

## **Report of the Supervisory Board of Gorenje, d.d., on the Review of the 2006 Annual Report**

Dear shareholders,

In 2006 the Supervisory Board supervised the business operation of Gorenje, d.d. and the Gorenje Group within the scope of powers and authorizations bestowed by applicable legal regulations and the Articles of Association of the Company.

The Supervisory Board, which is comprised of ten members, carried out its activities until 18 July 2006 in the following composition: Marko Voljč, M.Sc., Chairman, Dr. Jože Zagožen and Ivan Atelšek as Deputy Chairmen, Bogdan Pušnik, Igor Kušar, Peter Tevž, Peter Kobal, Drago Krenker, Krešimir Martinjak and Jurij Slemenik. On 29 June 2006 the General Meeting of Shareholders elected the following representatives of shareholders to the Supervisory Board for the next four-year term: Peter Ješovnik, M.Sc., Milan Podpečan, Andrej Presečnik, Gregor Sluga, M.Sc., and Dr. Jože Zagožen; the Workers' Council elected the following representatives of employees to the Supervisory Board: Peter Kobal, Ivan Atelšek, Drago Krenker, Krešimir Martinjak, and Jurij Slemenik. The Supervisory Board began its term of office in the previously mentioned composition on 18 July 2006, electing Dr. Jože Zagožen as Chairman and Ivan Atelšek as Deputy Chairman of the Supervisory Board.

### **1. Activities of the Supervisory Board**

During the course of the year, the Supervisory Board devoted its attention primarily to the business and financial development of the Gorenje Group and the parent company, significant business events, and to the implementation of general strategic and business policies. In 2006 the Supervisory Board held twelve meetings, of which four were distance meetings.

In line with the established practice, the Supervisory Board had already adopted the economic plans of the parent company and the Gorenje Group in December 2005, i.e. before the beginning of the financial year. Having thus determined the framework of business activities and goals for the year 2006, the Supervisory Board monitored their implementation during the year. The Management Board reported to the Supervisory Board, on a quarterly basis, on the current business achievements and assets of the Gorenje Group and the parent company. The Management Board regularly and promptly informed the Supervisory Board in detail on the broader operating conditions, particularly the situation in European markets, where Gorenje sells the greater part of its products, on changes in the prices of materials and raw materials and the possibilities of tapping new procurement markets, and on the environmental requirements to be met by manufacturers of white goods. Significant emphasis in reporting to the Supervisory board was given to the area of internal furnishings, activities in the areas of environmental protection and energy, as well as trade and services. In December 2006 the Supervisory Board adopted the business plan of the parent company and the Gorenje Group for the year 2007.

The Supervisory Board of Gorenje, d.d. has assessed that despite the difficult operating conditions in 2006, the Gorenje Group continued its trend of growth and has significantly surpassed the planned scope of business activities and achieved the planned goals with respect to operating result, assets and financial results in all major areas of operation.

The Supervisory Board devoted special attention to issues relating to the implementation of the Strategic Plan up to the year 2010, in particular the possibilities for the Company's internal and external growth. Given the fact that until now, Gorenje has financed its development exclusively through internal sources, i.e. with its profits and by increasing its indebtedness, the Supervisory Board has, for the purpose of providing additional resources necessary for the Company's further internal and external growth, supported the capital increase of Gorenje, d.d. by utilising authorised capital. Thus, the Supervisory Board has accepted its responsibility for the implementation of capital increase, which shall be reported by the Management Board and the Supervisory Board to the General Meeting of Shareholders after its completion. The Supervisory Board supports the Management Board in its endeavours for increasing the scope of production and sales, strengthening the Gorenje trademark, and for realizing the goal that Gorenje become one of the leading producers of environment-friendly, superiorly designed technical products for the home.

The Supervisory Board also discussed the modifications of and amendments to the Articles of Association of the Company adopted at the General Meeting of Shareholders held on 12 December 2006. Based on the authorization of the General Meeting of Shareholders, the Supervisory Board determined the consolidated text of the Articles of Association, which were entered in the court register on 22 December 2006. The Company thus brought its Articles of Association in line with the Companies Act (ZGD-1), introduced no-par value shares owing to the introduction of the euro, and brought its activities in line with the Standard Classification of Activities.

In connection with the expiry of the Supervisory Board's four-year term of office, the Supervisory Board performed a human resources function by proposing candidates for members of the Supervisory Board representing the interests of shareholders to the General Meeting of Shareholders. On the basis of the Criteria for the Appraisal of Business Performance of the Gorenje Group, whose purpose is to determine the level of the Group's performance on the basis of objective economic measures, the Supervisory Board also decided on the amount of performance-related bonuses to the Management Board and on the variable part of the fixed salary of members of the Management Board.

## **2. Annual Report**

On 12 April 2007 the Management Board of the Company presented the audited Annual Report of Gorenje, d.d. and the Gorenje Group for the Year 2006 to the Supervisory Board for approval. The Supervisory Board discussed the Annual Report at its meeting held on 23 April 2007.

The Annual Report of Gorenje, d.d. and the Gorenje Group for the Year 2006 was audited by the auditing company KPMG Slovenija, d.o.o.. The audit was also performed in all subsidiary companies of the Gorenje Group. On 6 April 2007 the auditing company presented a positive opinion on the Annual Report of Gorenje, d.d., and the Consolidated Annual Report of the Gorenje Group for the Year 2006.

In reviewing the submitted Annual Report for the Year 2006, the Supervisory Board took the following into consideration:

- In 2006 the Company realized the key categories of the economic plan;
- The Supervisory Board approved the proposed distribution of net profit for 2006 and the calculation of accumulated profit within the scope of powers granted to the Management Board and the Supervisory Board;

- The auditing company gave a positive opinion on the Annual Report for 2006 and the Supervisory Board had no remarks regarding the Auditor's Report;
- The Supervisory Board regularly monitored the management and operation of the Company and the Gorenje Group, and regularly discussed their operating results, financial position and assets.

The Supervisory Board has established that the Annual Report for 2006, as prepared by the Management Board and reviewed by the auditing company, has been compiled clearly, transparently, and in accordance with the provisions of the Companies Act and applicable International Accounting Standards. The Supervisory Board has also examined and approved the Auditor's Report. On the basis thereof, the Supervisory Board has assessed that the Annual Report presents a true and fair picture of the assets, liabilities, financial position and operating results, and gives a fair account of the business development and position of the Company and the Gorenje Group.

On the basis of the above-mentioned, the Supervisory Board approved, at its meeting held on 23 April 2007, the Annual Report of Gorenje, d.d. and the Consolidated Annual Report of the Gorenje Group for the Year 2006 as proposed by the Management Board.

### **3. Calculation and Proposed Appropriation of Accumulated Profit**

In accordance with Article 230 of the Companies Act (ZGD-1), the Management Board decided that the net profit for 2006 in the amount of SIT 2,902,653,414.62 and a portion of the retained profit brought forward in the amount of SIT 77,857,555.13 shall be appropriated for the mandatory formation of reserves for own shares, which are to be set up for the purpose of acquiring 466,150 own shares. The Supervisory Board approved the proposed formation of reserves for own shares, which is adequately recorded in the financial statements of the Company.

The accumulated profit of Gorenje, d.d. for 2006 in the amount of SIT 2,405,865,734.57 was formed from the net profit for 2001 in the amount of SIT 2,388,696,589.70 and from the net profit for 1999 in the amount of SIT 17,169,144.87.

The Management Board and the Supervisory Board propose to the General Meeting of Shareholders that the accumulated profit for the financial year 2006 in the amount of SIT 2,405,865,734.57 or EUR 10,039,499.81 be allocated as follows:

- part of the accumulated profit in the amount of EUR 5,124,000.00 deriving from the net profit for 2001 shall be used for the payment of dividends to shareholders in the gross amount of EUR 0.42 per share;
- part of the accumulated profit in the amount of EUR 2,474,265.01 deriving from the net profit for 2001 in the amount of EUR 2,474,265.01 shall be used for the formation of other reserves from profit;
- the remainder of the accumulated profit in the amount of EUR 2,441,234.80 deriving from the net profit for 2001 in the amount of EUR 2,369,589.23 and from the net profit for 1999 in the amount of EUR 71,645.57 shall remain unallocated.

During decision-making the Supervisory Board acted in line with the adopted policy of profit appropriation, which is subject to the development concept of Gorenje set forth in the goals of the Strategic Plan for the period up to the year 2010 and the shareholders' interest in increasing the value of shares in the long term. For this reason the Supervisory board agreed

with the calculation and proposed appropriation of accumulated profit for 2006. The Supervisory Board proposes to the General Meeting of Shareholders that the members of the Management Board be discharged of their duties in 2006.

This report was prepared by the Supervisory Board in accordance with the provisions of Article 282 of the Companies Act (ZGD-1) and is addressed to the General Meeting of Shareholders.

Dr. Jože Zagožen  
Chairman of the Supervisory Board