Income taxes	(118)	(79)	(123)	(94)	(113)
Equity in net income:					
Finance sub.	15	15	18	27	31
Affiliated cos.	26	15	38	(33)	(4)
Minority interests	--	--	(27)	(5)	--
Loss from discontinued operation	--	(67)	--	--	--
Net income	<u>181</u>	<u>94</u>	<u>187</u>	<u>72</u>	<u>170</u>
Supplementary data:					
Research & development costs	79	73	99	111	90
Advertising costs	41	36	66	93	121
Depreciation ^a	133	139	218	243	228
Capital expenditures	223	164	204	260	283

^aWhirlpool employs straight-line depreciation for financial reporting.

Source: Whirlpool annual reports

Exhibit 2
WHIRLPOOL CORPORATION
Results by Business and Geographic Segments^a
(\$ Million, %)

	<u>1987</u>	<u>1988</u>	<u>1989</u>	<u>1990</u>	<u>1991</u>
<u>North American Appliances Group:</u>					
Revenues	3,911	4,085	3,995	3,986	3,990
Operating profit ^b	292	296	286	250	261
Capital expenditures	217	167	131	154	176
Depreciation	115	124	132	137	126
Operating profit/sales (%)	7.5	7.2	7.2	6.3	6.5
Capital expenditure/sales (%)	5.5	4.1	3.3	3.9	4.4
Depreciation/sales (%)	2.9	3.0	3.3	3.4	3.2
<u>Whirlpool International (Europe):</u>					
Revenues	197	244	2,169	2,456	2,540
Operating profit ^b	(7)	(3)	102	75	92
Capital expenditures	17	9	94	112	115
Depreciation	16	17	88	107	104
Operating profit/sales (%)	(3.6)	(1.2)	4.7	3.1	4.1
Capital expenditures/sales (%)	8.6	3.7	4.3	4.6	4.5
Depreciation/sales (%)	8.1	7.0	4.1	4.4	4.1

^aData do not reconcile with Exhibits 2 and 9 due to intersegment transactions and corporate items.

^bExcludes charges for business disposition, consolidation and amortization of goodwill.

Source: Whirlpool annual reports

Exhibit 3
WHIRLPOOL CORPORATION
1990 Unit Shares in European Markets^a
 (%)

	<u>Germany</u>	<u>France</u>	<u>UK</u>	<u>Italy</u>	<u>Total Europe</u>
Washers	10	29	-	10	10.5
Dryers	21	30	5	-	9.0
Dishwashers	23	22	-	-	13.5
Refrigerators	10	15	-	19	9.2
Freezers	10	13	-	15	8.2
Cookers					N.A.
Microwave ovens					N.A.
All categories					10.0

^aReflects sales of Whirlpool/Philips, Bauknecht, Ignis, and Laden brands.

Whirlpool/Philips brand accounts for approximately half of European revenues.

Source: Whirlpool company records

Exhibit 4
WHIRLPOOL CORPORATION
Whirlpool's European Production Centers in 1991

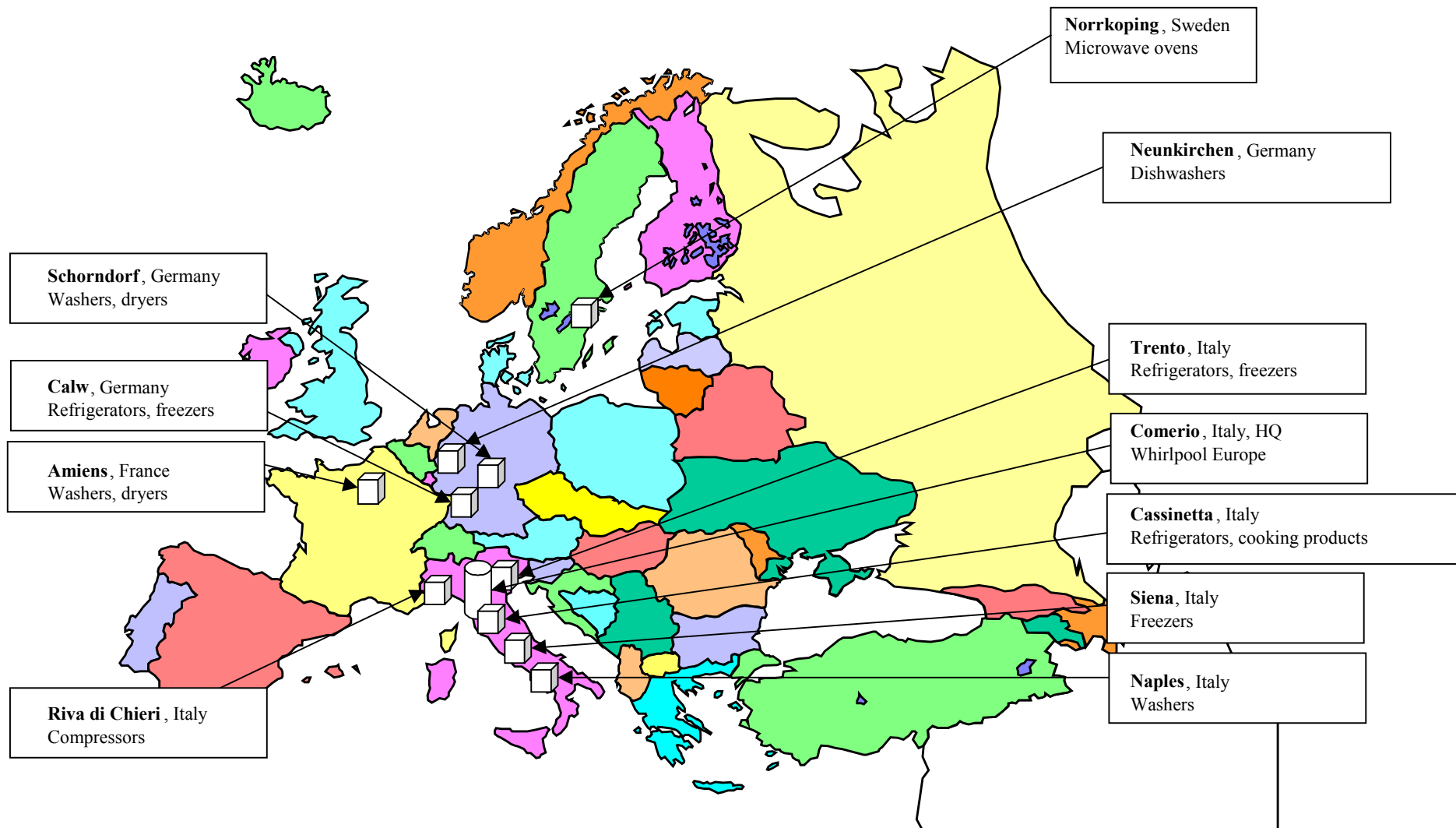


Exhibit 5
TATRAMAT a.s.
1990 Financial Summary
Transformed to International Accounting Standards
(Kcs thousand)

	Consolidated	Washing Machines	Water Heaters
Sales	962,227	758,739	203,488
Operating Cash Flow*	91,095	78,358	12,737
Oper.Cash Flow Margin	9.5%	10.3%	6.3%
Operating Profit**	65,275	57,209	8,066
Operating Profit Margin	6.8%	7.5%	4.0%
Net Profit after Tax and Subsidies	25,428	20,614	4,814
Net Profit Margin	2.6%	2.7%	2.4%
Extraordinary Items***	(40,275)	(31,958)	(8,317)

* Operating cash flow is operating profit plus depreciation.

** Profit and cash flow figures exclude state subsidies.

*** Accounting adjustments related to the transformation of Tatramat into a joint stock company with 100% state ownership.

Source: CS First Boston, 1991

Exhibit 6
TATRAMAT a.s.
Tatramat Sales
(thousands units)

Product	1988	1989	1990	1991
Washing machines	200.0	199.1	210.6	144.1
Water heaters	151.8	143.7	133.3	76.2

Source: Tatramat company records